

MINUTES

FINANCE AND RISK MANAGEMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

March 1, 2017 – 9:00 a.m.

The Board of Retirement for the Marin County Employees' Retirement Association encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board and Committee meetings. If members of the public wish to speak on any agenda items, please alert the Retirement Administrator to that request prior to the matter being called.

CALL TO ORDER

Chair Stevens called the meeting to order at 9:00 a.m.

ROLL CALL

PRESENT: Given, Murphy, Piombo, Shore, Stevens

ABSENT: None

MINUTES

It was M/S Piombo/Given to approve the August 25, 2016 Finance and Risk Management Committee Meeting Minutes as submitted.

AYES: Given, Murphy, Piombo, Shore, Stevens

NOES: None

ABSTAIN: None

ABSENT: None

A. OPEN TIME FOR PUBLIC EXPRESSION

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

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Committee concerning a non-agenda item. Members of the

Committee may (1) briefly respond to statements made or questions posed by persons addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No public comment.

B. NEW BUSINESS

1. Alternative Investment Fee Disclosures

Review and discuss new disclosure requirements under Assembly Bill (AB) 2833

Retirement Administrator Jeff Wickman stated the 2016 California State Legislature passed AB 2833 requiring additional disclosures for alternative investments. Mr. Wickman introduced Yuliya Oryol, Partner and Co-Chair of the Public Pensions and Investments Group at Nossaman LLP, who joined the meeting by conference call. Board Counsel Ashley Dunning explained that Ms. Oryol leads the investment-related legal activities for the group. Ms. Oryol noted she is a member of a subcommittee of California public retirement system counsel tasked with developing approaches for complying with AB 2833.

Ms. Oryol stated that the intent of AB 2833 is to make fees charged for alternative investments more transparent. All new investment contracts and existing contracts with new capital commitments on or after January 1, 2017 must comply with AB 2833.

There are four new items of disclosure on alternative investments public pension plans must report annually:

1. Fees and expenses paid directly to a fund, fund manager or related parties.
2. The pro rata share of fees and expenses not included in (1) that are paid from a fund to a fund manager or related parties.
3. The pro rate share of carried interest distributed to the fund manager or related parties.
4. The pro rata share of aggregate fees and expenses paid by all portfolio companies held within a fund to the fund manager or related parties.

Ms. Oryol indicated there are questions among fund managers about the scope of the required reporting items. Responding to Trustee Shore's inquiry, Ms. Oryol stated that California is the leader among states on this issue.

Ms. Oryol said the Institutional Limited Partners Association (ILPA) fee reporting template was developed with the goal of creating a uniform way for managers to report to LPs. She noted that some managers agree to use the template and others do not. Compliance with the ILPA template should provide the information required by AB 2833; however, some managers push back on providing that information publicly, as opposed to providing it to the LPs only. The majority of fund managers with whom Ms. Oryol negotiates for California retirement systems are complying with AB 2833. There are still technical issues that must be worked out, including who calculates the internal rate of return (the general partner or the limited partner), how existing contracts should be treated for reporting purposes, and which asset classes are considered alternative investments.

Trustee Given indicated more clarity is needed on who is responsible for complying with AB 2833.

Mr. Wickman stated that MCERA's Side Letters for the two most recent commitments to private equity managers contain language that the fund-of-fund managers will comply with AB 2833. Ms. Oryol observed that negotiations with Pathway on MCERA's latest commitment resulted in the inclusion of ILPA template language. Ms. Oryol stated there is some interpretation required on how private equity fund-of-fund managers comply with AB 2833, specifically whether the requirements applies to the underlying funds as well as to the overall fund. She noted the general partner will only be able to report on what is received from underlying funds. The Committee directed Mr. Wickman to bring the first reporting of fees as required by AB 2833 to the July Investment Committee for review. Thereafter the information will be posted directly to MCERA's public web site.

2. Cyber Risk Management (Action) – Jeff Wickman, Ashley Dunning

Consider and provide possible direction regarding cyber security implementation, including without limitation potential solicitation of proposals for cyber insurance policies

Mr. Wickman stated that MCERA's current fiduciary liability insurance coverage includes limited cybersecurity coverage. In December 2016 he recommended to the Board that the Finance and Risk Management Committee consider whether MCERA should obtain more expansive cyber coverage. Trustee Given suggested looking into potential options available through the county, CPAS, or on a system-wide basis for cybersecurity protection.

The Committee directed Mr. Wickman to reach out to County Risk Management to see what additional cyber insurance may be available. CPAS should also be contacted to find what protections are in place through MCERA's hosting agreement. Finally Mr. Wickman and Ms. Dunning should investigate the costs of potential additional coverage. Staff and counsel are to bring the findings to a future Committee meeting for additional discussion.

