MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

July 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 (all Members remotely present.)

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; John F. Kelly, Investment Analyst; Ellen M. McCarthy, Comptroller; Gregory Molina, Board Secretary (all Staff remotely present).

ALSO IN ATTENDANCE: Mike Manning, Will Forde, Kiley Fischer; NEPC, Cassandra Hardman, James Pontone; Hardman Johnston, Jane Henderson, Francis Sempill; Walter Scott (all presenters remotely present).

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:02 a.m.

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the May 15, 2020 meeting as presented. Roll Call Vote: Member McLaughlin; Aye, Member O’Reilly; Aye, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

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

Administrative Update

• Vitech contract update

Mr. Smyth informed the Board that contract verbiage and details are being finalized with Vitech contract. He also stated that consultant Michael Dwyer was working with Vitech on the upgrade to the cloud. The City of Boston’s Dolt department is also working with Mr. Dwyer and providing monthly updates.
Mr. Smyth went on to inform the Board that a mass email and mailing campaign has been undertaken to inform Members of the three certified candidates for Retirement Board elections.

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

- NEPC

**International Equity Search**

Mr. Manning opened by giving a brief overview of the International Equity search review. The International Equity search was issued to identify a replacement for Fisher Investments (Growth) and reaffirm the Board’s comfort with its other existing managers. To assist with evaluation of the search respondents, we categorized each candidate across three distinct equity styles: Growth, Core, and Value.

The current search was conducted to replace Fisher Investments within the System’s International Equity program. Fisher was terminated from the plan in October 2019 and the assets were transitioned to State Street account as a parking spot. The State Street account is ~5% ($206M) of plan assets and is indexed against the EAFE benchmark.

The Board selected two Growth finalists who will be presenting today as potential replacements for Fisher Investments. The objective of today’s presentations is to select one manager for the System’s International Equity Growth mandate.

In addition, NEPC will also provide preliminary analysis of the Core respondents along with recommendations on next steps. NEPC will provide similar analysis on the Value respondents at the next meeting.

- **Hardman Johnston**

Ms. Hardman opened by providing an overview of Harman Johnston’s firm. The team has worked together for 35 years, is 100% employee owned, has $6.8B current AUM and has 24 employees. The client AUM strategy is 77% International Equity, the firm counts 21% of its clients under Public plans and 29% of its clients have been with them for 5-10 years.

The key differentiators are that by being 100% employee owned the firm’s interests are fully aligned with the clients and the firm is structured to remain that way, with no third party shareholders driving asset accumulation. The firm represents a clear definition of growth by providing a minimum of 10% per
annum over 3-5 years. Hardman and Johnston create focus in research and leads to a “know what you own portfolio.” The Firm has had the same philosophy and process for 35 years; we have successfully navigated numerous market cycles. Harman Johnston employs a strict value discipline and quality criteria. The firm initiates only at attractive entry points, has a concentrated portfolio and limits downside risk without sacrificing upside.

Harman Johnston’s investment process consists of Idea Generation; the firm screens full universe of global companies with sufficient liquidity. Eliminate companies with <10% EPS growth and rank order companies with >10% forward looking EPS growth by relative valuation. Fundamental Research; the firm applies focus on new constituents to the top quartile of rank ordered companies. Identify candidates with key attributes we seek and confirm our hypothesis using in-depth analysis. Portfolio Construction; Harman Johnston has a concentrated portfolio of 20-30 positions with high conviction; best ideas and low turnover portfolio that has exhibited high active share. Portfolio Management; the firm monitor’s the lifecycle of each portfolio holding; including ongoing research coverage, applies sell discipline and manage trims and top-ups of existing positions.

Mr. James Pontone went on to state Harman Johnston’s portfolio construction is a worldwide, best ideas, risk aware, high conviction portfolio. Best Ideas Worldwide; concentrated 20-30 positions, full position is 5%, flexibility for partial positions where appropriate. Risk Aware; diversification constraints and a minimum of 6 countries in 8 industries. A maximum of 25% in any single industry, maximum of 8.5% in any security and maximum of 20% in emerging markets. High Conviction; intensive research, attractive entry points, and growth potential lead to the expectation of holding positions for extended periods. Low turnover and active share has averaged 94% over the trailing ten years. The firm’s portfolio exposure consists of primarily 26% in information and technology mainly in Europe.

Harman Johnston’s International Equity fund stated fee schedule are the first $10 million at: 0.90%, next $15 million at: 0.80%, next $25 million at: 0.70% Balance at: 0.65%. Proposed fee schedule is first $25 million at: 0.75%, next $25 million at: 0.60%, Balance at: 0.50%.

- Walter Scott

Ms. Henderson opened by thanking the Board for their time and commenced by giving an overview of the firm. Walter Scott manages bespoke
equity portfolios for institutional investors around the world. We aim to deliver best in class client service alongside exceptional investment performance.

Walter Scott believes in sustainability through analysis of environmental, social and a governance factor, which is fully integrated into our research process. At its core is Sustainable Corporate Growth, the firm achieves that through four sub cores, Social Responsibility, Governance Practices, Economic Prosperity and Environmental Stewardship. The firm’s investment philosophy is longevity of compound investment returns goes hand-in-hand with corporate sustainability. The firm engages in good stewardship by acting as a responsible owner, engagement with companies and proxy voting is pivotal to this aim. In 12 months to end of March 2020 the firm has had 218 ESG engagements. 243 proxy voting meetings and 33% voted against at least one management recommendation.

Mr. Sempill went on to state that Walter Scott thinks about risk at the primary level, we consider risk to be the probability of losing our clients’ money, and we seek to mitigate this through stock selection and our approach to portfolio management. As a company they invest in high quality, financially robust, sustainable growth companies at sensible valuations. The firm conducts extensive research– understand what you buy. They conduct continuous monitoring and regular engagement, review triggers with a conservative approach to liquidity risk. The firm implements diversification across geographies, sectors, themes and factors. Walter Scott conducts thorough adherence to client directed guidelines, limited friction costs with maximum portfolio exposure limits. Management fees are 0.75% on first $100 million and 0.50% thereafter.

Motion made, and seconded, to hire Walter Scott for the International Equity space in the amount of approximately $206-216m (the amount of the former Fisher Investments account now being managed by State Street). Roll Call Vote: Member O’Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Member Joyce; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

June Flash Report
Ms. Fischer reported that the BRS investment portfolio return was up +2.4 for the month of June 2020, net of all investment fees. The portfolio’s fiscal YTD is at -3.1% as U.S. equity markets continue to rebound from the lows of March 2020.
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**Outstanding/Ongoing Financial Issues: Ellen M. McCarthy, Comptroller**

- Financial Update
  - June 2020 Financial Snapshot

  Ms. McCarthy reported Pension payroll contributors: $53,999,230 Total Contributory Payees: 15,158 Total Payees; Payroll (non-contributors :) $280,924; Total Contributory payees: 43; New Regular Retirees: 22; Survivor/Beneficiary Retirees: 5; Disability Retirees: 1; Members Refunds: 25 for $249,514, Members Transfers: 6 for $252,498; Option B Refunds: 5 for $86,488; Refunds and transfers: 36 for $588,499; Operational Warrants: $450,231.

  Ms. McCarthy offered a number of PERAC memoranda for discussion:
  - PERAC Approval of Funding Schedule to 2027
  - PERAC notice re change of investment return assumption for Boston teachers.
  - Boston Retirement System (BRS) GASB 67.68 as of 12.31.2019

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

- June 2020 payroll update

  Mr. Smyth reported on behalf of Ms. Weir. He noted that the June 2020 payroll consisted of 25 possible retirees (24 superannuation and one disability case). Of the 25 possible cases, 23 cases were processed to payroll. Two cases missed payroll, including one member who failed to return final papers and one is waiting for a transfer from another board.

  All previous cases were all processed from the May payroll. One complex case is still pending from previous months.
Outstanding/Ongoing Legal Issues: Padraic P. Lydon, General Counsel

- Legal Update
  Mr. Lydon stated that there were no legal updates at this time and offered a number of PERAC memoranda for educational purposes only.
  - PERAC Memo 23-2020 re Tobacco Company List
  - PERAC Memo 24-2020 re PROSPER Security Memo
  - PERAC Memo 25-2020 re Mandatory Retirement Board Member Training

  Motion made, and seconded, to go into Executive Session at approximately 11:55 p.m. Roll call vote; Member O’Reilly; Aye, Member Joyce; Aye, Member Jackson; Aye, Chairman Greene; Aye.
  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