MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session
July 16, 2021
Boston Retirement Board, Room 716
Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Member; Thomas V.J. Jackson, Fifth Member; Michael D. O’Reilly, Elected Member; Maureen A. Joyce, Ex Officio Member; Michael W. McLaughlin, 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; Christine M. Weir, Operations Officer; Natasha Thomas, Assistant General Counsel; Gregory Molina, Board Secretary (all Staff remotely present).

ALSO IN ATTENDANCE: Michael Dwyer, Vitech Upgrade Consultant; Michael Manning, William Forde, Kiley Fischer of NEPC; Guilherme Valle, Laurence Russian, Jon Feinberg, Tommy Kelley of ABS Investment Management; Kathleen Riley of Segal Co. (All presenters remotely present).

Administrative Session Convene
The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 9:12 a.m.

Previous Minutes
Motion made, and seconded, to accept the Administrative Session Minutes of the May 19, 2021 meeting as presented.
Roll Call Vote: Member Joyce, Member McLaughlin; Aye, Member Jackson; Aye, Member O’Reilly; Aye, Chairman Greene; Aye.
Motion accepted (5-0)

Outstanding/Ongoing Administrative Issues: Timothy J. Smyth, Executive Officer
Direct Deposit Payment
Mr. Smyth started by stating that GL c. 32, s. 13 had been uploaded to CSI. Specifically, section 13(c) states, “[a] retirement board may require a member entitled to receive a retirement allowance to designate a financial institution to
which shall be directly deposited any payments under any annuity, pension or retirement allowance."

Member Joyce asked that it be put on the agenda to have a discussion with the Board. Currently, BRS issues approximately 458 paper pension checks each month. Mr. Smyth stated that if the Board were so inclined, we segue all retirees to direct deposit. It is believed that it would be good for the members and definitely good for the system. There are a lot of advantages using direct deposit.

Member Joyce stated that when the Board was looking at an update to the system and the extra work and security over the paper check processes. The system has over 15,000 retirement payments going out direct deposit. She was hoping, if not right away. Eventually the system would get rid of this option. Member Joyce's first concern is the security of the retirees. She believes there is more security utilizing direct deposit opposed to paper checks. As most people are aware, social security requires a direct deposit. Member Joyce believes this would be the best service for the systems membership. It would also save a lot of time, energy and aggravation by simplifying the process.

Chairman Greene stated that he believes that the system should try to phase them out with time. It makes sense in all respects. It's harder for the older members but he agrees in the move.

Member O'Reilly also agreed. Stating that the system just went through an instance where there were checks lost in the mail.

Mr. Smyth suggested that it be done gradually. First, by sending out a letter at the end of the month to all the paper check members asking them to go to direct deposit. Also let them know that the Board will be transitioning to electronic direct deposit in the near future. Unless the Board wants him to just inform them of the change and take that approach. Member Joyce answered by stating she thought that would be a better approach instead of approaching this group two or three times.

Ms. McCarthy noted that in February 2021 the system issued 598 paper pension checks. After a push by the payroll unit, that number dropped to 467.

Mr. Dwyer pointed out that the system also does weekly refund paper checks. Mr. Dwyer just finished an analysis in the last few days that showed that the system is averaging close to 20 refunds, transfers and rollover's per week. The sticking point becomes that the other boards and other rollover organizations. If you determine that this all has to be direct deposit, that certainly simplifies things but as some of you are aware, we are in the process of working with the BAIS team to print out checks. The system is going live in November 2021 with V10 so this is a critical issue now.
Ms. McCarthy stated that on the Board they are able to receive electronic payments. She knows that the State has in the last year or two has sent out notification to Boards that they will be doing electronic transfers of their COLA’s. She has to assume that a lot of the Boards are set up now to be able to accept EFT’s from the small Boards. She thinks that the system would have to probably have to reach out and make certain of that.

Mr. Smyth stated that he would have to circle back with Vitech and try to get a blast email or letter out to the 457 recipients within the next three to four weeks. Mr. Smyth asked Mr. Dwyer if that was feasible. Mr. Dwyer answered in the affirmative.

*Motion made, and seconded, to eliminate all paper checks that are currently being produced so as to get members on EFT status as soon as possible.*

*Roll Call Vote: Member Joyce: Aye; Member McLaughlin: Aye; Member Jackson: Aye; Member O’Reilly: Aye; Chairman Greene: Aye.*

*Motion accepted (5-0)*

**COLA base increase to $15,000**

Mr. Smyth informed the Board that the COLA Base was approved by the City Council on 06/30/2021. He noted that it was probable that the first payments won’t go out until the August pension check retroactive to July 1st. Mr. Smyth has sent certification to PERAC.

**BRS Board V10 Project Update**

Mr. Dwyer updated the Board on the Vitech 10 upgrade. Mr. Dwyer stated that the main activity is switching around infrastructure. He noted that the environment has been in place for a decade or more. It turns out that environment is being completely redone. Treasury vaults being completely reconceived and the main frame is going away, potentially, as soon as Q1 2022.

Mr. Dyer attends meetings twice a week with Dolt and Vitech to discuss how all of this is going to work in this new cloud environment. The project is unfolding on track. The upgrade will have a member portal and online ITR’s. Mr. Dwyer’s recommendation is that the system not turn that on in November 2021 when we go live. It should probably lag a little while until the project shakes down year end and a like. Then it can be carefully segued but the capability will be there. Everything is moving forward.

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

*Emerging Markets Equity Search: ABS Presentation*

Mr. Feinberg opened by stating ABS does manage monies for other PERAC funds, Plymouth County. In this particular product they have six or
seven NEPC clients. They can provide the Board with the actual AUM if they like. He went on to introduce Mr. Kelley, Mr. Russian and Mr. Valle.

Mr. Feinberg Stated that ABS utilize a differentiated approach through local specialists. They work with specific local specialists who pick stocks in their own markets. The ABS team has three decades of experience building cost-effective solutions. The EM Strategic portfolio has generated net excess returns since inception. Their performance has been 5.4% outperformance in 2020 and 2.3% outperformance Year to Date (YTD) with a an AUM of $1.6 billion dollars.

Mr. Russian then went on to address the PERAC issue. He stated that ABS is following Securities and Exchange Commission (SEC) Registration Requirements. The firm will not invest Boston Retirement System ("BRS") assets in any underlying funds unless they are managed by SEC registered investment advisors. They will follow PERAC Tobacco Stock Restricted List and have implemented an automated screening tool that will eliminate Boston Retirement System’s exposure to any companies on the restricted list. ABS, through a dedicated PERAC-compliant vehicle, will adhere to these and all PERAC regulations and provide the transparency necessary for BRS.

Motion made, and seconded, to hire ABS emerging market strategic portfolio to satisfy the Core Emerging Market equity search.

Roll Call Vote: Member Joyce: Aye; Member McLaughlin: Aye; Member Jackson: Aye; Member O’Reilly: Aye; Chairman Greene: Aye.

Motion accepted (5-0)

Core Fixed Income Search

Mr. Forde stated that as a reminder, the Core Fixed Income search was issued in compliance with PERAC regulations as the last Core search occurred seven years ago. The current search focused on identifying candidates across two styles: Core and US TIPs. At today’s meeting, NEPC will present the list of respondents and will provide additional information on the proposed strategies.

The objective of today’s discussion is to (1) develop a shortlist of candidates for further analysis, (2) select candidates to interview at an upcoming meeting, or (3) reaffirm the Board’s conviction in their current Core Fixed Income program.

Over the last ten years, the collective group of managers have exhibit 4% return net of all fees. Relative to the benchmark of 3.4%. When you look over the recent performance, over one, three and five years. It’s a much similar story.

Mr. Forde went on to state that the current Managers in Core Fixed are doing very well. Core Fixed Income in general is hard to differentiate between the different strategies. So, as we look at the list of respondents, NEPC would
like to discuss at the next meeting any firms that the Board may be interested in and also hone in on the firms that are really different and brings something else to the table. One Manager Mr. Forde thinks has differentiated themselves within the Core Fixed Income bucket is AFL-CIO HIT Fund. They also have a social and economic impact in terms of being able to produce union labor on lots of projects in the portfolio. That's a lot different than a traditional Core bond manager.

Chairman Green agrees that the managers currently hired by the Board have been terrific. He also stated that he would like to see more on the housing investment trust vehicle AFL-CIO. Chairman Greene feels there could be a lot of local impact. He would not suggest that the Board replace a manager but it could be an addition.

