

## OPEN SESSION

Minutes of the RTA Pension Plan Trustees Quarterly Meeting

Friday, February 16, 2024

RTA OFFICES | 12:00 pm

### **In Attendance**

Chairman Bill Lachman

Zaid Abdul Aleem

Jeff Goodloe

Madhi Hemingway

John Morris

Lorri Newson

Frank Paul

### **Also Attending:**

Keith Beaudoin, Meketa

Rebekah Brown, JP Morgan

Jonathan Camp, Meketa

Ali Guttillo, Northern Trust

Ryan Lobdell, Meketa

Greg Price, Meketa

Katie Rak, McGuire Woods

Rob Reed, Alliance Pension Consultants

### **I. Roll Call**

Chairman Lachman called the meeting to order at 12:25 p.m. Robert Reed 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 November 17, 2023 (Open Session) were presented for approval.

**MOTION: LORI NEWSON MOVED TO ACCEPT THE MINUTES FROM THE NOVEMBER 17, 2023 OPEN SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY FRANK PAUL AND APPROVED BY A VOICE VOTE.**

### **V. Northern Trust Report**

Ali Guttillo noted that Northern Trust will have an in-person passport training on March 26<sup>th</sup> for customers to get updated on the system. Q: Is there anything new? A: Not really, but Northern

Trust did update the dashboard.

She further noted for the Trustees information that the T+1 settlement is coming in May 2024. Northern Trust is working with portfolio managers directly to make sure settlements are happening on time. As a point of clarification, Ali Gutillo noted that T+2 is moving to T+1, which means shorter settlement time, but is also a shorter time to fix trades. Testing has been going on since last year. D-day is May 28, 2024 (scheduled, subject to change).

Northern Trust now has a Podcast. It's called "Faster Forward" (bi-weekly), available on Apple and Google Play and Spotify.

Northern Trust has received the RTA's required 4<sup>th</sup> quarter and the supplemental contributions since the last meeting.

1099s were mailed out to all Trustees.

Q: Did you receive the 1<sup>st</sup> quarter contributions? A: Not to her knowledge, but she will double-check.

There was some rebalancing in the portfolio, including purchases and couple of settlements as well as a capital call for JLC and distributions from Glendower and Mesirow.

## VI. **4th Quarter Investment Report**

Keith Beaudoin noted that in the interest of time, he is going to shorten the 4<sup>th</sup> quarter investment report and share some highlights with the Trustees. If there are any questions, feel free to ask and he can take a deeper dive.

In summary, the 4<sup>th</sup> quarter did very well overall.

Economic and Market Update:

Two themes that grew the markets in the 4<sup>th</sup> quarter that Keith Beaudoin wanted to mention:

1. The Magnificent 7 (Big Tech stocks – Apple, Nvidia, Google, Amazon) is helping the market as the market believes these companies will benefit from AI. This belief drove US Equity markets to sky-high levels during the 4<sup>th</sup> quarter.
2. The Fed is done tightening and will begin to ease. It was originally thought rates would be cut in March, but that no longer looks like a possibility. But now the markets are thinking there will NOT be a recession (looking for a soft landing), which allows the Fed to keep rates higher for longer.

This led to strong results for all asset classes for the 4<sup>th</sup> quarter 2023, with the exception of commodities, and RTA Fund benefited from this.

Inflation is falling, and the U.S. Labor Market continues to do well. Consumer credit is at an all-time high.

The market is anticipating 2-3 rate cuts in 2024; we should start seeing the market's reaction to this in the coming months. Volatility is expected to go up. For now, Fed wants to keep rates where they are to help tamp down inflation.

*Fund Performance Highlights:*

The Fund is valued at \$417M; which is an increase of 60 basis points (up 12.1% for one-year period).

The domestic equity bucket is well diversified in both market cap (small, mid, and large) and also growth and value. In 2023 the Mag 7 was almost 100% of the Russell 3000 return for the first 3 quarters of the year, it did diversify in 4<sup>th</sup> quarter and ended around 50/50.

