

**Commission Meeting Minutes
February 27, 2014**

Chairman Russo called the meeting to order at 12:05 PM and announced that the Commission meeting is being tape recorded which will be noted in the minutes and a stenographer will be taking notes for the meeting. He also noted that Commissioner Langan is participating in this meeting remotely due to his location and pursuant to 940 CMR 29.10, all votes taken during this meeting shall be by roll call vote.

Commissioners Present: Chairman Domenic J.F. Russo, Vice Chairman Gerald McDonough, Commissioners Philip Brown, James Machado and Robert McCarthy. As noted above, Commissioner John Langan participated remotely and Commissioner Donald Marquis was absent.

PERAC Staff Present: Executive Director Joseph Connarton, Deputy Executive Director Joseph Martin, General Counsel/Deputy Director John Parsons, Actuary James Lamenzo, Associate General Counsel Patrick Charles, Compliance Officer Thomas O'Donnell, Compliance Counsel Derek Moitoso, Chief Auditor Harold Chadwick, and Director of Administrative Services Caroline Carcia.

Commissioner Langan made a motion to adopt the minutes of the January 9, 2014 meeting. Commissioner Machado seconded the motion and a roll call vote was taken and the minutes were adopted.

Chairman Russo introduced and welcomed the following guests: Sean Neilon from the Massachusetts Teachers' Retirement Board, Denis Devine from MACRS, Paul Shanley from Amity Insurance, Shawn Duhamel and Frank Valeri from the Massachusetts Retirees Association, Nancy Kingsbury from Doris O. Wong Court Reporting Services, Jasper Groner from Segal Roitman LLP, Karen Mui, Kwai Mui, and Kauri Mui, members of the general public.

Actuarial Update

Mr. Lamenzo, PERAC's Actuary, reported on the 1/1/14 Commonwealth Valuation Estimate which was distributed. The 12/31/13 assets are now mostly funded with the possible exception of Boston Teachers. The exhibit outlines the estimated 1/1/14 unfunded liability and compares the market value of assets to the actuarial (smoothed) value of assets.

Mr. Lamenzo reviewed the State Retirement System's Experience Study for the period 2006-2011 (6 year period) which was distributed. He reviewed the Introduction and Executive Summary sections of the report which outline the purpose of this study and adjustments to assumptions made in the 1/1/13 valuation. He noted that analysis of the investment return assumption was not part of this study. Questions were asked regarding the impact of c. 176 and the consolidation of MassPike employees into the State Retirement System.

Commissioner McCarthy made a motion to distribute the State Retirement System's Experience Study as prepared by James Lamenzo and his staff. Commissioner McDonough seconded the motion. A roll call vote was taken and the motion was adopted.

Attorney Jasper Groner from Segal Roitman LLP represents the family of Tze-Kit Mui, who are present at this meeting.

Executive Director Connarton informed the Commission about a superannuation application on behalf of Tze-Kit Mui, which was submitted by MassPort. PERAC will not approve this application until MassPort Retirement Board provides Finding of Facts to support why someone other than the member is filing this application and must provide a Power of Attorney. Mr. Connarton has received a letter from MassPort's Attorney Scott Merrill reporting that the benefit has been approved by the Board and they are prepared to release a check. Attorney Merrill also stated that PERAC lacks authority on this issue. PERAC has sent a letter to MassPort directing them to not make a payment to the Mui family until all documents are received.

Attorney Groner spoke on behalf of the Mui family. Mr. Connarton stated that believes this issue will be corrected quickly.

Commissioner Langan departed the meeting via remotely at 1:00 p.m. for another scheduled meeting.

Chairman Russo directed the Executive Director to again contact the MassPort Retirement Board to reiterate the Commission's oversight authority and to provide the information requested.

Investment Sub-Committee Meeting Update

Chairman McDonough of the Investment Sub-Committee, reported that the Committee met on February 11, 2014 and reported the following:

- Mr. O'Donnell reported that he is pleased with the vendors who are sending in their annual disclosures of all compensation arrangements.
- Mr. O'Donnell reviewed the SEC v. Camelot case. Issues were raised about registration with the SEC and / or the Massachusetts Secretary of State depending on the size of their assets.
- Judge Russo made a motion that the Sub-Committee recommends that the Commission adopt the following:
 - "It is the position of the Commission that a retirement board that seeks to invest funds with an entity that is not registered with the Securities and Exchange Commission (SEC) or, if applicable, the Massachusetts Office of the Secretary of State will not receive an Acknowledgement Letter from the Commission and therefore may not make such an investment as the Commission has made a determination that "...it is in the best interest of the retirement system..." to withhold Acknowledgement in circumstances in which a retirement board seeks to invest with a non-registered entity."
- The motion was adopted by the Investment Sub-Committee to be forwarded to the full Commission.

