

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

February 19, 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 (remote participation due to illness).

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.

ALSO IN ATTENDANCE: Will Forde, Kiley Fischer, Colton Lavin, Jed Drake of NEPC; William Oates, Michael Dwyer, Consultants; Chris Kramer, Environment Department; Brian Norton, of DFLCIO Housing Investing.

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:07 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 January 15, 2020, meeting as presented.

Motion accepted (5-0)

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

IT Update

Mr. Dwyer opened by giving the Board Members an update of the steps that have been taken since the January Board meeting. The Board decided to take a second look at PTG pension software as a combination of 'sanity check' and leverage Vitech has shifted into a competitive decision. Ongoing interaction with PTG revealed the "basics only" nature of their software but regarding their implementation team, an impressive attention to detail, ready command of design options, and a willingness to share what they have learned from 90 other Massachusetts boards. At this juncture, there are two viable options with no

textbook winner, rather a decision to be made based on tolerance for risk, eagerness for change, evaluation of all long-term costs, etc.

Vitech Proposal

Mr. Oates stated that the current proposal for the Vitech upgrade cost is at \$2.2M plus seven year maintenance agreement at \$11.2M. These services include BRS membership on a new Client Advisory Board; Consulting/Process Improvement support from Linea; V3locity managed cloud services.

PTG Proposal

As for PTG, their current proposal is \$3.9M over first two years for PTG implementation plus \$6.5M over seven (7) years which includes full-time resources dedicated to BRS. PTG software may require modification as scope of project/system is better understood. The proposal also includes managed hosting services from Rackspace, PTG's cloud service. The change effort to PTG is significant to BRS.

Mr. Oates outlined that obtaining competitive pricing from Vitech has been difficult. There have been significant concessions that have been achieved from initial proposal. The new Vitech/CVC ownership impact on organization is being felt. Co-founder Jamie Vitiello has left his active role with PTG, however, Frank Vitiello remains as CEO.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Private Debt Search

Mr. Forde opened by providing a summary of presentation and introducing Ms. Fischer. Ms. Fischer stated that NEPC will be covering the Sculptor investment, the private debt search, niche investment candidates, fourth quarter numbers, and performance and flash reports.

Real Estate Search

The current Real Estate search encompasses the targeted commitments for 2019 & 2020. NEPC is targeting managers across the style/risk spectrum with Real Estate commitments 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. To date the search status is; Debt: Respondent list will be revisited in May 2020; Opportunistic: Committed \$20 million, with an additional \$20 million commitment pending approval; AEW: \$20M, Sculptor: \$20M (pending); Value-Add: Committed \$50 million across three managers. Berkshire: \$20M, TA Realty: \$20M Davis: \$10M.

Mr. Drake added that in terms of Sculptor, NEPC's due diligence process and how they have become comfortable with the firm. As noted in the past the hedge fund side of the Sculptor business formerly known as Och-Ziff had a couple of issues. Almost a decade ago when they ran into an issue with a couple of employees going rogue and had an issue with a company in Africa. That was part of their hedge fund business and is in no way related to their Real Estate business.

In terms of regulatory findings, those issues are completely done. Those employees are no longer with the firm. Och-Ziff/Sculptor has paid their obligations to those regulatory bodies. So no more investigations the one outstanding item is that a Canadian mining company feels that they were out bid for an asset in Africa as part of this scandal. The DOJ previously said that this matter was closed and back in September they reopened the investigation. They didn't rule in favor of the plaintiff, they simply said, we're reopening this case for more evidence. Both parties will be able to file a brief. At which point the courts will hear their motions. As a result Sculptor's being very conservative; they've allocated a portion of their balance sheet cash from the firm to pay off any potential settlements. They still think it's a frivolous law suit. The funds are coming from the firm not from any of their investment funds. From that perspective NEPC is confident that the firm has put in good compliance procedures going forward and also important to note that the Real Estate team is completely separate from the hedge fund or credit team, all are independent. If there was an instance where the investor wanted to get out of the fund and get out of Och-Ziff/Sculptor, they can vote to have the team form its own business completely separate from the Sculptor business. There are provisions in place to have the investor completely protected in terms of financial liability. There is absolutely none as far as the Real Estate fund going forward. We understand that there have been issues with the firm going backward but we are comfortable with the steps they have put in place going forward for the prospects for the Real Estate team.

Mr. Forde stated to be clear the red flag has been raised with PERAC. They have raised this as a concern and that's what has been holding up the completion of going forward.

