

MINUTES

REGULAR BOARD MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

February 12, 2014 - 9 A.M.

EVENT CALENDAR 9 A.M. Regular Board Meeting

CALL TO ORDER Chair Bolger called the meeting to order at 9:02 A.M.

ROLL CALL PRESENT: Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shaw (ex officio alternate), Shore, Webb (alternate retiree)

ABSENT: Cooper (alternate safety), Smith

MINUTES

It was M/S Given/Bartfeld to approve the January 8, 2014 Regular Board Meeting Minutes as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shore, Webb

NOES: None

ABSTAIN: None

ABSENT: Smith

A. OPEN TIME FOR PUBLIC EXPRESSION

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

No public comment.

B. MATTERS OF GENERAL INTEREST

1. Status Update on Actuarial Valuation Report, FY 2013/14 – Jeff Wickman, MCERA (TIME CERTAIN: 9:05 A.M.)

Discussion of progress on latest valuation

Retirement Administrator Jeff Wickman stated that the preliminary actuarial valuation report will be presented and reviewed by Actuary Graham Schmidt at the March 12 Board meeting. He reported there was a slight delay in responding to data questions from the actuary while staff was focused on producing annual member benefit statements.

2. Annual Cost of Living Adjustment as of April 1, 2014 – Graham Schmidt, Cheiron EFI (Action)

Consider and take possible action to affirm actuarial calculation of annual cost of living increase for retirees.

Actuary Graham Schmidt of Cheiron EFI presented the annual basic cost of living adjustment (COLA) for retiree groups. Mr. Schmidt stated that the calculations are based on a two-year average of increases in the Consumer Price Index (CPI) for the San Francisco Bay area rounded to the nearest one-half percent, which this year results in a 2% COLA.

Retirement Administrator Jeff Wickman presented a summary of the COLAs retirees will receive, noting that the majority will receive a 2% COLA. The COLA amount would be different only for older retirement tiers that provided for a 3% or 4% COLA. Whether retirees in those tiers would receive an amount greater than 2% depends on their date of retirement and whether they have any COLA bank already built up. According to Mr. Wickman eligibility for a COLA is defined in the retirement tier established by the employer. The Board does not grant the COLA because the amount is part of the retirees' tier. The Board's role is to review and affirm the calculation of the actuary.

It was M/S Shore/Gladstern to affirm the actuarial calculation of the annual cost of living increase for retirees.

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

C. BOARD OF RETIREMENT MATTERS

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

Mr. Wickman reported on the publication of handbooks for PEPRA and Classic members that are available on MCERA's website. Assistant Retirement Administrator Michelle Hardesty and Communications Associate Syd Fowler were commended by Mr. Wickman for completing these publications.

The Colchester Global Investors global fixed income portfolio will be funded by the end of February with \$100 million based on the commitment of 25% of the total fixed income portfolio.

The favorable determination letter filing with the Internal Revenue Service was completed before the January 31st deadline.

Mr. Wickman reported that Chair Bolger is testing the electronic board packet on the iPad. Depending on positive feedback from Ms. Bolger, the iPads will be phased in three trustees at a time. Ms. Bolger commented that the electronic board packet works well and is a good way to distribute a large amount of information.

Mr. Wickman attended the CalAPRS Administrators Roundtable that included a briefing on City of San Jose Mayor Reed's pension reform initiative and presentations on the securities litigation process of the Los Angeles County Employees Retirement Association and PEPRA compensation issues. Other topics of discussion included how peer systems approach their strategic workshops and an update on the tax determination letter process.

The Request for Proposal (RFP) for investment consulting services is complete and will be mailed directly to ten firms identified by the Administrator.

b. Staffing update

No staffing items to report.

c. Facility Use Report

No facility use.

d. Future meetings

- February 26, 2014 Governance Committee
- March 12, 2014 Board
- March 13, 2014 Investment Committee

2. Standing Committee Reports

a. Finance and Risk Management Committee

1. Electronic Board Packets Project Update
Review status of project

Finance and Risk Management Committee Chair Maya Gladstern reported that upon testing she found the electronic board packet on the iPad to work well. The plan is to roll out the project in phases over the next few months.

