

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

Thursday, January 30, 2025
9:30 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, Joe Tambe (left at 12:50 p.m.), Mark Walsh, 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; Ken Burgess and Steve Shaw (of Systematic)

Present via

Zoom: Chief Executive Officer Julie Wyne; Chris Behrns, Tim Pflugradt, and Mark Chow (of Aon)

Absent: Trustees Chris Coursey, Amos Eaton, Jared Gonce, and Erick Roeser

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.

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

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 Walsh, to select Greg Jahn as Chair and Erick Roeser as Vice Chair. The motion carried 5-0-0-4 with voting as follows:

Mr. Balzarini	Aye
Mr. Coursey	Absent
Mr. Eaton	Absent
Mr. Gonce	Absent
Mr. Jahn	Aye
Mr. Roeser	Absent
Mr. Tambe	Aye
Mr. Walsh	Aye

Mr. Williamson Aye

II. MINUTES APPROVAL

November 21, 2024, Investment Committee Meeting Minutes

Recommendation: Approve the November 21, 2024, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Balzarini, to approve the November 21, 2024, Investment Committee Minutes. The motion carried 5-0-0-4 with voting as follows:

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

III. PRESENTATION

Systematic – Portfolio Manager Ken Burgess and Senior Vice President Steve Shaw provided an organizational update and reviewed the market, account performance, and portfolio positioning. CIO Jim Failor noted the 25-year anniversary of SCERA's partnership with Systematic and reviewed the evolution of the investment from small cap value to small cap core since 2017. The strategy continues to have no capacity constraints and has recently added two new analysts to the investment team. Net performance in 2024 of 11.3% lagged the Russell 2000 benchmark by a modest 0.2%. Mr. Burgess discussed the outlook given his view that inflation is subsiding. Additionally, the new administration introduces many variables impacting government spending, the overall business environment, and commodities such as oil and gas. Industrials were a positive contributor to performance due to infrastructure spending and government services, while Technology was the largest drag for the year with the portfolio less exposed to irrationally priced artificial intelligence investments. Regarding succession planning, the team leadership has worked together for a significant period, supporting a culture of self-starters who thoroughly understand the Systematic framework and process. The Board has high regard for Mr. Burgess and was satisfied that he is supported by an investment team composed of highly experienced and tenured members, but that SCERA also has the option for an easy transition of a separately managed account should the need arise to exit the investment.

IV. INVESTMENT STAFF AND CONSULTANT

A. Engagement & Funding of CC&L Global Equity Strategy

CIO Failor presented the formal recommendation to engage CC&L for a Global Equity mandate with an initial 4% allocation (approx. \$155 million) in the CC&L Q Global Equity Fund and sourcing funds from the SSGA ACWI IMI Rule-of-Law strategy. The allocation size is slightly larger than the minimal weighting, but the moderate sizing is expected to have meaningful impact while also allowing for additional future contributions should SCERA become more comfortable with the investment. The firm is 100% owned by active employees, a structure favored by SCERA. The strategy employs a highly risk controlled, actively traded quantitative model. The Total Equities passive core would decrease from 46% to 39% with the addition of this manager.

The Trustees raised questions regarding the number of quantitative managers used by SCERA, the transactional cost to implement the change, and how compelling the value add is considering higher management fees. Tim Pflugardt of Aon reviewed the Risk Budgeting Analysis, highlighting CC&L does not change the Total Plan risk and shows very low correlation to SCERA's current four active equity managers, therefore enhancing portfolio diversification. The strategy is rated a "Buy" from the Plan's consultant, Aon, and is considered one of their "best ideas."

Recommendation: Approve investment in the CC&L Q Global Equity Strategy with the funding level detailed, contingent upon the negotiation of acceptable business terms.

