

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:00 p.m. August 5, 2020
WebEx Meeting

AGENDA

- 1) Minutes of the July 1, 2020 Meeting
 - Motion

- 2) Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Vesting
 - Information
 - d) Deaths
 - Information
 - e) Expenditure Summary Report – June 2020
 - Motion
 - f) Schedule of Investments – June 2020
 - Information
 - g) Cash Reconciliation – July 2020
 - Information
 - h) Other Business
 - Castine Update - Information

- 4) Investment Consultant RFP Scoring
 - Motion

- 5) Other Business

- 6) Next Meeting – **Wednesday, September 2nd at 1:00 p.m.**

****Please note:** The SERS Board meeting will be held via [WebEx Meeting](https://spokanecity.webex.com/spokanecity/j.php?MTID=m4ea5218be30dde17a944bf838bb54734).
(<https://spokanecity.webex.com/spokanecity/j.php?MTID=m4ea5218be30dde17a944bf838bb54734>)

Meeting dial-in number: 1-408-418-9388
Meeting number (access code): 146 644 0496
Meeting password: SERS

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
July 1, 2020**

The regular monthly meeting was called to order at 1:03 p.m. via WebEx conference call.

Present: Mike Coster, Jim Tieken, Joe Cavanaugh, Michael Cathcart, Dean Kiefer, Brian Brill, and J.D. Morscheck

Staff: Phill Tencick, Christine Shisler, and Donald Brown

Guests: Tammy Erickson and Ashlee Lent (Moss Adams), Richard Czernik, and Natalie Hilderbrand

Jim Tieken joined the meeting at 1:05 p.m.

Moss Adams – December 31, 2019 Audit Report

Moss Adams presented the 2019 SERS independent audit report. The auditors explained how they test critical areas such as the investment assets, investment income, contributions, benefit payments and participant data. Moss Adams issued an unqualified (clean) opinion. They had no negative comments or areas of concern in the management letter, which reflects the continuing diligence of staff.

Minutes of the June 3, 2020 Meeting

Joe Cavanaugh moved and Jim Tieken seconded the motion to approve the minutes of the June 3, 2020 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>
Vicki R. Brown	61	06/30/2020	22.5	E
Daniel W. Archer	50	07/01/2020	8.2	E
Daniel H. Eaton	56	07/11/2020	32.9	E
Susan M. Walton	62	07/14/2020	23.0	ST
Brent H. Thrash	62	08/04/2020	12.7	E

Jim Tieken moved and Brian Brill seconded the motion to approve the service retirements as presented on the July Retirement Transaction Report. The motion passed unanimously.

Withdrawals for June 2020

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Ceaira K. K. Rigmaiden	1.5	10/08/2019

Joe Cavanaugh moved and Dean Kiefer seconded the motion to approve the requests for withdrawal as presented on the July Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Sarah K. Bain	Library	6.3

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Gary L. Miller	05/08/2003	79	05/29/2020	No Further Benefits
David L. Byrnes	08/02/2011	73	06/14/2020	E Option Continues

Vesting and Death information provided to the Board for review.

Expenditure Summary Report – May 2020

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

Dean Kiefer moved and J.D. Morscheck seconded the motion to approve the May 2020 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – May 2020

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on May 31, 2020 was \$284.9 million with an estimated rate of return of 4.2% 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. Items of note included the redemption of the Frontier Phocus fund on June 26, 2020 following the motion from June's meeting and an additional distribution from Royalty Opportunitites I.

Other Business

Mr. Tencick informed the Board that the budget would be presented at the August meeting as long as the Budget Department has the reports released.

Mr. Tencick updated the Board on the RFP for Investment Consulting. He plans to include a summary of the firms who have responded in the August Board packet.

Contribution Interest Rate

Mr. Tencick presented information on the US Treasury rates used to determine the Plan interest rate on member contributions. From July 1, 2019 to June 30, 2020, the average 5-year US Treasury Note rate, rounded to the nearest 25 basis points, was 1.25%. This rate will become effective July 1, 2020, and is a decrease from the previous rate of 2.50%.

Joe Cavanaugh moved and Jim Tieken seconded the motion to change the contribution interest rate from 2.50% to 1.25%. The motion passed unanimously.

There being no other business, the meeting adjourned at 1:50 p.m.

Phillip Tencick, Retirement Director

DRAFT

SERS Retirement Transaction Report

August 2020

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Elizabeth G. Hammond	64	08/07/2020	22.4	PFD	ST
2	Laura E. Williams	50	08/08/2020	21.3	Finance	ST
	Retirements YTD	42				
	2019 Total Retirements	69				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Claudie J. Traylor	0.1	My Spokane	12/27/2019
2	Elijah E. Shaffer	0.2	Library	05/21/2020
3	Gay Lynn James beneficiary of Michael E. James	23.8	Signals & Lighting	Active Death

Vesting

	Name	Department	Years of Service
1	Kelly D. Keenan	CD/HS Operations	7.7

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Wynema J. Wiegman	10/24/2000	70	06/24/2020	No Further Benefits
2	Michael C. Owen	12/29/2018	67	07/03/2020	E Option Continues
3	Irene D. McKenna	10/30/2007	92	07/11/2020	No Further Benefits
4	Helen M. Gheri	09/01/1995	97	07/13/2020	No Further Benefits
5	Marion T. Haine	06/29/2018	59	07/13/2020	E Option Continues

