MINUTES

REGULAR BOARD MEETING
MARIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

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

December 10, 2014 - 9 a.m.

EVENT CALENDAR  9 a.m. Regular Board Meeting

CALL TO ORDER  Chair Bolger called the meeting to order at 9:00 a.m.

ROLL CALL  PRESENT:  Bartfeld, Bolger, Brenk, Cooper (alternate safety), Given, Gladstern, Haim (alternate retired), Piombo, Shaw (ex officio alternate), Shore, Thomas, Webb

                        ABSENT:  None

MINUTES
It was M/S Webb/Gladstern to approve the November 5, 2014 Regular Board Meeting Minutes as submitted.

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

It was M/S Gladstern/Thomas to approve the October 14-15, 2014 Strategic Workshop Minutes as submitted.

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

A.  OPEN TIME FOR PUBLIC EXPRESSION
Note:  The public may also address the Board regarding any agenda item when the Board considers the item.
Jody Timms, Peter Anderson, Richard Gray, Ken Jones and Silver Clark from 350Marin addressed the Board regarding climate change. They asked the Board to consider conducting an educational session on social investing and to divest from fossil fuel investments.

B. APPOINTMENT OF BOARD COMMITTEES
Appointment of Committees and Committee Chairs (Action)

Chair Bolger stated that she worked with the Administrator to develop the committee assignments for 2015. Committees and committee chairpersons appointed by Chair Bolger for 2015 are:

*Investment Committee* – composed of all twelve members of the Retirement Board

*Finance and Risk Management Committee*
- Alan Piombo, Chair
- Bernadette Bolger
- Roy Given
- Dave Shore
- Sean Webb

*Governance Committee*
- Jeffrey Bartfeld, Chair
- Bernadette Bolger
- Greg Brenk
- Maya Gladstern
- Phillip Thomas

*Ad Hoc Education Committee*
- Dave Shore, Chair
- Jeffrey Bartfeld
- Allen Haim
- Maya Gladstern

*Ad Hoc Retirement Administrator Performance Evaluation Committee*
- Bernadette Bolger, Chair
- Chris Cooper
- Roy Given
- Phillip Thomas

It was M/S Shore/Gladstern to approve committee members and committee chairpersons as submitted.

- **AYES:** Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Thomas, Webb
- **NOES:** None
- **ABSTAIN:** None
Trustee Shaw joined the meeting at 9:26 a.m.

C. MATTERS OF GENERAL INTEREST
1. Funding Policy Methodology (Action) – Cheiron, Graham Schmidt

Consider and take possible action to adopt layered amortization and direct rate smoothing methodologies

Mr. Wickman introduced Actuary Graham Schmidt of Cheiron to present layered amortization and direct smoothing methodologies for consideration by the Board. Mr. Schmidt explained that the funding policy is designed to balance the objectives of securing the benefit promise, reducing contributions through investment earnings, providing predictable and stable contributions, and promoting intergenerational equity.

Mr. Schmidt reviewed the goal of amortization within the funding policy. Amortization of the unfunded accrued liability (UAL) is designed to get assets back to the target level. Key amortization parameters are the length of the period, the payment pattern (level dollar, level percent of pay), rolling or closed periods, and single or multiple layers for different sets of liabilities. The current MCERA amortization policy is a 17-year closed period with level percentage of payroll. The 2008 extraordinary loss is amortized over a 25-year closed period. Mr. Schmidt stated that the amortization policy is reasonable and satisfies the GASB cross-over test with closed periods that decrease every year.

Moving forward Mr. Schmidt recommended separate amortization layers for future sources of UAL changes (from investment gains/losses or assumption changes). Parameters for these layers would need to be defined for the length of the amortization period and payment pattern. The Conference of Consulting Actuaries (CCA) and the California Actuarial Advisory Panel (CAAP) both encourage use of layered, level-percentage of pay amortization. These organizations provide “Model” policies which include 15 to 20 years for actuarial gains or losses and 15 to 25 years for assumption and method changes. With the level percentage of pay method, Mr. Schmidt explained, negative amortization is expected in the early stages but only for periods of 1-2 years.

In response to Trustee Gladstern’s inquiry Mr. Schmidt explained that amortizing over a shorter period of 10 years would be unreasonable in that it would lead to highly volatile contribution rates. Trustee Bartfeld inquired about a sliding scale based on the size of the gain or loss. This would add unneeded complexity to the funding policy, according to Mr. Schmidt, and there would also be a question of materiality in that there may be a minimal effect on contribution rates.

