



Commonwealth of Massachusetts State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

Deborah Goldberg · Michael Heffernan · William McNamara · John W. Parsons
Theresa Flynn · Michael C. Tow, CFP · Matthew Veno

State Retiree Benefits Trust Board of Trustees Minutes of the Meeting of February 4, 2021 *as approved at the 6/11/21 meeting*

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Thursday, February 4, 2021 via remote participation pursuant to the Governor’s March 12, 2020 “Order Suspending Certain Provisions of the Open Meeting Law, G.L. c. 30A, § 20”.

A quorum being present the meeting was called to order at 9:32 a.m. The SRBTF Board members or designees present for all or part of the meeting and participating remotely were: Chair Nicola Favorito, Theresa Flynn, William McNamara, Frank Gervasio, James Rust, and John Parsons. All participants were notified that this meeting would be audio recorded. All votes were taken via roll call.

Also present for all or part of the meeting were: Jeffrey Moyer of the SRBTF; Attorney Katherine Hesse and Attorney Matt Feeney of Murphy, Hesse, Toomey & Lehane, LLP (“MHTL”); Paul Todisco, and Francesco Daniele of the Pension Reserves Investment Management Board (“PRIM”); Jeff Shapiro, Howard Merkwowitz, and Thomas Smith-Vaugh, of the Massachusetts Comptroller’s Office (“CTR”).

I. Approval of the December 3rd, 2020 Meeting Minutes

The Chair turned to the minutes of the December 3, 2020 meeting.

On a motion made by Mr. Gervasio and duly seconded by Ms. Flynn, the Trustees took the following action.

VOTED: To approve the minutes of the December 3rd, 2020 Board Meeting.

Mr. McNamara -	Yes
Mr. Rust -	Yes
Mr. Gervasio -	Yes
Mr. Parsons –	Yes
Ms. Flynn -	Yes
Mr. Favorito -	Yes

II. OPEB Valuation

The Chair welcomed Mr. Merkowitz to report on the June 30, 2020 OPEB Valuation. Mr. Merkowitz began by stating that the Comptroller's office has hired Deloitte to complete the FY20 valuation after issues were identified during the statewide audit process in the previous years' valuations completed by Aon specifically double-counting reimbursements from the federal government. This resulted in an understatement of OPEB liabilities.

Deloitte has been subsequently engaged and has identified the revised value of the Commonwealth's OPEB obligations at nearly \$21 billion. The report is currently in draft form, but the final version is available soon and will be distributed to the Board and the public.

The Chair asked Mr. Merkowitz if there are any other reporting requirements due to the issues which were identified. Mr. Merkowitz stated that the Comptroller will make a disclosure in the annual CAFR. The most recently issued Information Statement has been amended. He also cautioned against comparing this year's valuation to previous years, as some of the underlying assumptions have also changed over recent years.

The Chair also asked Mr. Merkowitz if there are any updates he can provide on Aon's fee and the amount budgeted by the SRBTF. CTR's General Counsel is negotiating with Aon and Mr. Merkowitz indicated he is not able to provide specific details at this time. There is a possibility the Board will have to pay an additional amount related to corrective work that is being undertaken. Counsel is weighing the need to compensate some of Aon's work against the downstream costs to other institutions that relied on the valuation, particularly colleges and universities.

The Chair also asked if there are any improvements in the valuation on the cost side. Mr. Merkowitz stated that there was an improved claims experience with some lower costs and utilization, which Mr. Rust agreed with.

III. Investment Report

The Chair first acknowledged Mr. Todisco's upcoming retirement and long-standing service to PRIM as well as the predecessor to the SRBTF Board. Mr. Todisco thanked the Chair and stated that he has valued his work with the Board.

PRIM has been successful over the last year despite all of the challenges with COVID and the economy, and he knows that the larger economy has a lot of challenges to be successful to catch up to Wall Street. Mr. McNamara thanked Mr. Todisco for all of his work. Ms. Hesse acknowledged that she has known Mr. Todisco for decades and his excellent service has been evident through the years.