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2020 EXPENDITURE SUMMARY REPORT
JUNE 30, 2020

	2019 ACTUAL	2020 BUDGET	JUNE ACTUAL EXPENDITURES	2020 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	308,884.99	329,274.00	24,234.50	142,779.42	186,494.58	43.4%
Departmental Benefits	61,457.99	63,101.00	5,042.03	30,252.74	32,848.26	47.9%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(21,009.35)	(10,000.00)	(10,782.50)	(10,782.50)		
Postage/Supplies/Other	1,217.16	5,200.00	264.08	2,416.16	2,783.84	46.5%
State Audit Charges	11,146.55	15,000.00	224.47	809.71	14,190.29	5.4%
Contractual Services	133,696.37	175,000.00	5,251.00	95,033.31	79,966.69	54.3%
Travel	3,489.45	15,000.00	-	109.09	14,890.91	0.7%
Registration/Schooling	810.00	16,000.00	-	5,495.00	10,505.00	34.3%
Other Dues/Subscriptions/Membership	2,273.80	2,500.00	-	261.40	2,238.60	10.5%
Other Miscellaneous Charges	3,135.88	2,300.00	55.00	630.10	1,669.90	27.4%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	522,751.84	623,375.00	24,288.58	267,004.43	355,588.07	42.8%
INTERFUND EXPENDITURES						
Interfund - Office Performance Mgmt Services	4,189.36	389.00	-	389.00	-	100.0%
Interfund - Centralized Purchasing	1,251.65	516.00	-	258.00	258.00	50.0%
Interfund - Centralized Accounting	2,016.40	1,917.00	-	958.50	958.50	50.0%
Interfund - Risk Management	584.00	586.00	-	146.50	439.50	25.0%
Interfund - Worker's Compensation	122.00	134.00	-	67.00	67.00	50.0%
Interfund - Reprographics	9,376.27	5,000.00	-	2,152.65	2,847.35	43.1%
Interfund - IT	12,896.37	39,237.00	3,269.75	16,348.75	22,888.25	41.7%
Interfund - IT Replacement	1,965.00	1,827.00	152.25	761.25	1,065.75	41.7%
Interfund - My Spokane	609.90	580.00	-	290.00	290.00	50.0%
TOTAL INTERFUND EXPENDITURES	33,010.95	50,186.00	3,422.00	21,371.65	28,814.35	42.6%
TOTAL ADMINISTRATIVE EXPENDITURES	555,762.79	673,561.00	27,710.58	288,376.08	384,402.42	42.8%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2020 EXPENDITURE SUMMARY REPORT
JUNE 30, 2020

	2019 ACTUAL	2020 BUDGET	JUNE ACTUAL EXPENDITURES	2020 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	27,788,707.57	30,000,000.00	2,443,309.83	14,403,624.45	15,596,375.55	48.0%
Pensions-Disability Payments	124,164.02	140,000.00	9,548.30	57,289.80	82,710.20	40.9%
Pensions-Survivor Annuity Benefits Payments	2,142,992.75	2,300,000.00	172,962.58	1,031,202.15	1,268,797.85	44.8%
TOTAL PENSIONS	<u>30,055,864.34</u>	<u>32,440,000.00</u>	<u>2,625,820.71</u>	<u>15,492,116.40</u>	<u>16,947,883.60</u>	47.8%
Refunds	544,437.91	1,000,000.00	5,953.96	208,725.13	791,274.87	20.9%
TOTAL EXPENSES	<u><u>31,156,065.04</u></u>	<u><u>34,113,561.00</u></u>	<u><u>2,659,485.25</u></u>	<u><u>15,989,217.61</u></u>	<u><u>18,123,560.89</u></u>	46.9%
INVESTMENT EXPENSE*						
Advisory Technical Service	446,741.55	500,000.00	-	147,934.30	352,065.70	29.6%

