



Seattle City Employees' Retirement System

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

Minutes, Thursday, September 9, 2021

The Board of Administration meeting was held virtually.

Board members present: Teresa Mosqueda (Chair), Robert Harvey, Jr., Judith Blinder, Glen Lee, Kimberly Loving

SCERS staff present: Jeff Davis, Paige Alderete, Jason Malinowski, Leola Ross, George Emerson, Mengfei Cao, Nina Melencio

Others present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Grant Ervin (City of Pittsburgh), Mike Nagan (ARSCE), Melina Thung, Tim Morrison (FAS)

Call to Order

Teresa Mosqueda, Chair, called the meeting to order at 10:00 am.

Public Comment

There was no public comment.

Administrative Consent Agenda

Provided in the Retirement Board Packet were the minutes from the August 12, 2021 Retirement board regular meeting, ratification of Retired Payroll, Office Payroll, and other payments and withdrawals.

The following items represent normal expenses:	
Pension Payroll	\$20,899,100.78
Office Payroll	330,909.82*
Admin & Investment Expenses	1,171,212.07
Total Expenses – August 2021	\$22,401,222.67

**includes estimated benefit costs*

Retirements, Withdrawals, Other Payouts – August 2021			
	Count	Monthly Pension	Lump Sum Distribution
Retirements	38	\$96,286.96	\$1,364,081.48
Withdrawals	15	n/a	\$647,874.04

Motion: Upon motion by Glen Lee, seconded by Robert Harvey, Jr., the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

ESG Quarterly Update

Jason Malinowski and Leola Ross presented the ESG Quarterly update for third 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. The Board has identified climate change as an ESG priority for SCERS because of its criticality to the long-term risk and return of the capital markets.

Mr. Malinowski introduced Ms. Ross who joined SCERS in June as Deputy Chief Investment Officer and Head of ESG.

A significant shareholder action took place in May when three dissident board members opposed by Exxon corporate management were elected to the Exxon Board. The shareholder vote reflects deep dissatisfaction with Exxon’s management that should prompt a change in business strategy to be more aligned with a low carbon economy. SCERS has been working with other institutional investors for years to create change at Exxon. SCERS’s involvement includes placing BlackRock on watch in 2016 due to its unwillingness to oppose management; joining Climate Action 100+ investor engagement with Exxon; co-filing an Exxon shareholder resolution led by CalPERS; and joining the Coalition United for Responsible Exxon.

SCERS joined other investors in a letter to the Securities Exchange Commission (SEC) in response to their request for information on climate risk disclosure. SCERS provided feedback to ISS, SCERS’s proxy voting advisor, during its annual policy consultation as well as participated in the inaugural “Climate Survey” that will gather investor feedback that can be reflected in ongoing proxy voting policy development related to climate change.

SCERS committed up to \$20 million to Tiger Infrastructure Partners Fund III. The fund is an investor in Summit Carbon Solutions, a carbon capture and storage business that is building capacity to store 10 million tons of carbon dioxide annually.

Maine became the 1st state to enact a law requiring divestment from fossil fuel companies, including those held by the state’s pension system. The Maine pension system opposed the law.

CalSTRS committed to achieving a net-zero investment portfolio by 2050 or sooner. They are planning how to meet this commitment, which is expected to include influencing policymakers and companies, expanding investments in low-carbon solutions, and assessing the transition risk of the investment portfolio.

Council Member (CM) Mosqueda asked about analytics that could track progress of the positive action strategy. Mr. Malinowski responded that staff would evaluate this request and come back at a later Board meeting.

Discussion – City of Pittsburgh

CM Mosqueda invited Grant Ervin, Chief Resilience Officer for the City of Pittsburgh and Assistant Director for the Department of City Planning, to present his perspective on fossil fuel divestment and to answer questions from the Board.

Pittsburgh began looking at the idea of divestment in 2014, which was initially opposed by the pension board and some labor partners. They took a step back and recalibrated what they were seeking to accomplish and why they were receiving opposition.

The divestment strategy can be part of a broader ESG banner that is important to tackle with fiduciary responsibility and risk management in mind. It is a complex process to screen out individual stocks. A lot depends on what the plan's holdings are and what the exposure is.

The initial analysis is critical since the primary responsibility of the board is as the fiduciary steward. They are working to achieve a return on investment that outpaces inflation and ultimately yields growth. What they saw in the analysis was poor performance of the fossil fuel industry in last 10 years.

Quarter Lagged Audit Finding Follow-Up

Paige Alderete provided a follow-up on the Quarter Lagged Audit Finding.

SCERS's 2020 audit had a significant finding that a material adjustment was needed to the SCERS financial statements to reflect fourth quarter performance for private market investments. Private market investments have historically been reported on a lagged basis because valuations were received in April or May. As a result, fourth quarter performance for private market investments was included in the financial statements of the following year. This has not had a material impact historically, but Q4 2020 had very strong performance for private markets so the impact was significant and needed to be recorded.

(11:18 am – Kimberly Loving left the meeting)

Staff worked with SCERS's private market investment managers. 19 out of 20 managers committed to provide final valuations by the 1st week of April. That covers 99% of SCERS total investments in private markets. The City accounting department agreed to annually open the books for recording the lagged investments in mid-April. If any investment values are not received by the cutoff, the investment value will be evaluated for materiality when the valuation is eventually received.

The new agreements allow the City to issue their CAFR by June 30th. SCERS Audit and valuation reports would be presented to the Board at the July board meeting.

The timeline will be incorporated into the City's annual plan. SCERS will memorialize the conversation with stakeholders in a memo. Mr. Lee and his staff are comfortable with the process that was described and are pleased with the outcome.

Investment Committee Report – August 26, 2021

Jason Malinowski reported on the August 26, 2021 Investment Committee meeting. Agenda items included the quarterly performance report, the annual ESG consultant report, and a real estate manager recommendation.

Staff recommended an investment of up to \$60 million in the JP Morgan Strategic Property Fund Asia ("SPF Asia"), an Asia-Pacific core real estate strategy. SPF Asia is managed by JP Morgan Asset Management ("JPMAM"). This recommendation is consistent with the Board's adopted strategic asset allocation that includes a 12% target weight to real estate. NEPC concurred with the recommendation.

Mr. Harvey had a question about the types of investments SCERS has in China due to a recent article stating that pension funds have lost \$400 billion in Chinese investments. Mr. Malinowski confirmed that SCERS has

investments in China in the equity and credit fixed income asset classes. Long-term performance from China investments have been very strong despite a recent sell-off driven by regulatory actions of the Chinese government against the education sector as well as the tech industry.

Motion: Upon motion by Robert Harvey, Jr., seconded by Judith Blinder, the Board of Administration accepted the Investment Committee's recommendation to invest up to \$60 million in the JP Morgan Strategic Property Fund Asia, pending satisfactory legal review. The motion passed unanimously (4-0).

Executive Director Update

Paige Alderete reported on a recent uptick in members wanting information about retirement and that staff are tracking the requests.

In the last four months, requests for retirement information have doubled from the previous time period. More information will be provided at a future board meeting.

Adjourn Meeting

Motion: Upon motion by Glen Lee, seconded by Judith Blinder, the Board of Administration voted to adjourn the meeting at 11:42 a.m. The motion was approved unanimously (4-0).