

# AC TRANSIT RETIREMENT SYSTEM

## MEMORANDUM

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<b>TO</b>	AC Transit Board of Directors
<b>FROM</b>	Jeffrey Lewis, Chair of the Retirement Board of the AC Transit Retirement Plan
<b>DATE</b>	October 23, 2023
<b>SUBJECT</b>	<b>Semi-Annual Report #2 to the AC Transit Board of Directors</b>

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### SUMMARY

Since the last Semi-Annual Report to the AC Transit District Board of Directors, dated March 27, 2023, the Retirement Board has continued its strong stewardship of the Retirement Plan's assets and its oversight of investment managers, and has also overseen some process improvements under the leadership of the new Retirement System Manager.

### BACKGROUND

#### Continued Strong Stewardship

Investment markets have been volatile but have trended upwards in the first nine months of 2023, after a significant downturn in 2022. As of September 30, 2023, Retirement Plan assets have grown 4.6%, which is below the current assumed annual rate of return of 6.75%.

The Retirement Board receives monthly updates on the performance of the Plan's assets from its investment consultant, NEPC, as well as quarterly in-depth reviews to monitor overall, asset-class, and manager-specific performance.

Performance of Retirement Plan assets continues to be around or above the investment policy and allocation indices over the long term, which is the investment horizon for those assets.

#### *Quadrennial Experience Study*

The Retirement Board's Actuary, Cheiron, presented, and the Retirement Board approved at its September 28, 2023, meeting the Quadrennial Experience Study for 2019-2022. Quadrennial experience studies are a way to measure the accuracy of assumptions versus real-life experiences of a retirement system's assets, participants, and external economic conditions.

In this case, there were only minimal deviations from existing assumptions and the only recommended update from Cheiron was to adopt updated future mortality tables reflecting an expected slowing in the rate of improvement of life expectancy for Retirement Plan Participants.

The results of the study were incorporated in the assumptions for the Annual Actuarial Valuation.

### *Annual Actuarial Valuation*

At the same meeting, Cheiron presented, and the Retirement Board approved, the Annual Actuarial Valuation as of January 01, 2023. This actuarial valuation showed minimal changes from the previous year's data thanks to the prior smoothing of investment gains offsetting last year's smoothing of investment losses. There was also a small impact from a lower estimated payroll amount from the District.

### Oversight of Investment Managers

In addition to reviewing and discussing reports from NEPC, the Retirement Board is continuing to employ a rotating schedule of presentations from the Retirement Plan's outside investment managers to review performance and discuss outlook. Between March and September 2023, the Retirement Board received presentations from six out of nineteen of its external managers.

### *Environmental, Social, and Governance (ESG)*

The Retirement Board continued its exploration of proxy voting and decided, at its June 26, 2023 meeting, to adopt a proxy voting plan that includes requiring investment managers to vote the Retirement Plan's domestic, publicly-traded, assets according to the ISS Guidelines for Public Funds. Implementation of this decision will be made before the beginning of the 2024 proxy-voting year. Upon request from any member of the District Board, staff would be happy to provide more specific information about those guidelines.

Investment managers often provide, in their presentations to the Retirement Board, data on their use of ESG criteria in their processes and decision-making. Retirement Board members regularly follow up with questions on the effect of these ESG considerations on investment choices.

### *Diversity and Inclusion (D&I)*

Investment managers are asked to provide D&I data when appearing in front of the Retirement Board. All investment managers that have appeared since the April Retirement Board meeting have provided, at the meeting or shortly thereafter, D&I data for their firm. The Retirement Board has asked questions as to long-term trends and recent actions taken to address D&I within each firm.

### *Private Markets and Pacing Plan*

With the assistance of its Investment Consultant, NEPC, the Retirement Board reviewed what future investment commitments to private markets will be needed to maintain its allocation to the sector.

This is necessary because, by their nature, each of these investments is made for a specific time-period and as of a given year some are or will be in the process of winding down. On average, the pacing plan in private markets will require the Retirement Board to onboard a new manager per year in each asset class.

A new manager for private credit was selected and the required documents will be signed before the end of 2023 and funding will happen through 2025.

### Process Improvements

With the appointment of a new Retirement System Manager for the first time in over 25 years, there is an opportunity for the Retirement Plan to update its processes, where necessary, and to develop improvements along the way.

Staff has presented and the Retirement Board has reviewed, and approved as necessary, numerous changes to business processes that have either simplified, clarified, or streamlined execution. This has allowed for progressively shorter timelines and turnaround times for some deliverables, and the Retirement Board expects those improvements to permeate other areas where there are still delays.

### *Future Staffing*

The Retirement Board also reviewed a staffing plan to address the current and future staffing needs of the Retirement Plan. Work is underway, in collaboration with the District's Human Resources Department, to revise the classifications for staff to more closely align with the marketplace and to improve hiring and retention of staff. Subsequent steps will involve budgetary adjustments for new proposed positions and the hiring process of new staff.

### **CONCLUSION**

The Retirement System continues to provide strong fiduciary oversight of the Retirement Plan to ensure its continued viability and to fulfill the District's promised retirement benefits to Retirement Plan participants.

Should you want to discuss these items or any subject regarding the Reinterment Plan, please feel free to contact me at 510-463-3900, or you can contact the Retirement System Manager at 510-891-5494 or [dcharlety@actransit.org](mailto:dcharlety@actransit.org).