

# Metropolitan Transportation Authority Deferred Compensation Program

Financial Statements as of and for the  
Years Ended December 31, 2018 and 2017, and  
Independent Auditors' Report

# METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-21
FINANCIAL STATEMENTS	
Statements of Plans Net Position as of December 31, 2018 and 2017	22
Statements of Changes in Plans Net Position for the Years Ended December 31, 2018 and 2017	23
Notes to Financial Statements	24-45

## INDEPENDENT AUDITORS' REPORT

To the Committee of the  
Metropolitan Transportation Authority Deferred Compensation Program

### Report on the Financial Statements

We have audited each of the accompanying statements of plan net position of the Metropolitan Transportation Authority Deferred Compensation Program, comprised of the Deferred Compensation Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (the "457 Plan") and the Thrift Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (the "401(k) Plan"), (collectively the "Plans") as of December 31, 2018 and 2017, and each of the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plans' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plans' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, each of the Plans' financial statements referred to above present fairly, in all material respects, each of the Plans' net position as of December 31, 2018 and 2017, and the respective changes in each of the Plans' net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Deloitte & Touche LLP*

February 24, 2020

# METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2018 AND 2017

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The Deferred Compensation Program is comprised of the Deferred Compensation Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (the "457 Plan") and the Thrift Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (the "401(k) Plan"), collectively known as the "Plans" and the "Metropolitan Transportation Authority Deferred Compensation Plans". This management's discussion and analysis of the Plans' financial performance provides an overview of the Plans' financial activities for the years ended December 31, 2018 and 2017. It is meant to assist the reader in understanding the Plans' financial statements by providing an overall review of the financial activities during the year and the effects of significant changes. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with the Plans' financial statements which begin on page 22.

### OVERVIEW OF BASIC FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the financial statements. The basic financial statements are:

- **The Statement of Plans Net Position** — presents the financial position of the Plans at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at contract and net asset values ("NAV"). All other assets and liabilities are determined on an accrual basis.
- **The Statements of Changes in Plans Net Position** present the results of activities during the year. All changes affecting the assets and liabilities of the Plans are reflected on an accrual basis when the activity occurred regardless of the timing of the related cash flows. In that regard, changes in the contract and NAV of investments are included in the year's activity as net appreciation (depreciation) in contract and NAV values of investments.
- **The Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plans' accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

The financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Pronouncements.

## Financial Highlights

As a result of various Deferred Compensation Program changes, expanding participant eligibility through collective bargaining, a strong educational program and greater participant satisfaction, the Deferred Compensation Program has continued to grow. The assets of the 457 Plan exceeded its liabilities by \$2.713 billion and the assets of the 401(k) Plan exceeded its liabilities by \$3.759 billion as of December 31, 2018. This net position restricted for benefits is held in trust for distribution to the Plans participants and/or beneficiaries.

The assets of the 457 Plan exceeded its liabilities by \$2.719 billion and the assets of the 401(k) Plan exceeded its liabilities by \$3.767 billion as of December 31, 2017. This net position restricted for benefits is held in trust for distribution to the Plans participants and/or beneficiaries.

During 2018, the net positions held in trust for the 457 Plan and the 401(k) Plan decreased by \$6.419 million and \$8.339 million, respectively, due primarily to net decrease in investment income to the plans.

During 2017, the net positions held in trust for the 457 Plan and the 401(k) Plan increased by \$387.096 million and \$555.248 million, respectively, due primarily to net investment income and employer and employee contributions to the plans. This was offset by distributions to participants and plan expenses.

Deductions from the Plans' net position consist primarily of distributions to participant and transfers to other plans, and plan expenses in the amounts of \$130.782 million and \$102.243 million for the 457 Plan and \$186.697 million and \$145.334 million for the 401(k) Plan for the year ended December 31, 2018 and 2017, respectively.

**Plans Net Position  
As of December 31,  
(\$ In Thousands)**

**457 Plan**

	2018	2017	2016	Amount of Change		Percentage Change	
				(2018 - 2017)	(2017 - 2016)	(2018 - 2017)	(2017 - 2016)
<b>ASSETS:</b>							
Investments	\$ 2,635,023	\$ 2,645,243	\$ 2,262,973	\$ (10,220)	\$ 382,270	(0.4)%	16.9%
Participant loans receivable	78,429	74,607	69,815	3,822	4,792	5.1	6.9
Total assets	2,713,452	2,719,850	2,332,788	(6,398)	387,062	(0.2)	16.6
<b>LIABILITIES:</b>							
Administrative expense reimbursement	377	356	390	21	(34)	5.9	(8.7)
Total liabilities	377	356	390	21	(34)	5.9	(8.7)
<b>TOTAL NET POSITION RESTRICTED FOR BENEFITS</b>							
	\$ 2,713,075	\$ 2,719,494	\$ 2,332,398	\$ (6,419)	\$ 387,096	(0.2)%	16.6%

**401(k) Plan**

	2018	2017	2016	Amount of Change		Percentage Change	
				(2018 - 2017)	(2017 - 2016)	(2018 - 2017)	(2017 - 2016)
<b>ASSETS:</b>							
Investments	\$ 3,599,890	\$ 3,621,298	\$ 3,076,148	\$ (21,408)	\$ 545,150	(0.6)%	17.7%
Participant loans receivable	159,462	146,347	136,075	13,115	10,272	9.0	7.5
Total assets	3,759,352	3,767,645	3,212,223	(8,293)	555,422	(0.2)	17.3
<b>LIABILITIES:</b>							
Administrative expense reimbursement	721	675	501	46	174	6.8	34.7
Total liabilities	721	675	501	46	174	6.8	34.7
<b>TOTAL NET POSITION RESTRICTED FOR BENEFITS</b>							
	\$ 3,758,631	\$ 3,766,970	\$ 3,211,722	\$ (8,339)	\$ 555,248	(0.2)%	17.3%

**Changes in Plans Net Position  
For the Years Ended December 31,  
(\$ In Thousands)**

**457 Plan**

				Amount of Change		Percentage Change	
	2018	2017	2016	(2018 - 2017)	(2017 - 2016)	(2018 - 2017)	(2017 - 2016)
<b>ADDITIONS:</b>							
Investment (loss) / income	\$ (96,820)	\$ 292,040	\$ 117,182	\$ (388,860)	\$ 174,858	(133.2)%	149.2 %
Contributions and additional deposits	217,444	194,089	177,851	23,355	16,238	12.0	9.1
Loan repayments - interest	3,739	3,210	2,964	529	246	16.5	8.3
Total additions	124,363	489,339	297,997	(364,976)	191,342	(74.6)	64.2
<b>DEDUCTIONS:</b>							
Distribution to participants	67,372	53,784	50,120	13,588	3,664	25.3	7.3
Transfers to other plans	59,405	45,145	48,242	14,260	(3,097)	31.6	(6.4)
Net participant loan activity	2,472	1,938	1,735	534	203	27.6	11.7
Other	1,533	1,376	1,672	157	(296)	11.4	(17.7)
Total deductions	130,782	102,243	101,769	28,539	474	27.9	0.5
(Decrease)/ increase in net position	(6,419)	387,096	196,228	(393,515)	190,868	(101.7)	97.3
<b>TOTAL NET POSITION RESTRICTED FOR BENEFITS</b>							
Beginning of year	2,719,494	2,332,398	2,136,170	387,096	196,228	16.6	9.2
End of year	\$ 2,713,075	\$ 2,719,494	\$ 2,332,398	\$ (6,419)	\$ 387,096	(0.2)%	16.6 %

**401(k) Plan**

				Amount of Change		Percentage Change	
	2018	2017	2016	(2018 - 2017)	(2017 - 2016)	(2018 - 2017)	(2017 - 2016)
<b>ADDITIONS:</b>							
Investment (loss) / income	\$ (139,054)	\$ 416,584	\$ 164,042	\$ (555,638)	\$ 252,542	(133.4)%	153.9 %
Contributions and additional deposits	309,883	277,661	254,327	32,222	23,334	11.6	9.2
Loan repayments - interest	7,529	6,337	5,713	1,192	624	18.8	10.9
Total additions	178,358	700,582	424,082	(522,224)	276,500	(74.5)	65.2
<b>DEDUCTIONS:</b>							
Distribution to participants	87,379	73,733	63,287	13,646	10,446	18.5	16.5
Transfers to other plans	93,187	66,031	69,067	27,156	(3,036)	41.1	(4.4)
Net participant loan activity	3,408	2,789	2,379	619	410	22.2	17.2
Other	2,723	2,781	2,040	(58)	741	(2.1)	36.3
Total deductions	186,697	145,334	136,773	41,363	8,561	28.5	6.3
(Decrease) /increase in net position	(8,339)	555,248	287,309	(563,587)	267,939	(101.5)	93.3
<b>TOTAL NET POSITION RESTRICTED FOR BENEFITS</b>							
Beginning of year	3,766,970	3,211,722	2,924,413	555,248	287,309	17.3	9.8
End of year	\$ 3,758,631	\$ 3,766,970	\$ 3,211,722	\$ (8,339)	\$ 555,248	(0.2)%	17.3 %



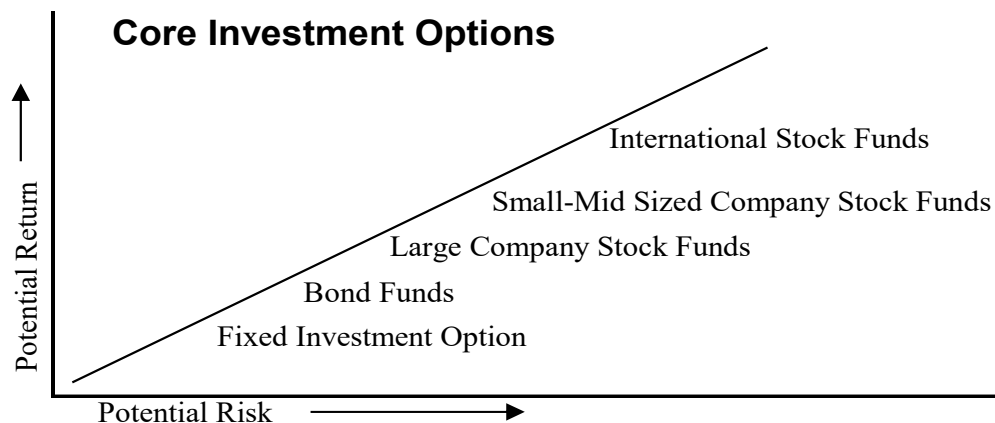
## Investment Options

The MTA Plans offer twelve (12) Target-Year Lifecycle Funds, which provide a diversified mix of certain of the Plans' investment options and allow a participant to choose the fund closest to their anticipated withdrawal date. The Target-Year Lifecycle Funds are designed to provide an asset allocation strategy appropriate for an individual's risk and return preferences in a single fund through a diversified portfolio of the Plans' domestic stock funds, international stock funds and fixed income funds. Some components are not offered to participants outside of the Target-Year Lifecycle Funds. Allocations are automatically rebalanced to their targets on a quarterly basis.

<u>Fund Name</u>	<u>Asset Class</u>	<u>Portfolio Allocations</u>
MTA Target-Year Lifecycle 2015 Fund	Large Cap 11.40% Small - Mid Cap 3.40% Intl Equity 14.60% Market Bonds 16.00% Real Asset 10.90% Stable Value 43.70%	MTA Large Cap Equity Index Fund 5.70% MTA Large Cap Equity Fund 5.70% MTA Small-Mid Cap Equity Fund 3.40% MTA International Equity Fund 14.60% MTA Bond Fund 16.00% MTA Real Asset Fund 10.90% MTA Stable Value Fund 43.70%
MTA Target-Year Lifecycle 2020 Fund	Large Cap 15.470% Small - Mid Cap 4.20% Intl Equity 19.70% Market Bonds 18.20% Real Asset 10.00% Stable Value 32.20%	MTA Large Cap Equity Index Fund 7.90% MTA Large Cap Equity Fund 7.80% MTA Small-Mid Cap Equity Fund 4.20% MTA International Equity Fund 19.70% MTA Bond Fund 18.20% MTA Real Asset Fund 10.00% MTA Stable Value Fund 32.20%
MTA Target-Year Lifecycle 2025 Fund	Large Cap 20.50% Small - Mid Cap 5.40% Intl Equity 26.00% Market Bonds 18.20% Real Asset 10.00% Stable Value 19.90%	MTA Large Cap Equity Index Fund 12.00% MTA Large Cap Equity Fund 8.50% MTA Small-Mid Cap Equity Fund 5.40% MTA International Equity Fund 26.00% MTA Bond Fund 18.20% MTA Real Asset Fund 10.00% MTA Stable Value Fund 19.90%
MTA Target-Year Lifecycle 2030 Fund	Large Cap 24.40% Small - Mid Cap 8.40% Intl Equity 32.80% Market Bonds 14.60% Real Asset 10.00% Stable Value 9.80%	MTA Large Cap Equity Index Fund 15.10% MTA Large Cap Equity Fund 9.30% MTA Small-Mid Cap Equity Fund 8.40% MTA International Equity Fund 32.80% MTA Bond Fund 14.60% MTA Real Asset Fund 10.00% MTA Stable Value Fund 9.80%
MTA Target-Year Lifecycle 2035 Fund	Large Cap 26.20% Small - Mid Cap 11.20% Intl Equity 37.50% Market Bonds 12.60% Real Asset 10.00% Stable Value 2.50%	MTA Large Cap Equity Index Fund 15.00% MTA Large Cap Equity Fund 11.20% MTA Small-Mid Cap Equity Fund 11.20% MTA International Equity Fund 37.50% MTA Bond Fund 12.60% MTA Real Asset Fund 10.00% MTA Stable Value Fund 2.50%

