

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

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

May 19, 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 Block/Given to approve the March 24, 2021 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 March 31, 2021

La Valda Marshall, Accounting Unit Manager, reported administrative expenses for the quarter ending March 31, 2021 were \$1.1 million, of which \$635 thousand is for Salaries and Benefits. Due mainly to vacancies Salaries and Benefits expenses for the quarter are 20.5% of the budgeted amount for the fiscal year. Services and Supplies expenses for the quarter were \$336.1 thousand, running slightly over 25% due mainly to payment of annual insurance premiums and subscriptions. In addition depreciation is running higher due to new building improvements. For the quarter total administrative expenses were under the straight line budget at 23.2%. Chair Werby asked if the budget could be adjusted for the new depreciation level and Ms. Marshall indicated there was room in the overall budget for the higher rate of depreciation.

For the fiscal year to date, total administrative expenses were \$3.2 million, 68.8% of the budgeted amount for the fiscal year, of which \$2 million is for Salaries and Benefits. Total Services and Supplies were \$873 thousand, and Interdepartmental Charges were \$268 thousand which includes expenses for the fourth quarter.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Total non-budgeted expenses for the quarter ending March 31, 2021 were \$45.7 million, of which \$42 million is for retirement member expenses. Computer expenses were \$102.1 thousand for CPAS and security services expenses were \$24.4 thousand. Total legal, actuary and investment expenses were \$3.6 million, of which \$3.2 million is for investment manager fees. Callan expenses are running higher due to payment for the private credit manager due diligence.

For Nossaman the expense breakdown includes new categories for Bankruptcy Related, Technology Projects, Employment Law Advice & Training, and Negotiating Insurance Policies. Mr. Wickman explained Counsel Dunning's partner conducted employment-related training for the trustees and Nossaman negotiated the renewal of cyber insurance policies. There were no legal reimbursements for the quarter.

Through the third quarter of the fiscal year non-budgeted expenses total \$135.2 million, of which \$124.7 million is for retired members. Total legal reimbursements through the third quarter of the fiscal year remain at \$60 thousand.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman reported educational event expenses for the quarter include trustees attending the CalAPRS General Assembly and the SACRS fall conference. Also staff attended CalAPRS Benefits and Accountants' Round Tables and professional accountant's training, and the Administrator attended the SACRS Spring Conference. Total expenses for the fiscal year through the third quarter were \$6,800 for these events.

b. Continuing Trustee Education Log

The Continuing Trustee Education Log shows good progress for all trustees in meeting the 24 hours of education required every two years. The Administrator said SACRS Conference sessions are available for trustees to view.

c. Other expenses per Checklist Guidelines

The Administrator reviewed the credit card summary, explaining that the California Chamber of Commerce item is for the required Labor poster purchased every year. Charges from Apple were for equipment as part of an ergonomic assessment. Chair Werby asked about the Zoom fee which the Administrator said MCERA pays on a monthly basis to conduct virtual Board and Committee meetings.

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

Recruitments for a Senior Accountant and Benefits Technician are in process.

g. Internal controls, compliance activities and capital calls

Mr. Wickman reported MCERA is receiving significant distributions from early private equity funds. For the quarter ending March 31, 2021 MCERA received \$4 million in distributions from Abbott Fund VI and \$2.6 million from Fund VII and had no capital calls in the period. The new Abbott commitment Investors 2021 called \$871 thousand in capital during the quarter. Through the third quarter of the fiscal year MCERA received \$30.2 million in distributions and paid \$11.5 million in capital calls for all Abbott funds.

For the quarter ending March 31, 2021, the earliest Pathway PPEF 2008 fund distributed \$8.4 million to MCERA and called \$172 thousand, and PPEF I7-3 distributed \$3.8 million with no capital calls. More recent Pathway funds PPEF I8-9 distributed \$2.1 million and called \$680 thousand, and PPEF I9-3 distributed \$205 thousand and called \$905 thousand. PPEF I10-10 called \$3.4 million in capital. Total Pathway distributions to MCERA through the third quarter of the fiscal year are \$27.4 million and total capital calls are \$9.5 million. For the private equity program as a whole the totals are \$57.5 million in distributions to MCERA and \$20.9 million in capital calls through the third quarter of the fiscal year.

In summary the Administrator said the private equity program is providing cash MCERA can use to fund new capital calls and other cash needs. He explained that data from Callan on since-inception capital flows and net asset values shown in the report lags by one quarter. Trustee Block observed the uncalled capital in each of Abbott and Pathway's oldest vehicles likely has an expiration date resulting in zombie funds to wind down.

Turning to new opportunistic managers, Mr. Wickman reported that during the quarter ending March 31, 2021 one manager, Varde, called \$3.3 million in January, \$4.2 million in February, and \$2.5 million in March. As of March 31, 2021 since inception CarVal, Fortress, and Varde together have called a total of \$20.1 million. Since March MCERA has received more capital calls from all three opportunistic funds.

Along with portfolio rebalancing, the report shows redemptions and dividends MCERA has received from core real estate managers. As of March 31, 2021 AEW has distributed \$2.6 million and UBS has distributed \$3.2 million in dividends to MCERA. Of the \$20 million in redemptions MCERA requested, UBS has distributed \$5.2 million.

