

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

August 19, 2020

Boston Retirement Board, Room 716

Boston, MA 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Maureen A. Joyce, *Ex Officio* Member; Thomas V.J. Jackson, Fifth Member (Joined meeting while in progress); 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 and Seth Goldman all of NEPC; Joel Francis, Lou Roberts; Ernst & Young, LLP (All presenters remotely present).

Administrative Session Convene

The Board voted unanimously via roll call (4-0) to enter into Administrative Session at approximately 10:03 a.m.

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the July 15, 2020 meeting as presented. Roll Call Vote: Member Joyce; Aye, Member McLaughlin; Aye, Member O'Reilly; Aye, Chairman Greene; Aye.

Motion accepted (4-0)

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

- **Administrative Update**
 - PERAC Pension News No. 5

Mr. Smyth informed the Board that that there was a pension news document in the Boards meeting materials for their review. Mr. Smyth also informed Board that he would be starting to circulate the Board meeting minutes for signatures.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

- **Investment Update**

- NEPC

Mr. Manning opened by introducing Mr. Goldman and as a reminder, go over the System's 2019-2020 Real Estate search that was issued in September 2019 and focused on identifying candidates across three different styles: Debt, Value-Add and Opportunistic/Global. Managers have been selected for the Value-Add and Opportunistic components of this search, but a Debt manager has yet to be selected. The objective of this discussion is to determine a shortlist of Debt respondents for analysis and to select finalists to interview for the mandate.

Real Estate Debt Search

Mr. Goldman went on to give a Real Estate Market Update. Impact on real estate portfolios will depend on sector exposures –Hotels and non-grocery retail assets have been the hardest hit thus far, with senior housing, student housing, and any non-stabilized assets also impacted. Real estate transaction volumes have cratered; debt financing remains elusive except for high quality, stabilized assets with strong sponsors. The Distressed investment opportunities may pick up in non-core strategies –More attractive entry point to deploy capital –Given lack of transactions, the exact opportunity set (both in terms of strategy and return potential) remain to be seen.

Within Real Estate there are some sectors that are doing as well if not better during the Covid pandemic. Some examples of that would be industrial Real Estate which has benefitted from a rapid shift to ecommerce. Data centers have also done well due to people working from home and the growing demand for data usage. Two sectors that have suffered due to the pandemic have been retail and hospitality. The office Real Estate sector has performed pretty well during Covid. The lease structure for office tends to be more long term so you haven't seen a ton of leases rolling off. The bigger concern relates to what happens in the future when companies decide to renegotiate their leases or decide that they do not need as much office space or any at all. We continue to monitor that very closely.

As for the residential sector, this is an area that historically has been resilient during economic downturns. That resiliency has held up for the first seven or eight months of this year. That being said we are still a little concerned and monitoring that sector very, very closely as new legislations get pushed through and how it pertains to evictions and such. This depends on the residential types.

Ms. Fischer continued by updating on managers search. As part of the Real Estate investment program, BRS needs to commit to new funds each year, maintain vintage year diversification and maintain investment level as older funds wind down

The current Real Estate search encompasses the targeted commitments for 2019 & 2020. We are targeting managers across the style/risk spectrum with Real Estate commitments of \$45M in 2019 and \$55M in 2020. The BRS System committed to Opportunistic and Value-Add funds in 2019. The Debt search is the last search in this commitment. Remaining uncommitted funds are around \$20M but could be increased by rolling over some funds from 2021.

Mr. Goldman continued by providing the list of closed end fund managers that NEPC has identified. There are three managers as potential candidates for the BRS to consider. Oaktree Real Estate Debt III, The BRs has committed funds to Oaktree's Real Estate Debt II Fund and both NEPC and the BRS are familiar with the firms Debt strategies. The other firm identified was PCCP Credit Fund X. This firm has experience on both the Equity and Debt side of the market. This experience is an advantage for the firm. This strategy is originating senior Debt opportunities there for creating a lower risk lower earnings return scenario, different than Oaktree and a little more opportunistic in nature. The other firm identified is Torchlight Debt Fund VI. They are more opportunistic in nature therefor a bit higher returning. They focus on originating Debt but also purchasing Debt. Torchlight has a wide opportunity set and NEPC thinks that they are well positioned to capitalize on some of the distress that the firm is seeing in the market today. Particularly in the sectors we alluded to earlier like, retail, hospitality and office opportunities.

The Board went on to discuss with NEPC the topics of merits of all the fund managers, target fund size, larger funds, timing of investments, selection of investment manager, closings, preferred fee pricing, preferred returns, risk, geography issues, major and secondary markets and allocations of funds.

The BRS Board decided to have Blackstone, Oaktree, PCCP and Torchlight to remotely present to the BRS Board in the September 2020 Board meeting. *(It was later determined that Blackstone was no longer accepting new capital).*

Emerging Markets Equity Search

Mr. Manning continued by stating that the search is generated by the need to satisfy PERAC Massachusetts search requirements. Last search was conducted

in 2013. Would like to receive permission to issue a search for Emerging Market managers in the Equity space. The BRS Board approved NEPC to conduct the Manager search.

Q2 2020 Performance Summary

Mr. Manning reviewed the second quarter 2020 Investment Performance Analysis (“IPA”) with an update thru July. The IPA provides absolute and relative performance for the System along with in-depth manager analysis. For both those time periods, performance was great for the second quarter. The market value is back up to \$5B, the return for the quarter was 11.5% and the Managers added a lot of value with about +130 basis points over their bench mark. Year to date through that period it’s still down -3.7%. The rebalancing actions made a big difference.

