

MINUTES OF THE RETIREMENT BOARD

May 18, 2023

A regular meeting of the Retirement Board convened at 8:31 a.m. on Thursday, May 18, 2023. The meeting was called to order by Retirement Board President Tim McGowan.

This meeting was conducted with Retirement Board Members physically present in the Administration Building Training Resource Center, 375 Eleventh Street, Oakland, California. This location served as the physical location for members of the public who wished to attend the meeting in person. Please note, however, that members of the public were also provided the opportunity to participate via video and teleconference. Public participation was also available by live audio stream <https://www.ebmud.com/about-us/board-directors/board-meetings/retirement-board-meetings/>; however, listeners were not able to provide public comment via live audio stream. To participate in the meeting or provide public comment, please see the Appendix of the Agenda for instructions on joining the Zoom meeting online or by phone. Some Staff and Presenters also attended via Zoom.

Roll Call – The following Retirement Board Members were present: Clifford Chan, Marguerite Young, April Chan, Tim McGowan, Jae Park, and Elizabeth Grassetti.

The following staff members were present: Sophia Skoda, Cindy Charan, Lourdes Matthew, Lisa Sorani, Robert Hannay, Steven Goodman-Leibof and Valerie Weekly.

PUBLIC COMMENT

George Cleveland, Chief Steward, Local 2019, commented that the HIB benefit has not increased in 20 years; health care costs have increased during that time, and it's time to increase the benefit for retirees.

Three written public comments were received and read at agenda item #11.

CONSENT CALENDAR

1-4. Consent Calendar – A motion to move the consent calendar was made by Clifford Chan and seconded by Jae Park. The motion carried (5-0) by the following voice vote: AYES (C. Chan, McGowan, A. Chan, Young and Park), NOES (none), ABSTAIN (none), ABSENT (none).

Tim McGowan moved to pass the amended January 2023 minutes and amended March 2023 minutes, and Clifford Chan seconded. The motion failed with AYES (2) and ABSTAIN (3) due to absences from the meetings. A new motion to approve the amended January 2023 minutes was made by Marguerite Young and seconded by Clifford Chan. The motion carried (4-1) by the following voice vote: AYES (C. Chan, McGowan, Young and Park), NOES (none), ABSTAIN (A. Chan), ABSENT (none).

Jae Park moved to pass the amended March 2023 minutes, and April Chan seconded. The motion carried (3-2) by the following voice vote: AYES (McGowan, A. Chan, and Park), NOES (none), ABSTAIN (C. Chan and Young), ABSENT (none).

ACTION

5. Resolve Van Hulzen Watch Status – Robby Hannay introduced the item. Staff recommends removing Van Hulzen from watch status. Eric Larsen of Meketa presented this item. March 2022 Van Hulzen underperformed and was placed on Watch Status. This was a difficult environment for the strategy. Meketa did not have any concerns about the strategy or the organization. Eric explained that they have continuously monitored their performance and is satisfied with the strategies. Since being placed on watch, Van Hulzen has improved by outperforming CBOE BuyWrite by 420 basis points. As a result, Van Hulzen broke through threshold since August 2022. They have remained above the threshold consistently. Over 5-year period, they provided better risk adjusted returns than the benchmark. There was no public comment.

Clifford Chan made the motion to remove Van Hulzen from Watch Status and Jae Park seconded the motion. The motion carried (5-0) by the following voice vote: all AYES (C. Chan, McGowan, Young, A. Chan, and Park), NOES (none), ABSTAIN (none), ABSENT (none).

6. Declare the Interest Rate to Apply on June 30, 2023 to Balance Member Contributions and Interest for the Period Ending December 31, 2022 – Cindy Charan introduced this item and Valerie Weekly presented. 5-year average rate of return on retirement system investments for the period ending December 31, 2022. As of that date, the actuarially assumed rate of return was 7% and the 5-year average rate of return was 4.9%. The proposed Resolution declares the annual interest rate of 4.9%; the rate credited to member accounts will be prorated into a semi-annual rate of 2.45%, and the interest will be credited June 30th to balances as of December 31, 2022. Clifford Chan and Marguerite Young commented on the error in percentage on the proposed Resolution page (2nd paragraph, last line); more proofreading is needed on Resolutions going forward. There was no public comment.

A motion to approve the resolution as corrected was made by Dir. Young and seconded by Clifford Chan. The motion carried (5-0) by the following voice vote: AYES (C. Chan, McGowan, Young, A. Chan, and Park), NOES (none), ABSTAIN (none), ABSENT (none).

7. Declare Results of the Election of an Employee Member of the Retirement Board – Cindy Charan introduced this item and Valerie Weekly presented this item. The election process allowed for an abbreviated process if there is a sole nominee, and that nominee receives 50 nominations; that was the case in this election. The sole nominee in this election, Jae Park, received 50 nominations. The vote was certified by Cindy Charan, Director of Human Resources, has retained his seat. There was no public comment.

