

## 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 3, 2020 – 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 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 Werby called the meeting to order at 9:01 a.m.

#### **ROLL CALL**

PRESENT: Block, Given, Klein, Murphy, Werby

ABSENT: None

#### **MINUTES**

It was M/S Block/Murphy to approve the November 20, 2019 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by unanimous vote as follows:

AYES: Block, Given, Klein, Murphy, Werby

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 members of the public provided comment.

## **B. NEW BUSINESS**

### **1. Administrative Budget Fiscal Year 2019/20 Quarterly Review**

Consider and review expenses for quarter ending December 31, 2019

Accounting Unit Manager La Valda Marshall discussed administrative expenses for the quarter ending December 31, 2019. Total salaries and supplies were 3.8% under budget due to two vacant positions. Total services and supply expenses were slightly under budget and included one new iPad for the new trustee that was not budgeted. The personal computers lease was reclassified to non-administrative expenses; other cost allocations are accruals at 25% each per quarter. Ms. Marshall reported that at mid-fiscal year, total salaries and benefits are 36% of the budgeted amount for the fiscal year ending June 30, 2020 due to position vacancies, total services and supplies are 48% of the budgeted amount, and total administrative expenditures are \$1.87 million, 40% of the budgeted amount for the fiscal year.

### **2. Non-budgeted Expenses**

Consider and review non-budgeted expenses for the quarter

Non-budgeted expenditures totaled \$42.7 million for the quarter, of which 92% are attributed to retiree payroll and retiree-related expenses. Other non-budgeted categories include computer expenses and the new category totaling \$48.5 thousand for the quarter that includes Linea Secure's cybersecurity assessment. Legal, investment, actuarial and other consultant fees make up remaining non-budgeted expenses. Detail for Nossaman's additional work on leasing activities at One McInnis Parkway during the quarter is provided in the report. Ms. Marshall reported that total non-budgeted expenses at mid-fiscal year are about 52% of the amount spent in the prior fiscal year.

Mr. Wickman said the change in expenses for Cheiron from the prior quarter is due to work on the annual Actuarial Valuation Report. Callan expenses include \$15,000 for the annual private equity fee report. Trustee Block questioned paying for the private equity fee report, indicating this data should be delivered by private equity providers. In response the Administrator reminded the Committee that MCERA is required by state law to collect and report the information on private equity fees. Staff made a choice to have Callan develop this report in a uniform way for a small fee. Chair Werby asked if the report is worth \$15,000 and the Administrator replied affirmatively, adding it is subject to the Committee's and Board's direction. Trustee Klein said she is uncomfortable paying to have the private equity managers transmit how much money they are charging us. Trustee Block indicated the managers may be up to speed on the reporting template and could do the fee reporting going forward. Mr. Wickman said he will talk with Callan about this.

### 3. Quarterly Checklist

Consider, review and updates on the following:

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

The Administrator noted the expense attributed to Trustee Murphy for SACRS was low as she did not attend the fall conference. The expense for Tom Iannucci is for one-half of his fee for the cancelled October 2019 Strategic Workshop; MCERA will pay the remaining half at the April 2020 Strategic Workshop.

#### b. Continuing Trustee Education Log

The Continuing Education Log lists events attended by trustees during the quarter. Trustee Block asked about its purpose in the meeting packet, and Mr. Wickman explained staff has to have the information, which is the basis for tracking required education hours for trustees. Counsel Dunning advised that the Committee should review categories so that a variety of subject matter is being covered.

#### c. Other expenses per Checklist Guidelines

The summary of credit card expenditures includes annual membership fees for the National Conference on Public Employee Retirement Systems (NCPERS) and the American Institute of Certified Public Accountants (AICPA). The AICPA is a valuable resource for collecting information around the financial audit, Mr. Wickman said. Chair Werby asked why MCERA had a late payment fee on its credit card. Ms. Marshall replied staff made payment a day late during a federal holiday and now walks the credit card payment into the bank office.

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

See discussion above.

#### e. Vendor services provided to MCERA

Mr. Wickman reported the engagement of a new vendor during the quarter, Lorenzo Jones, who is doing team-building facilitation work.

#### f. MCERA staffing status

One of two vacant positions has been filled as Business Systems Analyst Vladimir Matyurin starts work on the 9<sup>th</sup> of March. The other position of Retirement Benefits Technician is posted and closes tomorrow.

#### g. Internal controls, compliance activities and capital calls

Private equity capital calls and distributions for the first half of the fiscal year were presented for Abbott and Pathway funds. Mr. Wickman noted that when the private equity program began in 2008 there were no capital calls due to the existing financial crisis. MCERA is now beginning to see distributions from the early vehicles. Trustee

Block said as vehicles age there is supposed to be a limit on how long capital can be called. Mr. Wickman said staff has talked with Callan about zombie funds, adding there was an inordinately long J-curve with the early funds.

Mr. Wickman reported on a Fund rebalance that will be in the next capital call report. In early February MCERA was informed by Parametric that the Fund pierced the upper allocation target for equities and the downside allocation target for fixed income. After consulting with Callan, a physical rebalance was executed moving \$80 million from the S&P 500 portfolio and into the fixed income portfolio. The liquidation happened last Tuesday, February 25th during the initial period of market volatility due to COVID-19. Trustees Klein and Block inquired about the time lag, and Mr. Wickman explained after receiving notification from Parametric it took one day to get the buy and sell details from Callan. The remaining two weeks before the actual transactions were staff generated. Some of the delay is related to one manager only opening their fund for redemption once a month. Trustee Block asked if moving to cash while a rebalance is pending is an option the next time the Fund is equity heavy and the Administrator said that could be done to mitigate any market impact. Trustee Klein inquired as to the reason for the time lag, noting that if the market goes down 10% in one week, there is no need to rebalance. She further stated that when rebalancing is triggered, it should be easy to move money around. The Administrator said staff will look into the timing and identify ways to expedite the process.

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

Nothing to report.

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

Mr. Wickman distributed two articles on the impact of the Coronavirus from Callan. Yesterday he and Assistant Retirement Administrator Michelle Hardesty attended a meeting of Marin County Department Heads and Assistants where the public health officer shared information on the Coronavirus. The virus causes flu-like symptoms and was understated in China where it originated. Infected people may have no symptoms, and it appears at this stage not to be affecting children. Most deaths are occurring in populations over 65 years of age who have another medical condition. The virus is being spread person-to-person and more cases are expected. The advice is to wash hands properly, not touch the face, and stay home if symptoms occur. Also, let a hospital know if you are coming in for testing so it can prepare.

Mr. Wickman reported that Callan will address the virus at the March 18 Investment Committee meeting. Chair Werby asked if the virus is an emergency that should be agendized for tomorrow's Board meeting. Ms. Hardesty explained that MCERA has a contingency plan to continue operations and Mr. Wickman stated the discussion can wait for the Investment Committee meeting. Counsel Dunning advised that if there were an emergency, staff could schedule an Investment Committee meeting with 24 hours' notice.

Mr. Wickman reported he distributed to Board members a letter from a member asking the Board to divest from fossil fuels. He explained to the member how MCERA approaches this issue based on its Statement of Investment Policy Regarding Divestment.

4. Custodial Services Request for Proposal

Provide update on the evaluation of responses to the custodial services Request for Proposal

Mr. Wickman reported that Callan has evaluated the three responses to the Request for Proposal (RFP) for custodial services. This Thursday staff will confer with Callan representatives on which firms will be interviewed.

5. Budget Priorities for Fiscal Year 2020/21 (Action)

Consider and take possible action to recommend budget priorities for fiscal year 2020/21

The Administrator presented budget priorities for Fiscal Year 2020-2021 that are the precursor to the formal budget to be presented in May. The timing allows for including as much information as is available from Marin County's overall budget for the new fiscal year.

Expenses related to legal, actuarial, information technology, and investment items are excluded from the Administrative Budget by statute. After adjustments for reimbursable items, the current fiscal year's Administrative Budget is \$4.2 million. The legislature established a cap on the Administrative Budget of 21 basis points of the Plan's total liability, which is just under \$6 million.

Salaries and benefits comprise 66% of the Administrative Budget and are budgeted at the top step to allow for some capacity in the budget. The benefit multiplier has been going down for the last few years and will go down again to the mid-50's percent level. On July 1, 2020 a 2.5% increase in salaries and benefits has to be accounted for in the new budget.

Mr. Wickman discussed two areas where he notices that other CERL systems have staffing that MCERA does not. Those are internal audit and investment staff. Mr. Wickman indicated that pursuing either position as an addition to MCERA staff would require work with the County of Marin. He did not recommend adding the staff but wanted to discuss his research with the Committee and get any feedback they had.

Trustee Block indicated an interest in pursuing the internal audit function which may be considered an investment expense given control issues revolving around money going in and around investments. Trustee Given said he is not sure whether the expense would be worth it, noting MCERA would be better off contracting services on an as needed basis to address specific issues. Mr. Wickman concurred that this service might be something that could be contracted for. Chair Werby supported this avenue and Mr. Wickman suggested staff could get a proposal from an auditing services firm to consider.

Trustee Klein asked when MCERA might add someone in an investment position and what they would do. Mr. Wickman said adding new staff would take multiple months and would require close work with the County. Trustee Murphy asked about the effect of

having investment staff and Mr. Wickman explained that the Investment Committee would still be making all the decisions and the investment staff member would be an internal resource for the Investment Committee. Trustee Block indicated compensation would be a barrier. Based on discussions, the Administrator said he will continue to research typical duties of an investment analyst position and pursue the audit function through a potential contracting services arrangement.

Trustee Block asked about the financial effect if MCERA moved its offices and Mr. Wickman said he will work with the Ad Hoc One McInnis Committee on that and report back to the Committee.

Other items in the budget proposal are improvements to costs related to National Disability Evaluations and purchase of a bar code scanner to continue moving away from paper documents. In response to Chair Werby's inquiry, Mr. Wickman explained the bar code contains information that allows the document to be indexed electronically and moved through workflow to the appropriate staff person. Mr. Wickman noted that the audio-visual equipment in the Boardroom is starting to wear, so staff will look into enhanced technologies including the ability to live stream meetings. No action is required for the budget priorities, he said.

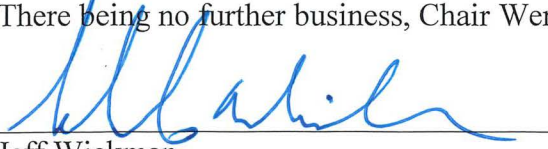
6. Annual Audit of Financial Statements Update  
Update on audit process

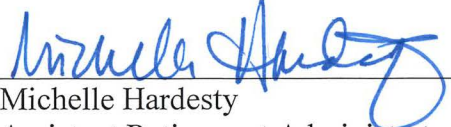
The Audit Committee will meet soon to kick off the June 30, 2020 annual financial audit. Brown Armstrong will have a new partner leading the team for this year's audit since Andy Paulden is at the legal time limit for being the lead partner.

7. Future Meetings  
Consider possible agenda topics for future meetings

Trustee Block asked about the planned review of MCERA's insurance coverage and Mr. Wickman replied this will be presented at May's meeting. Also at that meeting, Linea Secure will present the results of its cyber security assessment. Trustee Block asked about the custodial RFP matter which will go directly to the Board during its April meeting.

There being no further business, Chair Werby adjourned the meeting at 10:25 a.m.

  
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Jeff Wickman  
Retirement Administrator

  
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Michelle Hardesty  
Assistant Retirement Administrator

On Behalf of:  
Todd Werby, Committee Chair

On Behalf of:  
Jeff Wickman, Retirement Administrator