

**Approved Minutes  
Meeting of the  
AC TRANSIT RETIREMENT BOARD  
February 18, 2021**

**ROLL CALL**

Chair Jeffrey Lewis called the meeting to order at 9:03 a.m.

Members Present: None

Present by Zoom: Chair Jeffrey Lewis, Davis Riemer, Chris Andrichak, Josette Moss, Robert Coleman

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; Curtis Lim, Temporary Retirement Staff; Christopher Marten, Temporary Retirement Staff. The following attendees attended all or part of Open Session: Carolyn Smith, NEPC; Michael Hursh, General Manager; Sun Cheng, Legal Counsel; Graham Schmidt, Cheiron; Ralph Martini, Controller; Ty Hudson, Senior Research Analyst, UNITE HERE; Harry East, UNITE HERE, Diplomat Hotel; Leticia, UNITE HERE, Hyatt Regency

**PUBLIC COMMENTS**

UNITE HERE, a union of hotel and food service workers, is in a dispute regarding pandemic related human capital management issues with several hotels that are owned by Brookfield Asset Management. The Plan has an investment in a fund managed by Brookfield. Ty Hudson, Senior Research Analyst with UNITE HERE, has asked the Board to use its influence as an investor to implore Brookfield Asset Management to work with hotel management who operate the hotels to be reasonable in their dealings with the Union. Two UNITE HERE members spoke on the working conditions at the two hotels they work for.

**CONSENT CALENDAR**

A. Approval of Minutes for the January 21<sup>st</sup> Meeting

B. Approval of Financials for October 2020

C. Approval of Invoices for \$512,778.19

D. Approval of Retirements for February and March 2021 and Return of Contributions if Applicable:

1. Emma Carmical (February)
2. Herbert Whittie (February)
3. Sam Ware Jr. (February, Pre-Retirement Death)
4. Fidel Martinez (February, Term Vested)
5. Dwight Davis (March)
6. Benigno Rangel (March)

**MOTION: Riemer/Coleman** Move to approve the Consent Calendar noting minor corrections to the Minutes that Jeff identified in the Asset Allocation and Investment Review section. (5-0-0)

The Board recognized Dwight Davis and Benigno Rangel for 28 years of service.

**REGULAR CALENDAR**

E. Introduction of Sun Chang –Shareholder at Saltzman & Johnson

Russ introduced Sun Chang, a shareholder with Saltzman & Johnson, as his back-up should he be absent. Russ said that Sun has experience in employee relations and pension matters, which is particularly helpful for ERISA and Public sector plans. She is also engaged in Taft-Hartley Union management trust funds and will be a very capable stand-in in Russ' absence.

F. Update on COVID-19 – Department and District Activity

Hugo informed the Board of the impact working remotely has had on administrative tasks. The impact has resulted in longer timelines, yet obligations are continuing to be met. Hugo also noted that transitioning back to the office after vaccinations will be addressed in a future discussion.

Chris A. provided a financial update to the Board on District finances and how the District is dealing with COVID. Chris noted that there are no significant mid-year changes to the operating budget. The District passed a balanced budget for the year, with the second half of the year adjusted for a small \$4 million surplus. Next fiscal year is uncertain, although the second stimulus, the CRRSAA bill, will provide funding to the District. At this point, it remains unclear the funding amount CRRSAA will provide. Ridership continues to be depressed as buses are running at very limited capacity.

G. Investment Performance, Rebalancing and Asset Allocation

Hugo informed the Board that he continues to move funds as instructed by the Board, from Capital Guardian to the BlackRock EAFE Value fund and, in the DFA International investment, from Value to Core. Hugo highlighted that the total Plan portfolio percentage in equities is roughly 54% versus our policy target of 51%, so we have more funds in equities than our target but are within our range. Hugo mentioned we would be discussing our

equity target and range later in the meeting.

Carolyn presented the Flash Report, highlighting the Plan's performance for the month ending January, which was down 20 basis points, while the policy index and allocation index were down 10 basis points. Carolyn informed the Board of the Plan's performance within the major assets classes for January. For Equity markets, small cap stocks represented by Russell 2000 increased 5%, whereas large cap stocks represented by the S&P 500 decreased 1%. For international equities, MSCI EAFE index was down slightly, 1.1%, while emerging markets were up 3.1%. In fixed-income, the US aggregate bond index was down 0.7%.

Jeff would like to put on a future agenda a discussion of moving the US Small Cap allocation from DFA to a Small Cap Index fund.

Hugo informed the Board that cash was returned from one of the Plan's private debt managers, Park Square. Park Square repaid approximately \$5 million. Hugo explained that our cash position is normally about \$8 million; however, with repayments from Park Square and a few other investment managers, our cash position is about \$16 million. Carolyn and Hugo recommended moving \$8 million to the State Street US Aggregate Bond Index fund.

