



Seattle City Employees' Retirement System  
Joint Session of the Investment Committee and Board of Administration  
720 Third Avenue, 9<sup>th</sup> Floor (Pacific Building)  
(206) 386-1293

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Minutes, Thursday, August 27, 2015

**Board of Administration Members Present:** Robert Harvey, Jr. (Chair), Glen Lee, Jean Becker, Sherri Crawford

**Investment Committee Members Present:** Robert Harvey, Jr. (Chair), Glen Lee, Jean Becker, Sherri Crawford

**Investment Advisory Committee Members Present:** Joseph Boateng, Chair (via conference call), Alan Hess, Dwight McRae

**SCERS Staff Present:** Ken Nakatsu, Jason Malinowski, Jeff Davis, Jill Johnson, Cecelia Chen, Nina Melencio

**Others Present:** Mike Monaco (Song Mondress Law Firm), Don Stracke (NEPC), Crystal Roncek (SDHR), Deanna Hobson (Pugh Capital); Chris Durbin (Cooley LLP), Jeff Lombard (Cooley LLP), John Stinebaugh (Brookfield Asset Management Inc.), Chris Harris (Brookfield Asset Management Inc.)

Robert Harvey, Jr., Committee Chair, called the meeting to order at 12:00 p.m.

#### Public Comment

There was no public comment.

#### Minutes

Provided in the Investment Committee packet were the minutes from the July 30, 2015 Investment Committee Meeting:

**Motion:** Upon motion of Glen Lee, seconded by Jean Becker, the Investment Committee approved the minutes from the July 30, 2015 meeting. The motion passed unanimously (4-0).

#### Capital Points Partners Discussion

Mr. Nakatsu gave a brief overview of the history of the investment. He stated that in the mid-2000's, SCERS invested \$5M in Capital Point Partners and the investment has performed relatively well. However, staff has been informed recently that the General Partner (GP) has exchanged the assets of Capital Point Partners for public stock in a Business Development Corporation (Regal One, now known as Princeton Capital Corporation) for which employees of Capital Point Partners are also involved. Limited Partners (LPs) of the Capital Point Partners Funds have a 96% interest in Princeton Capital Corporation. The Managing Partner of the GP is seeking to appoint himself to the Board of Directors and eventually wants to issue additional shares which would dilute our interest. SCERS has been in contact with other LPs. It is in the best interest of LPs to remove the GP to gain control of the Fund and impact the strategy of Princeton Capital Corporation, although we need to act very quickly. For this reason we have called the joint meeting of the Investment Committee and Board of Administration so the Board can act on a motion to remove the GP.

Jason Malinowski stated that through this process Adams Street, as well as NEPC, have been helpful.

Mr. Malinowski introduced Chris Durbin and Jeff Lombard from Cooley LLP.

Mr. Durbin stated that the events of the past week have come to a head. Their firm has been retained through the City Attorney's office to represent SCERS. Mr. Durbin said that SCERS is a shareholder in Princeton Capital Corporation by virtue of the asset transfer. Its annual meeting has been deferred several times but is now scheduled for September 10, 2015. They expect that date to hold unless we and the other LPs act immediately to remove the GP and block the meeting from occurring. The GP is seeking a position on the board of directors, and for a stock split. The LPs are unanimous that neither of the proposals should be passed. They are also unanimous to replace the GP. In the longer term, all LPs are seeking ways to wind down the investment.

SCERS staff is seeking to have authority to vote our partnership interest to remove the current GP and appoint a replacement GP.

Mr. Harvey asked if there was a downside to the proposed action.

Mr. Durbin replied that they did not see a downside.

**Motion:** Upon motion of Glen Lee, seconded by Sherri Crawford, the Board of Administration gave the staff authority to work with counsel to remove the General Partner for Capital Point Partners LP and add a new General Partner as agreed to by the majority of Limited Partners. The motion passed unanimously (4-0).

### **Non-Core Real Estate Manager Selection**

Jason Malinowski and Cecelia Chen presented the staff's recommendation to commit \$15M to Brookfield Strategic Real Estate Partners II (BSREP II), a global non-core real estate strategy.

Mr. Malinowski stated that, over the last several months, staff reviewed a total of 19 strategies. One of the areas they looked at was portfolio fit. BSREP II would be a nice complement to SCERS's existing portfolio.

Ms. Chen gave an overview of the organization, its history, and its strategy.

Alan Hess wanted to know how this would affect risk. Mr. Malinowski replied that the strategy is consistent with our asset allocation study, and that the expected return is greater and the risk is correspondingly higher than core real estate.

Don Stracke stated that we are below target in real estate.

Mr. Boateng asked what made Brookfield unique compared to other managers.

Mr. Malinowski replied that Brookfield has been in its focus markets for a long period of time and is a very well-resourced organization.

