

Spokane Employees' Retirement System (SERS)
Board Meeting, 12:00 p.m. June 26, 2019
City Hall – Council Briefing Center

AGENDA

- 1) Moss Adams – December 31, 2018 Audit Report
 - Information
- 2) Minutes of the May 29, 2019 Meeting
 - Motion
- 3) Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Deaths
 - Information
 - d) Expenditure Summary Report – May 2019
 - Motion
 - e) Schedule of Investments – May 2019
 - Information
 - f) Cash Reconciliation – May 2019
 - Information
 - g) Other Business
- 4) 2020 Budget
 - Motion
- 5) Contribution Interest Rate
 - Motion
- 6) Other Business
- 7) Next Meeting – **Wednesday, July 31st at 12:00 p.m.**

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
May 29, 2019**

The regular monthly meeting was called to order at 12:06 p.m. in the Council Briefing Center at City Hall.

Present: Mike Coster, Jim Tieken, Mike Cavanaugh, Dean Kiefer, and J.D. Morscheck

Absent: Candace Mumm and Brian Brill

Staff: Phill Tencick, Christine Shisler, and Tim Szambelan

Guests: Jayson Davidson, Joe Cavanaugh, Natalie Hilderbrand, Meghann Steinolfson, Eric Olson, Melanie Hall, Cassidy Haas, Chris Drohan, Duane Studer and John Bjork

SREC Employee Eligibility

Spokane Regional Emergency communications will be going live on July 1st, 2019. As a result, 10 SERS members have received layoff notices and offered positions at SREC, with two additional SERS members voluntarily moving to SREC. SERS has been petitioned by SREC, the City of Spokane, City Council, and the employees' bargaining units to allow these employees to maintain their membership in SERS when they move to SREC.

It is anticipated that allowing these employees to remain in SERS will have minimal financial and operational impact on the Plan. There will be some one-time and ongoing expenses as the Plan will move from a single-employer plan to a multiple employer plan. To prevent harm to current participants, SREC will pay those costs.

Jim Tieken moved and Dean Kiefer seconded the motion to allow employees who leave the City of Spokane and are involved in the transition to SREC to maintain membership in SERS. The option will be a one-time decision made at the time of hire by SREC. The motion passed unanimously. Staff will inform the relevant parties and work with SREC to make the necessary arrangements.

Jayson Davidson, Hyas Group, 2019 1st Quarter Investment Performance Report

Mr. Davidson reviewed with the Board the First Quarter 2019 Performance Report and discussed the conclusion of one of the best equity market quarters on record. With the rebound taking place during the last quarter, most of the Fund's traditional equity options have enjoyed a full recovery of what was lost at the end of 2018. Generally, the portfolio enjoyed a good quarter on a relative and absolute basis. The Capital Preservation category matched its benchmark, keeping pace with a strong performance on the LB Aggregate Bond benchmark. The Domestic Equities category also performed largely in

line with policy. Strong performance in the International, Long Biased and Real Estate categories was partially offset by relative weakness in Opportunistic Credit and Special Opportunities.

The following funds will remain on watch status: Jackson Square Large Cap Growth, Vanguard Mid Cap Growth, OrbiMed Partners, Hotchkis and Wiley Diversified Value, and Frontier Phocas Small Cap Value. The Vanguard option is also on watch for qualitative reasons associated with some fundamental changes to the underlying manager structure. The MFS Blended Research Core Equity Fund removed from the portfolio.

Hyas Group is recommending that the Board consider active alternatives to the Jackson Square Large Cap Growth Fund. Hyas will plan to present a Large Cap Growth manager search at the next quarterly investment meeting. At that time, the Board can again consider the option of moving more of the Large Cap allocation to passive management; or adjusting to combine the separate Growth and Value mandates into a single Blended option.

Mr. Davidson distributed comparative peer group information for the Fund's traditional manager's expenses. He noted that the majority of the options fall within the top half of the rankings and those that do not have actually been some of our better performing managers.

Mr. Davidson and the Board engaged in a lengthy discussion regarding the prospect of shifting the entire large cap allocation to lower cost passive management. The Board will evaluate this option during the large cap growth search. Mr. Davidson will work with the Board and Hyas' analytics group to prepare the necessary materials for further discussion.

