

MINUTES OF BOSTON RETIREMENT BOARD

**Administrative Session**

April 27, 2017

Boston Retirement Board, Room 716

Boston, MA 02201

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

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; Ellen McCarthy, Interim Comptroller; Natacha Thomas, Assistant General Counsel; John F. Kelly, Investment Analyst; Christine M. Weir, Operations Officer.

ALSO IN ATTENDANCE: Patrick Donahoe of State Street Bank; Michael Manning, William Forde and Michael Yang of NEPC.

---

---

**Convene**

The meeting convened and entered Administrative Session at approximately 11:10 a.m. All in attendance were identified for the record and introductions were made.

**Previous Minutes**

*Motion made, and seconded, to accept the Administrative Session Minutes of March 17, 2017, as presented.*

***Motion accepted (4-0)** Daniel J. Greene abstained as he was not in attendance.*

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

*Annuity Balance Correction ("ABC") Project Update, Ms. Luella Wong*

The ABC Project is going very well and is currently ahead of schedule. There have been 14,000 accounts reviewed and about \$208 million corrected in the annuity balance so far. As previously explained, the annuity balance will actually swing below zero during the project, before coming back up. Chairman Greene inquired as to when the project would "end". The goal of the ABC Project is for the annuity balance to match the general ledger before the next

PERAC Audit scheduled for this November. Ms. Wong anticipates that we will be in really good shape by then

*State Street Bank Account Access and Securities Litigation Firms*

Portfolio monitoring and securities litigation firms monitor the Board's investment portfolio, watching for fraud, or signs of fraud, at no cost to the Board. If there is fraud, or something that appears to be fraud, it is brought to our attention for the possible filing of a securities litigation case. Going back many years, the Boston Retirement System used Pomerantz and Labaton Sucharow for securities monitoring. More recently, Wolf, Haldenstein; Chimicles & Tikellis; and, Bernstein, Litowitz, Berger Grossman were added, bringing the number to five firms.

Jack Lowe, Data, Analyst and Carolyn Moskowitz, Director of Institutional Investor Services at Pomerantz joined the Meeting via conference call (Jennifer Pafiti was unable to attend as she was on a flight). Patrick Donahoe of State Street Bank was also in attendance to discuss issues and concerns Mr. O'Reilly has regarding our securities litigation firms and access to our accounts at State Street Bank.

Mr. O'Reilly stated that, in January of 2017, it was discovered that Pomerantz was missing 31 accounts and he had since been trying to discover how and why that happened. It is his belief that State Street had not given him the information he asked for, that they have been "stringing him along", not giving him answers and then throwing large amounts of data at him that he felt really still does not provide any answers. After discovering that Pomerantz was missing the 31 accounts, a reconciliation was done with the other 4 securities litigation firms and Mr. O'Reilly was told by State Street Bank that all firms had access to all the accounts they were supposed to when, actually, this was not the case. Mr. O'Reilly says it was discovered that both Chimicles and B L B G, after Mr. Donahoe had confirmed that all firms had everything they were supposed to have, still did not have access to all accounts. Mr. Donahoe explained that there was actually a two day or more lag time in processing the request.

Mr. Greene asked Pomerantz when they first discovered they were missing 31 accounts. Mr. Lowe stated that on December 22, 2016, he was informed by Jennifer Pafiti that she had discussion with Mr. O'Reilly in that Pomerantz had not reported losses in Opus Bank and why would this be the case. This led to Pomerantz emailing State Street to see if they were missing accounts. On December 28, 2016, Mr. Giusto responded that State Street was in

the process of getting Pomerantz access to any funds that were not previously provided to Pomerantz. On January 6, 2017, Mr. Lowe followed up with Mr. Giusto and was told that it usually takes 7-10 days to get access to these accounts. By January 17, 2017, Pomerantz fully understood that there were 31 accounts missing in total. Ms. Moskewitz stated that she has been with Pomerantz since 2001, prior to the start of our relationship with them, and our original agreement stated that they would have access to the entire portfolio. She also stated that as they were filing claims and making recoveries for us, there was no reason for them to assume they did not have access to all accounts. Therefore, it was only back at the end of 2016 that they realized they did not have access to all accounts.

Mr. Kelly inquired as to whether Pomerantz used to perform annual or semi-annual reconciliations with State Street to make sure they had access to all funds to which Ms. Moskewitz said they had not. The data added up to all the accounts they had access to. In all of their dealings with custodial banks it was rare that they would be told an account had been added but they would see it added to their list of searchable accounts. When Pomerantz would log into the custodial bank then that's how they knew what they had access to.

Mr. Greene inquired as to whether the missing accounts were new accounts to which Mr. O'Reilly responded that the lack of information provided by State Street meant that he had been unable to determine this. Mr. Kelly spoke with Labaton, who perform semi-annual account reconciliation with State Street and they were missing an account, which they believed fell between the cracks between reconciliations. Mr. Kelly stated that's why he was wondering if the same thing had happened with Pomerantz. In other words, if they weren't reconciling with State Street for 10 years, that's why they did not realize the accounts were missing. Mr. O'Reilly stated that he had spoken to Garret Bradley at Labaton twice and was informed they had access to all accounts.

Mr. Donahoe said that he has been emailing with both Mr. O'Reilly and Mr. Smyth concerning this issue. He further acknowledged that although it was not his intent, he was aware of Mr. O'Reilly's frustration with State Street throughout the back and forth of this process. Twenty-seven of the thirty-one accounts Pomerantz was missing were commingled funds. He explained that we invest in 2 types of portfolios, commingled fund, where you own a share of the value of the fund as opposed to the underlying stocks and bonds. Mr. Greene stated that it is his understanding that we need to own the securities in order to have standing and take action. Mr. Kelly affirmed this, stating this therefore meant that Pomerantz was actually missing 4 funds, all of which were hired and

funded since October of 2015. Mr. O'Reilly stated that all of our securities litigation managers should have access to all funds regardless of whether or not they can take action.

Mr. Donahoe stated he is confident, that all five firms have access to all accounts, commingled and closed. Mr. Donahoe has also worked with Board staff to put into place some special measures including an annual review with and driven by State Street and each of the firms going forward. Additionally, whenever we file new fund paperwork with State Street Bank, State Street will then notify each of our securities litigation firms of the addition.

Mr. Lydon asked Ms. Moskewitz if Pomerantz has access to all securities litigation cases filed and if they thought they had missed any others that had been filed on behalf of us for not having had the accounts. Mr. Donahoe stated that he is happy to work with Pomerantz on any reconciliation that needs to occur.

*Board Election of September 2017 Update*

Mr. Smyth solicited and received proposals from American Arbitration Association (\$96,900), Intelliscan (\$10,900) and Election America (\$11,473.00) to conduct the Board Election of September 2017 using hybrid election services. As there is only a \$5,000 difference between the two lowest bidders, Mr. Smyth requests to hire Election America, a known entity who ran the 2014 election smoothly and successfully.

*Motion made, and seconded, to hire Election America to conduct the September 2017 Board Election per the terms of their proposal that has a cost of services of \$11,473.00 plus postage.*

***Motion accepted (5-0)***

*Update on COLA and COLA base*

Mr. Smyth has made statutory notice to the City Council, the Commonwealth's Administration and Finance Office, the City of Boston and all the autonomous agencies regarding public hearings on COLA and COLA base to take place at the May Board Meeting.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

*Real Estate Search Review*

NEPC provided a list of the Real Estate respondents at the March meeting for the Board's review. As a follow up, NEPC reached out to the respondents to get further details on funds that may close shortly.

*Motion made, and seconded, to bring Oaktree Capital Management, DRC and AEW Capital in to the June Board Meeting as part of the 2017 value added opportunistic and debt real estate search.*

***Motion accepted (5-0)***

*Private Debt Search Review*

NEPC provided an overview of the private debt search respondents with the goal of identifying managers to present at the May meeting. We have approximately \$15 million remaining to commit to private debt fund(s).

*Motion made and seconded to bring in Permira Debt Managers, Orchard Global Asset Management and Alcentra Limited to be interviewed by the Board as part of the 2017 private market debt search at the May 2017 Board Meeting.*

***Motion accepted (5-0)***

*Hedge Funds*

*Motion made, and seconded, for NEPC to commence a hedge fund of funds search.*

***Motion accepted (5-0)***

*March 2017 Performance Report*

The Total Plan was up +1% for the month of March led by Total Equities which were up 1.7%. March's performance brings the YTD performance return up to +5.0%, a strong first quarter.

*Rebalancing Recommendation*

*Motion made, and seconded, at the recommendation of NEPC, to move \$10 million respectively, from Crescent, DDJ and Loomis Sayles to the Plan's core fixed income portfolio managers proportionally.*

***Motion accepted (5-0)***

*International Small Cap Search*

NEPC distributed the list of the 44 respondents to the Plan's RFP. The Work Plan is to try and have managers in to be interviewed by the Board this summer after the current private market debt and real estate searches.

