

SONOMA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RETIREMENT BOARD PLANNING SESSION MINUTES

Vintners Resort
4350 Barnes Road, Santa Rosa, CA 95403

Wednesday, October 12, 2022
8:30 a.m.

Presiding: Chair Brian Williams presided

Present: Trustees Neil Baker (Retiree Alternate), Travis Balzarini, Chris Coursey, Amos Eaton, Greg Jahn, Erick Roeser, Tim Tuscany (left at 12:25 pm), and Bob Williamson; Chief Executive Officer Julie Wyne, Assistant CEO/Chief Legal Counsel Cristina Hess, Chief Investment Officer Jim Failor, Investment Officer Mickey Nguyen, Member Services Manager Jackie Purter, Finance and Retiree Services Manager Cheryl Enold, Department Analyst Rebecca Gay, Retirement Benefits Specialist II Salvador Fuentes, Administrative Aide Julia Smith, and Senior Office Assistant Yecenia Gonzalez

Also Present: Nick Klein of the Sonoma County CAO Office; Chris Behrns, Tim Pflugrad, and Jeanna Cullins of Aon; Anne-Sophie Roy and Pierre Anctil of Axiom; Kevin Johnson of Dodge & Cox; Delal Ali of Fiera Capital; Leigh Poggio of Guggenheim; Erik Olsen of Jacobs Levy; Tom Klugherz and Darren Smith of JP Morgan; Erica Kinsella and Matt Clark of PIMCO; Clark Holland of Reams; Molly Calcagno and Emily Klare of Segal; Steve Shaw and Ken Burgess of Systematic; Amy Brown of Arc Strategies; Kim Cook and Simona Mocuta of State Street; Jim McCandless of UBS; Bill Robotka (SCARE), Michael Seay, and David Wallace - members of the public and interested parties

Absent: Trustee Joe Tambe

I. WELCOME AND INTRODUCTIONS

Chair Brian Williams and Chief Executive Officer Julie Wyne welcomed attendees and provided a brief overview of the planned presentations.

II. HOW TO AVOID THE PERILS AND PITFALLS OF BEING A TRUSTEE

Jeanna Cullins, an Aon Partner, presented on understanding the duties of a fiduciary and methods to adopt in order to prevent violation of the duty of loyalty, prudence and diversification of investments. Best practices include avoiding conflicts of interest, clear documentation, and effective meetings. She discussed the merits of regularly evaluating

performance through a Board self-assessment tool. Ms. Cullins also spoke on the importance of keeping valuable documentation through minutes that focus on recording the intent and direction of the Board's actions, as well as reflecting dissent where appropriate.

III. LEGISLATIVE UPDATE

Amy Brown, Partner at Arc Strategies, provided a legislative overview of developments, trends and updates on pensions, pandemic related news and budget discussions at the state level. She emphasized the challenges of voting, advocacy, testimony and introduction of bills when the Capitol remained closed and remote/Zoom work was mandated. Ms. Brown outlined the state budget and where the \$97B surplus funds were targeted to be allocated. Spending on climate change to ban the sale of gas fueled cars and mitigate wildfire and drought risk, rebates to households, expanding healthcare access and affordability, and education improvements to combat learning loss were topics of discussion. On the pension front, she noted the cumulative funding ratio of the 18 largest pension funds was expected to drop from 86% to 79% as expectations of a recession loom. Legislative bills AB 826 and SB 278 were also covered.

IV. INVESTING WITH ESG PRINCIPLES

Jeanna Cullins of Aon spearheaded this panel discussion addressing investing with ESG (Environmental, Social and Governance) principles. Panelists represented each of the asset classes in which SCERA invests and included Anne-Sophie Roy of Axiom, Kevin Johnson of Dodge & Cox, Tom Klugherz of JP Morgan, Erica Kinsella of PIMCO, and Jim McCandless of UBS AgriVest. Ms. Cullins began with a presentation reviewing the legal requirements of a fiduciary under the County Employees Retirement Law, ERISA and the Department of Labor (DOL). While ERISA relates to corporate pension plans it is relevant to SCERA in that it, and DOL interpretations, have largely established the fiduciary standard. Ms. Cullins explained how thirty years of DOL guidance has evolved and resulted in the most recent stance that ERISA does not prohibit fiduciaries from considering ESG factors, but ultimately investment returns, evaluation of risk and the duty to Plan beneficiaries must come first. Each panelist then reviewed how the consideration of ESG issues are included in their firm's investment process, consistent with their fiduciary duties.

