

**Approved Minutes
Special Meeting of the
AC TRANSIT RETIREMENT BOARD
March 21, 2019**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at approximately 9:10 a.m.

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

Absent at Roll Call: None

Members Absent: None

Also present: Hugo Wildmann, Retirement System Manager; Curtis Lim, Retirement System Temporary Employee; Jason Herron, Retirement System Temporary Employee; Russell Richeda, Legal Counsel; H.E. Christian Peeples via Telephone, District Board Liaison, Carolyn Smith, NEPC.

PUBLIC COMMENTS

None

Vice Chair Williams took the opportunity to recognize Chair Lewis for his unwavering commitment to the Board for over a decade. She wanted to thank him publicly and let him know that it is not lost on her what he's done for the participants of the plan.

CONSENT CALENDAR

A. Approval of Minutes for February 25, 2019

B. Approval of Financials for November and December 2018

C. Approval of Invoices for \$275,419.94

D. Approval of Retirement for April 2019:

1. John Brown (April)
2. Keith Clark (April)
3. Eduardo Diaz-Nuno (April)
4. Diane Gosier (April)
5. Shirley Haile (April)
6. Leila Jackson (April)

7. Ronald Price (April)
8. Harry Williams (April)
9. Toni Crosby (April, Term Vested)
10. Bertha Ford (April, Term Vested)
11. Lisa Henderson (April, Term Vested)

Donald Walton's name was removed from the agenda as he informed staff that he was delaying his retirement.

The Board congratulated John Brown for over thirty-four years of service, Shirley Haile for 32 years of service, Leila Jackson for 31 years of service, Ronald Price for 40 years of service and Harry Williams for 33 years of service.

MOTION: Williams/Willis to adopt the Consent Calendar updated to remove Mr. Walton. (5-0-0)

REGULAR CALENDAR

Hugo briefly discussed the agenda for the meeting, reminding the Board that the bulk of the meeting would be made up of Carolyn's investment performance review and discussing the Asset Liability Study. He continued that the special Joint Committee (Yvonne and Jeff and District Board members Young and Shaw) would be meeting today after the Board meeting. Given scheduling constraints, it was decided to try to wrap up the Board meeting by 1:00.

E. Investment Performance

Carolyn began her presentation with the Flash Report and discussed calendar year index performance. Notably the Russell 1000 is up 12% in two months, and the Russell 2000 is up 17%. Carolyn briefly discussed current market drivers in response to a question about why the markets are performing so well. She also clarified the nature of the Russell 2500 index as a "smid" cap index that includes the smallest 2,500 companies in the Russell 3000 universe.

Next, Carolyn discussed fund performance, noting that the fund is up seven percent so far in 2019, outperforming its benchmarks. She mentioned that the 10-year figures now exclude the 2008 market downturn. There was discussion about the DFA underperformance versus the benchmarks and that part of this underperformance is a result of DFA not investing in REITS. Member Reimer asked Hugo to ask DFA what proportion of their portfolio is below the bottom threshold of the Russell 2000, and how/if that has affected their return? Then, we discussed rebalancing, regarding small cap, large cap and value and how much of the fund should be comprised of each of these asset classes.

Carolyn continued to report on performance across the remaining asset classes, including fixed income, private debt and cash. The Board briefly discussed the lag in reporting for some investment types, and whether the benchmarks are similarly lagged in the reports.

Hugo said that as part of his report later in the meeting he was planning on discussing a presentation he heard at the CALAPRS General Assembly from CEM Benchmarking. This presentation showed that the diversification from several asset classes like Real Estate and some private investment were more attributable to a reporting lag than to actual investment diversification. He also mentioned the CEM presentation said that for plans under \$10 billion in assets the use of public markets usually outperforms private markets and that REITS are a good substitute for private real estate, and that small cap equity is a good substitute for private equity. The Board discussed the implications of the CEM report, and Hugo will email a copy of the report to the Board.

