

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

April 27, 2016

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

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

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

ALSO IN ATTENDANCE: Michael Manning, Will Forde and Sean Gill of NEPC

Convene

The meeting convened and entered Administrative Session at approximately 10:06 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 March 16, 2016 as presented.

Motion accepted (5-0)

Outstanding/Ongoing Administrative Issues: Timothy J. Smyth, Esquire, Executive Officer

Annuity Savings Fund/Supplemental Membership Schedule

As the Board is aware, there have been multiple PERAC audit findings regarding the Annual Savings Fund and the General Ledger totals not matching. This reaches back some time and Mr. Smyth believes that a project should be undertaken to correct this issue. Mr. Smyth hopes to offer a recommended plan of attack at the next meeting.

Remodeling of Room 816

Mr. Smyth reported that the office is moving into a "pod" module where staff will collaborate. As such, the current office configuration is not conducive

to the pod environment and Mr. Smyth will request new furniture for staff. It was noted that there had been money set aside in the budget for remodeling, but not spent. Mr. Smyth anticipates having a presentation on this remodeling, and associated costs, at the next meeting.

Chapter 77 of the Acts of 2016 and Impact on Board's Supplementary Regulation Regarding Two Benefits to One Person

Mr. Smyth reported that there was a change in Massachusetts law regarding §9 and §12(2)(c) benefits. At one time, a disability retiree could name, for instance, a child, as the option C beneficiary, die for the reason for which they were retired, and the surviving spouse could be contemporaneously awarded a §9 death benefit. In essence, the Board would be paying two full retirement allowances.

A case named *Larsson* was issued wherein it was determined that only one benefit should be paid. In response, the Board drafted a supplementary regulation in 2014 addressing that issue, which was approved by PERAC on July 24, 2014. The Legislature has caught up to us with the law change. Given the change in the law, Mr. Smyth called for a Board vote to rescind this regulation, as a housekeeping issue.

Motion made, and seconded, to strike the Board's supplemental regulation regarding the payment of §9 and §12(2)(c) benefits to two separate individuals which was approved by PERAC on July 24, 2014.

Motion accepted (5-0)

Update on COLA and COLA base

Mr. Smyth reported that he has made statutory notice to the City Council, Commonwealth's Administration and Finance Office, City of Boston and all the autonomous agencies regarding public hearings on COLA and COLA base to take place at the May Board Meeting. A vote will follow at the June Board Meeting.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Mr. Manning stated to the Board that the NEPC Team is looking forward to next Friday's due diligence visit. This visit is part of the Board's investment consultant search. He also reminded the Board that NEPC's Annual Conference is being held on May 9th and 10th at the Hynes Convention Center and all Board Members and staff are invited to attend.

Private Equity Search – Buy-out Managers

It was reported that twenty-one managers responded to the Board's private equity search. The responses are broken down into 3 categories- buyout, multi-strategy and special situation. NEPC discussed the short list of buy-out managers at length with the Board. After discussion, the Board determined to invite the following buy-out managers to the June Board Meeting: J.F. Lehman and Company, Inc., Kohlberg Kravis Roberts, and Thoma Bravo, LLC.

Hedge Fund Performance Review

Certain hedge fund managers have been struggling with performance over the past couple of years. It was determined that the best course of action is to have the senior people from the struggling funds (Entrust, Permal and Mesirow) come in and talk to the Board about their performance.

High Yield Index and Manager Summary

DDJ and Crescent are fully invested and ramped up.

Motion made, and seconded, to have NEPC conduct a liquid opportunistic credit search in lieu of the bank loan search for 2016.

Motion accepted (5-0)

Vontobel Update

NEPC will be prepared to provide additional information on recent discussions with Vontobel regarding the departure of Rajiv Jain (lead portfolio manager, emerging market equity strategy) at the next Board Meeting.

March 2016 Flash Report

The Total Plan was up 4.4% for the month of March bringing the YTD figure to -0.1. The strong March performance was driven by the Plan's Total Equities at +7.6%. Emerging Market Equities were particularly strong at +11% for the month.

Private Equity and Real Estate Reports

NEPC has provided the detailed Q3 performance of the private equity and real estate reports for informational purposes. These reports provide additional information on the System's private equity and real estate investments.

Outstanding/Ongoing Financial Issues: Jonathan D. Lucas, Comptroller

Commonwealth's Appropriation letter for FY17

Mr. Lucas informed the Board that we have received the Commonwealth's appropriation letter for FY17.

Financial Snapshot

Mr. Lucas reviewed the March, 2016 financial snapshot with the Board, noting that the March payroll went out timely to over 14,677 retirees and beneficiaries totaling near \$47 million. Operational warrants totaling near \$782,000 were paid out as well.

