

BOARD OF RETIREMENT PLANNING SESSION MINUTES

◆ AUGUST 13, 2015 AT 8:30 A.M. ◆

Meeting Location:

University of CA Hopland Research and Extension Center
Rod Shippey Hall, 4070 University Road, Hopland, CA 95449-9717

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:40 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. Absent: Tim Knudsen.

PUBLIC COMMENT: None

Mr. Knudsen entered the meeting at 9:10 a.m.

1) DISCUSSION REGARDING MCERA STRATEGIC PLAN

- FIDUCIARY RESPONSIBILITY
- MCERA ENVIRONMENTAL ASSESSMENT
- REVIEW OF 2013 MCERA STRATEGIC PLAN SUMMARY
- MCERA SERVICE MODEL
- FISCAL YEAR 2016 STRATEGIC PLAN OBJECTIVES
- BOARD SURVEY REVIEW
- BOARD DUTY PRIORITIZATION
- MCERA PROJECT PRIORITIZATION

Presenter/s: Dr. Wilbanks facilitated this board planning session.

The board participated in discussions regarding the MCERA Strategic Plan Summary document adopted January 16, 2013. Topics included fiduciary responsibility, assessment of the MCERA board environment and discussion of assumptions, the MCERA service model, MCERA goals and objectives, results of board survey, board duty prioritization, MCERA project prioritization, and monitoring progress towards goals and objectives.

WORKING LUNCH (Approximate Time 12:30 p.m.)

2) DISCUSSION REGARDING MCERA STRATEGIC PLAN (CONTINUED)

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Board planning discussions continued and all agreed that more time was needed to complete the planning process. Another offsite planning meeting will be scheduled in the very near future.

3) NOTICE OF NEXT MEETING

- **The next regularly scheduled Board of Retirement meeting will be held August 19, 2015.**

ADJOURNMENT (5:50 p.m.)

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
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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: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Craig Walker, Tim Knudsen, Jerilyn Harris, and Shari Schapmire. Also present: James Wilbanks, Retirement Administrator, Jeff Berk, Legal Counsel, Greg DeForrest and Alina Vartanyan of Callan Associates, and Judy Zeller, Administrative Assistant. Absent: Randy Goodman and Richard Shoemaker.

PUBLIC COMMENT: None

1) MINUTES OF THE BOARD MEETING HELD JULY 15, 2015

Presenter/s: Chair Schapmire referenced the July 15, 2015 meeting minutes.

Mr. Gjerde amended his statement on page 5 of the minutes regarding disability applicant travel to Santa Rosa for medical evaluation stating that applicants should travel no further than Santa Rosa.

Board Action: Motion was made by Mr. Sakowicz to approve the minutes of the board meeting held July 15, 2015 as amended. Ms. Harris seconded the motion and the minutes were approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Walker, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman.

2) CONSENT AGENDA

Presenter/s: Chair Schapmire referenced the consent agenda which included the July 2015 Retirement Report.

Mr. Stephens referenced the number of retired deceased members included in the retirement report and asked for the period of measure, which was the month of July 2015.

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

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

None

**4) DISCUSSION AND POSSIBLE ACTION REGARDING CUSTODIAL BANKING
SERVICES REQUEST FOR PROPOSAL (RFP)**

- Interviews with Custodial Banking RFP Finalists
- Selection of Custodial Banking Provider

Presenter/s: Dr. Wilbanks began discussion regarding custodial banking services and explained the RFP process. Four proposals were received by the submission deadline and two of the four, Wells Fargo and State Street, were selected by staff as finalists. He then introduced Michael Wade and Brian Crevoiserat of Wells Fargo Institutional Retirement and Trust who provided a detailed presentation regarding their proposal to the board.

