

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

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

June 15, 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 June 16, 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: Cooper, Gladstern, Klein, Martinovich, Murphy, Silberstein, Tomlin, Werby Jones (alternate retired), Shaw (ex officio alternate), Poirier (alternate safety)

ABSENT: None

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. TOPIC OF GENERAL INTEREST

1. Reconsideration of State of Emergency conditions under Assembly Bill (AB) 361 (ACTION)

Reconsider and take possible action to invoke Government Code section 54953(e), and to extend MCERA Resolution 2021/22-01 Authorizing Teleconferencing for Board and Standing Committee Meetings through July 15, 2022, because the State of Emergency proclaimed under Government Code section 8625 remains in effect, and at least one of the following circumstances exists:

1. As a result of the emergency meeting in person would present imminent risks to the health or safety of attendees; or
2. State or local officials continue to impose or recommend measures to promote social distancing.

Retirement Administrator Jeff Wickman stated the Board is to consider whether one or both conditions listed above exist to invoke Government Code section 54953(e), and to extend MCERA Resolution 2021/22-01 Authorizing Teleconferencing for Board and Standing Committee Meetings through July 15, 2022. The extension would allow the July 13, 2022 Board meeting to be held remotely. The Board could also consider and discuss returning to in-person meetings while continuing to broadcast the meetings for the public.

Trustee Poirier asked whether all Board members would need to be present to conduct in-person meetings. Mr. Wickman replied some CERL systems are conducting hybrid meetings where some trustees come into the office for the meeting and others continue to attend remotely. Counsel Ashley Dunning noted that with a hybrid meeting model provisions to extend remote meetings would still need to be invoked.

Trustee Jones stated because there are Board members who are at risk of getting COVID and the nature of new variants is not known, moving to in-person meetings is premature at this time. Chair Klein said she is ready to return to in-person meetings, but understands if the Board prefers to delay another month.

It was M/S Silberstein/Gladstern to extend MCERA Resolution 2021/22-01 Authorizing Teleconferencing for Board and Standing Committee Meetings through July 15, 2022 because both of the circumstances listed above exist. The motion was approved by a vote of 8-0 as follows:

AYES: Cooper, Gladstern, Klein, Martinovich, Murphy, Silberstein, Tomlin, Werby
NOES: None
ABSTAIN: None
ABSENT: None

C. MANAGER REPORTS

1. Manager Overview – Jim Callahan, Callan LLC

Jim Callahan, President of Callan LLC, introduced managers presenting portfolio reviews. Dimensional Fund Advisors (DFA) manages the active domestic small cap equity allocation, and Fidelity Institutional Asset Management (FIAM) manages the Select Emerging Markets Equity strategy.

2. Dimensional Fund Advisors – Core Small Cap Equities – Gavin Crabb, Ted Simpson, Karlene Lousignont TIME CERTAIN: 9:05 a.m.

Ted Simpson, Relationship Manager with Dimensional Fund Advisors, introduced Gavin Crabb, a senior portfolio manager. Mr. Simpson noted that DFA reduced MCERA's fee from 30 to 25 basis points earlier this year. Mr. Crabb stated the DFA strategy involves identifying premiums resulting in higher returns, which are company size, relative price, and profitability. For the U.S. small cap strategy, the market cap ceiling is \$10 billion, and companies with high growth rates and low profitability are excluded because they have lower expected returns. The portfolio is rebalanced every day to achieve strategy objectives, minimize portfolio drift, and add an edge. Daily trading is managed by making meaningful transactions and being flexible to drive trading costs down and optimize price.

Mr. Crabb discussed other factors considered in managing the strategy. Securities with a high demand to borrow are expected to have lower returns in the near term. Over the short term downward or upward momentum is allowed to continue and then subside before buying or selling.

Trustee Silberstein asked about the size of DFA's small cap assets overall and how MCERA's account is managed. Mr. Crabb replied DFA manages about \$30 billion in the small cap arena and MCERA's account is managed separately. Trustee Silberstein asked about the weighting of companies with improving profitability. In response, Mr. Crabb said if a firm has better profitability, it will be considered relative to its sector. In addition, models apply numerous factors to determine the ideal set of securities to buy each day. Mr. Simpson added the market cap of securities is considered and adjusted depending on profitability and other characteristics.

Trustee Gladstern asked if DFA owns large percentages of any company. Mr. Crabb replied DFA holdings for individual companies are capped in the high single digit range, and within each account holdings are well diversified. From a governance perspective DFA has a team considering proxy votes carefully.

As of March 31, 2022, the DFA Small Cap Core strategy outperformed the Russell 2000 Index for the quarter, year, and past 3 years. Mr. Crabb attributed outperformance to excluding high growth companies with low profitability from the strategy, noting these securities underperformed the market.

3. Fidelity Institutional Asset Management – Select Emerging Markets Equity– Art Greenwood, John Chow
TIME CERTAIN: 9:35 a.m.

Art Greenwood, Relationship Manager with Fidelity Institutional Asset Management, introduced John Chow, Portfolio Manager for the Select Emerging Markets Equity strategy, to present the portfolio review. Mr. Greenwood noted the Select Emerging Markets Equity strategy had a challenging year in 2021. He noted at the end of October 2021 the Select Emerging Markets Equity fund was flat versus the benchmark, and then had a challenging November – December 2021 period.

Mr. Chow reported the first quarter of 2022 was marked by the Russian invasion of Ukraine. The underweight to middle eastern countries hurt the strategy as economies levered to energy did well. In the second part of the quarter, intense risk aversion drove the emerging markets equity markets down. Mr. Chow pointed out that due to geopolitical expertise within FIAM, the fund's overweight to Russian securities late in 2021 was trimmed beginning in January 2022 just before the Ukraine invasion. Subsequently, Mr. Chow continued trimming by exiting eastern European banks and added to commodity exposure.

Mr. Chow termed the first quarter of 2022 an unusual market environment marked by a lack of dispersion and challenges with differentiating winners from losers in the short term. Sentiment, including fears of stagflation and global recession, dominated over fundamental factors. Mr. Chow said in this environment it is important to manage risk, with the expectation over the long term the market will return to being driven by fundamentals.

Currently, the fund is overweight energy, India, Korea and Indonesia and underweight China and Taiwan. Mr. Chow said going forward the outlook for emerging markets equities is tempered as the recovery from the pandemic is pushed out further. Rising energy and food inflation will pressure company margins and also fiscal budgets. He also noted it is difficult for emerging markets to perform well with a strong U.S. dollar. If there is recession in the U.S., the risk/reward of China would improve as it does not have the inflation problem and has an ample food supply.

Trustee Silberstein asked about the potential for China to invade Taiwan or to shut down individual companies. Mr. Chow said his view is a Taiwan invasion is less likely in the near term due to the potential sanctions involved. Mr. Chow acknowledged there is an issue of corporate governance in China and the risk premium is high, which is a reason the strategy is underweight China. Chair Klein asked about the disposition of Russian securities remaining in the portfolio, and Mr. Chow replied he is waiting for clarity at a firm level on disposing these securities.

D. NEW BUSINESS

1. Fixed Income Structure Review – Jim Callahan, Callan LLC

Mr. Callahan reviewed the Fund's fixed income structure and presented four alternative structures for discussion. He highlighted the sharp increase in bond yields this year, as evidenced by the increase in the U.S. 10-year Treasury yield from 1.5% at the beginning of

2022 to its current 3.48% yield. He noted when yields increase, the price of the bond goes down, which raises the need to review the fixed income structure and discuss potential changes. Currently, the fixed income allocation is 23% of the Fund, structured as 50% U.S. Core Plus managed by Wellington Management, 25% U.S. Intermediate Credit managed by Western Asset Management, and 25% Global Fixed Income managed by Colchester. Mr. Callahan pointed out that due to the strong U.S. dollar the global strategy has faced a headwind.

Mr. Callahan reviewed allocations in the Bloomberg U.S. Aggregate Bond Index, noting as of March 31, 2022 its duration of 6.6 years is longer than the 5.5 year duration of MCERA's fixed income allocation. This shorter duration benefited the Fund's returns as rates have risen in 2022. The yield of the fixed income portfolio is slightly higher than the benchmark, and he pointed out that over time yields drive fixed income returns. The investment consultant said the current structure is reasonable, but it is useful to explore different combinations given market conditions as to risk and duration.

The fixed income portfolio has an A+ rating, which is high but slightly under the index. There is an overweight to corporate and government-related bonds and a significant underweight to U.S. Treasuries. Mr. Callahan noted that outside of the standard fixed income allocation, the Fund holds U.S. Treasury Inflation-Protected Securities (TIPS) in the real assets allocation and private credit in the Opportunistic allocation, bringing the total fixed income allocation closer to 25% of the Fund.

Mr. Callahan stated the purpose of fixed income is to be a low-risk asset to diversify equity exposure and provide downside protection and liquidity in a stressed environment. Historically, bonds buffer downturns in equities, but the first quarter of 2022 has been unusual as bonds declined along with equities.

MCERA's liquidity profile projects net cash outflow rising over the next 10 years to 4%, which Mr. Callahan said is manageable and allows for taking on credit and duration risk. Given market conditions and the current fixed income structure, Mr. Callahan presented four alternative fixed income structures for discussion:

- Mix A – 50%-50% core plus managed by Western Asset and Wellington.
- Mix B – reduces the global fixed income allocation to 10%, with 40% intermediate credit managed by Western Asset and 50% core plus managed by Wellington.
- Mix C – introduces 25% intermediate U.S. Treasuries as a pure liquidity component (represents 3 years of benefit payments), 15% global, 20% intermediate credit, and 40% core plus.
- Mix D – increases intermediate U.S. Treasuries to 30%, adds unconstrained multi-sector credit of 35%, and 35% intermediate credit. The intention is to increase yield while preserving the liquidity characteristic of the allocation.

