

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆ NOVEMBER 5, 2014 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, John Sakowicz, Ted Stephens, Tim Knudsen, Bob Mirata, Supervisor John McCowen, Craig Walker, and Shari Schapmire. Also present: Jim Andersen, Interim Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Administrative Assistant, Greg DeForrest, Greg Ungerman, and Alina Vartanyan of Callan Associates.

Absent: Richard Shoemaker and Lloyd Weer.

Chair Schapmire introduced Kathryn Cavness who is our newly elected General Member Trustee.

**PUBLIC COMMENT:** None

**1) PRESENTATION OF PROCLAMATIONS HONORING BOB MIRATA AND LLOYD WEER FOR THEIR SERVICE TO THE ASSOCIATION AND THE BOARD OF RETIREMENT**

**Presenter/s:** Chair Schapmire presented a proclamation to Bob Mirata, thanking him for his service to the Association and to the Board of Retirement. Mr. Mirata thanked the board stating that he was ready to retire and spend more time with family. Mr. Sakowicz commented that Mr. Mirata is a Vietnam Veteran, stated that at the time Mr. Mirata became Board Chair everything changed under his stewardship, and complimented Mr. Mirata on his character.

Chair Schapmire did not present Mr. Weer's proclamation due to his absence. She will deliver it to him personally after the meeting.

**2) MINUTES OF THE BOARD MEETING HELD OCTOBER 15, 2014 AND OCTOBER 22, 2014**

**Presenter/s:** Chair Schapmire referenced the minutes of the board meeting held October 15, 2014 and October 22, 2014.

Mr. Stephens asked for an amendment to his statement on page 3 of the October 15, 2014 minutes regarding consideration of a 6.75% rate. Supervisor McCowen stated that Mr.

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Stephens should submit a letter to the Chair to amend the record and further stated that the minutes are not intended to be a complete transcript of the meeting. Mr. Stephens was concerned regarding historical documentation of the case and felt the record should include his statement that it would be reckless to adopt anything more than a 6.75% rate. Chair Schapmire suggested amending the minutes to "Mr. Stephens strongly urged" and added that the public may watch the recording of the meeting. Mr. Sakowicz agreed with Supervisor McCowen's suggestion. Chair Schapmire directed Mr. Stephens to submit a two sentence statement to be used to amend the minutes.

**Board Action:** Motion was made by Supervisor McCowen to approve the minutes of the board meetings held October 15, 2014 and October 22, 2014 and to allow Mr. Stephens to add a two sentence statement to the record with approval of the Chair. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Knudsen, Mr. Stephens, Mr. Goodman, Mr. Mirata, Supervisor McCowen, Mr. Walker, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Weer.

### 3) APPROVAL OF CONSENT AGENDA

**Presenter/s:** Chair Schapmire referenced the Consent Agenda which included 2-A Retirement Administrator's report, 2-B Addendum to Agreement with Jim Andersen, 2-C Agreement with Jeffrey Rapp, M.D., and 2-D 2014/15 Trustee Education and Travel Expense Report, 2-E Membership, and 2-F Retirements Processed in October 2014.

Mr. Sakowicz asked about item 2-D and if trustees who have met their travel and education expense limit for calendar year 2015/2016 can travel to attend conferences on their own accord. The Board agreed that its members can travel to and participate in educational conferences and training opportunities at their own expense.

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

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

None

### 5) INVESTMENT REPORT (Estimated Time 1 hour)

- Quarterly Performance Report for the Period Ending September 30, 2014 by Callan Associates

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- **Monthly Investment Report**

**Presenter/s:** Greg DeForrest and Greg Ungerman of Callan Associates referenced the Quarterly Performance Report for the period ending September 30, 2014. Mr. Ungerman began with a recap of capital markets and the Standard and Poor's (S&P) 500 Index. He commented on small cap, active management, international markets, domestic fixed income, and interest rates. Mr. Sakowicz mentioned the strength of the dollar and asked for Callan's point of view. Mr. Ungerman replied that in the short term currency volatility has worked for and against MCERA because fixed income has exposure to this. Mr. DeForrest added that the international markets performed poorly last quarter due to the dollar as it was hard to predict volatility and they prefer a long term strategic plan. Quantitative Easing (QE) should have an effect on the United States (US) dollar. The US is done with QE, but others will be doing it.

