

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

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

**June 18, 2024 – 9:00 a.m.**

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This meeting was held at the address listed above and was accessible via videoconference and conducted in accordance with Government Code section 54953 and 54954.2.

**CALL TO ORDER**

Chair Cooper called the meeting to order at 9:00 a.m.

**ROLL CALL**

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

**ABSENT:** 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, introduced KBI Global Investors representatives to review the Global Resources Solutions portfolio. He stated this portfolio represents one-quarter of MCERA's real assets portfolio which is targeted to 7% of the Fund.

### **2. KBI Global Investors – Global Resources Solutions – Noel O'Halloran, Simon Padley TIME CERTAIN: 9:05 a.m.**

Simon Padley, head of U.S. Business Development & Client Services with KBI Global Investors, stated the tail winds driving the Global Resources Solutions investment thesis are supply and demand for natural resources. Mr. Padley said the investment team employs its knowledge of related infrastructure, regulations, and technological advances to unlock value in the space. Mr. Padley introduced Noel O'Halloran, Chief Investment Officer and Portfolio Manager for the Global Natural Resources strategy.

Mr. O'Halloran stated the investment philosophy is to generate long-term alpha through the three scarcest natural resources on the planet: clean water, energy and food. The expectation is for increasing demand for sustainable resources. The portfolio consists of solution providers in related industries, such as smart grid, energy storage, irrigation, and precision agriculture including food storage.

Chair Cooper asked about an overweight position in utility companies being a short-term drag on returns. Mr. O'Halloran explained high-yielding electric and water utilities were negatively correlated to the U.S. 10-year Treasury yields when they spiked 500 basis points. These yields have since receded and the utilities are recovering. Trustee Silberstein inquired about a farming stock doing business in Argentina and Brazil whose price has gone down. Mr. O'Halloran indicated there is political uncertainty rather than a fundamental performance issue. Trustee Vasquez asked about portfolio turnover and whether currencies are hedged. In response Mr. O'Halloran explained turnover is about 40% annually, of which only 25% is actual company turnover, and there is no active currency hedging.

In conclusion, Mr. O'Halloran pointed out that energy and water sectors dominate the current portfolio allocation due to unfavorable agricultural conditions including weather patterns, uncertainty around crop prices, and negative earnings revisions for related companies. He is bullish on both the clean water and clean energy industries. Trustee Silberstein asked if there is a possibility fees could be lowered and Mr. Padley will look into this. Chair Cooper thanked Mr. O'Halloran and Mr. Padley for the presentation.

## **C. NEW BUSINESS**

### **1. Investment Manager Personnel Update – Western Asset Management Co.**

Anne Heaphy, Senior Vice President at Callan, reported Western Asset Management Company recently announced that portfolio manager and key member of the team John Bellows has departed the firm. Mr. Callahan is monitoring the situation to see who will be hired and how it may impact the firm's strategy.

2. Public Real Assets Structure Review (ACTION) – Jim Callahan, Callan LLC  
Consider, discuss and take possible action on real asset allocations

Mr. Callahan stated the public real assets portfolio consists of two passive portfolios, Treasury Inflation-Protected Securities (TIPS) and Real Estate Investment Trusts (REITs), and two actively managed portfolios, commodities and global natural resources equity. He pointed out for MCERA that building its own public real assets portfolio has been quite effective. Together, these portfolios are targeted at 7% of the Fund and are performing in the top quartile of the peer group. Separately, MCERA also holds private real estate portfolios managed by AEW and UBS, together representing 8% of the Fund. Mr. Callahan explained that real assets are tangible investments whose value is derived from usage.

For the public real assets portfolio, Mr. Callahan presented alternative structures that remove commodities and include global listed infrastructure and leveraged loans in four alternative Mixes. He presented risk/return profiles of real assets showing leveraged loans and TIPS have less volatility than equity strategies. He said the question is whether to keep the current allocation with commodities. Trustee Werby noted there has been higher inflation but commodities have low returns. Trustee Vasquez supported adding global listed infrastructure, due in part to favorable demographics, and expressed caution with respect to corporate debt given rising credit quality downgrades and the amount of debt coming due.

Chair Cooper recessed the meeting for a break at 10:30 a.m., reconvening at 10:35 a.m.

It was M/S Silberstein/Werby to reduce the commodities allocation to zero and consider the alternatives at a future meeting.

