



Commonwealth of Massachusetts State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

Deborah Goldberg · Michael Heffernan · William McNamara · John W. Parsons
Matthew Veno · Theresa Flynn · Michael C. Tow, CFP

State Retiree Benefits Trust Board of Trustees Minutes of the Meeting of December 3, 2021 *as approved at the 02-11-22 meeting*

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Friday, December 3, 2021 via remote participation pursuant to the Open Meeting Law, G.L. c.30A, §20, as amended.

A quorum being present the meeting was called to order at 9:31 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, Bill McNamara, Frank Gervasio, James Rust, 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 Matthew Feeney of Murphy, Hesse, Toomey & Lehane, LLP (“MHTL”); Francesco Daniele and Emily Green of the Pension Reserves Investment Management Board (“PRIM”); Howard Merkowitz and Pauline Lieu of the Massachusetts Comptroller’s Office (“CTR”); Phillip Souzek of Deloitte; Jennifer Gonzalez, Edward Adelman, Kristin Murphy and Erin Gibbons of the Massachusetts State College Building Authority (“MSCBA”).

I. **Approval of the August 12, 2021 Meeting Minutes**

The Chair turned to the minutes of the August 12, 2021 meeting.

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

VOTED: To approve the minutes of the August 12, 2021 Board Meeting.

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

II. Investment Report

The Chair invited Mr. Daniele to update the Board on PRIM performance and the financial markets. Mr. Daniele welcomed the MSCBA representatives and outlined the client relationship between SRBTF and PRIM.

Mr. Daniele noted that PRIM had recently reached a benchmark value of over \$100 billion dollars in value. This is a remarkable increase in value considering that the fund also pays out retirement benefits at the same time as earning returns on investments. In the last quarter, the PRIT fund was up 2.4% despite global markets posting modest losses. Emerging market returns were negative while domestic and developed markets were flat in recent months. Growth areas include private equity, real estate and value added fixed income.

PRIM's philosophy is that a basis point of cost savings is worth more than a basis point of returns. Markets more recently have been strong, though missed expectations about GDP growth point to potential instability. This potential instability may also be magnified by the emergency of the Omicron variant, which PRIM is keeping a close eye on. Other challenges to take note of is the Federal Reserve beginning to respond to signs of inflation as well as greater turnover in the employment market. PRIM is still working to understand whether the current inflation is transitory or a symbol of a greater economic shift but remains confident that the investment portfolio is well-equipped for both scenarios.

Mr. McNamara stated that PRIM's performance is impressive and the degree of this year's gains relative to the benchmark shouldn't overshadow years of consistent compounding growth and benefits to the Commonwealth.

As of September 30, 2021, the combined SRBT Fund assets were \$2.82 billion. 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 September 30, 2021 was 24.8% versus 16.5% (benchmark); 3-year 11.6% versus 9.5% (benchmark); 5-year 11.1% versus 9.3% (benchmark); and 10-year 10.3% versus 9.3% (benchmark). Since the fund's inception in 2001 PRIM has achieved a positive 8.0% return versus the benchmark of 7.1%.

III. FY21 OPEB Valuation

The Chair thanked Mr. Merkowitz and Ms. Lieu from the CTR as well as Mr. Souzek from Deloitte for joining the meeting to review the valuation. The Chair clarified that the report is still in draft form, and Mr. Merkowitz advised that the report should be ready for distribution by next week.

Mr. Merkowitz reviewed the valuation, highlighting a \$4.7 billion reduction in the overall liability from \$20.7b to just under \$16 billion as of June 30, 2021. This is net liability, which incorporates the valuation of current benefits minus projected growth in current assets. Much of the decrease in the current net liability was driven by changes to the mortality rate of current retirees as well as changes to the discount rate from performance and additional investments in the Trust from the Commonwealth. Other contributors include rebates from pharmacy benefit managers as well as updated projections based on claims data.

Mr. Gervasio asked for some additional context on the reasons for this reduction, specifically around the prior claims reductions and pharmacy rebates. Mr. Souzek noted that pharmacy benefit rebates are particularly difficult to project as the number from year to year can be very volatile. The number in the valuation is an estimate based on previous experience, but the shift in the liabilities reflects a buildup of rebates from the past year. Going forward, the estimates for these rebates may be less conservative because the Commonwealth's pharmacy benefit manager has been meeting the rebate projections.

