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# Commonwealth of Massachusetts State Retiree Benefits Trust Fund

*Board of Trustees*

*Nicola Favorito, Chair*

*Theresa Flynn · Michael Heffernan · Dr. Roberta Herman · Deborah Goldberg  
Andrew W. Maylor · John W. Parsons · Michael C. Tow, CFP*

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## **State Retiree Benefits Trust Board of Trustees Minutes of the Meeting of April 4<sup>th</sup>, 2019 as approved 6/6/19**

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Thursday, April 4<sup>th</sup>, 2019 at 9:06 a.m. in the Crane Conference Room in the Offices of the State Treasurer on the 12<sup>th</sup> floor of One Ashburton Place, Boston, Massachusetts.

SRBTF Board members or designees present were: Chair Nicola Favorito, Andrew Maylor, James Rust, Frank Gervasio, Theresa Flynn and John Parsons. Michael Tow participated remotely by phone. Pursuant to the Attorney General’s open meeting law guidance all votes were by roll call during the period of remote participation, and all participants were notified that this meeting would be audio recorded.

Also present for all or part of the meeting were: Jeffrey Moyer of the SRBTF; Attorney Katherine Hesse of Murphy, Hesse, Toomey & Lehane LLP (“MHTL”); Paul Todisco and Francesco Daniele of the Pension Reserves Investment Management Board (“PRIM”), Jenny Hedderman from the Office of the Comptroller (“CTR”) and David Pottier & Sue Bristol from the Department of Transportation (“DOT”).

The Chair introduced and welcomed the new Comptroller, Andrew Maylor as well as John Parsons, the new Executive Director of PERAC.

### **I. Approval of the December 6<sup>th</sup>, 2018 Meeting Minutes**

The Chair turned to the minutes of the December 6<sup>th</sup>, 2018 meeting.

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

VOTED: To approve the minutes of the December 6<sup>th</sup>, 2018 Board Meeting.

Mr. Gervasio — Yes  
Mr. Rust — Abstain  
Mr. Maylor — Abstain  
Mr. Parsons — Yes  
Ms. Flynn — Yes  
Mr. Tow — Yes  
Mr. Favorito — Yes

The Chair moved with no objection to considering the DOT Transfer request.

## **II. DOT OPEB Transfer**

The Chair brought the Board's attention to DOT's request letter that was attached in the email with meeting materials, and introduced David Pottier and Sue Bristol from DOT to explain the request in greater detail. The Chair asked Mr. Pottier to explain the arrangement that DOT has with the SRBTF. DOT is asking for \$100,000 for FY19 expenses and \$726,406 for FY20 expenses.

In 2015, the Department of Transportation transferred the sick leave balances for former Turnpike employees totaling approximately \$75 million to the SRBTF. These funds are to cover buyouts of 50% sick leave time accrued before 12/31/09 for former Turnpike employees, and reimbursement for health care expenses.

DOT calculates the buyouts and manages the bank accounts while requesting the SRBTF for needed funds to cover these requests. Spending is approximately \$60k per month but this can fluctuate based on retirements. Ms. Bristol underscored that it is difficult to predict what the DOT needs, which is why follow-up requests are sometimes needed.

Mr. Maylor asked if there is a discrete amount that they are working off of, or if there are continuing updates. Ms. Bristol specified that there is a limited pool of retirees, and once the sick leave bank is depleted, the remaining balance of the trust will revert to the Commonwealth.

Mr. Maylor asked whether they know the current balance of the Trust. DOT did not have this information immediately available. The Chair suggested that they can collect this data using transfers in/out over the last several years. Mr. Pottier also expressed an interest in accessing this information.

Ms. Bristol stated that they will be coming before the Board in June with another request to transfer \$28k to reimburse funds that had been mistakenly deposited in this account.

On a motion made by Mr. Maylor and duly seconded by Mr. Gervasio, the Trustees took the following action by roll call vote

VOTED: To approve the transfer of \$826,406 (\$100,000 for FY2019 and \$726,406 for FY2020) to meet DOT's sick leave balance request for FY19/FY20

Mr. Parsons—Yes  
Mr. Maylor —Yes  
Ms. Flynn —Yes  
Mr. Gervasio — Yes  
Mr. Rust – Yes  
Mr. Tow – Yes  
Mr. Favorito – Yes

### **III. Investment Report**

Mr. Todisco explained that they will be reviewing performance for the fourth quarter of calendar year 2018 and the first quarter of 2019.

Mr. Daniele delivered the market report, including a recap of market commentary for 2018, as the Board has not met since December.

PRIM has adopted the CFA Institute’s Global Investment Performance Standards of integrity and transparency commonly known as GIPS. GIPS are universal, voluntary standards based on the fundamental principles of full disclosure and fair representation of investment performance. Many asset owners require their investment managers to comply with the GIPS standards, however it is less common for asset owners such as PRIM and other large public pension funds to apply the principles in their own performance reporting to governing bodies and plan beneficiaries.

