

Commission Meeting Minutes

September 13, 2023

Chairman Philip Y. Brown called the meeting (held at PERAC Offices, 5 Middlesex Ave., Somerville) to order at 11:10 AM. Chairman Brown acknowledged the other Commissioners participating: Kate Fitzpatrick, Richard MacKinnon, Michael Leung-Tat, Jennifer Sullivan, and James Guido. Commissioner 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 Kathleen Fallon 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, Senior System Engineer Robert Perez, Project Manager Anthony Tse, and Communications Director Natacha Dunker. Fraud Prevention Manager Sandra King and Compliance Analyst Sarita Yee participated remotely.

Guests attending in person: Frank Valeri representing the Massachusetts Retirees' Association.

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, Kathleen Kiely- Becchetti representing MACRS and Norfolk County Retirement System.

Commissioner Guido made a motion to adopt the July 12, 2023 Commission minutes. Commissioner Fitzpatrick seconded the motion, and a roll call vote was taken:

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

Commissioner Guido made a motion to adopt the July 12, 2023 Investment Sub-Committee minutes. Commissioner Brown seconded the motion, and a roll call vote was taken:

Chairman Philip Brown YES, Commissioners Jennifer Sullivan YES, James Guido YES, and Kate Fitzpatrick YES and the minutes were adopted. Commissioners Richard MacKinnon and Michael-Leung-Tat abstained.

Actuarial Update

Mr. Boorack discussed the results of the January 1, 2023 State Retirement Board Actuarial Valuation. He indicated that the Unfunded Actuarial Liability increased from \$12.8 billion to \$14.1 billion and the Funded Ratio decreased from 72.9% to 71.3% since the January 1, 2022 valuation. Mr. Boorack reported that the Investment return assumption remains the same as last year at 7.0%. He indicated that there was a loss on the actuarial accrued liability of approximately \$265 million partly due to pay for continuing active members increasing more than assumed. He explained that this loss is small compared to the overall liability, thus indicating that the assumptions used in the last valuation are working.

Mr. Boorack further explained that this report does not disclose the requirements under ASOP 4 and that such disclosures will be included in the January 1, 2024 valuation report.

Commissioner Kate Fitzpatrick made a motion to accept the results of the Draft State Valuation Report as of January 1, 2023 and release the final valuation report unless unforeseen results change the report dramatically. Commissioner Sullivan seconded the motion, and a roll call vote was taken:

Chairman Philip Brown YES, Commissioners Jennifer Sullivan YES, James Guido YES, Kate Fitzpatrick YES, Richard MacKinnon YES, and Michael Leung-Tat YES and the motion was unanimously adopted.

Legal Update

Felicia McGinniss updated the Commission on the case of *Kurt K. v. Hampden County Regional Retirement Board* ("Board"), CR-21-631, 22-117. Kurt K worked as a firefighter/EMT for the Agawam Fire Department from 2000 to 2020, and so was a member of the Hampden County Regional Retirement System. He also worked part-time as a firefighter/EMT for the Dalton Fire Department but was not a member of the Berkshire County Retirement System. This case involved Kurt K's application for both accidental and ordinary disability retirement, whether or not he was disabled as of his last day of work, and whether incidents which had occurred in the system in which he was not a member could form the basis of an award of accidental disability retirement. The Hampden County Board ultimately approved his ordinary application. PERAC remanded because it did not appear he was disabled on his last day of work. Hampden County then denied the ordinary application, and Kurt K. appealed both the denial of the accidental disability retirement application and the ordinary disability retirement application to the Division of Administrative Law Appeals ("DALA.")

On July 21, 2023, DALA issued a decision reversing the Board's denial of the application and PERAC's remand. The DALA Magistrate found that Kurt K should be awarded accidental disability retirement, that he was disabled on his last day of work, and that his disabling injury occurred in the system, Hampden County, of which he was a member. The Board has filed Objections to the DALA Decision with the Contributory Retirement Appeal Board ("CRAB").

Ms. McGinniss also updated the Commission on the case of *Janet Walsh & PERAC v. Reading Retirement Board*, CR-21-0135. Ms. Walsh, a retiree of the Massachusetts Water Resources Authority ("MWRA") subsequently became employed by the Reading Municipal Light Plant. As she was entitled to do, she applied to be reinstated to service pursuant to the provisions of G.L. c. 32, s.105. The Reading Retirement Board ("RRB") disputed the date her reinstatement should begin under the statute. PERAC issued two opinion letters to MWRA and RRB that Ms. Walsh's reinstatement date should be September 3, 2019, the date she completed her repayment agreement. However, the RRB would not change the date and argued the reinstatement date should be either December 20, 2019 when they determined that the installment plan was official or in the alternative, on January 22, 2020 when she fully repaid her previously received retirement allowance. DALA issued a decision reversing the RRB determination and affirming PERAC's determination that Ms. Walsh's date of reentry into membership should be September 3, 2019. While the RRB had initially filed both an appeal and a motion for reconsideration/clarification, the latter was denied while the former was withdrawn, and the DALA decision is now a final determination of CRAB.

