

**Approved Minutes
Special Meeting of the
AC TRANSIT RETIREMENT BOARD
July 25, 2019**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at approximately 9:00 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): Curtis Lim, Retirement System temporary employee; Bertina Ng, Retirement System Analyst; Dollene Jones.

PUBLIC COMMENTS

None

CONSENT CALENDAR

The approval of the minutes was tabled because several pages were missing. At the last meeting, there were questions about increases to payables in the Financials for February and March. Hugo reported that payables to brokers include occasions when an investment manager is purchasing securities; one month the manager might not have any purchases, and the next month he might have some. The amounts can vary at a month's end, but represent a very small percentage of assets and are generally a matter of timing.

- A. Approval of Minutes for June 27
- B. Approval of Financials for February and March and April 2019
- C. Approval of Invoices for \$295,969.24
- D. Approval of Retirements for June/July 2019:
 - 1. Joey Bumpus (July)
 - 2. Kenneth Harris (July)
 - 3. Earl Taylor (July)

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4. Julius Widjaja (July)
5. Oscar Guerra (August)
6. Anthonette Patrick-Oliver (August)
7. Alisha Dill (August, Term Vested)
8. Deborah Ward (August, Term Vested)

The Board congratulated Kenneth Harris for 38 years of service, Earl Taylor for 38 years of service, Oscar Guerra for 36 years of service and Anthonette Patrick-Oliver for 26 years of service.

MOTION: Allen/Riemer to adopt the Consent Calendar excluding the Minutes from the July 27th meeting. (5-0-0-0)

REGULAR CALENDAR

E. Retirement of Claude Kramer

Hugo discussed the retirement of Claude Kramer and why Mr. Kramer's name hadn't appeared on the previous meeting's Agenda. Staff inadvertently left Mr. Kramer off the Agenda and took quick action in order to get him paid on time. Staff has not made payments without Board authorization. Hugo discussed the situation with Russ and decided the best way to proceed was to have Claudia and Jeff sign a memo authorizing the payment of one month to Claude and to bring the information to the Board in July for approval. Mr. Kramer's payment was made on time, and he was done no harm by this oversight.

MOTION: Riemer/Allen retroactively approve actions taken by staff, Chair Lewis, member Allen, and Counsel Richeda to pay Claude Kramer (\$1,669), and to approve his retirement effective June 1, 2019. (5-0-0-0)

F. Delegation of Limited Authority

Hugo reported that he intends to write a policy for the handling of future cases like Mr. Kramer's but wanted to get feedback from the Board before writing a policy. There was discussion about limiting the payment to a single month, and how to avoid needing to call a Special Meeting. Hugo and Russ are to write up two versions of a policy, one limited to a single month of Retirement benefits and one with broader powers.

G. Investment performance, Rebalancing and Asset Allocation

Curtis and Bertina left the meeting to return later. Carolyn reported good news through June as the trust was up 4% in June and 10.8% year to date. Dodge and Cox and DFA are both underperforming their respective benchmarks. Growth and technology continue to outperform, lifting Sands. The Board discussed equity performance in emerging markets and fixed income performance. There was discussion about the Plan's credit holdings and their associated benchmarking.

There was discussion about how the Plan's holdings weathered the downturn in 2008, and how those funds rebounded in 2009. Regarding emerging market debt, Carolyn reported that the Plan's choices in emerging market debt have paid for their risk and that she is happy with the fixed income portfolio's performance.

The Board discussed the private debt and real estate reporting and the one-quarter lag present in the reported numbers. Member Allen asked for additional reference material about emerging markets in which the Plan has investments. There was a short discussion about the valuation of real estate funds and their timing and what is necessary to update their numbers.

The Board took a break.

H. Update Investment Policy and Guidelines

Carolyn reported that it has been about three years since the Board last reviewed the Investment Policy and Investment Guidelines.. Carolyn and Hugo will be working on an update to present at a later meeting.

I. Analysis of Growth and Value in the Portfolio

Carolyn reminded the Board that about three years ago an analysis was done and changes were made to the domestic equity growth and value asset allocation. Through that analysis, the Board elected to take the amount in a growth index fund and put part in the Russell 1000 value index fund and part in core Russell 1000 index fund. This was an adjustment to account for the overall market having what Carolyn considered a growth tilt and to adjust towards a value tilt that the Board preferred. Carolyn reviewed dollar values and percentage values of assets held in the portfolio. The Board discussed the utility of viewing the equity styles by returns analysis versus holdings analysis.

There was discussion about how the balance of growth and value investments should be managed in current market conditions, compared to how the Board acted in 2016. Carolyn will be returning with a sensitivity analysis for the current value tilt and a holdings-based review of domestic equity assets.

J. Recommendation to Re-weight Emerging Market Managers

Carolyn presented a memo with a three-option recommendation for our allocation in emerging markets as a response to Parametric's recent poor performance and significant underweight to the Chinese equity market. The recommendations are presented in order of NEPC's order of preference.

1. Reduce Parametric's exposure to approximately \$5 million and transfer to City of London.
2. Eliminate Parametric and move all assets to City of London.
3. Eliminate Parametric in favor of an index fund.

Several index fund options were presented. The Board asked that the index fund choices be narrowed to three and then considered. The Board requested additional information about the three funds for consideration at its next meeting, agreeing to look closer at Blackrock, Legal and General, and Rhumblin.

Carolyn stressed that the reasons to look at reducing or eliminating our exposure to Parametric are as follows:

1. There is a mismatch versus the benchmark and a desire to be less of an outlier when compared to the MSCI Emerging Markets Index.
2. Potential fee reduction.
3. Simplification of the program.

The Board took a short break for lunch.

K. Performance Analysis of Low Leverage Real Estate Managers

Carolyn distributed a memo from the NEPC Research Team downgrading the UBS Realty Investors Turnbill Property Fund. The rating change from a 1 to a 3 removes the fund from NEPC's Focused Placement List (FPL). Three is a "Neutral" rating. UBS has been underperforming, and in the 2nd quarter, they have a -3.7% return due to a write-down on their mall and retail holdings by their third-party appraiser. Their performance has been below expectations, driven by their lower than average leverage and their holdings focused in retail.

Carolyn reports that some clients terminate managers immediately upon downgrade. Carolyn does not recommend terminating now because a "Neutral" rating is still appropriate for us to hold. There is still an outstanding question about how much of UBS's underperformance can be attributed to lack of leverage, and how much can be attributed to property holdings.

There was discussion about the UBS exit queue. The Board agreed that we should try to have a representative from UBS discuss their investment performance at our next meeting.

L. NEPC Workplan

Hugo reported that the next meeting would have a quarterly investment performance report and a discussion of Parametric. The Annual Fee Review should be moved to

September. UBS should come in for either the August or September meeting depending on availability.

M. Actuarial Valuation Preliminary Results Update

Hugo stated that the Report is on schedule, and Graham will present at the August meeting with the Full Valuation and Experience Study results.

N. Draft Financials

There were only a few minor changes to the Draft Financials. Hugo requested that the Board approve the Financials with some leeway to make additional minor changes. The Financials have been sent to Graham, the District, the District's Auditor and Plan Counsel.

MOTION: Williams/Riemer Approve the Draft Financials while allowing Hugo discretion for minor changes where necessary. (5-0-0-0)

O. Term Vested Project

Hugo reported that Curtis has been working on the Term Vested project but will be unable to attend the next two Board meetings. As Term Vested participants have been located and contacted, they've been put in pay status once they are approved by the Board. The Board instructed staff several months ago to return with a recommendation on the payment of retroactive benefits once staff had a significant number of retroactive benefits to discuss.

There was brief discussion about whether ERISA rules applied, but they are not applicable in government cases. There was discussion about how to handle individual Term Vested cases, or if they should all be treated the same. Hugo reported that our actuary assumes that all participants will begin taking funds as soon as they are eligible, and that the District contribution is calculated using the same assumption.

There was discussion about the ATU Trust, and that no terminated employee is eligible for the ATU Trust. The Board then discussed whether it bore responsibility to prevent gaming of the timing of receipt of benefits and concluded that it did not. The project is ongoing with a few participants who have not yet been contacted. The Board discussed the pros and cons of paying retroactive benefits and steps staff could have taken and steps the former employees could have taken.

Chair Lewis summarized the issue into four separate items on which to act:

1. When someone applies for benefits should they get retroactive benefits to first date that they were eligible?
2. Does anyone get interest?

3. Status of current efforts?
4. What procedures have been put into effect/could be improved?

MOTION: Riemer/Williams Have a policy to pay retroactive benefits back to earliest date of eligibility once someone has applied for retirement and has been approved. (5-0-0-0)

MOTION: Allen/Willis Have a policy not to pay interest on retroactive benefits for Term Vested Retirees. (5-0-0-0)

There was discussion about the current policies and procedures for reaching out to Term Vested participants. Staff were instructed to find out how to get notification about newly terminated employees, and to bring back a form letter sample to send to people who were terminated.

Curtis reported on the status of reaching out to remaining participants who have not yet been contacted, and future contacts to be made. It was recommended that he follow up with both the Union and Retirement Clubs.

P. Recommendation on Request for Interest for Dollene Jones.

Hugo reminded the Board, that there had been a holdback on Ms. Jones' pension due to her former District domestic partners. Based on Counsel Richeda's memo, these holdbacks were released and paid to Ms. Jones. The Board asked for a recommendation on interest for Ms. Jones at her request, and that interest was calculated at approximately \$20.

Hugo recommended that the Board maintain its policy of not paying interest. Hugo reported how the calculation was made, and Ms. Jones asked that she be sent the calculation. Ms. Jones alleged that a miscalculation was made in her benefit calculation and was given directions on how to exhaust her administrative remedies.

MOTION: Williams/Riemer to adopt staff's recommendation to not pay interest to Ms. Jones on the holdback amounts from her pension benefit. (5-0-0-0)

Q. Cheryl Hargrove Term Vested Application

Hugo Reported that Cheryl Hargrove was previously part of the Term Vested project. She was sent a letter stating that she was eligible to apply for Term Vested benefits. In a final review of her calculation, it was determined that she fell just short of the service requirements as she did not have the required years of service to her last day compensated. Hugo stated that if her paratransit service were counted, she would be vested. He added that, given the questions over the recent year pertaining to paratransit service, he thought we should try and get a definitive answer on the issue of paratransit service.

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Hugo suggested and the Board approved the idea of sending a letter to the District and Union requesting a memo on their respective views on the counting of paratransit service. Hugo clarified that this had been asked for at a prior meeting but no responses had been received. Russ and Hugo were to send a letter requesting information from both the District and the ATU about their opinions and understanding regarding Paratransit time and its inclusions or exclusion as service in counting an employees' service time. That letter will state that the bargaining parties have a 3-month deadline.

R. Department Staffing Update/ Retirement System Administrator Hiring

Hugo Reported that Jason Herron has been hired as the Retirement System Administrator effective July 15, 2019.

S. PEPRA Implementation Update

Hugo reported that implementation is still in progress.

T. Retirement System Manager Report

A copy of the CALAPERS newsletter was included for review.

U. Closed Session

Counsel Russ Richeda reported out of Closed Session that the Board took action on item BB2A unanimously approving authorizing Counsel Richeda to represent the defendants in the case filed by Lisa Renee Henderson Rg190198342.

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