

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆MAY 6, 2015 AT 8:30 A.M.◆

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:30 a.m.

ROLL CALL

Roll call was conducted with the following members present: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Tim Knudsen, Jerilyn Harris, and Shari Schapmire. Also present: James Wilbanks, Retirement Administrator, Jeff Berk, Legal Counsel, Judy Zeller, Administrative Assistant, Greg Ungerman and Greg DeForrest of Callan Associates, Yves Chery, State Association of Retirement Systems (SACRS) President. Absent: Craig Walker and Richard Shoemaker.

PUBLIC COMMENT: None

1) MINUTES OF THE BOARD MEETING HELD APRIL 15, 2015

Presenter/s: Chair Schapmire referenced the April 15, 2015 meeting minutes.

Board Action: Motion was made by Ms. Harris to approve the minutes of the board meeting held April 15, 2015. Mr. Goodman seconded the motion and the minutes were approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

2) CONSENT AGENDA

Presenter/s: Chair Schapmire referenced the consent agenda which included A) April 2015 Retirement Report, B) Pension Administration System Monthly Status Report, C) Mary Melvin Payment Agreement, and D) Wanda Gambino Payment Agreement.

Board Action: Motion was made by Mr. Goodman to approve the Consent Agenda. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

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

None

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4) DISCUSSION AND POSSIBLE ACTION REGARDING MONTHLY INVESTMENT REPORT

- **Quarterly Investment Performance Report, Callan Associates**
- **Investment Manager Status Update, PIMCO, Janus Overseas Fund, and Columbia Acorn International**

Presenter/s: Greg DeForrest of Callan Associates referenced the Quarterly Investment Performance Report stating that it was a very good quarter, returns looked good. Large cap stocks were up and absolute returns were strong in the US stock market. Active management did well for the quarter but not for the year. Energy, including oil, affected many managers. Small cap managers struggled during the year but did well for the quarter. International stocks went up as quantitative easing is beginning in this market. This strengthens the US dollar which is up 10-11% against the euro and increases US product cost overseas. Fixed income was up 1.6% and bonds were up 6% because interest rates fell. The 30 year treasury hit an all-time low once it was realized that the Federal Government will not increase interest rates as quickly as previously thought. This will happen, but gradually. The currency effect hurt international stocks. The fund is close to its policy target with a \$445 million value at the quarter end. Investment returns were \$12.5 million.

Mr. Ungerman continued the review noting that the total fund was up 2.88% for the quarter and outperformed the benchmark. Active managers had a difficult time in 2014 and this really shows a bounce back. On a 5 year basis there was a 9.64% annualized return for the plan, all net of fees, which looks favorable compared to other systems that report gross of fees. There was discussion regarding risk, volatility, the possibility of recession, and concerns regarding funding. Mr. Ungerman stated that the equity market is at an all-time high and the treasury market is also at an all-time high because interest rates are at an all-time low. Five and Ten year views still forecast positive returns. He advised against changing long term policy based on what happens over 12 to 18 months.

Mr. Ungerman noted that top performers were Morgan Stanley and the Russell 300 Index. He provided an update on Janus, explaining that they experienced a 10% rebound last quarter, but have underperformed for the past 4.5 years. PIMCO had a great quarter, is still having some outflows, but there is not much to report on this organization.

Chair Schapmire asked to begin discussion on safe keeping banks. Mr. DeForrest commented that they do not have other clients without a custodial bank. A custodial bank may offer more flexibility and the ability to open separate accounts which can be less costly with an estimated \$60,000 in savings per year. Mr. Knudsen commented that we may spend \$100,000 in custodial fees to save \$60,000. Mr. DeForrest explained that custodial fees are based on what they do for you and the services they provide. \$100,000 is a conservative estimate for investment flexibility, operational benefits, and having only one point of contact.

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Mr. Berk commented that there is no custodial bank requirement in the 37 Act, we are unsure of any reduction in risk with the use of a custodial bank, and it is unusual to not have one. Mr. DeForrest added that it may be best practice to have a custodian. General discussion continued regarding the benefits to having a custodian, the cost, and what services would be provided.

Board Direction: Staff will begin the process of issuing a Request for Proposal (RFP) for custodial banking services. This RFP will be brought to the board for approval.

Chair Schapmire reminded the board that their meeting was being recorded and asked that they speak louder so that their comments could be heard.

5) MONTHLY FINANCIAL REPORT

Presenter/s: Dr. Wilbanks referenced the monthly financial report.

6) QUARTERLY BUDGET UPDATE

Presenter/s: Dr. Wilbanks referenced the quarterly budget update report.

