

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

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

December 13, 2017 – 9:00 a.m.

The Board of Retirement for the Marin County Employees' Retirement Association 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. If members of the public wish to speak on any agenda items, please alert the Retirement Administrator to that request prior to the matter being called.

EVENT CALENDAR 9 a.m. Regular Board Meeting

CALL TO ORDER

ROLL CALL

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

ABSENT: None

MINUTES

It was M/S Cooper/Given to approve the November 8, 2017, Board Meeting Minutes as submitted.

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby

NOES: None

ABSTAIN: None

ABSENT: None

It was M/S Given/Thomas to approve the November 29, 2017 Investment Committee Meeting Minutes as amended to reflect Trustee Block's questions regarding bitcoin.

AYES: Block, Cooper, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby

NOES: None

ABSTAIN: None

ABSENT: None

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Board regarding any agenda item when the Board considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this time on matters within the Board’s jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Board concerning a non-agenda item. Members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comments.

B. APPOINTMENT OF BOARD STANDING COMMITTEES (Action)

Appointment of Standing Committees and Standing Committee Chairs

Chair Gladstern recommended Standing Committee members and Chairs for 2018 as follows:

Investment Committee – composed of all twelve members of the Retirement Board
Roy Given, Chair

Finance and Risk Management Committee
Laurie Murphy, Chair
Steve Block
Roy Given
Sara Klein
Alan Piombo

Governance Committee
Chris Cooper, Chair
Maya Gladstern
Dorothy Jones
Steve Silberstein
Phillip Thomas

It was M/S Werby/Thomas to adopt the Chair’s appointment to Standing Committees for 2018.

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

Chair Gladstern announced ad hoc committees for 2018 as follows:

Ad Hoc One McInnis Committee
Chair Maya Gladstern
Roy Given
Alan Piombo

Ad Hoc Education Committee

Chair Steve Block
Maya Gladstern
Todd Werby

Ad Hoc Retirement Administrator Performance Evaluation Committee

Chair Maya Gladstern
Roy Given
Dorothy Jones

C. MATTERS OF GENERAL INTEREST

1. Experience Study Presentation (Action) – Cheiron, Graham Schmidt

Consider and take possible action to adopt recommendations in actuarial experience study

Mr. Wickman introduced Actuary Graham Schmidt of Cheiron to present the complete 2017 Actuarial Experience Study. Mr. Wickman noted that because the Board already adopted the actuary's recommendations for economic assumptions, the presentation by the actuary would focus on the demographic assumption changes. Mr. Schmidt stated for the most part demographic assumptions are based on recent experience. He presented data showing what the estimated impact of each proposed change in demographic assumptions would have been on contribution rates for the three major employers based on June 30, 2016 Valuation results. The impact on Normal Cost is calculated separately from the impact on the Unfunded Actuarial Liability, which is phased in over three years. The two are then combined for the total estimated impact on contribution rates for the first year and through the three-year phase-in.

Trustee Jones joined the meeting at 9:10 a.m.

Mr. Schmidt explained that for PEPRA members, employers and employees split the Normal Cost equally. For Classic (legacy) members the calculation is defined in the County Employee Retirement Law (CERL) and the results are very close but not an exact equal split of the Normal Cost. Mr. Wickman pointed out that the impact on contribution rates presented in the Experience Study does not factor in investment returns through June 30, 2017. Trustee Block asked if demographic assumptions, for merit pay for example, apply to all employers. In response, Mr. Schmidt explained demographic assumptions are different for Miscellaneous and Safety members and the same across employers, with one exception: sick leave conversions and annual leave cashouts that are pensionable and treated differently based on the employer. Mr. Wickman explained members can convert some of their sick leave to retirement service.

Mr. Schmidt stated proposed demographic assumptions are not far from expectations. There are some changes in mortality rates and impacts due to merit salary increases. Merit salary increases are changes in pay for steps and promotions that are not part of a negotiated base raise. Cheiron is recommending reducing the merit assumption at lower service points for Miscellaneous members and increasing it at mid-service points for both Miscellaneous and Safety. For the remaining demographic assumptions, the same approach is used to calculate how well assumptions fit with actual experience. If the result

is within a 90% confidence interval, then there may be no change to the assumption. The actuary prefers to maintain neutral to slightly conservative assumptions.

