

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆ FEBRUARY 18, 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, Craig Walker, Tim Knudsen, Jerilyn Harris, Richard Shoemaker, and Shari Schapmire. Also present: James Wilbanks, Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Administrative Assistant.

**PUBLIC COMMENT:** None

**1) MINUTES OF THE BOARD MEETING HELD JANUARY 21, 2015**

**Presenter/s:** Chair Schapmire referenced the January 21, 2015 meeting minutes. Jeff Berk mentioned that correction should be made to page 2. The last sentence of the first paragraph the word can should be changed to can't.

**Board Direction:** Staff will amend page 2 of the minutes per Mr. Berk's request.

**Board Action:** Motion was made by Mr. Goodman to approve the minutes of the board meeting held January 21, 2015 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. Stephens, Mr. Walker, Mr. Knudsen, Ms. Harris, Mr. Shoemaker, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: 0.

**2) APPROVAL OF CONSENT AGENDA**

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

**3) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT REPORT  
(Callan Associates)**

- Quarterly Investment Performance Report
- Discussion with John Brandt, Janus Capital Group, regarding Janus Overseas Fund
- Manager Status Update: PIMCO, Dodge & Cox

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**Presenter/s:** Greg DeForrest and Greg Ungerman of Callan Associates referenced the Quarterly Investment Performance Report for the period ending December 31, 2014. Mr. Ungerman distributed and explained the Callan Periodic Table of Investment Returns. He reminded the board that the data in the performance report is net of fees and provided a market overview. There was discussion regarding capital markets, megatrends, the effect of current events on the oil market, and the inflation rate.

Mr. DeForrest provided a review of our asset allocation. The total fund market value was \$436 million. Janus Research outperformed, Janus Enterprise did well last quarter, and Janus Overseas had notable underperformance. Janus Overseas has a high allocation to emerging markets and we have been monitoring them for two years now. John Brandt of Janus will speak to the board today. Bond managers PIMCO and Dodge and Cox also underperformed.

A valued team member will retire from Dodge and Cox, but Callan does not recommend any changes in this investment at this time. PIMCO has met with the board and the board agreed to continue to monitor PIMCO for the next 6-12 months. Mr. DeForrest stated that PIMCO has lost a considerable amount of assets and we may see a fee structure change in the near future. The board discussed the fund including outflows, redemptions, liquidity, how long it will take to start a manager search, and how many bond managers MCERA should have.

Mr. DeForrest suggested including PIMCO in a potential manager search and provided options for the board to consider: 1) Give PIMCO 6-12 months and monitor; 2) Fire PIMCO and look at three other managers; or 3) Conduct a manager search without making any change. He explained that a manager search is a billable service outside of our current contract. MCERA does not have a formal watch list, but Callan believes that every manager is on watch and all are reviewed quarterly.

The board agreed that they may need to develop a policy and will want to conduct a search if PIMCO continues to underperform. Mr. Berk suggested looking at a securities policy and there was discussion regarding forming a committee to review this issue. It was decided that this item will require input from the full board.

John Brandt and Adam Shore of Janus spoke to the board and apologized for the disappointing performance due to exposure in emerging markets and energy. Mr. Shore referenced a Janus Overseas 4<sup>th</sup> Quarter Fund Review stating that performance was well below expectations. He explained their opportunistic approach and that investments in India did not play out as well as expected. Mr. Brandt thanked the board for their time and their investments in Janus Enterprise and Janus Research.

Mr. Ungerman stated that historically we have had patience with the Janus Overseas performance cycle, but after four years the fund is not bouncing back. The board discussed

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making a change, conducting a search, reallocation, selling shares, and asked Callan for a recommendation. Mr. Ungerman recommended waiting as this is a small portion of MCERA assets and he prefers not to sell at the bottom. Mr. DeForrest felt that a bounce back would not help the situation as it will take years to get out of these numbers and much time has already been spent. The board agreed to continue this discussion to next month's meeting.

**Board Direction:** Staff and legal counsel will bring information back to board regarding some form of watch list policy.

Mr. Walker left the meeting at 11:15 a.m.

**4) AUDIT AND BUDGET COMMITTEE REPORT**

- **Discussion and Possible Action regarding Adoption of the Financial Statements and Independent Audit Report for Year Ended June 30, 2014 (Gallina, LLP)**

**Presenter/s:** Mr. Goodman, Chair of the Audit and Budget Committee, referenced the last committee meeting held February 2, 2015 and the review of the draft financial statements. He turned the discussion over to Crystal Ekanayake of Gallina LLP, who felt that the committee did an excellent job of reviewing the financial statements. She referenced the draft report and highlighted areas with the most significant changes. The board asked about contributions, mortality, and the required Government Accounting Standards (GAS) 67 information included in this report.

Chair Schapmire noted that page 5 of the report should be corrected. The Superior Court of Mendocino should be referred to as the Mendocino County Superior Court. Mr. Gjerde suggested including the number of employees for each year to the schedule of employer contributions table on page 32.

