Agenda

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

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

This meeting will be held at the address listed above and, absent technological disruption, will be accessible via videoconference and conducted in accordance with Government Code section 54953 and 54954.2 through December 31, 2025.

Instructions for watching the meeting and/or providing public comment, as well as the links for access, are available on the How to Watch Meetings page of MCERA's website. Please visit https://www.mcera.org/retirementboard/agendas-minutes/watchmeetings for more information.

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.

Please note that the times certain provided for agenda items herein are estimates only, and that scheduled items may last longer, or shorter, than stated herein. Agendized topics will not commence earlier than as stated on the agenda; however, they may start later than is agendized.

Day 1
May 16, 2023

Meeting Chair Todd Werby

9:00 a.m.
Call to Order/Roll Call

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

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.

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

10:00 a.m. – 11:00 a.m.
Overview of the Triennial Experience Study Process
Graham Schmidt, ASA, FCA, MAAA, EA Consulting Actuary, Cheiron

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

12:00 p.m. – 1:15 p.m.
Lunch Break

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

2:15 p.m. – 3:15 p.m.
The Private Equity Policy Environment
William W. Clayton, Francis R. Kirkham Associate Professor of Law
Brigham Young University

3:15 p.m. – 3:30 p.m.
Closing and Follow-up Items from Today's Agenda

Day 2
May 17, 2023

9:00 a.m.
Call to Order/Roll Call

Open Time for Public Expression

9:00 a.m. – 10:00 a.m.
MCERA Investment Management Process and Structure
Jeff Wickman, Retirement Administrator

10:00 a.m. – 11:00 a.m.
MCERA Investment Beliefs: Review and Discussion
Jeff Wickman, Retirement Administrator

Closing and Follow-up Items from Today's Agenda
11:00 a.m. – 11:30 a.m.

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.

Note on Board Member requests to participate by teleconference under Government Code section 54953, subdiv. (f): At least a quorum of the Board must be present together physically at the meeting to invoke this provision. The provision is limited to "just cause" and "emergency" circumstances, as follows:

> "Just cause" is only: (1) a childcare or caregiving need of a child, parent, grandparent, grandchild, sibling, spouse or domestic partner that requires them to participate remotely; (2) a contagious illness that prevents a member from attending in person; (3) a need related to a physical or mental disability, as defined; or (4) travel while on official business of MCERA or another state or local agency. A Board member invoking "just cause" must provide a general description of the circumstances relating to their need to appear remotely at a given meeting, and it may not be invoked by a Board member for more than two meetings in a calendar year.
>
> "Emergency circumstances" is only: "a physical or family medical emergency that prevents a member from attending in person." The Board member invoking this provision must provide a general description of the basis for the request, which shall not require the member to disclose personal medical information. Unlike with "just cause," the Board must by majority vote affirm that an "emergency circumstance" situation exists.

As to both of the above circumstances, the Board member "shall publicly disclose at the meeting before any action is taken whether any other individuals 18 years of age or older are present in the room at the remote location with the member and the general nature of the member's relationship with any such individuals." Also, the Board member "shall participate through both audio and visual technology," and thus be both audible and visible to those attending. Finally, no Board member may invoke these teleconference rules for more than three consecutive months or 20 percent of the regular meetings of the Board.

Note on teleconference disruption that interrupts the live stream: In the event of a technological or similar disruption, and provided no Board/committee members are attending by teleconference, the meeting will continue in person.

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 are a person with a disability and require an accommodation to participate in a County program, service, or activity, requests may be made by calling (415) 473-4381 (Voice), Dial 711 for CA Relay, or by email at least five business days in advance of the event. We will do our best to fulfill requests received with less than five business days' notice. Copies of documents are available in alternative formats upon request.

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

Marin County Employees’ Retirement Association

Actuarial Standards of Practice No. 4 Revisions

May 16, 2023

Graham Schmidt, ASA, EA, FCA, MAAA

Background

- ASOP No. 4: Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
  - Last revised December 2013
  - Pension Task Force Report and 3 Exposure Drafts
  - Final version issued December 2022
  - Revisions effective February 15, 2023
- Key Changes Impacting Public Plans
  - Disclose a Reasonable Actuarially Determined Contribution (ADC)
  - Assess Implications of Funding Policy
  - Disclose a Low-Default-Risk Obligation Measure (LDROM)

Disclose a Reasonable ADC

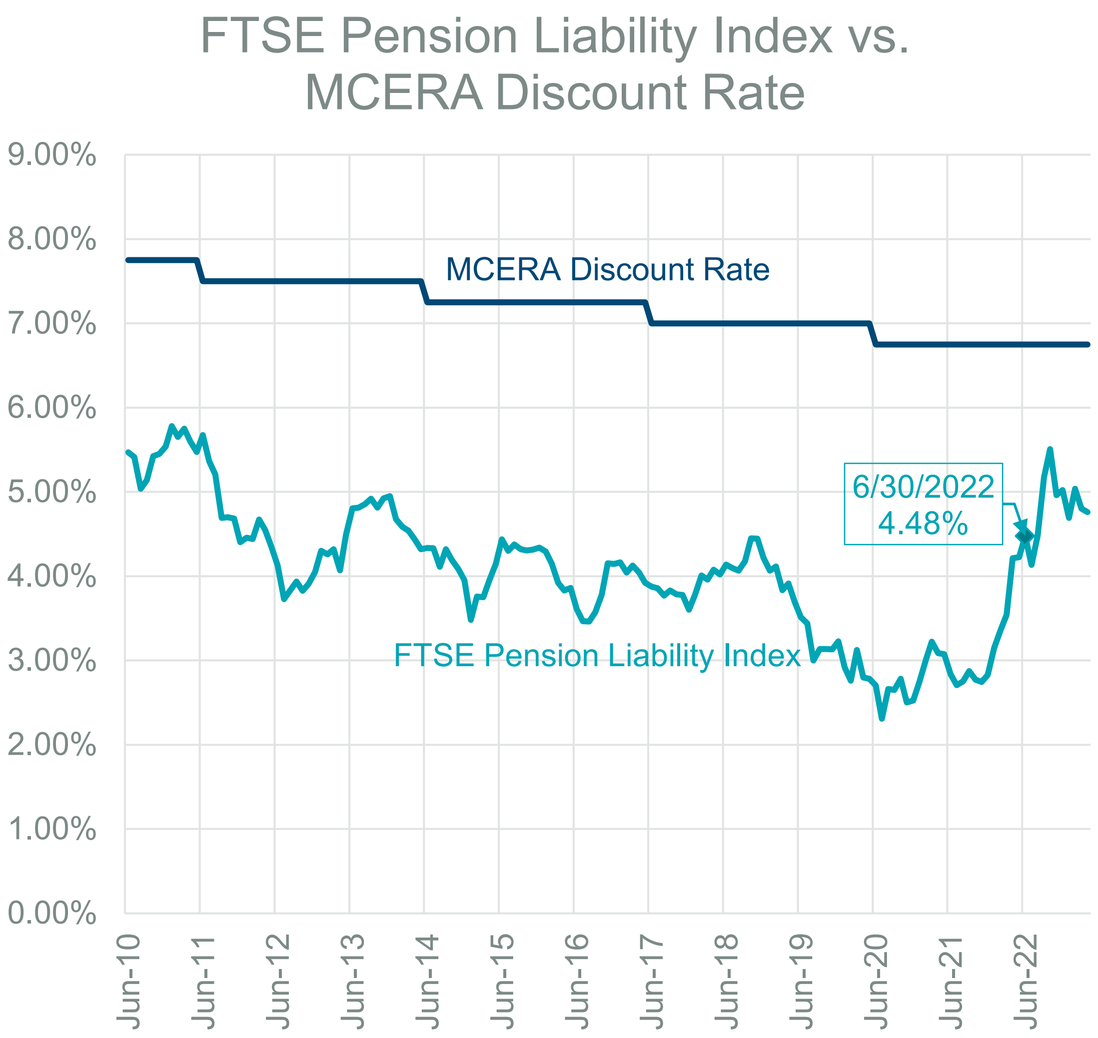
- Prior to revision, the standards did not define what would make an Actuarially Determined Contribution (ADC) "reasonable"
  - California Actuarial Advisory Panel provided guidance
  - CCA "White Paper" provided similar guidance
- Reasonable ADC
  - Reasonable assumptions
  - Actuarial cost method, asset smoothing, amortization and other methods consistent with guidance (some new) in ASOP 4
- MCERA's funding policy is consistent with the guidance, so no impact to MCERA
  - In particular, phase-in / phase-out of amortization layers ok, since expected to "fully amortize the unfunded actuarial accrued liability within a reasonable time period"

Assess Implications of Funding Policy

- Qualitatively assess implications on plan's expected future contributions and funded status
- Estimate how long before contributions exceed normal cost, plus interest on UAAL
  - MCERA may occasionally need to make this disclosure, depending on pattern of gains and losses and assumption changes
  - Any shortfall would be temporary
- Estimate period until UAAL is fully amortized
  - This will be no longer than the longest remaining amortization period on a loss (24 years as of 6/30/2022)
  - For MCERA, the period is significantly shorter (14 years as of the prior valuation)
- Assess whether funding policy is significantly inconsistent with plan accumulating assets adequate to pay benefits when due, and estimate time until assets are depleted

Low-Default-Risk Obligation Measure (LDROM)

