

Spokane Employees' Retirement System (SERS)
Board Meeting, 12:30 p.m. August 31, 2016
City Hall - Conference Room 5A

AGENDA

- 1) Jayson Davidson, Hyas Group – 2016 2nd Quarter Investment Performance Report
 - Information
- 2) Investment Policy Statement Updates
 - Motion
- 3) Minutes of the July 27, 2016 Meeting
 - Motion
- 4) Directors Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Deaths
 - Information
 - d. Expenditure Summary Report – July 2016
 - Motion
 - f. Schedule of Investments – July 2016
 - Information
 - g. Monthly Cash Reconciliation
 - Information
 - h. Asset Allocation Implementation Update
 - Information
 - i. 2017 Budget
 - Motion
 - j. Other Business
- 4) Other Business
- 5) Next Meeting – **Wednesday, September 28, 2016 at 1:30p.m.**

Reams (Scout) Core Bond

Differentiating Factor: Reams believes in investing conservatively and is more concerned with avoiding losses than chasing yield. Outperformance comes from patience, prudence and risk management.

Style: Value based, with process favoring lower volatility names; Separate account offered

Strengths:

- Conservative philosophy stems losses, providing the desired diversification versus more volatile asset classes, even at the risk of underperforming their index.
- Strongest portfolio risk management approach.
- Focuses on fixed income only and targets institutional investors, providing greater stability.

Risks:

- Noticed some inconsistency with philosophy and security selection surround energy and commodity issuers, resulting in large write-downs as names fell below investment grade.
- Process relies heavily on proprietary inflation estimate to set macro-themes. To the extent that the inflation estimates vary from consensus and actual inflation, there are two inflation related-factors that contribute to relative performance.

Sterling Capital Total Return

Differentiating Factor: Core-only manager that balances macro/strategic positioning with strong fundamental credit analysis

Style: Core-balanced, offering separate account

Strengths:

- Greatest emphasis on security selection and fundamental research, with best understanding of risk contribution.
- Flexible approach to top-down management of duration and yield curve to take advantage of varying market positions and measures attribution of strategy vs. execution to affirm thesis.
- True core manager. An “unconstrained” mandate would allow greater flexibility on yield curve and duration variance, not adding risk from non-index issuances.

Risks:

- Majority of fixed income AUM in shorter duration portfolios, which may result in greater focus on shorter term market bias
- Currently manages \$7.0M Mid Cap Value mandate, providing more firm risk than other options, albeit at an acceptable level.

TCW Core Bond

Differentiating Factor: Large, actively managed strategy predicated on long-term valuations that revert to the mean

Style: Value biased, mutual fund

Strengths:

- Continuity of team, with key members working together for past 25 years
- Largest resource pool of 55 investment professionals
- Fixed income specialists, 83% of \$194.6B total AUM in US Fixed Income, of which \$120.6B in core and core-plus strategies

Risks:

- Team moved from MetWest in 2009, replacing legacy team in a public and ugly ouster. The strategy's track long-term record does not reflect current team's performance.
- Team moved from managing \$2B to \$120B in strategy, which requires larger issuances and lower conviction positions. Scalability of strategy is not fully proven in track record.
- Unclear exactly who is making final security selection decisions. Generalist portfolio managers develop macro factors and oversee trades, but specialist portfolio managers manage execution.
- Firm owned by Carlyle (private equity fund), which will require an exit at some point.

Vanguard Total Bond Index

Differentiating Factor: Passive fund that tries to replicate the index at lowest possible cost

Style: Passive, mutual fund

Strengths:

- Lowest cost alternative
- Index has outperformed peer group over 1-, 3-, 5-, and 10-years, suggesting median manager likely to underperform index

Risks:

- Does not implement any credit research, duration management
- The Index is not fully replicable, requiring the use of sampling methodologies to achieve index-like returns. Sampling errors may result in some deviation from index.

Overall

Summary: The above median performance of the Vanguard's passive investment option demonstrates that it is difficult to pick an investment manager that will add alpha in the long term. Varied market conditions over the past ten-years separates the managers whose strategies perform across a variety of conditions from those that perform well in limited portions of a cycle and tread water (or worse) during the rest of the cycle. Sterling's strategy provides the flexibility to adapt to changes in the fixed income markets more than the alternatives.

Portfolio Construction: Currently, Vanguard's Short Duration fund is our sole manager for the Core Fixed Income allocation. The short duration mandate is in place as a hedge against rising interest rates, which have yet to materialize. Additionally, the Plan is underweight Core Fixed Income and overweight Absolute Return to try and hedge against rising interest rates. These two tactical moves have contributed to recent underperformance versus the policy benchmark. By selecting an active Core Fixed Income manager, the Plan would allow the manager to make the duration adjustments to take advantage of any further interest rate declines *and* hedge against rate rises based on their market views. This is a more precise methodology to manage duration risk than is currently in place. In the long-term, interest rates are still forecast to rise, warranting the overweight to Absolute Return, but short-term uncertainty is great enough that it is more prudent not to compound this investment thesis by also utilizing a short duration manager in the Core Fixed Income portfolio.

Recommendation:

- 1) Terminate Vanguard Short Duration as our Core Fixed Income manager pending selection and implementation of its replacement.
- 2) Select Sterling Capital's Total Return strategy as the new Core Fixed Income manager to be transitioned as soon as feasible.

STATEMENT OF INVESTMENT POLICY

Spokane Employees' Retirement System

Date Approved: August 31, 2016

POLICY OVERVIEW

The Board ("Board") of the Spokane Employees' Retirement System ("SERS") hereby establishes this Statement of Investment Policy ("IPS") for the investment, in accordance with applicable federal, state and municipal laws and regulations, of SERS assets ("Fund"). This IPS defines the investment policies for the management and oversight of the Fund for SERS.

The guiding principles with respect to the investment of the Fund are to preserve the ability for the Fund to meet its long-term liabilities within prudent risk parameters. Toward that end, the Fund has established the following goals:

- 1) Accumulate sufficient assets through a diversified portfolio of investments to pay all current and future retirement benefits and expense obligations of the Fund.
- 2) Establish an asset allocation policy that is expected to meet the required rate of return over long periods of time while minimizing volatility.
- 3) Minimize the costs associated with implementation of the asset allocation through the efficient use of resources.
- 4) Operate solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.
- 5) Seek investment returns and funding policies that will allow for ad hoc increases in retirees' annuities so as to maintain the purchasing power of their benefit.

