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# 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

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## State Retiree Benefits Trust Board of Trustees Minutes of the Meeting of May 7th, 2020 *as approved at the 6/4/20 SRBTF Board Meeting*

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Thursday, May 7, 2020 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 9:35 a.m. SRBTF Board members or designees present for all or part of the meeting were: Chair Nicola Favorito, Comptroller William McNamara, Frank Gervasio, James Rust, John Parsons, Michael Tow, and Theresa Flynn. 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, SRBTF; Attorney Katherine Hesse and Attorney Matt Feeney, Murphy, Hesse, Toomey & Lehane, LLP (“MHTL”); Francesco Daniele, Pension Reserves Investment Management Board (“PRIM”); Susan Bristol & David Pottier (“MassDOT”).

### **I. Approval of the February 6<sup>th</sup>, 2020 Meeting Minutes**

The Chair turned to the minutes of the February 6, 2020 meeting.

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

VOTED: To approve the minutes of the February 6<sup>th</sup>, 2020 Board Meeting.

Mr. Parsons – Yes

Mr. Tow- Yes  
Mr. Gervasio- Yes  
Ms. Flynn- Yes  
Mr. Favorito- Yes

## **II. MassDOT Transfer**

The Chair introduced Ms. Bristol and Mr. Pottier from MassDOT and asked Mr. Pottier to give a short introduction to the matter before the Board. Mr. Pottier explained that when the Turnpike Authority was merged with MassDOT in 2009, employees of the authority were grandfathered in a program that permitted accrued sick leave balances could be used to pay for employee health care as retirees. MassDOT transferred approximately \$75 million in 2015 to the SRBTF in 2015 and has since managed the funds and asked for periodic transfers to replenish their balance to pay for employee reimbursements. MassDOT has submitted a letter with appropriate backup that shows the transfers in and out of the account over the past year with a request for \$500,000. Their monthly spend is around \$50,000, and their current request should cover through June 2021.

The Chair thanked Mr. Pottier for his information and reminded Board members that this is usually a yearly request.

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

VOTED: To approve the transfer of \$500,000 to MassDOT to cover sick leave transfers.

Mr. Parsons – Yes  
Mr. Tow- Yes  
Mr. Gervasio- Yes  
Ms. Flynn- Yes  
Mr. Favorito- Yes

## **III. Investment Report**

Mr. Daniele was present to provide a market and performance update. Mr. Daniele focused on market volatility, asset allocation and fund performance. He suggested all Board members could watch a webinar from Michael Trotsky, PRIM's Executive Director/CIO that speaks to PRIM's overall position and performance.

Operationally, Mr. Daniele noted that PRIM was functioning fully remotely with PRIM managers communicating regularly with their employees and investment managers to ensure the business of PRIM continues uninterrupted.

*Mr. Rust joined the meeting*

In the public markets, the impact of COVID-19 has had a lot of velocity which has surpassed the global financial crisis of 2008. PRIM is aware that negative markets usually hit lows more than once and volatility is typically spread out over 20 months in a negative cycle. The current conditions of the markets that focus on the size of the stimulus have overshadowed the impact on the real economy.

PRIM's portfolio is carefully constructed, focused on diversification and long-term performance in both up and down markets. It was unclear at this time if changes may be needed as it may take a few quarters for the impact of COVID to be completed- supply chains have been impacted, the ability of people to return to work may be staggered, and much uncertainty lies ahead.

Mr. Tow thanked Mr. Daniele for his presentation and noted that he was happy to see that the Fund has withstood this market volatility well. He asked Mr. Daniele what the Fund's exposure is to the oil market. Mr. Daniele was unable to speak to this specifically, but noted the fund has no real estate assets in San Antonio for example, a large oil producing region. PRIM also does not have any hotel exposure which they expect to be impacted by this crisis.

Mr. Tow further asked what the Fund's performance was when the market was at its worst point. Mr. Daniele responded that a large part of the Fund's assets are in equities and other assets which do not get priced daily, which makes it difficult to speak to this question. He will investigate this further and provide the data that PRIM is able.

Mr. Tow asked Mr. Daniele about PRIM's flexibility to go outside the approved asset allocation range based on changing circumstances. Mr. Daniele stated that PRIM rebalances the asset profile regularly and does not anticipate any challenges to the current approved ranges.

Mr. Parsons asked Mr. Daniele to clarify that the April market "snapback" was positive, which it was. The Chair also asked Mr. Daniele to speak to the extent to which the 2020 asset allocation plan might be revised, which Mr. Daniele believed unlikely.

Mr. Gervasio asked Mr. Daniele about how PRIM is categorizing the current market volatility and expectations for further dramatic increases or decreases in the stock market. Mr. Daniele believes that there will be further volatility, and other members of PRIM's Investment Committee have suggested that the market could revisit the lows seen in March depending on circumstances. PRIM's investment approach is defensive in nature and will continue to be so while there is increased risk of volatility and is also monitoring the real economy for similar changes.

The Chair thanked Mr. Daniele for his answers and asked him to come back to the Board with any specifics that Mr. Tow had asked about.

As to performance the SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 1.8% versus 1.9%; 3-year 4.5% versus 4.2; 5-year 4.8% versus 4.4%; and 10-year 7.3% versus 6.5%. Since the fund's inception in 2001 PRIM has achieved a positive 6.6% return versus the benchmark of 6.1%.

As of March 31<sup>st</sup>, 2020, the combined SRBT Fund assets were \$1.83 billion.

