

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

July 17, 2024

Boston Retirement Board

Civic Pavilion Room, Boston City Plaza

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Michael D. O'Reilly, Elected Member; Karen T. Cross, Elected Member; Thomas V.J. Jackson, Fifth Member.

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Christine M. Weir, Deputy Executive Officer; John F. Kelly, Investment Analyst; Natacha Thomas, General Counsel; Ellen M. McCarthy, Comptroller; Gregory Molina, Board Secretary; Flor Valencia, IT manager.

ALSO IN ATTENDANCE: William Keefe, Patrick Charles of PERAC; Michael Manning, Cotter Colten, Kiley Murphy of NEPC; Janey Frank, Thomas Gosnel, Boston Teachers Union/Retired Teacher's Union; Joseph Smith, USW/SENA; Elissa Cadillic, AFSCME 1526; Joseph Sumberg, Kate Wade of Galvanize; Alasdair Cripps, Thomas Hynes of Mesirow; Steven Hagenbuckle, Joseph Connolly, Nicholas Vivian of TerraCap.

EXCUSED ABSENCE: Scott Finn, *Ex Officio Member*

Administrative Session Convene

The Board voted unanimously via roll call (4-0) to enter into Administrative Session at approximately 9:05 a.m.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Cross: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0)

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

Visit and remarks from William Keefe, PERAC Executive Director and Deputy

Mr. Keefe opened by thanking the Board for having him and Executive Director Patrick Charles. He stated that he has been with PERAC for five years, and he has gotten to know BRS staff. Mr. Keefe noted that the System is in good

hands. Mr. Keefe discussed PERAC's budget, efforts to bolster Audit staff, the office move and legislation terms of interest, including the composition of the PRIM Board.

Mr. Smyth stated that the BRS was just awarded a cyber security grant. He asked Mr. Keefe if other systems engage in some sort of Chief Security Officer or are getting some cyber security in insurance. Mr. Keefe stated that its hit or miss. He knows it has become more and more difficult to obtain cyber security insurance. They can do a survey to find out. We have looked into it internally. Mr. Keefe offered to do a survey.

Past Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the June 18, 2024 meeting as presented.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Cross: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0)

MLCGP Award Letter

Ms. Valencia opened by stating that the System was awarded \$67,500.00 grant from the grant application we submitted for cyber security for an incident response plan, (which will include, table top exercises, and government security planning.) In these days of cyber-attacks becoming more frequent, the System needed to take steps to advance the architecture. This is positive news for the Board as we do not have to pay for it. The Board was appreciative of all the work that was put into this endeavor.

PERAC Memos and Reports offered for Board education:

- PERAC Investment Report 2023.
- PERAC Memo 15-2024 re 91A PROSPER Tasks
- PERAC Memo 16-2024 re pension forfeiture
- PERAC Memo 17-2024 re Mandatory Training
- PERAC Memo 18-2024 re Audit Process via PROSPER

Ms. Weir gave the Board an update on the Systems phishing issue. DoIt does a periodic testing of staff. The last phishing staff test was held from January to June, 2024. the System had two training assignments. Quarter one and quarter two of 2024, the results from the Retirement System was that 86% of BRS staff passed. DoIT will continue to conduct these tests every quarter. They have done a small security training and the results will be shared with Ms. Weir going forward.

The Board and staff discussed potential consequences of failing the DoIT training tests.

Migration from CSI software system to Google based platform.

Ms. Valencia stated that we recently learned that CSI does not have the ability to turn on the two-step authentication, which would deter our account from getting hacked. Google adds an additional layer of security; In support of the segue to Google for the Board package, Ms. Valencia noted, Google drive is secure; it can store new data, compliant with PCI information, and HIPPA; encrypt data at rest and in transit. Using 256-bit algorithms which is considered in the industry as the most secure system in the world. They have hundreds of engineers working around the clock, checking to see if there are any threats coming in. The data centers are all customized, the operating systems are customized, so that gives them full control in case an incident happens. They can respond quickly. In addition to being more secure, it will result in savings to the System because currently the City pays for this service.

The Board and staff discussed the switch over and any negative issues that may come up. The Board agreed with the migration to Google based system.

Vitech current issues.

Ms. McCarthy wanted to give the Board an update on Vitech. She stated that the last meeting, Mike Dwyer, Bill Oates and her met with Tom Walsh of Ice Miller on Monday to discuss contract and different options the System may have. To see if any other public retirement fund Boards have any concerns, issues, and or communication problems with their software. It was noted that most of the Boards or 95 Boards use PTG.

