

**MINUTES**  
**INVESTMENT COMMITTEE MEETING**  
**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**

**One McInnis Parkway, 1st Floor**  
**Retirement Board Chambers**  
**San Rafael, CA**

**March 17, 2021 – 9:00 a.m.**

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This meeting was held via videoconference pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020. The public was able to listen to and observe the meeting on YouTube and provide comment through Zoom.

**CALL TO ORDER**

Chair Klein called the meeting to order at 9:03 a.m.

**ROLL CALL**

**PRESENT:** Block, Given, Gladstern, Jones (alternate retired), Klein, Murphy, Poirier (alternate safety), Shaw (ex officio alternate), Silberstein, Thomas, Werby

**ABSENT:** Cooper

**A. OPEN TIME FOR PUBLIC EXPRESSION**

Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Committee concerning a non-agenda item. Members of the Committee may (1) briefly respond to statements made or questions posed by persons addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comment.

## **B. MANAGER REPORTS**

### **1. Manager Overview – Jim Callahan, Callan LLC**

Jim Callahan, President of Callan LLC, introduced the portfolio review for the TimesSquare International Small Cap Equity portfolio.

### **2. TimesSquare – International Small Cap Equity – Magnus Larsson, Jenny Chou**

Jenny Chou, Senior Vice President and Product Manager with TimesSquare, introduced Magnus Larsson, Director and Portfolio Manager, for the international small cap equity portfolio review. Mr. Larsson stated TimesSquare specializes in the mid to small cap international equity space focusing on European small caps, with analysts specializing in remaining global markets. For Calendar year 2020, the TimesSquare international small cap equity portfolio returned 13.87% versus 12.34% for the EAFE Small Cap Index.

Mr. Larsson stated in assessing potential investments the focus is on consistent profitability, return on assets, and cash flow. Sustainable competitive advantage and good governance are additional important factors. For example, management should be aligned with shareholder interests, including pay that is commensurate with return.

Mr. Larsson reported that the average earnings growth per year for the approximately 75 portfolio holdings exceeds 20%. Turnover is approximately 40% per year. The portfolio is diversified across industries and geographically, with Japan being the strongest area of performance. The sell discipline is based on one or more objectives not being met.

Consumer spending is a current theme for investments, and the investment team capitalizes on market dislocations to improve the quality of the portfolio. In conclusion, Mr. Larsson stated the team is mindful of certain fundamental changes to economies around the world created by the pandemic. He said technology will increase efficiency and level access to education and knowledge.

## **C. NEW BUSINESS**

### **1. Emerging Markets Manager Candidates (Action) – Jim Callahan, Alex Hoy, Callan LLC** Consider, discuss, and take possible action regarding potential candidates for managing the emerging markets portfolio

Mr. Callahan said Callan initiated a search for emerging markets equity managers following the direction of the Investment Committee. After quantitative and qualitative screens are used to narrow the list of candidates, specialists at Callan present the information to the Manager Search Committee which assesses candidates to form a final list to consider. Trustee Gladstern asked which candidates have a business relationship with Callan. Mr. Callahan said Artisan is not a Callan client, but the other four candidates are clients. Mr. Callahan introduced Alex Hoy, Vice President with the Global Research team, to review the emerging markets manager candidates.

Mr. Hoy compared types of emerging market strategies among the candidates. He distinguished the AQR Capital Management Emerging Markets Equity and the BlackRock Systematic Active Emerging Markets Alpha Tilts strategies as quantitative strategies as opposed to fundamental strategies. The AQR strategy is both top down and bottom up.

The focus is on value and momentum, with a risk budget for stock, country, and currency selection.

The Artisan Partners Limited Partnership Sustainable Emerging Markets strategy focuses on bottom up analysis of companies with sustainable earnings and business models. Each company is assessed on Environmental-Social-Governance (ESG) factors. Artisan's is an all-cap strategy with a growth tilt that is historically underweight to China due to ESG concerns. Mr. Hoy stated the strategy has outperformed the benchmark MSCI Emerging Markets Index in each of the last six years. Attention to country risk has benefited returns.

The BlackRock strategy has robust risk management and achieves a high information ratio by combining top-down and bottom-up models, big data, and ESG factors. Mr. Hoy said the resulting portfolio is a risk-controlled, diversified portfolio with a low tracking error relative to the index.

The Fidelity Institutional Asset Management Select Emerging Equity strategy is based on both quantitative and fundamental analysis. Companies are rated according to fundamental factors and then quantitative factors optimize risk relative to the benchmark. The result is a core portfolio with a growth tilt.

The Wellington Management Company Emerging Markets Research Equity strategy employs bottom up research. The result is a sector and style neutral portfolio relative to the benchmark. Small caps are included at 5% of the portfolio. There is also a new Core vehicle that does not include small caps.

