ROLL CALL

Chair Jeffrey Lewis called the meeting to order at 9:05 AM

Members Present: Sue Lee, Davis Riemer, Joyce Willis, Vice Chair Yvonne Williams, and Chair Jeffrey Lewis
Absent at Roll Call: None
Members Absent: None

Also Present: Hugo Wildmann, Retirement System Manager; Adelle Foley, Retirement System Administrator; Russell Richeda, Legal Counsel; (the following individuals were at part of the meeting); H.E. Christian Peeples, District Board President and Liaison; Kathleen Kelly, Interim General Manager, James Pachen, Interim Chief Financial Officer, Donald, Eckert, Director of Management and Budget, AC Transit; Bob McCrory, Tim Doyle Cheiron; Carolyn Smith NEPC; and Robert Griffin, Williams, Adley.

PUBLIC COMMENTS

None

CONSENT CALENDAR

MOTION: WILLIAMS/RIEMER to adopt the Consent Calendar (5-0-0-0)

Ayes: Members Lee, Riemer, Willis, Vice Chair Williams, and Chair Lewis -- 5
Noes: None
Abstain: None
Absent: None

APPROVED

A. Approval of Minutes for May 15, 2015

APPROVED

B. Approval of Financials for April 2015

APPROVED
C. Approval of Invoices in the Amount of $49,032.43

APPROVED

D. Approval of Retirements for July 2015

1. Rajinder Dhaliwal  #40358
2. Carol (Mori) West  #70702

APPROVED

The Board congratulated retiree Sheila Windham for 35 years of service; and retirees Burnell Ayers, Dolores Pouncy, and Inez Strane-Mosley for 30 years of service.

REGULAR CALENDAR

E. Approval of Retirements for May–July 2015

With conditions, if any:

1. Broderick Crawford  #31234  (July 2015) Mr. Crawford will receive service credit through June 2015 if he is compensated in June. if not, he will receive service credit through his last day compensated which was in 2003.

2. Henry Arrington  #844  (July 2015)–Term Vested—Completion of Benefit option by the end of June 2015.

3. Velda Chick  #62171  (July 2015)–Term Vested Benefit will depend upon research on Plan provision on Break in Service.


MOTION: LEE/WILLIAMS to pay Mr. Murchison benefits effective June 2015 and to research the issue of retroactive benefits. (5-0-0-0)

5. Teresa de la Puente  Pre-Retirement Death Benefit (May 2015) Payment pending determination of method of payment outside a bank in the US.

The Board discussed possible methods of delivering pension benefits to recipients who leave abroad and do not have a bank in the US, and who is responsible for the extra cost of registered mail or a wire transfer to ensure that the payment reaches the recipient.

MOTION: RIERMER/WILLIAMS to require the payee to bear the additional cost to deliver a pension benefit to a recipient living outside the United States, who requests special handling. (4-1-0-0) Chair Lewis voted “no” because he believes that the Plan should bear the cost of ensuring safe delivery of a benefit payment.
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**MOTION:** WILLIAMS/RIEMER to approve the retirements listed above effective in May-July 2015 with the conditions as stated. (5-0-0-0)

The Board asked staff to report back on their finding regarding the question of Break in Service (V. Chick) and retroactive benefits for Term Vested retirees (Murchison).

Member Riemer recommended that the redraft of the Plan address any ambiguities uncovered in processing the July 2015 Term Vested retirements and that this information be included in the Summary Plan Document.

The Board congratulated retiree Rajinder Dhaliwal for 30 years of service.

(Several Agenda Items were taken out of order to accommodate outside presenters and allow non-Board members to join in the discussion of selected items.)

(Bob McCrory and Tim Doyle, Cheiron; Kathleen Kelly, Interim General Manager, James Pachen, Interim Chief Financial Officer and Donald Eckert, Director of Management and Budget, AC Transit, joined the discussion of Agenda Item F.)

**F. 2015 Actuarial Valuation and Experience Study**

Hugo introduced this Agenda item by reminding the Board that the actuarial valuation process is typically completed in several parts. The actuaries present preliminary figures, the Board and the District ask questions and the actuaries return with answers, and updated figures. This year the process includes the periodic experience study and incorporates changes in the mortality tables.

Tim referred to Cheiron’s preliminary actuarial valuation results and mortality analysis. The first table showed little overall change during the year. He noted that the inactive funded ratio rises as the population matures.

Tim told the Board that the Society of Actuaries had developed new mortality tables, because they found that mortality was improving more than expected. In addition, these tables will be adjusted annually to reflect further improvements. Bob said the changes in mortality will be monitored every year.