Dwight McRae asked if staff still planned on liquidating some assets in the workout portfolio. Mr. Malinowski replied that staff has made some progress, but there remains several investments with the largest being a \$4M investment which is tied up in litigation.

Mr. McRae asked about the fee structure. Mr. Malinowski replied that the fees are consistent with other non-core real estate funds.

Glen Lee stated that it felt like private equity. He asked what type of events triggers the pay outs.



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Mr. Stracke responded that it is a closed ended fund. They invest and hold properties for 5-10 years.

Mr. McRae asked in the future where the capital would come from to fund this. Mr. Malinowski replied that distributions are expected from existing non-core real estate funds.

Mr. Malinowski introduced Chris Harris and John Stinebaugh of BSREP II.

Mr. Harris stated that they are real estate managers with \$200B in assets. They have \$2B in assets in the greater Washington area. They own Alderwood Mall and Seattle Steam.

Mr. Stinebaugh said that BSREP II controls a lot of real estate and has a successful track record in opportunistic investing.

Their investment strategy is focuses on buying high quality real estate at a discount. They may buy debt or take public companies private in order to access attractive real estate. Brookfield invests in North America, Europe, Brazil, Australia, and selectively in other markets. They have people on the ground in each of these regions. Brookfield places great importance on capital preservation and does not use as much debt as peers.

Mr. Hess asked if they are a development company. Mr. Stinebaugh replied that only in some cases will they develop.

Brookfield's experience in opportunistic real estate investing started in 1987.

Mr. McRae wanted to know where they expect to find opportunities going forward.

Mr. Harris replied that they acquire companies and add value. There are select countries that currently offer opportunities for discounts, such as Brazil, India and China.

Mr. Boateng asked if there were any changes in their senior management group.

Mr. Stinebaugh replied that they have been pretty stable. There was one person in their European team that left to start up a real estate company with his former colleagues.

Mr. Harvey asked about the poor performance of a Brazilian fund. Mr. Stinebaugh replied that it was a fund started ten years ago. The fund performance was flat in Brazilian Real, but was adversely affected by the currency exchange rate.

Mr. Hess stated that this was a good manager to invest in.

**Motion:** Upon motion of Glen Lee, seconded by Sherri Crawford, the Investment Committee recommended that the Board of Administration commit \$15 million to Brookfield Strategic Real Estate Partners II, as part of SCERS's non-core real estate allocation, pending satisfactory negotiation of a side letter agreement. The motion passed unanimously (4-0).

### **Quarterly Performance Review**

Don Stracke of NEPC provided information on SCERS's Quarterly Investment Performance for the period ending June 30, 2015.

Mr. Stracke stated that since 1984 SCERS's gross performance has been ahead of the assumed rate of return. For the one year period ending June 30, 2015 the total fund produced 2.81% and outperformed the benchmark by 0.2%.

The fixed income benchmarks turned negative in the second quarter. Mr. Stracke stated that the new strategic asset allocation policy which the Board adopted became effective on July 1<sup>st</sup>.

The total fund returned 0.67% for the last quarter. The year to date was 2.94%. The three year period ending June 30, 2015 was 10.7% which was in line with the policy benchmark. For the five year benchmark, the fund underperformed the benchmark.

Mr. Hess stated that the fund is 41 basis points below the policy index over the last 30 years and we have \$2.4B in assets. If continued, this would be \$8M/year for the next 30 years which equals \$240M that we would not be getting. Mr. Hess said that the policy index may be inappropriate though.

Mr. Stracke replied that the policy index was changed in June 2014 to be more appropriate.

Mr. Harvey stated that we never reached our allocation to private markets, which contributed to underperformance.

Mr. McRae asked for confirmation that SCERS is not invested in the local China stock market. Mr. Stracke confirmed that SCERS is not.

### **Monthly Portfolio on Monitoring and Investment Accounting Summary Report – July 31, 2015**

Mr. Malinowski presented the new monthly portfolio monitor. He stated that the market has been very volatile and that both the US and non-US equity markets were down 8% at one point during August.

Outside of the equity markets, core fixed income is flat. With the last couple of stress events, bonds have rallied, but not this time. We expect to be down 2.5% year to date through yesterday.

Mr. Malinowski said that we will want to start the Investment Committee Meetings using the Monthly Portfolio Monitor at future meetings. The Investment Accounting Summary report will be distributed for informational purposes only.

Mr. Malinowski reviewed the information on the Monthly Portfolio Monitor. He stated that the portfolio risk is a new area. Staff is using Bloomberg to capture risk measures. It gives staff and the Board a way to be cognizant of the inherent risk of the portfolio.

### **Adjourn Meeting**

**Motion:** Upon motion of Jean Becker, seconded by Sherri Crawford, the Investment Committee voted to adjourn the meeting at 2:20 p.m. The motion passed unanimously (4-0).