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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

#### June 6<sup>th</sup>, 2019

as approved 8/1/19

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Thursday, June 6<sup>th</sup>, 2019 at 9:04 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, Margaret Byrne, Frank Gervasio, and John Parsons. Michael Tow and Theresa Flynn 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. Mr. Moyer notified the Chair that he was making a recording.

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”), and Jenny Hedderman from the Office of the Comptroller (“CTR”).

#### I. Approval of the April 4<sup>th</sup>, 2019 Meeting Minutes

The Chair turned to the minutes of the April 4<sup>th</sup>, 2019 meeting.

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

VOTED: To approve the minutes of the April 4<sup>th</sup>, 2019 Board Meeting.

Ms. Byrne — Yes  
Mr. Maylor — Yes

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

## **II. Investment Report**

The Chair noted that Mr. Todisco sent out an updated slide deck ahead of the meeting. Mr. Moyer will forward electronically to all Board members after the meeting.

Mr. Daniele delivered the market report. Global Markets are concerned regarding the President's use tariffs on all imports from Mexico to the US. The US economy may lose momentum and Fed Chairman Jay Powell and other officials signaling that the central bank "needed to be nimble". Business sentiment is facing more uncertainty and the impact on the new trade war with Mexico has led some large corporations wondering if the Administration tariff trade war strategy is here to stay.

The markets have been anticipating action by the Federal Reserve to cut interest rates in September but possibly even as early as July. Looking at global markets, the World Bank downgraded their growth forecast to 2.6% from 2.9% in January, caused by lower consumer confidence, slowdown in global trade, sluggish investment in emerging and developing markets. The largest downgrades are from Central Asia and Europe. The bank also sees the build-up of government debt as a contributing factor to the downgrade in global GDP growth.

PRIM has recently hired a new Senior Risk Officer who comes with a background in finance and experience in asset class management. The PRIM Board approved a slight operational budget increase of 6% to account for an increase in their asset value. This budget would reflect 56 basis points on the fund, but they have historically come in under budget and PRIM expects that this number may end up lower.

Ms. Hesse asked if the net of fees returns were available or had been posted online. Mr. Todisco will send a digital copy of the GIPS returns which includes these numbers to the Board.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 4.9% versus 5.4%, 3-year 9.1% versus 8.9, 5-year 7.0% versus 6.5% and 10-year 9.9% versus 9.4%. Since the fund's inception in 2001 it achieved a positive 7.5% return versus the benchmark of 6.7%. As of April 30th, 2019, the combined SRBT Fund assets were \$1.763 billion and had gained 8.2% for the calendar year.

## **III. Operations Report**

### Municipal Contracts

Mr. Moyer presented the application of the Byfield Water District. He has been working with the Treasurer Wayne Reetz to help them prepare their paperwork, and it is ready to be considered by the Board.

He noted that the amount Byfield would be investing would be under the Board's minimum policy, but they have submitted a funding plan to put them above that amount. Byfield has money currently invested in certificates of deposit and will transfer the funds as the certificates mature. The initial investment will be around \$20k.

Ms. Hesse confirmed that all the paperwork is in order, with Mr. Moyer adding that the Board I vote to admit Byfield would be effective as of July 10<sup>th</sup> to allow for the ninety-day notice period for the Trust Agreement to run.

Mr. Maylor asked how the SRBTF certifies the vote of the governing body. Mr. Moyer pointed to the relevant paperwork. Ms. Hesse believes that it is necessary to further clarify how the entity is demonstrating that they met their notification burden under the statute, but Byfield has clearly met their burden and can proceed.

The Chair asked whether the SRBTF can confirm that the district makes payments as scheduled. Mr. Moyer noted that there is no automatic means to do so.

Mr. Parsons asked why there is a minimum investment policy and how the amount was derived. Mr. Todisco provided additional context by describing the history of the Board, stating that the amount was originally intended to encourage entities to take the funding seriously. Mr. Parsons suggested that the Board should add flexibility to the language. Mr. Tow added that the minimum investment policy was intended to remove the administrative burden to smaller transfers. Mr. Maylor commented that the Board should serve the smaller entities and be flexible to them.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the Byfield Water District and to accept the Byfield Water District as a participating unit in the SRBTF as of July 10th, 2019.

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

Mr. Moyer stated that there are several entities currently preparing submissions to the Board. Greater Lowell Technical High School was voting to accept the agreement and its application would likely come at the Board's next meeting. Mr. Moyer will also follow up with other interested entities to see if they have further questions.

#### Proposed Investment Agreement Amendment

Mr. Moyer stated that a common area of concern for entities interested in investing with the SRBTF is Section 13 in the draft Investment Agreement supplied in the application documents which asks them to make a funding commitment. He has provided a report with all the relevant examples found in Board's historical agreements, and many of these examples do not use this standard language. Further, the Board has no effective enforcement mechanism against entities that might not meet this obligation, and this section likely has a chilling effect for those who might otherwise want to join.

Mr. Moyer has consulted with Ms. Hesse and developed language with which to amend Section 13 and remove the expectation that entities make a specific and regular funding commitment. The language also makes clear that if they do make this commitment, it is for their own purpose and SRBTF may not hold them accountable for it.

Mr. Todisco agreed with Mr. Moyer and believes that an amended Section 13 will be more realistic and garner more municipal interest. The original intent of the language was to promote entities to take the commitment seriously, but this change will better reflect local funding patterns.

Mr. Moyer stated that the original language had three elements: an amount per year, a goal year, and a percentage to fund. He directed the Board's attention to a report which shows that most entities that made a commitment have in fact met them, while around 5 others have not. Mr. Todisco noted that entities do not have to exclusively invest with the SRBTF- some may also be invested with others.

