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

May 20, 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. This meeting was accessible to the public via livestream on MCERA's YouTube channel.

CALL TO ORDER

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

ROLL CALL

PRESENT: Block, Given, Klein, Murphy, Werby

ABSENT: None

MINUTES

It was M/S Given/Murphy to approve the March 3, 2020 Finance and Risk Management Committee Meeting Minutes as submitted.

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 for Fiscal Year 2020/21 (**Action**)
   Consider and possibly recommend adoption of Administrative Budget for the next fiscal year.

   Mr. Wickman presented the proposed Administrative Budget for Fiscal Year 2020/21. The proposal outlines major budget categories with yearly comparisons and presents budget details with annual comparisons. Supporting documents include an organizational chart and list of budgeted positions, which are required to be presented to the Board. The Administrator explained that expenditures for legal, actuarial, and investment management are not included in the administrative budget, in accordance with the County Employees Retirement Law of 1937 (CERL).

   The biggest category, making up approximately 67% of the administrative budget, is Salaries and Benefits. All employees are budgeted at the top step of their positions. Salaries include the County's negotiated 2.5% salary increase effective July 1, 2020. The cost of all benefits is projected at 54% of salary, which is 5% lower than last year's percentage. Per the CERL, the cap on the total Administrative Budget is 0.21% of the accrued actuarial liability. The proposed budget is 0.14% of the accrued actuarial liability.

   Mr. Wickman reviewed key budget detail items. Reprographic services increased 101.3% over last year due to copy services being recategorized out of Office Supplies. Adjustments were made to costs for disability medical services, which was the outcome of a successful negotiation with the medical advisor for lower costs. A trend in requests for ergonomic workstations has prompted the inclusion of a previously unbudgeted line item, assuming the trend will continue with staff. Additionally, Shelter in Place orders occasioned the purchase of additional computers to set up remote access for staff to work offsite. Therefore, electronic supplies costs were added in anticipation that more purchases may be needed. Lastly, there is a 40.7% increase in the charges from Fort Docs, our records management service. This is the result of higher frequency in calling boxes for review and destruction. Eventually there will be fewer boxes, which reduces the cost. Depreciation began on the lobby space once the project was completed. Mr. Wickman thanked Ms. Marshall and Ms. Jackson for their analysis and work putting together this draft budget for 2020/21.

   Trustee Block asked why depreciation on tenant improvements was under the administrative budget and not the investment budget. Mr. Wickman replied that only a portion of the building is considered investment-related for accounting purposes. The portion that is leased is held as an investment which is 2/3 of the building. Trustee Werby asked for clarification on depreciation. Mr. Wickman noted there have been improvements to the building that are being depreciated. Ms. Jackson replied that depreciation is over 40 years and only applies to the space that MCERA occupies. One McInnis Parkway depreciation is for the entire building.

It was M/S Given/Block to recommend that the Board adopt the Administrative Budget for Fiscal Year 2020-21 as presented. The motion was approved by a vote of 5-0 as follows:

AYES:	Werby, Block, Given, Murphy, Klein
NOES:	None
ABSTAIN:	None
ABSENT:	None

2. <u>Administrative Budget Fiscal Year 2019/20 Quarterly Review</u>
   Consider and review expenses for quarter ending March 31, 2020

   Mr. Wickman reviewed the administrative budget, beginning with the 3rd quarter results. Salaries and Benefits were at 18% for the quarter due primarily.to savings from position vacancies. Services and Supplies were slightly higher than 25%. Innovest costs were higher, and this has been reflected in the 2020/21 proposed budget. As previously mentioned, record retention costs went up. Insurance premiums for the quarter were high because payment was made for annual renewal of fiduciary liability insurance. Owner allocation of utility expenses are still higher because the tenants of Suite 250 have not yet occupied the space. Subscription services are a bit elevated for January. These include the cost of the service used to verify deaths. Although higher for the quarter, medical costs were in line for the year. Additional expenses for the phone reflect the purchase of new iPads for trustees and data plans. Interdepartmental charges are typically lagged over a quarter but in line for the year. The total administrative budget for the quarter was under the run rate of 25% at 22.40%.

   Year to date Salaries and Benefits were at 54% through the 3rd quarter and will be well below the budgeted amount for the fiscal year. Services and supplies are right at the target of 75%. Interdepartmental charges are higher at 92% and will be reviewed at the end of the year for potential adjustments. In sum, at the end of the 3rd quarter expenditures are at 63% of the administrative budget for the fiscal year.

