

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**

February 6, 2014 – 9 A.M.

CALL TO ORDER Chair Gladstern called the meeting to order at 9:03 A.M.

ROLL CALL PRESENT: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore

ABSENT: None

MINUTES

It was M/S Given/Bolger to approve the December 2, 2013 Finance and Risk Management Committee meeting Minutes as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Shore

NOES: None

ABSTAIN: None

ABSENT: Piombo

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

1. Electronic Board Packets Project Update
Review status of project

Retirement Board Clerk Dale Barre reported on the status of the Electronic Board Packet Project. User acceptance testing is in process, according to Ms. Barre, with Chair Gladstern and Board Chair Bolger using the electronic packet on their iPads for today's meeting. At the January Board meeting, Chair Gladstern conducted the initial user acceptance test and gave positive feedback on the electronic board packet. Ms. Gladstern also provided suggestions that were considered and implemented as practicable.

A few days ago staff provided training for Trustee Bolger to conduct the second user test. Following her test of the February Board meeting, staff will confer with Ms. Bolger on her experience with the iPad. Assuming all goes well, the project will move forward in a phased-in rollout a few trustees at a time. The intent, Ms. Barre stated, is to provide

sufficient staff support as trustees get accustomed to the new process. The Board packets will be emailed to the trustees as an attachment, she explained.

Trustee Gladstern commented on ideas that she presented to staff based on her experience with using Notes and iAnnotate. These items were reviewed, according to Mr. Wickman, with some to be considered in the future as nice to have but not a current priority. He explained that the focus is to reduce paper, become more efficient, and manage the implementation in a smooth process.

C. NEW BUSINESS

1. Administrative Budget FY 2013/14 Quarterly Review

Consider and review budget for quarter ending December 31, 2013

Retirement Administrator Jeff Wickman presented the administrative budget for the quarter ending December 31, 2013. Mr. Wickman highlighted particular expenses including a disability benefit processing cost, dues for the Council of Institutional Investors that are based on the size of the system, and reproduction costs for the Fall newsletter, Board election, and annual benefit statements. Other charges reviewed included those for the offsite Strategic Workshop and card reader repair at MCERA offices.

Mr. Wickman noted that at the mid-point of the fiscal year expenditures are running at slightly less than 50% of the total budget. Salaries and benefits continue to be the largest budget category and drive expenses, according to Mr. Wickman. In that category the extra hire budget is 100% and is expected to end at the end of February as the transition to the CPAS hosting environment is completed, he said. Members of the Committee expressed appreciation to Helen Moody for her commitment to MCERA.

In the services and supplies category Mr. Wickman addressed higher insurance premiums that reflect the additional cost for renewal of fiduciary insurance with AIG.

Non-administrative budget items were reviewed by Mr. Wickman. Retiree payroll is the largest category and will increase as a result of the cost of living adjustment in April, which for most retirees will be 2%. Charges for CPAS reflect the purchase of additional support time. Legal expenses were reviewed for county counsel, tax counsel and Board counsel. Mr. Wickman noted that reimbursement to date of litigation expenses from the fiduciary insurance provider is shown on the materials.

In response to Trustee Brenk's inquiry, Mr. Wickman stated that Senior Accountant Lisa Jackson will present a cash flow analysis to the Committee at its May meeting.

Trustee Piombo joined the meeting at 9:51 A.M.

Following a review of investment manager fees, Trustee Shore requested the addition of investment fees as a percentage of market value for comparison purposes. The potential

for investment fee savings in moving the Artisan and Morgan Stanley international portfolios to separate accounts will be considered at the March Investment Committee.

2. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman presented educational and event-related expenses for review. The events are pre-approved with many sponsored by CalAPRS that allow for sharing information with peers, he said. Trustee Gladstern observed that staff is participating in training events which she supported as a way of developing staff expertise.

A discussion of travel expenses was initiated by Trustee Given, who observed that expenses should be kept to a reasonable level. Considerations included whether staff should make travel arrangements, whether there should be a cap on education expenses for each trustee, and the obligation of trustees to obtain required education at a reasonable cost. Trustee Bolger stated that by reviewing these expenses on a quarterly basis the Board maintains an appropriate level of control. Based on discussions, Chair Gladstern recommended that the matter be addressed at the next Governance Committee meeting.

b. Continuing Trustee Education Log

The Continuing Trustee Education Log and summary was presented and reviewed by Mr. Wickman. The log tracks progress toward the biannual 24 hour education requirement for each trustee. In response to Trustee Given's inquiry, Ms. Dunning advised that training via video may qualify as educational training.

Chair Gladstern recessed the meeting for a break at 10:07 A.M., reconvening at 10:17 A.M.

c. Other expenses per Checklist guidelines

Credit card charges were reviewed and Trustee Gladstern observed that staff must use personal credit cards for meals. Expenses for the Wall Street Journal were discussed and the recommendation is to provide the online version.

