

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

Thursday, March 30, 2023

8:33 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, Chris Coursey (left at 10:34 a.m.), Erick Roeser, Joe Tambe (left at 11:29 a.m.), Tim Tuscany, 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, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith; Ken Burgess and Steve Shaw (of Systematic); John Lee and Chris Behrns (of Aon)

Present

via WebEx: Tom Daniels (of Aon)

Absent: Trustee Amos Eaton

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

I. MINUTES APPROVAL

Approval of the February 23, 2023, Investment Committee meeting minutes

Recommendation: Approve the February 23, 2023, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Williams to approve the February 23, 2023, Investment Committee meeting minutes. The motion carried 8-0-0-1 with voting as follows:

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

II. PRESENTATIONS

- A. Systematic – CIO and Portfolio Manager Ken Burgess and Managing Director Client Service Steve Shaw provided an organizational update and commented on the performance and positioning of the Small Cap Free Cash Flow portfolio the firm manages for SCERA. Board Chair Greg Jahn commented that Systematic is one of SCERA's longest tenured managers and recalls Mr. Burgess' enthusiasm during their first interview. CIO Jim Failor reviewed the history behind the benchmark change from Russell 2000 Value at inception to the Russell 2000 Index to reflect the broader style characteristics of the strategy. Mr. Shaw highlighted performance and provided updated returns year-to-date through March 29th: 0.75% for SCERA's portfolio vs 0.9% for Russell 2000 and -2.2% for Russell 2000 Value.

Mr. Burgess discussed the increasing healthcare exposure, such as in generic pharma, to mitigate the impact of the broader market's interest rate sensitive sectors. The overweight in financials has been reduced, although the team is spending more time lately focusing on new outsized opportunities in the small bank space after the recent banking turmoil. Mr. Burgess believes concerns over the banking industry should subside due to strong Federal Reserve support. Nevertheless, the underlying macro trends are negative for banks and fundamentals are still deteriorating, so credit quality now is more important than liquidity issues. Commercial real estate is also a potential risk. Mr. Burgess spoke on specific stock holdings and their preference for "oily" companies over natural gas in the energy markets.

Systematic added a new equity analyst Mai Hartman to the investment team and may add another analyst to get more analytical depth. The firm is slowly growing and has many more years of capacity. After the formal presentation, the Board reiterated that there continues to be no concerns about this investment manager.

- B. Securities Lending Review – Senior Consultant Tom Daniels of Aon's Custody & Lending Advisory Services Group discussed the findings from their review of SCERA's securities lending and enhanced custody programs. After reviewing the scope of the study, he summarized their advice that SCERA approve participation in State Street's Direct Access Program as it should increase asset utilization, result in higher loan returns and improve borrower distribution. In addition, they advised updating our investment guidelines to invest cash collateral in State Street's Compass Fund rather than the Navigator Fund which is currently utilized. The Compass Fund is managed conservatively like a 2A-7 money market fund but less conservatively than the Navigator Fund and should result in higher earnings on cash collateral. Mr. Daniels also recommended adding convertible debt securities to the list of approved collateral securities and dropping the minimum spread requirement which would no longer be necessary with a higher earning cash collateral fund. Last, they reviewed State Street's Enhanced Custody fees which relates to the

Jacobs Levy 130/30 strategy and found them to be competitive.

Chief Investment Officer Jim Failor stated that staff was supportive of the changes suggested by Aon and also recommended that, given the size of the program, the Committee delegate more of the day-to-date oversight of the securities lending program to staff, with input from the Plan's investment consultant, including the determination of acceptable forms of collateral, the selection of the investment vehicle for cash collateral and the potential establishment of investment restrictions.

Recommendation: Approve changes to SCERA's securities lending program and the delegation of discretion, as detailed in staff's recommendation.

A motion was made by Trustee Tambe, seconded by Trustee Balzarini to approve changes to SCERA's securities lending program and the delegation of discretion, as recommended by staff. The motion carried 7-0-0-2 with voting as follows:

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

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 existing litigation. While the meeting was closed, those attendees exited the Board room and/or were placed into the WebEx lobby by the WebEx host and did not hear or see the meeting. Attendees were invited back into 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 in-person and/or WebEx attendees that were placed in the lobby during the closed session period.

B. Executive Session Report Out

Chair Jahn reported that there was no reportable action taken by the Committee.