International Equities went up 15.1% for the year; slightly behind the benchmark due to Emerging Markets suffering because of their investment in China. RTA Emerging Markets managers outperformed the benchmark due to a mandate that only allows so much investment in China.

Regarding Private Equity, there is going to be a lag between the Private and Public Equity Markets in the short term. Overall, Meketa likes the way the asset class is right now. This is through the 3<sup>rd</sup> quarter; 4<sup>th</sup> Quarter results will be available soon.

Private Equity and Infrastructure will have good estimates, Real Estate is harder to gauge; as they are more opaque. One Trustee noted that we need to keep an eye on this and think strategically. Real Estate is hard to move around. We need to ask ourselves how to hedge against this, noting that he understands that we need to have an allocation in Real Estate, but let's be strategic about it and figure out how to mitigate risks to allow us to be nimble against downside exposure.

Keith Beaudoin noted that RSM Real Estate can be integrated into a traditional line up; as it provides liquidity in tough times which is what it's meant to do.

LDI is a separate mindset, we're going to see asset classes go away. It's going to use bonds to hedge interest rate risk; portfolios will move like liabilities; it makes decisions a lot easier and could cut managers down from 15+ to 1-2, if we fully embrace it.

Keith Beaudoin noted we will go through a session on what LDI is later in the agenda. Madhi Hemingway noted it is really important to start thinking about it now and get constant education on what's out there. While we don't expect to have to make a decision today or in the near future, but keep in mind that as markets change and more public pensions adopt LDI, the Trustees should be well educated when it comes time to make the decision. Keith Beaudoin noted that the plan is to have an LDI education component yearly.

Fixed Income has done a nice job for the fund; a positive contributor to the fund.

There being no more questions on the investment report, Mr. Beaudoin asked if the Trustees wanted to move on the LDI Education. Consensus, yes.

## **VII. LDI Education**

Jonathan Camp led the discussion on LDI Education, noting he is there to provide information, not to ask the Trustees for a decision. The RTA portfolio has a similar set up to other public funds and it is focused on growth. With growth portfolios you are looking at how to diversify and grow 6% or more each year.

LDI is different in that it is focused on the RTA's funded status and how to maintain that funded status. This sounds strange because the RTA is 75% funded, and why would you want to maintain that? Most 75% funded groups don't use LDI. But, as your funding status increases or gets to 100%, that's when you want to maintain that level. As that happens, you can move over slowly to LDI or jump in full force. There's no right way to do it.

Keep in mind there are clients that are underfunded using LDI. So, what does that mean? It means the unfunded level will be made up with contributions.

Jonathan Camp went through examples of what this could look like based on how much is owed and how much risk you are willing to take. (slides 53-56). Liability Driven Investing is looking at the obligations in the future and looking for assets to fund them, so the lower the risk, the better. Equity markets (real estate) give us higher expected returns over time which help close the funding gap.

Mr. Camp asked if there were any questions:

Q: We can't predict our liabilities either, so.... A: Liabilities are bit more predictable than your assets are going to be, but yes, we can't predict liabilities. Q: Are your current LDI clients able to hedge assets? A: LDIs are invested in Fixed Income Assets and building around those. Most of the clients they work with are invested in Long Corporate Bonds and most assets tend to be very liquid. Many plans don't know when they are going to terminate, so they tend to avoid private markets with a 15-year timespan. A lot of LDI portfolios have no private equity and rely more on long corporate bonds.

Q: Relating LDI to the portfolio, "actives" would be using an investment type approach? A: Yes, you can do that. If you have \$300M of retiree liability, you can earmark that and then hedge the remaining portfolio. It doesn't leave much to invest, but it's a strategy.

