



Seattle City Employees' Retirement System

Investment Committee Meeting
Pacific Building, 720 3rd Avenue, Suite 900, Seattle
(206) 386-1293

Minutes, Thursday, May 27, 2021

Due to the "Healthy Washington, Roadmap to Recovery" order issued by Governor Inslee, the meeting was held virtually.

IC Present: Robert Harvey, Jr (Chair), Judith Blinder, Sherri Crawford, Bobby Humes, Glen Lee

IAC Present: Joseph Boateng (Chair), Dr. Cathy Cao, Steve Hill, Dwight McRae, Keith Traverse

SCERS Staff Present: Jeff Davis, Jason Malinowski, Paige Alderete, Nina Melencio, George Emerson, Mark Schimizza

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Leola Ross, Mengfei Cao, Tim Morrison (FAS), Tom Mikesell (LEG)

Call to Order

Robert Harvey, Jr., Chair, called the meeting to order at 12:00 p.m.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the April 29, 2021 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the April 29, 2021 Investment Committee meeting. The motion passed unanimously (3-0).

Investment Team Update

Jason Malinowski introduced the Investment Team's two new members.

Leola Ross, Ph.D., CFA, will be joining SCERS during the summer as Deputy Chief Investment Officer. Ms. Ross is currently a director, research & development for Russell Investments. She currently chairs the Russell Investments' Responsible Investing Council and has been a member of the Academic Advisory Board for the Economics Department at Seattle University since 2011.

Mengfei Cao, CFA, FRM, will be joining SCERS on June 1st as an Investment Officer. Ms. Cao is currently a portfolio analyst at the Clarius Group. Prior to joining the Clarius Group, she worked at BlackRock where she was responsible for fund of fund valuation.

Quarterly Performance Review – Q1 2021

In the five-year period ended March 31, 2021, the Fund returned 10.65%, outperforming the Fund's Strategic Policy Benchmark by 0.16%. The five-year return ranked in the top-quartile in its peer group. The Fund's volatility ranked in the 42nd percentile and the Sharpe ratio ranked in the 24th percentile.

(12:04 p.m. – Bobby Humes and Glen Lee joined the meeting.)

Assets increased from \$2.867 billion one year ago to \$3.715 billion ended March 31, 2021. The Fund returned 35.09% in the one-year ended March 31, 2021, outperforming the policy benchmark by 1.94% and ranked in the 29th percentile among its peers.

Investment Risk Framework

Jason Malinowski presented SCERS's Investment Risk Framework. SCERS developed and implemented an investment risk framework in 2018 at the recommendation of the Investment Advisory Committee. Staff presents on SCERS's investment risks annually.

The analysis is focused on SCERS's assets. Staff is working with JP Morgan Asset Management to develop a liability-aware investing methodology that can be incorporated in the next asset liability study. The investment risk principles are:

- Risk should be assessed relative to SCERS's investment goals.
- Risk management is not risk avoidance.
- Risk assessment should be focused on the total portfolio, rather than individual asset classes or managers.
- Diversification is SCERS's preferred risk management strategy.

Mr. Malinowski reviewed the investment risk framework goals:
Risk Awareness + Portfolio Intentionality = Staying Power

Covid was a real test case for risk awareness and portfolio intentionality. SCERS stuck to the pacing plans and some of the results we have seen are a testament to staying the course in that environment. SCERS is currently 71% funded. Based on a median path, we would expect to be at 70% funded in 10 years.

SCERS has ample access to cash to meet its cash flow demands, including benefit payments, private markets fund commitments, and portfolio rebalancing.

Core Fixed Income Deep Dive

George Emerson and Don Stracke, NEPC, presented the annual Core Fixed Income deep dive. Core Fixed income is represented by high-quality borrowers and has low expected risk, return, and sensitivity to equity markets. The market consensus is that interest rates will be lower for longer than was expected, which reflects concerns with the macroeconomy.

SCERS's target allocation to Core Fixed Income is 18% with a current allocation of 21.2%. Core Fixed Income serves as a placeholder for the underweight to real assets. SCERS performance has been in-line with the index.

(1:35 p.m. – Glen Lee left the meeting).

Core Fixed Income managers are PIMCO and Pugh Capital Management. SCERS has been with Pugh since 1994 and has had an allocation with PIMCO since 2009. The mandate is split equally between the two managers.

In the last year, staff have redirected the portfolio's cash balance to a more conservative short-term investment fund that invests solely in US government securities and repurchase agreements collateralized by such securities. Staff also continued to monitor the Core Fixed Income portfolios with periodic rebalancing as market values changed.

There are no new Core Fixed Income initiatives expected.

Adjourn Meeting

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 1:47 p.m. The motion passed unanimously (4-0).