SONOMA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RETIREMENT BOARD PLANNING SESSION MINUTES

DoubleTree Resort
One Doubletree Drive, Rohnert Park, CA 94928

Wednesday, October 11, 2023
9:30 a.m.

Presiding: Chair Brian Williams presided

Present: Trustees Travis Balzarini, Chris Coursey, Amos Eaton, Greg Jahn, Joe Tambe (left at 1:49 p.m.), Tim Tuscany (left at 12:52 p.m.), and Bob Williamson; Chief Executive Officer Julie Wyne, Assistant CEO/Chief Legal Counsel Cristina Hess, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, Finance and Retiree Services Manager Cheryl Enold, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith

Also Present: Nick Klein and Jennifer Solito (of the Sonoma County CAO Office); Chris Behrns and Tim Pflugradt (of Aon); Kevin Johnson (of Dodge & Cox); Rudy Garza, Kin Shinoda, and Christine Chun (of Double Line); Antoine Bisson McLernon, Jeff Zweig, and Daniel Cohen (of Fiera Comox); Leigh Poggio (of Guggenheim); Erik Olsen (of Jacobs Levy); Frances Donald and Sean Gannon (of Manulife); Dan Ryan (of Parametric); Marc Seidner and Matt Clark (of PIMCO); Clark Holland (of Reams); Aleph Granados and Nicholas Trager (of State Street); Steve Shaw and Ken Burgess (of Systematic); Gordon and Lydia Chang (guest speakers); Jim McCandless, Tom O'Shea, and Dan Murray (of UBS); Ed Clites (of SCARE); Bill Robotka and Lilo Kangas (of ICPC); David Wallace, Jim Scriven, and Charlie Gay- interested members of the public

Absent: Trustees Neil Baker (Retiree Alternate) and Erick Roeser

I. WELCOME AND INTRODUCTIONS

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

II. INVESTMENT MANAGER PANEL – FARMLAND

Participants on the panel were Jim McCandless and Dan Murray of UBS AgriVest, and Antoine Bisson-McLernon of Fiera Comox. Jim Failor made the introductions and asked the seeding questions with Mickey Nguyen which included the following topics:

1. Deglobalization (i.e., reshoring)—Mr. Murray stated that deglobalization really affects agricultural markets on the margin only. Mr. Bisson-McLernon agreed, adding that reshoring certain crops to other areas is difficult and that actually agricultural markets have increased in globalization as tariffs have generally been reduced and arable land has been taken out of production. Technology is the only solution to counter the decline in good acreage. In response to audience questions, they discussed the farmland prospects in Africa and the potential impacts of climate change.

2. Russia-Ukraine conflict—effects of this conflict have not been long lasting so not many opportunities have arisen. Input prices such as fertilizer could spike up so that remains a concern.

3. Inflationary environment and elevated rates—Farmland has a negative correlation to bonds, (positive correlation to inflation). However, Mr. Murray pointed out that farm acquisitions and prices are generally not impacted by mortgage rates; higher rates just impact operating credit which effects overall profitability. The audience asked about water scarcity and less arable land, to which Mr. Bisson-McLernon agreed that resources are becoming scarcer, and food supply will need to double. The California Sustainable Groundwater Management Act (SGMA) and use of GMO crops and root stock technology were also discussed.

III. CHINA RELATIONS & ECONOMIC IMPACTS

Gordon Chang, Author and Analyst, presented on the current state of affairs in China and future prospects. Mr. Chang spoke on the misleading youth unemployment data which excludes the millions of youths not actively participating in the workforce. The data on real estate in China was even more sobering and indicated huge imbalances as home sales plummet, large property developers teeter on the edge of default, and supply of vacant apartments are massive enough to house 1.4 billion. Chinese debt was also highlighted as a serious risk given the incalculable size from hidden off balance sheets debt. The regime continues to shutdown information flows to outside investors which contributes to more suspicion around economic data that has posted consistent 3-year GDP growth despite a drawn-out COVID lockdown. Mr. Chang hypothesizes that China will have a difficult time returning to growth since its economy can no longer benefit from an industrialization tailwind, and Xi Jinping is focused on centralizing power and rejecting a consumer-driven growth engine. Population collapse will also add to the long-term challenges. China is now spending increasing funds on its military forces and the probability of a war is growing more likely as they view Taiwan, a successful and vibrant democracy, an existential threat.

