



Commonwealth of Massachusetts State Retiree Benefits Trust Fund

Board of Trustees

Kathleen Bramlage, Chair

*Deborah B. Goldberg · Matthew Gorzkowicz · William McNamara
William T. Keefe · James Rust · Theresa Flynn · Michael C. Tow, CFP*

MINUTES

State Retiree Benefits Trust Board of Trustees

Minutes of the Board Meeting of

June 13, 2024

As approved by The Board at the 09/12/2024 meeting

I. Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (SRBTF Board or Board) was held on Thursday, June 12, 2024, via remote participation pursuant to the Open Meeting Law, G.L. c.30A, §20, as amended.

A quorum being present at the meeting was called to order at 9:35 a.m. The SRBTF Board members or designees present for all or part of the meeting were: Kathleen Bramlage, James Rust, William Keefe, and William McNamara. 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: Francesco Daniele and Emily Green of the Pension Reserves Investment Management Board (PRIM); David Pottier and Susan Bristol of the Massachusetts Department of Transportation (MassDOT); Katherine Hesse, Veronica Turovsky Genin and Linda Champion of Murphy, Hesse, Toomey & Lehane, LLP; and Ingrid Goretti Rica of the SRBTF.

II. Approval of the March 14, 2024 Meeting Minutes

The Chair asked the Board to consider the minutes of the March 14, 2024 board meeting.

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

VOTED: To approve the minutes of the March 14, 2024 board meeting.

Mr. McNamara - Yes
Mr. Keefe - Yes
Mr. Rust - Yes
Ms. Bramlage - Yes

III. MassDOT OPEB Transfer Request (voting item).

The Chair turned to Mr. Pottier and Ms. Bristol to discuss the MassDOT transfer request.

Mr. Pottier informed that Ms. Bristol was having connection issues, and he would discuss the transfer request by himself.

Firstly, Mr. Pottier provided a background information about the MassDOT transfer. In 2009, when the Mass Turnpike Authority merged with other transportation agencies, employees were guaranteed sick leave benefits. A trust, originally managed by the DOT, was established for these benefits. In January 2015, approximately \$75 million from this trust was transferred to the State Benefits Retiree Trust Fund for better checks and balances. The main objective of the trust is to create a sick leave bank for former Mass Turnpike employees. With that being said, Mr. Pottier requested a transfer of \$220,000 to cover for those benefits.

The Chair asked if there were any questions to Mr. Pottier.

Mr. McNamara inquired whether this transfer is a regular occurrence. Mr. Pottier confirmed that this is an annual event, and similar requests have been made in previous years.

There being no further questions, the Chair asked the Board to consider the MassDOT fund transfer request.

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

VOTED: To approve the annual OPEB fund transfer of \$220,000 to MassDOT.

Mr. McNamara - Yes
Mr. Keefe - Yes
Mr. Rust - Yes
Ms. Bramlage - Yes

IV. Investment Report.

The Chair invited Mr. Daniele to give the market update and present the investment report.

Firstly, Mr. Daniele informed that Ms. Green would give some organizational updates discussed in the PRIM Board meeting of May 30 and that their next meeting would be on August 15.

Next, Mr. Daniele reviewed the performance for the third fiscal quarter that ended on March 3. According to Mr. Daniele the PRIT fund reached a record balance of \$104 billion, and there was an increase in 3.7% gross return, 3.6% net return and in the trailing 12 months, 11.4% gross and 10.9% net, equating a significant gain of \$10.3 billion over the previous 12 months.

Mr. Daniele moved on to discuss the global economy. In the US, GDP growth slowed to an annualized rate of 1.6% in Q1 2024, down from 3.4% in the previous quarter, marking the lowest growth rate since early 2022. The inflation accelerated to 3.5% in March, the highest since September, with the CPI rising 0.4% in both February and March, surpassing forecasts. Unemployment increased slightly to 3.9% in April from 3.8% in the previous month, with 63,000 more unemployed individuals, totaling roughly 6.4 to 6.5 million. Labor force participation remained unchanged at 62.7%. and the Federal Reserve maintained the target rate at a 23-year high of 5.25% to 5%, with inflation moderating but still elevated. Regarding the market volatility, the VIX index, referred to as the "market thermometer," increased slightly from 12.45 to 13.45 as of early May, though still below the 5-year average of 21 and the 10-year average of 18. There was a noted disconnect between market performance and consumer sentiment, with markets looking past global uncertainties such as geopolitics and the upcoming US elections. The US economy, being consumer-driven, saw a 0.7% month-over-month increase in March, revised upward from 0.9% in February. Housing starts plunged by 14.7% in March, with an annualized rate of 1.32 million homes, the lowest since August and the largest decline since April 2020, largely due to higher mortgage rates. The University of Michigan Consumer Sentiment revised lower; strong seasonal earnings with S&P 500 reporting higher sales and earnings growth.

