



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 · Theresa Flynn*

State Retiree Benefits Trust Board of Trustees

Minutes of the Meeting of

June 7th, 2018

as approved 8/2/18 with amendments

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was held on Thursday, June 7th, 2018 at 9:03am in the Crane Conference Room in the Offices of the State Treasurer on the 12th floor of One Ashburton Place, Boston, Massachusetts.

SRBTF Board members present for some or all of the meeting were: Chair Nicola Favorito, Jenny Hedderman, Terrance Finn, and Frank Gervasio and Joseph Connarton. A quorum being present in the meeting room, and all votes were by roll call.

Also present for all or part of the meeting were: Attorney Brian Fox of Murphy, Hesse, Toomey & Lehan LLP ("MHTL"); Mr. Paul Todisco (participated by telephone) and Mr. Francesco Daniele of the Pension Reserves Investment Management Board ("PRIM"); Mr. Jeffrey Moyer of SRBTF; and Ms. Lisa Adams of the Massachusetts Municipal Association ("MMA").

I. Approval of the April 5th, 2018 Meeting Minutes

The Chairman began with the approval of the minutes of the April 5th, 2018 meeting.

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

VOTED: To approve the minutes of the April 5th, 2018 Board Meeting as presented.

Mr. Connarton—Yes

Mr. Gervasio -- Yes
Ms. Hedderman—Yes
Mr. Finn—Yes
Mr. Favorito--Yes

The Chair asked to consider the municipal submissions first in order to give time for Mr. Daniele to arrive.

II. Operations Report

Municipal Contracts

Town of Dracut

Mr. Fox reported that Dracut has submitted all documents and taken all votes to be considered by the Board today. Their trust agreement indicates that they have \$300,000, but they have certified documentation of additional appropriations beyond this which puts them over the minimum amount required by the Board. Mr. Moyer confirmed that Dracut as well as the other entities up for consideration today have submitted an OPEB valuation.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the Town of Dracut and to accept the Town of Dracut as a participating unit in the SRBTF.

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

City of Beverly

Mr. Fox reported that they also have submitted all required documents and votes. They have over \$600,000 in certified appropriations. By way of disclosure to the Board Mr. Fox advised that he had helped draft Beverly's trust agreement several years ago but that he had not done any additional work related to it since he had started providing services to the SRBTF.

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

VOTED: To approve the Investment Agreement between the SRBTF Board and the City of Beverly and to accept the City of Beverly as a participating unit in the SRBTF.

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

Town of Longmeadow

Mr. Fox stated that the Town has submitted all required documents, the only issue being that their Declaration of Trust was executed on May 16, 2018. The law requires a ninety-day period for objections to the submitted trust, for which Mr. Fox advised that the Board could either defer Longmeadow's application to the meeting in October or accept the town provisionally until the 90-day period has completed. He noted that the Board made Old Rochester wait the full ninety days, although that entity did not have a Declaration of Trust while Longmeadow does. In response to a question from the Chair, Mr. Fox stated that he had never seen an objection to a Declaration of Trust.

The Chair asked the Board how they would like to proceed.

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

VOTED: To provisionally approve the Investment Agreement between the SRBTF Board and the Town of Longmeadow and to accept the Town of Longmeadow as a participating unit in the SRBTF on the condition that there are no objections to their Declaration of Trust by August 14, 2018.

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

Municipal Outreach

The Chair asked for any updates on municipal outreach. Mr. Todisco thanked Mr. Moyer for his recent help with outreach and taking the initiative on assisting entities seeking to join the SRBTF. Pending applications include the towns of Truro and Dalton, and the Byfield Water District. The Chair thanked Mr. Todisco and Mr. Moyer for their work and moved on to the Investment Report.

III. Investment Report

Mr. Daniele gave a general market update. U.S. GDP growth slowed in the final quarter of 2017. Consumption growth was weak in the quarter, despite a surge in real disposable income, causing some economists to question the extent to which the recent tax cuts have stimulated any meaningful boost in business activity. Recent business surveys and some data, such as a sharply lower March Purchasing Managers Index (PMI), suggest that advanced economies lost momentum at the beginning of 2018, but the U.S. Fed is still confident in the near-term economic outlook and have been more focused on the strong employment numbers (low unemployment), some first signs of wage growth, and the stronger than anticipated pick-up in inflation, the PCE having hit 1.9% in March.

Mr. Daniele noted that continued geopolitical concerns around a possible trade war with China and other trading partners, reciprocal tariffs, possible renegotiation of the Iran nuclear pact, negotiations to denuclearize North Korea, and other stresses in the Middle East are contributing to market volatility and recent declines. Consensus is predicting three Fed rate hikes this year, but at least a few economists are still predicating four. This uncertainty is difficult to navigate, but PRIM is confident in their well-diversified portfolio.

In the first quarter, domestic stocks were down, developed international equities were down and bonds were down as yields and interest rates continued to rise modestly. A 60/40 mix of stocks and bonds, a common benchmark for diversified portfolios, was down more than 1% in the quarter. The lone bright spot was in Emerging Markets equities, which were up 1.3% in the quarter as PRIM's commitment to these equities paid off. The PRIT Fund performed very well in the March 2018 quarter. For the quarter, the PRIT Fund was up 0.6% gross, or 0.5% net, outpacing the benchmark by 23 basis points.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 12.5% versus 10.5%, 3-year 7.5% versus 6.7%, 5-year 8.6% versus 9.1% and 10-year 6.7% versus 6.1%. Since the fund's inception in 2001 it achieved a positive 7.4% return versus the benchmark of 6.8%. As of March 31st, 2018, the combined SRBT Fund assets were \$1.49 billion and had earned 0.5% for the calendar year.

After a long search, PRIM has hired a new Director of Human Resources. On May 14th, Jennifer Kuhn joined the PRIM team after almost 15 years at Big Brothers Big Sisters of Massachusetts Bay where she was most recently their Director of Human Resources. Earlier this month PRIM began an in-depth study on diversity and inclusion in their work force. COO Tony Falzone, CFO Deb Coulter, and Investment Officer Christina Marcarelli are working closely with outside consultants from IBIS Consulting Group to conduct an organizational assessment on diversity and inclusion. Retention is especially important, as experience shows that turnover and recruitment efforts disproportionately affect diverse candidates because all private sector employers are targeting diverse candidates and the pool from which to choose them is not large.

Mr. Todisco added that Mr. Daniele has been playing an important role on the investments team, specifically with Portfolio Completion Strategies (PCS). Because of his past experience, Mr. Daniele has been assisting them in doing due diligence on a prospective PCS manager. The Chair asked if PRIM could send out any additional information on the Sharpe ratios on Slide 27, with Mr. Daniele agreeing to follow up after the meeting. The Chair also asked Mr. Todisco whether PRIM informs participating entities of class action litigation in which it is involved. Mr. Todisco indicated that he is not aware of any pending litigation, but he would check with PRIM's general counsel and get back to the Board on this. Mr. Todisco re-iterated his appreciation for Mr. Moyer's assistance on outreach that allows himself and Mr. Daniele to focus on other work.

IV. MassDOT OPEB Transfer Request

The Board next moved to consider the pending MassDOT request for funds for its Sick Leave Bank expenses. MassDOT has requested \$20,000 to cover the remaining FY18 obligations, with \$500,000 needed for FY19 with a total request of \$520,000.

Mr. Moyer stated that he has instructed PRIM to set aside this amount in anticipation of this Board vote and will release the funds if the request is approved. The Chair requested that Mr. Moyer include total transfers to and from the account in future requests, and a summary of these transfers will be included on an email after the meeting.

Mr. Connarton asked why the request for FY19 was significantly less than the money expended in FY18. Mr. Moyer responded that he does not have that but will follow up with MassDOT to get an answer.

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

VOTED: To approve the transfer of \$520,000 to the Massachusetts Department of Transportation to fund their Sick Leave Bank obligations.

Ms. Hedderman-- Yes

Mr. Connarton—Yes

Mr. Gervasio--Yes

Mr. Finn--Yes

Mr. Favorito—Yes

V. Evaluation of SRBTF Staff Position

The Chair brought the Board's attention to the matter of evaluating the SRBTF staff position and began by reviewing the hybrid nature of Mr. Moyer's position. As the Board has not had a

dedicated staff member for several years it needs to develop an agreeable evaluation process. He indicated that the Board could adopt the process and form used by the Treasurer or Comptroller which he distributed.

The Chair asked Mr. Todisco how the HCST Board had evaluated his performance. Mr. Todisco stated that he had written up self-evaluation that was shared with the then board members and at the next meeting the performance evaluation was conducted publicly. Since Mr. Todisco was responsible for investments and other functions his title as executive director reflected that, but he believes that Mr. Moyer's role has also expanded since he was hired. Mr. Todisco further explained that after the first few years of his work at HCST, the Board formalized the process by which they adjusted his pay by hiring an executive compensation consultant.

The Chair expressed a desire to comply with the recent Massachusetts SJC decision reviewing the manner a public board may conduct an evaluation in conjunction with the Open Meeting Law requirements. As such, he believes that the best way to move forward would be for each Board member to individually complete an evaluation and share this at the next Board meeting in August.

The Chair will share Mr. Moyer's self-evaluation as a basis for this discussion, and asked Mr. Fox to investigate whether the Board could meet in executive session to discuss the evaluation. The Chair would also circulate an evaluation form based on the Treasury model which was preferable by the Board.

Mr. Moyer stated that he had based his own expectations for evaluation on the historical board documents submitted to the executive compensation consultants Mr. Todisco mentioned, and completed a self-evaluation from this expectation. Mr. Moyer has expanded the profile of his position to fill his allotted time and has taken on additional projects aimed at providing additional value to the Board. He has aimed to make his work sustainable in the event he leaves this position and would like to ensure that this position is closely linked to what Board members would like him to be focusing on.

Mr. Gervasio asked how evaluations had been handled with Ms. Hemond's work. The Chair stated that the Board did not direct or supervise her as she was a CTR employee completing this work on top of her regular duties.

VI. Administrative Issues

A. Directors and Officers Insurance

Mr. Moyer stated that the policy had been purchased with Great American, and while there has been minor payment issues the transaction has closed.

B. Legislative Update

The Chair and Board members were not aware of any other OPEB related provisions in the budget other than the 10% appropriation to the SRBTF.

C. Records Management and Destruction

The Chair asked Mr. Moyer to update the Board on his progress. Mr. Moyer completed reviewing all Board records that he had previously scanned and has created a log of this process that he can share with board members. This process has been documented in email to the Chair and Mr. Fox. All digital records of the Board are maintained on Treasury servers as well as a backup on a Google Drive Mr. Moyer has created and will provide as requested. The Chair thanked Mr. Moyer for his work and stated that this project was a good use of his time.

D. Internal Controls Update

The Chair brought the Board's attention to the draft Internal Control Plan that Mr. Moyer had prepared. Mr. Moyer stated that this draft had been reviewed by the Comptroller but has not been able to incorporate that feedback into this draft. The Chair has stated that the Board should vote to adopt the final version. Mr. Moyer asked for the Board to provide any feedback.

Ms. Hedderman mentioned that this process should also comply with the SJC open meeting decision discussed earlier even though it is an internal document.

The Chair suggested that Board members bring their comments to the next meeting and the Board will vote to adopt them, after which Mr. Moyer can circulate a finalized version. Mr. Gervasio asked if there was a deadline, to which Mr. Moyer stated that he has submitted the Internal Control Questionnaire due last week to the effect that SRBTF's plan is in draft to be considered at the August meeting. Ms. Hedderman suggested adopting the Plan today on an interim basis, and then consider amendments in August.

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

VOTED: To approve the drafted Internal Control Plan on an interim basis with further amendments to be discussed at the next board meeting.

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

E. SRBTF Meeting Calendar, Times

The next Board meeting is scheduled for August 2nd.

F. FY 2018 Budget

The Board reviewed the budget materials presented in the Board packet. Mr. Moyer is ensuring that he handles the end-of-year transaction. He is also looking to pay some of the regular transactions on a yearly basis rather than monthly.

G. Board Chair Discussion

The Chair asked Mr. Fox to outline the SRBTF bylaw requirements to elect a new chair. Mr. Fox stated that according to Section 2.1(c), the Chair is limited to three consecutive one-year terms, and Mr. Favorito has now served three consecutive terms.

Mr. Fox recommended amending the bylaws if the Board would like to elect Mr. Favorito to another term as Chair. The Chair then asked if any of the other designees would be willing to serve, stating that while Mr. Moyer does reduce the workload, Board matters still require regular attention.

Ms. Hedderman and Mr. Gervasio both stated that they or their departments do not have the capacity. Ms. Hedderman further explained that CTR has contributed a great deal of organizational resources in the past and continues to assist with human resources. The Chair noted that Mr. Connarton had previously served in that capacity. The Chair asked if the SRBTF requires someone needs to serve as Chair, with Mr. Moyer responding that someone has to serve as department head to sign off on transactions. Mr. Fox stated that this authority can be separate from the Chair itself, which could be voted on as the first agenda item next meeting.

There is no formal process to amend the by-laws, but this process could be done at the next Board meeting for more transparency. Mr. Fox suggested that the Board could go with Mr. Moyer's edits included with the agenda or insert an additional statement that gives the Board flexibility to grant the Chair another term. The Chair suggested that he will continue serving until August, and this will be discussed again at the August meeting as will any drafted by-law amendments.

VII. Adjournment

There being no further business, a motion was made by Mr. Connarton and duly seconded by Mr. Finn, to adjourn the meeting at 10:30am. On the motion the roll-call vote was:

Mr. Connarton--Yes
Mr. Gervasio—Yes
Ms. Hedderman—Yes

Mr. Finn--Yes

Mr. Favorito--Yes