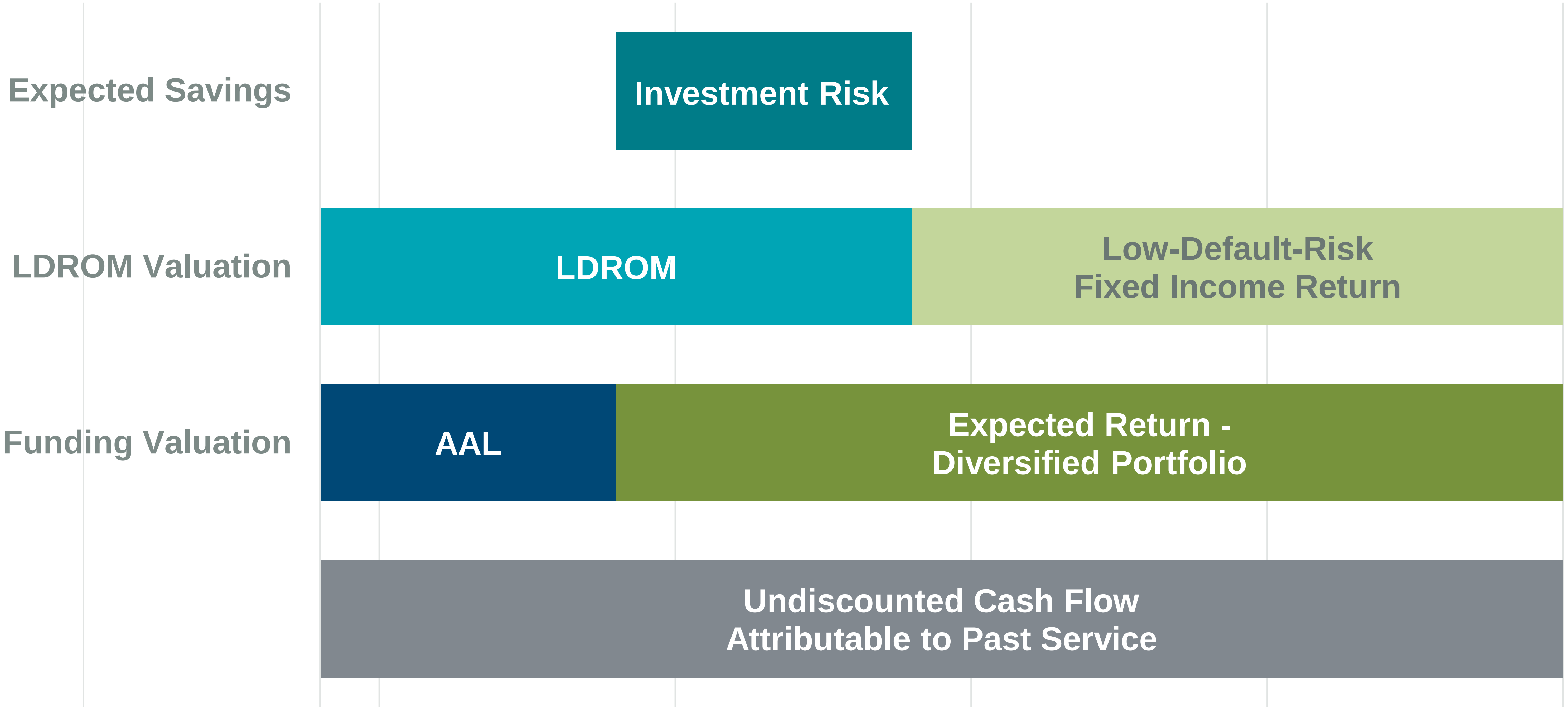
- Discount rate derived from:
  - Low-default-risk fixed income securities
  - Cash flows reasonably consistent with pattern of benefits
- For MCERA, we expect to use:
  - FTSE Pension Liability Index
    - Based on high quality corporate bond yields, which are listed as an example in ASOP 4
    - Other examples provided include Treasury yields, municipal bond index
  - The Plan's actuarial cost method (Entry Age)



Communicating the LDROM

- LDROM represents
  - Actuarial Liability if MCERA invested in a high-quality corporate bond portfolio that matched the benefit cash flows
  - This is the lowest risk option
  - Could also be used as an employer termination/withdrawal liability
- Difference between LDROM and Actuarial Liability represents
  - **Expected** savings from investing in the MCERA portfolio
  - Cost of eliminating the investment risk from the MCERA portfolio
- Sample exhibit shows results as if determined as of June 30, 2022

Communicating the LDROM



Significance of LDROM

- Actuary must "provide commentary to help the intended user understand the significance of the low-default-risk obligation measure with respect to the funded status of the plan, plan contributions, and the security of participant benefits"
  – Professional judgement to determine appropriate commentary

Significance of LDROM

- Benefit security depends on:
  - Assets in trust
  - Investment returns on those assets
  - Ability of plan sponsors to make any contributions needed in the future
- If MCERA invested in the LDROM portfolio:
  - Asset level would not change, but expected investment returns would be lower
    - Reported funded status would be lower
  - Future expected contributions would be higher, but would not be subject to investment risk
  - Benefit security would not depend on future investment returns, but there may be greater reliance on future contributions from plan sponsors

Appendix – Draft Language

MCERA invests in a diversified portfolio with the objective of maximizing investment returns at a reasonable level of risk. The lowest risk portfolio for a pension plan would be composed entirely of low-default-risk fixed income securities whose cash flows match the benefit cash flows of the plan. As of June 30, 2023, we estimate that such a portfolio would have an expected return of x.xx%, and MCERA would need $x,xxx million to pay all benefits attributed to past service. This amount is the Low-Default-Risk Obligation Measure (LDROM). The $x,xxx million difference between the LDROM and the current Actuarial Liability represents the expected savings from bearing the risk of investing in MCERA's diversified portfolio. Alternatively, it also represents the cost of eliminating the investment risk.

If MCERA were to invest in the LDROM portfolio, the reported funded status would decrease, and expected employer contributions would increase. Benefit security for members of MCERA relies on a combination of MCERA assets, the investment returns generated on those assets, and the ability of the employers to make any needed future contributions. If MCERA were to invest in the LDROM portfolio, it would reduce expected future investment returns and increase expected future contributions from the employers. However, the range of potential future investment returns and future contributions needed would narrow significantly.

We note that for MCERA, the LDROM also reflects an appropriate method for determining the liability assigned to an employer (other than the County) if they chose to terminate participation in MCERA, since MCERA would no longer be in a position to retain any investment risk on behalf of that employer.

Required Disclosures

The purpose of this presentation is to present information related to Actuarial Standards of Practice for the Marin County Employees' Retirement Association (MCERA). This presentation was prepared exclusively for the MCERA Board for the purpose described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

In preparing this presentation, we relied on information, some oral and some written, supplied by MCERA. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. The actuarial assumptions, data, and methods are those were used in the actuarial valuation report as of June 30, 2022.

Cheiron utilizes ProVal, an actuarial valuation application leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Future results may differ significantly from the current results and projections shown in this presentation due to such factors as the following: plan experience different from that anticipated by the assumptions; changes in assumptions; and, changes in the plan provisions or applicable law.

Graham A. Schmidt, ASA, EA, FCA, MAAA
Consulting Actuary

MCERA Strategic Workshop

Cheiron
Classic Values, Innovative Advice

Overview of the Triennial Experience Study Process

May 16, 2023

Graham Schmidt, ASA, EA, FCA, MAAA

Topics for Discussion

- **Experience Studies**
- **Economic Assumptions**
- **Demographic Assumptions**

Experience Study Overview

- Not making any recommendations today; review of the process and background material
- Assumptions needed to project each member's benefits and calculate the Actuarial Liability
- Ultimate cost of benefits depend on **<u>actual</u>** experience
  - Actual investment returns and participant behavior
  - Actual benefits paid are not affected by actuarial assumptions
- Accurate assumptions produce level costs

Experience Study Overview

- Assumptions impact the ***timing*** of costs

$$C + I = B + E$$

- Actuarial process is self-correcting
  - Gains and losses are amortized with every actuarial valuation
  - Periodic experience studies
- Two types of actuarial assumptions
  - Demographic
  - Economic

- How do you set assumptions?
  - o Industry trends
  - o Historical data
    - – Traditionally, good predictor for the demographic assumptions
    - – With COVID, some adjustments to standard approach may be needed
  - o Expectations for the future
  - o Board's risk preference
    - – Important for the discount rate

Actuarial Assumptions – Economic

What will inflation be?

Inflation Assumption

How much do overall base wages increase?

Wage Inflation

What will investment earnings be?

Assumed Rate of Return

How much will payroll be to provide contributions?

Payroll Growth Rate

Actuarial Assumptions – Demographic

Does the member reach retirement?

Termination/ Disability Assumptions

When will the member retire?

Retirement Assumption

How much is the benefit?

Salary Increase Assumptions

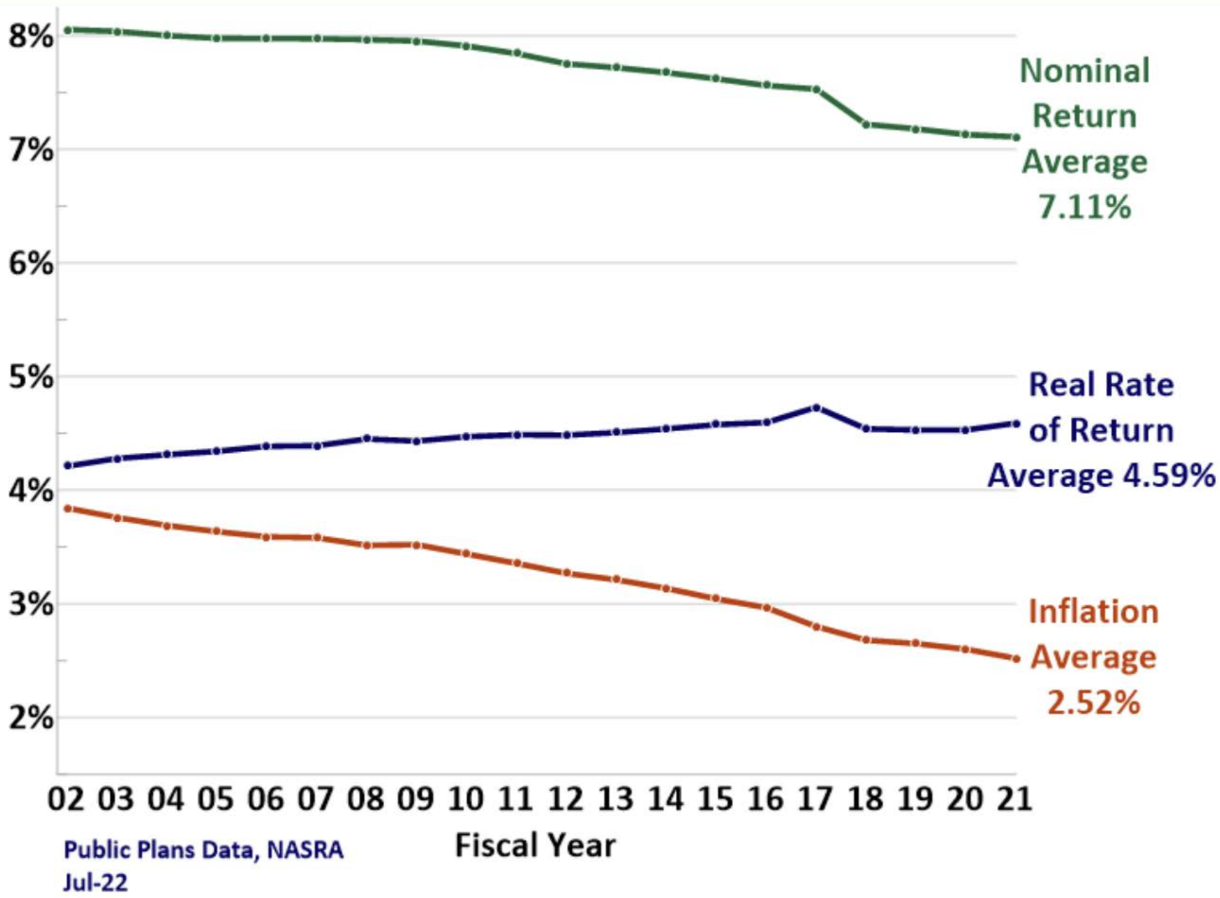
How long will the benefit be paid?

Mortality Assumption

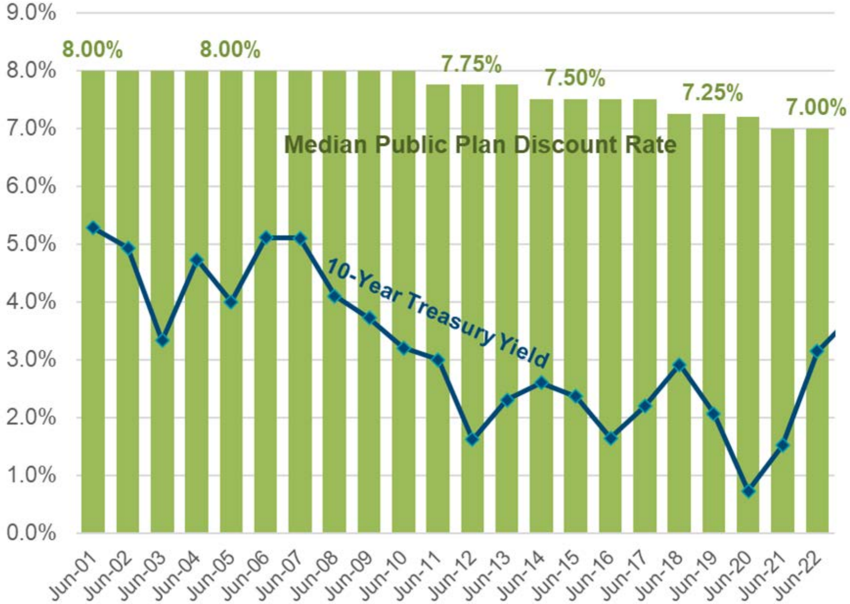
Economic Assumptions

Economic Assumption Trends: Public Plans

Figure 2: Average nominal and real rate of return, and average assumed inflation rate, FY 02 – FY 21