Moving on to the economy outside the US, China saw its GDP advanced 5.3% year-over-year, exceeding market forecasts. In the Eurozone, GDP growth slowed to 0.3% in Q1, marking the fastest rate since Q3 2022. And Japan narrowly avoided a recession with slight GDP growth and an unemployment rate of 2.6% in March.

Mr. Daniele concluded with a summary of portfolio performance emphasizing the strong absolute and relative performance across various portfolio components: US large cap equities were up 30%; emerging markets equity up 17%; Real Estate was down 6.7% but outperformed its benchmark, indicating better performance relative to a declining market; and private equity: is noted as the leading performer in the portfolio.

Mr. Daniele handed over to Ms. Green for an organizational update and further highlights from the PRIM board meeting.

Ms. Green highlighted the numerous awards and recognitions received by the PRIM team. Michael Ratsky, the Executive Director and Chief Investment Officer, will be honored with the Lifetime Achievement Award by *the With Intelligence* publication in October. The publication called PRIM “a beacon of public service and investment prowess for the Commonwealth of Massachusetts, marking over 15 years of service. PRIM was also named one of the country's best public investment operations. Bill Lee, Director of Portfolio Completion Strategies, received the institutional Investors Next Generation recognition award, honoring his distinguished contributions to portfolio construction. Eliza Haynes, Investment Officer with the Private Equity team, passed the CFA Institute level 3 exam and is now a Chartered Financial Analyst (CFA).

Moreover, Ms. Green informed that PRIM welcomed 7 new interns from various programs, including Girls Who Invest; CFA Society Women in Investment Management; UNCSA Lighted Pathways; and The Treasury Finance Fellowship.

Lastly, Ms. Green gave some updates from the last PRIM Board meeting, where over \$3 billion in investments were approved, including 3 new investments in Public Markets, 1 new investment in Portfolio Completion Strategies and 4 new funds in Private Equity. In fiscal year 2023, PRIM’s private equity team evaluated over 200 new managers, resulting in 15 investments, including 3 with new managers. The selection process is described as rigorous, evaluating both existing and new managers using the same criteria.

There being no questions, the Chair thanked Mr. Daniele and Ms. Green for their presentation and moved on to the next item in the agenda.

V. Administrative Issues.

A. Consideration of Pathfinder Regional Vocational School application (voting item).

The Chair invited Ms. Hesse to give an update on the Pathfinder Regional Vocational School application package that was received by the Board earlier. Ms. Hesse commented that Pathfinder had not previously been aware of the application process but was enthusiastic about completing it. The application package was reported to be complete, signed and, if there were no caveats or issues to report, ready for approval.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the Pathfinder Regional Vocational School and to accept the Pathfinder Regional Vocational School as a participating unit in the SRBTF.

Mr. McNamara - Yes
Mr. Keefe - Yes
Mr. Rust - Yes
Ms. Bramlage - Yes

Next, the Chair asked Ms. Hesse to give an update on the Blue Hills School application. So far, the school has accepted the OPEB statute, and they have determined the trustee and authorized investment through the SRBTF. However, the trust document, that was sent to the school board about a month ago, has not yet been adopted and this topic has been added to their agenda for discussion at their upcoming meeting at the end of the month. After the school board considers the trust document, the expectation is to receive a package ready by September. Ms. Hesse also noted that in this case, because one of her partners works with Blue Hills, the process will involve obtaining an opinion letter from other qualified counsel, from a list provided to the school board.

Mr. Daniele added that Greg Falcon and the business manager from Pathfinder reached out to him the previous day and they thanked Katherine and her team for their assistance in assembling the application package. Mr. Daniele provided some background information about the Pathfinder application process, noting that they had been keeping their assets in a local savings account at their local bank for the past 3-4 years and recently reached the \$100,000 threshold with an additional \$35,000 in assets approved the previous days. Pathfinder will not be having an OPEB board; instead, they will have a single trustee, similar to Blue Hills. The Pathfinder team was cooperative and enthusiastic about moving forward with the process.

Mr. Daniele acknowledged the Board's vote and expressed gratitude for the legal team's hard work. He confirmed, after some misunderstanding about the date, that the 90-day period starts from June 4th and the next step involves contacting the custodian to open an account for Pathfinder.