Q: But that adds downside protection and allows you to still focus on growth? In the past we've had the funded ratio go down and that shouldn't happen (it was noted that the ratio went down because the assumed rate was changed from 7.25% to 6% on January 1, 2021). But can we invest and also hedge part of the liability? A: Yes, it's not an all or nothing proposition.

The RTA is around 10-15% hedged. When thinking about the volatility for asset portfolios, Jonathan Camp thinks of it in terms of funded status volatility. How much do we expect the funded status assets to drift in any one direction? So, if assets go 10% in one direction, your liabilities will go 10-15% with it. When we fully hedge the plan, we expect the funded status to not move at all. We can create this in the public space, but a lot has to do with that assumption you mentioned.

When you move to an LDI platform, you should expect every year you will change your discount rate to equal the yields on your fixed income investments.

Q: If we lower the Assumed Rate of Return, that's going to significantly drive up the contribution. A: Correct. Q: Every year, it could drive it up almost 50 basis points, or 8-10%. Those are enormous numbers. A: And that's why this may not be of interest right now.

Q: Do you have any clients that are 75% funded plans using LDI? A: Not in public space, but sometimes in the corporate space. Those plans are usually frozen; which lets you know exactly what the liability is going to be. He is doing LDI on one public plan that is 75% funded, but it is frozen. It's easier to do with frozen plans because the commitment doesn't change – you know what your liabilities are (static).

Q: We keep talking about being 100% funded, but there is a scenario, but we can consider hedging a portion of the assets and continue to grow. We can think about this as an option. A: Yes, that's called a glide path and it's a strategy. You know where you are and where you ultimately want to be, so you create a portfolio around that, and you change incrementally as the funded status goes up. The big decision is how fast you want to get there. Madhi Hemingway noted that he wants it on the record that this is an option for consideration.

Jonathan presented Slides 56-57 – scenarios at different rates, noting that it is all theoretical.

Q: On slide 56 – the liability doesn't change. A: Yes, if you were to lower discount rates to match the yields currently in your asset classes, it increases the liability. A one-time hit and the funded status would be expected to drop. Theoretically, it takes out the potential for large downside risk, but you are eliminating the upside as well. Yes, we could probably get the standard deviation down to 3– 4%, whereas right now is 12%. It assumes the difference is going to be made up with contributions, which is kind of appealing.

A Trustee noted that while we aren't moving to a full LDI strategy now, there are strategies that can be put into play that would allow the RTA to increase funded status, reduce liability, and lock in things that are more favorable to the fund.

Jonathan noted that he's happy to come out on a more frequent basis to continue this discussion.

## VIII. Discussion on Risk Mitigating Strategies

Jonathan Camp noted this is a good time to talk about the difference between RMS and LDI.

In his view, LDI is focused on funded status volatility mitigation, whereas RMS is one that would be placed into a growth portfolio, but it's meant to diversify the ebbs and flows of the growth assets.

There are long government bonds in RMS, which is an LDI strategy. But it's the role those long government bonds play in the portfolio that is the difference.

Q: Is LDI a newer concept? A: It became popular in the mid-2000's, as a way for companies to take out the funded status volatility.

Q: Do endowments use LDI? A: Yes a few, their liability is going to be their spend. So, their spend needs to be determined to be successful.

Ryan Lobdell joined the meeting to discuss RMS and how it can be helpful for a more traditional growth portfolio. Ryan noted that what RMS is trying to do is mitigate the largest risk in the portfolio, or the economic growth risk. This is the main driver of your portfolio outcomes in the long term to make it more efficient and better diversified.

To have a successful RMS, you need robust protection with a broad basket of products, rather than relying on Long-Term Treasuries. The focus needs to be on defensive strategy. Relying on hedge funds as an asset class typically doesn't have great results.

An RMS portfolio will:

- Provide diversification (strategies other than - or in addition to - long term government bonds).
- Have positive long-term expected returns, and
- Provide liquidity

There are 3 types of markets that benefit from RMS Strategy:

Sharp Drawdown (1987; COVID)

Extended Drawdown (GFC or Tech bubble)

Bull and Flat Markets

Mr. Lobdell went through the various strategies for each kind of market (slides 69 – 77).

Using these tools, they've seen positive returns during these times of drawdowns. So the idea is to expect the same return as bonds, but expect them to be more reliable and produce higher gains when equities are drawing down.

So, with RMS you can re-allocate the gains from these strategies to things that are going/or have gone down (typically domestic and international equities, bonds, "growth" assets) so you can get higher return for the same amount of risk, or lower risk for the same amount of return.

Mr. Lobdell opened the floor for questions.

Keith Beaudoin asked the Trustees if this makes sense in terms of how we look at the asset allocation? With RMS, while this will drag during upward trending markets, it is designed to provide a positive return. We can take the gains and rebalance the portfolio.

It was by one of the Trustees that this strategy compliments a growth strategy, which is good.

Q: How does this play with the contributions? A: Instead of using the RMS returns for a downturn to fund benefits, we use it to purchase equities when they are lower. Dollar-cost average the equity and fill the buckets back up to their targets during those drawdowns.

Discussion ensued around scenarios of the benefits payment changing/current cash flow (pressure on budgets) and how this strategy can be a benefit to protect this. Q: Is our required contribution enough to meet this? A: At the moment, yes. But the plan is getting more mature so that could change. Q: What is normal retirement age? A: 62 – 67. Railroad (METRA) Retirement is 60 (there is no social security with this type of retirement).

Q: Could you talk a little bit about comparable clients in comparison to RTA and the results of that? A: Some clients have had 6-10 years of allocations to these groups of strategies and continue to hold those. They are used in very different ways; to rebalance equities, as a buffer, liquidity, grants – each investor uses them differently, but a very diverse long-term outcomes from those who use these.

Q: But can you give a comparable for us (RTA)? A: We have several and they continue to use them today: (Calsters/a county plan in CA, TriMet (transportation with 2 pension plans), and the State of Hawaii have allocated anywhere from 10-30% to RMS and continue to use them today.

Ryan Lobdell would be happy to connect the Trustees with these groups if they want to talk to them about their experience with RMS.

Net fees average 4-6% over 5 years. Q: To put into context, can you give us the numbers for the transportation group you mentioned (what decile are they in?). A: Mr. Lobdell will look into that and get that information back to the Trustees.

Q: Regarding no risk/no return. If we use this strategy, what risks are we willing to take for return vs. our current strategy? A: These are more cost-effective than a traditional hedge fund. With a traditional hedge fund, you might pay 2% in management fees and 20% incentives, may have some other costs, may be locked into that structure, won't be able to get fully redeemed for a year or longer.

With RMS liquidity is more flexible, 30 days or better. Additionally, they offer a 1% flat fee, 50 basis points. Much cheaper than traditional hedge funds, but more expensive than a passive core bond allocation. Q: Just trying to gauge what the cost is. A: If you are going with active equities, maybe 50 pts to 1% flat fee depending on who you are allocating to and how active

they are being. This would be a flat manager fee and is not performance-based.

Q: Trading and additional strategies. What is the gross net return outcome with this kind of strategy? (More of a philosophical question.) What risk are we taking and what are we giving up relative to what risks are we taking now? A: The risk is, "is this going to work?" The risk is low, but it is always there. Another risk: "Is it going to work as expected?" Counter party risks, collateral risk. Still low, but the risk is there. But these risks can be managed.

Q: Is there a recommendation on the table? A: Keith Beaudoin noted he likes RMS for the portfolio in terms of making it more efficient. Meketa has standing orders to rebalance as needed. If there is a sharp drawdown, RTA and Meketa have set up some structure to address this. The Trustees would have to drive the mandate for this strategy that would give Meketa guidance on what to do in this situation. There are structured rules for Meketa, so they are not constantly asking the Trustees for an answer, but there are structures in place to confer with the Trustees if needed. In this case, Meketa would call a special meeting with the Trustees. They can set up a similar structure with RMS.

For RTA, Meketa would recommend around 10% for RMS. Return expectations around this have jumped up to 5% level (from 2%). So, whether the RTA goes with RMS or not, Meketa can improve efficiency. Meketa will have some firm recommendations at the next meeting, but they wanted to get the Trustees pulse on this.

Q: This is confusing – we were thinking LDI and now we're talking about RMS. Can we slow it down? A: We're here to learn about both. LDI in the future; RMS as an option going forward.

A complicating factor is governance structure of the Board. RMS is designed to do well when markets are down. But if we're not able to strip off gains from it due to board rules, it's not really worth the cost of changing.

In response to a question, Keith Beaudoin noted that Meketa is not getting paid extra for using RMS; they are simply providing education and recommendations. Q: So, it sounds like the Trustees need to empower Meketa to make certain decisions if they need to be made quickly in an unexpected situation. A: Meketa will always try to confer with the Trustees and always make sure they are in compliance with their contract and the RTA's contract.

Q: Regarding the other 90% of the portfolio; are we rebalancing that if something goes awry? A: No, if we notice that a rebalance needs to happen, we'll call Rob to alert the Trustees. Rob Reed noted that rebalancing happened through deposits.

Ryan Lobdell noted that other like funds have an Investment Policy Statement with rebalancing ranges in normal times. Some clients have adopted a secondary policy that should a significant market event occur, having a larger range this in place ahead of time is critical so that you aren't caught off guard.

As of today, rebalancing is in place for things that are underrepresented, but not for those things that are overrepresented. So, should we be looking at what asset classes are overrepresented



every quarter and make decisions? Keith Beaudoin noted that this is already in place for the asset classes.

Bill Lachman asked, what about the overrepresented classes? A: We are in a positive cash flow position, so it's all working out. It would be harder if we were in a negative cash flow position. Rob Reed noted that when they were in a negative cash position, it was taken out of Russell or Dodge & Cox, so there are policies in place. Bill Lachman noted that he just doesn't want to be in a place where the Trustees have to make decision on the spot and there is a plan in place should a catastrophic event occur.

Q: Can we talk to TriMet about how they use RMS logistically? Consensus - yes let's do that. Ryan Lobdell will arrange for the Trustees to talk to their staff in the spirit of education about how they do this.

Keith Beaudoin noted that if the Trustees are interested, Meketa will offer a recommendation. If not, they won't.

Q: Is it possible to do a simulation – for example, what would this have looked like if this was implemented in 2005? Can we look at a theoretical return? Keith Beaudoin said they will try and caveat it with rules. He needs to put some thought around how that would work.

Keith Beaudoin then turned the Trustees attention to page 96, where he and Greg Price came up with targets. Right now, he is trying to gauge the Trustee's interest in next steps. Do we still want to be aggressive; do you want to be very aggressive or less aggressive? This will help them make a recommendation.

The target policy allocation is 8.22 now because assumptions have changed (fixed-income yields are up). Chairman Lachman noted that the RTA didn't pick this allocation to reach 8.22, we picked it hoping to reach 7. So that 8.22 is the expected return with our current policy allocation for the next 20 years, but the volatility can bring it way down.

Madhi Hemingway noted this is why you want the option to hedge the risk; it does seem RMS is a possible strategy but let's keep researching. Bill Lachman noted that the RTA wants to avoid a scenario where they respond after the fact.

Keith Beaudoin asked if the Trustees would like him to come to the next meeting with some allocations to consider? We can look at the risk/return profile and go from there. Chairman Lachman asked if it makes sense to say we want to see the same target return with and without the RMS? Keith Beaudoin said, yes Meketa can look at different numbers to get you to where you want to be.

