

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

**ROLL CALL**

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

Members Present: None

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

Members Absent: None

Also present by Zoom: 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; Gar Chung, Financial Investment News; Graham Schmidt, Cheiron; Bob Griffin, Williams Adley; Kenneth Yu, Williams Adley; Chris Andrichak, Finance; Ralph Martini, Controller

**PUBLIC COMMENTS**

None

Hugo briefly outlined the agenda of the meeting, noting that Graham would be joining the meeting at 10:30, and that Bob Griffin and Ken Yu from Williams Adley would be joining at 11:00.

**CONSENT CALENDAR**

A. Minutes for the April 16<sup>th</sup> Meeting

With a change to indicate that Board members were present by Zoom, not by phone, and a small change to the paragraph referring to whether to maintain a value tilt.

B. Financials for January 2020

C. Invoices for \$83,126.25

D. Approval of Retirements for June and July 2020:

1. Steven Smith (July)
2. Miguel Monclus (July)

3. Mahendra Prasad (July)
4. Richard Wrzesinski (July)

**MOTION: Williams/Willis** to approve the consent calendar with slight changes to the Minutes (5-0-0-0)

The Board requested a breakdown of the change in administrative costs from the previous year.

The Board recognized Steven Smith for 39 years of service and Richard Wrzesinski for 35 years of service.

## **REGULAR CALENDAR**

### **E. Update on COVID-19 Department and District Activity**

Hugo reported that the department continues to function well, “meeting” with retirees through the use of cell phones and sending documents via email and FAX. Processing retirements continues to work very well with staff not being in the office. He mentioned that new projects are more difficult to initiate while working remotely.

Director Peebles reported that the District Board had recently reviewed a full report on District financials. He noted that sales tax revenue will be down 20-40%. He reported that the District is still not operating Transbay service and has added some additional services after 9:00 p.m. to help cover BART construction. On local routes, capacity has been limited to maintain social distancing. Plexiglass barriers are being installed, which may allow front boarding and fare collection.

Claudia reported that the District is working on its draft budget for next year. She also reported that no CARES Act money has been received yet, but it is expected in July. She reported that the BRT project will be completed later this year, beginning service in September.

### **F. Investment Performance, Rebalancing and Asset Allocation**

Carolyn began her report by reviewing the Flash Report, noting that through May the S&P 500 was down about 5%. This change shows how much the equity markets have recovered from late March. She noted that for the month of May the Plan was up 3.6%, slightly above the both the policy and allocation index. For the past 12-months, the Plan is up 4.5%, equal to the allocation index, but behind the policy index. Carolyn reported on strong performance by Sands, which is up 11% for May, well above their benchmark of 6.7%. The Board discussed the long-term performance of Sands versus their performance over the last three years, and how quickly perspective on results can change over time.

Continuing to international equities, Carolyn reported that the Fund's holdings are outperforming the MSCI EAFE index due to strong performance from Capital Guardian. She also noted that in emerging market equities the Fund has been underperforming, but the Fund has terminated the investment with Parametric and moved the funds to an index fund.

#### G. Capital Markets Review and Analysis

Carolyn reported that NEPC has added virus trajectory and permanent interventions from the central banks of developed economies to their key market themes. NEPC has moved to updating their assumptions quarterly rather than annually. The most recent version captured market data at its lows. Overall inflation projections are down, to 1.7% in the ten-year projection. Carolyn reviewed the building blocks of NEPC's ten-year equity returns. Fixed income assumptions have come down from last year since yields have come down. The Board discussed key portions of Fixed income building blocks and how they relate to Plan performance.

Carolyn reported on NEPC's expectations for Real Estate, noting that write-downs across a few asset types are expected to continue, especially in retail malls. There was discussion about whether moving core real estate holdings into REITs might make sense. The Board also discussed how often it should review the quarterly projections. The Board asked for another look at this projection with equity holdings increased by 10% to a 60% equity allocation.

#### H. Real Estate Portfolio Update

Hugo reported that he had recently discussed real-estate holdings with JP Morgan. They spent some time discussing valuations, and they reported that most industrial and multifamily rents were still being paid and that these valuations will hold up much better than office buildings and hotels. Carolyn noted that the big unknown for property holdings is where these properties will appraise later in the year. She also described how retail properties are being repositioned with other tenants, noting that COVID is accelerating the reshaping of retail holdings. Carolyn reported on the status of several of its real estate holdings, and how much capital they could still call. Carolyn advised the Board not to make any additional real estate changes until some more time has elapsed. The Board agreed that the discussion of moving additional assets to real-estate, especially to an open ended comingled fund, should be delayed. Hugo and Carolyn discussed the appraisal lag and how this would most likely impact valuations of these funds for the near future.

#### I. Growth and Value analysis

Hugo reported that value holdings are still underperforming growth holdings. He recommended that the Board discuss its growth and value holdings and the tilt the fund has

at the moment. Carolyn reviewed the Plan's equity holdings, noting the growth, core, and value weightings. Hugo and Carolyn discussed the international developed market equity holdings, and Hugo explained the structure of a large allocation to Capital Guardian which has a growth tilt. Franklin/Templeton has a value tilt, but they are being terminated and replaced with a BlackRock EAFE index fund which is core. The remaining manager is DFA, and it is in small cap value. Hugo mentioned that once we have moved all of the funds from Franklin to BlackRock the Board will need to determine if it wants to move funds from Capital Guardian to the EAFE index fund. Carolyn reviewed several other charts comparing performance at different cap sizes and style. The Board discussed their thoughts on style preference as well as the price of book value in the current market. The Board paused its growth/value discussion when Graham Schmidt from Cheiron joined the meeting.

