

Commission Meeting Minutes

July 12, 2023

Chairman Philip Y. Brown called the meeting (held at PERAC Offices, 5 Middlesex Ave., Somerville) to order at 11:05 AM. Chairman Brown acknowledged the other Commissioners participating: Kate Fitzpatrick, Kathleen Fallon, Michael Leung-Tat, Jennifer Sullivan, and James Guido. Commissioners Fallon and Sullivan participated remotely. Therefore, the Chairman explained, all motions made at this meeting will be voted on by roll call vote. The Chairman announced the meeting was being recorded. Commissioner Richard MacKinnon was not in attendance.

PERAC Staff in attendance: Executive Director John Parsons, Deputy Executive Director Caroline Carcia, General Counsel Judith Corrigan, Assistant Deputy Directors Ken Hill and Bill Keefe, Actuary John Boorack, Deputy General Counsel Patrick Charles, Associate General Counsel Felicia McGinniss, and Senior System Engineers, Robert Perez and K-Lone Steele. Communications Director Natacha Dunker, Fraud Prevention Manager Sandra King, and Compliance Analyst Sarita Yee participated remotely.

Guests attending remotely: Patrick Brock representing Hampshire County Retirement System, Tom Gibson representing the Belmont and Middlesex County Retirement Systems, Sean Neilon representing the Massachusetts' Teachers Retirement System, and Marie Lee.

Commissioner Guido made a motion to adopt the June 14, 2023 Commission minutes. Commissioner Leung-Tat seconded the motion, and a roll call vote was taken:

Chairman Philip Brown YES, Commissioners Jennifer Sullivan YES, James Guido YES, Kate Fitzpatrick YES, Kathleen Fallon YES, and Michael Leung-Tat YES and the minutes were unanimously adopted.

Investment Sub-Committee Update

Chairman Guido asked Mr. Parsons to explain to the full Commission the purpose of the Investment Sub-Committee meeting that was held earlier that morning. Mr. Parsons explained that the purpose was to discuss prior and present guidance regarding Chapter 32 Retirement Boards' use of Outsourced Chief Investment Officers (OCIO), G.L. c. 32, § 23B (procurement process), the Retirement Boards' fiduciary responsibilities, and compliance issues. He further explained that (following the passage of pension reform with Chapter 176 of the Acts of 2011, PERAC provided guidance to the boards in PERAC Memorandum No. 18 of 2014. That memorandum involves a discussion of Section 23B and the Boards' use of fund of funds (FOF), manager of managers (MOM) and Discretionary Managers (DM) otherwise known as OCIOs. Memo No. 18 of 2014 states in part that Boards are required to conduct an open, transparent and competitive bid process when hiring investment managers pursuant to Section 23B. The memorandum also outlines steps that Boards must take, to be in compliance with G.L. c. 32, §23B, if they are going to be hiring a FOF, MOM or DM.

A small number of Boards have entered into a contract with a limited OCIO, since the issuance of Memo No. 18 of 2014, and those contracts will be expiring soon. A new procurement will need to be issued. Commission staff believes that further guidance from the Commission is

necessary regarding whether Memo No.18 of 2014 is compliant with the procurement process specified in G.L. c. 32, §23B. Further, it is unclear whether the statute permits the use of OCIO's who would have discretion to hire investment managers without the Board having final authority and without the Board conducting a procurement search for each investment manager.

Mr. Parsons continued that PERAC has approved a small number of boards' use of limited OCIOs where either the OCIO only has authority over a particular asset class or where the OCIO operates its own investment funds, and the Board's assets are invested in those funds. Mr. Parsons explained that there was a concern about approving the use of a full OCIO as the Retirement Board would be delegating its authority to an outside firm and the board would have no say in the hiring of the investment managers. There is also the issue of the Board essentially delegating its fiduciary responsibilities to the OCIO. The primary question that the Commission needs to consider is whether an OCIO's hiring of a manager outside of the traditional G.L. c. 32 § 23B procurement process is allowable under the statute, and if so, consistent with PERAC policy and the Retirement Boards' duty of fiduciary responsibility.

Mr. Parsons explained that several investment managers and others attended the Investment Sub-Committee meeting earlier and provided comments regarding their business practices and current operations. They discussed potential conflicts between various OCIO models, depending on PERAC's determination and changes to the current application of Section 23B and Memo No. 18 of 2014. They also discussed transparency during the process for procurement of investment managers under an OCIO model.

Mr. Parsons informed the Commission that the Sub-Committee tabled the discussion and requested staff to provide further information on this matter for discussion at the September Commission meeting.

