



**Santa Clara Valley Transportation Authority Retirees’
OTHER POST EMPLOYMENT BENEFITS COMMITTEE**

Tuesday June 9, 2020

Other Post Employment Benefits Committee (OPEB) meeting begins at 10:30 AM.

TELECONFERENCE AND VIDEO CONFERENCE ONLY

In compliance with California’s statewide stay at home order and Santa Clara County’s shelter in place order and pursuant to California Governor Gavin Newsom’s Executive Order N-29-20, VTA’s OPEB will convene a teleconference and video conference meeting only. Please click the link below to join the webinar:

<https://us02web.zoom.us/j/82891934862>

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Webinar ID: 828 9193 4862

AGENDA

- 1. CALL TO ORDER/ROLL CALL**
- 2. ORDERS OF THE DAY**
- 3. PUBLIC PRESENTATIONS:** This portion of the agenda is reserved for persons desiring to address the Committee on any matter not on the agenda. Speakers are **limited to 2 minutes**. All statements that require a response will be referred to staff for reply in writing.

CONSENT AGENDA

- 4. APPROVE – Minutes of the October 1, 2019**

REGULAR AGENDA

- 5. DISCUSS – Report on SCVTA Retirees’ Other Post-Employment Benefits Trust Investments for the Month of April 2020. (Bill)**
- 6. CONSIDER – Request for Future Agenda Items.**

7. **Announcements and Communications**
8. **Adjourn**

NOTE COMMITTEE MEMBERS: In order to establish whether or not a quorum exists for this meeting, members are asked to call Valerie Tucker in the Fiscal Resources Administration Department at (408) 321-4117 before 4:30 p.m. on the day prior to the meeting. Thank you for your cooperation.

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the Investment Committee less than 72 hours prior to the meeting will be available for public inspection at 3331 North First Street, San Jose, CA at the same time that the public records are distributed or made available to the Investment Committee.

In compliance with the Americans with Disabilities Act (ADA), those requiring accommodations or accessible media for this meeting should notify Valerie Tucker in the Fiscal Resources Administration Department 48 hours prior to the meeting at (408) 321-4117.

**Santa Clara Valley Transportation Authority Retirees’
OTHER POST EMPLOYMENT BENEFITS COMMITTEE**

Tuesday, October 1, 2019

Other Post Employment Benefits Committee (OPEB) meeting begins at the conclusion of the 11:00 A.M. Board of Pensions Investment Committee.

VTA Conference Room C119
Santa Clara Valley Transportation Authority
3331 North First Street
San Jose, California

SUMMARY MINUTES

1. Call to Order

The Santa Clara Valley Transportation Authority Retirees’ Other Post Employment Benefits Committee (OPEB) meeting was called to order at 11:14 a.m. by Chairperson Bill.

ROLL CALL: **Members Present:** Sean Bill, Grace Ragni

Members Absent: Michael Smith

A quorum was present.

2. Orders of the Day

M/S/C No changes

3. Public Presentations

There were no Public Presentations.

CONSENT AGENDA

4. Approval of Minutes for the August 6, 2019 Committee Meeting

M/S/C to approve the Consent Agenda

NOTE: M/S/C MEANS MOTION SECONDED AND CARRIED AND UNLESS OTHERWISE INDICATED, MOTION PASSES UNANIMOUSLY.

REGULAR AGENDA

5. Receive and File – Report on SC-VTA Retirees’ OPEB Trust Investments Report for the month of August 2019

Economic Review:

Real gross domestic product (GDP) increased at an annual rate of 2.0% in the second quarter of 2019, according to the "second" estimate released by the Bureau of Economic Analysis. The increase in real GDP in the second quarter reflected positive contributions from PCE, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment, exports, residential fixed investment, and nonresidential fixed investment.

Headline consumer prices, as measured by the consumer price index (CPI), rose 1.7% year over year as of August 2019. Core CPI, which excludes volatile food and energy prices increased at a rate of 2.4% year over year as of August 2019. The Federal Reserve continues to target an inflation rate of 2.00%.

The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 2.7% in August 2019, down from a revised 2.8% in July 2019, and below the year-ago estimate of 2.8%. This compares with an unadjusted unemployment rate of 4.2% for California and 3.8% for the nation during the same period. The unemployment rate was 4.6% in San Benito County, and 2.6% in Santa Clara County.

Market Review:

The Standard & Poor’s 500 index returned -1.58% in August, and the NASDAQ Composite index returned -2.46%. Large cap stocks returned -1.83% and small cap stocks returned -4.94%.

The Barclays Aggregate index returned 2.59% in August. The high yield index returned 0.40%, fixed-rate asset backed securities index returned 0.95%, while U.S. municipal bonds returned 1.58% in August. The 10-year Treasury Bond finished August at 1.50%, down from 2.01% at the end of July.

In global markets, the European 10-year government bond yield ended the month at -0.70% compared to -0.44% at the end of July. The Japanese 10-year bond yield finished August at 0.27%.

OPEB Portfolio:

The Retirees' OPEB composite portfolio returned -0.46% for the month of August versus -0.59% for the benchmark, an outperformance of approximately 13 basis points. On a year to date basis, OPEB portfolio is up a positive 10.47% versus 11.82, an underperformance of 1.35%. On a year to date basis the relative underperformance is primarily a result of a markdown in UBS core real estate fund.

6. Bridge Investment Group – Real Estate Lending (NEPC)
 - a) Approved Recommendation by NEPC
 - b) Approved Funding for Bridge Debt Strategies Fund III, L.P.

7. **Announcements and Communications**

There were no announcements or communications.

8. **Adjournment**

On the order of Chairperson Bill and there being no objection, the meeting was adjourned at 11:33 a.m.

Respectfully Submitted,

Valerie Tucker
Executive Secretary
Finance & Administration Division



Item #5

Date: June 1, 2020
Current Meeting: June 9, 2020
Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority Retirees’
Other Post Employment Benefits Investment Committee

FROM: Investment Program Manager, Sean P. Bill

SUBJECT: Monthly Investment Report – April 2020

FOR INFORMATION ONLY

BACKGROUND:

The investment activities of Santa Clara Valley Transportation Authority are in compliance with the VTA Retirees’ Other Post Employment Benefit’s Investment Policy Statement.

DISCUSSION:

Economic Watch

Real gross domestic product (GDP) decreased at an annual rate of 4.8 percent in the first quarter of 2020, according to the "advance" estimate released by the Bureau of Economic Analysis. The decline in first quarter GDP was, in part, due to the response to the spread of COVID-19, as governments issued "stay-at-home" orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending.

Headline consumer prices, as measured by the consumer price index (CPI), rose 0.3% year over year as of April 2020. Core CPI, which excludes volatile food and energy prices increased at a rate of 1.4% year over year as of April 2020. The Federal Reserve continues to target an inflation rate of 2.00%.

The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 12.0 percent in April 2020, up from a revised 3.5 percent in March 2020, and above the year-ago estimate of 2.3 percent. This compares with an unadjusted unemployment rate of 16.1 percent for California and 14.4

percent for the nation during the same period. The unemployment rate was 19.8 percent in San Benito County, and 11.7 percent in Santa Clara County.

Market Watch

The Standard & Poor's 500 index returned 12.82% in April, and the NASDAQ Composite index returned 15.49%. Large cap stocks returned 13.21% and small cap stocks returned 13.74%.

The Barclays Aggregate index returned 1.78% in April, on a year to date basis the Barclays Aggregate index has returned 4.98%. The investment grade corporate sector returned 1.80% and the agency MBS returned 0.60% during the month of April.

VTA Retirees' Other Post-Employment Benefits (OPEB) Trust

The VTA Retirees' OPEB Trust Investment Policy requires the following asset allocation:

<u>Asset Class</u>	<u>Target Range</u>	<u>Target</u>	<u>Actual</u>
Domestic Large Cap Equities	12-32%	22%	29%
Domestic Small/Mid Cap Equities	5-15%	8%	0%
Non-US Developed Large Cap Equities	5-15%	10%	9%
Non-US Developed Small/Mid Cap Equities	0 - 6%	3%	3%
Emerging Markets Equity	0-10%	5%	5%
Private Core Real Estate	5-15%	5%	10%
Private Real-Estate Lending	0-10%	5%	4%
Diversified Real Assets	0-10%	5%	4%
Domestic Fixed Income	10-30%	19%	23%
Private Credit	0-10%	8%	2%
Absolute Return FoF	4-14%	9%	8.5%
Cash	0 - 5%	1%	2.5%

The Retirees' OPEB composite portfolio underperformed its policy benchmark by 0.22% for the month of April 2020. The current yield for the fixed income portfolio is 3.75% and the current effective duration is 4.71 years.

Market performance for each money manager is summarized in the following table:

