

MINUTES
EBMUD EMPLOYEES' RETIREMENT SYSTEM
March 20, 2025

A regular meeting of the Retirement Board will convene at 9:01 a.m. on Thursday, March 20, 2025. This meeting will be conducted with Retirement Board Members physically present in the Administration **Training Resource Center**, 375 Eleventh Street, Oakland, California. This location shall serve as the physical location for members of the public who wish to attend the meeting in person. Please note, however, that members of the public will also be provided the opportunity to participate via video and teleconference. Public participation will also be available by live audio stream <https://www.ebmud.com/about-us/board-directors/board-meetings/retirement-board-meetings/>; however, listeners will not be 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 Presenters may be attending via Zoom.

****Public Participation****

Please see Appendix at end of Agenda for Public Participation Details

ROLL CALL:

Present: Jae Park, Clifford Chan, Marguerite Young, Max Fefer, April Chan, and Elizabeth Grasseti

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.

Diane Eggering made a public comment about vested membership and not probationary. Unknown named employees or probationary employees should not run for Retirement Board elections. There were no online comments.

REGULAR BUSINESS MEETING

CONSENT CALENDAR:

Max Fefer inquired whether his comments were incorporated into the minutes, and staff confirmed they were included. A motion to approve the Consent Calendar was made by Director Margaret Young and seconded by Clifford Chan. The motion passed 5-0 by the following vote AYES (A. Chan, M. Young, C. Chan, M. Fefer, and J. Park), NOES (none), ABSTAIN (none), ABSENT (none)

ACTION:

1. Adopt Cost of Living Adjustment Effective July 1, 2025 – C. Charan

The Board reviewed the adoption of cost-of-living adjustments (COLA). The All Urban Consumers for the San Francisco-Oakland-Hayward Area (CPI-U) is used to determine the most recent COLA, which is capped at 3% unless certain funding thresholds are met. As a result, the maximum increase for the year is 2.8%, effective July 1, 2024. A 0.2% Cola Bank increase will apply to eligible retirees with Cola Bank balances, with adjustments made accordingly. Elizabeth Grasseti commented on the review of historical COLA data. The Board discussed reviewing historical COLA data, particularly over the past 10 years.

A motion to adopt the COLA was made by Director April Chan and seconded by Max Fefer. The motion passed unanimously with no opposition or abstentions. The motion passed 5-0 by the following vote AYES (A. Chan, M. Young, C. Chan, M. Fefer, and J. Park), NOES (none), ABSTAIN (none), ABSENT (none)

2. Adopt Actuarial Audit Report from Cheiron – S. Skoda

The Actuarial Audit was presented by Graham Schmidt and Anne Harper from Cheiron. Cheiron conducted a full replication audit of Segal's 2024 actuarial valuation report, including a high-level review of the prior years' experience study. The audit process was smooth, and Cheiron's results closely aligned with Segal's, well within the 5% industry standard. The audit concluded that overall liabilities and costs are reasonable, with methods and assumptions in accordance with actuarial standards. The pension plan has a present value of benefits of \$3.7B which is within 1% of Segal's estimate. The actuarial liability and future normal cost are within 1–3%. The unfunded accrued liability variance is \$11M which is (2%). The health insurance benefit (HIB) plan has a total liability of \$150M which is within 1%. Employer contribution rates differed by only a few basis points. Demographic and economic assumptions aligned with California public pension norms. There was a minor recommendation of adding retirement rate disclosures in future studies. A 6.75% return assumption remains reasonable. Other recommendations were to consider separating pension and HIB assets due to cash flow differences and to include employer contribution/funded status projections in future reports. Stress testing was conducted for investment/CPI risks. Scenario modeling addressed potential impacts on COLA if 85% funded threshold is exceeded.

Max Fefer inquired about CPI projections. The CPI projections are based on a normal distribution with a 1.5% standard deviation. April Chan asked about HIB variance. There is a 2% HIB difference deemed immaterial and require no further review.

A motion was made and approved to accept the actuarial audit report by Marguerite Young and was seconded by Clifford Chan. The motion passed 5-0 by the following vote AYES (A. Chan, M. Young, C. Chan, M. Fefer, and J. Park), NOES (none), ABSTAIN (none), ABSENT (none)

3. RFP Manager Presentations and Decisions – S. Skoda

Eric Larsen and Colin Bebee of Meketa presented the asset manager selection process for new Bank Loan and High Yield Bond mandates, following the recent asset-liability study. The Board was briefed in preparation for upcoming manager interviews.

Bank Loans increased from 2.5% to 5%. High Yield Bonds increased from 2.5% to 7.5%. Bank loans have a floating rate with a longer settlement. High yield bonds have a fixed rate with a quicker settlement. RFPs issued in November 2024, with responses due December 2024. For the Bank Loans, 29 firms submitted 30 strategies, narrowed to 10–11 for review, and chose 3 firms (Bank Loans) and 2 firms (High Yield Bonds) as finalists. They were evaluated based on firm and team stability, investment process and performance alignment, fee structure and economic sustainability, and ESG and DEI considerations. All finalists met core standards. The Board was advised to consider fit and comfort when interviewing.

Max Fefer asked about exclusion rationale for 18 firms. Firms were excluded due to concerns about firm stability, team changes, strategy misalignment, or other red flags. April Chan asked about references and prior relationships. The finalists were evaluated based on strong existing relationships and extensive due diligence by a 20-member evaluation team.

Manager interviews were conducted with follow-up discussions to occur in a debrief session.

Beach Point Capital Management – Investment Strategy Overview

Beach Point Capital Management presented its investment strategy focused on below-investment-grade credit, including performing loans, distressed debt, and special situations. The firm, which manages approximately \$20 billion in assets, serves exclusively institutional clients and emphasized its disciplined approach to credit analysis, legal expertise, and risk management. Their portfolio spans the full credit spectrum, with a strong focus on transparency, client engagement, and aligning investments with credit cycle trends. While primarily U.S.-based, the firm retains flexibility to invest internationally and is currently focused on sectors such as telecommunications, media, and consumer industries. The average loan duration within the portfolio is 4.4 years.

The firm highlighted its in-house legal capabilities, particularly in corporate and bankruptcy law, as a key component of its investment process. Thorough due diligence and a strong risk framework are central to avoiding permanent capital loss, and the firm steers clear of sectors with poor governance or unstable business models.

Beach Point has integrated ESG factors into its investment process, with governance serving as the primary lens for evaluating credit risk. However, the firm noted a growing emphasis on environmental and social considerations, especially in response to evolving regulatory landscapes. A recent hire from Goldman Sachs now leads their ESG efforts, and DEI is being recognized as an emerging area within ESG evaluation.

During the Board's Q&A, Clifford Chan asked about the consistency of the firm's flexible capital mandate, to which Beach Point responded that while exposures may shift with market conditions, discipline remains constant in their selection process. Marguerite Young inquired about ESG tipping points and DEI integration. The firm cited regulatory concerns in the processed food industry as an example of shifting ESG considerations and acknowledged DEI as an increasing focus. Max Fefer requested more details on the environmental and social components of ESG, and the firm confirmed these are becoming more prominent alongside traditional governance assessments. Sophia Skoda asked about sector exposure, international allocations, and loan characteristics; Beach Point discussed its current sector focus, dynamic allocation approach, and confirmed a weighted average loan duration of 4.4 years.

Beach Point concluded by reaffirming its commitment to a disciplined, risk-conscious investment philosophy, underpinned by legal expertise and evolving ESG integration in response to regulatory and market trends.

Aristotle Pacific Capital – Investment Strategy Overview

Michael Spindler, Managing Director and Partner at Aristotle Pacific Capital (formerly Pacific Asset Management), presented an overview of the firm and its investment strategies. The firm specializes in U.S. corporate debt, including bank loans, high-yield bonds, investment-grade credit, and structured products. Since its founding in 2007, the firm has grown from \$2.2 billion in assets under management to over \$31 billion. In April 2023, Pacific Asset Management became Aristotle Pacific Capital following its acquisition by Aristotle Capital. The transition retained all 52 employees and granted partners a 40% ownership stake. The firm's investment philosophy emphasizes investing in understandable businesses, risk mitigation, and detailed capital structure analysis. Their fee structure is 40 basis points for mandates under \$100 million and 37 basis points for mandates over \$100 million. The firm currently manages over 100 public pension plans, including those for LA Water & Power and Kern County.

Aristotle Pacific Capital's bank loan strategy is centered on larger issuers with strong fundamentals and access to capital, often companies resilient during economic downturns. An example highlighted was

Carnival Cruise Lines, which successfully raised \$3.5 billion during the pandemic. The firm is highly selective, investing in only about 7% of the bank loan universe, maintaining a portfolio of 100–125 positions out of a possible 1,500. Risk mitigation includes avoiding distressed debt and industries in long-term decline, such as coal or legacy print media. ESG considerations are embedded in the investment process, with a focus on identifying material risks and avoiding sectors facing significant secular headwinds. The firm ensures no single issuer exceeds 2–2.5% of the portfolio, maintaining broad diversification and limiting exposure.

Historically, the firm has outperformed during periods of market volatility, including in 2008, 2015, and 2020. The current return outlook is approximately 8%, supported by strong market fundamentals. A key component of the strategy is liquidity, with a focus on holding assets that can be traded within one to two days.

During the Board's Q&A, Clifford Chan inquired about the impact of the firm's transition to Aristotle Pacific Capital. Spindler explained that the change was largely administrative, with no disruption to staff or operations, and included enhanced long-term partnership incentives. Max Fefer asked about the "catch-all" category in the portfolio, to which the firm responded that it includes various sectors but excludes tobacco. Marguerite Young asked about diversification and issuer concentration limits. The firm noted that high-conviction positions are typically capped at 1.5–2%, with an overall issuer limit of 5%, though the portfolio rarely exceeds 2.5%. In a follow-up, she asked about ESG implementation, and the firm explained that investments are evaluated based on ESG materiality, corporate quality, and sector specific risks, citing chemical sector firms with strong policies and executive incentives tied to sustainability. When asked whether the firm invests in specific agencies such as the Cortana Water Agency, the response was that such investments are unlikely in the near term but could be considered depending on future financial developments.

Aristotle Pacific Capital reaffirmed its commitment to transparent, risk-conscious investing, with a focus on stable, high-quality businesses and the integration of ESG factors into investment decisions.

Federated Hermes – Investment Strategy Overview

Federated Hermes, managing approximately \$600 billion in assets, presented an overview of its investment philosophy, emphasizing absolute capital protection over percentage-based risk metrics. The firm's strategy is built on three core pillars: the strength of its experienced investment team, a rigorous bottom-up credit analysis process, and the construction of portfolios designed to withstand market volatility while minimizing downside risk. The team focuses on larger issuers with strong credit quality and consistent free cash flow, deliberately avoiding highly cyclical or commodity-based industries such as oil, airlines, homebuilders, and financial institutions. Rather than reaching for yield, Federated prioritizes companies with strong fundamentals and sustainable business models.

The firm recalled the lessons of the 2007–2008 financial crisis, during which credit spreads widened sharply, highlighting the importance of conservative risk management. With current credit spreads near historical lows, Federated has adopted a more defensive position. They noted that the bank loan market has become riskier post-2008, driven by the rise of private equity-backed issuers. In response, their portfolios are actively managed with continuous monitoring, detailed credit analysis, and direct company engagement.

Sustainability and ESG integration remain key to Federated Hermes' approach. The firm shared recent examples of corporate engagements, including working with a restaurant chain on climate-related agricultural risks and advising a specialty chemical company on eliminating harmful substances and improving water usage. Despite broader market skepticism around ESG, the firm maintains that ESG considerations are a core component of its investment strategy.

The current portfolio is concentrated in sectors such as technology, insurance (excluding underwriting risk), business services, and healthcare. Investments are chosen based on criteria like high revenue growth, recurring income, low capital requirements, and high enterprise value. The firm avoids distressed loans and focuses on companies with stable free cash flow to reduce capital loss risk.

Federated Hermes highlighted that structural changes in the bank loan market have increased risk, necessitating a conservative stance. Despite these challenges, the firm has historically delivered competitive returns while prioritizing capital preservation. A new, lower fee structure has been introduced, replacing the previous multi-sector approach.

