

**SONOMA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT COMMITTEE MEETING MINUTES**

Thursday, January 26, 2023
10:00 a.m.

In accordance with Retirement Board Resolution #156, adopted on September 23, 2021, and reaffirmed on January 9, 2023, the Sonoma County Employees' Retirement Association Investment Committee meeting was held virtually and in compliance with California Government Code section 54953(e).

Individuals interested in participating in the meeting were invited to join using one of the two following methods:

1. WebEx meeting application via computer, tablet or smartphone:

<https://sonomacounty.webex.com/sonomacounty/j.php?MTID=m3cd01c4b1637f8102d066b50bd7d6d0f>

2. Call-in:

1-408-418-9388

Meeting ID: 2484 883 7076

Password: 01262023

PUBLIC COMMENT PRIOR TO THE MEETING

Public comments were solicited prior to the meeting by emailing Julia.Smith@sonoma-county.org. Members of the public that joined the WebEx meeting via the app or dial in were provided with the opportunity to submit live public comment for each agenda item after the Committee members and staff provided their comments.

Presiding in

SCERA Boardroom: Greg Jahn, Chair

Present in

SCERA Boardroom: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, Chris Coursey (arrived at 10:03 a.m./left at 12:41 p.m.), Amos Eaton, Erick Roeser, Joe Tambe, Tim Tuscany (left at 12:33 p.m.), Brian Williams, and Bob Williamson; Chief Executive Officer Julie Wyne, Assistant CEO/Chief Legal Counsel Cristina Hess, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, and Administrative Aide Julia Smith; Marc Seidner and Matt Clark (of PIMCO)

Present

via WebEx: John Lee and Chris Behrns (of Aon)

I. ELECTION OF OFFICERS

The Committee will select a Chair and Vice Chair by majority vote of the members.

Recommendation: Select a Chair and Vice Chair.

A motion was made by Trustee Tambe and seconded by Trustee Williamson to appoint Greg Jahn as Chair and Erick Roeser as Vice Chair. The motion carried 8-0-0-1 with voting as follows:

Mr. Balzarini	Aye
Mr. Coursey	Absent
Mr. Eaton	Aye
Mr. Jahn	Aye
Mr. Roeser	Aye
Mr. Tambe	Aye
Mr. Tuscany	Aye
Mr. Williams	Aye
Mr. Williamson	Aye

II. MINUTES APPROVAL

Approval of the November 17, 2022, Investment Committee meeting minutes

Recommendation: Approve the November 17, 2022, Investment Committee Minutes.

A motion was made by Trustee Eaton and seconded by Trustee Balzarini, to approve the November 17, 2022 minutes. The motion carried 8-0-0-1 with voting as follows:

Mr. Balzarini	Aye
Mr. Coursey	Absent
Mr. Eaton	Aye
Mr. Jahn	Aye
Mr. Roeser	Aye
Mr. Tambe	Aye
Mr. Tuscany	Aye
Mr. Williams	Aye
Mr. Williamson	Aye

III. BOARD AND COMMITTEE MEETINGS

Retirement Board Resolution #156 – COVID State of Emergency and imminent threat of risk

Recommendation: Take appropriate action.

A motion was made by Trustee Eaton and seconded by Trustee Williamson, to affirm that the conditions set forth in Retirement Board Resolution #156 still exist and warrant continued application of Government Code section 54953(e) to SCERA Retirement Board and Committee meetings for the next thirty days through February 25, 2023. The motion carried 8-0-0-1 with voting as follows:

Mr. Balzarini	Aye
Mr. Coursey	Absent
Mr. Eaton	Aye
Mr. Jahn	Aye
Mr. Roeser	Aye
Mr. Tambe	Aye
Mr. Tuscany	Aye
Mr. Williams	Aye
Mr. Williamson	Aye

IV. PRESENTATION

PIMCO – Marc Seidner, Managing Director, and Matt Clark, Account Manager, provided an organizational update and comments on the performance and positioning of the core plus fixed income portfolio the firm manages for SCERA.

