

Minutes of the meeting held on May 4, 2020

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

The meeting was called to order at 1:05 PM. The meeting was digitally recorded. The entire meeting was conducted by telephone conference call.

Agenda Item #1 – Actuarial Valuation

Kathy Riley and Madison Ossmus represented The Segal Company. Riley stated that she was in the process of reviewing participant data provided by the Retirement Office. She stated that she expected that she would have preliminary numbers ready for review at the June 8th meeting. She would also be prepared to discuss assumption changes and to review possible funding schedules at that time. If the Board approves those materials in June, Riley stated that she could then finalize GASB reports by the end of June. She reminded the Board that the valuation provides a snapshot of conditions as of January 1, 2020. Given the significant investment losses to date in 2020, the Board may wish to consider various options for reflecting those losses. The Board could opt to immediately recognize the 2020 losses, or to do modeling to try to anticipate how those losses might affect the funding schedule going forward. For the 2018-2019 period, investment performance was fairly close to the assumed return. Riley reminded the Board that in 2018, the system opted to immediately recognize all investment gains, so there are no unrealized gains to be recognized in the current valuation. Segal ran the portfolio through their models which resulted in gains of 7.25% annually over the next twenty years. Riley stated that she would recommend that the system lower the return assumption from 7.5% to 7.25%. The other factor that would typically have a significant impact on the valuation is the mortality table. Cambridge is currently using a 2014 table. Most of Segal's public clients use this table, including the State Retirement Board, and it appears to provide reasonable accurate forecasts of retiree mortality. Nevertheless, there has been some pushback from auditors for using what appears to be an outdated table. Riley noted that there are more recent tables, that are based on life expectancy specifically for public sector employees. Outside auditors tend to favor their use, although PERAC has stated that use of the 2014 tables is appropriate. The current funding schedule calls for the system to be fully funded in 2026.

Gardner asked if Segal would recommend returning to an asset smoothing model, or if they would prefer Cambridge to stay with the market value model that was adopted in 2018. The Chairman stated that would like to see the impact of extending the schedule out to 2027. He also stated that he felt the Board should look at the impact of lowering the return assumption to 7.25%. Riley stated that she would favor a return to a smoothing method either in this valuation or the following one. Kale stated that he would like to see the cost of maintaining the 2026 funding date, although of the cost is prohibitive, the City may want to extend the date. Gardner stated that he was concerned that the valuation would lack credibility unless the Board makes a significant move toward recognizing the 2020 losses. Quirk asked about how the State had adjusted their return assumption. Riley stated that the State Board has lowered their return assumption to 7.25%, and is also using a 7.15% return assumption for the 2020-2021 time period. Ossmus noted that the present funding schedule includes several years in which the City does not increase appropriations over the prior year. By going back to 5.85% increases, the City could absorb some of the anticipated investment losses. Gardner asked about the possibility of doing another valuation at the end of 2020. Riley stated that there are a number of options, including doing another full valuation, or an interim valuation which would only account for investment performance without reviewing other assumptions.

Agenda Item #2 – Financial Update

Rafik Ghazarian reviewed a written report of investment performance for the first quarter of 2020. He stated that returns in April have been strong and that the portfolio has gained about 5% for the month, recovering about a third of the losses from the first quarter. Ghazarian stated that he would devote significant time to reviewing general market conditions other than to say that the COVID-19 pandemic has had a devastating impact on the economy and that he anticipated the unemployment rate could rise to as much as 20%.

Ghazarian reviewed an asset allocation report. With the recent investment losses, the equity sleeve is now well short of the target allocation. Hedge funds and infrastructure are now somewhat overallocated. Other asset classes are in-line with their targets. Ghazarian reminded the Board that they had recently voted to issue an RFP for a new value-added real estate manager. Given the volatility in the market and an apparent slowdown in real estate deal flow, Ghazarian recommended that the Board suspend the search. The Board could reconsider at the end of the year if they want to proceed with the search. Gardner moved to suspend the issuance of the real estate RFP. Shinkwin seconded the motion. On a roll call, it was voted unanimously. Ghazarian stated that he would also request a withdrawal of \$20 million from the hedge fund account, which would be paid in early July. The system will receive an appropriation payment from the City at the same time, and Segal will offer a recommendation as to how to distribute that money among the existing managers. Ghazarian stated he would not recommend any further moves to rebalance the portfolio at this point.

Reviewing the performance of individual managers, Lazard and Brandywine significantly underperformed their benchmarks over the last year. The PRIT hedge fund also showed poor returns.

