

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

Thursday, May 26, 2022
8:33 a.m.

In accordance with Retirement Board Resolution #156, adopted on September 23, 2021 and reaffirmed on May 19, 2022, the Sonoma County Employees' Retirement Association Retirement Investment Committee meeting was held virtually and in compliance with California Government Code section 54953(e).

Individuals interested in participating in the meeting were invited to join using one of the two following methods:

1. WebEx meeting application via computer, tablet or smartphone:

<https://sonomacounty.webex.com/sonomacounty/j.php?MTID=m4cbdae34d2b3aec20b75b14dc08a45f3>

2. Call-in:

1-408-418-9388

Meeting ID: 2480 260 2648

Password: 05262022

Public comments were solicited prior to the meeting by emailing rebecca.gay@sonoma-county.org. Members of the public that joined the WebEx meeting via the app or dial in were provided with the opportunity to submit live public comment for each agenda item after the Committee members and staff provided their comments.

Presiding in

SCERA Boardroom: Greg Jahn

Present

via WebEx: Trustees Neil Baker (Alternate Retiree – arrived at 8:38 a.m.), Travis Balzarini, Joe Tambe, and Brian Williams; Assistant CEO/Chief Legal Counsel Christina Hess, Senior Investment Officer Steve Marsh, and Retirement Analyst Rebecca Gay

Also Present in

SCERA Boardroom: Trustees Erick Roeser and Tim Tuscany; Chief Executive Officer Julie Wyne, Chief Investment Officer Jim Failor, and Administrative Aide Julia Smith

Also Present

via WebEx: Julio Garcia, David Altshuler, and David Greenberg (of IFM); John Lee, Tim Pflugrad, and Chris Behrns (of Aon); Lee Ferridge and Michael Putica (of SSGM); Gar Chung, Joe Ebisa, and Brian McDonald (members of the public)

Absent: Trustees Chris Coursey, Amos Eaton, and Bob Williamson

Greg Jahn, Chair
Erick Roeser, Vice Chair

I. MINUTES APPROVAL

Approval of the April 28, 2022 Investment Committee meeting minutes

Recommendation: Approve the April 28, 2022 Investment Committee Minutes.

A motion was made by Trustee Tuscany, seconded by Trustee Roeser to approve the April 28, 2022 minutes. The motion carried 6-0-0-3 with voting as follows:

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTAIN</u> | <u>ABSENT</u> |
|---------------|-------------|----------------|----------------|
| Mr. Balzarini | | | Mr. Coursey |
| Mr. Jahn | | | Mr. Eaton |
| Mr. Roeser | | | Mr. Williamson |
| Mr. Tambe | | | |
| Mr. Tuscany | | | |
| Mr. Williams | | | |

II. PRESENTATIONS

- A. IFM – Julio Garcia, Head of North America - Infrastructure, David Altshuler, Head of Global Relationship Group - North America and David Greenberg, Senior Associate - Investor Relations provided an organizational update, commented on the infrastructure market and reviewed performance & positioning of the firm’s Global Infrastructure Fund in which SCERA invests. Before commencing their presentation, staff asked IFM to provide some comment on corporate growth and the hacking of Colonial Pipeline.

Mr. Altshuler noted that even with Covid, IFM has continued to grow. Total assets under management have now reached \$136 billion with infrastructure accounting for \$64 billion of this total. The infrastructure group has grown to over one hundred investment professionals with the largest contingent being focused on infrastructure. They are supplemented with a nineteen strong group of asset management specialists and a seven-member portfolio management team who focuses on improving portfolio efficiency. The investment function is supplemented by investor relations and business development teams which are organized regionally and have seen a build out over the last five years as the business has expanded in both assets and number of clients. There was a large capital call on April 1st to support the \$3.6 billion Sydney Airport deal. In terms of queue size, Mr. Altshuler explained that they try and size the queue to be a year of capital deployment but, given the lumpy nature of infrastructure projects, it is more of an art than an exact science. He concluded by informing the Board that they are holding the Annual Investor meeting

this year in Vancouver on October 17 & 18. It will include a tour of a container terminal which is partially owned by the Fund.

Mr. Garcia prefaced his presentation by providing some comment on Colonial Pipeline. While the press attention was focused on the hacking and the ransom paid he argued that there were more important lessons learned. To begin with, it emphasized how important the pipeline is to the East Coast which gets 45% of its petroleum products via the pipeline. When the IT intrusion was discovered, the company shut down operations. However, it took several days to restart this essential asset. Within hours many Federal agencies were involved. The FBI recovered some of the ransom while the FERC has been involved in the broader issue of the resilience of key energy infrastructure and is supportive of getting companies to invest in increasing resilience with costs being shared with customers.