   Trustee Werby asked about the utility cost allocation for the space unoccupied by MCERA and the Administrator will look into how Woodmont Property Management categorizes this expense.

3. <u>Non-budgeted Expenses</u>
   Consider and review non-budgeted expenses for the quarter

   Mr. Wickman reviewed the 3rd quarter non-budgeted expenses. As expected, the largest expense was for retiree payroll which was very consistent for the quarter. In April payroll will increase when new retirees are placed on retirement payroll. In addition, the post-retirement COLA adjustment increases this category. Likely, there will be an adjustment of 2-3% as occurred in previous years. The CPAS license renewal cost was $100 K, and there were other costs for specific work that was needed for changes to the benefit administration system. Insight Public Sector was a vendor implementing new IT equipment that was recommended by the County Information Technology Department. This included hardware and VPNs to improve connectivity with CPAS. Legal expenses are trending less than prior years. The Cheiron, Inc. cost was for the annual actuarial valuation presented to the Board.

Trustee Werby asked if there was another appraisal of One McInnis. Mr. Wickman confirmed an appraisal was completed in March with an increase in value from $14.5M to $16.9M.

Trustee Block asked that the annualized percentage column be defined for the Investment Manager's Fees. Mrs. Marshall replied it is calculated by taking the quarter to date total and annualizing it. This number is the numerator and the market value is the denominator. Trustee Block suggested that it would be helpful to compare fees to what was expected. Mr. Wickman and the accounting team will work on incorporating Trustee Block's request.

4. Quarterly Checklist
   Consider, review and updates on the following:

   a. MCERA educational and event-related expenses

      During the 3rd quarter, the CII Spring Conference in Washington, D.C. was attended by Trustee Silberstein. In addition, the CalAPRS General Assembly was held in the first week of March. Mr. Wickman noted staff members attended CalAPRS training sessions, including the Management Academy attended by Ms. Marshall.

   b. Continuing Trustee Education Log

      No challenges are foreseen for trustees to achieve the 24 hours of continuing education requirement every two years. SACRS and CalAPRS will put recordings of sessions online that can be viewed to meet the education requirements.

   c. Other expenses per Checklist Guidelines

      The credit card summary was presented. Two staff members, Dale Barre and Kiana Hawkins, have credit cards. There was a purchase of laptops from Costco for staff to work remotely.

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

      This was covered under the budget review above.

   e. Vendor services provided to MCERA

      There were no vendor services outside of construction costs during the quarter.

   f. MCERA staffing status

      MCERA is fully staffed apart from a vacancy for a Senior Accounting Assistant position. This will be left open to access any upcoming budget impacts that may need to be managed.

g. Internal controls, compliance activities and capital calls

MCERA is still receiving distributions from the older private equity funds and getting capital call requests from both. They have been asked to give projections for capital calls to use for cash flow projections. Callan gave the information which is being used to plan out cash flow. There have been no issues in being able to manage capital calls.

Trustee Block requested a history of each fund in terms of capital calls and distributions. Mr. Wickman said that it is possible to include this data; however, Callan's investment book includes the entire history of capital calls and distributions.

Mr. Wickman referenced other transfers and portfolio rebalances shown on the report. The first is a rebalance undertaken in February which essentially reduced the State Street S&P 500 position and provided cash to the fixed income managers. The second rebalance was to raise cash with reductions to Wellington, Western and BlackRock. Some of the cash was kept, and some was given to the Parametric margin account for the futures program.

Trustee Block asked why the numbers reflecting going in and out do not match. Ms. Jackson explained that some of the investment trades did not settle until April.

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

There is nothing to report on this agenda item.

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

Mr. Wickman shared that on the 1st of May State Street notified MCERA that someone attempted to cash a check on the MCERA custodial account with State Street. When the bank reached out to State Street, they denied payment because the account does not have check writing capabilities. State Street has opened an investigation on its end, and MCERA staff members have also begun investigating what happened. The results of the internal investigation were turned over to the Marin County Sheriff, who now is also investigating this matter. After the investigation is complete, a report will be provided to Chair Werby. This has been reported to the Board Chair, and there was no loss to MCERA as a result of these incidents.

