

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
RETIREMENT FUND**

Financial Statements and Required Supplementary Information

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
RETIREMENT FUND**

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Independent Auditors' Report

The Retirement Board and Participants
Massachusetts Bay Transportation Authority Retirement Fund:

Opinion

We have audited the financial statements of the Massachusetts Bay Transportation Authority Retirement Fund (the Fund), as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund as of December 31, 2021 and 2020, and the changes in fiduciary net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of investment returns, and the schedule of contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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.

KPMG LLP

Boston, Massachusetts
June 21, 2022

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Required Supplementary Information
Management's Discussion and Analysis
December 31, 2021 and 2020
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This section presents Management's Discussion and Analysis (MD&A) of the Massachusetts Bay Transportation Authority Retirement Fund's (the Fund or MBTARF) financial activity and performance as of and for the years ended December 31, 2021 and 2020. The MD&A is unaudited and is intended to serve as an introduction to the Fund's basic financial statements, as well as to offer readers of the Fund's financial statements a narrative view and analysis of MBTARF's financial activities.

Financial Reporting Structure

The financial statements include the statements of fiduciary net position and changes in fiduciary net position. They present the financial position of the Fund as of December 31, 2021 and 2020 and its financial activities for the years then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the Fund and provide detailed disclosures on certain account balances. The required supplementary information includes the schedules of changes in net pension liability and related ratios, investment returns, contributions and related notes as prescribed by the Governmental Accounting Standards Board (GASB).

The Fund's financial statements are prepared on an accrual basis of accounting. This method of accounting requires recognizing and recording financial transactions when they occur and not just in conjunction with the inflows and outflows of cash.

The total assets managed by the Fund are held in the trust for the payment of pension and related benefits to its members. The Fund's Board of Trustees, in its fiduciary capacity, with assistance from its consultants established the Fund's investment policies and oversees their implementation.

Financial Highlights

Year ended December 31, 2021

The net position of the Fund increased \$170.0 million, or 9.6%, from \$1,769.9 million as of December 31, 2020 to \$1,939.9 million as of December 31, 2021.

Net investment income increased \$3.8 million, or 1.7%, from \$228.6 million for the year ended December 31, 2020 to \$232.4 million for the year ended December 31, 2021. The Fund had a 13.88% rate of return for the year ended December 2021 compared to a 15.26% rate of return for the year ended December 31, 2020. The returns identified in the MD&A are gross of fees with the exception of hedge funds, which are net of fees.

The total contributions received during the year ended December 31, 2021 were \$166.7 million compared to total contributions received during the year ended December 31, 2020 of \$157.1 million.

Employer contributions during the year ended December 31, 2021 increased \$7.2 million or 6.2% to \$123.5 million from \$116.3 million during the year ended December 31, 2020.

Member contributions were \$43.2 million during the year ended December 2021, an increase of \$2.4 million or 5.9% over year ended December 31, 2020 member contributions of \$40.8 million.

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Benefits paid during the year ended December 31, 2021 were \$221.6 million a slight increase over year ended December 31, 2020 when benefits paid were \$221.4 million.

Year ended December 31, 2020

The net position of the Fund increased \$155.8 million, or 9.7%, from \$1,614.1 million as of December 31, 2019 to \$1,769.9 million as of December 31, 2020.

Net investment income decreased \$25 million, or 9.9%, from \$253.7 million for the year ended December 31, 2019 to \$228.6 million for the year ended December 31, 2020. The Fund had a 15.26% rate of return for the year ended December 2020 compared to a 18.4% rate of return for the year ended December 31, 2019. The returns identified in the MD&A are gross of fees with the exception of hedge funds, which are net of fees.

The total contributions received during the year ended December 31, 2020 were \$157.1 million compared to total contributions received during the year ended December 31, 2019 of \$139.6 million.

Employer contributions during the year ended December 31, 2020 increased \$13 million or 12.6% to \$116.3 million from \$103.3 million during the year ended December 31, 2019.

Member contributions were \$40.8 million during the year ended December 2020, an increase of \$4.4 million or 12.1% over year ended December 31, 2019 member contributions of \$36.4 million.

Benefits paid during the year ended December 31, 2020 were \$221.4 million an increase of \$0.8 million, or 0.4%, over the benefits paid during the year ended December 31, 2019 of \$220.6 million. This increase is not as significant in comparison from 2018 to 2019. The increase in benefits is due to rising final average compensation largely offset by the mortality rates during the pandemic and the ending of the retirement incentives by the Authority.

Year ended December 31, 2019

The net position of the Fund increased \$164.4 million, or 11.34%, from \$1,449.7 million as of December 31, 2018 to \$1,614.1 million as of December 31, 2019.

Net investment income increased \$305.8 million, or 587%, from (\$52.1) million for the year ended December 31, 2018 to \$253.7 million for the year ended December 31, 2019. The Fund had a 18.4% rate of return for the year ended December 2019 compared to a (3.08)% rate of return for the year ended December 31, 2018. The returns identified in the MD&A are gross of fees with the exception of hedge funds, which are net of fees.

The total contributions received during the year ended December 31, 2019 were \$139.6 million compared to total contributions received during the year ended December 31, 2018 of \$124.6 million.

Employer contributions during the year ended December 31, 2019 increased \$11.3 million or 12.3% to \$103.3 million from \$92 million during the year ended December 31, 2018.

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Member contributions were \$36.4 million during the year ended December 2019, an increase of \$3.8 million or 11.7% over year ended December 31, 2018 member contributions of \$32.6 million.

Benefits paid during the year ended December 31, 2019 were \$220.6 million an increase of \$2.2 million, or 1%, over the benefits paid during the year ended December 31, 2018 of \$218.4 million. This increase is primarily due to the rise in number of retirees and lengthening life span.

Financial Analysis

The following schedules report the condensed comparative fiduciary net position and activities for the Fund as of and for the years ended December 31, 2021.

Condensed Comparative Fiduciary Net Position

(Dollar values expressed in millions)

	December 31		
	2021	2020	2019
Cash	\$ 1.3	2.0	4.2
Receivables	9.4	10.2	7.7
Investments	1,934.3	1,768.1	1,608.9
Cash collateral on securities lending	17.5	26.9	22.5
Total assets	1,962.5	1,807.2	1,643.3
Cash collateral on securities lending	17.5	26.9	22.5
Accounts payable and accrued expenses	2.3	4.7	5.1
Payable for investments purchased	2.8	5.7	1.6
Total liabilities	22.6	37.3	29.2
Net position – restricted for pension benefits	\$ 1,939.9	1,769.9	1,614.1

Total assets at fair value were \$1,962.5 million as of December 31, 2021, an increase of \$155.3 million, or 8.6%, over the year ended December 31, 2020 and were \$1,807.2 million as of December 31, 2020, an increase of \$163.9 million, or 10.0%, over the year ended December 31, 2019. At December 31, 2021, investments at fair value were \$1,934.3 million, an increase of \$166.2 million, or 9.4%, over the year ended December 31, 2020, which were valued at \$1,768.1 million, an increase of \$159.2 million, or 9.9%, over the year ended December 31, 2019. This investment increase in 2021 is due to solid market returns in all asset classes. Private equity, private credit, and real estate investments were significant drivers of this year's performance. Fixed income returns were

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slightly positive considering the historically low interest rates. The Federal Reserve kept the low rates in effect for all of 2021.

As of December 31, 2021, cash collateral on securities lending decreased by \$9.4 million or 34.9%, over the year ended December 31, 2020. The cash collateral on securities lending increased by \$4.4 million or 19.6%, between December 31, 2019 and December 31, 2020. Receivables decreased by \$0.8 million, or 7.8%, over the prior calendar year. Between December 31, 2019 and December 31, 2020 receivables increased by \$2.5 million, or 32.5%.

Total liabilities as of December 31, 2021 decreased by \$14.7 million, or 39.4% over the prior year, and increased by \$8.1 million, or 27.7% during calendar year 2020. The cash collateral on securities lending decreased by \$9.4 million, or 34.9%, in calendar year 2021 and increased by \$4.4 million, or 19.6%, in calendar year 2020. From December 31, 2020 through December 31, 2021, payable for investment purchased decreased by \$2.9 million, or 50.9%. From December 31, 2019 through December 31, 2020, payable for investment purchased increased by \$4.1 million, or 256%.

Condensed Comparative Statement of Changes in Fiduciary Net Position

(Dollar values expressed in millions)

	December 31		
	2021	2020	2019
Additions:			
Employer contributions	\$ 123.5	116.3	103.2
Member contributions	43.2	40.8	36.4
Income from investments	232.4	228.6	253.7
Total additions	399.1	385.7	393.3
Deductions:			
Retirement benefits	221.5	221.4	220.6
Refunds of contributions	3.2	4.0	3.3
Administrative expense	4.4	4.5	5.0
Total deductions	229.1	229.9	228.9
Total changes in fiduciary net position	\$ 170.0	155.8	164.4

Additions to Plan Fiduciary Position

For the calendar year ended December 31, 2021, employer contributions increased by \$7.2 million and member contributions increased by \$2.4 million. For the calendar year ended December 31, 2020, employer contributions

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increased by \$13.1 million and member contributions increased by \$4.4 million. For the year ending 2021, there were no changes to either the employer or the employee contribution rate and both were held at 26.6561% and 9.3339% respectively. The current rates were effective as of July 1, 2020, based on the 2019 actuarial report recommendation. The Board of Directors voted in 2021 and 2022 to make no change to the contribution rates. Contributions are required to provide benefits and meet administrative expenses and are made jointly by the Massachusetts Bay Transportation Authority (the Authority) and members. The member contribution percentage is negotiated periodically as part of the collective bargaining agreement.

There was a net investment gain in 2021 of \$232.4 million compared to a \$228.6 million net investment gain in 2020 and \$253.7 million net investment gain in 2019. The gain in 2021 is a result of continued increase in the fair value of the investment portfolio from solid markets performance.

Deductions from Fiduciary Net Position

Benefits paid increased by \$0.1 million and \$0.8 million, or 0.05% and 0.36%, over the years ended 2021 and 2020, respectively. These increases are primarily due to the rising final average compensation and lengthening life span. Administrative expenses decreased from \$4.5 million to \$4.4 million, a decrease of \$0.1 million or 2.2% over year 2020 and decreased \$0.5 million, or 10% over year 2019.

Net Pension Liability (NPL)

The Fund retains an independent actuarial firm, Buck Global, LLC, to conduct annual actuarial valuations to monitor the net pension liability.

As of December 31, 2021, and 2020, the fiduciary net position as a percentage of the total pension liability was 62.54% and 57.93%, respectively.

Investment Performance 2021

The Fund began the calendar year 2021 with a net position of \$1,769.9 million and ended the calendar year with a net position of \$1,939.9 million, representing a 9.6% increase. The Fund invests strategically to achieve the actuarial rate of return, while controlling risk through diversification of asset class exposure. The primary determinant of long-term investment performance is the strategic asset allocation policy.

Domestic equity 30.6%, international equity 14.1%, fixed income investments 22.1%, and cash equivalents 3.3% comprise approximately 70.1% of invested assets as of December 31, 2021. The remaining 29.9% of assets are invested in real estate 9.3%, and alternative investments 20.6%, which include private equity, absolute return, and diversified beta. These assets are expected to earn enhanced returns and manage risk through further diversification.

Investment performance results are measured by the relationship of the Fund's portfolio returns for equity and fixed income investment against widely accepted market indices. For the calendar year ended December 31, 2021, the MBTA Retirement Fund's total fund return was 13.9% compared to 15.3% for the calendar year ended December 31, 2020. The 2021 increase in return is attributed to the continued positive gains experienced in all

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asset classes. Investment classes with significant positive returns were in the small cap growth equity, large cap growth equity, real estate and private equity.

The domestic large cap equity returned 27.2% compared to the S&P 500 Index of 28.7%. The domestic small cap equity returned 22.6% compared to the Russell 2000 Growth Index of 2.8% and the Russell 2000 Value Index of 28.3%. The global equity and emerging markets returned 8.5% compared to MSCI All Country World Index of 18.5%. The international equity returned 8.8% compared to the MSCI EAFE Index of 11.3%. Fixed Income returned 0.9% compared to the Bloomberg Aggregate of -1.5%.

The total fund performance of 13.9% for calendar year 2021 outperformed by 36 basis points, the total fund custom index (a blended composition of major market indices in proportion to the Fund's asset allocation), which returned 13.5%.

Additionally, for the year ended December 31, 2021, the real estate portfolio returned 18.8% compared to the NCREIF Property Index of 17.7%. The hedge fund portfolio returned 8.1% compared to the CSFB/Tremont Hedge Fund Index of 8.2%. The opportunistic portfolio returned 9.9% compared to Bank of America/Merrill Lynch High Yield Benchmark return of 5.4%. The private equity portfolio returned 31.7% compared to State Street's Private Equity benchmark return of 49.2%. The private credit portfolio returned 56.2% compared to State Street's Private Credit benchmark return of 25.3%. Diversified Beta returned 9.8% compared to the 60% MSCI World Eq / 40% Barclays Aggregate Bond return of 12.1%.

Investment Performance 2020

The Fund began the calendar year 2020 with a net position of \$1,614.1 million and ended the calendar year with a net position of \$1,769.9 million, representing a 9.7% increase. The Fund invests strategically to achieve the actuarial rate of return, while controlling risk through diversification of asset class exposure. The primary determinant of long-term investment performance is the strategic asset allocation policy.

Domestic equity 31.2%, international equity 15.2%, fixed income investments 23.2%, and cash equivalents 3.8% comprise approximately 73.4% of invested assets as of December 31, 2020. The remaining 26.6% of assets are invested in real estate 7.9%, and alternative investments 18.7%, which include private equity, absolute return, and diversified beta. These assets are expected to earn enhanced returns and manage risk through further diversification.

Investment performance results are measured by the relationship of the Fund's portfolio returns for equity and fixed income investment against widely accepted market indices. For the calendar year ended December 31, 2020, the MBTA Retirement Fund's total fund return was 15.3% compared to 18.4% for the calendar year ended December 31, 2019. The 2020 increase in return is attributed to the continued positive gains experienced in all asset classes. Active management, especially in the small growth and emerging markets area performed extremely well.

The domestic large cap equity returned 17.3% compared to the S&P 500 Index of 18.4%. The domestic small cap equity returned 23.2% compared to the Russell 2000 Growth Index of 34.6% and the Russell 2000 Value

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Index of 4.6%. The global equity and emerging markets returned 49.7% compared to MSCI All Country World Index of 16.3%. The international equity returned 11.3% compared to the MSCI EAFE Index of 7.8%. Fixed Income returned 7.7% compared to the BC Aggregate of 7.5%.

The total fund performance of 15.3% for calendar year 2020 outperformed by 470 basis points, the total fund custom index (a blended composition of major market indices in proportion to the Fund's asset allocation), which returned 10.6%.

Additionally, for the year ended December 31, 2020, the real estate portfolio returned 1.2% compared to the NCREIF Property Index of 1.6%. The hedge fund portfolio returned 4.8% compared to the CSFB/Tremont Hedge Fund Index of 6.4%. The opportunistic portfolio returned 11.5% compared to Bank of America/Merrill Lynch High Yield Benchmark return of 6.2%. The private equity active portfolio returned 31.1% and the legacy private equity portfolio returned 17.0% compared to State Street's Customized Benchmark return of 12.3%. State Street Customized Benchmark consists of 36% buyout, 9% venture, 37% debt and 18% fund of funds. Diversified Beta returned 12.3% compared to the 60% MSCI World Eq / 40% Barclays Aggregate Bond return of 13.3%. The 91 Treasury Bill Plus 300 Basis Points returned 3.7% for the year ended December 31, 2020.

Other Information

As part of a Plan of Reorganization approved on March 27, 2014 in *In re: Fletcher Int'l, Ltd.*, No. 12-12796 (Bankr. S.D.N.Y.) (the Fletcher Bankruptcy), the Fund agreed with the Bankruptcy Trustee, Richard Davis, to pool claims against Alphonse "Buddy" Fletcher, Fletcher related entities, current and former officers, directors and insiders, and various third-party professionals for recovery of the Fund's investment in Fletcher Fixed Income Alpha Fund (Alpha). A Judgement was obtained against Buddy Fletcher personally, which appears to be uncollectible. Confidential settlements were also reached by the Trustee with other Fletcher related defendants. See, e.g., *MBTARF, et al. v. Citco Fund Services (Cayman Islands), Ltd., et al.*, Case No. 651446/2015 (New York Supreme Court).