Legal Update

Felica McGinniss updated the Commission on her recent attendance at the National Association of Public Pension Attorney's (NAPPA) Conference, which was held from June 27, 2023 through June 30, 2023 in San Antonio, Texas. She indicated that the conference was well attended, the panel of presenters were very knowledgeable on the topics and overall, it was a great experience networking with other state pension attorneys and discussing trending issues. Among the issues addressed was the difficulty in hiring police officers, and the responses of different states and pension plans were wide ranging.

Legislative Update

Bill Keefe reported that all of PERAC's bills have been heard. He indicated that John Parsons testified before the Public Service Committee on H.13 An Act Providing for Statement of Financial Interest Flexibility, while Mr. Keefe had testified on H 2627/S1750 An Act Relative to Veterans' Buyback. He then explained that the FY24 state budget remains in Conference Committee and that an interim budget was signed for the month of July. He said that we continue to monitor the following three items: The Senate adopted a measure to allow active employees who stopped making contributions after age 70 pursuant to the now-repealed G.L. c. 32, § 90G3/4 the ability to buyback all their post age 70 service. The House budget included a change to an appointment on the PRIM Board where the Governor would make the appointment to the Public Safety seat based

on three nominations made by the MACRS Executive Board, and the House budget included language that would exempt the Executive Director of the Municipal Police Training Committee from post-retirement hours and earnings limits.

Audit Update

Caryn Shea reported that since the last Commission meeting, PERAC has released the Massachusetts Port Authority Employees' Retirement Board Audit with no findings. Ms. Shea explained the status of all audits as outlined in the Audit Tracking Log included in the Commission packet. She then told the Commissioners that she and Scott Henderson are preparing for their presentations for the Administrator's Training in August. She then reported that Audit staff continue to review the Annual Statements and work on the Annual Report.

Compliance Update

John Galvin stated that PRIM's return for May was -.40% with a fund balance as of May 31 of \$94 billion. The calendar year to date return through May 31 is 4.03%.

Mr. Galvin reported that there are two active board members who have still not filed their 2022 Statement of Financial Interest (SFI). He indicated that PERAC is reaching out to those members to offer assistance.

Finally, Mr. Galvin reported that it is likely that the Federal Reserve is considering raising rates by 2%, where it's low enough for the consumer and economy to thrive.

Executive Director's Report

Mr. Parsons discussed numerous staff activities since the last Commission meeting, which are highlighted in the meeting materials.

Mr. Parsons pointed out that included in the Commission packet is the final release of the State Audit Report of PERAC for the period July 1, 2019 through June 30, 2021. He acknowledged the staff at PERAC who participated in providing the Auditors with the information they needed. There were no findings in this Audit.

Mr. Parsons discussed the upcoming Administrators' Training being held on August 23, 2023 in Northampton. This is listed in PERAC MEMO No. 16 of 2023, the third quarter education training memo, which is included in the Commission packet. He further reminded the Commissioners that PERAC's Annual Emerging Issues Forum will be held on September 21, 2023 at Holy Cross College, Worcester and any Commissioners planning to attend, should contact us so we can take care of the registration.

Other Business

Chairman Brown announced that the next Commission meeting will be held on Wednesday, September 13, 2023 at 11:00 AM at PERAC offices.

Commissioner Guido made a motion to adjourn the meeting. Commissioner Fitzpatrick seconded the motion, and a roll call vote was taken:

Chairman Philip Brown YES, Commissioner James Guido YES, Commissioner Kathleen Fallon YES, Commissioner Kate Fitzpatrick YES, Commissioner Jennifer Sullivan YES and Michael Leung-Tat YES. Thus, the motion was unanimously adopted. The meeting was adjourned at 11:30 AM.

Commission Meeting Documents

Commission Agenda for the meeting of July 12, 2023

Commission Minutes dated June 14, 2023

Investment Sub-Committee Update

Memorandum to Commissioners dated July 12, 2023 from John Parsons regarding Investment Policy

PERAC MEMO #18/2014

G.L., C.32, §23B

“Procurement Overview” - PERAC Training Presentation

Legal Update

NAPPA Conference Agenda for June 27-30, 2023 San Antonio, TX

Legislative Update

Memorandum regarding Legislative updates

Audit Update

Audit Tracking Report

Compliance Update

Memorandum regarding Compliance updates

PRIM Summary of Plan Performance chart for the period ending May 31, 2023

Economy Article dated June 28, 2023– “Powell Says Fed’s Inflation Fight Could Take Years”

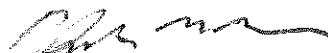
Executive Director’s Report

Staff Activities Memorandum

Official Audit Report of PERAC issued by State Auditor’s Office – period July 1, 2019 through June 30, 2021

PERAC MEMO #16/2023 – 3rd Quarter Education

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission