



Seattle City Employees' Retirement System

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

Minutes, Thursday, June 27, 2024

IC Members Present: Sherri Crawford (Chair), Judith Blinder, Maria Coe, Joseph Hoffman, Dan Strauss, Jamie Carnell

IAC Members Present: Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Joe Ebisa (With Intelligence), Rose Dean (NEPC), Alex Scoggins (Pugh Capital Management), Fabian Neuenschwander (Brookfield), Alison Giampa (Brookfield), Daniel Heffernan (Brookfield), Shelli Santulli (NEPC), Andrew Robinson (FAS), Kate Hoffman (LEG)

Call to Order

Sherri Crawford, Chair, called the meeting to order at 11:00 am.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the May 30, 2024 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the May 30, 2024 Investment Committee meeting. The motion passed unanimously (6-0).

Real Estate Deep Dive

Mengfei Cao and Jason Malinowski reintroduced the Real Estate asset class, discussed the market environment, reviewed SCERS's Real Estate allocation and activity, provided a secondaries overview and recommended a commitment to Brookfield Real Estate Secondaries LP. Shelli Santulli, Senior Investment Director-Real Assets at NEPC, led the market environment discussion.

SCERS's allocation to Real Estate is currently 10.6%. The allocation is modestly below the target weight of 12%.

Mr. Strauss asked why the allocation dropped from 13.5% in 2022 to 11.3% in 2023. Ms. Cao explained that the drop was primarily due to investment performance with Real Estate experiencing negative performance in 2023 while the total portfolio increased in value. The situation is a reversal of what happened in 2022.

SCERS is gradually moving to a global real estate portfolio. Ms. Blinder asked why SCERS was using a US benchmark for a global portfolio. Ms. Cao responded that there is not a robust global benchmark at this time.

During the last twelve months, SCERS has committed \$30 million to Brookfield Strategic Real Estate Partners V and \$20 million to Angelo Gordon Europe Fund IV to continue growing the non-core real estate allocation to its target weight of 30% of the asset class. Staff will continue to evaluate the universe of European core/core-plus real estate managers to complete the globalization of the core allocation.

Mr. Malinowski introduced Ms. Santulli from NEPC to provide their real estate market update and answer questions from the committee.

Real estate appraisal values continue to fall, although the pace is slowing. Transaction volumes have started to increase in 2024 from very low levels in 2023. Most transactions are in the industrial and residential sectors where fundamentals are relatively strong. The office sector is more distressed with a vacancy rate of 20%. Retail has recovered since the pandemic due to no new retail being built. NEPC is cautious on apartments right now. The market has become more accepting that interest rates will be higher and not go back to zero.

Ms. Coe asked if there is pent-up demand for real estate transactions. Ms. Santulli responded that there is a lot of capital waiting on the sidelines and that 2024 and 2025 should be strong vintage years for non-core real estate.

Ms. Cao provided an overview of the secondary market, including their benefits and potential drawbacks for investors. A secondary is a transaction of a private market fund or asset where only a portion of its total ownership is transacted. Ms. Santulli commented that secondaries are increasingly attractive.

Real Estate Manager Commitment – Brookfield Real Estate Secondaries LP

Mengfei Cao and Jason Malinowski presented staff's recommendation for a \$20 million commitment to Brookfield Real Estate Secondaries LP ("Fund"), a global diversified real estate secondaries fund. SCERS is a longtime investor in Brookfield's opportunistic real estate strategy. NEPC concurred with this recommendation and has selected the fund as a preferred strategy on their Focused Placement List (FPL) strategy with a top rating of 1.

Ms. Cao reviewed the organization, team, investment strategy and investment rating matrix.

(12:25 pm – Jamie Carnell left the meeting.)

(12:30 pm – Dan Strauss stepped out of the meeting.)

Daniel Heffernan, Fabian Neuenschwander, and Alison Giampa, of Brookfield's Real Estate Solutions Group provided background information on the firm, reviewed the strategy and answered questions from the committee members.

(12:43 pm – Dan Strauss returned to the meeting.)

Motion: Upon motion by Sherrri Crawford, seconded by Joseph Hoffman, the Investment Committee recommended that the Board of Administration commit up to \$20 million to Brookfield Real Estate Secondaries LP, pending satisfactory legal review. The motion passed unanimously (5-0).

Quarterly Performance Review – Q1 2024

Rose Dean of NEPC reviewed SCERS's investment performance for the period that ended March 31, 2024.

The fund has returned 7.2% net of fees for the last 10 years, which is outperforming the Passive Reference Benchmark. In the one-year period which ended March 31, 2024, assets increased from \$3.75B to \$4.1B. The fund returned 11.3% for the one-year period and outperformed the Strategic Policy Benchmark by 0.3%.

As of March 31, 2024, the estimated actuarial funded status is 75.7%. The funded status from a market perspective, which reflects the market value of assets and revalues the liabilities based on current capital market assumptions is 80.7%.

Mr. Malinowski announced that Ms. Dean and her team will attend the July Investment Committee meeting in person.

Adjourn Meeting

The meeting was adjourned at 1:00 pm.