

OPEN SESSION

Minutes of the RTA Pension Plan Trustees Quarterly Meeting

Friday, May 19, 2023

RTA OFFICES | 12:00 pm

In Attendance

Chairman Bill Lachman

Zaid Abdul Aleem

Jeff Goodloe

Madhi Hemingway

John Morris

Lorri Newson (remote)

Frank Paul

Also Attending:

Debbie Gidley, Recording Secretary

Ali Guttillo, Northern Trust

Ghiane Jones, Meketa

Alison Noback, RTA

Katie Rak, McGuire Woods

Rob Reed, Alliance Pension Consultants

Alli Wallace, Meketa

I. Roll Call

Chairman Lachman called the meeting to order at 12:10 p.m. Debbie Gidley called roll. It was established that a quorum was present.

II. Discussion of Agenda Items

There were no changes to the agenda. There will be an executive session later.

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 10, 2023 (Open Session) were presented for approval.

MOTION: MADHI HEMINGWAY MOVED TO ACCEPT THE MINUTES FROM THE FEBRUARY 10, 2023 OPEN SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY JOHN MORRIS AND APPROVED ON A ROLL CALL VOTE.

V. Northern Trust Report

Ali Guttillo gave a refresher overview of Northern Trust for the newer Trustees. She noted that Northern Trust is a firm with:

- \$10.6T in assets.
- Has good financial strength – no dilution by M&A
- Low-risk balance sheet
- No interest rate risks of significance
- 84% in Triple-A rated securities

In terms of public funds, Northern Trust has grown in the last two years. They invest in people and technology.

Q: How does your tech compare to your peers? A: Northern Trust has built their own infrastructure and they are constantly monitoring the Tech.

Q: How does your cybersecurity compare to your peers? A: Northern Trust is consistently monitoring cybersecurity. They hire “ethical hackers” and test daily.

Q: Was Northern Trust affected by distressed banks? A: Northern Trust was not affected, but some of their clients were. Northern Trust is not a regional bank, and, because of that, they are held to a different standard which requires different reporting.

The RTA currently has \$327M of assets under custody and paid \$20M in distributions and \$6M in lump sum payments in 2022.

There were 2,900 cash transactions in 2022 – 99.2% went through with no issues. Q: Can you give us an example of what an issue might be? A: If a trade didn't settle on trade day (it will settle the next day).

There being no further questions, Ali Guttillo concluded her report.

VI. 1st Quarter Investment Report

Alli Wallace gave the market update, noting:

- All equity asset classes were up in the 1st quarter
- Fixed income also up, but not as strong as equities
- In terms of domestic equity: there is a difference between growth and value, and growth is doing better thanks to tech.
- Small Cap underperformed Large Cap Equities

Q: What Tech Companies are driving this? A: Alli will look it up and get back to the Trustees.

International developed equities is showing a reversion to 2022 due to concerns over the debt ceiling.

As result:

The weakening of the dollar continues (less so in emerging markets),
Fixed Income: Barclays up 3% in 1st quarter,
Emerging Markets debt up 5.2%.

The markets are showing volatility, especially where the bonds markets are concerned.
The U.S. Yield Curve has recovered since 2021 – 3.5%
Insurance premiums on debt market at huge levels – watching that closely

Inflation and CPI:

CPI growth as of April 2023 is currently 4.5%, which is improved but still higher than anyone would like to see.

There are some geopolitical concerns in the market:

The bond market is unhappy about debt ceiling negotiations, so it is volatile right now.
However, Meketa is seeing some good news coming out of the negotiations in Congress and some of the things that are happening right now include:

Equity markets shrugging it off
Bond markets will see-saw until settled
Bond managers are cautious and concerned

If there is a default on the debt, the repercussions will be challenging for everyone.

In 2011, when the S&P downgraded, we did see the Treasury rally. This situation is very complicated, there is no perfect hedge. But the RTA's portfolio is diversified, which helps.

Default is not a good thing – will bring lots of volatility. But nothing we can do until June 1st when we learn the outcome.

Q: Any projections on what may happen if there is a default? A: Can expect equities to go down 15%. Hoping for a good result in the meantime. Meketa is monitoring this situation closely.

Q: Will feds continue with rate hikes? A: It's a guess. The Fed is aggressive, and Jerome Powell doesn't want it to look like he's taking his foot off the gas. He's most likely watching the situation with debt ceiling to make a move.

But the hikes have been working, inflation is down under 5%, its just taken longer than

expected.

Alli Wallace will send an in-house report to the Trustees for their review/information.

Performance

Fund was at \$342M on 3/31/23, which represents an increase of 4.2% in the 1st quarter.

Asset classes in line with targets.

Private equity will grow due to capital calls.

Fund kept up well on upside.

7.4% in returns annually since inception.

Domestic equity portfolio up 6.6%.

Still chipping away at negative returns since 2020.

Value lagged growth equities.

Asset classes – almost all posted positive returns.

Mid Cap up 7.6% (Times Square – doing really good job)

Small Cap (Kayne Anderson) up 10.5%

Russell 2000 benchmark down 11.6%.

International equities – up 5.3% for quarter.

Private equity valued at \$13M (Mesirow and Glendower). Expect capital calls coming in for those portfolios. The portfolio is up 3.4% for the quarter.

Bonds were positive (due to the banking crisis – long-term government bonds are doing well). Investors flocked to treasuries which helped the sector.

Credit Spread – risk on environment 1st quarter

Real Assets (Infrastructure) up 1.7% and over 11% for year. Slightly lagging benchmark, due to CPI being higher, there is no concern with lag.

Real estate portfolio down 3.5% for the quarter and 4.6% for year – office space is contributing to a lot of write downs.

Cash 1% for quarter; 2.5% for year.

Q: In real estate asset classes is that all core? A: Yes

Q: Should we think about reducing real estate? A: Will discuss asset allocation at next meeting. Real Estate is still an important asset class but can discuss changing allocation. Still getting yield of 5%, but we can discuss changing the allocation.

Q: Is there a readout for the Heitman fund? A: Heitman is a high conviction manager, but they struggled, then rebounded, and hoping they will not go down again. COVID has put all core managers on their backs. Happy to bring them in to present to the trustees. Over 3 years, they are ahead of the ODCE index.

Q: How are managers re-evaluating how to make money? In times of easy money – they were killing it, but what now? Were they too aggressive? Lucky? Smart? We'd like to understand more. Opinion – office space is dead, not coming back. Underperformance in the last year is an indication of the JP Morgan fund. A: Small managers were able to be a bit more nimble in this environment, but larger ones with more established portfolios were not.

Q: Should we talk to them? A: Consensus from the BOD, yes. Let's target August or November?

Ghiane Jones noted that the trend is to repurpose office space. There is potential there.

Q: Big stores pulling out of crime-ridden cities. Are there any concerns about that? Yes, over the next couple of years they expect refinancing of leases, etc.

Comment: This conversation is important because the RTA is depending on people coming downtown. We need to know how that's going to change.

Consensus: let's have them come out in August.

Going back to performance – overall, the portfolio has had strong performance for quarter to date.

Q: Is there any exposure to regional banks? A: Nothing to be concerned about – very small holdings of SBV (less than 1%).

Q: As we think about the current environment, as Trustees, we should think about our portfolio being value-oriented? A: Not a complete tilt to value, but they did add large cap exposure value. So, allocation is balanced.

Q: How about from a weighted value perspective? A: PE ratios are slightly more expensive than index. So yes, it is still slightly growthy.

Comment: Back to the Real Estate Portfolio, in looking at the numbers, JP Morgan has actually done worse than Heitman. Can they come in before Heitman? We need to grade them. Answer: They were just at the February meeting. Comments: But the after redemptions show they aren't making money. The Trustees want to hear why they are underperforming. As fiduciaries we need to ask the question. Would having both companies present have any value? It would be good to compare to see what they are holding.

Ghiane Jones noted that the Meketa private real estate research team meets with managers every year and JP Morgan and Heitman haven't alerted any concerns. Their research team is monitoring, but underperformance isn't so bad that termination is recommended.

If Meketa can pull information together that would be helpful. It would help the RTA Trustees to be better informed.

At some point we want to hear from JP Morgan on their long game. It would not be prudent to jump out before the payout.

Consensus: Yes. Let's bring in Meketa research team first via a special call. It was noted that this must be an open meeting, so it needs to happen during the August meeting. Meketa's research team can conference in.

After the Trustees have heard from the research team, Meketa can bring in JP Morgan for the November meeting.

Katie Rak noted that after looking at the February meeting notes, the Trustees did talk to JP Morgan in February, so we haven't fallen down, but we can let them know the Trustees have some follow-up questions and want to view their options.

In February 2023, they were overweight to retail, office space. They are behind the curve but trying to steer a huge ship in the right direction (residential, storage).

Let's look after 2nd quarter to see what progress has been made by JP Morgan and steps, they have taken to resolve the issues.

VII. Administrators Report

Rob Reed presented the Administrators Report.

In terms of cash flow, the fund has \$4.6M in cash. There may be some investment opportunities there. He will get \$6M more after this quarter's end, which will give the fund some extra cash – around \$4M.

Consensus: Let's wait until August to make a decision.

Q: If the cash is held in a Money Market, what's the current yield? A: 5% in STIF fund.

Question: Are we eligible to invest in IL funds? State's investment vehicle – around 4% yield can go in and out pretty easily.

Q: As long as he is able to move money occasionally for invoices and distributions.

Q: Do we want to invest \$4M in July? A: Meketa will review and make a recommendation for investing in July. They will also find out about liquidity in the IL Fund so Rob can easily

move money if he needs to.

Meketa noted that the Russell 1000 is most appropriate to invest in, but recommended holding off because it may change due to market conditions.

Rob Reed further noted that if there are requests for lump sum distributions, that may change things as well.

There is a standing resolution that Rob Reed can take out up to \$2M in cash as needed – but we don't have a resolution that Rob Reed can move money in. Let's make that motion.

MOTION: FRANK PAUL MADE A MOTION THAT FOLLOWING THE CONTRIBUTIONS FOR THE 3RD QUARTER 2023, BY THE SERVICE AGENCIES, AN AMOUNT DETERMINED BY THE PLAN'S ADMINISTRATOR, BUT NO MORE THAN \$4 MILLION WILL BE REINVESTED ACCORDING TO THE RCOMMENDATION OF MEKETA, WITH THE CHAIRMAN'S APPROVAL. THE MOTION WAS SECONDED BY JEFF GOODLOE AND APPROVED UNANIMOUSLY ON A ROLL CALL VOTE.

VIII. **Executive Session**

The Trustees went to a private session for the RFP for Investment Management Services. Meketa was a highest scoring candidate.

MOTION: FRANK PAUL MADE A MOTION TO APPROVE THE RESULTS OF THE RFP AND THE HIRING OF MEKETA AS THE INVESTMENT CONSULTANT, SUBJECT TO SUCCESSFUL CONTRACT NEGOTIATION. SECONDED BY LORI NEWSON AND APPROVED ON A ROLL CALL VOTE; THERE WAS ONE ABSENTION.

IX. **Old Business**

There was no old business to discuss.

X. **New Business**

Next meeting is Friday, August 18, 2023, which will feature the Actuarial Valuation and the Meketa Research team. This meeting will be held in-person at the RTA office, 15th floor, 175 West Jackson.

XI. **Adjournment**

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

Respectfully submitted,

Debbie Gidley
Recording Secretary