

**Approved Minutes
Special Meeting of the
AC TRANSIT RETIREMENT BOARD
October 28, 2019**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at approximately 9:07 a.m.

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

Present by Phone: None

Members Absent: None

Also present: Hugo Wildmann, Retirement System Manager; Jason Herron, Retirement System Administrator; H.E. Christian Peeples, District Board Liaison; (the following individuals were at part of the meeting): Bertina Ng, Retirement System Analyst; Curtis Lim, Temporary Retirement Staff; Carolyn Smith, NEPC; Denise Standridge General Counsel; Jill Sprague, Assistant General Counsel; Ivy Wong Flores, Legal & General; Michael O'Connor, Legal & General

PUBLIC COMMENTS

None

CONSENT CALENDAR

Hugo briefly discussed the agenda for the meeting. He noted that Counsel Richeda would not be at the meeting as the meeting date was changed to a date that Russ was unavailable. He said the District General Counsel would be joining the meeting at 11:30 to discuss the Benefit Statements and Paratransit.

- A. Approval of Minutes for the September 12th Meeting
- B. Approval of Financials for May 2019
- C. Approval of Invoices for \$265,601.43
- D. Approval of Retirements for October and November 2019:
 - 1. Roel Espino (October)
 - 2. Sampson Parker (October)
 - 3. Edwina Williams (October)
 - 4. Virginia Pitre (November)

MOTION: Riemer/Williams to adopt the Consent Calendar. (5-0-0-0)

The Board recognized Virginia Pitre for 27 years of service.

REGULAR CALENDAR

E. Retirement of Sheila Williams

Hugo reminded the Board about Ms. Williams and noted that Russ would prepare a memo for the November meeting with a recommendation on possible payments to her daughter Razatta.

F. Investment Performance

Hugo briefly reported favorable equity market conditions, including strong performance in the Russell 1000, and that the plan is up 11% for the year through September and probably up over 12% now. Carolyn began her presentation noting the all-time high reached by the S&P 500. She reported that the Plan was up 1% for the month of September and 11% year to date. Going through the Plan's results, she pointed out that the index funds had been outperforming the actively managed funds. She also noted that for September, value stocks had outperformed growth stocks, helping the Fund's small cap managers with value bias in both domestic and foreign equities.

The Board discussed the strong continued performance of its fixed income holdings and the workings of the Bond market. The Board asked Carolyn to prepare some educational materials about the bond market and returns. Carolyn discussed the Plan's real estate holdings noting that the JP Morgan fund had experienced some of the same performance issues pertaining to retail properties as the UBS Trumbull fund. Next month she will present a comparison of their performance over the same time period. The Board discussed how NEPC views the real estate market, and whether NEPC gives clients specific guidance about real estate types. Carolyn reported that like stock sectors, NEPC prefers that fund managers make those choices.

G. Legal & General Presentation

Carolyn reminded the Board that at its September meeting she had presented several options for emerging markets index fund providers, and the Board had shown a preference for Legal & General based on its recent performance, lower fees, and low tracking error. She reviewed her memo comparing the fees charged by BlackRock and Legal & General. She reminded the Board of her concern that Legal & General was smaller, and the Board has existing indexing relationships with BlackRock and State Street. Hugo and Carolyn had preferred BlackRock to Legal & General and reiterated these preferences at the meeting.

The Board discussed the methodology that firms use to match the index performance and keep their tracking error low. Carolyn explained how simultaneously offering an exchange traded fund could impact investment performance. Ivy Wong Flores and Michael Conner from Legal & General joined the meeting. Ivy outlined their capability as an index fund management firm and their guidelines for Environmental, Social and Governance (ESG) concerns.

Michael discussed how one of the ways that Legal & General keeps their fees down is the unaffiliated trustee structure, which separates investment revenue from trust revenue. The total expense ratio is fixed, so added ancillary costs are all paid through the administrative costs, rather than having the fund bear the costs.

The Board discussed securities lending, and noted that Legal & General offered both a lending and non-lending option. In contrast, BlackRock shares include only a lending class. The Board also discussed fees and how they're represented in a fund's net performance. Michael also discussed Legal & General's strategy around corporate events.

Jeff asked about the representation of women in high levels within Legal & General, and Ivy responded that both the CEO of LGIM and the Global Chief Investment Officer are women.

