

Minutes

EBMUD EMPLOYEES' RETIREMENT SYSTEM

May 23, 2024

A regular meeting of the Retirement Board convened at 9:04 a.m. on Thursday, May 23, 2024. This meeting was conducted with Retirement Board Members physically present in the Administration **Training Resource Center**, 375 Eleventh Street, Oakland, California. This location served as the physical location for members of the public who wanted 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 be able to provide public comment via live audio stream. For instructions regarding meeting participation or providing or providing public comment, please see the Appendix of the Agenda for instructions on joining the Zoom meeting online or by phone. Some Presenters may have attended via Zoom.

1. Tim McGowan opened the meeting and then asked the Retirement Board to consider approving the amendment to the agenda which would allow the Board to consider Marguerite Young's request to attend remotely. Jae Park motioned to accept the amended agenda. Clifford Chan seconded the motion and the motion carried (4-0) by the following roll call vote: AYES (A. Chan, C. Chan, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (M. Young).
- 1a. Tim McGowan asked that the Retirement Board consider Marguerite Young's request to attend remotely. Marguerite Young indicated there were family circumstances that required her to be at home. Tim McGowan outlined the requirements of Government Code Sections 54953(f)(2)(C) and 54953(f)(2)(B). April Chan moved the item. Clifford Chan seconded the motion, and the motion carried (4-0) by the following roll call vote: AYES (A. Chan, C. Chan, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (M. Young).

****Public Participation****

Please see Appendix at end of Agenda for Public Participation Details

ROLL CALL: at 9:10am

Present: Clifford Chan, Marguerite Young, April Chan, Tim McGowan, Jae Park and Elizabeth Grassetti

PUBLIC COMMENT: The Retirement Board is limited by State Law to providing a brief response, asking questions for clarification, or referring a matter to staff when responding to items that are not listed on the agenda.

- Tim Larsen deferred his comment to item #11.
- Ivette Rivera requested the full survey results, expressing concern about HIB satisfaction numbers.

REGULAR BUSINESS MEETING

CONSENT CALENDAR:

Tim McGowan asked if any items needed to be pulled from the consent calendar. The March 21, 2024 and April 16, 2024 minutes were pulled for correction. Clifford Chan motioned to approve the remainder of the Consent Calendar. Jae Park seconded the motion and the motion carried (5-0) by the following vote: AYES (A. Chan, C. Chan, M. Young, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (none).

The Board and members of the public provided corrections to the minutes, which staff noted. Jae Park moved to approve the March 21, 2024 and April 16, 2024 minutes with these revisions. April Chan seconded and the motion passed (5-0) by the following vote AYES (A. Chan, C. Chan, M. Young, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (none).

ACTION:

7. Declare Interest Rate to Apply to Balance of Member Contributions and Interest for Period Ending December 31, 2023 – C. Charan Valerie Weekly presented the interest rate of 6.75%, prorated to a semi-annual rate of 3.375%. There was no public comment. Marguerite Young moved the item, which was seconded by Jae Park. The motion passed (5-0) by the following vote AYES (A. Chan, C. Chan, M. Young, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (none).

8. Declare Results of the Election of an Employee Member of the Retirement Board – C. Charan

There were three candidates, all of whom received the required 50 nominations. Max Fefer received the most votes. Cindy Charan certified the vote so Max Fefer would become a member of the Retirement Board effective June 24, 2024.

April Chan inquired about the vote-counting process and Mae Shepherd explained it. Elizabeth Grassetti was concerned about percent of field staff voting. Valerie explained that participation was significantly lower last year. Participation rates were comparable to pre-COVID figures when the election was paper-based. Marguerite Young indicated this participation rate was pretty good considering election rates with her work with other retirement systems is around 10-11%. There was no public comment.

Marguerite Young moved to approve the resolution; Clifford Chan seconded the motion, which carried (5-0) by the following vote AYES (A. Chan, C. Chan, M. Young, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (none).

9. Asset Allocation Review and Determination – S. Skoda

Sophia Skoda and Colin Bebee of Meketa presented various portfolio options focusing on risk, return expectations, and diversification. They provided detailed analysis of each option's impact on the fund's long-term sustainability. Retirement Board Members discussed the pros and cons of each portfolio, with Jae Park raising concerns about the risk associated with private debt and covered calls. April Chan and Marguerite Young expressed comfort with private debt investments, citing their potential for higher returns. Max Fefer inquired about ESG (Environmental, Social, and Governance) consideration for private debt, and Sarah Bernstein of Meketa explained how ESG criteria are integrated into investment decisions. Following a thorough discussion, April Chan

moved to accept Sample 2 as the allocation moving forward. Clifford Chan seconded, and the motion carried (5-) by the following vote AYES (A. Chan, C. Chan, M. Young, T. McGowan, J. Park) NOES (none), ABSTAIN (none), ABSENT (none).

In March, Meketa talked about making changes, how those changes may affect the model, and which one would be more impactful. Our goal is to make a decision that day. However, this transition would not happen overnight.

Colin Bebee of Meketa explained the goal and the timeline for this process. This was designed to be interactive so we could make changes and discuss the results. During the March meeting, the Board was attracted to portfolios with similar/lower risk levels as the current policy. The most important thing was setting capital market assumptions, and we were using industry standard approaches. Colin Bebee explained that during the transition we planned not to have extended periods out of the market. Every portfolio would have thousands of simulations over 20 years and be updated every year to reflect his.

EBMUDERS current policy was compared to other scenarios. Slide 15 included sample portfolios. Several Board members expressed interest in Sample 2. Jae Park asked about getting rid of covered calls. Colin Bebee stated that if we change to 20% in investment grade bonds, that would provide benefit payments for years even in light of a negative market event. Jae asked about what kind of downside protection private debt gives the portfolio. Colin stated that you should not view private debt as a downside protection; think of it as gaining diversification across the capital markets without interest rate risk due to the floating rate nature of the loans. Tim McGowan indicated he knew moving in and out of covered calls is easy; however, the transition to covered calls involved infrastructure, which he wouldn't want to lose. Colin Bebee added there was the process of maintain a bench manager to make the transition process easier. Tim McGowan stated that if we could keep our covered call managers as bench managers, there's no need to have an allocation.

Colin stated that sample 2 offers a slight decrease in risk from the current portfolio. Current portfolio is slightly riskier than peers.

Jae Park did not see the need to move to private debt but wanted to hear what the others members thought. April Chan did not see downside to private debt. Tim McGowan stated in terms of private markets, he has the most faith in private debt as it is not as manager dependent as private equity. Marguerite Young was comfortable with private debt. In addition, she is comfortable with moving private real estate to REITS. Interested in putting 5% to REITS and pulling away from private real estate, though she is comfortable with keeping RREEF and eliminating REITS. Robby stated the Russell 3000 has REITS in it, so we have that exposure.

Max Fefer asked about ESG for private debt. Max inquired if they were taking advantage of the disadvantaged and if they could be used to make investments in things with a net positive impact on society. Colin stated that there are some managers that focus on funding loans with ESG in mind. Colin also stated that we would target open-ended structures for Private Debt, and Meketa scores those on ESG characteristics. Marguerite Young commented there are organizations that score managers that could be helpful in selection. Sarah Bernstein with Meketa said that there were efforts to bring out disclosure on ESG characteristics. We would bring you a wide range from small impact managers to very large debt managers active in this area. Tim McGowan believed all agreed that 5% for private debt was appropriate. All Board members agreed that 5% seemed appropriate.

Tim McGowan called a 10-minute break which started at 11:15 am.

The Board discussed potential changes to real estate. Board members decided that an allocation to core was better than publicly traded REITS. The decision was made to keep core real estate at 2.5%. This led to all Board members being comfortable with Sample 2.

