

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

Thursday, January 25, 2024
9:36 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree – voting member), Travis Balzarini, Chris Coursey, Amos Eaton, Erick Roeser (Vice Chair), Joe Tambe, 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; Chris Behrns (of Aon); Andrew Hsu (of DoubleLine)

Present via

Zoom: Tim Pflugradt (of Aon); Christine Chun (of DoubleLine); Kevin Rivchun (of Aon Townsend); Mark Walsh as a member of the public – not in role as Trustee

Absent: Trustee Mark Walsh

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

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, seconded by Trustee Williamson, to select Greg Jahn as Chair, and Erick Roeser as Vice Chair. The motion carried 9-0-0-0 with voting as follows:

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

II. MINUTES APPROVAL

November 16, 2023, Investment Committee Meeting Minutes

Recommendation: Approve the November 16, 2023, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Balzarini, to approve the November 16, 2023, minutes of the Investment Committee. The motion carried 9-0-0-0 with voting as follows:

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

III. PRESENTATIONS

A. DoubleLine – Portfolio Manager Andrew Hsu and Client Service Executive Christine Chun provided an organizational update and reviewed the fixed income market, account performance, and portfolio positioning. Ms. Chun gave an overview of the firm’s business as of the end of 2023 with \$95 billion in assets under management, with their flagship Total Return strategy comprising 43% of that total. A second US office was opened in Tampa, FL and in 2022 the firm launched a platform for four exchange-traded funds.

Mr. Hsu discussed the difference between the Total Return strategy and traditional Core Plus fixed income strategies that are benchmarked to the Bloomberg US Aggregate Bond Index. Specifically, Total Return substitutes corporate bonds with structured credits such as commercial and residential mortgages, asset-backed securities, and collateralized loan obligations. The “barbell” construction, between government securities to manage interest rate risk and structured credits which de-risk the portfolio versus corporate credit, balances the portfolio through different market regimes. DoubleLine’s performance has trailed the benchmark over the past five years though it has added modest value over the benchmark since inception (i.e., 13 bps annualized net-of-fees). Mr. Hsu reviewed past performance and explained how the relative outperformance of corporates in 2019, as rates fell and spreads tightened, led to a 13% return for that segment. Mortgages, in that environment, returned less due to the shorter duration and because the Fed was no longer buying mortgages causing spreads to widen. These factors combined led to a poor year for the portfolio. The pandemic in 2020 also brought unexpected quantitative easing (QE), falling

rates and a spike in money market funds. The portfolio was positioned for quantitative tightening and considerably low duration, and those developments also contributed to another difficult year. However, the following year saw structured credit assets drive outperformance as QE meant mortgages were again receiving government buying support.

Going forward, DoubleLine is positioned defensively, reducing credit exposure, and moving to an overweight in agency mortgage-backed securities, where spreads are at the widest since the Great Financial Crisis, and with attractive convexity given lower prices the risk reward is very favorable. After the formal presentation, the Board commented on the complementary nature of DoubleLine's expertise in structured products, and mortgage-backed securities in particular, with SCERA's other fixed income managers. In addition to bringing a diversification benefit to the Plan, it was felt that assessing the firm's capabilities over a full market cycle is a more accurate method to evaluate the firm's ability to add value.

- B. Timberland Investing – Vice President Kevin Rivchun of Aon Townsend reviewed the attributes of Timberland investing and expectations for the asset class as well as the universe of related investment managers and funds. Covered topics included the limited supply of investable Timberland that provides a tailwind for investors, the concentration of the top ten Timberland Investment Management Organizations (TIMOs) that control 80% of all institutionally owned timberland, the risk of wildfires and possible changes in regulatory policies. Mr. Rivchun suggested that having one manager focused on the US opportunity set would be adequate to achieve proper diversification given the various microclimates and markets among the different timber regions. He also summarized the investment methods for accessing Timberland with one open-end fund that is Buy-rated by Aon Townsend and two others that are launching in 2024. Closed-end funds are generally strategy or region-specific, and recent underperformance has caused investors to shift away from these funds to obtain more control and transparency. Public market options such as Weyerhaeuser are not an effective proxy for Timberland investments due to tracking error, the linkage to public equity market volatility, the more limited financial flexibility of REITs versus private funds, and hidden fees.

Chris Behrns of Aon presented the Timberland Asset Allocation Scenarios which modeled three scenarios with 5% weightings in Timberland sourced from different asset classes. Scenario #1 removed Bank Loans and lowered Core Plus Fixed Income; Scenario #2 removed Bank Loans and lowered Core Real Estate; Scenario #3 lowered Public Equities. Chief Investment Officer (CIO) Failor expressed concerns regarding the low return assumption for Timberland of 4.8% which should be questioned rigorously. He noted that this assumption did not factor in leverage as do some of the other asset class return assumptions. Some Trustee comments focused on the minor delta for the portfolio metrics (expected return, volatility, Sharpe ratio) in these scenarios and whether the staff and

Trustee time would be worth the effort for such a small impact. The consensus was not to take any action at this time but that the asset class was interesting and worthy of further consideration if, and when, new related information may arise.

