

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

Thursday, August 29, 2024  
8:37 a.m.

Presiding: Erick Roeser, Vice Chair

Present: Trustees Travis Balzarini, Amos Eaton, Erick Roeser, Joe Tambe, Mark Walsh (arrived at 8:39 a.m.), and Bob Williamson; 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; Dan Remondi (of KKR)

Present via

Zoom: Chris Behrns (of Aon) and James Cunningham (of KKR)

Absent: Trustees Neil Baker (Alternate Retiree), Chris Coursey, Greg Jahn, and Brian Williams

Public comments were solicited prior to the meeting by emailing [Rebecca.Gay@sonoma-county.org](mailto: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.

Vice Chair Roeser confirmed with Department Analyst Rebecca Gay that SCERA had not received any public comment prior to the meeting.

I. MINUTES APPROVAL

July 25, 2024, Investment Committee Meeting Minutes

**Recommendation:** Approve the July 25, 2024, Investment Committee Meeting Minutes.

A motion was made by Trustee Balzarini, seconded by Trustee Williamson, to approve the minutes of the July 25, 2024, Investment Committee meeting. The motion carried 5-0-0-4 with voting as follows:

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

## II. PRESENTATIONS

- A. KKR – Presenting via Zoom, Head of North America Core Infrastructure James Cunningham and presenting in person, West Coast Institutional Client Coverage Dan Remondi, provided an update on the firm and reviewed the performance and positioning of the Diversified Core Infrastructure Fund (DCIF) in which SCERA invests. In June 2021, SCERA made a \$135 million total capital commitment to DCIF, which has been fully invested. Net total return over ten quarters of performance is 7.2%, achieving the high-single digit target returns driven by a significant cash yield component characteristic of a core infrastructure strategy. Mr. Cunningham discussed attributes of Cordia, a portfolio company in the energy transition segment, as an example of an asset with inflation-protected, contracted revenues and little competition. Portfolio risk is further managed through diversification across companies with uncorrelated cash returns, regulated businesses, low operational variability, and a focus on developed OECD opportunities. DCIF deploys capital where few competitors can compete on that scale; in fact, the majority of DCIF assets were acquired through a bilateral basis (direct negotiation). The Trustees and staff have no concerns regarding KKR and DCIF's performance.
- B. Second Quarter 2024 Investment Performance Report – Senior Consultant Chris Behrns of Aon Investments presented via Zoom. Mr. Behrns covered the market highlights and Aon's view of 2-3 Fed funds rate cuts versus the market pricing in more aggressive expectations. Public-listed real estate is reacting to this shift in interest rates with a positive return in the second quarter. SCERA's policy benchmark outperformed the majority of peers this quarter, but the underperformance of active managers weighed on the total fund return, resulting in a 91<sup>st</sup> percentile ranking. Over longer intervals, the Plan continues to outperform both the policy benchmark and peers and is in the top quartile for most periods ending in the second quarter. Real Estate is beginning to show signs of recovery. Fixed Income also performed well, as volatility in rates has provided more opportunities for active managers. Some concern was expressed regarding the lackluster returns from PIMCO, and therefore revisiting the assessment of this manager during the upcoming Fixed Income structure review was deemed to be an appropriate time. It was noted that they have outperformed modestly over the recent period and since their organizational changes which led to Aon's downgrade to "Qualified".

## III. INVESTMENT STAFF AND CONSULTANT

- A. Draft Educational Forum Investment Manager Panel Seeding Questions – A Trustee suggested the Real Estate panel address timing of property write-downs due to the lag that occurs in private market valuations which then do not accurately reflect economic troughs. They also recommended more clarification regarding the NCREIF ODCE index changes.

- B. Non-US and Global Equity Manager Search – update and potential action. CIO Failor informed the Board that investment staff along with Chris Behrns and Tim Pflugardt from Aon had met with three candidate managers. The next step would be to determine how these managers pair with SCERA’s existing managers, assessing alternative sizing, mandates, and risk budgeting. A formal recommendation is estimated to be finalized by end of year. No recommendation was made at this time.
- C. Due Diligence Meeting Reports
1. JP Morgan Strategic Property Fund (SPF) – Investment Officer Nguyen had a favorable review of the high-quality professionals, resources and research at JP Morgan. SPF has had several consecutive negative quarters on both an absolute and benchmark-relative basis, but have outlined a clear strategy for producing excess returns. Due to this performance and some relatively new members assigned to the SPF investment team, closer monitoring of fund performance and management consistency is prudent. Staff also toured two NYC properties, a multi-unit residential building and a Class A office tower, that showcased the level of amenities and renovations that attract tenants and support strong leasing activity.
  2. IFM Global Infrastructure Fund (GIF) – CIO Failor discussed IFM’s shift to third party service providers for certain operational functions to enhance scalability. As IFM reports results timelier than SCERA’s other alternative managers, staff was concerned of a longer delay in client reporting, which admittedly may occur. CIO Failor concluded that staff has no other concerns regarding this manager and is comfortable with the complementary nature of GIF with SCERA’s other infrastructure funds.
  3. Davidson Kempner Special Opportunities Fund (SOF) III and IV – With the remaining small exposures in the SOFs, staff had a shortened visit with DK in their NY office. The funds’ performance has been mixed with SOF III not achieving its hurdle rate of 8%. CIO Failor was uncertain whether a mutually acceptable new account with DK could be found, given no plans for overflow funds similar to the SOF structure, and their new opportunistic real estate funds higher fees and that it is not a good fit with SCERA’s material Real Estate allocation. Additionally, the topic of co-investing to lower overall fees would be difficult at SCERA’s asset size as well as the required staff time to evaluate and manage. A suggestion to learn more about co-investing was brought forward as an educational topic.
- D. Second Quarter 2024 Equity Trade Cost Analysis Report – Investment Officer Nguyen briefly reported the results of the GTA trade cost report which showed costs in line with the previous five quarters of near zero and also a pattern similar to others.

- E. SCERA Cash Summary – Investment Officer Nguyen summarized the recent cash activity that has brought the cash balance available for payroll and other expenses to a total of \$102 million as of August 19, 2024. The majority of the cash inflow came from the county contribution for FY24/25 and FY25/26 and a UAAL payment, all of which totaled over \$90 million. One significant cash outflow was paid in August for a Non-US equity manager’s annual performance fee. The audience was reminded that there is no economic cash exposure as Parametric overlays the Plan’s cash to securitize it.

IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for July 2024.
- B. The Wall Street Journal, “KKR Says 2024 Could be a ‘Sweet-Spot Year’ . . .”, July 31, 2024.
- C. The Economist, “Is America already in recession?”, August 22, 2024.
- D. The Wall Street Journal, “Fed’s Powell Declares ‘Time Has Come’ for Rate Cuts”, August 23, 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, September 26, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by the UBS Trumbull Property Fund 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.

VIII. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 11:19 a.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on August 29, 2024, were approved at the Investment Committee meeting on September 26, 2024.

GREG JAHN, CHAIR