



Seattle City Employees' Retirement System

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

Minutes, Thursday, January 26, 2023

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

IAC Members Present: Joseph Boateng, Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke (NEPC), Matt Courtois (FAS)

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 November 17, 2022 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Kimberly Loving, the Investment Committee approved the minutes from the November 17, 2022 Investment Committee meeting. The motion passed unanimously (3-0).

Investment Consultant Evaluation

Jason Malinowski briefly reviewed results from the annual Investment Consultant Evaluation which began in 2022. NEPC has recommended the evaluation as a best practice. There was generally positive feedback from investment committee and investment advisory committee members, as well as from staff. The results are consistent with last year's scores.

Mr. Harvey stated he was pleased with the results of the evaluation, especially the scores from the investment advisory committee.

Annual Investment Review and Planning Session

Mr. Malinowski, Leola Ross, George Emerson, Mengfei Cao, and Don Stracke (NEPC) presented the Annual Investment Review and Planning Session.

SCERS's 2022 performance will be reviewed at the February 23, 2023 Investment Committee meeting.

(12:05 pm – Judith Blinder joined the meeting.)

During 2022, Milliman completed SCERS's experience study that led to the Board adopting an updated investment return of 6.75% (previously 7.25%) and an inflation assumption of 2.75% (previously 2.6%). Staff enhanced the environmental, social, and governance (ESG) program which culminated in an updated ESG policy. The policy integrates all financially-material ESG factors, adds policy advocacy to the climate change positive action strategy and adds a new diversity, equity, and inclusion (DEI) positive action strategy.

During 2023, SCERS plans to perform an asset-liability study, set an updated strategic asset allocation target, and revise the Investment Policy as needed. Plans also include continuing advancement of the ESG program with specific focus to develop and implement the DEI positive action strategy. Staff will also identify and begin onboarding a risk/analytics vendor platform.

Staff members reviewed the 2022 activity and 2023 plans for each asset class.

There was discussion on how the economy will impact the fund.

Don Stracke, NEPC, provided NEPC's perspective by comparing SCERS to best practices observed in their public pension client base. SCERS has a strong investment belief statement and has an appropriately sized staff for the fund size. SCERS identified and recruited well during Covid in hiring two new members of its team. NEPC believes that investing in staff is an efficient use of capital. SCERS has a disciplined asset class review and manager monitoring approach.

Asset-Liability Study Timeline – NEPC

Mr. Stracke gave an overview of the 2023 asset-liability study including the milestones, the basics on the importance of asset allocation, and the philosophical approach that is used.

The timeline has been simplified by having quarterly milestones throughout 2023. The goal is to implement the updated strategic asset allocation target at year-end. Mr. Malinowski asked for feedback from the committee on the proposed timeline. Several members responded that the timeline was fine.

Adjourn Meeting

<u>Motion:</u>	Upon motion by <u>Judith Blinder</u> , seconded by <u>Sherri Crawford</u> , the Investment Committee voted to adjourn the meeting at 1:18 pm. The motion passed unanimously (4-0).
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Seattle City Employees' Retirement System

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

Minutes, Thursday, February 23, 2023

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

IAC Members Present: Keith Traverse (Chair), Joseph Boateng, Cathy Cao, Steven Hill, Dwight McRae

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

Others Present: Mike Monaco (MMPL), Matt Courtois (FAS), Allan Martin and Robert Goldthorpe of NEPC, Kevin Balaod (With.Intelligence)

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 January 26, 2023 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Jamie Carnell, the Investment Committee approved the minutes from the January 26, 2023 Investment Committee meeting. The motion passed unanimously (3-0).

NEPC Field Consultant Update

Don Stracke is no longer with NEPC. Allan Martin will take over as SCERS's primary field consultant and Mike Malchenko will continue in his current role as secondary field consultant and reporting specialist.

(12:06 pm – Judith Blinder joined the meeting.)

Investment Advisory Committee Annual Report

Keith Traverse, Joseph Boateng, Cathy Cao, Steve Hill, and Dwight McRae of the Investment Advisory Committee (IAC) attended the February 27, 2023 Investment Committee meeting. Mr. Traverse, chair of the IAC,

presented the 2022 IAC Annual Report which included: major developments for SCERS in 2022; fund performance as of Q3 2022; IAC's 2022 activities, strategic guidance; and IAC's recommendations for 2023.

The IAC offers strategic guidance that is intended to endure over the long-term. Mr. Traverse discussed the guidance in report which included: (1) commitment to financial sustainability; (2) focus on fee effectiveness; (3) align investment beliefs with processes and resources; and (4) support continual learning for the board.

The IAC's recommendations for 2023 fall under the following priority areas:

- Governance
- Asset Allocation
- Private Investments
- Climate Change

Jason Malinowski noted that Jeff Davis met with the IAC last week regarding the staff response to the IAC Annual Report that is included in the Investment Committee packet. The IAC's strategic guidance and recommendations continue to be helpful for SCERS in planning and prioritization.

