

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
July 13, 2022**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at 9:09 a.m.

Members Present: None
Present by Zoom: Chair Jeffrey Lewis, Vice Chair Josette Moss, Davis Riemer, Chris Andrichak,
Members Absent: Robert Coleman

Also present by Zoom: Hugo Wildmann, Retirement System Manager; Russell Richeda, Legal Counsel; Jason Herron, Retirement System Administrator; Bertina Ng, Retirement System Analyst; Cris Gille, Retirement System Associate Analyst; Gurman Kaur, Temporary Retirement Staff. The following attendees attended all or part of Open Session: Joel Young, District Board Liaison, Chris Peeples, District Board Liaison; Jean Walsh, District Board Member; Mike Hursh, General Manager; Jill Sprague, General Counsel; Carolyn Smith, NEPC; Graham Schmidt, Cheiron, Kenneth Yu, Williams-Adley

PUBLIC COMMENTS

None

Hugo reported briefly about the agenda for the meeting, noting that the Board would begin with the consent calendar and then move to the Actuarial Valuation since General Manager Mike Hursh and Actuary Graham Schmidt had already joined the meeting.

CONSENT CALENDAR

- A. Approval of Minutes for the June 29th Meeting
- B. Approval of Financials for March 2022
- C. Approval of Invoices for \$501,795.74
- D. Approval of Retirements for July and August 2022
 - 1. Marie Duffy Carlisle (July)
 - 2. John Harlan (July)
 - 3. Venus Jones (July)
 - 4. Howard Turner (July)
 - 5. Leave Andreason (July, Term Vested)
 - 6. Kirandeep Bawa (July, Term Vested)
 - 7. Annette Eddings (July, Term Vested)
 - 8. Ronnie Blaylock (August)
 - 9. Pamela Clark (August)
 - 10. Sarah Francillete (August)
 - 11. Eva Goodridge (August)

12. Ronald Limbrick (August)
13. Leon Neal (August)
14. Beverly Powell (August)
15. Jacqueline Sudduth (August)
16. Judy Holmes-Brown (August)

MOTION: Riemer/Andrichak to approve the Consent Calendar with the minutes as amended (4-0-0-1).

The Board recognized Marie Duffy-Carlisle for 27 years of service, Howard Turner for 27 years of service, Ronnie Blaylock for 36 years of service, Eva Goodridge for 37 years of service, Ronald Limbrick for 33 years of service and Beverly Powell for 31 years of service.

REGULAR CALENDAR

E. Actuarial Valuation

General Manager Mike Hursh joined the meeting. Hugo reminded the Board that over a series of meetings Graham usually presents information and the Board asks questions and provides feedback, and, once the questions are answered and everyone is comfortable, then the Board approves the Valuation. Graham presented the Board its first look at the actuarial results, noting that the Board had requested a projection with both the current earnings assumption of 6.75% and at an assumption of 6.5%. Graham reported a reduction in active participants and growth in the population receiving a benefit. The actuarial liability increased by just under 4%, from \$1.08 Billion to \$1.125 Billion. The actuarial valuation of assets increased from \$789 million to \$857 million. Funded ratio has also increase by almost 4% to 81% on market value and to 76.2% on actuarial value. The projected District contribution has increased from \$63.2 million to \$66.1 million, but that represents a smaller percentage of pensionable payroll than the previous year.

Graham reminded the Board about the impact of changing the effective date of the contribution from July 1st of this year to January 1st of 2023 and described how the District contributes a set dollar amount to reduce the unfunded liability but a percentage of payroll for the normal cost contribution. Graham noted that the Normal Cost has increased by more than 1%, which triggers a change to the PEPPRA contribution rate for employees. He also reported that the Board discussed reducing its expected rate of return at earlier meetings. Graham mentioned that as a result of the recent increase in interest rates and the decline in the equity markets, he does not see much of a need to reduce the expected rate of return at this time..

