

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

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

January 18, 2023 – 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 10, 2023. 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 9:29 a.m.

ROLL CALL

PRESENT: Cooper, Gladstern, Klein, Martinovich, Murphy, Silberstein, Vasquez, Werby, Gullett (alternate safety), Jones (alternate retired), Shaw (ex officio alternate)

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. MANAGER REPORTS

1. Manager Overview – Jim Callahan, Callan LLC

Jim Callahan, President of Callan LLC, said MCERA's three private credit managers, AB CarVal Investors, Fortress Investment Group LLC, and Värde Partners, are presenting portfolio reviews. In 2020 MCERA committed a total of \$100 million to these managers as an Opportunistic investment with an allocation range of zero to 5% of the Fund. Just over half of the total commitment has been called, representing slightly under 2% of total MCERA assets.

2. AB CarVal Investors – Credit Value Fund V – Jody Gunderson, Matthew Hanson TIME CERTAIN: 9:05 a.m.

Matt Hanson, Managing Director, said AB CarVal currently focuses on specialty finance, structured credit, clean energy, and dislocations. Mr. Hanson introduced Jody Gunderson, Managing Principal for AB CarVal, who reported CarVal was sold to Alliance Bernstein in the middle of 2022. She said the firm is still independently managed by the same, stable team and hires with a focus on diversity.

Mr. Hanson reported MCERA's \$33.5 million commitment in the Credit Value Fund V was 65% called as of December 31, 2022. The remaining 35% of capital will be called in 2023. He said the focus of the fund is on deliberate deployment into illiquid credit opportunities. The fund seeks to deploy opportunistically in more liquid credit situations as dislocations present themselves around the globe. Mr. Hanson noted that Covid-related corporate distress opportunities were short-lived due to the swift and large governmental fiscal and monetary policy response in 2020.

Mr. Hanson said the majority of holdings are loan portfolios and structured credit. He pointed out that the 17% allocation to corporate securities is underweight due to exercising deliberation and patience in a richly priced market.

Ms. Gunderson said loan portfolios are diversified across consumer, residential real estate, and commercial real estate. The residential market in particular has been going through a major dislocation due to rising interest rates. This resulted in securitization markets that were barely functioning as banks stepped away, leading to the opportunity to provide liquidity. The fund holds meaningful structured credit positions in investment-grade rated tranches. In addition, holdings include well-secured, single real estate debt financing in the U.S. and Europe.

Turning to the market outlook, Ms. Gunderson said 2022 was a dramatic year with four negative investment themes – the cost of funds, cost of inflation, retrenching banks, and slowing economic activity. These themes are expected to impact all aspects of the economy, leading to depreciating asset prices and an uptick in corporate defaults. In the specialty finance sector opportunities include commercial real estate and consumer lending as banks limit lending due to concerns about fundamentals. In the clean energy sector negative themes are balanced by high energy prices, the Inflation Reduction Act, and

growing markets. Transactions include financing for clean energy developers and buying high-quality residential solar loans.

Trustee Werby asked about the effect of a potential fiscal cliff for the U.S. Government. In response Ms. Gunderson said AB CarVal would be ready to reset investments based on the higher risk. She added many loan portfolios are considered investment grade to compensate for uncertainties.

Chair Klein asked what the strategy would be in the event the fund became the owner of commercial real estate. Ms. Gunderson replied when making loans backed by commercial real estate a judgment is made on how to maximize returns to investors. This may include holding the real estate for a period of time. Chair Klein asked about loans backed by office space. Ms. Gunderson replied of 35 single asset real estate positions, two are offices. She noted real estate holdings are concentrated in hotels and multi-family.

Trustee Vasquez asked if counterparty risks for collateralized loan obligations are similar to what occurred during the Great Financial Crisis (GFC). In response, Ms. Gunderson said there have been no issues from vendors with the monthly valuation of structured products. She noted structured products have been simplified since the GFC to avoid risk in the system.

3. Fortress Investment Group LLC – Credit Opportunities Fund V Expansion – Joshua Pack, Danny Kayne, Jill Chanes
TIME CERTAIN: 9:35 a.m.

