

MINUTES
GOVERNANCE COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

April 21, 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 Cooper called the meeting to order at 9:01 a.m.

ROLL CALL

PRESENT: Cooper, Gladstern, Jones, Silberstein

ABSENT: None

MINUTES

It was M/S Silberstein/Gladstern to approve the October 7, 2020 Governance Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0 as follows:

It was M/S Jones/Silberstein to approve the May 13, 2020 Governance Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein

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. Proxy Voting

a. Proxy Voting Reports

Proxy voting records of public equity managers for December 31, 2020

Retirement Administrator Jeff Wickman presented proxy votes for July 1 through December 31, 2020. He said the change the Board made to have Institutional Shareholder Services (ISS) vote proxies for the State Street Global Advisors (SSGA) S&P 500 and Dimensional Fund Advisors (DFA) small cap core portfolios went into effect on March 1, 2021. ISS proxy vote reporting for these two portfolios will begin at the Committee's next meeting in October. He invited Committee members to comment on the proxy voting reports.

Trustee Silberstein noted SSGA continues to abstain on numerous votes and DFA continues to vote for reviewing executive pay packages every three years. In one vote State Street approved DXC manager pay packages and board members, and DFA voted against those items. Such votes will become consistent when ISS begins voting MCERA's proxies using the Public Fund Policy, he said.

2. Governance Risk Report – Institutional Shareholder Services (ISS) – Nathan Worthington and Jack Ferdon

Review and discuss the ISS quarterly Risk Assessment Report

Chair Cooper introduced Jack Ferdon, Senior Associate, Client Service & Consultants, with Institutional Shareholder Services (ISS), who presented the ISS Governance Risk Report for the quarter ending December 31, 2020. Mr. Ferdon first discussed the Quality Score which shows portfolio holdings with high governance risk as indicated by scores from 8 to 10. Examples are firms that do not have enough independent directors and firms with many related party transactions. The report lists the subscores for each firm on board structure, compensation, shareholder rights, and audit.

The Investment Manager Summary lists for each manager the percentage of meetings voted, the percentage of companies with high Quality Scores, the percentage of votes against management, and the percentage of votes against the ISS Benchmark Policy and the Public Fund Policy. Mr. Ferdon pointed to Parametric as the manager registering the most votes against management recommendations. Dimensional Fund Advisors (DFA) voted against management slightly more times than in the past. Mr. Ferdon stated the number of meetings voted in the quarter is up slightly from the 4th quarter of 2019, which

is likely due to delays related to COVID-19. He said it is notable that the Public Fund Policy recommendations went against management almost 25% of the time.

Another section of the Governance Risk Report is an analysis of proxy votes on major proposal types. Management proposal categories are: Reorganization and Mergers; Executive Compensation; Directors Related; Antitakeover Related; Capitalization; and Routine/Business. For each category a chart shows the percentage of votes cast with management, with the ISS Benchmark Policy, and with the Public Fund Policy. Mr. Ferdon said less than 75% of votes were cast for management-proposed executive compensation-related topics. A few larger companies including Oracle experienced shareholder dissent on pay packets that were not related to performance. There were four failed say-on-pay votes, including notably Palo Alto Networks.

Shareholder proposal categories include Social/Human Rights, Health/Environmental, Directors Related, Compensation and Corporate Governance. Mr. Ferdon discussed relatively successful shareholder proposals, one of which requested a report on gender and racial pay gaps at Oracle. This proposal was supported by almost 45% of shares voted, which is considered large support. A proposal for a report on deforestation won almost 70% of voted shares, which Mr. Ferdon said is a very significant result. Also, a proposal by CalPERS seeking proxy access for outside shareholders of KLA to allow them to nominate candidates for the board won with 80% support. Mr. Ferdon noted out that all three of these proposals were supported by the Public Fund Policy.

Mr. Wickman pointed out that most higher risk companies on the Quality Score list are held either in the Parametric or S&P 500 portfolios. He explained that the position value for most companies will be smaller than the value in the report, which represents the commingled fund position. The Administrator will provide the percentage of holdings in MCERA's Fund for the next Governance Risk Report.

Chair Cooper asked if the Public Fund Policy will be in effect at the fall Committee meeting. Mr. Ferdon affirmed this and said is working with Mr. Wickman on reports to focus on going forward. The next report will list MCERA along with managers to provide a comparison.

