

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆
BOARD OF RETIREMENT MEETING MINUTES
◆ MARCH 15, 2017 AT 8:30 A.M. ◆

CALL TO ORDER

Dan Gjerde, Board Chair, called the meeting to order at 8:34 a.m.

ROLL CALL AND PLEDGE OF ALLEGIANCE

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

PUBLIC COMMENT: J. Ben Vernazza addressed the board.

Ted Stephens entered the meeting at 8:41 am.

1) PROCLAMATION HONORING JOHN SAKOWICZ FOR HIS SERVICE TO THE RETIREMENT ASSOCIATION AND THE BOARD OF RETIREMENT

Presenter/s: Dr. Wilbanks presented a proclamation to Mr. Sakowicz honoring him for his service to the Board of Retirement and the Retirement Association.

2) MINUTES OF THE BOARD MEETING HELD FEBRUARY 15, 2017

Presenter/s: Chair Gjerde referenced the February 15, 2017 minutes which were approved by unanimous consent.

3) CONSENT AGENDA

- February 2017 Retirement Report

Presenter/s: Chair Gjerde referenced the consent agenda which was approved by unanimous consent.

4) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT REPORT

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

Public Comment: John Sakowicz addressed Callan Associates and the board.

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Presenter/s: Greg DeForrest of Callan Associates began with education regarding U.S. Domestic Equity and manager structure. He referenced a report prepared by Callan stating that 38% of MCERA's target asset allocation is US Domestic Equity and the Russell 3000 index is MCERA's benchmark. Discussion included terminology and manager styles, volatility and default risk, and the longstanding Small Cap tilt in the portfolio. Mr. DeForrest reviewed the performance of Large, Mid, and Small Cap, growth vs value, and Large Cap, Mid Cap, SMID Cap, and Small Cap Broad Equity Styles vs the Russell 2000 Index. MCERA's current US Equity manager structure and performance was also reviewed. The benefit to reducing managers, simplifying structure, current manager styles, and tracking error were discussed.

Mr. DeForrest referenced the general guiding principles of investment structure and reviewed alternative structures prepared by Callan. Discussion included staff and trustee structure preferences, the current number of managers, and the need for simplicity. Dr. Wilbanks explained MCERA's year long process of establishing the target asset allocation and that this is the fourth asset category to review. The allocation to Real Estate did change a few months ago and Callan is currently working on manager searches in International Emerging Markets Equity and in International Small Cap Equity.

The board discussed preferences for different alternative investment structures and Mr. DeForrest agreed that additional alternatives could be prepared and reviewed at next month's board meeting. Dr. Wilbanks confirmed that the alternative structures would be weighted 70% Large Cap and 30% in Mid Cap and Small Cap, would include between 50% to 100% passive in Large Cap, would consider different mixes of managers and combinations of indexes.

Board Direction: Callan will prepare and present additional alternative manager structures at the next board meeting.

Dr. Wilbanks referenced the monthly investment report for February 2017. The market value of investments was up to \$462 million. There was nothing to report on the investment manager status update.

5) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT POLICY STATEMENT

Presenter/s: Chair Gjerde referenced the Investment Policy Statement. Dr. Wilbanks explained that Callan has reviewed the Investment Policy Statement and has recommend approval.

Board Action: Motion was made by Ms. Cavness to approve the Investment Policy Statement. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Lee Parker, Ted Stephens, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: 0. Abstain: 0. Absent: 0.

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6) MONTHLY FINANCIAL REPORT

Presenter/s: Chair Gjerde referenced the monthly financial report. Mr. Stephens inquired about custodial banking fees and whether there have been any fee savings since the beginning of the custodial agreement. Dr. Wilbanks explained that there were issues with receiving invoices from the custodian and several were received and processed all at once. There has been savings with Janus Research and the Janus Enterprise Fund. Staff will provide a report next month.

Board Direction: Staff will provide a report regarding any savings in investment manager fees since beginning the use of a custodial bank at next month's board meeting.

