

MINUTES OF BOSTON RETIREMENT BOARD

**Administrative Session**

July 25, 2018

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Sally D. Glora, *Ex Officio* Member; Thomas V.J. Jackson, Fifth 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; Tara Jeanetti, Board Secretary.

ALSO IN ATTENDANCE: Mike Manning, Will Forde, Jake Mallinson of NEPC; Luella Wong, ABC Project; Kathy Riley, Lisa Denmark of Segal Consulting; Kathy Devito of State Street Corporation; Mary Owen.

EXCUSED ABSENCE: Michael W. McLaughlin, Elected Member.

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Administrative Session Convene

The Board voted unanimously (4-0) to enter into Administrative Session at approximately 10:05 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.*

**Motion accepted (4-0)**

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

*ABC Project Update, Luella Wong - Consultant*

Ms. Wong began by passing out an ABC Project update report. She stated that the project was close to completion. There are currently four queries in progress. The goal is to get the queries to Vitech by July 26, 2018, and Vitech will then wrap it up the following week. There are approximately 15,000 accounts that she expects to be zeroed out.

However, the accounts that won't be zeroed out, need to be identified and addressed separately. Ms. Wong described those cases in June 2018 meeting. It is expected to have them identified in August 2018.

Everything will have a full comment and be traceable. That will be the focus for August. It will only take a couple of team members to complete; the rest of the team will start on the DQ project as early as next week.

#### Documents Presented

- ABC Project update report.

#### Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

##### *Actuarial Valuation*

Ms. Riley opened by referring to the June 15, 2018 report outlining the preliminary evaluation results from 2018. Since the memo was drafted they have been working on the final valuation report. There were updates with additional information on assets. There are \$55m in assets that are not reflected in the report, which would increase the experience. GASB gauged teachers separately; the assumptions and assets are tracked separately.

The summary of participant information for the system for the non-teachers shows a one percent (1%) increase in the number of active participants. Total payroll has gone up 7.6%; average payroll has gone up 6.4%. There are 7,500 inactive accounts, 800 participants that are inactive and are eligible for benefit.

The investment rate of return assumption was lowered from 7.75% to 7.50%. The mortality tables for non-disabled participants were updated from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables set forward 1 year for female participants projected generationally using Scale MP-2017. The mortality table for disabled participants was updated from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.

As to the teachers, Ms. Riley noted that the investment rate of return assumption was lowered from 7.50% to 7.35% by the state. The mortality tables for non-disabled participants were updated from the RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D to

the RP-2014 White Collar Employee and Healthy Annuitant Mortality Tables projected generationally with Scale MP-2016. This report also reflects the increase in the COLA base from \$13,000 to \$14,000 effective July 1, 2017.

There is a 5.5% increase in the number of teachers, up to 6550 teachers. Total payroll has gone up a little less 6.1%, average pay has gone up 1.4%. The payroll for the system as a whole doesn't capture the experience of the system that reflects the current population. So when we look at the analysis for each group's perspective salaries, we are looking at people with continuing factors with higher increases in that group these number are higher then what were shown to board. These numbers are looking at older people with higher salaries who retire or leave the system and their replacements come in with lower salaries. As for the investment performance the assets are invested differently between the teachers and non-teachers. Segal calculated the market return for the non-teacher assets at 6.2% in 2016 and 15.8% 2017. For the teachers, the return for the market value basis was 7.5% in 2016 and 6.7% in 2017.

*Motion made, and seconded, to accept and adopt the investment assumption return of 7.5%.*

**Motion accepted (4-0)**

*Motion made, and seconded, to accept the GASB Statements No. 67 and 68 Accounting Valuation Report with assumption changes as presented. The assumption changes are the Mortality Table, investment assumption and the administrative expense assumption going from \$950 to \$1,100.*

**Motion accepted (4-0)**

#### Documents Presented

- July Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 Accounting Valuation Report. Boston Retirement System - Preliminary January 1, 2018 valuation memo. PERAC charts on Investment Return Assumptions.

#### *2018 Emerging Market Debt (Blended) Search*

Mr. Forde noted that a search notice was issued in May 2018 to fulfill the System's 4% target to emerging market debt "EMD" and evaluate potential alternatives to the System's existing manager. Respondents were required to have a 3-year track record and assets of at least \$400 million.

Loomis Sayles is the System's existing EMD manager and began managing the mandate in November, 2011. Loomis initially managed a Local

Currency only portfolio and switched to a blended approach in January 2016. Given Loomis' challenged performance, the Board voted to issue a search to consider potential EMD alternatives.

Our goal today is to narrow down the list of 32 candidates to 8-10 firms to conduct a more detailed analysis to be presented in August 2018. Several candidates are "Preferred" managers on one or more of NEPC's EMD Focused Placement Lists. Some candidates have experience managing either hard or local currency bonds but not both. A commingled fund would be the preferred vehicle for this type of a mandate. NEPC will work with the candidates on the short list who proposed a separate account to see if they are willing/able to offer a commingled fund.

As for candidates, NEPC has identified 10 firms that they feel comfortable with moving forward on. Out of the 10 NEPC there may be three that may have firm/team issues or performance considerations that would lean NEPC towards excluding their candidacy. The three would be GMO, Stone Harbor Investment Partner and PIMCO. These firms have never had a blended strategy. The board expressed their desire to keep GMO as a candidate until the next round. For comparison purposes NEPC recommends that the board include TCW and Finissterre Capital. The board would also like to include Amundi Pioneer and Manulife Asset Management added to the list.

