

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
November 8, 2018**

ROLL CALL

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

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

Absent at Roll Call: None

Members Absent: None

Also Present: Hugo Wildmann, Retirement System Manager; Russell Richeda, Legal Counsel; Curtis Lim, Retirement System Temporary Employee; Thuie Tran, Retirement System Staff; Carolyn Smith, NEPC; H. E. Christian Peeples, District Board Liaison via telephone; Richard Oslund, AC Transit

PUBLIC COMMENTS

None

CONSENT CALENDAR

A. Approval of Minutes for the October 11th Meeting

Chair Lewis suggested some changes to the Minutes which the Board approved. Vice Chair Williams raised an issue pertaining to Edilberto Reynoso's eligibility for the Retiree Health and Welfare Trust. She mentioned that the District is questioning Mr. Reynoso's eligibility for the Trust. Hugo said he would discuss the issue with Ralph Martini.

B. Approval of Financials for July 2018

C. Approval of Invoices for \$239,716.61

D. Approval of Retirements for November/December 2018:

1. Henrietta Collins (November)
2. Deborah A. Robinson (November)
3. Zaina Outlands (November, Term Vested)
4. Mary Cobb (December)
5. Flor De Maria Leiva (December, Term Vested)

The Board recognized Deborah A. Robinson for 31 years of service.

MOTION: RIEMER/WILLIAMS to approve consent calendar with the changes to the minutes as discussed. (5-0-0-0)

Ayes: Chair Lewis, Vice Chair Williams, Members Allen, Riemer, Willis

Noes: None

November 8, 2018 Retirement Board

Abstain: None

Absent: None

REGULAR CALENDAR

The Retirement Board May Discuss and Take Action on the Following:

E. Quarterly Investment Report

Carolyn discussed the Quarterly Investment Report and the recent market downturn. Through the end of September the portfolio had returned 2.6% which was above both the Policy and Allocation Index. Total equities had returned roughly 5.3% for the year while fixed income had returned negative 1.6%. Hugo explained that over the real long-term an increase in rates is not necessarily a bad thing for our plan. While it will hurt short-term performance, the long term fixed-income returns will increase as proceeds are reinvested at higher rates. Chair Lewis asked about a possible discussion in the future about laddered bonds.

Carolyn discussed growth versus value in equities. She reviewed a chart that showed when growth has outperformed and when value has outperformed by taking the Russell 1000 growth index and subtracting the value index. Carolyn mentioned that the Fund should be ready for the turn by rebalancing from growth to value. She also mentioned that in the long term both international equity as well as in emerging markets, value outperformed growth; however, we are in a time period where growth is outperforming value. Member Riemer asked what is driving outperformance of value stocks over longer time periods. Carolyn responded that buying a stock at a lower price (based on various metrics) and keeping it for the long term will outperform buying higher priced securities. The difference for growth managers is that they buy at a higher price when they think the company will keep growing and have less downside protection. Hugo asked the Board to consider whether the environment has changed so that growth will keep outperforming value. He mentioned the possibility that the economy is changing and the large cap companies such as Amazon and Apple are doing better in this environment and that this change could continue into the future. Chair Lewis would like an educational discussion about ETF's vs. Mutual Funds and decided that this presentation should take precedence over the laddered bond discussion.

Carolyn went over the due diligence monitor. JP Morgan has restructured the Strategic Property Fund to accept capital from a more diversified investor base. Carolyn stated that NEPC is comfortable with the new structure. Investec has created a spin off called Investec Asset Management and will be listed on the London Stock Exchange. NEPC has no issue with this change. Member Riemer asked whether their behavior is going to change due to being a public company instead of private. The Board would like NEPC to keep a close eye on Investec due to this change. Franklin Templeton is going to buy an alternative credit firm. Member Riemer asked whether the alternative credit would be integrated into current portfolio or would they create a new portfolio. Carolyn stated that they wouldn't be integrated into their current portfolio.

The Board took a break from 10:07 a.m. to 10:15 a.m.

November 8, 2018 Retirement Board

Carolyn reported that our domestic equity managers Dodge & Cox are doing well, but Sands is excelling due to the current economic environment. She also mentioned that DFA has underperformed, but she is not concerned about their performance. Carolyn mentioned that emerging market equities have negative returns and have underperformed that benchmark. She mentioned that she does not think a change is needed and that the Fund should be patient with these managers. Member Riemer asked about City of London's total fees, due to its own fees and the fees they get for investing in funds themselves. Member Allen asked why NEPC does not recommend a passive manager for international funds.