Bob turned to the Preliminary Mortality Analysis, including tables of current and proposed mortality assumptions. When the changes in the mortality tables were incorporated in the valuation analysis the contribution increased by $6.2 million to $46.1 million, and the total cost rose by 4.65% to 34.8% of liability payroll.

In response to a question regarding other potential changes in assumptions, Bob told the Board that they could reduce the assumed return below the current 7.25% to bring it more in line with NEPC’s 5-7 year projections but he did not believe this was a necessity.
Member Riemer expressed concern regarding the fact that the contribution would be almost 35% of payroll, and the possible impact on the District. He asked how this percentage compares with other pension plans. Kathleen Kelly noted that the impact of the new mortality tables was not unanticipated as Hugo and the District had been communicating on this issue. Jim Pachen had included an increase of $5 million in the District's pension contribution in the District's preliminary budget. Bob agreed to take a look at other pension plans. He added that the Board could consider changes to the funding policy, including layered amortization and direct rate smoothing. This could eliminate the Actuarial Value of Assets process. He told the Board that he would bring possible changes in assumptions to the July meeting, along with the full analysis and the completed Experience Study.

Hugo saw no compelling reason to make the amortization or smoothing changes at this time, in light of the major mortality table change this year. Member Riemer saw an advantage to making further changes in assumptions, and asked Bob to bring the issue back to the Board after completion of the 2015 Actuarial Valuation process. The Board also asked Bob to look into the prevalence of written funding policies among pension plans.

(Bob McCrory and Tim Doyle, Cheiron, and Robert Griffin, Williams, Adley joined the discussion of Agenda Item H.)

H. GASB 67/68 Analysis

Tim referred to Cheiron's GASB 67/68 Report. The new GASB Statements replaced GASB 25 and 27. Hugo remarked that incorporating GASB 67/68 into the December 31, 2013 and 2014 Financial Statements required considerable work. GASB 67 requires more uniform Plan financials, while GASB 68 affects the sponsor's financials and will result in more volatile expenses. Tim explained the Total Pension Liability tables projected at discount rates of 6.25%, 7.25% and 8.25%. He also noted the Required Supplementary Information, which will eventually include 10 years of data, the schedules that will appear in the Plan financials, and the schedule provided to the District. These include revisions to the labels, e.g., "outflows" and "inflows" replace "losses" and "gains." This approach divorces accounting and funding.

Director Peeples expressed his concern regarding the response of the media, politicians and the public to the increased volatility of expenses under GASB 68. He stressed the need to develop a strategy to respond to the press. Bob agreed that these numbers could attract the attention of the press.

(Robert Griffin, Williams Adley, joined the discussion of Agenda Item G.)

G. Draft 2015 Financials
Hugo told the Board that the Financials were almost complete. They will be sent to the District Auditors, and must be submitted to the State Controller by June 30, 2015. The data will be submitted by the deadline, and the actual report will come back to the Board at the July meeting. Robert Griffin referred to the Draft Statements, which implemented GASB 67. He does not expect any real changes in the final report.

Chair Lewis called a recess at 11:07 AM

The meeting reconvened at 11:15 AM

(Denise Standridge, AC Transit General Counsel, ATU Counsel Shawn Groff and former ATU Officer James Gardner joined the discussion of Agenda Item S.)

S. Pension Benefit Calculation for Former Union Officer James Gardner

T. Pension Benefit Calculations for Various Former Union Officers

Hugo remarked that this issue has been on the Board Agenda for a long time, with little progress achieved from 2010 to 2014. He referred to his memorandum entitled “Gardner and Similarly-Situated Former ATU Officers.” The material in the Board Package included a summary, an outline of the outstanding issues, details on individuals, and memoranda from Counsel Richeda and ATU Local 192 Counsel Shawn Groff written earlier this year. The issues include treatment of past ATU officers compared to current and future officers, treatment of payouts, and auto allowances. Hugo stressed that the data was intended to frame the discussion, not to provide definitive results.

Counsel Richeda told the Board that a portion of the discussion might be held in Closed Session because of the possibility of litigation. He identified the three main issues as cash-outs of accumulated vacation, and sick leave, and auto allowances. He pointed out that the Retirement Plan includes earnings of Union Officers on leave at ATU, but does not specify how to calculate their benefits. The Plan excludes vacation and sick leave payouts as well as benefits such as auto allowance from pensionable earnings. The exception is two weeks of casual vacation paid out to members of ATU. Counsel Richeda recalled that the Board had agreed to count two weeks of cashed-out vacation pay in calculating the pensions of current and future ATU Officers, in line with the rule regarding casual vacation. They also agreed to count sick leave rolled over to deferred compensation, following the formula used for all ACT employees, and to exclude auto allowance. Counsel Richeda recommended treating past ATU officers in the same way.

