



Seattle City Employees' Retirement System

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

Minutes, Thursday, July 28, 2022

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

IAC Members Present: Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke (NEPC), Sarah Samuels (NEPC), Kevin Balaod (With Intelligence), Lauren Albanese (Fin News), Matt Courtois (FAS)

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 June 30, 2022 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the June 30, 2022 Investment Committee meeting.

NEPC Manager Research Update

Don Stracke and Sarah Samuels of NEPC gave an update on their manager research effort and answered questions from committee members.

Ms. Samuels heads the Investment Manager Research team of 40 research analysts. NEPC's due diligence process is a combination of quantitative analysis of a manager's track record and qualitative analysis of their investment process and incentive alignment. Research analysts rank managers on a 1-to-5 scale to express their view through a consistent framework.

NEPC's key manager research initiatives relate to DEI, ESG and fee negotiations. The research team is growing the representation of diverse managers on their focused placement list. NEPC is also focused on hiring for a few open research positions and retaining the existing team.

Public Equity Deep Dive

Leola Ross and Mengfei Cao provided a deep dive discussion on the Public Equity asset class that included the portfolio role, size, strategy, investment managers, and performance, as well as market environment.

Public Equity drives the return and risk of SCERS's investment portfolio due to its large current and target allocation of 44.7% and 48%, respectively, as well as its high expected return and volatility. The allocation has decreased over time, as Private Equity has increased, compounded by the most recent drawdown in public markets.

Ms. Ross led a discussion on factor tilts in the Public Equity allocation. SCERS currently has an intentional tilt to value stocks, as well as smaller and incidental tilts to small/mid cap and international stocks. There has been an ongoing debate among staff and NEPC on whether to have intentional and persistent factor tilts. The expected advantages are return improvement and risk reduction whereas the drawbacks are that factors are cyclical, with returns that erode over time and introduce material tracking error.

Staff recommends a Public Equity portfolio that is more factor neutral and therefore to discontinue the value tilt, which would be accomplished by closing the PIMCO Research Affiliates Enhanced Equity account that follows a deep-value strategy and had \$174 million as of June 30, 2022. In addition to it no longer being an optimal fit for the portfolio, staff also highlighted as reasons for the recommendation that there has been turnover on the Research Affiliates investment team, weaknesses identified in the investment process and complexities introduced by the partnership between PIMCO and Research Affiliates.

Russell Investments would manage the account closing to minimize transaction costs with proceeds expected to be invested in the short-term through the overlay program. Staff and NEPC are currently conducting a global equity manager search, which will guide the long-term reallocation.

NEPC supports staff's recommendation.

Motion: Upon motion by Sherry Crawford, seconded by Judith Blinder, the Investment Committee recommended that the Board of Administration close the PIMCO Research Affiliates Enhanced Equity account. The motion passed unanimously (3-0).

Adjourn Meeting

Motion: Upon motion by Sherry Crawford, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 1:50 pm. The motion passed unanimously (3-0).