

Callan



**Mendocino County Employees'
Retirement Association**

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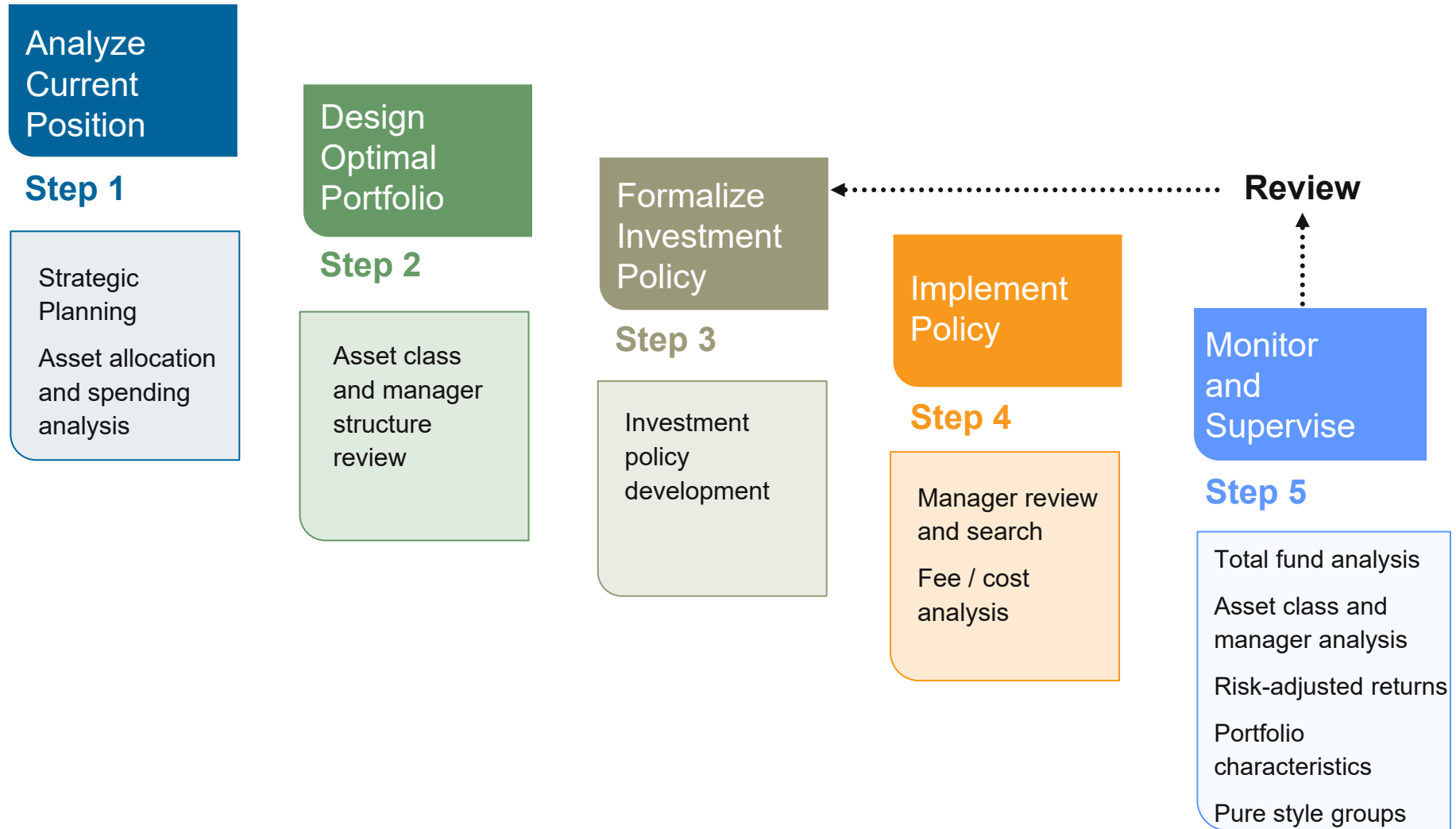
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Framing the Discussion

A Recommended Fiduciary Process



MCERA Forward Planning Calendar

2023-2024

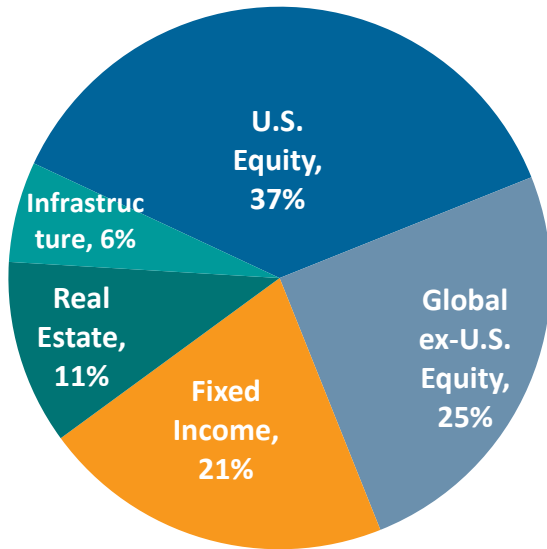
Following the completion of the Asset Liability study in the first half of 2023, we are in the process of working through investment structure studies for each of Domestic Equity, Non-US Equity, Fixed Income and Real Assets.