The board discussed the need for custodial bank when MCERA is mostly invested in mutual funds. Mr. Crevoiserat stated that a custodian offers a single point of contact, the ability to look at your portfolio on monthly basis, and always know your cash position. Discussion continued regarding the services that Wells Fargo offers and what services MCERA will use. Mr. Wilbanks added that the RFP had asked questions regarding the types of services available, but we don't require all available services at this time. This offers us flexibility in future. The board discussed price tolerance, corrections, fees, and Government Accounting Standards Board (GASB) 40 reporting. The proposed fee structure assumes one account for all investment funds. Mr. DeForrest commented on the fee structure stating that MCERA may need at least one more separate account to lower fees with RS Investments, and if so, fees with Wells Fargo will go up. The Wells Fargo team was thanked for their presentation and they left the meeting.

Next, Dr. Wilbanks introduced Thomas Jaynes and Alfredo Achecar of State Street Bank and Trust Company who provided a detailed presentation regarding their proposal to the board. The board noted that State Street has client services that deal only with GASB. Fees were questioned and Mr. Achecar stated that the total proposed fee is all inclusive and it includes 10% growth. Performance measurement analytics are not included and estimated to cost an additional \$20,000. Discussion continued regarding State Street service center location, how cash will be held, and State Street's accounting system. Mr. Achecar added that State Street's focus is on California Counties and they currently serve 10 of 20 1937 Act systems. The State Street team was thanked for their presentation and they left the meeting.

Dr. Wilbanks stated the he and Mr. Conwell had spent much time reviewing the two finalists and either one can do the job today. There is a significant difference in cost, but does MCERA

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want to buy services they need today and will outgrow, or does MCERA want a custodian that can grow with us and help us to grow. Some differences were not highlighted today, such as the Wells Fargo additional fee for Clearwater Analytics of \$10,000. This is not of value to mutual funds, but it is a compliance piece. If we move away from mutual funds, compliance becomes more important. Do we choose lower fees with potential increases in future or higher fees with growth built in? Both proposals are below our target of \$66,000.

The board discussed growth, the proposals, and custodial service needs. Dr. Wilbanks commented that separately managed accounts must have a custodian to reduce investment fees. We may also need a custodian to diversify our investments. Mr. DeForrest commented on the difficulty of changing custodians stating that a lot depends on how complicated your investment structure is, overseas accounts add to the complexity, and it's not an easy project.

Mr. Stephens felt the benefit of having separately managed accounts was unclear and he really did not see any savings. Dr. Wilbanks stated that fee savings will be immediate with all investment managers. Mr. DeForrest added that Janus fees will be the bulk of the savings. The board discussed changing to a manager other than Janus to lower fees, staff time savings, and level of custodial expertise. Mr. DeForrest added that having a custodian is best practice. Ms. Harris made motion to enter into a contract with State Street for custodial banking services and Mr. Sakowicz seconded the motion.

Mr. Stephens stated that he will not vote to approve a custodial agreement due to increased spending, high expenses, and a high Unfunded Actuarial Accrued Liability (UAAL). Our funded ratio must be at a higher level. Mr. Sakowicz stated that he will vote to approve this and reminded the board that our budget is half of what it could be by statute and this system playing catchup with best practices. Mr. Knudsen stated he will also vote no after seeing the proposals because there is no need to pay for services that may be needed in the future now.

Dr. Wilbanks strongly recommend hiring a custodian as a prudent measure for the Board and recommended the Board choose State Street as the custodian. Chair Schapmire agreed that we do need a custodian and it is a good business practice. Yes fees are of a concern, but we do not want to have to change custodian in a few years and we must choose one today. Mr. Walker stated that he agrees with Mr. Stephens and will vote no on this item. Ms. Cavness commented that she would vote yes for State Street.

Board Action: Motion was made by Ms. Harris to enter into a contract with State Street for custodial banking services. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Ms. Harris, and Ms. Schapmire. Noes: Mr. Stephens, Mr. Knudsen, Mr. Walker. Abstain: 0. Absent: Mr. Goodman.

