

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

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

June 21, 2023 – 9:00 a.m.

This meeting was held at the address listed above and, absent technological disruption, was accessible via videoconference and conducted in accordance with Government Code section 54953 and 54954.2 through December 31, 2025.

CALL TO ORDER

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

ROLL CALL

PRESENT: Cooper, Gladstern, Klein, Martinovich, Murphy, Poole, Silberstein, Vasquez, Werby, Shaw (ex officio alternate)

ABSENT: Gullett (alternate safety), Jones (alternate retired)

CONSIDER ANY BOARD MEMBER REQUESTS TO TELECONFERENCE FOR “JUST CAUSE” OR “EMERGENCY,” AS SET FORTH ON THIS AGENDA BELOW

No Board members requested to teleconference.

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 MCERA's fixed income portfolio is targeted to 23% of the Fund. Wellington Management Company and Western Asset Management manage equal portions, and their core plus mandates provide for the ability to invest in non-Bloomberg Aggregate Index securities. Artisan was asked to come back to give an update on the international growth portfolio.

2. Wellington Management – Fixed Income – Anand Dharan, Molly Conway

TIME CERTAIN: 9:05 a.m.

Molly Conway, Vice President and Relationship Manager with Wellington Management Company (Wellington), stated Wellington is organized as a collection of boutique investments operating autonomously, each having access to the firm's broad resources. Ms. Conway introduced Anand Dharan, Investment Director, to present the Core Bond Plus portfolio review.

Mr. Dharan stated the Core Bond Plus strategy is focused primarily on U.S. dollar denominated, investment-grade securities, with the flexibility to invest in non-investment-grade or non-U.S. dollar securities. Mr. Dharan said coming into 2022, the team was confident the markets were under-engaged with the stickiness of inflation. Therefore, the portfolio was defensively positioned, with an underweight to duration and reduced exposure to various credit sectors. In the middle of 2022 as the Fed hiked rates, the team pivoted to a meaningful underweight to duration and maintained this throughout the remainder of 2022. This year the team has been extending duration in the middle part of the yield curve. Also, over the past six months the team has been reducing both non-U.S. dollar and non-investment grade sectors. Over the twelve months ending May 31, 2023, duration positioning and security selection contributed to performance.

Mr. Dharan said within investment-grade credit the portfolio has benefited from rotating into sectors like utilities and large, money-center banks. An overweight to non-agency Residential Mortgage-Backed Securities (RMBS) detracted from performance due to rate exposure and extended average lives for the holdings.

Trustee Werby asked about prepayments and Mr. Dharan replied many borrowers have non-economic reasons to prepay. Trustee Vasquez inquired if the interest rate environment is leading to more turnover and therefore rising costs. Mr. Dharan replied turnover is about 50% to 75% of the portfolio per year, and was higher than average from 2020 through 2022. Going forward in the short term turnover may still be higher than average due to market inefficiencies and security selection opportunities. The team is always sensitive to transaction costs and takes advantage of centralized trading to lower transaction costs and access better quotes.

Chair Klein noted the long end of the yield curve looks stuck and asked if that is due to too much duration in the market from agency mortgage-backed securities (MBS). In response, Mr. Dharan attributed this not to extended mortgages but the Federal Reserve (Fed)

starting to sell mortgages and the FDIC conducting mortgage auctions. In addition, non-U.S. demand for duration is still meaningfully high and corporate pension plans are de-risking. Trustee Poole asked why Wellington is predicting a recession. In response, Mr. Dharan explained a recession is likely due to considerable tightening of financial conditions and the rise in real interest rates in a short period of time. These conditions meaning aggregate demand has room to come down. Other reasons he cited are leading indicators such as consumers depleting savings, unemployment claims moving up, and consumers trading down in quality. He pointed out the transmission mechanism for Fed monetary policy is through a more conservative banking system with regards to lending.

Trustee Werby asked if there are problems with commercial real estate. In response, Mr. Dharan said there may be more pain to come, as idiosyncratic defaults in malls and motels make lenders even more conservative. At the same time, he said, the outlook is location-specific for real estate.

3. Western Asset Management – Fixed Income – Frances Coombes, Julien Scholnick
TIME CERTAIN: 9:35 a.m.

Frances Coombes, Client Service Executive with Western Asset Management, noted the portfolio strategy recently transitioned from intermediate credit to core plus. She indicated since the end of 2022 with inflation trending down conditions are normalizing, which favors performance. Ms. Coombes introduced Julien Scholnick, Portfolio Manager, to present the portfolio review.

Trustee Cooper joined the meeting at 9:43 a.m.

Mr. Scholnick stated inflation was the driver of the credit markets in the first ten months of 2022. This changed in the 4th quarter of 2022 as softening data led to an inflection point for the credit markets. Subsequently, the portfolio was positioned in a longer duration stance. In 2023 positive momentum would continue, with inflation on a downward trajectory on both a U.S. and global basis. Mr. Scholnick said these conditions could lead central bankers to a more moderate approach than they had in 2022. In addition, China lifted some of its pandemic-era restrictions. This set of conditions is relatively supportive of corporate credit and longer duration.

Mr. Scholnick discussed performance attribution and portfolio positioning as of May 31, 2023. He said less exposure to the front end of the yield curve contributed to performance, noting the yield curve has steepened somewhat. Agency mortgages in high-quality sectors were a small positive for performance. Within the Commercial Mortgage-Backed Securities (CMBS) sector, the team found value in sub-sectors such as leisure hotels and industrial distribution centers. High-yield credit has contributed to performance and is being reduced along with bank loans. Similarly, emerging markets positions which had contributed to performance have been trimmed. The portfolio is overweight the benchmark in agency MBS and investment-grade credit. The yield curve position relative to the benchmark is more balanced and closer to neutral, while continuing to run

overweight to the long end of the curve. This overweight will gradually be trimmed because of the relatively hawkish Fed.

Trustee Vasquez asked if the relative outperformance of emerging market debt in Mexico is expected to continue. Mr. Scholnick said from a macro standpoint emerging markets should do well, including Mexico. Mr. Scholnick noted the team is targeting more liquid, higher quality emerging market countries.

In conclusion, Mr. Scholnick said going forward the market is expecting rate cuts and a steeper yield curve in 2024. There is a concern that the Fed may continue to react to data points and hike rates, which would be destabilizing for the credit markets. The portfolio has a modest overweight to duration for the balance of 2023. Trustee Werby asked if the prediction of avoiding a recession still holds. In response, Mr. Scholnick indicated the investment thesis has not changed in the last three months. He did note that the labor market reflects some softening, and consumer savings are being drawn down. On the plus side, he expects healthy corporate revenues and a relatively healthy real estate market.

4. Artisan Partners – International Growth Equity – Sean Howley, Brett Meyer
TIME CERTAIN: 10:05 a.m.

Sean Howley, Managing Director with Artisan Partners, introduced Brett Meyer, Chief Operating Officer of the Global Equity Team, who began the portfolio review. Mr. Meyer stated Mark Yockey remains the driving force of the Global Equity Team. Michael Luciano has joined Artisan as Associate Portfolio Manager focusing on the consumer and financial sectors. The Investment Portfolio Committee meets quarterly to review asset allocation and attribution and to broaden out the decision-making process. The team has added health care expertise and employs a fundamental, bottom-up approach to select investments.

Characteristics sought for potential investments include high quality with sustainable growth. Since the value reversal following the pandemic, it has been a difficult and challenging environment for the growth portfolio to outperform. Mr. Meyer said as interest rates normalize it will be a better environment for the strategy.

Mr. Howley reported resilience in the luxury sector is driving consumption. In the health care sector, the team is looking for de-risked opportunities in biotechnology. Two areas of focus are diabetes and cancer drugs with significant long-term revenue potential and breakthrough technologies. Within the environmental theme, the team looks for exposure to growth companies with pricing power and clean energy technologies with subsidies and tax credits. In Europe the Green Deal is another tail wind for environmental themes. Within the financial sector, the team increased its position in UBS subsequent to its takeover of Credit Suisse and exited positions in other European banks.

Trustee Klein asked about Amazon being added to the international portfolio. In response, Mr. Howley explained Amazon is a unique global e-commerce corporation with overseas revenue growth. Trustee Murphy asked about Amazon being in the bottom level of firms

contributing to returns. In response Mr. Howley said the team added more Amazon shares to the portfolio at lower price levels and it has since rallied.

C. NEW BUSINESS

1. Investment Manager Personnel Update – AEW Capital Management

Anne Heaphy, Senior Vice President with Callan, reported Dan Bradley, a senior portfolio manager for the AEW Core Property Trust, will retire at the end of 2023. A succession plan has been in place for some time for senior portfolio managers Lily Kao and Sara Cassidy to step in for Mr. Bradley. Callan will continue to monitor the team and fund.

2. Investment Manager Update – Fortress Investment Management Group LLC

Ms. Heaphy reported that Fortress Investment Group and Mubadala Capital, the asset management subsidiary of the United Arab Emirates sovereign fund, have entered into an agreement to acquire SoftBank's 90% equity stake in Fortress. Fortress management will own up to 30% and have majority control of the board of directors, and Mubadala will own the remaining 70% with two representatives on the board. Fortress will continue to operate autonomously. Callan recommended that MCERA agree to the consent request to the change in the legal agreement. Mr. Wickman said the consent request has been reviewed by counsel and no issues were identified with the request. Mr. Wickman stated he would be submitting the consent request after today's meeting.

3. International Equity Structure – Jim Callahan, Callan LLC

Consider and discuss international equity allocation

Mr. Callahan discussed the international equity structure as a follow-up to its review at the January 2023 Investment Committee meeting. The current international portfolio has four active managers. Artisan and Morgan Stanley focus on developed growth and value markets, respectively. The non-U.S. small cap portfolio is managed by TimesSquare, and Fidelity Institutional Asset Management (FIAM) manages the emerging markets portfolio. Trustee Gladstern noted Artisan has been on the Watchlist since 2017. In response, Mr. Callahan noted in 2022 the international portfolio underperformed. Recent performance for Artisan has rebounded and the portfolio has added value to the Fund over time. Mr. Callahan pointed out the Artisan portfolio investment thesis is consistent with what was expected and the investment team is stable. He noted its performance tends to be cyclical. Trustee Vasquez asked about the reasons for underperformance. Mr. Callahan replied the Artisan portfolio characteristics look different from the growth universe in non-U.S. equities, with a notable underweight to technology and overweight to financials.

Mr. Callahan stated Artisan growth and Morgan Stanley value portfolios were designed purposefully to be neutral to the benchmark. A style map shows the international equity portfolio has more of a growth orientation relative to the index. Mr. Callahan said growth and value go in and out of favor, and this year growth has rebounded. Over time collectively the international managers have performed well, he said.

Mr. Callahan presented four options for the international equity allocation. The first is to leave the allocation as is. The second option is to add some passive exposure. The third option is to replace Morgan Stanley with a more traditional non-U.S. value manager, and the fourth option is to replace Artisan.

Trustee Murphy asked about Artisan being on the Watchlist for so long. In response Mr. Callahan reviewed Artisan's performance. Beginning in 2014 Artisan had a relatively good year, and underperformed in 2015 and 2016. During 2017, 2018 and 2019, Artisan outperformed significantly. Then, in 2020, 2021, and 2022 started to underperform. Mr. Callahan explained that underperformance for a few years is not a good reason to dismiss a manager.

Chair Klein said compared with other managers Artisan's returns do not look good. Mr. Callahan agreed that relative to their growth peers, Artisan looks different and positioning has detracted. Mr. Callahan said Artisan's risk relative to peers is high, but over the long term, Artisan has performed well. Trustee Vasquez said due to multiple cycles with periods of underperformance, he prefers to consider a replacement for Artisan. Mr. Callahan observed that over 20 ¼ years Artisan has added value net of fees relative to the index. Secondly, the problem with doing a search now is other managers will all look better. Mr. Callahan stated investors have to be willing to have a long-term view, and he highlighted the importance of consistency of strategy over time.

Trustee Poole asked for more information regarding the analysis of the international portfolio. In response, Mr. Callahan explained there are two different discussions, the first being how the four international managers work together, and a second discussion about Artisan specifically. He said there is a growth tilt to the international portfolio collectively. She noted Artisan has been on the Watchlist for seven years. Mr. Callahan explained Artisan is on the Watchlist due to trailing performance relative to the index and to peers. He noted portfolios can come and go from the Watchlist from quarter to quarter, and the Committee formally reviews the Watchlist annually in December. Trustee Murphy asked about performance over time versus peers. Mr. Wickman noted that this information is contained in the Callan Quarterly Investment Report. Trustee Murphy asked if the value/growth balance should be 50/50 or if one performs better over time than the other. In response, Mr. Callahan showed a long-term chart of growth and value performance patterns that are cyclical. Mr. Callahan noted the style bias could be reduced or eliminated.