	3Q23			4Q23			1Q24			2Q24			3Q24			4Q24		
Strategic Planning & Implementation																		
Review Investment Policy Statement																		
Capital Market Projections Discussion																		
Domestic Equity Structure																		
International Equity Structure																		
Fixed Income Structure																		
Real Assets Structure																		
Manager Searches (as needed)																		
Monitoring & Evaluation																		
Quarterly Performance Reviews																		
Monthly "Flash" Report																		
Ongoing Monitoring and Qualitative Review																		
Research & Education																		
Research Papers and Publications																		
"Callan College"																		
Regional Workshops																		
National Client Conference																		

MCERA Asset Allocation

Asset allocation is the primary determinant of investment return and asset volatility

Current Policy Target



Total Portfolio's Expected Return = 7.0%**

Total Portfolio's Expected Risk = 12.8%**

MCERA's most recent asset liability study was conducted in February 2023.

The target asset allocation, last approved in April 2023, is a diversified structure, with alternative investments in private real assets.

The target asset allocation was reviewed in February 2023, and the board voted to adopt Mix 3. In March 2023, a motion was made to reconsider. In April 2023, the board revisited the target asset allocation and voted adopt Mix 4 (the current asset mix).*

Financial Position as of June 30, 2023

Market Value of Assets	\$664 Million
Actuarial Accrued Liability	\$927 Million
Market Funded Status	71.6%

Assumed Actuarial Return = 6.5%

*Mix 3 = 34% US Equity, 24% Global ex-U.S. Equity, 25% U.S. Fixed Income, 11% Real Estate, and 6% Infrastructure.

**Based on Callan 2023 Capital Market Assumptions

MCERA Investment Beliefs

1. Focus on the Long-Run

- MCERA is a long-term investor and holds a 50+ year investment horizon
- Asset allocation decision is the single most important determinant of long-term investment returns

2. Diversification Adds Value

- Diversification is prudent and provides value by reducing volatility
- Lower investment volatility leads to more stable contribution rates

3. Understand and Manage Risk

- Willing to accept risk that is understood for which they receive compensation
- Seek to avoid risk that is not understood, or for which there is insufficient compensation

4. Simple is Often Better

- Research has shown that complexity in the investment program often provides no net benefit to the plan
- Avoid overly complex investment structure or vehicles

5. Public Investment Markets are Largely Efficient

- Utilize index funds in efficient market segments

6. Investment Costs Matter

- Evaluate value provided by various experts that require expenditure of funds

7. Strong Governance is Vital

- Implement and maintain documented governance policies and monitor said policies

MCERA Domestic Equity Manager Structure

After strategic asset allocation, manager structure within an asset class is the most important determinant of fund performance

This structure, including the rationale for and balance between active and passive, was reviewed by the board at the August 2023 meeting.

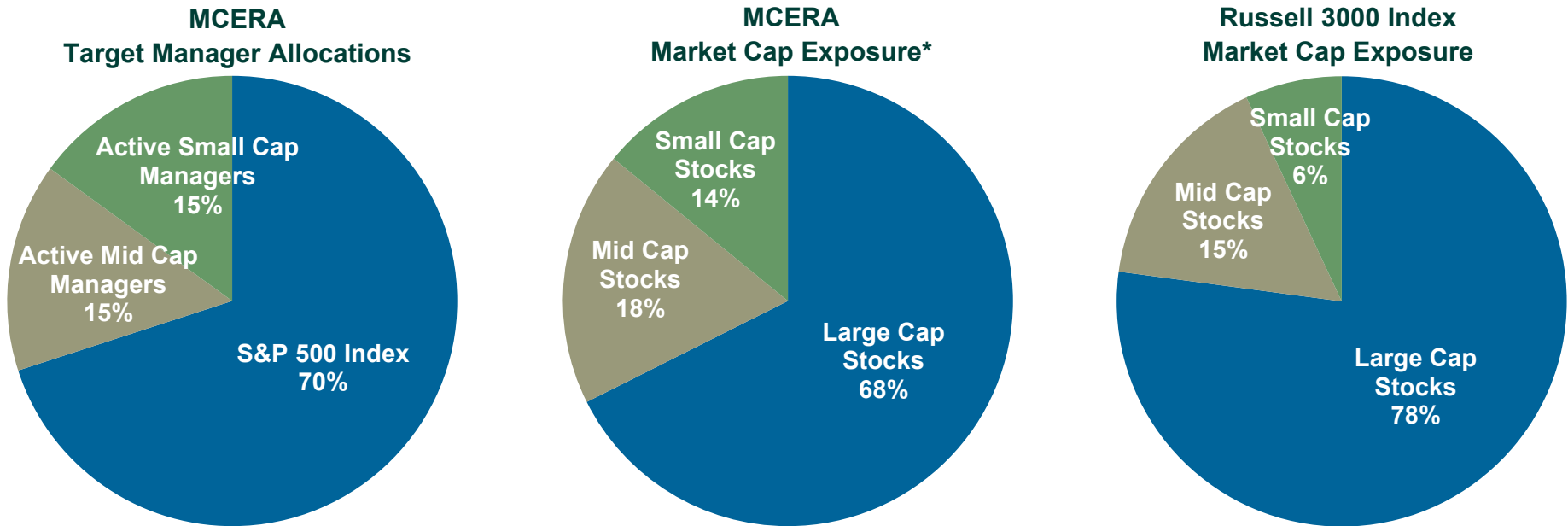
Target Characteristics					
Active/Passive		Cap Size		Style	
Passive	70%	Large	70%	Core	70%
Active	30%	Mid	15%	Growth	15%
		Small	15%	Value	15%
# Managers: 5					

