

MINUTES

REGULAR BOARD MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

December 14, 2011 - 9 A.M.

EVENT CALENDER 9 A.M. Regular Board Meeting

CALL TO ORDER Chair Gladstern called the meeting to order at 9:10 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Given, Gladstern, Haim, McFarland, Phillips,
Richardson, Webb (retiree alternate)

ABSENT: None

MINUTES

It was M/S Bolger/McFarland to approve the Minutes of the November 2, 2011, Regular Board meeting as submitted. The motion was approved by unanimous vote.

It was M/S Haim/Brenk to approve the Minutes of the November 3, 2011, Investment Committee meeting as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Board regarding any agenda item when the Board considers the item.

Chair Gladstern recognized Board member James Phillips who is leaving the Board after 12 years of dedicated service. Fellow trustees praised Mr. Phillips for his professional leadership, wisdom, investment knowledge, and guidance through challenging periods.

Mr. Phillips thanked the Marin County Board of Supervisors for the honor of serving on the Retirement Board. He spoke to the value of public service, and expressed his belief in defined benefits plans and their ability to finance the plans through professional institutional investing. David Brown, from the Citizens for Sustainable Pension Plans, shared his group's recent experience with seeking nomination to the Retirement Board.

B. APPOINTMENT OF BOARD COMMITTEES

Appointment of Committees and Committee Chairs (**Action**)

Chair Gladstern made the following Committee appointments:

- ❖ Investment Committee
 - Chair Richardson
 - Members include all trustees
- ❖ Governance Committee
 - Chair Brenk
 - Members are Trustees Bolger, Gladstern, Haim, Mc Farland, Webb
- ❖ Finance and Risk Management Committee
 - Chair Bolger
 - Members are Trustees Brenk, Given, Gladstern, Richardson, Webb
 - Assimilates former ad hoc committee re new system risk program
- ❖ Communications and Member Service Committee
 - Chair Mc Farland
 - Members are Trustees Brenk, Gladstern, Webb
 - Assimilates former ad hoc committee re CPAS implementation
- ❖ Ad Hoc Education Committee
 - Chair Webb
 - Members are Trustees Bolger, Brenk, Gladstern, Richardson
- ❖ Ad Hoc Retirement Administrator Evaluation Committee
 - Chair Gladstern
 - Members are Trustees Brenk, Bolger, Webb

Remaining ad hoc committees remain the same. As the position of Assistant Retirement Administrator has been filled, the related committee has been discharged.

C. BOARD OF RETIREMENT MATTERS

1. Administrator's Report (Oral)

a. Administrator's update

Retirement Administrator Jeff Wickman and Trustees Brenk, Bolger, and Webb met with the Wellington portfolio manager, Campe Goodman.

Subscription agreements with core real estate managers UBS Realty Investors and Cornerstone Real Estate Advisors are completed.

Mr. Wickman discussed three separate Public Records Act requests for investment-related records to which MCERA is responding. The requests for Investment records came from Prequin, Ipreo and Pitchbook. Also, requests for records with retirement benefit information similar to previous requests are in process. The requests for

records with benefit information came from the Marin Association of Public Employees and Marin Independent Journal.

As there were no candidates nominated for the vacant Safety position during the October nomination period, a new election process has begun with a December 19 deadline to submit nominations. Voting ballots will be distributed to eligible members at the end of December, with the voting period at the end of January.

For the appointed successor to Trustee Phillips, applications are due to the Board of Supervisors on December 16.

b. Staffing update

The staffing plan is being implemented.

c. Facility Use Report

Woodmont negotiated the final building signage issues with Autodesk at One McInnis. Provisions include replacement of the Autodesk lobby sign and a new “monument” sign, identifying MCERA and Autodesk, at the corner of McInnis Parkway and Civic Center Drive.

Trustee Haim requested the Board consider a memorial plaque for trustees who have made significant contributions to the Retirement Board, if the cost of the plaque were not at the expense of the retirement system. Chair Gladstern suggested that consideration should be made to having a plaque that honored all former MCERA Trustees.

d. Future meetings

- January 3 Communications and Member Services Committee
- January 11 Regular Board
- January 12 Investment Committee

Chair Gladstern directed deliberations to **Agenda Item G.1.**

G. NEW BUSINESS

1. Experience Study Presentation (Action)

Consider and take possible action to adopt recommendations in Experience Study

David Brown from the Citizens For Sustainable Public Pensions read a letter advocating the use of only fixed income securities for the MCERA Fund. Mr. Brown argued that such assets would be more appropriate to fund risk-free defined benefit pension benefits with a lower assumed rate of return. Anything more risky would be a transfer of the cost of potential investment losses to the taxpayer.

Alexis McBride, Former President of Marin County Association of Retired Employees (MCARE), spoke in support of the MCERA defined benefit plan. Ms. McBride congratulated the Retirement Board for the Fund's long-term investment returns. She referred to a pension study referencing the benefits of pre-funded regular contributions that allow for dollar-cost averaging over time.

EFI Actuary Graham Schmidt presented the Actuarial Experience Study for the period July 1, 2008 through June 30, 2011. Mr. Schmidt explained that the Experience Study covers the economic assumptions used to finance the plan and compares the actual demographic experience in the plan on variables such as retirements rates against those that were expected to occur after the prior Experience Study. In response to a question from the trustees, Mr. Schmidt noted that EFI's recommendations on the investment return assumption are based on 10,000 simulation trials for repeated ten year periods. Trustee Haim asked about the purpose of the Experience Study. Mr. Schmidt explained that the study allows for the development of forward-looking assumptions that are necessary to fund a long-term plan. These assumptions are then evaluated over periodic intervals to determine whether adjustments are needed. Trustee Brenk, referring to market volatility, asked whether more frequent experience studies may be warranted. Mr. Schmidt commented that MCERA's three year review is a reasonable time frame and is shorter than other public plans across the country that typically use a five-year time frame.

Trustee Bolger discussed whether economic assumptions should be based first on asset allocation or the Experience Study, and Mr. Schmidt indicated that asset allocation is the initial basis for projections. In supporting the actuary's methodology, Trustee Haim said that as part of the California system there are obligations to the members and to plan sponsors to demonstrate that funding methods are rational.

At the request of the Board, Counsel Dunning reviewed the primary obligation of the Board, which is to the overall best interest of all members of the system. She stated that the Board's secondary duty under the California Constitution is to minimize employer contributions, which means collecting that which the Board deems is necessary to fund the promised retirement benefits on an actuarially sound basis, but no more. Furthermore, she added, there is a mandate in the California Constitution that the Board diversify plan investments unless it is not prudent to do so.

Mr. Schmidt stated that the structure of the defined benefit plan allows for the sharing of risk across generations. When Trustee Bolger requested empirical data to support the actuary's statement, Mr. Schmidt explained that the longer investment horizon of a defined benefit plan allows swings in the investment markets to be moderated over time, and inter-generational variations in cost are thus reduced.

Mr. Schmidt reviewed comparisons of demographic and other assumptions with experience. For retirement rates, assumptions were very close for both Miscellaneous and Safety members for total number of retirements across different ages. Therefore, there are no changes recommended for retirement rates.

Comparisons of termination rates and transfers also showed high correlation to assumptions. There was discussion about the potential effects of baby boomers working longer or layoffs. Mr. Schmidt stated that recently he has seen a trend showing higher termination rates due to layoffs, but he said this is not likely to affect long-term experience.

Disability retirement rates across all '37 Act systems are lower than expected, according to Mr. Schmidt. For Safety disability retirements, no adjustments are recommended; for Miscellaneous, a lower rate of disability retirement is recommended. Mr. Schmidt reviewed the expected impact of the recommended changes to demographic assumptions.

Trustee Richardson joined the meeting at 10:20 A.M.

For economic assumptions, the EFI recommendation is to reduce the assumed rate of return from 7.75% to 7.5%. EFI is also recommending a change in the inflation assumption from 3.5% to 3.25%. Mr. Schmidt explained that if both changes are adopted the real rate of return, which is the investment expectation adjusted for inflation, would remain at 4.25%. Trustee Bolger asked about the potential effect of using a 7.25% assumed rate of return. Mr. Schmidt indicated that employer contribution rates would rise, but that it falls within a reasonable range of assumptions. Mr. Schmidt reviewed the other two economic assumptions for wage and post-retirement COLA growth.

Trustee Brenk proposed adopting a 7.25% assumed rate of investment return, consisting of assumed inflation of 3.25% and an assumed real rate of return of 4.0%. Mr. Brenk's reasoning is that the economy will not be able to produce sufficient growth to support a higher real rate of return, due in part to relatively high levels of public and private debt. Trustee Bolger supported Mr. Brenk's proposal for a lower assumed real and total rate of return, as she does not believe it is a dramatic change and would provide for a better funded system.

Trustee Haim responded that he is more optimistic about the economy. Mr. Haim and Trustee Webb supported reliance on the actuary's professional judgment.

Based on discussions, Counsel Dunning advised that the '37 Act states that economic assumptions shall be based upon the recommendations of the Actuary, who may present a reasonable range of assumptions for the Board's consideration. Mr. Schmidt stated that Trustee Brenk's proposed assumed real and total investment return rates fall within a reasonable range.

Several trustees, including Chair Gladstern, supported the recommendations of the actuary as set forth in the Experience Study, given that the valuation is performed on a yearly basis, which allows for adjustments to assumptions and funding as may be appropriate at the time. Vice Chair Phillips characterized the proposed 0.5% move in

the assumed total investment return rate as reactionary and imprudent. Mr. Phillips reminded the Board that over the past 30 years, the Fund has earned a return that matches its assumed rates.

It was M/S Brenk/Bolger to adopt an assumed rate of return of 7.25%, consisting of a 3.25% inflation rate and 4.0% real rate of return.

- AYES: Bolger, Brenk, Richardson
- NOES: Given, Gladstern, Haim, McFarland, Phillips, Webb
- ABSTAIN: None
- ABSENT: None

It was M/S Haim/McFarland to adopt the Actuary's recommendations for economic assumptions as presented in the written report, and to adopt the Experience Study as amended per discussions.

- AYES: Given, Gladstern, Haim, McFarland, Phillips, Webb
- NOES: Bolger, Brenk, Richardson
- ABSTAIN: None
- ABSENT: None

Chair Gladstern recessed Open Session and directed deliberations to **Agenda Item E.1** in Closed Session. The Chair reconvened Open Session to report the Board's determinations.

E. DISABILITIES (TIME CERTAIN: 10 A.M.)

All disability applications are considered in Closed Session unless applicant specifically waives confidentiality and requests that his or her application be considered in Open Session. (Action)

<u>Applications to be Heard</u>	<u>Service/Non-Service Connected</u>	<u>Date of Application</u>	<u>Employer</u>
1. Ruben Martin	Service	9/19/11	Marin County Fire Dept.
Initial consideration of an application for service-connected disability retirement filed by a Safety member.			

The Board granted the application for Ruben Martin's service-connected disability retirement by unanimous vote.

Chair Gladstern directed deliberations to **Agenda Item C.2.b.**

2. Committee Reports

b. Governance Committee

1. Reciprocity Policy (Action)

Consider and take possible action on Governance Committee's recommendation to adopt Policy Regarding Reciprocal Members' Final Compensation Determinations

Governance Committee Chair Brenk reviewed provisions of the Reciprocity Policy which sets forth the process of retirement benefit calculations for reciprocal members. Administrator Wickman said that for reciprocal members, pay will be reviewed to determine what items are appropriately included in, and excluded from, pensionable wages based on MCERA rules. Chair Gladstern observed that, as a result, the Policy will guard against spiking.

Based on the action of the Governance Committee, Chair Brenk recommended that the Board adopt the Policy Regarding Reciprocal Members' Final Compensation Determinations as submitted. The motion was approved by unanimous vote.

2. Corporate Governance Policy Review (Action)

Consider and take possible action on Governance Committee's recommendation to revise Corporate Governance Policy

The Retirement Administrator stated that, based on review of the Corporate Governance Policy, staff recommends adjusting the Policy review period to the three-year standard.

Based on the action of the Governance Committee, Chair Brenk recommended that the Board adopt amendments to the Corporate Governance Policy as submitted. The motion was approved by unanimous vote.

