

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting, 1:30 p.m. January 25, 2017**  
**City Hall - Conference Room 5A**

**AGENDA**

- 1) Election of Chairperson
  - Motion
- 2) Minutes of the December 7, 2016 Meeting
  - Motion
- 3) Director's Report
  - a. Retirements
    - Motion
  - b. Withdrawals
    - Motion
  - c. Vesting
    - Information
  - d. Deaths
    - Information
  - e. Expenditure Summary Report – November 2016
    - Motion
  - f. Schedule of Investments – December 2016
    - Information
  - g. Cash Reconciliation
    - Information
  - h. Current Investment Theses
    - Motion
  - i. Other Business – Information
    - Pension Payments Update
    - Liquidity and Cash Management Analysis
    - Annual Board Agenda
    - Local 270 Contract Update
    - Senate Bill 5116 Update
    - Investment Advisory Committee Update
- 4) Other Business
- 5) Next Meeting – **Wednesday February 22, 2017 at 12:30 p.m.**

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting Minutes**  
**December 7, 2016**

The regular monthly meeting was called to order at 12:31 p.m. in the 5<sup>th</sup> Floor Conference Room at City Hall.

**Present:** Mike Coster, Mike Cavanaugh, Dean Kiefer, and Brian Brill

**Absent:** Breean Beggs and Jim Tieken

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

**Guests:** Jayson Davidson, Joe Cavanaugh, and John Bjork

**Minutes of the October 26, 2016 Meeting**

Mike Cavanaugh moved and Dean Kiefer seconded the motion to approve the minutes of the October 26, 2016 meeting as presented. The motion passed unanimously.

**Hyas Group, 2016 3<sup>rd</sup> Quarter Investment Performance Report**

Mr. Davidson reviewed the Third Quarter 2016 Performance Report and spent time discussing the relatively strong portfolio performance for the quarter. The Fund posted a 4.6% return for the quarter, which put it in front of the current and proposed policy benchmarks. He also discussed each of the invested asset classes and products specifically. The Fund's two watch status funds, Sterling Mid Cap Value and Berens Global Value, will remain on watch and Hyas Group will revisit their status at the next quarterly meeting. Mr. Davidson specifically noted the recent spate of redemptions and personnel turnover at Berens and voiced concerns regarding these events. Hyas Group will look to schedule a meeting between SERS staff and Berens personnel in the coming months.

In concert with the Performance Report, the overall portfolio rebalancing efforts to move toward the new investment policy targets and ranges were discussed. Mr. Davidson informed the Board that the Legacy Partners Realty Fund and Troob Capital Management Fund have processed the redemptions requests and we are now only awaiting small residual amounts. Mr. Davidson also noted that the PIMCO Global Advantage Fund was removed from the portfolio in the fourth quarter. The American Beacon Flexible Bond Fund was redeemed to facilitate rebalancing but not terminated. Additionally, the Sterling Core Bond Fund was funded during the quarter with the redemption of the Vanguard Short-term Bond Index Fund and other fixed income alternatives.

Mr. Davidson informed the Board of the recently announced senior personnel changes at MFS, one of the Plan's investment management firms. Mr. Davidson notified the Board that it was recently announced that Michael Roberge will take over as the firm's sole CEO.

The CEO role had been shared by Mr. Roberge and Robert Manning. Mr. Manning is transitioning into the Chairman of the Board role after serving as a mentor to Mr. Roberge for a number of years. Hyas Group is not recommending any action as a result of this change.

Mr. Davidson will work with staff in advance of our next quarterly meeting to reconcile any inconsistencies between the old and new policy allocations within the performance reports.

Hyas Group will schedule a call with representatives at Orbimed to inquire about the slower pace of capital calls and their expectations for 2017.

### **Morrison Street Debt Fund**

Mr. Davidson presented Hyas Group's analysis of the Morrison Street Debt Opportunities Fund, LP investment offering and Mr. Tencick presented the staff analysis. The Board spent time discussing the specific strategy, strengths and overall risk associated with the product.

Mike Cavanaugh moved and Brian Brill seconded the motion to commit \$5 million to Morrison Street Debt Fund. The motion passed unanimously.

