

AGENDA
REGULAR BOARD MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

May 6, 2020 – 9:00 a.m.

This meeting will be held via teleconference 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 may listen to and observe the meeting on YouTube at https://youtu.be/vLTiK04_UHM.

If members of the public wish to comment, those comments may be submitted to MCERA via email at MCERABoard@marincounty.org. This account will be monitored prior to and for the duration of the meeting. If the comment pertains to a particular agenda item, please identify that item number and the comment will be read to the Board during that discussion. Otherwise, the comment will be read under Item A, Open Time for Public Expression. All public comments submitted before or during the meeting that pertain to topics within the jurisdiction of the MCERA Board and otherwise comply with MCERA guidelines will be read in open session and kept as part of the permanent record.

The Board of Retirement encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board meetings.

EVENT CALENDAR 9 a.m. Regular Board Meeting

CALL TO ORDER

ROLL CALL

MINUTES

April 8, 2020 Board meeting

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.

B. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

- a. Administrator's Update
- b. Staffing update
- c. Facility Use Report
- d. Future Meetings
 - May 6, 2020 Audit Committee
 - May 13, 2020 Governance Committee
 - May 20, 2020 Finance and Risk Management Committee
 - June 10, 2020 Board

2. Trustee Comments

C. INVESTMENT COMMITTEE UPDATE

1. Portfolio Update – Jim Callahan, President, Callan LLC

- a. April Flash Performance Report

2. Real Estate Portfolio Update

- a. UBS Trumbull Property Fund

3. Potential Investment Opportunities Arising from Market Dislocations (Action)

Consider and take possible action regarding market dislocations, including potential change to guidelines for Western Asset Management

D. NEW BUSINESS

1. Future Meetings

Consider and discuss agenda items for future meetings

E. OTHER INFORMATION

1. Training Calendar (Action)

F. CONSENT CALENDAR (Action)

Note on Process: Items designated for information are appropriate for Board action if the Board wishes to take action. Any agenda item from a properly noticed Committee meeting held prior to this Board meeting may be considered by the Board.

Note on Voting: As provided by statute, the Alternate Safety Member votes in the absence of the Elected General or Safety Member, and in the absence of both the Retired and Alternate Retired Members. The Alternate Retired Member votes in the absence of the

Elected Retired Member. If both Elected General Members, or the Safety Member and an Elected General Member, are absent, then the Elected Alternate Retired Member may vote in place of one absent Elected General Member.



Agenda material is provided upon request. Requests may be submitted by email to MCERABoard@marincounty.org, or by phone at (415) 473-6147.

MCERA is committed to assuring that its public meetings are accessible to persons with disabilities. If you require American Sign Language interpreters, assistive listening devices or other accommodations to participate in this meeting, these may be requested by calling (415) 499-7331 (voice) or (415) 499-6172 (TTY) at least 72 hours in advance.

The agenda is available on the Internet at <http://www.mcera.org>

MINUTES

**REGULAR BOARD MEETING
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Retirement Board Chambers
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April 8, 2020 – 9:00 a.m.

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To listen by phone, public were to call (213) 929-4212 at 9:00 am and enter Access Code 997-275-597 and press pound, then press pound again when prompted to enter your Audio PIN. To listen and observe using the GoToWebinar app on a mobile device or tablet, public could download the GoToWebinar app and join using Webinar ID 813-376-451. If members of the public wished to comment, those comments could be submitted to MCERA via email before or during the meeting at MCERABoard@marincounty.org. This account was monitored prior to and for the duration of the meeting. If public wished to provide comments verbally, they were to state this in the email message and instructions to do this would be given.

The Board of Retirement encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board meetings.

EVENT CALENDAR 9 a.m. Regular Board Meeting

CALL TO ORDER

Mr. Wickman said he is assisting Chair Silberstein in the operation of today's meeting, which is the first Board meeting held using a teleconferencing tool. Mr. Wickman asked Board members to state their name when asking questions so the public would know who was speaking. Members of the public wishing to comment before or during the meeting send emails that will be read at the appropriate section.

Retirement Administrator Jeff Wickman called the webinar meeting to order at 9:07 a.m.

ROLL CALL

PRESENT: Block, Cooper, Given, Gladstern, Jones (alternate retired), Klein, Murphy, Poirier (alternate safety), Shaw (ex officio alternate), Silberstein, Thomas, Werby

ABSENT: None

MINUTES

It was M/S Block/Thomas to approve the March 4, 2020 Board Meeting Minutes as submitted. The motion was approved by unanimous vote that was taken by roll call as follows:

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby
NOES: None
ABSTAIN: None
ABSENT: None

A. OPEN TIME FOR PUBLIC EXPRESSION

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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.

No members of the public submitted comment through email for this topic.

B. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

- a. Administrator's Update
 - Business Operations – COVID-19 Impacts and Planning
 - Financial Operations – Retiree Payroll

Retirement Administrator Jeff Wickman thanked staff for their dedication in working at the office or remotely and for supporting Marin County as Disaster Service Workers as the coronavirus unfolds. The Board has a very dedicated and committed team, he said. Since the Shelter in Place Order, MCERA offices have been closed to the public with five to six staff members working on site, two to three staff members rotating into the office periodically and the other staff members working remotely or supporting disaster service work. Mr. Wickman thanked Business System Analyst Vladimir Matyurin for setting up the remote access technology.