IV. ECONOMIC REVIEW

Frances Donald, Global Chief Economist of Manulife, provided an economic review with a different perspective. As all economic models are functionally the same, Ms. Donald proposed a rethinking of the macro outlook and suggested that the standard models were not the right tools to examine the economy. The paradigm is now different as the 40-year downtrend in Treasury yields has been broken. With less Americans working as a percent of the population since 2000 (40% don't work) combined with plentiful job openings, economic models need to incorporate a structural change in the labor market where unemployment may not rise as much as expected. Also, she believes the historical relationship between inflation and interest rates may be changing and raising rates may not have the desired effect of lowering inflation. Ms. Donald commented that both government spending and strong consumer demand continues to contribute to inflation. In addition, new factors such as climate factors, regional conflicts, ESG transitions, Brexit/free trade, and pandemic factors are contributing to the rising prices of goods and services. These factors are not impacted by the Fed's actions on interest rates. In summary, Ms. Donald advises investors to have more scenarios outside of a base case, anticipate more volatility, and expect a recession in 6-12 months.

V. INVESTMENT MANAGER PANEL – FIXED INCOME

Participants on the panel were Clark Holland of Reams, Marc Seidner of PIMCO, and Ken Shinoda of DoubleLine. Mickey Nguyen made the introductions and asked the seeding questions with Jim Failor which included the following topics:

1. Impacts of elevated interest rates on creditworthiness and default rates—Mr. Holland emphasized credit quality and individual capital structures are most important to focus on. By issuing longer-dated maturity bonds, some corporate borrowers are protected from rising rates unlike leveraged loans that are floating rate. More damage has occurred in the US government bond market as prices have fallen 50%.

2. Opportunities in real estate linked debt given the problems in real estate, most notably commercial office space—Mr. Seidner called commercial real estate the canary in the coal mine; as a wall of upcoming maturities comes closer, challenges and opportunities may arise. SL Green, a New York office REIT, was mentioned as an example of high-quality Class A assets trading at a steep discount to book value. Mr. Shinoda highlighted the current spreads on certain segments of agency MBS and non-agency CMBS are wider than they've been in 10 years (top decile), suggesting opportunities in diversified bonds.

3. Higher yields and significant flows into fixed income—MBS spreads are widening versus investment grade corporates and the risk of prepayment is so low, but money needs to come back to bond funds from T-bills.

4. Interest rate outlook over the next 1-2 years and how you are positioning your portfolio in response—Mr. Holland quoted Steve Marsh that fixed income is no longer a "return-

free risk." Mr. Seidner believes a 15% return in the 10-year treasury over the next 3 years is possible if rates decline 100 bps from a 5%+ yield, while Mr. Shinoda was short term bullish on bonds but long term concerned about issuance risk.

5. External risks to your portfolio keeping you up at night—Mr. Holland feared the risk of losing access to funds with a world reliant on digital versus the physical security of holding a bond/coupon. Mr. Seidner listed geopolitics, the rocky transition from brown to green economy, a commodity super cycle. Mr. Shinoda worries about cybersecurity attacks and more challenging liquidity as banks move away from trading.

VI. END OF DAY 1

Thursday, October 12, 2023
9:30 a.m.

Presiding:	Chair Brian Williams presided
Present:	Trustees Travis Balzarini, Chris Coursey (arrived at 10:55 a.m.), Amos Eaton, Greg Jahn, Joe Tambe (left at 2:17 p.m.), 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
Also Present:	Nick Klein (of the Sonoma County CAO Office); Chris Behrns and Tim Pflugradt (of Aon); Gabrielle Dutil and Pierre Anctil (of Axium); Kevin Johnson (of Dodge & Cox); Christine Chun (of Double Line); Antoinne Bisson McLernon, Jeff Zweig, and Daniel Cohen (of Fiera Comox); Leigh Poggio (of Guggenheim); Ashish Thomas (of IFM Investors); Erik Olsen (of Jacobs Levy); Jason Curran, Rebekah Brown, and Akash Patel (of JP Morgan); Giuseppe Guerriero, Kris Kesting, and Kathleen Lawler (of KKR); Sean Gannon (of Manulife); Clark Holland (of Reams); Nicholas Trager (of State Street); Steve Shaw and Ken Burgess (of Systematic); Jim McCandless, Tom O'Shea, Dan Murray, and Paul Canning (of USB); Ed Clites (of SCARE); Bill Robotka (of ICPC); David Wallace, Guadelupe Seira, and Jim Scriven – interested members of the public
Absent:	Trustees Neil Baker (Retiree Alternate), Erick Roeser, and Tim Tuscany

