



Commonwealth of Massachusetts

State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

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State Retiree Benefits Trust Board of Trustees

Minutes of the Meeting of

December 5, 2019

as approved 2/6/20

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was held on Thursday, December 5, 2019 in the Crane Conference Room in the Offices of the State Treasurer on the 12th floor of One Ashburton Place, Boston, Massachusetts.

A quorum being present the meeting was called to order at 9:35 a.m. SRBTF Board members or designees present for all or part of the meeting were: Chair Nicola Favorito, Andrew Maylor, Jim Rust, and John Parsons & Theresa Flynn. Frank Gervasio 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 and Simone Shapiro of Murphy, Hesse, Toomey & Lehane LLP ("MHTL") and Paul Todisco, Francesco Daniele, and Emily Green of the Pension Reserves Investment Management Board ("PRIM").

I. Approval of the August 1st, 2019 Meeting Minutes

The Chair turned to the minutes of the August 1, 2019 meeting. Mr. Moyer noted that Mr. Todisco had brought up a minor change- PRIM had been named as having the number one private equity portfolio by the American Investment Council.

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

VOTED: To approve the minutes of the August 1st, 2019 Board Meeting as amended.

Mr. Rust – Yes

Mr. Parsons—Yes

Mr. Maylor —Yes

Mr. Gervasio — Yes

Mr. Favorito – Yes

Ms. Flynn abstained

II. Investment Report

Mr. Daniele delivered the market report and noted:

Worldwide economies continue to slow, some are already in recession, and GDP growth in the U.S. is expected also to continue its decline. Third calendar quarter U.S. GDP growth was 1.9%, down from 2.0% in the second quarter of 2019, and was slightly higher than estimates, mainly due to a solid increase in federal government spending. The 1.9% third quarter GDP growth is down from the more than 3% reported in first quarter. Consensus estimates for the fourth calendar quarter and into 2020 continue to anticipate a continued slowdown. The current consensus is for quarterly GDP growth to bottom at approximately 1% in 2020 before rising again in 2021.

Recent economic data has been mixed. For example, the Institute for Supply Management (ISM) manufacturing index of 48.3 in October remains below the 50 threshold that separates expansion from contraction. However, recent jobs reports were more positive. The Labor Department reported that 128,000 jobs were added in October, well above the expectation of 75,000. The unemployment rate fell (0.2%) to 3.5% in September, a 50-year low, yet even with the positive surprise, job growth is weakening, it is below previous levels and below the average monthly rate of more than 160,000 in 2019.

Consumption growth slowed to 2.6% from 4.6% in the second quarter and with job growth slowing from previous levels, further moderation is expected. US retail sales fell in September for the first time in seven months and PRIM awaits the coming holiday selling season to provide a good reading on the health of the consumer. Central banks around the world, including the US Federal Reserve Bank, have shifted to an accommodative stance. The Fed lowered a quarter of a percent last month to a range of 1.50% to 1.75%, the third cut this year. Rates were cut 25bps in July and again in September. The Fed is not expected to lower rates again this year.

Despite ongoing geopolitical concerns, the S&P 500 index is making regular new all-time highs, while international equities are likewise rebounding. Bond yields are off their lows for the year, but these ultra-low levels continue to indicate a lack of confidence in the global markets. PRIM

will be watching closely in the coming months for confirming data to support the recently rising equity markets. Something to watch closely is the widely held belief that the consumer is healthy, but there are already some worrisome signs. The PRIM Investment Committee will be watching closely for confirming data to support the rising equity markets and continues to hold that the carefully constructed PRIT Fund asset allocation will enable strong performance regardless of how markets behave.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 5.6% versus 4.2%; 3-year 8.3% versus 7.8; 5-year 7.0% versus 6.6%; and 10-year 8.8% versus 8.0%. Since the fund's inception in 2001 PRIM has achieved a positive 7.5% return versus the benchmark of 6.7%.

As of September 30th, 2019, the combined SRBT Fund assets were \$1.863 billion and had gained 11.6% (gross of fees) and 12.8% as of October 31st for the calendar year.

