

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

Thursday, November 16, 2023
8:34 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, 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, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith; Chris Behrns (of Aon); Clark Holland and Neil Aggarwal (of Reams); Jack Dowd (of Aon Townsend)

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.

It was brought to the attention of the Committee that a time sensitive item needed to be added to the agenda for Board approval. The Audit Committee had a recommendation for a decision to be made by the majority of the full Board. As a Board meeting will not be held in November and the Investment Committee is comprised of all members of the Board, a motion was made by Trustee Williams, seconded by Trustee Balzarini, to add the item to the Investment Committee agenda. 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

Recommendation: Approve a contract with Brown Armstrong for auditing services.

A motion was made by Trustee Eaton, seconded by Trustee Williamson to adopt the recommendation of the Audit Committee and approve a contract with Brown Armstrong for auditing services. 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

I. MINUTES APPROVAL

A. September 28, 2023, Investment Committee Meeting Minutes

Recommendation: Approve the September 28, 2023, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Tambe, to approve the September 28, 2023, Investment Committee meeting minutes. 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

B. October 11 & 12, 2023 Planning Session Minutes

Recommendation: Approve the October 11 & 12, 2023, Planning Session Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Balzarini, to approve the 2023 Planning Session minutes. 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

II. PRESENTATIONS

- A. Reams – Clark Holland, Portfolio Manager, and Neil Aggarwal, Portfolio Manager and Head of Securitized Products, provided an organizational update and reviewed the fixed income market, account performance and portfolio positioning. Mr. Holland highlighted the promotion of Todd Thompson to deputy CIO and Dimitri Silva to Managing Director. These changes are natural and evolutionary as, for example, Mr. Thompson has been a member of the investment team for 23 years and has served informally as the deputy CIO for some time.

Turning to investment themes, Mr. Aggarwal discussed drivers that have pushed mortgage-backed securities (MBS) spreads to historical levels once the Fed pivoted to quantitative tightening 18 months ago, after 15 years of buying over half of the mortgages issued annually. Agency mortgage spreads were so low then that Reams did not hold any mortgage positions. However, since the start of 2022 with the removal of Fed and bank purchases, MBS prices are depressed and valuations very attractive. As a result, Reams is heavily positioned in this sector in their Core and Core Plus strategies. Mr. Holland discussed the modestly long duration exposure in the portfolio in response to real yields reaching above 2% for the first time since 2008. SCERA's account performance was negatively impacted by the sharp rise in rates in the third quarter but, over the last 12 months, the net return of 3% versus 0.64% for the benchmark is favorable. Over 5 years, the manager has delivered a very strong 240 basis points of outperformance, annualized.

After the formal presentation concluded, the Board discussed the performance disparity between SCERA's core fixed income managers, with PIMCO and DoubleLine delivering more benchmark-like returns versus Reams' top quartile ranking.

- B. Third Quarter 2023 Investment Performance Report – Associate Partner Chris Behrns of Aon Investments, presented. Mr. Behrns gave an overview of the weak markets over the past quarter due to the Fed's perceived stance that rates would stay "higher for longer" as strong economic reports provided little reason for rate cuts. Infrastructure, Farmland, and Bank Loans were positive highlights. SCERA's active management delivered outperformance versus the policy benchmark, and peer group rankings show SCERA's results are comparing well.
- C. Real Estate Portfolio Review – Jack Dowd, Vice President with Townsend, an Aon Company presented on the following topics:
1. Real Estate Market Environment—Cap rates have been rising for retail and office

while apartment and industrial have bifurcated because these two property sectors have exhibited strong net operating income (NOI) growth, offsetting declining capital values. Commercial real estate (CRE) transaction activity has contracted an astonishing 55% year-over-year, making it difficult for market values to reset. Mr. Dowd covered several investment themes affecting real estate sectors from ecommerce penetration to emerging niche property types. Comparing the current CRE cap rate to the 10-yr Treasury rate demonstrates the unusual state of CRE valuation, which historically maintains a 1.5-2% spread premium. As of Sept. 30, 2023, however, this spread is a negative 25 bps. In a down cycle, the cap rate could end up at 5-5.5%, which would imply a further double-digit decline in property values.

2. SCERA's Real Estate Portfolio Structure

Aon Townsend supported the continued investment with JPMorgan Strategic Property Fund due to its broad beta exposure and the capabilities of the real estate investment team and platform.

3. UBS Trumbull Property Fund (TPF) Discussion & Next Steps

Mr. Dowd commented that the 25 bps of fee savings from the "Loyalty Discount" does not compensate for the ongoing performance lag and that Aon Townsend believes TPF has unresolved issues with the platform. They also acknowledge that, if we were to redeem from this open-end fund, the return of capital will take several years to complete due to the large redemption queue and the dearth of transactions. However, they view this as advisable and a reasonable course of action and suggest we could redeploy the funds over time as distributions are received.

