

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

Thursday, July 28, 2022
8:32 a.m.

In accordance with Retirement Board Resolution #156, adopted on September 23, 2021, and reaffirmed on July 21, 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=mad3edafe2d0c10fd255369ca4df89404>

2. Call-in:

1-408-418-9388

Meeting ID: 2490 565 8126

Password: 07282022

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: Erick Roeser, Vice Chair

Present via WebEx: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, and Amos Eaton

Present in

SCERA Boardroom: Trustees Chris Coursey (left at 10:56 a.m.), Joe Tambe (left at 11:32 a.m.), Tim Tuscany, Brian Williams, and Bob Williamson; Chief Executive Officer Julie Wyne, Assistant CEO/Chief Legal Counsel Cristina Hess, 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; Melanie Levine (of Davidson Kempner)

Also Present

via WebEx: Josh Morris, Caroline Joy and Alexis Georgiadis (of Davidson Kempner); Jack Dowd (of Aon Townsend); Chris Behrns and John Lee (of Aon); Lindsay Saienni, Kevin Baload, Deasee Phillips (members of the public)

Absent: Trustee Greg Jahn

Greg Jahn, Chair

Erick Roeser, Vice Chair

I. MINUTES APPROVAL

Approval of the June 30, 2022, Investment Committee meeting minutes

Recommendation: Approve the June 30, 2022, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Tambe to approve the June 30, 2022 minutes. The motion carried 8-0-0-1 with voting as follows:

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

II. PRESENTATIONS

- A. Davidson Kempner – Josh Morris, Head of Real Estate, Melanie Levine, Head of US Sales and Alexis Georgiadis, Product Specialist, provided an organizational update and commented on performance and positioning of their funds in which SCERA invests.

Mr. Failor reviewed SCERA's Special Opportunity Fund (SOF) investments with Davidson Kempner (DK), noting that, as rollover funds, they carried fees that were tolerable for a fee-sensitive organization like SCERA. He noted that these funds were in SCERA's Opportunistic allocation, that the funding for these investments was drawn proportionately from the whole Plan and that the primary benchmark is the Policy Benchmark with a secondary benchmark of the actuarial assumed Rate of Return (ROR), currently 6.75%. The funds themselves have an internal hurdle rate of 8% with the manager earning a performance fee on a since-inception return above this hurdle. The two remaining funds (SOF III & IV) are in wind down mode and given the two-year rotation of presenting managers this was likely to be the manager's last presentation to SCERA.

Before delving into the Funds, Ms. Levine provided a brief history of the firm. She noted that they have grown to over \$38 billion in assets under management (AUM) and that today the headcount stands at over 400 people. The firm is 100% privately owned with 14 active partners who have \$3 billion invested alongside clients across various funds. The majority of the AUM is what they would term "Distressed Investments", with the balance being Merger Arbitrage, Convertible Arbitrage and Long/Short Credit. The distressed investments team is comprised of over 100 investment professionals located in New York, London and Hong Kong. Within distressed investing, they break investments into one of

five types, Corporate Investments, Real Estate, Asset Backed and Structured Products and Hard Assets. The rollover funds in which SCERA has invested have exposure to all of these categories.

Ms. Levine then summarized the status for each of the three funds that Sonoma invested in, detailing the committed capital, what was called, how much has been returned and an estimate of the returns earned to date. Mr. Morris addressed each of the five investments that remain in Fund III providing an update on current status and what they hoped to achieve with each investment going forward. For Fund IV he gave a more in depth look at two investments, providing the original rationale or investment thesis for the investment, what was actually bought, the investment strategy to unlock value and recent developments.

Following the formal presentation comment was made by a trustee that the type of investing undertaken by DK was compelling and that they would like to see more of it. Mr. Failor noted that staff found the overflow funds attractive and had in fact signed up for a substantial commitment to SOF Fund V. However, this was Fund was pulled as DK no longer needed to offer funds in the rollover format and preferred the traditional hedge fund route. Ms. Levine confirmed this was the case and that they now focus on hedge funds and co-investments. There was some disquiet at the thought of making an investment in a single co-investment. Mr. Morris thought that a work a round could be a hybrid approach with a mix of hedge fund(s) and multiple co-investments. Discretion could also be delegated to the manager to select co-investments to avoid the administrative burden of due diligencing multiple co-investments. Mr. Failor noted that staff is always happy to bring ideas to the Committee that they and the consultant believe to be attractive from a risk/return and fee perspective and a "fit" for SCERA.

- B. Real Assets Portfolio Review – Senior Consultant Chris Behrns and Vice President Jack Dowd of Aon Townsend reviewed the structure of SCERA's Real Assets portfolio and possible alternative configurations.

Staff introduced the topic, noting that Chae Hong, normally our real estate point person, was not available so Jack Dowd would cover real estate too. It was noted that all classes are periodically reviewed but it seemed particularly appropriate to assess Real Assets at this time given the increased commitment to the asset class and the challenges surrounding the UBS Trumbull Property Fund. Mr. Behrns commenced the presentation by recapping the role of Real Assets, noting that the allocation was driven by the 2020 Asset-Liability study which concluded that the Plan was able to safely take on more illiquidity if we believed we would be adequately compensated for it. Real Assets were seen as a tool to diversify risk without sacrificing expected return and that they had characteristics of both Fixed Income and Equities.