Trustee Poole asked if there would be a significant impact to the Fund by removing commodities. In response Mr. Callahan said it depends on what it is replaced with. For example, using listed infrastructure would increase volatility. Trustee Silberstein said as long-term investors volatility is not as much an issue in the short term.

The motion passed by a vote of 8-0 as follows:

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

Mr. Callahan will present more information on leveraged loans and global listed infrastructure at a future meeting.

### 3. Future Meetings

No discussion.

## **D. INVESTMENT CONSULTANT QUARTERLY REPORT**

### 1. Summary Report as of March 31, 2024

Ms. Heaphy reported equity market returns were strong during the 1<sup>st</sup> quarter of 2024. Domestic large cap equities are still outperforming small caps and equities have made up the 2022 drawdown. Non-US equity markets had positive returns over the last quarter and year but less than US equities. Fixed income had negative returns for the quarter, and private real estate was down for the quarter and for the past year.

In February funds from the Artisan and Morgan Stanley international equity portfolios were transitioned partly into the new SSGA World Index Fund, targeted to 50% of international equities. In addition, funds were added to the TimesSquare and Fidelity international small cap and emerging markets portfolios, respectively, taking each of them from 20% to 25% of the international equity allocation.

As of March 31, 2024 the Total Fund value was about \$3.3 billion. The Fund returned 3.42% for the quarter and 10.3% for the prior 12 months net of fees. Long-term returns net of fees are outperforming targets and rank in the top quartile of peers for some time periods. Mr. Callahan noted over the short term public equities have been strong while private equity has been written down. For the fiscal year to date the Fund return is 7.89%, above the annual assumed rate of return.

The Western Asset Core Plus fixed income portfolio was placed on the Watchlist to monitor personnel changes discussed earlier. The Wellington Core Plus fixed income portfolio no longer qualifies for the Watchlist.

In domestic equities the State Street Global Advisors (SSGA) Russell 1000 Index portfolio was up about 30% over the last year and the Dimensional Fund Advisors (DFA) core small cap portfolio was up nearly 20%. DFA's active management has made up for small cap underperformance over the last 5 years. In the fixed income portfolio both Wellington and Western Asset outperformed the benchmark over the past year.

The AEW core real estate portfolio was down about 1% over the quarter and down 8% over the last year, outperforming the benchmark. The UBS portfolio was down 1.8% for the quarter and down 10.6% over the past year. UBS has been repositioning the Trumbull Property Fund and has a \$6 million redemption queue. Both portfolios have strong income returns.

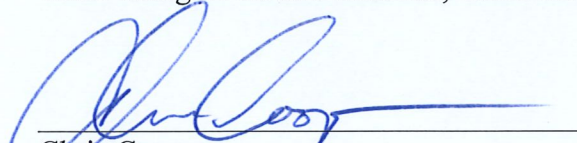
MCERA has received almost \$500 million in distributions from the Private Equity Portfolio. Added to the remaining NAV, the total overall private equity program value is \$842 million. Paid-in capital is \$424 million, the Total Value to Paid-In Capital (TVPI) is 1.98, and the net Internal Rate of Return (IRR) is 14.90%.

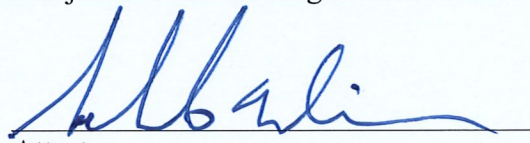
Of \$100 million committed to the Opportunistic Portfolio, 73% is paid in. MCERA has received about \$15.3 million in distributions and the Net Asset Value (NAV) is \$71.6 million; together, the total value is almost \$87 million. The TVPI is 1.18 and the net IRR is 8.8%. Mr. Callahan stated the Opportunistic Portfolio has been successful as evidenced by steadily increasing IRRs and outperformance relative to the rest of the Fund.

a. Flash Performance Update as of May 31, 2024

Ms. Heaphy presented the Flash Performance update as of May 31, 2024. For the fiscal year to date net of fees, the return for the Total Fund is 7.9%. Domestic equities returned 18.2% and international equities returned 8.0%. The fixed income portfolio was up 2.5% and public real assets returned 5.1%. Real estate returns were negative.

There being no further business, Chair Cooper adjourned the meeting at 11:38 a.m.

  
Chris Cooper  
Investment Committee Chair

  
Attest:  
Jeff Wickman, Retirement Administrator