

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting Minutes**  
**May 29, 2013**

Bill Todd called the regular monthly meeting to order at 12:35 p.m. in the 5<sup>th</sup> Floor Conference Room at City Hall.

**Present:** Bill Todd, Jon Snyder, Jerry McFarlane, Mike Coster, Steve Sather, Dean Kiefer and Brian Brill

**Staff:** Timothy Dunivant, Christine Shisler, Donald Brown and Tim Szambelan

**Guests:** Mayor David Condon, Jayson Davidson, Joan Hamilton, Dave Hanshaw, Bob Olsen, Mike Smith, Mike Fagan, Joe Cavanaugh, Mike Cavanaugh, Heather Lowe, Gerry Gemmill, David Lewis, Jim Tieken Jonathan Brunt and John Bjork

**2013 1<sup>st</sup> Qtr Investment Performance Report**

Mr. Davidson presented the 1<sup>st</sup> Quarter 2013 Performance Report and briefed the Board on the portfolio returns for the quarter as well as the trailing three- and five-year periods. The SERS portfolio benefited from a rather strong performance quarter on both a relative and absolute basis. The Hotchkis & Wiley Core Value Fund, the Rainier Mid Cap Fund and the Epoch International Small Cap Fund will remain on watch due to performance in violation of policy criteria. Hyas Group recommended that SERS continue to hold each of the watch status products and they will continue to monitor progress and provide updates at the next quarterly report meeting.

There was discussion about the overall portfolio construction and the potential for any revisions in the near future. Hyas Group will continue to evaluate adding options to the Long/Short Growth category and is planning several due diligence trips this summer.

**7 X 7**

Hyas Group recommended terminating the SERS position in 7x7 Offshore Fund. Hyas Group will notify the manager and work through the liquidity terms. Proceeds from the termination should eventually be reinvested back into the Absolute Return asset class; however, Hyas Group will evaluate the portfolio positions relative to policy targets in all asset classes before reinvesting the proceeds.

Steve Sather moved and Jon Snyder seconded the motion to terminate 7 x 7 Offshore Fund. The motion passed unanimously.

### **Absolute Return Bond Manager Search**

Mr. Davidson presented Hyas Group's formal Manager Search Report and reviewed several alternatives in the Absolute Return asset class. Unlike the System's current absolute return managers, which are structured as Limited Partnerships, each of the options profiled in the search were mutual funds. The mutual fund vehicles should give the portfolio added flexibility for rebalancing in the asset class. Hyas Group will work with the SERS staff and custodian to effect this change.

Steve Sather moved and Jerry McFarlane seconded the motion to transfer \$10 million broadly from the Global Equities category into American Beacon Flexible Bond Fund. The motion passed unanimously.

### **Commodities Manager Search**

Hyas Group presented their formal Manager Search Report and reviewed several alternatives in the Commodities asset class. Hyas Group will work with the SERS staff and custodian to process this transaction.

Jon Snyder moved and Dean Kiefer seconded the motion to liquidate the current iShares S&P GSCI Commodity Index Fund and use the proceeds to purchase PIMCO Commodities PLUS Strategy Fund. The motion passed unanimously.

### **Address by Mayor Condon**

Mayor Condon addressed the Board, and expressed that he would like to start a discussion about SERS relative to what is happening across the country with other pension systems. The Mayor talked about the nexus between funding city operations and the commitment to funding the SERS for current employees and retirees.

Mr. Dunivant presented a slide show to the Board that reviewed the contribution rate history, the funded status of SERS back to 1999, and projected funded status based on actuarial analysis.

The presentation reviewed four options to improving the sustainability of the plan (adjust inputs, adjust outputs, adjust both inputs & outputs, strive for returns greater than current plan rate of 7.5%).

There was a slide that showed the SERS Statement of Investment Policy goals. Mr. Dunivant pointed out the second goal of the investment policy. Mr. Dunivant asked if the Board was comfortable with the current goals. Of the five goals of the statement of investment policy, the one that addresses ad hocs would not be met for over 25 years based on the current proposal to increase contribution rates. Mayor Condon talked about how we attract new employees versus our commitment to our current employees.

Mr. Snyder reminded the Board that SERS does not offer health care to retirees like other plans and many other plans do not have an equal match for employees and employers contributions. Both of these factors have helped contribute to SERS staying financially healthy.

Mayor Condon asked for some models to be presented in the next 60 days that would include possible plan design changes in addition to the proposed change in contribution rate from 7.75% to 8.25%.

Mr. Henshaw remarked that SERS is doing better than other systems and understands that we need to look toward the future and make changes for a better future. He stated that SERS was set up for long-term employees to have a financial future and that the focus should be on sustaining the plan for current and future members and not on being able to grant an ad hoc. Mr. Sather feels that the fifth goal is the most important; regarding SERS being able to provide benefits for its members and beneficiaries. He feels if the contribution rate is raised to 8.25%, then the Board has fulfilled this goal. Mr. Coster remarked that when you retire from the City, the annuity from the City should not be your only source of income, and that the ad hocs are not that vital. He feels it is the trade off for having an annuity for life. Mr. Todd reminded the Board that they have no control over contribution rates and that the Board can only make recommendations. Mr. Kiefer agreed that we need to look at everything but expressed concern about getting away from the 7.5% return.

