

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
May 11, 2020**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at 12:41 p.m.

Present via Zoom: Chair Jeffrey Lewis, Vice Chair Yvonne Williams, Davis Riemer, Joyce Willis, Claudia Allen

Members Absent: None

Also present by Zoom: Hugo Wildmann, Retirement System Manager; Jason Herron, Retirement System Administrator; Russell Richeda, Legal Counsel; (the following individuals were at part of the meeting): H.E. Christian Peeples, District Board Liaison; Bertina Ng, Retirement System Analyst; Curtis Lim, Temporary Retirement Staff; Carolyn Smith, NEPC; Gar Chung, Financial Investment News; Chermaine Fullinck, Dimensional Funds; Grady Smith, Dimensional Funds

PUBLIC COMMENTS

None

Hugo briefly outlined the agenda of the meeting and recommended that after the consent calendar the Board go directly to the investment discussion, since Carolyn needed to leave at 3:00 and added that DFA presenters would join the meeting at 1:30.

CONSENT CALENDAR

A. Minutes for the April 16th Meeting

Chair Lewis pointed out that Graham's projections included a scenario of -10%, not 10%.

B. Financials for December 2019

C. Invoices for \$298,374.09

D. Approval of Retirements for May and June 2020:

1. Jenny Moore (May)
2. Salvador Ramirez (May)
3. Sharon Dennis (June)
4. Gerald Fontaine (June)
5. Phyllis Grant (June)

6. Kimberly Hayes (June)
7. Francisco Ornelas (June)
8. Susan Perez (June)
9. Mayra Sabas (June)
10. Errol Haynes Jr. (June, Term Vested)

MOTION: Riemer/Allen to approve the consent calendar with the change to the Minutes.
(5-0-0-0)

Claudia reported that a new service was being considered to create the financial reports on a more timely basis.

The Board recognized Jenny Moore for 36 years of service, Salvador Ramirez for 35 years of service, Gerald Fountaine for 36 years of service, and Francisco Ornelas for 38 years of service.

REGULAR CALENDAR

E. Investment Performance, Rebalancing and Asset allocations

Hugo reported that the market has bounced back nearly 25% since its lowest point in late March, and that \$8 Million in assets had been shifted from fixed income to equities, bringing the Plan's equity allocation much closer to target. Carolyn reviewed her flash report, noting that the Fund was up 6.4% in April with slight excess returns versus both the policy and allocation indices. Year to date, the Fund is down 8.4%, which is in line with the allocation index, but slightly behind the policy index.

Carolyn reminded the Board about some of the uniqueness about DFA's portfolio: that it does not own REITS, and its holdings generally have a lower market value than the index. She also noted that in emerging markets, where funds have been transferred to Legal & General, there is now one month of returns to report, and that the Legal & General fund is right at its benchmark, which is what we would expect given it is an index fund.

The Board briefly discussed private debt and the current market conditions, with Carolyn reporting communication with private debt managers and how those managers are communicating with companies. The Board discussed the company types and the number of loans managed. Hugo stated that NEPC most likely does not have extensive knowledge of the specific loans our private debt managers make.

Carolyn then reviewed the holdings with DFA and the overall strategy of both the domestic fund and global small cap value fund. There was discussion about the desirability of maintaining the value tilt in the portfolio in the current environment.

The Board took a short Break

F. Presentation by Current Manager Dimensional Funds

Chermaine Fullinck began by briefly discussing DFA's investment philosophy and their thoughts on asset pricing and its relationship to overall market performance. Grady Smith took over to discuss the two funds that the plan has invested in. He began by discussing the domestic small cap value fund, noting that it has over 2,000 securities and is not managed like an index. The securities are made up of the bottom 10% of market capitalization without a style preference but with a preference for profits.

Grady reported that in the most recent three years the fund has underperformed its benchmark, but in the 8 years prior, it had outperformed the benchmark. He continued, noting that the low profit stocks the fund excludes are what is driving the fund to perform worse than its benchmark. The Board discussed DFA's price modeling versus trying to look ahead at market conditions to predict results, and how DFA's concept differs from an index.

Grady moved to the international small cap value portfolio, which contains over 2,000 securities with a value fund in the bottom 12.5% of market capitalization. Grady reported that in the first quarter of 2020, large equities had outperformed smaller equities, and growth stocks had outperformed value, which caused the fund to underperform its benchmark. Grady noted that the fund has a higher weight of "value stocks" than the index, as it does not own REITS or Utilities. The Board discussed viewing comparative performance of the Dimensional international small cap value fund against the Dimensional style neutral international small cap fund.