Agenda Item #3 – Minutes

Motion by Chamblin-Foster, seconded by Monagle to accept a revision to the minutes of the meeting held on March 2, 2020. On a roll call, the motion carried unanimously.

Motion by Shinkwin, seconded by Chamblin-Foster to accept the minutes of the meeting held on April 13, 2020. On a roll call, the motion carried on a 4-0 vote, with Gardner abstaining.

Agenda Item #4 - Warrants

Gardner stated that he would favor the Board taking action to cut the allocation to Lazard soon, due to their poor performance.

Motion by Shinkwin, seconded by Chamblin-Foster to accept payment of warrant #8 in the amount of \$7,655,017.07 and to accept payment of warrant #9 in the amount of \$516,084.85. On a roll call, the motion carried unanimously.

Agenda Item #5 – Superannuations

Monagle stated that he was disappointed that the new PERAC superannuation form omits the member's date of birth. Gardner stated that he also found it to be useful information and requested that the staff query PERAC as to why the information was omitted.

Chamblin-Foster asked if the City was looking at offering any early retirement incentives. The Director stated that the Hospital and School Department have offered cash incentives in the past for members willing to retire by some certain date. However, any incentive affecting the calculation of retirement benefits by adding years to age or service time would have to be authorized by the legislature. Monagle stated that the City was not planning any retirement incentives.

Motion by Shinkwin, seconded by Chamblin-Foster to accept the Superannuation retirement applications submitted by Luciana Docanto, Unit Secretary, Cambridge Health Alliance with twenty-one years, two months and from Dellamarie Morrison, Housekeeper-Laborer, Cambridge Health Alliance with twenty-three years, three months. On a roll call, the motion carried unanimously.

Agenda Item #6 - Make-ups/Redeposits/Liability

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

Motion by Shinkwin, seconded by Gardner to allow the make-up of creditable service for Rachel B. Weinstein for two months and to allow the redeposit of a refund for Cynthia J. Harris for one year, five months. On a roll call, the motion carried unanimously.

Agenda Item #7 – Refund Applications

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

Motion by Gardner, seconded by Chamblin-Foster to accept two refund applications. On a roll call, the motion carried unanimously.

Agenda Item #8 – Annual Statement

The Board reviewed the 2019 Annual Statement.

The Director reviewed highlights of the statement. The system's investment returns were 17% in 2019. The Director stated that she and Burns would attend a PERAC webinar covering a number of topics, including whether the statement needs to be physically signed by the Board members. She reminded the Board that they could earn educational credits by viewing the webinar.

Motion by Shinkwin, seconded by Monagle to approve the Annual Statement. On a roll call, the motion carried 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 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 #11 - PERAC Memos

The Board reviewed PERAC Memos 20 and 21.

Memo #20 states that Superannuation retirees who return to work for a public employer will not be subject to the usual restrictions on earnings or hours worked, for the duration of the current state of emergency.

Agenda Item #12 - Old Business

The Chairman reported that he and the Director held a conference call with the building manager to finalize negotiations on the move to 125 CambridgePark Drive. The Director stated that she is still waiting on a final written version of the lease.

Agenda Item #13 - New Business

Gardner stated that he would prefer to use a videoconferencing program rather than the audio-only conference call for future meetings. Burns reviewed the process for posting public notice of Board meetings. He stated that the call-in instructions are part of the agenda and are posted on the system's website and at City Hall. The Chairman requested that Burns arrange to conduct the June meeting on video conference.

The Board reviewed a waiver prepared by PERAC related to medical panel exams. Burns stated that PERAC was in the process of trying to schedule videoconference medical exams in disability cases. No in-person exams have been conducted since early March. In order to schedule a video exam, the member, employer and Board must sign waivers agreeing to the

process. One disability applicant has expressed interest in using videoconference to undergo the medical panel exam. Gardner stated that he would be in favor of approving remote exams, in the interest of moving applications forward. Motion by Gardner, seconded by Shinkwin to accept remote exams as a general policy for the Cambridge Retirement Board. On a roll call, it was voted unanimously.

Agenda Item #14 - Executive Session

Agenda Item #9 – adopted

Agenda Item #10 – denied

Agenda Item #15 - Chairman's Report

None offered.

Agenda Item #16 – Executive Director's Report

The Director reported that the office continues to be physically staffed by either one or two people on Monday through Thursday each week. Philbin and Burns are continuing to conduct retirement counseling sessions by phone and the system is still processing new retirement applications. The Director stated that she has only had one request by a member to arrange a video conference. The majority of members prefer to speak by phone.

Shinkwin moved to adjourn at 3:30 PM.