

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆ AUGUST 21, 2013 AT 8:30 A.M. ◆

**CALL TO ORDER**

Shari Schapmire, Board Chair, called the meeting to order at 8:33 a.m.

**ROLL CALL**

Roll call was conducted with the following members present: Shari Schapmire, Lloyd Weer, Ted Stephens, Supervisor John McCowen, John Sakowicz, Bob Mirata, Tim Knudsen, Randy Goodman, Richard Shoemaker, and Craig Walker. Also present: Greg DeForrest and Jim Van Heuit of Callan Associates, Rich White, Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Board Clerk.

**PUBLIC COMMENT:** None

**1) APPROVAL OF CONSENT AGENDA**

**Presenter/s:** Chair Schapmire referenced the Consent Agenda previously distributed to the Board which included 1-A Minutes of the Board Meeting held July 17, 2013, 1-B Membership, 1-C Retirements Processed, 1-D Retirement Administrator's report, 1-E Communications, 1-F Audit and Budget Committee Report from the meeting of July 17, 2013, and 1-G Disability Procedure Edits.

**Board Action:** Motion was made by Supervisor McCowen to approve the Consent Agenda. Mr. Mirata seconded the motion and it was approved unanimously.

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

**Board Action:** None

**3) DISCUSSION REGARDING QUARTERLY PERFORMANCE REPORT (CALLAN ASSOCIATES) (See the June 30, 2013 Investment Measurement Service Quarterly Review at <http://www.co.mendocino.ca.us/retirement/reports.htm>.)**

**Presenter/s:** Greg DeForrest and Jim Van Heuit, Callan Associates, referenced the June 30, 2013 Quarterly Performance Report previously distributed to the Board.

Mr. DeForrest explained that the Bond market was down, International Equities had a negative return, and diversification finally mattered this quarter. Standard and Poor's (S&P) was up 20%, International Investments were up 19%, bonds remained flat, and we saw robust 1 year returns at the end of the fiscal year. He mentioned that our allocation for domestic equity was over by 3%,

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bonds were under by 4%, and a rebalance is in order. The fund balance as of June 30, 2013 was \$383 million. Withdrawn cash to pay benefits was matched by investment return over the quarter. Selected American and Investment Company of America are scheduled for liquidation and should be used as source of funds to pay benefits. Our total fund was up 1.14% above the benchmark reflecting net of fee returns.

Mr. Stephens asked about increase in value of 625 Kings Court. Mr. DeForrest explained that this was the result of an increased appraisal of \$864,000 which won't affect rates of return. He stated that we are overweight in small mid cap managers who performed very well over the year. International and domestic equity managers also did well for you. He reminded the Board of calendar year 2011 and the underperformed relative returns every quarter. Mr. Mirata commented that this is a reflection of how we chose to invest. We are seeing returns similar to the model we chose. Mr. Stephens added that we have always been careful to not expose ourselves to risk. Mr. Stephens asked Mr. DeForrest to explain Oakmark? Mr. DeForrest replied that Oakmark is a benchmark unaware value manager. They over performed for the quarter because of what they bought. They bring greater diversification. Janus struggled in the quarter and the two funds together compliment each other. Mr. Stephens asked if Janus on watch? Mr. DeForrest replied that MCERA doesn't have a formal watch list policy and effectively that all managers are on watch as we monitor and evaluate their performance every quarter, at a minimum; Janus Overseas fund has struggled over the past 1-2 years and their performance pattern is either worst or first.

**4) DISCUSSION AND POSSIBLE ACTION REGARDING ASSET ALLOCATION AND LIABILITY STUDY (CALLAN ASSOCIATES) (See the August 21, 2013 Asset Allocation and Liability Study at <http://www.co.mendocino.ca.us/retirement/reports.htm>.)**

**Presenter/s:** Greg DeForrest and Jim Van Heuit, Callan Associates, referenced the Asset Allocation and Liability Study previously distributed to the Board.

Mr. DeForrest stated that a few months ago we shared information on asset return expectations; we modeled the returns and are back with our recommendations. Mr. Van Heuit added your investment decisions should be based on the funding of benefits and the modeling of returns takes into consideration your benefits policy and investment policy. Assumptions taken from your actuarial report provided by Segal are considered and we then build a valuation model for each year going forward, assuming assumptions are realized, and use future asset valuations. Actuarial value, valuation value, and market value are used in the modeling which looks at 10 years of plan liabilities, active & inactive.

Mr. Stephens mentioned negative amortization and how it affects growth in funding. Unfunded liability won't be paid on for 9 years from now. Mr. Van Heuit stated that he would need to look at further, but he felt that negative amortization would affect funded status. He added that our

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inactive population is growing and that explains the actuarial liability. The current amortization schedule is closed and this is exactly what was modeled. Mr. White added that no new unfunded liability was included because it is hard to model. Mr. Van Heuit mentioned that the plan liquidity (cash flow) is not a problem going forward. 2013 expected returns were lowered across all asset classes and a lot of volatility in the market was expected. Fixed income has some negativity, but is important to diversify equity. Mr. Sakowicz asked about alternative expectation correlations. Mr. Van Heuit and Mr. DeForrest agreed that more aggressive investment will bring more volatility.