Mr. Behrns noted that SCERA's policy allocation includes three Real Asset types, namely Real Estate, Farmland and Infrastructure. He listed some of the beneficial contributions that Real Assets provide to the Plan with an analysis of future expected returns and volatility showing how they correlate with other asset classes. To access the asset class you must be willing to lock up funds for a period which Mr. Behrns illustrated by a table showing the liquidity of various asset classes. He cautioned that the liquidity might not actually exist in times of stress if too many people are trying to exit at the same time.

Mr. Dowd then continued the presentation by diving into the market environment for the three real asset types. He commentated on six themes that Townsend sees driving global real estate - the evolution of the global supply chain, evolving work-life balance and working from home, the dislocation in select property types (Hotels and Retail), the emergence of niche property types, housing shortages & suburban migration and the impact of aging populations and related strategies. For Farmland, Mr. Dowd commented on current conditions for core row crops and permanent crops. He emphasized the importance of water rights in agriculture and noted that in the Western US the first quarter of 2022 was the driest on record. He concluded the market review with some general comments on infrastructure as well as some comments on regional issues.

Mr. Dowd continued with a review of how SCERA's real asset portfolio aligns with Aon's "best thinking". It was noted that in Real Estate SCERA has two managers with JP Morgan rated a "Buy" and UBS as "Qualified". A comparison of the two funds compared to the benchmark ODCE Index was presented along with some discussion on the redemption queue for UBS and their solution to facilitate client redemptions centering around the non-strategic assets. For Farmland, the existing manager is "Buy" rated as is the prospective new manager. For Infrastructure, all three core infrastructure managers are rated "Buy" and the complimentary nature of the three managers was illustrated by a table of characteristics. The presentation concluded with discussion on the Real Estate portfolio, where SCERA currently stands with UBS and possible alternatives should UBS be terminated. Aon and staff's view is to allow the UBS Trumbull Property Fund to remain in the Plan until the end of the 4-year fee discount commitment and then to re-assess the portfolio and potential scenarios at that time. There is currently limited ability to redeem from the Fund. The Board was supportive of this approach.

III. INVESTMENT STAFF AND CONSULTANT

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 nor see the meeting. Those attendees were re-connected to the meeting once the Committee 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 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.

B. Executive Session Report Out – Open Session

Vice Chair Erick Roeser stated there was no reportable action taken during closed session.

C. Annual Proxy Voting Report

Mr. Failor presented the annual proxy voting review for SCERA's equity managers. He noted that SCERA's proxy voting policy is to delegate and monitor and accepting that where SCERA invests through a comingled investment vehicle, we do not have input into the proxy voting process. He also noted that ISS is the dominant service provider for voting proxies but Glass Lewis is also a significant provider and is used by Systematic.

D. 2022 County Contribution & Cash Planning

Mr. Marsh showed the asset allocation of the Plan relative to policy noting that when the new policy is adopted the Plan will be back in-line with policy. This event will likely be triggered when KKR makes their next capital call. Given that KKR just made a substantial acquisition in a Spanish Telecom company, staff hopes that will be soon.

Staff also presented a synopsis of significant cash events expected over the remainder of calendar 2022, thanking the County Treasurer for prompt payment of the annual County contribution.

E. Tax Reclaims for Discontinued Accounts – brief update

Staff reported that all claims to be submitted by WTax had been submitted to the respective tax authorities and that so far, none had been queried. The first reclaim recovered, albeit rather small, related to an investment in Royal Dutch Shell.

F. GTA Babelfish Second Quarter 2022 Equity Trade Cost Analysis – brief review

Staff reported that the analysis showed that the unusually high intraday stock price movements for the first quarter continued into the second quarter. Despite the heightened stock volatility, staff reported that the analysis of trading showed nothing concerning.

IV. COMMUNICATIONS

- A. SCERA Investment Performance Report, June 2022.
- B. Axium Due Diligence Review Meeting Report, May 4, 2022.
- C. JP Morgan, "Eye On The Market", June 1, 2022.
- D. The Economist, "The pandemic has accelerated a global decline in the rule of law", June 7, 2022.
- E. The Economist, "The true cost of rising rates", July 14, 2022.
- F. Wall Street Journal, "Value Investors Bet Recent Market Leadership Is Just the Start", June 26, 2022.

V. 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.

VI. PUBLIC COMMENT

Opportunity was given 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 scheduled for Thursday, August 25, 2022, at 8:30 a.m. via WebEx. Planned topics for this meeting include a presentation by Arrowstreet.

VIII. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 11:39 a.m.

IX. APPROVAL

The above minutes from the July 28, 2022 Investment Committee meeting were approved at the Investment Committee meeting on August 25, 2022.

GREG JAHN, CHAIR