Addressing Fund performance, Mr. Garcia highlighted some of the key net returns for both GIF and US LPs where the non-dollar exposure is hedged. He noted that over the five years to March 2022 the hedged and unhedged returns were very close (12.4% & 12.8%, respectively). The ten-year net return for GIF was 12.7% (there was no hedged share class prior to June 2016) and the annualized return from the inception of the Fund was 9.2%. In response to questioning about future returns, Mr. Garcia noted that the more recent trailing returns were at the top-end of long-term expectations for the strategy which are in the range of eight to twelve percent and that future returns will be determined largely by the stage of the business cycle in which we find ourselves.

Mr. Garcia noted that the GIF has 21 portfolio companies holding 80 individual assets invested across 20+ OECD countries. With the Sydney Airport deal the GIF will have its first Australian investment, which will represent about 7% of the Fund's value. Mr. Garcia noted that in the past this investment would probably have taken place within the Australian Fund, but that fund has a lot of airport exposure already, which is why the deal was taken up by the GIF. In addition, he highlighted that they have entered into a joint venture with Deutsche Telecom to provide fiber optic services to rural Germany. Responding to questions regarding the increasing number of infrastructure funds, Mr. Garcia thought that the growth of IFM has largely mitigated that pressure. Many of the newer entrants are quite small and are not competing for the larger assets which IFM targets. In addition, the many relationships they have established means they can often acquire assets without going through the public bidding process.

Mr. Garcia concluded his presentation with some remarks on the impact of inflation and the resilience of the portfolio to rising prices. Acknowledging that it is difficult to predict, he highlighted that many of the assets have revenue linkage to inflation that provides some protection. If the fight against inflation causes a recession, this could contract end user demand which would erode some of this protection. Some of the assets have "take or pay" type contracts which would ameliorate a contraction in end user demand. Most of the assets within the portfolio have high

margins and, as a result, would be able to weather some short-term profit squeeze. In summary Mr. Garcia thought the portfolio of assets was largely resilient to inflationary pressure.

- B. First Quarter 2022 Investment Performance Report – Consultant Tim Pflugradt of Aon Investment Consulting presented. Mr. Pflugradt noted that in the first quarter of 2022, capital markets around the world were challenged as they reacted to steeply rising energy prices, economic sanctions, inflation and rising rates. (As an aside, Mr. Pflugradt noted that the market weakness has continued into the second quarter.) US equities had a weak quarter with the Russell 3000 Index falling 5.3%. The MSCI ACWI ex-US IMI index posted a similar return of negative 5.6%. Most developed markets posted losses, but Canada produced a strong positive return of 4.8% for the quarter as did the Pacific ex-Japan region (3.0%). In US equities, large and medium capped stocks outperformed small cap over the quarter while value outperformed growth across the capitalization spectrum. Most sectors generated negative returns for the quarter with only Energy (37%), Materials Processing (5.4%) and Utilities (3.5%) producing gains. In fixed income, the Bloomberg US Aggregate Bond Index was down 5.9% over the quarter. Across durations, all maturities finished the quarter in negative territory. Within investment grade bonds, lower credit quality underperformed higher quality and the High Yield bond sector fell the least.

Switching to the Plan's investment performance, Mr. Pflugradt noted that the market environment favored SCERA's active public market managers with Plan returns being much higher than the policy returns for the 3- and 12-month periods ending March 2022. This resulted in competitive performance versus our peer group (public funds with assets over \$1 billion) with the 3-month return ranking in the top decile and the 12-month return ranking in the top quartile. The US and Non-US Equity composites recorded particularly robust relative outperformance that places them in the top decile compared to their peers with the partial short extension strategies (Jacobs Levy and Arrowstreet) being the largest contributors to strong relative performance. Within Fixed Income, the composite recorded a more modest loss (-4.5%) when compared to the benchmark decline of 5.9%. All three of the Plan's Core Fixed Income managers outperformed their benchmark, while the single Alternative Fixed Income (Bank Loans) manager matched its bank loan index but contributed positively to the benchmark-relative return of total Fixed Income.

- C. State Street Global Markets – Lee Ferridge, Senior Managing Director and Head of Multi-Asset Strategy, discussed inflation and the economy. Mr. Ferridge opened by thanking the Board for the invitation to speak on the topic of inflation. Mr. Ferridge commented on the invasion of Ukraine and highlighted the impact on rising commodity prices, notable surging Energy prices and Food prices. State Street has a relationship with the firm PriceStats which undertakes proprietary research into inflation. The firm collects around four million prices at the point of sale from 23 countries around the world. It calculates price inflation almost in real time (2/3 day lag) and so is a leading indicator of official Government statistics. The analysis showed that the surge in prices is a global phenomenon and that just as inflation started to look like it was going to peak in the US around May/June 2021 the invasion of Ukraine propelled prices even higher. Mr. Ferridge

compared the current surge in prices to historical ranges. Globally he noted that Japan was the outlier as it has just recently recorded some modest inflation, the irony being that it has been trying for the last thirty years to create some inflation.

