

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

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

**January 20, 2021 – 9:00 a.m.**

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This meeting will be 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.

Instructions for watching the meeting and/or providing public comment, as well as the links for access, are available on the [Watch & Attend Meetings](https://www.mcera.org/retirementboard/agendas-minutes/watchmeetings) page of MCERA's website. Please visit <https://www.mcera.org/retirementboard/agendas-minutes/watchmeetings> for more information.

The Board of Retirement encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board meetings.

**CALL TO ORDER**

**ROLL CALL**

**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.

**B. MANAGER REPORTS**

1. Manager Overview – Jim Callahan, Callan LLC
2. Western Asset Management – Intermediate Credit - Kurt Halvorson, Frances Coombes

### **C. NEW BUSINESS**

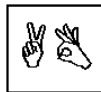
1. Proxy Voting Services (Action) – Institutional Shareholder Services – Joshua Russell  
Consider, discuss, and take possible action regarding proxy voting provider
2. Small Cap Tilt Within the Domestic Equity Portfolio (Action) – Jim Callahan, Callan LLC  
Consider, discuss, and take possible action regarding small cap tilt in domestic equity portfolio
3. Investment Manager Personnel Updates
  - a. AEW Capital Management
  - b. TimesSquare Capital Management LLC

### **D. INVESTMENT CONSULTANT PERFORMANCE UPDATE**

1. Flash Performance Update as of December 31, 2020

**Note on Process:** Items designated for information are appropriate for Committee action if the Committee wishes to take action.

**Note on Voting:** As provided by statute, the Alternate Safety Member votes in the absence of the Elected General or Safety Member, and in the absence of both the Retired and Alternate Retired Members. The Alternate Retired Member votes in the absence of the Elected Retired Member. If both Elected General Members, or the Safety Member and an Elected General Member, are absent, then the Elected Alternate Retired Member may vote in place of one absent Elected General Member.



Agenda material is provided upon request. Requests may be submitted by email to [MCERABoard@marincounty.org](mailto:MCERABoard@marincounty.org), or by phone at (415) 473-6147.

MCERA is committed to assuring that its public meetings are accessible to persons with disabilities. If you are a person with a disability and require an accommodation to participate in a County program, service, or activity, requests may be made by calling (415) 473-4381 (Voice), Dial 711 for CA Relay, or by email at least five business days in advance of the event. We will do our best to fulfill requests received with less than five business days' notice. Copies of documents are available in alternative formats upon request.

The agenda is available on the Internet at <http://www.mcera.org>

## B.1 Manager Overview

There is no backup for this agenda item.



## Marin County Employees' Retirement Association

January 20, 2021

Frances L. Coombes  
Kurt D. Halvorson, CFA

## Biographies

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### FRANCES L. COOMBES

*23 Years' Experience*

- *Western Asset Management Company, LLC, 1998-, Client Service Executive*
- *Columbia University, School of International and Public Affairs, M.P.P.*
- *University of California, Berkeley, B.A.*



### KURT D. HALVORSON

*20 Years' Experience*

- *Western Asset Management Company, LLC, 2010-, Portfolio Manager*
- *Aegon USA Investment Management, 2006-2010, Senior Corporate Bond Manager*
- *40/86 Advisors, LLC, 2005-2006, Senior Trader*
- *Banc of America Securities, LLC, 2001-2005, Associate, Corporate Bond Trading*
- *Covenant College, B.A. Business*
- *Chartered Financial Analyst*

*Western Asset experience reflects current position title and hire date.*

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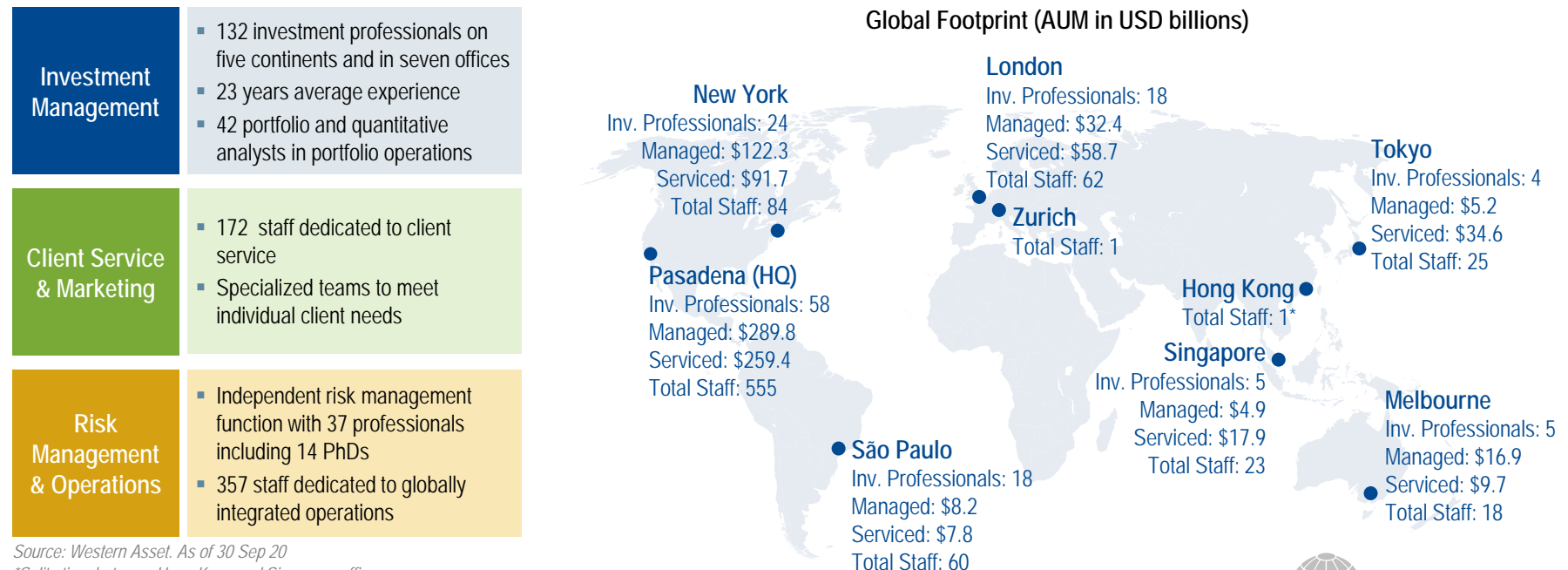
## About Western Asset

## About Western Asset

Western Asset is a globally integrated fixed-income manager, sourcing ideas and investment solutions worldwide.

Western Asset At a Glance	Organizational Pillars	AUM by Sector – Total \$479.8 billion (USD)																		
<ul style="list-style-type: none"><li>▪ Founded in 1971. Specialist Investment Manager of Franklin Resources, Inc. since July 31, 2020</li><li>▪ Fixed-income value investors</li><li>▪ \$479.8 billion (USD) AUM<ul style="list-style-type: none"><li>– \$414.4 billion (USD) long-term assets</li><li>– \$65.4 billion (USD) cash and cash equivalent assets</li></ul></li><li>▪ 828 employees</li></ul>	<ul style="list-style-type: none"><li>▪ Clients first</li><li>▪ Globally integrated</li><li>▪ Team-based</li><li>▪ Active fixed-income</li><li>▪ Integrated risk management</li></ul>	<table><tr><td>Global IG Corporate</td><td>143</td></tr><tr><td>Sovereign, Treasuries &amp; Agencies</td><td>71</td></tr><tr><td>MBS/ABS</td><td>66</td></tr><tr><td>Cash &amp; Cash Equivalents</td><td>65</td></tr><tr><td>Emerging Market Debt</td><td>46</td></tr><tr><td>Global High Yield</td><td>24</td></tr><tr><td>Local Authority &amp; Municipals</td><td>23</td></tr><tr><td>Global Inflation Linked</td><td>12</td></tr><tr><td>Other</td><td>29</td></tr></table>	Global IG Corporate	143	Sovereign, Treasuries & Agencies	71	MBS/ABS	66	Cash & Cash Equivalents	65	Emerging Market Debt	46	Global High Yield	24	Local Authority & Municipals	23	Global Inflation Linked	12	Other	29
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Global Inflation Linked	12																			
Other	29																			

### Western Asset's Deep Global Integration Allows Us to Source Investment Ideas and Investment Solutions Across Regions



Source: Western Asset. As of 30 Sep 20

\*Splits time between Hong Kong and Singapore offices



## Investment Solutions

Western Asset offers a full range of fixed-income products that can be tailored to meet the needs of our clients.

Identifying Investment Solutions to Align With Client Objectives and Risk Tolerances		
<ul style="list-style-type: none"> <li>Protect from rising rates</li> <li>Protect from inflation</li> <li>Preserve capital</li> </ul>	<ul style="list-style-type: none"> <li>Diversify globally</li> <li>Hedge liabilities</li> <li>Enhance income</li> </ul>	<ul style="list-style-type: none"> <li>Generate tax-free income</li> <li>Generate total return</li> <li>Achieve ESG objectives</li> </ul>
Selected Investment Strategies		
<b>Broad Market</b> <ul style="list-style-type: none"> <li>Global Aggregate</li> <li>Regional Core/Core Plus</li> <li>Regional Intermediate</li> <li>Global Sovereign</li> </ul>	<b>Credit</b> <ul style="list-style-type: none"> <li>Global Credit</li> <li>Investment-Grade Credit</li> <li>Global High-Yield</li> <li>US Bank Loans</li> <li>US High-Yield</li> <li>Short-Duration High Income</li> </ul>	<b>Unconstrained / Alternatives</b> <ul style="list-style-type: none"> <li>Macro Opportunities</li> <li>Total Return Unconstrained</li> <li>Global Total Return</li> <li>Multi-Asset Credit</li> <li>Global Multi-Sector</li> <li>Tail Risk Protection</li> </ul>
<b>Long Duration / LDI</b> <ul style="list-style-type: none"> <li>Long Duration</li> <li>Long Credit</li> <li>Liability-Driven Investing</li> </ul>	<b>Mortgage and Consumer Credit</b> <ul style="list-style-type: none"> <li>US Agency MBS</li> <li>US Agency MBS Plus</li> <li>Structured Products</li> <li>Select Credit Opportunities in Real Estate (SCORE)</li> </ul>	<b>Emerging Markets</b> <ul style="list-style-type: none"> <li>EM Diversified</li> <li>EM Corporate</li> </ul>
<b>Inflation-Linked</b> <ul style="list-style-type: none"> <li>US TIPS</li> <li>Global Inflation-Linked</li> <li>Regional Inflation-Linked</li> </ul>	<b>US Municipals</b> <ul style="list-style-type: none"> <li>US Taxable Municipal</li> <li>US Tax-Exempt Municipal</li> </ul>	<b>Liquidity / Short Duration</b> <ul style="list-style-type: none"> <li>Liquidity</li> <li>Enhanced Liquidity</li> <li>Short Duration Constrained</li> <li>Short Duration</li> </ul>

# About Western Asset – Clients

Committed to excellence in client service

## Representative Client List

Corporate	Public / Gov. / Sovereign Wealth	Multi-Employer / Unions	Eleemosynary
ArcelorMittal USA Inc. AT&T Services, Inc. Atmos Energy Corporation Bayer Corporation British Airways (US) Campbell Soup Company Caterpillar Inc. Chrysler LLC Clark Enterprises, Inc. Consolidated Edison Company Of New York, Inc. Consolidated Rail Corporation Hanes Brands Inc. International Paper Company John Lewis Partnership Pensions Trust Kvaerner Lee Enterprises LifeWay Christian Resources Meijer, Inc. Nestle USA, Inc. NISource Inc. NXP Semiconductor, Inc. Southern California Edison Company Springpoint Senior Living Stolt-Nielsen S.A. (Bermuda) The Ashforth Company Thomson Reuters Thyssenkrupp North America, Inc. Unisys Corporation Verizon Westlake Chemical Corporation XPO Logistics Inc	Anne Arundel (MD) Retirement Systems Arkansas Local Police and Fire Retirement System Baltimore County (MD) Employees Retirement System California State Teachers' Retirement System City of Aurora City of Grand Rapids Fire and Police City of Phoenix Employees' Retirement System compenswiss Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System of the State of Rhode Island Fife Council Pension Fund Firemen's Annuity and Benefit Fund of Chicago Fresno County Employees' Retirement Association Gloucestershire County Council Government of Bermuda Public Funds Indiana State Treasurer's Office Iowa Public Employees' Retirement System Kansas Public Employees Retirement System Los Angeles County Employees Retirement Association Louisiana Sheriff's Pension & Relief Fund Marin County Employees' Retirement Association Minnesota State Board of Investment Municipality of Anchorage Ohio Police & Fire Pension Fund Oklahoma City Employee Retirement System Oregon Public Employees Retirement System (PERS) Public Employee Retirement System of Idaho Public School Teachers' Pension and Retirement Fund of Chicago Salt River Project Agricultural Improvement and Power District School Employees Retirement System of Ohio State of Ohio Bureau of Workers Compensation Surrey County Council Tennessee Valley Authority Ventura County Employees' Retirement Association Washington Metro Area Transit Authority Wichita (KS) Retirement Systems Wyoming Retirement System	1199SEIU Health Care Employees Pension Fund Alaska Electrical Trust Funds Automotive Machinists Pension Trust Boilermaker Blacksmith National Pension Trust Carpenters District Council of Kansas City Construction Industry Laborers Directors Guild of America-Producer Pension and Health Plans (DGA - PPHP) Electrical Workers, IBEW, Local 531 Heavy & General Laborers' Locals 472/172 IBEW Local No. 9 Iron Workers Local #11 Benefit Funds IUOEE Construction Ind Ret Plan, Locals 302 and 612 Line Construction Benefit Fund National Education Association of the United States New England Healthcare Employees Union, District 1199, AFL-CIO New Jersey Transit Operating Engineers Local #428 Trust Funds Pacific Coast Roofers Retail Wholesale & Department Store Union SIU Rivers Pension Trust Southern Nevada Culinary & Bartenders Pension Trust Fund Teamsters Union Local No. 52 Pension Fund United Association Union Local No. 290 Plumber, Steamfitter & Shipfitter Industry Pension Trust United Food and Commercial Workers Union Local 919 Western Washington Laborers Employers Pension Trust	Abilene Christian University American Academy in Rome Baha'i World Centre Catholic Relief Services Catholic Umbrella Pool Commonfund Communities Foundation of Texas Community Foundation of North Central Wisconsin Domestic & Foreign Missionary Society ECUSA Glass-Glen Burnie Foundation Rockford Woodlawn Fund, Inc Saint Louis University Sisters of St. Francis of the Neumann Communities Strada Education Network, Inc. Texas Presbyterian Foundation The Catholic Foundation of Central Florida The Diocese of Allentown The Donald B. and Dorothy L. Stabler Foundation University of Southern California Wallace H. Coulter Foundation Washington State University
			Insurance
			American Contractors Insurance Group Anthem Companies, Inc. AXA France AXA XL Ltd. Blue Cross and Blue Shield of Massachusetts, Inc. Capital BlueCross Inc. CONTASSUR s.a./n.v Genworth Financial, Inc. Great-West Life & Annuity Insurance Company Oil Investment Corporation Ltd. Pacific Life Insurance Company
		Healthcare	
		Ascension Investment Management Baptist Healthcare System, Inc. Baylor Scott & White Holdings CHRISTUS Health Holy Name Medical Center Kaiser Permanente LCMC Health NorthShore University HealthSystem Sisters of Charity of St. Augustine Health System, Inc. St. George Corporation	
			Financial Services
			Asset Management One Co., Ltd. GuideStone Capital Management, LLC Highbury Pacific Capital Corp. Morgan Stanley Custom Solutions - OCIO Morgan Stanley Global Wealth Management Russell Investments SEI Investments Company (OCIO) SMBC Nikko Securities Inc. Tokio Marine Asset Management Co., Ltd. Wells Fargo & Company

As of 30 Nov 20. Please see the Representative Client List Disclosure in the Appendix for more information. All have authorized the use of their names by Western Asset for marketing purposes.

Such authorization does not imply approval, recommendation or otherwise of Western Asset or the advisory services provided.

## Relationship Summary

December 31, 2020

Marin County Employees' Retirement Association	
Portfolio Inception	August 2001
Market Value	\$151,840,240
Mandate	US IG Credit*
Benchmark	Bloomberg Barclays US Intermediate Credit USD Unhedged Index
Alpha Target	100 bps
Tracking Error Budget	200 bps
Diversification	Min 70% investment-grade; Max 10% in Non-USD securities (Max 5% in non-USD unhedged); Max 10% in EM, international agencies, supras, and foreign govts; Max 20% 144A; Max 10% contingent convertibles ("CoCos") and preferred stocks

*\*Mandate changed from US Core Plus to US IG Credit effective 11 Feb 14*

## Philosophy, Process and People

## Investment Philosophy

These are the core beliefs that drive our investment decision-making.

### Long-term fundamental value

- **Markets often misprice securities.** Prices can deviate from fundamental fair value, but over time, they typically adjust to reflect inflation, credit quality fundamentals and liquidity conditions. Consistently investing in undervalued securities may deliver attractive investment returns.
- **We can systematically identify mispricings.** We believe we can identify and capitalize on markets and securities that are priced below fundamental fair value. We do this through disciplined and rigorous analysis, comparing prices to the fundamental fair values estimated by our macroeconomic and credit research teams around the globe.
- **Our portfolios emphasize our highest convictions.** The greater the difference between our view of fair value and markets' pricing, the bigger the potential value opportunity. The greater the degree of confidence in our view of fundamentals, the greater the emphasis of the strategies in our portfolios.

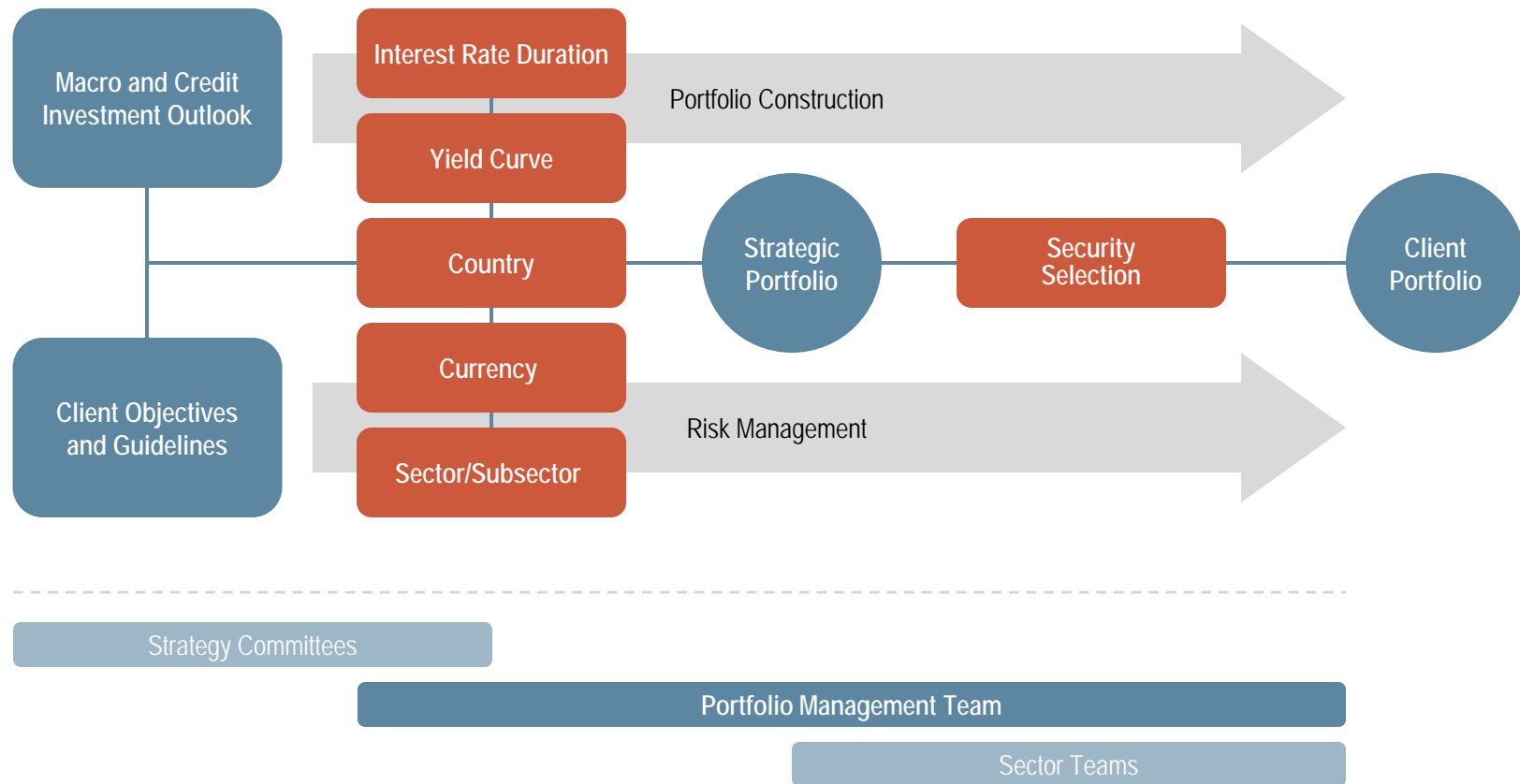
### Multiple diversified strategies

- **We seek diversified sources of returns.** Our objective is to meet or exceed our investors' performance objectives within their tolerances for risk. We seek to diversify investments and add value across interest rate duration, yield curve, sector allocation, security selection, country and currency strategies. We deploy multiple diversified strategies that benefit in different environments so no one strategy dominates performance, helping to dampen volatility.

## Investment Process

Our time-tested investment process is designed around our value philosophy and our team-based approach.

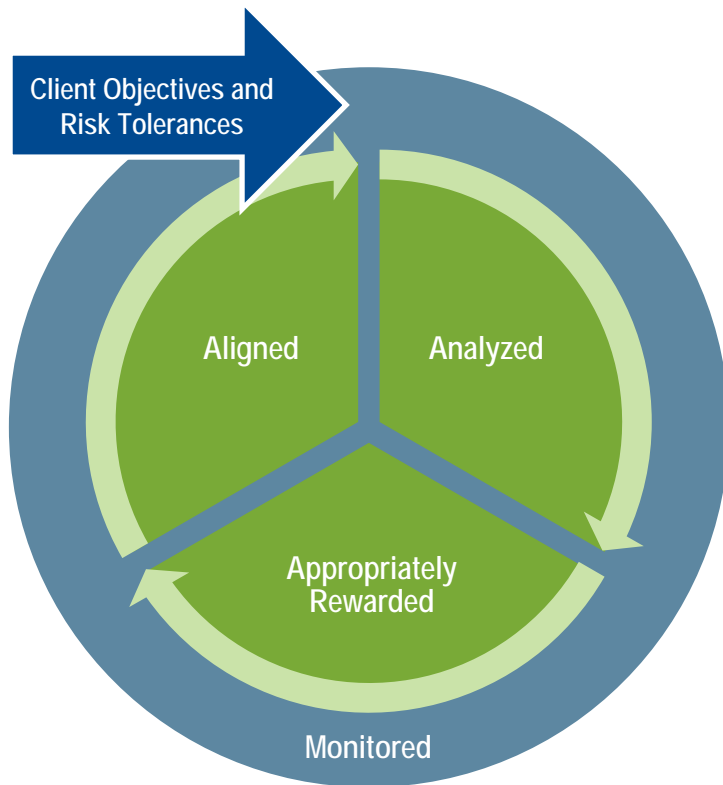
Western Asset Investment Process and Team Interaction



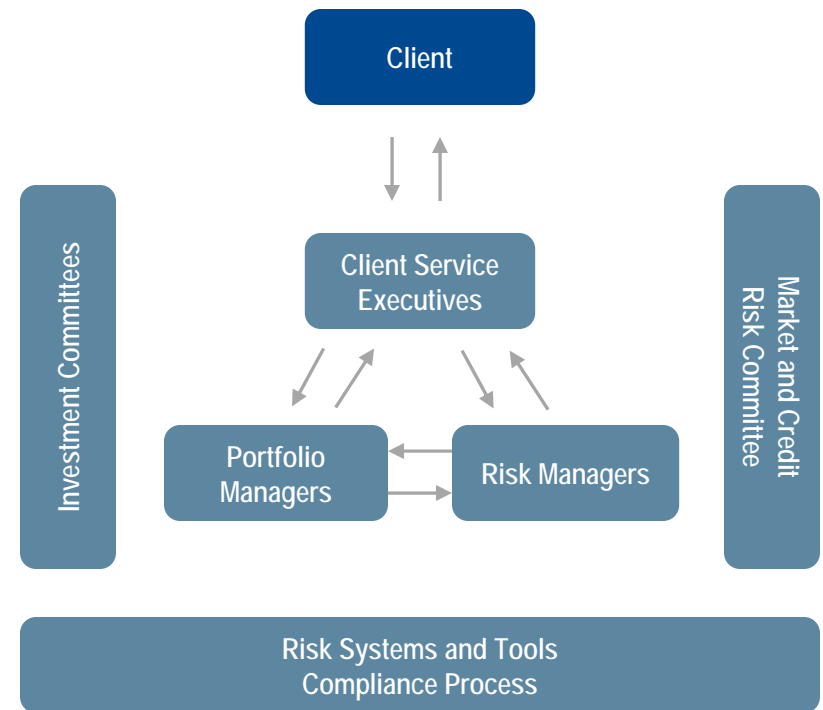
## Risk Management

In our culture, effective risk management is critical to successful portfolio management.

Integrating risk management into portfolio construction and in the independent review of portfolio risks strengthens its effectiveness.



Risk management is a team effort. Robust communication and escalation procedures underpin the independence and transparency of risk management.



