

## **Minutes**

### **Marin County Employees' Retirement Association (MCERA) Retirement Board Strategic Workshop**

**One McInnis Parkway, First Floor  
San Rafael, CA  
May 16-17, 2023**

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

#### **Day 1 May 16, 2023**

Meeting Chair Todd Werby

9:00 a.m.

#### **Call to Order/Roll Call**

Chair Werby called the meeting to order at 9:06 a.m.

**PRESENT:** Cooper, Gladstern, Klein, Martinovich, Murphy, Silberstein, Vasquez, Werby, Jones (alternate retired), Shaw (ex officio alternate)

**ABSENT:** Gullett (alternate safety)

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

No discussion.

#### **Open Time for Public Expression**

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.

9:00 a.m. – 10:00 a.m.

**Change to Actuarial Standards of Practice #4: New Low Default Risk Obligation Measure**

Graham Schmidt, ASA, FCA, MAAA, EA Consulting Actuary, Cheiron

Graham Schmidt, Actuary with Cheiron, discussed updates to Actuarial Standards of Practice (ASOP) No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions. This standard governs all U.S. pension plans and the updates are effective February 15, 2023. Of three main changes, the first is to disclose a reasonable Actuarially Determined Contribution (ADC). Next is to assess the implications of funding policy, and finally to disclose a Low-Default-Risk Obligation Measure (LDROM).

Mr. Schmidt stated to achieve a reasonable ADC, MCERA employs assumptions, actuarial cost methods, and smoothing methods in its funding policy that are consistent with the ASOP 4 guidelines. The amortization policy should complete amortization in a reasonable amount of time, which for MCERA is now 14 years as of the prior valuation. In addition, an assessment needs to be made as to whether the funding policy is significantly inconsistent with the plan to accumulate assets to pay benefits. By definition MCERA's Plan is consistent with the objective of getting the correct assets and as a result will be able to comply with the new ADC disclosures and review of the funding policy.

Mr. Schmidt turned to the requirement to calculate and disclose the LDROM. The LDROM does not change how plan liabilities are calculated for the purpose of determining employer and employee contributions or the Plan's funded status. The LDROM requires that the actuary create a new liability calculation for disclosure purposes only. The new calculation will show Plan liabilities based on a discount rate derived from low-default-risk fixed income securities. One of the recommended options for the LDROM rate is the FTSE Pension Liability Index, which is a corporate bond index that is currently close to 4.75% as compared with the 6.75% discount rate used by MCERA. The purpose of the LDROM is to represent an estimate of liabilities if MCERA were to invest only in low default-risk fixed income securities. Mr. Schmidt pointed out the difference between the LDROM measurement and the actuarial liability based on the assumed rate of return also represents the expected savings to taxpayers for taking investment risk. Furthermore, the LDROM may also be considered the cost to an employer wishing to terminate their participation in MCERA. Mr. Schmidt observed that retirement benefit security depends on investment returns and the ability of the sponsor to pay contributions.

Trustee Silberstein indicated the LDROM requirement comes from political pressure for pension plans to invest in risk-free securities, which has the effect of driving up the cost to the employer and employee. He pointed out there is extreme volatility in the value of risk-free securities, especially longer-term (a rise in interest rates causes bond values to go down). Mr. Schmidt said this point is well taken, noting the FTSE Pension Liability Index interest rate changed by 200 basis points in two months, which takes away some of the meaning. Trustee Silberstein concluded MCERA's investment earnings are saving the taxpayers and employers money. Counsel Dunning advised that California law mandates that public pensions invest in diversified investments and therefore using LDROM as an approach for investing trust fund assets would violate pension law. Trustee Vasquez asked if California law specifically addresses modern portfolio theory for public pension investments. In response, Counsel Dunning said California law requires public pension plans to diversify investments so as to maximize returns and minimize risk. Mr. Wickman noted the California Public Employees' Retirement System



(CalPERS) has been publishing a termination liability, which he felt provided the clearest context for what the new measure would mean for anyone reviewing the actuarial reports.

