

**MWRA EMPLOYEES' RETIREMENT BOARD MEETING
OCTOBER 26, 2023**

A meeting of the MWRA Employees' Retirement Board was conducted in-person on Thursday, October 26, 2023. Remote access was provided to the public via Zoom, with call-in information provided on the official Meeting Notice posted to www.mwraretirement.com and the MA Secretary of State's website. Participating in the in-person meeting were Board members James Fleming, Matthew Horan, Kevin McKenna, Brian Peña and Frank Zecha, staff members Carolyn Russo, Julie McManus and Danielle DiRuzza, and Sebastian Grzejka representing NEPC. Members of the public including Kevin Balaod also attended via remote access. Mr. Fleming called the meeting to order at 10:00 a.m.

- 1) Call the meeting to order-roll call of members: Mr. Horan, Mr. McKenna, Mr. Peña, Mr. Zecha and Mr. Fleming present.

Mr. Fleming cautioned that Massachusetts is a two-party consent state for recordings, and stated that it is not permissible to record without the consent of the Chair.

- 2) Standing Committee Reports
 - i. By-Laws Committee: No report
 - ii. Human Resources Committee: No report
 - iii. Special Committee, Stipend: No report
 - iv. Job Review Committee: No report

- 3) Approval of Minutes – VOTE

- a) September 28, 2023 Minutes

On a motion made by Mr. Zecha and seconded by Mr. Peña:

VOTED

to approve the Minutes of the September 28, 2023 meeting. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

- b) September 28, 2023 Executive Session Minutes

On a motion made by Mr. Zecha and seconded by Mr. Peña:

VOTED

to approve the Executive Session Minutes of the September 28, 2023 meeting. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

c) October 5, 2023 Minutes

On a motion made by Mr. Horan and seconded by Mr. Peña:

VOTED

to approve the Minutes of the October 5, 2023 due diligence meeting. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

4) Approval of Warrants – VOTE

a) Warrant 10-2023 – Accounts Payable

b) Warrant 10-2023A – Retiree Payroll

On a motion made by Mr. Zecha and seconded by Mr. Horan:

VOTED

to approve Warrant 10-2023. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

The Executive Director requested that the Board approve her adding to Warrant 10-2023A the MACRS expenses for a Board member who submitted the documentation after Warrant 10-2023 was done.

On a motion made by Mr. Zecha and seconded by Mr. Horan:

VOTED

to approve Warrant 10-2023A. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

Mr. McKenna requested that a copy of Warrant 10-2023A be sent to all Board members upon completion.

5) Approval of Monthly Transfers 10-2023 – VOTE

Mr. McKenna stated that the first line item is blank, and that he had inquired of the Executive Director as to why. It is blank because the Octagon funds have not yet been received, but are anticipated to be remitted on October 30, 2023.

On a motion made by Mr. Zecha and seconded by Mr. Horan:

VOTED

to approve the monthly transfers for October. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

6) Acknowledgement of retirement applications under G.L. c 32 §5 – VOTE

- a) Mary Shaw DOR 9/30/2023
- b) Rose Marie Convery DOR 10/14/2023

On a motion made by Mr. McKenna and seconded by Mr. Peña:

VOTED

to acknowledge the section 5 retirements as listed. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

7) Approval of September 2023 Bank Reconciliation – VOTE

On a motion made by Mr. Zecha and seconded by Mr. Horan:

VOTED

to approve the Bank of America reconciliation for September 2023. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

8) Approval of Kristine Dassau's buyback of 1 year and 1 month of MDC service – VOTE

Mr. Horan asked on behalf of the member whether a buyback could be done through payroll deduction over time, and the Retirement Coordinator responded that it can. Mr. McKenna asked when the MDC service was, and the Retirement Coordinator responded 1985-1988.

On a motion by Mr. McKenna and seconded by Mr. Zecha:

VOTED

to approve the request made by Kristine Dassau for purchase of 1 year and 1 month of prior MDC service. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

The Chair reported that Staff had received an additional buyback request from an employee who would be leaving MWRA and who needs to make the purchase prior to terminating her service next month. Ms. Karen Graham is requesting that she be permitted to purchase 2 years 7 months for time as an intern and contract employee with MWRA.

On a motion by Mr. Zecha and seconded by Mr. McKenna:

VOTED

to approve the request made by Karen Graham for purchase of 2 years 7 months of prior MWRA non-membership service. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

Mr. Zecha noted at 10:10 a.m. that a member of Financial Investment News had joined the call, and the Chair repeated his two-party consent caution as it applies to recording.

9) Consulting Services RFP – VOTE

On a motion by Mr. Zecha and seconded by Mr. Horan:

VOTED

to approve the RFP and RFP Notice as submitted by the Executive Director and to post the Consultant Services RFP notice as required under s. 23B. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

10) NEPC

- a) Flash Report as of 9/30/23
- b) Rebalance Recommendation – VOTE
- c) Custody Search Review
- d) Equity Structure Review

Mr. Grzejka reported that the volatility continued throughout the month of September, fueled by fears of a government shutdown and higher rates. Overall, the portfolio was down 2.8% for the month, but is still up 3.4% year-to-date. Growth has been impacted more by higher rates, but returns remain positive YTD. October to date has seen a bounce-back. US continues to outperform non-US, but there's been a pullback across equity exposure. Fixed Income has been adversely affected by rates as well. Yields are attractive but price fluctuations can cause negative returns. Mr. McKenna asked about Baillie Gifford, whether geopolitical events and conflicts are hurting performance. Mr. Grzejka likened them to Polen except they're international, in that they similarly focus on large growth companies, and performance will be driven by concentrations. Mr. Grzejka stated the Board needs to make the same evaluation on Non-US that was just done on US equity. Mr. McKenna asked what the equivalent of Rhumblin would be for International, and Mr. Grzejka responded MSCI EAFE and MSCI ACWI ex-US. Mr. McKenna asked if that would be coming next month, and Mr. Grzejka said it would be in the near term. He continued that LMCG had positive returns in its first month. Mr. McKenna asked the Executive Director to explain her concern relative to the fees. The Executive Director stated that the gains on the account were roughly \$197,000, and LMCG charged a management fee of \$15,000 and an "incentive fee" of \$37,000. Mr. Grzejka stated that LMCG has a 20% incentive fee, but they are adding value. Mr. McKenna stated all the responses had similar fee structures, but Mr. Grzejka countered that Wellington's was a flat fee. Mr. Grzejka hopes to have the October flash for the next meeting, which will hopefully show positive performance for the month.

Regarding the rebalance request, NEPC's recommendation is to add to Fixed Income and to cash. The System is cash flow negative, and the interest rate

environment is favorable. Hedge Fund redemptions will take time. An increase in the target allocation for cash is appropriate as part of the Asset Allocation discussion coming up in February. Mr. Zecha stated that he would favor increasing the cash position in the near term, since it's earning more than Fixed Income. Mr. Grzejka responded that Garcia Hamilton and Lord Abbett have exceeded cash yields. Values move due to price movements, but that's just noise, and we'll still eventually see the yields rise. Holding more cash for the rest of the year does make sense because more volatility is expected. NEPC will make additional rebalance recommendations at the November meeting. Mr. Horan asked whether it makes sense to purchase short-term Treasuries, but Mr. Grzejka responded that would require an RFP, so implementation would not be timely. Mr. Horan asked whether a short-term CD would be an option, and Mr. Fleming responded that it would, within the existing banking relationship. Mr. Zecha stated M&T confirmed the cash account is earning 5.28% or 5.38%, so it's competitive. Mr. McKenna asked if there is a maximum cash parameter allowed. Mr. Grzejka stated there is not, but holding 4-5% over the short term is different from holding 10% over the long term.

As directed by the Board, NEPC requested that the Custody respondents review their pricing to be sure they fully understand the extent of services to be required. As a result, State Street adjusted their pricing from \$50,000 to \$75,000, Comerica lowered their fee to \$40,395 due to an error in a prior quote, and M&T adjusted slightly to \$75,569 to update AUM to August as requested. M&T and State Street are equivalent in pricing, safety, and like-clients. Comerica has a smaller team. State Street has greater resources but dumped the MA public fund custody business 7-8 years ago with little notice, and is now trying to pivot back into the market. M&T is an existing relationship and has proved to be a good fit for the system. Mr. McKenna made a motion seconded by Mr. Peña to select M&T as the Custody Services vendor. Mr. Horan commented that it seems as if Comerica did not fully grasp what managing the MWRAERS account entails, and the pricing was cause for concern. Mr. McKenna noted that the account team at M&T works closely with staff, has frequent person-to-person contact, and collaborated with staff on a set of controls intended to prevent any cybersecurity issues. Mr. Fleming noted that the respondents were told in detail what the responsibilities are. Mr. Zecha concurred with Mr. Horan that it seems as if Comerica was basing the pricing on a different standard of services.