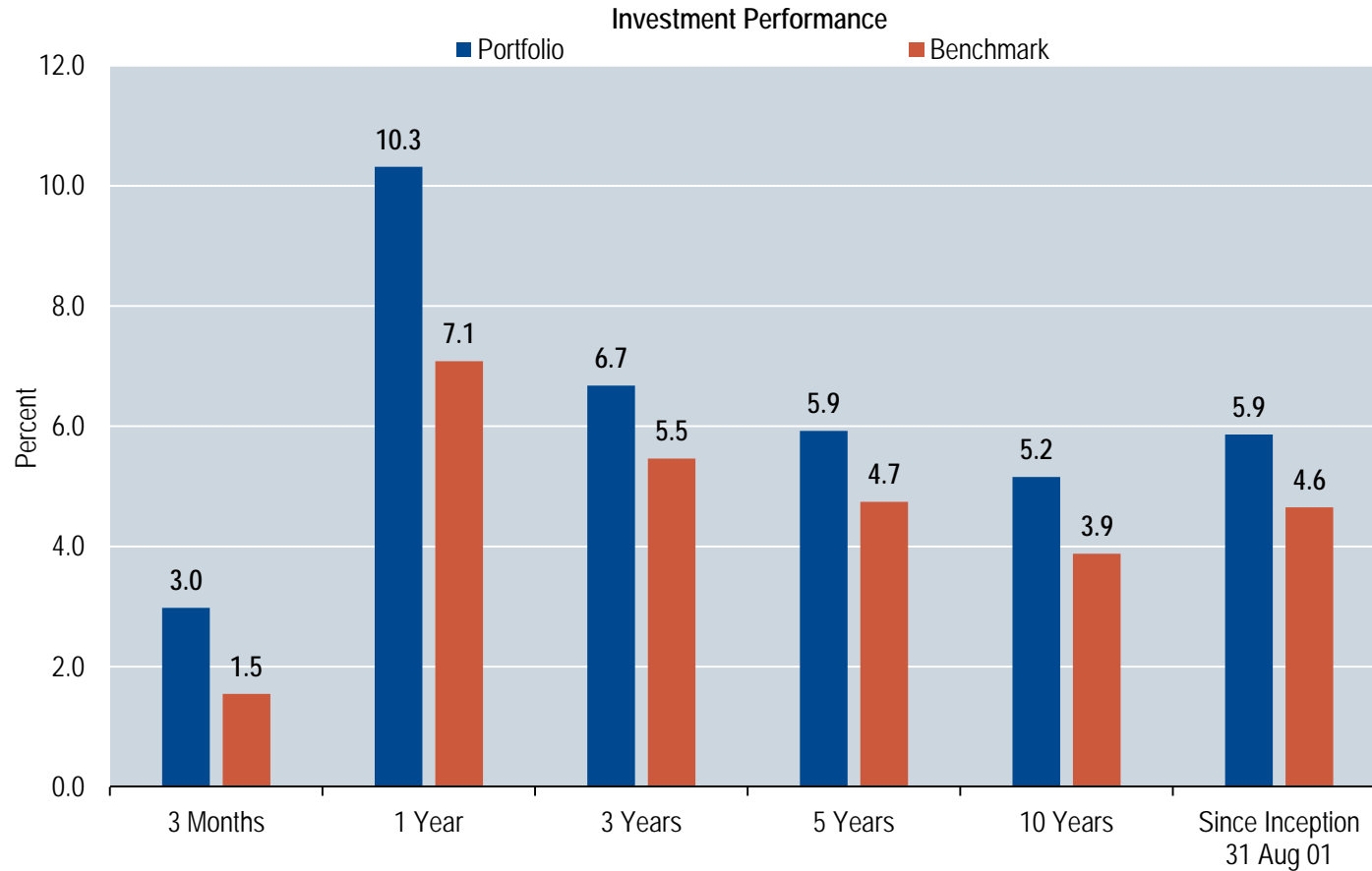
## Portfolio Review



## Investment Results

Marin County Employees' Retirement Association Intermediate Credit Fixed Income vs. Bloomberg Barclays US Intermediate Credit USD Unhedged Index

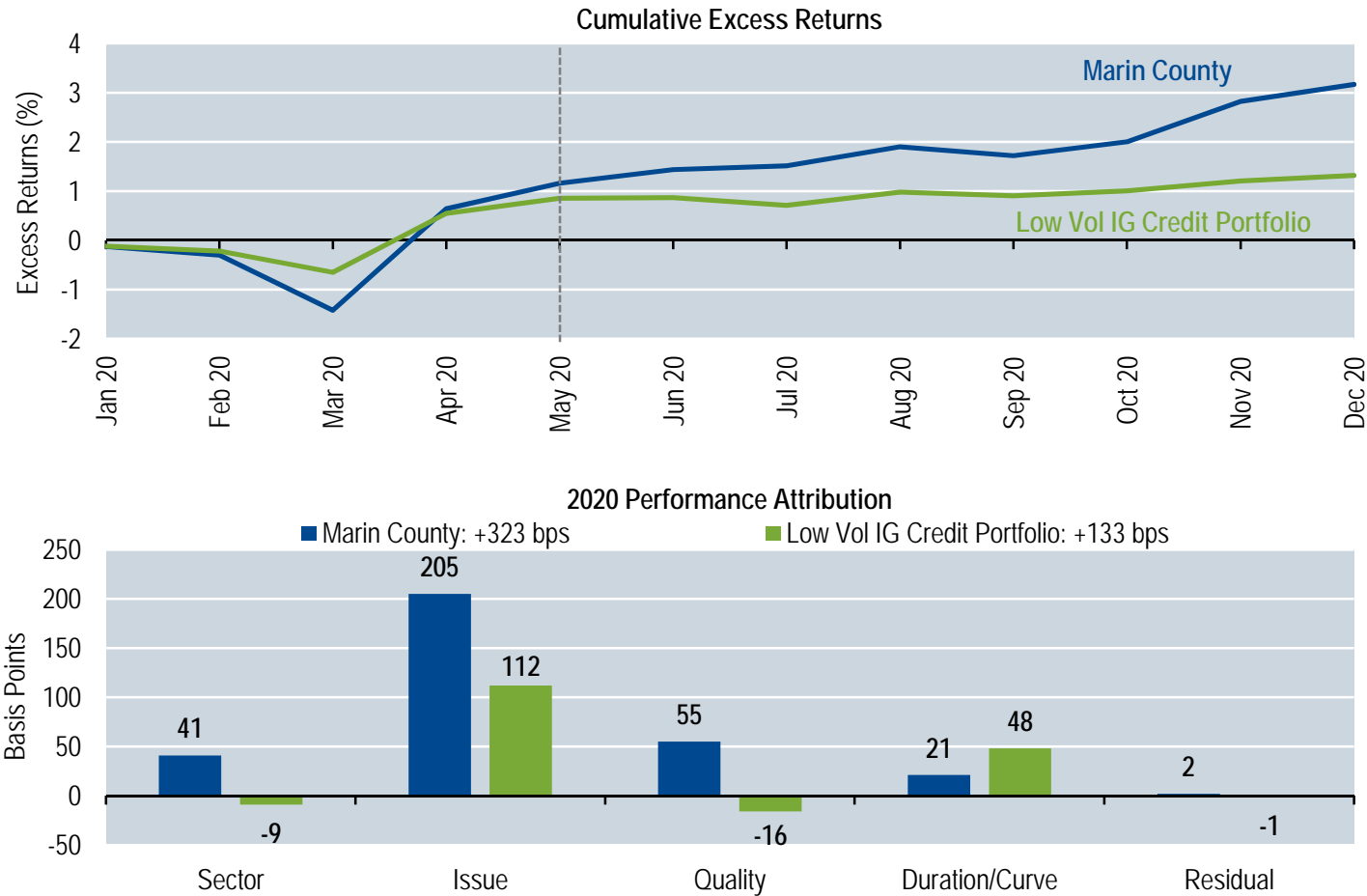
December 31, 2020



*Source: Western Asset. Performance shown is gross of fees. Returns for periods greater than one year are annualized. Returns since inception are as of the indicated close of business day. The account's actual return will be reduced by those fees and any other expenses chargeable to the account. The fee schedule for this strategy may be found in Part 2 of Western Asset's Form ADV. As fees are deducted quarterly, the compounding effect will be to increase the impact of the fees by an amount directly related to the gross account performance. For example, on an account with a 1% annual fee, if the gross performance were 10%, the compounding effect of the fees would result in a net performance of approximately 8.93%.*

## Investment Results

### Guidelines Expanded in May



Source: Bloomberg Barclays, Western Asset

Note: 1 basis point = 0.01%

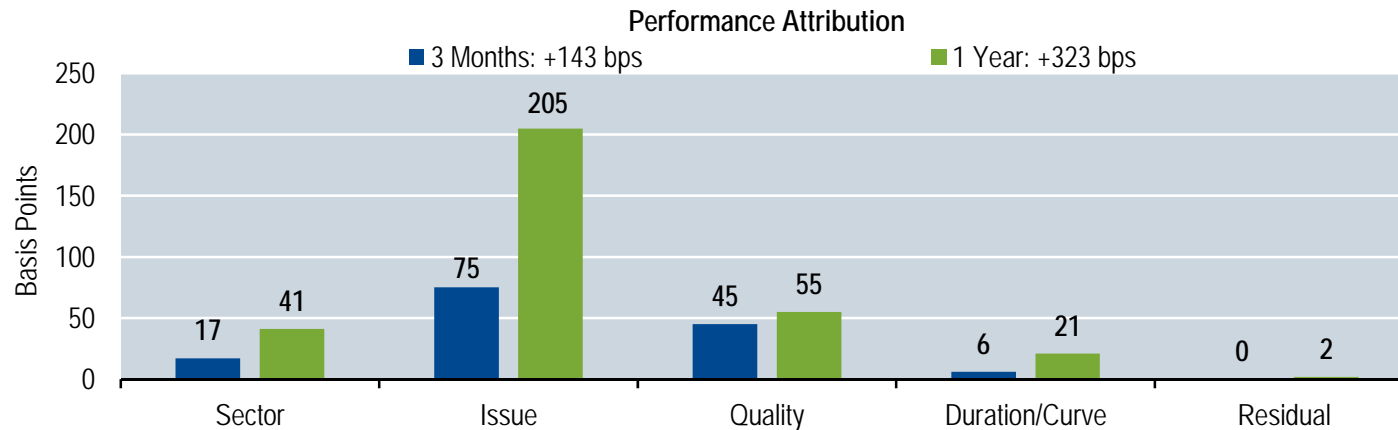
Western Asset believes that attribution is not a hard science, but rather a means of evaluating strategies to determine their relative impact on overall portfolio performance. The intent of the manager, therefore, is critical in the evaluation of different strategies, and the return attribution for any sector or strategy could be over or understated due to its inclusion in another component.

Data may not sum to total due to rounding.

## Performance Attribution

Marin County Employees' Retirement Association Intermediate Credit Fixed Income vs. Bloomberg Barclays US Intermediate Credit USD Unhedged Index

December 31, 2020



### The portfolio outperformed its benchmark in 2020

- Positives:
  - Overweight banking and underweight REITs.
  - Issue selection within banking (overweight Morgan Stanley and Credit Suisse), consumer cyclicals (underweight Ford), and technology (underweight Intel).
  - Active participation in the new issue market at wider spread levels which captured generous new issue premiums (such as Proctor & Gamble and MasterCard in March and Boeing and Wells Fargo in April).
- Negatives:
  - Overweight energy.
  - Issue selection within energy (overweight Continental Resources and Apache Energy).

Source: Bloomberg Barclays, Western Asset

Note: 1 basis point = 0.01%

Western Asset believes that attribution is not a hard science, but rather a means of evaluating strategies to determine their relative impact on overall portfolio performance. The intent of the manager, therefore, is critical in the evaluation of different strategies, and the return attribution for any sector or strategy could be over or understated due to its inclusion in another component.

Data may not sum to total due to rounding.

## Portfolio Characteristics

### Marin County Employees' Retirement Association Intermediate Credit Fixed Income vs. Bloomberg Barclays US Intermediate Credit USD Unhedged Index

December 31, 2020

Sector Exposure	Portfolio MV (%)	Index MV (%)
<b>US Government</b>	<b>2.7</b>	<b>0.0</b>
<b>Financial Institutions</b>	<b>29.2</b>	<b>32.5</b>
Banking	22.6	23.9
Insurance	2.0	3.2
REITS	0.6	3.0
Financial Other	3.9	2.4
<b>Industrials</b>	<b>40.7</b>	<b>47.2</b>
Basic Industry	1.6	2.0
Capital Goods	6.4	4.7
Communications	4.7	5.3
Consumer Cyclical	6.8	6.7
Consumer Non Cyclical	8.9	12.0
Energy	7.7	6.9
Technology	2.8	8.0
Transportation	1.8	1.6
Industrial Other	0.1	0.1
<b>Utilities</b>	<b>5.0</b>	<b>4.6</b>
Electric	5.0	4.2
Natural Gas	0.0	0.3
Other Utilities	0.0	0.1
<b>Non-Corporate</b>	<b>1.6</b>	<b>15.1</b>
IG Non-Corporate	1.4	15.1
Below IG Non-Corporate	0.2	0.0
<b>Municipal</b>	<b>0.4</b>	<b>0.5</b>
<b>High Yield Corporate</b>	<b>12.8</b>	<b>0.0</b>
<b>Cash &amp; Cash Equivalents</b>	<b>7.7</b>	<b>0.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Quality Exposure	Portfolio MV (%)	Index MV (%)
<b>AAA</b>	<b>10.3</b>	<b>10.1</b>
<b>AA</b>	<b>3.7</b>	<b>8.5</b>
<b>A</b>	<b>27.5</b>	<b>37.6</b>
<b>BBB</b>	<b>45.5</b>	<b>43.8</b>
<b>&lt;BBB</b>	<b>12.9</b>	<b>0.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Yield to Worst (%)	1.53	1.01
Duration (yrs)	4.38	4.44
Average Quality	A-	A-

Source: Western Asset

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding. Middle-of ratings shown.

## Investment-Grade Credit Investment Outlook

## 4<sup>th</sup> Quarter 2020 – 2021 Outlook

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The Road Ahead Will Be A Less Long Slog

Coronavirus-related growth setbacks have meaningfully reduced global and US growth

Incipient global recovery appears to be gaining traction

The medical battle will take time and prolonged efforts, but recent developments are extremely encouraging

US and global inflation rates are expected to remain subdued

Central banks will need to remain extraordinarily accommodative

Fiscal policy will have to remain supportive

Even after recovery begins, central banks are expected to keep rates ultra low

Spread products ultimately should be beneficiaries of recovery

The timing and slope of eventual recovery remains the largest uncertainty

As of 10 Nov 20. Outlook concerning financial market trends are based on current market conditions, which will fluctuate and cannot be guaranteed

# Investment-Grade Credit Outlook

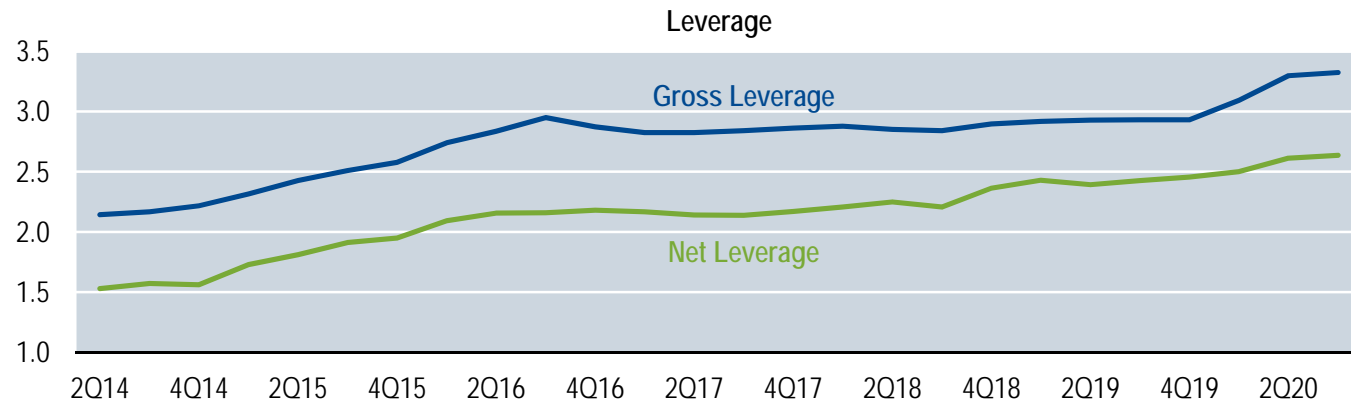
## 2021 1st Half Playbook

### Opinion – Reduce overweight in IG, closer to neutral after strong risk rebound from pandemic lows

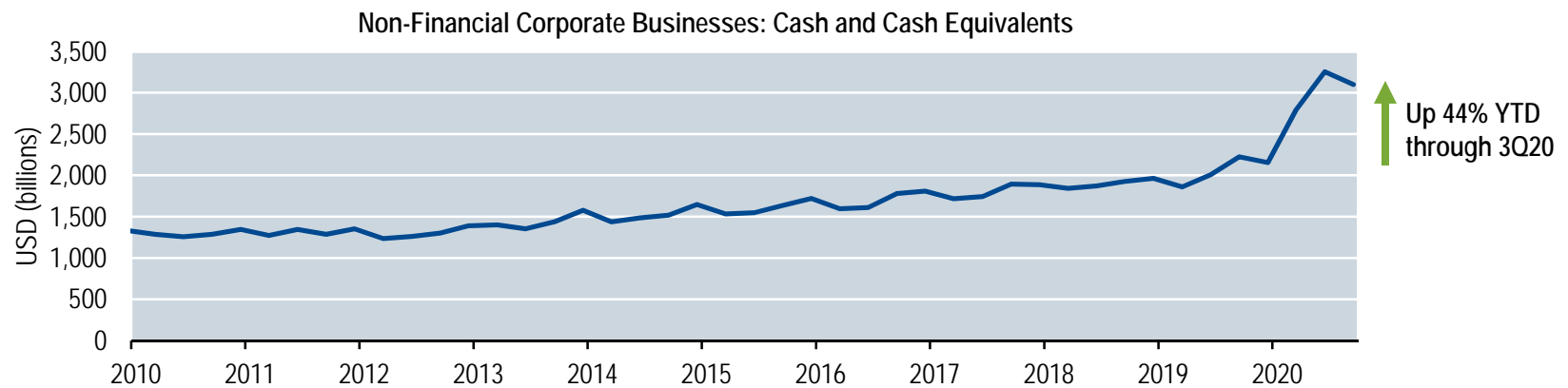
- **Fundamentals** – Neutral/Positive. Be cautious on idiosyncratic risk and late cycle credit behaviors
- **Technicals** – Positive. Global demand remains robust for US IG Credit . Lower hedging costs for foreign investors
- **Valuations** – Fair. Bloomberg Barclays US Credit Index OAS +92 bps now<sup>1</sup>, lower margin of safety
- **Strategies** – Sub-sector/security selection remains the top focus
  - + **Banks**: Low risk business models, strong balance sheets resilience in the face of Covid-19, valuation less attractive
  - **Industrials**: Cautious on shareholder friendly behavior, leverage elevated due to pandemic
    - **Basic Industry**
      - + **Metals/Mining**: Support from stimulus and economic recovery, management continue to operate conservatively
      - **Paper, Packaging**: Over capacity, industry in secular decline
      - **Chemicals**: Leverage remain elevated, M&A cycle rekindled with shareholder returns
    - **Capital Goods** – Companies have solid balance sheets and strong liquidity to weather the Covid-19 storm
      - + **Aerospace & Defense**. Tier one defense companies will continue to generate solid results
    - **Communications** – Continue caution. Fundamentals still challenged
      - + **Cable**: Good operating and financial profiles with better relative value
      - +/- **Wireline/Wireless**: Deleveraging; unexpectedly large spectrum acquisition costs a near term negative to credit quality
      - **Media**: Industry model changing to streaming away from networks
    - **Consumer Non-Cyclical**
      - **Food/Beverage**: Elevated event risk remains with continued margin pressure
      - +/- **Healthcare/Pharmaceuticals**: Prefer payers over service providers; overweight Health Care Insurance
    - **Consumer Cyclical**
      - **Retailers**: Secular decline in big box clothing retailers and Amazon threat
      - + **Tobacco**: Lower event risk and debt deleveraging going forward; FDA regulatory risk manageable
      - **Automotive**: Low margin and poor performance in international markets; risk from tech disintermediation
  - + **Energy**: Cyclical upswing; sector operating on prior downcycle playbook by protecting balance sheet and liquidity
  - **Technology**: Beneficiaries of tax cut; but repatriation of offshore profits may also result in equity-friendly actions such as a boost to share repurchases and US-based M&A
  - **Utilities**: Negative FCF prevails. Focus on regulatory relationships
  - + **Crossover**: Double-B rising star opportunities exist

<sup>1</sup>As of 31 Dec 20

## Leverage Is Going Up, but Corporations Are Hoarding Cash



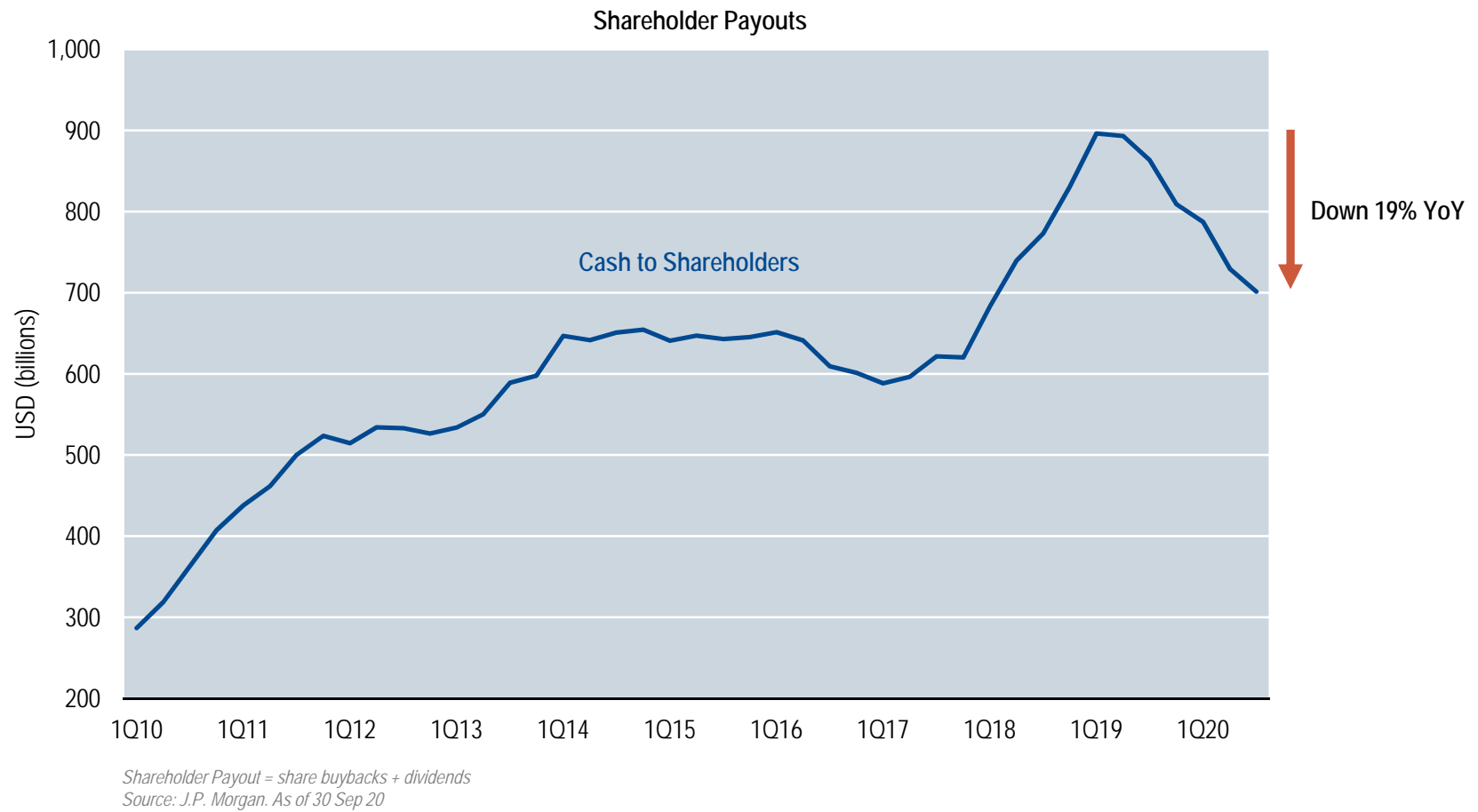
Source: J.P. Morgan. As of 30 Sep 20



Source: Goldman Sachs, Federal Reserve. As of 30 Sep 20



## Corporations Acting Conservatively: Share Buybacks and Dividends Dramatically Lower



## Corporates Acting Conservatively: Even More Tendering and Extending in 4Q 2020

### Q2/Q3 Tenders = 80bn

Date	Ticker	Name	Sector	Rating	Maturity Range	MMs
4/13/2020	GE	GE Capital Intl Funding	Finance Companies	BBB	*20s	5,500
4/13/2020	GE	General Electric Co	Diversified Manufacturing	BBB	*20s-24s	4,200
5/4/2020	KHC	Kraft Heinz Foods Co	Food/Beverage	BB+	21s-26s	2,100
5/6/2020	GE	General Electric Co	Diversified Manufacturing	BBB	*21s-23s	4,400
5/7/2020	DISCA	Discovery Communications	Media Entertainment	BBB-	21s-23s	1,500
5/11/2020	LLOYDS	Lloyds Bank Plc	Banking	A-	*20s-25s	2,100
5/12/2020	VIAC	ViacomCBS Inc	Media Entertainment	BBB	21-23s and hybrids	1,500
5/28/2020	HSBC	HSBC Holdings PLC	Banking	A	21s	3,400
6/10/2020	ACGCAP	Aviation Capital Group LLC	Finance Companies	BBB-	20s	205
6/17/2020	SLB	Schlumberger Investment SA	Oil Field Services	A	21s	935
6/25/2020	ABIBB	Anheuser-Busch InBev SA/NV	Food/Beverage	BBB+	21s and 23s	3,000
6/25/2020	OXY	Occidental Petroleum Corp	Independent	BB	21s-22s	2,000
7/13/2020	AER	AerCap Ireland Cap/Global	Finance Companies	BBB-	21s	1,500
7/13/2020	FCX	Freeport-McMoRan Inc	Metals and Mining	BB	22s-24s	1,300
7/27/2020	T	AT&T Inc	Wirelines	BBB	21s-25s	6,000
8/3/2020	APA	Apache Corp	Independent	BB+	across the curve	635
8/11/2020	HSBC	HSBC Holdings PLC	Banking	A	21s and 22s	3,300
8/12/2020	CVS	CVS Health Corp	Healthcare	BBB	23s and 25s	6,000
8/12/2020	OXY	Occidental Petroleum Corp	Independent	BB	21s-23s	2,100
9/2/2020	BHP	BHP Billiton Finance USA Ltd	Metals and Mining	BBB+	Hybrids	1,540
9/8/2020	AALLN	Anglo American Capital PLC	Metals and Mining	BBB	22s	550
9/8/2020	SFD	Smithfield Food Inc	Food/Beverage	BBB-	21s-22s	180
9/8/2020	ABIBB	Anheuser-Busch InBev SA/NV	Food/Beverage	BBB+	*24s-25s	2,100
9/8/2020	ADM	Archer-Daniels-Midland Co	Food/Beverage	A	27s-97s	660
9/14/2020	JPM	JPMorgan Chase & Co	Banking	A	21-22s	6,810
9/14/2020	KO	Coca-Cola Co/The	Food/Beverage	A+	*21s-50s	3,600
9/14/2020	NWG	Natwest Group PLC	Banking	BBB-	22-23s & pref/T1	2,000
9/15/2020	HSBC	HSBC Holdings PLC	Banking	A	21s and 22s	1,700
9/22/2020	BATSLN	BAT Capital Corp	Tobacco	BBB	*21s-22s	3,300
9/23/2020	TGT	Target Corp	Retailers	A-	28s-46s	1,770
9/23/2020	AER	AerCap Ireland Cap/Global	Finance Companies	BBB-	21-22s	1,470
9/30/2020	MDLZ	Mondelez International	Food/Beverage	BBB	23s-48s	950
9/30/2020	BACR	Barclays PLC	Banking	BBB+	21s	775
Notable Q2/Q3						79,080