Quarterly Performance Review – Q4 2022

Mr. Martin of NEPC reviewed SCERS's preliminary investment performance for the period that ended December 31, 2022. SCERS returned -10.0% net-of-fees for 2022, underperforming the strategic policy benchmark by 0.8% and outperforming the passive reference benchmark. Assets decreased from \$4.08 billion to \$3.64 billion over the last year.

Investment Outlook and Capital Market Assumptions – NEPC

Mr. Martin reported on NEPC's 2023 Investment Outlook and Capital Market assumptions and answered questions from the committee members.

Expected returns increased substantially over 2022 due to higher interest rates and lower market valuations. SCERS portfolio has an expected return of 6.7% for the 10-year period and 7.5% for the 30-year period, which are up from 5.5% and 6.8%, respectively.

NEPC's key market themes entering 2023 are stagflation trends, recession outlook, European energy transition, China reopening, and U.S. Dollar trajectory. Mr. Martin briefly provided a description and potential outcomes of each theme.

Funded Status Monitor – NEPC

Robert Goldthorpe of NEPC reviewed the Funded Status Monitor. Mr. Malinowski stated that this work is based on a recommendation from the IAC. The monitor includes a market-based funded status that compares the market value of assets to the "market" liability that discounts future benefit obligations based on current capital market assumptions.

As of December 31, 2022, the actuarial funded status is 75.7% and the market funded status is 76.1%. This information will be provided quarterly and will be incorporated in the asset-liability study during 2023.

Adjourn Meeting

Motion: Upon motion by Jamie Carnell, seconded by Sherri Crawford, the Investment Committee voted to adjourn the meeting at 1:36 pm. The motion passed unanimously (4-0).



Seattle City Employees' Retirement System

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

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 Schimizze, 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).
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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

<u>Motion:</u>	Upon motion by <u>Judith Blinder</u> , seconded by <u>Sherri Crawford</u> , the Investment Committee voted to adjourn the meeting at 2:01 pm. The motion passed unanimously (3-0).
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Seattle City Employees' Retirement System

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

Minutes, Thursday, April 27, 2023

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

IAC Members Present: Joseph Boateng, Cathy Cao

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

Others Present: Gavin Parr (MMPL), Gary Smith (City Attorney's Office), Brenden Woods (Stonepeak), Jack Howell (Stonepeak), Allan Martin (NEPC), Kevin Balaod (With.Intelligence), Matt Courtois (FAS), Lindsay Saienni (Fin News)

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 March 30, 2023 Investment Committee.

Motion: Upon motion by Jamie Carnell, seconded by Judith Blinder, the Investment Committee approved the minutes from the March 30, 2023 Investment Committee meeting. The motion passed unanimously (5-0).

Infrastructure Deep Dive

Leola Ross and George Emerson presented the annual deep dive of the Infrastructure asset class and briefly reviewed the market environment and SCERS's infrastructure allocation and activity. Allan Martin of NEPC briefly reviewed the fund's pacing plan.

SCERS has a current and target allocation to Infrastructure of 2.3% and 4.0%, respectively. Performance has been strong and resilient during the pandemic. SCERS's Infrastructure performance has exceeded the custom index for the 3- and 5-year periods.

(12:28 – Sherri Crawford left the meeting.)

SCERS would need to commit an average of \$30 million each year to get to the 4% target by 2029.

There was discussion about the risk associated with investing in large assets or ones that are heavily regulated.

In the last 12 months, SCERS has committed \$25 million to Brookfield Infrastructure Fund V, surveyed regional and sector specialist funds as a potential complement to SCERS's existing lineup of global and sector-diversified strategies, and updated the pacing plan with support from NEPC.

Looking forward, SCERS will commit additional capital to existing and prospective infrastructure managers to prudently grow the allocation to its target weight in a manner that is diversified across geographies, sector, and risk profile. SCERS will continue to monitor the market environment for emerging infrastructure sectors and themes given the dynamic impact of technological innovation and government policy.

(12:55 pm – Sherri Crawford rejoined meeting)

Infrastructure Manager Recommendation – Stonepeak Opportunities Fund

George Emerson, Leola Ross, and Mengfei Cao presented staff's recommendation for a \$20 million commitment to Stonepeak Opportunities Fund LP ("Stonepeak Opps"), a middle-market, value-add infrastructure strategy. Stonepeak Opps is managed by Stonepeak Infrastructure Partners ("Stonepeak").

This recommendation is consistent with the pacing plan for the Infrastructure asset class that seeks to prudently and gradually increase the allocation to its 4% target weight. Stonepeak Opps would be the tenth allocation in the Infrastructure asset class and the fourth allocation to Stonepeak. SCERS had committed \$20 million, \$15 million, and \$8 million to Stonepeak Infrastructure Fund IV ("Stonepeak IV"), Stonepeak Infrastructure Fund III ("Stonepeak III"), and Stonepeak Infrastructure Fund II ("Stonepeak II"), respectively. These are part of the flagship fund series.

