

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆MAY 10, 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: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, 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, Greg DeForrest and Alina Vartanyan of Callan Associates, and Judy Zeller, Administrative Assistant. Absent: Lee Parker and Craig Walker.

Public Comment: Stan Anderson addressed the board.

Board Action: Mr. Stephens moved to conduct general board member discussion at the start of the meeting. Mr. Knudsen seconded and the motion was approved by unanimous consent.

12) GENERAL BOARD MEMBER DISCUSSION

Mr. Stephens addressed the board regarding his six years spent as a trustee. He asked the board to reconsider its decision to accept and adopt all assumptions in the Actuarial Triennial Experience Study at the April board meeting. He stated his intent to resign from the board unless this experience study is brought back for review before the full board and placed on the June meeting agenda.

Mr. Knudsen stated that he had no interest in changing his vote to approve and adopt the experience study. Mr. Berk advised the board regarding Robert's Rules and Brown Act requirements for reconsideration of a prior motion.

Mr. Walker arrived at 8:47 a.m. and Chair Gjerde explained the current discussion to Mr. Walker. There was no motion made to reconsider the April board action regarding the Triennial Experience Study. Mr. Stephens then announced his resignation from the Board of Retirement and immediately left the meeting.

Public Comment: Ken Fowler, Tom Monpere, and Richard Respini addressed the board.

Mr. Knudsen, Ms. Harris and Ms. Schapmire commented on the prior board discussion regarding the Actuarial Triennial Experience Study during the April meeting.

1) MINUTES OF THE BOARD MEETING HELD APRIL 19, 2017

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Presenter/s: Chair Gjerde referenced the April 19, 2017 minutes which were approved by unanimous consent.

2) CONSENT AGENDA

- April 2017 Retirement Report

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

3) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT MATTERS

- Quarterly Investment Report
- International Equity Emerging Markets Manager Interviews and Possible Selection
 - Dimensional Fund Advisors
 - Investec Asset Management
 - Westwood Global Investments
- Domestic Equity Transition Plan
- Investment Manager Terminations: Dodge & Cox Stock, Janus Research Fund, Royce Total Return, Morgan Stanley, RS Investments, AMG Managers Emerging Opportunity Fund
- Investment Manager Status Update: PIMCO

Presenter/s: Greg DeForrest of Callan Associates explained the Emerging Market manager search and how interviews would be conducted. Three managers will be presenting and all differ by the amount of active risk, fees corresponding to the level of active risk, and performance. Manager selection will primarily be based on how much active risk the board is willing to take. This investment will equal about \$13 million of the total portfolio. Dr. Wilbanks referenced the Callan Domestic Equity Transition Plan placed on the agenda following the manager selection and explained that the document is Callan's overview and report on the three managers.

Interviews were conducted with Ted Simpson and Mitchell Firestein of Dimensional Financial Advisors, Jack Coan and Archie Hart of Investec Asset Management, and Celeste Tambaro and Meg Reynolds of Westwood Global Investments.

Mr. De Forrest provided a brief recap of each manager's investment style. Discussion included risk and fees relative to performance. Dr. Wilbanks offered his opinion regarding investing and the board reviewed the Callan Domestic Equity Transition Plan comparisons.

Board Action: Motion was made by Mr. Walker to select Westwood Global Investments. Mr. Knudsen seconded and the motion failed by the following vote: Ayes: Craig Walker and Dan Gjerde. Noes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Tim Knudsen, and Jeri Harris. Abstain: 0. Absent: Lee Parker.

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Board Action: Motion was made by Mr. Knudsen to select Investec Asset Management. Mr. Sullivan seconded and the motion was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Tim Knudsen, Jeri Harris. and Dan Gjerde. Noes: Craig Walker. Abstain: 0. Absent: Lee Parker.

Mr. De Forrest discussed rebalancing investments to the target asset allocation and to allow for investment management changes. Recommendation was made to terminate MCERA investments with Dodge & Cox Stock, Janus Research Fund, Royce Total Return, Morgan Stanley, RS Investments, and AMG Managers Emerging Opportunity Fund.

Board Action: Motion was made by Ms. Harris to terminate MCERA investments with Dodge & Cox Stock, Janus Research Fund, Royce Total Return, Morgan Stanley, RS Investments, and the AMG Managers Emerging Opportunity Fund. Ms. Schapmire seconded the motion and it was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: 0. Abstain: 0. Absent: Lee Parker.

Mr. De Forrest referenced the Quarterly Performance Report for MCERA. The current asset allocation must be rebalanced to target per board policy. The market value of investments was \$468 million. This is an increase of \$30 million for the quarter, or 5.4% net of fees, and up 12.5% for the year. The 3 year average is still low, but the 5-7 year average is at an 8% return. Mr. De Forrest provided investment manager updates on Alliance Bernstein and Morgan Stanley. Dr. Wilbanks asked if PIMCO could be removed from the status update list and Mr. De Forrest agreed.

Board Direction: Staff will work with Callan Associates to rebalance investments to the target asset allocation.

Dr. Wilbanks announced that International Emerging Markets Small Cap manager selections will be brought to the board next month.

4) MONTHLY FINANCIAL REPORT

Presenter/s: Chair Gjerde referenced the monthly financial report. Monthly negative cash was discussed.

5) QUARTERLY BUDGET UPDATE

Presenter/s: Chair Gjerde referenced the quarterly budget update. Dr. Wilbanks provided a brief overview of the quarterly budget and the four schedules included within. Year to date total admin expense is slightly below the prior year and significantly below the budgeted

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amount. The building maintenance plan did spend a lot and most of the expense has been captured in the third quarter. The office cubicles were a result of a budget amendment in February. Discussion included a recap of projects completed during past year and some discussion regarding the next fiscal year projects.

