

**MINUTES OF THE RETIREMENT BOARD**  
**January 17, 2019**

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A regular meeting of the Retirement Board convened on Thursday, January 17, 2019 at 8:34 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, Lisa Ricketts, and Marguerite Young.

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

**PUBLIC COMMENT**

There was none.

**CLOSED SESSION**

1. Personnel matters pursuant to Government Code Section 54957:
  - a. Application for Disability Retirement of Mark Hermann (R.B. Resolution No. 6887)

The Retirement Board discussed the matter and voted.

**REGULAR BUSINESS MEETING:**

The Regular business meeting commenced at 9:06 a.m. The following Retirement Board Members were present: Alex Coate, Doug Higashi, Tim McGowan, Frank Mellon, Lisa Ricketts and Marguerite Young.

**ANNOUNCEMENT FROM CLOSED SESSION:**

1. Doug Higashi announced that one disability retirement was approved in closed session.
  - a. Application for Disability Retirement for Mark Hermann effective February 1, 2019, was moved by Alex Coate and seconded by Doug Higashi. The Retirement Board Resolution 6887 carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (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. **Adopt Annual Actuarial Valuation of the Retirement System as of June 30, 2018** – Andy Yeung and Dirk Adamsen of Segal Company presented the actuarial report for the pension and Health Insurance Benefit (HIB). They discussed how the economic assumption changes approved at the September 20, 2018 Retirement Board meeting affected the results. They also reviewed significant changes over the past year that affected the contribution rate and funding level, including annual payroll which increased 9.8% for the year, while plan assets increased 8.7% to \$1.753 billion for the year ending June 30, 2018. The larger increase for payroll was related to the conclusion of labor negotiations in Fiscal Year (FY) 2018. It follows a 0.5% increase in payroll for FY 2017 while negotiations were still underway. The funded ratio for the Retirement benefit increased to 76.6%, and in combination with the Health Insurance Benefit (HIB ) was 73.2% with a \$627.65 million dollar unfunded actuarial accrued liability (UAAL). The actuarially determined contribution rates were down 1.43% for the year and the actuarially determined HIB contributions were down 0.26%. Because the assumed rate of return is likely to be lowered in the future, and because of lower expected investment returns going forward, staff recommended that the contribution rates remain unchanged from FY 2019 to FY 2020 as shown in the chart below:

Employer	Recommended Rates		Actuarially Determined		Adopted	
	FY20		FY20		FY19	
	1955/1980 Plan	2013 Plan	1955/1980 Plan	2013 Plan	1955/1980 Plan	2013 Plan
Pension	37.86%	31.24%	36.72%	29.79%	37.86%	31.24%
HIB	5.32%	4.92%	5.03%	4.73%	5.32%	4.92%
<b>Total</b>	<b>43.18%</b>	<b>36.16%</b>	<b>41.75%</b>	<b>34.52%</b>	<b>43.18%</b>	<b>36.16%</b>

Alex Coate moved to adopt the valuation and the recommended contribution rates 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).

6. **Approve Extension Recommendation for Actuary** – Staff recommended extending the contract for actuarial services from the current actuary, The Segal Company, for three-years with two 1-year options. Staff has been very satisfied with the service they receive from Segal and the proposed fees were in line when compared to peers. The fee increase was an average of 2.1% annually, with a FY19 fee of \$88,000 for the annual valuations and \$31,650 for the GASB reports. Frank Mellon made the motion to extend the contract, and Tom McGowan 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).
7. **Approve Extension Recommendation for Investment Consultant** – Eric White from Pension Consulting Alliance (PCA) announced that PCA will be merging with Meketa, which provides similar services. The merger will resolve succession planning issues at PCA and allows for broader employee ownership. Meketa has a similar philosophy to PCA and

will be able to provide enhanced services. The Board was concerned about being approached regarding outsourced CIO services as Meketa offers this service in the future. Frank Mellon moved that the new contract term be changed to two-years with three 1-year extensions from a 3-year contract with two 1-year extensions because of the merger. Eric White confirmed that this was acceptable and that the pricing would remain the same as stated in the proposed agreement with 1.4% average annual increase over the five-year period. Tim McGowan seconded the motion and the motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

