

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
April 22, 2021**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at 9:07 a.m.

Members Present: None
 Present by Zoom: Chair Jeffrey Lewis, Vice Chair Josette Moss, Davis Riemer, Robert Coleman, Chris Andrichak
 Members Absent: None

Also present by Zoom: Hugo Wildmann, Retirement System Manager; Russell Richeda, Legal Counsel; H.E. Christian Peeples, District Board Liaison; Bertina Ng, Retirement System Analyst; Jason Herron, Retirement System Administrator; Curtis Lim, Temporary Retirement Staff; Christopher Marten, Temporary Retirement Staff. The following attendees attended all or part of Open Session: Jelena Harada, Assistant District Secretary, Mike Hursh, General Manager; Graham Schmidt, Cheiron, Carolyn Smith, NEPC; Colton Lavin, NEPC; Emily Cruz, Human Resources Manager; Ralph Martini, Controller; Gar Chung, Financial News; Ben Sherry, Mandatewire; McCyril Espanol, Reporter.

PUBLIC COMMENTS

None

CONSENT CALENDAR

Oath of office

Jelena Harada joined the meeting and led Chair Lewis, Member Reimer, and Member Andrichak in the Oath of Office. Hugo previewed the schedule of presenters at the meeting.

- A. Approval of Minutes for the March 18th Meeting
- B. Approval of Financials for December 2020

Hugo reviewed the contents of the benefits payable account in the Financials, noting that this year the amount included holdbacks pertaining to divorces and balances to unpaid term vested participants. The other payable line is made up mostly of invoices paid in 2021 for expenses incurred in 2020.

- C. Approval of Invoices for \$325,420.80
- D. Approval of Retirements for April and May 2021 and Return of Contributions if Applicable:
 - 1. Benjamin Dunlap (April)
 - 2. Oliver Horton Jr. (April)
 - 3. Anthony Bell (May)

4. Constance Coleman (May)
5. Anthony Lennear (May)
6. William Offenbacker (May)
7. Michael Robinson (May)
8. Beverly Valrey (May)
9. Melanie Wright (May)

MOTION: Riemer/Coleman to approve the Consent Calendar. (5-0-0-0)

The Board recognized Anthony Bell for 34 years of service, Constance Coleman for 31 years of service, Anthony Lennear for 30 years of Service and Melanie Wright for 30 years of service

REGULAR CALENDAR

E. Update on COVID-19 – Department Staffing and District Activity

Hugo reported that staff is dealing with Barbara Allen's absence and catching up on pension recalculations. Director Peeples reported that there are several meetings taking place to determine how and when to reduce social distancing on buses. He noted that people are still being left at stops due to capacity limits. Chris Andrichak reported that his department is bringing a draft budget for next fiscal year to the District Board on April 28th. He also reported that work is ongoing with the Metropolitan Transit Commission to distribute the operating support package from congress, the American Rescue Plan (ARP).

F. UNITE HERE and Brookfield Update

Note that some of the Agenda items were discussed out of order from the distributed Agenda. At the April Board meeting, the Board asked Hugo and Russ to draft a letter that would be reviewed by the Chair (Jeff) and Vice-Chair (Josette) and sent to Brookfield to address labor issues raised by UNITE HERE.

That letter was reviewed by Jeff and Josette and sent. Brookfield responded, but asked that the response not be made public, so Hugo emailed it to the Board members. The Board discussed the content of the letter and agreed that it should be treated as a public document and sent to UNITE HERE for further discussion.

MOTION: Riemer/Moss to forward the response letter received from Brookfield to UNITE HERE for their comment. (5-0-0-0)

G. Board Meeting Dates

Hugo reported that he would like to re-schedule the August, September, and October Board meeting dates due to various travel schedules and holidays. The Board could reschedule all or some of the meetings now and revisit the schedule later, as people are able to travel again. The Board moved the August meeting to August 18th, and later in the meeting moved the September meeting to September 15th and October meeting to October 6th.

H. 2021 Actuarial Valuation Preliminary Update

General Manager Mike Hursh and Graham Schmidt from Cheiron joined the meeting. Hugo gave a brief introduction of the valuation process, noting that there are new Board members who have not been through the process before and reminding the Board that the process usually takes about three to four months. In the interest of arriving at a normal cost for PEPRA participants earlier in the year, the process has been moved up a bit. Hugo noted that the most important points of discussion today are the assumed rate of return and inflation, as well as the PEPRA normal cost. Graham gave a quick overview of the valuation before beginning his presentation, discussing normal cost, assumed rate of return, and contributions.

Graham began his presentation by reminding the Board that long-term market expectations have been lowered because of the recent strength of the market, and that high price to earnings ratios put pressure on returns. Low interest rates are also lowering expected returns on fixed income. He noted that assumptions are long term and are usually adjusted in small increments so as not to overreact to short term market conditions.

Graham reminded the Board about its current assumptions, the assumed rate of return net of investment expenses of 7% and a 2.75% inflation assumption as well as an expectation that wages will grow at 3% over the long term. These assumptions generate a real rate of return assumption of 4.25%. Graham also reiterated that NEPC's expected rate of return for the Plan (nominal return) was 5% for the next 10 years and 6% over 30 years, which is lower than the current assumption. Graham then presented estimated contribution amounts with the current return and wage growth assumptions and under slightly different assumptions and noted their effects on the liability amount. The Board discussed phase-in of assumptions versus phase-in of costs, and Graham described how the actuarial field has moved away from phasing in assumptions and towards phasing in the costs of changes in the actuarial assumptions.

The Board discussed its wage growth assumptions and inflation assumptions versus those of other California public retirement plans. Graham moved on to the PEPRA portion of his presentation reminding the Board what needs to occur to require a change in the Normal Cost for employees who are making contributions. The current very preliminary figures that Graham presented indicate that the PEPRA employee contribution percentage will not need to be changed, even if the discount rate is changed along the lines that Graham discussed. The Board discussed whether it should pool PEPRA contribution rates for all represented PEPRA employees or separate them by their union status. Russ questioned if pooling was allowed. The Board discussed the pros and cons of pooling and agreed to discuss this issue in greater detail next month. The Board requested a stress test for Disability rates, increasing the current rate by 50% as this would present the Board with additional information for the decision pertaining to pooling or not pooling PEPRA employees.

Graham concluded his presentation by noting that he would return to the next meeting with preliminary results from the valuation. His May presentation will include both a 7% and 6.75% discount rate.

The Board took a brief break.

I. Investment Performance, Rebalancing and Asset Allocation

Hugo began by briefly updating the Board about continued strong performance in the market, highlighting Dodge & Cox which is up 72% in the last 12 months. He also pointed out the included Wall Street Journal article about PIMCO. He introduced Carolyn's material, asking that she and the Board focus on things that needed action at the meeting, specifically rebalancing, the investment guidelines and private debt. Hugo mentioned that the Plan is well above its target in equities (56% vs 51%) but within the ranges that are in the Investment Guidelines the Board will be discussing momentarily.

Carolyn began with the Flash Report, noting that the Plan is up 2.5% for the year and ahead of both the policy and allocation index. She highlighted the strong recent performance of small cap and value stocks, with the Russell 2000 index up 94.8 % in the last 12 months. Carolyn pointed out that the Plan was currently at 56% equities, but the Policy index is 51%. She recommends moving some money from large cap equities where the Plan is overweight to fixed income.

Hugo reported that the plan is currently underallocated about \$24 million in private debt and noted that the bulk of the current private debt portfolio is managed by Monroe. The Board discussed the content and timing of numbers from the Flash Report. There was discussion about how most of the private market managers have their performance numbers reported on a lagged basis in the NEPC reports and the issues this can create

J. Updated Investment Guidelines

Hugo described the major changes to the Guidelines. A specific equity range is now included and specific floors are given for other asset types. Hugo recommended that the Board approve the updated guidelines with those changes.

MOTION: Andrichak/Riemer to approve the changes to the Guidelines. (5-0-0-0)

K. Investment Rebalancing

Carolyn recommends that the Board move about 3%, which is about \$25 million, from equities to fixed income to address the issue discussed earlier of the Plan having an equity percentage well above our target. The Board discussed whether the move should also be used to balance growth and value tilts. Carolyn noted the administrative ease of moving the funds from the Russell 1000 Index Fund at SSgA to the Core Bond Fund at SSgA. The remainder of the funds could be moved from the BlackRock 1000 Index fund to the SSgA Core Bond Fund

MOTION: Riemer/Andrichak to accept Carolyn's recommendation to move \$25 million funds from the Russell 1000 index funds to the SSgA bond index fund. (5-0-0-0)

L. Park Square Analysis

Carolyn reminded the Board that previously they'd made a commitment to Park Square of \$14 million with a targeted net internal rate of return between 10 and 11%. The Preliminary internal rate of return is 5.1%. Colton Lavin from NEPC noted that the fund underperformed, but it didn't lose any money. Colton described some of the reasons the Park Square performance was lower than projected. They've had a second fund in between the one the Board is considering and the one previously invested in and they have avoided some of the same mistakes. The Board discussed why Park Square missed their initial

estimates and the state of the private debt market. Carolyn also noted that Park Square did not use as much of their subordinate debt allocation as they could have.

M. Private Debt Asset Manager Search

Hugo reminded the Board of our current holdings in Private debt, with only \$71,000 left at Park Square, \$2 million with Crescent and \$16 million at Monroe. He reported that Carolyn has brought the Board three choices: Monroe, which currently has \$16 million of the Plan's funds, Park Square, which had disappointing returns on the last investment, and MGG. The Board took a short break for lunch.

The Board discussed Carolyn's summary of the three private debt manager options. Colton highlighted the differences between the three funds and discussed the fees NEPC has negotiated. The Board discussed the investment approach of Park Square, Monroe and MGG. Hugo suggested the Board select two managers to present next month. He explained to the Board that the decision to have two managers come and make presentations next month does not mean the Board has decided to hire them.

Hugo mentioned that the Board had a significant percentage of its current private debt allocation with Monroe and that this should be considered when deciding what managers to invite next month. After a lengthy discussion and comments by Carolyn, Colton and Hugo the Board decided to invite Monroe and MGG next month.

N. Draft Semi-Annual Report

Hugo noted that there were a few numbers that needed to be finalized and expected that he might need to add something about today's actuarial discussion. The Board had no other edits to the report.

O. Benefit Statement Update

Hugo reported that there was no new information on the Benefits Statements that have been held while the plan amendment is being finalized.

P. Holdback Project

Hugo reported that he has spoken to two other systems and that they do not pay retirees until their divorce documents have been completed. He explained that, as a result of this policy, the other systems did not have the large dollar amount in holdbacks that we do.

Q. Hiring for the Open Position in the Retirement Department

Emily Cruz joined the meeting to discuss filling the position formerly occupied by Barbara Allen. Hugo introduced the Board members to Emily and reported that the position would have a slightly different focus going forward, as the nature of work has changed, with less copying and filing and more handling of documents on the computer.. He has worked with Human resources to choose an existing job classification so it would not need approval from the District Board. Emily noted the changing nature of work everywhere and also reported that hiring someone at the lower end of Grade Four would likely provide savings versus the highest level of Grade Three.

The Board discussed how the person hired would need to balance analytical abilities with people skills, since that was one of Barbara's greatest assets. The Board also discussed possible career advancement in the new position. The Board continued to discuss the nature of the position and relationship between the Board and the District when hiring and employing members of retirement staff.

MOTION: Andrichak/Riemer to proceed as recommended by Hugo and Emily and recruit for a Grade 4 Associate Management Analyst and move swiftly to hire a new retirement system employee. (5-0-0-0)

R. PEPRA Implementation

Hugo reported that the District is now working with the unions on the PEPRA plan amendment for represented employees. He has also spoken to the District General Counsel and that office is working on determining which pay codes are Pensionable under PEPRA and which are not. These pay codes and the Plan Amendment would eventually come to the Retirement Board for review.

S. Retirement System Managers Report

1. Hugo reported that he'd been working with the District, and that a Press Inquiry Procedure will come back to the Board for the May Meeting. He wanted to have additional discussions with the General Counsel.
2. Russ updated the Board about the data breach and reported that the Board does not need to take any additional action regarding data leaked for retirees.
3. Hugo reported that he and Russ have been considering firms to help locate retirees and ex-spouses who are currently on either the holdback list or term vested list that staff haven't been able to contact. A firm that Hugo spoke to thought that they could find people for between \$300 and \$500 per person. Russ requested that Hugo find additional information about contracts and insurance for potential investigation firms before using one of them.

MOTION: Coleman/Riemer for Hugo, on a trial basis to retain a firm to try to locate participants and former spouses, and work with Russ to implement that. (5-0-0-0)

T. Closed Session

Russ reported out of Closed Session that the Board took no action.

U. Adjournment

The meeting was adjourned at 1:30p.m.