

Minutes of the meeting held on July 1, 2019

Present: Francis Murphy – Chair, James Monagle, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, Ellen Philbin, James Quirk, Rafik Ghazarian and Chris Burns.

The meeting was called to order at 2:00 PM. The meeting was digitally recorded.

Agenda Item #1 – IFM Investors

David Altshuler and Joe Tremblay represented IFM Investors. A written overview of the portfolio was reviewed by the Board. Tremblay reviewed the history of the Board's investment to date. The system originally committed \$30 million and it took about one year for IFM to draw down the funds. To date, the fund has generated a 15.8% return, net of fees. He noted that the firm is owned by a group of 27 Australian pension funds. The funds have opted not to take a profit, and in the last year, offered clients a partial rebate on management fees due to the strong performance. The General Partners generate returns through the investment returns of the fund. Gardner asked about the use of leverage in the portfolio. Currently, the fund is about 35% leveraged. This represents a more conservative position than usual. Typically, the funds target leverage to between 50 and 60%. Any debt that the fund takes on is investment grade. Tremblay described the pending acquisition of Buckeye Partners, noting that it was still subject to regulatory approval. He stated that he expected it to close by the end of the year. This acquisition would likely draw all capital currently in the investment queue. Tremblay stated that existing investors have priority in their queue and that IFM does not charge a fee on funds until they are called. Altshuler reviewed the current composition of the portfolio. There are 15 portfolio companies, operating in 43 countries. Arqiva, a UK Telecom firm, is currently the weakest performer, returning only 4-5% annually. IFM is monitoring this holding closely to determine if it should stay in the portfolio. Tremblay described the size and depth of staff expertise as a significant advantage in the industry. He also described their management fee and how the performance incentive is calculated.

Agenda Item #2 – J.P. Morgan

Daniel Galinko and Blake Morris represented J.P. Morgan. A written overview of the portfolio was reviewed by the Board. Galinko reviewed the advantages of infrastructure investing, noting that it can provide strong returns, uncorrelated to other asset classes. The portfolio is an open-ended fund, which began investing in 2006. The fund consists of 19 separate assets, with a net asset value of \$11.3 billion. The portfolio always takes a majority holding, and in many cases takes 100% ownership of a new asset. The fund is weighted toward power and water generation and distribution. These assets make up 72% of the portfolio. Other assets include rail, seaports and airports. There are 50 employees working on the infrastructure fund. All employees are required to invest a certain percentage of their salary in the fund. Chamblin-Foster asked about assets in the fossil fuel space. Galinko stated that the portfolio does include a number of renewable energy assets, as well as natural gas generation and distribution. The fund does not invest in coal assets. He stated that natural gas plants are used in situations to stabilize the power grid when wind and solar generation lags. Galinko discussed how the firm positions itself for long-term returns. In most cases, the assets either have contracted arrangements, or are government regulated in order to provide services. This results in a very predictable income stream. Galinko stated that he would expect any new commitment to be called within 6-12 months. He reviewed the returns of the portfolio, noting that there can be an F/X impact from foreign assets. The firm does offer an option for investors to hedge out any currency risk. Galinko stated that the most significant risk to the portfolio was regulatory changes, and described a water utility in the UK which has come under increased scrutiny from regulators. The firm charges no fees until committed funds are drawn down.

Agenda Item #3 – Ullico

Luke Howe and Jeff Murphy represented Ullico. A written overview of the portfolio was reviewed by the Board. Howe reviewed the history of the firm, describing their origin as a life insurance company for union members. The infrastructure fund launched in 2012. It is an open-ended fund with \$1.5 billion in assets under management, and 14 separate assets. The fund invests only in the USA and Canada, and invests exclusively in projects that use union labor. Murphy reviewed the composition of the portfolio. Existing assets are weighted toward in-place structures with steady income streams, although the firm will look at adding more greenfield projects in the future. The infrastructure team has nine dedicated employees, supported by the back office at Ullico. The fund has an investment queue, and is generally able to draw funds within nine months. Renewable power generation is currently the largest single segment of the fund. Other assets include electric transmission, natural gas generation and pipelines, and water services. Murphy also described the ownership of a business which operates school buses in 209 school districts. Howe stated that the firm was recently awarded a mandate by the Norfolk County Retirement Board. This will be their first Massachusetts public client. The Chairman noted that Ullico's fee is significantly higher than the other applicants. Murphy stated that Ullico's fee is all-inclusive, with no performance incentive and no portfolio costs. He also stated that he believed that Ullico's net return would be competitive. Ullico has stated that they intend to review the fee structure once they reach \$2 billion in assets under management.

Agenda Item #4 – Segal Marco Advisors

The Board reviewed an analysis of the infrastructure candidates prepared by Segal Marco advisors. Ghazarian stated that IFM has demonstrated consistently higher returns over the last ten years. He reminded the Board that certain asset allocation strategies would require a larger commitment to the infrastructure sleeve. Ghazarian reviewed a comparison of the fees charged by managers. He noted that the performance incentives for IFM and JP Morgan are somewhat complicated and will vary depending on returns. Ullico charges an all-inclusive fee, but it is significantly higher than the other two managers. Ghazarian stated that Segal uses six infrastructure managers for their managed account clients, including all three of the current candidates. IFM has a largest allocation within the infrastructure sleeve. Gardner moved to invest an additional \$10 million with IFM. He stated that given their strong track record, and the returns generated to date, he saw no reason to switch to another firm. Shinkwin seconded the motion. On a roll call, it was voted unanimously.

