

OPEN SESSION

Minutes of the RTA Pension Plan Trustees Quarterly Meeting

Friday, August 16, 2024

RTA OFFICES | 12:00 pm

In Attendance:

Chairman Bill Lachman
Zaid Abdul-Aleem
Mahdi Hemingway
John Morris
Frank Paul
Jeff Goodloe

Not Attending:

Lorri Newson

Also Attending:

Keith Beaudoin, Meketa
Kristen Brundirks, GRS
Win Buren, Metra
Jaime Carcelli, Alliance Pension Consultants
Ali Guttillo, Northern Trust (remote)
Pam Grundt, Alliance Pension Consultants
Joshua Murner, GRS
Allison Noback, RTA
Greg Price, Meketa (remote)
Katie Rak, RTA (remote)
Paul Rotatori, RTA
Rob Reed, Alliance Pension Consultants
Amy Williams, GRS

I. Roll Call

Chairman Lachman called the meeting to order at 12:23 p.m. Jaime Carcelli called roll. It was established that a quorum was present.

II. Discussion of Agenda Items

No changes were requested.

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 May 10, 2024 (Open Session) were presented for approval.

MOTION: FRANK PAUL MOVED TO ACCEPT THE MINUTES FROM THE MAY 10, 2024 OPEN

SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY JOHN MORRIS AND APPROVED BY A VOICE VOTE.

V. Northern Trust Report

Ali Guttillo noted that since the May meeting, Northern Trust has received the quarterly contributions from each agency as expected. The portfolio has also received a few distributions and there was a capital call this week for the JLC Infrastructure fund.

At the last meeting, we learned about Northern Trust's recent enhancements to their reporting, dashboards and cash projections. Additionally, Northern Trust is hosting several noteworthy web events through their A-Suite website, including: "The Election Effect" and "Cyber Risk Uncovered."

A-Suite, launched by Northern Trust last year, provides insights, research and networking opportunities for asset owners. If anyone is interested in specific topics, you are welcome to suggest them for future coverage.

VI. Presentation of 1/1/2024 Actuarial Valuation

Amy Williams, Kristen Brundirks and Joshua Murner, plan actuaries, presented the January 1, 2024 valuation GRS performed.

Actuarial assumptions should be reviewed at least every five years to appropriately reflect past and expected future plan experience. GRS conducted an experience study covering the period from January 1, 2018 to January 1, 2023. The Board has adopted the actuarial assumptions from this study, which are effective with the actuarial valuation as of January 1, 2024. Key changes in actuarial assumptions include:

- **Salary Increase** – Decreased rates for Metra, increased rates for Pace and RTA.
- **Lump Sum Conversion Factor** – Updated interest rates for projecting lump sums for members more than five years from retirement.
- **Retirement Rates** – Separate rates adopted for Metra and Pace to reflect different retirement behaviors. Overall increase in retirement rates for members eligible for unreduced retirement benefits and decrease in retirement rates for members eligible for reduced retirement benefits.
- **Lump Sum Election** – Reduced the assumption that eligible members will elect a lump sum from 45% to 40%.
- **Turnover Rates** – Rates were updated based on observed experience.
- **Mortality Rates** – The generational mortality projection scale was updated to MP-2021.
- **Disability Rates** – The rates were decreased based on observed experience.
- **Dependent Assumptions** – Reduced the marriage assumption for male employees and updated assumptions for valuing liabilities related to pre-retirement death benefits.

The Unfunded Actuarial Accrued Liability (UAAL) of the plan decreased significantly, from \$130,250,702 as of January 1, 2023 to \$89,339,866 as of January 1, 2024. The years remaining

in the 30-year closed amortization period was 22 years as of January 1, 2023 and 21 years as of January 1, 2024 with the UAAL projected to be fully amortized by December 31, 2045. One of many factors driving the significant decrease in the UAAL was the additional 2023 contribution in the amount of \$34,400,000.

On a market value basis, the plan assets achieved an investment return of approximately 13.53% during the plan year ending December 31, 2023. The actuarial value of assets earned an estimated net rate of return of 6.55%, exceeding the assumed rate of 6.00%. This higher-than-expected return was primarily driven by investment gains recognized in the fiscal years ending 2019, 2020, 2021 and 2023, which were partially offset by an investment loss recognized in the fiscal year ending 2022.

For ending 2024, the recommended employer contribution is \$24,377,103, reflecting an 8.6% decrease from the \$26,660,974 recommended for fiscal year 2023. This reduction is primarily due to the significant decrease in the unfunded liability caused by the additional contribution made in fiscal year 2023. The remainder of the fiscal year 2024 contribution is expected to be made by the end of the current year. Currently, the actuarial value of assets is 102.6% of the market value of assets. However, there are \$15,176,977 in net asset losses that are being deferred and will be phased into the actuarial value over the next three years. This deferral will likely increase the recommended employer contributions toward the unfunded liability in the future, unless offset by new actuarial gains.

GRS recommends that the plan's assumptions used for calculating optional forms of payment (excluding lump sums) be updated to align with the actuarial valuation's investment return and mortality assumptions. Currently, the investment return assumption is 6.00%, and the mortality table is the Pub-2010 Healthy Retiree table with the MP-2021 improvement scale. The decision to update the mortality table is pending committee review and requires RTA Board approval since plan amendments are necessary for any changes in mortality table. There are multiple lawsuits concerning this topic that the board is awaiting the outcome of before taking any action.

Actuaries adhere to Actuarial Standards of Practice (ASOPs), including the revised ASOP No. 4, which requires calculating a Low-Default-Risk Obligation Measure (LDROM) liability for measurement dates on or after February 15, 2023. For the plan's January 1, 2024 valuation, the LDROM of \$580 million was determined using the December 2023 FTSE Intermediate Single Equivalent Rate of 4.80%. In comparison, the funding actuarial accrued liability, based on the Entry Age Normal (EAN) method and a 6.00% discount rate is \$506 million, resulting in about a \$75 million difference. This gap highlights the potential contribution savings from the higher investment returns expected from the plan's diversified portfolio, as opposed to the lower returns from investing solely in low-default-risk fixed income securities.

VII. 2nd Quarter 2024 Investment Report

Keith Beaudoin and Greg Price represented Meketa to deliver the economic, market and Pension Fund update.

During the quarter, mid-cap and small-cap managers faced some challenges with small caps experiencing a minor setback though it wasn't significant enough to affect overall results. International equities had a strong quarter and fixed income rose by 30 basis points. Investment-grade bonds performed well. TIPS and long-term bonds aligned with their benchmarks. Real assets remained flat. A key weight on the overall fund performance was the overweight allocation to international and emerging markets. The U.S. market surged, supported by a strong dollar. The introduction of a value play in domestic equities added volatility but was unwound leading to a defensive shift. U.S. growth stocks outperformed value stocks, continuing a trend that has persisted for the past 15 years. Parametric's performance was slightly disappointing due to their underweight in China, though their structure remains sound overall.

International non-U.S. equities dragged on performance and adjustments are being considered to reduce the overweight allocation while maintaining some exposure, as U.S. stocks appear to be overvalued. This overweight position may eventually pay off but it does require patience. Much of the recent market gains in U.S. equities were driven by large-cap tech stocks, particularly a group referred to as the "Magnificent 7." Growth stocks have continued to outperform value stocks, especially in the large-cap space, reinforcing the ongoing dominance of growth.

International markets had a mixed performance with developed markets outside the U.S. declining. Emerging markets, led by a recover in China, posted gains. Bond markets saw slight gains overall, with high yield bonds performing well, reflecting an increased appetite for risk among investors. Globally, inflation pressures have eased somewhat but remain above the targets set by central banks. In the U.S., inflation has cooled and market volatility has decreased. Investors are now anticipating potential rate cuts by the Federal Reserve before the end of the year. The U.S. labor market is showing signs of softening, although wage growth remains robust.

Looking ahead, global economic growth is projected to hold steady at 3.2% for the year, with inflation and monetary policy likely to be the most significant factors influencing market conditions. U.S. equities continue to outperform, driven by strength in the technology sector. International equities present potential valuation opportunities despite ongoing risks in key regions such as China and Europe.

VIII. Final Asset Allocation & Rebalancing of Portfolio

Asset allocation policy largely remains the same, with the inclusion of global multi-sector credit at zero, resulting in some minor adjustments around the edges. Despite these changes, the Pension Fund maintains over a 77% chance of achieving its 6% return goal. The proposed strategy includes a reduction in the emerging market equity and the consolidation of high-yield and emerging market bonds into a global multi-sector credit category. Previously, the allocation broke out high-yield bonds, emerging market debt and investment-grade bonds into separate categories. Now these will be wrapped into a single global multi-sector credit category allowing for more flexibility in investment opportunities. Overall, Meketa's recommendation aims to align

the recommended asset allocation with current practices while enhancing responsiveness to market conditions.

