

MINUTES

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

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

March 23, 2022 – 9:00 a.m.

This meeting was held via videoconference pursuant to MCERA Board of Retirement Resolution 2021-22/01, which invoked Government Code section 54953(e) for all MCERA Board and standing committee meetings through April 1, 2022. The public was able to listen to and observe the meeting and provide comment through Zoom.

CALL TO ORDER

Chair Murphy called the meeting to order at 9:02 a.m.

ROLL CALL

PRESENT: Klein, Martinovich, Murphy, Werby

ABSENT: None

MINUTES

It was M/S Werby/Klein to approve the August 18, 2021 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Klein, Martinovich, 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 2021/22 Quarterly Review

Consider and review expenses for quarters ending September 30, 2021 and December 31, 2021

Accounting Unit Manager La Valda Marshall reported for the quarter ending September 30, 2021 total administrative expenses were \$851 thousand, 17.9% versus 25% of the budgeted amount for the fiscal year. Expenses ran under budget for the quarter due to a position vacancy. Services and supplies expenses were \$293 thousand and interdepartmental charges of \$89 thousand are accruals.

For the quarter ending December 31, 2021 total administrative expenses were \$1.3 million, 2.2% under budget due to a position vacancy. Total services and supplies were \$341 thousand, 1% over budget due to seasonal annual expenses including the Brown Armstrong financial audit and annual membership dues. Transcribing for medical records review were over the budgeted amount for the quarter due to increased activity. Electronic supplies were over budget due to updating the Board room to accommodate virtual meetings and in support of telework. Total Interdepartmental Charges were \$212 thousand, running over budget in the quarter due to being paid in full for the year.

Trustee Werby asked about the payment to Crosspoint Evaluations which Retirement Administrator Jeff Wickman said provides medical advisors and independent medical advisors for disability cases. He explained complex cases can require considerable medical documentation before and after examinations.

In summary, Ms. Marshall reported at mid-year total administrative expenses are trending at 44.4% of the administrative budget for the 2021/22 fiscal year.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarters

For the quarter ending September 30, 2021, non-budgeted expenses totaled \$46.9 million. Of that amount \$43.4 million is for retirement benefit expenses. Total legal, actuarial and investment expenses were \$3.4 million. Of the \$56 thousand in legal expenses, the largest portion is for Nossaman general counsel services. For the quarter ending December 31, 2021, total non-budgeted expenses were \$47.1 million, of which \$43.2 million is retirement benefit expenses. Remaining categories include computer expenses of \$38 thousand, legal expenses of \$76 thousand, and investment manager fees of \$3.3 million. Actuarial and investment consultants are also included in non-budgeted expenses. The largest part of Nossaman fees of over \$68 thousand were for general counsel work, followed by leasing at One McInnis Parkway.

At mid-fiscal year total non-budgeted expenses were \$94 million, including \$86.6 million retiree related, \$6.7 million in investment manager fees, \$133 thousand in legal fees, and \$25 thousand for cyber security. Ms. Marshall reported that investment manager fees average less than 0.5% of portfolio assets.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Event related expenses were \$6,000 from July 1, 2021 through December 31, 2021. Events attended by trustees, staff or consultants included the SACRS Fall Conference, the CalAPRS Administrators' Institute, CalAPRS Round Tables, and the Public Pension Financial Forum (P2F2) Conference.

b. Continuing Trustee Education Log

Mr. Wickman presented the Continuing Trustee Education Log as of December 31, 2021 showing progress toward the 24 hours of education required every two years. Trustees have plenty of time to reach this training requirement.

c. Other expenses per Checklist Guidelines

Ms. Marshall reviewed monthly credit card expenses. The most common expenses are office supplies, banking, and memberships and subscriptions. Other categories include conference and travel expenses, as well as electronic and ergonomic equipment.

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

See discussion above.

e. Vendor services provided to MCERA

No new vendor services in the period.

f. MCERA staffing status

The Administrator reported MCERA is recruiting for two vacant positions in the benefits area and plans to hire both positions from the one recruitment. Assistant Retirement Administrator Michelle Hardesty reported the first hire is expected to start work in April and second is likely to begin in June.

g. Internal controls, compliance activities and capital calls

For the Abbott Capital Management private equity portfolio MCERA had capital calls of \$5.3 million and received distributions of \$30.9 million from July through December 2021. Since inception paid-in capital is \$195.7 million, uncalled capital is \$29.3

million, distributions are \$185.7 million, and the Net Asset Value (NAV) is \$215.9 million. Pathway Capital Management private equity portfolio capital calls were \$8 million and distributions to MCERA were \$30 million. Since inception paid-in capital is \$191 million, uncalled capital is \$34.1 million, distributions are \$194.3 million, and the Net Asset Value (NAV) is \$236.7 million.