Jack Howell and Brenden Woods from Stonepeak provided background information on the firm and fund and answered questions from the committee members.

<u>Motion:</u>	Upon motion by <u>Jamie Carnell</u> , seconded by <u>Judith Blinder</u> , the Investment Committee recommended that the Board of Administration commit up to \$20 million to Stonepeak Opportunities Fund, pending satisfactory legal review. The motion passed unanimously (5-0).
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Adjourn Meeting

<u>Motion:</u>	Upon motion by <u>Sherri Crawford</u> , seconded by <u>Jamie Carnell</u> , the Investment Committee voted to adjourn the meeting at 1:3 pm. The motion passed unanimously (5-0).
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Seattle City Employees' Retirement System

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

Minutes, Thursday, May 25, 2023

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

IAC Members Present: Keith Traverse (Chair), Joseph Boateng

SCERS Staff Present: Jeff Davis, Jason Malinowski, Leola Ross, Mengfei Cao, Nina Melencio, Mark Schimizze, Sunny Gill, Ankit Bhat

Others Present: Mike Monaco (MMPL), Rose Dean (NEPC), Allan Martin (NEPC)

Call to Order

Robert Harvey, Jr., called the meeting to order at 12:00 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the April 27, 2023 Investment Committee.

Motion: Upon motion by Judith Blinder, seconded by Jamie Carnell, the Investment Committee approved the minutes from the April 27, 2023 Investment Committee meeting. The motion passed unanimously (4-0).

NEPC Field Consultant Update

Rose Dean was introduced as Seattle City Employees' Retirement System's new field consultant from NEPC. Ms. Dean will transition with Allan Martin in the next few months, although Mr. Martin will be with SCERS through year-end to complete the asset-liability study. Mike Malchenko continues to be part of SCERS's team as well.

Quarterly Performance Review – Q1 2023

Mr. Martin of NEPC reviewed SCERS's investment performance for the period that ended March 31, 2023.

The fund has returned 7.3% net of fees for the last 10 years, which is above the current assumed rate of return and outperformed the Passive Reference Benchmark. In the one-year period which ended March 31, 2023, the fund returned -3.7% net of fees, underperforming the Strategic Policy Benchmark by 0.1%.

As of March 31, 2023, the estimated actuarial funded status is 75.1%. The funded status from a market perspective, which reflects the market value of assets and revalues the liabilities based on current capital market assumptions, is 76.8%.

Liability-Aware Investing Introduction

Jason Malinowski introduced the liability-aware investing framework and answered questions from the Investment Committee and Investment Advisory Committee members.

This has been a key project since the last asset-liability study was conducted in 2019. Public pension systems have traditionally considered risk from an asset-only perspective, but liabilities are also critical to understanding plan-level risk. Based on a recommendation from the SCERS Investment Advisory Committee, staff worked with JP Morgan Asset Management to develop a liability-aware investing framework where risk is defined based on volatility of funding ratio. The framework recognizes the linkage between assets and liabilities due to both being sensitive to changes in future expected returns.

The liability-aware investing framework can improve performance/risk assessment and investment strategy. NEPC has incorporated a funding status monitor in quarterly performance reporting. NEPC is in the process of adding the framework to their asset-liability study toolkit, which will complement a traditional asset-only perspective and may offer incremental opportunities to enhance the portfolio.

Mr. Martin commented that SCERS would be a first-mover among public pension plans in integrating liabilities.

Keith Traverse and Joseph Boateng of the Investment Advisory Committee applauded the work staff have done. They took the general recommendation from the IAC and turned it into a framework, complete with useful tools and lenses. This liability-aware investing framework helps SCERS make better investment decisions over time and adds more resilience to the portfolio.

Investment Risk Framework

Mr. Malinowski presented SCERS's Investment Risk Framework. SCERS developed and implemented an investment risk framework in 2018 based on the recommendation and with input from the IAC. The framework is presented annually. The analysis and takeaways are consistent with last year's report.

Mr. Malinowski provided background on the framework and reviewed the relationship between risk and return. Risk was assessed from the perspective of asset class composition, volatility, beta, scenario analysis and liquidity stress tests. The portfolio is highly diversified by asset class, sector, geography, company, investment manager and investment strategy. The portfolio is also intentionally structured to have a substantially similar risk profile as the Strategic Policy Benchmark. SCERS has ample access to cash to meet its cash flow demands, including benefit payments, private markets fund commitments and portfolio rebalancing.

Staff has developed a risk preference survey that will be sent out to IC, IAC, and staff. The results of the survey will be discussed at the July Investment Committee meeting, as a step in the asset-liability study.

Mr. Malinowski reviewed the concept of currency risk and how it is manifested in SCERS's portfolio. 31% of the portfolio is in assets denominated in international currencies. SCERS utilizes currency hedging in the Fixed Income and Real Assets asset classes to mitigate developed market currency exposure. These asset classes benefit from currency hedging due to their low asset volatility and predictable cash flow stream. SCERS manages the Equity asset class without currency hedging.

Adjourn Meeting

Motion: Upon motion by Jamie Carnell, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 1:57 p.m. The motion passed unanimously (4-0).

June 2023 Investment
Committee meeting was
cancelled.



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.

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



Seattle City Employees' Retirement System

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

Minutes, Thursday, August 31, 2023

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

IAC Members Present: Keith Traverse (Chair), Joseph Boateng, Steve Hill, Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Rose Dean (NEPC), Thao Nguyen (NEPC), Allan Martin (NEPC), Robert Goldthorpe (NEPC), Joe Ebisa (With.Intelligence), Tom Mikesell (LEG), Nathan Paulsen

Call to Order

Sherri Crawford, Chair, called the meeting to order at 12:00 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the July 27, 2023 Investment Committee.

Motion: Upon motion by Jamie Carnell, seconded by Maria Coe, the Investment Committee approved the minutes from the July 27, 2023 Investment Committee meeting. The motion passed unanimously (6-0).

Quarterly Performance Review – Q2 2023

Rose Dean of NEPC reviewed the performance report for the period that ended June 30, 2023.

Gross performance over the last 30 years is 7.2%, above the assumed rate of return of 6.75%. The return net-of-fees for the last 10 years is 7.7%, which is above the assumed rate of return and is outperforming the Passive Reference Benchmark.

For the one-year period ending June 30, 2023, the fund returned 7.3% net of fees, underperforming the Strategic Policy Benchmark by 0.8%. Assets increased from \$3.63 billion one year ago to \$3.85 billion for the period ending June 30, 2023.

On an actuarial basis, the funded status is estimated at 75.8%. On a market basis that revalues the liability based on NEPC's portfolio return assumption as of June 30, 2023, the funded status is 78.9%.

Asset-Liability Study Discussion & Preliminary Strategic Asset Allocation Recommendation

Robert Goldthorpe, Investment Director on NEPC's asset allocation team, reviewed the results of the asset-liability study and preliminary strategic asset allocation recommendation and answered questions from the Investment Committee (IC) and Investment Advisory Committee (IAC) members.

SCERS remains in a moderate funded position and is projected to improve current funding levels over the next 20 years as the unfunded liability becomes fully amortized. The Plan has improved its actuarial funded status over the past few years from 68% in 2019 to 76% in 2023. SCERS has also taken steps to reduce overall plan risk by lowering the investment return assumption from 7.25% to 6.75% in 2022.

Staff and NEPC's preliminary recommendation for the strategic asset allocation is 46% Public Equity, 11% Private Equity, 12% Core Fixed Income, 6% Long-Dated Fixed Income, 8% Credit Fixed Income, 12% Real Estate and 5% Infrastructure. As compared to the current strategic asset allocation, the changes are to reduce Public Equity by 2%, reduce Core Fixed Income by 6%, initiate a 6% allocation to the new Long-Dated Fixed Income asset class, and adding 1% each to Credit Fixed Income and Infrastructure.

The result is a portfolio that maintains a similar return expectation as the current policy with lower asset volatility and a more liability-aware portfolio as evidenced by lower funded status volatility. The changes to the portfolio are consistent with the results of the risk preference survey that was completed this year, which showed comfort with the existing portfolio and openness to incremental changes.

Mr. Goldthorpe discussed the recommended changes to the fixed income allocation. The inclusion of Long-Dated Fixed Income that is funded from Core Fixed Income will moderately increase the total portfolio's sensitivity to interest rate fluctuations while reducing reinvestment risk. Within Credit Fixed Income, the sub-asset class breakdown is recommended to change from 40% tradeable corporate debt to 20%, from 40% private debt to 60%, while maintaining the 20% allocation to emerging market debt.

Joseph Boateng asked how success would be defined based on the recommended changes to the strategic asset allocation. NEPC's definition of success for public pensions plans is the ability to meet the plan's liability. NEPC added the funded status monitor to the quarterly performance reporting which will be helpful in this regard.

Mr. Goldthorpe reviewed the economic and climate change scenario analyses. NEPC noted that SCERS was the first requester for climate change scenarios, which they now use for other clients. Climate change scenarios are not a forecast but rather an exercise to gauge the potential impact of climate change on the long-term drivers of asset class returns. Judy Blinder expressed concern with the potential impact of climate change on corporate defaults and infrastructure assets.

Jason Malinowski asked the committee for feedback on the preliminary recommendation.

Jamie Carnell commented that the increase in the Long-Dated Fixed Income allocation from 0% to 6% represents quite a jump and could be riskier. Staff responded that this is the first time considering long-dated fixed income under the new liability-aware investing framework. Long-dated fixed income is highly aligned with SCERS's liabilities and also offers a more attractive return now given the reset higher in interest rates.

Staff and NEPC will revert with a final recommendation at an Investment Committee meeting this fall.

Private Equity Deep Dive

Jason Malinowski and Leola Ross presented the annual deep dive of the Private Equity asset class that included its portfolio role, size, strategy, underlying investment managers, and performance.

Private equity is a critical return driver of SCERS's investment portfolio and has the highest expected return of any asset class although it is characterized by high risk and sensitivity to economic growth, high fees, and low liquidity. SCERS allocation is mature and diversified. SCERS has a current and target allocation of 13.8% (as of March 31, 2023) and 11%, respectively.

SCERS invests with two multi-manager firms, Adams Street Partners and Horsley Bridge Partners, in the Private Equity asset class. During the last twelve months, they have continued to invest committed capital in underlying private equity funds and received distributions from existing funds. Staff are transitioning responsibility for private equity pacing from Adams Street Partners to NEPC.

Mr. Malinowski provided more detail on the denominator effect. The denominator effect refers to unintended changes in a private market asset class allocation (in percentage terms) due to changes in the total portfolio's value. Private market valuations are reported on a lag and react slowly to changes in the market environment since companies are not priced on a public market exchange. The denominator effect is primarily a timing issue that eases naturally over time. Staff manages the denominator effect by making stable private market capital commitment over time.

Adjourn Meeting

Allan Martin of NEPC announced that he will be retiring in the next four to six months. Ms. Crawford thanked him for his work with SCERS.

<u>Motion:</u>	Upon motion by <u>Jamie Carnell</u> , seconded by <u>Judith Blinder</u> , the Investment Committee voted to adjourn the meeting at 2:02 pm. The motion passed unanimously (6-0).
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Seattle City Employees' Retirement System

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

Minutes, Thursday, September 28, 2023

IC Members Present: Judith Blinder (Chair), Maria Coe, Joseph Hoffman

IAC Members Present: Dwight McRae

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Rose Dean (NEPC), Thao Nguyen (NEPC), Andrew Robinson (FAS), Joe Ebisa (With.Intelligence), Lindsay Saienni (Fin News), Mike Barela (Voya Investment Management), Sabrina Holland (Monarch), Stacey Maman (Monarch), Chris Santana (Monarch), Elana Mizrahi (Monarch)

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 August 31, 2023 Investment Committee.

Motion: Upon motion by Maria Coe, seconded by Joseph Hoffman, the Investment Committee approved the minutes from the August 31, 2023 Investment Committee meeting. The motion passed unanimously (3-0).

Credit Fixed Income Deep Dive

Jason Malinowski stated that staff will be presenting two deep dives and recommending a new manager within the Credit Fixed Income asset class, Monarch Capital Partners. This is the first new manager recommendation since Ms. Coe and Mr. Hoffman joined the Board. New managers are invited to speak after staff and NEPC present their recommendation. Representatives from Monarch will be at today's meeting to review their strategy and answer questions from the committee.

George Emerson presented the annual deep dive of the Credit Fixed Income asset class and provided background information, including its role in the total portfolio and its attributes.

SCERS has an allocation of 7% to Credit Fixed Income as of June 30, 2023 which is in line with the target weight. SCERS's Credit Fixed Income portfolio has underperformed expectations, particularly tradeable credit, although the portfolio has matched the asset class index for the 3- and 5-year periods.

Over the last year, staff engaged in a project re-underwriting the Credit Fixed Income asset class, which led to several recommendations. The emerging market debt allocation was transitioned in 2023 from a blend of local and external currency debt to an external currency-only strategy. Ashmore was also replaced with PIMCO as the emerging market debt manager. Staff and NEPC are also proposing, as part of the asset-liability study, changing the intra-asset class target weights of tradeable corporate credit from 40% to 20%, private credit from 40% to 60%, and maintaining the 20% emerging market debt target weight.

Rose Dean, NEPC, introduced opportunistic credit which is a higher risk and higher returning strategy within private credit. Opportunistic credit seeks to focus on the "off the run" part of the market which is often less competitive with fewer participants.

Credit Manager Recommendation – Monarch Capital Partners VI

Mr. Emerson recommended a commitment of up to \$30 million to Monarch Capital Partners VI LP (MCP VI), an opportunistic credit strategy. The funding will come from redeeming partially the Ares Institutional Credit Fund, the current placeholder for unallocated private credit. Staff provided an overview and update on Monarch's organization, team, strategy, and reviewed the investment and operational rating matrices.

NEPC concurred with this recommendation and has selected MCP VI as a preferred strategy on their Focused Placement List (FPL) strategy with a top rating of 1.

Chris Santana and Elana Mizrahi of Monarch Capital Partners provided background information on the firm and strategy and answered questions from the committee members.

Staff mentioned that there is some uncertainty about the final commitment amount to Monarch, as it will depend on the asset-liability study and final strategic asset allocation. The motion allows for a commitment of up to \$30 million to provide flexibility.

<u>Motion:</u>	Upon motion by <u>Joseph Hoffman</u> , seconded by <u>Maria Coe</u> , the Investment Committee recommended that the Board of Administration commit up to \$30 million to Monarch Capital Partners VI LP, pending satisfactory legal review. The motion passed unanimously (3-0).
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Real Estate Deep Dive

Mengfei Cao and Jason Malinowski reintroduced the Real Estate asset class, discussed the market environment, and reviewed SCERS's Real Estate allocation and activity.

SCERS's allocation to Real Estate is currently 12.1%, which is in line with the 12% target weight. The allocation had increased meaningfully in 2022 due to underperformance across public markets, strong real estate performance, and capital call activity. Real Estate performance has since turned negative, which is expected to continue for the next several quarters as property valuations are impacted by higher interest rates. SCERS has outperformed the asset class index due primarily to the non-core allocation. The real estate market is in a state of flux with transaction volume down significantly.

SCERS's real estate allocation is transitioning from predominantly US core to diversified by strategy and geography. This multi-year transition is about halfway complete with the objective of improving risk-adjusted return. During the last 12 months, staff conducted a comprehensive search for a Europe non-core strategy in collaboration with NEPC that included existing and prospective managers. Staff will be recommending a Europe non-core strategy at the October Investment Committee meeting. Staff also performed a comprehensive review of the Europe core real estate manager universe in collaboration with NEPC that led to a preference for newer funds without legacy assets. Staff is completing due diligence of the Europe core/core plus manager universe with a planned recommendation in 2024 that would fully globalize the core real estate allocation.

Adjourn Meeting

Motion: Upon motion by Judith Blinder, seconded by Maria Coe, the Investment Committee voted to adjourn the meeting at 2:03 pm. The motion passed unanimously (3-0).



Seattle City Employees' Retirement System

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

Minutes, Thursday, October 26, 2023

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

IAC Members Present: Keith Traverse (Chair), 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), Rose Dean (NEPC), Thao Nguyen (NEPC), Andrew Robinson (FAS), Joe Ebisa (With.Intelligence), Sharone BenEzra (Angelo Gordon), Tom Rowley (Angelo Gordon), Ronan O'Brien (Fin News), Catarina Moura (Reorg.com), Angus Tiffin (With.Intelligence), Justin Mitchell (FundFire), "Alex", Patrick Temple West

Call to Order

Sherri Crawford, Chair, called the meeting to order at 12:00 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the September 28, 2023 Investment Committee.

Motion:	Upon motion by <u>Jamie Carnell</u> , seconded by <u>Judith Blinder</u> , the Investment Committee approved the minutes from the September 28, 2023 Investment Committee meeting. The motion passed unanimously (5-0).
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Strategic Asset Allocation Final Recommendation

Jason Malinowski and Rose Dean, of NEPC, reviewed staff and NEPC's joint final recommendation for the Strategic Asset Allocation and answered questions from committee members. There are modest changes within the fixed income area as compared to the preliminary recommendation discussed in August.

The final recommendation reflects the following changes from the current strategic asset allocation:

- Decrease the allocation to Public Equity from 48% to 46%
- Decrease the allocation to Core Fixed Income from 18% to 14%
- Add an allocation to Long-Term Fixed Income at 5%
- Increase the allocation to Infrastructure from 4% to 5%

The final recommendation results in a similar expected return, modest decrease in asset volatility and funded status volatility, and a slight increase in illiquidity. The portfolio is expected to be more aligned with SCERS's liabilities in part due to adding the new asset class of long-term fixed income.

Investment Policy Update

Jason Malinowski presented the revised Investment Policy which would be effective January 1, 2024 and answered questions from committee members. The revised policy reflects incremental edits to the existing policy and coincides with completion of the asset-liability study.

Mr. Malinowski reviewed the purpose and background of the Investment Policy as well as proposed edits to the policy. These edits include added or updated references to SCERS's liabilities to reflect their importance to performance/risk assessment and investment strategy; adding Long-Term Fixed Income as a permissible asset class; updating ESG-related items to reflect the latest ESG Policy; and clarifying select asset class definitions and sectors.

There was discussion about the proposed benchmark for the Long-Term Fixed Income asset class and how it is based on the term and inflation sensitivity of SCERS's liabilities. Staff will bring a motion to the November Investment Committee meeting to approve the policy.

Real Estate Manager Recommitment – Brookfield Strategic Real Estate Partners V

Staff recommended a commitment of up to \$30 million to Brookfield Strategic Real Estate Partners V ("BSREP V" or "Fund"), a global and sector diversified non-core real estate strategy. BSREP V is managed by Brookfield Asset Management. This recommendation is consistent with the Board's adopted strategic asset allocation that includes a 12% target weight to real estate, of which 30% is intended to be non-core real estate. BSREP V would be SCERS's fourth fund investment in a Brookfield real estate strategy.

NEPC concurred with this recommendation and has selected BSREP V as a preferred strategy on their Focused Placement List (FPL) strategy with a top rating of 1.

Mengfei Cao summarized the recommendation and reviewed the due diligence process.

Motion:	Upon motion by <u>Maria Coe</u> , seconded by <u>Joseph Hoffman</u> , the Investment Committee recommended that the Board of Administration commit up to \$30 million to Brookfield Strategic Real Estate Partners V, pending satisfactory legal review. The motion passed unanimously (5-0).
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Real Estate Manager Recommendation – AG Europe Realty Fund IV

Staff recommended a \$20 million commitment to AG Europe Realty Fund IV ("AG Europe IV" or "Fund"), a European non-core real estate strategy. AG Europe IV is managed by Angelo, Gordon & Co., L.P. ("Angelo Gordon"). AG Europe IV would be SCERS's third fund investment in an Angelo Gordon real estate strategy. SCERS had committed \$15 million to AG Asia Realty Fund IV and \$20 million to AG Asia Realty Fund V.

NEPC concurred with this recommendation and has selected AG Europe IV as a preferred strategy on their Focused Placement List (FPL) strategy with a top rating of 1.

Jason Malinowski reviewed the due diligence process and Ms. Cao reviewed the organization, strategy and rating matrices for key investment and operational factors.

There was a discussion on Angelo Gordon's recent acquisition by TPG and TPG's existing real estate platform. Staff is comfortable that Angelo Gordon's real estate investment team will be properly incentivized to stay with the firm at least in the medium-term, although there is a longer-term risk that will need to be monitored. Mr. Malinowski attended the Angelo Gordon annual meeting which the CEO of TPG attended.

Sharone BenEzra and Tom Rowley of Angelo Gordon gave a presentation that highlighted the organization, strategy and sector outlook. The combined firm with TPG will deliver significant benefits of scale, diversification, and expanded opportunity for their clients. There will be no change in how Angelo Gordon's funds are managed.

Motion: Upon motion by Judith Blinder, seconded by Maria Coe, the Investment Committee recommended that the Board of Administration commit up to \$20 million to AG Europe Realty Fund IV, pending satisfactory legal review. The motion passed unanimously (5-0).

Adjourn Meeting

Ms. Crawford shared with the committee that she had just returned from the NCPERS Fall Conference and stated that attending the conference was a great reminder of how far SCERS has come. It was good to sit there and listen to other entities and feel good about where we are with our organizational structure, investment team, talented staff, great advisory committee and board. Ms. Crawford commended everyone for their work.

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



Seattle City Employees' Retirement System

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

Minutes - Thursday, November 30, 2023

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

IAC Members Present: Keith Traverse (Chair), Joseph Boateng, Cathy Cao, Steve Hill, 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), Rose Dean (NEPC), Joe Ebisa (With Intelligence), Lindsay Saienni (Fin News), Thao Nguyen (NEPC), Catarina Moura (Reorg.com), Tom Mikesell (LEG), Andrew Robinson (FAS), Daniel Hennessy (NEPC), Sabiq Shahidullah (Fund Fire), Greg Spradling (Russell Investments), Brian Pringle (Russell Investments), Greg Norquist (Russell Investments)

Call to Order

Sherri Crawford, Chair, called the meeting to order at 12:00 pm.

Public Comment

There was no public comment.

Minutes

Approved Minutes from the October 26, 2023 Investment Committee.

Motion: Upon motion by Joseph Hoffman, seconded by Judith Blinder, the Investment Committee approved the minutes from the October 26, 2023 Investment Committee meeting. The motion passed unanimously (6-0).

Quarterly Performance Review – Q3 2023

Rose Dean and Dan Hennessy of NEPC reviewed the performance report for the period that ended September 30, 2023 and answered questions from the committee members. Mr. Hennessy has been added as a secondary consultant to back up Ms. Dean. He replaces Alan Martin who is retiring.

For the one-year period ending September 30, 2023, the fund returned 9.4% net of fees, underperforming the Strategic Policy Benchmark by 0.5%. Assets increased from \$3.48 billion one year ago to \$3.75 billion for the period ending September 30, 2023.

On an actuarial basis, the funded status is estimated at 76.0%. On a market basis that revalues the liability based on NEPC's portfolio return assumption as of September 30, 2023, the funded status is 77.7%.

Mr. Traverse asked what NEPC has seen among public pensions in allocation shifts and principal themes. He also asked what will drive SCERS's performance relative to their peer universe. Ms. Dean stated that the big theme is the higher interest rate environment. The focus continues to be in private asset classes and infrastructure is becoming another focus, partially driven by policy. Peers who have more allocated to private assets have outperformed in the past 5-10 years.

Investment Policy Update

Jason Malinowski presented the revised Investment Policy which would be effective January 1, 2024.

The revised policy reflects incremental edits to the existing policy and coincides with completion of the asset-liability study. These edits included adding or updating references to SCERS's liabilities to reflect their importance to performance/risk assessment and investment strategy; adding Long-Term Fixed Income as a permissible asset class; updating ESG-related items to reflect the latest ESG Policy; and clarifying select asset class definitions, sectors, and indices.

Mr. Malinowski summarized the final recommendation on the strategic asset allocation that was presented at the October Investment Committee meeting. The recommended targets are 46% Public Equity, 11% Private Equity, 14% Core Fixed Income, 5% Long-Term Fixed Income, 7% Credit Fixed Income, 12% Real Estate and 5% Infrastructure. Long-Term Fixed Income is a new asset class.

