

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

Thursday, August 31, 2023
8:32 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini (arrived at 8:33 a.m.), Amos Eaton, Erick Roeser (Vice Chair), Joe Tambe, Tim Tuscany, Brian Williams, and Bob Williamson; Chief Executive Officer Julie Wyne, Assistant CEO/Chief Legal Counsel Cristina Hess, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, and Administrative Aide Julia Smith; Chris Behrns and Phil Kivarkis (of Aon); Dan Ryan and Macki Anderson (of Parametric)

Absent: Trustee Chris Coursey

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 July 27, 2023, Investment Committee meeting minutes.

Recommendation: Approve the July 27, 2023, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Roeser, to approve the July 27, 2023, Investment Committee meeting minutes. 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. PRESENTATIONS

- A. Parametric – Portfolio Manager Macki Anderson and Relationship Manager Dan Ryan provided an organizational update and reviewed performance and the cash overlay service the firm manages for SCERA. CIO Jim Failor gave an introduction and background on the cash overlay strategy which also encompasses discretion to rebalance the portfolio towards policy targets using derivatives. The fees calculated for this service are based on the total notional value of the contracts used to overlay the cash.

Mr. Ryan summarized the performance of the overlay program and noted the net annualized return was 0.3% since inception and totaling an added value of \$79 million. The Plan's actual cash exposure averages around 4%, but with the overlay, the effective cash exposure is reduced to 0.06%. Parametric has over 35 years of cash management history and overlay \$131 Billion in assets. Mr. Ryan expressed appreciation for the partnership with SCERA that is nearing its tenth anniversary. He described the acquisition by Morgan Stanley (MS) in 2021 as an opportunity for Parametric to utilize MS resources for shared services, legal and risk management oversight, while maintaining an autonomous investment process. Additionally, new management leadership is underway this year as CEO Brian Langstraat prepares for retirement and transitions his role to Tom Lee and Ranjit Kapila, who will share co-president duties.

Mr. Anderson reviewed the beneficial aspects of utilizing a cash overlay program: a small amount of capital is required to enact broader changes due to the unfunded nature of futures contracts; investment managers' cash can be overlaid without interfering or encumbering the ability of the managers to use that cash balance; higher levels of cash can be held for operational needs without the impact of cash drag; and tracking error is improved. Even with the higher yields possible now for cash holdings, Mr. Anderson noted that he has not seen clients adding to their cash allocation. Alternatives are still an asset class that is challenging to overlay due to the lack of a proper benchmark from which an instrument can be built.

- B. Second Quarter 2023 Investment Performance Report – Associate Partner Chris Behrns of Aon Investments presented.

CIO Failor informed the Board of the recent departure of John Lee, Partner at Aon Investments USA, who had been on SCERA's account for over a decade and so brought with him the valuable benefit of institutional memory. Mr. Failor believes Aon will continue to provide strong and consistent client service under Chris Behrns and Tim Pflugradt and extended Senior Partner Steve Voss's offer for senior management to visit SCERA's Board in-person periodically, perhaps annually, to keep communication open. Investment Committee Chair Jahn felt that the Board has high confidence in SCERA's

existing team coverage and that the offer was not necessary.

Mr. Behrns provided a review of the market and commented on economic conditions for the second quarter of 2023. SCERA's exposure to Equities which had a strong quarter, and less of a weighting toward Fixed Income which generally posted negative returns, resulted in a beneficial mix. In Real Assets (posting first quarter results), Real Estate was the main drag on performance, and in the passive index funds under the Rule-of-Law initiative, performance has been enhanced by excluding China investments. Reams outperformed due to credit spreads that have narrowed over the past quarter as corporate bonds gained more than Treasuries. The Plan's 10-year return of 8% after fees is 30bps better than the policy return and outperforms 86% of other peers.

C. Aon Asset-Liability (A-L) Study Results – Phil Kivarkis, Partner & US Director of Investment Policy Services, presented on the following topics:

1. Portfolio Analysis—portfolio construction can benefit from diversification
2. Asset-Liability Projection Results—as Plan finances are healthy and assets are poised for growth, consideration toward a less risky portfolio mix in 5-10 years, if the funded ratio is comfortably above 100%, is possible
3. Liquidity Analysis—even in the most pessimistic scenarios, the Plan has more than enough liquidity to handle cash needs

Mr. Kivarkis detailed the proprietary A-L mechanics tool that runs Monte Carlo simulations, the global team's development of capital market assumptions, and Moody's CMA model using variable correlations that all together create the model driving the A-L Study results. He summarized the current state of the A-L profile which indicates that if all assumptions come true the funded ratio should grow 1.04%/year and in approximately 8 years the Plan could be fully funded. With the recent County salary adjustments, the funded ratio dropped to 90.2%, so the new estimate extends the timeframe to 10 years to reach a fully funded status but does not alter the picture substantially.

The current portfolio policy construct is 88% return-seeking (R-S), and when adding Private Debt (PD) at a 5% weight, reducing Public Equity by 6% and increasing Core Fixed Income by 4%, the overall expected portfolio volatility is reduced while maintaining the same expected return. Net outflows are projected to remain in a stable 1-3% range over a 20-year period, so those forecasted numbers point to a healthy average lifetime of 33 years for the Plan.

The liquidity analysis demonstrated that even in worst case “dark skies” scenarios, a more diversified (84% R-S) portfolio constructed with PD would result in the illiquid portion of the portfolio rising to 41% maximum, thereby suggesting that 5-10% more in illiquid diversifiers can be added to SCERA's Plan with no expected cash flow problems. A

trustee requested further analysis focusing on how current portfolio asset classes can be reweighted to achieve a similar effect instead of adding a new illiquid asset class. Other trustees asked what other illiquid alternatives were possible besides PD. Maritime ship leasing, private equity, and timberland were also mentioned as possibilities.

III. INVESTMENT STAFF AND CONSULTANT

- A. Report Out from May 25, 2023, Executive Session – Closed session pursuant to Government Code Section 54956.9(d)(1) regarding litigation, Iowa Public Employees' Retirement System, et al. v. Bank of America, et al.

Chief Legal Counsel Cristina Hess announced the proposed \$499 million partial settlement filed on August 23, 2023, for the aforementioned class action lawsuit. Part of the settlement agreement involves EquiLend, the joint venture owned by the defendant financial firms, adopting reforms related to its Board composition, outside antitrust counsel and developing a code of conduct aimed at anti-collusion practices. Credit Suisse had settled previously for \$81 million, and litigation against Bank of America continues. Morgan Stanley, Goldman Sachs, UBS, and J.P. Morgan Chase & Co. deny any wrongdoing with this settlement, which still must be approved by the court.

- B. 2023 Planning Session

1. Updated Agenda
2. Panel Seeding Questions

CIO Failor informed the Board that a third presentation has been added to the draft agenda for the Planning Session on the topic of Timberland investing and would be delivered by Jeff Zweig, Partner at Fiera Comox. The trustees were supportive of the updated agenda. After reviewing the panel seeding questions which were compiled with the assistance of Aon, the trustees were satisfied with the subject matter addressed by the seeding questions.

- C. Fiera Comox Capital Calls & Cash Planning – verbal update

Investment Officer Mickey Nguyen reviewed the cash balance earlier in the week that totaled \$79.5 million, but due to end of month activity not reflected, including \$18 million for payroll, \$4.5 million of additional county contributions and a distribution, the updated total cash balance is around \$66 million currently.

Ms. Nguyen announced that the remaining \$84 million balance of the total commitment in the Fiera Comox Global Agriculture Fund is likely to be called in early October. In accordance with that schedule, a cash raise of \$90 million in September is planned to cover not only this capital call but also the next 5 months of payroll. With the anticipation that SCERA will be fully invested in Fiera Comox, the policy weights for Core Fixed Income

(FI), Farmland and Global Equity will be adjusted at the end of September. The actual FI weight is already at the adjusted policy weight of 12% for Core and 15% for Total FI. The policy weight for Farmland will be raised from 5 to 8%, which means the Total Real Assets policy weight will increase from 23% to 26%. After the additional \$84 million is added to Farmland, the actual weight in Real Assets is estimated to be above 27%.

