

**Approved Minutes  
Meeting of the  
AC TRANSIT RETIREMENT BOARD  
December 13, 2018**

**ROLL CALL**

Chair Jeff Lewis called the meeting to order at approximately 9:03 a.m.

Members Present: Chair Jeffrey Lewis, Vice Chair Yvonne Williams, Claudia Allen, Davis Riemer

Absent at Roll Call: None

Members Absent: Joyce Willis

Also Present: Hugo Wildmann, Retirement System Manager; Russell Richeda, Legal Counsel; Curtis Lim, Retirement System Temporary Employee; Thuie Tran, Retirement System Staff; Carolyn Smith, NEPC; H. E. Christian Peoples via Telephone, District Board Liaison; Richard Osland, AC Transit

**PUBLIC COMMENTS**

None

**CONSENT CALENDAR**

- A. Approval of Minutes for the November 8<sup>th</sup> Meeting
- B. Approval of Financials for August 2018
- C. Approval of Invoices for \$70,204.53
- D. Approval of Retirements for November/December 2018 and January 2019:
  - 1. Sandra Leblanc-Brooks (November, Term Vested)
  - 2. Ann Moore (December)
  - 3. Debra Wold (December)
  - 4. Rina Anthony (January)
  - 5. Ronnie Baity (January)
  - 6. Richard Cruz (January)
  - 7. John Galedrige (January)
  - 8. Mfaume Jefferson (January)
  - 9. Darlene Ross (January)
  - 10. Dollene Jones (January, Term Vested)

The Board recognized Ann Moore for 28, Debra Wold for 28, Ronnie Baity for 36, Richard Cruz for 26, and Mfaume Jefferson for 29 years of service.

**MOTION: WILLIAMS/ALLEN** to approve consent calendar. (4-0-0-1)

Ayes: Chair Lewis, Vice Chair Williams, Members Allen, Riemer

Noes: None

Abstain: None

Absent: Member Willis

## REGULAR CALENDAR

The Retirement Board May Discuss and Take Action on the Following:

### E. New Methodology for the District Reimbursement (October 2018) (\$83,085.41)

Hugo reported that the District has created a new methodology for the reimbursement of expenses paid by the District for the Retirement System. In the past the Retirement System has calculated the amount to be reimbursed. Under the new system the District will present a “bill” to the Retirement System for payment. Hugo and Claudia think this is a better way of handling the reimbursement. Hugo stated that some items, such as the contribution to the retirement plan, have not been reimbursed in the past.

Hugo mentioned that the District is going to look at past expenses that have not been reimbursed going back about a year. Chair Lewis said that we will discuss at the next meeting how far back we should look.

**MOTION: RIEMER/ALLEN** to approve the District Reimbursement expenses of 83,085.41. (4-0-0-1)

### F. Investment Performance, Rebalancing and Asset Allocation

Hugo reported that the fund is down for the year, ending November down about 1.5%. Given the recent downturn in the markets, the fund will almost certainly end the year well short of its actuarial rate of return. Carolyn stated that Dodge & Cox and Sands, two of our active managers have outperformed the benchmark while DFA is underperforming. Carolyn stated that emerging markets have had poor performance this year. She mentioned that Real Estate and Private Debt are doing better than public markets. Member Allen asked about an economic outlook; Carolyn said she hoped the NEPC 2019 outlook will be available to discuss at the January meeting.

Member Riemer asked about the small cap market and its underperformance. Carolyn responded that cash has been coming out of active portfolios and into index funds steadily since 2011. Active portfolios usually have a higher weighted small cap allocation. By inference, since index funds generally have higher weight in large cap, the demand for small cap equities is slowly getting smaller due to the outflow of cash from active portfolios. Hugo added that there are a lot fewer small cap stocks as well as companies such as Uber and Airbnb are delaying going public and are never part of the small cap index.

Hugo reported that treasuries are now a larger component of the fixed income benchmark and the index fund we are invested in. He would like the Board to discuss the implications of this change and have Carolyn to prepare a brief presentation for the Board on this topic. Carolyn suggested that the Board should have a possible discussion around different benchmark construction at a later meeting date.

### G. Investec Presentation on Currency Investing in Our Portfolio

Carolyn reported that Investec is presenting about the makeup of the currency investing in their portfolio, specifically to address the issue of how much currency investment they do that is used to hedge other investments in their portfolio. She stated the Board would like to know how much is invested as part of hedging bonds and what portion is purely currency investing with no hedge. Chair Lewis stated that even though the Board may not have understood the type of investing Investec did at the initial hiring, the Board should try to understand as much as they can about Investec now and make a decision about whether to continue or find a new manager. Chair Lewis asked about a breakdown of the currency percentage in the portfolio.

