

MINUTES OF THE RETIREMENT BOARD
September 20, 2018

A regular meeting of the Retirement Board convened on Thursday, September 20, 2018 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, and Lisa Ricketts. Marguerite Young was absent.

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

PUBLIC COMMENT

There was none.

CLOSED SESSION

1. Significant exposure to litigation pursuant to Government Code Section 54956.9(d)(2): one matter.

The Retirement Board discussed one matter.

REGULAR BUSINESS MEETING:

The Regular business meeting commenced at 9:32 a.m. The following Retirement Board Members were present: Alex Coate, Doug Higashi, Tim McGowan, Frank Mellon, and Lisa Ricketts. Marguerite Young was absent.

CONSENT CALENDAR

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

ACTION

5. Determination of Eligibility for Surviving Spouse Benefits for Blanca Basch – Blanca Basch appeared before the Retirement Board seeking reconsideration of the denial of her claim for surviving spouse benefits. Mrs. Basch appeared with her daughter, Shirley. Mrs. Basch informed the Retirement Board that she is represented by counsel, Chris McAllister, who could not attend on her behalf. Mrs. Basch provide the members of the Retirement Board and Staff documents ahead of the Board meeting that were included in the Board package, and at the meeting with a copy of her written statement. To support her request, Mrs. Basch stated that she

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did not know that Mr. Robert Basch had a pension from EBMUD because he did not communicate with her. She said she learned of the existence of the pension benefit in March of 2017 when certain papers came into her possession and she discovered a check stub from May 31, 2002 from Mr. Basch's pension from EBMUD. She stated that the statute of limitations should start at the time she learned of the pension benefit due to the facts and circumstances, and that she is now asserting her rights to the surviving spouse benefit.

Mrs. Basch stated that she didn't know that Mr. Basch was receiving an EBMUD pension; that Mr. Basch lied to EBMUD about his marital status; that EBMUD didn't require a spousal consent form at the time of Mr. Basch's retirement; that EBMUD didn't contact her when she would have been eligible for surviving spouse benefits; and that she only became aware of rights for surviving spouse benefits in March of 2017, and therefore the statute of limitations should be subject to delayed discovery laws.

Mrs. Basch said that she knew of Mr. Basch's death in 2010, and of the probate proceedings, but that she and her two sons were disinherited in the will. At the time of the probate proceedings, Mrs. Basch had recently suffered the loss of one of her sons and was battling breast cancer. She tried to hire an attorney, but could not afford the fees that she was quoted to contest the probate case. Mrs. Basch reiterated that she was married to Mr. Basch for 47 years and that they never divorced. She said that if she had known there was a surviving spouse benefit, she would have claimed it right away. Mr. Basch apparently told her that he only had Social Security. Mrs. Basch stated that Mr. Basch was bi-polar and very difficult to talk with.

The members of the Retirement Board asked her questions regarding their marital status at the time Mr. Basch retired and at least one year prior to his death. Questions included whether she was on the District's medical plans as Mr. Basch's dependent; whether Mr. and Mrs. Basch filed joint income tax returns; whether Mrs. Basch indicated she was married in her former employment; and whether Mrs. Basch applied for Social Security benefits for surviving spouse.

Mrs. Basch informed the Retirement Board that she worked for Contra Costa County for 30 years as a Clerk in the County Recorder's Office. Mrs. Basch stated that she had her own medical plan through her employer and knew nothing of Mr. Basch's medical plan. She also informed the Retirement Board that she filed her income tax returns separately from Mr. Basch, but indicated on her income tax forms that she was married. Mrs. Basch also stated that she is receiving her Social Security benefit rather than Mr. Basch's because Social Security told her she earned more than he did, and that her own benefit would be higher and more beneficial to her. Mrs. Basch reiterated that Mr. Basch told everyone that he was divorced. Retirement Board member, Tim McGowan, asked if she stated she was married on her Contra Costa County retirement application. She said she thinks she did. She said that Mr. Basch had his own apartment because he was difficult to live with, but came by the house to do his laundry, etc.

Retirement Board member, Tim McGowan, asked Mrs. Basch to provide further documentation to demonstrate she was married to Mr. Basch at the time of his retirement and at least one year prior to his death. Mr. McGowan requested that Mrs. Basch provide documents related to her employment with Contra Costa County to demonstrate that she represented to her employer that

she was married to Mr. Basch, and any other documentation she can provide that would substantiate the claim that they were married at the time of his retirement and death.

The Retirement Board decided to table the determination to the next Board meeting pending receipt of the information requested by the Retirement Board and to be provided by Mrs. Basch. Tim McGowan made the motion to table until the November 15, 2018 Board meeting. Doug Higashi seconded the motion. The motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon), NOES (none), ABSTAIN (none), ABSENT (Young).

6. Declaring the Results of the Election of the Retired Member of the Retirement Board – Retiree Representative, Lisa Ricketts, was re-elected to a two-year term beginning September 24, 2018. She received 641 votes out of the 662 votes that were cast. Alex Coate moved to ratify the election, and Frank Mellon seconded the motion. The motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon), NOES (none), ABSTAIN (none), ABSENT (Young).