During the Board's Q&A, Clifford Chan inquired about Federated's 2015 acquisition and whether it affected operations. The firm responded that the transition aligned teams well, with strong ongoing collaboration. A Board member also asked about a portfolio manager's recent departure, and the firm clarified that the change was strategic and had no impact on the investment philosophy or process.

Federated Hermes reaffirmed its commitment to disciplined risk management, fundamental analysis, and sustainable investing, maintaining a cautious approach amid the current tight credit spread environment.

The Retirement Board took a 15-minute break and reconvened at 11:20 a.m.

Discussion and Debrief: The Retirement Board decided to hire two of the three management groups interviewed, allocating \$65 million to each. Director April Chan expressed that Aristotle Pacific Capital stood out, particularly for emphasizing performance. Director Marguerite Young noted that while Aristotle is still developing its approach to ESG and DEI, she questioned why larger firms are not active in the bank loan space. Board members appreciated the discussion on physical risk, highlighting the importance of understanding potential downsides and contingency options. The Retirement Board chose Beach Point Capital Management and Aristotle Pacific Capital.

A motion was made and approved to choose Beach Point Capital Management and Aristotle Pacific Capital by Max Fefer and was seconded by Clifford Chan. The motion passed 5-0 by the following vote: AYES (A. Chan, M. Young, C. Chan, M. Fefer, and J. Park), NOES (none), ABSTAIN (none), ABSENT (none)

HIGH YIELD PRESENTATIONS

Nomura – High-Yield Investment Strategy Overview

Nomura presented its high-yield investment strategy, which focuses on small and mid-sized businesses rather than concentration in large entities, allowing for steady outperformance and meaningful portfolio diversification. Their investment philosophy, described as the "strong horse" approach, prioritizes companies with solid free cash flow, pricing power, and strong cost controls. The strategy blends bottom-up analysis (70%) with top-down macroeconomic insights (30%) to manage risk and enhance portfolio resilience.

Nomura's team-driven approach fosters collaboration and long-term continuity. The investment team includes 12 analysts with deep sector expertise, supported by experienced leadership from the CEO and CIO, who oversee risk and ensure portfolio consistency. A dedicated risk monitoring committee further reinforces this discipline, helping prevent excessive risk accumulation. ESG has been a formal part of the investment process since 2013, largely due to the firm's substantial European client base.

The strategy is designed to generate alpha especially during down markets, making it a strong complement to existing portfolio managers. Portfolios typically consist of the firm's 100 best ideas, with smaller additional positions included to cushion against volatility. Nomura maintains a conservative stance in energy, reducing exposure when oil prices fall, and avoids distressed assets and high-risk sectors. The focus is on industries with lower leverage and reliable cash flows.

Key sector insights included energy and infrastructure. Since 2016, Nomura has approached energy investments more cautiously, selecting companies with low leverage and strong environmental records. Methane emissions and broader environmental impacts are key considerations. In infrastructure and pipelines, high-yield financing is directed toward companies supporting the clean energy transition. ESG factors are thoroughly evaluated across all investments, with emphasis on sustainability and governance. During the Board discussion, Max Fefer asked whether the energy sector has become more stable over the past decade. Nomura confirmed that deficit spending has declined, and companies now follow more conservative financial practices. On commodity prices, the firm noted that while natural gas has strengthened, weakening oil prices have prompted them to reduce exposure. In response to a question about "Support Services," Nomura clarified this includes firms involved in equipment rental, maintenance, and operational support for industrial and infrastructure sectors.

Clifford Chan asked how Nomura's approach differs from other managers. The firm highlighted the advantage of combining top-down and bottom-up strategies to deliver consistent risk-adjusted returns. Marguerite Young asked about methane management in gas and distribution investments, to which the firm responded that they avoid companies with poor safety and flaring practices, reinforcing their ESG-aligned approach. Sophia Skoda inquired about return measurement in their high-yield bond strategy. Nomura replied that 85% of their holdings are in U.S. dollar-denominated bonds, and performance is assessed using "duration to worst" to understand risk-adjusted yield potential. Nomura's disciplined investment process, strong team structure, and emphasis on ESG integration, especially in the energy and infrastructure sectors—support a consistent, long-term performance record. The strategy's ability to generate alpha in difficult markets makes it a valuable complement to broader portfolios.

