

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

Thursday, February 23, 2023
8:33 a.m.

In accordance with Retirement Board Resolution #156, adopted on September 23, 2021, and reaffirmed on January 26, 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=m7dfce796f6d9c4b094fa277b8f6753d1>

2. Call-in:

1-408-418-9388

Meeting ID: 2486 899 1114

Password: 02232023

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 (left at 12:10 p.m.), Amos Eaton, Joe Tambe, Tim Tuscany (arrived at 8:35 a.m.), Brian Williams (arrived at 8:37 a.m.), 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; Kevin Johnson (of Dodge & Cox); Tim Pflugradt and Chris Behrns (of Aon)

Present

via WebEx: Finance and Retiree Services Manager Cheryl Enold; Jas Thandi, Himmat Dhaliwal, and John Lee (of Aon)

Absent: Trustee Erick Roeser

I. MINUTES APPROVAL

Approval of the January 26, 2023, Investment Committee meeting minutes

Recommendation: Approve the January 26, 2023, Investment Committee Minutes.

A motion was made by Trustee Williamson and seconded by Trustee Balzarini, to approve the January 26, 2023, minutes. The motion carried 7-0-0-2 with voting as follows:

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

II. PRESENTATIONS

A. Dodge & Cox – Kevin Johnson, Vice President and Portfolio Manager, provided an organizational update and commented on the performance and positioning of the global equity portfolio the firm manages for SCERA, a relationship that dates back to 1997. CIO Jim Failor gave the background for the hybrid account structure, which results in lower management fees versus investing in the Dodge & Cox Global Stock Fund. Dodge & Cox constructs a portfolio that mimics a Global Equity strategy by combining the Dodge & Cox International Stock Fund (ISF) with a separately managed account holding individual domestic stocks. As a result, the presentation utilized two slide decks.

The account is currently split with 51% in domestic stock holdings and 48% in the ISF and combined mirrors the geographic allocation of the Global Fund, but relative weight can fluctuate within a 2% band. Since the mandate change to global equity, performance has matched the Russell 1000 Value Index and exceeded the MSCI ACWI Index, resulting in relative outperformance versus the blended Global Equity benchmark. Mr. Johnson commented on the appropriate benchmark when considering value and market capitalization tilt. Most clients prefer the Russell 100 Value since the S&P500 has a heavy growth component, but Dodge & Cox is indifferent and looks at both measures.

The outlook for equity returns is expected to be muted over the next 3-5 years, possibly in the range of 5-8% both in the US and internationally. The factors which contributed to outperformance were their value style tilt and their overweight to the energy sector. Geographic exposure is underweight US due to valuations, while opportunities to add in

international markets are appearing. Mr. Johnson addressed the portfolio's exposure to China, which is primarily through the Technology, Media, Telecom (TMT) + Internet sector where Dodge & Cox sees an attractive growth profile. 11% of the ISF is invested in China Internet stocks, so SCERA's portfolio weight in China is approximately 5% versus 7% in the Global Stock Fund. Regarding real estate, they are generally negative as valuations still remain rich, so the portfolio has only one REIT which is Gaming & Leisure Properties with a weight of less than 0.5%. In conclusion, the trustees expressed their continued confidence in Dodge & Cox.

- B. Market Outlook - Jas Thandi, Global Head of Asset Allocation, and Himmat Dhaliwal, Investment Strategist, reviewed Aon's expectations for market returns in light of current economic conditions. After recapping the numerous challenges in 2022, Mr. Thandi weighed the probabilities for recession and a Federal Reserve pivot in interest rate policy. A better scenario for economic outcomes seems to be presenting currently, but the likelihood of a Fed rate cut by year-end is a fanciful wish at best. The Fed remains worried about "sticky" services inflation that has remained elevated post-COVID.

The core view is based on central banks keeping rates high, range-bound yields, and a tougher environment for risky assets from higher rates and a recessionary trend. By asset class, they believe bonds are reasonably valued; they recommend underweighting equities and high yield bonds as risk remains for more pain ahead; overweighting cash and alternatives; and being a provider of liquidity in private credit and secondaries.

Mr. Dhaliwal covered various topics on inflation, including the history, measurement, drivers, and role of central banks. Capital market assumptions are influenced by current valuations which in turn are directly affected by yields. The resulting assumptions are higher now for both equities and bonds compared to last year. A 5% real return target can now be achieved without going out as far on the risk curve. Only real estate and infrastructure returns have ticked down by a small measure. However, Mr. Thandi emphasized that the environment is quite fluid and suggested that clients be prepared for volatility.

- C. Fourth Quarter & Full Year 2022 Investment Performance Report – Investment Consultant Tim Pflugradt of Aon Investment Consulting, presented. Mr. Pflugradt pointed out that value outperformed growth by a wide margin in 2022 and that was not specific to US markets. As for sector returns in fixed income, corporate credit performed best in the fourth quarter over government and securitized bonds, a factor which weighed on DoubleLine's returns versus PIMCO and Reams. The Plan overall returned 7.2% in the fourth quarter, with strong positive outperformance from all four active public equity managers. In fact, SCERA ranks in the top 1 percentile of its peer group for 10 and 20 year US Equity returns. Real Assets posted a positive return for the quarter to finish off a challenging year.

III. INVESTMENT STAFF AND CONSULTANT

The Investment Committee moved into Executive Session and closed the meeting to all attendees who were not necessary for the consideration of a specific pension fund investment. While the meeting was closed, those attendees were placed into the WebEx lobby by the WebEx host and did not hear nor see the meeting. Those attendees were re-connected to the meeting once the Committee returned to open session.

A. Executive Session

Executive Session. Meeting closed pursuant to Government Code Section 54956.9(d)(1) to confer with legal counsel – existing litigation, *Iowa Public Employees' Retirement System, et al. v. Bank of America, et al.*

The Investment Committee moved out of Executive Session and reopened the meeting to all WebEx attendees who had been placed in the lobby during the closed session.

B. Executive Session Report Out

Chair Greg Jahn stated there was no reportable action taken during closed session.

C. Active versus Passive Review

Chris Behrns of Aon Investment Consulting reviewed the topic of active versus passive management. Aon's final recommendation to SCERA after this review was to not make any portfolio changes as this time. He suggested that later in the year, after new managers like Fiera Comox are expected to be fully funded, we may want to discuss where to place the remaining funds in the State Street Global Management Interim account. Mr. Failor reminded the Committee that T. Rowe Price had been considered as a finalist for this global equity allocation in 2021, but there was no strong consensus to move the manager forward.

D. 2023 Planning Session Logistics

CEO Julie Wyne announced that the Doubletree in Rohnert Park has been selected as the venue for October's Planning Session. Estimated expenses are similar to those from last year. In addition, all costs associated with the event will be borne by the Trust due to the educational value of the two-day forum.

E. Aon's Custody Advisory Services Securities Finance Review & Optimization – update

Mr. Failor reported that the results of the securities lending review by Aon were expected to be available for the March Investment Committee meeting.

F. SCERA Due Diligence Travel Schedule – update

CIO Jim Failor informed the Committee of upcoming on-site due diligence meetings with DoubleLine and PIMCO on April 13 and 14, 2023.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for January 2023.

Investment Officer Mickey Nguyen gave an overview of the monthly performance report. January was a stellar month for stocks and bonds: the Russell 3000 was up 6.9%, the EAFE and Emerging Markets indices rose 8% and the BB Aggregate Bond Index increased 3%. Small cap equities returned almost 10% which seemed to indicate investors are positioning for a soft landing. Against this bullish backdrop, the Plan return for the month of January was 4.4% which lagged the Target Policy by 36 bps.

Arrowstreet and Systematic, both of which have very strong long-term returns, trailed their respective benchmarks in January by around 200 bps due to the broad rally even in “meme” stocks which can be a difficult environment for active managers. Fixed Income performance was generally in line with benchmarks. In Real Assets, Real Estate valuations were, unsurprisingly, marked down over the past quarter while Farmland and Infrastructure provided modestly positive returns. As a result, Real Assets continue to be at the upper end of their policy range as a percentage of total strategic assets but when measured against the total Plan, including Opportunistic assets and cash, it’s at 25%. The current target policy weight for Real Assets is 23%.

B. Aon Flash Report, “Guggenheim Partners’ Fixed Income Strategies Returned to ‘Buy’”, February 17, 2023.

C. Axiom Release, Acquisition of Regulated Care Homes in England, February 13, 2023.

D. Wall Street Journal, “U.S. Retail Sales Rebounded Sharply in January”, February 15, 2023.

E. The Economist, “Investors expect the economy to avoid recession”, February 15, 2023.

V. 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.

VI. PUBLIC COMMENT

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

There were no public comments.

VII. NEXT MEETING

The next Investment Committee meeting is scheduled for Thursday, March 30, 2023, at 8:30 a.m. Planned topics for this meeting include a presentation by Systematic.

VIII. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 12:16 p.m.

IX. APPROVAL

The above minutes from the February 23, 2023, Investment Committee meeting were approved at the Investment Committee meeting on March 30, 2023.

GREG JAHN, CHAIR