

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

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

January 19, 2022 – 9:00 a.m.

This meeting was held via videoconference pursuant to MCERA Board of Retirement Resolution 2021/22-01, which invoked Government Code section 54953(e) for all MCERA Board and standing committee meetings through February 11, 2022. 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, Klein, Murphy, Silberstein, Tomlin, Werby, Jones (alternate retired), Martinovich (ex officio alternate), Poirier (alternate safety)

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

Anne Heaphy, Senior Vice President with Callan LLC, introduced the Wellington Management Company core plus fixed income investment team for the portfolio review.

The Wellington portfolio represents half of MCERA's fixed income portfolio, the other half divided equally between intermediate credit and global government bond strategies.

2. Wellington Management Company – Core Plus Fixed Income – Campe Goodman, Jeremy Forster, Anand Dharan, and Molly Conway

TIME CERTAIN: 9:05 a.m.

Molly Conway introduced the Wellington Management Company core bond plus team members presenting the portfolio review. Campe Goodman, Portfolio Manager, focuses on sector rotation within the fixed income portfolios. Jeremy Forster is a Portfolio Manager focusing on interest rate strategy, and Anand Dharan serves as an Investment Director on multi-sector fixed income portfolios and ensuring the integrity of the strategy.

Mr. Goodman stated the investment goal and strategy is to deliver returns exceeding the Bloomberg U.S. Aggregate Index with lower risk using the best ideas across fixed income markets. Mr. Goodman said he spends most of his time thinking about sector rotation based on value. He noted 2021 was a challenging year for fixed income assets, pointing out the benchmark had a negative 1.5% return. During 2021 the defining move of fixed income markets was that it became clear that the Fed would be able to raise interest rates sooner than markets had anticipated. As a result, interest rates moved up in the first quarter of 2021 and then stabilized for the remainder of the year as the yield curve flattened. Regarding asset allocation, corporate bonds outperformed other assets and paid a higher yield than government bonds. The largest contributor to performance came from the allocation to high yield bonds. Investment grade bonds performed well, as did nonagency securitized assets that reflected a recovery in the U.S housing market. The investment grade corporate sector contributed about 15 basis points of outperformance to the benchmark. In the noncorporate credit sector, bonds issued by municipalities performed well. Trustee Werby asked if the 25 basis point contribution of high yield is appropriate relative to the 13 basis point return of U.S. government bonds. In response Mr. Goodman stated those returns reflect a good risk-reward. He explained that, within high yield, investments were in the highest rated bonds, and that it takes more assets to invest in governments than in high yield.

Mr. Forster stated the strategy for 2022 has more of the same themes. Mr. Forster pointed out the economy has repaired itself since the pandemic, as unprecedented fiscal and monetary support in 2021 led to improved personal income and a tight labor market. Going forward Mr. Forster expects less fiscal and monetary support, with rate hikes as soon as the March 2022 Federal Open Market Committee meeting and an end to Federal balance sheet expansion. For the portfolio, the big change is reducing investment grade credit due to expected headwinds. Mr. Forster expects global inflation to moderate, which will allow emerging markets to be more attractive relative to the U.S. Agency mortgages are an area of debate at this time, and there is a widening of spreads based on uncertainty around prepayments. Mr. Forster said the strategy is to continue having an overweight position in agency mortgages. Mr. Goodman added he believes rates are more likely to settle down this year, which is a somewhat different view from other investors. Mr. Forster said high yield exposure is coming down because positions are not being replaced as they are called down. With some headwinds on the corporate side, the team is moving more toward bank loans that have more protection from rising interest rates. The team has

not fundamentally changed the outlook for the U.S. economy, so the expectation is for more stability in the long end of the yield curve and room for the front end of the yield curve to move higher.