7) DISCUSSION AND POSSIBLE ACTION REGARDING AUDIT AND BUDGET COMMITTEE REPORT

- **Format of Monthly Investment Report**
- **Recommendation to Approve Proposed Fiscal Year 2016 Budget**

Presenter/s: Mr. Goodman referenced the format of the monthly investment report and the Audit and Budget Committee's recommendation to approve the proposed Fiscal Year 2016 Budget stating that the Audit and Budget Committee met last week and reviewed both. The investment report format had been changed in prior months. Per board member request the report was reviewed and the cost basis and unrealized gain and loss were added to the report. Mr. Knudsen added that he had asked for the additional columns to be added as he feels it is important to show our gain and loss.

Mr. Goodman began review of the proposed budget. The committee did a line by line review and the biggest change was made in education and training. Mr. Stephens commented that it is important to look at the resources we have and we cannot justify increased spending. The County is spending .48 cents on the dollar for retirement benefits. Mr. Gjerde added that full employee benefits are much closer to a dollar spent for every dollar earned. Mr. Sakowicz expressed concern regarding benefits as well, but pointed out that this system's budget is governed by statute and board policy. Ms. Harris expressed concern regarding the elimination of the strategic planning costs as it is important for this board to plan and discuss where we

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will be in five to ten years. She felt that strategic planning is critically important and should be done annually. She asked to see another option other than dropping the issue.

Mr. Goodman explained the changes made in the education and training budget items including removing off site strategic planning. The committee did ask for more information on a custodian, capital improvement, and document imaging. Chair Schapmire asked if we needed to keep \$100,000 budgeted for a custodian. Mr. Goodman suggested adjusting the amount to \$60,000. Mr. Knudsen added that we could save in the budget in investment fees. Discussion continued regarding the capital improvement plan and the Kings Court asset. Mr. Gjerde asked the chair to appoint an AD Hoc Committee to review this item. The Chair appointed Mr. Stephens, Mr. Goodman and Mr. Gjerde to the committee.

Mr. Sakowicz stated that he would not approve the budget due to the reduction in education and training budget for both the staff and board. He would like to see every board member go to trainings every year stating that we need to be the best trained fiduciaries in CA and commented that underwriters should be looking at how well the board is trained. Mr. Gjerde mentioned the goal of setting a retreat, as it is important to spend time working together regardless of how the budget plays out. Mr. Knudsen commented that the staff training budget was reduced after it did not pass with a split vote. Ms. Harris asked whether \$22,000 is adequate for training. Dr. Wilbanks stated that he is a firm believer in the value of education; it does not end, is ongoing, and is present. Staff cannot leave their duties to do training at times, but still need adequate training. The reduction in budget will not affect staff's training. Mr. Goodman encouraged looking at training alternatives such as online resources and meeting DVD's.

Mr. Stephens motioned to limit the 2016 Fiscal Year Budget in total to no more than the 2015 Fiscal Year Approved Budget of \$1,880,425.00. There was no second to the motion.

Board Action: Motion was made by Mr. Knudsen to increase staff education and training to the dollar amount previously proposed to the Audit & Budget Committee of \$22,220. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: Mr. Goodman and Mr. Stephens. Abstain: 0. Absent: Mr. Walker.

General discussion continued regarding education and training. Dr. Wilbanks mentioned that an initial proposal of \$10,000 for a retreat had been included in the original proposed budget of \$38,650 for board education and training.

Board Action: Motion was made by Mr. Gjerde to increase the 2016 Fiscal Year Board Education and Training budget to \$30,000 which will include a 2 day board retreat. Staff will craft trustee spending limits and will bring this information back to the board at its next

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meeting. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: Mr. Goodman and Mr. Stephens. Abstain: 0. Absent: Mr. Walker.

Board Action: Mr. Stephens made motion to consider a custodial bank, limiting the cost to \$66,000 or a net cost of \$6,000 after projected investment fee savings of \$60,000. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Stephens, Mr. Gjerde, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

General discussion continued regarding a custodial bank. Dr. Wilbanks stated that he will take a thoughtful approach to the services we will request in our Custodial Bank Request for Proposal (RFP). Mr. Goodman commented that the capital improvement plan budget of \$100,000 will need to be addressed whether we keep the building as investment or not in the future and he recommended setting up a reserve for improvements. The board discussed whether improvements must be completed this year or if they could be spread out over a number of years and if this asset is still a good investment for the plan.

Board Action: Motion was made by Mr. Stephens to approve \$50,000 in improvements and to have the Ad Hoc Committee conduct a study on the Kings Court asset for board review before approval of any additional capital improvement dollars. Mr. Gjerde seconded the motion and the motion was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Stephens, Mr. Gjerde, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

Mr. Goodman began discussion regarding Electronic Document Imaging (EDMS) which can be purchased as an additional module of the automated pension system. The cost was not previously included in the pension system bid. A demo of this web based interface has been provided to staff. Some development needs to be done; some equipment and software will also need to be purchased. File imaging is a large portion of the cost which would be done by a third party. Mr. Goodman commented that the cost was reasonable compared to our research on EDMS a number of years ago.

