

**MINUTES OF BOSTON RETIREMENT BOARD**

**Administrative Session**

June 22, 2022

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Michael D. O'Reilly, Elected Member; (Remote) Maureen A. Joyce, *Ex Officio* Member; Thomas V.J. Jackson, Fifth Member.

STAFF IN ATTENDANCE: Natasha Thomas, Assistant General Counsel; John F. Kelly, Investment Analyst; Ellen M. McCarthy, Comptroller; Christine M. Weir, Operations Officer; Gregory Molina, Board Secretary

ALSO IN ATTENDANCE: Michael Dwyer, IT Consultant; Michael Manning, Kiley Fischer, Colton Lavin of NEPC; Kathleen Riley, Segal.

EXCUSED ABSENCE: Michael W. McLaughlin, Elected Member.

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**Administrative Session Convene**

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:06 a.m.

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

**Motion accepted (4-0)**

**Previous Minutes**

Motion made, and seconded, to accept the Administrative Session Minutes of the April 27, 2022 meeting as presented.

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

**Motion accepted (4-0)**

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

*Preliminary Actuarial Valuation Report*

Ms. Riley reported to the Board that during the plan years ending December 31, 2020 and December 31, 2021, the rate of return on the market value of assets was 11.94% and 12.22%, respectively, compared to the assumed rate of return of 7.05%. The rate of return on the actuarial value of assets (which gradually recognizes market fluctuations) for the plan years ending December 31, 2020 and December 31, 2021 was 7.56% and 8.50%, respectively.

The actuarial value of assets as of December 31, 2021 was \$6.769 billion, or 94.9% of the market value of assets of \$7.131 billion (as reported in the Annual Statement). As of December 31, 2019, the actuarial value of assets was 102.2% of the market value of assets.

With the actuarial value of assets, there was a total unrecognized investment gain as of December 31, 2021 of \$361.9 million. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment losses derived from future experience. This implies that earning the assumed rate of investment return (net of expenses) on a market value basis will result in investment gains on the actuarial value of assets in the next few years. The projected unfunded actuarial accrued liability in the funding schedule does not reflect the recognition of deferred investment gains.

The unfunded liability was expected to decrease by \$322 million from \$1.841 billion as of January 1, 2020 to \$1.519 billion as of January 1, 2022. The actual unfunded liability (before consideration of assumption changes) of \$1.339 billion as of January 1, 2020, is \$180 million lower than expected.

*Current assumption:*

**Groups 1 and 2**

Healthy: Pub-2010 General Employee, Healthy Retiree and Contingent Survivor Amount-weighted Mortality Tables set forward one year, projected generationally using Scale MP-2019. Disabled: Pub-2010 General Healthy Retiree Amount-weighted Mortality Tables set forward one year, projected generationally using Scale MP-2019

#### **Group 4**

Healthy: Pub-2010 Safety Employee, Healthy Retiree and Contingent Survivor Amount-weighted Mortality Tables, projected generationally using Scale MP-2019

Disabled: Pub-2010 Disabled Retiree Amount-weighted Mortality Tables, projected generationally using Scale MP-2019.

Segal recommend updating the mortality projection scale from scale MP-2019 to scale MP-2021. Impact of assumption change; Updating the projection scale lowers the unfunded liability by approximately \$20.0 million and the normal cost by approximately \$200,000. Investment return; The System's investment advisor (NEPC) has calculated the following expected rates of return: 30-year time horizon: 6.7%. 10-year time horizon: 5.5%. Based on the current target asset allocation, Segal Marco Advisors' capital market expectations as of December 31, 2021 and a building block approach, we calculate the following expected geometric rates of return. 20-year time horizon: 6.92%, 15-year time horizon: 6.69% and 10-year time horizon: 6.39%.

After reviewing this information and the experience since the last valuation, we recommend lowering the investment return assumption from 7.05% to 6.90%. This change increases the unfunded liability by approximately \$130.0 million and the normal cost by approximately \$6.7 million.

The Board reviewed and discussed the Actuarial Valuation Report with NEPC and Ms. Riley.

*Motion made, and seconded, to accept January 2022 Segal recommendations mortality rate and rate to 6.9%.*

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

**Motion accepted (4-0)**

#### ***IT Update***

Mr. Dwyer stated that from a calendar view July 21<sup>st</sup> is kickoff. The Risk Assessment interview sessions (GreyCastle, BRS, DoIT, and Vitech.) are confirmed for August 15-17 with a make-up day being scheduled for August 18. The cloud review is being scheduled and is expected to follow the main risk assessment work.

