

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
Report of Independent Auditors
and Financial Statements with
Required Supplementary Information
and Additional Information

December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Seattle City Employees' Retirement System (SCERS), which comprise the statements of fiduciary net position as of December 31, 2020 and 2019, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCERS as of December 31, 2020 and 2019, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in net pension liability and related ratios, employer contributions, and investment returns be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2021, on our consideration of SCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
June 28, 2021

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2020 and 2019

This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System) financial performance during the years ended December 31, 2020 and 2019. Please read it in conjunction with the accompanying financial statements and the related notes.

The City of Seattle is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Seattle, the Seattle City Employees' Retirement System is subject to this internal control structure. In addition, section 4.36.140.D of the Seattle Municipal Code requires the Board of Administration to annually transmit a report of the financial condition of the System to the City Council.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair value, and revenues include the recognition of unrealized gains and losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Milliman Consultants and Actuaries, the consulting actuary, evaluates the status of the System from both an accounting and funding perspective.

This report contains the following information:

- 1. Basic Financial Statements** including:
 - a. Statements of Fiduciary Net Position
 - b. Statements of Changes in Fiduciary Net Position
 - c. Notes to the Financial Statements

- 2. Required Supplementary Information** including:
 - a. Schedule of Changes in Net Pension Liability and Related Ratios
 - b. Schedule of Employer Contributions
 - c. Schedule of Investment Returns

- 3. Additional Information** including:
 - a. Schedule of Administrative Expenses
 - b. Schedule of Investment Expenses

The basic financial statements are described as follows:

- The Statements of Fiduciary Net Position show the account balances at year-end and includes the fiduciary net position available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the Schedule of Changes in Net Pension Liability and Related Ratios that is included in the Required Supplementary Information.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2020 and 2019

- The Statements of Changes in Fiduciary Net Position show the sources and uses of funds during the year and illustrates the change in fiduciary net position from the previous year.
- The Notes to the Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing plan perspective and the long-term nature of the defined benefit plan.

- The Schedule of Changes in Net Pension Liability and Related Ratios contains actuarial information about the status of the plan.
- The Schedule of Employer Contributions contains historical trend information regarding the value of the actuarially determined employer contributions, and the actual contributions paid by the employer.
- The Schedule of Investment Returns contains the investment returns realized on the total portfolio for the last 10 years.

Financial Highlights

- Net position increased by \$491.6 million (15.6%) during 2020. The primary driver was net investment income of \$503.7 million. Net position increased by \$432.4 million (15.9%) during 2019. The primary driver was net investment income of \$465.8 million. Net position decreased by \$135.4 million (-4.7%) during 2018. The primary driver was net investment losses of \$106.6 million.
- Revenue (additions to net position) for 2020 was \$728.1 million which includes member and employer contributions of \$224.4 million and revenue from investment activity totaling \$503.7 million. Revenue for 2019 was \$660.2 million which includes member and employer contributions of \$194.4 million and revenue from investment activity totaling \$465.8 million. Revenue for 2018 was \$87.5 million which includes member and employer contributions of \$194.1 million partially offset by net losses on investment activity totaling \$106.6 million.
- Expenses (deductions from net position) for 2020 increased by \$8.7 million (3.8%) from 2019. This can be primarily attributed to a \$10.8 million increase in retiree benefits, partially offset by decreases in administrative expenses, \$1.9 million, and refunds of contributions, \$0.2 million. In 2020, the net increase in the number of retirees receiving benefits was 1.6%. Expenses (deductions from net position) for 2019 increased by \$4.8 million (2.2%) from 2018. This can be primarily attributed to a \$12.9 million increase in retiree benefits, partially offset by decreases in refunds of contributions, \$5.1 million, and administrative expenses, \$3.0 million. In 2019, the net increase in the number of retirees receiving benefits was 3.5%.
- Prepaid Expenses of \$793,400 presented on the Statements of Fiduciary Net Position at December 31, 2020 consist of \$693,200 in prepaid service hours for after-warranty improvements and corrections purchased from SCERS' pension administration system vendor during 2019 and payments of \$100,200 made in advance for 2021 services. At December 31, 2019, prepaid expenses consisted of \$781,900 in prepaid service hours. There were no prepaid expenses at December 31, 2018.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2020 and 2019

Fiduciary Net Position

The table below provides a summary of assets and current liabilities for the years ended December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents and receivables	\$ 508,105,170	\$ 225,562,729	\$ 155,873,550
Investments at fair value	3,436,112,875	3,124,271,110	2,755,618,644
Securities Lending Collateral	4,478,375	7,022,619	4,834,509
Prepaid Expenses	<u>793,352</u>	<u>781,900</u>	<u>-</u>
Total Assets	<u>3,949,489,772</u>	<u>3,357,638,358</u>	<u>2,916,326,703</u>
Securities lending payable	4,478,374	7,013,115	4,820,034
Other payables	<u>303,556,959</u>	<u>200,761,387</u>	<u>194,069,851</u>
Total Liabilities	<u>308,035,333</u>	<u>207,774,502</u>	<u>198,889,885</u>
Total fiduciary net position	<u>\$ 3,641,454,439</u>	<u>\$ 3,149,863,856</u>	<u>\$ 2,717,436,818</u>

Changes in Fiduciary Net Position

The table below provides a summary of the changes in plan fiduciary net position and reflects the activities of the fund for the years ended December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Additions:			
Employer contributions	\$ 141,417,746	\$ 119,171,072	\$ 117,816,201
Member contributions	82,914,475	75,260,573	76,285,206
Net investment income (loss) and other income	<u>503,737,186</u>	<u>465,764,583</u>	<u>(106,569,274)</u>
Total additions	<u>728,069,407</u>	<u>660,196,228</u>	<u>87,532,133</u>
Deductions:			
Retiree benefits	214,228,946	203,413,178	190,475,464
Refunds of contributions	15,028,611	15,188,644	20,287,842
Administrative expenses	<u>7,221,267</u>	<u>9,167,368</u>	<u>12,204,574</u>
Total deductions	<u>236,478,824</u>	<u>227,769,190</u>	<u>222,967,880</u>
Net increase (decrease)	<u>\$ 491,590,583</u>	<u>\$ 432,427,038</u>	<u>\$ (135,435,747)</u>

Revenues - Additions to Fiduciary Net Position

- In 2020, employer contributions increased by \$22.2 million (18.7%) compared to 2019 due primarily to pay rate increases retroactive to January 1, 2019, which were paid in 2020 and an increase in the blended employer contribution rate from 15.23% to 16.14%. In 2019, employer contributions increased by \$1.4 million (1.1%) compared to 2018.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2020 and 2019

- Member contributions increased by \$7.7 million (10.2%) compared to 2019 due primarily to pay rate increases retroactive to January 1, 2019, which were paid in 2020. In 2019, member contributions decreased by \$1.0 million (-1.3%) compared to 2018.
- In 2020, net income from investment activities was \$37.9 million higher than in 2019, the result of a net gain of \$503.7 million in 2020 compared to a net gain of \$465.8 million in 2019. In 2019, investment activities increased \$572.4 million, a gain of \$465.8 million compared to a loss of \$106.6 million in 2018.