7. Adopt Economic Assumptions and Response to Actuarial Audit – Andy Yeung and Dirk Adamsen from Segal reviewed the results of an interim study of economic assumptions. They made the following recommendations:

- 1) Reduce the inflation assumption from 3% to 2.75%
- 2) Reduce the cost-of-living adjustments assumption from 3.0% to 2.75%
- 3) Reduce investment return assumption from 7.25% to 7.00%
- 4) Reduce inflationary salary increase assumption from 3.00% to 2.75% and maintain “across-the-board” salary increase assumption of 0.50%
- 5) Introduce an assumption to reflect the cost of election of one of the Retirement System’s optional forms of benefits

Andy Yeung reviewed each of the recommendations in turn. He said that while lowering the inflation rate to 6.75% is an alternative, going to 7.0% is in line with the step-by-step approach the Board has been taking. Andy Yeung reviewed the moving average of inflation over the past 80 years, which has been trending down, in making his recommendation. He then reviewed the investment return assumptions and how they were determined, the administrative costs of the investments, and reviewed the confidence level in return assumption. The Board requested a review in two years. Frank Mellon made the motion to adopt the recommendations, Tim McGowan seconded the motion, and the motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon), NOES (none), ABSTAIN (none), ABSENT (Young).

8. Selection of Investment Managers – Sarah Bernstein from PCA reviewed the process used to search for candidates and narrow the candidates for both its Bank Loans and Short-Term High Yield investment mandates. An RFI was sent to seven firms for each mandate; five responses for each were received. The responses were scored and the two finalists for each mandate were invited to interviews by the Retirement Board.

a) **Bank Loan Manager**: The two finalists for Bank Loans were Federated and BlackRock. Federated staff gave a background on the company and described the multi-sector approach they

use. The Portfolio Manager, Steve Wagner, described how they combine Trade Finance with Bank Loans for attractive risk adjusted returns with lower volatility, and low correlation between the two types of loans.

BlackRock staff discussed their Bank Loan product, highlighting their emphasis on downside protection and their strong track record in Bank Loans. Their representatives also highlighted the benefits of BlackRock's size when it comes to sourcing and negotiating deals, risk management, and proprietary technology.

Federated received the highest score on its RFI response, scoring 86 out of 100 possible points. The Board appreciated Federated's trade loan strategy, and that Federated would customize the strategy for EBMUD's mandate. BlackRock offered a more standard approach to Bank Loans. Frank Mellon moved to retain Federated, and Tim McGowan seconded the motion. The motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon), NOES (none), ABSTAIN (none), ABSENT (Young).

b) **High-Yield Fixed Income Manager:** The finalists for High-Yield Fixed Income manager were MacKay Shields and Neuberger Berman. MacKay Shields representatives discussed the organization. They only purchase US High-Yield investments and they do not do indexing or add bonds to their portfolio. They do bottom-up research on companies and quality is their primary consideration. They focus on downside risk and tend to outperform in down markets.

Neuberger Berman was the second firm interviewed. They are an employee-owned company. Their philosophy is to aim for stabilizing, avoiding defaults and providing downside protection and upside participation. They have extensive research capabilities, and have issuer diversification. They have a comprehensive best practice checklist.

MacKay Shields received a score of 89 out of 100, while Neuberger Berman received a score of 84 out of 100 on the RFI. The Board was impressed by both presentations. Tim McGowan made the motion to select MacKay Shields, and Doug Higashi seconded the motion. The motion carried (3-0) by the following voice vote: AYES (Coate, Higashi, McGowan), NOES (none), ABSTAIN (none), ABSENT (Mellon, Young).

INFORMATION

9. **2nd Quarter Performance Review as of June 30, 2018** – Sarah Bernstein from PCA reviewed the 2nd quarter results for the fund. The fund outperformed over all time periods against its benchmark and against its peers. WAMCO and Parametric had a status of caution. Parametric is expected to have good returns in down markets, so their returns have lagged during this up-market. WAMCO Short-Term High Yield will be replaced so performance is not of concern.

10. **Working Capital Annual Update** – Sophia Skoda gave an update on the transfer of retirement system funds to working capital to provide for retirement system benefit payments due to the growth in beneficiaries.

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11. Transition Update on Private Placements – Sophia Skoda gave an update on the private placement securities that were unable to be sold as part of the transition to the new allocations in June 2018. Staff is still exploring options related to these securities.

REPORTS FROM THE RETIREMENT BOARD

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

There were no reports.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Continuation of the Basch Surviving Spouse item
- Proposal to revise the Investment Policy

ADJOURNMENT – Tim McGowan moved to adjourn the meeting at 3:12 p.m. and Alex Coate seconded the motion; the motion carried (3-0) by the following voice vote: AYES (Coate, Higashi, McGowan), NOES (none), ABSTAIN (none), ABSENT (Mellon, Young).

President

ATTEST: _____
Secretary

11/15/2018