MCERA's primary mission is to ensure the monthly payment of benefits to retirees and beneficiaries. Staff completed March payroll with no incidents and are gearing up for April, which is the busiest month of the year because of the volume of new retirees and the annual cost of living adjustment in the April payroll. Another item of focus has been to make sure there are no liquidity issues for the next 90 days, and that is all in place.

Due to the Shelter-in Place-Order, construction work has stopped on Suite 250. When the Order is lifted, staff will work with the tenant to establish a new move-in date.

One ongoing area of concern remains the number of retirees who are still receiving paper checks. This concern has been heightened over the last few years with the devastating fires and now the COVID-19 pandemic. There are approximately 60 retirees receiving paper checks. Staff will be contacting these retirees, most of whom live in Marin and Sonoma County, to see if they can be transitioned to direct deposit.

The Administrator reported that after discussing the matter with the President of the Marin County Association of Retirees (MCARE), it was agreed the *Keeping in Touch* newsletter will be removed as a standing item on the Board meeting agenda and a courtesy copy of the newsletter will be sent to Board members electronically, separate from agenda packets.

Mr. Wickman invited comments and Trustee Werby asked if staff has had any conversations with One McInnis Parkway tenants regarding rent payment. The Administrator replied the current tenant in Suite 200 is on site and so far, our property manager reports there are no issues about rent payment. For Suite 250, the Administrator is working with the property manager to address any issues caused by the delay in completing the suite construction.

Trustee Gladstern noticed there were not a lot of retirements in March as reflected on the Consent Calendar. Mr. Wickman explained that one or two members rescinded their retirement applications, and those retiring in late March will show up on the April Consent Calendar.

b. Staffing update

No staffing matters to report.

c. Facility Use Report

No facility use since the last meeting.

d. Future Meetings

- May 6, 2020 Board

Mr. Wickman noted that as with today's meeting, future Board and Committee meetings may be conducted via Webinar depending on public health guidelines related to the coronavirus.

2. Ad Hoc Committee Reports

a. Ad Hoc One McInnis Committee

Mr. Wickman reported Ad Hoc One McInnis Committee members Roy Given, Maya Gladstern and Todd Werby met after the March Board meeting to consider

reconfiguring the first floor to reduce MCERA's footprint to provide more rentable space for Suite 150. A plan has been to expand Suite 150 and create a new restroom corridor. Committee members were invited to comment and there were none.

3. Trustee Comments

a. Educational Training – Reports by Trustees and Staff

Mr. Wickman reported the CalAPRS General Assembly was interesting, convening March 7-10, 2020 when Covid-19 was just becoming a part of the national conversation. Among a number of good presentations was ethics training on the first day, a first at the General Assembly. He gave thanks to Board Counsel Ashley Dunning for conducting that session. In another session actuaries explored cost savings for public pension plans in the six years since the implementation of the PEPR legislation. The unique Canadian Model was discussed. State Street's presentation on the economic outlook was challenging given how markets were moving as they gave their presentation. Julie Wyne, CEO of the Sonoma County Employees' Retirement Association, and Jesse Evans, Jr., Director of the City of New Orleans retirement system, talked about the lessons they learned from Hurricane Katrina and the Tubbs Fires. The most important point was to have a business continuity plan. Then, the most important aspect is to be flexible with operations and with staff; recognize what the immediate needs are and try to manage those as best as you can.

Trustee Steve Silberstein reported on the CII Spring Conference that also took place at the beginning of the pandemic and went on as scheduled. A speaker from the Trump administration noted that China is a country to stay away from with respect to investment, but another speaker focused on opportunities for investment in China. Trustee Silberstein commented that the different opinions on this topic were interesting. He also reported that the keynote speaker at CII noted that the large run-up in U.S. large cap stocks is not likely to continue into the future.

b. Other Comments

No other comments.

C. INVESTMENT COMMITTEE UPDATE

1. Portfolio Update - Jim Callahan, President, Callan LLC

Mr. Wickman explained that the Investment Committee consists of all members of the Board. He introduced Jim Callahan, President of Callan LLC, to present an update on market conditions and the portfolio. Mr. Callahan stated that the effects of Covid-19 on the equity market started on February 19, 2020 and led to an extremely volatile decline. In 23 trading days through March 23, 2020, the trough so far, the S&P 500 Index fell more than 34%, which is unprecedented in how quickly it happened. This was evidenced by a big jump in the VIX, the volatility index. The reason for this is uncertainty with respect to the health of our country, our economy, and the capital markets.

Currently, volatility remains but the S&P has recovered some of the initial loss and through yesterday is down 17.2% in 2020. Mr. Callahan pointed out that as of April 8, 2019, the one-year return of the S&P 500 Index is down 6.2%, which doesn't sound terrible and lends perspective.

