

MINUTES
FINANCE AND RISK MANAGEMENT COMMITTEE
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

March 24, 2021 – 9:00 a.m.

This meeting was held via videoconference 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 public was able to listen to and observe the meeting on YouTube and provide comment through Zoom.

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 Given/Murphy to approve the November 18, 2020 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by a vote of 5-0 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 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. NEW BUSINESS

1. Administrative Budget Fiscal Year 2020/21 Quarterly Review

Consider and review expenses for quarter ending December 31, 2020

La Valda Marshall, Accounting Unit Manager, reported total administrative expenditures for the quarter ending December 31, 2020 were \$1.1 million, which is 1% under the straight-line budget. Of that amount Salaries and Benefits were \$739 thousand, Services and Supplies were \$290.3 thousand, and Interdepartmental Charges were \$83.4 thousand. Salaries and Benefits expenditures are within 1.1% of the budgeted amount. Ms. Marshall pointed out there were 7 pay periods during the quarter. In Services and Supplies expenditures include annual payments to a few vendors. Bank charges are trending over the budgeted amount due to a higher volume of transactions resulting in more fees. Membership dues in the quarter included annual fees for CalAPRS and the Council of Institutional Investors (CII). Office supplies are trending lower and phone expenses are trending higher due to using more data and Marin County's program to pay a monthly cell phone allowance to employees working remotely.

Ms. Marshall stated fiscal year-to-date administrative expenditures from July 1, 2020 through December 31, 2020 were \$2.1 million.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Total non-budgeted expenditures for the quarter ending December 31, 2020 were \$44.9 million, 92% of which is for retiree payroll and related items. Among expenditures were \$24.5 thousand for security services, \$3 million for investment manager fees, and \$195.7 thousand for total legal expenses. State Street custodial fees were \$104.8 thousand and Callan fees were \$92.3 thousand. MCERA received a reimbursement of \$59.4 thousand from the fiduciary liability insurance provider for the *MAPE vs. MCERA* legal case.

For the fiscal year to date from July 1, 2020 through December 31, 2020, total non-budgeted expenditures were \$89.5 million – of that amount \$82 million was for retirees.

Responding to a trustee inquiry from a prior Committee meeting, Mr. Wickman reported that the expected investment manager fees match up with the fees listed in the report. Because staff validates the fees before they are paid to the managers, there are controls in place to ensure accurate payment.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman reported on educational and event expense during the quarter ending December 31, 2020. Trustees attended the CalAPRS Trustees' Round Table and the Fall SACRS Conference. Mr. Wickman attended the CalAPRS Administrators' Institute and the SACRS Fall Conference. Several staff members attended CalAPRS Round Tables covering benefits, accounting, and information technology. Ms. Marshall attended Government Finance Officers Association (GFOA) training. During the quarter Tom Iannucci's remaining fee was paid for his presentation at the October 2020 Strategic Workshop.

b. Continuing Trustee Education Log

The Continuing Trustee Education Log shows that all trustees have either already achieved training goals for the two-year period or are on track to meet deadlines in 2021.

c. Other expenses per Checklist Guidelines

The summary of credit card charges includes cameras purchased for staff, subscriptions (for Zoom, for example), and office supplies. There are no unusual charges to report.

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

See discussion in Agenda Item B.4, Custodial Services Request for Proposal Update, below regarding reassignment of duties.

g. Internal controls, compliance activities and capital calls

The Capital Call Report shows private equity and private credit program distributions and capital calls. Mr. Wickman observed that towards the end of 2020 there was an uptick in distributions received from the private equity program, a portion of which is being held for potential cash needs. In the private equity program from July 1 through December 2020 total distributions were \$36.4 million and total capital calls were \$14.9 million.

Private credit managers have been added to the report. In the quarter ending December 31, 2020 MCERA sent \$3.35 million in capital calls to the CarVal Credit Value V portfolio, \$1.65 million to the Fortress Credit Opportunities Value V portfolio, and \$5.03 million to the Varde Dislocation Fund, for a total of \$10.03 million during the

quarter. The Administrator pointed out CarVal and Varde net asset values are lower than the paid-in capital due to interest charged for entering the funds late.

The Capital Call Report shows excess margin cash of \$45 million was transferred from the Parametric futures overlay program to the Short-Term Investment Fund for use during the year.

- 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 said Chair Werby requested that he discuss MCERA's cash management practices. The Administrator reminded the Committee that the Board does not have a dedicated allocation to cash within the asset allocation policy. As a result, staff uses multiple sources to manage ongoing cash needs. Mr. Wickman said the primary sources for cash are contributions from the employer, distributions from private equity funds, and dividends from real estate managers. He noted that there have been times when it was necessary to sell securities to meet cash needs, notably when capital calls are received. It has been one year since securities were sold to raise cash. The Administrator reported that staff has increased cash levels to three to five months of benefits payments. He noted that all cash is exposed to the futures overlay program. He said the biggest monthly expenditure is retiree payroll and that the accounting team assesses cash needs on a daily basis.

