

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
April 16, 2020**

ROLL CALL

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

Members Present: None

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

Members Absent: None

Also present by phone: 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, Graham Schmidt, Cheiron; Gar Chung, Financial Investment News; Chris Andrichak, Finance, Michael Hursh, General Manager; Shawn Parris, JP Morgan; Tom Klugherz, JP Morgan; David Lebovitz, JP Morgan

PUBLIC COMMENTS

None

As this was the first Retirement Board meeting held via Zoom, Hugo described how the meeting would operate. The March meeting was held as a conference call. Hugo also reported that staff had prepared to allow public participation in the meeting but also to quickly remove any unwelcome disruption. He welcomed Gar Chung, a Financial Investment News reporter listening to the call. He reminded the Board that all votes would be taken by roll call and that staff was still working on improving the production of the Board packet.

Russ reminded everyone that the call was being recorded, and Hugo noted that anyone who joined the call late should be told about the recording.

CONSENT CALENDAR

A. Minutes for the March 19th Meeting

With changes to wording about the law firm billing, noting that it was the defense attorney in the matter brought by Dollene Jones, not Plan counsel.

B. Financials for November 2019

C. Invoices for \$111,524.60

D. Approval of Retirements for May 2020:

1. Amy Fu (May)
2. Sherri Stokes (May)
3. Roger Gales (May)
4. Luther Robinson (May)
5. Mark Parker (May; Term Vested)

MOTION: Reimer/Willis to approve the consent calendar with the change to the Minutes discussed earlier and that the pending retirees complete the required documents. (5-0-0-0)

The Board recognized Luther Robinson for 27 years of service.

The Board briefly discussed whether it needed to ratify action it took at the last meeting and determined that in light of recent changes to the Brown Act made prior to our last meeting, ratifying the actions would not be necessary.

REGULAR CALENDAR

E. Update on COVID-19 Department Activity

Hugo reported that typical Retirement department activities are taking a little longer than usual but are otherwise progressing well. Staff have met by video conference with retirees without difficulty. Hugo stated that so far the process has run smoothly.

F. Retirement System Manager's Report

This item was taken out of order.

Hugo reported that Russ had completed some work on the Plan restatement, and that, due to some personal time off, Hugo still had work to do on his portion. Hugo reported that staff was working with a new disability case management service. He also reported that the IFEBP conference had been cancelled, and that staff and Board members were working on getting refunds processed.

Director Peebles noted that District staff had made an extensive report on the District's response to COVID-19 at the last District Board meeting. Hugo noted that there hadn't been

progress on the holdback project due mostly to the shelter in place order but expected progress once the shelter-in-place order is lifted.

G. Paratransit and Service Time

Hugo reported that Russ has done a lot of work on paratransit and prepared a lengthy memo that was still in draft form. The Board agreed that once the memo was in a form to be distributed, it should be sent to the Retirement Board, ATU and the District. Russ mentioned the roughly 8-inches of documents that would need to be scanned and the difficulty in scanning these documents under the current environment.

H. Investment Performance, Rebalancing and Asset Allocation

Hugo reported that, as instructed by the Board, he had raised cash by selling funds from the SSgA Bond Index Fund. This sale had raised the cash at Northern Trust. A \$2 million capital call from one of our Private Debt managers had impacted our cash account. Hugo reported that he had transferred \$5 million from the SSgA Bond Index Fund to the SSgA Russell 1000 Equity Index Fund.

Hugo noted that the Plan is down between 10 and 15%, depending on the valuation of some assets, and that equity markets are down about 14% year-to-date. That's up from the lows of -25% to 30% in March.

Carolyn began her report by noting that US large cap equities were down close to 20% for the year at the end of March. The bright spot for the quarter comes from the bond market. Carolyn also had numbers through the prior week, noting the Plan was down close to 14% given recent gains, and she estimated that through April 15 the Plan was down 11%. She reported that the Plan is still below the policy index, noting underperformance in both domestic and non-U.S. equities

I. JP Morgan Presentation

Jeff noted that JP Morgan had been asked to come in and report about the real estate market and our investment with them. He said Hugo had asked them to spend about ten minutes on an update on the equity and fixed-income markets. Shawn Parris introduced his team, and David Lebovitz began his presentation about overall market conditions. He began by noting a sharp decline in the service sector worldwide. JP Morgan believes that the global economy and U.S. economy began contracting during the first quarter. They are currently forecasting a 25% annualized decline in GDP for the second quarter and the beginning of a normalization in the third quarter into the end of the year.