ROLES AND RESPONSIBILITIES

The Board, as a fiduciary, is responsible for establishing the IPS, reviewing the IPS as required, and making changes as necessary. The Board is also responsible for selecting and monitoring the investment consultant, investment managers, custodian, auditor, actuary and any other service providers necessary in the fulfillment of this policy and the Fund objectives. Responsibility for day-to-day administration and implementation related to the IPS may be delegated to the Chief Investment Officer (CIO) and/or other SERS staff. Responsibilities of the CIO (and/or SERS staff at the direction of the CIO) include:

- 1) Implementation of the Fund's investment goals, objectives and policies.
- 2) Due diligence, monitoring, and contracting of the Fund's investment managers.
- 3) Due diligence, monitoring, and contracting of the Fund's service providers.
- 4) Make buy/sell decisions to provide for regular liquidity requirements and rebalancing within the asset allocation guidelines.
- 5) Monitoring and evaluating performance results to assure that the policy guidelines are being met.

The Board and staff may also delegate certain responsibilities to professional service providers in various fields. These experts include:

- 1) **Investment Consultant.** The investment consultant will assist in: 1) establishing investment policy; 2) designing objectives and guidelines; 3) selecting investment managers; 4) reviewing such managers over time; 5) measuring and evaluating investment performance; and, 6) other tasks as deemed appropriate. It is expected that the investment consultant will be selected by the Board and will serve as a co-fiduciary on all investment related decisions and will have the proper insurance to cover exposure.
- 2) **Investment Managers.** An investment manager has discretion to purchase, sell and/or hold the specific securities that will be used to meet the Fund's investment objectives while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement and in their specific manager guidelines.
- 3) **Custodian.** The custodian will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. The custodian will provide at a minimum monthly reporting of assets and transactions and provide any additional data requests.
- 4) **Auditor.** The auditor will provide an annual review the Fund's books and records, accounting policies, and internal controls to provide an opinion that the financial statements are presented fairly and without material misstatement.
- 5) **Actuary.** The actuary will provide an annual valuation of the Fund's total pension liability based on the actuarial assumptions approved by the Board.
- 6) **Other.** Additional specialists may be employed to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Board and staff do not maintain any control over the individual investment decisions made by the investment managers. The investment managers will be held responsible and accountable to achieve the objectives outlined in their specific investment guidelines as provided in the agreement, prospectus or other such documentation.

All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

INVESTMENT OBJECTIVE

The investment strategy of the Fund has been established to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income, net of any investment management fees. The Fund currently has a long term actuarial expected rate of return of 7.50%. In consideration of this expected return, the primary investment management objectives for the Fund assets shall be to maximize total return over time at an acceptable level of risk and to provide relatively smooth and predictable distributions to the beneficiaries. Additionally, the Fund will be invested according to the following general principles:

- Investments shall be made solely in the interest of and for the beneficiaries of the Fund;
- Investment of the Fund shall be diversified as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so;
- Risk shall be evaluated in the context of the portfolio in its entirety with particular focus on how the various asset classes and investment strategies correlate to one another;

- Care will be taken to provide adequate liquidity to meet all current spending obligations of the Fund;
- Cash is to be employed productively at all times, to provide safety, liquidity, and return; and,
- The investment manager(s) should, at all times, be guided by the principles of “best price and execution” and that the Fund's best interests are the primary consideration.
- Investment management fees shall be reasonable. Fees should be minimized unless additional fees are expected to generate additional returns in excess of the additional fees or to provide additional diversification unavailable in a low-cost, passive investment.

ASSET ALLOCATION GUIDELINES

To achieve its investment objectives, the Fund will be allocated among a number of asset classes. These asset classes may be broadly defined to include global fixed income, absolute return, global equity, long/short equity and fixed, special opportunities, commodities and real estate. The purpose of allocating across these asset classes is to ensure the proper level of diversification within the Fund and improve the risk-adjusted efficiency of the investment portfolio. The following table outlines the Fund's target asset allocation along with standard minimum and maximum allocation rebalancing guidelines. Allocations in excess of the standard minimum or maximum require Board approval.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Capital Preservation	15%	23%	35%
Cash	0%	[0%/1%]	5%
Total Return Bond	5%	9%	15%
High Yield Bond	3%	5%	8%
Absolute Return	5%	8%	13%
Domestic Equities	20%	32%	44%
Large Cap Equity	15%	21%	28%
Small/Mid Cap Equity	5%	11%	16%
International Equities	10%	22%	30%
Large Cap Equity	10%	15%	20%
Small/Mid Cap Equity	0%	4%	8%
Emerging Market Equity	0%	3%	7%
Long Biased	3%	7%	12%
Opportunistic Credit	3%	7%	12%
Real Estate	5%	9%	15%
Special Opportunities*	0%	0%	10%

[Add gross tracking error limit?]

* Special Opportunities

This asset class is designed to allow the committee to pursue unique investment opportunities that may fall outside of current asset class descriptions. These opportunities are generally defined by higher expected return potential relative to broad public equity markets. However, they may also include opportunities expected to provide equity-like returns with significantly less risk. Given the variable nature of this opportunity set, the asset class retains a target allocation of 0%, but may be implemented at the discretion of the Board as opportunities present themselves. Funding for the asset class will generally be redirected from the broad public equity allocation.

REBALANCING OF FUND ASSETS

The asset allocation exposures will be closely monitored with the understanding that the various asset classes may perform differently and that the relative attractiveness of asset classes may vary over time. The Fund's allocation will be reviewed [at each Board meeting or quarterly], as well as during periods of severe market change to assure that allocations remain within their respective guidelines and consistent with the long-term objective of the Fund. If an asset class is outside the allowable range, the Board, or its designee, may take appropriate action to redeploy assets. In any investment rebalancing situation the Board, or its designee, will consider market conditions, costs and other investment related factors. In certain circumstances, when appropriate and at the Board's discretion, the Fund may be allocated outside the ranges provided in the Guidelines.

