

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

Thursday, November 21, 2024

9:06 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, Erick Roeser, Joe Tambe, Mark Walsh (left at 10:52 a.m.), 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, and Retirement Analyst Rebecca Gay; Kevin Johnson (of Dodge & Cox), and Chris Behrns (of Aon)

Absent: Trustees Chris Coursey and Amos Eaton

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.

Chair Jahn confirmed with Retirement Analyst Rebecca Gay that SCERA had not received any public comment prior to the meeting.

I. MINUTES APPROVAL

A. September 26, 2024, Investment Committee Meeting Minutes

**Recommendation:** Approve the September 26, 2024, Investment Committee Meeting Minutes.

A motion was made by Trustee Williams, seconded by Trustee Williamson, to approve the minutes of the September 26, 2024, Investment Committee meeting. 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. Walsh	Aye
Mr. Williams	Aye
Mr. Williamson	Aye

B. October 9 & 10, 2024 Educational Forum Minutes

**Recommendation:** Approve the October 9 & 10, 2024, Educational Forum Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Williams, to approve the minutes of the October 9 & 10, 2024, Educational Forum. 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. Walsh	Aye
Mr. Williams	Aye
Mr. Williamson	Aye

II. PRESENTATIONS

- A. Dodge & Cox (D&C) – Vice President and Portfolio Manager Kevin Johnson provided an organizational update and commented on the performance and positioning of the global equity portfolio the firm manages for SCERA. CIO Jim Failor reviewed the history of the relationship beginning as a large cap domestic equity manager and migrating in 2018 to a global equity mandate with a hybrid account structure. The account holds the commingled D&C International Stock Fund and individual domestic stocks in a separately managed account, which combined mimics the D&C Global Stock Fund. Mr. Johnson discussed how valuation and bottom-up analysis has driven the portfolio decision to trim US exposure especially in financials. The difference between D&C and the benchmark MSCI ACWI Index's US/Non-US split is the greatest it's ever been.

SCERA's absolute returns have been good with a 5-year period in-line with the benchmark, but from a relative perspective, it has been challenging to outperform. Healthcare and communication services have been a drag from a stock selection standpoint. Mr. Johnson also noted that over the long-term Value outperforms Growth on a rolling basis except for 3 periods since 1937. Opportunities in artificial intelligence as estimates for US power demand grow 2-3% are themes D&C finds compelling. Also, the large gap between international value and growth makes the former look particularly attractive. Portfolio sector overweights and underweights were reviewed, as well as impacts from the anticipation of the upcoming Trump administration.

Mr. Johnson noted the retirement announcements for Mario DiPrisco, who sits on the International Equity Investment Committee, and Bill Strickland, COO, who will be

replaced by Hallie Marshall. From a hiring perspective, D&C has expanded the pool of potential new hires from a focus on new graduates to candidates with 4-5 years of experience. With 367 employees, D&C is quite small measured relative to assets under management. The Board commented that there are no concerns with this manager.

- B. Third Quarter 2024 Investment Performance Report – Associate Partner Chris Behrns of Aon Investments, presented. Mr. Behrns summarized the market highlights for the quarter. The September 50 basis point Federal funds rate cut was viewed as a surprise, and markets began a transition to discounting the “Trump trade” that pushed yields and US equities up in the 4<sup>th</sup> quarter ahead of the November election, while non-US equities pulled back on the specter of tariffs and a strong dollar. The emerging markets rallied from a risk-on China trade which caused a Rule-of-Law drag on the passive index returns in the 3rd quarter. For 3-year through 20-year periods, SCERA’s Plan performance ranks in the top quartile and ranks #1 for 3-year performance versus peers. Trustees discussed the negative long-term outlook for equities; Aon concurs that equity valuations, higher interest rates, and inflationary pressures are headwinds. Many advisors support a migration into more illiquid alternative assets.

