



Seattle City Employees' Retirement System

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

Minutes, Thursday, July 25, 2024

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

IAC Members Present: Joseph Boateng, Dwight McRae, Steve Hill

SCERS Staff Present: Jeff Davis, Jason Malinowski, Paige Alderete, Leola Ross, George Emerson, Mengfei Cao, Nina Melencio, Travis Jones, Mark Schimizze,

Others Present: Mike Monaco (MMPL), Rose Dean (NEPC), Daniel Hennessy (NEPC), Thao Nguyen (NEPC), Joe Ebisa (With.Intelligence), Lindsay Saienni (fin news), Andrew Robinson, Brighton Glassman

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 June 27, 2024 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the June 27, 2024 Investment Committee meeting. The motion passed unanimously (7-0).

Jason Malinowski welcomed two members of NEPC's client coverage team, Rose Dean and Dan Hennessy, who are on-site for the Investment Committee meeting. They attended a mid-year planning session with the investment team the previous day that also included dinner with Mr. Davis and members of the Investment Advisory Committee.

Infrastructure Deep Dive

Leola Ross and George Emerson presented the annual deep dive of the Infrastructure asset class and briefly reviewed the market environment and SCERS's infrastructure allocation and activity.

SCERS has a current and target allocation to Infrastructure of 2.8% and 5.0%, respectively. Infrastructure is performing as expected and has provided the fund with solid and consistent returns. Current managers include Brookfield, Global Infrastructure Partners (GIP), Stonepeak, and Tiger Infrastructure Partners.

In January, BlackRock announced the acquisition of GIP for \$12.5 billion. This occurred in the midst of SCERS's contracting for GIP V, which the Board had approved in late 2023. SCERS staff decided to pause the contracting process for GIP V for a review of the transaction and to conduct further due diligence. NEPC reviewed the transaction and maintained GIP V with a rating of 1. SCERS staff determined that the rationale for investing in GIP V remained sound and in alignment with SCERS's infrastructure portfolio goals.

Ms. Blinder asked why GIP IV has performed below the expected range. Mr. Emerson replied that GIP IV is a 2019 vintage year fund, so performance is not very meaningful since it is still early in the fund's life.

In the last 12 months, SCERS has committed \$17.5 million to GIP V and \$20 million to Stonepeak Fund V. The asset class target allocation was increased from 4% to 5% as part of the 2023 asset/liability study. Looking forward, SCERS will commit additional capital to existing and prospective infrastructure managers and continue to monitor the market environment for emerging infrastructure sectors and themes.

Ms. Carnell expressed appreciation for the transparency of staff on the BlackRock acquisition of GIP and encouraged continued monitoring.

Private Equity Deep Dive

Mr. Malinowski and Dr. Ross presented the annual deep dive of the Private Equity asset class that included its portfolio allocation and activity, the denominator effect, and market environment and liquidity considerations.

Private equity is a critical return driver of SCERS's investment portfolio and has the highest expected return of any asset class although it is characterized by high volatility and sensitivity to economic growth, high fees, and low liquidity. The allocation has significantly increased over the last many years. SCERS has a current and target allocation of 12.9% (as of March 31, 2024) and 11%, respectively. SCERS allocation is mature and diversified.

SCERS invests with two multi-manager firms, Adams Street Partners and Horsley Bridge Partners, in the Private Equity asset class. During the last twelve months, SCERS committed \$30 million to Horsley Bridge Venture 15 and transitioned responsibility for private equity pacing from Adams Street Partners to NEPC. SCERS's multi-manager partners will continue to invest committed capital in underlying private equity funds and receive distributions from existing funds.

Mr. Malinowski provided more detail on the denominator effect. The denominator effect refers to unintended changes in a private market asset class allocation (in percentage terms) due to changes in the total portfolio's value. The denominator effect is primarily a timing issue that eases naturally over time. Staff manages the denominator effect by making stable private market capital commitments over time.

Ms. Dean and Mr. Hennessy reviewed the Private Equity market environment and liquidity considerations. Every year, NEPC conducts a pacing plan to guide future commitments to private market asset classes. The pacing plan seeks to maintain a consistent commitment pace, while being mindful of liquidity needs.

Private equity fundraising is down from its peak in 2021-2022. New deal activity has slowed meaningfully and exit activity has plummeted. As a result, private equity distributions are near historical lows. Private equity managers have begun to use creative ways to generate liquidity. Ms. Dean described the rationale and drawbacks of continuation funds and NAV financing.

Adjourn Meeting

Motion: Upon motion by Sherry Crawford, seconded by Dan Strauss, the Investment Committee voted to adjourn the meeting at 1:02 pm. The motion passed unanimously (7-0).