

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

Thursday, May 30, 2024
8:33 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree - voting), Travis Balzarini, Amos Eaton, Erick Roeser (Vice Chair), Joe Tambe, 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 Retirement Analyst Rebecca Gay; Erik Olsen and Gustavo Galindo (of Jacobs Levy); Chris Behrns and Tim Pflugradt (of Aon)

Absent: Trustees Chris Coursey and Mark Walsh

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

April 25, 2024, Investment Committee Meeting Minutes

Recommendation: Approve the April 25, 2024, Investment Committee Meeting Minutes.

A motion was made by Trustee Williamson, seconded by Trustee Tambe, to approve the minutes of the April 25, 2024, Investment Committee meeting. The motion carried 8-0-0-1 with voting as follows:

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

II. PRESENTATIONS

A. Jacobs Levy – Director Erik Olsen and Portfolio Specialist Gustavo Galindo provided an update on the company and investment process and reviewed the performance and

positioning of the 130/30 US equity investment strategy they manage for SCERA. Mr. Galindo summarized the current portfolio positioning which leans more toward smaller capitalization companies and emphasizes fundamental and valuation characteristics, as well as other alternative data models that together construct a dynamic, diversified portfolio with balanced exposures to modeled inefficiencies. The firm has staff who has been trained in artificial intelligence (AI) machine learning, but the rigorous standards for developing new disentangled (not correlated) additive models is complex and challenging, and AI is a new tool to use in that discovery process. Financially oriented sustainability and climate models have been implemented over the past year, a pace that is consistent with the target of 2 new models per year plus enhancements to existing models. The optimal and advantageous features of a 130/30 strategy were discussed using the Magnificent 7 stocks (a group of mega-cap technology companies that have dominated US Equity performance since 2023) as an example. Although the SCERA portfolio was consistently underweight this group, stock selection and model performance were able to entirely offset the lost value opportunity and add significant alpha.

In regard to succession planning, Mr. Olsen spoke not only about the capability of either partner to manage the firm solo but also about the ongoing development of the next generation of senior level staff across the board. Particular note was given to the portfolio management function where new hires with substantial experience have been added on the research and portfolio analyst teams with the expectation that they will be mentored by Messrs. Jacobs and Levy and gain more visibility over time. Mr. Olsen also reported progress in the ongoing development of the global strategy, but they were not at the stage of creating a paper portfolio, and the firm's priority is focused on the domestic strategies and the interests of existing clients. The Board commented on the lack of an employee ownership structure but noted the compensation level seemed to work well given that turnover is quite low. Aon continues to rate the firm a "Qualified" due to the succession uncertainty but acknowledges that this risk is mitigated by SCERA's separately managed account.

- B. First Quarter 2024 Investment Performance Report – Investment Consultant Tim Pflugradt of Aon Investments, presented. Mr. Pflugradt reviewed broad market highlights: fixed income volatility from rate cut expectations lifting yields; negative returns for the private real estate benchmark; and less optimism about GDP forecasts and global market returns. Overall, SCERA's Plan performance relative to peers is outstanding due to active management in Equities that ranks in the top percentile. Aon commented that the US Equity returns were undoubtedly superior comparatively, while the Non-US returns were about similar to other clients. In Real Assets, Real Estate continued to post poor negative returns while Infrastructure and Farmland provided offsetting positive results. In Fixed Income, the standout performer has been the Guggenheim bank loan portfolio due to the favorable floating rate environment, but CIO Failor noted the bank loan industry-wide higher risk profile from the trend toward lower credit quality and covenant-lite terms.

- C. Diversification Principles – Associate Partner Chris Behrns of Aon Investments, presented on this educational topic. He covered the benefits and principles of diversification to reduce volatility while maintaining or increasing portfolio returns as the ideal goal. The discussion also explored the effects of correlations, rebalancing, and overdiversification. SCERA's real world experience during periods of equity distress demonstrates how a proper diversification approach can provide downside protection. This approach is evaluated through periodic asset class structure reviews, Active vs. Passive analysis, and annual risk budgeting. Additionally, Aon feels comfortable with the current level of Plan diversification across and within asset classes.