V. GLOBAL MACROECONOMICAL OUTLOOK

Simona Mocuta, senior economist from State Street Global Advisors, reviewed the current state of and outlook for the global economy. Fed policy over-tightening leading to an accelerated slowdown was the general theme of the presentation. Ms. Mocuta highlighted a future macro environment marked by sub-trend growth, a disinflationary period ahead, risks of an overzealous Fed policy, and continued tight labor market dynamics. A key point was made that economists' range of forecasts is now wider than at any point in recent times, suggesting the elevated level of uncertainty. Several economic indicators were reviewed for the US,

Eurozone, UK, Japan and China. Ms. Mocuta opined that with natural gas inventory at near capacity in most European end markets, downside risk of an energy crisis was somewhat lessened.

VI. INVESTMENT MANAGER PANEL – EQUITIES

Participants on the panel were Kevin Johnson of Dodge & Cox and Ken Burgess of Systematic. Jim Failor asked the seeding questions which included:

1. What do you believe the impact of rising rates and inflation will be to your portfolio and the opportunities that are in the market today?
2. We are seeing energy supply disruptions resulting from the invasion of Ukraine and the move to decarbonize. Please discuss the impact on market opportunities and your portfolio.
3. We spent decades globalizing many markets. Recently we have seen some reversal of this due to geopolitical tensions, the fragility of supply chains and more. Please comment on the prospects of this continuing and the impact on the opportunity set and your portfolio.
4. Comment on the level of overall market valuations.
5. Please review some of your best ideas, whether individual stocks, sectors or markets.

After the seeding questions, Trustees, staff and the Plan's consultant asked questions which the panelists addressed. The issues addressed related to the impact of rising crude oil prices, the opportunities in Staples given the higher costs they are facing, the impact of businesses planning for a recession, the impact on Financials of rising rates and the stocks/sectors that may have become more attractive given the recent market downdraft.

VII. END OF DAY 1

The session ended at 4:30 p.m.

Thursday, October 13, 2022
8:30 a.m.

Presiding: Chair Brian Williams presided

Present: Trustees Neil Baker (Retiree Alternate), Travis Balzarini, Chris Coursey, Amos Eaton, Greg Jahn, Erick Roeser, Tim Tuscany (left at 12:25 pm), 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, Department Analyst Rebecca Lankford, Retirement Benefits Specialist II Salvador Fuentes, and Administrative Aide Julia Smith

Also Present: Nick Klein of the Sonoma County CAO Office; Chris Behrns, Tim Pflugradt, and Jeanna Cullins of Aon; Anne-Sophie Roy and Pierre Anctil of Axium; Kevin Johnson of Dodge & Cox; Aaron Prince and Sam Lau of DoubleLine; Delal Ali and Antoine Bisson McLernon of Fiera Comox; Leigh Poggio and Tom Hauser of Guggenheim; Joe Tremblay of IFM Investors; Erik Olsen of Jacobs Levy; Tom Klugherz, Morgan Lingle, and Darren Smith of JP Morgan; Tony Hass and Kathleen Lawler of KKR; Mohit Mittal and Matt Clark of PIMCO; Clark Holland of Reams; Jay Olshansky, PhD; Kim Cook of State Street; Jim McCandless, Tom O'Shea, and Paul Canning of UBS; Bill Robotka (SCARE), Michael Seay, David Wallace, Robert Maddock, and Jim Scriven - members of the public and interested parties

Absent: Trustee Joe Tambe

VIII. INVESTMENT MANAGER PANEL – REAL ESTATE & FARMLAND

Participants on the panel were Morgan Lingle of JP Morgan, Paul Canning of UBS Trumbull Property Fund, Jim McCandless of UBS AFF, and Antoine Bisson-McLernon of Fiera Comox. Jim Failor asked the seeding questions which included:

For our Real Estate managers:

1. Given the pandemic, the limited number of transactions and the impacts of social distancing, please review how you managed the valuation process over recent years.
2. Please review the challenges facing the office sector in light of remote-working and “the great resignation”.

3. We've observed a trend toward on-line retail which was accelerated by the pandemic. Please discuss the future of this trend, or its reversal, and the impacts on both the industrial and retail sectors.

For our Farmland managers:

1. We've seen an impact on farmland production from both a decline in freshwater resources around the world and the invasion of Ukraine. Please discuss the impact on farming and farmland valuations in the future.
2. In 2014 California adopted the historic Sustainable Groundwater Management Act. Please provide an update on its impact on your portfolio and the investment opportunity set.
3. Do you believe the recent outperformance of row crops relative to permanent crops is a fundamental shift in the markets and here to stay or a short-term phenomenon based on current market conditions?

Both Real Estate and Farmland managers were also asked to speak to the regions and property types that currently provided the best opportunities for investing. After the seeding questions, Trustees, staff and the Plan's consultant asked questions which the panelists addressed. The issues addressed included niche opportunities in Real Estate, the quality of appraisals through the pandemic and the impact on Office properties of the attempt to return to the office.

IX. INVESTMENT MANAGER PANEL – FIXED INCOME

Participants on the panel were Clark Holland of Reams, Mohit Mittal of PIMCO, Sam Lau of DoubleLine, and Tom Hauser of Guggenheim. Jim Failor asked the seeding questions which included:

1. To keep the economy afloat the Federal Reserve has kept rates at or near zero and employed innovative techniques such as Quantitative Easing. More recently the Fed has raised rates aggressively to fight inflation. In light of recent Fed activity, please review your expectations for future Fed policy including short term interest rates and their outsized balance sheet.
2. In a world addicted to borrowing, is there any hope for the bond holder to evade "death by inflation"? What are the prospects for real interest rates in the future?
3. Our asset allocation construction generally assumes stocks and bonds are not highly correlated. Recently correlations have increased. Do you see this continuing in the future and how does this impact the management of your portfolio?
4. Please share your thoughts on any external risks to your portfolio keeping you up at night.

After the seeding questions Trustees, staff and the Plan's consultant asked questions which the panelists addressed. The issues addressed included the lag between Fed action and its full impact, the danger of the Fed overcorrecting, the eventual terminal rate in the Fed Fund Rate, the impact of reducing the Fed's balance sheet, the current state of inflation, the predictive nature of the inverted yield curve and the attractiveness of High Yield bonds when the market is pricing in 6.5-8% defaults. All of the managers expressed optimism given their view that there was more upside opportunity than downside risk today and that for the first time in years a strong yielding bond portfolio could be constructed with a reasonable level of risk.

X. INVESTMENT MANAGER PANEL - INFRASTRUCTURE

Participants on the panel were Joe Tremblay of IFM, Kathleen Lawler of KKR, and Pierre Anctil of Axium. Jim Failor asked the seeding questions which included:

1. Comment on recent public market movements and their impact on private infrastructure assets.
2. What is the impact of rising rates and inflation on the valuation of infrastructure assets?
3. How would a potential recession impact the various sub-sectors of the infrastructure market such as ports and logistics, data and communication assets, etc.?
4. How is the commitment to net zero and energy decarbonization driving the infrastructure opportunity set?
5. Please comment on the prospects for a broadly accepted benchmark with valuations and returns for the Infrastructure industry (similar to the NCREIF ODCE)?

After the seeding questions, Trustees, staff and the Plan's consultant asked questions which the panelists addressed. The issues addressed included the need for private capital to work with local governments to improve infrastructure, matching debt financing to the infrastructure contracts, GDP versus volume linked revenue streams, cyber security risks, the impact of demographic trends, the volume of capital "chasing" infrastructure assets and the most significant risks in infrastructure investing. We ended with the managers reviewing where they were seeing pipeline opportunities.

XI. CHANGING DEMOGRAPHICS

Jay Olshansky, Ph.D., University of Illinois, spoke on the latest in aging and demographics after the impact of COVID. He explained the predictability of human longevity and that even with modern medical advancements, biological limits exist which becomes an obstacle to aging beyond a certain point for every species. Using artificial intelligence tools, Mr. Olshansky ran

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a scan of trustee Bob Williamson's facial features and obtained a report estimating lifespan and health. This prediction tool is currently being used in the financial services industry to assist in measuring retirement and insurance benefit longevity with more accuracy.

XII. PLANNING SESSION WRAP-UP

Chair Brian Williams and CEO Julie Wyne thanked the attendees for their participation and the staff for their efforts in making the Planning Session a success.

XIII. ADJOURNMENT

The meeting was adjourned at 4:30 p.m

XIV. APPROVAL

The above minutes for the Planning Session on October 12 and 13, 2022 were approved at the Retirement Board meeting on December 15, 2022.

BRIAN WILLIAMS, CHAIR