Trustee Klein inquired about the degree to which short volatility plays were in the market before the downturn and whether they caused some of the market volatility and there were blown out positions. In response Mr. Callahan explained a short volatility strategy is a trade an investment manager may put on a portfolio. Through the options market the manager puts on a series of options and, if the market stays in a low volatility mode, can harvest returns from those trades. In high volatility, those trades become deeply out of the money, and the speculation is that trade became very crowded before this market decline. He pointed out that the worst of this decline was in the days and weeks leading up to the triple option expiration date of the third Friday in March. He said there was speculation that a Bridgewater hedge fund had large short volatility positions late in 2019. Mr. Callahan stated it is hard to say how much volatility was driven by short volatility plays. He observed that the VIX has calmed down since the options expiration date, so the plays may have contributed to the high volatility and the drawdowns in the market.

Trustee Klein indicated there also is a huge Over the Counter (OTC) derivatives market and she has heard rumors some hedge funds have gone out of business. She asked if that takes some volatility out and what is left is due to market uncertainty over Covid-19. Mr. Callahan said he could not quantify that, noting there have been implosions of some products that had short volatility trades on.

For the quarter ending March 31, 2020, Mr. Callahan reported the S&P 500 Index was down almost 20%. Small caps struggled during the quarter, with the Russell 2000 Index down almost 31%. He noted the underperformance for small cap equities has occurred for a period of time now. There is also a continuing disparity of performance between value and growth, with value underperforming. He reported the two worst sectors were energy and financials. The price of oil declined with devastating effect on the energy sector; as the uncertainty started to grab hold, there was a big selloff in financials. Sectors holding up well were consumer staples, health care, and technology, including big tech and consumer names. This is more of the same in what has been leading the markets, Mr. Callahan said.

In the international portfolio, China was down 10% for the quarter but returns were relatively better than many emerging markets. The U.S. Dollar strengthened during the quarter versus most currencies, which was a headwind for asset performance, notably in international equity and the global bond portfolio.

Bonds held up well in the flight to quality, Mr. Callahan reported. The Bloomberg-Barclays Index was up 3.2% for the quarter as fixed income has been the safe haven. Interest rates have declined dramatically, with the 10-year U.S. Treasury note yield at 0.71% as of yesterday, historically low territory. Within fixed income the best performing sector was U.S. Treasury's – the long index was up 22.5% for the quarter in longer-dated U.S. Treasury's. What did not do well in the fixed income market was

credit-related corporate bonds, for example. He noted that managers tend to be underweight U.S. Treasury's.

Trustee Klein asked what the Federal Reserve is doing with new facilities. Mr. Callahan replied the Federal Reserve in general has tried to turn on the spigots to provide monetary stimulus. For example, the Fed brought the Fed Funds rate down and has very quickly moved to quantitative easing by buying up assets to add liquidity. Callan has spent a lot of time talking to managers to assess the degree of liquidity or transaction cost issues. In the early stages of the market decline, transactions were taking place, but slowly and with high cost. Managers have been able to execute sells by breaking up orders into smaller amounts. One positive is that people are getting in and out of securities lending and money market funds, which dried up as sources of capital during the global financial crisis. Mr. Callahan added that government measures to get funds into consumers' hands has taken time which creates uncertainty.

In the real estate portfolio, transactions have come to a halt and appraisers are having a difficult time coming up with valuations. As a result, many have decided to carry valuations over from prior periods. For this reason negative performance is not showing up yet; devaluations are expected to happen gradually in the later quarters of the year.

Trustee Klein asked about the status of rent payments in the commercial real estate market. Ms. Heaphy stated Callan expects to receive updated information on rent soon. She stated both AEW and UBS have received requests from tenants to delay rent and are working to strike a balance on a case-by-case basis. Mr. Callahan said this is consistent with what Callan is hearing from other funds as well.

Mr. Callahan reported private equity transactions also have ground to a halt and general partners are trying to understand the impact on their portfolio companies. Some are raising funds, but the expectation is deadlines for private equity fund raising will be pushed out.

The overall impact of Covid-19 is that the U.S. will experience negative growth in Gross Domestic Product (GDP). There is a wide divergence of opinions and range of projections for GDP; it is likely to be a sharp negative decline. Consumers, who represent two-thirds of GDP and are under pressure financially, will have a big impact on GDP. Mr. Callahan stated the question is what kind of recovery will occur once Covid-19 cases subside, and this is hard to predict.

In summary, Mr. Callahan presented historical market performance data showing the power of being in the market and also rebalancing. He stated we have seen market declines before and want to be able to tolerate these types of drawdowns. As the data shows, markets can rebound strongly over the 12 months following historical market declines. The point is one needs to be in the market because by missing only a few or a handful of days in the market, a large amount of the performance is missed.

Trustee Silberstein asked about the rebalancing in the Fund over last several months. In response, Mr. Callahan said the first step was to connect with Mr. Wickman on cash flow needs to pay benefits and meet capital calls, and this was done quickly. Next Callan

advised raising additional cash for a little further out for assurance. Parametric's feedback on rebalancing was that U.S. Treasury futures were not operating as well as in normal circumstances. Parametric has changed its futures positions as the markets have changed.

