

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

Thursday, March 28, 2024

8:32 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree - voting), Travis Balzarini, Chris Coursey (left at 9:59 a.m.), 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; Matt Clark and Dan Ivascyn (of PIMCO); Chris Behrns and Tim Pflugradt (of Aon); Jack Dowd (of Townsend, an Aon Company)

Absent: Trustees Amos Eaton, Erick Roeser (Vice Chair), 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. MINUTES APPROVAL

February 29, 2024, Investment Committee Meeting Minutes

Recommendation: Approve the February 29, 2024, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Williams, to approve the minutes of the February 29, 2024, Investment Committee. The motion carried 7-0-0-2 with voting as follows:

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

II. PRESENTATIONS

PIMCO – Group Chief Investment Officer Dan Ivascyn and Account Manager Matt Clark provided an organizational update and review of the market as well as the performance and positioning of the core plus fixed income portfolio they manage for SCERA. The year-to-date performance of -0.35% gross-of-fees compares favorably to the Bloomberg U.S. Aggregate Index benchmark return of -0.77% but falls below PIMCO's stated long term outperformance target of +50 to +100 basis points net-of-fees. Over a rolling 3-year and 5- year basis the Total Return (TR) strategy has outperformed 75% and 84% of the time, respectively, after-fees. Group CIO Ivascyn discussed the substantial enhancements to the investment process and TR team that he has put in place since 2022 to address the inconsistent portability of performance across strategies. Effective implementation of high conviction themes and top-down thinking into portfolios is one area of focus, and these core plus strategy improvements have already resulted in stronger returns. Mr. Ivascyn expressed confidence that by better leveraging PIMCO's platform, as was successfully implemented previously in their Emerging Markets strategy, performance should materially improve.

Questions were addressed regarding whether asset size is an impediment to sourcing opportunities, flexibility of SCERA's Investment Policy Statement guidelines, and risk measurement. Mr. Ivascyn reviewed the current portfolio positioning in agency mortgage-backed securities, U.S. core and global bonds whose valuations are compelling from a 10-year decile perspective. After the formal presentation, the Board reached a consensus that more time is warranted to assess the team's ability to deliver the targeted level of outperformance and its suitability within SCERA's Fixed Income portfolio structure, which will be reviewed later in the year. Aon also pointed out that the high fee structure relative to peers was a factor in their downgrade of the strategy, and that competitors have been more accommodative in lowering fees.

III. INVESTMENT STAFF AND CONSULTANT

A. Real Asset Portfolio Review – Associate Partner Chris Behrns and Consultant Tim Pflugradt, both of Aon Investments, and Vice President Jack Dowd of Townsend, an Aon company, presented on the following topics.

1. The Role of Real Assets in the Plan's Portfolio
Mr. Behrns explained that the expected volatility and correlation measures of the three Real Assets components show how these pieces act as important diversifiers from the interest rate risk of the Fixed Income portion and the equity risk of the Global Equity portion of the Plan. At the same time, they offer characteristics that are similar to traditional Equity and Fixed Income investments such as asset ownership and predictable cash flow elements. Focusing on the 10-year return period since Infrastructure, Farmland, and Real Estate have been added to the portfolio, the Plan's Real Assets returned 6.9% net-of-fees which is a little below

the 7.8% return of a Global Equity index (MSCI ACWI IMI net) and much higher than the 1.8% return of the Fixed Income benchmark (Bloomberg US Aggregate). Given the majority of the funding for Real Assets was sourced from Fixed Income, the Plan reaped the benefits from diversification and a higher return. Mr. Behrns also reviewed the liquidity profile of each Real Assets investment, and Mr. Dowd discussed the large redemption queue for the UBS Trumbull Property Fund (TPF) and how it may be managed through future recissions, the revised loyalty program with no lock-up provision, or other methods to raise capital.

2. The Real Assets Market Environment

Mr. Dowd covered highlights of the Real Estate and Farmland markets, and Mr. Pflugradt presented on the environment for Infrastructure.

3. A Review of the Current Real Assets Portfolio – Real Estate, Farmland & Infrastructure—Asset allocations, manager ratings, fund descriptions and returns, fund exposures versus benchmarks, and fees were compiled for review.