INVESTMENT PERFORMANCE REVIEW AND EVALUATION

Performance reports shall be compiled at least quarterly and presented to the Board for review. The investment performance of the total Fund, as well as the asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board recognizes the long term nature of the Fund's objectives and the variability of market returns. Periodic underperformance relative to any criteria outlined in this IPS will not necessitate the termination of an investment option.

As referenced above, the Fund's total account performance objective is to achieve the long-term actuarial rate of return and to minimize the risk of failing to meet this expected return. To that end, managers have been selected based on their perceived ability to meet and or exceed predetermined benchmarks.

The total return of the Fund will be measured against a passive policy index of comparable risk comprised as follows:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Weight</u>
Cash	US 90 Day T-Bill	[0% or 1%]
Total Return Bond	Barclays US Aggregate Bond Index	9%
High Yield Bond	Barclays US Corporate HighYield Index	5%
Absolute Return	HFRI FOF Conservative Index	8%
Domestic Large Cap Equity	S&P 500 Index	21%
Domestic Small/Mid Cap Equity	Russell 2500 Index	11%
International Large Cap Equity	MSCI ACWI ex-US Index	15%

International Small/Mid Cap Equity	MSCI ACWI ex-US Small Cap Index	4%
Emerging Markets Equity	MSCI EM Free Index	3%
Long Biased	HFRI FOF Composite Index	7%
Opportunistic Credit	HFRI Distressed Restructuring Index	7%
Real Estate	NCREIF – ODCE Index	9%
Special Opportunities	Russell 3000 Index	0%

Additionally, the Board shall compare the performance of each individual investment alternative against the performance of the peer groups, relevant index benchmarks, and the manager’s strategic benchmark if it differs from the relevant benchmark. The Board shall track the investment vehicle’s performance relative to its benchmark(s), and the degree to which variance in the vehicle’s performance can be explained by variance in the performance of the benchmark(s). Initially, indices used for comparison purposes shall include the following:

Investment Category

Relevant Benchmark

US Large Capitalization Stocks—Blended Style	S&P 500 Index
US Large Capitalization Stocks—Growth Style	Russell 1000 Growth Index
US Large Capitalization Stocks—Value Style	Russell 1000 Value Index
US Small Capitalization Stocks—Blended Style	Russell 2000 Index
US Small Capitalization Stocks—Growth Style	Russell 2000 Growth Index
US Small Capitalization Stocks—Value Style	Russell 2000 Value Index
US Mid Capitalization Stocks—Blended Style	Russell Mid Cap Index
US Mid Capitalization Stocks—Growth Style	Russell Mid Cap Growth Index
US Mid Capitalization Stocks—Value Style	Russell Mid Cap Value Index
US Small/Mid Capitalization Stocks – Blended Style	Russell 2500 Index
Foreign Large Capitalization Stocks - Blended Style	MSCI ACWI ex-US Index
Foreign Large Capitalization Stocks - Value Style	MSCI ACWI ex-US Value Index
Foreign Large Capitalization Stocks - Growth Style	MSCI ACWI ex-US Growth Index
Foreign Small/Mid Capitalization Stocks – Blended	MSCI ACWI ex-US Small Cap Index
Emerging Market Large Capitalization Stocks	MSCI Emerging Markets Free Index
Real Estate Investment Trusts (REITS)	FTSE NAREIT Index
Core Liquid Real Estate	NCREIF – ODCE Index
Private Real Estate	NCREIF Property Index
Global Commodities	Bloomberg Commodity Index
Long Biased	HFRI FOF Composite Index
Opportunistic Credit	HFRI Distressed Restructuring Index
Special Opportunities	Russell 3000 Index
US High Yield Bonds	Barclays US Corporate High Yield Index
Absolute Return	HFRI FOF Conservative Index
Total Return Bonds	Barclays Aggregate Bond Index
Global Bonds	Barclays Global Aggregate Bond Index
Treasury Inflation Protected Securities	Barclays U.S. TIPS Index
Money Market	90-Day U.S. Treasury Bills

Notwithstanding this initial designation, the Board may change indices used for comparison if it is determined that a different index provides a more useful or appropriate benchmark for any designated investment vehicle.

If the net of fee performance of an actively managed investment option lags significantly behind that of the representative benchmark index over a trailing five year period and the option's performance places it significantly below category averages, the Board may designate the option as "on watch" and, in so doing, shall endeavor to investigate why the option's relative performance has lagged; and determine whether the option continues to be an appropriate investment for the Fund.

If a statistical analysis of an indexed/passively managed investment option indicates that the option is not performing similarly to its benchmark, the Board may designate the option as "on watch" and, in so doing, shall endeavor to investigate why the invest performance has varied from the benchmark; and determine whether the option continues to be an appropriate investment for the Fund.

In addition to net investment performance, the Board will also review the investment products' risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Risk/return ratios such as Sharp or Treynor Ratios
- Up market and down market performance
- Other statistical measures such as Beta and Alpha
- Style drift

The investment options will also be monitored on an ongoing basis for material changes such as personnel departures, research capability adjustments, organizational changes, or alterations in investment style, philosophy, or strategy, as well as adherence to stated guidelines.

MANAGER SELECTION

To facilitate the Board's manager selection decisions, the Consultant and Staff will present a formal search, with recommendations, for all new and replacement investment managers or funds. Initial due diligence should include a review of the investment philosophy, process, team, and performance record. Risks posed by a concentrated exposure to a single investment manager or co-investor will also be evaluated. Additional due diligence should be conducted for investments in new asset classes, firms with limited track records, or limited partnerships to evaluate any idiosyncratic risks the investment may pose, which may include interviewing key personnel, legal review, and on-site due diligence.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Board will review the IPS annually, or more frequently if conditions warrant.

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
July 27, 2016

The regular monthly meeting was called to order at 1:31 p.m. in the 5th Floor Conference Room at City Hall.

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

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

Guests: Joe Cavanaugh, Natalie Hilderbrand, Richard Czernik, and John Bjork,

Minutes of the June 29, 2016 Meeting

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the minutes of the June 29, 2016 meeting. The motion passed unanimously.

Director's Report

Service Retirements

Name	Age	Retirement Date	Years of Service	Option
Brenda J. Nelson	58	07/07/2016	24.9	ST
Laurie B. Burchell	54	08/02/2016	21.8	ST
Roger K. Burchell	55	08/02/2016	32.6	ST
Teresa Hopkins	63	08/03/2016	8.8	ST
Raymond G. Gaines	60	09/07/2016	18.2	E

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

Withdrawals for July 2016

Name	Years of Service	Termination Date
Alesha R. Horrocks	3.5	06/14/2016
James A. Hacker	2.9	05/20/2016
Leini E. Ena	0.6	06/23/2016
Pradeep A. Hatcher	2.0	07/01/2016

Dean Kiefer moved and Mike Cavanaugh 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>
Samuel H. Song	Parks & Recreation	9.7

Deaths

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

Vesting and death information provided to the Board for informational purposes.

Breenan Beggs arrived at 1:36 p.m.

Expenditure Summary Report – June 2016

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

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the June 2016 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – June 2016

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on June 30, 2016 was \$269.7 million, with an estimated rate of return for the month of -0.43%. The July pension payments were funded by a cash distribution from the OrbiMed Royalty Opportunities I investment and excess cash resulting from decreased allocation to cash.

Other Business

Mr. Tencick gave an update on the implementation of the new asset allocation. A spreadsheet was provided showing the investments as of June 30 and the subsequent trades. The implementation began on July 1, 2016 and was substantially completed except for two more trades scheduled to take place on July 29 and September 30.

Also enclosed in the packets was a draft slide for the City's Finance Committee updates. Mr. Tencick prepared the slide for the Finance Committee that showed the financial impact of the Plan, its funding ratio and investment performance.

Mr. Tencick informed the Board that staff will be putting together an RFP for actuary services and asked if any members of the Board desired to be part of the review committee. Mike Cavanaugh, Jim Tieken and Dean Kiefer stated that they would like to be part of the committee. A draft RFP will be presented to the Board before release to the public.

Mr. Tencick informed the Board that as the Audit is complete staff should have the Annual Report ready for the August Board Meeting.

An update was given on the temp-seasonal Memorandum of Understanding (MOU) and is expected to be completed shortly.

Fiduciary Training

Mr. Szambelan led a presentation on the Board's roles and responsibilities to the Plan as fiduciaries.

There being no other business, the meeting adjourned at 2:23 p.m.

Phillip Tencick, Retirement Director

DRAFT

SERS Retirement Transaction Report

August 2016

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Alfred G. Heath	62	08/12/2016	18.2	Sewer Maintenance	ST
2	Douglas B. Edwards	50	08/20/2016	24.9	Street	D
3	Roxanne L. Imus	63	10/04/2016	27.1	Legal	ST
	Retirements YTD	54				
	2015 Total Retirements	83				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Karen D. Cahalan	4.6	MIS	05/03/2013
2	Monique R. Cotton	2.7	Police	02/21/2016
3	Joshua M. Anderson	0.4	Water	07/21/2016
4	Aaron B. Peterson	0.3	Combined Communications Center	07/26/2016
5	Nancy L. Isserlis	4.3	Legal	08/06/2016
6	Heather E. Aguayo	0.3	Municipal Court	08/11/2016

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Marlin D. Nierstheimr	03/07/2009	61	07/22/2016	D Option Continues
2	Mary J. O'Neill	03/29/1988	93	08/03/2016	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2016 EXPENDITURE SUMMARY REPORT
 JULY 31, 2016

	2015 ACTUAL	2016 BUDGET	JULY ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	220,405.82	273,580.00	19,946.60	141,252.95	132,327.05	51.6%
Departmental Benefits	66,088.05	78,190.00	6,082.35	42,764.29	35,425.71	54.7%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(22,061.31)	(10,000.00)	-	(9,080.23)	(919.77)	
Postage/Supplies/Other	20,091.84	18,500.00	2,306.40	8,242.51	10,257.49	44.6%
State Audit Charges	11,687.79	10,000.00	1,452.23	1,715.19	8,284.81	17.2%
Contractual Services	90,587.98	150,000.00	6,411.25	75,911.25	74,088.75	50.6%
Travel	2,517.20	15,000.00	884.26	6,297.73	8,702.27	42.0%
Registration/Schooling	10,789.00	15,000.00	450.00	510.00	14,490.00	3.4%
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	989.05	1,230.95	44.6%
Depreciation & Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	424,187.62	564,990.00	37,590.09	269,175.94	295,814.06	47.6%
INTERFUND EXPENDITURES						
Interfund - Centralized Accounting	2,781.80	2,407.00	575.99	1,727.97	679.03	71.8%
Interfund - IT Phones	1,555.51	1,463.00	248.79	746.05	716.95	51.0%
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	2,288.16	6,864.48	6,864.52	50.0%
Interfund - IT Replacement	3,584.04	1,927.00	321.16	963.48	963.52	50.0%
TOTAL INTERFUND EXPENDITURES	23,733.85	20,715.00	3,434.10	10,896.48	9,818.52	52.6%
TOTAL ADMINISTRATIVE EXPENDITURES	447,921.47	585,705.00	41,024.19	280,072.42	305,632.58	47.8%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2016 EXPENDITURE SUMMARY REPORT
 JULY 31, 2016

	2015 ACTUAL	2016 BUDGET	JULY ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	22,192,755.57	24,000,000.00	1,995,888.01	13,695,983.24	10,304,016.76	57.1%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	73,108.28	86,891.72	45.7%
Pensions-Survivor Annuity Benefits Payments	1,641,113.98	1,600,000.00	156,124.86	1,056,097.50	543,902.50	66.0%
TOTAL PENSIONS	<u>23,959,198.03</u>	<u>25,760,000.00</u>	<u>2,162,456.91</u>	<u>14,825,189.02</u>	<u>10,934,810.98</u>	
Refunds	637,821.67	1,000,000.00	20,458.54	453,198.12	546,801.88	45.3%
TOTAL EXPENSES	<u><u>25,044,941.17</u></u>	<u><u>27,345,705.00</u></u>	<u><u>2,223,939.64</u></u>	<u><u>15,558,459.56</u></u>	<u><u>11,787,245.44</u></u>	56.9%
INVESTMENT EXPENSE*						
Advisory Technical Service	430,178.76	450,000.00	38,302.43	168,740.19	281,259.81	37.5%

