

MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session

October 20, 2021

Boston Retirement Board, Room 716

Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Member; Michael D. O'Reilly, Elected Member; Maureen A. Joyce, *Ex Officio* Michael W. McLaughlin, Elected Member, Thomas V.J. Jackson, Fifth 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; Natasha Thomas, Assistant General Counsel; Gregory Molina, Board Secretary (all Staff remotely present).

ALSO IN ATTENDANCE: Michael Dwyer and William Oates, Consultant for Vitech Upgrade; Michael Manning, Will Forde, Kiley Fischer, NEPC; Lowell Baron, David Mullane, Jarrod Rapalje, Brookfield; Billy Rahm, Keith Merrill, Taylor Hardison, Centerbridge; Albert Rabil, Orr Shepherd, Kayne Anderson (all Speakers remotely present).

Administrative Session Convene

The Board voted unanimously via roll call (5-0) to enter into Administrative Session at approximately 10:05 a.m.

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

Motion accepted (5-0)

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the September 15, 2021 meeting as presented.

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

Motion accepted (5-0)

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

Vitech Upgrade

Mr. Smyth introduced Mr. Dwyer for an update on Vitech. Mike Dwyer opened by stating that they are still targeting for a mid-November go live. You'll see a few items of concern and we are addressing them aggressively. The first item is paper checks formatting for the numeric code at the bottom and other parts of the check. They have submitted a test file to Citizens bank, in fact they submitted a monthly pension and a weekly refund and they got rejected. They had thought that having the base team do this they thought pretty much a guaranteed success. But it turns out that there shouldn't have been grey highlights behind the verbal text amounts and font sizes, some placements. BRS IT is beginning to get up to speed. Mr. Dwyer would like to thank Flor Valencia and Gloria Pizzarella but there is still some concern that they have complete control of this and autonomy. Bill Oates is helping us with some resources. Somebody with some real expertise in this so over the next few weeks they can resubmit and make any corrections that need to be made and that the bank wants. This is unwelcome news on something they expected to be on something they thought they had solved.

The other two things that they have identified and are having some success. Single sign on and single log off. This is the business of joining the mother fold of the City of Boston, the mothership. So, when you log in, you do it through their Access Boston and when you log out. They had a break through session with a large group of very smart technical people and they have that largely solved with a couple of little tweaks to do. We could go live with what we have.

The next thing is what Mr. Dwyer call project sociology. Are you involving the people? Are you involving other departments? BRS is in reasonable shape on health benefits. They are in reasonable shape in conducting one on one's with the treasury. Mr. Dwyer has met in person with them to hash out any issues they may have.

Mr. Oates followed up on a couple of points. The team has been working to bring in some additional technical resources to assist in this check printing issue. Some expertise around this Oracle business intelligence publisher product. Between the BRS tech team, Mike, and folks at DoIT, have made a lot of progress. They think it would be advantageous to have a resource that has done this a bunch of times with this particular product. They have a little bit of progress in getting that type of additional resource to get over this hump.

Mr. Dwyer mentioned the single sign in and single sign off. That has also made some great progress and Mr. Oates thinks its important to mention that DoIt security folks have done a real nice job in identity and access management in the City. They are connecting into that and taking advantage of that. Mr. Oates has

started down the path of what does the system do to do the systems risk assessment. To make sure that the system is mitigating the risk profile. The whole issue of access in allowing employees to come in to the system and terminating them appropriately, is one of those issues that falls on the short list as we think about cyber insurance check list. Its great that these steps are being taken that will pay off in the long run as negotiations' start for cyber insurance coverage for the BRS.

They are moving forward in that area. They have had some conversations folks that are in the cyber security insurance space. No surprises there. Because of the increase in events and the increase in costs responding to events, the insurance market place is pretty challenging right now. What that has resulted in is that as the companies are doing their insuring underwriting, there is a lot of focus on the risk profiles of the potential customers that they have. To that end, they have started to create the check list that the system needs to start working against. They have created the overall risk profile of the BRS. The goal is to get a better understanding of the BRS profile and to map that against some of the issues that some of these insurers are looking for. Mr. Dwyer will be giving the Board updates as they start filling some of these holes.

Board Member Training

Mr. Smyth stated that Mr. Lydon would touch more on the subject but there is a PERAC memo regarding Board member training. He would ask the Board members as 2021 winds down, please be cognizant with training responsibilities. If anyone has any questions on their particular situation, it can be talked about offline.

