ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

Master Minute Order

File Number: 21-391

Report ID:	21-391	**Type:**	Discussion Item(s)	**Status:**	Received
		Agenda Section:		**Meeting Body:**	Joint Meeting of the AC Transit Board of Directors & Retirement Board
				Report Created:	07/30/2021
				Final Action:	

ded Action: Investments

1. Investment overview
2. How the investment portfolio is structured
3. Why the retirement plan owns stocks
4. Historical investment performance
5. Current investment update

Sponsors:		**Enactment Date:**	
Attachments:	STAFF REPORT, Investments	**Enactment Number:**	
		Hearing Date:	
		Effective Date:	

History of Legislative File

Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
Joint Meeting of the AC Transit Board of Directors & Retirement Board	10/06/2021	The report was presented for information only.				

Action Text: The report was presented for information only.

Notes: Carolyn Smith, NEPC, presented an overview of investments, asset allocation, performance, and current investments. Ms. Smith highlighted the diversified nature of the investment portfolio and that all of the funds managed by the Retirement Board are invested by money managers. Carolyn also reviewed the historical returns of the Plan and noted the return of over 8% since the inception of the Plan. Ms. Smith also pointed out the projected performance of the Plan using figures from NEPC that result in a long-term projection of 6%.

Public Comment:

There was no public comment offered.

Discussion:

Discussion ensued regarding ESG (Environmental, Social, and Governance) screening. Director Walsh asked if the Retirement Board considers not investing in companies that produce products that are harmful to the environment or society (fossil fuels, weapons, tobacco, gambling, etc.). Ms. Smith advised that the Retirement Board has elected not to apply ESG screening to the portfolio, but does ask existing and potential fund managers how they apply ESG screening to the selection of individual securities within their portfolio. She added that a lot of investment managers do apply ESG screens and do incorporate this strategy when selecting stocks. President Ortiz noted that the Retirement Board has jurisdiction over investment decisions. Chair Lewis added that when a manager is replaced, one consideration is how strongly they apply ESG screening factors, but offered that most of the Retirement Board's investments are in mutual funds, which makes it more difficult to apply ESG screening and track the overall movement of the stock market (indexing).

Director Walsh deduced that it was probable that money was invested in oil companies and felt it was important to align the investment strategy with the District's values as a transit agency.

Director Beckles agreed with the need for a diverse portfolio given the volatility of certain stocks, but also expressed agreement with Director Walsh with regard to ESG investing. She also asked who would be responsible for creating policies against investing in companies that destroy the planet, to which Ms. Smith advised that it was the Retirement Board's responsibility.

Director Walsh also asked if there were socially responsible index funds that have already filtered out the most damaging companies. Ms. Smith reported that these investment vehicles do exist, but it is often hard to discern the "good" companies from the "bad" ones. Director Walsh gave the example of a District board policy that self-imposes travel restrictions to states that have anti-LGBTQ+ policies thereby holding District to a higher standard. Chair Lewis responded that while he and the rest of the Retirement Board might share this viewpoint, the issue was complex.

Director Williams asked about the impact of Covid and geopolitics on investment returns. He also wanted to know how many managers of color, specifically African American, there were. Ms. Smith reported that Covid did have an impact on the overall portfolio, saying that the stock market was quite volatile early in the pandemic, but the markets recovered when stimulus funds were injected into the economy and investment performance improved significantly.

With regard to the diversity of the underlying managers, Ms. Smith advised that while she could not provide specific numbers, there were some minorities involved in the management of the District's investments, but the numbers were low. She added that in California there is a law the prohibits public entities from making hiring decisions based on race, but it doesn't prohibit boards from asking how companies are doing from the standpoint of diversity and what the underlying workforce looks like and what is being done recruit a diverse workforce. She further presented information on NEPC's methods to attract women and minorities in the workforce. Chair Lewis added that the Retirement Board also requests and reviews this information. Director Williams asked for a more detailed report on this issue at the next joint meeting. Retirement System Manager Hugo Wildmann advised that the Retirement Board had on its agenda earlier in the day the discussion of employment data it had requested from three investment managers. The requested information pertains to the make-up of each manager's investment staff.

Vice President Young noted a 38% bond allocation and asked how a 6.75% rate of return could be achieved given such low projections for bond returns. Ms. Smith responded that most of the asset classes for a 10-year period have a low projected rate of return based on the low interest rate environment, inflation, and also the valuations of the securities being traded and where we are at in the economic cycle. With regard to risk, other factors should be considered, such as the ratio of existing retirees to current employees and the ability of AC Transit to pay a higher contribution rate if there is volatility in the markets. Vice President Young assumed that taking on more risk meant a higher stock allocation and private equity, and balancing this risk with the population of the pension fund to which Ms. Smith agreed.

Member Riemer commented that one of the key issues was the interplay between the District and the Retirement Board, saying that the Retirement Board is supposed to pay attention solely to the interest of the beneficiaries (retirees) and ignore what seems to be good or not so good for the District in terms of setting rates or return. Chair Lewis mentioned that the assumed rate of return is ultimately set by the Retirement Board in part based on the recommendation of the actuary. The actuary has not recommended lowering the rate of return below 6.75%. He added that the assumed rate of return is reasonable, and the Retirement Board would continue to look at it annually.