III. Operations Report

Municipal Contracts

The Chair invited Mr. Moyer to present the entities up for consideration. Mr. Moyer stated that Town of Bellingham had intended to submit materials for today's meeting but was not able to submit all the documents by close of business on Wednesday. He will follow up and encourage Bellingham to resubmit in February.

Municipal Outreach

Mr. Todisco stated that he is working with some entities to prepare submissions, including the towns of Stoneham, Winthrop and Weston. Mr. Moyer also mentioned a recent inquiry from the city of Lawrence, which already is involved with PRIM through their retirement fund. Mr. Todisco discussed a point of clarification as to whether a town that had already accepted 32B would need to again if they were to join the SRBTF. Ms. Hesse stated that the town should be fine so long as the language was worded correctly.

The Chair asked Mr. Moyer whether any other entities are in the pipeline. Other than those that Mr. Todisco is fielding, Mr. Moyer is aware of the Quabbin Health District. Ms. Hesse spoke with an attorney from Quabbin about preparing paperwork for submission.

Mr. Maylor asked whether local entities are generally familiar with the requirements to prepare their submissions to the Board. Mr. Moyer stated that there is a webpage with all the Board's instructions and model documents available; and Mr. Todisco sends this link out to interested entities. Mr. Moyer also suggests that individuals read that page and reach out to him for more information.

Outreach Letter

Mr. Moyer discussed his draft letter that would be sent out to current SRBTF participants. The aim of the letter would be to outline the success of the Fund, and to remind participants to appropriate an amount to meet annual OPEB obligations for the coming budget year. The target for this letter would be to go out in early January. He is happy to hear any feedback from the board as to content and method of delivery.

Mr. Maylor asked who the decisionmakers usually are for OPEB. Mr. Todisco stated that the treasurers and finance directors are usually custodians, with town managers and accountants also being involved. The Chair asked members to give any feedback on the proposed letter they might have to Mr. Moyer so that he can revise and send out. Mr. Maylor suggested that sending it out after the holidays would be a good time to get attention.

IV. Administrative Issues

A. D&O Insurance

The Chair asked Mr. Moyer to outline the insurance procurement. The Board has both a Directors and Officers insurance as well as a Fiduciary policy and has used Gallagher Associates since 2009 as its broker. Historically the Board has voted to give the Chair the authority to negotiate a contract, after which Mr. Moyer will complete the forms in order to get quotes.

Ms. Flynn asked how much the Board pays in premium. Mr. Moyer responded that the policies usually cost around \$20,000 with a small commission. The Chair described that he and Mr. Moyer usually need to work with the broker to make sure they understand that the SRBTF has no discretion over investing and thus receive the correct coverage. Ms. Hesse asked if the coverage includes a fidelity bond, which is recommended if staff are handling funds directly. The Chair does not believe that the Board's coverage has this component.

Ms. Flynn offered to look over the current policy, and the Chair asked Mr. Moyer to provide her with the needed information to provide a recommendation to the Board. Mr. Moyer will also look if there are any contractor already certified to provide these services on the statewide contract system. Mr. Rust stated that the GIC also has similar insurance and can provide the list of bidders on that contract.

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

VOTED: To authorize the staff to investigate alternative insurance brokerage options and to report back at the February meeting.

Mr. Rust – Yes
Mr. Parsons—Yes
Mr. Maylor —Yes
Ms. Flynn- Yes
Mr. Gervasio — Yes
Mr. Favorito – Yes

B. OPEB Valuation Update

The Chair reported that he is not aware of any updates on the OPEB report or that it has been finalized. He will update the Board accordingly.

C. Legislative Update

Mr. Moyer stated that the bill to add two voting members to the Board, H2347, has not received any additional consideration in recent months.

The supplemental budget includes an additional 20% of the tobacco settlement going to the SRBTF, which would boost the state's investment in OPEB to over \$100 million in FY19.

