OPEN SESSION

Minutes of the RTA Pension Plan Trustees Quarterly Meeting
Friday, August 18, 2023
RTA OFFICES | 12:00 pm

In Attendance
Chairman Bill Lachman
Jeff Goodloe
Madhi Hemingway
John Morris
Lorri Newson (remote)
Frank Paul

Not attending:
Zaid Abdul Aleem

Also Attending:
Keith Beaudoin, Meketa
Kristen Brundirks, GRS
Joseph Ellyin, RTA
Debbie Gidley, Recording Secretary
Pam Grundy, Alliance Pension Consultants
Ali Guttillo, Northern Trust
Ghiane Jones, Meketa
Alison Noback, RTA
Katie Rak, McGuire Woods
Rob Reed, Alliance Pension Consultants
Amy Williams, GRS
Reggie Ross, Meketa

I. Roll Call

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

II. Discussion of Agenda Items

There was no discussion of or changes to the agenda.

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 19, 2023 (Open Session) were presented for approval.

MOTION: JOHN MORRIS MOVED TO ACCEPT THE MINUTES FROM THE MAY 19, 2023 OPEN SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY MADHI HEMINWAY AND APPROVED BY A VOICE VOTE.

V. Northern Trust Report

Ali Guttillo presented the Northern Trust Report and some updates about Northern Trust.

She noted that the Northern Trust Office is moving to three days (minimum) in the office starting September 25, 2023.

Since the last RTA Trustees meeting (May 2023), Northern Trust launched ASuite, a new collaboration and networking tool to give participants the latest news from an industry perspective. Ms. Guttillo said she would be happy to send a complimentary subscription link to any interested Trustees.

Additionally, Northern Trust is working on a project called "Alternatives Evolution" whose intention is to leverage digitalization for more transparency with their partners.

In terms of the RTA, Ms. Guttillo noted that she received the third quarter contributions from PACE/MERTA/RTA and the Black Rock/Aristotle purchases have been settled. There was a capital call for JLC Infrastructure.

Fir Tree International Value Funds is still on record. Ms. Guttillo will need the last statement to remove it.

Ms. Guttillo asked if there were any questions.

Question: Is Northern Trust up for review with Moody's? Answer: Yes, but it's not a concern. Northern Trust has a high rating and is ahead of the market. They have certificate liquidity on Northern Trust's end, and there is no reason to believe they would have any realized losses.

VI. Actuarial Valuation Presentation

Amy Williams and Kristen Brundirks of GRS presented the results of January 1, 2023 Actuarial Valuation of the RTA Pension Plan**.**

Ms. Williams gave an overview for the newer Trustees. She noted that the purpose of this exercise is to determine the funding status as of January 1, 2023 and to develop the funding requirements for the plan year ahead.

Ms. Williams noted that an actuarial valuation looks at everything that has changed in the past year and makes assumptions about the upcoming year based on past experience and calculates the contributions that should be collected throughout the year.

The actuary looks at the following data to determine the valuation for the upcoming year in order to fund the plan's benefits and expenses:

- Active Participant data
- Plan provisions
- Assumptions and methods
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- Funding policy (tells us how to calculate the contribution requirements)

Actuarial Value of Assets takes the results and provides a "smoothed value" which is a calculation based on expected investment earnings assuming the actuarial assumptions (currently 6% investment return) compared to actual earnings. This difference is recognized over a 5-year period and helps dampen volatility. Based on the results from January 2023, the actuarial value of assets is about 9% higher than the market value.

Key assumptions:
Economic – investment return (assuming 6%)
Demographics (retirement age, salary, turnover, disability, mortality)

Question: How does that 9% increase impact payouts to employees? Answer: It's recognized over a 5-year period to smooth, so it doesn't impact employees as much as it does the contributions from the Agencies. This allows for the offset of losses of different years. If we didn't use smoothing, the contributions would be higher.

Benefit obligations:

Present value of future benefits (as of current date) –includes cost of both past and future service for current members.

Accrued Actuarial Liability – Attributable to service used to date. Does not include future service.

