

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

Thursday, February 29, 2024
8:33 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, Chris Coursey, Amos Eaton, Erick Roeser (Vice Chair), Joe Tambe, Mark Walsh, and Bob Williamson; Chief Executive Officer Julie Wyne, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith; Ashish Thomas (of IFM); Tim Pflugradt (of Aon)

Present via Zoom: Chris Behrns (of Aon)

Absent: Trustee Brian Williams

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. MINUTES APPROVAL

January 25, 2024, Investment Committee Meeting Minutes

Recommendation: Approve the January 25, 2024, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Balzarini, to approve the January 25, 2024, minutes of the Investment Committee. The motion carried 8-0-0-1 with voting as follows:

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

II. PRESENTATIONS

- A. IFM – Executive Director and Portfolio Manager Ashish Thomas provided an organizational update and reviewed the market as well as the performance and positioning of the Global Infrastructure Fund (GIF) in which SCERA invests. The Fund delivered a net 1-year return of 8.2% as of December 31, 2023, which is within the long-term target return range of 8-12%. This result was driven by asset fundamentals and accretive divestments and acquisitions, without using extensive leverage (34% weighted average at the asset level). No standard benchmark exists for the infrastructure asset class, but since the focus is on real returns, a base CPI plus benchmark is a good relative measure to start with. GIF's portfolio is well diversified with 32 companies. Mr. Thomas reviewed assets in the key sectors: airports, toll roads, seaports, pipelines, LNG terminals, and data centers. The definition of infrastructure continues to evolve and expand due to strong capital flows. GIF utilizes a proprietary risk model to characterize portfolio attributes and maintains a 60-70% weight in holdings that exhibit either a contracted business (price and volume fixed) or a regulated revenue business (price is fixed but volume is open). The remainder of the portfolio is open to provide more exposure to the upside from economic growth. In conclusion the Board is favorable to the diverse and stable aspects of the asset class, and IFM's investment strategy adds more of a core plus tilt with development projects versus SCERA's investment in KKR's Diversified Core Infrastructure Fund which is a truly "core" strategy. Additionally, IFM is rated a high conviction manager by Aon.
- B. Fourth Quarter 2023 Investment Performance Report – Investment Consultant Tim Pflugradt of Aon Investments USA. SCERA's performance has been very strong on both an absolute and peer relative basis. Over multi-year periods, the Plan has ranked in the top quartile driven by particularly superior equity manager performance from Jacobs Levy, Arrowstreet, and Dodge & Cox, all of whom often posted top decile results within the 3, 5, and 10 year periods. Real Estate has continued to be a poor performer, although Aon Townsend believes the asset class is bottoming out. The structure of SCERA's Real Estate holdings will be discussed at the March IC meeting. Mr. Pflugradt highlighted how the Real Assets portfolio provided the necessary downside protection during a challenging 2022 market, but the Plan also was able to capture the upside the following year. The Board supported the inclusion of the peer group quartile charts on an annual basis in Aon's quarterly executive summary performance report going forward.

III. INVESTMENT STAFF AND CONSULTANT

- A. Timberland Investing – follow-up discussion
- CIO Jim Failor presented 30-year performance charts comparing the NCREIF Timberland Index, NCREIF Farmland Index, NCREIF ODCE Index, Bloomberg US Aggregate Bond Index, and the MSCI AC World Index on a 5-year rolling period basis. Historically over

this long period, Timberland has returned significantly more than the 4.8% expected return that is modeled in Aon's forward-looking scenario analysis. The question was raised as to what level of confidence should be placed on those scenarios if the underlying assumptions are in question. The trustees commented that they would look to the consultant and staff to make a formal recommendation on Timberland and that further discussions would depend on the Real Estate structural review as well as the outcome of Aon's due diligence on new Timberland funds they are conducting this year. One Trustee commented that they were not favorable to adding Timberland to the portfolio.

B. UBS Trumbull Funds 4th Quarter 2023 Webinar – select market slides

For added perspective on the current Real Estate landscape, CIO Failor reviewed sector slides from UBS covering the supply and vacancy, both historical and projected, across Retail, Apartments, Industrial and Office. Net operating income growth and transactional activity was also addressed. It was noted that the oversupply of Retail has largely corrected itself while the oversupply of Office has a long way to go to correct itself.

C. 2024 Planning Session Agenda – planning discussion

In discussing the Planning Session agenda, the Board expressed support for the panel question format versus carte blanche presentations. Trustee Tambe suggested inviting lobbyist Amy Brown to cover legislative updates. Trustees value her past appearances, educational input, and well-informed legislative knowledge. Some trustees suggested a modified approach to her presentation style and to assess whether currently enough legislative topics are of interest to warrant a speaker. Topical speakers that are being considered are Energy and Demographics, but it is difficult to find a specialist in the latter field. Chair Jahn advocated for Jeffrey Gundlach and Francis Donald to return.

D. 2024 Due Diligence Travel Schedule – updated

The due diligence meeting with KKR was rescheduled for March 14, 2024, in Menlo Park, CA.

IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for January 2024. The fourth quarter Real Asset returns were discussed as they were booked, as always, with a lag in the month of January. While Farmland and Infrastructure returns were positive for the quarter and in-line with long-term expectations, Real Estate was disappointing and consistent with the NCREIF ODCE Index return of -4.8%. The Plan's overall return in January was approximately flat but exceeded the Target Policy return.
- B. Bloomberg, "Brookfield Wants \$15 Billion for Real Estate Bet . . .", February 6, 2024.
- C. Bloomberg, "Nvidia's Scary Valuation Is No Reason . . .", February 22, 2024.

- D. Wall Street Journal, "The Real Evergrande Reckoning Is for China's Foreign Creditors", January 30, 2024.

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 28, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by PIMCO. 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 11:16 a.m.

IV. APPROVAL

The above minutes from the February 29, 2024, Investment Committee meeting were approved at the Investment Committee meeting on March 28, 2024.

GREG JAHN, CHAIR