<b><u>Fund Name</u></b>	<b><u>Asset Class</u></b>	<b><u>Portfolio Allocations</u></b>
MTA Target-Year Lifecycle 2040 Fund	Large Cap 26.30% Small - Mid Cap 13.80% Intl Equity 40.10% Market Bonds 9.80% Real Asset 10.00%	MTA Large Cap Equity Index Fund 12.60% MTA Large Cap Equity Fund 13.70% MTA Small-Mid Cap Equity Fund 13.80% MTA International Equity Fund 40.10% MTA Bond Fund 9.80% MTA Real Asset Fund 10.00%
MTA Target-Year Lifecycle 2045 Fund	Large Cap 26.50% Small - Mid Cap 15.40% Intl Equity 41.90% Market Bonds 6.20% Real Asset 10.00%	MTA Large Cap Equity Index Fund 11.10% MTA Large Cap Equity Fund 15.40% MTA Small-Mid Cap Equity Fund 15.40% MTA International Equity Fund 41.90% MTA Bond Fund 6.20% MTA Real Asset Fund 10.00%
MTA Target-Year Lifecycle 2050 Fund	Large Cap 26.70% Small - Mid Cap 15.80% Intl Equity 42.50% Market Bonds 5.00% Real Asset 10.00%	MTA Large Cap Equity Index Fund 9.60% MTA Large Cap Equity Fund 17.10% MTA Small-Mid Cap Equity Fund 15.80% MTA International Equity Fund 42.50% MTA Bond Fund 5.00% MTA Real Asset Fund 10.00%
MTA Target-Year Lifecycle 2055 Fund	Large Cap 26.70% Small - Mid Cap 15.80% Intl Equity 42.50% Market Bonds 5.00% Real Asset 10.00%	MTA Large Cap Equity Index Fund 8.90% MTA Large Cap Equity Fund 17.80% MTA Small-Mid Cap Equity Fund 15.80% MTA International Equity Fund 42.50% MTA Bond Fund 5.00% MTA Real Asset Fund 10.00%
MTA Target-Year Lifecycle 2060 Fund	Large Cap 26.70% Small - Mid Cap 15.80% Intl Equity 42.50% Market Bonds 5.00% Real Asset 10.00%	MTA Large Cap Equity Index Fund 8.90% MTA Large Cap Equity Fund 17.80% MTA Small-Mid Cap Equity Fund 15.80% MTA International Equity Fund 42.50% MTA Bond Fund 5.00% MTA Real Asset Fund 10.00%
MTA Target-Year Lifecycle 2065 Fund	Large Cap 26.70% Small - Mid Cap 15.80% Intl Equity 42.50% Market Bonds 5.00% Real Asset 10.00%	MTA Large Cap Equity Index Fund 8.90% MTA Large Cap Equity Fund 17.80% MTA Small-Mid Cap Equity Fund 15.80% MTA International Equity Fund 42.50% MTA Bond Fund 5.00% MTA Real Asset Fund 10.00%
MTA Income Fund	Large Cap 9.50% Small - Mid Cap 2.40% Intl Equity 11.90% Market Bonds 13.20% Real Asset 12.00% Stable Value 51.00%	MTA Large Cap Equity Index Fund 4.80% MTA Large Cap Equity Fund 4.70% MTA Small-Mid Cap Equity Fund 2.40% MTA International Equity Fund 11.90% MTA Bond Fund 13.20% MTA Real Asset Fund 12.00% MTA Stable Value Fund 51.00%

In addition to the twelve Target-Year lifecycle funds, the Plans offer a spectrum of investment options that include two international funds, four small-mid company stock funds, two large company stock funds, three bond funds, and the Stable Value Income Fund (“Fixed Investment Option”).



The investment objective for each of the funds is described below. Additional information on each investment option, including a Fund Fact Sheet is available on the Plans’ website at [www.Prudential.com/MTA](http://www.Prudential.com/MTA).

### **International Equity Funds**

**MTA International Index Fund (Non-US Equity)** - The fund invests wholly in State Street Global Advisors (“SSgA”) Global All Cap Equity ex U.S. Index Fund – Class K (the Collective Investment Trust C.I.T.). The C.I.T. Fund seeks to match as closely as possible, before expenses, the performance of the MSCI ACWI ex-USA IMI Index over the long term.

**MTA International Equity Fund (International Stock-Blend)** - The Portfolio is managed by two complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 50%/50% split. By employing two managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **William Blair International Growth Fund (International Stock-Growth)** - The fund seeks to provide long-term growth of capital. The fund invests in a diversified portfolio of equity securities, including common stocks and other forms of equity investments (e.g., securities convertible into common stocks), issued by companies of all sizes domiciled outside the U.S. that William Blair believes have above-average growth, profitability and quality characteristics. William Blair will vary sector and geographic diversification for the fund based upon its ongoing evaluation of economic, market and political trends throughout the world.
2. **Mondrian All Countries World Ex-U.S. Equity (International Stock-Value)** – The Collective Investment Trust Fund is advised by Mondrian Investment Partners. Mondrian employs an active, value-oriented approach to managing international equities, and invests in securities where rigorous dividend discount analysis identifies value in terms of the long-term flow of income. The philosophy is built upon the assumption that dividend yield and future real growth are critical in determining a company’s total expected return and that the dividend component will be a meaningful portion of the expected return over time.

### **Small-Mid Cap Equity Fund**

**MTA Small-Mid Cap Equity Index Fund (Mid Cap Stock-Blend)** - The Fund invests wholly in the underlying collective investment trust SSgA Russell Small/Mid Cap Non Lending Series- Class K (the “C.I.T.”). The underlying collective investment trust seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Russell Small Cap Completeness Index (the “Index”) over the long term.

**MTA Small-Mid Cap Equity Fund (Mid Cap Stock-Blend)** - The Fund is managed by four complementary, but independent managers. By employing four managers, this fund offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **The William Blair Small-Mid Cap Growth Fund (Small Growth)** - is sub-advised by William Blair Investment Management, LLC. The strategy seeks capital appreciation to outperform its benchmark, the Russell 2500 Growth Index, and its peers over a full market cycle. The strategy is a diversified portfolio of 65-80 holdings, investing in common stocks of small and mid-cap quality companies that are expected to have solid growth in earnings.
2. **The DFA US Targeted Value I (Small Value)** – the fund is advised by Dimensional Fund Advisors LP. The investment seeks long-term capital appreciation. The fund, using a market capitalization weighted approach, purchases a broad and diverse group of the readily marketable securities of U.S. small and midcap companies that the Advisor determines to be value stocks. It may purchase or sell futures contracts and options on futures contracts for U.S. equity securities and indices, to adjust market exposure based on actual or expected cash inflows to or outflows from the fund. The fund does not intend to sell futures contracts to establish short positions in individual securities or to use derivatives for purposes of speculation or leveraging investment returns.
3. **AllianceBernstein US SMID Cap Value Equity Fund (Small Value)** – the fund is managed by AllianceBernstein. It seeks a deep-value service that invests in a portfolio of small and mid-capitalization stocks located primarily in the United States. Macroeconomic, industry or company-specific concerns often cause investors to react emotionally and overlook underlying company fundamentals, causing securities to become mispriced. Our investment strategy seeks to capitalize these short-term market inefficiencies created by enduring patterns of human behavior. The investment team employs a highly disciplined stock selection process that marries in-depth fundamental research with quantitative analysis to identify companies that are undervalued relative to their long-term earnings power and offer compelling return potential.
4. **Jackson Square Partners SMID Cap Growth Focus (Small Value)**- the fund is advised by Jackson Square Partners. They are growth investors. They seek superior returns through holding a concentrated portfolio of companies that they believe have advantaged business models and opportunities to generate consistent, long-term growth of intrinsic business value.

### **Large-Cap Equity Funds**

**MTA Large Cap Equity Index Fund (Large Cap Stock-Blend)** - The Fund invests wholly in the Vanguard Institutional 500 Index Trust. The investment seeks to track the performance of a benchmark index that measures the investment return of large capitalization stocks. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

**MTA Large Cap Equity Fund (Large Cap Stock-Blend)** - The Portfolio is managed by two complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 50%/50% split. By employing two managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **T. Rowe Price US Large Cap Value Equity Fund (Large Cap Stock-Value)** - The Separate Account is advised by T. Rowe Price Associates, Inc. and seeks to provide long-term capital appreciation by investing in common stocks believed to be undervalued. Income is a secondary objective.
2. **Jennison Large Cap Growth Fund (Large Cap Stock-Growth)** - The Separate Account is sub-advised by Jennison Associates LLC, following its Large Cap Growth Equity investment strategy. It seeks to outperform, over the long term, both the Russell 1000 Growth and S&P 500 Indexes and to be the best performing manager among its peers, with a consistent risk profile.

## **Bond Funds**

**MTA Bond Index Fund** (Fixed Income-Domestic) - The Fund invests wholly in the SSgA US Bond Index Non-Lending – Class C (the Collective Investment Trust C.I.T.). The Fund seeks to match, as closely as possible, before expenses, the performance of the Bloomberg Barclays U.S. Aggregate Bond Index over the long term.

**MTA Bond Fund** (Fixed Income-Domestic) - The Portfolio is managed by three complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 34%/33%/33% split. By employing three managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

- 1. TCW Core Plus Fund** (Fixed Income-Domestic) - This separate account is sub-advised by Metropolitan West Asset Management, LLC. The Fund seeks to outperform the broad bond market by applying specialized management expertise to and allocating capital among US government, corporate, high yield and mortgage-backed sectors. In addition, exposure to international and emerging markets fixed income assets are opportunistically incorporated into portfolio positioning. The strategy seeks to outperform the Bloomberg Barclays Aggregate Bond Index.
- 2. Loomis Sayles Core Plus Fixed Income Trust** (Fixed Income) - The Collective Investment Trust Fund seeks high total investment return through a combination of current income and capital appreciation and to outperform its benchmark, the Bloomberg Barclays US Aggregate Bond Index denominated in US dollars. This index is used for comparative purposes only and is not intended to parallel the risk or investment style of the fund.
- 3. Wellington World Bond Portfolio** (Fixed Income) - The Collective Investment Trust Fund is sub-advised by Wellington Management Company, LLP. The objective of the World Bond approach is to generate consistent total returns over a full market cycle. World Bond investment process is designed to allocate capital to high quality sovereign countries while simultaneously identifying opportunistic investment ideas across a wide range of diversified fixed income strategies, and to transparently manage portfolio risk.

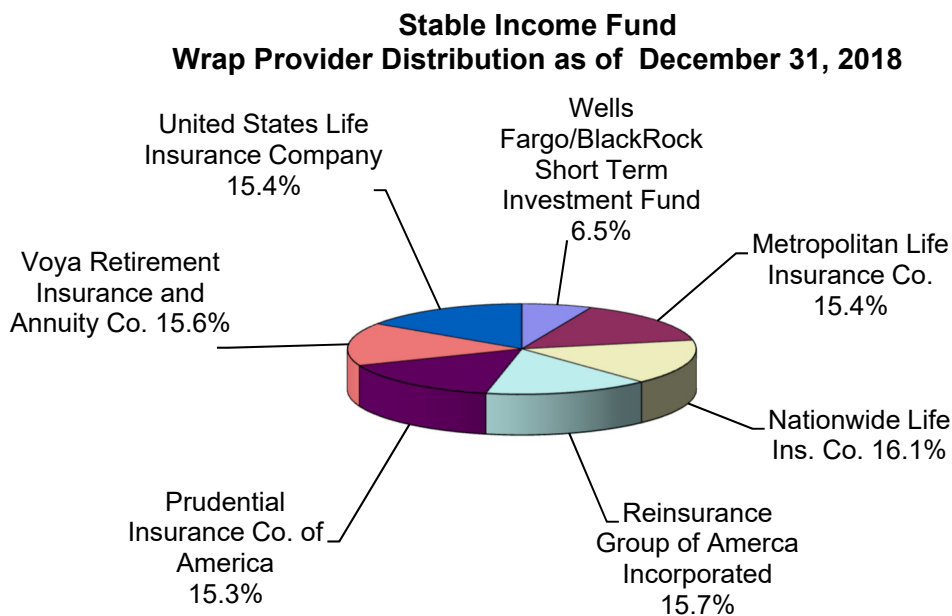
## **Stable Value Option**

**MTA Stable Value Fund** (Stable Value) - The fund seeks to provide safety of principal and a stable credited rate of interest, while generating competitive returns over time compared to other comparable investments. The fund is managed by Galliard Capital Management and is primarily comprised of investment contracts issued by financial institutions and other eligible stable value investments. All contract issuers and securities utilized in the portfolio are rated investment grade by one of the Nationally Recognized Statistical Rating Organizations at time of purchase. The types of investment contracts in which the Fund may invest include Separate Account Guaranteed Investment Contracts (“GICs”) and Security Backed Investment Contracts. These types of investment contracts seek to provide participants with safety of principal and accrued interest as well as a stable crediting rate.

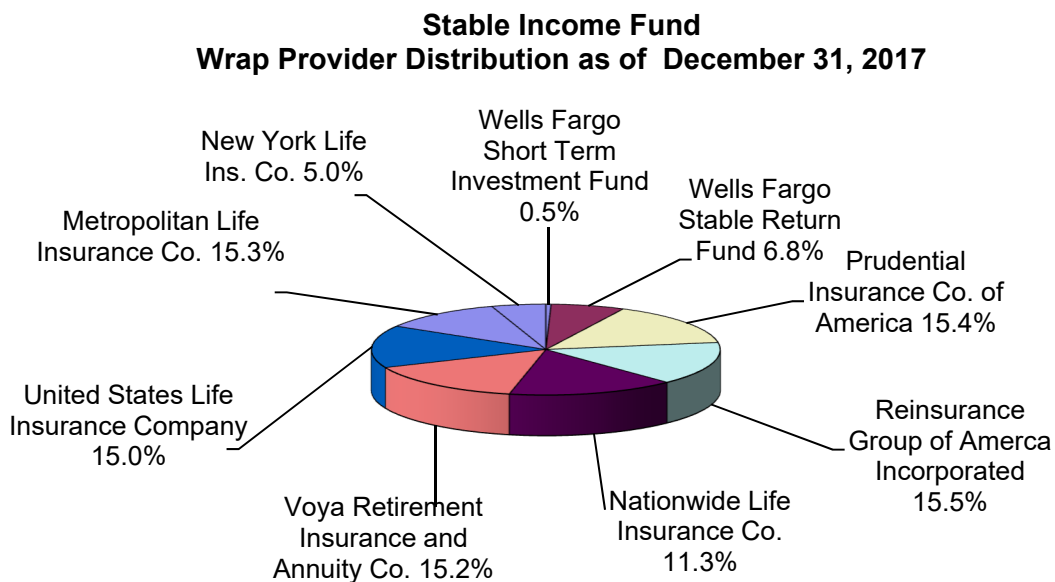
Separate Account GICs are GICs issued by and insurance company and are maintained within a separate account. Separate Account GICs are typically backed by segregated portfolios of fixed income securities.

Security Backed Investment Contracts are comprised of two components: 1) investment contracts issued by a financial institution and 2) underlying portfolios of fixed income securities (i.e. bonds) whose market prices fluctuate. The investment contract is designed to allow participants to transact at book value (principal plus accrued interest) without reference to the price fluctuations of the underlying fixed income securities.

The following chart shows the underlying investments of the MTA Stable Value Fund as of December 31, 2018 and 2017.



\*The Wells Fargo Stable Return Fund W and Wells Fargo/BlackRock STIF are not a part of the wrapped portfolio.



The MTA Plans' investment options performance is outlined in the following tables. The Plans, with the assistance of its independent investment consultant, continuously monitors the investment options in conformance with the investment policy for the Plans. Below each Fund listed below is the benchmark used to compare the investment results.

# Performance Summary

Year ended December 31, 2018

## Stable Value

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>MTA Stable Value</b>	0.6%	2.3%	2.1%	2.0%	2.2%
Galliard 3YrCMT+50bps	0.8%	3.1%	2.2%	2.1%	1.9%

## Fixed Income

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>SSgA U.S. Bond Index Fund</b>	1.6%	0.0%	2.0%	2.5%	2.1%
Barclays .U.S. Aggregate	1.6%	0.0%	2.1%	2.5%	2.1%
<b>Loomis Sayles Core Plus Bond Fund</b>	0.0%	-0.4%	4.0%	NA	NA
Barclays U.S. Aggregate	1.6%	0.0%	2.1%	2.5%	2.1%
<b>TCW MetWest Core Plus Fixed Income</b>	1.6%	0.3%	2.1%	NA	NA
Barclays U.S. Aggregate	1.6%	0.0%	2.1%	2.5%	2.1%
<b>Wellington World Bond Fund</b>	2.0%	4.2%	3.0%	NA	NA
FTSE World Government Bond Index	1.8%	-0.8%	2.7%	0.8%	0.2%

## Domestic Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>Vanguard Institutional 500 Index Trust</b>	-13.5%	-4.4%	9.2%	8.5%	12.7%
S&P 500	-13.5%	-4.4%	9.3%	8.5%	12.7%
<b>T Rowe Price Large Cap Value Fund (Prudential Separate Account)</b>	-12.1%	-9.1%	7.2%	6.2%	11.4%
Russell 1000 Value	-11.7%	-8.3%	7.0%	5.9%	11.0%
<b>Jennison Large Cap Growth (Prudential Separate Account)</b>	-16.3%	-1.4%	10.4%	10.5%	14.7%
Russell 1000 Growth	-15.9%	-1.5%	11.1%	10.4%	14.1%
<b>SSgA Small/Mid Cap Index Fund</b>	-17.9%	-9.1%	7.8%	5.4%	11.3%
Russell Small Cap Completeness Index	-18.0%	-9.2%	7.8%	5.4%	11.4%
<b>AB US SMID Cap Value Equity (Separate Account)</b>	-18.2%	-14.0%	NA	NA	NA
Russell 2500 Value Index	-17.1%	-12.4%	6.6%	4.2%	10.0%
<b>DFA US Targeted Value Fund (MTA)</b>	-20.0%	-15.8%	NA	NA	NA
Russell 2500 Value Index	-17.1	-12.4%	6.6%	4.2%	10.0%
<b>William Blair SMID Growth (Separate Account)</b>	-18.4%	-1.0%	NA	NA	NA
Russell 2500 Growth Index	-20.1%	-7.5%	8.1%	6.2%	12.0%
<b>Jackson Square SMID Cap Growth Focus (Separate Account)</b>	-16.7%	2.7%	NA	NA	NA
Russell 2500 Growth Index	-20.1%	-7.5%	8.1%	6.2%	12.0%

# Performance Summary

Year ended December 31, 2018 (continued)

## International Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>SSgA MSCI ACWI ex-U.S. IMI Index Fund</b>	-11.9%	-14.6%	4.8%	1.0%	NA
MSCI AC Wid ex US IMI (Net)	-11.9%	-14.8%	4.4%	0.8%	5.1%
<b>William Blair Institutional International Growth All Cap Fund</b>	-16.0%	-17.1%	1.8%	0.5%	6.1%
MSCI AC Wid Index ex USA IMI Growth (Net)	-12.7%	-15.0%	4.0%	1.8%	5.7%
<b>Mondrian ACWI ex US CIT</b>	-8.9%	-11.9%	NA	NA	NA
MSCI AC Wid ex USA Value (Net)	-10.7%	-14.0%	4.7%	-0.4%	4.0%

## Diversified Inflation

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>SSgA Real Asset</b>	-7.1%	-7.2%	4.8%	-0.4%	0.0%
SSgA Custom Real Asset Index	-7.1%	-7.1%	4.9%	-0.4%	0.1%

## Lifecycle

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>MTA Income</b>	-3.6%	-1.8%	3.5%	2.8%	3.4%
MTA Income Composite Index	-3.4%	-1.5%	3.7%	3.0%	3.3%
<b>MTA 2015</b>	-4.3%	-2.4%	4.0%	3.2%	4.4%
MTA 2015 Composite Index	-4.1%	-2.2%	4.3%	3.4%	4.3%
<b>MTA 2020</b>	-5.7%	-3.6%	-4.2%	3.4%	5.0%
MTA 2020 Composite Index	-5.4%	-3.5%	4.6%	3.6%	4.8%
<b>MTA 2025</b>	-7.4%	-5.1%	4.7%	3.7%	6.0%
MTA 2025 Composite Index	-7.1%	-5.1%	5.2%	4.0%	5.8%
<b>MTA 2030</b>	-9.5%	-6.8%	4.7%	3.7%	6.3%
MTA 2030 Composite Index	-9.1%	-6.8%	5.3%	4.0%	6.1%
<b>MTA 2035</b>	-10.9%	-8.1%	4.7%	3.8%	6.7%
MTA 2035 Composite Index	-10.4%	-8.1%	5.4%	4.0%	6.4%
<b>MTA 2040</b>	-11.8%	-8.8%	5.2%	4.1%	7.8%
MTA 2040 Composite Index	-11.3%	-8.9%	6.0%	4.4%	7.5%
<b>MTA 2045</b>	-12.4%	-9.3%	5.4%	4.2%	8.4%
MTA 2045 Composite Index	-11.9%	-9.3%	6.4%	4.4%	8.2%
<b>MTA 2050</b>	-12.6%	-9.5%	5.4%	4.1%	8.6%
MTA 2050 Composite Index	-12.1%	-9.5%	6.3%	4.2%	8.3%
<b>MTA 2055</b>	-12.6%	-9.5%	5.4%	NA	NA
MTA 2055 Composite Index	-12.1%	-9.5%	6.3%	4.2%	8.3%
<b>MTA 2060</b>	-12.7%	-9.5%	NA	NA	NA
MTA 2060 Composite Index	-12.1%	-9.5%	NA	NA	NA
<b>MTA 2065</b>	-12.7%	-9.5%	NA	NA	NA
MTA 2065 Composite Index	-12.1%	-9.5%	NA	NA	NA



## Year ended December 31, 2017

### Stable Value

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>MTA Stable Value</b>	0.5%	2.0%	2.0%	2.0%	2.3%
Galliard 3YrCMT+50bps	0.6%	2.1%	1.8%	1.8%	1.8%

### Fixed Income

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>SSgA Aggregate Bond Index Fund</b>	0.4%	3.5%	2.2%	2.1%	3.2%
Barclays U.S. Aggregate	0.4%	3.5%	2.2%	2.1%	3.2%
<b>Loomis Sayles Core Plus Bond</b>	0.8%	5.4%	NA	NA	NA
Barclays U.S. Aggregate	0.4%	3.5%	2.2%	2.1%	3.2%
<b>TCW MetWest Core Plus Fixed Income</b>	0.4%	3.4%	NA	NA	NA
Barclays U.S. Aggregate	0.4%	3.5%	2.2%	2.1%	3.2%
<b>Wellington World Bond Fund</b>	0.6%	2.7%	NA	NA	NA
Citigroup World Government Bond	1.0%	7.5%	1.7%	0.1%	1.2%

### Domestic Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>Vanguard Institutional Index Fund Institutional Plus</b>	6.6%	21.8%	11.4%	15.8%	13.8%
S&P 500	6.6%	21.8%	11.4%	15.8%	13.8%
<b>T Rowe Price Large Cap Value Fund (Prudential Separate Account)</b>	5.5%	16.9%	9.5%	NA	NA
Russell 1000 Value	5.3%	13.7%	8.7%	14.0%	12.5%
<b>Jennison Large Cap Growth (Prudential Separate Account)</b>	6.8%	36.1%	14.9%	17.9%	15.0%
Russell 1000 Growth	7.9%	30.2%	13.8%	17.3%	14.8%
<b>SSgA Small/Mid Cap Index Fund</b>	4.9%	18.2%	10.0%	14.6%	12.3%
Russell Small Cap Completeness Index	4.9%	18.3%	10.0%	14.7%	12.3%
<b>AB US SMID Cap Value Equity (Separate Account)</b>	6.0%	12.9%	10.0%	14.8%	11.8%
Russell 2500 Value Index	4.3%	10.4%	9.3%	13.3%	11.5%
<b>DFA US Targeted Value Fund (MTA)</b>	4.5%	9.6%	9.4%	14.1%	11.6%
Russell 2500 Value Index	4.3%	10.4%	9.3%	13.3%	11.5%
<b>William Blair SMID Growth (Separate Account)</b>	5.6%	29.0%	13.1%	17.4%	14.0%
Russell 2500 Growth Index	6.3%	24.5%	10.9%	15.5%	13.0%
<b>Jackson Square SMID Cap Growth Focus (Separate Account)</b>	5.6%	21.1%	12.1%	15.5%	13.8%
Russell 2500 Growth Index	6.3%	24.5%	10.9%	15.5%	13.0%

# Performance Summary

Year ended December 31, 2017 (continued)

## International Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>SSgA MSCI ACWI ex-U.S. IMI Index</b>	5.2%	28.1%	8.8%	7.2%	NA
MSCI AC Wld ex US IMI Net	5.2%	27.8%	8.4%	7.2%	5.2%
<b>William Blair Institutional International Growth Fund</b>	5.1%	30.6%	8.4%	8.1%	6.7%
MSCI AC Wld ex U.S. Growth Net WHT	6.0%	32.2%	9.7%	8.3%	5.8%
<b>Mondrian ACWI ex US CIT</b>	3.8%	22.3%	NA	NA	NA
MSCI AC Wld ex US Value Net WHT	4.2%	22.7%	6.3%	5.6%	4.2%

## Diversified Inflation

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>SSgA Real Asset</b>	3.8%	8.6%	2.1%	0.1%	1.0%
SSgA Custom Real Asset Index	3.8%	8.6%	2.2%	0.2%	1.1%

## Lifecycle

	3 Months	1 Year	3 Years	5 Years	7 Years
<b>MTA Income</b>	2.0%	7.7%	4.5%	3.8%	4.3%
MTA Income Composite Index	2.2%	7.7%	4.4%	3.8%	4.3%
<b>MTA 2015</b>	2.4%	10.0%	5.2%	5.0%	5.2%
MTA 2015 Composite Index	2.5%	10.0%	5.1%	5.0%	5.2%
<b>MTA 2020</b>	2.8%	11.9%	5.8%	5.8%	5.8%
MTA 2020 Composite Index	3.0%	11.8%	5.7%	5.8%	5.8%
<b>MTA 2025</b>	3.4%	14.7%	6.8%	7.3%	6.9%
MTA 2025 Composite Index	3.7%	14.7%	6.8%	7.2%	6.9%
<b>MTA 2030</b>	4.1%	16.5%	7.4%	7.9%	7.3%
MTA 2030 Composite Index	4.3%	16.5%	7.4%	7.8%	7.3%
<b>MTA 2035</b>	4.4%	18.0%	7.9%	8.5%	7.8%
MTA 2035 Composite Index	4.7%	18.0%	7.9%	8.4%	7.8%
<b>MTA 2040</b>	4.6%	20.3%	8.8%	10.0%	8.7%
MTA 2040 Composite Index	4.9%	19.8%	8.7%	9.9%	8.7%
<b>MTA 2045</b>	4.7%	21.7%	9.2%	10.9%	9.2%
MTA 2045 Composite Index	5.1%	21.1%	9.0%	10.7%	9.1%
<b>MTA 2050</b>	4.7%	21.8%	9.2%	11.1%	9.3%
MTA 2050 Composite Index	5.1%	21.1%	8.9%	10.8%	9.2%
<b>MTA 2055</b>	4.7%	21.8%	NA	NA	NA
MTA 2055 Composite Index	5.1%	21.1%	8.9%	10.8%	9.2%
<b>MTA 2060</b>	NA	NA	NA	NA	NA
MTA 2060 Composite Index	5.1%	NA	NA	NA	NA
<b>MTA 2065</b>	NA	NA	NA	NA	NA
MTA 2065 Composite Index	5.1%	NA	NA	NA	NA

The table below summarizes the Plans' investments by category at December 31, 2018:

At December 31, 2018, the investment option holding the largest portion of participants' funds in both the 457 and 401(k) Plans was the Stable Income Funds with 36.37% and 33.47% of invested funds, respectively. This was followed by the Large-Cap Equity Funds with 24.65% and 25.65% of invested 457 and 401(k) funds, respectively.

At December 31, 2017, the investment option holding the largest portion of participants' funds in both the 457 and 401(k) Plans was the Stable Income Funds with 33.94% and 30.87% of invested funds, respectively. This was followed by the Large-Cap Equity Funds with 25.41% and 26.70% of invested 457 and 401(k) funds, respectively.

The table below summarizes the Plans' investments by category at December 31, 2018:

### FUND INVESTMENT SUMMARY

<b>Investment at Contract and NAV Values</b>	<b>457</b>		<b>401(k)</b>	
	<b>Allocation</b>		<b>Allocation</b>	
Target-Year Lifecycle Funds	\$394,716,241	14.98%	\$588,041,812	16.34%
International Equity Funds	161,847,319	6.14	236,980,164	6.58
Small-Mid Cap Equity Funds	326,406,799	12.39	430,295,980	11.95
Large-Cap Equity Funds	649,534,667	24.65	923,279,089	25.65
Bond Funds	141,261,327	5.36	212,439,871	5.90
Stable Income Fund	958,439,519	36.37	1,204,877,263	33.47
Self-Directed Investment Option	2,817,576	0.11	3,975,818	0.11
<b>Total Investments</b>	<b>\$2,635,023,448</b>	<b>100%</b>	<b>\$3,599,889,997</b>	<b>100%</b>

The table below summarizes the Plans' investments by category at December 31, 2017:

### FUND INVESTMENT SUMMARY

<b>Investment at Contract and NAV Values</b>	<b>457</b>		<b>401(k)</b>	
	<b>Allocation</b>		<b>Allocation</b>	
Target-Year Lifecycle Funds	\$419,330,251	15.85%	\$623,334,937	17.21%
International Equity Funds	169,649,376	6.41	246,458,903	6.81
Small-Mid Cap Equity Funds	356,271,176	13.47	472,377,231	13.05
Large-Cap Equity Funds	672,142,635	25.41	966,983,440	26.7
Bond Funds	127,315,865	4.81	190,275,365	5.25
Stable Income Fund	897,665,767	33.94	1,117,748,970	30.87
Self-Directed Investment Option	2,867,973	0.11	4,118,703	0.11
<b>Total Investments</b>	<b>\$2,645,243,043</b>	<b>100.0%</b>	<b>\$3,621,297,549</b>	<b>100%</b>

## **Economic Factors**

### **Market Overview and Outlook – 2018**

Risk aversion and volatility marked the end of 2018, with geopolitical developments and concerns about slowing growth both contributing to the sell-off in global equity markets. U.S. stocks led the decline, contributing to the first calendar year with negative returns since 2008. Amid the equity underperformance, credit spreads widened, developed market yields fell, and the U.S. dollar weakened. In addition, the Federal Reserve (“Fed”) hiked interest rates as expected, though trimmed its forecast for hikes in 2019.

Several factors contributed to heightened market volatility throughout 2018—most importantly, investor concerns brought on by rising trade tensions, particularly between the U.S. and China, the apparent shift to a moderately tighter monetary policy by central banks in major developed countries; and the potential for slower growth, especially in China and Europe. Most major indices closed in negative territory at the end fourth quarter. After a difficult start, emerging markets (“EM”) held up better than their developed world counterparts in the fourth quarter, but still trailed for 2018 overall. The U.S. market was among the bottom-performing indices in the last quarter but led most major indices for the year, notwithstanding the S&P 500 Index’s worst performance since the conclusion of the global financial crisis. As a result, global financial markets proved to be a challenging environment during the fourth quarter of 2018.

From a monetary policy perspective, the Fed raised rates 25bps as expected in December and signaled a slower pace of tightening in 2019 as it continued to unwind its extensive balance sheet. Investors divined a more dovish tone from the Fed’s 2019 projections, but markets remained volatile through the end of the year. Globally, most developed-world central banks began moving towards modestly tighter stances, including the European Central Bank (“ECB”), which formally announced the end of its bond-buying program in December, concluding a roughly €2.6 trillion program. Across the channel, the Bank of England raised rates twice since the country’s Brexit referendum in June 2016, but recently indicated it was prepared to pivot as necessary once the formal exit takes place in early 2019. The Bank of Japan has long been in its own monetary policy lane, remaining by far the most accommodative of the major global central banks.

#### ***Macro Themes***

- Major indices post worst year since 2008 as trade, economic outlook and monetary policy weigh on investors
- Global growth modestly decelerates but remains positive
- Trade uncertainty

After reaching a new high in September, the S&P 500 lost nearly 14% during the fourth quarter to end the year, down more than 4.4%. The Dow Jones Industrial Index was off 11% for the quarter, as was Europe’s Stoxx Limited Index, which ended the quarter 600 points lower. China’s Shanghai Composite also lost 12% over the last quarter and nearly 25% for the year. The year’s sharp drawdown seemed unlikely at the outset of 2018, given the relatively robust outlook at the time. The silver lining is that share prices now appear cheap from a forward price/earnings perspective compared to long-run averages and the outlook, although more challenging, is still largely positive for 2019.

Global growth slowed, rather than stalled, in the second half of 2018. The U.S. outperformed its peers in end-of-year data with annualized GDP up 3.4% in the third quarter. In contrast, growth in the Eurozone dropped to 0.2% in the third quarter (and 1.7% year-on-year). The German economy contracted due to disruption to the auto industry from tougher emissions rules, while the Italian economy stalled over its now-resolved budget

standoff with the European Union. China's growth fell to 6.5% in the third quarter, although the government expects to beat its 6.5% growth target for the full year.

The extent of global growth deceleration is one unknown for markets; how central banks will react is another. The Fed softened its tone on potential hikes in 2019 but nevertheless, it remained too hawkish for some as it stuck to plans to unwind its balance sheet, contributing to year-end market volatility. In December, the ECB ended its bond-buying program but gave no guidance when negative interest rates might end. Loose monetary conditions also remained in force in the UK and Japan as policymakers balanced the competing needs of fragile growth, inflation and the desire to wean economies off support. Despite fears of heavy-handedness, the global approach remained measured.

The greatest concern for markets continues to be the tariff war. The pause in the dispute following the G20 meeting between the U.S. and China provided hope that a more permanent solution could be reached. However, stocks in China, as well as international companies with exposure to China, were affected by weakening sentiment and actual fallout. Apple became the latest U.S. corporation to point the finger at the trade war when it announced that fourth quarter revenues would be lower than expected. Declining consumer confidence in China and cheaper domestic alternatives were significant contributing factors.

The issue of confidence also hindered business. Uncertainty surrounding trade and political issues, such as further concern about a no-deal Brexit in the UK, held back capital investment, as Chief Executive Officers awaited greater clarity, thus creating a silver lining for equity investors. Supercharged earnings growth in 2018 resulted in record share buybacks as announced, and U.S. stock repurchases broke through the \$1 trillion mark in December. Following the market retreat in the fourth quarter, more buybacks can be anticipated in the future. At the very least, the challenges of the fourth quarter present active investors with a more reasonable valuation and a very attractive starting point for 2019.

EM central banks have meanwhile faced their own travails, primarily centered around the security of central bank independence, particularly in Turkey and India. For now, the question in both countries seems to be largely settled in favor of independence—a positive for markets; but as is often the case in EM, that does not preclude the issue resurfacing down the road.

### ***United States***

Through mid-2018, U.S. capital markets enjoyed the longest equity bull market in their history. Valuations of stocks reached levels rarely-- and for some valuations measures, never-- seen before. However, in the fourth quarter of 2018, markets in the U.S. weakened tremendously with the S&P 500 ending the year down 13.5% with U.S. equities underperforming in 2018 compared to 2017.

Large Cap stocks were strongly negative, with the S&P 500 and Russell 1000 indices posting returns of (-4.4%) and (-4.84%), respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2500 Index, returned (-10.0%). The Russell Mid Cap Index measured by the Russell 2000 Index lagged the Small Cap and posted a return loss of (-11.0%). Of note, growth oriented investments outperformed the value counterpart with the Russell 1000 Growth (-1.5%) outpacing the Russell 1000 Value (-8.3%).

Fixed income markets took the four rate hikes by the Fed in stride in 2018. Treasuries returned (+0.9%) for the year, with the assets strongest quarter coming in the first quarter of 2018. Municipal credit outperformed Treasuries for the year, with (+4.8%), posting positive returns for four straight quarters. Following strong results in 2017, high yield debt underperformed and ended its upward trend in 2018, returning (-2.1%).

### ***International Developed***

International equity markets posted very weak results in 2018 and lagged behind U.S. equity markets, returning (-9.4%) as measured by the Morgan Stanley Capital International (“MSCI”) All Country World Index. In U.S. dollars, both Europe and Japan equities posted negative performance in 2018 with MSCI Europe returning (-14.9%) and MSCI Japan returning (-12.9%). Weak returns in Europe were driven by the global negative market performance in the last quarter of 2018. The Small Cap portion of international developed markets posted even weaker returns in 2018, (-17.9%).

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. Global Treasuries were negative in 2018, following a positive year in 2017.

### ***Emerging Markets***

Emerging markets posted very weak returns in 2018 with performance lower than both U.S. and international developed markets across equity and debt. The broad emerging markets index returned (-14.6%) for the year. Brazil was the best performing country, buoyed by President-elect Jair Bolsonaro’s pick for chief economic advisor and his pledge to sell state owned companies. Within the EM group, Asia lagged, pulled down by declines in China, Korea and Taiwan. Healthcare and information technology were among the worst performing EM sectors, losing 15.4% and 15.1%, respectively.

The bond markets of emerging markets underperformed in 2018. Both hard currency and local currency bond posted very weak years in performance. Hard currency bonds, which are predominately issued in U.S. dollars, returned (-4.3%) in 2018. Local currency bonds, which are issued in the local currency, returned (-6.2%) for the year.

### ***Commodities***

Commodities posted negative results in 2018, with the broad Bloomberg Commodity Index down (-11.2%). Energy was the worst performing sub-sector, as oil prices were dampened by concerns of oversupply based on high inventories and stronger-than-expected production in Iran. Natural gas posted losses of -2.3% in a volatile quarter marked by low inventory levels and fluctuating weather forecasts. Natural gas consumption is projected to decrease slightly in the residential and commercial sectors, as expected milder weather will require less energy for space heating in the winter and air conditioning in the summer, largely based on temperature projections from the National Oceanic and Atmospheric Administration. On the other hand, precious metals strengthened towards the end of 2018, bolstered by the sell-off in equities and expectations for higher real interest rates.

### ***Market Outlook***

Global economic growth is likely to slow modestly in 2019, but the prevalent view is that investors’ worst fears are likely exaggerated, as most of the world’s economies will continue to expand rather than contract. Therefore, for the time being there is not – expectation of recession on the horizon.

There are many reasons for investors to be to be optimistic. U.S. corporate profit margins should remain high after the boost from 2018 tax cuts, which should result in earnings growth in the high single-digits or better. Furthermore, a more dovish stance from the Fed could signal a cyclical peak for the U.S. dollar, helping U.S. manufacturing and also providing some welcome relief for embattled EM companies facing higher dollar-denominated borrowing costs.

The Eurozone is expected to increase economic activities in the first half of 2019. Disruption to the German auto industry from new emissions standards, potential for increased fiscal stimulus across major economies in

the bloc and the positive developments in Italy signaling a stronger unity in the European Union (“EU”) can be potential catalysts for improving growth. Nevertheless, the intense uncertainty around Brexit will be a drag on the UK in the first quarter of 2019 and may extend its impact across Europe should Britain leave the EU without a deal on March 29<sup>th</sup> 2019.

An agreement between Organization Petroleum Exporting Countries (“OPEC”) and its oil-producing allies to cut output can lead to greater price stability in 2019. But oil, and the broader commodity sector, remains a leading global growth concern.

Intense uncertainty on global trade remains the big issue gripping investors. The pause in the U.S.-China trade war could pave the way for a more comprehensive agreement. Nonetheless, significant obstacles remain, such as China’s real desire to follow through on promises to open up its economy and end forced technology transfers.

Objectively, there can be little doubt there are multiple risks globally in this late-cycle phase. However, the outlook is far from bleak, and there is substantial consensus that 2019 could be a good year for portfolio reallocations, taking advantage of dislocated sectors, oversold opportunities and market outperformance.

**Contact Information**

This financial report is designed to provide a general overview of the Metropolitan Transportation Authority Deferred Compensation Program’s finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Deferred Compensation Department, Metropolitan Transportation Authority, 2 Broadway 10<sup>th</sup> Floor, New York, NY 10004.