* 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

June 30, 2020

7/30/2020

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 177,695			
US Bank	Short-term Inv	25,955			
Total Cash		203,650	0.0%	0.1%	0.1%
Sterling Capital	Total Return	26,862,139			
Total Total Return		26,862,139	10.0%	9.2%	-0.8%
Hotchkis & Wiley	High Yield - Mutual Fund	11,133,565			
Total High Yield		11,133,565	5.0%	3.8%	-1.2%
Polar	LLC	7,479,470			
Castine Capital II	Ltd Partnership	6,024,482			
Post Limited Term High Yield	Ltd Partnership	6,393,929			
Rimrock Low Volatility	Ltd Partnership	9,664,454			
Total Absolute Return		29,562,335	8.0%	10.2%	2.2%
Total Capital Preservation		67,761,689	23.0%	23.3%	0.3%
Hotchkis & Wiley	LC Value - Mutual Fund	13,048,308			
MFS Growth	LC Growth - Mutual Fund	18,344,969			
Fidelity S&P 500 Index	LC Core - Mutual Fund	29,946,568			
Total US Large Cap		61,339,845	21.0%	21.1%	0.1%
Sterling	MC Value	4,169,685			
Vanguard MC Growth	MC Growth - Mutual Fund	-			
Westfield MC Growth	MC Growth	3,250,000			
Fidelity MC Index	MC Core - Mutual Fund	4,193,464			
Champlain	SC Core	6,413,916			
Phocas	SC Value - Mutual Fund	-			
Bridge City	SC Growth	5,562,011			
Fidelity SC Index	SC Core - Mutual Fund	3,840,548			
Total US Small/Mid Cap		27,429,624	11.0%	9.4%	-1.6%
Total US Equities		88,769,469	32.0%	30.5%	-1.5%
Artisan	SMID Value - Mutual Fund	19,608,998			
Euro Pacific	LC Blend - Mutual Fund	22,005,978			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		41,614,976	15.0%	14.3%	-0.7%
Trivalent	SC Value - Mutual Fund	11,862,137			
Total International Small/Mid		11,862,137	4.0%	4.1%	0.1%
Vanguard EM Index	EM - Mutual Fund	422,956			
ABS Emerging Markets	Ltd Partnership	8,378,840			
Total Emerging Markets		8,801,796	3.0%	3.0%	0.0%
Total International Equities		62,278,909	22.0%	21.4%	-0.6%
Weatherlow Offshore	Ltd Partnership	17,949,430			
Royalty Opportunities I	Ltd Partnership	1,475,898			
Royalty Opportunities II	Ltd Partnership	1,867,635			
Total Long Biased		21,292,963	7.0%	7.3%	0.3%
Metropolitan Real Estate Partners	Ltd Partnership	161,008			
Morrison Street Fund V	LLC	1,217,075			
Morrison Street Debt Opportunites	LP	3,811,562			
Morgan Stanley Prime	LLC	7,447,753			
Principal (REITs)	REITs	10,981,135			
Total Real Estate		23,618,533	9.0%	8.1%	-0.9%
Contrarian Capital Fund I	Ltd Partnership	7,075,096			
Beach Point	Ltd Partnership	10,904,957			
Total Opportunistic Credit		17,980,053	7.0%	6.2%	-0.8%
Contrarian EM Credit	LLC	3,903,383			
OrbiMed II	Ltd Partnership	5,171,387			
Total Special Opportunities		9,074,770	0.0%	3.1%	3.1%
Total Cash and Investments		\$ 290,776,386	100.0%	100.0%	0.0%
	Monthly Contributions	1,617,847			
	Monthly Pension	\$ (2,631,775)			
	As of May 31, 2020	\$ 284,980,852			
	Estimated Rate of Return	2.4%			
Abs. Return and Total Return FI	Thesis 2017.1	56,424,474	18.0%	19.4%	1.4%
Equity and Special Situations	Thesis 2017.3	160,123,148	54.0%	55.1%	1.1%

Cash Recon - Jul

Date	Transactions	Sources	Uses	Balance
6/25/2020	Beginning Balance			2,379,561.06
6/26/2020	Distribution - Royalty Opps	16,620.34		2,396,181.40
6/29/2020	Distribution - Morgan Stanley Prime	73,410.62		2,469,592.02
6/30/2020	Redemption - Frontier Phocas	3,188,048.16		5,657,640.18
6/30/2020	Purchase - Fidelity Small Cap Index		(3,000,000.00)	2,657,640.18
6/30/2020	June Pension Payments		(2,631,774.67)	25,865.51
7/1/2020	Interest	89.35		25,954.86
7/6/2020	Payroll Contributions	806,147.62		832,102.48
7/6/2020	Redeposit/Reissue Check	1,961.39	(72.23)	833,991.64
7/7/2020	Redeposit Check	205.58		834,197.22
7/9/2020	Redeposit/Reissue Check	72.23	(72.23)	834,197.22
7/17/2020	Distribution - Morrison Street V	738,864.46		1,573,061.68
7/20/2020	Payroll Contributions	815,963.46		2,389,025.14
7/28/2020	Trust Fees		(23,348.00)	2,365,677.14
7/29/2020	Ending Balance	5,641,383.21	(5,655,267.13)	2,365,677.14
	<u>Upcoming</u>			
7/31/2019	July Pension Payments		(2,559,637.43)	

INVESTMENT CONSULTANT BENCHMARKING AND RFP SCORING

August 5, 2020

SERS

Spokane Employees'
Retirement System

Finalist Presentations

- 1) **Currently Scheduled for August 18-20**
 - Pros: Date certainty, Availability
 - Cons: Remote meetings required
 - Unknowns: Decision making quality for remote meetings

