

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

10:00 a.m., Thursday, May 11, 2023
Tacoma Public Utilities
Administration Building North
Conference Room LT1
3628 S. 35th Street
Tacoma, Washington 98409

Minutes

Call to Order

Mayor Victoria Woodards, Chair, called the meeting to order on Thursday, May 11, 2023.

Subsequently, Co-Chair Sam Bencoter conducted the rest of the meeting at the request of Chair, Mayor Victoria Woodards.

Roll Call

Retirement Director Tim Allen called the roll.

Members Present: Justin Angove, Sam Bencoter, Andy Cherullo, Gordon Cavanaugh, Michael Hall, Katie Johnston, Tammy Liddle Lobban, Kim Moore, Tosha Siebert, and Mayor Victoria Woodards

Members Absent: None

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

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
Lauren Gellhaus, Wilshire
Claire Armstrong-Hann, Milliman
Shane Glodinus, 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 Bencoter seconded by Andy Cherullo, the Board of Administration accepted and approved the Administrative Consent Agenda to include the drafted minutes of the April 13, 2023, Retirement Board meeting.

Old 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 2.1% of the total portfolio or approximately \$43 million.

IAC ESG Statement

Investment Advisory Committee (IAC) member Dr. Kevin Boeh presented a summary of that group's recommendations regarding Environmental, Social and Governance (ESG) considerations as they relate to oversight of TERS' investment portfolio. He noted that while TERS is not technically an ERISA plan, ERISA guidance on this issue may still be relevant. He went on to cite several academic studies with varied conclusions about the costs and/or benefits of emphasizing ESG-related metrics in the portfolio construction process.

New Business

Milliman – Actuarial Annual Valuation

The January 1, 2023, Actuarial Valuation was previously distributed to the Retirement Board in electronic form. Milliman covered the highpoints of this report in their presentation. Key metrics discussed included the Actuarial Funding Ratio of 99.9% (up from the prior 98.9%) and the Fair Value Funding Ratio of 93.0% (down sharply from the prior 107.7%). The 21% combined contribution rate (9.66% for employees and 11.34% for employers) remains equal to the Actuarially Determined Contribution rate.

The mixed signals of the Actuarial and Fair Value Funded Ratios were noted, and previous Valuation reports for TERS where this situation also occurred were discussed. Subsequently, the Board stated they will maintain the current level of employee and employer contributions, although short-term investment returns could lead to a recommendation for a contribution rate increase at the May 2024 meeting.

A new Actuarial Standard of Practice (ASOP 4) will officially take effect with TERS' next annual valuation report, but Milliman and TERS staff agreed for early adoption of some of the new required disclosures. Under this ASOP, TERS' Actuarial Funding Ratio would be 67.6% and the Fair Value Funding Ratio would be 63.0% as of January 1, 2023

<Lunch – the Board agreed to a short break for lunch and reconvened at 12:00 noon>

Wilshire – Asset Liability Study

Wilshire's Ali Kazemi led a review of TERS' asset liability review and pointed out this was last performed for TERS in 2019. Based on Milliman's updated liability projections, Wilshire estimated that the peak in TERS' liquidity needs is still twenty years away, potentially allowing TERS to increase allocations to private assets.

Ali and Felicia then discussed the four portfolios that were modeled: one that maintained a similar return to the current targets, one that maintained a similar level of risk to the current targets and two alternative asset mixes that imposed some subjective restrictions. These included limiting the total amount of portfolio turnover as well as aiming to reduce the number of smaller mandate allocations.

After extensive discussions about the alternate portfolios, it was agreed to table the asset liability discussion until the June 8th meeting.

Wilshire – Quarterly Investment Report

The Retirement Board and Investment Advisory Committee received the Executive Summary – 1st Quarter 2023 from Wilshire Advisors in electronic format.

Wilshire's Brian Bubrick provided an overview of economic and market conditions, setting the context for recent results. He then provided the Total Fund Overview and reported the Tacoma Employees' Retirement System's rates of return as follows: 2.23% for the First Quarter, -3.85% for the one-year period, 10.62% for the three-year period, 5.95% for the five-year period, and 6.88% for the ten-year period ended March 31, 2023. One item that was pointed out: despite a challenging quarter, TERS' trailing five-year net-of-fee performance was just above the median returns for public pension plans with assets greater than \$1 billion (5.95% versus 5.90%), while posting a significantly lower measure of risk over that period (9.41% versus 10.71%).

Brian noted that TERS' private equity composite significantly lagged the custom benchmark for the quarter due largely to the public market nature of the benchmark; this reversed several quarters of more favorable comparisons due in part to the difference in public equity/private equity valuations. TERS' strategic tilts towards small cap and value in the public equity mandates and the allocation to Minimum Volatility public equity were also headwinds in the quarter.

Wilshire's Lauren Gellhaus then reviewed the total fund attribution versus the policy benchmark over one-, three- and five-year periods ending March 31, 2023.

The Executive Summary of Performance for the period ending March 31, 2023, serves as an addendum to the minutes.

Core Plus Selection

Deputy Chief Investment Officer Tim Atwill presented a review of the efforts to date related to the search for additional Core Plus fixed income managers for TERS. He then cited various approaches bond managers utilize to add value versus a benchmark and noted that the three candidates under consideration have different perceived strengths in these areas.

Felicia Bennett from Wilshire then discussed the correlation of excess returns, absolute risk and return for the three candidates versus TERS' existing Core Plus manager, TCW.

IAC member Geoff Curran reviewed that group's evaluation of the Core Plus search process. He stated that initial IAC questions about potential liquidity concerns had been sufficiently addressed and the IAC had assigned a "green light" regarding the Core Plus search efforts.

Motion: Upon motion by Michael Hall, seconded by Andy Cherullo, the Board of Administration approved the hiring of Brown Brothers Harriman and Brandywine.

The timing, portfolio sizing and sources of funds for these mandates will be an implementation decision dependent on the outcome of the asset liability study which will occur at a subsequent meeting.

Retirement Director's Report

Retirement Director Tim Allen noted that the projected Fair Value Funded Ratio as of the end of April was around 94.5%, a slight improvement from the level seen at the beginning of 2023.

He mentioned that TERS Board Members will be invited to attend the formal opening of the annual audit and reminded the Board that the closing presentation with the audit results always takes place at a monthly TERS Board meeting.

Finally, he cited TERS Retirement Specialist CeCe Grey as leading the effort to convert paper files for deferred members into electronic records.

Good of the Order

TERS Quarterly Update to the City Council

The Mayor's quarterly report to the City Council as of March 2023 was presented to the Board.

Retirement Transactions Report – April 2023

The Retirement Transactions Report for April 2023 was provided electronically to the Board in the Board Packet.

Terms of Office

TERS Board member Katie Johnston has been named to serve on the TERS Board's Executive Committee; an updated Terms of Office will be presented at a subsequent meeting.

Additional Topics- None

Adjourn

Vice Chair Sam Bencoter adjourned meeting at 2:02 p.m.

Melanie Panui

Melanie Panui
Recording Secretary

Victoria R. Woodards

Mayor Victoria Woodards
Board Chair