Chair Werby recessed the meeting for a break at 9:54 a.m., reconvening at 10:02 a.m.

Trustee Jones joined the meeting at 10:03 a.m.

10:00 a.m. – 11:00 a.m.

### **Overview of the Triennial Experience Study Process**

Graham Schmidt, ASA, FCA, MAAA, EA Consulting Actuary, Cheiron

Mr. Schmidt gave an overview of the Triennial Experience Study process which involves analysis of economic and demographic assumptions to determine if adjustments need to be made based on the Plan's experience. The assumptions are used to project retirement benefits and calculate the actuarial liability. Mr. Schmidt explained that benefit costs are based on actual experience and, eventually, contributions and investment earnings must equal benefits and expenses. He explained that the annual actuarial valuation is self-correcting, so that changes from year to year are amortized over time to get back to the funding target.

Methods of setting assumptions include looking at industry trends and historical data, particularly for demographic assumptions. For economic assumptions, the Actuary looks to the opinion of experts and what the risk preference is, particularly for the discount rate. Economic assumptions include inflation, the rate of return on assets, wage increases, and how much payroll will increase over time. Among demographic assumptions are the likelihood of termination or retirement and at what age, and mortality.

Mr. Schmidt discussed current economic conditions that are considered in setting economic assumptions going forward. He said discount rates for public pension plans have been trending down over the last several years, as have inflation assumptions. He also noted the level of fixed income allocations has fallen and more has been invested in private asset classes. In the last year capital market expectations for the future have improved following a decline in asset valuations. Mr. Schmidt made the point that big shifts are not indicated in response to economic conditions.

MCERA's inflation assumption has been reduced from 4% to 2.5% over the past 15 years. Investment returns have averaged 7.4% over 5 years, 8.9% over 10 years, and 5.9% over 15 years. As compared with the universe of large public pension plans, MCERA's 6.75% return assumption is just below the median, and is the most common assumption for California plans. Callan's expected return over 10 years for the current portfolio is 7.2%, an over 1% increase from the prior year. Mr. Schmidt said inflation spiked over the past two years and is now down from a high of 9% at the beginning of 2023 to just under 5%. The inflation assumption of 2.5% is the median mode of peers and the Survey of Professional Forecasters, and is consistent with expert and market expectations over the long term.

Trustee Klein joined the meeting at 10:27 a.m.

Turning to demographic assumptions, Mr. Schmidt said the wage growth assumption of 3% is based in part on a census of local wages in the San Francisco Bay Area. He noted that wages have been crowded out due to health care costs. The payroll growth assumption is 2.75% per year, since some elements of pay will not be pensionable due to the PEPRA cap. For the cost of living adjustment (COLA) the expectation is set slightly lower than the assumed inflation

assumption due to the COLA caps. Because retirees have built up COLA banks over the past couple of years, the actuary will be looking closely at whether the assumption will need to be modified.

Trustee Vasquez asked if the Likelihood of Achieving Average Returns on Slide 14 incorporated a Bayesian-type framework. In response, Mr. Schmidt said the analysis used a standard log-normal distribution based on the standard deviation and Callan's correlation matrix.

For demographic assumptions, Mr. Schmidt said the best indicator is recent MCERA experience. The analysis employs the actual-to-expected ratio of terminations, disabilities or retirements to set assumptions. A confidence interval is determined based on the number of people in each metric. He said PEPRA members may retire later because it takes longer to reach the maximum benefit. Recent mortality data suggests slowing rates of improvement in longevity.

Trustee Vasquez asked how the Actuary is incorporating the population growth of, for example millennials and immigrants, in Marin County. Mr. Schmidt replied he only calculates liabilities for people in the Plan and projections assume there is a level active population. He noted a consideration is the average age at hire for Miscellaneous members, which is approximately 40 years old. Trustee Vasquez indicated newer workers may live longer and Mr. Schmidt affirmed there is generational mortality with improvement each year in longevity.