Mr. Schmidt provided graphical representations to show the effect of different amortization periods on the projected UAL and amortization payments. He also presented multiple statistical modeling results that measure the potential impact of different amortization periods on future contribution rates, funded status, and annual expected change in contributions, based on assets, liabilities, assumptions, and methods.
as of June 30, 2013. Mr. Schmidt concluded that 20-year amortization of gains and losses provides significant enhancements to volatility management and is consistent with CCA, CAAP, and the Society of Actuaries Blue Ribbon panel recommendations. In his analysis Mr. Schmidt focused on the relative change in the projected contribution rate from year to year, noting that layered amortization reduces the variability of rates.

Chair Bolger paused the discussion to direct deliberations to time-certain Agenda Item E.1, Disability Consent Calendar, at 10:00 a.m.

E. DISABILITY CONSENT CALENDAR ITEM 1 (TIME CERTAIN: 10:00 a.m.) (Action)

1. Harold Cavallero Service-connected Marin County Fire Dept.
   Adopt Administrative Recommendation to grant service-connected disability retirement application with an effective date of November 1, 2013.

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

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

Chair Bolger recessed the meeting for a break at 10:02 a.m., reconvening at 10:15 a.m. and directing deliberations to the remainder of Agenda Item C.1.

Mr. Schmidt continued his analysis of the modeling results. He explained that 20-year amortization provides the most favorable balance between controlling contribution rate volatility and reducing the UAL. In response to Trustee Brenk’s inquiry Mr. Schmidt and Mr. Wickman explained that the existing UAL would be placed into its own amortization layers. In response to Trustee Haim’s inquiry Mr. Wickman stated employers are aware of the layered amortization recommendation and direct rate smoothing presentation and are in the today’s audience.

Mr. Schmidt began his presentation on direct rate smoothing by discussing smoothing methods, noting that traditional 5-year asset smoothing has been used to smooth market volatility and, thus, reduce contribution rate volatility. Another method is to, instead of smoothing inputs (assets), smooth the output (liability changes). This method is known as Direct Smoothing and was recently adopted by CalPERS and the Santa Barbara Employees’ Retirement System. Mr. Schmidt noted that direct rate smoothing is more practical now given the new Government Accounting Standards Board changes that require the market value of assets to show the funding status of the Plan. Mr. Schmidt noted that MCERA’s annual valuations show the funded ratio using the smoothed and market value of assets. Direct rate smoothing would eliminate the need to show the funded ratio on smoothed basis.
Mr. Schmidt reviewed the parameters for direct smoothing. The same principles apply to the length of the amortization period for liability and assumption changes as they do for asset smoothing. Direct smoothing includes five-year ramp up and ramp downs that effectively lengthen the amortization period by half the length of the smoothing period. Mr. Schmidt provided graphical representations to demonstrate that the pattern for projected contribution rates is similar for direct smoothing and traditional asset smoothing.

Mr. Schmidt recommended implementing direct rate smoothing and set forth the recommended parameters shown below.

Amortization policy recommendations of the actuary are:

- Layered, level percentage of payroll amortization for changes in the UAL after June 30, 2013
- Adopt separate levels for gains/losses, assumption or actuarial method changes, and benefit changes
- 20-year amortization of gains/losses and assumption/method changes
- Shorter amortization layers for benefit changes: shorter of 15 years or expected working lifetime of affected members for active members; shorter of 10 years or average expected remaining lifetime of affected members for retiree changes

It was M/S Gladstern/Piombo to adopt the amortization policy recommendations of the actuary as listed in italics above.

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

Direct rate smoothing is recommended by the actuary with the following parameters:

- Five-year phase-in/out for asset and liability gains/losses
- Three-year phase-in/out for assumption changes (aligns with 3-year period for Experience Studies)
  - 22 year amortization schedule, which includes a 3 year phase-in/out period
- Maintain same amortization periods as elected under traditional method
  - 24 year amortization schedule, which includes a 5 year phase-in/out period
- Not applicable for benefit changes

It was M/S Piombo/Gladstern to adopt the actuary’s recommendations for direct rate smoothing as listed in italics above.

