

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

April 28, 2021

Remotely Meeting

Boston, MA 02201

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

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; Natacha Thomas, Assistant General Counsel; Gregory Molina, Board Secretary.

ALSO IN ATTENDANCE: Michael Manning, Kiley Fischer, NEPC; Janey Frank, Irene Ganley, Maryann Urban, Jessica Tang, Kathleen Riley; Alasdair Cripps and Thomas Hynes of Mesirow; Steve Hagenbuckle and Joseph Connolly of TerraCap; Svein Engh and Warren Tolman of Entrust; Maurice Werdegar, David Wanek and Seth Rosen of Western Tech Investments (All participants remotely present).

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:06 a.m.

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the March 17, 2021 meetings as presented.

Roll Call Vote: Maureen A. Joyce, 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

Vitech upgrade

Mr. Dwyer informed the Board that the project is on track, but getting brisk. The project is struggling a little with check printing, but they are working with the Treasury department and Vitech on a resolution. The most promising task is they are going to be able to add a section five, intent to retire, to this member self service portal we discussed previously.

COLA & COLA base

Mr. Smyth opened by asking that the actuary Kathy Riley to present as to the COLA and COLA base. Ms. Riley opened by stating that they prepared two memos on the COLA and the COLA base. Both dated March 18, 2021. The first one she reviewed on the RE: line, Additional Cost of Increasing the COLA Base Effective July 1, 2021 – Updated. It is updated because of their evaluation. It's a four-page document.

As they have done in the past Seagal has updated their estimates of the cost of increasing the Cost of Living. Adjustment (COLA) base from \$14,000 to \$18,000, in \$1,000 increments for both the BRS Excluding Teachers and the Teachers. They have assumed the base would be increased effective July 1, 2021 and that the additional cost would first be reflected in the fiscal 2022 appropriation. When you increase the COLA base, it increases the liability of the Retirement System's for both current retirees and future retirees. Therefore, it has an impact on the unfunded liability the normal cost and of course the appropriation. Roughly each \$1,000 increase in the COLA base adds approximately \$30M to the unfunded liability for the non-teacher component of the Retirement System and approximately \$700,000 in the normal cost funding.

To absorb that into the funding schedule, in the first memo they maintained the current funding schedule which has System fully funded by 2027. That funding schedule has the appropriation increasing by 8.85%. The fiscal 2022 appropriation would increase from \$365M to almost \$371M with a \$15,000 COLA base. Roughly each \$1,000 increase in the COLA base adds about \$5.6M to the fiscal 2022 appropriation, that \$5.6M increases at 8.85%.

Ms. Riley then went on to address the second memo. She stated that this memo would address a different way to increase the COLA base. That was to absorb the rather significant change due to the reduction of the investment return assumption.

Member O'Reilly asked; How would the numbers changed if the funding schedule were extended to 2029? Ms. Riley responded by stating, the System would not need to go to 2029, because we could absorb the first increase of \$15,000 in the current schedule of 2027. You can absorb the next three increases by going up one more year. If you go to 2029, you could theoretically lower the over all appropriation increase from the current 8.85% that they built into the schedule a year ago. That's a different discussion. If the 8.85% isn't affordable then you would look into extending the schedule. But you don't need to do that with respect to this COLA base discussion.

On the first memo, they show the impact on the teachers' liabilities, making the same changes on the COLA base. Keep in mind that the State funds the teacher's benefit. They have not incorporated it into a funding schedule. They have only shown the impact on the unfunded liability. For the teacher's, each \$1,000 increase in the COLA base adds almost \$17M in unfunded liability and about \$260,000 in employer normal costs payments. With that Ms. Riley ended her report.

Mr. Smyth went on to state that he has been in contact with Justin Sterritt the Chief Financial Officer for the City of Boston. Mr. Sterritt could not attend, but asked if Mr. Smyth could read into the record, two letters. Mr. Smyth went on to state that the first letter is dated April 28, 2021, addressed to Mr. Daniel J. Greene, Chairman Boston Retirement System. Both letters were read into the record, one supported a COLA of 3%; the second letter supported a COLA base increase of \$1,000 to \$15,000.

Mr. Smyth opened the floor for testimonies from attendees remotely present. Boston City Councilor Michael F. Flaherty was the first speaker. The Councilor went on to thank everyone and the Board for having him. He stated that he was in support for an increase in the current Cost-of-Living adjustment (COLA) base from \$14,000 to \$18,000 in advance of the May 19, 2021 Boston Retirement Board vote. This vote will impact retirees of all City departments and agencies, and he strongly believe that each and every individual who has served our City deserves to be compensated fairly for their many years of service. Councilor Flaherty went on to thank Mr. Smyth and the Board for their attention.

