



Commonwealth of Massachusetts State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

*Michael Heffernan · Dr. Roberta Herman · Joseph Connarton · Deborah Goldberg ·
Thomas G. Shack III, Esq. · Michael C. Tow, CFP · Theresa Flynn*

State Retiree Benefits Trust Board of Trustees

Minutes of the Meeting of

August 2nd, 2018

as approved 10/3/18

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was held on Thursday, August 2nd, 2018 at 9:03 am in the Crane Conference Room in the Offices of the State Treasurer on the 12th floor of One Ashburton Place, Boston, Massachusetts.

SRBTF Board members present for all or part of the meeting were: Chair Nicola Favorito, Jenny Hedderman, James Rust, and Frank Gervasio and Joseph Connarton. A quorum being present in the meeting room, Mr. Michael Tow participated remotely via conference call in accordance with the Board's policy and the Office of the Attorney General's guidelines on remote participation. All votes while remote participation was in use were by roll call, and all participants were notified that this meeting would be audio recorded. Unless otherwise noted, all other votes taken were unanimous.

Also present for all or part of the meeting were:

Attorney Brian Fox of Murphy, Hesse, Toomey & Lehane LLP ("MHTL");

Mr. Paul Todisco and Mr. Francesco Daniele of the Pension Reserves Investment Management Board ("PRIM");

Mr. Jeffrey Moyer of the SRBTF;

Mr. Favorito informed the Board that he had been notified a new designee from the GIC would be joining the Board. James Rust is the GIC's CFO.

I. Audio Recording of SRBTF Meetings

Mr. Moyer informed the Board that it had been his practice to audio record meetings as suggested by Ms. Hemond when he took over in fall 2017 and Board meetings have been

recorded consistently since 2016. At the request of the Chair and due to the new members joining the Board, Mr. Moyer informed the Board of the practice and whether meetings could be audio recorded going forward. These recordings allow Mr. Moyer to compose more accurate minutes as well as be present during meetings. No objections having been stated, Mr. Moyer will continue recording meetings and will note this in the minutes.

II. Board Chair Election

Term Limits Discussion

As was discussed at the June meeting Mr. Favorito brought the Board's attention the issue of the term limit amendment, and asked Mr. Fox to outline the options under consideration. The first option would eliminate the term limit, giving the Board the discretion to elect the Chair for as many one-year terms as they wish. Mr. Fox also drafted an alternative proposal which would retain the three-term limit but give the Board the ability to waive it each year with a vote of two-thirds of the sitting members. There is also the option of making the waiver subject to only a majority vote. Mr. Favorito confirmed with Mr. Fox that as currently written, his proposed language would require five votes.

Mr. Rust joined the meeting.

Ms. Hedderman believes that the two-thirds threshold is too high especially given the timing of meetings and the competing responsibilities of Board members but does not want to take out the term limits language completely. Mr. Connarton agreed and stated that he would prefer a simple majority.

Mr. Favorito asked Mr. Fox to amend his proposal to reflect a simple majority, and Mr. Fox advised that the Board should vote on the amendment today to allow for the election of a Chair. The Board would then have to vote separately to waive the term limit and then to select the Chair. Mr. Tow stated that he also believes that a majority vote would be sufficient for waiving the term limit.

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

VOTED: To amend the bylaws in Section 2.1(c) by striking out the current language of that section and replacing it with the following:

(c) The Chair of the Board shall be selected annually by a majority vote of the other Trustees. The Chair shall preside at meetings of the Board and shall have such powers and duties as may, from time to time, be voted by the Board. The Chair shall serve for no more than three consecutive one-year terms, unless a majority of Board Members in attendance at a meeting of the Board vote to waive the three year limitation. The three consecutive one-year term limitation

must be waived each year by such a majority, if the Chair is to continue to serve additional one-year terms. If the Chair's term as Trustee expires and he or she is not reappointed to the Board, or if the Chair resigns as Trustee or Chair prior to the expiration of the one-year term, the Trustees shall select by a majority vote a new Chair to serve out the unexpired term of the outgoing Chair. Said new Chair shall be eligible to serve for three consecutive one-year terms as Chair following the completion of the term vacated by the outgoing Chair, unless the Board waives the three consecutive one-year term limitation in the manner described in this section.