### Q4 Tenders = 28bn

Date	Ticker	Name	Sector	Rating	Maturity Range	MMs
10/1/2020	ROST	Ross Stores Inc	Retailers	A-	24s-50s	1,000
10/5/2020	MTNA	ArcelorMittal SA	Metals and Mining	BB+	*22s-25s	750
10/7/2020	LOW	Lowe's Cos Inc	Retailers	BBB+	27s-50s	3,000
10/13/2020	PG	Procter & Gamble Co	Consumer Products	AA-	22s-50s	1,530
11/6/2020	HSBC	HSBC Holdings PLC	Banking	A	22s-23s	2,300
11/10/2020	CLR	Continental Resources Inc	Independent	BB+	22-23s	1,500
11/10/2021	NWL	Newell Brands Inc	Consumer Products	BB	21-23s	510
11/10/2021	BHF	Brighthouse Financial Inc	Life	BBB	27s and 47s	550
11/12/2021	SANUK	Santander UK PLC	Banking	BBB	23s-45s	570
11/13/2020	BHP	BHP Billiton Finance USA Ltd	Metals and Mining	BBB+	*Hybrids	1,050
11/16/2020	AVOL	Avolon Holdings Funding Ltd	Finance Companies	BBB-	22-23s	725
11/17/2020	HSBC	HSBC Holdings PLC	Banking	A	21s-22s	2,000
11/18/2020	TJX	TJX Cos Inc	Retailers	A	27s-50s	1,120
11/30/2020	AER	AerCap Ireland Cap/Global	Finance Companies	BBB-	22s	910
12/7/2020	CVS	CVS Health Corp	Healthcare	BBB	23s-28s	4,500
12/7/2020	OXY	Occidental Petroleum Corp	Independent	BB	21-23s	2,300
12/7/2020	BACR	Barclays PLC	Banking	BBB+	22s/CoCos	1,500
12/11/2020	GE	General Electric Co	Diversified Manufacturing	BBB	21s-23s	2,200
Notable 4Q						28,015
Total:						107,095

\*Multi-currency

Source: Bloomberg. As of 31 Dec 20

## Investment-Grade Energy – Further Improvement in 4Q 2020

### Since 2016, IG managements have

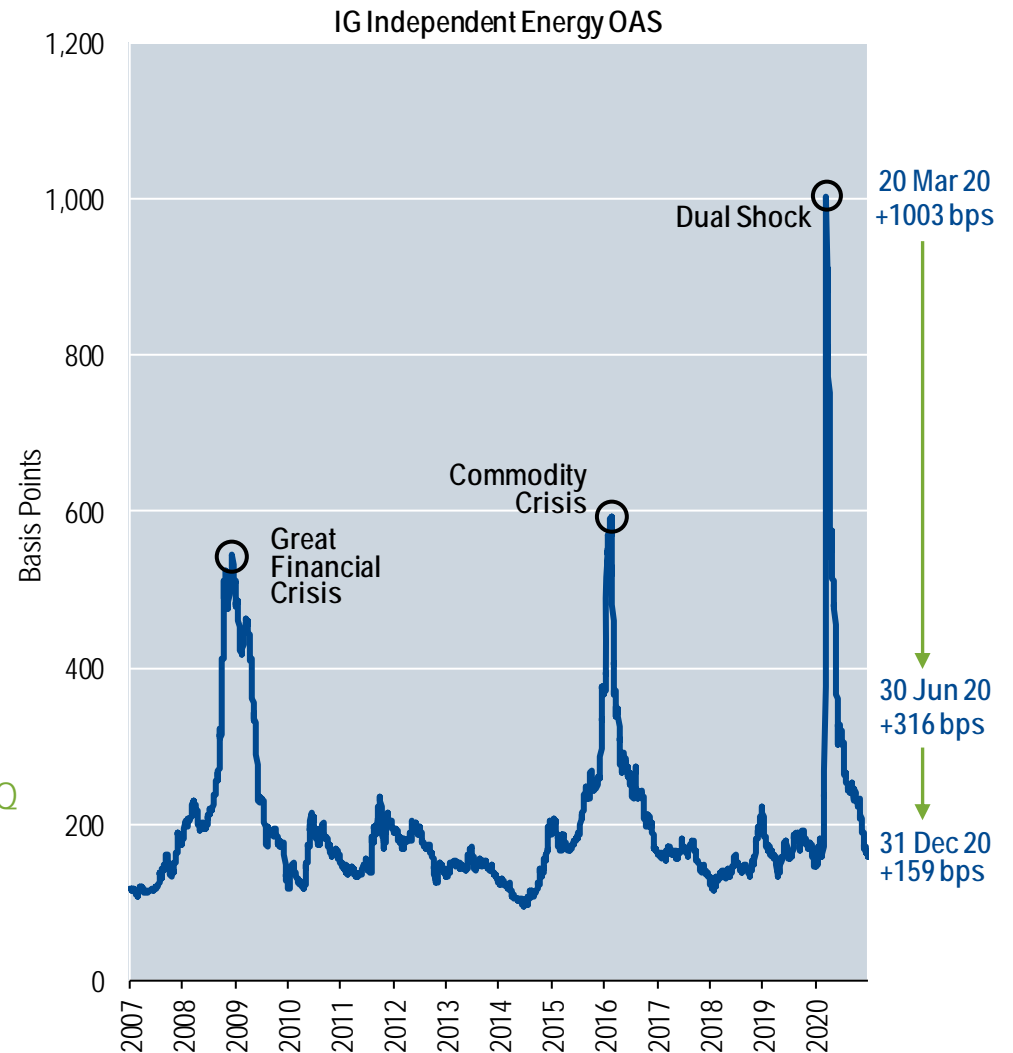
- Acted conservatively
- Lowered cost structures
- Improved cash flow
- Delevered balance sheets
- Extended maturity runways
- Improved liquidity
- Implemented hedges

### Have additional levers

- Cut capital budgets
- Cut dividends

### Conclusion:

- Severe downward price action
- Downgrades happening
- Independent energy spreads another 84 bps tighter in 4Q
- Energy sector “still healing” – Capital preservation in focus



Source: Bloomberg Barclays. As of 31 Dec 20

## Energy Sector – Merger Mania. Size and Scale Matter. All-Equity M&A to Continue.

The transaction framework has changed from a year earlier. Now,

- Stock for stock transactions executed at zero to small premiums
- Focus is on cost reduction and greater capital discipline leading to improved shareholder returns over time

Buyer	Seller	Announcement Date	Transaction Type	Transaction Value (US\$MM)	Enterprise Value (USD)	EV/LTM EBITDA (x)	Premium (Discount) (%)	Main Play(s)
Chevron Corp	Noble Energy	7/20/2020	All Equity	4,979	12,255	5.0x	7.6%	Permian, DJ Basin, East Mediterranean
Southwestern Energy	Montage Resources	8/12/2020	All Equity	203	899	3.8x	0.7%	Appalachia -- Marcellus / Utica Shale
Devon Energy	WPX Energy	9/28/2020	All Equity	2,556	5,728	3.8x	3.2%	Delaware Basin, Bakken
ConocoPhillips	Concho Energy	10/19/2020	All Equity	9,698	13,335	4.4x	11.7%	Permian Basin
Pioneer Natural Resources	Parsley Energy	10/20/2020	All Equity	4,499	7,620	5.4x	12.0%	Permian Basin
Cenovus Energy	Husky Energy	10/25/2020	All Equity	2,400	7,650	6.6x	20.8%	Canadian Heavy Oil
DiamondBack Energy	QEP Resources	12/21/2020	All Equity	551	2,190	3.3x	(0.9%)	Permian Basin
				24,886	49,677	4.6x	8%	

In response to an M&A question on the 3Q20 earnings conference call (Nov 5, 2020):

*"Can't stick head your head in sand, you have to keep your eyes open, but we're going to be very cognizant of shareholder value."*

- John Christmann IV, CEO, Apache Corp

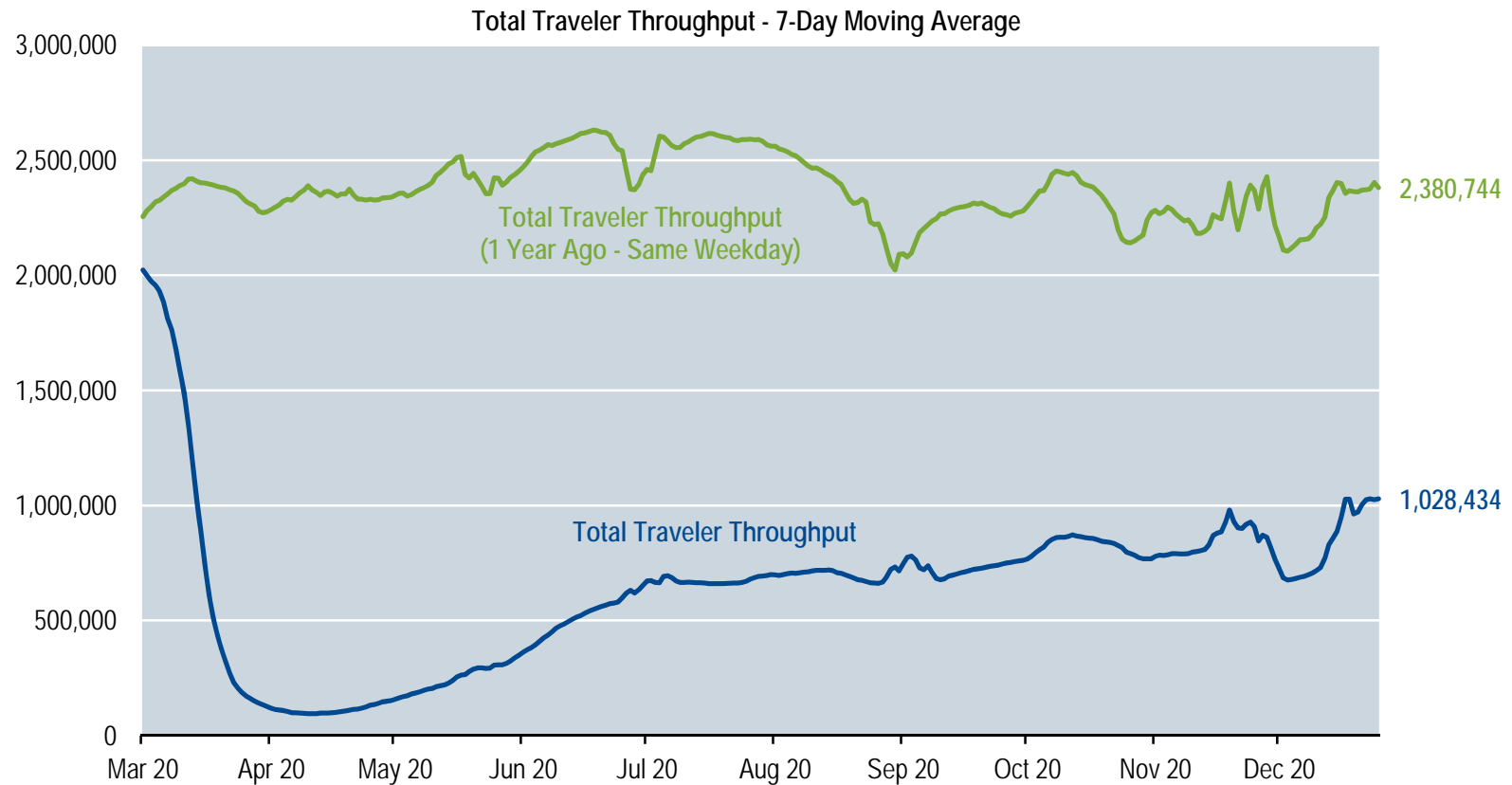
In opening remarks on the 3Q20 earnings conference call (Nov 5, 2020):

*"If our board of directors were to become convinced that we could build a better company through a merger, we would jump at the opportunity. But make no mistake about it, Cimarex is not one of the last kids on the playground waiting to be picked for a team. We have had many opportunities to merge, but we remain independent because our board has determined that independence is the best strategic choice at this time."*

- Thomas Jordan, CEO, Cimarex Energy Corp

Note: Cenovus Energy / Husky Energy transaction value and EV reported in US\$ at CAD:USD of 0.75:1 and excludes the warrant. LTM EBITDA low due to differentials and low utilization  
Source: Company reports, Western Asset Management. As of 31 Dec 20

## Travelers' Confidence: A Long Hard Slog



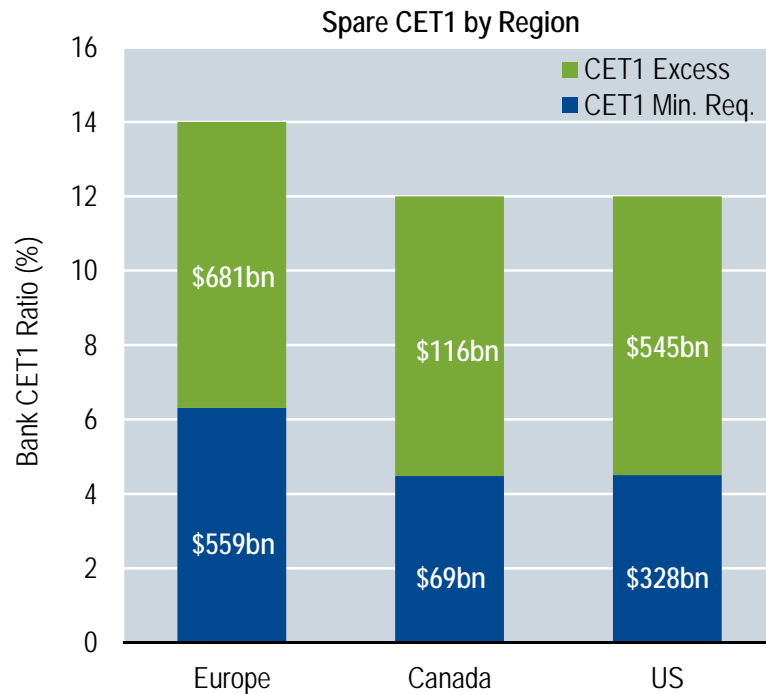
Source: Department of Homeland Security. As of 31 Dec 20

## Banks Are Well Capitalized

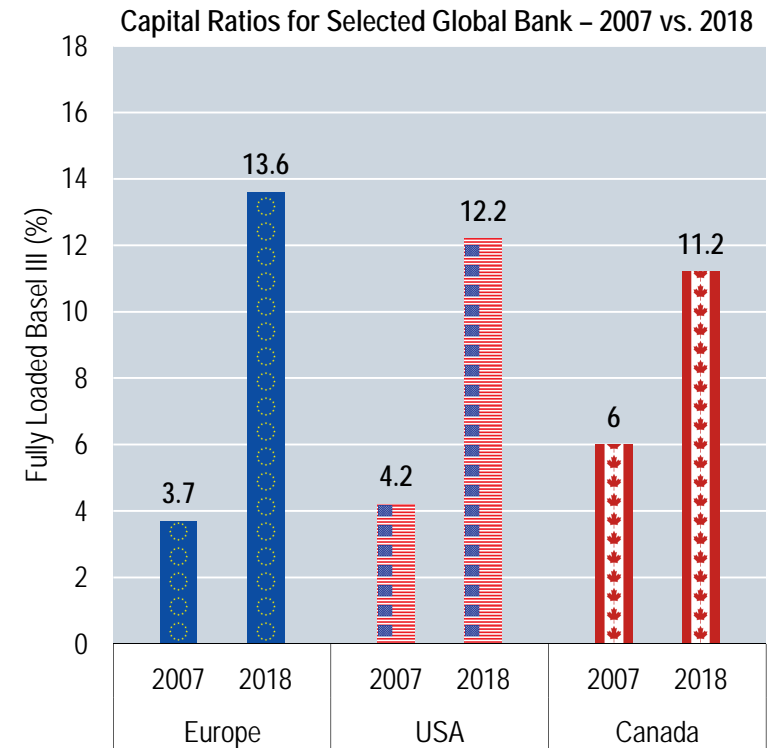
CET1 levels are more than double that of the minimum requirements and banks have 2-4x the amount of capital relative to 2007

Global regulatory landscape and conservative stress tests over last decade have made banking a stronger, safer and simpler industry

Fiscal and monetary stimulus combined with limited shareholder payouts should provide balance sheet support in economic downturn

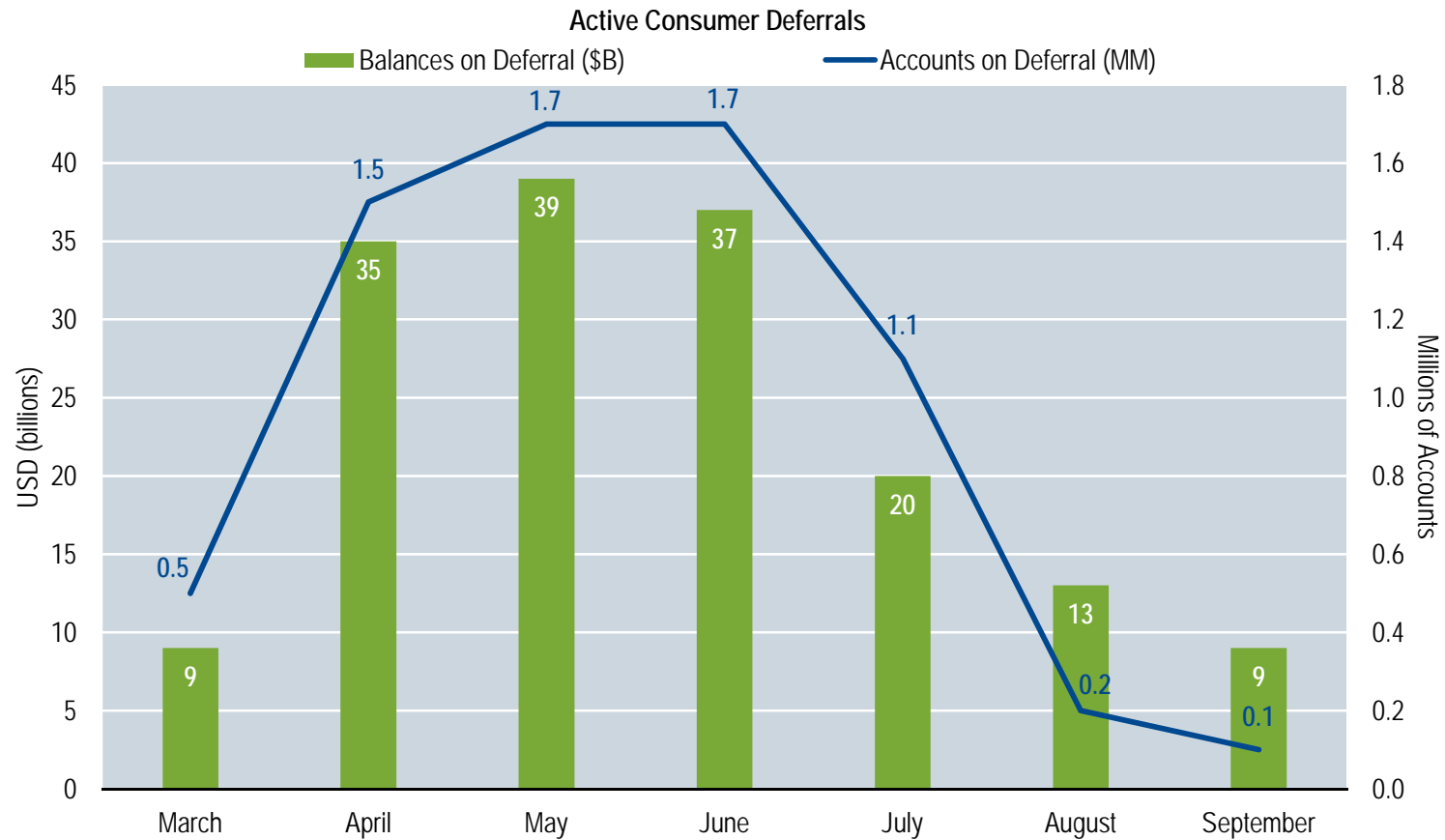


Source: BNP Paribas; Bank Annual Reports and Quarterly Updates 2019.  
As of 19 Mar 20  
Number of banks in sample: Europe 39, Canada 7, US 12