Mr. Clark made the introductory remarks expressing appreciation for the relationship and providing background information on himself and Marc Seidner. Mr. Seidner is a senior member of PIMCO's investment team, being the CIO of non-traditional strategies and a permanent member on the firm's Investment Committee. Mr. Clark outlined details of the portfolio and performance figures, noting that the 11-year-old account stood at \$137 million in market value as of December 2022. The since inception performance after fees was 2.2% with 30 bps of outperformance versus the Bloomberg US Aggregate Index benchmark. The portfolio strategy tries to balance exposure across the three broad sectors of the bond market: Treasuries, securitized and investment grade credit. Currently, the active positioning reflects credit exposure with a bias toward high quality and senior mortgage credit and an underweight to overall duration. Mr. Clark also pointed out that there were few places to hide last year as yields across developed markets continually marched higher in response to tighter central bank monetary policies. With that said, SCERA's portfolio now yields a healthy 3.8%. From an attribution standpoint, duration strategies had a positive impact for the full year but were negative in the fourth quarter. Spread sector strategies detracted from relative performance and currency positions were neutral.

Marc Seidner then commented on last year's market environment. He felt relieved to move forward after a tumultuous 2022 and was pleased to be able to meet the Board in person for the first time since COVID restrictions began. He noted the high volatility in 2022 and admitted that PIMCO's "transitory" inflation projection had been incorrect. Inflation stayed higher for longer

than they expected and caused the heightened volatility witnessed. However, given the reversal of prices already beginning they expect inflation to settle down this year. He also commented on how rare it is for both stocks and bonds to decline as they did in 2022 and that it is unlikely to be repeated in 2023. He believes the Fed is near the end of their cycle raising rates and they expect absolute portfolio returns to be healthy in 2023.

In response to a trustee question regarding the many experts that got it wrong, Mr. Seidner discussed the unprecedented nature of the global pandemic and the global response involving both monetary and fiscal policies around the world. The labor and wage components were also very complex with 2.5 million people in the US choosing to leave the workforce. Finally, the tragedy in Ukraine was unexpected and has disrupted energy and food supplies putting upward pressure on global prices. In response to other questions asked, Mr. Seidner commented that the Fed's actions had been masterful over the last three years; PIMCO's base case is for a mild recession that may extend longer than most as the Fed might take a while to pivot to easing; the labor participation rate should improve as people return to work; and that signs exist for a possible soft landing. On the interest rate forecast, PIMCO is expecting two more 25 bp increases and may see the Fed reversing to cut rates before year end. The bond market is already pricing this in.

Mr. Seidner provided a review of the portfolio's current positioning and rationale. Longer duration bonds are underweighted as the yield curve is inverted, they continue to increase exposure to AAA MBS and a weakening dollar scenario is an important theme as the Fed slows rate hikes. Other Q&A touched on US debt ceiling negotiations and deficit spending. After the formal presentation, the Board and staff discussed their satisfaction with PIMCO, active risk and their expected extra return from the account.

V. INVESTMENT STAFF AND CONSULTANT

A. Planning Session Agenda – discussion regarding content and venue

CEO Julie Wyne reported that finding a hotel for hosting the 2023 Planning Session has been difficult. Various options including county facilities, school campuses, County Fairgrounds, and other local hotels were discussed. Last year's venue, Vintners Resort, was no longer affordable as they substantially raised the guaranteed room bookings.

The majority of trustees made positive comments on the value of the annual event as an opportunity to talk to all the managers over two full days including an informal dinner. The trustees and staff also gain important educational content from these personal interactions. Various opinions about the panel discussions, seeding questions and length of sessions were shared. Staff will continue to work to locate an appropriate venue with costs to be shared with the Board before any final decision is made.

B. Investment Project Plans for 2023

CIO Jim Failor reviewed the 2023 investment project plans as laid out in the presentation slides. No changes with regard to content or timing were suggested.

C. Aon's Investment Program Analyzer for Trustees

Chris Behrns of Aon introduced the Investment Program Analyzer survey which was last given to the Board in 2018. The purpose of the survey questions is to collect the trustees' thoughts on investment philosophy, how time in the Investment Committee meetings is used and how best to direct staff resources. The entire survey should take 15-20 minutes to complete. The results will be ready for review at the March Investment Committee meeting.

D. 2022 Securities Class Action Filings & Recoveries – State Street Bank report

Mr. Failor covered the annual 2022 securities litigation filings and collections that are compiled in State Street's Securities Class Actions Report. State Street files claims for SCERA only in the US and Canada due to the riskless nature of the opt-out legal process. Most other markets are "opt-in", meaning that the investor has to choose to participate in a class action. In those cases, the investor usually takes the risk of paying the defendant's legal fees if the suit is unsuccessful. State Street's firmwide statistics were reviewed, with the volume of claims filed in 2022 ticking up, as well as SCERA's account specific statistics. SCERA's recoveries received in 2022 totaled \$49K which is similar to the recoveries received in 2021.