### III. INVESTMENT STAFF AND CONSULTANT

- A. Aon/Townsend Change in Rating for the JP Morgan Strategic Property Fund (SPF) – CIO Jim Failor reported the downgrade of JP Morgan SPF from “Buy” to “Qualified” due to the recent turnover on the investment team and lagging portfolio positioning. The recommendation to clients is to avoid adding new funds to SPF but there is no urgency to initiate redemptions, in other words a “Qualified Plus” rating. Aon views recent high level executive hires in JP Morgan Realty as a positive factor.
- B. Aon/Townsend Infrastructure Consulting Coverage – CIO Failor announced the departure of Iftikhar Ahmed, who was instrumental in the identification and subsequent engagement of SCERA’s infrastructure managers Axium and KKR. Aon is currently recruiting for a Partner level position, while a team led by Karen Rode will manage near-term infra needs.
- C. Non-US/Global Equity Manager Search – CIO Failor provided an update and announced that one manager has declined the account due to a failure to reach an agreement regarding California reporting requirements. A Trustee emphasized that the Fair Political Practices Act is boilerplate language with no legal basis for sidestepping the requirement so was supportive of the decision. The presentation, therefore, covered the introduction and manager details for CC&L, but does not include a formal recommendation at this time. That recommendation is likely scheduled for the January IC meeting after staff conducts their on-site due diligence. CC&L is a quantitative risk-controlled equity manager, so staff and Aon are comfortable with a larger allocation in the 3-5% range. Given the correlation and risk budgeting analysis, at this time, CC&L’s Global Equity strategy is most

complementary to the existing active manager, D&C, without increasing Total Risk of the Global Equity portfolio.

Trustees expressed concerns that the Rule-of-Law guideline cannot be implemented in the commingled fund structure although other governance factors might lead to the same result in CC&L's investment process. Another concern was whether the higher fees and transition hurdle (approximately 10-30bps cost for one way) would be compensated by the enhanced returns, and whether another manager was needed at all. Aon and staff are confident that CC&L will add return at a reasonable amount of risk. The Board agreed to move forward with the due diligence.

- D. GTA 3<sup>rd</sup> Quarter 2024 Equity Trade Cost Analysis Report – Investment Officer Mickey Nguyen reported that the total cost of equity trades in 3Q was higher than the past 6 quarters but within the acceptable range of SCERA's 5-year history. The elevated costs were due to a period of high volatility in early August which negatively impacted Jacobs Levy trades, and one outlier trade execution from Systematic. Ms. Nguyen noted that the 20-day results of all the equity trades showed either a total positive or flat benefit, which indicates the later savings exceeded the initial transaction costs overall.
- E. Rule-of-Law (ROL) Investment Guideline – World Justice Project (WJP) country ratings update. CIO Jim Failor provided an update to the WJP's ROL country scores for 2024. The one change from the previous year was the removal of Sri Lanka from the list of poor ROL countries (<0.50).
- F. Report out from May 25, 2023, Closed Session, *Iowa Public Employees' Retirement System, et al. v. Bank of America, et al.* – verbal report. Assistant CEO/Chief Legal Counsel Cristina Hess reported that SCERA received a legal settlement of \$105,447.00. SCERA continues to remain in litigation with one respondent bank.
- G. Socially Responsible Investing Survey Results
  - 1. SCERA/Aon Responsible Investing Survey
  - 2. RBC Wealth Management ESG Questionnaire

CIO Jim Failor reported that 6 SCERA/Aon and 3 RBC surveys were completed. Due to the absence of several Trustees at the current Investment Committee meeting, a full review of the survey responses was deferred. Some Trustees commented that the surveys were difficult to answer and, in their view, had significant flaws. The terminology/labeling of "Responsible Investing" is also inadequate and misleading to describe the multifaceted issues covered, so a proposal for SCERA to rename this topic was suggested.

#### IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for September 2024.
- B. State Street Custody Due Diligence Meeting Report, October 31, 2024.
- C. CIO Jim Failor Memorandum Regarding Attendance at PIMCO's Client Conference, September 22-24, 2024.
- D. Bloomberg, "Microsoft AI Needs So Much Power It's Tapping Site of US Nuclear Meltdown", September 20, 2024.
- E. The Economist, "The breakthrough AI needs", September 19, 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.

Trustees expressed appreciation to Cristina Hess, Assistant CEO/Chief Legal Counsel, for her handling of the anonymous complaint noting her professionalism in dealing with the sensitive personnel issue.

CEO Julie Wyne informed the Committee that SCERA received a letter from a retired member that had been mailed to the Sonoma County Board of Supervisors, the SCERA Board and a SCERA staff member regarding the County's retiree health care program and the COLA program. Ms. Wyne indicated that she would include the letter and her response in the December Retirement Board meeting materials and provided a copy of the letter to those Trustees in attendance at the Investment Committee meeting.

#### 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, January 30, 2025, at 9:30 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 12:09 p.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on November 21, 2024, were approved at the Investment Committee meeting on January 30, 2025.

GREG JAHN, CHAIR