MINUTES

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

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

September 18, 2024 – 9:00 a.m.

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 9:01 a.m.

ROLL CALL

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

ABSENT: None

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

No members of the Committee 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 Abbott Capital Management and Pathway Capital Management will review their portfolios. Mr. Callahan said the private equity program allocation target is 8% of the Fund.

2. Abbott Capital Management – Private Equity – Tim Maloney, Sean Long
   TIME CERTAIN: 9:05 a.m.

   Sean Long, Director of Marketing and Client Solutions with Abbott Capital Management, stated Abbott employs four private equity strategies: global venture capital and growth equity, North America private equity buyouts, Europe private equity buyouts, and small buyouts. Secondaries and co-investments are employed across all strategies. Mr. Long introduced Tim Maloney, Managing Director, to review the portfolio.

   Mr. Maloney stated since 2008 MCERA has committed $250 million across six Abbott investment funds. He anticipates that the oldest fund ACE VI will be fully liquidated during 2025. ACE VII is in its harvest phase with meaningful distributions expected over the next few years. AP2016 has had an active year of distributions since April of 2024, and AP2017 is just entering the harvest phase. AP2021 is approaching fully committed status and is in the investment opportunity phase along with AP2023.

   Mr. Maloney presented cash flows as of March 31, 2024 showing MCERA has paid in $214 million and has received $253 million in distributions. The remaining Net Asset Value (NAV) is $170 million, and the Total Value to Paid In capital is 1.9x.

   The top ten portfolio companies represent 8% of the total realized value of the funds. Of these, Crown Rock Minerals was recently sold, resulting in about $5 million realized for MCERA's account. Mr. Maloney reviewed the performance of each strategy across vintage years. He pointed out that 2024 is the 8th straight year of net free cash flow generation due to MCERA's consistent deployment of capital over time.

   Trustee Gladstern asked if total contributions by MCERA includes fees, and Mr. Maloney replied affirmatively. Trustee Vasquez asked about the source of distributions and Mr. Maloney replied the vast majority of distributions are capital gains from the sale of companies in the funds.

   Chair Cooper asked about current market conditions and why MCERA should make additional commitments. In response, Mr. Maloney said from a year ago the fund raising market is healthier than it was. He pointed out there is demand on the limited partner side to identify investment opportunities. Trustee Silberstein asked if there is more money available than opportunities to invest. Mr. Maloney replied there are 100,000 private companies in the U.S. alone that can use funding. Abbott applies due diligence to identify the most valuable companies. As for exits, there was a slowdown due to high interest rates, but in 2024 exit activity is improving and high-quality business are able to exit.

Trustee Gladstern asked if the same managers are engaged for new investments and how the strategies have evolved over the years. Mr. Maloney replied each fund opportunity goes through the same due diligence process. On average there is a 20% to 23% turnover of managers in each cycle. In terms of strategy evolution, he said the best risk/reward is in early stage investments. For buyouts Abbott has focused on the developed markets and high-conviction portfolios led by thought leaders. In addition, the team has focused on opportunistic strategies that can generate additional alpha for the portfolios.

Trustee Raabe asked about the number of managers in each fund. Mr. Maloney replied there are between eight to a dozen managers who typically invest in 35 to 50 holdings. Trustee Raabe further inquired as to Mr. Maloney's assessment of the private equity market relative to the public markets, exit dynamics, and cash flows over the next ten years. In response, Mr. Maloney said there are cycles for fund raising and for business cycles. Over the years he has seen fund flows continuing to increase at a healthy pace, and there are new sources of capital in the space. He made the point that there are inherent advantages to the private company structure supporting the market. He also advised against trying to time the pacing of private equity investments. Mr. Long added no one strategy outperforms across vintage years.

