

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆SEPTEMBER 21, 2016 AT 8:30 A.M.◆

CALL TO ORDER

Randy Goodman, 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, Supervisor Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jerilyn Harris, Shari Schapmire, Randy Goodman and Richard Shoemaker. 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.

PUBLIC COMMENT: None

1) MINUTES OF THE BOARD MEETING HELD AUGUST 17, 2016

Presenter/s: Chair Goodman referenced the August 17, 2016 minutes which were approved by unanimous consent.

2) CONSENT AGENDA

- August 2016 Retirement Report

Presenter/s: Chair Goodman referenced the Consent Agenda which was approved by unanimous consent.

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

None

4) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT REPORT

- Real Estate Education and Manager Structure
- Monthly Investment Report
- Investment Manager Status Update: Royce Total Return, Morgan Stanley, RS Investments

Presenter/s: Greg DeForrest of Callan Associates presented the Monthly Investment Report and provided education regarding Real Estate, including explaining MCERA's current Real Estate portfolio and manager structure.

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Board discussion included Private Real Estate strategies, Public Real Estate investment (REITs), liquidity, 625 Kings Court, active management, and passive management.

Mr. DeForrest referenced page 37 of the MCERA Real Estate structure report and outlined the recommendation regarding the MCERA Real Estate portfolio. Two Real Estate structures were considered, the current structure and one alternative structure, Alternative A. Alternative A eliminates the REIT manager and redistributes the total real estate assets 50% to each of the private real estate managers. He explained the alternative structure, why it was being presented, and made recommendation to select the Alternative A structure.

There was nothing to report on the Investment Manager Status Update.

Board Action: Motion was made by Mr. Stephens to adopt the Alternative A Real Estate structure. Mr. Walker seconded the motion and it was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: 0. Abstain:0. Absent:0.

5) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT POLICY STATEMENT

Presenter/s: Dr. Wilbanks referenced the Investment Policy Statement and attached report which explained his comments and suggested changes to the redlined document. Mr. Stephens questioned wording on page 1 regarding minimizing contributions thereto. Dr. Wilbanks explained that this language was taken from the 37Act. Mr. Stephens motioned to change the language to minimizing "total" contributions thereto and to direct the Retirement Administrator to include language regarding members paying the actual accurate cost of benefits and minimizing total contributions to the plan. Supervisor Gjerde seconded the motion.

Ms. Harris was opposed to making any change to the policy language and requested assistance from legal counsel. Mr. Berk stated that he believed the language came from the 37 Act and that Proposition 162 has parallel language, but that he was not prepared to comment without an opportunity to review. Supervisor Gjerde suggested alternative language to insure that plan contributions accurately represent the cost of operating the plan.

Dr. Wilbanks explained again that this is current language which had been moved to a different page in the document, an investment document, and that any changes to the language may create conflict and put additional fiduciary duties upon the board.

Board Action: Motion was made by Mr. Stephens to change the language on page 1 of the Investment Policy Statement to minimizing "total" contributions thereto and to direct the Retirement Administrator to include language regarding members paying the actual accurate cost of benefits and minimizing total contributions to the plan. Mr. Gjerde seconded and the

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motion failed by the following vote: Ayes: Supervisor Dan Gjerde and Ted Stephens. Noes: Kathryn Cavness, John Sakowicz, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Abstain:0. Absent:0.

Ms. Schapmire questioned language at the bottom of page 11 regarding loss of key personnel or change in ownership. She proposed changing will to "may" in the second and third sentences of that paragraph.

Board Direction: Staff will amend the policy per to Ms. Schapmire's suggestion.

Board Action: Motion was made by Mr. Sakowicz to approve the Investment Policy Statement as amended. Ms. Harris seconded and the motion was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: Supervisor Dan Gjerde and Ted Stephens. Abstain:0. Absent:0.

6) DISCUSSION AND POSSIBLE ACTION REGARDING REVOCATION OF CASH MANAGEMENT AND REBALANCING POLICY

Presenter/s: Dr. Wilbanks referenced the current Cash Management and Rebalancing Policy stating that most of the language included in this policy has been moved to and is now included in the recently approved Investment Policy Statement; therefore recommendation was made to revoke the Cash Management and Rebalancing Policy.

Board Action: Motion was made by Ms. Harris to revoke the Cash Management and Rebalancing Policy. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: 0. Abstain:0. Absent:0.

7) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT CONSULTANT REQUEST FOR PROPOSAL

Presenter/s: Dr. Wilbanks requested board direction regarding the Investment Consultant Request for Proposal (RFP). He explained that the contract with our current consultant will expire at end of this year and he would like board direction to either issue a RFP or continue with Callan Associates for an additional year. Mr. Knudsen motioned to discuss a new 3 year contract with Callan. Ms. Harris seconded the motion.

Supervisor Gjerde suggested changing the motion to contract with Callan for 2 years and bring back to the board 6 months prior to that expiration for RFP. Mr. Knudsen and Ms. Harris withdrew their motions.