Trustee Block asked if it is time to consider having a line of credit (LOC) since we were a little bit cash constrained. Mr. Wickman replied most of the cash raised in the last month was for margin calls (\$20 million), as there was enough to make the March payroll and expenses. Mr. Callahan agreed there is not a need for the LOC at this point in time. Trustee Block asked if it would be prudent and cost effective to have the LOC available. Mr. Callahan said this could be explored as an insurance policy.

a. March Flash Performance Report

Mr. Callahan presented preliminary returns for the Fund for 2019 and the first quarter of 2020. For calendar year 2019 the Total Fund return net of fees was 17.5%, with notable underperformance by the DFA small cap portfolio. During the first quarter of 2020 the Total Fund net-of-fee return was negative 14.2%. The Russell 3000 was down 21% and the domestic equity portfolio fell 23.3% due to the overweight to small cap and underperformance by DFA. With this market reversal, Parametric rebalanced the portfolio from short S&P 500 futures at the end of 2019 to now being long that position.

The international equity portfolio outperformed the benchmark in 2019. In the first quarter of 2020 both large cap portfolios had good relative performance; Morgan Stanley with its quality tilt held in well for that reason. The small cap portfolio underperformed its benchmark. In the emerging markets space, Parametric underperformed due to its underweight to China, which was the best-performing country. Overall, Mr. Callahan said, the international portfolio is in line with expectations.

The fixed income portfolio was down modestly in the first quarter of 2020, underperforming the blended benchmark but serving its role in the Fund as the anchor to windward. It was a good year for the public real assets portfolio in 2019 that returned 15.5%. In the first quarter this group was down 19.6% and in line with the blended benchmark. The Invesco commodities portfolio underperformed and the KBI Global Resources Fund is outperforming significantly with minimal energy exposure. Real estate returns were carried forward. Through March 31, 2020 the preliminary fiscal year net-of-fee return for the Fund is down 9.5%.

In conclusion, Mr. Callahan emphasized the benefit of being a long-term investor and being disciplined by rebalancing as effectively as possible according to allocation targets. These policies allow for objective discipline in managing the Fund. He observed that the long economic expansion and market improvement had a long duration and assets became expensive. With the market disruption in the first quarter of 2020, everything is getting repriced and there may be attractive opportunities to reposition the portfolio.

The Administrator invited questions and Trustees Werby and Klein asked for clarification about data presented in a slide related to the fiscal stimulus and GDP projections. Mr. Callahan said the global GDP forecast is based on a quarterly federal guide prepared three weeks ago. He stated the takeaway is an expectation that the deficit will increase to make up a spending gap. Trustee Werby asked what the impact of an additional \$3 trillion in borrowing would be. In response, Mr. Callahan said it may have an inflationary impact, but this was the idea during the financial crisis and inflation did not happen. Mr. Callahan offered to provide updated information when it becomes available.

2. Investment Manager Update - UBS Trumbull Property Fund

Anne Heaphy, Senior Vice President of Callan, reported on the status of the UBS Trumbull Property Fund. She stated that UBS is discussing creating two buckets for fund assets. One bucket would hold about 70% of fund properties as long-term strategic assets to be managed by Paul Canning. The goal is to expedite sales of the other 30% of non-strategic assets that are expected to take a few years.

Trustee Block asked if they are doing a separate partnership agreement for the new structure. Ms. Heaphy replied she was not sure but is expecting to learn more detail later today. Mr. Callahan said his understanding is the two buckets would be within the existing Trumbull Property Fund. UBS has gotten pushback from investors and so is still considering the matter, he said. Trustee Block asked who is working on the matter and Ms. Heaphy said Callan's real estate group has been in close contact with UBS. Mr. Callahan stated the agreement is not a limited partnership but changes to master documents will be needed, and Callan will provide guidance on what makes the most sense. The situation is fluid, he said. The queue is almost half of the NAV, so many investors are moving on. MCERA has a small amount in the redemption queue. Currently, redemptions have been suspended.

Investment Committee Chair Sara Klein asked, since no appraisal is being done, to what extent stale valuations affect the Trumbull Property Fund. Mr. Callahan said third-party appraisers rely heavily on transactions to reappraise properties and ultimately it is just going to be delayed. Trustee Silberstein observed that MCERA's real estate funds are not highly leveraged but nevertheless have mortgage payments to make and he asked if the managers are seeking deferrals. In response, Mr. Callahan said he does not know, but noted their debt tends to be laddered to spread the risk out over time. Going forward, Ms. Heaphy will add performance of all real estate sectors to the report on retail sector returns for NFI-ODCE funds.

E. NEW BUSINESS

1. Future Meetings

Consider and discuss agenda items for future meetings

Mr. Wickman said future Board and Committee meetings may be held by tele/video conferencing or at MCERA offices, depending on public health orders at the time. Trustees were encouraged to submit topic suggestions to the Chair. Trustee Block indicated he is concerned about risk around the valuation of real estate assets and wants

to discuss how to approach this with auditors since it complicates the process. Mr. Wickman replied the Audit Committee will meet in May

F. CONSENT CALENDAR (Action)

It was M/S Gladstern/Given to approve the Consent Calendar as submitted. The motion was approved by unanimous vote, stated by roll call, as follows:

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby
 NOES: None
 ABSTAIN: None
 ABSENT: None

CONSENT CALENDAR

MCERA BOARD MEETING, WEDNESDAY, APRIL 8, 2020

March 2020

RETURN OF CONTRIBUTIONS

BUYBACKS

Nathan Craver	\$	15,600.10
Pompey Festejo	\$	1,161.77
Gretchen Forrey	\$	5,000.00
David Lloyd	\$	1,505.37