Trustee Werby asked why the 2008 ACE VI fund has been the worst performer. Mr. Maloney explained it was slower to develop due to the difficult market environment coming out of the Great Financial Crisis. Mr. Callahan noted Abbott decided to extend ACE VI to March 31, 2025 based on the premise it still had value and requested an update. Mr. Maloney replied the ACE VI Net Asset Value (NAV) was $31 million at the time of the extension. Since then distributions have been about one-third of that NAV. Mr. Long added that after the extension date a sale will be planned and Abbott will not be charging management fees.

3. Pathway Capital Management – Private Equity – Valerie Ruddick, Bryan Nelson
TIME CERTAIN: 9:35 a.m.

Valerie Ruddick, Managing Director with Pathway Capital Management, introduced Director Bryan Nelson. She reported MCERA has applied consistent commitments to Pathway private equity funds since 2008 totaling $250 million. Of that amount, $217 is contributed capital. As of March 2024 distributions to MCERA are over $268 million and the total value is $434 million. The program became net cash flow positive as of 2017, as distributions exceeded contributions.

Trustee Vasquez asked about the source of cash flows. In response, Ms. Ruddick explained most distributions are from full exits resulting from mergers and acquisitions. She noted there has been an increase in exit activity. Other than PPEF 2008, funds have delivered positive returns across the portfolio.

Mr. Nelson stated as of March 31, 2024 returns for each fund show consistent meaningful outperformance versus industry peers and public benchmarks that have continued to improve over time. Funds PPEF I-8, PPEF I-9 and PPEF I-10 have outperformed by 370 to 510 basis points. The three older funds, PPEF 2008, PPEF I-7 and PPEF I-8 have Total

Value to Paid In values over 2x. In total, MCERA's funds are collectively valued at a TVPI of 2.00x, of which 1.2x has already been returned to MCERA. He noted PPEF I-11 is still young but looks promising based on early returns.

Mr. Nelson reported performance across funds by strategy, investment type, and region are consistent. He pointed out that lower returns from investments outside of North America reflect mostly currency values. Abbott is moving away from the Special Situations strategy, he said. In addition to Primary and Secondary investments, Direct Equity was introduced for PPEF I-10.

Internal rates of return (IRR) for MCERA's Pathway investments show average outperformance of over 600 basis points versus the MSCI Private Capital Solutions World-All Funds median return since inception through March 31, 2024. Similarly, the Dividends to Paid In (DPI) for MCERA's Pathway investments outperformed the same benchmark DPI by 0.34x.

Mr. Nelson stated the portfolio is well diversified, with 65% invested in Buyout transactions and the balance in Venture Capital. Geographically, about 72% of the portfolio is focused on the U.S. and the remainder in Europe and the United Kingdom. Mr. Nelson reviewed twelve notable recent exits over the year ended June 30, 2024. On average these investments returned 6.8 times MCERA's invested capital and were valued over 20% higher than a year prior to the exit event.

In conclusion, Mr. Nelson observed that the Net Asset Value of MCERA's portfolio has come down from its peak in 2021 and, absent additional commitments, is projected to continue to trend down as PPEF I-11 wraps up its investment period.

Trustee Gladstern asked how managers are selected for new funds. In response, Ms. Ruddick explained the same due diligence process is followed when underwriting new funds. So, either prior managers or new managers may be selected for new funds. Trustee Silberstein asked if there will be further extensions for PPEF 2008. Ms. Ruddick replied this fund will continue in extensions for two or three years. She explained there has been good progress in reducing the NAV evidenced by divesting about one quarter of the portfolio in the last year. The team is encouraging managers to continue to exit positions and has negotiated the removal of management fees for some underlying funds.

Trustee Raabe asked why valuations and performance do not reflect current market discounts. Mr. Nelson explained one factor is market dynamics as it relates to the Secondary market. Funds that are 10-plus years old tend to have a material discount in the Secondary market. He indicated this is not a reflection of the true market value of the underlying holdings. Mr. Nelson continues to believe there is upside to the assets from here.

Chair Cooper directed deliberations to **Agenda Item C.2, Private Equity Annual Review and Pacing Plan**.

C. NEW BUSINESS

2. Private Equity Annual Review and Pacing Plan (ACTION)
   Consider, discuss and take possible action regarding private equity pacing plan

   David Wong, Senior Vice President with Callan's Alternative Consulting Group, presented Callan's updated pacing plan for the private equity program. Mr. Wong stated without sizeable additional commitments the private equity portfolio is expected to become below its target 8% by 2026. He highlighted the outperformance of private equity to public equities over the long term by 2 to 3%. More recently due to high interest rates private equity has underperformed public equities. In 2022 and 2023 deal activity slowed down with the higher cost of financing. Based in part on gains seen in Venture Capital in 2024, the expectation is that private equity will return to its long-term mean.

   The private equity program is self-funded as distributions exceed contributions annually. In March of 2023 the Net Asset Value (NAV) of the private equity program was $356 million and has decreased to $338 million as of March 31, 2024. Over that time frame the Total Value to Paid In capital (TVPI) declined from 2.00x to 1.98x and the Distributions to Paid In capital rose from 1.13x to 1.19x. Along with the Internal Rate of Return (IRR), performance metrics place both Abbott and Pathway portfolios in the first or second quartile of peers.

   MCERA paused private equity commitments in 2024. Callan's recommendation to maintain the 8% target to private equity is to commit $120 million this year split equally between Abbott and Pathway with $60 million to each. Mr. Callahan noted that the pacing analysis is reviewed every year and adjusted as needed.

Chair Cooper recessed Open Session for a break at 10:48 a.m., reconvening at 10:55 a.m.

It was M/S Silberstein/Gladstern to adopt Callan's recommended pacing plan for 2025, committing a total of $120 million for 2025, with $60 million to Abbott Capital Management and $60 million to Pathway Capital Management fund-of-fund vehicles.

   Trustee Werby suggested investing directly in a private equity fund to avoid the expensive layer of fees. Mr. Callahan stated he would not recommend employing concentrated private equity investments as an alternative to fund-of-fund vehicles. Trustee Vasquez expressed his concern about the changing structure of the private equity industry. He indicated that dollar cost averaging may not be best, and does not expect performance to continue due in part to overconcentration of players. He suggested investing in publicly traded private equity vehicles available at a lower fee structure.

   Mr. Wickman reminded the Committee that its policy is an 8% allocation to private equity. That policy can be revisited. Lacking any immediate change, the action being recommended today aligns with the policy. Trustee Gladstern observed that MCERA is not staffed to invest directly in private equity. Trustee Silberstein expressed an interest in exploring different avenues for investing in private equity and Mr. Callahan offered to provide a related educational session at a future meeting.

The motion passed by a vote of 8-1 as follows:

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

3. Private Equity Annual Fee Disclosure (ACTION)
   Consider, discuss and take possible action regarding private equity fee disclosure

   Mr. Wickman stated the 2023 Private Equity Annual Fee Disclosure is in accordance with California Government Code Section 7514.7 and is posted on MCERA's website each year. Mr. Callahan pointed out that MCERA's commitments become less expensive on a percentage basis over time because they are aggregated. Mr. Wong said the report sets forth fees paid for each investment vehicle and each manager. In 2023 Abbott fund-of-fund manager fees and expenses were $1.4 million and Pathway fund-of-fund manager fees and expenses were $1.7 million, for a total of $3.1 million. Abbott fees paid to underlying general partners were $6.145 million and Pathway's fees to underlying general partners were $7.328 million, totaling $13.474 million. Totaled together for 2023 private equity fees were $16.572 million.

   Trustee Vasquez expressed an interest in the opportunity cost with respect to the fees paid and suggested reported fees should be adjusted for inflation going forward. Trustee Raabe pointed out that the private equity program has been the best performing asset class on a risk adjusted and net-of-fee basis, despite high fees.

