OPEN SESSION
Minutes of the RTA Pension Plan Trustees Quarterly Meeting
Friday, February 14, 2025
RTA OFFICES | 12:00 pm

In Attendance:
Chairman Bill Lachman
Zaid Abdul-Aleem
Melanie Castle
Jeff Goodloe
John Morris
Frank Paul
Mahdi Hemingway (remote)

Also Attending:
Ali Guttillo, Northern Trust
Keith Beaudoin, Meketa
Jonathan Camp, Meketa
Greg Price, Meketa
Allison Noback, RTA
Katie Rak, McGuire Woods
Rob Reed, Alliance Pension Consultants
Jaime Carcelli, Alliance Pension Consultants

I. Roll Call

Chairman Lachman called the meeting to order at 12:15 p.m. Jaime Carcelli called roll. It was established that a quorum was present.

II. Discussion of Agenda Items

Meketa requested to move up their portion of the presentation regarding LDI by Jonathan Camp.

III. Public Comment

It was noted that there were no public comments to address. There were no guests who requested time on the agenda to speak.

IV. Approval of Minutes

The minutes of the November 8, 2024 (Open Session) were presented for approval.

MOTION: JOHN MORRIS MOVED TO ACCEPT THE MINUTES FROM THE NOVEMBER 8, 2024 OPEN SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY FRANK PAUL AND APPROVED BY A VOICE VOTE.

V. Northern Trust Report

Ali Gutillo confirmed that the supplemental contributions discussed in the last meeting were received in January, along with first quarter contributions from all entities. Contributions were made to Glendower Capital and Mesirow Financial and a capital call for JLC Infrastructure took place this week. Form 1099-Rs have been mailed. Ali can provide copies if needed.

Northern Trust is hosting its Passport Workshop on March 26th. This event offers an opportunity to explore the capabilities of their online platform, connect with other Northern Trust clients and gain insights into how others utilize their technology.

Northern Trust has released its 2025 Capital Markets Assumptions which has been distributed to the trustees.

Ali confirmed that Northern Trust does not store any personally identifiable information on their private cloud. Additionally, their server is located in Illinois, alleviating concerns about sensitive data being held outside the country.

VI. Liability Driven Investing Update

Jonathan Camp from Meketa presented an update on liability driven investing (LDI). Last year, Meketa provided a primer on LDI, which involves investing in bonds that mimic the timing and amount of future benefit payments. LDI removes much of the upside and downside of equities, offering more safety at the cost of higher contributions.

Jonathan explained that a gradual shift, or glide path, is preferable to an abrupt switch from growth to fixed income. As interest rates rise, a fully LDI portfolio might achieve around 6% returns, but would then require additional funding for deficits and accruals, which contributions are expected to cover. The glide path would adjust the allocation based on funded status, reducing risk as the plan becomes more funded. If the funded percentage decreases, the program could include a high-water mark or re-risking provisions to make up for deficits.

For this plan, a roughly 50% LDI allocation is being considered, with the first step being to lengthen the duration of the fixed income portion while avoiding high-yield corporate bonds. Meketa will work with GRS to determine what portion of the fund should be allocated to LDI versus growth. Although most public pensions do not use LDI, since they are still accruing and are generally below 80% funded, highly funded plans with lower discount rates (around 6%) may find a LDI approach suitable. For instance, Wisconsin uses LDI for retirees while keeping accrual assets separate.

Jonathan noted that once the plan reaches an “end state” of about 120% funded, the asset allocation should mirror the liability discounting method, typically using investment-grade bonds. The transition to this end state would occur in steps. For example, the plan would remain under the current policy until it reaches 105% funded, then gradually shift, by 25% increments with every 5% increase in funded status, until fully transitioning at 120%. Meketa will return next year with sample glide paths and a detailed proposal for 50/50 growth/LDI allocation to aid future decisions.

Based on the current Plan dynamics, Meketa is not recommending adopting an LDI approach (partial or whole) at this time. Rather, Meketa will provide periodic updates to ensure the Trustees are knowledgeable with the concepts and methodology and can implement if it makes sense for the Plan.

VII. Capital Markets Update, and Expectations, Economic and Market Updates as of 12/31/2025

Capital market expectations (CMEs) are developed by analyzing shifts in interest rates, currency moves and other market factors to forecast asset class returns over 10 and 20-year horizons. Generally, 10-year CMEs are lower than 20-year ones due to a higher assumed future risk-free rate, leading to more muted expectations over the next decade compared to the past. In 2023, despite significant volatility, most asset classes posted positive returns as global bond and equity markets rallied when inflation eased and central banks began to shift from tightening policies. However, tighter credit spreads, especially for lower-quality credit, and higher equity valuations have reduced forward-looking returns. CMEs, set annually by consultants like Meketa using both quantitative and qualitative methods, form the basis for asset allocation decisions by forecasting returns, standard deviations and correlations. In equities, forecasts incorporate dividend yields and overarching market themes. Global bonds have seen slightly lower yields due to stable interest rates and tighter spreads and high-quality bonds and core real estate have shown improvements.