The Board took a short break

The Board resumed discussion about the Legal & General presentation, including Hugo's preference for BlackRock because of their long history in the U.S. , the size of their holdings and our existing relationship with them. There was further discussion about the Legal & General's all-in expense ratio proposition. The Board discussed the current holdings of Parametric vs. the benchmark, and how Legal & General's performance has matched or exceeded the benchmark's returns.

Jeff expressed his view that he prefers Legal and General because they have a fund that gives us the option to not do securities lending, their fees are slightly lower than those of BlackRock and the historical net return of the Legal and General fund is slightly higher than that of the BlackRock Fund.

The Board discussed whether other indices of emerging equities existed, including the FTSE Emerging Market index utilized by Vanguard. Carolyn responded that this index is rarely used by institutional investors.

MOTION: Riemer/Willis to direct staff to investigate Legal & General's qualifications as required by Board policy and review the legal documents required for this investment. If the reporting is positive, the Board will retain Legal and General to implement the emerging markets non lending indexing strategy. (5-0-0-0)

H. Investment Policy and Guidelines

Carolyn reviewed small changes in the body of the investment guidelines document, and changes to the appendices, including the additions of Landmark and Monroe. She also recommended targets at the asset class level rather than individual fund level. Appendix B was changed to incorporate into the Investment Policy the Board decision made when the Board hired Sands to allow an investment of up to 15% of the allocation to one company.

MOTION: Riemer/Allen to accept the changes to the investment policy and approve changes to be made in the reporting of targets for illiquid assets. (5-0-0-0)

I. Employee Complaint Concerning Customer Service

Hugo reported that Counsel Richeda had sent two letters to the employee who made the complaint and had yet to receive any response. Russ will likely conduct interviews regarding the complaint and make a report.

J. Term Vested Project Update

Hugo reported that a large number of employees who were terminated were contacted and brought into pay status, with retro payments where appropriate. He presented a letter to be sent to all employees who are vested when they terminate employment. The Board made recommendations about the order of paragraphs on the letter and requested a list of all the people that were put into paid status as part of the term vested project.

K. Paratransit and Service Time

General Counsel Denise Standridge and Jill Sprague joined the meeting. Hugo reported that Russ had sent two letters to the District and ATU asking for information about Paratransit and service time, and that responses are due at the end of October. The Board discussed what information Hugo has available, and how to know if that information was comprehensive. Hugo mentioned that he has a box with material from the "Plan Redraft" project from about 2002-2005 in his office and it has some information pertaining to Paratransit. The Board instructed Hugo and Russ to review this material and report back to the Board.

The Board took a brief break.

L. Franklin/Templeton Investment performance

Hugo reminded the Board that the Fund has \$42 million invested with Franklin Templeton and reviewed their long-term performance, which is well below expectations. Carolyn also

reminded the Board about significant turnover among the fund's management team, including the retention and subsequent hiring of a consultant. Carolyn reviewed her report, including a comparison of several alternatives to Franklin/Templeton, including Acadian, BlackRock, Causeway, Legal & General, Mondrian, and Morgan Stanley. Carolyn reviewed management and ownership at the firms and whether the funds were actively managed or indexed. The Board discussed information about pending litigation at each of the firms and the excess return of the funds related to a value versus a growth tilt. The Board discussed efficient markets, and whether active management in efficient markets was worth its cost. The Board asked Carolyn to come back with some passive value index managers and a comparison to active managers in the same space.

M. NEPC Workplan

The Board decided that for the December meeting Carolyn should prepare the quarterly investment report and a continuation of the discussion about a possible replacement for Franklin/Templeton.

N. PEPRA Implementation Update

Hugo reported that at the next meeting the Board will discuss specifics of implementing PEPRA and the employee contribution.

O. Retirement System Managers Report

Chair Lewis discussed an article that he had requested Hugo place in the binder. The article discussed racial bias in investment manager selection. He asked that Carolyn bring back an update on where NEPC is on the issue of minority investment managers.

Hugo reported about events at the CALAPRS Administrative Institute. He briefly discussed what other systems do with retirees over 100 years old, and how they validate whether retirees are still alive. He also discussed the presentation on Unconscious Bias at the Institute by a NYU Professor.

P. Report from Closed Session

There was no action taken in Closed Session.

Q. The Meeting was adjourned at 1:30