

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 6, 2014 – 9 A.M.

CALL TO ORDER Chair Gladstern called the meeting to order at 9:01 A.M.

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

ABSENT: Bartfeld

MINUTES

It was M/S Bolger/Brenk to approve the February 6, 2014 Finance and Risk Management Committee Meeting Minutes with an administrative amendment.

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

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 provided an update on the electronic board packet project. Ms. Barre stated that upon successful user acceptance testing in February, the rollout of iPad's to trustees began with the March Board meeting. The rollout was expedited and completed by the April Board meeting. Staff provided training for each trustee on the iPad and the software to access documents. Eleven of twelve trustees are currently using the electronic board packets.

C. NEW BUSINESS

1. Administrative Budget FY 2013/14 Quarterly Review
Consider and review budget for quarter ending March 31, 2014

Mr. Wickman presented the current administrative budget through March 31, 2014, the third quarter of the fiscal year. He highlighted expenditure items including an increase in worker's compensation insurance, the cost of producing 1099Rs, and increases in MCERA's owner allocation for One McInnis Parkway as a result of recent property improvements. He also noted higher reproduction costs for annual benefit statements, retirement workshop handouts, and the quarterly newsletter.

In summary, Mr. Wickman reviewed year-to-date values and percentage of budget used. Through three quarters total expenditures are at approximately 70% of the allotted budget and the Administrator expects the final amount to be slightly under budget for the fiscal year ending June 30, 2014.

Mr. Wickman noted that retiree payroll is the single highest non-budgeted expenses. Mr. Wickman reviewed the cost of the actuarial valuation, legal expenses detailed by provider, and the latest determination letter filing fee. In response to Chair Gladstern's inquiry, Mr. Wickman explained that outside tax counsel will continue to be retained on a pay-for-service basis to consult on tax matters once the determination letter process is complete. In responding to Chair Gladstern's inquiry, Ms. Hardesty stated that taxable and non-taxable items on 1099s may be separated next year, depending on the requirements necessary in the new benefit system.

A discussion of investment manager fees followed, with Mr. Wickman noting that new active managers and new private equity commitments are offsetting the fee savings in moving to passive management of large cap equities. Trustee Bolger inquired about a comparison with other '37 Act systems and Mr. Wickman said the actuary has noted our investment manager fees run higher than other systems. The potential for fee savings by establishing separate accounts for pooled international accounts will be considered at the June Investment Committee meeting. Mr. Wickman expects reduced fees for Woodmont services based on a proposed new contract to be presented to the Board tomorrow.

2. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman reviewed educational and event-related expenses that include the CalAPRS General Assembly and the UCLA leadership program. Staff continues to participate in available training, he said, and gains value from interacting with peers.

b. Continuing Trustee Education Log

The Trustee Education Log shows that trustees are on track to meet the requirement of 24 hours every two years.

c. Other expenses per Checklist guidelines

Mr. Wickman presented a detailed record of credit card charges for review. Upon discussion the Chair concluded that the review is appropriate even though many charges are for relatively small items

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

See review above.

- e. Reconciliation of MCERA administrative accounts

No discussion.

- f. Vendor services provided to MCERA

See Agenda Item C.6.

- g. MCERA staffing status

Nothing new to report.

- h. Internal controls, compliance activities and capital calls

The capital call report was reviewed by Mr. Wickman who pointed out sources of funding for the Colchester global fixed income portfolio that include the S&P 500 Index and other planned reallocations of assets.

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

No discussion.

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

No discussion.

- k. Form 700 summary submittal

Mr. Wickman presented that annual Form 700 Summary for the purpose of identifying any potential conflict of interest. This year coding has been added to identify items related to staff, consultants, or trustees. The need for recusal due to a material financial interest in an entity that is under consideration would be determined on a case-by-case basis, according to Counsel Dunning.