7) DISCUSSION AND POSSIBLE ACTION REGARDING ACTUARIAL FEE PROPOSAL FOR 3 YEAR CONTRACT RENEWAL

Presenter/s: Chair Gjerde referenced the actuarial fee proposal. Dr. Wilbanks explained the letter from Segal Consulting regarding fee proposals for a 3 year contract renewal. Given the reasonable fee increases included in the proposal he recommended board approval of this contract renewal.

Dr. Wilbanks referenced the board's decision in December to begin the next triennial experience study in the spring of 2017 which is currently underway. He stated that an actuarial audit has been recommended and has been included in the board work plan. Discussion included the best timing for Request for Proposal (RFP) and if we need to seek a new actuary following the actuarial audit. Dr. Wilbanks recommended a spring of 2018 schedule. He added that a policy is currently being drafted regarding actuarial practices and an actuarial audit search will begin immediately following the valuation.

Public Comment: Stan Anderson addressed the board.

Board Action: Motion was made by Mr. Knudsen to approve the actuarial fee proposal for a 3 year contract renewal. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Lee Parker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: Ted Stephens and Craig Walker. Abstain: 0. Absent: 0.

8) DISCUSSION AND POSSIBLE ACTION REGARDING THE STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) NOMINATION COMMITTEE RECOMMENDED BALLOT FOR THE MAY 19, 2017 BOARD OF DIRECTORS ELECTIONS

- Nomination Committee Notice of Withdrawal of Treasurer Candidate for SACRS Board

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Presenter/s: Chair Gjerde referenced information regarding the May 19, 2017 SACRS Board of Directors Elections. Dr. Wilbanks explained that this board has the ability to nominate an alternate ballot to the SACRS Nomination Committee. One complication is the withdrawal of the nominee for the treasurer position. Ms. Cavness has been nominated as secretary by the committee and she explained the reasons why she submitted her application to SACRS. Discussion followed regarding whether an alternate slate would be proposed by another county. Dr. Wilbanks explained that if this board does not take action to propose an alternate slate the process will continue. It is most likely that there will be another recommended slate.

Board Direction: No alternate slate will be proposed.

9) RETIREMENT ADMINISTRATOR REPORT

- Form 700 Filing
- Disability Retirement Application Handbook
- Financial Statement Audit Services Request for Proposal (RFP)
- 625 Kings Court Maintenance Update
- Strategic Planning Off-Site Meeting
- Staff Work Plan
- Administrative and Operations Update
- SACRS Spring Conference
- New Employee Orientation Video

Presenter/s: Chair Gjerde referenced the retirement administrator report. Dr. Wilbanks provided his report to the board and reminded trustees to submit their Form 700 before the deadline of April 3rd. He presented a retirement benefit video which is currently being shown during the County's new employee orientation to explain retirement benefits to newly hired employees.

Mr. Knudsen asked to discuss the disability handbook page. Mr. Berk explained edits to the page, the process of approval and denial of applications, appeals, and granting benefits. After discussion, staff will make additional edits to the disability application materials.

10) APPOINTMENT TO THE AUDIT AND BUDGET COMMITTEE

Presenter/s: Chair Gjerde appointed Mr. Sullivan to the Audit and Budget Committee. Mr. Stephens asked Mr. Parker if he would like to take his place on the committee and Mr. Parker accepted. Chair Gjerde appointed Mr. Parker to the committee. Committee members are as follows: Tim Knudsen, Chair, Kathryn Cavness, Patrick Sullivan and Lee Parker.

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11) GENERAL BOARD MEMBER DISCUSSION

Mr. Walker recommended the latest issue of the Public Retirement Journal and found the information regarding CalPERS very interesting.

ADJOURNMENT AND NOTICE OF NEXT BOARD OF RETIREMENT MEETING

- The next regularly scheduled Board of Retirement meeting will be held Wednesday April 19, 2017 at 8:30 a.m. in the Mendocino County Employees' Association Conference Room.