

MINUTES

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

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

May 25, 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 June 3, 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 9:01 a.m.

ROLL CALL

PRESENT: Martinovich, Murphy, Werby

ABSENT: Klein

MINUTES

It was M/S Werby/Murphy to approve the March 23, 2022 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by a vote of 3-0 as follows:

AYES: Martinovich, Murphy, Werby

NOES: None

ABSTAIN: None

ABSENT: Klein

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 the quarter ending March 31, 2022

La Valda Marshall, Accounting Unit Manager, reviewed the Administrative Budget as of March 31, 2022. Ms. Marshall reported total administrative expenditures for the 3rd quarter of the fiscal year were \$1 million, 21.1% of the annual budget. Salaries and Benefits for the quarter were \$589 thousand, 19% of the budgeted amount. Savings were due mainly to two vacant positions. MCERA received a refund of Workers' Compensation expenses, and overtime was utilized for special projects. Services and Supplies expenditures for the quarter were \$409 thousand, 31.3% of the annual budget. The overage was due to payment of an annual insurance premium, annual 1099R expenses, and equipment needed for telework and ergonomics. The Interdepartmental Charges were under budget for the quarter due to being paid in full in the second quarter of the fiscal year.

Total fiscal year-to-date administrative expenses were \$3.1 million, 65.5% of the budgeted amount. Total Salaries and Benefits were \$1.8 million, 56.0% of the budgeted amount. Services and Supplies of \$1 million, 79.9% of the budgeted amount, are trending 5% over the straight line budget for the fiscal year.

Chair Murphy asked if Innovest and insurance expenses are high during the quarter because they are annual fees, and Ms. Marshall affirmed these are annual amounts. Chair Murphy asked about staff work schedules and Mr. Wickman said a few staff members are working remotely and most are on a hybrid work schedule. Most expenses for laptops and monitors needed for remote work have been made.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Total non-budgeted expenditures were \$47.6 million for the quarter ending March 31, 2022. The primary category of retiree payroll totaled \$43.7 million. Other categories include computer expenses of \$149 thousand, legal fees of \$55 thousand, and \$3.3 million in investment manager fees. Details for Nossaman legal fees show most are for General Counsel work. Other non-budgeted expenditures include professional consultants and service providers, such as the actuary and investment consultant. For the fiscal year to date, total non-budgeted expenses are \$141.6 million. Of that amount, retiree payroll and related expenses are \$130.3 million.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Educational and event-related expenses were \$1,400 for the quarter ending March 31, 2022 and \$7,500 year to date. For the quarter expenses for trustee, Administrator and staff training included the SACRS Fall Conference, CalAPRS Administrators Institute, CalAPRS General Assembly, and CalAPRS Roundtables.

b. Continuing Trustee Education Log

Mr. Wickman presented the quarterly update for the Continuing Trustee Education Log showing trustees have met fall deadlines and are meeting the 24 hour education requirement every two years.

c. Other expenses per Checklist Guidelines

Credit card expenditures for January 18, 2022 through April 17, 2022 included subscriptions, office supplies, conferences and travel, and electronic supplies. Trustee Werby noticed that office supplies are from a variety of suppliers. Mr. Wickman explained that the basis for purchases is best price identified by the Business Systems Analyst. Only certain individuals have authority to purchase office supplies. All purchases of electronic equipment are preapproved by the Retirement Administrator.

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

See above discussion.

e. Vendor services provided to MCERA

No new vendor services.

f. MCERA staffing status

David Paganini, Retirement Benefits Technician, is now part of the benefits team. Ms. Hardesty is expecting another new benefits team member at the end of June.

g. Internal controls, compliance activities and capital calls

Ms. Marshall reported in the private equity program Abbott Capital Management capital calls for the fiscal year to date are \$7.4 million and distributions to MCERA are \$41.3 million. For that period Pathway Capital Management capital calls are \$9.3 million and distributions to MCERA are \$40 million. With both private equity managers capital calls are \$16.7 million and distributions to MCERA are \$81.3 million for the private equity program.

In the Opportunistic portfolios capital calls totaled \$16.6 million and distributions to MCERA were \$399 thousand for the fiscal year as of March 31, 2022. Since this report Mr. Wickman stated MCERA received a capital call from Pathway in April for \$1.1 million and capital calls from Opportunistic manager Värde in April and May totaling \$7.3 million.

Other transfers and portfolio rebalancing were presented to the Committee for review. Mr. Wickman reported \$19 million in available cash was used to refund the Parametric overlay margin account rather than liquidate securities. Ms. Marshall reported MCERA has received all of its \$20 million redemption request from the UBS Trumbull Property Fund. Trustee Werby asked if the redemption from UBS came faster than expected and Mr. Wickman replied this is the case, noting that he has discussed with Callan bringing the question of requesting new redemptions to a future Investment Committee meeting. As of December 31, 2021 MCERA has received dividends of \$1.9 million from the AEW Core Real Estate portfolio and \$1.9 million from the UBS Trumbull Property Fund for the fiscal year to date.