Mr. Davidson will inquire as to whether or not peer scatter plot information is available for the defined benefit plan universe with the data scrubbed only to include managers that have readily available market values.

Hyas Group recommended placing the Post Limited Term High Yield on watch due to the announced departure of Henry Chyung, the acting Chief Investment Officer. Mr. Chyung's health has deteriorated and he can no longer work in his current capacity. He will be replaced by Jeff Stroll who has been working with Mr. Chyung for the past seven years. At this stage, Hyas plans to monitor to make sure, with Mr. Chyung's departure, the Fund does not take on an undue conservative bias.

Mike Cavanaugh moved and Jim Tieken seconded the motion to place the Post Limited Term High Yield Fund on watch for qualitative reasons. The motion passed unanimously.

Minutes of the April 24, 2019 Meeting

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the minutes of the April 24, 2019 meeting as presented. The motion passed unanimously.

Director's Report

Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
John H. Enquist	50	06/01/2019	22.1	E
Ernest R. Crocker	66	06/04/2019	15.3	E
Randall W. Kaiser	63	06/07/2019	25.8	ST
Robert A. Werner	56	06/14/2019	30.0	E
Karen R. Ripley	66	06/29/2019	20.6	E
Brian R. Zubaugh	50	07/10/2019	17.4	E
Ronald W. Rickard, Jr	65	07/13/2019	40.1	E

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the service retirements as presented on the May Retirement Transaction Report. The motion passed unanimously.

Withdrawals for May 2019

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Thomas A. Werts	4.8	05/03/2019

Dean Kiefer moved and Jim Tieken seconded the motion to approve the requests for withdrawal as presented on the May Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
David A. Como	Water	6.8

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Rosella M. Espe	06/19/2002	92	04/29/2019	No Further Benefits
Ronald W. Silk	12/02/1989	79	05/02/2019	No Further Benefits
Patricia M. Deininger	06/02/2004	71	05/07/2019	No Further Benefits

Vesting and death information provided to the Board for review.

Expenditure Summary Report – April 2019

The Expenditure Summary Report was presented to the Board and discussed.

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the April 2019 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – April 2019

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on April 30, 2019 was \$307.4 million with an estimated rate of return of 2.1% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan.

There being no other business, the meeting adjourned at 1:53 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

June 2019

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Andrew E. Schenk	50	07/01/2019	16.3	Development Services Center	E
2	Karen C. Burke	58	07/02/2019	18.2	Parks & Recreation	ST
3	Dennis C. Powell	58	07/02/2019	23.7	Police Dispatch	E
4	David R. Carlson	60	07/06/2019	25.9	Public Defender	E
5	Rick A. McCord	62	08/09/2019	25.4	Parking Meter	E
	Retirements YTD	40				
	2018 Total Retirements	71				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Mubarak F. Abdur-Raheem	4.3	Legal	03/08/2019
2	Corinne A. Hall	1.0	Development Services Center	04/05/2019
3	Jennifer M. Ingerson	2.9	Public Works & Utilities	04/22/2019

Vesting

	Name	Department	Years of Service
1	Julie D. Happy	Economic Development	6.0

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Barbara A. Hill	04/15/2006	76	02/12/2019	No Further Benefits
2	Marion Rothstein	11/02/1990	93	05/02/2019	No Further Benefits
3	Dorothy J. Jones	02/08/2013	90	05/15/2019	No Further Benefits
4	Myrna F. Johnson-Ross	03/04/2003	77	05/23/2019	No Further Benefits
5	Barbara L. Parker	03/05/1992	86	05/24/2019	No Further Benefits
6	Thomas E. Perry	06/03/1986	90	06/05/2019	No Further Benefits
7	Albert J. Powell	08/06/2011	74	06/08/2019	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2019 EXPENDITURE SUMMARY REPORT
MAY 31, 2019

	2018 ACTUAL	2019 BUDGET	MAY ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	279,090.86	297,357.00	21,920.00	108,194.32	189,162.68	36.4%
Departmental Benefits	83,448.34	88,446.00	6,570.12	32,856.43	55,589.57	37.1%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,374.47)	(10,000.00)	-	(5,713.89)	(4,286.11)	
Postage/Supplies/Other	1,970.14	5,950.00	83.47	799.60	5,150.40	13.4%
State Audit Charges	12,444.28	15,000.00	-	312.67	14,687.33	2.1%
Contractual Services	132,743.15	175,000.00	44,282.00	76,722.01	98,277.99	43.8%
Travel	7,873.31	15,000.00	280.59	607.11	14,392.89	4.0%
Registration/Schooling	8,575.00	16,000.00	-	285.00	15,715.00	1.8%
Other Dues/Subscriptions/Membership	1,709.60	2,500.00	-	486.40	2,013.60	19.5%
Other Miscellaneous Charges	1,383.13	3,800.00	55.00	1,830.28	1,969.72	48.2%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	527,512.34	619,053.00	73,191.18	216,379.93	402,673.07	35.0%
INTERFUND EXPENDITURES						
Interfund - Office Performance Mgmt Services	-	800.00	-	-	800.00	0.0%
Interfund - Centralized Purchasing	506.33	1,241.00	-	620.50	620.50	50.0%
Interfund - Centralized Accounting	1,958.16	2,080.00	-	1,040.00	1,040.00	50.0%
Interfund - Risk Management	790.00	584.00	146.00	292.00	292.00	50.0%
Interfund - Worker's Compensation	109.00	122.00	30.50	61.00	61.00	50.0%
Interfund - Reprographics	6,719.51	5,000.00	887.26	3,685.26	1,314.74	73.7%
Interfund - IT	15,824.72	13,108.00	1,097.85	4,388.97	8,719.03	33.5%
Interfund - IT Replacement	2,066.04	1,965.00	163.75	655.00	1,310.00	33.3%
Interfund - My Spokane	476.90	643.00	154.58	309.16	333.84	48.1%
TOTAL INTERFUND EXPENDITURES	28,450.66	25,543.00	2,479.94	11,051.89	14,491.11	43.3%
TOTAL ADMINISTRATIVE EXPENDITURES	555,963.00	644,596.00	75,671.12	227,431.82	417,164.18	35.3%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2019 EXPENDITURE SUMMARY REPORT
MAY 31, 2019

	2018 ACTUAL	2019 BUDGET	MAY ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	26,202,801.23	28,000,000.00	2,304,866.95	11,350,478.75	16,649,521.25	40.5%
Pensions-Disability Payments	125,328.48	140,000.00	10,444.04	52,220.20	87,779.80	37.3%
Pensions-Survivor Annuity Benefits Payments	1,981,214.54	2,100,000.00	173,579.76	925,121.74	1,174,878.26	44.1%
TOTAL PENSIONS	<u>28,309,344.25</u>	<u>30,240,000.00</u>	<u>2,488,890.75</u>	<u>12,327,820.69</u>	<u>17,912,179.31</u>	40.8%
Refunds	554,422.11	1,000,000.00	17,201.77	267,030.21	732,969.79	26.7%
TOTAL EXPENSES	<u><u>29,419,729.36</u></u>	<u><u>31,884,596.00</u></u>	<u><u>2,581,763.64</u></u>	<u><u>12,822,282.72</u></u>	<u><u>19,062,313.28</u></u>	40.2%
INVESTMENT EXPENSE*						
Advisory Technical Service	436,405.71	500,000.00	55,421.00	139,963.99	360,036.01	28.0%

** investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.*

SERS Schedule of Cash and Investments

May 31, 2019

6/13/2019

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 195,515			
US Bank	Short-term Inv	5,671			
Total Cash		201,186	0.0%	0.1%	0.1%
Sterling Capital	Total Return	25,447,170			
Total Total Return		25,447,170	10.0%	8.6%	-1.4%
Hotchkis & Wiley	High Yield - Mutual Fund	13,227,447			
Total High Yield		13,227,447	5.0%	4.4%	-0.6%
Polar	LLC	7,188,435			
Castine Capital II	Ltd Partnership	7,680,852			
Post Limited Term High Yield	Ltd Partnership	6,272,086			
Rimrock Low Volatility	Ltd Partnership	10,056,725			
Total Absolute Return		31,198,098	8.0%	10.5%	2.5%
Total Capital Preservation		70,073,901	23.0%	23.6%	0.6%
Hotchkis & Wiley	LC Value - Mutual Fund	14,987,393			
Jackson Square	LC Growth - Mutual Fund	16,125,018			
MFS Heritage	LC Core	-			
Fidelity S&P 500 Index	LC Core - Mutual Fund	26,372,740			
Total US Large Cap		57,485,151	21.0%	19.3%	-1.7%
Sterling	MC Value	4,361,152			
Vanguard MC Growth	MC Growth - Mutual Fund	4,172,284			
Fidelity MC Index	MC Core - Mutual Fund	4,014,328			
Champlain	SC Core	6,147,375			
Phocas	SC Value - Mutual Fund	3,606,154			
Bridge City	SC Growth	5,213,205			
Fidelity SC Index	SC Core - Mutual Fund	839,300			
Total US Small/Mid Cap		28,353,798	11.0%	9.5%	-1.5%
Total US Equities		85,838,949	32.0%	28.9%	-3.1%
Artisan	SMID Value - Mutual Fund	20,485,296			
Euro Pacific	LC Blend - Mutual Fund	20,478,345			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		40,963,641	15.0%	13.8%	-1.2%
Trivalent	SC Value - Mutual Fund	11,232,602			
Total International Small/Mid		11,232,602	4.0%	3.8%	-0.2%
Vanguard EM Index	EM - Mutual Fund	1,133,082			
ABS Emerging Markets	Ltd Partnership	8,500,225			
Berens	Ltd Partnership	936,212			
Total Emerging Markets		10,569,519	3.0%	3.6%	0.6%
Total International Equities		62,765,762	22.0%	21.1%	-0.9%
Weatherlow Offshore	Ltd Partnership	16,196,755			
Royalty Opportunities I	Ltd Partnership	2,370,389			
Royalty Opportunities II	Ltd Partnership	3,307,349			
Total Long Biased		21,874,493	7.0%	7.4%	0.4%
Metropolitan Real Estate Partners	Ltd Partnership	182,173			
Morrison Street Fund V	LLC	2,608,945			
Morrison Street Debt Opportunities	LP	4,135,185			
Morgan Stanley Prime	LLC	7,343,183			
Principal (REITs)	REITs	11,526,320			
Total Real Estate		25,795,806	9.0%	8.7%	-0.3%
Contrarian Capital Fund I	Ltd Partnership	10,102,250			
Beach Point	Ltd Partnership	10,880,971			
Total Opportunistic Credit		20,983,221	7.0%	7.1%	0.1%
Contrarian EM Credit	LLC	6,130,466			
OrbiMed II	Ltd Partnership	3,820,990			
Total Special Opportunities		9,951,456	0.0%	3.3%	3.3%
Total Cash and Investments		\$ 297,283,588	100.0%	100.0%	0.0%
	Monthly Contributions	1,519,808			
	Monthly Pension	\$ (2,506,093)			
	As of April 30, 2019	\$ 307,381,982			
	Estimated Rate of Return	-3.0%			
Abs. Return and Total Return FI	Thesis 2017.1	56,645,268	18.0%	19.1%	1.1%
Equity and Special Situations	Thesis 2017.3	158,556,167	54.0%	53.3%	-0.7%

Cash Recon - Jun

Date	Transactions	Sources	Uses	Balance
5/23/2019	Beginning Balance			524,719.28
5/28/2019	Payroll Contributions	766,187.02		1,290,906.30
5/31/2019	Sale - Principal REIT	1,220,000.00		2,510,906.30
5/31/2019	May Pension Payments		(2,506,092.52)	4,813.78
6/3/2019	Interest	857.32		5,671.10
6/10/2019	Payroll Contributions	760,829.28		766,500.38
6/10/2019	Redeposit Check	1,006.14		767,506.52
6/11/2019	Redeposit Check	2,152.76		769,659.28
6/11/2019	Reissue Check		(817.69)	768,841.59
6/14/2019	Reissue Check		(778.94)	768,062.65
6/18/2019	Ending Balance	2,751,032.52	(2,507,689.15)	768,062.65
	<u>Upcoming</u>			
	Payroll Contributions	760,000.00		
	Berens Final Redemption Hold Back	936,212.00		
	TBD Sale	50,000.00		
	June Pension Payments		(2,500,000.00)	