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5) DISCUSSION AND POSSIBLE ACTION REGARDING MONTHLY INVESTMENT REPORT

- Quarterly Investment Performance Report, Callan Associates
- Investment Manager Status Update, PIMCO, Janus Overseas Fund

Presenter/s: Greg DeForrest and Alina Vartanyan of Callan Associates referenced the Quarterly Investment Performance Report. Mr. DeForrest commented that the US stock market was up, hitting all-time highs during the quarter. International stocks showed a return of 62 basis points and the US dollar weakened during the quarter. Fixed income was down, REITs and utilities had a tough quarter, and international equity did quite well. Page 28 of the report shows China as the strongest performing country during the second quarter. Janus Overseas had a real strong quarter, but since the quarter end they are 4% behind on a year to date basis. Japan was strong because of quantitative easing.

MCERA's asset allocation is close to target. Page 33 shows a quarter ending balance of \$444 million. Page 35 of the report shows PIMCO down 1.84% for the quarter and Janus Overseas up 7.16%. We have been patient with Janus Overseas, but are not confident that they will perform well after this quarter. We have given them time, but it may be time to move on.

Ms. Harris made motion to terminate our relationship with Janus Overseas. Supervisor Gjerde agreed and suggested reallocation of the investment to the same asset class. The board asked if there was anything that would give Janus the ability to perform. Mr. DeForrest replied that one scenario would be if oil prices went up, but that they would not do well in deflation.

Board Direction: Staff will terminate our relationship with Janus Overseas and will work with Callan to reallocate funds to our other investment managers.

Board Action: Motion was made by Ms. Harris to terminate our relationship with Janus Overseas and reallocate funds to our other investment managers. Mr. Walker seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Mr. Walker, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman.

Mr. DeForrest continued with the quarterly performance report. Domestic Equity showed good performance. RS Investments may be up for sale and we should hear more about this issue soon. Alliance Bernstein will be discussed in a separate agenda item later. Dr. Wilbanks mentioned that two managers stood out as underperformers, Royce Total Return and Morgan Stanley Mid Cap Growth. Mr. DeForrest explained that it had been a tough year for Morgan Stanley mainly due to bio tech. Royce is very different and they do well in down market. We should keep an eye on both, but Callan is not recommending a change at this time. The board may wish to add them to their status update at each board meeting.

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Page 35 of the report shows all international equity managers' performance. Most outperformed for the quarter, the total fund outperformed over 3, 5, and 7 years even with Janus Overseas. Bond managers also out performed for the quarter. Real Estate managers were 24 basis points positive, close to the index, but a little behind for the quarter. REITs were down and underperformed. Cornerstone struggled against RREEF and Callan is disappointed with the performance of Cornerstone. Mr. Knudsen inquired about PIMCO redemptions. Mr. DeForrest stated that they are still having outflows and PIMCO is now a \$100 billion dollar fund; which is a meaningful drop in size. The Securities and Exchange Commission (SEC) is looking at PIMCO and its treatment of Exchange-Traded Funds (ETFs). This is probably an industry wide issue that needs to be looked at. The fund had great July. Overall this is a positive report and all composites are doing well.

6) DISCUSSION AND POSSIBLE ACTION REGARDING ALLIANCEBERNSTEIN ACCOUNT TRANSITION

Presenter/s: Dr. Wilbanks referenced a communication received from AllianceBernstein (AB) which explained that our current investment with AB, the Small Cap Growth Delaware Business Trust (DBT), would be closing. This communication included the Summary Prospectus for the AB Small Cap Growth Mutual Fund Z Shares. AB is recommending that MCERA transition assets this fund and has stated that MCERA will benefit from a cost savings of 18 basis points.

Board Direction: Staff and counsel will work with AB to transition assets to the AB Small Cap Growth Mutual Fund Z Shares.

Board Action: Motion was made by Mr. Sakowicz to approve the transition to AB Small Cap Growth Mutual Fund Z Shares. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Mr. Walker, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman.

7) MONTHLY FINANCIAL REPORT

Presenter/s: Dr. Wilbanks referenced the preliminary July 2015 financial report.

8) QUARTERLY BUDGET UPDATE

Presenter/s: Dr. Wilbanks referenced the quarterly budget update.

