

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

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

August 12, 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.

EVENT CALENDAR 9 a.m. Regular Board Meeting

CALL TO ORDER

Retirement Administrator Jeff Wickman called the meeting to order at 9:04 a.m.

ROLL CALL

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

ABSENT: Shaw (ex officio alternate), Thomas

MINUTES

It was M/S Werby/Gladstern to approve the June 10, 2020 Board Meeting Minutes as submitted. The motion was approved by a vote of 9-0 as follows:

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

NOES: None

ABSTAIN: None

ABSENT: Thomas

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.

No members of the public provided comment.

B. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

a. Administrator's Update

Mr. Wickman welcomed the Clerk of the Board back and commended Crystal Martinez and Syd Fowler and for their work in her absence to keep things moving forward.

The Administrator reported that member Annual Benefit Statements will be sent in September which would be a full month ahead of schedule from 2019.

Mr. Wickman will be presenting information about MCERA to the Marin/Sonoma Mosquito and Vector Control District Board members. The presentation is similar to ones done in the past. Topics covered will be an overview of MCERA and our role, information about the District's participation in the plan and a look at key activities coming during the remainder of the year.

The preliminary fiscal year return of the Fund as of June 30, 2020 was approximately 1.9%. The final number will be available closer to the end of September. The return is close to the Callan target they maintain for MCERA. Mr. Wickman noted that from the data he has been able to gather so far, there appears to be a wider dispersion of fund returns this year among public retirement systems.

MCERA received the annual renewal for cyber insurance. Per the direction of the Finance and Risk Management Committee, Mr. Wickman asked for a quote of \$5 million in coverage this year. He is waiting for the broker's response on what those costs would be.

One California Public Records Act request was received asking for any documents pertaining to whether MCERA has ever bought or sold private equity private debt or infrastructure on the secondary markets. Mr. Wickman said the response was that MCERA does not buy or sell on the secondary market and therefore has no responsive records.

Now that the 2nd floor is fully leased, the property manager (Woodmont) brought on a day porter to clean restrooms and disinfect the railings, handles and other common spaces in the building.

b. Staffing Update

Accounting Unit Manager La Valda Marshall should be making an offer to a candidate for the Senior Accounting Assistant position. The plan is for the new hire to start in early September. Trustee Werby asked about the hiring environment. The Administrator replied there was a good pool of candidates, which is more typical for

accounting and financial positions. Trustee Gladstern noted there is not as much turnover on the benefits side as opposed to accounting. Mr. Wickman noted Accounting and Finance positions are a common classification used throughout the County and as a result there is much more movement in these positions. This does not hold true for the Benefit positions because they are unique to MCERA.

c. Facility Use Report

No facility use to report in the period.

d. Future Meetings

- August 19, 2020 Finance & Risk Management Committee
- August 19, 2020 Audit Committee
- August 19, 2020 Ad Hoc Education Committee
- September 9, 2020 Board

2. Trustee Comments

a. Educational Training: Reports by Trustees and Staff

Syd Fowler attended the CalAPRS Communications Roundtable and reported the CalPERS Information Officer gave a presentation on CalPERS' experience communicating externally and internally about changes following the shelter-in-place order. In comparison, she was impressed with what MCERA did on this, which included a survey to assess how staff was doing. Another presentation focused on digital communications, with valuable tips on how to translate brochures into audio and video media. This is the next logical step for MCERA member communications, Ms. Fowler said.

b. Other Comments

Trustee Werby referenced a column in the Independent Journal on August 5, 2020 titled "Marin Public Pension Funds Have Ponzi Scheme Flavor". He asked whether MCERA should respond to the column. Trustee Gladstern said she felt it would be valuable to respond. Trustee Given disagreed and felt responding would prolong the discussion which was an inaccurate characterization. Mr. Wickman did not think responding would add any clarity because the focus of the column was about whether public pension systems should be subject to ERISA-type rules. Other Trustees expressed their frustration with the article and the wish that MCERA would have been asked for comment ahead of time.

Counsel Dunning noted the Board can provide direction to staff rather than continue a full discussion of a matter that is not agendized. Chair Silberstein noted a debate on their terms would not be productive. Mr. Wickman agreed the discussion should not go further. He stated that he understood the interest in providing clarity if similar articles were to come up in the future.

Mr. Wickman recessed Open Session at 9:32 a.m. and reconvened in Closed Session at 9:32 a.m. Trustee Gladstern recused herself and left the virtual room as she is an officer of MAPE. The Administrator recessed Closed Session and reconvened in Open Session at 9:49 a.m.

C. LEGAL MATTER

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

Marin Assn. of Public Employees, et al. v. Marin County Employees’ Retirement Assn., California Supreme Court Case No. S237460

Mr. Wickman reported there was nothing to report on this agenda item. Trustee Gladstern recused herself as she is an officer of MAPE.

D. NEW BUSINESS

1. Investment Opportunities – Distressed Investments – Catherine Beard, Senior Vice President, Alternatives Consulting Group, Callan LLC (Action)
Review and discuss proposal for a new opportunistic allocation and its potential placement within the current portfolio including how it will be funded.

Mr. Wickman introduced Catherine Beard, Senior Vice President with Callan LLC, and Jim Callahan, President of Callan LLC. Mr. Callahan said this is a continuation of a prior discussion about private credit opportunities. Ms. Beard will discuss different aspects of private credit. The second part of the discussion is how to think about making an allocation to private credit, and some of Callan’s ideas for managers within this space. The question is whether the Board wants to do this and then how to fit it into the portfolio. Next steps would be to conduct detailed due diligence on potential managers and conduct interviews.

Ms. Beard said private credit is an asset class that has emerged as an investment opportunity post-financial crisis and from the COVID19 crisis. Private credit is structured as closed-end vehicles for investing in different types of credit. These are drawdown vehicles with a 3- to 5-year total tenure. Many holdings are underlying loans with coupons that act as a J-curve mitigator by providing cash flow within the first year or so. Another advantage to private credit is an illiquidity premium from 100 to 300 basis points. Often private credit instruments can generate coupons in the 10 to 12% range while maintaining underlying capital. The addition of private credit dampens portfolio volatility due to quarterly valuations.

The private credit universe is diverse and includes direct lending to back acquisitions by privately owned companies. Other areas include distressed debt or special situations. Distressed debt is taking a company through a restructuring and owning equity as it comes out of bankruptcy. There are also specialty finance and asset-based lending backed up by aircraft, for example.

Ms. Beard stated that Callan looks for best-in-class managers based on team stability and organizational structure. Important factors include strategy and its implementation and the ability to generate alpha. Callan looks at past performance compared across similar peer

groups. Another consideration is whether fee structures are in financial alignment between management teams and Callan clients.

In the current credit cycle, yields are low and credit manager returns have been compressed. With the onset of the COVID19 crisis, the opportunities for distressed debt have increased. Default levels are expected to increase, which opens up a significant opportunity to invest in successful companies with balance sheets that need to be restructured. Debt financing terms are getting tighter. These conditions are expected to play out over the next two or three years. Ms. Beard defined phases of private credit. In the current initial dislocation phase, there are securities of high-quality companies at attractive prices. The intermediate period includes rescue financing for companies that ultimately are sound businesses. Longer term, private debt managers can invest in and guide companies through bankruptcy processes, owning equity as the company emerges from restructuring. Strategies can include purchasing non-performing loans from financial institutions, hard assets, and debt-for-equity exchanges.

Mr. Callahan asked if there were general questions on private credit opportunities. Trustee Given asked if there are high fees and high demand for the same investments currently, which is his concern over time. Ms. Beard replied typical private credit fees are a 1 to 1.5% management fee with 10% to 15% carry interest. Callan's high-conviction picks are disciplined to \$5 or \$6 billion in size and have the ability of the manager to be flexible in investing opportunities and capabilities. Trustee Klein asked if there is too much money going into the space, thus limiting the opportunity that is out there. In response, Ms. Beard stated the opportunity space is large. Callan identifies teams with a history of being able to identify opportunities in a number of sub-strategies, avoiding managers that are not adept in identifying new opportunities. She noted larger distressed managers tended to be in one strategy and are having to adapt to changing conditions as deal flow dried up after the financial crisis. Callan is looking for flexibility and originality, with particular capability in dislocation opportunities. Trustee Given asked where we are from the timing perspective. Ms. Beard said one of the managers is still seeing opportunities in phase one, and there are a plethora of opportunities in following phases, including loans selling at discounts. We are mid-way between phase one and phase two, she said.

Trustee Gladstern noted restructurings may negatively affect poor communities, which she does not want to be part of. Ms. Beard said Callan is careful that managers do not have a history of benefiting from someone else in that manner. Callan looks at their history of litigation to screen out aggressive managers with headline risk or that push people out of their businesses. Trustee Block asked why you would not want an aggressive manager. Ms. Beard distinguished assertive from aggressive managers, defining too aggressive as involving headline risk. So there are nuances in terms of style that include ethics that Callan considers.

In summary, Mr. Callahan said the discussion has covered areas to think about when considering investing in distressed debt. Trustee Given asked how many managers invest alongside investors. Ms. Beard said all of Callan's recommended managers have significant dollars invested, which is a key component of Callan's due diligence process.

Trustee Gladstern asked about allocation of the proposed investments and Mr. Callahan outlined four options.

1. Use existing public credit managers by giving them flexibility to invest in distressed debt. Mr. Callahan observed that since the Board approved new guidelines to expand the amount of below investment-grade debt, the Western Asset portfolio has been outpacing the Barclays Intermediate Credit Index by 300 basis points.
2. Add mandates to existing managers for public markets to include an opportunistic allocation.
3. Create a new allocation for Opportunistic debt investments. There would be a 0% target with a range to give flexibility when opportunities present themselves.
4. Change the asset allocation of the Fund by adding a Private Credit allocation. This would have the biggest future impact on the Fund's long-term risk and return.

Trustee Block asked if we have any information on whether an inverse correlation exists between private equity and private debt, and, if so, does that suggest having a private debt allocation. Secondly, if we are not changing the overall asset allocation, he assumes other allocations would be reduced on a pro rata basis. In response, Mr. Callahan said the way to think about distressed debt is as higher risk and higher return investments that have a positive correlation to equities. He noted the dispersion of returns makes correlations difficult to determine. Funding distressed debt comes over a period of time through capital calls that would be appropriately sourced from overallocated asset allocations at any given point in time. Trustee Block inquired about how this would be handled administratively. Mr. Callahan said the recent rebalancing tested portfolio liquidity and was done in a reasonable period of time. There is a policy and mechanism in place regarding funding capital calls that has worked effectively to date.

Callan's recommendation is Option 3, create an Opportunistic allocation with approximately 4% of total Plan assets (about \$100 million). Benefits include capitalizing on current opportunities, a higher potential return, diversification, and a different opportunity set. Considerations include higher risk, higher fees, and illiquidity.

To fund private debt he suggested taking $\frac{3}{4}$ from the Fund's equity allocation and $\frac{1}{4}$ from the fixed income allocation, which is approximately pro rata. Another option is to do nothing, Mr. Callahan said.

Trustee Werby asked about the liquidity of commodities, and Mr. Callahan said commodities are very liquid. Mr. Callahan explained that we are in the process of reconsidering the real asset allocation, including the commodities portfolio. Mr. Callahan presented additional information on specific managers and asked for direction from the Board regarding looking at managers and going through an interview process.

Trustee Block said he likes the idea of the opportunistic bucket proposed by Callan. He asked which managers are strongest in distressed and restructuring strategies. Ms. Beard said all four managers listed have capabilities there. The more pure-play corporate

distressed focus would be CarVal and Varda Partners. She recommended using a combination of one of those managers paired either with Fortress or Sixth Street. Trustee Klein wants a preferred return of 8%, which eliminates Sixth Street Partners, and Chair Silberstein and Trustee Werby agreed. Trustee Murphy said she sees high risk and illiquidity with the proposed allocation. Chair Silberstein noted we will be looking at asset allocation in considering the real asset allocation soon.

It was M/S Block/Werby to authorize Callan to conduct due diligence and schedule private debt manager interviews, excluding Sixth Street Partners.

Trustee Werby noted there is a time element and we should move expeditiously. Mr. Wickman indicated this will be scheduled for the September Board meeting, or a special meeting before then, if indicated.

The motion was approved by a vote of 9-0 as follows:

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

Mr. Wickman directed deliberations to **Agenda Item D.3, Future Meetings.**

3. Future Meetings

Consider and discuss agenda items for future meetings.

The Administrator invited trustees to let the Chair or him know topics they would like to discuss at a future meeting.

E. OTHER INFORMATION

1. Training Calendar (Action)

Mr. Wickman noted the Training Calendar shows many upcoming events are virtual.

It was M/S Given/Gladstern to approve the Training Calendar as submitted. The motion was approved by a vote of 9-0 as follows:

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

F. CONSENT CALENDAR (Action)

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

Trustee Gladstern noticed a large withdrawal, and Mr. Wickman said the member withdrawing funds was counseled on withdrawing this amount of money.

The motion was approved by a vote of 9-0 as follows:

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

CONSENT CALENDAR

MCERA BOARD MEETING, WEDNESDAY, August 12, 2020

**July
2020**

RETURN OF CONTRIBUTIONS

Claudia Asprer	Full Refund - Termination	\$	162,931.26
Cesar Caro	Full Refund - Termination	\$	755.28
Kate Collins	Full Refund - Termination	\$	8,286.27
Kerrie Desbiens	Partial Refund - 30 year overpayment	\$	1,597.23
Amber Fleetwood	Full Refund - DRO	\$	45,455.14

BUYBACKS

Zachary Cordisco	\$	6,411.01
Kathryn Cuevas	\$	18,470.77
William Passmore	\$	40,130.77

NEW RETIREES

Christopher Coale	City of San Rafael
Maria Teresa Cozzi Rossetti	County of Marin - Probation
Sandra Hirschfield	County of Marin - Health & Human Services
Craig Hunter	County of Marin - Sheriff/Coroner
Stephanie Kentala	County of Marin - Health & Human Services
Daniel Lee	City of San Rafael
Elizabeth Lewallyn	County of Marin - Human Resources
Bryan Lewis	County of Marin - Fire
Carolyn McGrath	County of Marin - Health & Human Services
Joseph Meesey	County of Marin - Sheriff/Coroner
Scott Michalik	Novato Fire
Deborah Tull	County of Marin - Health & Human Services
William Vieira	County of Marin - Fire

DECEASED RETIREES	
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Loy Cornett	County of Marin - Parks & Open Space
Shirley McCormick	County of Marin - Health & Human Services
Dana Melnichek	City of San Rafael
Joyce Pollock	County of Marin - Beneficiary
Heidi Vaughey	County of Marin - Beneficiary

Administrator Wickman recessed Open Session at 11:24 a.m. and reconvened in Closed Session at 11:24 a.m.

Administrator Wickman recessed Closed Session and reconvened the meeting in Open Session at 12:25 p.m.

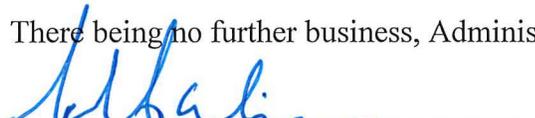
NEW BUSINESS continued

2. Public Employee Performance Evaluation

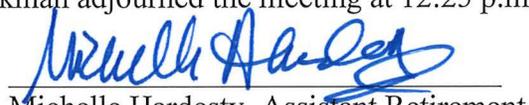
Title: Retirement Administrator (**CLOSED SESSION** pursuant to Government Code section 54957(b)(1))

Mr. Wickman reported there is nothing to report on this agenda item.

There being no further business, Administrator Wickman adjourned the meeting at 12:25 p.m.



Jeff Wickman, Retirement Administrator



Michelle Hardesty, Assistant Retirement Administrator

On behalf of:
Steve Silberstein, Board Chair

On behalf of:
Laurie Murphy, Secretary