

MINUTES

REGULAR BOARD MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

March 13, 2013 - 9 A.M.

EVENT CALENDAR 9 A.M. Regular Board Meeting

CALL TO ORDER Chair Bolger called the meeting to order at 9:00 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Cooper, Given, Gladstern, McFarland,
Shaw (ex officio alternate), Smith, Stevens, Webb
(alternate retiree)

ABSENT: Piombo (alternate safety), Richardson

MINUTES

It was M/S Gladstern/Stevens to approve the February 13, 2013, Regular Board Meeting Minutes as amended. 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.

Josh Thomas, MCERA retiree, addressed the Board to raise his concern on the decision by CalPERS to increase premiums for the long term care program. Mr. Thomas referred to his letter to Board requesting that MCERA consider whether members were misled by CalPERS publications regarding the conditions under which premiums would be raised. In the letter and at the meeting, Mr. Thomas requested that MCERA “undertake to not only establish whether the California Public Employees’ Retirement Association properly managed the Long Term Care Program, but regardless, to establish that the Cal PERs Retirement System is obligated to make sufficient funds available to the Program to protect its members and maintain its financial stability.”

Mr. Thomas also requested that the Board ask the Retirement Administrator to contact other ’37 Act systems and together with them object to the premium increase.

Chair Bolger thanked Mr. Thomas for bringing the matter to the attention of the Board.

Trustee Given joined the meeting at 9:16 A.M.

Trustee Smith expressed his concern for those bearing the proposed increase in premiums of the CalPERS Long-Term Care program, and requested that the Chair agendaize this topic for review by the MCERA Board.

B. MATTERS OF GENERAL INTEREST

1. Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions, overview – Cheiron EFI, Graham Schmidt (TIME CERTAIN: 9:05 A.M.)

Review the changes to financial reporting for pensions adopted by GASB that go into effect June 30, 2014.

Actuary Graham Schmidt of Cheiron EFI introduced colleague William Hallmark as an expert on the impacts of the new GASB rules.

Mr. Hallmark presented an analysis of GASB Statements 67 and 68. He noted that GASB sets financial reporting requirements for public retirement plans and their employer sponsors. According to Mr. Hallmark, GASB 67 which relates to pension plans will first apply in June 2013, and GASB 68 relating to employers, a year later. The focus of the new rules is on the financial balance sheet of plan sponsors. Mr. Hallmark noted that the changes would separate funding requirements from the accounting requirements, with GASB rules governing accounting requirements only. He also noted the changes would establish uniform methods for accounting purposes, including faster recognition of gains and losses, assumption changes and benefit changes.

Mr. Hallmark reviewed new terminologies such as Total Pension Liability and Net Pension Liability, which will be reported on the balance sheet of plan sponsors. Data will be based on the market value of assets and liabilities at the end of the Plan year, and will therefore require coordination of timely financial information between the Plan and its sponsors, he said.

Mr. Hallmark discussed the depletion test that will be used to determine whether the system's discount rate is acceptable for purposes of the Plan's financial statements, or whether a blended rate must be used. The intent of the test is to address plans for which liabilities are inadequately funded, according to Mr. Hallmark.

In light of the new GASB rules Mr. Schmidt recommended that the Board consider a few potential changes to MCERA's actuarial funding methodologies for the June 30, 2013 valuation. Among the items discussed by Mr. Schmidt were reviewing the amortization period and adjusting the mechanism for how administrative expenses are charged. Mr. Wickman noted that these items would be best addressed in October at the Board's Strategic Workshop where the Board can consider all the economic assumptions used to develop the June 30, 2013 valuation, and can develop a separate funding policy as recommended by the actuary at that time.

Mr. Schmidt reviewed the guidelines published by the California Actuarial Advisory Panel (CAAP). The guidelines are based on the principles of intergenerational equity and how to meet funding objectives utilizing specific policies and actuarial cost methods. Mr. Schmidt reviewed the CAAP transition practices which are meant to prevent disruptions in contribution rates if a system decides to move toward a specific CAAP recommended guideline.

2. Draft Administrative Budget FY 2013/14 (Action)

Consider and take possible action on Finance and Risk Management Committee's recommendation to adopt administrative budget for the next fiscal year

Mr. Wickman presented the proposed administrative budget for the fiscal year beginning July 1, 2013. Senior Accountant Lisa Jackson was commended by the Retirement Administrator for her work in preparing the budget. In addressing significant changes to the budget from the prior year, Mr. Wickman stated that salary and benefits comprise 60% of the budget. The increase in the proposed budget was largely related to increased costs of benefits over the last fiscal year. Mr. Wickman noted that staff salaries were budgeted at the top step in their pay categories. Budget priorities for the next year were reviewed – notably, the incorporation of PEPPRA provisions into the benefit management system. Another milestone planned is automated tracking of performance measures. In the communications area publication of an updated employee handbook is planned. During the coming fiscal year requests for proposals for a number of services will be issued and considered.

In summary, Mr. Wickman stated that the proposed administrative budget of \$3,417,991 is 16 basis points of the accrued actuarial liability. This is 5 basis points lower than the allowed administrative cap of 21 basis points. Mr. Wickman acknowledged the Finance and Risk Management Committee for its conscientious oversight of the budget. Trustee Brenk commended staff for analyzing and making appropriate adjustments to historical expenses.

Based on the action of the Finance and Risk Management Committee, Finance and Risk Management Committee Chair Brenk recommended that the Board adopt the Administrative Budget for Fiscal Year 2013/14 as submitted. The motion was approved by unanimous vote.

C. BOARD OF RETIREMENT MATTERS

1. Administrator's Report (Oral)
 - a. Administrator's update

Mr. Wickman reported that the work load in March and April will increase due to a higher than typical number of members retiring.

UBS announced that it will make a capital call of \$15 million in April for MCERA's investment in the Trumbell Property Fund.

One Public Records Act request was received from BrightScope for a list of MCERA assets by manager.

Mr. Wickman reminded the trustees that the upcoming Strategic Workshop will include discussions with MCERA's equity and fixed income managers.

Staff met recently with the City of San Rafael's Pension Subcommittee to discuss actuarial building blocks.

Michelle Hardesty and Syd Fowler have been attending the Marin County brown bag sessions on PEPRA.

b. Staffing update

No report.

c. Facility Use Report

The training room is in use by Marin County Health and Human Services.

d. Future meetings

- March 14 Investment Committee
- March 20-21 Strategic Workshop
- April 10 Regular Board

2. Standing Committee Reports

a. Finance and Risk Management Committee

1. Administrative Budget FY 2012/13 Quarterly Review

Consider and review budget for quarter ending December 31, 2012

Finance and Risk Management Committee Chair Brenk stated that the Committee found the current fiscal year administrative budget to be in order upon review of the quarterly checklist. The salaries and benefits category is running higher than normal due to higher than expected benefit costs, according to Mr. Wickman.

2. Quarterly Checklist

Consider, review and updates on the following:

See above for discussion of the quarterly checklist.

- a. MCERA educational and event-related expenses
- b. Other expenses per Checklist guidelines

- c. Variances in the MCERA administrative budget in excess of 10%
 - d. Reconciliation of MCERA administrative accounts
 - e. Vendor services provided to MCERA
 - f. MCERA staffing status
 - g. Internal controls, compliance activities and capital calls
 - h. Audits, examinations, investigations or inquiries from governmental agencies
 - i. Other items from the Retirement Administrator related to risk and finance
3. Draft Administrative Budget FY 2013/14
See Agenda Item B.2
 4. Pathway Subscription Agreements Update
Discussion of agreement provisions relative to model agreement

Mr. Wickman and Scott Johnson from Manatt Phelps & Phillips negotiated a side letter agreement with Pathway based on provisions of the model side letter that was developed and approved by the Board last year. As expected, there was some negotiation, in particular the fiduciary acknowledgement, most favored nation status, and arbitration. In response to Chair Bolger's inquiry, Ms. Dunning explained that the fiduciary acknowledgement remaining in the agreement would be phrased somewhat differently from the model language. She further stated that the agreement provides for dispute resolution in the state of California.

5. Electronic Board Packets Project Update on Security, Cost, and Policy
Consider and discuss security, cost, and policy for electronic board packets

Trustee Brenk stated that the Committee responded favorably to the presentation by staff on security, cost, and policy aspects of the electronic board packets project. Mr. Wickman commended Principal Systems Analyst Alex Levin and Dale Barre for their work on the project. Upon successful completion of the proof of concept process that addresses security as the top priority, training will be scheduled. The project is scheduled for implementation this summer. Staff will address Trustee Gladstern's question of whether GPS would be effective in locating a misplaced or stolen iPad.

Chair Bolger recessed the meeting for a break at 10:45 A.M., reconvening at 11:03 A.M.