Chair Werby recessed the meeting for a break at 11:00 a.m., reconvening at 11:05 a.m.

11:00 a.m. – 12:00 p.m.

**Inflation Drivers: Where is it going in 2023 and beyond**

Dana M. Peterson, Chief Economist  
The Conference Board

Trustee Vasquez introduced Dana Peterson, Chief Economist for the Conference Board, who is the leader of the Economy, Strategy and Finance Center. Ms. Peterson stated inflation is driving what is going on in the U.S. economy now and over the longer term. As a result, she is expecting a higher interest rate environment.

Ms. Peterson stated as a result of people staying home due to COVID there was intense pressure on prices for goods. Then, manufacturing saw a spike in inflation which was furthered by easy monetary and fiscal policy by the Federal Reserve to help keep the economy from further decline. Since 2022 the war in Ukraine created a humanitarian crisis along with rising food and energy prices. Low interest rates increased demand for homes and housing prices rose, and natural disasters have put pressure on prices. Currently, the economy is transitioning away from goods toward services outside of the home. Meanwhile, service industries had to rehire workers which put upward pressure on wages.

Ms. Peterson stated as a consequence of higher inflation the Fed has raised interest rates and the balance sheet is rising. This is expected to generate a short and shallow recession in the U.S. She noted inflation from global supply chain pressures is over, and the Producer Price Index (PPI) and gas prices are coming down. But with no slowing in the CPI or the personal consumption deflator, there is still sticky underlying inflation for consumers. One reason is input costs are being passed on to consumers. Services are the biggest driver of inflation overall, notably housing. Ms. Peterson said the good news is that home prices are down year to year and rents should follow. She is not expecting a material worsening of the labor market since 33% of



industries are expecting to hire more workers and 75% of employers are expecting to raise wages.

Ms. Peterson thinks the Fed will raise interest rates one more time and then cut interest rates beginning in the second quarter of next year. She cited inflationary structural changes of labor shortages due in part to the aging population, deglobalization, the energy transition where supply is reduced and renewables are not yet available, millennials looking for housing, and remote work.

In conclusion, Ms. Peterson said over the long run technological advances will lead to productivity gains, reduced inflation, and faster growth. These advances include digital transformations, semiconductor chip availability, and automation with machines and robots replacing workers. She added that better infrastructure with public-private partnerships and more free trade agreements could help reduce friction and lower costs.

Trustee Silberstein asked about Japan that has an aging population. Ms. Peterson commented that Japan has some inflation related to wages due to a labor shortage. Trustee Silberstein pointed out that in California housing zoning laws are causing scarce supply and empty commercial buildings cannot be converted to other use.

Trustee Gladstern asked about the Conference Board which Ms. Peterson explained is a nonpartisan, international business think tank focusing on surveys of CEO's of the Fortune 500 and Fortune 1000 companies. Trustee Vasquez noted the Conference Board publishes the monthly Leading Economic Indicators and the Consumer Confidence Index. Trustee Klein observed the bond market is expecting the Fed to cut rates before the end of the year, which differs from what the Fed is saying. In response, Ms. Peterson said the inverted yield curve usually signals an economic downturn, which the Fed is prepared to have.

Chair Werby asked how a recession would be defined. In response, Ms. Peterson said the National Bureau of Economic Research (NBER) considers the depth, duration, and diffusion of a slowdown as well as negative GDP when naming a recession.

Chair Werby recessed the meeting for lunch at 12:02 p.m.

12:00 p.m. – 1:15 p.m.

### **Lunch Break**

Chair Werby reconvened the meeting at 1:19 p.m.

1:15 p.m. – 2:15 p.m.

