

**Approved Minutes  
Special Meeting of the  
AC TRANSIT RETIREMENT BOARD  
December 19, 2019**

**ROLL CALL**

Chair Jeffrey Lewis called the meeting to order at 9:02 a.m.

Members Present: Chair Jeffrey Lewis, Vice Chair Yvonne Williams, Davis Riemer, Joyce Willis, Claudia Allen  
Present by Phone: None  
Members Absent: None

Also present: Hugo Wildmann, Retirement System Manager; Jason Herron, Retirement System Administrator; Russell Richeda, Legal Counsel; (the following individuals were at part of the meeting): H.E. Christian Peeples, District Board Liaison; Bertina Ng, Retirement System Analyst; Curtis Lim, Temporary Retirement Staff; Carolyn Smith, NEPC; Kevin Murphy, Sands Capital Management; Kevin Johnson, Dodge & Cox.

**PUBLIC COMMENTS**

None

**CONSENT CALENDAR**

- A. Approval of Minutes for the November 14<sup>th</sup> Meeting
- B. Approval of Financials for July 2019
- C. Approval of Invoices for \$110,508.82
- D. Approval of Retirements for December 2019:
  - 1. Jesse Dela Cruz (January)
  - 2. Joe Caldwell (January)
  - 3. Rickey Hightower (January)
  - 4. Juventino Sanchez (January)

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

The Board recognized Jesse Dela Cruz for 40 years of service and Juventino Sanchez for 39 years of service.

## REGULAR CALENDAR

### E. Investment Performance, Rebalancing and Asset Allocation

Hugo briefly discussed the agenda for the meeting and noted that the U.S. stock market is up almost 30% for the year. Carolyn began her presentation noting U.S. bonds are up 8.8% for the year. The fund is up 14.5% for the year, but is still trailing its benchmarks due to performance by several of our active equity managers. The Fund's value tilt has also caused it to underperform.

Carolyn reported on Dodge & Cox's performance, noting their value orientation, and how their style isn't matched exactly to the value benchmark. Carolyn continued, reporting about Sands Capital's performance. She noted that their concentration in a smaller number of stocks than the typical manager can cause significant tracking error.

### F. Presentation by Dodge & Cox

Kevin Johnson introduced himself and Dodge & Cox and then reported on his fund's performance. Kevin reported that lower interest rates have put pressure on the type of investments typically made by his fund, especially in financial stocks. The Board discussed interest rate trends and the likelihood that interest rates might go to zero percent. Kevin told the Board that his firm thought that was unlikely. The Board discussed possibly receiving a minority representation report from managers annually. The Board discussed Dodge & Cox's investment philosophy, and how Dodge & Cox fits into the overall portfolio strategy. They also discussed the long term outperformance by Dodge & Cox.

### G. UBS Fee reduction

Hugo reported that UBS is offering a 15-basis point fee reduction as an incentive for investors to "lock up" their funds with UBS. This "lock up" is not really a "lock up" as we can redeem our funds in the same manner as if we had not signed up for this incentive; however, if we redeem our funds, we need to refund the amount of the fee reduction for the funds we redeem. Carolyn included a memo in the Board packet that outlined two offers from UBS. Hugo and Carolyn agreed that the Board should take advantage of the reduced fee offer on existing investments, since even if the Board needed its investment back sooner, it could still enter the queue to exit the fund sacrificing only the discounted management fees. The Board discussed if it might be worth waiting to see if UBS might offer further incentives. The Board decided that this incentive was essentially risk free and that Hugo will confirm this with UBS before signing any documents.

**MOTION: Riemer/Williams** to adopt the recommendation of Hugo and Carolyn to sign the fee reduction incentive for four years and get the larger discount. (5-0-0-0)

The Board took a brief break.

H. Sands Presentation

Kevin Murphy from Sands began his presentation to the Board. The Board discussed Sands' investment philosophy and why a continued position with Sands fits within the overall Fund strategy. The Board asked questions about the near term and long-term expectations for Large cap holdings and if the holdings were performing well enough to ignore their variance from the benchmarks and index. Kevin answered all of the questions from the Board and staff before ending his presentation.