#### *June 2018 Flash Report*

The Total Plan was down -0.9 in June bringing the quarter to -0.5% and the year to date performance return to -0.2%. One of the main drivers for underperformance would be the IF update composite which has underperformed the bench mark by roughly 150 basis points mainly due to the strengthening of the U.S. dollar. Hedge fund composite has picked up some and that's the reshuffle that we made about four months ago. The big story of the second quarter is the trade war has really affected the emerging market strategies. There's concern about the dollar relative to emerging market currency.

#### *NECP Work Plan*

NECP will return with a finalist candidates list for Emerging Market Managers. The system needs to do a search in the equity space. What NEPC suggests is that in August the system and NEPC discuss the equity portfolio as a whole.

- Documents Presented

- NEPC October 2019 Meeting Materials Presentation, June 2018 Flash Report, NECP Work Plan

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

*June 2018 Financial Snapshot*

Ms. McCarthy reported the following: Pension payroll contributors: \$50,168,226; Total Contributory Payees: 14,913; Payroll (non-contributors): \$323,099; Total Contributory payees: 62; New Regular Retirees: 30; Survivor/Beneficiary Retirees: 2; Disability Retirees: 3; Refunds and transfers: 78 for \$1,656,984; Members Refunds: 48 for \$823,178; Members Transfers: 27 for \$794,337; Option B Refunds: 3 for \$39,469; and, Operational Warrants: \$154,048.

*2017 Boston Retirement System Annual Statement*

The 2017 Annual Statement has been submitted to PERAC in order to meet their deadline and be certain that our financial data concurs with their annual report. Ms. McCarthy went on to present a brief analysis of annual statement highlights for 2017. Total funds increased by almost \$1 Billion up 15.7% as a result of the strong fiscal performance exceeding \$1B for the year a 160% improvement over 2016 earnings. Overly interest in dividends income declined 36% or \$69M this more than an offset unrealized gains and losses. The most significant improvement was the \$293M reduction in unrealized losses of \$2.8M. This was followed closely by \$252M increase in unrealized gains of \$729M. The realized gains and losses improved by \$125M and \$29M respectfully. Total receipts also increased by 69% over the 2016 amounts of \$1.6B. The bulk of that amount was due to the investment results discussed. The most significant improvement in non-investment receipts were the increase in pension fund appropriation of \$11.2M or 3%. The bulk of the growth in funds has been placed in a pool of international equity funds up over 29% or \$308M

Documents Presented

- June 2018 Financial Snapshot document, 2017 Boston Retirement System Annual Statement

*Motion made, and seconded, to accept 2017 Boston Retirement System Annual Statement submitted to PERAC as presented.*

**Motion accepted (4-0)**

Ms. McCarthy stated that the auditor has drafted the BRS financial statement. Their expectation is that they will have the audit financial statements by the end of August, 2018.

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

*June 2018 payroll update*

Operations Officer Weir presented an update on the payroll number for the month of September, 2019. She stated that there were 52 possible new retirees (37 superannuation, 10 disabilities & 5 death of active member). Out of 52 Possible Retirees, 35 were processed with 17 cases not making the payroll. Reasons for missing payroll:

- 7 did not return final papers on time;
- 4 needed additional documents;
- 1 widow to apply for a social security number;
- 3 needed additional salary from outside agency; and
- 2 disability case still being worked on.

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

*PERAC Memos offered for educational purposes only:*

- PERAC Memo #19-2018 re tobacco company list
- PERAC Memo #20-2018 re PROSPER and Compliance with the 91A Process
- PERAC Memo #21-2018 re Mandatory Retirement Board Member Training - 3rd Quarter 2018

*Waiver Request*

- Theodore Loska                      BPS                      \$14,837.01

*Motion made, and seconded, to grant waiver request of Theodore Loska for waiver request in the amount of \$14,837.01 as the request was made in a timely manner.*

**Motion accepted (4-0)**

Mr. Smyth stated that Member upon meeting with BRS he threatened to burn down the BRS office (building). Attorney Lydon reported the incident to BPD. Attorney Lydon spoke to a Lieutenant Detective Wilson of BPD Area 1. Lt. Wilson stated that he had contacted Mr. Loska to inform him that he was reported to the Boston Regional Center an investigation was made and Mr. Loska was cleared.

Documents Presented

- PERAC Memo #19-2018, PERAC Memo #20-2018, PERAC Memo #21-2018, Waiver Request.

**Enter Executive Session**

Motion made, and seconded, to enter into Executive Session, at approximately 11:23 a.m., in order to consider disability applications, litigation strategy and IT security.

**Motion accepted (4-0)**

**Adjourn**

Motion made, and seconded, to adjourn at approximately 12:46 p.m.

**Motion accepted (4-0)**

Respectfully submitted,  
BOSTON RETIREMENT BOARD



Daniel J. Greene, Esquire  
Mayoral Appointed Member, Chairman

*Retired*

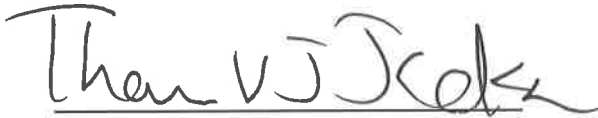
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Sally D. Glora  
Ex Officio Member

*Absent*

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Michael W. McLaughlin  
Elected Member



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Michael D. O'Reilly  
Elected Member



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Thomas V.J. Jackson  
Fifth Member