Key Observations:

- 70% of the total US Equity exposure is implemented passively with an S&P 500 Index fund. This allocation represents 26% of the total MCERA portfolio.
- Active management is employed in the less efficient market with mid cap and small cap managers (Fidelity, Janus, Prudential and AB).
- Growth and value allocations are balanced.

Sub-Asset Class	Equity Manager	% Target	% Equity	Stated Benchmark
Large Cap	Vanguard S&P 500	26%	70.0%	S&P 500
Mid Cap	Fidelity Low Priced Stock	2.75%	7.5%	Russell Mid-Cap Value
	Janus Enterprise	2.75%	7.5%	Russell Mid-Cap Growth
Small Cap	Prudential Small Value	2.75%	7.5%	Russell 2000 Value
	AB US Small Growth	2.75%	7.5%	Russell 2000 Growth
Total		37%	100.0%	

MCERA Domestic Equity Structure: Market Capitalization



The target allocations are 70% to Large Cap (Passive) 15% to Mid Cap (Active) and 15% to Small Cap (Active).

Risk (tracking) relative to Russell 3000 comes from:

- Active Mid & Small Cap
- Overweight in small cap relative to Russell 3000 (14% vs. 6%)

*Represents MCERA's current investment managers at domestic equity structure target weights as of 6/30/23

Summary and Conclusions from the Domestic Equity Structure Evaluation

At the August 2023 meeting, the MCERA Board reviewed a Domestic Equity structure study for the MCERA portfolio. The study examined the merits and characteristics of the existing structure and discussed potential alternatives.

A key conclusion from the study was the overall structure remains sound and has performed reasonably well. For this reason, Callan remains comfortable with the existing domestic equity structure. Nevertheless, other structures can be and were evaluated.

At the October 2023 meeting, Callan presented an in-depth review of the existing domestic equity managers to the MCERA Board and continued discussion potentially replacing the *existing small and mid cap managers (4) with smid cap managers (2-3)*.

SMID Cap Equity Manager Searches

Per the direction of the Board, Callan conducted three simultaneous manager searches for SMID Cap Core, SMID Cap Value, and SMID Cap Growth Equity.

We identified the following semi-finalists in each style category.

SMID Cap Core:

- AllianceBernstein
- BlackRock
- Boston Trust
- EARNEST
- Jennison
- T. Rowe Price
- Wellington

SMID Cap Growth:

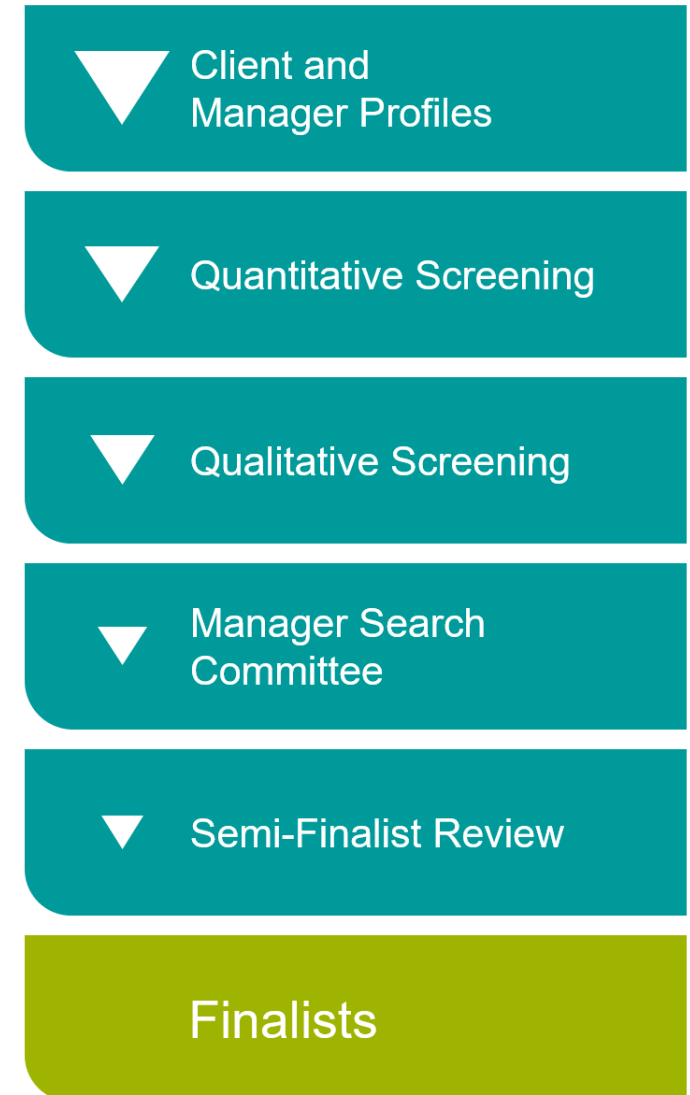
- AllianceBernstein
- Baird Equity Asset Management
- Riverbridge Partners
- William Blair & Company

SMID Cap Value:

- Boston Partners
- Dimensional Fund Advisors
- Thompson, Seigel & Walmsley (TSW)
- Victory Capital Management



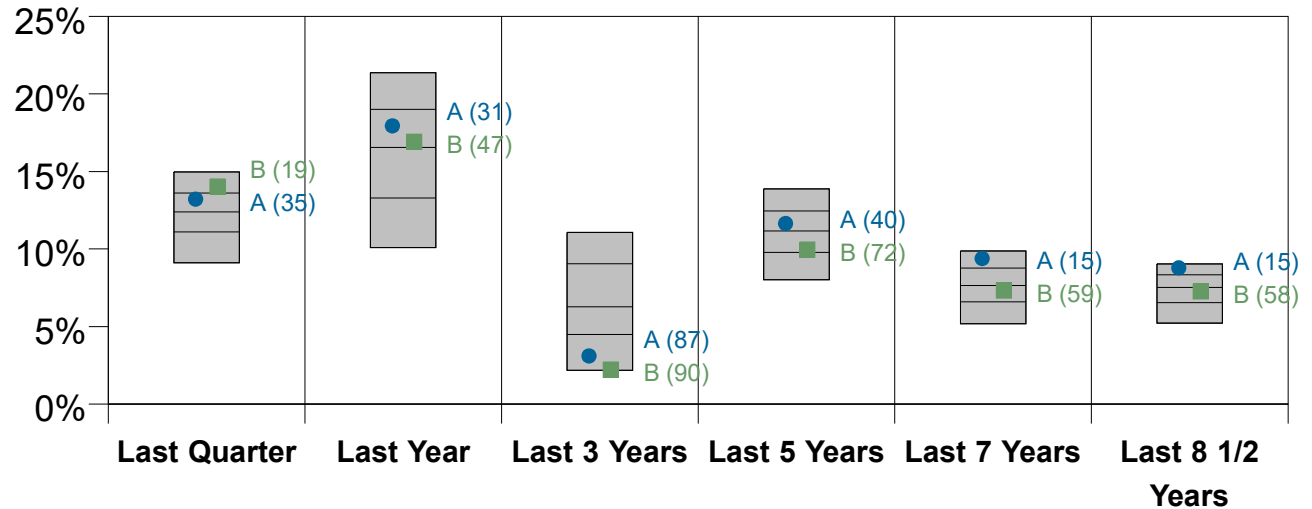
Manager Search Process



How has the Small Cap Portfolio Performed?

Periods Ended December 31, 2023

Performance vs Callan Small Cap Mutual Funds (Net)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 8 1/2 Years
10th Percentile	14.98	21.37	11.08	13.88	9.88	9.05
25th Percentile	13.61	19.02	9.06	12.46	8.78	8.34
Median	12.40	16.56	6.27	11.18	7.65	7.52
75th Percentile	11.11	13.30	4.49	9.79	6.60	6.54
90th Percentile	9.11	10.09	2.18	8.02	5.19	5.23

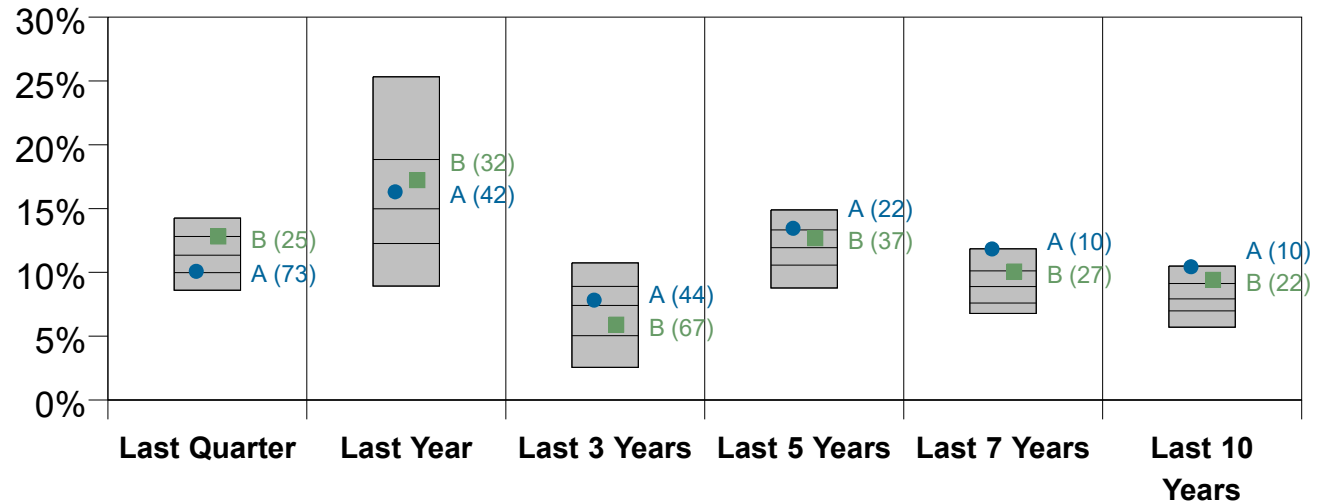
Small Cap Equity Composite	● A	13.22	17.95	3.11	11.66	9.39	8.78
Russell:2000 Index	■ B	14.03	16.93	2.22	9.97	7.33	7.27

MCERA Small Cap Equity portfolio leads the Russell 2000 Index in the intermediate- and long-term. The Portfolio is above peer median for last quarter, and trailing 1-, 5-, 7-, and 8.5-year periods.

How has the Mid Cap Portfolio Performed?

Periods Ended December 31, 2023

Performance vs Callan Mid Cap Mutual Funds (Net)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	14.27	25.33	10.76	14.90	11.85	10.49
25th Percentile	12.82	18.85	8.92	13.34	10.13	9.13
Median	11.35	15.00	7.41	11.95	8.90	7.93
75th Percentile	9.99	12.27	5.03	10.57	7.60	7.00
90th Percentile	8.61	8.93	2.58	8.78	6.79	5.71

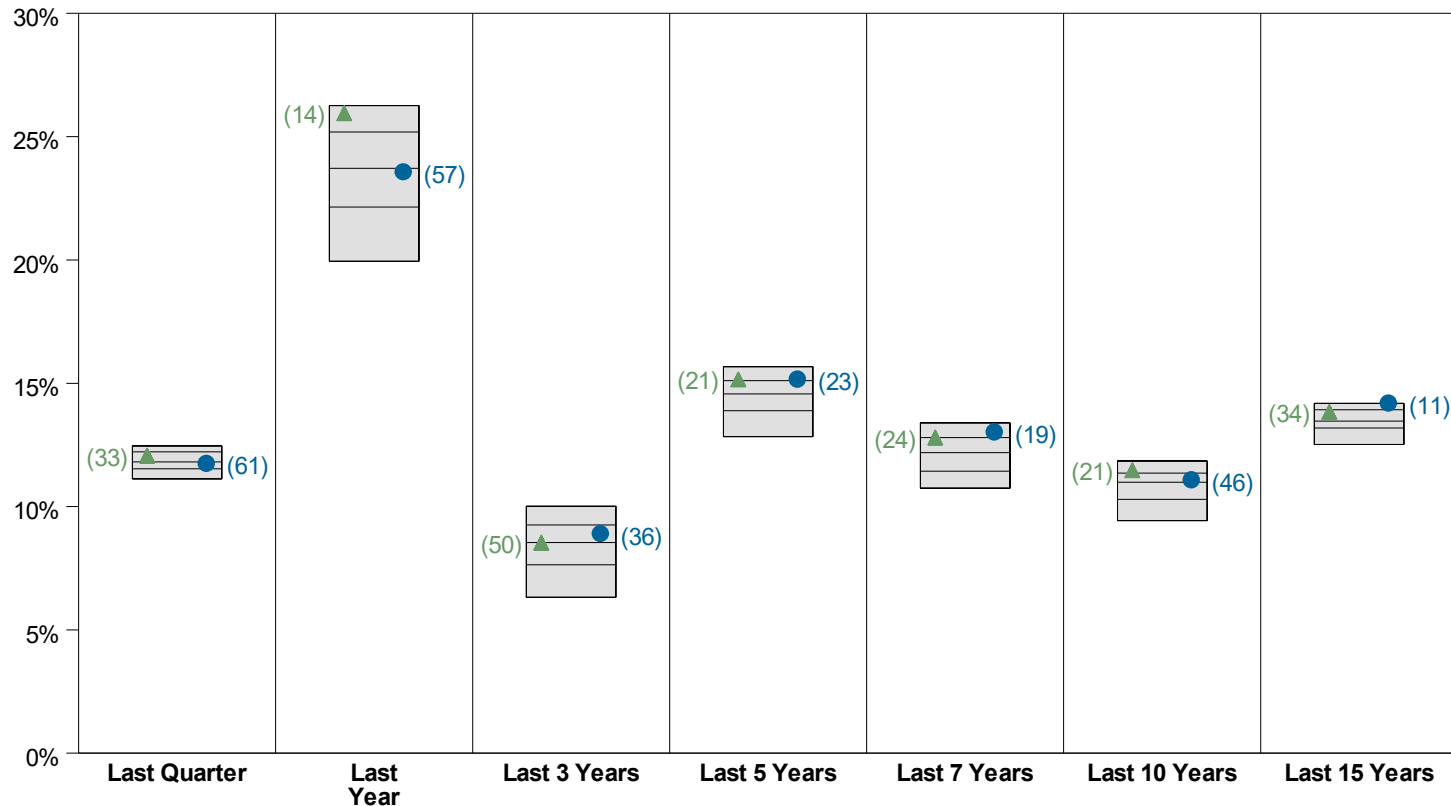
	● A	■ B
Mid Cap Equity Composite	10.10	12.82
Russell:Midcap Index	16.32	17.23
	7.84	5.92
	13.45	12.68
	11.84	10.07
	10.44	9.42

MCERA Mid Cap Equity portfolio leads the Russell Midcap Index in the intermediate- and long-term. The Portfolio is above peer median for trailing 1-, 3-, 5-, 7- and 10-year periods.

How has the Total Equity Composite Performed?

Periods Ended December 31, 2023

Performance vs Public Fund - Domestic Equity (Net)

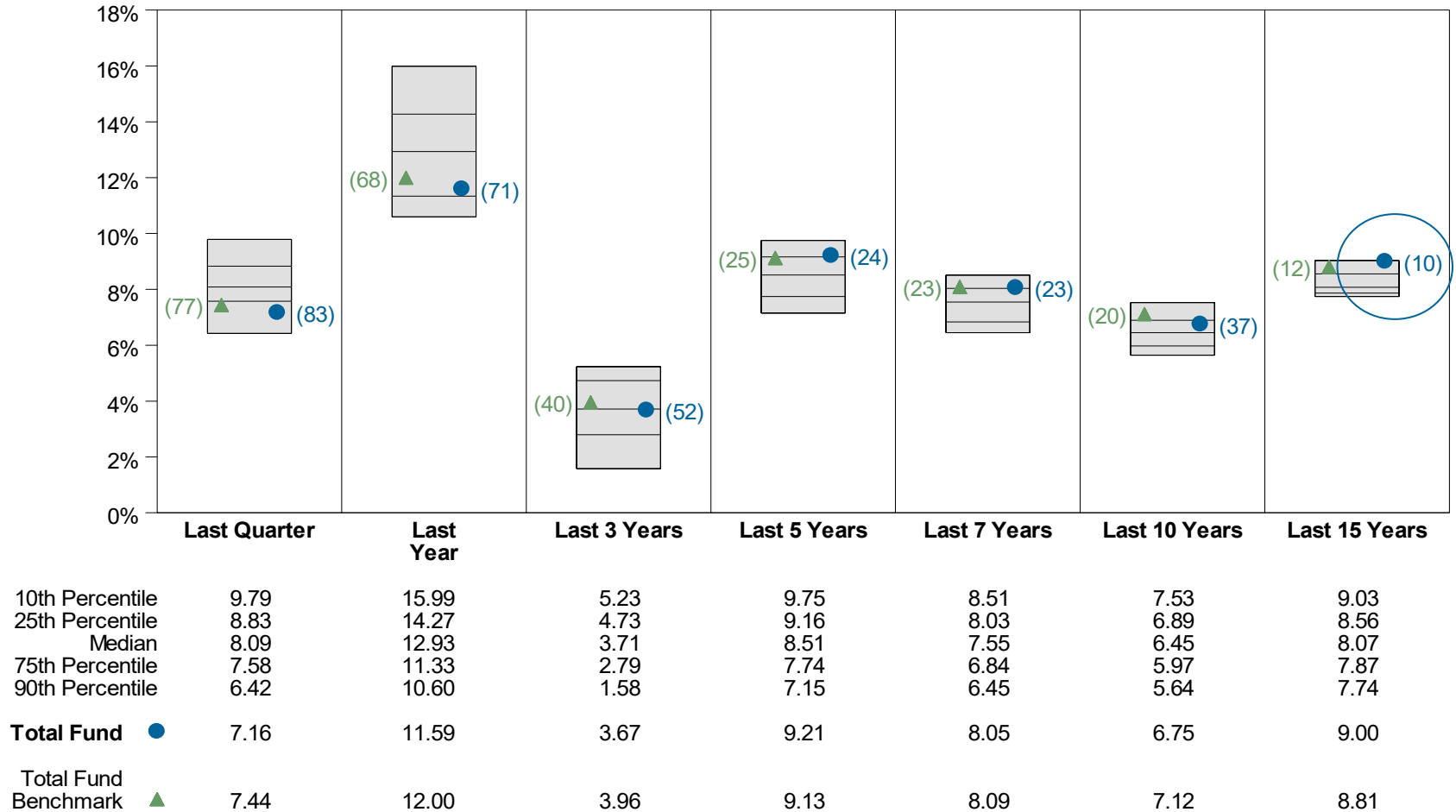


10th Percentile	12.46	26.26	10.01	15.67	13.40	11.85	14.19	
25th Percentile	12.22	25.19	9.26	15.11	12.79	11.36	13.93	
Median	11.81	23.72	8.54	14.57	12.19	10.98	13.47	