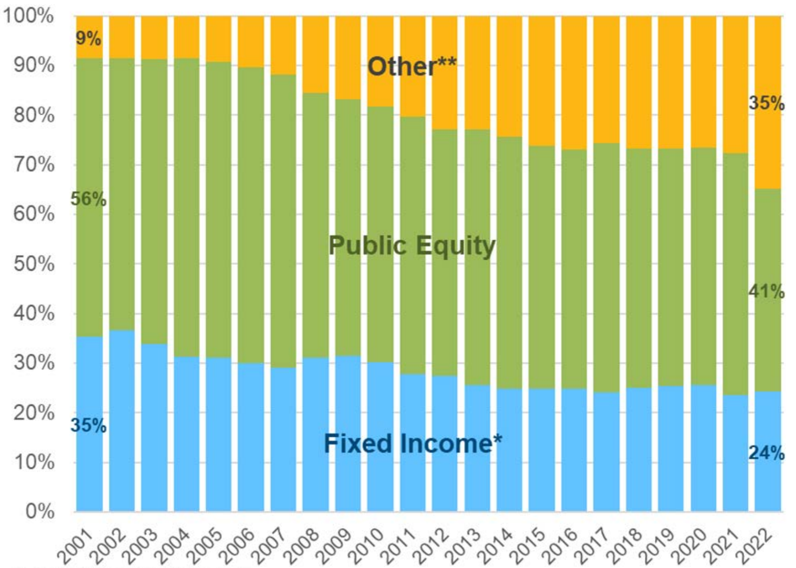


Interest Rates vs. Public Plan Discount Rates



Public Plan data from www.publicplansdata.org

Average Public Plan Asset Allocation



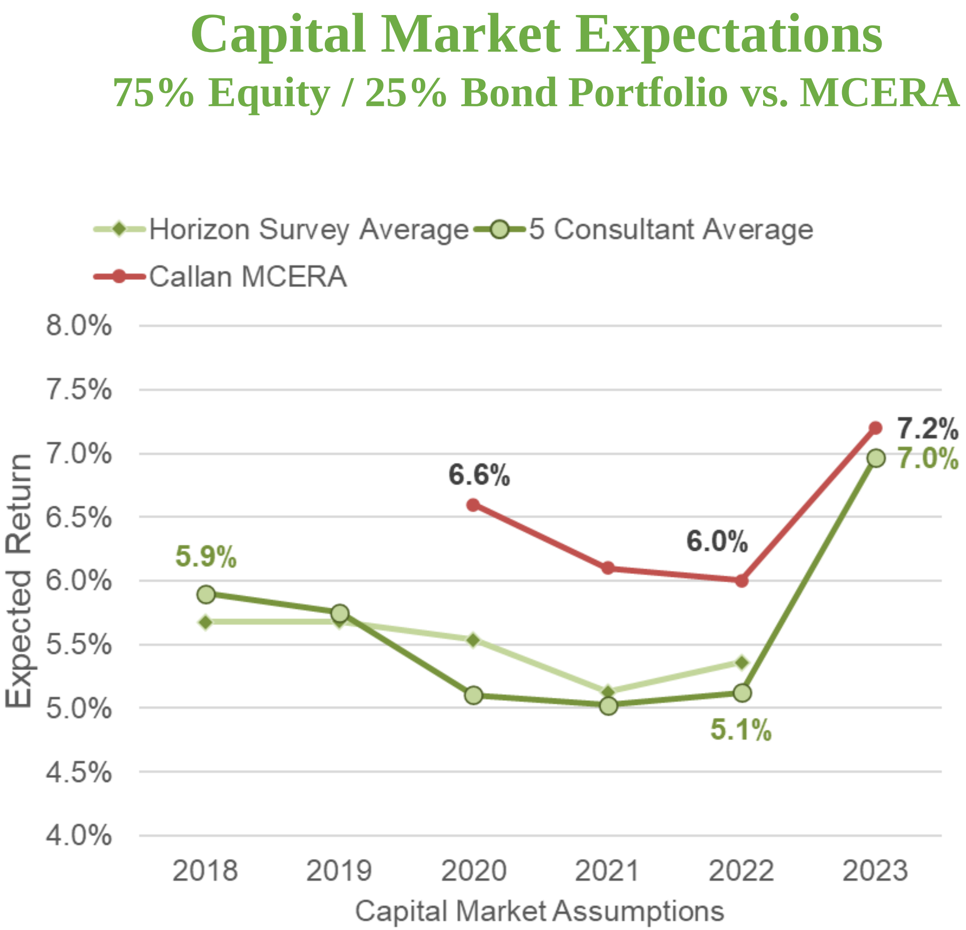
* Fixed Income includes cash

** Other includes hedge funds, private equity, real estate, alternatives and commodities

2022 asset allocation data is incomplete: includes only 60% of plans

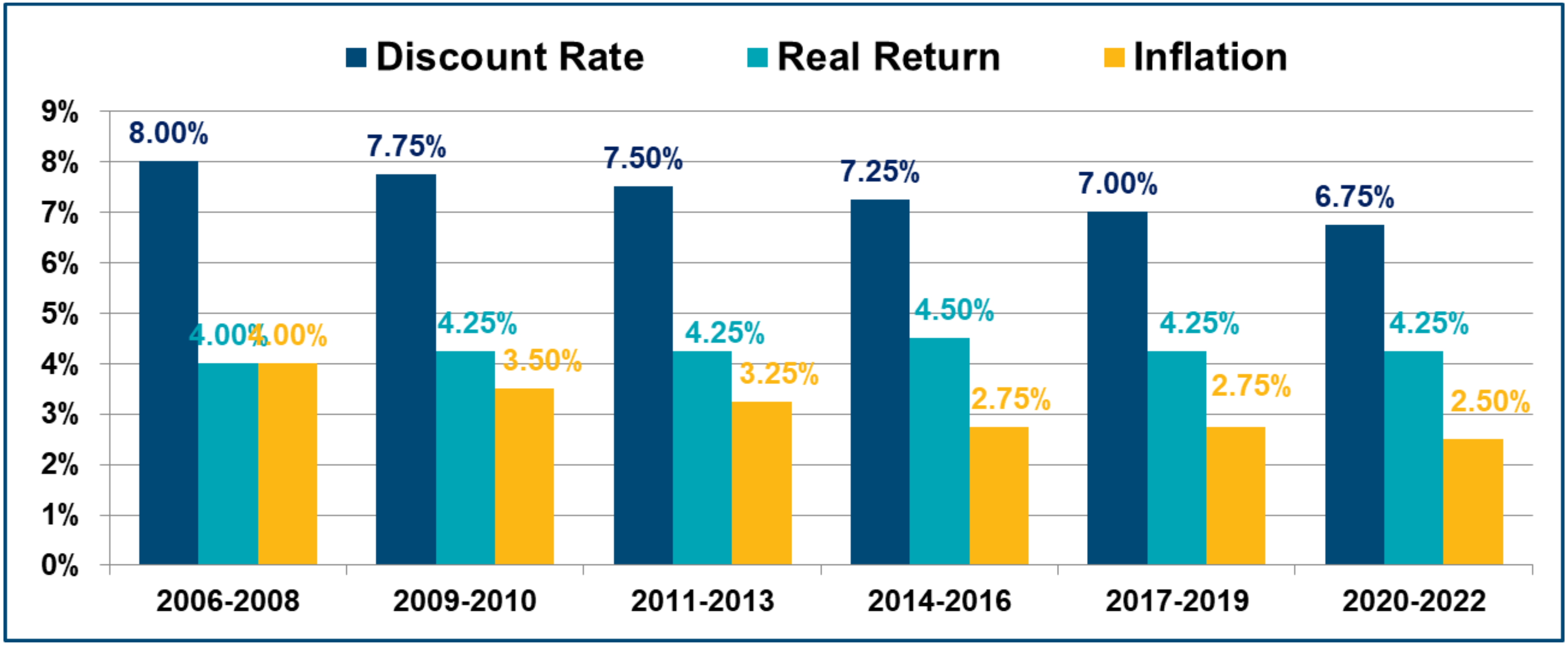
- Declining interest rates have led to lower expected return on investment portfolios
- Public plan trend to reduce discount rates/assumed rates of return
- At the same time, shifts to higher allocations of riskier asset classes in order to achieve expected returns

Expectations for Future Returns



- 2023 expected returns have increased dramatically
  - Significant increases in yields on fixed income securities
  - Equity positions at the end of 2022 had dropped substantially
  - Current MCERA assumption is 6.75%
- Is this a temporary blip or the new norm?

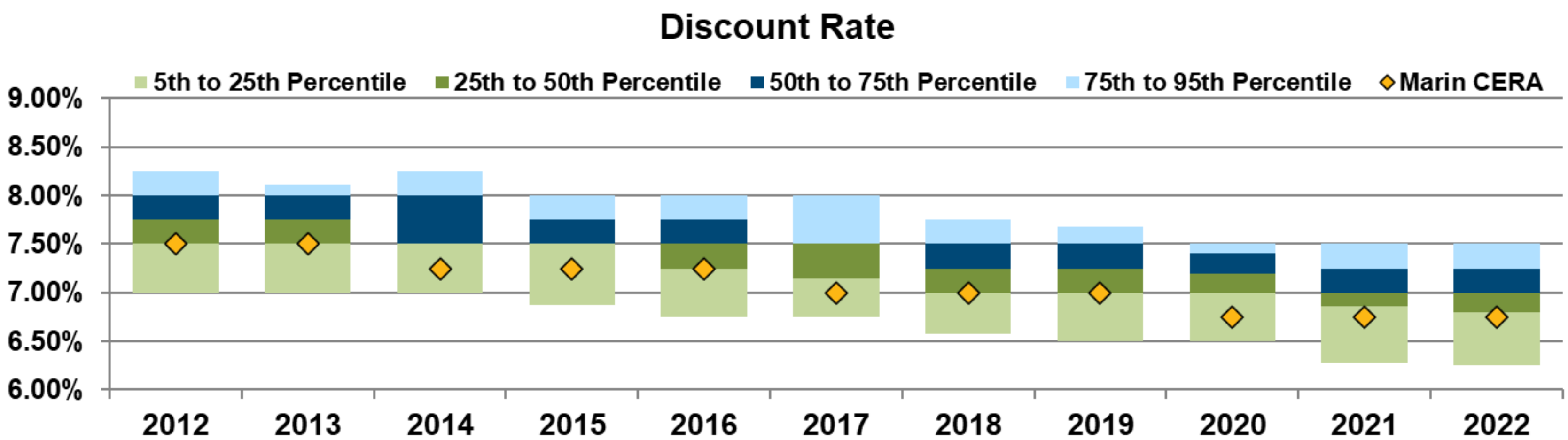
MCERA's Assumption History



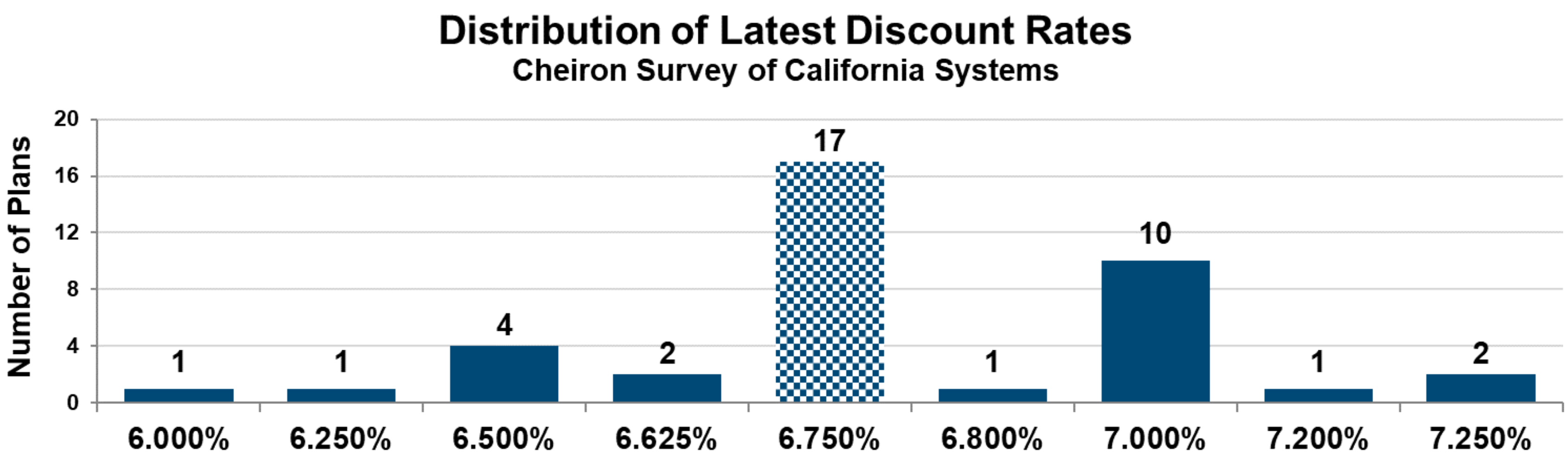
Actual returns on assets (through June 30, 2022)

- **7.4% 5-year average**
- **8.9% 10-year average**
- **5.9% 15-year average**

Industry Trends – Discount Rate



Survey Data from Public Plans Data as of 4/12/2023



Expectations for Future Returns

Callan 10-year Assumptions (2023)

Asset Category	Target Allocation	Arithmetic Return	Geometric Return	Standard Deviation
US Equity	32.0%	8.8%	7.4%	18.1%
Global Equity	22.0%	9.5%	7.5%	21.3%
US Fixed Income	23.0%	4.3%	4.3%	4.1%
Private Equity	8.0%	12.0%	8.5%	27.6%
Real Assets	15.0%	6.6%	6.2%	11.6%
Total	**100.0%**		**7.2%**	**13.2%**
Real Return			**4.7%**	

