MINUTES

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

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

September 16, 2021 – 9:00 a.m.

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 and provide comment through Zoom.

CALL TO ORDER

Chair Klein called the meeting to order at 9:01 a.m.

ROLL CALL

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

ABSENT: Block, 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, stated the private equity portfolio is performing well and introduced MCERA's two private equity managers, Abbott Capital Management and Pathway Capital Management, presenting portfolio reviews.

2. Abbott Capital Management LLC – Private Equity – Leonard Pangburn, Ryan Green

   Ryan Green, Director with Abbott Capital Management, emphasized the continuity and depth of the firm's investment team. Mr. Green stated Abbott's private equity fund managers have outperformed public markets in 26 out of 31 vintage years. The investment process of sourcing, investment and operational due diligence, conviction building, and decision making leads to strong manager selection. The firm also derives results from compelling secondaries and co-investments, he said. Mr. Green introduced Leonard Pangburn, Managing Director, who was recently named Co-President of the firm with Jonathan Roth effective October 1, 2021 through 2022.

   Mr. Pangburn gave an overview of portfolio performance followed by more detail on each fund vehicle. Since inception in 2008 through March 31, 2021, the Abbott private equity portfolio has a net Total Value to Paid-In (TVPI) ratio of 1.9x and net Internal Rate of Return (IRR) of 16%.

   Within MCERA's five fund-of-fund vehicles Mr. Pangburn reported the news is largely positive. Abbott Capital Management Equity Fund (ACE) VI is a 2008 vintage fund with a net TVPI of 1.9x and the potential for additional upside. ACE VII is a 2014 vintage fund and a cash flow distributor with a net IRR of 24% through the first quarter of 2021. Annual Program (AP) 2016 is fully committed and is cash flow neutral, meaning future capital calls are likely to be offset by distributions. AP 2017 is fully committed and 60% paid in, and AP 2021 will be in the investment stage for the next two years.

   Asked by Trustee Werby if MCERA would be investing more than its commitment, Mr. Green explained co-investments are being used to make sure the original funds are fully invested.

   Mr. Pangburn reported ACE VI fund returns are in line with expectations and continue to appreciate. As of March 31, 2021 MCERA has received 1.3x its commitment back. Venture capital and growth equity have been driving returns, and buyouts and secondaries are also performing well. The Special Situations segment lagged due to challenged oil-related investments as a result of low energy prices. Mr. Pangburn pointed out this led to the bar for new energy investments being extremely high. Since 2017 ACE VI has generated meaningful distributions, with the pace slowing lately as underlying companies are sold. Mr. Pangburn discussed top ten companies comprising 20% of the fund's value that are expected to be liquidated in the near future.

   Mr. Green said ACE VII reflects the reduction in energy exposure and a shortened investment period by using more secondaries earlier in the fund's life. Mr. Pangburn said ACE VII has meaningful upside and is ahead of schedule from a distribution standpoint at 0.60 DPI as of March 31, 2021. As with ACE VI, venture capital and growth equity are driving returns for this fund. Most investments are showing double digit IRR's and have Net Asset Values (NAVs) that are double original values. Distributions have been meaningful and secondary investments are healthy. Similar to ACE VI, there is energy exposure showing weakness that is being monitored. Through August DPI has increased to around 0.70, with more distributions expected before year end. If market conditions persist, Mr. Pangburn expects the full return of invested capital in 2022. He reported significant appreciation has occurred within the top ten holdings now comprising 20% of the fund value, noting six of the ten top ten holdings are now publicly traded. He discussed two high performing funds that have net multiples of 4x or better.

Mr. Pangburn reported early performance for AP 2016 has been strong as it benefited from early investments in secondaries to minimize the J-curve. Mr. Pangburn said the venture segment is doing well and he gave specific examples of successful companies in biotech and software sectors. European funds are diversified geographically and across industries and strategies, and the North American sector is fully invested and diversified. AP 2016 is cash flow neutral and is expected ultimately to turn into a net distributor of capital.

