MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

June 17, 2020

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Maureen A. Joyce, *Ex Officio* Member; Thomas V.J. Jackson, Fifth Member; Michael W. McLaughlin, Elected Member; Michael D. O'Reilly, Elected Member (All Members remotely present).

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; John F. Kelly, Investment Analyst; Ellen M. McCarthy, Comptroller; Christine M. Weir, Operations Officer; Gregory Molina, Board Secretary (All Staff remotely present).

ALSO IN ATTENDANCE: Mike Manning, Will Forde, Kiley Fischer; NEPC, Lawrence Gross, Kai Tse, Structural Capital Managers; Chris Hentemann, William Sanders, 400 Capital; Ashok Nayyar, Christopher Dowd, Siddique Haq, MC Credit Partners; Brendan McDonough, Johnathan Sax, Golden Tree; Kathleen Riley, Segal (All presenters remotely present).

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:02 a.m.

Roll Call Vote: Chairman Greene; Aye, Member Jackson; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Joyce; Aye. All in attendance were identified for the record and introductions were made.

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the May 15, 2020 meeting as presented. Roll Call Vote: Chairman Greene; Aye, Member Jackson; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Joyce; Aye.

Motion accepted (5-0)

Outstanding/Ongoing Administrative Issues: Timothy J. Smyth, Executive Officer

Administrative Update

- COLA & COLA base update.

COLA

Chairman Greene asked the Board Members if they had any comments or questions on the COLA vote.

Motion made, and seconded, to grant a three percent (3%) retiree cost of living allowance for fiscal year 2021

Motion accepted (5-0) *Roll Call Vote: Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.*

COLA base

Chairman Greene once again asked the Board Members if they had any comments or questions on the COLA base vote. Member McLaughlin stated that he would like to make a motion, when appropriate. Chairman Greene asked Member McLaughlin to move forward with his motion.

Motion made, and seconded, to approve a one thousand dollar ($1,000.00) raise to the COLA base from fourteen thousand dollars ($14,000.00) to fifteen thousand dollars ($15,000.00).

Motion failed (3-2) *Roll Call Vote: Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Nay, Member Joyce; Nay, Chairman Greene; Nay.*

Motion made, and seconded, to grant a three percent (3%) retiree cost of living allowance base at fourteen thousand dollars ($14,000.00) for fiscal year 2021. Roll Call Vote: Member O'Reilly; Nay, Member McLaughlin; Nay, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.

Motion accepted (3-2) *Members Jackson, Joyce and Chairman Greene voted; Aye. Members O'Reilly and McLaughlin voted; Nay.*

Members' Testimony

Mr. Lawrence Connolly

I trust the Board will vote to approve a 3% COLA on the previously approved $14,000 base, as has been past practice for over two decades. However, I do hope it also takes into consideration the severe hardship COVID-19 has had on the many older and lower-income retirees.

Ms. Janey Frank

Thank you for the opportunity to address this meeting, today. These are, to say the least, uncertain, unprecedented, and truly remarkable times. Yet they are also times for hope and positivity, times to look to and invest in the future.

Today I urge you to approve the annual 3% COLA increase. As you know, the first COLA base of $12,000 was established in 1997. Fifteen years later, it increased to $13,000 and 4 years after, to $14,000, where it stands, today. Past attempts to raise the base in fairness to the many retirees who are struggling to survive, have been denied because of a desire to wait until 2025, when the board projects we will reach full funding before seeing an increased COLA base.

Chairman Greene thanked all participants.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Private Debt Search

Mr. Manning stated that at the May meeting, the Board committed $20 million to Bain Capital Credit as part of the System's Distressed Debt mandate. GoldenTree was selected as a finalist from the reissued search and will be presenting today. The goal of today's discussion is to select a manager for the remaining $10-40 million mandate.

- GoldenTree Distressed Fund III Co-Invest

Mr. McDonough shared that this fund should be viewed as an add on opportunity that allows for an increased exposure to the firms best ideas and increased investments during the remaining investment period to the systems current investments in the Distressed III fund.

Over the last three months we have experienced unprecedented volatility and opportunity in the market. To date, the firm has deployed approximately 80% of the Distressed III fund capital with a significant amount allocated during that dislocation in March and April. That has already delivered a very strong performance to the fund and has positioned it well as we move forward.

The Distressed III co-investment opportunity will allow the firm to continue to take advantage of dislocation throughout the remainder of the Distressed III Fund's investment period. There are two key points, as with the other funds currently being managed by GoldenTree. This is a capital call structure and will only call capital as opportunity presents itself. Secondly, this is a significantly discounted fee structure. 50 basis points management fee and an incentive fee of 13.5 % after the firm delivers an 8% return to the client.

Mr. Sachs opened by referring to the topic of dispersion in credit markets. As of April, 45% of the market is distressed debt. Current distressed market size is over $500 billion outstanding. In the Distressed Corporate universe of high yield, Distressed holds 23% of the market opposed to Non Distressed at 77%. In the Loans market Distressed is 19% of that market with energy being the biggest industry in that market.

Motion made, and seconded, to hire GoldenTree Distressed Co-Investment Fund III for the Distressed Debt space in the amount of $35 million.

Motion accepted (5-0) *Roll Call Vote: Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.*

Niche Lending Search

Structural Capital/Investments III

Mr. Tse opened by stating that since 2005, the Structural Capital team has deployed over $2+ Billion of capital resulting in strong returns, while effectively managing risk resulting in extremely low loss rate. They have managed $20+ Billion of exit value generated and 75+ IPOS and M&A exits with such companies as Facebook and YouTube, to just name a few.

Structural Capital operates under the belief in the three P's. The company invests in companies that it believes have the potential for outsized returns and paths to profitability while maintain capitol protection through downside mitigation. These companies need to be at the right growth stage, with strong debt return with significant upside.

Fund III is targeting a 15%+ net IRR and is early in its investment period projecting to deploy 30-50% of its capital commitments by the end of 2020. The target fund size is $250 million, GP commitment 2.0% (Up to $5 million). The investment period is for four years from initial closing date; subject to one-year extension. The term is for seven years; subject to two consecutive one-year extensions. The management fees are 1.75% of commitments per annum during the investment period, thereafter 1.75% of portfolio investments outstanding per annum. The funds carried Interest is 20.0% (European-Style Waterfall). The preferred return is 8.0% and the distributions are quarterly cash distributions of realized net income (est. 8% - 10% annually). And total fund Commitments are ~$210 million.

400 Capital/Asset Based Term Funds II

Mr. Hentemann opened by stating that 400 Capital is a firm that he created 12 years ago as a continuation of a relationship that he started with most of his partners that stretches over 30 years in the structured finance market. The Asset Based Term Fund II ("ABTF II") is what they consider to be a private credit strategy and is a continuation of what they have been doing for the last 12 years.

The ABTF II is to take advantage of illiquid credit opportunities across public and private credit markets in the US and Europe. The strategy primarily targets opportunities across residential real estate, commercial real estate, consumer finance and specialty finance markets, with target net returns of 15+%. The firm is targeting a size of around $400 million.

The opportunities that exist are because the market dislocation in structured products has produced significant liquidity premiums across a wide variety of asset classes. The US bank and GSE risk transfer solutions remain in high demand as regulated institutions continue to require additional participation from private capital markets. Specialty finance opportunities to provide credit where regulated institutions do not participate. European bank deleveraging continues as regulators encourage banks to move stressed and distressed loans into the private markets.

Mr. Manning asked where 400 Capital is now in investments as opposed to the total fund side amidst the Covid-19 pandemic. Mr. Hentemann answered that most of the activity of Fund III has been since March. To put it in context we have put about $150 million of current commitments to work and out of the $150 million, two thirds of that, we've put a little over $100 million to work since the beginning of March. In Fund 1, returns were in the mid-teens or 1.5 multiples and in Fund II the opportunities will be closer to upper teens and closer to a two time multiple. Timing is everything is a quick and simple answer to that.

Fund terms are 5 years with two 1 year extensions. Management Fee is 1.5% of contributed capital. Incentive Fee is 20% over 6% preferred return to LPs and Full GP catch-up.

<u>MC Credit Partners/Fund III</u>

Mr. Nayyar shared that MCCP, through its existing $1.5 billion direct lending funds, originates and structures primarily 1st lien senior secured loans for middle market companies. Reliance upon internal origination platform can result in better structures, more favorable rates and terms, tighter covenants and stronger collateral protection for MCCP's investors. Strong deal flow comes through multi-level relationships with advisory firms, middle market companies, private equity sponsors, banks, hedge funds and professional service providers.

MCCP utilizes an alpha based strategy of self-originated and negotiated transactions versus beta strategy of asset accumulation that relies heavily upon broadly syndicated and "clubbed" loans. MCCP anticipates retaining economics on syndicated portions on most originated transactions and conducts in-depth due diligence, pricing power and structural protections which result in what MCCP believes to be superior risk adjusted returns.

MC Credit Fund III's Terms are; Target Size; $1.5 billion, Minimum Investment Size; $5 million. Target Gross levered returns in the mid-teens, Fund Term; Five years, Investment Period; Three years. The Sponsor's Investment in the Parallel Funds and Related Vehicles; is the lesser of 1% and $7,500,000.

Management Fee is; 1.5% on deployed assets. Carried Interest; 17.5%, The Preferred Return are; 6%.

The Board went on to discuss with NEPC the topics of merits of all the presenters, timing of investments, selection of investment managers, Niche lending market, EnTrust Blue Ocean firm, shipping industry, maritime market, preferred fee pricing, preferred returns, risk, technology market and allocations of funds.

Motion made, and seconded, to hire 400 Capital Asset Based Term Funds II and MC Credit Fund III for the Niche credit space in the amount of $10 million each.

Motion accepted (5-0) *Roll Call Vote: Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.*

Mr. Manning asked the Board if they would like to move funds forward from the 2021 search. Decision on GoldenTree or does the Board want to continue search and the amount of funds the Board want to invest.

The Board and NEPC staff went on to discuss the pulling forward funds from 2021 search, GoldenTree merits, total current investments with GoldenTree, fund allocation.

Motion made, and seconded, to hire GoldenTree/Distressed Co-Investment Fund III for the Distressed Debt space in the amount of $35 million.

Motion accepted (5-0) *Roll Call Vote: Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.*

International Equity Search

The International Equity search was issued to replace Fisher Investments and the respondents were categorized across the three equity styles: Growth, Core and Value. The Board selected two Growth finalists to present at the July meeting (Walter Scott and Hardman Johnston). Following the Growth portion of the search, we will focus on the Core respondents. NEPC has currently identified PanAgora and Todd as potential managers.

May 2020 Flash Report

Mr. Forde stated that the BRS investment portfolio return was up +3.2 for the month of May, net of all investment fees. The BRS is at the upper range in returns that NEPC has seen for the month. March was a challenging time for most investors. There has been a really strong upturn in April and May. The portfolio's fiscal YTD is at -5.3% better than the -8.2% of last month's YTD. Another bright spot is related to the BRS's collective manager roster. March was a tough time for active managers generally, across our client base. But the BRS had its pockets of challenges as well. This month is the second month in a row that NEPC has seen the BRS's collective managers outperform. We see that when you compare the total fund return of +3.2% vs the allocation index of +2.7%.

In April the managers came back quite a bit and added 60 basis points in value. We rebalanced some in March. The S&P has been up 31% since then. We know we are going to need money to fund some of debt strategies. So we'll start to rebalance from some of the markets that have done really well.

Work Plan

Search	Date Issued	Candidate Review/Analysis	Finalist Presentations
Niche Lending	October 2019	February	June
Distressed Debt II	April	May	June
Int'l Equity (Growth)	February	May	July
Int'l Equity (Core)	February	July	TBD
Int'l Equity (Value)	February	TBD	TBD
Real Estate Debt	September 2019	TBD (Aug.)	TBD (Sept.)
Emerging Markets Eq.	TBD (Aug.)	TBD (Oct.)	TBD (Nov/Dec)

Outstanding/Ongoing Administrative Issues: Timothy J. Smyth, Executive Officer

Preliminary Results of January 1, 2020 Valuation

- Segal

Mr. Smyth informed the Board that were a couple of additional schedules attached to the Board's package for their review. Ms. Kathy Riley of Segal opened by noting that these are the numbers as of January 1, 2020. Ms. Riley went through the Segal January 1, 2020 Preliminary Actuarial Valuation Results Presentation including the Boston Retirement System Additional Funding Schedules which is attached in the Board packages. Ms. Riley noted that none of the numbers reflect the 2020 volatility or 2020 Covid impact.

Ms. Riley gave a detailed overview of the current, as of January 2020, valuation of the Boston Retirement System. She tracked Segal's report in her presentation and answered several Board queries.

The actuarial value of assets as of December 31, 2019 was $5.704 billion, or 102.2% of the market value of assets of $5.583 billion (as reported in the Annual Statement). As of December 31, 2017, the actuarial value of assets was 99.3% of the market value of assets.

After reviewing this information and the experience since the last valuation, Segal recommends lowering the investment return assumption.

Lowering the investment return assumption from 7.50% to 7.25% increases the unfunded liability by approximately $191.2 million and the normal cost by approximately $9.5 million.

Lowering the investment return assumption from 7.50% to 7.15% increases the unfunded liability by approximately $270.0 million and the normal cost by approximately $13.5 million.

Results of the January 1, 2020 actuarial valuation at a 7.25% and a 7.15% investment return assumption and the January 1, 2018 actuarial valuation at a 7.5% investment return assumption.

Funding Schedules

With the prior valuation, the Board approved a funding schedule that fully funded the System by June 30, 2025 with appropriations that increased by approximately 8.85% per year. Several options were discussed by Ms. Riley:

Funding Schedule 1; the appropriations increase 19.05% per year
–If the fully funded year is extended one year to 2026, the appropriation increases 10.10% per year.
–If the fully funded year is extended two years to 2027, the appropriation increases 5.10% per year or the appropriation increase could be maintained at 8.85% per year with a smaller payment in 2027

Funding Schedule 2; the appropriations increase 21.45% per year
–If the fully funded year is extended one year to 2026, the appropriation increases 12.00% per year.
–If the fully funded year is extended two years to 2027, the appropriation increases 6.70% per year or the appropriation increase could be maintained at 8.85% per year with a smaller payment in 2027.

Segal has provided additional supplemental funding schedules for the Boards review.

Funding Schedule 3; 7.15% Investment Return Assumption Appropriations Increase 6.70% per year Fully Funded in 2027.

Funding Schedule 4; 7.15% Investment Return Assumption Appropriations Increase 8.85% per year with a Smaller Payment in 2027 Fully Funded in 2027.

Funding Schedule 5; 7.05% Investment Return Assumption Appropriations Increase 8.85% per year with a Smaller Payment in 2027 Fully Funded in 2027.

The Board went on to discuss the different funding schedules, impact on fully funding the system and extending schedule to 2027. They also discussed Segal's recommendations, potential Covid19 losses, and general investment returns.

Motion made, and seconded, to adopt the funding schedule five (5) as presented to extend funding schedule to fully funded date to 2027 and to lower the investment return assumption to 7.05% and further adopts the mortality 2010 table as discussed.

Motion accepted (5-0) *Roll Call Vote: Member McLaughlin; Aye, Member O'Reilly; Aye, Member Joyce; Aye, Member Jackson; Aye, Chairman Greene; Aye.*

Outstanding/Ongoing Financial Issues: Ellen M. McCarthy, Comptroller

Financial Update

- May 2020 Financial Snapshot

Ms. McCarthy reported that there were changes to Actuarial Export/ Creditable Service Generation on both the teachers and non-teachers to make sure there were no duplications. Updates were made to credible service and corrected. Changes were made to Actuarial Export to fix issue related to duplicate rows. One change corrected member status to inactive if no contribution exists within 60 days. Service was successfully generated for several thousand members. Actuarial Export was then fixed to retrieve service straight from the member's account, rather than deriving/ calculating. Staff worked with Mike Dwyer and Vitech on updating and tracking the data.

Total Contributory Pension Payroll: $55,357,684; Total Contributory Payees: 15,193 Total Payees; Total Non-Contributory Payroll: $289,664; Total Non-Contributory payees: 42; New Regular Retirees: 21; Survivor/Beneficiary Retirees: 2; Disability Retirees: 14; Members Refunds: 42 for $821,567, Members Transfers: 13 for $427,869; Option B Refunds: 4 for $120,013; Refunds and transfers: 59 for $1,369,449; Operational Warrants: $ 322,353.

Outstanding/Ongoing Operations Issues: Christine M. Weir, Operations Officer

May 2020 payroll update

Ms. Weir reported May 2020 payroll as such; 35 possible retirees; 26 superannuations, 9 Disability cases, 4 made it on payroll, and 5 did not. 1 pre-retirement death, (waiting on death certificate) 4 did not return final papers on time. Two carry over cases from previous month have been processed and we have 1 death of an active still being carried over due to uniqueness of case.

Outstanding/Ongoing Legal Issues: Padraic P. Lydon, General Counsel

Mr. Lydon stated that there were no legal updates at this time.

Chairman Greene indicated that Member Jackson had to sign off virtual meeting and was confirmed by Mr. Smyth.

Member McLaughlin wanted an update from Mr. Lydon on members' disability hearings being held remotely going forward. The system has two hearing officers that are willing to do remote hearings. There are four cases pending to be held via video conference. BRS will use the GoToMeeting platform.

Mr. Smyth wanted to thank the Boston Teachers Union for hosting a ITR fair and every time slot was filled and it was very efficient working with Union on ITRs during the Covid crisis.

Member O'Reilly wanted to state that Saturday, the Town of Hull, MA had raised their COLA base to 17K.

Mr. Smyth conducted a Staff and Member Roll call before entering Executive Session for confidentiality purposes.

Motion made, and seconded, to go into Executive Session at approximately 1:59 p.m.

Motion accepted (5-0) *Roll call vote; Member O'Reilly; Aye, Member Joyce; Aye, Member Jackson; Aye, Chairman Greene; Aye.*

Respectfully submitted,
BOSTON RETIREMENT BOARD

Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman

Maureen A. Joyce
Ex Officio Member

Michael W. McLaughlin

Michael D. O'Reilly

Elected Member *Elected Member*

Thomas V.J. Jackson
Fifth Member