

**Approved Minutes
Special Meeting of the
AC TRANSIT RETIREMENT BOARD
August 8, 2019**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at approximately 9:06 a.m.

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

Present by Phone: None

Members Absent: None

Also present: Hugo Wildmann, Retirement System Manager; Jason Herron, Retirement System Administrator; Russell Richeda, Legal Counsel; H.E. Christian Peeples, District Board Liaison; (the following individuals were at part of the meeting): Bertina Ng, Retirement System Analyst; Graham Schmidt, Cheiron, Mario Maturo, UBS, Carolyn Smith, NEPC

PUBLIC COMMENTS

None

CONSENT CALENDAR

Hugo reported to the Board about the updated minutes from the last meeting, and an update to the Retiree Memo to change two retirement dates, and the removal of a holdback from one retiree.

A. Approval of Minutes for June 27 and July 25th

B. Approval of Financials for April 2019

C. Approval of Invoices for \$217,649.26

D. Approval of Retirements for September 2019:

1. William Aubrey (September)
2. Anthony Cleveland (September)
3. Muhammed Haroon (September)
4. Doreen Mathews (September)
5. Wilmer Osibin Jr. (September)
6. Yolanda Williams (September)

7. Celia Hackett (September, Term Vested)
8. Teresa Trinh (Chan) (September, Term Vested)

MOTION: Williams/Willis to adopt the Consent Calendar . (5-0-0-0)

REGULAR CALENDAR

E. Experience Study

Hugo reviewed the agenda for the meeting. He noted that temporary analyst Curtis Lim is on vacation and General Manager Hursh usually is not available on the second Thursday of the month. When possible, the Board has moved its meetings so the General Manager has the option of attending. Hugo said that Graham would be presenting the preliminary Valuation and the final Experience Study, and Mario Maturo from UBS would be presenting on their real estate fund.

Graham began his presentation with the Valuation results and Experience Study. He reported on changes to the salary scale assumptions and that his new estimate for payroll, of \$191 million, is very close to the District's payroll projections. The projected AC Transit contribution is just under \$60.1 million, which is a very small change from the figures the Board reviewed in June.

There was discussion about what whether investment costs were included in the projected expenses; they are not included. There was also discussion about how our expenses compared to other plans. Hugo and Graham discussed the difficulty of comparing expenses between various plans. The assumptions about merit salary increases were changed based on the Experience Study, since increases are larger in an employee's first 48 months in ATU, and in the first 7 years for AFSCME employees.

Disability Rates were also adjusted, particularly the rates for ATU/IBEW females. There was discussion about why certain groups are together or separate as part of the assumptions. Graham explained that unrep and AFSCME are lumped together as are ATU and IBEW in many cases. One of the reasons he gave was the unrep group is very small, and adding AFSCME adds to the statistical significance of the results.

No assumption changes were recommended for sick leave payouts, vested deferral age, family composition, general leave, or workers compensation adjustment. Estimated Expenses were increased due to higher expected District charges. Hugo explained that this was a result of the District now charging for things they did not charge for prior to 2018. Mortality rate changes lowered the Employer contribution the most of any of the assumption changes. Graham reported the impacts of PEPRA on the assumptions for the year. There was some discussion about the possible impacts of adding ATU members to PEPRA.

Graham reviewed the investment assumptions of other California pension plans and showed how these assumptions have been coming down in recent years. He mentioned that our assumption of 7.0% would most likely be slightly on the low side compared to other California plans.

There was discussion about the changes to the assumptions for wage growth, inflation and return (net of expenses) which are described in the assumption analysis pages of the Experience Study. Graham concluded his Valuation presentation by noting that he would return next month with the final version of the presentation.

The Board took a brief break.

F. Quarterly Investment Report

Carolyn began her report by reviewing the Index Performance Summary and by noting that there has been a lot of positive activity across the markets. She noted that over long periods, large cap stocks have outperformed the overall market; even more so, growth has outperformed value.

The total Fund is up 3% for the quarter which ranks in the lower quartile. Carolyn reported that the universe of comparable funds had a very narrow range of returns for the quarter. Year to date the Fund is up 11%. There was discussion about whether the Fund should only have an international small cap value manager. The Board agreed that this discussion could be extended to the next meeting with the growth/value discussion

G. UBS Trumbull Property Fund Discussion

Carolyn discussed the recent and long-term underperformance and management changes in the UBS Trumbull fund. UBS' third party appraiser recently changed their assumptions on retail properties, and UBS needed to write down several properties. There was discussion about the timing of NEPC's downgrade of the manager. Carolyn reported on the turnover within the portfolio. She also discussed the mechanics of the queue, and the time it might take to get back investments from the Fund. Redemption could take as much as three months to get started. The Board discussed potential costs of moving from one real estate fund to another, and Carolyn reported that there wouldn't be additional fees for exiting or entering. Hugo reminded the Board that 60 days' notice would have to be given to exit the fund, and that subsequent payouts are made quarterly.