Mr. Maylor asked for the purpose of the language that asks for a commitment, with Mr. Todisco stating that it was intended to provide municipalities with a catalyst to invest. Mr. Maylor stated that the Board does not have the power to follow up, and the language should reflect this and the Board should also serve as an educational resource for these entities. The Chair suggested making the language more flexible on the appropriations.

Mr. Moyer stated that he will work with Ms. Hesse to finalize the language. Ms. Hesse noted a small amendment she suggested on giving the Board the discretion to adopt more restrictive policies at a later time.

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

VOTED: To amend the draft Investment Agreement in order to modify the language requiring entities to propose specific funding commitments beyond their original submission.

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

#### Municipal Transfers

Mr. Moyer further described the summary of his municipal transfers to the SRBTF. noting in He asked how the Board wishes to deal with those entities that have not contributed at all beyond their initial payment, or who have not otherwise met their obligations. Mr. Maylor stated that this kind of result is predictable, as these appropriations need to be made in a certain way. He suggested that the Board should send out a reminder to make OPEB appropriations in early February as the budget season begins.

Mr. Parsons asked what participating systems receive from the Board. Mr. Todisco stated that participants receive a monthly statement sent out automatically. Mr. Moyer noted that the Board does not have a direct communication mechanism to fund participants, and this would require getting communication lists from PRIM.

#### **IV. MassDOT OPEB Transfer**

In response to a question from Mr. Maylor through the Chair, Mr. Todisco referenced a previous meeting in August 2016 and explained that PRIM is unable to provide an approximate current value to the MassDOT transfers given that the funds were not segmented on initial investment. Mr. Moyer stated that the Board's records have the transfers in and out, but otherwise do not provide the ability to approximate the value.

Mr. Maylor indicated he is more interested in the liability side of this question and would like to know how many retirees are left to claim against these assets. The Chair suggested that MassDOT can be more specific when providing this information, and Mr. Maylor added that this is only necessary for the next formal funding request.

Mr. Moyer explained that the current transfer request before the Board was to reimburse settlement funds that had been initially transferred into the wrong account. MassDOT would have made a higher request had they realized this error, and this request is to remedy that. Ms. Hesse believes that the documentation submitted by MassDOT is sufficient to make this kind of transfer.

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

VOTED: To approve the transfer of \$28,984 to DOT.

Mr. Parsons—Yes  
Mr. Maylor —Yes

Ms. Flynn —Yes  
Mr. Gervasio — Yes  
Ms. Byrne – Yes  
Mr. Tow – Yes  
Mr. Favorito – Yes

## **V. Administrative Issues**

### **A. OPEB Valuation**

The Chair provided an update on the upcoming OPEB valuation, with the kick-off meeting / conference call having been held a few weeks ago. There are no changes in any of the assumptions other than a change to the investment rate of return to 7.25% that reflects the current trend within the public retirement system environment.

The Chair asked Ms. Hedderman from CTR to update the Board on a contract issue from the last valuation. She summarized that an error in the initial calculations used by the vendor for purposes of the GASB 74 report resulted in higher allocations for several of the commonwealth's higher education institutions. This necessitated those entities to refile their reports which increased the costs associated with this process. CTR has worked to resolve this issue and to cover these additional costs incurred by the entities. Her office does not anticipate any additional delays on the current valuation.

### **B. Internal Controls**

Mr. Moyer introduced the proposed FY2020 Internal Controls policy to be adopted by the Board. He is not proposing any changes, and this policy is aligned with other documents as well as the answers provided in the Comptroller's annual questionnaire.

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 Internal Controls Policy as proposed for FY2020.

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

### **C. Legislative Updates**

The Chair indicated he was not aware of any changes related to the SRBTF in the various FY20 Commonwealth budget proposals. No other Board members were aware of any changes being proposed at this time.

D. SRBTF Calendar, Meeting Times

The next Board meeting is on August 1<sup>st</sup>. The Board will likely need to meet to approve the GIC transfer schedule.

E. SRBTF Employee Evaluation

The Chair apologized that he had not circulated evaluation forms for Mr. Moyer's review process with enough time before today's meeting. These forms have been distributed via email now, and he will meet with Mr. Moyer to share this feedback prior to the next Board meeting in August.

F. SRBTF Chair

The Chair asked if any other Board members would be interested in becoming Chair but added that he would be willing to continue serving. Mr. Moyer suggested that the Board should hold a separate vote to waive the term limits under the bylaws.

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 waive the term limits specified under Section 2.1(a) of the Bylaws and to allow the current Chair to serve an additional term.

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

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

VOTED: To select Nicola Favorito as chair of the State Retiree Benefits Trust Fund for FY20.

Mr. Parsons—Yes  
Mr. Maylor —Yes  
Ms. Flynn —Yes  
Mr. Gervasio — Yes  
Ms. Byrne – Yes  
Mr. Tow – Yes

Mr. Favorito – abstain

The Chair thanked the Board for their continued confidence.

**VI. Other Business**

The Chair noted for the benefit of the newer Board members that MHTL's contract will expire at the end of this calendar year. There are extensions available in the contract and the Board can address the matter and its options in August.

**VII. Adjournment**

There being no further business, a motion was made by Mr. Maylor and duly seconded by Mr. Parsons, to adjourn the meeting at 10:25am.

Mr. Parsons—Yes

Mr. Maylor —Yes

Ms. Flynn —Yes

Mr. Gervasio — Yes

Ms. Byrne – Yes

Mr. Tow – Yes

Mr. Favorito – Yes