April Chan made a motion to accept Sample 2 as the allocation moving forward. Clifford Chan seconded the motion, which carried (5-0) by the following vote AYES (A. Chan, C. Chan, M. Young, T. McGowan, J. Park), NOES (none), ABSTAIN (none), ABSENT (none).

INFORMATION:

10. Discussion of Changes to Board of Director Pension – L. Matthew

Lourdes Matthew discussed proposed changes to prevent future Board of Directors (BOD) from getting a windfall and to prevent future retirees from entering the retirement system a second time. The BOD voted to limit the terminal compensation to the average compensation that was earned as a Director. There would be no change to HIB. Newly elected members would need to be on the BOD five (5) years or more to receive a monthly reimbursement benefit.

Retirees elected to the BOD currently would have had to reinstate into ERS and would no longer receive the monthly pension. The solution was to exclude retirees from participating in the ERS so they could continue to receive their pension while on the BOD.

Former employees who were not yet retired when elected would not be excluded from participating in ERS. However, these would be two distinct periods, with separate years of service, terminal compensation and potentially different plan enrollment.

Lourdes Matthew outlined the timeline for Ordinance changes.

11. HIB Study: Discussion of Goals and Interests – C. Charan

Cindy Charan introduced this item and Lisa Sorani presented. Lisa outlined the process the Retirement Board had gone through to this point and described the goals for the meeting.

Public comments were made by:

- Eric Larsen, the President of Local 444, expressed concern that many members were counting on the HIB, especially considering the two-tiered system. It is Eric's position that groups needed the addition of dental and vision coverage in addition to health coverage. Complete health coverage (medical, dental and vision coverage) should be costed out for both PEPRA and Legacy members.
- Diane Eggering, Secretary of Local 2019, requested an increase in HIB, which was crucial for PEPRA and those under age 65. Board members discussed the necessity and implications of potential changes, considering the impact on PEPRA members and overall system sustainability. Marguerite Young noted the importance of addressing the needs of PEPRA members. Tim McGowan emphasized the need to identify specific problems and solutions. Lisa Sorani stressed that all recommendations would go to the Board of Directors for consideration during negotiations.

12. Filling the Role of Board President and Succession Planning – C. Charan

Cindy Charan highlighted the upcoming retirement of Tim McGowan and the need for a transition plan. The Board long-standing practice of nominating the employee member and management members for President and Vice President respectively was noted, though flexibility in this practice was advised. The Board discussed potential candidates and the qualities needed for effective leadership during the transition period.

13. PEPRA Contribution Rate Survey – S. Skoda

Sophia Skoda introduced the item and Steven Goodman-Leibof presented the survey. Some PEPRA members wondered why EBMUDERS employee contributions were higher than other employers. In short, the difference is largely due to benefits design. Although PEPRA standardized many features of public benefits, there were still differences between employer plans. EBMUDERS offers up to 3% COLA and COLA bank feature. COLAs for comparator agencies offer lower COLA. EBMUDERS 50% Survivor benefit is significantly richer than many agencies. CalPERS – if retiree passes, survivor benefits are \$2K max. The Board requested a chart to show differences in design.

14. Performance Report and Economic Review (Meketa Investment Group) – S. Skoda –

Eric Larsen, along with Colin Bebee of Meketa, presented the performance report, noting an increase of about \$100 million in the first quarter. They explained the equities were the primary drivers of performance, while real estate detracted Meketa in addressing underperformance with the Federated Investment Counseling manager, focusing on strategies to enhance future returns. The Board discussed the current economic environment and its potential impact on future performance, considering adjustments to the investment strategy if necessary.

REPORTS FROM THE RETIREMENT BOARD:

No reports

ITEMS TO BE CALENDARED:

None

MEETING ADJOURNMENT: Clifford Chan motioned to adjourned at 1:19pm. Seconded by Jae Park. **ROLL CALL VOTE:** all responded yes.