

MINUTES OF THE RETIREMENT BOARD
January 19, 2017

A regular meeting of the Retirement Board convened on Thursday, January 19, 2017 at 8:40 a.m. in the Large Training Resource Center (TRC) Room. The meeting was called to order by President Doug Higashi.

Roll Call – The following Retirement Board Members were present: Alex Coate, Doug Higashi, Tim McGowan, Frank Mellon, Lisa Ricketts and Marguerite Young.

The following staff members were present: Dari Barzel, Laura Brunson, Elizabeth Grasseti, Lourdes Matthew, Sophia Skoda, and Lisa Sorani.

PUBLIC COMMENT

There was none.

ANNOUNCEMENT FROM CLOSED SESSION:

1. Doug Higashi announced that two disability retirements were approved in closed session.
 - a. Application for Disability Retirement for Wilson Jones IV was moved by Frank Mellon and Seconded by Tim McGowan. Retirement Board Resolution 6851 carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (None).
 - b. Application for Disability Retirement for Karl Mielenz was moved by Frank Mellon and Seconded by Tim McGowan. Retirement Board Resolution 6852 carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (None).

CONSENT CALENDAR

2 - 5. **Consent Calendar** – A motion to move the consent calendar with one correction was made by Frank Mellon and seconded by Marguerite Young. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (None).

ACTION

6. **Adopt the Actuarial Valuation of the Retirement System as of June 30, 2016** – Andy Yeung and Dirk Adamsen from Segal Consulting presented the FY 2016 Actuarial Report. They reviewed the notable results of the study including that the funded ratio decreased slightly from 69% to 68.8% with the decrease to the assumed rate of return to 7.25% from 7.50%. The number of retirees is 1,630, the number of active employees is 1,789, and the number of vested members is 248. There was discussion regarding the inflection point when there will be more active employees than retirees. There was discussion regarding the possibility of joining a larger pension plan, such as CALPERS, and whether such a move would provide more security to the

system particularly in down markets. Mr. Yeung said that there had been a study by Orange County Employees Retirement System about 15 years ago on whether to join a larger fund, and they found it was less expensive to stay independent.

Mr. Yeung then reviewed the Health Insurance Benefit (HIB) report. The funding level increased to 23.3% from 20.7%. The total Employer cost for the HIB declined from 5.43% in FY17 to 5.19% in FY18. The drop in rate was in part due to lower health plan costs for retirees.

The recommended contribution rates for FY 2018 are very similar to the rates for FY 2017 and are shown below:

Actuarially Derived Contribution Rates Employer						
	FY18 Actuary Recommendation		FY17 Adopted		FY17 Actuary Recommendation	
	1955/1980 Plan	2013 Plan	1955/1980 Plan	2013 Plan	1955/1980 Plan	2013 Plan
Pension	37.92%	31.30%	37.71%	30.92%	35.91%	29.42%
HIB	5.26%	4.86%	5.51%	5.06%	5.37%	4.95%
Total	43.18%	36.16%	43.22%	35.98%	41.28%	34.37%
Actuarially Derived Contribution Rates: Member						
	FY18 Actuary Recommendation		FY17 Adopted		FY17 Actuary Recommendation	
	1955/1980 Plan	2013 Plan	1955/1980 Plan	2013 Plan	1955/1980 Plan	2013 Plan
Pension	8.66%	8.75%	8.66%	8.75%	8.66%	8.75%
HIB	0.09%	0.09%	0.09%	0.09%	0.09%	0.09%
Total	8.75%	8.84%	8.75%	8.84%	8.75%	8.84%

Alex Coate moved adoption of the Actuarial Valuation and the FY18 contribution rates. Doug Higashi seconded the motion. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (None).

7. Declaring the interest rate to be credited to Members Contributions for Period Ending December 31, 2016 - Staff requested approval of the interest rate to be applied to accumulated Member contributions. In compliance with Retirement Board Rule B-9, the annual rate was determined to be 7.50%. The Retirement Board Resolution 6855 declares that a semi-annual rate of 3.75% be credited effective December 31, 2016. Frank Mellon moved the resolution, and Alex Coate seconded it. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (None).

