

MINUTES

BOARD GOVERNANCE COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

February 27, 2013 – 9 A.M.

CALL TO ORDER Chair Stevens called the meeting to order at 9:05 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Cooper, Gladstern, Stevens, Webb

ABSENT: McFarland

MINUTES

It was M/S Bolger/Gladstern to approve the October 22, 2012, Governance Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

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

No public comment.

B. OLD BUSINESS

C. NEW BUSINESS

1. Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances Policy (Action)

Consider and possibly recommend to Board adoption of policy regarding optional form factors used to calculate modified retirement and survivor allowances

Retirement Administrator Wickman stated that the Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances Policy was developed subsequent to discussions about cost-of-living adjustments (COLAs) with respect to modified survivor allowances. The policy sets forth the determination of actuarial equivalence between a member's unmodified retirement allowance and modified retirement and survivor allowances.

Actuary Graham Schmidt of Cheiron-EFI explained that the goal of the policy is that modified benefits have no effect on the actuarial value of the Plan. To this end, mortality tables and interest rate assumptions used in actuarial equivalence determinations align with those adopted in the annual actuarial valuation. Mr. Schmidt stated that new mortality rates effective July 1, 2013, reflect the better-than-average health of the Plan's population.

Counsel Dunning discussed the alignment of the policy to the County Employees Retirement Law (CERL, or '37 Act) noting that if the actuary identified an issue as a result of survivor allowance experience and the COLA, those impacts could be factored into the future calculation of normal cost of the COLA.

In conclusion, Mr. Schmidt stated that since modified retirement and survivor allowances are not commonly used by most Plan participants, their effect on the Plan cost is minimal.

It was M/S Gladstern/Cooper to recommend that the Board adopt the Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances Policy as submitted. The motion was approved by unanimous vote.

2. Actuarial Economic Assumptions Policy (Action)
Consider and possibly recommend to Board updates to policy

Mr. Wickman stated that the policy on economic assumptions has been revised to include a reference to the California Public Employees' Pension Reform Act (PEPRA) and to update the valuation date.

It was M/S Brenk/Gladstern to recommend that the Board adopt updates to the Policy Regarding Adoption of Actuarial Economic Assumptions as submitted. The motion was approved by unanimous vote.

3. Investment Committee Charter (Action)
Consider and possibly recommend to Board updates to charter clarifying role of alternate trustees on the Investment Committee

Mr. Wickman stated that revisions to the Investment Committee Charter make clear that the committee meets six times per year. In addition, the role of alternate members on the committee is clarified with respect to forming a quorum and voting procedure.

It was M/S Bolger/Gladstern to recommend that the Board adopt updates to the Investment Committee Charter as amended. The motion was approved by unanimous vote.

Chair Stevens directed deliberations to **Agenda Item C.5.**

5. Trustee Education Policy (Action)
Consider and possibly recommend updates to policy regarding education requirements

Mr. Wickman explained that updates to the Trustee Education Policy clarify the reporting of education credit that must be attained every two years. Discussions included the educational programs listed in the policy and the experience of Board members at individual conferences. Trustee Brenk sought and received clarification by Mr. Wickman and Counsel Dunning on policy provisions.

It was M/S Bolger/Gladstern to recommend that the Board adopt updates to the Trustee Education Policy as amended. The motion was approved by unanimous vote.

6. Due Diligence Policy (Action)
Conduct standard policy review

Chair Stevens conducted a review by the Committee of provisions in the Due Diligence Policy. Ms. Stevens addressed the provision for investment managers to appear before the Board on an annual basis. In 2013 a new format is planned for annual manager reports in the form of panel discussions at the Board's semiannual strategic workshops, according to Mr. Wickman.

The logistics and timing of questionnaires provided to managers for due diligence site visits were discussed by Mr. Wickman in response to Ms. Stevens' inquiry. For prospective managers, Mr. Wickman explained that Callan Associates conducts due diligence prior to the manager appearing before the Investment Committee. Committee members expressed an interest in reviewing the reports resulting from the investment consultant's visits.

Discussions included an explanation by Counsel Dunning of the quiet period that commences once prospective managers are being considered when separate discussions between trustees and prospective managers are prohibited.

It was M/S Bolger/Gladstern to recommend that the Board accept the review of the Due Diligence Policy. The motion was approved by unanimous vote.

7. Facility Use and Reservation Policy (Action)
Conduct standard policy review

Mr. Wickman reviewed provisions in the facility use policy and how the facility at One McInnis Parkway is being used. Upon discussion the Committee determined the facility use and policy were reasonable.

It was Bolger/Brenk to recommend that the Board accept the review of the Facility Use and Reservation Policy. The motion was approved by unanimous vote.

8. Electronic Device Policy

Mr. Wickman explained that the Portable Electronic Device Policy was developed in support of the electronic board packet project. Policy provisions, he stated, are designed to limit use of electronic devices to MCERA business. Ms. Dunning emphasized the importance of the policy's prohibited uses section.

In response to Trustee Bolger's inquiry regarding disclosure of the electronic format of confidential packet information, Ms. Dunning explained that the '37 Act allows systems to determine how to provide for the required confidentiality of certain information. Ms. Dunning further stated that the policy provides for sufficient disclosure on the form of information.

It was M/S Cooper/Webb to recommend that the Board adopt the Portable Electronic Device Policy as amended. The motion was approved by unanimous vote.

9. Next Committee meeting

Consider possible agenda topics, including without limitation, proxy voting policies, and set date for next meeting.

No discussion.

Chair Stevens directed deliberations to **Agenda Item C.4.**

4. Environmental-Social-Governance – William McGrew, CalPERS
TIME CERTAIN: 11 A.M.
Educational presentation on social considerations for investments

Mr. Wickman thanked William McGrew, Portfolio Manager in the CalPERS Investment Office, for returning to the Governance Committee to provide further information on mechanisms and considerations surrounding Environmental-Social-Governance (ESG) matters.

Mr. McGrew presented an overview of the Global Governance Program at CalPERS. CalPERS has established principles, policies and structures for dealing with ESG matters, he stated. Further ESG resources recommended by Mr. McGrew include policies developed by the Council of Institutional Investors (CII) and collaboration with groups such as the Los Angeles Trustees Roundtable.

Mr. McGrew stated that the CalPERS Statement of Investment Policy Regarding Divestment provides a framework to protect the system and its beneficiaries for the long term, regardless of the makeup of the Board or administration. The policy requires completion of a fiduciary analysis prior to divestment from certain assets to determine the effect on the ability of the portfolio to reach its return objective. Criteria for evaluating core issues include materiality, principles, capacity, and timeliness. For example, the capacity factor addresses limits to the resources available to address ESG concerns. Disclosure of these processes allows the public to gain a better understanding of the factors that need to be considered when evaluating ESG concerns, according to Mr. McGrew.

Alternatives to divesting include using the systems' financial leverage to engage Boards of Directors as a catalyst for change. Explaining that the list of companies doing business in politically unfavorable places is long, Mr. McGrew provided an example of constructive engagement with a major construction firm as an alternative to divestment.

In conclusion, Mr. McGrew explained that the development by CalPERS of divestment policies was in response to losses suffered by the CalPERS Fund as a result of divesting from tobacco stocks. Mr. McGrew noted that CalPERS does not hold external investment managers to the same ESG standards as internal investment managers.

Mr. McGrew responded to trustee inquiries on ESG matters. Trustee Cooper expressed a preference for emphasizing principle over materiality. Mr. Wickman observed that CalPERS follows an evaluation process based on its divestment policy, core governance issues, and principles for responsible investment that staff will use to develop a similar structure for evaluating ESG matters.

On June 7, 2013, a sustainable investment research symposium will be sponsored by CalPERS at the University of California at Davis.

There being no further business, Chair Stevens adjourned the meeting at 12:17 P.M.

Kim Stevens, Chair

Attest: Jeff Wickman
Retirement Administrator