

MINUTES OF BOSTON RETIREMENT BOARD

**Administrative Session**

February 15, 2017

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Sally D. Glora, *Ex Officio* Member; Michael W. McLaughlin, Elected Member; Michael D. O'Reilly, Elected Member; Thomas V.J. Jackson, Fifth Elected Member.

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; Jonathan D. Lucas, Chief Financial Officer; John Kelly, Investment Analyst; Christine M. Weir, Operations Officer.

ALSO IN ATTENDANCE: Michael Manning, Matt Ritter and James Reichert of NEPC.

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**Convene**

The meeting convened and entered Administrative Session at approximately 10:07 a.m. All in attendance were identified for the record and introductions were made.

**Previous Minutes**

*Motion made, and seconded, to accept the Administrative Session Minutes of January 18, 2017, as presented.*

***Motion accepted (4-0)** Michael McLaughlin abstained due to absence.*

**Outstanding/Ongoing Administrative Issues: Timothy I. Smyth Executive Officer**

*Annuity Balance Correction ("ABC") Project Update, Ms. Luella Wong*

The ABC Team expects to implement two more major changes in March, 2017. The next set of deceased member accounts have a negative balance and when these accounts are verified and zeroed out, the annuity balance will actually go up. The second correction involves refunded member accounts and, when corrected, will bring the discrepancy down to almost zero; subsequent corrections may actually take the balance below zero (that is the GL balance will be higher than the annuity balance). The goal is to make them match.

The remaining accounts for deceased and refunded members will require case by case review. The discrepancy between the annuity balance and the general ledger has been a finding on every PERAC Audit conducted. The goal of the ABC Project is for the annuity balance to match the general ledger before the next PERAC Audit later this year.

*PERAC approval re membership eligibility supplementary regulation*

Mr. Smyth reported that PERAC has approved the Boston Retirement System's supplemental regulation regarding membership. Mr. Smyth will be circulating the approved regulation with the appropriate agencies, *i.e.*, Human Resources and payroll.

Mr. Smyth presented the following items for educational purposes only:

- PERAC Education for Active Members Report CY16 4Q
- CY16 Statement of Financial Interest for Board Members
- PERAC Newsflash 45

**Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst**

*Todd Asset Management*

NEPC and John Kelly were recently contacted by PERAC regarding the Board's investment with Todd Asset management and NEPC's failure to list Todd's use of third party marketing firm in NEPC's research materials distributed to the Board. NEPC made clear that this omission in the Board materials was purely clerical and apologized for their mistake.

Mr. Kelly explained to the Board the third party revenue sharing plan Todd has in place wherein it shares 50% of the management fee collected from the Board with a third party marketer for the life of Board's investment with Todd. Todd does not have a dedicated internal institutional sales team so instead they have implemented the revenue sharing agreement with the third party firm. The Agreement clearly states the Board will not be charged higher or any additional fees because of this Agreement. At the recommendation of PERAC, the Board reaffirmed their original vote.

*Motion made, and seconded, to reaffirm the hiring of Todd Asset Management with the acknowledgement of the firm's use of third party marketing.*

***Motion accepted (5-0)***

*Asset allocation and assumptions for 2017*

NEPC laid out its key 2017 themes, actions, and opportunities for the Board's consideration at the January, 2017 Board Meeting including:

- Consider changing current Core Fixed Income mix to incorporate TIPS;

- Allocate a portion of existing Int'l Dev. allocation to Int'l Small Cap Equities; and,
- Consider carving out a dedicated Private Debt target.

### *TIPS*

As a supplement to the January presentation, NEPC provided some Tips education and supporting analysis on international small capital equity. In 1997, the US Treasury began issuing Treasury Inflation Protected Securities (TIPS). Unlike conventional bonds, TIPS have built-in inflation protection. This feature protects purchasing power by guaranteeing a real rate of return. As a result, TIPS receive a lower yield (real rate) than conventional Treasuries. Some basic TIPS characteristics, include:

- Provide dual exposure to real rates and inflation;
- Principal value is adjusted using the non-seasonally adjusted CPI-U index;
- Semi-annual fixed rate coupon as a % of the inflation-adjusted principal;
- Deflation floor: Bond matures at the greater of the inflation adjusted principal or original principal; and,
- Issued in maturities of 5, 10, and 30 years.

Given their embedded relationship with inflation and diversification, Tips can be an important part of a strategic allocation. A TIPS allocation supports our investment objectives. Long duration TIPS are an ideal implementation option as they provide increased inflation protection. Adding TIPS to a fixed-income allocation may improve the overall risk/return profile of the portfolio. A diversified group of "safe haven" bonds makes sense.

*Motion made, and seconded, for NEPC to perform a search for an international equity small cap manager in which to invest \$100 million.*

***Motion accepted (5-0)***

### *Real Estate Search Review*

As a reminder, at the January meeting, the Board approved a short list of real estate managers for NEPC to conduct an additional round of analysis on:

- AEW Capital Management, L.P., AEW Partners Real Estate Fund VIII
- Carlyle Investment Management L.L.C., Carlyle Realty Partners VIII
- Crow Holdings Capital, Crow Holdings Real Estate Partners VIII
- LaSalle Investment Management, Inc. LaSalle Income & Growth Fund VII
- Mesrow Financial Investment Management, Mesrow Financial

- Real Estate Value Fund III
- Rockpoint Group, L.L.C., Rockpoint Growth and Income Real Estate Fund
- TerraCap Management, LLC TerraCap Partners IV
- Oaktree Capital Management, Ltd., Oaktree Real Estate Debt Fund II
- DRC Capital LLP DRC European Real Estate Debt Fund III
- Landmark Partners, Landmark Real Estate Fund VIII
- Siguler Guff & Company, LP Siguler Guff Distressed RE Opportunities Fund

The analysis provided by NEPC on these managers will be further discussed at the March meeting.

