To: AC Transit Board of Directors  March 2018
From: Jeffrey Lewis - Chair, AC Transit Retirement Board
Re: 2018 Semi-Annual Retirement Board Report (#1)

The first Semi-Annual Report of the year will focus on the following:

2) The Plan’s long-term investment results and asset allocation.
3) The upcoming Actuarial Valuation.
4) PEPRA Implementation.
5) Staffing.

2017 Investment Results
In 2017, the Plan’s investments returned 14.8%. The Plan had $679 million in assets on 12/31/17, which was an increase of $85 million from the $594 million in assets on 12/31/16. All equity markets produced strong results in 2017. The broad U.S. stock market (Russell 3000) increased by 21.1%, small cap stocks (Russell 2000) returned 14.6%, non-U.S. developed market equities returned 25.0% while emerging market equities returned 37.3%. These types of returns are unusual but not unprecedented in the equity markets. The domestic U.S. bond market (Barclays Aggregate) returned 3.5% for the year. As you know, the Plan’s assets are invested in a diversified portfolio, including U.S. stocks, bonds, other fixed income investments, international stocks, emerging markets, real-estate, and other types of investments. As I have mentioned numerous times in these reports, the investment results of the Plan will be highly dependent on the performance of the equity markets.

The investment return of 14.8% was above the Plan’s actuarially assumed rate of 7.25%. Since the Plan’s return in 2017 exceeded the assumed rate of return, the District’s contribution as a percentage of payroll will decrease slightly (all other things being equal) in the upcoming years. However, all other things will not be equal, but will depend on decisions made regarding the actuarial valuation discussed below.

Longer-Term Investment Results and Asset Allocation
Since its inception in 1992, the Plan has returned an average annual return of 8.0%. Over the last 10 years, the Plan has returned 5.4% annually. (These years included the 2008 market meltdown.) Over the last 5 years, the Plan’s return averaged 8.3% a year.

The Board invests for the long-term, and expects equity markets over the long-term to produce returns in excess of our actuarially assumed rate. On the other hand, we expect the fixed-income portion of the portfolio to produce returns below our assumed rate.
The Board expects equity markets to occasionally have years with negative returns. The Board views these negative returns as a normal part of the market and not a cause for particular concern or alarm. The Board consistently reviews our asset allocation with NEPC (our investment consultant) and, when appropriate, adjusts our allocation to various asset classes.

In 2017 no new asset classes or manager were added to the investment portfolio. The Board spent time analyzing our real estate portfolio and voted to hire another real-estate manager that will be funded in 2018. This manager (Landmark) should provide the portfolio with a diversified investment in real estate. The Board is now looking at private debt. Both in real estate and private debt our investments get repaid to us over time, so to keep the same amount of dollars invested, we need to make new investments to keep the allocation in these investments constant.

Upcoming Actuarial Valuation
On an annual basis, our actuary (Cheiron) produces an Actuarial Valuation. We should have preliminary results by June and will share these with the District when we receive them. At the May Retirement Board meeting, we plan on holding our initial discussions pertaining to the actuarial valuation. This will be the first year where some employees are covered by the PEPRA Plan Amendment. As it does every year, the Retirement Board will be taking a close look at all the major assumptions embedded in the Actuarial Valuation. I invite any interested District board members to attend our May or June meeting. As always, the District will be involved in these discussions.

PEPRA Amendment Implementation
Staff is working on implementing the PEPRA amendment. As has been mentioned in the past, implementing the structure to track employee contributions will take the involvement of both the Retirement Department and District. We are working closely with the District Payroll/Finance area to implement and track the employee contribution.

Staffing
As was mentioned in the last report, the Retirement Department has experienced staff turnover in recent years. After having remarkable stability for over a decade, this turnover is creating some operational challenges. The Department is working with the Human Resources Department and has interviews scheduled for the end of April. Hugo Wildmann has repeatedly reported to the Retirement Board that, given the current job market and the lack of reciprocity and the adoption of PEPRA, he is concerned that the candidate pool he will have to choose from for the Retirement System Administrator position will be lacking in many of the desired qualifications.

Please feel free to call me, Jeffrey Lewis (839-6824), or Hugo Wildmann (891-4889) if you would like to discuss this report or request additional information.