Brigade Capital – High Yield Strategy Presentation Summary

Brigade Capital, an independent and employee-owned investment firm founded in 2006, presented its high yield strategy to the Board. Led by Co-CIO Doug Pardon, the firm emphasized its disciplined investment process, research-driven approach, and strong alignment of interests, with 29 equity partners and senior investment professionals holding ownership stakes. Headquartered in New York with a London office, the firm employs 130 people, including two portfolio managers with 54 years of combined experience, and sector-specialized analysts covering only one to two industries to ensure deep expertise.

Brigade's high yield strategy focuses on a diversified portfolio of 100 to 200 issuers, investing in both high-yield bonds and leveraged loans with flexibility to shift between them depending on market conditions. The firm employs a bottom-up fundamental investment process centered on downside protection, prioritizing companies with at least 1.5x asset coverage and strong free cash flow, especially important during periods of limited refinancing availability. Key investment criteria include market leadership, business diversification, and strong management teams.

The firm integrates Environmental, Social, and Governance (ESG) considerations into its investment decisions through a proprietary ESG rating system, tailored to account for limitations in third-party ESG data. ESG weightings are industry-specific—environmental factors are more emphasized in some sectors, while governance takes precedence in others. Brigade maintains a formal ESG committee and is a member of the Principles for Responsible Investment (PRI).

A case study of Global Medical Response (GMR), a major U.S. provider of emergency transport services, illustrated the firm's approach. GMR demonstrated strong free cash flow, over 2x asset coverage, and essential service delivery. The firm recognized its efforts to reduce emissions and enhance ESG compliance through electric vehicles and community engagement. Although privately owned by KKR, GMR was viewed positively due to its independent directors and market-critical role. Despite industry headwinds, its high-yield bonds (13%) were deemed attractively priced.

Brigade adapts to shifting market environments through a flexible portfolio construction approach. When spreads tighten, the firm becomes more conservative; in periods of dislocation, such as post-COVID, it takes on more risk, believing higher yields create a cushion against potential losses. This strategy was likened to a basketball game—playing defensively when opportunities are scarce, and aggressively when risk is well-compensated.

The firm currently has an overweight position in healthcare and energy. Healthcare investments are concentrated on non-cyclical services like hospitals and ambulance companies, seen as resilient to economic downturns and supported by demographic trends. Energy exposure, at 20%, is focused on midstream companies with lower sensitivity to commodity price fluctuations, avoiding more cyclical producers and refiners.

Brigade's investment governance structure relies on informal but structured processes. Investment decisions are not subject to formal votes but are driven by robust internal debate among portfolio managers and sector analysts. If an investment meets key criteria, managers have the autonomy to act. During the Board Q&A, Max Fefer asked about the firm's sector allocations. The response emphasized a focus on non-cyclical sectors and midstream energy to manage economic and commodity risk. Clifford Chan inquired about the investment process and committee operations. Brigade explained its collaborative decision-making model, grounded in sector expertise and internal debate, ensuring disciplined execution without relying on formal voting.

Overall, Brigade Capital underscored its commitment to downside protection, consistent performance across market cycles, and thoughtful ESG integration, supported by a specialized team and research-intensive process.

Discussion and Debrief: The discussion compared two high-yield investment firms, noting that while their strategies differ, they are ultimately complementary. Both operate in high-risk debt markets like high yield and bank loans, which have evolved significantly since 2020, making their flexibility in decision-making especially valuable. One firm is more conservative, focusing on downside protection, while the other is more aggressive, offering higher potential returns with more risk. Performance between the two is strong overall, though one has slightly outperformed the other. Their low correlation in returns suggests a diversification benefit if both are included in a portfolio.

Differences in energy sector exposure were noted—7.2% for one firm and 10% for the other—with distinct approaches to energy transition and sustainability. Marguerite Young raised questions about these strategies, and Sarah Bernstein clarified that the larger firm's broader client base and strategic partnerships influence its approach. Both firms actively consider ESG factors but do not rely solely on third-party ESG scores like MSCI, opting instead for a more nuanced analysis based on sector context. Each firm's structure and client scope also influence its operations. While both have significant assets under management and institutional reach, their strategies are suited to different investment needs. Jae Park asked about Brigade's fees and ESG scoring, noting Brigade's slightly lower fees. Both Max Fefer and Director Marguerite Young expressed a preference for Brigade, suggesting momentum in its favor.

A motion was made and approved to choose Brigade Capital Management by Marguerite Young and was seconded by Max Fefer. The motion passed 5-0 by the following vote AYES (A. Chan, M. Young, C. Chan, M. Fefer, and J. Park), NOES (none), ABSTAIN (none), ABSENT (none)

INFORMATION:

4. Performance Report and Economic Review – S. Skoda

As of Q4, the portfolio ended with a market value of just over \$2.6 billion, down \$24 million from the previous quarter, reflecting a return of -1.1%, slightly underperforming the policy return of -0.7%. Performance was largely driven by strong U.S. equity markets, supported by pro-growth policy expectations, while non-U.S. markets lagged due to geopolitical and economic concerns. Active managers struggled with market concentration, impacting relative performance.

In early 2023, the portfolio saw a 2.7% gain in January, flat performance in February, and a slight decline of just over 2% in March (month-to-date). The market outlook remains mixed, but diversification has started to show value, particularly as non-U.S. developed and emerging markets have outperformed U.S. equities by 14% and 10%, respectively. While uncertainty persists, diversification remains a key strength in navigating market risks.

5. Discuss Proposed Changes to Election Board Rules – C. Charan

Valerie Weekly presented that the Retirement Board is considering changes to its election process, including a proposal to adopt four-year board member terms to improve continuity and reduce transition issues. Further discussion is planned for the upcoming meeting. Max Fefer also raised the possibility of exploring ranked-choice voting.

6. Update on HIB Outsourcing - C. Charan

Starting April 2025, HIB payments will no longer be included in pension checks. The April 30, 2025 check will exclude HIB, which will instead be direct deposited separately in May by Flexible Benefits Administrator. The transition has been communicated, and retirees with direct deposits should see no disruption. Three retiree meetings are open to all, with in-person, Zoom, and livestream options available. A letter was sent to retirees, and some have reached out with questions. Retirees on district health plans will continue to have claims sent to FBA automatically, while those outside the district must now submit claims directly to FBA using available digital or mail options. Claims can be tracked online. Continued outreach will guide retirees on submitting claims and remind them of the May audit and August deadline for 2025 submissions to avoid retroactive adjustments.

7. Retirement Board Education Update - C. Charan

Staff are sharing upcoming training and conference opportunities for board members to earn required hours.

8. February 2025 LRS Pension Gold Implementation Update - C. Charan

The HRIS analyst position is expected to be filled by May or June 2025. The RFP process for consultants to help with the HRIS core replacement system is complete, and vendor selection is underway, with a consultant to be onboarded in the coming months. Updates will be presented to the Board. The Pension Gold project is moving forward, with deliverable 3 approved and working on deliverable 4. In response to a Board question about communication and FAQs, Valerie noted that it will be available through Member Direct.

REPORTS FROM THE RETIREMENT BOARD:

There were no reports. Max Fefer suggested holding a candidate forum for the upcoming Retirement Board election to improve public engagement and communication, with the shift to four-year terms. There is interest in enhancing communication around health insurance claims and the election process.

ITEMS TO BE CALENDARED:

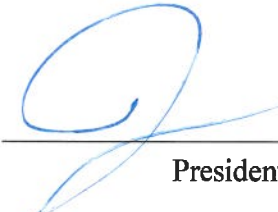
None

MEETING ADJOURNMENT: Meeting adjourned at 1:39 p.m.

The next regular meeting of the Retirement Board will be held on May 22, 2025.


Retirement Board Meetings

- May 22, 2025
- July 10, 2025
- September 18, 2025
- November 20, 2025



President

ATTEST:



Asst. Secretary

5/22/2025