

## MINUTES OF BOSTON RETIREMENT BOARD

### Administrative Session

February 13, 2019

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 D. O'Reilly, Elected Member; Thomas V.J. Jackson, Fifth Member; and, Michael W. McLaughlin Elected Member (attended remotely).

STAFF IN ATTENDANCE: Padraic P. Lydon, General Counsel; Ellen M. McCarthy, Comptroller; John F. Kelly, Investment Analyst; Christine M. Weir, Operations Officer; Gloria Pizzarella, Chief Technology Officer; and, Greg Molina, Board Secretary.

ALSO IN ATTENDANCE: Michael Manning, Will Forde and Kiley Fischer of NEPC; Kevin Griffin and Greg Racz of MGG Investment Group; Dave Tonkovich of Park Hill Group; Theresa D. Mozocci, Gregory Long, Rommel Garcia of Maranon; and, Christopher J. Flynn, Terrence W. Olson and Chris Todisco of THL Credit.

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#### Convene

The Board voted unanimously (5-0) to enter into Administrative Session at approximately 10:10 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 January 9, 2019, as presented.*

#### **Motion accepted (\*4-0)**

\*Sally D. Glora abstained as she was not present at Jan. 9, 2019 board meeting.

#### Outstanding/Ongoing Administrative Issues: Padraic P. Lydon, General Counsel

General Counsel Padraic P. Lydon informed the Board that Executive Officer Timothy J. Smyth was ill and would not be attending, but that he had no pressing issues at the moment. Mr. Lydon requested, and was granted permission to go out of order and move the IT update to the end of the agenda.

*Request for Travel Approval*

A request was made by John Kelly for him and Daniel Greene to attend the EntrustPermal Conference in NYC on March 6-7, 2019. Anticipated costs were provided.

*Motion made, and seconded, to authorize any board member and executive staff to attend annual EntrustPermal Conference in New York City March 6-7, 2019.*

**Motion accepted (5-0)**

*Retirement of Sam Tyler of Boston Municipal Research Bureau*

Mr. Lydon noted that Sam Tyler, President of the Boston Municipal Research Bureau, has announced his retirement as of March 7, 2019. Pam Kocher will succeed him as President.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

*2019 Private Debt Candidate Interviews*

The board previously voted to interview five finalists in the private debt search, three of which will present today with two more in March 2019. The target allocation for this search is \$60 million. The Plan is currently underweight its target allocation to Private Debt.

*MGG Investment Group: Kevin Griffin, CEO, Greg Racz, President and Dave Tonkovich, Park Hill Group*

Mr. Racz introduced MGG and specifically MGG Specialty Finance Fund II to the Board. Mr. Griffin shared that MGG's primary focus is to make unique niche loans to companies in the underserved and less competitive lower to mid-market, and complex and special situations that typically deter other lenders. MGG makes loans usually between \$10-100 million often working with unique entrepreneurs. Kevin Griffin and Greg Racz have worked together previous to MGG and as a team have had zero losses since 2007. The target net IRR is between 8-12% depending upon how much leverage is used. The management fees are 1.25% on invested capital; 15% carried interest over a 7% hurdle.

*Maranon Capital: Greg Long, Partner, Rommel Garcia, Partner and Theresa Mozzocci, Principal*

Maranon was founded in 2007 and is headquartered in Chicago, IL. Maranon invests across multiple vehicles but is here today to talk about mezzanine and their Maranon Capital Fund III. They have raised two prior unlevered funds in 2008 and 2014. Fund III will be levered. Maranon is 100% focused on middle market private credit. Their decisions are driven by investment results not league table credit or AUM growth. They will typically

look at 1,000 opportunities annually but only invest in 2-5 of them. The target net IRR is 11-13% on unlevered investments and 19-21% on levered deals. The management fees are 1.0% on committed capital plus 0.75% on invested capital. There is a preferred return of 8% and a carried interest of 20%. In the case of first close investors this is 17.5% and a European Waterfall Structure is employed.

*THL Credit: Chris Flynn, CEO, Terry Olson, CFO & COO and Chris Todisco, Director – Business Development*

THL Credit is part of private equity firm Thomas H. Lee located in Boston. THL Credit was funded in 2007 and has \$15.8 billion under management across Direct Lending and Tradeable Credit. They described themselves as boring debt investors. They presented their Direct Lending Fund IV. This fund will target 90%+ first lien senior secured loans, including unitranche targeting companies with EBITDA of \$10 - \$40 million. Fund IV will primarily be focused on directly originated loans of sponsor-backed companies. The fund expects to hold between 35 -50 deals. The target Net IRR is 7-9% on unlevered deals and 10-14% on levered deals. Management fees on the unlevered vehicle are 1.0% on invested capital only and 0.85% on accounts above \$50 million. While in the levered vehicle they are 0.85% on invested capital only and 0.75% on accounts above \$50 million.

*Motion made, and seconded, to commit \$30M to the THL Credit Direct Lending Fund IV*

**Motion accepted (5-0)**

#### *2019 Themes & Opportunities*

NEPC presented its 2019 Themes and Opportunities with a market outlook and potential market opportunities for BRS. They believe we have entered a late-cycle market environment and the dynamics of such an environment will be a focal point for investors. However, late-cycle does not mean end of cycle and equities can still offer lucrative returns, though are likely to be accompanied by additional volatility. They encourage investors to rebalance developed market equity exposure. They have downgraded their outlook for non-US developed equities and removed the overweight recommendation from their current opportunities list.