Commissioner McDonough then made a motion to table the issue until the March Commission meeting to allow some input from retirement boards and investment managers to discuss any possible ramifications. Commissioner McCarthy seconded the motion and the motion to table this matter was adopted.

- Commissioner McDonough reported that another item discussed was the Pension Obligation Bonds (“POBs”). Plymouth County Retirement Board (“PCRS”) currently has legislation pending to allow POBs – H. 3377. The Commission has been opposed to any legislation regarding the issuance of POBs for quite some time. Upon PERAC’s reiteration to the legislature Mr. Farmer from PCRS provided us with some information that really requires us to do some due diligence on this matter. There was no indication to amend or change our policy but to revisit this issue at the next Investment Sub-Committee meeting. The response from PCRS was distributed to the full Commission.
- Commissioner McDonough stated that another item discussed pertains to Fund of Funds issues and Chapter 32, Section 23B. Mr. O’Donnell was asked to continue his work on the memo that was previously drafted. A new draft memo was distributed to investment professionals on February 25, 2014 and shall be discussed at the April Commission meeting. He stated that Judge Russo made a motion that the Sub-Committee meets as many times as necessary prior to the April Commission meeting to continue refining this memo.

Commissioner McCarthy requested that Mr. O’Donnell briefly recap the changes of the three (3) draft memos that were issued.

Mr. O’Donnell reviewed the changes to the memos and the several possible approaches to resolving these issues that have been noted by practitioners in the context of Fund of Funds (FOF)/Manager of Managers (MOM)/Discretionary Manager (DM) investing.

Commissioner McDonough made a motion that the Investment Sub-Committee reassemble after the deadline date of March 18, 2014 for comments to Mr. O’Donnell so that the Commission can finalize at the April Commission meeting. Commissioner McCarthy seconded the motion and it was adopted.

- Chairman McDonough stated the final subject the Sub-Committee discussed was to inquire of a possible opportunity at the MACRS Conference in June to allow for an open forum regarding investment law changes and to get feedback from those affected by these changes.

President Devine notified the Commission that the forum has been scheduled on the afternoon of Monday, June 2, 2014.

Legal Update

General Counsel John Parsons updated the Commission on a 2004 case PERAC v. Bettencourt, C.A. No. 12-4545-C which Deputy General Counsel Ms. Corrigan has worked on since inception. The Suffolk Superior Court issued a decision in this matter ruling in PERAC’s favor

and determined that a pension forfeiture mandated by G.L. c. 32, section 15 (5) may not be halted by invoking the Eighth Amendment to the United States Constitution. The Superior Court agreed with PERAC that protections afforded by the Eighth Amendment against "excessive fines" being levied have no applicability to pension forfeiture. Bettencourt has 60 days from decision (January 17, 2014) to appeal this decision.

Associate General Counsel, Patrick Charles discussed the matter of Fitchburg v. PERAC & Worcester Regional Retirement Board, CR-12-650 regarding §3(8)(c).

Legislative Update

Mr. Martin updated the Commission on legislative matters in the absence of Mr. DeVito.

Mr. Martin reported that POB legislation H. 3377, as discussed earlier, remains in the Senate Ways and Means Committee with no further action to date. S. 1894 has been engrossed in the House and may move quickly in the Senate as this bill is sponsored by Senator Rosenberg. S. 1894 exempts two (2) employees of the Lilly Library in Northampton from mandatory membership from the retirement system. This is the first time we have seen this type of legislation. It is thought the reasoning for this legislation is that the individuals are unlikely to receive benefits under Chapter 32. This may raise questions about the IRS Determination letter.