Carolyn stated that the Fund has more fixed income than the median public fund and this has impacted the ranking of the Fund among other public funds. She mentioned that since NEPC started working with the Plan the fixed income portfolio has been substantially restructured. The structure has been changed from one where almost all of the investments were in Core Plus to one where the bulk of the assets are in the index fund with the remaining part of the portfolio taking more credit risk. Carolyn mentioned that PIMCO has done well and outperformed the benchmark. Hugo added that the environment is good for credit investing and that credit investing should be doing well at this time. Carolyn mentioned that emerging market debt has not done well, but is there to have a higher yield than the Barclay's Aggregate Index Fund which it has provided.

Carolyn reported that for private debt we will not see the true return until all the money has been returned. She stated that the funds have been doing well so far. Carolyn mentioned the five real estate funds that the fund is invested in. She pointed out that Brookfield has a little more risk than the others and is a worldwide fund.

Hugo asked if in the "peer comparison" the fund was compared to similarly sized funds or to all funds. Carolyn mentioned that the fund is compared to all public funds.. She mentioned that our asset allocation is different than many of the funds in our "peer universe" as we have a higher percentage in fixed-income. Chair Lewis requested the report show how we compare to all funds as well as to funds with less than \$1 billion in assets.

Director Peeples commented about the "crash" and what to do to protect the fund due to the long bull market and the current administration and his concerns that the market was set for a steep decline. The Board discussed why we do not do market timing and that the market is very difficult to predict. Carolyn mentioned that NEPC is not advocating a move where the fund sells a good deal of its equities. They recommend periodic rebalancing. Chair Lewis responded by saying that the Fund has been taking steps to rebalance and diversify. Carolyn and Hugo reported that the fund has moved from close to 65% in equities to a bit more than 50% during NEPC's tenure as our investment consultant. The Board discussed how the Plan is much more diversified than a decade ago and has a lower percentage of its assets invested in equities.

- F. Investment Performance, Rebalancing and Asset Allocation
- G. Update on Additional Investec Information

November 8, 2018 Retirement Board

Hugo reported that Investec will make a presentation at the December meeting as the individuals Investec wanted to have present were not available for this meeting. Hugo said he had just met with Investec and he thought it was important that the Board understand how they use currency investments and that the Board needs to determine if they are comfortable with currency trades being used in a non-hedging capacity. He said Investec can have 15-20% “long currencies” and “short currencies” in a non-hedging capacity. Hugo stated that one has to determine if these positions should be added together to determine total risk or if they are netted against each other. Hugo explained that Investec must take risk to produce “alpha” and that Investec thinks their approach is better than other approaches. Chair Lewis would like Carolyn to circulate the original materials presented by Investec.

The Board discussed the investment strategy of Investec and whether their currency trading is in line with the diversification model. Carolyn mentioned that Investec makes decisions based off the benchmark which includes both bond and currency amounts, therefore Investec would almost always be making both bond and currency decisions. The Board would like questions to be presented to Investec before their presentation next month. The Board would like to know how their alpha would be affected if they did not do any pure currency trading.

The Board also asked Carolyn if they put 30-40% into pure currency, would it accomplish the same goal in diversification. Carolyn will come back next meeting with a discussion as to why it will still accomplish the same goal in diversification. Carolyn mentioned that Investec has a larger percent in pure currency investments compared to similar managers, but has less volatility due to all their moving parts within the portfolio. Chair Lewis agreed with Hugo that the Board must make a decision after fully understanding Investec’s investment strategy on whether Investec still fits into the diversification strategy of the fund. Hugo suggested at the next meeting the Board focus on if they are comfortable with the investment strategy Investec is pursuing and determine at a later meeting how the strategy was presented and vetted.

H. NEPC Work Plan for 2018 and Tentative Calendar for 2019

Chair Lewis mentioned he will be out of town from 1/20/19 to 2/13/19 and would like to move the January and February meetings. The Board agreed to move the January meeting to 1/10/19 and the February meeting to 2/25/19.

The Board took a lunch break from 11:53 a.m. to 12:12 p.m.

