

MINUTES

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

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

March 22, 2023 – 9:00 a.m.

This meeting was held at the address listed above and was accessible via videoconference and conducted in accordance with Government Code section 54953 and 54954.2.

CALL TO ORDER

Chair Werby called the meeting to order at 9:03 a.m.

ROLL CALL

PRESENT: Klein, Vasquez, Werby

ABSENT: Martinovich

CONSIDER ANY BOARD MEMBER REQUESTS TO TELECONFERENCE FOR “JUST CAUSE” OR “EMERGENCY,” AS SET FORTH ON THIS AGENDA BELOW

No discussion.

MINUTES

It was M/S Vasquez/Klein to approve the November 16, 2022 Finance and Risk Management Committee meeting as submitted. The motion was approved by a vote of 3-0 as follows:

AYES: Klein, Murphy, Werby

NOES: None

ABSTAIN: None

ABSENT: Martinovich

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 2022/23 Quarterly Review

Consider and review expenses for the quarter and ending December 31, 2022

Retirement Administrator Jeff Wickman introduced Anya Bakerink, Chief Financial Officer, to review expenditures for the quarter ending December 31, 2022. Ms. Bakerink reported that Total Salaries and Benefits were slightly under budget due to vacancies. In Services and Supplies the annual audit fee was included in the quarter which is consistent with the prior year. Records Retention expenditures were over the budgeted amount due to additional offsite paper storage. Membership and Dues include annual fees for the Council of Institutional Investors that are paid once per year. Travel and Mileage was slightly higher in the quarter due to travel by staff and trustees. Board Remuneration included the two-day Strategic Workshop in October 2022.

Ms. Bakerink reported that total expenditures for Salaries and Benefits and Services and Supplies are slightly under budget for the first and second quarters of the fiscal year.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Ms. Bakerink reported on non-budgeted expenses. Total retirement member expenses are consistent with the first quarter of the fiscal year. Total computer expenses include monthly CPAS fees and are consistent with the first quarter. In the legal, actuary and investment expenses report, legal fees are provided in detail. Investment fees were slightly higher during the quarter due to private equity fees. Colchester fees were lower due to liquidation of the portfolio, and Western Asset fees were higher due to funds being rolled over from the Colchester global bond portfolio.

3. Quarterly Checklist

Consider, review and updates on the following:

a. Other expenses per Checklist Guidelines

Credit card transactions are mostly for travel and reimbursements for travel, as well as office supplies.

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

See discussion above.

c. MCERA educational and event-related expenses

Education and event-related expenses are categorized into Staff, Trustee and Counsel expenses.

d. Continuing Trustee Education Log

Mr. Wickman reported that current trustees have met education hours due in 2023. Trustees with hours due in 2024 are well on their way to meeting the requirement of 24 hours of education every two years.

e. Internal controls, compliance activities and capital calls

Ms. Bakerink reported most private equity distributions were from older funds and capital calls were from new funds. Abbott Capital Management distributed \$10.7 million to MCERA and issued capital calls for \$2.5 million. Distributions received from Pathway Capital Management were \$8.3 million and capital calls were \$2.8 million. In the private debt portfolio, there were no distributions and capital calls were \$7.5 million. Other cash flows show dividends received from core real estate managers AEW and UBS.

The report shows the transfer of fixed income portfolio funds from Colchester to Western Asset. Parametric received \$15 million for transition management in the futures overlay program and sent \$10 million back as it was not needed. Trustee Vasquez noted with market volatility comes higher margin requirements.

Mr. Wickman reported since December 31, 2022 MCERA received a distribution of \$875,000 from Abbott and \$1.7 million from Pathway, and Pathway issued a capital call for \$1 million. He noted distributions received from the private equity program have been higher than capital calls. Credit manager Varde issued a distribution to MCERA of \$6.3 million. In total since December 31, 2022 MCERA received distributions of about \$9 million and paid capital calls of about \$1 million.

f. Vendor services provided to MCERA

Mr. Wickman said there are no new vendors since the last Board meeting.

g. MCERA staffing status

Staff have conducted initial interviews for the Assistant Retirement Administrator position and are setting up a second round of interviews. The recruitment for Retirement Benefit Technicians is moving forward following completion of initial interviews.

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 reported on March 9, 2023, the Federal Deposit Insurance Corporation (FDIC) took over Silicon Valley Bank, and Signature Bank also failed. He stated both banks are in the Russell 1000 Index that MCERA is invested in. MCERA had holdings valued at \$106,000 in Silicon Valley Bank and \$77,000 in Signature Bank. In addition, MCERA's private equity managers, Abbott Capital Management and Pathway Capital Management, had cash in Silicon Valley Bank. MCERA is waiting to hear how much the General Partners and underlying funds have at Silicon Valley Bank and whether there are there liquidity issues. Chair Klein noted Silicon Valley Bank had offered loans to portfolio companies in the underlying funds and asked how that would impact MCERA's private equity investments. Mr. Wickman said Callan will be addressing this matter at the March 29, 2023 Investment Committee meeting. Chair Klein said her understanding is the FDIC is offering money to customers of the two failed banks who request it, and Mr. Wickman said both private equity managers have indicated this is the case.

Mr. Wickman addressed another bank failure, Credit Suisse Group. Wellington Management Company held 144A's (0.27% of the portfolio) and is confident of their value. Western Asset Management Company had investments in Additional Tier-one bonds (AT1s) valued at 0.84% of the portfolio, which have been written down to zero.

