



Commonwealth of Massachusetts

State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

*Theresa Flynn · Michael Heffernan · Dr. Roberta Herman · Deborah Goldberg
Andrew Maylor · John W. Parsons · Michael C. Tow, CFP*

State Retiree Benefits Trust Board

Minutes of the Meeting of

December 6th, 2018

As approved 4/4/19

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was held on Thursday, December 6th, 2018 at 9:06 a.m. 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 or designees present were: Chair Nicola Favorito, Jenny Hedderman, Margaret Byrne, Frank Gervasio, Theresa Flynn and Joe Connarton. Michael Tow participated remotely by phone. Pursuant to the Attorney General's open meeting law guidance all votes were by roll call, and all participants were notified that this meeting would be audio recorded.

Also present for all or part of the meeting were: Jeffrey Moyer of the SRBTF; Attorney Katherine Hesse of Murphy, Hesse, Toomey & Lehane LLP ("MHTL"); Paul Todisco and Francesco Daniele of the Pension Reserves Investment Management Board ("PRIM"), John Parsons of the Public Employee Retirement Administration Commission ("PERAC"), Marc Waldman of the Town of Wellesley, and Howard Merkowitz from the Comptroller's Office("CTR").

The Chair asked Ms. Hesse to update the Board as to the changes in MHTL's representation with the SRBTF. Ms. Hesse stated that Brian Fox has left the firm to pursue other opportunities, so she will be working with the SRBTF for the time being.

I. Approval of the October 4th, 2018 Meeting Minutes

The Chairman turned to the minutes of the October 4th, 2018 meeting. Mr. Moyer noted the updated version of the minutes sent out on Wednesday. The Chairman moved to add the amount of Dalton's OPEB assets (\$1.7 million) to the minutes.

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

VOTED: To approve the minutes of the October 4th, 2018 Board Meeting as amended.

Ms. Flynn —Yes
Ms. Byrne -- Yes
Mr. Connarton—Yes
Mr. Gervasio — Yes
Ms. Hedderman—Yes
Mr. Tow – Yes
Mr. Favorito – Yes

The Chair asked if there would be any objection to having Mr. Merkowitz taken out of order and present first.

II. OPEB Valuation

The Chair introduced Deputy Comptroller Howard Merkowitz. Mr. Merkowitz stated that AON (the Commonwealth's OPEB actuary) only provided a draft valuation on Wednesday, which is expected to be finalized before the end of the year. He was able to report that the Commonwealth's OPEB liability has gone down from \$19.7 billion as of June 30th, 2017 to \$14.9 billion as of June 30th, 2018. The main reasons for this reduction are lower than expected costs as well as changes in assumptions to the discount rate at which liabilities are calculated. The liability also was improved by increased returns from PRIM and a higher contribution by the state to the unfunded liability. Once finalized the report will be distributed to board members and will be formally posted by CTR.

Mr. Waldman observed the impact of the discount rate in Wellesley's situation along with the Town's prefunding efforts. The Chair asked if the cost reductions from benefit expenses is consistent with other years. Mr. Merkowitz stated that this year's report has a similar reduction seen in other years and when combined with data on better retiree health and longevity reduces the liability.

III. Investment Report

Mr. Todisco noted that he has updated the slide deck distributed with the meeting materials from last week.

Mr. Daniele delivered the market report. The fourth quarter has been weak, and volatility has returned – the volatility index, the VIX, spiked to more than 23 in November after reaching a low of 12 in September. The October 2018 downdraft was in part caused by another potential

European debt crisis which may spark a similar correction seen in the markets during mid-2014 through early 2016. The economic situation today is vulnerable but US GDP growth is growing at a 3.5% rate and the employment picture is bright while wages and inflation are rising. Until recently, the Federal Reserve seemed intent on raising rates one more time this year and had schedule in three more potential rate increases for next year. However, Chairman Powell indicated the three rate hikes penciled in for 2019 may not occur and short term the Fed may be more accommodative.

Domestically Mr. Daniele noted the U.S. is still posting solid GDP gains but even in the US, manufacturing is weakening. Tariffs and trade escalations are an additional negative for global growth. Additionally, most believe that a change in control of the U.S. House of Representatives because of the mid-term elections is not likely to impact or restrain the Administration's protectionist trade policies, and it seems increasingly likely that we will have two years of political gridlock before the next general election.

PRIM believes their investments are appropriately positioned for weakness in world equity markets. Their main focus during the past several years has been to reduce our global equity exposure while identifying diversifying assets, primarily in the Portfolio Completion Strategies allocation. However, it is important to note that the PRIT fund is not completely immune to a global equities downturn since to achieve long-term target return rate the investments are necessarily growth and equity focused.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 2.5% versus 1.7%, 3-year 7.5% versus 7.0, 5-year 6.9% versus 5.9% and 10-year 8.7% versus 8.5%. Since the fund's inception in 2001 it achieved a positive 9.5% return versus the benchmark of 6.5%. As of October 30th, 2018, the combined SRBT Fund assets were \$1.622 billion and had lost .3% for the calendar year.

Mr. Todisco noted that he has fielded several inquiries from member entities as to the impact of October's market corrections on their asset value. He emphasizes to any such inquiries the nature of PRIM's investment strategy to achieve mandated returns and the resulting exposure to more risky allocations. Mr. Connarton asked if he expects the overall year's returns to be as bleak. Mr. Todisco stated that there can often be a recovery during the month of December and it is too early to determine this for sure. In response to a question from the Chair, Mr. Todisco confirmed that the increase in the fund value came from new subscriptions as well as the Commonwealth's transfers.

Mr. Connarton noted the Treasurer's advocacy at the recent revenue hearing for adjusting the discount rate and ensuring that the ratings agencies improve their information. He believes that Commonwealth has taken many steps to improve the long-term financial picture, but this rarely makes it into print.

The Chair asked Mr. Todisco which localities had asked about the fund performance. Mr. Todisco stated that the questions came from Bedford and Middleton, and he will have the

opportunity to see them at an upcoming regional meeting. Mr. Todisco finished his time by thanking Mr. Connarton for his service and welcoming Mr. Parsons to the Board.

IV. Operations Report

Municipal Contracts

Mr. Moyer informed the Board that there are no municipal submissions for the Board to consider for this meeting. Several entities such as Byfield Water District and South Hadley Fire District #2 have expressed interest about submitting for the February or April meetings, while others are in the process of considering whether they would like to submit.

Municipal Outreach

Mr. Todisco noted Mr. Moyer's ongoing outreach work and has fielded responses from several entities that are ready to submit such as Greater Lowell Technology and Amherst-Pelham Regional School District. The Town of Groton has also recently expressed an interest in joining the SRBTF as a result of Mr. Moyer's outreach. Mr. Moyer stated that he had received an RFQ from the Town of Hanover and worked with Mr. Todisco to respond to it. He brought the Board's attention to the submitted responses distributed to the Board.

Mr. Moyer stated that he has contacted about 25% of the entities on the list given to the Board in October and plans on contacting the remainder prior to February. Given the timeframes in this process, it is likely to take months to see the effects of this outreach, but there have been a number of entities that have responded that they are taking a look at the Board's materials.

Mr. Moyer asked for the Board's feedback on the continued need for a minimum investment policy, noting that some responses cite this as a deterrent. Mr. Moyer also asked whether he should conduct follow-up at some point to these initial inquiries. The Chair believes that the Board should maintain the current minimum investment as is and the language on the website accurately reflects the capacity of the Board to accept entities with smaller investments. Mr. Connarton agreed and stated that given the process needed to invest, accepting those with a smaller amount may be counterproductive. He also suggested to Mr. Moyer that he should follow up at least once with the entities.

Mr. Waldman stated that the outreach should include some specific language as to PRIM's risk policy and portfolio and a caution against expecting results. The Chair stated that the current language is fairly generic, and Mr. Moyer stated that any inquiries he receives regarding performance are forwarded to Mr. Todisco. Mr. Todisco stated that PRIM reports returns on a mostly quarterly basis in order to avoid mixed messaging. For those interested in more detailed responses, PRIM points individuals towards the asset allocation policy and expected returns to give them full context on whether to invest.

Mr. Waldman further recommended that the outreach needs to also have a “marketing” component to encourage more submissions and attract attention. Mr. Parsons asked what the Board’s presence is with the MMA. The Chair noted that they used to come to meetings; while Mr. Waldman stated that they will be refiling the bill to add an MMA representative to the Board. He also updates the MMA on current activities when appropriate. Mr. Todisco has also presented to the MMA as well as the Treasurer’s and Collectors organization. The Chair stated that we can consider further work on this and is interested in seeing how responses evolve as time passes.

V. Administrative Issues

A. Legislative Updates

The Chair stated that he is unaware of any pending bills directly affecting the SRBTF, and Mr. Moyer will track any MMA bill that is filed.

B. SRBTF Calendar, Meeting Times

Mr. Moyer stated that he has not received any objections to the dates listed. The Chair asked the Board whether we should adjust the date or time of meetings, such as making the meeting later in the day. Ms. Hedderman suggest moving the meeting to 9:30am to help with traffic issues with no Board members objecting to this. The Chair stated that the Board will try this for the February meeting but will adhere to the dates listed on the schedule.

C. FY 2019 Budget Update

The Chair noted the update in the Board packet. Mr. Moyer noted the large increase in administrative expenses as a result of the back-pay increase from October.

D. D&O Insurance

On invitation from the Chair, Mr. Moyer detailed the renewal process for the Board’s Director’s and Officer’s insurance policy. The Board annually gives the Chair the authority to negotiate renewal. Last year there was a larger adjustment in rates due to a clarification on the Fund’s size with the fiduciary carrier. Mr. Moyer does not expect any other large changes in the premium this next year. The Chairman further explained that the insurance companies are often confused by the Board’s function and require reminders that the SRBTF has no direct investment responsibility.

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

VOTED: To approve the Chairman to negotiate with the insurance broker for insurance services.

Ms. Flynn —Yes
Ms. Byrne -- Yes
Mr. Connarton—Yes
Mr. Gervasio — Yes
Ms. Hedderman—Yes
Mr. Tow – Yes
Mr. Favorito – Yes

VI. Other Business

The Chair thanked Mr. Connarton for his service to the Commonwealth and the Board itself. Even if the Board is not a priority for his work, he still has been a diligent presence at meetings despite his responsibilities at PERAC. Mr. Connarton thanked everyone for their well wishes and has enjoyed his years working with his agency. He expects that Mr. Parsons will capably serve and looks forward to his retirement.

VII. Adjournment

There being no further business, a motion was made by Mr. Connarton and duly seconded by Mr. Gervasio, to adjourn the meeting at 10:17 a.m. Board members voted as follows:

Ms. Flynn —Yes
Ms. Byrne -- Yes
Mr. Connarton—Yes
Mr. Gervasio — Yes
Ms. Hedderman—Yes
Mr. Tow – Yes
Mr. Favorito – Yes