



Seattle City Employees' Retirement System

Board of Administration Meeting
Pacific Building, 720 3rd Avenue, Suite 900, Seattle, WA
(206) 386-1293

Minutes, Thursday, February 11, 2021

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

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

SCERS Staff Present: Jeff Davis, Paige Alderete, Jason Malinowski, Jill Johnson, Cecelia Chen, George Emerson, Nina Melencio, Selam Teklemariam, Ronda Iriarte, Mark Schimizza

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Michael Palmieri (FFI Solutions), David Root (FFI Solutions), Chris Ito (FFI Solutions), Tony Fareed (FFI Solutions), Tom Mikesell (Legislative), Tim Morrison (FAS), Chase Kitchen (MO)

Call to Order

Teresa Mosqueda, Chair, called the meeting to order at 10:01 am.

Public Comment:

There was no public comment.

Administrative Consent Agenda

Provided in the Retirement Board Packet were the minutes from the January 14, 2021 Retirement Board regular meeting, ratification of Retired Payroll, Office Payroll, and other payments and withdrawals.

The following items represent normal expenses:	
Pension Payroll	\$18,796,776
Office Payroll	\$259,726*
Admin & Investment Expenses	(\$1,827,322)**
Total Expenses – January 2021	\$17,229,180

*includes estimated benefit costs

**negative expense due to Q4 2020 expenses that were reversed in January 2021

Retirements, Withdrawals, Other Payouts – January 2021			
	Count	Monthly Pension	Lump Sum Distribution
Retirements	24	\$103,888.02	\$501,991.21
Withdrawals	5	n/a	\$272,391.50

Motion: Upon motion by Judith Blinder, seconded by Bobby Humes, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

Divestment Discussion Follow-up

Council Member (CM) Mosqueda had invited representatives from FFI Solutions (FFI) to present their perspective on fossil fuel divestment and to answer questions from the Board. FFI is a research analytics-driven advisory firm focused on sustainable investments. FFI representatives were Mike Palmieri, Chris Ito, and David Root.

Mr. Palmieri described the multiple approaches that investors are taking to managing climate risk, including shareholder engagement, exclusionary screening/divestment, ESG integration, manager selection and changing benchmarks. FFI does not advise investors whether to divest or not from fossil fuels as that decision is based on their unique circumstances, investment views and operations. FFI acknowledged that divestment for a pension plan is a higher bar than for other investors. FFI observed that SCERS has done an admirable job of integrating climate risk into its investment process.

Ms. Blinder asked about the risks associated with the energy transition and whether they may already be reflected in stock prices. She takes her fiduciary duty very seriously and would need strong convincing to deviate from SCERS's current strategy.

CM Mosqueda understood that certain systems are creating a process in-line with their fiduciary duty to look at specific fossil fuel investments, rather than divesting across the total portfolio.

Jeff Davis introduced the next agenda item and recapped the discussion from the January 14, 2021 Board meeting. SCERS's multiple studies have concluded that divestment is financially imprudent and therefore conflicts with the Board's fiduciary duty. The purpose of this follow-up discussion is to review the divestment actions taken by other US public pension plans.

Jason Malinowski began the peer review presentation. He caveated that the analysis and conclusions presented to the Board previously will not change because of any divestment actions of other US public pension plans.

CM Mosqueda believes it is inaccurate to think of divestment as black and white. Her interest is understanding how divestment is being defined and explore whether there are opportunities to improve the portfolio.

Mr. Malinowski continued with the presentation. SCERS and 200 other large public plans do not exclude fossil fuel companies. There are five public plans who do some form of fossil fuel exclusion, which include CalPERS, CalSTRS, New York State Common, San Francisco ERS and a subset of the New York City Retirement Systems. He provided a comparison of these plans to SCERS in terms of portfolio size, funded ratio, portfolio structure and board composition.

CM Mosqueda requested a comparison with the City of Pittsburgh and asked if the jurisdictions being discussed have a similar target return as SCERS. Mr. Malinowski responded that the target returns are in the same range. He did not know the details about Pittsburgh, so Jill Johnson was asked to look into this during the meeting.

Mr. Malinowski reviewed the detailed information for the five systems that comes directly from each system rather than relying on media reports. CalPERS and CalSTRS have divested from thermal coal companies as mandated by the California state legislature in 2015. CalPERS and CalSTRS have also rejected calls to divest broadly from fossil fuel companies.

Glen Lee asked if the California state legislation is being litigated. Mike Monaco stated that each state has their law on fiduciary responsibility, so the California state legislature can mandate divestment and the plans would have to follow the law. He would not expect to see any type of challenge because it is the state's prerogative.

Mr. Malinowski continued with San Francisco ERS who has divested from thermal coal companies and began divesting from a limited number of oil and gas companies. The exclusion only applies to directly owned securities and does not apply to commingled funds.

Mr. Lee asked if there was any litigation with San Francisco. Mr. Monaco replied that he was not aware of any litigation. He suspected that there may not be much of an incentive to challenge the action yet given the amounts involved are small relative to the overall fund.

Mr. Malinowski continued with New York State Common who divested from thermal coal companies and committed to review other fossil fuel companies within the next four years. New York State's Comptroller has rejected calls to divest broadly from fossil fuel companies. Three of New York City's five retirement systems announced in January 2021 that they intend to materially divest from fossil fuel companies. The scope of the divestment and the names of divested companies are to be announced after the divestment is complete, which is expected to be in the next two years.

Jill Johnson stated that Pittsburgh has a small pension plan. She found a press release that states their intention to divest from fossil fuel companies, but there is no other information available.

CM Mosqueda re-iterated that this is an exploratory conversation and does not indicate an immediate desire to change SCERS's portfolio.

Mr. Davis stated that the next quarterly ESG update will be presented at the March 11, 2021 Board meeting. He asked Board members to contact him directly if there are any additional follow-up questions.

2020 SCERS Progress Report

This presentation has been deferred to the March 11, 2021 Board of Administration meeting.

Investment Committee Report – January 28, 2021

Mr. Malinowski reported on the January 28, 2021 Investment Committee meeting. NEPC presented the Investment Outlook and Capital Market Assumptions. Market performance in 2020 was strong, but the expectation going forward is for a lower return environment. Staff presented the annual investment review and planning session for 2021.

Administrative Committee Report – January 28, 2021

Mr. Davis reported on the January 28, 2021 Administrative Committee meeting. The committee discussed the Board self-evaluation process and the Executive Director evaluation timeline.

The committee also reviewed proposed changes to the Investment Advisory Committee (IAC) Charter. The changes were due to concerns about succession planning and taking a more active approach to identify potential new committee members.

Motion: Upon motion by Robert Harvey, Jr., seconded by Bobby Humes, the Board of Administration accepted the Administrative Committee's recommendation to approve the revised Investment Advisory Committee Charter as presented. The motion passed unanimously (6-0).

Executive Director Update

Mr. Davis announced the SCERS will be having a trustee election for an active member seat currently held by Sherri Crawford. The application period will be April 8 through April 22, 2021.

Adjourn Meeting

Motion: Upon motion by Bobby Humes, seconded by Glen Lee, the Board of Administration voted to adjourn the meeting at 11:57 a.m. The motion passed unanimously (6-0).