INFORMATION

8. **3rd Quarter Performance Review as of September 30, 2016** - Sarah Bernstein from PCA presented the performance review. The portfolio was at \$1.40 Billion and was up \$50 million for the quarter (3.6%) and \$142 million for the year (10.7%). She said that Domestic Equities were in line with benchmarks for the quarter, and that the rest were above the benchmark. She highlighted Covered Calls which returned 12.4% for the year, vs. their benchmark of 8.5%, and real estate which returned 17.4% for the year vs. the benchmark of 15.5%. Intech underperformed the benchmark, as did Opus. They are both on watch. Non-Core Fixed Income outperformed the benchmark modestly. The portfolio was in the top quartile for performance for the 1, 3, 5 and 10 year periods. The 5-year return was at the top for the peer group.

9. **Presentation from Investor Network on Climate Risk (INCR)** – Reverend Kirsten Snow Spaulding, Director, Investor Programs at CERES, spoke on engagement opportunities working with other investors on climate change, water scarcity, and sustainability challenges. Ceres Investor Network on Climate Risk (INCR) has 125 members including the largest pension funds and largest asset managers in North America.

10. **ESG: Update on ERS Climate Change Exposure** - Melissa Galla and Avantika Saisekar from Northern Trust presented the system’s ESG portfolio analysis. They reviewed a snapshot of the ERS portfolio. The Carbon Footprint Analysis was below the benchmark.

11. **Draft ESG Investment Objective for Board Discussion** - Staff presented proposed ESG statement to be included in the investment objective. There were minor edits provided by the Board. The Board recommended that the statement be incorporated into the investment policy as the third investment objective under overall performance goals. The recommended statement including edits reads:

Consistent with the System’s Mission and Investment Beliefs, the System recognizes that the consideration of environmental, social and governance (“ESG”) factors can have a material impact on corporate performance over the long term, although the impact can vary by industry. ESG factors may affect security selection, proxy voting, engagement, and other areas. The System will consider ESG factors in its proxy voting and other relevant portfolio management activities. ESG factors will be taken into account in selection and ongoing monitoring of the System’s investment managers and mandates, and of other service providers as appropriate. The System will leave individual security selection decisions to its investment managers under the assumption that they will make the decisions that are in the best interest of the System incorporating both ESG and non-ESG factors.

12. **Proposed ESG Implementation Plan** – Sarah Bernstein from PCA discussed the proposed ESG implementation plan. She reviewed the steps that had been taken to date. She also reviewed engagement activities that are ongoing, and recommended a regular review of ESG factors in the portfolio.

13. **CEM Benchmarking Results** - Sophia Skoda reviewed the results of the CEM Benchmarking survey. The ERS portfolio is among the smallest funds that participate. Fourteen

other funds were considered peers, with a median portfolio size of \$2.149 Billion. The ERS's portfolio return for calendar year 2015 was 1.1%, well above the median fund return of -0.6%. Investment cost was 38.4 basis points, which was below the median of 53.8 basis points.

14. **Annual Health Insurance Benefit Survey** - Staff reviewed the annual HIB survey results. The survey was expanded this year to include information on cost of living adjustments for health benefits, OPEB funding percentage, and health coverage for Medicare eligible retirees. Eight agencies have increases in health premiums, averaging 21%. Several agencies had OPEB funding levels above 90%.

15. **Retirement Board Training Annual Report** – Staff provided the Retirement Board with a summary of their training hours and costs for the past two years. The Board asked to be appraised of any training opportunities.

REPORTS FROM THE RETIREMENT BOARD

16. **Brief report on any course, workshop, or conference attended since the last Retirement Board meeting** – Tim McGowan noted that he planned to attend the CALAPRS General Assembly March 5 – 7, 2017 in Monterey.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Actuarial Audit scheduling
- Risk Offset Investment Class & Goal Based Investing
- Non-Core Fixed Income Review
- Update to Investment Policy to accommodate changes to proxy voting
- Request WAMCO to speak at a future meeting

ADJOURNMENT – Frank Mellon moved to adjourn the meeting at 1:56 p.m. and Alex Coate seconded the motion; the motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (None).

President

ATTEST: _____
Secretary

3/16/2017