Board Chair Election

Mr. Favorito confirmed with Mr. Fox that the Board would first need to vote to waive the term limits before holding a vote to select the Chair. The Board then took the following two votes:

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

VOTED: To waive the Chair Term Limit outlined in Section 2.1 the SRBTF Bylaws as amended and to allow Mr. Favorito to serve an additional one-year term as Chair.

Mr. Connarton—Yes
Mr. Gervasio -- Yes
Ms. Hedderman—Yes
Mr. Rust — Yes
Mr. Tow — Yes
Mr. Favorito--Abstain

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

VOTED: To elect Mr. Favorito as SRBTF Board Chair for a one-year term ending July 1, 2019.

Mr. Connarton—Yes
Mr. Gervasio -- Yes
Ms. Hedderman—Yes
Mr. Rust — Yes
Mr. Tow — Yes
Mr. Favorito—Abstain

The Chair thanked the Board for their ongoing support going forward.

III. Approval of the June 7th, 2018 Meeting Minutes

The Chairman turned to approval of the minutes of the June 7th, 2018 meeting. Ms. Hedderman requested that the minutes be amended in reference to the discussion regarding Comptroller's ability to potentially serve as Chair/lead agency for SRBTF to reflect the commitment that CTR had taken on over the past several years in supporting the SRBTF and the ongoing contributions in human resources services.

On a motion made by Mr. Connarton and duly seconded by Mr. Gervasio, the Trustees took the following action by voice vote.

VOTED: To approve the minutes of the June 7th, 2018 Board Meeting as presented with amendment.

Mr. Connarton—Yes
Mr. Gervasio -- Yes
Ms. Hedderman—Yes
Mr. Rust — Abstain
Mr. Tow — Yes
Mr. Favorito—Yes

IV. Investment Report

Mr. Daniele gave the market update. The U.S economy seems to be quite healthy. At the June meeting, the Federal Reserve raised its target range for the Federal Funds rate 25 basis points. The Fed have raised rates twice this year and will likely do so again in 2019. In the Fed meeting minutes, recent data suggests that household spending, business fixed investment and employment growth continue to strengthen. Headline and core inflation were noted as moving closer to the 2% target.

On the positive side, U.S. GDP increased at an annual rate of +4.1% in the second calendar quarter, which was a pick-up from the first quarter's revised growth of 2.2%. Personal consumption expenditures rose to the strongest rate since fourth quarter 2014 and now stands at a 4% annual rate. U.S. retail sales rose +0.5% in June from the prior month. Additionally, U.S. industrial production increased more than expected in June, rising +0.6%, boosted by a sharp rebound in manufacturing output. On the more cautious side, the personal savings rate was 6.8%, down from 7.2% in the first quarter and wage growth continues to be soft. The housing sector continued to underperform with higher mortgage rates as well as low housing stocks. That translated into a reduction of residential investment, which fell 1.1%.

Most experts believe the economy is showing at least a temporary sign that the tax overhaul has provided some stimulus. Some also think that spending is increasing now for fear that prices will rise in the future because of escalating trade tensions globally.

As an organization, PRIM has made several recent additions. In addition to Jennifer Kuhn as Director of Human Resources, David Griswold joined PRIM in June as the Director of Information Technology. In the area of national recognition, PRIM received an award from The America Investment Council ranking PRIM Private Equity ranked #1 in private equity returns among 163 U.S. public pension funds based on 10-year 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 9.5% versus 8.1%, 3-year 7.9% versus 7.1%, 5-year 8.8% versus 7.7% and 10-year 6.7% versus 6.1%. Since the fund's inception in 2001 it achieved a positive 7.3% return versus the benchmark of 6.7%. As of June 30th, 2018, the combined SRBT Fund assets were \$1.51 billion and had earned 1.5% for the calendar year.

The Chair asked Mr. Todisco whether PRIM is considering changing their strategy in response to concerns about tariffs. This has been discussed during the Investment Committee and the PRIM Board, and there is concern over how much exposure their investments have to markets impacted by tariffs such as timber.

Ms. Hedderman asked Mr. Todisco to address how PRIM describes its risk portfolio to municipalities seeking to invest in the SRBTF- she wants to encourage municipalities to invest but ensure that they have realistic expectations about these risks. Mr. Todisco stated that he always emphasizes that PRIM has a more aggressive investment strategy aimed at meeting the actuarial rate of return assumption in order to maximize results and help close the pension funding gap. Ms. Hedderman thanked him and further explained that she wants to make sure that our outreach reflects the services offered.

Mr. Tow departed the meeting at 9:55am.

V. Operations Report

Municipal Contracts

Mr. Todisco thanked Mr. Moyer on his continued outreach efforts and additional follow-up. He looks forward to further work on outreach to additional entities identified by Mr. Moyer's research. Mr. Moyer stated that he had been hoping to have both the Town of Dalton and the Nashoba Regional School District applications approved today, but Dalton asked to be moved so Nashoba is the only entity ready for today.

Mr. Fox stated that Nashoba Regional School District is a client of his firm for other purposes, but he did not participate in the drafting of their documents or preparing the submission to the

SRBTF Board. He advised that all of their documents are complete except for a signed investment agreement.

Mr. Moyer advised that he had been in communication with Nashoba and they are waiting on suggested language from their counsel. The Chair confirmed with Mr. Fox that Nashoba has the required minimum investment amount, and Mr. Fox further explained that any changes requested by Nashoba in this agreement would likely be technical and not substantive. Ms. Hedderman clarified with Mr. Fox that he had not reviewed any language from Nashoba and thus could not definitively advise that the agreement would be sufficient. Ms. Hedderman further stated that she was unsure about voting on Nashoba with the current status. Mr. Fox suggested that the Board could vote to approve Nashoba subject to receiving an acceptable signed investment management agreement.

The Chair asked whether the Board should consider moving this vote until October. Ms. Hedderman asked if everything else is in order, and Mr. Fox stated that they had taken the necessary votes and have all their other documents submitted. Ms. Hedderman stated that she would be comfortable voting on this if Mr. Fox is able to review the agreement when finished.

On a motion made by Mr. Connarton and duly seconded by Ms. Hedderman, the Trustees approved the following

VOTED: To approve the Investment Agreement between the SRBTF Board and the Nashoba Regional School District and to accept the Nashoba Regional School District as a participating unit in the SRBTF subject to receiving an acceptable signed investment management agreement approved by SRBTF Counsel.

Municipal Outreach

Mr. Moyer discussed the outreach plan distributed to the Board members earlier this week. The first three parts have already been completed, such as updating the SRBTF website and re-engaging with previously interested entities.

Part C of this memo contains the first proposal for further action, which would be working with the auditors to develop a statewide price for OPEB valuations. Mr. Moyer has obtained PERAC's data which lists at least ten different auditing firms that municipalities use, though he is unsure of exactly how frequently they conduct a full bidding process.

Ms. Hedderman stated that municipalities can access the statewide contracts but does not believe that the Board should have a role in the contracting process. This could create the appearance that the Board is favoring certain vendors and could create capacity issues for existing vendors.

The Chair asked whether the Board could provide informational services for entities seeking to begin the contracting purpose such as a list of potential vendors. Ms. Hedderman stated that this would constitute a referral and given that the SRBTF is competing against other firms offering similar services, the Board needs to be careful in expanding its role.

Mr. Moyer brought the Board's attention to the Service Evaluation survey in the packet to be distributed to current SRBTF participants and asked whether the Board would want this information. Ms. Hedderman stated that the information to be collected here would not otherwise be helpful and would not want to proceed unless the Board had a specific mandate to do so. Mr. Moyer asked the Board if there were any further questions on Part C and stated that he would not move forward with this proposal given the feedback.

Mr. Moyer then moved on to Part D of the Outreach Memo, outlining two additional sample documents that the Board could potentially provide to interested municipalities. The first would be a sample certificate of appropriations, which would allow entities to show their record of previous appropriations and streamline the approval process for Mr. Fox. The second document that could potentially be created is a sample Trust Agreement. This issue emerged when Dalton was preparing their documents, as they had many of the votes documented but did not have a trust agreement and asked for samples. Mr. Moyer stated that Mr. Todisco had advised him that in the past they would send municipalities that asked for assistance drafts of current SRBTF members, and as such Mr. Moyer had sent several versions to Dalton.