The Board was presented asset allocation mix 1 through 5 including an optimal target mix very close to our current allocation. It was mentioned that allowing cash allocation would cause a drain on our returns. Mr. Stephens asked if there is a standard on probability of hitting the target rate of return for payment of benefits. Mr. Van Heuit stated that we are talking about a very different timeline. The standard 10 year rate of return expectation says that the next 3 years you will under perform and then the next 7 years you will out perform. The actuarial target rate is a 30 year expectation. The accepted practice is 50% probability. You want assumptions that are as accurate as possible. Mr. Stephens added that the target rate should be accurate so that the sponsor does not have to pick up the additional payment. Mr. Van Heuit added that this timeframe issue looks short term with little volatility or looks long term and has a great deal of volatility around assumptions. Long term, if maintained, gets stability from amortization. Mr. DeForrest added that 10 years is a reasonable time to make investment decisions. We look at how assets will perform over 10 years and we bring in the assumptions. Mr. Van Heuit added that long term amortization smoothes gains and losses. More aggressive market asset mixes show significant volatility. Net cost combined with contributions and unfunded liability are future considerations that argue for taking less risk. With these considerations, Callan recommends keeping the existing target mix.

The Board discussed alternative investments, outsourcing for pooling with another fund, real estate. Mr. DeForrest stated that they could be looked at and you would gain greater diversification, but you have outperformed them. Mr. Stephens mentioned that our fund is too small to have increased fees and costs of alternatives. Mr. Sakowicz asked to wait to make a target mix decision and to schedule Doug Rose, SACRS President, to speak to the Board regarding alternative investments via a Joint Powers Authority (JPA) or a pool in order to find the sweet spot on the efficient frontier. He had recently heard Mr. Rose speak on this topic at the SACRS Public Pension Investment Management Program and he felt this would be important information to consider. Mr. White stated that we should make decisions today and find out more about alternatives later. They are still under development and the opportunity is further down the road. Mr. Shoemaker felt that we should consider moving out of bonds for a specified period of time. Mr. Stephens felt that we could not accept the increased risk. Mr. DeForrest explained volatility drag.

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**Board Action:** Motion was made by Mr. Mirata to approve to keep our existing asset target mix. Mr. Stephens seconded the motion and it was approved by the following vote: Ayes 8 Noes 1 (Sakowicz) Abstain 0 Absent 0 (Motion Approved)

**5) MONTHLY FINANCIAL REPORT**

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Cash Flow Analysis
- Rental Income Net of Expenses
- Vendor Ledger

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding final financial reports for June 30, 2013. He mentioned that the cash flow analysis report was not provided because the report will need adjustment in the Peachtree accounting system to correct errors found in the report due to the way the report incorporated year-end adjustments. Mr. Stephens asked about the accountant position. Mr. White replied that recruitment should begin this week.

**6) DISCUSSION AND POSSIBLE ACTION REGARDING BOARD ELECTIONS  
AND RELATED CHANGE TO BYLAWS**

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding changes to our election procedures and proposed change to the Article X of the Association Bylaws.

Mr. White explained that the terms of the second, fourth, sixth, seventh and seventh alternate member seats on the Board of Retirement expire on November 30, 2013. The fourth and sixth members are appointed by the Board of Supervisors and the second, seventh and seventh alternate members are elected by the respective membership of MCERA. The seventh alternate member seat is vacant. The MCERA Bylaws have not been updated to reflect the membership of the Board and the election procedures followed by MCERA. This agenda item proposes updates to the bylaws, election procedures, and provides an election timeline to be approved by the Board.

Mr. White mentioned that the government code allows for alternate members for both the safety member and the retiree member. He explained how the election process works for the alternate safety member. The safety member with the highest number of votes would be elected as the seventh member. The runner up from any other eligible safety group would be elected as an alternate. He stated this alternate safety member would be able to vote as an alternate only if the second, third, seventh, or eighth member is absent from a board meeting. There was some discussion amongst the Board. Mr. Shoemaker asked about the retiree alternate and the ability to vote for other absent members. Mr. White and Mr. Berk agreed that the legislation would need to

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be changed. Mr. Knudsen felt there was conflict in the government code and asked if this could be taken to the SACRS Legislative Committee. Mr. White said that the issue had been reviewed by SACRS and the Legislature.

**Board Direction:** Staff will amend the changes to the bylaws by deleting Government Code Section 31470.4 from section 2(a)(6), deleting "in the County" from section 2(a)(6), correct typos and formatting.

**Board Action:** Motion was made by Supervisor McCowen to approve the recommended action to approve changes to MCERA Bylaws Article X with the following amendments; delete Government Code Section 31470.4 from section 2(a)(6), delete "in the County" from section 2(a)(6), correct any typos and formatting as directed by the Board Chair, and to approve the timeline for the Board of Retirement election. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes 9 Noes 0 Abstain 0 Absent 0 (Motion Approved)

Mr. Walker and Mr. Shoemaker left the meeting during closed session discussion.

#### 7) CLOSED SESSION

- Pending disability applications update
- Tim Goss SCD
- Possible Initiation of Litigation - Cook/McCarthy - Pursuant to Government Code Section 54956.9(d)4
- Public Employee Performance Evaluation - Retirement Administrator - Pursuant to Government Code Section 54957

#### REPORT OUT FROM CLOSED SESSION

The Board provided direction to staff on the service connected disability application of Tim Goss. The Board provided direction to staff and counsel to try to settle the Cook/McCarthy matter, but approved proceeding with litigation if necessary by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. There was no action taken on the public employee performance evaluation or any other closed session items.

#### 8) GENERAL BOARD MEMBER DISCUSSION

- Report on SACRS Public Pension Investment Management Program by Board Member John Sakowicz

Mr. Sakowicz will report to the Board on the SACRS Public Pension Investment Management Program at the next Board meeting.

**ADJOURNMENT (1:32 p.m.)**

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