C. Recent Developments in the Banking Industry – portfolio impacts

Investment Officer Mickey Nguyen reported on the recent series of bank industry news and the impact on Plan assets. Over the past few weeks, several banks were rescued from deteriorating financial situations through government intervention and one voluntarily liquidated. The background behind what spurred the bank runs and subsequent winddown/takeovers of Silvergate Bank, Silicon Valley Bank (SVB), Signature Bank and Credit Suisse (CS) were outlined. Notably, SVB and Signature Bank became the 2nd and 3rd largest bank failures in US history. US regulators took quick action to restore confidence and prevent contagion by implementing emergency measures to guarantee deposits and provide short term liquidity. But uncertainty has persisted especially among regional banks, and so the situation will continue to require monitoring.

Most of SCERA's investment managers reported that they have no material financial exposure--no bank deposits, lending activity or commercial relationships--to the aforementioned banks. Arrowstreet phased out CS as a prime broker and FX counterparty in the first quarter of 2022, but their Fund does hold a small short position in CS, both local shares and American Depository Receipts (ADRs). Other equity managers like Dodge & Cox and the State Street index funds hold small weights in some of these banks as well, which is not concerning.

The one manager who was impacted more materially from the turmoil surrounding CS is PIMCO. After the acquisition by UBS, additional tier 1 bonds of CS, known as AT1 bonds, were written down to zero. PIMCO's CS bond holdings, including a couple of their AT1 bonds, were detailed. The two other bonds held are senior corporate debt which will be assumed by UBS and are expected to appreciate given UBS' higher credit quality. Year-to-date (YTD) through March 20th, PIMCO's account is up 2.0% versus the benchmark at 2.41%, with an estimated 30 bps of that underperformance sourced from the CS bond exposure.

As a final note, Ms. Nguyen mentioned that because CS shares were left with some residual value even though debtholders are a higher tier on the capital structure, some AT1 bondholders are looking into legal recourse. But since this was a deal orchestrated by the Swiss government, success through a legal challenge is unlikely.

D. Aon's Investment Program Analyzer Results – review

Aon Associate Partner Chris Behrns commented that all ten trustees participated in the Aon survey and that there were few material changes suggested by the results. In the

Summary it was noted that the Committee is comfortable with the current manager selection process, that there is a consensus to tolerate short-term performance challenges when it is believed that the strategy will be successful in the long-term, and that the length and depth of the performance updates are appropriate. Possible changes included bringing Aon's forward-looking views to the presentation of the quarterly performance reports, providing additional educational sessions and refreshers, and bringing forward new ideas more often including, possibly, ideas researched but rejected by staff and/or the Plan's consultant.

E. SCERA Due Diligence Travel Schedule – update

Mr. Failor commented that they had planned a due diligence trip to the Midwest in early August and invited trustees to join staff on that trip if interested.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for February 2023.

Mr. Failor commented briefly on February and YTD Plan performance. Generally strong economic data and concerns regarding inflation and Fed tightening pushed most financial assets down in February. US and non-US stocks as well as US bonds were all in negative territory for the month. The Plan return was down 1.4% though it outperformed the target policy return by 74 basis points. YTD through February the Plan is up 2.9% which was 42 basis points above the target policy return.

B. Aon AA View, "Silicon Valley Bank and Credit Suisse", March 20, 2023.

C. UBS News Flash, "Planned acquisition of Credit Suisse", March 20, 2023.

D. Wall Street Journal, "China's New Way to Control Its Biggest Companies: Golden Shares", March 8, 2023.

E. Wall Street Journal, "Some Public Pension Funds Are Pulling Back on Private Equity", March 20, 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.

Chief Executive Officer Julie Wyne reminded Trustees that she was going to be out of the office on a medical leave of absence for six weeks beginning April 20th. During that time, Assistant CEO/Chief Legal Counsel will handle upcoming Board meetings and other Board or staff business requiring CEO input.

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, April 27, 2023, at 8:30 a.m. Planned topics for this meeting include a presentation by Systematic. All meetings are held at SCERA in the Board Room at 433 Aviation Boulevard, Suite 100, Santa Rosa, CA, and broadcast via Zoom, unless otherwise noted.

VIII. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 11:35 a.m.

IX. APPROVAL

The above minutes from the March 30, 2023, Investment Committee meeting were approved at the Investment Committee meeting on April 27, 2023.

GREG JAHN, CHAIR