



Seattle City Employees' Retirement System

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

Minutes, Thursday, March 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), Lou Walter, Robert Harvey, Jr., Sherri Crawford, Judith Blinder, Bobby Humes, Glen Lee

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Tom Mikesell (LEG)

Call to Order

Teresa Mosqueda, Chair, called the meeting to order at 10:02 am.

Public Comment

There was no public comment.

Administrative Consent Agenda

The following items represent normal expenses:	
Pension Payroll	\$19,369,427.86
Office Payroll	331,529.00*
Admin & Investment Expenses	680,804.35
Total Expenses – February 2021	\$20,381,761.21

**includes estimated benefit costs*

Retirements, Withdrawals, Other Payouts – February 2021			
	Count	Monthly Pension	Lump Sum Distribution
Retirements	32	\$84,796.37	\$1,201,039.88
Withdrawals	5	n/a	\$272,391.50

Motion: Upon motion by Lou Walter, seconded by Bobby Humes, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (7-0).

2020 SCERS Progress Report

Jeff Davis, Paige Alderete, and Jason Malinowski presented the 2020 SCERS Progress Report. The 2020 goals were based on the 5-year Strategic Plan goals which were adopted in 2019.

There was discussion on the progress made toward each goal which included the 30-year return exceeding the current actuarial rate of return; the increase of the funding ratio from 71% to 76% on a mark-to-market basis; continued progress towards the positive action strategy regarding Environmental, Social, and Governance (ESG) matters; the development of an enhanced operational due diligence process; streamlining operations and strengthening controls; implemented the new Member Self-Service portal; and providing training opportunities for both staff and the Board.

Due to the pandemic, staff began working remotely on March 16, 2020. SCERS focused on supporting and providing resources to staff to help navigate the stress and fear of the pandemic.

Trustee Elections

Due to the pandemic, the Board needs to temporarily amend the Election Policy since it currently allows potential candidates to apply in person.

Motion: Upon motion by Bobby Humes, seconded by Robert Harvey, Jr., the Board of Administration modified the Election Policy to temporarily suspend in-person applications for the 2021 Active Member Trustee Elections. Candidates may apply by email or by mail. The motion passed unanimously (7-0).

ESG Quarterly Update

Jason Malinowski and Jill Johnson presented the ESG Quarterly Update for first quarter 2021 and provided a brief overview of the positive action strategy which includes shareholder advocacy, sustainability investments, and integrating climate risk into the investment process.

Ms. Johnson provided an update on shareholder advocacy activities. SCERS joined the Coalition United for a Responsible Exxon (CURE) in a letter to the Exxon Board of Directors that raised urgent concerns with the company's strategy and demanded change. Exxon has since announced emission reduction plans and made changes to the Board that suggest the company may be beginning to change. SCERS has also advocated for increased climate risk disclosure in joint letters to the Securities and Exchange Commission (SEC) over the past several years. In a significant departure from the prior Administration, the SEC created a Climate and ESG Task Force in the Division of Enforcement to address disclosure issues.

Mr. Malinowski provided an update on sustainability investments and integrating climate risk into the investment process. Two SCERS-invested managers, Global Infrastructure Partners and Brookfield, made considerable investments in renewable power during the quarter. Staff has also spent time understanding how SCERS's managers are integrating and evaluating climate risk, which included meetings with Heitman and Dimensional during the quarter.

There was discussion around labor groups that occasionally reach out to SCERS to express concerns with SCERS-invested real estate managers. CM Mosqueda requested that future requests from labor groups, as well as SCERS's response, be shared with the Board.

Mr. Davis recapped the information on the topic of divestment that the Board had heard over the last two Board Meetings and the discussion that occurred:

- In January, Mayor Durkan sent a letter to the Board asking the Board to “develop the processes necessary to formally adopt the goal of divesting in fossil fuels and ensuring SCERS investments are net carbon zero by 2040.” Councilmember (CM) Mosqueda sent a letter in support of the Mayor's request. Mr. Davis sent a response to the Mayor noting the topic would be discussed during upcoming Board meetings and we would have a fuller response after our March Board meeting.
- At the January 2021 Board meeting, there was a focused discussion on SCERS's policy on divestment. Mr. Malinowski spoke to the financial analysis, stating divestment reduces diversification thereby increasing portfolio risk and that divestment directly contradicts SCERS's investment beliefs and strategy. Mike Monaco, of MMPL, spoke to the fiduciary duties of Loyalty and Prudence under Washington state law. And Joseph Boateng, Chair of the Investment Advisory Committee, spoke to divestment as an ineffective way of changing corporate behavior.
- At the February Board meeting, CM Mosqueda invited FFI Solutions to present perspective on divestment. They described multiple approaches that investors are taking to manage climate risk including: shareholder engagement, exclusionary screening/divestment, ESG integration, manager screening, and changing benchmarks. Also, at the February meeting, Mr. Malinowski gave a presentation on what other peer pension systems are doing on divestment. While the vast majority of public pension plans have not divested from fossil fuels there are five plans that have taken some action for a variety of reasons.
- Mr. Davis proposed after today's meeting sending a response to the Mayor that SCERS has considered the request and respectfully declines to divest from fossil fuel investments, in accordance with SCERS' policy. None of the fundamental investment and legal concepts supporting this policy have changed since it was adopted in 2019. Mr. Davis will mention the information the Board has heard over the last couple Board meetings and will cite SCERS's ESG policy and the financial and legal analysis that support SCERS policy on divestment. Climate change is clearly important to SCERS as an organization, and it is the focus of SCERS's ESG efforts. SCERS's Positive Action Strategy is an approach that both recognizes climate change as an important risk to our portfolio and outlines actions we can take that are consistent with our fiduciary responsibilities. Through this strategy SCERS has had an impact beyond what should be expected for a system of its size. Staff will continue to report to the Board each quarter about its efforts on this strategy and any relevant happenings on ESG issues.

CM Mosqueda suggested that the letter be put on pause until her office has had time to hear directly from SCERS's peers and follow up with them.

Mr. Davis expressed concern that this could be misleading. Regardless of what other systems do, the reasons supporting SCERS's stance on divestment are fundamental and would not change based on other systems' actions. No process is on the table to consider changing SCERS' divestment policy.

Mr. Davis and CM Mosqueda will work to craft language in the SCERS response to the Mayor. If an agreement cannot be reached, Mr. Davis will send a response to the Mayor. The SCERS Executive Director has the authority through the Board to communicate back to the Mayor.

Going forward, SCERS will continue presenting quarterly ESG updates to the board, which includes looking at what other systems are doing. If other systems want to reach out, staff would be happy to coordinate with CM Mosqueda.

Investment Committee Report – February 25, 2021

Mr. Malinowski reported on the February 25, 2021 Investment Committee meeting. The Investment Committee was joined by members of the Investment Advisory Committee (IAC) who presented the 2020 IAC Annual Report.

NEPC also attended to present the plan's year-end performance report. The plan returned 12.6% for 2020.

Executive Director Update

Mr. Davis had nothing to report.

Adjourn Meeting

Motion: Upon motion by Lou Walter, seconded by Bobby Humes, the Board of Administration voted to adjourn the meeting at 11:34 a.m. The motion passed unanimously (7-0).