

MINUTES OF THE RETIREMENT BOARD
November 21, 2019

A regular meeting of the Retirement Board convened on Thursday, November 21, 2019 at 8:33 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, 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.

CONSENT CALENDAR

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

ACTION

5. Determine the Method of Correction for COLA Error – The Board first considered the collection of the overpayment due to the COLA error. Alex Coate moved to authorize staff's recommended correction to request the IRS to consider the District's excess contributions to account for the amount of the overpayment made due to the application of the incorrect COLA rates. The motion was seconded by Marguerite Young. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

Secondly with respect to the corrections of the monthly pension allowances and the COLA banks due to the COLA error, the Retirement Board voted that the adjustment of the pension allowances be implemented to coincide with the application of the 2020 COLA benefit in July 2020. The vote was moved by Marguerite Young 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).

6. Consider Action with Respect to Fisher Investments – Eric White from Meketa reviewed the news regarding inappropriate comments made by the CEO of Fisher Investments at a private investing conference on October 8, 2019. It has been reported that Mr. Fisher has been barred from speaking at some financial conferences and several Institutional Investors have pulled their investments from Fisher Investments following the comments. Institutional investors represent a small percentage of all assets under management at Fisher Investments while a majority of the business is managing funds for private high-net worth individuals. A full review of the Retirement System's international asset allocation and potential options is scheduled in the spring of 2020. The Retirement Board voted to put Fisher Investments on Watch and to send a censure letter related to the inappropriate comments and review the position in Fisher Investments again along with the review of all International investments next year. The vote was moved by Doug Higashi and seconded by Frank Mellon. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

INFORMATION

7. ERS Audited Financial Report – Scott Klein reviewed the Retirement System Financial Report for the year ending June 30, 2019. He highlighted the following:

- Benefits paid to Members increased 7.73% to \$114.17 million for 2018.
- Total District and Member contributions received increased by 4.47% to \$102.15 million.
- The funded ratio has grown to 77.3% in 2018.
- The Health Insurance Benefit funded ratio was 21.9% in 2018.
- Active and Vested Membership have increased to 2,152, and retirees and beneficiaries have increased to 1,843 for a total population of 3,995.

8. 3rd Quarter Performance Review as of September 30, 2019 – Eric White from Meketa provided an update on preliminary results for the quarter ending September 30, 2019. Final results will be provided at the January 2020 Retirement Board meeting.

9. Franklin International Value Manager Review – Eric White from Meketa reviewed the performance of Franklin International Value Fund as compared to other international funds which similarly employ a value strategy as part of the review of the sector and fund manager, which is currently on Watch status. A full review of the Retirement System's international asset allocation and potential options is scheduled in the spring of 2020.

10. Northern Trust ESG Portfolio Review – Emily Lawrence and Tamara Doi Beck from Northern Trust Asset Management (NTAM) presented NTAM's review of the Retirement System's entire investment portfolio exposure to Environmental, Social and Governance (ESG) factors. The review covered each of the Retirement System's accounts, including passive strategies managed by NTAM and active strategies covered by other managers. The analysis included ESG scores and ratings, controversy exposures, and business involvement screening

research for the full portfolio and for each individual account. The Board members considered whether data from the report could be used to improve dialogue with the Retirement System's fund managers about the ESG concerns.

11. Proxy Voting Review (Northern Trust and Glass Lewis) – Sarah Bernstein from Meketa provided an overview of the Retirement System's proxy voting results covering the 2019 fiscal year. Glass Lewis provides proxy services for the District's actively managed equities, and Northern Trust Asset Management (NTAM) provides proxy voting services for passively managed equities.

John Wieck from Glass Lewis reviewed Glass Lewis's proxy voting results and the criteria they use to vote the Retirement System's proxies. During the 2019 fiscal year, they voted 8,278 proxies for the Retirement System; and of those they voted 71.6% with management, 21% against, and they took no action on 2.4%. They voted for shareholder proposals 3.4% of the time. The Retirement System asked Glass Lewis to use the public pension policy guidelines and Glass Lewis provided a comparison on how they would have voted if they had voted using ESG guidelines.

Tamara Doi Beck from NTAM reviewed the NTAM proxy voting criteria and engagement. She discussed examples of engagements regarding diversity and inclusion, greenhouse gas emissions, board and workforce diversity, and "over-boarding" of directors, which is when directors sit on multiple boards at the same time (more than three or four is a common threshold).

12. Climate Action 100+ – This item was not presented. The presentation team was unable to attend the meeting. Staff will bring this item back at a future meeting.

13. CEM Benchmarking Survey Results – Damien Charléty gave a review of the 2018 Investment Benchmarking Analysis from CEM Benchmarking Survey. The Retirement System's net return was -4.3%, which is below the U.S. median of -4.0%. The investment cost was 26.1 basis points, which was well below the benchmark of 42.8 basis points. The Retirement System's asset risk was 10.8% compared to the 9.5% U.S. median, which is related to Covered Calls being categorized as equities and the Retirement System not holding private investments.

14. District Health Plan Update – Lisa Sorani provided an update of the retiree benefit plan rates for 2020. Early retirees in Kaiser had a premium increase of 6.5%, Sutter Health had a 6.0% increase, and ACWA/JPIA Blue Cross early retiree plans had a slight 0.1% decrease. The rates for the three Medicare plans available to age 65+ retirees changed as follows, Kaiser Senior Advantage increased 2.7%, Anthem Cal Care HMO increased 9.4%, and ACWA/JPIA Blue Cross has a 0.3% decrease. Delta Dental's Retiree Delta Premier rates are flat for 2020.

REPORTS FROM THE RETIREMENT BOARD

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

- Frank Mellon – Attended the International Foundation conference

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Retirement Managers ESG Questionnaire.
- Provide HRIS, Payroll, ETS, and Retirement project update and discussion
- Report on Climate Action 100+ Initiatives
- Review of International Equities Allocation
- SEC Comment letter on proxy voting

ADJOURNMENT – Tim McGowan moved to adjourn the meeting at 12:15 p.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

1/16/2020