# ***RETIREMENT COMMISSION MINUTES***

The Retirement Commission met on Wednesday, October 28, 2020. The following members were present: John Blair, Chris Cullinan, David Hughes, Jason Vandever, Scott Hendrix, Heather Hill, Al Elias, Markell Henderson. Absent: Joe Hatter, Michele Vineyard. Others present: Brian Wheeler, Sara Butler, Lisa Burch, Charlie Philippin, Krisy Hammill, David Plunkett, William Dowd, William Reid, Dan Homan.

**Call to Order**
Jason Vandever called the meeting to order at 8:33 AM.

**Approval of Minutes**
The minutes from the September 2020 meeting were approved unanimously.

**Annual Actuarial Review**
Bill Dowd from SageView Consulting reviewed the July 1, 2020 Valuation Report and provided the Commission with the next actuarially determined contribution rate. Dan Homan reviewed the Post-Retirement Benefit Plan experience and provided the Commission with the next annual contribution rate. The new rates will take effect in fiscal year 2022.

**Other Updates**
Lisa Burch provided an update on the process for replacing Mr. Swanson who resigned from the Commission. It was also confirmed that the November meeting date has been changed to November 18 at 8:30 am.

**Sustainable Investing Update**
Jason Vandever provided additional information from Dahab at request of the Commission at the September meeting. The report included information about current investment advisors and their approach to ESG investing. Also included was an alternative to the SSGA Enhanced Large Cap Index. In addition, Jason presented a sample change to the current investment policy for the Commission to discuss further at the November meeting.

**Adjournment**
The meeting adjourned at 10:00 AM.

# Retirement Commission Sustainable Investment Update
November 18, 2020

**Proposed Addition to Investment Policy Statement**

VIII. Integration of Environmental, Social, and Governance (ESG) Factors

- The Charlottesville Retirement Commission understands that the incorporation of Environmental, Social, and Governance (ESG) factors into the investment process will help maximize the plan's risk-adjusted returns through a more comprehensive investment analysis process. As a result of this understanding, the commission shall:
  - Incorporate ESG strategies, where appropriate, to enhance the financial benefit of the plan's beneficiaries, consistent with fiduciary duty
  - Evaluate appropriate ESG targets on a case-by-case basis for each asset class allocation and manager
  - Consider the extent to which investment partners incorporate appropriate ESG strategies in their investment research and process
  - Review manager ESG and sustainability initiatives on an annual basis

- Current ESG Focus Areas:
  - <u>Climate Change and Fossil Fuel Companies</u>- As long-term investors the commission has come to the understanding that climate change poses a systemic financial risk to our plan's beneficiaries. Additionally the commission believes that these risks are not properly evaluated through traditional financial analysis. Therefore, the commission will work with its investment managers to better understand the risks and, as warranted, reduce the plan's exposure to Fossil Fuel Companies[i] that contribute to climate change.

**other focus areas may be added in the future by the Commission*

**Sample Motion for consideration:**

*"I move that the retirement commission for the City of Charlottesville take the following steps related to sustainable investing:*

1. *Request Cornerstone Investment Partners to exclude fossil fuel companies with "proven and probable fuel" reserves from the portfolio*
2. *Request Wells Capital to exclude fossil fuel companies with "proven and probable" fuel reserves from the portfolio*
3. *Migrate the SSGA Enhanced Large Cap index to the SSGA S&P 500 Fossil-Fuel Free Index*

*I further move that the retirement commission adopts the update to its Investment Policy Statement, as presented, and evaluates remaining investments for potential action in accordance with the plan's ESG focus areas."*

**Further Details**

1. Cornerstone has confirmed that they can accommodate this request and would place a hard limit on any fossil fuel names provided by the Commission, and a soft limit on the identified areas for further review before investing in energy names. Working with our investment managers, staff

identified a list of companies with "proven and probable" fuel reserves. These 15 companies would be excluded from Cornerstone's investable universe. The commission previously reviewed the resulting performance data of such a request and found that such a portfolio meets or exceeds the returns of the current Cornerstone 30 portfolio. Cornerstone would replace the current name in the portfolio (Chevron) with another company not limited by the fossil fuel screen.