Hyas Group and staff will attempt to get the funding documents completed by the end of this year and it is expected that Morrison Street will call almost 50% of the capital within the first quarter of 2017. The proceeds for this funding are expected to come from the REIT allocation and all committed capital will be maintained within that allocation until it is called. Hyas Group will work with staff to finalize the necessary documents for this funding.

### **Core Real Estate Manager Search**

Mr. Davidson presented Hyas Group's Core Real Estate Manager Search report and the Board considered five potential Core managers. Mr. Tencick presented the staff analysis and recommendation. Mr. Davidson and Mr. Tencick discussed the minor differences between the offered products and recommended the Board take action to approve a funding to the Morgan Stanley Prime Property Fund. It was noted that the investment could take some time to get funded as Morgan Stanley has a queue well into 2017.

Mike Cavanaugh moved and Dean Kiefer seconded the motion to commit between \$5 and \$7 million to Morgan Stanley Prime Property Fund with proceeds from the REIT allocation. The motion passed unanimously.

### **Investment Policy Statement**

The Board again engaged in a discussion regarding the potential revisions to the SERS Investment Policy Statement.

Dean Kiefer moved and Mike Cavanaugh seconded the motion to accept the Investment Policy Statement as presented. The motion passed unanimously.

**Director's Report**  
**Service Retirements**

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Damon MK Taam	59	12/01/2016	3.1 Portability	E
Amy B. Brown	50	12/15/2016	9.5	E
Gene B. Jakubczak	64	01/01/2017	25.6	E
Mindy C. Baker-Nygren	50	01/10/2017	19.6	ST

Mike Cavanaugh moved and Brian Brill seconded the motion to approve the service retirements as amended on the December Retirement Transaction Report. The motion passed unanimously.

**Withdrawals for November 2016**

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Lance S. Mueller	1.1	05/06/2016
Damon L. Hunter	0.2	07/19/2016
Brian J. Zaugra	0.6	09/19/2016
Andrew J. Montgomery	6.2	10/13/2016

Dean Kiefer moved and Brian Brill 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>
Mark C. Smith	Water	6.7

**Deaths**

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Gary Horsman	12/30/1998	75	10/15/2016	No Further Benefits
Marilyn Lengyel	05/13/2016	74	10/31/2016	No Further Benefits
Auldon L. McNerney	12/15/1993	79	11/12/2016	E Option Continues
Vivian I. Latham	01/13/1996	78	11/13/2016	No Further Benefits
Steven F. Shagina	02/22/2014	54	11/16/2016	No Further Benefits
Margret E. Johnson	01/20/2014	80	11/20/2016	No Further Benefits

Vesting and Death information provided to the Board for review.

Expenditure Summary Report – October 2016

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

Mike Cavanagh moved and Brian Brill seconded the motion to approve the October 2016 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – October 2016

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on October 31, 2016 was \$279.3 million with an estimated rate of return of -1.7%.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity and cash position of the plan.

Other Business

Mr. Tencick presented a white paper that discussed the Actuary RFP Scoring Committee's recommendation. Their recommendation was to retain SageView Consultants.

Brian Brill moved and Dean Kiefer seconded the motion to retain SageView Consultants for actuary services. The motion passed unanimously.

Other Business

There being no other business, the meeting adjourned at 2:30 p.m.

---

**Phillip Tencick, Retirement Director**

# SERS Retirement Transaction Report

## January 2017

### Retirements

	<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Department</b>	<b>Option</b>
1	Mark Teaford	59	12/06/2016	8.7	Street	E
2	Matthew W. Antush	51	01/07/2017	23.8	Public Defender Advanced	E
3	Robert V. Inwards	66	01/14/2017	28.8	Wastewater Treatment	D
4	Clinton L. Tucker	66	02/04/2017	17.7	Water Code	E
5	Suzanne M. Tresko	61	04/08/2017	26.6	Enforcement	ST
Retirements YTD		6				
2016 Total Retirements		69				

