

MINUTES OF THE RETIREMENT BOARD
May 18, 2017

A regular meeting of the Retirement Board convened on Thursday, May 18, 2017 at 8:39 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, Frank Mellon, Lisa Ricketts and Marguerite Young. Tim McGowan was absent.

The following staff members were present: Dari Barzel, Damien Charléty, Elizabeth Grassetti, Lourdes Matthew, Sophia Skoda, and Lisa Sorani.

PUBLIC COMMENT

Retiree Dick Ward asked why the Retirement Board Meetings were not on the EBMUD.com website calendar, and if there would be another “Destinations” brochure published this year. Staff let the Board know that there had been training on posting items to the EBMUD.com calendar and that future meetings would be listed. Staff also confirmed that another “Destinations” brochure was coming later this year.

CONSENT CALENDAR

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

ACTION

5. **Approval to Join SACRS as a Non-Profit Affiliate** – In response to a request from Board Members to attend SACRS Modern Investment Theory & Practice at UC Berkeley, staff researched the Organization and found that the retirement system can join the Organization as a non-profit affiliate member which will afford discounted rates and provide additional training opportunities for the Board and staff. Board Members suggested that the System join for one year. Alex Coate moved the motion and Frank Mellon seconded. The motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (McGowan).

INFORMATION

6. **1st Quarter Performance Review as of March 31, 2017** – Neil Rue from PCA reviewed the 1st Quarter performance results. The fund is now at approximately \$1.5 billion dollars. The fund has shown strong results and was in the top decile of pension funds over \$1 billion dollars for the last five years. The plan was compensated for the risk it took. Much of the returns were due to equity exposure and the covered calls strategy which has done very well.

7. **Asset-Liability Review Schedule** – Sophia Skoda presented the Asset-Liability Study Schedule, reviewing the items to be discussed at the next three meetings in preparation for live modeling at the November 2017 meeting. The Asset-Liability Study is scheduled to be adopted at the November 2017 Retirement Board meeting.

8. **Capital Market Assumptions** – Neil Rue from PCA reviewed the capital markets assumptions, applying PCA's latest assumptions to EBMUD's current strategic investment allocation. PCA increased their volatility expectations across all classes and reduced the 10-year expected returns in the US equity class. Fixed-income yields remain low. Based on these assumptions, PCA expects EBMUD's investments to produce an annual return of 6.19%, and with alpha, perhaps as much as 6.50%, on average for the next ten years.

9. **Strategic vs. Traditional Asset Allocation** – Neil Rue from PCA provided background on this topic, explaining that institutional investors used to focus on relative return criteria. After the market down-turn in 2008, investors began to look at the risk in the portfolio's policy and began looking at diversifying risk rather than just asset class. Neil showed EBMUD's portfolio's allocation to risk, showing the lack of diversification and emphasis on growth. As part of the Asset Liability study, a Strategic Class Framework will be used with the goal of reducing the risk while still providing needed returns with a risk efficient portfolio

10. **Proxy Service Provider Update** - Sarah Bernstein from PCA reviewed the proposals received for the RFP for Proxy service provider. Five firms received the RFP and three chose to respond to it. There are two finalists, Glass Lewis & Co. and ISS. Staff will provide a recommendation at the July 20, 2017 meeting.

11. **Presentation from Center Square** – Eric Rothman and Katie Bergman from Center Square provided an update on EBMUD's REIT holding. Center Square's inception was in 2011 when it received \$25 million; current valuation is at approximately \$50 million. Mr. Rothman reviewed the types of holdings that Center Square has and also market trends. He highlighted the move away from malls and retail, and toward medical office buildings, senior housing, and data centers. He also discussed ESG considerations they consider when reviewing REIT's.

12. **Northern Trust Fee Changes** - Sophia Skoda reviewed the changes to several of the Northern Trust fees, resulting in an annual savings of approximately \$89,000 a year to the ERS. An RFP for custody services will be held next year.

REPORTS FROM THE RETIREMENT BOARD:

16. **Brief report on any course, workshop, or conference attended since the last Retirement Board meeting** – Marguerite Young and Frank Mellon both attended a CERES program. Frank Mellon was impressed that sustainability was good for the bottom line and was impressed by the diversity of the attendees.

Marguerite attended a pre-meeting of INCR where she participated in a breakout session on water.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Actuarial Audit scheduling
- Report on proxy voting

ADJOURNMENT – Doug Higashi moved to adjourn the meeting at 11:10 a.m. and Marguerite Young seconded the motion; the motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, Mellon, and Young), NOES (none), ABSTAIN (none), ABSENT (McGowan).

President

ATTEST: _____
Secretary

7/20/2017