I. Review of Investment Presentations

Hugo reported that he doesn't suggest making any investment changes with either Sands or Dodge & Cox. He also mentioned that he thinks the Board will be approving changes later in the meeting that will increase the percentage of assets we have indexed. Carolyn discussed potential changes to NEPC's outlook given high returns for the year and the high interest rate environment. She recommends keeping some active management to help offset NEPC's predicted lower overall market returns.

J. Update on Possible Hiring of Legal & General

Hugo reminded the Board that over the course of previous meetings they had decided to move forward with replacing Eaton Vance with Legal & General, subject to review by Tom Hickey of the legal documents. Hugo presented a memo from Tom Hickey detailing his findings. Tom is preparing a Side Letter or or Direction Letter and believes that Legal & General will agree to it. Hugo recommends that the Board authorize Russ and him to move forward with signing all the documents and moving the funds next year (2020). The Board discussed the terms in Tom's memo, including an estimate of additional transaction fees, the investment history, and the risks associated with derivatives.

**MOTION: Riemer/Willis** to authorize Hugo to sign documents as necessary to hire Legal & General for an emerging market index fund, assuming satisfactory answers to the Board's questions. If Hugo has any questions prior to the next meeting, he is to consult with Russ and Carolyn.

K. Franklin Templeton Investment Performance

Hugo reminded the Board that it had been considering moving \$44 million out of underperforming Franklin Templeton and considering a BlackRock MSCI EAFE Index fund. The Board had also asked to see a similar fund offered by Vanguard for comparison purposes. An open question was about whether the Board should consider a lending or

non-lending fund from BlackRock. The Board discussed the mechanics and risks of securities lending, along with possible rewards for taking on the additional risk. Hugo reported his dislike for securities lending because the investor takes on the additional risk but sees little additional reward.

**MOTION: Riemer/Willis** to move the funds currently at Franklin Templeton to the BlackRock EAFE Index fund without lending subject to Russ and Hugo's review of relevant documents. (5-0-0-0)

L. NEPC Work Plan for 2020 and Draft Calendar for 2020

Hugo reported that the current date for January wouldn't work for Carolyn, Russ and Graham. The Board decided to hold the next meeting on January 24<sup>th</sup>, 2020 at 12:00 p.m, and moved the March m to March 12<sup>th</sup>. The Board will review the meeting schedule for the entire year at the January meeting.

M. Benefit Statements

Hugo reminded the Board that benefit statements have been prepared and staff is ready to send them out, but they are not sending them to represented employees who were hired in 2016 and 2017. Hugo noted that approximately 325 employees fall in this group. The Board made that decision because of the uncertainty about PEPRAs implementation. The Board discussed what language staff should use if called by people who did not get a statement, deciding that people would be told they may get a statement once contracts are finalized.

N. Paratransit

Hugo reported that he, Russ, Denise Standridge, and Yvonne went through the box in his office with documents from the 2005 plan redraft project. Legal is making copies of these documents and will distribute them.. Lis West is looking at how many employees had Paratransit service. Russ also has boxes in his office that were given to him by Bonnie, the Board's prior counsel. The Board instructed Russ to sort through the 33 boxes in his office to determine what records are relevant and/or subject to attorney/client privilege. Russ said that he'll come back with a recommendation about those documents once they've been sorted. Yvonne reported that there may be an additional classification of employees who were laid off from the District, and subsequently re-hired at paratransit, but then re-called back to regular service.

O. PEPRAs Implementation

Hugo reported that he has been told the tentative agreement between the District and ATU states that employees hired after January 1, 2020 will be subject to PEPRAs, with their contributions starting after July 1, 2020. Hugo will be working with Jill on the Plan

amendment process. He reported that staff have been working on the process for returning contributions both with and without interest. Hugo reminded the Board about the retro payment owed to the Fund by the District of approximately \$350,000 which would be paid the following week.

Hugo requested authority from the Board to hire a retired retirement system employee who had expertise in best practices for processing refunds and dealing with employee contributions. There was discussion about discussing such a hire with Human Resources to make sure it's done correctly. There was discussion about specific deliverables and the consultant's.

**MOTION: Riemer/Allen** to authorize Hugo to spend up to \$1,500 to retain a consultant for advice with regard to PEPPRA to be paid directly by the Plan and subject to an engagement letter specifying their role and hourly rate. (5-0-0-0)

Hugo also suggested having the District's Internal Audit group come in to review the entire process of PEPPRA contributions and the return of contributions. This would include a review of the processes for Human Resources, Human Resources Information Systems, Finance, and Payroll.

The Board agreed that having Internal Audit look at all aspects of the contribution process was a good idea and agreed that Hugo should request that they look into the PEPPRA contribution process.

P. Term Vested Retirement of Rondall Leggett

Hugo presented a memo detailing the circumstances pertaining to Rondall Leggett. Mr. Leggett was employed by the District for long enough to be vested if you count his time employed; however, the Plan specifies that service ends on the last day compensated as an employee. To his last day compensated Mr. Leggett is a few days short of vesting.

Hugo outlined the reasons he is recommending to the Board that they treat Mr. Leggett as vested. He made it clear that this was not a case of giving someone additional service days because they were close to being vested. This is a case of Mr. Leggett not being given all of the information he should have and the fact that his Benefit Statement said he would be vested on February 25, 2010. His last day as an employee was 2/26/10. His last day compensated was on 2/19/10 and this was for a payout of Casual Vacation that went to all District employees on that date. Hugo explained that Mr. Leggett had vacation and sick pay on the books and could have requested to be paid on 2/25/10 and this would have made him a vested employee.

Hugo, Russ and the Assistant General Counsel both think Mr. Leggett should be treated as being vested when he left.. As a result of this case the language was altered in the 2019

benefit statements. Hugo said that at a hearing he thinks the Hearing Officer would decide that Mr. Leggett should be treated as a vested employee.

**MOTION: Williams/Willis** to treat Rondall Leggett as if he were vested given the facts and circumstances presented, with his full paperwork and timing to be voted on at the next meeting.

The Board discussed additional ways in which the vesting date requirements could be communicated to the District legal, human resources and labor relations departments.

Q. Term Vested Project Update

Hugo presented a draft of policies to be followed when communicating with term vested participants in the Plan. The Board discussed the difference between the system retirement date and the effective date of retirement.

**MOTION: Williams/Willis** to adopt the draft policy on term vested employees and reaching out to eligible participants at their termination and prior to their earliest eligibility date (5-0-0)

R. Encounter with Lisa Henderson

Hugo reported that he had an encounter with Lisa Henderson. Ms. Henderson came into the office and yelled at Hugo and approached him in an intimidating matter. Hugo and Curtis have filled out some paperwork to assist the District in acquiring a restraining order. Yvonne reminded the Board that Ms. Henderson had a physical altercation with a driver previously.

S. Holdback Project

Hugo presented a memo outlining progress on the holdback project, which included the names of everyone that staff was able to find with a holdback against their pension payment. Staff will return at the next meeting with details about the four largest current holdbacks, and Russ will prepare a memo outlining the Plan's legal standing with regard to holdbacks.

T. CALAPRS General Assembly

Hugo informed the Board that the CALAPRS General Assembly would be taking place March 8-10, 2020, and that he would bring back an agenda and request to attend to a later meeting.

U. Closed Session

The Board went into closed session. Russ reported out of closed session that with respect to item Y1A, the Application of Mayra Sabas, the Board tabled that discussion until next meeting.

With Respect to Y1B (Pierre) the Board instructed staff to come back with materials for the Board to consider at its next meeting with respect to that application.

With respect to the employee complaint, the Board directed Hugo to return to the February or March meeting with a list of District provided training or outside training on the topics of how to deal with difficult or angry customers. The Board is not taking any action with respect to the complaint in terms of censure or discipline but have given instruction to help forestall future complaints.

With respect to item Y2, the Board instructed Russ to provide Hugo with its evaluation and it also directed Hugo to respond to that evaluation pursuant to contract, under which Hugo has the opportunity to respond in writing if he wishes and if he exercises that option to do so prior to the next meeting so that it can be distributed to the Board members in advance of that meeting. If he decides to do it orally, he can present those comments at the next Board meeting.

V. Adjournment

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