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

At the January 2015 Board meeting Mr. Schmidt will present an analysis of the proposed amortization and smoothing methodology recommendations based on economic and demographic changes adopted by the Board from the Experience Study. In response to Trustee Shore’s inquiry, Mr. Wickman stated that plan sponsors understand that direct rate smoothing lends greater stability to contribution rates.

D. BOARD OF RETIREMENT MATTERS
   1. Administrator’s Report (Oral)
      a. Administrator’s update

Mr. Wickman reported that he attended the fall SACRS conference where Diane Oakley, Executive Director of the National Institute on Retirement Security (NIRS), provided an update on NIRS research on the economic impact of defined benefit plan payments. He also found the presentation on changes in the health care systems as presented by representatives from Manatt, Phelps & Phillips and Kaiser Permanente to be valuable. Other topical subjects included a discussion of the challenges of investing in a low interest rate environment and a review of the recent Ventura initiative.

Mr. Wickman commended MCERA’s two delegates, Trustees Gladstern and Webb, for relating concerns regarding the proposed CERL re-organization legislation and Ad Hoc Committee proposals at the SACRS Board meeting.

Mr. Wickman commended Assistant Retirement Administrator Michelle Hardesty and staff for eliminating the backlog of service purchases.

The Administrator is a member of the CalAPRS executive board that met in Burbank recently to set assignments for 2015. Mr. Wickman volunteered to chair the committee for the Administrators’ Institute in September of 2015. He will also serve on the Management Academy committee, Operations Committee and will coordinate the Attorney Roundtables.

- Staffing Update – see Agenda Item G.1 regarding the Financial Officer position.
- Facility Use Report – The Marin County Association of Retired Employees (MCARE) held a meeting in the Board conference room for their board meeting in the past month.

b. Business Objectives Quarterly Review

Mr. Wickman reviewed the status of business objectives for the current evaluation year. In Benefit Administration workload tracking in OnBase, the existing imaging and document management system, has not been started. Implementing additional
customer service contacts to allow members to receive service directly from staff is planned as a function of our new web presence which is under development.

Performance Management metrics reported by Assistant Retirement Administrator Michelle Hardesty follow:

- One hundred percent (versus goal of 95%) of new retiree payroll inceptions are completed in the month following retirement. The benefits team has embraced this goal as part of their culture.
- Retirement estimates are ahead of where they were this time last year. Of 63 estimates for March 2015 retirements, 50 members have requested retirement applications. Eventually the goal of completing 80% within 30 days will be measured.
- Ninety-nine percent of service purchases (versus goal of 75%) are completed within 30 days of receiving a request. There are 4 service purchases over 30 days that require adjustment in the system for specific circumstances.
- Responses to all written customer correspondence are completed within 5 days.

Mr. Wickman commended Ms. Hardesty and the benefits team for meeting or exceeding most performance objectives. Other improvements include enhanced member education as a result of the new retirement seminar program.

Trustee Haim complimented staff for enhanced customer services and Trustee Piombo observed that he has heard no complaints in his two years on the Retirement Board. Trustee Gladstern was impressed with how quickly the new system can generate benefit estimates. In response to Ms. Gladstern’s inquiry, Ms. Hardesty stated that next year she will have a better idea of the percentage of service purchase requests completed by staff.

The Human Resource Management objective of filling the Financial Officer position is underway. Mr. Wickman’s proposal to hire a recruiter for the position underscores its importance and will be discussed under Agenda Item G.1 below.

Management of investments will be enhanced through the proposed rebalancing strategy that will be considered at tomorrow’s Investment Committee meeting. Review of and potential changes to the Investment Committee charter are complete.

In communications and education the web site design is complete and we are ready to populate the site. With changes to the online benefit estimate calculator, now PEPRA members have the ability to produce estimates. Also the calculator was previously limited to members with 10 years of service but now accepts any period of service. In 2015 the seminar program for early career employees will include presentations by representatives from the County’s deferred compensation program. The disability handbook is 90% complete and will include a fillable application form for the convenience of members.
Completing the first Comprehensive Annual Financial Report (CAFR) is linked to filling the financial officer position.

c. Future meetings
   - December 11, 2014  Investment Committee
   - January 14, 2015  Board

2. Standing Committee Reports
   a. Finance and Risk Management Committee
      1. Administrative Budget FY 2014/15 Review
         Consider and review budget for quarter ending September 30, 2014

         Finance and Risk Management Committee Chair Gladstern reported that overall expenditures for the Administrative Budget as of September 30, 2014 were on track at 25% of the budgeted amount. The Administrator reviewed budget categories running higher than 25% for the quarter, including workers compensation insurance that was impacted as a result of higher than expected experience in the County of Marin pool. Professional services includes an amount in addition to the annual audit for implementing GASB 67/68. Membership dues for SACRS are an annual amount. Higher expenses for transcription/medical records review and investigations were required for a few complex disability retirement applications.

