

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting, 1:30 p.m. July 27, 2016**  
**City Hall - Conference Room 5A**

**AGENDA**

- 1) Minutes of the June 29, 2016 Meeting
  - Motion
- 2) Fiduciary Training
  - Information
- 3) Directors Report
  - a. Retirements
    - Motion
  - b. Withdrawals
    - Motion
  - c. Vesting
    - Information
  - d. Deaths
    - Information
  - e. Expenditure Summary Report – June 2016
    - Motion
  - f. Schedule of Investments – June 2016
    - Information
  - g. Other Business
    - (1) Asset Allocation Implementation Update
    - (2) Draft City Finance Committee Slide
- 4) Other Business
- 5) Next Meeting – **Wednesday, August 31, 2016 at 12:30p.m.**

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting Minutes**  
**June 29, 2016**

The regular monthly meeting was called to order at 1:33 p.m. in the 5<sup>th</sup> Floor Conference Room at City Hall.

**Present:** Mike Coster, Mike Cavanaugh, Jim Tieken, Breean Beggs, and Brian Brill

**Absent:** Dean Kiefer

**Staff:** Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

**Guests:** Tammy Erickson, Emily Tillis, Joe Cavanaugh, Joan Hamilton, Richard Czernik, and John Bjork,

**Moss Adams – December 31, 2015 Audit Report**

Moss Adams presented the 2015 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 May 25, 2016 Meeting**

Jim Tieken moved and Breean Beggs seconded the motion to approve the minutes of the May 25, 2016 meeting. The motion passed unanimously.

**Minutes of the June 21, 2016 Meeting**

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the minutes of the June 21, 2016 meeting. The motion passed unanimously.

**Board Rules Updates**

The Board reviewed the proposed changes to the SERS Board Rules. The changes primarily updated the contribution interest rate to be consistent with the revised SMC, and codified department policies regarding benefit calculations.

Mike Cavanaugh moved and Breean Beggs seconded the motion to approve the Board rules as amended. The motion passed unanimously.

**Asset Allocation Implementation Plan**

Mr. Tencick presented an Asset Allocation Implementation Plan, including a spreadsheet that showed a mapping of the required rebalancing of the SERS investments. The Board asked for the original spreadsheet to be distributed.

Mr. Joe Cavanaugh asked about the process for determining the sale of investments to meet liquidity needs. Mike Coster suggested that the Board be emailed with the recommendation and the rationale for selecting the fund(s) to be sold.

### Money Market Search

Jim Tieken moved and Mike Cavanaugh seconded the motion to accept the recommendation of the Fidelity Government Money Market fund. The motion passed unanimously.

### Director's Report

#### Service Retirements

<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Option</b>
Linda L. Daniels	58	06/02/2016	26.0	D
Roger M. Kaiser	57	06/11/2016	11.7	E
Ronald W. Meredith	53	06/18/2016	15.7	ST
Anthony R. Madunich	64	07/02/2016	39.4	E
Alyce E. Millhorn	69	07/02/2016	17.9	ST
Margaret A. Phillips	62	07/07/2016	30.0	ST
Douglas K. Harvey	65	07/09/2016	21.8	ST
Alan M. Kiefer	62	07/09/2016	28.2	ST

Breean Beggs moved and Jim Tieken seconded the motion to approve the service retirements as presented on the June Retirement Transaction Report. The motion passed unanimously.

#### Withdrawals for June 2016

<b>Name</b>	<b>Years of Service</b>	<b>Termination Date</b>
Peter G. Borg	13.5	01/08/2016
Buddy E. Crabtree	1.3	05/13/2016
Blaine M. Stum	3.3	06/03/2016
Sari A. Luciano	1.1	06/03/2016

Mike Cavanaugh moved and Breean Beggs seconded the motion to approve the requests for withdrawal as presented on the June Retirement Transaction Report. The motion passed unanimously.

#### Vesting

<b>Name</b>	<b>Department</b>	<b>Years of Service</b>
Erin A. Jacobson	Legal	7.1
Kevin D. Stewart	Municipal Court	5.1

#### Deaths

<b>Name</b>	<b>Date Retired</b>	<b>Age</b>	<b>Date of Death</b>	<b>Information</b>
Charles J. Stich	04/04/2000	67	05/06/2016	E Option Continues
Joseph L. Lengyel	01/15/2002	75	06/15/2016	D Option Continues
Kazuko J. Honda	05/04/1985	101	06/03/2016	No Further Benefits
Joaquin R. King	09/13/2005	71	06/07/2016	No Further Benefits

Vesting and death information provided to the Board for review.

