OPEN SESSION

Minutes of the RTA Pension Plan Trustees Quarterly Meeting
Friday, May 10, 2024
RTA OFFICES | 12:00 pm

In Attendance:
Chairman Bill Lachman
Zaid Abdul Aleem
Mahdi Hemingway
John Morris
Frank Paul

Not Attending:
Lorri Newson
Jeff Goodloe

Also Attending:
Keith Beaudoin, Meketa (remote)
Kristen Brundirks, GRS
Jaime Carcelli, Alliance Pension Consultants
Ali Guttillo, Northern Trust
Joshua Murner, GRS
Alison Noback, RTA
Greg Price, Meketa (remote)
Rob Reed, Alliance Pension Consultants
Jeffrey Van Wagner, Alliance Pension Consultants
Alexandra Wallace Stone, Meketa
Amy Williams, GRS

I. Roll Call

Chairman Lachman called the meeting to order at 12:16 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 February 16, 2024 (Open Session) were presented for approval.

MOTION: MAHDI HEMINGWAY MOVED TO ACCEPT THE MINUTES FROM THE FEBRUARY 16, 2024 OPEN SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY JOHN MORRIS AND APPROVED BY A VOICE VOTE.

V. Gidley Management Group

Debbie Gidley and her family at Gidley Management recorded minutes for the RTA Pension Plan for over 20 years. Gidley Management closed its doors during the COVID-19 pandemic, but Debbie was kind enough to continue recording the minutes for RTA through the previous RTA Pension Plan Trustees meeting.

VI. Introduction of Jaime Carcelli

Alliance Pension Consultants has brought in Jaime Carcelli for the purpose of minute recording beginning with today's meeting.

VII. Northern Trust Report

Ali Guttillo noted that Northern Trust has made multiple enhancements to the reporting and dashboards they have. Notably the trade and cash alerts and audit history are expected to provide a more user-friendly experience. The settlement monitory dashboard allows clients to monitor the status of trades, view failed trades and more. There are also greater cash reporting capabilities allowing for more transparency and customization in viewing invested cash, uninvested cash or both.

T+1 settlement is still set to occur later this month on May 28, 2024. This will shorten settlement timelines by one business day.

Regarding the RTA Pension Plan specifically, Northern Trust noted that all expected contributions were received in April. The audit is currently underway with RSM US LLP acting as the audit firm. There were a few redemptions and purchases into the plan and a few funds called capital.

VIII. Presentation of Actuarial Assumption Study

Kristen Brundirks, Josh Murner and Amy Williams of plan actuaries GRS presented their findings from the 2024 Experience Review for the period of 1/1/2018 through 1/1/2023.

The primary goal of an experience study is to determine the appropriateness of the current actuarial assumptions. This involves comparing actual experience with the experience predicted by these assumptions. Based on the findings the study may either validate current assumptions or recommend new assumptions. In performing this review GRS adhered to the Actuarial Standards of Practices (ASOPs).

Economic assumptions, often referred to as "money" assumptions, include several key factors. The assumed rate of price inflation, typically measured by changes in the Consumer Price Index (CPI), is fundamental as it underlies other economic assumptions. Current inflation forecasts range from 2.13% to 2.70%, with an average assumption of 2.39%. Given this information GRS recommends maintaining the inflation assumption at 2.50%. The assumed long-term rate of return on investments is used to reduce projected benefits to present value. Analysis of capital market assumptions suggests maintaining the current assumption of 6.00%, considering higher return expectations than in recent years. While 6% is considered a relatively conservative assumption which necessitates higher contributions it does increase the Plan's likelihood of meeting its needs. Pay increases due to merit, seniority, and promotion, separate from inflation, are factored into the assumptions as well. These assumptions are used to project member pay at time of retirement. Separate salary increase assumptions for the agencies are recommended to account for historical differences. GRS recommends decreasing the current salary increase assumptions for Metra while increasing the salary increase assumptions for Pace and RTA.

Demographic assumptions, or "people" assumptions, include various factors like mortality, retirement, withdrawal (other than retirement) and disablement. Current mortality assumptions are based on the Pub-2010 Public Sector Mortality Table with rates projected from 2010 using the MP-2018 projection scale. Given the limited credibility of the plan's mortality data and the uncertain impact of COVID-19 on future mortality rates, GRS recommends continued use of the Pub-2010 Public Sector Mortality Table. GRS recommends updating the mortality projection scale to the most recently available version, MP-2021, based on mortality experience through 2019. Members are eligible for unreduced retirement benefits at age 65 or based on the rule of 85 and reduced benefits start at age 55 with 10 years of service. Retirement assumptions should account for historical differences between agencies. Separate retirement assumptions for the agencies are suggested to reflect these variations accurately. GRS recommends RTA and Metra use the same retirement rate assumptions for unreduced retirement benefits and RTA and Pace use the same retirement rate assumptions for reduced retirement benefits. Recommendations overall are to increase retirement rate assumptions for unreduced retirement benefits for Metra and RTA and decrease rates for Pace and decrease retirement rate assumptions for reduced retirement benefits for Pace and RTA and increase rates for Metra. Turnover represents employees who have left active service for status reasons other than retirement and death. GRS has made recommendations to change the turnover rate assumptions to better reflect actual experience. The experience study determined there were fewer disabilities than expected under the current actuarial assumptions. As a result, GRS recommends an overall decrease in disability rate assumptions.

Additional actuarial assumptions include amortization methods and factors such as dependents, lump sum election and conversion factor assumptions. Dependent assumptions are used to value pre-retirement death benefits. The current assumption is that 65% of male employees and 45% of female employees are married. Based on the demographics of the active group as of January 1, 2023, GRS recommends decreasing the marriage assumption for males to 60% and maintaining the marriage assumption for females at 45%. Currently 5% of unmarried males and 10% of unmarried females are assumed to have dependent children under age 26. GRS stated that there is not currently data to review this plan assumption. For members eligible for a lump sum at retirement, it is recommended to reduce the assumption from 45% to 40% based on observed behavior. For retirees assumed to elect an annuity, GRS recommended that the percentage of females assumed to elect a reduced 50% joint and survivor annuity be increased from 35% to 40%. GRS recommends an interest rate of 4% and Pension Protection Act mortality rates be used for valuation purposes to project the value of future lump sum payments for participants assumed to retire and elect lump sums more than five years after the valuation date. The current practice of including 105% of the average actual administrative expenses from the past three years in the normal cost is recommended to continue.

GRS recommends the following assumptions to calculate optional forms of payment (other than lump sum payments) for plan administration; interest rate equal to the investment return assumption used in the actuarial valuation and mortality based upon Pub-2010. Assumptions used for calculating optional forms of payment, such as the interest rate and mortality assumptions, should be updated to align with the actuarial valuation basis, maintaining consistency with other assumptions.

During the review, trustees questioned why mortality tables had not been updated previously for plan administration in calculating optional forms of payment (other than lump sums) and why the plan document does not simply reference "the most current mortality table." Using a generic reference would complicate benefit administration as each new table would necessitate multiple benefit calculations to ensure no beneficiaries lose out. The current practice of specifying the mortality table in the plan document avoids these issues but does require an amendment to update. Typically, updating the mortality table will increase benefits by reflecting longer life expectancies. This matter will be brought to the RTA Pension Committee. Alliance Pension Consultants will prepare examples showing how a change in mortality table would impact benefits for presentation at the August RTA Pension Committee meeting.

Adopting the recommended assumptions will decrease the actuarial liability and recommended annual contribution and increase the funded ratio.

MOTION: FRANK PAUL MOVED TO ACCEPT THE RECOMMENDED ASSUMPTIONS AS PRESENTED BY GRS. THE MOTION WAS SECONDED BY ZAID ABDUL ALEEM AND APPROVED BY A ROLL CALL VOTE. TWO TRUSTEES DID NOT PARTICIPATE (JEFF GOODLOE AND LORRI NEWSON).

IX. 1st Quarter 2024 Investment Report

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

Strong economic data has boosted global equities and sticky inflation prints delayed the timing of the first Federal Reserve rate cut, impacting bond markets negatively. Major central banks have paused rate hikes, but uneven inflation and economic growth could lead to different timings for future rate cuts.

Inflation pressures have eased from pandemic peaks but remain above most central bank targets. In the U.S., headline inflation rose from 3.2% to 3.5% in March, while core inflation remained at 3.8%. China's inflation rose slightly in March as the effects of the Lunar New Year waned.

U.S. equity markets (Russell 3000 Index) increased by 10% in the first quarter, continuing their strong performance from 2023. Non-U.S. developed markets rose by 5.8%, with Japanese equities hitting multi-decade highs. Emerging market equities grew by 2.4%, hindered by China declining by 2.2%. Technology and energy sectors led U.S. market gains.

Rising interest rates negatively impacted bonds, with the U.S. bond market down by 0.8% in the first quarter. High-yield bonds performed well due to strong risk appetite and attractive yields.

The U.S. labor market is strong, with low unemployment, positive real wage growth and high job openings. However, consumer pressures are increasing due to high credit use and rising payment delinquencies.

The Federal Reserve paused rate hikes, with current rates at 5.25%-5.5%. Markets now expect fewer rate cuts this year. European and UK central banks have paused rate hikes, with potential rate cuts still in sight. The Bank of Japan ended its negative interest rate policy, while China's central bank maintains low rates to support economic growth.

The IMF expects global growth to match 2023's estimate of 3.1%. Strong U.S. economic data might delay rate cuts, which could maintain upward pressure on the dollar. Risks include inflation staying high, potential policy errors by central banks and economic uncertainty in China.