H. UBS Presentation

Mario Maturo, Portfolio Manager and Executive Director at UBS discussed the performance of UBS. He started with high level fund information, noting that this fund is an open-end, core diversified real estate fund investing in four key sectors: Office, industrial, multi-family

and retail. Currently there are 190 individual investors totaling gross investment of \$20 billion. The fund maintains low leverage, currently at around 18% resulting in net assets around \$17 billion. The fund's previous manager retired, and management transitioned to Paul Canning beginning in July of 2017. The UBS fund's goal is to provide high income with low risk and low leverage.

Mario discussed the fund's performance, specifically addressing the recent write-downs in the retail area of the portfolio. He thought that other funds would be taking similar write-downs in the near future. He stated that this fund had lower leverage than the ODCE average. In response to some questions he stated that the fund was under allocated to some of the coastal areas that had seen substantial price appreciation in the recent past. He also reported that other funds in the benchmark had investments in self-storage, which has been outperforming other property types. The Trumbull Fund's instead includes hotels, which have underperformed.

When asked what the fund intended to do to change its path, Mario responded that the fund has reduced its office allocation across multiple markets, reducing its position below the benchmark. Multi-family and industrial investments have increased through value-added investments. The fund expects to be over-allocated to apartments versus the benchmark. They also intend to get out of the underperforming hotel sector. UBS believes other funds will also experience the same type of retail re-valuation that it has. Mario addressed a Board concern about the political implications of rent control. Mario was asked to describe the redemption queue. He noted that 70 to 75 investors are in the queue out of over 400 investors. About 50% of available cash flow each quarter is used to pay redemptions. A full redemption requires eight quarters. Every quarter they allocate redemption amounts from the available cash flow. It was noted that value added properties are often riskier.

The Board took a short break.

I. Review of UBS holdings

The Board spent some time discussing what action to take with UBS, given the information presented by Mario and the long period of underperformance.

MOTION: Riemer/Williams Motion to conditionally enter the queue for redemption, with the final numbers to be determined at the next Board meeting with better understanding about the facts and mechanics of the queue. (5-0-0-0)

MOTION: Riemer/Willis Motion to stop re-investing proceeds into the Trumbull Fund. (5-0-0-0)

J. Franklin Templeton

Carolyn reported that Franklin Templeton is undergoing some management changes, including the retirement of the Chief Investment Officer and the Director of Research. NEPC is concerned about all the shuffling and has downgraded them to a Client Review rating. Carolyn will return with some other options in the same investment space and have the Board decide if it should consider other options or re-confirm its willingness to stay with Franklin Templeton for its International Cap Equity holdings. Hugo mentioned that the NEPC rating change comes after a long period of underperformance by Franklin Templeton in this area.

K. NEPC Workplan

For September, the Board decided that Carolyn should be prepared to discuss the Annual Fee Review, Parametric Emerging Markets, and Franklin Templeton.

L. Delegation of authority

Hugo presented a memo requesting Board's permission to pay one month of benefits to a retiree on occasions where clerical errors have led to a retiree not being paid. The Board recommended two months be granted instead.

MOTION: Allen/Willis Motion adopt policy amended with two months of payments granted by the Board. (5-0-0-0)

M. Financials

Hugo has reviewed the Financials and has validated that there were no material changes from the version the Board previously reviewed. He asked that the Board approve this final version.

MOTION: Riemer/Williams Motion to approve updated Financials (5-0-0-0)

N. Term Vested Project

Hugo reported that Curtis has spoken with everyone who is currently being paid regarding their retro-active payments. Hugo also stated that the department is working on the letter that will be sent to vested employees when they leave AC Transit. This letter will be reviewed by the Board before it is finalized.

O. Paratransit

Hugo reported that Russ has not yet had a chance to send out the letter the Board discussed last month. The Board agreed that Russ should send a letter to the District and ATU requesting their respective views on how paratransit service should be counted for vesting in the retirement plan and also showing what documentation they have to support their view. Russ said he would send this letter out soon.

P. Disclaimer to the Summary Plan Description

Hugo briefly summarized the need for a disclaimer on the SPD, and how it arrived back before the Board. There was discussion about ERISA requirements for SPDs, and whether they apply to public plans. There was discussion about the negotiations currently in progress. After additional discussion the Board agreed on the following:

MOTION: Allen/Williams Motion to Table the discussion on distribution of the Disclaimer and continue the policy of not distributing the SPD. (5-0-0-0)

Q. PEPPRA Implementation

Hugo reported that PEPPRA implementation is an ongoing project that Temporary Analyst Curtis Lim will be working on.

R. Retirement System Manager's Report

Hugo reviewed an article from the July 29th Los Angeles Times that detailed extensive travel by the Los Angeles City Retirement Board. Hugo reminded the Board that the press likes stories about extensive travel by retirement board members. He noted that the Retirement Board doesn't travel much and avoids the appearance of frivolous travel.

S. Report from Closed Session

Counsel Richeda reported out of Closed Session that the Board took action on item U1b voting unanimously to grant the TPD application of Eduardo Diaz-Nuno effective April 1, 2019.

T. The Meeting was adjourned at 1:32