Expenses - Deductions from Fiduciary Net Position

- Retiree benefits increased in 2020 by \$10.8 million (5.3%) compared to 2019, primarily due to the increased number of members retiring and a mandatory 1.5% COLA (Cost of Living Adjustment). Retiree benefits increased in 2019 by \$12.9 million (6.8%) compared to 2018.
- Refunds of contributions decreased in 2020 by \$0.2 million (-1.1%) compared to amounts paid in 2019. In 2019, refunds decreased by \$5.1 million (-25.1%) compared to amounts paid in 2018.

Changes in Plan Membership

The table below reflects the active membership and retiree changes for the years ended December 31:

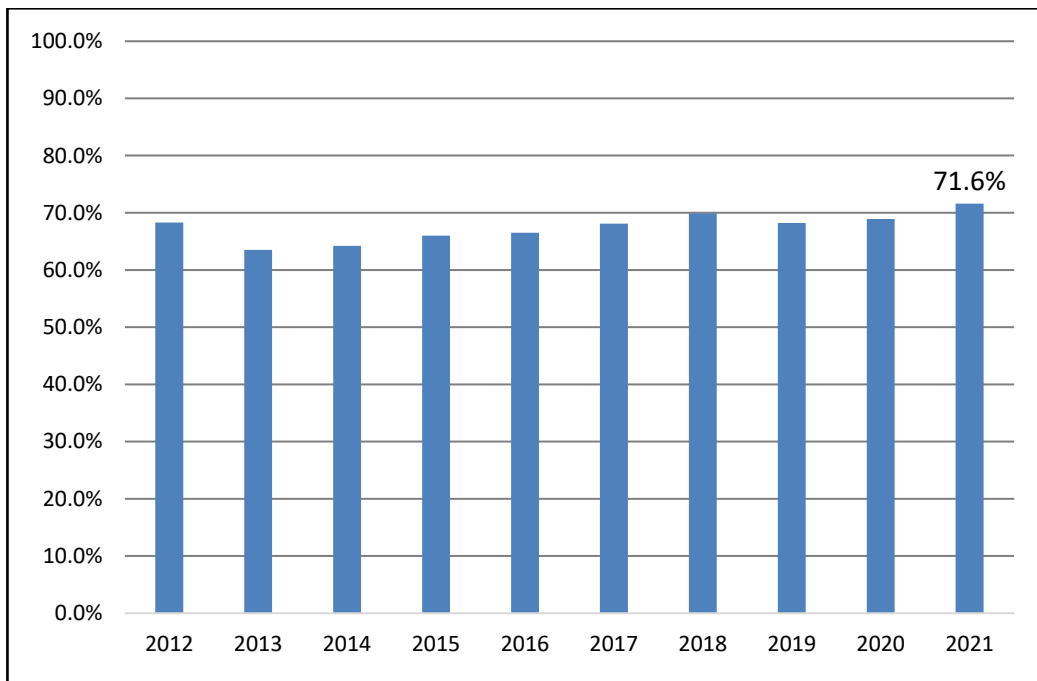
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>% Change</u>	
				<u>2020 to 2019</u>	<u>2019 to 2018</u>
Retirees and beneficiaries receiving benefits	<u>7,138</u>	<u>7,029</u>	<u>6,792</u>	1.6%	3.5%
Current and terminated employees:					
Current employee members	9,410	9,440	9,390	-0.3%	0.5%
Terminated members entitled to, but not yet receiving benefits	1,366	1,392 ¹	1,332	-1.9%	4.5%
Terminated members not entitled to benefits beyond contributions and accumulated interest, Non-Vested	<u>1,442</u>	<u>1,420</u> ¹	<u>1,307</u>	1.5%	8.6%
Total	<u><u>19,356</u></u>	<u><u>19,281</u></u>	<u><u>18,821</u></u>	0.4%	2.4%

Notes:

1 - The counts presented in 2019 for terminated members were reversed and have been corrected for 2020.

Funding Status

Schedule of Funding Progress
Funding Ratio
As of January 1st, Valuation Date



With the January 1, 2011 Valuation and the 2007-2010 Experience Study, the Board of Administration adopted a policy of asset smoothing over a 5-year period. The reported funding ratio as of January 1, 2012 reflects that change. Prior to January 1, 2011, all funding ratios were reported on a market basis.

Funds are accumulated from employer and employee contributions and investment earnings and are used to pay present and future benefit obligations and administrative expenses.

The City of Seattle adopted a second tier (Tier II) of the System for new eligible employees starting January 1, 2017. Active Tier I members contributed 10.03% of their salaries to the retirement fund in 2020, 2019 and 2018 and the City contributed 16.20% in 2020, and 15.23% in 2019 and 2018. Active Tier II members contributed 7.00% in 2020, 2019 and 2018 and the City contributed 15.76% in 2020, and 14.42% in 2019 and 2018.

The graph above refers to the results of actuarial valuations prepared for funding purposes in accordance with Actuarial Standards of Practice (ASOPs). However, GASB 67 requires a separate actuarial valuation for accounting purposes. The primary purpose of the valuation for accounting purposes is to provide consistent, standardized methodology that allows comparability of amounts and increased transparency of the pension liability across U.S. pension plans complying with GASB 67. When reporting in accordance with GASB 67, the Plan Fiduciary Net Position as a Percentage of the Total Pension Liability was 78.81% as of December 31, 2020.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2020 and 2019

Investment Activities

One-year returns on asset classes (net of fees) and comparative benchmarks are presented in the table below for the years ended December 31. These returns are calculated on a time-weighted rate of return basis:

<u>Investment Performance</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Portfolio ¹	12.6%	17.2%	-3.7%
Benchmark: Policy Index	13.2%	17.8%	-3.6%
Public Equity	15.6%	26.2%	-10.3%
Benchmark: MSCI ACWI IMI w/US Gross	16.6%	26.8%	-9.8%
Core Fixed Income	8.1%	8.7%	-0.1%
Benchmark: Bloomberg Barclays U.S. Aggregate Index	7.5%	8.7%	0.0%
Credit Fixed Income ¹	3.7%	12.3%	-1.9%
Benchmark: Custom Credit Index ³	4.4%	11.9%	-1.4%
Private Equity ¹	26.8%	12.2%	24.5%
Benchmark: Custom Private Equity Index ²	19.8%	13.2%	20.0%
Real Estate ¹	-0.1%	3.0%	7.5%
Benchmark: NCREIF ODCE Index	0.5%	4.7%	7.7%
Infrastructure ¹	6.3%	10.9%	10.0%
Benchmark: Custom Infrastructure Index ⁴	4.9%	5.3%	5.0%
Diversifying Strategies	N/A ⁵	-9.6%	-15.2%
Benchmark: HFRI Fund of Funds Comp. Index	N/A ⁵	8.4%	-4.1%

Notes:

1 - Performance for private market asset classes, including Private Equity, Real Estate, Infrastructure and Private Debt (a component of Credit Fixed Income), is lagged by one quarter and therefore presented as of September 30th. Total Portfolio performance incorporates lagged performance for private market asset classes. Investment income for 2020 has been updated in the financial statements to reflect activity through December 31, 2020 due to significant net income in these asset classes in the 4th quarter of 2020.

Values in previous years have been updated to reflect final calculations.

2 - Custom Private Equity Index is defined as the Burgiss Private Equity Eligible Universe pooled time-weighted return that contains funds with vintage years of 2014 to present

3 - Custom Credit Index is defined as 40% Merrill Lynch High Yield Master II Index, 40% Credit Suisse Leveraged Loan Index, 10% JPM EMBI Global Diversified Index and 10% JPM GBI-EM Global Diversified Index

4 - Custom Infrastructure Index is defined as: (1) for 2020: the Burgiss Infrastructure Universe pooled time-weighted return that contains funds with vintage years of 2016 to present; (2) for 2019 and 2018: CPI +3% (Seasonally Adjusted)

5 - No Diversifying Strategies were held as of 12/31/2020

Contacting the Seattle City Employees' Retirement System

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2020 and 2019**

If you have questions about this report or need additional information, please contact us by telephone at: 206.386.1293 or by e-mail at: retirecity@seattle.gov or you may mail your questions to:

Seattle City Employees' Retirement System
720 Third Avenue, Suite 900
Seattle, WA 98104

FINANCIAL STATEMENTS

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and Cash Equivalents	\$ 187,505,789	\$ 52,035,749
Receivables:		
Members	2,917,054	4,790,433
Employer	3,683,539	7,158,461
Interest and dividends	4,112,929	4,482,427
Sales proceeds receivable	<u>309,885,859</u>	<u>157,095,659</u>
Total receivables	<u>320,599,381</u>	<u>173,526,980</u>
Investments, at fair value:		
Fixed Income	780,093,999	832,701,137
Infrastructure	49,845,418	38,828,658
Private Equity	454,398,540	268,080,078
Public Equity	1,819,885,194	1,657,843,434
Real Estate	<u>331,889,724</u>	<u>326,817,803</u>
Total investments, at fair value	<u>3,436,112,875</u>	<u>3,124,271,110</u>
Securities lending collateral	<u>4,478,375</u>	<u>7,022,619</u>
Prepaid Expenses:	<u>793,352</u>	<u>781,900</u>
Total assets	<u>3,949,489,772</u>	<u>3,357,638,358</u>
Liabilities:		
Pensions payable and other	3,570,903	4,011,690
Obligations under securities lending	4,478,375	7,013,115
Investment commitments payable	<u>299,986,055</u>	<u>196,749,697</u>
Total liabilities	<u>308,035,333</u>	<u>207,774,502</u>
Fiduciary net position held in trust for pension benefits	<u>\$ 3,641,454,439</u>	<u>\$ 3,149,863,856</u>

The accompanying notes are an integral part of these financial statements.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended December 31, 2020 and 2019

	2020	2019
Additions:		
Contributions:		
Employer	\$ 141,417,746	\$ 119,171,072
Member	82,914,475	75,260,573
Total contributions	224,332,221	194,431,645
 Investment activities:		
Investment income		
Net change in fair value of investments	470,802,872	426,968,406
Interest	15,311,661	17,410,165
Dividends	18,524,719	20,646,715
Other investment income	11,816,900	14,565,733
Investment activity expenses	(12,782,932)	(13,974,207)
Net investment income	503,673,220	465,616,812
 Securities lending activities:		
Securities lending income	33,738	199,639
Borrowing rebates	51,538	(2,623)
Total securities lending income	85,276	197,016
Securities lending management fees	(21,310)	(49,245)
Net income from securities lending	63,966	147,771
Net income from investment activities	503,737,186	465,764,583
Total additions	728,069,407	660,196,228
 Deductions:		
Benefits	214,228,946	203,413,178
Refunds of contributions	15,028,611	15,188,644
Administrative expenses	7,221,267	9,167,368
Total deductions	236,478,824	227,769,190
Net change	491,590,583	432,427,038
 Fiduciary net position held in trust for pension benefits		
Beginning of year	3,149,863,856	2,717,436,818
End of year	\$ 3,641,454,439	\$ 3,149,863,856

The accompanying notes are an integral part of these financial statements.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 1 - Plan Description

The Seattle City Employees' Retirement System (the System) is a multiple employer defined benefit public employee retirement plan, covering employees of the City of Seattle and administered in accordance with Chapter 4.36 of the Seattle Municipal Code. The System is a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Human Resources Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City of Seattle are eligible for membership in the System with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments were allowed to continue their System membership (there are currently fewer than 20 active members in this category). There are currently 7,138 retirees and beneficiaries receiving benefits, and 9,410 active members of the System. There are 1,366 terminated, vested employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. The City of Seattle adopted a second tier for the System in 2016. Starting January 1, 2017, new eligible employees join this second tier.

Retirement benefits for Tier I members are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. The System provides post-retirement benefit increase including an automatic 1.5% annual COLA increase and a 65% restoration of purchasing power benefit.

