



Memorandum # 12/2004

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Investment Manager Reviews

DATE: February 13, 2004

As many of you know, one of Massachusetts' public retirement systems suffered a large monetary loss last year. Every indication is that this was a very isolated and unique occurrence, the circumstances of which are highly unlikely to be seen again. Nevertheless, this memorandum is intended to remind boards of the importance of complying with the regulations that require boards to periodically review their investment managers and to make an annual determination that their managers are satisfactorily fulfilling their mandates.

Section 16.07 of the Investment Regulations states:

- 1) Every retirement board should at least quarterly review the performance of the overall portfolio and selected components against the retirement system's investment goals and policies.
- 2) Every retirement board which has received an exemption pursuant to 840 CMR 19.00 shall meet with its qualified investment manager or managers at least annually and shall, at a minimum:
 - a) require its qualified investment manager or managers to provide a comprehensive written quarterly report which includes a review of investment performance including a review of the investment manager's relative performance, a review of the system's investments, and a report on the investment manager's current investment outlook or forecast as well as the strategy for the future;
 - b) review each such report in depth with its qualified investment manager or managers; and
 - c) require its qualified investment manager or managers to send one such report to the Commission each year.

- 3) Every retirement board, which has retained a qualified investment manager, shall at least annually make a determination as to whether the manager continues to operate in the manner represented when retained and outlined in the agreement between the board and the qualified investment manager.
- 4) Every retirement board which has retained a qualified investment manager shall require said manager to report key personnel staffing changes to the retirement board and the Commission on or before the effective date of such changes.

Boards are also reminded of the need to comply with Regulation 16.05 (4), which requires that “Board members shall review on an ongoing basis all brokerage costs” and 16.05(5), which requires that “Board members shall review on an ongoing basis the selection of brokers and the use of ‘soft dollars’ by its qualified investment manager or managers.”

Beginning in 2004, boards are asked to confirm their compliance with these regulations by either:

- 1) submitting a letter to PERAC outlining the dates and other particulars of the various reviews and determinations; or
- 2) submitting to PERAC minutes of the Board meetings during which these reviews were conducted.

Besides following these procedures for 2004, boards should send us confirmation that the appropriate reviews and determinations were conducted in 2003.