



Commonwealth of Massachusetts State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

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

State Retiree Benefits Trust Board of Trustees Minutes of the Meeting of February 10, 2022 *as approved at the 05-12-22 meeting*

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Friday, February 10, 2022 via remote participation pursuant to the Open Meeting Law, G.L. c.30A, §20, as amended.

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, Bill McNamara, Frank Gervasio, James Rust, John Parsons and Michael Tow. 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 Matthew Feeney of Murphy, Hesse, Toomey & Lehane, LLP (“MHTL”); Francesco Daniele of the Pension Reserves Investment Management Board (“PRIM”); Katherine Frain and Drew McCusker of Arthur Gallagher Insurance.

I. **Approval of the December 3, 2021 Meeting Minutes**

The Chair turned to the minutes of the December 3, 2021 meeting.

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

VOTED: To approve the minutes of the December 3, 2021 Board Meeting.

Mr. Parsons - Yes

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

II. D&O / Fiduciary Insurance Renewal

The Chair notified the members that representatives from the Board's insurance broker, Arthur Gallagher, were present to discuss the terms of the upcoming policy renewals. Mr. Moyer works with Gallagher to get a yearly quote for renewal and to make sure that the carriers in the market understand the Board's particular function. Mr. Moyer added that the Board has maintained a relationship with Gallagher for more than 10 years now and the policy is renewed every March. The most recent renewal was for \$23,000. Mr. Moyer stated that he invited the Gallagher representatives to ensure that the Board could ask questions about the fiduciary policy and to help better establish the needs of the Board.

Mr. McCusker introduced himself as a Gallagher underwriter with not-for-profit organizations similar to the Board. Ms. Frain likewise introduced herself as a customer support agent that is assigned to work with the Board on customer relations. Gallagher is the fourth largest company in the market but is still closely owned and operated and features a lot of niche clients. The Board currently has a Directors and Officers policy with a liability limit of \$1 million with AIG, and a Fiduciary policy also with a liability limit of \$1 million with Great American. Both of these companies are well resourced and stable. The current combined premium costs are \$23,500.00.

Mr. McNamara asked if the liability limits are per year or incident. Mr. McCusker stated that the Board's limits are per year, so if a claim is made early in the year that would exhaust the policy.

Mr. McCusker stated that the market is currently seeing larger premium increases due to economic instability and the impact of ERISA-related litigation. For Directors and Officers policies the expected increase is between 10% and 15%. Fiduciary policies are experiencing even more volatility due to continuing litigation around excessive fees claims related to §401(k) and §403(b) plans. Many of these claims are long duration and have a lot of defense costs, which is contributing to underwriters asking more questions about financial stability and potential claims.

Mr. McCusker followed up by addressing a question that Mr. Moyer had posed as to whether the Board needed fiduciary coverage. He believes that the indemnification provisions of c.32A, §24A related to the Board give sufficient protection against liability given the absence of traditional fiduciary duties, but there may still be exposure for defense costs.

Ms. Hesse stated that she has experience dealing with the type of plans that cause claims and does not believe that the Board would be exposed to an excessive fees claim. A good underwriter should be able to write a policy that addresses the Board's function on this point. Mr. McCusker stated that Gallagher has several other clients with sizable assets under management, and the Board's premium and retention are substantially smaller as there is no asset investment management function. Ms. Hesse further explained that the Board is legally obligated to invest its balance with PRIM, so there further limited liability in this context. There is still an obligation to review PRIM's performance, but the Board has demonstrated capacity to perform this function. She believes the Board should maintain some level of fiduciary coverage and should do all possible to keep the price down.

The Chair added that he and Mr. Moyer prepare the yearly information packet to make the Board's limited functions clear. He wondered if there was coverage for special organizations like the Board as an off the shelf policy might not be the best fit for us. Ms. Hesse asked Mr. McCusker if it was possible to go to another agency to customize the policy. She stated that the main risk to the trustees is not the personal liability, but the costs of defense.

Mr. McCusker agreed that most litigation costs are for defense of claims. He recommends that the Board maintain some level of coverage and will look at providing options to Mr. Moyer.

Mr. Parsons expressed interest in finding a different insurance option for the Board over the long term, given the Board's legal ties to PRIM. He also believes that the Board should learn more about what coverages PRIM has and see if there is alignment there. Mr. McCusker stated that there could be options for this, including having PRIM add the Board as a covered entity. Mr. McNamara added that it might be a challenge to link the Board too closely to PRIM. He also believes the Board should review potential liabilities and make sure any action is taken to address any exposure.

The Chair agrees that he will consider the potential omissions that could expose the Board to litigation. He asked Mr. McCusker whether he can get a quote in the next week. Mr. McCusker stated that he will be able to get quotes from current carriers within a week, and other options in the coming weeks.

The Chair asked if the Board needs to take action today. Mr. Moyer explained that historically the Board has authorized the chair to negotiate and complete the insurance package.

The Chair stated that the Board could authorize him to complete the renewal if the quote comes in under a certain value, and could also separate the policies and complete the Directors and Officers first. Mr. McNamara suggested that the Board could authorize a top-line renewal maximum for both policies, which the Chair stated he would be fine with.

(Mr. Tow departed the meeting.)

Mr. Moyer expressed concern about waiting until the next Board meeting scheduled in May. The Chair responded that the Board could convene in the interim to approve that specific item if there is an overage. Mr. McNamara stated that the cost going above 10% would be a good reason to meet, and Mr. Gervasio agreed.

