

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

January 15, 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.

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: Michael Manning of NEPC; Danielle Hootnick, Karthi Mowdhgalya of Archmont Asset Management; (Remotely Present) Warren Tollman, Svein Engh, Sophia Muller of Entrust Global; Mark DeVincentis, Mark Attanasio, Christine Vanden Beukel of Crescent Capital; William Oates, Michael Dwyer, Consultants.

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: Chairman Greene; Aye, Member Jackson; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Joyce; Aye. 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 July 25, 2018 meeting as presented.

Motion accepted (4-0) Member Joyce Abstained due to non-attendance

Motion made, and seconded, to accept the Administrative Session Minutes of the November 20, 2019 meeting as presented.

Motion accepted (5-0)

Motion made, and seconded, to accept the Administrative Session Minutes of the December 18, 2019 meeting as presented.

Motion accepted (5-0)

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

Mr. Oates opened by giving the Board Members an update of the steps that have been taken since the December Board meeting.

Vitech V10 Proposal

After their last proposal, Vitech was issued a counter offer drafted by Ms. McCarthy. On December 10th they brought their pricing down a little but they had taken out some their functionality services from their proposal.

On January 9th there was call with Chris Lodge, one of their Senior Vice Presidents. They brought their number down to \$11.4M over a seven year period. They included the upgrade as a service, which means that the BRS needs to upgrade to V10 to start off with Vitech. Within the seven years, every time Vitech upgrades we won't occur additional costs. It's broken down into \$6.8M for licensing, \$2.2M for V10 upgrade, \$2.4M for infrastructure, moving BRS to the cloud and database services. The \$11.4 also includes consulting services that they had included in December. Approximately \$500K in consulting services, half of that from a company named Linea which is well known in the retirement space which will provide consulting to Vitech customers. They also added one thousand hours of consulting from their organization.

The next steps would be to meet with Vitech and AWS technicians to review them, CTO and City of Boston's (COB) DoIT team. Conduct a Deltek database trial research and work around Vitech confidentiality clauses with MTRS.

PTG – Proposal

As for PTG, Their first cut of proposal came in at \$6.5M. Many of us believe we may need to add a bit to the PTG side, as they learn more about the systems organization. Even if we throw \$1M and make it a net \$7.5, we are at a point now that we have a \$3.5M spread over seven year period between these two proposals.

Next steps with PTG would be to set a series of meetings to review and discuss demonstrations for BRS addressing Chapter 32 functions. PTG and consultants will schedule a site visit to Norfolk County Retirement System and any other potential site visits that may be needed. Conduct a PTG, Rackspace (Technical hosting company) and COB DoIT team technical review. Organize a working session with PTG and BRS staff.

The Board and BRS consultants went on to discuss a \$2.2M line item, Vitech licensing fees, 12 to 18 month window length of system update process, compatibility of transferring the BRS data to the cloud, Vitech and PTG pricing, systems transitional process and PTG's Retirement system experience.

Documents Presented

- IT update memo

Mr. Smyth informed the Board that he has submitted some PERAC memo's for the Board's educational purposes.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Private Debt Search

Mr. Manning opened by providing a recap of the strategies in the Manager search for Private Debt. He stated that Archmont and Crescent Capital are very similar Managers in that they are dealing in direct senior loans with European companies, Entrust is a little different and they have a shipping focus and can cross into the niche or European category.

Archmont Asset Management

Archmont presented remotely via telephone. Mr. Mowdhgalya began by giving an overview of Archmont. They're company is a leading European player in Private Debt with approximately €14 billion of Aum. Archmont was previously part of BlueBay Asset Management. They invest across Direct Lending and Senior Loan strategies with a 50 person team including 21 investment professionals with 12 years' average experience. The firm has completed deals with more than 40 different private equity sponsors across 12 geographies with approximately €8.7 billion committed across over 120 transactions to date. The firm has a 0.0% loss ratio across all funds to date, 0.0% write-downs on current loans.

Mr. Mowdhgalya outlined the performance of the company's Direct Lending Funds 1, 2 and 3. Mr. Mowdhgalya went on to outline the key drivers of Archmont outperformance. The firm deals with larger deals due to the less competitive segment of the markets. The firm believes in long-standing relationships which result in strong deal origination. They rely on their experienced and reliable investment team for a high execution certainty. Archmont's innovative and flexible solutions create premium pricing and terms. Senior Loan Fund II has an Unlevered Option with a target return objective of a, gross IRR of 7-8% and a first close expected in Q1 2020. They also have a Levered Option with a target Gross IRR of 10-11%.

The two-way audio failed on remote call and call was terminated at 10:53 am.

Entrust Global

Mr. Tollman opened by introducing himself and his colleagues. Mr. Engh went on to present to the Board. Entrust has a team that has more than 100 years of aggregate experience doing this very business. This team has been assembled by him and most have been working together in some cases, very long periods.

Entrust provides debt capital to an industry that is starved for debt capital. The driver for what we are doing is really based on what's been happening on the banking side. There are new bank regulations that have been developed post financial crisis in Europe. This industry has historically been financed by the banking industry. Mr. Engh went on to give a brief history of his experience and track record.

The maritime financing opportunity is that European banks that historically provided over 80% of the industry's financing have significantly reduced their lending activities due to regulatory changes and competitive pressure in connection with the underlying assets. The withdrawal of European banks has resulted in a significant capital shortfall in debt financing for small to medium-sized shipping companies. Approx. 76% of the global dry bulk fleet is owned by small to medium-sized owners. 33 years of doing this type of debt I have never lost any money of any of my investors.

Across all Blue Ocean Funds, the firm has a total investment capital of \$785.2 million. They have conducted 21 transactions with 55 loan tranches on 86 vessels. The average commitment size has been \$37.4 million with an average vessel age of 7.7 years and an average life of investments of 3 years. The Blue Ocean Onshore Fund will close in May of 2020.

Entrust gave a short update on status of BRS investments with Peruvian bonds within the Entrust Capital Diversified Fund. The Board and Entrust also discussed the costs of ocean liners, the financing of new or refinancing of ships, lending to both cargo and shipping companies, repossession of ships and restructuring of debt.

Crescent Capital

Mr. DeVincentis opened by introducing himself and his colleagues. Mr. Attanasio continued by giving an overview of the firm. To date Crescent has approximately \$28B in assets. They primarily focus on below investment grade

credit and prioritize capital preservation and high current income. The firm has a long track record of demonstrated performance through multiple cycles.

Crescent seeks to deliver attractive returns with less volatility, lower default rates and higher recovery than the market average. Mr. Manning asked if there would be any overlap in the funds that are being invested. Ms. Beukel stated that it's extremely unlikely that there would be any overlap in investments in any of the funds because they focus on related but different asset classes. This fund solely focuses on European middle market lending.

Ms. Beukel went on to highlight Crescent's European Specialty Lending Strategy. The primary focus is to provide bespoke loans (with a preference for senior secured) to growing, mid-market sponsor-backed European companies. It is a pure credit strategy with an emphasis on principal preservation as well as high current income. CESL II is targeting €1 billion in LP capital commitments to capture the robust opportunity set and developed investment pipeline. CESL II held a 1st close in September 2018. The target net fund IRR of 8% for unlevered strategy and 14% for levered strategy.

The competitive advantages that Crescent has are a platform well suited for direct lending business; a sourcing advantage – evidenced by over 2,100 opportunities sourced since May 2014 from over 300 different institutions. Proprietary due diligence capabilities –leveraging Crescent's \$26 billion AUM (2) credit investment platform. Highly selective – less than 3% of opportunities taken to final investment committee and 1% completed. Cycle tested–platform and CESL II senior team have invested in private debt during multiple economic cycles.

Mr. Attanasio explained that the fund may reinvest principal of realized investments during investment period. The preferred return 6% (unlevered); 8% (levered). The GP carried interest is 15%. Management fees will be 0% on undrawn commitments and 1.25% on invested assets for commitments <€75million. Management fees will decrease to 1.00% for commitments ≥€75million. The targeted net return is 8/14% (unlevered option / levered option). The currency sleeves are in Euros, Pounds Sterling and US Dollars.

The Board and NEPC staff discussed Crescent's product, classing's, the differences between the three private debt Funds, investment strategies, length of investments, maritime industry, defaults, niche lending.

Motion made, and seconded, to hire Crescent Capital for investment in the CESL Fund II as a part of the private debt portfolio for \$15M.

Motion accepted (4-1) Member O'Reilly (Nay)

Mr. Kelly Stated that as a part of the BRS Real Estate search the Board had voted to commit \$15m to Sculptor (formerly Och-Ziff). PERAC is having an issue with them due to a former executive managing director that was previously associated with the firm when they were known as Och-Ziff in their hedge fund business. This man was indicted of bribery, defrauding client and obstruction of justice. It pertained to recommending to a client investment in the African mining sector. The executive has been prosecuted and is no longer with Och-Ziff. PERAC is still concerned that Och-Ziff who changed their name to Sculptor in September of 19 is not reputable and a poses an investment risk.

I had a few calls with NEPC's real estate research team and they said they feel comfortable that Sculptor has taken enough steps both on their compliance and risk side. The real estate operation is separate from their hedge fund operation where the fraud occurred. That is why the RE fund has a one ranking from NEPC research team. NEPC has also offered to speak with PERAC if that was helpful. I have forwarded the full report that NEPC's research team provided on Sculptor to PERAC. I have also let PERAC know that NEPC would be happy to follow up with a call. The Board requested a copy of the NEPC report and would like updates.

December 2019 Flash Report

Mr. Manning went on to state that 2019 was an awesome year. A year ago, we were talking about the 90% of the asset classes were down in 2018. 100% are up this year. The hard part is that now as you look out it's hard to see where the return is going to come from.