Costs related to future service – Present Value Future Normal Cost.

Normal costs.

All the above factors go into determining rate.

Funding policy: Minimum employer contribution and amortization of unfunded liability, paid over 30-year period. We are eight years into the current 30-year policy.

Contributions need to keep up with costs accruing plus interest.

Results for 2023:

Changes from prior year – There was a change in the assumption, related to lump sum conversion factors. Based on interest rates and mortality assumption.

Actuarial valuation varies year by year. For example, last year, interest rates were lower and may impact lump sum payments.

Q: Does it also affect if you choose the lump sum? A: Yes, it would be more favorable in 2022 v. 2023.

Periodically, assumptions should be reviewed in order to make sure they represent the best expectation of future experience. (Last 5-year study conducted for the period 2013-2018). Recommend an updated experience study be performed before the 1-1-24 actuarial valuation covering the period 2018-2023.

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Results

	January 1, 2022	January 1, 2023
AAL	470M	488M
AVA (Smooth)	347 M	358M
Unfunded Lia.	123M	130M
Funded Ratio	73.9%	73.3%

(Based on market value of assets = 67.1% as of 1/1/23)

Normal cost of Benefits for participants –

	14.7M	15.8M

The amortization went up approximately 8.3% in 2023, making the total contribution requirement:

	24.7M	26.7M

Q: As we get closer and closer to year 30, should we expect these numbers to increase significantly? A: It could, but if that happens, they will request changes, called layered amortization (at 15 years or so). This is the typical practice. The key is keeping assumptions up to date. Right now, the investment return assumption is at 6%, so that helps. Was 7.5%, dropped down to 6%. Over time, expect this to be achieved.

Q: Does this board make the decision? A: We make the recommendation to the Pension Comittee, and they make the final decision.

Contributions – Allocations are stable and based on payroll.

METRA: $15.5M (58.2%)
PACE: $8.9M (33.4%)
RTA $2.2M (8.4%)

Total $26.71M

Kristen Brundirks looked at projections. The unfunded liability (liability minus assets) was $123M as of January 1, 2022.

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In looking at the 5 year history:
New actives – some fluctuation
Retirements and lump sums
Salary changes – discussion
Additional contributions

Is there an assumption that the new actives will look a certain way? A: New actives have a $0 liability.

Q: Is there a way to change this? A: We can look into it and make a recommendation. It was noted that service starts from date of hire.

It was further noted that salaries for new hires are going up and it may affect the bottom line.

Historical/Projected funded ratio

If everything works out as expected, the funded ratio will increase over time. If they see big jumps, that is an indication that the assumptions need to be reviewed/changed. If you project this out to the next 22 years, we'd get to 100%. Q: Is there a contingency for something unusual (COVID for example)? When they do the experience study, they carve out the unusual year and take that into consideration.

In looking at the historical data, the Funded Ratio went from 92% to 73%. If everything works out as assumed in 2023 you will see funded ratio increase over time.

Q: If you project this out 22 years, will we get to 100%? A: Yes.

Q: It was noted that this is a shift/steep drop. If we are hedging liability, how can we protect ourselves and invest our way to the upside? A: We are going to get to 100% through contributions. The steep drop was mainly because we dropped the assumption from 7.5% to 6%.

Q: But can we look at other ways/methods? A: Yes.

Benefits still accruing, paying it off over a period of time.

It was recommended to bring in Meketa's actuarial consultants in February to have a more robust conversation around this as well as provide a different perspective (LDI structure).

Q: Are there any recommendations on where we fit in with other clients (assumed rate)? A: 6% is on the lower end, but it's a good thing, very conservative. 60% probability of being achieved.

Amy Williams asked the Trustees if they would you like to have an experience study performed? (GRS recommends it.) Bill Lachman noted that it is time, and the assumptions need to be on target. Things are changing constantly.

Rob Reed asked if smoothing was done to take COVID into consideration? Amy Williams answered: GRS looks at experience over 5 years as well as individual years. If they see something unusual, will try to estimate what it would have been had it not been for the unusual event. They also look at trends.

MOTION: FRANK PAUL MADE A MOTION TO RECOMMEND THE RETIREMENT COMMITTEE AN UPDATED EXPERIENCE STUDY. SECONDED BY JEFF GOODLOE AND APPROVED ON ROLE CALL VOTE.

Q: How long will this take? A: Around 12 weeks. GRS should have an initial report by February 2024.

Rob Reed recommended talking with GRS and negotiating a price.

Bill Lachman thanked GRS for their time.

VII. 2nd Quarter Investment Report

Economic and Market Updates

Keith Beaudoin gave the market update, noting:

2023 has been a positive year to date, with exception on commodities.
Capital markets risk taking driven by S&P 500.
Russell 1000 – up almost 30%, driven by AI fervor.

Seven companies have driven 75% of the return of the S&P. They are known as the Magnificent 7 and include Microsoft, Apple, Amazon, Nvidia, Meta, Tesla, Google (Alphabet). But that gives us pause as it is risky to have seven companies propping up the other 493 companies.

Employment is still strong.
Market interest rates are on pause.
2024 may start cutting rates.

Overall, looking good.

In terms of Emerging Markets, China is looking weak. Being the second largest economy, if China falters, it will affect everyone.

Yield curve is getting more inverted. Getting more yield on short term than long term. This is the Bond's market's way of saying something is amiss. Inflation has rolled over. China is in a de-flation situation. US and Europe keeping reigns on inflation tight.

Employment continues to look strong.

Mr. Beaudoin noted there is still a possibility the economy may go into recession but noted that it would be very unusual to go in with one of the lowest employment rates we've ever had.

Q: When was the last time this happened? A: Going back to 1970's it has not happened. During the 1970s, the US began a recession with low unemployment, then unemployment spiked.

Ghiane Jones presented the RTA's portfolio:

The fund as of this meeting is valued at $355.4M, and all assets were in in line with policy ranges. Total fund performance for QTD: 2.8% returns, net of fees. Fund has outperformed, thanks to strong managers

Since inception, the Fund has returned 7.4%.

Assets posting strong returns across the board, especially small cap equity

International Equity – up 6% YTD 9.1%
Emerging Markets– outperformed benchmark
Private Equity – 13.3M value

Managers posting strong IRRs.

All in all – good quarter.

Real assets/infrastructure (no returns posted in time for meeting but for the quarter YTD up approximately 2%.)

Real estate is down 2.1%/quarter or 5.5%/YTD

Manager shout-outs:

Kayne Anderson – up 5.9% quarter/17% YTD (small cap)
D&C (fixed income) – 10 points for the quarter/3.2% YTD

Q: Looking at page 28, is underperformance driven by the market weight of the Mag 7? A: Meketa hired Aristotle (core with a value tilt) and they are doing well, but underperforming benchmark. Expect it to increase during times of market volatility.

Meketa plans to bring an asset allocation study to next meeting.

Review of the Commercial Real Estate Market and Existing Exposure

Reggie Ross of Meketa came in to discuss the existing exposure of the Commercial Real Estate Market, noting that one takeaway is essential. Since 2010, Institutional Real Estate Allocations went from 5% to 10%. Lots of implications for asset class and future returns. A much more competitive environment, and still challenged by COVID.

Think about it in two buckets:

- Core
- Non-Core (opportunistic)

Most important thing is return from income. It is important to set expectations. Coming out of a profitable real estate cycle. The 10-year numbers looked really good for core real estate and if you look across multiple cycles, it should be 6-8% net. You are also getting income as part of your return, as long as your buildings are full you are getting consistent income.

Real estate booms tend to move with the fixed income markets. When debt is cheap, real estate booms. Keep in mind that the stock market and Private Real Estate don't necessarily move up and down in tandem.

RTA's portfolio is 100% Core, so need to be careful when comparing as many funds have investment in non-Core. Have to look into the other numbers as well.

Q: What about COVID (return to office); and Amazon (retail). A: These are cyclical as well. With return to office, offices do better when employees are in the office. Not back to pre-COVID levels but getting better – still shaking itself out. Some of these trends were happening pre-COVID, COVID supercharged this.

