

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆
BOARD OF RETIREMENT MEETING MINUTES
◆ SEPTEMBER 18, 2013 AT 8:30 A.M. ◆

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:31 a.m.

ROLL CALL

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

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 August 21, 2013, 1-B Membership, 1-C Retirements Processed, 1-D Retirement Administrator's report, 1-E Communications, and 1-F Authorized Signature Resolution 2013-03.

Board Direction: Mr. White requested that consent agenda item 1A be pulled for separate action.

Board Action: Motion was made by Mr. Goodman to approve the remaining Consent Agenda items. Mr. Weer seconded the motion and it was approved unanimously.

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

Presenter/s: Mr. White and Chair Schapmire referenced item 1-A of the consent agenda pulled by Mr. White. The report out from Closed Session in the August 21, 2013 minutes was incorrect. Jeff Berk stated that the Board did not approve a settlement of the Cook/McCarthy matter. Instead, the Board approved to try to settle the Cook/McCarthy matter, but approved proceeding with litigation if necessary. He asked that the minutes be amended accordingly. Mr. Shoemaker asked that his comment on the bottom of page 3 of the minutes be amended to read, "Mr. Shoemaker felt that we should consider moving out of bonds for a specified period of time." Mr. Sakowicz asked to amend his comment on page 3 of the minutes by adding, "in order to find the sweet spot on the efficient frontier" after (JPA) or pool.

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Board Direction: Staff will amend the minutes as instructed.

Board Action: Motion was made by Mr. Sakowicz to approve the minutes including all amendments. Mr. Goodman seconded the motion and it was approved unanimously.

Mr. Stephens entered the meeting at 8:42 a.m.

3) 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 the preliminary July 2013 Financial Report.

Mr. Stephens asked about legal expenses and whether the billing from Manatt, Phelps and Phillips, LLP, was under contract. Mr. White explained that we have an existing agreement with Manatt that is open ended and we have two budgeted items for legal expense. General and tax counsel are both budgeted under legal expense. There is an additional \$50,000 of legal expense budgeted in Technology. This was done knowing that we would be negotiating agreements related to our pension automation system. Mr. Berk recommended using Manatt because they have experience with these types of agreements which we benefit from because they have done this kind of work for other systems. These types of agreements are very complex and you want to have the best agreement you can.

4) MONTHLY INVESTMENT REPORT

- **Investment Goal Statements**
- **MCERA Trust Fund Performance Information**
- **Monthly Investment Account Balance Report**

Presenter/s: Rich White referenced information previously distributed to the Board regarding the Monthly Investment Report.

The Board discussed the investment report. Mr. Sakowicz asked Mr. White if he had a good answer to the question as to why we outperformed in the market over one year, five year, and seven years. Mr. White replied that he did not have the specifics, but generally our asset allocation and active management contributes substantially to our performance. For the most recent annual period, our

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allocation to domestic equity, especially our overweight to mid and small cap managers, enhanced our returns. Mr. Stephens added that we were under allocated in bonds.

5) DISCUSSION AND POSSIBLE ACTION REGARDING EQUITY STRUCTURE AND PASSIVE MANAGER SELECTION (CALLAN ASSOCIATES)

Presenter/s: Rich White and Greg DeForrest referenced information previously distributed to the Board regarding Equity Structure and Passive Manger Selection.

Mr. DeForrest began with a recap of our decision last year to add a passive manager in the S&P 500 Index. The Equity Manager search produced three candidates; Black Rock, State Street, and Vanguard. The Board selected Black Rock due to cost, but we were unable to come to agreement on a contract. Mr. White explained that this was due to an indemnification clause. Mr. Berk stated that Black Rock had requested mutual indemnification which MCERA could not agree to. Mr. DeForrest stated the reasons why Vanguard is being recommended by Callan Associates and mentioned that MCERA would not have to negotiate a contract to proceed with the investment.