In the opportunistic portfolios during the 4th quarter of 2021, CarVal called \$1.7 in capital and paid MCERA \$12,000 in distributions. Since inception paid-in capital is \$6.8 million of \$33.5 million committed, and the net asset value is \$7.4 million. MCERA received capital calls of \$4 million and distributions of \$387 thousand from Fortress. Since inception paid-in capital is \$8.6 million of \$33 million committed, and the NAV is \$9.2 million. For the Varde portfolio, capital calls were \$2.5 million. Since inception paid-in capital is \$19.3 million of \$33.5 million committed and the NAV is \$21.8 million. The totals for all three opportunistic portfolios since inception are \$34.6 million in paid-in capital of \$100 million committed, \$398 thousand in distributions, and a \$38.4 million NAV. Mr. Wickman reported so far in 2022, MCERA has received two capital calls from CarVal and none from the other two opportunistic managers.

The report lists portfolio rebalancing that nets to zero, transfers, dividends from real estate portfolios, and redemptions. MCERA has received \$17.2 million of the \$20 million redemption request from UBS. Mr. Wickman noted the Investment Committee made two decisions, one to terminate Parametric Emerging Markets and move that portfolio to Fidelity, and the other to reduce the small cap domestic equity allocation that was rebalanced to the fixed income portfolio managers.

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

No items to report.

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

Nothing to report.

4. Budget Priorities for Fiscal Year 2022/23 (ACTION)

Consider and take possible action on recommendation to adopt budget priorities for fiscal year 2022/23

Mr. Wickman presented Budget Priorities for Fiscal Year 2022/23. He explained that administrative expenditures consist of salaries and benefits and administrative operations. The current administrative budget is \$4.76 million, which is reduced to \$4.3 after excluding administration of post-retirement medical plans and investment-related expenses. The budget is under the legislated cap of no more than 21 basis points of the accrued actuarial liability.

For the new budget a small increase is proposed for salaries and benefits. Positions will be budgeted at the top step, and include a cost of living adjustment of 2.5% that was negotiated late last year. The benefit multiplier will be 52% of pay subject to confirmation

by the County. The Administrator said services and supplies decreased from the prior year, noting that this part of the budget varies with the number and complexity of disability cases. The proposed budget includes consultant fees to assist with the development of an Annual Comprehensive Financial Report (ACFR). Also planned is an analysis of the current organization structure as compared with peers to determine if there are service gaps or positions that should be considered. Adjustments are planned for disability benefit processing and the cost of off-site storage.

The Administrator invited Committee members to suggest items for the budget priorities. Trustee Werby is interested in how MCERA's administrative budget compares with peers with regard to the percentage of the liability. Mr. Wickman said he will bring this information to the next Committee meeting.

It was M/S Klein/Werby to adopt Budget Priorities for Fiscal Year 2022/23 as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Klein, Martinovich, Murphy, Werby
NOES: None
ABSTAIN: None
ABSENT: None

5. Information Technology Security Assessment Report
Staff report on risk planning and processes for MCERA

Ms. Hardesty presented the Information Technology (IT) Security Assessment Report from July 1, 2019 to June 30 2021. She explained that the annual risk assessment process was interrupted by COVID and the Linea cyber risk assessment. The goal is to put processes and procedures in place to mitigate risk. Processes have been designed to respond to threats and security incidents to ensure that information systems are safeguarded against threats. The IT Security Assessment team members are Syd Fowler, Vladimir Matyurin and Ms. Hardesty.

Ms. Fowler stated the IT security assessment process begins with a review of related internal policies and procedures and those for third-party providers. She noted MCERA's systems and electronic business tools are primarily hosted by outside entities. For the reporting process staff assesses internal compliance, notes significant changes in the system, and identifies any findings, incidents or notable events that have occurred during the reporting period. An incident is anything between a user and a system that has an adverse effect. Based on results of the assessment, staff makes recommendations for improvement to policies and procedures and additional risk mitigation strategies are planned as necessary.