### Withdrawals

	<b>Name</b>	<b>Years of Service</b>	<b>Department</b>	<b>Termination Date</b>
1	Shelley M. Kilgore	6.6	Library	12/21/2013
2	Jacquelyn B. Caro	2.7	Neighborhood Services	04/01/2016
3	Cory L. Taylor beneficiary of Karen A. Taylor	12.3	Municipal Court	09/30/2016
4	Bret M. Lancaster	0.2	Grants Management	10/24/2016

### Vesting

	<b>Name</b>	<b>Department</b>	<b>Years of Service</b>
1	Angela N. Pashon	Mayor	1.0

### Deaths

	<b>Name</b>	<b>Date Retired</b>	<b>Age</b>	<b>Date of Death</b>	<b>Information</b>
1	Taylor K. Bressler	12/15/2012	66	12/04/2016	No Further Benefits
2	Dale F. Sciuchetti	07/02/2002	76	12/07/2016	E Option Continues
3	Billy J. Yokum	03/02/1999	78	12/14/2016	No Further Benefits
4	James D. West	05/05/1984	95	12/16/2016	No Further Benefits
5	James C. Daniel	07/01/1985	96	12/23/2016	No Further Benefits
6	John L. Boesel	04/03/1993	91	12/29/2016	E Option Continues
7	Nobuko Oka	02/01/1986	97	12/31/2016	No Further Benefits

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

	2015 ACTUAL	2016 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>OPERATING EXPENDITURES</b>						
Departmental Salaries	220,405.82	273,580.00	19,946.60	230,780.16	42,799.84	84.4%
Departmental Benefits	66,088.05	78,190.00	6,080.65	68,641.49	9,548.51	87.8%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(22,061.31)	(10,000.00)		(12,618.45)	2,618.45	
Postage/Supplies/Other	20,091.84	16,000.00	815.95	8,946.70	7,053.30	55.9%
State Audit Charges	11,687.79	10,000.00	2,138.86	9,490.36	509.64	94.9%
Contractual Services	90,587.98	150,000.00	1,080.00	76,991.25	73,008.75	51.3%
Travel	2,517.20	15,000.00	1,187.30	7,972.23	7,027.77	53.1%
Registration/Schooling	10,789.00	15,000.00	295.00	805.00	14,195.00	5.4%
Other Dues/Subscriptions/Membership	1,970.20	2,500.00	995.00	1,843.20	656.80	73.7%
Other Miscellaneous Charges	4,462.05	2,220.00	61.21	1,221.26	998.74	55.0%
Depreciation & Amortization	17,649.00	-	-	-	-	
<b>TOTAL OPERATING EXPENDITURES</b>	<b>424,187.62</b>	<b>562,490.00</b>	<b>32,600.57</b>	<b>394,073.20</b>	<b>168,416.80</b>	<b>70.1%</b>
<b>INTERFUND EXPENDITURES</b>						
Interfund - Centralized Accounting	2,781.80	2,407.00	-	2,303.96	103.04	95.7%
Interfund - IT Phones	1,555.51	1,463.00	127.96	1,256.02	206.98	85.9%
Interfund - IT Communications Replacement	240.96	-	-	-	-	-
Interfund - Risk Management	1,121.00	991.00	247.75	991.00	-	100.0%
Interfund - Unemployment	500.00	-	-	-	-	-
Interfund - Worker's Compensation	58.50	198.00	49.50	198.00	-	100.0%
Interfund - Reprographics	-	2,500.00	1,444.98	4,632.55	(2,132.55)	185.3%
Interfund - IT	13,892.04	13,729.00	1,144.08	11,440.80	2,288.20	83.3%
Interfund - IT Replacement	3,584.04	1,927.00	160.58	1,605.80	321.20	83.3%
<b>TOTAL INTERFUND EXPENDITURES</b>	<b>23,733.85</b>	<b>23,215.00</b>	<b>3,174.85</b>	<b>22,428.13</b>	<b>786.87</b>	<b>96.6%</b>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>447,921.47</b>	<b>585,705.00</b>	<b>35,775.42</b>	<b>416,501.33</b>	<b>169,203.67</b>	<b>71.1%</b>

