

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆JANUARY 18, 2017 AT 8:30 A.M.◆

CALL TO ORDER

Dan Gjerde, Board Chair, called the meeting to order at 8:30 a.m.

ROLL CALL AND PLEDGE OF ALLEGIANCE

Roll call was conducted with the following members present: Kathryn Cavness, John Sakowicz, Dan Gjerde, Ted Stephens, Tim Knudsen, Jerilyn Harris, Shari Schapmire, and Patrick Sullivan. Also present: James Wilbanks, Retirement Administrator, Jeff Berk, Legal Counsel, Stan Conwell, Financial Investment Officer, Greg DeForrest and Alina Vartanyan of Callan Associates, and Judy Zeller, Administrative Assistant. Absent: Craig Walker and Richard Shoemaker.

PUBLIC COMMENT: None

1) MINUTES OF THE BOARD MEETING HELD DECEMBER 14, 2016

Presenter/s: Chair Gjerde referenced the December 14, 2016 minutes which were approved by unanimous consent.

2) CONSENT AGENDA

- December 2016 Retirement Report

Presenter/s: Chair Gjerde referenced the consent agenda. Mr. Knudsen asked to include the beginning fiscal year total of active retired members and the total of deceased retired members in the monthly retirement report. The consent agenda was approved by unanimous consent.

3) DISCUSSION AND POSSIBLE ACTION REGARDING ANY CONSENT AGENDA ITEM NEEDING SEPARATE ACTION

None

Mr. Walker entered the meeting at 8:38 am.

4) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT REPORT

- Monthly Investment Report
- International Equity Education and Manager Structure, Callan Associates
- Investment Manager Status Update: Royce Total Return, Morgan Stanley, RS Investments, PIMCO

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Presenter/s: Greg DeForrest of Callan Associates began with the International Equity Manager Structure review and provided educational information to the board. He explained MCERA's current asset allocation, broad markets, reviewed cumulative performance of US and Non US markets, and discussed active and passive management.

Mr. DeForrest provided information regarding small cap international stocks stating that they outperform large cap, but with more volatility. He discussed emerging markets and stated that the current 14.3% allocation is currently underweight in emerging markets due to the termination of investment with Janus Overseas. MCERA's current international holdings and their structures were explained and four alternative structure options were provided for discussion on page 58 of the Callan report. Mr. DeForrest recommended the alternative 2 investment structure.

Board Action: Motion was made by Mr. Stephens to choose the alternative 2 investment structure, keeping 4 broad market managers, replacing small cap and new emerging market managers, and authorizing Callan to conduct the manager search. Mr. Walker seconded the motion and it was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Patrick Sullivan. Noes: 0. Abstain:0. Absent:0.

Mr. DeForrest referenced the monthly investment report for December stating that the market value of assets was estimated at \$448 million for the year end. This is a \$6 million dollar increase for the month. Stock markets were robust through the end of the year and performance was up 1.3% for the quarter. Bonds were down post-election. Performance will be reviewed in greater detail in the quarterly report which will be presented in February. He reminded all that the annual Callan National Conference will be held next week in San Francisco.

5) MONTHLY FINANCIAL REPORT

Presenter/s: Chair Gjerde referenced the monthly financial report.

6) DISCUSSION AND POSSIBLE ACTION REGARDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) 68 COSTS

Presenter/s: Chair Gjerde referenced a memo prepared by Mr. Berk regarding the GASB 68 cost. In this memo Mr. Berk explained that the GASB 68 report is prepared for the benefit of the employers. The government code indicates that MCERA should not be responsible for the report cost, although some of the retirement systems that use Segal Consulting for actuarial services are paying for the cost to prepare the GASB 68 report. Dr. Wilbanks added that our plan sponsors have been advised.

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Board Action: Motion was made by Ms. Harris to charge the cost of preparing the GASB 68 report to the plan sponsors going forward. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Patrick Sullivan. Noes: 0. Abstain:0. Absent:0.