Retail – occupancy is down. This is offset by industrial (warehouse/storage). Over last 2 years, retail has strengthened.

Office building fundamentals are weak. (Buildings are not full, rent is not going up.) Retail vacancy spiked up during COVID but has since recovered slightly. Strong: Industrial, Housing and Multi-family.

Q: Are you talking about overall or Odyssey? A: Odyssey.

Q: Where does this fit in with JP Morgan/Heitman? A: JP Morgan has slightly lower occupancy rate than Heitman or Odyssey, but still around 93%. Heitman has a higher occupancy rate of 94% than the Odyssey (93.5% occupancy rate) - underweight industrial. These numbers do not compare occupancies by asset class. In the case of JP Morgan, their funds have more exposure to retail and office space and less of the South (which tends to do better geographically) than the

Odyssey. These are the reasons for their underperformance.

Heitman, does slightly outperform Odyssey mainly because they specialize in senior housing, student housing and self-storage.

Outlook for Real Estate:

Rents are still growing
Income Component
Property Type Allocation – COVID made people start investing more in industrial, so this may be a long-term trend?

Mr. Ross mentioned the concept of Price Discovery: if you own something you think it's worth more and if you buy something you think it's worth less. The Market has been in price discovery for a while now which means the markets don't know that real value of real estate. This creates uncertainty.

Bright Spots/Opportunities:

Office Space – no one knows that going to happen. Employers may demand a 5-day back to office; or workers may protest and say no. They will continue looking at uncertainly for the rest of the year, but the fundamentals are looking up.

Q: do we want to invite someone in for an upcoming meeting? Madhi Hemingway suggested inviting JP Morgan to come in at some point for the benefit of beneficiaries. Doesn't have to be 4th or 1st quarter. But would like to see where they are and why at some point in the future.
A: How about 2nd quarter? Couldn't hurt.

Meketa concludes their report.

VIII. Administrators Report

Rob Reed presented the Administrators Report.

He noted that what he thought were going to be $6.8M contributions were actually $4.1M, so he moved $2.1 M into the Russell and Aristotle funds. Then some lump sum payments hit, and he is projecting $800K in benefit payments and $100K in expenses, and potential lump sums of $2.1M . Went from assets of $5.1m to $350,000k which is an uncomfortable balance, so he would like to put back $2.2 M.

Mr. Beaudoin recommended taking a couple of million out of developed foreign equity. Recommendation is to take 50% from Earnest and 50% from Arrowstreet - $1.1 from each for a total of $2.2M. Needed by September 1, 2023.

MOTION: FRANK PAUL MADE A MOTION THAT OF THE $2.2M TO BE RETURNED TO THE CASH ACCCOUNT: 50% FROM ERNEST AND 50% FROM ARROWSTREET - $1.1 FROM EACH – MONEY

BY SEPTEMBER 1, 2023. SECONDED BY JEFF GOODLOE AND APPROVED ON ROLL CALL VOTE.

Mr. Reed noted that he will hold off until the last minute to get interest on the $2.2 million.

VII. **Executive Session**

There was no executive session.

VIII. **Old Business**

There was no old business to discuss.

IX. **New Business**

Next meeting of the RTA Trustees is Friday, Nov 17, 2023. During this meeting, Chairman Lachman noted that the Trustees will determine 2024 meeting dates so he asked everyone to bring their calendars and make every effort to attend.

Q: John Morris asked if/when agencies decide to make supplemental contribution, can they be made in the same proposition as the annual contributions? In other words, can all agencies make a supplemental contribution? A: Should that be the case; the agencies will speak to their Executive Directors to get their level of interest and a decision will be made in November 2023.

X. **Adjournment**

MOTION: MAHDI HEMINGWAY MOVED TO ADJOURN THE MEETING AT 2:40 PM. THE MOTION WAS SECONDED BY JEFF GOODLOE AND THE MEETING ADJOURNED BY VOICE VOTE.

Respectfully submitted,

Debbie Gidley
Recording Secretary