Mr. Callahan discussed the tradeoffs of each proposed fixed income allocation with regard to yield, fees, credit risk, diversification, tracking error, duration and Sharpe ratio. In a 14-

year lookback of yield and duration for each asset mix, all of the alternatives outperformed the Bloomberg Aggregate benchmark.

Trustee Silberstein voiced a preference for Mix A and reducing the fixed allocation from 23% to 20% to increase portfolio return. Trustee Gladstern agreed with lowering the allocation and suggested implementing Mix C. Trustee Werby would retain the current fixed income structure including global bonds, saying the U.S. dollar may not continue its relative strength to other currencies. Trustee Martinovich supported this approach, suggesting leaning into safety of principle and consistency of returns with minimal volatility. Chair Klein prefers Mix A that eliminates the Colchester global bond portfolio, which she said has been on the Watchlist, has higher fees, and is less liquid than the core plus strategy.

Mr. Wickman said if there is interest in Mix A, Callan can present additional information on how Western Asset would manage the core plus fixed income strategy at a future meeting. Trustee Murphy supported this approach and considering lowering the fixed income allocation. Mr. Callahan noted that Callan had recommended lowering the fixed income allocation to 20% and this can be revisited, along with more detail on Mix A, at a future meeting. He emphasized for the Committee to consider the best way to position the fixed income allocation over the long term. He added that with supply-driven inflation, the Fed's increase of interest rates has less efficacy.

2. Future Meetings

No discussion.

Mr. Wickman requested allowing for public comment and no members of the public provided comment.

E. INVESTMENT CONSULTANT QUARTERLY REPORT

1. Summary Report as of March 31, 2022

Anne Heaphy, Senior Vice President with Callan, reported equity markets were down in the first quarter of 2022. U.S. large cap equities outperformed U.S. small caps for the quarter and prior 12 months. Emerging markets were down for the quarter and prior 12 months as China's challenged economy was exacerbated by the Ukraine invasion. In the U.S. private real estate was positive for the quarter and 12-month period. Through September 30, 2021, private equity had positive returns for the quarter and prior 12 months. Commodities had strong returns driven in part by higher energy prices. Fixed income returns were negative for the quarter and preceding 12 months driven by higher interest rates.

The Total Fund value as of March 31, 2022 is \$3.35 billion and the net return is negative 4.1% for the quarter and up 6.8% for the prior 12 calendar month period. Ms. Heaphy said the fiscal year-to-date return is expected to be slightly negative. Asset allocations are close to targeted amounts. In the domestic equity portfolio, Dimensional Fund Advisors (DFA) is outperforming the benchmark over the quarter, year, and 3-year periods. In international equities Morgan Stanley's underweight to energy detracted from

performance. For the Artisan portfolio the exposure to Russian stocks and growth orientation were headwinds.

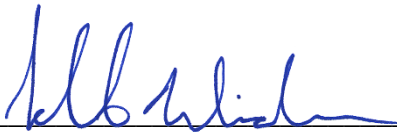
The fixed income portfolio returns were negative for the quarter and prior 12 calendar months. Wellington and Western Asset fixed income portfolios outperformed respective benchmarks. The AEW Core Property Trust had positive returns for the quarter and year periods, modestly trailing the benchmark for the year. The UBS Trumbull Property Fund had positive returns for the quarter and year but underperformed the benchmark. UBS has sold 56% of the non-strategic asset pool and expects final dispositions to occur next year. The firm is repositioning property weights and Callan has confidence in the management team.

The real assets portfolio had positive returns for the quarter and year, led by the Invesco commodities portfolio and KBIGI global resources portfolios. In private equity, as of September 30, 2021 the portfolio is 85.93% paid in and distributions have been strong. The Total Value to Paid-In Capital (TVPI) is 2.15x and the net Internal Rate of Return (IRR) is close to 18%. In the Opportunistic portfolio of \$100 million committed, 43.4% was paid in as of March 31, 2022.

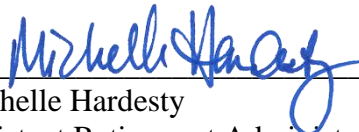
2. Flash Performance Update as of May 31, 2022

Ms. Heaphy presented the Flash Performance update, reporting as of May 31, 2022 the preliminary fiscal year-to-date return for the Fund is negative 3.8%.

There being no further business, Chair Klein adjourned the meeting at 12:02 p.m.



Jeff Wickman
Retirement Administrator



Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Sara Klein, Investment Committee Chair

On behalf of:
Jeff Wickman, Retirement Administrator