The recommendation was reached jointly by staff and NEPC, following analyses and presentations to the Investment Committee throughout 2023. The revised Investment Policy reflects the recommended strategic asset allocation by updating the target allocations and permissible ranges for each asset class and updating the weights of the strategic policy benchmark.

<u>Motion:</u>	Upon motion by <u>Jamie Carnell</u> , seconded by <u>Maria Coe</u> , the Investment Committee recommended that the Board of Administration adopt the revised Investment Policy effective January 1, 2024, that reflects updated strategic asset allocation targets of 46% Public Equity, 11% Private Equity, 14% Core Fixed Income, 5% Long-Term Fixed Income, 7% Credit Fixed Income, 12% Real Estate and 5% Infrastructure. The motion passed unanimously (6-0).
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Strategic Asset Allocation Implementation

Mr. Malinowski reviewed the plan for implementing the new strategic asset allocation. There are several trades planned for December and January that will reduce Public Equity and Core Fixed Income and fund the new Long-Term Fixed Income asset class. Mr. Malinowski also reviewed a change within Credit Fixed Income where the corporate tradeable allocation will be gradually transitioned from a blend of high yield and bank loans to be exclusively high yield.

Long-Term Fixed Income Manager Recommendation – Russell Investments

Mr. Malinowski introduced the agenda item and stated that SCERS needed a manager for the new Long-Term Fixed Income asset class that was added to the strategic asset allocation.

Staff recommended a \$180 million investment in a separate account (“account”) managed by Russell Investments Implementation Services, LLC (“Russell”). SCERS has had a pre-existing relationship with Russell since 2014 where SCERS utilizes their overlay and transition management services. NEPC concurred with staff’s recommendation. The account would be primarily invested in debt issued by the U.S. Treasury with time remaining to maturity of greater than ten years, including fixed-rate and inflation-protected securities. The account would be passively managed with a blended benchmark of 60% Bloomberg US Treasury Long Index and 40% Bloomberg US TIPS Long Index.

Mr. Malinowski, George Emerson and Mengfei Cao summarized the recommendation and reviewed the diligence process, organization, strategy, and account terms.

Greg Spradling, Brian Pringle, and Greg Norquist of Russell Investments gave a presentation that highlighted their organization, custom fixed income capabilities and portfolio management process.

Motion: Upon motion by Joseph Hoffman seconded by Judith Blinder, the Investment Committee recommended that the Board of Administration invest \$180 million in a long-term fixed income account managed by Russell Investments, pending satisfactory legal review. The motion passed unanimously (6-0).

Infrastructure Manager Recommitment – Global Infrastructure Partners V

Staff recommended a commitment of up to \$17.5 million to Global Infrastructure Partners V (GIP V), a global and sector diversified infrastructure strategy. This recommendation is consistent with the Board’s adopted strategic asset allocation that includes a 4% (5% pending) target weight to infrastructure. SCERS has committed \$12 million to GIP III in 2016 and \$15 million to GIP IV in 2019. NEPC concurred with staff’s recommendation.

Mr. Emerson summarized the recommendation and reviewed the diligence process, organization, strategy, and fund terms. Ms. Blinder asked about concentration risk with 10 to 15 investments expected in the fund.

Motion: Upon motion by Jamie Carnell, seconded by Maria Coe, the Investment Committee recommended that the Board of Administration commit up to \$17.5 million plus applicable management fees to Global Infrastructure Partners V, pending satisfactory legal review. The motion passed unanimously (6-0).

Investment Consultant Search Process

Jason Malinowski gave a preview of the investment consultant search that will be conducted in the first half of 2024 due to the expiration of NEPC’s contract on June 30, 2024. NEPC is encouraged to rebid.

Mr. Malinowski walked through the proposed process and timeline to get feedback from the Investment Committee. SCERS plans to issue the RFP in January and have the Investment Committee conduct interviews of the finalists at its May meeting.

Mr. Traverse commented that the individual consultant assigned to a client is important to the entire relationship, so he encouraged SCERS to understand who that is upfront.

Cost Effectiveness and Fee Analysis

George Emerson 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.

SCERS's investment-related costs for 2022 totaled \$23.8 million (0.66% of fund assets), with a vast majority related to investment manager fees and expenses at \$21.8 million (0.60%). Staff oversight, custodial and consulting services represented the remaining \$2.0 million (0.06%). This excludes performance fees for private market asset classes, which is CEM Benchmarking's reporting convention.

Costs have increased modestly over time as the allocation to private market asset classes has increased. SCERS's investment-related costs are comparable to other US public plans. Over the past 10 years, ending June 30, 2023, SCERS has outperformed the Reference Passive Benchmark by 0.9% on a net of fees basis, which highlights that value is being generated for the costs incurred.

Adjourn Meeting

Motion:	Upon motion by <u>Jamie Carnell</u> , seconded by <u>Judith Blinder</u> , the Investment Committee voted to adjourn the meeting at 2:02 pm.
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