

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:00 p.m. January 4, 2023
Council Briefing Center

AGENDA

Closed Session

- 1) Director Search discussion

Open Session

- 1) Election of Chairperson
 - Motion
- 2) Minutes of the December 7, 2022
 - Motion
- 3) Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – November 2022
 - Motion
 - f. Schedule of Investments – November 2022
 - Information
 - g. Monthly Cash Reconciliation
 - Information
 - h. Other Business
 - Asset Allocation Rebalancing Plan – Information
- 4) 2023 Investment Outlook
 - Information
- 5) Other Business
- 6) Next Meeting – **Wednesday February 2, 2022 at 1:00 p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
December 7, 2022

The meeting was called to order at 1:01 p.m. in the Council Briefing Center at City Hall.

Present: Jim Tieken, Joe Cavanaugh, Richard Czernik, Jonathan Bingle, Brian Brill, and Brian Myers

Staff: Phill Tencick, Donald Brown, and Tim Szambelan

Guests: Jayson Davidson, Tom Breaden, Natalie Hilderbrand, and Jon Barnhart

Third Quarter 2022 Performance Review

Mr. Davidson presented the Third Quarter 2022 Performance Report and discussed current market conditions and performance for the SERS portfolio. Hyas Group believes markets to be in a similar place to where they were over the summer months and the past month has brought a decent market rally that may not be sustainable. An expected decline in corporate earnings as the year rounds out and moves into the first quarter of next year, is not priced into stocks broadly, and it is expected that markets will compress further before we conclude the current bear market. Fixed income markets remain under pressure as the Federal Reserve continues its hawkish stance in its attempts to get current inflation levels under control. The SERS Portfolio posted a -4.7% performance for the quarter and the policy benchmark declined 4.3%. This placed it in the 41st percentile of similarly sized peers. While there were pockets of underperformance in several asset categories, the biggest detractor to performance was in domestic equities, where SERS's style exposure caused underperformance in the category benchmark by 1.26%. The portfolio's strongest relative performance came from the Long-Biased category where the managers' added 1.14% of value vs. the benchmark.

At quarter-end, there were three managers on watch for performance in violation of underlying policy benchmarks. The Hotchkis & Wiley High Yield Fund, Rimrock Low Volatility Fund and Sterling Mid Cap Value Fund remain in violation of policy and will remain on watch. Hyas Group also noted that Hotchkis & Wiley Diversified Value Fund tipped into policy violation at quarter-end, but performance since the end of the quarter has been strong and it is expected the fund to be above requisite benchmarks as the year ends. No watch recommendation was given, and no action was taken.

The Board received an update on the recently approved Morrison Street Fund VII approval and implementation. Required documentation has been submitted and SERS capital has been committed. We await the first capital call from Morrison Street for the fund. On a related note, the Morrison Street Fund VI has made its last capital call and expectations are for the fund to be fully invested soon.

Mr. Tencick discussed a recent announcement from ABS Global Investments related to a leadership change. Alain De Coster, one of the founders of the firm, will be stepping down from his executive role at the end of the year. This change does not impact the management of the SERS positions and Hyas does not believe it to be a material personnel change. No action was recommended by Hyas Group.

Asset Allocation Study

Hyas group presented an asset allocation study to the board. The asset classes, capital market assumptions, and constraints were reviewed. A range of model portfolios was discussed based on the expected risks and range of potential returns for each one.

Joe Cavanaugh moved and Richard Czernik seconded the motion to update the asset allocation in the investment portfolio from a 77/23 split in risk assets and capital preservation to a 70/30 split during the first quarter of 2023. The motion passed unanimously.

Minutes of the November 2, 2022 Meeting

Joe Cavanaugh moved and Richard Czernik seconded the motion to approve the minutes of the November 2, 2022 meeting as amended. The motion passed unanimously.

Director’s Report

Service Retirements

Name	Age	Retirement Date	Years of Service	Department
Robert J. Womochil	69	12/01/2022	22.3	Street
Brittany A. Garwood	53	12/01/2022	25.5	PFD
John J. Delay	57	02/04/2023	33.2	Public Affairs / Communications

Richard Czernik moved and Joe Cavanaugh seconded the motion to approve the service retirements as presented on the December Retirement Transaction Report. The motion passed unanimously.

Withdrawals for December 2022

Name	Years of Service	Department
Cheryl E. Bowers	0.1	My Spokane
Scotty J. Ferguson	0.2	Street
Michelle E. Hannaford	3.2	Parks & Recreation
Yana L. Irvine	0.2	Asset Management
Noah X. Stickney	1.3	Parking Meters
Ricky D. Burke	0.8	Solid Waste Management

Jonathan Bingle moved and Joe Cavanaugh seconded the motion to approve the requests for withdrawal as presented on the December Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Dustin C. Patrick	EMS Fund	18.7

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Sam R. Roderick	12/31/2004	83	11/02/2022	E Option Continues
Clifton Doss	10/01/1999	73	11/03/2022	No Further Benefits
Mary T. Badeaux	09/07/2019	72	11/14/2022	No Further Benefits

Vesting and death information provided to the Board for review.

Expenditure Summary Report – October 2022

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

Richard Czernik moved and Jonathan Bingle seconded the motion to approve the October 2022 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – October 2022

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on October 31, 2022 was \$304.7 million with an estimated rate of return of 4.1% 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.

Other Business

Mr. Tencick led discussion on the white paper authored by Ms. Shisler detailing the pension that was affected by the recent contract settlement retro recalculations.

Joe Cavanaugh moved and Richard Czernik seconded the non-precedent setting motion to continue paying the original calculated amount. The motion passed unanimously.

Mr. Tencick shared with the Board that he will be resigning his position in January, sometime after the Board meeting. The Board thanked him for his service.

There being no other business, the meeting adjourned at 2:31 p.m.

Phillip Tencick, Retirement Director

DRAFT

SERS Retirement Transaction Report

January 2023

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Robert L. Kaatz	57	01/10/2023	22.7	Solid Waste Management	E
2	George J. Goldschmitz	56	01/12/2023	15.7	Advanced Wastewater Treatment	C20
3	Terri L. Ayres	65	03/02/2023	7.4	Police	ST
4	Edward G. Friedrick	64	04/04/2023	29.6	Fleet Services	ST
	Retirements YTD	0				
	2022 Total Retirements	81				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Joseph B. Thomas	3.6	Police Records	02/16/2022
2	Tisha A. Heath	4.0	Civil Service	07/08/2022
3	Meagan M. Vincello	0.2	Council	08/19/2022
4	Rebecca C. Mashtare	1.9	Combined Communications Center	10/31/2022

Vesting

	Name	Department	Years of Service
1	Steven B. Bafus	Development Services Center	1.2

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Richard A. Mauget	12/04/2012	70	12/09/2022	E Option Continues
2	Jesus T. Aguilar	07/22/2014	94	12/20/2022	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2022 EXPENDITURE SUMMARY REPORT
 NOVEMBER 30, 2022

	2021 ACTUAL	2022 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2022 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	311,200.63	329,825.00	23,873.60	264,453.33	65,371.67	80.2%
Departmental Benefits	88,085.00	96,560.00	7,695.34	85,128.46	11,431.54	88.2%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(15,225.22)	(10,000.00)		(10,256.55)		
Postage/Supplies/Other	3,133.07	4,950.00	157.50	1,788.51	3,161.49	36.1%
State Audit Charges	12,432.82	15,000.00	1,612.79	12,791.90	2,208.10	85.3%
Contractual Services	131,620.94	175,000.00	-	136,053.93	38,946.07	77.7%
Travel	-	15,000.00	331.22	1,030.96	13,969.04	6.9%
Registration/Schooling	500.00	16,000.00	-	575.00	15,425.00	3.6%
Other Dues/Subscriptions/Membership	1,898.55	2,500.00	-	1,418.73	1,081.27	56.7%
Other Miscellaneous Charges	3,212.30	3,200.00	-	795.10	2,404.90	24.8%
Amortization	17,649.00	-	-	4,412.25		
TOTAL OPERATING EXPENDITURES	554,507.09	658,035.00	33,670.45	498,191.62	163,999.08	75.7%
INTERFUND EXPENDITURES						
Interfund - Centralized Purchasing	313.32	9,733.00	-	9,733.00	-	100.0%
Interfund - Centralized Accounting	1,764.00	2,136.00	-	2,136.00	-	100.0%
Interfund - My Spokane	885.25	1,125.00	-	1,125.00	-	100.0%
Interfund - Risk Management	607.00	571.00	142.75	571.00	-	100.0%
Interfund - Worker's Compensation	134.00	123.00	30.75	123.00	-	100.0%
Interfund - Reprographics	3,898.68	5,262.00	-	4,297.34	964.66	81.7%
Interfund - IT	38,532.25	46,237.00	3,854.38	38,551.05	7,685.95	83.4%
Interfund - IT Replacement	3,003.00	3,305.00	275.42	2,754.20	550.80	83.3%
TOTAL INTERFUND EXPENDITURES	49,137.50	68,492.00	4,303.30	59,290.59	9,201.41	86.6%
TOTAL ADMINISTRATIVE EXPENDITURES	603,644.59	726,527.00	37,973.75	557,482.21	173,200.49	76.7%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2022 EXPENDITURE SUMMARY REPORT
NOVEMBER 30, 2022