7) DISCUSSION AND POSSIBLE ACTION REGARDING 2017 BOARD WORK PLAN

Presenter/s: Chair Gjerde referenced the work plan. Dr. Wilbanks explained the report and announced that board appointments will be made at the February 7th Board of Supervisors meeting. The appointed member's ability to vote was questioned. Mr. Berk explained that the issue had been reviewed and it was determined that appointees serve until replaced.

Ms. Harris asked about community outreach. Dr. Wilbanks replied that he was scheduled to present to the Ukiah Rotary on February 28th. Other groups will be scheduled soon.

Dr. Wilbanks continued his explanation of the work plan stating that new items such as the employee handbook and process review have been added. Ms. Cavness requested the development of a glossary of terms for MCERA reports and documents. Dr. Wilbanks announced that there will be a joint meeting in 2018 and he referenced the accomplishments over the last 5 quarters.

8) DISCUSSION AND POSSIBLE ACTION REGARDING DETERMINING THE APPROPRIATE REGION FOR COST OF LIVING ADJUSTMENTS (COLA) FOR MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Presenter/s: Chair Gjerde referenced a research report prepared by Dr. Wilbanks regarding the COLA. This report was requested by the board of retirement last year.

Mr. Knudsen requested discussion regarding housing not being included in the Consumer Price Index (CPI-U) following receipt of a letter from Norm Thurston. Dr. Wilbanks explained that housing is not included in the CPI-U, but shelter is an important component. Owner equivalent rent is part of the shelter component in the CPI-U. Rent and owner equivalent rent are closely correlated to housing values. This information was used as a proxy for the shelter component of the CPI.

Dr. Wilbanks presented his analysis and stated that the Western Region CPI-U is more closely correlated to Mendocino County and it appears to be a better fit for housing values in Mendocino County. Dr. Wilbanks made recommendation to adopt the Western Region CPI-U to calculate the annual cost of living adjustment for retirees for 2017 and subsequent years.

Public Comment: John Almida and Leif Farr addressed the board.

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Board Action: Motion was made by Mr. Knudsen to instruct the actuary to use the Bay Area CPI-U and to continue to use it in the future. Ms. Cavness seconded the motion failed by the following vote: Ayes: Kathryn Cavness, Tim Knudsen, and Patrick Sullivan. Noes: John Sakowicz, Dan Gjerde, Ted Stephens, Craig Walker, Jeri Harris, and Shari Schapmire. Abstain:0. Absent:0.

Board Action: Motion was made by Ms. Harris to adopt the Western Region CPI-U and review in 5 years. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: John Sakowicz, Dan Gjerde, Ted Stephens, Craig Walker, Jeri Harris, and Shari Schapmire. Noes: Kathryn Cavness, Tim Knudsen, and Patrick Sullivan. Abstain:0. Absent:0.

Because of much interest in this issue the board discussed how this decision would be communicated publicly. All agreed that information would be posted to the MCERA website and a press release would be issued. Dr. Wilbanks will do so and will communicate with the actuary. The April 1, 2017 COLA recommendation will be presented at the next board meeting.

Board Direction: Staff will issue a press release regarding the COLA decision.

9) GENERAL BOARD MEMBER DISCUSSION

Mr. Berk confirmed that board appointees will continue their duties until a successor is qualified pursuant to Government Code Section 1302.

Dr. Wilbanks announced that the upcoming State Association of County Retirement Systems (SACRS) in Napa this year. Please let Ms. Zeller know if you plan on attending. Also the California Association of Public Retirement Systems (CALAPRS) Advanced Course for Trustees will be held March 29-31, 2017 in Los Angeles.

ADJOURNMENT AND NOTICE OF NEXT BOARD OF RETIREMENT MEETING

- The next regularly scheduled Board of Retirement meeting will be held Wednesday February 15, 2017 at 8:30 a.m. in the Mendocino County Employees' Association Conference Room.