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

##### Municipal Contracts

The Chair asked Mr. Daniele if he had received any inquiries directly to PRIM from potential SRBTF applicants, and Mr. Daniele responded that he had not.

The Chair invited Mr. Moyer to present the entities up for consideration.

##### *Quabbin Health District*

Mr. Moyer stated that Quabbin Health District is bringing in \$100,000.00 to start. Mr. Feeney stated that he further reviewed the documents and identified some minor issues. Their attorney identifies March 5<sup>th</sup> as the date of filing and March 16<sup>th</sup> as the effective date, which does not comply with the statute on OPEB trusts. Mr. Feeney also stated that he believed that the effective date should be 91 days after the filing, which he stated was June 15<sup>th</sup>. Mr. Moyer stated that the entity could only invest on July 1<sup>st</sup>.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the Quabbin Health District and to accept the Quabbin Health District as a participating unit in the SRBTF as of June 15th, 2020.

Mr. Parsons – Yes

Mr. Tow- Yes

Mr. Gervasio- Yes

Ms. Flynn- Yes

Mr. Favorito- Yes

Mr. Rust- Yes

##### *South Hadley Fire District #2*

The Chair recognized that the new Comptroller joined the meeting.

Mr. Feeney stated that he sees two minor issues, though neither should prevent the Board from acting today. The first issue is the fact that the Board has not received proof of filing per the statute, but he believes given the nature of this entity, the filing did in fact occur. Mr. Moyer provided an update that Ms. Miller from the District had provided an email agenda that noted the filing, which he will forward to Mr. Feeney. Mr. Feeney believes that we can rely on the certification in the attorney's letter as well.

Mr. Feeney also noted that the filing should be noticed to the public, though the letter from the attorney certifies that all federal and state laws have been complied with. He advises that the Board can approve this application, possibly with an amendment that we will admit on receipt of relevant documents.

The Chair thanked Mr. Feeney for his insight, and asked Mr. Moyer to follow-up as needed to obtain the needed documents.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the South Hadley Fire District #2 and to accept the South Hadley Fire District #2 as a participating unit in the SRBTF subject to receipt of any needed follow-up documentation.

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

### Municipal Outreach

Mr. Moyer indicated that there were no pending applications other than Bellingham being prepared for the Board.

## **V. Administrative Issues**

### A. D&O Insurance

The Chair stated that after the Board's authorization last meeting, he executed a renewal of the policy for \$22,845.00 with the incumbent carriers. Mr. Moyer recommended that the Board conduct a new RFP for brokerage services in the coming year and will bring a motion to do so at a future meeting.

B. Policies & Procedures Update

The Chair noted the proposed amendments to the Board's policies and procedures that Mr. Moyer has drafted which had been distributed. He asked for any feedback and stated that these amendments will be discussed at the next meeting.

C. Proposed FY 2021 Budget

The Chair asked Mr. Moyer to discuss the proposed budget for FY21. Mr. Moyer stated that per the Board's statute, the budget is transmitted to the Legislature and becomes effective 60 days after transmission. The proposed budget only reflects a small increase over last year's consisting of a contracted increase in the amount the Board pays for the yearly OPEB valuation conducted through the Office of the Comptroller.

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

VOTED: To approve FY2021 operating budget of \$190,000 as proposed.

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

D. Legislative Update

The Chair is not aware of any pending legislation that impacts the Board's operations, and asked Mr. Gervasio if he has any information to share. Mr. Gervasio stated that his office is not able to project whether there will be any transfers to the Fund this upcoming budget year given present circumstances.

E. SRBTF Calendar, Meeting Times

The Chair noted that this meeting was off-schedule and asked the Board if members would like to return to the regular schedule of meetings, particularly the upcoming meeting in June. Mr. McNamara suggested that other boards he is a member of have been trying to keep to regular schedule, and the Board can do this while keeping the option to cancel if appropriate. Mr. Moyer stated that the Board has usually held only 4 or 5 meetings per year, cancelling at least one meeting if there is not enough business. The Chair suggested that the Board will keep the June meeting on schedule and will update as needed.

F. SRBTF Program Coordinator

The Chair reminded the Board that he had been preparing to post the Program Coordinator position, but informed the Board that due to changes in Mr. Moyer's plans the posting would be delayed until his career plans became clearer. Mr. Moyer stated that he will communicate any updates regarding his plans to the Chair in order to ensure an orderly succession.

G. Board Chair

The Chair stated that his term will be up on July 1<sup>st</sup> and asked if any other Board members would like to take the Chair position though he is happy to continue on though given the circumstances. Mr. Moyer noted that historically the Chair is elected in June, though Ms. Hesse does not see any reason the Board can't vote today. Mr. Moyer reminded the Board that members would need to first waive the term limit in the bylaws before selecting Mr. Favorito as Chair.

Mr. McNamara asked whether counsel last year had reviewed whether the Board had the authority to amend the bylaws to allow the term limit waiver. Ms. Hesse did not recall this review and would be happy to follow-up. Mr. Parsons asked whether the amendment last year was to take out the term limit, but Mr. Moyer stated that it was to give the Board the option to waive.

The Chair stated that the Board will table this discussion to June to allow counsel to report at that time.

**VI. Other Business**

None.

**VII. Adjournment**

There being no further business, a motion was made by Mr. Tow and duly seconded by Mr. McNamara, to adjourn the meeting at 10:53 a.m.

Mr. Parsons – Yes

Mr. Tow- Yes

Mr. Gervasio- Yes

Ms. Flynn- Yes

Mr. Favorito- Yes

Mr. Rust- Yes

Mr. McNamara- Yes