3. Administrative Budget FY 2014/15 (Action)

Consider and possibly recommend adoption of administrative budget for the next fiscal year

Mr. Wickman presented the proposed Administrative Budget for Fiscal Year 2014/15. Salaries are budgeted at the top range for staff, with a projected 2.5% cost of living increase. The proposal includes reclassifying the vacant Principal Systems Analyst position to a proposed Financial Officer position. There would be two reclassifications from Retirement Member Service “Technician” to “Specialist” status, and provision for extra hires would be eliminated. The total administrative budget proposed is \$3.6 million, which is 17 basis points (of 21 basis points allowed) of the actuarial accrued liability and a 5.8% increase over the prior year.

The proposed budget lists goals for the coming fiscal year. These include customer service goals of building out retirement workshops to include other financial entities, improving walk-in customer response, and expanding customer service contact points. Communications goals include website redesign that is in progress, an enhanced Popular Annual Financial Report, and a disability handbook. Financial goals include developing a Comprehensive Annual Financial Report (CAFR). Other goals include giving visible leadership opportunities to staff and issuing RFPs for certain service providers.

In discussing the proposed position description, Trustee Shore indicated that focusing on chief investment officer (CIO) skills including financial analysis would be appropriate. In conclusion, Mr. Wickman stated that the proposed administrative budget of \$3.6 million is 17 basis points (of 21 basis points allowed) of the actuarial accrued liability and an increase of 5.8% from the prior year.

It was M/S Given/Piombo to recommend that the Board adopt the Administrative Budget for Fiscal Year 2014/15.

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

Chair Gladstern recessed the meeting for a break at 10:35 A.M., reconvening at 10:40 A.M.

4. Initial Future Cash Flow Analysis

Consider and discuss cash flow analysis

Mr. Wickman introduced Senior Accountant Lisa Jackson to provide the review of the Initial Future Cash Flow Analysis. Ms. Jackson stated that the analysis projects cash flow over one, three, five and ten years based on certain assumptions. Factors include inflows from contributions and investments. Outflows include retirement payroll and other benefit payments, administrative expenses, investment fees, and other consulting services. Ms. Jackson explained future assumptions for certain expenses such as reduced fees for Woodmont and a decline in private equity fees.

Discussions included liquidity needs and the potential for a higher number of future retirees. Mr. Wickman is not expecting a spike in the number of retirements even though

County data indicates that a high percentage of the County's workforce is eligible to retire. In response to Trustee Brenk's inquiry, Mr. Wickman explained that the projected cash flows are based on factual positions as opposed to assumed investment returns. Trustee Shore observed that the annual expected investment return is greater than the annual cash flow deficit.

Trustee Bolger recommended that the future cash flow analysis be included in investment allocations discussions. The Administrator plans to review the analysis with the investment consultant and then bring the matter to the Investment Committee.

5. Annual Audit of Financial Statements Update

Update on annual audit process

Mr. Wickman reported that the engagement letter with Brown Armstrong for the annual financial statement audit is complete. The auditor will be onsite in July and August, according to Ms. Jackson.

6. Key Service Providers Review

Annual administrative review of key service providers

Mr. Wickman reviewed the activities of MCERA's key service providers which includes the actuary, auditor, custodian, investment consultant, and legal counsel. In compliance with MCERA's policy the providers are actively monitored by the Administrator who reports any significant issues to the Board. Periodic issuance of RFPs is part of the monitoring process and not an indication of dissatisfaction with any service provider. RFPs for financial auditor and medical advisor are planned for the next fiscal year, according to Mr. Wickman.

Mr. Wickman stated that he is pleased with the work of the actuary and legal counsel who are increasingly relied on to respond to the challenges that are the result of the 2008/2009 financial crisis.

Trustee Brenk expressed an interest in concepts presented in the Advanced Principles for Pension Management course sponsored by UCLA such as layered amortization and rolling versus closed amortization. These topics will be included in the draft funding policy planned for the next Governance Committee meeting, according to Mr. Wickman.

In conclusion, Mr. Wickman sees no issues with key service providers who are giving good service to MCERA.

There being no further business, Chair Gladstern adjourned the meeting at 11:15 A.M.

Maya Gladstern, Chair

Attest: Jeff Wickman, Retirement Administrator