U.S. equities had a standout year in 2024, with the S&P 500 up 25% and the Russell 2000 up 11%, driven by strong technology performance and pro-growth expectations following the election. In contrast, international markets underperformed, with MSCI EAFE and Emerging Markets both dropping about 8% in the fourth quarter, impacted largely by a strengthening U.S. dollar and trade uncertainties, which led to annual returns significantly lagging behind U.S. equities. Fixed income markets struggled amid rising short-term rates and inflation fears, as long-term Treasuries fell 8.6% while credit spreads tightened. Despite these challenges, the yield curve normalized by year-end. U.S. inflation eased overall, although core components remained sticky, while inflation trends varied internationally. The robust U.S. labor market and steady global growth forecasts of around 3.2% for 2025 underscore the mixed outlook amid ongoing fiscal and policy uncertainties.

VIII. Fourth Quarter Performance Report – Quarterly Pension Fund Update and Executive Summary as of 12/31/2024

The fund was valued at $452.9 million as of December 31, 2024, roughly matching its September 30 market value. Negative investment performance during the quarter resulted in a net return of -3.0% after fees, although supplemental contributions received in December helped offset some of the losses. Notably, Real Assets were the best-performing asset class during the quarter, posting a flat return.

Overall, the fund is in line with its policy targets. Elevated cash levels from supplemental contributions allowed for a $15 million investment. By February 12th, the fund gained an additional 2.6%. The plan's positioning remains distinct from the broader market, featuring a value bias, although private markets have been a drag over the past year to a year and a half. In terms of performance, large caps outperformed small caps and growth stocks outpaced value. While the Russell 3000 earned 23.8%, the domestic equity bucket delivered roughly half that, due in part to a struggling value manager. Aristotle underperformed its benchmark, Times Square lagged by 11% and EARNEST Partners faced additional drag from restrictions on military stocks. The fixed income bucket was down 3.6% for the quarter but up 1.4% for the year, with TIPS and long-term bonds serving distinct roles for inflation protection and flight-to-quality. Global multi-sector assets outperformed benchmarks, and an extra $8 million was allocated to Wellington at the beginning of 2025. Real assets remained flat for the quarter and although the real estate bucket encountered significant challenges in 2024 there are early signs of a positive outlook. Meketa will further analyze the data to confirm that the overall health of the fund remains strong.

IX. Current Issues

Meketa's research team met with Earnest's Dinkar Singh, Partner/Co-head of the equity team, and Jeffrey Jackson, Director of Product Management, to discuss the International Equity strategy. Earnest International Equity is considered a strong option in the space due to several favorable attributes. The firm is 100% employee-owned, an MWDBE and boasts a stable senior team with a well-defined process that incorporates quantitative screening and portfolio construction to ensure consistency. Their decision-making is highly democratic, requiring 80% team consensus, which helps reduce key-person risk. The International Equity portfolio has solidly outperformed the MSCI ACWI ex-US benchmark in 7 of the last 10 calendar years and consistently ranks in the first or second quartile of its peer group.

Meketa's research team rated Earnest as a solid manager, 4 out of 5, yet observed that the return streams were lower than expected. This underperformance appears to be linked to "PRAC" restrictions on arms and weaponry in the selected product, which have dampened returns relative to Earnest's core capabilities. Meketa questioned why RTA chose this specific product, given that the choice predates Meketa's involvement with the fund. Earnest did not have detailed documentation on this decision either though it's possible the restrictions were meant to avoid sin stocks. Since engaging Earnest in September 2010, their rolling returns have been top quartile, suggesting the manager is strong leading Meketa to believe that the restrictions are holding back their full potential. Given these findings Meketa made the recommendation to move all positions from the current holdings in EARNEST Partners International Pooled Group Trust in-kind to their core vehicle.

MOTION: JEFF GOODLOE HAS MOVED TRANSFER IN-KIND ALL CURRENT POSITIONS IN EARNEST PARTNERS INTERNATIONAL GROUP TRUST TO THE CORE VEHICLE. THE MOTION WAS SECONDED BY FRANK PAUL AND APPROVED BY A ROLL CALL VOTE. ONE TRUSTEE DID NOT PARTICIPATE (MELANIE CASTLE)

While some large private credit firms use NAV loans to gain attractive lending terms and additional leverage, Meketa's research team agrees that introducing another source of leverage is unnecessary. Nether Mesirow nor Glendower currently uses or plan to use NAV loans.

