



Seattle City Employees' Retirement System

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

Minutes, Thursday, March 25, 2021

Due to the "Healthy Washington, Roadmap to Recovery" order issued by Governor Inslee, the meeting was held remotely.

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

IAC Members Present: Joseph Boateng (IAC Chair)

SCERS Staff Present: Jeff Davis, Jason Malinowski, Paige Alderete, Nina Melencio,
Jill Johnson, Cecelia Chen, George Emerson

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office),
Don Stracke (NEPC), John Lutz (NEPC), Donald Leung (ABS),
Guilherme Valle (ABS), Celina Rodriguez (ABS), Tim Morrison (FAS),
Tom Mikesell (LEG)

Call to Order

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

Public Comment

There was no public comment.

Minutes

(12:01 pm – Teresa Mosqueda arrived at the meeting.)

Approved Minutes from the February 25, 2021 Investment Committee.

Motion: Upon motion by Bobby Humes, seconded by Teresa Mosqueda, the Investment Committee approved the minutes from the February 25, 2021 Investment Committee meeting. The motion passed unanimously (4-0).

Public Equity Deep Dive

Jill Johnson provided a deep dive discussion on the Public Equity Asset class that included its portfolio role, size, strategy, investment managers, and performance.

(12:04 pm – Sherri Crawford and Glen Lee arrived at the meeting.)

Public Equity drives the return and risk of SCERS's investment portfolio due to its large current and target allocation of 51.6% and 48%, respectively, as well as its high expected return and volatility. Public Equity is currently overweight its target allocation because it serves as a placeholder for underweight private market asset classes. Total performance of the asset class has been strong over the short and medium-term through December 31, 2020.

Over the last 12 months staff have reviewed and reaffirmed the value tilt that was discussed at the June 2020 Investment Committee meeting; modified the securities lending program to allow US government securities as collateral; and researched the Japanese equity market and manager universe.

Don Stracke and John Lutz, of NEPC, collaborated with staff on the research into the Japanese equity market. The research project supported the thesis that the Japan equity market appears to be inefficient and therefore SCERS may benefit from shifting a portion of its allocation from passive to active management. While Japan is a large economy and market, it has been neglected by the global investment community. Japan also has a vast universe of investible stocks and wide dispersion in results. This lack of coverage and breadth of opportunity should allow skilled active managers to generate excess return.

NEPC and staff created and distributed an RFI to managers and sourced over 30 strategies from managers across the globe via known platforms and network/word of mouth introductions within the industry. A multiple stage due diligence process was conducted and, ultimately, a multi-manager approach was decided to be the best initial fit for SCERS. There was discussion on Japan's governance, transparency, diversity, and adherence to global reporting standards.

Public Equity Manager Recommendation – ABS Japan Strategic Portfolio

Staff is recommending an investment of up to \$60 million in the ABS Japan Strategic Portfolio, a multi-manager strategy focused on the Japanese equity market. This represents approximately half of the total allocation to Japan within the public equity asset class. This investment would be SCERS's second investment with ABS Investment Management.

The capital for the ABS investment would be sourced by reducing the amounts invested in the BlackRock MSCI World ex-US Fund and the Dimensional International Small Cap Fund, as well as restructuring these fund investments to remove their Japan allocations. SCERS would be the seed investor in the strategy. NEPC supports staff's recommendation to hire ABS.

(1:00 pm, Bobby Humes left the meeting.)

Guilherme Valle, Celina Rodriguez, and Donald Leung of ABS Investment Management LLC presented information about the team and strategy as well as answered questions from the committee members. ABS currently manages \$6.9 billion in assets.

ABS employs a multi-manager approach to equity investing and believes that local expertise is essential since each market has its own dynamic. Mr. Leung has been based out of Hong Kong since 2008. The ABS Japan Strategic Portfolio will invest in Japanese equity specialist managers with the goal of outperforming the MSCI Japan IMI index.

Motion: Upon motion by Judith Blinder, seconded by Glen Lee, the Investment Committee recommended that the Board of Administration invest up to \$60 million in the ABS Japan Strategic Portfolio, pending satisfactory legal review. The motion passed unanimously (5-0).

Adjourn Meeting

Motion: Upon motion by Teresa Mosqueda, seconded by Glen Lee, the Investment Committee voted to adjourn the meeting at 1:43 p.m. The motion passed unanimously (5-0).