Mr. Martin reported on H. 2475, the Shaw bill which has been ordered to Third Reading and no further action has taken place. There is also other legislation that transfers employees from the Franklin Council of Governance to the State Retirement System which has also been ordered to Third Reading. Mr. Martin then noted that the Speaker has recently filed legislation that would enable the Town of Winthrop and City of Revere to operate a regional public safety communication center which has happened previously but more or less in county systems. If this trend continues a consideration would be to make sure the policy makers understand the issues of the liability and which could vary considerably between the towns and could be an issue. It was suggested that the Legislative Sub-Committee review this matter.

Mr. Martin stated that with respect to the Commission's legislation, recently a hearing was held regarding H. 14, regarding unemployment benefits being considered income. We received a similar request to comment on legislation filed by the Governor's office. No further action has occurred on H. 15 regarding the Commission's authority to hold modification hearings under §15(7). Nothing has recently occurred regarding the OPEB Health Care issue; however, the Boston Globe just published an editorial in support of doing something.

Audit Update

Mr. Chadwick reported that audits are currently occurring at the Franklin County, North Attleboro, Fall River, and Teachers' Retirement Systems. Internal reviews of completed audits are being conducted on the Chelsea, Northbridge, Plymouth County, and Salem Retirement Systems. He further noted that we are awaiting responses from Cambridge, Clinton, Everett, Greater Lawrence, North Adams, and Taunton Retirement Systems. Mr. Chadwick finally noted that Belmont, Berkshire Regional (no findings), and Haverhill Retirement Systems audit reports have been posted on the PERAC Web Page since the last Commission meeting and explained

their respective findings. Finally he reported that follow up audits have been completed at the Falmouth, Newburyport, and Norwood Retirement Boards.

Compliance Update

Mr. Moitoso reported that each individual board member has received the Statement of Financial Interests ("SFI") form by email which can be filled in on the computer, printed out, signed, and then returned to PERAC. As of this date, we are in receipt of 117 SFIs.

Mr. Moitoso reported on vendor disclosure forms that are steadily coming in. This function of the Compliance Unit is being included in the database.

Executive Director's Report

Mr. Connarton reported on staff activities since the last Commission meeting.

Mr. Connarton updated the Commission about the election count at the Plymouth County Retirement Board (PCRB). The PCRB has been very cooperative and a recount was held. Mr. Joseph McDonough received 2,035 votes and Ms. Carol Perry, the other candidate, received 445 votes. Ms. Perry has engaged an attorney and has filed an appeal with DALA.

Mr. Connarton then updated the Commission about the NCPERS Annual Legislative Conference which was held in Washington DC from January 26 thru 28, 2014. Once again this conference was substantive, very educational and attendance is recommended.

Mr. Connarton stated that Commissioner Marquis would have to update the Commission about the MMA Conference during his next appearance.

Follow up discussion ensued about the MassPort issue. Mr. Connarton reported that Local 103 just filed a FOIA request for the records relative to the calculation.

Other Business

Mr. Connarton reported that he has included materials in the package to the Coalition to Preserve Retirement Security (CPRS) 2014 Annual Meeting if there is any interest.

Chairman Russo stated that the next Commission meeting is scheduled for Thursday, March 13, 2014 at noon.

Commissioner McDonough made a motion to adjourn. Commissioner Machado seconded the motion and it was adopted. The meeting adjourned at 2:10 PM.

Commission Meeting Documents

Commission Agenda of the meeting for February 27, 2014

Commission Minutes for January 9, 2014

Executive Session Minutes dated February 28, 2011, June 14, 2012 and June 24, 2013

Actuarial Update

Commonwealth Appropriation for Fiscal Year 2015

Legal Update

PERAC v. Bettencourt, C.A. No. 12-4545-C and Fitchburg v. PERAC & Worcester Regional Retirement Board, CR-12-650

Legislative Update

Monthly Legislative Agenda and bullet points outlining legislation

Audit Update

Recent PERAC Audit Findings cover sheet and the respective audit findings

Executive Director's Report

Updated Staff Activities Memo

Plymouth County Retirement Association correspondence regarding election recount

Memo regarding NCPERS Annual Legislative Conference with attachments

Commission Travel

Invitation to the CPRS 2014 Annual Meeting

Other Documents Distributed

Letter from PERAC to the Boston Herald in response to an editorial

State Experience Study

Communication to MassPort regarding calculation

Communication from PCRS regarding H. 3377

Preliminary Report – Switch Investment Advisors, A report by Sec. of State's R.I.C.E. Division

Approved:



Domenic J.F. Russo, Chairman
Public Employee Retirement
Administration Commission