The Board asked to review NEPC's projected investment returns versus the figures Graham is using. Both Carolyn's and Graham's projections are improving since the equity markets have done poorly of late and interest rates have increased. The Board discussed the wisdom of making a change to the expected return amount given the amount of uncertainty in the markets and mostly agreed that reducing the rate at this time was not warranted and could be revisited. The Board discussed how the change in the contribution rate would affect

employees. The Board directed Graham to complete his report with the current assumptions and figures.

Graham briefly discussed the impact of the recent market declines and stated that the impact of 2022 investment results will begin to impact the District contribution on January 1, 2024.

F. GASB 67/68 report

Graham reminded the Board about the GASB 67/68 report and how it fits into the District's financial reporting. Board member Riemer asked a question about the effect of unfunded pension liability on the District's ability to obtain debt, and Chris Andrichak reported that the District has not taken on a lot of debt and only a significant change in the unfunded liability would change how creditors perceive the District.

MOTION: Andrichak/Riemer to accept the GASB 67/68 report (4-0-0-1).

The Board took a brief break.

G. ESG (Environmental, Social, Governance) Investment Presentation

Hugo introduced the ESG discussion by presenting the Board's history in dealing with what is now called ESG and noting some of the complexities pertaining to ESG. Hugo mentioned that Investment Guidelines dating from over 20-years ago state the Board is committed to hiring firms that show a commitment to the advancement of "minority, women and disadvantaged professionals".

Carolyn began her presentation by reviewing some of the important issues that are considered in ESG investing. She discussed Negative Screening, ESG integration, Thematic Investing and Shareholder Engagement, and how each of these could be expected to change management behavior and affect performance, including tracking error against benchmark indices. The Board had questions about shareholder engagement and how it could affect management. The Board also asked about proxy voting and how the shares we own are voted by our investment managers. Carolyn explained that the Board could vote its own proxies or hire someone to do that for them. Carolyn also contrasted the impacts of shareholder engagement versus negative screening. Hugo suggested that the Board invite BlackRock in to discuss proxy voting and what options we have for proxy voting for our funds managed by BlackRock.

Carolyn reviewed ESG Integration levels in investment types and asset classes, as well as client types. She noted specifically that endowments and foundations act differently than public pension plans and private wealth. Director Peeples asked a question about index investing with exclusions and if reliable data was available about performance versus the entire index. Carolyn reported about some investments that were available that excluded fossil fuels and that excluded companies harming the environment. She also reported about a fund that had been tech heavy because of its exclusions that got hurt badly in the dot com bust in the 90s. Hugo suggested that the Board invite Kevin Johnson from Dodge

& Cox to discuss the “E” in ESG. Kevin has extensive experience with fossil fuels as he began his career as an energy analyst.

Carolyn then reviewed NEPCs rating system for managers on ESG considerations. She also noted the SEC’s interest in “greenwashing” by investment managers. She reviewed the Plan assets managed by firms who have signed the Principles of Responsible Investing. She reported that all the Plan’s index managers are rated at 3, because their managers must hold the stocks in the index. She also noted that Dimensional and City of London are rated 4, Dimensional because their investments are rules based, and City of London because it is a fund of funds which has less control over individual holdings.

The Board discussed its fiduciary responsibilities and whether the Fund’s performance would be different if it undertook further ESG investing. The Board discussed the articles included in the packet from the Wall Street Journal and appreciated the added perspective. The Board requested additional information about proxy voting and what options were available to them, as well as a review of Engine One and other similar funds that are involved in ESG investing as a primary goal. The Board also asked to see a comparison of funds that specifically exclude certain industries and how they have compared to their benchmarks. The Board discussed the relationship between the ESG issues it prefers to address and the potential effects on its fiduciary duties. Director Young reminded the Board about its fiduciary duty and noted his disapproval of the District Board attempting to influence the asset allocation of the Plan.

The Board took a brief break

H. Investment Performance, Rebalancing and Asset Allocation

Hugo reported that the Flash Report was not available in the packet due to the timing of the meeting, but that market performance is still well below the assumed rate of return and Carolyn could now cover the Flash Report. He noted that because equities are down, some rebalancing might be required, so he would work on that with Carolyn for the August meeting. Year to date, the Plan is down about 15%, which is below both the policy and allocation index. The poor performance in some of the active managers is causing the shortfall to these indices. Carolyn reviewed inflation for the year, central bank policy and worldwide changes to interest rates. The Board discussed whether NEPC might call the bottom of the market. The Board discussed rebalancing and the difficulties of doing that with all the asset classes down and others illiquid. The Board decided to rebalance and move some fixed income funds to equities.

