

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:00 p.m. October 7, 2020
WebEx Meeting

AGENDA

- 1) Minutes of the September 2, 2020
 - Motion
- 2) Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Deaths
 - Information
 - d) Expenditure Summary Report – August 2020
 - Motion
 - e) Schedule of Investments – August 2020
 - Information
 - f) Cash Reconciliation – September 2020
 - Information
 - g) Other Business
 - Portfolio Construction Review Update – Information
 - Select Committee on Pension Policy Portability Study – Information
- 3) Other Business
- 4) Next Meeting – **Wednesday, November 4th at 1:00 p.m.**

****Please note:** The October Board meeting will be held via [WebEx Meeting](https://spokanecity.webex.com/spokanecity/j.php?MTID=m889249a3958d235e299f6b43a82c2991).
<https://spokanecity.webex.com/spokanecity/j.php?MTID=m889249a3958d235e299f6b43a82c2991> Meeting dial-in number: 1-408-418-9388
Meeting number (access code): 146 998 2843
Meeting password: SERS

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
September 3, 2020

The meeting was called to order at 1:02 p.m. via WebEx conference call.

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

Absent: Mike Coster

Staff: Phill Tencick, Christine Shisler, Tim Szambelan

Guests: Richard Czernik, Natalie Hilderbrand, Teri Stripes, Jayson Davidson, Brian Loescher, Ted Grigsby

Hyas Group, 2020 2nd Quarter Investment Performance Report

Hyas Group reviewed the Second Quarter 2020 Performance Report and discussed the dramatic stock market rebound that ensued during the quarter. While the Covid-19 pandemic continues to cause economic disruption, global stock markets have mainly recovered what was lost during the first quarter, at the onset of the pandemic. World governments and central banks continue to provide unprecedented levels of support to keep economies afloat as society looks for relief from the outbreak. The strong equity performance created a modest overweight to the US Equity class, based on preliminary figures for August. Hyas Group recommended funding future capital calls from the US Equity allocation, and Large Cap in particular. An initial capital call is expected from Morrison Street Fund VI as the subscription to the Fund is completed/submitted. This funding was previously approved by the Board.

As the Board was previously informed, Castine elected to close the Castine Partners Fund II and return capital to investors. Proceeds, minus a small holdback pending final audit, have been received and are currently held in cash. Hyas Group recommended that the proceeds from this redemption be invested into the Sterling Core Fixed Income Fund to bring that option to policy target. Residual cash amounts should be placed into the Hotchkis and Wiley High Yield Fund. Ultimately, they will be looking to find alternative Absolute Return options to fill the gap left by Castine's liquidation. Hyas Group will pursue both liquid and illiquid alternatives in our search.

Jim Tieken moved to move the proceeds from Castine Partners Fund II to the Sterling Fixed Income Fund. The motion failed due to a second.

Jim Tieken moved and J.D. Morscheck seconded the motion to move the proceeds from Castine Partners Fund II to the Sterling Fixed Income Fund after a portion of the proceeds are held back to fund the September pensions. The motion passed unanimously.

The following funds will remain on watch status: Hotchkis & Wiley High Yield Fund, OrbiMed Partners, Hotchkis and Wiley Diversified Value, and Sterling Mid Cap Value. The Castine Partners Fund II product was liquidated and removed from the portfolio and thus would no longer be considered on watch. Mr. Davidson did note that the majority of watch status options enjoyed a strong relative Second Quarter and continue to do well moving into the latter half of the Third Quarter.

Mr. Davidson informed the Board that American Funds has announced a 3 basis point fee reduction, effective in the second quarter, the EuroPacific Growth Fund.

The Frontier Phocas Small Cap Value Fund was liquidated and removed from the SERS portfolio in mid-June of this year. The liquidation was forced by the fund company, with limited notice, and the assets were transferred into the Fidelity Small Cap Index upon liquidation, as directed by the Board. Considering this liquidation, the Board was presented the Small Cap Value Manager Search Report. The Board reviewed several alternatives to replace the Phocas Fund. After discussion and consideration of risk, performance and cost metrics, the Board did not take action and the proceeds will remain in the Fidelity Small Cap Index.