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100

2020 PRELIMINARY BUDGET

	2018 ACTUAL	5/2019 YTD ACTUALS	2019 BUDGET	2020 BUDGET	2020 BUDGET CHANGE
REVENUES					
IF Other General Gov't Services	\$ 20,853.60	\$ 5,713.89	\$ 20,000.00	\$ 20,000.00	\$ -
Investment Interest/Dividends	4,731,880.31	2,699,533.45	5,000,000.00	5,000,000.00	-
Realized Gains/Losses	13,626,933.15	15,482,434.43	5,000,000.00	5,000,000.00	-
Unrealized Gains/Losses	(36,638,352.17)	5,490,258.49	-	-	-
City Contributions	9,164,639.21	4,116,506.60	9,500,000.00	10,300,000.00	800,000.00
Mandatory Contributions Employees	9,164,639.21	4,116,506.60	9,500,000.00	10,300,000.00	800,000.00
Voluntary Contributions Employees	1,361.02	3,043.22	-	-	-
PFD Employer Contributions	22,780.78	9,977.17	22,000.00	24,000.00	2,000.00
PFD Employee Contributions	22,780.78	9,977.17	22,000.00	24,000.00	2,000.00
TOTAL REVENUES	117,515.89	31,933,951.02	29,064,000.00	30,668,000.00	1,604,000.00
OPERATING EXPENDITURES					
Departmental Salaries	270,548.01	105,617.02	278,657.00	287,301.00	8,644.00
Departmental Benefits	91,991.19	35,433.73	107,146.00	106,966.00	(180.00)
Postage/Supplies/Other	1,970.14	799.60	5,950.00	3,700.00	(2,250.00)
State Audit Charges	12,444.28	312.67	15,000.00	15,000.00	-
Contractual Services	132,743.15	76,722.01	175,000.00	175,000.00	-
Travel	7,873.31	607.11	15,000.00	15,000.00	-
Registration/Schooling	8,575.00	285.00	16,000.00	16,000.00	-
Other Dues/Subscriptions/Membership	1,709.60	486.40	2,500.00	2,500.00	-
Other Miscellaneous Charges	1,383.13	1,830.28	3,800.00	3,800.00	-
Depreciation/Amortization	17,649.00	-	-	-	-
TOTAL OPERATING EXPENDITURES	546,886.81	222,093.82	619,053.00	625,267.00	6,214.00

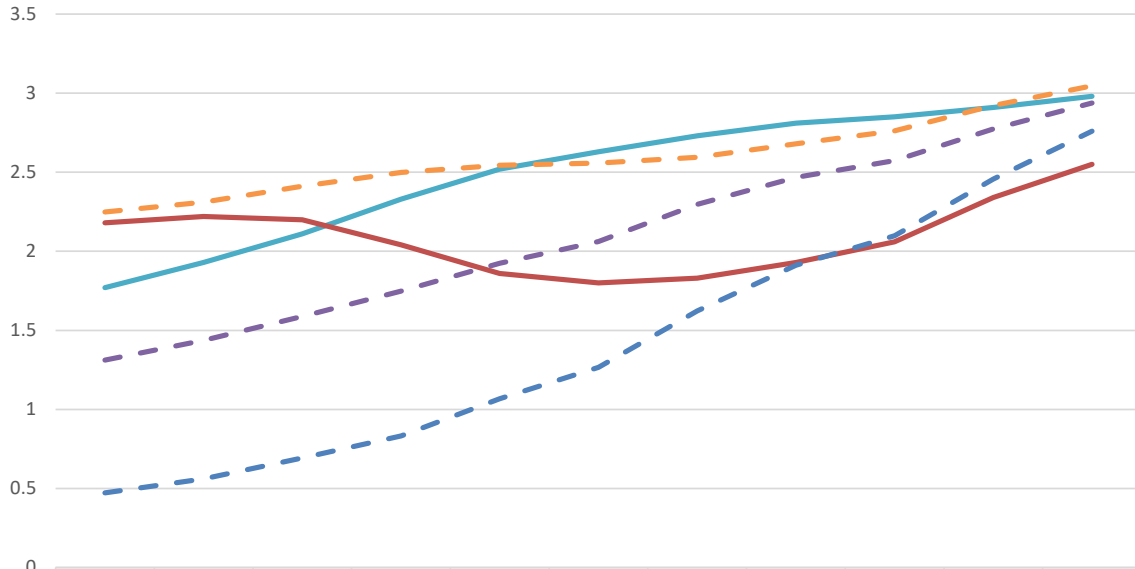
SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2020 PRELIMINARY BUDGET