On a motion by Mr. McKenna and seconded by Mr. Peña:

VOTED

to select M&T Bank as the Custody Services vendor. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

In regard to the Equity Structure review, historically the account has been roughly 50-50 active/passive, or has favored active management, but the Board needs to decide whether that is appropriate moving forward. Page 6 shows a snapshot. Active managers have struggled at times to add value. Return dispersions will

show a more clear picture of whether the managers are in the median or outperforming. Over the last decade, really since 2008, Growth, especially tech Growth, has been in favor. Page 7 shows that the Value side has had headwinds until recently, when Coho started outperforming the median of their peer universe. The first question the Board needs to answer is whether the current allocation is still appropriate. Page 11 shows that we can make the portfolio more efficient and still add value through active management. Mr. Grzejka explained the significance of the information ratio (return/tracking error), stating that .5 is great, and anything above that would be outstanding. 70-30 would still provide alpha with a comparable information ratio. A 50-50 passive/active Growth split would have much more overlap with the S&P, while a passive/Value mix would provide better diversification. Mr. Zecha stated that he had just attended the PRIT client conference, being involved on both the retirement and OPEB sides. PRIT has had a similar discussion, ultimately determining passive is where you want to be, but stated he would prefer an allocation which allows *up to 70%*, to allow flexibility for movement as needed. Mr. Grzejka stated he does not disagree. Differences lie in sectors and industries. Around ten names have driven returns, and unless the manager has been invested in those ten names, they faced headwinds. Right now the account stands at roughly 60-40 active/passive, but we need to be mindful of who's in the 60. Concentrations will determine performance. Mr. McKenna stated page 11 shows the ten-year results, and asked if there have been other mixes over the three- and five-year periods that might have been better. Mr. Grzejka acknowledged there likely were. Mr. Grzejka stated active management has added alpha. Mr. McKenna noted Coho has underperformed, and Mr. Grzejka stated they have bounced back for the same reason they previously underperformed-they are not holding the ten names that drove prior performance, and are now benefitting from that. Mr. McKenna asked if PERAC has a standard for the split. Mr. Grzejka stated that PERAC does not, and it is strictly a Board decision. Mr. Horan asked if the Board is going to go higher than its historical allocation up to 70%, could the Board put 10% active and the remainder with PRIT, or move funds to the existing passive account without an RFP, and Mr. Grzejka stated that the Board can do so at will, but if we keep the active manager(s), an RFP is needed because of the seven-year limit. Over time, active management has added value, but "point in time" may struggle. Value has universally had headwinds, and very concentrated managers have a different risk profile. The next question becomes whether a concentrated active manager is still an appropriate choice. Mr. McKenna noted that PERAC's fee report puts MWRAERS in a bad light, with \$4m plus in fees. Mr. Grzejka stated that the Value accounts carries a fee of 50bps, and the Growth 60bps. Mr. Grzejka stated that in the current environment, passive plus Value makes more sense. Mr. Zecha asked if the Board should authorize an RFP. Mr. Grzejka responded that the Board has to decide if it will seek a Growth or Value manager. If the Board decides on Value, the matter of Deep Value vs. Relative Value can be decided when the Board reviews responses. Deep value would include cyclicals, and energy, which Coho does not normally hold because theirs is a Relative

Value product. Mr. McKenna asked if it will require multiple votes. Mr. Grzejka responded that this is more a discussion to take place during manager selection. Mr. McKenna asked about concentration and if there might be a less concentrated product, such as one with 70 names. Mr. Grzejka responded affirmatively, stating he would expect a broad range of managers to respond. Mr. Zecha commented that a speaker at the PRIT conference yesterday remarked that PRIT had a similar conversation at the Investment Committee meeting last year relative to Fixed Income, looking to identify quality Energy, Industrials and IT, and asked whether the RFP would be for Value or Deep Value. Mr. Grzejka said it would be left broad as “Value” and the Board can select from the responses. It is NEPC’s recommendation is that one Value manager be selected over a combination to manage roughly \$50m. Mr. Zecha asked if that will eliminate Coho, and Mr. Grzejka responded that it may.

On a motion made by Mr. Zecha and seconded by Mr. McKenna:

VOTED

to authorize NEPC to draft a Large Cap Value RFP. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

Mr. McKenna noted that Polen’s seven-year term is also up, and asked if the Board should move forward with a Growth RFP. Mr. Grzejka stated that the Board needs to establish their strategy to move forward first, and that it may not be necessary, depending on decisions made as part of that discussion. In regard to Private Equity pacing, PRIT is asking that the Board notify them before December if it plans to invest in VY 2024. NEPC sees opportunities in Private Credit and Secondaries for 2024. Mr. McKenna asked when Landmark funds will be fully closed and where the Secondary exposure will be. Mr. Grzejka responded Harbourvest and Hamilton Lane. Mr. Zecha noted that PRIT raised its PE target to 19%, and that MWRAERS currently stands at 12%, and stated he would not be opposed to going up to 15%. Mr. Grzejka stated that he would look into it, but reminded the Board that the money is not deployed right away or all at once in most cases. Mr. Fleming asked if making a PRIT PE allocation for 2024 locks the Board in, and Mr. Grzejka stated it does not. An RFP may still be done to seek other opportunities, and Mr. Grzejka would suggest \$5m-\$6m to PRIT PE, with the rest going to other opportunities.

The Chair asked if there were any other matters to come before the Board. The Executive Director asked that the Board formally acknowledge the MWRA Advisory Board’s loss of their Finance Director, James Guidod, who passed away on October 12, 2023. Mr. Guidod frequently attended Retirement Board meetings in his official capacity. Mr. Zecha asked that the Board observe a moment of silence out of respect for Mr. Guidod, his family and his colleagues, and the Chair so directed the Board and Staff.

Mr. Zecha stated that Retirement Staff may want to put another posting up about the importance of Option D beneficiaries, since it has been a few years, and MWRA has a lot of new staff. Mr. McKenna suggested an Intranet posting regarding the Option D reminder. Mr. Zecha continued that the Board should start thinking about another retirement seminar too, because the last one was pre-pandemic.

Mr. Fleming asked if Staff would track the training credits for the Board members to make sure all remain in compliance, and the Retirement Coordinator responded affirmatively.

Mr. Zecha wished Mr. Fleming and all of MWRA's Veterans a happy and healthy Veterans Day.

On a motion by Mr. Zecha and seconded by Mr. Peña:

VOTED

to adjourn the October 26, 2023 meeting of the MWRA Employees' Retirement Board. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes. The meeting was adjourned at 11:10 a.m.

The following communications were distributed to the Board for review:

Notice of Option to Invest in the PRIT Private Equity 2024 Vintage Year
2024 Meeting Dates
2022 PERAC Comparative Analysis September 2023
PERAC Memo #20/2023 – Mandatory Retirement Board Member Training – 4th Quarter 2023
PERAC Memo #21/2023 – Upcoming Public Hearings on PERAC Regulations
PERAC Memo #22/2023 – Appropriation Data Due October 31, 2023
TA Realty Core Property Fund Q3 2023 Flash Report

The Board reserves the right to consider items on the agenda out of order. The listing of items is those reasonably anticipated by the Chair to be discussed received at least forty-eight (48) hours prior to the meeting. Not all items listed may in fact be discussed and other items not listed may also be brought up for discussion to the extent permitted by law. Items identified for discussion in Executive Session may be conducted in open session, in addition to, or in lieu of discussion in Executive Session. Date of next scheduled regular Retirement Board meeting is Thursday, November 16, 2023, 10:00 a.m., Chelsea, MA.

James Fleming, Chair

Matthew Horan, Appointed Member

Kevin McKenna, Elected Member

Brian Peña, Ex Officio Member

Frank Zecha, Fifth Member