Trustee Werby asked what the outlook is for inflation. Mr. Goodman replied that in the next 20 years he expects inflation to normalize at about 2%. He said higher debt levels, demographics, and advances in technology will weigh on inflation. Over the next 12 months he expects the shelter component of CPI to end up being a little higher, noting that some current supply dislocations are driving inflation. Trustee Klein requested an update on the 10-year Treasury move. Mr. Forster replied that yields are flattening in the forward curve. Looking 5 years forward the curve is inverted, so the movement has been led on the front end of the curve. Mr. Goodman observed the long end of the curve is telling him there will not be an increase in interest rates over the long term. Ms. Klein asked for the view on how the market is impacted when the Fed stops purchasing U.S. Treasuries. Mr. Goodman replied some of the price action in the last few weeks is based on uncertainty and risk premia for supply itself. There will be a period without Fed support to purchase U.S. Government securities, and the U.S. Treasury will step away from the amount it is selling. With tighter financial conditions yields can move a little higher, Mr. Goodman said.

3. Parametric – Futures Overlay Program – Alex Braun, Heather Wolf, and Dan Ryan
TIME CERTAIN: 9:35 a.m.

Dan Ryan, Relationship Manager with Parametric, introduced Heather Wolf, Associate Portfolio Manager within the cash securitization overlay team, and Alex Braun who leads the team overseeing the MCERA overlay program. Mr. Ryan said in March 2021 Eaton Vance was acquired by Morgan Stanley. Since then Parametric has continued to be autonomous with its own executive leadership team, so investment strategies were not impacted.

Ms. Wolf explained that cash creates drag on the portfolio particularly when there may be no target allocation to cash. The cash securitization overlay program assists to alleviate these frictions by bringing the portfolio back to the risk exposure detailed within the Investment Policy Statement. Ms. Wolf said this allows staff to focus on the broad picture and not cash management details. Parametric monitors MCERA's cash levels on a daily basis using a direct link to the custodian. After accounting for cash needed for benefit payments, capital calls, operating cash flow, and funding obligations, available cash is securitized to achieve market exposure. In addition, Parametric monitors daily imbalances of the portfolio relative to allocation thresholds to bring the portfolio back to target ranges. The overlay program is also used to securitize cash during transition events to maintain market exposure. The basic premise is to have the portfolio consistently exposed to the market until a new manager is funded.

In conclusion, Ms. Wolf stated cash levels in the Fund vary significantly over time, averaging 2% of the Fund, which is reduced to 0.06% with the overlay program. The overlay program has returned a total of \$59 million, 15 basis points on the total portfolio annually, with a lower tracking error relative to the Investment Policy Statement. Parametric continually employs overlay enhancements to keep daily reporting as accurate as possible. Trustee Werby asked about cybersecurity. Mr. Ryan replied cybersecurity is a

key area of focus for the technology team. The goal is to have no service disruption and maintain data integrity by enhancing the technology platform to incorporate best practices to prevent intrusion or data leaks.

C. NEW BUSINESS

1. Investment Manager Reporting Schedule (Action)

Retirement Administrator Jeff Wickman presented the Investment Manager Reporting Schedule for the next three years. He explained that managers provide portfolio reviews on a rotational basis.

It was M/S Werby/Gladstern to approve the Investment Manager Reporting Schedule as presented. 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

2. Future Meetings

Mr. Wickman said he is working with Callan on topics for future meetings.

D. INVESTMENT CONSULTANT PERFORMANCE UPDATE

1. Flash Performance Update as of December 31, 2021

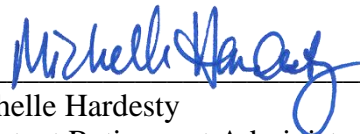
Ms. Heaphy reviewed the flash performance update for the Fund as of December 31, 2021. Ms. Heaphy stated large equity returns in the first quarter of 2021 were followed by volatility in the second half of the calendar year. For the fiscal year beginning July 1, 2021 through December 31, 2021, domestic large cap equities are up 10.4% and international equities are down 1.4%. REITs are up almost 18% and returns are strong for natural resources. The real estate portfolio return is about 10% for the fiscal year to date, and the private equity portfolio is flat for the fiscal year since returns are lagged. Emerging markets is an area of strength so far in 2022.

There being no further business, Chair Klein adjourned the meeting at 10:22 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