Member Jackson asked if all the respondents fees are similar? Mr. Forde responded that off the top of his head he would say they are competitive but that he will analyze fees and return next meeting with that information.

*June/July 2021 Flash Report*

Mr. Manning presented the July Flash Report stating that the System is +1.4% in the month of June. +4.8% for the last three months. This brings the YTD to a +8.6% and the One Year to +26.4%. In general, the managers have been pretty close to the benchmarks, net of fees this year.

*TA Realty cyber security breach*

Mr. Manning closed by stating that TA the systems Core Real Estate firm the system has multiple products with them. They were hacked. Someone breached their firewalls, stole some of their data. TA informed everyone and NEPC has worked with them. They have hired a firm that is making sure that none of their data is on the dark web. TA feels comfortable that the information that they have about their clients is not going to be shared and will be protected.

*Work Plan*

Mr. Manning stated that NEPC has included an updated work plan with the including a proposed work plan for 2021.
## PROPOSED 2021 WORK PLAN

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### Option to Exercise Extension of NEPC Contract

Mr. Kelly wanted to bring up a subject before the next agenda item is discussed. Five years ago, the Board conducted an investment consulting search and elected to retain NEPC. The contract was structured as a three-year contract with two one-year extensions options. The Board is done with the one-year extension options on June 30th, 2021. The laws have changed and your now allowed to do a two-year extension. I would like to ask the Board if we can approve a two-year extension and conduct another consultant RFP.

Chairman Greene agreed that an extension should be made. If for nothing just to be compliant with their contract.

The Board discussed the extension, potential changes to contract, original contract, terms, RFP’s, timelines, pricing, PERAC, seven-year timeline.

Motion made, and seconded, to authorize staff to enter into a two-year extension with NEPC which would bring them to the end of their allotted time per PERAC. Furthermore, to issue an RFP for the investment consulting work currently provided by NEPC.
Outstanding/Ongoing Financial Issues: Ellen M. McCarthy, Comptroller

GASB No. 67 and 68 Accounting Valuation Report as of 12/31/2020

Ms. McCarthy introduced Kathleen Riley of Segal Co. to speak regarding the GASB. Ms. Riley opened by stating that this is the accounting report as of the end of calendar 2020. It is used for fiscal 2021. It’s used for fiscal 2021, its used for the Retirement System financial statements it’s also rolls up into the City’s financial statements. For the retirement System it’s a disclosure footnotes on what the liabilities and unfunded liabilities of the System are and for the City a portion of the unfunded liability of the Net pension liability, which is the same as the unfunded liability, is reported on the City’s financial statements. This report determines how that amount changes for the year.

The Net pension liability at the end of Calendar 2020 with a comparison of calendar 2019. This GASB report is based on the January 1, 2020 the most recent valuation report. The full value report that was completed about a year ago. If the Board recalls with that full valuation report we made some significant assumption changes. Those assumption changes were actually reflected in last years numbers. What these numbers capture is the experience gain for the participant changes that were recognized with the 2020 valuations and the 2020 investment performance.

The System’s total liabilities have increased from about $12 Billion to about $12.3 Billion. That’s just the normal growth in liabilities. Assets have gone up from $7.4 Billion to $8.3 Billion, that’s contributions less benefits payments due to strong investment performance. They estimate a investment performance at about 11.7% for the year, in the aggregate. The assumption is a little over 7.05% for the non-teacher assets and 7.15% for the teacher assets. The Net pension liability, the unfunded liability has decreased from $4.6 Billion to just under $4 Billion. There is an increase in the funded ratio from about 62% to 67.6%. Great numbers.

A couple of key takeaways. This report is a full disclosure for the various financial statements. One of the required disclosures is the impact in the change of the discount rate of the Net pension liability, the unfunded liability. If we compare the current discount rate with the 1% decrease in the discount rate. The unfunded liability of would go from about $4 Billion to about $5.4 Billion. A pretty big increase in the unfunded liability if you were to lower the discount rate a full 1%. Keep in mind we tend to lower it at lower increments. Often times a ¼%, sometimes a little bit less. Her rule of thumb for the impact on the
liabilities, not the unfunded liabilities but the liabilities grow by about 3%, when the discount rate is lowered by about 25 basis points.

