

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

February 22, 2011 - 9:00 A.M.

CALL TO ORDER

Chair Bolger called the meeting to order at 9:04 A.M.

ROLL CALL

PRESENT: Bolger, Brenk, Given (early departure), Gladstern
(ex-officio), Phillips, Webb

ABSENT: Richardson

MINUTES

It was M/S Webb/Phillips to approve the December 6, 2010, Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

Trustee Brenk discussed the item on page 4 in the minutes that suggested a special Board meeting may be needed to review the economic assumptions. After brief discussion the Committee acknowledged the adoption of the new policy for reviewing and establishing the economic assumptions. Chair Bolger also noted that an ad hoc committee has been established to review the provisions of Senate Bill (SB) 867 and determine if there are changes to the current actuarial report that will provide additional information to plan members, retirees, plan sponsors and interested readers regarding the economic assumptions and alternative methods for projecting the plan's liability.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

1. Quarterly Checklist

Consider, review and updates on the following:

- a. MCERA travel and event related expenses

Administrator Wickman reviewed the travel expense summary. Chair Bolger said the information looked reasonable. Trustee Phillips expressed approval of the content and format and transparency of the travel expenses. Administrator Wickman observed that some '37 Act systems post a quarterly summary of travel expenses on their website and noted that staff is considering additional materials to post on MCERA's website and may make recommendations on that topic at a future meeting.

b. Other expenses per Checklist guidelines

Administrator Wickman reviewed the VISA bill summary with supporting documentation. Chair Bolger approved of the content and format of the report. Trustee Phillips noted the reasonable and productive expense of the private equity educational visit by two Trustees.

c. Variances in the MCERA administrative budget in excess of 10%

Administrator Wickman reviewed the administrative budget and said that the budget was within 50% of the expenditure limit as of December 31, 2010. He noted that the medical examinations category has been further defined in order to provide additional detail. These expenses relate to disability retirement matters. There was discussion that additional clarity was needed on the pension obligation bond (POB) related payments to the County that are included in the budget. Staff will research this question and provide information at the next committee meeting.

Chair Bolger inquired about the status of overtime expense, and the Administrator stated that he expects the use of overtime to decrease through the end of the fiscal year. Bank charges were discussed, and the Administrator explained that testing for when MCERA takes over the retirement payroll with the implementation of CPAS created new bank fees. There will be ongoing fees for bank charges and the Fiscal Year 2011/2012 administrative budget will include a line-item expenditure for these costs.

Trustee Brenk inquired about sources of cash for retiree payroll. The Administrator explained that cash is drawn from the cash futures overlay program generally, as well as liquid real estate assets. Transition cash also provides for payroll liquidity, according to Senior Accountant Lisa Jackson. Trustee Brenk discussed the retiree payroll run-rate vis-à-vis percentage of assets, observing that the ratio looks reasonable to him.

Administrator Wickman stated that there were no additional CPAS expenses incurred as of now.

d. Reconciliation of MCERA administrative accounts

There was discussion that this item related to the 33011 account, which is being reconciled annually, according to Ms. Jackson. The account is the gross retiree payroll that is charged to MCERA monthly. Trustee Given said that he would provide a detailed report at the next meeting.

e. Vendor services provided to MCERA

The Administrator stated that vendor services include actuarial services, CPAS matters, and Brown Armstrong audits.

f. MCERA staffing status

Administrator Wickman stated that there are no new staffing issues.

g. Internal controls, compliance activities and capital calls

Administrator Wickman reviewed a legacy bond in the securities lending program. A history of the status of that security was presented. Chair Bolger observed that internal controls need to be bolstered to ensure proper notification to MCERA and its investment consultant when holdings fail to meet investment policy guidelines. The Administrator is working with the securities lending agent to determine if MCERA received proper notification when the bond failed to meet policy guidelines.

Counsel stated that the custodian has fiduciary responsibility and some discretion as to management of certain assets. Trustee Phillips observed that the securities lending program is a relatively small portion of the fund, and whether it is worth the time to research this issue is a question.

Chair Bolger expressed a desire to continue discussions on the matter at this Committee based on additional information, and to consider developing guidelines surrounding appropriate notice and direction to staff. The Administrator said that a securities rating report is available from State Street, and Trustee Phillips requested that it be provided for Committee review regularly. There was discussion by Trustee Given that the investment manager should make the decision to sell instead of holding.

Trustee Brenk recommended a review of the securities lending program by the Investment Committee.

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

No matters were reported.

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

Administrator Wickman discussed changing the way MCERA-held real estate is insured. Currently Woodmont Real Estate Services contracts with a third party to obtain a broker who will insure MCERA real estate. Administrator Wickman presented a recommendation to obtain insurance utilizing the services of Marin County's Risk Management program. The Administrator stated that direct access

through the County would provide economies of scale as well as access to specialized expertise. The program would be managed by Karol Hosking, County Risk Manager. Chair Bolger and Trustee Phillips recommended that the matter be presented to the Board.

Administrator Wickman presented information regarding potential currency pricing issues at State Street Bank. Trustee Phillips observed that the impact on the emerging markets portfolio which involves international securities would be minimal due to the fact that MCERA assets are in commingled funds. Trustee Phillips recommended the matter be presented to the Investment Committee and reviewed as a due diligence check.