The pension fund was valued at $424.3 million as of March 31, 2024, an increase of approximately $8.8 million since December 31, 2023. This growth was driven by strong investment performance, with a return of 4.3% net of fees for the first quarter. The fund's worst performing asset class during the first quarter was real estate, which returned -3.7%. Most asset classes are within their target allocation ranges, except for the unfunded Emerging Market Bonds and slightly overweight cash.

Over the trailing one-year period, the plan generated a 12.4% return, outperforming the allocation index by 1.5% and the policy index by 0.9%. Mid-cap equities and international equities were significant contributors, with emerging market equities performing well over one and three years. Rising interest rates led to a 0.3% decline in investment-grade bonds and a 3.2% decline in long-term government bonds. Cash exposure generated nearly 5% over the past year.

Aristotle Value Equity, an actively managed fund, showed some underperformance in the first quarter but performed well over the one-year and since-inception periods. TimesSquare and Kayne Anderson Small Cap Core have performed strongly, and domestic equity active managers have been positive overall. Earnest Partners International Pooled Group Trust struggled but was offset by Arrowstreet International Equity. The JP Morgan Infrastructure Fund was a bright spot, while real estate, particularly JPMorgan Strategic Property, faced challenges with a 17.4% decline over the past year.

X. Discussion on Asset Allocation & Review Current Design

Based on the analysis, the plan's target policy allocation is expected to generate returns of 8.22% with a 13% standard deviation. Meketa presented four alternative asset allocation policies that yield lower returns but also reduce risk significantly. These alternatives decrease growth equity exposure and reorient towards rate sensitive fixed income. Historically bullish on emerging markets, Meketa has been dialing back this stance over the past few years. The alternatives presented, also reduce Emerging Market Bond exposure and increase investment-grade bonds, enhancing Sharpe ratios across the board.

The alternative policies provide more downside protection, likely underperforming the target policy in positive scenarios due to their more conservative nature. Stress testing indicated that the alternative policies would underperform the current policy in rising interest rate environments due to their heavy reliance on rate-sensitive assets. Meketa emphasized the need to assess the trustees' risk appetite, considering potential volatility and the current bias towards value over growth.

Questions arose about the outlook for emerging markets and their geopolitical risks, particularly regarding China, which comprises about 25% of emerging markets. Meketa noted the growing concern and suggested exploring ex-China options for those uncomfortable with the exposure.

The trustees discussed the possibility of incorporating Risk Mitigating Strategies (RMS) or Liability-Driven Investment (LDI) strategies to offset market volatility. LDI would involve setting aside portions of the fund for payouts over different time horizons, ensuring liquidity for near-term liabilities while seeking higher returns for long-term needs. This dynamic approach, common among health plans and underfunded plans, involves creating pools of assets for payouts withing specific periods, with the remaining assets geared towards equity for payouts beyond those periods. The overall goal is to align the portfolio with a 6% return while mitigating risks, especially in light of rising interest rates.

Meketa will provide additional data on China exposure and explore alternative asset managers that could offer ex-China options, ensuring the portfolio remains prudent and aligned with the trustees' risk preferences and objectives. The Trustees concluded that their current Asset Allocation is prudent and will meet the Fund's long-term objectives. They directed Meketa to modestly modify the Equity allocation to more closely align with the broad market. Meketa will present another Asset Allocation at the next meeting for a final vote.

XI. Administrators Report

Rob Reed presented the Administrators Report.

Based on the cash flow projections, the plan is expected to have just under $5 million in cash. There is an anticipated contribution of $6.6 million in early July. Given this upcoming contribution it is recommended to invest approximately $4 to $4.5 million after receiving the July funds.

MOTION: FRANK PAUL HAS MOVED TO INVEST UP TO $4.5 MILLION AT THE DIRECTION OF MEKETA AT THE TIME OF INVESTMENT, FOLLOWING RECEIPT OF THE SECOND QUARTER CONTRIBUTION. THE MOTION WAS SECONDED BY JOHN MORRIS AND APPROVED BY A ROLL CALL VOTE. TWO TRUSTEES DID NOT PARTICIPATE (JEFF GOODLOE AND LORRI NEWSON)

IX. Executive Session

There was no executive session.

X. Old Business

There was no old business to discuss.

Xi. New Business

Next meeting of the RTA Trustees is Friday, Aug 16, 2024 at 12:00 p.m.

XII. Adjournment

MOTION: MAHDI HEMINGWAY MOVED TO ADJOURN THE MEETING AT 3:48 PM. THE MOTION WAS SECONDED BY JOHN MORRIS AND THE MEETING ADJOURNED BY VOICE VOTE.

Respectfully submitted,

Jaime Carcelli
Recording Secretary