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 asked Assistant Retirement Administrator Hardesty and Syd Fowler to provide an update on the cybersecurity project with Linea Secure. Ms. Fowler reported Linea Secure was engaged to develop a suite of policies to manage internal cybersecurity controls. Policies completed so far are the Access Control Policy, Password Policy, Remote Work Policy, Personnel Security Policy, Physical and Environmental Protection Policy, and the Configuration Management Policy governing updates to CPAS.

The next objective will be the Incident Response Plan followed by the System Security Plan, which is the most significant plan that directly governs the CPAS system. Ms. Hardesty noted the project will likely require more time to complete than originally

planned. Mr. Wickman said the cybersecurity project will take longer than the original completion date of June 30, 2021.

Chair Werby invited discussion on the progress of the cybersecurity project. Trustee Block said he is pleased staff is working on the timely cybersecurity project. Ms. Hardesty said CPAS is working diligently to integrate Linea Secure's recommendations. Trustee Block asked about the level of cybersecurity insurance which Mr. Wickman said was increased to the maximum amount of \$5 million.

4. Administrative Budget for Fiscal Year 2021/22 (Action)

Consider and possibly recommend adoption of Administrative Budget for Fiscal Year 2021/22

Mr. Wickman presented the proposed budget for the 2021/2022 fiscal year in accordance with the Budget Policy and Adoption Process. Salaries and Benefits make up approximately 65% of the total administrative budget. All positions are budgeted at the top of the salary scale, which most current employees have achieved. No cost of living adjustment is budgeted at this time. (The budget memo will be corrected on this point.) Based on discussions with Marin County, the cost of benefits was reduced to 52% of salary, down from 54% for the current fiscal year. One vacant accounting position was reclassified to a Senior Accountant, resulting in a \$58.2 thousand increase in Salaries which was mostly offset by the reduced benefits factor.

Trustee Block asked if there are retention problems related to staff reaching top steps relatively quickly. Mr. Wickman replied steps happen annually, so an employee coming in at Step 1 would have to work five years before getting to the top step. After that, salaries only increase if there is a cost of living adjustment provided by the County as part of labor negotiations. He does not believe this has created a retention issue for MCERA. Trustee Block asked if there are new positions staff can go to once topped out. Mr. Wickman stated that MCERA has a very limited list of job classifications and many are specific to MCERA and not applicable to the broader County government with the exception of accounting positions which are used throughout the County.

The Administrator reviewed changes in each major category of the 2021/2022 Administrative Budget. For Salaries the total increase from the current fiscal year is about \$2,400. In Services and Supplies budget increases of \$101,000 are driven by this year's increases in all insurance premiums. Other increases include owner allocation and depreciation. For Interdepartmental charges there is an increase of about \$25 thousand that will not be final until August. Mr. Wickman presented five years of administrative budgets for comparison.

Mr. Wickman explained that investment management and retiree health care administration costs are subtracted from the administrative budget in accordance with the CERL. The health care cost was increased to adjust for increased complexity causing more staff time spent on the process and is billed back to the County. Removing investment management and retiree health care administration brings the administrative budget for the new fiscal year to \$4.3 million. The statutory cap for the administrative budget is 21 basis points of the total accrued actuarial liability of \$3.1 billion, which is

\$6.5 million. The requested budget is underneath the statutory cap by \$2.25 million and is 14 basis points of the accrued actuarial liability.

Mr. Wickman reviewed the staff positions list and the organizational chart comprised mainly of Benefit Technicians. He noted there will be salary savings until four vacant positions are filled.

Trustee Block asked if the budget recommendation can be subject to Interdepartmental charges being adjusted once they become final. Mr. Wickman replied he is confident no adjustment will be needed to Interdepartmental charges. Chair Werby asked why utilities are going up and Mr. Wickman said there was an adjustment to owner operating expenses based on Woodmont's retroactive billing at the end of 2020. Ms. Marshall added the utilities increase was due to MCERA's increased share of common areas.

Chair Werby expressed appreciation to the Administrator for the efficiency of the budget in being well below the legislated cap.

It was M/S Block/Murphy to recommend that the Board approve the Administrative Budget for Fiscal Year 2021-2022 as edited per discussions above. The motion was approved by a vote of 5-0 as follows:

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

5. Cash Management

Consider and discuss cash management process

Mr. Wickman stated this item was added to the agenda at the request of the Committee. In preparation for the discussion he contacted six peer systems about their cash management processes. He found four of the six systems have portfolio targets to cash ranging from 1% to 3%. Five of the six systems use an overlay program similar to MCERA's to securitize cash. All six systems use incoming contributions from employers for cash needs, and two systems allow plan sponsors to prepay contributions at the beginning of the fiscal year which is trued up at the end of each year. As part of the Asset/Liability Study Callan will be assessing liquidity and cash needs to determine if there are any issues. The Administrator recommended that the Committee wait for those results before making a recommendation to the Board on the cash management process.

Trustee Klein asked if stress testing for liquidity will be conducted as part of the Asset/Liability Study. The Administrator replied that is his understanding which he will confirm with Callan. Mr. Wickman noted current practice is to hold three to five months of retiree payroll and expenses in cash.

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

Mr. Wickman reported that Brown Armstrong has already presented to the Audit Committee and will be initiating the annual audit in early May.

7. Future Meetings
Consider and discuss agenda items for future meetings

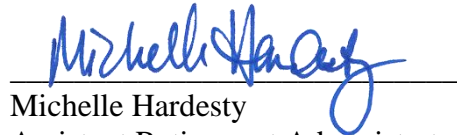
No discussion.

There being no further business, Chair Werby adjourned the meeting at 10:16 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