   2. Non-budgeted Expenses
      Consider and review non-budgeted expenses for the quarter

      Retiree payroll is the largest single expenditure for non-budgeted expenses at $28 million. CPAS expenses include the annual hosting services fee, software upgrades and maintenance. Additional service hours were purchased to have new contribution rates updated. Legal expenses were discussed in regards to data in the survey conducted for SACRS by R.V. Kuhns. Comparison of the data is difficult because some systems utilized in-house counsel. In general there was consensus that MCERA has received excellent representation but it is also necessary for the Retirement Administrator to be diligent in managing legal expenses. Woodmont expenses are for placing Century Plaza on the market, which is half their fee for selling the property. Investment manager fees are the second largest category.

   3. Quarterly Checklist
      Consider, review and updates on the following:
      a. MCERA educational and event-related expenses

         The committee reviewed educational and training expenses for trustees and staff that include the CalAPRS Principles of Pension Management and Leadership Management courses.
b. Continuing Trustee Education Log

Continuing education requirements due December 2014 have been met for all trustees.

c. Other expenses per Checklist guidelines

No discussion.

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

See discussion above.

e. Reconciliation of MCERA administrative accounts

Progress has been made in identifying key drivers for reconciliation of administrative accounts.

f. Vendor services provided to MCERA

Nothing new to report.

g. MCERA staffing status

See Agenda Item G.1.

h. Internal controls, compliance activities and capital calls

Capital calls for private equity commitments are more consistent recently as activity has increased in the private equity markets.

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

The annual audit resulted in a clean opinion of the financial statements as of June 30, 2014. Processes for documenting risk assessment and adding and removing staff from CPAS will be reviewed.

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

Nothing to report.

4. Fiduciary Liability Insurance Renewal (Action)
Consider and take possible action on selection of fiduciary liability insurance provider
The Finance and Risk Management Committee conducted an initial review of two proposals for renewal of MCERA’s fiduciary liability insurance and directed the Administrator and counsel to work with MCERA’s broker MacCorkle Insurance Services to address potential questions with the proposal from Hudson. Based on these discussions and the potential legal challenges currently under litigation Mr. Wickman and Counsel Dunning recommend renewing fiduciary liability insurance with current provider AIG. There will be a small increase in the annual premium from the prior year due to general claims experience and terms are otherwise favorable to MCERA. In response to Trustee Haim’s inquiry Ms. Dunning stated there is no retention cost in the current litigation.

It was M/S Webb/Shore to retain AIG as provider of the Board’s fiduciary liability insurance.

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

5. Recruitment of Financial Officer Position (Action)
Consider and take possible action on Finance and Risk Management Committee’s recommendation to enter into agreement with recruiter for financial officer position

The Committee recommended that the Board hire Alliance Resource Consulting to assist with the recruitment of the Financial Officer. This matter is presented under New Business Agenda Item G.1, Recruitment Service Contract, for action by the Board.

3. Trustee Comments
Chair Bolger initiated a discussion of whether tomorrow’s Investment Committee meeting should be delayed in view of potential inclement weather. Upon discussion there was general consensus to continue with the meeting as scheduled.

F. CONSIDERATION OF AND ACTION ON ITEMS PULLED FROM DISABILITY CONSENT CALENDAR AND OTHER NON-CONSENT CALENDAR DISABILITY RETIREMENT APPLICATIONS
[Any non-Consent Calendar disability retirement application, whether pulled from the Disability Consent Calendar or originally agendized as a non-Consent agenda item, will be considered in Closed Session unless the applicant specifically waives confidentiality and requests that his or her application be considered in Open Session.]

There were no matters presented for this agenda item.