Mr. Daniele likewise acknowledged Mr. Todisco's service and has appreciated his mentorship. He began the market update by acknowledging the PRIM's recent success, but the organization is very aware of the disparity between markets and the greater economy. Michael Trotsky has communicated this challenge to PRIM's investment committee, and investments need to be conservative to reflect uncertainty in this environment.

Mr. Daniele discussed recently enacted legislation enacted as part of the FY' 21 budget, advocated for by Treasurer Goldberg as Chair of PRIM, that seeks to establish diversity benchmarks among investment managers. The provision's goal is to increase the diversity of investment managers that manage PRIM's assets to at least 20%. In addition, it will also advance the diversity of consultants contracting with PRIM to at least 20%.

This will support PRIM's ongoing work in this area and recognizes the importance of this issue. PRIM will have further updates to the Board to address reporting requirements under this new legislation.

Mr. Daniele gave some further organizational updates at PRIM, including the recent promotions of David Gurtz and Michael McGirr.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return as of December 31, 2020 was 12.1% versus 10.8% (benchmark); 3-year 8.4% versus 8.0 (benchmark); 5-year 9.9% versus 9.5% (benchmark); and 10-year 8.7% versus 7.8% (benchmark). Since the fund's inception in 2001 PRIM has achieved a positive 7.6% return versus the benchmark of 7.0%.

As of December 31, 2020, the combined SRBT Fund assets were \$2.34 billion.

IV. Operations Report

Municipal Contracts

Mr. Moyer stated that he has two new municipal entities for the Board's consideration this meeting- Worcester and East Bridgewater. Mr. Daniele further explained that he has worked with Mr. Moyer more closely over the past two months and looks forward to continuing to develop further outreach to interested entities.

The Chair suggested that Mr. Moyer work to develop more outreach plans and revisit what the Board has done in the past including reviewing the most recent contributions from participating entities to determine if any follow up was required. Mr. Moyer will meet with Mr. Daniele to determine what the next steps would be.

Town of East Bridgewater

Mr. Feeney advised that the town has submitted all the needed documents and would be bringing in about \$123,000.00.

On a motion made by Mr. Parsons and duly seconded by Mr. McNamara, the Trustees took the following action.

VOTED: To approve the Investment Agreement between the SRBTF Board and the Town of East Bridgewater and to accept the Town of East Bridgewater as a participating unit in the SRBTF as of February 4, 2021.

Mr. McNamara -	Yes
Mr. Rust -	Yes
Mr. Gervasio -	Yes
Mr. Parsons -	Yes
Ms. Flynn -	Yes
Mr. Favorito -	Yes

City of Worcester

Mr. Feeney advised that he has received all the relevant materials from the City and resolved any edits that needed to be made with the city attorney. Mr. Daniele stated that the City has in excess of \$20 million that they intend to move in installments from their investment account. Mr. Moyer thanked Mr. Daniele for his work to push Worcester across the finish line over the past two months.

On a motion made by Mr. McNamara and duly seconded by Mr. Parsons, the Trustees took the following action.

VOTED: To approve the Investment Agreement between the SRBTF Board and the City of Worcester and to accept the City of Worcester as a participating unit in the SRBTF as of February 4, 2021.

Mr. McNamara -	Yes
Mr. Rust -	Yes
Mr. Gervasio -	Yes
Mr. Parsons –	Yes
Ms. Flynn -	Yes
Mr. Favorito -	Yes

V. Administrative Issues

A. SRBTF Budget

The Chair referenced the previous conversation regarding the OPEB valuation and stated that this would impact the Board's budget that was passed for FY21. Mr. Moyer stated that the Board approved a budget for \$189,000, but the cost of two potential actuarial valuations will certainly force the actual amount spent above that amount.

Mr. Moyer advised that Mr. Smith-Vaughn from the Comptroller's Office was available at the meeting to further give details about this process. Mr. Moyer explained that the Chair has already signed off on moving funds over from the trust account to pay for both full invoices but is holding off pending any further guidance from the Board.