AP 2017 is in the capital deployment phase and fully committed, with about 50% of commitments called. In the near term AP 2017 will continue to be a net caller of capital. The strategy mix includes a buyout sleeve and secondaries that have generated the bulk of early liquidity. European investments are underperforming North American investments. He emphasized the diversity of investments across industries and strategies. Mr. Pangburn stated the fund theses remain intact and AP 2017 is expected to appreciate in the coming months.

In conclusion, Mr. Green stated AP 2022 was launched in July 2021 and will have the final close in March or April of 2022. For AP 2022 the opportunistic sector was increased to 25% from 20% to mitigate the J-curve and improve fund performance. Fee incentives for ongoing investments include early close and commitment size.

3. <u>Pathway Capital Management LLC – Private Equity – Jim Reinhardt, Valerie Ruddick</u>

Jim Reinhardt, Senior Managing Director with Pathway Capital Management, reported MCERA's private equity portfolio has strong performance relative to public and private equity benchmarks and substantial realized returns and distributions. MCERA's total Pathway commitment is $225 million to five private equity vehicles: Pathway Private Equity Fund (PPEF) 2008, PPEF I-7, PPEF I-8, PPEF I-9, and PPEF I-10. As of March 31, 2021 the combined funds have an IRR of 19.3% net of all fees and expenses. Each fund is outperforming the industry benchmark, the MSCI World Public Market Equivalent (PME), and four of the five funds have IRRs over 20%. Combined the funds have a Total Value to Paid In (TVPI) ratio of 2.0x. Mr. Reinhardt pointed out that even the original PPEF 2008 fund continued to appreciate through the second quarter of 2021 when distributions very robust. Through June 30, 2021 the Distributed to Paid-In (DPI) ratio for the total Pathway portfolio is about 1.0, meaning distributions equal the amount MCERA has contributed to the whole Pathway private equity portfolio. Mr. Reinhardt stated performance is broad based across strategy, region, and type. Strategies are buyouts, venture capital and special situations; types are primary, secondary, or co-investments.

Valerie Ruddick, Managing Director with Pathway, reported MCERA's contributions have begun to taper as early funds are being drawn down. Distributions are growing, with 2021 notably strong; since March 31, 2021 MCERA has received an additional $40 million in distributions. Ms. Ruddick reported fund managers have done well taking opportunities to exit through the strong public markets. Distributions are coming from early funds and also from PPEF I-9.

Pathway's projected portfolio market value shows the value of early funds dropping off after the peak value in 2021. Ms. Ruddick explained that as positions are monetized the market value of the program is reduced, and by June 30, 2022 the portfolio value could be back to $158 million and would continue to decline absent additional capital commitments.

Ms. Ruddick stated the funds are diversified across 61 fund managers and 2658 (of over 4800 originally) portfolio companies from multiple strategies, industries, and geographic regions. She highlighted individual companies, such as Coinbase and Robinhood, with meaningful impacts on portfolio returns over the past 12 months.

In summary, Ms. Ruddick stated the portfolio is well positioned, and investment team is expecting strong performance going forward. Ms. Ruddick announced that PPEF I-11 will be launched imminently with overall fees below the industry. Mr. Reinhardt encouraged continued commitments to the private equity portfolio, noting the difficulty of recovering from stopping new commitments.

C. NEW BUSINESS

1. Private Equity Annual Review and Pacing Plan (**Action**)
   Consider, discuss and take possible action regarding private equity pacing plan

   Gary Robertson, Senior Vice President with Callan, presented Callan's annual Private Equity Pacing Plan projecting valuations and proposed commitments for the private equity portfolio. As background Mr. Robertson stated MCERA's private equity program was initiated in 2008 in a weak market environment. After slow initial capital deployment, by 2016 MCERA had achieved its 8% target allocation to private equity. By 2020 MCERA was slightly over its target allocation when a small additional commitment was made. (Mr. Robertson corrected presentation information: PPEF I-10 had a 64.5% IRR as of March 31, 2021, and for the whole private equity program the IRR was 16.7%.)