Mr. Wickman noted securities held by Artisan are held in other portfolios. Mr. Wickman noted this agenda item is the follow-up the Committee request from the discussion that occurred in January.

Chair Klein suggested either replacing Artisan or adding a passive international equity sleeve, which Trustee Vasquez supported. Mr. Callahan noted active management has added value to the Fund, but he could support a passive sleeve. Trustee Silberstein echoed his sentiment.

Mr. Wickman accepted direction to have Callan conduct a search for a passive international equity investment vehicle and to bring back recommendations to the Committee for appropriate allocations for each international equity vehicle.

4. Future Meetings

Trustee Silberstein suggested that the Committee have a discussion about reducing the allocation to fixed income.

D. INVESTMENT CONSULTANT QUARTERLY REPORT

1. Summary Report as of March 31, 2023

Mr. Callahan presented the Summary Report for the quarter ending March 31, 2023. He reported during this quarter equities performed well and growth outperformed value, a reversal from 2022. Non-U.S. developed equities performed well in the quarter, but small cap equities meaningfully underperformed. In 2023 fixed income yields are coming down but returns are negative. There are continued write-downs in real estate and private equity sectors.

During the quarter the S&P 500 gained 7.5% and the equity markets have continued to do well in the 2nd quarter of calendar year 2023. Mr. Callahan reported the Fund value as of March 31, 2023 was just over \$3 billion. The Fund is underweight to both domestic and international public equities and underweight to private equity, which was above target as of December 2022. Opportunistic managers represent 1.9% of the Fund at \$58,158,000.

As of March 31, 2023 the Fund returned 4.1% net of fees for the quarter. For the trailing 12 months period the Fund underperformed the peer group, but ranks favorably over the long term. The Fund's fiscal year-to-date return is 4%. The U.S. equity portfolio underperformed the index during the quarter but outperformed over the trailing 12 months. The Dimensional Fund Advisors (DFA) small cap core portfolio has added to performance over three years. The international portfolio outperformed the index for the quarter and trailing 12 months, notably the TimesSquare small cap portfolio. Mr. Callahan noted over one year Artisan has rebounded and ranks favorably with peers.

The fixed income portfolio outperformed during the quarter. In the real estate portfolio valuations are down for the quarter, notably for the UBS Trumbull Property Fund, as office space is written down. The public real assets portfolio was up 2.75% for the quarter, with good absolute and relative performance. Mr. Callahan highlighted the Invesco commodities and Kleinwort Benson Investments global resources portfolios for their outperformance.

As of December 31, 2022, the private equity portfolio is 91% Paid-In of \$450 million committed. The Distributions to Paid-In Capital (DPI) ratio is 1.12x and the remaining Net Asset Value is \$354.7 million. The Total Value to Paid-In Capital (TVPI) is 2x, ranking this portfolio in the second quartile of the Thomson-Cambridge Private Equity Database. As of March 31, 2023 in the Opportunistic portfolio, about 60% of \$100 million in committed capital is paid in. Mr. Callahan noted MCERA has received some

distributions. He reported during the quarter the Värde portfolio Net Asset Value was written down.

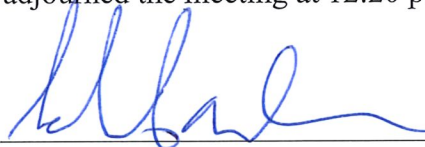
a. Flash Performance Update as of May 30, 2023

Mr. Callahan presented a Fund performance update as of May 30, 2023. For the fiscal year to date, domestic equities returned 10.1%. International equities returned 9.8%, outperforming the index, and the fixed income performance is trailing the benchmark due to the Colchester drag (the Colchester global bonds portfolio has been removed from the Fund). Public real assets active managers added value relative to respective benchmarks. Real estate and private equity valuations are preliminary. The preliminary Total Fund return for the fiscal year to date is 2.7%.

There being no further business, Chair Klein adjourned the meeting at 12:20 p.m.



Sara Klein
Investment Committee Chair



Attest:
Jeff Wickman, Retirement Administrator