D. SRBTF Calendar, Meeting Times

The Chair pointed out the proposed dates for the Board to meet in calendar year 2020 and noted that the August meeting date should be the 6th not the 8th. The Chair proposed meeting at 9:30 a.m. for the February meeting, with no objections heard. Mr. Moyer will send out a new calendar update

E. Audit Requirement

The Chair asked Mr. Moyer to introduce the matter to the Board. The statute that sets up the Board requires that the SRBTF provide an independent audit “made available” to all participants by September 15th of each year. The Board does not contract for its own audit but participates in both the single statewide audit performed by the Comptroller's office and would be covered by the audit that PRIM contracts. While neither of these audits are available by the statutorily defined date, the Comptroller's office has advised in the past that the Board should be covered by their work.

The Chair had suggested to Mr. Moyer that he investigate this issue further, and he recommends that the Board consider several potential options, including a legal opinion indicating that CTR's work fulfills the audit requirement, working with the Legislature to fix the

date, or performing an audit that would in fact fulfill the requirement. The Chair suggested that MHTL could come up a recommendation for the Board.

Mr. Parsons asked for what the statute says exactly, which Ms. Hesse read out. She views the word “independent” as important as well as the date, which could suggest an independent review. She has not formed an opinion on how the Board should proceed but is sharing her initial thoughts.

Mr. Maylor clarified that the Comptroller hires KPMG to conduct their independent audit as found in the yearly CAFR, which Ms. Hesse stated would help satisfy her concern.

The Chair stated that CTR’s audit may not go deep enough to address the requirements of the statute, and the Board may need to work with CTR to provide more specificity to this contract. Mr. Maylor believes that the only challenge in the language is the timing and the Board should consider working with the Legislature to change this requirement and is willing to help get this include in the statewide audit from his office.

Mr. Todisco stated that the language requiring the earlier date is likely from the statute creating the Health Care Security Trust, the predecessor organization to the SRBTF for which he served as Executive Director. He worked with PRIM to conduct a separate audit which leveraged PRIM’s audit.

The Chair indicated a preference to have the date changed to something more realistic, with which Mr. Gervasio suggested he could assist. Mr. Maylor stated that the statute for the state CAFR is in mid-January, and any date change should align with that.

The Chair asked Ms. Hesse to formalize these options and come back to the Board with a recommendation for the next meeting. She thinks that getting the language changed is most straightforward option but will provide her opinion. Mr. Maylor stated that he believes that this audit need not include an operations component, while the Chair would be interested in determining whether the Board could have an auditor look into operations even if not on a yearly basis.

Ms. Hesse noted that PERAC has recently released a recommendation that OPEB boards engage private auditors on a regular schedule, and the Board should consider this when discussing how to move forward.

The Chair stated that for this year, the Board will rely on CTR’s previous policy that other audits cover the SRBTF’s statutory requirement. Going forward, the Board will look at other options to better comply with or adapt this language.

F. Legal Services Contract

Mr. Moyer stated that he did additional research on the documentation surrounding the legal services RFR issued by the Board in 2016 and found the relevant language on contract

instructions in a PMT memo sent out to the Board. He is again advising the Board to renew the contract with MHTL for another year, to end December 2020.

The Chair asked Ms. Hesse to look at the hours billed vs. the current flat fee arrangement to determine whether the Board is utilizing the relevant amount that it is paying for. Ms. Hesse will report back to the Board on this in February.

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

VOTED: To extend the legal services contract with MHTL to end December 31, 2020.

Mr. Gervasio — Yes

Mr. Rust – Yes

Mr. Parsons—Yes

Mr. Maylor —Yes

Ms. Flynn- Yes

Mr. Favorito – Yes

V. Other Business

None.

VI. Adjournment

There being no further business, a motion was made by Mr. Maylor and duly seconded by Mr. Gervasio, to adjourn the meeting at 10:50am.

Mr. Gervasio — Yes

Mr. Maylor —Yes

Ms. Flynn- Yes

Mr. Parsons—Yes

Mr. Rust – Yes

Mr. Favorito – Yes