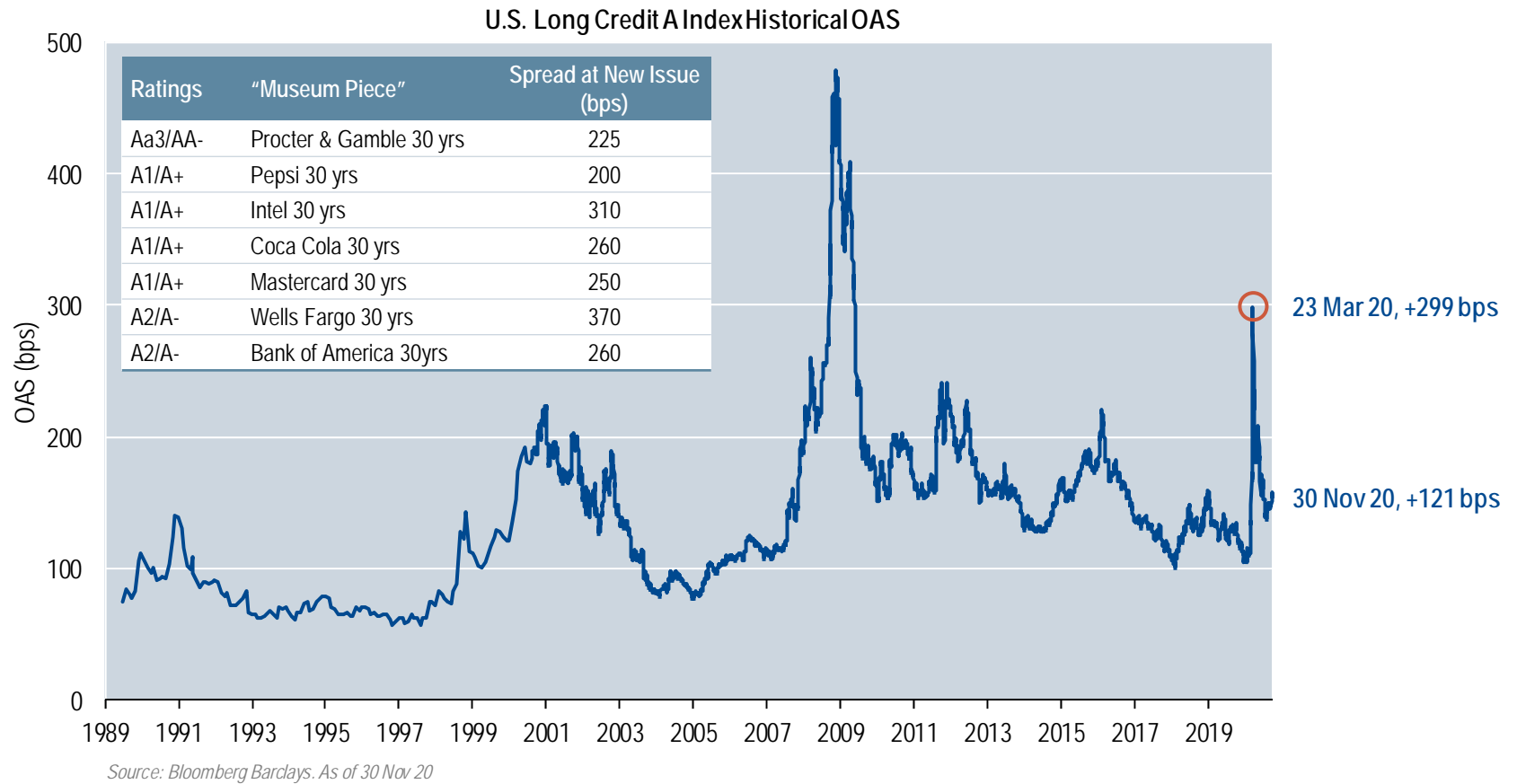
Source: BNP Paribas. As of 28 Feb 19

## Consumer Deferrals Down Dramatically and Better than Expected



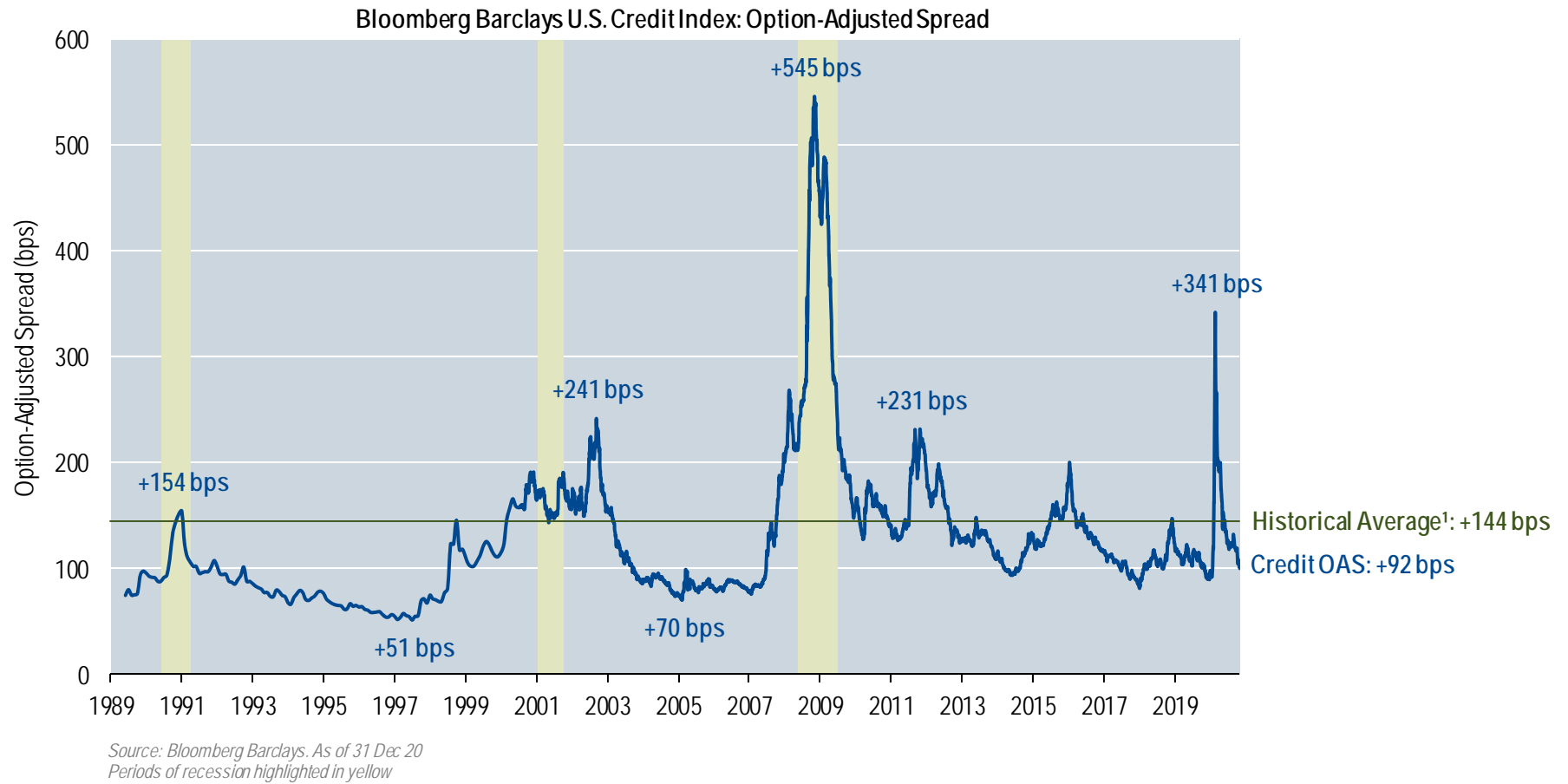
Source: BofA. As of 27 Oct 20

## High Quality Companies Chose to Pay Decade High Spreads to Borrow in March 2020

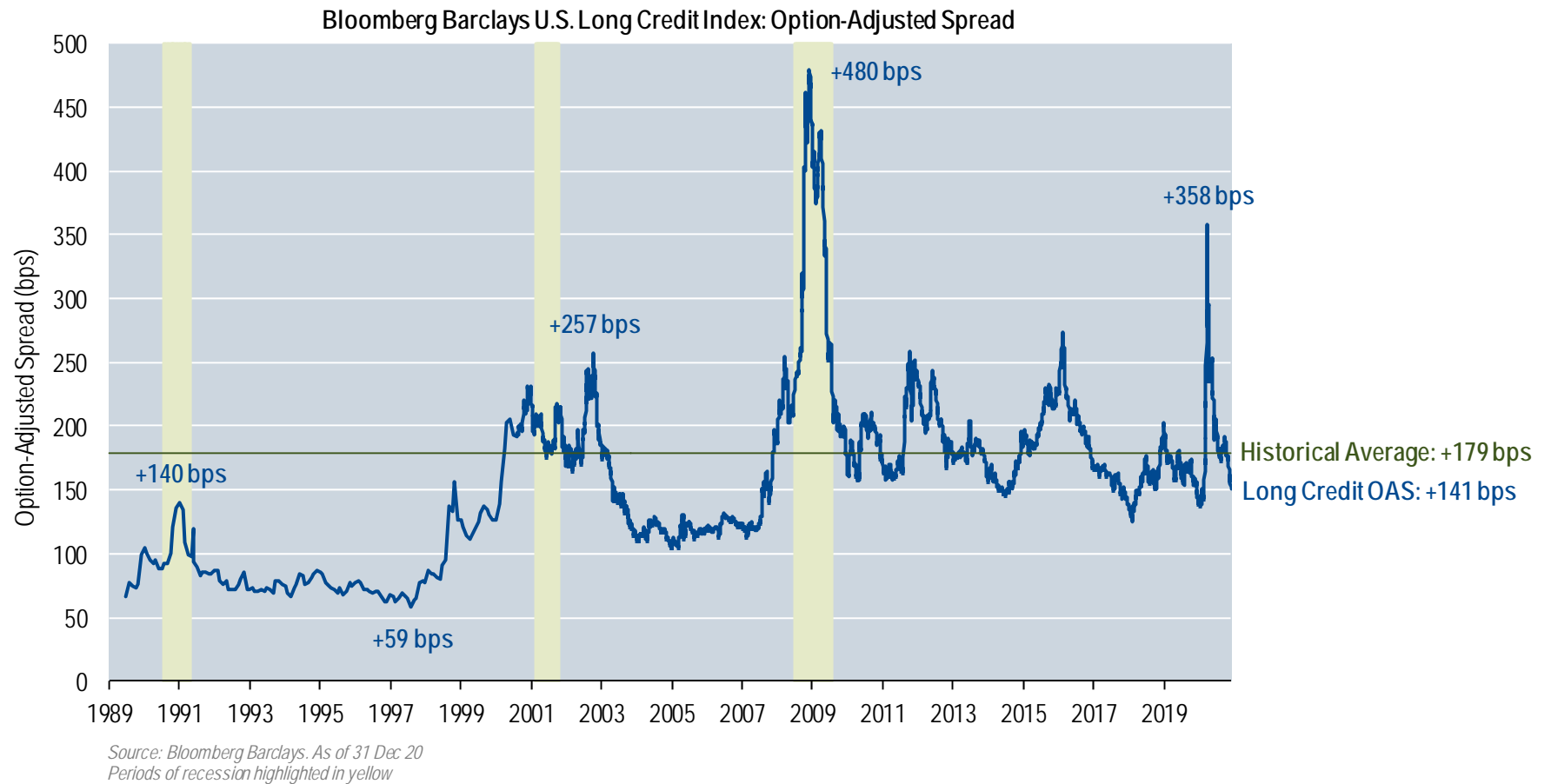




## Valuation: US Credit Fair at +92bps OAS



## Valuation: US Long Credit Fair at +141 OAS



## Appendix

# WISER Risk Report

## Marin County Employees' Retirement Association Intermediate Credit Fixed Income

As of December 31, 2020

Benchmark: Bloomberg Barclays US Intermediate Credit USD Unhedged Index

Portfolio MV (millions, USD) : 152



Source: Western Asset

Note: This risk dashboard is for illustrative purposes only and reflects Western Asset's best efforts to identify and measure the major sources of risk in the portfolio. Results depicted are dependent on an underlying statistical model and/or varying market conditions and are therefore subject to change without notice. There is no guarantee that ex-ante risk measures will be in line with their ex-post realizations.

## Representative Client List Disclosure

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The clients listed are invested in a wide range of mandates, and are located in a variety of countries or regions of the United States.

The clients listed in the Corporate company type have portfolios with an AUM of \$3.74(M) or greater.

The clients listed in the Financial Services company type have portfolios with an AUM of \$10.52(M) or greater.

The clients listed in the Healthcare company type have portfolios with an AUM of \$10.64(M) or greater.

The clients listed in the Insurance company type have portfolios with an AUM of \$11.59(M) or greater.

The clients listed in the Eleemosynary company type have portfolios with an AUM of \$0.86(M) or greater.

The clients listed in the Public company type have portfolios with an AUM of \$4.98(M) or greater.

The clients listed in the Multi-Employer / Unions company type have portfolios with an AUM of \$4.23(M) or greater.

Clients that have advised Western Asset of account terminations have been excluded from the lists.

## Risk Disclosure

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C.1



# Marin County Employees' Retirement Association

January 20, 2021



ISSGOVERNANCE.COM

# **MCERA's Voting Approach**

## Current Proxy Voting Policy

- MCERA's Proxy Voting and Corporate Governance Policy was adopted by the Board in November 2004 and last amended in June 2020
- MCERA currently delegates proxy voting to its investment managers
- Proxy Voting and Corporate Governance Policy modeled after Council for Institutional Investors (CII) policies
- MCERA policy is largely in line with the Institutional Shareholders Services (ISS) Benchmark policy, but there are gaps in the MCERA policy that are discussed further in this presentation



# MCERA's Proxy Voting Policy

## Key Areas of Difference between MCERA Policy and Benchmark Policies

- MCERA's current proxy voting policy focuses on good governance practices of corporations, and is largely in line with other benchmark policies
- However, in key areas the policy lacks language addressing certain voting situations
- The following tables highlight examples of the gaps in MCERA's policy using the ISS Benchmark policy as a comparison

# MCERA's Proxy Voting Policy

## Policy Revisions Required if Third-Party is Used

Proposal Topic	MCERA Proxy Voting Policies	ISS Benchmark Guidelines
Proxy Contests	MCERA policy is silent on the framework for evaluating contested meetings.	<p>Vote case-by-case on the election of directors in contested elections, considering the following factors:</p> <ul style="list-style-type: none"> <li>▪ Long-term financial performance of the company relative to its industry;</li> <li>▪ Management's track record;</li> <li>▪ Background to the contested election;</li> <li>▪ Nominee qualifications and any compensatory arrangements;</li> <li>▪ Strategic plan of dissident slate and quality of the critique against management;</li> <li>▪ Likelihood that the proposed goals and objectives can be achieved (both slates); and</li> <li>▪ Stock ownership positions.</li> </ul>
M&A	MCERA policy for voting on mergers and acquisitions does not appear to be addressed aside from a note on reincorporation for US companies to offshore locations.	Vote case-by-case on mergers and acquisitions. Review and evaluate the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including: valuation, market reaction, strategic rationale, negotiations and process, conflicts of interest

# MCERA's Proxy Voting Policy

## Policy Revisions Required if Third-Party is Used

Proposal Topic	MCERA Proxy Voting Policies	ISS Benchmark Guidelines
Shareholder rights plans, aka Poison Pills	MCERA policies do not appear to provide guidance for management proposals to adopt shareholder rights plan	Vote case-by-case on management proposals on poison pill ratification, focusing on the features of the shareholder rights plan. Rights plans should contain the following attributes: <ul style="list-style-type: none"> <li>▪ No lower than a 20 percent trigger, flip-in or flip-over;</li> <li>▪ A term of no more than three years;</li> <li>▪ No feature that limits the ability of a future board to redeem the pill</li> </ul>
Shareholder requests to appoint an independent director as board chair	MCERA policies generally support high levels of board independence but do not provide specific guidance on proposals to seek an independent chair	Generally vote for shareholder proposals requiring that the board chair position be filled by an independent director, taking into consideration the following: <ul style="list-style-type: none"> <li>▪ The scope and rationale of the proposal;</li> <li>▪ The company's current board leadership structure;</li> <li>▪ The company's governance structure and practices;</li> <li>▪ Company performance; and</li> <li>▪ Any other relevant factors that may be applicable.</li> </ul> The document goes on to specify factors that increase the likelihood of a “for” recommendation.

# MCERA's Proxy Voting Policy

## Policy Revisions Required if Third-Party is Used

Proposal Topic	MCERA Proxy Voting Policies	ISS Benchmark Guidelines
Shareholder resolutions related to the environment; for example requesting that a company disclose information on the risks it faces related to climate change	MCERA policies do not appear to provide guidance for shareholder proposals on this or similar topics	Generally vote for, considering: <ul style="list-style-type: none"><li>▪ Whether the company already provides current, publicly-available information on the impact that climate change may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;</li><li>▪ The company's level of disclosure compared to industry peers; and</li><li>▪ Whether there are significant controversies, fines, penalties, or litigation associated with the company's climate change-related performance.</li></ul>

# MCERA's Proxy Voting Policy

## Policy Clarifications Required if Third-Party is Used

Proposal Topic	MCERA Proxy Voting Policies	ISS Benchmark Guidelines
Board Diversity	<p>Board Diversity: MCERA supports a diverse board. MCERA believes a diverse board has benefits that can enhance corporate financial performance, particularly in today's global marketplace.</p> <p>Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture.</p>	<p>Diversity: For companies in the Russell 3000 or S&amp;P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board.</p> <p>Mitigating factors include:</p> <ul style="list-style-type: none"> <li>▪ Until Feb. 1, 2021, a firm commitment, as stated in the proxy statement, to appoint at least one woman to the board within a year;</li> <li>▪ The presence of a woman on the board at the preceding annual meeting and a firm commitment to appoint at least one woman to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul>

# MCERA's Proxy Voting Policy

## Policy Clarifications Required if Third-Party is Used

Proposal Topic	MCERA Proxy Voting Policies	ISS Benchmark Guidelines
Say on Pay	While MCERA's policy is clear on the areas to review, some specifics are missing, such as how a peer group would be constructed and what the definition of and calculations for pay for performance should be used in determining if the pay package is reasonable.	ISS has several FAQs on how they make these evaluations in investor policies

# Advantages of the ISS Proxy<sup>C.1</sup> Voting Policy Framework



## THEMATIC POLICIES

INNOVATION TO  
SUPPORT YOUR  
INVESTMENT  
PHILOSOPHIES

### NEW IN 2020: CLIMATE POLICY

Climate change-focused investors.

To support greater disclosure with a company's performance record on (GHG) emissions, its activities' impact on climate and its climate strategy, and putting this into context with its sector and incident-based climate risk exposure.

## PUBLIC FUND POLICY

Public pension fund managers & public plan sponsors and trustees. Long-term best interests of public plan participants & beneficiaries. Greater focus on board independence and executive compensation.

## SRI POLICY

SRI investment firms, religious groups, charitable foundations & university endowments. Traditional SRI investor perspective on social, environmental, and economic issues. The "triple bottom line" value creation.

## SUSTAINABILITY POLICY

Signatories to the UN Principles for Responsible Investment (UN PRI) or similarly aligned investment managers & asset owners. Supportive of greater ESG disclosure and policies and practices that are consistent with related globally accepted norms.

## TAFT-HARTLEY POLICY

Taft-Hartley pension funds & investment managers (ERISA). Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines. Greater focus on board independence & executive compensation.

## FAITH BASED POLICY

Catholic faith-based socially responsible investors. Including individuals and organizations. Based on the ethical perspective & teachings of the Catholic Church (USCCB). Attention to economic, environmental, and social justice concerns.

# Advantages of the ISS Proxy<sup>C.1</sup> Voting Policy Framework

## ISS Multiple Policy Perspectives – S&P 500

	ISS Benchmark Policy	Sustainability Policy	SRI Policy	Climate Policy	Catholic Policy	Public Fund Policy	Taft-Hartley Policy
<b>Policy Focus</b>	All – including Investment managers and institutional investors of all sizes	UN PRI Signatories or similarly aligned investment managers & asset owners	SRI investment firms, religious groups, charitable foundations & university endowments	Climate-focused investors, inclusive of asset managers, asset owners and mutual funds	Catholic faith-based investors, including dioceses & Catholic healthcare systems	Public pension fund managers & public plan sponsors/trustees	Taft-Hartley pension funds & investment managers (ERISA)
<b>Orientation</b>	“Best practice” governance standards that promote total, long-term shareholder value & risk mitigation	United Nations Principles for Responsible Investment (UN PRI)	The "triple bottom line" value creation	Widely recognized frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD)	Economic gain, social justice, environmental stewardship, ethical conduct & teachings of the Catholic Church (USCCB)	Long-term best interests of public plan participants & beneficiaries	Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines
<b>Key Policy Highlights:</b> <b>1. <u>Board</u></b>	Independence (50%), composition, accountability and responsiveness	Independence (50%), composition, accountability and responsiveness – including on ESG topics	Independence (50%), composition, accountability and responsiveness - including on ESG topics, diversity	Independence (50%), composition, accountability and responsiveness - including on ESG topics, with focus on climate-related risk oversight	Independence (50%), composition, accountability and responsiveness - including on ESG topics, diversity	Independence (50%), composition, accountability and responsiveness	Independence (67%), composition, accountability and responsiveness
	<b>2. <u>Compensation</u></b>	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance - including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (15%)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (10%)
	<b>3. <u>Environmental &amp; Social</u></b>	Consider shareholder proposals on social, environmental and labor/human rights issues on a case-by-case basis	Generally support shareholder proposals advocating ESG disclosure or universal norms/codes of conduct	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals promoting greater disclosure of corporate environmental policies and practices	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues
<b>Board Opposition</b>	2%	2%	11%	7%	22%	30%	37%
<b>Auditor Ratification Opposition</b>	0%	0%	6%	0%	6%	91%	91%
<b>Equity Pay Plans</b>	10%	10%	10%	17%	10%	76%	80%
<b>Say on Pay Opposition</b>	10%	10%	15%	29%	14%	25%	24%
<b>Gov. Shareholder Proposal Support</b>	67%	79%	82%	80%	82%	86%	86%
<b>E&amp;S Shareholder Proposal Support</b>	66%	75%	95%	75%	95%	94%	94%



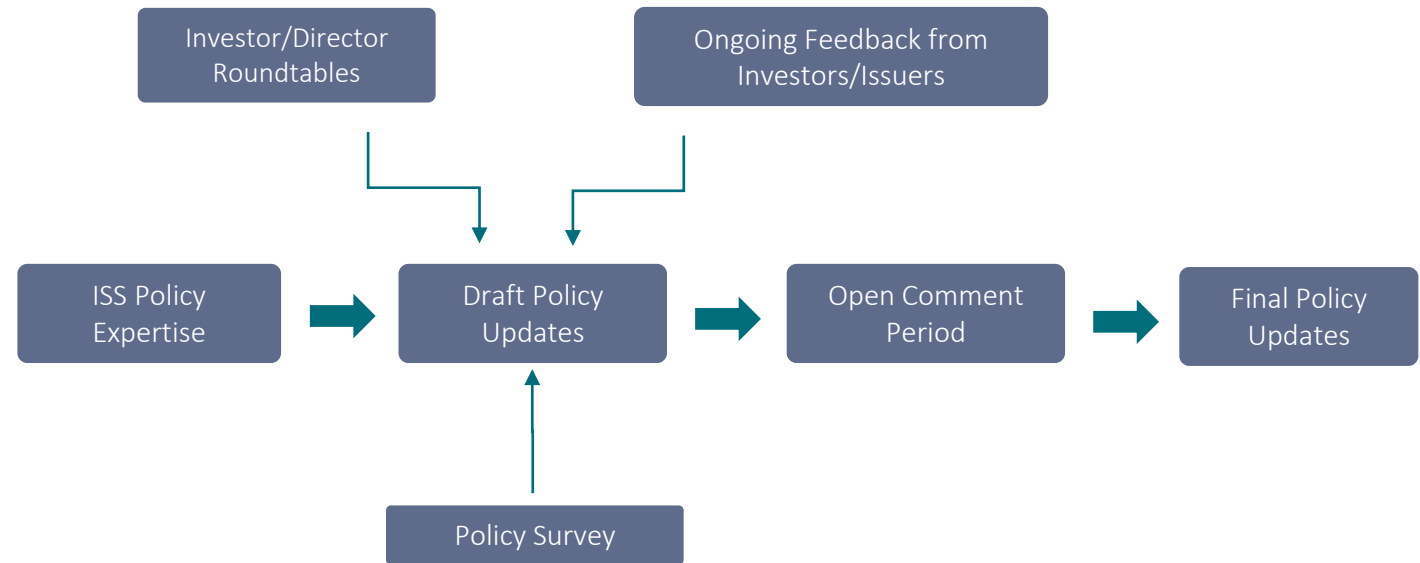
# Advantages of the ISS Proxy<sup>C.1</sup> Voting Policy Framework

## ISS Multiple Policy Perspectives – Russell 3000

	ISS Benchmark Policy	Sustainability Policy	SRI Policy	Climate Policy	Catholic Policy	Public Fund Policy	Taft-Hartley Policy
<b>Policy Focus</b>	All – including Investment managers and institutional investors of all sizes	UN PRI Signatories or similarly aligned investment managers & asset owners	SRI investment firms, religious groups, charitable foundations & university endowments	Climate-focused investors, inclusive of asset managers, asset owners and mutual funds	Catholic faith-based investors, including dioceses & Catholic healthcare systems	Public pension fund managers & public plan sponsors/trustees	Taft-Hartley pension funds & investment managers (ERISA)
<b>Orientation</b>	“Best practice” governance standards that promote total, long-term shareholder value & risk mitigation	United Nations Principles for Responsible Investment (UN PRI)	The "triple bottom line" value creation	Widely recognized frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD)	Economic gain, social justice, environmental stewardship, ethical conduct & teachings of the Catholic Church (USCCB)	Long-term best interests of public plan participants & beneficiaries	Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines
<b>Key Policy Highlights:</b>							
<b>1. <u>Board</u></b>	Independence (50%), composition, accountability and responsiveness	Independence (50%), composition, accountability and responsiveness – including on ESG topics	Independence (50%), composition, accountability and responsiveness - including on ESG topics, diversity	Independence (50%), composition, accountability and responsiveness - including on ESG topics, with focus on climate-related risk oversight	Independence (50%), composition, accountability and responsiveness - including on ESG topics, diversity	Independence (50%), composition, accountability and responsiveness	Independence (67%), composition, accountability and responsiveness
<b>2. <u>Compensation</u></b>	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance - including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (15%)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (10%)
<b>3. <u>Environmental &amp; Social</u></b>	Consider shareholder proposals on social, environmental and labor/human rights issues on a case-by-case basis	Generally support shareholder proposals advocating ESG disclosure or universal norms/codes of conduct	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals promoting greater disclosure of corporate environmental policies and practices	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues
<b>Board Opposition</b>	12%	12%	29%	9%	49%	36%	43%
<b>Auditor Ratification Opposition</b>	0%	0%	4%	0%	5%	66%	65%
<b>Equity Pay Plans</b>	20%	20%	19%	10%	17%	88%	91%
<b>Say on Pay Opposition</b>	10%	10%	19%	33%	19%	25%	25%
<b>Gov. Shareholder Proposal Support</b>	70%	80%	83%	83%	82%	86%	86%
<b>E&amp;S Shareholder Proposal Support</b>	68%	77%	95%	75%	95%	94%	94%

# Advantages of the ISS Pro<sup>C.1</sup>xy Voting Policy Framework

Rigorous, transparent and inclusive policy formulation for informed decision-making.



Balancing global principles and local market specificity, ISS upholds a transparent and inclusive approach that includes ongoing market feedback, surveys, roundtables and an open industry comment period.

- Global in-person discussion forums and roundtables frame the policy process.
- Annual policy survey brings in perspectives from institutional investors, corporate issuers and governance experts. Offers all market constituents the ability to actively participate in ISS' policy development process.
- Numerous viewpoints are considered to develop guidelines that strike the right balance between shareholder interests and economic practicality.



