

DAN GJERDE
Supervisor
Fourth District



OFFICE PHONE: (707) 463-4221
OFFICE FAX: (707) 463-7237
EMAIL: BROWNCJ@MENDOCINOCOUNTY.ORG

Fort Bragg,
CA 95437

COUNTY OF MENDOCINO
BOARD OF SUPERVISORS
501 Low Gap Road • Room 1010
Ukiah, California 95482

Date: March 9, 2022
To: Mendocino County Supervisors
From: Supervisor Dan Gjerde

Re: Supervisor Gjerde Report for March 15, 2022

The following are recent highlights from some of my board assignments.

Sonoma Clean Power

Fee cut to Sonoma Clean Power and its customers

Effective March 1, the CPUC approved PG&E's request to raise PG&E's sale price of electricity for customers who purchase their electricity from PG&E rather than purchase electricity from community power providers such as Sonoma Clean Power. With PG&E charging their own customers more for electricity, the CPUC also reduced the PG&E exit fee that customers pay when they enroll with community providers such as Sonoma Clean Power. What does this mean? At the April meeting, the Sonoma Clean Power board will vote on an action item to provide rate savings to Sonoma Clean Power customers.

Water and Climate Engagement with Students and Teachers

Sonoma Clean Power and Sonoma Water are developing lessons on water and climate change. For more information, go here: <https://myemail.constantcontact.com/FREE-classroom-presentations-and-school-supplies.html?soid=1133047766577&aid=j1UbdOCRLeU> Among other things, they announce a small grant program that is available for teachers and their students for projects related to water or climate change. Teachers can request "A Call to Action" grant of \$100 to \$1,000 for their solution-focused project. Mendocino County educators should contact: WaterEd@scwa.ca.gov or visit www.sonomawater.org/education.

Mendocino Solid Waste Authority

Our county-wide agency which receives household toxic waste and provides other related services is searching for a new general manager. If you know a good applicant, please encourage the person to inquire. For more, go to: <https://mendorecycle.org/Careers>

Mendocino County Employee Retirement Association (MCERA)

MCERA's investment advisors, Callan, presented their latest forecast of the economy and investment returns over the next decade. Please see the entire 82-page report here: <https://www.mendocinocounty.org/home/showpublisheddocument/49224/637801863782530000>

For brevity, I have extracted 11 of the 82-page report and attached it to this memo.

Callan



Mendocino County Employees' Retirement Association

Performance Review

Quarter ended December 31, 2021

Supervisor Dan Gjerde notes: This is an 11 page
extract of Callan's 82 page report,
presented in this form for brevity.

To read the full report, Supervisor Gjerde
encourages people to go to:

[https://www.mendocinocounty.org/home/
showpublisheddocument/
49224/637801863782530000](https://www.mendocinocounty.org/home/showpublisheddocument/49224/637801863782530000)

Greg DeForrest, CFA
Fund Sponsor Consulting

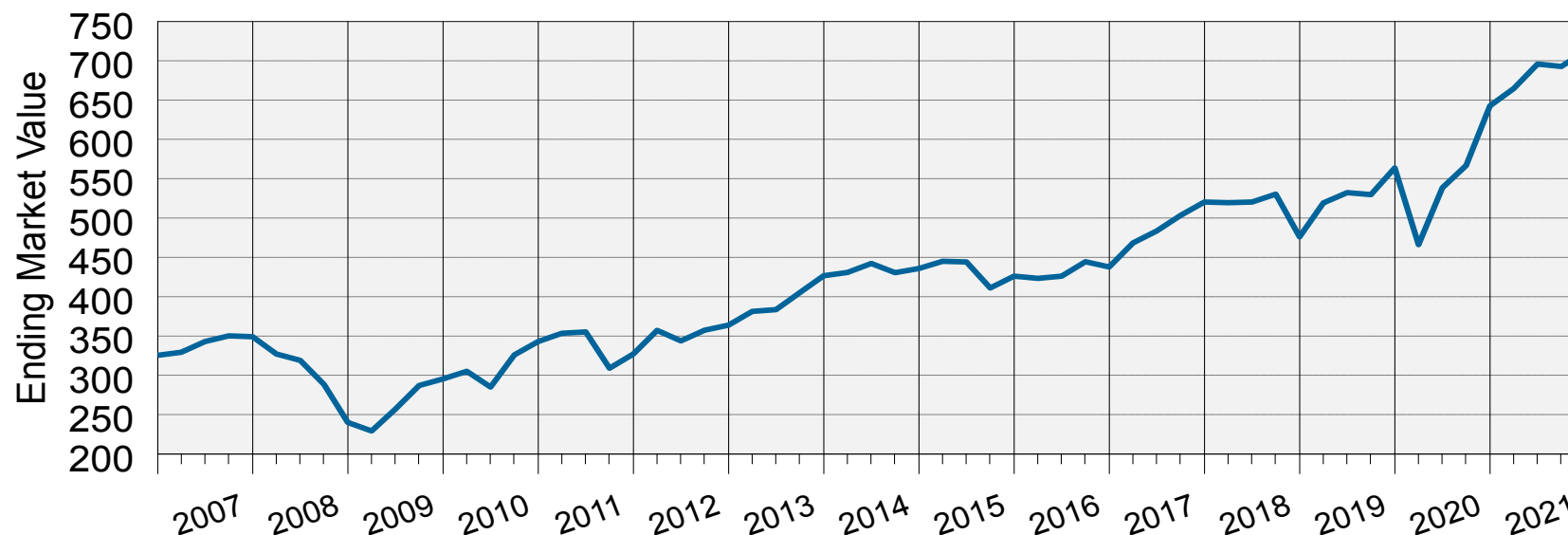
Claire Telleen, CFA
Fund Sponsor Consulting

Hannah Vieira
Fund Sponsor Consulting

Jay Kloepper
Capital Markets Research

Total MCERA Plan Growth

MCERA Ending Market Value for 15 Years Ended December 31, 2021



	December 31, 2021				December 31, 2020	
	Market Value	Weight	Net New Inv.	Inv. Return	Market Value	Weight
Domestic Equities	\$269,138,006	37.80%	\$(50,142,055)	\$62,740,679	\$256,539,382	39.91%
International Equities	\$182,920,755	25.69%	\$(31,499,990)	\$12,785,921	\$201,634,824	31.37%
Domestic Fixed Income	\$150,569,579	21.14%	\$29,265,000	\$(671,887)	\$121,976,466	18.98%
Infrastructure	\$33,645,518	4.72%	\$32,945,776	\$699,741	-	-
Real Estate	\$75,577,242	10.61%	\$(72,909)	\$13,631,546	\$62,018,605	9.65%
Cash	\$240,167	0.03%	\$(396,480)	\$(10)	\$636,657	0.10%
Total Fund	\$712,091,267	100.0%	\$(19,900,658)	\$89,185,990	\$642,805,935	100.0%

Resurgent U.S. Equity Market in 4Q21

Strong performance across both growth and value strategies during 2021

- 2021 returns for U.S. equity markets are eye-popping:
 - S&P 500: +28.7%
 - U.S. Small Cap: +14.8%
 - Non-U.S. equity markets lagged:
 - MSCI World ex USA: +12.6%
 - Emerging Markets: -2.5%
- Economic data recovered in 4Q after softening in 3Q. Tight labor market and mismatch between jobs and job seekers is vexing employers.
- Inflation spiked and recorded 7% for the first time in decades.
- 4Q GDP hit a robust 6.8% (estimate), after dropping in 3Q. Growth for the year is 5.7% (estimate). The economic recovery is still solid. Supply chain issues and sentiment surrounding the end of fiscal stimulus, the Omicron variant, and the Fed taper vex investors as we head into 2022.

Returns for Periods ended 12/31/21

	1 Quarter	1 Year	5 Years	10 Years	25 Years
U.S. Equity					
Russell 3000	9.28	25.66	17.97	16.30	9.81
S&P 500	11.03	28.71	18.47	16.55	9.76
Russell 2000	2.14	14.82	12.02	13.23	8.99
Global ex-U.S. Equity					
MSCI World ex USA	3.14	12.62	9.63	7.84	5.39
MSCI Emerging Markets	-1.31	-2.54	9.88	5.49	--
MSCI ACWI ex USA Small Cap	0.62	12.93	11.21	9.46	6.93
Fixed Income					
Bloomberg Aggregate	0.01	-1.54	3.57	2.90	4.94
90-day T-Bill	0.01	0.05	1.14	0.63	2.06
Bloomberg Long Gov/Credit	2.15	-2.52	7.39	5.72	7.31
Bloomberg Global Agg ex-US	-1.18	-7.05	3.07	0.82	3.40
Real Estate					
NCREIF Property	5.23	16.67	7.57	9.23	9.34
FTSE Nareit Equity	16.31	43.24	10.75	11.38	9.89
Alternatives					
CS Hedge Fund	0.94	8.23	5.47	4.90	6.74
Cambridge Private Equity*	4.81	49.51	21.16	17.17	15.72
Bloomberg Commodity	-1.56	27.11	3.66	-2.85	1.13
Gold Spot Price	4.08	-3.51	9.69	1.56	6.61
Inflation - CPI-U	1.64	7.04	2.92	2.14	2.28

*Cambridge PE preliminary data through 09/30/21.

Sources: Bloomberg, Callan, Cambridge, Credit Suisse, FTSE Russell, MSCI, NCREIF, S&P Dow Jones Indices

2022 Risk and Returns

Summary of Callan's Long-Term Capital Market Assumptions (2022 – 2031)

		Projected Return			Projected Risk
		1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation
Asset Class	Index				
Equities					
Broad U.S. Equity	Russell 3000	8.00%	6.60%	4.35%	17.95%
Large Cap U.S. Equity	S&P 500	7.85%	6.50%	4.25%	17.70%
Smid Cap U.S. Equity	Russell 2500	8.75%	6.70%	4.45%	21.30%
Global ex-U.S. Equity	MSCI ACWI ex USA	8.70%	6.80%	4.55%	20.70%
Developed ex-U.S. Equity	MSCI World ex USA	8.25%	6.50%	4.25%	19.90%
Emerging Market Equity	MSCI Emerging Markets	9.80%	6.90%	4.65%	25.15%
Fixed Income					
Short Duration Gov/Credit	Bloomberg 1-3 Yr G/C	1.50%	1.50%	-0.75%	2.00%
Core U.S. Fixed	Bloomberg Aggregate	1.80%	1.75%	-0.50%	3.75%
Long Government	Bloomberg Long Gov	1.85%	1.10%	-1.15%	12.50%
Long Credit	Bloomberg Long Cred	2.60%	2.10%	-0.15%	10.50%
Long Government/Credit	Bloomberg Long G/C	2.30%	1.80%	-0.45%	10.40%
TIPS	Bloomberg TIPS	1.35%	1.25%	-1.00%	5.05%
High Yield	Bloomberg High Yield	4.40%	3.90%	1.65%	10.75%
Global ex-U.S. Fixed	Bloomberg GI Agg xUSD	1.20%	0.80%	-1.45%	9.20%
Emerging Market Sovereign Debt	EMBI Global Diversified	4.00%	3.60%	1.35%	9.50%
Alternatives					
Core Real Estate	NCREIF ODCE	6.60%	5.75%	3.50%	14.20%
Private Infrastructure	MSCI Glb Infra/FTSE Dev Core 50/50	7.10%	6.10%	3.85%	15.45%
Private Equity	Cambridge Private Equity	11.45%	8.00%	5.75%	27.60%
Private Credit	N/A	6.40%	5.50%	3.25%	14.60%
Hedge Funds	Callan Hedge FOF Database	4.35%	4.10%	1.85%	8.20%
Commodities	Bloomberg Commodity	4.05%	2.50%	0.25%	18.00%
Cash Equivalents	90-Day T-Bill	1.20%	1.20%	-1.05%	0.90%
Inflation	CPI-U		2.25%		1.60%

* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

2022 Capital Market Projections – MCERA Target

Expected Return on Assets, Assuming Passive Implementation

Asset Classes	MCERA Target
Broad US Equity	37%
Global ex US Equity	25%
Domestic Fixed	21%
Real Estate	11%
Infrastructure	6%
Totals	100%
Projected Arithmetic Return	6.7%
10 Yr. Geometric Mean Return	6.0%
Projected Standard Deviation	13.0%

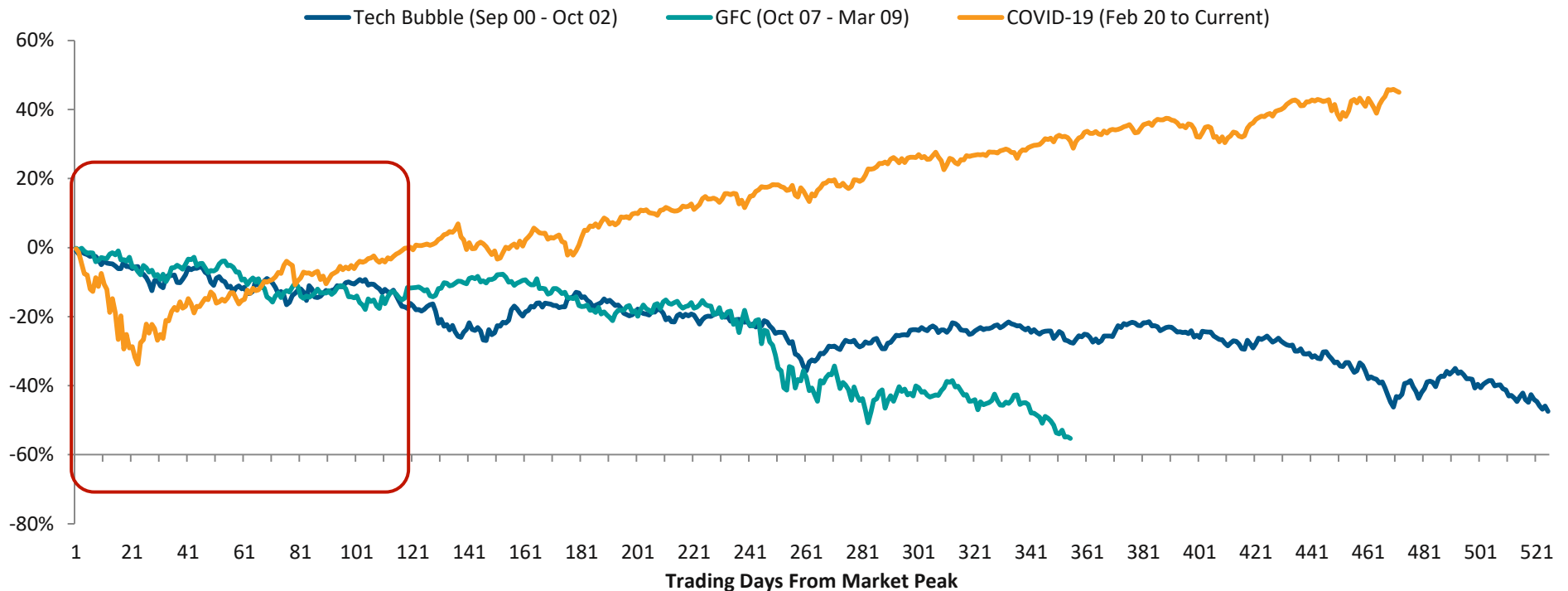
Source: Callan LLC

Unprecedented Shock to Global Capital Markets—But It Was Over in a Flash!

V-shaped recovery in equity—back in black by mid-August 2020, up 119% from market bottom!

S&P 500 Cumulative Returns

Market Peak-to-Trough for Recent Corrections vs. Current Path of COVID-19 Correction Through 12/31/21



Sharpest and fastest equity market decline ever: 16 trading days to reach bear market; -34% after just 23 days

