SR 25-310

ACTERP

AC Transit Employees' Retirement Plan

MEMORANDUM to the AC TRANSIT BOARD

DATE	April 24, 2025
SUBJECT	2025 Semi-Annual Report #1 to the AC Transit Board

SUMMARY

The Retirement Board of the AC Transit Employees' Retirement Plan provides the AC Transit Board with semi-annual reports on the status of the Retirement Plan. The first semi-annual report each year focuses on developments in the second half of the previous calendar year, including investment results and actuarial reports.

DETAILS

<u>2024 Investment Results</u>

As presented by the Retirement Plan's Investment Consultant, NEPC, at the Retirement Board's February 27, 2025 meeting, calendar year 2024 saw continued good returns for Retirement Plan invested assets, at 9.1%, substantially in excess of the Retirement Plan's actuarial valuation assumption.

Strong returns on Equities (+14.0% overall), including Domestic (+21.6%), International (+3.6%), and Emerging Market (+7.5%) were complemented with a positive return overall on Fixed Income (+3.8%) driven by Credit (+5.9%), Emerging Market (+5.4%) and Private (+11.1%) Debt, while Core returns were more modest (1.7%). Credit Fixed Income allocations invest in a larger breadth of government, corporate, and municipal bonds when compared to Core Fixed Income allocations and therefore may have higher returns in some years (as they did in 2023). Those positive returns offset negative returns on Real Estate (-5.0%), while the first year of measured returns on Private Equity was positive (+12.9%).

The current actuarially assumed rate of return for the Retirement Plan was reduced in 2021 from 7.0% to 6.75%. Annual review of the asset allocation with the Retirement Board's investment consultant NEPC targets a mix of investments, diversified across asset classes, which produce a risk-adjusted rate of return consistent over the long term with this assumed rate of return. In some years, returns will exceed that assumption, but other years' returns will not do so.

The latest asset allocation review, in early 2024, continued that effort and includes further commitment to private assets classes, including a new allocation to the Infrastructure sub-asset class, which did not have amounts allocated at the end of 2024 but for which results will be available in next year's report.

Diversity, Equity, and Inclusion (DEI) and Environmental, Social, and Governance (ESG)

In 2024, the Retirement Board continued to require current investment managers to share DEI information, at least annually. The Retirement Board also requests prospective investment managers to provide DEI information when being interviewed for new mandates.

The Retirement Board considers investment managers' DEI information, along with characteristics of the firm, investment strategy, approach, resources, sector allocation, and other criteria, as part of the evaluation when deciding to allocate Retirement Plan assets.

In 2024, the Retirement Board continued to require its Domestic Equity active manager (Dodge & Cox) and passive index funds (State Street, BlackRock), to cast proxy votes according to Institutional Shareholder Services (ISS) Public Plan Guidelines which seek to apply DEI principles. The ISS Public Plan Guidelines can be provided to District Board members on request.

Actuarial Valuation

An annual Actuarial Valuation conducted by Retirement Board actuary Cheiron, covering calendar year 2024 and presented in August 2024, revealed a 5.53% increase in the Actuarially Determined District Contribution for 2025 ($72.8 million versus 68.9 million for 2024).

However, the sharp increase in market value of the Retirement Plan's assets in 2023 (+13.5%) was reflected in a Funded Ratio based on the Market Value of Assets, increasing from 66.9% to 73.6%, while the Actuarial Value of Assets Funded Ratio also increased to 78.1% from 76.2%.

FURTHER INFORMATION

Please feel free to call me, Jeffrey Lewis (510-463-3900), or Damien Charléty, the Executive Officer of the Retirement Plan (510-891-5494), if you would like to discuss this report or request additional information.