* 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
July 31, 2016

8/24/2016

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 58,166			
US Bank	Short-term Inv	93,537			
	Total Cash	151,703	0.0%	0.1%	0.1%
Vanguard Short-Term	Total Return - Mutual Fund	21,715,280			
	Total Total Return	21,715,280	10.0%	7.7%	-2.3%
Hotchkis & Wiley	High Yield - Mutual Fund	24,581,919			
	Total High Yield	24,581,919	5.0%	8.8%	3.8%
PIMCO Global	International- Mutual Fund	3,108			
	Total Int'l Fixed Income	3,108	0.0%	0.0%	0.0%
Total Fixed Income		46,452,010	15.0%	16.6%	1.6%
Hotchkis & Wiley	LC Value - Mutual Fund	14,818,200			
Delaware	LC Growth - Mutual Fund	17,877,905			
MFS Heritage	LC Core	17,288,276			
Vanguard S&P 500 Index	LC Core - Mutual Fund	8,599,442			
	Total US Large Cap	58,583,823	21.0%	20.9%	-0.1%
Sterling	MC Value	7,049,997			
Vanguard MC Growth	MC Growth - Mutual Fund	6,103,894			
Vanguard MC Index	MC Core - Mutual Fund	5,511,919			
Champlain	SC Core	5,458,157			
Phocas	SC Value - Mutual Fund	4,327,152			
Bridgecity	SC Growth	4,902,251			
Vanguard SC Index	SC Core - Mutual Fund	846,094			
	Total US Small/Mid Cap	34,199,464	11.0%	12.2%	1.2%
Artisan	SMID Value - Mutual Fund	17,934,776			
Euro Pacific	LC Blend - Mutual Fund	16,518,328			
Vanguard International	LC Index - Mutual Fund	-			
	Total International Large Cap	34,453,104	15.0%	12.3%	-2.7%
Trivalent	SC Value - Mutual Fund	8,758,446			
	Total International Small/Mid	8,758,446	4.0%	3.1%	-0.9%
Berens	Ltd Partnership	9,745,111			
	Total Emerging Markets	9,745,111	3.0%	3.5%	0.5%
Total Equities		145,739,948	54.0%	52.0%	-2.0%
Polar	LLC	6,257,839			
American Beacon	Mutual Fund	-			
Castine Capital I	Ltd Partnership	6,201,694			
Post Limited Term High Yield	Ltd Partnership	5,695,113			
Rimrock Low Volatility	Ltd Partnership	8,967,285			
	Total Absolute Return	27,121,931	8.0%	9.7%	1.7%
Weatherlow Offshore	Ltd Partnership	13,940,112			
Royalty Opportunities I	Ltd Partnership	4,460,440			
Royalty Opportunities II	Ltd Partnership	739,939			
Troob	Ltd Partnership	3,047,635			
	Total Long Biased	22,188,126	7.0%	7.9%	0.9%
Legacy Partners Realty Fund III	Ltd Partnership	144,734			
Metropolitan Real Estate Partners	Ltd Partnership	625,534			
Morrison Street Fund IV	LLC	2,423,956			
Morrison Street Fund V	LLC	4,507,793			
Principal (REITs)	REITs	13,919,058			
	Total Real Estate	21,621,075	9.0%	7.7%	-1.3%
PIMCO Commodities PLUS	Commodities - Mutual Fund	\$ -			
	Total Commodities	-	0.0%	0.0%	0.0%
Beach Point	Ltd Partnership	8,239,388			
	Total Opportunistic Credit	8,239,388	7.0%	2.9%	-4.1%
Caduceus (OrbiMed)	Ltd Partnership	8,912,439			
	Total Special Opportunities	8,912,439	0.0%	3.2%	3.2%
Total Alternatives		88,082,959	31.0%	31.4%	0.4%
Total Cash and Investments		\$ 280,274,917	100.0%	100.0%	0.0%
		Withdrawals \$ (850,000)			
		As of June 30, 2016 \$ 269,710,322			
		Estimated Rate of Return 4.2%			
Abs. Return and Total Return FI		48,837,211	18.0%	17.4%	-0.6%
High Yield and Opp Credit		32,821,307	12.0%	11.7%	-0.3%
Equity and Special Situations		154,652,387	54.0%	55.2%	1.2%

Monthly Cash Reconciliation

		Sources	Uses	Balance
7/20/2016	Beginning Balance			138,370.68
7/26/2016	Trust Fees		(11,855.17)	126,515.51
7/28/2016	Royalty Opps Distribution	816,923.68		943,439.19
7/28/2016	Monthly Pension Payment		(850,000.00)	93,439.19
7/29/2016	Monthly Cash Sweep	130,008.26		223,447.45
7/29/2016	Purchase Vanguard Short Duration Fund		(130,008.26)	93,439.19
8/1/2016	Interest/Dividends	4,653.34		98,092.53
8/4/2016	Final Cash from PIMCO Global Bond	3,107.88		101,200.41
8/16/2016	Commission Recapture	1,386.18		102,586.59
8/25/2016	Ending Balance	956,079.34	(991,863.43)	102,586.59
	<u>Upcoming</u>			
8/31/2016	August Pension Payments		(1,250,000.00)	
9/7/2016	OrbiMed Royalty Ops Capital Call		(737,500.00)	