	2021 ACTUAL	2022 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2022 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	30,993,999.10	33,500,000.00	2,766,474.55	29,916,334.61	3,583,665.39	89.3%
Pensions-Disability Payments	114,579.60	135,000.00	9,548.30	105,031.30	29,968.70	77.8%
Pensions-Survivor Annuity Benefits Payments	2,147,772.56	2,500,000.00	186,709.97	2,051,094.67	448,905.33	82.0%
TOTAL PENSIONS	<u>33,256,351.26</u>	<u>36,135,000.00</u>	<u>2,962,732.82</u>	<u>32,072,460.58</u>	<u>4,062,539.42</u>	88.8%
Refunds	741,018.82	1,000,000.00	31,445.31	1,151,839.18	(151,839.18)	115.2%
TOTAL EXPENSES	<u><u>34,601,014.67</u></u>	<u><u>37,861,527.00</u></u>	<u><u>3,032,151.88</u></u>	<u><u>33,781,781.97</u></u>	<u><u>4,083,900.73</u></u>	89.2%
INVESTMENT EXPENSE*						
Advisory Technical Service	557,485.34	565,000.00	64,019.47	427,377.25	137,622.75	75.6%

* 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
November 30, 2022

12/27/2022

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer US Bank	Cash Short-term Inv	\$ 153,513 652			
Total Cash		154,165	0.0%	0.0%	0.0%
Sterling Capital	Total Return	24,103,114			
Total Total Return		24,103,114	10.0%	7.6%	-2.4%
Hotchkis & Wiley	High Yield - Mutual Fund	14,750,779			
Total High Yield		14,750,779	5.0%	4.6%	-0.4%
PIMCO Dynamic	Absolute Return	5,543,634			
Polar	LLC	8,946,062			
Post Limited Term High Yield	Ltd Partnership	6,679,118			
Rimrock Low Volatility	Ltd Partnership	10,300,883			
Total Absolute Return		31,469,697	8.0%	9.9%	1.9%
Total Capital Preservation		70,477,755	23.0%	22.1%	-0.9%
Hotchkis & Wiley	LC Value - Mutual Fund	17,829,725			
MFS Growth	LC Growth - Mutual Fund	14,163,206			
Fidelity S&P 500 Index	LC Core - Mutual Fund	34,797,459			
Total US Large Cap		66,790,390	21.0%	20.9%	-0.1%
Sterling	MC Value	6,133,330			
Westfield MC Growth	MC Growth	4,908,646			
Fidelity MC Index	MC Core - Mutual Fund	2,905,173			
Champlain	SC Core	8,084,267			
Bridge City	SC Growth	7,537,043			
Allspring (FKA: Wells Fargo)	SC Value - Mutual fund	5,271,922			
Fidelity SC Index	SC Core - Mutual Fund	497,573			
Total US Small/Mid Cap		35,337,954	11.0%	11.1%	0.1%
Total US Equities		102,128,344	32.0%	32.0%	0.0%
Artisan	SMID Value - Mutual Fund	25,759,093			
Euro Pacific	LC Blend - Mutual Fund	19,325,107			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		45,084,200	15.0%	14.1%	-0.9%
Trivalent	SC Value - Mutual Fund	11,691,982			
Total International Small/Mid		11,691,982	4.0%	3.7%	-0.3%
Vanguard EM Index	EM - Mutual Fund	456,371			
ABS Emerging Markets	Ltd Partnership	9,236,841			
Total Emerging Markets		9,693,212	3.0%	3.0%	0.0%
Total International Equities		66,469,394	22.0%	20.8%	-1.2%
Weatherlow Offshore	Ltd Partnership	20,354,939			
Royalty Opportunities I	Ltd Partnership	590,988			
Royalty Opportunities II	Ltd Partnership	287,480			
Total Long Biased		21,233,407	7.0%	6.7%	-0.3%
Metropolitan Real Estate Partners	Ltd Partnership	53,230			
Morrison Street Fund VI	LP	6,466,756			
Morrison Street Income Fund	LP	2,689,429			
Morgan Stanley Prime	LLC	9,115,238			
Principal (REITs)	REITs	12,577,390			
Total Real Estate		30,902,043	9.0%	9.7%	0.7%
Contrarian Capital Fund I	Ltd Partnership	9,742,225			
Beach Point	Ltd Partnership	13,237,131			
Total Opportunistic Credit		22,979,356	7.0%	7.2%	0.2%
Contrarian EM Credit	LLC	4,810,682			
OrbiMed II	Ltd Partnership	156,569			
Total Special Opportunities		4,967,251	0.0%	1.6%	1.6%
Total Cash and Investments		\$ 319,157,550	100.0%	100.0%	0.0%
	Monthly Contributions	1,900,273			
	Monthly Pension	\$ (2,994,453)			
	As of October 31, 2022	\$ 304,660,778			
	Estimated Rate of Return	5.1%			
Abs. Return and Total Return FI Equity and Special Situations	Thesis 2017.1	55,572,811	18.0%	17.4%	-0.6%
	Thesis 2017.3	173,564,989	54.0%	54.4%	0.4%

Cash Recon - Dec

Date	Transactions	Sources	Uses	Balance
12/1/2022	Beginning Balance			(2,380.37)
12/1/2022	Interest	3,032.66		652.29
12/2/2022	Sale - Euro Pacific Fund	25,000.00		25,652.29
12/5/2022	Payroll Contributions	992,294.52		1,017,946.81
12/13/2022	Redeposit Pension Check	1,209.63		1,019,156.44
12/14/2022	Reissue Pension Check		(362.89)	1,018,793.55
12/14/2022	Distribution - Metro Real Estate Partners V	52,143.11		1,070,936.66
12/19/2022	Distribution - Royalty Opps II	13,701.31		1,084,637.97
12/19/2022	Payroll Contributions	1,287,480.62		2,372,118.59
12/19/2022	Capital Call - Morrison Street VII		(1,002,857.14)	1,369,261.45
12/22/2022	Ending Balance	2,374,861.85	(1,003,220.03)	1,369,261.45
	<u>Upcoming</u>			
12/29/2022	Sale - Artisan International	1,700,000.00		
12/30/2022	December Pension Payments		(3,044,693.71)	

2023 INVESTMENT OUTLOOK SURVEY

January 4, 2023

SERS

Spokane Employees'
Retirement System

2022 Broad Themes

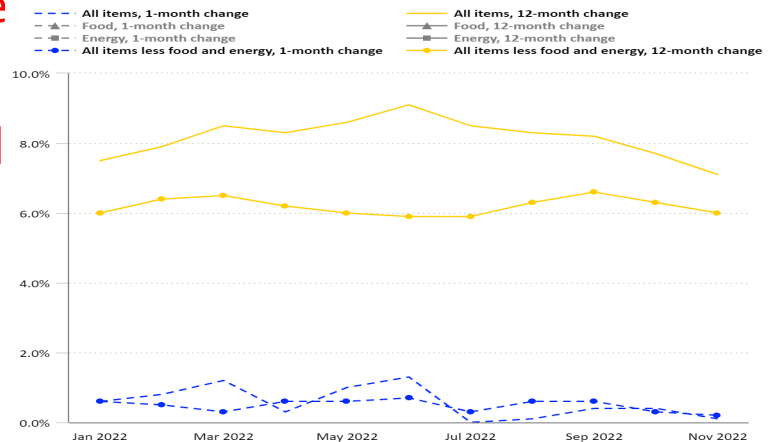
1) Strong Economic Growth

- GDP growth moderates, but generally above trend
- Q1 -1.6%, Q2 -0.6%, Q3 +3.2%

2) Inflation and the Fed

- Inflation continues, but for how long?
- Remained high, but peaked in June
- Fed tightening, but in what form?
- 7 rate hikes to 4.5%, \$401B unwind