2. Administrative Budget FY 2013/14 Quarterly Review

Consider and review budget for quarter ending December 31, 2013

Among administrative budget items reviewed by the Finance and Risk Management Committee (Committee) reported on by Ms. Gladstern were \$5,000 for processing a prior disability retirement application by Sonoma County Employees' Retirement Association for former trustees Hufford and Wofford. Ms. Gladstern reported that the budget at mid-year is tracking expenditures at 45% of the allotted budget.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Educational and event-related expenses were reviewed by the Committee. Ms. Gladstern reported that the Governance Committee will be considering updates to the Travel and Expense Policy at its next meeting.

b. Continuing Trustee Education Log

The Continuing Trustee Education Log showing progress in meeting the required 24 hours every two years was presented through December 2013.

c. Other expenses per Checklist guidelines

Credit card statements were reviewed by the Committee.

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

See above.

e. Reconciliation of MCERA administrative accounts

The process for reconciliation of MCERA's administrative accounts has been slowed by the County's focus on selecting a new financial system vendor.

f. Vendor services provided to MCERA

Mr. Wickman reported that the fiduciary insurance provider reimbursed MCERA \$152,000 for expenses related to the individual and consolidated cases. For the annual financial audit, Brown Armstrong is proposing a \$5,000 increase that Mr. Wickman considers reasonable in view of no cost increases over the past four years.

g. MCERA staffing status

No new staffing items to report.

h. Internal controls, compliance activities and capital calls

Mr. Wickman reported to the Committee on capital flows relating to changes in target asset allocations.

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

The development of the RFP for investment consulting services was discussed at the Committee meeting.

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

Mr. Wickman discussed the proposed state-wide pension reform initiative and reviewed contract negotiations with Colchester Global Investors for the global fixed income portfolio with the Committee.

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

Consider and discuss budget priorities for the next fiscal year

Mr. Wickman presented budget priorities for the next fiscal year that would be incorporated into a formal budget proposal in May. With this process potential effects of county budget provisions would be considered.

Based on the action of the Finance and Risk Management Committee, Finance and Risk Management Committee Chair Gladstern recommended that the Board approve Budget Priorities for FY 2014/15.

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

In response to Trustee Brenk's inquiry, Mr. Wickman addressed increased health care costs. Trustee Gladstern reported that the Committee considered the need to replace computers by April in order to accommodate anticipated software upgrades by Marin County. Mr. Wickman pointed out savings resulting from one vacant position and a reduced need for extra hires in the months ahead.

3. Trustee Comments

Mr. Webb reported on the Dimensional Fund Advisors (DFA) Institutional Symposium and was impressed by the sponsor's sophisticated investment process and speakers of Nobel laureate caliber. Trustee Piombo also attended the DFA Symposium and reported on topics including the evolution of the investment philosophy, goal-based investment management, inflation protection, views on the public pension crisis and a discussion with Eugene Fama.

Trustee Piombo also attended the CalAPRS Advanced Principles for Pension Management and reported on effective processes for Boards and the challenges of alternative investments. Trustee Brenk also attended and spoke to the value of high-level academic discussions on effective Boards and the use of missions, goals and objectives. Mr. Brenk offered course literature which was distributed to the Board.

Callan Associates National Conference attendees included Trustees Bartfeld and Webb who reported on informative presentations by notable speakers on the economic and political environment. Mr. Bartfeld discussed research on extended intellectual capacity and the idea of using annuities to pay benefits.

Trustee Gladstern discussed the recent CalAPRS Trustees Roundtable where discussions included topics on sustainable investing and responsible investment that she proposed for consideration at a strategic workshop. Of particular interest to Ms. Gladstern was a presentation by Harvey Liederman on PEPRA litigation and bankruptcy risk regarding the protection of employees' interest in the pension trust from employer bankruptcies in California.

Chair Bolger appointed herself and Trustees Bartfeld, Brenk and Given to the Ad Hoc Investment Consultant RFP Committee.

