

MINUTES OF THE RETIREMENT BOARD
March 21, 2019

A regular meeting of the Retirement Board convened on Thursday, March 21, 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: Damien Charléty, Elizabeth Grasseti, Konana Gregory, Robert Hannay, Lourdes Matthew, Sophia Skoda, and Lisa Sorani.

PUBLIC COMMENT

John Hayden, Paving Supervisor, asked the Board what the target funding level was for the system. The Board responded that the goal was 100% funding, but reaching the goal depended on the market. Mr. Hayden then commented that the COLA cap would increase from 3% to 5% when the funding reached 85%.

Eric Larsen, Local 444 Representative, asked what the market rate of return was. Board members replied that it was the assumed rate of return of 7%, and that it will take approximately 18 years to be fully funded.

REGULAR BUSINESS MEETING:

CONSENT CALENDAR

1-4. Consent Calendar – A motion to move the consent calendar was made by Marguerite Young and seconded by Doug Higashi. The motion carried (5-0) by the following voice vote: AYES (Coate, Higashi, McGowan, Mellon, Young), NOES (none), ABSTAIN (none), ABSENT (none).

ACTION

5. Approve Revisions to the Statement of Investment Policy and Procedures – As a result of the recent Asset/Liability study, Staff and Eric White from Meketa (formerly PCA) reviewed the Statement of Investment Policy and Procedures and identified updates that are needed in relation to the new asset allocations. They also identified areas that require further discussion and that will need to be updated in the future. Staff also proposed a new process for updating the Statement of Investment Policy and Procedure by resolution whenever there are changes in the future.

The Board then reviewed the proposed changes to the Statement of Investment Policy and Procedures and suggested edits as follows:

- Page 27, Section V.C.i., clarifying the amount of cash being held by managers to Cash

may exist as an intermediary component from additional funding or option premiums. The balance should not normally exceed 5% of the manager's total portfolio (i.e., reject the proposed edit and approve no edit from the prior version).

- Page 31, Section VI.D., clarifying that managers of passively-managed broadly diversified mandates may exceed the 25% threshold (i.e., add the words "broadly diversified" to the proposed edit).

Doug Higashi moved to adopt the Statement of Investment Policy and Procedures with the edits, 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).

- 6. Determine the Annual Retiree Cost of Living Adjustment (COLA) to be effective July 1, 2019** – In accordance with the Retirement Ordinance, Staff recommended a 3.0% retiree Cost of Living Adjustment effective July 1, 2019 and an addition of 0.9% to retiree COLA banks. Frank Mellon made the motion to adopt the COLA Bank Recommendation, 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).
- 7. Adopt Updated Glide Path Implementation** – Damien Charléty gave an update of the glide path implementation. Currently \$37 million remains with WAMCO, while a search for a new active core fixed income manager is underway. The glide path will end and these assets will be moved to the new Active Core Fixed-Income Manager following selection and onboarding. Alex Coate made the motion to adopt the recommendation 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

- 8. Update on Fixed Income and Real Estate** – Staff provided an update on both the fixed income and real estate asset mandates. There are new managers for Bank Loans and Short-Term High Yield allocations, and both have been funded at \$43 million each. A capital call of \$1.925 million was received from RREEF II, the Retirement System's private real estate manager, to be funded by April 2, 2019.
- 9. 4th Quarter Performance Review as of December 31, 2018** – Eric White from Meketa reviewed the fund performance. For the 4th quarter, the plan was down 8.5% or \$154 Million and down 4% for the year. The plan did outperform its benchmark overall during both periods. For the quarter, domestic equities (down 14.2%), covered calls (down 9.1%), and fixed income (up 0.7%) outperformed. International equities (down 12.9%) and real estate (down 3.4%) underperformed for the quarter. The market has rebounded since the date of the report; 2019 year-to-date is up nearly 14%. The fund has exceeded its benchmarks for all time periods and ranks first amongst its peer group over a 10-year period with a return of

10.3%, compared to a policy benchmark of 9.5%. Overall, the Plan returned 6.7% over the 3-year, 5.9% over the 5-year, 10.3% over the 10-year, and 6.6% over the 20-year periods.

10. Annual Health Insurance Survey – Staff briefly reviewed the Annual Health Insurance Benefit Survey. The average increase was 18.16% for the seven agencies experiencing increases. Two agencies had reductions in their maximum premiums with the largest being 46% because the agency began contracting for their employee and retiree health care with CalPERS. The largest increase was 71%.

11. Annual Report on COLA and HIB – Staff briefly discussed the COLA. Lisa Ricketts asked that staff provide the number of retirees married to retirees in the next report, and how much is saved by providing two single HIB reimbursements to District retirees married to District retirees instead of two married rate HIB reimbursements. In addition, Eric Larsen from Local 444 asked that staff communicate the HIB benefit for two employees married to each other more broadly.

12. Global Equity Asset Class – Eric White of Meketa provided training on the Global Equity Asset Class. Global equity is comprised of 53% US and 47% International, and portfolios often display a ‘Home-Bias.’ The Retirement System’s equity allocation does not have a home bias because they are evenly split between domestic and international at 25% each. Moving to a Global Equities approach might make sense and can enhance growth and diversification.

REPORTS FROM THE RETIREMENT BOARD

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

- Tim McGowan and Doug Higashi attended the CALAPRS General Assembly. Tim McGowan noted that the emphasis was on communicating the value of public service and how to communicate to the new generations through videos. He also discussed CEM benchmarking.
- Doug Higashi enjoyed discussions on sovereign wealth funds and funds from all over the world, and also how Plans build attachment to end users through offering calculations, planning tools, and videos on how funds work through online resources. He also attended sessions on implementing systems and noted that they are complicated systems, and can be expensive and time consuming to implement but can reduce processing times.
- Marguerite Young and Tim McGowan were interviewed by Fisher Investments for a training video.
- Alex Coate attended the CALAPRS Trustee Round Table in Oakland where they discussed cyber security and PEPRAs lawsuits.
- Frank Mellon is attending a CERES conference.
- Doug Higashi is attending an ESG seminar in San Francisco.

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ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Provide HRIS, Payroll ETS and Retirement Project update and discussion.
- Data on the number of retirees married to other retirees.

ADJOURNMENT – Frank Mellon moved to adjourn the meeting at 11:26 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).

President

ATTEST: _____
Secretary

5/30/2019