Mr. Schmidt discussed service retirement rates which vary by Miscellaneous or Safety members, age and years of service. Service groups for Miscellaneous and Safety members are: 1) members with 10-19 years of service; 2) members with 20-29 years of service, and 3) members with 30 or more years of service. Additionally, retirement data are analyzed separately for those Safety members with the 3% at age 50 versus 3% at age 55 benefit formula. The actuary is recommending increases in the aggregate assumed rate of retirement for Miscellaneous members with 20 to 29 years of service and Safety members with 20 to 29 years of service and 3% at age 50 or 3% at age 55 benefit formulas. For remaining subsets, aggregate retirement rates are reduced or remain the same.

Retirement rates for reciprocal members are calculated separately. No changes are recommended for termination rates for active members leaving employment for reasons other than retirement, death, or disability.

Mr. Schmidt explained that because the amount of disability experience for MCERA is still limited, Cheiron is recommending adopting new standard disability tables. For Miscellaneous members, the recommended table is the 2017 CalPERS Public Agency Miscellaneous Ordinary Disability rates, one for males and one for females. Disability rates for male Miscellaneous members were lower than expected in aggregate. There is not much impact on female Miscellaneous member disability rates. For Safety members, actual disability rates are lower than expected in aggregate and Cheiron recommends adopting, adjusted for MCERA experience, the 2017 CalPERS Public Agency Police Unisex Industrial and Ordinary Disability rates.

For mortality rates, MCERA adopted a new approach a few years ago that assumes mortality improves over time. Cheiron looks at standard mortality tables of CalPERS or the Society of Actuaries most closely matching the anticipated experience of MCERA. The actual MCERA experience is compared and the standard table is adjusted toward experience. Cheiron recommends adopting new CalPERS mortality tables as adjusted projected using Scale MP-2017 (mortality improvement table). Mr. Schmidt stated there will not be big changes in mortality rate assumptions this year and none of the proposed mortality changes have a significant impact on contribution rates. He noted mortality rates for healthy annuitant males are catching up with healthy annuitant females; therefore, Cheiron is recommending a slight reduction in male mortality rates. Nationwide, mortality improvement has slowed down in the past few years.

Mr. Schmidt stated no changes are proposed to the assumption for the Plan's administrative expenses.

Overall, there are no significant changes to the demographic assumptions, Mr. Schmidt said.

It was M/S Given/Cooper to adopt demographic assumptions recommended by the actuary in the Experience Study.

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

Mr. Wickman said the next step is the actuary will use the assumptions the Board adopted as a result of the Experience Study to conduct the June 30, 2017 Actuarial Valuation.

D. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

a. Administrator's Update

Mr. Wickman reported the goal had been to present the valuation report before the end of the calendar year. The actuary needed to finish the Experience Study first, so preliminary valuation results will be presented at the January 2018 Board meeting followed by the final valuation presentation at the February Board meeting.

Mr. Wickman and Chair Gladstern attended the SACRS business meeting as MCERA's delegates. The Administrator reported that the proposal for SACRS to sponsor legislation redefining *surviving spouse* passed by a vote of 13-5-2. The proposal for SACRS to sponsor legislation establishing a specific timeframe to apply for disability retirement failed by a vote of 19-1. Proposed amendments to SACRS Bylaws passed by a vote of 18-1-1.

Mr. Wickman has served on the CalAPRS Board of Directors for the last couple of years. He reported he was elected to another 2-year term that he anticipates will be his last term. This year he will continue as Chair of the Administrators Institute Committee, serve on the Operations Committee and coordinate the Communications Roundtable.

Mr. Wickman will give his annual update on MCERA at the MCARE luncheon in January.

b. Staffing update

The Accounting Unit Manager position is closed with the goal to conduct interviews by the end of year. There will be a second round of interviews for the Benefit Supervisor position.

c. Facility Use Report

There was no facility use during the period.