Mr. Gervasio followed up to confirm that the liability is decreasing both because of cost savings and updated claims data. Mr. Souzek stated that this is correct. Mr. Merkowitz reminded the Board that the figures in the report reflect present values of the liability that the Commonwealth is obligated for.

The Chair asked the presenters to clarify how the discount rate was reduced. Mr. Merkowitz stated that it is a mechanical adjustment reflecting changes in Government Accounting Standards Board (GASB) standards, as well as additional prefunding from the Commonwealth. If there were no assets in the Trust, the discount rate would be lower. Likewise, the better that assets perform each year, the more years of benefit payments you are allowed to present value at a higher discount rate.

The Chair thanked Mr. Merkowitz for his presentation and the GIC and Deloitte for all their work on putting this together.

IV. Operations Report

Municipal Contracts

Mr. Daniele stated that MassPRIM is continuing to reach out to existing retirement clients to learn about their OPEB needs. Mr. Moyer added that he is not aware of any entities currently in the pipeline. The Chair stated that many local governments likely have a surplus of revenue right now, and it could be a favorable period for those entities to address long-term liabilities such as OPEB, and to approach the Board to invest.

Massachusetts State College Building Authority

The Board turned to the pending application of the MSCBA. The Chair asked Mr. Feeney to review the status of the submission, and invited Ms. Gonzalez or Mr. Adelman to add any additional insight into the discussion.

Mr. Feeney stated that MSCBA has taken most of the steps needed to have a complete package, but they still need to have the trustee execute the Declaration of Trust which will occur later in the day. He believes that the Board could act today to admit the MSCBA, but since the Trust is a foundational document he does want to note the situation. He thanked Ms. Gonzalez and Ms. Gibbons for their cooperation in ensuring everything was up to form and all the required procedural steps have been taken other than this last step.

The Chair asked the representatives from MSCBA to confirm what Mr. Feeney said, and Ms. Gonzalez and Ms. Gibbons stated that this was correct and they expected final execution of the Declaration of Trust in the afternoon. Mr. Feeney stated that the initial investment of \$100,000.

Mr. McNamara asked how unusual it would be for this Board to take up this application as is. Mr. Feeney stated that he has not encountered this situation with this Board, but it is not unusual for this to be encountered with other boards. Further, he does not believe there is any risk to the Board to take this action so long as there was a contingency. The Chair agreed, stating that the agreement can be held if there are any issues. Mr. McNamara stated that his concerns had been satisfied.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the Massachusetts State College Building Authority, and to accept the Massachusetts State College Building Authority as a participating unit in

the SRBTF as of March 3, 2022 subject to receipt of a properly executed and effective Declaration of Trust.

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

PRIM-SRTBF Investment Services Agreement Update

The Chair asked Mr. Moyer to summarize the matter. As included in the meeting materials the original Investment Services Agreement between PRIM and the SRBTF was executed in 2014 and outlines the services to be provided by PRIM to SRBTF. In the proposed update to the 2014 Agreement PRIM has proposed an updated fee structure and description of the services provided to SRBTF clients and outreach.

The updated fee structure would increase the minimum fee from \$35,000 to \$65,000 for the Board's first 80 clients, increasing by \$750 for each additional client thereafter.

Mr. Daniele reminded the Board of the reduction (?) change in PRIM's investment fees to a fixed fee with its custodian bank.

Mr. Feeney confirmed that he had reviewed the language and he had no concerns with the language. Ms. Hesse stated that the Board could use this opportunity to do a full restatement of the agreement over coming meetings.

Mr. Parsons asked if these fees are standard across retirement clients. Mr. Daniele confirmed that the fees would be additional to existing retirement clients. Mr. Parsons further asked about the timing of the change. Mr. Daniele explained the contract would become effective after January and continue until further negotiated in the future. Ms. Hesse stated that the contract agreement continues year after year unless the parties notify each other.

Mr. Moyer added that the SRBTF is statutorily mandated to work with PRIM, and this contract formalizes this arrangement. The Chair suggested that the Board could ask for additional language to include a notice period before any contemplated fee changes. Mr. Daniele responded that there is already language here, and Mr. Moyer provided the Board members with the exact language in the current agreement.

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

VOTED: To authorize the Chair to execute an updated Investment & Administrative Agreements with MassPRIM for an updated fee as discussed.

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

The Chair thanked Mr. Daniele for bringing this to the Board's attention.