Mr. Ungerman stated that our Asset Allocation is in line with our policy target. The total fund was down 1.83% for the quarter. Domestic and international equities had tough quarters, underperforming, and explained that Callan's focus is longer term. He mentioned Royce, Morgan Stanley, and the international markets which all underperformed last year. He explained that PIMCO has gone through significant change since Bill Gross left and joined Janus.

Mr. DeForrest explained that Callan has spent much time meeting with PIMCO and their performance has not been great compared to peers. He explained PIMCO's investment strategy and stated that they still have a competitive track record and a large management team. Mutual fund outflows are monitored on a monthly basis and Callan has learned that \$27.5 billion left the fund in October 2014 and \$23.5 billion left the fund in September 2014. The fund is \$170 billion in size, but it was at \$270 billion. Mr. DeForrest discussed the fund's loss of revenue, portfolio composition, liquidity, and risk. Mr. Sakowicz asked about alternative investments. Mr. DeForrest explained that there are a number of categories one can invest in and one can invest a little in each, or trust PIMCO to invest in these categories when desirable.

Mr. DeForrest continued to discuss Mr. Gross's departure which was abrupt with no transition. Mr. Gross went to Janus to manage assets that are not comparable to PIMCO. Janus has a very different investment strategy and they are in a different investment category. Others also left PIMCO and the fund announced a new formation of a team of deputy Chief Investment Officers (CIOs). We will still need to monitor the fund and we should expect to see more changes in the next six months. Mr. Andersen added that Matt Clark, Senior Vice President of PIMCO, has communicated that he envisions PIMCO remaining the largest fixed income portfolio and he is available to come have a discussion with the board.

Mr. DeForrest stated that the board could choose to wait and see what happens with PIMCO over the next 1 to 1.5 years, choose to conduct a search and have PIMCO participate, or choose

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to move the investment. The board agreed that they were comfortable with waiting and that the biggest risk is underperformance. They also agreed to have Matt Clark speak at their December meeting. Mr. Goodman asked about the underperformance of Janus Overseas. Mr. Ungerman replied that they still rank high and in the long term they are waiting for an exceptional year. Their performance over the long term, and their strategy, anticipate higher levels of volatility.

Mr. Stephens stated that we must take earnings to pay benefits and asked if we should be doing anything else. Mr. DeForrest replied that MCERA is similar to other public funds and in better position than some. Mr. Andersen added that there are some unrealized gains which are reinvested, but we do regularly take cash. Mr. Stephens also asked about the use of geometric vs arithmetic rate of return and if we should look at that issue. Mr. DeForrest replied that the Asset Allocation only shows geometric rate of returns whereas an arithmetic rate of return would be 7.3% or 7.4%. Callan's clients use both, as we have corporate clients that use arithmetic, but you can use either.

**Board Direction:** Mr. Andersen will schedule Matt Clark of PIMCO to speak with the board during the December board meeting.

**Presenter/s:** Mr. Andersen referenced the preliminary Monthly Investment Report for September 2014 and mentioned that a \$7 million rebalancing was completed to raise cash to \$3 million and to reinvest large cap equities to fixed income. Our market value of investments was \$430 million including cash. We were at \$437 million at the beginning of the fiscal year, but it was a poor last quarter.

**6) FINANCIAL REPORT (Estimated Time 5 min.)**

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

**Presenter/s:** Mr. Andersen referenced the preliminary Financial Report for September 2014. There were \$4.2 million in contributions against almost \$8 million in payroll. The discount rate and potential change in contribution rates will have some effect when the new rates begin. Mr. Andersen mentioned that he had received a letter from the County Chief Executive Officer (CEO) asking the board to look at a two to three year phase in of the employer cost.

Supervisor McCowen commented on the board's discussion in December regarding the cost of the new rate of return, a possible phase in of the cost to employers, and the cost of adding more debt by a phase in, stating that there is a real cost to delay payment to the system. Mr.

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Andersen added that Segal would provide that information with the valuation report and that we are not locked into accepting the phase in concept with additional cost. Mr. Stephens suggested that any billing from Segal to provide this information should be the County's responsibility. Mr. Andersen stated that under the law the valuation report is a fiduciary responsibility, but we must look at the impact to our sponsors. The board initiated this request for information without a request from an employer. Supervisor McCowen stated that the County had reserves available to pay down the unfunded liability, but they may go to pay for the additional cost of the increase in rate. He added that the County has met a target of \$10 million in reserves and he was preparing an agenda item for the Board of Supervisors, to be heard before our next meeting.

## 7) PRESENTATION OF QUARTERLY BUDGET REPORT

**Presenter/s:** Mr. Andersen referenced the Quarterly Budget Report including a worksheet prepared by Mr. Conwell. Mr. Andersen explained that after one quarter spending is as expected and there does not appear to be a need for any action on the budget. Salary & benefits were reviewed and there was a salary savings. This savings was offset by the agreement with an Executive Search Firm, automation overtime, and supplemental pay. We are still under budget with a net savings of approximately \$23,000.00. Legal expense is above par and includes Manatt billing for the Cost of Living Adjustment (COLA) issue. Mr. Andersen advised the board to be aware of the information from Linea Solutions regarding User Acceptance Testing (UAT). We plan an investment of staff resources in January, February, April, and May of 2015. This significant commitment of resources will result in some overtime and a recommendation for extra help staff in the near future.

Mr. Goodman mentioned Gallina LLP's recommendation regarding the need for our accountant to stay on for one more year to advise MCERA staff. Mr. Andersen agreed with this recommendation and added that we plan to keep Fechter and Company on with a retainer contract through September 2015. This would assist Mr. Conwell through one annual cycle of accounting.

Mr. Andersen stated that disability is significantly below what was budgeted and he reminded the board that Levi Ray and Shoup (LRS) will not send any billing for the pension system until the final product is ready. Anticipate staff to bring back future staffing needs, legal expense, and a Fechter and Company contract for board approval. Mr. Sakowicz asked about the need for an agreement with Hanson Bridgett. Mr. Andersen replied that MCERA did not need or did not use tax counsel for a long period. We now have a determination letter and correction plan and will need to continue to update and follow a normal cycle for determination letters in the future. This should be done with legal assistance every cycle and staff will bring back the dates for this event.

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Mr. Stephens commented that in the next budget review we would expect no savings in salary and asked that budget items be placed in the correct line item. He added that contracts must be approved by the board if any billing will go over the contract amount, so any expense over our budget will be brought back for review.

**8) CLOSED SESSION (Estimated Time 1 hour)**

- **Public Employee Appointment, Retirement Administrator, pursuant to Government Code Section 54957**
- **Pending Disability Applications Update**
- **Jesse Jaynes Disability Retirement Application**

**REPORT OUT FROM CLOSED SESSION**

Direction was given to staff regarding the Retirement Administrator item.

The Service Connected disability application for Jesse Jaynes was approved by the following vote: Ayes: Mr. Knudsen, Mr. Stephens, Mr. Goodman, Supervisor McCowen, Mr. Walker and Ms. Schapmire. Noes: Mr. Sakowicz and Mr. Mirata. Abstain: 0. Absent: Mr. Weer.

**9) GENERAL BOARD MEMBER DISCUSSION**

Mr. Andersen stated that the next board meeting will be held December 3, 2014 due to Segal Consulting's schedule. This special meeting agenda will include the annual valuation report and other items. We may discuss whether the board will need to meet for the regularly scheduled board meeting on December 17, 2014.

**ADJOURNMENT (11:30 a.m.)**