

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
August 27, 2020**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at 9:12 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; Chris Andrichak, Finance; Ralph Martini, Controller; Michael Hursh, General Manager; Brian Leach, PIMCO; Chris Tarui, PIMCO; Roger Ackerman, Loomis, Sayles; Stephanie Lord, Loomis, Sayles;

PUBLIC COMMENTS

None

Hugo briefly outlined the agenda of the meeting, noting that Russ would only be available until 11:00. He also reported that Graham and Tim will present at 9:30 at which time the General Manager and Chris Andrichak from Finance would join the meeting. Hugo suggested the Board try and make sure they are in Closed Session by 10:30. At 11:15 PIMCO, followed by Loomis, Sayles would present.

CONSENT CALENDAR

- A. Minutes for the July 16th Meeting
- B. Financials for March 2020
- C. Invoices for \$265,573.43
- D. Approval of Retirements for August and September 2020 and return of contributions:
 - 1. Kimberley Vaughn (August)
 - 2. Jerome Allen (September)

3. Gloria Gaines (September)
4. Elizabeth Randle (September)
5. Juventino Sanchez (September)
6. Agustin Sandoval (September)
7. Claudia White (September)
8. Eduardo Villarreal (Pre-Retirement Death, September)
9. Lawanda Payne (Term Vested, September)
10. Gene Clark (Return of Contributions)
11. Nkechi Ndubuisi (Return of Contributions)

MOTION: Williams/Willis to approve the consent calendar (5-0-0-0)

The Board recognized Jerome Allen for 32 years of service, Gloria Gaines for 35 years of service, Juventino Sanchez for 38 years of service, Agustin Sandoval for 39 years of service, Claudia White for 34 years of service and Eduardo Villarreal for 28 years of service. The Board discussed Mr. Villarreal's exemplary service and untimely passing.

REGULAR CALENDAR

E. Retirement of Joyce Willis

Hugo reported that because Joyce's retirement calculation is made according to methodology put forth in the Gardner settlement, her final wages should be approved by another member of the ATU leadership team. A memo was presented with background information regarding Joyce's retirement. It was recommended that Joyce abstain from voting on her own retirement.

MOTION: Riemer/Allen to conditionally approve the Retirement of Joyce Williams pending completion of a review of her earnings by another member of the ATU leadership team (4-0-0-1)

F. Conflict of Interest Code

Hugo reported that this is a filing that the Board makes every two years that contains a memo from Russ, a list of the names of people who file Form 700s and a notice signed by Hugo.

MOTION: Riemer/Williams to approve the Conflict of Interest Code filing to be submitted to the FPPC. (5-0-0-0)

G. Ratification of Board Actions Taken at the July Retirement Board Meeting

Hugo reported that after the July meeting it was brought to his attention that the link to the Agenda on AC Transit website was not operating. Out of an abundance of caution, Hugo and Russ recommend that the Board ratify the actions taken at that meeting, which are described in the minutes approved in the Consent Calendar.

MOTION: Willis/Allen to ratify all actions taken at the July 16th Board Meeting.
(5-0-0-0)

H. Paratransit and Service Time

Hugo reported that the ATU had not yet submitted its response. Considering the difficulties presented by working during the pandemic, the Board granted the union an extension until the next Board Meeting.

I. California Supreme Court Decision

Russ summarized his memo about a recent California Supreme Court Decision, noting that while many of the issues are not relevant to the Plan there were germane issues regarding vested rights. He noted that some issues were clarified about previous lower court decisions, including issues with Vested Rights. He reminded the Board that the traditional understanding of vested rights is that public employees' pension benefits as of the time of hire cannot be reduced unless Comparable Advantages are provided on an individualized basis. The decision made a narrow exception if the pension reduction has a Proper Purpose related to the Theory of a Pension Plan and its effective operation (reducing costs is excluded), and that providing Comparable Advantages is not inconsistent with Proper Purpose.

J. Actuarial Valuation

General Manager Michael Hursh and representatives from Cheiron and the District Finance Department joined the meeting. Hugo reported that a few changes had been made to the valuation since the last Board meeting, including the District Payroll amounts and PEPRA calculations. Graham Schmidt noted the reduction in pensionable payroll due to bonus and retro payments to ATU being paid in the prior fiscal year. The Board discussed whether projected payroll had been reduced due to COVID-19, and Chris Andrichak confirmed that it has been.

Graham noted the increase in the cost as a percent of payroll as a result of the decrease in projected payroll of the current fiscal year. The Board discussed the history of the contribution rate. Graham indicated that he would be back next month to discuss the normal cost calculations of represented employees who will be under PEPRA. The Board discussed the impact of current markets and whether the current assumed rate of return of 7% was appropriate. Graham covered the District contribution and funded ratio of the Plan going forward. He noted that the bulk of the unfunded liability was projected to be paid off in eight years, and the funded ratio would be above 90% in 2027 if the assumptions held.

Graham noted that for the last 10 years smoothed investment returns have contributed to a lower unfunded liability. He then reviewed the amortization schedule and the progress made by contributions in reducing the unfunded liability. The Board discussed differences between investment consultant projected returns versus actuarial projected returns. Graham reported that the bulk of the difference is made by the difference in inflation expectations.

MOTION: Riemer/Williams to adopt the actuarial report as presented.
(5-0-0-0)

K. Review of Presentations for Joint Meeting

Hugo discussed the draft agenda for the Joint Meeting. Graham previewed his proposed presentation. The Board discussed whether stress testing should be included, and if so what scenarios. The Board concluded that Graham should not include stress testing in his presentation but should be prepared to discuss them.

