



Seattle City Employees' Retirement System

Board of Administration Meeting
Pacific Building, 720 3rd Avenue, Suite 900, Seattle, WA
(206) 386-1293

Minutes, Thursday, March 10, 2022

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

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

Others Present: Mike Monaco (MMPL), Gary Smith (City Attorney's Office), Nick Collier and Julie Smith (Milliman), Melina Thung (ARSCE), Joe Ebisa (Journalist with With.Intelligence), Matt Courtois (FAS), Tim Morrison (FAS), Lauren Albanese (Financial Investment News), Tom Mikesell (LEG), John Talbot, Erin House (LEG)

Call to Order

Teresa Mosqueda, Chair, called the meeting to order at 10:01 am.

Public Comment

Melina Thung of the Association of Retired Seattle City Employees (ARSCE) asked that the public have continued access to the Board meetings. Members of ARSCE have attended the meetings and enjoyed hearing the presentations and discussions.

On behalf of ARSCE, Ms. Thung asked that the Board review the cost-of-living adjustment (COLA) for retirees. Retirees are having difficulty managing with the 1.5% increase.

Mr. Davis stated that the board meetings will eventually evolve into a hybrid model once in-person meetings start. Staff are working on the technical details, but he assured Ms. Thung that an online presence will remain.

Mr. Davis responded to the concern about the COLA. There is a floor COLA that kicks in at 65% purchasing power. Staff can do an analysis to show the Board how the population looks approaching the floor COLA.

Mr. Davis indicated that staff received requests from members Brad Larson and Timothy Terrill requesting that SCERS divest from Russian investments. Staff responded to Mr. Larson and Mr. Terrill that SCERS will fully comply with any economic sanctions imposed by the US government that could lead to divesting of certain Russian securities.

SCERS has no direct investments in Russia and limited investments in four comingled funds which equate to 0.1% of the total portfolio. SCERS's managers are actively monitoring the situation. Staff will keep the Board updated.

CM Mosqueda asked what other governments were doing to address Russia. Mr. Davis replied that staff will have more information in the quarterly ESG update in the April meeting.

Administrative Consent Agenda

Provided in the Retirement Board Packet were the minutes from the February 10, 2022 Retirement Board regular meeting, ratification of Retired Payroll, Office Payroll, and other payments and withdrawals.

The following items represent normal expenses:	
Pension Payroll	\$21,006,042.32
Office Payroll	372,763.04*
Admin Expenses	125,708.35
Investment Expenses	440,711.75
Total Expenses – February 2022	\$21,945,225.46

**includes estimated benefit costs*

Retirements, Withdrawals, Other Payouts – February 2022			
	Count	Monthly Pension	Lump Sum Distribution
Retirements	39	\$119,379.79	\$1,979,102.39
Withdrawals	28	n/a	\$889,831.66

Motion: Upon motion by Judith Blinder, seconded by Robert Harvey, Jr., the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (7-0).

Experience Study Report/Adoption of Assumptions

Nick Collier and Julie Smith of Milliman presented the 2018-2021 Investigation of Experience and answered questions from the Board. The purpose of the report is for the Board to adopt assumptions that are to be used in the January 2022 Actuarial Valuation.

Milliman studied the period from January 1, 2018 through December 31, 2021. There are two types of assumptions:

- Demographic
- Economic

Estimates for future results are based on experience, future expectations, and professional judgement. Milliman observed fewer retirements than expected during the four-year time period. There was a good spike in 2021, but there was a decline in 2020, probably due to the pandemic.

Future return expectations from investment consultants are almost universally lower at the end of 2021 than at the time of the last experience study. Milliman also observed that significant outperformance tends to be followed by underperformance.

Milliman's proposed assumptions include:

- Inflation Reduce from 2.75% to 2.6%
- Investment Return Reduce from 7.25% to 6.75%
- Membership Growth Reduce from 0.5% to 0.0%

There was discussion on the recommended assumptions. Mr. Lee requested that the membership growth be 0.25% to reflect the past 10 years' experience. He also amended the motion to request staff and Milliman provide an analysis of recognizing the immediate impact of these assumptions versus smoothing the contribution rate when the valuation report is presented.

Motion: Upon motion by Glen Lee, seconded by Teresa Mosqueda, the Board of Administration accepted the assumption recommendations in Milliman's 2018-2022 Investigation of Experience including modifications to the following assumptions: 1) Investment return of 6.75%; 2) Consumer Price Inflation of 2.6%; and 3) Active membership growth of 0.25%. The effective date of these changed assumptions will be January 1, 2023. The Board directed an analysis of recognizing the immediate impact of assumptions changes versus contribution rate smoothing be presented along with the valuation report. The motion passed unanimously (7-0).

2021 SCERS Progress Report

Paige Alderete reviewed the 2021 SCERS Progress Report.

Investment performance for 2021 exceeded the actuarial rate of return of 7.25%. The funding ratio is up from 76% to approximately 84% on mark to market basis. Staff implemented an improved reclaim process for overpayments and recovered \$186,960 of overpayments.

SCERS generally maintained the volume of services it provided to members. Member Self-Service portal usage and SCERS website usage increased significantly in 2021.

Ms. Alderete also reviewed the 2021 training opportunities for staff and Board members; and stakeholder access to information regarding their benefits and services.

Board members gave kudos and appreciation to SCERS staff for work well done during challenging times.

Investment Committee Report – February 24, 2022

Jason Malinowski gave the Investment Committee (IC) Report for the meeting held on February 24, 2022.

There were three agenda items at this meeting. The Investment Advisory Committee (IAC) delivered their annual report; NEPC presented the fund's quarterly update for Q4 2021; and there was recommendation to invest \$80 million in a US core plus real estate strategy (Carlyle Property Investors). The recommendation follows SCERS placing a full redemption from Heitman American Real Estate Trust in late 2021. The IC approved the motion to invest in Carlyle Property Investors (CPI) with a 4 to 2 vote.

Some IC members expressed concern with SCERS investing in the single-family rental home sector which currently has a 19% allocation in CPI. Staff was asked to return to the March board meeting with additional information on the single-family rental home sector. Mr. Malinowski provided background on the sector and reviewed the investment qualities that have attracted institutional investors.

There was discussion amongst the board about the social equity, financial stability, and potential regulatory risk of the single-family rental home sector.

CM Mosqueda asked whether it was urgent to decide at today's meeting. Mr. Malinowski responded that it is urgent because Carlyle is closing the fund to new investors at the end of the month given that it has a large amount of pending contributions that need to be invested. If the Board does not move forward with CPI, then staff would invest the Heitman redemption proceeds with SCERS's two existing core real estate funds.

CM Mosqueda asked for a delay in the vote given her expressed concerns of potential regulation of the single-family rental homes and the negative impact on communities.

Motion: Upon motion by Teresa Mosqueda, seconded by Glen Lee, the Board of Administration voted to delay consideration of the Investment Committee's recommendation to commit up to \$80 million to Carlyle Property Investors until fall of 2022. The motion passed unanimously (7-0).

Administrative Committee Report – February 24, 2022

Mr. Davis reported on the February 24, 2022 Administrative Committee meeting. There were several agenda items including the board self-evaluation and the executive director evaluation process.

As part of the three-year review, the Administrative Committee also recommended that the Board reaffirm the Board of Administration Charter.

Motion: Upon motion by Robert Harvey Jr., seconded by Sherri Crawford, the Board of Administration accepted the Administrative Committee's recommendation to reaffirm the Board of Administration Charter. The motion passed unanimously (7-0).

Executive Director Update

Mr. Davis stated that the ESG Program 2.0 will kick off at the April Board meeting. Staff are looking on building upon the great work that is already being done.

He reminded the Board that the NCPERS annual conference will be in-person this year in Washington D.C. Interested board members should contact him.

There is a trustee election this year for the active member seat currently being held by Judith Blinder. A notice of election will be posted in the Daily Journal of Commerce, in the Member Self-Service Portal, on SCERS's website, and sent out with member statements and a retiree letter.

Adjourn Meeting

Motion: Upon motion by Judith Blinder, seconded by Glen Lee, the Board of Administration voted to adjourn the meeting at 12:21 pm. The motion passed unanimously (7-0).