

**MINUTES**  
**REGULAR BOARD MEETING**  
**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**

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

**September 13, 2017 – 9:00 a.m.**

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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 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.

**EVENT CALENDAR**      9 a.m. Regular Board Meeting

**CALL TO ORDER**

Chair Bolger called the meeting to order at 9:01 a.m.

**ROLL CALL**

PRESENT:    Bolger, Given, Gladstern, Jones (alternate retired), Murphy, Shaw (ex officio alternate), Shore, Stevens, Thomas

ABSENT:    Cooper, Piombo (alternate safety), Silberstein

**MINUTES**

It was M/S Gladstern/Shore to approve the August 9, 2017 Board Meeting Minutes as submitted.

AYES:        Bolger, Gladstern, Murphy, Shore, Stevens, Thomas

NOES:        None

ABSTAIN:    None

ABSENT:    Cooper, Given, Piombo, Silberstein

Chair Bolger thanked Dave Shore for his service to the Board of Retirement and expressed her appreciation for his wisdom, patience and kindness. Trustee Shore responded it has been a very rich five years.

Trustee Shaw joined the meeting at 9:03 a.m.

**A. OPEN TIME FOR PUBLIC EXPRESSION**

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

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this time on matters within the Board’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 Board concerning a non-agenda item. Members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

Dick Tait complimented the work of the three departing Board members (Trustees Bolger, Shore and Stevens) and encouraged them to be decision makers in the upcoming discussion on the assumed rate of return.

Trustee Given joined the meeting at 9:05 a.m.

**B. APPOINTMENT OF BOARD STANDING COMMITTEE CHAIRPERSON (Action)**

Appointment of Chairperson of Investment Committee

Chair Bolger recommended that the Board appoint Roy Given as the Chairperson of the Investment Committee.

It was M/S Gladstern/Thomas to appoint Roy Given as Chairperson of the Investment Committee.

- AYES: Bolger, Given, Gladstern, Murphy, Shore, Stevens, Thomas
- NOES: None
- ABSTAIN: None
- ABSENT: Cooper, Piombo, Silberstein

**C. MATTERS OF GENERAL INTEREST**

1. 2017 Experience Study – Review of Economic Assumptions – Graham Schmidt, Cheiron  
Review and discuss the initial results from the actuary

Retirement Administrator Jeff Wickman explained that every three years MCERA’s Actuary conducts an Experience Study that reviews current economic and demographic assumptions used by MCERA. The Administrator invited input from the Board on today’s first preview of the economic assumptions. On October 18 at the Strategic Workshop, the actuary will present final economic assumptions for adoption. Demographic assumptions will be presented in November with the completed Experience Study.

Mr. Schmidt stated economic assumptions are inflation, wage growth, the cost of living adjustments (COLAs), and the expected return on assets (the discount rate). The economic assumptions are developed using a building-block approach, with inflation underlying all assumptions. For example, inflation plus the real rate of return equals the expected, or nominal, rate of return. Similarly, inflation plus real wage growth equals the base wage

growth assumption. Assumptions need to be reasonable, both individually and in aggregate. Current economic assumptions are:

- Inflation: 2.75%
- Wage Growth: 3.00%
- Expected Return: 7.25%
- Real Return: 4.5%

Mr. Schmidt presented historical and projected inflation data, noting that the current assumption is higher than the investment consultant's 2.25% inflation assumption. Information on projected inflation was gathered from the Cleveland Federal Reserve, the Survey of Professional Forecasters published by the Philadelphia Federal Reserve, and Cheiron's survey of CalAPRS retirement systems. Mr. Schmidt concludes that the current inflation assumption of 2.75% is reasonable from a historical perspective and slightly higher than the current mean market expectations.

Trustee Stevens asked how the wage growth assumption is determined. Mr. Schmidt noted that over the last three years County wage growth has been approximately 3%. He added that the inflation assumption is long term and may not match up with current wage contracts that last for 3 years.

Mr. Schmidt introduced Bill Hallmark to discuss wage growth. Discussing the 3% base wage growth assumption, Mr. Hallmark stated the data varies across time periods. He attributed the 25 basis point real wage growth factor to budget pressures, the political environment, and the increasing cost of health care. Factors that may lead to higher real wage growth would be revenue growth and tax increases. Social Security projections are based on a range of 0.6% to 1.8% assumed real wage growth. Mr. Schmidt explained that improvements in productivity over the long term drive real wage growth and there is uncertainty recently about relatively low productivity.

Mr. Schmidt explained that he models return expectations for the MCERA portfolio using data and asset correlations from the investment consultant, other investment consultants active in California public pension plans, and from a broader survey by Horizon Actuarial Services for 10- and 20-year expectations. Results are averaged across all consultants based on a 15-year approximate duration. The model duration-weighted averages are: 6.77% nominal return, 2.43% inflation, and 4.34% real return. For active managers, the same return is expected net of fees. The actuary reviewed the likelihood of achieving various nominal and real returns over time using the average of consultants' expectations. He reported there was a slightly better than 50% chance of achieving a 7% nominal return.

Trustee Stevens asked if a 50% chance is good and how does that probability compare with other plans. Mr. Schmidt responded that if the goal is it to fund the Plan over the long term, then that percentage is good. In order to have a margin for conservatism, he said, a return with greater than 50% chance may be a preference; more plans are moving in this direction. Time period matters in the statistics, the actuary said, and the probability is higher over longer time frames. Responding to Chair Bolger's inquiry, Mr. Schmidt stated if future inflation is lower than the assumption, there would be actuarial gains on the liability side because COLAs and salaries would be lower.

Trustee Given asked how actuaries reconcile the longer time horizon for economic assumptions with the shorter timeframe of the consultant's data. Mr. Given also asked whether the Fund's return over time is considered. In response, Mr. Schmidt stated that short-term expectations are driven by current market conditions and long-term expectations are an assumption that long-term returns will revert to the mean. For example, bond yields have been very low recently, so the long-term expectation is for higher yields. It is a difficult process to meld the short and long-term assumptions together, Mr. Schmidt said, because the future is uncertain, and Board members must use their best judgment to select assumptions needed to fund the Plan. Therefore, the focus is on the average of expectations for the return assumption. Trustee Shore noted there could be variability in historical returns depending on the timeframe and, given the recent positive stock market, the context now is for lower trailing investment returns.

Mr. Wickman stated the economic assumptions are the most difficult decision for the Board and there is both short- and long-term information to consider. The assumptions are reviewed every year and in depth every three years through the Experience Study. Counsel Dunning advised in response to Chair Bolger's inquiry that the Board has the plenary authority and fiduciary responsibility to set actuarial assumptions and is required to base its decisions on those assumptions on an actuary's recommendations. Mr. Schmidt pointed out that it is not necessary get the number perfect because the financing plan is set on a gradual basis, with periodic adjustments after events change.

Mr. Schmidt noted that the 4.5% real rate of return assumption is in the range and slightly higher than Callan's 4.24% real return assumption and there is a less than 50-50 average chance of achieving the 7.25% return assumption. The key recommendation from the actuary is to reduce the real rate of return to 4.25%. He presented two options for the Board to consider:

- I. Lower the discount rate to 7.0% and leave inflation at 2.75%. Or,
- II. Lower the inflation assumption from 2.75% to 2.5% and reduce the discount rate to 6.75%.

For each option that would be phased-in over 3 years, the actuary presented preliminary total cost and funded ratio impacts. For employers, cost impacts will differ depending on differences in liability-to-payroll ratios and different COLA provisions. In the first year, the effect on the overall contribution rate for MCERA for Option I would be an increase of just under 2% of pay.

Mr. Wickman pointed out that our return assumption has always been slightly lower than Callan's; now, it is higher, so we need to get to a lower assumed return. Mr. Schmidt added investment consultants are reducing expected returns going forward, in part because the market has had good returns lately. Trustee Shore stated the direction should be toward narrowing the funding gap.

Mr. Wickman said Mr. Schmidt would continue working on the Experience Study and present economic assumptions for final consideration at the October Strategic Workshop. In response to Chair Bolger's inquiry, Mr. Schmidt stated he recommends considering reducing the real return to 4.25% and leaving the inflation assumption at 2.75%, as it is

within the range of forecasts. Chair Bolger expressed appreciation to Mr. Schmidt and Mr. Wickman for bring the preliminary information on economic assumptions to the Board.