3. Administrative Budget Fiscal Year 2016/17 Quarterly Review

Consider and review budget for quarter ending December 31, 2016

The Administrator stated the review of the administrative budget includes the first two quarters of the fiscal year as of December 31, 2016. Assistant Retirement Administrator Michelle Hardesty and Senior Accountant Lisa Jackson reported on this topic.

Ms. Hardesty commended the accounting team for preparing the quarterly budget data. Ms. Hardesty reported overall salaries and benefits are 43% of the budgeted amount, under budget at mid-fiscal year. Within this category workers' compensation is over the budgeted amount and will be adjusted for next year's budget. Trustee Given advised that the increase in workers' compensation expense is due to changes in the law governing workers' compensation and a higher number of applicants.

In the services and supplies category, records retention expenditures slightly exceeded the budgeted amount. Insurance premiums will be within the budgeted amount at the end of the fiscal year. Ms. Hardesty noted that expenditures for medical examinations, transcribing and investigations are 80% of the budgeted amounts. Moving forward these

will be broken down into more definable categories to get a better view on the expenses. Mr. Wickman noted other expenditures in the first half of the fiscal year included the annual audit, processing of 1099R's, the offsite fall Strategic Workshop, and elections.

4. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

The Administrator reported that non-budgeted expenses include retiree payroll, investments, the benefit system and legal services. Legal expenses are running slightly higher than last year as result of additional work on disability cases and legal work on new investment contracts.

5. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman said educational and event-related expenses represent trustees doing their due diligence to meet ongoing training hour requirements.

b. Continuing Trustee Education Log

The trustee education log shows trustees are achieving the 24 hours of education required every two years.

c. Other expenses per Checklist Guidelines

Credit card expenses and supporting documentation were presented with no discussion.

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

See budget discussion above.

e. Reconciliation of MCERA administrative accounts

Mr. Wickman reported that the work on understanding the balances in the administrative accounts has been completed. Going forward he does not expect any additional role for MCERA in conducting the reconciliation or any impact to MCERA. Trustee Given stated there will be a determination on how to resolve the matter.

f. Vendor services provided to MCERA

One vendor was engaged on a short-term basis to assist with staffing and human resource issues.

g. MCERA staffing status

As the Administrator reported to the Board, the Human Resources Department is researching potential classifications for the former Chief Financial Officer position that

he and Ms. Hardesty will consider. Ms. Hardesty reported that she will be looking to permanently fill two positions that currently are filled by extra hires.

h. Internal controls, compliance activities and capital calls

The capital call report includes cash distributions MCERA receives from private equity funds. Mr. Wickman explained the report shows other transfers including funding the KBI natural resources portfolio and rebalancing the Fund.

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

Ms. Hardesty reported the annual financial audit process will begin in May and employer audits will begin shortly.

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

No discussion.

6. Budget Priorities for Fiscal Year 2017-18 (Action)

Consider and take possible action to recommend budget priorities for Fiscal Year 2017-18.

Mr. Wickman stated the draft administrative budget for Fiscal Year 2017-18 will be presented to the Committee for approval at the June 2017 meeting. Budget priorities will include reducing the benefit factor from 67% to 65% of pay, adjusting salaries to reflect increases resulting from the reclassification study, adding the 3% Cost of Living Adjustment (COLA) that has been negotiated for county employees, increasing medical expenses related to disability benefit processing and defining new specific expenditure categories.

Additional priorities presented to the Committee included the acquisition of a new bar code scanner that would speed up the indexing of documents and expanding video and audio recording capabilities for Board and Committee meetings. The final budget priority is to upgrade security features for the front lobby. In response to Trustee Piombo's inquiry regarding potential savings or cost improvements to One McInnis, Mr. Wickman recommended reconvening the Ad Hoc One McInnis Committee.

7. Future Meetings

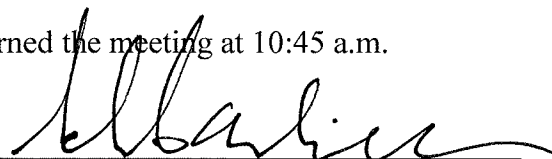
Consider possible agenda topics for future meetings

At the next Committee meeting the Administrator will present the final proposed administrative budget for the next fiscal year and additional information on cyber insurance.

There being no further business, Chair Stevens adjourned the meeting at 10:45 a.m.



Kim Stevens
Chairperson



Jeff Wickman
Retirement Administrator