The Board entertained options for changing and simplifying the portfolio, as discussed in prior meetings. The Hyas Group put forward several options for consideration, some of which could result in rather significant changes to the portfolio's risk profile and policy targets. Given that, the Board did not, at this time, take any formal action. In preparation for the next meeting it was requested that Hyas Group evaluate liquidity constraints and more specific possible steps to the implementation of a restructured portfolio. Mr. Davidson will work with staff on the project.

Minutes of the August 5, 2020 Meeting

Jim Ticken moved and Dean Kiefer seconded the motion to approve the minutes of the August 5, 2020 meeting as presented. The motion passed unanimously.

Director's Report

Service Retirements

Name	Age	Retirement Date	Years of Service	Department
Kemmer C. Ebey	66	09/02/2020	42.4	Water
Michael D. James	56	09/02/2020	28.5	Fleet Services
Tami M. Teaford	60	09/02/2020	30.3	Police
Harry P. Ward	63	09/03/2020	28.2	Water
Scott L. Bieber	50	09/03/2020	21.3	Solid Waste Disposal
May D. Mitchell	62	09/11/2020	25.8	Street
Cletus D. Reiland	67	10/03/2020	8.0	Fleet Services

Michael L. Turner	69	10/03/2020	40.1	Parks & Recreation
Robert A. Wheeler	65	10/03/2020	12.1	Fleet Services

Dean Kiefer moved and Brian Brill seconded the motion to approve the service retirements as presented on the September Retirement Transaction Report. The motion passed unanimously.

Withdrawals for September 2020

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Alex R. Mann	0.24	Planning Services
Jake M. Reed	1.80	Fleet Services
Charlie E. Wolff	2.48	Mayor
Riley B. Smith	0.34	Council
Michael W. Adaszewski	0.37	Water

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

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Nathaniel T. Newcomb	Parks & Recreation	11.5

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Peter S. Markarian	12/31/2004	88	07/31/2020	No Further Benefits
June L. Osborne	08/04/1990	92	08/15/2020	No Further Benefits
Tony C. Rossi	01/15/1988	85	08/23/2020	No Further Benefits

Vesting and death information provided to the Board for review.

Expenditure Summary Report – July 2020

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

Jim Tieken moved and Dean Kiefer seconded the motion to approve the July 2020 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – July 2020

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on July 31, 2020 was \$292.7 million with an estimated rate of return of 1.1% 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.

2021 Budget

The 2021 Budget was presented to the Board and discussed.

J.D. Morscheck moved and Jim Tieken seconded the motion to adopt the 2021 Budget as presented. The motion passed unanimously.

Other Business

Mr. Tencick gave the Board an update regarding the Morrison Street VI commitment. He informed them of the delay due to Covid-19, but that there has been a lowering of fees. Everything is now in place to move forward with the funding, which will come from US Equities.

There being no other business, the meeting adjourned at 2:53 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

October 2020

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Scott K. Windsor	59	09/15/2020	22.9	Solid Waste	E
2	Mark A. Johnson	62	09/19/2020	17.8	Water	ST
3	William 'Mike' Threlfall	67	09/19/2020	23.3	Workers' Compensation	ST
4	Rebecca L. Stewart	50	10/01/2020	13.4	Legal	E
5	Randy J. Penaluna	59	10/01/2020	11.9	Advanced Wastewater Treatment	B
6	Monte R. Irby	50	10/10/2020	15.4	Advanced Wastewater Treatment	ST
7	Charles H. Conklin III	62	11/01/2020	6.0	Solid Waste Disposal	D
8	Edward A. Phare	68	11/07/2020	23.6	Street	E
	Retirements YTD	58				
	2019 Total Retirements	69				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Alex R. Mann	0.2	Planning Services	08/02/2019
2	Jakob M. Reed	1.8	Fleet Services	11/01/2019
3	Charlie E. Wolff	2.5	Mayor	12/31/2019
4	Riley B. Smith	0.3	Council	06/28/2020
5	Michael W. Adaszewski	0.4	Water	08/10/2020

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Darlene Ahrendt	05/03/2016	76	09/01/2020	No Further Benefits
2	Aurla R. Bolles	05/16/1998	87	09/06/2020	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2020 EXPENDITURE SUMMARY REPORT
AUGUST 31, 2020

	2019 ACTUAL	2020 BUDGET	AUGUST ACTUAL EXPENDITURES	2020 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	308,884.99	329,274.00	24,234.50	203,097.21	126,176.79	61.7%
Departmental Benefits	61,457.99	63,101.00	5,042.09	41,427.80	21,673.20	65.7%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(21,009.35)	(10,000.00)	-	(10,782.50)		
Postage/Supplies/Other	1,217.16	5,200.00	618.27	3,111.74	2,088.26	59.8%
State Audit Charges	11,146.55	15,000.00	1,726.83	3,946.36	11,053.64	26.3%
Contractual Services	133,696.37	175,000.00	12,300.00	107,333.31	67,666.69	61.3%
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	164.83	949.23	1,350.77	41.3%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	522,751.84	623,375.00	44,086.52	354,948.64	267,643.86	56.9%
INTERFUND EXPENDITURES						
Interfund - Office Performance Mgmt Services	4,189.36	389.00	-	389.00	-	100.0%
Interfund - Centralized Purchasing	1,251.65	516.00	-	387.00	129.00	75.0%
Interfund - Centralized Accounting	2,016.40	1,917.00	-	1,437.75	479.25	75.0%
Interfund - Risk Management	584.00	586.00	-	146.50	439.50	25.0%
Interfund - Worker's Compensation	122.00	134.00	33.50	100.50	33.50	75.0%
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	22,888.25	16,348.75	58.3%
Interfund - IT Replacement	1,965.00	1,827.00	152.25	1,065.75	761.25	58.3%
Interfund - My Spokane	609.90	580.00	-	435.00	145.00	75.0%
TOTAL INTERFUND EXPENDITURES	33,010.95	50,186.00	3,455.50	29,002.40	21,183.60	57.8%
TOTAL ADMINISTRATIVE EXPENDITURES	555,762.79	673,561.00	47,542.02	383,951.04	288,827.46	57.0%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2020 EXPENDITURE SUMMARY REPORT
AUGUST 31, 2020

	2019 ACTUAL	2020 BUDGET	AUGUST ACTUAL EXPENDITURES	2020 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	27,788,707.57	30,000,000.00	2,471,047.90	19,334,399.01	10,665,600.99	64.4%
Pensions-Disability Payments	124,164.02	140,000.00	9,548.30	76,386.40	63,613.60	54.6%
Pensions-Survivor Annuity Benefits Payments	2,142,992.75	2,300,000.00	178,554.27	1,387,792.68	912,207.32	60.3%
TOTAL PENSIONS	<u>30,055,864.34</u>	<u>32,440,000.00</u>	<u>2,659,150.47</u>	<u>20,798,578.09</u>	<u>11,641,421.91</u>	64.1%
Refunds	544,437.91	1,000,000.00	12,769.80	364,140.14	635,859.86	36.4%
TOTAL EXPENSES	<u><u>31,156,065.04</u></u>	<u><u>34,113,561.00</u></u>	<u><u>2,719,462.29</u></u>	<u><u>21,546,669.27</u></u>	<u><u>12,566,109.23</u></u>	63.2%
INVESTMENT EXPENSE*						
Advisory Technical Service	446,741.55	500,000.00	67,334.76	268,626.09	231,373.91	53.7%

