OPEN SESSION
Minutes of the RTA Pension Plan Trustees Quarterly Meeting
Friday, February 10, 2022
via ZOOM | 12 pm

**Trustees in Attendance:**
Chairman Bill Lachman
Zaid Abdul Aleem
Jeff Goodloe
Mahdi Hemingway
John Morris
Lorri Newson
Frank Paul

**Also Attending:**
Khristian Andalon, Northern Trust
Keith Beaudoin, Meketa
Debbie Gidley, Recording Secretary
Ali Guttillo, Northern Trust
Ghiane Jones, Meketa
Nadine Lacombe, General Counsel, RTA
Katie Rak, McGuire Woods
Rob Reed, Pension Alliance Consultants
Dmitry Vorona, Meketa
Alli Wallace, Meketa

## I. Call To Order/Roll Call

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

## II. Discussion of Agenda Items

Chairman Lachman asked if there were any changes to the agenda. There were no changes requested. Chairman Lachman reminded the Trustees that the procurement software training call will take place immediately following this meeting.

## III. Next Meeting Dates

Chairman Lachman noted that the next meeting of the RTA Pension Plan Trustees would take place May 19, 2023. The hope is that this will be an in-person meeting at the RTA Offices at 175 West Jackson, 15th floor.

## IV. Public Comment

Chairman Lachman confirmed that, pursuant to the Governor's emergency declaration and due to the ongoing COVID-19 pandemic, it is not prudent for the Trustees to meet in person at this time.

He noted that he expects the order to be lifted in May 2023.

It was noted that there were no public comments to address. There were no guests who requested time on the agenda to speak.

## V. Approval of Minutes

The minutes of the November 18, 2022 (Open Session) were presented for approval.

**MOTION: FRANK PAUL MOVED TO ACCEPT THE MINUTES FROM THE NOVEMBER 18, 2022 OPEN SESSION MEETING AS PRESENTED. THE MOTION WAS SECONDED BY MADHI HEMINGWAY AND APPROVED ON A ROLL CALL VOTE THERE WAS ONE ABSTENTION (JEFF GOODLOE).**

## VI. Introduction of New Trustee

Chairman Lachman introduced Jeff Goodloe to the Trustees. He noted that Jeff is taking the place of Sam Sesto. Mr. Goodloe was appointed by the RTA Board last fall. Mr. Goodloe is an attorney who represents police officers and firefighters on investment boards.

## VII. Northern Trust Report

Bill welcomed Ali Guttillo back from maternity leave. She noted she will reach out to Mr. Goodloe to set him up to receive 1099s. She further noted that all 1099s have been issued and filed with IRS.

Khristian Andalon will continue to be Ali's back-up going forward.

Khristian Andalon gave the report on Ali's behalf, highlighting that the December and annual reports have been finalized and delivered and the quarterly contributions arrived in mid-January.

Northern Trust is in the office twice per week. The entire staff is in the office on Wednesday of each week. They are making huge investments in Technology (with Passport, their banking portal), especially Cybersecurity issues.

## VIII. Executive Session

Chairman Lachman noted that the procurement software training will take place in Executive Session, immediately following this meeting.

**IX. Fourth Quarter 2022 Investment Performance Report**

Keith Beaudoin asked that the 4th Quarter Report be moved up the agenda before the JP Morgan presentation and Chairman Lachman agreed.

*Capital Markets Overview*

Mr. Beaudoin reported that 2022 was a tough year for the markets, driven by inflation and the responses bycentral banks.

In looking at the 4th quarter numbers, we are seeing some great numbers across the board. Everything looks strongly positive, led by the EAFE and ACWI Indexes on the back of a weaker dollar.

In contrast, looking at the year as a whole, you see weakness across the board. The markets got hit on both ends (equities and fixed income) - remember that as interest rates goes up, bond prices go down and the Bloomberg Aggregate Bond Index dropped around 13% in 2022. It has been the market's perception of where inflation is and where it's going as well as the Fed's response (real and perceived) that has really had an impact on the portfolio. Other factors to consider, the Russian war against Ukraine, supply chain issues, and China, all relate back/impact inflation.

Look at pages 12 & 13 and you will see these Markets are now more reasonably priced. So, while it was painful getting here, future returns look more positive. Bond investments are providing higher yields so people are investing more into bonds.

In December, inflation started to decrease, giving hope that the Fed will hit the brakes on rate increases and now bond investments are starting to make more sense than they have in the past.

*Question:* What is the market pricing in terms of the Fed right now in your opinion for the back-half of the year? Mr. Beaudoin noted, 25 basis points is priced into the curve, then we'll see a pause with no easing.