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

	2015 ACTUAL	2016 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>PENSIONS</b>						
Pensions-Annuity Benefit Payments	22,192,755.57	24,000,000.00	2,022,433.17	21,753,673.15	2,246,326.85	90.6%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	114,884.44	45,115.56	71.8%
Pensions-Survivor Annuity Benefits Payments	1,641,113.98	1,600,000.00	156,893.76	1,686,777.93	(86,777.93)	105.4%
<b>TOTAL PENSIONS</b>	<u>23,959,198.03</u>	<u>25,760,000.00</u>	<u>2,189,770.97</u>	<u>23,555,335.52</u>	<u>2,204,664.48</u>	
Refunds	637,821.67	1,000,000.00	30,161.67	659,044.39	340,955.61	65.9%
<b>TOTAL EXPENSES</b>	<u><u>25,044,941.17</u></u>	<u><u>27,345,705.00</u></u>	<u><u>2,255,708.06</u></u>	<u><u>24,630,881.24</u></u>	<u><u>2,714,823.76</u></u>	90.1%
<b>INVESTMENT EXPENSE*</b>						
Advisory Technical Service	430,178.76	450,000.00	56,753.90	310,058.07	139,941.93	68.9%

\* 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  
December 31, 2016

1/19/2017

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 58,593			
US Bank	Short-term Inv	108,714			
<b>Total Cash</b>		<b>167,307</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>
Vanguard Short-Term	Total Return - Mutual Fund	-			
Sterling Capital	Total Return	21,040,836			
<b>Total Total Return</b>		<b>21,040,836</b>	<b>10.0%</b>	<b>7.6%</b>	<b>-2.4%</b>
Hotchkis & Wiley	High Yield - Mutual Fund	22,783,756			
<b>Total High Yield</b>		<b>22,783,756</b>	<b>5.0%</b>	<b>8.2%</b>	<b>3.2%</b>
<b>Total Fixed Income</b>		<b>43,991,899</b>	<b>15.0%</b>	<b>15.8%</b>	<b>0.8%</b>
Hotchkis & Wiley	LC Value - Mutual Fund	16,184,501			
Jackson Square (Delaware)	LC Growth - Mutual Fund	14,278,714			
MFS Heritage	LC Core	17,833,179			
Vanguard S&P 500 Index	LC Core - Mutual Fund	8,941,854			
<b>Total US Large Cap</b>		<b>57,238,248</b>	<b>21.0%</b>	<b>20.6%</b>	<b>-0.4%</b>
Sterling	MC Value	6,829,418			
Vanguard MC Growth	MC Growth - Mutual Fund	4,998,792			
Vanguard MC Index	MC Core - Mutual Fund	3,580,737			
Champlain	SC Core	5,107,626			
Phocas	SC Value - Mutual Fund	4,951,726			
Bridge City	SC Growth	5,350,118			
Vanguard SC Index	SC Core - Mutual Fund	907,163			
<b>Total US Small/Mid Cap</b>		<b>31,725,580</b>	<b>11.0%</b>	<b>11.4%</b>	<b>0.4%</b>
Artisan	SMID Value - Mutual Fund	19,471,218			
Euro Pacific	LC Blend - Mutual Fund	17,640,293			
Vanguard International	LC Index - Mutual Fund	-			
<b>Total International Large Cap</b>		<b>37,111,511</b>	<b>15.0%</b>	<b>13.4%</b>	<b>-1.6%</b>
Trivalent	SC Value - Mutual Fund	8,672,362			
<b>Total International Small/Mid</b>		<b>8,672,362</b>	<b>4.0%</b>	<b>3.1%</b>	<b>-0.9%</b>
Berens	Ltd Partnership	9,981,919			
<b>Total Emerging Markets</b>		<b>9,981,919</b>	<b>3.0%</b>	<b>3.6%</b>	<b>0.6%</b>
<b>Total Equities</b>		<b>144,729,620</b>	<b>54.0%</b>	<b>52.1%</b>	<b>-1.9%</b>
Polar	LLC	6,346,783			
American Beacon	Mutual Fund	-			
Castine Capital I	Ltd Partnership	7,084,129			
Post Limited Term High Yield	Ltd Partnership	5,826,198			
Rimrock Low Volatility	Ltd Partnership	9,267,612			
<b>Total Absolute Return</b>		<b>28,524,722</b>	<b>8.0%</b>	<b>10.3%</b>	<b>2.3%</b>
Weatherlow Offshore	Ltd Partnership	14,464,827			
Royalty Opportunities I	Ltd Partnership	3,680,105			
Royalty Opportunities II	Ltd Partnership	1,426,037			
Troob	Ltd Partnership	285,487			
<b>Total Long Biased</b>		<b>19,856,456</b>	<b>7.0%</b>	<b>7.1%</b>	<b>0.1%</b>
Legacy Partners Realty Fund III	Ltd Partnership	75,533			
Metropolitan Real Estate Partners	Ltd Partnership	368,677			
Morrison Street Fund IV	LLC	2,347,607			
Morrison Street Fund V	LLC	5,347,312			
Morrison Street Debt Opportunties	LP	3,157,500			
Principal (REITs)	REITs	12,769,988			
<b>Total Real Estate</b>		<b>24,066,617</b>	<b>9.0%</b>	<b>8.7%</b>	<b>-0.3%</b>
Beach Point	Ltd Partnership	8,745,895			
<b>Total Opportunistic Credit</b>		<b>8,745,895</b>	<b>7.0%</b>	<b>3.1%</b>	<b>-3.9%</b>
Caduceus (OrbiMed II)	Ltd Partnership	8,012,791			
<b>Total Special Opportunities</b>		<b>8,012,791</b>	<b>0.0%</b>	<b>2.9%</b>	<b>2.9%</b>
<b>Total Alternatives</b>		<b>89,206,481</b>	<b>31.0%</b>	<b>32.1%</b>	<b>1.1%</b>
<b>Total Cash and Investments</b>		<b>\$ 277,928,000</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>
		Withdrawals \$ (1,250,000)			
		As of November 30, 2016 \$ 275,356,363			
		Estimated Rate of Return 1.4%			
<b>Abs. Return and Total Return FI</b>		<b>49,565,558</b>	<b>18.0%</b>	<b>17.8%</b>	<b>-0.2%</b>
<b>High Yield and Opp Credit</b>		<b>31,529,651</b>	<b>12.0%</b>	<b>11.3%</b>	<b>-0.7%</b>
<b>Equity and Special Situations</b>		<b>152,742,411</b>	<b>54.0%</b>	<b>55.0%</b>	<b>1.0%</b>