The Systems assets and liabilities have changed. From calendar 2020 to calendar year 2019. Liabilities grow every year because people earn benefits, that’s represented by service costs. Liabilities grow with interest, so that is a large number and they decrease by benefit payments. In addition, the system had an experience gain which was the result of the 2020 valuation. There were also assumption changes that were captured last year. The assets grew, employer contributions of a little over $500 Million, employee contributions of $186 Million, investment income of $860 Million in this calendar year and over a $1 Billion in the prior calendar year. Another required disclosure, which is the comparison of the Systems actuary determined contribution, think of that as the Systems appropriation. With the actual contributions. What’s nice to know is that there have been excess contributions made into the Retirements System four out of the last five years. In addition to the funding schedule number.

Ms. Riley went on stating that the change in the unfunded liabilities that’s reflected on the City’s financial statements. The $372 Million pension expense, that’s the charge to the City’s financial statements. There is a credit of a little over $500 Million for employer contributions, the difference between the charge and credit about $125 Million very round numbers, is the reduction in the unfunded liability on the City’s books.

The third pieces of liability, experienced gains and losses and assumption changes that will be recognized in the future. The next piece is the allocations of these numbers to the various City entities for use on their financial statements. There are allocations to the City of Boston, the Housing Authority, the Planning and Development Agency, Water and Sewer Commission, Public Health Commission, Sherriff liability and the Commonwealth for the teachers and the COLA.

May/June 2021 Financial Snapshot

Ms. McCarthy reported May 2021 pension payroll contributors: $56,707,000 Total Contributory Payees: 15,397 Total Payees; Payroll1 (non-contributors:) $ 281,853; Total Contributory payees: 37; New Regular Retirees: 39; Survivor/Beneficiary Retirees: 1; Disability Retirees: 5; Option C/Disb Surv 14; Members Refunds 35 for $ 912,000; Members Transfers: 12 for $ 499,000; Option B Refunds: 3 for $35,601; Operational Warrants: $ 515,117.

The June 2021 pension payroll contributors: $56,529,000 Total Contributory Payees: 15,281 Total Payees; Payroll1 (non-contributors:) $ 279,811; Total Contributory payees: 34; New Regular Retirees: 32; Survivor/Beneficiary Retirees: 2; Disability Retirees: 6; Option C/Disb Surv 9; Members Refunds 34 for
$ 650,000: Members Transfers: 10 for $ 404,000; Option B Refunds: 9 for $201,000; Operational Warrants: $ 368,216.

Ms. McCarthy noted that the Audit for 2020 is wrapping up. The System is on target to reach the July 30th deadline. BRS staff is currently working with Segal compiling and confirming data for the City’s GASB 68 report for the non-contributory payroll and finance staff is assisting.

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

*June 2021 payroll update*

Ms. Weir provided an update on the payroll numbers for the month of May. There were 32 total retirees, 28 made it to payroll. 2 Death of Active (DOA), 25 Superannuation’s, 5 Disabilities. 4 cases did not make it to payroll for May. The reason members did not make it on payroll; 3 Superannuation’s, 1 DOA, did not return final papers in time and needed additional information on the DOA case.

Payroll numbers for the month of June. There were 32 total possible retirees, 21 Superannuation’s, 3 Death of Active (DOA), 8 Disabilities. 32 made it to payroll. 2 Superannuation’s, 2 cases did not make it to payroll for June. The reason members did not make it on payroll did not return final papers in time.

**Outstanding/Ongoing Legal Issues: Padraic P. Lydon, General Counsel**

Mr. Lydon presented five PERAC memos for Board review:

- PERAC Memo 16-2021 re Coronavirus Reopening Memo
- PERAC Memo 17-2021 re Follow Up Certain Coronavirus Emergency Measures Extended
- PERAC Memo 18-2021 re Updated Member and Beneficiary Application for Distribution of Accumulated Total Deduction Forms
- PERAC Memo 19-2021 re Mandatory Retirement Board Member Training
- PERAC Memo 20-2021 re Tobacco Company List

**Adjourn from Administrative Session**

The Board voted unanimously to adjourn from Administrative Session at approximately 11:13 a.m.

Roll Call Vote: Member Joyce; Aye, Member O’Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Respectfully submitted,

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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-