# MCERA Proxy <sup>C.1</sup>Voting Solution

- Proxy Voting for up to 2,200 U.S. Proxy Meetings/Research annually. Additional research above 2,200 are \$20 each, billed as an overage
- Up to 2,200 Ballots. Additional Ballots above 2,200 are \$2.00 each, billed as an overage
- Fully automated policy based voting with MCERA to determine the policy and level of involvement
- Assigned/Named ISS Proxy Voting Client Service Consultant
- Access to online to the ISS Proxy Voting Platform – Proxy Exchange (PX) for up to five users. Additional users above five are \$1,000 each annually
- Full Proxy Voting Reporting
- Unlimited Proxy Voting email alerts included
- Due Diligence Meetings/Questionnaires
- Unlimited Training and Support throughout the annual term. “White Glove” customer service
- Presentation to the MCERA Board (as requested)
- Annual Policy updates



# C.1 Pricing

## Option #1: Proxy Voting with Benchmark Policy and Research

- 1 year: \$27,500 Annually
- 2 Years: \$25,575 Annually
- 3 Years: \$24,750 Annually

## Option #2: Proxy Voting with ISS Specialty Policy (For example, Public Fund Policy, Sustainability Policy, etc.) and Research

- 1 year: \$32,500 Annually
- 2 Years: \$30,225 Annually
- 3 Years: \$29,250 Annually

## Option #3: Proxy Voting with MCERA custom proxy voting policy – ISS will will work with MCERA to create Policy.

(Please note: priced with moderate customization. If advanced customization is required final pricing could be higher)

- 1 year: \$37,500 Annually
- 2 Years: \$34,875 Annually
- 3 Years: \$33,750 Annually



# Onboarding ISS<sup>C.1</sup> Voting Services

## VOTING ENVIRONMENT

Ballot flow directed to  
MCERA Voting  
Environment at ISS

### Set up Accounts

- Letter or Authorization – Form letter for custodians and ISS to use to set up accounts appropriately
- Email LOA to ISS and Custodian
- eLOA available to electronically sign letter
- ISS Move accounts to MCERA's Voting Environment

### Account Groupings

- Logically organize accounts
- Review Master Account List to ensure all accounts are captured

### SUPPORT & SERVICE

- Extensions of your in-house proxy team
- Assist with vendor due diligence compliance review
- Provides maximum amount of in-person and on-site training
- Local ISS client service representatives made available for clients with global presence
- Notification of upcoming events, webinars, and new thought leadership
- User-specific platform customization and reporting Quarterly review of Master Account List

# Onboarding ISS Voting Services

## VOTING STRATEGY

Leverage Technology in  
the Voting Process

## QUALITY & CONTROL

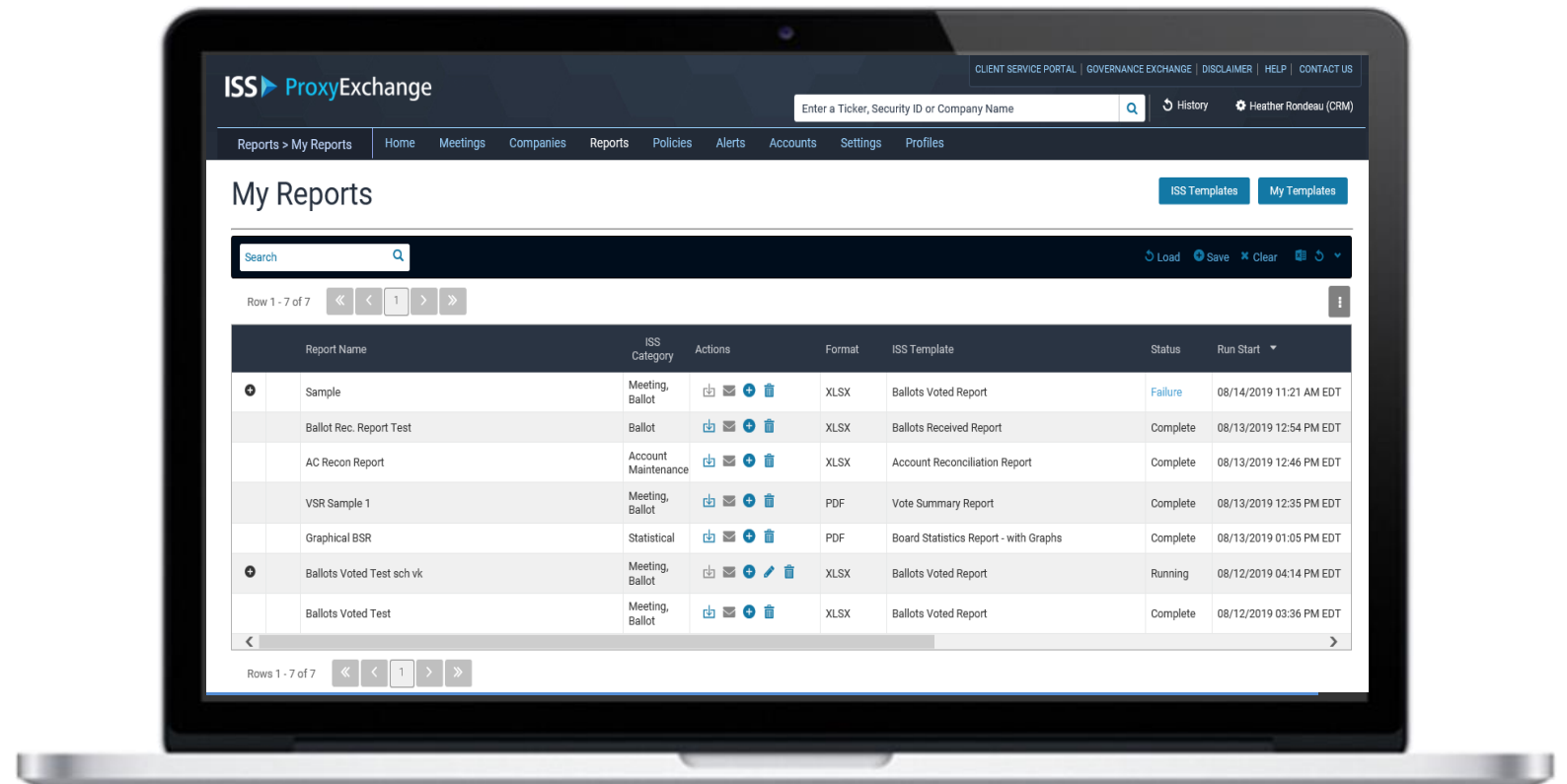
- Balance voting process oversight with available staff resources
- ISS internal controls help manage day to day voting operations
- All ballots/meetings/agenda items handled to be voted in line with policy guidelines
- Dedicated contact, backed by a multidisciplinary support team
- 24x6 global support hotline

# C.1 PROXYEXCHANGE

Technology to manage all aspects of the proxy voting process

## Online tool set up by Client Success to individual clients specifications

- Onboarding workflow to set up all accounts, alerting, reporting and other workflow needs
- Includes more than two dozen report templates that can be customized and scheduled
- Full transparency in to set up of accounts, voting strategies and preferences
- Easy to navigate, but flexible for proactive notification of voting situations

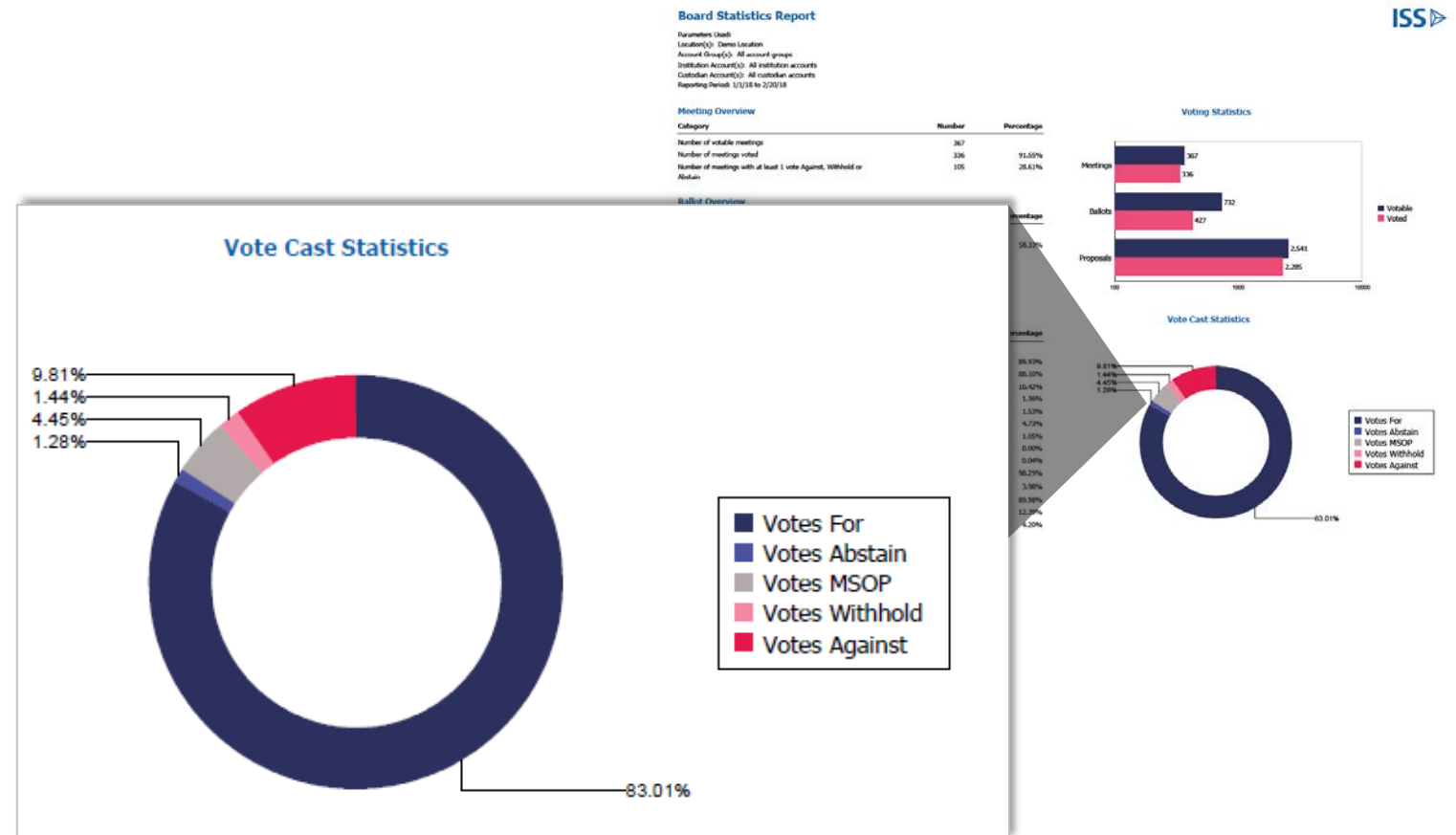


## ROBUST REPORTING

VISUAL INTERACTIVE  
REPORTING TO HELP  
ARTICULATE YOUR  
STEWARDSHIP STORY

## STATISTICAL AND ACTIVITY REPORTS

- Aggregated snapshot of your voting environment
- Robust statistics for senior leadership and other stakeholders
- Maintain oversight of key situations and voting activity





# Questions/<sup>C.1</sup>Thank You

Nathan Worthington

Managing Director, Regional Head of Client Service and Consultants

[nathan.worthington@issgovernance.com](mailto:nathan.worthington@issgovernance.com)

312-219-6290

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Senior Client Service Associate

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Senior Account Executive

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415-801-4117





**Small Cap Tilt Within the  
Domestic Equity Portfolio**

## Domestic Equity Structure

### Guiding Principles/Best Practices

The role of U.S. equity in the asset allocation is capital growth.

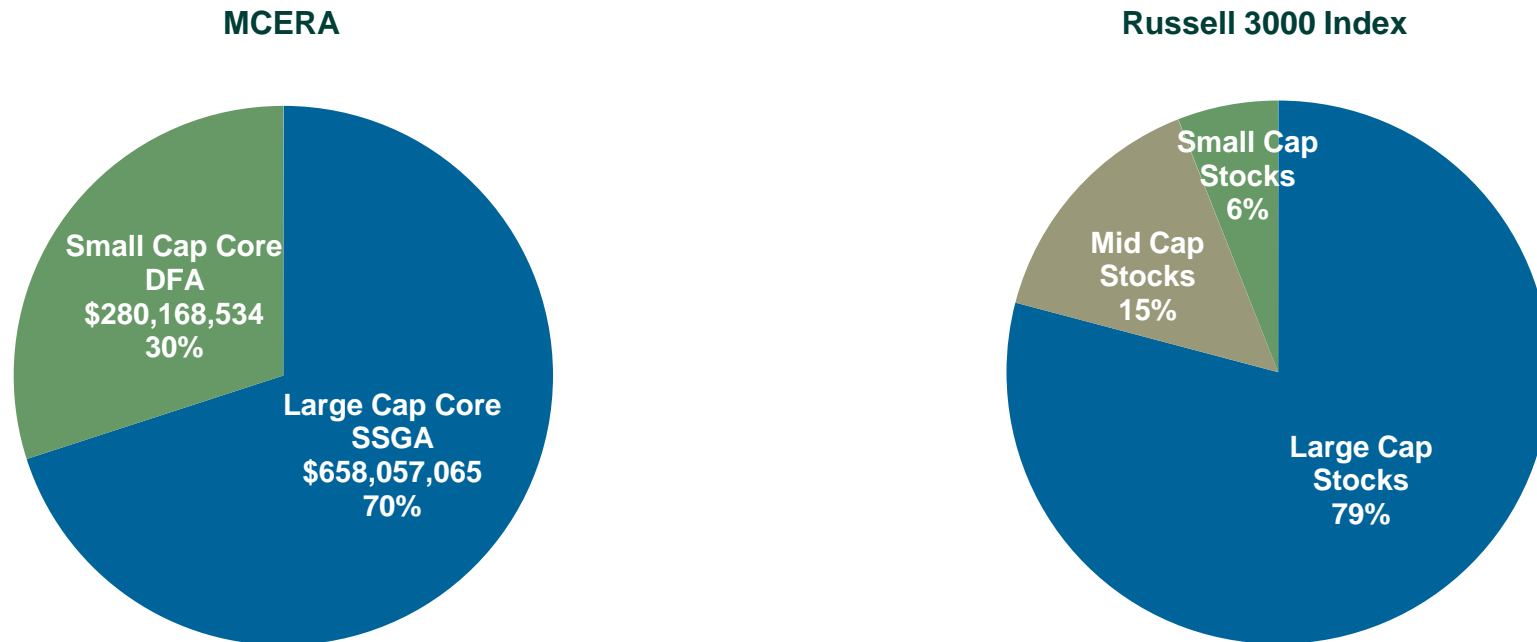
Primary determinants of equity risk and return:

- Size exposures as measured by market capitalization
- Styles exposures - value, core, and growth
- The amount of active/passive management

A diversified structure should generally reflect the characteristics of the market.

- The default structure is style and capitalization neutral.
- Active management has historically added more value in mid and small cap than large cap.

## MCERA Domestic Equity Structure

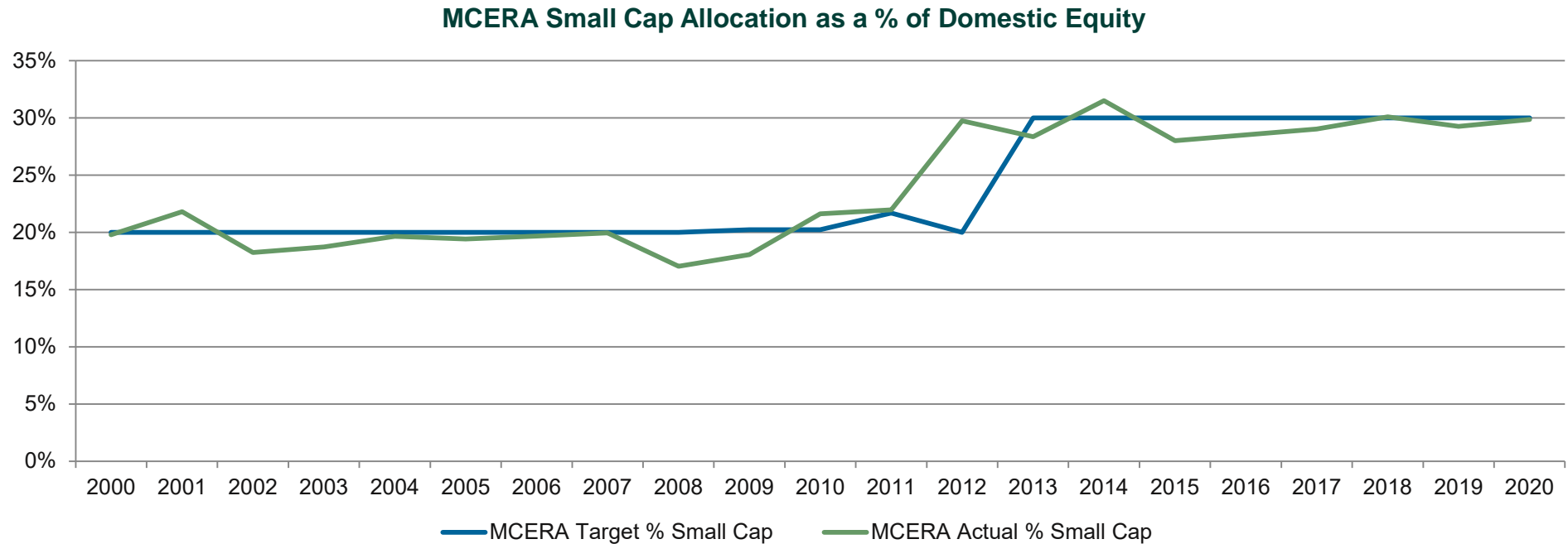


MCERA has a 32% target allocation to U.S. Equity. Within the domestic equity portfolio, 70% is allocated to large cap and 30% to small cap.

The large cap core equity portfolio is passively managed and the small cap core portfolio is actively managed.

The domestic equity allocation was structured with an intentional overweight to small cap versus the Russell 3000 Index.

## MCERA's Small Cap Allocation as a % of Domestic Equity



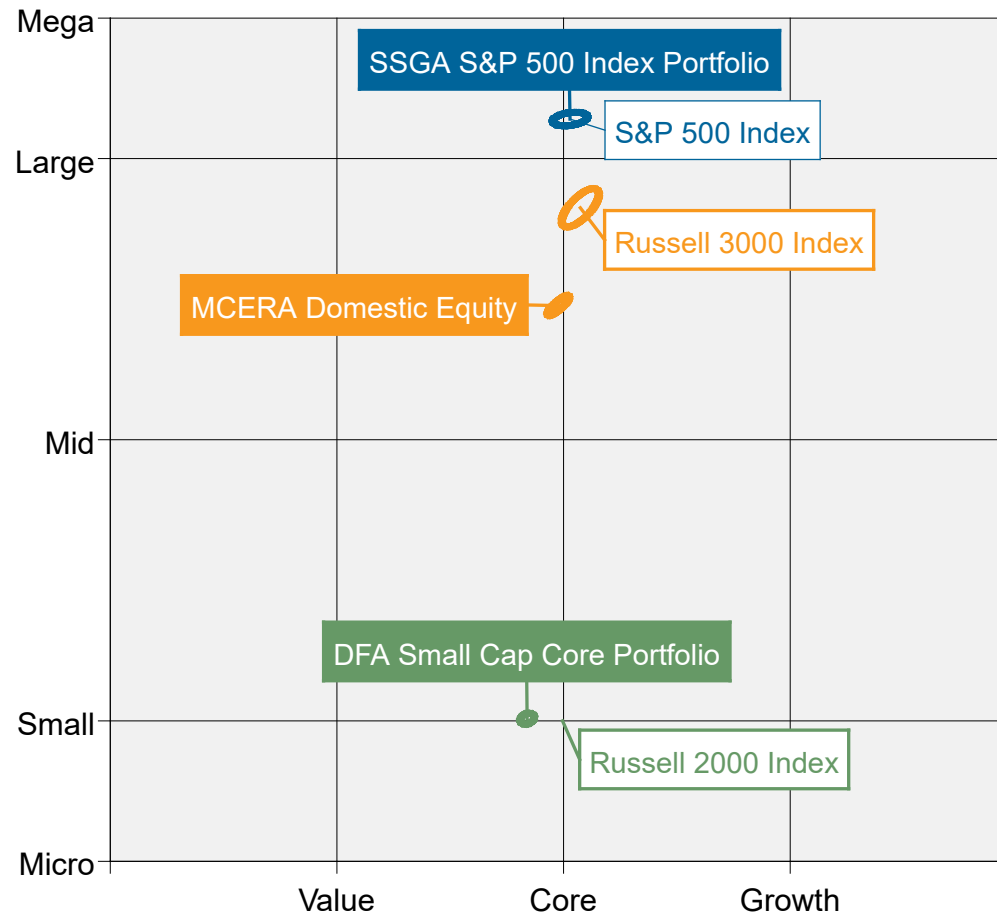
MCERA's target small cap allocation noticeably increased from 20% to 30% in 2012.

- At this time, the active large cap growth and value managers were terminated and the large cap assets were moved to 100% passive management.
- The small cap equity allocation was increased to generate excess return in the domestic equity composite. The small cap composite consisted of a small cap value portfolio (DFA) and a small cap growth portfolio (Columbus Circle).

The small cap style-oriented portfolios were removed in 2018 and converted to the current small cap core portfolio with DFA. It was decided at that time to keep the small cap target allocation at 30%.

## MCERA Domestic Equity Structure

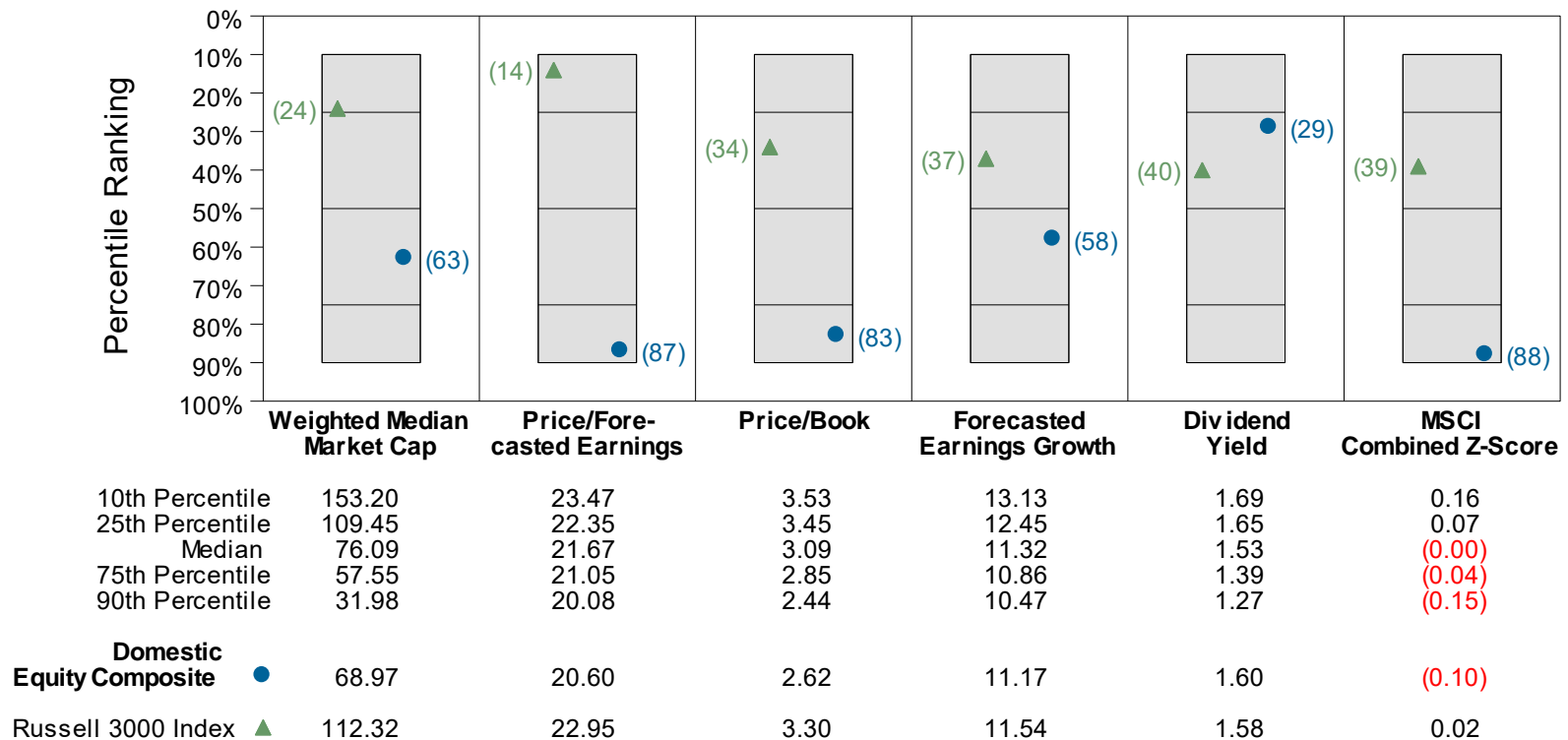
**Domestic Equity Style Map  
for 2 Years Ended December 31, 2020**



