

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

Thursday, July 27, 2023
8:30 a.m.

Presiding: Erick Roeser, Vice Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini (arrived at 8:36 a.m.), Chris Coursey (left at 10:00 a.m.), Amos Eaton, Joe Tambe, Tim Tuscany, Brian Williams, and Bob Williamson; 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; John Lee (of Aon); Antoine Bisson-McLernon, Jeff Zweig, and Brian McDonald (of Fiera Comox)

Absent: Trustee Greg Jahn (Chair)

Public comments were solicited prior to the meeting by emailing Rebecca.Gay@sonoma-county.org. Members of the public that joined the Zoom meeting were provided opportunity to submit live public comment for each agenda item after the Committee and staff provided their comments.

I. MINUTES APPROVAL

Approval of the June 29, 2023, Investment Committee meeting minutes.

Recommendation: Approve the June 29, 2023, Investment Committee Minutes.

A motion was made by Trustee Tambe, seconded by Trustee Williamson, to approve the June 29, 2023, Investment Committee meeting minutes. The motion carried 7-0-0-2 with roll call voting as follows:

Mr. Balzarini	Absent
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. PRESENTATION

Fiera Comox – Partner & Chief Executive Officer Antoine Bisson-McLernon and Partner & Head of Asset Management Jeff Zweig, both of Fiera Comox, and Fiera Capital Assistant Vice

President of Institutional Markets Brian McDonald provided an organizational update, commented on the Farmland market and reviewed the performance and positioning of the Global Agriculture Open-End Fund (GAF) in which SCERA invests. Mr. Bisson-McLernon introduced himself and highlighted the 12 years the team at Fiera Comox has been working together. Mr. Zweig, who joined Fiera Comox last October, described his background in Timberland management, having led a Canadian timber company, and brings his extensive operational skills to the investment team. Mr. Bisson-McLernon then announced that SCERA can anticipate the entirety of the remaining capital commitment for the GAF to be called in the fall. SCERA's initial investment in the GAF was in October 2022. Given the short history the performance discussion was truncated.

Fiera Comox has added 22 employees in the past 18 months to its Agriculture investment team to support the growth in assets which currently totals \$1.5 billion in the GAF, the firm's flagship fund. The GAF's strategy emphasizes partnering with best-in-class local farmers. The farmers bring their farmland and local knowledge to the partnership while Fiera Comox brings additional capital to investment in the business and often additional farms or farmland. The local farmer acts as the CEO of the farmland operations in their vicinity and the GAF is the majority owner. This relationship building takes multiple years to foster but leads to very powerful results. Farmers require capital to expand farmland or invest in new cap ex projects. The additional capital from GAF is not typically something they can get from banks as banks are familiar with lending to buy farmland but don't generally lend for capital expenditures on existing farmland. Additionally, partnering with Fiera Comox provides a diversification benefit for a farmer's family wealth as they become smaller owners of a bigger more diversified farming operation.

Fiera Comox has 9 partnership networks that have completed over 50 acquisitions. Buying high quality land assets with good water rights, obtaining a low cost of production on a global basis to mitigate the risk of commodity price volatility, focusing on an own-and-operate model, and integrating sustainability practices are some of the main attributes of the fund's investment model. Also, diversification with a global lens allows access to different crops and commodities, climactic regions, trade regulations, and water ecosystems.

The pipeline of opportunities will decrease the exposure to US and increase the weight in permanent crops from current exposure of 42% outside US and 57% in permanent crops. Mr. Bisson-McLernon expressed confidence that these opportunities decrease portfolio risk due to the different supply/demand dynamics among permanent crops, whereas row crops tend to move together more closely. With Fiera Comox targeting smaller partners under \$100 million in size, plus more partners on the ground sourcing deals, the capacity to deploy capital increases so that targeting 100% deployment in nine to 15 months is achievable. Four new partnerships are well advanced and likely to close by 4Q2023. Opportunities under contract will add exposure to a new jurisdiction in Europe and a new resilient permanent crop that is non-correlated with other crops and with different end markets.

In summary, the trustees agreed that the reliability and downside protection of Farmland investments are favorable characteristics. In particular, Fiera Comox's partnership model and emphasis on relationship longevity were also viewed positively.

III. INVESTMENT STAFF AND CONSULTANT

A. Triennial Review and Updates to SCERA's Investment Policy Statement (IPS)

CIO Jim Failor gave an overview of the major changes and additions to the IPS, including the subsumption of the Proxy Voting Policy Statement into the IPS, the deletion of all references to the discontinued Equity Insurance Risk Premium strategy, the widened policy range for Real Assets from +/-3% to +/-5%, harmonizing guidelines for the Arrowstreet 130/30/20 strategy with IPS guidelines, updating the Securities Lending Program section to reflect the March 2023 approved changes, as well as other edits. Trustee Williamson inquired about whether the limitation on the use of derivatives and swaps in separate accounts is adequately covered in the IPS. CIO Failor responded that investment managers are given discretion to manage their exposure based on their own internal controls, and these instruments are commonly used to manage risk exposures as, for example, fixed income managers can use derivatives to manage duration. For separate account portfolios SCERA typically doesn't control the use of derivatives as much as they control higher level risk measures, like duration or sector exposures, which are affected by the use of derivatives.

Recommendation: Approve draft Investment Policy Statement as presented.

A motion was made by Trustee Tambe, seconded by Trustee Tuscany, to approve the draft Investment Policy Statement, as presented by staff. The motion carried 7-0-0-2 with roll call voting as follows:

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

B. Annual Proxy Voting Report; Manager Review, ISS Changes, Glass Lewis Changes

CIO Failor presented the annual report summarizing the proxy voting policies, actual votes, and exceptions/changes to the policy for SCERA's Equity managers. Of note, State

Street Global Management (SSGM), manager for the interim account, had been outsourcing proxy voting to State Street Global Advisors (SSGA), but as of July 2023 transitioned to ISS standard guidelines. SSGA, meanwhile, has adopted a customized proxy voting approach in which investors can choose to stay with SSGA's policy or choose to switch to any one of several ISS policies. SCERA has elected to stay with SSGA's policy which is similar to ISS's standard policy.

C. Educational Presentation on Private Debt – discussion regarding June presentation

John Lee, Partner at Aon Investments USA, recapped some of the main highlights of the Private Debt (PD) presentation given at last month's Investment Committee meeting to gather follow-up questions and feedback. Trustees felt that the low correlation aspect of PD was likely overstated even though it does appear to represent a different asset class. Additional concerns focused on the illiquidity and the longer lock-up periods of the PD fund structures. The consensus was that PD was not worthy of immediate inclusion in SCERA's portfolio but trustees agreed to keep it in the mix of strategies to be included in the Asset-Liability study scenario analysis.

D. 2023 Planning Session Agenda

CIO Failor provided a draft agenda for the Planning Session. In response to feedback from trustees at the June Investment Committee meeting, the asset class manager panels were shortened from 90 minutes and the four panels from the prior year have been broken up to make five smaller panels with 2 to 3 managers on each panel. Special speakers were also discussed which include an economist from Manulife and an expert on China. Staff is also working to get an additional special speaker for the second day of the Planning Session, so the agenda is not quite finalized.

E. 2023 County Contribution & Cash Planning

Investment Officer Mickey Nguyen gave an update on SCERA's cash position. As anticipated, the Plan received in early July the county contribution of \$56.4M, which includes the additional UAAL payment (unfunded actuarial accrued liability). Total Cash available for capital calls & payroll was \$104M as of July 18th. Today, \$11.4M was wired out for a capital call for Fiera Comox, leaving a remaining \$84M commitment for that Fund. As a reminder, once half of the original \$125M commitment is called, the Policy asset allocation target adjustments will be made to the IPS, which officially raises the Farmland allocation from 5% to 8%, reduces the Fixed Income allocation from 17% to 15% and Global Equity from 17% to 16%.

A noteworthy change to the cash ladder is the removal of the JP Morgan redemption request which was originally submitted in May 2022 when the Plan was overweight Real Estate. With the pullback in Real Estate and the rally in Equities the asset class weight is

near its target and the remaining \$27 million of the original \$36 million redemption request was rescinded on July 20th. Regarding the asset allocation, the Plan is currently underweight in Fixed Income (FI) which was affected by the enormous Equity rally (up 7% in June) versus essentially a flat FI performance. The Total FI portion now is at 15% which is the new target we will adopt after the next \$20M capital call from Fiera Comox.

F. GTA Babelfish Second Quarter 2023 Equity Trade Cost Analysis – verbal report

Ms. Nguyen discussed the results of the Global Trading Analytics (GTA) Babelfish report which provides a 2Q trading cost analysis for SCERA's three active US Equity managers. In summary, the quarter was very uneventful which is a good thing. The overall results showed a net benefit of 21bps, which is a measurement that incorporates the net market impact (VWAP benchmark) plus net commission. The last time SCERA registered a net benefit was in the 3Q 2019. Not surprisingly, this also coincides with a low VIX or market volatility. Systematic delivered the largest trading benefit but only represented 3% of total principal traded. Jacobs Levy continued to demonstrate their use of low-cost commissions.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for June 2023.

Ms. Nguyen summarized the Plan's performance in June. Equities staged a broad-based rally that lifted all boats as expected, so in general, Equity managers tracked their benchmark with large gains of 4-7%. Year-to-date, due to the narrow leadership in the Equity markets, SCERA's active managers continue to significantly lag their benchmarks. Core Fixed Income posted close to flat results, but the Guggenheim bank loan portfolio was up 6.3% YTD and 10.4% over the trailing year, highlighting the benefits of their floating rate instruments as the Fed raises rates. The Plan's total returns have exceeded the target policy returns for all of the trailing periods ending June 30th (1, 3, 5, 10, 15, and 20 years), a notable achievement.

B. Aon Flash Report, "PIMCO Core, Core Plus . . . Downgraded to Qualified", June 29, 2023.

C. Axiom Infrastructure Asset Profiles, July 2023.

D. The Economist, "The fight over working from home goes global", July 20th, 2023.

E. The Wall Street Journal, "China's Economy Might Look Good on Paper, but It Feels Like a Recession", July 14, 2023.

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 31, 2023, at 8:30 a.m. Planned topics for this meeting include a presentation by Parametric. All meetings are held at SCERA in the Board Room at 433 Aviation Boulevard, Suite 100, Santa Rosa, CA, and broadcast via Zoom unless otherwise noted.

VIII. ADJOURNMENT

With no further business to conduct, the meeting adjourned at 11:37 a.m.

IX. APPROVAL

The above minutes from the July 27, 2023, Investment Committee meeting were approved at the Investment Committee meeting on August 31, 2023.

GREG JAHN, CHAIR