There being no more questions, the Trustees moved to the JP Morgan presentation.

#### **IX. JP Morgan Strategic Properties Presentation**

Rebecca Brown joined the meeting from JP Morgan.

Keith Beaudoin asked Rebecca Brown to address concerns about the portfolio and to talk about changes to the portfolio team and the state of the market.

Rebekah Brown thanked the Trustees for having her there today.

Rebekah Brown went through the current team - Page 8

Kim Adams resigned (she did not move to a competitive fund).

Sue Kolasa was Kim Adams' co-chair, and she remains on the team.

Since then, they added Brian Noddage, Caitlyn Simon and Jason Kearn, so they have expanded the team. These four people know each other and work really well together.

In terms of structure, the senior managers have equal roles when it comes to investment decisions; and they are divided up by region:

Sue Kolaska manages the Northeast  
Brian Noddage manages the Southeast  
Caitlyn Simon manages the Central Region  
Jason Kearn manages the West Region

These have been tough years with repricing in the capital markets, but the fund is well positioned as they move forward.

Mike Kelly was the head of the Real Estate Americas Group, he left very recently and has been replaced by Chad Treadway. Chad was previously in his own firm, TRIO, where they did triple net leases. Prior to that he was head of JP Morgan's Real Estate with their Commercial Bank, so they have a long-standing relationship with Chad. It's been a good transition. So, they have had a number of changes, but the changes are all for the betterment for the fund.

Q: Can you give us a sense of how these managers came to the fund? A: All three came from JP Morgan; Brian and Caitlyn were moved over (lateral move). Brian Noddage is responsible for the extended sectors (truck terminals; industrial storage, single family renters). These are subsectors that have a higher rate of growth and Brian was really instrumental in moving JP Morgan over in that direction so he's an excellent addition to the team.

In terms of decision-making, each manager covers their own region. When looking at transitions in the Northeast for example, Sue Kolasa is the point person. Sue then brings it back to the portfolio management team and they make decisions together (do they want to acquire an asset? do they want to dispose of an asset?).

There's no "head" person, it's a co-chair structure. The Portfolio Management is represented on the investment committee: which consists of the Chief Investment Officer, the Portfolio manager

for the Region, the head of research, and the head of asset management. These are the voting members. This group presents recommendation to the Investment Committee for a decision.

Q: How are managers compensated? A: Salary plus bonus based on different metrics. The performance of the portfolio is looked at the by operating committee.

Q: Where does the alignment of interests lie in terms of performance of the portfolio ? A: In her own case. Rebecca's compensation is based on how well she works with her clients, her level of credibility, what new clients she brings in or retains. It changes from year to year.

Q: So, no direct link to performance? A: There is a link, but it's not an absolute link like a commission. When performance is down, compensation is down. There is no specific formula.

Q: How does the decision about how to go big in commercial or industrial work? A: The investment committee looks at individual deals. There is a quarterly meeting with the property managers, research group, Senior Management, and at those meetings; decisions are made about allocation, cash flows, geography, liquidity, balance sheet.

She then directed the Trustees to page 13 for a broad background on capital markets. The debt markets have been a real headwind for the last 6 quarters in terms of activity. When the cost of debt capital increases, investors say I don't want to pay as much for Real Estate anymore. So, they've been seeing required returns over the last 6 quarters increasing in real estate, therefore values are falling. Since October, interest rates have come back over 4% and they have seen a pickup in office, retail, and residential. JP Morgan believes the worst of the repricing is behind them. Will see some more marginal depreciation over the next couple of quarters, but the worst is behind us.

She turned the Trustees attention to research page in the booklet to look at the Odyssey weighted Spot Market indices (transaction pricing). Over the last 6 quarters, peak transaction values have fallen 25%, Odyssey has fallen 20%, Odyssey REITs are down 25-27%, and they troughed 42% in October.

Today, this fund is down 23%, compared to 33% during the global financial crisis.

The 4<sup>th</sup> quarterly property of 8% (peak-to-trough) is down 8%; over the last 6 quarters down 24% over last 6 quarters. What is driving those returns?

Office down 9% compared to peak-to-trough, it's 31%.

Cap rates for have best office are in 6.5% range (normal, 7-9%).

Despite that, this fund did 1.2M sq. ft. of leasing in the 4th qtr. which is a tribute to how high-end their assets are.

Q: Do you have average cap rate for office portfolio? A: She doesn't have exact numbers but believes it's around 7%. Q: What about residential, industrial, and retail? A: Around 6%. Cap rates have expanded significantly, but if they were acquiring assets today, they could acquire it at 5-8% in industrial.

So, as a reminder, industrial is top grade industrial (next generation). Southern CA, NY, NJ, Miami, they have an excellent industrial portfolio, and they have a mark to market rents of 80%. Which means they can mark up the rents 80% in high demand areas and are going to be a major driver of their NOI growth.

Outside of office, fundamentals are quite strong. It's the capital markets that have been devastated (due to high increase in interest rates). It's tough to get a loan for the single-family market because of the interest rates.

Keith Beaudoin noted that he agrees with her on her points about the capital markets making it more difficult. But how are people going to use office going forward? A: It's the most difficult challenge in the segment for sure. How did they lease 1.2 million sq ft? It's high quality and the type that tenants want today. JP Morgan owns an asset in West Los Angeles, absolutely beautiful and 95% leased. This is not the case in downtown Los Angeles (where they don't own any assets) you'll notice no one wants to be there. These assets are being written down at 50%, even though West LA is only 10 miles away.

Q: So, there are some great office properties, but then you look at 4<sup>th</sup> qtr. and the fund trails by 200-300 basis points. How do you square this? A: Look at page 15 and look at the year overall, when the repricing began, they were 1-2% over the market. It took a year for everyone to catch up with JP Morgan. Looking at underperformers, it is industrial. JP Morgan has THE premier industrial property in the U.S. At its peak it was trading at 2-3% and now it's 7%. Leverage is not driving stats, but for now it has a negative impact. They are at 30%, peers are at 26%.

Q: How are you reimaging office space? A: The plan is to divest, not reimagine.

Rebekah Brown noted that she has started to see more transactions in 4<sup>th</sup> quarter of 2023 and will see more office activity in first part of 2024. There are good quality assets, in California and Washington, but they are overweight to office, so they don't want to own them for the long term. Not clear how well they will sell.

Q: If they look at queue rate? A: She thinks if all goes as planned (barring any major events such as war) they can pay out \$2B to pay down the queue. The RTA has a \$2M partial redemption that was requested in October 2022 and a little over ½ has been paid off.

Q: Can we have a sense of who's aligning on sales? A: Values have some down so much, and that forces the leverage to be higher. They are around 5 percentage points over, but it still has poor leverage. This portfolio has been conservative assets, and they are focused on quality. They have 3 major assets that are maturing this year: 2 offices and 1 retail. The retail asset is oversubscribed, 1 office asset is in in Boston and has been refinanced; and 1 office is a 30 S. Wacker which matures in October/November. JP Morgan is focused on their maturing leverage. They are seeing tenants sponsor the buildings to make sure landlords won't go into default. They do this because the quality of the buildings is so high.

Q: To close the loop on the question earlier, what are the checks and balance on the leverage of the fund, is it the investment committee level? A: There is a separate debt capital markets fund, and that group puts the leverage on the assets. We also have guidelines with respect to leverage

and that, combined with the quarterly meetings, is where this is discussed. The Debt Capital markets group within Real Estate Americas is the group that talks to the lenders and spearheads the financing and leverage of the properties. Within JP Morgan's platform.

Let's say anecdotally, 225 Franklin was financed by Wells Fargo. The loan was maturing, we started negotiating the loan 6 months ago. They let us extend it for two years. That's what's happening these days.

