**Rhode Island Public Transit Authority**
**Joint Pension Board**
**Minutes of the April 18, 2016 Meeting**

**Joint Pension Board Members Present:** Maureen Martin, Stephen Durkee, David Garzone, Thomas Cute and Kevin Cole.

**Absent Members:** None.

**Also Present:** Raymond Studley, Chief Executive Officer; Benjamin Salzillo, In-House Legal; John McCann, Outside Counsel; Ramona Gonzalez, Human Resources; and Victoria Catalano, Recording Secretary

**Agenda Item 1: Approval of March 28, 2016 Meeting Minutes**

Ms. Martin calls the meeting to order. Mr. Cute made a motion to approve the March 28, 2016 minutes. Mr. Garzone seconded and it passed unanimously.

**Agenda Item 2: Convene as Pension Benefit Sub-Committee**

**JPB Action: Lorraine Townes:** Ms. Gonzales states this is a late pension for Lorraine Townes. She was hired on November 5, 2003. Her employment was terminated on May 22, 2015. She was employed by the Authority for 11 years and 7 months. During her employment Ms. Townes was included in the hourly pension plan. Based on her years of service and age, Ms. Townes is entitled to pension benefits. She has requested that such benefits become effective May 1, 2016. The total monthly pension benefit is $655.22.

Mr. Cute moves that the pension be approved, Mr. Cole seconds the motion and it passes unanimously.

**Agenda Item 3: JPB Information/Discussion Randolph Williams Information**

Mr. Cute requests to present Mr. Williams for a disability pension. He states Mr. Williams entered into an Agreement when he was terminated in 2011; it was negotiated between the Union and then President/Business Agent, Stephen Farrell, who is in attendance today to answer any questions pertaining to this.; The agreement provided that Mr. Williams would be able to seek a disability pension when he was able to provide proof of being awarded social security benefits.. Mr. Cute states that Mr. Williams had only part-time credit, so he worked here for a number of years which he was not given credit for, and when he left he was short of the requirement to get a partial disability pension. Mr. Cute states that the Agreement spells out the terms that were negotiated with the Authority between and Victor Santos, who was head of human relations, and Mr. Farrell. The union requests a motion to have Mr. Randolph Williams pension adjusted from an early retirement pension to a disability pension and put on the agenda for next month with the calculations recalculated.

Ms. Martin asks if the motion is to put it back on the agenda at the next meeting and Mr. Cutes states that it is.

Mr. Salzillo states that there is a legal issue that has arisen and states that an employee can only get a disability pension, under the terms of the pension plan, if the employee separates from employment because of a disability. That is not what happened with Mr. Williams. There was some question about whether he left the scene of an accident and there was an agreement entered into in which instead of being terminated he would be able to leave employment, not because of a disability, and then suspend his status until he came back with information that he had received social security disability benefits.

Ms. Martin questions if he has now done that and Mr. Salzillo states yes; however, first Mr. Williams didn't leave because of a disability, which means he can't get a disability pension under the plan; and second there were provisions in the agreement, and what he did after this agreement was signed - he took an early retirement. He didn't wait and come back with this information about social security benefits, he took an early retirement. He also cashed out his sick and vacation leave, which he wasn't allowed to do under the agreement. So we have someone who entered into an agreement that said in the future I'll come take a disability benefit, but he didn't do that - he took an early retirement, and irrespective of all that an employee can't get a disability retirement if you the employee doesn't leave employment because of a disability. Mr. Salzillo states he spoke with Mr. Cute about this situation, and Mr. Cute said he would put it on the agenda, and he has a right to do that, but under the terms of the plan, unfortunately Mr. Williams cannot get a disability pension.

Ms. Martin questions if the people who signed the agreement didn't understand that parts of the agreement were unenforceable. Mr. Salzillo responds there are two points; one is everyone who was involved, Mr. Williams, the Union, and the Authority should have talked to legal counsel before they did this. However, apart from that, it is just not possible under the terms of the plan to leave employment not under a disability and then get a disability pension. It's also important to note that regardless of Mr. Santos and whoever else signed this, it is this Board, the JPB, that is the fiduciary agent of the plan, and only this Board has the authority to approve a pension. Whatever Mr. Santos did and whatever Mr. Williams agreed to is just not relevant for the purposes of getting a disability pension.

Mr. Martin states that Mr. Odimgbe also signed it with the full authority of the Authority. Mr. Salzillo states that Mr. Odimgbe was not an agent of the board; the pension board is a separate legal entity that was established under the terms of the pension itself. Mr. Odimgbe was not on the pension board and even if he were he cannot bind the pension board. He does not have the authority to enter into an agreement like this that would affect the pension of a retiree.