J. GASB 67/68

Hugo reported that Graham was joining the meeting to discuss the GASB 67/68 report and to give the Board an update on the Valuation. Graham began his report by noting that GASB 67/68 are the accounting standards associated with the Plan filing its financial statements and the District's use of those statements within its larger financial statements. Good investment returns in 2019, as well as assumption changes, lowered the net pension liability.

Graham continued to describe the sensitivity analysis of what a higher or lower expected return rate would have done to the unfunded liability. The Board further discussed administrative expenses, and how they affect the connection between the actuarial discount rate and NEPC's forecasted returns. Graham noted that expenses are built into the District's contribution amount. The Board discussed the role of active and passive management, and how they affect the expected rate of return.

The Board also discussed the affect of NEPC's updated inflation rate information, and how that factored into the actuarial valuation and into salary growth. The Board discussed key items in the GASB 67/68, including merit increases, as well as the mortality rate. Graham noted that Cheiron is working on a separate ATU table for mortality.

**MOTION: Allen/Williams** to accept the GASB 67/68 report (5-0-0-0)

K. 2020 Actuarial Valuation Report

Hugo reported that Graham would be bringing the preliminary Actuarial Valuation for the Board to review at the July meeting. Graham reported that Cheiron is on track and is bringing the preliminary results to the Board in July. The last piece of information Graham needs is the projected payroll.

L. Draft 2019 Financial Statements

Robert Griffin and Kenneth Yu joined the meeting. Hugo reported that he would be sending the preliminary Financial Statements to Ralph Martini, who was on the call, and they would also go to the District's auditor. For this year's statements, Holdbacks have been added as a line item liability. Robert reported that the statements are still in draft form and that there are no adjustments and no findings. The addition of the holdbacks represents an accounting change. There will also be subsequent event language added to the Financials.

M. Private Debt Manager Update

Hugo reported that this is a difficult time for the Plan's private debt managers. The revenue reductions seen by many companies will present challenges in repaying debt. The private debt fund managers are working with management at various companies. Carolyn reported that Monroe thought 12% of their portfolio was at risk, and Park Square reported that about 11% of their portfolio might be at risk due to COVID, and that there might be some mark downs. Crescent reported that they anticipate significant challenges in quarters two and three. Carolyn reported that the biggest risk was that companies delay payments or do not pay at all, but that the Plan's holdings were at the front of the line if assets are liquidated. Hugo stated that time will tell how our managers perform, and that it is essentially impossible to know how things will turn out in the months ahead.

N. NEPC Workplan and Calendar

The Joint Meeting will be held on October 7<sup>th</sup> at 1:00 with our regular October meeting beginning at 9:00 that day.

The Board took a brief break.

O. Growth/Value Discussion Continued

Hugo mentioned that over time he has become more of a proponent of indexing and has seen how difficult it has been for both Callan and NEPC to select managers that outperform the market. His recommendation is that he and Carolyn look at several options for moves the Board could make to impact the growth/value mix of the Plan. The Board discussed the Growth/Value tilt of the broader market and index funds. The Board discussed its non-US holdings and their value tilt. The Board decided to continue this topic at its next meeting with additional information about the market and indices. The Board decided that PIMCO and Loomis should make their presentations at the August meeting instead of at the July meeting.

P. Holdback Project

Courthouses still have not been open, so Russ hasn't been able to check on files for individuals with holdbacks, and Hugo would be reaching out to his peers for additional discussion.

Q. Paratransit and Service time

Hugo reminded the Board about the memo that Russ wrote for the May meeting that was sent to the District and ATU. The memo requested comments by July 15<sup>th</sup>; so far none have been received. Yvonne reported that she would let Hugo know if the ATU and its representatives would need an extension.

R. PEPRA implementation

Hugo reported that staff had a meeting with payroll earlier in the week to review contributions for unrepresented employees. Possible corrections were presented to JoAnna in payroll about correcting over and under contributions. He also noted that a new agreement has been reached with ATU, and that a Plan amendment would need to be written for the employees covered by this agreement. Staff has not yet been able to find an outside vendor to track contributions and interest. Staff would bring the first repayments with interest for the Board to review at its next meeting.

S. Retirement System Manager's Report

Hugo reported updates to the cost to retirees for health benefits. The Board discussed healthcare cost issues for retirees. Hugo also noted that he and Russ, mainly Russ, have made good progress on the Plan restatement. The Board discussed The IFEBP cancellation and associated reimbursement for flights for Joyce and Yvonne. The Plan will reimburse Joyce for the expense and expect to be repaid if she is able to use the associated credit. Hugo reported that all form 700s have been received from Board members.

T. Closed Session

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

U. Adjournment

The meeting was adjourned at 1:12 p.m.