

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

Thursday, September 28, 2023  
8:30 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini (arrived at 8:40 a.m.), Amos Eaton, Erick Roeser (Vice Chair), 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; Chris Behrns and Tim Pflugradt (of Aon); Jim McCandless, Dan Murray, Erik Roget, Mark Van Elswyk, and Tom O'Shea (of UBS)

Absent: Trustee Chris Coursey

Public comments were solicited prior to the meeting by emailing [Rebecca.Gay@sonoma-county.org](mailto: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 August 31, 2023, Investment Committee meeting minutes

**Recommendation:** Approve the August 31, 2023, Investment Committee Minutes.

A motion was made by Trustee Williams, seconded by Trustee Williamson, to approve the August 31, 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. PRESENTATION

UBS Farmland Investors – Jim McCandless, Head of Farmland US and Co-CIO, Dan Murray, Co-CIO & Head of Asset Management, and Erik Roget, Western Region Director, provided an organizational update and reviewed the agriculture market as well as performance and positioning of the AgriVest Farmland Fund (AFF) in which SCERA invests. Mr. McCandless gave an overview of AFF which has over \$1B in assets and 61 investors, in addition to three separately managed accounts. Investments are all equity using no debt, other than a revolving line of credit for acquisition funding. In response to concerns about Chinese acquisition of farmland, he responded that they had not seen any transaction activity of that nature. The portfolio composition is beginning to approach the 20% target on permanent crops with the acquisition of the McCurdy Orchards pistachio property, bringing permanent crops to 19% as of June 30, 2023.

Mr. Murray addressed the performance attribution that has been affected by AFF's underweight in the Corn Belt region where the Fund holds two farms. One is irrigated, not dryland, so there have not been many comparable property transactions, although one occurred recently which increases the value of this farm over \$1M. Additionally, profitability in the region is projected to turn negative in stark contrast to the previous 2 years. With government payments declining, high prices and rents not keeping up, Mr. Murray feels comfortable maintaining the underweight.

In the Pacific Northwest, 200 acres of new commercial production started up this year, adding more income and higher rents for investors. They have a pending sale in Idaho of a row crop farm with higher capital expenditure requirements than they are comfortable with, and a local farmer offered a good premium to the carrying value. Mr. Roget provided information on the acquisition of McCurdy Orchards, which has the best water rights in a great water district in California and extremely good production. Water conditions in California have improved dramatically from last year, completely reversing the drought monitor map. Water updates in Arizona and implementation of Sustainable Groundwater Management Act (SGMA) were also discussed.

Farmland investing is gaining more interest with the inflationary protection it provides. More robust financing options from Farmer Mac in the form of very low rates partially insulates farm operations from current high rates. The Russia-Ukraine conflict also had only a temporary impact on wheat prices due to the global nature of this commodity. In fact, expansion of production capacity in Brazil, Argentina and Russia has brought wheat prices down to a level lower than before the war. Mr. Murray surmises this would not have been the case 20 years ago.

Trustees expressed some concern about AFF's relative underperformance to their core farmland benchmark, how the benchmark is determined, and uncertainty about future water rights. These concerns were balanced with preference for the fund's stability and risk adjusted returns and absolute performance above the Plan's assumed rate of return.

### 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, Swiss Bundesverwaltungsgericht Administrative Appeal Case Reference B-2189/2023.

Chief Legal Counsel Cristina Hess reported out that SCERA has withdrawn as a participant in the litigation against the Swiss Financial Market Supervisory Authority (FINMA) challenging the write-down of the Credit Suisse Additional Tier 1 (AT-1) instruments. As a result, PIMCO, the investment manager who held these bonds in SCERA's account, instructed the law firm of Quinn Emanuel Urquhart & Sullivan, LLP to make a filing to the Swiss Administrative Court to finally and permanently withdraw SCERA from the FINMA litigation. That filing is expected to be made on September 21, 2023. This withdrawal filing (i) will preclude the withdrawing entity/entities from later challenging FINMA's write-down decision in Switzerland under Swiss administrative law; (ii) will prevent the withdrawing entity/entities from re-joining the FINMA litigation in the future; and (iii) may prevent the withdrawing entity/entities from receiving any recovery in connection with the FINMA litigation if the challenge is ultimately successful.

- B. Aon Asset-Liability Study, Additional Analysis – Associate Partner Chris Behrns and Investment Consultant Tim Pflugradt, both of Aon Investments, presented.

1. Additional Scenario Analysis

After Aon presented the results of the Asset-Liability Study at the August Investment Committee meeting, additional modeling of three scenarios was undertaken: adding 5% to Private Debt, adding 5% to Timberland, or adding more to the existing Real Assets portfolio. The Trustees were also queried as to whether they thought the priority of additional scenarios should be to enhance return or reduce risk or, possibly, both. CIO Failor discussed his hesitancy to draw strong conclusions from the modeling due to the higher assumed return given to Private Debt versus Global Equities. That dynamic is not supported historically over long time periods. He also noted the closeness of the results for the three alternatives and that, with all due respect, forecasts of future returns are by definition not particularly accurate.