ATU Counsel Shawn Groff disagreed, citing past practice, and the fact that past Officers did not know how their earnings would be treated. ACT General Counsel Denise Standridge recommended treating all ATU Officers the same and hoped that a compromise could be reached.
Past ATU Officer James Gardner raised the question of the nature of the estimate provided to a retirement applicant at the retirement interview. The Board discussed the reasons why that estimate might change.

Counsel Groff proposed a settlement.

W. CLOSED SESSION (on Agenda Item T)

X. (RESUME OPEN SESSION)

1) Report and/or Action on Closed Session Items

Counsel Richeda reported: that the Board unanimously by motion agreed to settle the “Gardner” matters with respect to 10 past union Officers along the following lines:

1) Each affected individual would receive up to four weeks of accumulated vacation that was paid out to that individual;
2) Each affected individual’s earnings would include sick leave that could have been contributed to a defined contribution plan pursuant to the terms of the collective bargaining agreement;
3) Auto Allowance would not be included in the calculation of retirement benefits going forward. With respect to past retirement benefits paid to any of the 10 individuals who were paid, if auto allowance was included in the calculation of pension benefits, the Retirement Board would not seek to recoup the overpayments attributable to the auto allowance. If auto allowance was paid, but not included in the pension calculation, the pension would be recalculated from retirement through June 2015 to include auto allowance and the individual would be paid that difference retroactively without interest.

This settlement is subject to the preparation and execution of signed, written settlement agreements that includes global releases in favor of all parties.

Chair Lewis noted that the Board reserves the right not to reduce the pension of any past union Officer in whole or in part going forward based on this settlement.

Shawn Groff stressed that the settlement addresses only the question of the items raised in the settlement. This agreement will follow agreement on the numbers. Shawn agreed to work with Hugo to resolve the numbers.

(Carolyn Smith of NEPC joined the discussion of Agenda items I through K, N and O.)

I. Asset Allocation and Investment Manager Update

Hugo referred to three Preliminary Asset Allocation Sheets, dated 6/8/2015. He noted that he had revised the sheets in the interest of clarity, particularly the impact of
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ADRs. He told the Board that he believed that the balancing should be based on the actual assets invested with the managers, not the total excluding the ADRs that they hold. This will maintain the division among the managers at 1/3 large cap value, 1/3 large cap growth and 1/3 large cap index fund.

- Sheet #1 included movement of $1.7 Million to Park Square from BlackRock.
- Sheet #2 also includes rebalancing domestic equity, moving funds from small cap to large cap to adhere to the targets.
- Sheet #3 adds rebalancing funds withdrawn from Global Asset Allocation (GAA) managers.

Hugo told the Board that $1.7 million would be moved to Park Square, and most of the domestic equity rebalance would be completed before his vacation. However, Hugo no longer expected that all of the assets would be moved out of Global Asset Allocation by the end of June, as originally anticipated. Park Square would not be ready to receive additional funds until later this year, with the rest of the calls expected 12-18 months in the future, and the Board must deal with the question of Investec. After Hugo’s return, the funds would be placed in stocks and bonds, pending the completion of the investment in private debt. This will put the percentage in equities at 52%, slightly over the 51% target, but Carolyn noted that this is within the sum of the ranges for equities.

MOTION: WILLIAMS/LEE pending further funding request from private debt managers, the funds moved from Global Assets will be placed with current equities and fixed income managers. 5-0-0-0

K. Additional Investec Information
L. Emerging Market Debt Manager Search

Hugo recalled that the Board had selected Investec to manage 5% ($28 million) of pension plan assets in their blended emerging markets debt strategy. At the April meeting he reported that in reviewing the investment before sending the funds to Investec, he had noticed that the fund was quite small and that AC Transit was a large percentage of the Fund, and outside of AC Transit, it was almost exclusively funded with Investec Funds. The Board posed a number of questions to Investec and they responded.

Hugo referred to Investec’s email dated June 4, which agreed to try to help us to contain any loss if the fund was dissolved. He mentioned that it really was of very little value to the Plan. Carolyn noted that Investec agreed to continue to honor the reduced fee.