Direct Deposit policy feedback

As the Board is aware, last month staff sent out short of 500 letters to members who are still receiving paper checks. To date 185 members have converted to electronic checks. The System currently has 245 members are currently receiving a paper check. Since the beginning of the year the System has decreased paper checks by 352.

At this time, Staff is looking for guidance from the Board. Mr. Smyth has provided two letters in the Board package from members that were adamantly opposed to direct deposit for various reasons. Mr. Smyth asked whether the Board was amenable to leaving some members that did not wish to move to paper checks.

Member O'Reilly opined that the System should look at it from a case by case basis. Those that have had paper checks should be Grandfathered and going forward the System should take a hardline position on doing direct deposit.

Member Joyce stated that instead of having a waiver, a paper check should be an option that people can have but as soon as the System is down to 10 or 20, she really thinks the System should move them. The Board does not know the situation some of these people are in.

Mr. Smyth stated that; to the gentleman that Member O'Reilly mentioned. Mr. Smyth did speak to him and asked him how he was cashing his checks? He said he goes to the local bank where the check is drawn from. Some of the members have been getting paper checks for 30 years and staff has had multiple conversations with them and nothing has changed.

Member Joyce suggested maybe a yearly extension then review after a year. It's not worth calling them every month. Staff will continue to push for conversion and address again in six months to a year. Decisions on when to convert will be made at a senior staff level.

WISP Breach Response Guide

Mr. Smyth stated that by the first quarter of next year, he will have Mr. Oates and some senior staff get together and update the response guide that the System has been using for a couple of years.

Legislation

The final item that Mr. Smyth wanted to address. Is that there was a public hearing held concerning two house bills regarding the unused vacation buybacks. This is a very hot button issue here at the Board. The bills that are pending right now are only for vacation buybacks not personal leave buybacks. As the Board recalls, the System has been treating them as regular comps since 2021. The O'Leary case came down, which said that it's not regular comp. The System put the skids on. This legislation is to protect the retirees. For many years the System has included it in final average salary. He then asked Member O'Reilly if he had anything to add.

Member O'Reilly stated that one of the bills is to protect the retiree. The other is the PPFM bill that was crafted by the lawyers from BPPA and PPFM and a few others. It went through the house last session and they ran out of time in the senate. They are going to be asking the committee chairs to pull this one out and not delay.

If the member was participating prior to May of 2018. You'll still be able to receive part of your regular compensation. Details weren't included in the legislation because as you know. This is known as the O'Leary fix and the O'Leary case was regarding just vacation. You can always have a legislator file an amendment when it gets to the floor that and maybe to extend it. Mr. O'Reilly feels it should be extended it anybody that was hired prior to that May 1st, 2018 date.

Anybody who is hired would be still eligible. You would have had to buyback at least vacation at least one time prior to that May date. It's in the court of appeals right now.

Mr. Smyth reiterated that a major concern he has with the bill is aside from the fact that essentially you have two classes of members. The newer hires or the folks who weren't eligible to buy it after 2018 are not going to be eligible at all. A more pressing concern he has is the fact that personal leaves were omitted. The way Mr. Smyth is reading the bills, even if passed as drafted it would not be regular comp and that's problematic for a whole host of reasons.

Member O'Reilly stated that they were told under no specific terms that the legislature was not going to pass a bill that PERAC couldn't live with. The bill was filed in a way that PERAC could live with.

Outstanding/Ongoing Investment Issues: John F. Kelly, Investment Analyst

NEPC

NEPC's Mr. Manning, provided analysis on a short list of 3 Opportunistic RE search candidates. At the September meeting NEPC provided an overview of the private markets program for 2021 and revisited the Opportunistic Real Estate search. The search candidates were reviewed and the Board selected three finalists to interview at today's meeting. As a reminder, the Opportunistic Real Estate search is part of the 2021/2022 Real Estate search, which encompasses commitment amounts for 2021 and 2022 across various strategies. The objective of today's presentations and discussion is to select a manager(s) for the Opportunistic Real Estate mandate of ~\$30-\$60 million.

Real Estate Search Candidate Presentations

➤ Brookfield

Mr. Mullane opened by intruding himself, Mr. Baron and Mr. Rapalje. Mr. Baron stated that Brookfield Strategic Real Estate Partners IV (BSREP IV) is the continuation of our flagship global opportunistic real estate program. The New Fund Offering is Seeking \$17 billion of capital, including Brookfield's commitment of \$2.5 billion and is targeting a gross IRR of 20% (16% net) and a 2.0x gross multiple of capital (1.7x net).