Unemployment continues to be very low. Typically, the Fed's efforts to fight inflation may lead to higher unemployment. This has not happened yet, which is a concern for the Central Bank. If we don't see employment come down, they may have to raise rates again. The hope right now is that the Fed will have one more increase of 0.25% then wait and see what happens. If they have to raise rates, there is a concern this will crash the economy into a deep recession.

*Performance Review*

Ghiane Jones reported that the Fund's value at the end of 2022 was $327.4M and most assets are in policy range.

Ms. Jones reported that given the market's risk rally, the plan posted a strong 4th quarter return of 6% , making it -12% for the year. The managers did an excellent job managing/protecting the Plan's capital. Up over 5% for the 1st quarter 2023.

Off to a great start for 2023 and looking forward to a continued rally.

- Asset Class – Domestic Equity Portfolio - good returns due to Large & Small Cap portfolios. (Manager – Aristotle Large Cap, Kayne Anderson, Small Cap)
- Mid-cap equity did well but lagged the benchmark by 200 basis points (Manager: Times Square).
- International Equity Portfolio – outperformed domestic portfolio – up over 12% net of fees.
- Emerging Markets managerstrailed the benchmark, due largely underweight to China. No concerns with Driehaus (Manager) at this time.
- Private Equity – valued at $12.9M – Mesirow and Glendower post strong net IRRs. Less than 80% of the capital has been called so far.
- Despite market conditions - fixed income rallied 2% - largely driven by investment grade bonds.
- Real Assets (infrastructure) – JLC, JP Morgan and I Squared. JLC has called 40% of capital and I Squared has called 11%.
- Real estate – the fund's bright spot is up 8%. The 4th quarter struggled a bit, due to higher interest rates.
- Aristotle – Strong quarter, outperformed S&P by 3%. Shares of Blackstone declined in 4th quarter.
- D&C – great quarter returning 3%, largely due to credit selection. Underweight to US Treasuries.

The Fund ranked in top third overall for 2022.

*Comment:* Mr. Abdul-Aleem noted that he's happy at the trend and direction the fund has taken. He commends the Trustees and consultants for their work.

**X. Discussion-on China Exposure, Currency Hedging Options, Private Credit Education, Public Fund LDI Overview and Relationship Overview and Future AA Study**

It was noted that the Trustees wanted to get an idea about their exposure to China. Meketa noted that as of 12/31/2022 the RTA's Exposure to China is 2.2% or $7M. Most of the exposure is in equities, Driehaus has the largest exposure as an Emerging Markets Manager.

*Question*: Would you talk about what has happened in the last 3-5 months. Have these investments become less liquid due to their relationship with the world? *Answer:* We have not seen that. But we want the managers to have knowledge of what's happening and know the companies they are investing in. If China decided to invade Taiwan, the financial consequence could be pretty dire.

*Question*: Given this information, is there a recommendation to divest from China, or that just impossible?

*Answer*: Mr. Beaudoin has not seen any calls to divest. They are seeing more and more clients reviewing their overall exposure to China with an intentional underweight to China. The RTA has been intentionally limiting their exposure for a few years, but it is still substantial. The Trustees need to determine what amount of risk they are comfortable with. The U.S. is trying to unravel the supply chains but there is no getting around it due to what China produces (metals, solar panels, microchips).

Alli Wallace added that RTA is on the lower end of their clients - others compare at (3.7% - 6.5%).

*Question:* Do the Emerging Market Equities Managers have a hedged/unhedged (USD) version available? *Answer:* Driehaus and Parametric do not. JP Morgan does have a hedged version so they can explain how that works.

Dmitry Verona will get the numbers on the China Exposure from Driehaus and report back in the next couple of days.

***Private Credit Education***

Maya Ortiz of Meketa joined the meeting to give an overview of Private Credit for the Trustee's consideration.

In a nutshell, Private Credit does what banks used to do - making loans to small and medium sized business and real-estate transactions; financing the next growth stage of a company, buy assets on the cheap – the things that the banks don't want to do any longer.

What is different is that the groups that provide capital are the Private Credit funds which are backed by Pension Plans, Private Wealth Fund and individuals that are providing that capital into the market.

Private credit provides exposure to different sources of return which allows the provider to be more flexible on the terms of the loans.

Private credit can provide more downside protection versus the historical construct – better access to information. Most borrowers are able to perform, but if not, managers are able to intervene early and renegotiate terms.

Consistency of returns – Private Credit is seen as a refuge of these companies.

It's dependent on what role you want private credit to play in your portfolio.

Private credit funds often have shorter lives which means they start paying income earlier.

Regarding the role in the portfolio – income vs. capital depreciation – it depends on what you want Private Credit to do in your portfolio. If the goal is fixed income, go with income-oriented strategies, if you want to go riskier, go more opportunistic. Eventually, over time, most will have a hybrid of both.

Default risk in private credit is around 2% (non-accrual rate in broadly syndicated markets), in a worse case, it has gone up to 6%. The ability to see trouble earlier allows you to sit across from your teams and work it out.

The RTA should think about what they want private credit to do in their portfolio. The first step is usually direct lending. Broad opportunities bring investors to private credit. It has been broadly embraced as a useful tool in portfolios.

Meketa recommends that if interest, the RTA consider with Evergreen Structures.

*Question:* when looking at public plans how much do they allocate to private credit? *Answer:* Typically, Meketa clients are at 3-5% *Question:* What would you recommend for us? Ghiane Jones answered, the purpose of this conversation was to introduce the topic and then call a special meeting to discuss asset allocation for Private Equity if there is an interest. If there is an interest, she suspects it will be 3-5%. *Question:* How many managers? *Answer:* Depends on allocation sizing. If 3% and go with the Evergreen Strategy, you'll pair with the direct lending manager. If you chose to go with the Private Credit, then multi sector credit or investment grade bonds would be the "go to" funding sources.

In answer to a question, Ms. Jones stated that Evergreen Strategies are open-ended private credit strategies that allow you to get some liquidity and your assets won't be locked up for 5+ years. Additionally, it's an open-ended approach that provides diversification to a wide variety of sectors.

In summary, all private credit generates income and provides flexibly. Having that ability supports a more in-depth underwriting. It offers some downside protection, it's a growing market and offers a broad opportunity set regarding reward and risk.

Mr. Beaudoin asked if there were any further questions. There were none. Mr. Beaudoin noted that Meketa will provide an asset allocation to include Private Credit in a separate session so they Trustees can discuss further.

*Public Fund LDI Overview*

Gord Latter joined the call at this time. He is an actuary by training and now works for Meketa on the liability side and is here to give an overview on LDIs.

To answer the question, are public funds using LDI? Mr. Latter said he only knows of one public plan that uses LDI. LDI values the liability independent from the assets. They don't use the long—term returns.

He referred the Trustees to the charts on pages 89-91 to see a sample scenario. This scenario shows what the funding might be and what the portfolio might look like.

Meketa just wanted to answer the Trustee's earlier question on "why or why not" use LDI funds.

Question: Is there an inflation component to the benefit side? No. True LDI framework would use TIPS valuation. The timing of the liabilities is also unknown.

The Trustees thanked Mr. Latter for his time.

Ghiane Jones noted that if there are further questions, or the Trustees wanted to dive deeper into LDI, they will invite Mr. Latter back to discuss during a future meeting.

*Relationship Review*

Ali Wallace went on to give an overview of the relationship between RTA and Meketa. She referred the Trustees to page 93-96 of the booklet for a summary and highlighted the following.

- Investment Policy – including ESG
- Asset Allocation
- Incorporation of Real Estate, Private Equity, and Infrastructure

Meketa is pleased with the results on diversification of the plan, manager roster and downside protection.

**Question:** Did you track MWDBE managers that were added? **Answer:** She can look back for exact numbers. ISQ, JLC and Loop Capital helped make these numbers positive.

Ghiane Jones added the highlights of the custodian search (Northern Trust) and transition manager (Loop Capital). Worked to reduce fees across the managers – total of $65,000 in savings annually.

The fund has achieved a return of 5.9%, which is in line with the asset allocation.

Meketa noted they enjoy working with the RTA and they hope to continue the relationship in the future.

**XI. JP Morgan Real Estate & Infrastructure Presentation- Tom Villanova, Nick Moller, and Melissa Anezinis**

Tom Villanova, Nick Moller and Melissa Anezini**s** from JP Morgan joined the meeting to give an update of the RTA's Real Estate and Infrastructure holdings.

Melissa Anezinis, real estate focus, noted this is a timely update, as the market has seen some significant shifts coming off of historic returns in 2022. She noted there is still uncertainty around fears of an upcoming recession.

The fact that Real Estate is delivering outside of a recession is unprecedented, but the good news is, they seem to be finding the bottom which should happen in the next few quarters.

She noted the key reasons for using JP Morgan:

- World largest manager of open and real estate funds, $70B
- Commitment to differentiated assets in high growth markets (promote resilience).
- Size and scale allow JP Morgan to create strategic partnerships which creates unique entry points in the hottest sectors
- Information advantage (real-time)
- ESG and DEI

3rd/4th quarter performed up 4.97% (down 6% overall peak to trough).

Sectors performing well –

Industrial sector is seeing the strongest growth opportunities. Residential is still seeing rent growth (even though at a slower pace).   There is a housing shortage in the U.S. and JPM tends to focus more on affordable housing.

Office sector not doing well since COVID, and the broad outlook remains uncertain. Office occupancy is back to 50% since 2020, the number of office jobs added is outpacing layoffs, and there is no new supply coming to the market.  So, our positions in the office sector will be newer assets in high growth market and industries – tech, finance, media/advertising will be bringing people back to the office.  JPM feels good about the office space they own, even if the rest of the office market continues to feel some pain.

Retail is a bright spot in the portfolio – values are flat and fundamentals strong. Seeing strong leasing, new store openings, sales, and foot traffic up, rental growth.  Consumers looking for quality, so it's important to own the best retail in both malls and strips centers in the best markets (LA, San Francisco, NYC).  Occupancy is currently 90-92% with very little rollover.

*Question:* What is driving retail? *Answer:* grocery; open air luxury retail; trophy enclosed malls (high-end shopping centers).  The traffic and sales figures are trending well at their centers.

Allocation is 32.5% Industrial; Residential 26.1%; Office 23% and Retail 16.7%.  This allows JPM to divest lower growth assets and concentrate on high-end industrial.

Residential has expanded into residential rentals; age-restricted housing with focus on suburban and affordable.  Moved out of urban luxury.

In answer to a question on Chicago, Melissa Anezinis noted JPM is in a Joint Venture with Sterling Bay on Lincoln Yards site.

Extended sectors include JV Partnerships, truck terminals, residential rentals, industrial outdoor storage for construction – this helps diversify the portfolio.

Fund is $45B in assets  – LTV 26.4%, current cost to capital is less than 4% and have minimum debt maturity so they are able to withstand the rough debt environment.

Additionally, there is $536M waiting from existing clients looking to top off their investments.  JPM has an open-ended contribution policy.

*Question:* What are some challenges you are facing? *Answer:* Office portfolio is tough. Retail portfolio has a couple of "not great" malls.  Industrial may go through pricing compression.

Melissa Anezinis said she thinks there is another quarter or two of negative returns before things turn around.

In answer to a question, Melissa Anezinis said there is nothing in foreclosure right now. Going to see some lumpiness, but they are in a good position moving forward.

Question:  In terms of LTV where do we expect to go?  Mid-20s –JPM is keeping a close eye on this and hedging where possible. JPM has done a lot of work on this. The debt profile is not something that should keep anyone up at night. Overall, they have taken some lumps, but JPM has set the fund up for great opportunities for the portfolio going forward.

*Question:* are you seeing unique entry points already or do you have a timeline? *Answer:* For this fund, JPM does not purchase distressed properties, look for other entry points (single family rentals, self-storage, etc.). JPM wants to own assets where people want to spend their time/money.

Nick Moller joined the call to talk about the infrastructure side of the portfolio. He directed the Trustees to page 3 of the presentation. This fund invests in communications and utilities – renewables, natural gas. The fund concentrates on essential services.

At end of the 4th Quarter was at $30B and it continues to grow. Growth means diversification. The goal of the strategy is to be resilient with a steady, stable positive rate of return and the fund has been performing as expected. In summary, the fund is continuing to reduce risk and focus on what they consider to be their core.

The fund has a fee schedule that automatically reduces when certain thresholds are hit. It was hit at $30B which brought fees down from 90 to 86 and it will occur again when the fund hits $40B. So JPM grows, they share economies of scale.

*Question:* How many assets are unique and what was the return of the hedged vehicle for 2022? *Answer:* 810 assets are managed by 20 companies and the hedged strategy returned 9.6% for 2022.

**XII. Administrator's Report**

Rob Reed reported that in April 2023 he is expecting $6M to be in the account. He suggested investing some of the cash. This would be if there are no major lump sum payouts, as May/June tend to be a big retirement months.

Consensus: Invest $3- $3.5M after contributions come in.

**Question:** Are you ok working with Meketa or you need something more than that? Rob Reed answered, generally need a motion on dollar amount and where it needs to go. Katie Rak said that it is appropriate to work through with Meketa on this. The Trustee can decide after the contributions come in during April 2023. Let's wait until May to decide given market volatility.

Will stay in cash until the May meeting.

**XIII. Old Business**

No old business.

**XIV. New Business**

Next meeting is Friday, May 19, 2023. In person at RTA office, 15th floor, 175 West Jackson.

## XV. Adjournment

Motion to adjourn 2:35 pm. Chairman Lachman reminded the Trustees that the training session follows immediately.

**MOTION: ZAID ABDUL ALEEM MOVED TO ADJOURN THE MEETING. THE MOTION WAS SECONDED BY JOHN MORRIS AND THE MEETING ADJOURNED ON A ROLL CALL VOTE.**

Respectfully submitted,

Debbie Gidley
Recording Secretary