Jill Chanes, Managing Director in the Fortress Investment Group LLC, introduced Danny Kayne, a Managing Director and Global Head of Consulting, and Josh Pack, a Managing Partner and Co-CIO of the Credit Opportunities Fund V Expansion (Fund V Exp). Ms. Chanes stated Fund V Exp has a broad mandate to invest across the credit spectrum. Two years into the investment period, Fund V Exp is 41% called.

Mr. Pack said the focus for Fund V Exp is on buying existing debt positions, making new loans, or buying assets. Areas of interest range from real estate to intellectual property across a broad spectrum of performing and nonperforming assets. Geographically the primary areas are the U.S., western Europe, and Australia. Mr. Pack said the pace of capital deployment has been slower than preferred which is a function of the market. He noted distress situations on the corporate side have not materialized, so the focus is on less liquid opportunities.

Mr. Pack said illiquid opportunities include legal assets, the energy space, and nonperforming loans. The focus is on continuing to invest in distressed situations in Europe more than the U.S. Mr. Pack said banks are beginning to take back and liquidate assets, presenting investment opportunities. For the U.S., the view is that a material change in labor markets will be needed before the Fed pauses raising rates. He noted that repricing real estate is much slower because owners wait until they are forced to refinance or sell.

Mr. Pack stated currently Fund V Exp holds \$3.0 billion in 42 investments across 11 different asset classes. Discussing individual transactions, he said in December of 2021 Fund V Exp invested in a franchised pub business in the United Kingdom. This included an attractive fixed rate liability in place and rent increasing with inflation. By transitioning from independent management to corporate-run pubs, cash flow was increased significantly. Another transaction involved Hertz Global, which as a result of the pandemic was shut down. In a rights offering Fortress acquired a percentage of common equity of Hertz. As the market recovered, the equity was sold at an attractive price. Another investment was a bridge loan to the buyer of a sporting goods company with additional equity participation.

In conclusion, Mr. Pack said Fund V Exp has been active in real estate and litigation finance over the past six months. In response to Trustee Werby's inquiry about a potential fiscal cliff for the U.S. government, Mr. Pack said absent an agreement on the U.S. debt limit, he would see the subsequent downswing in asset prices as a buying opportunity.

Counsel Dunning advised that because the Fortress presentation used during the meeting included additional information that was provided to MCERA just prior to the meeting and was not included in the public packet available online, it will be added to the public packet available on MCERA's website.

3. Värde Partners – Värde Dislocation Fund – Brad Bauer, Tom Knechtel
TIME CERTAIN: 10:05 a.m.

Tom Knechtel, Managing Director, introduced Brad Bauer, Partner and Co-Chief Investment Officer. Mr. Bauer stated capital for the Värde Dislocation Fund was not deployed as quickly as expected due to the COVID dislocation being truncated. However, by the middle of the volatile 2022 year, the Dislocation Fund was 80% invested. He reported a number of exits were delayed which will erode the expected Internal Rate of Return (IRR). The Dislocation Fund will be in harvest mode through 2023 and 2024, taking advantage of market liquidity.

Mr. Bauer said holdings are mostly traded credit and a few private transactions with the focus on shorter duration. Among the diverse set of exposures in the Dislocation Fund, hotels represent some of the largest holdings remaining. Traded high yield corporate credit is mainly in the U.S., focused on cruise lines and air lines; other sectors include energy, industrials, consumer discretionary, and consumer staple. Private transactions are tilted to credit exposures with good visibility and timing with respect to the remainder of the book.

Real estate transactions include credit lending to U.S. home builders, as well as to hotels in high-end leisure locations that are performing well. The remainder of hotel exposure involves converting hotels into student housing in major metropolitan areas. In conclusion, Mr. Bauer said cruise line exposure has been disappointing and the focus now is on returning capital to investors.

Counsel Dunning advised that the presentation included two slides that were not included in the original public presentation posted on MCERA’s web site. She noted that MCERA’s web site will be updated to reflect the new presentation.

C. NEW BUSINESS

1. Investment Manager Reporting Schedule (ACTION)

Mr. Wickman presented the schedule for investment manager portfolio reviews through 2024. The schedule has been updated to have private debt managers present reviews annually.

It was M/S Werby/Gladstern to approve the Investment Manager Reporting Schedule, with the addition of Wellington to the June 2023 Investment Committee meeting.