MCERA is working on a process for reopening. No date is set, but the County is working on what opening protocols will look like. Remote work is working well for MCERA staff. Mr. Wickman is not expecting to significantly increase the number of staff in the building when the office re-opens. MCERA is working with a vendor who will install sneeze shields at the front desk and throughout the cubicles where there are shared spaces. In addition, foot stand spots and signage will be used to help maintain social distancing both at the front lobby and other common areas of the office. People will be encouraged to use video technology for counseling. However, there will be those who will walk in; hence, the counseling room is being modified with a shield between staff and customers. Lastly, a project to memorialize the protocols for staff returning to the office is in development. Ms. Hardesty added that the County Management Council meeting just issued the Marin Recovers specific protection plan guidance and template, which provides additional guidance to use for reopening.

Trustee Werby suggested rethinking a shared kitchen and examine the air conditioning system. Mr. Wickman replied that the kitchen will be up for discussion with the Ad-Hoc One McInnis Committee shortly. Woodmont identified that ionization can be added to the air system that captures molecules as the air flows throughout the building. Purchases of masks, gloves and cleaning supplies will be placed for staff use as part of the overall plan.

Mr. Wickman asked Ms. Marshall in March to open an MCERA Bank of America credit card in his name. This was a need that arose out of both current card holders being asked to shelter in place, and the need to purchase supplies, specifically laptops, quickly. The new card will be locked up and used only in emergencies. Any purchases will be reported to this Committee along with the other card expenditures. Trustee Werby asked if the physical cards were needed to make purchases. Mr. Wickman explained that the physical card was needed, and they were inaccessible as they were locked by the individual cardholders.

j. Form 700 Summary

Ms. Dunning reviewed the annual Summary Form 700 Report that lists all of the financial interests that have been reported by MCERA's filers, except the investment managers. The report highlights items that show a match between the reported interest and an MCERA interest. No gifts in excess of the statutory maximum were reported.

Ms. Dunning noted that no Form 700 was received from any representative of National Disability Evaluations (NDE). Mr. Wickman shared a memo sent to NDE requesting their Form 700 per MCERA's Conflict of Interest Code.

Trustee Block suggested asking for guidance from the FPPC. Mr. Wickman replied that once FPPC makes a decision, it is final; NDE will have no other choice which leaves no room for other interpretation. Trustee Block asked about the consequences of not going to the FPPC. Ms. Dunning responded that there two questions that need to be answered. Since NDE works with other CERL systems, is the role they play with each exactly the same as well as the level of interaction with the ultimate decision maker, the Board? In addition, none of the independent medical examiners or the medical advisors with whom NDE consults file Form 700s either, so the view has been NDE is the gatekeeper to those recommendations. They are making recommendations to the Retirement Board and to the staff, which puts them in a position where they should file, and that's what their contract with MCERA says. The other question is related to the FPPC and whether MCERA will request advice from or report the situation directly to the FPPC if there is non-compliance. Trustee Block stated that it would be best to request advice from the FPPC. If in their opinion NDE must file, they have to comply. Furthermore, even if they don't, the Board has met its obligation to report the non-compliance. Ms. Dunning offered that the question is who takes on that burden. When asking the FPPC a question, typically you are expected to both give enough information that allows them to advise, and often, interact with the FPPC about what you think the right answer is. Therefore, the question is should it be NDE explaining why they do not need to comply, or MCERA taking a position that they should. Trustee Given shared that since it's part of NDE's contract with MCERA, they should be responsible for that as they are not following through. Ms. Dunning responded that it cannot be determined whether or not it is a small issue because it is unknown what financial interests they would disclose and whether those would reveal something that is relevant.

Ms. Dunning stated that the best course of action is to follow what the contract says which is to require that they file, and if they do not, inform the FPPC that they haven't. Mr. Wickman will follow-up with NDE and say that after the Committee's discussion, it was agreed that the contract requires that they file. They will need to file by June 1st, and if they are not going to do that, they need to reach out to the FPPC for direction. Not following through will result in MCERA notifying the FPPC of NDE's lack of compliance.

5. <u>MCERA Insurance Review</u>
   Review, discuss and consider MCERA's insurance coverage

   Ms. Dunning introduced Jim Vorhis, the Co-Chair of Nossaman's Insurance Recovery Practice Group, to discuss MCERA's insurance coverage. Mr. Vorhis has worked on coverage issues for MCERA over the years as well as for a number of CERL and other public retirement systems.

   Mr. Vorhis stated fiduciary liability insurance is the most important insurance purchased by MCERA. It has a number of sub-limits that cover very specific types of claims, with the highest being claims based on alleged breach of fiduciary duty. He highlighted the MCERA *Brown* and *MAPE* cases which fall under these types of provisions. Mr. Vorhis stated that MCERA's fiduciary liability insurance is broad and includes favorable terms about the breadth of coverage as well as the negotiated pre-approved rates for paying counsel. Mr. Vorhis finds that the coverage MCERA is getting is top-notch from the fiduciary perspective.

   Mr. Vorhis reviewed MCERA's Commercial General Liability (CGL) policy. It is something that every business or public agency will have which covers personal injuries, property damage and advertising injuries. For example, if someone trips and falls in MCERA's building, this is the policy that would apply. A question the Board posed was whether this insurance covers advertising. If MCERA has something on their website and someone alleges that the content is a copyright infringement, trademark issue or defamation, while unlikely, Mr. Vorhis said he is confident that this would be covered under the CGL policy. However, a call is set up with the broker to confirm absolutely. In addition, he noted that the cyber policy covers trademark infringement, copyright cases and defamation which would be additional coverage.

   Trustee Block asked about copyright in relation to the software MCERA uses. If the software company gets sued over copyright infringement and the claimant brings in all users of the software in the suit, is MCERA covered under the CGL policy? Mr. Vorhis stated that he would expect this coverage to come into play. In that situation, he would tender both the CGL carrier and cyber policy carrier in hopes that they would work together and share costs. The other question is if a vender gets hacked and MCERA is somehow impacted. Mr. Vorhis added that in evaluating vendor relationships, reviewing their insurance coverage is advisable as is negotiating as favorable indemnity provisions as possible.

Employment practices liability insurance is typically a focus area for private companies as the number of claims has risen over the past couple of years with the "Me Too Movement" and now "COVID19". New claims are anticipated as people return to work and claim insufficient cleaning of facilities if they get sick. MCERA uses the County's insurance which Mr. Vorhis believes is the best approach at this time. MCERA employees, with the exception of the Retirement Administrator and Assistant Retirement Administrator, are County employees by statute which significantly reduces this risk. This is defense coverage only and any judgment payout would not be covered by the insurance. Ms. Dunning agreed the current policy regarding employment practices is the best approach.

MCERA currently purchases $2M worth of cyber liability insurance. Cyber policies are comprehensive and cover first- and third-party costs. If MCERA were to have a breach and experts needed to be hired to repair the system and diagnose the breach, those costs would be covered. If MCERA were sued by members for the data breach, defense costs would be covered. To the question of whether MCERA should consider increasing this coverage. Mr. Vorhis said, given the size of MCERA and its member base, the current policy covers quite a bit. Still, reviewing the policy may be worth looking at sooner than the next renewal period.

The Property and All Risk policy covers MCERA's building and the property in the building. Additionally, there is a Difference in Condition policy covering floods and earthquakes, which most property policies do not cover. Trustee Block asked if MCERA has business continuity coverage. Mr. Vorhis replied that there is a small aspect of business interruption coverage, but it is not very robust. Crime Infidelity Insurance is purchased by MCERA in a pooled policy with other public agencies. MCERA has $15M in coverage in this policy. Cyber theft is not covered under this policy unless it is cyber theft on the premises.

Other insurance MCERA might consider includes mechanical breakdown and Director/Board insurance. Mr. Vorhis noted that MCERA is limited in its mechanical dependence and the Director/Board insurance would be redundant coverage, so he would recommend neither. Mr. Vorhis concluded that MCERA should remain vigilant about its insurance policies and expect premium increases in the next couple of years as that is the current trend. Trustee Block suggested a global review of insurance coverage every couple of years. Ms. Dunning noted there is a policy to review the insurance annually, particularly the fiduciary coverage, but an overall review is an option.

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

   Mr. Wickman reported that the Audit Committee met with the auditors of Brown Armstrong. There is a new partner, Rosalva Flores, responsible for overseeing the process this year. The audit schedule was reviewed, and no delays are anticipated. The Committee discussed concerns about private investment valuations given the current market environment. The auditor is aware of this and they will be modifying their questionnaires regarding the real estate valuations.

7. Future Meetings
   Consider possible agenda topics for future meetings

   The next meeting will take place in August with no anticipated change to the virtual format.

There being no further business, the meeting was adjourned by Chair Werby at 11:00 a.m.

Jeff Wickman, Retirement Administrator	Michelle Hardesty, Assistant Retirement Administrator
On Behalf of:	On Behalf of:
Todd Werby, Committee Chair	Jeff Wickman, Retirement Administrator