

MINUTES OF THE RETIREMENT BOARD

July 16, 2020

A regular meeting of the Retirement Board convened on Thursday, July 16, 2020 at 8:46 a.m. The meeting was called to order by President Doug Higashi.

Due to COVID-19 and in accordance with Alameda County's Health Order 20-10 (issued April 29, 2020), and with the Governor's Executive Order N-29-20 which suspends portions of the Brown Act, **this meeting will be conducted via teleconference only**. In compliance with said orders, a physical location has not been provided for this meeting. These measures will only apply during the period in which state or local public health officials have imposed or recommended social distancing.

Roll Call – The following Retirement Board Members were present: Clifford Chan, Frank Mellon, Marguerite Young, Doug Higashi, Tim McGowan, and Lisa Ricketts.

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

PUBLIC COMMENT

No public comment.

CONSENT CALENDAR

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

ACTION

5. Resolve Franklin Templeton Watch Status – Sophia Skoda introduced this item and reviewed the Watch Status. Franklin Templeton (Franklin) is one of two active international equity managers for the portfolio. Franklin has been on Watch Status since May 2019 due to underperformance relative to its benchmark. Staff and Meketa have reviewed the conditions that led to the watch status determination. Franklin has presented to the Retirement Board in the past year to answer questions and share information about their investment philosophy and their strategy for the Retirement System's mandate. Staff recommendation is to remove the 7.5% international allocation mandate from Franklin and transition to a passively-managed Northern Trust ACWI ex-US index fund. This would increase the assets in the Northern Trust ACWI ex-US index fund to 17.5% of the overall portfolio. Eric White from Meketa also provided an update on the Watch Status for Franklin and noted that the performance issues were not new. Franklin's investment style has a value bias while Fisher Investments, the other active international manager for the Retirement System, has a growth bias. This means that Franklin would theoretically perform better in value-driven markets. The last 5 to 10 years have been bad for managers with value bias. Franklin has been part of the Retirement System portfolio for over 25 years and had done well over the long-term, until the last few years. From a portfolio

standpoint there also seems to be a mismatch in their strategy versus the rest of the portfolio due to their significant overweight to value. The following options were discussed for the assets after Franklin's termination: move to a single international equity manager, move to passive management, or search for a new international equity manager with a small value bias. Meketa recommended waiting for the pandemic to end before searching for a new active manager, if that were the option chosen. The recommendation from Meketa was to terminate Franklin and move to passive at this time. Marguerite Young made the motion to terminate the Franklin Templeton mandate and to move the allocation into the passive Northern Trust international equity index fund and to not conduct a search until market fluctuations from the pandemic have quieted, Frank Mellon seconded the motion, and the motion carried (5-0) by the following voice vote: AYES (Chan, Mellon, Young, Higashi, McGowan), NOES (none), ABSTAIN (none), ABSENT (None).

6. Declare the Interest Rate on Member Contributions for the Period Ending December 31, 2019 (R.B. Resolution No. 6916) – Lisa Sorani presented this item. The resolution declares the interest that will be credited to member accounts effective June 30, 2020, covering the period ending December 31, 2019. The formula looks at the actuarially-assumed rate of return (7.0%) and the five-year average rate of return (8.0%) on that date. The ordinance requires taking the lesser of the two; therefore the resolution will declare the annual interest rate of 7.0%. The rate is credited to member accounts on a prorated basis to a semi-annual rate of 3.5%, effective June 30, 2020. Doug Higashi made the motion to approve, Marguerite Young seconded the motion, and the motion carried (5-0) by the following voice vote: AYES (Chan, Mellon, Young, Higashi, McGowan), NOES (none), ABSTAIN (none), ABSENT (None).

7. Adopt Resolution to Add Board Rule C-24 Annual Cost of Living Adjustment Procedure (R.B. Resolution No. 6917) - Lourdes Matthew presented this item regarding adopting a new rule: Rule C-24, Annual Cost of Living Adjustment Procedure. A draft was provided of this new rule at the May 2020 Retirement Board meeting. This rule serves to clarify the consumer price index that must be used to determine the Cost of Living Adjustment (COLA) and builds in at least two levels of review to ensure that the COLA is accurately determined and correct. The adoption of this rule is intended to minimize the risk of future errors and it is one of the corrective measures that the Internal Revenue Service accepted to maintain the Retirement System's tax-qualified status under the Voluntary Correction Program. Staff confirmed that creating the Board Rule is the last item to fulfill the request corrective measures. The correction to retiree monthly benefits was completed on July 14, 2020, as discussed in item #9.. Frank Mellon made the motion to adopt the resolution, Doug Higashi seconded the motion, and the motion carried (5-0) by the following voice vote: AYES (Chan, Mellon, Young, Higashi, McGowan), NOES (none), ABSTAIN (none), ABSENT (None).