Chair Klein asked to have Wellington present a portfolio review in June 2023 when Western Asset is presenting. Trustee Vasquez supported having managers in the same asset class report at the same time. The makers of the motion agreed to add Wellington to the 2023 June Investment Committee meeting.

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

2. International Equity Structure Review – Jim Callahan, Callan LLC

Mr. Callahan reviewed the international equity structure as a follow up to discussions at the December 2022 Investment Committee meeting regarding the Artisan and Morgan Stanley portfolios that are on the Watchlist. Mr. Callahan said the non-U.S. equity allocation targeted at 22% of the Fund is part of the growth allocation, primarily focused on developed markets. Portfolios are actively managed and benchmarked to the broad MSCI ACWI ex US IMI index. Capitalization is 65% large cap with a growth tilt. The allocation is targeted 30% to developed value, 30% to developed growth, 20% to small cap, and 20% to emerging markets.

Mr. Callahan stated primary drivers of risk and return are market capitalization and style. Compared with the benchmark, the non-U.S. equity allocation is overweight in growth stocks and Europe, and underweight emerging markets. Mr. Callahan noted that in 2022 the overweight to growth stocks was a headwind to performance.

Mr. Callahan compared style exposure with the benchmark, observing that Morgan Stanley and Artisan portfolios are not reflecting the expected diversification as to value versus growth. For Morgan Stanley, William Lock, Portfolio Manager, focuses on quality companies generating free cash flow. Metrics such as price/earnings ratio and price/book value are higher for Morgan Stanley than for the benchmark. Financials are underweight

and industrials are overweight to the benchmark. Mr. Callahan noted Morgan Stanley outperforms the benchmark in down markets and the investment team is stable.

Mr. Callahan discussed the following alternative portfolio structures for non-U.S. equity:

1. Leave current structure with the growth bias.
2. Add some passive exposure to help moderate the overall style bias.
3. Replace Morgan Stanley with a more traditional non-U.S. developed value manager.
4. Replace Artisan due to recent underperformance.

Trustee Vasquez pointed out Morgan Stanley and Artisan have been on the Watchlist for five years and asked about the performance of value vs. growth in a high interest rate environment. In response, Mr. Callahan pointed out the performance of both Morgan Stanley and Artisan over time has been cyclical, depending on the market environment. He said the question is are they good fits.

In summary, Mr. Callahan said there are different ways to approach this discussion which can be continued at a future meeting. Trustee Silberstein suggested considering the non-U.S equity allocation again in six months, indicating the timing may not be right to make a change. Trustee Vasquez supported this view, saying he is concerned this is an inflection point with rising interest rates that will be a headwind to growth.

3. Future Meetings

No discussion on topics for future meetings.

D. INVESTMENT CONSULTANT QUARTERLY REPORT

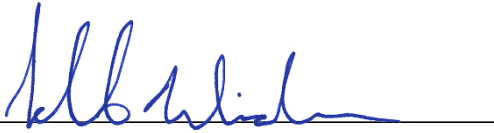
1. Flash Performance Update as of December 31, 2022

Anne Heaphy, Senior Vice President with Callan, reported on Fund performance as of December 31, 2022. Ms. Heaphy said overall 2022 was a challenging calendar year with domestic equities down 17.5% but nevertheless outperforming the benchmark. The fiscal year to date return is positive, reflecting a market rebound in the second half of the year.

Ms. Heaphy discussed the Western Asset fixed income portfolio that was moved to a core plus mandate on November 7, 2022. She corrected the blended benchmark returns for Western Asset and the fixed income portfolio. Western Asset returned negative 2.5% for the fiscal year to date versus negative 2.7% for benchmark, and negative 11.7% for the calendar year versus negative 11.0% for the benchmark. The overall fixed income return was negative 4.7% for the fiscal year versus negative 4.0% for the benchmark, and negative 15.5% for the calendar year versus negative 14.6% for the benchmark.

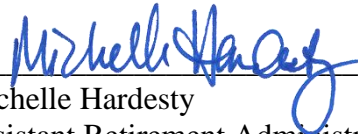
Public real assets returned negative 1.3% for the fiscal year to date and negative 9.3% for the calendar year, driven by the REIT portfolio. Invesco commodities and KBI natural resources underperformed benchmarks due to underweights to traditional energy.

There being no further business, Chair Klein adjourned the meeting at 12:18 p.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