	6/30/2016	Allocation			Previous July	Current 29-Jul	Pending			Rebalance Amount	8/25/2016	Allocation	
		Target	Current	Diff.			30-Sep	Dec Board	Feb Board			After	Diff.
US Bank	\$ 1,027,623				(889,676)				(889,676)	\$ 98,031			
Total Cash	1,027,623	0.0%	0.4%	0.4%	(889,676)	-	-	-	(889,676)	98,031	0.0%	0.0%	
Vanguard Short-Term	\$ 10,101,759				11,388,930				11,388,930	\$ 21,690,621			
Total Total Return	10,101,759	10.0%	3.8%	-6.2%	11,388,930	-	-	-	11,388,930	21,690,621	7.8%	-2.2%	
Hotchkis & Wiley	\$ 13,507,503				10,441,604				10,441,604	\$ 25,023,508			
Total High Yield	13,507,503	5.0%	5.0%	0.0%	10,441,604	-	-	-	10,441,604	25,023,508	9.0%	4.0%	
PIMCO Global	\$ 10,378,725				(10,441,604)				(10,441,604)	\$ -			
Total Int'l Fixed Income	10,378,725	0.0%	3.9%	3.9%	(10,441,604)	-	-	-	(10,441,604)	-	0.0%	0.0%	
Total Fixed Income	35,015,610	15.0%	13.0%	-2.0%	10,499,254	-	-	-	10,499,254	46,812,161	16.9%	1.9%	
Hotchkis & Wiley	\$ 14,317,923				-		1,116,805		1,116,805	\$ 15,238,432			
Delaware	\$ 13,887,435				-		1,116,805		1,116,805	\$ 14,731,941			
MFS Heritage	\$ 16,674,022				-		1,116,805		1,116,805	\$ 17,288,276			
Total US Large Cap	53,173,526	21.0%	19.8%	-1.2%	-	-	3,350,414	-	3,350,414	55,883,173	20.1%	-0.9%	
Sterling	\$ 8,095,042				(1,500,000)				(1,500,000)	\$ 7,089,518			
Vanguard MC Growth	\$ 7,362,977				(1,500,000)				(1,500,000)	\$ 6,095,730			
Champlain	\$ 5,088,233				-	(1,000,000)			(1,000,000)	\$ 4,458,157			
Vanguard SC Index	\$ 1,801,660				(1,000,000)				(1,000,000)	\$ 850,017			
Total US Small/Mid Cap	36,398,187	11.0%	13.5%	2.5%	(4,000,000)	(1,000,000)	-	-	(5,000,000)	32,605,435	11.7%	0.7%	
Artisan	\$ 14,285,645				3,000,000				3,000,000	\$ 19,520,379			
Euro Pacific	\$ 11,595,476				4,000,000	1,000,000			5,000,000	\$ 16,809,118			
Total International Large Cap	25,881,122	15.0%	9.6%	-5.4%	7,000,000	1,000,000	-	-	8,000,000	36,329,497	13.1%	-1.9%	
Total International Small/Mid	8,280,858	4.0%	3.1%	-0.9%	-	-	-	-	-	8,843,179	3.2%	-0.8%	
Total Emerging Markets	9,540,031	3.0%	3.5%	0.5%	-	-	-	-	-	9,745,111	3.5%	0.5%	
Total Equities	133,273,723	54.0%	49.6%	-4.4%	3,000,000	-	3,350,414	-	6,350,414	143,406,394	51.7%	-2.3%	
American Beacon	\$ 7,248,922				(7,257,022)				(7,257,022)	\$ -			
Total Absolute Return	34,231,793	8.0%	12.7%	4.7%	(7,257,022)	-	-	-	(7,257,022)	27,174,308	9.8%	1.8%	
Troob	\$ 3,350,414				-		(3,350,414)	0	0	\$ 3,047,635			
Total Long Biased	22,484,232	7.0%	8.4%	1.4%	-	-	(3,350,414)	-	(3,350,414)	21,371,278	7.7%	0.7%	
Principal (REITs)	\$ 9,159,759				4,257,022				4,257,022	\$ 13,343,359			
New Manager (Core Fund)													
New Manager (Closed Fund)													
Total Real Estate	16,373,154	9.0%	6.1%	-2.9%	4,257,022	-	-	-	4,257,022	21,647,786	7.8%	-1.2%	
PIMCO Commodities PLUS	\$ 10,362,901				(10,499,254)				(10,499,254)	\$ -			
Total Commodities	10,362,901	0.0%	3.9%	3.9%	(10,499,254)	-	-	-	(10,499,254)	-	0.0%		
Beach Point	\$ 8,030,264									\$ 8,239,388			
New Manager(s)													
Total Opportunistic Credit	8,030,264	7.0%	3.0%	-4.0%	-	-	-	-	-	8,239,388	3.0%	-4.0%	
Total Special Opportunities	9,050,115	0.0%	3.4%	3.4%	-	-	-	-	-	8,912,439	3.2%	3.2%	
Total Alternatives	100,532,458	31.0%	37.4%	6.4%	(13,499,254)	-	(3,350,414)	-	(16,849,668)	87,345,200	31.5%	0.5%	
Total Cash and Investments	\$ 268,821,792	100.0%	100.0%	0.0%	\$ -	\$ -	\$ (0)	\$ -	\$ -	\$ 277,563,755	100.0%	0.0%	
Gross \$	-				39,837,183	1,000,000	5,025,621	-	45,862,804				
Tracking Error							0.7%	0.9%	3.0%			11.0%	

