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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 June 11, 2021

*as approved at the 08-12-21 meeting*

### Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Friday, June 11, 2021 via remote participation pursuant to the provisions of 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, Jeffrey Shapiro, Frank Gervasio, James Rust, and 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 Matt Feeney of Murphy, Hesse, Toomey & Lehane, LLP (“MHTL”); Laura Strickland, Emily Green and Francesco Daniele of the Pension Reserves Investment Management Board (“PRIM”); Amy Nagle and Thomas Smith-Vaughn, of the Massachusetts Comptroller’s Office (“CTR”).

### I. Approval of the February 4<sup>th</sup>, 2021 Meeting Minutes

The Chair turned to the minutes of the February 4, 2021 meeting.

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

VOTED: To approve the minutes of the February 4<sup>th</sup>, 2021 Board Meeting.

Mr. Parsons - Yes

|                |         |
|----------------|---------|
| Ms. Flynn -    | Yes     |
| Mr. Gervasio - | Yes     |
| Mr. Tow –      | Yes     |
| Mr. Rust -     | Yes     |
| Mr. Shapiro -  | Abstain |
| Mr. Favorito - | Yes     |

## **II. OPEB Valuation, Financial ISA with CTR**

The Chair advised the Board that the settlement has been reached between the Commonwealth and AON as to the outstanding charges from the 2019 OPEB valuation within the parameters discussed at the last board meeting. The Chair further invited any board member interested in the details of this settlement to follow up individually.

The Chair moved on to the new proposed Internal Service Agreement between the SRBTF and the CTR, and thanked Ms. Nagle and Mr. Smith-Vaughn from the Comptroller's office for joining this discussion.

Mr. Moyer explained that the Comptroller's Office has historically handled several matters for the Board, including human resources and oversight of the OPEB valuation work. With the transition over the past year, the Comptroller's office has expressed interest in taking more direct control over the oversight and handling the payment process for the valuation and proposed the draft ISA that was included in the Board's materials for this meeting.

This draft ISA provides for yearly transfers from the Board's funds to the CTR in the amounts outlined in the Statement of Work with Deloitte, including \$144,000 in the first year. Other than this, the ISA is identical to previous agreements with CTR. Mr. Moyer stated that this is coming before the Board due to the size of the contract and the changing nature of the relationship.

Mr. Smith-Vaughn agreed with Mr. Moyer's summary of the issue, and further explained that no funds from this transfer will go to CTR staff time, only directly to the vendor for services. He also explained CTR's process to obtain a qualified vendor to perform the OPEB valuation - the Comptroller's office put out a requisition under an existing contract and had one vendor (Deloitte) bid. The amount of the bid is a bit higher than the past few years, but CTR believes that the number accurately reflects the current market value and the amount of work needed to do this valuation.

Ms. Hesse confirmed that this arrangement is a pass-through for this expense, to which Mr. Smith-Vaughn agreed.

Mr. Smith-Vaughn stated that the current SOW allows for a valuation to be conducted every two years should such a decision be made as accounting rules under GASB 74/75 only requires a valuation every two years. The Chair thanked CTR for their work on this and added that Mr. Moyer would look into possible legislative language to allow flexibility to conduct a valuation every two years should the Commonwealth which to pursue this.

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

VOTED: To approve the terms of the proposed financial ISA with the Comptroller's office for FY22-FY24.

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

### **III. Investment Report**

The Chair invited Mr. Daniele to give the market update and congratulated him for a successful PRIM investor client conference on June 9<sup>th</sup>.

Mr. Daniele thanked the Chair and further explained that he was happy to host several Board members in the conference. The Chair asked Mr. Daniele if the conference had been recorded, and Mr. Daniele stated that it had not been. Mr. Daniele stated that participants had appreciated the remarks by PRIM Executive Director Michael Trotsky and the co-founder of Moderna.

Mr. Daniele introduced Laura Strickland as a Senior Client Services Officer. She joins Emily Green on the Client Service team at PRIM, and Mr. Daniele has confidence in his team to build on the success of Mr. Todisco after his retirement.

PRIM is extremely proud to have added \$21 billion in market value to the pension fund. The fund's strong returns represent both pension security for beneficiaries and an important gain for the Commonwealth's finances. The PRIT Fund continues to perform well in both strong periods, like the last year, but more importantly, in weak markets, too, like that seen with the onset of the COVID-19 pandemic.

The PRIM Board has recently approved a hiring plan to expand the investment team and add more talent, including streamlining reporting under the Executive Director.

The Chair thanked Mr. Daniele for the update and asked if the Board had any questions. Mr. Gervasio asked Mr. Daniele how PRIM was reacting to uncertainty in the market, including the risk of inflation from the economy and increased federal spending. Mr. Daniele explained that PRIM has a very diverse portfolio and doesn't make tactical adjustments, so the investments are tracked on a long-term basis that doesn't leave the fund exposed to too much risk.

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 30.1% versus 25.8% (benchmark); 3-year 9.7% versus 8.7% (benchmark); 5-year 10.5% versus 9.6% (benchmark); and 10-year 8.8% versus 7.6% (benchmark). Since the fund's inception in 2001 PRIM has achieved a positive 8.0% return versus the benchmark of 7.6%.

As of March 31, 2021, the combined SRBT Fund assets were \$2.48 billion.

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

##### Municipal Contracts

Mr. Daniele stated that PRIM is working on direct outreach to existing retirement clients to learn more about how they are investing their OPEB funds. His team is also working on outreach to county auditor organizations to present at their required biannual meetings. The Chair thanked Mr. Daniele for his efforts and hopes that the additional funds from the federal government will allow local governments to invest more to OPEB.