Carolyn then reviewed her proposed presentation. The Board discussed whether Carolyn should review definitions of asset types and categories and concluded that the District Board would likely ask for clarification if needed. The Board discussed Carolyn's performance clarification versus a 60/40 market split. Carolyn would prepare an additional version of the slide with 10-year cumulative performance. There was additional discussion about performance versus peers and whether it should include only a universe of funds below \$1 billion.

The Board went into a breakout room and took a brief break before going into Closed Session.

L. Closed Session

Russ reported that the Board took no action in Closed Session.

M. PIMCO Presentation

Carolyn reminded the Board that PIMCO is one of the two dedicated corporate credit managers investing from a global perspective. They adjust their holdings frequently to respond to changes in the credit market. Hugo noted that PIMCO's performance over a long period has been good, but they are behind their benchmark in the most recent 12 months. Chris Tarui and Brian Leach introduced themselves, and Brian began their presentation. Brian reviewed PIMCO's broad based global multi sectoral credit strategy and noted that they measure themselves on a composite secondary benchmark. Brian reported that the strategy works best in high volatility environments, and that movements are made in response to changes in the credit cycle.

Brian continued to discuss how the strategy has performed versus other parts of the credit markets when approached as single sectors. He noted that being underweight credit risk was driving the lower relative performance versus the benchmark. Chris further discussed criticism about PIMCO's strategy noting that the movements made are more of a long-term play, and how they balance risk.

After the presentation, the Board further discussed PIMCO's use of a secondary benchmark. Carolyn reviewed what makes up that secondary benchmark and why it makes sense to not use both for the Flash Report.

The Board took a brief Break for lunch.

N. Loomis, Sayles Presentation

Carolyn gave a quick update on Loomis and noted the differences between the two funds including the use of a blended, but not derived benchmark. Carolyn reported on Loomis' strong performance in the most recent 12 months. The Board briefly discussed diversification in the credit portfolio and the overlap between the two managers. Carolyn reminded the Board why these two managers were chosen and how that decision was made.

Roger Ackerman and Stephanie Lord joined the meeting. Stephanie gave a brief update about the firm, noting that several floors in their building had been converted to work from home permanently. Roger began by discussing the benchmark used for the portfolio and how it was determined what should be used. He then reviewed the performance over the last year versus the benchmark. Roger reviewed Loomis' view of the current credit cycle and valuations and how they affect fixed income investors. He then described the effects of Federal Reserve action and how Loomis thinks that will affect the market.

The Board discussed attribution in the fund, and how riskiness of high yield and bank loans have affected returns. The Board discussed real estate debt in the current markets and how the Pandemic and new work environments might be affecting those values.

O. Conversion of Disability Retirement for Damon Bridges

Hugo reported that Staff would bring back a memo at the next meeting with some additions recommended by Russ.

P. PEPPRA Costs for Represented Employees

Hugo reported that this would be moved to the October agenda.

Q. Update on COVID-19

Hugo reported that staff would return next month with a report on retirement numbers since March to see if COVID-19 has had an impact on retirement rates. Claudia reported that the District Board would be reviewing a balanced budget at its September 9th meeting. That budget is dependent on CARES Act funds and tax revenues would need to be monitored closely to make sure the budget could be met.

R. Investment Performance Rebalancing and Asset Allocation

Hugo reported that Park Square had requested an extension of one-year to return funds to investors. He also noted that 50% of investors needed to approve the extension, and Park Square had already achieved that threshold without his signing the paperwork. Hugo went on to report that US large cap equity markets are up 10% for the year. Large Cap equity performance as well as really strong returns from Sands have made some reallocation necessary for discussion. Carolyn reported a great month for July and YTD return for July was actually slightly positive, with even better performance in August. Hugo pointed out that Sand's allocation is typically half that of Dodge & Cox. Hugo suggested a serious look at reducing the allocation to Sands. The Board continued discuss the historic nature of its value tilt.

S. Rebalancing and Asset Recommendation

Hugo recommended that the Board consider moving money from stocks to bonds, moving from large cap to emerging market and moving money out of Sands, as its strong investment performance has caused its allocation to be well above the guideline in the Investment Policy Statement. Carolyn discussed her memo noting that US Large Cap equity is well above its target. Carolyn reminded the Board that in the investment policy, the target is between 17 and 27%. Carolyn's recommendation removes \$21 million from State Street Value index and allocates it in several other places below allocation. Hugo mentioned his agreement with moving funds from equity to fixed income and that several different courses of action would achieve this result.

MOTION: Riemer/Williams to adopt Carolyn's recommended re-allocation, and subsequently make appropriate modifications to the investment guidelines. (5-0-0-0)

The motion would result in the movement of \$21 million from the Value Index Fund to be reallocated equally to the fixed income index fund and the two emerging market equity managers.

The Board requested that next month's meeting revisit the question of reducing the allocation to Sands. The Board decided to push out several other fund movements for discussion next month.

T. NEPC Workplan and Calendar

The Board decided that the ESG discussion will stay in September as well as discussion about asset allocation and the Annual Fee Review.

U. Approved Financials

Hugo reminded the Board that they had approved the Financials at the August meeting, and they were accepting the final version.

MOTION: Riemer/Williams to accept receipt of the approved Financials (5-0-0-0)

V. Holdback Project Memo

Hugo reported that there are no updates.

W. PEPR Implementation

Hugo reported that staff is still working on PEPR implementation for Non-reps, and that he is awaiting a draft of the plan amendment for represented employees.

X. Retirement System Managers Report

Hugo reported he has received a copy of the Plan restatement from Russ, and that he and staff would be reviewing it. He reported sending an email to Joyce and Yvonne regarding their Southwest credit, and that matter is now closed. The Board discussed possible improvements to delivery of Board materials for future meetings. Vice-Chair Williams thanked staff for all their hard work during the pandemic.

Y. Adjournment

The meeting was adjourned at 1:30