A motion to approve the election results was made by Tim McGowan and seconded by Clifford Chan. The motion carried (4-1) by the following voice vote: AYES (C. Chan, McGowan, Young, and A. Chan), NOES (none), ABSTAIN (Park), ABSENT (none).

INFORMATION

8. Meketa Investment Group Performance and Economic Review – Sophia Skoda introduced this item with Eric White of Meketa presenting the quarterly performance report. The

portfolio has gained over 100 million dollars during the first quarter but is still down overall. It is up 5% for the quarter but down 5% for the one-year. Around 8% rate of return around the 10- and 20-year periods. Equities are up 7.2%, US and non-US are up 7%, and Covered Calls lagged. There was a 5.5% rate of return. Real estate performance was negative. Down 6% for 1-year period. There is some concern regarding how far market has rebounded. Price to earnings ratio of market which is still overpriced. Market was so expensive going into last year, and big sell off only got us back to average. Still selling securities off balance sheet; expecting average returns going forward. Cash crunch on a lot of banks where deposits start to flee. Some banks were mismanaged; business models not so robustly designed, and therefore fell very rapidly. Availability of loanable funds is in process of shrinking dramatically. Loaning process takes time. US may be pushed into recession. An inverted yield curve is a good predictor of recession. CPI is much higher than the 2% that the Federal Reserve is looking to achieve. About 70% of increase in CPI is being driven by housing/shelter costs. Home prices have started to dip down. Rent prices have stabilized. Core CPI should come down over the next 6 months.

Tim McGowan asked about insight into debt-crisis. Eric White commented it is needlessly dangerous for US economy. Clifford Chan asked about lenders willing to lend money. Eric White responded that the stock market and bond markets are two different things. In terms of commercial real estate loans, the spread has widened; currently not seeing a lot of defaults. Securities are constructed in a way that makes them more resilient. Banking system has more isolated exposure. April Chan referred to the NY Times article regarding the transfer of wealth regarding young people. Meketa responded it would be the largest wealth transfer in the history of the US and the world.

Eric Larsen presented regarding specific fund managers performance. It was a solid quarter for domestic and international equities. Within Covered Calls, the Delta Shift strategy is outperforming the benchmark. Over a 3-year period, Delta Shift strategy really outperforming. Garcia-Hamilton has been moved to a Bloomberg US aggregate. Last year, fixed-income had one of its most challenging years; Garcia Hamilton out-performed. As for real estate, composite was slightly down per quarter. Strong composite return for the quarter compared to other client accounts.

9. Training – Review of Covered Calls – Sophia Skoda introduced this item and Eric White of Meketa presented the information. Eric went through a presentation on the history and strategy of Covered Calls. Marguerite Young asked about which benchmark and index were used since benchmarking building inefficiency. Eric White responded it has a built-in inefficiency. The inefficiency happens because of the amount of money put in. The more money, the more inefficiency. The benchmark is consistent median than above median in comparison. Marguerite Young commented it is mostly likely private equity managers. Eric White responded the performance of Covered Calls composite performed as expected return around assumed rate of return with lower volatility.

10. Private Placements Update – Sophia Skoda introduced this item and Steven Goodman-Leibof presented this item. 2018 transitioned away from our equity managers. Been working with Northern Trust to liquidate those. Two (2) remaining securities (DiDi – called Uber of China) and Magic Leap. DiDi had IPO on NY stock exchange. Unfortunately, process for verifying our shares is long and complicated; in interim, China encouraged DiDi to delist from US stock market. May list on Hong Kong stock exchange. Going forward, staff would like to move away from annual update.

Northern Trust dollar values go back to 2018. Tim McGowan commented that he prefers an annual update where Marguerite Young asked Northern Trust to provide Staff a quarterly update.

11. Annual Health Insurance Benefit (HIB) Survey – Cindy Charan introduced this item and Valerie Weekly presented. Every year, Retirement Board Staff sends out a survey to other Bay Area water and public agencies to compare retiree health benefits. Retirement Board Staff received three written public comments. The subject of each comment was related to the inadequacy of the District's current HIB reimbursement benefit.

John Urness, Assistant Water Resources Specialist, Water Supply Engineering: "I just learned that the retirement board has not adjusted health insurance contributions in 20 years and that we have fallen to the back of the back when compared to other utilities. EBMUD needs to adjust the retirement health insurance contribution to come in line with other utilities. As health costs go up, this benefit should be reassessed on a yearly basis. But in addition to that change, in the short term and at a minimum, it should be increased to match what most utilities are doing."

Diane Eggering, Accounting Technician, Accounting: "I am respectfully asking for them to increase the long overdue HIB."