Mr. Parsons asked if interest is relatively consistent with previous years. Mr. Moyer stated that the submissions have been coming in at roughly the same pace as previous years, and interest doesn't seem to be comparatively higher, but further outreach may help bring out some interest.

Mr. Moyer expressed his perspective from helping clients submit the materials. He believes that there are areas where the statute and the resulting process could be streamlined to allow for more interest. He stated that there are other states with similar systems such as California, which has a more streamlined process for local participation. Mr. Daniele stated that he appreciates the intricacy of this process and the challenges it presents but does appreciate the close relationship with clients that can be formed.

Mr. Moyer updated the Board with the submissions for this meeting, which is the town of Acushnet which first reached out in March.

Town of Acushnet

Mr. Moyer stated that the Town has submitted all required materials and would be coming in with approximately \$516,000. Their trust will not be effective until mid-August. Mr. Feeney advised that he had also reviewed all the materials and does not believe there are any issues that prevent the Board from acting today.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the Town of Acushnet and to accept the Town of Acushnet as a participating unit in the SRBTF as of August 18, 2021.

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|----------------|-----|
| Mr. Parsons -  | Yes |
| Mr. Gervasio - | Yes |
| Ms. Flynn -    | Yes |
| Mr. Shapiro -  | Yes |
| Mr. Rust -     | Yes |
| Mr. Tow -      | Yes |
| Mr. Favorito - | Yes |

**V. Administrative Issues**

A. FY22 SRBTF Spending Plan

The Chair asked Mr. Moyer on the procedure for approval of the Board's spending plan. Mr. Moyer stated that the spending plan needs to be approved by the Board and sent by the Chair to the Clerks of the House and Senate.

Mr. Moyer outlined the proposed spending plan for FY22. It reflects the revised budget compared to FY21 which included an increase given due to adjustments related to the OPEB valuation. The new vendor valuation costs are higher. There is also small increases budgeted for insurance, legal services and personnel. The legal services RFP will go out later this calendar year.

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

VOTED: To approve the FY22 Spending Plan as presented.

|                |     |
|----------------|-----|
| Mr. Gervasio - | Yes |
| Mr. Rust -     | Yes |

|                |     |
|----------------|-----|
| Mr. Tow -      | Yes |
| Ms. Flynn –    | Yes |
| Mr. Parsons    | Yes |
| Mr. Shapiro -  | Yes |
| Mr. Favorito - | Yes |

B. Legislative Update

The Chair stated that he is not aware of any legislative bills impacting the Board. He will work with Mr. Moyer and the Comptroller’s office to see if any additional technical corrections to the statute are appropriate.

C. Board Contracts

Mr. Moyer stated that he is asking for authority to issue an RFP for legal services as the current options for extension with MHTL end in December 2021. He advised that there was a draft RFP included in the meeting materials based on the last requisition sent out by the Board in 2016.

The Chair stated that he was happy to establish a subcommittee to evaluate submissions and asked the Board for volunteers.

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

VOTED: To issue an RFP for legal services for a contract beginning January 2022.

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

The Chair thanked Ms. Flynn for volunteering for the subcommittee to weigh applications.

D. SRBTF Chair

The Chair stated that his term would be ending as of July 1<sup>st</sup>, and the Board would need to address this today. He asked if there were any volunteers to become Chair. Seeing

none, he asked Mr. Moyer to explain the process needed for him to continue as Chair. Mr. Moyer stated that the Board would need to utilize the procedure in Section 2.1 (c) of the bylaws, which call for separate votes to waive the term limit requirements and elect a new Chair.

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

VOTED: To waive the term limits in Section 2.1(c) of the bylaws for FY22.

|                |     |
|----------------|-----|
| Mr. Shapiro -  | Yes |
| Ms. Flynn -    | Yes |
| Mr. Parsons -  | Yes |
| Mr. Rust -     | Yes |
| Ms. Tow -      | Yes |
| Mr. Gervasio   | Yes |
| Mr. Favorito - | Yes |

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

VOTED: To select Nick Favorito as chair for FY22.

|                |         |
|----------------|---------|
| Mr. Shapiro -  | Yes     |
| Ms. Flynn -    | Yes     |
| Mr. Gervasio - | Yes     |
| Mr. Parsons -  | Yes     |
| Ms. Tow -      | Yes     |
| Mr. Rust -     | Yes     |
| Mr. Favorito - | Abstain |

The Chair thanked the Board for their continuing confidence in leading activities.

#### E. SRBTF Calendar, Meeting Times

Mr. Moyer updated the Board on the next meeting on August 5<sup>th</sup>.

The Chair stated that he will be paying attention to the public meeting law bill making its way through the Legislature. Assuming the Board has the option of continuing to do

remote meetings or some version of in-person, he will follow up on asking for a consensus as the August meeting approaches.

Mr. Rust advised that GIC will need the August meeting to approve the transfer schedule.

**VI. Other Business**

There was no other business mentioned.

**VII. Adjournment**

There being no further business, a motion was made by Mr. Shapiro and duly seconded by Mr. Parsons, to adjourn the meeting at 10:47 a.m.

|                |     |
|----------------|-----|
| Mr. Gervasio - | Yes |
| Mr. Shapiro -  | Yes |
| Ms. Flynn -    | Yes |
| Mr. Rust -     | Yes |
| Mr. Parsons    | Yes |
| Mr. Tow-       | Yes |
| Mr. Favorito - | Yes |