75th Percentile	11.53	22.14	7.65	13.89	11.43	10.30	13.19	
90th Percentile	11.12	19.95	6.32	12.84	10.75	9.43	12.52	
Domestic Equity Composite	●	11.72	23.54	8.87	15.14	13.00	11.06	14.17
Russell 3000 Index	▲	12.07	25.96	8.54	15.16	12.81	11.48	13.84

How has MCERA Total Fund Performed?

As of December 31, 2023

Performance vs Callan Public Fund Sponsor Database (Net)

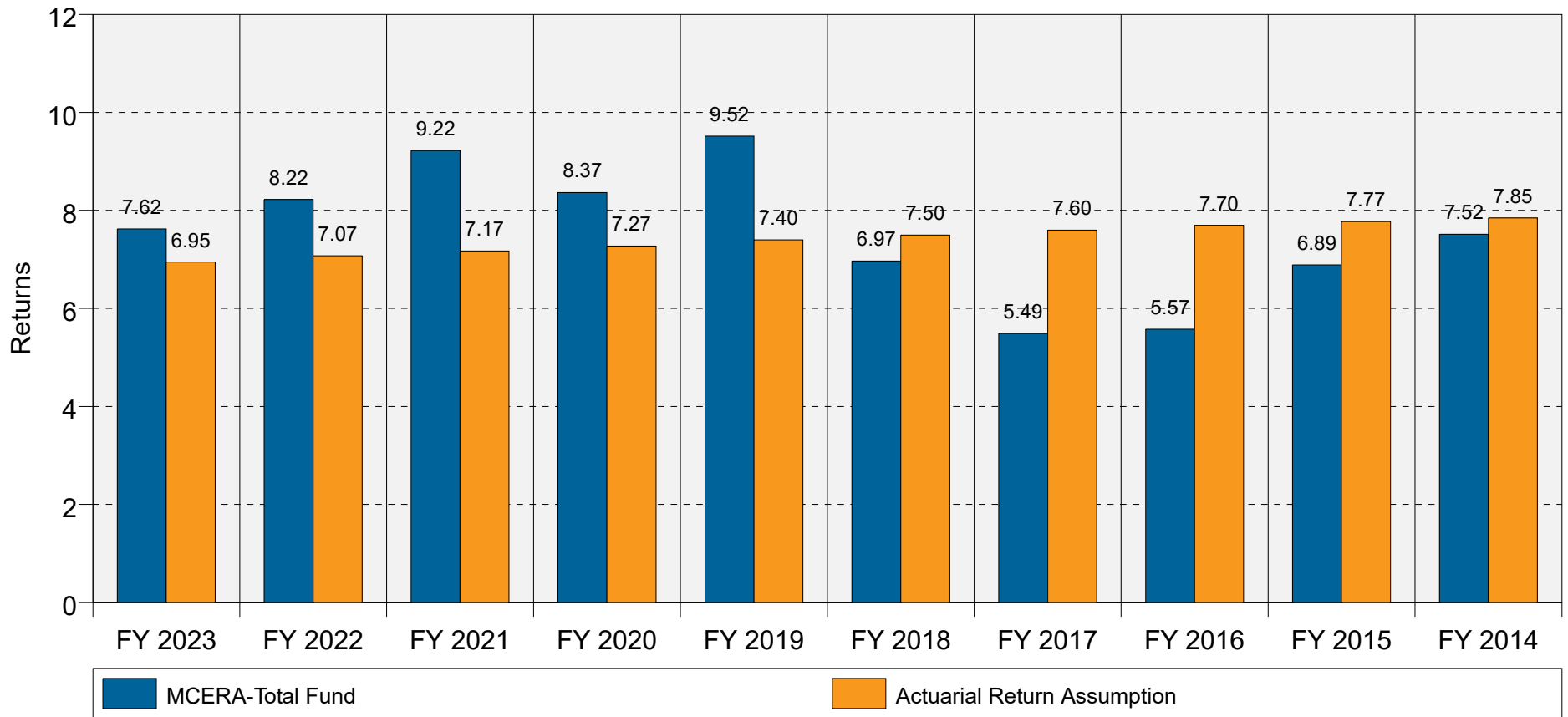


The MCERA Total Fund ranks in the top decile over the trialing 15-year period, outperforming 90% of its public plan peers.

The Callan Public Fund Sponsor Database consists of public employee pension total funds including both Callan LLC clients and surveyed non-client funds. Returns greater than one year are annualized.

MCERA Plan Performance vs Assumed Actuarial Rate of Return

Returns for Trailing 10 Year Time Periods Ending Various Fiscal Years



The MCERA Total Fund has outperformed the assumed actuarial rate of return for the trailing 10-year periods ending fiscal year 2023, 2022, 2021, 2020, and 2019.

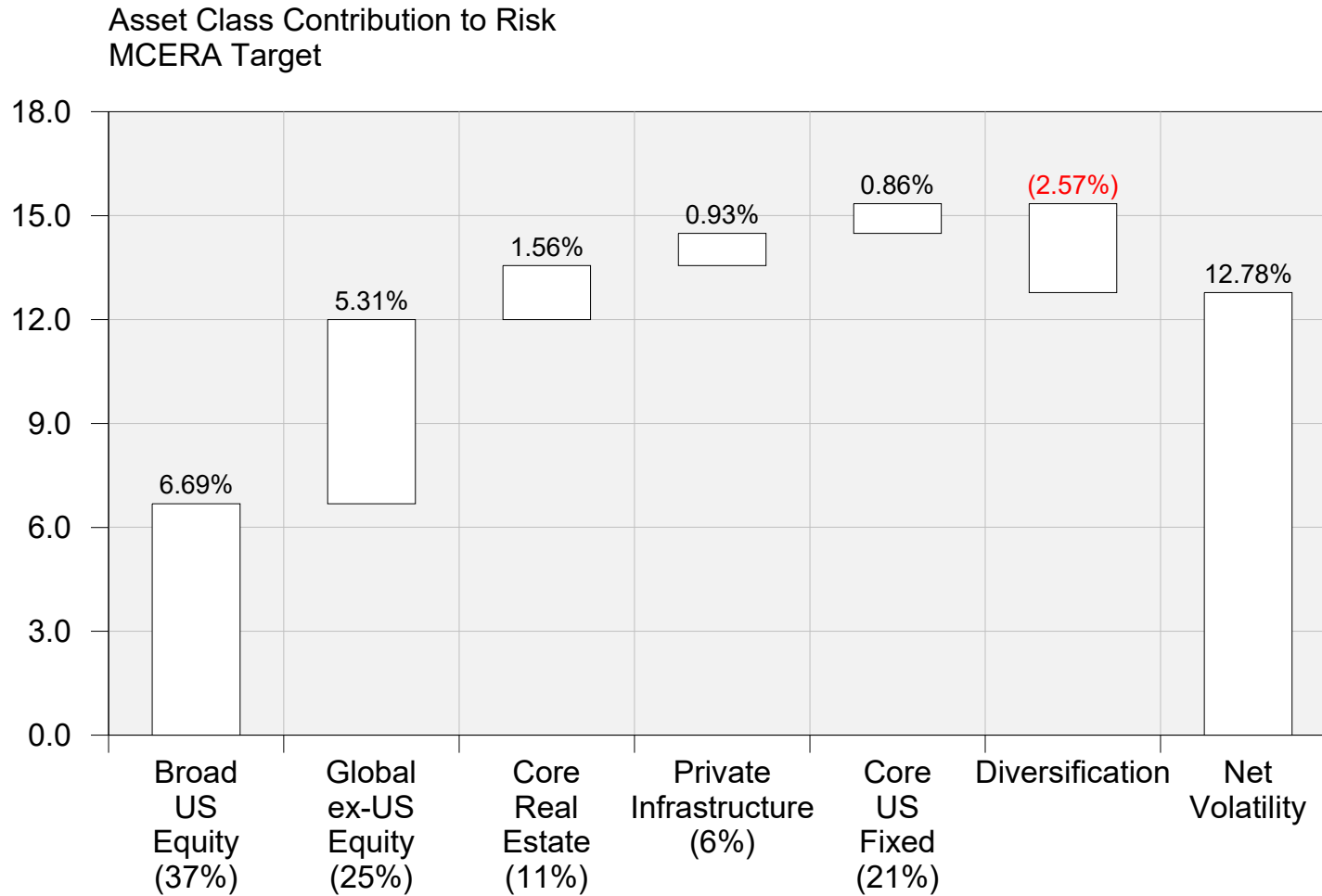
Rolling 10-Year Return for S&P 500 Index

Rolling 40 Quarter Returns
for 25 Years Ended December 31, 2023



Risk Contribution – MCERA Target

Decomposition of Risk Expectations



Like most long-term investments with return targets at or near 7%, the bulk of expected volatility comes from equity investments.

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