

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

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

August 18, 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 and provide comment through Zoom.

CALL TO ORDER

Chair Werby called the meeting to order at 9:00 a.m.

ROLL CALL

PRESENT: Block, Klein, Murphy, Werby

ABSENT: Given

MINUTES

It was M/S Block/Klein to approve the May 19, 2021 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0-1 as follows:

AYES: Block, Klein, Murphy, Werby

NOES: None

ABSTAIN: None

ABSENT: Given

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 Review

Consider and review expenses for fiscal year ending June 30, 2021

Accounting Unit Manager La Valda Marshall reported that fourth quarter expenses were \$1 million, 21.7% of the annual budget. In the Salaries and Benefits category expenses for the quarter were \$773 thousand, 25% of annual budgeted amount. Services and Supplies expenses for the quarter were \$225.7 thousand, 18.7% of the budgeted amount for the year.

For the fiscal year ending June 30, 2021 total administrative expenditures were \$4.2 million, 91% of the \$4.6 million budget. Salaries and Benefits expenses were \$2.8 million, 91% of the \$3.1 million budgeted amount, and Services and Supplies expenses were \$1.1 million, 91% of the \$1.2 million budgeted amount. Within that category expenses for phones and electronic and ergonomic supplies were over budget to support the equipment needs of staff working remotely and remote meetings. Interdepartmental Charges were \$275 thousand, 82.4% of the \$333.8 thousand budgeted amount for the fiscal year.

Chair Werby inquired about Salaries and Benefits being under budget. In response Mr. Wickman explained that there were savings during the year as a result of having vacant positions. There are vacant positions at the start of the 2021/2022 Fiscal Year, so some salary and benefits savings will continue to occur. Once recruitments for open Senior Accountant and Benefit Technician positions are filled, consideration will be given to the remaining vacant positions and how they can be best utilized.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Ms. Marshall reported non-budgeted expenses were \$182 million for the fiscal year ending June 30, 2021 and \$46.8 million in the fourth quarter. She stated most of these expenditures consist of retiree payroll and related expenses totaling \$167.8 million for the fiscal year ending June 30, 2021 and \$43.1 million for the fourth quarter. Also in this category are computer, security services, legal, actuarial, investment management and consulting, and custodial fees and expenses.

Legal fees totaled \$377 thousand for the fiscal year and \$68.2 thousand for the fourth quarter. Ms. Marshall pointed out that the largest categories in Nossaman's \$328 thousand in expenses are for general counsel and investment consulting. MCERA's other legal consultants are County Counsel and Ice Miller. Callan investment consultant fees were \$407 thousand for the fiscal year and \$77 thousand for the fourth quarter. Fees for actuary Cheiron were \$165 thousand for the fiscal year and none in the fourth quarter. Mr. Wickman presented Investment Manager Fees for the Committee to review, which were \$12.5 million for the fiscal year and \$3.6 million for the fourth quarter.

Chair Werby asked about Ice Miller fees. Mr. Wickman said Ice Miller is MCERA's tax counsel and occasionally there is the need to seek their advice on benefit questions. Trustee Block asked if additional cybersecurity consulting is expected over the next year or two. Mr. Wickman replied after Linea Secure completes its work on the current contract, further

consulting on cybersecurity is not planned; however, the need to conduct recurring cybersecurity assessments will be a topic that will be discussed with the Committee in the future.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman presented educational and event-related expenses totaling \$7,800 for the fiscal year. Event expenses included the SACRS Fall Conference and the CalAPRS General Assembly. Staff continue to attend work-related CalAPRS round tables. Event expenses were less than some years due to having numerous virtual conferences in the pandemic environment.

b. Continuing Trustee Education Log

The Continuing Education Log shows that trustees are meeting deadlines for the legal requirement of 24 hours of education every two years.

c. Other expenses per Checklist Guidelines

The Administrator reviewed other expenses summarizing monthly credit card purchases for the quarter. The charges included supplies to support staff working remotely, such as laptops, cameras, and ergonomic equipment to make sure staff are set up correctly. Other charges are for Zoom meetings, the annual renewal of the Global Market Equity Identifier to validate MCERA as an organization that engages managers to conduct international transactions, and selected newspaper subscriptions.

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

See discussion above.

e. Vendor services provided to MCERA

No new vendor services to report.

f. MCERA staffing status

MCERA made an offer to a candidate for the Senior Accountant position which was declined. Staff will be reviewing the original list of applicants to determine if additional interviews would help identify potential new candidates.

g. Internal controls, compliance activities and capital calls

Mr. Wickman reported MCERA is receiving mostly distributions from its original private equity investments in 2008 managed by Abbott Capital Management and Pathway Capital Management. For this fiscal year ending June 30, 2021 MCERA received from Abbott distributions of \$44.96 million and paid \$20 million in capital

calls to Abbott. Similarly for Pathway, MCERA received a total of \$57.3 million in distributions and paid \$13.1 million in capital calls. For the total private equity program MCERA received \$102.26 million in distributions and paid \$33.1 million in capital calls for the fiscal year. The Administrator stated this means that MCERA is getting the benefit of receiving distributions that cover capital calls for the newer funds.

Distributions and capital calls since inception through December 31, 2020, for the private equity program are presented in the report, the Administrator said. At the request of Trustee Klein, Mr. Wickman will look into having the since-inception private equity data from the Callan quarterly report line up with the accounting capital call and distribution reporting period.

In reviewing the activity of the three new Opportunistic managers, Mr. Wickman noted that Varde has called more capital for investing than the other managers. Chair Werby asked about investment reports from the Opportunistic managers. The Administrator replied MCERA is receiving investment reporting and he will ask Callan to provide an update at the September Investment Committee meeting. The Opportunistic managers will be providing portfolio reviews at the December Investment Committee meeting.

Mr. Wickman stated of the \$20 million in redemptions requested from the UBS Trumbull Property Fund, MCERA has received \$12.87 million so far. Both core real estate funds are distributing dividends to MCERA, based on the change in MCERA's dividend policy.

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

Nothing to report on this agenda item.

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

Chair Werby posed the question of MCERA's response to a potential internet outage. Mr. Wickman said he would discuss this question with MCERA's cyber security vendor, but if a broad shutdown of the internet and corresponding communications were to occur MCERA could likely operate for a couple of weeks before seeing a major impact.

- j. Form 700 Summary

Counsel Dunning presented the Form 700 Summary listing economic interests trustees and consultants identified on their Form 700. She stated there were no gifts reported in excess of the new \$520 gift limit. Ms. Dunning pointed to highlighted UBS and Invesco interests trustees were identified as having to be aware of.

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

Mr. Wickman reported at its meeting a few weeks ago the Audit Committee received a report on the annual financial statements audit from the auditors, who are making good progress. The first phase of the audit on internal controls and validating member and payroll data is completed. Auditors will be reviewing audited financial statements with the Audit Committee in the fall. In the interim the actuary will use information received from MCERA after the books are closed to complete the GASB 67/68 Reports, which are included with MCERA's financial statements. The Administrator explained that due to the lag in private equity program valuations, updated June 30, 2021 values will be an adjustment after the books are closed. Trustee Block asked if lagging private equity valuations and GASB 67/68 reporting comes up in discussions with public pension fund peers. Mr. Wickman replied that it is not a significant topic of discussion because each retirement system faces the same issue. The structure of MCERA's Plan with multiple valuation groups and 48 benefit tiers requires additional work by the staff and actuary to prepare annual reports. Other retirement systems have fewer tiers which can lead to being able to produce reports on a more streamlined basis.

5. Future Meetings

Consider and discuss agenda items for future meetings

Chair Werby invited ideas on topics for future Committee meetings. Mr. Wickman said at the next meeting the Information Technology Risk Assessment Report and the Phase 2 cybersecurity report by Linea Secure will be presented. In addition, Nossaman will conduct the annual review of insurance policies and industry trends as requested by the Committee.

There being no further business, Chair Werby adjourned the meeting at 9:55 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