Following the Trustee's report that the bankruptcy estate had been wound down and distribution of substantially all estate funds and moneys recovered on behalf of the estate had occurred, the Court entered its *Final Decree Pursuant to 11 U.S.C. Section 350 and Fed. R. Bankr. P. 2033 Closing the Chapter 11 Case*, and on March 21, 2019 the Fletcher Bankruptcy was officially closed. In December 2019, the Joint Voluntary Liquidators of Alpha in the Cayman Islands issued their final report and made their final distribution and repayment to the Fund in the sum of \$1,958,840.30. The Fund's only remaining interest in any Fletcher related entity in 2021 was a distributed share from Alpha of the Cayman liquidation of Fletcher Income Arbitrage, Ltd (Arbitrage). On January 10, 2022, the Joint Official Liquidators of Arbitrage issued their final report to creditors declaring a de minimis final dividend (less than a half cent on the dollar) and reported no further projected recoveries. More complete historical reporting about the Fund's investment in Fletcher is found in prior Fund ACFR's. See, e.g., Fund's 2013 ACFR at p. 19.

The Fund was also party to a Pooling and Cooperation Agreement (PCA) with other investors in Weston Capital Partners Fund II (PII) and investors in Wimbledon Financing Master Fund Ltd (WFF). On or about November 9, 2021, the Fund abandoned its interest in the PCA in exchange for a release from PII Investment Liquidation

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Company, LLC, the liquidator of PII. Both PII and WFF are funds previously managed by Weston Capital Asset Management LLC (Weston) and are now in liquidation. Weston and certain of its principals were the subject of an SEC consensual civil judgement in Florida on June 23, 2014 for an investment unrelated to PII. Civil litigation involving Weston and various related parties including insiders and investors is ongoing but winding down. A turnover proceeding filed by other Weston investors (Class TT) in New York has settled. *The Wimbledon Fund, SPC (Class TT) v. Weston Capital Partners Master Fund II, Ltd, et al.*, Supreme Court New York, Index No. 160576/2017. Criminal proceedings involving Weston insiders resulted in guilty pleas and jury verdicts. See, e.g., *USA v. Bergstein, et.al*, No. 1:16-cr-746 (S.D.N.Y.) and *USA v. Galanis, et. al.*, No. 1:16-cr-371 (S.D.N.Y).

For historical background on the Fund's investments in PII and White Oak Global Advisors, a PII investment assigned in-kind to the Fund, please see the Fund's 2013 ACFR at p. 19 and the Fund's 2015 ACFR at p. 31.

The Fund's investments in Alpha, Weston and White Oak were all written down in full in prior fiscal years. The Weston and White Oak funds remain in liquidations in the Cayman Islands which are expected to conclude without any further distributions in 2022.

The Fund is reporting on the pending litigation, liquidations and recovery efforts because of limited activity anticipated in those cases this coming fiscal year. Prospects for future recoveries are uncertain.

Contacting the MBTA Retirement Fund

This financial report is designed to provide a general overview of the Fund's investment results and financial condition of the Fund for the years ended December 31, 2021 and 2020. Please contact the MBTA Retirement Fund Office by emailing invest@mbtarf.com or by phone to 617-316-3800 for additional financial information or questions related to this report.

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Statement of Fiduciary Net Position
December 31, 2021 and 2020

	2021	2020
Assets:		
Investments, at fair value:		
Domestic:		
Cash and cash equivalents	\$ 62,768,979	67,533,335
Fixed income	424,763,531	409,694,097
Common stock and equity funds	592,743,743	551,291,211
Real estate funds	179,905,942	140,448,890
Alternative investments and hedge funds	398,210,575	329,445,081
	1,658,392,770	1,498,412,614
International:		
Cash and cash equivalents	124,510	51,453
Fixed income	2,181,798	415,661
Common stock and equity funds	273,647,873	269,248,015
	275,954,181	269,715,129
Total investments	1,934,346,951	1,768,127,743
Cash and cash equivalents	1,274,199	1,978,002
Contribution receivable from Massachusetts Bay Transportation Authority	6,316,398	5,729,548
Cash collateral on securities lending, invested	17,474,343	26,882,055
Receivable for investments sold	3,063,525	4,511,160
Total assets	1,962,475,416	1,807,228,508
Liabilities:		
Cash collateral on securities lending, due to borrowers	17,474,343	26,882,055
Accounts payable and accrued expenses	2,293,999	4,653,187
Payable for investments purchased	2,764,649	5,751,990
Total liabilities	22,532,991	37,287,232
Net position – restricted for pension benefits	\$ 1,939,942,425	1,769,941,276

See accompanying notes to financial statements.

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Statement of Changes in Fiduciary Net Position
For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Additions:		
Contributions by Massachusetts Bay Transportation Authority	\$ 123,493,762	116,285,928
Contributions by members	43,224,002	40,774,027
Total contributions	<u>166,717,764</u>	<u>157,059,955</u>
Investment income:		
Income from investments	24,474,091	21,107,184
Less investment expenses, other than from securities lending	(6,537,963)	(5,905,655)
Net appreciation in fair value of investments	214,422,255	213,386,051
Net investment gain	<u>232,358,383</u>	<u>228,587,580</u>
Securities lending activity:		
Securities lending income	117,465	250,755
Less borrower rebates and fees	(58,307)	(167,512)
Net income from securities lending activities	<u>59,158</u>	<u>83,243</u>
Total net investment income	<u>232,417,541</u>	<u>228,670,823</u>
Total additions	<u>399,135,305</u>	<u>385,730,778</u>
Deductions:		
Retirement benefits	221,589,832	221,447,685
Refunds of members' contributions	3,177,839	3,974,655
Administrative expenses	4,366,485	4,511,375
Total deductions	<u>229,134,156</u>	<u>229,933,715</u>
Change in fiduciary net position	170,001,149	155,797,063
Net position restricted for pension benefits:		
Beginning of year	<u>1,769,941,276</u>	<u>1,614,144,213</u>
End of year	<u>\$ 1,939,942,425</u>	<u>1,769,941,276</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Description of the Fund

(a) General

The following description of the Massachusetts Bay Transportation Authority Retirement Fund (the Fund), a single employer defined benefit pension plan, provides only general information. Employees (members) should refer to the Pension Agreement for a more complete description of the Fund's provisions.

The Fund was established on January 1, 1948, under an agreement and declaration of trust (restated in October 28, 1980) by and among the Massachusetts Bay Transportation Authority (the Authority), Local 589, Amalgamated Transit Union, Boston Carmen's Union, and AFL CIO (collectively, the Union). The Fund was established as a contributory defined benefit retirement plan in accordance with the Pension Agreement, effective July 1, 1970, adopted by the Authority and the Union for the purpose of receiving contributions and providing pension benefits for its members and qualified beneficiaries.

The general administration and responsibility for the operation of the Fund are vested in a seven-member Retirement Board. The Board consists of three members appointed by the Authority (at least one of whom must be a member of the Authority's Board of Directors), two members appointed by the Boston Carmen's Union, Local Union 589 of the Amalgamated Transit Union, AFL-CIO, one member elected by vote conducted by the Authority for a term of three years by members of the Fund who are not members of the Boston Carmen's Union, Local Union 589 of the Amalgamated Transit Union, AFL-CIO, and one member, who has no vote and is known as the honorary member, who is elected, for such period as the Retirement Board may determine, by the other six members of the Retirement Board.

(b) Membership

The Fund covers all employees of the Authority except the MBTA Police, who are covered separately, and certain executives who elect coverage under an alternate plan. At December 31, 2021 and 2020, Fund membership consisted of:

	2021	2020
Retired members or beneficiaries currently receiving benefits	\$ 6,713 (1)	6,710 (2)
Active members	5,486	5,674
Active members not presently earning service credit	215	342
Total membership	\$ 12,414	12,726

(1) Year 2021 includes 6,572 retirees and beneficiaries and 141 individuals receiving payments under Qualified Domestic Relation Orders (QDROs)

(2) Year 2020 includes 6,576 retirees and beneficiaries and 134 individuals receiving payments under Qualified Domestic Relation Orders (QDROs)

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(c) Funding Policy

Contributions required to provide benefits and meet administrative expenses are made jointly by the Authority and members. The member contribution rate was increased from 8.8239% to 9.3339% effective July 1, 2020 of pretax compensation. The Authority contribution rate was increased from 25.1261% to 26.6561% effective July 1, 2020. As of July 1, 2022, member contribution and Authority contribution rates remain the same at 9.3339% and 26.6561%, respectively. These contribution rates were calculated based on the 2019 actuarial valuation of plan benefits and the Memorandum of Understanding with the Authority. The terms of the Fund's obligations are part of the Pension Agreement contained in the annual report of the Fund. Only parties to the Pension Agreement can amend the terms. The contributions by members and the Authority have been developed to provide normal contributions, interest on the unfunded accrued liability, and administrative expenses.

(d) Benefits

The Fund provides for retirement, disability and death benefits in accordance with the Pension Agreement, as amended.

A summary of benefits is as follows:

(i) Normal Retirement Allowance

Condition for Allowance

Any member may retire at age 65. A member may remain in service after the stated retirement date.

Amount of Allowance

The normal retirement allowance equals 2.46% of 3-year average annual compensation multiplied by the years of service, such allowance not to exceed 75% of such average annual compensation.

(ii) Early Normal Retirement Allowance

Condition for Allowance

Any member hired prior December 6, 2012 and has completed at least 23 years of service may retire on an early normal retirement allowance.

Any member hired on or after December 6, 2012, has attained age 55 and completed at least 25 years of service may retire on an early normal retirement allowance.

Amount of Allowance

The early normal retirement allowance is computed in the same manner as a normal retirement allowance on the basis of the compensation and service to the time of retirement.

(iii) Early Reduced Retirement Allowance

Condition for Allowance

A member who has attained age 55 and has completed at least 20 years of service may be retired on an early reduced retirement allowance.

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Amount of Allowance

The early reduced retirement allowance is an immediate allowance, commencing at the date of retirement, and is computed in the same manner as a normal retirement allowance on the basis of compensation and service to the time of early retirement, but reduced by 1/2 of 1% for each month of retirement prior to normal retirement date.

(iv) *Disability Retirement Allowance*

Condition for Allowance

Any member who has completed 4 years of service in case of disablement due to an occupational accident or sickness, or who has completed 6 years of service in case of disablement due to any other cause, and who has become totally and permanently incapacitated, mentally or physically, for the further performance of duty may be retired.

Amount of Allowance

Upon disability retirement, a member receives an allowance commencing immediately, which is computed as a normal retirement allowance on the basis of the compensation and service to the time of disability retirement and is not less than 15% of the member's 3-year average annual compensation.

(v) *Vested Retirement Allowance*

Condition for Allowance

Any member who has completed 10 years of service and who is not eligible for a retirement allowance is eligible for a vested retirement allowance, in lieu of a refund of his/her contributions with interest, in the event his/her employment terminates for reasons other than voluntary quit or discharge for cause.

Amount of Allowance

The vested retirement allowance is a deferred allowance commencing on the member's normal retirement date and equal to a percentage, not exceeding 100%, of the amount computed as a normal retirement allowance on the basis of the compensation and service to the time of termination; the applicable percentage is 5% multiplied by the number of years of creditable service, not in excess of 20, at the time of termination.

(vi) *Survivor Benefit*

Condition for Benefit

Upon the death of a member who has completed 10 years of service and who is survived by a spouse and/or dependent children designated to receive the deceased member's contributions with interest, a benefit may be elected by such survivor in lieu of the payment of the contributions with interest.

Amount of Benefit

If the deceased member had completed at least 10 but fewer than 23 years of service, the survivor's benefit, payable for life, is equal to the amount which would have become payable if the member had

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retired as of the date of his/her death and elected a 50% joint and survivor option in effect as of the date of death with the survivor as the designated person under the option. There is no reduction for early commencement.

If the deceased member had completed at least 23 years of service, the survivor's benefit, payable for life, is equal to the amount which would have become payable if the member had retired as of the date of his/her death and elected a 100% joint and survivor option in effect as of the date of death with the survivor as the designated person under the option. There is no reduction for early commencement.

(vii) Accidental Death Benefit

Condition for Benefit

Upon the death of a member in service whose death results solely from an injury or injuries sustained in the performance of duty, and who is survived by a spouse designated to receive the deceased member's contribution with interest, an allowance shall be payable to said spouse.

Amount of Benefit

The accidental death benefit, payable for life, is equal to the amount which would have become payable to the member if the member had retired as of the date of his/her death on a disability retirement allowance. If there should be insufficient creditable service, the surviving spouse receives the minimum allowance available under the disability retirement provision.

(e) Fund Termination

In the event of termination of the Fund, all of the assets of the Fund shall be used for the benefit of members and retired members or their beneficiaries, and for no other purpose. Each member, and each retired member or their designated beneficiary in receipt of a retirement allowance, shall be entitled to such proportionate part of the assets of the Fund as the reserve, required for their benefits, bears to the total reserves required under the Fund as determined by the Massachusetts Bay Transportation Authority Retirement Board (the Retirement Board) on the basis of actuarial valuation. The Retirement Board may require all such members, and retired members or designated beneficiaries, to withdraw such amounts in cash or in the form of immediate or deferred annuities as it may determine.

(2) Significant Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB).

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(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of additions and deductions during the reporting periods. Actual results could differ from estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on deposit with banks and financial institutions and highly liquid short-term investments, which have original maturities of three months or less. The Fund maintains its cash deposits with financial institutions, which management considers being of high credit quality and, by policy, limits the allocation of funds to any single major financial institution to minimize the Fund's amount of credit exposure.

(d) Revenue Recognition

Contributions are recognized pursuant to the contractual requirements of the Pension Agreement. Investment income is recognized as it is earned. Net appreciation (depreciation) in the fair value of investments is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the financial statements.

(e) Retirement Benefits and Refunds

Retirement benefits and refunds are recognized when they become due and payable.

(f) Investments

Investments are stated at fair value. Securities traded on national security exchanges are valued on the basis of the closing price as of the last business day of the reporting period. Securities traded in the over-the-counter market are normally valued at the mean of the closing bid and ask prices. Securities listed or traded on certain foreign exchanges whose operations are similar to the U.S. over-the-counter market are valued at the price within the limits of the latest available current bid and ask prices deemed best to reflect current value. Gains and losses on sales of investments are determined on the basis of average cost.

Investments in real estate represent the Fund's percent ownership in private real estate funds. The Fund's investments are valued based on estimates by the Fund's management as a result of their review of financial information of the underlying real estate investment assets and standards established by the real estate industry, generally using the net asset value of the underlying investment as a practical expedient.

Investments in alternative investments and hedge funds include the Fund's percent ownership in venture capital, leveraged buyouts, private placements, hedge fund-of-funds, and other investments where the structure, risk profile, and return potential differ from traditional equity and fixed income investments. These investments are included in the statement of fiduciary net position at estimated values determined in good faith by the Fund's management, generally using the net asset value of the underlying investment as a practical expedient.

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Purchase and sales of investments are selected on a trade-date basis.

(g) Derivatives

A derivative is an investment agreement or security with a value that depends on, or is derived from, the value of an underlying asset, reference rate, or financial index. The Fund has classified its investment in forward exchange contracts as investment in derivative instruments. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The Fund utilizes forward foreign exchange contracts to minimize the effect of fluctuating foreign currencies. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. Realized gain or loss on forward exchange contracts is the difference between the original contract and the closing value of such contract and is included in the statement of changes in fiduciary net position. At December 31, 2021 and 2020, the Fund held open forward exchange contracts of varying amounts and currencies. Unrealized gains and losses are not significant to the financial statements.

(h) Currency Translation

As a result of having assets and liabilities denominated in foreign currencies, the Fund is exposed to the effect of foreign exchange rate fluctuations. Assets and liabilities denominated in foreign currencies and commitments under forward foreign exchange contracts and currency options are translated into U.S. dollars at the mean of the quoted bid and ask prices of such currencies against the U.S. dollar. Changes in foreign exchanges are reflected directly in income. Purchases and sales of portfolio securities are translated at the rates of exchange prevailing when such securities were acquired or sold. Income and expenses are translated at rates of exchange prevailing when accrued. It is not practical to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period. Net realized gains on foreign currency transactions represent net foreign exchange gains from holding foreign currencies, currency gains or losses realized between the trade and settlement dates on security transactions, and the difference between the amounts of dividends, interest, and foreign taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid.

(i) Income Taxes

The Fund is considered a qualified governmental plan under Internal Revenue Code Section 414(d) and, is generally exempt from federal and state income tax under the Internal Revenue Code Section 115.

(3) Cash Deposits, Investments, and Securities Lending

The Fund, in accordance with the declaration of trust agreement, is authorized to make deposits into checking and savings accounts and to invest in any form or type of investment, financial instrument, or financial transaction deemed prudent in the informed opinion of the Retirement Board. State Street Bank & Trust Company serves as the master custodian for the Fund's assets.

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For the years ended December 31, 2021 and 2020, the Fund's essential risk information about deposits and investments is presented on the following tables.

(a) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of a depository financial institution, the Fund's deposits may not be returned. The Fund maintains its cash and cash equivalent deposits with various financial institutions, which management considers being of high quality. The Fund limits the allocation of its cash and cash equivalent deposits to any single financial institution to minimize the Fund's exposure. The Fund's Board has not adopted a formal custodial credit risk policy.

The Fund's cash and cash equivalent deposits that are not collateralized are subject to the Federal Deposit Insurance Corporation (FDIC) insurance limits. At December 31, 2021 and 2020, \$844,214 and \$1,578,002 of the Fund's cash and cash equivalents deposits were in excess of the FDIC insurance limit.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund and are held by either the depository financial institution or the depository financial institution's trust department or agent but not in the Fund's name.

All of the Fund's investments are held by the Fund's custodian in the Fund's name, except for investments in hedge funds, real estate and alternative investments, which by their nature are not required to be categorized.

(b) Investment Policy

The Fund's investment objective is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation. The Fund's goal is to meet or exceed the Fund's actuarial target rate of return in order to maintain and improve upon its funded status.

The Fund is currently invested in stocks (domestic and foreign), fixed income securities (domestic), real estate, private equity, and hedge funds.

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The following was the Board's adopted asset allocation policy as of December 31, 2021 and 2020:

<u>Asset class</u>	<u>2021 Target</u>	<u>2020 Target</u>
Domestic equity	24 %	24 %
International large cap equity	9	9
International small cap equity	2	2
Global/emerging markets	8	8
Fixed income	23	23
Real estate	9	9
Private equity	8	8
Private credit	2	2
Hedge funds	5	5
Hedge funds – opportunistic	2	2
Risk parity/diversified beta	6	6
Cash	2	2
Total	<u>100 %</u>	<u>100 %</u>

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the Fund's fixed income investments and related maturity schedule (in years) as of December 31, 2021 and 2020:

<u>Investment type</u>	<u>2021</u>				
	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Agency debt	\$ 3,531,828	-	1,467,090	673,979	1,390,759
U.S. Treasury notes & bonds	113,235,825	7,875,402	61,536,718	28,745,383	15,078,322
Domestic corporate	231,643,225	1,538,703	104,755,312	44,432,047	80,917,164
International corporate	2,181,798	265,402	1,595,586	-	320,810
Asset Backed:					
CMOs	15,480,527	-	168,115	-	15,312,412
Mortgage backed	36,528,750	-	-	752,973	35,775,777
Other	24,343,376	-	6,211,036	2,470,846	15,661,493
	<u>\$ 426,945,329</u>	<u>9,679,507</u>	<u>175,733,857</u>	<u>77,075,228</u>	<u>164,456,737</u>

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Investment type	Fair value	2020			
		Less than 1	1-5	6-10	More than 10
Agency debt	\$ 4,154,608	272,989	1,147,771	1,942,033	791,815
U.S. Treasury notes & bonds	96,217,874	381,524	52,886,817	24,407,877	18,541,656
Domestic corporate	238,316,675	1,306,965	102,227,675	41,901,352	92,880,682
International corporate	415,661	—	95,207	138,312	182,142
Asset backed:					
CMOs	15,594,644	—	—	1,409,500	14,185,144
Mortgage backed	32,215,052	—	—	1,056,540	31,158,512
Other	23,195,244	273,682	8,618,988	1,918,713	12,383,862
	<u>\$ 410,109,758</u>	<u>2,235,160</u>	<u>164,976,458</u>	<u>72,774,327</u>	<u>170,123,813</u>

The Fund's guidelines limit its effective exposure to interest rate risk by benchmarking the separately managed fixed income investment accounts to an intermediate duration benchmark with a weighted average duration of four to five years. The Fund further constrains its actively managed fixed income portfolios to maintain a duration that shall not exceed 1.5 times the benchmark duration. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of his/her portfolio. Fixed income managers are also expected to report risk statistics and give a description of portfolio characteristics, including quality, duration, allocation by security type, and yield to maturity.

The collateralized mortgage obligations (CMOs) held by the Fund at December 31, 2021 and 2020 are highly sensitive to changes in interest rates.

(d) Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations.

The Fund's Board does not have a formal investment policy governing credit risk; each fixed income securities investment manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The Fund expects all investment managers to perform their fiduciary duties as prudent people would and conform to all state and federal statutes governing the investment of the funds. Managers are to adhere to the philosophy and style that was articulated to the Retirement Board at the time of hire. The fixed income investment managers have full discretion to invest in fixed income securities in order to exceed their strategy specific benchmarks.

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The Fund's fixed income investments as of December 31, 2021 and 2020 were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard & Poor's rating scale:

Investment type	2021								
	Fair value	AAA	AA	A	BBB	BB	B	CCC**	Not Rated
Agency debt	\$ 3,531,828	—	1,625,640	1,060,086	846,102	—	—	—	—
Domestic corporate	231,643,225	53,571,798	903,022	16,095,452	66,137,936	24,480,916	64,138,600	1,789,110	4,526,392
International	2,181,798	—	553,916	—	320,810	467,361	—	72,812	766,899
Asset backed:									
CMOs	15,480,527	5,185,617	207,758	251,959	146,518	—	—	—	9,688,675
Mortgage backed	36,528,750	—	—	—	—	—	—	—	36,528,750
Other	24,343,376	6,149,758	1,137,505	4,109,375	3,875,807	—	172,905	—	8,898,025
Total credit securities risk	313,709,504	64,907,173	4,427,841	21,516,872	71,327,173	24,948,277	64,311,505	1,861,922	60,408,741
U.S. government fixed income securities*	113,235,825								
Total fixed income securities	\$ 426,945,329								

Investment type	2020								
	Fair value	AAA	AA	A	BBB	BB	B	CCC**	Not Rated
Agency debt	\$ 4,154,608	—	2,588,252	1,066,436	499,920	—	—	—	—
Domestic corporate	238,316,674	54,135,939	2,378,546	19,612,591	79,068,867	19,606,833	53,766,074	3,334,690	6,413,134
International	415,661	—	—	—	—	—	—	44,976	370,685
Asset backed:									
CMOs	15,594,644	3,475,345	177,528	79,734	59,626	—	58,499	—	11,743,912
Mortgage backed	32,215,052	—	—	—	—	—	—	—	32,215,052
Other	23,195,245	5,984,670	670,028	3,237,498	3,302,004	—	220,309	—	9,780,736
Total credit securities risk	313,891,884	63,595,954	5,814,354	23,996,259	82,930,417	19,606,833	54,044,882	3,379,666	60,523,519
U.S. government fixed income securities*	96,217,874								
Total fixed income securities	\$ 410,109,758								

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

** The rating associated with this investment grade can be between C to CCC.

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(e) Concentration Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Fund places a 5% limit on the individual exposure to any single issuer at the time of purchase. The Fund has no investments with the exception of commingled funds, at fair value, that exceed 5% of the Fund's total investments as of December 31, 2021 and 2020. The Fund does have investments in individual commingled funds and trusts that represent more than 5% of the Fund's assets, but in each case, these investments are in institutional commingled funds that are invested in diversified portfolios.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Fund's exposure to foreign currency risk is attributable to its investments in separately managed and commingled international equity mutual funds and trusts that are invested in diversified portfolios of international stocks that are denominated in foreign currencies. The Fund's combined policy target allocation to all non-U.S. securities is currently 19.0% of the Fund's total assets. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts, which are described more fully in note 2.

Risk of loss arises from changes in currency exchange rates. The Fund's exposure to foreign currency risk as of December 31, 2021 and 2020 are presented on the following tables:

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Currency	2021			
	Short-Term	Fixed Income	Equity	Total
Argentine peso	\$ 41,347	99,356	—	140,703
Australian dollar	—	—	4,704,003	4,704,003
Brazilian real	—	467,361	—	467,361
Canadian dollar	84,585	—	5,066,734	5,151,319
Danish krone	—	—	732,597	732,597
Euro currency	(1,422)	—	42,728,698	42,727,276
Hong Kong dollar	—	—	7,640,710	7,640,710
Indian rupee	—	792,774	7,227,804	8,020,578
Japanese yen	—	—	31,635,773	31,635,773
Mexican peso	—	822,307	—	822,307
New Israeli sheqel	—	—	284,638	284,638
New Taiwan dollar	—	—	1,327,213	1,327,213
Norwegian krone	—	—	26,962	26,962
Pound sterling	—	—	20,942,924	20,942,924
Singapore dollar	—	—	2,994,924	2,994,924
Swedish krona	—	—	4,370,433	4,370,433
Swiss franc	—	—	2,611,750	2,611,750
Thailand baht	—	—	1,770,442	1,770,442
International equity pooled funds (various currencies)	—	—	139,582,269	139,582,269
	124,510	2,181,798	273,647,874	275,954,182
United States dollars (securities held by international investment managers)	—	—	7,416,106	7,416,106
Total International Investment Securities	\$ 124,510	2,181,798	281,063,980	283,370,288

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Currency	2020			
	Short-Term	Fixed Income	Equity	Total
Argentine peso	\$ 10,273	95,207	—	105,480
Australian dollar	—	—	3,882,001	3,882,001
Canadian dollar	33,824	182,142	3,556,441	3,772,407
Danish krone	—	—	850,434	850,434
Euro currency	6,248	—	44,172,069	44,178,317
Hong Kong dollar	—	—	9,467,786	9,467,786
Indian rupee	—	—	7,087,236	7,087,236
Japanese yen	1,148	—	33,610,814	33,611,962
New Israeli sheqel	—	—	347,270	347,270
New Zealand dollar	—	—	169,620	169,620
Norwegian krone	—	—	325,433	325,433
Pound sterling	—	138,312	16,184,353	16,322,665
Singapore dollar	—	—	2,848,819	2,848,819
Swedish krona	—	—	5,820,795	5,820,795
Swiss franc	(40)	—	3,597,883	3,597,843
Thailand baht	—	—	2,783,247	2,783,247
International equity pooled funds (various currencies)	—	—	134,543,814	134,543,814
	51,453	415,661	269,248,015	269,715,129
United States dollars (securities held by international investment managers)	—	—	13,246,888	13,246,888
Total International Investment Securities	\$ <u>51,453</u>	<u>415,661</u>	<u>282,494,903</u>	<u>282,962,017</u>

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(g) Securities Lending Transactions

The Fund participates in the State Street Bank and Trust Company securities lending program by lending securities to borrowers (subject to borrower limits and program guidelines) and earning additional income, which is included in net investment income in the statement of changes in fiduciary net position. The lending program loans domestic and international equities, real estate investment trusts and fixed income securities for collateral with a concurrent agreement to return the collateral for the same securities in the future.

The Fund did not incur any losses on loaned securities during the year ended December 31, 2021 and 2020. The securities are monitored and valued on a daily basis by the custodian to ensure that the loans are properly collateralized. The collateral value is required to be at least 102% of the fair value of loaned domestic investments and a collateral value of at least 105% of the fair value on loaned international investments. Collateral can consist of both cash and securities. Should the collateral percentage levels fall below the stated figures, the borrowers are required to provide additional collateral to proper levels. The indemnification that State Street Bank provides the Fund in regard to loan risk is that should a borrower default on returning a security from loan, the collateral held is used to buy the security to be returned to the Fund. Any shortfall of proceeds to purchase the securities is taken on by State Street Bank. Since loans are terminable at will, loan durations do not generally match the duration of the investments made with the cash collateral.

Loaned securities are included in the statement of fiduciary net position since the Fund maintains ownership. For loans collateralized by cash, the value of the collateral is recorded as a liability offsetting the cash collateral recorded as an asset. The cash collateral as of December 31, 2021 and 2020 was \$17,474,343 and \$26,882,055 respectively. For loans having collateral other than cash, the related collateral securities are not recorded as assets in the statement of fiduciary net position, and a corresponding liability is not recorded, since the Fund cannot pledge or sell the collateral securities, except in the event of a borrower's default.

At December 31, 2021 and 2020, the fair value of loaned securities outstanding, included in investments, was approximately \$17,085,222 and \$26,194,642, respectively.

(h) Commitments

At December 31, 2021 and 2020, the Fund had contractual commitments to provide approximately \$118.4 million and \$104.4 million, respectively, of additional funding for alternative investments and real estate.

(i) Money-Weighted Rate of Return

The annual money-weighted rate of return on the Fund's investments calculated as the internal rate of return on the pension fund net of investment expenses for the years ended December 31, 2021 and 2020 is 13.23% and 14.22%, respectively. A money weighted return expresses investment performance net of pension plan investment expense, adjusted for the changing amounts actually invested.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Notes to Financial Statements

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(4) Fair Value Measurements

The Fund measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. The fair value gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). These levels of the fair value hierarchy are described below:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities. Level 2 inputs include the following:
 - Quoted prices for similar assets and liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in markets that are not active
 - Inputs other than quoted prices that are observable for the asset or liability, such as:
 1. Interest rates and yield curves observable at commonly quoted intervals
 2. Implied volatilities
 3. Credit spreads
- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's assumptions.

The following tables' set forth by fair value hierarchy level, the Fund's assets carried at fair value December 31, 2021 and 2020:

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	Fair value measurements using:			
	Total at December 31, 2021	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Active cash	9,013,990	9,013,990	-	-
International cash and equivalents	124,510	124,510	-	-
STIF-type instrument	53,754,989	53,754,989	-	-
Total cash equivalents	<u>62,893,489</u>	<u>62,893,489</u>	<u>-</u>	<u>-</u>
U.S. equities:				
Common stock	270,780,183	270,780,183	-	-
Depository receipts	20,097,162	20,097,162	-	-
Mutual funds	296,563,106	296,563,106	-	-
Preferred stock	1,104,336	1,104,336	-	-
Real estate investment trust	4,198,956	4,198,956	-	-
Total U.S. equities	<u>592,743,743</u>	<u>592,743,743</u>	<u>-</u>	<u>-</u>
International equities - common stock	<u>273,647,873</u>	<u>273,647,873</u>	<u>-</u>	<u>-</u>
Fixed income:				
Agency debt	3,531,828	-	3,531,828	-
U.S. treasury notes and bonds	113,235,825	-	113,235,825	-
Domestic corporate	231,643,225	-	230,745,705	897,520
Asset backed:				
CMO	15,480,527	-	15,480,527	-
Mortgage-backed	36,528,750	-	36,528,750	-
Other asset backed	24,343,376	-	24,343,376	-
Total U.S. fixed income	<u>424,763,531</u>	<u>-</u>	<u>423,866,011</u>	<u>897,520</u>
International fixed income - bonds	<u>2,181,798</u>	<u>-</u>	<u>2,181,798</u>	<u>-</u>
Total investments by fair value level	<u>1,356,230,434</u>	<u>929,285,105</u>	<u>426,047,809</u>	<u>897,520</u>
Total investments measured at net asset value (NAV):				
Hedge fund of funds	218,588,765			
Private equity funds	179,621,810			
Private real estate funds	179,905,942			
Total investments measured at NAV	<u>578,116,517</u>			
Total investments	<u>1,934,346,951</u>			

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	Total at December 31, 2020	Fair value measurements using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
Active cash	10,580,463	10,580,463	-	-
International cash and equivalents	51,453	51,453	-	-
STIF-type instrument	55,253,032	55,253,032	-	-
Treasury bill	1,699,840	-	1,699,840	-
Total cash equivalents	<u>67,584,788</u>	<u>65,884,948</u>	<u>1,699,840</u>	<u>-</u>
U.S. equities:				
Common stock	253,408,639	253,408,639	-	-
Depository receipts	21,568,498	21,568,498	-	-
Mutual funds	272,909,646	272,909,646	-	-
Preferred stock	1,165,166	1,165,166	-	-
Real estate investment trust	2,239,262	2,239,262	-	-
Total U.S. equities	<u>551,291,211</u>	<u>551,291,211</u>	<u>-</u>	<u>-</u>
International equities - common stock	<u>269,248,015</u>	<u>269,248,015</u>	<u>-</u>	<u>-</u>
Fixed income:				
Agency debt	4,154,608	-	4,154,608	-
U.S. treasury notes and bonds	96,217,874	-	96,217,874	-
Domestic corporate	238,316,674	-	234,153,194	4,163,480
Asset backed:				
CMO	15,594,644	-	15,594,644	-
Mortgage-backed	32,215,052	-	32,215,052	-
Other asset backed	23,195,245	-	23,195,245	-
Total U.S. fixed income	<u>409,694,097</u>	<u>-</u>	<u>405,530,617</u>	<u>4,163,480</u>
International fixed income - bonds	<u>415,661</u>	<u>-</u>	<u>415,661</u>	<u>-</u>
Total investments by fair value level	<u>1,298,233,772</u>	<u>886,424,174</u>	<u>407,646,118</u>	<u>4,163,480</u>
Total investments measured at net asset value (NAV):				
Hedge fund of funds	176,733,000			
Private equity funds	152,712,081			
Private real estate funds	140,448,890			
Total investments measured at NAV	<u>469,893,971</u>			
Total investments	<u>1,768,127,743</u>			

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Commingled funds are typically structured as an investment vehicle created by the Investment Manager to execute a specific investment strategy. Some investment strategies are only pursued by commingled accounts. Mutual funds and/or other types of commingled investment vehicles, including, but not limited to, Alternative Investments, may provide lower costs and better diversification than can be obtained with a separate account that pursues the same investment objectives. The fair value of the hedge fund of funds, private equity funds and real estate funds are not rated funds. The fair values of these funds are based on net asset value calculated in accordance with the general partner's fair valuation policy as of the measurement date and are annually audited separately.

The following represents the significant investment strategies and terms on which the Fund may redeem investments for those investments measured at the NAV (or its equivalent) as a practical expedient:

	Fair Value December 31, 2021	Fair Value December 31, 2020	Total Unfunded Commitments as of December 31, 2021	Redemption Frequency if Currently Eligible	Redemption Notice Period
Hedge fund of funds					
Diversified beta ¹	\$ 123,788,181	\$ 112,947,401	\$ -	monthly	15-30 days
Fund of hedge fund ²	81,398,857	56,597,537	25,000,000	quarterly	30-90 days
Opportunistic hedge fund ³	13,401,727	7,188,062	6,191,963	N/A	N/A
Private equity funds⁴	179,621,810	152,712,081	87,214,737	N/A	N/A
Private real estate funds					
Open-ended real estate funds ⁵	160,291,065	121,676,506	-	quarterly	30 days - 1 year
Closed-end real estate funds ⁶	19,614,877	18,772,384	-	N/A	N/A
Total Investments Measured at NAV	\$ 578,116,517	\$ 469,893,971	\$ 118,406,700		

¹ This category includes two diversified beta investment managers who utilize a risk premium capture strategy that seeks to generate returns by investing in equity, bond and commodity markets using a risk-balanced investment process. The managers provide monthly liquidity with either 15 or 30-day notification.

² This category includes two fund of hedge fund managers; the managers provide quarterly liquidity with 30 - 90-day notice.

³ This category includes one opportunistic hedge fund manager who is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets over a period of approximately three to seven years.

⁴ This type includes private equity funds that invest in nonmarketable securities of private companies, which ultimately may become public in the future and whose strategies include buyout, growth equity, venture, mezzanine debt, distressed debt, secondary fund of funds or special situations. Generally, each fund in this category may not be subject to redemption and is normally returned through distributions as

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a result of liquidation of the underlying assets over a weighted average period of approximately nine years.

⁵ This category includes six open-ended real estate funds that invest directly in real estate and real estate related assets, including retail, industrial, office, residential and hotels. Investments in this category can be redeemed quarterly upon 30 days to one-year notice.

⁶ This category includes funds that invest directly in real estate and real estate related assets, including retail, industrial, office, residential and hotels. Generally, investment in each fund in this category may not be subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets over a weighted average period of approximately seven or more years.

(5) Related-Party Transactions

The Fund invests certain cash in a money market fund, the State Street Bank and Trust Company Short Term Investment Fund, which is sponsored by the Fund's custodial bank. The total value of the funds held at December 31, 2021 and 2020 was \$53,754,989 and \$55,253,032, respectively.

The Fund invests in the AFL-CIO Housing Investment Trust and the AFL-CIO Building Investment Trust, two for-profit investment programs of the AFL-CIO. The total value of AFL-CIO Housing Investment Trust at December 31, 2021 and 2020 was \$53,571,798 and \$54,135,939, respectively. The total value of AFL-CIO Building Investment Trust at December 31, 2021 and 2020 was \$18,782,796 and \$16,667,032, respectively.

(6) Net Pension Liability

The components of the net pension liabilities of the MBTA Retirement Fund as of December 31, 2021 and 2020 are shown as follows (amounts in thousands):

	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 3,101,704	3,055,123
Plan fiduciary net position	<u>(1,939,942)</u>	<u>(1,769,941)</u>
Fund's net pension liability	<u>\$ 1,161,762</u>	<u>1,285,182</u>
Plan fiduciary net position as a percentage of total pension liability	62.54 %	57.93 %

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2021 and 2020, using the following actuarial assumptions:

- As of December 31, 2021, a table of increases based on years of service, with rates of increase declining from 8% per year for the newly hired to 2.75% per year with 15 or more years of service
- Investment rate of return compounded annually in 2021 and 2020 of 7.25% per annum
- Inflation rate of 2.75%

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For the actuarial valuation as of December 31, 2021 and 2020, the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 are used for all active participants and deferred vested participants. 94.5% of the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 are used for all retirees. 107.5% of the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 are used for all beneficiary participants. The RP-2014 Disabled Mortality Table with fully generational projection using Scale MP-2018 are used for the period after disability retirement. Among pre-retirement deaths, 7.50% are assumed to qualify for accidental death benefits.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period from January 1, 2013, through December 31, 2017. Actuarial valuations attempt to estimate costs associated with the pension fund based on a number of demographic, economic and retirement experience assumptions. Experience studies are required by statute to be conducted every five years to review experience in comparison to these assumptions and to provide recommended changes to assumptions.

The long-term expected rate of return on Fund investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension Fund investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term arithmetic rates of return for each major asset class included in the Fund's target asset allocation as of December 31, 2020, are summarized in the following table:

Asset class	Target asset allocation		Long-term expected real rate of return	
	2021	2020	2021	2020
Equity	43 %	43 %	6.73 %	6.46 %
Fixed income	23	23	0.57	1.25
Alternatives	32	32	4.31	6.32
Cash	2	2	(0.14)	(0.08)

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 2.33%.

(a) Discount Rate

The discount rate used to measure the total pension liability at December 31, 2021 and 2020 was 7.25%. The projections of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments to current Fund members. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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December 31, 2021 and 2020

(b) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability as of December 31, 2021 and 2020, calculated using the discount rate of 7.25%, respectively, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.25% or one percentage point higher 8.25% than the current rate (amounts in thousands):

	<u>1% Decrease (6.25%)</u>	<u>Current discount rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
2021 Net pension liability	\$ 1,476,768	1,161,762	894,212
2020 Net pension liability	1,596,155	1,285,182	1,021,143

(7) Subsequent Events

There have been no other subsequent events through June 21, 2022 the date that the Fund's financial statements were available to be issued, that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
RETIREMENT FUND**

Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability								
Service cost	55,417,684	52,008,968	47,942,711	46,101,006	31,850,127	31,896,560	37,305,333	34,500,540
Interest	217,508,956	214,772,564	214,112,586	207,497,686	204,779,603	195,768,057	191,392,028	184,667,178
Differences between expected and actual experience	1,811,509	(7,346,171)	(3,179,975)	11,599,381	44,627,096	90,067,566	31,325,149	48,560,391
Changes of assumptions	(3,389,843)	-	69,299,287	43,926,927	128,688,470	-	(6,762,751)	-
Benefit Payments	<u>(224,767,671)</u>	<u>(225,422,340)</u>	<u>(223,864,973)</u>	<u>(221,710,054)</u>	<u>(212,814,757)</u>	<u>(197,561,539)</u>	<u>(188,906,232)</u>	<u>(184,130,187)</u>
Net change in total pension liability	46,580,635	34,013,021	104,309,636	87,414,946	197,130,539	120,170,644	64,353,527	83,597,922
Total pension liability-beginning of year	<u>3,055,123,380</u>	<u>3,021,110,359</u>	<u>2,916,800,723</u>	<u>2,829,385,777</u>	<u>2,632,255,238</u>	<u>2,512,084,594</u>	<u>2,447,731,057</u>	<u>2,364,133,135</u>
Total pension liability-ending (a)	<u>3,101,704,015</u>	<u>3,055,123,380</u>	<u>3,021,110,359</u>	<u>2,916,800,723</u>	<u>2,829,385,777</u>	<u>2,632,255,238</u>	<u>2,512,084,594</u>	<u>2,447,731,057</u>
Change in fiduciary net position:								
Contributions - employer	123,493,762	116,285,928	103,263,763	92,013,124	83,382,882	77,239,279	73,373,672	70,603,285
Contributions - employee	43,224,002	40,774,027	36,366,108	32,606,337	29,775,344	27,791,543	26,510,946	25,318,224
Net investment income	232,417,541	228,670,823	253,730,990	(52,072,879)	221,690,618	86,782,343	4,711,246	73,543,477
Benefit payments	(224,767,671)	(225,422,340)	(223,864,973)	(221,710,054)	(212,814,757)	(197,561,539)	(188,906,232)	(184,130,187)
Administrative expenses	<u>(4,366,485)</u>	<u>(4,511,375)</u>	<u>(5,046,775)</u>	<u>(4,317,624)</u>	<u>(4,463,775)</u>	<u>(6,493,777)</u>	<u>(5,808,086)</u>	<u>(4,052,664)</u>
Net change in fiduciary net position	<u>170,001,149</u>	<u>155,797,063</u>	<u>164,449,113</u>	<u>(153,481,096)</u>	<u>117,570,312</u>	<u>(12,242,151)</u>	<u>(90,118,454)</u>	<u>(18,717,865)</u>
Fund fiduciary net position-beginning of year	1,769,941,276	1,614,144,213	1,449,695,100	1,603,176,196	1,485,605,884	1,497,848,035	1,587,966,489	1,606,684,354
Fund fiduciary net position - end of year (b)	<u>1,939,942,425</u>	<u>1,769,941,276</u>	<u>1,614,144,213</u>	<u>1,449,695,100</u>	<u>1,603,176,196</u>	<u>1,485,605,884</u>	<u>1,497,848,035</u>	<u>1,587,966,489</u>
Fund's net pension liability-ending (a)-(b)	<u>1,161,761,590</u>	<u>1,285,182,104</u>	<u>1,406,966,146</u>	<u>1,467,105,623</u>	<u>1,226,209,581</u>	<u>1,146,649,354</u>	<u>1,014,236,559</u>	<u>859,764,568</u>
Fund fiduciary net position as a percentage of the total pension liability	62.54%	57.93%	53.43%	49.70%	56.66%	56.44%	59.63%	64.88%
Covered payroll	458,857,189	460,921,559	436,828,077	425,862,201	428,830,122	446,740,427	443,237,899	417,957,007
Net pension liability as a percentage of covered payroll	253.19%	278.83%	322.09%	344.50%	285.94%	256.67%	228.82%	205.71%

This schedule is intended to present 10 years of data. Additional years will be presented when available.

See accompanying independent auditors' report.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
RETIREMENT FUND**

Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
(Unaudited)

Change of Assumptions:

2021: Participants who have been receiving Workers' Compensation benefits for five or more years are assumed to never receive a Massachusetts Bay Transportation Authority Retirement Fund pension benefit. This decreased the actuarial accrued liability by \$2.76 million.

Participants who are active, but did not contribute to the plan in 2021, are assumed to remain non-contributing to the remainder of their employment and to receive only a refund of their contributions to the Fund with interest. This decreased the actuarial accrued liability by \$0.63 million.

2020: No change of assumptions.

2019: Discount rate decreased from 7.50% to 7.25% resulting in an increased net pension liability totaling \$69.3 million.

2018: Salary scale decreased the net pension liability by \$(59.6) million, mortality rates increased the net pension liability by \$6.0 million, termination rates increased the net pension liability by \$9.4 million, and retirement rates increased the net pension liability by \$88.1 million, resulting in increased net pension liability totaling \$43.9 million.

2017: Discount rate decreased from 7.75% to 7.50% resulting in an increased net pension liability totaling \$128.7 million.

See accompanying independent auditor's report

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RETIREMENT FUND**

Required Supplementary Information

Schedule of Investment Returns

(Unaudited)

Annual money-weighted rate of return, net of investment expense

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
13.23%	14.22%	17.67%	(3.37)%	17.79%	5.88%	0.65%	4.80%

This schedule is intended to present 10 years of data. Additional years will be presented when available.
See accompanying independent auditors' report.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
RETIREMENT FUND**

Required Supplementary Information

Schedule of Contributions

(Unaudited)

Year	Actuarially determined contribution	Actual contribution in relation to actuarially determined contribution	Percentage of actuarially required contributions	Covered- payroll	Contribution as a percentage of covered- payroll
2021	\$ 123,493,762	\$ 123,493,762	100.00%	\$ 458,857,189	26.91%
2020	116,285,928	116,285,928	100.00	460,921,559	25.23
2019	103,264,000	103,263,763	100.00	436,828,000	23.64
2018	92,013,000	92,013,124	100.00	425,862,000	21.61
2017	83,383,000	83,382,882	100.00	428,830,000	19.44
2016	77,239,000	77,239,279	100.00	446,740,000	17.29
2015	73,359,000	73,373,372	100.02	443,238,000	16.55
2014	77,594,000	70,603,285	90.99	417,957,000	16.89
2013	67,602,000	58,039,160	85.85	379,071,000	15.31
2012	66,035,000	54,968,325	83.24	370,873,000	14.82

See accompanying independent auditors' report.

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RETIREMENT FUND**

Notes to Required Supplementary Information
(Unaudited)

Actuarial Assumption and Methods Used to Determine Contribution Rates

Actuarially determined contributions are calculated as of the December 31 preceding by six months of the start of the fiscal year in which contributions are made. For example, the contribution calculated in the December 31, 2019 actuarial valuation was to be made during the period from July 1, 2020 through June 30, 2021.

Methods and assumptions used to determine the contributions for calendar 2021 and 2020 (based on 2020 and 2021 actuarial valuations).

- Salary – As of December 31, 2021, a table of increases based on years of service, with rates of increase declining from 8% per year for the newly hired to 2.75% per year with 15 or more years of service
- Actuarial cost method – Entry Age Normal
- Amortization method – Closed period (specified below); installments increase at the rate of 4% per year
- Remaining amortization period – 18 years (2021 valuation), 19 years (2020 valuation)
- Asset Valuation method – Five-year phase-in smoothing method
- Investment rate of return – 7.25% net of pension plan investment expense.
- Retirement Age – Probabilities of retirement are based on table that reflects both age and service
- Mortality
 - For the actuarial valuation as of December 31, 2021 & 2020, the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 are used for all active participants and deferred vested participants. 94.5% of the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 are used for all retirees. 107.5% of the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 are used for all beneficiary participants. The RP-2014 Disabled Mortality Table with fully generational projection using Scale MP-2018 are used for the period after disability retirement. Among pre-retirement deaths, 7.50% are assumed to qualify for accidental death benefits.