

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**

February 28, 2018 – 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

ROLL CALL

PRESENT: Klein, Murphy, Shaw

ABSENT: Block, Given, Piombo

MINUTES

It was M/S Shaw/Klein to approve the December 6, 2017 Finance and Risk Management Committee Meeting Minutes as submitted.

AYES: Klein, Murphy, Shaw

NOES: None

ABSTAIN: None

ABSENT: Block, Given, Piombo

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 members of the public provided comment.

B. NEW BUSINESS

1. Administrative Budget Fiscal Year 2017/18 Quarterly Review

Consider and review budget for quarter ending December 31, 2017

Retirement Administrator Jeff Wickman presented and reviewed the administrative budget and expenditures for the quarter ending December 31, 2017, the second quarter of MCERA's fiscal year.

Trustee Piombo joined the meeting at 9:04 a.m.

Mr. Wickman reported the biggest single expenditure in the administrative budget is for Salaries and Benefits. As a result of position vacancies, expenditures are running below the budgeted amount; this will change as vacant position are filled. Mr. Wickman reported there continues to be a small amount of overtime for customer service needs related to the high volume of estimate requests this year. Significant progress has been made in addressing the high volumes and the Administrator does not expect overtime to continue beyond the first quarter of 2018.

In the Services and Supplies category, fiduciary liability insurance was renewed at a cost of approximately \$64,000 for the year. Subscription costs include renewal of a pension benefit monitoring service to locate members with address issues and check on retiree/beneficiary deaths. Conference expenses included the CII conference in San Diego and a Callan College investment course. Document reproduction costs are related to the production of the annual member benefit statements. A breakdown of disability-related expenses shows amounts for medical examinations, investigations, transcribing/medical record review, and hearings for the quarter. Under Supplies, one new iPad was purchased for one of new Board members.

Mr. Wickman reviewed year-to-date percentages for the administrative budget at mid-fiscal year. Salaries and Benefits are well under budget at 40%; as position vacancies are filled, the category is expected to be nearer to the budgeted amount for the next quarter. Insurance premiums represent the budget for the entire year. Conference and training expenditures are 52% of the budgeted amount; more conference attendance is a good thing, he added. Two trustees will be attending the Wharton Investment Strategies and Portfolio Management course which will increase expenditures in this category.

The Administrator pointed out that disability-related expenses that are 58% of the budgeted amount slowed down in the second quarter after a significant first quarter. Expenditures depend on the nature of disability cases and their timing. Interdepartmental Charges are for Marin County services MCERA uses, such as human resources, information technology, and the payroll processing system. Mr. Wickman said the charges are based on an allocation model and he works with the Department of Finance to address any questions related to MCERA-specific amounts. In summary, Mr. Wickman reported

the expenditures through the second quarter of the fiscal year (December 31, 2017) are at 44% of the budgeted amount.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Mr. Wickman explained that the administrative budget consists of items that are not related to investment, legal, and actuarial functions. These items are reflected in the non-budgeted expenses. Retiree payroll is the biggest non-budgeted expenditure. Retiree payroll expenditures remain fairly consistent for most of the fiscal year with the only increase typically occurring in March and April due to the application of the Annual Cost of Living Adjustment (COLA) and when more members are likely to retire. Trustee Piombo expressed an interest in how many retirements there will be this spring. Mr. Wickman explained that, based on the higher volume of estimate requests, staff are anticipating a higher volume of retirees than last year. Trustee Piombo advocated balancing workload and customer service. Assistant Retirement Administrator Michelle Hardesty stated major changes have been made in getting members who anticipate retiring to have reasonable service expectations.

CPAS expenses are for the support services contract and hosting agreement renewal. The IBM – Cognos expenditure is for the annual license renewal of the software needed to support applications in MCERA's benefit management system.

Mr. Wickman reviewed fees for professional consultant services. These include legal expenditures in three categories: (1) County Counsel services, the majority of which are disability related; (2) tax counsel by Ice Miller for unusual tax or disability-related matters; and (3) Nossaman legal expenses detailed below. Cheiron fees of \$77,425 are for the annual Actuarial Valuation Report and the 2014-17 Experience Study. Appraisals of One McInnis Parkway are conducted every year. Investment Manager fee expenditures are impacted by the timeframe in which MCERA receives invoices. Quarterly fees for Callan Associates' investment consulting services are \$70,000 per quarter.

Nossaman legal fees include General Counsel fees and investment fees related to contracts and investment management agreements. Litigation expenses are for two cases: Marin Association of Public Employees (MAPE) v. MCERA and Greene v. MCERA. Each case is still active and will incur additional expenses. MCERA is being reimbursed for the majority of its legal expenses through its fiduciary liability insurance provider.

Mr. Wickman noted that fees for the Artisan portfolio will decrease now that the transition from the mutual fund vehicle to the commingled investment trust is complete. Merging the two Parametric emerging markets portfolios into one commingled investment trust has reduced fees. The transition of the REIT portfolio from Vanguard to BlackRock is complete. The RREEF real estate portfolio has been totally liquidated so there will be no more fees.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Trustee educational events include the CII fall conference, Callan investment course, and the fall SACRS conference. Disability Coordinator Jackie Bamford and Benefit System Support Analyst Cookie Shamrock attended CalAPRS Disability Training and the Benefit Roundtable, respectively. Special event costs are related to catering for the Strategic Workshop held at MCERA.

b. Continuing Trustee Education Log

The continuing education log tracks progress toward the 24-hour training requirement every two years. The report shows trustees with due dates through November of 2018 have already completed the required hours.

c. Other expenses per Checklist Guidelines

Other items are credit card expenditures that includes the statements and a summary outlining each item and its purpose. Expenses include the GMEI purchase of a Legal Entity Identifier which certifies MCERA as legal entity. Also, a new iPad for one new trustee, and the December Board and staff recognition luncheon.

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

See discussion above.

e. Vendor services provided to MCERA

No new vendor services.

f. MCERA staffing status

One final benefits position will be filled in March and then the benefits team will be fully staffed.

g. Internal controls, compliance activities and capital calls

The capital call report shows distributions and capital calls from private equity managers. MCERA is receiving healthy distributions from the older private equity funds, and capital is being called for the newer private equity funds. The report shows the final distribution from the RREEF real estate portfolio. There is a distribution from the AEW Partners value real estate portfolio that is almost fully liquidated; MCERA received most of its money back. The remainder of the report shows portfolio transitions and rebalancing.

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

Staff will begin preparing for the annual financial audit this spring.

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

Nothing to report.

4. Budget Priorities for Fiscal Year 2018/19 (Action)

Consider and take possible action to recommend budget priorities for fiscal year 2018/19

Mr. Wickman presented and discussed an outline of potential budget priorities for the next fiscal year. As in the past, staff will bring a proposed administrative budget for the 2018/19 fiscal year to this Committee for review in May. Mr. Wickman discussed some adjustments the Committee should expect to see in the draft budget. These include a cost of living adjustment for staff based on negotiations currently underway between the County and its labor organizations, a reduction in the benefit multiplier from 61% to 60% of salaries, and the potential recommendation of new positions based on customer service and administrative needs. The Administrator explained that the current fiscal year administrative budget is well under the 1937 Act expenditure cap of 21 basis points of the total liability for the Plan, and this will be the case for the proposed budget.

Mr. Wickman discussed staff turnover that occurred in the past year. In response to Trustee Piombo's inquiry, Mr. Wickman said there were multiple reasons for the departures which included promotional opportunities and the ability to work closer to home and avoid commuting.

Based on this fiscal year's data, the budget for medical expenses for disability benefit processing is likely to be revised. Mr. Wickman explained because disability cases are becoming more complex, he is proposing a review of the disability process for potential efficiencies. As part of the continuing move away from the use of paper documents, the plan is to purchase scanner/indexing bar code hardware and software. For the Board chambers, Mr. Wickman said the technology is currently over ten years old and we may need to begin looking at potential upgrades. A final decision would come only after building leasing activities at One McInnis have been completed. In response to Trustee Gladstern's inquiry, Mr. Wickman said staff will also be looking to see if Trustee iPads should be replaced or upgraded.

In summary, Mr. Wickman said the proposed budget priorities give a sense of what will be in the administrative budget for the next fiscal year. There can be other items built into the budget as necessary, he said.

5. Credit Card Procedure

Staff report on procedure for use of MCERA credit card

At the December 6, 2017 Committee meeting, the question came up of whether credit card statements should continue to be included in the Finance and Risk Management Committee meeting packets. The Committee requested that staff look at the current credit card process and propose any recommended changes. As a result, Mr. Wickman presented

a new proposed Credit Card Policy (Policy) for the Committee's consideration. He said the internal operating Policy is designed to document current processes and address needed controls for the use of credit cards at MCERA. If the policy is adopted, Mr. Wickman recommends removing credit card statements from the meeting packet and retaining the summary of charges document.

Mr. Wickman begin the review by reminding the Committee that MCERA has issued two credit cards to staff: one to the Clerk of the Board, and a second to the executive assistant to the Retirement Administrator. Reviewing provisions in the proposed Policy, Mr. Wickman said the Accounting Unit Manager will review credit card charges and then present them to the Retirement Administrator for approval. The Policy establishes maximums for both individual purchases and total monthly purchases with exceptions for Board member travel and expenses related to their official duties and education. Exceptions to the maximum amounts are outlined in the draft Policy. Based on Trustee Gladstern's recommendation, Mr. Wickman proposed adding preapproval for the use of the credit card by cardholders for their business needs.

Chair Murphy asked whether the auditor had reported on the lack of a documented process for credit card use. In response, Mr. Wickman stated the auditors are aware that all credit card charges are reviewed by the Finance and Risk Management Committee meeting and then the full Board. Ms. Dunning advised that approval of the Credit Card Policy by the Board would establish it as a formally authorized delegation.

It was M/S Piombo/Klein to recommend that the Board adopt the Credit Card Policy as amended per discussions.

AYES: Klein, Murphy, Piombo, Shaw
NOES: None
ABSTAIN: None
ABSENT: Block, Given

6. Future Meetings

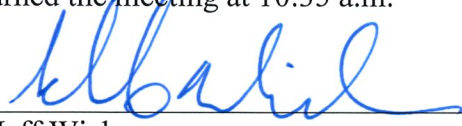
Consider possible agenda topics for future meetings

Mr. Wickman said topics for the next Committee meeting may include custodial credit risk and cyber risk that Trustee Block provided information on during the February Board meeting. In response to Trustee Klein's inquiry, Mr. Wickman said the role of the Committee with respect to One McInnis Parkway includes costs like property management and any events such as insurance claims. He explained that the Board chose to form an ad hoc committee to deal with leasing One McInnis activities. Trustee Gladstern pointed out the Committee's charter provides for a cost/benefit analysis of the building. Mr. Wickman said this can be brought from the ad hoc committee to the Finance Committee for discussion.

There being no further business, Chair Murphy adjourned the meeting at 10:35 a.m.



Laurie Murphy
Chairperson



Jeff Wickman
Retirement Administrator