3. Retirement Board Priorities Setting Process

Discussion of current processes for setting priorities and consideration of potential updates to same

Chair Cooper said the Retirement Board priorities setting process topic is a follow up to Tom Iannucci's presentation at the fall 2020 Strategic Workshop. Mr. Wickman noted prior to that presentation, Mr. Iannucci of Cortex Applied Research discussed how the most effective boards are policy-focused. In his last presentation on moving from theory to implementation, Mr. Iannucci outlined the following processes to managing issues that arise:

1. Issue Identification
2. Frame the Issue and Approach

3. Rank the Issues
4. Education and Analysis
5. Decision-making
6. Repeat process on a periodic basis.

Mr. Iannucci's point, the Administrator said, was that by having a repeatable process, there is a lesser tendency to bring up the same issues continually over time. In the long run, the Board will accomplish more with a disciplined process. Mr. Wickman said upon discussing whether to move forward with Mr. Iannucci's process, the Board requested that he review the current process first before expending additional resources.

The Administrator outlined how the Board and staff currently capture ideas.

Board Meetings, Formal and Informal. At each of the Board meeting there are two formal opportunities to raise topics of interest. The meeting agenda contains standing items for Trustee Comments and Future Meetings. Any ideas raised during these items are evaluated by the Retirement Administrator for inclusion on future meeting agendas or for discussion with the Board Chair or individual Committee Chairs. Informally, staff is capturing suggestions brought up during meetings which the Administrator evaluates as to whether they go back to the Board Chair or a committee for discussion.

Board Standing Committees, Formal and Informal. Each of the Board's four standing Committees (Audit, Investment, Finance and Risk Management, and Governance) include an agenda item for future meeting topics. Ideas are also captured informally during committee discussions. The process for bringing new ideas forward tracks the process for Board meetings outlined above.

Annual Objectives for the Retirement Administrator. Each year, the Board establishes Business Objectives for the Retirement Administrator to focus on for the upcoming year. The initial set of objectives presented to the Board are developed by the Retirement Administrator who considers ideas generated by the Board, uncompleted objectives from the prior year, and new ideas discussed with the MCERA Leadership Team. The result of this work is presented to the Board which can then add or remove objectives to create the final list of priorities.

Ad Hoc Education Committee. The Ad Hoc Education Committee is responsible for putting together the agendas for the fall and spring Strategic Workshops that generate numerous ideas for the Board's consideration.

Annual Reports. Formal reports and presentations during the course of the year are opportunities for generating new discussion points for the Board. These include the Actuarial Valuation Report, Capital Markets Update, Audited Financial Statements, GASB 67/68 Report, and the retiree Cost of Living Adjustment (COLA).

Mr. Wickman stated there are three alternatives the Committee should discuss and potentially recommend to the full Board:

1. Leave the existing processes in place and ensure that all Board members know where there are opportunities to raise new issues for consideration.
2. Create a new idea development and annual review process, modeling the process outlined at the October 2020 Strategic Workshop.
3. Change the Ad Hoc Education Committee to a standing Education Committee, building into the Committee's charter a process to review and prioritize ideas that have been communicated by Board members.

Mr. Wickman said he believes the current process is working well and an overview of this process can be reviewed when new trustees join the Board. He invited comments from Committee members. Trustee Gladstern suggested the priorities setting process be reviewed annually and used for new Board members, noting there are plenty of opportunities for Board members to suggest topics to discuss. Trustee Silberstein supported these views and said we need to be aware and continue inviting new ideas from Board members.

Chair Cooper supported continuing with the existing process with a few tweaks here and there. He does not prefer setting up additional committees and meetings. Indicating new members may be hesitant to communicate a new idea in public, he asked about a non-public process for them. Mr. Wickman replied he is always available to discuss new ideas with new Board members on an individual basis. Counsel Dunning added the safest course of action with respect to the Brown Act is for Board members to communicate directly with the Administrator on new agenda items.

4. Existing Policies – Standard Review with Proposed Updates
 - a. Policy Regarding Adoption of Economic Actuarial Assumptions (Action)
Consider possible recommendation to Board on updates to policy

Mr. Wickman presented updates to the Policy Regarding Adoption of Economic Actuarial Assumptions resulting from the Board's changes to some of the economic assumptions. The discount rate was changed from 7.0% to 6.75%, the inflation assumption was reduced from 2.75% to 2.50%, and adjustments were made in the 3% and 4% COLA groups. In addition, he is proposed changing language to make it consistent with other areas, such as in the Experience Study, for example. Trustee Silberstein proposed using the term "discount rate" instead of "interest rate" at the beginning of the policy, including it is the real rate of return plus the inflation rate. He further recommended clarifying the relationship of the interest rate as applied to the liability.

It was M/S Jones/Gladstern to approve updates to the Policy Regarding Adoption of Economic Actuarial Assumptions as amended per discussion. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

b. Conflict of Interest Code (Action)

Consider possible recommendation to Board on updates to policy

The Administrator said updates to the Conflict of Interest Code are an increase in the dollar amount of the gift limit to \$520 from \$500 aligning with FPPC provisions, a provision to indicate the three new private debt managers file separate annual disclosures and are not subject to Form 700 filing requirements, and clarification on how to file Form 700.

It was M/S Silberstein/Gladstern to approve updates to the Conflict of Interest Code as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

c. Election and Duties of Board Officers Policy (Action)

Consider possible recommendation to Board on updates to policy

Mr. Wickman said one substantive change to the Election and Duties of Board Officers Policy is that the Board Chair will communicate periodically with the Retirement Administrator regarding topics that implicate the prudent administration and governance of MCERA. Another revision provides for filling vacancies for Board officers whose term duration is less than or greater than three months. The Administrator said the Policy is silent on a Committee Chair being unavailable for a Committee meeting. Counsel Dunning offered language to update the Policy on this point to provide that the Board Chair, who appoints committee members and chairs, acts ex officio if the Committee Chair is not available.

It was M/S Gladstern/Silberstein to adopt updates to the Election and Duties of Board Officers Policy as amended per discussions above. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

d. Class Action Securities Litigation Policy (Action)

Consider possible recommendation to Board on updates to policy

The Administrator is proposing one update to the Class Action Securities Litigation Policy to remove a duplicative provision about reporting to the Board.

It was M/S Silberstein/Jones to adopt updates to the Class Action Securities Litigation Policy as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

e. Policy re Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances (Action)

Consider possible recommendation to Board on updates to policy

Mr. Wickman explained the Policy Regarding Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances was created in 2013 as part of the process to receive a Favorable Determination Letter from the Internal Revenue Service. The Policy changes correspond with revisions adopted by the Board during the recent actuarial Experience Study. This update adds the methodologies the actuary will use for actuarial equivalence determinations on or after July 1, 2021.

It was M/S Cooper/Jones to adopt updates to the Policy Regarding Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

f. Placement Agent Payment Disclosure Policy (Action)

Consider possible recommendation to Board on updates to policy

Mr. Wickman said the revisions to the Placement Agent Payment Disclosure Policy are to acknowledge that MCERA receives separate disclosures from private debt managers based on contractual arrangements.

It was M/S Gladstern/Jones to adopt updates to the Placement Agent Payment Disclosure Policy as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

5. Existing Policies – Standard Review without Proposed Updates

Mr. Wickman stated staff has reviewed the policies listed for standard review and has no updates to recommend. Chair Cooper proposed taking action on policies for standard review as a group.


It was M/S Silberstein/Gladstern to accept the review of the policies listed in Agenda Item B.5.a-g below. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

- a. Accessibility of Records Policy (Action)
Conduct standard policy review
 - b. Budget Policy and Adoption Process (Action)
Conduct standard policy review
 - c. Disability Retirement and Survivor Benefits Applications Policy (Action)
Conduct standard policy review
 - d. Investment Code of Conduct and Insider Trading Policy (Action)
Conduct standard policy review
 - e. Reciprocal Members' Final Compensation Determinations Policy (Action)
Conduct standard policy review
 - f. Retirement Administrator Annual Performance Evaluation Policy (Action)
Conduct standard policy review
 - g. Senior Management Contingency Plan Policy (Action)
Conduct standard policy review
6. Next Committee Meeting


Chair Cooper invited comment on topics for future Committee meetings. Trustee Gladstern expressed appreciation to staff for the detailed review and update of MCERA's policies.

There being no further business, Chair Cooper adjourned the meeting at 10:08 a.m.



Jeff Wickman, Retirement Administrator

On behalf of:
Chris Cooper, Committee Chair



Michelle Hardesty, Assistant Retirement Administrator

On behalf of:
Jeff Wickman, Retirement Administrator