- Expected return in 2022 was only 6.0%
- More than 1.0% increase in one year!
- Generally, want to avoid overreacting to sudden changes in market when setting long-term assumptions

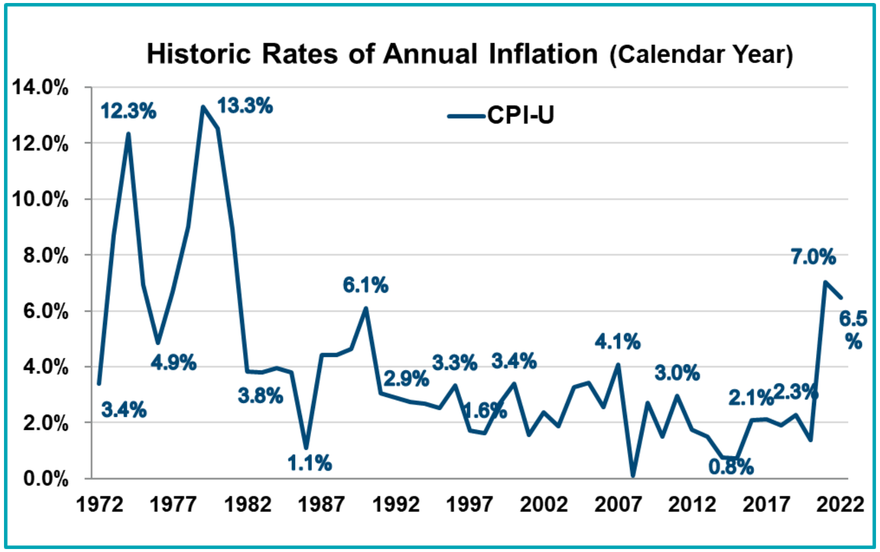
Board's Risk Preference

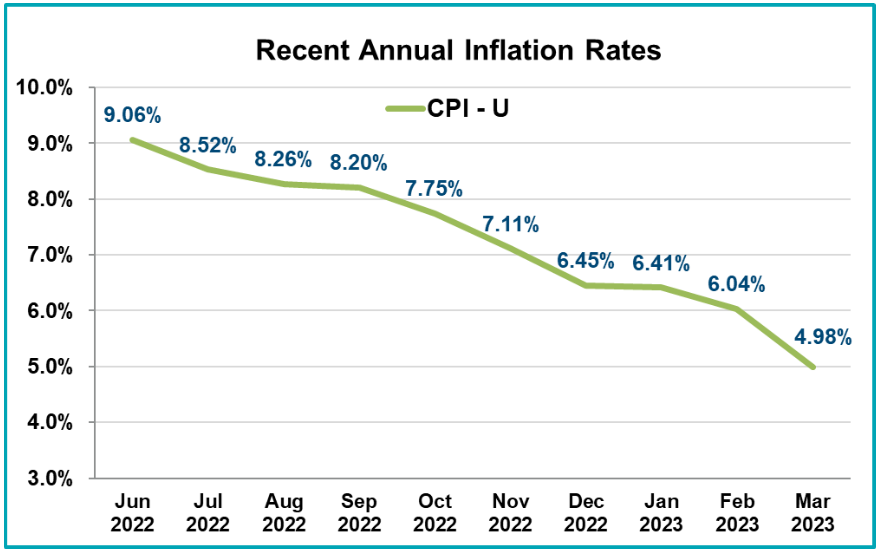
Likelihood of Achieving Average Returns (reflects 5bp adjustment for investment expenses)			
	Nominal		
	6.50%	6.75%	7.00%
Callan (10-yr)	55%	52%	50%

- Current assumption is expected to result in more asset gains than losses
- If actual returns are as forecasted, contribution rate will decrease gradually over time

How can you assume inflation is going to be below 3.0%?

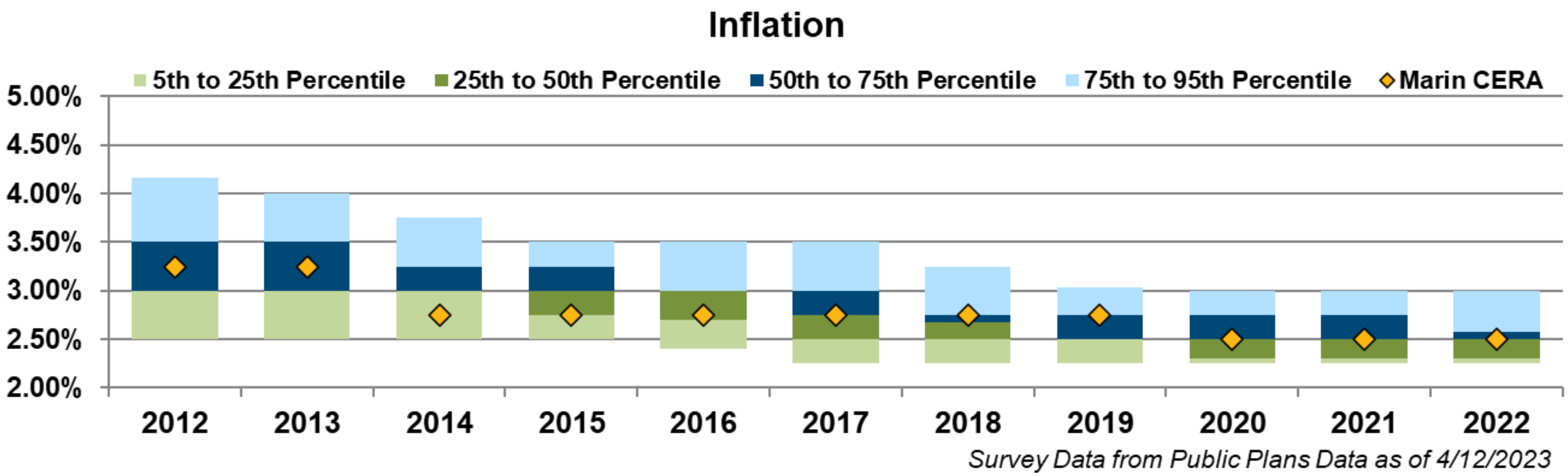
Price Inflation – Historical





- Inflation has been low since 1992
- As we all know, there has been significant spikes in the last two years
- However, year-over-year inflation has been trending down since it peaked in June 2022

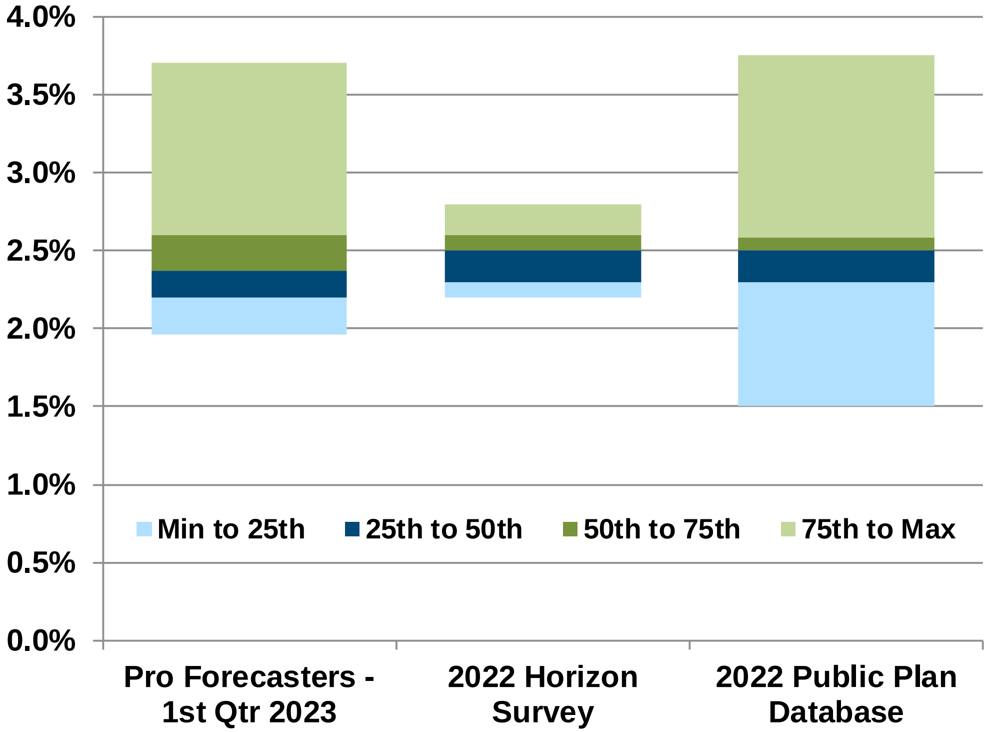
Price Inflation – Industry Trends



- Similar to discount rate, lowering inflation has been the trend
- MCERA's inflation assumption has been consistent with peers
  - Current assumption is 2.50%