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**METROPOLITAN TRANSPORTATION AUTHORITY  
DEFERRED COMPENSATION PROGRAM**

**STATEMENTS OF PLANS NET POSITION  
AS OF DECEMBER 31, 2018 AND DECEMBER 31, 2017  
(\$ In THOUSANDS)**

	2018		2017	
	457	401(k)	457	401(k)
<b>ASSETS:</b>				
Investments at contract value	\$ 1,033,058	\$ 1,313,496	\$ 971,709	\$ 1,224,190
Investments at fair value- net asset value	1,601,965	2,286,394	1,673,534	2,397,108
Total investments	<u>2,635,023</u>	<u>3,599,890</u>	<u>2,645,243</u>	<u>3,621,298</u>
Other plan investments:				
Participant loans receivable	78,429	159,462	74,607	146,347
Total other plan investments	<u>78,429</u>	<u>159,462</u>	<u>74,607</u>	<u>146,347</u>
Total assets	<u>2,713,452</u>	<u>3,759,352</u>	<u>2,719,850</u>	<u>3,767,645</u>
<b>LIABILITIES:</b>				
Administrative expense reimbursement	377	721	356	675
Total liabilities	<u>377</u>	<u>721</u>	<u>356</u>	<u>675</u>
<b>TOTAL NET POSITION</b>				
RESTRICTED FOR BENEFITS	<u>\$ 2,713,075</u>	<u>\$ 3,758,631</u>	<u>\$ 2,719,494</u>	<u>\$ 3,766,970</u>

See notes to financial statements.



**METROPOLITAN TRANSPORTATION AUTHORITY  
DEFERRED COMPENSATION PROGRAM**

**STATEMENTS OF CHANGES IN PLANS NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(\$ In THOUSANDS)**

	2018		2017	
	457	401(k)	457	401(k)
<b>ADDITIONS:</b>				
Investment Income:				
Net (depreciation)/appreciation in fair value of investments	\$ (96,820)	\$ (139,054)	\$ 292,040	\$ 416,584
Total investment (loss) / income	(96,820)	(139,054)	292,040	416,584
Contributions:				
Employee contributions, net	208,112	283,818	186,703	251,122
Participant rollovers	9,332	21,673	7,386	22,430
Employer contributions	-	4,392	-	4,109
Total contributions	217,444	309,883	194,089	277,661
Other additions:				
Loan repayments - interest	3,739	7,529	3,210	6,337
Total additions	124,363	178,358	489,339	700,582
<b>DEDUCTIONS:</b>				
Distribution to participants	67,372	87,379	53,784	73,733
Transfers to other plans	59,405	93,187	45,145	66,031
Net loan initiations/repayments	(72)	(184)	(91)	(196)
Loan defaults/offsets	2,544	3,592	2,029	2,985
Loan fees transfers to other plans	246	594	242	556
Other deductions	910	1,408	778	1,550
Administrative expense	377	721	356	675
Total deductions	130,782	186,697	102,243	145,334
(Decrease) /increase in net position	(6,419)	(8,339)	387,096	555,248
<b>TOTAL NET POSITION</b>				
<b>RESTRICTED FOR BENEFITS</b>				
Beginning of year	2,719,494	3,766,970	2,332,398	3,211,722
End of year	\$ 2,713,075	\$ 3,758,631	\$ 2,719,494	\$ 3,766,970

# METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (\$ in Thousands)

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### 1. PLANS BACKGROUND AND DESCRIPTION

*Description* – The Deferred Compensation Program consists of two defined contribution plans that provide benefits based solely on the amounts contributed to each participant’s account(s), plus or minus any income, expenses and gains/losses. The Deferred Compensation Program is comprised of the Deferred Compensation Plan For Employees of the Metropolitan Transportation Authority (“MTA”), its Subsidiaries and Affiliates (“457 Plan”) and the Thrift Plan For Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (“401(k) Plan”). Certain MTA Related Groups employees are eligible to participate in both deferred compensation plans. Both Plans are designed to have participant charges, including investment and other fees, cover the costs of administering the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. Only managerial employees were permitted to participate in the Plan and investment options were limited to five funds: a Guaranteed Interest Fund, a Common Stock Fund, a Money Market Fund, a Managed Fund, and a Stock Index Fund. Pursuant to Internal Revenue Code (“Code”) Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive benefit of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 457 Plan, and all income attributable to such compensation, less expenses and fees, are held in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 457 Plan is not reflected on the MTA’s consolidated statements of net position.

In 1985, the MTA Board adopted the 401(k) Plan, a tax-qualified plan under section 401(k) of the Code. The 401(k) Plan remained dormant until 1988 when an IRS ruling "grandfathered" the plan under the Tax Reform Act of 1986. Participation in the 401(k) Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, less expenses and fees, are held in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the MTA consolidated statements of net position. The 401(k) Plan received a favorable determination letter from the Internal Revenue Service dated October 27, 2016.

As the Deferred Compensation Program’s asset base and contribution flow increased, participants’ investment options were expanded by the Deferred Compensation Committee with the advice of its Financial Advisor to provide greater diversification and flexibility. In 1988, after receiving an IRS determination letter for the 401(k) Plan, the MTA offered its managers the choice of either participating in the 457 Plan or the 401(k) Plan. By 1993, the MTA offered eight investment funds: a Guaranteed Interest Account Fund, a Money Market Fund, a Common Stock Fund, a Managed Fund, a Stock Index Fund, a Government Income Fund, an International Fund and a Growth Fund.

In 1998, the Deferred Compensation Committee approved the unbundling of the Plans. In 2008, the Plans' investment choices were re-structured to set up a four-tier strategy:

- Tier 1 – The MTA Asset Allocation Programs offer two options for those participants who would like to make retirement investing easy – the MTA Target Year Funds and Goalmaker. Investments will be automatically diversified among a range of investment options.
- Tier 2 - The MTA Index Funds offer a tier of index funds, which invest in the securities of companies that are included in a selected index, such as the Standard & Poor's 500 (large cap) Index or Barclays Capital U.S. Aggregate (bond) index. The typical objective of an index fund is to achieve approximately the same return as that specific market index. Index funds provide investors with lower-cost investments because they are less expensive to administer than actively managed funds.
- Tier 3 – The MTA Actively Managed Portfolios, which are comprised of actively managed portfolios that are directed by one or a team of professional managers who buy and sell a variety of holdings in an effort to outperform selected indices. The funds provide a diversified array of distinct asset classes, with a single option in each class. They combine the value and growth disciplines to create a 'core' portfolio for the mid-cap and international categories.
- Tier 4 – Self-Directed Mutual Fund Option is designed for the more experienced investors. Offers access to an expanded universe of mutual funds from hundreds of well-known mutual fund families. Participants may invest only a portion of their account balances in this Tier.

The two Plans offer the same array of investment options. Eligible participants in the Deferred Compensation Program include employees (and in the case of Metropolitan Suburban Bus Authority, former employees) of:

- MTA
- The Long Island Rail Road Company (“MTA Long Island Rail Road”)
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”)
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”)
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”)
- New York City Transit Authority (“MTA New York City Transit”)
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Rapid Transit”)
- MTA Capital Construction Company (“MTA Capital Construction”)
- MTA Bus Company (“MTA Bus”)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - The Deferred Compensation Program's ("Program") financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans. Contributions from members are recorded when the employer makes payroll deductions from plans' members. Additions to the Plans consist of contributions (member and employer) and net investment income. Investment purchases and sales are recorded as of trade date.

For financial reporting purposes, The MTA adheres to accounting principles generally accepted in the United States of America. The MTA Deferred Compensation Program applies all applicable pronouncements of the Governmental Accounting Standards Board (“GASB”).

**New Accounting Standards Adopted** – The Plans adopted GASB Statement No. 85, *Omnibus 2017*. There was no material impact on the Program’s financial statements as a result of the implementation of GASB Statement No. 85.

**Recent Accounting Pronouncements — Not yet adopted but currently being reviewed**

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>MTA DC Program Required Year of Adoption</b>
84	<i>Fiduciary Activities</i>	2019

**Use of Estimates** - The preparation of the Program’s financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by Government Accounting Standards Board (“GASB”). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates which include fair market value of investments.

**Investment Valuation and Income Recognition** - Investments are stated at contract and NAV values as reported by Prudential (the “Trustee”). Net asset value is determined to be a practical expedient for measuring fair value. All investments are registered, with securities held by the Plans’ Trustee, in the name of the Plans. The values of the Plans’ investments are adjusted to contract and NAV values as of the last business day of the Plans’ year. Gains and losses on investments that were sold during the year are included in net appreciation/(depreciation) in contract and NAV values of investments.

**3. INVESTMENTS**

**Investment Objective** - The primary investment objective of the Program is to offer a set of investment options such that:

- Sufficient options are offered to allow participants to build portfolios consistent with their investment risk/return preferences.
- Each option is adequately diversified.
- Each option has a risk profile consistent with its position in the overall structure.
- Each option is managed so as to implement the desired risk profile of the asset class it represents.

**Investment Guidelines** - The Deferred Compensation Committee selects and executes agreements with qualified investment managers and/or funds which fulfill the criteria of the identified investment option. The Program is participant-directed and participants select from among the available investment options.

The investment options used to fund the various asset classes may be separately managed portfolios, commingled funds, or mutual funds. The Committee may from time to time modify the number and characteristics of the investment vehicles to be made available to participants within each investment option.

The specific investment vehicles chosen by the Committee must have appropriate investment characteristics and be managed by organizations which, by their record and experience, have demonstrated their investment expertise.

Such investment vehicles also should:

- Have sufficient assets under management so that the MTA account is not more than 10% of total strategy assets; strategy is defined as assets in all vehicles (separate accounts, collective trusts and mutual funds),
- Be well diversified,
- Have a minimum of three years of verifiable investment performance information,
- Have acceptable volatility in line with investment philosophy and process,
- Have the liquidity and/or marketability to pay benefit amounts to participants due under the terms of the Program, and
- Have a reasonable expense ratio.

**Concentration of Credit Risk** - Individual investments held by the Plans that represent 5.0% or more of the Plans' net position available for benefits at December 31, 2018 and 2017 are as follows:

<b>Investment at contract value – December 31, 2018</b>	<b>457 Value</b>	<b>401(k) Value</b>
MTA Stable Value Fund	\$958,439,519	\$1,204,877,264
<b>Investment at NAV – December 31, 2018</b>	<b>457 Value</b>	<b>401(k) Value</b>
MTA Large-Cap Core Portfolio	\$344,305,037	\$492,414,901
MTA Large-Cap Core Index Fund	305,229,629	430,864,188
MTA Small-Mid Cap Equity	224,531,708	314,375,533
MTA Bond Fund	-	189,732,351
MTA International Portfolio	140,622,695	211,308,400

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<b>Investment at contract value – December 31, 2017</b>	<b>457 Value</b>	<b>401(k) Value</b>
MTA Stable Value Fund	\$897,665,768	\$1,117,748,971
<b>Investment at NAV – December 31, 2017</b>	<b>457 Value</b>	<b>401(k) Value</b>
MTA Large-Cap Core Portfolio	\$361,001,732	\$523,266,729
MTA Large-Cap Core Index Fund	311,140,903	443,716,711
MTA Small-Mid Cap Equity	243,343,575	340,756,221
MTA International Portfolio	144,536,799	215,207,216

The following table shows the contract and NAV values of investment in the various investment options at December 31, 2018 and 2017.

**Investments at Contract and NAV Values at December 31, 2018**

<u>Target-Year Lifecycle Funds</u>	<u>457 Value</u>	<u>401(k) Value</u>
MTA Target-Year Lifecycle 2015 Fund	\$ 39,539,976	\$ 56,713,211
MTA Target-Year Lifecycle 2020 Fund	37,867,714	52,557,505
MTA Target-Year Lifecycle 2025 Fund	95,446,330	144,953,002
MTA Target-Year Lifecycle 2030 Fund	36,545,453	56,586,678
MTA Target-Year Lifecycle 2035 Fund	65,991,567	107,260,806
MTA Target-Year Lifecycle 2040 Fund	21,004,358	31,683,831
MTA Target-Year Lifecycle 2045 Fund	34,990,550	54,179,818
MTA Target-Year Lifecycle 2050 Fund	19,896,043	22,784,060
MTA Target-Year Lifecycle 2055 Fund	1,444,299	1,913,902
MTA Target-Year Lifecycle 2060 Fund	314,566	251,514
MTA Target-Year Lifecycle 2065 Fund	652,626	650,530
MTA Income Fund	41,022,758	58,506,955
 <b><u>International Equity Funds</u></b>		
MTA International Portfolio	140,622,695	211,308,400
MTA International Index Fund	21,224,624	25,671,764
 <b><u>Small- Mid Cap Equity Funds</u></b>		
MTA Small-Mid Cap Portfolio	224,531,708	314,375,533
MTA Small-Mid Cap Index	101,875,091	115,920,447
 <b><u>Large-Cap Equity Funds</u></b>		
MTA Large Cap Portfolio	344,305,037	492,414,901
MTA Large Cap Core Index Fund	305,229,629	430,864,188
 <b><u>Bond Funds</u></b>		
MTA Bond Core Plus Portfolio	122,073,473	189,732,351
MTA Bond Aggregate Index Fund	19,187,854	22,707,520
 <b><u>Stable Value Option</u></b>		
MTA Stable Value Fund	958,439,519	1,204,877,264
 <b><u>Self-Directed Investment Account</u></b>		
	2,817,576	3,975,818
<b>Total</b>	<b>\$ 2,635,023,448</b>	<b>\$ 3,599,889,997</b>

## Investments at Contract and NAV Values at December 31, 2017

<b><u>Target-Year Lifecycle Funds</u></b>	<b><u>457 Value</u></b>	<b><u>401(k) Value</u></b>
MTA Target-Year Lifecycle 2015 Fund	\$ 44,162,152	\$63,373,256
MTA Target-Year Lifecycle 2020 Fund	39,353,130	56,067,904
MTA Target-Year Lifecycle 2025 Fund	99,905,559	151,105,187
MTA Target-Year Lifecycle 2030 Fund	37,156,645	56,991,883
MTA Target-Year Lifecycle 2035 Fund	71,322,343	114,855,869
MTA Target-Year Lifecycle 2040 Fund	21,836,250	33,388,279
MTA Target-Year Lifecycle 2045 Fund	38,476,400	61,975,198
MTA Target-Year Lifecycle 2050 Fund	22,249,815	25,152,601
MTA Target-Year Lifecycle 2055 Fund	1,881,412	2,159,684
MTA Target-Year Lifecycle 2060 Fund	87,721	29,297
MTA Target-Year Lifecycle 2065 Fund	336,563	210,492
MTA Income Fund	42,562,260	58,025,287
 <b><u>International Equity Funds</u></b>		
MTA International Portfolio	144,536,799	215,207,217
MTA International Index Fund	25,112,577	31,251,686
 <b><u>Small- Mid Cap Equity Funds</u></b>		
MTA Small-Mid Cap Portfolio	243,343,576	340,756,222
MTA Small-Mid Cap Index	112,927,600	131,621,009
 <b><u>Large-Cap Equity Funds</u></b>		
MTA Large Cap Portfolio	361,001,732	523,266,729
MTA Large Cap Core Index Fund	311,140,903	443,716,711
 <b><u>Bond Funds</u></b>		
MTA Bond Core Plus Portfolio	109,178,205	168,338,190
MTA Bond Aggregate Index Fund	18,137,660	21,937,174
 <b><u>Stable Value Option</u></b>		
MTA Stable Value Fund	897,665,768	1,117,748,971
 <b><u>Self-Directed Investment Account</u></b>		
	2,867,973	4,118,703
<b>Total</b>	<b>\$ 2,645,243,043</b>	<b>\$ 3,621,297,549</b>

The following tables show the interest and/or dividends earned on investments and net appreciation/ (depreciation) for the years ended December 31, 2018 and 2017.