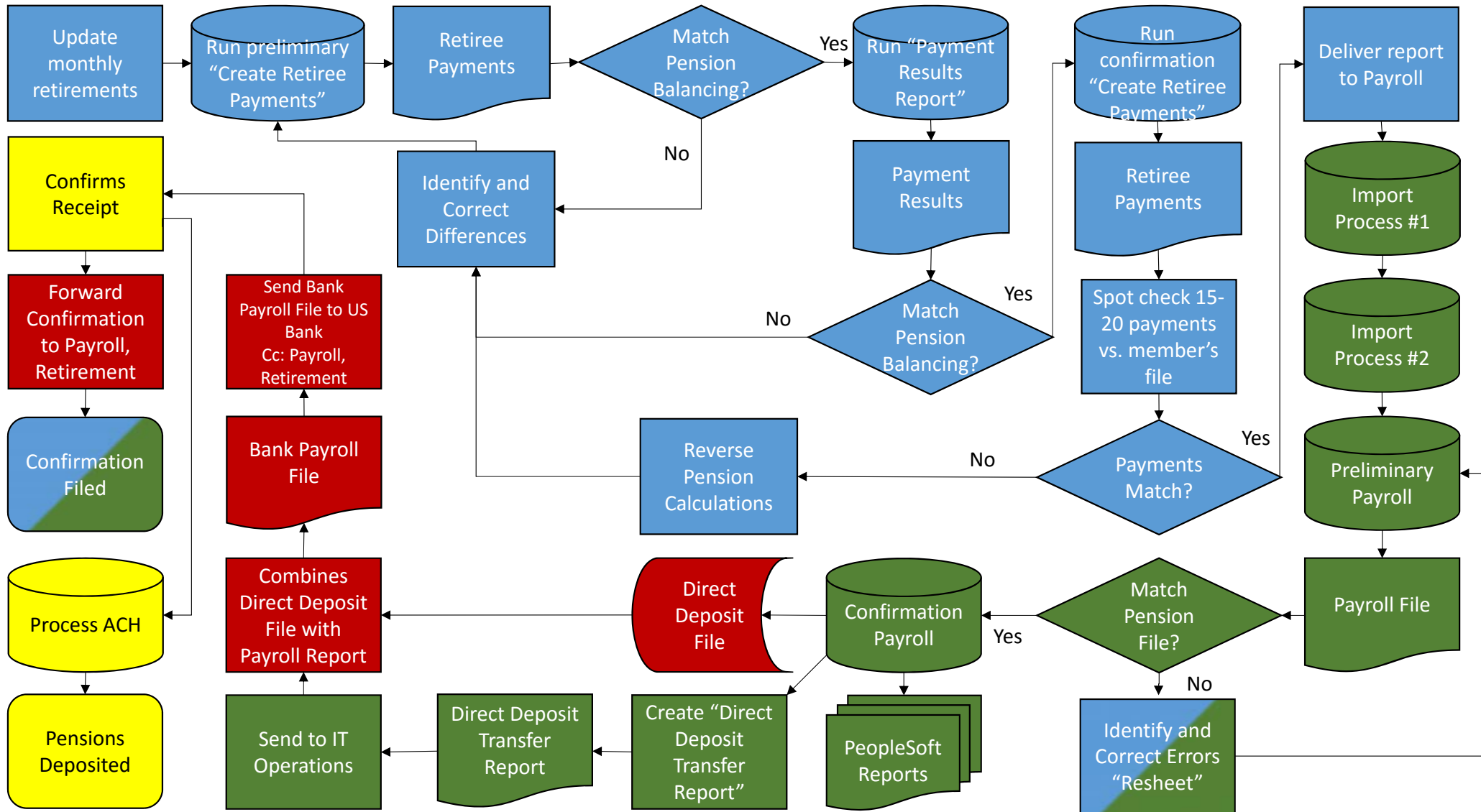
SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2017 PRELIMINARY BUDGET

	2015 ACTUAL	7/2016 YTD ACTUALS	2016 BUDGET	2017 BUDGET	2017 BUDGET CHANGE
REVENUES					
IF Other General Gov't Services	\$ 22,061.31	\$ 9,080.23	\$ 10,000.00	\$ 10,000.00	\$ -
Investment Interest/Dividends	5,369,568.99	2,281,691.62	5,000,000.00	5,000,000.00	-
Realized Gains/Losses	11,418,213.38	(4,456,872.64)	-	-	-
Unrealized Gains/Losses	(19,586,041.61)	12,666,356.90	-	-	-
City Contributions	7,380,794.91	4,339,972.69	7,300,000.00	7,500,000.00	200,000.00
Mandatory Contributions Employees	7,380,794.91	4,339,972.69	7,300,000.00	7,500,000.00	200,000.00
Voluntary Contributions Employees	3,960.04	-	-	-	-
PFD Employer Contributions	18,149.82	10,715.49	18,000.00	18,600.00	600.00
PFD Employee Contributions	18,149.82	10,715.49	18,000.00	18,600.00	600.00
TOTAL REVENUES	12,025,651.57	19,201,632.47	19,646,000.00	20,047,200.00	401,200.00
OPERATING EXPENDITURES					
Departmental Salaries	220,405.82	141,252.95	273,580.00	262,217.00	(11,363.00)
Departmental Benefits	66,088.05	42,764.29	78,190.00	99,841.00	21,651.00
Postage/Supplies/Other	15,753.25	6,006.23	16,000.00	16,000.00	-
State Audit Charges	11,687.79	1,715.19	10,000.00	12,000.00	2,000.00
Contractual Services	90,587.98	75,911.25	150,000.00	150,000.00	-
Travel	2,517.20	6,297.73	15,000.00	15,000.00	-
Registration/Schooling	10,789.00	510.00	15,000.00	15,000.00	-
Other Dues/Subscriptions/Membership	1,970.20	573.20	2,500.00	2,500.00	-
Other Miscellaneous Charges	4,462.05	989.05	2,220.00	2,326.00	106.00
Depreciation/Amortization	17,649.00	-	-	-	-
TOTAL OPERATING EXPENDITURES	441,910.34	276,019.89	562,490.00	574,884.00	12,394.00

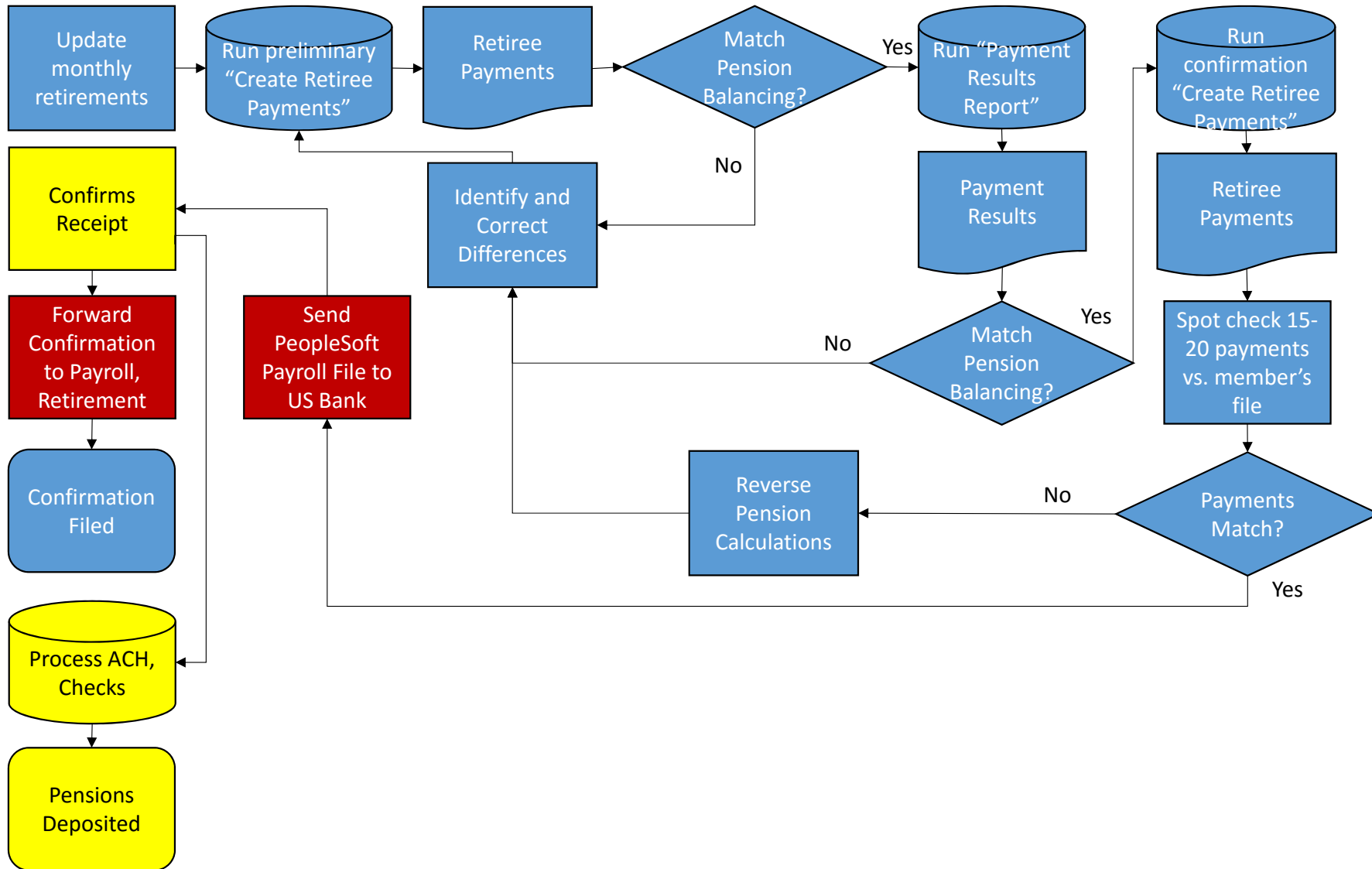
SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2017 PRELIMINARY BUDGET