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Mr. Sakowicz made motion to extend the contract with Callan for 1 more year with an inflation allowance and bring a RFP back to the board for approval. Supervisor Gjerde seconded the motion. Mr. Shoemaker commented that we should give Callan respect for the service they have provided and requested a 2 year contract extension. Mr. Sakowicz and Supervisor Gjerde withdrew their motions.

Board Action: Motion was made by Mr. Sakowicz to contract with Callan for an additional 2 years with a 3% inflation allowance and directed staff to return to the board with a RFP for Investment Consultant 18 months from now. Supervisor Gjerde seconded and the motion was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: 0. Abstain:0. Absent:0.

8) MONTHLY FINANCIAL REPORT

Presenter/s: Mr. Goodman referenced the monthly financial report and asked Mr. Conwell to explain the negative cash. Ms. Schapmire added that the interest charged by the County Treasurer for the negative cash is very small. Discussion also included the statement of changes in net position and receiving the financial report earlier as a preliminary report.

9) DISCUSSION AND POSSIBLE ACTION REGARDING STRATEGIC PLAN AND MISSION STATEMENT

Presenter/s: Dr. Wilbanks referenced the Strategic Plan and Mission Statement which is due for review per the policy review calendar. He stated that an offsite meeting has not been planned and that we may wait until early spring to do so. There are no recommended changes to the Strategic Plan or Mission Statement at this time.

10) DISCUSSION REGARDING MARIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION COURT DECISION

Presenter/s: Dr. Wilbanks referenced a memo from himself and Jeff Berk regarding a Marin CERA court decision involving the interpretation and impact of the California Public Employees' Pension Reform Act of 2013 ("PEPRA") legislation. Mr. Berk explained that the plaintiffs in this case have until September 26, 2016 to ask the California Supreme Court to review the decision. He also explained that there is another similar court case pending involving Contra Costa, Alameda, and Merced. The board will be kept informed as to the status of those cases.

Board Direction: Staff will continue to monitor and will bring this item back to the board following court decision.

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Mr. Walker left the meeting at 11:00 am.

11) RETIREMENT ADMINISTRATOR REPORT

- Internal Revenue Service Determination Letter Request
- Report to the Board of Supervisors General Government Committee Regarding Review of County and Retirement Association Actions that Increased Retirement Plan Costs
- Retirement 101 Video Clips
- Pension Administration System Monthly Update
- 625 Kings Court Maintenance Update
- Administrative and Operations Update
- Legislative Update (AB1853 and AB2376)

Presenter/s: Dr. Wilbanks presented his administrative report which included a favorable determination letter from the IRS, the recent County Counsel presentation of a Survey of Past Actions regarding retirement benefits to the Board of Supervisors, an announcement that short video clips taken from the Retirement 101 Presentation are now posted to our website for client access, a pension system update, an announcement that notice regarding the availability of MemberDirect was released to retirees and employees recently, a Kings Court maintenance update, and an update regarding AB1853 and AB 2376. Dr. Wilbanks added that the upcoming Fall State Association of County Retirement Systems (SACRS) Conference will be held in November.

Mr. Stephens called for general board discussion prior to holding closed session.

13) GENERAL BOARD MEMBER DISCUSSION

Mr. Stephens stated that investment advisor modeling, like in today's presentation by Callan, needs more time to process. He asked for additional understanding from the board to allow for an answer if legitimate questions are asked. Mr. Goodman stated that we must consider the Brown Act.

Supervisor Gjerde stated that each year vacancies vary within the County which could result in a refund of retirement contributions to the County or cause additional retirement contributions to be owed by the County. He suggested contacting the Board of Supervisors regarding a potential policy for retirement contributions to be refunded to the County at year end and suggested that any contribution refunds should be deposited somewhere other than the general fund.

Dr. Wilbanks reported on the upcoming board of retirement elections. There are 2 general member candidates and an election will be held on October 17, 2016. There was only 1 safety member candidate, so no election is to be held for that seat.

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12) CLOSED SESSION

- John Almida Disability Application
- Possible Exposure To Litigation (1 case) pursuant to Government Code Section 54956.9(d)(2)
- Conference with Labor Negotiator Regarding Retirement Administrator – Pursuant to Government Code Section 54957.6

REPORT OUT OF CLOSED SESSION

Board Action: Motion was made by Mr. Knudsen to approve John Almida for a Service Connected Disability Retirement. Ms. Harris seconded and the motion was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: 0. Abstain: Kathryn Cavness. Absent: Craig Walker.

Board Direction: Direction was given to staff regarding possible exposure to litigation and direction was given to the labor negotiators.

ADJOURNMENT AND NOTICE OF NEXT BOARD OF RETIREMENT MEETING

- The next regularly scheduled Board of Retirement meeting will be held Wednesday October 19, 2016 at 8:30 a.m. in the Mendocino County Employees' Association Conference Room.