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

Operations Update

There were 80 possible retirement applications in March, 2016; 61 regular retirees, 14 disabilities and 5 death of an active member. 64 of these cases were processed (superannuation, disabilities and death of active member). Of the 16 cases that did not make the payroll, 1 was updating a QDRO, 1 was in disagreement with final figures, 1 was a death of active member with questions on a buyback, 5 did not return final papers, 4 were missing salary (2 BPS & 2 BPD), 3 were missing documentation and 1 is awaiting approval from PERAC.

CBA Update

Ms. Weir reported that the legacy CBA project continues.

Preliminary numbers for detectives have been received. There are fewer than 50 in review for set up to calculate. Pat Murphy is working on a better query that will break down the detectives. The current file from Mike O'Keefe has all the information that needs to be deciphered. The group has completed testing on pre-retirement death processing and this is in production for May/June payroll.

Buy Back

The buyback project continues to move forward. Ms. Weir reported that 344 outstanding buybacks are open for the backlog project, 193 cases were incomplete and closed. 1080 have been completed and 67 are ready in review. Ms. Weir reported 255 new buybacks were completed and 60 are waiting review. There are currently 85 open workflows and staff is keeping up with all buybacks that are coming in.

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

PERAC Memos

The following PERAC memos were offered for educational purposes only:
PERAC Memo 11-2016 re Tobacco Company List;
PERAC Memo 12-2016 re Retirement Board Elections Regulations;

PERAC Memo 13-2016 re Disability Regulations;
PERAC Memo 14-2016 re Mandatory Retirement Board Member Training
-2nd Quarter 2016; and,
PERAC Memo 15-2016 re Disability Regulations and Signed Transmittals.

Court cases of interest

The following court cases were discussed for educational purposes only:

Jones v. Municipal Employees Annuity and Benefit Fund of Chicago, 2016 IL 119618 (Supreme Court of Illinois dec. 03-24-2016)

A statute was passed changing certain aspects of the pension law in Illinois. This statute reduced the value of annuity increases, specifically COLA increases, but the Supreme Court of Illinois held it was unconstitutional.

PERAC v. Bettencourt, SJC-11906 (SJC dec. 04-06-2016)

This is a long awaited decision regarding whether or not pension qualifies as a fine under the excessive fine clause of the 8th amendment. The Supreme Judicial Court held that it was to be considered a fine. The SJC further held analysis must be done to determine whether or not a fine is excessive.

At this point we are awaiting guidance from PERAC as to how to handle future forfeitures. We have put several forfeitures on hold awaiting guidance.

Burke v. MTRS, CR-15-428 (DALA dec. 04-01-2016)

The Burke decision states that payments teachers receive over the last 3 years are not base salary and thus not considered regular compensation because it was found not to be a recurring payment or a longevity payment. In essence it was a bonus for keeping to contract year to year and performing to the end of the school year that Miss Burke received that payment.

DiMasi v. State Board of Retirement, SJC-11971 (SJC dec. 04-21-2016)

Former Speaker of the House, convicted of several Federal crimes, whose pension was forfeited. The primary issue decided here was when is a conviction a "final conviction" for the purposes of §15 forfeiture cases. The SJC held that when an individual is sentenced it is considered final. Boards do not have to wait for the appeal processes to conclude. The SJC also held that the member is entitled to a return of accumulated total deductions refunded to him upon request.

Young v. State Board of Retirement, CR-10-789 (DALA dec. 04-01-2016)

The *Young* decision held that the member was entitled to have compensation received during periods of contract service that she purchased as

regular compensation. The State's buyback policy precluding the inclusion of such compensation as regular compensation was invalidated.

Suspend and enter Executive Session

A roll call vote (5-0) to enter Executive Session was had at approximately 11:53 a.m.

Adjourn

Board voted (5-0) to exit Executive Session and adjourn from Administrative Session at approximately 12:25 pm.

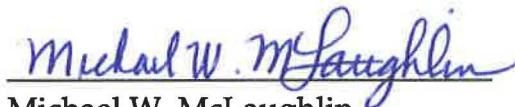
Respectfully submitted,
BOSTON RETIREMENT BOARD



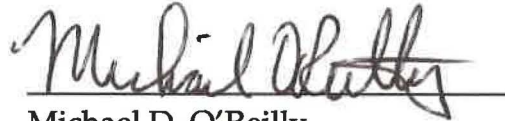
Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman



Sally D. Glora
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
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Thomas V.J. Jackson
Fifth Member