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

May 30, 2013 – 9 A.M.

CALL TO ORDER Chair Brenk called the meeting to order at 9:06 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Given, Stevens, Webb (ex officio)

ABSENT: Gladstern, Piombo, Richardson, Smith

MINUTES
It was M/S Bolger/Given to approve the February 21, 2012 Finance and Risk Management Committee meeting 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 March 31, 2013

   Retirement Administrator Jeff Wickman stated that the increase in the Salaries and Benefits category is due to MCERA's portion of Marin County's planned increase to retiree health care costs. According to Senior Accountant Lisa Jackson, there is a one-time catch-up charge. Moving forward, all benefit-related costs will be incorporated into the 61% (increased from 53%) of payroll figure, according to Mr. Wickman.

   At the February Committee meeting, Mr. Wickman indicated that there may be a need to adjust the budget due to the increase in health care costs. Since Salaries and Benefits are running higher than the approved budget, an adjustment to the budget will be addressed in Agenda Item C.1 below. Mr. Wickman addressed other budget variances, such as the need for multiple medical transcriptions due to the complexity of recent disability cases.

Chair Brenk delayed the discussion and directed deliberations to **Agenda Item C.1**.

C. NEW BUSINESS

1. Administrative Budget FY 2012/13 Amendment (**Action**)
   Consider and possibly recommend to Board amendment of current fiscal year budget

Mr. Wickman presented a proposed amendment to the current fiscal year budget, explaining that the biggest impact to Salaries and Benefits is the increase in the cost of benefits. He noted that an adjustment to salaries was also necessary to account for the need to maintain one extra hire for the entire fiscal year to support the operation of CPAS, implementation of the Public Employees' Pension Reform Act (PEPRA) and support overall business operations as the result of the untimely death of a key staff person. Mr. Wickman further stated that there have been savings in professional fees and higher-than-anticipated costs for county services.

Mr. Wickman discussed the nature of interdepartmental charges in response to Trustee Stevens' inquiry, noting the limited ability to customize the charges to MCERA's needs due to the universal application to departments for county services. According to Trustee Given, there is a lag time of two years in approving charges that requires a projection.

Mr. Wickman summarized the proposed $235,118 increase in the administrative budget that remains within the legislative administrative budget cap.

It was M/S Bolger/Webb to recommend that the Board adopt amendments to the Fiscal Year 2012/13 Budget as presented. The motion was approved by unanimous vote.

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

5. Assessment of System Risk Analysis by SF Sentry (**Action**)
   Consider and discuss the value of the SF Sentry System Risk Reporting to the Investment Committee

   Mr. Wickman reviewed the history of the engagement with SF Sentry for system risk studies, beginning with approval of the initial contract in March 2011. Over the course of the past two years, he stated, some trustees have questioned what action should be taken based on the system risk reports and whether the monthly expense adds value to MCERA's management of trust fund assets. Mr. Wickman presented options for changing the structure of the engagement with SF Sentry, including terminating the agreement.

   Discussions included Trustees Webb and Stevens' observations about other system risk providers and the prominence of the topic at the Spring SACRS conference. Trustee Brenk suggested discussing the matter with Callan Associates and considering other peer systems' approaches to system risk. Mr. Wickman pointed out that one of the challenges identified when the initial search for a vendor was conducted was that a number of companies could provide extensive analytical data which would have required additional staff time and support to digest and assimilate for the Board. SF Sentry was selected in part for its ability to provide experts to help explain the data points being addressed. Further discussion continued regarding whether to continue with SF Sentry.

It was M/S Given/Webb to terminate the contract with SF Sentry for system risk reporting and direct the Retirement Administrator to provide immediate 30-day notice to SF Sentry and to seek ratification from the Board of these actions at the next Board meeting. The motion was approved by unanimous vote.

Trustee Bolger recommended that the Investment Committee Chair confer with the Retirement Administrator and Callan Associates on operational risk.

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

3. <u>Trustee Educational Requirements Report</u>
   Review progress regarding two-year training requirement

   A master list of qualified educational events so far in 2013 prepared by staff was presented that lists hours from each session available to trustees. The list illustrates the opportunities for trustees to attain the biannual 24-hours of continuing educational that is mandated by statute and MCERA's Education Policy. In order to monitor each trustee's progress, the master list and tracking logs for each trustee will be regularly updated for review at quarterly meetings of the Finance and Risk Management Committee, as outlined in Mr. Wickman's memo on the topic.

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

4. <u>Purpose of Actuarial Projections</u>
   Consider and discuss the appropriate use of certain actuarial reports

   Actuary Graham Schmidt of Cheiron EFI presented and discussed actuarial charts showing how funding policy affects employer cost (contribution rate) and funding status. The charts are part of the annual actuarial valuation analysis and project cost and funding status data under varying investment return scenarios. Mr. Schmidt stated that the use by plan sponsors of the projections for budgeting purposes has resulted in public statements that are inaccurate. For example, Mr. Schmidt explained that the increase in the City of San Rafael's contribution rate was due to its reduced payroll. Mr. Schmidt stated that analyzing projections is a valuable exercise but the data may imply a level of precision that would not be appropriate for projecting budgets. Mr. Schmidt further stated that Cheiron has a concern about liability based on third party use of material that is intended for the client, MCERA. Mr. Schmidt illustrated with another chart the wide variation in confidence interval simulations of projected employer cost that reflect uncertainty of future investment returns.

   Mr. Wickman explained that the actuary's annual valuation analysis is based on a point-in-time snapshot of the MCERA Fund. Most employers, he said, understand that investment returns vary on a daily and yearly basis. Based on varying investment returns, ranges of contribution rates have been provided to plan sponsors. Mr. Schmidt spoke to the value of continuing to assess cost and funding status projections in any event.

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

2. <u>Abbott and AEW Subscription Agreements/Side Letter Update</u>
   Discussion of agreement provisions relative to model agreement

   Mr. Wickman reported that the Abbott subscription agreement and most of the agreement with AEW have been completed. Mr. Wickman stressed the importance of the model agreement, but also indicted that, as anticipated, negotiated agreements did not include all of the model terms. According to Ms. Dunning, some of those negotiations result in less favorable terms for MCERA, but others have resulted in a tightening of provisions that improve the protections of MCERA. For example, she noted that certain trustees may be limited to a $250 annual gift threshold, lower than the $440 limit that applies generally to public officials, and that this lower gift cap was included in the AEW side letter, which provides an additional control that ultimately protects MCERA.

Chair Brenk directed deliberations to **Agenda Item B.2.j**.

2. <u>Quarterly Checklist</u>
   Consider, review and updates on the following:
   j. Form 700 summary submittal

      Counsel Dunning presented the annual Form 700 Summary listing certain stock investments, business entities or trusts, real property, income and gifts reported by trustees, staff, and consultants. The summary highlights financial interests that require recusal with respect to that source of income. Ms. Dunning stressed the importance of keeping track of situations requiring recusal, encouraging trustees to provide updates or disclosures as situations may change.

   a. MCERA educational and event-related expenses

      Mr. Wickman presented a summary of travel expenses for trustees and staff to attend educational and due diligence events.

   b. Other expenses per Checklist guidelines

      Credit card statements were presented and reviewed, with Mr. Wickman noting the purchase of the pilot iPad for the electronic board packet project.

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

      See above.

   d. Reconciliation of MCERA administrative accounts

      Mr. Wickman and Ms. Jackson continue to work with the county on reconciliation of administrative accounts.

   e. Vendor services provided to MCERA

No additional vendor service expenses.

f. MCERA staffing status

One staff position realignment needs to be completed before the end of the fiscal year, according to Mr. Wickman.

g. Internal controls, compliance activities and capital calls

Capital calls were received from both private equity managers in the first quarter of 2013.

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

The engagement letter with Brown Armstrong has been received for the annual financial audit that will begin in July.

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

Mr. Wickman reported on two insurance claims, the first being a slip-and-fall incident at One McInnis Parkway that has been settled by the property insurance provider for less than the initial claim. A raised sidewalk slab related to the incident has been replaced. Secondly, a claim for water damage at Woodland Villas has been submitted to the MCERA property insurance provider.

Mr. Wickman discussed an email from the American Association for Justice regarding a Securities Litigation Committee meeting in San Francisco on Sunday, July 21st. At the meeting they plan to discuss Corporate Bylaw provisions that require arbitration and waive class actions. Counsel Dunning noted that the issue appears to be a case where plaintiffs have sought a hostile takeover of the defendant company, and in connection with that effort sued the defendant for breach of fiduciary duty and other claims. Defendants responded by moving to stay the litigation and proceed with arbitration under the mandatory arbitration provision in the company's bylaws. She noted that while this case is no doubt important in a securities litigation context, she believes MCERA already is taking proactive steps, to the extent possible in the context of negotiations, to demand judicial resolution of disputes rather than arbitration.

Chair Brenk redirected deliberations to **Agenda Item B.1**.

Mr. Wickman presented and reviewed non-administrative expenditures for retiree payroll, vendors, and investment managers. A summary of investment fees for individual managers for the quarter was presented. Chair Brenk discussed the timing of investment manager fees with Ms. Jackson. In response to Chair Brenk’s interest in an analysis of non-administrative expenses, Mr. Wickman provided an overview of the nature and timing of those expenses. Retiree payroll represents the majority of these items and tends to increase in the spring due to the April 1st retiree Cost Of Living Adjustment (COLA). Expenses for CPAS vary according to change requests identified by staff, according to Mr. Wickman. He explained that legal expenses have been driven by the recent lawsuit filed against MCERA, analysis and implementation of PEPRA and the filing of the Favorable Determination Letter with the Internal Revenue Service. Ongoing legal expenses should decrease with the completion of the determination letter process and assuming a lower level of pension reform activity.

Chair Brenk discussed the possibility of using metrics in non-administrative expense categories for analyzing variations and annual trends, for example. In response, Mr. Wickman offered to add details around specific events, similar to reporting in the administrative budget.

In response to Trustee Bolger's inquiry, Mr. Wickman explained that catch-up billing caused county counsel legal expenses to be higher for this quarter only. As discussed previously work on the IRS Determination Letter continues, he stated. Ms. Dunning explained that the Determination Letter process had been delayed since the model for '37 Act systems has difficulties that do not affect MCERA. As a result, Ice Miller has re-filed in order to pull MCERA out of the peer group. With this change, issuance of a determination letter by the IRS may occur during this calendar year, according to Ms. Dunning.

There being no further business, Chair Brenk adjourned the meeting at 11:50 A.M.

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Gregory Brenk, Chair	Attest: Jeff Wickman, Retirement Administrator