Tier II is a defined benefit plan much like the original tier but has a lower contribution rate for members and retirement benefits are calculated as 1.75% multiplied by years of creditable service multiplied by average salary, based on the highest 60 consecutive months of service. Other changes related to the new tier can be found in the Seattle Municipal Code 4.36.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - These financial statements have been prepared with an "economic resources" measurement focus on the accrual basis of accounting in accordance with generally accepted accounting principles, as prescribed by the Government Accounting Standards Board.

Use of Estimates in Preparing Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the System to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The System classifies cash on deposit in financial institutions and cash on deposit in the City of Seattle's internal cash management pool as cash. The System also recognizes certain short-term highly liquid securities and funds that invest in these securities as cash equivalents.

Method Used to Value Investments - Plan investments are reported at fair value. Fair value is defined as the amount at which an investment could be exchanged in a current arm's length transaction between willing parties in which the parties each act knowledgeably and prudently. All investments are valued based on objective, observable, unadjusted quoted market prices in an active market on the measurement date, if available. In the absence of such data, valuations are based upon those of comparable securities in active markets. For illiquid or hard to value investments such as real estate, private equity, and other private investments, valuations are based upon data provided by the respective investment managers. These private asset valuations are generally based upon estimated current values and/or independent appraisals.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

Federal Income Tax Status - The System is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under section 501(a).

Contributions - Employee and employer contributions are reported in the year they are due to the System.

Benefits and Refunds of Contributions - Benefits and refunds of contributions are recognized when due and payable in accordance with the System's policy.

Note 3 - Contributions

Member and employer contributions rates are established by the Seattle Municipal Code Chapter 4.36.

The employer contribution rate is determined by the actuarial formula identified as the Normal Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations.

Tier I members are those who joined the plan prior to January 1, 2017 and contribute a fixed 10.03% of pay. The City of Seattle adopted a second tier (Tier II) of the System for new eligible employees starting January 1, 2017 and these members contribute 7.00% of pay.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 3 – Contributions (Continued)

Minimum actuarially determined employer contribution rates were 16.14% and 14.55% for 2020 and 2019, respectively. In 2020, a blended employer contribution rate of 16.14% was adopted as a combination of a 16.20% rate for Tier I members and 15.76% for Tier II members. In 2019, the employer contribution rates were 15.23% for Tier I members and 14.42% for Tier II members.

There are no long-term contracts for contributions outstanding and currently no legally required reserves. See Note 9 for additional information on assumptions used in calculating the actuarially determined contribution rates.

Note 4 - Cash

SCERS' policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation (FDIC) and Washington Public Deposit Protection Commission (PDPC) insurance. The FDIC insures the cash deposits up to \$250,000. As provided by the State of Washington RCW 43.84, the PDPC collateralizes deposits in excess of \$100,000. The bank balances of deposits of an FDIC institution as of the balance sheet date are insured.

Note 5 - Investments

Investment policy - The Board of Administration has established an Investment Policy as required by the Revised Code of Washington (RCW). The Investment Policy guides and assists the Board of Administration in selecting, monitoring, and managing System investments to fulfill SCERS's mission and in accordance with the "prudent person" rule established in RCW Section 35.39.060.

The following was the Board's adopted asset allocation policy, effective January 1, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	
Public Equity	48.0%
Private Equity	11.0%
Fixed Income	
Core Fixed Income	18.0%
Credit Fixed Income	7.0%
Real Assets	
Real Estate	12.0%
Infrastructure	4.0%
Total	<u>100.0%</u>

Money-weighted rate of return – As of December 31, 2020, the return for the System, based on a net-of-fee money-weighted rate of return methodology, was 12.53%. As of December 31, 2019, the return for the System, based on a net-of-fee money-weighted rate of return methodology, was 17.29%. Total

Note 5 - Investments (Continued)

Portfolio performance incorporates performance for private market asset classes, including Private Equity, Real Estate, Infrastructure and Private Debt (a component of Credit Fixed Income).

Cash and Cash Equivalents - Cash and Cash Equivalents include a Short-term Investment Fund (STIF), valued on an amortized cost basis, which is a collective trust that may include certificates of deposit, treasury bills, and other short-term highly liquid securities.

Commingled Funds – The System invests in various commingled funds where it has an ownership interest in a pool of securities alongside other fund holders. The following tables in this Section reflect the System's direct investment in these commingled funds, rather than the indirect investment in the securities that are held by these funds.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of a financial institution or a bank, the System will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The System mitigates custodial credit risk by having its investment securities held by the System's custodian (BNY Mellon) and registered in the System's name. The System's short-term investments are created through daily sweeps of excess cash by the System's custodian and invested in a short-term investment fund.

Credit Risk - Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. The Core Fixed Income asset class is primarily allocated to investment-grade securities with low credit risk. The Board provides each of the System's Core Fixed Income investment managers with a set of investment guidelines that include a minimum allocation to investment-grade securities. The Credit Fixed Income asset class is primarily allocated to below investment-grade securities with correspondingly higher credit risk. A summary of the credit ratings of the System's fixed income investments is provided on pages 20 and 21.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the default of a single issuer. The Board provides each of the System's Core Fixed Income investment managers with a set of investment guidelines that include a maximum allocation to a single issuer in most cases.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Market or interest rate risk is the greatest risk faced by an investor in the fixed income securities market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The Board provides each of the System's Core Fixed Income investment managers with a set of investment guidelines that includes a limit on the difference in duration between the portfolio and its applicable benchmark. A summary of the maturities of the System's fixed income investments is provided on pages 18 and 19.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily resides within the international holdings of the Public Equity asset class.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 5 - Investments (Continued)

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2020, is summarized in the following table.

<u>Currency Type</u>	<u>Public Equity Securities</u>	<u>Real Estate Funds</u>	<u>Total</u>
AUSTRALIAN DOLLAR	\$ 4,541,700	\$ -	\$ 4,541,700
CANADIAN DOLLAR	3,532,277	-	3,532,277
DANISH KRONE	524,758	-	524,758
EURO CURRENCY UNIT	24,467,202	4,981,087	29,448,289
HONG KONG DOLLAR	1,587,198	-	1,587,198
ISRAELI SHEKEL	281,619	-	281,619
JAPANESE YEN	19,158,812	-	19,158,812
NEW ZEALAND DOLLAR	259,425	-	259,425
NORWEGIAN KRONE	1,003,405	-	1,003,405
POUND STERLING	7,653,740	-	7,653,740
SINGAPORE DOLLAR	327,823	-	327,823
SWEDISH KRONA	1,146,953	-	1,146,953
SWISS FRANC	4,161,084	-	4,161,084
Total	<u>\$ 68,645,996</u>	<u>\$ 4,981,087</u>	<u>\$ 73,627,083</u>

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2019, is summarized in the following table.