The Board took a short break

G. Continued Discussion about Dimensional investment holdings

The Board discussed the Dimensional presentation and how comfortable the Board was with our investment in the DFA funds. Carolyn did not recommend making any changes at the moment, but if the Board is uncomfortable with Dimensional's value tilt, then the Fund's value tilt throughout the portfolio should be considered. Carolyn will return to the next meeting with information about the DFA style neutral small cap international fund.

Carolyn concluded her report by reviewing some additional information she'd found about private debt and how much detail she had about the underlying holdings. Carolyn reminded the Board that NEPC does not review individual securities under management in the private debt portfolios. Hugo reported that with some of the private debt funds there are limited actions available to the Board; the Board can't just take back its money and reinvest elsewhere. This is a result of the structure of these funds which do not allow investors to withdraw funds.

H. Transition of Funds from Parametric to Legal & General and from Franklin Templeton to Blackrock.

Hugo reported that all the designated funds have been moved from Parametric to Legal & General. He is now starting to move money from Franklin Templeton to Blackrock. This transaction will take time to complete as he is moving funds in \$5 million increments.

I. Update on COVID-19 Department and District Activity

Hugo reported that virtual meetings with retirees have run remarkably smoothly, and that staff have been pleasantly surprised by how well applicants have been responding to the new style of meetings. He also noted that continuing projects and having the usual small discussions with the team have been more difficult, which has slowed the department's work on some ongoing projects.

Claudia reported that the District was targeting a limited return to the office around June 8th, but not everyone would be expected to return at the same time. The District is reviewing the floor plans and how to properly social distance. She noted that people have learned quickly to work from home effectively and may continue to do so. Claudia also reported that fares are still not being collected on buses and that reduced levels of service are continuing. The entire fleet is being retrofitted with plexiglass to protect drivers. The District still expects to see reductions in sales tax revenues but with a lag, so it has not seen the impact yet.

Claudia expects to take a budget to the District Board in October once more is known about service levels and impacts to revenue. The District expects to receive about \$80 million of funds allocated by the MTC from the CARES Act and possibly a second piece of funding allocated later.

J. Semi-Annual Report

Hugo reported that at its last meeting, the Board approved the draft semi-annual report with one additional sentence. The updated report was sent to the District. Hugo attended the last District Board meeting via Zoom and reviewed the report with the District Board. The District Board raised some questions about the timing of the impact of current market conditions on the District's contribution amounts, and why current market results did not translate to immediate contribution changes. Hugo mentioned his interaction with Director Harper.

K. Draft 2019 Financial Statements.

Hugo reported that a draft version of the Balance Sheet and Income Statement has been created. Williams, Adley still needs to review and approve these drafts, and Hugo is working on the MD&A and the Notes. He said an extension may be requested of the State

Comptroller. He noted that a line item in the liabilities for holdbacks was newly added to the balance sheet. The Financial statements should be reviewed and finalized in advance of the June or July Board meeting.

L. Holdback Project Memo

Hugo reported that due to COVID-19, Russ has still not been able to get into court houses to do additional research, so there is currently nothing new to report.

M. Paratransit and Service Time

Russ has completed a substantial memo and provided it to both the District and the Union and has concluded that for employees who worked in paratransit between 1997 and 2005, that service does not count for pension service time. Comments from the District and the Union are expected within 60 days, at which time the Board can review all the materials together and possibly discuss at the August Board meeting.

N. PEPR Implementation

Hugo reported that staff is working on repaying the first person in the plan who is due interest on their contributions and will hopefully have that completed by the next Board meeting.

O. Retirement System Manager's Report

Hugo reported that he and Russ have made progress on the plan restatement. The IFEBP Investments Institute was cancelled, and efforts are being made to get Joyce and Yvonne's flight advances refunded. If a Southwest credit is received, it should be transferred to the Board for later use. Barbara will work with Joyce to coordinate that transfer.

P. Closed Session

The Board went into Closed Session. The report out of Closed Session is that the Board took no action.

Q. Adjournment

The Board briefly discussed methods to provide some of the Board documents to Board members in advance of the meeting. Staff will explore costs and logistics prior to the next meeting.

The meeting was adjourned at 4:01 p.m.