Doug Doucette, Client Service, Investec was at the meeting while Mike Hugman, Portfolio Manager, was on the phone from London. Doug explained that their presentation would focus on the non-hedging component of their currency investments.

The Board discussed at length, during the presentation, their questions and concerns about the currency investing by Investec. Mike stated that the risk and exposure can be seen two different ways when looking at the currency investments unrelated to bonds. There is a total exposure to all the different countries that have currency investments unrelated to bonds, as well as a net exposure of the investments when relating them to how the US Dollar is moving against the different countries. Member Riemer asked about the different risks of currency investing. Russ asked how many different contracts are being used when doing currency investing.

Mike explained that for an active manager to produce returns above the benchmark the manager must take investment risk. He explained that for Emerging Market Debt Managers this means either underweighting or overweighting particular countries by a significant amount or taking currency risk and actively trading currencies. Mike made the case that the approach Investec takes is preferable to the approach other active manager take.

Hugo stated that the total leverage of the currency investments unrelated to bonds is about 50% if longs and shorts are not netted against each other and about 10-15% if they are. Member Riemer asked about what has hurt the performance of the portfolio. Mike answered that two things have hindered the performance, one their decision pertaining to Brazil and the other was in Argentina.

#### H. Additional Investec Information

Member Allen asked about the reason for the emerging market debt asset class in our portfolio. Carolyn responded that the emerging market debt produced a higher yield, and in the view of NEPC, a higher expected return than domestic bonds of similar quality. Chair Lewis mentioned that Investec has decided to use the forward exchange transactions to gain an advantage over the benchmark. Member Riemer noted that the presentation shows a track record of positive performance over a small period of time. The Board discussed whether they should continue with investing in Investec. Member Riemer stated that he would like to keep them as a manager because they are disciplined and thorough. Vice Chair Williams asked about how many countries are being invested in. Carolyn replied that about 50 countries are being invested in. The Board decided not to make any changes to the funds managed by Investec.

The Board took a break from 11:01 a.m. to 11:09 a.m.

I. NEPC Work Plan for 2019 and Tentative Calendar for 2019

Carolyn reported that she will bring different Asset Mix Models in January.

Hugo stated that the General Manager has a conflict with the normal scheduled meeting of the 2<sup>nd</sup> Thursday of each month. He would like to reschedule as many months as possible and change the normal meeting date to the 3<sup>rd</sup> Thursday of each month.

The Board decided that January's meeting will stay on January 10 and February's meeting will be moved from February 25 to February 21. Hugo mentioned that April 17<sup>th</sup> will be the joint Board meeting with the District. The Board agreed to discuss the other meeting dates on January 10<sup>th</sup>.

The Board took a break from 11:37 a.m. to 11:47 a.m.

J. Update on November 14<sup>th</sup> District Board Meeting

Hugo reported that the District Board granted a six month extension for the Robert Half contract to June 30<sup>th</sup>. He also reported that the Board gave a three month window to hire for the Retirement System Administrator position and three months for Curtis to train the new employee. He mentioned that Chair Lewis and Vice-Chair Williams spoke very well at the meeting and that he greatly appreciated their support.

K. Update on Hiring for the Retirement System Administrator

Hugo reported that there were a couple of candidates that were interviewed by the panel. The panel agreed that none met the qualifications for the position. Hugo spoke to District HR to upgrade the position from a grade 8 to a 9. The Board gave direction to Hugo to try to expedite the approval. Chair Lewis has appointed Members Allen and Riemer to help Hugo in the event that he needs a Board member to review documents or if he wants feedback prior to the January meeting.

L. Department Staffing Update

M. Amendment to the Agreement Between the District Board and Retirement Board

Hugo stated that Russ and Denise will work on an amendment to the agreement between the District Board and Retirement Board which will allow to Retirement Board to extend the Robert Half contract.

**MOTION: RIEMER/ALLEN** to approve Chair Lewis to sign the amendment to the agreement between the District Board and Retirement Board. (4-0-0-1)

N. Extension of Robert Half Contract

Hugo requested that the Board authorize him to sign the extension with Robert Half.

**MOTION: RIEMER/ALLEN** to approve Hugo to sign the extension of Robert Half through 6/30/19. (4-0-0-1)

O. Benefit Statements for Employees Who Transferred Labor Unions After 12/31/15

Denise Standridge and Jill Sprague joined the meeting.

Hugo prefaced his remarks by saying that the General Manager was at a TJPA meeting and could not attend this meeting. The General Manager wanted Hugo to convey to the Board that he would like the opportunity to give the Board his thoughts on the Benefit Statements before a final decision is made.