Bill Oates has been working with GreyCastle to provide positioning on the roles of Vitech., DoIT and BRS. Mr. Oates and Mr. Dwyer have been working with several DoIT leaders to help set expectations about the sessions. In the next round of discussions, GreyCastle will provide specific interview time slots for August 15 to 17 period.

The fourth day, i.e. August 18 is a “make-up” day for any loose ends, missed sessions , etc. The consultants are working with GreyCastle to see about shifting that day to the following week to provide a better fallback position.

The risk assessment is 83% of project cost and the cloud security review is 17%of cost, i.e. the risk assessment is a broader activity looking at people , process and technology and the cloud activity is a review of specific AWS settings, configurations and activities.

As they work to schedule and engage an array of technology players, they find themselves relieved that they settled on a high-level review as opposed to a larger, detailed audit-type engagement.

#### *PERAC pension Memos I*

Mr. Smyth introduced to the Board four PERAC Memos for the Boards review.

- PERAC Pension Newsletter - 06.14.2022
- PERAC Memo 12-2022 re forfeiture of retirement allowance
- PERAC Memo 13-2022 re 2021 Salary Verification Request
- PERAC Memo 14-2022 re SJC decision in Vernava II

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

##### *Private Debt Search*

Mr. Manning opened by stating that the private debt search was issued in April on behalf of the System. The annual private markets pacing plan calls for ~\$60 million in private debt commitments in 2022. This search focused on identifying candidates across various styles: asset-based lending, direct lending, and niche lending. There were over 45 responses to the search, varying by sub-strategy, fund size, geographic exposure, and sector focus.

At today’s meeting, we will review the respondent list and determine next steps. Colton Lavin, Investment Director of Private Debt at NEPC will be attending to provide further insight on the search candidates.

After discussion of candidates the Board wants AlbaCore, Callodine, Harbourvest and 400 Capital to come in and present to the Board.

### *Real Estate Portfolio Review*

Mr. Manning continued stating that NEPC will provide a review of the System's current real estate portfolio and suggested areas of focus for the 2022 search. The System's real estate program is diversified across sub-strategies, sectors, vintage years, and fund sizes. The objective of the analysis is to gain insight on the current structure of your portfolio and set the stage for the 2022 search.

NEPC recommends issuing a real estate search for 2022/23 for ~\$150m in commitments. This is based on the most recent pacing plan that had ~\$80m per year and adjusting it down slightly for recent market moves. The search will cover value-add, opportunistic and debt strategies. They anticipate overweighting Opportunistic and Debt in the next few years because we are entering an attractive market environment for both sub strategies. Opportunistic (16%) and debt (2%) have the smallest allocations within the System's real estate program.

### *May Flash Report*

Mr. Manning went on to present the May flash report. Stating that the System total fund performance for the Month was +0.1%. Which is positive. Year to date return is a negative -7.8%. The fund continued to have a rough quarter down -3.2%. Through June the U.S. Equity Market was down -11%, Bonds were down 2.0%. Through last Friday, you're probably looking at a portfolio that is down a total of -10.0% to 11.0%.

It's been a challenging market. Growth in particular has been hit really hard. Two things working is interest rates are going up and spreads are getting wider.

*Motion made, and seconded, to allow staff to move the High Yield Fixed income allocation up to 6% by topping off the GoldenTree Multi Sector Opp Credit Fund by investing some of the current available cash balance.*

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

**Motion accepted (4-0)**

**Work Plan**

Mr. Manning stated that NEPC has included an updated work plan with the including a proposed work plan for 2022:

|                          | June                          | July                       | Aug.                                  | Sept.                      | Oct.                       | Nov.                  | Dec.                       |
|--------------------------|-------------------------------|----------------------------|---------------------------------------|----------------------------|----------------------------|-----------------------|----------------------------|
| <b>TOTAL PLAN</b>        |                               |                            |                                       |                            |                            |                       |                            |
| Asset Allocation         |                               |                            |                                       |                            |                            |                       |                            |
| Performance              |                               |                            | Q2                                    |                            |                            | Q3                    |                            |
| Education/Review         |                               |                            |                                       |                            |                            |                       |                            |
| <b>TRADITIONAL</b>       |                               |                            |                                       |                            |                            |                       |                            |
| Search/<br>Presentations |                               |                            |                                       |                            | Issue Small<br>Cap Search  | Review<br>Respondents | Analysis/<br>Presentations |
| <b>HEDGE FUNDS</b>       |                               |                            |                                       |                            |                            |                       |                            |
| Program Planning         |                               |                            |                                       |                            |                            |                       |                            |
| Search/<br>Presentations |                               | Issue HF Search            | Review<br>Respondents                 | Analysis/<br>Presentations |                            |                       |                            |
| <b>PRIVATE MARKETS</b>   |                               |                            |                                       |                            |                            |                       |                            |
| Program Planning         |                               |                            |                                       |                            |                            |                       | Pacing<br>Plan             |
| Search/<br>Presentations | Debt Search<br>Review         | Analysis/<br>Presentations | - Debt Finalists<br>- Issue PE Search | Review PE<br>Respondents   | Analysis/<br>Presentations |                       |                            |
| Performance              |                               |                            | Q1                                    |                            |                            | Q2                    |                            |
| <b>REAL ESTATE</b>       |                               |                            |                                       |                            |                            |                       |                            |
| Program Planning         | Real Estate<br>Program Review |                            |                                       |                            |                            |                       | Pacing<br>Plan             |
| Search/<br>Presentations | Issue Search                  | Review<br>Respondents      | Analysis/<br>Presentations            | Issue RE<br>Debt Search    | Analysis/<br>Presentations |                       |                            |
| Performance              |                               |                            | Q1                                    |                            |                            | Q2                    |                            |

Mr. Kelly stated that he will be sending the Board a memo for them to rate the investors.

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

***May 2022 Financial Snapshot***

Ms. McCarthy reported the May 2022 pension payroll as follows: Contributory payroll: \$58,715,930; Contributory Payees: 15,617; Non-contributory payroll: \$279,041; Total Non-contributory payees: 33; Regular Retirees: 56; Survivor/Beneficiary Retirees: 2; Disability Retirees: 7; Option C/Disb Surv: 17; Members Refunds: 56 for \$916,674; Members Transfers: 2 for \$330,718 Option B Refunds: 1 for \$30,820; and Operational Warrants: \$565,928.

***2021 Boston Retirement System Annual Audit***

Ms. McCarthy also informed the Board that GASB 67-68 report will be completed by next week so she complete auditing deadline and Ernest Young will present to Board in July.

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

***May 2022 payroll update***

Ms. Weir provided an update on the payroll numbers for the month of May 2022. There were 65 possible cases, (57 Superannuation's, 5 Disabilities.) out of all the cases 53 Superannuation and 6 Disabilities and 2 Death of Active. 5 cases did not make it to payroll. Ms. Weir noted the following reasons members did not make it on payroll; 1 DRO issue, 1 legal issue, 1 information missing and 2 final papers missing.

**Outstanding/Ongoing Legal Issues: Natasha Thomas, Esquire**

***Legal update***

Ms. Thomas stated that there were no legal issues on the agenda.

**Adjourn from Administrative Session**

The Board voted unanimously to adjourn from Administrative Session at approximately 11:43 a.m.

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

**Motion accepted (4-0)**

**Administrative Session Reconvene**

The Board voted unanimously via roll call (4-0) to enter into Administrative Session at approximately 12:25 a.m.

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

**Motion accepted (4-0)**

**Personnel Matters** (pursuant to exception #2 of the open meeting law)

Mr. Smyth discussed multiple personnel matters with the Board in light of his imminent departure, as well as the past departure of General Counsel Padraic Lydon. Mr. Smyth strongly recommended that Christine Weir be elevated to interim executive officer. He noted her work experience not only at the Board, but in prior work places. In addition, Mr. Smyth noted that Ms. Weir has an MBA in management. It was further noted that she was instrumental in the recent Vitech upgrade. Although Ms. Weir is not an attorney, her management skills will compensate for that.

In addition, Mr. Smyth recommended that Lauren Page be elevated to interim Operations Officer, leaving the member services manager vacant for the time being as she will be able to cover those duties while interim Operations Officer.

Mr. Smyth alerted the Board that he had hired Natacha Thomas as the permanent General Counsel. He further noted that hiring the assistant general counsel position should be a priority given that the System is down from three to one attorney.

Board member Joyce suggested that Ellen McCarthy be upgraded and noted her stellar work for the system.

**Adjourn from Administrative Session**

The Board voted unanimously to adjourn from Administrative Session at approximately 1:00 p.m.

Respectfully submitted,  
BOSTON RETIREMENT BOARD





Daniel J. Greene, Esquire  
*Mayoral Appointed Member, Chairman*



Maureen A. Joyce  
*Ex Officio Member*

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Michael W. McLaughlin  
*Elected Member*



Michael D. O'Reilly  
*Elected Member*



Thomas V.J. Jackson  
*Fifth Member*