**457 Investments at December 31, 2018**

<b><u>Target-Year Lifecycle Funds</u></b>	<b><u>Cash Earnings</u></b>	<b><u>Appreciation/(Depreciation ) In Fair Market Value - Net</u></b>
MTA Target-Year Lifecycle 2015 Fund	\$ -	(\$964,936)
MTA Target-Year Lifecycle 2020 Fund	-	(1,424,373)
MTA Target-Year Lifecycle 2025 Fund	-	(5,220,249)
MTA Target-Year Lifecycle 2030 Fund	-	(2,673,305)
MTA Target-Year Lifecycle 2035 Fund	-	(5,820,881)
MTA Target-Year Lifecycle 2040 Fund	-	(2,026,385)
MTA Target-Year Lifecycle 2045 Fund	-	(3,624,076)
MTA Target-Year Lifecycle 2050 Fund	(1)	(2,097,093)
MTA Target-Year Lifecycle 2055 Fund	-	(162,507)
MTA Target-Year Lifecycle 2060 Fund	-	(20,193)
MTA Target-Year Lifecycle 2065 Fund	-	(81,735)
MTA Income Fund	-	(778,921)
<b><u>International Equity Funds</u></b>		
MTA International Portfolio	(1)	(23,199,927)
MTA International Index Fund	30	(3,872,032)
<b><u>Small-Mid-Cap Equity Funds</u></b>		
MTA Small-Mid Cap Portfolio	-	(22,741,667)
MTA Small-Mid Cap Index Fund	(67)	(10,958,112)
<b><u>Large-Cap Equity Funds</u></b>		
MTA Large Cap Portfolio	(125)	(19,087,869)
MTA Large Cap Index Fund	31	(14,872,279)
<b><u>Bond Funds</u></b>		
MTA Bond Portfolio	-	1,716,501
MTA Bond Index Fund	62	16,549
<b><u>Stable Value Option</u></b>		
MTA Stable Value Fund	-	21,286,940
<b><u>Self-Directed Investment Account</u></b>		
	-	(213,733)
<b>Total</b>	<b>(\$71)</b>	<b>(\$96,820,285)</b>



457 Investments at December 31, 2017

<u>Target-Year Lifecycle Funds</u>	<u>Cash Earnings</u>	<u>Appreciation/Depreciation In Fair Market Value - Net</u>
MTA Target-Year Lifecycle 2015 Fund	\$ -	\$4,052,728
MTA Target-Year Lifecycle 2020 Fund	-	4,077,533
MTA Target-Year Lifecycle 2025 Fund	-	12,255,066
MTA Target-Year Lifecycle 2030 Fund	-	4,975,535
MTA Target-Year Lifecycle 2035 Fund	-	10,613,612
MTA Target-Year Lifecycle 2040 Fund	-	3,383,477
MTA Target-Year Lifecycle 2045 Fund	-	6,515,291
MTA Target-Year Lifecycle 2050 Fund	-	3,799,618
MTA Target-Year Lifecycle 2055 Fund	-	194,991
MTA Target-Year Lifecycle 2060 Fund	-	2,451
MTA Target-Year Lifecycle 2065 Fund	-	10,850
MTA Income Fund	(32)	2,895,302
 <b><u>International Equity Funds</u></b>		
MTA International Portfolio	-	28,478,383
MTA International Index Fund	-	4,214,019
 <b><u>Small-Mid-Cap Equity Funds</u></b>		
MTA Small-Mid Cap Portfolio	-	22,211,261
MTA Small-Mid Cap Index Fund	-	9,823,723
MTA Small Cap Core Portfolio	-	4,674,966
MTA Small Cap Core Index	-	1,904,992
MTA Mid Cap Core Portfolio	(452)	14,136,064
MTA Mid Cap Core Index Fund	-	3,499,431
 <b><u>Large-Cap Equity Funds</u></b>		
MTA Large Cap Portfolio	-	73,986,281
MTA Large Cap Index Fund	-	53,978,392
 <b><u>Bond Funds</u></b>		
MTA Bond Portfolio	-	3,667,169
MTA Bond Index Fund	-	574,868
 <b><u>Stable Value Option</u></b>		
MTA Stable Value Fund	590	17,739,251
 <b><u>Self-Directed Investment Account</u></b>		
	-	375,144
<hr/>		
<b>Total</b>	<b>\$106</b>	<b>\$292,040,398</b>

401(k) Investments at December 31, 2018

<u>Target-Year Lifecycle Funds</u>	<u>Cash Earnings</u>	<u>Appreciation/(Depreciation ) In Fair Market Value - Net</u>
MTA Target-Year Lifecycle 2015 Fund	\$ -	(\$1,391,585)
MTA Target-Year Lifecycle 2020 Fund	-	(1,992,155)
MTA Target-Year Lifecycle 2025 Fund	-	(7,809,841)
MTA Target-Year Lifecycle 2030 Fund	-	(4,179,497)
MTA Target-Year Lifecycle 2035 Fund	159	(9,458,960)
MTA Target-Year Lifecycle 2040 Fund	-	(3,056,802)
MTA Target-Year Lifecycle 2045 Fund	-	(5,497,456)
MTA Target-Year Lifecycle 2050 Fund	-	(2,397,076)
MTA Target-Year Lifecycle 2055 Fund	-	(224,092)
MTA Target-Year Lifecycle 2060 Fund	-	(32,207)
MTA Target-Year Lifecycle 2065 Fund	-	(79,557)
MTA Income Fund	151	(1,107,782)
<b><u>International Equity Funds</u></b>		
MTA International Portfolio	(80)	(34,878,408)
MTA International Index Fund	-	(4,774,905)
<b><u>Small-Mid-Cap Equity Funds</u></b>		
MTA Small-Mid Cap Portfolio	45	(31,691,127)
MTA Small-Mid Cap Index Fund	(11)	(12,339,239)
<b><u>Large-Cap Equity Funds</u></b>		
MTA Large Cap Portfolio	94	(26,646,239)
MTA Large Cap Index Fund	266	(20,492,874)
<b><u>Bond Funds</u></b>		
MTA Bond Portfolio	-	2,663,521
MTA Bond Index Fund	1	257
<b><u>Stable Value Option</u></b>		
MTA Stable Value Fund	(374)	26,700,986
<b><u>Self-Directed Investment Account</u></b>		
	-	(369,074)
<b>Total</b>	<b>\$251</b>	<b>(\$139,054,109)</b>

**401(k) Investments at December 31, 2017**

<b>Target-Year Lifecycle Funds</b>	<b>Cash Earnings</b>	<b>Appreciation/Depreciation in Fair Market Value - Net</b>
MTA Target-Year Lifecycle 2015 Fund	\$ -	\$5,879,723
MTA Target-Year Lifecycle 2020 Fund	-	5,710,028
MTA Target-Year Lifecycle 2025 Fund	-	18,595,814
MTA Target-Year Lifecycle 2030 Fund	-	7,891,204
MTA Target-Year Lifecycle 2035 Fund	-	17,110,203
MTA Target-Year Lifecycle 2040 Fund	-	5,219,254
MTA Target-Year Lifecycle 2045 Fund	-	10,710,957
MTA Target-Year Lifecycle 2050 Fund	-	4,279,846
MTA Target-Year Lifecycle 2055 Fund	-	212,408
MTA Target-Year Lifecycle 2060 Fund	-	2,804
MTA Target-Year Lifecycle 2065 Fund	-	3,093
MTA Income Fund	291	3,969,445
<b>International Equity Funds</b>		
MTA International Portfolio	(112)	42,378,226
MTA International Index Fund	152	5,289,746
<b>Small-Mid Cap Equity Funds</b>		
MTA Small-Mid Cap Portfolio	26	31,126,551
MTA Small-Mid Cap Index Fund	16	11,521,852
MTA Small Cap Core Portfolio	-	6,973,340
MTA Small Cap Core Index	-	2,309,598
MTA Mid Cap Core Portfolio	(56)	19,139,073
MTA Mid Cap Core Index Fund	-	4,094,206
<b>Large-Cap Equity Funds</b>		
MTA Large Cap Portfolio	(5,389)	107,585,793
MTA Large Cap Core Index Fund	(117)	77,775,644
<b>Bond Funds</b>		
MTA Bond Portfolio	10	5,646,930
MTA Bond Index Fund	3	704,006
<b>Stable Value Option</b>		
MTA Stable Value Fund	(1,246)	21,908,722
<b>Self-Directed Investment Account</b>		
	-	545,928
<b>Total</b>	<b>(\$6,422)</b>	<b>\$416,584,394</b>

**Credit Risk** – The investment alternatives offered under the Program are not guaranteed by any governmental body, including the MTA, and are not risk-free. The credit risk of the investment strategy in the various investment accounts is based upon the performance of the securities in the underlying portfolios. Investments in these investment strategies can be expected to increase or decrease in value depending upon market conditions. The Deferred Compensation Committee (the “Committee”), with the assistance of its independent investment consultant continuously monitors the program investment strategies pursuant to the investment policy and objectives. When the investment strategies are determined to not meet the criteria, the strategy is terminated as outlined by the investment policy statement.

At December 31, 2018, the following credit quality rating has been assigned by a nationally recognized statistical rating organization (“NRSRO”) to the Fixed Income Portfolio of the Plans:

<u>Quality Rating</u>	<u>457</u>	<u>457</u> <u>Percentage of</u> <u>Fixed Income</u> <u>Portfolio</u>	<u>401(k)</u>	<u>401(k)</u> <u>Percentage of</u> <u>Fixed Income</u> <u>Portfolio</u>
AAA	\$ 533,278,109	40.78%	\$ 709,224,728	40.70%
AA	58,183,754	4.45	78,045,548	4.48
A	150,798,714	11.53	198,336,923	11.38
BBB	169,109,429	12.93	224,080,163	12.86
BB	8,848,180	0.68	13,527,691	0.78
Below BB	<u>8,550,680</u>	<u>0.65</u>	<u>13,319,910</u>	<u>0.76</u>
Credit Risk Debt Securities	928,768,866	71.02	1,236,534,963	70.96
U.S. Government Bonds	<u>378,996,303</u>	<u>28.98</u>	<u>506,066,086</u>	<u>29.04</u>
Total fixed income securities	1,307,765,169	<u>100.00%</u>	1,742,601,050	<u>100.00%</u>
Other securities not rated - equity, international funds and corporate bonds	<u>1,327,258,279</u>		<u>1,857,288,947</u>	
Total investments	<u>\$ 2,635,023,448</u>		<u>\$ 3,599,889,997</u>	

At December 31, 2017, the following credit quality rating has been assigned by a NRSRO to the Fixed Income Portfolio of the Plans:

<u>Quality Rating</u>	<u>457</u>	<u>457</u> <u>Percentage of</u> <u>Fixed Income</u> <u>Portfolio</u>	<u>401(k)</u>	<u>401(k)</u> <u>Percentage of</u> <u>Fixed Income</u> <u>Portfolio</u>
AAA	\$ 469,594,684	39.47%	\$ 615,206,323	39.40%
AA	71,494,230	6.01	93,214,177	5.97
A	189,845,683	15.96	247,553,852	15.85
BBB	139,889,488	11.76	182,374,091	11.68
BB	9,536,646	0.80	14,561,400	0.93
Below BB	<u>9,498,940</u>	<u>0.80</u>	<u>14,647,426</u>	<u>0.94</u>
Credit Risk Debt Securities	889,859,671	74.80	1,167,557,269	74.77
U.S. Government Bonds	<u>299,826,616</u>	<u>25.20</u>	<u>394,031,513</u>	<u>25.23</u>
Total fixed income securities	1,189,686,287	<u>100.00%</u>	1,561,588,782	<u>100.00%</u>
Other securities not rated - equity, international funds and corporate bonds	<u>1,455,556,756</u>		<u>2,059,708,767</u>	
Total investments	<u>\$ 2,645,243,043</u>		<u>\$ 3,621,297,549</u>	

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the contract and NAV values of the investment. Duration is a measure of sensitivity to interest rate risk. The greater the duration of a portfolio, the greater its principle value will fluctuate in response to a change in interest rate risk and vice versa. Modified duration is an indicator of bond price's sensitivity and is the percentage change in a bond principle value given a 100 basis point parallel change in interest rates.

