

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

Thursday, June 30, 2022

8:32 a.m.

In accordance with Retirement Board Resolution #156, adopted on September 23, 2021, and reaffirmed on June 16, 2022, the Sonoma County Employees' Retirement Association 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=m9021eaea9b2a377f2e999f2e9b77e3f4>

2. Call-in:

1-408-418-9388

Meeting ID: 2487 735 6797

Password: 06302022

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), Amos Eaton, Joe Tambe, and Brian Williams

Also Present in

SCERA Boardroom: Trustees Erick Roeser, Tim Tuscany and Bob Williamson; Chief Executive Officer Julie Wyne, Chief Investment Officer Jim Failor, Senior Investment Officer Steve Marsh, Finance and Retiree Services Manager Cheryl Enold, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith

Also Present

via WebEx: Peter Lehrer and David Sparacino (of Jacobs Levy); John Lee, Tim Pflugradt, and Chris Behrns (of Aon); Matt Hougan and Brian Raimondi (of Bitwise Asset Management); Gar Chung, Joe Ebisa, Alexandra Zen Ruffinen, Jacqui Jahn, Caleb Jack, Brian, Rachel, and an unnamed caller (members of the public)

Absent: Trustees Travis Balzarini and Chris Coursey

Greg Jahn, Chair
Erick Roeser, Vice Chair

I. RETIREMENT BOARD RESOLUTION #156 – COVID State of Emergency and imminent threat risk

Recommendation: Affirm that the conditions set forth in Retirement Board Resolution #156 still exist and warrant continued application of Government Code section 54953(e) to SCERA Retirement Board and Committee meetings for the next thirty days through July 30, 2022.

A motion was made by Trustee Eaton, seconded by Trustee Williamson to affirm that the conditions set forth in Retirement Board Resolution #156 still exist and warrant continued application of Government Code section 54953(e) to SCERA Retirement Board and Committee meetings for the next thirty days through July 30, 2022. The motion carried 7-0-0-2 with voting as follows:

Mr. Balzarini	Absent
Mr. Coursey	Absent
Mr. Eaton	Aye
Mr. Jahn	Aye
Mr. Roeser	Aye
Mr. Tambe	Aye
Mr. Tuscany	Aye
Mr. Williams	Aye
Mr. Williamson	Aye

II. MINUTES APPROVAL

Approval of the May 26, 2022 Investment Committee meeting minutes

Recommendation: Approve the May 26, 2022 Investment Committee Minutes.

A motion was made by Trustee Tuscany, seconded by Trustee Williams to approve the May 26, 2022 minutes. The motion carried 6-0-1-2 with voting as follows:

Mr. Balzarini	Absent
Mr. Coursey	Absent
Mr. Eaton	Aye
Mr. Jahn	Aye
Mr. Roeser	Aye
Mr. Tambe	Aye
Mr. Tuscany	Aye
Mr. Williams	Aye
Mr. Williamson	Abstain

III. PRESENTATIONS

- A. Jacobs Levy – Managing Director Peter Lehrer and Director David Sparacino provided an organizational update and comments on the performance and positioning of the 130/30 US equity portfolio they manage for SCERA. Mr. Failor introduced the speakers and investment strategy noting that Jacobs Levy has managed a US equity portfolio for SCERA since 2007. The initial mandate was a traditional long only mandate, but this was broadened in January 2009 to a 130/30 strategy. The ability to short thirty percent of the portfolio allows the manager to more fully express negative views on individual stocks, particularly those with a small weighting in the benchmark. This additional freedom has allowed Jacobs Levy to deliver greater “Alpha” with only a little additional risk (volatility). The presenters were asked to cover the growth in assets under management at some point in their presentation.

Picking up on the “alpha” comments, Mr. Lehrer stressed that risk control lies at the heart of the process and that for an enhanced active strategy such as the 130/30 they seek to diversify the risks, keep a similar risk profile to the Benchmark and take moderate residual risk. In practice this means holding 300 or more names long and 100 or more names short to achieve broad diversification across stocks, industries and sectors. Turnover for a 130/30 strategy is higher than for the long only equivalent (160% of assets at play compared to 100%) and generally ranges from 125% to 225% over a market cycle. Portfolio implementation has been facilitated by low-cost electronic trading.

Addressing performance, Mr. Lehrer commented that recent results were exceptionally strong, with the benchmark relative performance for the last twelve months being particularly noteworthy. He acknowledged that a large part of this was the reversal of trends that caused underperformance in 2020, notably caused by the dominance of a handful of large cap growth/technology stocks. Mr. Lehrer then commented on some of the underlying factors and model factors that drove the recent relative outperformance. Switching to the longer term, he noted that the annualized return net of management fees for the five-year period to end May 2022 was 18.6% compared to the benchmark return of 12.7% and that for the inception-to-date period the portfolio net return was 12.5% versus a benchmark return of 9.3%.

Addressing the issue of extra “alpha” that a 130/30 strategy can deliver, Mr Lehrer pointed out that since the switch to 130/30 the account has returned 20.0%, while the firm’s composite for the long-only equivalent for the same period was an annualized 17.5%. As expected, the residual risk for the 130/30 strategy is higher than the long only strategy, but the return has more than compensated for the risk based on the information ratio.