For the cash raise, \$60 million will likely be trimmed from the US Equity allocation and the remainder from the SSGM interim account, which had been earmarked to provide for the partial source of funds for the Fiera Comox investment. The intent after reaching this point was to move the remainder of the Interim account into the passive SSGA Global Equity index fund. Transitioning to the passive strategy will result in a fee savings of approximately 5-6 bps per year. Staff is aiming to transact both the cash raise and the fund transition with SSGM in late September.

D. Updated 2023 On-Site Due Diligence Schedule

CIO Failor and Investment Officer Nguyen will be traveling to Boston for due diligence on Arrowstreet and State Street (Non-Custody) which includes index management, securities lending, and transition and interim management.

E. Due Diligence Meeting Reports

1. Aon Investments

CIO Failor discussed staff's views on the valuable general investment consultant relationship SCERA maintains with Aon. Stretching close to 25 years, Aon provides a comprehensive suite of services that is enhanced by its acquisition of Townsend, whose expertise is especially integral to managing SCERA's Real Assets investments. Although certain manager research conclusions reflect different viewpoints than internal staff would reach, the overall depth of advisory capabilities is unmatched by peers.

2. Townsend

In addition to comments within Aon's due diligence report, CIO Failor discussed attributes of Townsend's consulting team. In particular, the resources supporting Real Estate, Infrastructure, Agriculture (Farmland) and Timberland are of great value to SCERA investments, and staff feels the teams are producing high quality output.

3. Parametric

Ms. Nguyen highlighted the similarities between Parametric and Reams' histories of mergers and acquisitions under new ownership which has brought each of them under the umbrella of much larger organizations recently. In staff's opinion, this speaks to the uniqueness and value of each firm's specialized product. Specifically, Parametric is

uncontested in its cash overlay product, and staff is particularly satisfied with the stability of the offering and customization and detail of the daily reporting. Integration with MS is ongoing and will be monitored.

4. Reams

Ms. Nguyen highlighted the solid relative outperformance Reams has delivered for over 20 years. With the migration of the firm's headquarters to Indianapolis complete, the ability to attract high quality talent to grow and enhance their investment processes is apparent. The core leadership and investment team remain stable, and new hires to the team appear a good fit.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for July 2023.

The Total Plan return for July was 2.48% vs. the policy return of 2.24%. YTD the Plan has gained 9.85%. Equity markets again continued their climb, rising around 4% for the month. Relative outperformance was seen from Jacobs Levy and Dodge & Cox, but YTD relative returns are lagging. On July 3rd, SCERA transitioned from the Arrowstreet 130/30 to the 130/30/20 strategy. Performance for the first month was subpar returning 1.86% versus 4.2%. FI was a mixed bag with DoubleLine underperforming and PIMCO outperforming, each by around 25 bps. Real Asset manager second quarter returns were booked in July. Real Estate continues to be the major drag with market value declines mostly in office properties. The negative returns from RE were offset with positive Farmland and Infrastructure returns, so the Total Real Assets portfolio gained 0.88% for the month.

B. FUNDfire, "Aon Faces 'Tough Facts' in Pennsylvania Pension Lawsuit", August 3, 2023.

C. Insider, "AI is going to eliminate way more jobs than anyone realizes", August 14, 2023.

D. The Daily Hold, "\$57 B Added to US Debt in 4 Days . . .", 07.23.2023.

E. The Wall Street Journal, "Brics Nations at Odds Over Adding to Their Number", August 21, 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, September 28, 2023, at 8:30 a.m. Planned topics for this meeting include a presentation by UBS AgriVest. 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 12:00 p.m.

IX. APPROVAL

The above minutes from the August 31, 2023, Investment Committee meeting were approved at the Investment Committee meeting on September 28, 2023.

GREG JAHN, CHAIR