- b. Governance Committee

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

Consider and take possible action on Governance Committee's recommendation to adopt policy regarding optional form factors used to calculate modified retirement and survivor allowances

Based on the action of the Governance Committee, Governance Committee Chair Stevens recommended 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 take possible action on Governance Committee's recommendation to adopt updates to policy

Based on the action of the Governance Committee, Governance Committee Chair Stevens recommended that the Board adopt updates to the Actuarial Economic Assumptions Policy as submitted. The motion was approved by unanimous vote.

3. Investment Committee Charter (Action)

Consider and take possible action on Governance Committee's recommendation to adopt updates to charter clarifying role of alternate trustees on the Investment Committee

Based on the action of the Governance Committee, Governance Committee Chair Stevens recommended that the Board adopt updates to the Investment Committee Charter as submitted. The motion was approved by unanimous vote.

4. Environmental-Social-Governance – William McGrew, CalPERS

TIME CERTAIN: 11 A.M.

Educational presentation on social considerations for investments

Chair Stevens reported that William McGrew, Portfolio Manager with the CalPERS Investment Office, presented an overview of the CalPERS Global Governance Program. Mr. McGrew stated that the goal of the program is long-term value creation. Avenues for achieving the goal include identifying priorities, such as shareowner rights and board quality, for example. Also, criteria for evaluating core issues were developed by CalPERS following losses the system experienced as a result of divesting from certain assets.

Mr. McGrew reported that CalPERS divested from tobacco-related securities only for internally managed funds, but not those managed by outside managers, Mr. McGrew also reviewed the policies developed by CalPERS to evaluate environmental, social and governance (ESG) related investment issues. Ms. Stevens stated that there was consensus on the Governance Committee to direct

staff to develop similar policies. The Board's fiduciary responsibilities with regard to ESG matters will be presented at the Strategic Workshop on March 21.

5. Trustee Education Policy (Action)

Consider and take possible action on Governance Committee's recommendation to adopt updates to policy regarding education requirements

Based on the action of the Governance Committee, Governance Committee Chair Stevens recommended that the Board adopt updates to the Trustee Education Policy as submitted. The motion was approved by unanimous vote.

6. Due Diligence Policy (Action)

Conduct standard policy review

Based on the action of the Governance Committee, Governance Committee Chair Stevens recommended 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

It was M/S Smith/Gladstern to amend the Facility Use and Reservation Policy to provide for the discretion of the Retirement Administrator with regard to fees. The motion was approved by unanimous vote.

8. Portable Electronic Device Policy (Action)

Consider and take possible action on Governance Committee's recommendation to adopt Portable Electronic Device Policy

Based on the action of the Governance Committee, Governance Committee Chair Stevens recommended that the Board adopt the Portable Electronic Device Policy as submitted. The motion was approved by unanimous vote.

3. Trustee Comments

Trustee Brenk attended the CalAPRS General Assembly where information on banking regulations in response to the 2008 financial downturn was presented. Chair Bolger, Trustee Brenk and Mr. Wickman attended the Citizens for Sustainable Pension Plans (CSPP) meeting that included a discussion of proposed GASB 67 and 68 changes.

D. DISABILITY RETIREMENT APPLICATIONS

None.

Chair Bolger directed deliberations to **Agenda item F.1.**

F. OLD BUSINESS

1. Update on Public Employees’ Pension Reform Act of 2013 (PEPRA)

Mr. Wickman discussed the continuing work to help employers determine which pay items meet the definition of Pensionable Compensation under PEPRA. He provided an example of a recent discussion with an employer that highlighted the difference between what was described in documentation about a pay item versus how the item was actually paid. Mr. Wickman emphasized the importance of aligning pay descriptions with actual practice in order to determine what items should be considered as base pay. It is this sort of thorough review and analysis by employers and employees, he stated, that is necessary and encouraged by the MCERA policy on Pensionable Compensation.

Trustee Gladstern commented on the need for documentation and publication of such determinations by employers. Counsel Dunning stated that employers also are obligated to follow the new definition of pensionable compensation in PEPRA and to be clear on what they are sending to MCERA with regard to elements of pay that are subject to contributions.

G. NEW BUSINESS

1. SACRS Voting Proxy (Action)

Board vote to select delegate and alternate delegate for SACRS May meeting

It was M/S Given/McFarland to select Michael Smith and Maya Gladstern as delegate and alternate delegate for the SACRS Spring conference in May. The motion was approved by unanimous vote.

2. SACRS Board of Directors Election (Action)

Consider and take possible action to ratify SACRS Nominating Committee 2012-2013 Slate of Directors.

It was M/S Brenk/Given to ratify the SACRS Nominating Committee 2012-2013 Slate of Directors. The motion was approved by unanimous vote, with Trustee Gladstern abstaining.

3. 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	Quarter
*	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 Eaton Vance -Emerging Markets
 - * X Morgan Stanley -International Equities Fund
 - X Pathway Capital -Private Equities Fund Quarter
 - * X Pyramis Global Advisors -International Small Cap Equity Fund
 - * X State Street Global Advisors -S&P 500 Flagship Non-Lending
 - * X Wellington Management -Core Domestic Fixed Income Portfolio
 - * X Western Asset Management -Core Plus Domestic Fixed Income Portfolio
2. Real Estate
- * X Woodmont Realty Advisors -Direct ownership – Monthly report
 - AEW Capital Management -Value Added Portfolio Quarter
 - RREEF -Value Added Portfolio Other
 - Woodmont Realty Advisors -Direct Ownership Quarter
3. Other

I. OTHER INFORMATION

1. Trustee Training Calendar
2. *Keeping in Touch* – March Issue, Retired Employees Association newsletter

J. CONSENT CALENDAR (Action)

It was M/S Gladstern/Cooper to approve the Consent Calendar as submitted. The motion was approved by unanimous vote

<p>CONSENT CALENDAR for MCERA MEETING, WEDNESDAY, March 13, 2013</p>		
<p>CONSENT CALENDAR February 2013</p>		
<p>RETURN OF CONTRIBUTIONS</p>		
Jarred Hailey (Partial)	County of Marin	954.71
Maria Jose Perry (Full)	County of Marin	17,580.05
Richard Racich (Partial)	County of Marin	962.46
Martin Gifford (Full)	City of San Rafael	1,937.11
Jill Starling (Partial)	City of San Rafael	28,290.83
	TOTAL	49,725.16
<p>BUYBACK</p>		
Steven Blair		County of Marin
Elida Contreras		County of Marin
<p>NEW RETIREES</p>		
Nancy Barnard	HHS	County of Marin
Mirna Cuevas	HHS	County of Marin
Suzanne Dowling	HHS	County of Marin

Ursula Hoffman	HHS	County of Marin
Marietta Neyland	HHS	County of Marin
Angelo Sacheli	HHS	County of Marin
Dori Krystal Smalridge	HHS	County of Marin
Peter Vaughey	HHS	County of Marin
Lynda Triplett	Probation	County of Marin
Archie Choice		City of San Rafael
Carol Jacob Courtz		City of San Rafael
Steven Piotter		City of San Rafael

RESCINDED RETIREMENTS

DECEASED RETIREES

Carolyn Knutsen	H&HS	County of Marin
Stella Hallin	Sheriff	County of Marin
Lino Stefani	Sheriff	County of Marin
Gertrude Cherry	Probation	County of Marin
Evelyn Vaughan	County Clerk	County of Marin
Freddie Muse	District Attorney	County of Marin
Landon Reid	Assessor-Recorder	County of Marin
Phillip Green		City of San Rafael

CONFERENCES/SEMINARS

DIMENSIONAL FUND SYMPOSIUM

Trustees Brenk, Richardson, Smith

DIMENSIONAL FUND DUE DILIGENCE

Trustees Brenk, Richardson, Smith; Anne Heaphy

CalAPRS Trustees Roundtable

Trustee Gladstern

CalAPRS Benefits Roundtable

Staff Hardesty and Griffiths

Chair Bolger recessed Open Session for a working lunch and directed deliberations to **Agenda Item E.1** in Closed Session at 12:16 P.M.

E. LEGAL MATTERS

1. Conference with Legal Counsel – Pending Litigation (CLOSED SESSION)
MAPE et al. v. MCERA, et al., Marin County Superior Court Case No. 1300318.

Trustee Gladstern recused herself from this item and did not attend the closed session meeting, as she is a member of the Board of Directors of one of the petitioners in the case (MAPE). Trustee Webb recused himself from this item and did not attend the closed session meeting, as he receives a pension from one of the petitioners in the case (SEIU).

Chair Bolger reported that no reportable action was taken on this agenda item.

Chair Bolger recessed Closed Session, reconvened in Open Session and, there being no further business, adjourned the meeting at 1:15 P.M.

Bernadette Bolger, Chair

Howard McFarland, Secretary