

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

April 15, 2020

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Maureen A. Joyce, *Ex Officio* Member; Thomas V.J. Jackson, Fifth Member; Michael W. McLaughlin, Elected Member; Michael D. O'Reilly, Elected Member (All Members remotely present).

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; John F. Kelly, Investment Analyst; Ellen M. McCarthy, Comptroller; Christine M. Weir, Operations Officer; Gregory Molina, Board Secretary (All Staff remotely present).

ALSO IN ATTENDANCE: Michael Manning, Will Forde, Kiley Fischer of NEPC; David K. Chene, Ben Bernstein of Kennedy Lewis Investments; Jeff Robinson, Kyle Betty of Bain Capital (All presenters remotely present).

Administrative Session Convene & Introductions

All in attendance were identified for the record and introductions were made.

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:06 a.m. Roll Call Vote: Member Joyce; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the March 18, 2020 meeting as presented. Roll Call Vote: Member Joyce; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

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

COLA & COLA base update

Mr. Smyth went on to update on annual COLA and COLA base. He stated that the Board will have public comment on May 20, 2020 and the vote itself will be conducted on June 17, 2020.

Pension Software Search

Mr. Smyth also stated that he expects presentations for software companies PTG and Vitech, as well as the Board's consultants, Mr. Oates and Mr. Dwyer, at the May Board meeting. He feels they are at the point where the Board should be able to make their decision on the pension software.

Death of Jose V. Fontanez

Mr. Smyth reported that Boston Police Officer Jose Fontanez died due to the COVID-19 pandemic. The system is looking at all options for a death benefit for the surviving spouse.

COVID-19 update

Mr. Smyth commended BRS staff on the work being conducted remotely. Work is being completed, working united and good spirited and technology is working well with minor interruptions. He is very satisfied on the way the work the staff done while working remotely.

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

March 2020 payroll update

Operations Officer Weir opened by stating that she too felt good with the technology being utilized by the BRS staff during the quarantine.

Ms. Weir presented March 2020 payroll as such: 84 new cases; of which, 79 made the payroll. Of the 6 cases that did not make the payroll, Ms. Weir reported the following explanations: one spouse refused to sign papers; one Member was away; one Member refused to sign because papers were sent too late; three cases QA questioned calculation and/or missing salary.

Chairman Green asked if BRS has seen any change in Member volume plus or minus. Ms. Weir answered that they are seeing Members by appointment only for ITR's on a monthly basis. City Hall is only open Tuesdays and Fridays. The volumes are lower due to that fact.

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

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

- PERAC Memo 17-2020 re Coronavirus Impact
- PERAC Memo 18-2020 re Mandatory Board Member Training
- PERAC Memo 19-2020 re Tobacco Company List
- PERAC Memo 20-2020 re Coronavirus Update

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

NEPC

Mr. Forde opened by providing a summary of presentation. Returns have been in line with expectations. Some funds have outperformed others have had more challenges. The BRS has been down roughly -9.9% for the month of March, YTD -14%. April 2020 has been a little bit better. The investments have been rewarded at least in the short term, helped in part by the rebalance that was implemented.

As a reminder for the Board, The Board had decided to re-balance \$95M from fixed income. \$85M would go into Equity, \$10 allocated towards liquidity purposes, capital calls and the like. That transition happened in late March a few spilled over into the beginning of April. Most of those funds were sourced from your core managers Black Rock, Wells and IR&M. We liquidated the Loomis Global Bond fund before the Corona virus impact to the portfolio. Those assets shifted over to three managers on the Equity side, Rumline, (US Large Capital) Aristotle (Small Cap) and PanAgora (International Equity).

International Equity Search

Mr. Forde continued by outlining the International Equity search. NEPC recommends prioritizing finding a replacement for the Fisher strategy from the Growth candidates. The Fisher strategy was a growth oriented portfolio that complemented the other managers within the System's International Equity program. Transferring assets from State Street to a new Growth manager will bring the portfolio's investment style back in to alignment. Consider 4-6 Growth candidates for NEPC to conduct a more detailed analysis on for the May/June meetings. If there are managers of interest from the Board please let NEPC know and we can include them in our analysis.