Mr. Ferridge then covered some of the technical factors impacting inflation including seasonality and the contributions from various sectors where he distinguished the discretionary sectors from the non-discretionary sectors, such as shelter and food.

Switching to policy issues, Mr. Ferridge covered the dichotomy of growth expectations verses Federal Reserve hawkish views on future rate expectations, the impact of the fiscal cliff and quantitative tightening, worker bargaining power and real household disposable incomes. He noted that real dollar-adjusted retail sales have fallen and that consumer borrowing has reached record highs. He rounded out his presentation by commentary on the housing market, wealth creation and the changes in wealth by type and income and the part the Federal reserve has played in creating the wealth effect.

III. INVESTMENT CONSULTANT & STAFF

The Investment Committee moved into Executive Session and closed the meeting to all attendees who were not necessary for the consideration of a specific pension fund investment. While the meeting was closed, those attendees were placed into the WebEx lobby by the WebEx host and did not hear or see the meeting.

A. Executive Session

Executive Session. Meeting closed pursuant to Government Code Section 54956.81 to discuss the purchase of a specific pension fund investment.

The Investment Committee moved out of Executive Session and reopened the meeting to all WebEx attendees who were placed in the lobby during the closed session period.

B. Executive Session Report Out – Open Session

Chair Jahn stated no reportable action was taken during the Executive Session.

C. GTA Babelfish First Quarter 2022 Equity Trade Cost Analysis – brief review

Senior Investment Officer Steve Marsh reported that the analysis showed that the intraday stock price movements were unusually high for the first quarter which increased the magnitude of the market impact of trading. Despite the heightened stock volatility, he reported that the analysis of trading showed no unusual activity and that the market impact of trading was not significantly different from expectations.

D. WTax Pursuit of Discontinued Account Tax Reclaims – update

Mr. Marsh provided an update on the project to recover dividend withholding tax due to SCERA using the third party provider (WTax), noting that SCERA had received its first reclaim processed by WTax, albeit the dollar amount was small.

E. Annual Review of SCERA Investment Manager Form ADVs – brief review

Mr. Marsh confirmed that they had reviewed the Form ADVs provided by the Plan's investment managers and there was nothing of significance to bring to the Board's attention.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report – April 2022.

Mr. Failor identified some of the key highlights from the April performance report noting that while the April and the YTD performance numbers exhibit strong relative performance, April was a strong down month which added to the negative return from the first quarter resulting in the Plan being down 4.1% year-to-date.

B. UBS AgriVest Farmland Fund Shareholder Meeting Report, May 12, 2022.

Mr. Marsh reported that he had attended the teleconferenced AgriVest Farmland Fund shareholder meeting, noting that the dominant theme from the regional managers was the drought and water rights.

C. The Economist, "Why the Federal Reserve has made a historic mistake", April 23, 2022.

D. Wall Street Journal, "Arizona's Dry Future", April 23, 2022.

E. FUNDfire, "DC Pension Board Finds 'Significant Inconsistency' in Manager-Fee Math", May 10, 2022.

F. Wall Street Journal, "Stock Market Is Top-Heavy, but . . .", May 19, 2022.

V. GENERAL DISCUSSION MATTERS

Opportunity 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.

Ms. Wyne brought Assembly Bill 2493 to the Board's attention. She noted that it only applies to Safety members and it allows them to circumvent the Alameda decision on what's included in pensionable compensation. It would allow Safety members whose compensation earnable was calculated in error to continue to receive the erroneous benefits through the employer, which would, in essence, be a windfall. The Bill would require the '37 Act systems to use the CalPERS regulation in determining what constitutes compensation earnable and pensionable compensation, which Ms. Wyne believes is a violation of our Board's constitutional authority to administer the retirement system on behalf of its members. The

Bill is currently in the Senate and Ms. Wyne has been contacted by Marin CERA to join in an opposition letter. Ms. Wyne initially sought approval for a letter of concern but the Board supported an opposition position. Ms. Wyne noted her connection to the Senate Republican Caucus and sought approval to join in the opposition letter and reach out to the Republican Caucus staffer, to which the Board agreed.

VI. PUBLIC COMMENT

Opportunity 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 currently scheduled for Thursday, June 30, 2022 at 8:30 a.m. via WebEx. Planned topics for this meeting include a presentation by Jacobs Levy.

VIII. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 11:28 a.m.

IX. APPROVAL

The above minutes from the May 26, 2022 Investment Committee meeting were approved at the Investment Committee meeting on June 30, 2022.

GREG JAHN, CHAIR