For this portfolio a 10 year horizon is down from 6.9% to 6%. For a 30-year horizon it's projected to drop from 7.8% to 7.1%. The Total Plan was up +2.3 in December bringing the quarter to +5.3% and the year to date performance return to +15.9%. Mr. Manning stated that he would not change anything on the asset allocation side.

NECP Work Plan

NEPC will be issuing a manager search for the international equity space. Review the debt finalists with the goal of having them come and present in the first or second quarter of 2020. Focus on the niche market first then the distressed Private Credit.

The Hamilton Lane contract extension, amendments, length of contract was discussed by the Board, NEPC and BRS staff.

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

December 2019 Financial Snapshot

Ms. McCarthy reported the following: Pension payroll contributors: \$ 53,675,184 Total Contributory Payees: 15,191 Total Payees; Payroll (non-contributors:) \$ 310,943; Total Contributory payees: 49; New Regular Retirees: 33; Survivor/Beneficiary Retirees: 1; Disability Retirees: 3; Refunds and transfers: 58 for \$1,771,375; Members Refunds: 39 for \$ 841,827, Members Transfers: 16 for \$805,951; Option B Refunds: 3 for \$123,597; Operational Warrants: \$521,596.

November 2019 Financial Statement

Comptroller McCarthy presented a November 2019 BRS financial statements. Investments from October to November were up over \$66M Assets up about the same amount. For the year end 2018 through November 2019, we're up over \$700M. On the income side, our income for the month was up about \$95M.

November 2019 cash books

Ms. McCarthy noted that staff has the PERAC appropriation letters for 2021 they have all been sent out for payments that are due July 1, 2020. She went on to add that the trial balance has been added for November we will submit going forward based on our audit from 2014 through 2017. PERAC asked for the system to submit our cash books.

Review responses to Audit RFP

Ms. McCarthy stated that in recent years the system has contracted Ernest and Young as its auditors and the system was due to issue a Request For Proposals (RFP) going forward. The RFP was available December 16, 2019 it closed on January 6, 2020. There were five respondents; Ernst and Young, Eide Bailly, Citrin Cooperman & Co. Marcum, LLP and RSM US, LLP formally known as McGladrey.

A committee of four Finance staff read, analyzed and graded the 5 technical proposals that were received in response to our RFP for Audit Services. Three of the respondents were considered to be not eligible for consideration based on their responses to the evaluation criteria. Ernst & Young and Eide Bailly had excellent proposals. The RFP Audit Committee highly recommends hiring Ernst & Young to perform out annual audit for 2019- 2023 with an option to extend for two years.

Motion made, and seconded to retain Ernest and Young as the systems auditors from 2020 to 2024, a five year term with the systems option to extend the contract subsequent years, all in accordance with their proposal subject to contract terms.

Motion accepted (5-0)

Mr. Smyth stated that Ms. McCarthy did a great job with the vetting process and will be meeting with Ms. Joyce and the Segal firm's Kathy Riley to map out next year's evaluation.

Documents Presented

- December 2019 Financial Snapshot Sheet, November 2019 Financial Statements Sheet, Review sheet with responses to Audit RFP
- PERAC Appropriation for FY21
- Member O'Reilly questioned the difference in appropriation allocation in the PERAC Memo and letter. Ms. McCarthy answered that the allocation was a combined appropriation amount was the allocation to the City of Boston and the Public Health Commission. Every unit gets their own allocation.

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

December 2019 payroll update

Operations Officer Weir presented December 2019 payroll. She stated that there were 43 possible new retirees, consisting of 34 superannuation, 5 disabilities and 4 death of active members. Of the 43 cases, 33 were processed for payroll (29 superannuation, 1 DOA and 3 disabilities). Ms. Weir noted the following explanations for the 10 cases that did not make the payroll: 5 did not return final papers on time; 3 were missing salary; 1 was missing proof documentation; and, 1 surviving spouse applying for a Social Security number.

Enter Executive Session

Motion made, and seconded, to adjourn from Administrative Session and go into Executive session at approximately 1:06 p.m.


Motion accepted (5-0)

Adjourn

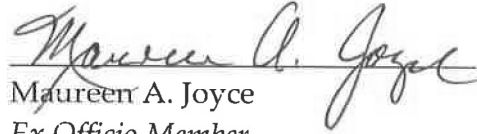
Motion made, and seconded, to adjourn at approximately 1:12 p.m.

Motion accepted (5-0)

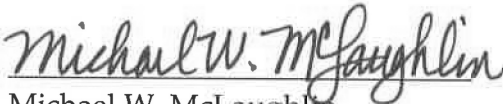
Respectfully submitted,
BOSTON RETIREMENT BOARD



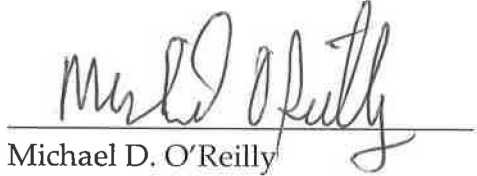
Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman



Maureen A. Joyce
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
Elected Member



Thomas V.J. Jackson
Fifth Member