## MCERA Domestic Equity Characteristics

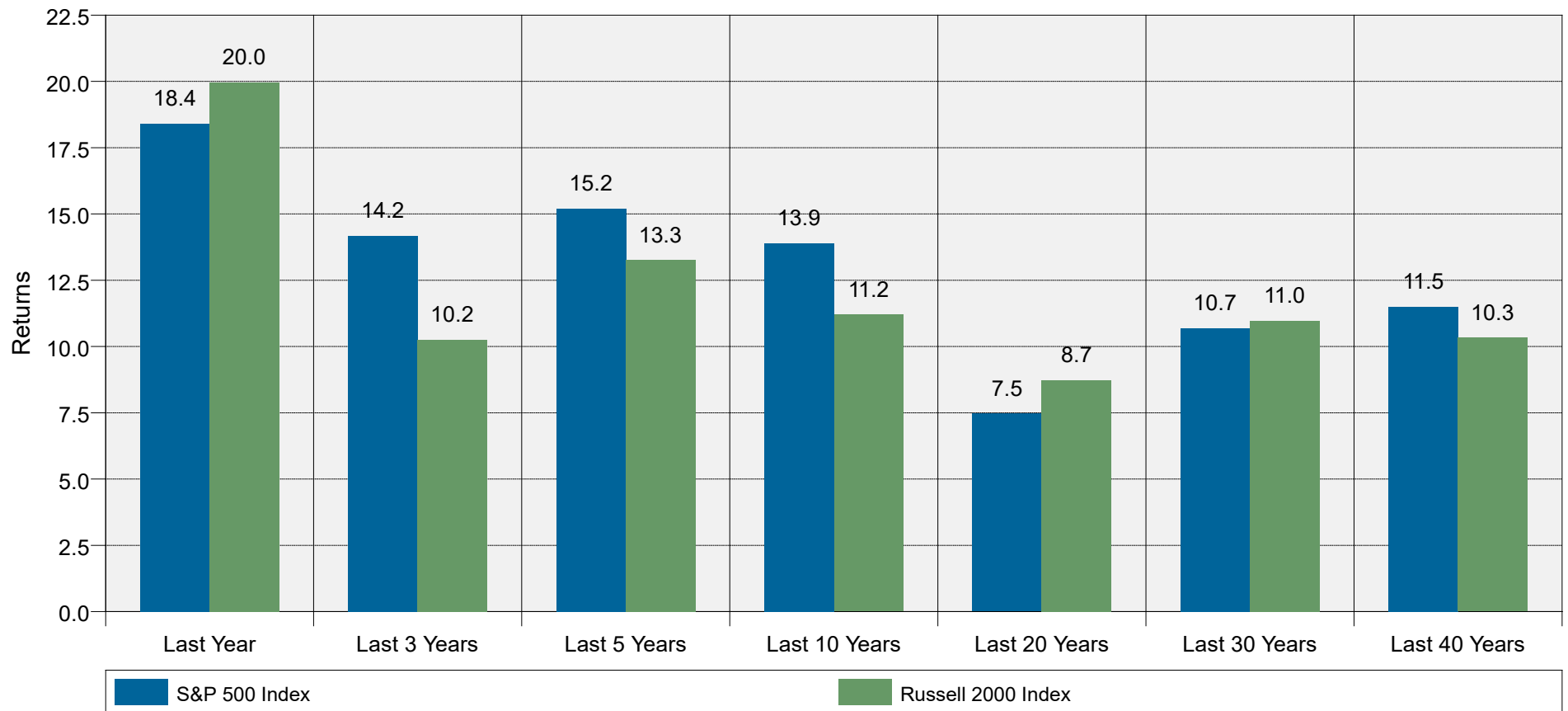
As of September 30, 2020

### Portfolio Characteristics Percentile Rankings Rankings Against Public Fund - Domestic Equity as of September 30, 2020



## Market Returns by Capitalization

Annualized Returns For Periods Ending December 31, 2020

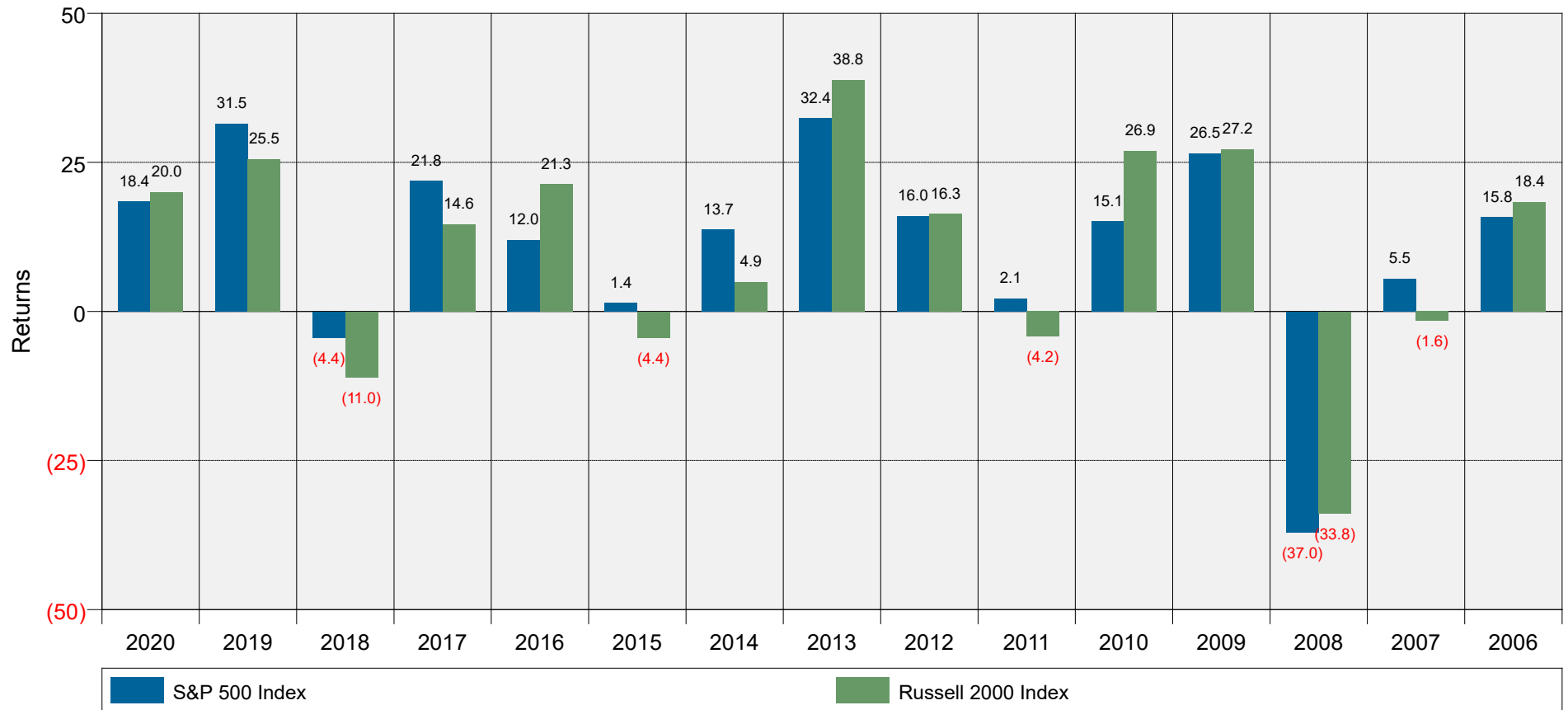


A small cap overweight is typically expected to generate greater returns over the long run albeit with greater volatility. However, returns for small cap versus large cap have been mixed with small cap returns trailing in more recent periods due to the dominance of some of the largest cap stocks.



## Market Returns by Capitalization

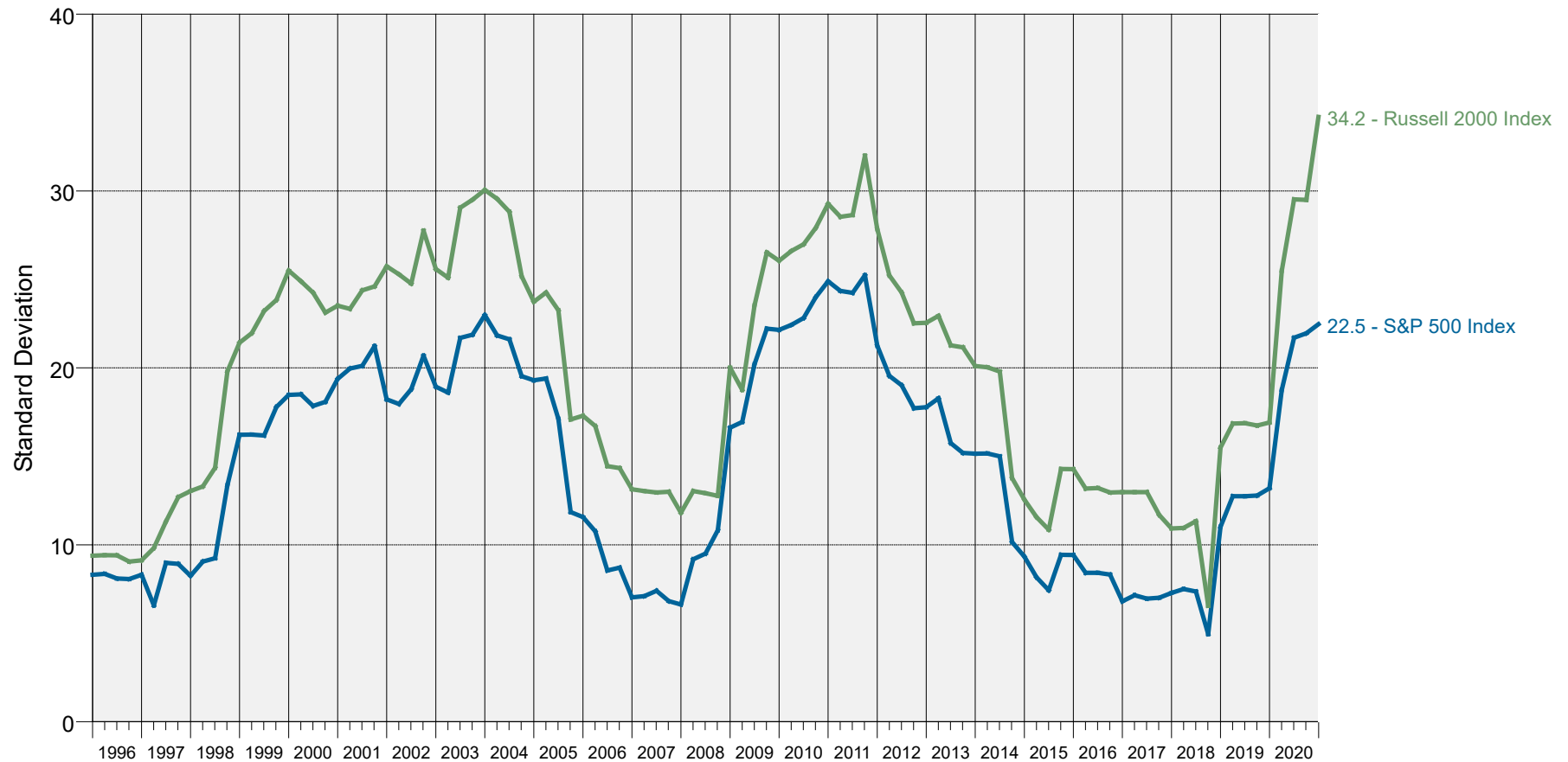
### Calendar Year Returns



## Market Standard Deviation

### Rolling Three Year Standard Deviation

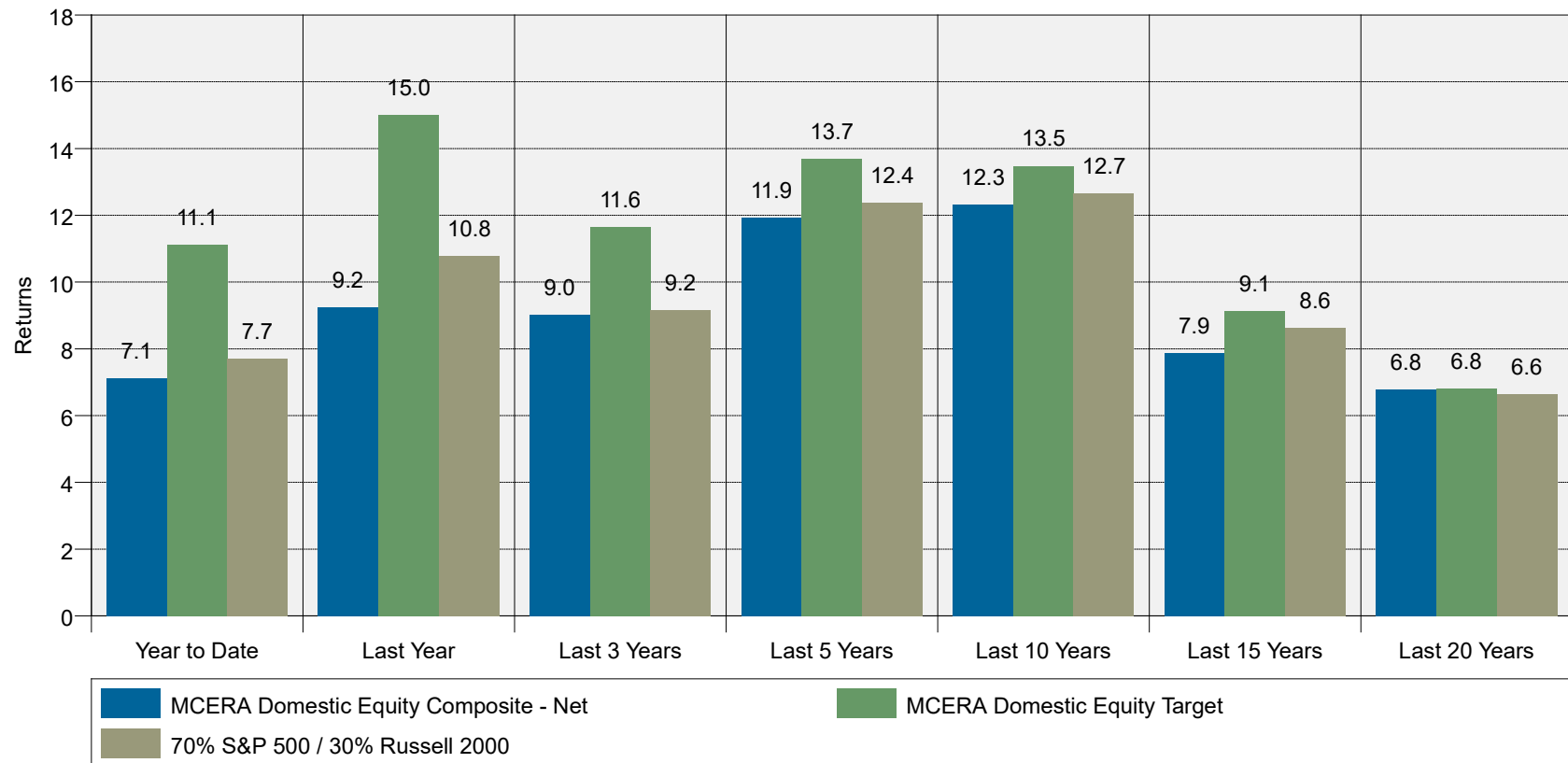
Rolling 3 Year Standard Deviation  
for 25 Years Ended December 31, 2020



# MCERA Domestic Equity Composite

## Net of Fee Annualized Returns

Net of Fee Returns  
for Periods Ending September 30, 2020



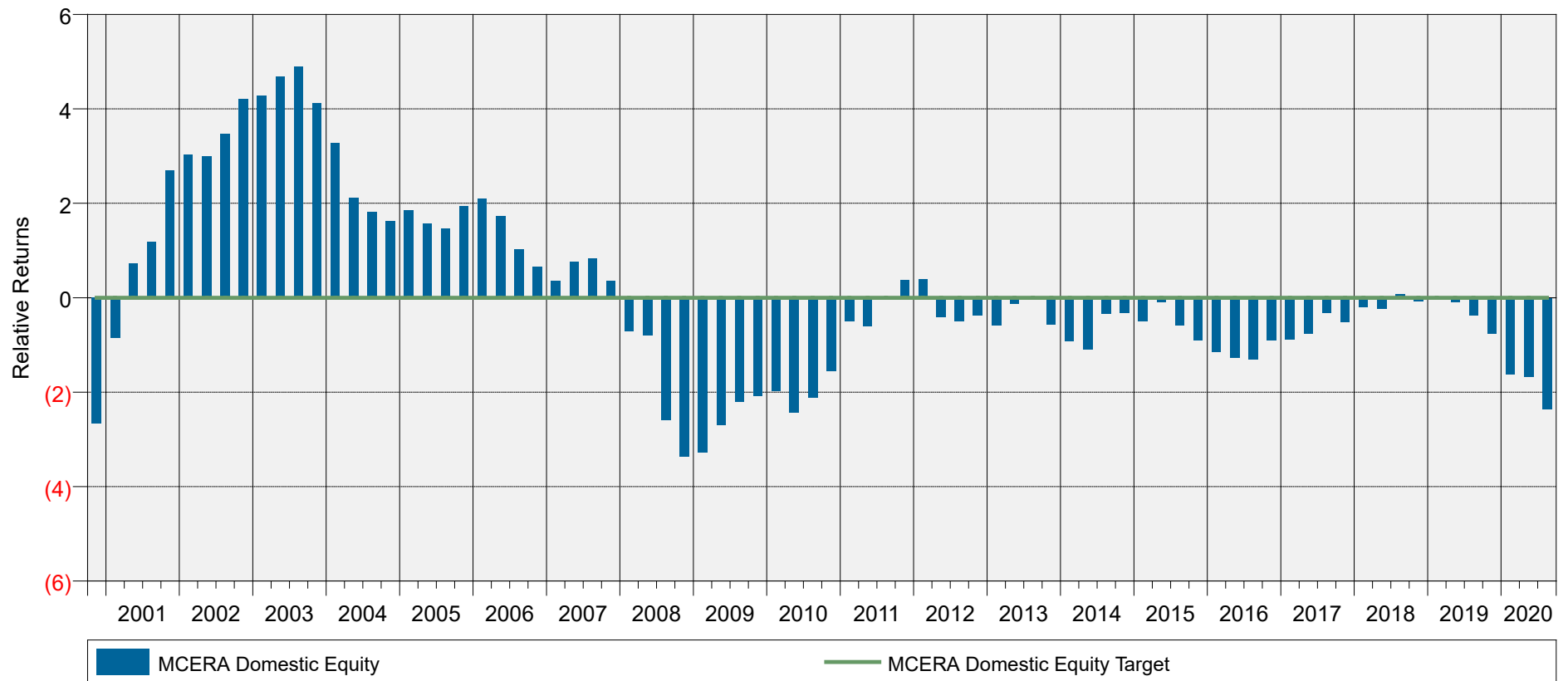
The MCERA Domestic Equity Composite consists of the historical domestic equity structure which includes terminated managers as well as performance from the Parametric overlay program.

The Domestic Equity Target is comprised of 80% S&P 500 and 20% Russell 2000 from 12/31/99 to 06/30/10, and 100% Russell 3000 from 06/30/10 to present.

## MCERA Domestic Equity Composite

### Net of Fee Rolling Three Year Returns

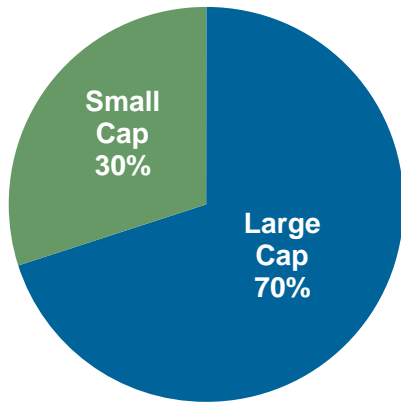
Net of Fee Rolling 3 Year Relative Returns vs. MCERA Domestic Equity Target  
for 20 Years Ended September 30, 2020



## Alternative Domestic Equity Structures

### Projected Returns and Risk

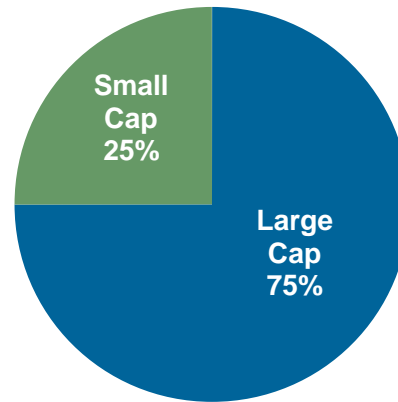
**Current: 70/30**



70% Large Cap = \$658,057,065  
30% Small Cap = \$280,168,534

Projected 10 Year Return: 6.65%  
Projected 10 Year Risk: 18.35%

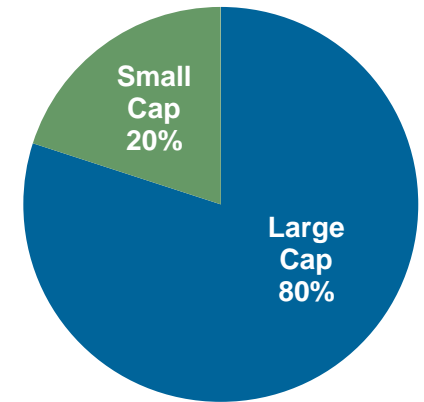
**Alternative: 75/25**



75% Large Cap = \$703,669,199  
25% Small Cap = \$234,556,400

Projected 10 Year Return: 6.63%  
Projected 10 Year Risk: 18.22%

**Alternative: 80/20**



80% Large Cap = \$750,580,479  
20% Small Cap = \$187,645,120

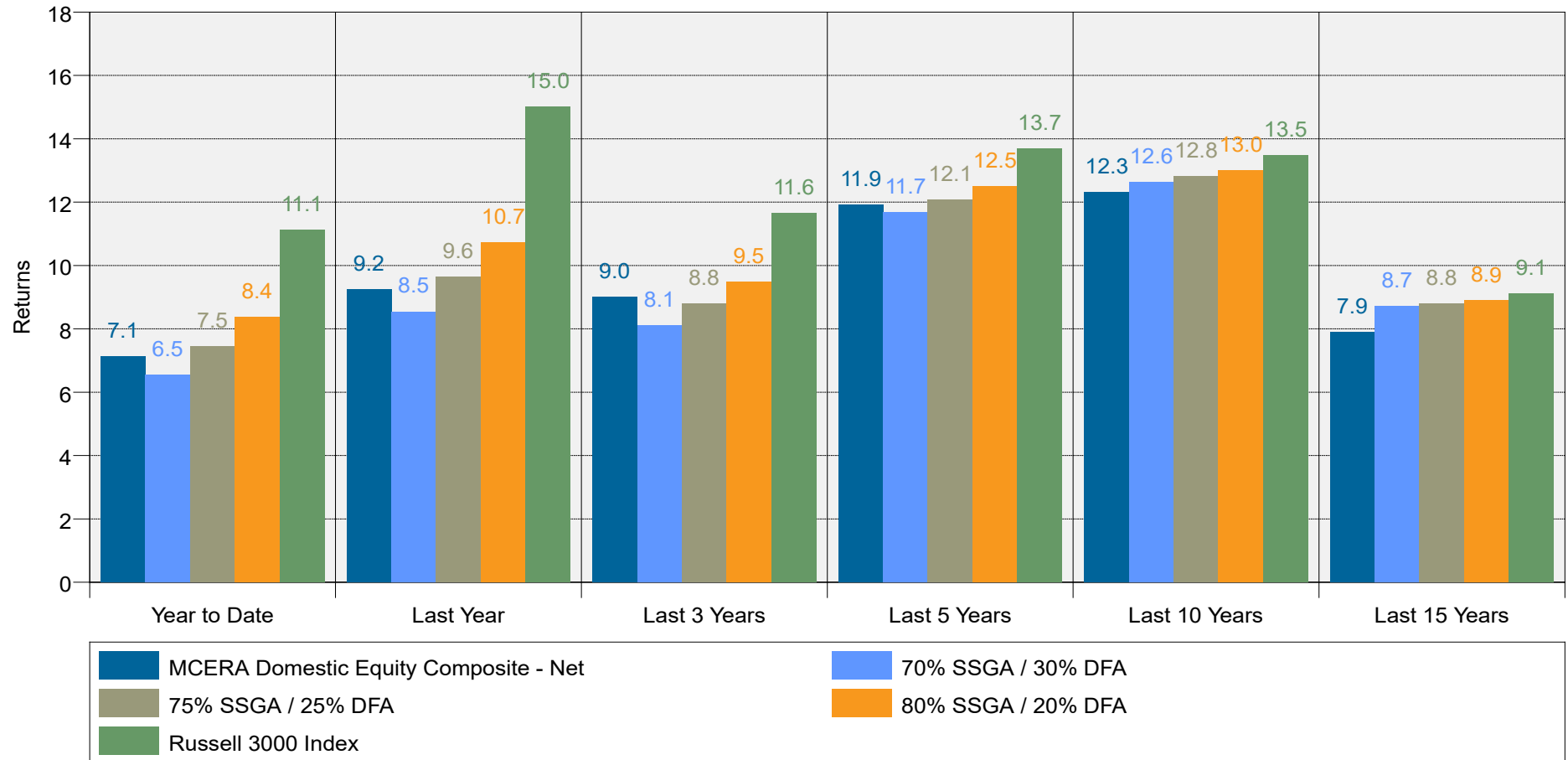
Projected 10 Year Return: 6.61%  
Projected 10 Year Risk: 18.09%

Some additional options are noted above - other alternative structures can certainly be considered.

