



Seattle City Employees' Retirement System

Statement regarding The Seattle Times article on SCERS

The Seattle Times published an [article](#) on May 11, 2018, that describes investment decisions made more than 10 years ago at the Seattle City Employees' Retirement System (SCERS). As the article states, these decisions contributed to the long-term underperformance of the SCERS investment portfolio relative to other public pension funds and the SCERS Policy Index¹. SCERS and the City of Seattle have long known of the impact these decisions had on investment performance and have responded over the last several years by taking significant actions to correct the situation.

These corrective actions accelerated in 2013 when the SCERS Board of Administration made a change in management to improve the organization's performance, bringing in a new Executive Director and a new Chief Finance and Operations Officer. Both individuals brought extensive financial experience and municipal leadership to SCERS. Since that time, SCERS has made substantial improvements to prudently manage the investment portfolio. These improvements to SCERS's investment capabilities, processes and resulting portfolio, which are detailed below, have already contributed to much stronger investment performance.

- **Added significant internal and external investment capabilities.** SCERS now employs four investment professionals, including SCERS's first Chief Investment Officer who was hired in 2014. These individuals bring over 75 years of collective investment experience having previously worked for some of the largest investment management firms. SCERS has also improved the quality of its external investment advisors. In 2014, SCERS hired an investment advisory firm (NEPC) that has over \$950 billion in total assets under advisement and is the leading advisor to public pension funds by assets. SCERS also hired a private equity specialist firm (Adams Street Partners) with over 40 years of experience to invest in a diversified portfolio of private equity funds.
- **Implemented robust investment policies and processes.** SCERS revamped its Investment Policy in 2015 to create appropriate limits and more clearly define the responsibilities of the Board, investment staff and investment advisors. A process was also established to guide the hiring of investment management firms, so multiple parties with expertise across investment due diligence, operational due diligence, and legal review had collective responsibility for such decisions. These actions strengthened the controls within SCERS's investment process.
- **Optimized the investment portfolio.** SCERS made changes to its asset allocation to better account for return expectations, costs, and risk considerations. For example, SCERS primarily invests in passive, low-fee index strategies for efficient markets like US stocks. With the assistance of its investment advisors, SCERS also introduced or

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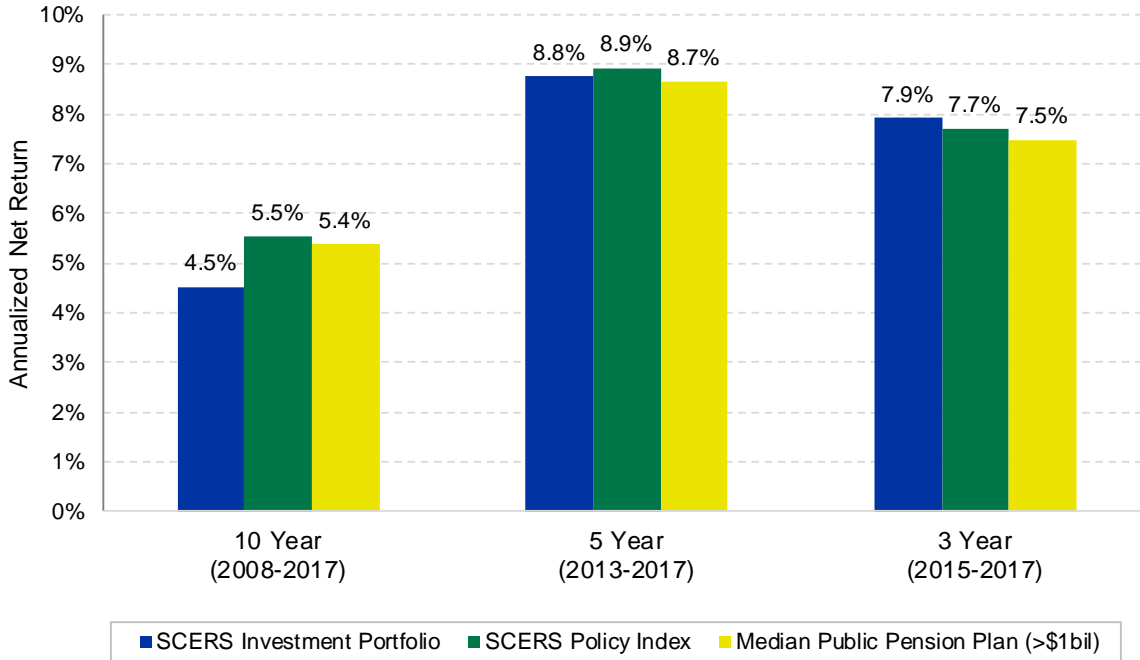
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increased its investment in several asset classes to enhance the portfolio's return potential, including credit fixed income, infrastructure and private equity.

We believe these actions, and others, have contributed to the improvement evident in SCERS's investment performance as compared to other public pension plans and the SCERS Policy Index (see graph below).

SCERS Investment Performance Comparison

As of December 2017, Net of Fees



Source: NEPC, InvestorForce

ⁱ SCERS Policy Index reflects the strategic asset allocation of the investment portfolio. Performance for the policy index is calculated on a quarterly basis as a weighted average of asset class index performance where weights are set to the target allocation to each asset class. Further information on the SCERS Policy Index is found in the Investment Policy.