8. **Reschedule May 16, 2019 Retirement Board Meeting** – Due to a scheduling conflict on May 16, 2019, the Board asked that the meeting be rescheduled to May 30, 2019. Tim McGowan made the motion to reschedule the meeting, and Frank Mellon seconded the motion, and the motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).
9. **Declare Interest Rate Credited to Members for Period Ending December 31, 2018** – In accordance with Retirement Ordinance Section 4(d) and Retirement Board Rule B-9, the annual rate of interest credited to member accounts is the lesser of the assumed rate of return (7.25%) or the 5-year average rate of return on Retirement System Investments (9.8%). Therefore staff recommended crediting an interest rate of 7.25% to accumulated member contributions. The contributions will be pro-rated to a semi-annual rate. Alex Coate moved the recommendation, and Doug Higashi seconded the motion, and the motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).
10. **Approve New Fixed Income Manager Search** – PCA and staff has recommended an RFI for a second Core Fixed Income manager so that all assets in the Fixed Income allocation are actively managed while no active manager holds more than a 10% allocation. PCA and Staff will conduct initial screening of managers, and recommend two-to-three finalists to be interviewed by the Retirement Board depending on the responses received. Tim McGowan expressed interest in being involved in the evaluation of finalists. Alex Coate moved conducting the RFI for the Core Fixed Income manager search, and Tim McGowan seconded the motion, and the motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

## **INFORMATION**

11. **Update on Fixed Income and Real Estate** – Damien Charl  y gave an update on the onboarding of the new Bank Loans and Short-Term High Yield Fixed Income managers, reviewed the Glide Path that will move the Short Duration Fixed Income allocation to Core Fixed Income, and the ongoing reallocation within Real Estate. The changes to Fixed Income mean that Plan assets under management at WAMCO will fall below \$100 million, ending reduced fees. Additionally, the remaining balance in the Short Duration Fixed Income allocation will decline to a level where WAMCO advised that will become difficult for them to effectively manage. For the Real Estate class, the manager’s allocations are being

rebalanced from CenterSquare to RREEF II so they each will have 2.5% of the portfolio. \$1.925 million has been called by RREEF II, but the remaining balance is pending and expected to be invested in the next two-to-three quarters.

**12. 3rd Quarter Performance Review as of September 30, 2018** – Eric White of PCA reviewed 3<sup>rd</sup> quarter results briefly and previewed the 4<sup>th</sup> quarter results. For the 4<sup>th</sup> quarter the plan was down 8.6% or \$155 Million. The plan did outperform during the period, with domestic equities down 14%, international equities down 13%, and covered calls down 9%. Fixed income was up 7% and real estate down 3.4%. Overall, the Plan returned 6.7% for the 3 year, 5.0% for the 5-year, 10.3% for the 10 year, and 6.6% over the 20-year period.

**13. Analysis of Joining Large Multiple-Employer Plan** – Sophia Skoda reviewed the pros and cons of moving to a larger pension plan such as CalPERS. Issues include loss of representation, no guarantee of better investment returns, and the fact that retirement administration would continue for the current plan for many years. The Board felt that current and former employees are well served by the Retirement System.

**14. Annual Retirement Board Training Report** – Staff provided the Board with summary of training hours and costs for the past 24 months.

#### **REPORTS FROM THE RETIREMENT BOARD**

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

- Marguerite Young and Frank Mellon are considering attending the CERES Conference in San Francisco April 29 to May 5, 2019.
- Frank Mellon plans on attending the International Foundation Conference in San Diego.

#### **ITEMS TO BE CALENDERED / UPCOMING ITEMS**

- Proposal to revise the Statement of Investment Policy and Procedures

**ADJOURNMENT** – Frank Mellon moved to adjourn the meeting at 11:45 a.m. 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).

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President

ATTEST: \_\_\_\_\_  
Secretary

3/21/2019