Ms. Hesse took a moment to thank Veronica Turovsky Genin for her efforts, particularly in assisting Pathfinder's attorney, who was new to this type of transaction. Ms. Turovsky Genin was instrumental in correcting errors in the original council letter regarding the 90-day computation, confirming that the corrections were made, and the understanding of the 90-day period is now clear.

B. D&O/Fiduciary Insurance Update.

The Chair turned over to Ms. Goretti Rica to give the insurance update. Ms. Goretti Rica shared that the liability insurance for the Trust and Board, which is renewed annually, was due on April 1st. Three program renewal options were offered by the insurance carrier: A) Option 1: Flat renewal with the same coverage and premium as the previous

year. B) Option 2: An increase in Side A coverage limit from \$500K to \$1M, protecting the personal assets of trustees, with a small premium increase of \$323. C) Option 3: Separate limits for D&O employment practices and fiduciary liability, increasing the coverage from \$1.5M to \$3M, but with a significant increase in the premium from \$30K to \$35K (later clarified as thousand, not million). After consideration, the Chair opted for Option 2, which offered a notable increase in liability coverage with a minimal increase in premiums. The Chair clarified that the premium figures mentioned earlier were in thousands (i.e., \$30K to \$35K), not millions.

Ms. Hesse suggested that while a vote was not necessary, it would be wise to have the board ratify and confirm the action taken by the Executive Director for record purposes.

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

VOTED: To approve the action taken by the Chair to place the insurance policy.

Mr. McNamara - Yes

Mr. Keefe - Yes

Mr. Rust - Yes

Ms. Bramlage - Yes

After the vote, Ms. Hesse raised a question regarding whether the Trust has a fidelity bond, which is a form of fraud insurance, noting that it is typical for trust funds handling money to have such coverage. She inquired if the state has a similar policy or if the Trust is self-insured. The Chair responded that the board had reviewed this issue last year and asked Ms. Hesse if she provided legal advice on the matter during that time. Ms. Hesse confirmed that she had and reiterated that it is customary for benefit trust funds to have a fidelity bond or fraud insurance. This type of coverage protects the Trust in case an employee misappropriates funds. However, Ms. Hesse was uncertain if the Trust currently holds such coverage, as she was not familiar with how the Trust's funds are handled or disbursed.

Mr. Daniele added that, to his knowledge, none of the assets from SRBTF participants ever go directly to the SRBTF board but rather to PRIM. He suggested that past meeting minutes could be reviewed to confirm details and mentioned that once a year the board is updated on coverage. Ms. Goretti Rica confirmed that the current coverage is the same as the previous year, with an additional coverage limit. She recalled that the previous SRBTF Program Coordinator worked with Ms. Hesse to approve the insurance last year.

Ms. Hesse emphasized that the fraud insurance she referred to is a separate policy issued by a different company. She also highlighted the importance of fiduciary responsibility for service providers, such as PRIM, handling the Trust's funds. Ms. Hesse suggested that it would be beneficial to receive annual updates from Mr. Daniele on the insurance coverage to keep proper records. Mr. Daniele agreed to provide the necessary information and proposed reviewing old meeting minutes to ensure the topic had been addressed before. He committed to having all details prepared for the next board meeting. The Chair concluded the discussion, noting that the board would review past minutes and confirm the coverage situation at the next meeting.

C. FY25 Proposed Budget (voting item).

The Chair introduced the next agenda item regarding the Fiscal Year 25 proposed budget, turning it over to Ms. Goretti Rica.

Ms. Goretti Rica explained that the proposed budget reflects a continuation of current activities. The budget includes increased expenses to cover insurance premiums and actuarial valuations based on past trends. All other costs will remain flat. The budget, once passed by the Board, will be sent to the clerks of the legislature and becomes effective 60 days later if there are no responses or questions.

The Chair called for any questions. There were none.

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

VOTED: To approve the FY25 proposed budget.

Mr. McNamara - Yes

Mr. Keefe - Yes

Mr. Rust - Yes

Ms. Bramlage - Yes

VI. Other Issues

Mr. Daniele raised the topic of the investment agreement for Pathfinder, confirming that it has been executed. He asked Ms. Turovsky Genin if she would notify Greg Falcone that the agreement was approved. Ms. Turovsky Genin confirmed that she would contact their counsel to ensure that everything is in order and the account can be opened once the agreement counter signed by the Chair is in place.

Ms. Goretti Rica confirmed that the next meeting would be held on September 12th.

VII. Adjournment

There being no further business, a motion was made by Mr. Rust, and duly seconded by Mr. Keefe, to adjourn the meeting at 10:09 a.m.

Mr. McNamara - Yes

Mr. Keefe - Yes

Mr. Rust - Yes

Ms. Bramlage - Yes