<u>Currency Type</u>	<u>Public Equity Securities</u>	<u>Real Estate Funds</u>	<u>Total</u>
AUSTRALIAN DOLLAR	\$ 4,070,089	\$ -	\$ 4,070,089
CANADIAN DOLLAR	4,849,694	-	4,849,694
DANISH KRONE	476,727	-	476,727
EURO CURRENCY UNIT	26,072,408	2,823,043	28,895,451
HONG KONG DOLLAR	1,255,261	-	1,255,261
ISRAELI SHEKEL	474,380	-	474,380
JAPANESE YEN	19,859,369	-	19,859,369
NEW ZEALAND DOLLAR	143,653	-	143,653
NORWEGIAN KRONE	506,911	-	506,911
POUND STERLING	9,635,678	-	9,635,678
SINGAPORE DOLLAR	604,855	-	604,855
SWEDISH KRONA	1,540,169	-	1,540,169
SWISS FRANC	4,274,434	-	4,274,434
Total	<u>\$ 73,763,628</u>	<u>\$ 2,823,043</u>	<u>\$ 76,586,671</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 5 - Investments (Continued)

Derivatives - The derivatives used by the System typically have no greater risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by careful screening of counterparties performed by the manager. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System's derivative transactions as of December 31, 2020 are summarized in the following table.

Type	Unrealized Gain/Loss			Notional Value	
	Long Position	Short Position	Total	Long Position	Short Position
Futures - Fixed Income	\$ 58,991	\$ 57,188	\$ 116,179	\$ 73,573,813	\$ (6,927,500)
Futures - Equity	210,569	(250,614)	(40,045)	8,989,090	(12,615,200)
Swaps - Fixed Income	(281,986)	342,387	60,401	78,900,000	(78,900,000)
Total	<u>\$ (12,426)</u>	<u>\$ 148,961</u>	<u>\$ 136,535</u>		

The System's derivative transactions as of December 31, 2019 are summarized in the following table.

Type	Unrealized Gain/Loss			Notional Value	
	Long Position	Short Position	Total	Long Position	Short Position
Futures - Fixed Income	\$ (549,315)	\$ 82,048	\$ (467,267)	\$ 146,053,578	\$ (3,741,750)
Futures - Equity	43,958	(75,410)	(31,452)	4,088,730	(10,820,125)
Options - Fixed Income	-	5,595	5,595	N/M	N/M
Swaps - Fixed Income	149,145	30,185	179,330	93,600,000	(93,600,000)
Total	<u>\$ (356,212)</u>	<u>\$ 42,418</u>	<u>\$ (313,794)</u>		

N/M - Not Meaningful

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 5 - Investments (Continued)

As of December 31, 2020, the fixed income portfolio of the System had the following investment maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u><1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>>10</u>
Fixed Income Securities					
Agencies	\$ 16,034,918	\$ -	\$ 14,022,975	\$ 2,011,943	\$ -
Asset Backed Security	34,838,076	-	15,622,012	15,347,412	3,868,652
Corporate Debt	284,150,159	1,759,613	96,749,704	114,526,468	71,114,374
Derivatives	(133,798)	(13,127)	6,401	(127,072)	-
Foreign Sovereign	4,727,636	-	3,809,627	-	918,009
Mortgage Backed Security	209,882,750	-	412,954	19,297,299	190,172,497
Municipal	11,394,883	-	1,512,530	5,036,107	4,846,246
Treasury Notes and Bonds	<u>100,849,384</u>	<u>-</u>	<u>38,333,457</u>	<u>9,044,132</u>	<u>53,471,795</u>
Total Fixed Income Securities	<u>\$ 661,744,008</u>	<u>\$ 1,746,486</u>	<u>\$ 170,469,660</u>	<u>\$ 165,136,289</u>	<u>\$ 324,391,573</u>
Fixed Income Funds	118,349,991				
Total Fixed Income	<u>\$ 780,093,999</u>				

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 5 - Investments (Continued)

As of December 31, 2019, the fixed income portfolio of the System had the following investment maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u><1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>>10</u>
Fixed Income Securities					
Agencies	\$ 84	\$ -	\$ 84	\$ -	\$ -
Asset Backed Security	40,507,018	24,926	18,477,023	17,624,592	4,380,477
Corporate Debt	217,052,473	19,671,180	98,465,951	67,780,697	31,134,645
Derivatives	230,600	(469,142)	699,742	-	-
Mortgage Backed Security	228,840,428	-	3,357,507	10,834,708	214,648,213
Municipal	7,373,723	-	-	3,190,695	4,183,028
Treasury Notes and Bonds	<u>122,204,549</u>	<u>-</u>	<u>30,590,356</u>	<u>38,369,933</u>	<u>53,244,260</u>
Total Fixed Income Securities	<u>\$ 616,208,875</u>	<u>\$ 19,226,964</u>	<u>\$ 151,590,663</u>	<u>\$ 137,800,625</u>	<u>\$ 307,590,623</u>
Fixed Income Funds	216,492,262				
Total Fixed Income	<u>\$ 832,701,137</u>				

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 5 - Investments (Continued)

As of December 31, 2020, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed Income Securities									
Agencies	\$ 16,034,918	\$ 16,034,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Asset Backed Security	34,838,077	30,230,488	1,790,767	866,490	1,258,551	-	-	328,491	363,289
Corporate Debt	284,150,160	9,794,746	14,763,716	84,137,444	170,899,675	1,514,350	-	1,601,425	1,438,803
Derivatives	(133,798)	-	-	-	-	-	-	-	(133,798)
Foreign Sovereign	4,727,635	-	2,341,825	918,008	-	-	-	-	1,467,802
Mortgage Backed Security	209,882,750	148,000,522	-	-	246,685	-	-	35,401	61,600,142
Municipal	11,394,882	2,131,495	7,927,528	1,335,860	-	-	-	-	-
Treasury Notes and Bonds	100,849,384	100,849,384	-	-	-	-	-	-	-
Total Fixed Income Securities	\$ 661,744,008	\$ 307,041,553	\$ 26,823,836	\$ 87,257,802	\$ 172,404,911	\$ 1,514,350	\$ -	\$ 1,965,317	\$ 64,736,238
Fixed Income Funds	118,349,991								
Total Fixed Income	\$ 780,093,999								

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 5 - Investments (Continued)

As of December 31, 2019, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed Income Securities									
Agencies	\$ 84	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84
Asset Backed Security	40,507,018	34,611,874	3,303,287	1,579,468	-	-	-	343,060	669,329
Corporate Debt	217,052,473	-	7,811,524	81,383,451	125,681,586	645,750	360,000	-	1,170,162
Derivatives	230,600	-	-	-	-	-	-	-	230,600
Mortgage Backed Security	228,840,428	142,711,285	-	-	320,922	-	-	71,392	85,736,829
Municipal	7,373,723	1,098,307	5,046,766	1,228,650	-	-	-	-	-
Treasury Notes and Bonds	<u>122,204,549</u>	<u>122,204,549</u>	-	-	-	-	-	-	-
Total Fixed Income Securities	<u>\$ 616,208,875</u>	<u>\$ 300,626,015</u>	<u>\$ 16,161,577</u>	<u>\$ 84,191,569</u>	<u>\$ 126,002,508</u>	<u>\$ 645,750</u>	<u>\$ 360,000</u>	<u>\$ 414,452</u>	<u>\$ 87,807,004</u>
Fixed Income Funds	216,492,262								
Total Fixed Income	<u>\$ 832,701,137</u>								

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 6 - Fair Value Measurements

Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1: unadjusted quoted prices for identical instruments in active markets
- Level 2: quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable
- Level 3: significant inputs are unobservable

The following schedule presents investments categorized according to the fair value hierarchy, and is preceded with additional information regarding investments measured at the net asset value as of December 31, 2020:

Investments by fair value level	12/31/2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Public Equity Securities	\$ 983,638,749	\$ 983,621,886	\$ 1,000	\$ 15,863
Fixed Income Securities	<u>661,744,008</u>	<u>100,965,562</u>	<u>560,778,446</u>	<u>-</u>
Total investments by fair value level	\$ 1,645,382,757	\$ 1,084,587,448	\$ 560,779,446	\$ 15,863
Fund Investments measured at the net asset value (NAV)				
Fixed Income	\$ 118,349,991			
Infrastructure	49,845,418			
Private Equity	454,398,540			
Public Equity	836,246,445			
Real Estate	<u>331,889,724</u>			
Total investments by measured at the NAV	\$ 1,790,730,118			
Total investments	<u>\$ 3,436,112,875</u>			
Securities lending collateral	<u>\$ 4,478,375</u>			

Fund Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Frequency (if Currently Eligible)	Redemption Notice Period
Fixed Income	\$ 118,349,991	\$ 28,443,898	Monthly, N/A	5 - 30 Days, N/A
Infrastructure	49,845,418	35,713,261	N/A	N/A
Private Equity	454,398,540	302,305,067	N/A	N/A
Public Equity	836,246,445	-	Daily, Monthly	1 - 60 Days
Real Estate	<u>331,889,724</u>	<u>44,413,591</u>	Quarterly, N/A	45 Days, N/A
Total investments measured at the NAV	<u>\$ 1,790,730,118</u>	<u>\$ 410,875,817</u>		

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 6 - Fair Value Measurements (Continued)

The following schedule presents investments categorized according to the fair value hierarchy, and is proceeded with additional information regarding investments measured at the net asset value as of December 31, 2019:

Investments by fair value level	12/31/2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Public Equity Securities	\$ 888,928,655	\$ 888,911,792	\$ 1,000	\$ 15,863
Fixed Income Securities	616,208,875	121,735,407	494,473,468	-
Total investments by fair value level	\$ 1,505,137,530	\$ 1,010,647,199	\$ 494,474,468	\$ 15,863
Fund Investments measured at the net asset value (NAV)				
Fixed Income	\$ 216,492,262			
Infrastructure	38,828,658			
Private Equity	268,080,078			
Public Equity	768,914,779			
Real Estate	326,817,803			
Total investments by measured at the NAV	\$ 1,619,133,580			
Total investments	\$ 3,124,271,110			
Securities lending collateral	\$ 7,022,619			

Fund Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Frequency (if Currently Eligible)	Redemption Notice Period
Fixed Income	\$ 216,492,262	\$ 75,831,743	Monthly, N/A	5 - 30 Days, N/A
Infrastructure	38,828,658	46,132,900	N/A	N/A
Private Equity	268,080,078	397,425,402	N/A	N/A
Public Equity	768,914,779	-	Daily, Monthly	1 - 60 Days
Real Estate	326,817,803	57,454,801	Quarterly, N/A	45 Days, N/A
Total investments measured at the NAV	<u>\$ 1,619,133,580</u>	<u>\$ 576,844,846</u>		

Fixed Income – These investments are structured as limited partnerships. The investments include those with a perpetual life and the ability to redeem as well as investments with an approximate life of five years where redemptions are restricted. There are no plans to liquidate the portfolio.

Infrastructure – These investments are structured as limited partnerships or limited liability companies. These investments have an approximate life of ten years where redemptions are restricted. There are no plans to liquidate the portfolio.

Private Equity – These investments are structured as limited partnerships or limited liability companies. These investments have an approximate life of ten years where redemptions are restricted. There are no plans to liquidate the portfolio.

Note 6 - Fair Value Measurements (Continued)

Public Equity – These investments are structured as mutual funds, trusts, limited partnerships, or limited liability companies. The funds have a perpetual life. Redemption frequencies range from daily to monthly. There are no plans to liquidate the portfolio.

Real Estate – These investments are structured as trusts, limited partnerships, or limited liability companies. These investments include those with a perpetual life and the ability to redeem as well as investments with an approximate life of 10 years where redemptions are restricted. There are no plans to liquidate the portfolio.

Note 7 - Securities Lending Transactions

Through a custodial agent, the System participates in a securities lending program whereby securities are lent for the purpose of generating additional income to the System. The System lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent, providing a margin against a decline in the market value of the collateral. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income it is due on the securities lent. Cash and U.S. government securities were received as collateral for these loans. The System invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the System must return the cash collateral to the borrower upon the expiration of the loan. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity.

As of December 31, 2020, the fair value of securities on loan was \$4,729,385. Associated cash collateral totaling \$4,478,375 was received. The fair market value of the reinvested collateral was \$4,478,375 at December 31, 2020.