The State Street account is ~5% (or \$260M) of plan assets and indexed against the EAFE benchmark. This search criteria was crafted to focus on Large

Cap funds, with limited emerging markets exposure. NEPC received 67 responses from firms across different styles; core, value, and growth.

Consider 4-6 Growth candidates for NEPC to conduct more detailed analysis on for the May/June meetings. Secondly, the next phase should focus on evaluating your existing managers versus the candidates in the Core and Value categories. Reaffirm the Board's comfort and conviction in their existing relationships.

As a note, Panagora will be compared relative to the Core candidates and Todd will be compared to the Value candidates.

Chairman Greene asked would the Board be looking for a firm similar to Fischer. Mr. Forde answered that most of the firms would be similar to Fischer in that they'll be relatively concentrated and you won't see one hundred names in the portfolio. They will be Growth focused but some will have a slight tilt back to Core.

Private Debt (Distressed) Search

Moving on to Private Debt manager search and the candidates we'll be hearing from today, Bain Capital Credit and Kennedy Lewis. As part of the Private Debt investment program, the System needs to commit to new funds each year, maintain vintage year diversification and maintain investment level as older funds wind down. NEPC recommends committing an additional \$60M to the System's Private Debt program in 2020. European Direct Lending, \$15M committed to Crescent (January). Allocate to Niche Lending, \$20M (maybe \$15M). Finalist presentations have been postponed, and will occur in June. In the Distressed Debt space we had talked about \$25M (maybe \$30M).

Mr. Manning joined the meeting and stated that NEPC thinks that given everything that has happened in the market that they see an opportunity for the System to increase the Private Debt, particularly the Distressed Debt. The plan has been to do around \$60M every year. To the extent that the Board is interested in doing so, they can likely pull forward \$20M from the 2021 allocation and add it to the 2020 search. Because of what is going on today, many managers are starting new funds and calling a lot of capital and taking advantage of the current environment. If the Board is amenable we could increase the current commitment from \$60M to \$80M. As stated before, \$15M has already been committed to Crescent, leaving \$45M to invest with an additional \$20M from

2021. If that is the route the Board wants to go, NEPC would recommend refreshing the search list to capture any new managers and potential funds.

The Board and NEPC discussed the increase in Distressed Debt allocation and an increase to current managers or conducting a new search due to the current circumstances. Timelines, (May Search decision, June interviews and allocation.) What the circumstances would be to the investment if and when financial conditions improve. Potential closing dates.

Kennedy Lewis ("KLIM") presentation

Mr. Chene opened by stating that Kennedy Lewis Investment Management is an opportunistic credit manager established by Mr. Chene, former Managing Director with CarVal Investors, and Darren L. Richman, former Senior Managing Director with The Blackstone Group.

Kennedy Lewis's FUND II is targeting \$1B for Kennedy Lewis Capital Partners Master Fund II LP ("Fund II"), a global opportunistic credit fund. This would be a 3-year investment period, 3-year harvest period and a 1-year extension option. The return targets of 1.5–2x net MOIC and a 12–14% net IRR.

KLIM's track record in the 2017 vintage Fund I has \$516.5M of commitments and is currently in its investment period. Fund I has generated 18.12% net unlevered performance ITD and is 83% committed.

The strategy at KLIM is to invest across the capital structure, primarily as the first lien. All-weather strategy targeting the best risk-adjusted returns, we are focused on opportunities that are uncorrelated to the broader credit markets.

Proprietary sourcing is critical to creating a distinct opportunity set with an exclusive first look arrangement with several non-traditional industry leading intermediaries. The firm is also focused on finding companies with unsustainable capital structures that require creative, highly structured capital solutions that are generally not apparent to other managers. The firm has the flexibility to invest in both private and illiquid public markets, performing and distressed, U.S. and Europe. The target portfolio of 15 – 25 core positions; focused primarily on middle-market opportunities (\$300mm–\$3bn TEV).

Capital preservation is the primary focus across all investments. Kennedy Lewis ascribes an internal base case, best case and worst-case scenario to each investment and sizes each position so that, should the worst-case scenario occur,

the fund would not expect to lose more than 2% of portfolio commitments. KLIM targets opportunities that fall “below the radar” and are often too complex and too small for larger investors. The firm drives total returns at any point in the credit cycle.