NEW RETIREES

Earl Boisclair	City of San Rafael
Kathleen Carnahan	County of Marin - District Attorney
Kirt DeMichiel	County of Marin - Health & Human Services
Virginia Faria	County of Marin - Department of Finance
Marlena Gallegos	City of San Rafael
Terri Hampton	County of Marin - Human Resources
Hwei Ru Hochstaedter	County of Marin - Information Services & Technology
Cesar Lagleva	County of Marin - Health & Human Services
Robert Lenke Jr.	County of Marin - Sheriff/Coroner
Tex Ritter	County of Marin - Child Support Services
Marlene Say	County of Marin - Information Services & Technology
Catharine Zane	County of Marin - Health & Human Services
Lynn Zimmerman	County of Marin - Health & Human Services

DECEASED RETIREES

Karen Costanza	County of Marin – Parks
Leontine Damazio	County of Marin – Beneficiary

Patricia Kallman	County of Marin - Assessor-Recorder-County Clerk
Steven Reese	City of San Rafael
Felecia Soissons-Segal	County of Marin – Beneficiary
Marta Ventura	County of Marin - Health & Human Services
Dorothy Washington	County of Marin - Sheriff/Coroner
James Zortman	County of Marin - Public Works

CONFERENCES/SEMINARS

CalAPRS General Assembly - Administrator
Wickman CalAPRS Board Meeting -
Administrator Wickman
CII Spring Conference - Trustee Silberstein

In conclusion, Mr. Wickman reported no further public comment was submitted through email. He said the tele/video conference process seems to work and staff will explore technology to have more trustees being visible on the video.

There being no further business, Mr. Wickman adjourned the webinar meeting at 10:50 a.m.

Jeff Wickman, Retirement Administrator

Michelle Hardesty, Assistant Retirement Administrator

On behalf of:
Steve Silberstein, Board Chair

On behalf of:
Laurie Murphy, Secretary

B.1 Administrator's Report

This is a discussion with no backup.

B.2 Trustee Comments

This is a discussion with no backup.

C.1.a April Flash Performance Report

This report will be distributed before or during the meeting.

Memorandum

To: MCERA Board of Trustees
From: Jim Callahan, CFA
Anne Heaphy
Date: April 28, 2020
Subject: UBS Fund Restructure Update

Summary

UBS has revised their initial restructuring plans. Rather than segregating the fund into two separate vehicles, they will generally keep the fund structure as is. They will still categorize assets as either long-term strategic assets to be managed by Paul Canning, the senior portfolio manager, or as non-strategic assets designated for sale to be managed by Mario Maturo. They are also re-grouping some of the assets into sub-REIT structures for tax purposes. That is currently part of their normal practice (and is standard practice among core real estate funds) and does not impact investors. There is no action required by MCERA.

Background Information

On April 8th, UBS held a Special Update meeting via conference call for the Trumbull Property Fund. Topics included an organizational and market update, including their assumptions on the impact of COVID-19. In addition, the management team announced what they are referring to as a “Fund Restructure” initiative, which was designed with the goal of helping the Fund address its growing liquidity issues from the redemption pool and ultimately improve performance. Currently, the Fund has approximately \$8.0 billion in its redemption pool with a total fund net asset value of \$16 billion.

UBS announced that they are assigning one of the Fund’s portfolio managers, Mario Maturo, to focus on selling the Fund’s non-strategic assets, which represent approximately 25% of the Fund. The goal is for these assets to be sold during the next two to three years. UBS also announced that they will create additional sub-REIT holding entities for the properties to make it more cost-efficient to sell certain properties.

Follow-Up Discussions with UBS

Callan conducted two conference calls with UBS subsequent to the meeting to gain further clarification on the initiative. The Fund’s strategy of assigning one of its six named portfolio managers to focus on a select subgroup of assets is not unique, as most real estate funds of TPF’s size operate with some division of property responsibilities. In addition, the Fund’s timeline of selling down the approximately \$5 billion in non-strategic assets within three years does not imply an accelerated sales exercise, given this would equate to just \$1.7 billion in sales per year. In 2019 alone, UBS reported selling \$2.0 billion. While

C.2.a

this goal may be very realistic, it does not reflect a sense of urgency to dispose of the troubled assets. Having stated that, the current environment due to the impact of COVID-19 will likely slow transactions, delaying the re-positioning of the Fund and limit liquidity. UBS made the decision to suspend redemption payments for the end of the 1st quarter of 2020 as a result of the crisis.

The announcement regarding the additional sub-REIT structures is more of an operational one, and has little to no impact on investors, both existing and new. The Fund currently operates with three sub-REIT structures: one that groups the Fund's hotel properties, one that groups all of the investments based in Massachusetts, and one that groups the remaining assets. These are structured this way merely for tax benefit purposes. UBS estimates that five to six new sub-REIT structures may be created to alleviate any unnecessary tax burdens as they sell select assets. All of the legal costs associated with creating the additional structure will be borne by UBS, not fund investors. Creating these structures to lower the tax burden is beneficial and not unique. It is a standard practice that most institutional real estate managers utilize.

Conclusion

Callan is comfortable with the division of responsibilities and sub-REIT structures. Ultimately, the marketability of the Fund moving forward and the decision on whether current investors decide to remain in the Fund and possibly rescind redemption requests will be based on the Fund's ability to improve performance.