Mr. Szambelan left the meeting at 2:24 p.m. Mayor Condon and various guests left at 2:32 p.m.

### **Retirement Director Search**

City HR Director, Heather Lowe, presented a draft recruitment strategy and process guidelines for filling the position of Retirement Director that was vacated by Mr. Griffin. She anticipates posting the recruitment as early as June 1. HR will review the salary for the position once the job description has been finalized. Mr. Todd suggested that the Board follow the same process that was used to select the previous director and form a subcommittee of Board members to sit in on the interviews. This subcommittee will then make recommendations back to the Board. The previous committee was comprised of Mr. Todd, Mr. Coster and Mr. McFarlane.

Mr. Todd also suggested having either Mr. Szambelan or Mr. Pat Dalton take part in the phone interviews. Both are from City Legal and familiar with the Board policies and procedures. Ms. Lowe informed the Board that there will be one panel to interview the applicants which will include members from the City Administration, the Executive Team, and the SERS Board. Mr. Todd asked that copies of the written applications be provided to Mr. Davidson for review and comment. Mr. Joe Cavanaugh asked if the Board will be able to submit questions of their own, or if they will be required to ask questions from the list provided during the interview panel. Ms. Lowe indicated that they will be able to ask their own questions; that the standard question list was only a guideline and is open for suggestions. Mr. Sather asked if the question list could be sent to all Board members for review and Ms. Lowe indicated that she would send it out.

Mr. Snyder asked if the Board members could see the applications of those who make it to the phone pool and Ms. Lowe indicated yes that she could forward copies along and will keep them informed of which applicants move from step to step within the interview process.

### **Board Election Results**

Mr. Todd informed the Board that Mike Coster was reelected to his Board seat. His term will start July 1, 2013 and expire on July 3, 2016.

### **Signature Resolution**

Ms. Shisler informed the Board that, as a housekeeping item, there was a resolution to approve regarding signature authority to conduct SERS business.

Mike Coster moved and Steve Sather seconded the motion to approve the resolution that would give Mr. Dunivant signature authority and remove Mr. Griffin's signature authority. The motion passed unanimously.

Mr. Todd inquired about the emergency authority that the Board had previously given to Mr. Griffin and Mr. Davidson to tend the assets if time were an issue and a regular SERS Board meeting cannot take place prior to a decision needing to be made regarding the SERS investments. Mr. Todd recommended that the same authority be granted to Mr. Dunivant.

Steve Sather moved and Jon Snyder seconded the motion to grant emergency authority to Mr. Dunivant and Mr. Davidson to tend the assets in the event of emergency when there is not time to call a SERS Board meeting. The motion passed unanimously.

### **Minutes of the April 24, 2013 Meeting**

Jon Snyder moved and Steve Sather seconded the motion to approve the minutes of the April 24, 2013 meeting as distributed. The motion passed unanimously.

### **Service Retirements**

<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Option</b>	<b>30-day Notice</b>
Mark L. Beattie	50	04/30/2013	18.2	E	Y
Sally J. Sullivan	57	05/11/2013	20.6	ST	N
Mark F. Ellis	53	05/11/2013	24.6	ST	N
Diane F. Stone	54	06/02/2013	8.6	ST	Y
Leo F. Griffin	53	06/04/2013	8.4	E	N
Susan K. Haight	64	06/05/2013	23.3	ST	N
Kevin R. Holm	63	06/08/2013	23.5	ST	Y
Cindy Marshall	56	06/08/2013	7.7	ST	N
Mark D. Cleveland	57	06/14/2013	26.9	D	N
Craig W. Butz	59	07/06/2013	35.0	ST	Y
Jerry M. Huffman	64	07/06/2013	24.9	D	Y

Jerry McFarlane moved and Dean Kiefer seconded the motion to approve the service retirements as presented on the May Retirement Transaction Report. The motion passed unanimously.

### **Withdrawals for May 2013**

<b>Name</b>	<b>Termination Date</b>
Peter C. Caruso	01/05/2013
Sonya M. O'Brien	04/10/2013
Jamie A. Icard	05/01/2013

Jon Snyder moved and Steve Sather seconded the motion to approve the requests for withdrawal as presented on the May Retirement Transaction Report. The motion passed unanimously.

### **Deaths**

<b>Name</b>	<b>Date of Death</b>	<b>Age</b>	<b>Information</b>
Jonna A. Rayfuse	04/16/2013	73	No Further Benefits
Henry O. Bosse	04/21/2013	72	Option E Continues
William H. Hundhausen	04/25/2013	69	No Further Benefits
Donald D. Carlson	05/01/2013	81	No Further Benefits
Verla M. Noble	05/19/2013	86	No Further Benefits

Death information was provided to the Board for review.

### **Director's Report**

#### **Expenditure Summary Report – April 2013**

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

Mike Coster moved and Steve Sather seconded the motion to approve the April 2013 Expenditure Summary Report. The motion passed unanimously.

#### **Schedule of Investments – April 2013**

The monthly investment report was presented to the Board for review. The estimated market value (MV) of the SERS portfolio on April 30, 2013 was \$259 million.

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

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**Timothy Dunivant, Interim Retirement Director**