6) AUDIT AND BUDGET COMMITTEE REPORT

- Fiscal Year 2017/2018 Proposed Budget Recommendation
- Financial Statement Audit Services Request for Proposals (RFP)

Presenter/s: Chair Gjerde referenced the Audit and Budget Committee recommendations and Dr. Wilbanks provided a brief report. Items discussed were potential changes in personnel expense, approval of board room furnishings, computer expense, increase in legal expense, an offsite meeting, increase in technology expense, separate managed accounts in investments, and the building improvement plan projects which all total \$47,000. The Committee met on April 27, 2017 and has approved the budget proposal.

Board Action: Motion was made by the Audit and Budget Committee to approve the Fiscal Year 2017/2018 Proposed Budget as presented which was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: 0. Abstain: 0. Absent: Lee Parker.

Dr. Wilbanks referenced the Financial Statement Audit Services RFP. Brown Armstrong, CPAs, was the only firm to submit a proposal and staff had a good conference call with them. The committee made a recommendation to contract with Brown Armstrong, CPAs for financial statement audit services.

Board Action: Motion was made by the Audit and Budget Committee to contract with Brown Armstrong, CPAs, for audit of MCERA's financial statements which was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: 0. Abstain: 0. Absent: Lee Parker.

7) DISCUSSION AND POSSIBLE ACTION REGARDING BUDGET AUTHORITY REQUEST

Presenter/s: Chair Gjerde referenced the budget authority request. Dr. Wilbanks explained that Mr. Conwell is working on a very important certification as a Chartered Alternative Investment Analyst. Mr. Conwell has passed the level I exam and is preparing for level II. Recommendation was made to approve the budget authority request for payment of the fees for the level II exam. This item was brought before the board for action as there is no clear authority whether this can be done.

Board Action: Motion was made by Ms. Harris to approve the budget authority request. Mr. Walker seconded motion and it was approved by the following vote: Ayes: Shari Schapmire,

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Patrick Sullivan, Kathryn Cavness, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde.
Noes: 0. Abstain: 0. Absent: Lee Parker.

8) DISCUSSION AND POSSIBLE ACTION REGARDING THE TRUSTEE EDUCATION AND TRAVEL POLICY

Presenter/s: Chair Gjerde referenced the Trustee Education and Travel Policy. Dr. Wilbanks explained the policy changes and recommended approval. Mr. Shoemaker noted the need for some additional capitalizations.

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

9) DISCUSSION AND POSSIBLE ACTION REGARDING 2017 BOARD WORK PLAN

Presenter/s: Chair Gjerde referenced the 2017 Board Work Plan. Dr. Wilbanks provided an overview of the work plan and explained that a staff work plan is being prepared. This will look similar to the board work plan and will be included in discussions regarding projects in the offsite meeting.

10) DISCUSSION AND POSSIBLE ACTION REGARDING DIRECTION TO MCERA VOTING DELEGATE REGARDING THE STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) MAY 19, 2017 BUSINESS MEETING

- Amendments to SACRS Bylaws
- SACRS 2017-2018 Board of Director's Elections

Presenter/s: Chair Gjerde referenced information regarding the May 19, 2017 SACRS Business Meeting. Dr. Wilbanks explained that per the SACRS Voting Authority Policy, Vice Chair Cavness will be designated as MCERA's voting delegate and Ms. Harris will be the alternate delegate, as they are both attending the SACRS Conference. The two main items of business requiring board attention are amendments to the SACRS Bylaws and the Board of Director's Elections.

The SACRS Bylaw changes include adding a Code of Conduct and changes to the Program Committee Charter. Approval was recommended.

Board Action: Motion was made by Ms. Schapmire to direct the voting delegate to vote in favor of the amendments to the SACRS Bylaws. Mr. Sullivan seconded the motion and it was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: 0. Abstain: 0. Absent: Lee Parker.

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Dr. Wilbanks referenced the SACRS Board of Director's elections. Ms. Schapmire supported the recommended slate or any other slate where Ms. Cavness was named candidate for secretary. Discussion included alternate slates and concern over write in candidates.

Board Action: Motion was made by Ms. Schapmire to direct the voting delegate to vote in favor of the SACRS Nominating Committee's recommended 2017-2018 slate of officers, or an alternate slate where Ms. Cavness is named as candidate for secretary. Mr. Sullivan seconded the motion and it was approved by the following vote: Ayes: Shari Schapmire, Patrick Sullivan, Kathryn Cavness, Craig Walker, Tim Knudsen, Jeri Harris, and Dan Gjerde. Noes: 0. Abstain: 0. Absent: Lee Parker.

11) RETIREMENT ADMINISTRATOR REPORT

- **GFOA Certificate of Achievement**
- **Strategic Planning Off-Site Meeting**
- **Retirement Administrator Evaluation**
- **625 Kings Court Maintenance Update**
- **Community Presentations**
- **Administrative and Operations Update**

Presenter/s: Chair Gjerde referenced the retirement administrator report. Dr. Wilbanks provided a brief report and asked for recommendations regarding community presentations.

ADJOURNMENT AND NOTICE OF NEXT BOARD OF RETIREMENT MEETING

- Meeting adjourned at 12:52 p.m.
- The next regularly scheduled Board of Retirement meeting will be held Wednesday June 21, 2017 at 8:30 a.m. in the Mendocino County Employees' Association Conference Room.