

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

October 16, 2019

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.

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

ALSO IN ATTENDANCE: Will Forde, Kiley Fischer, Seth Goldman of NEPC; Michael Koenig, Corey English of Hamilton Lane; William Oates, IT Consultant.

Administrative Session Convene

The Board voted unanimously (5-0) to enter into Administrative Session at approximately 10:08 a.m. 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 prior meeting as presented and as corrected with period instead of a comma on page four.

Motion accepted (5-0)

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

IT Update

Mr. Oates began by giving his background and credentials in public and private service. He stated that Vitech's proposal to upgrade to V10.10 has technical merit, including the move to cloud services (Amazon Web Services). However costs for upgrade and cloud migration/operations seems high. Vitech is making overtures of genuine cost reduction but the actual proposal will need to be evaluated.

Mr. Oates noted that outreach to City of Boston (COB) CIO Dave Elges was successful regarding the formation of a Boston Retirement System (BRS)/COB working group to assess the current/planned tech infrastructure of BRS. A follow up meeting is being scheduled that will involve Bill Oates, Gloria Pizzarella, and key COB DoIT players. The goal is to understand and make visible the important infrastructure elements, roles, and responsibilities. This activity is a building block for both a potential BRS move to the cloud (V3 or PTG) and improved cybersecurity positioning.

As for cybersecurity, a successful exploratory meeting was held with Cambridge Retirement Board (CRB) (Ellen Philbin, Executive Director and Chris Burns, Deputy). CRB is amenable to sharing a certified security expert with BRS in some sort of pro rata cost-share given that BRS has the larger and more complex landscape to manage. CRB intends to include funding in their 2020 budget. We are beginning to detail the full set of requirements for effective cybersecurity and digital risk management for BRS.

Pension Technology Group Proposal to BRS

We continue discussions with Pension Technology Group (PTG) to define a proof-of-concept or pilot project that could effectively demonstrate their ability to develop teacher-specific functionality. To date we have held two meetings and provided configuration and sample data using COB PeopleSoft data. The meetings have been productive and PTG staff has demonstrated a good understanding of the space. We do have a deliverable to PTG for some additional data – a full set of expected payroll earnings data for teachers that was not included in our first query. BAIS was notified and we are hoping for a quick correction to the query.

Mr. Smyth stated for clarification the BRS would not totally divorce itself from the COB IT services, only from Vitech related applications. If that was the will of the board.

Documents Presented

- Update Memo on Vitech Proposal and BRS Tech Related Activities (10/15/19), Vitech Systems Group - V3 V10 Upgrade and V3locity Services Proposal, IT update memo.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Hamilton Lane ("HL") annual presentation

Mr. Koenig opened by outlining the presentation and introducing Ms. English who would go over the investment work plan. He stated that the firm has maintained the same leadership and structure since Hamilton Lane and the system have worked together. While the firm has grown, they want to make sure they provide the experience and level of service their clients expect.

HL has \$473.5B Assets under management and supervision. The Strategic Enhancements include; Enhanced Operational Due Diligence team process (ODD) reporting up through Compliance and Risk Management Head. The firm has added two senior resources, new technology and over 700 controls monitored across the firm. There is an ongoing strategic enhancement to technology solutions. Niki Mangos has joined HL as Chief Technology Officer in 2019. They have also added Cobalt and iLevel system improvements to benchmarking, company data, visuals and interface.

Private Market and Private Equity market updates

Mr. Forde wanted to speak on where we are in the cycle. Are we heading into a market correction or recession? What does that mean for the Private Markets? If we focus on the Private Markets on pages 8 and 9, it will give you some sense that this is a market that continues to grow. Page 8 shows the number of opportunities that HL sees on an annual basis. At this record pace we will be looking at well over 1000 opportunities to invest in this year. We think that gives us the breath to see the whole market and be very selective on behalf of our clients.

That growth that you can see on page 9 is changing over time. If you think about this market even before 2007 going back as far as 1999, the growing sectors around Private Credit, infrastructure and other resources still comprise a much smaller share of the total market. So this growth that we are seeing is both in size and scale. There is a more diverse set of opportunities in the Private markets today than ever before. Even with all that growth if you look at the top of the page, we are still only 11-12% of the world market capital. GPs are expanding into new product lines to follow the flow of funds into "non-traditional" strategies. Despite the fact Private markets have grown significantly faster than public markets over the last 20 years, they still are only one-eighth the size.

As for Global Private Markets Fundraising, SoftBank Vision Fund boosted fundraising in 2017 to record levels. Fundraising in 2018 showed slight decline from that record high. The multiple mega fund managers raising in the same

year can drive fundraising totals where Shadow fundraising has added an additional ~20% per year to global fundraising numbers.

Documents Presented

- Hamilton Lane 2020 Strategic Plan & Tranche 3 Proposal, Retirement Boards by Funded Ratio from PERAC.

Fisher Investments

Will Forde from NEPC wanted to address an issue with one of our investment managers. Fisher Investments manages a separate account non-US equity portfolio on behalf of the system with a market value of about \$250M. The head of Fisher Investments, Ken Fisher last week at a conference made some inappropriate comments. Since that time there has been a lot of blow back. Comments from the media and also from clients that has them reevaluating their relationships with the firm. NEPC wanted to make the Board was aware of that and that any time there is a situation like this we think there are two risks. One, there is the perception risk, people externally viewing your investment with a firm that is in this position. Two, the investment side of things, which focuses on, is this going to be a distraction for the senior leadership or the portfolio managers. What impact do assets potentially going out the door have on the investment pieces. For the strategy that the system is in, NEPC clients make up the vast majority of those assets. So you have good visibility into the investors in that strategy and what they may or may not be doing. NEPC feels that at this time it will be on a client case by case basis on what or what not to do.

All Board members were aware of the local and national media coverage of the incident and discussed the inappropriateness of comments made by Mr. Fisher. They discussed other public retirement systems that have withdrawn their investments already (State of Michigan and City of Philadelphia). The Board discussed the response from Fisher Investments; the letter released from Mr. Fisher; a memo sent from the firm to its employees and what impact on the Boston Retirement System (BRS) both public relation wise and financially. It was noted there had not been hint of a potential resignation of Mr. Fisher. The discussion then turned to what options does the Board have to prudently redistribute these assets if Fisher is terminated.

Motion made, and seconded, to terminate Fisher Investments as an asset Manager of an International Equity mandate. Staff will work with NEPC and custodian State Street to transition the assets at State Street to be indexed against the EAFE benchmark.

Motion accepted (5-0)

Real Estate Search Review

Mr. Forde started by stating that NEPC has provided a list of respondents to the System's Real Estate search which focused on identifying candidates across three different styles: Debt, Value-Add and Opportunistic/Global. As a reminder, this search encompasses the targeted real estate commitments for 2019 and 2020. The objective of this discussion is to identify a shortlist of respondents to include in a detailed search analysis across the three different style types. At this time, the Board may also determine finalists to interview. The search review and comprehensive candidate list led that today's meeting would be to go over a few steps that have been taken and starting to plan ahead for the rest of the year.

As part of the Real Estate investment program, BRS needs to commit to new funds each year. The BRS has to maintain vintage year diversification and maintain investment level as older funds wind down. The current Real Estate search encompasses the targeted commitments for 2019 & 2020. Today we will target managers across the style/risk spectrum. NEPC feels that a good range for the BRS to look into in terms of Real Estate commitments are in the range of \$45m in 2019 and \$55m in 2020.

NEPC recommends committing an additional \$100-120 million to the System's Real Estate program, \$20-\$40 million to Debt, \$30-\$60 million to Value-Add (US) and \$20-\$40 million to Opportunistic/Global. The Real Estate search respondent list was discussed along with Real Estate Value Added, Debt and Opportunistic investment strategies. The board along with NEPC input identified Kayne Anderson, Sculptor Capital and AEW Capital as Managers they would like to interview at the November Board meeting.

September 2019 Flash Report

The Total Plan was up +0.9 in September bringing the quarter to -0.2% and the year to date performance return to +9.8%. Private Markets has not been updated yet for the quarter. NEPC anticipates returns for the quarter to go up a little after they are. In September developed International Equities was the systems highest performer up +3.0%, three of the four managers were able to beat the benchmark. NEPC wanted to also point out that in the Large Cap Growth space, although Zevenbergen Capital was down -11.5% for the quarter they are up +23.2% YTD.

NECP Work Plan

NEPC will return with a State Street update on the transition of the Fisher assets for next month's meeting and details and evaluation of the Real Estate Manager candidates will be presented.

Documents Presented

- NEPC October 2019 Meeting Materials Presentation

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

Mr. Smyth discussed the following items for Boards attention that were included in the meeting packages;

- Certificate of Receipt of Open Meeting Law Materials
- Acknowledgement of Receipt of Summary of the Conflict of Interest Law for Municipal Employees
- Cyber-security insurance additional quotes from Travelers
- Meeting dates and Standard Agenda for CY20

Lloyds of London did submit a quote for cyber security. In the interest of full disclosure, Mr. Smyth stated that while in private practice over ten years ago, Lloyds of London was a client of his. He has not represented nor has he communicated with anyone at Lloyds in over ten years.

Documents Presented

- Certificate of Receipt of Open Meeting Law Materials; Acknowledgement of Receipt of Summary of the Conflict of Interest Law for Municipal Employees; Cyber-security insurance additional quotes from Travelers; Meeting dates and Standard Agenda for CY20.

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

September 2019 Financial Snapshot

Ms. McCarthy reported the following: Pension payroll contributions; \$53,080.028; Total Payees: 15,124; Payroll non-contributors: \$319,544; Total payees: 53; New Regular Retirees: 45; Survivor/Beneficiary Retirees: 6; Disability Retirees: 0; Refunds and transfers: 88 for \$2,060,987; Members Refunds: 80 for \$1,660,571, Members Transfers: 6 for \$334,687; Option B Refunds: 2 for \$65,728; Operational Warrants: \$502,965.

August 2019 Financial Statement

Comptroller McCarthy presented an August 2019 BRS financial statements. The BRS overall total investments in relationship to year end are up \$400M, total assets up over \$550M, liabilities up \$23M. Primarily due to the investment payables that shifts every month but it's up a little high this month. Overall net assets available are up \$435M compared to 12/31/2018. On the income side, the eight months for August 31st in comparison to last month we're up

about \$10M in our interest and dividend. Our other additions are down overall \$7M for the month. Our total additions net out to be about \$3M down for the month in comparison to July. The BRS net increases in assets are down \$60M for the month in comparison to July. Our overall end of period net assets went down \$60M, so down a little bit in this month but still up from the overall year end 12/31/2018.

Documents Presented

- September 2019 Financial Snapshot Sheet, August 2019 Financial Statements Sheet

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

September 2019 payroll update

Operations Officer Weir presented an update on the payroll number for the month of September, 2019. She stated that there were 62 Possible Retirees: 51 Superannuation's, 3 Disabilities & 8 (Death of Active Member). 11 cases did not make the payroll. Reasons for missing payroll; 7 did not return final papers on time: 1 needed additional documents; 1 widow to apply for SS#; 1 needed additional salary from outside agency; 1 disability case still being worked on.

Ms. Weir also stated that 488 applications for the Boston Teachers Union and the substitute teachers were processed 414 were completed and 74 were not finished.

Documents Presented

- September 2019 Payroll Sheet

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

Waiver Request

- Althea D. Pinckney BPS \$835.78

Motion made, and seconded, to deny waiver request of Althea D. Pinckney for waiver request in the amount of \$835.78 as the request was made in a non-timely manner.

Motion accepted (3-2) Board Members O'Reilly and McLaughlin (Nay)

Mr. Lydon presented the following PERAC Memos for educational purposes:

- PERAC Memo 22-2019 re tobacco company list
- PERAC Memo 23-2019 re Board Member Training
- PERAC Memo 24-2019 re appropriation data due Oct 31, 2019

Mr. Lydon presented Superior Court decision on the O'Leary vacation buyback case. There is a 30 day appeal process and Mr. Lydon anticipates an appeal will be filed.

Adjourn

A roll call vote was had to adjourn from Administrative Session and enter into Executive Session at approximately 12:23 p.m.

Motion accepted (5-0)

Motion made, and seconded, to adjourn from Administrative Session at approximately 12:28 p.m.

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