

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

February 16, 2022

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Michael D. O'Reilly, Elected Member; Maureen A. Joyce, *Ex Officio* Member; Michael W. McLaughlin, Elected Member; Thomas V.J. Jackson, Fifth 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; Natasha Thomas, Assistant General Counsel; Gregory Molina, Board Secretary (all Staff remotely present).

ALSO IN ATTENDANCE: William Oates, IT Consultant; Michael Manning, William Forde and Kiley Fischer of NEPC. Gar Chung, FIN News; Joe Ebisa, Journalist.

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:03 a.m.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Joyce: Aye; Member McLaughlin: Aye; and, Chairman Greene: Aye.

Motion accepted (5-0)

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the January 19, 2021 meeting as presented.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Joyce: Aye; Member McLaughlin: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0) Member McLaughlin not in attendance for this vote.

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

IT update

Mr. Smyth introduced Mr. Oates for an update.

have been spending some time adapting to the new environment that the system is in. The public cloud, AWS and Vitech and its services. Since the last Board meeting they had a meeting with Vitech to go over the performance and key measures. They are now part of the operating agreement that the System has with them. Mr. Oates has included their chief technology officer. In that meeting the consultants were able to ask a ton of questions. So far things look pretty good. Mr. Oates wants to make sure that they get these reports on a regular basis. The System will be getting their January reports from Vitech next week. At that time there will be a regular review of these reports. The one metric that was missing That they were in discussions with, was regarding performance. What that metric is, is the Vitech environment. How quickly they respond? How does the System get the performance of the system? The BRS did not get that in the first report. And that's because they haven't established what they call a service account so that the consultant can do some end to end timing of different transactions. That resulted in another meeting with Vitech and DoIt security team which was held on February 2, 2022. They were able to discuss that. As the Board knows in the City environment they do single sign on with identity access management. Which kind of complicates things a little. A was a good discussion and Vitech took it to their engineering team. They will continue to work on that so the BRS can get correct metrics measured.

Next week, Mr. Dwyer has set up a contract turnover meeting that will be held next Thursday. This is to through the contract that the BRS will be living with for quite a while. They want to make sure that the BRS team is familiar with the contract terms and conditions. Some good progress getting used to work in this new environment.

The second portion is cyber security. It continues to be very high profile. The Quincy Retirement Board was in the press recently as victims of an email phishing scam. Where some money was stolen after someone's email was hacked. Which is being investigated by PERAC. It just continues to increase awareness of the subject. They will be meeting next week with one of the possible vendors to talk about a security and maturity assessment for BRS. We have the fundamentals on what that proposal should look like but they will get into the details next Wednesday. Mr. Oates expectations are that by the next Board meeting they should be coming to the Board with possible recommendations.

Ms. McCarthy continues to work on the renewal of the cyber insurance for BRS. The vendors are tightening up quite a bit in this space. They were doing

some vulnerability scanning of potential clients and the BRS needed to respond because when they scanned the City, it turns out that they found what they believe were some open ports which could cause security vulnerability. They had great support from Greg McCarthy from the DoIt security team. They stated that they were false positives in the application firewalls.

Proposed Standard Agenda and Board meeting dates for CY22

Mr. Smyth offered a proposed meeting dates for calendar year 2022 (CY22). He suggested that the Board review to see if it fits the Board members calendars. He would like the Board to vote on it so it can be submitted to Clerk's office.

Motion made, and seconded, to accept the Proposed Standard Agenda and Board meeting dates for CY22 as presented.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Joyce: Aye; Member McLaughlin: Aye; and, Chairman Greene: Aye.

Motion accepted (5-0)

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Investment Policy Statement

Mr. Manning opened by stating that System's investment policy statement (IPS) serves as the corner stone for the System's investment program. The statement is meant to guide all aspects of the portfolio including: Goals and Objectives, Investment Guidelines, Roles and Responsibilities. NEPC has updated the System's IPS for the Board's review and approval.

NEPC Updated the actuarial rate of return to 7.05%, added two new Goals & Objectives.

Liquidity: The portfolio can invest in both liquid and illiquid strategies. The overall liquidity profile will be considered when deciding on the target asset allocation.

ESG: (Environmental, Social and Governance): The Board will consider an investment manager's approach to ESG as part of the evaluation and selection process.

Allocation and Managers: Appendix I is updated to reflect the current asset allocation policy and Appendix II is updated with the current investment managers and respective benchmarks.

Member O'Reilly asked NEPC about proxy voting. Mr. Manning referred to page 12 of the policy statement. Responsibility for the exercise of ownership

rights through proxy voting shall rest solely with the investment managers, who shall exercise this responsibility according to CFA Institute standards and strictly for the long-term economic benefit of the System, its participants and beneficiaries. The Board considers the voting of proxies to be an integral part of the management of the System's investments, and as such, investment managers should be voting in an informed and responsible manner. Investment managers shall annually report to the Board on their standing policies with respect to proxy voting, including any changes that have occurred in those policies.

Motion made, and seconded, to accept the Investment Policy Statement as presented today.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Joyce: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0) *Member McLaughlin abstained.

2022 Asset Allocation Review

Mr. Manning stated that at the January 2022 Board meeting, NEPC provided their current market themes, opportunities, and assumptions for 2022. At today's meeting, NEPC reviewed the System's asset allocation and discuss potential changes for the Board's consideration:

- 1) Reduce U.S. TIPS Exposure. Disperse TIPS proceeds to safe-haven fixed income and/or the portfolio. NEPC is concerned TIPS will be negatively impacted relative to nominal Treasuries should real rates increase due to a surprise in the speed the Fed tightens monetary policy.
- 2) Add U.S. Large-Cap Value Exposure Add large-cap value exposure to U.S. equity, while maintaining overall equity exposure. US. large-cap value exposure can help mitigate the portfolio impact relative to the S&P 500 of heightened inflation levels normalizing above market expectations and interest rates rising.

NEPC Recommendations'; Large Cap: +1%, High Yield: -1% implementation. Withdraw ~\$50m from High Yield (Crescent & DDJ) to align with the new target. Allocate to EM Equity which is slightly underweight its target. The Large Cap allocation is already closely aligned with the proposed 18% target and doesn't require rebalancing at this time.

Motion made, and seconded, to accept the 2022 Asset Allocation as presented.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Joyce: Aye; Member McLaughlin: Aye; and, Chairman Greene: Aye.

Motion accepted (5-0)

2022 Search Planning

Ms. Fischer stated The System's 2022 searches timing and focus of each search may be modified at the Board's discretion.

1. High Yield: Required (every 7 years), February 2022.
2. Small Cap Equity: Required (every 7 years), October 2022.
3. Private Debt: - \$60M, Asset-based Lending, Niche Lending, Direct Lending.
4. Real Estate: - \$80M, Value-Add, Opportunistic, Debt. April 2022.
5. Private Equity - \$60M, Co-Investments, Energy (ESG?), Infrastructure

Does not include Hamilton Lane commitments of \$80M – June 2022.

Q4 2021 Performance Summary

Mr. Manning went on to state that during a one-year period, The BRS investment return of +13.1 is very good. NEPC is very happy with the returns given the years uncertainties. Some of the key contributors are, manager selection within high yield fixed income served as a tailwind for overall performance, as all managers outpaced their respective benchmarks for the quarter. Also, A relative overweight to alternatives added to the plan's performance and peer universe ranking for the quarter.

Some of the performance highlights are, the High Yield Fixed Income was the System's highest-ranking composite for the quarter, ranking in the 14th percentile. Aristotle US Small Cap was the System's highest-ranking manager for the quarter, ranking in the 1st percentile and outpacing its benchmark by 290 basis points.

January 2022 Flash Report

Mr. Manning presented the January Flash Report stating that the System total fund performance for the Month was -3.2%, three-month return was -2.1%, So a couple of semi difficult Months but the yearend numbers are phenomenal. Looking at the managers, Todd had a really good run. One year +12.4% returns. The Emerging Markets struggled a little. As for Fixed Income, AFL-CIO H.I.T did well and overall the Core Fixed Income managers are beating the bench mark by 60 basis points.

Work Plan

Mr. Manning stated that NEPC has included an updated work plan with the including a proposed work plan for 2022:

Mr. Kelly stated that he wanted to inform the Board that the investment consultants search RFP was posted to the BRS website last week. The deadline is March 1, 2022.

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

January 2022 Financial Snapshot

Ms. McCarthy reported the January 2022 pension payroll as follows: Contributory payroll: \$57,729,811; Contributory Payees: 15,467; Non-contributory payroll: \$278,114; Total Non-contributory payees: 32; Regular Retirees: 24; Survivor/Beneficiary Retirees: 1; Disability Retirees: 5; Option C/Disb Surv 10; Members Refunds: 40 for \$1,010,069; Members Transfers: 3 for \$111,530; Option B Refunds: 0 for \$0; and, Operational Warrants: \$ 195,676.

Ms. McCarthy went on to mention that the cyber security candidates have been contacted and some say that they may need to have a call with the City's Chief Technology Officer, which has already agreed to be available.

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

January 2022 payroll update

Ms. Weir provided an update on the payroll numbers for the month of January 2022. There were 36 possible cases, (29 Superannuation's, 2 Death of Active, 5 Disabilities.) 6 cases that did not make it to payroll. Ms. Weir noted the following reasons the reasons members did not make it on payroll; 1 changed retirement date, 5 did not return final papers. 4 Superannuation's and 2 Death of Active. All disabilities made the payroll.

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

PERAC Memos

Mr. Smyth presented the following PERAC memos for the Board members review:

- PERAC Memo 7-2022 re buyback and make-up repayment worksheets.
- PERAC Memo 8-2022 re actuarial data.

- *Bisignani v Justices of Lynn Division of District Court Department of Trial Court*, MA Appeals Court.
- *Mass Teachers Ret System v Blue Hills Ret System et al*, DALA decision.
- *Worcester Regional Ret Bd v PERAC*, MA Appeals Court.

Mr. Smyth stated that the *Mass Teachers Ret System v Blue Hills Ret System et al* DALA decision involves §3(8)(c), which is a common practice amongst Boards prorating pension benefits and sending bills back and forth for a retiree's service in other systems.

Worcester Regional Ret Bd v PERAC will probably be referred to as *Vernava II*. In it, the SJC determined that supplemental pay on workers compensation benefits is not "regular compensation." Historically, BRS have taken retirement deductions from those contributions. We have stopped taking deductions in the cases of the disability unit and have been issuing refunds when they are ultimately approved. This case extends *Vernava I* to superannuation retirements. It is going to be an administrative nightmare because it has retroactive application. In theory the System has to go back and undo a lot of pensions. Mr. Smyth stated that there has yet to be a PERAC Memo issued on this case.

Member O'Reilly stated the BFD Union will be filing a bill to change the definition. The bill will protect the retiree. So, they don't have to go in and taking money away and billing folks for what would then be considered over payment. Member O'Reilly will keep the Board informed of any progress. Mr. Smyth stated that he would like to be involved and noted that this will also impact EMT's. They do not get the injured pay that other public safety employees get. The System also has a huge population from the BPS as well.

Ms. Thomas reported on the *Bisignani v Justices of Lynn Division of District Court Department of Trial Court* pension forfeiture case. Bisignani was a municipal employee for about 34 years. He worked for different public employers and retired from Saugus and worked for Nahant. He was indicted and convicted of numerous crimes related to his position in Saugus. He had a \$60,000 fine and the Saugus Retirement Board forfeited his pension. His attorney argued that it was an excessive fine. This case has gone to the appeals court last month and they ruled the forfeiture was not an excessive fine. The analysis is based on two findings. One, is to find out how much the pension is worth and it was determined that Mr. Bisignani's pension is worth \$3.5 million. He argued that for Saugus to forfeit the entire pension would be excessive. The court also

conducted an analysis as to his culpability. Based on the seriousness of the crime the court determined it was not an excessive fine.

Mr. Smyth believes they also made a comment in the decision that this was the highest actuarial dollar amount of a pension benefit that they have reviewed. Most are small ticket items but this was the biggest. And, they still forfeited because of the offense versus the theft.

Member O'Reilly wanted a moment before the exit from Administrative Session. Member O'Reilly went on to state that the Board all knows what's going on in the City with the vaccination mandate. BFD alone is looking at 87 employees who can potentially lose their job. Some of the newer firefighters called him and asked about §10. He did not know so he contacted legal. At the Union meeting there was a motion made that they have a retirement seminar to help educate the employees. He contacted Mr. Smyth who agreed organized the seminar. Member O'Reilly wanted to thank Mr. Smyth and the BRS team for their great work.

Adjourn from Administrative Session

The Board voted unanimously to adjourn from Administrative Session at approximately 11:03 a.m.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Joyce: Aye; Member McLaughlin: Aye; and, Chairman Greene: Aye.

Motion accepted (5-0)

Respectfully submitted,
BOSTON RETIREMENT BOARD

Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman

Maureen A. Joyce
Ex Officio Member

Michael W. McLaughlin
Elected Member

Michael D. O'Reilly
Elected Member

Thomas V.J. Jackson
Fifth Member