4. Budget Priorities for Fiscal Year 2023/24 (ACTION)

Consider and take possible action on recommendation to adopt budget priorities for fiscal year 2023/24

Mr. Wickman stated the Board's Budget Policy and Adoption Process sets forth the timeline for the approval of the annual administrative budget. He presented Budget Priorities for Fiscal Year 2023/24 to kickoff that process. Since MCERA's budget can be impacted by the County of Marin's budget process, the final administrative budget proposal will be presented for consideration at the Committee's May meeting.

MCERA's administrative budget has three categories, Salaries and Benefits, Services and Supplies, and Other Department Charges. The cost of the administrative budget is borne by participating employers and members through contribution rates. Certain items not included in the administrative budget include legal and actuarial services, and information technology expenditures.

The Administrator explained that the \$5.1 million total budget for the current fiscal year is reduced by investment management and medical plan administration expenditures. This brings the administrative budget down to \$4.7 million. This amount is under the legislated cap for the administrative budget of 21 basis points of the total Plan liability, which is \$6.7 million. Salaries and Benefits are about 64% of the budget, up 6.6% from the prior year due to salary increases. Services and Supplies comprise 28% of the budget, increasing 9.6% from the prior year due to disability case expenses. Interdepartmental charges increased by 14.9% from the prior year.

For the next fiscal year Mr. Wickman is proposing to reduce the salary benefits factor from

52% of salary to 50% of salary. A cost of living adjustment of 3% will be provided to all County employees in July 2023. This adjustment will increase the costs of salaries and benefits for the new fiscal year. The Administrator plans to add a Senior Department Analyst position to lend capacity to department analytics. In the past few years the focus on data analysis has sacrificed the communications aspect of the Department Analyst Position.

Mr. Wickman stated the budget for medical expenses for disability cases will be based on the most recent fiscal year trend and cases in the queue. Although it will not impact next year's proposed budget, Mr. Wickman said he will be talking with the County of Marin about conducting a salary survey on Retirement Benefits Technician and Retirement Benefits Assistant positions. Chair Werby and Trustee Klein asked if salaries were published and Mr. Wickman said the data is on County websites. He added there is some uniqueness to the work and then the consideration includes who are your peer systems. Trustee Vasquez asked about the cost to do the salary survey, and Mr. Wickman noted a prior survey was about \$10,000.

It was M/S Klein/Vasquez to approve the proposed budget priorities for Fiscal Year 2023/24 as submitted. The motion was approved by a vote of 3-0 as follows:

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

5. Information Technology Security Assessment Report

Staff report on risk planning and processes

Mr. Wickman introduced Vladimir Matyurin, MCERA Business Systems Analyst, to present the annual Information Technology Security Assessment Report for the period July 1, 2021 through June 30, 2022. Mr. Matyurin acknowledged Syd Fowler and Michelle Hardesty, members of the risk assessment team, and consultant Linea Secure. Mr. Matyurin stated the purpose of the report is to identify areas of risk in electronic business tools used to administer the pension plan. Staff develops and applies strategies to reduce potential threats and vulnerabilities while balancing this with operational efficiencies. This process helps to prevent compliance failures and security incidents by rapidly addressing risks and improving the overall security posture.

The risk assessment process begins with reaching out to third-party vendors for documentation on policies and procedures. These are examined to determine alignment with MCERA's security expectations. With the advice of Linea Secure, recommendations to improve alignment may be made. Internal compliance includes identifying security gaps or areas for improvement that have a potential impact to the system's risk exposure.

As part of this review, internal or external findings, events or incidents may be identified. A finding is any potential weakness or vulnerability in the system. An event is an observable occurrence that changes the status of the information system. An event could become an incident if it has a negative effect on the security, availability, or integrity of the

system.

Staff follows up as indicated to plan additional risk mitigation strategies, incorporate best practices, and adopt strategies to adapt to changing business needs. Policies and procedures are revised based on risk assessment outcomes.

During the reporting period measures to improve security included new passwords and passcodes for trustee iPads, and information security policies were developed. Marin County also performed a risk assessment and implemented policies that include educating users on potential security risks. In addition, changes in the network were made to install encryption on desktops and laptops connected to the County network. Another security measure was to add multi-factor authentication for all devices connecting to the County network.

Mr. Matyurin reported there was one incident on June 22, 2022 resulting in one retiree's direct deposit being sent to a fraudulent account. The member had not requested the change in bank accounts. As a result, the process for members to change bank accounts has been made more secure. MCERA is attempting to recover the funds from the bank that established the fraudulent account.

In conclusion, Mr. Matyurin said in January 2023 Lina Secure was engaged to provide Chief Information Security Officer services. The next report is expected to include current ongoing penetration testing.

Trustee Vasquez asked how integrated MCERA's data is with County data. Mr. Matyurin replied that sensitive master data, such as member data and payroll records, resides on the Oracle Cloud and is accessed through a secure tunnel. Mr. Matyurin said the County has a robust approach to securing data by relying on OneDrive cloud storage and applying timely updates in a proactive manner. Mr. Wickman said having Linea Secure as a consultant gives an additional level of confidence on an ongoing basis. He noted the County is diligent about testing employees to ensure that everyone is aware of phishing and social engineering attacks.

Mr. Wickman and Chair Werby commended Mr. Matyurin for his work on information security.

6. Future Meetings

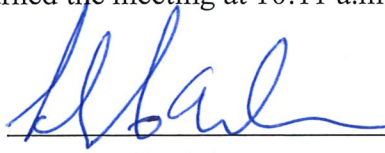
Consider and discuss agenda items for future meetings

No discussion.

There being no further business, Chair Werby adjourned the meeting at 10:11 a.m.



Todd Werby
Finance and Risk Management Committee Chair



Attest: Jeff Wickman
Retirement Administrator