



Seattle City Employees' Retirement System

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

Minutes, Thursday, May 26, 2022

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

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

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Don Stracke (NEPC), Mike Malchenko (NEPC), Joe Ebisa (With Intelligence), Lauren Albanese (Fin News), Matt Courtois (FAS), Thomas Rowland (SPD), Zenon OYoung-Chu (SCL), Tom Mikesell (LEG)

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 April 28, 2022 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the April 28, 2022 Investment Committee meeting. The motion passed unanimously (3-0).

Q1 2022 Quarterly Performance Report

Mike Malchenko of NEPC reviewed SCERS's investment performance for the period that ended March 31, 2022.

The fund has returned 8.7% net of fees for the last 10 years, which is above the assumed rate of return and outperforming the Passive Reference Benchmark. In the one-year period which ended March 31, 2022, the fund returned 7.4% net of fees, underperforming the Strategic Policy Benchmark by 1.9% due to manager performance in private equity. Assets increased from \$3.84 billion one year ago to \$3.95 billion as of March 31, 2022.

(12:08 p.m. – Glen Lee joined the meeting.)

Inflation Discussion

George Emerson presented on the topic of inflation, which had been requested by the Investment Advisory Committee (IAC) in their annual report.

Mr. Emerson discussed what is inflation; the cause; how it is measured; inflation's relationship with monetary and fiscal policy; an outlook; and how it affects SCERS.

Inflation is taking root and is less transitory than was once believed. The Federal Reserve is attempting a soft landing but runs the risk of either causing a recession or not taming inflation. Long-term inflation expectations remain low but realized short-term inflation is elevated. Deflationary pressures exist in the longer run, including demographics and technological improvement.

Inflation has mixed impacts on SCERS's fiscal health. Prolonged inflation would increase benefit payments for some retirees due to the cost-of-living floor, reducing the funded status of the plan. Inflation is also a building block in the investment return assumption, so higher inflation could lead to a lower value of plan liabilities.

Investment Risk Framework

Jason Malinowski presented SCERS's Investment Risk Framework. SCERS developed and implemented an investment risk framework in 2018 and presents annually on it each spring.

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.

Adjourn Meeting

Motion: Upon motion by Glen Lee, seconded by Judith Blinder, the Investment Committee voted to adjourn the meeting at 2:00 pm. The motion passed unanimously (4-0).