Memorandum

To: MCERA Board of Trustees
From: Jim Callahan, CFA
Anne Heaphy
Date: May 1, 2020
Subject: Potential Investment Opportunities Arising from Market Dislocations

Introduction and Background

Coming off what was a tremendous year in the capital markets in 2019, we started the year cautiously optimistic about shorter-term prospects given what was a fairly decent outlook for the US economy. GDP growth was modest but reasonable, unemployment was at historically low levels, inflation was benign, corporate earnings were strong, and consumer sentiment positive. The caution element to the story was highlighted by rich valuations across the markets – equities, debt, real estate, private investments all were showing to be expensive in both absolute and in historically relative terms. Most everything was priced with little room for error or for some unforeseen disruption.

The global health pandemic created by the spread of Covid-19 and the uncertainty it created for not only public welfare but for the global economy turned out to be the trigger to change the positive market sentiment. Beginning in mid-February, markets reacted violently to the downside. Equities declined more than 33% in just 23 trading days, and with it also saw the prices and liquidity for the credit markets decline precipitously. The Federal Reserve was quick to respond, providing an unprecedented amount of liquidity to the markets by lowering interest rates and resuming its debt purchasing program. The Federal Government also provided fiscal support through the passage of the CARES act and other programs designed to provide support to the economy.

Despite this massive support, the markets remain highly volatile and uncertainty remains the primary driver. The economy has seen massive spikes in unemployment claims, and the future prospects of many industries and companies have dramatically changed. Liquidity has improved, but dislocations remain in many parts of the markets. On the valuation front, while the price component has certainly declined, the earnings piece is also certainly to take a large hit. Undoubtedly, some very interesting company specific opportunities will arise when the economy returns to some sort of normalcy and the visibility of future earnings is better. We believe MCERA's equity managers are in position to evaluate those opportunities as they present themselves.

The other potential investment opportunity resulting from market disruption lies within the credit and debt markets. These emerging opportunities appear to be significant and lie across both the public and private markets. Within the public markets, sectors such as investment grade corporate bonds, corporate high

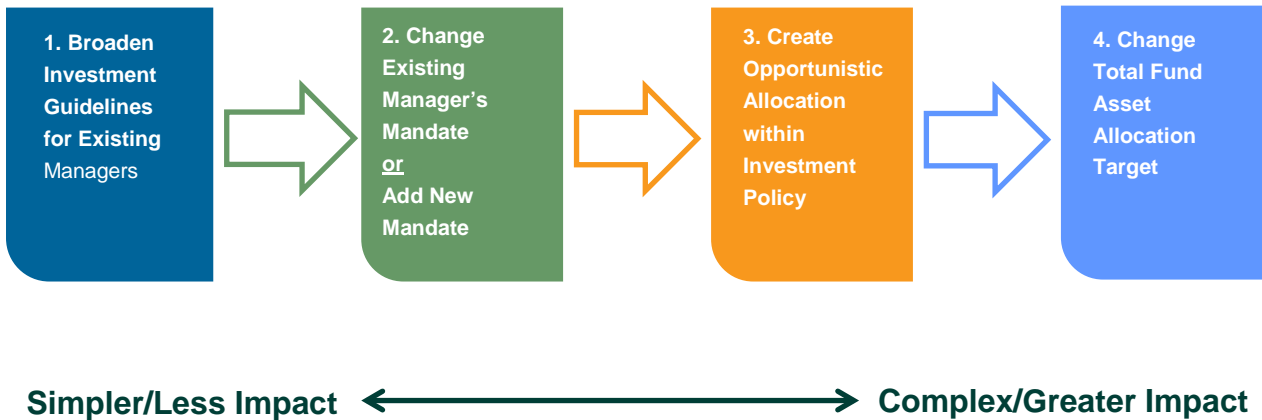
C.3

yield bonds, bank loans, and securitized credit-like asset backed securities (ABS) and commercial mortgage-backed securities (CMBS) look more attractively priced than they have in some time. In the private markets, many managers are in the process of raising funds to take advantage of distressed debt opportunities.

Framework for Considering Market Opportunities

The first question for the MCERA Board to consider is whether there is any interest in pursuing market dislocation opportunities. The next questions then become (1) what opportunities should be considered, and (2) how should these opportunities be included within the portfolio.

There are many different ways for MCERA to consider these opportunities. They range from simple (easier to consider and evaluate, little to no fee impact, smaller impact on overall portfolio) to more complex (heavier due diligence requirements, higher fees, bigger potential impact on portfolio). Below we have created a framework for how MCERA may consider current market opportunities.



1. *Consider Expanding the investment guidelines for Western Asset Management's (WAMCO) Intermediate Credit portfolio*

Currently, WAMCO's Intermediate Credit portfolio is invested predominantly in investment grade corporate bonds. We recently initiated a discussion with WAMCO as to what additional flexibility they would suggest given the dislocations in the corporate credit space post Covid-19. They suggest two modest guideline expansions for the MCERA Board to consider:

- Increase the limit on below investment grade securities from 20% to 30%.
- Increase the limit on Contingent Convertible securities and Preferred Stock from 5% to 10%

WAMCO feels the current guidelines provide a good deal of flexibility, but they also are positive on what they feel will be interesting opportunities particularly with regards to "Fallen Angels" – investment grade bonds that get downgraded to below investment grade. We believe these modest guideline expansions would provide WAMCO with added flexibility to enhance the return potential for their portfolio going

C.3

forward. Other than modifying the portfolio guidelines, there would be no other considerations for MCERA. The current fees and investment management agreement would remain unchanged.

2. *Change WAMCO's mandate to "Opportunistic Credit", or add an Opportunistic Credit portfolio to the current Fixed Income Structure*

WAMCO, as well as several other fixed income managers, have or are developing credit strategies that provide them with significant flexibility to invest across the publicly traded fixed income spectrum with particular focus on high yield bonds, bank loans, and structured products (i.e. non-agency mortgage backed securities, asset-backed securities, commercial mortgage backed securities, collateralized loan obligations). These strategies are generally long-only but with little other constraints. In the case of WAMCO, as an example only, there is limited liquidity into and out of the Fund (bi-monthly) and the fees are asset-based only (100 basis points, no performance fee).

If the Board is intrigued by this type of opportunity, it would require investment due diligence (either focused on WAMCO's strategy or a broader search to compare offerings). Consideration would also need to be given to allocation size and the broader impact on the fixed income structure. MCERA should expect higher fees and the need for a contracting process.

3. *Create an "Opportunistic" allocation in the investment policy, with a 0% target and a range of 0-5%*

MCERA could consider creating an Opportunistic range in the investment policy with a 0% long-term target. This would allow the Board to consider compelling investment opportunities that result from market cycles and dislocations (such as Covid-19). This allocation would only be used to the extent the well. The other important factor would be where to fund this type of allocation from. Given any allocation to this portfolio would make it overweight to its 0% target, the resulting implication is that another asset class or classes would need to be underweight their targets.

4. *Change the Total Fund Asset Allocation*

Changing the asset allocation target would have the biggest impact of the risk and return of the portfolio. This is a broader discussion that requires analysis and consideration of numerous factors, such as but not limited to, overall liquidity needs, risk tolerance, time horizon, and potential added complexity. We expect review MCERA's asset allocation and discuss this topic in detail at the June Investment Committee meeting.

Conclusion and Recommendation

We believe the current market dislocations and volatility will create some interesting investment opportunities for investors to consider. As of now, many of these opportunities seem to be centered around the credit and debt markets.

MCERA could approach this in several different ways, as outlined above. We recommend adopting the suggested changes to the WAMCO Intermediate Credit guidelines as the first step. Additional considerations require a more in-depth discussion and have broader portfolio implications. We encourage the Board to allocate time at future or special meetings to discuss further potential changes to the Fund.

D.1 Future Meetings

This is a discussion with no backup.

**E.1
MCERA
CONFERENCE AND TRAINING CALENDAR
May 2020**

Block	Cooper	Given	Gladstern	Jones	Klein	Murphy	Poirier	Shaw	Silberstein	Thomas	Werby	Wickman	Hardesty	Dunning	DATE	APPROVED	SPONSOR	PROGRAM	LOCATION
															5/8/20	*	CalAPRS	Overview Course in Retirement Plan Administration	VIRTUAL
															TBD	*	CalAPRS	Communications Roundtable	
												⊕			6/5/20	*	CalAPRS	Benefits Roundtable	VIRTUAL
													⊕		6/11/20	*	CalAPRS	Attorneys' Roundtable	VIRTUAL
															6/23/20	*	Callan	Regional Workshop – Retirement Income	VIRTUAL
															6/24/20	*	CalAPRS	Accountants' Roundtable	VIRTUAL
															6/25/20	*	Callan	Regional Workshop – Retirement Income	VIRTUAL
												⊕			6/25/20	*	CalAPRS	Board Meeting	San Jose, CA
												⊕			6/26/20	*	CalAPRS	Administrators' Roundtable	San Jose, CA
															6/26/20	*	CalAPRS	Investments Roundtable	San Jose, CA
															7/20-21/20	*	CalAPRS	Management Academy I	Pasadena, CA
															7/21-22/20	*	Callan	Introduction to Investments	San Francisco, CA

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Block	Cooper	Given	Gladstern	Jones	Klein	Murphy	Poirier	Shaw	Silberstein	Thomas	Werby	Wickman	Hardesty	Dunning	DATE	APPROVED	SPONSOR	PROGRAM	LOCATION
															7/26-29/20	*	SACRS	Public Pension Investment Management	Berkeley, CA
															8/23-25/20	*	NCPERS	Public Pension Funding Forum	Chicago, IL
															8/25-28/20	*	CalAPRS	Principles of Pension Governance for Trustees	Malibu, CA
															8/25-26/20	**	Pension Bridge	Annual Conference	San Francisco, CA
															8/31-9/2/20	*	CalAPRS	Management Academy II	Pasadena, CA
															9/17/20	*	CalAPRS	Disability Staff Training	Costa Mesa, CA
															9/18/20	*	CalAPRS	Accountants' Roundtable	Costa Mesa, CA
														⊕	9/18/20	*	CalAPRS	Attorneys' Roundtable	Costa Mesa, CA
															9/18/20	*	CalAPRS	Benefits Roundtable	Costa Mesa, CA
															9/21-23/20	*	CII	Fall Conference	San Francisco, CA
												⊕			9/23-25/20	*	CalAPRS	Administrators' Institute	Long Beach, CA
															10/1-2/20	*	Nossaman	Fiduciaries' Forum	Los Angeles, CA
															10/14-16/20	*	CalAPRS	Intermediate Course in Retirement Plan Administration	Costa Mesa, CA
															10/23/20	*	CalAPRS	Administrative Assistants' Roundtable	San Jose, CA
															10/23/20	*	CalAPRS	Information Technology Roundtable	San Jose, CA
															10/23/20	*	CalAPRS	Trustees' Roundtable	San Jose, CA

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Block	Cooper	Given	Gladstern	Jones	Klein	Murphy	Poirier	Shaw	Silberstein	Thomas	Werby	Wickman	Hardesty	Dunning	DATE	APPROVED	SPONSOR	PROGRAM	LOCATION
															10/26-28/20	*	CalAPRS	Management Academy III	Pasadena, CA
															11/10-13/20	*	SACRS	Fall Conference	Indian Wells, CA
															11/16-20/20		Wharton	Investment Strategies & Portfolio Management	Philadelphia, PA
															12/2-4/20	*	CalAPRS	Advanced Course in Retirement Plan Administration	Costa Mesa, CA
												✱			12/4/20	*	CalAPRS	Board Meeting	Costa Mesa, CA
															3/31/21-4/2/21	*	CalAPRS	Advanced Principles of Pension Governance for Trustees	Los Angeles, CA
															5/11-14/21	*	SACRS	Spring Conference	Long Beach, CA
															5/23-26/21	*	NCPERS	Annual Conference	Denver, CO
															6/14-18/21		Wharton	Investment Strategies & Portfolio Management	Philadelphia, PA

*Pre-approved events: CalAPRS; Callan; CII; Nossaman LLP; NASRA; SACRS – ** Board-approved events – **New event or attendee**

CALLAN

Callan College
<http://www.callan.com/education/college>
 Callan investment Institute
<http://www.callan.com/education/cii/conferences.asp>

NASRA

National Association of State Retirement Administrators

SACRS

State Association of County Retirement Systems
<http://www.sacrs.org>

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**CONSENT CALENDAR
MCERA BOARD MEETING, WEDNESDAY, MAY 6, 2020**

April 2020

RETURN OF CONTRIBUTIONS		
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Biron Carithers	Full Refund - Termination	\$ 19,379.10
Earl Jefferson	Full Refund - Termination	\$ 7,717.72
Jacqueline Johnson	Full Refund - Termination	\$ 13,049.07
Shailvina Pannu	Full Refund - Termination	\$ 41,825.05
Daniel Timpe	Full Refund - Termination	\$ 7,664.64

BUYBACKS		
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Maria Mendoza		\$ 5,527.03
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NEW RETIREES	
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Leslie Aaronson	County of Marin - Health & Human Services
Diana Antonio	County of Marin - Health & Human Services
Christopher Brown	County of Marin - Fire
Scott Callow	County of Marin - Community Development Agency
Jayne Carpenter	County of Marin - Health & Human Services
Karen Chew	City of San Rafael
Susannah Clark	County of Marin - Board of Supervisors
Fred Crowder	County of Marin - Agricultural Weights & Measures
Steven Delucchi	Marin/Sonoma Mosquito
Emma Deshazo	County of Marin - Community Development Agency
Karl Finley	County of Marin - Health & Human Services
John Govi	County of Marin - County Counsel
Janet Hughes	County of Marin - Library
Lorene Jackson	County of Marin - Community Development Agency
Jalal Kazemi	County of Marin - Information Services & Technology
Karen Kindig	County of Marin - Health & Human Services
Kathryn Kipp	County of Marin - Health & Human Services
Tray-Yun Kuo	County of Marin - Child Support Services
Robert La Prevotte	County of Marin - Public Works
Denise Lee	County of Marin - Department of Finance
David Lutz	County of Marin - Information Services & Technology
Victoria Martinez	County of Marin - Health & Human Services
Gregory Miller	County of Marin - Public Works
Brendan O'Hagan	County of Marin - Public Works
Steven Petherle	County of Marin - Parks & Open Space
Regina Schneider	County of Marin - Retirement
Debra Stratton	County of Marin - Public Works
Craig Tackabery	County of Marin - Public Works
Jeffrey Veliquette	Novato Fire
Lorlinda Vigar	County of Marin - Health & Human Services
Mark Wright, Sr.	City of San Rafael
James York	County of Marin - Sheriff/Coroner
Esperanza Zapien	County of Marin - Child Support Services
Janis Zaslav	County of Marin - Health & Human Services

RESCINDED RETIREMENTS	
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Patrick Echols	County of Marin - Public Works
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DECEASED RETIREES	
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Jerry Bianchini	County of Marin - Probation
Eleanor Bloch	County of Marin - Probation
Ray Foreaker	County of Marin - Public Works
Mary Geis	City of San Rafael
Helen Green	County of Marin - Board of Supervisors
David Lloyd	County of Marin - Public Works
Donald Morrison	Southern Marin Fire
Douglas Muhly	County of Marin - Beneficiary
Christine Walton	County of Marin - Health & Human Services

CONFERENCES/SEMINARS	
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