3. Disability Retirement Processing Agreement with Other CERL System (Action)

Consider and take possible action on potential Board agreement with another local CERL system re disability retirement application processing

Committee Chair Brenk explained that the proposed agreement would be between MCERA and the Sonoma County Employees' Retirement Association (SCERA) to allow each system to conduct the initial research for a disability application when the application was for a former trustee or association staff member. This would address any appearance on conflict of interest for the association that the individual was previously connected to. Mr. Wickman discussed indemnification language recommended by the SCERA disability committee.

It was M/S Given/Brenk to adopt the Disability Retirement Application Processing Agreement (Marin CERA – Sonoma CERA) as submitted. The motion was approved by unanimous vote.

Chair Gladstern directed deliberations to **Agenda Item C.2.a.**

a. Finance and Risk Management Committee

1. Administrative Budget FY 2011/12 Quarterly Review

Consider and review budget for quarter ending September 30, 2011

Finance and Risk Management Committee Chair Bolger stated that the Committee reviewed the budget and there were no concerns.

2. Quarterly Checklist

Consider and discuss Committee quarterly checklist deliberations

The Committee's review of the quarterly checklist resulted in no concerns.

3. Experience Study Preview

Review and discuss preliminary Experience Study

See discussion for Agenda Item G.1.

4. System Risk Quarterly Review

Review and discuss quarterly system risk report

Trustee Bolger reviewed results of the initial quarterly system risk review presented by SF Sentry to the Finance and Risk Management Committee meeting. During the presentation, the committee discussed the benchmarks currently being used for the international portfolios, the duration for mortgage bonds, and real estate valuations. The initial review showed that commingled funds have risk in the underlying assets, according to Trustee Bolger, and that the Artisan portfolio has the highest risk profile.

Trustee Haim questioned the process of using an outside consultant to assess risk, and he discussed the potential for legal liability if actions were not taken to address identifiable risks. Counsel Dunning responded that as issues are raised, there should be follow-up. Trustee Phillips indicated that the studies fall within the due diligence process. Trustee Given stated that these items are not conclusions but are intended as discussion points. Trustee Haim stated that the study results are a matter of record and he sought confirmation of follow-up with the investment consultant.

Mr. Wickman stated that the review is intended to allow for a better understanding of the portfolio. The Finance and Risk Management Committee is charged with reviewing the results and determining those issues to bring to the Board for potential follow up.

The system risk studies are scheduled to be presented quarterly by SF Sentry to the Finance and Risk Management Committee. Trustee Haim requested a review by staff of potential legal issues about the system risk reports.

5. Commission Recapture

Review and discuss MCERA's existing commission recapture program.

The Committee's requested information about the structure of MCERA's commission recapture program; in particular whether ending the program would create negative impacts for the one manager participating in the program: RCM. Administrator Wickman discussed the matter with RCM who indicated that ending the program would not negatively impact its ability to trade and could be expected to enhance returns. Committee Chair Bolger and Investment Committee Chair Richardson agreed to direct staff to eliminate the program.

Chair Gladstern directed deliberations to **Agenda Item C.2.c.1.**

c. Ad Hoc CPAS Committee Report

1. Project Status Update

Mr. Wickman stated that progress has been made toward implementation of the CPAS system.

The active (employer) payroll processes have been reconciled, corrected and posted with positive results. Benefit calculations, service purchases, estimates and other benefit-related calculations are functioning properly in the system as long as there are no known data discrepancies.

October and most of November benefit calculations have been entered into CPAS. Retirement payroll for October was run, validated, reconciled with SAP payroll and successfully posted. November payroll is ready for trial. Vendor payroll has been generated and reconciled with SAP vendor payments. December benefit calculations will be completed in the next two weeks with a planned payroll run at the end of the month. If the results from the parallel payrolls remain positive, retirement payroll for January 2012 will be run from the new system.

To address known issues, one more build is scheduled for December 23rd. CPAS will perform fixes under the current warranty. To provide for sufficient follow-up support from CPAS, Mr. Wickman is recommending revising the yearly maintenance agreement to increase the number of support hours available to MCERA. Several trustees concurred with Trustee Phillips' assessment that adequate support is paramount since continuing issues are to be expected.

