Mendocino County Employees Retirement Association

Date: March 20, 2024
To: Board of Retirement
From: Board Chair Cavness, Vice Chair Shoemaker, and Executive Director Rentschler
Subject: Investments – Report on Board of Supervisors Meetings

Recommended Action:

None.

Fiscal and Financial Impacts:

None.

Strategic Plan Importance:

While this is not a specific action item on the Board's work plan, this item relates to MCERA's 5-year Strategic Plan, how MCERA protects the plan's long-term financial health and is part of MCERA's risk oversight. Additionally, this item relates to how trustees fulfill their fiduciary duty by following a well-defined process, industry best practices, and the Board's Investment Beliefs and Investment Policy Statement.

Background and Discussion:

At some recent Mendocino County Board of Supervisors meetings, there were discussions about MCERA's investment returns. That Board directed its staff to bring back an agenda item to consider making a recommendation to MCERA to adopt a (to be crafted) investment portfolio.

The purpose of this agenda item is to discuss generally and briefly the processes and policies MCERA has in place in making investment decisions.

Asset Allocation:

As stated in MCERA's Investment Policy Statement (last adopted in October 2023), MCERA adopts and implements an asset allocation that is based on projections of:

- Actuarial assets, liabilities, benefit payments and the cost of contributions;
- Historical and expected long-term capital market risk and return behavior;
- Future economic conditions, including inflation and interest rate levels; and
- The current and projected funded status of the Plan.

The Investment Policy provides the framework for the management of MCERA's assets. The purpose is to assist the Board in effectively establishing, monitoring, evaluating, and revising the investment program. By working with qualified consultants and establishing and following a well-defined process for the selection of investments, the Board fulfills a primary tenet of its fiduciary duty.

The Board undertakes an asset liability study and sets its asset allocation every three to five years unless circumstances warrant an earlier review. An asset liability study helps establish a cohesive risk-management framework and forms the basis of the investment strategy. Most pension plans conduct a comprehensive asset liability study every three to five years, or after a significant change in demographics, plan design, funding status, or legislation.

In February 2023, Callan, MCERA's independent investment consultant, presented the Asset Liability Study and several asset allocation models to the Board. A majority of the Board voted to adopt a certain allocation at that time. In March 2023, a trustee made a motion to reconsider the February decision and the Board agreed to reconsider the previously approved decision at the next meeting in April. At the April 2023 meeting, a majority of the Board approved a slightly different asset allocation. The adopted asset allocation represents a consensus of the Board, consistent with their adopted investment beliefs. The next asset liability study is planned for late 2025.

Selection of Investment Consultant:

Callan became MCERA's investment consultant in October 2009. Following that selection, MCERA conducted a request for proposals for an investment consultant in 2015 and 2018. Following each Request for Proposal (RFP), the Board voted to renew its contract with Callan. In April 2023, Callan's contract came up for renewal and again the Board voted to renew the contract with Callan.

Callan's current contract expires June 30, 2026, and if the Board desires, staff can issue an RFP in early 2026.

Brief Summary of MCERA's Investment Returns:

At some recent Board of Supervisors meetings, there was discussion regarding MCERA's investment returns. The following summary is intended to provide a brief discussion of those returns and links to various supporting documents.

The most important period for a snapshot of the MCERA portfolio is June 30 of each year. This is because the annual returns ended June 30 are used in the actuarial valuation which sets the funding status of the system and contribution rates for members and plan sponsors. The two tables below show MCERA's June 30, 10-year and 15-year returns, 10-year and 15-year benchmark returns, actuarial assumed returns, and percentile ranks vs the Callan peer group.

The Callan peer group includes over 300 other public Defined Benefit systems of varying assets under management across the country. MCERA's quarterly investment returns can be found at: https://www.mendocinocounty.gov/government/affiliated-agencies/mendocino-county-employees-retirement-association/quarterly-investment-performance-reports

MCERA June 30 Total Fund Returns

	MCERA 10-Yr Return	10-Yr Benchmark Return	Actuarial Assumed Return, 10-Yr	Rank vs Peer Group (%), 10-Yr
FY 2018	7.14%	6.79%	7.50%	23rd
FY 2019	9.51%	9.66%	7.40%	34th
FY 2020	8.35%	8.83%	7.28%	10th
FY 2021	9.20%	9.26%	7.18%	15th
FY 2022	8.23%	8.19%	7.08%	9th
FY 2023	7.62%	7.79%	6.95%	25th

MCERA June 30 Total Fund Returns

	MCERA 15-Yr Return	15-Yr Benchmark Return	Actuarial Assumed Return, 15-Yr	Rank vs Peer Group (%), 15-Yr
FY 2018	7.66%	7.66%	7.67%	11th
FY 2019	7.41%	6.99%	7.60%	16th
FY 2020	6.88%	6.60%	7.52%	9th
FY 2021	8.04%	8.04%	7.43%	12th
FY 2022	6.14%	5.92%	7.35%	11th
FY 2023	6.98%	6.89%	7.25%	28th

We provide this information to demonstrate that for the last 15 years, the June 30 returns of the MCERA portfolio has performed well compared to the benchmark, the actuarial assumed return, and the peer group. As a point of reference, the peer group ranking indicates what percentile MCERA places relative to other Public Defined Benefit Plans. A ranking in the 28th percentile indicates MCERA's returns are better than the returns of 72% of its peers.

Another important period for review is the December 31 quarter. Below are two tables showing MCERA's December 31, 10-year and 15-year returns, 10-year and 15-year benchmark returns, actuarial assumed returns, and percentile ranks vs the Callan peer group.

MCERA Dec 31 Total Fund Returns

	MCERA 10-Yr Return	10-Yr Benchmark Return	Actuarial Assumed Return, 10-Yr	Rank vs Peer Group (%), 10-Yr
CY 2018	8.89%	8.65%	7.50%	32nd
CY 2019	8.60%	8.77%	7.40%	17th
CY 2020	8.69%	8.89%	7.28%	12th
CY 2021	10.44%	10.29%	7.18%	9th
CY 2022	7.49%	7.54%	7.08%	18th
CY 2023	6.75%	7.12%	6.95%	37th

MCERA Dec 31 Total Fund Returns

	MCERA 15-Yr Return	15-Yr Benchmark Return	Actuarial Assumed Return, 15-Yr	Rank vs Peer Group (%), 15-Yr
CY 2018	6.79%	6.35%	7.67%	21st
CY 2019	7.25%	6.84%	7.60%	6th
CY 2020	7.66%	7.30%	7.52%	8th
CY 2021	7.60%	7.26%	7.43%	7th
CY 2022	6.03%	6.03%	7.35%	18th
CY 2023	9.00%	8.81%	7.25%	10th

When comparing the 15-year total returns, the June 30 and December 31 returns compare favorably against the benchmark, the actuarial assumed return, and peers. As a point of reference, the peer group ranking indicates what percentile MCERA places relative to other Public Defined Benefit Plans. A ranking in the 10th percentile indicates MCERA's returns are better than 90% of its peers.