Price Inflation – Industry Trends

Survey of CPI Assumptions



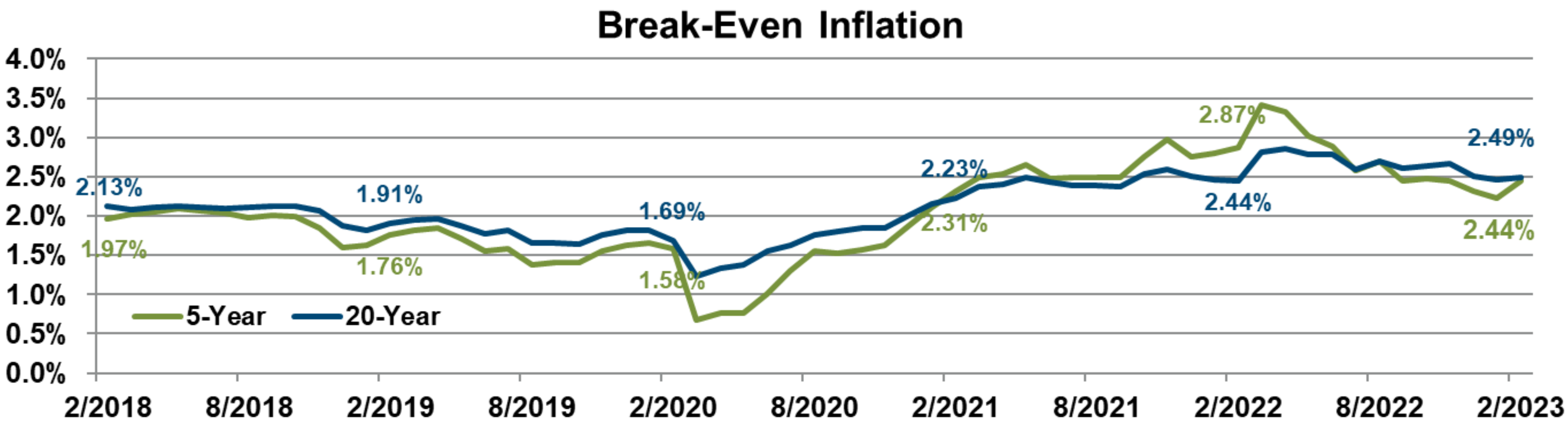
	Pro Forecasters - 1st Qtr 2023	2022 Horizon Survey	2022 Public Plan Database
Minimum	1.96%	2.20%	1.50%
25th	2.20%	2.30%	2.30%
50th	2.37%	2.50%	2.50%
75th	2.60%	2.60%	2.58%
Maximum	3.70%	2.80%	3.75%

- 90 of the 217 public plans in national database have a price inflation assumption of 2.50%

Price Inflation Expectations Sources

- Federal Reserve Board's Federal Open Market Committee (FOMC)
- Congressional Budget Office (CBO)
- Social Security Trustees Report (SSA)
- Federal Reserve Bank of
  - o St. Louis
  - o Cleveland
  - o Philadelphia (used in previous slide)
  - o New York

Price Inflation – Market Expectations



- Break-even inflation is the difference in yields between conventional treasury bonds and Treasury Inflation-Protected Securities (TIPS)
- It represents a market estimate of future inflation
- Currently, short-term and long-term inflation expectations are very close, between 2.4% to 2.5%

Price Inflation – Summary of Analysis

- Average (and median) expectation of the economic forecasters is 2.50%
- Future market expectations of inflation are around 2.50%, short and long term
- Current assumption of 2.50% remains reasonable; consistent with expert and market expectations

Wage Growth – Overview

- Pay for members expected to grow by
  - Base wage growth (economic assumption)
  - Plus, individual merit based on longevity (demographic assumption)
- Wage growth
  - Inflation, plus real-wage factor
  - Current assumption: 3.00% with assumed 0.50% real-wage growth above inflation

Wage Growth

- Arguments for a positive real-wage growth assumption
  - Productivity increases
  - Many experts predict return of some level of real wage growth (Social Security projections based on 0.6% – 1.8% assumed real wage growth)
  - Some evidence of local real wage growth
    - Increase in average weekly wages for Marin local government workers of 4.0% from 2012-2022 (BLS Quarterly Census of Employment and Wages)
    - Versus annual CPI-U increase of 3.2% for Bay Area over same time period

Wage Growth

- Arguments for maintaining a modest real wage growth assumption
  – Budgetary environment (short, medium, long term)
  – Crowding out of wages from other areas of compensation (healthcare and pension costs)
    - Both have slowed somewhat in recent years
  – Although evidence shows presence of national historical real wage growth, increase in *mean* real wages higher than *median*

Payroll Growth

- Amortization growth rate currently set lower than wage growth assumption
  – 2.75%, versus 3.00% wage growth
- Reasons for margin
  – Some pay amounts non-pensionable for new hires versus the members they are replacing (including impact of PEPRA wage cap)
  – Increases likelihood that UAL payments decline rather than grow as a percentage of pay

COLA Growth

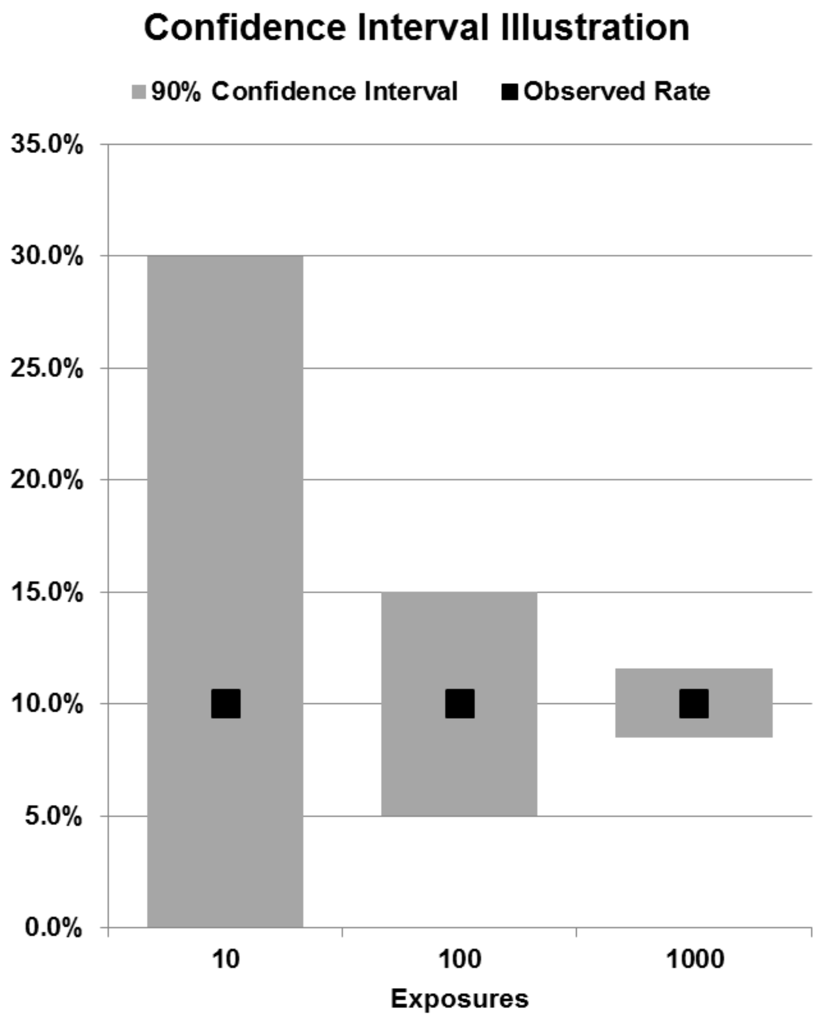
- Operation of COLA
  - Benefits grow by Bay Area CPI (rounded to 0.5%), subject to 2%, 3%, or 4% cap
  - Bank accumulated if CPI growth exceeds cap
- In prior years, simulation analysis resulted in recommended COLA growth rate lower than inflation assumption, because of cap
  - Example: with 2.50% inflation assumption and 3.00% cap, recommended COLA growth rate = 2.40%
- Analysis will look different this year, at least for retiree population, because of growth in the COLA banks

Demographic Assumptions

Demographic Analysis Statistics

- Actual-to-Expected Ratio (A/E Ratio)
  - Actual decrements divided by expected decrements
  - Ideally equals 100%
  - Used to set overall level of assumptions
- 90% Confidence Interval
  - Range around experience within which “true” rate falls with 90% confidence
  - Used to assess credibility of experience and need to change assumptions
  - For most assumptions we will combine data from prior studies with current period to increase credibility
- R-Squared Ratio
  - The percentage of variation in the data explained by the assumption
  - Ideally equals 100%

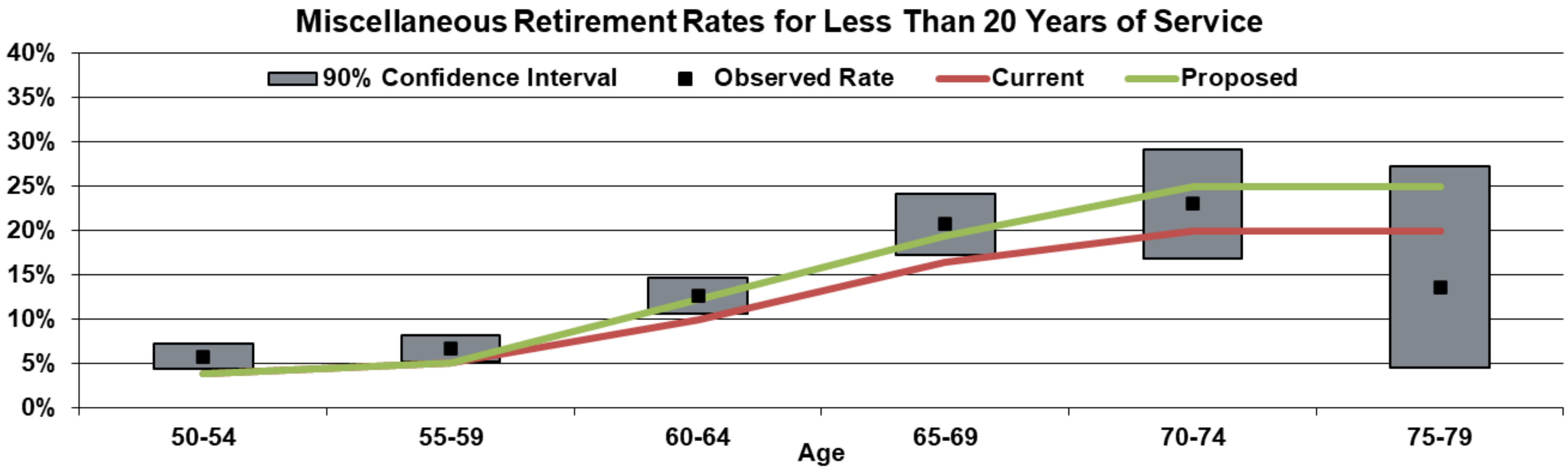
Confidence Intervals



Amount of data critical in determining how much credibility to assign to the experience:

- Observed Rate = 10%
- 1 retirement with 10 exposures, “true” rate between 0% – 30%
- 10 retirements with 100 exposures, “true” rate between 5% – 15%
- 100 retirements with 1000 exposures, “true” rate between 8% – 12%

Demographic Assumption Analysis



- Generally, propose change when actual experience falls outside confidence interval
- Sometimes move *towards* experience, since prior assumptions reflect prior data
- Make adjustments as needed for expected changes in behavior

Summary of Changes in Prior Study

Assumption	Primary Changes
Retirement	• Misc. Pre-PEPRA – Increase rates at ages 60+ with less than 20 years of service • Safety 3% at 50 – No changes • Use appropriate CalPERS assumptions for Misc. PEPRA , Safety 3% at 55, and Safety PEPRA
Termination Rates and Type	• Misc. – Simplify rates to a service-only based structure • Safety – Increase rates for under 5 years of service • Slight reduction in refund rates at lower service levels • Increase rates of reciprocity
Deferral Age	• Increase Misc deferral age to 59 • Increase Safety 3% @ 50 deferral age to 53 for those with reciprocity
Disability	• Misc. - No change in rates, but increase percentage of service-connected • Safety – Switch to CalPERS Peace Officers and Fire Fighter rates multiplied by 1.2, and increase percentage of service-connected
Mortality	• Update base mortality tables to an applicable Pub-2010 table • Update projection scale to MP-2020
Salary Merit Increases	• No changes
Other	• Increase age difference for female retirees to 2 years younger than spouse • Reduce assumed administrative expenses to $5.0 million • Terminal cash-outs – updated loads

Participant Behavior during COVID

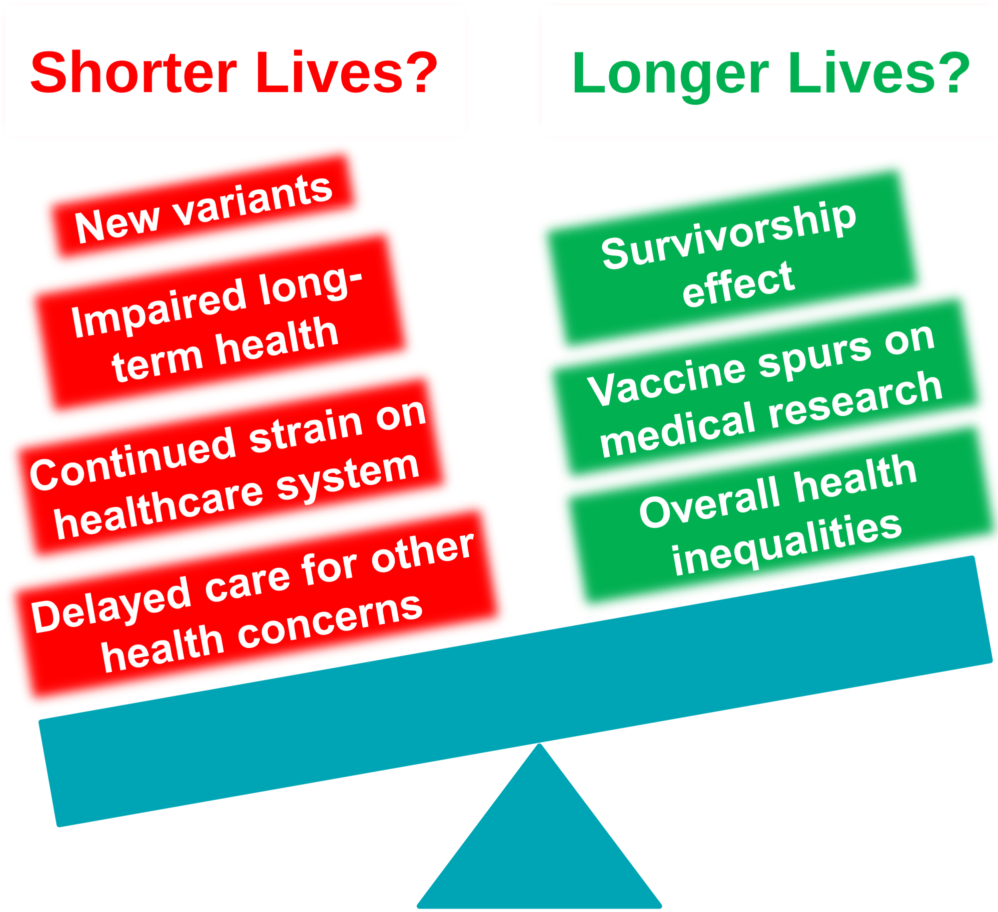
- Employees laid off or furloughed during pandemic
  - Travel, leisure, hospitality industries closed
- Voluntary terminations to stay home with kids
  - Schools closed
  - Day cares closed or at reduced capacity
- Unemployment at lowest point since 1953
- Finding new employment relatively easy
- Social unrest’s impact on Safety members

Different Industry = Different Experience

- Depending on industry, COVID impact varied significantly
  - Participant behavior
  - Industry behavior
  - Industry financial outlook

How to adjust for mortality expectations for COVID experience?

- Introduce COVID-19 into future trend assumptions?
  - Will we return to pre-pandemic mortality improvements?
  - How should we allow for COVID impacts in the future?
  - How should we account for long-term COVID effects?
  - Retaining pre-pandemic improvement adjustments is its own decision



Demographic Assumption Adjustments

- Should recent experience be included, adjusted, or excluded?

Include without Adjustment	Include but Adjusted	Exclude
Recent experience expected to continue: the new normal	Variance from historical expected to continue short term but revert longer term	Recent anomalies unlikely to continue
No significant variations from historical expectations or reasoning for changes	Unusual experience attributable to select groups of total population	Expect patterns to return to pre-COVID experience

Required Disclosures

The purpose of this presentation is to present a preview of the upcoming experience study for the Marin County Employees' Retirement Association (MCERA). This presentation was prepared exclusively for the MCERA Board for the purpose described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

In preparing this presentation, we relied on information, some oral and some written, supplied by MCERA. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. The actuarial assumptions, data, and methods are those were used in the actuarial valuation report as of June 30, 2022.

Cheiron utilizes ProVal, an actuarial valuation application leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Future results may differ significantly from the current results and projections shown in this presentation due to such factors as the following: plan experience different from that anticipated by the assumptions; changes in assumptions; and, changes in the plan provisions or applicable law.

Graham A. Schmidt, ASA, EA, FCA, MAAA
Consulting Actuary

Inflation Drivers: Where is it going in 2023 and beyond

This presentation will be provided prior to or during the Strategic Workshop.

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

This presentation will be provided prior to or during the Strategic Workshop.

The Private Equity Policy Environment

This presentation will be provided prior to or during the Strategic Workshop.

Marin County Employees' Retirement Association

Investment Management Process & Structure

Board of Retirement Strategic Workshop
May 17, 2023

Jeff Wickman, Retirement Administrator

AGENDA

- Board and Committee Roles
  - Asset Allocation
  - Manager Selection
  - Manager Oversight
- Staff Role
  - Manager Oversight
  - Daily Operations

BOARD AND COMMITTEE ROLES

INVESTMENT POLICY STATEMENT AND ASSET ALLOCATION DECISION

- The Board, through its Investment Committee, establishes an Investment Policy Statement to outline the goals of the investment program:
  - The policies and procedures for the management of the investments;
  - Specific asset allocations, rebalancing procedures and investment guidelines;
  - Performance objectives; and
  - Responsible parties.
- Consultant assists with creating an asset allocation mix with the goal to fully funding the cost of future benefits.
- Each year the Investment Consultant reviews the current asset allocation as part of their revised capital market projections.
- Every 3-5 years the consultant conducts an Asset/Liability Study to examine whether the investment policy is meeting the return and risk objectives in relation to the policy goals.

