



# Seattle City Employees' Retirement System

**Investment Committee Meeting**  
Pacific Building, 720 3<sup>rd</sup> Avenue, Suite 900, Seattle  
(206) 386-1293

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## Minutes, Thursday, July 29, 2021

The Investment Committee meeting was held virtually.

**IC Members Present:** Robert Harvey, Jr. (Chair), Sherri Crawford, Judith Blinder, Glen Lee

**IAC Members Present** Joseph Boateng (Chair)

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

**Others Present:** Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke (NEPC), Seth Goldman (NEPC), Hillary Higgins (Brookfield), Chris Harris (Brookfield), Jill Ziegler (Brookfield), Scott Meller (Brookfield), Tim Morrison (FAS), Lauren Albanese (FIN News), Cyril Espanol (Pageant Media)

### Call to Order

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

### Public Comment

There was no public comment.

### Minutes

Approves Minutes from the June 24, 2021 Investment Committee.

**Motion:** Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the June 24, 2021 Investment Committee meeting. The motion passed unanimously (3-0).

### Integrating Climate Risk into the Investment Process

Jason Malinowski presented information on how SCERS integrates climate risk into the investment process, which is one component of the ESG positive action strategy. The other components are shareholder advocacy and sustainability investments. The ESG positive action strategy is focused on climate change because of its criticality to the long-term risk and return of the capital markets.

Climate risk manifests to financial risk in two forms:

- Physical Risk – financial risk resulting from an increase in the severity and frequency of weather events and sustained changes in weather patterns
- Transition Risk – financial risk resulting from society effectively decarbonizing via policy-making and other climate mitigating efforts.

SCERS integrates climate risk into the activities where it is responsible, namely strategic asset allocation and manager selection. Other activities, like security selection, are delegated to external investment managers. SCERS partnered with NEPC in 2019 to develop a climate change scenario analysis framework that was incorporated into the strategic asset allocation decision. Staff and NEPC also assess how managers incorporate climate risk in their investment decision-making and portfolio. The importance placed on climate risk will vary by manager and is related directly to the financial materiality of climate risk on the asset class and strategy.

***(12:20 pm – Glen Lee joined the meeting.)***

There was discussion on passive investing. Mr. Malinowski commented that it would be inappropriate for passive strategies to consider climate risk in their stock selection process, since passive investing entails owning the entire market with weights corresponding to their market capitalization. There has been an influx of new index products that track ESG-related indices, but these should not be considered passive strategies. While the manager invests passively in these products, SCERS would take-on the active management responsibility. Leola Ross mentioned that these ESG index products also have higher fees.

Hillary Higgins and Jill Ziegler of Brookfield presented on climate change considerations. Brookfield has been an existing SCERS manager since 2015 and is focused exclusively on real assets.

Brookfield operates under a set of global principles:

- Mitigate the impact of their operations on the environment
- Ensure the well-being and safety of employees
- Uphold strong governance practices
- Be good corporate citizens

Brookfield incorporates ESG in the investment process through due diligence, their investment committee, and asset management. In 2021, Brookfield's top ESG focus is on climate change and GHG emissions and are proactively assessing the carbon footprint of the portfolio. Brookfield has joined the Net Zero Asset Managers ("NZAM") initiative which is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner.

## **Globalizing Real Estate**

Don Stracke and Seth Goldman of NEPC presented "Real Estate: A Case for Global Diversification".

SCERS's Core Real Estate allocation is entirely invested in the United States. Geographic diversification is expected to improve risk-adjusted return. NEPC and SCERS have been evaluating whether to globalize the core real estate allocation since 2018. The implementation plan is near-complete for Asia and in the preliminary stages for Europe.

Almost 65% of the investable universe is outside the US. Asia-Pacific has been the fastest grower and outpaced the US and Europe.

There is an increased opportunity to invest in highly liquid markets. 13 of the top 20 most liquid commercial property markets are located outside the US. Primary focus is on the largest, most established, and liquid property markets. The secondary focus is on select emerging markets.

SCERS and NEPC are currently in late-stage due diligence with JPMorgan. Staff hope to have the due diligence completed by the August 26, 2021 Investment Committee meeting.

**Adjourn Meeting**

**Motion:** Upon motion by Glen Lee, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 1:39 p.m. The motion passed unanimously (4-0).