   Discussing current market conditions, Mr. Robertson stated that as a result of a strong bull market over the four quarters ending March 31, 2021, MCERA's private equity portfolio appreciated 73%. Private equity fundraising is up and distributions are strong, reflecting historically high valuations averaging 11 times cash flow. He noted that private equity is sensitive to liquidity and credit has been available due to accommodative monetary policy.

   A one-year change analysis as of March 31, 2021 shows MCERA's private equity portfolio has a DPI of 0.83, meaning MCERA has received 83 cents for every dollar invested. TVPI is almost 2x the amount invested, and commitments during the period increased by $50 million. Mr. Robertson said in the active current market funds are ahead of the 5-year schedule to invest capital. He presented key metrics for the period, including gross distributions of $64.5 million, which is 24.3% of the beginning NAV received by MCERA, and a nearly 60% increase in the portfolio NAV.

As of March 31, 2021, portfolio performance metrics relative to the industry show Abbott and Pathway funds in general rank in either the first or second quartile of peers. Mr. Robertson reported for the overall private equity portfolio, DPI is 0.83 versus the 0.69 peer midpoint, and TVPI is 1.98 versus the 1.83 peer midpoint. The data is net of all fees and expenses and the benchmark is the Refinitiv/Cambridge All Region, All Private Equity Benchmarks data base for professionally managed private equity portfolios.

Mr. Robertson reviewed changes in manager returns for the 12 months ending March 31, 2021. Over that period the Pathway portfolio pulled ahead of Abbott due to unrealized appreciation in their portfolio. Chair Klein noted the software allocations seem to be comparable. Mr. Robertson agreed and attributed Pathway's higher valuation to having bigger hits on successful companies. Since inception the two managers' performances have tracked very closely, he said.

MCERA's current allocation to private equity is 12.6%, slightly above its upper limit of 12%. Mr. Robertson said uncalled capital is about $94.7 million, which is below the normal 50% level, but good in the sense the portfolio is over target now. Considerations are whether distributions will be as strong going forward as managers are predicting. He presented Callan's projected commitments over the next ten years that reflect a $60 million commitment for 2022 vehicles. Callan recommends waiting for one more year to add commitments, or to reduce the $60 million by half because of current market conditions outlined above. Mr. Robertson made the point that MCERA has two more years of vintage year diversification built into the current portfolio. Mr. Callahan agrees with the managers that commitments need to be consistent over time, but he said if distributions are not as projected MCERA would be over its target allocation. The annual analysis gives the ability to make appropriate adjustments to MCERA's private equity allocation, Mr. Callahan advised. Mr. Robertson added Callan's private equity pacing model is based on conservative return projections.

Reviewing the managers' new investment vehicles, Mr. Robertson said Abbott AP 2022 has the same strategies but increases the allocation to co-investments and secondary investments from 20% to 25%. With PPEF I-11 Pathway is introducing carried interest on secondary and co-investments for the first time, which is consistent with the rest of the industry. Chair Klein asked if Pathway has a hurdle to meet for the carried interest, which Mr. Robertson said is an 8% return. He noted Abbott has no hurdle rate before collecting carried interest, and there is no carried interest for either manager if returns are negative.

Abbott waives its management fee for one year if MCERA makes a new commitment prior to December 2021 and provides for a prior commitment discount. Total average annual fees for Abbott are projected to be 51 basis points and for Pathway, 63 basis points, both of which are still below the median and average for the industry.

In summary, Mr. Callahan said the decision is whether to make new commitments to the private equity program, or take a pause and see how the portfolio evolves in the next year. Trustee Werby indicated the high projected distributions may reduce the private equity allocation. In response, Mr. Robertson noted high distributions would likely be accompanied by high unrealized appreciation in the portfolio. Mr. Callahan observed the model is assuming distributions in 2022 would be higher than the amount distributed this year, which he indicated was aggressive. Therefore, he reiterated, it seems like an appropriate time to pause new commitments for one year. Chair Klein noted private equity values could also go down and reduce the portfolio, and Mr. Callahan agreed assumptions do not always play out. Trustees Silberstein and Gladstern concurred with the investment consultant to pause new commitments this year.