INFORMATION

8. Performance Report and Economic Review – Eric White from Meketa reviewed the Q2 Preliminary 2020 Performance Report. The second quarter of 2020 was a complete reversal of the first quarter which ended with a sharp downturn. The market value of the portfolio increased by \$217 million during the quarter, up 13.2% for the quarter and outperforming its

benchmark. For the quarter, US Equity was up 21.9%; International Equity was up 16.3%; Real Estate was up 5.9% (slightly under the asset class benchmark); Covered Calls were up 13.5%; and Fixed Income was up 5.0%. Eric White mentioned that the next six months will be challenging economically due to uncertainty.

9. Update on Correction Plan for COLA Error – Lisa Sorani presented this update on the correction plan for COLA error as authorized by the Internal Revenue Service to maintain the Retirement System’s tax-qualified status under the Voluntary Correction Program. Steps included several communications to retirees as well as adoption of a new rule. On May 22, 2020, staff apprised all retirees that the IRS had accepted the Retirement System’s proposed correction. Staff followed up with another letter on June 15, 2020 that Segal had calculated each affected retiree’s retirement allowance to confirm what their adjustment should be for errors in their 2014, 2015 and 2016 allowances. The June letter outlined individual correction details to both the COLA bank balances and monthly benefits. Overall, the result was about a 0.68% reduction in their benefit. Effective July 1, 2020, after posting the COLA correction, staff processed the 2020 COLA adjustment which is a 3.0% COLA increase and a 0.3% increase in COLA bank balances. Testing the application of the corrections to the PeopleSoft system was completed by ISD and Retirement staff. The corrections were loaded into the system and the July 2020 COLA was loaded on July 14, 2020. A letter to retirees regarding the 2020 COLA adjustment will be sent by July 22, 2020.

10. Securities Lending Overview and Net Income – Robert Hannay presented this item. At the last meeting a question was raised about securities lending income. Robert Hannay provided a description of the program. This program provides a modest source of net income to the Retirement System. The Retirement System has shares of stocks and bonds in Separately Managed Accounts (SMAs), which are the System’s actively-managed accounts. Northern Trust lends these securities out to capital market participants. The borrowers give Northern Trust cash collateral equal to 102% or more of the value of the securities. Interest is earned on the cash collateral; some interest is returned to the borrower; and the remainder, after fees, is paid to Northern Trust and is kept by the Retirement System. This is the net income received from the program. Tim McGowan asked why the interest rebates fluctuated over time. Robert Hannay said he would relay this question to Northern Trust and get back to the Retirement Board with more information.

11. Parametric Covered Calls Training – Sophia Skoda introduced this item. Parametric is one of the Retirement System’s two covered calls managers. Covered calls represent 20% of portfolio and Parametric manages two separate mandates for the retirement System, each for 6.66% of the total portfolio: Enhanced BXM and DeltaShift via quantitative strategies. Dan Ryan, Jay Strohmaier, and Jim Roccas from Parametric provided the training. The following topics related to Parametric were covered: firm overview, options training, covered call investment process, and a portfolio review for each mandate.

12. Parametric Update – This item was covered jointly with item 11.

13. Report on Low Income Adjustments for Retired Members and Surviving Spouses – Lisa Sorani presented this item. Each year, staff from Employee Services reviews retirees for certain low income markers and send letters to those who could potentially be qualified for a low income adjustment. Letters were mailed to 29 potentially eligible members. One response was received and the respondent was determined to be ineligible for the benefit.

14. HRIS Replacement Project – Stakeholder Communication – Lisa Sorani provided an update on the HRIS Replacement Project. Information was brought to the Retirement Board earlier this year on this project and the Board requested to be kept updated on the project. A stakeholder communication was mailed out on July 7, 2020 and a copy of the communication was provided to the Board.

15. Responses to Public Questions about HIB and HRIS Project from March 19, 2020 – Lisa Sorani provided an update. These were questions that are usually answered during the Retirement Board meeting but came in during the first semi-remote meeting. They were sent to the generic email address for incoming retiree inquiries and answered via email. A copy of the answers was provided to the Retirement Board. Director Mellon requested to see the RFP when it is completed.

REPORTS FROM THE RETIREMENT BOARD

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

None; Lisa Sorani will send information regarding CALAPRS to Board members as they are doing their meetings remotely.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Status of Retirement System
- Fisher to address the Board

ADJOURNMENT – Frank Mellon moved to adjourn the meeting at 11:29 a.m. and Tim McGowan seconded the motion; the motion carried (4-0) by the following voice vote: AYES (Chan, Higashi, Mellon, and McGowan), NOES (none), ABSTAIN (none), ABSENT (Young).

President

ATTEST: _____
Secretary

7/16/2020