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

VOTED: To authorize the Chair to negotiate and approve an insurance package at no more than a premium 10% increase from the 2021-22 policy year, or to convene a special meeting if the proposed renewal is higher.

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

III. Investment Report

The Chair invited Mr. Daniele to update the Board on PRIM performance and the financial markets.

Mr. Daniele thanked Mr. Moyer and Mr. Feeney for their efforts in finalizing the South Essex Sewerage District's application to join the Fund. He also expects an application from Hamilton-Wenham Regional School District at the next meeting.

Mr. Daniele noted that PRIM's 8% outperformance for the calendar year 2021 compared to the benchmark far exceeds any previous year. PRIM reports a 20.6% increase in assets (gross of fees) for CY21 with the fund balance standing at over \$104b.

Markets are still volatile, and the prospect of a Federal Reserve that is trying to address inflation causes gives an uncertain picture of the near future. Even though supply chain issues persist, there is no slowdown in demand which points to further growth with even more inflation potential. It seems likely that the Reserve will raise interest rates multiple times over the next year.

Mr. Daniele pointed towards PRIM's recently approved asset allocations, and noted slight changes in the equity portfolio but no material adjustment. An increase in private equity exposure of 1% and a corresponding decrease in global equities.

Mr. McNamara asked whether the prospect of sustained inflation would cause a change in strategy. Mr. Daniele stated that PRIM believes inflation would not have a significant impact on the current portfolio. PRIM is watching this closely, and he can report at a future meeting on the specific impacts, such as in timber or real estate.

The Chair asked Mr. Daniele how much the Commonwealth's share of the Fund's balance was. Mr. Daniele stated that the Commonwealth SRBTF has approximately \$2.2 billion invested.

As of December 31, 2021, the combined SRBT Fund assets were \$3.02 billion. 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, 2021 was 19.9% versus 12.0% (benchmark); 3-year 16.0% versus 13.0% (benchmark); 5-year 12.3% versus 10.1% (benchmark); and 10-year 10.4% versus 8.9% (benchmark). Since the fund's inception in 2001 PRIM has achieved a positive 8.2% return versus the benchmark of 7.3%.

IV. Operations Report

Municipal Contracts & Outreach

Mr. Daniele noted an uptick in municipal interest. He has been in communication with Arlington, and the towns of Webster, Watertown & Hull. He anticipates at least one or two submissions for the Board to consider at each meeting this year.

The Chair thanked Mr. Daniele and noted the recently issued PERAC report on OPEB liabilities that was released at the end of 2021 and was included in the meeting packet. Mr. Parsons gave some further background and stated that the preparation of the report was mandated by the Legislature. Funding of liabilities has gone from 3% to 6% statewide, but municipalities are not obliged to fund under GASB rules, only report. Mr. Parsons anticipates that eventually funding will be mandated. Much of the current growth in prefunding has come from investment growth rather than increased investment.

South Essex Sewerage District

The Board turned to the pending application of the South Essex Sewerage District. Mr. Moyer reviewed the application and stated that the District had coordinated their submission seamlessly, and Mr. Feeney had ample chance to review the materials. Mr. Feeney agreed with Mr. Moyer and recommended that the Board accept the District's submission. Mr. Feeney stated that the initial investment was over \$300k.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the South Essex Sewerage District and to accept the South Essex Sewerage District as a participating unit in the SRBTF.

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

V. Administrative Issues

A. Electronic Signature Proposed Policy

The Chair noted the draft policy in the meeting materials, and asked Mr. Moyer to discuss. Mr. Moyer noted that the Board had begun receiving questions about electronic signatures and had begun using them internally for budgeting purposes. Ms. Hesse's colleague at MHTL had advised that the Board adopt a formal policy.

The current draft policy is written to accommodate PRIM's policy requiring live or wet signatures on client money transfers and other matters. Mr. Moyer explained that Mr. Feeney had allowed for electronic signatures as long as the prospective client had their attorney sign off on the correct policy being followed.

Mr. McNamara stated that CTR has been leading on this issue and wanted to distinguish between accepting signatures from other organizations and having SRBTF's own electronic signature platform. Mr. Moyer indicated that presently the leading need is the Chair's capacity to sign documents electronically or prospective applicants completing their obligations.

Ms. Hesse asked how clients access their money in the fund. Mr. Moyer stated that these sort of money transfers are handled by PRIM so wouldn't be covered by an SRBTF policy. Mr. Parsons agreed that it is important to define the procedure on authenticating. Mr. Moyer further explained that the two functions the Board currently deals with electronic signatures already can get validated and this policy is intended to cover.

The Chair suggested that the Board take further time to review the policy, offer any comments, and consider it further at the May meeting. Mr. Moyer will send around a draft for commenting.

B. Legislative Language

The Chair noted the recently proposed Commonwealth FY23 budget (House 2) included the standard 10% of the tobacco settlement fund allocation. It would be reviewed for provisions related to potential excess capital gains tax transfers.

C. SRBTF Calendar, Meeting Times

The Chair asked Mr. Moyer if there are any calendar updates. Mr. Moyer stated that currently the authority allowing remote meeting expires in April. The Chair noted that a COVID related supplemental budget recently submitted by the Legislature to the Governor includes an extension of this authority to mid-July. This would be monitored. If approved the May meeting will likely also be held remotely.

VI. Other Business

Mr. Gervasio thanked Mr. Parsons for his agencies work putting together the local OPEB liability report.

VII. Adjournment

There being no further business, a motion was made by Mr. McNamara and duly seconded by Mr. Gervasio, to adjourn the meeting at 10:48 a.m.

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