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

See discussion above.

e. Reconciliation of MCERA administrative accounts

Trustee Given addressed efforts to make accounting for administrative accounts more appropriate. Monthly meetings are planned for reconciliation of accounts.

f. Vendor services provided to MCERA

No new items to report.

g. MCERA staffing status

No new items to report.

h. Internal controls, compliance activities and capital calls

Mr. Wickman reviewed capital calls that include transitions for new asset allocation targets in response to Trustee Gladstern's inquiry.

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

Mr. Wickman discussed a proposal by Brown Armstrong to increase their fee for the annual financial audit from \$35,000 to \$43,000 this year. In view of good service, no increases for the past three years and the provider's sensitivity to budgetary concerns, Mr. Wickman said the request is reasonable. Trustee Given, indicating a concern about the Notes to Financial Statements, recommended requesting information from Gallina on what they would charge for the annual financial statement audit. Mr. Wickman said it is a viable subject and he shares Trustee Given's concerns, adding that whether a new search would be fruitful is another question. Chair Gladstern noted that there is already a queue for requests for proposals (RFPs) and staff need not prioritize the matter at this time.

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

Mr. Wickman reported that Tuesday the Marin County Board of Supervisors will hear a presentation by county staff on San Jose Mayor Reed's initiative. Ms. Dunning reviewed the Board's fiduciary role and other legal constraints with respect to taking a position or spending system funds to advocate a position on such a ballot initiative.

Transitions and rebalancing in the fixed income portfolio were reviewed by Mr. Wickman. Contract negotiations with Colchester have been completed for the \$100 million global fixed income portfolio, with details to be discussed at the next Board meeting. Mr. Wickman reviewed funding details for the transitions that will increase funding for Wellington and reduce equity exposure.

In response to Trustee Gladstern's inquiry, Mr. Wickman discussed communications with the approximately fifty retirees whose medical premiums have increased. Mr. Wickman indicated that letters have been sent to all retirees who may see additional out of pocket medical expenses as a result of changes adopted by Marin County. Mr. Wickman reminded the Committee that the employers make the financial decisions about the post-retirement medical benefit plans, not MCERA.

Ms. Gladstern requested that on 1099Rs, taxable and non-taxable sums be provided. These values are available, according to Ms. Hardesty, and will be included in the 1099Rs next year.

3. Budget Priorities for FY 2014/15 (Action)

Consider and discuss budget priorities for the new fiscal year

In prior years the Board has adopted the budget recommended by the Finance and Risk Management Committee as early as its March meeting. Early adoption of the budget has in some cases been a disadvantage because certain facts about the overall Marin County budget were determined after the Board took action and as a result required an amendment to the adopted MCERA budget. Two examples include changes to the total employee benefit multiplier and interdepartmental charges after the proposed budget was adopted.

In an effort to avoid these timing issues and as a way to receive direct input from the Finance and Risk Management Committee on budget priorities before preparing the draft budget, Mr. Wickman proposes that the Committee first engage in a discussion of the Board's budgetary priorities for the upcoming year and use this information to prepare a draft budget for review and discussion at the May 2014 Finance and Risk Management Committee meeting.

Mr. Wickman discussed items that will affect the new budget, such as benefit costs increasing from 53% of payroll to 65% of payroll. An upgrade for employee workstations is planned to accommodate new software, with costs minimized by the use of used county machines that are available. Trustee Piombo encouraged using the best tools available and Trustee Gladstern supported this view. There are job classification issues in the benefits and communications areas, according to Mr. Wickman. A cost of living increase of 2 to 3% is planned for staff on July 1, 2014. The Marin County worker's compensation cost is going up based on the county actuary's report, and eligibility rules have changed.

Mr. Wickman invited Committee members to comment on other items that may impact the budget, such as consulting services. Discussion of ideas for the budget included monitoring or budgeting investment manager fees, hiring in-house Board counsel, and hiring a Chief Investment Officer (CIO) to improve investment performance. Trustee Bolger indicated that \$2 billion should be the threshold for considering a CIO and suggested a workshop setting for further discussion on the topic.

It was M/S Bolger/Piombo to approve the inclusion of Budget Priority items presented by the Retirement Administrator in the Administrative Budget for Fiscal Year 2014/15.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore
NOES: None
ABSTAIN: None
ABSENT: None

Mr. Wickman clarified that budget priorities presented at today's Committee meeting are being approved with the idea of possibly adding items later.

There being no further business, Chair Gladstern adjourned the meeting at 11:46 A.M.

Maya Gladstern, Chair

Attest: Jeff Wickman, Retirement Administrator