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

*Financial Snapshot*

Ms. McCarthy presented the March, 2017 Financial Snapshot to the Board. She noted that the March, 2017 payroll went out timely to 14,786 payees and totaled \$49,240,477 million. March, 2017 also saw 65 refunds, buybacks and

transfers processed totaling \$2,006,288 million and operational warrants of \$421,199.

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

*Operations Update*

Ms. Weir provided an update on the payroll number for March, 2017. There were 100 possible retirees (85 superannuation, 13 disabilities and 2 death of active members) of which 81 were processed (76 superannuation and 5 disabilities). 19 cases did not make the payroll.

*Buy Backs*

Ms. Weir reported that 53 outstanding buybacks are open for the backlog project, 19 are in review, and 1419 cases are incomplete and closed. The majority of the back logs have issues with determining if they are eligible to purchase time. Ms. Weir reported from the new buyback list 514 were completed and 32 are waiting for review and approximately 126 have not been started.

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

*Waiver Request*

The following waiver request was presented for discussion and vote:

James P. Sheehan                      Parks                      \$5,774.77

*Motion made, and seconded, to grant the waiver request of James P. Sheehan in the amount of \$5,774.77 as presented as the member did not receive the 2012 deduction letter because he had been discharged by the City during the time of the mass mailing.*

***Motion accepted (4-1)      Mr. McLaughlin voted nay.***

Mr. Smyth presented the following PERAC memos and court cases for educational purposes: PERAC Memo 16-2017 re Tobacco Company List and PERAC Memo 17-2017 re Mandatory Retirement Board Member Training Q2 2017. Mr. Smyth encouraged all Board Members to schedule training on PROSPER at PERAC as they are offering three educational credits for participating in this training.

The following cases of interest were discussed for educational purposes only:

*Burgess-Hill v. State Bd. of Ret., CR-15-665 (DALA dec. 03-24-2017)*

The State Board of Retirement's determination that a state employee was not "in the performance of [her] duties," as defined at M.G.L. c. 32, §7(1), when she was injured while driving a state car was reversed because the accident occurred when she was driving from a state-sponsored work event back to her

office to work. The State Board must therefore process her accidental disability retirement application.

*Gannon v. City of Boston, SJC dec. 04-18-2017*

The SJC reversed the State Retirement Board's the allowance of the defendant's motion for summary judgment, and remanded the case for a trial.

*Snowdon v. MTRS, CR-16-132 (DALA dec. 03-24-2017)*

MTRS' decision to invoice the member at the actuarial rate because she did not meet the deadline was affirmed.

*State Board of Retirement v. Finneran, SJC dec. 04-05-2017*

The case was remanded to the county court where an order will be entered reversing the judgment of the Boston Municipal Court, affirming the decision of the board, and remanding to the Boston Municipal Court for further proceedings consistent with the opinion. The member's pension was forfeited.

*State Street Custodial Bank*

Mr. O'Reilly reminded the Board that he had voted against hiring State Street as our custodial bank. It is Mr. O'Reilly's belief that State Street overcharged us for an extended period and this was tantamount to stealing, even if they did reimburse us. He remains unconvinced that nothing nefarious or intentional occurred with State Street Bank and access to all of the securities lending accounts. If nothing else, State Street is, in his opinion, guilty of gross negligence and serious incompetence. Mr. O'Reilly made the following Motion:

*Motion made and seconded to terminate State Street Bank as our custodial bank and reconsider one of the other respondents.*

***Motion not accepted (2-3)***

#### Executive Session

The Board voted unanimously (5-0) to enter into Executive Session at 1:55 p.m.

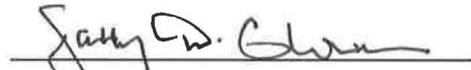
#### Adjourn

The Board voted unanimously (5-0) to exit Executive Session and adjourn from Administrative Session at approximately 1:58 p.m.

Respectfully submitted,  
BOSTON RETIREMENT BOARD



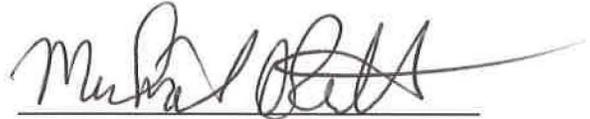
Daniel J. Greene, Esquire  
*Mayoral Appointed Member, Chairman*



Sally D. Glora  
*Ex Officio Member*



Michael W. McLaughlin  
*Elected Member*



Michael D. O'Reilly  
*Elected Member*



Thomas V.J. Jackson  
*Fifth Member*