d. Future Meetings

2. Standing Committee Reports

a. Finance and Risk Management Committee

1. Administrative Budget Fiscal Year 2017/18 Quarterly Review

Consider and review budget for quarter ending September 30, 2017

Total administrative expenditures for the first quarter of the fiscal year were 15% of the budgeted amount. Mr. Wickman explained that vacancies have a big impact on the budget because salaries and benefits are 66% of total administrative budget. Overtime authorized to address service backlogs is expected to end in December. Disability-related services are already one-third of the budgeted amount. In response to Trustee Klein's inquiry, the Administrator explained that inter-fund charges are for Marin County services provided to MCERA such as network and phones, financial system (payroll) and human resources services.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Non-budgeted expenses include retiree payroll, investment manager fees, and professional services for the actuary and legal consultants. Cheiron services are for the actuarial valuation, GASB 67/68 Report, and the Experience Study. Some legal expenses for the Greene v. MCERA case will be reimbursed through MCERA's fiduciary liability insurance coverage. Trustee Silberstein indicated the wide range of investment fees could be looked at more carefully. Mr. Wickman said moving the Artisan portfolio to a separate account will lower fees. Chair Gladstern noted fees have come down over the last few years.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Educational and event-related expenses included a Callan investment course, the CII conference, the Administrators' Institute, and disability and benefit staff training.

b. Continuing Trustee Education Log

The trustee education log shows a summary of hours achieved for the quarter and for the two-year training period.

c. Other expenses per Checklist Guidelines

There was discussion on whether the Committee needed the level of detail provided for credit card charges and the Administrator indicated the newly appointed committee should make that determination. Staff will provide the Committee with credit card procedures.

- d. Variances in the MCERA administrative budget in excess of 10%

See discussion above.

- e. Vendor services provided to MCERA

Nothing to report.

- f. MCERA staffing status

See Administrator's Report above.

- g. Internal controls, compliance activities and capital calls

The capital call report shows capital calls and distributions for the private equity program and the transfer of the REIT portfolio from Vanguard to BlackRock.

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

Nothing to report.

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

Autodesk was expected to sign a new lease for the rear of the first floor of One McInnis. Responding to Trustee Werby's inquiry, the Administrator said the remaining 20,000 square feet is expected to be vacant at the end of January. The space is being actively marketed. Finding a single tenant for the entire 20,000 square feet may be a challenge. Woodmont is leading the leasing effort with the broker.

4. Information Technology Security Assessment Report

Ms. Hardesty introduced Risk Assessment Team members Syd Fowler, Lori Nann, and Cookie Shamrock. Ms. Hardesty presented the annual Information Technology Security Assessment Report as of June 30, 2017. The report evaluates compliance with the policies and procedures related to electronic data points for vendors and other MCERA business tools. There are no findings in the report. Watch items identify areas of potential risk and staff continues to expand information documented. Chair Gladstern inquired about the use of electronic signatures and compliance with Section 508, accessibility of records. The Committee also discussed whether historical payroll records will remain accessible as the County transitions to a new financial system.

3. Trustee Comments

- a. Educational Training: Reports by Trustees and Staff

Trustee Silberstein attended the Nossaman Fiduciaries' Forum where he learned a municipal pension fund held index funds in separately managed accounts in order to

vote proxies in accordance with Glass Lewis recommendations. Trustee Silberstein requested a discussion on the cost of moving all commingled accounts to separate accounts. He further requested consideration of whether corporations should distribute dividends or buy back shares with funds resulting from the Federal Tax Reform bill which proposes to reduce corporate taxes. The Administrator indicated this should be a discussion for the Investment Committee.

Trustee Jones attended the Nossaman Fiduciaries' Forum and the SACRS conference and recommended them to the trustees. Chair Gladstern reported at the SACRS conference during a trustee breakout session "How Do Investor Biases Affect the Market?" a very good speaker discussed how we develop biases and attitudes.

Mr. Wickman attended the SACRS conference and noted that two sessions were of particular value: how to work effectively with boards and a session on economic trade wars. The results of the RVK Annual SACRS Systems Report as of June 30, 2017 showed MCERA performed well in a strong equity market. Board Counsel Ashley Dunning's presentation on "How Protected Are Your Pension Benefits?" was a very enlightening session given our current environment, Mr. Wickman said.

Trustee Werby noted one message from the Trade Wars Panel session was the focus is more on intellectual property rather than manufacturing. Trustee Klein reported she is learning from attending SACRS and reading that we need to be focusing on future growth overseas.

b. Other Comments

Trustee Block reported that he met with Ashley Dunning and Yuliya Oryol of Nossaman about his questions on how MCERA engages contracts with its private equity managers. He believes that MCERA is ably represented by the attorneys and staff who negotiate terms in private equity agreements. He indicated it may be helpful for the Board to have additional information prior to considering new private equity commitments. Trustee Given observed that it is appropriate to take the time needed to make sure all Board members understand changes individual members would like to make. Trustee Silberstein said the points are well taken and encouraged educational presentations from staff and further discussions as trustees bring their experience and knowledge to the table.