Hugo reported that the Retirement Department has already sent out 95% of the 2018 Benefit Statements, but have not acted on 44 Benefit Statements. These 44 Benefit Statements are for employees who transferred into new labor unions after 12/31/15 or moved from being represented to unrepresented. Hugo mentioned that the PEPR Plan Amendment has a provision in it dealing with "No Retroactive Benefit enhancements", which has to do with employees who change job classifications and their change results in a retroactive benefit enhancement. This provision would change the calculation method for those employees who have transferred. Russ mentioned that the Plan Amendment only applies to unrepresented employees. Denise clarified that for employees who transferred from ATU to AFSCME, the PEPR amendment does not apply.

Bill Tonis joined the meeting to talk about how he would be affected by the PEPR Plan Amendment. Mr. Tonis mentioned that he was never told that by moving into an unrepresented position his retirement benefit calculation would be affected. He was told at the time of his promotion that his years in AFSCME would be calculated at the unrepresented rate.

**MOTION: RIEMER/ALLEN** to send Benefit Statements to those individuals who transferred into Unrep unless General Manager Mike Hursh disagrees with the decision of the Board. (4-0-0-1)

Hugo discussed the possible need for a disclaimer on the Benefit Statements that will go out to employees who moved from one union to another. Vice Chair Williams said that if a disclaimer is added to the Benefit Statements for those who transferred into a different union after 1/1/16, it should say "Benefits may change if PEPR is implemented". Hugo would like to bring a disclaimer back for the Board to review at next month's meeting.

P. Summary Plan Description (SPD)

Hugo stated that we would not be discussing the SPD this month.

Q. PEPR Implementation Update

Hugo mentioned that Curtis, Hugo, and the District Finance Department are working on implementation.

R. Paratransit Employees in the Retirement Plan

Hugo reported that the General Counsel had said that she could find no written documentation prior to the August 6, 2002 CBA that showed that Paratransit employees were not in the Retirement Plan. The General Counsel also said the District Secretary could find no such documentation. He said the current plan, dated January 1, 2005, says that Paratransit service is

excluded when computing retirement benefits. He added that since 1997 this has always been the interpretation of the Plan by the Retirement Department. Hugo suggested that both the District and ATU write-up their views on Paratransit service and the plan prior to the August 6, 2002 CBA. He recommended that Russ review these write-ups and write a memo to the Retirement Board with his view on the issue..

Vice Chair Williams says she has a list of employees who were part of Paratransit prior to August 2002 which she would supply to Hugo for him to look through to see if any of them have retired. Denise said she had spoken to Vicki Riggan who was a supervisor at D8 for a short time, and Vicki says that Paratransit employees were not included in the Retirement Plan.

**MOTION: RIEMER/ALLEN** to have ATU and the District General Counsel send a letter addressing Paratransit employees and their status prior to August 6, 2002. Russ will review these letters and write a memo to the Board. (4-0-0-1)

S. Speaking with Doctors as Part of the Disability Process

Hugo said that given the late hour this item will be moved to January meeting.

T. District Board and Retirement Board Committee

Hugo reported that at the District Board meeting yesterday, President Elsa Ortiz said she wanted to create a committee that is made up of two District Board members and two Retirement Board members to discuss the relationship between the two Boards.

**MOTION: RIEMER/ALLEN** to have a joint committee with AC Transit and to appoint Yvonne and Jeff to this committee. (4-0-0-1)

U. Appeal of Linda Young

Russ reported that the Board has to decide whether to accept the Hearing Officer's decision. If they decide to not accept the Hearing Officer's decision, the decision would then revert back to their original decision which is the same as the Hearing Officer's decision.

Linda Young came to the meeting to give comments to the Board. Ms. Young said she is still having pain and is still seeing her doctor every month. Vice Chair Williams stated that during the Hearing, Ms. Young said that she did not want to do the jobs that were suggested by Dr. Swartz.

The Board discussed the appeal in additional detail in Closed Session.

V. Retirement System Manager Report:

1. New Employee Orientation Presentation
2. Joint Meeting Tentative Date (April 17<sup>th</sup>)
3. Retirement Board Recruitment by the District – Hugo reported that at its Board meeting yesterday, the AC Transit District Board decided to appoint Claudia Allen, Davis Riemer and Jeff Lewis to another term on the Retirement Board.

December 13, 2018 Retirement Board

W. Closed Session

X. Resume Open Session

Russ reported out on Closed Session with respect to item W-1-c and W-2-a-1. The Board approved Mr. Archie Hansbury's Total and Permanent Disability retroactive to May 2018. The Board approved Hearing Officer's decision of the appeal of denial of Total and Permanent Disability for Ms. Linda Young.

**MOTION: ALLEN/WILLIAMS** to adjourn. (4-0-0-1)

The meeting adjourned at 1:26 p.m.