Mr. Cute reads Paragraph No. 3 of the Agreement document being discussed: "Due to Williams' tenure, RIPTA agrees solely to keep Williams on suspension status for purposes of being able to collect his pension until such time that he receives his first Disability Social Security payment. At that time, Williams will apply for a disability pension from RIPTA's Joint Pension Board and go through the normal pension requirements/procedures". Mr. Cute states this was signed by the CEO, by the Executive Director of Human Resources at the time and we believe it is binding on the Authority that Mr. Williams be able to get his pension adjusted to disability.

Mr. Salzillo points to Paragraph No. 4 of the Agreement which states that it will be up to the Joint Pension Board to grant a pension. It is not the authority of Mr. Santos or Mr. Odimgbe or Mr. Williams. Put aside the fact that Mr. Williams didn't comply with any of the terms of the Agreement, he just took an early retirement and cashed out his sick and vacation; just on that basis alone he is not eligible. From a legal perspective based on the terms of the plan we are advising the board here of its fiduciary responsibilities to the plan, not to Mr. Williams. I am not speaking on behalf of Mr. Odimgbe or the agency; that is my advice, I would strongly advise the Board not to approve the pension, and at the very least Mr. Cute do you want to get a separate legal opinion on this?

Ms. Martin states the motion before the board is to bring it back up next month, that it would not be approved today. Mr. Salzillo states he just wanted to give the board the background information. Ms. Martin states it would be interesting to hear from Steve Farrell.

Mr. Cute suggests Mr. Farrell give testimony because he was a party to the negotiations. Mr. Farrell states that Mr. Williams was involved in an accident and had some serious visual problems and he was trying to work through them and it was not something that went in his favor and as a result he was suspended; we had a suspension hearing pending termination. We met with Mr. Odimgbe and Mr. Santos at the time and we came to an agreement that Mr. Williams would be allowed to retire and upon his being accepted in to the social security disability program that he would come back and receive his social security disability. Mr. Cute asks of Mr. Farrell at the time of the discussions with the authority did Mr. Santos consult a legal authority about this. Mr. Farrell states he believes Mr. Santos spoke to the labor attorney at the time. Mr. Cute states that would have been Andrew Prescott at the time. Mr. Farrell agrees.

Ms. Martin states that they should look at the whole case and maybe get another legal opinion.

Mr. Cute moves that the pension of Mr. Williams be put on the agenda for the next JPB meeting, Mr. Cole seconds the motion and it passes unanimously.

**<u>Agenda Item 4:</u>** **<u>Prudential Long Term Asset Allocation Strategy Discussion</u>**

Ms. Martin welcomes Mr. Lazaro Guzman of Prudential to speak and Mr. Guzman presents a handout to the board members. He states that he oversees the investment portfolio and he wants to give a quick overview of the markets; the performance of the total portfolio and his perspective on how some of the funds are doing. And also to discuss the Asset Allocation from an investment perspective, which is the asset allocation that drives the majority of the returns and the bigger impact on total performance as a result.

Mr. Durkee arrives to the meeting.

Mr. Guzman asks the board to turn to Page 5 of the handout. He states that in terms of the markets over last year - 2015 and even the first quarter of 2016 - we have seen some modest growth in the economy. GDP growing about 1½ to 2 percent, from our view we look at different metrics - housing, auto sales, business spending in general – and we see continuous modest improvement in the economy at a slow and moderate pace. The first quarter of this year we have seen a lot of volatility, parts of the quarter where some of the major indices were down double digits - down more than 10%. Since then we have bounced back quite a bit and at the end of the quarter we ended up flat on a lot of the indices. We are not expecting any major pull back in terms of economic growth; we are not expecting any major fall back into a recession, just some concerns about China slowing down, and oil prices have had a negative impact on the overall economy, but is good for lower gas prices. Our view for the overall economy with lower gas prices and lower heating bills should be a positive. The speed and magnitude at which they dropped has caused stress on the financial sector given some of the worries about exposure to energy. Also the fed starting to raise rates last year was a driver in terms of volatility; there was talk about 4 rate hikes this year and now they are talking about 2, maybe less. There has been a slowdown in corporate profits but when we take out the energy sector we think corporate profits are okay. We think the economy will continue to grow this year, and hopefully we will see a pickup for the second half and into next year. When we look at the returns for last year you will see some slightly positive returns, after the first quarter volatility we are back where we were towards the end of last year. We expect equities to do okay barring any major event. We looked at both plans separately, but we know that the two plans have merged, but at the end of the year there were separate. For the salary plan on page 5 year end assets were about $17.3 million, the performance for the 4th quarter was up about 3.4%; on the one year basis for 2015 it was up about 3%. For the last 3 years we have been averaging about 8.6% per year; for the last 5 years we have been averaging about 7.8%; and then for the last 10 years we have been averaging about 7.1%. When you think about what we have gone through for the last 10 years especially 2008-2009 a 10 year return of 7.1% is a little better than what I would expect given the asset allocation of the portfolio. The S&P 500 over 10 years returned 7.3% on average per year. That is an all-equity index which means it is considerably more risky than this 50/50 portfolio and you basically kept up with that index. In terms of asset allocation, the targets right now are 47% equity, 3% real estate and 50% fixed income. We ended the year pretty close to those targets. On a quarterly basis we look at where the portfolio is verses the targets and rebalance if we get far off those targets. We ended the year pretty close, so we did not rebalance the portfolio.

Ms. Martin states we are making some modest steps forward. Mr. Guzman responds that the assumed rate of return that the actuary uses is about 7.5%, so for the last 5 years we have hit that; for the last 10 we've fallen short. Going forward we have revised down our expectations for the market given what we see in the economy so 7.5% is probably a little high going forward, but looking back we have hit it over the last 5 years.

Mr. Durkee asks if there are numbers for the first quarter of this year. Mr. Guzman responds he did not bring a rate of return, but has the combined end of year at $110.3 million total. And as of the end of day on Friday, we were at $110.9 million, so the return was pretty much flat. There are disbursements on a monthly basis but also a decent amount of contributions which generally tend to off-set each other, so the assets being flat indicates the returns are more or less flat.

Ms. Guzman asks the board to turn to Page 7. He states they ended at $93 million on the hourly plan, performance of the asset allocation is very similar; although they were not always alike. Going into 2008-2009 the salary plan was much more conservative which is why the 10 year return on the other plan was as good as it was because it was so conservative. This plan hasn't been with us under our asset allocation plan for a full 10 years, which is why we show a 9 year period. The returns are pretty similar. The targets are similar 47% equity, 3% real estate, 50% fixed, and we ended the year pretty close to that and we did not rebalance the portfolio.

Mr. Guzman asks if there are any questions and states we will now look at individual funds. He asks the Board turn to Tab 3, Page 40. This shows the fund lineup for the salary plan; we compare each of these funds, these managers, to their peer groups so using Large Cap Value AJO as an example we see how that fund ranks within the Morningstar peer group. Over 1 year at 11 percentile is beating 89% of the managers in the category, over 3 years at 13 percentile is beating 87% of the managers in the category, and 12 percentile at 5 years, beating 88% - it's in the top half. Generally we like to see your funds to be in the top half over 3 or 5 years or both. The lower the percentile ranking the better, you will see that all of your funds over 3 and 5 years are in the top half of their category. We also like to see funds beating their benchmark, so each one is rated against a benchmark and those numbers are on page 41 and 42. We have one fund on the watch list which is the Large Cap Growth Jennison Fund; it is not on the watch list for performance reasons; it's on because the CEO of Jennison left the firm toward the end of last quarter. When we look at funds, we look at their performance, but we also look if there is a key person that leaves the firm or the portfolio management team. We thought it was a significant enough event that we should put it on the watch list, the fund continues to perform, the track record is solid, and it is in the top 10% over the last year.

Mr. Durkee states that this needs to start wrapping up as there is another presentation. Mr. Guzman asks if there is another 15 minutes for asset allocation, and that he was under the impression they had a total of 30-45 minutes. Mr. Durkee asks who will give the next presentation and Mr. Guzman states it is a joint presentation. Mr. Durkee states they must wrap it up by 1:30.

Mr. Guzman asks the board to turn to Tab 2, page 66; the executive plan, everything is meeting criteria - the funds have been in the top half through 5 years in a lot of cases. One fund that isn't is LSV, 20% emerging markets - that area got hit pretty hard last year, it's not on our watch list but we will continue to monitor the fund and we are not suggesting any changes. Mr. Guzman asks if there is 15 minutes left for asset allocation. Mr. Durkee responds that there are 10 minutes left and that the board meeting has to start at 1:30 pm.

Mr. Edward Landsman speaks next and states that he is a Senior Consultant at Portfolio Evaluations and he re-emphasizes he is fiduciary to the plan as is Mr. Guzman so everything that they do in the performance analysis is with the board's best interest in mind. Project summary - there are 3 different things they are trying to accomplish on behalf of the board for the pension plan. First is the investment policy, an important document that provides all of the guidelines for the investment monitoring and management of the pension plan. There is a copy of the investment policy statement included in the presentation on page 25. That document was last updated and approved in 2009 and we think from a fiduciary perspective and speaking with your counsel it makes sense to periodically review that document every 2-3 years. We are currently working with your counsel with an expected completion date of June 2016. The asset allocation will be later in the presentation and the last thing is called a review of investment options which is something that Mr. Guzman just presented. We as an independent investment consultant look at both the total plan performance and also the underlying investment options. Mr. Landsman asks the board to turn to page 13 where performance numbers for each of the portfolios and the asset allocation index, the benchmark index specified in your investment policy document. An objective in looking at the plan is not to perform great at all times, it is to meet the asset allocation. Sometimes the markets do well and sometimes they won't. But the objective of the plan is to always outperform the asset allocation and you will see that over the 3 and 5 year period on an aggregate basis for both the portfolios, both plans have outperformed the asset allocation. Mr. Landsman asks the board to turn to page 11. To provide another perspective – Mr. Guzman just discussed the underlying investments and have either a check or a flag. A check means the investments have met its investment policy criteria for the 5 year period, as have the vast majority of the investments. The two funds that have flags are not of great concern, they underperformed slightly. We are very comfortable with the underlying investments.

Mr. Durkee asks what the triangle symbol indicates. Mr. Landsman states it measures calendar year performance, and we are looking at calendar year consistency so if the portfolio outperforms 3 out of 5 years, it gets a check, 2 out of 5 it gets a flag and 1 out of 5 years, it gets a triangle. So a triangle means it didn't do as well consistently as we would have hoped.

Mr. Durkee states they will have to digest this a bit further. Mayor Avedisian asks for extra copies for members of the board who are not part of the joint pension board and also states that the name on the presentation needs to be changed to the Public Transit Authority, not the Transit Public Authority.

Mr. Guzman begins to speak on the asset allocation and asks the board to turn to tab 2, page 14. Mr. Guzman states he will show the board its portfolio verses some alternatives; there is a higher level trend that he wants to talk about before getting into the numbers. When a pension plan has a funding gap, is underfunded - and you are trying to close that gap - so you have less assets than your projected liability, there are a couple of ways to do it. One is to put more money into the plan, the other way is to change the asset allocation to try and improve your return over the long term and get more from the market and try and close the gap that way. This assumes that we are not changing any benefit formula or making any other changes to the plan. Asset allocation, generally in looking at the asset allocations if you are looking to improve the return, a lot of time what happens is you are also going to increase the risk profile; to get a higher return you have to take a little more risk, with more risk you get more volatility, and over longer periods of time you get a higher average return over 10 plus years. But year to year you will experience a little more variability, volatility. On average the portfolio will do incrementally better and that is the key concept to keep in mind as we look at the numbers. The portfolio today is about 47% equity, 3% real estate and 50% fixed income. The expected return over the long term but it doesn't change for 10 years is about 6.5%. In the example of increasing equity exposure – Alternative 1 has 50% equity, 5% real estate and 45% fixed and the next Alternative 2 has 55% equity, 5% real estate and 40% fixed. As you move across the expected returns you go from 6.5% expected return to about 6.7% to 6.9%, you expect to get a higher return from more equities. The range of returns is more variable as you move to the right on the chart, it's a wider band, whereas your portfolio on a 1 year period we expect it go anywhere from a negative 6.5 to a positive 23, the other ones can go from negative 7.3 to positive 24.6 and the riskier from negative 8.5 to almost 26 percent. Looking at the combined plans based on the valuations, they are a little below 80% funding, they are ongoing endeavors; there is an opportunity to increase the equity exposure on the margin which we talked about at previous meetings to try and help close that funding gap. Not talking about any big step changes in terms of risk profile or equity exposure, we are talking about marginal changes. We wanted to introduce that idea today and maybe continue it in the future.

Mr. Guzman asks the board to turn to page 17. The expected return for the 3 portfolios really haven't changed over a 10 year period, but what we do see where the range over the one year was very broad in the riskier portfolios, the bands shrink when you go to 10 years. Over a 10 year period we expect the markets to perform closer to norms whereas anything can happen in a 1 year period. Two other important factors for the pension board are if you have more variability in returns, you might also see some greater variability in contributions you will have to make in years where the market doesn't do well, you might have a more negative return which means you might have to contribute more the following year. You might also experience more volatility on the funding status. Along with your actuary we will help you through these things, at this point, given this is a long-term endeavor there is an opportunity to increase the risk profile.

Mr. Durkee asks what the timing is for that sort of change. Mr. Guzman responds that the change can be executed very quickly, within days; but that it would be phased over a couple of days so that all the risk is not taken one day in the market.

**<u>Agenda Item 4:</u>** **<u>Adjournment</u>**

Mr. Cute makes a motion to adjourn the meeting. Mr. Garzone seconds the motion and it passes unanimously.

Respectfully submitted,

Victoria Catalano
Recording Secretary