NEPC and Board discussed PERAC's awareness, their issues, Sculptors total liability not only the hedge fund business, potential settlements, NEPC's comfortableness with the situation, BRS Board's options and timeframe.

Motion made, and seconded, to reaffirm the vote to hire Sculptor in light of the information presented to the Board for \$20M for investment in the Real Estate fund.

Motion accepted (5-0)

Private Debt Search

Ms. Fischer continued by stating that as part of the Private Debt investment program, the BRS needs to commit to new funds each year. The Board should look to maintain vintage year diversification and to maintain investment level as older funds wind down. NEPC recommends committing an additional \$60 million to the System's Private Debt program in 2020. NEPC suggests the investment be broken down as \$15 million in European Direct Lending, to which the Board committed \$15 million to Crescent at the January meeting. The remaining \$45 million to be broken down into \$20 million to Niche Lending, \$25 million to Distressed Debt mandate. We will review Niche and Distressed search respondents today.

Mr. Lavin opened by reviewing the different spaces within Private Credit. Direct Lending tends to be more income oriented, lower return and more certain. Stressed Lending, which we will be looking at, is the other spectrum. That is more capital appreciation oriented. These strategies benefit from companies actually improving rather than paying a monthly or quarterly coupon. A little higher return but the bands but the bands of returns will be broader as well. Niche Credit is white space between Niche and distressed Lending. It has traits of both. The reason NEPC likes Niche Credit at this moment is in general the credit market has gotten a little over heated. It requires more expertise and specializations. Because of that we expect a little higher return than other direct lending funds. If there is a down turn, this strategy is a little more protected than corporate credit. As compared to Distressed Debt which can be more at risk in a recession. These funds have two to four year investment periods.

The three basic buckets for Niche lending are Specialized Credit; Venture Debt, Growth Debt, Healthcare Lending, Software/Technology. Asset Based; Aviation, Shipping/Maritime, Road & Railcar, Energy, Equipment and Infrastructure. Thematic; Consumer & Commercial Specialty Finance, Factoring & Receivables, Royalties, Regulatory Capital Relief, Insurance-Linked/ Life Settlements, Litigation Finance and PE Portfolio Finance.

The Board and NEPC discussed the Managers identified as candidates to manage investments in the Specialized, Niche and Distressed Lending mandate. The Firms identified and recommended by NEPC for Specialized and Asset-Based Lending space were; MC Credit,(MC Credit Fund) CRG Partners, (CRG Partners IV) Oak Hill, (OHA Credit Solutions Fund) Capital Spring, (Capital Spring Investment Partners VI) Structural Capital, (Structural Capital Investments III) and Crestline. (Opportunity Fund IV10)

The Board chose MC Credit, (MC Credit Fund IIIQ1) and Structural Capital, (Structural Capital Investments III) to present for Specialized Lending Space and Capital 400. (Based Offshore Term Fund II) Mr. Manning will speak to EnTrust Global for further information for the Asset-Based space.

The Firms identified and recommended by NEPC for the Distressed Debt were CarVal Investors, (CVI Credit Value Fund) Kennedy Lewis, (KLCP Master Fund II) PIMCO, (PIMCO Corporate Opportunities Fund III) Alcentra, (Strategic Credit Fund III) Bain Capital Credit, (Distressed & Special Situations 2019) Centerbridge, (Centerbridge Special Credit Partners III) Monarch, (Monarch Capital Partners V)

The Board chose to decide on presenting candidates in March 2020 Board meeting for presentations in April and May 2020 Board meetings for the Distressed Lending Space.

Q4 2019 BRS IPA from NEPC

Mr. Forde stated there are typically three things that NEPC focuses on at the end of fiscal year for most clients. First, how did performance stack up relative to the return objective? Secondly, have we been able to add value, in terms of manager slashing? Lastly, how did we do relative to your peers? For FY 2019, the fund was +16.7%. Well above your assumed rate. Almost every single asset class within equity and fixed income posted really strong returns. We then looked at Manager selection; did the Managers you selected in the portfolio add value? We look at the total fund performance during the one year period. The Managers did add about 10 basis points of value and have added a little more value when we look out further over the seven year period. According to your peer rankings, the system ranked in the 77th percentile over a one year period. An overweight to Emerging Markets Equity relative to peers improved the System's universe rankings and performance, as emerging markets outpaced US equities MSCI EM returned 11.8% while the Russell 3000 was up 9.1. Core Fixed Income was the System's highest ranking composite for the quarter, ranking in the 4th percentile. Zevenbergen was the System's highest ranked manager for the quarter, ranking in the 1st percentile and outperforming its benchmark by 610 basis points.