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 stated last week Jim Vorhis, Counsel at Nossaman, and he met with the cyber insurance broker for an update on renewing cybersecurity insurance. He expects that MCERA will be able to purchase the cybersecurity insurance, but with an exponential increase in the amount of information required. The cybersecurity insurance renewal application will be completed next week.

j. Form 700 Summary

Ashley Dunning, Board Counsel, presented the Form 700 Summary. The Summary is the result of the annual process to review Form 700's submitted by MCERA staff, trustees and consultants. The financial interests disclosed on Form 700 are listed as a risk mitigation measure for circumstance where recusal by the filer would be appropriate. Counsel Dunning reported there are no such interests evident on this year's Summary, and she invited questions on the topic.

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

Consider and possibly recommend adoption of Administrative Budget for Fiscal Year 2022/23

Mr. Wickman presented the proposed Administrative Budget for Fiscal Year 2022/23. He began by discussing the items required to be reported in the Board's Budget Policy and Adoption Process which include the MCERA Organization Chart and list of budgeted positions for staff members. In addition, in response to a request by the Committee, he provided a summary of County Employees Retirement Law of 1937 (CERL) systems

having Chief Investment Officers (CIOs), investment analysts, or Chief Financial Officers (CFOs). The data shows that organizations with market values above \$4 to 5 billion tend to have CIO positions. One system smaller than MCERA in assets has a CIO. Chief Financial Officer positions may be seen in larger systems and systems with more complex investment programs. The Administrator said if there is an interest in having a new investment-related position the matter could be followed up by the Investment Committee.

Trustee Werby asked if administrative expenses can be compared with system size, and Mr. Wickman will provide that data at the next Committee meeting.

Proposed Salaries and Benefits are 64% of the total administrative budget, and all positions are budgeted at the top step. The budget also includes a cost of living adjustment that employees will receive on July 1, 2022. Also, the proposed budget includes the 1.5% cost of living adjustment that was paid to employees on July 1, 2021 but was not included in the 2021/22 budget because the increase was agreed to after the budget was adopted by the Board in June 2021. Benefits costs have been projected at 52% of salary, the same as for last year. The budget includes the cost of a Chief Financial Officer position (CFO). MCERA has a CFO position but it was being underfilled with an Accounting Unit Manager. Budgeting for the CFO position will create additional salary and benefit cost but Mr. Wickman believes that is the appropriate position that MCERA should be utilizing to manage its financial operations. The resulting total proposed Salaries and Benefits are \$3.3 million.

Services and Supplies have been increased from the prior fiscal year due to higher insurance and independent medical examinations costs. Budgeting for disability costs will be increased in line with prior fiscal year experience. Total proposed Services and Supplies are expected to be \$1.4 million.

After adjusting for investment management time and administering the medical plan for Marin County, the total expected administrative budget for the 2022/23 fiscal year is \$4.69 million, which is 15 basis points of the accrued actuarial liability. By comparison, the administrative budget cap is 21 basis points of the total accrued actuarial liability, or \$6.75 million.

Chair Murphy asked about the impact on the proposed budget if the July 1, 2022 cost of living adjustment were renegotiated. Mr. Wickman replied that vacancy savings will buffer some increase in expenses but if the July 1, 2022 cost of living adjustment is increased and that increase impacts the budget staff will bring the budget back to the Committee for reconsideration. Trustee Martinovich asked if the budget includes the cost of living adjustment for represented and non-represented employees. Mr. Wickman replied these were incorporated into the proposed budget.

Trustee Werby asked if the CFO position is worth the added cost and what the additional skill sets would be. In response, Mr. Wickman said the CFO is needed to focus on higher level tasks than daily financial operations. He said candidates should ideally be Certified Public Accounts (CPAs), with experience producing Annual Comprehensive Financial

Reports, and experience with requisitions for financial systems. He indicated the new position would also focus on investment analysis functions. Ms. Hardesty noted the level of analysis and additional reporting will be important factors in having a Chief Financial Officer. Chair Murphy asked if additional accounting staff is being considered, and the Administrator indicated he would be open to discussing this question once a CFO has been hired.

It was M/S Werby/Murphy to recommend that the Board adopt the Administrative Budget for Fiscal Year 2022/23 as submitted. The motion was approved by a vote of 3-0 as follows:

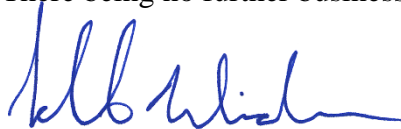
AYES: Martinovich, Murphy, Werby
NOES: None
ABSTAIN: None
ABSENT: Klein

5. Annual Audit of Financial Statements Update
Update on annual audit process

Mr. Wickman reported the Audit Committee met with Brown Armstrong auditors on May 17, 2022 to review the proposed annual audit process, schedule, and deliverables. Brown Armstrong has assigned a new audit team leader for the annual audit. The plan is to have MCERA's Chief Financial Officer on board before work begins on the financial portion of the audits. The first phase of the audit is the performance audit, Ms. Hardesty said, examining operational conformance with procedures and laws.

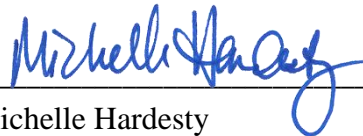
6. Future Meetings
Consider and discuss agenda items for future meetings

There being no further business, Chair Murphy adjourned the meeting at 10:04 a.m.



Jeff Wickman
Retirement Administrator

On behalf of:
Laurie Murphy
Finance and Risk Management Committee Chair



Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman
Retirement Administrator