Expenditure Summary Report – May 2016

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

Breean Beggs moved and Jim Tieken seconded the motion to approve the May 2016 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – May 2016

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on April 30, 2016 was \$270 million with an estimated rate of return from April of 1.15%. The June pension payments were funded by cash available from the decreased allocation to cash in the new asset allocation.

A preliminary impact of the exposures to and impact of Brexit was presented.

Funded Status

Mr. Tencick presented a graph that showed the Plan Funding Ratio as projected and actual numbers.

Educational Opportunities

Ms. Shisler discussed a white paper on the Certified Public Finance Officers Certification offered by the Government Finance Officers Association. She expressed a desire to obtain the certification as a continuing education opportunity.

Mike Cavanaugh moved and Jim Tieken seconded the motion to pay for the related costs for Ms. Shisler to obtain the Certified Public Finance Officers Certification. The motion passed unanimously.

Other Business

Mr. Tencick informed the Board that the interest rate on contributions will change effective July 1, 2016 to 1.5%, which is the average daily interest rate for the 5-year US Treasury Note from the previous year.

Mr. Tencick shared with the Board that Senate Bill 6170 that provides the exemption regarding investments and public disclosure went into effect June 29, 2016.

There being no other business, the meeting adjourned at 3:00 p.m.

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**Phillip Tencick, Retirement Director**

# FIDUCIARY DUTY OVERVIEW

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# What is a Fiduciary?

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- A person in a position of authority whom the law obligates act **solely** on behalf of the person being represented

# Who is a Fiduciary?

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- Any person who is named as a fiduciary in the Plan
- Any person who exercises discretionary authority or control over plan assets or administration

## Fiduciaries

- Board
- Staff
- Investment Consultant
- Custodian
- Retail Investments

## Not Fiduciaries

- Plan Sponsor
- Auditor
- Actuary
- Outside Counsel
- Private Investments

# Fiduciary Duties

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- Duty of Loyalty
- Duty of Prudence
- Duty to Diversify
- Duty to Adhere
- Duty of Reasonableness



# Duty of Loyalty

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- Act solely in the interests of plan participants and their beneficiaries with the exclusive purpose of providing benefits to them
- Every action for the benefit of the members, not:
  - Self
  - Plan Sponsor
  - Citizens
- “Hat” rule: When acting as a Board Member, can only wear one “hat”; all others must be put away

# Duty of Prudence

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- Acting with care, skill, knowledge, prudence, and diligence
- The prudent person rule does not require a Board Member to become a professional in all areas of expertise to do their duties
  - Hiring professionals to assist
  - Document and follow processes
  - Education
  - Due Diligence
  - Monitoring
  - Ask questions

# Duty to Diversify

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- Diversify investments to reduce risk to the Plan
  - Reduce risk of a large loss
  - Consider how each investment fits in to the entire portfolio
- Duties (may not be delegated):
  - Determine goals and objectives, which are included in a written investment policy
  - Controlling and accounting for expenses
  - Monitoring the overall program and the performance of individual managers

# Duty to Adhere

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- Document plan policies and processes
  - Investments
  - Administration
- Adhere to the documented policies and processes
  - May not be as simple as it seems
    - Resolving ambiguities or errors – to the benefit of the member or the benefit of the trust?
    - Retirees vs. Active Employees
- Additional Requirements
  - Actuarial Valuations
  - Financial Statement Audit
  - Annual Report

# Duty of Reasonableness

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- Pay only reasonable plan expenses
  - Reducing expenses retains more assets for the benefit of plan participants
  - When in doubt, erring on the side of lower fees is generally safe

# Prohibited Transactions

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- Cannot transact with a party in interest of the Plan
  - Transactions
    - Sale, exchange or lease
    - Lending money or providing credit
    - Furnishing payment, goods, services or facilities
  - Parties of Interest
    - Plan Fiduciaries
    - Plan Sponsor
    - Local 270 and M&P
    - Service Providers
    - Relatives of Prohibited Parties

# Fiduciary Liability

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- Personal Liability
- Duty cannot be delegated

# SERS Retirement Transaction Report

## July 2016

### *Retirements*

	<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Department</b>	<b>Option</b>
1	Brenda J. Nelson	58	07/07/2016	24.9	Solid Waste Disposal	ST
2	Laurie B. Burchell	54	08/02/2016	21.8	Library	ST
3	Roger K. Burchell	55	08/02/2016	32.6	Water	ST
4	Teresa Hopkins	63	08/03/2016	8.8	Probation Services	ST
5	Raymond G. Gaines	60	09/07/2016	18.2	Water	E
	Retirements YTD	49				
	2015 Total Retirements	83				

### *Withdrawals*

	<b>Name</b>	<b>Years of Service</b>	<b>Department</b>	<b>Termination Date</b>
1	Alesha R. Horrocks	3.5	Library	06/14/2016
2	James A. Hacker	2.9	Parks & Recreation	05/20/2016
3	Leini E. Ena	0.6	Solid Waste Disposal	06/23/2016
4	Pradeep A. Hatcher	2.0	Communications	07/01/2016

### *Vesting*

	<b>Name</b>	<b>Department</b>	<b>Years of Service</b>
1	Samuel H. Song	Parks & Recreation	9.7

### *Deaths*

	<b>Name</b>	<b>Date Retired</b>	<b>Age</b>	<b>Date of Death</b>	<b>Information</b>
1	David R. Dehn	02/02/1994	78	06/29/2016	E Option Continues
2	Mary L. Piggott	04/02/2013	72	07/11/2016	No Further Benefits
3	Kenneth A. Esperas	07/02/2011	64	07/12/2016	E Option Continues



SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100  
 2016 EXPENDITURE SUMMARY REPORT  
**JUNE 30, 2016**

	2015 ACTUAL	2016 BUDGET	JUNE ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>OPERATING EXPENDITURES</b>						
Departmental Salaries	220,405.82	273,580.00	19,946.60	121,306.35	152,273.65	44.3%
Departmental Benefits	66,088.05	78,190.00	6,083.23	36,681.94	41,508.06	46.9%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(22,061.31)	(10,000.00)	(5,096.47)	(9,080.23)	(919.77)	
Postage/Supplies/Other	20,091.84	18,500.00	60.82	5,936.11	12,563.89	32.1%
State Audit Charges	11,687.79	10,000.00	-	262.96	9,737.04	2.6%
Contractual Services	90,587.98	150,000.00	10,000.00	69,500.00	80,500.00	46.3%
Travel	2,517.20	15,000.00	4,155.31	5,413.47	9,586.53	36.1%
Registration/Schooling	10,789.00	15,000.00	-	60.00	14,940.00	0.4%
Other Dues/Subscriptions/Membership	1,970.20	2,500.00	-	573.20	1,926.80	22.9%
Other Miscellaneous Charges	4,462.05	2,220.00	57.00	932.05	1,287.95	42.0%
Depreciation & Amortization	17,649.00	-	-	-	-	
<b>TOTAL OPERATING EXPENDITURES</b>	<b>424,187.62</b>	<b>564,990.00</b>	<b>35,206.49</b>	<b>231,585.85</b>	<b>333,404.15</b>	<b>41.0%</b>
<b>INTERFUND EXPENDITURES</b>						
Interfund - Accounting Central Services	2,781.80	2,407.00	-	1,151.98	1,255.02	47.9%
Interfund - IT Phones	1,555.51	1,463.00	-	497.26	965.74	34.0%
Interfund - IT Communications Replacement	240.96	-	-	-	-	-
Interfund - Risk Management	1,121.00	991.00	-	495.50	495.50	50.0%
Interfund - Unemployment	500.00	-	-	-	-	-
Interfund - Worker's Compensation	58.50	198.00	-	99.00	99.00	50.0%
Interfund - IT	13,892.04	13,729.00	-	4,576.32	9,152.68	33.3%
Interfund - IT Replacement	3,584.04	1,927.00	-	642.32	1,284.68	33.3%
<b>TOTAL INTERFUND EXPENDITURES</b>	<b>23,733.85</b>	<b>20,715.00</b>	<b>-</b>	<b>7,462.38</b>	<b>13,252.62</b>	<b>36.0%</b>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>447,921.47</b>	<b>585,705.00</b>	<b>35,206.49</b>	<b>239,048.23</b>	<b>346,656.77</b>	<b>40.8%</b>

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100  
 2016 EXPENDITURE SUMMARY REPORT  
**JUNE 30, 2016**

	2015 ACTUAL	2016 BUDGET	JUNE ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>PENSIONS</b>						
Pensions-Annuity Benefit Payments	22,192,755.57	24,000,000.00	1,977,771.14	11,700,095.23	12,299,904.77	48.8%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	62,664.24	97,335.76	39.2%
Pensions-Survivor Annuity Benefits Payments	1,641,113.98	1,600,000.00	150,565.41	899,972.64	700,027.36	56.2%
<b>TOTAL PENSIONS</b>	<u>23,959,198.03</u>	<u>25,760,000.00</u>	<u>2,138,780.59</u>	<u>12,662,732.11</u>	<u>13,097,267.89</u>	
Refunds	637,821.67	1,000,000.00	89,678.51	432,739.58	567,260.42	43.3%
<b>TOTAL EXPENSES</b>	<u><u>25,044,941.17</u></u>	<u><u>27,345,705.00</u></u>	<u><u>2,263,665.59</u></u>	<u><u>13,334,519.92</u></u>	<u><u>14,011,185.08</u></u>	48.8%
<b>INVESTMENT EXPENSE*</b>						
Advisory Technical Service	430,178.76	450,000.00	22,871.22	130,437.76	319,562.24	29.0%

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

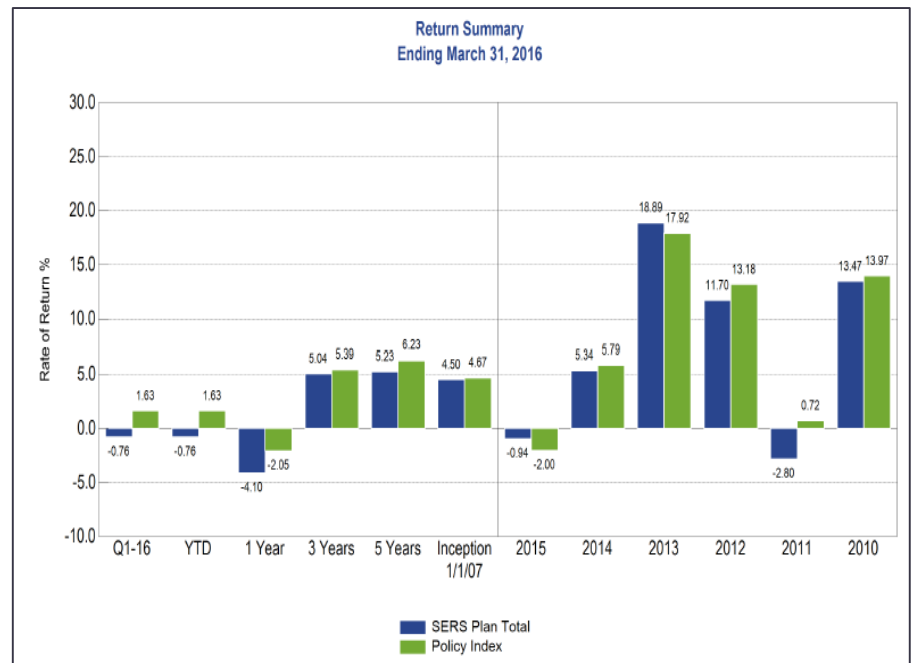
SERS Schedule of Cash and Investments  
June 30, 2016

7/21/2016	Type	Market	Actual Allocation	Approved Allocation
<b>Cash and Short-term Investments:</b>				
Cash Held by Treasurer	Cash	\$ 256,421		
US Bank	Short-term Inv	<u>138,335</u>		
Total Cash and Short-term Investments		394,756	0.1%	1.0%
<b>Fixed Income:</b>				
Vanguard Short-Term	Total Return - Mutual Fund	11,010,274		
Hotchkis & Wiley	High Yield - Mutual Fund	13,583,713		
PIMCO Global	International- Mutual Fund	<u>10,400,825</u>		
Total Fixed Income		34,994,812	13.0%	15.0%
<b>U.S. Equities:</b>				
Hotchkis & Wiley	LC Value - Mutual Fund	14,317,923		
Delaware	LC Growth - Mutual Fund	13,887,435		
MFS Heritage	LC Core	16,674,022		
Vanguard S&P 500 Index	LC Core - Mutual Fund	8,294,146		
Sterling	MC Value	8,103,864		
Vanguard MC Growth	MC Growth - Mutual Fund	7,362,977		
Vanguard MC Index	MC Core - Mutual Fund	5,267,257		
Champlain	SC Core	5,190,048		
Phocas	SC Value - Mutual Fund	4,165,277		
Bridgecity	SC Growth	4,620,334		
Vanguard SC Index	SC Core - Mutual Fund	<u>1,801,660</u>		
Total U.S. Equities		89,684,943	33.3%	
<b>International:</b>				
Berens	Ltd Partnership	9,540,031		
Euro Pacific	LC Blend - Mutual Fund	11,595,476		
Artisan	SMID Value - Mutual Fund	14,285,645		
Trivalent	SC Value - Mutual Fund	<u>8,280,858</u>		
Total International		43,702,010	16.2%	
Total Global Equities			49.5%	50.0%
<b>Alt Absolute Return Hedge:</b>				
Polar Long/Short (Altairis)	LLC	6,207,058		
American Beacon	Mutual Fund	7,248,922		
Castine Capital I	Ltd Partnership	6,201,694		
Post Limited Term High Yield	Ltd Partnership	5,695,113		
Rimrock Low Volatility	Ltd Partnership	<u>8,874,536</u>		
Total Alt Absolute Return Hedge		34,227,323	12.7%	10.0%
<b>Alt Long-Short Growth &amp; Special Opps:</b>				
Weatherlow Offshore	Ltd Partnership	14,050,938		
OrbiMed II (Caduceus)	Ltd Partnership	8,405,382		
Royalty Opportunities I	Ltd Partnership	4,352,900		
Royalty Opportunities II	Ltd Partnership	771,785		
Troob	Ltd Partnership	3,350,414		
Beach Point	Ltd Partnership	<u>8,030,264</u>		
Total Alt Long-Short Growth & Special Opps		38,961,683	14.4%	14.0%
<b>Real Estate:</b>				
Legacy Partners Realty Fund III	Ltd Partnership	919,874		
Metropolitan Real Estate Partners	Ltd Partnership	657,762		
Morrison Street Fund IV	LLC	2,447,595		
Morrison Street Fund V	LLC	4,168,255		
Principal (REITs)	REITs	<u>9,188,408</u>		
Total Real Estate		17,381,894	6.4%	6.0%
PIMCO Commodites PLUS	Commodities - Mutual Fund	10,362,901	3.8%	4.0%
Total Cash and Investments		<u>\$ 269,710,322</u>	<u>100.0%</u>	<u>100.0%</u>
as of May 31, 2016	withdrawals	(1,300,000)		
		<u>\$ 272,171,001</u>		
	estimated rate of return	-0.43%		



- SERS provides retirement benefits to more than 2,800 current and former employees
- 2016 benefit payments projected at \$27M
- \$270M of Plan investments

	Number			Dollars ('000's)		
	2015	2014	Change	2015	2014	Change
Active	1,424	1,407	17	\$14,802	\$13,645	\$1,157
Retired	1,300	1,243	57	(\$23,959)	(\$22,259)	(\$1,700)
Vested	97	105	-8	\$0	\$0	\$0
<b>Total</b>	<b>2,821</b>	<b>2,755</b>	<b>66</b>	<b>(\$9,157)</b>	<b>(\$8,614)</b>	<b>(\$543)</b>
Active Ratio	0.50	0.51		0.62	0.61	



	Projected	Actual	Variance
<b>Funded Ratio</b>	<b>51.7%</b>	<b>49.3%</b>	<b>-2.4%</b>
Assets	276,205,255	269,710,322	-2.4%
PV Liabilities	533,910,579	547,233,856	2.5%
Contributions	7,662,012	7,508,202	-2.0%
Benefit Payments	13,425,488	13,334,520	-0.7%
Investment Returns	9,667,439	3,235,349	-66.5%
Discount Rate	5.50%	5.37%	-2.4%
<i>As of: 6/30/2016</i>			