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9) DISCUSSION AND POSSIBLE ACTION REGARDING JOYCE BANKER PAYMENT AGREEMENT

Presenter/s: Chair Schapmire referenced the payment agreement with Joyce Banker which needs board approval today and gave direction to bring back the overpayment policy at a future meeting for review and discussion. Ms. Harris made motion to approve the agreement with Joyce Banker. Mr. Sakowicz seconded the motion.

Mr. Stephens inquired about the reporting of the other overpayments. Mr. Berk explained that there were three previous overpayment agreements approved by the board in May and June. Mr. Berk further explained that draft settlement agreements were reviewed by the board in closed session, and then were listed on a later agenda for board approval.

Mr. Berk stated that the Banker agreement, as crafted, is before the board as an action item. He cautioned the board to be careful about talking about closed session discussions and reminded the board that what is required today is a vote whether or not to approve this agreement.

Board Direction: Staff and legal counsel will bring back the overpayment policy item by end of the calendar year.

Board Action: Motion was made by Ms. Harris to approve the payment agreement with Joyce Banker. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Knudsen, Mr. Walker, Ms. Harris, and Ms. Schapmire. Noes: Mr. Stephens. Abstain: 0. Absent: Mr. Goodman.

10) CLOSED SESSION

- **Kurt Smallcomb Disability Application**

REPORT OUT FROM CLOSED SESSION

The board voted unanimously to approve the Service Connected Disability application of Mr. Smallcomb.

Board Action: Motion was made by Mr. Sakowicz to approve Kurt Smallcomb for Service Connected Disability Retirement. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Mr. Gjerde, Mr. Stephens, Mr. Knudsen, Mr. Walker, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman.

11) GENERAL BOARD MEMBER DISCUSSION

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Mr. Stephens asked Mr. Berk if a vote was taken during the closed session of the July meeting. Mr. Berk replied that no reportable action was taken. Rather, direction was given to staff.

Mr. Sakowicz commented on the August 13 board planning meeting, commending Dr. Wilbanks for a job well done as organizer and facilitator/presenter. He added that he was looking forward to the next planning session. Dr. Wilbanks mentioned that he has sent out potential dates for the next planning meeting to trustees by email.

Mr. Knudsen spoke on behalf of the Association of Mendocino County Retired Employees (AMCRE) which has approximately 900 members who are retired members of MCERA. A newsletter is mailed to the membership four times per year. Previously MCERA staff would assist in compiling an excel file of AMCRE member's mailing information. Dr. Wilbanks stopped that process because he felt it was a gift of public funds. AMCRE now has the ability to print mailing labels, but no ability to get the most current report from the retirement system and must rely on a manual process. He asked the board to provide direction to allow staff to send an excel file mailing list to AMCRE when needed for the newsletter.

Mr. Berk commented that this was also an issue in Sonoma County with concerns regarding privacy and disclosure and may be a policy issue. Mr. Knudsen added that all 37 Act Systems have an association of retirees and they also send out this type of information. The more pressing issue is the mailing of open enrollment packets for insurance plans available to retired members of 37 Act Systems each fall. The insurance agency needs a mailing list by October.

The board discussed concerns regarding confidentiality and Dr. Wilbanks explained that it would be more efficient to work with a mail house where information could be sent after completing a confidentiality agreement. It was unknown whether AMCRE could sign a confidentiality agreement and receive the mailing list. Mr. Berk felt this should be a future agenda item. Staff will bring this item back for discussion at our next meeting.

Dr. Wilbanks announced that MCERA has received notification from the Government Finance Officers Association (GFOA) that our Comprehensive Annual Financial Report (CAFR) received a certificate for excellence in financial reporting. MCERA did not submit the CAFR last year. A press release will be sent out this afternoon.

12) NOTICE OF NEXT MEETING

- The next regularly scheduled Board of Retirement meeting will be held September 16, 2015.

ADJOURNMENT (Approximate Time 12:16 p.m.)