## Cash Recon - Jan 17

Date	Transactions	Sources	Uses	Balance
<b>11/30/2016</b>	<b>Beginning Balance</b>			<b>45,854.19</b>
12/1/2016	Interest	38.95		<b>45,893.14</b>
12/15/2016	Distribution - OrbiMed Royalty Opps II	66,164.93		<b>112,058.07</b>
12/16/2016	Commission Recapture	195.80		<b>112,253.87</b>
12/19/2016	Distribution - OrbiMed Royalty Opps I	33,240.67		<b>145,494.54</b>
12/23/2016	Distribution - Legacy Real Estate Fund	45,936.00		<b>191,430.54</b>
12/27/2016	Sale - Vanguard Mid Cap Growth	1,150,000.00		<b>1,341,430.54</b>
12/27/2016	December Pension Payments		(1,250,000.00)	<b>91,430.54</b>
12/29/2016	Distribution - Metro V Real Estate Fund	17,255.41		<b>108,685.95</b>
12/29/2016	Sale - Hotchkis&Wiley Higy Yield	3,157,500.00		<b>3,266,185.95</b>
12/30/2016	Capital Call - Morrison Street MSDO		(3,157,500.00)	<b>108,685.95</b>
1/3/2017	Interest	28.39		<b>108,714.34</b>
1/13/2017	Employee Contributions, Residual Cash	775,000.00		<b>883,714.34</b>
1/19/2017	Purchase - Sterling Core Fixed Income		(835,000.00)	<b>48,714.34</b>
<b>11/30/2016</b>	<b>Ending Balance</b>	<b>5,245,360.15</b>	<b>(5,242,500.00)</b>	<b>48,714.34</b>
	<u>Upcoming</u>			
1/24/2017	Pension Contributions	634,000.00		
1/31/2017	January Pension Payments		(2,200,000.00)	