2. Wells Capital does not currently have any fossil fuel companies in the portfolio, but they have in the past. In discussing this approach with the portfolio managers, they can accommodate this request and also have thermal coal and tar sands restrictions they can apply to the portfolio as well.

3. The fossil free index from SSGA only costs 3 basis points, and is actually cheaper than the 5 basis points we are paying now for the enhanced index. The portfolio returns for prior periods have been included below. Out of the approximately 500 stocks in the traditional index, the fossil fuel free index removes 15 companies from the investable universe (about 3% of the names in the S&P 500. Of note, this exclusion does not extend to companies providing equipment and other services in the oil and gas industry, only those that hold fuel reserves.

**Large Cap Index Proposal**

| Investment | 1 Month | 3 Month | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Fee |
|---|---|---|---|---|---|---|---|---|
| S&P Enhanced Index (current investment) | -4.18% | 7.68% | 0.89% | 9.77% | 10.31% | 12.46% | 13.77% | 0.05% |
| S&P 500 Index | -3.80% | 8.93% | 5.57% | 15.15% | 12.28% | 14.14% | 13.74% | n/a |
| S&P 500 Fossil Fuel Free Index | -3.63% | 9.53% | 7.16% | 17.07% | 13.21% | 14.84% | N/A | 0.03% |
| as of 9/30/20 | | | | | | | | |
| $ 23,077,125 | | | | | | | | |

4. Continue to work through the remaining allocations on a case-by-case basis. The three changes above represent about 30% of the portfolio, and 46% of the equity portion of the portfolio.
    a. There are replacements for the other SSGA index funds similar to the S&P 500 Index
    b. Presentation slides detailing the plan's alternative investments were provided in October
    c. Several other managers already incorporate ESG strategies in their investment process

List of fossil fuel names in the S&P 500 that would be excluded from the investable universe:

| |
|---|
| **Exxon Mobil Corporation** |
| **Chevron Corporation** |
| **ConocoPhillips** |
| **EOG Resources, Inc.** |
| **Pioneer Natural Resources Company** |
| **Catalent Inc** |
| **Hess Corporation** |
| **Concho Resources Inc.** |
| **Occidental Petroleum Corporation** |
| **Cabot Oil & Gas Corporation** |
| **Diamondback Energy, Inc.** |
| **Noble Energy, Inc.** |
| **Devon Energy Corporation** |

| |
|---|
| **Apache Corporation** |
| **Marathon Oil Corporation** |

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[i] Fossil Fuel Company is defined as any company that owns "proven and probable" fossil fuel reserves. Proven reserves have at least a 90% likelihood of commercial extraction and probable reserves have between a 50% and 90% likelihood of commercial extraction.

## Retirement Commission Sustainable Investment Update (Alternate)

November 18, 2020

**Proposed Addition to Investment Policy Statement**

VIII. Integration of Environmental, Social, and Governance (ESG) Factors

- The Charlottesville Retirement Commission understands that the incorporation of Environmental, Social, and Governance (ESG) factors into the investment process will help maximize the plan's risk-adjusted returns through a more comprehensive investment analysis process. As a result of this understanding, the commission may, at its discretion~~shall~~:
  - Incorporate ESG strategies, where appropriate, to enhance the financial benefit of the plan's beneficiaries, consistent with fiduciary duty
  - Evaluate appropriate ESG targets on a case-by-case basis for each asset class allocation and manager
  - Consider the extent to which investment partners incorporate appropriate ESG strategies in their investment research and process
  - Review manager ESG and sustainability initiatives on an annual basis

- Current ESG Focus Areas:
  - Climate Change and Fossil Fuel Companies- As long-term investors, the commission has come to the understanding that climate change, likely caused, in part, by Fossil Fuel Companies, may pose~~s~~ a ~~systemic~~ financial risk to our plan's beneficiaries. Additionally the commission ~~believes~~ understands that these risks may~~are~~ not be properly evaluated through traditional, non-ESG, financial analysis. Therefore, the commission will work with its investment managers to better understand the risks and, as warranted, reduce the plan's exposure to Fossil Fuel Companies[1] that contribute to climate change.

**other focus areas may be added in the future by the Commission*

| |
|---|
| **Pioneer Natural Resources Company** |
| **Catalent Inc** |
| **Hess Corporation** |
| **Concho Resources Inc.** |
| **Occidental Petroleum Corporation** |
| **Cabot Oil & Gas Corporation** |
| **Diamondback Energy, Inc.** |
| **Noble Energy, Inc.** |
| **Devon Energy Corporation** |
| **Apache Corporation** |
| **Marathon Oil Corporation** |

[1] Fossil Fuel Company: Any business directly engaged in the mining, extracting, processing, distribution, and sale of fossil fuels

# Charlottesville Retirement System
## ESG Update

| Investment Manager* | Investment Product | PRI Signatory?** | How is ESG integrated? | ESG Alternative? | Energy Companies % | Gun Manufacturers % | Defense Contractors %*** |
|---|---|---|---|---|---|---|---|
| Wells Capital | Heritage Premier Growth Equity | Yes | Their analysis focuses on the positive attributes that companies are doing from an ESG perspective as well as the risks that they are taking which can negatively impact the sustainability of growth. Their approach is based on the belief that stronger ESG policies can contribute to a company's long term sustainability of growth. | No | 0.0% | 0.0% | 0.0% |
| SSgA* | U.S. Large Cap Enhanced | Yes | N/A | Yes | 2.4% | 0.0% | 1.9% |
| Cornerstone | Concentrated 30 | No | Not explicitly. Conerstone looks at ESG topics as an additional input into their deep fundamental research. They have and will incorporate all client level exclusions should it be requested. | No | 3.8% | 0.0% | 0.0% |
| SSgA* | S&P Midcap 400 Index | Yes | N/A | Yes | 1.4% | 0.0% | 0.3% |
| SSgA* | Russell 2000 Growth Index | Yes | N/A | Yes | 0.1% | 0.1% | 0.8% |
| Davenport | Equity Opportunities | Yes | Yes, their approach is based on the belief that stronger ESG policies can contribute to a company's long term sustainability of growth, a key tenant of the investment process. | No | 0.0% | 0.0% | 0.0% |
| Atlanta Capital | Small Cap Value | Yes | Not explicitly. However, their High Quality approach provides a portfolio of companies with strong governance structures and policies. The strategy typically ranks well on ESG topics relative to peers. | Yes | 0.0% | 0.0% | 0.0% |
| SSgA* | Daily International Alpha | Yes | They use a proprietary ESG signal in their stock selection model as an alternative, non-traditional quality signal capturing difficult-to-measure corporate characteristics. They believe that by integrating ESG risks and opportunities they can find companies that should have better than average long-term results. | No | 2.0% | 0.0% | 0.0% |
| Artisan* | International | Yes | They explicitly incorporate ESG. Their focus on sustainable growth generally leads to companies that act as responsible stewards of capital. They also believe that ESG issues have led and will lead to solutions that will be long term areas of secular growth. | No | 0.6% | 0.0% | 1.1% |
| SSgA* | MSCI Emerging Markets Index | Yes | N/A | Yes | 5.6% | 0.0% | 0.0% |
| Axiom* | Emerging Market Equity | Yes | They holistically integrates environmental, social, and governance considerations into the investment process, organizational structure, and firm culture. They believe that researching these topics allows them greater fundamental insight. | No | 4.0% | 0.0% | 0.0% |

*Denotes commingled vehicle

**PRI stands for the UN Principals for Responsible Investment. The PRI is an international organization that works to promote the incorporation of environmental, social, and corporate governance factors into investment decision making. An organization can sign if they adhere to certain guidelines and pay a yearly fee.

***Defense contractor is not a GIPS recognized company designation. Without a clear definition, we allowed the investment managers to self-designate. After reviewing the holdings, we believe these are appropriate representative percentages.

**Disability Retirement Process Comparison**

| Locality | Contact (s) | Form to Apply? | Independent doctor examination | Re-examination? |
|---|---|---|---|---|
| Arlington | Amy Rozier<br>Retirement Manager | Yes | Yes | Yes, 1 time per year for 3 years |
| Danville | Michael Adkins, Sara Weller and Joanne Hickey | Yes | Yes, by 2 different doctors from their panel | Yes, but not routinely |
| Fairfax County | Jeffrey Weiler | Yes | Yes | Yes every year for 5 years |
| Falls Church | Meaghan DeCelle | No | No | No |
| Norfolk | Penny DeLosh | Yes | Yes, using outside contractor | Yes, can be re-examined each yr for 5 years and once every 3 yrs thereafter till retirement age |
| Richmond | Kia Johnson<br>Interim Deputy Dir/ Benefits Mgr | Yes | Yes | Yes, on recommendation of medical examiner |
| Roanoke | Andrea Trent<br>Retirement System Manager | Yes | Yes | Yes, once a year for 5 years MAY BE REQUIRED |
| VRS | Amanda Evans<br>Sr Disability Retirement Analyst | Yes | Yes, using outside contractor | Yes |

**Disability Retirement Process Comparison**

| Locality | Contact (s) | How to track future earnings? | Appeal Process? |
|---|---|---|---|
| Arlington | Amy Rozier<br>Retirement Manager | Don't track | Yes |
| Danville | Michael Adkins, Sara Weller and Joanne Hickey | Yes, require tax return till retirement age | No |
| Fairfax County | Jeffrey Weiler | Yes, require tax return | Yes |
| Falls Church | Meaghan DeCelle | No | Yes |
| Norfolk | Penny DeLosh | Yes, requires tax return | Yes, general appeal |
| Richmond | Kia Johnson<br>Interim Deputy Dir/ Benefits Mgr | Yes, require tax return | No appeal process |
| Roanoke | Andrea Trent<br>Retirement System Manager | Yes, require affidavit and copy of tax returns | Yes, within 30 days |
| VRS | Amanda Evans<br>Sr Disability Retirement Analyst | VRS requires disabled person to notify them if the person goes back to work | Yes |

# ARTICLE VI. - PUBLIC SAFETY DISABILITY RETIREMENT

## Sec. 19-150. - Definitions.

The following words, terms and phrases, when used in this article, shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning.

Disability means a physical or mental illness or injury that incapacitates an employee from performing one (1) or more of the usual and customary duties of the employee's own job on a full-time basis, where such incapacity is likely to be permanent.

*Primary Social Security benefit* means the primary insurance amount to which the employee is entitled, for age or disability, pursuant to the provisions of the federal Social Security Act as in effect at the employee's date of retirement.

*Public safety employee* means any police officer, firefighter, sheriff or deputy sheriff.

*Salary* means an employee's approved base pay at the time the employee becomes disabled, without career development pay, overtime compensation, or any other additional amount above the amount of base pay.

*Work related* disability means any disability, as defined herein, incurred by a public safety employee for which benefits are payable under the Virginia Workers' Compensation Act, where the City is the employer.

(9-19-05(2))

## Sec. 19-151. - Disability retirement.

(a) Any public safety employee in service may retire, or may be retired by his appointing authority, at any time prior to the employee's normal retirement date on account of a work related disability upon written notification to the commission made by the member or by the appointing authority setting forth at which date the retirement is to become effective. The effective date of retirement shall be after the employee's last day of performing his usual and customary duties on a full time basis but shall not be more than ninety (90) days prior to the filing of the notice of retirement. The commission may waive the ninety (90) requirement upon a showing of good cause.

(b) A candidate for disability retirement pursuant to this article shall be considered disabled if:

- (1) As a result of an examination of the candidate by the medical examiners and / or by means of other satisfactory evidence the commission finds that the candidate meets the definition of disability set forth in this article, and that the employee's incapacitating injury or illness is compensable under the provisions of the Virginia Workers' Compensation Act; or,
- (2) The commission has satisfactory evidence that the candidate is eligible for and is, or soon will be, receiving total and permanent disability benefits under the provisions of the federal Social Security Act as the result of a work related disability.

(9-19-05(2))

## Sec. 19-152. - Disability retirement allowance.

(a) Upon retirement for a work related disability, a public safety employee shall receive an annual retirement allowance during his lifetime and continued disability, until ending as provided insection 19-156(b). The amount of the disability retirement allowance shall be equal to the following:

- (1) Sixty-six and two-thirds (66 2/3 ) percent of the employee's final salary if the employee does not qualify for primary social security benefits under the provisions of the Social Security Act in effect on the date of his retirement;
- (2) Fifty (50) percent of the employee's final salary if the employee qualifies for primary Social Security benefits under the provisions of the Social Security Act in effect on the date of his retirement; or,

(3) One and seventy one-hundredths (1.70) percent of his final salary multiplied by the smaller of (a) twice the amount of his creditable service or (b) the amount of creditable service he would have completed at age sixty (60) if he had remained in service to that age. If the employee has already attained age sixty (60), the amount of creditable service at his date of retirement shall be used. This subsection (3) shall only be used if it results in a greater allowance than either subsection (1) or (2), as applicable.

