



Seattle City Employees' Retirement System

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

Minutes, Thursday, August 29, 2024

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

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

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Rose Dean (NEPC), Daniel Hennessy (NEPC), Thao Nguyen (NEPC), Andrew Robinson (FAS), Joe Ebisa (With.Intelligence)

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 July 25, 2024 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Maria Coe, the Investment Committee approved the minutes from the July 25, 2024 Investment Committee meeting. The motion passed unanimously (5-0).

Quarterly Performance Review – Q2 2024

Rose Dean and Daniel Hennessy of NEPC reviewed performance for the period that ended June 30, 2024.

Gross performance over the last 30 years is 7.1%, above the assumed rate of return of 6.75%. The return net-of-fees for the last 10 years is 6.9%, which is also above the assumed rate of return and is outperforming the Passive Reference Benchmark.

For the one-year period ending June 30, 2024, the fund returned 9.2% net of fees, outperforming the Strategic Policy Benchmark by 0.2%. Assets increased from \$3.85 billion one year ago to \$4.15 billion for the period ending June 30, 2024.

On an actuarial basis, the funded status is estimated at 75.9%. On a market basis that revalues the liability based on NEPC's portfolio return assumption as of June 30, 2024, the funded status is 80.4%.

Credit Fixed Income Deep Dive

George Emerson and Mengfei Cao presented the annual deep dive of the Credit Fixed Income asset class and provided background information, including its role in the total portfolio and its attributes.

SCERS has an allocation of 7.1% to Credit Fixed Income as of June 30, 2024 which is in line with the target weight of 7.0%. SCERS's Credit Fixed Income portfolio has performed in line with the asset class index. Private Credit has materially outperformed Public Credit over intermediate-term periods.

Over the last year, SCERS committed \$30 million to Monarch Capital Partners VI following a comprehensive evaluation of opportunistic and distressed managers and updated the Credit Fixed Income sub-asset class allocation by eliminating the 20% allocation to bank loans and increasing private credit by 20% (to 60%). NEPC developed a pacing plan for private credit. Staff will continue evaluating private credit managers to further diversify into other strategies and asset types.

Ms. Coe asked if SCERS has experienced any borrower defaults. Mr. Emerson stated that funds are managed by professional investment managers rather than SCERS loaning money directly. It is expected that a small percentage of borrowers will default but that the associated losses would be more than offset by the high interest rates earned overall. Mr. Emerson gave an example of a borrower default in the Ashmore emerging market debt strategy where SCERS recently redeemed.

Mr. Traverse stated that it seems to be a better time to be borrower due to the explosion of private credit lenders. Ms. Dean added that banks are lending less, and you need to jump through more hoops to borrow from a bank. Mr. Malinowski acknowledged the point and that SCERS has generally avoided areas with the greatest competition, such as direct corporate lending in the United States.

Mr. Traverse asked about how PIMCO manages redemptions in its open-end private credit vehicle. Mr. Emerson replied that if a participant wishes to redeem, PIMCO will carve off the participant's pro-rate share from the fund. There will be no new investments from that allocation and distributions will be provided to the redeeming participant as investments mature.

Credit Fixed Income Manager Recommitment – Arcmont Direct Lending V

Staff recommended a commitment of up to \$40 million to Arcmont Direct Lending Fund V ("DLF V"), a private credit strategy focused on lending to European middle-market companies. DLF V is managed by Arcmont Asset Management Limited ("Arcmont"), a UK-based asset manager and a majority-owned subsidiary of Nuveen Asset Management. This recommendation is consistent with the Board's adopted strategic asset allocation that includes a 7% target weight to credit. DLF V would be SCERS's fourth allocation to Arcmont.

NEPC concurred with this recommendation. NEPC is in the final stages of evaluating DLF V for its Focused Placement List (FPL). Mr. Hoffman asked if it was normal for a recommended manager not to have an NEPC rating. Mr. Emerson replied that NEPC has a long history with this manager and have recommended several of their prior funds. Mr. Hennessy of NEPC stated that he fully expects that this fund will be on NEPC's FPL as well. Mr. Malinowski added that there never has been a requirement that NEPC formally recommend each investment.

There was discussion on Arcmont being purchased by Nuveen Asset Management in 2023. Arcmont management continues to retain an ownership stake and its team is intact.

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

Motion: Upon motion by Sherry Crawford, seconded by Maria Coe, the Investment Committee recommended that the Board of Administration commit up to \$40 million to Arcmont Direct Lending V, pending satisfactory legal review. The motion passed unanimously (4-0).

Adjourn Meeting

Motion: Upon motion by Sherry Crawford, seconded by Maria Coe, the Investment Committee voted to adjourn the meeting at 12:30 pm. The motion passed unanimously (4-0).