

**Regular Meeting
Board of Administration
Tacoma Employees' Retirement System**

10:00 a.m., Thursday, May 9, 2019
Tacoma Public Utilities
Administration Building North
Conference Room LT1
3628 S. 35th Street
Tacoma, Washington 98409

Minutes

Call to Order

Sam Bencoter, Vice Chair, called the meeting to order on Thursday, May 9, 2019 as the Mayor was unable to attend the meeting.

Roll Call

Members Present: Justin Angove, Sam Bencoter, Gordon Cavanaugh, Kim Moore, Jim Sant, Tadd Wille and Wayne Reed

Members Absent: Mayor Victoria Woodards, Andy Cherullo, Matthew Hedges

Investment Advisory
Committee Present: Dr. Kevin Boeh, Dr. Alva Butcher, and Michael Thomas

Investment Advisory
Committee Absent: Geoffrey Curran and Dr. Lynda Livingston

Others Present: Tim Allen, Retirement Director
Kathleen Mason, Recording Secretary

Presenters: Andrew Junkin, Wilshire Associates
Felicia Bennett, Wilshire Associates
Daniel Wade, Milliman
Julie Smith, Milliman
Claire Armstrong-Hann, Milliman

Citizen Comments

None.

Regular Meeting
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Tacoma Employees' Retirement System
10:00 a.m., May 9, 2019

Consent Agenda

Upon motion by Kim Moore, seconded by Justin Angove, the Retirement Board moved to adopt the Consent Agenda and approve the drafted minutes of the March 14, 2019 Retirement Board meeting.

Old Business

Investment Update

Tim discussed the sad situation regarding the death of a portfolio manager at one of TERS' managers. He also briefly reviewed an onsite visit he had with another of TERS' asset managers.

Tim invited Andrew Junkin and Felicia Bennett from Wilshire to discuss potential ways to move towards TERS' strategic target of 10% for private equity investments as delineated in the recently approved asset allocation process. They then discussed the advantages of continuing the existing relationship between TERS and Pantheon.

Upon motion by Tadd Wille, seconded by Gordon Cavanaugh, the Board approved an additional private equity investment with Pantheon of up to \$200M over four years with a potential two-year extension.

Tim also revisited the question of holding a 3% allocation in either Treasury Inflation Protected Securities (TIPS) or in Long Treasuries. The Investment Advisory Committee members and Board members debated which risk they were attempting to mitigate: surprise inflation or a decline in the equity markets. After another spirited discussion, it was decided that an investment in long-dated U.S. Treasury securities should provide a relatively inexpensive, though imperfect, offset against substantive declines in the equity market.

Upon motion by Justin Angove, seconded by Tadd Wille, the Board approved conversion of the 3% target in Treasury Inflation Protected Securities to a 3% allocation to long-dated U.S. Treasury securities.

Tim then raised the issue of the additional 3% allocated to private real assets in the recent asset allocation exercise.

Upon motion by Kim Moore, seconded by Tadd Wille, the Board determined it needed more information on potential Private Real Assets products and approved engaging Wilshire on a project basis to research this area and recommend potential investments to the Board.

Regular Meeting
Board of Administration
Tacoma Employees' Retirement System
10:00 a.m., May 9, 2019

New Business

City Council Resolution

The Board was provided with a copy of the City Council's Resolution No. 40273 urging the TERS staff and TERS Board of Administration to, "consider/analyze the investment risks from climate change and explore ways to potentially reduce exposure to carbon intensive companies, such as fossil fuel producers, in the System's portfolio, subject to the TERS staff and Board continuing to meet their primary fiduciary responsibilities to TERS members."

Tim reported that the City Council will expect a formal response from the Board regarding their Resolution; part of forming a Board-level view on the topic of Environmental, Social and Governance (ESG) actions will involve a guest speaker planned for the August Board meeting.

Tim provided the Board with a Summary of ESG-related actions he has taken on behalf of the TERS Board and indicated that this report will be updated monthly to illustrate involvement and continued attention given to ESG related issues. He will also keep educating the Board on ESG related topics through relevant articles in the monthly Board packets.

Wilshire - Quarterly Investment Report

Andrew Junkin reported to the Board.

The Retirement Board and Investment Advisory Committee received the Executive Summary – 1st Quarter 2019 from Wilshire Associates in hard copy.

Felicja Bennett provided the Numbers in Context Report, providing the Board with background context for the subsequent investment performance results. She reported a recovery in the markets in the 1st quarter of 2019 from the significant decline observed in the 4th quarter of 2018.

Andrew provided the Total Fund Overview and reported that the Tacoma Employees' Retirement System's rates of return were as follows: 7.87% for the First Quarter, 5.24% for the one-year period, 8.13% for the three-year period, 6.36% for the five-year period, and 11.33% for the ten-year period ended March 31, 2019.

Lunch – the Board agreed to break for lunch at 11:25 a.m. and reconvened at 12:17 p.m.

Milliman – Actuarial Annual Valuation

The January 1, 2019 Actuarial Valuation had been previously distributed to the Retirement Board in the Board packet. Daniel Wade provided the introduction to the report including the Actuarial Terminology and Funding Principles and the Board's Funding and Benefits Policy.

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10:00 a.m., May 9, 2019

New Business continued

Milliman – Actuarial Annual Valuation

Claire Armstrong-Hann reported that there was an added section in this year's report on Risk Disclosure. She then reported on the mechanics and elements used for the actuarial valuation consisting of data, assumptions, assets and a review of the plan benefits.

Daniel presented an in-depth yet succinct summary of the many exhibits contained in the valuation report. Julie Smith reviewed the Normal Cost Rate and other significant data.

It was reported that at January 1, 2019 the \$1,714M Actuarial Value of Assets was \$79M greater than the \$1,635.0M Fair Value of Assets. This difference is primarily due to a four-year smoothing of fair value gains and losses.

The report noted that as of January 1, 2019, TERS was funded at 97.3% on an actuarial (smoothed) basis and 92.8% on a fair market value basis.

The Valuation report incorporated the recently adopted mortality assumptions and the 21% combined contribution rate which became effective in February 2018. It also incorporated the revised annuity and option factors that became effective January 1, 2018 and the annuity factors that will become effective January 1, 2020.

With the present 21% combined contribution rate, the Unfunded Actuarial Accrued Liability (UAAL) has an amortization period of 8.7 years, and increased from last year's amortization period of 2.3 years. This longer amortization period resulted from an increase in the UAAL to \$47.8M from \$13.7M in the prior report. In addition, a slight increase in the Normal Cost Rate to 18.53% reduced the portion of the combined contribution rate available for UAAL amortization from 2.51% of pay to 2.47%.

The System will not show a contribution deficiency for 2018 or 2019 in the GASB 67 Schedule of Employer Contributions; contribution deficiencies were reported from 2013-2016.

Finally, an Experience Study covering 2016-2019 will be performed in 2020; this will be an opportunity to review all economic and demographic assumptions, including the assumed rate of investment return.

Retirement Director's Report

The Retirement Director's report serves as an addendum to the minutes.

A copy of the Washington State Auditor's Office Entrance Conference was distributed to the Board in the Board Packet. The Auditors are expected to report back to the Board at the next meeting.

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Tacoma Employees' Retirement System
10:00 a.m., May 9, 2019

Good of the Order

Retirement Transactions Report – March 2019 and April 2019

The Retirement Transactions Reports – March 2019 and April 2019 were provided to the Board.

Additional Topics

None.

Adjourn

Sam Benscoter adjourned the meeting at 1:40 p.m.



Kathleen Mason
Recording Secretary



Mayor Victoria Woodards
Board Chair