VII. INVESTMENT MANAGER PANEL – INFRASTRUCTURE

Participants on the panel were Pierre Anctil of Axium, Ashish Thomas of IFM, and Kathleen Lawler of KKR. Jim Failor made the introductions and asked the seeding questions with Mickey Nguyen which included:

1. Impact of elevated interest rates and inflation on infrastructure assets from cash flow, discount rate and valuation perspective? Is an 8% hurdle still the appropriate hurdle for performance fees in an elevated rate environment—Mr. Anctil said that inflation has a slight positive impact: debt is fixed rate, tariffs increase with inflation, and cost side is fixed, so there is a little lag as cash flow increases in the following year. Refinancing projects would be based on forward curves that are currently higher. The impact on valuation is slightly negative due to interest rates. Closed end funds have a longer-term view so adjusting hurdle rates due to a one-year difference would not be considered. With that said, Axium's new global fund has a 7% hurdle.

2. Various parts of the economy, such as travel, have recovered since the pandemic yet the US is still at risk of a recession and China's economy is slowing. Please review the current state of the global economy, the level of uncertainty, and its impact on the various sectors and geographies of infrastructure investing—Mr. Thomas talked about transportation traffic patterns at or exceeding pre-pandemic levels and strength in energy transition, midstream and storage. Ms. Lawler pointed out that infrastructure is a countercyclical asset class unlike real estate and so KKR focuses on sector-based investing.

3. Capital flows into infrastructure and the relative size of the opportunity set and the resulting impact on pricing and liquidity—Ms. Lawler said that tailwinds are strong for infrastructure investing with many investors under-allocated. Utilities are entering the pipeline now needing to raise capital amid unfavorable conditions in the public markets. Mr. Anctil added that deal flow is as big as it's ever been and with good capital raising, the firm only takes the best projects at a higher return and can turn down marginal opportunities due to the change in rates.

4. "Net Zero" and related government actions such as the Inflation Reduction Act and how that is driving the infrastructure opportunity set—The transition to Net Zero is a source of high levels of ongoing investment opportunities. Governments should subsidize technologies that haven't been commercially proven, beyond wind and solar. Ms. Lawler feels decarbonization would benefit from a larger boost if

government funding would support building transmission infrastructure and facilitating permitted land for renewable projects.

VIII. INVESTMENT MANAGER PANEL – EQUITIES

Participants on the panel were Kevin Johnson of Dodge & Cox and Ken Burgess of Systematic. Mickey Nguyen made the introductions and asked the seeding questions with Jim Failor which included:

1. Overall market valuations and its relative attractiveness versus fixed income which is now offering the highest real yields in over a decade—Mr. Johnson noted that with bonds yielding 5-6% and 6-7% expected returns for equities, their balanced portfolio has the highest fixed income allocation today with a 57% weight in equities. Value looks more attractive than growth and has outperformed 100% of the time when valuation spreads become this extreme. Mr. Burgess also believes small cap is becoming more attractive, but the current environment is not favorable for smaller cap cyclical companies.

2. Health of the banking industry, risks to the downside and how are you positioning your portfolio in response—Mr. Johnson thinks bank valuations already reflect significant pessimism, and net interest margins are rising. European banks are even more compelling as earnings are growing and valuations are attractive a 5-6x P/Es, so Dodge & Cox is taking a diversified contrarian approach to the financial sector. Mr. Burgess agrees that from a valuation perspective, banks are priced near trough values and tend to bottom at tangible book value. However, rates need to stop rising before earnings outlook improves. Headwinds only seem to have gotten worse.

3. Impact of Artificial Intelligence (AI) on the companies in your universe as well as the investment process you employ to build your portfolios—Mr. Burgess is a proponent of "natural intelligence" in his investment process, although from an investment opportunity standpoint, he sees the need for consulting services to assist corporations on how to integrate AI into their operations.