4. Future Considerations for the Real Estate Portfolio

Mr. Behrns proposed the two alternative strategies to restructure the Real Estate portfolio given the termination of UBS TPF: replace TPF with one open-ended Core manager or consider a mix of two open-ended Core and one open-ended Core Plus manager. Aon recommends the latter structure, as well as remaining with JP Morgan Strategic Property Fund (SPF) to maintain broad beta (market) exposure. Townsend continues to rate SPF a “Buy”. Mr. Dowd reported that the Core Plus universe has grown substantially and allows managers to invest outside of the sectors included in the NCREIF ODCE benchmark. This category has become very diverse and specialized, but also has less risk and lower loan-to-value ratios than in the past. Townsend has studied the number of managers required to obtain optimal diversification benefits and concluded that diversification benefits decline materially after 4 to 5 managers. On the other hand, adding additional managers does mean more oversight and greater complexity. With this additional information, the Board agreed unanimously to support moving toward a Real Estate portfolio that would eventually encompass 3 managers (2 Core and 1 Core Plus). The relative weights of these three managers would be determined later. Trustee Jahn raised the question of the Real Estate policy weight and it was noted that this was the subject of an asset allocation (A-L) study and that the 10% weight was addressed and confirmed in the last such study in 2023.

B. Educational Presentation Topics

CIO Failor referenced the distributed list of potential educational topics and requested feedback regarding those the Trustees were most interested in hearing at the remaining 2024 Investment Committee meetings. Demographics, the measurement of

diversification/diminishing returns (a subset of Selecting & Managing a Pool of Managers), International Political Affairs (geopolitical risks), Bonds/Fixed Income were the most favored topics. There was no interest in Cryptocurrency-related topics.

C. Due Diligence Meeting Report – KKR DCIF

Investment Officer Nguyen reviewed the due diligence visit with KKR in Menlo Park. The firm is operating back to the office 5 days/week, and the Infrastructure team is spread out between Menlo Park, Houston and New York. KKR has experienced rapid growth since the last time due diligence was performed when KKR was hired in 2021. With assets under management more than doubling, staffing has increased commensurately but importantly the leadership team and Investment Committee members have been stable for over a decade. Kathleen Lawler, Managing Director, reviewed the opportunities and challenges in sourcing deals, but highlighted the recently announced acquisition of a European portfolio of solar and wind farms. Although KKR continues to evolve from a traditional private equity firm into a publicly-traded financial firm with broader aspirations and therefore more complex operations, business risks and potential conflicts of interest, staff believes KKR is managing this growth in a thoughtful and orderly manner and sees no concerns to date.

D. Jacobs Levy Holding Delisted – guideline exception

CIO Failor notified the Board regarding the delisting of Veradigm (ticker: MDRX), a stock held in SCERA's Jacobs Levy account. Because SCERA's Investment Policy Statement prohibits equity securities not traded on a national exchange, the manager requested SCERA grant an exception in this case to hold the position, as the company is expected to come back into compliance with the NASDAQ listing rules. The exception was granted, and the manager will provide regular updates.

E. Axiom Infra North America II Fund – potential country guideline

CIO Failor informed the Board of a potential change in the AINA II guidelines that was proposed by an incoming fourth investor who wants to limit the Canadian exposure to 35% of the fund. Currently the fund has a 10% weight in Canada, and both Axiom and Aon agreed that the change would not have any practical impact given that the relative market opportunity would at most increase the weight to 25%. Additionally, having another investor commitment to AINA II Fund would potentially help diversify the portfolio and increase the Canadian exposure, which was the direction SCERA and another current investor supports. The Board consensus was supportive of this potential guideline change.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for February 2024.

B. KKR LP Update, Acquisition of European Renewable Power Producer, March 14, 2024.

- C. The Economist, "A golden age for stock markets is drawing to a close", Feb. 29, 2024.
- D. Bloomberg, "Global Population Crash Isn't Sci-Fi Anymore", March 9, 2024.
- E. The Wall Street Journal, "China Intensifies Push to 'Delete America' . . .", March 7, 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, April 25, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by State Street Bank and Trust. 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 12:11 p.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on March 28, 2024, were approved at the Investment Committee meeting on April 25, 2024.

GREG JAHN, CHAIR