### **The Fiscal Cliff: What is the potential impact to markets?**

Brad DeLong, Professor Economics  
University California, Berkeley

Trustee Silberstein introduced Brad DeLong, Professor of Economics at the University of California, Berkeley, who was Under Secretary of the U.S. Treasury during the Clinton administration. The thesis of Professor DeLong's most recent book, *Slouching Toward Utopia*, is about life being better, since around 1870, for many, many more people, but still not as good as it could be for even more people.

Professor DeLong said Treasury Secretary Janet Yellen states that checks of the U.S. Treasury might begin to bounce because the debt limit has been reached. Professor DeLong sees three possibilities. The first is that Federal Reserve does not bounce the checks, it just records a negative balance in the account of the U.S. Treasury, and business goes on as usual. The second is that the Federal Reserve bounces the checks, telling the banks that accepted them to take up the issue with the U.S. Treasury. The third is that the Federal Reserve bounces the checks, telling the banks that accepted them to tell their clients who deposited them in the first place to take up the issue with the U.S. Treasury.

If breaching the debt ceiling comes to pass, the Professor said, then it is hard not to see the price of Treasury securities being discounted. He addressed why we would get to this state. The laws Congress has passed tell the Treasury to write checks and levy taxes but also created a debt ceiling. The Treasury has no choice, it says, but to obey all of the laws and write checks that will bounce if it is no longer able to borrow. The law also requires the Treasury Secretary as a fiduciary to manage some accounts like the Social Security Trust Fund separately from the main Treasury account. Earlier this year upon redeeming securities from the Social Security Trust Fund, the Treasury did not transfer cash from the main account into the Trust Fund account. That means the Trust Fund has notional IOUs from the Treasury. The debt of the U.S. plus IOUs in the trust funds now exceeds the debt ceiling and has done so for months. But the Treasury says the IOUs are not part of the debt subject to the debt limit. The significance of June 1 is that it is the date these expedients will be exhausted and the Treasury will be forced to issue rubber checks. The broader equity markets appear unaffected, the Professor said, but there is a definite possibility that someone may find a payment not going through on June 1 if the situation is not resolved.

Professor DeLong discussed the political positions of President Biden and Speaker of the House Kevin McCarthy, noting at most one of these higher order positions are right or they could both be wrong. If a compromise is not passed quickly, the Professor said, there are likely implications in the long run for the price of U.S. bonds, the value of the dollar, and lack of trust in the U.S. Government.

Trustee Vasquez asked about the effect of a default on securities issued by municipal, state, and federal agencies. In response, Professor DeLong said the first order effect is the price of securities would fall. Secondly, the price of municipal securities and the like would rise relative to U.S. Treasury securities. He said there really is no precedent for this kind of strange technical default as a result of the interpretation of conflicting laws that have been passed. Trustee Vasquez asked if the U.S. Treasury should consider issuing 50+ year bonds and the Professor indicated that space should be explored.

Trustee Klein asked about the \$1 trillion coin. In response Professor DeLong explained the U.S. Treasury has the power to issue platinum coins without their value being tied to the bullion in them. So, because the debt limit does not include coins, the Treasury could mint a \$1 trillion coin and use it to buy government bonds in order to get underneath the debt limit. Chair Werby asked about predictions of significant job losses if we go off the fiscal cliff. The Professor replied this is being compared with the situation in 2008 when mortgages lost value, financing dried up, and the unemployment rate rose to 11%. He noted a number of members of Congress believe default would be unthinkable. Trustee Gladstern asked Mr. Callahan if there is something we should be doing and he replied MCERA has adequate sources of liquidity and should be able to avoid being a forced seller.



Chair Werby recessed the meeting for a break at 2:11 p.m., reconvening at 2:15 p.m.

2:15 p.m. – 3:15 p.m.

