



Seattle City Employees' Retirement System

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

Minutes, Thursday, November 17, 2022

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

IAC Members Present: Keith Traverse (Chair), Cathy Cao, Steve Hill, Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke (NEPC), Phillip Nelson (NEPC), Lauren Albanese (Fin News), Matt Courtois (FAS), Kevin Balaod, Peter May (Arrowstreet Capital), Anne Luisi (Arrowstreet Capital), Yan Gao (Arrowstreet Capital)

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 October 27, 2022 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the October 27, 2022 Investment Committee meeting. The motion passed unanimously (4-0).

Market Outlook

Jason Malinowski welcomed the Investment Advisory Committee (IAC) members. Mr. Malinowski let the Investment Committee, IAC members, and staff know that the 2022 Consultant Review survey will be sent out after the meeting. Staff will be sharing the results at the January 26, 2023 Investment Committee meeting. The survey started last year to provide NEPC feedback.

(12:02 pm – Jamie Carnell joined the meeting)

Phil Nelson of NEPC presented an update on the market outlook and answered questions from committee members.

The 60/40 portfolio is on track for its worst annual return in history, exceeding the losses seen in 2008. Market expectations are that the Federal Reserve will do two additional 75 basis point rate hikes in the face of continued inflation pressures.

Mr. Nelson reviewed the key themes for investors and the strategic asset allocation outlook. Stagflation is a potential market concern as it challenges portfolio diversification and represents a headwind for equity valuations and profit margins. Europe's energy shock and China's zero-COVID policy are additional challenges.

Q3 2022 Quarterly Performance Report

Don Stracke of NEPC reviewed the performance report for the period that ended September 30, 2022. For the one-year period ending September 30, 2022, the fund returned -10.4% net of fees, moderately below the Strategic Policy Benchmark by 0.6%. Assets decreased from \$4.08 billion one year ago to \$3.47 billion for the period ended September 30, 2022.

The portfolio continued to perform well in the long run. Gross performance over the last 30 years of 7.0% is modestly above the current assumed rate of return of 6.75%. The 10-year return of 7.2% net of fees is also above the assumed rate of return and is outperforming the Passive Reference Benchmark.

Mr. Malinowski stated that there is a silver lining to recent negative asset performance. The higher level of real interest rates and cheaper equity markets mean that long-term return expectations have increased materially. That is good news for SCERS given the plan's long-lived liabilities. At the February 23, 2023, Investment Committee meeting, NEPC will walk through an update of capital market assumptions.

Public Equity Manager Recommendation

Staff recommended an investment of \$80 million in the Arrowstreet Global Equity Fund, a quantitative, all cap, core strategy invested in the global equity market. This investment would represent approximately 4% of the public equity asset class. The fund is managed by Arrowstreet Capital, L.P. ("Arrowstreet"). SCERS's investment would be sourced from the recent closing of the PIMCO Research Affiliates global equity account that is currently being held in cash and invested through the Russell Investments' overlay account.

Leola Ross and Mengfei Cao summarized the recommendation and reviewed the previous public equity deep dive, the diligence process, Arrowstreet organization, strategy, and fund terms. The fund's goal is to outperform the MSCI ACWI benchmark by at least 3% gross of fees consistently in different market environments, which it has done historically.

NEPC supports staff's recommendation. Don Stracke, NEPC, stated that Arrowstreet's global equity strategy is a preferred strategy on NEPC's Focused Placement List (FPL) with a top rating of 1.

(1:29 pm – Jamie Carnell left the meeting)

Peter May and Anne Luisi of Arrowstreet Capital provided background information on the firm and the fund and answered questions from investment committee and IAC members.

(1:58 pm – Kimberly Loving left the meeting)

The Investment Committee lacked a quorum to undertake the motion. Mr. Harvey asked staff to look into how best to proceed and report back at the Board meeting.

Adjourn Meeting

The meeting was adjourned at 2:00 pm.