The fourth quarter performance was very weak, and extreme volatility returned – the volatility index spiked to more than 36 in December after reaching a low of 11 in August. The five-year average for the VIX is about 15 and that level of volatility in the markets has not been present since 2015/2016 during the last market downturn.

For the fourth quarter of 2018 the S&P was down 13.5%, developed international markets down 12.5% and emerging markets down 7.5%. During the last several quarters, PRIM has identified the risks in the market and compared the current economic picture to the markets of mid-2014 through early 2016, when there was another global economic slowdown that led to a correction in world financial markets. There are similar market characteristics today, such as narrowing stock markets in both periods, liquidity issues, and a vulnerable economic situation. While the U.S. is still posting GDP gains, Europe, China and Japan are slowing. U.S. manufacturing is weakening, energy and housing are weak, consumer confidence is eroding from an 18-year high and global dollar liquidity is tight. Tariffs and trade escalations are an additional negative for global growth, and there is continued exposure to political risk in Washington.

Despite these warning signs, Mr. Daniele believes that PRIM is appropriately positioned for weakness in world equity markets. Their main focus during the past several years has been to reduce global equity exposure while identifying diversifying assets, primarily in our Portfolio Completion Strategies allocation. It is important to note that the PRIT fund is not completely immune to a global equities downturn since to achieve the mandated long-term target return

rate, allocations are necessarily growth and equity focused. PRIM evaluates any investment and the performance of the fund on three equally important metrics: return, risk, and cost.

Meanwhile, PRIM was able to reduce fees from 54 basis points to 53, with this decrease highlighting continued efforts related to Project SAVE as well as focus on lower-fee separately managed accounts and the success of the Private Equity co-investment program, among other things. PRIM's strong performance in both "up" and "down" markets gives confidence that the investment program is performing as designed. Asset allocations that have remained the same include real estate, timber, while core fixed income, portfolio completion strategies, hedged equity and private equity have increased. Global equity, emerging market equities and value-added fixed income have all decreased.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 2.8% versus 2.9%, 3-year 10.1% versus 9.9, 5-year 6.9% versus 6.2% and 10-year 9.8% versus 10.5%. Since the fund's inception in 2001 it achieved a positive 9.1% return versus the benchmark of 6.6%. As of February 28<sup>th</sup>, 2019, the combined SRBT Fund assets were \$1.693 billion and had lost 5.6% for the calendar year.

#### **IV. Operations Report**

##### Municipal Contracts

Mr. Moyer informed the Board that there are no municipal submissions for the Board to consider for this meeting.

##### Municipal Outreach

Mr. Todisco stated that he had recently had a meeting rescheduled with the Town of Westford, which had responded to the email outreach campaign. The Town had realized it did not have a trust agreement and needed to prepare a document for approval.

The Town of Hanover did not select the SRBTF, but the consultant was very impressed with the presentation and the Board's materials. Mr. Rust asked if they usually get feedback on RFPs. Mr. Todisco stated they usually do not, but since they had specifically gone out to present Mr. Daniele had reached out to ask for an update.

Mr. Moyer gave a brief summary of his outreach work so far including a description of the Board approved plan in October 2018. He has reached out to all entities, or in some cases determined that these entities no longer exist. Mr. Moyer believes that there is some room for follow-up, but only to towns and cities due to the low response rate from regional school and utility districts.

Mr. Moyer further explained that one of the trends that he has noticed among interested entities is a concern that they will somehow be required or mandated to invest funds with the SRBTF. While these entities do sign an investment agreement, the Board currently has no enforcement power against those that do not make the contemplated deposits. PRIM has collected the information on those who have made deposits, which Mr. Moyer distributed to the Board prior to the meeting. Mr. Todisco stated that he has heard similar concerns, and this

fear has a chilling effect on interest. The Board asks for a funding plan as part of the submission, but this is a statement of intention and not a binding commitment. Ms. Hesse agreed that while most treasurers understand and support the need to make a fiscal commitment to OPEB funding over time, they are reluctant to lock the entity into fixed amounts or percentages that may limit their flexibility to deal with circumstances as they arise.

*Mr. Tow departed the meeting.*

Mr. Maylor asked about the goal of the outreach. The Chair stated that the Board wanted to make people generally aware of our mission and the option to invest with PRIM. The outreach also serves to remind entities that they do have an OPEB obligation if they have employees.

Mr. Maylor asked if the Department of Revenue – Division of Local Services data has information about OPEB funding. Mr. Moyer stated that it does not, and all previously non-contacted entities received the outreach after formalizing much of the submission process. Mr. Maylor asked if there is a list of entities that have established trusts, and Mr. Parsons stated that PERAC would have this information, and there is potential to do some targeted outreach to that list with performance numbers.