E. December 2022 Cash Raise & Cash Planning

Investment Officer Mickey Nguyen reviewed the \$50 million December cash raise which had been foreshadowed at the November Investment Committee meeting. Based on December 7th market values, capital was raised from five equity managers with all the resulting asset classes being near their policy targets, except for Real Assets which remain elevated though within their policy range at 25.8% of Plan assets. Due to their illiquidity, Real Assets could not be included in the cash raise.

Cash available for capital calls and expenses stood at \$70.7 million as of January 18, 2023. Ms. Nguyen highlighted the recent significant cash flows that occurred at the end of the year. Two capital calls were received totaling around \$50 million: \$40 million from KKR and \$10 million from Fiera Comox. On the positive cash flow side, the \$30 million redemption request from UBS AgriVest was received much more quickly than expected as the request was crossed with an incoming subscription. Additionally, the November termination of the Parametric EIRP strategy freed up \$20 million which had been dedicated to margin for derivative instruments.

As for future estimated cash planning, the remaining capital commitment for KKR is \$7 million (so SCERA is almost fully invested in this infrastructure fund) and \$109 million for Fiera Comox. Overall, the cash ladder indicates another cash raise will likely be initiated in the March/April timeframe, as the current cash balance can cover 3 more months of expected payroll expenses. The portfolio currently has an asset allocation mostly in line with policy target ranges, except for Real Assets. Staff anticipates the Real Assets exposure will remain elevated, since 4th quarter returns show a negative contribution from Real Estate that will likely be offset by positive results from Infrastructure and Farmland.

F. GTA Babelfish 2022 Trade Cost Analysis – fixed income & equities

Mr. Failor discussed results of Global Trading Analytics summary reports for equity and fixed income trading costs for the 4Q2022 and full year 2022. SCERA's equity managers continue to execute trade orders within acceptable parameters for total cost and market impact criteria. SCERA's equity managers are paying lower commission overall versus the GTA universe. The December cash raise provided a spotlight on the difference in trading methodologies between equity managers. Systematic took a multi-day opportunistic approach to determine when, where and what to execute for best price discovery. Dodge & Cox (D&C) employs a trading system prioritizing speed of execution, eliminating slippage, and dark pools to avoid identifying large trades. Some of D&C's trades looked expensive versus the GTA VWAP (volume weighted average price) comparison but after researching the issue staff concluded this was simply due to the difference between D&C's trading philosophy, which is quite reasonable, and the trade cost methodology. There are no outstanding concerns.

On the fixed income side, SCERA managers have delivered a net market impact benefit versus the universe. Although drilling down, DoubleLine incurred significant trading cost in 2022 given their focus on mortgages and the high volatility of MBS (mortgage-backed securities) in a rising rate environment. Reams, on the other hand, contributed a relatively large positive total benefit trading government securities.

G. Due Diligence Meeting Reports

1. Guggenheim – November 29, 2022

Ms. Nguyen gave a brief overview of the onsite due diligence visit with Guggenheim. CIO Jim Failor, CEO Julie Wyne, Trustee Brian Williams and Ms. Nguyen met with members of the investment, operations, compliance, and risk management teams and found no material changes to report from the last visit in 2019. Portfolio performance has been acceptable relative to the benchmark, with outperformance consistently in the range of 30-40 bps.

In December after returning from this meeting, staff learned that their Global CIO and founding partner Scott MinerD unexpectedly passed away. SCERA staff and Trustees were saddened to learn of his passing. Regarding business continuity, Ms. Nguyen opined that their deep bench of investment professionals, who are described in the attached formal letter, will be able to quickly adjust to fill the roles previously handled by Mr. MinerD. As staff had already vetted their broad team-based approach during the November visit, staff remains confident very little, if any, disruption will arise for the firm overall, and more specifically to SCERA's portfolio whose construction is not dependent on macro or asset allocation guidance. Ms. Nguyen pointed out that Aon has changed their rating of Guggenheim's US bank loan and Multi Credit strategy from Buy to Review while they monitor what new developments might come about following Mr. MinerD's passing.

2. UBS AgriVest Farmland Fund – November 30, 2022

Mr. Failor discussed the Aon downgrade of AFF from Buy to Qualified. The rationale for the rating change was due to the long-term relative underperformance versus AFF's own internally generated custom "core farmland" benchmark. (The custom benchmark is a blend of 80% annual cropland and 20% permanent cropland performance.) Aon also felt the competitive environment has changed since the fund was opened and now investors have other open-end farmland funds in which they can invest. Staff does not share the same view. While they acknowledge the lower returns, they believe the Fund has commensurately lower risk due to their conservative underwriting. In addition, the Fund is a good complement to SCERA's other farmland fund managed by Fiera Comox which takes additional risk through managing farming operations and through a higher exposure to permanent cropland.

