Lane Transit District (LTD)
Salaried Employees Retirement Plan
Minutes of the Meeting
November 10, 2021

<u>Trustees:</u>
Ms. Christina Shew
Ms. Michelle Weber
Mr. Mark Johnson

<u>Investment Consultant:</u>
RVK, Inc.
Mr. Ian Bray

<u>Counsel:</u>
Hershner Hunter LLP
Mr. Jeff Kirtner

<u>Actuary and Consultant:</u>
Milliman, Inc.
Mr. Scott Preppernau
Ms. Lacey Engle

<u>Administrator:</u>
Kernutt Stokes LLP
Mr. Dean Huber
Ms. Sarah Hodges

<u>Guests</u>
None

The meeting of the trustee of the Lane Transit District Salaried Employees Retirement Plan was called to order by Ms. Christina Shew at 11:55 a.m. The meeting immediately followed the trustee meeting of the LTD and ATU Pension Trust and was held virtually over Zoom.

Ms. Shew began with a roll call and all trustees were in attendance. She next welcomed Michelle and Mark as new trustees for the trust.

Next Ms. Shew asked the new trustees if they had a chance to review the prior meeting minutes of the August 19, 2021, trustee meeting and if either of them felt comfortable making a motion to approve those minutes. Mr. Mark Johnson moved for approval and the motion was seconded by Ms. Michelle Weber. The motion passed unanimously.

Next Ms. Shew noted that the report of the investment consultant usually had many parallels to the report presented in the LTD ATU pension trustee meeting as there are many similarities between the investments in the two plans. She noted that Mr. Ian Bray usually highlighted anything that may be different in the investment consultant's report for the salaried employee's plan trustees. She next asked Mr. Bray if he had any items to present specific to the salaried employee's plan.

Mr. Bray gave a quick overview of the Plan's investments and investment philosophy differences between the two plans due to the new trustees in the room. He indicated that for a long time the two plans utilized the same investment managers and investment allocation. Recently the committee has been discussing de-risking the salaried employee's plan for some time due to the fact the plan is frozen and does not accept new participants. With the most recent changes to the Investment Policy there were some small tweaks in the asset allocation to lower the risk in the salaried employee's plan. The main difference is that there is a smaller allocation to equities and a larger allocation to fixed income in the salaried employee's plan. The manager line-up is the same with the exception of the AFL-CIO Housing Trust investment that the ATU plan has.

Mr. Bray noted the plan was up 8.11% year-to-date through the third quarter. Updated through the day before this meeting Mr. Bray indicated the year-to-date return is approximately 12.7%.

Mr. Bray also noted that the discussion held at the ATU trustee meeting that is applicable to this plan, was not repeated in the live session for the trustees but would be reflected in the minutes for interested third parties that may be reading the minutes at a later date.

The following comments from the LTD ATU trustee meeting were not discussed live at the salaried employee's pension meeting but are applicable to this trust as well.

> At the ATU meeting Mr. Bray discussed some of the data in the Capital Markets Review section of the investment consultant's quarterly report for the quarter ended September 2021. He noted that Q3 was a flat quarter overall for the markets. He also noted that the recent uptick in inflation results in investors anticipating Federal Reserve actions, such as raising short-term interest rates, designed to curb inflation.
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> Mr. Bray noted that between September 30 and the date of this meeting, equities have performed very well. As of September 30, the S&P 500 was up about 16% year-to-date, but as of the date of this meeting the S&P is up about 26.7% YTD.
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> Mr. Bray next went over a graph showing how the fund's assets were allocated versus the Plan's peers (pension plans under $100 million). He noted that the funds fixed income allocation was low when compared to peers and pointed out that a fully funded plan did not need to take as much risk as a plan with a funding shortfall. Because this plan is less than 100% funded, it has a smaller exposure to fixed income than many peer plans. *(though, as discussed at the salaried employee's trustee meeting, the exposure to fixed income is greater in the salary employee's trust than in the ATU trust).*
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> Next Mr. Bray discussed the total fund averages page noting that the benchmark for a portfolio allocated in accordance with the fund policy was down 0.67% for the quarter

(0.58% for the Salaried Employee's Plan) while the actual plan return was down 0.38% for the quarter *(0.30% for the Salaried Employee's Plan)*. Difference between the two is due to differences between the actual asset allocation and the target allocation, and differences between an active managers actual performance and the benchmark against which the active manager is measured.

The fund averages pages also show performance by various composites and by each individual fund manager.

Mr. Bray noted that the fund was returning 8.37% *(8.44% for the Salaried Employee's Plan)* calendar year-to-date which was better than the target allocation index and puts the Plan in the 29th percentile when ranked against its peers *(28th percentile for the Salaried Employee's Plan)*. Mr. Bray also noted that on a calendar year basis, every composite in the Plan has done better than its benchmark. He next went through the individual manager performance.

Finally, Mr. Bray offered to answer any questions a trustee may have and indicated he is always available to go over this information on a one-on-one basis.

Mr. Bray then offered to answer any other questions the trustees may have. There being none, Ms. Shew then asked for the report of the actuary.

Mr. Scott Preppernau indicated there was a letter in the board packet that contains Milliman recommendations with respect to assumptions to be used for the July 1, 2021 valuation of the Salaried Employee's Retirement Plan. He indicated he would not go over the entire letter but had a few items to highlight and he would be happy to answer any questions the trustees may have after reviewing the letter. Mr. Preppernau went on to indicate that the trustees have final authority over the assumptions and methods used for the Plan's valuation.

Mr. Preppernau went on to point out that all benefits and expenses paid by the plan come from contributions and investment earnings. Thus, if investment earnings fall short of assumptions over time, the level of required contributions will increase over time.

Mr. Preppernau then discussed the market return assumptions put forth by various investment consultants, as well as forward-looking inflation assumptions. Mr. Preppernau then turned the presentation over to Ms. Lacey Engle.

Ms. Engle began by talking about the difference between the market value of assets and actuarial value of assets. She noted that there was not a lot of difference between the two numbers at July 1, 2019. However, at July 1, 2021, the market value of assets exceeded the actuarial value by about $2.8 million.

Ms. Engle then reviewed the plan status as of the last valuation which was as of July 1, 2019. At that time the Plan had actuarial liabilities of $30 million and the actuarial value of plan assets was $20.1 million. This resulted in a deficit of $9.8 million and a funded status of 67%. Ms. Engle pointed out that if the 2019 assumptions were used (with an assumed increase in annual administration expenses of $5,000) and applied to the population of plan participants as of July

1, 2021, the actuarial liabilities would be $30.4 million. At the same time the actuarial value of plan assets had increased to $22.8 million which results in a plan funded status of 75%. If the liabilities at July 1, 2021 were also adjusted to reflect Milliman's recommendations as to mortality on a go forward basis the liabilities would decrease slightly to $30.3 million with the plan remaining 75% funded.

In addition to Milliman's recommendation with respect to administrative expenses and mortality assumptions, they are also recommending a decrease in the assumed rate of return on plan assets. Ms. Engle presented two estimated liability numbers. Both numbers consider the increase in anticipated administrative expenses and the update to the mortality assumptions recommended by Milliman. Additionally, the first liability estimate assumes future investment returns of 5.25% and the second assumes future investment returns of 5.0%. Using the 5.25% estimated return on assets, the plan liabilities would be $31.1 million, and the funded status would be 73%. If the trustees elect to use the 5.0% return assumption liabilities would be $31.9 million and the funded status would be 71%.

Next Ms. Engle moved on to talk about recommended contribution levels given the same scenarios used to present projected liabilities and funded status. To begin, she presented a chart of contribution levels over the last 10 years as a reference point for trustees. Of note, the contributions for the plan year ended June 30, 2021, were $1,470,780.

Under all scenarios presented, the contribution is made up of a percent of current pay for employees covered by the Plan, and a flat dollar amount. The percent of pay contribution is intended to cover the cost of providing future benefits earned in the current year. The flat dollar portion of the contribution is intended to amortize the funding shortfall as of July 1, 2021, over the next 10 years.

The July 1, 2021 valuation is used to determine contribution levels for the District's fiscal years ended June 30, 2023 and 2024. If there were no changes in assumptions, the contribution recommendation for these years would be $1,448,000 per year. If the only assumption change was a slight increase in assumed administrative expenses, the projected contribution would be $1,306,000. Even though the second contribution assumes additional expenses, it is lower than the first scenario as the first scenario does not reflect the positive investment experience of the plan between July 1, 2019 and July 1, 2021. If the recommended assumption with respect to mortality is layered on top of the administrative expense assumption the anticipated contribution would be $1,285,000 per year. Finally, if the recommended changes in anticipated investment returns are layered on top of the administrative expense assumption and the mortality assumption, the recommended contribution would be $1,399,000 per year at an assumed investment return of 5.25% and $1,514,000 at an assumed investment return of 5.0%.

Ms. Engle then indicated the trustees need to select the assumptions to be used by Milliman to finalize the valuation.

Ms. Shew asked about the long-term rate of inflation assumption and how that might affect the Plan going forward. Ms. Engle indicated it could impact salary increases in the future and the use of a higher inflation assumption may result in projected future salaries increasing at a faster rate. At the same time, the assumed rate of inflation is an input into the assumption about future investment returns. Because most of the Plan's liabilities are attributed to inactive or retired employees, the impact of a higher assumed inflation rate would probably be reflected more in the future return on assets than it would on an increase in liabilities due to higher salaries.

A discussion ensued between the trustees and actuary regarding the remaining amortization period for the unfunded liabilities. It was pointed out that the shorter the amortization period, the more potential volatility there would be in contribution levels from year to year.

After the discussion the trustees talked about the assumptions, they should adopt. After the discussions Ms. Shew moved to accept Milliman's assumptions, utilizing the 5.0% future rate of return. The motion was seconded by Ms. Webber. The motion passed unanimously.

Next Ms. Shew asked for the attorneys report. Mr. Kirtner indicated he had nothing to discuss.

Ms. Shew then asked if the administrator had anything to present other than the expense listing and new retirement listing already provided to the trustees. Ms. Long indicated there was nothing else to present.

Ms. Shew adjourned the meeting at 12:42 p.m.