Trustee Given expressed appreciation to the staff for the administration of MCERA. He said Mr. Wickman is one of the most experienced '37 Act administrators and encouraged his continued participation on the CalAPRS Board of Directors as time well spent.

E. NEW BUSINESS

1. Fiduciary Liability Insurance (Action)

Consider and take possible action on selection of fiduciary liability insurance provider

Mr. Wickman recommended that the Board renew the Hudson proposal for fiduciary liability insurance. The premium remained the same from the prior year. More favorable reimbursement rates were negotiated for attorney fees. He added the policy includes a base level of cyber insurance and MCERA already has additional cyber coverage in place.

It was M/S Block/Silberstein to select Hudson Insurance Company as the fiduciary liability insurance provider.

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

2. Future Meetings

Consider and discuss agenda items for future meetings

See discussions above.

F. OTHER INFORMATION

1. Training Calendar (Action)

It was M/S Thomas/Murphy to approve the Training Calendar as submitted.

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

2. Keeping in Touch

December Issue, Association of Retired Employees newsletter

G. CONSENT CALENDAR (Action)

It was M/S Given/Werby to approve the Consent Calendar as submitted.

Ms. Hardesty explained the circumstances leading to the return of contributions that exceeded 30 years to a reciprocal beneficiary. Mr. Wickman explained that for classic members contributions end after 30 years of service. PEPRAs members continue to pay contributions as long as they are members.

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

**CONSENT CALENDAR
MCERA BOARD MEETING, WEDNESDAY, December 13, 2017**

November 2017

RETURN OF CONTRIBUTIONS

| | | |
|---------------------|---|--------------|
| Marlene Say | Partial Refund of Contributions (30 years) | \$ 28,095.44 |
| Agnieszka Rosecrans | Refund of Contributions (termination) | \$ 9,360.62 |
| Amira Mostafa | Refund of Contributions (active death - Michael Ertz) | \$112,598.05 |

BUYBACKS

| | | |
|--------------------------|--|--------------|
| Lorraine Wilson | | \$ 14,184.45 |
| Steven Soldavini | | \$ 40,881.67 |
| Dorothy Chou Proudfoot | | \$ 1,303.39 |
| Sara T. Fusenig | | \$ 6,808.90 |
| Veronica Corella-Pearson | | \$ 15,518.97 |

NEW RETIREES

| | |
|-------------------|---|
| Michele Rodriguez | County of Marin - Community Development |
| Linda Alves | County of Marin - Community Development |
| Brenda Sorensen | County of Marin - Board of Supervisors |
| Lynette Larsen | City of San Rafael |
| Rachael Phillips | County of Marin - Fire |
| Kyle Hornstein | City of San Rafael |

DECEASED RETIREES

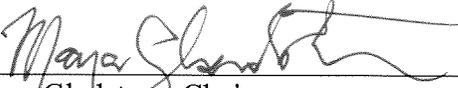
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|-------------------|--|
| Robert Van Etten | County of Marin - Beneficiary |
| Barbara Bailard | County of Marin - Board of Supervisors |
| William Johansen | County of Marin - Sheriff |
| Janet Wilkinson | County of Marin - Clerk |
| Mary Anne Meneely | County of Marin - Social Services |

CONFERENCES/SEMINARS

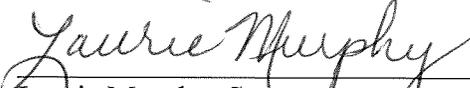
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|-----------------------------|---|
| SACRS Conference | Trustees Cooper, Gladstern, Jones, Klein and Werby Administrator Wickman |
| Nossaman Fiduciary Forum | Trustees Jones and Silberstein |

Mr. Wickman reported that Counsel Dunning represents other systems, including the Merced County Employees Retirement Association (Merced), that are parties in the Consolidated Case (Alameda, Contra Costa, Merced) which is similar to MCERA's Marin Association of Public Employees (MAPE) case. The case was heard recently in the Court of Appeals. The Administrator said Merced's presentation to the Court was thoughtful and well stated.

There being no further business, Chair Gladstern adjourned the meeting at 11:00 a.m.



Maya Gladstern, Chair



Laurie Murphy, Secretary