

Commission Meeting Minutes
March 8, 2017

Chairman Brown called the meeting (held at PERAC Office, 5 Middlesex Avenue, Somerville, Massachusetts) to order at 11:15 AM. He then acknowledged the other Commissioners present: Commissioners Timothy Dooling, Kathy Fallon, and Jennifer Sullivan. Commissioner James Machado participated remotely due to illness and Commissioner Robert McCarthy participated remotely due to his current location per the Attorney General's Open Meeting Law 940 CMR 29.10. Commissioner Kate Fitzpatrick was not in attendance.

Chairman Brown announced that the Commission meeting is being tape recorded and this will be so noted in the minutes. He stated that all votes will be by roll call vote due to remote participation.

PERAC Staff Present: Executive Director Joseph Connarton, Deputy Executive Director Joseph Martin, General Counsel and Deputy Director John Parsons, Deputy General Counsel and Managing Attorney Judith Corrigan, Actuary James Lamenzo, Director of Strategic Planning Mike DeVito, Chief Auditor Caryn Shea, Compliance Officer Tom O'Donnell, Compliance Counsel Derek Moitoso, Compliance Analyst Cheryl Johnson, Senior Associate General Counsel Ken Hill, Associate General Counsel Patrick Charles, Director of Administration Caroline Carcia, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the following guests in attendance: Sean Neilon representing the Massachusetts Teachers' Retirement System, John Brown representing MACRS, and Thomas Gibson representing Middlesex and Belmont Retirement Systems.

Commissioner Dooling made a motion to adopt the February 8, 2017 Commission meeting minutes. Commissioner Fallon seconded the motion. A roll call vote was taken as follows:

Chairman Philip Brown YES, Commissioners Timothy Dooling YES, Kathy Fallon YES, James Machado YES, Robert McCarthy YES, and Jennifer Sullivan YES, and the motion was adopted.

Legal Update

Ms. Corrigan updated the Commission about the Vernava case *PERAC vs. CRAB et. al.* and the Daley case *Plymouth Retirement Board vs. CRAB et. al.* which are both before the Appeals Court. She discussed the ramifications of both cases.

Mr. Parsons reported that the Secretary of State has acknowledged receipt of our request for an advisory opinion whether the local, regional, and county retirement systems should be viewed as agencies or municipal units under the new public records law. He expects a response soon.

Legislative Update

Mr. DeVito reported that Senator James Timilty has been re-appointed as Senate Chair of the Joint Committee on Public Service. He then stated that Representative Jerald Parisella has been

appointed House Chair of the Joint Committee on Public Service. Vice Chairs appointed are Senator Kenneth Donnelly and Representative Jay Livingstone. He said that an introductory meeting has already been scheduled with Representative Parisella, Parisella's staff and the other Committee members.

Mr. DeVito then reported that H. 72, Governor Baker's first FY'17 Supplementary Budget including several sections suggested by PERAC regarding the exclusive benefit rule has been filed.

Finally, Mr. DeVito reported that Mr. Connarton and he met with Senator Richard Ross regarding several of the Senator's bills, which would weaken the Chapter 176 of the Acts of 2011 governance reforms. He indicated that it was a cordial meeting at which we explained why PERAC would have to oppose these bills.

Audit Update

Ms. Shea reported that the audit staff is currently auditing the Concord, Hull, Norfolk County, and North Adams Retirement Systems. She further stated that the Dukes County and Essex Regional Retirement Systems audits were posted on the PERAC Web Page since the last Commission meeting and she briefly reported on the findings. Ms. Shea then reported that PERAC has completed six-month follow up reports at the Everett and Malden Retirement Systems since the last Commission meeting.

Compliance Update

Mr. O'Donnell stated that the Annual Disclosures have been sent out to about 1300 vendors. The Compliance Unit has currently received about half of the vendor disclosures and is reviewing them. He then reported that the Statement of Financial Interest ("SFIs") have been distributed and are due by May 1. Finally, he stated that the educational piece of Compliance is going well.

Chairman Brown inquired about a fall-out from the Thornton Law Firm matter.

Mr. O'Donnell responded that another securities litigation firm indicated that Thornton Law firm Felt disclosures and responses should be coordinated.

Executive Director's Report

Mr. Connarton reported on the monthly staff activities and then briefly reported about the NCPERS Legislative Conference. He distributed several publications from the conference which he thought were extremely helpful and insightful.

Mr. Connarton stated that there is a very nice complementary letter from the Norfolk County Retirement System in the back of the book. The System acknowledged the work from the Disability Unit on a complicated situation for one of their members. Mr. Connarton appreciates the commitment from the staff which makes PERAC a successful team.

Mr. Connarton thanked the individuals that have worked together on the Exclusive Benefit Rule matter. He updated the Commission about the March 7, 2017 meeting with legal counsel present. It has been decided that language will be provided to the legislature to correct the matters fairly soon. Mr. Connarton also stated that after certain steps have been achieved that Administration and Finance will take the lead on any questions that will be forwarded to the IRS to obtain a settlement agreement.

Commissioner Sullivan also thanked the individuals involved and stated that the meetings have been collectively suitable for all. She stated that all the necessary legislation will be filed within a few weeks.

Mr. Connarton requested that all Commissioners take the Conflict of Interest on-line test in accordance with statutory requirements and forward the respective certificates to Ms. Boisvert.

Mr. Connarton updated the Commission about the PROSPER project and that Mr. Moitoso would be training the board administrators and members in the Compliance section. He then stated that people have been very good about signing up for the required training, which they must complete to get a secure password. He notified the Commission that the members will be receiving 3 hours of educational credit for their attendance. The roll out is on schedule to be released in April. He stated that although we have all been a bit cautious, the Boston Retirement System (one of the test subjects) is very excited about the possibilities after attending the training and the future use.

Finally, Mr. Connarton reported about the Pioneer Institute's white paper entitled *Massachusetts Public-Pension Investment Reform* as the Chair requested. PERAC has met with the Pioneer Institute on a number of matters in the past. He believes that Pioneer has used the information which has been collectively gathered over the past year and a half or so and focused on the management fees.

Chairman Brown stated that it would be nice to compare apples to apples. He is not sure that Pioneer takes into account the differences on a short term basis versus long term performance. There appears to be a big difference in the fees paid by the systems when compared to the PRIT system. He stated that he wouldn't mind another review from an independent institute from a different entity.

Mr. Martin cautioned those about getting lost on the review of the dollar amounts and believes people need to pay closer attention to the basis points. He continued that the report discusses 1986-1996 and 2000-2015. The report did not use the 1997, 1998, and 1999 figures when PRIM trailed the composite. He continued that although PRIM is always in the top quartile they may not always have had the best returns. Another aspect is that the retirement systems did considerably better than PRIM in 2008. Once the 2008 investments drop from the 10-year period there might be an impact on trailing the 2% target as required in Chapter 68.

Mr. Martin distributed the expense ratios as reported under Schedule 7, which is an annual filing by retirement boards, with the net numbers. He continued that we don't receive the Schedule 7 numbers until after the Annual Report is published.

Chairman Brown inquired if the Schedule 7 Report that PERAC issued was based on investment fees only.

Mr. Martin confirmed that the Chairman was correct.

Mr. O'Donnell stated that 2 systems have had fees substantially decreased based upon these publications.

Other Business

Chairman Brown stated that the next Commission meeting is scheduled for April 12, 2017.

Commissioner Sullivan made a motion to adjourn. Commissioner Machado seconded the motion. A roll call vote was taken as follows:

Chairman Philip Brown YES, Commissioners Timothy Dooling YES, Kathy Fallon YES, James Machado YES, Robert McCarthy YES, and Jennifer Sullivan YES, and the motion was adopted and the meeting adjourned at 11:45 PM.

Commission Meeting Documents

Commission Agenda for the meeting of March 8, 2017

Commission Minutes from February 8, 2017

Legislative Update

Monthly Legislative Agenda and bullet points outlining legislation

Audit Update

Recent PERAC Audit and follow up reports

Executive Director's Report

Updated Staff Activities Memo

Memo regarding NCPERS Legislative Conference with several presentations attached

SB1404 Legislation to extend the filing date for the Chapter 133 of the Acts of 2016 report

SB1480 Legislation to extend the filing date for the Chapter 133 of the Acts of 2016 report

Memo regarding the Conflict of Interest Law

PROSPER invitation and system requirements notifications

Pioneer Publication entitled *Massachusetts Public-Pension Investment Reform*

Memo regarding an update on the Exclusive Benefit Rule

H. 72 Governor Baker's Supplementary Budget

Other Documents

Letter from Norfolk County Retirement System praising the Disability Unit's assistance

Documents Distributed at Meeting

Retirement Systems 2015 Gross Return and Expense Ratio spreadsheet

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission