



Seattle City Employees' Retirement System

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

Minutes, Thursday, February 24, 2022

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

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

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

Others present: Mike Monaco (MMPL), Mike Malchenko (NEPC), Matt Ritter (NEPC), Mark Schoenfeld (Carlyle), Christopher Fogle (Carlyle), Leila Forrence (Carlyle), Colleen Leider (Carlyle), Sarah Epps (Carlyle), Tim Morrison (FAS), Tom Mikesell (LEG), Matt Courtois (FAS), Kevin Balaod (Journalist from With Intelligence), Lauren Albanese (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 January 27, 2022 Investment Committee.

Motion: Upon motion by Sherri Crawford, seconded by Judith Blinder, the Investment Committee approved the minutes from the January 27, 2022 Investment Committee meeting. The motion passed unanimously (5-0).

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 24, 2022 Investment Committee meeting. Mr. Traverse, chair of the IAC, presented the 2021 IAC Annual Report which included: major developments for SCERS in 2021; fund performance as of Q3 2021; IAC's 2021 activities; strategic guidance; and IAC's recommendations for 2022.

(12:02 pm – Glen Lee arrived at the meeting)

The IAC offers strategic guidance that is intended to endure over the long-term. Mr. Traverse discussed the guidance in the 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 staff and the board.

Ms. Blinder commented that she has been impressed with the quality of online training available for trustees. During the trustee onboarding process, she felt that the training was also very good.

The IAC had five recommendations for 2022:

- Make the liability-aware investing (LAI) framework fit for implementation ahead of the next asset-liability study slated for 2023;
- Utilize the LAI framework to reexamine the role of fixed income and evaluate the impact of inflation;
- Refresh the modeling of portfolio liquidity to account for the increase in private markets;
- Refine the analysis and positive engagement related to climate change; and,
- Validate the fee calculations for a sample of private market funds.

Jason Malinowski noted that the IAC's strategic guidance and recommendations continue to be helpful for SCERS in planning and prioritization.

Quarterly Performance Review – Q4 2021

Mike Malchenko of NEPC reviewed SCERS's investment performance for the period that ended December 31, 2021. SCERS returned 16.8% net-of-fees for 2021, which outperformed the strategic policy benchmark (16.3%), passive reference benchmark (12.4%) and median public pension fund (14.9%). Assets increased from \$3.5 billion to \$4.1 billion over the last year.

Mr. Malinowski noted that when NEPC presented their capital market assumption in January that they noted a decline in the expected return. Milliman has also noted that. A decline in the expected returns mean an increase in the value of liabilities, which should be considered alongside the strong asset performance.

There was discussion of SCERS's funding ratio which is approximately 83% when the assets are mark-to-market and 73% with asset smoothing. The funding ratio would decrease if the return assumption were reduced following the experience study that is underway.

Real Estate Manager Selection – Carlyle Property Investors

Staff recommended an investment of up to \$80 million in Carlyle Property Investors ("CPI"), a US core plus real estate strategy. CPI is managed by The Carlyle Group ("Carlyle"). CPI would be SCERS's third real estate fund investment with Carlyle. SCERS had previously invested in Carlyle's non-core real estate strategy with commitments of \$15 million to Carlyle Realty Partners Fund IV (2005) and \$15 million to Carlyle Realty Partners Fund VIII (2017). NEPC concurred with staff's recommendation.

Mengfei Cao and Matt Ritter, NEPC, summarized the recommendation and reviewed the diligence process, Carlyle organization, CPI strategy, and fund terms.

Mark Schoenfeld, Christopher Fogle, and Leila Forrence of Carlyle gave a presentation that highlighted the investment team, portfolio construction, sector outlook and performance. Investment Committee and IAC members asked questions related to the manufactured housing and single-family rental sectors.

Glen Lee voiced concern with CPI's investment in the single-family rental home sector because the City of Seattle is actively considering policies to prevent investors from owning these homes. Bob Harvey responded that he

understood the concern but was comfortable with the investment from a SCERS perspective. Mr. Harvey asked staff to follow-up at the March Board meeting with additional information on the single-family rental home sector.

Motion: Upon motion by Robert Harvey, Jr., seconded by Judith Blinder, the Investment Committee recommended that the Board of Administration commit up to \$80 million to Carlyle Property Investors, pending satisfactory legal review. The motion passed 4 to 2 with Glen Lee and Kimberly Loving voting “nay”.

Adjourn Meeting

Motion: Upon motion by Glen Lee, seconded by Sherri Crawford, the Investment Committee voted to adjourn the meeting at 1:42 p.m. The motion passed unanimously (6-0).