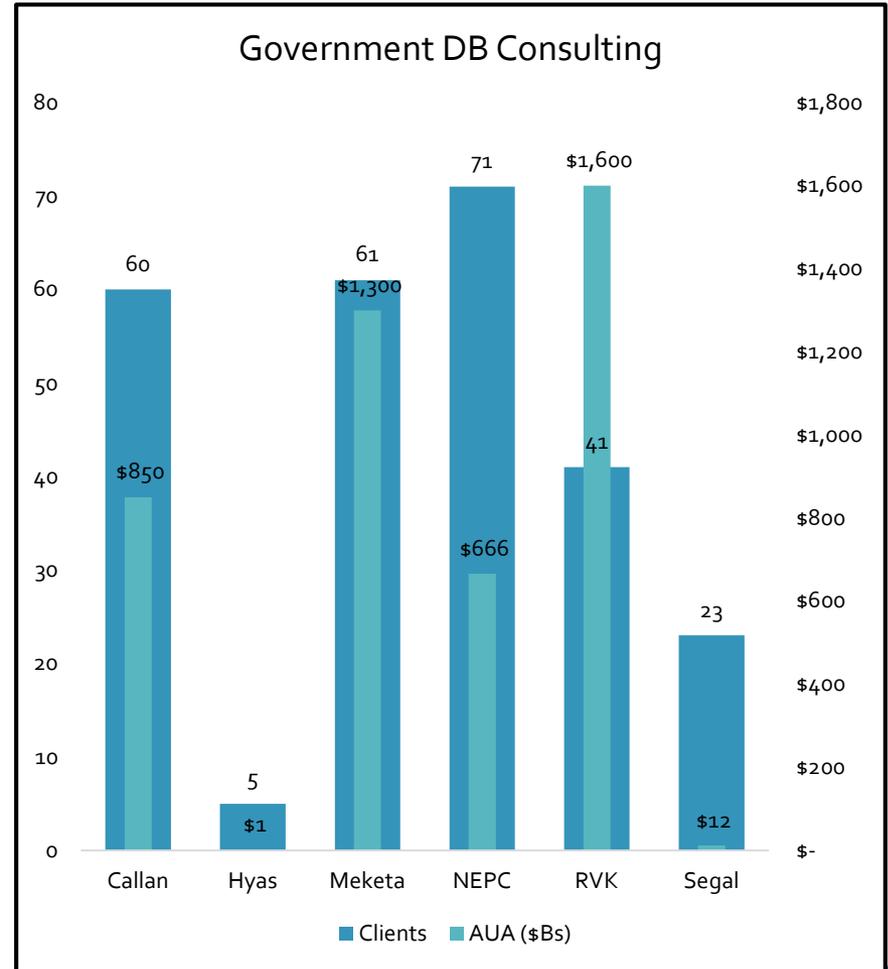
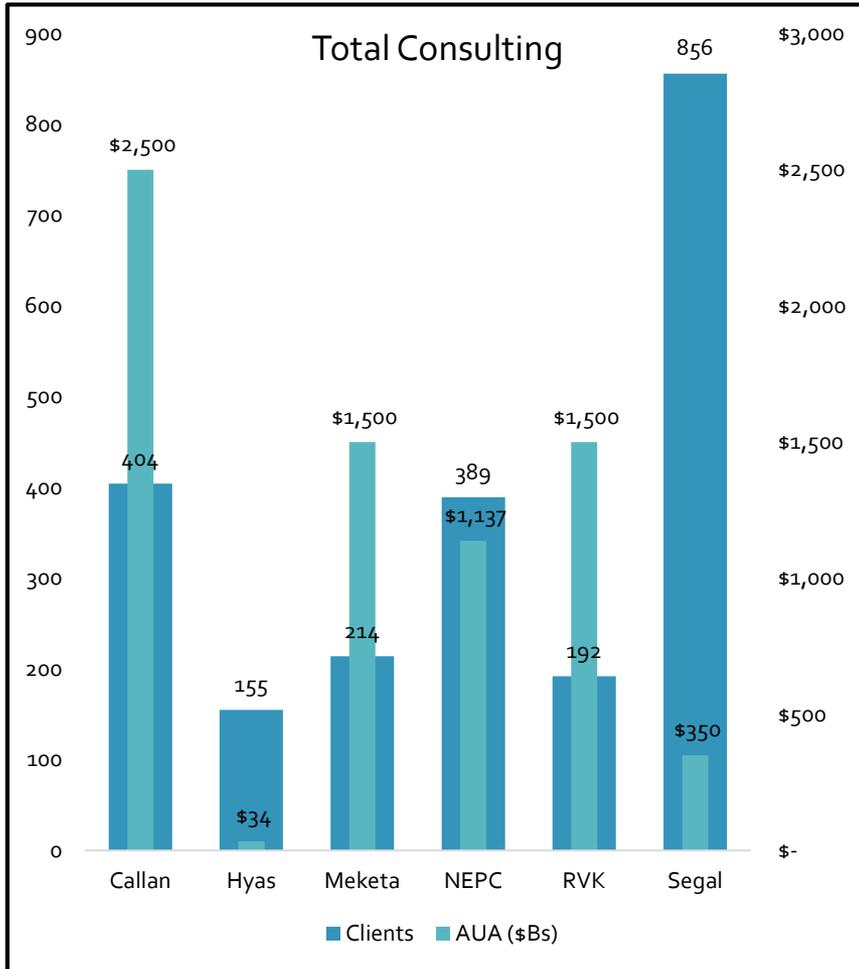
- 2) **Postpone to Early November**
 - Pros: Increases likelihood of meeting in-person, No contract extension required
 - Cons: Tight timeline for contracting
 - Unknowns: Likelihood of in-person meetings, Availability and willingness to meet in person,

- 3) **Extend until In-person Available**
 - Pros: Meet in person
 - Cons: Delays process beyond current contract
 - Unknowns: Possibility of short-term extension, When all available for in-person meetings, Applicability of current RFP when able to meet

