



Seattle City Employees' Retirement System

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

Minutes, Thursday, September 29, 2022

IC Members Present: Robert Harvey, Jr., Lou Walter, Judith Blinder, Sherri Crawford, Jamie Carnell

IAC Members Present: Dwight McRae

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

Others Present: Mike Monaco (MMPL), Jenn Appel (NEPC), Don Stracke (NEPC), Mike Barela (Voya IM), Joe Ebisa (With.Intelligence), Matt Courtois (FAS), Lauren Albanese (Fin News), Kevin Balaod (With.Intelligence)

Call to Order

Robert Harvey, Jr., chair, called the meeting to order at 12:00 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the August 25, 2022 Investment Committee.

Motion: Upon motion by Jamie Carnell, seconded by Sherri Crawford, the Investment Committee approved the minutes from the August 25, 2022 Investment Committee meeting. The motion passed unanimously (5-0).

Labor Market Update – NEPC

Jenn Appell of NEPC provided the Labor Market Update.

The unemployment rate was hovering near historic lows at the end of 2019. The onset of the Covid-19 pandemic led to a sudden spike in unemployment, which has since recovered at a faster pace than any other labor market recovery after a recession. The current tight labor market has led to higher wages and contributed to inflation. There are not enough skilled workers out there to meet the demands.

The Labor Force Participation Rate (LFPR) also remains below pre-pandemic levels. The decline in the LFPR is being driven by educational attainment, lifestyle affordability, skills mismatch, more restrictive immigration, opioid epidemic, automation, retirement rates and demographic trends. A lower LFPR can negatively influence trend economic growth rates given the negative impact on production and aggregate spending. Structural impairment in the LFPR can affect long-term socio-economic and political stability.

The current labor market data is confounding, and the long-term influence of these dynamics remains unknown. Unanswered questions include:

- Will the “Great Resignation” be a longer-lived trend?
- Did the pandemic start a structural shift in the labor market?
- How will labor market dynamics influence the inflationary environment?

We are starting to see a little bit of slowing in the labor market. Recent projections suggest the unemployment rate will be 3.7% by end of 2022 and 3.9% for the end of 2023, which are both historically low.

Cost Effectiveness and Fee Analysis

George Emerson presented the cost effectiveness and fee analysis which detailed the investment costs incurred across the portfolio and evaluated their cost effectiveness. SCERS’s Accounting team works closely with BNY Mellon in tracking direct manager costs including management fees, performance fees, and fund expenses.

SCERS has participated in the CEM Benchmarking survey since 2017. The survey provides a comparison of investment costs to other institutional investors. SCERS’s investment-related costs for 2021 totaled \$24.1million (0.64% of fund assets), with the vast majority related to investment manager fees and expenses at \$22.2 million (0.59%). Staff oversight, custodial and consulting services represented the remaining \$1.9 million (0.05%). Staff noted that CEM Benchmarking reporting convention excludes performance fees for private market asset classes.

SCERS’s investment costs are similar to its public pension peers. Of those plans participating in the survey, the median cost of US public pensions was 0.57% of fund assets and of a custom peer group of similarly sized pensions was 0.64%. SCERS has a greater allocation to passive strategies (lower relative fees) that is offset by greater use of fund-of-funds (higher relative fees). SCERS’s investment costs have increased modestly over time and are expected to reach 0.7% to 0.8% of fund assets once private market asset classes are at target.

SCERS evaluates the effectiveness of costs expended by comparing performance to the Reference Passive Benchmark that is available at a very low cost and reflects the Board’s risk tolerance. Over the last 10 years, SCERS has outperformed this benchmark net of investment-related costs.

Don Stracke, NEPC, noted that less than half of NEPC’s clients spend time at their trustee meetings discussing fees, so SCERS is following a best practice. Mr. Stracke also noted that asset allocation decisions drive fees and that the lowest cost portfolio is not necessarily the appropriate choice for investors.

Overlay Deep Dive

Jason Malinowski presented the deep dive of SCERS’s overlay program. SCERS has had an overlay program in place since 2014 which is managed by Russell Investments.

Russell Investments monitors SCERS’s portfolio and future cash flows and trades, as required, to invest idle cash and perform portfolio rebalancing. The overlay program is expected to increase performance incrementally over the long-term by keeping the portfolio fully invested. The program allows for more efficient portfolio transitions such as when replacing an investment manager.

Mr. Malinowski provided examples of a recent portfolio rebalancing and manager transition to demonstrate how the overlay is employed in practice.

Adjourn Meeting

Motion: Upon motion by Lou Walter, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 1:08 p.m. The motion passed unanimously (5-0).