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# *Commonwealth of Massachusetts*

## *State Retiree Benefits Trust Fund*

*Board of Trustees*

*Nicola Favorito, Chair*

*Michael Heffernan · Dr. Roberta Herman · Joseph Connarton · Deborah Goldberg ·  
Thomas G. Shack III, Esq. · Michael C. Tow, CFP · Terrance Finn*

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### **State Retiree Benefits Trust Board of Trustees**

#### **Minutes of the Meeting of October 5, 2017 as approved 12/7/17**

#### **Call to Order:**

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was held on Thursday, October 5<sup>th</sup>, 2017 at 9:03 a.m. in the Crane Conference Room in the Offices of the State Treasurer on the 12<sup>th</sup> floor of One Ashburton Place, Boston, Massachusetts.

SRBTF Board members present were: Chair Nicola Favorito, Mr. Joseph Connarton, Ms. Jenny Hedderman, Ms. Catherine Moore, and Mr. Frank Gervasio. A quorum being present in the meeting room, Mr. Michael Tow and Mr. Terrence Finn participated remotely via conference call due to geographic distance and in accordance with the Board's policy and the Office of the Attorney General's guidelines on remote participation. All votes were by roll call.

Also present for all or part of the meeting were:

Attorney Brian Fox of Murphy, Hesse, Toomey & Lehane LLP ("MHTL");

Mr. Francesco Daniele of the Pension Reserves Investment Management Board ("PRIM");

Mr. Jeffrey Moyer of SRBTF;

Ms. Beth Hemond of the Office of the Comptroller ("CTR");

Mr. Marc Waldman of the Town of Wellesley; and

Mr. Nick Downing of the Massachusetts Municipal Association ("MMA").

#### **I. Introductions & New Members**

The Chairman introduced Jeffrey Moyer who has been hired by the SRBTF to serve as the Board's administrative assistant. As per the SRBTF's ISA's with the Treasurer's Office and also with the Office of the Comptroller ("CTR"), Mr. Moyer will be physically located in space in the Treasurer's Office. Payroll and HR administration would be managed by the CTR.

A&F's designee, Lauren Peters has joined the Executive Office of Health and Human Services. Secretary Heffernan has designated Mr. Frank Gervasio as the designee for Administration & Finance. His designation letter and open meeting acknowledgement have been recorded as received.

## **II. Approval of the August 3, 2017 Meeting Minutes**

The Chairman turned to the approval of the minutes of the August 3, 2017 meeting.

After further discussion, 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 August 3, 2017 Board Meeting as presented.

Mr. Gervasio-- Abstained

Mr. Connarton--Yes

Ms. Hedderman--Yes

Mr. Favorito--Yes

Mr. Finn--Yes

## **III. Investment Report**

Mr. Daniele updated the Board on current market conditions and PRIM's organization. There is current concern in the markets tied to the North Korean situation, the possibility of rising interest rates and lack of inflation and lack of legislation in the US, related to tax reform, health care and infrastructure spending. The Federal Reserve and European Central Bank have continued accommodative policies which has served markets well. Global growth and markets are doing well; while Chinese growth has lessened; but Russia and Brazil are doing well. Mr. Daniele noted that PRIM has attempted to incorporate in its portfolio changes to protect from possible rising inflation and increasing rates.

PRIM's investments in international equities in both developed and emerging markets has worked well for the portfolio this year, as those markets have outperformed U.S. equities. Lower quality bonds & stocks are currently outperforming higher quality assets. PRIM's portfolio is defensive and is geared to market changes and interest rate shifts. Such strong performance in both private and public equities should be noted. As we have mentioned in the past, we have been de-risking the portfolio over recent years, and continue to move towards investments that off set out equity exposures.

Recent PRIM personnel changes include the departure of Sarah Samuels (Deputy Chief Investment Officer). David Gurtz, will be returning to the investment team to serve as Deputy Chief Investment Officer-Public Markets.

*Catherine Moore arrived.*

PRIM has gone to reporting performance on a quarterly basis; the quarter performance ending in September will be presented at the December meeting. The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 11.9% versus 10.7%, 3-year 6.4% versus 5.8%, 5-year 9.3% versus 8.3% and 10-year 6.1% versus 5.1%. Since the fund's inception in 2001 it achieved a positive 7.2% return versus the

benchmark of 6.7%. As of August 31, 2017, the combined SRBT Fund assets were \$1.36 billion and had earned 11.9% for the calendar year.

#### **IV. Operations Report**

##### Municipal Outreach

Mr. Fox reported there are no submissions for the Board to review today. It is expected that two submissions (Franklin Regional Council of Governments & Old Rochester Regional School District) will be ready for the Board's consideration at the December meeting.

*Mr. Tow joined the meeting by phone at 9:21a.m. and Mr. Daniele left at 9:23 a.m.*

#### **V. MTA Transfer**

##### A. MTA OPEB Transfer

In 2015, the Massachusetts Department of Transportation ("MDOT") transferred the OPEB trust fund of the former employees of the Massachusetts Turnpike Authority ("MTA") to the SRBTF. Under the agreement, MDOT will request transfers to pay the health insurance benefits of the former MTA employees, MDOT is currently requesting a transfer of \$1,000,000 to fund the retirees' health benefits for FY18. A chart of the transfers (in and out) are part of the Board packet. Board members would like to see monthly summary supporting documentation for the request with the amount paid and retirees covered since the funds have been transferred. Once the MDOT provides the requested documentation, a letter will be sent to PRIM to request the transfer of the funds to MDOT.

After further discussion, on a motion made by Ms. Moore and duly seconded by Ms. Hedderman, the Trustees took the following action by a roll-call vote.

VOTED: To approve the transfer of \$1,000,000 to MDOT for retiree health insurance benefits subject to additional documentation to be provided by department.

Mr. Connarton--Yes  
Ms. Hedderman--Yes  
Mr. Favorito--Yes  
Mr. Gervasio--Yes  
Ms. Moore-- Yes  
Mr. Finn--Yes  
Mr. Tow--Yes

##### B. Procedure to Approve Future MTA Transfers

The Chairman asked the Board to possibly consider developing an agreeable process for future transfer requests from MDOT. The SRBT meets every other month and PRIM requires a 30-day notice to withdraw funds. A situation could arise where MDOT needs the funds and the timing of the Board meeting would preclude them getting the funds timely. Possible options to consider would be to allow the Chairman to approve up to an authorized amount and report

back to the Board, calling for a special meeting as needed, or continuing to have the full Board approve the transfer. Mr. Fox will research the issue and present options at the Board's December meeting. It is anticipated MDOT will make another request in May for FY19.

The Chair informed the Board that a public information request was received from the Pioneer Institute regarding the transfer of the assets and how the money is being used. The Chair has reached out to MDOT to assist in answering the request.

## **VI. Administrative Issues**

### **A. Legislative Update**

Currently it is estimated that the Trust will receive about \$25 million from the tobacco settlement payment received last April. However, this may be reduced if the Legislature and Governor reduce the amount of transfer in the FY17 supplemental budget.

### **B. OPEB Valuation**

It is expected AON will complete the OPEB valuation for January 2017 by the end of the month. The Board will request Deputy Comptroller Howard Merkowitz brief the board at the December Board meeting.

### **C. Website Changes**

Mass.gov has changed its platform so the look and feel of the website will be different. CTR will be using a different platform but will continue to support the SRBTF website on the mass.gov platform. If individuals have problems accessing the new website, the Board might explore other options.

### **D. SRBTF Calendar**

The PRIM Investor Conference will be held at Holy Cross College on November 9<sup>th</sup>; Board members should have received their invitations if they wish to attend. The next SRBT Board meeting is December 7<sup>th</sup>.

### **E. Insurance Contract Expiring**

The current insurance coverage for the SRBTF Board will expire in March 2018 and a new contract for insurance coverage will need to be negotiated. Last year the Chairman negotiated with the insurance broker and costs were substantially reduced. The Chairman asks that the Board authorize him negotiating with the insurance broker for future insurance coverage. The Chairman will report back to the Board on the status of the negotiations.

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

VOTED: To provide the Chairman authority to negotiate appropriate insurance coverage with the insurance broker.

Mr. Connarton--Yes  
Ms. Moore-- Yes  
Ms. Hedderman--Yes  
Mr. Gervasio—Yes  
Mr. Favorito—Yes  
Mr. Finn--Yes  
Mr. Tow--Yes

F. FY 2018 Budget

The Board reviewed the budget materials presented in the Board packet.

**VII. Other Items**

Mr. Downing noted that the MMA monthly newsletter (Beacon) editorial calls for a return to efforts to address OPEB liability through legislation that would modify the benefit levels governmental employees receive. Consensus from municipalities, the Legislature and unions had been reached previously but the effort died. The MMA is looking have legislation passed after next year's election. MMA will try to rebuild consensus around previous compromise.

**VIII. Adjournment**

There being no further business, a motion was made by Mr. Connarton and duly seconded by Ms. Moore, to adjourn the meeting at 9:54 a.m. On the motion the roll-call vote was.

Mr. Connarton--Yes  
Ms. Moore-- Yes  
Ms. Hedderman—Yes  
Mr. Gervasio--Yes  
Mr. Favorito--Yes  
Mr. Finn--Yes  
Mr. Tow--Yes