

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

**ROLL CALL**

Chair Jeffrey Lewis called the meeting to order at 9:05 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; Tim Doyle, Cheiron; Bob Griffin, Williams Adley; Kenneth Yu, Williams Adley; Chris Andrichak, Finance; Ralph Martini, Controller; Michael Hursh, General Manger; Linda Nemeroff, District Secretary

**PUBLIC COMMENTS**

None

Hugo briefly outlined the agenda of the meeting, noting that Graham would be joining the meeting at 10:30, and Michael Hursh and Chris Andrichak would also be joining at that time. Hugo has asked them to give a brief update on District finances. At 11:30, Williams Adley will be joining, and the District Secretary will join at noon to discuss the website.

**CONSENT CALENDAR**

A. Minutes for the June 18<sup>th</sup> Meeting

The Board requested that the breakdown of the change in administrative costs be added to the August Agenda.

B. Financials for February 2020

C. Invoices for \$525,246.20

D. Approval of Retirements for August 2020 and return of contributions:

Approved with an update to the employee's marital status forms. Hugo also noted the listing of unrepresented PEPRA employees who were leaving employment prior to being vested and were required to receive a return of their contributions plus interest.

1. Gurjit Basrai (August)
2. Kenneth Berry (August)
3. Wallace Campbell (August)
4. Donald Lemons (August)
5. Vinell Wade (August)
6. Yolanda Williams (August)
7. Tammy Belt (August)
8. Barry Johnson (Term Vested, August)
9. James Blair (Return of Contributions)
10. Kyle Spradling (Return of Contributions)

The Board requested a breakdown of the change in administrative costs from the previous year. There was also discussion about the timing of the monthly financials and the progress on procuring a vendor by the District to improve financial reporting timeliness.

**MOTION: Reimer/Allen** to approve the consent calendar (5-0-0-0)

The Board recognized Kenneth Berry for 40 years of service, Wallace Campbell for 30 years of service and Donald Lemons for 40 years of service.

## **REGULAR CALENDAR**

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

Hugo reported that the District is being proactive in reporting when an employee is diagnosed with COVID 19, and that there have been 13 cases so far. Claudia said that PPE continues to be available. She also noted that temperature checkers will now be at main entrances to facilities.

The Board discussed what plans were in place if Hugo were to be quarantined or out of commission. The Board briefly discussed the District's SMART plan for returning to the office, and Hugo will send the plan to the Board.

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

Hugo began by reporting that U.S. equity markets are up slightly for the year, which was hard to imagine when COVID-19 first hit the United States. As of June 30<sup>th</sup>, the Plan was down about 3% but the return is probably a little better as of this week. Carolyn began her report by noting that the Plan was up 12% in June and ahead of both the policy and allocation

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indices. She added that large cap stocks continue to outperform small cap stocks, and growth continues to outperform value. City of London continues to do well in emerging market equities. Carolyn also reported that Mike Cogman has announced that he is leaving 91 (formally Investec), and NEPC has put that fund on watch because of his departure. 91 expects to make an internal hire to replace him.

The Board discussed holdings at DFA and how they are chosen by the manager, and the activities of the Federal Reserve and on the strong performance of growth stocks.

#### G. Asset Allocation Scenarios

Hugo reminded the Board that at its last meeting it asked to see scenarios in which the asset allocation was moved from its current 51% equity to 60%. Carolyn ran some additional scenarios to see what the expected risk and return would be. The Board discussed whether a significant change in allocation should wait until after elections in November and after some more developments in the COVID-19 situation. The Board decided to wait before discussing significant changes to our asset allocation.

#### H. Update on Transition of Funds from Franklin Templeton to BlackRock

Hugo reported that the Fund had started with \$37 million to transfer from Franklin to the BlackRock EAFE fund, transferring the funds in small increments with only \$8 million remaining to be moved. The termination of Franklin Templeton should be completed in the next two weeks.

#### I. Growth and Value analysis

Hugo began by noting that the Board has been discussing its growth and value holdings for a long time. At this time, he would tell the Board now is probably not the best time to move money away from value. Last year and the year before he would have also advised against moving away from value even though that move would have been advantageous to the Plan. At this time, the spread between growth and value continues to grow. Carolyn presented some charts demonstrating that growing spread, including rolling one- and three-year returns. She reported on the top 5 names in the Russell 1000, how much of the market share of the Russell 1000 is in the top 5, and how much they have grown in just the last 5 years. There was discussion about the largest stocks in the emerging market index.

#### J. Growth and Value Rebalancing

Carolyn reviewed her rebalancing memo. The Board discussed its holdings in value and growth and how to balance domestic/international holdings and cap sizes, and whether holdings equally offset one another. Carolyn's memo recommends moving money away from international small cap value and reducing the holdings in Capital Guardian, since it has not

been re-allocated recently. Her recommendations do not add any new managers but just shift within current holdings. Hugo reported his inclination to move slowly towards making the Fund look more like the entire market over the course of 6 months to a year. He mentioned how difficult it is to outperform the market through active management.

The Board took a short Break

K. 2020 Actuarial Valuation Report

General Manager Michael Hursh and Chris Andrichak joined the meeting. Hugo had requested that they provide a brief presentation on District finances as a result of COVID-19. Mike reported that the CARES Act funds were going to help balance the budget for fiscal 20/21. Chris reported briefly about the District finances, noting that the Budget for the fiscal year had been delayed three months, that a full budget would be brought to the District Board at the beginning of September, and that the District is currently operating under a three month spending authority from the District Board. He continued that the District has a broad range of revenue sources that have a slower response to current conditions. Fare box revenue is down substantially since early March, sales taxes may be down in the range of 30%, along with a 35% reduction in bridge toll revenue. The District is expecting about \$140 million in CARES Act funds, with \$30 Million to be allocated to the last fiscal year. Director Peoples reported about social distancing requirements and the guidelines for handling more service.

The Board discussed the importance of the health and safety of operators, mechanics, other employees, and passengers.

Hugo reminded the Board about the process of completing the Valuation: Graham will present his numbers, and after questions and any necessary re-work, the numbers are brought back to the Retirement Board and the District for comments and suggestions before finalization. Graham began his presentation of the Valuation; he was joined by Tim Doyle to assist with his presentation. Graham reported that in 2019 results were very close to what he expected from an actuarial perspective. He noted that inflation was estimated at about 3%, and the Actuarially determined contribution amount similarly increased by about 3%. Liabilities increased by about 4%, from \$983 million to just over \$1.0 Billion. Smoothed value of assets increased by over 5%, and the unfunded liability was almost unchanged at \$297 million. On an actuarial value of assets, the funded ratio improved from just under 70% to just under 71%. Based on market value of assets, the funded ratio was up from 65% to 73% based on the year's strong investment performance.

Graham discussed the changes in the employer contribution, noting that smoothed asset returns were lower than the expected 7% return and a forecasted increase in payroll growth was partially offset by PEPRA and actual Payroll growth being lower than forecast. The Board discussed the amount of overtime expected in the District's payroll forecast, given lower

service due to COVID-19. Chris Andrichak explained that lowered overtime costs are built into the current payroll forecast. Graham discussed the differences between PEPRAs and Non-PEPRA District contributions and went on to remind the Board about the Amortization Policy. He also reviewed the Amortization Policy, the unfunded liability and the building blocks for the amortization amounts.

Graham reported that there were 27 PEPRAs as of January 1, 2020. The normal cost rate did not increase by enough for this year to increase the PEPRA member contribution. The Board discussed where each type of new employee stood for PEPRA purposes. Michael Hursh reported that new ATU employees would be subject to PEPRA, new unrepaid employees are already subject to PEPRA, that in the IBEW's new contract new employees are included in PEPRA. He added that negotiations with AFSCME were underway.

The Board discussed the assumptions of the current rate of return at 7% and inflation (and wage growth) at 3%. The Board agreed to keep these assumptions unchanged for the current Valuation. The final valuation will be available to the Board prior to its August 27<sup>th</sup> meeting. The Board discussed providing some optimistic and pessimistic investment returns. The Board discussed how to plan for the District being under possible financial pressure in the next fiscal year, and what actuarial tools were available to work with the District if the Retirement Board decided this was the most prudent course of action.

The Board took a brief break.

#### L. Draft 2019 Financial Statements

Robert Griffin and Kenneth Yu joined the meeting. Hugo reported that the subsequent event language had been added since the previous meeting to cover the current COVID-19 situation. Kenneth reviewed the long term expected rate of return. The new GASB standards that were implemented in the current year did not affect the Financials; these are explained in Note 5. There was a brief discussion of what is included in the equity securities asset line, with Kenneth noting those are assets held by Dodge & Cox and Sands Capital as opposed to other equities which are held as part of a fund or trust.

Hugo also noted that this report has been sent to the District's auditor too. Robert then reviewed the financial statements for the Audit.

**MOTION: Williams/Willis** to approve the Audit Report subject to minor changes that Hugo is delegated to agree to make along with Williams Adley, Russ and or Graham.  
(5-0-0-0)

#### M. Website Discussion

Linda Nemeroff Joined the meeting. Hugo reported that Jeff and Director Peebles had discussed the District's efforts to update their website. Public Agencies with a website are required to have a link that goes directly to the agenda or to an integrated agenda management platform, which is what is used at AC Transit since there are so many Brown Act bodies. There was also discussion about where information about the Retirement Board and Retirement activities would land on the updated AC Transit website and search functionality and the ability to find Retirement information. The Board requested a review of website content for the next meeting.

N. Growth/Value Discussion Continued

The Board resumed discussion about its non-US developed holdings and if those funds should be moved. Carolyn reminded the Board that she provided a search book in 2019 on International Equities. Hugo reported that he might recommend moving some of the Capital Guardian growth to non-US developed core. There was discussion about how best to determine what funds to use for re-allocation and how they should be sourced. The Board decided that it would prefer to hear Carolyn's recommendation. Hugo suggested using the capabilities of BlackRock to analyze our current asset allocation and make a few recommendations to the Board. After a brief discussion, the Board decided that they did not want to utilize BlackRock for this analysis. Carolyn will bring back alternatives for next month, with and without a move from the Capital Guardian fund.

O. NEPC Workplan

The Board discussed shortening its discussion of the quarterly report at the August meeting and adding presentations by the 2 outside fund managers, as well as continued growth/value options discussion. The managers would present after Russ left the meeting, as he informed the Board that he would like to leave at 11:00.

P. Holdback Project

Courthouses still have not been open, so Russ has not been able to check on files for individuals with holdbacks. A brief discussion took place about retirees and their former spouses who staff previously reached out to. Jason reported that some still had not been reached.

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>; the District has responded, but The ATU would like to request an additional 30 days. The Board granted that request.

R. Retirement System Manger's Report

Hugo reported that he had spoken with the General Counsel about the Plan amendment for represented PEPPRA employees. He also reported that staff have begun returning contributions to former employees. The first two returns were in the consent calendar this month. He went on to discuss Lisa Henderson, against whom the District has a restraining order. Ms. Henderson continues to call the office and act very unprofessional in her phone calls, despite the order. Hugo also reported about her coming to the G.O. despite the restraining order, and the actions of law enforcement when she showed up.

Hugo also reported that in this month's bills is a check to reimburse Joyce for the money she spent for flights for the IFEBP. Joyce noted that she can use some of the credit, but some of it is in Yvonne's name. Hugo was instructed to send a letter to Joyce and Yvonne stating that they should reimburse the plan if either of them are able to use the southwest credit.

S. Closed Session

The Board went into Closed Session. Russ gave the report out of closed session. With respect to Terrell Russell's application for Total and Permanent Disability, the Board unanimously granted the application, with an effective date of October 1, 2019.

The Board has asked Counsel to report on an updated definition of Total and Permanent Disability for the Board to consider.

T. Adjournment

The meeting adjourned at 1:25 p.m.