Scoring

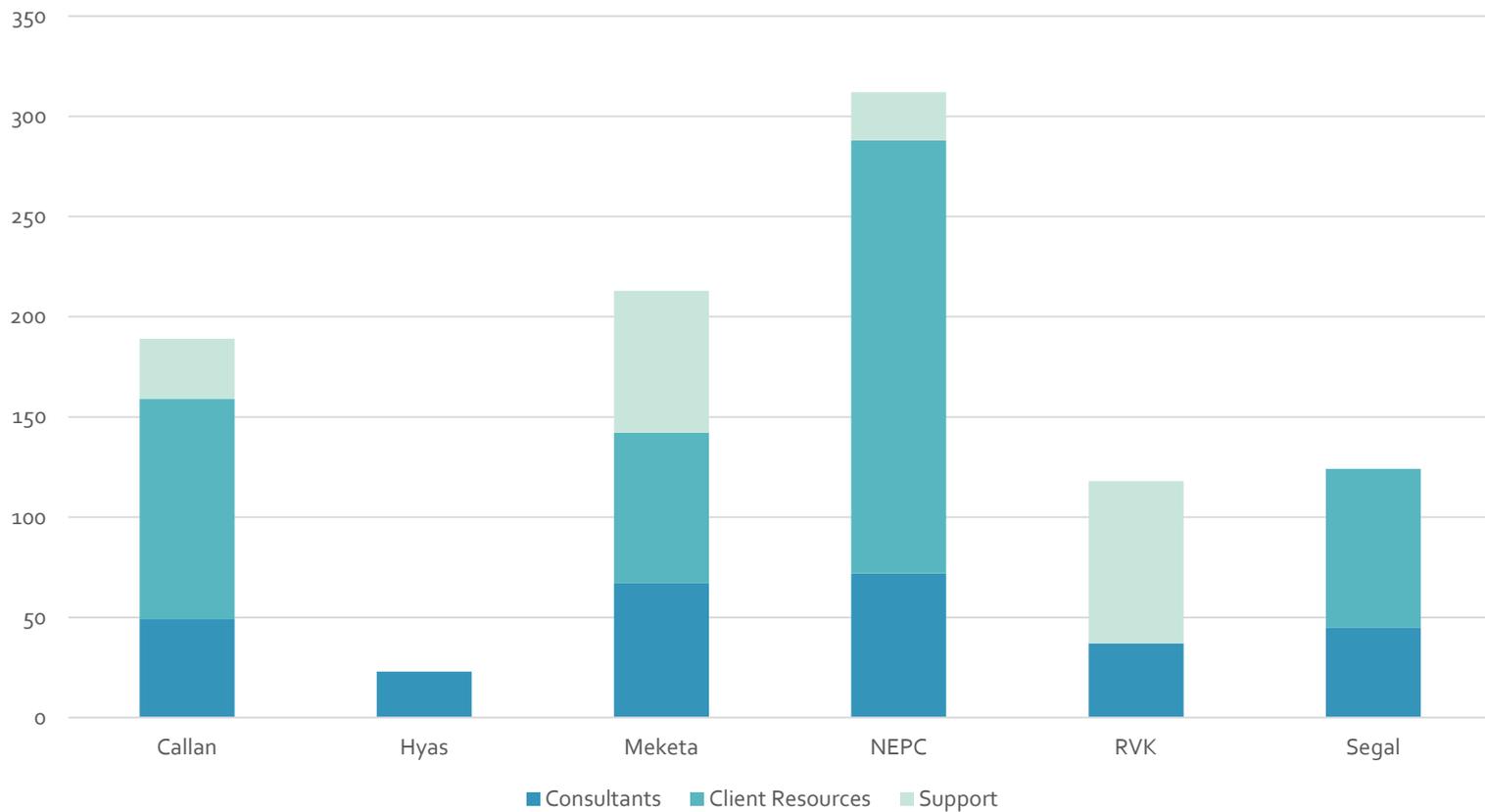
- Firm Resources
 - Staff, Manager Research, Market Research, and Board Education
- Skill of Assigned Personnel
 - Lead Consultant, Back-up Consultant, and Direct Support Staff
- Investment Consulting Processes
 - Asset Allocation, Manager Selection, Performance Measurement and Reporting
- Potential Conflicts of Interest
 - Ownership structure, and other lines of business
- Fees
 - Retainer, additional services

Firm Resources



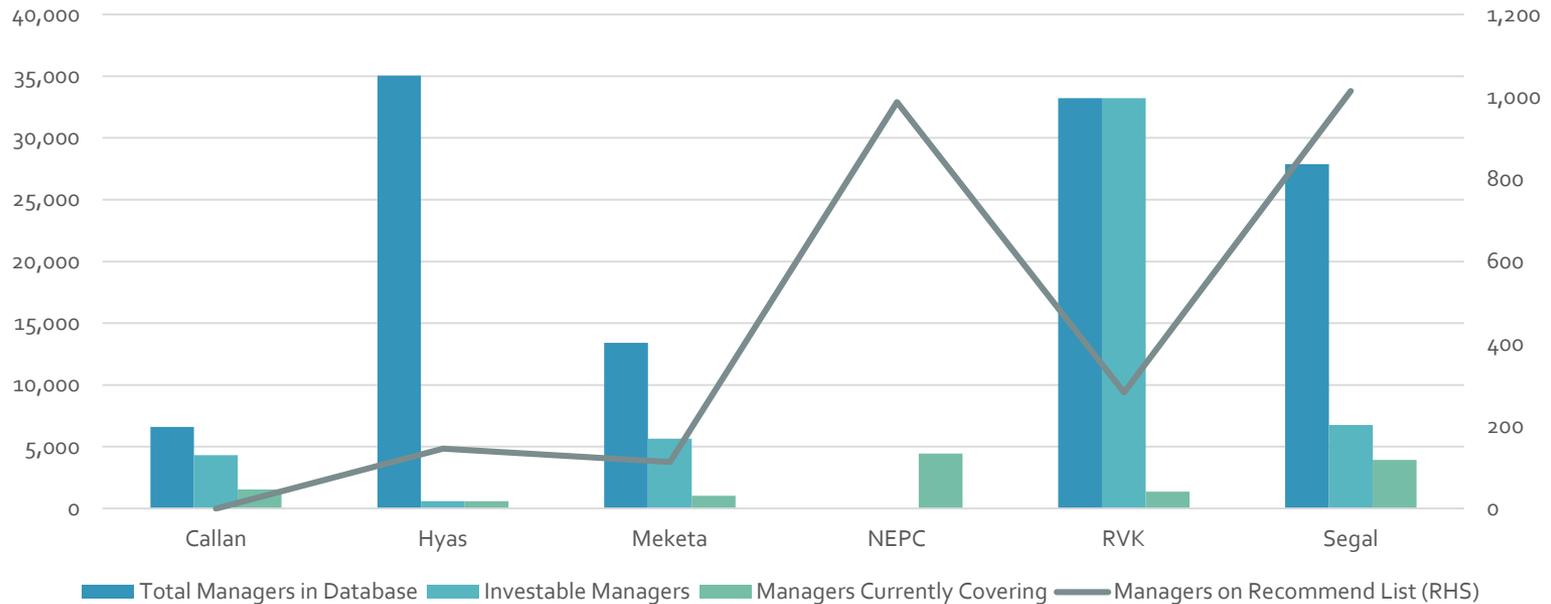
Firm Resources

Firm Staffing



Firm Resources

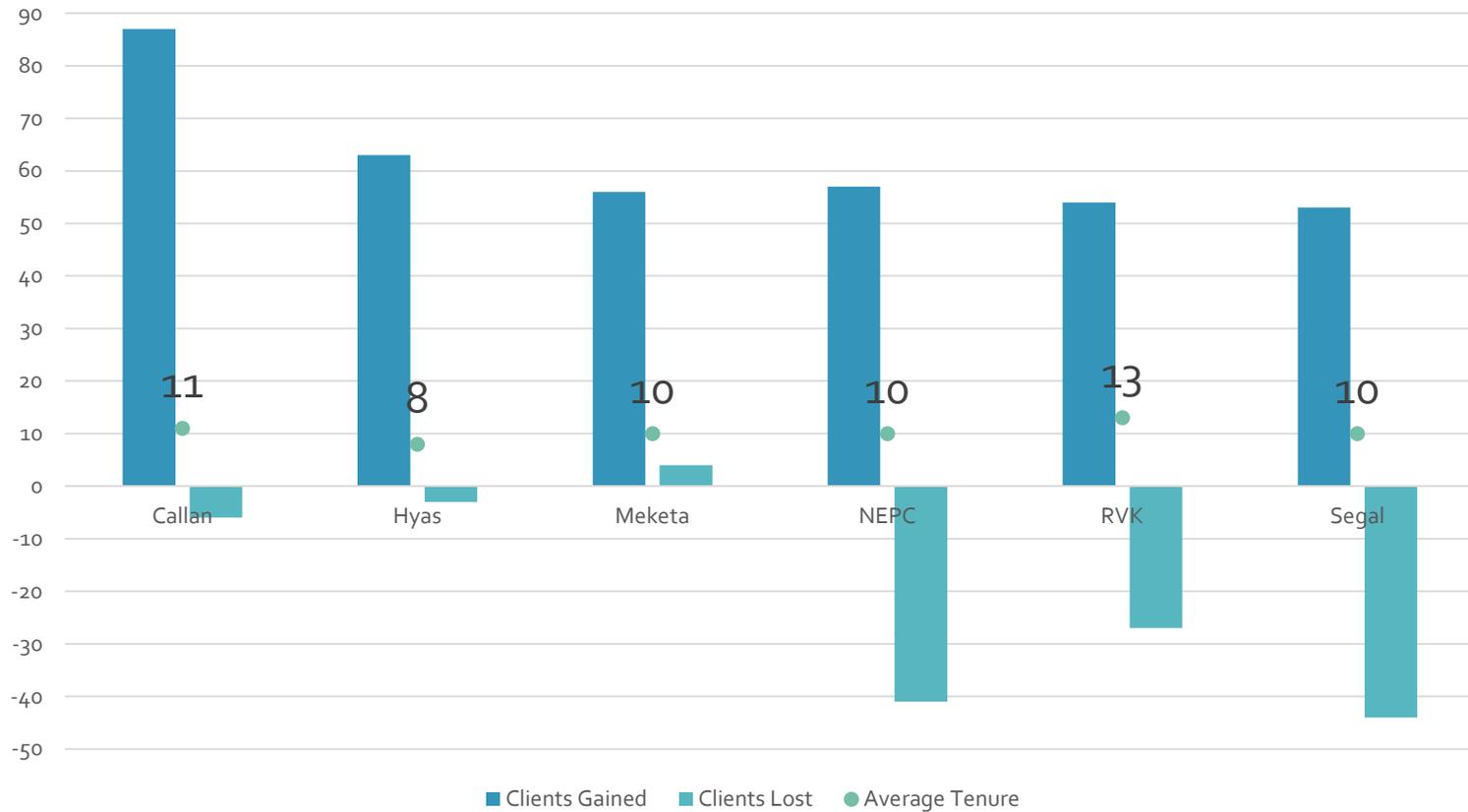
Manager Database



	Callan	Hyas	Meketa	NEPC	RVK	Segal
Coverage Ratio	35.9%	100.0%	18.1%	N/A	4.1%	58.0%
Recommend Ratio	N/A	24.4%	11.0%	22.2%	20.8%	25.9%

Assigned Personnel

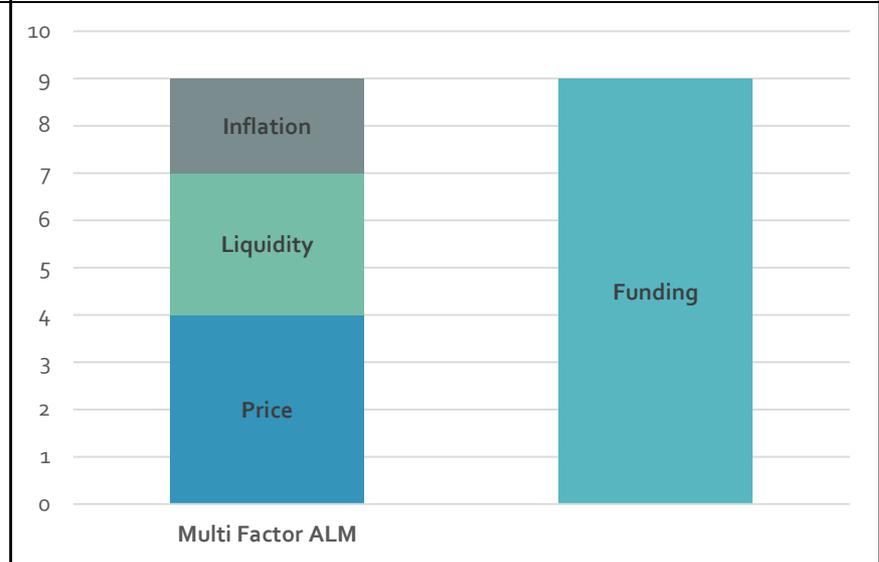
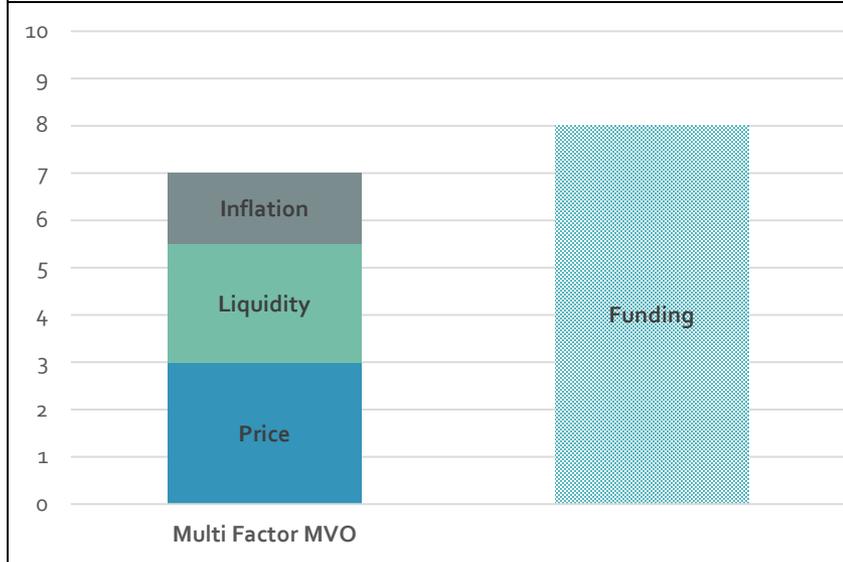
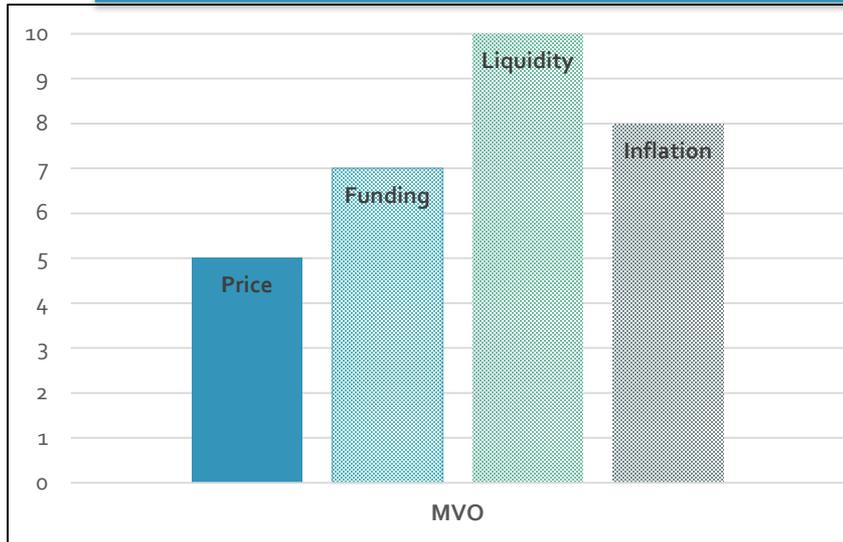
Client Turnover



Assigned Personnel

	Callan	Hyas	Meketa	NEPC	RVK	Segal
Overall Clients	10-15	10-20	3-8	5	6	10-18
Lead Consultant Clients	8	18	4	5	8	13
Lead Consultant AUA	\$26	\$10	\$25	\$11	\$432	\$11
Back-Up Consultant Clients	6		4			14
Back-Up Consultant AUA	\$96		\$2			\$3
Third Consultant Clients						15
Third Consultant AUA						\$12

Asset Allocation Models



Asset Allocation Models

- Callan – Mean Variance or Asset/Liability Model
- Hyas – Mean Variance
- Meketa – Mean Variance
- NEPC – Asset/Liability Model
- RVK – Multi-model Mean Variance
- Segal – Mean Variance

Asset Allocation – Assumptions

- Callan – 2nd quartile with lower realized risk
- Hyas – Qualitative
- Meketa – Qualitative
- NEPC – 5 outperform, 2 met expectation, 2 underperform
- RVK – Qualitative
- Segal – Qualitative

Asset Allocation – Performance

- Callan
 - Non-discretionary: do not provide
 - Discretionary: 7.24%, 118bp alpha
- Hyas
 - Small outperform, Large underperform
- Meketa
 - 7.7% for 5-year, 8.0% for 10-year
- NEPC
 - 28 of 34 years outperform peer group, with better Sharpe
 - Long-term meet target, short-term trailed
- RVK
 - 13/18 beat assumed rate of return (4 of 5 misses with 7.5%+)
 - Mean: 7.54% vs. 7.14% assumed, 29th percentile
 - Median: 7.55% vs. 7.00% assumed, 28th percentile
- Segal
 - Underperform policy, but above median vs. peers

Manager Selection - Attribution

- Callan
 - Manager Selection: Did not provide, positive for recommend manager analysis
 - Allocation: Did not provide
- Hyas
 - Manager Selection: Negative
 - Allocation: Neutral
- Meketa
 - Manager Selection: Did not provide, positive for recommend manager analysis
 - Allocation: Did not provide
- NEPC
 - Manager Selection: Did not provide, positive for recommend manager analysis
 - Allocation: Did not provide
- RVK
 - Manager Selection: Did not provide, positive for recommend manager analysis
 - Allocation: Did not provide
- Segal
 - Manager Selection: Negative (Watch list added value)
 - Allocation: Positive

Conflicts of Interest

- Callan
 - Ownership: Employee owned, fairly diversely (17% max)
 - Business Lines: Consulting (includes discretionary), Advisor group, Manager Consulting
- Hyas
 - Ownership: Employee owned, concentrated (3 partners)
 - Business Lines: Consulting (includes discretionary)
- Meketa
 - Ownership: Employee owned, diversely (61 shareholders)
 - Business Lines: Consulting (includes discretionary)
- NEPC
 - Ownership: Employee owned, diversely (7% max)
 - Business Lines: Consulting (includes discretionary)
- RVK
 - Ownership: Employee owned, diversely (27 shareholders)
 - Business Lines: Consulting (non-discretionary only)
- Segal
 - Ownership: Subsidiary of Segal
 - Business Lines: Consulting (includes discretionary), Advisor Solutions, Proxy, Benefits

Fees

- **Callan: \$716k to \$823k**

- Base retainer \$135k or \$155k with ALM study, increasing at 3% per year; includes 4 manager searches per year, \$30k for each additional search; \$70k for custodian search

- **Hyas: \$600k**

- Base retainer \$120k for life of contract; includes at risk \$'s for not meeting performance standards: \$2k if consultant (lead or back-up) or analysis team don't reply within 24 hours, \$2k if materials not delivered on time, \$5k+ if below target on satisfaction review

- **Meketa: \$600k**

- Base retainer \$120k for life of contract

- **NEPC: \$701k**

- Base retainer \$130k increasing at CPI annually (*estimate CPI of 2.0% per year, plus \$5k of travel and postage per year*)

- **RVK: \$676k**

- Base retainer \$125k, increasing at 2.5% per year after year 2; Asset/liability study (vs. asset only) \$35k; Custodian RFP \$18k

- **Segal: \$600k**

- Base retainer \$120k for life of contract

Scoring

- Weights
 - Firm Resources (20%)
 - Skill of Assigned Personnel (20%)
 - Investment Consulting Processes (40%)
 - Potential Conflicts of Interest (10%)
 - Fees (10%)

Scoring

- Methods
 - Forced Rank
 - Absolute Score
 - Sum of questions (raw)
 - Sum of questions (weighted)