

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆NOVEMBER 6, 2013 AT 8:30 A.M.◆

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:32 a.m.

ROLL CALL

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

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 September 18, 2013, 1-B Membership, 1-C Retirements Processed, 1-D Retirement Administrator's report, 1-E Audit and Budget Committee Report, 1-F Board of Retirement Election Results, 1-G Approval of McCarthy Settlement Regarding Overpayment of Benefits, and 1-H Communications.

Mr. White asked that item 1-D, Retirement Administrator's Report, be pulled from the Consent Agenda for further discussion. Supervisor McCowen referred to the legislative review included in the Administrator's Report and stated that SB 751 requires the legislative body of a local agency to publicly report any action taken and the vote or abstention on that action of every member present. He wanted to address this issue so that the minutes would correctly reflect any action taken by the Board, including closed session. Mr. Berk was unsure if this would apply to disability cases and will review SB 751.

Board Direction: Consent Agenda item 1-D will be pulled for further discussion. Mr. Berk will review SB 751 and will provide direction to staff on reporting the vote on any actions taken by the Board in the meeting minutes.

Board Action: Motion was made by Mr. Mirata to approve the remaining Consent Agenda items. Supervisor McCowen seconded the motion and it was approved unanimously. (Motion Approved)

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

Presenter/s: Chair Schapmire referenced Consent Agenda item 1-D, Retirement Administrator's report, pulled by Mr. White. Mr. White referenced AB 1380 included in the legislative review of his Administrator's Report. AB 1380, Section 31620.5, removed a requirement that the member contribution rate shall only be adjusted when there is an increase or decrease of 1% and made the requirement to round the rate to the nearest quarter of 1 percent optional. With rounding being optional, the contribution rate can be set at the 50/50 split requirement and with the 1% adjustment rule being removed, the contribution rate can be adjusted with every valuation. This will allow our actuary to set the contribution rate at exactly one-half of the normal cost paid by the employee and the employer. Our Actuary will follow AB 1380 and will make the 50/50 split in the valuation report which is scheduled for discussion during the Special Board meeting on December 4, 2013. The Board will make the decision regarding rounding, which would move the rate off the 50/50, at that time.

Board Action: Motion was made by Supervisor McCowen to approve the Consent Agenda item 1-D, Retirement Administrator's Report. Mr. Mirata seconded the motion and it was approved unanimously. (Motion Approved)

**3) MONTHLY INVESTMENT REPORT AND DISCUSSION REGARDING
QUARTERLY PERFORMANCE REPORT (CALLAN ASSOCIATES)**

Presenter/s: Greg DeForrest, Callan Associates, referenced the Quarterly Performance Report previously distributed to the Board. He stated that the market was up and the fund performed very well over peers. He announced that Callan Associates had moved to the Transamerica building which went very well. He invited the Board to attend the Thirty-Fourth National Conference coming up in January and the Callan College in April.

Mr. DeForrest explained that in the 2nd quarter the capital markets were tough. The Federal Reserve was going to stop quantitative easing (QE) which suppressed the yield curve. Emerging markets and corporate bonds sold off. The 3rd quarter had positive economic news over the globe and there was news that QE would not end.

Mr. Ungerman referred to our asset allocation, which is very close to target. The fund is underweight in fixed income by 2.2%, but equities are the place to be and have done very well. Ms. Schapmire asked about the pros and cons of international fixed income. Mr. Ungerman replied that PIMCO does have some ability to invest in international fixed income for MCERA which is different from using a stand alone manager. PIMCO can choose when to invest in this option.

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There was discussion regarding alternative investments and why other funds may choose this option. Mr. Sakowicz asked if Callan could break out alternative investment in their report. Supervisor McCowen asked if Callan has specific data on any funds with alternative investment and if we could get a breakout of that data. Mr. Ungerman stated that Callan has specific client data, but must buy data for reporting. Mr. DeForrest stated that this information is included in our Capital Market projections. We could look at it on a peer group basis, but cautioned that we may be talking about much larger plans than MCERA.

The fund is up to \$405,343,758 as of September 30, 2013 which is an increase of \$22 million over last quarter. Mr. Sakowicz asked about our current allocation and how we would compare to historic allocation in the public sector. Mr. DeForrest referred to page 23 of the report and stated that domestic fixed equity allocation is down 40% from 2009 and is on target with what other public funds are doing. Mr. Knudsen asked if we should worry about any investment managers. Mr. Ungerman replied that Janus Overseas fails to meet their benchmarks and is our most volatile manager, although their performance smooths this out. This manager has been with Janus for a long time and has stayed true to their investment strategy. It would be more of a concern if this manager was making a lot of changes.

Mr. Walker entered the meeting at 8:51 a.m.

4) DISCUSSION REGARDING THE R.V. KUHNS AND ASSOCIATES, INC. ANNUAL REPORT

Presenter/s: Shari Schapmire referenced information previously distributed to the Board regarding the R. V. Kuhns annual report and mentioned that this report will be presented at the Fall State Association of County Retirement Systems (SACRS) Conference. Mr. White added that this report is showing good information about MCERA and is consistent with what we just heard from Callan. Board members asked about the data included in the report including how accurate it is and what the alternative investments could be. Mr. DeForrest stated that we don't control the data, so we don't know, its not always 100% clear and funds can inconsistently report data. Supervisor McCowen noted that page 32 indicates that MCERA is doing well when compared to other funds. This is in sharp contrast to the opinion of one of our critics who does their own assumptions and reporting. Mr. DeForrest referenced page 25 of the Callan report which shows MCERA in the top percentile of public funds. Mr. Sakowicz thanked Callan for their work. Mr. DeForrest stated that Callan cannot accept any credit. The Board makes the decisions and deserves the credit for being steady and focusing on the long term.

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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**
- **Quarterly Budget Report**

Presenter/s: Rich White referenced information previously distributed to the Board regarding the preliminary September 2013 Financial Report. He mentioned that at the last board meeting he was asked why the financial reports are preliminary. The reports are based on timing of data, accountant preparation, Munis system data, and when the county closes the month. The monthly financial reports will always be preliminary until we receive the quarterly investment report and balance the financial reports with the investment report.

Mr. White referred to the Statement of Plan Net Assets and explained recoupments which are amounts owed by members to the retirement system for some reason. This figure will reduce over time as monthly payments come in. Mr. Knudsen asked why the cash balance is high. Mr. White replied that this is due to rebalancing. He explained that one fund would not accept our medallion signature guarantee because it was illegible and that delayed the investment until the first week of October.

Mr. Sakowicz referred to the Statement of Changes in Plan Net Assets and asked Mr. White to provide a snapshot on how the plan is funded. You begin by adding total contributions and investment income. Then you deduct investment expense. This will give you the amount of total additions. Then you deduct Benefit payments and Administrative expense which are your total deductions. The amount remaining is your increase or decrease in net assets and the amount of assets after all payments have gone out.

**6) DISCUSSION AND POSSIBLE ACTION REGARDING THE STATE
ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) FALL CONFERENCE
BUSINESS MEETING NOVEMBER 15, 2013**

Presenter/s: Rich White referenced information previously distributed to the Board regarding the SACRS Fall Conference Business meeting November 15, 2013. He explained that the mission of SACRS is to disseminate knowledge and information about public pension systems, provide education and analyze legislation for the member systems. This report will inform you as to what will be discussed on the business meeting agenda and will allow the Board to direct the voting delegate.

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The action items on the SACRS business Meeting Agenda of November 15, 2013 are: the Secretary's report regarding the May 2013 Business Meeting Minutes; the Treasurer's 2011-2012 Report regarding SACRS Financials July 2012 thru June 2013 and July 2013; and the 2014 SACRS Legislative PEPRAs Clean-up Proposal. This is a placeholder bill to allow for additional changes and cleanup of the PEPRAs document and language. The Term of Office for Appointed Board Members legislation was withdrawn by the author from the agenda on November 4th and no action will take place for this item.

Supervisor McCowen asked who the voting delegate was. Mr. Knudsen stated that he cannot attend SACRS. Mr. Sakowicz will be the delegate if he can attend the SACRS business meeting on Friday. If not, Mr. White will be the delegate. Supervisor McCowen stated that the voting delegate shall vote on all items as deemed appropriate and Mr. Mirata directed the same.

Mr. Weer asked about the net income of \$490,000.00 listed in the SACRS financials and if this had been audited. Mr. White explained that there is a timing issue of reporting and when billings are paid including conference hotel expense, catering, any lobby fees, etc. SACRS Affiliates pay fees greater than the retirement systems pay and this helps provide income to support conferences. Chair Schapmire agreed that the amount seemed high and mentioned that the California State Association of Counties (CSAC) budget would be a good comparison.

Board Direction: The voting delegate will vote on all SACRS Agenda items as deemed appropriate.

7) CLOSED SESSION

- Pending Disability Applications Update
- Lori Broin Review of Service Connected Disability pursuant to Government Code Sections 31729 thru 31731

REPORT OUT FROM CLOSED SESSION

The Board provided direction to staff and counsel regarding the Broin matter. There was no action taken on any other closed session items.

8) GENERAL BOARD MEMBER DISCUSSION

Mr. Knudsen stated that he cannot attend SACRS and will reimburse the retirement system any fees that we will be charged due to his late cancellation although we don't expect there to be any fees to be reimbursed.

ADJOURNMENT (11:00 a.m.)