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

F. NEW BUSINESS

1. Global Fixed Income Manager Selection Update (Action)

Consider status of contract negotiations and take possible action regarding global fixed income manager

Counsel Ashley Dunning reported on the completion of contract negotiations with Colchester Global Investors for the global fixed income portfolio. Potential impasses were resolved by including language in the side letter. The contract acknowledges the exclusive benefit rule, most favored nation status, and exempts MCERA from indemnification obligations. In response to Chair Bolger's inquiry, Ms. Dunning reviewed indemnification provisions. Colchester was selected as global fixed income manager at the November 7, 2013 Investment Committee meeting.

Chair Bolger recessed Open Session for a break, reconvening in Closed Session and directing deliberations to **Agenda Item E.1** at 10:08 A.M.

E. LEGAL MATTERS

1. Conference with Legal Counsel – Pending Litigation (Gov. Code sec. 54956.9(a))
(CLOSED SESSION)

MAPE et al. v. MCERA, et al., First Dist. Court of Appeal Case No. A139610 (Div. 2)
MAPE et al. v. Superior Court, First Dist. Court of Appeal Case No. A139621 (Div. 2)
Contra Costa County Deputy Sheriffs Assoc., et al. v. CCCERA, et al. Contra Costa County Superior Court Case No. MSN12-1870

Trustee Gladstern recused herself from this item and did not attend the closed session meeting, as she is an executive officer of 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). Trustee McFarland recused himself from this item and did not attend the closed session meeting, as he is a steward of one of the petitioners in the case (MAPE).

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

Chair Bolger directed deliberations to **Agenda Item D** in Closed Session at 10:30 A.M., reconvening in Open Session at 11:23 A.M.

D. DISABILITY RETIREMENT APPLICATIONS (TIME CERTAIN: 10:30 A.M.)
All disability applications are considered in Closed Session unless applicant specifically waives confidentiality and requests that his or her application be considered in Open Session.
(Action)

<u>Applicants</u>	<u>Service/Non-Service Connected</u>	<u>Date of Application</u>	<u>Employer</u>
1. Darren Lovecchio	Service	1/28/13	San Rafael Fire Dept.
Initial consideration of an application for service-connected disability retirement filed by a Safety member.			
2. Pamela Carter	Service	5/24/12	Marin County Sheriff
Consider and take possible action on applicant's request for an extension of time in which to conduct an administrative hearing.			
3. Michael Augustus	Service	3/1/11	San Rafael Police Dept.
Consider and take possible action on applicant's request for an extension of time in which to conduct an administrative hearing.			

Chair Bolger reported as follows:

The Board granted Darren Lovecchio's application for service-connected disability retirement. Motion was by Trustee Webb, seconded by Trustee Gladstern, and approved by a vote of 9-0. Voting for the motion were Trustees Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shore, and Webb. Trustee Webb voted in Trustee Smith's absence.

The Board granted Pamela Carter's request for an extension of time of 90 days in which to conduct an administrative hearing. Trustee Piombo recused himself from the discussion and vote because the applicant was a personal friend. Trustee Webb recused himself from the discussion and vote because Mr. Webb represented the applicant. Motion was by Trustee Gladstern, seconded by Trustee Bolger, and approved by a vote of 6-1. Voting for the motion were Trustees Bartfeld, Bolger, Brenk, Gladstern, McFarland, and Shore. Voting against the motion was Trustee Given.

The Board granted Michael Augustus' request for an extension of time of 90 days in which to conduct an administrative hearing. Trustee Piombo recused himself from the discussion and vote because the applicant was a personal friend. Motion was by Trustee Gladstern, seconded by Trustee Webb, and approved by a vote of 8-0. Voting for the motion were Trustees Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Shore, and Webb. Trustee Webb voted in Trustee Smith's absence.

NEW BUSINESS, continued

2. FPPC Rules re the Form 700 – Ashley Dunning, Manatt, Phelps & Phillips
Presentation on Fair Political Practices Commission (FPPC) rules regarding Form 700

Counsel Dunning presented rules regarding Form 700 disclosures that are interpreted and enforced by the FPPC. The regulations are promulgated by the FPPC under the Political Reform Act of 1974 and govern all state and local public California officials. The Form 700 is a Statement of Economic Interests filed annually by April 1 or within 30 days of assuming or leaving office. Retirement Board members are statutory filers, she explained, and are disqualified from participating in certain decisions as a result of related financial interests. Staff or consultants who make governmental decisions or approve them without substantial oversight in their areas of discretion are also required to file Form 700s.

