

MINUTES OF THE RETIREMENT BOARD
March 16, 2017

A regular meeting of the Retirement Board convened on Thursday, March 16, 2017 at 8:42 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 arrived at 9:00 a.m.

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

PUBLIC COMMENT

Retiree Dick Ward asked for clarification on whether retirees are Members of the Retirement system, and if retirees are Members then they should be allowed to vote for candidates running for employee Member of the retirement board. Staff provided clarification on how the Retirement Ordinance defines Members and retirees.

CONSENT CALENDAR

1 - 4. **Consent Calendar** – A motion to move the consent calendar with two corrections was made by Tim McGowan 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. **Adopt the Updated Investment Policy to include Mission, Investment Beliefs, and an additional Investment Objective** – Sophia Skoda presented an update regarding the Retirement Board discussions and work on the Environmental, Social, and Governance (ESG) considerations and on updates to the System's Investment Policy and Procedures to include a mission statement, investment beliefs, and an additional investment objective. She asked that the Board update the investment policy to include:

Mission

To serve as the fiduciary and responsible steward of the East Bay Municipal Utility District Employees' Retirement System: to deliver promised benefits to members of the retirement system, their survivors and beneficiaries.

Investment Beliefs

The System:

1. Is a long-term investor

2. Articulates clear goals
3. Has well-diversified assets
4. Considers costs
5. Ensures accountability
6. Aims to be a leader, consistent with EBMUD's commitment to excellence and leadership

The Portfolio:

7. Is structured based upon strategic asset allocation
8. Is designed to be fully invested and maintain adequate working capital
9. Relies on passive management where active management is unlikely to reward

Recognize that Risk:

10. Exists in all investment decisions
11. Should be carefully evaluated
12. Must be commensurate with return
13. Cannot be captured solely through quantitative analysis
14. Can be systemic and emerge over time

Investment Objective #3

Environmental, social and governance (“ESG”) factors should be considered in portfolio management. Consistent with the System’s Mission and Investment Beliefs, the System recognizes that ESG factors can have a material impact on corporate performance over the long term, although the impact can vary by industry. The consideration of ESG factors may affect security selection, proxy voting, engagement, and other areas. The System will consider ESG factors in its proxy voting and other relevant portfolio management activities. ESG factors will be taken into account in selection and ongoing monitoring of the System’s investment managers and mandates, and of other service providers as appropriate. The System will leave individual security selection decisions to its investment managers under the assumption that they will make the decisions that are in the best interest of the System incorporating both ESG and non-ESG factors.

Marguerite Young moved adoption of the mission, investment beliefs and investment objective #3 and Frank Mellon seconded the motion. The motion carried (4-1) by the following voice vote: AYES (Coate, Higashi, Mellon, Young), NOES (McGowan), ABSTAIN (none), ABSENT (None).

6. **Approve ESG Implementation Plan** – Sophia Skoda requested that board approve the ESG implementation plan which will provide guidance in implementing the revisions to the investment policy. Marguerite Young moved the resolution and Frank Mellon seconded it. The motion carried (4-1) by the following voice vote: AYES (Coate, Higashi, Mellon, Young), NOES (McGowan), ABSTAIN (none), ABSENT (None).

7. **Authorization to Join INCR** – Sophia Skoda recommended that System join the Investor Network on Climate Risk (INCR) as a cost effective tool for engagement on ESG issues. Membership would allow the ERS to keep abreast of developments and participate in working groups. Tim McGowan moved the resolution and Alex Coate seconded it. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (None), ABSTAIN (None), ABSENT (None).

8. **Approve RFP for Proxy Voting Services** – Sophia Skoda presented this item, reviewing the ERS’ past practice of staff voting with management on proxies. While this practice had been common, updating it would ensure that the votes are more closely aligned with the System’s interest. At the January 19, 2017 meeting as an interim measure, the Retirement Board voted to have investment managers vote proxies in line with their individual guidelines while staff and PCA prepared a RFP for a proxy service provider. The Board was asked to approve the RFP to be sent out on March 17, 2017. The Board suggested that the timeline for responses be extended to allow one month for responses and that the period of the contract be two years with three one-year extensions. Frank Mellon moved the item 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).

9. **Determine the Annual Retiree Cost Of Living Adjustment (COLA) to be Effective July 1, 2017** – Staff requested the approval of a retiree COLA of 3.0% effective July 1, 2017. The COLA is based on the CPI-U All-Urban for the San Francisco Bay Area as of December 31st of each fiscal year, and capped at a maximum of 3% unless the Projected Benefit Obligation funding ratio is above 85%. The Projected Benefit Obligation funded ratio is 68.8% as of June 30, 2016. Tim McGowan moved the recommendation, 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).

INFORMATION

10. **Talking Points on Retirement Board Actions on ESG** – Sophia Skoda presented talking points on ESG. The talking points were prepared for Board Members and staff to be able to answer inquiries on the ESG update to the System’s Investment Policy and procedures. A few edits were suggested by the Board which will be incorporated into an updated version.

11. **4th Quarter Performance Review as of December 31, 2016** - Eric White from PCA reviewed the ERS Fund performance as of December 31, 2016 noting that the fund returned 2.1% for the quarter and 8.5% for the year. Domestic equities returned 4.4% for the quarter and 11.5% for the year. International equities were up 0.2% for the quarter and 2.7% for the year. Covered calls were up 2.5% for the quarter and 9.4% for the 1-year. Fixed income produced 4.3% for the year and (-1.0%) for the quarter. Real Estate returned (-1.2) for the quarter and 9.4% for the year. Overall the fund is doing well and is in the 4th percentile for the quarter, 22nd percentile for the 1 year, 1st percentile for the 5 year, and 7th percentile for the ten-year period.

12. **Presentation from WAMCO: Discussion of Bank Loan and Short-Term High-Yield Portfolios** - Frances Coombes and T.J. Settel from WAMCO reviewed the ERS Bank Loan and Short-Term High Yield investments. The Bank Loan Fund produced 0.8% year to date and 13.2% for the 1- year; but since inception (3/10/2014) the fund has returned 2.6% vs. 4.0% for the index. They explained that the returns were due to being overweight in certain sectors (Energy) that didn’t have strong returns and underweight in others that did well (Technology/Metals and Mining).

The Short-term High-Yield portfolio returned 1.3% year to date, 14.6% for the year, and 0.8% since inception on 3/10/2014. Returns were affected by investments in healthcare where political trends created uncertainty, and retail, where shifts to online and away from traditional retail and

brand loyalty have affected investments. WAMCO feels that they are well positioned moving forward.

13. **Training Module: Crisis/Risk Offset** – Eric White from PCA presented a training on Crisis Risk Offset CRO), which is a strategic asset class meant to diversify a portfolio to produce modest returns in most markets, and to produce significant positive results during bear markets. CRO uses three strategies: Treasury rate duration, trend following and liquid alternative risk premia. He reviewed how each strategy works and the risks and benefits of each, and provided a model of how the class would have responded historically.

14. **Election for Expired Term of Employee Member of Retirement Board** – Staff provided an election schedule for the retirement board seat currently held by Doug Higashi, whose term expires on June 23, 2017.

15. **Annual Report on Retiree COLA and HIB** – Staff provided an annual update of the report which shows retiree COLA's and changes to the Retiree HIB and the funded ratio for the past 20 years.

REPORTS FROM THE RETIREMENT BOARD:

16. **Brief report on any course, workshop, or conference attended since the last Retirement Board meeting** – Tim McGowan and Doug Higashi both attended the CALAPRS General Assembly March 5 – 7, 2017 in Monterey. They discussed some highlights of the conference.

Tim McGowan asked about attending the SACRS UC Berkeley Asset allocation for Public Pensions Conference in July.

Frank Mellon notes that he plans to attend the CERES Conference in San Francisco in May.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Actuarial Audit scheduling
- Report on proxy voting
- Center Square Presentation

ADJOURNMENT – Tim McGowan moved to adjourn the meeting at 12:35p.m. and Frank Mellon seconded the motion; the motion carried (4-0) by the following voice vote: AYES (Coate, Higashi, McGowan, and Mellon), NOES (none), ABSTAIN (none), ABSENT (Young).

President

ATTEST: _____
Secretary

5/18/2017