

James Wilbanks, Ph.D.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: September 21, 2016
To: Board of Retirement
From: James Wilbanks, Retirement Administrator
Subject: Cash Management and Rebalancing Policy

Attached you will find the current Cash Management and Rebalancing Policy for your consideration. The pertinent language from this policy has been included in the Investment Policy Statement for consideration at the Board meeting of September 21, 2016. With this change, the Cash Management and Rebalancing Policy is duplicative and offers the potential for policy conflict. The Investment Consultant participated in the review and update of the Investment Policy Statement and concurs that a separate Cash Management and Rebalancing Policy is unnecessary.

I recommend the Board revoke the Cash Management and Rebalancing Policy.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

CASH MANAGEMENT AND REBALANCING POLICY

I. PURPOSE

The Cash Management and Rebalancing Policy is intended to expand upon the Investment Policy Statement and provide staff with clear cash management and asset rebalancing guidance for the Mendocino County Employees' Retirement Association (MCERA). As fiduciaries, the Board desires to maintain sufficient cash to pay the administrative and investment expenses of MCERA while endeavouring to meet assumed investment returns by maintaining targeted asset diversification within the total portfolio.

II. OBJECTIVES

- A. Maintain sufficient cash to pay three months (one calendar quarter) of member benefits, administrative and investment expenses, as well as intermittent expenses, i.e., semi-annual transfers to the County's Debt Service Reserve collected through court payroll, fiscal year-end closing of the Retirement Budget Unit (1920), etc.
- B. Ensure a reasonable contingency of cash is maintained to address minor volatility in cash flows and to maintain a positive cash balance and positive quarterly interest apportionment from the County treasury.
- C. Notwithstanding OBJECTIVES A and B, maximize invested assets to provide the best opportunity to achieve investment returns from asset classes with a higher likelihood of appreciation in market value.
- D. Create a disciplined cycle of rebalancing assets classes to targets.

III. POLICY GUIDELINES

- A. Not later than the Board's May meeting, staff will prepare a draft cash management plan for the following fiscal year. The plan will include sufficient cash to pay three months of ongoing member benefits, administrative and investment expenses, as well as known intermittent expenses.
- B. The projected balance of cash at the end of any calendar quarter will not fall below \$1 million.
- C. Primary sources of cash will be employer and employee contributions, dividends paid from bond funds, and quarterly sales of investments consistent with these Policy

Guidelines. Primary uses of cash disbursements will be member benefit payments, refunds of contributions, administrative and investment expenses. As fiduciaries, the Board understands that quarterly sales of investments to maintain a sufficient cash balance will occur during downward and upward trends in the market value of assets being sold, but believes it is prudent to assume that over the long-term the trends will be neutral.

- D. The Board will adopt a final cash management plan for the following fiscal year not later than its June meeting.
- E. A cash flow report comparing estimated to actual cash flows, as well as beginning and ending balances, will be prepared for each monthly Board meeting.
- F. Not later than thirty (30) days after the end of a calendar quarter, staff will review the percentage of the total investment portfolio by asset class to the target range of each asset class as established in the Investment Policy Statement. Asset classes that fall outside the target range will be rebalanced.
- G. While staff should understand the potential for an accounting gain or loss resulting from rebalancing asset classes, the primary purpose for rebalancing is to align the asset allocation with the Investment Policy Statement to achieve the long-term investment return contained in the Investment Policy Statement.
- H. At the same time staff evaluates the need to rebalance asset classes to target ranges, they will evaluate the need to sell assets to establish the cash balance in the cash management plan.

V. POLICY REVIEW

The Board shall review the Cash Management and Rebalancing Policy at least every three (3) years to ensure that it remains relevant and appropriate.

VI. POLICY HISTORY

The Board adopted this policy on 02/15/2012.