



Seattle City Employees' Retirement System

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

Minutes, Thursday, July 27, 2023

IC Members Present: Judith Blinder (Chair), Jamie Carnell, Maria Coe, Joseph Hoffman, Kimberly Loving

IAC Members Present: Joseph Boateng

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

Others Present: Mike Monaco (MMPL), Allan Martin (NEPC), Rose Dean (NEPC), Thao Nguyen (NEPC), Lindsay Saienni (Fin News), Tom Mikesell (LEG)

Call to Order

Judith Blinder, Chair, called the meeting to order at 12:00 pm

Public Comment

There was no public comment.

Minutes

Approved Minutes from the May 25, 2023 Investment Committee.

Motion: Upon motion by Jamie Carnell, seconded by Maria Coe, the Investment Committee approved the minutes from the May 25, 2023 Investment Committee meeting. The motion passed unanimously (4-0).

Risk Preferences Survey Results

Jason Malinowski presented the results of the Risk Preference Survey which is a new component of the asset-liability study. Following the 2019 asset-liability study, the Investment Committee had asked that staff develop a procedure to capture their collective risk preferences. Six board/investment committee members, four Investment Advisory Committee (IAC) members, and five staff members completed the survey. The goals of the survey are to understand what risk profile is appropriate for SCERS's portfolio and see if there is a consensus amongst the Board, IAC and staff.

(12:07 pm – Kimberly Loving joined the meeting)

Board/IC members expressed similar risk preferences that are generally consistent with the current portfolio. IAC members are well-aligned with the Board/IC. Staff are marginally more supportive of increasing risk. There is a clear consensus that SCERS should be peer-aware rather than peer-driven or peer-agnostic, and that risk should be considered from both a liability-aware and asset-only perspective. The survey results support considering incremental changes to the strategic asset allocation during this asset-liability study.

There was discussion on the results of the survey and the opportunities for the Board/IC to provide feedback.

Asset Class Primer

Leola Ross and Jason Malinowski presented the Asset Class Primer. Dr. Ross reviewed each asset class in SCERS's strategic asset allocation and discussed key portfolio attributes by asset class. Mr. Malinowski introduced the proposed Long-Dated Fixed Income asset class and reviewed its primary role, structure, and strategy.

During each asset-liability study, SCERS considers whether to add or remove asset classes to the strategic asset allocation. A key development for the 2023 asset-liability has been the development and incorporation of a liability-aware investing (LAI) framework. In addition, staff is recommending the addition of Long-Dated Fixed Income as a permissible asset class in the Investment Policy and proactively assigning a target allocation in the strategic asset allocation.

Long-Dated Fixed Income has attractive risk properties in the LAI framework, and its expected return has increased from a very unattractive level to a fair level over the last couple of years. Long-Dated Fixed Income adds liability alignment to the portfolio in a way no other asset class does. The downside is that it has relatively high asset volatility for fixed income and a lower expected return than equity.

Asset-Liability Study Overview

Rose Dean and Thao Nguyen from NEPC are onsite today and tomorrow for the Investment Committee meeting and planning with staff. Ms. Dean provided the 2023 Asset-Liability Study Overview and reviewed the importance of asset allocation; the macroeconomic environment; and gave an overview of Capital Market Assumptions.

The strategic asset allocation is a key decision for the Board that results from the asset-liability study. The asset-liability study applies multiple perspectives to review the current and projected financial status of plan and assess the appropriateness of the asset allocation relative to expected progress of liabilities and cash flows. Goals of this year's study are to more fully integrate liability-aware concepts and climate change scenarios.

The plan is to discuss the study findings and the preliminary strategic asset allocation recommendation at the August Investment Committee with input from the Investment Advisory Committee. The final recommendation would be made in September with the Investment Policy revisions being discussed at a following Investment Committee meeting. The new strategic asset allocation would be effective December 31, 2023.

Core Fixed Income Deep Dive

George Emerson presented the annual Core Fixed Income deep dive and reintroduced the asset class; discussed the market environment; and reviewed SCERS's Core Fixed Income allocation and activity.

The primary role of Core Fixed Income in SCERS's portfolio is diversification and as a source of stability and liquidity to meet short-term cash flow needs and rebalance the portfolio. Core Fixed Income is represented by

high-quality borrowers and has low expected volatility, return, and sensitivity to equity markets. SCERS's target allocation to Core Fixed Income is 18% with a current allocation of 17.8%. It was a difficult 2022 for Core Fixed Income with a -13.0% return due to higher interest rates. This was quite out of the ordinary as the asset class benchmark had experienced positive returns in 42 of 47 years.

SCERS's current Core Fixed Income managers are PIMCO and Pugh. Over the past 12 months, staff continued to monitor the Core Fixed Income portfolios with periodic rebalancing as market values changed. Staff also engaged with NEPC and certain managers on adding a Long-Dated Fixed Income asset class to the SCERS portfolio as part of the liability-aware investment framework.

Adjourn Meeting

Motion: Upon motion by Jamie Carnell, seconded by Maria Coe, the Investment Committee voted to adjourn the meeting at 1:54 pm. The motion passed unanimously (5-0).