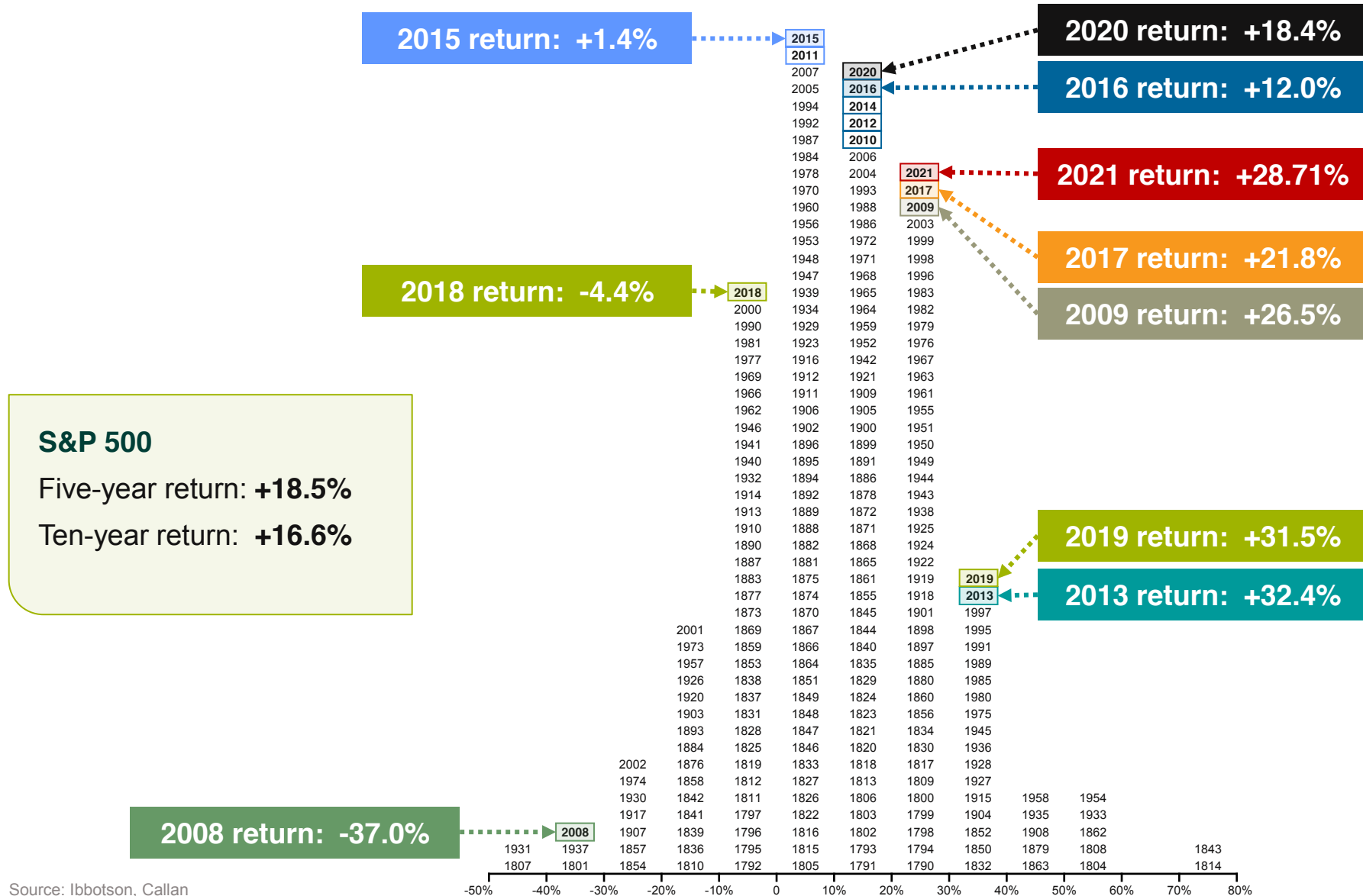
- S&P 500 recovered all its pandemic-related losses by Aug. 10, 2020, only 97 days from the bottom.
- S&P 500 up 28.7% in 2021.

Fun fact: As of Dec. 31, 2021, or 472 trading days, the S&P is up over 45% from the previous market peak on 2/19/20. In contrast, during the GFC the market was still down 31% from the previous market peak after 472 trading days (Aug. 24, 2009).

Sources: Callan, S&P Dow Jones Indices

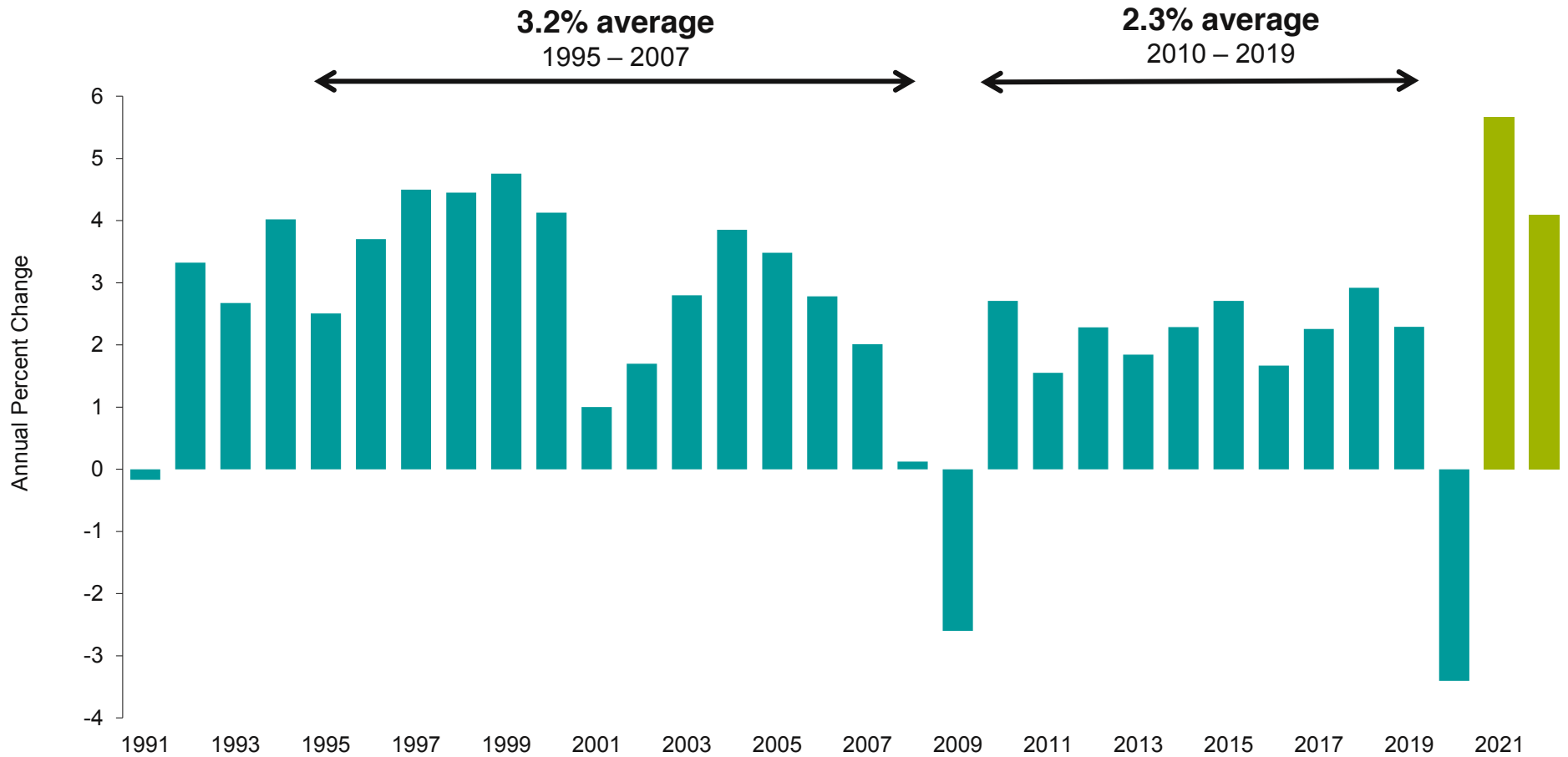
Stock Market Returns by Calendar Year

2021 performance in perspective: History of the U.S. stock market (232 years of returns)



U.S. GDP Growth to Return to a Slower Trajectory After Recovery From 2020

Real GDP growth

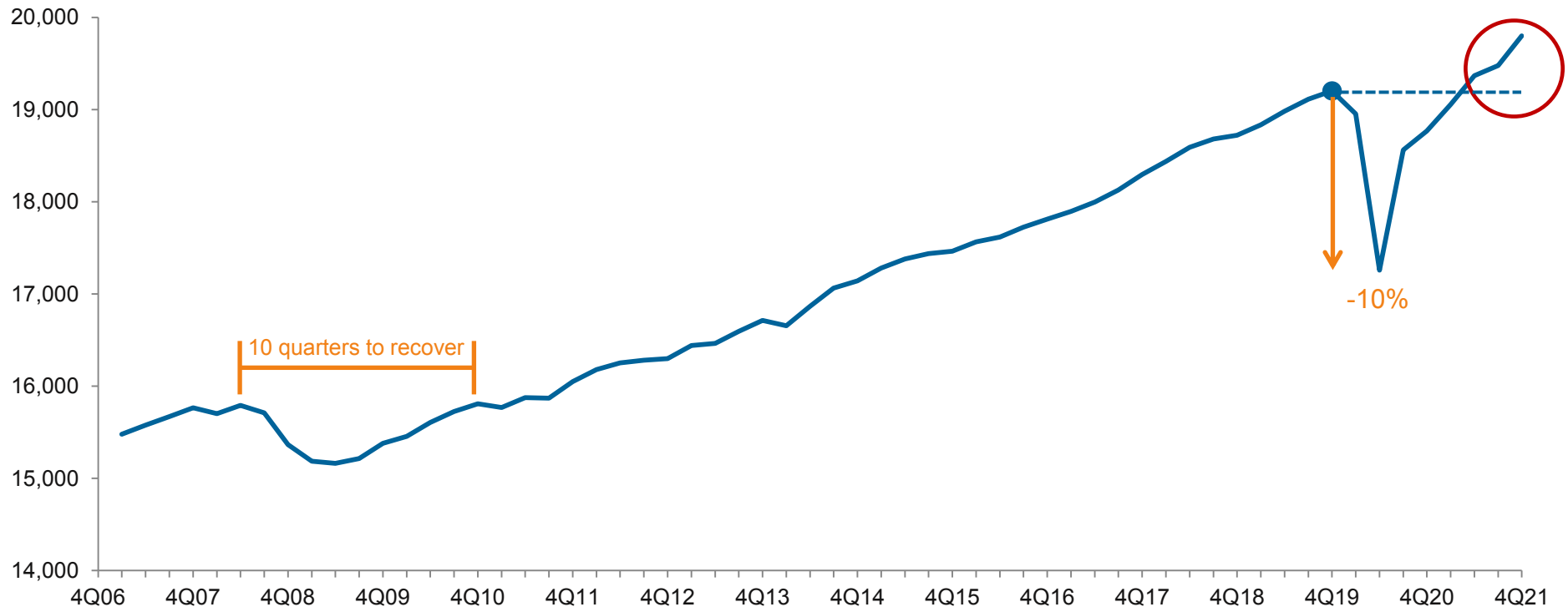


Note: 2021 and 2022 Forecast: IHS Markit

Source: IHS Markit

GDP Recovered Pre-Pandemic Level in 2Q21 After Deepest Drop in 75 Years

Seasonally Adjusted Real GDP in Billions of Dollars



After the Global Financial Crisis, it took 2.5 years before real GDP reclaimed its pre-recession highs.

- GFC peak to trough down 4%

2Q20 real GDP level was down over 10% from 4Q19.

- Pre-pandemic peak level of GDP reached in 2Q21: \$19.368T vs. \$19.202T for 4Q19

2021 GDP on track for annual growth of 5.7%, with consensus estimates just north of 4.0% for 2022, followed by return to trend.

Source: Federal Reserve Bank of St. Louis

Economic Outlook

Role of economic variables

GDP and inflation

- GDP forecasts provide a very rough estimate of future earnings growth
- Inflation forecasts provide an approximate path for short-term yields
- Inflation is added to the real return forecasts for equity and fixed income

GDP forecasts

- 2% to 2.5% for the U.S.
- 1.5% to 2.0% for developed ex-U.S. markets
- 4% to 5% for emerging markets
- All forecasts are below long-term averages
- Path to longer-term growth will include cycles with recessions

Inflation forecasts

- 2.0% to 2.5% for the U.S.
- 1.75% to 2.25% for developed ex-U.S. markets
- 2.40% to 2.90% for emerging markets

So When Does Inflation Become a Problem?

The majority of the working-age and younger population has no experience with sustained inflation.

- Last spurt above 5% happened in 2007, when oil prices spiked to above \$100 per barrel; this spike evaporated with the GFC.
- Last **sustained** bout of inflation was wrung out of the U.S. economy by serial recessions in 1980 and 1981. Inflation had reached double-digits in the late 1970s, and short interest rates were hiked to just below 20%, twice!
- Decades of policy error, both monetary and fiscal, led to the build-up of inflation during the late 1960s and into the 1970s—the wage-price spiral of the 1970s did not materialize out of thin air.
- Current global monetary and fiscal policies were enacted to combat an unprecedented pandemic, the shutdown of production, transportation, and distribution, and severe interruption in consumer and business activities that led to the steepest recession in 75 years.
- The policies were key to the incredible economic recovery seen in the U.S. and around the world.
- The interruption of supply chains, labor markets, manufacturing processes, and the delivery of goods and services was substantial; the working-out of these kinks was both expected and actually better/faster than projected just a year ago.
- This recession was also the first to feature substantial job loss but no decline in aggregate income, which suggests substantial pent-up demand.
- The current spike in inflation was completely expected; there are no surprises. Inflation is working itself out at different rates and at different levels of pervasiveness across commodities, materials, goods, manufacturing, and services. The labor market suffered some of the greatest disruption and will take the longest to iron out the kinks.
- While the current spike is alarming, the return toward normal markets means that underlying demand will return to normal, and pressures on prices will abate, likely toward the second half of 2022 and in the following years.