

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

December 21, 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; Michael W. McLaughlin, Elected Member; Maureen A. Joyce, *Ex Officio* Member; Thomas V.J. Jackson, Fifth Member.

STAFF IN ATTENDANCE: Christine Weir, Interim Executive Director; John F. Kelly, Investment Analyst; Natacha Thomas, General Counsel; Ellen M. McCarthy, Comptroller; Lauren Santillana Interim, Operations Officer; Brendan McGough, Assistant General Counsel; Gregory Molina, Executive Assistant

ALSO IN ATTENDANCE: Mike Manning, Kiley Fischer, Bob Britenbach *NEPC*; William Oates, Consultant; Michael Dwyer, Consultant; Bela Kirpalani, Reporter, MandateWire; Jim D'Arcy, Corina S. English, Owen Burns, Hamilton Lane.

(All Attendees remotely present.)

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:05 a.m.

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

Motion accepted (5-0)

Motion made, and seconded, to accept the Administrative Session Minutes of the November 16, 2022 meeting as presented.

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

Motion accepted (5-0)

Outstanding/Ongoing Administrative Issues: Christine Weir, Interim Executive Officer

IT Security Update – Grey Castle

Ms. Weir introduced Mr. Oates for update.

Mr. Oates stated that ransomware is not going away, criminals continue to innovate, 66% of victims paid attackers. Hybrid (premise + cloud) environments complicated to secure; cyber resilience critical. He said, responsibility and accountability over data and processes are more important than ever. The BRS risk assessment shows a solid foundation; road to cybersecurity maturity requires increased planning, effort, and funding.

Mr. Oates quoted from GreyCastle Risk Assessment;

- Prioritized Findings Improve Contingency Planning and Training.
- Review current state with BRS business process owners, understand business process to evaluate risks, recovery time objective (RTO) and recovery point objective (RPO).
- Identify, classify, and protect data in accordance with regulations set forth by standards such as Health Insurance Portability and Accountability Act (HIPAA), or data containing personally identifiable information (PII).
- Establish a working group for the purpose of reviewing and enhancing cyber incident response plan for BRS Implement a Backup Strategy. 3-2-1 standard.
- 3 copies of the backup, 2 types of media, 1 offsite. Immutable – so ransomware will not impact. Follow federal, state, and local laws for records retention. Enhance vulnerability scanning, perform annual penetration testing Enhance Cybersecurity Awareness.
- Training for all BRS. Testing, trend review, enforcement
- Vendor Management Policy – Review active support agreements with vendors, confirm recovery services for cloud and in-house products/services for all utilized software platforms. Implement vendor management policy.

From GreyCastle Assessment and Cyber Insurance Discussions

- Implement and enforce Multi-factor Authentication (MFA);
- Maintain an accurate equipment and software inventory.
- Evaluate process to effectively perform patching and inventory management.

- Keep software, network, and server equipment up to date with the latest patches or versions.
- Plan for legacy systems that cannot be updated: identify risks and implement programs to mitigate risks.
- Review email SPAM filter capabilities with DoIT. Review endpoint detection and response (EDR) capabilities with DoIT.
- Reassess inventory at least annually.
- Plan for a five-year refresh cycle on IT equipment.
- Follow Up DoIT Cybersecurity Governance Forum & Vitech monthly/quarterly reviews. DLP (Digital Loss Prevention) solution.
- Isolate BRS Network. MFA on all privileged accounts, Cybersecurity Governance Library, BRS Service Catalog.

Reschedule Meeting

Ms. Weir stated that the Board changed the April meeting date, from April 16 to April 26, 2023. All dates have been approved by the Board and may be changed as needed.

Chairmen Green and the Board members discussed developing a protocol to change a meeting dates.

Chairman Greene asked the members to look at draft meeting reschedule procedure and send comments to Ms. Weir.

PERAC Memos

Ms. Weir stated that she provided in CSI a PERAC memo for the Boards information.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

NEPC

Investment Update

Small Cap Equity Search

Mr. Manning stated that the small cap equity search was issued in compliance with the seven-year search PERAC requirement. The search included core, value, and growth strategies. There were 91 responses received to the search from 91 investment managers.

The System's current small cap equity program is comprised of three strategies and has a 6% target allocation. At today's meeting, NEPC provided a

review of the existing small cap managers: Aristotle (core), Bernzott (value), and Westfield (growth).

The objective of today's review is to (1) reaffirm the Board's comfort and conviction in their existing relationships, or (2) identify strategies as potential replacements for the System's small cap equity program.

Small Cap Managers Risk and Returns

Mr. Manning stated that Aristotle and Westfield have both performed well against the benchmark over most time periods. However, Bernzott's performance has been challenged over the last couple of years. Mr. Jackson asked where there might have been some style drift towards Growth. Mr. Britenbach and Mr. Manning from NEPC agreed and noted after being rewarded for that tilt in early years, that is no longer the case and more recently has vastly outperformed Growth.

Mr. Manning stated that the recent performance gap certainly warrants looking at other managers in the small cap value space. He told the Board, it doesn't mean they have to make a change and the Board can certainly invite Bernzott in to present given the seven-year relationship.

Mr. Manning stated that in January we're interviewing the diverse private equity firms so we can review the small cap search book in January or February and then we'd have the managers come in the month after that.

Pacing Plans

Mr. Manning stated that NEPC has included the updated private debt and real estate pacing plans in today's materials. As a reminder, the annual private markets pacing plan is used to determine future commitment amounts for these spaces.

The pacing plan is based on the most recent valuations available, with the majority being as of June 30, 2022. He explained that the decline in the markets over recent months has caused the system's total assets to decrease and thus caused NEPC to decrease the recommended commitment amounts for 2023 accordingly.

Hamilton Lane

Ms. English began by stating that, I imagine a big piece of what is on your mind is this rising interest rate environment and the implications to the private markets. This generally impact deal-making in the private markets. because as your cost of capital rises, things get more expensive This puts downward pressure on valuations and on asset prices.

She said that our managers are have stayed and will stay really disciplined. Realizing that things would likely pivot on the interest rate front. They've baked in higher interest rates scenarios into their modeling when they forecast out for new deals. Because rising rates will eventually drive business values down. We think that's a terrific environment to be buying assets in businesses and our data has shown that time and time again that some of the best performing vintages in private equity are those investing into and immediately following a recession.

She told the Board that it's really hard to market time in this asset class. Therefor maintaining a consistent, allocation is really important. Their data shows that private market valuations generally correlated to public markets but to a smaller magnitude. This means that on a relative basis they expect that private equity should outperform the public markets and you can see that over varied market cycles but nowhere is it more magnified than during downturns. Specifically, private equity outperformed the public markets by nearly 900 Basis points about performance during the “.com bubble” over 1900 basis points during the Global Financial Crisis.

Ms. English continued by stating that if the fortunate enough to get the Boards approval of the extension request for 2023, they are going to continue to do what they have done for the system since 2016. That is build a high-quality private equity portfolio that outperforms the market, that is diversified by strategy, geography and sector.

Mr. Kelly stated that Hamilton Lane have been great to work with and that over those six years they're returning to us now net of all fees and expenses is over 26%, this is great performance and is as good, if not better than what he hoped for. Hope for originally six years ago. So, It, in my opinion He said he would strongly recommend continuing the partnership here?

The Board and staff discussed past performance, fees, timelines and other alternatives for this investment space.

Motion made, and seconded, to exercise the final option and commit \$80 million to Hamilton Lane to invest in Tranche 3 in 2023, as presented today.

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

Motion accepted (5-0)

November 2022 Flash Report

Mr. Manning said that in the month of November the system was up 4.7. The three-month was up 1.9% and the YTD was down -8.2% through November.

Work Plan

Mr. Manning stated that NEPC has included an updated work plan with the meeting materials. As shown on the work plan.

	December	January	February	March	April	May	June
TOTAL PLAN							
Asset Allocation			Asset Allocation Review				
Performance			Q4			Q1	
Education/Review			Market Outlook				
TRADITIONAL							
Search/ Presentations	Small Cap Search Review	Analysis/ Presentations					
HEDGE FUNDS							
Program Planning			HF Search Discussion				
Search/ Presentations							
PRIVATE MARKETS							
Program Planning	Private Debt Pacing Plan						
Search/ Presentations	Hamilton Lane Update	Diverse FoF Presentations					
Performance			Q3			Q4	
REAL ESTATE							
Program Planning	Pacing Plan						
Search/ Presentations				Revisit Search (Opp & Debt)	Analysis/ Presentations	Analysis/ Presentations	
Performance			Q3			Q4	

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

November 2022 Financial Snapshot

Ms. McCarthy reported the November 2022 pension payroll as follows: Contributory payroll: \$60,990,217; Contributory Payees: 15,730; Non-contributory payroll: \$257,680; Total Non-contributory payees: 29; Regular Retirees: 47; Survivor/Beneficiary Retirees: 2; Disability Retirees: 8; Option C/Disb Surv; 2; Members Refunds: 67 for \$ 1,446,124; Members Transfers: 13 for \$ 504,980; Option B Refunds: 0 for \$0.00; and Operational Warrants: \$347,214.

2023 Budget

Ms. McCarthy stated the proposed budget for 2023, is \$12, 593,375. 2023 budget has a 13% increase from the calendar year of 2022, budget and some of the reasons as are as follows. The personnel increase slightly is due to estimated CBA expectations. For the next couple of years. While the contracts are still yet to be settled for staff.

Technology decreased 9% For a couple of reasons, first, as a result of the pension software upgrade with Vitech and the use of AWS, we no longer need to contract with Oracle or IBM, the software support which is a savings of about a \$100k. Second, we are winding down on the repayments of bonds for the initial V3 software purchase. We have completed payment on one bond in 2022 and the second one will be paid in full in March of 2023. The third bond will be paid by the end of 2025. Finance decreased by six percent. Primarily due to a slight decrease in investment consulting fees from what was budgeted in 2022.

In 2022, The BRS contract was going to bid and with uncertainty as to what the costs would be. We budgeted slightly higher for the contract which came in a little bit lower in the bidding. So that's why that's down about six percent. This is also a slight decrease in the actuary budgeted numbers for 2023 as this is not a full valuation year. There is a slight increase in audit fees for the contract that we have with Ernest & Young for the next few years. The disability budget increased 24%, the increase reflects an additional third legal counsel.

The general office budget, which had the largest increase of 94%. The majority of this increase is due to the cost estimation of the renovations in order to consolidate the two office locations related to the renovations that if you recall has increased threefold from what was budgeted in the 2022, budget. There's also an

increase budgeted for the ever-increasing costs of cyber security, which you are all very well aware of how that's increased in the last couple of years.

Ms. Mcarthy provided a detailed copy of the 2023 budget is in CSI for the Board members further review.

Motion made, and seconded, to accept the 2023 operating budget as presented .

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

Motion accepted (5-0)

Outstanding/Ongoing Operations Issues: Lauren Santillana, Interim Operations Officer

November 2022 payroll update

Mrs. Santillana provided an update on the payroll numbers for the month of November. 43 new retirees scheduled for the November payroll, 32 Superannuation and 8 Disability Cases and 3 pre-retirement death case. Out of the 43 cases, 38 new benefits were put on payroll from the November list plus an additional 18 that had missed prior payrolls for a total of 56 new retirees. (46 superannuation, 8 disability, 2 pre-retirement death) 5 missed the payroll, 4-missing tax and direct deposit forms and certs and 1-no final papers returned.

Outstanding/Ongoing Legal Issues: Natacha Thomas, General Council

Legal update

- *19-0209 George Booker v. BRS CRAB Decision*

Ms. Thomas stated that there are no outstanding or ongoing legal issues to report. Ms. Thomas introduced the new associate general counsel who just came on Board. His name is Brendan Mcgough.

Adjourn from Administrative Session

The Board voted unanimously to adjourn from Administrative Session at approximately 11:36 PM.

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



Michael W. McLaughlin
Elected Member



Thomas V.J. Jackson
Fifth Member



Maureen A. Joyce
Ex Officio Member



Michael D. O'Reilly
Elected Member