

MINUTES OF THE RETIREMENT BOARD
July 20, 2017

A regular meeting of the Retirement Board convened on Thursday, July 20, 2017 at 8:36 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: Dari Barzel, Damien Charléty, Elizabeth Grassetti, Lourdes Matthew, Sophia Skoda, and Lisa Sorani.

PUBLIC COMMENT

There was none.

ANNOUNCEMENT OF CLOSED SESSION AGENDA:

1. Application for Disability Retirement of Philip Reed (R.B. Resolution No. 6861) – The Retirement Board in closed session approved the disability retirement of Philip Reed. Frank Mellon moved the resolution and Alex Coate seconded. The motion 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 Marguerite Young 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).

ACTION

5. **Declaring the Results of the Election of the Employee Member of the Retirement Board (Resolution No. 6864)** – Doug Higashi was reelected to the Retirement Board for a two-year term beginning June 24, 2017. Alex Coate made the motion to ratify the results and Marguerite Young 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. **Select Proxy Service Provider** – Sophia Skoda reviewed the process that was followed that led the Board to the proxy RFP process, and then discussed the three responses that were received and reviewed by Staff and PCA. Staff and PCA selected two finalists, Glass-Lewis and ISS. Sarah Bernstein from PCA then provided a comparison of the two finalists. She stated that

PCA preferred Glass Lewis which provided deeper research, had a platform which was easier to use and is owned by Canadian pension funds. Ms. Bernstein then recommended that the Public Fund Specialty Policy be selected as the proxy voting guideline but that the Retirement Board can re-evaluate this election in the future. She also said that Glass Lewis will allow some adjustments to the policy should the Retirement Board want to fine tune the policy. Marguerite Young moved the recommendation and Alex Coate 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. Declaring the interest rate on Member contributions for the period ending June 30, 2017

Elizabeth Grassetti requested authorization to credit an interest rate of 3.625% to Member contributions effective June 30, 2017. The interest rate is determined to be the lesser of the assumed rate of return of 7.25% or the 5-year average rate of the return as of December 31, 2016 which was 10.6%. Doug Higashi moved the motion and Frank Mellon 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).

INFORMATION

8. ERS Cash-Flow Projection – Damien Charléty and Eric White presented information on the tipping point where the retirement system’s pension payments to retirees are now exceeding the cash flow coming in from contributions. Over the past decade contributions had exceeded payments and \$18 million was deposited into retirement system assets. An inflection point occurred in fiscal year 2017, where for the first time staff needed to transfer funds from retirement system assets to LAIF to cover benefit payments. This cash flow imbalance will correct itself over the long term, but over the next ten years the imbalance is projected to grow up to about 2% of the fund’s current assets. The retirement system will remain sound as assets are projected to grow even if the amounts needed are withdrawn.

9. Application of Strategic Asset Classes – Eric White from PCA discussed the strategic income class in light of the change in the plan’s cash flow pattern. He explained that there will be a need for income from plan assets to supplement contributions in order to make monthly benefit payments. He then reviewed investment classes that could generate income including fixed income and REITs. Important considerations with an income class are that, while it is a more predictable source of return, returns will likely fall short of the assumed rate of return of the portfolio and the class will show little appreciation after withdrawals. The Plan does have some of these investments in its current portfolio, but will likely need to increase the allocation to this income class.

10. Asset-Liability Study Assumptions – Eric White from PCA reviewed the Asset-Liability assumptions that were provided in the materials. These assumptions will be used in the Asset-Liability Study.

11. **Covered Calls 3-Year Review** – Eric White from PCA reviewed the covered calls strategy, providing a brief overview, and then reviewing the strategy’s performance. EBMUD’s Covered Calls have returned 8.5% for the 3-year period, and 12.2% for the 1-year period, outperforming the benchmark since inception.

12. **Van Hulzen Presentation** – John Pearce and Stefan ten Brink from Van Hulzen Asset Management discussed their investment process and objectives. The goal of Van Hulzen is to provide a 6% to 8% yield while providing down-side protection and income generation. Their portfolio is composed of blue chip stocks to limit volatility and manage risks while providing less downside capture. They have had strong returns over the long term, in line with expectations. They also stated that Van Hulzen is committed to ESG.

REPORTS FROM THE RETIREMENT BOARD:

16. **Brief report on any course, workshop, or conference attended since the last Retirement Board meeting** – Tim McGowan attended the Pension Bridge conference. His takeaways included questions regarding implicit costs of the fund and how EBMUDERS’ costs compare to other pension funds.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

ADJOURNMENT – Frank Mellon moved to adjourn the meeting at 12:22 p.m. and Doug Higashi seconded the motion; the motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, Mellon, and McGowan), NOES (none), ABSTAIN (none), ABSENT (Young).

President

ATTEST: _____
Secretary

9/21/2017