### **Private Equity Investment Considerations**

William W. Clayton, Francis R. Kirkham Associate Professor of Law  
Brigham Young University

Yuliya Oryol, Partner with Nossaman, introduced William Clayton, Associate Professor of Law at Brigham Young University, to discuss private equity investment considerations. Professor Clayton is a business law scholar whose research on contracts and private investment funds has been presented to the Securities and Exchange Commission (SEC). Professor Clayton said historically the SEC has taken a light touch with private equity managers, but over the past 15 years private markets have grown and the SEC sensed the need to step in. The Professor said this is an interesting crossroad where private equity will become more regulated.

In February 2022, the SEC issued a proposal applicable to all registered private equity fund advisers. The components include an annual audit for each private fund advised, an annual compliance review, quarterly disclosure statements for each private fund advised, and disclosure of fees, expenses and compensation paid to the adviser or related persons. Prohibited practices apply to all private fund advisers and include charging certain fees and expenses such as accelerated monitoring fees and expenses, seeking limitation of liability for breach of fiduciary duty, charging fees or expenses on a non-pro rata basis, borrowing or receiving an extension of credit from a private fund client, and preferential treatment that has a negative effect on other investors. Asked by Trustee Klein who MCERA's advisers are, Ms. Oryol replied that Abbott Capital Management and Pathway Capital Management would report to MCERA and would receive information from the underlying funds.

Professor Clayton said a long comment period has ensued during which he submitted two letters about the SEC proposal in April and December 2022 on how academics are thinking about these rules. He indicated these letters may lend consideration at a deeper level on where things are going. His views on the proposal are, first, the rules were more aggressive than many expected, notably the prohibited practices that have received a lot of attention. Second, the proposal did not provide a clear articulation as to the causes of bargaining inefficiencies the rules are trying to fix, nor how the proposed interventions are calibrated to fix problems. Third, when the SEC addresses causes of bargaining inefficiencies, the data does not support these policy efforts. Finally, the SEC asks for industry input on questions of implementation, rather than on whether we are getting the cause of the problem right.

In his comments Professor Clayton argued this is a different type of securities regulation than the SEC has engaged in before. In addition, there is a greater need to apply rules narrowly so as not to unnecessarily impinge on freedom of contract. His academic theories on causes of bargaining failures include competition among investors and legal teams losing bargaining power. He pointed out that due to the lack of public information scholars have been cautious about interventions in private equity. He argues that depending on what is causing bargaining inefficiencies, a different set of policy responses may be called for. Professor Clayton's policy recommendation in the short run is for the SEC to take a multi-staged approach. Over the long run the SEC could do more to generate data to inform its policy-making function and get investor input on the causes of bargaining inefficiencies. Industry participants can generate more data

and create policy dialogue, and there can be more collaboration between industry scholars and policy makers.

In March the Institutional Limited Partners Association (ILPA) released a report quantifying the challenges faced by Limited Partners (LPs). Survey results point to a lack of bargaining power and terms favoring the General Partner (GP). Professor Clayton said the ILPA report, along with more information coming from industry, is a step in the right direction in supporting a policy dialogue.

Trustee Silberstein asked if terms offered across private equity funds are different and Professor Clayton replied top managers do have the luxury of setting terms. Ms. Oryol added top quartile funds tend to have more restrictive terms and aggressive tactics, with investors willing to accept the terms just to get an allocation. Chair Werby asked about Most Favored Nation provisions and Professor Clayton said the SEC approach is to prohibit preferential treatment. Ms. Oryol added that currently side letters assist investors with these provisions. Professor Clayton said it is very much in play right now to know what terms are provided to other investors.

3:15 p.m. – 3:30 p.m.

#### **Closing and Follow-up Items from Today's Agenda**

Mr. Wickman asked for comments on the day's presentations.

There being no further business, Chair Werby adjourned the meeting at 3:12 p.m.

### **Day 2 May 17, 2023**

9:00 a.m.

#### **Call to Order/Roll Call**

Chair Werby called the meeting to order at 9:01 a.m.