July Flash Report

Mr. Manning went on to report that the BRS investment portfolio return was up +3.5 for the month of July, beating the allocation index net of all investment fees. The portfolio’s fiscal YTD is at -0.5% as U.S. equity markets continue to rebound. The Equity Managers in particular are doing a very strong job. Large Cap +7%, Small Cap -5% versus the benchmark of -10% YTD.

Work Plan

<u>Search</u>	<u>Date Issued</u>	<u>Candidate</u>	<u>Finalist</u>
		<u>Review/Analysis</u>	<u>Presentations</u>
Niche Lending	October 2019	February	June
Distressed Debt II	April	May	June
Int’l Equity (Growth)	February	May	July
Int’l Equity (Core)	February	July	N/A
Int’l Equity (Value)	February	July	TBD
Real Estate Debt	September 2019	August	TBD (Sept.)
Emerging Markets Eq. (Nov/Dec)	TBD (Aug.)	TBD (Oct.)	TBD

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

- BRS Financial Audit Results as of 12.31.2019

Ms. McCarthy opened by introducing Mr. Francis and Mr. Roberts who will be presenting audit results the BRS Board.

Mr. Francis stated that they have audited the accompanying Schedule of Employer Allocations of Boston Retirement System (the System), a component

unit of the City of Boston, Massachusetts, as of and for the year ended December 31, 2019, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense, excluding that attributable to employer-paid member contributions included in the accompanying Schedule of Pension Amounts by Employer of Boston Retirement System, as of and for the year ended December 31, 2019 (collectively, the specified column totals and Schedules, respectively), and the related notes and we have determined that they are quote unquote, clean.

In terms of our overall conclusions, we'd say that the System continues to make reasonable conclusions on significant accounting matters. All the conclusions continue to be appropriate. Wherever they exercise judgement or make estimates, they all continue to be consistent with practice or reasonable rational is being applied. We have no concerns over the development of those or the process that its undertaken.

A few things are required to cover by our professional standards. There are no real significant or unusual transactions for the year. We don't have any control matters to report formally. We don't have any independence matters that would cause any concerns and have not become aware of any fraud or suspicious activities relevant to the financial statements.

One minor item, and I stress that its minor. We just have to highlight for you. Whenever we come across differences or audit adjustments and or potential audit adjustments we have to make you aware of those. There are two, those were evaluated to be immaterial. They have been correct in the statements, there's not a problem with that. It happens to be a timing issue given the time of the calendar year and issuing the statements that are available. Again, very insignificant dollar value wise when you consider the magnitude of the financial statement as a whole. We are required to call it to your attention.

Motion made, and seconded, to accept the final audit results conducted by Ernst & Young, LLP for the year end, December 31, 2019. Roll call vote; Member Joyce; Aye, Member McLaughlin; Aye, Member O'Reilly; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

- July 2020 Financial Snapshot

Ms. McCarthy reported Pension payroll contributors: \$54,453,410 Total Contributory Payees: 15,145 Total Payees; Payroll (non-contributors :) \$318,567; Total Contributory payees: 43; New Regular Retirees: 18; Survivor/Beneficiary Retirees: 1; Disability Retirees: 3; Members Refunds: 41 for \$748,354, Members Transfers: 10 for \$395,871; Option B Refunds: 7 for \$189,019; Refunds and transfers: 58 for \$1,333,244; Operational Warrants: \$820,471.

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

- **July 2020 payroll update**

Mr. Smyth reported on behalf of Ms. Weir the July 2020 payroll as such; 24 possible retirees. 20 superannuation, 1 death of an active and 3 disability cases. 3 cases missed payroll as one did not get spousal consent, one wanted a buyback and is waiting for roll over funds and one decided not to take pension. Member took a refund.

Chairmen Greene questioned whether there was a difference in cases due to the Covid 19 pandemic? Ms. Weir Stated that the difference she's noted is that more Members are submitting their paper work back because staff is allowing to have Members submit electronically with a license and not requiring documents to be notarized or be present. That has driven up the number of Members getting on payroll.

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

- **Legal Update**

Mr. Lydon stated that there were no legal updates at this time and offered a number of PERAC memoranda for educational purposes only.

- **PERAC Memo 26-2020 re Reinstatement to Service under GL c 32 s 105**

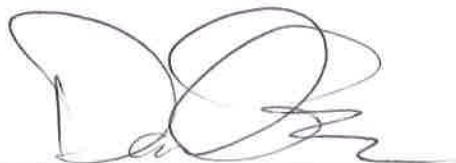
Mr. Lydon also informed the Board that legal is currently reviewing the contracts for the Vitech upgrade. Legal will be prepared in the very near future to engage Vitech for a final review of the contractual terms.

Member McLaughlin gave a short update on the Retirement plus one issue. Member stated that the Boston Teachers Union has hired Segal & Associates to conduct an analysis of any impact on the possible reopening of the Retirement plus Tarp eligibility window would have on either the BRS or The City of Boston in terms of their yearly payment or increased liability. This is slated to be completed in September.

Motion made, and seconded, to go into Executive Session at approximately 11:05 p.m. Roll call vote; Member Joyce; Aye, Member McLaughlin; Aye, Member O'Reilly; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Respectfully submitted,
BOSTON RETIREMENT BOARD



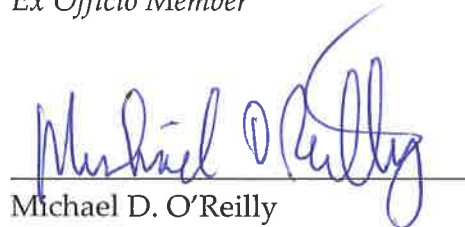
Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman



Maureen A. Joyce
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
Elected Member



Thomas V.J. Jackson
Fifth Member