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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**

**April 5<sup>th</sup>, 2018**

***as approved 6/7/18***

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

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was called to order on Thursday, April 5<sup>th</sup>, 2018 at 9:03am 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, Howard Merkowitz, Mr. Terrance Finn, Mr. Frank Gervasio, and Mr. Joseph Connarton. A quorum being present in the meeting room, Mr. Michael Tow participated remotely via conference call 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. Paul Todisco and Mr. Francesco Daniele of the Pension Reserves Investment Management Board ("PRIM");

Mr. Jeffrey Moyer of SRBTF;

Mr. Marc Waldman of the Town of Wellesley.

#### **I. December 7<sup>th</sup>, 2017 Meeting Minutes**

After discussion, on a motion made by Mr. Connarton and duly seconded by Ms. Gervasio, the Trustees took the following action by roll-call vote.

VOTED: To approve the minutes of the December 7<sup>th</sup>, 2017 Board Meeting as presented.

Mr. Connarton—Yes

Mr. Merkowitz-- Yes

Mr. Finn—Yes

Mr. Tow -- Yes

Mr. Favorito--Yes

## **II. Investment Report**

Mr. Daniele provided a market update. He described the final quarter of 2017 as strong and it capped an outstanding year in the financial markets. In 2017, domestic stocks were up 21.8%, developed international stocks were up 25%, and emerging markets stocks were up an astounding 37.3%. In an environment when bonds are normally expected to lag significantly, there has been a headwind for bonds, even they had strong positive performance in 2017. Diversified bonds were up 3.5% and long duration bonds were up 13.7% for the year.

At its December meeting, the Federal Reserve raised its target range for the Federal Funds rate 25bps and in the meeting minutes, GDP and employment growth were described as “solid,” while headline and core inflation were noted as running below the 2% target. Additionally, the Fed increased their 2018 GDP forecast to 2.5% from 2.1%. Fourth quarter earnings season is well underway and approximately 30% of S&P 500 companies have reported earnings. 80% of these companies exceeded expectations.

Not all economic indicators are positive, and PRIM is still monitoring several risks in the market. Some of these things include a disappointing Q4 GDP growth (reported 2.6% versus expectations of 3%), slowing non-farm payrolls, a low labor participation rate, sluggish wage growth, a decline in the savings rate and an increase in revolving consumer credit.

Mr. Todisco reviewed the SRBT Fund returns net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 13.8% versus 11.7%, 3-year 7.5% versus 6.8%, 5-year 8.9% versus 7.8% and 10-year 6.7% versus 6.0%. Since the fund’s inception in 2001 it achieved a positive 7.4% return versus the benchmark of 6.8%. As of December 31st, 2017, the combined SRBT Fund assets were \$1.48 billion and were up 3.0% as of February 28<sup>th</sup>.

PRIM had no major changes to its board or committees. Additions to staff include Edward Caron as an Investment Operations Analyst and Maria Garrahan as an Investment Officer in Portfolio Completion Strategies.

Mr. Connarton asked how PRIM would respond to a potential trade war. Mr. Todisco stated that he did not know of any specific actions that were being contemplated but this would be considered by PRIM's risk officer and at upcoming committee meetings.

Mr. Merkowitz asked about how PRIM sets the target allocation- has there been discussion on whether to lower rates? Mr. Todisco stated that the discount rate does not form their strategy, but the reality of the unfunded liability means that PRIM needs to have a high allocation to growth-type investments such as equities as part of its long-term asset allocation plan. Mr. Merkowitz suggested that if the discount rate was lowered, the state would have to increase their contributions rather than shift investment strategy.

Mr. Tow asked for additional details on how certain Project SAVE categories went way above their target on fee savings- Mr. Todisco explained that most of the savings have come from the reengineering of the hedge funds portfolio. PRIM has replaced several of its commingled fund direct managers with separate account managers thereby reducing fees by as much as 50%. Another strategy to enhance the value of the Fund is to invest PRIT's cash in an overlay program designed to replicate the PRIT Fund asset allocation as much as possible.

Mr. Favorito asked about the impact to the SRBTF to the Treasurer Goldberg's bill to divest from firearms manufacturers. Mr. Todisco indicated PRIM has identified about \$5 million worth of the overall PRIT Fund over about four companies that would be affected based on the proposed language. PRIM will follow the Legislature's directive on how to proceed.

Mr. Merkowitz asked about the latest quarter's numbers. Mr. Todisco stated that they not yet available, but as the market is down the Fund will likely be as well. Since private equity is reported at a 3-month lag, this will help mitigate the losses for the quarter slightly.

*Brian Fox arrived at 9:10am.*

### **III. Operations Report**

#### **Municipal Outreach**

Mr. Todisco reported that he has been having conversations with several entities to join the SRBTF and has been including Mr. Moyer to email responses about applications. Entities in consideration stage include Bernardston, Dalton, Longmeadow, Rockport, Neshoba Regional School District, Greater Lowell Tech, and Amherst-Pelham Regional School District.

Mr. Moyer has written a new page for the SRBTF website with further details for entities seeking to join- looking for any feedback including from Mr. Fox and other board members.

Mr. Finn suggested fixing language regarding asset sequestration in FAQ section. He indicated he will forward suggested changes to Mr. Moyer to be made. Mr. Todisco suggested adding himself and Mr. Daniele to the contact page.

### Municipal Contracts

Mr. Fox reports that Old Rochester Regional School District has submitted a complete application, including the Declaration of Trust that had not been submitted for the December 2017 meeting. The School District does not have the minimum required investment and are instead requesting to join with an investment of \$35,000 with a funding plan (adding \$25k in FY '19 and adding \$40k in FY'20) to get to \$100,000.

Mr. Favorito stated that Old Rochester could always change this funding plan in either direction based on needs of the school district. Mr. Fox stated that the board's Policies and Procedures allow the Board to accept less than \$100,000 and that it is the board's decision whether they want to move forward. Mr. Favorito asked if there was any recourse for the board if Old Rochester did not end up funding as according to their plan. Mr. Fox indicated that the Board would have little flexibility to act on this.

Mr. Finn asked if there are structural challenges for PRIM to accept less than \$100,000. Mr. Todisco stated that any such challenges ended years ago and now all fees are shared on a pro rata basis. Mr. Todisco stated that relative to its size Old Rochester was making a good faith effort to set aside OPEB funds and believes that other such organizations will be interested if the board approves this application.

The Board did not receive an actuarial valuation with this application and Mr. Todisco will ask them for these records. Mr. Waldman agrees that this will set a precedent and believes that applicants should be submitting actuarial valuations to the Board as part of the process.

Mr. Connarton stated that he supported the idea of allowing entities with smaller amounts to commit to join the SRBTF but voiced a concern that there is not a firm commitment from Old Rochester.

Mr. Favorito asked if the funding schedule is what PRIM usually receives. Mr. Todisco stated that although many entities submit detailed funding schedules, smaller organizations set their budget year to year and don't have flexibility to commit to multiple years. Mr. Merkowitz observed that Old Rochester is contributing twice what the Commonwealth is relative to size of their liability and wants to encourage applications such as these.

On a motion made by Mr. Connarton and duly seconded by Mr. Merkowitz, the Trustees took the following action.

VOTED:           To waive the minimum investment requirement outlined in the Board's Policies and Procedures and approve the Investment Agreement between the SRBTF

Board and the Old Rochester Regional School District and to accept the Old Rochester Regional School District as a participating unit in the SRBTF for an initial investment of \$35,000.

Mr. Connarton—Yes

Mr. Merkowitz --Yes

Mr. Gervasio--Yes

Mr. Finn--Yes

Mr. Tow—Yes

Mr. Favorito--Yes

*Michael Tow left the call at 9:57.*

#### **IV. Administrative Issues**

##### **A. Director & Officer Insurance**

Mr. Favorito noted the information that had been sent out regarding the Fiduciary insurance renewal process. The Board had voted in October to give him the authority to negotiate the renewal but given the proposed increase in the Fiduciary premium he wished to communicate it and seek feedback from the Board before proceeding on renewal. The incumbent fiduciary carrier, AIG, raised the premium drastically due to a mistake in their review of the application last year, and the SRBTF insurance broker has obtained two other alternative options. These options still represent a significant increase but are much less than the AIG quote, and the lowest (Great American) has previously insured the SRBTF. All quotes are significantly less than the Board paid for fiduciary liability insurance two years ago. After further discussion, Mr. Favorito stated that he would move forward with trying to work out an agreement with Great American. The Board's consensus was that the Chair should continue the renewal process as previously authorized.

##### **B. Legislative Update**

Mr. Gervasio stated that the budget process is ongoing. Mr. Merkowitz said that the in-house figure will give the SRBTF 10% of the annual tobacco settlement received by the commonwealth.

##### **C. Records Management and Destruction**

Mr. Moyer stated that when he took over administrative affairs for the SRBTF in late 2017, Ms. Elizabeth Hemond from CTR turned over a large amount of paperwork that constituted the Board's records. He has scanned it all over the past several months and is now asking the Board to approve the destruction of the physical records no longer needed in order to save space. Many of the records here are not required to be kept, but all have been scanned nonetheless. Ms. Hedderman from CTR had advised at the last Board meeting that there might be guidelines

on how records should be digitized but sent an email after the meeting advising that those guidelines and accompanying form were no longer in force.

Mr. Favorito suggested that Mr. Fox review the list of files and relevant regulations to ensure everything is in order. Mr. Gervasio asked if the Board has ever received a FOIA request Mr. Moyer answered that it has happened a couple times but nothing significant.

On a motion made by Mr. Connarton and duly seconded by Mr. Gervasio, the Trustees took the following action.

VOTED: To approve the destruction of certain archived SRBTF physical documents in line with attached Records Control Memo subject to review by Board Counsel.

Mr. Connarton—Yes

Mr. Gervasio--Yes

Mr. Tow—Yes

Mr. Favorito--Yes

D. Internal Controls Update

Mr. Moyer is continuing to work on the draft as edited by Treasury staff.

E. SRBTF Meeting Calendar, Times

June meeting is currently scheduled for 9:00 a.m. on June 7<sup>th</sup>

F. FY 2018 Budget

The Board reviewed the budget materials presented in the Board packet. Mr. Moyer noted that the expenses are reported in a different way, hopefully will help Board members see full context. Mr. Moyer will ask PRIM for an operating transfer of \$50,000 in the next couple of months.

G. FY 2019 Budget Approval

Mr. Moyer explained the proposed FY2019 operating budget for \$206,000. He has reduced the budget line items in each category, but each line item should have sufficient capacity for upcoming expenses. In previous fiscal years, the actual expenses are much lower than what has been requested in the budget. A possible amendment that should be made is an increase to the audit line to reflect additional work to be done on the OPEB valuation for GASB regulations.

On a motion made by Mr. Connarton and duly seconded by Mr. Finn, the Trustees took the following action.

VOTED: To approve the FY 2019 Budget as presented with a \$9,000 increase to the actuarial valuation line item.

Mr. Connarton—Yes  
Mr. Gervasio--Yes  
Mr. Finn--Yes  
Mr. Favorito—Yes

#### H. Board Chair Discussion

Chairman Favorito stated that the Board will need to elect a new chair during the June meeting. This is his third term, and he will likely need to step down unless the Board waives or amends the bylaws to allow this. This issue will be revisited at the next Board meeting.

#### V. **Other Items**

##### OPEB Valuation

Mr. Merkowitz outlined the preparatory meetings to conduct the FY18 OPEB Valuation with AON. The main variable they are still waiting for is the bond rate, and this is dependent on the discount rate and any shifts in the interest rate. Any changes would either increase or decrease the unfunded liability reported in the valuation. He expects that the report will be finalized by mid-to-late fall.

#### VI. **Adjournment**

There being no further business, the Board voted unanimously upon a motion by Mr. Finn-and seconded by Mr. Gervasio to adjourn the meeting at 10:30 a.m.