V. Administrative Issues

A. Legal Services Procurement Update

The Chair asked Mr. Moyer to provide an update to the Board regarding the legal services contract. Mr. Moyer pointed the Board to the memo included in the meeting materials which outlined the work of the procurement team to make sure the bid notification was distributed. The Board's procurement received one response from the incumbent, MHTL, and after conducting a best value analysis the procurement team determined that it was in the Board's interests to continue working with MHTL. After holding a meeting with Ms. Hesse and Mr. Feeney in early November, he is bringing this proposal before the Board to consider a renewal.

Mr. Moyer stated that MHTL has provided quality services at a significant cost savings as compared to the Board's previous legal services vendors. Mr. Moyer stated that his memo recommends a three-year renewal with three one-year options to extend after that. The fee is a small increase on current values and the exact number is determined by how many meetings the Board holds next year.

Mr. Parsons asked if the potential for a six-year contract is in line with the procurement guidelines and whether six years is too much without competitive bidding. Mr. McNamara stated that he is not sure and would have to discuss this with a member of his team. Mr. Moyer stated that the guidelines mostly gave agencies more discretion with smaller contracts, which this procurement is well within the range of the smaller end. Mr. McNamara suggested that the guidelines more focus on the size of the contract rather than the content of the services and the market of providers.

The Chair asked whether the number of meetings is relevant to the amount of the contract. Mr. Moyer stated that the current contract fee is based on five meetings per year and MHTL has already demonstrated flexibility here. They have proposed a number of scenarios and the Board can adjust based on that separate decision. Ms. Hesse confirmed that MHTL will work with anything the Board requests.

The Chair thanked MHTL for their services and agreed with the proposal to extend the contract.

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

VOTED: To authorize the Chair to execute a three-year contract for legal services with Murphy, Hesse, Toomey and Lehane.

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

B. Legislative Language

The Chair turned the Board's attention to the proposed technical changes to the SRBTF's statute and asked Mr. Gervasio if there might be an opportunity to include proposed changes. Mr. Gervasio responded that he is not aware of any opportunities coming in the near future but will follow up and direct any clarifications to the Chair and Mr. Moyer.

C. SRBTF Calendar, Meeting Times

The Chair asked Mr. Moyer to update the Board on the proposed schedule. Mr. Moyer stated he is trying to develop a meeting schedule to reduce the need to reschedule Board meetings. Mr. Moyer proposed the Board hold four meetings per year aligned to PRIM's Board and committee meeting schedule. This will allow PRIM's reporting to the Board to follow their own schedule, and will also align with the Board's own needs to elect a chair, set a spending plan and approving a GIC transfer schedule. This schedule also does not conflict with the Board's obligations to timely approve municipal submissions.

The Chair asked the Board if there were any questions or concerns with the proposed schedule. Hearing no objections, this schedule will be considered adopted. Mr. Moyer will circulate meeting invites next week for the 2022 calendar year.

D. SRBTF Employee Evaluation

The Chair turned to Mr. Moyer's employee evaluation. He thanked the Board members who were able to provide feedback and explained that the evaluation circulated to the Board had been shared with Mr. Moyer.

The Chair thanked Mr. Moyer for his work and his capacity to deal with the administrative tasks needed to make sure the SRBTF meets its obligations. The Chair asked the Board to consider adjusting Mr. Moyer's compensation retroactively to July 1st and provided his salary history and adjustments the Board had previously provided. Mr. Parsons asked what the most recent adjustment was. The Chair stated this was 3% increase for FY2019. Mr. McNamara provided the cumulative salary updates across the executive branch for the last two years and suggested a retroactive increase in the line with 4.55%.

Mr. Parsons added that he relies on Mr. Moyer for communication updates and appreciates his work, so would support an increase in line with Mr. McNamara's suggestion. Mr. McNamara recommended given the time that has passed since the last adjustment in 2019, a 4.75% increase might be reasonable. The Chair agreed and asked for any additional comments regarding the amount.

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

VOTED: To authorize a 4.75% increase in the SRBTF Program Coordinator's salary effective for FY22.

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

Mr. Moyer thanked the Board for their continued support.

VI. Other Business

There was no other business raised.

VII. Adjournment

There being no further business, a motion was made by Mr. Tow and duly seconded by Mr. Parsons, to adjourn the meeting at 11:02 a.m.

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