G. NEW BUSINESS
1. Recruitment Service Contract (Action)
Consider and possibly approve contract for Alliance Resource Consulting LLC for the recruiting of the Financial Officer position

Mr. Wickman presented a memo with background information in support of his recommendation to hire Alliance Resource Consulting (Alliance) to recruit candidates for the Financial Officer position. Alliance is experienced in recruiting high-level positions with '37 Act systems and is therefore attuned to the unique skills necessary for the operation of the pension plan. The total cost would not exceed $21,000 plus actual and reasonable expenses. Should initial candidates prove to be unsatisfactory prior to interviews, MCERA can inform Alliance and the fee will not exceed $14,000, plus actual and reasonable expenses.

It was M/S Gladstern/Thomas to approve the contract with Alliance Resource Consulting LLC for the recruiting of the Financial Officer position for an amount not to exceed $21,000 plus actual and reasonable expenses, with the additional conditions provided in the proposed contract.

Trustee Given abstained from the vote as he is working with Alliance Resources Consulting on a contract with Marin County that may be in dispute.

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

2. Future Meetings
Consider and discuss agenda items for future meetings

No discussion.

H. INVESTMENT INFORMATION
“X” indicates report distributed; * indicates report distributed electronically

PERIODIC REPORTS
1. Equities and Fixed Income
   * X Abbott Capital - Private Equity Funds
   * X Artisan Funds, Inc. - International Equities Fund
   * X Colchester Global Investors - Global Fixed Income
   * X Columbus Circle Investors - Small Cap Growth Equities
   * X Dimensional Fund Advisors - Small Cap Value Fund
   * X Eaton Vance - Parametric - Emerging Markets
   * X Morgan Stanley - International Equities Fund
   * X Parametric Clifton - Futures Overlay Program
   * X Pathway Capital - Private Equity Funds
   * 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 -Intermediate Credit 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
*  X  Woodmont Realty Advisors -Direct Ownership Quarter
*  X  UBS -Core Real Estate Quarter
3.  Other

I.  OTHER INFORMATION
   1.  Trustee Training Calendar
   2.  Keeping in Touch – December Issue, Retired Employees Association newsletter

J.  CONSENT CALENDAR (Action)

It was M/S Gladstern/Given to approve the Consent Calendar as submitted.

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

There being no further business, Chair Bolger adjourned the meeting at 12:05 p.m.

____________________________________            __________________________________
Bernadette Bolger, Chair        Alan Piombo, Secretary
### Consent Calendar

#### November 2014

### Return of Contributions

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<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nancy Morais</td>
<td>Return of Contributions/Rollover</td>
<td>$1,146.74</td>
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<tr>
<td>Valerie Smith</td>
<td>Return of Contributions/Termination</td>
<td>$12,850.63</td>
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<td>Aisha Ervin</td>
<td>Return of Contributions/Termination</td>
<td>$242.89</td>
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<tr>
<td>Diane Slager</td>
<td>Partial Refund of Contributions/30 yr excess</td>
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<tr>
<td>Raffaello Pata</td>
<td>Partial Refund of Contributions/30 yr excess</td>
<td>$880.37</td>
</tr>
</tbody>
</table>

### Buyback

- Martha Kassin  
  - County of Marin
- Brian Case     
  - County of Marin
- Jordan Degen   
  - County of Marin
- Peter Frye     
  - County of Marin
- Shelly Ingram  
  - County of Marin
- Kay Jackson    
  - County of Marin
- Pradash Manirojana  
  - County of Marin
- Carol Myers    
  - County of Marin

### New Retirees

- Charla Gonzalez  
  - H&HS  
    - County of Marin
- Carol Gallivan  
  - DA  
    - County of Marin
- Richard Corriea 
  - Sheriff  
    - County of Marin
- Bonita Shannon  
  - CDA  
    - County of Marin
- Jackie Crawford 
  - County of Marin
- Diane Slager    
  - H&HS  
    - County of Marin
- Keith Pepper    
  - Child Support Services  
    - County of Marin
- Linda Driskell  
  - Accessor-Recorder  
    - County of Marin

### Rescinded Retirements

- Ann Graves  
  - Probation  
    - County of Marin
- James Jurik   
  - H & HS  
    - County of Marin
- Ruth Gardner  
  - Beneficiary  
    - City of San Rafael

### Conferences/Seminars

- SACRS Fall Conference  
  - Trustees Cooper, Gladstern, Shore, Thomas, Webb  
  - Staff Wickman, Callahan, Dunning