## Alternative Structures

### Net of Fee Annualized Returns

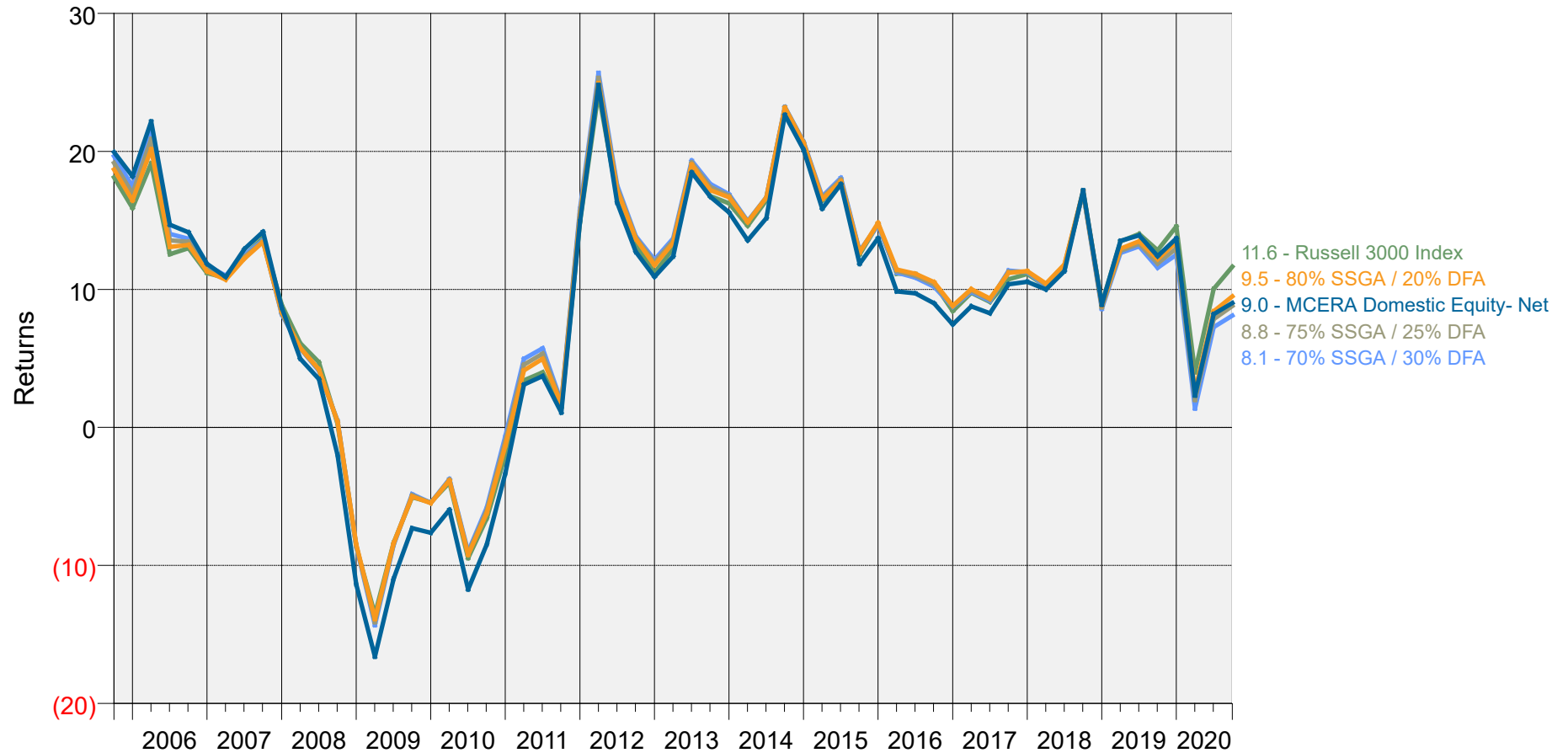
#### Annualized Returns for Periods Ending September 30, 2020



## Alternative Structures

### Rolling Three Year Returns

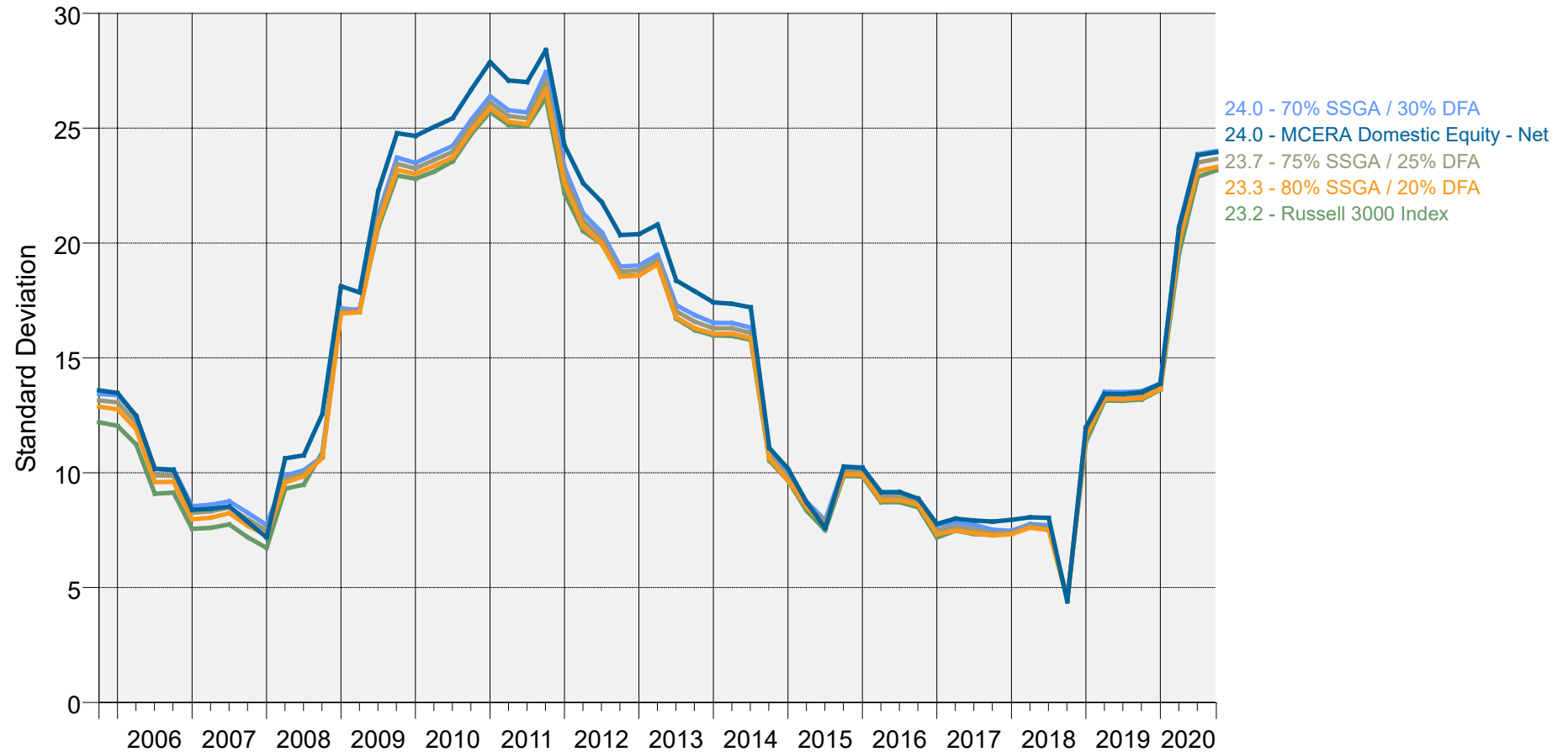
Rolling 12 Quarter Returns  
for 15 Years Ended September 30, 2020



## Alternative Structures

### Rolling Three Year Standard Deviation

Rolling 12 Quarter Standard Deviation  
for 15 Years Ended September 30, 2020

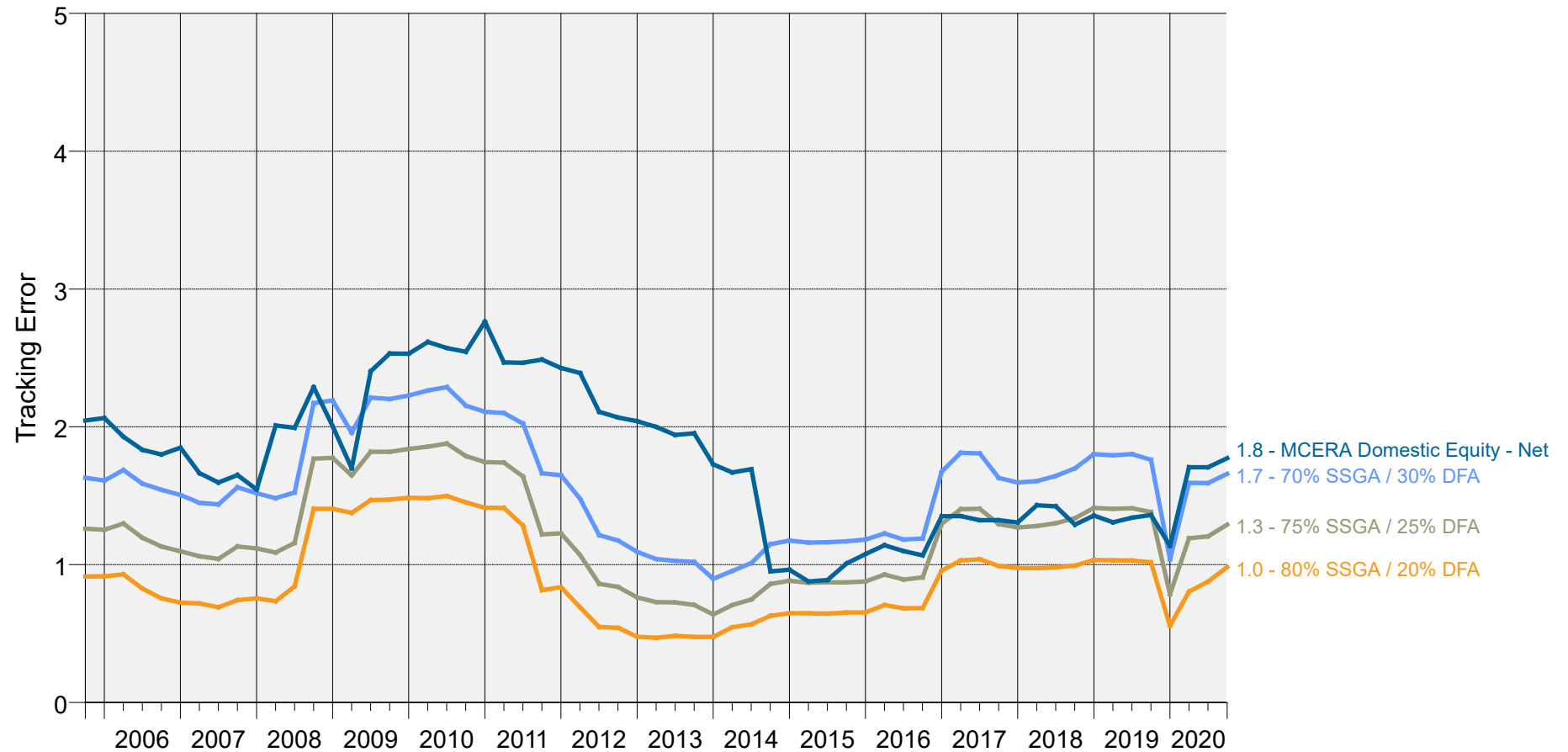




## Alternative Structures

### Rolling Three Year Tracking Error

Rolling 12 Quarter Tracking Error Relative To Russell:3000 Index  
for 15 Years Ended September 30, 2020



## Estimated Fees

Based on Market Values as of December 31, 2020

Estimated Fees (70% Large Cap / 30% Small Cap)

Manager	Market Value	Fees (%)	Annual Fee (\$)
Large Cap Core - SSGA	\$658,057,065	0.05% on the first \$50 million 0.04% on the next \$50 million 0.02% on the balance	\$156,611
Small Cap Core - DFA	\$280,168,534	0.33% on all assets	\$924,556
<b>Total</b>	<b>\$938,225,599</b>	<b>0.12%</b>	<b>\$1,081,168</b>

Estimated Fees (75% Large Cap/25% Small Cap)

Manager	Market Value	Fees (%)	Annual Fee (\$)
Large Cap - SSGA	\$703,669,199	0.05% on the first \$50 million 0.04% on the next \$50 million 0.02% on the balance	\$165,734
Small Cap Core - DFA	\$234,556,400	0.33% on all assets	\$774,036
<b>Total</b>	<b>\$938,225,599</b>	<b>0.10%</b>	<b>\$939,770</b>

Estimated Fees (80% Large Cap/20% Small Cap)

Manager	Market Value	Fees (%)	Annual Fee (\$)
Large Cap - SSGA	\$750,580,479	0.05% on the first \$50 million 0.04% on the next \$50 million 0.02% on the balance	\$175,116
Small Cap Core - DFA	\$187,645,120	0.33% on all assets	\$619,229
<b>Total</b>	<b>\$938,225,599</b>	<b>0.08%</b>	<b>\$794,345</b>

Callan

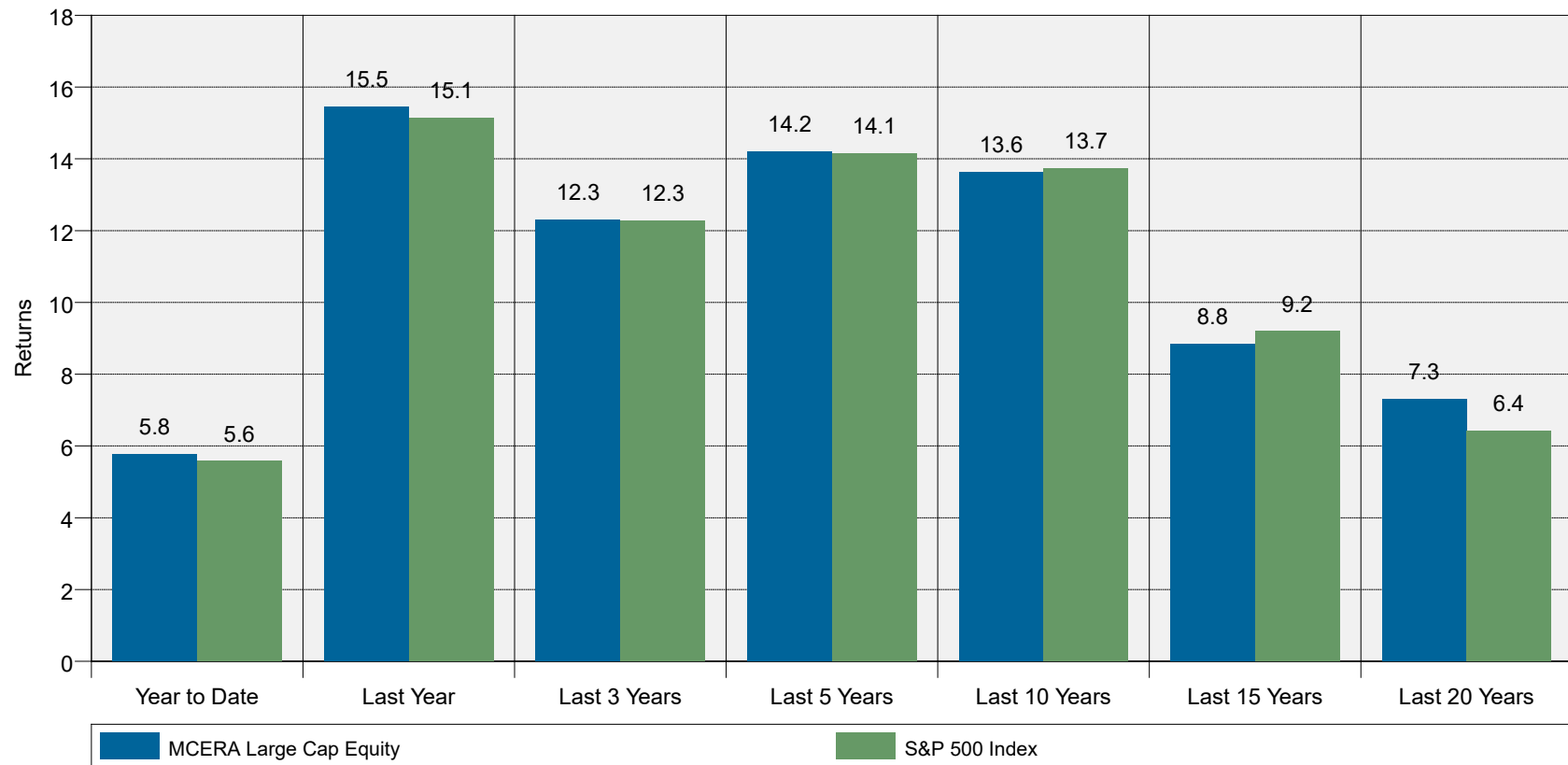
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## Appendix

## MCERA Large Cap Equity Composite

### Net of Fee Annualized Returns

Net of Fee Returns  
for Periods Ending September 30, 2020

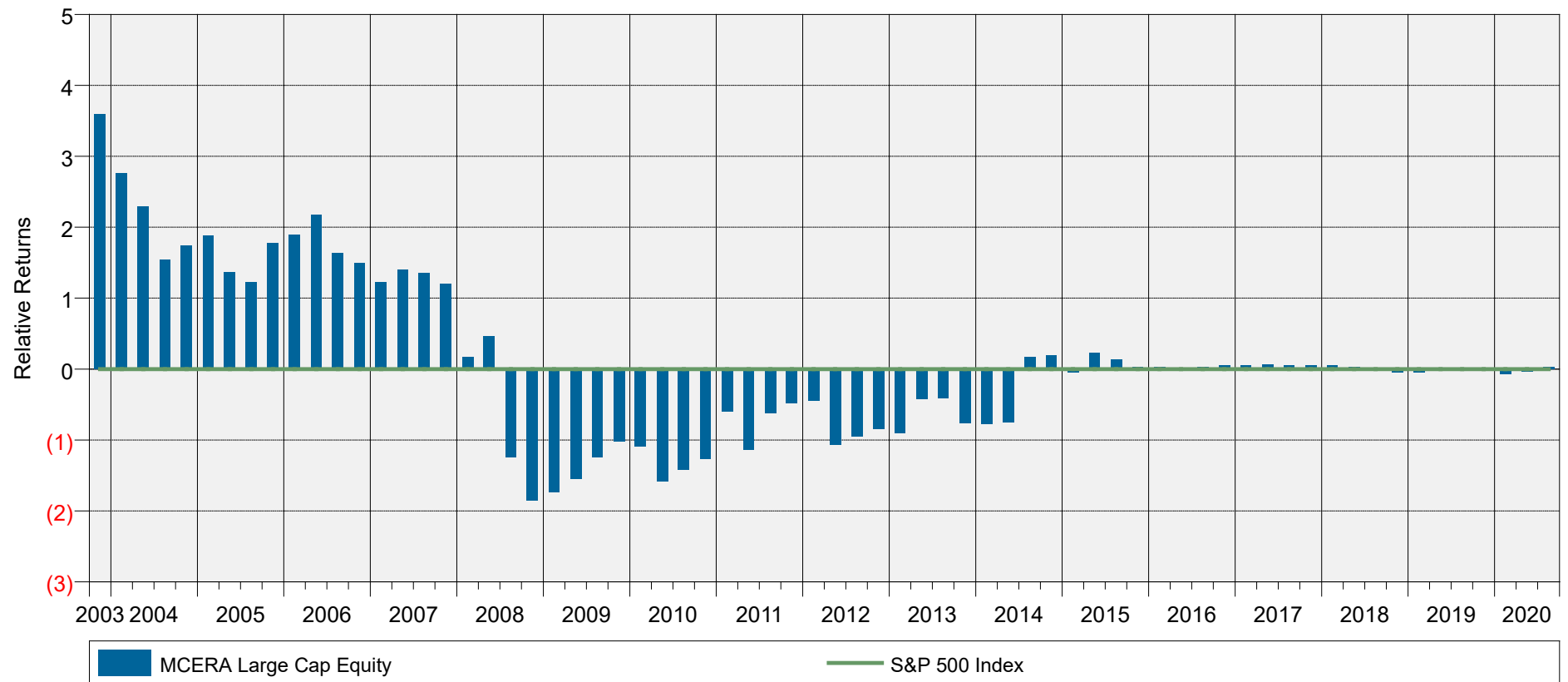


MCERA's Large Cap Equity Composite includes performance from Parametric's overlay program.

# MCERA Large Cap Equity Composite

## Net of Fee Rolling Three Year Returns

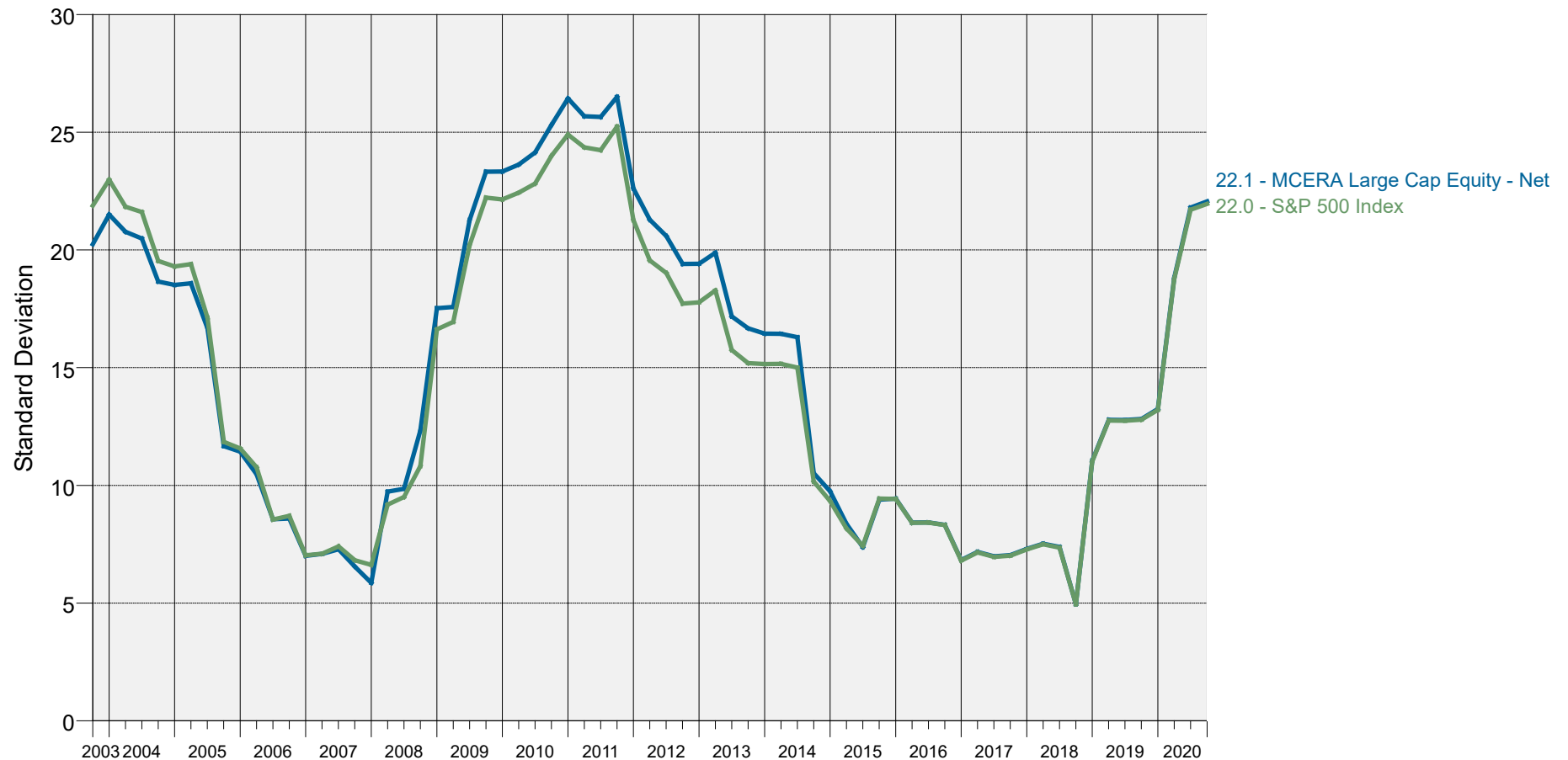
Net of Fee Rolling 3 Year Relative Returns vs. S&P 500 Index  
for 17 Years Ended September 30, 2020



# MCERA Large Cap Equity Composite

## Rolling Three Year Standard Deviation

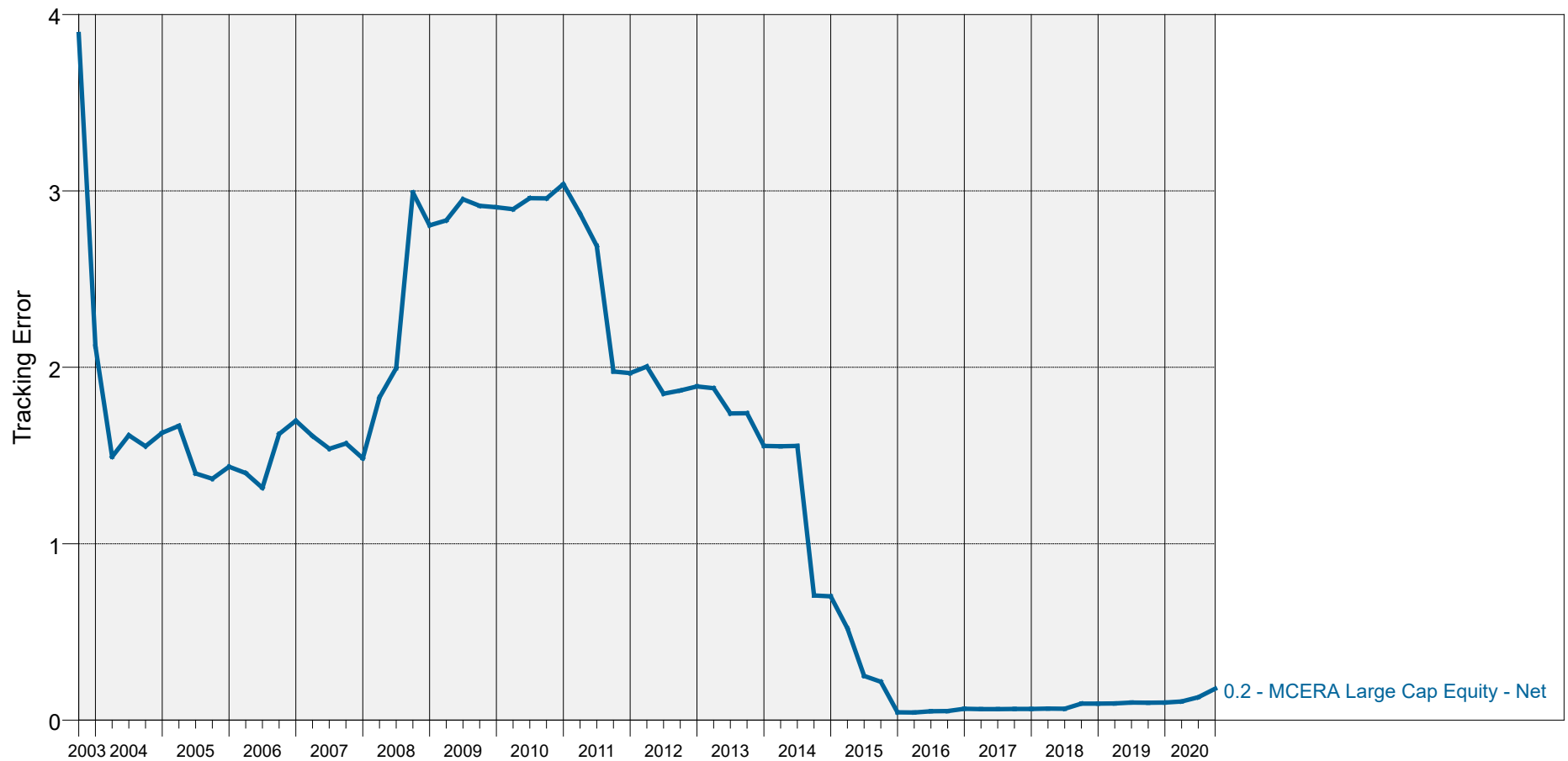
Rolling 3 Year Standard Deviation  
for 17 Years Ended September 30, 2020