**SPOKANE EMPLOYEES'  
RETIREMENT SYSTEM**  
808 W. SPOKANE FALLS BLVD.  
SPOKANE, WASHINGTON 99201-3324  
509.625.6330  
FAX 509.625.6861  
[www.spokanesers.org](http://www.spokanesers.org)

## Investment Thesis – 2017/1

- Strategic Positioning:** Overweight Absolute Return +300bp (Current target: 10%, +/- 2%)  
Underweight Core Fixed Income -300p (Current target: 8%, +/- 2%)
- Investment Thesis:** The current interest rate environment is historically low and future rates are anticipated to rise. Rising rates will produce losses in the core fixed income portfolio. The absolute return portfolio is designed to generate positive returns in all interest rate environments, including rising rates. The proposed positioning will provide downside protection in a rising rate environment. Additionally, the nominal return expectations for absolute return in the current low interest rate environment are higher than core fixed income (6.45% and 5.6%, respectively). On a risk-adjusted basis, both asset classes have similar expected Sharpe Ratios: 0.45 for absolute return and 0.50 for core fixed income. Therefore, this trade is not expected to meaningfully increase portfolio risk.
- Risk Factors:**
- Falling interest rates – While interest rates were long thought to be zero-bound, yields on more than a third of all government debt turned negative during 2016. If the US economy were to slow, interest rates could decrease, even below zero. Such a move would be detrimental to this position.
- High, and steady, interest rates – Higher rates provide more cushion against falling interest rates. Additionally, when nominal yields approach the absolute return expectations, the lower risk of core fixed income makes it a more desirable investment.
- Liquidity – Absolute return is a less liquid asset class than core fixed income. Liquidity ranges from monthly with 30 days' notice to semi-annually with 45 days' notice. This position will provide less liquidity to meet monthly pension payments, although the position size does not present a significant threat. Rebalancing or unwinding the position will be the two areas that the limited liquidity will be more meaningful.
- Start Date:** Currently in place
- End Date:** To be determined
- Review Frequency:** Annually, or upon a change in the interest rate environment. A review would be warranted when the nominal yield of the core fixed income portfolio exceeds 6% or future interest expectations are such that interest rate decreases are at least as probable as rate increases.



**SPOKANE EMPLOYEES'  
RETIREMENT SYSTEM**  
808 W. SPOKANE FALLS BLVD.  
SPOKANE, WASHINGTON 99201-3324  
509.625.6330  
FAX 509.625.6861  
[www.spokanesers.org](http://www.spokanesers.org)

## Investment Thesis – 2017/2

**Strategic Positioning:** Overweight High Yield +400bp (Current target: 5%, +/- 2%)  
Underweight Opportunistic Credit -400p (Current target: 7%, +/- 2%)

**Investment Thesis:** Opportunistic Credit is a new asset class that was added during the last asset allocation study. The asset class is generally accessed through closed-end limited partnerships that last 7-10 years. As a new asset class, with unique risks arising from the investment vehicles, and the likelihood of hiring new managers, greater due diligence is required before investing. Therefore, it is necessary to find a proxy investment until we can fully fund the asset class.

Of our current investments, high yield is the most similar asset class to opportunistic credit. Both asset classes generate returns from investing in credit not suitable for a core fixed income portfolio and the two have the highest correlation of any pairing within our credit portfolio. High yield targets publicly-traded corporate credit rated below investment grade and above distressed. Opportunistic credit does not face similar constraints related to issuances being publicly traded, corporate credit, or non-distressed. These relaxed constraints bring higher expected returns along with higher risks.

The liquid nature of the high yield portfolio allows for easy and direct rebalancing as opportunistic credit commitments are called, regardless of when the timing of the commitments. This characteristic makes it highly desirable compared to other alternative investments that may provide more similar risk/return profiles.