Mr. Hoy presented a list of investment fees for the candidates ranging from 0.60% to 0.76%. Artisan and Wellington are offering founders' fees, and BlackRock offers a performance-based fee. Mr. Callahan clarified Marin is still being offered the founders' fee for the Artisan portfolio. Trustee Werby asked how the performance fee works and Mr. Hoy replied it is performance relative to the benchmark.

Mr. Hoy stated the Artisan, Fidelity, and Wellington emerging markets strategies have outperformed over longer terms due to their growth tilt. Mr. Hoy reviewed up and down market capture for each strategy and compared returns during rising or declining market periods. He pointed out that quantitative strategies such as AQR lag during volatile market periods.

Trustee Silberstein was excused from the meeting at 10:14 a.m.

Trustee Gladstern inquired about the exposure to China in each strategy. In response Mr. Hoy stated the AQR strategy is overweight to China. The Artisan strategy is under-weight to China due to its ESG focus. BlackRock, Fidelity, and Wellington strategies are benchmark neutral to China. Chair Klein noted China is about 40% of the benchmark MSCI Emerging Markets Index. Mr. Callahan noted MCERA's current China exposure is considerably lower than the benchmark by design.

Trustee Gladstern observed that the Artisan, Fidelity, and Wellington strategies stand out as having better returns over 7 to 9 years. Chair Klein supported this view.

Trustee Werby made a motion to interview Artisan Partners Limited Partnership, Fidelity Institutional Asset Management, and Wellington Management Company regarding their emerging markets strategies.

Trustee Block noted the potential candidates represent many different styles, including quantitative, and there is potential for using more than one manager. In response, Mr. Callahan discouraged the idea of picking multiple managers because the search was based on having a stand-alone manager for emerging markets. If the Committee is considering Wellington, he recommended interviewing both of Wellington's emerging markets strategies.

Trustee Gladstern seconded the motion, and the motion was approved by a vote of 8-0 as follows:

AYES: Block, Given, Gladstern, Klein, Murphy, Poirier, Thomas, Werby  
NOES: None  
ABSTAIN: None  
ABSENT: Cooper, Silberstein

## 2. Capital Markets Projections and Asset Allocation Review – Jay Kloepfer, Callan LLC

Mr. Callahan stated Callan will conduct a full Asset/Liability study which will be presented later this year. He introduced Jay Kloepfer, Executive Vice President and Director of Capital Markets Research, to review the new capital market assumptions for the next ten years for major asset classes. Mr. Kloepfer began by noting that Callan updates their ten-year capital market projections each year.

Mr. Kloepfer noted last year's recession was the biggest in 75 years, a significant event that informed Callan's assessment of capital market projections. Callan lowered the inflation expectation to 2% and set the expected cash return at 1%. The core fixed income expected return is 1.75%, and the expected domestic equity return is near 6.5%. Other projected returns are 6.80% for global ex-U.S. equity, 8.00% for private equity, and 5.55% for real assets.

Mr. Kloepfer reported early in 2020 the equity market declined 33% in a short time frame, bottoming in March 2020. Since then the market made a strong recovery. As of December 31, 2020, the 10 year return is 14% for the S&P 500, 7.64% for international equity, 4.44% for fixed income, over 8% for real estate, and close to 14% for private equity. Mr. Kloepfer pointed out the 1.5 Sharpe ratio for the S&P 500 over the past 10 years was exceptional.

Mr. Kloepfer said the growth forecast for U.S. markets is high for 2021 but GDP is expected to be subdued going forward, from 2 to 2.5%. He noted the U.S. personal savings rate is unusually high, as is cash as a percent of equity market capitalization. During 2020 stock market returns were widely dispersed and sector concentration peaked to 56.27%. Mr. Kloepfer pointed out there are still 10 million lost jobs and he does not expect full recovery until 2022. Investors are looking past negative earnings for the S&P 500 in 2020, Mr. Kloepfer said, and pricing in recovery. During 2021 earnings are

projected to be very strong at over 20%. He cautioned that fewer numbers of equities in the public markets is a headwind to returns going forward.

Mr. Kloepfer presented projected returns for a range of efficient mixes of major asset classes. Mixes 1 through 5 have increasing percentages of equity and decreasing percentages of fixed income. Mix 3 represents the current portfolio with a projected return of 6.0%. Mr. Kloepfer pointed out that even Mix 5 is not projected to reach MCERA's assumed rate of return of 6.75%. Ranges of projected returns over the next 10 years were presented. Mr. Kloepfer suggested thinking longer term to reach the return objective instead of adding risk to the portfolio given current market conditions and expectations. Mr. Kloepfer pointed out the wide variation in asset returns over the past 30 years.