Others that spoke of their support for the COLA increase, including Lawrence J. Connolly, Janey Frank and Jessica Tang. Afterward, Mr. Smyth informed Chairman Greene that public comment was concluded.

Mr. Greene stated that the Board would vote on this next month, both the raising of the COLA base itself and the granting the COLA. The record will be kept open so as to give the people opportunity to comment or add any further information to be sent to Mr. Smyth. It all will be considered by the Board before the vote is taken next month.

Member O'Reilly stated that on behalf of John Soares, President of Boston Fire Fighters Local 718, that the base should be increased. Member McLaughlin wanted his comments on the record stating that Boston Fire Fighters Local 718 is in full support of increasing the COLA base to \$18,000.

Member McLaughlin wanted to add to the record the additional correspondence of support from, Beth Kontos, President, AFT Massachusetts; BASIS, Administrative Union and the Boston Public Schools and Steve Tolman, AFL-CIO. He wanted to thank the BTU- RTC members that attended today. Jessica Tang, President of BTU; Johnny McInnis, Political Director, BTU; Marylin Marion, BTU and Lawrence J. Connolly and Janey Frank for their comments.

Member O'Reilly wanted to also acknowledge the testimonies of support of the Boston City Council and Councilors Michael Flaherty, Edward Flynn and Ricardo Arroyo.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

Real Estate Search

Mr. Manning opened by telling the Board that the main focus of the meeting is to outline the Real Estate searches and the Private Debt search. He stated the Real Estate Search was issued on behalf of the System and focused on identifying candidates across two different styles: Opportunistic and Value-Add. As a reminder, this search encompasses the targeted Real Estate commitments for 2021 and 2022. Two Value-Add candidates selected by the Board will present today as listed below. The next phase of the search will be evaluating the Opportunistic candidates to interview.

Mesirow

Mr. Hynes opened by thanking the Board and update on current fund Mesirow Financial Real Estate Value Fund IV, L.P. ("Fund IV") Mr. Hynes stated this fund will be focused on the multifamily market with a focus on Value-Added investments. With a secondary focus on joint venture multifamily developments. Target Returns: 12%-15% gross of fees and expenses, 10%-12% net of fees and

expenses. The target on this fund was \$550M and they have a \$750M hard cap, it has gone up to committed \$640M and currently closed \$565M.

Mr. Cripps went on to state that Mesirow is a Value-Added fund, 80% of what they are doing today is buying existing assets. Through better management and capital expenditures, they reposition the assets and drive value through increased cash flow growth. They have been a little more focused on the west coast.

TerraCap

Mr. Connolly started by thanking the Board for investing with TerraCap. He went on to state that when TerraCap first came in they said they were going to deliver solid performance versus their peers in the asset class; provide liquidity, they would deliver frequent distributions and they would reduce the J curve. Each of these have been delivered.

Mr. Hagenbuckle went on by stating that the firm is cash flow based, they focus on distributions and de-risking the fund. As they complete their property specific business plans for each property that they start creating at time of acquisition. Once they complete those business plans by either improving the property physically, operationally or financially, or a combination thereof. They sell the properties and distribute the proceeds.

TerraCap only invests in the markets that lead the nation in the following four metrics. Employment Growth, Corporate Relocations, Population Growth and Financial Strength of the market or GDP. (GSP)

TerraCap is offering investment opportunities on their Fund V. They opened the fund last October, they had a target of \$400M. It has only been open for seven months. By April 1st, they had raised \$339M. Total Capital Raised as of 4/22/2021 is \$360M, target return is 16% net IRR. The investment commitment is for 7-year average with 1 distribution every 2.5 months. The current portfolio has proven resilient through recent times of crisis – COVID-19 pandemic. With 93-99% of normal revenues across Funds.

The Board, BRS staff and NEPC staff discussed capacity, performance, funding commitments, capacity, fees and the merits and advantages of the presenters.

Motion made, and seconded, to hire TerraCap Partners V U.S. Value Added Commercial Real Estate Fund for \$40 million commitment. Additionally, hire the Mesirow Real Estate Value Added Fund IV for \$10 million commitment.

Roll Call Vote: Member McLaughlin; Aye, Member O'Reilly; Aye, Member Joyce; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Private Debt Search

Mr. Manning stated The Private Debt Search was issued on behalf of the System and focused on identifying candidates across various styles: Direct Lending, Niche Lending, Opportunistic Credit and Distressed Debt. NEPC recommends committing an additional \$60M to the System's Private Debt program in 2021. The search respondents were reviewed at the March meeting and the Board selected two Niche Lending candidates to interview. The candidates will present today as listed below. The next phase of the search will be evaluating the Opportunistic candidates to interview.

Entrust

Mr. Engh had difficulty with his Zoom connection. Mr. Manning and Mr. Tolman discussed presenting at a later date. Mr. Manning asked Mr. Tolman if he could give a quick update. Mr. Tolman went on to state that the special opportunity fund where the System invested \$30M in 2017, is 100% fully deployed as of last year. They have realized eight investments and still have 30 investments to go. The realized IRR is 17.94%, that is on called and invested capital but not on committed capital. They do not charge fees on committed capital nor do they (Since it's on the Systems books.) they count it against returns. The fund is doing very well. With regard to the Peruvian Bonds Entrust remains very hopeful of a resolution and given that they have a low-cost basis on these bonds they expect a decent return to the City.

Mr. Manning stated that everyone will get the technology issues cleared and they would have Entrust return at a later date to present their Blue Ocean Fund.

Western Tech Investments

Mr. Werdegar opened by introducing his partners Mr. Wanek and Mr. Rosen. He went on to state that WTI provides debt capital to technology and life science companies. They have a 40+ year track record across 9 institutional debt funds that originated \$6.8B in loan commitments since 1994. WTI has 300 portfolio companies per fund and is US focused but has global reach through the USA

Canada, Europe, Israel, Latin America and China. Their goal is to generate a net IRR of approximately 15% to their investors. They achieve that through interest gains on their loans, warrants and equity gains from deals that they do.

Their model is to lend money to early and emerging tech and science companies. That could be a company at a very early stage, to a very late stage company before it goes public. They have many companies in the Boston area, one of the most well-known company is a company called Toast. Which does point of sale software systems for restaurants, coffee shops and such. They have had a breakout year with Covid and is a company that is going public soon.

Their goal as senior lenders is to have a fully secured lien on all assets of the company. That includes cash, account receivables, intellectual property and there are no exclusions to that. That means that in a downside scenario they can work cooperatively and collaboratively with the management team to sell the assets if they need to, restart or monetize the company if needed.

They are not a bank, they provide real capital that provides real runway to these companies. They loan at 12%. All loans are three to four-year loans, they are a senior secure lender. They are going to senior debt and prohibit additional debt. They use milestones on their debt to de-risk the debt. Milestones may mean that they allow a company to access a portion of their capital line but then they have to earn the rest by hitting revenue or product milestone. Every deal comes with an equity warrant. WTI ends up owning approximately 1%-2% of these companies.

Mr. Kelly asked about any concern on the 42% tax increase of \$1M or more that's looking to be passed? Mr. Mr. Werdegar answered that would be on individual tax returns and would not have effect on the venture space.

The Board, BRS staff and NEPC staff discussed current relationships, past performance, funding commitments, capacity, niche markets, shipping industry, firm strategies, 2022 funds, other debt funds on the horizon, fees and the merits and advantages of the presenters.

Motion made, and seconded to hire Western Technology Investment (WTI Fund X) for an amount to up \$15 million depending upon capacity.

Roll Call Vote: Maureen A. Joyce, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Emerging Markets Equity Growth Search

Mr. Manning stated that there three other searches coming up. First, Emerging Markets. As a reminder, the Emerging Markets Growth Equity finalists presented in January and the Board narrowed down the finalists to two candidates: Columbia Threadneedle and Vontobel. A manager has yet to be selected for the mandate. NEPC has continued to review and discuss the candidates with the Board to help facilitate the decision-making process. The objective of today's discussion is to select a finalist for the Emerging Markets Growth mandate.

Motion made, and seconded, to hire Colombia Threadneedle Emerging Market Equity product funded with the Vontobel asset management product currently in that space.

Roll Call Vote: Maureen A. Joyce, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Letter from PERAC re ABS Emerging Markets Equity Growth Search

Mr. Manning stated that the ABS Emerging Markets Equity Growth product that the System elected to hire. PERAC had some questions about the product and the search. Some of those were frankly created by NEPC and he apologized for that. They have cleaned up how they are going to go about communicating this. In the past, they have shown the System what the NEPC rating was and the PERAC rating was. Apparently, that has created some confusion at PERAC. They were concerned because ABS was rated in NEPC discovery platform so they marked it with a "D" grade. They were also uncomfortable with the track record of ABS. They have had a live product for three years. But they have been doing this strategy for much longer as part of their other vehicle. This is something that NEPC tracks and are very comfortable with their track record. NEPC's recommendation is to reissue the search to address these concerns. The Board agreed with NEPC recommendations to reissue the search.

International Equity Value Search

Mr. Manning went on to state that NEPC's mistake has carried over to the Todd Asset Management search. As part of the International Equity Value search that was conducted last year. When the System hired Walter Scott, decided to keep Panagora and also decided to keep Todd Management. Again, NPEC was showing their research department's rating which operates on a different scale than the PERAC ratings. PERAC raised concerns that it was a three rating. Why did they

change it to a two? NEPC tried to explain that it was different on the NEPC scale. NEPC explained that Todd did use a placement agent and went on to discuss management fees. Todd's standard fee is 80 basis points but for BRS as an NEPC client it is only 55 basis points. It's a very attractive fee and comparable to other asset managers. Todd has done a very good job versus the bench mark.

NEPC recommends sending this presentation to PERAC and sharing that what was reviewed here is why they think Todd is attractive and an advantageous mandate. The System is not making a new investment. This is just keeping a manager that the System has had in the portfolio and have had a good experience with. The Board agreed with NEPC's recommendations of updating PERAC on the Board's discussion and materials shared.

Debt Opportunistic Search

Mr. Manning asked if there were any other managers that the Board would want to meet with from this search? They are competing for the additional \$50M of Private Debt. The Board decided to have GoldenTree and Entrust come to the next Board meeting to present.

March 2021 Flash Report

Mr. Manning stated that overall the portfolio was up 1.9% in March which brought the YTD performance to +3.6%. Specifically, the US Large Cap Equity portfolio has been gangbusters for a long time. Over the last year, 67% versus the bench mark 60%. The International Equity managers are starting to do a little better, up +4.9% versus the benchmark of +3.5%. Segall Bryant Hamill is doing better. Up 330 basis points, almost all of that came in March where you have a big rebound.

Core Fixed Income Search

Ms. Fischer stated that all the current Core FI managers were doing well. Wells and IRM have been impacted by rising rates but BlackRock conversely has benefitted from that environment. This search is being issued in compliance with PERAC guidelines. NEPC asked the Board for their approval to issue the rfp in order to review the respondents at the June meeting.

Work Plan

Mr. Manning proposed the following workplan.

	April	May	June	July	August	September	October	November	December
TOTAL PLAN									
Asset Allocation									
Performance		Q1			Q2			Q3	
Education/Review									
TRADITIONAL									
Search/Presentations	Revisit EM Search Growth	Board Call: Fixed Income Search	Review Respondents	Search Analysts/ Presentations					
HEDGE FUNDS									
Program Planning									
Search/Presentations									
PRIVATE MARKETS									
Program Planning									
Search/Presentations	DD Funded Presentations: EnTrust & WTT			Issue Private Equity Search	Review Respondents	Search Analysts/ Presentations			
Performance		Q1			Q1			Q2	
REAL ESTATE									
Program Planning									
Search/Presentations	Value Add Final Presentations: Newlin & Tinsley								
Performance		Q1			Q1			Q2	

Outstanding/Ongoing Financial Issues: Ellen M. McCarthy, Comptroller
March 2021 Financial Snapshot
 Ms. McCarthy reported her financial snapshot.

PERAC Annual Statement 2020

Ms. McCarthy stated that the annual statement was in the Board package, there are 10 files but referred the first one that can be reviewed highlighted Annual Statement 2020. To recap the statement for 2020, the total funds of net assets increased by \$898M or 12% for the year end December 31, 2020. This was a result of \$909M of net investment income. Even though that was down -14% or \$145M from 2019. The realized-unrealized gain of \$197M in \$1.3B, respectively generated the bulk of the investment income up +\$396M for the year. Unfortunately, the realized-unrealized losses grew at a larger pace of \$532M, reducing the Net realized-unrealized gains by \$136M. The balance of the decline in the Net investment income is due to \$12M and 8% drop in the interest and dividend income for the year. With more than a third of that a product of the equity portfolio dividend. Excluding the decline in the Net investment discussed, the balance of the other receipts increased by \$37M.

