



# Seattle Retirement

## 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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### **Agenda, Thursday, November 21, 2024**

- IC Members Present:** Judith Blinder (Chair), Maria Coe, Joseph Hoffman, Jamie Carnell, Kimberly Loving
- IAC Members Present:** Keith Traverse (Chair), Dwight McRae, Steve Hill, Joseph Boateng, Cathy Cao
- SCERS Staff Present:** Jeff Davis, Jason Malinowski, Paige Alderete, Leola Ross, Mengfei Cao, George Emerson, Mark Schimizza, Nina Melencio
- Others Present:** Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Rose Dean (NEPC), Kevin Balaod (With Intelligence), KC Connor (NEPC), David Hennes (NEPC), Lindsay Saenni (Fin News), Thao Nguyen (NEPC), Andrew Robinson (FAS); Dennis Onderick (BNY)

#### **Call to Order**

Judith Blinder, Chair, called the meeting to order at 11:00 am.

#### **Public Comment**

There was no public comment.

#### **Minutes**

Approved Minutes from the October 31, 2024 Investment Committee.

**Motion:** Upon motion by Judith Blinder, seconded by Maria Coe, the Investment Committee approved the minutes from the October 31, 2024 Investment Committee meeting. The motion passed unanimously (5-0).

#### **Investment Advisory Committee Member Recognition – Joseph Boateng**

Joseph Boateng, Investment Advisory Committee (IAC) member, will be leaving the IAC when his term expires at the end of the year. Mr. Boateng was recognized for serving 17 years on the committee. Mr. Boateng was thanked for all he has done for the Seattle City Employees' Retirement System in service to its mission. Mr. Davis shared a statement from Sherri Crawford, Investment Committee Chair.

Mr. Malinowski stated that it has been a privilege to work with Mr. Boateng for 10 years. Mr. Boateng is a towering figure in the investment community and has unparalleled knowledge of investment managers. He has been a tremendously valuable resource to staff and will be sorely missed.

Keith Traverse, IAC chair, thanked Mr. Boateng on behalf of the IAC. Mr. Traverse described Mr. Boateng as the consummate professional who sets the standard.

Mr. Boateng said that it has been a privilege and honor to be of service to SCERS and that he looks forward to contributing in other ways.

### **Quarterly Performance Report**

Rose Dean, NEPC, reviewed the performance report for the period that ended September 30, 2024 and answered questions from the committee members. Ms. Dean introduced KC Connors, NEPC Chief Consulting Officer who will provide NEPC's perspective on their acquisition by Hightower later on the agenda.

For the one-year period ending September 30, 2024, the fund returned 17.1% net of fees, outperforming the Strategic Policy Benchmark by 0.3%. Assets increased from \$3.75 billion one year ago to \$4.35 billion. On an actuarial basis, the funded status is estimated at 76.3%. On a market basis that revalues the liability based on NEPC's portfolio return assumption as of September 30, 2024, the funded status is 83.1%.

Mr. Traverse asked why there was only a slight decline in NEPC's portfolio return assumption over the last year given the very strong performance of the public equity market. Mr. Malinowski responded that this return assumption is over a 30-year horizon, so it tends to be fairly stable.

Ms. Blinder asked NEPC to explain two charts on the market environment included in the meeting materials.

### **Hightower Acquisition of NEPC**

Jason Malinowski gave staff's perspective on Hightower Advisor's ("Hightower") acquisition of NEPC. As background, Hightower announced in October that it is acquiring an 80% ownership stake in NEPC from the NEPC partner group who will collectively own the remaining 20% of the firm. NEPC has served as SCERS's investment consultant since 2014. SCERS's contract with NEPC runs through June 30, 2029, although SCERS has the right to terminate the contract at any time for any reason. Hightower is a registered investment advisor owned by a private equity fund managed by THL.

Staff have a negative view of Hightower's acquisition of NEPC due to potential concerns that would be expected to play out over the next several years. Specifically, staff are concerned that the acquisition may lead to increased team turnover, de-prioritization of NEPC's advisory consulting clients, and a heightened risk of business instability.

Staff were surprised by news of the acquisition since NEPC had diversified ownership across the partners and prided themselves on being an employee-owned firm. While there has been ongoing consolidation within the investment consulting industry, staff felt that NEPC was more likely to be an acquirer rather than be acquired itself. The investment consulting industry remains in a period of flux. It is possible that other independent firms get acquired, similar to NEPC.

The acquisition is expected to close in the first quarter of 2025. Mr. Malinowski and Dr. Ross met with Mike Manning, NEPC Managing Partner, regarding the acquisition. Staff plan to closely monitor NEPC and provide future updates to the Investment Committee, as needed.

Ms. Blinder stated that the staff update was clear, and she had no questions.

Ms. Dean responded to staff's comment about increased team turnover by stating that there is a low probability of her leaving the firm. Ms. Connors added that NEPC continues to promote individuals to partner, and the acquisition presented an opportunity to rebalance the partnership to give greater ownership to newer partners.

### **Investment Operations Model**

George Emerson, Mengfei Cao, and Mark Schimizza provided an overview of the investment operations model which involves investment and accounting staff, the custodian bank (BNY), and the investment consultant (NEPC). The IAC had recommended reviewing the investment operations model with the Investment Committee in its 2023 Annual Report.

Staff reviewed manager onboarding, trading, reconciliation and reporting, and other operational items. Staff shared takeaways from a survey that was conducted of six other pension plans. SCERS has a straightforward investment operations model that is consistent with industry standards.

Dennis Onderick, of BNY, also provided an overview of BNY's services to SCERS.

Mr. Traverse asked if SCERS requires that investment managers reconcile with BNY each month. Staff responded that a cash reconciliation is performed monthly between the investment manager and BNY for separately managed accounts. SCERS's accounting team also reflects the valuation for every investment account in the general ledger.

*(12:06 pm – Kimberly Loving left meeting).*

Mr. Traverse asked about the guidelines for reinvestment in the securities lending program and whether BNY indemnifies SCERS for a default. Staff responded that BNY does indemnify SCERS for a counterparty default. SCERS has a conservative securities lending program that invests cash collateral in government bonds or associated repurchase agreements and also accepts these securities as collateral.

Ms. Carnell and Ms. Blinder expressed appreciation for the work that was done to compare SCERS's operations to other pension plans.

### **Adjourn Meeting**

**Motion:** Upon motion by Judith Blinder, seconded by Joseph Hoffman, the Investment Committee voted to adjourn the meeting at 12:44 pm. The motion passed unanimously (4-0).