Chair Werby indicated a line of credit could be used for cash needs to avoid having to sell securities at inopportune times. Trustee Klein said an alternative to a line of credit could be a cash allocation to use when margin requirements are raised during market dislocations. Noting it is rare for the margin requirement to be raised, Mr. Wickman said cash management would be added to the next Committee meeting.

4. Custodial Services Request for Proposal Update

Update on candidates for custodial service provider

Mr. Wickman explained that the Custodial Services Request for Proposal (RFP) was put on hold in March of 2020 due to the pandemic. Toward the end of 2020 the RFP process was revisited and a decision made to restart the evaluation process. Simultaneously, staff were ready to begin the Employer Audit program mandated by the Public Employee Pension Reform Act of 2013. Recently, unexpected turnover in the benefits team created a gap in services that needed to be addressed. Mr. Wickman said that another member of the benefits team was assigned to take over the responsibilities of the department employee. The person reassigned to the benefits work was expected to take on the Employer Audit program. With the reassignment of duties, it was no longer viable to have the employee also conduct the audit program.

In the Administrator's view placing the Employer Audit program on hold was not an option. As a result, the decision was made to reassign someone from the Accounting Unit Team to take on the Employer Audit program. Taking someone out of accounting impacts the ability to move forward on the custodial RFP. The staff position in accounting needs to be filled so they can continue to operate as before. Until the vacant accounting position is filled Mr. Wickman said the Custodial Services RFP would go on hold. Mr. Wickman said the project could potentially start again toward the end of 2021. He said when the RFP is re-started, vendors will likely be asked to refresh their responses and bid.

Trustee Block noted there was a significant investment in the Custodial Services RFP process. Mr. Wickman agreed and assured Trustee Block that the work that has been will not be lost and the RFP will pick up where it left off as much as possible to avoid re-work.

5. Budget Priorities for Fiscal Year 2021/22 (Action)

Consider and take possible action on recommendation to adopt budget priorities for fiscal year 2021/22

Mr. Wickman presented Budget Priorities for Fiscal Year 2021/22 for the Committee's consideration, as required by MCERA's Budget Policy and Adoption Policy. The first section is a review of the structure of the current \$4.6 million administrative budget. The current budget is under the legislative budget cap of 21 basis points of the accrued actuarial liability by about \$2 million.

Reviewing the proposed Budget Priorities for the next fiscal year, Mr. Wickman said salaries will be budgeted at the top step of each position and the benefit cost for employees will be 53%-54% of salaries. Right now, his assumption is there will not be a cost-of-living increase in the upcoming fiscal year. One vacant Accounting Assistant position will be reallocated to a Senior Accountant position to address the reassignment of duties mentioned in Item B.4 above. As part of the space reduction plan the file room was removed. As a result, files will be stored off site which will increase storage costs. Potential modifications to the audio/visual structure in the Board Chambers will be considered.

At the next Committee meeting the Administrator will present details for the proposed budget for the next fiscal year. The budget is subject to the 21 basis point cap of the accrued actuarial liability as of June 30, 2020 of \$3.124 billion. Mr. Wickman stated the goal is to keep the budget relatively flat from the prior fiscal year expenditure amount.

It was M/S Given/Murphy to adopt Budget Priorities for Fiscal Year 2021/2022 as presented.

Trustee Klein asked how meetings will be held when the shelter-in-place order is lifted. Mr. Wickman said it will depend on what happens when the Governor's temporary suspension of the Brown Act provisions are removed and Board members have to return to in-person meetings. Board Counsel Ashley Dunning explained that Brown Act rules with respect to remote attendance at meetings were suspended during the pandemic. Once current restrictions on in-person meetings are lifted, she said, it will depend on what the legislature decides to do with respect to permitting public entities to hold public meetings during which board members attend from remote locations. Trustee Block noted there is a

pending Assembly Bill on this topic, adding there may be a requirement for closed captioning which the Board of Supervisors is using.

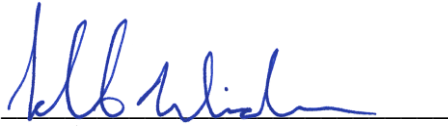
The motion was approved by a vote of 5-0 as follows:

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

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

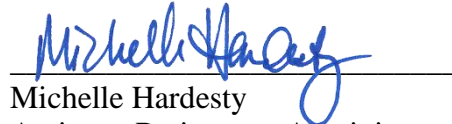
The Administrator reported that the Audit Committee will meet on April 7 to kick off the annual audit of financial statements.

There being no further business, Chair Werby adjourned the meeting at 10:00 a.m.



Jeff Wickman
Retirement Administrator

On behalf of:
Todd Werby
Finance and Risk Management Committee Chair



Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman
Retirement Administrator