Mr. Maylor spoke on his experience in municipal finance and stated that there is a wide range of awareness about OPEB funding among local entities. He believes that there should be interest in some of these entities to do something different than the usual custom of placing funds in a local bank. He believes that more targeted outreach might get additional results and engaging those who are active with PERAC will be more responsive. The Chair agreed and believes the Board can continue doing specific outreach. Mr. Maylor further explained that he does not believe many local entities even have funding schedules, and those that do would find them crippling to actually meet. It will be difficult to get entities to commit to having a set funding schedule and any requirement to have one would be chilling to interested parties. He also advised that town managers should be included in outreach efforts. Mr. Moyer advised that he had also included those types of local officials.

Ms. Flynn asked if the Board monitors the performance of its competitors. Mr. Todisco stated that they don't have access to the data from these other entities so it is difficult to compare.

Mr. Maylor stated that the SRBTF has a competitive advantage over competitors and more detailed financial return data might get additional interest. Ms. Hesse suggested that the Board could, if it deemed it advisable after discussion of the options, consider offering additional services such as providing a very basic sample Trust. Mr. Moyer explained that the Board has discussed this issue and has declined to provide a sample Trust but agrees that this discussion should continue. The entire process is outlined at the Board's website, and Mr. Moyer refers entities to other recently approved localities to get trust guidance.

The Chair asked if we can use the contribution data to encourage others to meet their commitment. Mr. Moyer will look into this and compile some statistics. Mr. Maylor believes the limitation is on the governance side, and it can be difficult if the tradition is not set and on "autopilot".

## **V. FY2020 Budget Approval**

## FY2019 Budget Update

The Chair asked Mr. Moyer to review the budget documents provided to the Board. The information includes both transaction level summary as well as a top level summary. He has also included a proposed FY20 budget that looks to reduce various line items based on past expenditure levels. Many of the Board's expenses are easily projected forward, so the new proposal reflects a desire to continue cutting any slack. After the Board approves this budget, it is then forwarded to the Legislature for approval.

Mr. Maylor asked for more specificity on each line and who the vendors are for each. Mr. Moyer outlined each as well as the frequency. The Chair further explaining the employment arrangement for Mr. Moyer- TRE provides office space and CTR provides human resources services. Previously CTR provided staff support to the Board before Mr. Moyer came on, and the current arrangement reflects a desire to share this burden.

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

VOTED: To approve the FY2020 budget as proposed for transmission to the Legislature.

Mr. Parsons—Yes  
Mr. Maylor —Yes  
Ms. Flynn —Yes  
Mr. Gervasio — Yes  
Mr. Rust – Yes  
Mr. Favorito – Yes

## **VI. Administrative Issues**

### A. Insurance Coverage

The Chair gave additional context on the Board's search for insurance coverage. He noted the need to remind the broker that the Board has no investment authority in order to ensure that premiums stay in line with the actual risk. Mr. Moyer added details about a large premium increase from last year due to a miscommunication by one of the bidding carriers, and believes that the broker just aimed for a straight renewal. The proposed premium increase is only 3% and was in line with what he and the Chair were comfortable with. The renewal has gone through and has been processed.

### B. Legislative Updates

The Chair asked Mr. Gervasio he was aware of any OPEB related activity from the administration. The Governor's budget did not include any new provisions, but the House

budget proposal is upcoming. The MMA has filed their proposal to add a member to the Board and Mr. Moyer will track this further.

C. SRBTF Calendar, Meeting Times

Mr. Moyer apologized for a miscommunication on the Outlook calendar for the current meeting. The Chair asked the Board for feedback on time, with the consensus being that 9 a.m. would continue to be the start time.

D. SRBTF Employee Evaluation

The Chair gave a brief summary of the evaluation process for Mr. Moyer for the last fiscal year, and asked for any thoughts on the process moving forward. Mr. Parsons asked if it has been a year since the last evaluation. The Chair stated that the process was started late last year, and in fairness to Mr. Moyer the process should be yearly. Mr. Moyer offered to meet with Board members and is happy to take suggestions on what projects to work on.

Mr. Parsons would like additional information about the history of the position and what Mr. Moyer's role is. Mr. Moyer provided this detail and gave context on how he views his role.

Mr. Maylor asked about the Comptroller's previous involvement. Mr. Moyer stated that Beth Hemond had taken on the duties for approximately three years but was not paid separately for her work. Mr. Maylor supports a yearly evaluation, but may not be able to provide feedback because he doesn't have the knowledge to do so.

The Chair will circulate the same form from last year and will compile any responses from that before the next Board meeting.

**VII. Other Business**

**VIII. Adjournment**

There being no further business, a motion was made by Mr. Parsons and duly seconded by Mr. Gervasio, to adjourn the meeting at 10:45am. The Board approved by a voice vote.