2. Private Equity Annual Fee Disclosure (**Action**)
   Consider, discuss and take possible action regarding private equity fee disclosure

   Mr. Robertson presented the Private Equity Annual Fee Disclosure report. The report is based on a template developed by the Institutional Limited Partners Association (ILPA) to disclose partnership and fund-of-fund fees and expenses. Abbott Capital Management and Pathway Capital Management are MCERA's two private equity fund-of-fund managers. Mr. Robertson reported for calendar year 2020 Abbott's total private equity fees including expenses were $15.5 million, of which $13.9 million was for underlying partnerships and $1.6 million for the fund-of-fund manager. For Pathway total private equity fees including expenses were $20.3 million, consisting of $18.8 million for underlying partnerships and $1.5 million for the fund-of-fund manager. For both managers private equity fees and expenses totaled $35.8 million for the year.

   The report also lists fund-of-fund manager private equity fees and expenses since inception, which for Abbott were $13.5 million and for Pathway $15.3 million, totaling $28.8 million for MCERA's private equity program. Additionally, Pathway volunteered to provide underlying partnership fees and expenses since inception. Abbott did not provide data for underlying partnership fees and expenses since inception.

   Trustee Werby asked why Pathway was adding carried interest to its fee structure. In response Mr. Callahan said Abbott historically has had a lower baseline management fee. He stated while Pathway's new carried interest will lead to a greater differential, both managers still represent competitive offerings compared with the industry.

It was M/S Gladstern/Silberstein to accept the Private Equity Fee Disclosure as submitted. The motion was approved by a vote of 8-0 as follows:

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

3. AEW Core Property Trust Restructuring (**Action**)
   Consider, discuss and take possible action regarding restructuring the AEW Core Property Trust to a limited partnership

   Anne Heaphy, Senior Vice President with Callan, explained the AEW Core Property Trust was organized in 2007 with a 15-year life expiring in 2022. Ms. Heaphy stated AEW is requesting investor approval to change the core real estate fund's structure. The new structure would move to a limited partnership under Delaware law, and, secondly, create a Luxembourg parallel fund that would be attractive to foreign investors. The fund can charge up to 2 basis point as a one-time fee paid by investors for this change. Callan advises the proposed structural changes are in line with how peer funds are structured.

Trustee Werby inquired why investors are bearing the cost of the structural change. Mr. Wickman replied AEW felt the vehicle was the most common vehicle and it was appropriate for the fund to bear the cost. Mr. Wickman said the action of the Board would be to authorize the Retirement Administrator to submit the Consent form to AEW approving AEW's proposed restructuring plan. Trustee Werby objected due to having to pay for the restructuring and does not want to spend legal fees to examine the restructuring provisions. Mr. Wickman noted AEW already has MCERA's proxies, advising the only other option would be to exit the open-ended fund. Asked by Trustee Gladstern for his opinion of the AEW fund, Mr. Callahan stated it has been a solid fund and is not a cause of concern on any level. He noted the one-time fee is relatively small and that changing to a new manager would have a cost. Trustee Silberstein concurred with the investment consultant to support the proposed structural change and Chair Klein supported his view.

It was M/S Silberstein/Gladstern to authorize the Retirement Administrator to submit the Consent form to AEW approving the AEW Core Property Trust Restructuring Plan. Trustee Poirier voted for Trustee Cooper who was absent. The motion was approved by a vote of 8-0 as follows:

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

4. Investment Manager Personnel Updates
   a. Morgan Stanley Investment Management

      Ms. Heaphy reported Morgan Stanley has announced three new hires to the International Equity Team, the first being Isabelle Mast, who joined as an Executive Director and Portfolio Manager covering financials. Ms. Mast will cover insurance, certain diversified financials, and emerging markets banks. Secondly, Anton Kryachok was hired as Vice President and Research Analyst responsible for developed markets banks. The third new team member is Jinny Hyun, Research Analyst, a Morgan Stanley intern who will be a generalist resource. Ms. Heaphy observed William Lock remains at the helm of the 13-member team, adding the fair amount of turnover has not impacted the investment process.

Trustee Silberstein was excused from the meeting at 11:10 a.m.

   b. TimesSquare Capital Management LLC

      Ms. Heaphy reported that TimesSquare announced adding a fourth analyst, Reuben Scherzer, in June 2021 to support the International Small Cap strategy. Mr. Scherzer is a Senior Vice President and Analyst covering Europe and other regions within developed, emerging, and frontier markets.

c. Parametric

Ms. Heaphy reported Parametric Portfolio Associates created the new role of Chief Operating Officer, Investments, to be filled by Randall Hegarty, former Chief Compliance Officer. Mr. Hegarty will report to Tom Lee, Chief Investment Officer for Equity and Derivatives. Cindy Kim and Ben Hammes will assume Co-Chief Compliance Officer responsibilities and report to Compliance.

5. Future Meetings
Consider and discuss agenda items for future meetings

Chair Klein invited comments on topics for future meetings.

D. INVESTMENT CONSULTANT QUARTERLY REPORT

1. Summary Report as of June 30, 2021

Mr. Callahan presented Callan's quarterly Summary Investment Report as of June 30, 2021. The investment consultant reported public equity markets continue strong performance, as the Russell 3000 rose over 8% for the quarter and an extraordinary 44% year over year. In the U.S. equity markets private equity led performance with a return over 62% year over year. In November 2020 equity markets rotated from mega cap and consumer stocks to value and small cap equities. Non-U.S. stocks had good performance but continue to lag U.S. markets, he said. Mr. Callahan said year over year fixed income had a modestly negative return, and commodities experienced a big rebound.

Mr. Callahan stated the MCERA Fund's 54% allocation to equities is driving good performance and the private equity portfolio has appreciated to just above the high end of its target range. Ms. Heaphy reported as of June 30, 2021 the total Fund value was $3.3 billion. The Fund returned 4.6% net of fees for the quarter and 30% net of fees for the fiscal year. Since private equity values are of March 31, 2021 final fiscal year performance for the Fund will be determined later this year.

The domestic equity portfolio returned nearly 51% for the year. During the second quarter large cap outperformed small cap, but for the year small cap equities contributed to returns. International equities were up 30% for the fiscal year, modestly underperforming the benchmark. One headwind was the consumer staple sector in the Morgan Stanley portfolio. In the second quarter Artisan's growth focus helped returns, and Parametric's emerging markets portfolio performed well.

The fixed income portfolio outperformed the benchmark over the quarter and year. In core real estate portfolios, AEW is outperforming the UBS portfolio. Real assets were up almost 41% year over year, outperforming the target due to strength in REITs returning 40%, the KBI natural resources portfolio returning nearly 65%, and a gain of close to 49% in the Invesco commodities portfolio, Ms. Heaphy reported MCERA has paid in $27 million of the $100 million committed to Opportunistic managers. Fortress and CarVal have drawn about 15% of committed capital each. Värde has drawn about 50% of its capital and has an 18-month investment period that is shorter than the other two managers. The three private debt managers will present portfolio reviews at the December Investment Committee meeting.

2. Flash Performance Update as of August 31, 2021

Ms. Heaphy presented the Flash Performance update as of August 31, 2021, reporting a total Fund value of $3.4 billion, up 2% since July 1, 2021 and up 11.3% since January 1, 2021. Recently large cap equities are outperforming small cap, and REITs lead public real asset returns.

There being no further business, Chair Klein adjourned the meeting at 11:32 a.m.

Jeff Wickman
Retirement Administrator

On behalf of:
Sara Klein
Investment Committee Chair

Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman
Retirement Administrator