

MINUTES

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

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

May 24, 2011 - 9:00 A.M.

CALL TO ORDER

Chair Bolger called the meeting to order at 9:05 A.M.

ROLL CALL

PRESENT: Bolger, Brenk, Richardson, Webb

ABSENT: Given, Gladstern, Phillips

MINUTES

It was M/S Webb/Brenk to approve the February 22, 2011, Finance and Risk Management Committee meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

1. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA travel and event related expenses

Retirement Administrator Jeff Wickman presented travel and Board related expenses based on credit card statements with line-item detail. The Committee determined the expenses to be reasonable.

A discussion about clarifying travel expenses included in per diems resulted in agreement of Mr. Wickman and the Committee to present the Travel Expense Policy to the Governance Committee for review.

b. Other expenses per Checklist guidelines

Administrator Wickman reviewed detailed reimbursed expenses representing trustee education and due diligence activities.

Retirement Administrator Wickman reviewed the Investment Fund expenses. Mr. Wickman also noted that there has been an increase in active member death benefits paid. Other expenses included payment for the Actuarial Valuation report and the

Plan Document filing. In response to a question, Mr. Wickman stated that other charges by the actuary are on a time-and-materials basis, which are itemized and reviewed by the Retirement Administrator. Mr. Wickman discussed the process of reviewing and validating legal expenses.

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

Administrator Wickman and Senior Accountant Lisa Jackson presented detailed administrative budget data through March 31, 2011, including year-to-date totals and the percentage of budget used. Mr. Wickman attributed the salary expense increase in March to merit pay increases and non-material variation due to overlapping pay periods (pay periods are bi-weekly, while the report is monthly).

Services and supplies expenses were reviewed. Mr. Wickman observed that expenses for investigations and Hearing Officers are expected to vary according to the number of disability cases. An increase in office supply expenses was authorized in order to expedite distribution of Form 700 to MCERA trustees and consultants.

Trustee Richardson noted that retirement benefits exceeded 75%, and Mr. Wickman said that the ratio is a reflection of budgeting a slightly lower number than necessary for the current fiscal year. Benefit costs were increased for the 2011-2012 administrative budget to reflect higher benefit costs.

The Committee found administrative budget expenses to be reasonable.

d. Reconciliation of MCERA administrative accounts

Senior Accountant Lisa Jackson stated that the accounts are reconciled.

e. Vendor services provided to MCERA

The Committee found vendor services contractual expenses to be reasonable.

f. MCERA staffing status

Staffing plan changes will be initiated with the next fiscal year's budget, according to Mr. Wickman. He summarized the status of the recruitment for the Assistant Retirement Administrator position, indicating that interviews are planned for early June.

g. Internal controls, compliance activities and capital calls

Administrator Wickman reviewed a detailed listing of capital calls. Mr. Wickman indicated that funding of the Eaton Vance Emerging Markets portfolio is following the Board's investment plan. Chair Bolger requested oversight of capital calls to assure that the funds are neither idle nor at risk during transition. Trustee Richardson

indicated that the concern would be the transition period during which funds may not be secured by a corresponding asset.

h. Audits, examinations, investigations or inquiries from governmental agencies

Mr. Wickman reported no activities on MCERA's Favorable Plan Determination filing. He indicated that he does not expect a quick response to the filing.

i. Other items from the Retirement Administrator related to risk and finance

Mr. Wickman reported that Western Asset notified MCERA of a settlement fund established by PIMCO to resolve claims that PIMCO engaged in price manipulation. Western Asset will file a claim on behalf of MCERA to the extent that MCERA funds were adversely affected by the alleged improper pricing.

Mr. Wickman advised the Committee of his intent to install push button access at MCERA's front door to ensure ADA compliance, at a cost of \$11,000.

Chair Bolger recessed the meeting for a break at 10:40 A.M., reconvening at 10:46 A.M.

C. NEW BUSINESS

1. Economic Assumptions

Discuss and consider possible resources for the review and study of the Board's economic assumptions.

The Committee discussed the various reports published on the assumed rate of investment returns established by public pension systems. There was a desire to identify information that could be reviewed and discussed by the Board that would help to assess further the reasonableness of MCERA's economic assumptions. Chair Bolger pointed out that Fitch recently reported that a funding ratio of 70% was considered adequate. Trustee Richardson observed that defined benefit plans are important to the public sector and deserve the attention that the Board and others are giving to them. Trustee Webb agreed that it is important to consider the available research on the matter, so that decisions are based on the best available information.

Because the arguments on each side of the economic assumptions discussion are strong, achieving a balance based on the available research will be a challenging according to Mr. Wickman. Counsel Dunning encouraged consideration of available research as part of the deliberative process in setting economic assumptions. Ms. Dunning also recommended coordinating resources from the actuary and the investment consultant to provide a structure for future discussions.

The Trustees considered potential sources of such information, such as public entities and ratings agencies. Trustee Brenk sought to formalize a process for reviewing such resources and also suggested bringing in speakers from related public agencies on the

topic. However, Trustee Richardson recommended using research from independent sources instead.

Chair Bolger recommended pursuing the matter through the Ad Hoc Education Committee and having the available research and reports brought forward to future Board meetings.

2. CorePlus Negotiations

Update from the Retirement Administrator on the negotiations with Wellington to move to the CorePlus option.

Mr. Wickman said that a number of discussions have occurred regarding Wellington. Mr. Wickman has presented a proposal to Wellington and is waiting for their response. Chair Bolger recommended that the matter be referred to the Investment Committee.

3. Property Insurance

Update from the Retirement Administrator on the negotiations for property insurance for MCERA's real estate holdings managed by Woodmont.

Mr. Wickman stated that the cost of property insurance for the upcoming year increased due to the effects of the Japan earthquake and increases in total insured value. The primary cost drivers were the adjustments made by the insurance market after the earthquake.

4. Foreign Currency Exchange

Discuss and consider possible options for tracking the cost of foreign currency exchange.

Chair Bolger pointed out the recent public articles raising concerns about questionable foreign currency exchange practices. Ms. Bolger and Trustee Webb requested consideration of whether MCERA's international investment managers are striving to achieve the best possible cost for MCERA when executing foreign currency exchanges.

Counsel Dunning suggested a review of, and possible amendments to, existing investment manager agreements to document the Board's expectations regarding currency exchanges. Chair Bolger recommended pursuing side letter agreements through investment counsel and the investment consultant. The matter will be assigned to the Retirement Administrator to work with MCERA's investment counsel and consultant.

There being no further business, Chair Bolger adjourned the meeting at 11:34 A.M.

Bernadette Bolger, Chair

Attest: Jeff Wickman, Retirement Administrator