

**MINUTES OF THE BOSTON RETIREMENT BOARD
ADMINISTRATIVE SESSION
MARCH 18, 2015
BOSTON RETIREMENT BOARD, ROOM 716
BOSTON, MASSACHUSETTS 02201**

IN ATTENDANCE: Daniel J. Greene, Esquire, Mayoral Appointed Member (Chairman); Michael W. McLaughlin, Elected Member; Sally D. Glora, *Ex Officio* Member; Michael D. O'Reilly, Elected Member; Thomas V.J. Jackson, Fifth Member; Timothy J. Smyth, Executive Officer; Jonathan D. Lucas, Comptroller; John Kelly, Investment Analyst; Christine M. Weir, Operations Officer; Richard Sabourin, Member Services Manager.

ALSO IN ATTENDANCE: Samuel Tyler and Benjamin Stuart, Boston Municipal Research Bureau; David Sweeney, City of Boston CFO; Michael Manning, William Forde and Michael Sullivan, NEPC.

MEMBERS OF THE PUBLIC: Refer to sign-in sheet.

Convene

Administrative Session convened at 10:07 a.m. and introductions were made.

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the February 18, 2015 meeting as presented.

Motion accepted (5-0)

Motion made, and seconded, to accept the Administrative Session Minutes of the March 12, 2015 meeting as presented.

Motion accepted (5-0)

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

- COLA base

Mr. Sweeney spoke on behalf of the City, providing a brief history of the proposed increase in the COLA base, the City of Boston's role, and, finally, their recommendation not to increase the COLA base at this time. Mr. Sweeney recounted how he first spoke on this matter at the Board Meeting in May 2014.

At that time, the City was unable to consider any base increase primarily because the COB's FY15 recommended budget had already been filed. However, the City agreed to consider a base increase, in a timely manner, during the FY16 budget process, once the Boston Retirement Board's 2014 actuarial valuation had been completed by Segal Associates, and adopted by the Board. This valuation, as of 01-01-2014, puts the current unfunded liability at 70.2%.

Mr. Sweeney noted that the planned closure of schools, anticipated reduction in local aid and a previously scheduled \$15 million increase in appropriations paid by the City to the Boston Retirement System were all cited as reasons not to increase the COLA base. At the Board's behest, Segal Associates had provided an estimate on the impact an increase in the COLA base would have on the System's unfunded liability. Increasing the COLA base to \$14,000 would increase the City's unfunded liability an additional \$24,558,195.

Mr. Sweeney stated that the City remains committed to fully funding the retirement system by 2025. In order to meet the 2025 funding schedule requirements, the City is required to double pension contributions starting in 2015 at roughly \$417 million a year.

Mr. Sweeney further noted that the Board's 2014 investment rate of return was in the 4.8% range while it assumes a return of 7.75%. During a recent bond sale, both Moody and Standard & Poor's stated, that, prospectively, the biggest potential risk to the City's Bond rating lays with the Pension and OPEB unfunded liability. The impact of all these financial components, combined with the nationwide trend of a myriad of changes in other retirement systems, including not only pauses on COLA base increases, but, in some instances, pauses on any prospective COLA increases, have led the City to recommend that there be no increase in the COLA base for FY16.

Mr. Tyler agreed with the City's recommendation in its entirety, and submitted a statement for the record on behalf of the Boston Municipal Research Bureau recommending no increase in the COLA base for FY16.

Lawrence Connolly of the Boston Retired Teachers Chapter, as well as several of the retirees in attendance, spoke of their disappointment in and frustration with the City's recommendation. Mr. Connolly noted that the Board has historically done well with investment returns. There was some discussion and requests to delay the vote so that the members of the Retired Teachers Chapter could have a chance to address their case for an increase in the COLA base with Mayor Martin Walsh. Chairman Greene stated that Mr. Sweeney spoke for the Mayor's Office in his capacity as Chief Financial Officer.

Additionally, Mr. Greene noted that time constraints surrounding the City's FY16 Budget would dictate that a vote take place immediately.

Motion made, and seconded, to increase the COLA base from \$13,000 to \$14,000 million.

Motion failed (3-2) (Messrs. McLaughlin & O'Reilly voted in favor of the motion).

- Board reorganization of staff relative to Chief of Staff and related positions

Mr. Smyth reported that, effective January 31, 2015, Thomas J. Smith retired from the Retirement Board. At the time of his retirement, his official title was "Executive Assistant (SBRA) MM-10." According to the job description on file with OHR, Mr. Smith's job duties were primarily related to human resources at the retirement system. Mr. Smyth noted that although his job description mentions "preparation of annual budget," he had not been involved in the system's budget process for many years.

