

Meeting of the Retirement Plan for CTA Employees Board of Trustees

200 West Adams Street
17th Floor
Chicago, IL

Meeting Minutes

A regular meeting of the Board of Trustees of the Retirement Plan for CTA Employees was held on September 28, 2017 at 200 West Adams Street, 17th Floor commencing at 9:45 a.m. and continuing through 11:14 a.m. and from 11:23 a.m. through 12:07 p.m.

A roll call was taken indicating that the following Trustees were present:

Thomas McKone, Chairman
Michael Bowen for Ronald Ester
John Burkard
Ms. Toi Bowers
Joseph Burke
Woodrow Eiland
Jeremy Fine
Kenneth Franklin
Erin Kleist-Gaynor for Sherri Thornton-Pierce
Keith Hill
Paul Sidrys

John Kallianis was present as the Executor Director. Richard W. Burke and Rachel Yarch of Burke, Warren, MacKay & Serritella, P.C. were present as General Counsel for Retirement Plan. Appearing on behalf of ATU Local 308 appointed Trustees was Joseph Burns of Jacobs, Burns, Orlove and Hernandez. Appearing on behalf of the CTA Appointed Trustees was James Daley of Jackson Lewis LLP. Appearing on behalf of the RTA appointed Trustee was Daniel R. Salemi of Franczek Radelet, P.C. Appearing on behalf of the ATU Local 241 appointed Trustees was Justin J. Lannoye of Dowd, Bloch, Bennett & Cervone. Also present were Kweku Obed and Miguel Zarate of Marquette Associates; Ms. Ruth Donahue and Barbara Zaveduk of Segal Consulting; Irene Davis and Krunal Shah of Mitchell Titus; and Aaron Shapiro and Wendy Ludbrook of Conduit.

In response to a question from Chairman McKone, Mr. Kallianis stated that there was a quorum in the room.

The Chairman then called for consideration of the minutes of prior meetings, initially the meeting of August 17, 2017 Mr. Sidrys moved to approve the minutes which motion was seconded by Mr. Joseph Burke. The minutes were approved with the abstention of Mr. Hill, Mr. Fine, and Ms. Bowers. The next item was a consideration of the minutes of the

special meeting of September 7, 2017. On motion made by Mr. Burke and seconded by Mr. Franklin, the minutes were approved with the abstention of Mr. Hill, Mr. Fine, Mr. Eiland, and Mr. Bowen.

General Administration Items

Mr. Franklin made a motion that items 4a through 4i on the agenda be approved. Mr. Joseph Burke seconded the motion which passed. Mr. Franklin stated that there was a request for approval of an educational conference attendance by Mr. Coleman. Mr. Franklin moved to approve Mr. Lamont Coleman's attending the International Foundation 2017 Annual Educational Conference. Mr. Kallianis reported that Mr. Biggs had indicated that he had a conflict, so he could not attend the meeting. Mr. Burkard seconded the motion which was approved.

Investment Subcommittee Items

The Chairman called for the report by the Investment Subcommittee. Mr. Obed stated that the market value as of the close of business on September 27, 2017 was \$1,807,614,640.92 and of that amount \$29,557,898.05 was in cash. He added that the return on the fiscal year to date basis was 8.5% which is ahead of the target rate of return. The target is 8.25%.

Mr. Obed reported that the Plan's investments in the hedge funds managed by Aetos, Graham, and BlackRock had been terminated.

Mr. Obed then spoke about the MWDBE index strategy provider search. He stated that the responses to the RFP were reviewed with a number of different criteria, including assets under management, performance, track record, and fees which needed to be looked at when assessing a passive provider. He stated that Rhumblin and Piedmont should be considered on the basis of their responses and their fit for the Plan. Mr. Obed recommended that, when there is a need for indexing, the Investment Committee should look to these two firms and solicit proposals to determine the low-cost provider and which, from an AUM standpoint, allows the Plan to meet the criteria in the Investment Policy. The recommendation from the Investment Committee would come back to the full Board for consideration.

In response to a question from Mr. Sidrys, Mr. Obed said that if, within a limited timeframe such as a year or two, there was no need to retain either firm, then the Committee should go back and reevaluate the responders every two or three years. Mr. Franklin moved to accept the recommendation from Marquette which was seconded by Mr. Burke. The motion passed unanimously.

Mr. Obed then spoke about the search for an MWDBE emerging markets manager. Mr. Obed described the search process that the Investment Committee went through to find a firm to manage an allocation of approximately \$55 million. There were 11 responses to the RFP out of the applicable investment universe of 16 firms. The 11 responders were pared down to 3 candidates for further due diligence, including ARG Investment

Management, FIS and OneStone. ARGA is a traditional fundamental value manager. FIS is a manager of managers firm. OneStone is a smart beta provider. Mr. Obed's recommendation was that ARGA be selected for an initial allocation of \$25 million and that, after a period of approximately 6 months, the Committee would review ARGA's performance and fit within the overall portfolio. The Committee would then make a further recommendation to the full Board as to how the additional assets would be allocated.

Mr. Obed reported that there were several factors discussed at the Committee level with regard to manager selection for this RFP. In response to a question, Mr. Obed explained that FIS is a manager of managers firm, and that their underlying managers were not all necessarily MWDBE firms. He also reported that the Committee was not comfortable that an investment with FIS might be a source of funding to a manager outside of the qualifications set forth in the Plan's Investment Policy.

Mr. Franklin made a motion to move forward with Marquette's recommendation of a \$25 million investment, and to have the Investment Committee consider an additional allocation of \$30 million to be managed by ARGA or FIS with additional due diligence. Ms. Bowers seconded the motion.

Mr. Franklin accepted Mr. McKone's clarification that the timeframe to look at performance would be 6 months. Mr. McKone stated that the review of the additional \$30 million allocation would be after six months had elapsed to consider an investment between ARGA, FIS and potentially any changes in the market. Mr. McKone stated that the six-month time frame should be measured from the date of the investment. That amendment suggested by Mr. McKone was accepted by Mr. Franklin. Mr. McKone then clarified that the additional \$30 million investment would be between ARGA, FIS and whoever is in the market, just to make the review complete. Mr. Franklin declined to accept Mr. McKone's additional clarification. Mr. Bowen put on the table a motion that OneStone be considered but later withdrew his motion. A vote was then taken on Mr. Franklin's motion. The motion did not carry. Mr. Bowen then made a motion to accept the recommendation made by Marquette. His motion was seconded by Mr. Burkard. The motion carried.

The next matter on the agenda was to discuss Item No. 5d, an open-end, private equity RFP. Mr. Obed said that the Trustees had made a commitment to an asset allocation of 12% to be earmarked for investments with private equity managers, but he pointed out that these investments sometimes are not called down for funding until a number of years pass. Even though the Trust has hired a number of different managers it will take some time for all the capital to get called and for all that capital to get invested. Furthermore, during this period of time, in light of the fact that the private equity portfolio is maturing, some of the investments will be paying out, making it difficult to meet the target of 12%. Mr. Obed recommended that there be an RFP issued to consider an open-end private equity manager. Mr. Sidrys made a motion to approve Marquette's recommendation to issue an RFP for an open-end private equity manager. It was seconded by Mr. Franklin. The motion passed unanimously.

Mr. Obed directed the Trustees' attention to the request of Adams Street wherein the Trustees had invested in two separate funds; the Adams Street Non-U.S. and the Adams Street U.S. Private Equity Funds. Adams Street has come to the Trustees to extend the termination date of both of the Funds. Mr. Sidrys made a motion to approve Marquette's recommendation for two-year extension to the Adams Street Non-U.S. Equity Fund and the Adams Street U.S. Private Equity Funds. The motion was seconded by Mr. Franklin. The motion passed unanimously.

Mr. Richard Burke then presented a Litigation Report. There is a status on October 3, 2017 on the Williams' case at which time the Court will probably set a time for hearing on the motion of the Health Care Trust to be dismissed. In that litigation the plaintiffs have filed a motion for class certification which they have not noticed up for hearing. He reported there are also subpoenas issued from the plaintiffs for documents from the CTA and that the Retirement Plan was also responding to the plaintiffs' request for documents and answers to interrogatories. Mr. Burke also reported that in the Hampton case the plaintiff has filed a motion to appeal to the Illinois Appellate Court. He added that on the Prescription Rebate Litigation, the Plan has filed a response resisting the insurance company's arguments that it not be held responsible. The Plan has also filed a counterclaim asking that the insurance company be responsible for the damages sustained by the Retirement Plan.

Mr. Burke reported that he would like to discuss possible class-action securities litigation. that the Board had been approached to join. On a motion by Mr. Franklin, seconded by Mr. Hill, the Board went into Executive Session to consider prospective litigation. The Committee adjourned at 11:12 a.m. into Executive Session and then resumed Regular Session at 11:23 a.m. The Chairman reported that potential litigation was discussed in the Executive Session and that there were no motions at this time.

The Committee then resumed Regular Session and turned to Item No 6 on the Agenda. The first item of business was the agreed upon part-time union officer payroll form. Mr. Kallianis reported that the Authority and Locals 241 and 308 had agreed upon the form and it will start to be used on or about October 1,2017.

On the second item in regard to a collection policy, General Counsel's office has brought forth a suggested draft for a collections policy. The Executor Director will coordinate a meeting date for the General Administration Subcommittee to consider the suggestion.

Mr. Kallianis gave a status report on the Legacy data request for the 2011-2016 payroll audit. Mr. Kallianis stated that the audit for the period 2011 to 2016 was going to cover all employees and also part-time union officers for 241 and 308.

The Chairman called upon Aaron Shapiro and Wendy Ludbrook from Conduent to present the January 1, 2017 Actuarial Valuation. At the conclusion of Mr. Shapiro's report Mr. McKone made a motion to accept the report of the Plan's actuary which determined the

funded ratio of the Plan of January 1, 2017 and to certify the 2018 Employer and Employees' contributions. In addition, Mr. McKone moved to adopt a smoothing value of assets, as recommended by the Plan's actuary, over a five-year term with a 20% plus or minus corridor. Mr. Sidrys seconded the motion. The motion passed.

The Chairman called for the presentation of the Auditor's Report on the Plan's Financial Statements. Ms. Irene Davis, the engagement partner at Mitchell Titus for the audit, distributed to the Trustees the version of the Audit Report referred to as Version 2, based upon the valuation method which had just been adopted by the Board. She stated that the intention was to issue an unqualified opinion on the financial statement. At the conclusion of Ms. Davis' report, Mr. Sidrys made a motion to approve the report which was seconded by Mr. Burkard. The motion was approved.

There being no further business to come before the meeting, on a motion by Mr. Bowen and seconded by Mr. Burkard, the meeting adjourned at 12:07 p.m.