MOTION: Riemer/Andrichak to move approximately \$10 Million from the SSGA Fixed Income fund to the Russell 1000 index fund (4-0-0-1).

I. NEPC Workplan

Carolyn reported that at the next meeting she would continue the private equity discussion and bring in HarbourVest to present. She will also review the Quarterly Investment Report and bring updated Capital Market Assumptions. Hugo recommended discussing rebalancing again at the next meeting to review what changes need to be made and our

growth/value allocation.. Hugo reported that depending on how the Board discussion of private equity goes, they might want to hire Tom Hickey (Foley & Lardner) about HarbourVest. Hugo also noted that Tom Hickey would be retiring from Foley & Lardner soon.

J. Update on COVID 19 District and Department Activity

Hugo reported on the recent increase in COVID case emails being sent out by the District. Director Peeples reported on a recent meeting with Senator Skinner, during which the District's fiscal cliff next year was discussed, as well as financing issues with SB 917. Director Peeples also reported that most of the District Board is meeting in person on the second floor for its regular meetings, but that members of the public were limited to appearing on Zoom. Hugo reported that he would discuss District Board practice with Linda Nemeroff and discuss next steps with the Board in August. Vice Chair Moss discussed the difficulty of retaining ATU members given the changes to the pension and COVID Vaccine Mandates

K. Approve Resolution Regarding Remote Meetings Pursuant to AB 361

Director Peeples reported that on the other Boards on which he serves this item is often done in the Consent Calendar. Hugo reported that he would consider having it on consent if necessary at the August meeting.

MOTION: Andrichak/Moss to approve the resolution regarding AB 361
(4-0-0-1)

L. Schedule an Early August Board Meeting

The Board discussed their schedules and scheduled a 10-minute meeting for Tuesday August 2nd at 10:00 a.m. to deal with another 30-day extension for AB 361.

M. Preliminary Financials

Kenneth Yu joined the meeting. Hugo reported that the Financials were still preliminary, but he wanted to bring them to the Board to see if they had any questions before the final version is brought to the August meeting. He also noted that the Board's previous questions about expenses still needs a review but seems to have been caused primarily by expenses being accrued on the Monthly Financials that were well in excess of our actual expenses. The Board asked a question about the Payable to AC Transit Benefits, and Ken replied that he believed AC Transit writes the paychecks to retirees, for which they are reimbursed by the Plan, and this item represents the delay in that repayment to the District. Hugo will return next month with a definitive answer on the timing and amounts.

N. Press Inquiries to Retirement Staff and the Retirement Board.

Hugo reported that he has worked with Jeff, Russ and Mike Hursh to come up with a written policy which states that in matters pertaining to the Retirement System, it is the Retirement System that has final say in responding to press inquiries. The Policy also

states that the Retirement System will work together with the District on press inquiries addressed to the Retirement System.

MOTION: Andrichak/Riemer to adopt the press inquiry policy (4-0-0-1)

Hugo thanked Russ and Jeff for their support on drafting the policy and noted that, as in all his dealing with the General Manager, Mike had been very helpful and thoughtful.

O. Succession Planning and Staffing

Hugo reported that he and Chris Andrichak have worked together to update the previous version of the Job Description and have sent it to Alliance. Alliance will make changes and send it back. Hugo said the Board will see any material before it is finalized.

P. Evaluation of Service Providers

Hugo reported that there has not been progress, but he would return to the Board at the September meeting with an update.

Q. Retirement System Manager Report

Hugo reminded the Board about the upcoming Joint Meeting date of October 19th. He reported on changes to health insurance costs for retirees.

R. Holdback Update

Hugo reported that the large number of retirees for July prevented staff from making significant progress on holdbacks. He said staff would return with an update in September.

S. Adjournment

The Meeting was adjourned at 1:00