Shirley Liu, Associate Civil Engineer, Water Supply Engineering: "The 2023 Annual Health Insurance Benefit Survey revealed the District's provided retiree Health Insurance Benefit (HIB) ranked low relative to other agencies surveyed. The HIB has not been changed for many years and is overdue for an increase. Along with cost of living, healthcare and long-term care costs continue to rise. The District should increase the retiree HIB to attract more competitive candidates for hire and boost employee retention."

Staff expanded the number of agencies surveyed and added additional questions regarding a possible second tier with a less generous benefit. Several agencies affirmed they did. In previous surveys, the focus was on medical benefits, which has the highest cost; but this time Staff asked if employers reimbursed for items such as the Medicare benefit, dental, vision and possibly life insurance. Twelve (12) agencies offered greater benefits than the District. Three (3) offered greater benefits, but their new tier was closer to the District's. Four (4) agencies offered comparable benefits as the District.

Cindy Charan commented that Staff recently met with Alliant and asked for benchmark data on how EBMUD compares in general with District benefits; not just with other utilities, but with other public agencies which also may include cities and counties. Retiree health benefits is also one of the areas Staff requested data on. Staff is gearing up for much earlier conversations with our unions around contract negotiations, and hope to bring this data back to the Retirement Board as well.

Clifford Chan commented that data presented in table could use adjusting, as it was difficult to interpret data for a comparison. Tim McGowan suggested to have HIB history reviewed. Marguerite Young suggested to see what best practice is today rather than a review of the history. And what higher amounts are we talking about? Elizabeth Grasseti asked what percentage of retirees are in the tiered category vs. non-tiered category. Elizabeth concerned about not keeping up with competitors and suggested to increase HIB by \$100.

12. Low Income Adjustment Review – Cindy Charan introduced this item and Lisa Sorani presented. Retirement Board previously requested staff to look at alternative eligibility thresholds. The District solicits retirees to apply for low-income adjustment review using the (HHS) Health & Human Services data and is based solely on District provided retirement benefit. For married couples, it is 200%; for surviving beneficiaries, it is 150%. The last District payment made under this Low-Income Adjustment was in 2014. The question is: are these percentages the right numbers? The Retirement Rules states that the formula will be re-evaluated every 3 years. If percentages were adjusted to 300% and 225% respectively, around 171 retirees would potentially qualify based on District benefit. If adjust to 400% and 300% respectively, around 455 retirees would potentially qualify based on District benefit.

Sophia Skoda asked if a survey could be done to get a better idea of how many people would qualify. Elizabeth Grassetti suggested to see rate increased to 300%. Clifford Chan suggested to contact Legal Counsel and see if this could be applied to PEPR. Marguerite Young commented that maybe using data based on demographics might be useful. Recommended to work with Andy at Segal and ask the question “where would we look for this?”. Tim McGowan commented it would be nice to improve it the benefit. Staff recommends continuing to review and get better statistics to understand what other retirement systems are doing. Will bring findings to the Retirement Board in the new year.

13. Disability Earnings Income Verification for 2022 – Tim McGowan introduced the item and Lisa Sorani presented. Staff spoke with 22 disability retirees who were monitored in 2022 and none of the members reported income greater than their earning safeguard. Based on self-reporting, there are no disability retirees hitting the thresholds. Marguerite Young commented there is a form that a retiree can submit that would allow the District access to their tax returned. Lisa responded there was previous discussion with the Retirement Board and determined we weren’t going to ask retirees to submit tax information whether they live in or out of California. Alternative ways to collect income verification will be reviewed. Marguerite Young commented that the point is to understand if someone’s working whom we’re paying for disability who’s not supposed to be able to work.

14. Update on the Pension Gold (LRS) Implementation Project – Cindy Charan introduced and Valerie Weekly presented. Valerie is currently serving as product interim owner. A budget request for a business systems analyst position has been submitted. ISD is making efforts to add another resource to project team. A retirement committee for identifying issues has been formulated (e.g., how we do things now; is that how we should do it in the future?).

Another topic discussed was the 60-day force out of the retirement system for those who leave prior to vesting; this can be problematic since employees have 180 days to go to a reciprocal agency and establish reciprocity. Staff is looking to address extending the 60-day window. Sophia Skoda asked how many members fall into this category; Valerie responded not many.

REPORTS FROM THE RETIREMENT BOARD:

Jae Park attended the CALAPRS Advanced Principles for Trustees training in March 2023.

Minutes
Retirement Board Meeting
May 18, 2023

ITEMS TO BE CALENDARED:

Review of COLA Bank Balances

ADJOURNMENT – Tim McGowan moved to adjourn the meeting at 12:42 p.m. and Clifford Chan seconded the motion; the motion carried (5-0) by the following voice vote: AYES (C. Chan, Young, A. Chan, Young, McGowan and Park), NOES (none), ABSTAIN (none), ABSENT (none).

President

ATTEST: _____
Secretary

7/20/2023