PRESENT: Cooper, Gladstern, Klein, Martinovich, Murphy, Silberstein, Vasquez, Werby, Jones (alternate retired), Shaw (ex officio alternate)

ABSENT: Gullett (alternate safety)

#### **Open Time for Public Expression**

No members of the public provided comment.

9:00 a.m. – 10:00 a.m.

#### **MCERA Investment Management Process and Structure**

Jeff Wickman, Retirement Administrator

Retirement Administrator Jeff Wickman discussed MCERA's investment management process and structure. Through its Investment Committee, the Board establishes the Investment Policy Statement which sets forth the investment program. Included are policies and procedures, asset allocations, and performance objectives. MCERA employs an investment consultant to assist with asset allocations which are reviewed annually. The consultant also develops capital market



expectations which are updated and reviewed each year. Every three to five years the consultant conducts an Asset/Liability Study to determine if the Fund is on track to meet the objectives. Mr. Wickman emphasized the long-term view for Fund investments and the goal to pay the promised benefits.

Each asset class has target allocations and ranges, which, when assets do not fall within the authorized ranges, are rebalanced and reported to the Finance and Risk Management Committee and the Investment Committee. Trustee Klein asked for specifics on how the rebalancing is done. Mr. Wickman replied staff and the consultant determine portfolios to be trimmed, which will receive funds, and when this can be done depending on the investment vehicle. Trustee Klein requested that a specific timeline be set for when rebalancing is to be completed and Mr. Wickman said he will follow up on this request.

Trustee Jones joined the meeting at 9:11 a.m.

For manager selection the investment consultant role is to develop the candidate profile and present best-in-class managers to be considered. The Investment Committee determines which candidates will be interviewed and makes the hiring decision. The Administrator noted that manager selection can be challenging, and he encouraged the Investment Committee to pause and take time to consider before making its selection. There was discussion around this point.

Trustee Klein indicated manager selection can be more important in selecting private investments managers, for example, and it is less so with public equity managers. She said the expectation is that all candidates presented by the investment consultant should be qualified to manage. Counsel Dunning noted the fiduciary role of the Board and that some functions are appropriate for delegation, including rebalancing. Trustee Gladstern proposed looking back to see how manager selection worked out given the performance of the different candidates.

Mr. Wickman noted there is a regular schedule for managers to provide portfolio reviews. The consultant tracks portfolio performance and personnel issues regularly, and the Watchlist is reviewed annually to determine the status of managers. The Finance and Risk Management Committee reviews investment manager fees, capital calls and distributions, and rebalanced funds on a quarterly basis. Furthermore, the financial auditor tests the value of investments during the annual financial audit.

The Administrator discussed staff's role, which includes working with Counsel on investment agreements or side letters in which MCERA gets Most Favored Nation provisions. Staff collects and reviews placement agent representations and Forms 700 to look for potential conflicts. Also, performance reports, capital calls and distributions, and manager commentary are reviewed. Staff is informed of manager personnel changes, and monitors daily cash needs. In addition, staff reviews holdings and proxy voting matters of interest. Two law firms monitor securities litigation for MCERA, and custodian State Street Bank files claims on MCERA's behalf when indicated. Mr. Wickman also meets separately with managers who are in the Bay Area, and generally invites the Investment Committee Chair to join these meetings.

Trustee Silberstein asked about the administration of One McInnis Parkway and why the decision was made to sell MCERA's separately held real estate portfolio. Mr. Wickman explained that the Board decided to sell the buildings that were separately held in the portfolio at a time when the property values were high. The Administrator explained that the Board was the fiduciary for the individual properties which created an additional level of responsibility. As a



result the Board decided the timing was best to sell all the properties with the exception of One McInnis Parkway.

Chair Werby recessed the meeting for a break at 9:56 a.m., reconvening at 10:03 a.m.

10:00 a.m. – 11:00 a.m.