Mr. Smyth noted that the retirement system employs Shiaka Allen. Ms. Allen holds the title of "Personnel Officer" and is currently paid \$53,144.85 (RL-14/Step 9). In her current role, Ms. Allen is largely responsible for maintaining the payroll and attendance, *see* Exhibit B.

At the time of his retirement, Mr. Smith was paid (MM10/Step 9) \$106,773.27. Presently, the retirement system employs 40 full time employees. We simply do not need a "Chief of Staff"-like position, particularly at that high salary, given the size of the staff.

Mr. Smyth proposed that the Board abolish the "Executive Assistant" position (formerly held by Smith) and the "Personnel Officer" (currently held by Allen). The Board would then post a new position entitled "Senior Administrative Assistant" that would be at a MM-7 paygrade. Mr. Smyth provided a proposed job description to the Board of this job. The new position would pay between \$59,470.63 - \$86,605.82. This position would report directly to the General Counsel. By doing so, the Retirement Board would save a considerable amount of money.

Mr. Smyth noted that the abolishment of these two positions would impact two unions, SENA and SEIU. As such, the Board would need to impact bargain with both unions before posting and abolishing positions.

Motion made, and seconded, to abolish the "Chief of Staff" position and the "Personnel Officer" position and replace both with the proposed "Senior Administrative Assistant" position as presented.

Motion accepted (5 - 0)

- Supplementary Regulation re Membership in Retirement System

Mr. Smyth offered a proposed supplementary regulation relative to membership rights in the retirement system. No vote was taken. This matter will be discussed at a future meeting.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

- High Yield Search

In February, NEPC conducted a high yield search to replace the System's existing high yield manager, Fountain Capital. Fountain Capital informed its clients in February that it has decided to exit the high yield business and will likely cease management of the portfolio by April. Given the short time frame, NEPC has worked to narrow down the initial list of 70 respondents down to a short list of candidates to potentially interview at the March meeting. The 3 candidates are Oaktree Capital Management, L.P., DDJ Capital Management, LLC and Crescent Capital Group LP. At a high level Oaktree is more conservative, while DDJ and Crescent are more opportunistic.

Oaktree Capital was represented by Sr. Vice President Melanie Mitchell and Principal, Portfolio Manager and Founder Sheldon Stone. Oaktree's investment process and philosophy is geared toward capital preservation and avoiding deteriorating situations in high yield bonds. When other HY managers have problems, Oaktree tends to perform better. The goal of the strategy is to earn market or better returns in the good times, and, more importantly, produce outstanding returns in bad times. Oaktree is a current investment manager for SBRS.

DDJ Capital Management was represented by Director Erika Kennedy, Portfolio Manager Joe Lind and President, CIO Dave Breazzano. DDJ's strategy focuses on small to mid-cap issuers, with many in the lower quality portion of the universe, where many names are overlooked due to liquidity constraints and lack of information. By developing relationships and meeting with companies, competitors, suppliers and other related businesses, DDJ is able to gain an informational advantage, allowing them to develop an investment thesis on a credit that differs from the market, and that recognizes a security's potential value. Because of the strategy's focus on lower quality issuers, middle markets and potentially lower-liquidity securities, performance for the strategy may not protect as well on the downside, but has the potential to perform exceedingly well during recovery environments. DDJ is located in Waltham, MA.

Crescent Capital Group was represented by Managing Director Mark DeVincentis and Co-Founder and Managing Partner Mark Attanasio. Crescent invests in a diversified portfolio of below investment grade public and private

debt securities. Their credit selection expertise in public markets combined with their experience in structuring private debt issues and network of sourcing opportunities are key to their value add for the High Income Fund strategy. Because of the conservative approach to high yield and bank loans, the strategy should perform better than the market in periods of spread widening or during periods when defaults are increasing. Even though private debt instruments are less liquid, they tend to exhibit less price-volatility than public securities. Additionally, the private debt investments will provide an attractive yield spread over liquid credit markets. Crescent is a current investment manager for SBRS.

Motion made, and seconded, to split the \$130 Million USD currently in the Fountain Capital High Yield account between DDJ and Crescent Capital with the final exact funding amounts TBD.

Motion accepted (5-0)

- Private Equity Venture Search

As part of the annual private equity pacing plan, NEPC recommended adding a commitment to a Venture fund and pushing the Buyout search into 2016 in order to accommodate an additional Distressed commitment in 2015, particularly one that has a different focus than GoldenTree, who the Board selected at the February Board Meeting. NEPC noted we are anticipating increased cash flow from our existing Distressed managers and we are still under the overall Private Equity target.

Motion made, and seconded, to conduct a Venture Private Equity fund search for up \$15 million USD.

Motion accepted (5-0)

- Investment Performance Review

NEPC reported the Plan was down -0.5 % in January of 2015 as Total Equities, which comprise 51.5% of the Plan, were down -1.5%. This was offset by a strong Core Fixed Income return of +2.3 % for the month. The preliminary February performance estimated the Plan was up +2.8%.

Outstanding/Ongoing Financial Issues: Jonathan D. Lucas, Comptroller

- Financial Snapshot

Mr. Lucas reviewed the financial snapshot for February 2015 noting that the pension payroll went out on time to 14,540 payees; the total payroll was \$44,754,901. He also noted that operation warrants for the month were \$741,101.

- PERAC appropriation schedule

Mr. Lucas reviewed the PERAC memorandum titled "Appropriation for Fiscal Year 2016 (Non-Teachers)" with the Board. He called attention to the paragraph that mentions, "[t]he assumed payment date in the funding is schedule is July 1." He informed the Board that the City of Boston pays the required appropriation on July 1, but that the Boston Housing Authority and Suffolk County Sheriff's department spread out the appropriation amount over 12 months. This leads to lost investment opportunity on those funds and will delay the point when SBRS reaches full funding for Non-Teachers. One idea that PERAC's actuary has suggested is to add an interest charge to the payments of employers that do not pay the full appropriation in July.

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

- Operations Update

Ms. Weir provided an update on the payroll number for the month of February 2015. There 46 Possible = 42 Regular Retirees, 3 Disabilities & 1 DOA's (Death of Active Member). Of these 46 possible retirees, 27 were processed (24 superannuations; 1 death of active; 2 disabilities). Regarding the 19 cases that did not make the payroll, 18 were superannuation retirements, 1 was a disability retirement. We had so many remaining cases this month due to the 5 snow days and 2 days of system issues.

The breakdown of the 19 unprocessed cases is as follows:

- 1 member failed to return final papers
- 7 members were waiting on buybacks or waiting to pay bill
- 1 member required PERAC approval
- 1 additional salary needed
- 7 applications did not get completed on time
- 1 retirement had a system problem
- 1 member was missing salary.

- Member Service Manager Update

Ms. Weir introduced the new member services manager, Richard Sabourin, to the board.

- CBA Update

The CBA project is 80% complete. We continue to analyze the information and work on older cases as we move forward to tackle 2014 CBAs. We have encountered a new issue regarding the 2014 CBAs. We need to further analyze the 2014 data as the retro payments are of such large amounts that it is difficult to determine the percentage of the CBA amount and if the FAS "window" may

shift. We have approximately 100 disability cases for 2014 that need detail analyzes in addition to the superannuation cases. We have received additional information from Mike O'Keefe that consists of a dozen spreadsheets that we will analyze to come up with the best approach. We are hoping to get a new process in place next week.

We have received information from BWS and PHC regarding CBAs. We are awaiting information from the other two autonomous agencies. We will be reaching out all agencies for information again.

- **Buy Backs**

Ms. Weir reported that we have started the training with the new groups on buybacks and continue to move forward in developing the new process. In addition we are also working on changing the QA process for all buybacks. Next week we will be begin a pilot program in QA'ing the buybacks to get our priority list moving along. Ms. Glora requested that we provide the same message for all buybacks for the sake of consistency.

Outstanding/Ongoing Legal Issues: Timothy J. Smyth

- **PERAC Memorandum #8-2015 re remarriage penalty**

PERAC Memo # 8 regarding the remarriage penalty was discussed for educational purposes.

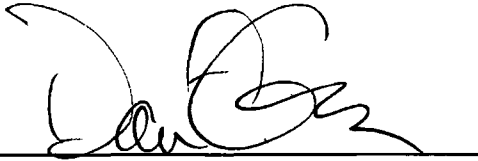
Enter Executive Session

A roll call vote (5-0) to enter Executive Session was had at approximately 1:00 p.m.

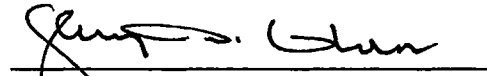
Adjourn

A roll call vote (5-0) to adjourn was had at approximately 1:30 p.m.

Respectfully submitted,
BOSTON RETIREMENT BOARD



Daniel J. Greene
Mayoral Appointed Member, Chairman



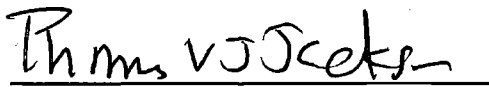
Sally D. Glora
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
Elected Member



Thomas V.J. Jackson
Fifth Member