As the pension fund appropriation was up +6%, were \$27M. Another \$10M came from member deductions which was also up +6%. Adding to the growth of the total fund was \$1.8M reduction of disbursements for the year. Although, the pensions and annuities were up +\$16.3M and \$5.7M respectfully, refunds to members and transfers to other systems were down -\$9.8M along with the another \$9.2M reductions of reimbursements to other systems. The remaining savings were due to the \$1.2M reduction or 47% in the Option B paid during the year. The largest beneficiary of the fund growth was equities, which received \$185M, which an increase of 25%. Three other classifications of the portfolio each received in excess of \$100M. Private Equity and Alternative growth was up +38% from \$137M invested. The next Equity received \$136M for 22% injection and rounding out the three International Equity up +9% at \$117M.

All and all, based on the year that we had the System had a sound year and the revenue fund remains solid for the year. There is a signature page that I will ask Mr. Smyth to circulate to the Board to confirm that the board saw the report.

Motion made, and seconded, to accept PERAC Annual 2020 Statement as presented.

Roll Call Vote: Maureen A. Joyce, Member O'Reilly; Aye, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Outstanding/Ongoing Operations Issues: Christine Weir, Operations Officer

March 2021 payroll update

Ms. Weir provided an update on the payroll number for the month of March. There were 72 possible new cases (62 Superannuation's, 4 Death of Actives, 6 Disability), of which 60 made it to payroll. Of the 12 cases that did not make payroll, Ms. Weir noted: 1 legal issue with Spouse; 1 member being over paid by the department; 1 missing salary; 1 pending charges; and 8 members did not return final papers in time.

Ms. Weir wanted to make a note that since the pandemic that staff has been very busy. It seems that we're averaging 100 to 150 messages a day. In addition to that we do get the email requests. We are down a number of member service rep as well as one manager. So, some of our requests are taking a little longer. A lot of people are not patient with that. I just wanted to bring it to the Boards attention that attempts are being made to hire additional staff to back fill the positions that have been open during the pandemic.

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

Waiver Request – Kenneth Zanetti

Mr. Lydon informed the Board that he had one Needham waiver for the Board to consider. Mr. Kenneth Zanetti had been an employee of the State and the City at various time and upon leaving those employers, he refunded. Upon re-employment with the City of Boston, he purchased the refund back but his membership date was now his most current date of employment which was post April 2012. (Pension Reform) He had a monthly pension of \$1,284.00. During an audit, PERAC determined that he was subject to pension reform with a calculation utilizing a five-year final salary average instead of a three-year average and this brought his benefit down to \$1,119.00 a difference of \$165.00. A recoupment of \$59.95 a month was instituted, to payoff the overpayment of \$2,158.32.

Mr. Zanetti has asked the Board to consider waiving the overpayment and as noted in the last sentence in the Board memorandum. He is also requesting that he be paid a higher pension amount. The request for the higher pension amount is a DALA issue. The Board and staff discussed the request and its precedent, its complexity, membership date, calculations and rate.

Motion made, and seconded, to accept the Needham Waiver request of Kenneth Zanetti in the amount of \$2,158.32.

Roll Call Vote: Member Joyce; Aye, Member O'Reilly; Nay, Member McLaughlin; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (4-1)) Member O'Reilly voted Nay

The following PERAC Memos were offered for educational purposes only:

- PERAC Memo 13-2021 re 2020 Annual Statement of Earned Income Filing 91A
- PERAC Memo 14-2021 re Mandatory Retirement Board Member Training - 2nd Quarter 2021
- PERAC Memo 15-2021 re Implementation of Paid Family Medical Leave.

Adjourn from Administrative Session

The Board voted unanimously to adjourn from Administrative Session at approximately 1:41 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)

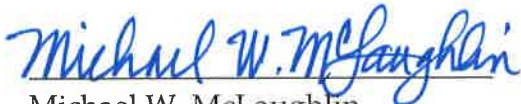
Respectfully submitted,
BOSTON RETIREMENT BOARD



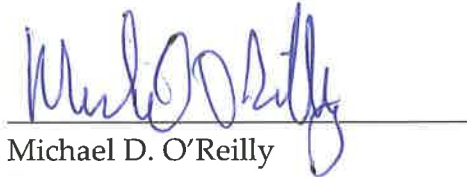
Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman



Maireen A. Joyce
Ex Officio Member



Michael W. McLaughlin
Elected Member



Michael D. O'Reilly
Elected Member



Thomas V.J. Jackson
Fifth Member