Board Action: Motion was made by Mr. Gjerde to approve the proposed Fiscal Year 2016 Budget as amended. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: Mr. Stephens. Abstain: 0. Absent: Mr. Walker.

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8) **DISCUSSION AND POSSIBLE ACTION REGARDING AGREEMENT WITH HANSON BRIDGETT FOR LEGAL TAX COUNSEL**

Presenter/s: Dr. Wilbanks referenced an agreement with Hanson Bridgett for Legal Tax Counsel. This new agreement reflects a slight increase in hourly rates and the total contract is over the amount approved in your budget due to the beginning of the cycle E filing with the Internal Revenue Service (IRS). This is estimated to cost \$15,000.

Board Action: Motion was made by Mr. Goodman to approve the agreement with Hanson Bridgett. Mr. Knudsen seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

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

- **Board of Directors Elections**
- **Business Meeting**

Presenter/s: Dr. Wilbanks referenced information regarding the May 15, 2015 SACRS Business Meeting and the SACRS Board of Directors elections. The SACRS nominating committee has made recommendation regarding the board of director's elections. After the committee put forward its recommendation two counties voted to put forward a second slate of candidates. This has become a very political topic and many time consuming conversations have been had regarding this SACRS election.

Public Comment: Yves Chery, SACRS President and Los Angeles County Employees' Retirement Association (LACERA) Trustee, addressed the board and answered their questions.

Mr. Goodman agreed with the letter dated May 4, 2015 from Ms. McCormick, SACRS Nomination Committee member, and made motion to elect their recommended slate of candidates.

Discussion followed regarding the two slates of candidates, the SACRS Election process, and the SACRS proposed educational plan of which MCERA disagrees with. Mr. Chery confirmed that SACRS was not in that business and this issue was not going forward. Chair Schapmire commented on Robert Palmer's leaving, expressed concern regarding public advocacy, and stated that our board was very clear that we do not want to get into public education.

Dr. Wilbanks commented on the SACRS Bylaw changes which were characterized as technical and referenced a change that removes an administrator's ability to sit on the SACRS board.

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Mr. Knudsen stated that the bylaw changes need to be questioned. There is missing information that needs to be verified and we cannot trust that this document is correct. The bylaws should be pulled off the agenda. He added that he would not support a vote on the bylaws until this issue is fully reviewed.

Dr. Wilbanks thanked Mr. Chery for coming here and participating in conversations regarding SACRS.

Board Direction: Our SACRS delegate, Mr. Knudsen, will not approve the SACRS Bylaw changes as written and will ask to verify how the bylaws have been amended and when they were changed.

Board Action: Motion was made by Mr. Goodman to elect the SACRS Nomination Committee's recommended slate of officers: Yves Chery, President; Gabriel Rodrigues, Vice President; Dan McAllister, Treasurer; Art Goulet, Secretary. Ms. Cavness seconded the motion and it failed by the following vote: Ayes: Mr. Goodman, Ms. Cavness, and Mr. Sakowicz. Noes: Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Abstain: 0. Absent: Mr. Walker.

Board Action: Motion was made by Mr. Gjerde to endorse the other slate of SACRS candidates: John Kelly, President; Gabe Rodrigues, Vice President; Dan McAllister, Treasurer; Art Goulet, Secretary. Mr. Stephens seconded the motion and the motion was approved by the following vote: Ayes: Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: Mr. Goodman, Ms. Cavness, and Mr. Sakowicz. Abstain: 0. Absent: Mr. Walker.

10) DISCUSSION AND POSSIBLE ACTION REGARDING CLOSED SESSION MINUTES

Presenter/s: Dr. Wilbanks began discussion regarding the taking of closed session minutes. This issue has been discussed in the past and there appears to be a need. There are two laws governing open public meetings, the Bagley-Keene Act, which does not apply to MCERA and the Brown Act. The Brown Act does not require closed session minutes, but it is allowed. Mr. Berk added that he has surveyed other systems and very few take closed session minutes, but felt that it was a good governance issue with minimal risk if following the Brown Act. The Public Records Act excludes closed session records, mostly due to attorney client privilege. Dr. Wilbanks recommended direction to staff to take closed session minutes.

Board Direction: Staff will take minutes of closed session.

11) GENERAL BOARD MEMBER DISCUSSION

None

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12) CLOSED SESSION

- **Possible Initiation of Litigation (2 Cases) pursuant to Government Code section 54956.9(d)(4)**

13) REPORT OUT FROM CLOSED SESSION

Direction was given to staff and legal counsel.

14) NOTICE OF NEXT MEETING

- **The Board of Retirement will meet again on June 17, 2015**

ADJOURNMENT (1:25 p.m.)