Mr. Smith Vaughn suggested that the Board could wait to address this until negotiations are complete, but there is a risk of needing to pay interest on the invoice. Deloitte is likely to invoice within the next few weeks, and a resolution with Aon could come at any time.

Mr. Moyer asked Ms. Hesse what the proper process is for amending the previously adopted budget. Ms. Hesse stated that she may need to review this further but given the amount she advises the Board to follow the procedure in the statute to amend the budget and notify the Legislature.

Mr. Gervasio asked Mr. Moyer to clarify whether the issue that is before the Board is just of timing or whether additional authority is needed. Mr. Moyer advised that the Board has already authorized \$81k for the valuation but may need additional funds to pay for this added work from another provider.

Mr. Smith-Vaughn stated that SRBTF's payment of this invoice will likely be a factor in the discussions and could ensure that the colleges and universities get reimbursed for their additional work. Deloitte did not charge additional money to correct Aon's submission but started from fresh instead.

Mr. Parsons asked if interest can be negotiated. Mr. Smith-Vaughn confirmed that this is one of the issues that will be addressed by CTR's counsel.

Mr. Moyer will connect Ms. Hesse & Mr. Feeney with CTR's general counsel to communicate updates. The Chair also committed to update the Board with further developments in the next meeting.

On a motion made by Mr. Parsons and duly seconded by Mr. McNamara, the Trustees took the following action.

VOTED: To amend the SRBTF Board's adopted FY21 budget to give the Chair the authority to encumber up to \$100,000 to pay for additional actuarial valuation costs.

Mr. McNamara -	Yes
Mr. Rust -	Yes
Mr. Gervasio -	Yes
Mr. Parsons -	Yes
Ms. Flynn -	Yes
Mr. Favorito -	Yes

B. Legislative Update

The Chair noted that Governor's FY '22 budget has been released and provides the standard 10% of the tobacco settlement payment dedicated to the SRBTF. Mr. Moyer also added that the budget mentions a further payment from the capital gains tax. The Chair stated that he will continue to update the Board.

C. Board Contracts

Mr. Moyer presented the results of the Request for Information posted by the Board in November for insurance brokerage services. The Board had one response from the current incumbent, Gallagher.

Gallagher has served the Board well for many years to implement the requested insurance on behalf of the Board, and Mr. Moyer recommends engaging with them. Gallagher currently takes about 15% of the premium as commission, which Mr. Moyer understands is the standard in the industry. He is proposing a 5-year contract beginning with the expiration of the Board's current insurance on March 16, 2021 through 2026.

Mr. Moyer thanked Ms. Flynn for her assistance in providing feedback and outreach on behalf of the Board for these services. Ms. Flynn stated that she was happy to do so and agreed that the contract was likely too low for other competitors.

On a motion made by Mr. McNamara and duly seconded by Ms. Flynn, the Trustees took the following action.

VOTED: To engage Gallagher for a 5-year contract for insurance brokerage services.

Mr. McNamara -	Yes
Mr. Rust -	Yes
Mr. Gervasio -	Yes
Mr. Parsons –	Yes
Ms. Flynn -	Yes
Mr. Favorito -	Yes

D. SRBTF Calendar, Meeting Times

Mr. Moyer updated the Board on the next meeting on April 1st.

VI. Other Business

Mr. Gervasio asked if the Board could submit a claim to our insurance for the actuarial valuation issue. The Chair stated that he believes the coverage is to protect against claims of loss in value and malfeasance but will look into it further. Ms. Hesse agreed that she will examine whether the existing policy would cover this, and Mr. Moyer agreed that he would send her and Mr. Feeney the relevant details.

VII. Adjournment

There being no further business, a motion was made by Mr. Gervasio and duly seconded by Mr. Parsons, to adjourn the meeting at 10:43 a.m.

Mr. McNamara -	Yes
Mr. Rust -	Yes
Mr. Gervasio -	Yes
Mr. Parsons –	Yes
Ms. Flynn -	Yes
Mr. Favorito -	Yes