

MINUTES

FINANCE AND RISK MANAGEMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

December 6, 2010 - 9:00 A.M.

CALL TO ORDER

Chair Bolger called the meeting to order at 9:03 A.M.

ROLL CALL

PRESENT: Bolger, Brenk, Given, Phillips

ABSENT: Richardson

MINUTES

It was M/S Phillips/Given to approve the August 12, 2010, Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

1. Quarterly Checklist

Retirement Administrator Jeff Wickman presented quarterly expenditures for the Committees' review and discussion.

a. MCERA travel and event related expenses

The Committee reviewed and discussed travel expenses for the Board and determined they were reasonable.

b. Other expenses per Checklist guidelines

The Committee reviewed credit card expenses and determined they were reasonable. The Committee reviewed other expense categories including, utilities, fiduciary insurance and found them to be in order.

Minor modifications to the quarterly expense report were agreed to by the Committee.

Chair Bolger commended Administrator Wickman and Senior Accountant Lisa Jackson for the presentation of the administrative expenses and for managing the system's operating expenses in a prudent manner.

c. Variances in the MCERA administrative budget in excess of 5%

Chair Bolger confirmed that the Committee will continue to review variances over 5%. No material expense variances over 5% were noted during the quarter, as billing cycles accounted for those expense items with such variances.

d. Reconciliation of MCERA administrative accounts

The Committee directed the Administrator and Senior Accountant to look at the retirement medical account and report back to the Committee.

e. Vendor services provided to MCERA

Staff reported a decrease in legal expenses in 2010 as compared to 2009. The Committee found actuarial and accounting consulting expenses to be reasonable.

f. MCERA staffing status

Administrator Wickman discussed potential staffing needs to manage increased workload and support the new software system.

g. Internal controls, compliance activities and capital calls

The Committee referred Chair Bolger's request for a review of accounting for capital calls for private equity investment commitments to the Investment Committee.

h. Audits, examinations, investigations or inquiries from governmental agencies

Mr. Wickman stated that he is scheduled to report to the Grand Jury on policies, including the interest crediting policy, in the next few weeks.

The Administrator reported that while discussions have continued with the Courts regarding the possibility of administering a 401(h) account, the modifications to the draft agreement should be brought back to the Committee. The Administrator explained that managing the 401(h) account will create additional responsibilities and workload for MCERA. Counsel Dunning noted that the additional duties may also present a risk-management issue.

Mr. Wickman stated that after thorough analysis, the Board may want to consider whether to proceed with the 401(h) plan. Trustee Phillips confirmed that a decision about administering the 401(h) plan should be made based on the larger policy issue which the Administrator's addressed. Chair Bolger and Trustee Phillips

recommended that the Committee consider the draft agreement and bring it before the Board.

- i. Other items from the Retirement Administrator related to risk and finance

No discussion.

- j. Form 700 submittal summary

Counsel Ashley Dunning provided a summary of Form 700 data (excluding Investment Managers) for the Committee's review. Counsel Dunning stated that the Form 700 filings were up to date. Committee members noted no concerns with the reported items.

C. NEW BUSINESS

1. Placement Agent Disclosures and Related Matters

The Committee reviewed the updated Representations re Placement Agents, which were received in response to the MCERA letter of request dated August 16, 2010. It was noted that placement agents reported by investment managers were in-house staff.

Counsel Dunning stated that as the statute does not address the timing or frequency of disclosures beyond the initial disclosure, it would be appropriate for the policy to address those topics. The Committee referred the policy to the Governance Committee to review the nature, timing and frequency of disclosures identified in the policy.

Counsel further noted that if concerns about representations re placement agents arise, referral to the Investment Committee would be in order. Administrator Wickman recommended including the policy in any future new manager searches.

It was M/S Phillips/Given to recommend: (1) that the Board amend the Placement Agent Payment Disclosure Policy to state that Representations re Placement Agents should be filed annually, and (2) that the Governance Committee review the policy for possible additional amendments. The motion was approved by unanimous vote.

Chair Bolger directed deliberations to **Agenda Item C.3.**

3. Class Action Securities Litigation

The Committee reviewed and discussed the process by which consulting law firms monitor and report on class action securities litigation. Mr. Wickman stated that a presentation will be made at the next Committee meeting.

4. Economic Assumptions Policy

Chair Bolger stated that discussion of operational aspects of the Economic Assumptions Policy should be deferred, but that how the Board proceeds prior to making decisions on the system's assumption rate should be carefully defined. The Committee discussed the current process by which the Board reviews and adopts the actuarial assumption rate, and

considered potential policy language to define the process. The Committee also discussed holding additional Committee meetings or a special meeting of the Board to analyze the actuarial report and the subsequent decision as to the actuarial assumption rate. Trustee Phillips recommended maintaining and refining the current process, and the Chair agreed.

The Committee agreed that a recommendation to hold a special Board meeting to discuss the actuarial report may be appropriate.

The Chair redirected deliberations to **Agenda Item C.2** at 10:42 A.M.

2. AB 609

Counsel Dunning discussed Assembly Bill (AB) 609. AB 609 changes the administrative cap for calculating MCERA's budget from 18 basis points of accrued assets to 21 basis points of the total accrued liability. She also advised that none of the statutes on which '37 Act systems have relied to exclude legal expenses from the administrative budget cap were changed by AB 609. The Committee affirmed counsel's conclusion that MCERA's current budgeting process for legal expenses was appropriate.

Trustee Given was excused from the meeting at 10:47 A.M.

Counsel noted that the new statute, AB 609, also formalizes the exclusion of information technology expenses from the calculation of the budget. There was a discussion of the effective date of the new provisions. Although AB 609 is effective on January 1, 2011, the Administrator advised that its effect is to raise the administrative budget cap. Thus, MCERA's current budget would comply with the provisions of AB 609 beginning with the Fiscal Year 2011/2012 budget. The committee noted that the MCERA Budget Policy will require revision to address the changes made by the legislation.

Chair Bolger adjourned the meeting at 11:00 A.M.

Bernadette Bolger, Chair

Attest: Jeff Wickman, Retirement Administrator