

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

10:00 a.m., Thursday, May 12, 2022

The meeting was held online, with dial-in available for the public

Minutes

Call to Order

Mayor Victoria Woodards, Chair, called the meeting to order on Thursday, May 12, 2022.

Roll Call

Members Present: Sam Benscoter, Gordon Cavanaugh, Andy Cherullo, Matthew Hedges, Katie Johnston, Kim Moore, Wayne Reed, Jim Sant, Jonathan Schlaudraff, and Mayor Victoria Woodards

Members Absent: None

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

Investment Advisor Committee Absent: Geoffrey Curran

Others Present: Tim Allen, Retirement Director
Tim Atwill, Deputy Chief Investment Officer
Catherine Marx, Asst. Retirement Director
Melanie Panui, Recording Secretary
Charles Lee, Deputy City Attorney

Presenters: Felicia Bennett, Wilshire
Brian Bubrick, Wilshire
Ali Kazemi, Wilshire
Claire Armstrong-Hann, Milliman
Julie Smith, Milliman
Daniel Wade, Milliman

Resident Comments

Will be accepted in written form at TERSretirement@cityoftacoma.org and will receive written acknowledgement upon receipt. There were none received.

Consent Agenda

Motion: Upon motion by Sam Benscoter, seconded by Andy Cherullo, the Board of Administration accepted and approved the Administrative Consent Agenda to include the drafted minutes of the April 14, 2022, Retirement Board meeting, as amended.

Old Business

None

Change the Order of Business

The Chair adjusted the agenda to move to Item E of New Business – Fossil Fuel Exposure in TERS in front of the other New Business items.

New Business

Fossil Fuel Exposure in TERS

As part of TERS' Resource Conservation and Climate Plan, Deputy Chief Investment Officer Tim Atwill presented a review of the amount of investments in fossil fuel companies in the portfolio's public equity and fixed income mandates. Exposures were determined using the Carbon Underground 200 Index and came to just 1.6% of the total portfolio or approximately \$36 million.

Wilshire – Quarterly Investment Report

The Retirement Board and Investment Advisory Committee received the Executive Summary – 1st Quarter 2022 from Wilshire Advisors in electronic format.

Felicia Bennett provided an overview of economic and market conditions, setting the context for recent results. Brian Bubrick then provided the Total Fund Overview and reported the Tacoma Employees' Retirement System's rates of return as follows: -2.19% for the First Quarter, 10.94% for the one-year period, 9.65% for the three-year period, 8.46% for the five-year period, and 8.50% for the ten-year period ended March 31, 2022. It was noted that TERS' performance in Q1 2022 was in the 12th percentile of returns for public plan with assets of greater than \$1 billion and TERS' 1-year performance was in the 14th percentile versus this universe.

Brian noted that some of TERS' private equity managers had not yet reported performance for the quarter, so those returns will be added in once they are received.

Ali Kazemi presented further details of individual asset manager performance returns and attribution. He noted that the High Yield Policy Benchmark in these reports is comprised just of the ML US High Yield index, while TERS holds investments in both high yield and bank loans in this category. We will explore revising this reported benchmark in future reports.

The Executive Summary of Performance for the period ending March 31, 2021 serves as an addendum to the minutes.

New Business - Continued

Wilshire – TERS Fee Study

Brian Bubrick reviewed an analysis of fee levels for TERS' real estate, public equity asset managers. It was noted that all of TERS' public equity manager fees were in the top quartile, and the majority of fees TERS pays are below the peer median level.

Milliman – Actuarial Annual Valuation

The January 1, 2022 Actuarial Valuation had been previously distributed to the Retirement Board in electronic form. Julie Smith provided an introduction to the report, including the Actuarial Terminology and Funding Principles and the Board's Funding and Benefits Policy. Claire Armstrong-Hann 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 Wade presented an in-depth yet succinct summary of the many exhibits contained in the valuation report.

Key metrics discussed included the Normal Cost Rate of 19.03% (up from the prior 18.97%), the Actuarial Funding Ratio of 98.9% (up from the prior 96.3%) and the Fair Value Funding Ratio of 107.7% (up from the prior 96.2%). The amortization period for the unfunded liabilities is 4.1 years on an Actuarial basis; there is no unfunded liability on a Fair Value basis. The 21% combined contribution rate (9.66% for employees and 11.34% for employers) remains equal to the Actuarially Determined Contribution rate.

Given these metrics, the Board's Funding and Benefits Policy indicates that no action is required at this time as the Funding Ratio is between 95% and 120%, the contribution rate is greater than or equal to the Actuarially Determined Contribution rate and the unfunded liabilities are projected to amortize in less than 25 years on both an Actuarial and Fair Value basis.

However, Milliman staff noted that a decline of just 3.6% in the Funding Ratio would result in the present 21% contribution rate being insufficient to amortize the projected liabilities over 25 years, highlighting the sensitivity of the results.

It was noted that the Asset Volatility Ratio (Fair Value of Assets divided by annual payroll) reached an all-time high at 7.5 in 2022.

Overlay Management Next Steps

Deputy Chief Investment Officer Tim Atwill laid out three overlay program options, differing in complexity and cost. A recommendation will be brought to the TERS Board at a future meeting.

Retirement Director's Report

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

Good of the Order

TERS Quarterly Update to City Council

The Mayor's quarterly report to the City Council as of March 2022 was presented to the Board.

Retirement Transactions Report – April 2022

The Retirement Transactions Report for April 2022 were provided electronically to the Board in the Board Packet.

Additional Topics- None.

Adjourn

Sam Bencoter, Vice-Chair adjourned the meeting at 12:42 p.m.

Melanie Panui

Melanie Panui
Recording Secretary

Victoria R. Woodards

Mayor Victoria Woodards
Board Chair