Chair Bolger directed deliberations to **Agenda Item F, Disability Consent Agenda.**

**F. DISABILITY CONSENT AGENDA (TIME CERTAIN: 10:00 a.m.) (Action)**

1. Allan Castaneda            Service-connected        San Rafael Police Department

Adopt Administrative Recommendation to grant service-connected disability retirement application.

It was M/S Given/Shore to adopt the Administrative Recommendation to grant Allan Castaneda's service-connected disability retirement application with an effective date of March 25, 2016.

AYES:            Bolger, Given, Gladstern, Murphy, Shore, Stevens, Thomas  
NOES:            None  
ABSTAIN:        None  
ABSENT:        Cooper, Piombo, Silberstein

Chair Bolger directed deliberations to **Agenda Item D.1., Administrator's Report.**

**D. BOARD OF RETIREMENT MATTERS**

1. Administrator's Report

- a. Administrator's Update

Retirement Administrator Jeff Wickman reported that the Board of Supervisors at its September 19 meeting will consider 15 applicants for three upcoming vacancies on the Board. When the selection process is completed, the appointments will be for the 6<sup>th</sup> member, effective when appointed, and for the 5<sup>th</sup> and 9<sup>th</sup> members effective November 1, 2017.

The transition of the REIT Index portfolio from Vanguard to BlackRock will be completed this week. Moving the S&P 500 Index portfolio from State Street Global Advisors to BlackRock is pending Callan's analysis of the cost savings presented for the securities lending split.

This time of year is busy, Mr. Wickman said, as staff is closing the books for the fiscal year ending June 30, 2017 and completing the production of the financial statements. Staff is also working on annual statements for members and producing the data for the annual actuarial valuation. On top of these activities, we are moving to new version of CPAS, he said. Trustee Gladstern expressed appreciation to staff for getting the demographic data to the actuary earlier.

b. Staffing update

A new internal position has been posted for a Benefits Supervisor to supervise the front desk and staff who support benefit activity. We are also moving forward with the Accounting Unit Manager recruitment. The recruiting is underway to fill the Accounting Assistant and Senior Accounting Assistant positions.

c. Facility Use Report

MCERA held a meeting in the executive conference room last week.

d. Future Meetings

- October 11, 2017 Board
- October 17-18, 2017 Strategic Workshop

Chair Bolger recessed Open Session for a break at 10:21 a.m. and reconvened the meeting in Closed Session for deliberations on **Agenda Items E, Legal Matters, and G, Non-Consent Agenda Disability Retirement Applications**, at 10:30 a.m.

Chair Bolger recessed Closed Session and reconvened the meeting in Open Session at 11:00 a.m.

**E. LEGAL MATTERS**

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

*Greene v. Office of Administrative Hearings, MCERA*, Marin County Superior Court Case No. 1701907

Chair Bolger reported that there was no reportable action in this agenda item.

**G. CONSIDERATION OF AND ACTION ON NON-CONSENT AGENDA DISABILITY RETIREMENT APPLICATIONS (TIME CERTAIN: 10:00 a.m.) (CLOSED SESSION) (Action)**

[Any non-Consent Agenda disability retirement application, whether pulled from the Disability Consent Agenda 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.]

1. Larry Daniel                      Service-connected      Marin County Human Resources Dept.

Consider and take possible action on Administrative Recommendation to adopt Administrative Law Judge's proposed findings of fact and recommended decision to deny service-connected disability retirement and grant non-service-connected disability retirement.

Trustee Thomas recused himself and left the room as he knew the applicant and stated that he was unable to be impartial.

Chair Bolger reported that the Board adopted by a vote of 7-0 the Administrative Law Judge's proposed Findings of Fact and Recommended Decision to deny service-connected disability retirement and to grant non-service-connected disability retirement to Larry Daniel effective September 6, 2014. Trustee Jones voted in place of Trustee Thomas. Trustees Cooper, Piombo and Silberstein were absent. Motion was by Trustee Given and seconded by Trustee Shore. Voting for the motion were Trustees Bolger, Given, Gladstern, Jones, Murphy, Shore, and Stevens.

Chair Bolger directed deliberations to **Agenda Item D.2.a, Standing Committee Reports, Finance and Risk Management Committee.**

## 2. Standing Committee Reports

### a. Finance and Risk Management Committee

#### 1. Administrative Budget Fiscal Year-End 2016/17 Review

Consider and review budget for year ending June 30, 2017

Mr. Wickman reported total administrative expenditures for Fiscal Year 2016/17 were 89.6% of the budgeted amount, primarily due to salary savings in vacant positions. All other major budget categories were about 99% of the budgeted amount.

#### 2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

The April Cost of Living Adjustment (COLA) increased retiree payroll. Legal expenses have come down, the Administrator said, and include Nossaman's work on investment contracts for private equity that will benefit the Plan. Investment fees are higher as the move to the lower cost Artisan investment vehicle is not complete.

#### 3. Quarterly Checklist

Consider, review and updates on the following:

##### a. MCERA educational and event-related expenses

The Wharton Investment Strategies course was the biggest single expense for educational events that the Administrator said is worth the commitment.

##### b. Continuing Trustee Education Log

The trustee education log shows all trustees are meeting their 24-hour educational requirement every two years.

##### c. Other expenses per Checklist Guidelines

Credit card expenditures were presented with no discussion.

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

See discussion above.

- e. Vendor services provided to MCERA

No discussion.

- f. MCERA staffing status

See Administrator's Report above.

- g. Internal controls, compliance activities and capital calls

MCERA is receiving more capital back from private equity; distributions of about \$30 million exceeded capital calls by approximately \$5 million in the fiscal year ended June 30, 2017.

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

See below.

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

MCERA has purchased about \$2 million of cyber insurance coverage through an NCPERS-endorsed program. Mr. Wickman thanked Jim Vorhis at Nossaman for his work on the Cyber Insurance. The IT Risk Assessment Report will be presented at the December Committee meeting.

#### 4. Annual Audit of Financial Statements Update

Update on annual audit of financial statements by Brown Armstrong

Auditors are on site and in the final stages of completing the financial statements for presentation to the Board in November.

### 3. Ad Hoc Committee Reports

- a. Ad Hoc Education Committee

#### 1. Strategic Workshop Agenda (Action)

Consider and take possible action to approve agenda

Mr. Wickman presented a draft agenda for the October 17-18 Strategic Workshop for consideration. He explained that agenda topics are a combination of tactical items that would have been on the Investment Committee or Board agendas and strategic items for consideration. First will be the actuary's recommendations on economic assumptions based on the Experience Study. Next, investment consultant Callan Associates (Callan) will present the private equity pacing plan and then the quarterly



investment report. Lastly, Callan will present a discussion of small-cap equity portfolio strategies.

On the second day, current investment managers will present their annual reports. These will be followed by a discussion of our proxy voting process, including why we have a policy on proxy voting, how it works, and what are options other than what we are currently doing. State Street Global Advisors will share their approach to proxy voting. Chair Bolger asked Counsel Dunning to consider new federal regulations in her discussion.

It was M/S Thomas/Given to approve the Agenda for the October 17-18 Strategic Workshop as submitted.

AYES: Bolger, Given, Gladstern, Murphy, Shore, Stevens, Thomas  
NOES: None  
ABSTAIN: None  
ABSENT: Cooper, Piombo, Silberstein

#### 4. Trustee Comments

##### a. Educational Training: Reports by Trustees and Staff

Trustee Bolger expressed her view that the Board should take a position on whether Board members may be absent from Board meetings in order to attend conferences.

##### b. Other Comments

No discussion.

### H. NEW BUSINESS

#### 1. Final Public Employee Performance Evaluation. Title: Retirement Administrator Board Chair report on Consensus Evaluation

Chair Bolger reported that the Retirement Board gave Retirement Administrator Jeff Wickman an outstanding consensus evaluation. Chair Bolger observed that Mr. Wickman has excellent rapport with Board members and thanked him for making the job of the Board easier.

Mr. Wickman expressed appreciation for the Board's feedback, giving credit to staff for making it easy to do his job. Mr. Wickman said Assistant Retirement Administrator Michelle Hardesty's work allows him to add value to the non-operational aspect of the retirement plan. Chair Bolger thanked Ms. Hardesty for her good work and staff performance. Trustee Given said Mr. Wickman's sharing of credit with staff says a lot about his leadership style.

2. SACRS Voting Delegate (Action)

Select delegate and alternate delegate to vote on MCERA's behalf at the 2017 SACRS business meeting November 17, 2017

Chair Bolger recommended Mr. Wickman and Trustee Gladstern as delegate and alternate delegate, respectively, to represent and vote for MCERA at the November SACRS business meeting.

It was M/S Given/Stevens to select Retirement Administrator Jeff Wickman as delegate and Maya Gladstern as alternate delegate to vote on MCERA's behalf at the 2017 SACRS business meeting on November 17, 2017.

Trustee Gladstern expressed her view that proposals developed by the SACRS Legislative Committee, on which she serves, get a broad base of feedback from all the member systems before they are presented to the SACRS Board of Directors. Mr. Wickman advised there may be items from the business meeting packet to discuss at MCERA's October Board meeting.

AYES: Bolger, Given, Gladstern, Murphy, Shore, Stevens, Thomas  
NOES: None  
ABSTAIN: None  
ABSENT: Cooper, Piombo, Silberstein

Trustee Given indicated it may be appropriate to advise SACRS in writing of our position with respect to Trustee Gladstern's concerns.

3. Future Meetings

Consider and discuss agenda items for future meetings

No discussion.

**I. OTHER INFORMATION**

1. Training Calendar (Action)

It was M/S Gladstern/Shore to approve the Training Calendar as submitted.

AYES: Bolger, Given, Gladstern, Murphy, Shore, Stevens, Thomas  
NOES: None  
ABSTAIN: None  
ABSENT: Cooper, Piombo, Silberstein

2. Keeping in Touch

September Issue, Association of Retired Employees newsletter

Mr. Wickman attended the MCARE luncheon with Syd Fowler, sharing information on the system's investment returns and funded status. He also discussed the upcoming changes in the Board members. Ms. Fowler related upcoming timelines for notifying members of changes in medical plan rates.

**J. CONSENT CALENDAR (Action)**

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

AYES: Bolger, Given, Gladstern, Murphy, Shore, Stevens, Thomas  
NOES: None  
ABSTAIN: None  
ABSENT: Cooper, Piombo, Silberstein

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**CONSENT CALENDAR**

**MCERA BOARD MEETING, WEDNESDAY, September 13, 2017**

**August 2017**

<b>RETURN OF CONTRIBUTIONS</b>		
Margarita Guerrero	Refund of Contributions (termination)	\$4,370.56
Samantha Killebrew	Refund of Contributions (termination)	\$65,243.35
Sara Pearce	Refund of Contributions (termination)	\$68,641.62
Jamie Murray Sandoval	Refund of Contributions (termination)	\$12,696.94
Cindy Hunter	Refund of Contributions (termination)	\$3,628.66
Gasdali Veronica Perez	Refund of Contributions (active death - Luis Cortez)	\$1,596.94
Michael Sferrati	Partial Refund of Contributions (30 years)	\$1,921.29
Yajing Huang	Partial Refund of Contributions (correction)	\$78.00

<b>BUYBACKS</b>	
Emmanuel Menjivar	\$225.65
Elizabeth Jean Everhart	\$13,316.56
Jessica Meinolf	\$3,686.57
Karl Lance Finley	\$6,700.39
David Cornell	\$40,478.70

<b>NEW RETIREES</b>	
Pamela Williams	Courts
Nicole Terry	County of Marin - Library
John Clement	Southern Marin Fire
John Oakes	County of Marin - H&HS
Michael Sferrati	County of Marin - Assessor
Andrew Yon	County of Marin - Library
Theresa McGovern	County of Marin - Library
Nancy Smith	County of Marin - Child Support Services
John Wanamaker	County of Marin - DPW

<b>DECEASED RETIREES</b>
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Ken Harnquist	County of Marin - IST
Marcela Storrs	County of Marin - Beneficiary
Ransom Coleman	City of San Rafael
Loel Buckley	County of Marin - H&HS

<b>CONFERENCES/SEMINARS</b>
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Mr. Wickman said Trustee Shore will be missed, thanking him for his service and the collective wisdom he brought to the Board and Investment Committee as its Chairperson. Trustee Shore expressed thanks and said it has been a pleasure.

Trustee Given said Randy Coleman was the well-liked Finance Director for the City of San Rafael and expressed condolences to his family.

There being no further business, Chair Bolger adjourned the meeting in memory of deceased members Ransom Coleman, Ken Harnquist, Marcela Storrs, and Loel Buckley at 11:36 a.m.

  
Bernadette Bolger, Chair

  
Roy Given, Secretary