

MINUTES OF THE RETIREMENT BOARD
September 19, 2019

A regular meeting of the Retirement Board convened on Thursday, September 19, 2019 at 8:35 a.m. in the Large Training Resource Center (TRC) Room. The meeting was called to order by President Doug Higashi.

Roll Call – The following Retirement Board Members were present: Alex Coate, Doug Higashi, Tim McGowan, Frank Mellon, Marguerite Young (late), and Lisa Ricketts.

The following staff members were present: Elizabeth Grasseti, Konana Gregory, Lisa Sorani, Laura Acosta, Lourdes Matthew, Sophia Skoda, Robert Hannay, and Damien Charléty.

PUBLIC COMMENT

There was none.

CLOSED SESSION

1. Closed session was held pursuant to Government Code Section 54956.9(d)(2):
 - a. One matter

CONSENT CALENDAR

1-4. Consent Calendar – A motion to move the consent calendar was made by Frank Mellon and seconded by Tim McGowan. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

ACTION

5. Consider Placing CS McKee on Watch Status – The Board reversed the agenda order and received item 6 update on performance from CS McKee prior to considering this action. Staff discussed the management changes at CS McKee outlined in the staff memo and in the July 18, 2019 Board memo provided by Meketa, the Retirement System's investment consultant. In order to formalize the ongoing monitoring of the ownership status at CS McKee, staff recommended that the investment manager be placed on watch status. Sarah Bernstein from Meketa stated that Meketa supported the recommendation. Alex Coate made the motion to place CS McKee on watch, and Doug Higashi seconded the motion. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

INFORMATION

6. **Update on Performance from C.S. McKee** – C.S. McKee's Mark Gensheimer, President, and Bryan Johanson, Senior Vice-President, provided an update on its management changes and performance. The CIO, Greg Melvin, was removed earlier this year. He was not involved in the day-to-day operations of the fixed income portfolio. At this time, C.S McKee is not planning on bringing in a new CIO. The firm is also looking at options to resolve ownership issues in the near term. Currently, Greg Melvin still owns approximately 40% of the firm's shares. C.S. McKee does have key man insurance on both these individuals. Performance has been strong according to the firm, with C.S. McKee's mandate for the Retirement System returning 3.17% for the quarter, and 8.12% for the year.

7. **2nd Quarter Performance Review as of June 30, 2019** – Sarah Bernstein from Meketa provided an update for the quarter ending June 30, 2019. The Retirement System's portfolio grew from \$1.78 billion to \$1.83 billion. Overall, the portfolio underperformed for the quarter, but outperformed for the 3-, 5-, 10-, and 20-year periods. Domestic equity was in line with the benchmark for the quarter. In International Equity, Fisher outperformed their benchmark and Franklin trailed their benchmark. Covered Calls underperformed for the quarter, but outperformed for the 1-, 3-, and 5-year periods. Fixed Income produced strong outperformance, as did Real Estate.

8. **Franklin Templeton Follow-Up** – Heather Waddell and Marnie Maciariello from Franklin Templeton reviewed performance and addressed Environmental, Social and Governance (ESG) issues that were raised at the July 18, 2019 Retirement Board meeting. They discussed Franklin Templeton's support of Principles of Responsible Investment (PRI) and are the Retirement System's recent actions on climate-related initiatives. They offered the Retirement System a fee amendment of minus five-basis points, to 50 basis points, in light of under-performance for the 1-, 3-, 5-, and 10-year time periods. They provided an explanation of Franklin Templeton's ESG philosophy, and their rationale for investments in specific companies including Veolia and Royal Dutch Shell. Staff and Meketa plan to continue reviewing Franklin Templeton's performance as part of the watch process and will include comparison to international value benchmarks in its analysis. Staff and Meketa will also prepare a more comprehensive review of a Global Equity mandate approach and compare it to the current International and US equities strategies in early spring.

9. **Working Capital Annual Update** – The Retirement System's benefit payments are currently larger than the contributions going into the Retirement System. For FY2020, projections show that employee contributions will be \$105 million and that benefit payments will be \$120 million. There is an anticipated shortfall of \$15 million for FY2020. Staff will work with Meketa to determine from which account(s) withdrawals will be made to cover the gap. The funds will be invested in the Retirement System's LAIF account until needed.

10. **Cost of Living Adjustment Update** – Staff provided an update to the Retirement Board regarding the issue raised by a retiree regarding the COLA rate adopted for 2019. Staff reported that the rate adopted for 2019 was, in fact, correct. However, in researching the issue, staff

discovered that an error was made in the COLA rate adopted in 2014, 2015 and 2016. Staff will send a letter to retirees regarding the COLA issue. Staff will ensure future Retirement Board memos and letters to retirees contain correct information regarding COLA. Moving forward, Segal will review and provide the CPI-U and verify that the calculation is correct.

11. Low Income Adjustment for Retired Members and Surviving Spouses – Staff updated the Board on the Low Income Adjustment process. Staff sent notices to 34 retirees and surviving spouses who appeared to be eligible for the adjustment. One response was received, but the respondent was not eligible for the benefit.

12. Review of EBMUD Retirees Married to Other EBMUD Retirees – In response to a request from the Board, staff reported on the number of District retirees who are married to District retirees. There were 78 retirees who are married to other EBMUD retirees. These retirees each receive the single Health Insurance Benefit Reimbursement of \$450 maximum. There are 13 retirees who are also surviving spouses, who receive a HIB as a retiree and surviving spouse for a total of \$900 maximum credit. There are 751 retirees who are married to non-Members and receive the married HIB maximum of \$550, and 198 surviving spouses who receive up to \$450 maximum HIB.

REPORTS FROM THE RETIREMENT BOARD

15. Brief report on any course, workshop, or conference attended since the last Retirement Board meeting

- Tim McGowan – Attended the International Foundation training on International Equities in San Francisco
- Frank Mellon – Will attend the International Foundation conference

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Special Meeting – October 17, 2019
- Provide HRIS, Payroll, ETS, and Retirement project update and discussion
- Report on Climate Action 100+ Initiatives
- Review of International Equities

Minutes
Retirement Board Meeting
September 19, 2019

ADJOURNMENT – Alex Coate moved to adjourn the meeting at 11:42 a.m. and Marguerite Young seconded the motion; the motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, Mellon, Young, and McGowan), NOES (none), ABSTAIN (none), ABSENT (none).

President

ATTEST: _____
Secretary

11/21/2019