**2018**

<b><u>Investment Type</u></b>	<b><u>457</u></b>	<b><u>401(k)</u></b>	<b><u>Total</u></b>	<b><u>Duration</u></b>
Galliard Stable Value Fund	\$ 1,033,058,563	\$ 1,313,495,662	\$ 2,346,554,225	2.82 *
Loomis Sayles Core Plus Bond Fund	57,760,828	88,725,414	146,486,241	5.98
TCW Core Plus Bond Fund	60,434,612	92,832,568	153,267,180	5.86
SSgA Aggregate Bond Index Fund	19,187,854	22,707,520	41,895,374	5.86
SSgA Real Asset Fund	40,647,939	60,484,739	101,132,678	5.33
Wellington World Bond Fund	<u>58,876,380</u>	<u>90,438,994</u>	<u>149,315,375</u>	3.72
Total Fixed Income				
Portfolio Modified Duration	1,269,966,176	1,668,684,897	2,938,651,074	3.31
Investment with no duration reported	<u>1,365,057,272</u>	<u>1,931,205,100</u>	<u>3,296,262,372</u>	
Total investments	<u>\$ 2,635,023,448</u>	<u>\$ 3,599,889,997</u>	<u>\$ 6,234,913,446</u>	

\* Portfolio Duration - the price sensitivity to yield and the rate of change of price with respect to yield due to the passage of time.

**2017**

<b><u>Investment Type</u></b>	<b><u>457</u></b>	<b><u>401(k)</u></b>	<b><u>Total</u></b>	<b><u>Duration</u></b>
Galliard Stable Value Fund	\$ 897,665,768	\$ 1,117,748,970	\$ 2,015,414,738	2.99 *
Loomis Sayles Core Plus Bond Fund	36,028,808	55,551,603	91,580,411	5.95
TCW Core Plus Bond Fund	37,120,588	57,234,985	94,355,573	5.68
SSgA Aggregate Bond Index Fund	18,137,660	21,937,174	40,074,834	5.94
SSgA Real Asset Fund	43,005,081	63,810,866	106,815,947	7.67
Wellington World Bond Fund	<u>36,028,807</u>	<u>55,551,603</u>	<u>91,580,410</u>	1.51
Total Fixed Income				
Portfolio Modified Duration	1,067,986,712	1,371,835,201	2,439,821,913	3.40
Investment with no duration reported	<u>1,577,256,331</u>	<u>2,249,462,348</u>	<u>3,826,718,679</u>	
Total investments	<u>\$ 2,645,243,043</u>	<u>\$ 3,621,297,549</u>	<u>\$ 6,266,540,592</u>	

\* Portfolio Duration - the price sensitivity to yield and the rate of change of price with respect to yield due to the passage of time.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the contract and NAV values of an investment or deposit. The Program has an indirect exposure to foreign currency fluctuations for the Plans' investments are as follows:

<b>2018</b>	<b>457</b>	<b>401(k)</b>	<b>Total</b>
<b><u>Currency</u></b>	<b><u>Holdings in</u></b>	<b><u>Holdings in</u></b>	<b><u>Holdings in</u></b>
	<b><u>U.S. Dollars</u></b>	<b><u>U.S. Dollars</u></b>	<b><u>U.S. Dollars</u></b>
Australian Dollar	\$ 8,793,065	\$ 13,050,739	\$ 21,843,804
Bermudian Dollar	1,561	1,873	3,434
Brazil Cruzeiro Real	3,300,217	4,898,224	8,198,441
British Pound Sterling	45,599,328	68,534,733	114,134,061
Canadian Dollar	10,967,016	16,189,185	27,156,201
Chilean Peso	85,710	106,984	192,694
Chinese Yuan Renminbi	2,805,239	3,795,779	6,601,018
Colombian Peso	1,685	(16,488)	(14,803)
Czech Krone	8,743	10,724	19,467
Danish Krone	5,539,605	8,358,223	13,897,828
Egyptian Pound	8,743	10,724	19,467
Euro	75,414,803	113,476,315	188,891,118
Hong Kong Dollar	15,125,758	22,864,436	37,990,194
Hungarian Forint	77,715	109,340	187,055
Indian Rupee	4,745,537	7,056,646	11,802,183
Indonesia Rupiah	847,506	1,250,705	2,098,211
Israeli Shekel	231,185	315,494	546,679
Japanese Yen	55,337,539	83,589,901	138,927,440
Macau	2,510	3,012	5,522
Malaysian Ringgit	1,385,093	2,065,099	3,450,192
Mexican Peso	2,033,564	3,038,570	5,072,134
New Zealand Dollar	(1,239,769)	(1,952,319)	(3,192,088)
Norwegian Krone	712,940	1,042,566	1,755,506
Panamanian Balboa	13,720	16,465	30,185
Peruvian Nuevo Sol	(19,266)	(40,377)	(59,643)
Philippine Peso	340,739	491,751	832,490
Polish Zloty	680,970	1,032,334	1,713,304
Qatar Riyal	285,871	417,178	703,049
Russian Ruble	25,164	(21,601)	3,563
Singapore Dollar	5,871,826	8,878,327	14,750,153
South African Rand	836,168	1,168,649	2,004,817
South Korean Won	5,544,690	8,199,855	13,744,545
Swedish Krona	5,982,817	8,960,118	14,942,935
Swiss Franc	19,796,408	29,879,298	49,675,706
New Taiwan Dollar	2,963,673	4,313,629	7,277,302
Thai Baht	874,289	1,291,720	2,166,009
Turkish Lira	634,707	961,181	1,595,888
United Arab Emirates Dirham	462,995	693,358	1,156,353
Uruguayan Pesos	199,653	307,275	506,928
Other	298,066	357,718	655,784
<b>Total</b>	<b><u>\$ 276,577,783</u></b>	<b><u>\$ 414,707,343</u></b>	<b><u>\$ 691,285,126</u></b>

<b>2017</b>	<b>457</b>	<b>401(k)</b>	<b>Total</b>
<b><u>Currency</u></b>	<b><u>Holdings in</u></b> <b><u>U.S. Dollars</u></b>	<b><u>Holdings in</u></b> <b><u>U.S. Dollars</u></b>	<b><u>Holdings in</u></b> <b><u>U.S. Dollars</u></b>
Australian Dollar	\$ 4,371,594	\$ 6,153,851	\$ 10,525,445
Bermudian Dollar	1,557	1,906	3,463
Brazil Cruzeiro Real	2,457,448	3,706,592	6,164,040
British Pound Sterling	48,864,611	72,679,843	121,544,454
Canadian Dollar	21,597,869	31,619,714	53,217,583
Chilean Peso	(7,946)	(16,553)	(24,499)
Chinese Yuan Renminbi	420,469	636,531	1,057,000
Colombian Peso	85,195	120,473	205,668
Czech Krone	29,543	45,482	75,025
Danish Krone	8,789,516	13,249,489	22,039,005
Egyptian Pound	516	650	1,166
Euro	75,260,037	111,343,273	186,603,310
Hong Kong Dollar	13,520,765	20,243,745	33,764,510
Hungarian Forint	(1,537)	(7,701)	(9,238)
Indian Rupee	2,224,363	3,361,740	5,586,103
Indonesia Rupiah	624,592	942,698	1,567,290
Israeli Shekel	384,422	544,508	928,930
Japanese Yen	47,044,922	69,617,801	116,662,723
Malaysian Ringgit	2,132,147	3,220,675	5,352,822
Mexican Peso	2,190,765	3,317,046	5,507,811
New Zealand Dollar	(137,376)	(225,304)	(362,680)
Norwegian Krone	2,392,576	3,630,896	6,023,472
Panamanian Balboa	11,342	13,881	25,223
Peruvian Nuevo Sol	65,548	98,022	163,570
Philippine Peso	31,085	38,625	69,710
Polish Zloty	1,424,107	2,189,430	3,613,537
Qatar Riyal	562,504	850,498	1,413,002
Russian Ruble	119,052	183,559	302,611
Singapore Dollar	6,690,302	10,037,539	16,727,841
South African Rand	2,066,093	3,114,835	5,180,928
South Korean Won	4,706,825	7,100,085	11,806,910
Swedish Krona	12,339,870	18,611,548	30,951,418
Swiss Franc	16,322,702	23,987,762	40,310,464
New Taiwan Dollar	2,547,361	3,849,592	6,396,953
Thai Baht	1,100,413	1,664,793	2,765,206
Turkish Lira	694,143	1,036,541	1,730,684
United Arab Emirates Dirham	452,373	684,076	1,136,449
Uruguayan Pesos	83,079	125,141	208,220
Total	<u>\$ 281,462,847</u>	<u>\$ 417,773,282</u>	<u>\$ 699,236,129</u>



In year 2015, the MTA Deferred Compensation Program adopted GASB Statement No. 72 (“GASB 72”), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

**Investments measured at Contract and NAV values  
(\$ In thousands)**

	2018			
	December 31, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>457 Plan</b>				
Equity Securities:				
Commingled large-cap equity funds	\$ 730,411	\$ -	Daily	None
Commingled Small-mid cap equity funds	101,875	-	Daily	None
Separate Manager Account: Small-Mid cap equity funds	171,439	-	Daily	None
Small-Mid cap equity mutual fund	84,439	-	Daily	None
Commingled international equity fund	147,650	-	Daily	None
Separate Manager Account: International equity mutual fund	126,425	-	Daily	None
Total equity securities	1,362,239	-		
Debt Securities				
Commingled debt funds	135,825	-	Daily	None
Separate Manager Account: debt funds	60,435	-	Daily	None
Total debt securities	196,260	-		
Real assets				
Commingled real asset equity fund	40,648	-	Daily	None
Total real assets	40,648	-		
Other:				
Self direct investment option	2,818	-	Daily	None
Total other	2,818	-		
Total investments measured at the NAV	1,601,965	-		
Investments measured at Contract Value	1,033,058	-		
Total investments	\$ 2,635,023	\$ -		

**Investments measured at Contract and NAV values  
(\$ In thousands)**

	2018			
	December 31, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>401(k) Plan</b>				
Equity Securities:				
Commingled large-cap equity funds	\$ 1,044,705	\$ -	Daily	None
Commingled Small-mid cap equity funds	115,920	-	Daily	None
Separate Manager Account: Small-Mid cap equity funds	242,052	-	Daily	None
Small-Mid cap equity mutual fund	119,218	-	Daily	None
Commingled international equity fund	215,503	-	Daily	None
Separate Manager Account: International equity mutual fund	189,831	-	Daily	None
Total equity securities	1,927,229	-		
Debt Securities				
Commingled debt funds	201,872	-	Daily	None
Separate Manager Account: debt funds	92,832	-	Daily	None
Total debt securities	294,704	-		
Real assets				
Commingled real asset equity fund	60,485	-	Daily	None
Total real assets	60,485	-		
Other:				
Self direct investment option	3,976	-	Daily	None
Total other	3,976	-		
Total investments measured at the NAV	2,286,394	-		
Investments measured at Contract Value	1,313,496	-		
Total investments	\$ 3,599,890	\$ -		

**Investments measured at Contract and NAV values**  
(\$ In thousands)

	2017			
	December 31, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>457 Plan</b>				
Equity Securities:				
Commingled large-cap equity funds	\$ 759,673	\$ -	Daily	None
Commingled Small-mid cap equity funds	112,928	-	Daily	None
Separate Manager Account: Small-Mid cap equity funds	186,233	-	Daily	None
Small-Mid cap equity mutual fund	91,727	-	Daily	None
Commingled international equity fund	158,435	-	Daily	None
Separate Manager Account: International equity mutual fund	133,322	-	Daily	None
Total equity securities	1,442,318	-		
Debt Securities				
Commingled debt funds	128,493	-	Daily	None
Separate Manager Account: debt funds	56,850	-	Daily	None
Total debt securities	185,343	-		
Real assets				
Commingled real asset equity fund	43,005	-	Daily	None
Total real assets	43,005	-		
Other:				
Self direct investment option	2,868	-	Daily	None
Total other	2,868	-		
Total investments measured at the NAV	1,673,534	-		
Investments measured at Contract Value	971,709	-		
Total investments	\$ 2,645,243	\$ -		

**Investments measured at Contract and NAV values**  
(\$ In thousands)

	2017			
	December 31, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>401(k) Plan</b>				
Equity Securities:				
Commingled large-cap equity funds	\$ 1,098,377	\$ -	Daily	None
Commingled Small-mid cap equity funds	131,621	-	Daily	None
Separate Manager Account: Small-Mid cap equity funds	263,107	-	Daily	None
Small-Mid cap equity mutual fund	129,590	-	Daily	None
Commingled international equity fund	230,496	-	Daily	None
Separate Manager Account: International equity mutual fund	199,244	-	Daily	None
Total equity securities	2,052,435	-		
Debt Securities				
Commingled debt funds	190,109	-	Daily	None
Separate Manager Account: debt funds	86,634	-	Daily	None
Total debt securities	276,743	-		
Real assets				
Commingled real asset equity fund	63,811	-	Daily	None
Total real assets	63,811	-		
Other:				
Self direct investment option	4,119	-	Daily	None
Total other	4,119	-		
Total investments measured at the NAV	2,397,108	-		
Investments measured at Contract Value	1,224,190	-		
Total investments	\$ 3,621,298	\$ -		

**Investments Measured at Contract Value**

**Stable Value Funds** - Stable value funds typically have three components. The first component is primarily comprised of Investment Contracts issued by banks and insurance companies. The Investment Contracts help to assure that participants can transact at book value (principal plus accrued interest) as well as maintain a relatively stable return profile for the portfolio. Generally, contract issuers are rated "investment grade" by at least one of the Nationally Recognized Statistical Rating Organizations at time of purchase that are able to do business in New York State. The second component consists of an underlying portfolio

of fixed income securities which are subject to the Investment Contracts and are often referred to as "underlying securities". Finally, the portfolio may also hold cash or cash equivalents. The Stable Value fund return is expected to be higher than that of a 3 year Constant Maturity Treasury + 0.5% with similar volatility over the long-term.