Ms. Hedderman stated that entities should when necessary engage their own counsel to draft Trust Agreements and conduct the due diligence that they need. Because entities are not hiring the Board to draft these documents, there is a potential conflict of interest that should be avoided.

Mr. Fox agreed with Ms. Hedderman and stated that there wouldn't necessarily be a legal issue with the Board providing Trust Agreements that have already been approved, but having the towns draft their own Trust Agreements is a more appropriate course to take.

Ms. Hedderman stated that the Board could be perceived as liable should language in a sample agreement negatively impact a municipality and suggested that instead of providing a sample the Board should instead refer entities to those that have been previously approved for samples.

Mr. Moyer asked the Board if going forward he should not provide any previously approved Trust Agreements. The Chair expressed concern that these documents had not been previously vetted and agreed that the Board should encourage entities to perform their own due diligence. The Board can refer entities to those that are similar but should not otherwise be involved. Mr. Moyer agreed that he would not provide previous Trust Agreements going forward without additional Board guidance and will work with Mr. Fox to draft an acceptable Appropriations summary as described previously.

Mr. Connarton thanked Mr. Moyer for his work on this memo and asked whether there was any issue with the Board putting together a single document with all information enclosed for entities. Ms. Hedderman agreed and would like to assemble a marketing packet that would have all the information that municipalities need to get started. As entities will eventually be required to assess their liabilities and develop plans to address them, the Board's outreach should be indirect and focused towards making sure interested parties have all the information they need.

Mr. Moyer brought the Board's attention to Parts E and F of the Outreach Memo as well as the Google Forms drafts in the packet. These forms would be used as part of an email outreach campaign, with the first form (*Municipal Interest*) allowing entities to express interest and give the Board an idea of where they are, while the second form (*Municipal Submission*) would allow entities to submit all of their documents in one place. This submission form would also allow the documents to be batched up more easily for distribution to Board members.

The email outreach campaign would consist of Mr. Moyer composing a form email to those entities that have not received information about the SRBTF with all of the details and a link with all of the documents and interest survey form. He has identified a list of over 700 entities, at least three-quarters of which have no previous connection with the SRBTF or PRIM. This outreach campaign would begin with a smaller number of municipalities as a test, then would be staged over the next year as to not overwhelm the Board's capacity to consider submissions. He would like to begin this outreach after this meeting and then report back at the October meeting with any progress.

Ms. Hedderman believes that the outreach idea is excellent but is concerned about certain elements. The marketing language should be carefully composed to ensure the Board is not over-promising.

Mr. Moyer stated that there is existing language that is currently up on the website and that the Board has previously reviewed.

The Chair stated that the Board should review this language at the October meeting if more direct outreach is to be done.

Ms. Hedderman would also like the Board to consider to whom the outreach will be conducted and would prefer initial outreach to a wider audience. Lastly, she is also concerned that the Google platform does not provide sufficient security for the documents being sent and would like to ensure the Board is not liable for potential misuse of information in those documents.

Mr. Fox stated that he would not know enough from an information-technology perspective to recommend to the Board whether Google is secure enough.

Ms. Hedderman clarified with Mr. Fox that the documents that the Board requests are in fact public records. Ms. Hedderman would like to make sure account numbers and other sensitive fiscal information is redacted before they are sent over any unsecured platform.

The Chair thanked Mr. Moyer for his work on this memo and asked the Board if there were any additional questions. Mr. Moyer stated that he will incorporate the Board's feedback and come back with an updated plan in October.

Ms. Hedderman would also like Mr. Todisco and PRIM to review the current marketing language and allow the Board to approve it in October.

Mr. Moyer asked whether the Board would like to allow PRIM to market the SRBTF to existing retirement participants. Ms. Hedderman stated that she would like to see more detail before addressing that question.

VI. Evaluation of SRBTF Staff Position

The Chair brought the Board's attention to the matter of evaluating the SRBTF staff position. The Board had received evaluation forms at the June meeting to be used for assessing Mr. Moyer's performance. The Chair stated that Mr. Moyer has shown initiative since beginning in October 2017 and has operated with a great deal of independence. Even though Mr. Moyer works on a part-time basis, he is reliable and consistent which allows Mr. Favorito to focus on his Retirement Board duties. His work on outstanding issues such as record retention, internal controls and outreach have made Board operations more effective.