IV. INVESTMENT STAFF AND CONSULTANT

A. Investment Project Plans for 2024

CIO Failor highlighted some of this year's planned projects including the submission of the full redemption request for the UBS Trumbull Property Fund, finalizing the date for the KKR due diligence trip on March 7 which the Trustees were invited to attend, and making an adjustment in the Investment Committee meeting manager presentation schedule which moves PIMCO into the first quarter lineup. Trustees had already approved the scope of 2024's investment projects when they approved the 2024 Business Plan.

B. 2023 Securities Class Action Filings & Recoveries – State Street Bank report

CIO Failor reviewed the annual securities class action report. State Street files on SCERA's behalf in "opt-out" class action lawsuits, principally in the US and Canada, in which the Plan qualifies to participate. Additionally, two law firms (Cohen Milstein and Berman Tabacco) also monitor for class actions in which SCERA is eligible with an eye toward recommending, where appropriate, SCERA take a leadership role. The number of claims filed in 2023 at 21 is within the range of past years as was the value of claims recovered at \$104k.

C. January 2024 Cash Raise & Cash Planning

Investment Officer Nguyen detailed the \$60 million cash raise that settled on January 16 to cover the Plan's cash needs over the next few months. The largest withdrawal was with Jacobs Levy at \$20 million. The other smaller redemptions were spread out among Bank Loans and most of the equity managers. The current cash balance is now \$86 million. Cash inflows this year include the usual quarterly income distributions from JP Morgan Strategic Property Fund (SPF) of \$1.6M and UBS Trumbull Property Fund (TPF) of \$1.1M. Looking forward, we have uncertain timing on the full redemption of UBS Trumbull which had a \$115M valuation at year end. The Davidson Kempner funds also are winding down and have a combined valuation of \$25M. Every 6 months the monthly outflow for payroll, management fees, and expenses are updated so that we are calculating our cash needs accurately. The Plan still has a net outflow of \$15M per month, so we regularly raise \$60M to cover about 4 months of payroll. The most current asset allocation shows we are largely in-line with Policy targets, except for the 2.5% overweight to Infrastructure that continues to persist.

D. GTA 2023 Trade Cost Analysis – fixed income & equities

Investment Officer Nguyen discussed the trade cost analysis results for 2023. The equity

managers overall produced a total benefit of 39 bp which equates to \$34k, a flat-to-neutral year. This benefit is a combination of the positive 5.33 bp net commission benefit which was offset with the negative 4.94 net market impact cost. The lower than universe commission cost was driven by Jacobs Levy with an average commission cost of 1/3rd cents/share. The net market impact cost for total equities was a good result and within the 5-year historical range of -3 to -11 basis points.

The Fixed Income trading resulted in a net market impact benefit of 3.54bps, or \$252k, with Reams contributing \$256k on 576 trades. That is near the 5-year average for SCERA, so in-line with normal trading results. When the number of trades is less than 100 for the year, as was the case for DoubleLine and PIMCO, GTA considers the data not statistically significant.

V. COMMUNICATIONS

A. SCERA Investment Performance Report for December 2023.

Investment Officer Nguyen highlighted the year end 2023 Plan returns. The Plan returned 13.65%, 64 bp over the target policy. The strong return was driven by the Equity portion of the portfolio, both active and passive: Jacobs Levy 28.96%, the Russell 1000 Index Fund 26.59%, and Arrowstreet 20.69%. The Rule-of-Law guideline drove the passive Global Equity index strategy to return 27.24% versus the MSCI ACWI IMI Index return of 21.94%, demonstrating the ongoing drag of China and Hong Kong equities in the Index holdings. Real Estate however was the poor performing asset class last year. The recently released reports for the JP Morgan SPF and the UBS TPF show gross returns of -14.33% and -14.99%, respectively.

B. 2024 Retirement Board and Committee Calendar – order of Investment Committee manager presentations has been updated.

C. Aon Townsend Flash Report, “JP Morgan Real Estate Platform Review”, December 13, 2023.

D. FUNDfire, “State Street Undergoes Second Round of Layoffs. . .”, December 7, 2023.

E. Bloomberg, “Robots Make Good Junior Analysts”, December 5, 2023.

F. The Economist, “The fight over remote working will heat up . . .”, November 13, 2023.

VI. 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.

VII. PUBLIC COMMENT

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

There were no public comments.

VIII. NEXT MEETING

The next Investment Committee meeting is scheduled for Thursday, February 29, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by the IFM investment team. 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.

IX. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 12:40 p.m.

X. APPROVAL

The above minutes from the January 25, 2024, Investment Committee meeting were approved at the Investment Committee meeting on February 29, 2024.

GREG JAHN, CHAIR