I. Department Staffing Update

Hugo mentioned that a panel consisting of Hugo Wildmann, Claudia Allen, and an outside person from EBMUD had interviewed four candidates. The panel has decided to move forward with two of these candidates who would have a second interview. Director Peebles mentioned that the District Board was concerned about the length of time this hiring has taken. Hugo mentioned the difficulty in hiring.

J. Memo on the Robert Half Contract to the District Board

November 8, 2018 Retirement Board

Hugo reported that the issue of extending the Robert Half contract would be discussed at the District Board meeting on November 14th. Hugo said he would be in attendance and planned on speaking. He said it would be extremely beneficial for the Vice-Chair and Chair to be in attendance and address the District Board at the meeting. Hugo again stressed the need to extend the Robert Half contract and the difficulty we have had in hiring for the Administrator position.

K. Update on Hiring for Retirement System Administrator

Hugo updated the Board on the interviews for the Administrator position. He reported that he does not think he is being “overly fussy” in his hiring and that the candidate pool has been weak. He mentioned that a panel had interviewed and discussed the candidates and the panel was in agreement with the hiring decisions. Hugo again mentioned his surprise at how weak many of the candidates were in Excel skills and experience. Vice Chair Williams stated that there can be difficulties if one hires the wrong candidate.

L. PEPRA Implementation Update

Hugo mentioned that he will be working with Curtis this month on the employee contribution.

M. Update and Questions on Benefit Statements

Hugo mentioned that almost all of the Benefit Statements were mailed. He mentioned that approximately 45 Benefit Statement have not been mailed out as these statements might be impacted by PEPRA. Hugo explained that the issue pertains to what is considered a “retroactive benefit increase”. Hugo mentioned that the retroactive increase has to do with the multiplier and not the age requirement. He explained that under the pre-PEPRA Plan when an employee moved from ATU to AFSCME, or AFSCME to unrep, their prior service was calculated with a new “multiplier”. Yvonne asked if Hugo had discussed this issue with the AFSCME President. Hugo said he had not done so and thought speaking with her was a good idea.

Hugo mentioned he had discussed this issue with Russ and the General Counsel and they were all in agreement on how the Benefit Statements should be calculated and on the need for a minor disclaimer for one of the groups of employees.

Vice Chair Williams stated that she does not agree with the course of action Hugo and Russ recommended. Yvonne was not in favor of sending out the Benefit Statements as proposed. Chair Lewis mentioned that these participants should be given a Benefit Statement and the calculation method proposed by Hugo and Russ follows their interpretation of the PEPRA Plan Amendment.

Chair Lewis stated that the Board needs to decide what Benefit Statement is to be sent out. Chair Lewis suggested that new language would be added to those transferring to Unrep that states that their benefit is now being calculated in a new way according to the PEPRA Plan Amendment.

Russ mentioned that for those transferring from Union to Union, since there is no current amendment that the calculation of their benefit stays at the current method. The issue he raised pertained to a future amendment that had a retroactive effective date. Hugo mentioned that he

November 8, 2018 Retirement Board

would like to put disclaimer language for this possibility. Vice Chair Williams and Chair Lewis disagreed that a disclaimer should be put on these types of transfers. Additional discussion took place pertaining to the Benefit Statements. The Board decided not to send out the Benefit Statements and to discuss the topic at the next meeting. Hugo was to send an email out notifying those employees who did not receive a Benefit Statement that they should expect one in the near future.

N. Summary Plan Description (SPD)

O. Paratransit Employees in the Retirement Plan

Hugo mentioned that he received some material from the District's Legal Department but that the documents did not specifically address the Retirement Plan and paratransit employees prior to 2002. He said the Legal Department is contacting the District Secretary to see if she has any material pertaining to this topic.

P. Speaking with Doctors as Part of the Disability Process

Hugo suggested discussing this item next month as it was almost 1:30.

Q. Retirement System Manager Report:

1. Pension Risk Assessment
2. New Employee Orientation Presentation
3. CALAPRS Annual Board Meeting in Glendale (December 7th) - **MOTION: RIEMER/WILLIAMS** for Hugo to attend the meeting. (5-0-0-0)

R. Closed Session

S. Resume Open Session

Hugo Wildmann reported on Closed Session with respect to item R-1-c. The Board unanimously approved Ms. Amos' OCD retirement retroactive to December 2017.

MOTION: WILLIAMS/RIEMER to adjourn. (5-0-0-0)

The meeting adjourned at 1:32 p.m.