



Seattle City Employees' Retirement System

Board of Administration Meeting
Pacific Building, 720 3rd Avenue, Suite 900, Seattle, WA
(206) 386-1293

Minutes, Thursday, July 8, 2021

The Board of Administration meeting was held virtually.

Board Members Present: Teresa Mosqueda (Chair), Robert Harvey, Jr., Sherri Crawford, Judith Blinder, Glen Lee, Bobby Humes

SCERS Staff Present: Jeff Davis, Paige Alderete, Jason Malinowski, Nina Melencio, George Emerson, Mengfei Cao, Ronda Iriarte, Mark Schimizza, Selam Teklemariam, Michiko Togashi

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Brittany Smith (CLA), Thomas Rey (CLA), Nick Collier (Milliman), Julie Smith (Milliman), Tasfia Nayem (NYC Mayor's Office), John Adler (NYC Mayor's Office), Jeannette Voiland (ARSCE)

Call to Order

Teresa Mosqueda, Chair, called the meeting to order at 10:00 a.m.

Public Comment

There was no public comment.

Administrative Consent Agenda

Provided in the Retirement Board Packet were the minutes from the June 10, 2021 Retirement board regular meeting, ratification of Retired Payroll, Office Payroll, and other payments and withdrawals.

The following items represent normal expenses:	
Pension Payroll	\$19,853,447.84
Office Payroll	321,771.50*
Admin & Investment Expenses	1,395,231.29
Total Expenses – June 2021	\$21,570,450.63

*includes estimated benefit costs

Retirements, Withdrawals, Other Payouts – June 2021			
	Count	Monthly Pension	Lump Sum Distribution
Retirements	20	\$53,049.92	\$1,189,984.41
Withdrawals	23	n/a	\$897,794.53

Motion: Upon motion by Robert Harvey, Jr., seconded by Bobby Humes, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed 4-0-1 with Teresa Mosqueda abstaining.

Final Audit Report – Staff and CliftonLarsonAllen

Paige Alderete acknowledged and thanked CliftonLarsonAllen (CLA), Milliman, and SCERS’s staff for their efficiency and adaptability.

Brittany Smith and Thomas Rey of CliftonLarsonAllen (CLA) presented SCERS’s Final Audit Report for the year ended December 31, 2020.

It was a good year for SCERS in terms of investments with a 15.6% increase from \$3.1 billion to \$3.6 billion. The funding status increased from 68.9% to 71.6%.

There was a significant deficiency for the adjustment of lagged investment valuations. CLA found a material adjustment to the financial statements which was identified during their audit to update the lagged alternative investment valuations to Dec 31, 2020 valuations. Due to the nature of the asset class, it is normal for the alternative investments to issue the Quarter 4 numbers in May of the following year and these amounts from the lagged investment managers have historically been immaterial. Due to the high return from these alternative investments in 2020, this amount passed the materiality threshold.

Mr. Rey stated to the Board that this is normal situation for this type of asset, and he would not be alarmed if he was a Board member. He recommended SCERS work with alternative investment managers to try and obtain earlier estimates and consistent treatment of this adjustment of the investment valuations for all alternative investment funds.

Mr. Lee stated that the auditor’s finding is a concern and that SCERS must take steps to ensure that there will not be similar findings in future audits. He also noted that Citywide, SCERS had the only significant deficiency. The delay in reporting can impact the City’s debt issuance process.

There was discussion on how to avoid this situation in future audits. Staff is going to explore with alternative investment managers to get estimates slightly earlier to align better with the City’s CAFR schedule. The City must get the CAFR out in June which is a difficult timeline for SCERS staff to meet if the lagged alternative investment information cannot be obtained until mid-May. Part of the process will also include coming up with SCERS consistent application on what is considered material.

Motion: Upon motion by Judith Blinder, seconded by Glen Lee, the Board of Administration accepted the 2020 Year-End Audited Financial Statements as presented by Seattle City Employees’ Retirement System Staff and CliftonLarsonAllen, LLP. The motion passed unanimously (5-0).

Valuation Study and 2022 Actuarial Contribution Rate (ARC) - Milliman

Nick Collier and Julie Smith of Milliman presented SCERS's Valuation Study as of January 1, 2021.

The actuarial value of assets increased from \$3.04 billion in 2020 to \$3.35 billion in 2021. The funding ratio increased from 68.9% in 2020 to 71.6% in 2021. The actuarially required contribution rate has decreased from 25.56% as of January 1, 2020 to 24.68% in the January 1, 2021 valuation. The City's required contribution correspondingly has decreased from 16.10% to 15.33%.

The accounting funding ratio is 78.8%. The market value of assets as of January 1, 2021 increased to \$3.64 billion from \$3.15 billion as of January 1, 2020.

The Valuation incorporated the following adjustments:

- Average annual salary in 2021 is \$94,562 (up from \$86,833 in 2020)
- Active membership decreased by 1.6%
- Average monthly benefit increased to \$2,605 (from \$2,540 in 2020)

However, the current adopted assumptions remained the same. These assumptions will be re-visited in 2022 during SCERS's Experience Study.

- 7.25% investment return
- 2.75% price inflation
- 3.5% general wage increases
- 0.50% membership growth

Deaths across the country were up 15% during the last year, but not true for SCERS's retirees. There was a slight decrease in SCERS's deaths. This was offset by fewer than expected retirees. As a comparison, Los Angeles County had a 15-20% increase in deaths during the same time period.

Milliman is recommending that the Board consider maintaining the current contribution rate of 16.1% or a smaller rate of 16%. Potential benefits include:

- Accelerated funding
- Reduced likelihood of future increases
- Improved contribution rate stability
- Eliminates short-term negative amortization.

Mr. Lee added the clarification that the contribution rate is set by the City Council as a part of the City's budget process and the SCERS motion is for a recommended contribution rate. Board members requested to discuss the Actuarial Contribution Rate (ARC) at the next Board meeting.

Motion: Upon motion by Glen Lee, seconded by Robert Harvey, Jr., the Board of Administration accepted the January 1, 2021 Actuarial Valuation Report as presented by Milliman. The motion passed unanimously (5-0).

Discussion – New York City Pension Plans – NYC Mayor's Office

CM Mosqueda invited representatives from the NYC Mayor's office for discussion of their pension plans and how they go beyond their ESG principles in place.

The Board was joined by representatives from the New York City Mayor's Office. Tasfia Nayem is Senior Climate Policy Advisor and John Adler is the Chief Pension Investment Advisor for the Mayor and the mayor's designated trustee on the Board for the pension funds. New York City has five separate pension funds for assets totaling \$250 billion. Each fund has its own board.

In 2018, NYC announced a plan to divest from fossil fuel reserve owners within five years. They did not decide to divest from the entire fossil fuel chain. Their focus was on fossil fuel reserve owners. The estimated exposure was \$5 billion across the five plans. The police and fire pension plans decided not to pursue divestment. The

other three plans hired consultants. The plans received recommendations from the consultants at the end of 2020.

Each board then approved their own approach to divest from fossil fuel reserve owners and chose to divest from publicly traded securities, not private equity, for a value of about \$4 billion. They believe the divestment will be completed by the end of next year.

Mr. Adler works for NYC Mayor Bill DeBlasio who announced proposal to get to \$50B in green investments by 2035. The mayor also announced that he wants the pension funds to be carbon net zero by 2040.

New York City has been involved in shareholder engagement going back decades. In the last ten years, they have increasingly focused on climate issues and pushing board rooms to address climate change in their business plans and not just energy companies. They do not see divestment as the only tool in the toolbox, it is just one.

They needed to act in the interest of beneficiaries, not just because elected officials think it is the right thing to do. Being a fiduciary must be the driver.

Unlike SCERS, NYC is not invested in co-mingled funds so their managers can divest certain funds more easily because they are in separate accounts. They only incur transaction costs. In SCERS's case, because of the co-mingled funds, being selective is trickier.

Authorized Parties Signature Form

The form is required by BNYM to move cash.

Motion: Upon motion by Bobby Humes, seconded by Robert Harvey, Jr., the Board of Administration approved the Authorized Parties Signature Form effective July 8, 2021. The motion passed unanimously (5-0).

Investment Committee Report – June 24, 2021

George Emerson reported on the June 24, 2021 Investment Committee meeting. Agenda items include a deep dive on the infrastructure asset class and an Infrastructure manager selection.

Staff and NEPC recommended a \$20 million commitment to Tiger Infrastructure Partners Fund III (Tiger III), a North American and European sector diversified infrastructure strategy. This recommendation is consistent with the Board's adopted strategic asset allocation. The Investment Committee approved the recommendation.

Motion: Upon motion by Robert Harvey, Jr., seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to commit up to \$20 million to Tiger Infrastructure Partners Fund III, pending satisfactory legal review. The motion passed unanimously (5-0).

Executive Director Update

Mr. Davis reviewed SCERS's response to the City Council's request for a statement of legislative intent which is part of the budget process for the council. The council requested the sources and uses of retirement funds over the past 10 years; performance of the SCERS II plan; and options to merge all or a portion of SCERS with the Washington State Public Employees' Retirement System. The response to the request was also forwarded to the SCERS Board.

At the June Board meeting, the board approved a member's terminal illness withdrawal based on a review of the member's medical records and consultation with the member's treating physician. Unfortunately, the member passed away before the review could be completed. The member's beneficiaries will receive an ongoing monthly benefit.

John Masterjohn will be stepping down as president of the Association of Retired Seattle City Employees (ARSCE) and will be replaced by Mike Nagan. The Board thanked Mr. Masterjohn for his service and welcomed Mr. Nagan.

Adjourn Meeting

Motion: Upon motion by Bobby Humes, seconded by Robert Harvey, Jr., the Board of Administration voted to adjourn the meeting at 12:14 p.m. The motion passed unanimously (5-0).