MOTION: JOHN MORRIS HAS MOVED TO ACCEPT AMENDED ASSET ALLOCATION POLICY AS PRESENTED BY MEKETA. THE MOTION WAS SECONDED BY FRANK PAUL AND APPROVED BY A ROLL CALL VOTE. LORRI NEWSON DID NOT PARTICIPATE.

Further discussion was had regarding implementation of LDI and dynamic asset allocation. These strategies aim to segment the population within the Pension Fund to better manage risks by derisking portions of the Pension Fund. While the dynamic strategy itself does not entail additional costs, there may be charges incurred from GRS for the necessary setup work. To further evaluate the potential impacts on unfunded liability studies could be done to see how this would have impacted years 2000 to 2012.

In terms of investment recommendations, Meketa proposes trimming allocations in TimesSquare and Driehaus while allocating more funds to Infrastructure and Kayne Anderson.

MOTION: JOHN MORRIS HAS MOVED TO REDEEM \$3.5M FROM TIMESSQUARE AND \$2M FROM DRIEHAUS EMERGING MARKETS GROWTH RAISING A TOTAL OF \$5.5M CASH FOR USE IN CONJUNCTION WITH EXISTING CASH TO PURCHASE \$4M JP MORGAN INFRASTRUCTURE INVESTMENT AND \$6M KAYNE ANDERSON SMALL CAP AS SUGGESTED BY MEKETA. THE MOTION WAS SECONDED BY JEFF GOODLOE AND APPROVED BY A ROLL CALL VOTE. LORRI NEWSON DID NOT PARTICIPATE.

Next steps include Rob Reed initiating trades in alignment with the above. John Morris will approve the trades with assistance from Ali Guttillo at Northern Trust.

IX. Ideas for Emerging Market Investments with Ex-China

Meketa highlighted three managers offering an Ex-China approach: RBC, William Blair and Wasatch. RBC and William Blair lean more towards growth-oriented strategies, with William Blair offering a quality growth approach. Wasatch focuses more on sustainable growth. Wasatch's beta of over 1 indicates higher volatility compared to the market, but it has a strong upside capture of 107.4 and a decent downside capture of 101.4. Meketa prefers RBC's ratios for a better balance of risk and return. A significant concern among the managers is the potential global ramifications if China were to invade Taiwan, even with an Ex-China strategy which is impacting their decisions regarding exposure to Taiwan. Despite Taiwan being the largest market in the index, managers are finding more opportunities in India, as a hedge against the risks associated with Taiwan. Meketa also brought up the idea of engaging a "manager of managers" in the Ex-China space, which could provide further avenues for exploration. Currently decisions regarding China are being left up to Driehaus and Parametric but there is the option to conduct a full search for other potential managers if desired. Meketa offered to bring in a specialist for a more comprehensive review of the strategies discussed.

X. Administrators Report

Rob Reed presented the Administrator's Report, highlighting the cash flow projection. The quarter began with a substantial cash balance, with distributions now reaching approximately \$1.85 million each month. Expenses are as expected, ranging between \$200,000 and \$300,00, leaving \$9 million in the bank today. Maguire Woods bills were reviewed by Katie and Alison to ensure accuracy. There are potential lump sum payments, though not all are expected to proceed. There are pending trades totaling \$4 million, with \$500,000 already committed making the rest a wash. A recent call of \$138,890 was made but a previous call of \$128,000 from the last quarter is still pending. Rob will investigate the pending call status. Cash flow is projected to be between \$1.6 and \$1.7 million, with the next payment expected to be lower due to an advance payment. Overall, the cash flow situation is stable with no excess funds currently available.

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, November 8, 2024 at 12:00 p.m. The 2025 meeting dates will be determined at this meeting. Additionally, Katie Rak has mentioned that fiduciary training will be available at 11:00 AM, directly before the next meeting, for anyone interested in attending.

XIV. Adjournment

MOTION: MAHDI HEMINGWAY MOVED TO ADJOURN THE MEETING AT 2:38 PM. THE MOTION WAS SECONDED BY ZAID ABDUL-ALEEM AND THE MEETING ADJOURNED BY VOICE VOTE.

Respectfully submitted,

Jaime Carcelli
Recording Secretary