

SONOMA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RETIREMENT BOARD PLANNING SESSION MINUTES

Vintners Inn
4350 Barnes Road, Santa Rosa, CA 95403

Wednesday, October 9, 2019
8:30 a.m.

Presiding: Chair Michael Gossman presided.

Present: Trustees Neil Baker (Retiree Alternate), Susan Gorin (left at 4:00 p.m.), Greg Jahn, John Pels, Christel Querijero, Joe Tambe (left at 2:00 p.m.), Brian Williams, and Bob Williamson, Chief Executive Officer Julie Wyne, Assistant Chief Executive Officer Kelly Jenkins, Chief Investment Officer Jim Failor, Senior Investment Officer Steve Marsh, Member Services Manager Jackie Purter, Department Analyst Rebecca Lankford, and Administrative Aide Julia Smith.

Also Present: John Lee and Shane Schurter of Aon Hewitt, Judith Donovan of Arrowstreet Capital, Anne-Sophie Roy and Pierre Anctil of Axiom, Aaron Prince and Andrew Hsu of DoubleLine, Kristen Gaspar of Eaton Vance, Marnie Maciariello of Franklin Templeton, Andy Stenovec and Ryan Dawley of GMO, Brian DePaulo and William Huang of Guggenheim, Marc Lavoie of Hexavest, Erik Olsen of Jacobs Levy, Daniel Ryan and Macki Anderson of Parametric, Sasha Talcott and Marc Seidner of PIMCO, Clark Holland of Reams Asset Management, Sonya Park, Simona Mocuta, and Kimberly Cook of State Street, Ken Burgess of Systematic, James McCandless of UBS Farmland Investors, Mia Dennis of UBS Realty, Amy Brown of Arc Strategies, Elizabeth Laderman of Federal Reserve Bank of San Francisco, Christina Rivera and Nikolas Klein of the County of Sonoma Administrator's Office, Janie Carduff of the County of Sonoma Human Resources Department, Travis Balzarini and Paul Foster of SEIU 1021, Jim Scriven, David Wallace, John Hadzess, Ken Weise, Jason Johnson, Rachel Wyne, and Matt Kelman - members of the public and interested parties.

Absent: Trustee Erick Roeser

I. WELCOME AND INTRODUCTIONS

Chair Michael Gossman and Chief Executive Officer Julie Wyne welcomed attendees and provided a brief overview of the planned presentations.

II. STRATEGIC PLAN AND BUSINESS PLAN, REVIEW 2019 BUSINESS PLAN
ACCOMPLISHMENTS, 2020 PROPOSED BUSINESS PLAN ITEMS

CEO, Julie Wyne reviewed the Strategic Plan Goals and Initiatives and the 2019 Business Plan Action items and other accomplishments. Turning to the 2020 Proposed Business Plan, Ms. Wyne noted that retirement plan operations do not lend themselves well to a one year action plan, as the core activities of the plan are to manage membership, contribution setting and payment, benefit entitlement and payment, financial reporting and related operations. These activities are ongoing activities and unless there are unique needs in a particular year, will not change year to year. Investment activities, on the other hand, lend themselves to an annual plan. In light of this reality, Ms. Wyne suggested that the Business Plan format be changed to include an annual investment plan along with ongoing activities listed under the appropriate strategic goal, so the Board, members and others can see the activities being performed and how they move the Plan towards its strategic directives. In addition, unique projects will be included where appropriate. Trustees were supportive of this approach and Ms. Wyne indicated the 2020 Business Plan would be on the October Board meeting agenda for approval.

BOARD RESOURCE

Ms. Wyne debuted a working draft of the Board Resource which is intended to capture relevant fiduciary and operational details of SCERA administration. The resource will contain Spotlights on certain key elements and an At A Glance feature for each section, as well as detailed information including where to locate policies, procedures and relevant law should the reader desire it. Ms. Wyne indicated that it is intended to be a resource for the SCERA Board members and staff, but could also prove useful to the Board of Supervisors, plan sponsor contacts and others that routinely interact with SCERA. As this is a large document, it will take some time to complete, with SCERA's Retirement Analyst, Rebecca Gay, keeping everyone on task and compiling the materials.

III. LEGISLATIVE UPDATE

Amy Brown, Partner at Arc Strategies, provided a legislative overview of developments, trends and updates on pensions and other post-employment benefits. While there was lively discussion on legislation ranging from fire mitigation to early childhood education, there was not much on the pension front this session. Ms. Brown highlighted the court cases pending in the Supreme Court on a variety of pension spiking and potential vested rights issues and discussed CalPERS treatment of retired members who return to work on a temporary basis who violate the 960 hours rule, indicating CalPERS may be seeking legislation next year to get some flexibility for members who violate the rule by a short period of time.

