

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

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

May 6, 2020 – 9:00 a.m.

This meeting was held via teleconference pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020. The meeting was accessible to the public via livestream on MCERA's YouTube channel.

EVENT CALENDAR 9 a.m. Regular Board Meeting

CALL TO ORDER

Retirement Administrator Jeff Wickman called the meeting to order at 9:00 a.m.

ROLL CALL

PRESENT: Block, Cooper, Given, Gladstern, Jones (alternate retired), Klein, Murphy, Poirier (alternate safety), Shaw (ex officio alternate), Silberstein, Werby

ABSENT: Thomas

MINUTES

It was M/S Werby/Murphy to approve the April 8, 2020 Board Meeting Minutes as submitted.

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Poirier, Silberstein, Werby

NOES: None

ABSTAIN: None

ABSENT: Thomas

A. OPEN TIME FOR PUBLIC EXPRESSION

No members of the public provided comment.

B. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

a. Administrator's Update

Mr. Wickman reported the benefits team processed 35 new retirement inceptions for April payroll. This was a significant accomplishment as the majority of staff are working remotely. Mr. Wickman thanked Assistant Retirement Administrator Michelle Hardesty, Benefit Supervisors David Sousa and Todd Miller, and the Benefits Team for getting the work done.

Construction on Suite 250 has resumed and is expected to be completed by the end of May. Public health guidelines are posted on the worksite, workers are wearing masks and gloves, and an additional supervisor was brought in to ensure and maintain the safety of the construction workers as well as staff working in the building.

As of March 1, 2020, Dimensional Fund Advisors (DFA) has reduced its fee for the DFA small cap core portfolio from 35 to 33 basis points. This is reflected in a signed amendment to the Investment Management Agreement.

In response to a question from Trustee Gladstern, the Administrator reported that several staff members were called on by the County to serve as Disaster Service Workers, performing their duties both onsite and remotely. In response to Trustee Cooper's question, the Administrator noted that the total number of retirements as of the current date is almost identical to those at this time in 2019.

b. Staffing update

Nothing to report.

c. Facility Use Report

There was no facility use during the period.

d. Future Meetings

- May 6, 2020 Audit Committee
- May 13, 2020 Governance Committee
- May 20, 2020 Finance and Risk Management Committee
- June 10, 2020 Board

2. Trustee Comments

No comments were made.

C. INVESTMENT COMMITTEE UPDATE

1. Portfolio Update – Jim Callahan, President, Callan LLC

a. April Flash Performance Report

Jim Callahan provided an update on the portfolio as of April 30, 2020 and reviewed preliminary returns for the calendar year and fiscal year to date. The fund rebounded in April and was up 6.4% for the month. For the calendar year the fund was down 8.7%, and down 3.7% for the fiscal year. The Investment Committee meeting in June will include discussion on the economic backdrop and asset allocation.

2. Real Estate Portfolio Update

a. UBS Trumbull Property Fund

Anne Heaphy, Senior Vice President of Callan, reported that UBS has simplified their fund restructure. Rather than a formal separation of assets or fund structures, they are recategorizing their assets to long term strategic assets or non-strategic assets designated for sale. They will also regroup some of their assets into sub-restructures for tax purposes, which is part of their normal practice and is consistent with other core real estate funds. No action is required by MCERA.

Trustee Silberstein asked about rent collection in retail establishments. Ms. Heaphy stated that AEW's rent collection at the end of April was 21% and 28% for UBS. The low numbers on the retail side are consistent with other core funds. Rent collection in retail is in the 30%-40% range, multifamily units are in the 90% range and office/industrial is in the 80-90% range.

Ms. Heaphy noted that the higher rent payments for UBS versus AEW that Trustee Klein observed could be the result of a slight timing or date difference. In response to a question from Trustee Block, Mr. Callahan said that valuations are linked to the time the redemption is received rather than the date it is requested. Trustee Gladstern asked why UBS changed its restructuring plans. Ms. Heaphy reported the change resulted from resistance from investors as well as legal issues with how they initially determined the structure.

3. Potential Investment Opportunities Arising from Market Dislocations (Action)

Consider and take possible action regarding market dislocations, including potential change to guidelines for Western Asset Management

Mr. Callahan presented a memo to the Board, outlining the current investment market situation and noting that investment opportunities will arise when the economy returns to some sort of normalcy and the visibility of future earnings is better. He advised that the Board should first consider whether there is any interest in pursuing market dislocation opportunities. If so, the next questions to address are what opportunities should be considered, and how these opportunities should be included within the portfolio.

Mr. Callahan framed four options for the Board to consider:

- Option 1 – Expand the investment guidelines for Western Asset Management’s intermediate credit portfolio by increasing the limit on below investment grade securities from 20% to 30%, and increasing the limit on contingent convertible securities and preferred stock from 5% to 10%. Other than modifying the portfolio guidelines there would be no other considerations for MCERA. The current fees and investment management agreement would remain unchanged.
- Option 2 – Change Western Asset Management’s mandate to “Opportunistic Credit,” or add an Opportunistic Credit portfolio to the current fixed income structure. Their current focus is on intermediate credit and investment grade securities and this more complex option would relax constraints, giving them the flexibility to choose opportunities. This change could also apply to other managers within the fixed income portfolio. Considerations for MCERA would be higher fees, how it would be sized, and where the funds would come from.
- Option 3 – Create an “Opportunistic” allocation in the investment policy, with a 0% target and a range of 0%-5%. Long term there would be no strategic allocation to opportunities, but if there was significant market dislocation it gives the flexibility in the investment policy to accommodate those opportunities. Given that any allocation to this portfolio would make it overweight to its 0% target, the resulting implication is that another asset class or classes would need to be underweight their targets.
- Option 4 – Change the total fund asset allocation. Changing the asset allocation target would have the biggest impact of the risk and return of the portfolio. This would be a broader discussion that requires analysis and consideration of numerous factors, such as overall liquidity needs, risk tolerance, time horizon, and potential added complexity.

After presenting all options, Mr. Callahan recommended adopting Option 1, expanding the guidelines for Western Asset as the first step and discussing further potential changes at the June Investment Committee meeting.

Mr. Callahan also discussed an alternative approach to Option 2, taking advantage of opportunistic credit such as those offered through the CARES Act. He also noted that the government has created lending facilities, one of which is Term Asset Backed Security Loan Facility (TALF 2.0), intended to provide cost effective leverage for new issuance asset backed securities. In response to questions from Trustee Klein, Mr. Callahan said the TALF would start operating within the next month and there will be a window for new issuance at three to five months. The TALF has a limit of \$100 million and Mr. Callahan was not aware of a low fee, highly liquid way to access the TALF through ETF collateral. He further noted that manager fees range from 50 to 100 basis points with potential performance fees as well, and that the net return target ranges from 6% to 10% over two to three years. Referring to Option 1, Trustee Gladstern asked when the change to Western

Asset's guidelines would be effective. Mr. Callahan said the change would be effective immediately once approved by the Board.

It was M/S Gladstern/Silberstein to adopt Option 1, expand the investment guidelines for Western Asset Management's intermediate credit portfolio by increasing the limit on below investment grade securities from 20% to 30%, and increasing the limit on contingent convertible securities and preferred stock from 5% to 10%.

There was further discussion by Trustee Block who stated he supported the change in Western Asset's guidelines but is also interested in exploring a more aggressive strategy with debt to equity managers. Trustee Block also stated that distressed credit is a lower risk approach than increasing the equity allocation. Trustee Werby said the TALF strategy sounds like private equity and asked if MCERA's private equity managers adopted something similar. Mr. Callahan noted that MCERA's private equity managers can, and have, invested in distressed opportunities. Trustee Klein thought the motion was reasonable and said that a presentation on credit dislocations and distressed market opportunities is planned for the June Investment Committee meeting.

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Poirier, Silberstein, Werby
NOES: None
ABSTAIN: None
ABSENT: Thomas

Mr. Wickman will include the update to the Investment Policy Statement with the new guidelines for Western Asset in the agenda for the June Investment Committee meeting.

D. NEW BUSINESS

1. Future Meetings

Consider and discuss agenda items for future meetings

Trustee Gladstern asked how disability cases would be heard by the board. The Administrator noted that the videoconferencing tool allows those involved in the disability hearing to discuss matters in closed session via virtual breakout rooms.

E. OTHER INFORMATION

1. Training Calendar (Action)

It was M/S Werby/Silberstein to approve the Training Calendar as submitted.

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Poirier, Silberstein, Werby
NOES: None
ABSTAIN: None
ABSENT: Thomas

Craig Tackabery	County of Marin - Public Works
Jeffrey Veliquette	Novato Fire
Lorlinda Vigar	County of Marin - Health & Human Services
Mark Wright, Sr.	City of San Rafael
James York	County of Marin - Sheriff/Coroner
Esperanza Zapien	County of Marin - Child Support Services
Janis Zaslav	County of Marin - Health & Human Services

RESCINDED RETIREMENTS

Patrick Echols	County of Marin - Public Works
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DECEASED RETIREES

Jerry Bianchini	County of Marin - Probation
Eleanor Bloch	County of Marin - Probation
Ray Foreaker	County of Marin - Public Works
Mary Geis	City of San Rafael
Helen Green	County of Marin - Board of Supervisors
David Lloyd	County of Marin - Public Works
Donald Morrison	Southern Marin Fire
Douglas Muhly	County of Marin - Beneficiary
Christine Walton	County of Marin - Health & Human Services

CONFERENCES/SEMINARS


None

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

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Poirier, Silberstein, Werby
 NOES: None
 ABSTAIN: None
 ABSENT: Thomas

There being no further business, Mr. Wickman adjourned the meeting at 10:06 a.m.


 Jeff Wickman, Retirement Administrator


 Michelle Hardesty, Assistant Retirement Administrator

On behalf of:
 Steve Silberstein, Board Chair

On behalf of:
 Laurie Murphy, Secretary