

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

Thursday, July 25, 2024

8:32 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini, Amos Eaton, Erick Roeser (Vice Chair), Joe Tambe, Mark Walsh, Brian Williams and Bob Williamson; Chief Executive Officer Julie Wyne, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, Retirement Analyst Rebecca Gay, and Administrative Aide Julia Smith; Tim Pflugradt and Chris Behrns (of Aon); John Capeci and Jon Simon (of Arrowstreet)

Present via

Zoom: Himmat Dahliwal (of Aon)

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

June 27, 2024, Investment Committee Meeting Minutes

Recommendation: Approve the June 27, 2024, Investment Committee Meeting Minutes.

A motion was made by Trustee Walsh, seconded by Trustee Balzarini, to approve the minutes of the June 27, 2024, Investment Committee meeting. The motion carried 7-0-1-1 with voting as follows:

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

II. PRESENTATIONS

- A. Arrowstreet – Senior Portfolio Manager John Capeci and Client Relationship Manager Jon Simon reviewed performance and provided an update on the company and the Non-US Equity 130/30/20 fund in which SCERA invests. CIO Failor made comments highlighting Arrowstreet's status as a high conviction manager and SCERA's largest active manager with a 10% weight in the Plan. Mr. Simon reviewed the evolution of the investment process to incorporate new enhancements that led from long-only to partial short extension to the 130/30/20 strategy employing futures to manage beta exposure. The resulting breakdown of the 5.5% target value-added return is 3% from the long-only positions + 2% from the short book + 0.5% from futures. Mr. Capeci discussed in detail the types of market inefficiencies which Arrowstreet focuses on to uncover alpha opportunities: informational, behavioral, and constraint based. He emphasized that the models are developed with a fundamental basis and not through data mining. The use of artificial intelligence is still limited to auxiliary purposes but growing in its role. Since the efficacy of models continually declines, the research team is always evaluating new signals. Additionally, capacity becomes an important issue to manage as assets under management grow and approach self-imposed limits of 45bps of the overall market cap of the All Country World Index (ACWI). Due to this limitation, all strategies are closed except for the US strategy. In summary, Trustees and staff remain confident and impressed with the vigorous analytical capabilities and execution at Arrowstreet.
- B. Annual Review of SCERA Investment Managers – Senior Consultant Chris Behrns and Consultant Tim Pflugradt, both of Aon Investments, presented.
1. Annual Manager Evaluation Report – Mr. Behrns gave an overview of the report which serves as a comprehensive reference source for information on SCERA's investment managers over the next year. Aon's manager research and operational due diligence teams provide consistent coverage for Buy-rated managers. CIO Failor provided background on the difference in SCERA's view versus that of Aon for managers with a "Qualified" rating. Trustees also expressed an interest in creating a central repository to archive material for ease of access or having individual folders to house files of personal interest.
 2. Risk Budgeting & Style Analysis – Mr. Pflugradt covered the risk budgeting analysis which helps visualize portfolio risk and determine whether the risk profile is prudent. The policy allocation is the primary driver of risk which is then redistributed among managers. The Plan's Total Risk is 11.5% and is similar to the Total Risk from the last couple years. Mr. Behrns commented that he believes other similarly situated Aon clients take a similar level of active alpha risk. The trailing 7-year negative correlations observed with Real Assets and Opportunistic allocations versus the Plan's other asset classes resulted in a more resilient portfolio during the selloff in 2022. Aon has no concerns about the risk-taking from

individual managers, although Arrowstreet's rising tracking error was noted.

- C. Aon's Third Quarter Market Overview & Outlook – Senior Investment Strategist Himmat Dhaliwal presented via Zoom. Mr. Dhaliwal reviewed market returns and opined that falling inflation and strong earnings, combined with Federal Reserve rate cuts, will be drivers for US equities going forward. Aon's core views reflect two rate cuts, while the market has been anticipating faster action. He commented on the stable labor market although signs of softening are now appearing, an indication that Fed policy is overly restrictive. Other concerns were discussed regarding the positive correlation between equity and bonds signaling the risk of a drawdown, and expectations that historically low equity volatility this year will increase due to second half seasonality and election news. Infrastructure was noted as a favorable asset class and has outperformed other major assets since 2008.

III. INVESTMENT STAFF AND CONSULTANT

- A. Annual Alternative Investment Fee and Expense Disclosure, 2023 – per Government Code section 7514.7. CIO Failor commented that the disclosures were as expected with no surprises. Real Estate funds are included in the reporting, so all Real Asset managers are in scope for this annual legal reporting requirement.
- B. Non-US and Global Equity Manager Search – Chris Behrns of Aon gave a brief verbal update informing the Board that SCERA investment staff and Aon had funneled the candidates down to three investment firms. Meetings with each firm will be scheduled for late August with representatives presenting in person at SCERA's office, as well as via Zoom. After which, there may be a decision to bring forth a final candidate for the Board's vote.
- C. Social Investing and Fiduciary Responsibilities – CIO Failor led a discussion to address comments from Trustees in past meetings regarding the commitment of capital based on various socially responsible investment themes. SCERA's current long-standing policy contained in the Investment Policy Statement was highlighted and the fiduciary obligations of prudent investing and maximizing risk-adjusted returns for the sole benefit of Plan members and beneficiaries was reviewed. The Trustees' discussion touched on issues of whether purpose-driven investing leads to sacrificing returns, to what extent SCERA's managers already invest in these types of assets, and whether focusing exclusively on economic value is limiting given the long duration of the Plan's liabilities. Trustees discussed revisiting the policy to determine if changes should be considered to modernize SCERA's established stance, while also noting that SCERA already has flexibility as long as it is consistent with the plan's fiduciary duty. More information was requested from Aon on the topic of Responsible Investing, the feasibility and methods of implementing such a policy, and what SCERA's peers are doing to address this within their system. Given the range of views that can be considered in formulating a policy, the idea of

surveying the Trustees to understand what priorities and beliefs are important was put forth.

IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for June 2024. CIO Failor informed the Committee that there was a recent county contribution to the Plan of \$79.6 million, representing a prepayment for FY2024/2025, and \$2 million, as a FY2023/2024 UAAL payment. Investment Officer Mickey Nguyen added that a \$1.6 million redemption was received for the 2Q24 from UBS Trumbull Property Fund, and that the ongoing redemption request would be automatically topped off to \$15 million.
- B. The Wall Street Journal, "Downtown Offices Are Toxic . . . ", July 4, 2024.
- C. The Wall Street Journal, "The One-Child Policy Supercharged China's Economic Miracle", July 11, 2024.
- D. The Economist, "Stocks are on an astonishing run. Yet threats lurk", July 16, 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, August 29, 2024, at 8:30 a.m. Planned topics for this meeting include a presentation by KKR. 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 12:42 p.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on July 25, 2024, were approved at the Investment Committee meeting on August 29, 2024.

ERICK ROESER, VICE CHAIR