The Investment Strategy is to acquire real estate companies, properties, distressed loans and securities. Invest globally with a focus on markets where we have a significant presence and extensive market knowledge. To pursue large-scale, creative transactions where competition is limited and there are multiple opportunities to create value. The firm will then leverage Brookfield's in-depth operating capabilities to enhance value and provide certainty of business plan execution.

BSREP IV will seek to allocate capital across the globe in markets where it has a significant local presence and extensive market knowledge. The target allocation is 45% Americas, 30% Europe & Middle East and 25% Asia-Pacific.

➤ *Centerbridge*

Mr. Merrill introduced his team. He stated that the firm was established in 2005 by Jeffrey H. Aronson and Mark T. Gallogly. Centerbridge Real Estate Fund II, is their second comingled dedicated real estate fund. The fund is at the tail end of the fund raise. They expect to close with about \$2 billion in capital for this vehicle. The broader team are 276 professionals across offices in New York and London. 103 experienced investment professionals with a breadth of industry and transaction experience.

Mr. Rahm stated that the firm is able to gain Real Estate insights gleaned from other sectors. Their in-house specialists give them the capabilities in portfolio operations, trading, capital markets, restructuring and asset-based special situations. They have 18 dedicated Real Estate professionals that leverage the insight of a broader 103-person investment team.

Centerbridge Real Estate Track Record is; Gross IRR; 23%, Net IRR; 17%, Gross MOIC; 2.2x and Net MOIC; 1.7x. \$10 billion of equity invested in over 110 real estate investments since inception. 86% of capital invested Fully or Materially Realized. Gain to loss ratio of 39:1 across all real estate investments.

Centerbridge invests in loans, bonds, CMBS, equities, special situations and structured investments. Their ideal investment period is when there is volatility in capital markets, scarce financing available, lack of liquidity and highly complex capital structures. Centerbridge derives value by identify market mispricing, leverage restructuring experience with vast network of lawyers and financial advisors, capitalize on differentiated insights gained through deep industry relationships and join creditor groups, where considered potentially helpful, to influence outcomes.

➤ *Kayne Anderson*

Mr. Shepard opened by stating that Kayne Anderson is a leading alternative investment manager since 1984 and is an independent, private, employee-owned company. It holds \$31 billion in assets under management with 125 investment professionals (325 employees) The firm holds a substantial employee capital commitment with ~5%+ of invested capital.

Mr. Rabil stated that the alternative verticals that Kayne Anderson invests in are Medical office properties serving healthcare tenants. Physician offices, surgery centers, imaging centers, orthopedic clinics, oncology clinics, among others. Seniors Housing; Housing communities for the elderly with varying levels

of acuity - majority of independent living ("IL") with some assisted living ("AL") and memory care ("MC"). Student Housing; Off-campus residential buildings and communities adjacent or pedestrian to major universities that exhibit perpetual demand characteristics. The Asset Quality Drivers are amenity-rich properties that are tailored to the specific tenant base through unit mix, unit layouts, design and common area offerings.

Mr. Rabil went on to state that the firm is only investing in the United States and only in these three verticals. There are a number of different reasons that there are outsized risk adjustment opportunities in these verticals. But, the primary ones are that it's a highly fragmented asset class with very few highly scalable best in class operators and you got incredible strong demographic trends backing the verticals.

Kayne Anderson has delivered over a 15% Net return over the last 14 and a half years with this strategy. The key differentiator between them and any other real estate Private equity platform is what he calls an operator-oriented platform. Fund VI size is \$2.5 billion (hard cap). The investment period is three years from final close. The terms are five years from end of Investment Period, plus three 1-year extensions.

The Board its staff and NEPC discussed the presentations and the strategy, returns, BRS's Real Estate portfolio, global reach. NEPC ratings, fund allocations, U.S. versus European markets and investment modified fees.

Motion made, and seconded, to hire Kayne Anderson Real Estate Partners VI Fund for \$30 million and Centerbridge Real Estate Fund II Fund for \$30 million to fill the opportunistic Real Estate mandate.