Kennedy Lewis takes a partnership approach with borrowers. Kennedy Lewis does not structure loans that set a company up to fail. Companies in transition are sensitive to interest rates; therefore, fixed rate loans are often more appropriate than floating rate loans for borrowers.

In this current market KLIM sees great opportunities to go into some companies and provide rescue financing on a secured basis. There are all kinds of opportunities to either secure particular assets or collateral that KLIM likes, clamp down existing debt holders that aren’t willing to invest more capital to protect their positions.

The Board and NEPC discussed KLIM current investment strategy in not deploying capital from FUND 2 to date.

Bain Capital Credit (“BCC”) presentation

Mr. Betty opened by stating their commitment to Boston through this current crisis. Being based out of Boston heightens that commitment. BCC is a Global leader with offices in Boston, Chicago, New York, London, Dublin, Madrid, Hong Kong, Seoul, Guangzhou, Mumbai, Melbourne and Sydney.

BCC has 20+ years of experience in credit investing with \$44 Billion in assets under management (as of Jan 1, 2020). We are an employee owned firm of 152 Investment Professionals that speak 24 Languages. Bain’s experienced team that has invested through multiple periods of market volatility including 911, the dotcom bubble, the global financial crisis in 08, the energy crisis in and now in this Covid19 crisis.

All though all of these crisis’ were different and presented their own set of challenges. They also presented compelling opportunities. We are better investors for having to work through them. Since 2002 we’ve invested more than \$18billion across 718 distinct investment situations with positive returns in each vintage year. Our strategy has generated a 19.6% gross, 14.1% net IRR on ~700.

The opportunity set before us is at a magnitude that we have not seen in the past decade plus. We have raised \$2.4 billion already and we have our final
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closing coming up shortly where we expect to close on another \$1 billion in investor commitments. We have called capital and have started to do deals in the market.

BCC has a global team with professionals located across the US, Europe, Asia and Australia creates unique and diverse pipeline of opportunities with the ability to leverage the broader Bain Capital platform and network to source and diligence investments. Bain has over 450 investment professionals across Bain Capital worldwide, 73 dedicated to the Distressed & Special Situations (“DSS”) strategy and the DSS team supported by 35 industry professionals. Bain also has colleagues and associates in many types of investments such as; Credit, Public Equity, Ventures, Private Equity, Life Sciences, Double Impact, Real Estate, Partnership Strategies and Tech Opportunities. Mr. Betty concluded by introducing Mr. Robinson.

Mr. Robinson opened by thanking the Board and stated that he would like to start by outlining some of the guiding principles at BCC. Capitalize on complexity, we can tear apart opportunities with our deep assets and be able to participate where our competitors find it too difficult or don’t have the resources. Bain focuses on protecting downside risk, our first analysis is how do we get our capital back with the least risk possible. The firm is proximate to the opportunity set and provides liquidity when capital is scarce. BCC also utilizes flexible capital and resource advantage to build portfolios that are “cycle agnostic”.

Bain’s strategy focus is on Corporate Distressed; specific industry or company stress creates opportunities. Although we hate the distress that something like Covid19 brings, we can leverage our industry and restructuring expertise. The firm appropriately prices jurisdictional risk and remains patient for opportunities to create control or influence. Bank Deleveraging; BCC capitalizes on over-levered banking system and focus on highly complex assets, such as nonperforming loans (NPLs) to identify when banks are retreating from geographies and business lines and special situations. The firm provides highly structured capital solutions to corporate or hard asset owners by identifying idiosyncratic investment opportunities that don’t fit traditional private credit or equity to use credit-like structuring and asset coverage while gaining upside participation.