Trustee Block said it would be interesting to understand how the 10-year expected returns turned out. In response Mr. Kloepfer said on a total portfolio basis Callan's capital market projections have been reasonable, within one standard deviation, over historical ten year periods. Mr. Callahan said Jay is building a presentation for the April Strategic Workshop that includes this information.

Trustee Werby asked, since there is a 43% chance of hitting the 6.0% target return for Mix 3, if the 50% chance mix should be used. Mr. Kloepfer replied no as there is still a reasonable chance of reaching the 6.75% return over 10 to 30 years. Mr. Callahan said the 10-year capital market projections are useful to set asset allocations but need not correlate with the discount rate. Mr. Wickman observed that over the next 10 years new annual capital market projections and three new Experience Studies will allow for the opportunity to adjust assets or assumptions along the way.

### 3. Investment Manager Personnel Updates

#### a. Colchester Global Investors

Anne Heaphy, Vice President with Callan, reported Vi-Minh Tran was added as a Senior Investment Officer to the Colchester investment team. Mr. Tran will focus on Asian markets which is his expertise.

#### b. UBS Realty Investors LLC

UBS Realty Investors added Portfolio Manager Jason Lewis to its investment team. Mr. Lewis' responsibilities include asset management, strategy, and dispositions. UBS has an \$8 billion exit queue and distributed about \$300 million last year. As market activity has picked up this year, distributions have increased. UBS is retaining long-term strategic assets and has about \$4 billion in assets remaining for disposition in retail, office, and multi-family properties.

## **D. INVESTMENT CONSULTANT QUARTERLY REPORT**

### 1. Summary Report as of December 31, 2020

Ms. Heaphy reported the total Fund value was \$2.9 billion as of December 31, 2020. The net-of-fee return for the quarter was 9.47% and for the calendar year, 12.84%. The Fund ranks in the top quartile of peers. The fiscal year-to-date return for the Fund is 15.9% net of fees as of December 31, 2020.

In the real estate portfolio rent collections have been strong for recent quarters and appreciation challenged. As of December 31, 2020 the domestic equity portfolio was up 17.85% net of fees for the year, slightly trailing the target, with small caps outperforming large caps in the 4<sup>th</sup> quarter. The international equity portfolio returned 10.8% net of fees for the past year, trailing the benchmark modestly. The Parametric emerging markets underweight to China detracted from performance for the calendar year.

The fixed income portfolio returned 11.5% net of fees for the past year, and all fixed income managers outperformed their benchmarks. In the real estate portfolio, UBS continues to struggle with asset dispositions which is affecting appreciation returns. Both UBS and AEW have strong income returns and MCERA is now receiving dividends from both real estate portfolios.

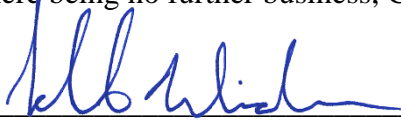
In the real asset portfolio, the BlackRock U.S. Treasury Inflation-Protected Securities (TIPS) portfolio returned 11.2% for the year; REITs had a challenging year and were down over 11% for the year. Both the Invesco commodities and KBIGI global resources portfolios had strong performance for the year.

As of September 30, 2020 the private equity program is 89% paid in. Distributions of \$261 million have been received and the Net Asset Value is \$333 million, resulting in a total value of \$594 million for the private equity program. The Total Value to Paid In capital (TVPI) is 1.67, ranking in the second quartile of the Thomson-Cambridge Private Equity Database, and the net Internal Rate of Return (IRR) is 13.7%.

### 2. Flash Performance Update

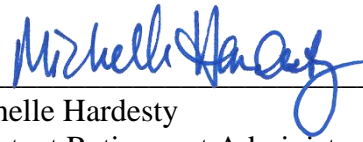
Ms. Heaphy reported on fiscal year net-of-fee returns from July 1, 2020 through February 28, 2021. The Dimensional small cap core portfolio returned 53.3% and the State Street Global Advisors S&P 500, 24.2%. The international equity portfolio return of 20% trailed the benchmark. Real assets returned 28.85% and the fixed income portfolio outperformed the benchmark with a return of 2.6%. The Total Fund returned 17.8% net of fees for the fiscal year to date, and the Fund value is over \$3 billion.

There being no further business, Chair Klein adjourned the meeting at 11:46 a.m.



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Jeff Wickman  
Retirement Administrator



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Michelle Hardesty  
Assistant Retirement Administrator

On behalf of:  
Sara Klein  
Investment Committee Chair

On behalf of:  
Jeff Wickman  
Retirement Administrator