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

November 29, 2012 – 9 A.M.

CALL TO ORDER Chair Bolger called the meeting to order at 9:02 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Given, Gladstern, Richardson, Webb

ABSENT: Cooper, Stevens

MINUTES
It was M/S Richardson/Brenk to approve the August 23, 2012, 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. Administrative Budget FY 2012/13 Quarterly Review
Consider and review budget for quarter ending September 30, 2012

Retirement Administrator Jeff Wickman reviewed the administrative budget for the quarter ending September 30, 2012. Mr. Wickman addressed charges for the financial audit conducted by Brown Armstrong and new staff training opportunities designed to expand staff skills and knowledge. Mr. Wickman noted that one extra hire was brought back to complete document scanning. Challenging medical cases requiring multiple independent medical examinations increased medical transcription expenses. Trustee Given observed that major budget categories are on track.

For non-administrative items, the majority of legal fees were attributable to the work necessary to analyze and implement the provisions of the Public Employees' Pension Reform Act (PEPRA). Chair Bolger remarked that the fact that MCERA has generally not been impacted by law suits shows that having counsel involved in policy matters has been a proactive step.

Chair Bolger directed deliberations to **Agenda Item C.1** at 9:15 A.M. (See below for continued discussions on **Agenda Item B.1**.)

C. NEW BUSINESS

1. Structure of Investment Vehicles – Scott Johnson and Ellen Marshall, Manatt, Phelps & Phillips (TIME CERTAIN: 9:15 A.M.)
   Consider and discuss legal aspects of investing in mutual funds, fund of funds, and other commingled vehicles

   Ashley Dunning of Manatt, Phelps & Phillips ("Manatt"), introduced by conference call colleagues Scott Johnson and Ellen Marshall who explained the legal features of various types of pooled investment vehicles. Ms. Marshall reviewed the advantages of investing in mutual funds, including broad exposure to markets such as the emerging markets that provides the expertise needed to follow political and economic environments in those markets. Most mutual funds are structured as Registered Investment Companies (RICs), she stated. Disadvantages of mutual funds may include limited access to managers and potential mission creep.

   In response to Chair Bolger 's inquiry, Ms. Marshall stated that the Eaton Vance tax-managed emerging markets equity mutual fund fees include an annual fee based on asset size, a 2% redemption fee, SEC fees including 12b (1) fees of about 0.25%, and filing fees. Eaton Vance also has a Collective Investment Trust (CIT) vehicle that has no redemption fee and no SEC fee since it is regulated under banking laws. Ms. Marshall explained that CITS are typically used for stable value funds that use daily trading to track an index. Trustee Richardson inquired about the prospect for having the redemption fee waived if the fund alters its mission, and Ms. Marshall indicated there should be recourse under those circumstances.

   Scott Johnson discussed private limited partnerships, such as MCERA's portfolios managed by AEW, Abbott Capital Management, Pathway Capital Management, and UBS. Mr. Johnson stated that the advantage of these private contracts is that they may be tailored to suit MCERA's needs. For example, the general partner can enter into side letters establishing special rights such as the fiduciary acknowledgement and most favored nation status. Other advantages may be economies of scale and greater diversification of investment types and risks, he stated. A primary risk of private limited partnerships, he stated, is illiquidity; since there is no public market, the expectation is to remain invested for the life of the partnership over 8 to 15 years. Other risks listed by Mr. Johnson include confidentiality demands of general partners and attempts by some general partners to limit contractually their liability to limited partners. According to Ms. Dunning, the presence of the fiduciary acknowledgment may operate to balance that latter risk.

Chair Bolger directed deliberations to **Agenda Item C.2**.

2. Eaton Vance Investment Management Fee (**Action**)
   Review and discuss the fees for MCERA's tax-managed mutual fund investment as compared to the Eaton Vance collective separate trust vehicle.

Mr. Wickman presented information comparing the difference in fees of the two Eaton Vance Emerging Markets investment vehicles. According to the analysis, it would take 20 years to recoup the 2% redemption fee of the tax-managed mutual fund. Advantages to the existing MCERA investment with Eaton Vance include its longer track record and larger asset base, according to Mr. Wickman.

Anne Heaphy of Callan Associates stated that redemption fees are not uncommon and the CIT vehicle will always be more expensive.

There was general agreement with Chair Bolger's recommendation to retain the current Eaton Vance mutual fund emerging markets investment vehicle due to the long recovery period of the 2% redemption fee. Monitoring its performance as compared to the CIT vehicle was requested by Trustee Gladstern, and discussions included the potential for a new share class.

It was M/S Given/Richardson to direct Retirement Administrator Wickman to write a letter to Eaton Vance discussing the troubling nature of the 2% redemption fee and the possibility of adding an institutional share class. In addition, Callan Associates will maintain a performance chart comparing the CIT to the tax managed fund on a gross and net basis. The motion was approved by unanimous vote.

Chair Bolger directed deliberations to continuation of **Agenda Item B.1**, **Administrative Budget FY 2012/13 Quarterly Review** at 10:14 A.M.

With the assistance of Manatt, Mr. Wickman is reviewing the State Street custodial contract (extended through December) prior to renewal. Current negotiations with State Street are supportive of several changes to the contract, including a fixed fee which would provide some cost savings compared to the current agreement.

2. <u>Quarterly Checklist</u>
   Consider, review and updates on the following:
   a. MCERA educational and event-related expenses

      Attendance by staff at educational seminars was noted.

   b. Other expenses per Checklist guidelines

      Other expenses include FedEx delivery of Board and committee meeting packets and publishing the quarterly newsletter.

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

      No discussion.

   d. Reconciliation of MCERA administrative accounts

Mr. Wickman and Senior Accountant Lisa Jackson are meeting regularly with the Marin County Finance Department to discuss reconciling the administrative accounts. A plan is being prepared for how the historical accounts will be reviewed and reconciled by the Finance Department with MCERA's assistance.

e. Vendor services provided to MCERA

There are no new vendor contracts. Mr. Wickman reported that SF Sentry received Registered Investment Advisor status.

f. MCERA staffing status

There have been no staffing changes, according to Mr. Wickman.

g. Internal controls, compliance activities and capital calls

Capital calls for the quarter include additional calls by Abbott and Pathway.

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

No discussion.

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

Marin County deposited an additional $32 million toward its pension liability.

NEW BUSINESS, continued

3. Review of Securities Litigation Monitoring Firms
Consider engaging new securities litigation monitoring services

In 2008 the Board engaged two securities litigation monitoring firms that provide, at no cost, regular reporting to MCERA and make recommendations on taking the lead plaintiff role. Mr. Wickman requested direction from the Committee to determine whether or when an RFP might be issued for the service in order to inform other firms seeking to provide these services to MCERA. In response to Trustee Brenk's inquiry, the previous search process was reviewed.

Ms. Dunning noted that a time frame could be established for a potential RFP, for example, in one or three years. She also stated that international experience would be important in view of the *Morrison* decision.

Trustee Gladstern spoke to the value of having two firms to reduce the self-interest factor. Trustees Brenk and Webb recommended considering providers that have international expertise. Trustee Given proposed inquiring about the international experience of current providers, in addition to setting criteria before considering other firms. Trustee Richardson expressed satisfaction with the current service providers.

Chair Bolger recommended retaining the current service providers for domestic services and directed staff to inquire about the international experience of current service providers.

There being no further business, Chair Bolger adjourned the meeting at 11:05 A.M.

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Bernadette Bolger, Chair	Attest: Jeff Wickman, Retirement Administrator