NEPC's recommendations going forward are to pare down on International Equities from current target of 21% to 17%, current actual allocation is 20%. Increase allocation to Core Bonds from 9% to 13%, current actual allocation is 12%. Only slight movements are necessary based off where the Plan

is allocated today: The proposed new target allocation can be accomplished by selling \$150MM of International Equities and allocating \$50MM to Large Cap and \$100MM to Core Bonds. This can be phased in over time. NEPC is formerly looking for the Board's approval of these proposed strategy allocation changes.

*Motion made, and seconded, to approve proposed changes to specifically the Mix A described on Ipad page 27 of NEPC materials.*

**Motion accepted (5-0)**

#### *Q4 2018 Performance Summary*

NEPC provided the Q4 2018 performance summary. The Plan was down -8.1% over this time, ranking in the 64th percentile of the Public DB Gross universe. The fourth quarter was challenging as fixed income was unable to offset equity losses. Looking back over the past 2 years the Plan has ranked in the top quartile of its universe 4 out of 8 quarters.

#### *January 2019 Flash Report*

Going into February 2019, BRS has recouped about 5% of the 5.3% that it lost in CY2018. The Plan's being up +5.0% in January outperformed its benchmark by 10 basis points.

#### *NEPC Work Plan*

In March there will be presentations from Capital IP & HarbourVest as part of the Private Debt search. The Board will determine how to allocate the proceeds of EntrustPermal Fixed Income Holdings redemption; discuss a renewable energy search and the rebalancing plan.

#### *EntrustPermal Update*

Ms. Fischer stated the next redemption notice would need to be given by March 5<sup>th</sup> or by the 5<sup>th</sup> day of whatever month the System chooses. The trade date would be April 1<sup>st</sup> and BRS would get 100% of the proceeds at the initial payouts, settling by April 29<sup>th</sup>.

*Motion made, and seconded, to terminate the EntrustPermal Fixed Income fund and give notice at the next available redemption date. Then determine what to do with those proceeds at next month's meeting.*

**Motion accepted (5-0)**

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

Ms. McCarthy reported the following financial data for January 2019:

- Pension payroll: \$51,625,264;

- Total Payees: 15,026
- Non-contributor payroll: \$317,026
- Non-contributor total payees: 57
- New regular retirees: 24
- Survivor/Beneficiary Retirees: 6
- Disability Retirees: 6
- Refunds: \$1,676,770
- Members Refunds: 39 for \$464,590
- Members Transfers: 30 for \$1,062,406
- Option B Refunds: 1 for \$149,774
- Operation Warrants: \$234,777.

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

Ms. Weir reported the following data regarding the January 2019 payroll: 56 Possible new cases (31 Superannuation, 15 Disabilities & 10 Death of Active members). Of the 56 possible new cases, 36 were processed. Regarding the 20 cases that did not make the payroll, Ms. Weir noted the following explanations:

- 1 BFD that was trying to locate minor children
- 2 incomplete applications
- 1 problem case (Sandie working on it)
- 8 members failed to timely return their final papers
- 1 Spouse refused to sign final papers
- 3 in process of calculation
- 4 missing salary from the department (2 BFD, 1 BPS & 1 DPW).

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

*The following PERAC Memos were offered for educational purposes only:*

PERAC Memo #6-2019 Re: Actuarial Data

PERAC Memo #7-2019 Re: Buyback and Make-up Repayment Worksheets

PERAC Memo #8-2019 Re: 2019 Interest Rate set at 0.1%

PERAC Memo #9-2019 re Accounting Changes

PERAC Memo #10-2019 re Administrative Reminders

PERAC Memo #11-2019 re Workers' Comp. Data Match in PROSPER.

*Waiver Request*

Cheryl Odom.....Neighborhood Development.....\$3,769.91

*Motion made, and seconded, to deny waiver the request of Cheryl Odom due to failure to request said waiver in a timely fashion.*

**Motion accepted (5-0)**

### *IT Update*

Gloria Pizzarella reported she sent a package to the board beforehand. She addressed the BRS support tasks, and on-going projects in Vitech. Vitech worked 90% on Pension History Refresh for the Actuarial Export. Change Inactive Batch Status job to 60 instead of 180. DQ Queries was on hold until Actuarial Export is completed. Several on-going projects were discussed.

Board Member Jackson would like a clearer report in layman's terms that the Board can clearly understand what IT is doing, what are we spending on Vitech, how is the spending changed due to the fewer tasks Vitech is performing, if costs have gone down, if not, why? Are we doing a good job transitioning from tasks that Vitech performed to BRS staff?

Board Member Glora inquired as to the limitations due to Vitech proprietary programming restrictions. Approximately 75% of queries are being written in house. Board member Jackson requested summary slides that explain what's going on and if IT wants to refer to specific details, which would be useful.

### *Labaton Sucharow LLP monitoring agreement*

Labaton Sucharow LLP sent correspondence regarding a possible amendment to the 2015 portfolio monitoring agreement between Labaton Sucharow and Boston Retirement System. A discussion was held. No action was taken. This item was discussed in executive session in error.

### Adjourn

The Board voted unanimously (5-0) to exit Administrative Session and adjourn from Executive Session at approximately 1:25 p.m.

Respectfully submitted,  
BOSTON RETIREMENT BOARD

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Daniel J. Greene, Esquire  
*Mayoral Appointed Member, Chairman*

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Sally D. Glora  
*Ex Officio Member*

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Michael W. McLaughlin  
*Elected Member*

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Michael D. O'Reilly  
*Elected Member*

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Thomas V.J. Jackson  
*Fifth Member*