III. INVESTMENT STAFF AND CONSULTANT

- A. GTA 1st Quarter 2024 Equity Trade Cost Analysis

Investment Officer Nguyen reviewed the results of the US equity trading costs for Jacobs Levy, Dodge & Cox and Systematic. The overall results showed a total positive trade benefit of 1.1 bps or approximately \$23k for the quarter, which is composed of -2.95bps in net market impact and 4.05 bps in net commission benefit. Trading costs have been trending down since the 1Q2020 pandemic peak with most of GTA's clients showing a similar pattern. One outlier in the chart was attributable to the liquidation of the SSGM interim management portfolio in 3Q2021 but excluding that impact the quarterly data would have been in-line with trend. Market Impact cost was in the acceptable range as determined by a peer universe specific to SCERA's managers, and Net Commission benefit has stayed consistently positive over the 5-year history due in large part to Jacobs Levy's industry-low broker commission rates.

- B. Aon's Sale of The Townsend Group

Associate Partner Chris Behrns of Aon Investments reported on the recent sale of The Townsend Group to an investor group led by the Riverside Company. The acquisition is scheduled to close in late June/early July. Aon will retain most of the key real estate and infrastructure contacts who have worked closely with SCERA staff and Trustees. An evergreen sub-advisor agreement has been reached to provide uninterrupted access to Townsend research and specialists (i.e., Farmland/Timberland) for Aon's clients. CIO Failor expressed disappointment in the transaction but, given the lack of integration between the two entities, the deal is not too surprising. Mr. Failor was concerned that divergent research opinions between Aon and Townsend could disrupt the Real Estate portfolio structure review that is ongoing, and that future monitoring would be necessary to assess potential negative impacts on SCERA.

- C. UBS Trumbull Property Fund (TPF) Redemption Queue

CIO Failor outlined the enhanced changes to the UBS Loyalty Fee Program that now offers a fee discount of 25% on any portion of the TPF investment that is not in the

redemption pool. The new program terms also eliminate the management fee claw back. Importantly, redemption allocations will be based on investors' total balance regardless of what the balance is in the redemption queue. With these changes, Aon and staff suggested that managing the redemption request quarterly and rescinding the current total redemption request would effectively reduce the fees materially and not add a material administrative burden. Trustees agreed with the assessment and were comfortable delegating to staff and proceeding as discussed.

D. JP Morgan Strategic Property Fund (SPF) Management Fees

CIO Failor reviewed the announced Fee Credit Program with JPMorgan SPF in which investors will receive an automatic 30% fee credit on their total management fee beginning with the third quarter 2024, provided no more than 20% of their NAV is in the redemption queue. The program will run for 18 months and end December 31, 2025. Like other large real estate funds that are seen as a source of liquidity and have struggled with large redemption requests, SPF is encouraging investors to stay out of the exit queue using temporary fee discounts. For SCERA, this credit would reduce the annual fee from around 84 bps to 59 bps.

IV. COMMUNICATIONS

A. SCERA Investment Performance Report for April 2024.

Investment Officer Nguyen summarized the Plan's performance. Although the April Equity and Fixed income returns were overwhelmingly negative, the month-to-date returns for May show a strong snapback rally that has erased that selloff. In fact, 14 of the 20 biggest stock markets around the world have hit record highs or are close to it. Magnificent 7 stocks have contributed approximately half of the US returns this year as measured by the S&P500. Real Asset managers booked their first quarter results, and JPMorgan SPF reported an underwhelming quarter impacted by more write downs led by Office weakness. The IFM Global Infrastructure Fund also turned in a rare negative quarter from financing related assumptions reflecting the increase in rates and a steep decline in share price of Naturgy Energy Group S.A.

B. Axiom Infrastructure New & Updated Asset Profiles, May 2024.

C. The Economist, "How far could America's stockmarket fall?", April 25, 2024

D. The Economist, "Can the rich world escape its baby crisis?", May 21, 2024.

E. Wall Street Journal, "China Is Finally Getting Serious About a Housing Rescue", May 17, 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, June 27, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by Davidson Kempner. 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 11:49 a.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on May 30, 2024, were approved at the Investment Committee meeting on June 27, 2024.

GREG JAHN, CHAIR