

MINUTES OF THE RETIREMENT BOARD

November 17, 2016

A regular meeting of the Retirement Board convened on Thursday, November 17, 2016 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, Lisa Ricketts and Marguerite Young

The following staff members were present: Dari Barzel, Laura Brunson, Elizabeth Grasseti, Lourdes Matthew, Sophia Skoda, and Lisa Sorani.

PUBLIC COMMENT

Eric Larsen from AFSCME Local 444 continues to support the consideration of climate change in investment decisions.

CONSENT CALENDAR

1 - 4. **Consent Calendar** – A motion was made by Frank Mellon and seconded by Alex Coate to approve the Consent Calendar. 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 Quadrennial Experience Study: Review of Economic and Non-Economic Assumptions upon which to base Actuarial Valuations** – Andy Yeung and Dirk Adamsen from Segal Consulting presented the Quadrennial Experience Study results. Mr. Yeung focused on economic assumptions and how they would be used to develop the contribution rates for Fiscal Year 2017-2018. The majority of ERS' current economic assumptions were still valid, but he recommended that the assumed rate of return be lowered from 7.50% to 7.25%.

He also recommended changes to the mortality tables for health pensioners and all beneficiaries from the RP-2000 Combined Healthy Mortality Tables projected with scale AA to 2016, setback 1 year for males and two years for females to the headcount-weighted RP-2014 Annuitant Mortality Table projected 20 years with two-dimensional improvement scale MP-2015, set forward two years for males and set forward one year for females. For disability pensioners, the change would be from the RP-2000 Combined Health Mortality Tables projected with scale AA to 2016 set forward 6 years for males and females to the headcount-weighted RP-2014 Annuitant Mortality Table projected 20 years with two-dimensional improvement scale MP-2015 set forward 9 years for males and females. These new table anticipates slightly shorter life expectancies.

Frank Mellon inquired why the study assumed spouses were of the opposite sex. Mr. Yeung indicated that there were not many retirees who were married to same-sex spouses and that gender was taken into consideration for life expectancy. It was requested that gender neutral

language be used in the report and that the revisions of non-gender neutral language be provided to the Board. Marguerite Young moved to adopt the study subject to inclusion of the revised language 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 Method of Proxy Voting: Overview and Options** – Dari Barzel presented three proxy voting options to the Retirement Board. The options were:

- Continue the current policy of voting with management
- Let the investment managers vote in accordance with their own proxy guidelines
- Hire a proxy voting firm to vote based on a specified template

The options were reviewed with an eye to cost, staff time required, and quality of reporting. The Board settled on, in the short-term, having the managers vote their proxies while an RFP is conducted for a proxy voting service. Marguerite Young moved the action 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

7. **3rd Quarter Preliminary Performance Review as of September 30, 2016** - Sarah Bernstein from PCA presented the performance review. The portfolio was at \$1.46 Billion and was up \$51 million for the quarter (3.6%) and \$142 million for the year (10.7%). She said that the majority of the managers are above the benchmark. She focused on the managers who were on watch, discussing Intech's mixed performance, and WAMCO's short-term High-Yield funds and Bank Loans which are both lagging their benchmarks significantly. She also discussed Opus, the small cap value manager, which is on watch.

8. **ERS' Audited Financial Report** – Scott Klein reviewed the results of the audited financial report for the year ending June 30, 2016. Highlighted results include:

- The system's net assets were \$1.48 million, an increase of \$10.92 million during the year.
- The Plan paid \$91.15 million in retirement allowances during the year, an annual increase of 7.26%.
- District and Member contributions were \$89.18 million, an increase of 3.26%.
- Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2016 was \$518.80 million and the funded ratio was 71.90%.
- Membership increased to a total of 2,051 actives and 1,630 service and disability retirees.

9. **ESG: Methods for Responding to Climate Change** – Sarah Bernstein from PCA discussed five methods to incorporate climate change risk management into the Plan's portfolio. They are:

- a) Proxy voting and implementation
- b) Incorporate ESG considerations into asset allocation
- c) Manager search RFP questions
- d) Monitoring managers
- e) Engagement

EBMUD is considering action in all five methods. The Board discussed joining CERES/ INCR and may consider joining working groups where the District has an interest or can lend expertise.

10. Training Module: Presentation by Sustainability Accounting Standards Board (SASB)

– Janine Guillot, Director of Capital Markets Policy and Outreach provided a very informative training on the need for effective sustainability data and how SASB is developing a framework for reporting. To date, they have 79 provisional standards which they hope to finalize next year. She noted that sustainability is becoming a more mainstream approach as it is becoming a driver of returns and being included in investment decisions. The challenge is getting quality data on which to base decisions.

11. District Health Plan Update – Lisa Sorani reviewed Retiree health plan changes for 2017. Kaiser premiums will be going down due to positive experience. ACWA JPIA Blue Cross has a 12% increase and Health Net premiums increased by 8.9% due to high claims and a small participant pool. Retiree dental plans have no premiums changes in 2017, but the Delta Premier plan will go from a PPO model to a self-funded model.

12. Disability Retiree Earnings Verification – Retirement Staff reviewed outside earnings for 29 disability retirees under the age of 65 and verified that none had earnings above the “earnings safeguard” as defined by the Retirement Ordinance.

13. Response to Richard Ward – Retirement Staff provided a copy of the letter sent to retiree Richard Ward in response to his letter to the Retirement Board.

14. Retirement Board Schedule for 2017 – Staff provided a schedule of 2017 Retirement Board meetings.

REPORTS FROM THE RETIREMENT BOARD

15. Brief report on any course, workshop, or conference attended since the last Retirement Board meeting – Doug Higashi attended an ESG seminar presented by RBC Global Asset Manager. He pointed out that ESG approaches can get improved performance and add value.

Marguerite Young attended a UCPRI event which was trustee focused. The materials from the events were provided in the Retirement Board Packets. EBMUD was the smallest public fund attending.

Frank Mellon attended the International Foundation conference. He discussed how Canadian companies include ESG considerations in their decisions. He also said that the economic outlook is concerning due to changing demographics in countries like Japan where the population is declining. He was also very concerned about the Pension Benefit Guarantee Corporation (PBGC) which is running a deficit and may run out of funds if the Central States Teamsters Trust fund goes out of business.

ITEMS TO BE CALENDERED / UPCOMING ITEMS

- Actuarial Audit scheduling
- Risk Offset Investment Class & Goal Based Investing
- Non-Core Fixed Income Review
- Update to Investment Policy to accommodate changes to proxy voting
- INCR representative to present at a future meeting

ADJOURNMENT – Doug Higashi moved to adjourn the meeting at 1:25 p.m. 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).

President

ATTEST: _____
Secretary

1/19/2017