(b) The annual disability retirement allowance shall also include any post retirement cost of living supplement provided for all city retirees pursuant to section 19-107.

(9-19-05(2))

## Sec. 19-153. - Annual review of disability recipient; cessation of allowance.

Any award of a disability retirement allowance pursuant to the provisions of this article shall be subject to the review and cessation provisions of section 19-103(a), (b) and (e).

(9-19-05(2))

## Sec. 19-154. - Reduction of allowance for workers' compensation benefits.

(a) Any disability retirement allowance payable pursuant to the provisions of this article shall be reduced by the amount of any payments under the provisions of the Virginia Workers' Compensation Act in effect on the date of retirement of the employee, and the excess of the allowance shall be paid to the employee. When the time for compensation payments under the Act has elapsed, the employee shall receive the full amount of the allowance payable during his lifetime and continued disability, until eligible to retire under age and service requirements.

(b) If the employee's workers' compensation payments are adjusted or terminated for refusal to work or to comply with the requirements of Virginia Code § 65.2-603, the disability retirementallowance shall be computed as if the employee was receiving the compensation to which he would otherwise be entitled.

(c) The disability retirement allowance of any employee who elects to receive a lump-sum settlement in lieu of periodic payments under the Virginia Workers' Compensation Act shall be adjusted by an amount determined by dividing the workers' compensation benefit which such employee would have received had the lump-sum settlement not been consummated, into the settlement actually accepted by the employee.

(9-19-05(2))

## Sec. 19-155. - Reduction of allowance where income earned during disability retirement.

(a) If any person receives a disability retirement allowance under this article and subsequently becomes employed, whether full time or part time, the allowance received shall be reduced by the amount of income received which exceeds the difference between the benefits received under this article and the amount of pay to which the employee would have been entitled had the member's employment progressed in the same rank and grade with credit for the level of seniority the employee would have attained had the employee not been disabled. For purposes of this section, increases in the amount of pay to which the employee would have been entitled will be equal to the general wage, cost of living, or average pay for performance increase for personnel in the employee's former department. The reduction shall continue until the disability retirement allowance ends pursuant to section 19-156(b).

(b) Any person receiving a disability retirement allowance under the provisions of this article shall, upon request, on or before May 1 of each year, provide a copy of all W-2 forms showing income received, or a statement under oath as to whether the employee has received compensation for work performed in the previous calendar year, to the commission. Refusal to provide such documents shall be grounds for termination of the allowance under this article until such documents are produced. Production of the documents may be required until the person would have been eligible for normal retirement had the person remained uninjured.

(9-19-05(2))

## Sec. 19-156. - Age and service retirement.

(a) Any person receiving a disability retirement allowance pursuant to this article shall continue to accrue creditable service for purposes of determining eligibility for retirement and, if applicable, the amount of any retirement benefit, regardless of whether the employee continues in active service with the city.

(b) The disability retirement allowance provided pursuant to this article shall end at such time as the employee reaches his normal retirement date as defined in section 19-91, or, at the option of the employee, at such time as the employee has completed five (5) or more years of creditable service and is at least fifty-five (55) years of age, or has completed twenty-five (25) years of creditable service and is at least fifty (50) years of age.

(c) At such time as the disability retirement allowance ends pursuant to subsection (b), the employee shall be entitled to receive the same pension and benefits to which he would have been entitled had he not been injured, and remained a regular full time employee of the city; provided, however, that the employee will be entitled to the additional annual allowance under section 19-96 (c) only if he has completed twenty (20) years or more of creditable service, including creditable service accruing pursuant to subsection (a) for time not actually worked for the city.

(9-19-05(2))

## Sec. 19-157. - Selection of benefits.

(a) Any public safety employee eligible to receive benefits under this article shall be ineligible to receive long term disability benefits pursuant to section 19-102.1.

(b) Any public safety employee who incurs a work related disability may elect to apply for total and permanent disability retirement pursuant to section 19-100 or partial disability benefits pursuant to section 19-102, in lieu of the allowance provided by this article. The receipt of benefits under 19-100 or 19-102 shall permanently disqualify the employee from receiving a disability retirement allowance under this article for the same injury or illness.

(9-19-05(2))

## Sec. 19-158. - Alteration, amendment or repeal; effective date.

(a) The provisions of section 19-111 regarding the alteration, amendment or repeal by city council of any provision of Article IV shall also apply to this article, as if fully set out herein.

(b) The provisions of this article shall apply to any individual employed by the city as a public safety employee on or after July 1, 2005.

(9-19-05(2))

# Sec. 19-103. - Annual review of disability recipient; cessation or adjustment of allowance or benefit.

(a) The commission may require any beneficiary of a disability retirement allowance under the plan or of a partial disability benefit to undergo a medical examination by the medical examiners once each year prior to the date on which the beneficiary attains his normal retirement date. Should such a beneficiary refuse to submit to any such medical examination, his retirement allowance or partial disability benefit shall be discontinued during the continuation of such refusal, and should such refusal continue for one (1) year, all of the beneficiary's rights to any further disability retirement allowance or partial disability benefit shall cease.

(b) Whenever, as a result of an examination of a beneficiary of a disability retirement allowance as provided for in subsection (a) of this section, the medical examiners certify to the commission that such beneficiary is no longer totally and permanently disabled, or if any such beneficiary should be again in service in his former position or any other position with the city at any time prior to his normal retirement date, the disability retirement allowance of such beneficiary shall cease and he shall again become a member of the plan. Any creditable service rendered by the member prior to the date of disability shall thereafter be counted as creditable service and, in addition, the period of disability retirement shall be counted as creditable service.

(c) Whenever a disability retirement allowance is terminated under subsection (b) of this sectionbut the commission determines that the beneficiary remains partially disabled to the extent that he is still incapable of performing the usual and customary duties of his former position with the city and that his earnings capacity has been reduced by such partial disability, such beneficiary shall be awarded a partial disability benefit in place of the terminated disability allowance. Such partial disability benefit shall be governed in every respect by section 19-102, as though it had been awarded initially in lieu of a disability retirement allowance and shall commence immediately upon termination of the retirement allowance.

(d) Whenever, as a result of an examination of a beneficiary of a partial disability benefit as provided in subsection (a) of this section, the medical examiners certify to the commission that there has been a significant improvement in the beneficiary's medical condition or a significant deterioration related to the same disability for which the disability retirement allowance or partial disability benefit was initially awarded, and the commission determines that the earnings capacity of the beneficiary has changed, the commission shall increase, decrease or terminate such beneficiary's partial disability benefit, as appropriate.

(e) Notwithstanding anything to the contrary in sections 19-100, 19-101, 19-102 or this section of this Code, the commission's decision to grant, deny or terminate a disability retirement allowance, or to grant, deny, terminate, increase or decrease a partial disability benefit need never be based solely on reports of the medical examiners. The commission may also consider reports of vocational rehabilitation counselors, financial evidence, the testimony of lay and expert witnesses, whether the candidate or beneficiary is receiving disability benefits under the Virginia Workers' Compensation Act and any other relevant evidence. The commission may require the beneficiary to submit at annual intervals a report on his personal efforts toward rehabilitation, along with a written statement attesting to the fact that there has been no change in his condition which could result in any adjustment to or cessation of his disability retirement allowance or partial disability benefit, or describing any such change which the beneficiary believes has taken place. The commission may also require the beneficiary to submit a copy of his personal and/or business federal income tax return for the preceding year or a sworn statement listing all of his income from employment or working, including self-employment, during such year. Notwithstanding such annual reporting as may be required by the commission, it shall be the duty of any beneficiary of a disability retirement allowance or a partial disability benefit to notify the commission within thirty (30) days of any material change in his medical condition or of any gainful occupation or work in which he becomes engaged. Failure of the beneficiary to furnish the information required by the commission under this subsection in a timely manner or failure of the beneficiary to cooperate with vocational rehabilitation counselors in order to derive maximum benefit from rehabilitation services offered at employer expense, shall constitute grounds for the commission to deny or order cessation of the disability retirement allowance or to deny or order a reduction or cessation of the partial disability benefit to such beneficiary.