



# 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, March 30, 2023**

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

**IAC Members Present:** Keith Traverse (Chair)

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

**Others Present:** Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Matt Courtois (FAS), Tom Mikesell (LEG), Allan Martin and Mike Malchenko (NEPC), Yacov Arnopolin, Matt Clark, Kerrisha Jenkins, Catharine Roddy, Anna Yu, and Michael Story (PIMCO)

### **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 February 23, 2023 Investment Committee.

**Motion:** Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the February 23, 2023 Investment Committee meeting. The motion passed unanimously (4-0).

### **Banking System Update – NEPC**

Allan Martin of NEPC provided the banking system update. The Federal Reserve acted very quickly following the collapse of Silicon Valley Bank to shore up and indemnify creditors. The fears of the US banking system collapsing are unfounded. SCERS does not have high exposure to venture capital. SCERS position to get through this crisis is strong due to its diversification.

## **PIMCO Emerging Market Debt Recommendation**

Jason Malinowski and George Emerson provided the Investment Committee with background on the emerging market debt sub-asset class and a recommendation for a manager redemption and new allocation. This is a follow-up to the October 27, 2022 Investment Committee meeting where staff gave a deep dive on Credit Fixed income and previewed the recommendation that is being presented at today's meeting.

Staff recommends redeeming from the Ashmore Emerging Markets Blended Debt ("Ashmore Blended Debt") Fund in which SCERS has \$51 million invested as of February 28, 2023. This recommendation is consistent with the concurrent recommendation to remove local currency emerging market debt from the SCERS portfolio. Staff have identified a manager, PIMCO, to create an external currency emerging market debt fund, PIMCO Emerging Markets External Bond Strategy, that is a better portfolio fit for SCERS with a lower fee. NEPC concurs with this recommendation. Allan Martin of NEPC stated that they reviewed the entire process independently and are very supportive of the recommendation.

Ashmore has significantly underperformed since SCERS inception in March 2017. Ashmore's opportunistic approach and high fee are not well-aligned with SCERS's portfolio and staff's view of emerging market debt. Staff and NEPC are recommending redeeming from Ashmore and seeding the PIMCO Emerging Market External Bond Collective Investment Trust. The transition from Ashmore to PIMCO will take up to six months to implement.

There was discussion about PIMCO's employee issues, and the risk SCERS may carry by seeding the PIMCO fund. Staff were able to speak to a number of PIMCO staff members and an outside consultant, engaged by PIMCO, to understand their employee concerns. Staff concluded that PIMCO is adequately addressing the employee issues and will continue to monitor their progress in addressing them.

Yacov Arnopolin, Matt Clark, Kerrisha Jenkins, Catharine Roddy, Anna Lu, and Michael Story of PIMCO presented an introduction to the PIMCO Emerging Markets External Bond Strategy.

They stated that PIMCO has been working to embed inclusion and diversity for the last 10 years and have been working on employee satisfaction. PIMCO has a formal strategy and began publishing outcomes in their annual report although they have stated that there is more work to do.

**Motion:** Upon motion by Jamie Carnell, seconded by Judith Blinder, the Investment Committee recommended that the Board of Administration redeem from the Ashmore Emerging Markets Blended Debt Fund and invest the proceeds in the PIMCO Emerging Markets External Bond Collective Investment Trust, pending satisfactory legal review. The motion passed unanimously (4-0).

## **Public Equity Deep Dive – Staff**

Leola Ross and Mengfei Cao provided a deep dive discussion on the Public Equity asset class including a reintroduction to the asset class, a discussion of the market environment, and a review of the portfolio role, size, strategy, investment managers, and performance. Staff pointed out the inclusion of a new format for evaluation the attributes of the asset class, and this information will be standard information for future deep dives.

The primary role of Public Equity in the portfolio is to access global growth and drive the return of SCERS's investment portfolio. This role is demonstrated with its large current and target allocations of 45.1% and 48%, respectively, and its high expected return of 7.2%. In addition to being the primary return driver of the portfolio, Public Equity contributes the most to the portfolio's volatility. For example, the public equity market performance was challenging in 2022 (-18.2%). Staff noted that SCERS Public Equity investments performed relatively well with 1.2% outperformance.

Staff's Public Equity activities over the last 12 months included several initiatives. Staff reevaluated the use of style investing in the global equity allocation and recommended avoiding intentional factor tilts. Staff, with

material support from NEPC, performed an extensive global equity active manager search, leading to investing \$80 million in the Arrowstreet Global Equity Fund. With the “Voting Choice” option now available, staff instructed BlackRock to vote proxies, for its commingled fund investment, according to the ISS US Public Plan Policy, the policy SCERS applies wherever the option exists.

Looking forward, staff will continue evaluating global equity managers in search of active strategies where there is high conviction of outperforming passive management. As well, staff will continue monitoring existing managers and rebalancing manager exposure as needed. And staff will collaborate with SCERS’s commingled fund managers and proxy voting advisor on their proxy voting and engagement policies.

Dr. Ross presented a special topic on the Mechanics of Proxy Voting and Engagement. SCERS votes primarily through the ISS US Public Funds Policy and engages with five portfolio companies in collaboration with Climate Action 100+. SCERS can take leadership by filing a shareholder resolution in special cases.

***(2:00 pm – Jamie Carnell left the meeting.)***

### **Adjourn Meeting**

**Motion:** Upon motion by Judith Blinder, seconded by Sherri Crawford, the Investment Committee voted to adjourn the meeting at 2:01 pm. The motion passed unanimously (3-0).