As of December 31, 2019, the fair value of securities on loan was \$6,866,300. Associated cash collateral totaling \$7,013,115 was received. The fair market value of the reinvested collateral was \$7,022,619 at December 31, 2019, which includes an unrealized gain totaling \$9,504.

Note 8 – Prepaid Expenses

At December 31, 2020, the System had prepaid expenses of \$793,352, including 3,961 prepaid service hours purchased during 2019 for after-warranty improvements and corrections from SCERS' pension administration vendor valued at \$693,175 and payments of \$100,177 made in advance for 2021 services. There were \$781,900 in prepaid expenses at December 31, 2019.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 9 - Commitments

The System has entered into capital commitments to fund partnership interests in certain alternative investments. At December 31, 2020, the System has unfunded commitments of \$410,875,817 to these partnerships.

Note 10 - Net Pension Liability

The components of the net pension liability as of December 31 were as follows:

	<u>2020</u>	<u>2019</u>
Total Pension Liability	\$ 4,620,468,970	\$ 4,406,704,273
Plan Fiduciary Net Position	<u>3,641,454,439</u>	<u>3,149,863,856</u>
Net Pension Liability	<u>\$ 979,014,531</u>	<u>\$ 1,256,840,417</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 78.81%	 71.48%

Actuarial assumptions

The total pension liability as of December 31, 2020 and 2019 was determined by actuarial valuations as of January 1, 2020 and 2019, respectively. Generally accepted actuarial techniques were applied to roll forward the total pension liability to December 31, 2020 and 2019, respectively. The following actuarial cost method and key actuarial assumptions and other inputs were applied to the measurement periods of December 31, 2020 and 2019:

Investment Rate of Return:	7.25% compounded annually, net of expenses
Salary Increases:	3.50%
Inflation:	2.75%
Actuarial Cost Method:	Individual Entry Age Normal

The actuarial assumptions that determined the total pension liability as of December 31, 2020 and 2019 were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

Note 10 - Net Pension Liability (Continued)

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2020 and 2019 (see discussion of pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	Long-Term Expected Real Rate of Return	
	<u>2020</u>	<u>2019</u>
Equity		
Public Equity	4.25%	4.77%
Private Equity	7.32%	7.96%
Fixed Income		
Core Fixed Income	-0.10%	0.67%
Credit Fixed Income	3.26%	3.66%
Real Assets		
Real Estate	3.41%	3.76%
Infrastructure	3.85%	3.95%

The above table reflects the expected (30 year) real rate of return for each major asset class. The expected inflation rate was projected at 2.75% for the same time periods.

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
2020	\$ 1,545,481,173	\$ 979,014,531	\$ 505,414,098
2019	1,798,865,882	1,256,840,417	803,164,703

REQUIRED SUPPLEMENTARY INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total pension liability							
Service Cost	\$ 118,381,689	\$ 106,878,177	\$ 106,483,390	\$ 112,691,379	\$ 106,450,550	\$ 100,415,811	\$ 94,017,562
Interest	319,903,550	303,180,183	293,163,397	281,360,916	268,005,035	254,539,867	241,885,785
Benefit changes	-	-	-	-	-	-	-
Difference between expected and actual experience	4,737,015	(21,432,335)	(12,310,502)	(29,175,591)	(7,653,756)	1,983,005	-
Changes in assumptions	-	-	100,064,436	-	-	-	-
Benefits payments	(214,228,946)	(203,413,178)	(190,475,464)	(179,226,526)	(168,967,298)	(159,349,807)	(150,239,208)
Refunds of contributions	<u>(15,028,611)</u>	<u>(15,188,644)</u>	<u>(20,287,842)</u>	<u>(19,158,756)</u>	<u>(16,456,570)</u>	<u>(16,137,840)</u>	<u>(15,103,615)</u>
Net change in total pension liability	213,764,697	170,024,203	276,637,415	166,491,422	181,377,961	181,451,036	170,560,524
Total pension liability - beginning	<u>4,406,704,273</u>	<u>4,236,680,070</u>	<u>3,960,042,655</u>	<u>3,793,551,233</u>	<u>3,612,173,272</u>	<u>3,430,722,236</u>	<u>3,260,161,712</u>
Total pension liability - ending (a)	<u>4,620,468,970</u>	<u>4,406,704,273</u>	<u>4,236,680,070</u>	<u>3,960,042,655</u>	<u>3,793,551,233</u>	<u>3,612,173,272</u>	<u>3,430,722,236</u>
Plan net position							
Contributions - employer	141,417,746	119,171,072	117,816,201	112,102,982	108,454,496	101,153,403	89,988,898
Contributions - member	82,914,475	75,260,573	76,285,206	73,650,409	71,755,857	65,779,216	63,969,504
Net investment income	503,737,186	465,764,583	(106,569,274)	388,156,509	189,941,169	7,083,633	122,510,395
Benefits payments	(214,228,946)	(203,413,178)	(190,475,464)	(179,226,526)	(168,967,298)	(159,349,807)	(150,239,208)
Administrative expense	(7,221,267)	(9,167,368)	(12,204,574)	(11,150,217)	(9,250,653)	(8,211,137)	(5,330,764)
Refunds of contributions	<u>(15,028,611)</u>	<u>(15,188,644)</u>	<u>(20,287,842)</u>	<u>(19,158,756)</u>	<u>(16,456,570)</u>	<u>(16,137,840)</u>	<u>(15,103,615)</u>
Net change in plan net position	491,590,583	432,427,038	(135,435,747)	364,374,401	175,477,001	(9,682,532)	105,795,210
Plan net position - beginning	<u>3,149,863,856</u>	<u>2,717,436,818</u>	<u>2,852,872,565</u>	<u>2,488,498,164</u>	<u>2,313,021,163</u>	<u>2,322,703,695</u>	<u>2,216,908,485</u>
Plan net position - ending (b)	<u>3,641,454,439</u>	<u>3,149,863,856</u>	<u>2,717,436,818</u>	<u>2,852,872,565</u>	<u>2,488,498,164</u>	<u>2,313,021,163</u>	<u>2,322,703,695</u>
Net pension liability - ending (a) - (b)	<u>\$ 979,014,531</u>	<u>\$ 1,256,840,417</u>	<u>\$ 1,519,243,252</u>	<u>\$ 1,107,170,090</u>	<u>\$ 1,305,053,069</u>	<u>\$ 1,299,152,109</u>	<u>\$ 1,108,018,541</u>
Ratio of plan net position to total pension liability (b) / (a)	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%
Covered employee payroll	\$ 876,856,592	\$ 785,552,254	\$ 779,092,412	\$ 733,288,443	\$ 708,600,000	\$ 641,700,000	\$ 630,900,000
Net pension liability as a percentage of covered-employee payroll	111.65%	159.99%	195.00%	150.99%	184.17%	202.45%	175.63%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Amounts Presented in Millions

