

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

August 16, 2023

Boston Retirement Board, City Hall Pavilion

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: Timothy J. Smyth, Executive Director; Christine Weir, Deputy Executive Director; John F. Kelly, Investment Analyst; Natacha Thomas, General Counsel; Ellen M. McCarthy, Comptroller; Gregory Molina, Board Secretary

ALSO IN ATTENDANCE: Michael Manning, Kiley Murphy, Shelly Santuli of NEPC; Maurice Werdegard of WTI; Sonny Kalsi, Brian Burke, Abbe Borok of BGO; John Pfeil, David Olney, Michael Coffey of Berkshire; Warren Min, Michael Heck of OakTree.

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:07 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)

Motion made, and seconded, to accept the Administrative Session Minutes of the July 2023 meeting as presented.

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

Motion accepted (4-0) Member McLaughlin abstained.

Mr. Smyth asked the Board to go out of order and have Mrs. Weir give her updates.

Outstanding/Ongoing Operations Issues: Christine Weir, Deputy Executive Director

PBI Data Security Final

Mrs. Weir stated that as noted in our June 2023 Board update, there was large cyber-attack first identified at US government agencies in late May attributed to Russia-linked Clop ransomware gang. Clop exploited a vulnerability in MOVEit Transfer, an enterprise file transfer tool developed by Progress Software.

Later in June, a publicly available news article detailed a data breach at the nation's largest pension systems, California Public Employees Retirement System (CALPERS). The breach was traced to CALPERS vendor PBI and its use of the MOVEit Transfer software.

PBI is also a BRS vendor, providing death/address audit services. Having no communication from PBI regarding the breach, BRS management unilaterally reached out to PBI for further information and were sent a statement on June 27 that, "all impacted clients have been contacted directly by PBI. We do not have evidence that your records were impacted.

Mr. Smyth sent a letter to PBI management expressing disappointment with the poor communication and requested more information related to the nature of the breach, potential exposure of any BRS related data and the steps PBI was taking to prevent any further incidents.

On August 9, BRS management/staff met with John Bikus, President of PBI Research via videoconference to review concerns stated in the letter. Mr. Bikus provided additional details regarding the incident, addressed the poor communication to non-impacted clients and identified the steps PBI has taken and will take to mitigate future problems.

Key Takeaways from PBI Breach

The extent of the impact from the MOVEit vulnerability has been enormous, worldwide. It is estimated that this ransomware attack has impacted more than 600 organizations.

The discussion with the PBI President gave an interesting window to the impact a data breach can have on a relatively small business. PBI was overwhelmed by the incident. Only a small percentage of their clients were involved in the data exfiltration, but they were PBI's largest clients. In addition to the digital forensics and IT changes required, PBI is now deeply involved in all aspects of incident response – including millions of consumer notification letters and identity protection coverage.

As in many cyber incidents, the exposure of business partners to attacks needs to be understood. Many large organizations (CALPERS, TIAA, T. Rowe Price, Transamerica Life, Fidelity, etc.) were exposed through their PBI file transfers. This needs to be reflected in our cyber policies, encryption standards and overall vendor due diligence.

Other Updates

Evaluation continues regarding appropriate services required for BRS in the event of a cyber incident. Services include managed detection & response, outside legal counsel (with extensive law enforcement/tech expertise), digital forensics, and communications. Working on Critical Incident Simulation for BRS organization.

July 2023 payroll update

Mrs. Weir provided an update on the payroll numbers for the month of July 2023. In July 28 new regular retirements were scheduled to put on payroll , including 2 death of active and 8 disability cases for a total of 38 new cases. 22 new regular retirees and 8 new disability benefits were put on for a total of 30 new plus 7 that missed prior payrolls for a total of 37 new cases. The 8 cases scheduled for July but missed payroll, were due to 7 that did not return final papers and 1 had charges pending.

Outstanding/Ongoing Administrative Issues: Timothy Smyth, Executive Director

The following PERAC memos were provided for educational purposes

- PERAC Memo 17-2023 re Reinstatement and attachment.pdf
- PERAC Memo 18-2023 re Cost of Living for Supplemental Dependent Allowance Paid to Accidental Disability Retirees and Accidental Death Survivors.

- Email from PERAC re Emerging Issues Forum Registration.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst
Venture Debt Search

Mr. Manning stated that a venture debt search was issued on behalf of the System and will be part of the 2024 private debt commitments. As a reminder, the search was issued considering the recent banking failures which have presented a unique market opportunity for this space.