**Risk Factors:** Opportunity cost – The differences between the two asset classes will necessarily result in different outcomes. The conservative approach to selecting the proxy asset class and to making opportunistic credit commitments may result in lower returns.

**Start Date:** Currently in place

**End Date:** When the opportunistic credit mandate is fully implemented

**Review Frequency:** Upon each investment in opportunistic credit



**SPOKANE EMPLOYEES'  
RETIREMENT SYSTEM**  
808 W. SPOKANE FALLS BLVD.  
SPOKANE, WASHINGTON 99201-3324  
509.625.6330  
FAX 509.625.6861  
[www.spokanesers.org](http://www.spokanesers.org)

## Investment Thesis – 2017/3

**Strategic Positioning:** Overweight Special Opportunities +300bp (Current target: 0%, up to 10% allowed)  
Underweight Equity -300p (Current target: 54%, +/- 3%)

**Investment Thesis:** The special opportunities 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.

OrbiMed Partners II is a long/short hedge fund that invests exclusively in the health care sector with a focus on the pharmaceutical and biotech industries. OrbiMed has a unique mix of experience investment professionals and medical practitioners that give it an edge in evaluating the scientific and business prospects for a company. The strategy has a long-term track record of outperforming broader equity indices.

With the focused nature of the investment, as well its hedge-fund structure, it does not fit easily into the currently approved asset classes. Its risk and return profile is best suited as an investment in the special opportunities asset class. SERS has been invested in this product since December 2010, and as a result of the recent asset allocation study, it has been re-classified in the special opportunities asset class.

**Risk Factors:** Opportunity cost – The investment may not outperform broader equity markets. The focus on a single industry within the broader equity markets means it will likely underperform when the health care sector lags the broader market.

Liquidity – The fund allows for quarterly redemptions with 65 days' notice compared to daily liquidity for most equity investments. It is not a viable source for meeting monthly pension payment requirements. Additionally, rebalancing or exiting the position cannot be done quickly.

**Start Date:** Currently in place, since December 2010

**End Date:** Undetermined

**Review Frequency:** Quarterly, as a part of the normal performance review process

# U.S. Bank Benefit Payment Services

Group 31

2017 EOM Pension Payment Run

Pension checks dated	Retirement Date on or Before	Pension cut off/totals required (10 a.m. PTZ)	Pension checks processed	Checks mailed by this date	Reissue date for checks not received
January 31	January 14	January 19	January 26	January 27	February 6
February 28	February 11	February 17	February 23	February 24	March 6
March 31	March 11	March 23	March 27	March 28	April 6
April 30	April 8	April 20	April 25	April 26	May 4
May 31	May 6	May 22	May 25	May 26	June 6
June 30	June 17	June 21	June 26	June 27	July 6
July 31	July 15	July 21	July 26	July 27	August 4
August 31	August 12	August 22	August 25	August 28	September 6
September 30	September 9	September 21	September 26	September 27	September 5
October 31	October 7	October 23	October 26	October 27	November 6
November 30	November 4	November 20	November 24	November 27	December 6
Dec. 31, 2017	Dec. 16, 2017	Dec. 20, 2017	Dec. 26, 2017	Dec. 27, 2017	Jan. 5, 2018

# 2017 Pension Processing Calendar

**2017 January**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
26	27	28	29	30	31
02	03	04	05	06	07
09	10	11	12	13	14
16	17	18	19	20	21
23	24	25	26	27	28
30	31				

**2017 February**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
30	31	01	02	03	04
06	07	08	09	10	11
13	14	15	16	17	18
20	21	22	23	24	25
27	28	01	02	03	04

**2017 March**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
27	28	01	02	03	04
06	07	08	09	10	11
13	14	15	16	17	18
20	21	22	23	24	25
27	28	29	30	31	01

**2017 April**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
27	28	29	30	31	01
03	04	05	06	07	08
10	11	12	13	14	15
17	18	19	20	21	22
24	25	26	27	28	29

**2017 May**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
01	02	03	04	05	06
08	09	10	11	12	13
15	16	17	18	19	20
22	23	24	25	26	27
29	30	31	01	02	03