4. Best ideas (industries, regions, themes, etc.) and biggest fears keeping you awake—Mr. Burgess expressed concern inflation is getting stuck at 4% and we may not be able to reduce it further. He is already starting to see some negative effects. Mr. Johnson noted the opportunities he is seeing are more company-specific and less thematic. It was also noted that geopolitical issues could be a game changer if conflicts intensify.

IX. TIMBERLAND INVESTING – EDUCATIONAL SESSION

Jeff Zweig, Partner and Head of Natural Capital at Fiera Comox, provided an overview of Timberland Investing covering the fundamental attributes of Timberland, types of wood products produced, positive supply and demand factors, as well as the case for investing in Timber. He noted that timber supply is constrained globally and that there are multiple components of demand growth including the rise in population and urbanization, innovation in engineered wood, and carbon sequestration/carbon credit opportunities. Mr. Zweig touched upon managing fire risk, optimizing harvesting with AI and LIDAR tools, and he reviewed portfolio attributes such as Timber's low correlation to traditional asset classes and its inflation hedging benefit.

In discussing timberland performance, Mr. Zweig commented that the NCREIF Total Timberland Index relies on voluntary disclosure of timberland transactions in the US. The 30-year return is a respectable 8.6% per year while the trailing 10-year return is a more modest 5.3% per year, pulled down by performance in the Southeast. The Southeast region is land-locked so timber produced in that region can only be sold economically within the region. In contrast, the Pacific NW returns are much higher due to the ability to transport on tide water to markets as far away as Japan. This enables competition among mills which benefits raw timber prices.

X. INVESTMENT MANAGER PANEL – REAL ESTATE

Participants on the panel were Jason Curran of JP Morgan and Paul Canning of UBS Trumbull Property Fund. Mickey Nguyen made the introduction and asked the seeding questions with Jim Failor which included:

1. How has the current interest rate environment impacted levered real estate strategies such as the refinancing of loans, the aggregate level of leverage, and the access to lenders—Mr. Curran noted that lenders have pulled back, volumes are down dramatically with fewer buyers, and banks are starting to tighten origination lending standards due to regulatory pressure. Access to lenders has changed as they look to sell other bank services to generate revenue in other ways.

2. Outlook for office properties: have office properties hit their trough and how do you see the sector's recovery unfolding—Mr. Curran said the office sector will stay bifurcated with trophy properties continue to show positive absorption. Generally, few situations result in a give-back or lender-facilitated sale (short sale) as there are many ways to work around or extend loan payment terms. Mr. Canning described a conversion project in which a suburban MN office was torn down to create an industrial distribution center for Amazon, although alternative solutions in urban settings are more limited. It was noted that the number of people working in offices has probably

bottomed-out but that the Office sector will need to look more like the Retail sector, with occupancy rates increasing, before we see a recovery in Office.

3. How will developing demographic changes effect the various real estate sectors—Mr. Curran spoke about the demographic shift to the suburb's single-family rentals, so JPMorgan is developing large tracks of such rentals focusing on affordability and unlike the Blackstone strategy of acquisitions from MLS. Age-restricted senior housing is attractive versus the operationally-intensive business of memory care. Mr. Canning highlighted the growth of life sciences (less than 0.5% of office space) because of the trend toward increasing quality of life in the latter stage of life, though these opportunities are specific to Boston, SF and San Diego. UBS is also focused on owning garden-style low density apartments that appeal to an older demographic and less prone to overbuilding.

4. The traditional opportunity set of office, industrial, retail, and apartments has expanded to other niche property types. Which of these new sectors do you see as good prospects and which are you avoiding—Mr. Canning favors life sciences and cold storage. Mr. Curran talked about the supply demand mismatch for truck terminals. The panel also spoke to other topics raised by the audience including the lag effect of appraisals and community challenges as an obstacle to development projects.

XI. PLANNING SESSION WRAP-UP

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

XII. ADJOURNMENT

The meeting was adjourned at 4:06 p.m.

XIII. APPROVAL

The above minutes for the Planning Session on October 11 and 12, 2023, were approved at the Investment Committee meeting on November 16, 2023.

GREG JAHN, CHAIR