Mr. Lehrer then covered current portfolio positioning by reviewing some of the portfolio

characteristics. He explained that the portfolio is a combination of stocks chosen using an active stock selection model and risk controls. The stock selection model is composed of 90 factors, 40 related to industry groupings and 50 to equity characteristics. They do adopt rigorous risk controls to ensure that the portfolio is well diversified and no extreme characteristics versus the benchmark. Responding to questioning, Mr. Lehrer confirmed that the portfolio does have a modest small cap bias. He emphasized that this was not a permanent bias as the weighting process is dynamic. Similarly, the portfolio looks to have a value tilt but their system of models began moving the portfolio that way after the extremely narrow growth stock market of 2019. Mr. Lehrer also responded to a question regarding the potential impact of the Federal Reserve's rise in rates on the system's Dividend Discount Model. Mr. Lehrer commented that the models are not used for forecasting returns and that rising rates would not affect the operation of the DDM directly but may affect the weighting of the factor.

Mr. Sparacino then addressed assets under management (AUM) which had been raised by staff. The total AUM for the firm has grown to \$13.6 billion with the 130/30 strategy now accounting for \$4.5 billion. There is some limited capacity in some strategies, but they closely monitor this to make sure that the broader strategies have enough capacity to operate fully. In response to a question about expanding to non-US markets, it was noted that they are sticking with proprietary and custom systems and research and a live non-US equity portfolio is probably at least a year out. They plan to run an international equity strategy with internal seed money before marketing to a wider audience. Mr. Sparacino also responded to a question regarding succession planning, noting that Bruce and Ken have stated that they would like the firm to continue after they are gone. The project has been passed to the Chief Operating Officer to work on. Mr. Lehrer concluded the presentation by outlining some of their latest research in building new factors.

- B. Educational Presentation on Crypto Currencies – Chief Investment Officer Matt Hougan of Bitwise Asset Management reviewed the crypto currency market and considerations in managing crypto currency portfolios. Mr. Failor introduced the speaker, noting that staff enjoyed his presentation at the SACRS Spring Conference and thought that Board members who had not heard the presentation would find it informative. Mr. Hougan commenced by describing Bitwise, covering their involvement in crypto assets and their role as the largest crypto index fund manager. Part of his role as Bitwise CIO involves educational outreach such as the SACRS event and he wrote the peer reviewed CFA guide to crypto currencies. Mr. Hougan summarized his educational presentation as “what is a crypto and why does it matter”.

He outlined how crypto is a technology that brings money into the internet era. He compared how an internet service like Venmo works relative to traditional banks. The role of blockchain databases in moving financial goods over the internet was explored as was

the development of programmable money. Mr. Hougan then outlined the creation of digital property rights where blockchain allows individuals to prove ownership of a digital good without any third-party intermediary. There are a variety of crypto currencies around with Bitcoin and Ethereum being the most well-known. The differences in how they operate and the uses for which they are best suited was explored.

Finally, Mr. Hougan touched on the role that a small crypto allocation can play in portfolio construction. The presentation ended with Mr. Failor reminding Trustees that if they want a copy of the CFA paper previously referenced, they should contact him directly.

IV. INVESTMENT STAFF AND CONSULTANT

The Board of Retirement 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. The WebEx screen indicated that the attendees were in the lobby and the attendees were re-connected to the meeting when the Board returned to open session.

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 Board of Retirement 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 that there was no action to report out from the Executive Session.

C. Investment Officer Recruitment – verbal update

Mr. Failor provided the Board with a brief status report concerning the progress in recruiting a new investment officer.

D. 2022 Planning Session Draft Agenda

Mr. Failor commented that the upcoming Planning Session (Vintners Inn, October 12/13) would be the first in person event since the last session three years ago. He presented the proposed Agenda and speakers looking for feedback. The Trustees were supportive of the topics and speakers that made up the agenda.

Ms. Wyne noted that feedback was highly positive on the Vintners Inn as the venue for the Planning Session. One slight drawback is that they do not appear to be able to offer livestreaming to the public which would preclude online participation by Board members.

Hence, she was encouraging Board members to attend the Planning Session in person and if they felt comfortable.

V. COMMUNICATIONS

A. SCERA Investment Performance Report, May 2022.

Mr. Failor commented that the year-to-date return for the Plan was down three percent. While disappointing from an absolute return perspective, active management over this period was generally strong, adding four percent over the policy benchmark return.

B. State Street Bank, "2022 Summer Sessions with Website Link", June 14, 2022.

C. Senator Rick Scott Letter to NASRA Retirement Plan Administrators, June 16, 2022.

Ms. Wyne provided some background detail behind the Senator's letter and SCERA's input to NASRA as part of their forming an industry response.

D. FUNDfire, "China to Require Foreign Fund Firms to Set Up Internal Communist Party Units", June 21, 2022.

E. The Telegraph, "Cow and sheep burps to be taxed in New Zealand", June 8, 2022.

F. Wall Street Journal, "How the Fed and the Biden Administration Got Inflation Wrong", June 13, 2022.

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.

Ms. Wyne brought to the Board's attention the change in SCERA's lobby hours as well as the reasons behind the change.

Mr. Williamson took the opportunity to thank his fellow Board members for their completion and submission of CEO evaluations.

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, July 28, 2022, at 8:30 a.m. via WebEx. Planned topics for this meeting include a presentation by Davidson Kempner.

IX. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 11:17 a.m.

X. APPROVAL

The above minutes from the June 30, 2022, Investment Committee meeting were approved at the Investment Committee meeting on July 28, 2022.

ERICK ROESER, VICE CHAIR