A motion was made by Trustee Tambe, seconded by Trustee Walsh, to approve investment in the CC&L Q Global Equity Strategy with the funding level detailed, contingent upon the negotiation of acceptable business terms. The motion carried 5-0-0-4 with voting as follows:

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

B. Arrowstreet Int'l Equity 130/30/20 Fund – CIO Failor provided an update to the leverage limit guideline associated with the Arrowstreet Int'l Equity 130/30/20 Fund. The manager has determined the optimal level for constructing the portfolio, which is based on a beta arbitrage strategy, would require raising the limit from 20% to 40%, though they believe

most of the time the leverage would be closer to 30%. Because their system of models prefer lower beta stocks the use of leverage enables the manager to bring the total portfolio beta back up to approximately 1. An alternative strategy that would retain the 20% leverage limit was discussed. Staff and consultant support remaining in the current Fund with this new guideline change since it represents the best thinking of a high confidence manager. A global equity strategy has been managed over 3 years with these same parameters and the returns have been consistent with expectations. The change will take effect on April 1, 2025. Trustee consensus agreed with staff and consultant's assessment.

- C. Quarterly Investment Project Plans for 2025 – topic was moved to February 27, 2025, Investment Committee meeting.
- D. December 2024 Cash Raise & Rebalancing – Investment Officer Mickey Nguyen reviewed the cash raise and partial rebalance completed in December 2024. Due to a strong rally in US equity markets leading up to and immediately after the US presidential election, the Plan's US Equity weight exceeded the physical rebalance trigger. To bring the exposure back towards policy target, \$80 million was raised from the US Equity managers, and \$12 million was contributed to Core Plus Fixed Income managers. The net result was \$68 million raised to fund retiree payroll and expenses through June 2025. Recent and future cash flows were summarized and updated outflows were approximately \$16 million per month.
- E. GTA 2024 Trade Cost Analysis – fixed income & equities. Investment Officer Nguyen summarized the results of GTA's trade cost reports. SCERA's fixed income managers consistently exceed expectations versus institutional peer results as measured by net market impact and continued this favorable pattern in 2024. SCERA's equity managers also ended the year with less than a basis point of total cost, lower than the 5-year average. After a high trade cost 3Q24 result, all three managers returned to a normal range.
- F. 2024 Securities Class Action Filings & Recoveries – CIO Failor commented on the annual securities class action report from State Street Bank. Firm developments to improve services include outsourcing efforts designed to engage providers who specialize in foreign litigation (opt-in class action litigation), estimating claim recoveries to avoid cases where filing costs exceed recoveries, and consolidating claims across all custodians for clients. Total value of claims paid to the Plan was \$162k for 2024. The rise in value of payments and number of claims paid since 2020 reflects the return to a normal pace since the COVID delays in payment and processing by courts and claim administrators.
- G. Aon Wealth Insights Series, Miami FL Conference – brief verbal report. CIO Failor and Investment Officer Nguyen attended this conference from December 9-11, 2024. CIO Failor mentioned this was the first time he had attended since Aon changed the format to combine both client and manager events into one. The attendees were mostly managers

which reduced the value for institutional investment consulting clients. Because many of the senior staff at Aon were present at this event, a proposal to combine the biennial due diligence of Aon with the conference was suggested to maximize the time invested there.

V. COMMUNICATIONS

- A. SCERA Investment Performance Report for December 2024.
- B. SCERA 2025 On-Site Due Diligence Meeting Schedule.
- C. Aon Flash Report Re Dodge & Cox Annual Firm Update, January 15, 2025.
- D. Wall Street Journal, "KKR Faces \$650 Million DOJ Lawsuit . . .", January 14, 2025.
- E. UBS Real Estate US Update, Introduction of CIO Larissa Belova, January, 2025.

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 27, 2025, at 8:30 a.m. Planned topics for this meeting include a presentation by Axiom. 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 12:58 p.m.

X. APPROVAL

The above minutes of the Investment Committee meeting on January 30, 2025, were approved at the Investment Committee meeting on February 27, 2025.

GREG JAHN, CHAIR