## MCERA Large Cap Equity Composite

### Rolling Three Year Tracking Error

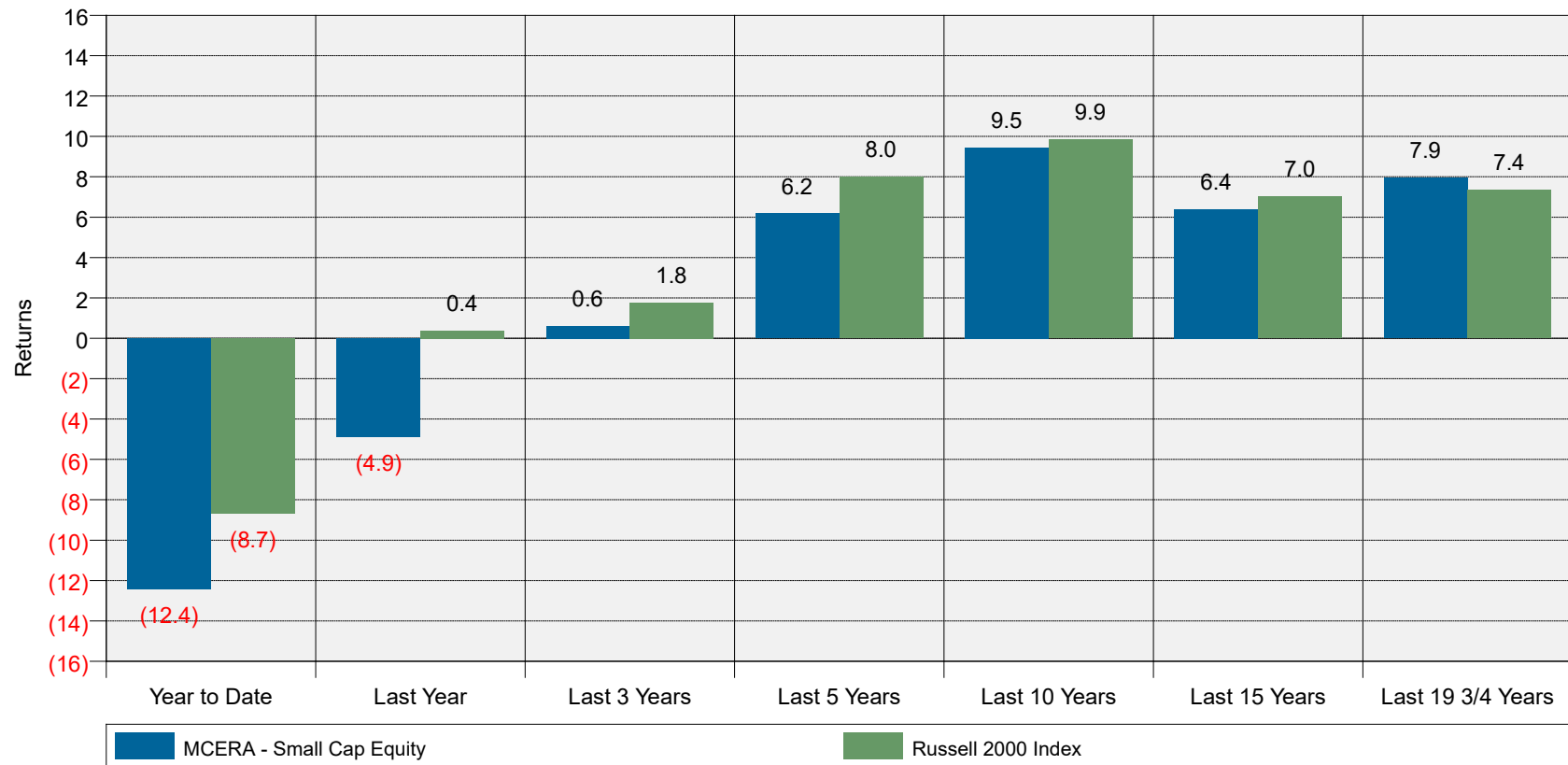
Rolling 3 Year Tracking Error vs. S&P:500 Index  
for 17 Years Ended September 30, 2020



# MCERA Small Cap Equity Composite

## Net of Fee Annualized Returns

Net of Fee Returns  
for Periods Ending September 30, 2020



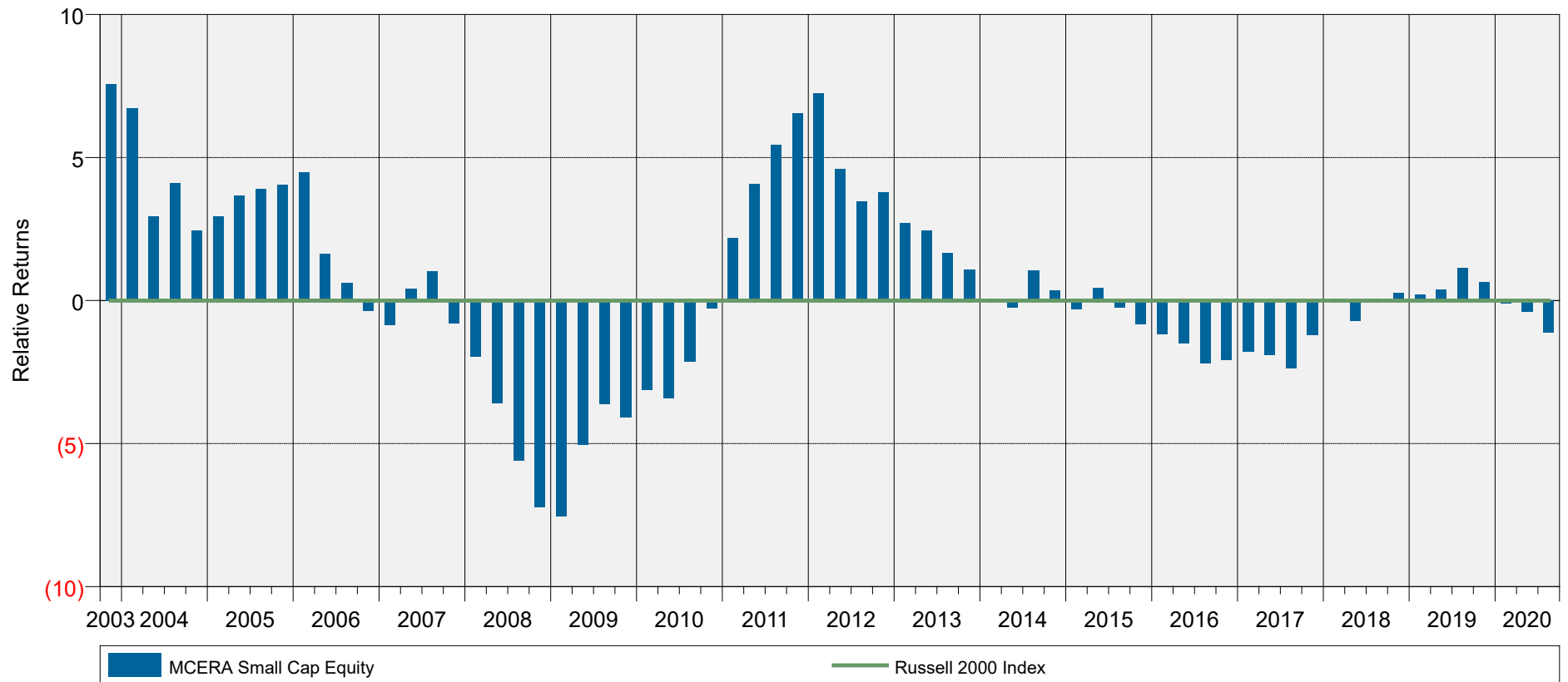
MCERA's Small Cap Equity Composite includes performance from Parametric's overlay program.



## MCERA Small Cap Equity Composite

### Net of Fee Rolling Three Year Returns

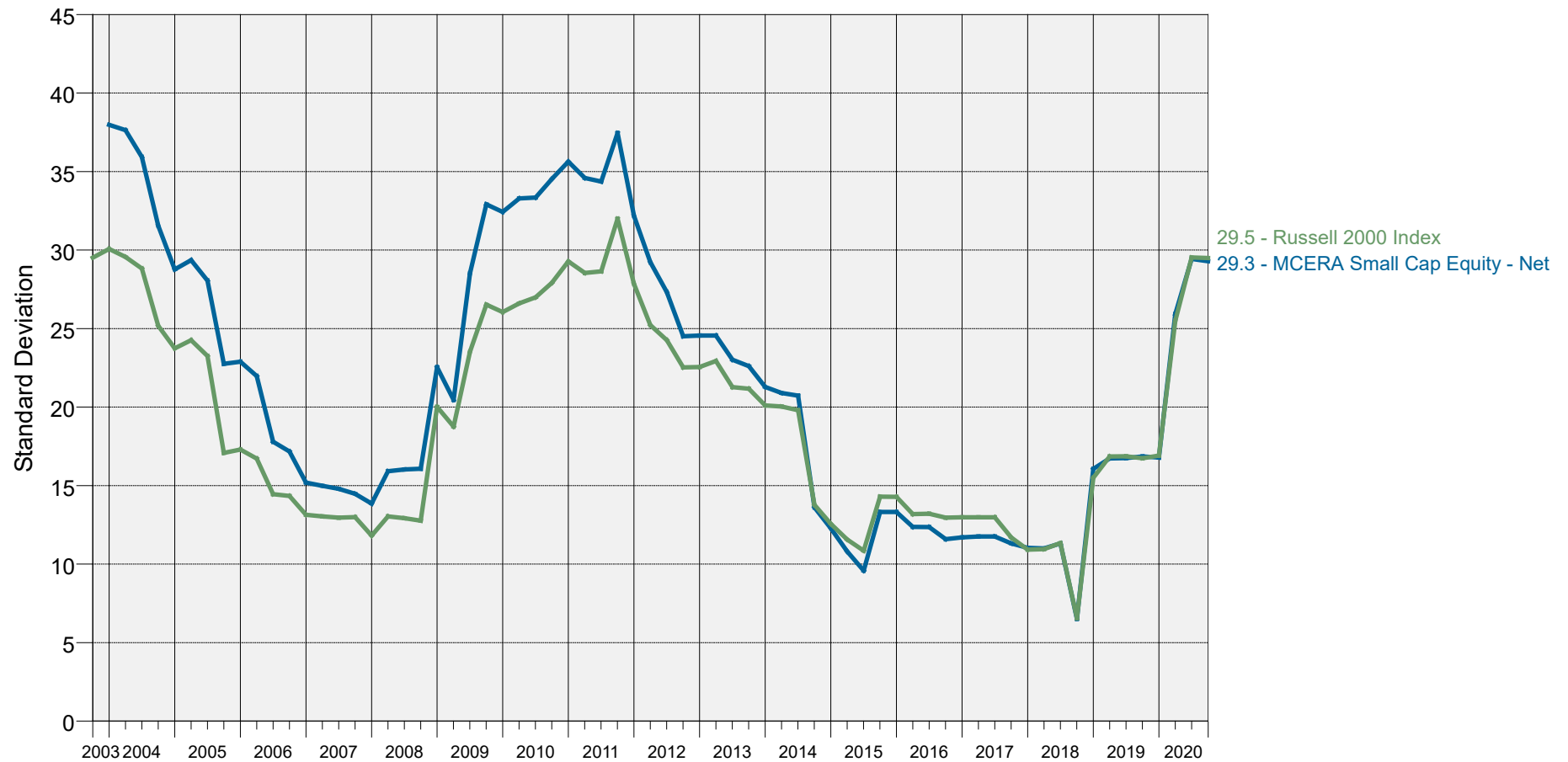
Net of Fee Rolling 3 Year Relative Returns vs. Russell 2000 Index  
for 17 Years Ended September 30, 2020



# MCERA Small Cap Equity Composite

## Rolling Three Year Standard Deviation

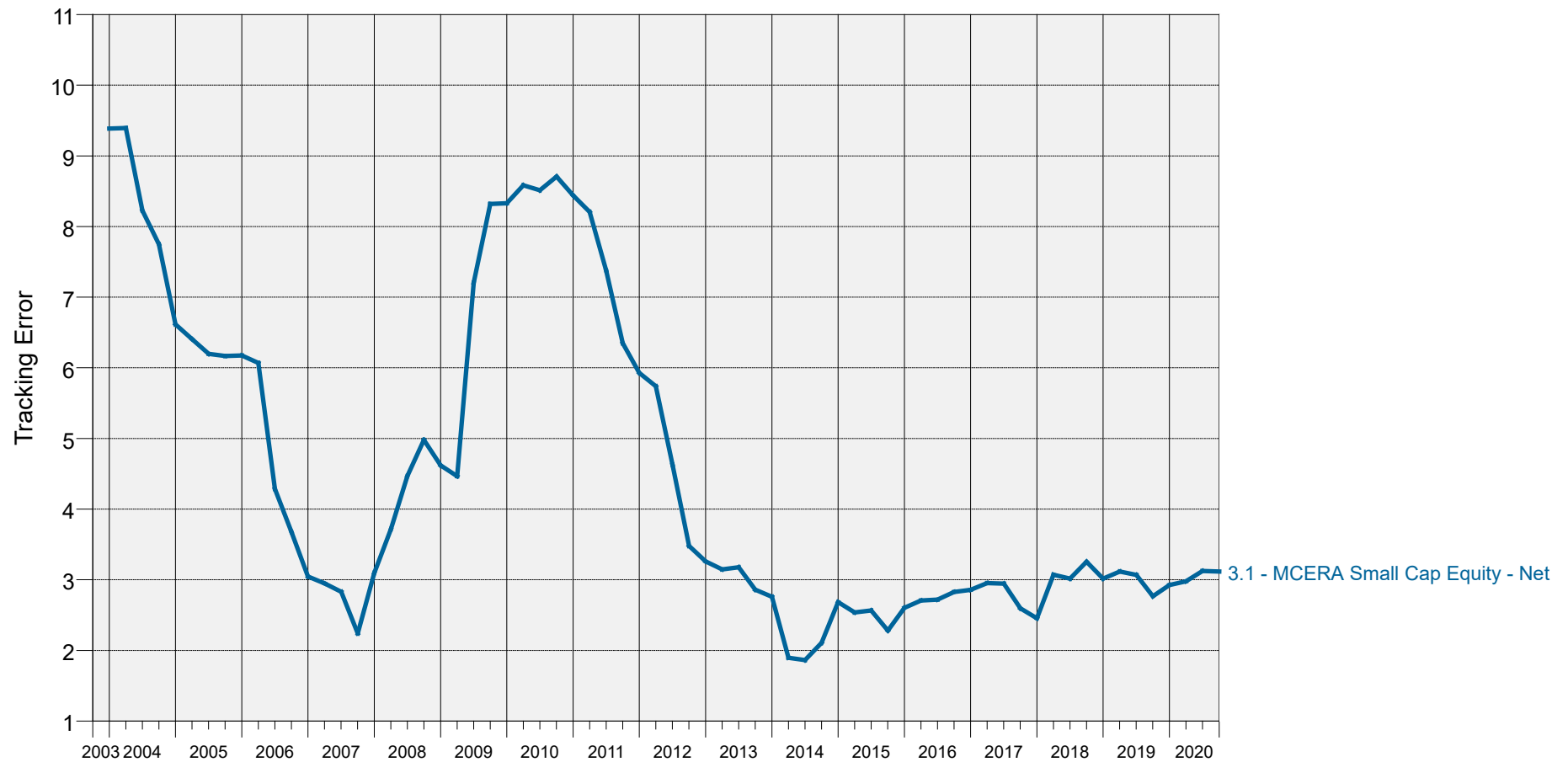
Rolling 3 Year Standard Deviation  
for 17 Years Ended September 30, 2020



# MCERA Small Cap Equity Composite

## Rolling Three Year Tracking Error

Rolling 3 Year Tracking Error vs. Russell:2000 Index  
for 17 Years Ended September 30, 2020



## Memorandum

**To:** MCERA Board of Trustees  
**From:** Jim Callahan, CFA  
Anne Heaphy  
**Date:** January 20, 2021  
**Subject:** AEW Core Property Trust – Organizational Update

AEW has announced the promotion of Jon Martin to CEO North America and David Schaefer to CEO Asia Pacific. These are newly created regional CEO positions which reflect the successful regional growth in the respective business lines and formalize the job and responsibilities Martin and Schaefer have effectively been doing for the past few years. Martin has spent 20 years at AEW, including the past three leading operations in North America as Chief Operating Officer. Prior to that, he was a portfolio manager for 10 years on the Core Property Trust in which MCERA is invested. Schaefer, based in Hong Kong, has spent nine years at AEW as managing director and head of regional operations. Rob Wilkinson will remain CEO Europe, a title he has held since 2014. Jeff Furber will continue to serve as global CEO. Martin, Schaefer, and Wilkinson will oversee the day-to-day operations of their regional platforms and report to Furber. Furber has been global CEO since 2000.

There is no immediate concern with these changes and view it positively as they are creating a deeper talent pool at the management level.

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## Memorandum

**To:** MCERA Board of Trustees  
**From:** Jim Callahan, CFA  
Anne Heaphy  
**Date:** January 20, 2021  
**Subject:** TimesSquare International Small Cap – Personnel Update

TimesSquare has announced that they have parted ways with Caglar Somek, a Portfolio Manager/Analyst covering emerging markets. Investment style differences had been building over time with Caglar more focused on top-down macro themes versus bottom-up fundamental stock analysis that is utilized in the investment process. The departure was collegial as all parties felt the disconnect. Somek had been at the firm for four years. There are currently 10 emerging markets stocks in the International Small Cap portfolio in which MCERA is invested. Somek did not cover any of those names. David Oh and Daniel De Jesus also cover emerging markets and will absorb Somek's responsibilities.

We do not believe any action is required by MCERA given Somek's very limited exposure to the International Small Cap strategy. Nevertheless, we will monitor the firm and any impact these changes might have on the team and strategy.

**Marin County Employees' Retirement Association  
Defined Benefit Plan**

<b>Managers</b>	<b>December Market Value</b>	<b>Fiscal Year To Date 7/1/20 - 12/31/20</b>	<b>Calendar Year 2020</b>
<b>Domestic Equity</b>	<b>\$922,724,778</b>	<b>25.6%</b>	<b>16.5%</b>
<i>Russell 3000 Index</i>		<i>25.2%</i>	<i>20.9%</i>
<b>Large Cap Equity</b>	<b>\$619,043,713</b>	<b>22.1%</b>	<b>18.3%</b>
<b>SSgA S&amp;P 500 Index Fund</b>	<b>\$658,057,065</b>	<b>22.1%</b>	<b>18.3%</b>
<i>S&amp;P 500 Index</i>		<i>22.2%</i>	<i>18.4%</i>
<b>Parametric S&amp;P 500 Futures</b>	<b>-\$39,013,352</b>		
<b>Small Cap Equity</b>	<b>\$303,681,065</b>	<b>34.6%</b>	<b>11.8%</b>
<b>Dimensional Fund Advisors</b>	<b>\$280,168,534</b>	<b>34.6%</b>	<b>11.8%</b>
<i>Russell 2000 Index</i>		<i>37.9%</i>	<i>20.0%</i>
<b>Parametric Russell 2000 Futures</b>	<b>\$23,512,531</b>		
<b>International Equity</b>	<b>\$666,134,516</b>	<b>21.2%</b>	<b>9.7%</b>
<i>MSCI ACWI ex-US IMI Index</i>		<i>25.2%</i>	<i>11.1%</i>
<b>Morgan Stanley</b>	<b>\$199,287,471</b>	<b>18.4%</b>	<b>11.9%</b>
<b>Artisan Partners</b>	<b>\$211,859,763</b>	<b>17.1%</b>	<b>8.1%</b>
<i>MSCI EAFE Index</i>		<i>21.6%</i>	<i>7.8%</i>
<b>TimesSquare</b>	<b>\$129,805,181</b>	<b>28.8%</b>	<b>14.2%</b>
<i>MSCI EAFE Small Cap Index</i>		<i>23.3%</i>	<i>12.3%</i>
<b>Parametric Emerging Markets</b>	<b>\$112,479,930</b>	<b>25.8%</b>	<b>4.0%</b>
<i>MSCI Emerging Markets Index</i>		<i>31.1%</i>	<i>18.3%</i>
<b>Parametric International Futures</b>	<b>\$12,702,170</b>		
<b>Fixed Income</b>	<b>\$646,102,285</b>	<b>5.0%</b>	<b>10.3%</b>
<i>Blended Benchmark</i>		<i>2.8%</i>	<i>8.1%</i>
<b>Wellington</b>	<b>\$272,626,921</b>	<b>2.9%</b>	<b>9.9%</b>
<i>Bloomberg Barclays US Aggregate Index</i>		<i>1.3%</i>	<i>7.5%</i>
<b>Western Asset</b>	<b>\$151,840,240</b>	<b>4.4%</b>	<b>10.0%</b>
<i>Bloomberg Barclays US Intermediate Credit Index</i>		<i>2.8%</i>	<i>7.1%</i>
<b>Colchester</b>	<b>\$154,389,122</b>	<b>9.5%</b>	<b>11.1%</b>
<i>FTSE World Government Bond Index</i>		<i>5.8%</i>	<i>10.1%</i>
<b>Parametric Fixed Income Futures</b>	<b>\$67,246,002</b>		

All market values and returns shown are preliminary and subject to revision.

**Marin County Employees' Retirement Association  
Defined Benefit Plan**

Managers	December Market Value	Fiscal Year To Date 7/1/20 - 12/31/20	Calendar Year 2020
<b>Public Real Assets</b>	<b>\$193,572,850</b>	<b>22.7%</b>	<b>9.1%</b>
<i>Blended Benchmark</i>		15.7%	-0.8%
<b>BlackRock TIPS Index Fund</b>	<b>\$42,864,081</b>	<b>4.8%</b>	<b>11.2%</b>
<i>Barclays US TIPS Index</i>		4.7%	11.0%
<b>BlackRock REIT Index Fund</b>	<b>\$39,671,548</b>	<b>13.8%</b>	<b>-11.2%</b>
<i>DJ S&amp;P US Select REIT Index</i>		13.9%	-11.2%
<b>Invesco Balanced Risk Commodities Fund</b>	<b>\$49,196,852</b>	<b>28.1%</b>	<b>7.6%</b>
<i>Bloomberg Commodities Index</i>		20.2%	-3.1%
<b>KBI Global Resources Fund</b>	<b>\$61,840,368</b>	<b>41.9%</b>	<b>30.3%</b>
<i>S&amp;P Global Natural Resources Index</i>		24.1%	-0.1%
<b>Real Estate(1)</b>	<b>\$241,262,576</b>	<b>0.1%</b>	<b>-0.7%</b>
<i>NFI-ODCE Equal Weight Net(1)</i>		0.7%	-0.1%
<b>Woodmont</b>	\$18,821,592	-	-
<b>UBS Trumbull Property Fund</b>	\$118,312,747	-	-
<b>AEW Core Property Trust</b>	\$104,117,349	-	-
<b>AEW Partners V, LP</b>	\$10,888	-	-
<b>Private Equity(2)</b>	<b>\$300,627,670</b>	<b>0.0%</b>	<b>4.1%</b>
<b>Abbott ACE VI</b>	\$56,938,370	-	-
<b>Abbott ACE VII</b>	\$39,702,873	-	-
<b>ACE Fund 2016</b>	\$37,842,893	-	-
<b>Abbott Fund 2017</b>	\$8,448,517	-	-
<b>Pathway PPEF 2008</b>	\$62,869,865	-	-
<b>Pathway PPEF I-7</b>	\$38,451,249	-	-
<b>Pathway PPEF I-8</b>	\$48,776,277	-	-
<b>Pathway PPEF I-9</b>	\$7,597,626	-	-
<b>Opportunistic</b>	<b>\$10,146,042</b>	<b>n/a</b>	<b>n/a</b>
<b>CarVal Credit Value Fund V</b>	\$3,422,955	-	-
<b>Fortress Credit Opportunities Fund V Expansion</b>	\$1,650,000	-	-
<b>Varde Dislocation Fund</b>	\$5,073,087	-	-
<b>Total Fund</b>	<b>\$2,980,570,717</b>	<b>15.0%</b>	<b>10.4%</b>

(1)Market values as of September 30, 2020. YTD and FYTD returns use MCERA's performance of prior quarter.

(2)Market values as of September 30, 2020. YTD and FYTD returns use MCERA's performance of prior quarter.

All market values and returns shown are preliminary and subject to revision.