### **MCERA Investment Beliefs: Review and Discussion**

Jeff Wickman, Retirement Administrator

Mr. Wickman said in 2015 the Board directed staff to develop a Statement of Investment Beliefs to help provide for how and why the Board invests the trust fund assets. The initial draft of Investment Beliefs was presented to the Governance Committee for review and comment. The final version of the Investment Beliefs were adopted by the Investment Committee on June 9, 2016.

The Administrator reviewed and commented on the eight Investment Beliefs. (1) Liabilities must influence the asset structure. (2) A long time investment horizon is an advantage. Mr. Wickman pointed out that the Plan is mature and demographics drive the cost of funding the Plan. (3) Investment decisions may reflect wider stakeholder views. (4) Governance is the primary tool to align interests between MCERA and investment managers. Mr. Wickman noted the Board has engaged with managers on proxy voting through the Governance Committee. (5) Strategic asset allocation is the dominant determinant of portfolio risk and return. (6) Risk is only to be taken where there is a strong belief it will be rewarded. (7) Costs matter and need to be effectively managed. Mr. Wickman noted investment costs are reviewed by the Finance and Risk Management Committee. (8) Risk to MCERA is multi-faceted and not fully captured through measures such as volatility or tracking error. Each Belief is further defined by sub-beliefs.

Mr. Wickman stated the Fund is in a strong position from a funding standpoint, noting the Board has taken a conservative and prudent approach to funding the Plan. The Board has plenary authority over investments which it needs to diversify, making sure to maximize risk-adjusted investment returns so that funds are there to pay the benefits. Mr. Wickman suggested the Board consider if the Investment Beliefs are still relevant or should be reviewed by the Governance Committee.

Trustee Klein asked Counsel if the sub-beliefs are appropriate for the Board's fiduciary role. Counsel Dunning replied the Beliefs are all framed within the Board's fiduciary role and must be consistent with the duty to members and beneficiaries to pay their MCERA benefits on time.

Trustee Vasquez said he has seen environmental-social-governance (ESG) go from the discretion of portfolio managers to what is now a full-blown subindustry where everything is considered ESG. He indicated there is a need at some point for an understanding of harmonized ESG standards and considering what the criteria or broad principles would be. He suggested such standards be used in a good-faith upgrade to the Investment Beliefs. Counsel Dunning said the Investment Beliefs are a strong document. Trustee Vasquez suggested the update could use a layered approach to integrate a more rigorous depiction of ESG standards. Trustee Silberstein added investors should be concerned about broader contexts for achieving returns and the guidelines are flexible enough to deal with that.

Trustee Silberstein noted one risk to consider is if Marin County were to change its policies and not have enough revenue to pay contributions. He pointed to a trend to use independent



contractors that would result in fewer employees making pension contributions. Mr. Wickman said some CERL systems have adopted a declining payroll policy or termination policy when an employer plans to reduce its workforce, but he also noted that he has not observed this as being an issue for MCERA employers.

Trustee Gladstern asked about workforce housing as an investment, noting that now only half of employees live in Marin County. Counsel Dunning said the housing of MCERA's workforce is not what the Board should focus on when investing trust fund assets, noting the trust purpose is to earn enough money to pay retirement benefits. Mr. Wickman said he is not aware of other CERL systems looking into employee housing.

Trustee Klein said specific details would not need to be included in the Investment Beliefs since they change over time. Trustee Silberstein agreed, noting divestment is the issue that comes up which the Statement of Investment Policy Regarding Divestment addresses. Trustee Vasquez said research suggests that tradeoff within the broader ESG space is becoming less prevalent, so the prism is not completely clear with respect to the fiduciary obligation. Mr. Wickman noted the Investment Beliefs advocate being an asset owner as a good position to be in from a policy standpoint.

#### **Closing and Follow-up Items from Today's Agenda**

11:00 a.m. – 11:30 a.m.

No discussion.

There being no further business, Chair Werby adjourned the meeting at 10:49 a.m.

  
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Todd Werby, Meeting Chair

  
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Maya Gladstern, Secretary