The Board discussed an email from Investec (Doug Doucette, Client Director) to Hugo which outlined the anticipated amount that will be funded in the product we are considering investing in. Investec anticipates approximately an additional $70 million will be funded once paperwork is completed with various investors who have
expressed their desire to place money in this fund. With the AC Transit investment, this should bring the fund size to roughly $165 million.

**MOTION: Riemer/Williams** to invest 5% of Pension Plan assets in Investec’s blended emerging markets debt strategy. 4-1-0-0 Member Lee voted no because she believes that the Investec fund is risky because it is too small.

**J. Investment Policy**

Hugo referred to the Draft Investment Policy, which had been updated based on the updated allocation targets. Board Members raised additional questions and made addition suggestions, including changes in wording and establishing an overall minimum and maximum for equities.

**MOTION: Riemer/Williams** to adopt the changes indicated in the Draft Investment Policy, and to discuss other changes at a subsequent meeting. 5-0-0-0

**M. UNITE HERE and UBS**

Chair Lewis referred to the email to Hugo from UBS dated June 5, 2015, regarding UNITE HERE’S assertion that UBS has not responded directly to UNITE HERE regarding their efforts to organize the workers at the Los Angeles DoubleTree Hotel. UBS attached a letter dated June 3, 2015 to UNITE HERE stressing that it does not operate the hotel in question.

Michael Penechi of UNITE HERE a union of needle trades, industrial and textile employees, and hotel and restaurant employees had addressed the Board on the labor dispute, and UBS’ investment performance. At its May meeting the Board had directed Hugo and Counsel Richeda to draft a letter to UBS conveying the Board’s concern regarding the lack of communication. The letter was drafted, but Hugo pointed out that the circumstances had changed, and UBS is scheduled for a Real Estate Review by the Board in July. Member Williams told the Board that despite UBS’ response, she believes that a letter should be sent to UBS because of the tone of their email. Counsel Richeda agreed to revise his original letter, for review by Chair Lewis and Vice Chair Williams.

**N. NEPC Work Plan**

The Fixed Income Review of Loomis Sayles scheduled for July will be postponed until a later meeting.

**O. Calendar for 2015**

There were no changes to the Board Meeting calendar.
P. PEPRA Update

Director Peeples told the Board that there was no new legislation, and the notice of appeal had been withdrawn. The Department of Labor has not agreed to open up the flow of grant money. Hugo said that he will continue to provide new employees general information regarding AC Transit's defined benefit plan. He added that he and Counsel Richeda had met with the District's General Counsel and the new outside Retirement Counsel, Charles Sakai, regarding a plan amendment.

Q. Tax Determination Letter Update

Hugo reported that after additional material is sent to Tax Counsel, Ice Miller, Interim General Manager, Kathleen Kelly, will sign the paperwork submitting the Tax Determination Update.

R. Plan Redraft Project Update

Hugo told the Board that he and Counsel Richeda are gathering the relevant documents.

U. Hearing Officer Update

Hugo hopes to have the names of potential Hearing Officers for the July meeting.

V. Retirement System Manager Report:

1. Fiduciary Insurance Policy
   The policy has been renewed.

2. Press Policy
   The Board does not have a policy. Hugo currently fields these calls.

3. Pension Issues in the News
   Former San Jose Mayor Chuck Reed and former San Diego City Councilman Carl deMaio have proposed a new ballot measure to alter pensions of California's public employees.

V. (CLOSED SESSION)

   a. Aubrey Johnson – Total and Permanent Disability
   b. Arsenia Legaspi – Total and Permanent Disability
   c. Ray Dunhams – Total and Permanent Disability
   d. Terence Chrisman – Total and Permanent Disability
   e. Kelvyn Johnson – Occupational Disability
   f. Michael Jefferson – Total and Permanent Disability
   g. Adrienne Garrett-Cleveland – Total and Permanent Disability
   h. Lua Lanell – Occupational Disability
   i. Bridjit Toles – Total and Permanent Disability
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j. Elaine Batchan – Occupational Disability

Public Employee Performance Evaluation
(Government Code Section 54957)
Title: Retirement System Manager

W. (RESUME OPEN SESSION)
   2) Report and/or Action on Closed Session Items

   Counsel Richeda reported

   a. V)1)a Aubrey Johnson – Total and Permanent Disability

      The Board unanimously denied Mr. Johnson’s application for a Total and Permanent Disability Retirement without prejudice to his Service Retirement effective June 2014 approved in April 2014.

STAFF COMMENTS

None

RETIREMENT BOARD COMMENTS

None

ATTORNEYS’ REPORT

None

ADJOURNMENT

The meeting was adjourned at 2:00 PM.