

**Approved Minutes
Meeting of the
AC TRANSIT RETIREMENT BOARD
August 18, 2021**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at 9:15 a.m.

Members Present: None
Present by Zoom: Chair Jeffrey Lewis, Vice Chair Josette Moss, Davis Riemer, Robert Coleman, Chris Andrichak
Members Absent: None

Also present by Zoom: Hugo Wildmann, Retirement System Manager; Russell Richeda, Legal Counsel; H.E. Christian Peeples, District Board Liaison; Jason Herron, Retirement System Administrator; Bertina Ng, Retirement System Analyst; Curtis Lim, Temporary Retirement Staff; Cris Gille, Retirement System Associate Retirement Analyst. The following attendees attended all or part of Open Session: Carolyn Smith, NEPC; Kevin Murphy, Sands Capital; Wes Johnston, Sands Capital; Tom Hickey, Foley & Lardner; Graham Schmidt, Cheiron; Michael Hursh, General Manager; Ben Sherry, Mandatewire; Lauren Albanese FIN News.

PUBLIC COMMENTS

None

CONSENT CALENDAR

- A. Approval of Minutes for the July 15th Meeting
- B. Approval of Financials for April 2021
- C. Approval of Invoices for \$389,414.96
- D. Approval of Retirements for August and September 2021 and Return of Contributions if Applicable:
 - 1. Gregory Bradley (August)
 - 2. Dynetta James (August)
 - 3. Ernest East (September)
 - 4. Ralph Martini (September)
 - 5. Michael McGraw (September)
 - 6. Marcus Walker (September)

MOTION: Andrichak/Coleman to approve the Consent Calendar (5-0-0-0).

The Board recognized Dynetta James for 32 years of service, Ernest East for 29 years of service, Ralph Martini for 34 years of service, Michael McCraw for 30 years of service and Marcus Walker for 40 years of service. The Board took a moment to recognize the work of Controller Ralph Martini.

REGULAR CALENDAR

E. Update on COVID-19 and Department Staffing and District Activity

Hugo introduced new Retirement Department staff member Cris Gille who joined the team earlier in the week. Cris introduced herself and was welcomed by the Board.

Hugo discussed the timing for upcoming items on the agenda.

F. Actuarial Valuation

Hugo introduced Graham's presentation, noting that the Funded Ratio has increased to over 77% on a market value basis. Graham began his presentation by reminding the Board about the summary table on page 2 of the 2021 Actuarial Valuation, noting that it hadn't changed since his previous presentation to the Board. He moved ahead to the forward-looking part of the analysis, noting that the contribution rate as a percentage of payroll declines for the next 6 years due in part to the smoothed value of assets from recent returns. In 2027, the biggest portion of the unfunded liability amortization will be paid off. Contributions are projected to decrease going forward as a percentage of payroll, in part because of the implementation of PEPPRA to unrepresented and represented employees. Graham currently expects the funded ratio to continue to improve slightly each year going forward if all assumptions are met.

Graham then discussed risks to the Plan. He noted an increase to the liabilities and recent changes to the assumptions, including investment returns. Graham reported that continued sponsor and employee contributions have helped reduce the liability. Graham noted changes in the ratio of retirees to active employees. The Board discussed sensitivity as it relates to the ratio of assets to payroll. Graham then moved on to his stochastic projections, discussing what could happen to the Plan's assets and the contribution rate under a number of different outcome scenarios.

Graham reviewed the amortization payment schedule, discussing the largest of the layered unfunded liabilities. The Board discussed how returns and expenses are captured in the actuarial valuation.

MOTION: Riemer/Andrichak to accept the Actuarial Valuation which incorporated an estimated District contribution of \$63,251,151 for Fiscal Year 2021/22. (5-0-0-0)

G. Draft Joint Meeting Presentation

Hugo reminded the Board that the Joint Meeting presentations this year should include more introductory material since there are new board members on both the Retirement and District Boards.

Director Peebles suggested that a longer-term view of the funded ratio be included. There was some discussion about the charts in the actuarial report and the wording of some items. The Board stressed the need to keep the presentations as simple as possible.

The Board took a brief break.

H. Update on Private Debt Search and Possible Investment with Monroe

Hugo introduced Tom Hickey from Foley & Lardner, noting that he is an outside attorney often hired to review investment contracts with new managers. Tom provided a memo with his recommendation for the Board regarding further investment with Monroe. Carolyn reminded the board that it had been working on its private debt allocation and that the Plan had previously invested in a Monroe fund. NEPC is recommending that the Board consider another investment with Monroe in another fund. She reminded the Board that it is a senior secured debt fund in mid to small sized companies. This would be the first round of private debt investment for \$18 million, and she would come back and recommend an additional round of investments for 2022 with another manager. Hugo reminded the Board that it has a target of 5%, and, as money comes back from previous rounds of investment, it needs to be re-allocated. Carolyn discussed the difference between the levered and unlevered versions of Monroe Fund IV. The Board discussed some of the risks the Plan would be exposed to with the levered fund. The Board favored the levered fund.