Investment Performance									
Asset Class	Fund Manager	APR	3 Mo	Y-T-D	1 Yr	3 Yr	5 Yr	10 Yr	I-T-D
Large Cap Index	State Street	12.79%	-9.27%	19.21%	0.84%	9.01%	9.10%	11.66%	5.68%
<i>S&P 500 Index</i>		<i>12.82%</i>	<i>-9.25%</i>	<i>19.29%</i>	<i>0.89%</i>	<i>9.05%</i>	<i>9.14%</i>	<i>11.70%</i>	<i>5.59%</i>
Int'l Equity Dev. Markets Growth	MFS	7.92%	-10.12%	-12.21%	-3.82%				0.45%
<i>MSCI AC World ex-US Growth Index</i>		<i>8.63%</i>	<i>-10.33%</i>	<i>-11.19%</i>	<i>-2.36%</i>				<i>-1.32%</i>
Int'l Equity Dev. Markets Small Cap	DFA	11.37%	-19.16%	-22.28%					-16.34%
<i>MSCI AC World ex-US Growth Index</i>		<i>11.70%</i>	<i>-17.63%</i>	<i>-20.01%</i>					<i>-14.05%</i>
Emerging Market	State Street EM⁽²⁾	9.16%	-12.13%	-17.05%	-12.54%	0.22%			4.60%
<i>MCSI World Emerging Market</i>		<i>9.16%</i>	<i>-12.52%</i>	<i>-16.59%</i>	<i>-12.00%</i>	<i>0.52%</i>			<i>5.08%</i>
US Core Real Estate	UBS⁴		0.26%	0.26%	-2.52%	3.34%			4.15%
<i>NCREIF NFI-ODCE</i>			<i>1.00%</i>	<i>1.00%</i>	<i>4.90%</i>	<i>6.93%</i>			<i>7.20%</i>
Diversified Real Assets	Principal Group	6.30%	-13.39%	-14.43%	-9.97%				-5.09%
<i>Diversified Real Assets Strategic Index</i>		<i>6.08%</i>	<i>-12.63%</i>	<i>-13.94%</i>	<i>-9.11%</i>				<i>-4.28%</i>
Fixed Income	Dodge & Cox	2.86%	1.47%	3.23%	8.86%	5.27%	4.66%	4.69%	5.87%
<i>Barclays US Aggregate Bond Index</i>		<i>1.78%</i>	<i>3.00%</i>	<i>4.98%</i>	<i>10.85%</i>	<i>5.18%</i>	<i>3.81%</i>	<i>3.97%</i>	<i>5.19%</i>
Absolute Return	Lighthouse³	2.15%	-17.04%	-16.21%	-14.45%	-3.56%			-1.46%
<i>HFRI FoF Index</i>		<i>2.67%</i>	<i>-5.05%</i>	<i>-4.82%</i>	<i>-1.93%</i>	<i>0.81%</i>			<i>2.68%</i>
Absolute Return	Sky Bridge³	0.60%	-21.93%	-21.22%	-19.40%	-3.35%			-0.66%
<i>HFRI FoF Index</i>		<i>2.67%</i>	<i>-5.05%</i>	<i>-4.82%</i>	<i>-1.93%</i>	<i>0.81%</i>			<i>2.68%</i>
Composite Portfolio Returns		6.20%	-6.91%	-7.22%	-0.87%	5.30%	5.98%	8.37%	6.52%
<i>Policy Benchmark Returns</i>		<i>6.42%</i>	<i>-5.20%</i>	<i>-5.28%</i>	<i>1.69%</i>	<i>6.07%</i>	<i>6.42%</i>	<i>7.89%</i>	<i>5.68%</i>

² Funded June 30, 2016

³ Funded January 28, 2016

⁴ Funded January 4, 2016

MFS - The International Equity manager underperformed its policy benchmark in April 2020 by 0.71%. Sector weights and currency exposure both contributed to relative performance.

DFA - The International Small Cap Equity manager underperformed its policy benchmark in April 2020 by 0.33%. The portfolio's overweight allocation to microcaps and the value factor both detracted from relative performance for the month.

PRINCIPAL GROUP - The Diversified Real Asset Manager outperformed its policy benchmark by 0.22% in April 2020. Allocation and manager selection to the natural resources, commodities and floating rate debt sectors all contributed to relative performance for the month.

DODGE & COX - DODGE & COX - The Fixed Income portfolio manager underperformed its benchmark in April 2020 by 1.08%. The primary contributors to relative performance was the portfolios' overweight corporate bond exposure.

LIGHTHOUSE - The Absolute Return manager underperformed its benchmark in April 2020 by 0.52%. Relative value and credit strategies contributed to relative performance for the month.

SKYBRIDGE - The Absolute Return manager underperformed its policy benchmark in April 2020 by 2.07%. Structured credit contributed to relative underperformance for the month.

A 7.00% rate of return assumption is used in the annual actuarial analysis for the Retirees' OPEB. The results of the actuarial analysis determine VTA's annual contribution rates. Any difference between actual investment returns and the 7.00% assumed annual return is recognized in the same year. The annual returns for the Retirees' OPEB portfolio have been equivalent to or exceeded the 7.00% assumed rate of return in 9 out of 15 years.

Historic Portfolio Performance for the last fifteen calendar years:

Year	Performance	Year	Performance	Year	Performance
2005	3.9%	2010	12.5%	2015	1.1%
2006	11.7%	2011	4.0%	2016	9.3%
2007	6.1%	2012	12.4%	2017	16.12%
2008	-20.9%	2013	18.9%	2018	-2.97%
2009	22.2%	2014	10.8%	2019	17.85%