



Seattle City Employees' Retirement System

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

Minutes, Thursday, May 25, 2023

IC Members Present: Robert Harvey, Jr. (Chair), Judith Blinder, Sherri Crawford, Jamie Carnell

IAC Members Present: Keith Traverse (Chair), Joseph Boateng

SCERS Staff Present: Jeff Davis, Jason Malinowski, Leola Ross, Mengfei Cao, Nina Melencio, Mark Schimizze, Sunny Gill, Ankit Bhat

Others Present: Mike Monaco (MMPL), Rose Dean (NEPC), Allan Martin (NEPC)

Call to Order

Robert Harvey, Jr., called the meeting to order at 12:00 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the April 27, 2023 Investment Committee.

Motion: Upon motion by Judith Blinder, seconded by Jamie Carnell, the Investment Committee approved the minutes from the April 27, 2023 Investment Committee meeting. The motion passed unanimously (4-0).

NEPC Field Consultant Update

Rose Dean was introduced as Seattle City Employees' Retirement System's new field consultant from NEPC. Ms. Dean will transition with Allan Martin in the next few months, although Mr. Martin will be with SCERS through year-end to complete the asset-liability study. Mike Malchenko continues to be part of SCERS's team as well.

Quarterly Performance Review – Q1 2023

Mr. Martin of NEPC reviewed SCERS's investment performance for the period that ended March 31, 2023.

The fund has returned 7.3% net of fees for the last 10 years, which is above the current assumed rate of return and outperformed the Passive Reference Benchmark. In the one-year period which ended March 31, 2023, the fund returned -3.7% net of fees, underperforming the Strategic Policy Benchmark by 0.1%.

As of March 31, 2023, the estimated actuarial funded status is 75.1%. 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 76.8%.

Liability-Aware Investing Introduction

Jason Malinowski introduced the liability-aware investing framework and answered questions from the Investment Committee and Investment Advisory Committee members.

This has been a key project since the last asset-liability study was conducted in 2019. Public pension systems have traditionally considered risk from an asset-only perspective, but liabilities are also critical to understanding plan-level risk. Based on a recommendation from the SCERS Investment Advisory Committee, staff worked with JP Morgan Asset Management to develop a liability-aware investing framework where risk is defined based on volatility of funding ratio. The framework recognizes the linkage between assets and liabilities due to both being sensitive to changes in future expected returns.

The liability-aware investing framework can improve performance/risk assessment and investment strategy. NEPC has incorporated a funding status monitor in quarterly performance reporting. NEPC is in the process of adding the framework to their asset-liability study toolkit, which will complement a traditional asset-only perspective and may offer incremental opportunities to enhance the portfolio.

Mr. Martin commented that SCERS would be a first-mover among public pension plans in integrating liabilities.

Keith Traverse and Joseph Boateng of the Investment Advisory Committee applauded the work staff have done. They took the general recommendation from the IAC and turned it into a framework, complete with useful tools and lenses. This liability-aware investing framework helps SCERS make better investment decisions over time and adds more resilience to the portfolio.

Investment Risk Framework

Mr. Malinowski presented SCERS's Investment Risk Framework. SCERS developed and implemented an investment risk framework in 2018 based on the recommendation and with input from the IAC. The framework is presented annually. The analysis and takeaways are consistent with last year's report.

Mr. Malinowski provided background on the framework and reviewed the relationship between risk and return. Risk was assessed from the perspective of asset class composition, volatility, beta, scenario analysis and liquidity stress tests. The portfolio is highly diversified by asset class, sector, geography, company, investment manager and investment strategy. The portfolio is also intentionally structured to have a substantially similar risk profile as the Strategic Policy Benchmark. SCERS has ample access to cash to meet its cash flow demands, including benefit payments, private markets fund commitments and portfolio rebalancing.

Staff has developed a risk preference survey that will be sent out to IC, IAC, and staff. The results of the survey will be discussed at the July Investment Committee meeting, as a step in the asset-liability study.

Mr. Malinowski reviewed the concept of currency risk and how it is manifested in SCERS's portfolio. 31% of the portfolio is in assets denominated in international currencies. SCERS utilizes currency hedging in the Fixed Income and Real Assets asset classes to mitigate developed market currency exposure. These asset classes benefit from currency hedging due to their low asset volatility and predictable cash flow stream. SCERS manages the Equity asset class without currency hedging.

Adjourn Meeting

Motion: Upon motion by Jamie Carnell, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 1:57 p.m. The motion passed unanimously (4-0).