I. Memo on Possible Monroe Investment from Tom Hickey

Tom introduced himself and described the work he does for the Board and similar plans. He described his review of 3 key documents in most investment vehicles: Private Placement Memorandum, Limited Partnership Agreement, and Subscription Agreements. When he reviews those three documents, he creates a summary memo that talks about the risks, makes a recommendation, and describes noteworthy items. Tom continued, noting the valuation process at Monroe, and how it affects the fees that are due for the fund. He continued, noting beneficial items in the documents. Tom noted that his firm serves as Special Tax Counsel to Monroe, but he is not personally involved with this relationship.. The Board discussed SEC monitoring of the fund and how much of that happens. There was also discussion of the potential conflict of interest and how Tom's firm avoids those conflicts. The Board discussed this issue, and Russ said he did not view this issue as a material conflict of interest. The Board agreed with this conclusion. The Board then discussed levered versus unlevered and in which type of fund it should invest. The Board considered expected returns for the Plan's investment portfolio being lower looking forward and prudently selecting investment that provide additional expected returns to help make up for that. Carolyn encouraged the Board to select the levered fund. Hugo mentioned that the next step in moving forward with Monroe would be for Tom Hickey to work on the Side Letter and legal documents.

MOTION: Andrichak/Coleman to move forward with the leveraged investment with Monroe, and have Tom Hickey review and prepare the required documents necessary to move forward. (5-0-0-0)

J. Investment Performance

Carolyn reviewed the Fund performance as of July 31st, noting that the Fund is up just shy of 8% for the year. The actively managed parts of the portfolio are outperforming their benchmarks. Carolyn discussed Sands' performance, noting that they are a growth manager with a concentrated portfolio. The Board has ridden out some previous bouts of

underperformance from Sands. Carolyn noted that City of London is outperforming its benchmark.

K. Rebalancing

Hugo reported that since April over \$40 million has been moved from equity into fixed income, due to strong equity performance and the corresponding need to rebalance the portfolio. Carolyn reported that 29% of equities are in “value” versus 25% in “growth”, with the remainder in core. In Non-U.S. equity, the growth/value balance is very close to 50/50 as well as in emerging markets. When asked, Hugo suggested that the current value tilt be allowed to remain. Carolyn also mentioned that she approved of the current mix. The Board agreed that the slight value tilt should be maintained.

L. Investment Policy Update

Hugo reported about small changes to Appendix A, which was presented as a redlined document to the Board. There were some minor changes to the international equity allocations, which could be folded into the entirety of the Investment Guidelines and brought back as a whole to the Board.

MOTION: Riemer/Moss Approve the proposed changes to Appendix A of the investment guidelines. (5-0-0-0)

M. NEPC Workplan

Carolyn reported that scheduled for September is consideration of a small cap index fund, in part due to underperformance by DFA. Since it has taken a while to have that discussion, DFA performance has improved. The Board agreed to move the Real Estate education presentation to next month.

N. Quarterly Investment Report discussion

Carolyn reported that the Plan was up 25% for the 12 months ending June 30th. She noted that there has been a broad range of performances from 21% to 33% returns among public plans. She noted that the Plan is below the median, mostly due to its lower allocation of equities and alternative investments. The Board discussed whether it should reconsider its current allocation of Equities and decided against the proposal.

The Board took a brief break

O. Sands Presentation

Wes Johnston and Kevin Murphy from Sands Capital joined the meeting to make their presentation. Kevin began with a brief update on Sands; as a firm, they have \$79 billion in assets under management. Wes reported that their portfolio typically holds about 30 stocks for a target of five years and looks for earnings and free cash flow growth of around 25% per year. Wes discussed returns net of fees and noted that the strategy requires more patience than the usual short term market results.

The Board discussed the diversity and inclusion plan at Sands, and Kevin promised to send statistics to Hugo. The Board discussed what Sands is doing to improve their diversity and where they are spending money on those processes. The Board discussed what NEPC does to get more information about its due diligence reports. The Board discussed adding some additional criteria to its future management searches. Hugo will be reviewing the most recent hires and analyzing them and will return with that information and the information received from Dodge & Cox next month.

P. Updated Signers for Northern Trust.

Hugo reported when wires are sent from Northern trust, two people are required to sign off or verify them. Because of retirements and promotions, the current list of signers and verifiers needs to be updated. Hugo recommends that the Board authorize the changes. The Board discussed whether it was good policy to have authenticators who are subordinates of the initiator and what action could be taken if staff had questions about transactions. The Board approved Jeff Lewis and Hugo Wildmann as initiators of wires, Chris Andrichak, Ken Myers and Sue Lee as verifiers of wires and Bertina Ng, Hugo Wildmann and Jason Herron as authenticators of non-repetitive wires.

MOTION: Riemer/Moss approve the proposed changes to verifiers and signers for Northern Trust (5-0-0-0)

Q. Update on Hiring for Retirement System Associate Analyst

Hugo reported that Cris Gille started two days ago and welcomed her to the team.

R. PEPRA Plan amendment and Policy 665

Hugo reported that an amendment for represented employees is in progress and that Russ has drafted a memo to be presented to the Board at the September meeting. The same report applies to the agenda item for PEPRA Implementation.

S. Benefit Statements

Hugo reminded the Board that the Retirement Department sends out benefit statements prepared by Cheiron once a year. The Board discussed including in the back page some language regarding service credit and timing of the last date of pay an employee receives. In the interest of getting the back page completed, the Board decided to exclude the new sentence and consider adding it next year.

Hugo presented several benefit statement samples for the Board to review. The Board briefly discussed the language regarding the effective date of a retirement.

T. Holdback Project Update

Hugo reported that there would be a holdback project update at the next Board meeting regarding the four largest holdbacks and more of the holdbacks down the list.

U. Health Insurance Rates

Hugo reported that Health insurance rates are down slightly versus the previous year but still represent a large expense for retirees. The Board recommended having the union and the benefits team look into the expenses as they still seem very high.

V. Closed Session

The Board took no action in Closed Session.

W. Adjournment

The meeting was adjourned at 1:43p.m.