

MINUTES OF THE MEETING
BOARD OF TRUSTEES
CTA RETIREE HEALTH CARE TRUST
200 West Adams Street, 17th Floor, Chicago, Illinois
September 27, 2018

TRUSTEES PRESENT

Thomas McKone	Chairman
Christopher Kasmer	Secretary
Joseph J. Burke	
Kenneth Franklin	
Keith Hill	
Paul Sidrys	
Georgette Hampton	Alternate for Sherri Thornton-Pierce

ALSO PRESENT

John Kallianis	Executive Director
Patrick N. Ryan	Fund Counsel, Baum Sigman Auerbach & Neuman, Ltd.
Ronald Willis	Dowd, Bloch, Bennett, Cervone, Auerbach & Yokich on behalf of the ATU Local 241 appointed Trustee
Daniel Salemi	Morgan Lewis & Bockius on behalf of the RTA appointed Trustee
David N. Novak	Jackson Lewis, LLP on behalf of CTA appointed Trustees
Miguel Zarate	Investment Consultant, Marquette Associates
Dan Levin	Benefits Consultant, Segal Consulting
Barbara Zaveduk	Benefits Consultant, Segal Consulting
Dorothy Stawiarski	Benefits Consultant, Segal Consulting
Irene Davis	Auditor, Mitchell Titus
Eric Vanderploeg	Burke, Warren, MacKay & Serritella, P.C.

CALL TO ORDER

The meeting was called to order at 11:22 a.m.

ROLL CALL

Mr. Kallianis took roll and a quorum was declared present.

APPROVAL OF MINUTES OF PREVIOUS MEETING

The Minutes of the August 23, 2018 Board of Trustees Meeting had been previously distributed to the Trustees. Upon motion made and seconded, the following Resolution was unimously adopted:

RESOLVED: To approve the Minutes of the August 23, 2018 Board of Trustees meeting.

GENERAL ADMINISTRATION COMMITTEE ISSUES

Mr. Kasmer noted that the applications for benefits and bills and remittances were previously distributed to the Trustees. Upon motion made and seconded, the following Resolution was unimously adopted:

RESOLVED: To approve all applications for benefits and payment of bills and remittances as previously distributed to the Trustees.

REPORT OF INVESTMENT CONSULTANT

Mr. Zarate first directed the attention of the Trustees to the Marquette Report through August 31, 2018. A copy of that document is attached and made a part of these Minutes. As of August 31, 2018, the Fund's assets were \$872,465,102 with a fiscal year-to-date return of 3.1%. As of September 26, 2018, the Fund's assets totaled \$870,195,139.37.

On Page 7 of the report, Mr. Zarate reviewed the returns in the various investment classifications which resulted in a 3.1% overall return on investments year-to-date. Fixed income lost 2.1%, lagging behind the benchmark of -1.0%, due primarily to non-United States fixed income, which was hit hard by emerging market debt. Of the two managers, Prudential is performing well, but Wells Fargo is not, and would be discussed later. In contrast, equities performed well overall, returning year-to-date 6.8% compared to the benchmark of 3.4%. While

large-caps and small-caps slightly underperformed their benchmarks, mid-caps outperformed its benchmark, as did non-U.S. equity managers.

On Page 8 of the report, Mr. Zarate noted Wells Fargo's continuing underperformance at -4.2% versus the benchmark of -2.0%. He also noted that Great Lakes was underperforming the benchmark, but stated that this was due to exposure in the financial sectors earlier in the year, and that they have performed better since that time. Mr. Zarate also reviewed the performance of select equities managers, including Eagle Mid-Cap Growth, which had returns nearly doubling the benchmark, and small cap managers Kayne Anderson and Amalgatrust. As for non-U.S. equity managers, Mr. Zarate noted OFI was returning 10.5%, in contrast to the benchmark of -1.5%. Overall, Mr. Zarate said there were no glaring issues with the portfolio, other than Wells Fargo.

Discussion then turned to Wells Fargo and the memorandum on page 19 recommending terminating Wells Fargo for poor performance. Mr. Zarate reviewed Wells Fargo's performance since first retained by the Fund and noted that after the first three years of strong performance, they have regularly underperformed. Mr. Zarate addressed fees that would be incurred once the Wells Fargo assets were transferred to new investment managers and indicated that he would be negotiating with the manager for a reduction of fees and that he would be able to report back to the Trustees by the next meeting. Discussion was held about reallocations of investments consistent with the Investment Policy. Mr. Zarate indicated that because this is not a rebalancing, but a consequence of a termination of investment manager, Marquette was recommending Trustee action to both terminate Wells Fargo and to reinvest in the existing managers. On motion made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To terminate Wells Fargo International Bonds, to reallocate monies invested therein to the Fund's other non-U.S. fixed income managers, consistent with Marquette's recommendations, and that Marquette report to the Trustees at the next meeting as to how the Wells Fargo's monies were reinvested with the existing non-U.S. fixed income investment managers.

Mr. Zarate then reviewed his memorandum on the acquisition of Piedmont by FIS and their request for the Fund's consent. Mr. Zarate recommended the Trustees authorize Mr. Kallianis to sign the consent letter, as the acquisition by FIS will not have any material impact on the Fund's investment and FIS/Piedmont continues to be an MWBE firm. On motion made and seconded, the following Resolution was unanimously adopted:

RESOLVED: That the Executive Director is authorized to sign the consent requested by FIS relating to the Fund's investment with and its acquisition of Piedmont.

Discussion was then held as to where in Marquette's report the total dollars held by various managers and fees paid could be found. Mr. Zarate directed the Trustees' attention to page 5 of the report as the best source of information on how much money each manager was holding. As for fees, Mr. Zarate highlighted page 15, which shows each manager and their fee schedules. Mr. Zarate explained that Marquette attempts to provide reasonable estimates of the annual fees based on these fee schedules, and compares them to the industry average.

2017 AUDIT RESULTS

At the request of Mitchell Titus, the report on the 2017 audit results, Item 7(d), was moved up on the agenda. Chairman McKone noted that everyone was present for the Retirement Plan audit report and is, therefore, familiar with their report on the processes used and requested that Mitchell Titus focus its report on required disclosures. Ms. Davis of Mitchell Titus reported that

the scope of Mitchell Titus' work was similar to that for the Retirement Plan and that they would be issuing an unmodified opinion on the Fund's financial statement.

Ms. Davis noted a key change from the prior year's audit is the application of GASB 74, which required additional disclosures regarding the total OPEB liability. Mitchell Titus had its actuaries review the assumptions and methods used and found allotment expectations. Ms. Davis noted that there were no other required disclosures, other than as previously reported to the Pension Fund.

On motion duly made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To accept the report of Mitchell Titus regarding the 2017 audit results.

OLD BUSINESS

Mr. Kallianis reported that as to Item 6(a), he will circulate the data requests Legacy made and update the Trustees on progress made in terms of providing requested information. Mr. Kallianis indicated that he expects Legacy to begin field work soon and that the Unions and CTA should expect to hear from Legacy within the next few weeks to schedule onsite visits.

As to Item 6(b), Mr. Ryan briefly reviewed the Legal Report to Trustees of Chicago Transit Authority Retiree Health Care Trust Fund dated September 24, 2018. As to the contribution collection litigation, Mr. Ryan reported that the next status hearing was scheduled for October 9, 2018 and that counsel received a draft Agreed Judgment Order from the CTA's attorney that is close to language that can be recommended to the Board. He indicated that further discussion would take place during executive session.

On the various Wakpamni Bond matters, Mr. Ryan indicated that the Trustees were updated on their status during the Pension Fund meeting and that additional discussion could occur in executive session as to issues specific to the RHCT.

As to the Wheatley matter, Mr. Ryan reported that the Fund's motion to dismiss is fully briefed and the matter is set for oral argument before the newly assigned judge on December 11, 2018.

For Item 6(e), under Old Business, it was noted that the Segal update on 2018 significant dates was incorrectly listed under Old Business and should be part of Segal's report under New Business.

NEW BUSINESS

Ms. Stawiarski highlighted the changes to the significant dates included with the meeting materials. On page 2 she noted the dates for Committee meetings and the scheduled dates to send the valuation report to the Illinois Auditor General, if the Trustees approve at today's meeting. The other update concerned the open enrollment meeting at Niko's scheduled for November 8. Ms. Stawiarski indicated that all vendors will be there and it is open to all retirees.

Chairman McKone asked if RHCT Statements were mailed to active employees. Mr. Kallianis indicated they had not been mailed due to the need to resolve issues related to the payroll audit for individuals with earnings and hours reported, but no contributions received. Mr. Kallianis indicated that he should know more about when the mailings will be sent within the next two days, and would update the Trustees accordingly.

As to Item 7(a), Ms. Zaveduk stated that this final version of the Actuarial Valuation had no changes from the draft presented at the prior meeting, except for adding the name and signature

and removing the word “Draft.” On motion duly made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To accept Segal’s January 1, 2018 Actuarial Valuation.

For Item 7(b), Mr. Levin reviewed each of the three memoranda included in the meeting materials, with the first concerning the Blue Cross Blue Shield renewal covering the pre-Medicare participants. He noted a 2.6% reduction in the renewal premium for the HMO due primarily to the suspension of the health insurance fee for the year, with a 5.2% increase for the PPO. Segal tried to negotiate a lower renewal rate for the PPO, but Blue Cross held fast at 5.2%, because the average claim value is up. However, Mr. Levin noted that the pre-medicare PPO and HMO are going out for RFP next year.

On motion duly made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To approve the one-year renewal for Blue Cross Blue Shield HMO and PPO coverage effective January 1, 2019.

Next, Mr. Levin reviewed the Humana Medicare Advantage proposal, which covers individuals with Medicare as their primary carrier. For this group, the PPO renewal was a 14.9% decrease from the 2018 rates due to favorable experience and removal of the health insurance fee. Humana has offered a two-year renewal to carry the rates through 2020. The HMO premium renewal would be a 29% decrease, and is again, proposed as a two-year renewal. The only possible increase would arise if the health insurance fee is reinstated or if an increase is required by plan designed indexing. Otherwise, Humana committed to maintain these rates for the next two calendar years starting January 1, 2019.

On motion duly made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To approve the renewal for Humana for a two-year period effective January 1, 2019.

The third renewal concerned the MetLife dental benefits, also to be effective January 1, 2019, covering all retirees. MetLife originally proposed a 2.5% increase to the current premium directly to the retirees, but offered to hold the rates at their current level if authorized to do an enrollment mailing to all eligible retirees, not just those currently enrolled. Ms. Stawiarski noted that MetLife confirmed that they do not use a third party for the mailings, that data would stay within MetLife, that MetLife would not send any other information about other products or services to retirees and that MetLife would assume the full cost of the mailings. A question was asked as to whether a similar resolicitation of retirees had been made in the recent past and it was indicated that there was no such mailing done to try to increase enrollment in the dental benefit.

On motion made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To approve the one-year MetLife dental renewal effective January 1, 2019 and to authorize MetLife to do a mailing to all eligible retirees.

Next under Item 7(c), Ms. Stawiarski reviewed the retiree/family premiums for the 2019 Plan Year. Ms. Zaveduk directed the Trustees' attention to the sheet in the meeting materials with the recommended contribution rates as discussed at the Committee meeting, a copy of which is attached and made part of these Minutes. After brief discussion, on a motion duly made and seconded, the following Resolution was unanimously adopted:

RESOLVED: To accept and adopt the contribution rates for retirees and families for the 2019 Plan Year as delineated on the rate sheet provided by Segal.

EXECUTIVE SESSION

Mr. Kasmer moved that the Trustees enter an executive session. Ms. Hampton seconded the motion. The Chairman called the question and the motion to enter executive session unanimously passed at 12:10 p.m. The room was secured. At 12:52 p.m., the Trustees came out of executive session, whereupon the following Resolutions were made, seconded and unanimously adopted.

RESOLVED: To authorize settlement with Frankie Hughes for at least the amount discussed in the executive session, as recommended in the privileged memo from Burke, Warren, MacKay & Serritella, P.C.

FURTHER RESOLVED: To authorize a demand on Greenberg Traurig to settle the Retiree Health Care Trust's claims in the amounts highlighted by Mr. McKone in the executive session.

FURTHER RESOLVED: To authorize entering into a tolling agreement with Greenberg Traurig and Dilworth Paxson, as recommended in the privileged memo from Burke, Warren, MacKay & Serritella, P.C.

FURTHER RESOLVED: To authorize dismissing Bevan Cooney from any litigation related to the Wakpamni Bonds, without prejudice

ADJOURNMENT

There being no further business to come before the Board, upon motion made and seconded the following Resolution was unanimously adopted:

RESOLVED: That the meeting be adjourned.

The meeting was adjourned at 12:55 p.m.

SECRETARY