When they have debt, they work with Life Insurance Companies or Major Banks. 30% is fund level, but at the asset level is around 50%.

Q: You don't borrow from yourself? A: No that would be a conflict.

Q: What's client turnover like? A: They don't have a lot of turnovers but have redemption requests and those are high everywhere. Investors are overallocated to Real Estate. Full redemptions are at 10% in queue (primarily corporate) because many corporations are de-risking.

Q: Is anyone rescinding their redemptions? A: They are starting to, but it's not meaningful.

Q: How much is in cash? A: 3-5%

High conviction ideas:

Infill Industrials (best in class) – little supply/high demand/high quality.

Extended sectors (page 18) single family renters. JP Morgan was one of the first movers in this space. They work with a home developer and the houses are built meant for rental. It's turning out to be a high performer. Why? Millennials are moving out of the city. Can't afford or can't find a home due to shortage. There's been such demand for this sector that it's becoming institutionalized. These homes are different from a scattered site strategy, these homes were built specifically for rental in planned development. They are adding homes to the market, not taking them off.

Q: What is the risk profile on this? These folks tend to overspend. A: For a lot of them they have college loans which affect their credit score. It is difficult to save for down payment with this debt, so this makes sense, but they can afford the monthly rent. These homes tend to be more affordable; they are in the 65% range (meaning 35% are higher). Focus on 20% rent to income ratio. They are able to attract renters with good income because they are nice, affordable home in good areas; there is very limited demand for high luxury.

Q: Has your fee schedule changed? A: They did lower it a few years ago.

Rebekah Brown noted that, going forward, there are no issues on debt side. The portfolio is well repositioned for growth. They've done a great job in the extended sectors and the worst of the repricing (industry wide) is behind them. She believes there is room for growth in industrial and

retail, large multi-family, and noted that industrial space is best suited for growth. Majority of tenants are credit tenants, so they tend to pay their rent on time.

Trustees thanked Rebekah for her time.

***Going back to the RMS discussion:***

Keith Beaudoin asked about the asset allocation. He would like some guidance on how conservative or aggressive the Trustees want to be? A: Let's look at 6.75 or 7.5, with and without RMS. Consensus, yes.

Keith pointed out that in the deck, there is the legacy net and gross returns, plus two reports on cap rates and an additional white paper. Questions raised about attribution will also be in the index.

**X. Administrators Report**

Rob Reed presented the Administrators Report.

He referred to his written report. The cash balance is \$17M. He needs \$1.8M for March, has one lump sum and a few expenses to pay, in addition to a reserve for JP Morgan Infrastructure of \$6.4M, which will most likely be called on April 1.

That brings the cash balance to \$9M. He would like to keep \$4M for April expenses; leaving access \$5M in cash flow. He recommends rebalancing with \$5M.

Meketa's suggestion is to rebalance by giving \$1.5M each to the two Emerging Markets equity managers and \$2M for Infrastructure.

**MOTION: FRANK PAUL MADE A MOTION TO TAKE \$5M OUT OF CASH AND REBALANCE GIVING \$1.5M EACH TO THE TWO EMERGING MARKETS EQUITY MANAGERS AND \$2M IN INFRASTRUCTURE. THE MOTION WAS SECONDED BY MAHDI HEMINGWAY AND APPROVED ON A ROLL CALL VOTE. ONE TRUSTEE (ZAID ABDUL-ALEEM WAS NOT PRESENT).**

**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, May 10, 2024 at 12:00 p.m.

**XII. Adjournment**

**MOTION: LORI NEWSON MOVED TO ADJOURN THE MEETING AT 3:50 PM. THE MOTION WAS**

**SECONDED BY FRANK PAUL AND THE MEETING ADJOURNED BY VOICE VOTE.**

Respectfully submitted,

Debbie Gidley  
Recording Secretary