**2017 June**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
29	30	31	01	02	03
05	06	07	08	09	10
12	13	14	15	16	17
19	20	21	22	23	24
26	27	28	29	30	01

**2017 July**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
26	27	28	29	30	01
03	04	05	06	07	08
10	11	12	13	14	15
17	18	19	20	21	22
24	25	26	27	28	29
31	01				

**2017 August**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
31	01	02	03	04	05
07	08	09	10	11	12
14	15	16	17	18	19
21	22	23	24	25	26
28	29	30	31	01	02

**2017 September**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
28	29	30	31	01	02
04	05	06	07	08	09
11	12	13	14	15	16
18	19	20	21	22	23
25	26	27	28	29	30

**2017 October**



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
25	26	27	28	29	30
02	03	04	05	06	07
09	10	11	12	13	14
16	17	18	19	20	21
23	24	25	26	27	28
30	31				



**2017 November**



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
30	31	01	02	03	04
06	07	08	09	10	11
13	14	15	16	17	18
20	21	22	23	24	25
27	28	29	30	01	02

**2017 December**

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
27	28	29	30	01	02
04	05	06	07	08	09
11	12	13	14	15	16
18	19	20	21	22	23
25	26	27	28	29	30

 Retirement Cut-off  
 Contributions Deposited

 Pensions Processed (City)  
 Pension Funding Due

 Pensions Processed (US Bank)  
 Bank/Market Holiday

<b>Current Managers</b>	<b>Asset Class</b>	<b>Vehicle</b>	<b>Liquidity</b>
Internal Cash	Cash (Money Market)	Mutual Fund	T+1
Artisan	Equity (Int'l)	Mutual Fund	T+1
Berens Global	Equity (Int'l)	LLP	Annually
EuroPac (Amern Fds)	Equity (Int'l)	Mutual Fund	T+1
Trivalent	Equity (Int'l)	Mutual Fund	T+1
Delaware	Equity (Large)	Mutual Fund	T+1
Hotchkis & Wiley	Equity (Large)	Mutual Fund	T+1
MFS Heritage	Equity (Large)	CIT	T+3
Vanguard Institutional	Equity (Large)	Mutual Fund	T+1
Bridge City	Equity (Small/Mid)	Separate Account	T+3
Champlain	Equity (Small/Mid)	LLP	Monthly
Frontegra (Phocas)	Equity (Small/Mid)	Mutual Fund	T+1
MidCap Growth Index	Equity (Small/Mid)	Mutual Fund	T+1
MidCap Index	Equity (Small/Mid)	Mutual Fund	T+1
Small Cap Index	Equity (Small/Mid)	Mutual Fund	T+1
Sterling MC	Equity (Small/Mid)	Separate Account	T+3
Sterling Core FI	Fixed Income (Core)	Separate Account	T+3
H&W High Yield	Fixed Income (HY)	Mutual Fund	T+1
Castine	Hedge Fund (Abs Ret)	LLP	Semi-Annual
Polar (Altairis)	Hedge Fund (Abs Ret)	LLP	Monthly
Post	Hedge Fund (Abs Ret)	LLP	Monthly
Rimrock	Hedge Fund (Abs Ret)	LLP	Quarterly
Royalty Opps	Hedge Fund (L/S)	LLP	Closed-end
Royalty Opps II	Hedge Fund (L/S)	LLP	Closed-end
Troob	Hedge Fund (L/S)	LLP	Quarterly
Weatherlow	Hedge Fund (L/S)	LLP	Quarterly
Beach Point	Opportunistic Credit	LLP	Quarterly
Legacy	Real Estate (Private)	LLP	Closed-end
Metro Real Estate	Real Estate (Private)	LLP	Closed-end
Morrison Street IV	Real Estate (Private)	LLP	Closed-end
Morrison Street V	Real Estate (Private)	LLP	Closed-end
Morrison Street MSDO	Real Estate (Private)	LLP	Closed-end
Principal	Real Estate (REIT)	Separate Account	T+3
OrbiMed Partners II	Special Situations	LLP	Quarterly