Board Action: Motion was made by Mr. Sakowicz to accept Callan's recommendation to select the Vanguard Group to manage the passive allocation to the S&P 500 Index. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1 (Motion Approved)

6) OPERATIONS AND BENEFITS

- **Presentation on member retirement application process**
- **Benefit Overpayment Adjustment (Lohse)**
- **Report on internal audit of community property divided benefit calculations**

Presenter/s: Mr. White referenced information previously distributed to the Board regarding a benefit payment adjustment. Staff conducted a recent review of retired member David Lohse's file and found that he had reciprocal benefits with CalPERS, that the benefit calculation did not use the CalPERS final salary document, and that the CalPERS final average salary information was not for a three year measuring period. The correct final salary document was obtained from CalPERS and the monthly pension benefit was re-calculated. The benefit amount was corrected with the August 2013 payroll check and the member agreed to have a small amount deducted from his check monthly until the overpayment is settled.

Next Mr. White reported on an internal audit of community property divided benefit calculations. Staff reviewed all member files where a community property division of the retirement benefit was required. Calculations for property division cases are done manually and recently one case had been found to be processed incorrectly. This prompted us to review all of the cases. Staff reported

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that MCERA has twenty two (22) community property division cases. Seventeen (17) of the 22 cases were found to be calculated correctly and five (5) of the 22 cases required additional review. Two (2) of the 5 cases resulted in overpayment/underpayment. The remaining three (3) cases require additional information and staff is obtaining that now.

Mr. Shoemaker asked how far this problem dates back to. Mr. White replied that these cases spread out over a number of years prior to 2007. Mr. Shoemaker asked what has been done to prevent this from happening now and in the future. Mr. White replied that staff has developed forms and a comprehensive review process and that all division files have had an additional review.

Mr. White introduced Katy Richardson, Senior Retirement Specialist, and Christie O'Ferrall, Retirement Specialist II. They referenced retirement application packets distributed to the Board and provided a presentation on the member retirement application process.

Ms. O'Ferrall explained all of the forms included in the packet including mention of the use of the forms and any specific form requirements. Ms. Richardson explained that each member meets with a retirement specialist regarding completion and submission of their retirement application which includes verification of required certified documents and selection of benefit payment option. She stated that all new retirement files are reviewed for completeness, final salary is verified, service credit and purchase of service is verified, and a final benefit calculation is produced and verified. She explained that a check is mailed for first month of benefit with a letter explaining the amount and any deductions. She also mentioned the steps she takes to complete the retiree payroll process each month.

Mr. Mirata asked why we did not have a form regarding retiree health insurance. Ms. Richardson explained that members are referred to Human Resources because they are the plan administrators. Mr. Mirata felt there should be a form to sign and/or an addition to the checklist which states that members have been explained their health insurance options.

Board Direction: Staff will complete the appropriate corrective actions to ensure proper payment of retirement benefits in community property division cases and will add health insurance counseling to the retirement application checklist.

7) CLOSED SESSION

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

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Pursuant to Government Code Section 54957

REPORT OUT FROM CLOSED SESSION

The Board provided direction to staff and counsel regarding the Cook/McCarthy matter. The Board approved Rebecca Wilson for Non-Service connected disability retirement. 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**

Presenter/s: John Sakowicz spoke regarding his experience at the SACRS Public Investment Management Program held at the University of California's Berkeley Haas School of Business July 28 through 31, 2013. He highly recommended the program for Board members to attend next year and spoke regarding the curriculum and faculty, expressing his feeling that they were exceptional. There were about 20 attendants at the workshop including County Auditors and Treasurers.

Mr. Sakowicz felt the training regarding Alternative Investments was the most interesting and informative. Attendees studied the efficient frontier and how to find the sweet spot, the Yale model on investment returns, and different types of Alternative Investments. Mr. Sakowicz asked that the Board schedule Mr. Doug Rose, SACRS President, to speak with the Board on Alternative Investments and Joint Powers Authority (JPA) or pooling. He invited Callan Associates to participate as well.

Mr. Walker commented on the big fear of another market downturn. He asked if a JPA is an idea or a reality at this time. Mr. White answered that it is more of an idea and that there is a SACRS group working on it currently. They are trying to find the most appropriate vehicle to use to implement the idea. Governance structure and fees would have to be set up in a pooling arrangement with a manager. Those are the types of things that are still being looked at. Mr. Walker agreed that we should look into education on this topic.

Board Direction: Staff will schedule Mr. Rose to speak with the Board regarding Alternative Investments.

ADJOURNMENT (11:57 a.m.)