Regarding the Timberland alternative, one trustee commented that they would want to understand the environmental issues surrounding such investing before taking further steps. Some trustees leaned toward a focus on enhancing returns while others were satisfied with the portfolio construction as is and felt the effort to make the adjustments are not going to result in sizeable benefits. One trustee spoke very favorably on Infrastructure and would support increasing that exposure. CIO Failor added that SCERA's Real Estate portfolio and allocation will be reviewed at the upcoming November Investment Committee meeting.

2. Other Illiquid Assets

Mr. Pflugradt covered general characteristics of illiquid asset classes as an educational overview. These included Infrastructure, Real Estate, Private Equity, Private Debt, Farmland and Timber. CIO Failor asked whether Aon would be adding more Buy-rated Private Debt managers to which Mr. Behrns noted that Aon, on average, has been approving two new funds per year. It was also noted that Aon's perspective is that Timberland is not currently particularly attractive.

With the understanding that the Plan's portfolio construction is strong as affirmed by the A/L study results, the Board consensus was to not pursue Private Debt and that no significant change was needed at this point in time.

C. SCERA's General Investment Consultant Contract

1. California Public Plan Investment Consultant Survey

Investment Officer Mickey Nguyen reviewed the results of a staff survey sent to over 20 California public plans. The responses revealed that most plans spend 1-2 bps of Plan assets on consultant fees which includes both general and alternative assets consulting services. Most contracts average 4-year terms with 3 plans using evergreen contracts. SCERA stands out as a less "complex" plan with no private equity or private debt investments versus peers, but SCERA also spends less on consulting fees versus the average plan. Verus has the largest representation for both general and alternative consulting relationships. And not surprisingly, Aon Townsend has a sizable footprint in real estate consulting.

2. Consideration of Investment Consultant Search

CIO Failor reviewed the memorandum detailing the long-standing history of SCERA's consulting relationship with Aon, SCERA's Procurement and Service Provider Selection Policy, staff's recommendation not to initiate an RFP search and the comprehensive annual review of services rendered. Although some Board members felt the Aon consultants should not be present for the review of their performance and capabilities, others stated that the discussions are open to the public regardless of who is in attendance. Board Chair Greg Jahn expressed a high level of confidence in Aon and did not believe a search was warranted. After thorough discussion, the consensus was to not pursue a consultant search but to continue the consulting relationship with Aon, assuming acceptable business terms could be obtained.

**Recommendation:** Committee to consider, per the Plan's Procurement and Service Provider Selection Policy, whether to initiate a Request for Proposal (RFP) for investment consulting services.

A motion was made by Trustee Tambe, seconded by Trustee Roeser, to pursue a new consulting contract with Aon Investments, contingent upon negotiation of acceptable business terms. The motion carried 8-0-0-1 with voting as follows:

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

3. Annual Review of the Aon Investment Consulting Services

D. Investment Policy Statement (IPS) – Updates regarding securities lending, performance benchmarks

CIO Failor summarized the IPS changes which included securities lending guideline changes to be more consistent with the operational practices of State Street, the addition of details regarding the construction of the Plan's Target Policy Benchmark, and documentation of the adoption of the asset allocation changes relating to the recent completion of the funding of the commitment to the Fiera Comox agriculture fund.

**Recommendation:** Approve the amendments to the Investment Policy Statement.

A motion was made by Trustee Eaton, seconded by Trustee Williamson, to approve the amendments to the Investment Policy Statement as drafted. The motion carried 8-0-0-1 with voting as follows:

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

E. Fiera Comox Capital Call – verbal update

The final capital call for Fiera Comox Global Agriculture Fund will be wired on October 4

for approximately \$84 million to fund the acquisition of a large olive oil producer in Portugal and Spain. With this contribution, SCERA will have the entirety of the \$125 million commitment invested.

F. September 2023 Cash Raise

Ms. Nguyen detailed the \$90 million cash raise initiated on September 12 to fund the Fiera Comox capital call and payroll: \$12 million from Core Fixed Income, \$49 million from US Equity, and \$29 million from SSGM Interim Global Equity. The resulting asset allocation as of September 26 shows a significant 2.8% overweight in Infrastructure and a 2.1% underweight in Total Equities.

G. Transition of Interim Global Equity Account to SSGA Index Strategy

CIO Failor summarized the Post-Transition Implementation Shortfall Analysis report produced after the conclusion of the Global Equity accounts transition. The total cost incurred was \$143,081 or 6.65 bps, almost all of which were commissions and taxes/fees with less than expected market impact cost. Overall cost came in below the pre-trade estimate of 7.73 bps.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for August 2023.

Ms. Nguyen highlighted the broad pullback across equity markets in August with most managers reporting 2-3% declines. On a relative basis though, Arrowstreet and Systematic outperformed their benchmarks by a good margin. The only account to report a positive absolute return for the month was the Guggenheim Bank Loan portfolio.

B. Pensions & Investments, "Inside the \$499 million lawsuit . . .", September 5, 2023.

C. Wall Street Journal, "Higher Interest Rates Not Just for Longer, but Maybe Forever", September 21, 2023.

D. The Economist, "America's plan to cut drug prices comes with unpleasant side-effects", August 29, 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 items.

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, November 16, 2023, at 9:00 a.m. Planned topics for this meeting include a presentation by Reams. 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 11:54 a.m.

IX. APPROVAL

The above minutes from the September 28, 2023, Investment Committee meeting were approved at the Investment Committee meeting on November 16, 2023.

GREG JAHN, CHAIR