Gifts exceeding a threshold that is determined biannually are reportable financial interests. Ms. Dunning distinguished gift limits based on ethics from a conflict of interest: the ethics gift limit is an absolute limit of \$440 received from a single source during a calendar year; for the conflict of interest gift limit, the \$440 is calculated over a 12 month rolling period that crosses the calendar year. Exceptions to gift reporting rules reviewed by Ms. Dunning include gifts returned within 30 days or donated to a non-profit organization in which the filer and his immediate family do not have an official role and for which they do not seek a tax deduction. If no exceptions otherwise apply but a donor has no connection to a filer's official public role, then a catch-all rule may potentially apply.

Gifts are broadly defined, according to Ms. Dunning, and include items such as rebates or an event that caters only to public officials, travel, hotels, meals, beverages, or tickets to sporting events. Mr. Wickman provided the example of a dinner invitation from multiple investment managers. There was discussion about potentially having MCERA pay a registration fee for conferences that are otherwise free to trustees.

Ms. Dunning also reviewed rules for permitted travel payments. For example, if MCERA pays for accommodations and meals related to official business, no reporting is required. Travel within the United States for giving a speech is exempt from the gift limit but must be reported. There are exceptions for governmental entities that may in any event need to be reported. There are new rules relating to gifts of travel to an agency for a statutory filer. However, those new rules are limited to specified circumstances and require additional disclosure and notification by the agency, particularly if they aggregate to \$2500 per quarter or more. In conclusion, Ms. Dunning referred the Board to avenues for learning more about gift limits, such as advice letters from the FPPC that she said may be relied on.

3. 2014 Investment Manager Reviews (Action)
Consider schedule and location of the annual investment manager reviews for calendar year 2014.

Mr. Wickman presented a proposed schedule for investment manager annual reviews during 2014. In response to Trustee Gladstern's inquiry, Mr. Wickman explained the

rationale for the schedule that includes a mix of panels and individual reporting at Investment Committee meetings. Mr. Wickman discussed ongoing communications with Woodmont. Given that the Ad Hoc Education Committee is developing an agenda for the next strategic workshop, there may be a need to reschedule reviews for certain managers. The matter was therefore deferred by the Chair.

4. Notification of SACRS Board of Director Elections 2013-2014
Consider and discuss election process and deadlines

Mr. Wickman presented and reviewed the schedule for this year's SACRS Board of Director Elections and ballot process.

Chair Bolger directed deliberations to **Agenda Item H.1.**

H. OTHER INFORMATION

1. Trustee Training Calendar (**Action**)

It was M/S Brenk/McFarland to approve the Harvard Law School Pensions & Capital Stewardship conference.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shore, Webb

NOES: None

ABSTAIN: None

ABSENT: Smith

2. *Keeping in Touch (KIT)* – February Issue, Retired Employees Association newsletter

Trustee Gladstern referred to a comment in the KIT regarding health care that Mr. Wickman explained was clarified during the meeting.

I. CONSENT CALENDAR (Action)

It was M/S McFarland/Piombo to approve the Consent Calendar as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shore, Webb

NOES: None

ABSTAIN: None

ABSENT: Smith

CONSENT CALENDAR
 January 2014

RETURN OF CONTRIBUTIONS

Jason Roebuck	(Age Change Refund)	\$	10,006.77
Oshmin Oden	(Refund of Contributions)	\$	297.13
Vincent Guarino	(Refund of Contributions)	\$	59,874.10
Lisa Laplace	(Refund of Contributions)	\$	9,700.42
Travis Ruggles	(Refund of Contributions)	\$	46,792.79
	TOTAL	\$	126,671.21

BUYBACK

Anne Starr	County of Marin
Michael Tribolet	County of Marin

NEW RETIREES

Terri Ewing	HHS	County of Marin
Ralph Barnard	HHS	County of Marin
Kevin Johnston		Novato Fire
Barbara Heller		City of San Rafael
Carmen Meyer	HHS	County of Marin
Catherine Walters		City of San Rafael
Mary Connell		City of San Rafael
John Kress	Board of Sups	County of Marin
Lorrie O'Toole	Sheriff	County of Marin
Anthony Berrian		City of San Rafael
Allison Ginnodo		DRO

