

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

Thursday, September 26, 2024
8:33 a.m.

Presiding: Greg Jahn, Chair

Present: Trustees Neil Baker (Alternate Retiree), Travis Balzarini (arrived at 8:43 a.m.), Amos Eaton, Joe Tambe (left at 11:15 a.m.), Mark Walsh, Brian Williams, and Bob Williamson; Assistant CEO/Chief Legal Counsel Cristina Hess, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, and Administrative Aide Julia Smith; Paul Canning and Husayn Hasan (of UBS Trumbull Property Fund), Chris Behrns (of Aon)

Absent: Trustees Chris Coursey and Erick Roeser

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.

Chair Jahn confirmed with Administrative Aide Julia Smith that SCERA had not received any public comment prior to the meeting.

I. MINUTES APPROVAL

August 29, 2024, Investment Committee Meeting Minutes

Recommendation: Approve the August 29, 2024, Investment Committee Meeting Minutes.

A motion was made by Trustee Eaton, seconded by Trustee Williamson, to approve the minutes of the August 29, 2024, Investment Committee meeting. The motion carried 6-0-0-3 with voting as follows:

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

II. PRESENTATIONS

- A. UBS Trumbull Property Fund (TPF) – Lead Portfolio Manager Paul Canning and Portfolio Manager Husayn Hasan provided an update on the firm and reviewed the performance and positioning of the fund in which SCERA invests. As of June 30, 2024, SCERA's account with TPF was valued at \$110 million. The Board had elected to completely redeem from this investment and so \$15 million is maintained in the redemption queue in order to benefit from the loyalty fee program. Mr. Canning elaborated on the themes that are driving the fund's current strategy: demographics, economic activity, and consumer preferences. The traditional sector allocations are also resetting to reflect lower exposures to Retail and Office, while alternative sectors (ex. self-storage, life science, data centers, affordable housing) increasingly grow in importance in core portfolios. He believes an attractive entry point is arriving in commercial real estate as the depreciation cycle nears an end. However, TPF will continue to underweight Office due to demand trending downward as companies, like professional service firms, reconfigure their needs by utilizing less space. This process is likely to play out over many years with half of current leases predating the COVID pandemic. The Retail sector underwent a similar period of supply rationalization and a drawn-out recovery phase.

Regarding TPF's large redemption pool, forecasted redemption payments of \$800 million for the full year 2024 is on track, and in addition, parent UBS will invest an initial commitment of \$50 million into the fund as a signal of continued confidence. By 2027, the forecasted redemption pool is expected to fall well below \$1 billion from over \$6 billion at the high. Based on expectations of healthier capital markets activity next year, an aggressive sales program shedding less attractive/lower quality assets and planned acquisitions in alternatives will effectuate TPF's reset. As a broad framework for managing sales proceeds, around 50% of available cash is used to satisfy the redemption pool.

Trustees noted that real estate is going through an unprecedented challenging and difficult time, unique to this asset class. Some skepticism was voiced regarding significance of the capital support from UBS given its modest size.

- B. Socially Responsible Investing (SRI)
1. Aon Senior Consultant Chris Behrns provided an overview of SRI investing and related strategies including screening, integration, impact, and stewardship. Aon's approach prefers integrating Environmental, Social, and Governance (ESG) into manager research, thereby providing the broadest set of opportunities and giving managers latitude to make decisions on a real-time basis to optimize portfolios utilizing their expertise. Mr. Behrns also covered common misconceptions, Aon's ESG ratings assessment process, SCERA's viewpoint outlined in the IPS language,

and examples from peer practices that cover a spectrum of varied approaches. Further discussions touched upon moral issues encountered when investing, fiduciary duty as embodied in the California Constitution, the responsibility and role as a Trustee versus that of an individual, and the duty of prudence.

2. Draft Trustee Survey Options – CIO Failor introduced two questionnaires related to responsible investing (RI) for the Board to consider completing. One survey was originally drafted from an Aon survey to determine how respondents felt about the appropriate approach for addressing ESG factors, while the second survey was sourced from RBC Wealth Management to assess qualitative values on specific issues. The Board chose to answer both surveys to gather the most information on risk appetite and shared values, and to guide a continued discussion on the matter. Concerns about outlining the specific steps toward RI implementation and legal implications were also raised.

III. INVESTMENT STAFF AND CONSULTANT

A. Proxy Voting

1. Annual Proxy Voting Report – CIO Failor summarized the contents of the report indicating how SCERA's equity managers voted proxies over the past year, what current policy guidelines are used (i.e. Glass Lewis, ISS, SSGA), and exceptions or changes to the policy that have occurred.
2. Review of Policy Alternatives – CIO Failor presented proxy voting policy options available for the Board's consideration. Trustees were interested in exploring the thematic policy offerings for better understanding of how the policies are constructed, what is contained in the policies, and how they differ from the benchmark, focusing particularly on the Public Fund policy. Staff will provide the ISS website link where additional materials and detailed information can be obtained, and further, schedule a representative from ISS to answer questions in a follow-up meeting next year.

- B. Aon Fee Benchmarking for SCERA Investment Managers – Aon Senior Consultant Chris Behrns reviewed SCERA's investment manager fees with the use of the eVestment database for public funds that compares fees based on criteria such as asset size and manager style, while private fund managers are compared to data pulled internally from Aon's research groups. The majority of manager fees fall below peer group medians, and the managers with higher relative fees have delivered meaningful alpha, after fees, over trailing periods. The Total Fund average manager fee is currently estimated to be 0.47%.

- C. PIMCO Client Conference – CIO Failor provided a verbal report of the PIMCO conference

he attended from September 22-24, 2024, in Newport Beach, CA. The event was well attended and showcased the high caliber of intellectual resources available to clients and the firm's investment teams. Highlights were informal discussions with Ben Bernanke and Richard Clarida, former Federal Reserve top officials. However, the opinion of staff has not changed from prior concerns that surfaced over the past two years during which time the Total Return strategy was downgraded by Aon to Qualified, relative performance has been tepid, and no new information has arisen to materially alter SCERA staff's view.

IV. COMMUNICATIONS

- A. SCERA Investment Performance Report for August 2024.
- B. The Wall Street Journal, "Fed Cuts Rates by Half Percentage Point", September 18, 2024.
- C. Bloomberg, "The Fed's Uncertain Destination . . .", September 18, 2024.
- D. The Economist, "Geothermal energy could outperform nuclear power", September 13, 2024.
- E. The Wall Street Journal, "VW and Germany Were Great for Each Other. Now They're Not.", September 11, 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, November 21, 2024, at 9:00 a.m. Planned topics for this meeting include a presentation by Dodge & Cox. 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 12:27 p.m.

IX. APPROVAL

The above minutes of the Investment Committee meeting on September 26, 2024, were approved at the Investment Committee meeting on November 21, 2024.

GREG JAHN, CHAIR