WTI

Mr. Werdegar opened by stating that they are a venture debt firm providing debt capital to technology and life science companies. They are a team of entrepreneurs, operators, & venture investors. The firm is based in Silicon Valley with Investment Team members in New York, Los Angeles, and Boston. The firm counts on a 40+ year track record across 10 institutional debt funds. They have originated \$8.2B in loan commitments since 1994 with ~300 portfolio companies per fund.

WTI is a senior secured lender to technology and life science companies with a Core emphasis on managing credit risk, creating upside, and “feeding the winners” to maximize ownership in potentially promising companies. The Fund receives monthly debt payments, downside protection through its secured position, and participation in equity upside through warrants.

WTI’s Investment Profile is target profile investment focus is \$500K – \$50M which Includes substantial follow-on capacity. The typical WTI target is companies in the seed or IPO stage with an initial credit line of \$500K – \$50M which includes substantial follow-on capacity.

The Board, BRS Staff and NEPC staffed discussed the presentations. Their merit, strategies, past performance and fees.

Motion made, and seconded, to hire Western Technology Investment (WTI) Fund XI for \$20 Million for the Venture Debt Space.

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

Motion accepted (5-0)

Real Estate Search

Ms. Murphy stated that the real estate search encompasses the targeted commitments for 2022 and 2023, totaling ~\$125 million over the two years. The search focused on three strategy types: opportunistic, debt, and value-add. The System committed \$65 million to value-add in 2022, and has ~\$60 million to commit to debt and opportunistic strategies. In July we reviewed the respondents and selected finalists to interview. The debt finalists will present today and the opportunistic finalists will present in September.

Ms. Santuli gave a brief overview, strategies and focus of the three presenters for today.

BGO

Mr. Burke opened by stating that BentallGreekOak (BGO) is seeking investors for the US Value-Add Lending Fund. This is an opportunity to invest in a diversified portfolio of commercial real estate loans, with a focus on lending to institutional-quality sponsors who are looking to implement value-add business plans. BGO is targeting \$500 million in commitments and projecting to deliver a 12%+ net IRR(1) to investors comprised primarily of current income

BGO feels that this is the best time to invest due to defensive positioning. Debt investments remain attractive amidst a backdrop of market uncertainty as the Fed actively seeks to curb inflation and recessionary pressures. The floating rate loans: Unique opportunity to benefit from rising interest rates while creating a portfolio of loans in property sectors experiencing secular tailwinds. There is a large opportunity set, nearly \$600 billion of CRE debt is maturing during 2023/2024; over 1/3 of that was issued in 2020 or later (2) and over \$149 billion of dry powder within US value-add and opportunistic equity funds.

Mr. Kalsi stated that the Fund terms are; Target Capital Raise, \$500 million. Commitments To-Date, \$210 million. Sponsor Commitment, \$45 million. Net Target Return, 10%. Income Distribution Frequency, quarterly. Management Fee, 1.25% per annum on invested capital. Reinvestment, capital released from investments may be reinvested up to 3 years from the end of the Investment Period. Leverage, targeting a loan level LTV of 70% or less, in aggregate; diversified sources of financing may be utilized on whole loan investments.

Berkshire

Mr. Coffey opened by stating that Berkshire is trusted partner of the Boston Retirement system since 2020. Berkshire also has a large global client base. A total of 148 clients and the firm successfully stewards capital through economic cycles. The firm has \$27.2 Billion in AUM. \$5.6 Billion in debt, \$6.5 Billion in Core/Core+ and \$5.1 Billion in the Value-Add space. They provide comprehensive solutions across the risk spectrum and throughout the capital stack.

Coffey stated the terms for the fund. Target Fund Size is \$3.5 billion. Fund Structure is Closed-end Delaware Limited Partnership; investments executed indirectly through a subsidiary REIT. The Target Return is 12–14% gross leveraged IRR (10-12% net). GP Commitment \$20 million. Commitment Period is for 3 years following the Final Closing with a one-year extension subject to Advisory Committee approval. Term, 10 years from Final Closing, subject to two, one-year extensions. Distributions are 7% preferred return to Partners with an 85%/15% split to Partners/General Partner thereafter, no GP catch-up. Management Fee, no fee on Committed Capital; 1.25% on Invested Capital; Management fee benefits are available based on commitment size.

OakTree

Mr. Min started by stating that Oaktree's real estate debt strategy invests in performing private credit and traded debt securities across real estate sectors, with a focus on securing downside protection and generating attractive risk-adjusted returns.

They see this as a great market opportunity. Total addressable market estimated to be \$461bn: 2.5x larger than the opportunity set for traditional real estate debt funds. Market volatility should generate attractive opportunities. The current market dynamics are the yield on traded real estate debt securities has risen by ~400 bps since 2021. The yields on private credit have increased by ~350 bps in CRE first mortgages and by ~200 bps in CRE mezzanine loans since 2021.

Mr. Winn went on to outline the term sheet. Fund Name, Oaktree Real Estate Debt Fund IV, L.P., a Cayman Islands exempted limited partnership. Investment Structure, Closed-end. Investment Period, 4 years. Fund Term, 7 years. (subject to extension) Management Fee; <\$100mm: 100bps on invested capital, \$100mm - 200mm: 80bps on invested capital, >\$200mm: 70 bps on invested capital. First Close Discount, 10% on management fees. Preferred Return, 6%. GP Carried Interest 15% with a 60/40 catch-up.

The Board, BRS Staff and NEPC staffed discussed the presentations. Their merit, strategies, past performance and fees.

Motion made, and seconded, to allocate \$30 Million to Bentall Green Oak (BGO) for US value-added lending fund.

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

Motion accepted (5-0)

July 2023 Flash Report

Mr. Manning went on to state that the month of July, the system was up + 2.1%. The YTD performance is up +8.3% through July.

Work Plan

Mr. Manning stated that NEPC has included an updated work plan with the including a proposed work plan for 20223

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEPT | OCT | NOV | DEC |
|-------------------------|--|---|--------------------|-----------|-----------------|---------------------------------|--|------------------|--|-------------------------|---------------------------|-------------------------|
| TOTAL PLAN | | | | | | | | | | | | |
| Asset Allocation | | • AA Review • New Targets • LC: 18% • HY: 5% | | | | | | | | | | |
| Other/ Education | • Market Outlook • Fee Analysis • IPS Review | Approved Updated IPS | Proxy Voting Info | RE Update | | New Actuarial Exp. Return: 6.9% | | | | | | |
| TRADITIONAL | | | | | | | | | | | | |
| Traditional Commitments | | | | | | | | | | | | |
| Traditional Review | | Issued High Yield Search | | | HY Mgr. Updates | | | | | Issued Small Cap Search | | Small Cap Search Review |
| HEDGE FUNDS | | | | | | | | | | | | |
| HF Review | | | | | | | | | | | | |
| HF Commitments | | | | | | | | | | | | |
| PRIVATE MARKETS | | | | | | | | | | | | |
| PE/PD Program Planning | | | Issued Debt Search | | | Reviewed PD Respondents | | Issued PE Search | | | Diverse FoF Presentations | Pacing Plan |
| PE/PD Commitments | | | | | | | \$20m - 400 Capital \$20m - HarbourVest | | | | | |
| REAL ESTATE | | | | | | | | | | | | |
| RE Program Planning | | | | | | RE Review Issued Search | | | | | | Pacing Plan |
| RE Commitments | | | | | | | | | \$15m - Alidade \$25m - Davis \$25m - TA | | | |

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

July 2023 Financial Snapshot

Ms. McCarthy reported the July 2023 pension payroll as follows: Contributory payroll: \$63,474,877; Contributory Payees: 15,749; Non-contributory payroll: \$315,259; Total Non-contributory payees: 41; Regular Retirees: 29; Survivor/Beneficiary Retirees: 1; Disability Retirees: 6; Option C/Disb Surv: 9; Members Refunds: 67 for \$ 1,353,881; Members Transfers: 11 for \$689,003 Option B Refunds: 1 for \$65,491; and Operational Warrants: \$354,575.

Outstanding/Ongoing Legal Issues: Natacha Thomas, Esquire

Legal update

Ms. Thomas stated that there were no legal updates at this time.

Adjourn from Administrative Session

The Board voted unanimously to adjourn from Administrative Session at approximately 12:17p.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

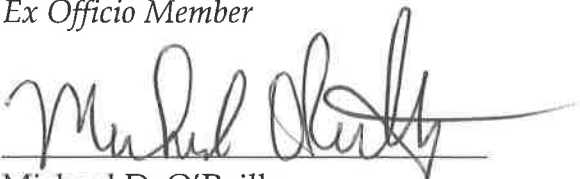
Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman




Maureen A. Joyce
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
Elected Member



Thomas V.J. Jackson
Fifth Member