Mr. Phillips expects CPAS to be a great benefit to MCERA, and he supported folding it into the purview of the Communications and Member Services Committee. Trustee Haim expressed appreciation to Trustee Phillips for his

efforts on the CPAS implementation. Mr. Wickman commended Helen Moody, Assistant Retirement Administrator Michelle Hardesty, and the benefits team for their hard work to implement the system.

Chair Gladstern commented that the first retiree paychecks will be issued at the end of January, and the newsletter will include an overview of the new system to help retirees attain a comfort level with associated changes.

Trustee Brenk discussed planning for potential catastrophic failure of the system, and the Administrator stated that immediate response is available from CPAS. Options for subsequent potential system failures were discussed, including development of a fail-safe backup and duplicating the prior month's payroll. Also considered were change control procedures and control over access points.

3. Trustee Comments

Trustee Phillips encouraged fellow trustees to participate in due diligence visits to investment managers, which he recommended conducting with each manager every two years.

Trustee Haim attended the retiree lunch with Chair Gladstern and Trustee Webb and received positive feedback about MCERA from retirees.

Chair Gladstern was appointed Chair of the SACRS Bylaws Committee.

Trustee Webb, Chair of the Ad Hoc Education Committee, invited suggestions for topics for the Spring Strategic Workshop, and he proposed a committee meeting in the near future. Trustee Brenk requested a change in the date for the Workshop.

D. LEGAL MATTERS

1. Conference with Legal Counsel – Anticipated Litigation

Consider initiation of litigation pursuant to subdivision (c) of Government Code section 54956.9: one potential case.

Mr. Wickman first noted that review of this topic in closed session was not necessary at this time. He then described communications MCERA had received from Marin County regarding the unauthorized release of payroll information in 2007. MCERA mailed a letter to retirees with the information provided by the County and will continue to facilitate communications if additional information becomes available. To date, according to Mr. Wickman, there is no known occurrence of misuse of the information.

Trustee Haim discussed potential responsibilities and risks. Based on discussions and the recommendation of Trustee Brenk, the Board directed Mr. Wickman to communicate MCERA's advocacy of retiree interests on the matter to Marin County.

F. OLD BUSINESS

None.

Agenda Item G, NEW BUSINESS, continued.

2. Accessibility of Records Policy (Action)

Consider and take possible action to amend notice provision of Accessibility of Records Policy

Mr. Wickman presented amendments to the Accessibility of Records Policy to revise the notification provisions associated with the release of non-confidential information on retirement system records. Staff and counsel recommend that the Policy be updated to reflect the published decision in recent California Public Records Act cases. These decisions do not require individualized notice to be provided as to requests for non-confidential member records. In addition, staff time and expense is incurred as a result of the Records Policy's broad notice provision. The Administrator recommended continuing notification for requests for information on individuals who are identified by name.

It was M/S Richardson/Bolger to adopt amendments to the Accessibility of Records Policy as submitted.

Discussion of the motion included Trustee Haim's concern about potential legal ramifications. Counsel Dunning stated that the proposed notification requirements do not present such a concern to MCERA.

Trustee Richardson revised his motion to include amendments per discussions. The motion was approved by unanimous vote.

3. Board Meeting Calendar for 2012 (Action)

Consider and take possible action to approve Board meeting calendar

It was M/S Brenk/McFarland to approve the Board Meeting Calendar for 2012. The motion was approved by unanimous vote.

4. Investment Committee Meeting Calendar for 2012 (Action)

Consider and take possible action to approve Investment Committee meeting calendar

It was M/S Brenk/McFarland to approve the Investment Committee Meeting Calendar for 2012. The motion was approved by unanimous vote.

5. Due Diligence

Consider and discuss investment manager and related site visits in 2012

Retirement Administrator Wickman presented a proposed schedule for due diligence site visits of investment managers for 2012. Trustee Phillips supported continuing due diligence site visits of investment managers.

6. Future Meetings
Consider and discuss agenda items for future meetings

No discussion.

H. INVESTMENT INFORMATION

“X” indicates report distributed; * indicates report distributed electronically

PERIODIC REPORTS

1. Equities and Fixed Income

	Abbott Capital	-Private Equities Fund	
* X	Artisan Funds, Inc.	-International Equities Fund	
* X	The Clifton Group	-Futures Overlay Program	
* X	Columbus Circle Investors	-Small Cap Growth Portfolio	
* X	Dimensional Fund Advisors	-Small Cap Value Fund	
* X	Dodge & Cox	-Large Cap Value Portfolio	
	Eaton Vance	-Emerging Markets	
* X	Morgan Stanley	-International Equities Fund	
* X	Pathway Capital	-Private Equities Fund	
* X	Pyramis Global Advisors	-International Small Cap Equity Fund	
* X	RCM	-Large Cap Growth Equities Portfolio	
* X	State Street Global Advisors	-S&P 500 Flagship Non-Lending	
	Wellington Management	-Core Domestic Fixed Income Portfolio	
	Western Asset Management	-Core Plus Domestic Fixed Income Portfolio	

2. Real Estate

	X Woodmont Realty Advisors	-Direct ownership – Monthly report	
* X	AEW Capital Management	-Value Added Portfolio	Quarter
* X	Clarion Partners	-Core	Quarter
* X	RREEF	-Value Added Portfolio	Quarter
* X	Woodmont Realty Advisors	-Direct Ownership	Quarter

3. Other

I. OTHER INFORMATION

1. Trustee Training Calendar

Based on the interest expressed by Trustees Brenk and Mc Farland, the Board considered approving their attendance at the DFA annual symposium.

It was M/S Richardson/Bolger approve the DFA 2012 Annual Institutional Symposium for attendance by Trustees Brenk and Mc Farland. The motion was approved by unanimous vote.

2. Keeping in Touch – December Issue, Retired Employees Association newsletter

J. CONSENT CALENDAR (Action)

It was M/S Haim/Bolger to approve the Consent Calendar as amended. The motion was approved by unanimous vote.

<p style="text-align: center;">CONSENT CALENDAR for MCERA MEETING, WEDNESDAY, DECEMBER 14, 2011</p> <p style="text-align: center;">CONSENT CALENDAR November 2011</p> <p style="text-align: center;">RETURN OF CONTRIBUTIONS</p>		
Armando Alegria	County of Marin	121.33
Tina Azmoudeh	County of Marin	12,223.86
Malini Nijagel	County of Marin	36,485.25
Jon Roberts	County of Marin	13.10
Adam Velez	County of Marin	2,017.31
Kristina Sisseck	City of San Rafael	2,669.13
TOTAL		53,529.98\$
BUYBACK		
Sandra Esteves-Guidi	County of Marin	
Lynne Foster-Liebmann	County of Marin	
Jeannie Hughes	County of Marin	
Paula Robertson	County of Marin	
NEW RETIREES		
Farhad Mansourian	DPW	County of Marin
Edward Megia	CDA	County of Marin
Susan Catalano	H&HS	County of Marin
Patricia Guthrie	H&HS	County of Marin
Kimberly Pitman	H&HS	County of Marin
Melanie Wice	H&HS	County of Marin
Peter Lake	Sheriff	County of Marin
Marina Cassimus	Probation	County of Marin
Brandy Carrier		Courts
Sabrina Olson		City of San Rafael
Barbara Denson		Southern Marin Fire
RESCINDED RETIREMENTS		
DECEASED RETIREES		
Doris Crittenden	H&HS	County of Marin
June Mead	H&HS	County of Marin

Toni Poague	H&HS	County of Marin
Melvin Galli	DPW	County of Marin
Charles Zaro	DPW	County of Marin
Patricia Davidson	IST	County of Marin

CONFERENCES/SEMINARS

SACRS

Trustees Brenk, Gladstern, McFarland, Richardson, Webb
 Administrator Wickman; Counsels Dunning, Faulkner, Richardson

Trustee Bolger discussed with Mr. Wickman the nature of the proposed adjustment to the structure of payments to trustees to include tax withholding.

There being no further business, Chair Gladstern adjourned the meeting at 12:56 P.M.

Maya Gladstern, Chair

Gregory Brenk, Secretary