IV. U.S. MONETARY POLICY AND ECONOMIC OUTLOOK

Liz Laderman, senior outreach economist at the Federal Reserve Bank of San Francisco, reviewed the current state of and outlook for the US economy. Topics discussed included the strength of US economic growth, employment and job growth, wages, consumer confidence and spending, inflation, fiscal policy, U.S. house prices, exports and business investment, financial conditions and interest rate policy. Ms. Laderman concluded with her outlook for 2020 noting that economic expansion is expected to continue but growth will slow and move towards trend. There will be slower growth in the labor force but unemployment will continue to be below the “natural” rate. Smaller businesses are facing labor shortages and many small businesses are set to raise compensation. The Fed expects to see moderate wage growth overall and inflation to return to target levels.

V. GLOBAL MACROECONOMICAL OUTLOOK

Simona Mocuta, senior economist from State Street Global Advisors, reviewed the current state of and outlook for the global economy with the emphasis on non-US markets. General topics discussed included the natural moderation of growth to more sustainable levels, the trade war viewed as a self-made crisis, the slow-down in manufacturing, business investment, US versus non-US growth, geographic divergence, inflation and central banks’ support measures. Ms. Mocuta discussed some key points within each of the major regional markets. Summarizing her worldview, she thought that the global economy is slowing, but will still exhibit some growth in aggregate. Poor demographics and weak productivity growth in the developed world have helped drive down lower equilibrium interest rates and pose a major challenge to achieving healthy forward-looking market returns.

VI. INVESTMENT MANAGER PANEL – FIXED INCOME

Participants on the panel were Clark Holland of Reams, Marc Seidner of PIMCO, Andrew Hsu of DoubleLine and Brian DePaulo of Guggenheim. Jim Failor and Steve Marsh asked the seeding questions which included:

1. With over \$13 Trillion of bonds with negative yields, falling rates and the return of Quantitative Easing, how would you respond to the charge that Fixed Income now offers “RETURN FREE RISK”? Please comment on current portfolio positioning.
2. Given the long economic expansion and the availability of cheap credit, the number of bankruptcies has been limited. Please comment on current credit spreads and whether they are providing adequate compensation for future risks.
3. Even with the longest economic expansion on record, the US has continued to run large

budget deficits. Please comment on its impact in the fixed income markets and inflation expectations.

4. Please share your thoughts on any external risks to your portfolio keeping you up at night.

After the seeding questions, Trustees, staff and the Plan's consultant asked questions which the panelists addressed. The questions addressed issues such as the federal deficit and its impact on inflation, the spread of negative rates in Europe, the drivers behind growth in the corporate bond market, the weakening of covenants in the corporate loan market and the reach for yield. The Q&A continued until the allotted 90 minutes was exhausted.

Thursday, October 10, 2019
8:30 a.m.

Presiding: Chair Michael Gossman presided.

Present: Trustees Neil Baker (Retiree Alternate), Greg Jahn (left at 3:27 p.m.), John Pels, Christel Querijero, Erick Roeser, Joe Tambe (left at 3:29 p.m.), Brian Williams, and Bob Williamson, Chief Executive Officer Julie Wyne, Assistant Chief Executive Officer Kelly Jenkins, Chief Investment Officer Jim Failor, Senior Investment Officer Steve Marsh, Member Services Manager Jackie Purter, Department Analyst Rebecca Lankford, and Administrative Aide Julia Smith.

Also Present: John Lee, Shane Schurter, Phil Kivarkis, and Chae Hong of Aon Hewitt, Judith Donovan of Arrowstreet Capital, Anne-Sophie Roy and Pierre Anctil of Axiom, Kevin Johnson of Dodge & Cox, Kristen Gaspar of Eaton Vance, Bill Deakyne, Marnie Maciariello, and Tony Docal of Franklin Templeton, Ryan Dawley of GMO, William Huang of Guggenheim, Marc Lavoie of Hexavest, Paul Burraston and David Altshuler of IFM, Erik Olsen of Jacobs Levy, Rebekah Brown and Brian Okrent of JP Morgan Asset Management, Daniel Ryan and Macki Anderson of Parametric, Sasha Talcott of PIMCO, Andy Yeung, Paul Angelo, and Todd Tauzer of Segal Consulting, Kimberly Cook of State Street, Ken Burgess of Systematic, James McCandless of UBS Farmland Investors, Paul Canning and Mia Dennis of UBS Realty, Christina Rivera and Nikolas Klein of the County of Sonoma Administrator's Office, Jim Scriven, Rachel Wyne, and Martin Jones – members of the public and interested parties.