Hugo then moved on to an article in the binder entitled “Out of Fashion Style Retains Value” from the March 18, 2019 edition of the Wall Street Journal, which led to additional discussion about value versus growth investments, and the balancing thereof. Hugo then moved on to the rebalancing spreadsheet, reporting that total equities are currently at 52% versus a target of 51%. Private debt is currently at 3% versus a target of 5%. Hugo reminded the Board that it can allocate funds to private debt but must wait for capital calls from the managers to fund the investments. When all the Board’s current managers have made their capital calls, the fund should be much closer to the target private debt allocation.

Carolyn presented a memo about the MSCI EM Index increasing its weight of China A shares and how that will impact how the fund will perform verses the benchmark going forward. The MSCI EM index is increasing its weight in China, and given that Parametric underweights China and that they will not be changing their weight to China going forward, the underweight to China in the portfolio will most likely increase going forward. Therefore, Parametric’s tracking error is therefore likely to grow over time, since its weightings will vary significantly from the MSCI benchmark. Member Reimer asked what would move China from “emerging market” to “developed market” in the benchmark. Carolyn said she’d investigate that answer but did not anticipate that move would be made soon.

There was discussion about what action should be taken with Parametric, since it underweights China and this underweight will most likely grow in the future. Board members discussed several alternatives that would reduce our underweight to China. The Board did not favor hiring a manager to only manage a separate allocation to Chinese equity.

The Board’s investment target has been to evenly divide the emerging market equity portfolio between Parametric and City of London. The Board tentatively agreed to have Carolyn recommend changing the 50/50 allocation to Parametric and the City of London to one in which we decrease our allocation to Parametric. Carolyn will present various allocations to the Board next month.

The Board was informed that Barry Olliff was retiring from the City of London. The Board and staff all mentioned how they enjoyed his presentations and his direct approach when

presenting to the Board. The Board agreed with Carolyn that his departure from the City of London should not result in our changing our investments with the City of London.

F. Sands Request to allow investments in REITS

Hugo reports that Sands has reached out to him to ask if Sands has permission to buy REITS with holdings from the fund. The move is not a real estate play, but rather involves 5G cellular technology, and will be for one REIT. Hugo recommended allowing Sands to make the investment, but would prefer to set limits on the amount invested in a single REIT, or limiting the allocation of REIT holdings for the fund. Carolyn prefers not to limit managers in this regard. The Board discussed its current policies on limiting managers, and Carolyn encouraged them to allow as much flexibility as fit within its risk tolerance.

MOTION: Reimer/Williams to approve Sand's request to invest in the specific REIT that they've requested (5-0-0-0)

G. NEPC Workplan

Hugo reports the next Board meeting is scheduled for April 22nd. He recommends that Carolyn bring her proposed presentation to that meeting so that it can be reviewed before the joint meeting.

H. Department Staffing Update

Hugo reported that temporary employee Jason Herron is still filling the open administrator role, and that the District Board approved upgrading the position from a Grade 8 to a Grade 9. Hugo recommended sending a letter to the District Board thanking them for upgrading the position. The Board agreed that sending this letter was a good idea. Included in the Board binder was the schedule for hiring which was reviewed. Hugo expressed interest in once again having Board Member Allen on the hiring panel. She agreed to serve on the panel subject to her availability.

I. Benefit Statements

Hugo reviewed a memo with amended language to the disclaimer to be included in approximately 30 benefits statements of employees who have changed representation. He requested the Board approve the final amended language.

MOTION: Reimer/Allen to approve the updated language and send out the remaining Benefit Statements (5-0-0-0)

J. Speaking to Disability Applicants Personal Physicians

Hugo quickly walked through three documents for the Board. A proposed new policy on the procedure for calling an applicant's physician, the addition of a line to the Medical Release, and an update to the form to be filled out by doctors that includes the definitions of Occupational Disability and Total and Permanent Disability were reviewed. The discussion was tentatively tabled until next month unless there was time at the end of the meeting.

K. District Board and Retirement Board Committee

Hugo discussed briefly the first meeting of Joint committee March 28th. Hugo then continued with his Manager Report.

