



Seattle City Employees' Retirement System

Investment Committee Meeting
Pacific Building, 720 3rd Avenue, Suite 900, Seattle
(206) 386-1293

Minutes, Thursday, June 30, 2022

IC Members Present: Robert Harvey, Jr. (Chair), Judith Blinder, Sherri Crawford

IAC Members Present: Keith Traverse (IAC Chair), Dwight McRae

SCERS Staff Present: Jeff Davis, Jason Malinowski, Paige Alderete, Nina Melencio, Leola Ross, George Emerson, Mengfei Cao, Mark Schimizza

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke (NEPC), Joe Ebisa (With Intelligence), Lauren Albanese (Fin News), MMarroquin, Candida Hoeberichts (AEW), Mike Acton (AEW), Lily Kao (AEW), Christine Giordano (ISS), Tom Mikesell (LEG)

Call to Order

Robert Harvey, Jr., Chair, called the meeting to order at 12:01 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the May 26, 2022 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the May 26, 2022 Investment Committee meeting. The motion passed unanimously (3-0).

Market and Portfolio Update

Jason Malinowski provided a market and portfolio update for the first half of 2022.

Public Equity and Core Fixed Income asset class indices have returned -22% and -12%, respectively, year-to-date through June 17th. The Federal Reserve and other central banks have prioritized reducing inflation and are willing to accept lower economic growth and employment. Businesses and consumers are expecting a recession, which can be self-fulfilling. The expectation is that inflation will fall in upcoming years to a more normal level from the current 8-9%.

The portfolio's estimated performance is -12% year-to-date through June 17th with an additional impact of -2% to -6% for private market asset classes when they are revalued in coming quarters. This challenging performance follows strong returns from 2019 to 2021 (+15.5% annualized) that resulted in significant deferred actuarial gains. Additionally, long-term return expectations have likely increased in 2022, implying that system liabilities have also fallen in value.

Staff will continue to rebalance the portfolio on a monthly basis to closely reflect the strategic asset allocation target and will also continue to make private market fund commitments.

Real Estate Deep Dive

Mengfei Cao and Jason Malinowski provided a deep dive discussion on the Real Estate asset class and answered questions from the committee.

Real Estate offers diversification to equities and is expected to provide some protection against unexpected inflation. The real estate allocation is about halfway through a multi-year transition from a predominantly US core portfolio to being diversified by strategy and geography.

SCERS's allocation to Real Estate is currently 13.1%, which is modestly above the 12% target weight. The allocation has increased since year-end 2021 due to poor public markets performance, strong real estate performance, and capital call activity. The asset class performance has been strong with the non-core allocation outperforming the core allocation, as expected.

At the February 2022 board meeting, staff had recommended an \$80 million investment in Carlyle Property Investors (CPI), a US core plus strategy. The board voted to delay consideration of the investment until fall of 2022 due to concerns with CPI's investments in the single-family rental home sector. Staff wanted to close the loop since Carlyle is no longer accepting capital from new investors as CPI is oversubscribed. Staff has instead allocated additional capital to SCERS's two existing core real estate managers (JP Morgan and AEW).

There was discussion on how SCERS's revised ESG policy would apply to a manager who invested in single family rental homes. Staff concluded that investing via managers in the single-family rental home sector is fully consistent with SCERS's ESG policy after assessing the financial risk posed by potential regulation of the sector. Furthermore, it is not feasible to exclude the single-family rental home sector because SCERS invests in commingled funds with broadly diversified mandates. Three of SCERS's managers invest in the single-family rental home sector and it is increasingly become a standard component of real estate funds. Keith Traverse and Dwight McRae of the Investment Advisory Committee and Don Stracke of NEPC provided their perspective in support of staff's approach and conclusion on the single-family rental home sector.

Real Estate Market Environment – AEW Capital Management

Candida Hoeberecht, Lily Cao, and Mike Acton of AEW Capital Management presented information about the real estate market and answered questions from the committee members. SCERS has \$126 million invested in AEW Core Property Trust which is an open-end core fund with \$8.3 billion in assets across 174 properties located in the United States.

Real Estate demand in apartments and warehouses is quite strong. Retail demand is recovering, and office demand has turned positive over the last few quarters. There are record low apartment and industrial vacancy rates which equates to high rents. We don't know how the work-from-home trend will impact people coming to the office in the long-term. It's likely that a lot of offices won't do well, and that location and amenities will become increasingly important to attract talent.

Infrastructure Deep Dive

George Emerson presented the annual deep dive of the infrastructure asset class and briefly reviewed the managers, portfolio structure, and pacing plan. Don Stracke, NEPC, discussed the market environment. Infrastructure is a relatively new asset class for SCERS which was recommended from the 2015 asset-liability study and with the first investments made in 2016.

SCERS has a current and target allocation of 1.8% and 4.0%, respectively. Performance has been strong and resilient during the pandemic. SCERS's performance has exceeded the benchmark since inception.

Looking forward, SCERS will commit additional capital to existing and prospective infrastructure managers to prudently growth the allocation to its target weight in a manner that is diversified across geographies, sector, and risk profile. SCERS will continue to monitor the infrastructure space for additional sectors and themes and more closely review sector and regional specialist funds.

Adjourn Meeting

Motion: Upon motion by Judith Blinder, seconded by Sherri Crawford, the Investment Committee voted to adjourn the meeting at 1:56 pm. The motion passed unanimously (3-0).