Documents Presented: 1. Administrative Session Minutes of 6.18.2024. 2. MLCGP Award Letter, 3. PERAC Investment Report 2023, 4. PERAC Memo 15-2024 re 91A PROSPER Tasks, 5. PERAC Memo 16-2024 re pension forfeiture, 6. PERAC Memo 17-2024 re Mandatory Training, 7. PERAC Memo 18-2024 re Audit Process via PROSPER.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Real Estate Search

Mr. Manning stated that the real estate search focused on identifying value-add and opportunistic strategies to deploy the System's targeted commitment amount of \$75 million in 2024.

At the June 2024 meeting, the Board reviewed the value-add respondents and the Board selected three finalists to present at today's meeting, as listed below. The opportunistic respondents will be revisited in August, 2024, with potential interviews occurring in September, 2024.

Galvanize

Mr. Sumberg opened by stating that he has a 20 plus year career, with a very successful track record with Golden Sacks. Galvanize invests through thematic investment and market selection, with Value-add business plans and profitable sustainability programs.

Mr. Sumberg started the Galvanize firm in October of 2022. They target value-add real estate plus profitable decarbonization to achieve a 100% reduction in operational CO2e emissions within three years of ownership. They have a disciplined and experienced investor with collective expertise in sustainability, asset and risk management in collaboration with in-house climate technologists, scientists and policy experts.

One-third of carried interest linked to sustainability goals, GP alignment with at least \$75M commitment¹ (15% of targeted \$500M fund), vertically integrated execution. Galvanize's goal is to drive attractive risk-adjusted returns through a differentiated strategy with the positive externality of decarbonizing an asset class responsible for 40% of greenhouse gas, 20% of which is through operations.

The Galvanize Real Estate Fund I, LP aims to deliver direct and long-lasting emissions avoidance at meaningful scale. A 30-Year Climate Impact Potential in Context, Based on Illustrative Portfolio. This fund will create enough emissions avoidance to "unplug" every home for one year in Cambridge, MA and Somerville, MA. 630K Tons of emissions avoided at 100% decarbonization. \$1.3M. MWh clean power will be generated on-site. 200K MWh consumption avoided via retro-commissioning.

Galvanize is raising \$500 million and Galvanize Commitment General Partner commitment equal to at least \$75 million. The target returns are 11-15% Net IRR². With an investment period that ends on the last day of the calendar quarter containing the third anniversary of the final closing date, subject to one 1-year extension at general partner's discretion. The management fee 1.5% of committed / invested equity.

Mesirow

Mr. Hynes opened by introducing himself and Mr. Cripps. The fund that they are presenting today is Mesirow Real Estate Value Fund 5. The Boston Retirement System has been an investor in all of our previous funds and they wanted to thank the System for their support. The strategies for this fund are very similar to the previous funds. Focused on Value Added, opportunities in the U.S. multifamily market.

The fund that they are presenting has a billion-dollar target. They have already had a few closings on the fund. Currently they \$650 million committed. That includes a range of insurance companies, family offices, endowments, etc. Several public funds in the Chicago area. They have a very diverse base. Most of their investors (19) are reups. The Mesirow team has been able to generate this performance, no through financial leverage, not through credit lines. Its been through a true Value-Added process that really drives value and appreciates the property value.

Mr. Cripps continued by stating that Mesirow is an independent financial services firm founded in 1937 and owned by employees. With Global headquarters in Chicago with offices worldwide; 506 employees. \$278.2B in total assets under supervision, \$162.9 billion in non-securities currency assets under management, \$62.5 billion in assets under advisement and \$52.6 billion in regulatory assets under management. (i.e., securities)

Their dedicated focus on multifamily assets in select major US metropolitan markets. The Senior investment team averaging over 29 years of multifamily investment experience. They exhibit a proven investment process involving strategic repositioning of value-added apartment assets and select ground up development opportunities. They create value, demonstrating the ability to realize meaningful asset appreciation through revenue enhancement, cost reduction, and implementation of best-in-class management. Their proven network of industry relationships leading to off market deals and preferred positioning with intermediaries.

Mesirow has developed 20,810 units since inception. Total investments of 72 with 38 realized investments and net realized multiple of 2.05x. Mesirow Financial Real Estate Value Fund V is a \$1.0 billion with \$1.25 billion hard cap.

The Fund V Investment Strategy is the repositioning of underperforming Class A and B multifamily assets, acquired at a discount to replacement cost, in

high growth markets where “barriers-to-entry” mitigate the risk of oversupply, is a cycle tested real estate investment discipline. Construct a diversified portfolio to manage risk while tactically overweighting markets that present the best growth opportunities. Asset performance is optimized through the execution of a value-added property improvement plan emphasizing capital investments, revenue growth, expense controls, proactive asset management and repositioning of rents to market. Premium opportunities will be enhanced by mass transit, medical center, necessity-based retail, and other types of discernible submarket anchors and amenities.