	2015 ACTUAL	7/2016 YTD ACTUALS	2016 BUDGET	2017 BUDGET	2017 BUDGET CHANGE
INTERFUND EXPENDITURES					
Interfund - Centralized Accounting	2,781.80	1,727.97	2,407.00	2,347.00	(60.00)
Interfund - IT Phones	1,555.51	746.05	1,463.00	1,451.00	(12.00)
Interfund - IT Communications Replacement	240.96	-	-	-	-
Interfund - Motor Pool	-	-	-	-	-
Interfund - Risk Management	1,121.00	495.50	991.00	760.00	(231.00)
Interfund - Unemployment	500.00	-	-	-	-
Interfund - Worker's Compensation	58.50	99.00	198.00	104.00	(94.00)
Interfund - IT	13,892.04	6,864.48	13,729.00	14,078.00	349.00
Interfund - IT Replacement	3,584.04	963.48	1,927.00	2,772.00	845.00
Interfund - Reprographics	4,338.59	2,236.28	2,500.00	4,500.00	2,000.00
Interfund - Warrant Costs	-	-	-	-	-
TOTAL INTERFUND EXPENDITURES	28,072.44	13,132.76	23,215.00	26,012.00	2,797.00
TOTAL ADMINISTRATIVE EXPENDITURES	469,982.78	289,152.65	585,705.00	600,896.00	15,191.00
PENSIONS					
Pensions-Annuity Benefit Payments	22,192,755.57	13,695,983.24	24,000,000.00	26,000,000.00	2,000,000.00
Pensions-Disability Payments	125,328.48	73,108.28	160,000.00	160,000.00	-
Pensions-Survivor Annuity Benefits Payments	1,641,113.98	1,056,097.50	1,600,000.00	2,000,000.00	400,000.00
TOTAL PENSIONS	23,959,198.03	14,825,189.02	25,760,000.00	28,160,000.00	2,400,000.00
Refunds	637,821.67	453,198.12	1,000,000.00	1,000,000.00	-
Reserve for Budget Adjustment	-	-	10,000.00	10,000.00	-
INVESTMENT EXPENDITURES					
Advisory Technical Service	430,178.76	168,740.19	450,000.00	450,000.00	-
Total Department Expenditures	\$ 25,497,181.24	\$ 15,736,279.98	\$ 27,805,705.00	\$ 30,220,896.00	\$ 2,415,191.00

Current Payroll Process



US Bank Payroll Process



US BANK PENSION PAYMENT PROCESSING BUSINESS CASE

SERS Board Meeting

August 31, 2016



Participant Impact

Advantages

- Expanded toll-free customer support hours
- No difference to participant payment timing or method

Disadvantages

- Multiple points of contact
- May lose monthly advice or format change

Operational Impact

Advantages

- Streamlines payment processing
- Eliminate manual processes
 - Monthly advice reconciliation
 - Annual 1099R printing and scanning
- Removes need for PeopleSoft customizations

Disadvantages

- Requires participant data reconciliation
- Communication effort required
- Staff training on new system
- Increased liquidity management

Financial Impact

Costs

Item	Annual Cost
Checks	\$3,660
ACH Payments	\$32,904
Advices (Optional)	\$17,328
Lump Sum Payments	\$360
IT Resources	TBD
Initial Costs	TBD
Total	\$51,826 + TBD

Benefits

Item	Annual Savings
Postage	\$8,635
Advice Stock	\$2,426
1099R Forms	\$332
Death Audit	\$1,080
Cash Drag	\$53,239
Staff Time	\$863
IT/Payroll Time	TBD
Total	\$66,575 + TBD

Next Steps

- SERS Board approval
- LEOFF Fire and Police concurrence and coordinated implementation plan
- Contract amendment
- Transition plan (min 90 days)
- Data testing
- Parallel processing testing
- Participant communication
- Go live January 31, 2017
 - Mid-year implementation requires two 1099R's

Summary

- Impacts
 - Participant: Neutral
 - Operational: Positive
 - Financial: Neutral
- Recommend moving forward with transition to US Bank as pension payment provider

Actuary RFP Proposed Timeline

Item	Estimated Completion
1) Issue RFP	Tuesday, September 6
2) RFP Responses Due	Friday, September 23
3) RFP Scoring Completed	Week of October 10-14
4) Finalist Presentations	Early November
5) Contract Award	Wednesday, December 7