The Administrator agreed to provide for a presentation at the next Investment Committee meeting.

Chair Bolger recessed the meeting for a break at 10:28 A.M., reconvening at 10:36 A.M.

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

C. NEW BUSINESS

3. Class Action Securities Litigation Monitoring Presentation from MCERA Custodial Bank

Chair Bolger introduced Karen Jacobs, Travis Calabio, and Paula Troy, representing State Street Bank. Ms. Troy reviewed class actions in general. She said that State Street files all class actions on MCERA's behalf. State Street utilizes multiple approaches to track potential class action securities litigation. Upon identification, research is conducted to determine the correct CUSIP (standard securities identification number), the holding class period or transaction period. Once verified, the class action is filed with notice to the Retirement Administrator, and documentation of receipt of claim. State Street became MCERA's custodial bank in October 2007. Class actions claims prior to this date are handled by the prior custodian Bank of New York Mellon. Ms. Troy reviewed a report of class action settlements since October 2007. She said of a total of 35 class actions have been filed since October 2007.

Chair Bolger reviewed the process by which class action participation is determined, and it was noted that the matter was contractual and followed the Class Action Securities Policy. The Committee accepted the class action filing process as appropriate.

A discussion ensued regarding State Street's role in determining foreign exchange rates for currency transactions. Based on the nature of MCERA's international equities investments, State Street stated that it plays no role in how foreign exchange rates are determined. Instead, State Street reported that the exchange process is controlled by MCERA's international equity managers and the banks they contract with for custodial services.

Trustee Phillips requested a presentation of all State Street custody procedures for the Board. Administrator Wickman recommended a presentation at the March 10 Investment Committee meeting.

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

1. Administrative Budget FY 2011-12

Consider draft of proposed Fiscal Year 2011/2012 Administrative Budget

Administrator Wickman reviewed the proposed Fiscal Year 2011/12 Administrative Budget. He reviewed salary and benefit expenses, which were developed based on the salary step levels that the employees would achieve during the upcoming fiscal year. The draft budget was also based on which extra hire would be made permanent, and the reallocation of certain positions to ensure proper classification. Mr. Wickman noted that the draft budget contains three positions to be re-classified and two extra hire positions to make permanent. Overall no additional staff are being added.

The Committee reacted favorably to the potential for resolving the extra-hire situation by making the existing staff permanent. Trustee Given requested an Organization Chart to show the current staffing model.

The Administrator discussed target goals in member services that would begin being tracked upon the completion of the CPAS implementation. Trustee Webb agreed that such standards and goals are appropriate, and Trustee Brenk concurred.

Trustee Gladstern joined the meeting at 11:15 A.M.

Mr. Wickman reviewed disability goals and communications goals, which include adding visibility to MCERA information, including financial information. Management goals include an audit of the actuarial valuation.

Mr. Wickman continued reviewing the proposed budget, including the increases due to the cost of benefits and a proposed audit of the actuarial valuation.

Trustee Given was excused from the meeting at 11:25 A.M.

Trustee Gladstern observed that health benefit administration costs cannot be charged to the trust. Mr. Wickman said that the amount in the budget represents the full cost of the single position that supports the administration of health benefits. Allocating this cost over a percentage of positions requires a more sophisticated cost accounting approach in order to capture the costs. Chair Bolger agreed that the Administrator's approach was reasonable, and that at such time as such costs become material, then the matter should be re-addressed.

Mr. Wickman continued, reviewing changes in the legislative limit on the administrative budget. Assembly Bill (AB) 609 created a new administrative cap based on .21% of

accrued liabilities. The draft budget is projected to only be .17% of the accrued liability. Mr. Wickman pointed out that reallocations in staffing do not have a material impact on the budget. The impact of CPAS depreciation upon implementation was discussed. Trustee Phillips observed that proper staffing is a long-term goal and that the Administrator's staffing proposals are appropriate. Mr. Phillips observed that the history of under-staffing of the organization stands to be addressed.

Trustee Brenk discussed the increased benefit cost as an overall percentage of the budget. Mr. Wickman reviewed how benefit costs were projected based on discussions with the County.

Chair Bolger commented favorably on the detail and thoroughness of the budget proposal.

It was M/S Phillips/Brenk to recommend bringing the proposed budget to the Board as a non-action item, subject to possible amendment of health care benefits based on the Administrator's evaluation. The motion was approved by unanimous vote.

2. 401(h) Agreement (Action)

Consider and make recommendation to Board on 401(h) agreement

Chair Bolger requested a summary review of the matter. Counsel advised that a critical component of the proposed draft agreement involves indemnification, and that a request had been made for a mutual indemnification provision in the contract, which was currently a stumbling block. Chair Bolger questioned continuing to negotiate a proposed agreement when the larger decision is whether to move forward with administering such a fund. Administrator Wickman requested direction on proceeding.

The Committee directed counsel not to have a mutual indemnification clause in the 401(h) agreement.

There was discussion about agendaing the matter as an education item at a later meeting.

There being no further business, Chair Bolger adjourned the meeting at 12:12 P.M.

Bernadette Bolger, Chair

Attest: Jeff Wickman, Retirement Administrator