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined employer contribution	\$ 141.4	\$ 114.3	\$ 116.6	\$ 112.1	\$ 107.9	\$ 100.9	\$ 90.3	\$ 77.1	\$ 62.5	\$ 72.3
Actual employer contributions	141.4	119.2	117.8	112.1	108.5	101.2	90.0	77.1	62.5	50.3
Annual contribution deficiency (excess)	-	(4.9)	(1.2)	-	(0.6)	(0.3)	0.3	-	-	22.0
Covered-employee payroll	876.9	785.6	779.1	733.3	708.6	641.7	630.9	597.9	567.8	557.0
Actual contributions as a percentage of covered-employee payroll	16.12%	15.17%	15.12%	15.29%	15.31%	15.77%	14.27%	12.90%	11.01%	9.03%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, one year prior to the fiscal year in which the contributions will apply.

Methods and assumptions used to determine contribution rates for fiscal year 2020 are:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Remaining amortization period	Closed 30 years as of January 1, 2013 valuation
Asset valuation method	5 years smoothed, non-asymptotic
Inflation	2.75%
Salary increases	3.50%, differs slightly from actuarial valuation due to exclusion of 0.50% active membership growth assumption for
Investment rate of return	7.25%
Cost of Living Adjustments	Annual compounding COLA of 1.5% assumed.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Fund	12.53%	17.29%	-3.79%	16.00%	8.40%	0.10%	5.47%	14.93%	12.82%	-0.27%

Notes:

- These returns are calculated on a net-of-fee money-weighted rate of return basis.
- Total Portfolio performance incorporates performance for private market asset classes, including Private Equity, Real Estate, Infrastructure and Private Debt (a component of Credit Fixed Income).

ADDITIONAL INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
Years Ended December 31, 2020 and 2019

	<u>Budget</u>	<u>Actual Expenses</u>	
	<u>2020</u>	<u>2020</u>	<u>2019</u>
Personnel Services			
Salaries	\$ 2,916,159	\$ 3,384,335	\$ 3,548,944
Benefits	<u>933,843</u>	<u>1,240,581</u>	<u>1,216,917</u>
Total Personnel Services	<u>3,850,002</u>	<u>4,624,916</u>	<u>4,765,861</u>
Maintenance and Operations			
Professional Services	1,068,114	467,647	828,053
Office Rent	248,851	283,861	398,937
Data Processing	586,450	574,307	1,984,478
Office Supplies	237,484	154,100	248,764
Postage	56,826	98,886	73,634
Training & Travel	92,913	47,902	94,065
Internal Services & Cost Allocations	<u>2,214,035</u>	<u>1,931,855</u>	<u>1,758,315</u>
Total Maintenance & Operations	<u>4,504,673</u>	<u>3,558,558</u>	<u>5,386,246</u>
Total Expenses	<u>\$ 8,354,675</u>	<u>\$ 8,183,474</u>	<u>\$ 10,152,107</u>
Less Internal Investment Expenses		\$ 962,207	\$ 984,739
Total Administrative Expenses		<u>\$ 7,221,267</u>	<u>\$ 9,167,368</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT EXPENSES
Year Ended December 31, 2020

Investment Management Fees:	
Public Equity	\$ 2,240,133
Private Equity	1,252,077
Fixed Income	2,178,115
Real Estate	4,227,777
Infrastructure	1,093,936
Other	<u>252,871</u>
Total Investment Management Fees	<u>\$ 11,244,909</u>
Consulting Services:	
NEPC LLC	313,100
Custodial Services:	
Bank of New York Mellon	262,716
Internal Costs:	
	962,207
Total Investment Expenses	<u>\$ 12,782,932</u>
Securities Lending Services:	
Bank of New York Mellon	\$ 21,310

Note:

- Certain investment managers pursue a multi-manager strategy whereby the manager identifies, selects and invests through multiple underlying investment managers. In these instances, the investment fees reflected in the schedule are only those incurred directly by the investment manager of the multi-manager strategy and do not incorporate those fees incurred indirectly by the underlying investment managers.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Seattle City Employees' Retirement System (SCERS), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements, and have issued our report thereon dated June 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCERS' internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SCERS' Response to Findings

SCERS' response to the findings identified in our audit is described in the accompanying schedule of findings. SCERS' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
June 28, 2021

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2020**

NONE

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020**

A. FINANCIAL STATEMENT AUDIT FINDINGS

2020-001 Adjustment of Lagged Investment Valuations (Significant Deficiency)

Criteria: Management is responsible for designing, implementing, and maintaining internal controls that include controls designed to ensure complete and accurate financial statements.

Condition: A material adjustment to the financial statements was identified during the course of our audit to update the lagged alternative investment valuations to December 31, 2020 valuations.

Cause: Historically, SCERS has not recorded the valuation adjustment caused by lagged alternative investment reporting due to timing of the close of the general ledger. In prior years, this has not been a material difference. However, an investment manager significant to SCERS' private equity asset class finalized their valuation reporting in mid-May. That valuation adjustment from the most recent valuation available at the close of SCERS' general ledger was material to the financial statements as a whole.

Effect: SCERS recorded the adjustment to the financial statements to update the lagged alternative investment valuations to December 31, 2020.

Auditors' Recommendation: We recommend SCERS work to obtain estimates in advance of delayed investment fund valuation finalization with significant investment managers to record an entry to the alternative investments that is materially accurate. We further recommend consistent treatment of this adjustment of the investment valuations for all alternative investment funds.

Management's Response: Once the lagged, Q4 reports were received, SCERS and CLA immediately reviewed this information and were in-agreement that this amount was material and needed to be reflected in SCERS 2020 financials. SCERS took expedient actions to update the balances in the City's financial system and SCERS' financial statements. SCERS' handling of Q4 lagged alternative investments has been based on past, accepted industry practice. SCERS agrees that going forward, it will work to identify additional processes that may help bring more consistency, potentially earlier investment estimates, and will continue to meet the City's general ledger close and audit schedule as well as the asset manager's lagged investment assessment schedule.