**MOTION: Andrichak/Riemer.** Move to approve the movement of about \$8 million in cash to the State Street US Aggregate Bond Index fund. (5-0-0-0)

#### H. Park Square Investment Update

Carolyn informed the Board that in 2014 the Board made a \$14 million commitment to Park Square. Park Square called for the capital over time and proceeded to invest in private debt as they issued loans to corporations. The Plan has been receiving income from those loans, and, as those loans have matured, Park Square has returned that capital. Carolyn reminded the Board that Park Square returned about \$5 million in February, while the Board, in an earlier motion, approved to move \$8 million in cash to the State Street US Aggregate Bond Index fund. Carolyn also highlighted to the Board that, because of the return of capital from Park Square, the Plan is now well below its target for private debt. She mentioned that the Work Plan for March includes a scheduled educational session on private debt. The Board discussed the memo Carolyn had prepared on the Park Square investment. Hugo mentioned that it had been prepared in the last week and a more detailed write-up on the Park Square investment will be provided to the Board at the March meeting.

#### I. Year End 2020 Quarterly Investment Report from NEPC

Carolyn informed the Board of two due diligence monitors. The first due diligence monitor is a change in leadership structure at Dodge and Cox. Carolyn assured the Board that Dodge and Cox has a distinguished industry reputation of implementing and executing a well thought-out communication and transition plan; thus, Carolyn is not recommending that clients react to this.

The second due diligence monitor addressed developments at PIMCO, who manages one of

the Plan's credit portfolios. Carolyn informed the Board that there are discrimination complaints about gender and disability that have been filed against PIMCO. Carolyn did not recommend that the Board take any action at this time.

Carolyn reviewed the Plan's Total Fund return through periods ending December 2020. The Total Fund was up 12.6%, exceeding both the policy index and the allocation index, at 12% and 10.8% respectively. The policy index is what is documented as the Plan's investment policy and includes targets and an index proxy for each of the asset allocations. The allocation index shows the Plan's actual cash flows and allocations experienced over a period of time. Carolyn concluded that last year was a great year for the Plan, as it exceeded the assumed rate of return of 7% by a wide margin. Carolyn and Hugo noted that private equity, private debt, and real estate asset classes lag by a quarter, so the return figures may change slightly.

Hugo concluded the discussion by noting that equity allocation would be added to the Work Plan and that we are within range but above the Plan's target. Hugo mentioned that we should adopt a specific range for equities in our Investment Policy. Lastly, Jeff would like us to talk about the DFA Small Cap U.S. investment in the near future.

J. Target Mix and Assumed Rates of Return from NEPC

The General Manager and Graham Schmidt joined the meeting for this item.

Hugo framed the discussion, reminding the Board that this topic is a follow-up to one of last month's agenda items in which the Board reviewed the Plan's annual look at capital market assumptions from NEPC. At that time, Carolyn presented NEPC's investment projections for the next 10 and 30 years, 4.9% and 6% respectively, which are well below the Plan's assumed rate of return of 7.0%. Included in this month's Board material is an article in which our actuary from Cheiron, Graham Schmidt, is quoted discussing the decision of the Marin County Retirement Board to reduce their assumed rate of return from 7% to 6.75%. Hugo noted that the following discussion is to inform the Board and District about new developments, and he does not expect the Board to make any decisions at this meeting. This assumed rate of return will be discussed at the April or May Board meeting.

Graham began the discussion by stating that the assumed return is made up of two components, the real rate of return and inflation. In other words, what do you think inflation is going to be over the long term, plus what do you think that you can earn above inflation. Carolyn presented an underlying inflation number for 10 years at 2% and 2.2% for the 30 year period. NEPC's 30 year expectation for the Plan's rate of return is 6% and assumed inflation is 2.2%, which when subtracted equals a real return of 3.8%. The Plan assumes inflation of 2.75% and 7% expectation, which equals a real expected return of 4.25%.

Graham noted that a lot of plans are reducing their assumed rate of return as part of their Experience Studies. Hugo mentioned that the Board was on the early side in reducing the assumed rate of return to 7% and that until recently few plans had an assumed rate of return of below 7%. His view is that 7% is no longer on the lower end and that in the next few years more plans will drop their rate below 7%.

Hugo added, for the benefit of the new Board members, that although 7% vs. 6.75% might

not seem like a large difference, reducing the assumed rate of return by 0.25% has a large financial impact on the District's contribution. Jeff mentioned that in the past when the Board has reduced the assumed rate of return, it has communicated this change to the District early in the process and, in most cases, has reduced the rate over a period of several years.

K. Capital Group Diversity Data

Hugo outlined the topic by noting that the Capital Group, one of the Plan's investment managers, provided data on their workforce diversity at the Board's request. This is an issue the Board felt strongly about during Capital Group's presentation in December.

Jeff commented that the data from the Capital Group does reference programs that they have in place to recruit, train, and retain a diverse workforce. However, in the Investment Professionals category, i.e. portfolio managers, investment analysts, traders etc., their record leaves a lot to be desired. Jeff asked Hugo to pass a message to the Capital Group that the Board hopes that this metric will improve in future years.

L. NEPC Work Plan and Calendar for 2021

Hugo presented the upcoming calendar agenda for the March 18<sup>th</sup> Board meeting, which includes private debt asset class education. Hugo also proposed including a discussion about equity allocation and a suggested range. Additionally, Hugo confirmed with the Board that a discussion around DFA would be pushed to April. Lastly, Hugo sought to gauge the Board's interest in having a continued discussion on the topic of UNITE HERE and Brookfield Asset Management. The Board decided to place this item on the agenda for the March meeting.

M. Benefit Statements Update

Hugo notified the Board that six Benefit Statements are still being held due to the complexity of the new PEPPRA amendment. Russ and Hugo discussed these with the District's General Counsel and their outside counsel, in relation of the new PEPPRA amendment and how that might impact the Benefits Statements. Progress is being made, but no decision has been finalized. Hugo recommended to the Board to continue placing a hold on these Benefit Statements; the Board concurred.

N. AB 1234 Training

Russ provided a one hour training session to the Board on AB 1234. Russ reviewed, per the California legislature, the complex set of rules concerning ethics, conflicts of interest, and various other topics. Russ will conclude the AB 1234 training with a one hour training during the March 18<sup>th</sup> Board meeting. Chris A. left the meeting at the start of this presentation to attend another meeting.

O. Disability Conversion Letters

Hugo informed the Board that the Disability Conversion letters have been revised based on the Board's direction from the November Board meeting.

The Board identified several adjustments to further clarify language within the Disability Conversion letters.

**MOTION: Andrichak/Riemer.** Move to approve the Disability Conversion letters to be distributed to individuals as they near the age at which they can convert from disability to Service retirement. Staff would have discretion to make minor changes as required. (5-0-0-0)

P. Holdback Project Memo

Hugo informed the Board that we are “holding back” over \$1 million in funds. The largest holdback is approximately \$300,000 to a term-vested retiree, Mr. Scott and his wife. Hugo stated that the Scotts are aware of the situation, and they have legal counsel. In almost all of these cases, we are paying the retiree and “holding back”/not paying the ex-spouse of the retiree, as we await the necessary legal documents that instruct us how to pay the ex-spouse’s portion of the retirement benefit.

Three other individuals, Drumgoole, Murray, and Fortune, round out the four largest holdbacks. Russ and Hugo will continue to discuss these more complicated holdbacks, including one where the retiree stated that they were divorced when they were not. On many of the holdbacks, we have difficulty locating the parties to sign the appropriate forms to determine the correct distribution. We communicate to the parties via phone calls and letters. The Board requested that all future letters to holdback parties be sent using Certified Mail.

Russ commented that we are in a fact gathering process on each of the top four and are either actively engaged with the parties or are at a stage where we must come to some decision on the facts that have emerged.

Jeff asked if, after a period of time we fail to obtain a DRO, would we be in any legal jeopardy if the former employee/retiree were to demand the holdback because we don't have any legal basis to hold it back anymore. If so, should we consider paying the money out in the future at some point in some of these situations.

Russ replied that a non-member spouse has a property interest in the holdback, it is not the retiree’s property. Russ thinks that to pay the retiree in some of these situations could also expose us to liability. Russ concluded that he believes we need to create a policy that will help us draw some lines that are useful and also have some time limits.

Q. PEPRA Implementation

Hugo noted that continued progress is being made on PEPRA Implementation. Hugo mentioned the Plan amendment at the orientation session for the new ATU Board members.

R. Retirement System Manager Report

Orientation for New Retirement Board Members – Hugo informed the Board that he met directly with and delivered the Board packets to Josette and Robert and discussed the Agenda packet for this Board meeting. Hugo offered to continue these in-person meetings should

Josette and/or Robert wish and also offered the services of Russ or Carolyn should they require a more comprehensive understanding in their respective areas.

Article on Marin Retirement System – This article on the Marin Retirement System is included in the Board packet, which talks about Marin Retirement System reducing their assumed rate of return from 7% to 6.75%.

Update on Plan Restatement – Hugo to schedule for the April agenda.

Scheduling Chair and Vice-Chair Election – Hugo to schedule for the March agenda.

New Website – Hugo presented the new AC Transit website to the Board – [actransit.org](http://actransit.org). The Retirement webpage is located under the top Menu, “About Us”. This provides more user-friendly access to Retirement resources, such as Staff, Forms, and Retirement Board (Board members, Board Meeting dates, and Board Agenda).

CALAPRS General Assembly – Hugo to attend virtually on March 8<sup>th</sup> and 9<sup>th</sup>.

**MOTION: Coleman/Moss.** Move to approve that Hugo attend the CALAPRS General Assembly on March 8<sup>th</sup> and 9<sup>th</sup>. (4-0-0-1) Chris Andrichak had left the meeting at this point to attend another important meeting in his role as CFO for the District.

Form 700 – Hugo was to forward the Form 700 to Jeff and Davis electronically.

S. Closed Session

The Board did not go into Closed Session.

T. Adjournment

Adjourned at 1:28 p.m.