Ms. Fowler discussed security enhancements implemented throughout the reporting period. Linea Secure (Linea) completed penetration testing on the CPAS employer portal and on the Marin County network. Based on the Linea cybersecurity assessment report, CPAS and Marin County updated their systems to enhance security. In addition, with Linea's support staff developed a suite of policies regarding building security, access control

systems, and passwords, and developed its incident response plan. In other actions MCERA shifted the CPAS pension administration system to a cloud-hosted environment. The result was to provide a secondary hot disaster recovery environment allowing the system to be up and running within 2 hours after a catastrophic failure. Ms. Fowler noted that Marin County has been proactive with regard to security by conducting a general risk assessment followed by a telework assessment in early 2021. Based on results Marin County implemented an incident response procedure and annual mandatory security training for all employees.

Ms. Fowler stated there were no findings during the reporting period, meaning there were no compliance failures, breach of sensitive data, or loss of functionality to MCERA's internal or external systems. Three notable events were:

1. During a routine virus scan, ad ware was found on a computer that posed no risk. Ms. Fowler noted the process worked as it should.
2. Through the custodian a cash reconciliation file was mistakenly emailed to a third-party recordkeeper. It was determined there was no breach of data.
3. An attempt to withdraw funds from a custodial account with a fraudulent check was identified by State Street immediately and no funds were lost. The check was from an MCERA employer and had bank account information on it. Trustee Klein asked about follow-up by law enforcement and Ms. Hardesty replied in Marin County the case was closed because no funds were lost.

In conclusion, Ms. Fowler reported no new areas of risk were identified for the current fiscal year. Since the date of the report MCERA has updated trustee iPads and Marin County has strengthened VPN architecture and updated software for accessing applications on personal devices. Moving forward, risk mitigation activities include implementing all policies developed with Linea Secure.

6. MCERA Insurance Review

Review, discuss and consider MCERA's insurance coverage

Mr. Wickman introduced Jim Vorhis, Counsel at Nossaman. Mr. Vorhis had provided a confidential attorney-client privileged memo on MCERA's insurance to the Committee. He stated MCERA's insurance portfolio is thorough and on top of trends regarding the scope and limits of insurance. Fiduciary liability insurance is one of the most important policies and has a limit to coverage that is near the average for similar systems. He explained that fiduciary liability insurance is a defense fee policy for breach of fiduciary duty. He noted that premiums and retention levels have been increasing for fiduciary insurance.

Commercial general liability insurance covers third party risks to MCERA, such as injuries or property damage at One McInnis Parkway. Property insurance coverage is based on the value of the property, with added coverage for floods and earthquakes. For employment practices, MCERA is insured through a Marin County policy. MCERA has cyber liability

insurance that Mr. Vorhis said is needed for public pension systems which are high-risk targets due to being in the financial sector. He said over the last year or two cyber liability insurance is becoming more difficult and expensive to purchase. Additionally, applications are more complex and coverage limits are coming down. He emphasized getting in front of the renewal process by having cyber controls, as MCERA is doing. Mr. Vorhis said the scope of coverage is likely to change and advised making sure MCERA's defenses are sound.

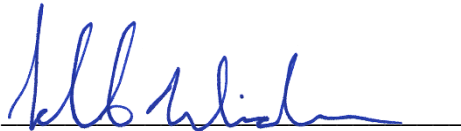
Trustee Werby asked about earthquake coverage, which Mr. Vorhis said is for the building with a relatively low deductible. In conclusion, Mr. Vorhis said he expects there will continue to be increases in insurance premiums. MCERA is set up for insurance coverage as well as it can be, he said.

7. Future Meetings

Consider and discuss agenda items for future meetings.

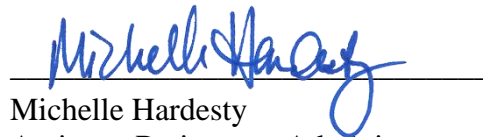
Chair Murphy invited comments on topics for future meetings.

There being no further business, Chair Murphy adjourned the meeting at 10:19 a.m.



Jeff Wickman
Retirement Administrator

On behalf of:
Laurie Murphy



Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman