

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆NOVEMBER 2, 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, Tim Knudsen, Jerilyn Harris, Shari Schapmire, and Randy Goodman. Also present: James Wilbanks, Retirement Administrator, Jeff Berk, Legal Counsel, Stan Conwell, Financial Investment Officer, Greg DeForrest, Greg Ungerman and Alina Vartanyan of Callan Associates, Andy Yeung and Dirk Adamsen of Segal Consulting and Judy Zeller, Administrative Assistant. Absent: Craig Walker and Richard Shoemaker.

PUBLIC COMMENT: None

1) PROCLAMATION HONORING RANDY GOODMAN FOR HIS SERVICE TO THE ASSOCIATION AND THE BOARD OF RETIREMENT

Presenter/s: Dr. Wilbanks presented Randy Goodman with a Proclamation and the board thanked him for his service.

2) MINUTES OF THE BOARD MEETING HELD OCTOBER 19, 2016

Presenter/s: Chair Goodman referenced the October 19, 2016 minutes which were approved by unanimous consent.

3) CONSENT AGENDA

- October 2016 Retirement Report

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

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

None

5) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT REPORT

- Quarterly Investment Performance Report, Callan Associates
- Fixed Income Portfolio Review
- Investment Manager Status Update: Royce Total Return, Morgan Stanley, RS Investments

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Presenter/s: Greg DeForrest and Greg Ungerman of Callan Associates presented the Quarterly Investment Report and reported favorable returns across the board for MCERA investments resulting in a positive quarter. The recently adopted asset allocation became effective October 1, 2016 and will be reflected in the next quarterly review.

Discussion included updates on Harbor Capital, Prudential, Janus, Morgan Stanley, RS Investments, Oakmark and Mondrian. Domestic fixed income was up and Real Estate was down for the quarter. The Real Estate reallocation should occur in December 2016 and the total fund's portfolio posted a 4.80% return for the quarter placing it in the 2nd percentile relative to peers.

Mr. Walker entered the meeting at 9:43 a.m.

Mr. DeForrest presented a review of MCERA's fixed income portfolio which included a recap of the current asset allocation. This review also included education regarding the role of fixed income, historic background, value over time relative to peers, and discussion on interest rates. Allocations to Dodge and Cox and PIMCO have been reduced and Callan did not recommend any change to the MCERA portfolio at this time. Information regarding an alternative allocation to passive management was also provided.

Board Action: Motion was made by Mr. Stephens to keep MCERA's current fixed income portfolio. Mr. Sakowicz 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.

6) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2016 ACTUARIAL VALUATION STUDY (SEGAL CONSULTING)

Presenter/s: Andy Yeung and Dirk Adamsen presented the June 30, 2016 valuation report. If adopted, the recommended contribution rates would be implemented beginning fiscal year 17/18.

Mr. Yeung began with an explanation of the plan sponsor and membership data. The financial data includes the total fund value as of June 30, 2016 and current gains are not included in this report. A 7.25% assumed rate of return was used for this valuation and the next triennial experience study will be done in 2017. The amortization schedule and payment plan were also reviewed and Segal Consulting did not recommend any changes in amortization. The funded status of the plan was 70.7% and the UAAL amount increased by \$3 million dollars.

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Mr. Yeung explained the employer and employee contribution rate changes, investment gains and losses, and asset smoothing. Contribution rates are calculated by the use of assumptions that are recommended based on the triennial experience studies and adopted by the Board of Retirement. If experience deviates from the expectation, it becomes the responsibility of the employer. The biggest actuarial issue over the last five years has been less than expected salary increases, resulting in incorrect salary assumptions. Discussion included the effect on contribution rates if the assumed rate of return was 6.25%. Mr. Yeung estimated the impact as significant and stated that an estimate of the effect could be prepared.

Dr. Wilbanks commented on the matter of the assumed rate, stating that board policy is to review plan experience every three years. As a policy focused board this board needs to continue to focus on the long term. Mr. Knudsen made motion to adopt the valuation report and the recommended contribution rates. Ms. Cavness seconded the motion. Supervisor Gjerde moved to amend the motion to direct Segal Consulting to bring the estimated effect of the 6.25% rate to the next board meeting. Ms. Harris seconded the motion to amend.

Dr. Wilbanks cautioned the board about this amendment conflicting with the Board strategy of functioning as a policy-focused governance Board. Mr. Yeung confirmed that this would be an informational item only based on Board policy and that next year, as part of the experience study, a review of the assumed investment rate of return will be made. All agreed that the item would be informational only and Supervisor Gjerde withdrew his motion to amend Mr. Knudsen's motion. Ms. Harris concurred in withdrawing the motion.

Board Direction: Staff will work with Segal Consulting on preparing an informational only item for the board which will look at the effect of different rates of return on employee and employer contribution rates.

Discussion continued regarding whether to adopt the June 30, 2016 valuation or to postpone to next meeting. Mr. Yeung again stated that no recommendation regarding the assumed rate of return will be made until the 2017 experience study and that Segal Consulting does not know what that recommendation will be.

Public comment: Stan Andersen and John Dickerson addressed the board.

Board Action: Motion was made by Mr. Knudsen to adopt the June 30, 2016 Actuarial Valuation report and the recommended contribution rates. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: Ted Stephens. Abstain:0. Absent:0.

7) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2016 GOVERNMENTAL ACCOUNTING STANDARDS (GAS) 67 ACTUARIAL VALUATION (SEGAL CONSULTING)

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Presenter/s: Andy Yeung and Dirk Adamsen referenced the June 30, 2016 GAS 67 report. Mr. Yeung began with the total pension liability and the plan net position. Discussion included smoothing of assets, funding, and the impact of liability.

Board Action: Motion was made by Mr. Sakowicz to adopt the GAS 67 Actuarial Valuation report. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Craig Walker, Tim Knudsen, Jeri Harris, Shari Schapmire, and Randy Goodman. Noes: Ted Stephens. Abstain:0. Absent:0.

8) DISCUSSION REGARDING MEMBER CONTRIBUTION RATE METHODOLOGY (SEGAL CONSULTING)

Presenter/s: Dr. Wilbanks referenced a letter from Segal Consulting regarding contribution rate methodology stating that he had requested this information from Segal Consulting based on prior board discussions.

Mr. Yeung and Mr. Adamsen explained the assumptions used to calculate the employer and employee contribution rates and their effect. Dr. Wilbanks commented that contribution rates are set per the 1937 Act and that the board does not have authority to change the member contribution rates.

9) MONTHLY FINANCIAL REPORT

Presenter/s: Dr. Wilbanks referenced the monthly financial report prepared by Mr. Conwell.

Board Direction: Staff will review the cost for preparing the GAS 68 report and responsibility for payment of those costs and report back to the board next month.

10) QUARTERLY BUDGET UPDATE

Presenter/s: Dr. Wilbanks referenced the quarterly budget update prepared by Mr. Conwell.

Board Direction: Staff will review the Segal Consulting line item to determine the various projects and associated costs included in the expenses. Additionally, staff will follow up with the custodial bank regarding their billing and will report back to the board next meeting.

11) DISCUSSION AND POSSIBLE ACTION REGARDING SERVICE LEVEL AGREEMENT BETWEEN THE MENDOCINO COUNTY CHIEF EXECUTIVE OFFICE AND THE MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Presenter/s: Dr. Wilbanks referenced a service level agreement with the County Executive Office which defines the level of service to be provided by the CEO Information Services and

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Facilities and Fleet Divisions. Dr. Wilbanks made recommendation to approve this agreement and asked for board direction regarding the ability of the Retirement Administrator to approve contracts. A draft policy could be prepared and brought to the board for approval.

Board Direction: Staff will prepare a policy regarding the Retirement Administrator's ability to approve contracts and services for board review at an upcoming Board meeting.

Board Action: Motion was made by Mr. Stephens to approve the service level agreement with the County Executive Office. 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.

