



ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

MINUTES

Joint Meeting of the AC Transit Board of Directors & Retirement Board

VIRTUAL MEETING

Wednesday, October 6, 2021 at 1:00 PM

MEMBERS OF THE BOARD OF DIRECTORS

ELSA ORTIZ, PRESIDENT (WARD 3)

JOEL YOUNG, VICE PRESIDENT (AT-LARGE)

JOVANKA BECKLES (WARD 1)

JEAN WALSH (WARD 2)

MARK WILLIAMS (WARD 4)

DIANE SHAW (WARD 5)

JOEL YOUNG (AT-LARGE)

H. E. CHRISTIAN PEEPLES (AT-LARGE)

MEMBERS OF THE RETIREMENT BOARD

JEFFREY LEWIS, CHAIR

JOSETTE MOSS, VICE CHAIR

DAVIS H. RIEMER, TRUSTEE

ROBERT COLEMAN, TRUSTEE

CHRIS ANDRICHAK, TRUSTEE

BOARD OFFICERS

MICHAEL A. HURSH, GENERAL MANAGER

JILL A. SPRAGUE, GENERAL COUNSEL

LINDA A. NEMEROFF, DISTRICT SECRETARY

RETIREMENT DEPARTMENT

HUGO WILDMANN, RETIREMENT SYSTEM MANAGER

1. CALL TO ORDER

The annual joint meeting of the AC Transit Board of Directors and Retirement Board was held on Wednesday, October 6, 2021, with President Ortiz and Chair Lewis presiding. The meeting was called to order at 1:04 p.m.

2. ROLL CALL/INTRODUCTION OF PARTICIPANTS

AC Transit Board of Directors:

PRESENT: Ortiz, Young, Beckles, Walsh, Williams, Peeples

ABSENT: Shaw

Retirement Board Trustees:

PRESENT: Lewis, Moss, Riemer, Coleman, Andrichak

3. PUBLIC COMMENT

There were no public comments offered.

4. DISCUSSION ITEM(S)

4.A. History of the AC Transit Retirement System and Proposition 162.

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1. Proposition 162
2. Retirement Board members and how they are appointed
3. Roles and responsibilities of the Retirement Board and the District

Retirement Board Attorney Russ Richeda gave a brief overview of the Retirement Board's plenary authority under the California Pension Protection Act (Proposition 162), including its role, responsibilities, functions, and membership. He added that the Retirement Board understood the need for, and importance of, its coordination with the District Board and appreciated the efforts the District makes in return. General Counsel Jill Sprague discussed the nuances of the relationship between the District and Retirement Board in terms of amending the Retirement Plan.

Public Comment:

There was no public comment offered.

Discussion:

President Ortiz commented on the complex nature of the relationship between the AC Transit Board and the Retirement Board.

The report was presented for information only.

4.B. Actuarial

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1. Actuarial overview
2. District contribution and the funded ratio of the Plan

The Retirement Board's actuary, Graham Schmidt of Cheiron, presented information on

the current actuarial valuation; plan costs by source and benefit; history of plan cost and funding; future of plan liabilities; funding; and cost. Mr. Schmidt's presentation included projections on the District's contribution and the funding ratio going forward. He mentioned that if all the actuarial projections were met, the District's contribution as a percentage of pay will decrease in future years and the funded ratio of the Plan will continue to increase.

Public Comment:

There was no public comment offered.

Discussion:

Vice President Young recalled prior conversations by the District Board about reducing the assumed rate of return on investments and was pleased that the Retirement Board had lowered the assumed rate to 6.75%. Vice President Young further inquired whether the Retirement Board has discussed lowering it even more and what that range might be. Chair Lewis advised that the Retirement Board discusses the assumed rate of return annually and considers what other plans are doing in addition to the recommendation of the investment consultant and actuary. Currently, the Retirement Board is not planning to make any changes to the assumed rate of return but will review the issue again next year.

The report was presented for information only.

4.C. Investments

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1. Investment overview
2. How the investment portfolio is structured
3. Why the retirement plan owns stocks
4. Historical investment performance
5. Current investment update

Carolyn Smith, NEPC, presented an overview of investments, asset allocation, performance, and current investments. Ms. Smith highlighted the diversified nature of the investment portfolio and that all of the funds managed by the Retirement Board are invested by money managers. Carolyn also reviewed the historical returns of the Plan and noted the return of over 8% since the inception of the Plan. Ms. Smith also pointed out the projected performance of the Plan using figures from NEPC that result in a long-term projection of 6%.

Public Comment:

There was no public comment offered.

Discussion:

Discussion ensued regarding ESG (Environmental, Social, and Governance) screening. Director Walsh asked if the Retirement Board considers not investing in companies that produce products that are harmful to the environment or society (fossil fuels, weapons, tobacco, gambling, etc.). Ms. Smith advised that the Retirement Board has elected not

to apply ESG screening to the portfolio, but does ask existing and potential fund managers how they apply ESG screening to the selection of individual securities within their portfolio. She added that a lot of investment managers do apply ESG screens and do incorporate this strategy when selecting stocks. President Ortiz noted that the Retirement Board has jurisdiction over investment decisions. Chair Lewis added that when a manager is replaced, one consideration is how strongly they apply ESG screening factors, but offered that most of the Retirement Board's investments are in mutual funds, which makes it more difficult to apply ESG screening and track the overall movement of the stock market (indexing).

Director Walsh deduced that it was probable that money was invested in oil companies and felt it was important to align the investment strategy with the District's values as a transit agency.

Director Beckles agreed with the need for a diverse portfolio given the volatility of certain stocks, but also expressed agreement with Director Walsh with regard to ESG investing. She also asked who would be responsible for creating policies against investing in companies that destroy the planet, to which Ms. Smith advised that it was the Retirement Board's responsibility.

Director Walsh also asked if there were socially responsible index funds that have already filtered out the most damaging companies. Ms. Smith reported that these investment vehicles do exist, but it is often hard to discern the "good" companies from the "bad" ones. Director Walsh gave the example of a District board policy that self-imposes travel restrictions to states that have anti-LGBTQ+ policies thereby holding District to a higher standard. Chair Lewis responded that while he and the rest of the Retirement Board might share this viewpoint, the issue was complex.

Director Williams asked about the impact of Covid and geopolitics on investment returns. He also wanted to know how many managers of color, specifically African American, there were. Ms. Smith reported that Covid did have an impact on the overall portfolio, saying that the stock market was quite volatile early in the pandemic, but the markets recovered when stimulus funds were injected into the economy and investment performance improved significantly.

With regard to the diversity of the underlying managers, Ms. Smith advised that while she could not provide specific numbers, there were some minorities involved in the management of the District's investments, but the numbers were low. She added that in California there is a law that prohibits public entities from making hiring decisions based on race, but it doesn't prohibit boards from asking how companies are doing from the standpoint of diversity and what the underlying workforce looks like and what is being done to recruit a diverse workforce. She further presented information on NEPC's methods to attract women and minorities in the workforce. Chair Lewis added that the Retirement Board also requests and reviews this information. Director Williams asked

for a more detailed report on this issue at the next joint meeting. Retirement System Manager Hugo Wildmann advised that the Retirement Board had on its agenda earlier in the day the discussion of employment data it had requested from three investment managers. The requested information pertains to the make-up of each manager's investment staff.

Vice President Young noted a 38% bond allocation and asked how a 6.75% rate of return could be achieved given such low projections for bond returns. Ms. Smith responded that most of the asset classes for a 10-year period have a low projected rate of return based on the low interest rate environment, inflation, and also the valuations of the securities being traded and where we are at in the economic cycle. With regard to risk, other factors should be considered, such as the ratio of existing retirees to current employees and the ability of AC Transit to pay a higher contribution rate if there is volatility in the markets. Vice President Young assumed that taking on more risk meant a higher stock allocation and private equity, and balancing this risk with the population of the pension fund to which Ms. Smith agreed.

Member Riemer commented that one of the key issues was the interplay between the District and the Retirement Board, saying that the Retirement Board is supposed to pay attention solely to the interest of the beneficiaries (retirees) and ignore what seems to be good or not so good for the District in terms of setting rates or return. Chair Lewis mentioned that the assumed rate of return is ultimately set by the Retirement Board in part based on the recommendation of the actuary. The actuary has not recommended lowering the rate of return below 6.75%. He added that the assumed rate of return is reasonable, and the Retirement Board would continue to look at it annually.

The report was presented for information only.

4.D. Verbal Update on PEPR Implementation

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1. Unrepresented employees
2. Represented employees

General Counsel Jill Sprague advised that staff was working on a PEPR amendment to the Retirement Plan for represented employees as of January 1, 2020 and is looking to bring the amendment to the Board in the future. She further discussed the process outlined in Board Policy 665 for review and adoption of the amendment and gave the current status. She added that staff was working to resolve issues concerning pay codes.

Retirement System Manager Hugo Wildmann added that employee contributions were a new concept for represented employees.

Public Comment:

There was no public Comment offered.

Discussion:

There was no discussion.

The report was presented for information only.

5. BOARD/STAFF COMMENTS

(Government Code Section 54954.2)

There were no comments offered.

6. ADJOURNMENT

There being no further business to come before the members of the joint body, the meeting adjourned at 2:42 p.m.

Respectfully submitted,

/s/

Linda A. Nemeroff
District Secretary