1. Form 700-- There are still two outstanding.
2. Actuarial Validation-- It took until earlier this week to get data from Human Resources. The task was more complex than in prior years as we needed data pertaining to PEPR. The data is now in the hands of the actuary.
3. CALAPERS General Assembly Meeting--Highlight was the decision by the California Supreme Court that was released during the conference in a case pertaining to vested rights. Russ was selected by CALAPERS to quickly read the decision and address the conference. Included in the packet is a write-up from Russ on the court's decision. Russ briefly discussed his memo. He reported that the Vested Rights Doctrine says once one is hired as a public employee, one is due all benefits promised at the time of hiring and that benefits cannot be reduced unless a corresponding increase is given. Russ continued, detailing the court's decision on airtime, its definition and the implication to the firefighters affected. He ended by saying that upcoming decisions by the California Supreme Court on this issue are being awaited and will most likely directly impact the issue of vested rights on pension benefits.

L. Disability Applicant Doctor Policy Continued

As there was time remaining before the meeting needed to adjourn the Board resumed the earlier discussion pertaining to staff speaking with the applicant's doctor. Jeff reviewed the history of this discussion for the Board, saying that one Hearing Officer had concerns about Retirement staff calling an applicant's physician and unduly influencing the doctor. Hugo mentioned that the proposed policy is written to try to prevent that. Member Reimer had a few questions including: Specifically stating in the policy that the call will be on a speakerphone. Member Reimer recommended updated wording to: "Staff must be mindful to avoid bias and avoid tendencies to lead". Further, Member Reimer asked why complaints go to counsel, rather than directly to the Board. Hugo responded that he had several reasons for this: 1) This would allow counsel to arbitrate differences between Hugo and the staff member on the call and 2) Hugo thought it was more likely that staff would contact Russ than for them to have to contact the Board Chair or the Board.

Chair Lewis recommended removing one of the background descriptions that called the policy high level. He recommended updating the language to say: "Where something isn't specifically stated in the policy, staff should endeavor to follow the intent of the policy". Vice Chair Williams raised additional concerns about the applicant not being included in the call. The Board discussed some other ways to make sure that the applicants rights are represented. The Board agreed that they would like to have additional discussion on this topic at the next meeting

The Board took a break for lunch.

M. Asset Liability Study

Carolyn began by discussing the frequency with which these studies are usually performed, noting that typically Boards like this one review them every three to five years. She then went on to discuss the methodology, taking the valuation report provided by the Actuary (Graham), which gives a snapshot of the assets and liabilities at a certain time, combined with the actuarial future cash flows to predict future liabilities. Those are then added to Capital Market assumptions and correlation expectations to project Assets.

Carolyn then discussed page two, the executive summary. The Current analysis projects some funding level headwinds for the fund in the medium term (next five to seven years), but not in the longer term (thirty years). The current targeted rate of return is reasonable and appropriate. The types of modeling done for this analysis are described on page three. Page seven of Carolyn's report led to discussion about the funded ratio based on both actuarial and market value of plan assets. When discussing page nine of her report, Carolyn described the ten-year path to a higher funded ratio at current projections. There was discussion about page 16, the plot of risk and return. Hugo requested a plot of risk and return on a historical basis. He said that the assumption that the riskier the investment the more it will return in the future is correct from a theoretical basis but that real returns and risk do not always follow this theoretical basis.

Carolyn then walked the Board through the scenario analysis showing how previous market shocks would affect a range of asset mixes and the funded ratio and contribution rates. Next, Carolyn turned to the stochastic analysis, which presents a few different asset allocations and how they'd be expected to perform. There was a lengthy discussion about the value of stochastic analysis, and the size of the plan and its investment types and how the Plan's portfolio compares to other retirement systems

N. Closed Session

The Board then went into closed session. Counsel Russ Richeda reported out of closed session that regarding item U1 for the TPD application of Gerardo Alarcon, the Board by motion unanimously approved Mr. Alarcon's TPD application retroactive to April 1, 2017. The

Board also acted on the application for Christine Longmuir and by motion denied that application. The Board then went back into closed session regarding the performance evaluation of the retirement system manager. There was no report from the second closed session.

The meeting was adjourned at 1:30 p.m.