#### **Investments Measured at NAV**

**Commingled Funds** - The fair values of the investments of this type have been determined using the NAV per share of the investments. The commingled equity funds are comprised of large cap, small and mid cap funds and international funds that invest in core indices across all industries, growth and value respectively. The commingled debt funds are comprised of corporate, treasuries and international fixed income securities.

**Separate Manager Account (SMAs)** – This investment vehicle follows a single-style strategy, with funds comprised of large cap fixed, large cap value and large cap growth. These three separate SMAs allow the MTA to impose reasonable stock and bonds sector preferences and restrictions on the securities in the accounts. The two equity SMAs are co-invested with external managers through Prudential Securities. The fair values of the investments in this vehicle are determined using the NAV per share of the investments by the external manager. Prudential Securities whom the MTA holds a contractual agreement with and whom controls the investments, revalues the NAV per share after certain expense deductions and provides the MTA with its percentage allocation on an annual basis.

**Small-Mid Cap Funds** - This investment option has four institutional investments funds - two growth and two value investment strategies with the objective of matching the return and risk characteristics of the Russell Small Cap Completeness Index or a similar index which measures the broad U.S. small and mid capitalization equity market. The option's investment profile is long term capital growth through a combination of capital appreciation and to a lesser extent reinvested dividend income. The investment option is expected to have high volatility over a market cycle. The fair values of the investments in these types have been determined using the NAV per share of the investments.

**Real Assets** – The fund represents an optimal solution for an inflation hedging strategy and incorporates a diversified multi asset class approach. The fund strategic weights which are rebalanced monthly are as follows: 25% Bloomberg Roll Select Commodity Index; 25% Standard and Poor's (r) Global Larger Mid Cap Commodity & Resources Index; 10% Standard and Poor's Global Infrastructure Equity Index; 15% Dow Jones US Select REIT Index and 25% Barclays US TIPS Index. The fair values of the investments of this type have been determined using the NAV per share of the investments.

**Self-Direct Brokerage Accounts** – The Deferred Compensation program allows participants the option to invest up to twenty (20) percent of their account in over 500 mutual fund families comprising of more than 15,000 individual mutual funds. All investments under this option are in mutual funds and are measured at the respective fund NAVs.

#### **4. CONTRIBUTIONS**

**Employer Contributions** - MTA Bus, on behalf of certain MTA Bus employees, MTA Metro-North Railroad on behalf of certain MNR employees who opted-out of participation in the MTA Defined Benefit Pension Plan and MTA on behalf of certain represented MTA Business Service Center employees, make contributions to the 401(k) Plan. The rate for the employer contribution varies.

**MTA Bus** – Effective in 2019, there are no employees receiving these Employer Contributions. Prior to 2019, certain members who were employed by Queens Surface Corporation on February 26, 2005, and who became employees of MTA Bus on February 27, 2005, receive a matching contribution equal to 50% of member's before-tax contributions provided that the maximum matching contribution shall not exceed 3% of the member's base pay. MTA Bus also made a basic contribution equal to 2% of the member's compensation. These contributions vest as follows:

Years of Service	Vested Percentage
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

**MTA Metro-North Railroad** – MNR employees represented by certain unions and who elected to opt-out of participation in the MTA Defined Benefit Pension Plan receive an annual employer contribution equal to 4% of the member’s compensation. Effective on the first full pay period following the nineteenth anniversary date of an eligible MNR member’s continuous employment, MTA Metro-North Railroad contributes an amount equal to 7% of the member’s compensation. Eligible MNR members vest in these employer contributions as set forth below:

Years of Service	Vested Percentage
Less than 5	0%
5 or more	100%

**MTA Headquarters - Police** - For each plan year, the MTA shall make contributions to the Account of each eligible MTA Police Benevolent Association member in the amounts required by the collective bargaining agreement (“CBA”) and subject to the contribution limits set forth in the CBA. These contributions shall be made monthly and shall be considered MTA Police contributions. Members are immediately 100% vested in these employer contributions.

**MTA Headquarters – Commanding Officers** - For each plan year, the MTA shall make contributions to the Account of each eligible MTA Police Department Commanding Officers Association Benevolent Association member in the amounts required by the collective bargaining agreement (“CBA”) and subject to the contribution limits set forth in the CBA. These contributions shall be made monthly and shall be considered MTA Police contributions. Members are immediately 100% vested in these employer contributions.

**MTA Headquarters – Business Services Center** - Effective January 1, 2011, all newly hired MTA Business Services Center employees represented by the Transportation Communications Union are eligible to receive a matching contribution, up to a maximum of 3% of the participant’s compensation. A participant’s right to the balance in his or her matching contributions shall upon the first of the following to occur:

1. Completing 5 years of service,
2. Attaining the Normal Retirement Age of 62 while in continuous employment, or
3. Death while in continuous employment.

**Additional Deposits (Incoming Rollover or Transfers)** - Participants in the Deferred Compensation Program are eligible to roll over both their before-tax and after-tax assets from other eligible retirement plans into the 401(k) and 457 Plans.

**Status** - As of December 31, 2018 and 2017, 35.1% and 38.9% of the eligible employees were enrolled in the 457 Plan and 52.0% and 55.7% of the eligible employees were enrolled in the 401(k) Plan, respectively. There are 32,910 and 31,806 active participants in the 457 Plan and 46,849 and 44,631 active participants in the 401(k) Plan. The average account balance in the 457 Plan is \$61,038 and \$63,859 and in the 401(k) Plan is \$62,023 and \$65,772 in 2018 and 2017, respectively.

## 5. DISTRIBUTIONS

**In-Service Withdrawals** - A 457 Plan participant who experiences an unforeseeable emergency (as defined by the Code) may apply for a withdrawal. A 401(k) Plan participant who experiences an immediate and heavy financial need (as defined by the Code) may apply for a withdrawal by filing a hardship application.

Distributions are subject to applicable taxes and penalties.

**Direct Transfer for Purchasing Permissive Service Credit** - Participants in the 457 or 401(k) Plans are eligible to use their Plan assets as a source of funding for the purchase of certain permissive service credits (as defined by the Code) in certain defined benefit plan or pension systems, via a direct transfer.

**Distribution of Benefits** - Upon a participant's severance from the MTA, the participant is entitled to receive an amount equal to the value of his or her vested account, to be paid in accordance with one of the methods described below. Participants can choose to remain in the Plans and are not required to withdraw, roll over or transfer their account upon severance.

**Commencement date** - Subject to required minimum distribution rules, a participant may elect any commencement date after severance. A participant has the option to cancel or change their distribution schedule at any time upon proper notice to the Plans Record-keeper. Upon reaching the later of April 1<sup>st</sup> of the calendar year following: (1) the calendar year he or she reaches age 70 ½, or (2) the calendar year in which he or she severs from the MTA, participants are required to receive a minimum distribution from their account.

**Method of Distribution for Direct Payment** - If a participant chooses; the following methods of distribution are available under the Plans:

- Full lump sum payment; or
- Substantially equivalent monthly, quarterly, semi-annual or annual installment payments; or
- Any other amount of payment, subject to the required minimum distribution rules.

**Election of Length of Distribution** - If a participant elects installment payments, he or she may specify either:

- the total number of installment payments, or
- the dollar amount of each payment.

In either case, distributions cannot be paid over a period of time which exceeds the life expectancy of the participant or, in certain circumstances, the joint life expectancy of the participant and a "designated beneficiary" (as defined by the Code). Installment payments will be recalculated annually and will be paid only until the account is exhausted.

**Rollovers or Transfers Out of the Plans** - If a participant chooses to transfer or roll over his or her Deferred Compensation account, or a portion thereof, it must be to an eligible retirement plan (401(a), 457, 401(k), 403(b) or rollover IRA). 457 Plan and 401(k) Plan participants are eligible to roll over or transfer their account balance(s) upon severance from service.

## 6. LOANS

The MTA Deferred Compensation Program offers participants the opportunity to borrow from either one or both Plans simultaneously. The MTA Plans permit one loan from the 457 Plan and up to two loans from the 401(k) Plan. However, participants are limited to a total of two loans. Thus, as a participant of both the 401(k) and the 457 Plans, a participant can have either two 401(k) loans or the combination of a 401(k) loan and a 457 loan. The MTA offers two types of loans: the first is a "General Purpose Loan", which is a five year loan and can be for any purpose. The second is a "Residential Loan", which is a loan for a primary residence and is a 20-year loan. For the Residential Loan, a signed contract to purchase the residence is necessary. Loan re-payment is made through payroll deduction. If a participant with an outstanding loan leaves the employment of the MTA, the participant may request to make coupon payments.

The minimum loan amount is \$1,000. The maximum amount of an approved loan may not exceed the lesser of: (i) 50 percent of the participant's 457 or 401(k) Plan account balance; or (ii) \$50,000 less the combined balance of all outstanding loans that a participant may have under the Program. All loans are subject to interest at prime rate plus 1 percent. A loan origination fee of \$75.00 is deducted from the approved loan

amount. Active MTA employee participants may not borrow from amounts attributable to Metro-North contributions, MTA Police contributions, MTA Police Commanding Officers' Association contributions, MTA Business Service Center, Matching Contributions and Roth Elective Deferrals. The net loans outstanding for the 457 plan is \$78.43 million and \$74.61 million at December 31, 2018 and 2017, respectively, and for the 401(k) Plan was \$159.46 million and \$146.35 million at December 31, 2018 and 2017, respectively.

## 7. ADDITIONAL PLAN INFORMATION

**Participation** - Eligible employees are allowed to participate in the 401(k) Plan and/or the 457 Plan upon employment with the MTA and its affiliates or subsidiaries. The record-keeper/trustee maintains a website, along with a telephone voice response system, or participants may use paper enrollment forms, for Program activities. Participants may make or suspend deferrals; may increase or decrease, in multiples of 1 percent, the percentage of wages to be deferred or any whole dollar amount; may change the investment option of future deferrals or initiate account transfers between investment options in multiples of 1 percent or any dollar amount. There is no restriction on the number of times a participant may change the amount of future deferrals. An employee participating in both the 457 Plan and 401(k) Plan who wishes to make any changes must do so independently for each Plan. An employee who has severed service from the MTA may rejoin the 457 Plan, the 401(k) Plan, or both and become an active participant after returning to service to the MTA by following the procedures set forth above.

**Excessive Trading Policy** - MTA has an Excessive Trading policy in place for the Plans. This policy monitors trading activity in investment options, utilizing criteria such as frequency of trades, dollar amount of the trades, and number of buys and sells performed by the participant. Activity exceeding established thresholds can be deemed excessive trading. The Excessive Trading policy defines excessive trading as one or more trades into and out of the same investment option within a rolling 30-day period when each trade is over \$25,000. Automatic or system-driven transactions are not considered excessive trading. This includes contributions or loan repayments by payroll deductions, re-mapping transactions, hardship withdrawals, regularly scheduled or periodic distributions or periodic rebalancing through a systematic rebalancing program that is not initiated by the Program.

**Maximum Deferrals** - A participant in the 457 Plan could have deferred up to \$18,000 plus an additional \$6,000 for participants age 50 and over in calendar years 2018 and 2017. However, under certain circumstances, a participant may double the annual maximum contribution during each of the last three years prior to reaching his or her designated "Normal Retirement Age" ("Retirement Catch-Up Amount") if less than the maximum was deferred during earlier years. Alternatively, participants age 50 and over could have deferred an additional \$18,000 in 2018 and 2017, irrespective of prior contributions ("Age 50 Catch-Up"). Participants may not make both the Retirement Catch-Up and the Age 50 Catch-Up to the 457 Plan in the same year.

Participants in both the 457 Plan and the 401(k) Plan are permitted to contribute the maximum to each Plan.

**Membership** – As of December 31, 2018 and 2017, the Plans' membership with balances consisted of:

	2018		2017	
	457	401(k)	457	401(k)
Active employees	32,910	46,849	31,806	44,631
Terminated/Inactive employees	9,746	10,463	9,612	10,369
Total active and inactive members	<u>42,656</u>	<u>57,312</u>	<u>41,418</u>	<u>55,000</u>
Vested employees	42,656	57,057	41,418	54,757

**Maintenance of Accounts** - For both the 457 Plan and the 401(k) Plan, the record-keeper establishes an account for each participant to which any amounts deferred, transferred or distributed under the Plans are credited or charged, including, as specified in the Participation Agreement or any amendment thereto, any increase or decrease in the value of the investment options. The Plans are not responsible for any decrease in the value of a participant's account.

**Plans' Funding and Expense Payment** - The MTA Deferred Compensation Program charges participants' quarterly administrative fees. These fees cover participant directed activities, communications, and administrative expenses. They also cover the cost of the Program's third-party administrator, the investment advisor, outside legal counsel, in-house legal counsel and staff salaries and benefits.

## **8. TRUSTEE AND OTHER PROFESSIONAL SERVICES**

The Trustee for the MTA is Prudential Bank & Trust, Federal Savings Bank. Record-keeper and/or Administrative Services are provided by Prudential Retirement Insurance & Annuity Company ("PRIAC"). Investment management services are provided by PRIAC and Galliard Capital Management: separate accounts are managed by Denver Investment Advisors, Conestoga Capital Advisors, and TCW-Metropolitan West Asset Management. The Financial Advisor is Mercer Investment Consulting Inc., which reviews the investment policies adopted by the Investment Committee, the Plans' portfolio and the Investment Managers' performance.

## **9. SUBSEQUENT EVENTS**

On May 15, 2019, the Deferred Compensation Committee approved an Amendment to Galliard Capital Management's ("Galliard") Investment Objectives and Guidelines, which is part of the Program's Stable Value Fund investment advisory agreement with Galliard. Galliard updated the Investment Objective and Guidelines to allow for the addition of new investment vehicles to the Stable Value Fund or the removal of investments that are no longer in the Stable Value Fund. The Amendment also updated the maximum weighting of the investment vehicles so that Galliard can lower the required cash available in the Fund.

Subsequent events have been evaluated through February 24, 2020.

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