

MINUTES

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

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

June 24, 2013 – 9 A.M.

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

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

ABSENT: None

MINUTES

It was M/S Bolger/Webb to approve the February 27, 2013 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.

MCERA retiree Joan Brown asked the Board to look for alternatives for the Fund's tobacco-related investment. Ms. Brown believes that the investment return is not worth the cost of treating smoking-related diseases.

Pharmacist Fred Meyer of Marin County also requested that the Board not invest in tobacco-related securities due to related deaths and the addiction of children to tobacco.

B. OLD BUSINESS

None.

C. NEW BUSINESS

1. Statement of Investment Policy Regarding Divestment (Action)

Consider and possibly recommend to Board adoption of policy regarding divestment based on environmental-social-governance considerations

Retirement Administrator Jeff Wickman presented the Statement of Investment Policy Regarding Divestment in order to lend structure and guidance to the Board when environmental-social-governance (ESG) divestment issues are considered. The draft policy establishes factors that the Board would consider before divesting in order to fulfill the Board's fiduciary duties under California law, according to Mr. Wickman. Trustee Bolger explained that the duty of prudence requires that fiduciaries reasonably anticipate equal or greater risk-adjusted returns for investments if they are considering corollary social objectives in connection with those investments.

Mr. Wickman and Trustee Bolger explained the process used by MCERA to invest trust fund assets. This included the development of asset allocations as recommended by the Board's investment consultant and hiring of managers to invest based on a specific type and style in order to broadly diversify the investment of assets. The Investment Policy Statement provides comprehensive parameters for the investment of assets and management of the Fund.

Mr. Wickman explained that the policy was developed based on information collected from CalPERS. The policy includes a recognition that active engagement to create change is a viable alternative to divestment. The proposed policy does not prevent divestment, he said, but sets forth key factors that should be considered. Mr. Wickman noted that CalPERS did not divest from tobacco holdings managed externally, noting that all MCERA investments are externally managed.

In summary, Mr. Wickman stated that this is the first step to provide a framework for future discussions for divestment requests. Trustee Bolger supported the proposed policy as a starting point and a format for considering broader issues. Trustee Stevens added that CalPERS determined that it lost money as a result of divesting from tobacco stocks. Trustee Gladstern recommended partnering with CalPERS on ESG matters due to MCERA's limited resources.

It was M/S Webb/Gladstern to recommend that the Board adopt the Statement of Investment Policy Regarding Divestment as revised to add a standard review period of three years. The motion was approved by unanimous vote.

2. Investment Policy Statement (Action)

Consider and take possible action on amendment to Investment Policy Statement regarding Watchlist criteria

Mr. Wickman presented updates to the Investment Policy Statement that establish new provisions for including or removing managers from the Watchlist. The provisions are based on a review of the approaches taken by other CERL systems.

Trustee Bolger indicated a preference for including specific language that clarifies where additional allocation of assets would be invested for managers on the Watchlist. In response to Trustee Brenk's inquiry, Mr. Wickman explained the process by which Callan Associates monitors managers on the Watchlist.

It was M/S Gladstern/Brenk to recommend that the Board adopt amendments to the Investment Policy Statement as revised per discussions. The motion was approved by unanimous vote.

3. Policy Regarding Annual Affirmation as to Key Policies (Action)

Consider and possibly recommend to Board updates to policy

Mr. Wickman presented the Policy Regarding Annual Affirmation as to Key Policies, updated to include the new Portable Electronic Device Policy as a key policy.

It was M/S Brenk/Gladstern to recommend that the Board approve amendments to the Policy Regarding Annual Affirmation as to Key Policies as submitted. The motion was approved by unanimous vote.

4. Key Service Provider Performance Evaluation Policy (Action)
Conduct standard policy review

Mr. Wickman presented the Key Service Provider Performance Evaluation Policy for the standard three-year review. Mr. Wickman stated that he meets regularly with key service providers and monitors their performance. He noted that going out to bid every five years is a best practice for hiring and managing key service providers.

Mr. Wickman recommended a formal review of the fiduciary liability insurance provider based on recent developments.

It was M/S Cooper/Brenk to recommend that the Board accept the review of the Key Service Provider Performance Evaluation Policy. The motion was approved by unanimous vote.

5. Travel and Expense Policy (Action)
Conduct standard policy review

In 2011, Mr. Wickman stated, revisions to the Travel and Expense Policy regarding reimbursement of expenses for nearby conferences were presented to the Governance Committee for consideration. Since the proposed revisions were not adopted at that time, Mr. Wickman requested further direction on reimbursement criteria for conferences that are within the fifty-mile limit and qualify for overnight stay, for example, the SACRS conference in Napa, and the Callan Associates and Manatt conferences in San Francisco.

Counsel Dunning discussed the complications associated with making case-by-case determinations with regard to expense reimbursement. Trustees Brenk, Gladstern and Webb spoke to the value of staying overnight with respect to networking, discussions with knowledgeable industry professionals, and minimizing fatigue associated with driving. Trustee Bolger noted that the Finance and Risk Management Committee reviews all Board-related expenses on a quarterly basis and has found travel expenses to be reasonable.

Trustee Bolger asked Mr. Wickman to clarify certain provisions in the policy and bring a draft for consideration by the Board at its meeting on July 10.

6. Whistleblower Policy (Action)
Conduct standard policy review

It was M/S Cooper/Webb to approve the review of the Whistleblower Policy. The motion was approved by unanimous vote.

7. Guidelines for Discussion of Disability Applications at Board Meetings (Action)
Consider and take possible action to recommend to Board adoption of Guidelines

Mr. Wickman presented proposed Guidelines for Discussion of Disability Applications at Board Meetings (Guidelines) for the Committee's consideration. The Guidelines, he explained, document a process to be followed during consideration of disability applications. The same information would be provided to applicants for disability retirement.

Discussions included Trustees Bolger and Gladstern's suggestions on phrasing and including information on the voting process, respectively. Counsel Dunning responded to Trustee Brenk's inquiries on the discussion process and Roberts Rules of Order. Trustee Cooper inquired about the voting procedures for the alternate safety member.

Based on the discussion Mr. Wickman will revise the Guidelines and bring a new draft for consideration at the next Committee meeting.

Chair Stevens recessed the meeting for a break at 10:53 A.M., reconvening at 11:04 A.M.

8. Election and Duties of Board of Retirement Officers Policy
Consider and possibly recommend to Board amendment to Policy to alternate Board officers between appointed and elected Board members

Mr. Wickman requested the committee's guidance regarding Trustee Gladstern's proposal to revise the Election and Duties of Board of Retirement Officers Policy to require Board officers to alternate between appointed and elected Board members. According to Trustee Gladstern the idea would be to prevent situations where appointed members dominate leadership roles. Trustee Webb commented that the diversified experience of Board members is the most relevant fiduciary justification for such a leadership succession approach. Other trustees discussed their desire to retain the Board's flexibility to select the most qualified Board member for officer positions, who also is willing to serve in such a position, regardless of whether he or she was appointed or elected to the Board.

Upon further discussion there was general agreement not to revise the policy to place such a limitation on who may be elected by the Board for its officer positions. Mr. Wickman observed the Board has historically maintained a balanced viewpoint and operated in a collegial manner.

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

Trustee Cooper requested a review by Counsel Dunning of voting procedure provisions when the Safety member is of the same service as the applicant for disability retirement.

Trustee Stevens suggested further discussion of environmental-social-governance matters, which Mr. Wickman indicated would be up to the Investment Committee.

Mr. Wickman stated that the next meeting of the Governance Committee would be scheduled during November.

There being no further business, Chair Stevens adjourned the meeting at 11:48 A.M.

Kim Stevens, Chair

Attest: Jeff Wickman
Retirement Administrator