Although their agreements, dating from 2016/2017, do not explicitly restrict such activities, neither manager has shown interest and both see little need for them. Mesirow's CIO noted that while credit call facilities remain common, NAV loans could impose high costs and unnecessary risks on the portfolio. Meketa offered that counsel could draft a side letter prohibiting NAV loans, pending manager acceptance. Meketa will provide a full industry analysis to better inform the board about their use and implications.

Private credit, also known as private debt, refers to loans or other forms of debt financing originated by non-bank lenders such as asset managers, pension funds and insurance companies under privately negotiated terms. Borrowers often opt for private financing because they are too small or lack the credit history to access public markets. They may also value the speed, certainty, flexibility and confidentiality that these arrangements offer. Collateral can vary widely from corporate cash flows, receivables or hard assets. Interest rates in private credit tend to be higher than those in the public markets.

Historically, private credit was primarily focused on mezzanine and distressed debt before the Global Financial Crisis. Since then the market has grown substantially. Global capital raised in private credit has quadrupled since 2010 making it the second largest private markets asset after private equity. Within private credit, Meketa categorizes strategies into four broad groups: direct lending, asset-based lending, special situations and diversifying strategies. Return drivers in private credit include both income and potential capital appreciation, influenced by factors such as seniority in the capital structure, fund-level leverage, borrower quality and structural protections. Although private credit may offer downside protection and lower interest rate sensitivity, it tends to have high correlations with US equity and private equity. Performance evaluation is challenging due to the diversity of strategies and lack of data. Fee structures vary considerably depending on the fund's structure and strategy. Investors considering private credit should weigh the benefits of potential yield and diversification against the challenges of liquidity, higher fees and the need for thorough due diligence.

The fund's overall exposure to China is limited by design. Although the EAFE allocation is slightly overweight China, managers like Parametric intentionally restrict exposure to any single county, resulting in underperformance during China's recent surge. In contrast, active managers like Driehaus offer more flexibility to exit positions amid geopolitical risks, such as potential military moves on Taiwan. Overall, the fund remains underweight on China, a stance that Meketa supports.

Meketa evaluated the pacing for the fund's private markets allocations, specifically for private equity and real estate. The current target is a 7% allocation, but the fund is only at about 4% so additional contributions are needed. There is high conviction in current managers like Mesirow, which announced another distribution in January. The board is considering whether to re-up with existing managers or adding new ones to diversify exposure and avoid overlap. Meketa will prepare a report on three managers, one being Mesirow, so the board can evaluate their strategies and performance. Based on a pacing study, the fund is slated to commit roughly $11 million each to private equity and real estate in 2025. In private equity, Mesirow's fund of funds approach leverages the J-curve effect. In real estate the decision will be between re-upping with managers like JP Morgan and Heitman or exploring new options, especially given evolving views on office space and single-family home investments. Meketa will send detailed information on these managers before the next meeting to allow for informed decision-making.

Meketa proposed a rebalancing involving the reallocation of $13.5 million from emerging market equities, $6.75 million from Parametric and $6.75 million from Driehaus, to boost fixed income holdings. Of the $13.5 million, $11.5 million would be directed to Dodge & Cox and $2 million to long-term government bonds. This move would result in a minor underweight in emerging markets and a slight overweight in fixed income. Future real estate investments will be funded from the Dodge & Cox allocation.

MOTION: JOHN MORRIS HAS MOVED TO SELL $6.75 MILLION FROM PARAMETRIC AND $6.75 MILLION FROM DRIEHAUS TO PURCHASE $11.5 MILLION DODGE & COX AND $2 MILLION LONG-TERM GOVERNMENT BONDS. THE MOTION WAS SECONDED BY FRANK PAUL AND APPROVED BY A ROLL CALL VOTE. ONE TRUSTEE DID NOT PARTICIPATE (JEFF GOODLOE)

Included in deliverables provided by Meketa is presentation of fees, performance and relevant staffing changes.

X. Administrators Report

Rob Reed presented the Administrator's report to the trustees. The quarter began with approximately $20 million in cash. Around $15.5 million in assets were transferred and $3.7 million in distributions were paid out. Currently $6.3 million remains in the disbursement fund, with an estimated $3.6 million in March distributions, leaving about $2.7 million in cash. Assuming timely contributions, cash flow should remain stable until the next trustee meeting.

A standing resolution exists that as administrator, Rob Reed, can take out up to $2.5 million in cash as needed.

XI. Executive Session

There was no executive session.

XII. Old Business

There was no old business to discuss.

XIII. New Business

Next meeting of the RTA Trustees is Friday, May 9, 2025 at 12:00 p.m.

XIV. Adjournment

MOTION: MELANIE CASTLE MOVED TO ADJOURN THE MEETING AT 3:06 PM. THE MOTION WAS SECONDED BY JOHN MORRIS AND THE MEETING ADJOURNED BY VOICE VOTE.

Respectfully submitted,

Jaime Carcelli
Recording Secretary