January 2020 Flash Report

Ms. Fischer went on to state that the portfolio was - 0.6% for the month of January. Equities were strong in 2019 and we have had a rough start in 2020 which is driving most of the losses. Large cap was positive +0.4, the main reason for that was Zevenbergen as we saw growth continued to outperform value. Within the US equity space the Russell 1000 growth is the only style that had a positive return for the month. We are seeing that trend continue over value.

Most of the losses came from the non US equity. Allocations specifically in emerging markets which returned at - 4.7% but this is in line with the benchmark for the month as expected. The fixed income composite did well, returning +1.4% for the core fixed income composite. High yield also is positive

at +0.9%. We did see in international equity space some of the managers under performing a little against the bench marks.

Work Plan

As for the State Street account, that's managing what was Fisher. That search is on its way and we'll have respondents at the March meeting.

Mr. Forde stated that NEPC will conduct a search later in the year on the emerging markets to see if there are some potential alternatives. In March Board and NEPC will review respondents. (Niche & Distressed)

Hamilton Lane contract extension

The Board and Staff discussed the parameters of a 3 year contract extension with Hamilton Lane.

Motion made, and seconded to accept the Hamilton Lane amendment as presented. That provides for three year extension with a \$240 million funding commitment with the Boston Retirement System's option to extend for a fourth year at a \$80 million funding commitment.

Motion accepted (5-0)

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

January 2020 Financial Snapshot

Ms. McCarthy reported the following for the month of January 2020:

- Pension payroll contributors: \$54,430,634;
- Total Contributory Payees: 15,151;
- Total Non-Contributory Payroll: \$311,700;
- Total Non-Contributory payees: 50;
- New Regular Retirees: 27;
- New Survivor/Beneficiary Retirees: 0;
- New Disability Retirees: 2;
- Refunds and transfers: 54 totaling \$973,923;
- Members Refunds: 46 totaling \$787,511;
- Members Transfers: 4 totaling \$142,084;
- Option B Refunds: 4 totaling \$44,328; and,
- Operational Warrants: \$380,877.

Trial Balance December 2019 Preliminary

Ms. McCarthy noted that the trial balances for December 2019 were attached in the Board package for review. There were no questions.

November 2019 Financial Statement

Comptroller McCarthy stated that the December 2019 BRS financial statements require additional time to develop than the rest of the months due to the compilation of the figures from NEPC of the system's alternative investments. Figures for the quarter of 2019 have been requested from NEPC.

The financial statements included in the Board package are very preliminary they don't have the updated alternative investments values. There are also receivables and payables that are not in there yet. We are still collecting 3 AC's which are payments to and from the systems for pensions and investment management fees. Payroll is trying to collect all of those. We collect our payroll as accurate as possible year end. The financial statement we have to date. The return for this year will show a minimum of a \$900M increase from last year, with assets available, which will increase once we get our final figures.

Ms. McCarthy also stated that the filing affidavits will be going out within 2020. Last time they were sent out was in May of 2018. The goal is to send them out by March of 2020 to try to shorten the process. We'll then see what is returned by the end of May then drop checks in June. That will have us comply with regulations. Mr. Smyth stated that this policy is a change from what BRS staff has done in the past. The system has been lenient but the intension is to tighten the process up.

Outstanding/Ongoing Operations Issues: Christine M. Weir, Operations Officer January 2020 payroll update

Operations Officer Weir presented January 2020 payroll as such; she stated that she was presenting in a different format going forward. The updates would continue to carrying over older cases that may take time to resolve. Many of these cases had legal issues that cause the delay in processing. The format going forward is to report carries over cases and then new cases.

Carry over from previous months, 8 previous cases (3 DOA and 5 Superannuation) DOA Cases issues listed; First DOA member has a child that may be entitled to benefit, Second case wife deciding on benefit and buyback, Third case was Suffolk County Sheriffs issue with getting salary. 5 Superannuation Cases issues listed previously; 2 carry over next month 2 on for January, 1 didn't return final papers. The new January retirement cases were total 29 cases, 23 Superannuation cases and 6 disability cases. 18 Superannuation Cases processed, 5 cases missing. Missing cases were due to members' not returning final papers by deadline. The 6 disability cases that were scheduled for January, 2 were processed and 4 did not make payroll because still processing from staff.

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