MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

November 20, 2019

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); 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; Ellen M. McCarthy, Comptroller; John F. Kelly, Investment Analyst; Christine M. Weir, Operations Officer; Gregory Molina, Board Secretary.

ALSO IN ATTENDANCE: Michael Manning, Oliver Fadley, Colton Lavin of NEPC; Steve Orbuch, Britton Leigh of Sculptor Capital; Marc Davidson, Tony Crooks, Maureen Joyce of AEW; Una Selsa, Al Rabil, Orr Shepherd of Kayne Anderson; William Oates, Michael Dwyer, Board Consultants.

REMOTE ATTENDANCE: Maureen A. Joyce, Ex Officio Member

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:03 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. Roll Call Vote: Chairman Greene; Aye, Member Jackson; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Joyce; Aye.

Motion accepted (5-0)

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

IT Update

Mr. Oates opened by giving the Board Members a brief recap of Vitech conference he attended in which he conducted several meetings with other Boards and key Vitech staff.

Vitech V10 Proposal – Mr. Oates stated that the Vitech proposal to upgrade to V10 has technical merit, including move to cloud services (Amazon Web Services). Costs for upgrade and cloud migration/operations seems high though. There will be a Vitech Management meeting to review proposal cost/components will be reported at December 18, 2019 Board meeting. Vitech is making overtures of genuine cost reduction but the actual proposal will need to be evaluated.

PTG - We continue discussions with PTG (Pension Technology Group) to define a proof-of-concept or pilot project that could effectively demonstrate their ability to develop teacher-specific functionality. To date we have held two meetings and provided configuration and sample data using COB PeopleSoft data. The meetings have been productive and PTG staff has demonstrated a good understanding of the space. We do have a deliverable to PTG for some additional data, however a full set of expected payroll earnings data for teachers that was not included in our first query. BAIS was notified and we are hoping for a quick correction to the query.

Cybersecurity - A successful exploratory meeting was held with the Cambridge Retirement Board (CRS) (Ellen Philbin, Executive Director and Chris Burns, Deputy). CRS is amenable to sharing a certified security expert with BRS in some sort of pro rata cost-share given that BRS has the larger and more complex landscape to manage. CRS intends to include funding in their 2020 budget. We are beginning to detail the full set of requirements for effective cybersecurity and digital risk management for BRS.

COB Infrastructure – Mr. Oates stated that outreach to COB CIO Dave Elges was successful regarding the formation of a BRS/COB working group to assess the current/planned tech infrastructure of BRS. A follow up meeting is being scheduled that will involve Bill Oates, Gloria Pizzarella, and key COB DoIT players. The goal is to understand and make visible the important infrastructure elements, roles, and responsibilities. This activity is a building block for both a potential BRS move to the cloud (V3 or PTG) and improved cybersecurity positioning.

Documents Presented

- IT update memo.

Meeting Dates and Standard Agenda for CY20

Mr. Smyth submitted to the Board for their approval the proposed meeting dates and standard agenda for calendar year 2020 to be filed with City clerk.

Motion made, and seconded, to accept the proposed meeting dates and standard agenda for calendar year 2020 as presented.

Motion accepted (5-0)

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Real Estate Search

Mr. Manning of NEPC opened by providing a recap of the strategy around the Manager search for Real Estate investments. The three firms presenting today are across a range of different strategy types. The thing that is different from this group is that in general they are further out on risk and return curb. When we talk about a Real Estate search there is the Real Estate debt, which is the most conservative. There is the Real Estate value added, those Managers are more opportunistic. They look more into development as opposed to acquiring brick and mortar. They also look at more of a niche strategy. We are looking at somewhere within the $20M to $40M range. If the BRS wants to hire one or two of them, they could. This is a two year search, for 2019 and 2020. We're doing $100M across the board.

Sculptor Capital

Mr. Orbuch opened by providing an over view of the firm and outlining his background. The firm is now instituting their fourth fund and the firm has raised close to $3B in equity capital. They focus on opportunistic equity and credit here in the USA and Europe.

Sculptor Real Estate adopts a broader investment mandate than most fund managers, which it believes has allowed it to construct more diversified and differentiated portfolios. As of June 30, 2019, across Funds I, II, III, SREC, STAC and RS, Sculptor Real Estate has completed 133 investments across 21 different real estate asset classes, representing over $9.8 billion of total enterprise value and over $2.6 billion of invested equity, mainly hotels, condominiums and residential. Sculptor Real Estate has deployed 64% of its invested capital in non-traditional asset classes and 36% in traditional asset classes. The firm has invested in different aspects of leisure related real estate, different aspects of health care related real estate, cell towers, convenience and gas stations, senior housing and gaming.

The firm believes in niche strategies and that over time, and in response to changing investment environments, asset pricing bubbles and significant capital flows driving valuations past peak levels for the traditional asset classes in the major markets, Sculptor Real Estate has developed significant experience and capabilities in more non-traditional asset classes, where it believes it has a distinct competitive advantage. Sculptor Real Estate has methodically and systematically expanded into new real estate-related asset classes, allowing Sculptor Real Estate to construct more diversified portfolios as well as provide what Sculptor Real Estate believes to be differentiated real estate exposures relative to other opportunistic vehicles.

In addition to the asset classes listed below, Sculptor Real Estate has reviewed many other asset classes that it believes over time will allow for increased investment activity, including, but not limited to: marinas, car washes, amusement / water parks, timeshares, all-inclusive resorts, RV parks, conference centers, data centers, education / charter schools, and vacation home rental management companies. This is how the firm has built its portfolio.

Sculptor Real Estate's situationally-opportunistic approach focuses on transactions that are driven by discrete factors where it can form a strong view during due diligence. As such, Sculptor Real Estate does not rely on macro predictions to select its investments; instead, the broader macro environment primarily provides Sculptor Real Estate direction in its pursuit of situationally-opportunistic transactions at any point in an economic cycle. Sculptor Real Estate believes that this approach has allowed it to construct diversified portfolios and deliver consistent returns during dramatically different economic environments across its predecessor funds.

The Board, staff and Sculptor Real Estate discussed the increase in investment in European market and the risk with the opportunistic market and fees.

Documents Presented

- Sculptor Real Estate Fund IV Presentation.

AEW

Mr. Davidson opened by introducing Mr. Crooks and Ms. Joyce of AEW. He gave an update status of the current fund that the BRS is invested in Continuation of AEW's long standing opportunistic real estate program. $750 million target equity capitalization with a target net IRR of 14% with focus on capital appreciation with small income component and moderate leverage, similar to prior funds. AEW investment process seeks to maximize risk adjusted returns while minimizing opportunistic risk profiles. The firm's team has generated strong risk adjusted returns across multiple business cycles over the last two decades. AEW's sourcing capabilities and joint venture relationships have led to a consistent pipeline of investment opportunities.

The key investment team personally co-invests in the funds, providing strong GP/LP alignment with a long history of exploiting opportunities and harvesting gains across broad array of investment types, economic environments and market conditions. The firm's objectives and approach are to identify, anticipate the impact on real estate and capital markets. Develop investment strategies and select best local partners/operators to execute strategies through active management and harvest gains and return capital to clients.

It's really all about asset selection, market selection, capital structure, executing our business plan and increasing the assets. We've been able to do that across these funds. We have had excellent fund returns. Funds five through eight, every fund in the series since 1988 has been profitable. Funds five, six and seven have been fully liquidated to date with really strong returns. The BRS is not in fund seven but we have returned 110% of the capital. The BRS is in fund eight, we have recalled about 75% of the capital and we have generated very good returns.

Ms. Joyce referred to page six of presentation that the firm has over $76B in global assets under management and that shows the depth of our platform and the depth of our information that we are able to gleam from the platforms that we manage. AEW is among the largest real estate investment managers in the world with over 400 clients worldwide, including many of the world's leading institutions. We have broad experience across all property types and geographic regions in the North America, Europe and Asia Pacific.

AEW has extensive experience across all property types and regions. Our North American portfolio consists of $32B worth of assets under management in $18.7 B in Core real estate $11.7 B in Value Add and $1.9 B in Opportunistic. In opportunistic fund we generate our returns through capital appreciation. We really try to mitigate the opportunistic risk. A couple of ways we do that; we use lower leverage across the fund series and more conservative underwriting.

Timing of the liquidation of funds, fund returns and future growth sectors was discussed by BRS Board and AEW.

Documents Presented

- AEW Partners Real Estate Fund IX, L.P. Presentation.

Kayne Anderson

Ms. Selsa, Kayne Anderson Los Angeles office opened by introducing herself and Mr. Shepard. Mr. Shepard introduced Mr. Rabil then gave firm overview. They are a leading alternative investment manager since 1984 with $31 billion in assets under management. 150+ investment professionals (350 employees) with a substantial employee capital commitment: ~8% of firm assets, when we win, our clients win. ESG is very important to our firm. They feel it important to be out and be in front and are a signatory on the UN PRI principals, which they have done.

Mr. Rabil stated the firm has 60 people in their Boca Raton, FL office, they're 38% female, 29% minority, without any overlap we're 52% female and minority and he added that they're 1/3 first generation college graduates, 1/3 second generation college grads and 1/3 third generation college grads. That's an important dynamic because there is a complete check your ego at the door mentality within the real estate group.

The vast majority of what they invest in is medical office and senior housing. We also invest in student housing, which was our primary focus from 08 to 2012. That's roughly 85% in senior and about 15% in student housing. The opportunities are based on a couple of reasons. One is demographics. As we are well aware we have an increasingly aging population in the US. Number two is that in every sector that we invest is an operational asset class. They believe to maximize a return you have to have an operating capability. They are the private equity platform firm and the operator. They work with exclusive operators as part of their platform. Their medical real estate is run by one sole operator. In the last 6 years they have acquired almost 20M Square feet of medical office space. They are the largest non-hospital affiliated private owners in the US. On the senior housing side they have two operators and they split the country regionally.

Kayne Anderson Real Estate Partners VI Fund summary terms are, the fund size is $2.5B (hard cap) with an investment period of three years from final close. Terms are Five years from end of Investment Period, plus three one year extensions with a fund leverage not to exceed 75% of total asset value. The minimum investment for this fund is $2M. The management fees through the investment period are, <$50million: 1.75%. Per annum calculated on committed capital, $50million <$100million: 1.50%. Post commitment period, $100million-

<$200million: 1.375%. Per annum calculated on capital called and capital committed for investment net of returned capital. $200M and above: 1.25%. The carried interest is 20% over an 8%preferred return with 80%/20%GP catch-up (60%/40%GP catch-up for commitments of $60million and above.

Board member asked that due to the higher fees compared to the other bidding firms. Is there any considerations based on the Board being current investors. Mr. Rabil responded by stating that due to the NEPC affiliation that the System would be paying the lowest fee that they offer.

Documents Presented

- Kayne Anderson Real Estate Overview Presentation.

The Board and NEPC discussed the value in having three completely different Real Estate strategies. They also discussed the three firm's strengths and weaknesses and strategies. The System has done opportunistic investments in the past.

Board Member Jackson excused himself from meeting at 11: 24 a.m.

Motion made, and seconded to allocate $20M to AEW Partners Real Estate Fund IX, L.P. and to allocate $20M to Sculptor Real Estate Fund IV L.P. with respect to opportunistic Real State funds mandate.

Motion accepted (4-0)

NEPC Search Review

Mr. Manning stated that he would like to set the stage for the next few months. There additional work to do in the three investment strategies, Real Estate, Private Debt and Private Equity.

On the Real Estate side and value added funds. Bring in Managers to meet with in the November Board meeting. Reduce the number of Managers from six or seven down to two or three or four. Also in Real Estate, NEPC put the search out for Real Estate Debt, they redid the search. They went from five firms to over 30. They created a much broader candidate list on the Real Estate Debt search. They will discuss again in a few months and go through the process of narrowing down. Today we did the Opportunistic, the next is Value Added, and they redid the search on Debt. We will discuss further in the early part of 2020.

The Private Debt, NEPC is in the process of doing the 2020 search which has three components. European Direct Lending: $15 million. Niche Lending: $20 million and Distressed Debt: $25 million. System could do $20M in all three groups. NEPC thought is that there is more opportunity in the Distressed Debt category where the European Direct Lending is getting tighter. They would like to overweight where there is more opportunity. We will be discussing the European Direct Lending market today. That is why Oliver and Colton are here. With the goal of narrowing down a very long list to a smaller sub set.

The third set is Private Equity. In December we are going to walk through a Private Equity pacing plan. The System needs to commit over the next two to three years in the amount of $110M. That is consistent with what Hamilton Lane said they modeled both $100 and $125M. The decision before the Board that day is how much of that capital do you want to commit, do you want to commit and if so, how much to Hamilton Lane over the next three years.

Real Estate Respondents: Value Add

Mr. Manning referred to seven managers that are highlighted in blue on page 13 of meeting materials, (Berkshire Residential, Davis Investment Venture, LaSalle, Mesirow Financial, Oak Street, Rockwood Capital and TA Realty) which will be discussed more fully today. $40M will be committed amongst these strategies. Board needs to decide how many Managers they want to meet with. For point of reference Mr. Manning would place Berkshire Residential and Mesirow Financial at the top. They are both focused on multi family. They are pretty close to each other. NEPC has invested with Mesirow, TA Realty in the past. Oak Street does triple net leases. All are conservative Net IRR percentages, 12-14%. All invest in Residential, Diversified, Apt./Multifamily and Student Housing. Board decided to meet with TA Realty, Mesirow Financial, Berkshire Residential and check further into Davis Investment Venture.

Real Estate Respondents: Private Debt

Mr. Manning referred to page 31 of meeting materials, which regarded to European Direct Lending. From a portfolio perspective the System should want to have a diversified range of exposure. Diversified is not just by strategy type but also direct lending and global perspective. Mr. Lavin stated that NEPC has been pulling back a little with European Direct Lending. There are a couple of concerning elements that they saw in the US market that are starting to creep into the European market as well. Those being increased competition and yields coming down. Mr. Fadley added that European Direct Lending also has been different in that the banks has over 80% of the market and are entrenched and your seeing four or five banks dominating the market share. For the most part many of them are consolidating or close up. They have also raised a significant amount of capital. To that end the European fees are much higher than the US. Mr. Manning stated that they'll focus their comments on the ones and twos rated candidates. NEPC has done deals Crescent Capital, EnTrust Global and Oaktree Capital. NEPC went on to discuss the funds and the top tier Managers. Mr. Manning suggested to the Board that they should focus on having two to three Managers come in instead of three to four. The Board decided to have Crescent Capital, EnTrust Global and Blue Bay come in and present in January.

Mr. Smyth stated that Comptroller McCarthy needed to excuse herself from the meeting and if anyone had any questions on the October 2019 Flash Report or September 2019 Financial Statement. The Board had no questions or concerns.

Q3 2019 Performance Summary

Mr. Manning wanted to focus on the Year to Date (YTD) column. It is positive in some ways, disappointing in others. Through September 2019 the system was +10.4%. +11.7% in October and will probably be up in November. It's been a phenomenal market run. The system's investments have been more conservative and diversified. Two things have gotten in the way of the returns being higher. Those are being a little more conservative by being more diversified, number one and number two, the Managers have hurt us this year in general. The large Cap portfolio which has helped over time has hurt this year by 50 basis points. That has come back a little. The Small Cap did really well YTD. The Emerging Market portfolio has been pretty strong this year. Lazard has lagged a lot but is +8.4 versus the bench mark +1.4. Emerging Market Debt +13% this year with Aberdeen has been really strong.

NECP Work Plan

Next two months NEPC and Board will meet with Real Estate Managers next month. Decide on Private Equity pacing plan for 2020. In January we'll talk about asset allocation and European Direct Lending strategies.

<u>Documents Presented</u>

- NEPC November 2019 Meeting Materials Presentation

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

October 2019 Financial Snapshot
September 2019 Financial Statement

Mr. Smyth stated that both the October 2019 Financial Snapshot and September 2019 Financial Statement were included in Board package for their review.

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

October 2019 payroll update

Mr. Smyth informed the Board that Ms. Weir would be out of the office for the next two weeks. The October 2019 payroll was included in Board package for their review.

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

NEPC Contract Extension

Mr. Lydon stated that The NEPC contract extension was up for consideration and vote. The Board discussed contract options and an extension.

Motion made, and seconded, to exercise both one year options on the NEPC contract thus extending the contract until July 1st 2021 per the terms of the agreement the System has in place.

Motion accepted (4-0)

Waiver Request

- Althea D. Pinckney BPS $835.78

Motion made, and seconded, to <u>accept</u> waiver request of Althea D. Pinckney in the amount of $835.78 as the request was made in a timely manner.

Motion accepted (4-0)

- Roy Alexis BPD $17,193.03

Motion made, and seconded, to accept waiver request of Roy Alexis in the amount of $17,193.03 as the request was made in a timely manner.

Motion accepted (4-0)

Unused Vacation Buyback legislation

Mr. Smyth stated that the red line copy of the new Vacation buy back legislation is in the Board package for their review. To paraphrase it will continue to be regular compensation for those eligible as of May 1st, 2018. New Members will not be eligible for this benefit. It will protect retirees that had the benefit prior to the legislation.

Mr. O'Reilly noted that the member must have participated as of May 1st, 2018. You must have bought back at least one year of vacation before May 1st, 2018 to be eligible. It will create different tiers of benefits throughout departments. Mr. Smyth stated that assuming that the legislation is passed; the System is at a good place because we have been taking deductions. The System has not been including them in pensions. They are in Members accounts, as soon as passed staff will do recalculations for any benefit that's that were calculated without vacation buy back.

Enter Executive session

Motion made, and seconded, to enter into Executive session to discuss accidental disability cases and litigation strategy.

Adjourn

Motion made, and seconded, to adjourn from Administrative Session at approximately 12:41p.m. Roll Call Vote: Member O'Reilly; Aye, Member McLaughlin; Aye, Member Joyce; Aye, Chairman Greene; Aye,

Motion accepted (4-0)

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