The Chair asked whether the Board would like to individually review their feedback or just allow him to combine the evaluation forms and discuss this with Mr. Moyer. Mr. Fox suggested that the Board could discuss it and then come up with a master evaluation form that the Chair could review with Mr. Moyer.

Mr. Connarton felt that the form was effective for assessing Mr. Moyer's performance, and that the Board would ultimately have to rely on the Chair's feedback to conduct a performance evaluation. He believes that Mr. Moyer has shown great initiative and has a technical expertise that allows him to be more effective.

Mr. Gervasio agreed and further stated that Mr. Moyer has effectively demonstrated an ability to take constructive criticism.

Ms. Hedderman stated that the Board depends on Mr. Moyer to do its work and that he does an excellent job at these functions.

Mr. Moyer thanked the Board for their confidence and would like to continue working with the Board to further define core operations and expand where there is a clear role. Mr. Moyer

stated that he intended to also begin work on a guide to his duties with the vision of ensuring that there are clear instructions should this role pass on to a future SRBTF employee.

The Chair asked whether the Board would like to advise on a potential pay adjustment for Mr. Moyer. Ms. Hedderman stated that it would be difficult to advise given their current knowledge and asked the Chair to provide a recommendation at the October meeting. The Chair agreed to this and may reach out to individual Board member to discuss practices at their own agencies.

The Chair asked Board members to provide their evaluation forms to him if they have provided all the written feedback they have, and he will work to summarize them and review with Mr. Moyer. Mr. Fox believes that this should be sufficient for public meetings purposes.

VII. Administrative Issues

A. Legislative Update

There were two transfers to the SRBTF from the Stabilization Fund from capital gains tax revenue received by the Commonwealth pursuant to G.L. c.29, §5G. These deposits were about \$25 million in total and have been transferred to PRIM.

The signed FY19 state budget allocates 10% of the tobacco transfer to the SRBTF.

House Bill 2578 had been proposed in 2017 to add two members to the SRBTF Board including one individual from the Massachusetts Municipal Association. The Legislature put this bill into a study order last month and likely will not take further action this session.

B. Internal Controls Update

Mr. Moyer stated that the Board had approved a provisional Internal Control Plan at the June meeting, and the revisions sent out to the Board for this meeting reflect suggestions made by the Comptroller's office to this draft. He has incorporated some of them, but others were not included because they would require a separate risk evaluation meeting. Mr. Moyer is happy to coordinate this if the Board would desire it but does not believe it to be necessary as the current list of risks should be an accurate reflection of the Board's current operations. The Chair agreed that the risk schedule was sufficient but would like the use of Google Drive to be eliminated.

On a motion made by Mr. Connarton and duly seconded by Ms. Hedderman, the Trustees approved the following

VOTED: To approve the suggested amendments to the Internal Control Plan as final.

Mr. Moyer stated that Ms. Beth Hemond from CTR had suggested that the Board would want to consider a review of by-laws for potential update. Ms. Hedderman asked Mr. Fox if he believed anything in the by-laws should be changed. Mr. Fox stated that he does not believe anything needs to be changed imminently, but the Board could certainly consider operational changes.

C. SRBTF Meeting Calendar, Times

The next Board meeting is scheduled for October 4th, 2018.

The Chair asked if the August 15th date in the calendar referred to the statewide audit. Mr. Moyer stated that it did. Ms. Hedderman asked whether SRBTF is part of the statewide audit. Mr. Moyer stated that the Board does pay a fee as part of this process but is not sure exactly how SRBTF is evaluated. He will look into this more and report back to the Board.

D. FY 2018 Budget

Mr. Moyer stated that the budget summary distributed with the agenda has all transactions from FY18. There is still one chargeback that has to be issued and approved and this is reflected in the materials.

VIII. Other Business

Mr. Favorito stated that SRBTF had been notified Ms. Theresa Flynn has been appointed by the Governor to replace Mr. Finn as his term had expired. Mr. Moyer will draft a letter for the Board to sign thanking Mr. Finn for his service on the Board.

IX. Adjournment

There being no further business, the Trustees on a motion was made by Mr. Connarton and duly seconded by Mr. Gervasio, voted to adjourn the meeting at 10:54am.