Legislative Update

Bill Keefe reported that a close-out supplemental budget is expected at any time which will account for an estimated \$600 million shortfall against anticipated FY23 revenues. The Department of Revenue reported in August that FY23 collections are 1.5% below benchmark mainly due to lower-than-expected capital gains. As a result of the capital gain deficit, the Stabilization Fund, State Retirees' Benefit Trust Fund and Pension Liability Fund will receive about half of what is expected in statute.

The June and July DOR figures were above benchmark. However, August was below benchmark by 0.7%.

Mr. Keefe indicated that Governor Healey signed the FY24 state budget on August 9. Included in the budget is a 3% COLA for State and Teachers' (Section 92) and the new funding schedule (Section 23). The budget included the over age 70 buyback in Section 82. The State Retirement Board still needs to determine if an IRS ruling is needed. Not included in the budget was the increase of PRIM Board membership and the hours and earnings limit waiver for the Executive Director of the Municipal Police Training Committee.

Mr. Keefe also updated the Commission on mayoral election results and upcoming elections in local government.

Audit Update

Caryn Shea reported that since the last Commission meeting, PERAC has released the Braintree, Clinton, Massachusetts Water Resources Authority Employees, Northbridge, and Norfolk County Retirement Board Audits. No findings were reported for Braintree and Clinton. Ms. Shea explained the findings reported in Massachusetts Water Resources Authority Employees, Northbridge, and Norfolk County Retirement Board Audits. Ms. Shea reported on the follow-up audits of Dukes County, Hampden County, Massachusetts Teachers, and Melrose Retirement Boards. 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 Elaine Pursley and Scott Henderson presented at the Administrator's Training held in Northampton and that the Audit Staff continue to review Annual Statements and work on the Annual Report. Ms. Shea reported that two auditors have been recently hired and will begin employment within the next week.

Compliance Update

John Galvin reported that all active and inactive members have filed their SFI's for the third consecutive year of 100% compliance.

Mr. Galvin reported that PRIM's return for July was 1.75%. The calendar year to date return through July 31 is 8.56%.

Finally, Mr. Galvin reported that the Securities and Exchange Commission recently adopted new requirements for private funds. Private equity and hedge funds manage more than \$20 trillion in assets with just about every Chapter 32 governed board invested in this asset class. The new rules will restrict the ability of private funds to lure large investors with preferential treatment, known as side letters, for better terms than other investors. The new rules will also require private funds to provide their investors with quarterly financial statements detailing their performance and expenses, and to also undergo annual audits. These reforms do bring greater

transparency and accountability for private funds, there may also be an impact on the board's bargaining power and how they will adjust their asset allocation in the future.

Patrick Charles reported on the use of an Outsourced Chief Investment Officer (OCIO) by retirement boards which was previously discussed at the July 12, 2023 investment subcommittee meeting. There were two primary issues discussed at the subcommittee meeting. First, whether the use of an OCIO is compliant with the procurement provisions of G.L. c. 32, §23B. Secondly, do Retirement Board members meet their fiduciary duty by deciding to turn over a significant portion of their investment authority to an OCIO? In 2014 PERAC issued Memorandum 18 which addressed the issue of how the use of fund of funds ("FOF"), manager of managers ("MOM") and discretionary managers ("DM") would meet the compliance requirements of Chapter 32, § 23B which was inserted into Chapter 32 by Chapter 176 of the Acts of 2011. This memorandum was designed to provide a framework which would enable a retirement board to employ such investment strategies, while still complying with the procurement rules.

The Commission was advised that it needs to determine if the use of an OCIO can indeed be compliant with Chapter 32. If it determines that an OCIO cannot be compliant with the procurement procedures of Section 23 and 23B then Memo 18 of 2014 should be rescinded and new guidance issued. A discussion ensued and it was determined that the use of an OCIO could be used but with certain limitations put in place which were laid out in the memo presented to the Commission in the Commission packet.

The Commission instructed the staff to draft a memo which would detail how an OCIO could be utilized by a Board and provide guidance to the Boards regarding the process of selecting the OCIO and what limitations will be established by the Commission. The Commission requested that the memo be presented at the October 11, 2023 Commission meeting for its considerations.