It was M/S Werby/Raabe to approve the Private Equity Annual Fee Disclosure as presented. The motion passed by a vote of 9-0 as follows:

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

Chair Cooper directed deliberations to **Agenda Item C.1.**

1. Investment Manager Update – Western Asset Management Co. (ACTION)
   Consider, discuss and take possible action to authorize a replacement manager search

   Mr. Callahan reported that Callan and MCERA were recently notified that Ken Leach, co-Chief Investment Officer of Wellington Asset Management Company, received a Wells Notice about a Securities and Exchange Commission investigation. As a result, Mr. Leach has taken a leave of absence from Western to address the issues. Mr. Callahan said this is meaningful because Mr. Leach provided macro guidance on all of Western's fixed income strategies. Given underperformance and personnel turnover, the confluence of events leads Callan to recommend that the Committee authorize Callan to conduct a replacement manger search.

It was M/S Vasquez/Werby to authorize Callan to conduct a manager search for the core fixed income strategy.

Trustee Silberstein asked if we will be able to liquidate our portfolio and Mr. Callahan said yes because MCERA is a separate account. Callan is monitoring valuations and cash flows due to significant redemption activity. Trustee Raabe said it may be good to have more than two fixed income managers to protect from future similar situations. Mr. Callahan noted fees matter, especially with fixed income, explaining that more managers would mean higher fees but that Callan would consider the possibility of multiple managers when developing the search.

The motion passed by a vote of 9-0 as follows:

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

2. Future Meetings

No discussion.

D. INVESTMENT CONSULTANT QUARTERLY REPORT

1. Summary Report as of June 30, 2024

Mr. Callahan reviewed the June 30, 2024 Summary Investment report. He reported U.S. equities were up 3.2% in the quarter. Small cap equities underperformed large cap, which was a headwind to Fund performance. Growth equity continued to outperform value equity. International equities continue to underperform U.S. equities. He pointed out that the two-year and 10-year U.S. Treasurys are nearly flat, indicating a path toward a more normal, upward sloping yield curve.

Mr. Callahan highlighted the continued significant outperformance of Magnificent 7 stocks relative to other U.S. equities. In 2023 the Magnificent 7 represented two-thirds of the S&P 500's returns and continue to outperform in 2024. As of June 30, 2024 the top ten stocks represented 37% of the S&P 500 Index.

Trustee Raabe asked why the Fund is overweight to small cap equities. In response, Mr. Callahan stated the rationale is that over long periods of time small cap equities outperformed large cap equities. In addition, he pointed out the Committee reduced the allocation to small cap equities from 30% to 25% of the domestic equity portfolio in June of 2021.

The U.S. real estate market benchmark NCREIF ODCE Index is down 10% over the past 12 months. Mr. Callahan reported there is still depreciation in the index but it is starting to taper. There is an 18% redemption queue in real estate.

Anne Heaphy, Senior Vice President with Callan LLC, discussed Fund performance as of June 30, 2024. Total Fund allocations are in line with target ranges. The total Fund value was $3.3 billion, and over the past fiscal year the Fund returned 8.71%. The domestic equity portfolio returned 21.28% over the past fiscal year. International equities were up 10% for the fiscal year, slightly underperforming the MSCI All Country Ex-U.S. Index.

The fixed income portfolio returned 2.21% for the fiscal year, underperforming a blended benchmark return. The real estate portfolio returned negative 6.91% over the fiscal year, outperforming the NFI-ODCE Equal Weight Net Index return of negative 10.32%. The AEW portfolio was down 4% over the fiscal year and the UBS portfolio was down 8.36% for the fiscal year. Public real assets returned 5% for the fiscal year. The Opportunistic portfolio Internal Rate of Return is 9% as of June 30, 2024 and MCERA received $4.37 million in distributions during the quarter.

a. Flash Performance Update as of August 30, 2024

As of August 30, 2024 for the fiscal year to date, the domestic equity portfolio returned 4.8%. International equities returned 5%, and the fixed income portfolio returned 3.8%. The total Fund value was $3.45 billion.

There being no further business, Chair Cooper adjourned the meeting at 12:35 p.m.

Chris Cooper Investment Committee Chair	Attest: Jeff Wickman, Retirement Administrator