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

Motion accepted (5-0)

Private Equity Search

The Private Equity search was issued in September on behalf of the System and focused on identifying Secondaries strategies for a \$15 million mandate. NEPC will present the search respondent list at today's meeting.

The Board and NEPC discussed the Private Equity search respondents and their merits. The current Secondaries investments with some of the current firms and respondents. They will have Secondaries search candidates present in the December meeting. The Board decided to have Hamilton Lane present its annual strategic plan in November. In January NEPC will review asset allocations and pacing plan.

September 2021 Flash Report

Mr. Manning presented the October Flash Report stating that the System is -0.6% in the month of September, bringing the YTD to +9.7% and the One Year to +21.3.

Work Plan

Mr. Manning stated that NEPC has included an updated work plan with the including a proposed work plan for 2021:

PROPOSED 2021 WORK PLAN

	October	November	December
TOTAL PLAN			
Asset Allocation			
Performance		Q3	
Education/Review			
TRADITIONAL			
Search/Presentations			
HEDGE FUNDS			
Program Planning			
Search/Presentations			
PRIVATE MARKETS			
Program Planning		Hamilton Lane Update	
Search/Presentations	Review Private Equity Respondents	Search Analysis/ Presentations	Search Analysis/ Presentations
Performance		Q2	
REAL ESTATE			
Program Planning			
Search/Presentations	Opp RE Finalist Presentations - Brookfield - Centerbridge - Kayne		
Performance		Q2	

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

September 2021 Financial Snapshot

Ms. McCarthy reported the September 2021 pension payroll as follows: Total contributory payroll: \$57,575,153; Total Contributory Payees: 15,331; Total non-contributory payroll: \$280,145; Total non-contributory Payees: 34; New Regular Retirees: 61; Survivor/Beneficiary Retirees: 0; Disability Retirees: 5; Option C/Disb Survivors 6; Members Refunds: 46 for \$ 517,716; Members Transfers: 7 for \$390,615; Option B Refunds: 4 for \$111,923; and, Operational Warrants: \$1,009,800.

Ms. McCarthy also updated the Board that the system sent out a second mailing of affidavits. As of 10/19/2021, there were 483 retirees who did not return the affidavits of the second mailing. The System is holding their October 2021 checks.

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

September 2021 payroll update

Ms. Weir provided an update on the payroll numbers for the month of September. There were 69 total retirees, 2 Death of Active (DOA), 63 Superannuation's, 6 Disabilities. 63 cases made payroll, 6 cases did not make it to payroll for September. The reason members did not make it on payroll; 1 legal issue with DRO, 5 did not return final papers in time.

October payroll was cut today at 5PM. There were 139 total retirees. As she mentioned previously the system has found itself short staffed due to losing several staff members during Covid. The System has a hire that started this week, there is a new hire starting next week and the system will be opening additional positions as well. There was a person that the system hired and trained for buybacks and unfortunately, they left to work for the State. The priority on these two new staff members is to have them start on buybacks training and get them acclimated on member services.

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

Waiver request

- Angel Simpson – BPS - \$11,344.25

Mr. Lydon stated Ms. Simpson became a member in 1997. She became a teacher in 2002. Which made her a mandatory Tarp, BPS never changed her rate to 11% so there is a deduction shortage. She was not aware of these deduction shortages until October 2021. I fairness to Ms. Simpson she has met several times with staff to discuss purchasing prior service and retirement options. Based on that and prior practice I would recommend the Board approve this request.

Motion made, and seconded, to approve the waiver request of Angel Simpson in the amount of \$11,344.25.

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

Motion accepted (5-0)

PERAC memoranda offered for educational purposes only:

- PERAC Memo 25-2021 re Tobacco Company List
- PERAC Memo 26-2021 re Mandatory Retirement Board Member Training - 4th Quarter 2021
- PERAC Memo 27 2021 re Appropriation Data Due 10.31.2021 Memo 24-2021 re amendment to GL c. 32, § 100 as to police officer eligibility.

Adjourn from Administrative Session

The Board voted unanimously to adjourn from Administrative Session at approximately 12:36 p.m.

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

Motion accepted (5-0)

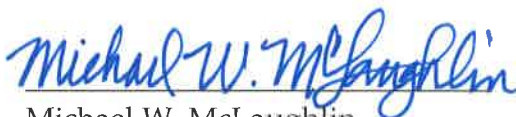
Respectfully submitted,
BOSTON RETIREMENT BOARD



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