Overall, they think the recession will be relatively short but very deep. David noted that there is some risk that the slack created by 20 million jobless claims will be slow to be re-absorbed by the economy, which might cause the downturn to last longer than currently expected. David continued that the market has likely priced in a V-shaped recovery, but JP Morgan's view is that it may be mostly U-shaped and may take longer than currently priced into the market.

David also noted that JP Morgan knows that some transportation groups have funding softness, and they believe that the federal government will likely provide additional liquidity. The Board took a brief break before the next JP Morgan presenter.

Returning from the break, Hugo introduced the real estate presentation by Tom Klugherz. Tom began by noting the Plan's investment with JP Morgan is \$16 million. Through March 31, total return was 1.6%, and the trailing year return is 5.6%, both gross returns. He noted that the fund sold four retail malls in 2019 to reduce its retail exposure and has been adding infill industrials to the portfolio. Tom answered questions about the terms used in the presentation, explaining the difference between building infill industrial properties versus purchasing them, and how that difference affects returns.

Discussing returns versus ODCE, Tom noted that the fund was underweight in the industrial sector. He noted that rent payment percentages are high, and the asset managers are working on rent deferrals rather than forgiveness. He also noted that grocery tenants are paying their rents, but mall rental income will be lower going forward.

In response to a question from the Board, Tom discussed the differences between the volatility in REIT valuations versus valuations in the JP Morgan fund, including leverage levels, and the differences between typical REIT holdings and the fund holdings. Tom explained that the fund doesn't need to sell assets to create liquidity and has continued to make income distributions even during the worst market conditions. Hugo discussed the valuation of real-estate properties at the end of March, given the uncertainty in the markets.

J. Investment Performance, Continued.

Carolyn reported that NEPC's research team similarly believes that valuation of real estate properties will not change for several months to reflect ongoing market conditions. Carolyn then continued her discussion of the domestic equity allocation, reminding the Board that the Fund still has an overweight to value, which has continued to underperform growth.

Reporting about fixed income performance, Carolyn reminded the Board that funds had been redeemed from the Bond Index Fund to raise cash since the last Board meeting. The Board discussed JP Morgan's performance relative to the benchmark against which it is compared. Carolyn reminded the Board that part of its selection criteria for real estate funds included lower leverage.

Hugo reminded the Board that after its last meeting it took action to raise cash to cover possible capital calls and other needs. Since that time Park Square has made a capital call. He and Carolyn recommend moving from the current 49% equities closer to the 51% target. Carolyn recommended a measured approach for moving funds, given the market's current volatility.

MOTION: Reimer/Williams to move \$3 Million from fixed income to equity out of and into the individual funds selected by Hugo and Carolyn. (5-0-0-0)

The Board took a brief break.

K. District Response to COVID-19

GM Michael Hursh began by recognizing the bravery of ATU members. He noted that service had been reduced to Sunday levels, with some enhanced Transbay service to cover gaps left by reduced BART service. GM Hursh also noted the improved on-time performance due to lower traffic levels. There had been one division closure due to a positive test for an employee.

Claudia reported that ridership is down 70-75%. Farebox collections have stopped due to rear door boarding. She noted that farebox revenue is only 15% of revenues, but a greater concern is a lag in collection of sales taxes, bridge tolls and diesel fuel taxes caused by overall lower economic activity. There has been some federal stimulus that will pass through the MTC, which will be allocating those funds across local transit agencies. Claudia noted that the budget process will be delayed for a few months because of uncertainties about both revenue and service levels. Overtime and travel have been cut to lower costs.

Yvonne reported about the ATU actions to request release of funding and waiving of farebox requirements.

L. Preliminary Actuarial Update

Hugo described the actuarial valuation process which usually begins in April or May with Graham making a presentation to the Board and usually ends with the Board approving the District contribution in late summer. In his presentation today, Graham will only discuss the impact of 2019 and 2020 investment performance on the Plan. Hugo had just sent the data for 12/31/19 to Graham earlier in the week. The valuation will determine the District contribution beginning in July of this year. The investment performance in 2020 will impact the District contribution beginning in July of 2021.

Graham reported that contributions on a dollar basis will increase over time as a result of the assumption that the District's payroll will continue to increase. As a percentage of pay, the

contribution will decline. Graham mentioned that the strong 2019 investment performance had improved the projected funded ratio. He reiterated that the results were very preliminary as he had not looked at any of the 2019 participant data, and the Board had not reviewed any of its assumptions. Hugo noted that he will work closely with the District Finance Staff to project 2020 payroll. Graham reviewed projections for the funded ratio and District contribution, assuming investment returns of -10% and -20% in 2020. These projections showed the District contribution increased while the funded ratio declined. Graham noted how the smoothing mechanism softened the immediate impact of possible poor returns in 2020.

The optimistic plan is to have the Cost Letter and presentation ready for the June Board meeting but the July Board meeting is more likely. The Board discussed what the projections would look like if the discount rate looked more like NEPC's market expectations.

M. Draft Semi Annual Report

Hugo reported that he and Jeff have drafted a semi-annual report focusing on 2019 & 2020 investment performance and on the preliminary actuarial figures Graham had provided. Hugo said that the Semi-Annual report was written at a high level and did not focus on the detailed figures in the information that Graham had provided. Hugo asked if keeping this report as a "big picture" report was acceptable. GM Hursh and Director Peebles noted that they agreed with the "big picture" approach. They agreed with Hugo's suggestion that the report should include a sentence noting that additional detail would be made available to the District Board upon request.

The Board took a break.

N. Recent Real Estate Market performance

Hugo noted that the document from Monroe Capital was provided just for information. He mentioned that in his conversations with Monroe, they described the steps they had taken to monitor the loans they made. One analyst had commented that the current situation was unprecedented, and that analysts had never assumed that so many firms would see their revenues suddenly go to zero.

Carolyn reminded the Board that she was originally scheduled to come back with a real estate investment pacing plan. She explained that because of the market volatility and changes in market assumptions, it would make sense to continue to delay that pacing plan. She described how the Plan's allocation had increased as a result of the equity market declines. Much of what is in her memo was covered during the JP Morgan presentation earlier, but she also provided an update on the Plan's investment in the UBS Trumbull fund. She noted that the redemption pool was still very large. The fund has restructured slightly, and NEPC believes that the structure will re-align the focus of the managers and have temporarily gated

redemptions. UBS reports that COVID-19 will immediately impact their hotel and retail holdings, but that their gross returns were still positive in the 1st quarter.

Carolyn assumes that there will be additional write-downs on real estate funds this year. NEPC is advising clients to continue to invest in private markets methodically. The Board discussed the types of properties in the JP Morgan's funds, and the impact of job losses in the economy on rental incomes.

O. NEPC Workplan

Hugo reported that Carolyn is scheduled to bring the quarterly performance report next month. The Board discussed if a presenter should be brought in for next month and decided that we should have DFA present in May instead of June. The May meeting will be kept at its currently scheduled 12:30 time.

P. Email pertaining to Benefit Option Selection Choices.

Hugo reported that Controller Ralph Martini had sent him an email asking that, as a result of the current situation with COVID-19, the Retirement Board alter the pre-Retirement Death Benefit option selection. Hugo mentioned that that because the change Ralph proposed would also benefit himself, he wanted to make sure the Board was aware of this when they discussed this item. Ralph requested that employees who were retirement age could select the 100% option, and, if they died while employed, their spouse would receive this option instead of the 50% under the pre-Retirement Death Benefit.

The Board discussed the email from Ralph and the ramifications of making the change Ralph requested. Operational, legal and financial issues were discussed. Russ clarified that the benefit option selection restriction is written in the Plan. The Board decided that any change to the Benefit Election should be made by the bargaining parties by amending the Plan. The Board instructed Hugo to reply to Ralph recommending that he should make his request to the Bargaining Parties.

Q. Closed Session

The Board went into Closed Session. There was no report out of Closed Session.

R. Adjournment

The meeting was Adjourned at 12:30