

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

Thursday, April 25, 2024

8:33 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Amos Eaton, Joe Tambe, Mark Walsh, and Bob Williamson; Chief Executive Officer Julie Wyne, Assistant CEO/Chief Legal Counsel Cristina Hess, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, Finance and Retiree Services Manager Cheryl Enold, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith; Aleph Granados (of State Street Global Services); Sonya Park (of State Street Global Advisors); Chris Behrns (of Aon)

Present via

Zoom: Joseph Rooney and Rudy Concepcion (of State Street Global Services); Sarah Kirschbaum (of State Street Global Markets); and John Powell (of State Street Securities Finance)

Absent: Trustees Travis Balzarini, Chris Coursey, Erick Roeser (Vice Chair), and Brian Williams

I. MINUTES APPROVAL

March 28, 2024, Investment Committee Meeting Minutes

**Recommendation:** Approve the March 28, 2024, Investment Committee Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Eaton, to approve the minutes of the March 28, 2024, Investment Committee meeting. The motion carried 5-0-0-4 with voting as follows:

|                |        |
|----------------|--------|
| Mr. Baker      | Aye    |
| Mr. Balzarini  | Absent |
| Mr. Coursey    | Absent |
| Mr. Eaton      | Aye    |
| Mr. Jahn       | Aye    |
| Mr. Roeser     | Absent |
| Mr. Tambe      | Aye    |
| Mr. Williams   | Absent |
| Mr. Williamson | Aye    |

## II. PRESENTATION

State Street Bank and Trust Company presenting

- A. State Street Global Services – Vice President Aleph Granados and Vice President Joseph Rooney, provided a company overview and reviewed the custody and performance measurement services provided. From a client relationship standpoint, the team that services SCERA is responsible for covering several other California county pension plans and so can leverage that experience to address issues and provide relevant resources as needed. State Street uses a hub and spoke model with onshore and offshore teams with primary hubs in Boston, Kansas City and Sacramento. T+1 implementation progress, cybersecurity, and concerns about lack of competition among global custody firms were topics of discussion.
- B. State Street Global Markets – Vice President Sarah Kirschbaum reviewed transition and interim management. The depth of knowledge and experience within the Portfolio Solutions group contribute to cost-effectively managing the complexity involved in transitioning a legacy to a target portfolio. Exposure Solutions provides a temporary means for maintaining market exposure over an interim period while minimizing transactions and transaction related costs. The only fees incurred are commissions for the initial rebalancing to reduce tracking error and the commissions at the end on the interim period when the portfolio is transitioned, potentially, to a new manager. SCERA completed the transition of the former Hexavest account to the SSGA ACWI IMI Rule-of-Law index strategy in September 2023.
- C. State Street Global Advisors – Managing Director Sonya Park, reviewed the firm's index management services and performance for the index funds in which SCERA invests. It was noted that SSGA now offers an Investor Voting Choice Program allowing clients to direct their proxy voting in line with one of 8 Institutional Shareholder Services (ISS) policies or opt to vote in accordance with SSGA's standard policy. Trustee Eaton requested further information on how shareholder proposals are reviewed, and proxy votes are cast. CIO Failor explained that staff maintains an understanding of the philosophies underlying the proxy policies, but the volume of ballots makes it impractical for SCERA to vote each individually. Instead, SCERA schedules an annual review of each managers' proxy guidelines, how votes were cast and an exceptions report. Summaries of ISS and Glass Lewis proxy voting policies will be distributed to the Board in advance of the annual manager proxy vote report expected in August.

SSGA manages close to \$1B for SCERA. Ms. Park highlighted the \$2.2MM (17 basis points) saved over the 12-year history of trade activity. These "zero cost" trades represent unit crosses with other clients or crossing securities between funds, thereby avoiding open market execution. CIO Failor also mentioned the value of SSGA's plug and play capability that allowed for the implementation of SCERA's Rule-of-Law guideline.

- D. State Street Securities Finance – Vice President John Powell, discussed the securities lending services program the firm manages for SCERA. Changes that were put in place in the third quarter of 2023 have resulted in an uptick in revenue from the program that is projected to almost double from last year. This additional revenue is partly due to investing cash collateral in a more traditional money market-type fund that can extend maturities out more (weighted average maturity of 15.7 days) versus an overnight government money market fund. Mr. Powell discussed indemnification against borrower default, non-cash collateral margin protection, and T+1 preparation.
- E. State Street Global Services (Prime Services) – Vice President Rudy Concepcion, reviewed the platform used for the Jacobs Levy 130/30 account. Enhanced Custody was recently rebranded to Prime Services, has 70 clients globally, and covers the borrower side of securities lending (opposite from Agency Lending), allowing for managers to utilize a custody account instead of a margin account for prime brokerage services. Jacobs Levy is very cost sensitive, technologically savvy and aims to run their book as efficiently as possible to maximize returns, and State Street is not their only prime broker. It was noted that Jacobs Levy is comfortable with State Street's Prime Services platform and feels it is competitive. SCERA's previous experience with Credit Suisse's prime brokerage service and self-borrowing were also briefly covered.

CIO Failor, Investment Officer Nguyen and Finance and Retiree Services Manager Cheryl Enold made concluding remarks regarding the challenges of booking private market assets for custodians and gradual improvements that have been achieved since staff transitions were made last year.

### 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 anticipated litigation. While the meeting was closed, those attendees exited to the physical lobby or were placed into the Zoom virtual lobby by the Zoom host and did not hear nor see the meeting. The Zoom screen indicated that the attendees were in the lobby and, if still present, were re-connected and/or re-admitted to the meeting once the Board returned to open session.

#### A. Executive Session

Executive Session. Meeting closed pursuant to Government Code Section 54956.9(d)(4) to confer with legal counsel – anticipated litigation Foreign Exchange Benchmark Rates (Antitrust) Claims.

The Investment Committee moved out of Executive Session and reopened the meeting to all attendees that were placed in the physical or virtual lobby during the closed session period.

#### B. Executive Session Report Out

Chair Jahn stated no reportable action was taken during Executive Session.

- C. Equity Portfolio Structure Review – Associate Partner Chris Behrns of Aon Investments presented on The Role of Equity, Aon’s Best Thinking, Regional Allocations, Benchmarks, and Active vs Passive. Three key takeaways were emphasized. SCERA’s equity portfolio has a heavier allocation to non-US stocks compared to the broad global index due to the static ratio of the allocations to US and non-US Equity mandates that has not drifted with the benchmark weights over the past decade. Secondly, the equity portfolio has approximately an even split between active and passive management. Thirdly, the active equity managers have a slight tilt toward value-oriented stocks. Chair Jahn suggested that Systematic and Dodge & Cox hold stocks that can be characterized as more “high quality” as much as “value,” and the Board is comfortable with that style bias. The current structure of SCERA’s equity portfolio is appropriate according to Aon, but two considerations were suggested: adjusting the regional allocations (from 53% US/ 47% non-US) closer to the current global index weights (60% US/40% non-US) and adding an active manager in either Global or Non-US Equities. Aon believes better opportunities to add alpha are available in Global Equities as evidenced by the excess performance of Aon’s Buy-rated managers. Aon’s model equity portfolio also reflects an overweight toward US Equity based on the long-term fundamentals driven by the strength and innovation of US corporations and supportive monetary and fiscal policy.
- Chair Jahn mentioned the US bias favored by Aon’s house view seems to conflict with past advice against home country bias. And perhaps, taking a contrarian stance may be better at this juncture. Even though it was noted that most active managers underperform their benchmark, Trustees were open to a search for other high conviction managers and agreed that Aon and staff should explore potential active investment managers in either Global or Non-US Equities that would add value to the equity portfolio structure.
- D. Educational Presentation Topics – brief update; no new requests
- E. GTA 1<sup>st</sup> Quarter 2024 Equity Trade Cost Analysis – moved to next month’s meeting
- F. 2024 Due Diligence Travel Schedule – updated with the New York and Kansas City due diligence trip dates

#### IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for March 2024.
- B. Aon Flash Report Regarding KKR & Co., April 19, 2024.
- C. Arrowstreet Client Letter Regarding Firm Capacity, April 17, 2024.
- D. Bloomberg, “Private Credit Offers No Extra Gains After . . .”, April 4, 2024.

- E. P&I, "Extension equity strategies, long ignored, could find role in Magnificent 7 era", February 22, 2024.

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, May 30, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by Jacobs Levy. 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 12:01 p.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on April 25, 2024, were approved at the Investment committee meeting on May 30, 2024.

GREG JAHN, CHAIR