The Board reviewed an analysis of the bank loan candidates prepared by Segal Marco advisors. Ghazarian stated that additional information on fees was added to the analysis. The analysis also compares the history of returns for those managers rated Advantageous and Highly Advantageous. Ghazarian reported that Segal utilizes Voya, Eaton Vance, Credit Suisse and Pinebridge for their fiduciary clients, and it appears likely that they will hire Bain Capital in the near future. Ghazarian described the functioning of a bank loans portfolio. He stated that the loans would typically be variable rate loans, made to businesses. In most cases, the loans are backed by some form of collateral. The loans are collateralized, and organized into tranches based on risk, then sold to investors. Ghazarian stated the evaluation of risk is taken much more seriously than it was during the 2008 financial meltdown. Firms will typically do their own evaluation rather than relying on reports from ratings agencies. Monagle stated that he would favor interviewing Credit Suisse, Pinebridge and Wellington as they have the best record of returns over the long term. The Chairman stated that he would also favor interviewing Octagon. Although they do not have a ten-year record of returns, they have the highest returns over the trailing seven-year period. The Chairman stated that he would prefer to conduct the interviews with the bank loans candidates before making a final decision on the asset allocation strategy. Motion by Monagle, seconded by Gardner to invite Credit Suisse, Octagon, Pinebridge and Wellington to interview before the Board. On a roll call, it was voted unanimously.

Agenda Item #5 – Minutes

Motion by Shinkwin, seconded by Monagle to accept the minutes of the investment review meeting held on May 29, 2019. The motion carried on a 4-0 vote, with Gardner abstaining.

Motion by Gardner, seconded by Monagle to accept the regular minutes of the meeting held on June 10, 2019. Voted unanimously.

Motion by Chamblin-Foster, seconded by Monagle to accept the executive session minutes of the meeting held on June 10, 2019. Voted unanimously.

Agenda Item #6 - Warrants

Motion by Gardner, seconded by Chamblin-Foster to accept payment of warrant #12 in the amount of \$7,094,915.27 and to accept payment of warrant #13 in the amount of \$101,215.64. Voted unanimously.

Agenda Item #7 – Superannuations

Motion by Gardner, seconded by Chamblin-Foster to accept the Superannuation retirement applications submitted by Pasquale Carvello, Senior Safety Specialist, School Dept. with thirty-seven years, three months; Bruce Cawley, Staff RN, Cambridge Health Alliance with thirty-two years, two months; Dale Cusack, Parking Control Officer, Dept. of Traffic and Parking with twenty-eight years, two months; Yvonne Dottin-Cardoso, Paraprofessional, School Dept. with twenty-eight years, nine months; Kathleen Esquivel, Senior Clerk/Typist, School Dept. with thirty-nine years, four months; Valerie Finkelstein, Network Supervisor, Cambridge Health Alliance with nineteen years, nine months; Brigita Jimenez, Paraprofessional, School Dept. with thirty-three years, nine months; Marie Louijeune, Certified Nursing Assistant, Cambridge Health Alliance with thirty-seven years, six months; James O'Connor, Mechanic/Laborer, Dept. of Public Works with twenty-four years, one month. Voted unanimously.

Agenda Item #8 - Make-ups/Redeposits/Liability

The Board reviewed make-up and redeposit worksheets for two members.

Motion by Shinkwin, seconded by Monagle to allow the make-up of contributions requested by Alan H. Derkazarian, 5 months and for Robert W. Garner, 3 years. Voted unanimously.

Agenda Item #9 – Refund Applications

The Board reviewed a list of refund applications submitted in June.

Motion by Gardner, seconded by Shinkwin to accept seven refund applications. Voted unanimously.

The Chairman requested to adjourn the open meeting and go into executive session for the purpose of discussing disability retirement applications. The Chairman stated that the meeting would reconvene in open session at the conclusion of the executive session. On a roll call, the vote was as follows:

Michael Gardner:	YES
Nadia Chamblin-Foster	YES
John Shinkwin:	YES
James Monagle:	YES
Francis Murphy:	YES

Agenda Item #10 – Involuntary Accidental Disability Application – John McEachern

The Board reviewed the involuntary application filed by the Fire Dept. on behalf of John McEachern.

Motion by Gardner, seconded by Shinkwin to accept the Involuntary Accidental Disability application filed on behalf of John McEachern, and to request that PERAC convene a medical panel. Voted unanimously.

Agenda Item #11 – Accidental Death Benefit – Michael Gibson

The Board reviewed Michael Gibson’s death certificate, correspondence from his treating physician and the certificate and narrative report of his 1987 medical panel.

Motion by Gardner, seconded by Chamblin-Foster to grant Accidental Death benefits to the surviving spouse of Michael Gibson, a retired Police Officer. Voted unanimously.

Agenda Item #12 - PERAC Memos

The Board reviewed PERAC Memos 17 and 18.

Agenda Item #13 - Old Business

Not needed.

Agenda Item #14 - New Business

Quirk stated that the Chairperson of CRAB will retire. This leaves only one member on their Board.

Agenda Item #15 - Executive Session

Agenda Item #10 – adopted

Agenda Item #11 – adopted

Agenda Item #16 - Chairman’s Report

None offered.

Agenda Item #13 – Executive Director’s Report

The Director stated that the deadline for candidates to submit nomination papers to run for a seat on the Board is July 9. One candidate has submitted valid papers.

KPMG will begin their audit work on July 9.

The following documents were also reviewed by the Board:

- List of Retiree Deaths
- PERAC Investment Report 2018
- Lazard Portfolio Review – April 2019

Shinkwin moved to adjourn at 5:45 PM.