1-month and 12-month percent changes in Consumer Price Index for all Urban Consumers, January 2022—November 2022



Note: 1-month estimates are seasonally adjusted, 12-month estimates are not seasonally adjusted. Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

2022 Broad Themes

3) Challenging Markets

- Fundamentals caught up to prices, lowering future expectations
- Earnings match 2021, P/E fell from 21.4 to 15.1
- Rising interest rates hurt fixed income and lower discount rates
- S&P 500 -19%, Bonds -17%
- Alternatives still generate premiums, but narrowing
- Commodities, USD only positive asset classes; Private Equity outperformed Public Equity, but pricing lags

4) Sustainability

- Critical mass for institutions
- CFA certificate in ESG, Politicization of ESG policies
- Form still coalescing

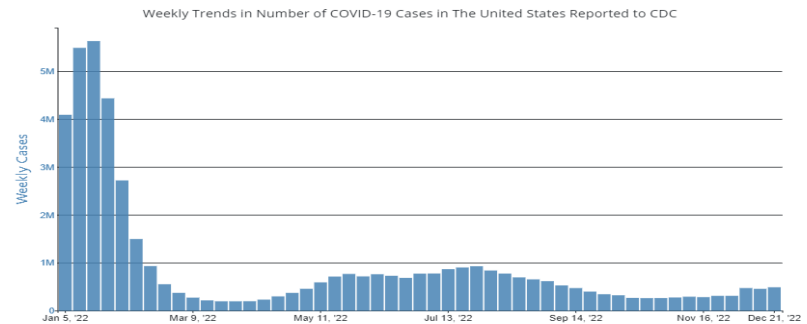
2022 Risks

1) Inflation and the Fed – YES!!!

- Timing – March for rates, April for balance sheet
- Magnitude – 7 rate hikes to 4.5%, \$401B unwind
- Implementation – No recession, soft landing concerns

2) Ability to live with COVID

- Variants – High spread, weaker
- Fractal policies – COVID Zero ends



3) Temporary vs. Permanent Changes

- Home vs. Office – Hybrid as the new normal?
- Goods vs. Services – Services growing faster, but Goods still dominate
- Wage Inflation vs. Price Inflation – Wages up, but CPI outpacing

4) War in Ukraine

2022 Tactical vs. Strategic

- Tactical

- Overweight stocks

- Greater dispersion among forecasts S&P 500 -19%, Bonds -17%

- Hunt for Yield

- Spreads generally tight – Widened, compounding with rate increases

- Digital Assets → Web3 – Bitcoin -64%, Stablecoin collapse, FTX

- Strategic

- Lower Return Environment – The rebirth of yields

- Market Cycle Stage – Soft landing to recession fears

2022 Broad Themes

1) Recession vs. Soft Landing

- How much further will the Fed go raising rates?
- How much more slowing can the economy take?
- When will disinflation take hold?

2) Colds vs. Flus

- Central bank tightening globally with varied outcomes

3) The Return of Bonds

- Yields at pre-Great Financial Crisis levels

4) Equity Uncertainty

- Prices below historic levels based on macroeconomic concerns
- Expiration of the “Fed Put”?
- Global dislocations based on central bank policy

2022 Risks

1) The Fed

- GDP vs. Dual Mandate

2) Reopening of China

- COVID Zero policy winddown
- Low vaccination rates, with less effective vaccines

3) Timing the market cycle

- Consensus recession fears
- Markets as leading indicators
- Disparate outcomes around the world

2022 Tactical vs. Strategic

- Tactical
 - Yield for Safety
 - Bonds once again diversify
 - Dividends provide value in choppy markets
 - Equities: Be careful out there
 - Weak sentiment, moderate valuations
 - Dispersion of forecasts and a wider array of outcomes
 - Private Markets Overpriced
 - Secondary opportunities likely
- Strategic
 - Market Cycle Stage
 - Rebalance vs. Reallocate?
 - Return assumptions increased