** 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
August 31, 2020

9/28/2020		Allocation			
	Type		Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 210,778			
US Bank	Short-term Inv	5,517,547			
Total Cash		5,728,325	0.0%	1.8%	1.8%
Sterling Capital	Total Return	27,271,021			
Total Total Return		27,271,021	10.0%	8.8%	-1.2%
Hotchkis & Wiley	High Yield - Mutual Fund	11,813,342			
Total High Yield		11,813,342	5.0%	3.8%	-1.2%
Polar	LLC	7,773,514			
Castine Capital II	Ltd Partnership	-			
Post Limited Term High Yield	Ltd Partnership	6,596,189			
Rimrock Low Volatility	Ltd Partnership	9,792,204			
Total Absolute Return		24,161,907	8.0%	7.8%	-0.2%
Total Capital Preservation		68,974,595	23.0%	22.3%	-0.7%
Hotchkis & Wiley	LC Value - Mutual Fund	13,892,059			
MFS Growth	LC Growth - Mutual Fund	20,741,488			
Fidelity S&P 500 Index	LC Core - Mutual Fund	33,910,384			
Total US Large Cap		68,543,931	21.0%	22.1%	1.1%
Sterling	MC Value	4,551,125			
Westfield MC Growth	MC Growth	3,250,000			
Fidelity MC Index	MC Core - Mutual Fund	4,596,115			
Champlain	SC Core	7,134,164			
Bridge City	SC Growth	5,938,983			
Fidelity SC Index	SC Core - Mutual Fund	4,170,578			
Total US Small/Mid Cap		29,640,965	11.0%	9.6%	-1.4%
Total US Equities		98,184,896	32.0%	31.7%	-0.3%
Artisan	SMID Value - Mutual Fund	21,186,948			
Euro Pacific	LC Blend - Mutual Fund	24,551,849			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		45,738,797	15.0%	14.8%	-0.2%
Trivalent	SC Value - Mutual Fund	13,402,198			
Total International Small/Mid		13,402,198	4.0%	4.3%	0.3%
Vanguard EM Index	EM - Mutual Fund	468,777			
ABS Emerging Markets	Ltd Partnership	9,459,990			
Total Emerging Markets		9,928,767	3.0%	3.2%	0.2%
Total International Equities		69,069,762	22.0%	22.3%	0.3%
Weatherlow Offshore	Ltd Partnership	18,893,493			
Royalty Opportunities I	Ltd Partnership	1,299,145			
Royalty Opportunities II	Ltd Partnership	997,886			
Total Long Biased		21,190,524	7.0%	6.8%	-0.2%
Metropolitan Real Estate Partners	Ltd Partnership	152,878			
Morrison Street Fund V	LLC	1,217,075			
Morrison Street Debt Opportunties	LP	3,673,369			
Morgan Stanley Prime	LLC	7,236,194			
Principal (REITs)	REITs	11,623,744			
Total Real Estate		23,903,260	9.0%	7.7%	-1.3%
Contrarian Capital Fund I	Ltd Partnership	7,365,089			
Beach Point	Ltd Partnership	11,521,290			
Total Opportunistic Credit		18,886,379	7.0%	6.1%	-0.9%
Contrarian EM Credit	LLC	4,314,688			
OrbiMed II	Ltd Partnership	5,380,869			
Total Special Opportunities		9,695,557	0.0%	3.1%	3.1%
Total Cash and Investments		\$ 309,904,973	100.0%	100.0%	0.0%
Monthly Contributions		2,420,795			
Monthly Pension		\$ (2,671,855)			
As of July 31, 2020		\$ 292,675,730			
Estimated Rate of Return		6.0%			
Abs. Return and Total Return FI	Thesis 2017.1	51,432,928	18.0%	16.6%	-1.4%
Equity and Special Situations	Thesis 2017.3	176,950,215	54.0%	57.1%	3.1%

Cash Recon - Sep

Date	Transactions	Sources	Uses	Balance
8/27/2020	Beginning Balance			7,381,776.99
8/31/2020	August Pension Payments		(2,671,920.27)	4,709,856.72
8/31/2020	Payroll Contributions	807,662.70		5,517,519.42
9/1/2020	Interest	27.76		5,517,547.18
9/14/2020	Payroll Contributions	807,049.94		6,324,597.12
9/18/2020	Redeposit/Reissue Pension Payment	2,117.84	(2,117.84)	6,324,597.12
9/21/2020	Distribution - Royalty Opps II	139,051.45		6,463,648.57
9/25/2020	Purchase - Hotchkis & Wiley High Yield		(2,800,000.00)	3,663,648.57
9/25/2020	Distribution - Royalty Opps I	151,111.15		3,814,759.72
9/25/2020	Redeposit Pension Payment	1,567.29		3,816,327.01
9/28/2020	Reissue Pension Payment		(1,162.83)	3,815,164.18
9/28/2020	Payroll Contributions	819,969.72		4,635,133.90
9/29/2020	Dividend - Morgan Stanley PRIME	71,468.54	-	4,706,602.44
9/30/2020	September Pension Payments		(2,706,764.32)	1,999,838.12
9/30/2020	Sale - MFS Growth Fund	1,820,000.00		3,819,838.12
9/30/2020	Purchase - Morrison Street VI		(1,820,000.00)	1,999,838.12
9/30/2020	Ending Balance	4,620,026.39	(10,001,965.26)	1,999,838.12
<u>Upcoming</u>				
10/1/2020	Purchase - Sterling Core Fixed Income	1,900,000.00		