In conclusion BCC’s Fund terms are as follow; Indicative Terms, Terms are indicative and subject to change and should not be relied upon for a decision to invest. Refer to the private placement memorandum for more detail on the

indicative terms, risk factors and other considerations. Bain Capital Distressed and Special Situations 2019 fund's mandate is to seek to deliver equity-like returns through investments in credit-based distressed and special situations investments. The target Size is \$3billion with a 4-year investment period, 4-year harvest and two 1-year extensions. BCC's fees have two options; Option 1: During the investment period, 1.25% per annum of each investor's capital commitment. After the investment period: 1.25% per annum of each investor's net invested capital. Option 2: 1.75% of each investor's net invested capital carried interest is 20% carry over 8% preferred return (100% catch up).

The Board discussed with BCC the amount of the fund that has already been invested. The amount was approximately \$700M in the past year. Going forward, 50% of fund would likely be in restructuring and 50% rescue financing. End of presentation

The Board went on to discuss with NEPC the topics of fees, investment periods, allocation of an additional \$20M in funds from 2021 to 2020 in the Distressed funds' space to increase to \$65M, manager selection strategies, closing dates, negotiations and Non-traditional Education finance (Student Loans). The Board instructed NEPC to conduct a refresh on the distressed debt manager search and get further information from Bain and Kennedy Lewis pertaining to a few of the above topics. The Board will then decide in May 2020 on managers they want to meet with and vote on in June 2020. Small Cap equity manager Segal Bryant & Hamill performance concerns (SBH) were discussed. Mr. Manning will meet with SBH managers to discuss strategies and performance.

Market and Performance Update

High Yield credit spreads have widened dramatically and violently with energy and CCC's leading the selloff, but it was broad-based. The distress ratio exceeded 2016 levels and poised to rise further with expected fallen angels.

Work Plan

Private Markets:	April 2020 - Finalist Presentations (Distressed)
Traditional:	May 2020 - Review Int'l Equity Respondents

Outstanding/Ongoing Financial Issues: Ellen M. McCarthy, Comptroller

March 2020 Financial Snapshot

Ms. McCarthy reported the following:

- Pension payroll for contributors: \$54,558,105;
- Total contributory payees: 15,231;

- Total non-contributory payees: \$308,577;
- Total non-contributory payees: 48;
- New regular retirees: 84;
- New Survivor/Beneficiary Retirees: 4;
- New Disability Retirees: 1;
- Refunds and transfers: 77 for \$1,261,058;
- Members Refunds: 61 for \$ 915,409;
- Members Transfers: 4 for \$18,321;
- Option B Refunds: 12 for \$ 327,328; and,
- Operational Warrants: \$ 416,380.

2019 Boston RS Annual Statement

Ms. McCarthy outlined annual report by stating that the total funds of net assets of market value increased over \$1B, \$4M over 2019 which is up 16% over 2018. As a result of a strong investment performance net investment income increased exceeding \$1billion, \$54M for the year which is a 470% increase over the 2018 earning. The BRS interest in dividends income increased 20% or \$25M for the year.

The annual form must be submitted to PERAC and has to be signed by each member. PERAC has extended submittal time due to all the remote activity. Once Board approves financial statement Ms. McCarthy will submit document for Board members to sign. This year the membership statement was included in the BRS annual report to PERAC which we haven't done in the last couple of years. We have not included it since 2015 because we were not comfortable in our numbers being reported. We have worked with Vitech to get our numbers secure and accurate. We included schedule one which is related to cash. We have submitted a schedule seven which includes all management fees.

Motion made, and seconded, to accept the 2019 BRS Annual Statement for PERAC as presented. Roll Call Vote: Member Joyce; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Adjourn

Motion made, and seconded, to adjourn from Administrative Session and go into Executive session at approximately 12:45 p.m. Roll Call Vote: Member Joyce; Aye, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

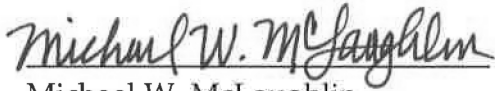
Respectfully submitted,
BOSTON RETIREMENT BOARD



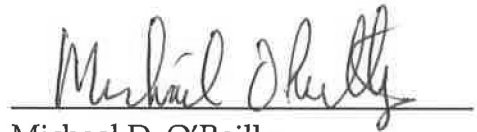
Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman



Maureen A. Joyce
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
Elected Member



Thomas V.J. Jackson
Fifth Member