RESCINDED RETIREMENTS

DECEASED RETIREES

Rose Powell	H&HS	County of Marin
Margaret Ryan	H&HS	County of Marin
Mary Showers	H&HS	County of Marin
Cheryl Thorp	H&HS	County of Marin
Doris Vickers	H&HS	County of Marin
Karen Whitten	Courts	County of Marin
Barbara Thomas	County Clerk	County of Marin
Eveline Grupe	County Counsel	County of Marin
William Hendrickson	Beneficiary	County of Marin
Carroll Hirzu	Beneficiary	County of Marin
William Melson	Beneficiary	County of Marin
Eugene Scoggins	Beneficiary	County of Marin

CONFERENCES/SEMINARS

CalAPRS Administrators Roundtable - Retirement Administrator Wickman
 CalAPRS Attorneys Roundtable - Counsel Dunning
 CalAPRS Advanced Principles of Pension Management - Trustees Brenk and Piombo
 Callan National Conference - Trustees Bartfeld, McFarland, Webb

Chair Bolger recessed the meeting for lunch at 12:29 P.M., reconvening at 12:47 P.M. and directing deliberations to **Agenda Item F.6.**

6. Future Meetings

Consider and discuss agenda items for future meetings

For the next strategic workshop, Ad Hoc Education Committee Chair Piombo proposed a strategic planning session to identify the key issues the Board should focus on over the next 1, 3 and 5 years. Chair Bolger inquired about the goal, which Trustee Piombo indicated is to analyze the Board's processes from a strategic perspective. Trustee Shore recommended changing the process of evaluating investment managers annually, and reconsidering how the investment portfolio is structured. Mr. Shore and Mr. Piombo indicated that a more effective way of managing the investment portfolio should be considered.

Discussions included Trustee Bartfeld's support of exploring specific topics, such as the investment approach or the effect of modest changes to the discount rate. Trustee Given observed that the strategic plan should be clearly defined and align with daily administration of the system. Chair Bolger reflected on the concept of management by objective, explaining that a facilitator was used in the past whose value has been lost over the years. Strategic workshops can be a flexible avenue to explore concepts that have been identified, she added.

Mr. Wickman supported the concept of policy-level discussions to establish sustainable processes. Noting that there would be additional cost and up-front preparation involved, Mr. Wickman offered suggestions for engaging a facilitator to help define goals and priorities in advance of the meeting. Trustee Piombo suggested using Chair Bolger's themes of pension administration, disability retirement applications, and investments.

Based on discussions, Chair Bolger recommended that the Ad Hoc Education Committee meet again to develop an agenda for the Strategic Workshop.

Chair Bolger directed deliberations to **Agenda Item F.5.**

5. Public Employee Performance Evaluation (CLOSED SESSION)

Title: Retirement Administrator

In accordance with MCERA's Retirement Administrator Annual Performance Evaluation Policy Section 3(b), conduct mid-year informal performance review

It was M/S Piombo/Webb to reschedule, in the interest of time, the mid-year informal performance evaluation of the Retirement Administrator to the March 12 Board meeting.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, McFarland, Piombo, Shore, Webb

NOES: None

ABSTAIN: None

ABSENT: Smith

G. INVESTMENT INFORMATION

“X” indicates report distributed; * indicates report distributed electronically

PERIODIC REPORTS

1. Equities and Fixed Income

* X	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

	Woodmont Realty Advisors	-Direct ownership – Monthly report	
* X	AEW Capital Management	-Value Added Portfolio	Quarter
* X	AEW Capital Management	-Core Real Estate	Quarter
* X	RREEF	-Value Added Portfolio	Quarter
* X	Woodmont Realty Advisors	-Direct Ownership	Quarter
* X	UBS	-Core Real Estate	

3. Other

There being no further business, Chair Bolger adjourned the meeting at 1:58 P.M.

Bernadette Bolger, Chair

Howard McFarland, Secretary