



UCRS Advisory Board

MINUTES

**UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING - (VIDEO/TELECONFERENCE)
FEBRUARY 23, 2018
10:00 AM – 12:00 PM**

BOARD MEMBERS PARTICIPATING: Chair David Brownstone, Vice Chair Henning Bohn, Associate Vice Chancellor David Odatto, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCEA Chair Richard Attiyeh, and CUCRA Chair Marianne Schnaubelt.

BOARD MEMBERS ABSENT: Chief Operating Officer (COO) Rachael Nava, Chief Investment Officer (CIO) Jagdeep Singh Bachher, Vice Chancellor Ronald Cortez, Vice President (VP) Dwaine B. Duckett.

UCOP STAFF PARTICIPATING :Executive Vice President Nathan Brostrom, Associate Chief Investment Officer (CIO) Arthur Guimaraes, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco, Director Marco Merz, Director Eduard van Gelderen, Director Ellen Lorenz, Business Controls Leader Anne St. George, Manager Hyun Swanson, Principal Analyst Ken Feer, Labor Relations Assistant Tracy Babbitt, Principal Analyst Kendra Eaglin, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA/CUCEA JBC Chair Roger Anderson, CUCRA Chair elect Joe Lewis, UCBEA representative Caroline Kane, AFSCME representative Owen Li, retiree Paul Brooks, retiree Marianne Smylie, and Actuary John Monroe (Segal Consulting).

The meeting officially began at 10:03 a.m.

PUBLIC COMMENT PERIOD: (There were no public comments.)

APPROVAL OF THE MINUTES: Chair Brownstone called for the approval of the minutes from the Board meeting of December 1, 2017. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Brownstone thanked the Board for accommodating a video/teleconference, which he felt was warranted due to the light agenda and which would save on time and travel costs.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Executive Vice President (EVP) Brostrom noted that while UC had anticipated a 4% base budget increase, the Governor's proposed budget currently provides only a 3% increase. The Governor's proposed budget does not include any Proposition 2 monies towards UCRP's unfunded liability or any funding for UC's deferred maintenance needs. Additionally, he noted that \$50 million in state funding provided for the 2017-18 budget was still conditioned upon UC meeting certain objectives, such as implementing

recommendations resulting from the state audit and improving community college transfer ratios. He stated that UC is meeting the audit recommendations but the provision concerning transfer ratios was cumbersome, as the Governor expects one community college transfer for every two freshman admitted at each UC campus. However, due to the proximity of some UC campuses, he speculated that some locations might exceed the transfer ratio while others would fall short. He indicated that the Regents deferred the issue on increasing resident student tuition to their meeting in May to coincide with the Governor's May budget revise. He noted, however, that proposals will be submitted to the Regents in March to raise non-resident student tuition and to rescind the increase in UCRP employer contributions that were scheduled to take effect on July 1, 2018.

A discussion ensued on the appropriateness of rescinding the increase in UCRP employer contributions and continuing to fund UCRP from the Short Term Investment Pool (STIP). The Academic Senate representatives on the Board (the Chair and Vice Chair) indicated that continued borrowing from STIP was a short-sighted solution which won't leverage UCRP funding from federal grants to the same extent as increasing UCRP employer contributions. EVP Brostrom countered that a larger infusion of cash over the next few years prevents UCRP's unfunded liability from growing and could lower UCRP employer contributions going forward. He stated that UCRP is currently well situated and that locations face more pressing financial needs in light of reduced funding under the Governor's proposed budget. In closing, he indicated that UC will continue to seek additional funding for student enrollment and deferred maintenance prior to finalization of the state budget, but he was not optimistic that the Governor will give UC more money.

CHIEF INVESTMENT OFFICER – REPORT: Associate CIO Guimaraes noted that the CIO was in Santa Barbara and sent his regrets for not being able to participate in the meeting. With respect to the recent market volatility, he indicated that both he and the CIO think that such volatility is normal, especially following the extended period of market increases over the past calendar year. Director van Gelderen then presented the summary for UCRP, noting that its one-year return as of December 31st was 16.7%. He attributed UCRP's return to the performance of public equities, especially growth stocks. However, he indicated that UCRP was approximately 5% overweight in public equities, which helped drive recent returns but is not ideal from a risk perspective. He indicated that within the next two months, UCRP's public equity holdings should be adjusted so they are closer to their policy weight, and he may focus on building up value stocks which tend to fare better during a volatile economy. He noted that UCRP was also a bit overweight in cash and that the Office of the CIO was looking for prudent investment opportunities. He indicated that there is no immediate rush to invest the excess cash, as interest rates on cash holdings were currently better than those for fixed income investments.

Director Merz provided the summary for the Retirement Savings Program (RSP), noting that as of December 31st it had just shy of \$24 billion in assets and contained the largest 403(b) plan and the second largest public defined contribution plan in the U.S. He indicated that over a third of all RSP assets were invested in the UC Pathway (target-date) funds, which the Office of the CIO thinks are the most judicious investment options for UC employees. He noted that the returns on the majority of UC Pathway funds exceeded their respective benchmarks for the calendar year. He then briefly summarized the performance of other funds in the Core menu and noted that exchange traded funds (ETFs) should be available as investment options through the brokerage early in the fourth quarter.

ITEM A. UCRS – RETIREMENT CHOICE PROGRAM STATISTICS – UPDATE: Principal Analyst Eaglin provided a summary of the most recent statistics, noting that data as of January 2018 reflect new-hire choice trends similar to those previously reported; 33% actively elected Pension Choice, 37% actively elected Savings Choice, and 30% did not make an election and thus defaulted to Pension Choice. She stated that there were 13,536 employees hired since July 1, 2016 who were eligible for retirement choice and who had completed their 90-day election cycle by January 14, 2018, of which 44% were rehires and thus not subject to the PEPRA maximum applicable to Pension Choice. She also mentioned that more represented new hires are becoming choice-eligible as more collective bargaining units accept the Retirement choice Program. Currently, 73% of represented, choice-eligible employees are enrolled in Pension Choice. She then briefly summarized the slides showing choice statistics by salary, age and location. A brief discussion ensued concerning a new hire's loss of contributions and/or UCRP service credit as a result of a late retirement election and effective communication strategies to address the issue.

ITEM B. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: Manager Swanson summarized highlights of the report, starting with operations. She noted that Fidelity missed its call response time performance standard for the fourth quarter and will pay a penalty for doing so. She then mentioned that UC Vendor Relations Management (VRM) was finalizing a project on administrative fee policy statements and processing guidelines and is in the planning stages of integrating the myUC retirement.com site with the Redwood retirement administration recordkeeping system. She also noted that VRM had worked closely with the UCPath Center and Fidelity to test interface files and refine transmission procedures prior to the implementation of UCPath for UC Merced, UC Riverside and ASUCLA effective January 2018. With respect to communications and education, she noted that updates had been prepared for the 2018 Retirement Review and she thanked the University Committee on Faculty Welfare (UCFW) and its Task Force on Investment and Retirement (TFIR) for their comments and suggestions. She concluded by summarizing the various education/counseling sessions conducted at the locations and noted that they were including information on general financial planning in addition to retirement planning.

ITEM C. UCRP – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM – UPDATE: Director Lorenz briefly provided an update on the status of the Redwood system. She indicated that, following three years of work by dedicated teams, the data integrity review and cleanup process was near completion. She then summarized the five key areas of focus for Redwood project over the course of the year; organizational change management, communication, testing, training, and operational and system readiness. She concluded by noting that the Redwood system remains on track to go live in February 2019.

ITEM G. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Lorenz summarized the RASC calendar year statistics for the Board. She noted that telephone inquiries had decreased by 3% while correspondence had increased by 3% from the past year. While the number of retirement elections had remained essentially the same, there was 10% reduction in the number of Lump Sum Cashouts elections and a 10% increase in survivor benefits processed. Following a summary of on-site retirement presentations and webinars, she noted that over a third of RASC employees had volunteered to one of five Redwood activity teams to prepare for the successful deployment of the Redwood System.

The meeting adjourned at 11:43 am.