Mr. Dowd submitted two alternatives for consideration if TPF were removed from the portfolio: The first would be to hire a new Core manager with a 40% weighting and a new Core Plus manager at a 20% weighting. The second option would be to simply replace TPF with a new Core manager at the same 50% weight. When offered the opportunity to meet with the TPF team again before making a final decision the trustees declined as they felt they had the necessary information to make an evaluation. CIO Failor expressed confidence in the Townsend team and their recommendation and their ability to advise on the structure of the real estate portfolio. While he acknowledged that the Plan's real estate portfolio has had problems and that Aon was a party to the contributing structure and manager line-up, he believed they now have a significantly deeper and stronger real estate consulting team since the acquisition of Townsend. Because of this, he also expressed confidence in their ability to advise on a modestly more aggressive real estate portfolio structure.

A motion was made by Trustee Tambe, seconded by Trustee Balzarini, to direct staff to initiate a full redemption from TPF in January 2024, after the loyalty fee lockup period had ended, and to begin the process of restructuring the Plan's Real Estate portfolio. 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

III. INVESTMENT STAFF AND CONSULTANT

A. Aon Investment Consulting Contract

Recommendation: Approve the new Aon investment consulting contract and fees, as detailed.

A motion was made by Trustee Eaton, seconded by Trustee Williamson, to approve the new Aon investment consulting contract and fees, as detailed. 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

B. 2023 Planning Session

1. Cost Review
2. What Worked and What Didn't – The discussion touched upon the trending high cost of producing the event, renaming the event, and positive feedback on the seeding questions and polling software. Gordon Chang and Frances Donald were highlights, and there was a suggestion that paying more for higher caliber speakers,

like them, was appropriate. CEO Julie Wyne explained the rationale for the use of the Plan assets to fund the event due to its educational value for the trustees and public. There was supportive consensus on the venue and length of panel sessions.

3. Timberland Investing – The Board remained interested in studying the potential opportunity with the next step hearing from Aon Townsend's Kevin Rivchun who specializes in agriculture and timberland strategies.

C. Due Diligence Meeting Reports

1. Arrowstreet

CIO Failor summarized staff's observations from the Boston due diligence trip in October. A long conversation was had with CEO Tony Ryan who demonstrates good leadership skills, which is reflected in how well run and thoughtful the entire organization operates. In contrasting Arrowstreet with other managers, in the view of staff, many investment firms are not well managed. Investment Officer Mickey Nguyen commented on the partnership structure that ignites strong loyalty among high caliber employees. Especially considering today's tight labor market, the skillset that Arrowstreet recruits for is difficult to obtain and potentially even more difficult to retain. One area that staff feels is less stellar is their client service which is merely adequate, but staff has no concerns regarding this manager.

2. State Street Non-Custody Services

Investment Officer Nguyen reviewed the various business lines used by SCERA including Index Management (State Street Global Advisers / SSGA), Prime Services (formerly Enhanced Custody), Securities Lending (State Street Securities Finance / SSSF) and Transition & Interim Management (State Street Global Markets / SSGM). Ms. Nguyen commented on the notably high turnover in the leadership ranks at SSGA. Two client service staff covering SCERA's account had recently departed from SSGA and SSGM. Other comments included the new headquarters in Downtown Boston which coincides with a new 4-day in-the-office hybrid schedule. Recent utilization of the Transition Management service provided a "live demonstration" of the unit's capabilities to manage the trading with minimal tracking error, expense and market impact. Changes to SCERA's securities lending program were implemented recently with participation in the Direct Access Program and the replacement of the Navigator Fund for cash collateral with the Compass Fund, producing additional yield (30-40 bps higher). Based on the short period since these enhancements were made it appears they are raising the earnings from the program. In conclusion, State Street continues to provide a consistent standard of service and staff has no general concerns.

- D. SCERA's Rule of Law Investment Guideline – update / World Justice Project video.

The Board opted to cancel the video portion of this agenda item due to time constraints.

IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for September 2023.
- B. JP Morgan Client Letter Regarding Strategic Property Fund Personnel Updates, November 9, 2023.
- C. Reams Client Letter Regarding Personnel Updates, October 2, 2023.
- D. Bloomberg, "Worst US Bond Selloff Since 1787 . . .", October 8, 2023.
- E. Bloomberg, "Florida's Battered Orange Growers Are Cashing In . . .", October 16, 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, January 25, 2024, at 9:30 a.m. Planned topics for this meeting include a presentation by the UBS Trumbull Property Fund investment team. 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 12:10 p.m.

IX. APPROVAL

The above minutes from the November 16, 2023, Investment Committee meeting were approved at the Investment Committee meeting on January 25, 2024.

GREG JAHN, CHAIR