The onsite visit at UBS added to staff's confidence in the management team after meeting with co-CIO, Dan Murray. Mr. Murray, who was a thoughtful and analytical communicator, appears to be a great addition to the team. Some trustees expressed disappointment in Aon's "downgrade" as they view AFF favorably and believe it has met SCERA's expectations.

3. UBS Trumbull Property Fund – November 30, 2022

Mr. Failor highlighted issues of concern that arose from the due diligence meeting with management of TPF. Staff had a poor impression of the US Real Estate leadership and the relationship among the leaders. TPF has had a poor history of timing their active positions and their current overweights to sectors that have

outperformed over recent history risks the possibility of being “whipsawed”. A 4-year 25% loyalty fee discount to which SCERA signed-up expires at the end of this year. Staff suggested a review of our options regarding this Fund investment in later 2023 and the consensus of the Trustees was supportive of this plan. Trustees were interested in what the next steps would be given the large exit queue that would limit redemption requests and be an impediment to a timely exit. The Board shared the concern voiced by staff and, as a result, viewed the possibility of exiting the investment as a serious possibility.

4. Systematic – December 1, 2022

Ms. Nguyen gave the overview of staff’s visit to Systematic and Jacobs Levy, both of whom have continued to demonstrate superior returns and a rigorous process of research and execution. She was impressed with both managers on her first onsite visit and felt that these two equity managers who are considered “High Conviction” managers deserve to be labeled as such. Portfolio manager Ken Burgess has a unique talent for using familiar fundamental metrics and tools as a foundation for his strategy (DCF models, FCF, leverage ratios) but he combines those analyses to vet a large investable universe and pinpoint the most favorable opportunities. As evidenced by GTA reports, he adds additional value through trade execution and possesses an expertise in implementing entry and exit strategies in the small/mid cap space. A Trustee agreed with the assessment that the strategy is dependent on Mr. Burgess’ leadership and, should that change, SCERA would need to immediately review the account.

5. Jacobs Levy – December 1, 2022

Ms. Nguyen also spoke about this top performer in the public markets portion of SCERA’s portfolio. Jacobs Levy delivered an outstanding +0.96% gross-of-fee return in 2022 vs -19.2% for the Russell 3000 benchmark. She views the founding partners, Ken and Bruce, as the “Rock Stars” of quantitative strategies which is evidenced by performance in 2022 and since inception. The onsite visit gave staff the chance to interact with numerous employees with impressive intellectual prowess. Ms. Nguyen believes the only unanswerable question is what the limits to their approach of continuously developing and adding factor models may be.

VI. COMMUNICATIONS

A. SCERA Investment Performance Report for December 2022.

Mr. Failor reported the Plan’s year end performance results. On an absolute basis, the returns were weak at -5.4% for 2022 but relative returns were strong with active management delivering over 500 basis points above the target policy return.

- B. Guggenheim Letter Discussing the CIO Scott Miner's Sudden Passing, January 11, 2023 and Aon Flash Report Regarding Scott Miner's Passing, January 5, 2023.
- C. Arrowstreet Letter Announcing CIO Peter Rathjens Planned Retirement, December 15, 2022 and Aon Flash Report Concerning CIO Rathjens Retirement, December 19, 2022.
- D. Aon Townsend Flash Report, 'UBS AgriVest Farmland Fund Downgraded to "Qualified"', December 2022.
- E. KKR Letter Announcing Recent DCIF Acquisitions, December 22, 2022.

VII. GENERAL DISCUSSION MATTERS

Opportunity was given to advise the Investment Committee of new matters and for Committee members to ask questions for clarification, provide information to staff, request staff to report back on a matter, or direct staff to place a matter on a subsequent agenda.

There were no general discussion matters.

VIII. PUBLIC COMMENT

Opportunity was given for public comment on non-agenda items within the jurisdiction of the Investment Committee.

There were no public comments.

IX. NEXT MEETING

The next Investment Committee meeting is scheduled for Thursday, February 23, 2023, at 8:30 a.m. via WebEx. Planned topics for this meeting include a presentation by Dodge & Cox.

X. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 1:18 p.m.

XI. APPROVAL

The above minutes from the January 26, 2023, Investment Committee meeting were approved at the Investment Committee meeting on February 23, 2023.

GREG JAHN, CHAIR