Absent: Trustee Susan Gorin

VII. INVESTMENT MANAGER PANEL – REAL ASSETS

Participants on the panel were Brian Okrent of JP Morgan Asset Management, David Altshuler of IFM, Pierre Anctil of Axiom, Paul Canning of UBS Realty and Jim McCandless of UBS AgriVest. Jim Failor and Steve Marsh asked the seeding questions which included:

1. How has the landscape and opportunity set for infrastructure changed over recent years? Which sectors are expected to produce more activity and value going forward?
2. We believe infrastructure has benefitted from significant increase in investor demand for a limited supply of core assets resulting in return compression. Discuss how you underwrite new transactions in this environment and realistic levels of expected risk & return.
3. Please comment on where we are in the current real estate cycle and future return expectations.
4. The retail sector is exhibiting the effects of oversupply and the growth of eCommerce resulting in recent write-downs. Please discuss how you expect this sector to evolve and what you are doing to position the portfolio accordingly.
5. As a result of the “trade war”, China has stated that they will not be buying American agricultural products. Please discuss the potential impact of the trade war on farmland and our tenants.
6. Our consultant categorizes Real Assets as a “diversifier” to stocks and bonds. Please discuss your portfolio’s insulation from the major risks our other asset classes face such as trade wars, changes in interest rates and stretched valuations.

After the seeding questions, Trustees, staff and the Plan’s consultant asked questions which the panelists addressed. The questions addressed issues such as the impact on real estate of changing US demographics and lifestyles, the long bull run in the industrial property sector, the need for additional infrastructure spending, farm values and the impact of ultra-low interest rates. The Q&A continued until the allotted 90 minutes was exhausted.

VIII. INVESTMENT MANAGER PANEL – EQUITIES

Participants on the panel were Ken Burgess of Systematic, Kevin Johnson of Dodge & Cox, Tony Docal of Franklin Templeton and Marc Lavoie of Hexavest. Jim Failor and Steve Marsh asked the seeding questions which included:

1. Please comment on the trade war and its impact on corporate earnings, your opportunity

set and portfolio positioning.

2. Growth stocks have significantly outperformed value stocks for several years. What might be the catalyst for this trend to “mean” revert? How is this affecting your portfolio and opportunity set?
3. For our global managers, please comment on the years of outperformance by US stocks and its impact on your portfolio and positioning.
4. Please review some of your best ideas, whether individual stocks, sectors or markets.

After the seeding questions Trustees, staff and the Plan’s consultant asked questions which the panelists addressed. The questions addressed issues such as the shape of the Treasury yield curve and whether an inverted yield curve would foreshadow a recession, the leverage on corporate balance sheets, the probability of a near term recession in the US, the market impact of passive funds and ETFs and interest rate sensitivity within the portfolio. The Q&A continued until the allotted 90 minutes was exhausted.

IX. ASSET LIABILITY MODELING

Phil Kivarkis, Director of Investment Policy Services at Aon Hewitt Investment Consulting, provided an overview of the Asset-Liability (AL) study that is scheduled for SCERA in 2020. Mr. Kivarkis opened his presentation by reviewing the purpose of conducting such a study which he summarized as providing a comprehensive toolkit for making decisions on the Plan’s asset allocation and investment risk that align with the liabilities those funds support. Mr. Kivarkis then described and explained the process of conducting an AL study, the mechanics of the system modelling and Plan simulations that underpin the study, together with examples of the type of output produced by the study. Mr. Kivarkis then reviewed the asset liability profile from the 2016 study and compared it to the current profile. He then reviewed the Plan’s liquidity profile and provided peer comparisons for the Plan’s funded ratio, return assumption and asset allocation. Mr. Kivarkis concluded his presentation by reviewing some of the key results expected from the study, together with a project timeline for the 2020 study.

X. MANAGING DISABILITY CLAIMS AND ESSENTIAL WORK FUNCTIONS

This segment of the program was cancelled due to a local emergency within the county. Presenters were unable to attend the 2019 Planning Session due to this unforeseen occurrence.

This presentation will be considered for presentation before the SCERA Board at later date.

XI. ASOP 51 RISK ASSESSMENT REPORT

Paul Angelo, Senior Vice President and Actuary, Andy Yeung, Vice President and Actuary, and Todd Tauzer, Vice President and Actuary of Segal Consulting, presented the ASOP 51 Risk Assessment Report which is designed to identify and assess risks that may reasonably be anticipated if the plan's experience does not track the actuarial assumptions, including asset/liability mismatch risk, investment risk, longevity risk and other demographic risks. In addition, Mr. Tauzer presented a survey of state public pension plan funding focusing on funding discipline, progress, best and worst funded states and the most important issues facing the municipal bond market.

XII. PLANNING SESSION WRAP-UP

Chair Michael Gossman and CEO Julie Wyne thanked the attendees for their participation and the staff for their efforts in making the Planning Session a success.

XIII. ADJOURNMENT

The meeting was adjourned at 3:45 p.m.

XIV. APPROVAL

The above minutes for the Planning Session on October 9 and 10, 2019 were approved at the Retirement Board meeting on December 19, 2019.

MICHAEL GOSSMAN, CHAIR