MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

August 23, 2017

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: 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 Board Member.

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; Natacha Thomas, Assistant General Counsel; Ellen McCarthy, Comptroller; John F. Kelly, Investment Analyst; Christine M. Weir, Operations Officer.

ALSO IN ATTENDANCE: Adam Wedge of the Plymouth County Retirement Association; Michael Manning, Will Forde and Jake Malinson of NEPC.

Convene

The meeting convened and entered Administrative Session at approximately 10:07 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 July 19, 2017, as presented.

Motion accepted (4-0)

Mr. McLaughlin arrived at 10:08 a.m.

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

COLA & COLA base

Mr. Smyth informed the Board that the 3% COLA was paid in July, the COLA base increase will be paid in September and there was a slight increase in the dependent allowance that was paid in August.
ABC Project Update, Ms. Luella Wong

Ms. Wong reported that the ABC Team has corrected $342 million to date with emphasis being placed on the absolute value number of $382 million. A total of 29,000 accounts have had some kind of change or correction. In addition, 34,000 accounts have been checked and while a monetary correction was not necessary, 7,000 needed status correction, which helped with election ballot distribution. The Team was able to pull these accounts out of inactive status and properly classify them as refunded or never-deducted, which changed the number of ballots that were mailed out. Inactive members are eligible to vote, while refunded or never-deducted members are not.

The Team is currently focused on wrapping up the retired accounts, with 3 segments of progress to go. The Team is starting on active accounts this week. Analysis of the active data began several weeks ago. It is anticipated that some of the work done and methodology used on other segments will directly apply to active member accounts.

Mr. Smyth inquired as to whether or not Ms. Wong felt this project would still be completed by the end of the calendar year, which she affirmed. Mr. Smyth advised the Board that there are other data-related issues to be addressed in the next calendar year that it is believed the Team can undertake and address. The Team has excelled and we would be well-served to repurpose them. As a side note, there are now 5 members left on the Team, as Mr. Camacho and Mr. Chen having both accepted full-time positions with the Board.

IT Policies

Ms. Glora has provided the City’s IT Security Policies to the Board so that they may review them for potential adoption. However, she was not able to attend today’s meeting. Therefore, the Board will table the adoption of these policies until Ms. Glora can attend in order to discuss the impact of this and its connection to our entire operation.

Board Election

Election Ballots will be mailed out August 25, 2017, to approximately 43,000 eligible voters.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

July 2017 Flash Report & 2017 Year to Date Performance

The portfolio is up 15.2% over the past year and in the 7th percentile of all public funds for the 1 year period ending June 30, 2017. Active managers added 150 basis points after fees in the past year. With the exception of hedge funds, all managers are currently enjoying strong performance. More recently, the
portfolio was +1.9% in July, which brought the 2017 year to date performance to +10.9% (net of fees).

*Rebalancing*

Zevenbergen is a manager who has performed exceedingly well recently. They are a high-tracking error manager, meaning they have periods of significant over performance and, conversely, periods of underperformance. Last year about this time was a period of significant underperformance for them. That is why they were given a roughly $25 million additional contribution, with the expectation that they would rebound, which they did up, 27.5% YTD. It now seems prudent to rebalance by redeeming some funds from them to reallocate somewhere else.

*Motion made, and seconded, to redeem $20 million from Zevenbergen and reallocate it to core fixed income.*

*Motion accepted (5-0)*

Mr. Jackson requested that TIPS (Treasury Inflation Protected Securities) be added to the index performance summary report.

*International Small Cap Equity Search Analysis*

At the July 2017 meeting, the Board voted to interview three of the International Small Cap finalists to implement its newly approved 3% target (~$130 million) to International Small Cap at today's meeting. The chosen finalist will be funded from the existing international developed equity portfolio. The following managers made presentations:

(1) Fidelity: Rick Horn, CFA, Institutional Portfolio Manager; Shah Badkoubei, Associate Portfolio Manager Analyst; Kristin Shofner, SVP, Business Development.

(2) Segall Bryant & Hamill : Scott Decatur, Ph.D., Senior Portfolio Manager Principal; Philip Hildebrandt, CFA, CEO, Principal; Clark Koertner, Marketing & BD, Principal.

(3) Axiom: Matthew Franco, Managing Director/Portfolio Manager; Suzanne Schechter, Senior VP, Client Service/Marketing.

Following the presentations and discussion, the following motion was made:

*Motion made, and seconded, to invest $130 million with Segall Bryant & Hamill.*

*Motion accepted (4-1) Mr. O'Reilly voted nay.*
Hedge Fund Search Update

Coinciding with the recent decision to decrease the System's hedge fund target allocation from 7 to 5% (~$225 million) and add a dedicated private debt target, to take advantage of the more opportunistic strategies, the goal is to shrink the roster of managers from 5 down to 3, possibly 4 funds. Current managers, namely EntrustPermal, Grosvenor, Mesirow and GAM, shall be interviewed by the Board at the September 2017 meeting. After which, the Board will select between 3-5 additional potential managers from the RFP respondents to present at the October 2017 Board meeting.

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

Financial Snapshot

Ms. McCarthy presented the July 2017 Financial Snapshot to the Board. She noted that the July 2017 payroll went out timely to 14,762 payees and totaled $48.8 million. It also saw 46 refunds, buybacks and transfers processed totaling $1.6 million, as well as operational warrants of $242,000.

2016 Annual Statement Final as of 07-21-2017

Ms. McCarthy presented the 2016 PERAC Annual Statement for review and acceptance. Ms. McCarthy provided the Board with some highlights, including a total fund increase of $239 million or 4.3%, the result of strong investment performance for the year, up nearly 3500% over 2015 earnings. Net investment income jumped from $9.4 million to $336 million as unrealized losses in the portfolio declined 43% for $219 million. Meanwhile total investment income increased $72.6 million to $192 million, with the equity portfolio reflecting the greatest increase of $49.7 million, generating $89.3 million for the year. Also, a 14% spike in the unrealized gains added another $52.7 million over the 2015 results, for a total of $425 million in unrealized gains. The only negative trend on the investment side was a 33% decline in realized gains, declining almost $23 million versus the 2015 numbers.

Total receipts had a 75% increase over 2015, to $878 million, however, the bulk of that increase was due to investment results. Excluding those figures, receipts were still up $48 million due to increases in our pension fund appropriations and member deductions. These benefits were offset by a $21.3 million increase in total disbursements for the year to $639 million. Most of this was due to the $13 million increase in pensions paid along with the related $4.9 million paid in annuities.

Operating expenses were also up $2.7 million. This was due primarily to increases in management fees and consulting fees. The majority of the increase in consulting fees is attributed to work hours prepaid to Vitech for services to be
rendered in the future. More than ½ of the growth in the funds has been placed in the pooled international equity funds, which are up over 14% for the year, now topping $1 billion. The balance of all the other non-PRIT investments rose $42 million net as the PRIT CORE fund also increased $46 million, although the PRIT cash fund reflects a large percentage increase over 2015, this reflects liquid funds moving out of operating cash to PRIT cash.

GASB 67 and 68 Accounting Valuation Report as of December 31, 2016

The total pension liability increased $42 million in 2016. When added to the existing liability at the beginning the year, the total pension liability at the end of 2016 was $10 billion. As discussed in the Annual Statement review, the total funds increased by $239 million for the year, generating the plan fiduciary net position of $5.8 billion. The resulting difference between the two defines the net pension liability of $4.2 billion or 57.9% funded ratio, which is an improvement over this time last year when our pension liability was $4.4 billion or 55.8% funded. This is a reflection of the improved performance in our investment portfolio over 2016.

Motion made and seconded to accept the 2016 Annual Statement and accompanying schedules as of 07-21-2017.

Motion accepted (5-0)

Operations Issues: Christine M. Weir, Operations Officer

Operations Update

Ms. Weir provided an update on the payroll metrics for July 2017. There were 48 possible retirees (40 superannuation, 5 disabilities and 3 death of active members) of which 28 were processed. There were 20 cases that did not make the payroll, of which 2 were revising DRO’s, 4 did not return final papers, 1 is awaiting paternity results, 1 is awaiting guardianship appointment, 1 is awaiting a transfer of account from MTRS, 5 are missing salary info, 1 requested a waiver, 1 decided to refund instead of retire, 1 may withdraw a §6 application, 1 has a legal issue, 1 is awaiting a veteran’s buyback invoice and 1 owes money for worker’s compensation offset.

Buy Backs

Ms. Weir reported that there are 35 cases left in the buyback backlog project. There are 200 new pending buybacks.
Waiver Requests

The following waiver request(s) were presented for discussion and vote:

Orsidia Grullon
BPS
$630.91

Motion made and seconded to deny this request for a waiver of under-deductions as Ms. Grullon's request was not made in a timely manner.

Motion accepted (5-0)

Elizabeth Madden
BPS
$35,946.41

Motion made and seconded to accept this request for a waiver of under-deductions as Ms. Madden's request was made in a timely manner.

Motion accepted (5-0)

The following case was provided for educational purposes only:


The NCRS and the SBR both declined to classify the member's previous state service, each stating that the other should classify. The SBR had a statutory duty to classify and its decision not to classify was reversed.

The following PERAC Memos were provided for educational purposes only:

- PERAC Memo #22-2017 re PROSPER and the legal review of disabilities;
- PERAC Memo #23-2017 re MTRS sec. 3(8)(c) reimbursements;
- PERAC Memo #24-2017 re cost of living increase for supplemental dependent allowance paid to accidental disability retirees and accidental death survivors;
- PERAC Memo #25-2017 re repeal of §90G¾;
- PERAC Memo #26-2017 re access to PROSPER; and,
- PERAC Memo #27-2017 re reinstatement under sec. 105.

Executive Session

The Board voted unanimously (5-0) to enter into Executive Session at approximately 1:13 p.m.

Adjourn

The Board voted unanimously (5-0) to exit Executive Session and adjourn from Administrative Session at approximately 1:19 p.m.