



Seattle City Employees' Retirement System

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

Minutes, Thursday, October 31, 2024

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

IAC Members Present: Joseph Boateng, Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Joe Ebisa (With Intelligence), Rose Dean (NEPC), Daniel Hennessy (NEPC), Mary Ellen Cagnassola (With Intelligence), Lindsay Saienni (Fin News), Andrew Robinson (FAS), Thao Nguyen (NEPC)

Call to Order

Sherri Crawford, Chair, called the meeting to order at 11:00 am.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the September 26, 2024 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Joseph Hoffman, the Investment Committee approved the minutes from the September 26, 2024 Investment Committee meeting. The motion passed unanimously (5-0).

NEPC and Hightower Announcement

Rose Dean of NEPC shared an announcement related to Hightower Advisors. NEPC partners agreed to accept Hightower Advisors' offer to acquire a majority stake in NEPC. There will be no meaningful back or front office integration with Hightower. SCERS will maintain the same NEPC service team.

Ms. Blinder asked how SCERS staff felt about the change. Mr. Malinowski replied that staff are reviewing the transaction since this was just announced the previous week. He will update the committee members at a future Investment Committee meeting.

Mr. Hoffman asked if NEPC considered other firms and if NEPC disclosed this change to SCERS during the RFP process. Ms. Dean replied that Hightower approached NEPC. She is not sure when this approach was made. NEPC was under strict non-disclosure agreement with Hightower so could not have shared this information.

Overlay Deep Dive

Jason Malinowski presented a deep dive of SCERS's overlay program which is covered every other year. SCERS has had an overlay program in place since 2014.

Russell Investments manages SCERS's overlay program where they monitor future cash flows and trade, 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 rebalancing and portfolio transitions.

Ms. Crawford asked why the portfolio is rebalanced monthly due to fluctuations in the market. Mr. Malinowski explained that SCERS's portfolio should reflect the strategic asset allocation as closely as possible. There is no downside to monthly rebalancing because transaction costs are minimal with the overlay program. Mr. Malinowski and Leola Ross talked about rebalancing during the COVID pandemic in March 2020 that showed the benefit of having a systematic rebalancing process.

NEPC has historically reported on the overlap program by reallocating its performance to each asset class represented in the program. Staff and NEPC are recommending a change to this approach retroactively to report on the overlay program on a standalone basis. This change would align with the reporting approach for most other NEPC clients and would simplify NEPC's performance reporting process. The change would be reflected in the Q3 2024 Performance Report and not impact SCERS's portfolio performance.

The IAC recommended reviewing the use of transition management in its 2023 annual report. Staff are currently conducting this review and will report back to the IAC.

Cost Effectiveness and Fee Analysis

Jason Malinowski 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 then submits this cost data to an annual survey conducted by CEM Benchmarking.

Investment-related costs for 2023 were \$25.1 million (0.68% of fund assets), including \$23.0 million (0.62%) in investment manager fees and \$2.1 million (0.06%) in other costs. SCERS investment-related costs are comparable to other US public pensions as a percentage of fund assets. Over the last ten years, SCERS has outperformed on a net-of-fees basis the Reference Passive Benchmark that represents an investable portfolio that is available at a very low cost.

Ms. Dean provided NEPC's perspective, noting that it is important to monitor costs and to understand that asset allocation decisions drive fees.

Adjourn Meeting

Motion: Upon motion by Sherry Crawford, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 12:11 pm. The motion passed unanimously (5-0).