This is a \$1.0 billion fund with \$1.25 billion hard cap. Closed Commitments: \$648.20 million. The fund open until March 28, 2025. The structure of the fund is a closed-end Fund, implementing strategies in Multifamily Value-added: renovations, repositioning's, substantial lease-ups and management enhancements. Development targets JV developments not to exceed 25% of the portfolio. The term is 8 years, inclusive of a 3-year investment period. Geographic Focus: Nationwide with approximation to NCREIF Property Index diversification (West: 30-35%, Midwest 5-10%, East 25-30%, South 35-40%). Target Return, 12% - 15% gross of fees and expenses, 10% - 12% net of fees and expenses and a leverage of up to 65% on a portfolio basis.

TerraCap

Mr. Connolly opened for the Terra Group stating that he is in charge of client service. He introduced Hagenbuckle and Mr. Vician. Mr. Hagenbuckle continued by stating that TerraCap Management is a privately held real estate investment manager group which is 100% employee owned, with 28 total employees, 11 co-investor employee partners, 20 Years Sr. team average. Real estate experience, 7 investment committee members, 4 offices, Atlanta, Denver, Tampa and Naples, FL. 342 total investors, 121 institutional investors and 552,000 pensioners. \$2.1B AUM, 18.1M SF total managed and 9.9M SF currently being managed.

TerraCap has a long history of buying distressed properties in down markets. The City of Boston's historical investment allocations position you for a carried interest profit split of 85% to the investor and 15% to the GP. Market for other investors can be between 75%/25% to 80%/20%. If we invest \$40,000,000 of equity into a property, hold it 5 years and generate a 2x equity multiple and 20% gross IRR, the split of the \$40,000,000 in profit would be as follows: TerraCap: 85% to investors x \$40,000,000 = \$34,000,000, competitor: 80% to investors x \$40,000,000 = \$32,000,000, competitor: 75% to investors x \$40,000,000 = \$30,000,000. In this

example, the investors would receive an additional \$4,000,000 of proceeds. Based on your participation in prior TerraCap funds, City of Boston's management fee would be 1.25%.

Mr. Hagenbuckle continued by stating that as an organization, Terra Cap has been evolving since the era of Covid. They started transitioning away from office completely. They have been transitioning away for three and a half years and their focus is in multi-family and industrial. Which they perform quite well at.

That would be the focus on Fund 6. TerraCap Management, LLC considers thematic factors such as business formation, employment growth and population growth on a market-by market basis, as most metros and submarkets have different economic based industries and therefore move through their economic cycles differently. The Investment Manager makes moderate strategic overweighting or underweighting to markets, depending on the specific economic drivers influencing supply and demand. The Investment Manager intends to invest the Fund's assets so that no economic industry base will be allowed to dominate any property or the portfolio's performance. Target equity to be raised \$500 Million with a target returns of 14% Net IRR.

Mr. Vician stated that the targeted fund size is \$500 million. The targeted returns 14% Net IRR. The targeted number of investments is 25-30 assets with invested equity ranging from \$20 million to \$40 million each. Terra Cap's investment period of 2 years from the Final Closing Date. Terms are 8 years from the Final Closing Date, subject to two 1-year extensions. Terra Cap's management fee is 1.5% on committed capital until termination of the investment period; thereafter 1.5% on invested. Capital. LP > \$30M 1.25%. LP > \$50M 1.15%. LP > \$75M 1.00%. GP commitment 1.5% of aggregate capital commitments distributions. 100% return on invested capital (including the management fee), 8% compounded preferred return, 50/50 catch up thereafter, 80/20 split, (LP > \$30.1M: 85/15 split - with side letter). First Closing Incentives: 85/15 profit split vs. 80/20 for later investors 0.75%. Year 1 management Fee is +8% notional interest received from follow-on investors.

The Board, BRS staff and NEPC discussed the merits of the presentations, fees, past performances of current managers. They also discussed amounts to be invested and investment strategies.

Motion made, and seconded, to hire Mesirow Financial Real Estate Value Fund V for \$25 million dollars and Terra Cap Partners Fund VI for \$25 million dollars.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Cross: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0)

Private Debt Search

The private debt search focused on credit opportunities and direct lending strategies, to fill \$60 million in total commitments for 2024. The credit opportunities candidates were evaluated first, and Siguler Guff was selected for a \$30 million commitment. Today, we will review the direct lending respondents. The goal of today's discussion is to select 2-3 finalists to present at the August meeting.

The Board and NEPC staff discussed the respondent's firms and prior relationships and experience. The Board decided to bring in two managers HarbourVest and GoldenTree for presentations.

International Small Cap Equity Search

Ms. Murphy would like to issue an International Small Cap Equity search on behalf of the System, in compliance with the seven-year search requirement.

June 2024 Flash Report

Mr. Manning reported that the plan was up + 0.6 % through the month of June, 2024 and + 4.4% in the one-year period. The performance was up + 7.5 since its inception.

Work Plan-2024

Mr. Manning stated that NEPC has included an updated work plan with the meeting materials.

Documents Presented: 1. NEPC June 2024 Meeting Materials, Galvanize presentation. 2. Mesirow presentation. 3. TerraCap Presentation

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

Ernest & Young Annual Audit

Ms. McCarthy introduced Joe Francis of Ernest & Young. He went on to state that E&Y's audit scope is consistent with what was planned. After completing their remaining procedures, they expect to issue unmodified opinions on the financial statements and required supplementary information and schedules of employer allocations and pension amounts by employer.

Overall, the Plan's analysis for significant accounting matters is appropriate. Reasonable judgments and consistency have been used by management to account for accounting estimates.

Points to consider. Management and Retirement Board inquiries. (to be conducted at this meeting) Required communications, status update/open items and obtain the executed letter of representations from management. Perform subsequent events review procedures through our report date and miscellaneous open items.

Motion made, and seconded, to accept Ernest & Youngs Annual 2023 Audit as presented.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Cross: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0)

June 2024 Financial Snapshot

Ms. McCarthy reported the June 2024 pension payroll as follows: Contributory payroll: \$ 62,581,986; Contributory Payees: 15,740; Non-contributory payroll: \$334,552; Total Non-contributory payees: 37; Regular Retirees: 38; Survivor/Beneficiary Retirees: 0; Disability Retirees: 10; Option C/Disb Surv 7 Members Refunds: 76 for \$ 1,442,468; Members Transfers: 96 for \$ 4,874,619; Option B Refunds: 3 for \$ 160,780; and, Operational Warrants: \$ 1,211,484.

Ms. McCarthy informed the Board the GASB 67& 68 report is as of 12.31.2023. Ms. McCarthy asked for the Board approval.

Motion made, and seconded, to accept GASB statement 67 and 68 Accounting Valuation as of 12.31.2023 as presented.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Cross: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0)

Ms. McCarthy asked the Board to extend the option years of Ernst & Young. The original contract was 5 years with a 2-year option. Ms. McCarthy is very pleased with the performance of Ernst & Young and their staff and recommends that the contract be extended two more years.

Motion made, and seconded, to execute the two-year option of Ernst & Young LLP. Contract.

Roll Call Vote: Member O'Reilly: Aye; Member Jackson: Aye; Member Cross: Aye; and, Chairman Greene: Aye.

Motion accepted (4-0)

Documents Presented: 1. BRS 2023 Employee Benefit Plan Audit Results - EY - 07.17.2024, 2. June 2024 Financial Snapshot, 3. Boston Retirement System GASB 67 and 68 as of 12.31.2023, 4. 05.2024 MMDT Reconciliation 5. May 2024 Adjusting Entries Summary 5. May 2024 BRS Cash Projections Actuals, 6. May 2024 BRS Trial Balance Report, 7. May 2024 Cash Disbursements Summary, 8. May 2024 Cash Receipts Summary 9. May 2024 Direct Deposit, 10. May 2024 MMDT Monthly Statement, 11. May 2024 MMDT Reconciliation, 12. May 2024 Operating Reconciliation, 13. May 2024 Operating, 14. May 2024 Retirement Payments 15. May 2024 Warrants.

Outstanding/Ongoing Operations Issues: Christine M. Weir, Deputy Executive Director

June 2024 payroll update

Ms. Weir provided an update on the payroll numbers for the month of June 2024:

47	Total possible
38	Superannuation's cases
1	Pre-Retirement
8	Disability cases
35	Total superannuation on payroll
3	Superannuation missed payroll
1	Pre-Retirement missed
8	Disabilities on payroll

Ms. Weir stated that staff continues to work on the recalculations of the CBA's that have been signed. As well as all of the cases with the new supplemental regulations, the vacation buybacks. These are very large projects, that are long and tedious, but staff continues to move forward.

Legal Issues: Natacha Thomas, General Counsel

Ms. Thomas stated there were no legal issues to discuss.

Adjourn from Administrative Session

The Board voted unanimously to adjourn from Administrative Session and enter into Executive Session at approximately 11:59 a.m.

Respectfully submitted,
BOSTON RETIREMENT BOARD

Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman

Karen T. Cross
Elected Member

Thomas V.J. Jackson
Fifth Member

EXCUSED ABSENCE

Scott Finn
Ex Officio Member

Michael D. O'Reilly
Elected Member