



# Seattle City Employees' Retirement System

**Investment Committee Meeting**  
Pacific Building, 720 3<sup>rd</sup> Avenue, Suite 900, Seattle  
(206) 386-1293

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## **Minutes, Thursday, October 27, 2022**

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

**IAC Members Present:** Keith Traverse (Chair), Joseph Boateng

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

**Others Present:** Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke, Jeff Burgis and Greta Nolan (Adams Street Partners), Matthew Courtois (FAS), Joe Ebisa (With.Intelligence), Lauren Albanese (Fin News), Kevin Balaod

### **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 September 29, 2022 Investment Committee.

**Motion:** Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the September 29, 2022 Investment Committee meeting. The motion passed unanimously (4-0).

### **Private Equity Deep Dive – Staff and Adams Street Partners**

Jason Malinowski presented the annual deep dive of the Private Equity asset class that included its portfolio role, size, strategy, underlying investment managers, and performance.

Private equity is a critical return driver of SCERS's investment portfolio and has the highest expected return of any asset class although it is characterized by high risk and sensitivity to economic growth, high fees, and low

liquidity. SCERS has a current and target allocation of 14.7% and 11%, respectively. Performance has been very strong but is expected to weaken going forward.

SCERS employs multi-manager strategies in the Private Equity asset class. Adams Street Partners (ASP) has run a customized multi-manager strategy for SCERS since 2014. The strategy has been diversified across buyout and venture capital and invested in primary funds, secondaries, and co-investments. The third tranche of this ASP-managed strategy was launched earlier this year and will be invested primarily in buyouts and exclude secondaries. SCERS also recently committed for the first time to a multi-manager fund run by Horsley Bridge Partners that is invested exclusively in venture capital.

Private equity valuations are reported on a lag and react more slowly to changes in the market environment than does public equity, which helps to explain why SCERS's allocation to Private Equity of 14.7% is higher than the target of 11%. It is expected that private equity performance will converge to towards public equity over time, and SCERS's Private Equity allocation will naturally fall to between 11% and 13%.

Mr. Malinowski introduced Greta Nolan and Jeff Burgis from Adams Street Partners who provided an update on the ASP-SCERS strategy. SCERS has committed \$760 million across three tranches of the strategy. The strategy has, in aggregate, returned a net 23.1% IRR and 1.93x investment multiple as of June 30, 2022. ASP is please that the strategy is outperforming its benchmarks.

Mr. Burgis provided an update on the private equity market environment. New deal activity and fundraising have slowed dramatically given the uncertain economy and associated selloff in public markets. Buyout portfolio companies continue to have strong fundamental performance, and venture capital portfolio companies have significant cash reserves. ASP expects additional valuation declines in the upcoming quarters.

There was discussion about whether to change the target allocation for private equity. Mr. Malinowski responded that it makes sense to defer that discussion until 2023 when SCERS will be going through an asset-liability study that will result in an updated strategic asset allocation target.

### **Credit Fixed Income Deep Dive – Staff**

George Emerson presented the annual deep dive of the Credit Fixed Income asset class.

Mr. Emerson provided background information on Credit Fixed Income, including its role in the total portfolio. Credit is represented by lower quality borrowers and has higher expected risk, return, and sensitivity to equity markets than Core Fixed Income. SCERS has a current allocation of 7% which is in line with the target weight. SCERS performance has been in line with the index, but disappointing overall since inception.

Staff spent 2022 reconsidering the role that Credit Fixed Income plays in the SCERS total portfolio. Staff came away from that project believing that allocating to credit is still worthwhile, but expectations should be more muted going forward. Staff does not expect meaningful excess return in the tradeable credit segments of high yield, bank loans and emerging market debt, so it will be imperative to invest in fee-appropriate vehicles. Private credit remains an advantageous segment of the asset class over the long-term.

Staff also reconsidered the strategy for emerging market debt and recommended changing the asset class index to be focused exclusively on external-denominated debt such as the US Dollar and eliminating the allocation to local currency-denominated debt. The rationale is that external debt offers a more consistent return premium while the performance of local debt is largely explained by currency fluctuations. This change would be adopted at year-end and implemented by removing the asset class index's existing 10% weight to the JPM GBI-EM Global Diversified Index and increasing the weight to the JPM EMBI Global Diversified Index from 10% to 20%.

There was discussion about the recommendation. Mr. Harvey would like to see an analysis on how the benchmark change impacts performance. Mr. Malinowski responded that staff would bring this analysis to an Investment Committee meeting in the first quarter along with a recommendation for an external debt fund managed by an existing or new manager.

## **Adjourn Meeting**

**Motion:** Upon motion by Judith Blinder, seconded by Jamie Carnell, the Investment Committee voted to adjourn the meeting at 1:30 pm. The motion passed unanimously (4-0).