BOARD AND COMMITTEE ROLES

ASSET ALLOCATION TARGETS AND REBALANCING

- Targets are developed for each asset class based on projected returns and risks of various asset classes and an analysis of MCERA's liabilities as well as the Investment Committee's risk tolerance and long-term objectives.
- As asset values change over time, rebalancing the portfolio may be necessary. Working with the consultant, staff will rebalance the Fund's portfolio so it remains within the range of targeted allocations and distributions among investment managers and asset allocations. Any rebalancing actions are reported to the Finance and Risk Management Committee and Board.

BOARD AND COMMITTEE ROLES

MANAGER SELECTION

- The consultant develops a candidate profile based on the requirements for the investment to identify potential managers for the Investment Committee to consider.
- The list of potential managers is presented to the Investment Committee for consideration. The Committee determines with potential managers will be interviewed.
- After conducting interviews, the Investment Committee selects an investment manager(s) to invest for a specific asset class.

BOARD AND COMMITTEE ROLES

MANAGER/INVESTMENT OVERSIGHT

- Meet with managers at Investment Committee to review performance and other issues related to MCERA's investment
- Consultant reviews performance with the Investment Committee on a quarterly basis.
- Consultant tracks personnel issues that may impact the managers' ability to perform.
- Board and staff may conduct on site due diligence with managers.
- Consultant establishes and reviews the Watchlist with the Committee on an annual basis.
- Finance and Risk Management Committee reviews and discusses expenses paid to each managers along with capital calls, distributions, dividends, liquidations, rebalancing activities and margin calls.
- Audit Committee reviews the work of the external auditor who tests the accuracy of individual manager values against what MCERA has recorded in its financial statements.

STAFF ROLE

MANAGER/INVESTMENT OVERSIGHT: RETIREMENT ADMINISTRATOR

- Work with counsel to complete agreements (Contracts, Subscription Agreements, Side Letters, Collective Investment Trusts and Limited Partnership Agreements) before investing any capital with a manager.
- For private investments, receive and review with counsel any “Most Favored Nation” provisions that MCERA wishes to add to its Side Letter with that manager.
- Collect and review Placement Agent and Form 700’s
- Review all performance reports, statements, ADVs, capital calls, distributions, dividend payments, manager commentary and legal notices.
- Meet regularly with managers outside of scheduled Investment Committee meetings, including attending manager fund update calls/online meetings.
- Attend Advisory Committee meeting as MCERA’s representative for certain private investments when possible.

STAFF ROLE

MANAGER/INVESTMENT OVERSIGHT: RETIREMENT ADMINISTRATOR (cont.)

- Review individual holdings by investment managers on a monthly and quarterly basis.
- Review securities litigation where proceeds are available to MCERA as a result of a settlement where MCERA held investments during the class action period. Confirm with custodian that claims have been filed on MCERA's behalf.
- Work with counsel to file claims for non-US securities litigation.
- Discuss manager personnel changes with the consultant to determine if there are impacts affecting MCERA's investment that should be reported to the Board, or any of its Committees, and if action is necessary.
- Monitor targets and ranges to determine if rebalancing is necessary. Work with consultant to determine rebalancing amounts and timing.

STAFF ROLE

PERIODIC OPERATIONS:
FINANCE & ACCOUNTING

- Receive and review performance reports and statements.
- Record management fees and changes in asset values in MCERA's accounting system.
- Pay management fees invoiced.
- Reconcile balances per statements to MCERA's accounting system.
- Set up transitions for capital calls, distributions and dividend payments in the custodial system and record transactions in MCERA's accounting system.
- Monitor daily cash needs.

Mcera

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Date: May 11, 2023

To: Board of Retirement
Marin County Employees' Retirement Association (MCERA)

From: Jeff Wickman JW
Retirement Administrator

Subject: MCERA Statement of Investment Beliefs

Background

The Board's October 29, 2015 Strategic Workshop focused on different topics related to environmental, social and governance (ESG) factors. One presentation focused on how public retirement plans are using ESG as part of their investment process. During this presentation the Board discussed whether it would be appropriate to modify MCERA's Investment Policy Statement to include an expression of how MCERA expects its managers to incorporate ESG. Staff recommended that the Board consider developing a Statement of Investment Beliefs, similar to those published by CalPERS and other public pension plans.

At the April 21, 2016 Governance Committee meeting, staff presented a draft Statement of Investment Beliefs for consideration, which included input from the investment consultant, actuary and Board counsel. The Beliefs – similar to an investment-related mission-vision-values statement – were modeled after CalPERS' Statement of Beliefs, and were designed to capture how and why MCERA invests trust fund assets at a policy level. Suggested changes from the Governance Committee were incorporated and the Investment Committee adopted the Statement of Investment Beliefs on June 9, 2016.

Recommendation

While the Investment Beliefs are a separate stand-alone document and as such do not have a standard review schedule like other official MCERA policies, they should be reviewed every 5-7 years to ensure they continue to reflect the Board's approach to investing and safeguarding the plan's assets.

MCERA

Investment Beliefs

The Marin County Employees' Retirement Association (MCERA) Board of Retirement adopted a set of Investment Beliefs intended to provide a basis for strategic management of the investment portfolio, inform organizational priorities, and ensure alignment between the Board and MCERA staff.

June 2016

Investment Belief 1

Liabilities must influence the asset structure

Sub-beliefs:

- Ensuring the ability to pay promised benefits by maintaining an adequate funding status is the primary measure of success for MCERA.
- MCERA has a growing cash requirement and inflation-sensitive liabilities; assets that generate cash and hedge inflation should be an important part of the MCERA investment strategy.
- MCERA cares about both the income and appreciation components of total return.
- Concentrations of illiquid assets must be managed to ensure sufficient availability of cash to meet obligations to beneficiaries.

Investment Belief 2

A long time investment horizon is a responsibility and an advantage

Long time horizon requires that MCERA:

- Consider the impact of its actions on future generations of members and taxpayers.
- Encourage external managers to consider the long-term impact of their actions.
- Favor investment strategies that create long-term, sustainable value and recognize the critical importance of a strong and durable economy in the attainment of funding objectives.
- Advocate for public policies that promote fair, orderly and effectively regulated capital markets.

Long time horizon enables MCERA to:

- Invest in illiquid assets, provided an appropriate premium is earned for illiquidity risk.
- Take advantage of factors that materialize slowly such as demographic trends.
- Tolerate some volatility in asset values and returns, as long as sufficient liquidity is available.

Investment Belief 3

MCERA's investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

Sub-beliefs:

- As a public agency, MCERA has many stakeholders who express opinions on investment strategy or ask MCERA to engage on an issue. MCERA's preferred means of responding to issues raised by stakeholders is engagement.
- MCERA's primary stakeholders are members/beneficiaries, employers, and local taxpayers as these stakeholders bear the economic consequences of MCERA's investment decisions.
- In considering whether to engage on issues raised by stakeholders, MCERA will use the following prioritization framework:
  - Capacity – does MCERA have the expertise, resources and standing to influence an outcome?
  - Materiality – does the issue have the potential for an impact on portfolio risk or return?
  - Definition and Likelihood of Success – is success likely, in that MCERA's action will influence an outcome which can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?

Investment Belief 4

Governance is the primary tool to align interests between MCERA and managers of its capital, including investee companies and external managers

Sub-beliefs:

- Strong governance increases the likelihood that companies will perform well over the long term and manage risk effectively.
- MCERA may engage external managers on their governance and sustainability issues where such engagement maintains diversification of the system's investments so as to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so, including:
    - Governance practices as outlined in MCERA's Corporate Governance Policy, including but not limited to alignment of interests;
    - Risk management practices;
    - Human capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity;
    - Environmental practices, including but not limited to climate change and natural resource availability.

Investment Belief 5

Strategic asset allocation is the dominant determinant of portfolio risk and return

Sub-beliefs:

- MCERA will utilize a strategic asset allocation process as a method for achieving its assumed rate of return.
- MCERA will aim to diversify its overall portfolio across distinct risk factors / return drivers.
- MCERA will consider investment strategies if they have the potential to have a material impact on portfolio risk and return.

Investment Belief 6

MCERA will take risk only where we have a strong belief we will be rewarded for it

Sub-beliefs:

- An expectation of a return premium is required to take risk; MCERA aims to maximize return for the risk taken.
- Markets are not perfectly efficient, but inefficiencies are difficult to exploit after costs.
- MCERA will use index tracking strategies where we lack conviction or demonstrable evidence that we can add value through active management.
- MCERA should measure its investment performance relative to a reference portfolio of public, passively managed assets to ensure that active risk is being compensated at the Total Fund level over the long term.

Investment Belief 7

Costs matter and need to be effectively managed

Sub-beliefs:

- MCERA will balance risk, return and cost when choosing and evaluating investment managers and investment strategies.
- Transparency of the total costs to manage the MCERA portfolio is required of MCERA's business partners and itself.
- Performance fee arrangements and incentive compensation plans should align the interests of the fund, staff and external managers.
- When deciding how to implement an investment strategy, MCERA will implement in the most cost effective manner.

Investment Belief 8

Risk to MCERA is multi-faceted and not fully captured through measures such as volatility or tracking error

Sub-beliefs:

- MCERA uses and maintains a broad set of investment and actuarial risk measures and clear processes for managing risk.
- The path of returns matters, because highly volatile returns can have unexpected impacts on contribution rates and funding status.
- As a long-term investor, MCERA will consider risk factors, for example climate change and natural resource availability, that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

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