12) DISCUSSION AND POSSIBLE ACTION REGARDING RENEWAL OF FIDUCIARY LIABILITY INSURANCE COVERAGE

Presenter/s: Dr. Wilbanks referenced a fiduciary liability insurance policy renewal proposal from Alliant Insurance Services, Inc. which included three different levels of aggregate limit of liability.

Board Action: Motion was made by Mr. Walker to approve the fiduciary liability insurance policy with a \$5 million dollar limit of liability. Mr. Knudsen 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.

13) DISCUSSION AND POSSIBLE ACTION REGARDING EMPLOYMENT AGREEMENT WITH JAMES WILBANKS FOR THE POSITION OF RETIREMENT ADMINISTRATOR

Presenter/s: Dr. Wilbanks referenced his employment agreement. If approved, this agreement will be presented to the Board of Supervisors in December.

Board Action: Motion was made by Mr. Sakowicz to approve the employment agreement with Dr. Wilbanks. 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.

14) DISCUSSION AND POSSIBLE ACTION REGARDING FISCAL YEAR 2016/2017 BUDGET AMENDMENT

Presenter/s: Dr. Wilbanks referenced the adopted Fiscal Year (FY) 2017 Budget and a proposed revised FY 2017 Budget. The budget revision includes an increase in personnel

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expense to allow for the new Retirement Administrator contract and changes in the building maintenance plan which would move \$20,000 from building expense to office expense for the purchase of new modular workspaces.

Board Action: Motion was made by Mr. Sakowicz to approve the FY 2017 Budget amendment as proposed. Ms. Harris 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.

15) DISCUSSION AND POSSIBLE ACTION REGARDING RESOLUTION 2016-03 ADOPTING A CONFLICT OF INTEREST CODE

Presenter/s: Dr. Wilbanks referenced Resolution 2016-03 and explained that MCERA is required to adopt such a code as outlined in the resolution.

Board Action: Motion was made by Mr. Knudsen to adopt Resolution 2016-03. Supervisor Gjerde 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.

16) DISCUSSION AND POSSIBLE ACTION REGARDING ADOPTING A CONFLICT OF INTEREST POLICY

Presenter/s: Dr. Wilbanks referenced a proposed Conflict of Interest Policy for use in conjunction with the Conflict of Interest Code and recommended adoption.

Board Action: Motion was made by Ms. Schapmire to approve the 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.

17) DISCUSSION AND POSSIBLE ACTION REGARDING DIRECTION TO MCERA STATE OF COUNTY RETIREMENT SYSTEMS (SACRS) BUSINESS MEETING DELEGATES

- Voting Rights of Alternate Retirement Member, Merced County Employees Retirement Association
- Transfer of Accrued Leave Balances, Ventura County Employees Retirement Association

Presenter/s: Dr. Wilbanks referenced information regarding two legislative items which may be discussed during the November 11, 2016 SACRS business meeting and asked for board direction to the MCERA voting delegate regarding the Merced and Ventura items.

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Board Action: Motion was made by Mr. Stephens to direct the delegate to vote against the Merced CERA item. Mr. Knudsen seconded the motion. Craig Walker moved to amend the motion and direct the delegate to vote in favor of the Ventura item. Ms. Harris seconded the motion to amend. The amended 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.

18) RETIREMENT ADMINISTRATOR REPORT

- MCERA Holiday Hours
- Fiduciary Insurance Renewal, Waiver of Recourse Payments Due in December

Presenter/s: Dr. Wilbanks presented his administrative report and added that he had been approached regarding scheduling a joint board meeting. He suggested doing so following the next experience study and asked for board direction.

Board Direction: Dr. Wilbanks will meet with the County Executive Officer to obtain more information regarding the scheduling of a joint meeting.

19) GENERAL BOARD MEMBER DISCUSSION

Dr. Wilbanks stated that the Annual Callan Conference is scheduled in January of 2017 and the next Audit and Budget Committee meeting will be held December 6, 2016 at 9:00 a.m.

ADJOURNMENT AND NOTICE OF NEXT BOARD OF RETIREMENT MEETING

- The next regularly scheduled Board of Retirement meeting will be held Wednesday December 14, 2016 at 8:30 a.m. in the Mendocino County Employees' Association Conference Room.