#### *Private Equity Search*

NEPC provided a list of respondents to the recently issued Private Equity search to identify managers to deploy the System's \$40 million 2017 commitment amount (an additional \$35 million is designated to Hamilton Lane). The respondents were categorized into three groups: debt, secondaries and other. The Board will have current managers Lexington and Z Capital present in March as their funds are closing soon.

#### *Updated December Flash Report*

NEPC redistributed the 2016 end of the year flash report, updated to include 3rd quarter private equity and real estate valuations, bringing the CY16 net performance of the total plan to +7.1%.

#### *January Flash Report*

January 2017 was a positive month for performance, with the plan +2.1% to start 2017.

#### *Investment Sub-Committee*

Executive Staff have been discussing the formation of an in-house sub-committee with a goal of actively monitoring, and staying on top of, the public plan investment environment. All Board members would, of course, be welcome to join.

#### *Hedge Funds*

Mr. Kelly informed the Board that he had reached out to the four (after Permal Entrust merger) hedge fund of fund firms with a set of uniform questions. He has received responses and has shared these with NEPC. Mr.

Kelly plans on presenting this material to the Board for discussion at the March, 2017 Board Meeting.

Outstanding/Ongoing Financial Issues: Jonathan D. Lucas, Chief Financial Officer

*Financial Snapshot*

Mr. Lucas presented the January, 2017 Financial Snapshot to the Board. He noted that the January, 2017 payroll went out timely to 14,698 payees and totaled \$47.8 million. January, 2017 also saw 44 refunds, buybacks and transfers processed totaling \$1.1 million and operational warrants of \$580,994.00.

Outstanding/Ongoing Operations Issues: Christine M. Weir, Operations Officer

*Operations Update*

Ms. Weir provided an update on the payroll number for January, 2017. There were 51 possible retirees (30 superannuation, 17 disabilities and 4 death of active members) of which 28 were processed (24 superannuation, 3 disabilities and 1 death of an active member). Of the 23 cases that did not make the payroll, 6 were superannuation, 3 were death of active members and 14 were disability retirements. The breakdown of the unprocessed cases is as follows:

- 2=Need refunds;
- 3=In process of buyback/rollover;
- 4=Missing salary (3 BPS & 1 BPD);
- 5=Members did not return final papers in a timely fashion;
- 1=Worker's compensation offset need additional info; and,
- 8=disabilities still in process.

*Buy Backs*

Ms. Weir reported that 59 outstanding buybacks are open for the backlog project, 27 are in review, and 193 cases are incomplete and closed. The majority of the back logs are issue's with determination if they are eligible to purchase time. Ms. Weir reported from the new buyback list 493 were completed and 58 are waiting for review. We have approximately 118 not started.

Outstanding/Ongoing Legal Issues: Padraic P. Lydon, General Counsel

*Waiver Request*

The following waiver request was presented:

Karen A. Crowley                      BTD                      \$4,525.35

*Motion made, and seconded, to deny this request for a waiver of under-deductions as it is Board policy to not grant waivers of this nature.*

***Motion accepted (5-0)***

Mr. Lydon presented the following PERAC memos for educational purposes only:

- PERAC Memo #6/2017 re Mandatory Training PERAC Memo 29-2016 re Buyback of Call Firefighter Time;
- PERAC Memo #7/2017 re Actuarial Data PERAC Memo 30-2016 re Annual Review of Medical Testing Fee;
- PERAC Memo #8/2017 re Non Full-Time Employees PERAC Memo 01-2017 re Updated Public Records Law;
- PERAC Memo #9/2017 re Buyback-Make-up Worksheet;
- PERAC Memo #10/2017 re Domestic Relations Orders;
- PERAC Memo #11/2017 re 2017 Annuity Savings Account Interest;
- PERAC Memo #12/2017 re 2017 Interest Rate set at 0.1%; and,
- PERAC Memo #13/2017 re PERAC training.

Mr. Lydon presented the following court cases of interest for educational purposes only:

*Kelleher v. Barnstable Cty Ret System*, Barnstable County Superior Court docket #1672CV00174 (dec. 01-24-2017). In *Kelleher*, the Superior Court ruled that hazmat overtime is not regular compensation.

#### Executive Session

The Board voted unanimously (5-0) to enter into Executive Session at 12:14 pm.

#### Adjourn

The Board voted unanimously (5-0) to exit Executive Session and adjourn from Administrative Session at approximately 12:45 p.m.

Respectfully submitted,  
BOSTON RETIREMENT BOARD

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Daniel J. Greene, Esquire  
*Mayoral Appointed Member, Chairman*



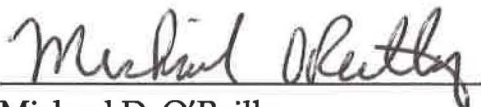
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Sally D. Glora  
*Ex Officio Member*



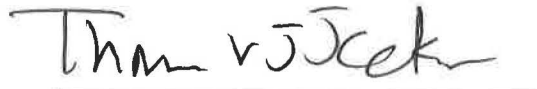
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Michael W. McLaughlin  
*Elected Member*



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Michael D. O'Reilly  
*Elected Member*



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Thomas V.J. Jackson  
*Fifth Member*