**Board Direction:** Gallina LLP will correct page 5 of the report per Ms. Schapmire's request.

**Board Action:** Motion was made by the Audit and Budget Committee to approve and adopt the Financial Statements and Independent Audit Report for Year Ended June 30, 2014. The motion was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, Mr. Shoemaker, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

**5) DISCUSSION AND POSSIBLE ACTION REGARDING ADOPTION OF THE GOVERNMENTAL ACCOUNTING STANDARDS (GAS) 67 ACTUARIAL VALUATION FOR YEAR ENDED JUNE 30, 2014 (Segal Consulting)**

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**Presenter/s:** Andy Yeung of Segal Consulting referenced the first GAS 67 report for the plan and explained that GAS 67 replaces GAS 25. This is a new statement, but the assumptions and methodology used are the same.

Discussion included the use of market value, smoothing, new terminology, net pension liability, real rate of return and inflation, the sensitivity measure, and service cost/normal cost.

**Board Action:** Motion was made by Mr. Sakowicz to approve and adopt the GAS 67 Actuarial Valuation for Year Ended June 30, 2014. Mr. Goodman 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, Mr. Shoemaker, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

**6) DISCUSSION REGARDING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED JUNE 30, 2014**

**Presenter/s:** Mr. Wilbanks referenced the draft CAFR for the year ended June 30, 2014 stating that this report has been reviewed by the Audit and Budget Committee once and staff is working toward meeting a submission deadline of February 28, 2015. The CAFR will be submitted to Gallina LLP for review and recommendation and the Audit and Budget Committee will conduct a final review at their February 24, 2015 meeting. He welcomed any comments or suggestions from the board.

Mr. Goodman noted that page number 75 in the table of contents should be changed to page 78. The note on the bottom of Page 77 should be changed to: Source of Data: Actuarial Valuation Reports (2005-2014). Chair Schapmire noted that the Mendocino County Superior Court should be correctly referenced on page 3.

**Board Direction:** Staff will correct the CAFR and submit to Gallia LLP for review.

**7) DISCUSSION AND POSSIBLE ACTION REGARDING APPROVAL OF ANNUAL COST OF LIVING ADJUSTMENT (COLA) AS OF APRIL 1, 2015**

**Presenter/s:** Mr. Wilbanks referenced a letter from Segal Consulting regarding their annual cost of living adjustment recommendation to approve a 2.5% increase. The board discussed the government code and that each County must adopt a COLA benefit individually. Pension reform tiers do not receive a COLA and historically the Bay Area Consumer Price Index (CPI) has been used to calculate the COLA recommendation.

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Discussion included our current practice and whether the Mendocino County Seat is included in the Bay Area CPI. It was agreed that additional research needed to be done on this issue and the COLA should be brought back for discussion and possible action next month.

**Board Direction:** Staff and legal counsel will research the COLA issue and will bring this item back to the board next month.

**8) QUARTERLY BUDGET UPDATE**

**Presenter/s:** Mr. Wilbanks referenced the quarterly budget update stating that he would like to make significant changes to this report. He plans on bringing his proposed changes to the Audit and Budget Committee at their next meeting.

**9) RETIREMENT ADMINISTRATOR'S REPORT**

- **Service Award, Katy Richardson**
- **March 2015 Board of Retirement Meeting**
- **Pension Bridge Annual Conference**
- **Pension Administration System Monthly Status Report**
- **Administrative and Operations Updates**

**Presenter/s:** Mr. Wilbanks began by recognizing Katy Richardson for her 10 plus years of service with Mendocino County. He informed the board that he plans on setting up meetings with each board member as well as others stakeholders interested in our system and stated that he is developing a project list that will be submitted to the board soon. He will work with Mr. Berk regarding investments and a watch list policy. He announced that the joint board meeting will be rescheduled and the date has not yet been determined. He will be attending the Pension Bridge Conference in April. Staff will be working on pension system testing for the next two months and we are scheduled to go live in September. Our ultimate goal is to be off the old system by Jan 1<sup>st</sup>.

**10) GENERAL BOARD DISCUSSION**

- **Report from Mr. Sakowicz regarding the CALAPRS Advanced Principle of Pension Management for Trustees training**
- **Report from Callan National Conference attendees**

Mr. Sakowicz reported on his attendance at the CALAPRS training and the certificate he earned. The training used the Harvard Business School case study method and was very intensive. Topics included Corporate Governance, Collegiality, Board Diversity, Economic Forecast, Stress Testing, Alternative Investments, and the Demise of Systems.

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Chair Schapmire reported that Mr. Shoemaker, Mr. Goodman, Mr. Wilbanks, and she went to the Callan Conference. She referenced information from the conference which was distributed to the board. All who attended agreed that this was an excellent conference with great speakers.

**11) CLOSED SESSION**

- **Possible Initiation of Litigation (3 Cases) pursuant to Government Code section 54956.9(d)(4)**

Direction was given to staff and legal counsel regarding the closed session item.

**ADJOURNMENT (1:30 p.m.)**