	2018 ACTUAL	5/2019 YTD ACTUALS	2019 BUDGET	2020 BUDGET	2020 BUDGET CHANGE
INTERFUND EXPENDITURES					
Interfund - Office Performance Mgmt Svcs	-	-	800.00	-	(800.00)
Interfund - Centralized Purchasing	506.33	620.50	1,241.00	483.00	
Interfund - Centralized Accounting	1,958.16	1,040.00	2,080.00	1,933.00	
Interfund - My Spokane	476.90	309.16	643.00	549.00	
Interfund - Risk Management	790.00	292.00	584.00	586.00	2.00
Interfund - Worker's Compensation	109.00	61.00	122.00	134.00	12.00
Interfund - IT	15,824.72	4,388.97	13,108.00	15,403.00	2,295.00
Interfund - IT Replacement	2,066.04	655.00	1,965.00	1,962.00	(3.00)
Interfund - Reprographics	6,719.51	3,685.26	5,000.00	5,000.00	-
TOTAL INTERFUND EXPENDITURES	28,450.66	11,051.89	25,543.00	26,050.00	1,506.00
TOTAL ADMINISTRATIVE EXPENDITURES	575,337.47	233,145.71	644,596.00	651,317.00	7,720.00
PENSIONS					
Pensions-Annuity Benefit Payments	26,202,801.23	11,350,478.75	28,000,000.00	30,000,000.00	2,000,000.00
Pensions-Disability Payments	125,328.48	52,220.20	140,000.00	140,000.00	-
Pensions-Survivor Annuity Benefits Payments	1,981,214.54	925,121.74	2,100,000.00	2,300,000.00	200,000.00
TOTAL PENSIONS	28,309,344.25	12,327,820.69	30,240,000.00	32,440,000.00	2,200,000.00
Refunds	554,422.11	267,030.21	1,000,000.00	1,000,000.00	-
Reserve for Budget Adjustment	-	-	10,000.00	10,000.00	-
INVESTMENT EXPENDITURES					
Advisory Technical Service	436,405.71	139,963.99	500,000.00	500,000.00	-
Total Department Expenditures	\$ 29,875,509.54	\$ 12,967,960.60	\$ 32,394,596.00	\$ 34,601,317.00	\$ 2,207,720.00

Contribution Interest Rate Analysis

	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Plan Interest Rate	7.00%	5.00%	5.00%	5.00%	5.00%	4.00%	4.00%	3.25%	2.50%	2.50%	1.50%	1.50%	2.25%	2.50%
Change		-2.00%	0.00%	0.00%	0.00%	-1.00%	0.00%	-0.75%	-0.75%	0.00%	-1.00%	0.00%	0.75%	0.25%

Treasury Yield Curve



	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
6/29/2018	1.77	1.93	2.11	2.33	2.52	2.63	2.73	2.81	2.85	2.91	2.98
6/18/2019	2.18	2.22	2.2	2.04	1.86	1.8	1.83	1.93	2.06	2.34	2.55
2016/17 Average	0.47	0.56	0.69	0.83	1.07	1.27	1.62	1.91	2.10	2.46	2.76
2017/18 Average	1.31	1.44	1.59	1.75	1.92	2.06	2.30	2.47	2.57	2.77	2.94
2018/19 Average	2.25	2.31	2.41	2.50	2.54	2.56	2.59	2.68	2.76	2.92	3.05

5-yr US Treasury Rates