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 the Administrator's Training held on August 23, 2023 in Northampton had over 25 Board Administrators/Board Members in attendance. He indicated that PERAC is finalizing another Administrator's Training in November in Danvers.

Mr. Parsons further reminded the Commission that PERAC will be holding its Annual Emerging Issues Forum on September 21, 2023 at the College of Holy Cross, Worcester and that the Forum's Agenda is included in the Commission packet.

Mr. Parsons informed the Commission that the Division of Capital Asset Management (DCAMM) has let us know that the space at 10 Cabot Road will not be available until the current tenant's lease ends on or about June 30, 2024. He indicated that the current tenants informed the owners that they were seeking to downsize their current space and were willing to give up approximately 12,000 sq. ft. This prompted 10 Cabot Road to respond to our Request for Proposal (RFP), however, there was no binding contract between the two parties. The current tenant decided to keep the current space until their lease end date (June 30, 2024). Unfortunately, this has caused the move process to come to a halt, further delaying our move. This necessarily causes uncertainty of a further extension at 5 Middlesex Avenue. He then told the Commission that Caroline Carcia, DCAMM, and he looked at available space at 20 Cabot Road and are waiting for architectural

designs ensuring our specifications will fit at that location. Mr. Parsons reminded the Commission that PERAC staff have finalized architectural plans, worked with vendors on office furnishings and equipment and reiterated the frustration and position PERAC finds itself in at this time. Mr. Parsons informed the Commission that we are continuing to work with DCAMM to secure office space as soon as possible and will continue to update the Commission on the progress.

Mr. Parsons informed the Commission that the MACRS Fall Conference will be held in Springfield, MA from October 1-4, 2023 if any Commissioners wish to attend.

Commissioner MacKinnon made a motion to approve attendance for Commissioners at the MACRS Fall Conference from October 1-4, 2023 in Springfield, MA in accordance with PERAC Policy #97/002.

Commissioner Leung-Tat seconded the motion and a roll call vote was taken:

Chairman Philip Brown YES, Commissioners Jennifer Sullivan YES, Richard MacKinnon YES, Kate Fitzpatrick YES, James Guido, YES and Michael Leung-Tat YES and the motion was unanimously adopted.

Other Business

Chairman Brown announced that John Parsons has informed the Commission that he will be retiring in March and thanked the Executive Director for his dedication and hard work over the past five plus years. The Chairman indicated that Mr. Parsons will be missed by the Commission, staff, and retirement community. Mr. Parsons stated that it has been a privilege and wonderful opportunity to serve as the Executive Director of PERAC. He indicated that it was a difficult decision to make and thanked the Commission for its support for him and the staff over the years.

The Chairman indicated that a Search Committee will be established to create a timeline to post the job description, review and select candidates to interview, schedule interviews, etc. He indicated that any Commissioners interested in being a member of the committee should let him know.

Chairman Brown announced that the next Commission meeting will be held on Wednesday, October 11, 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 Richard MacKinnon 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 1:05 PM.

It was determined that an Audit/Fraud Sub-Committee meeting will be held on Wednesday, October 11, 2023 @ 10:30 AM.

Commission Meeting Documents

Commission Agenda for the meeting of September 13, 2023

Commission Minutes dated July 12, 2023

Investment Sub-Committee Minutes dated July 12, 2023

Actuarial Update

State Valuation Summary Update

Draft State Valuation Report as of 1/1/23

Legal Update

Kurt K. v. Hampden County Regional Retirement Board, CR-21-631, 22-117

Janet Walsh & PERAC v. Reading Retirement Board, CR-21-0135

Legislative Update

Memorandum regarding Legislative updates

Audit Update

Braintree Retirement Board Audit

Clinton Retirement Board Audit

Mass Water Resources Retirement Board Audit

Northbridge Retirement Board Audit

Norfolk County Retirement Board Audit

Dukes County Retirement Board Follow-up Audit

Hampden County Retirement Board Follow-up Audit

Massachusetts Teacher's Retirement Board Follow-up Audit

Melrose Retirement Board Follow-Up Audit

Audit Tracking Report

Compliance Update

Memorandum regarding Compliance updates

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

Memorandum RE: Investment Policy

Executive Director's Report

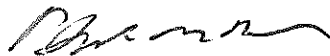
Staff Activities Memorandum

Emerging Issues Forum – Draft Agenda – September 21, 2023

MACRS Fall Conference, October 1-4, 2023, Springfield, MA

2022 Investment Report

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission