MWRA EMPLOYEES' RETIREMENT BOARD MEETING
NOVEMBER 16, 2023

A meeting of the MWRA Employees' Retirement Board was conducted in-person on Thursday, November 16, 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 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 also attended via remote access. Mr. Horan called the meeting to order at 10:04 a.m. Mr. Fleming attended via remote access so Mr. Horan served as Chair.

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

   Mr. Horan 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.

   Mr. Fleming joined the meeting at 10:05 a.m.

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 October 26, 2023 Minutes – VOTE

   On a motion made by Mr. Zecha and seconded by Mr. Peña:
   VOTED
   to approve the Minutes of the October 26, 2023 meeting. 5-0, with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

4) Approval of Warrants – VOTE

   a) Warrant 11-2023
   b) Warrant 11A-2023 – Payroll & Annuity Savings Refund (Death)

   Mr. Zecha made a motion seconded by Mr. Peña to approve the Warrants for November. Through the Chair the Executive Director asked that she be permitted to add to Warrant 11-2023A the travel reimbursement payment to Mr. Peña for mileage to and from the PERAC Administrator's Training session, and to the National Association of State Retirement Systems for the filing fee for the PPCC award.

On a motion made by Mr. Zecha and seconded by Mr. Peña:
VOTED
to approve Warrants 11-2023 and 11-2023A as amended. 5-0, with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

5) Approval of Monthly Transfers 11-2023 – VOTE

On a motion made by Mr. McKenna and seconded by Mr. Peña:
VOTED
to approve the monthly transfers for November. 5-0, with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

6) Approval of October 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. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

7) Approval of the CY2024 Retirement System Expense Budget – VOTE

On a motion made by Mr. Zecha and seconded by Mr. Fleming:
VOTED
to approve the CY2024 Retirement System Expense Budget. 5-0, with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

Mr. McKenna thanked the Executive Director for her efforts. Mr. Peña asked if the expenses are added included in the normal cost on the funding schedule. The Executive Director responded that the normal cost is separately determined as the current year's accrual be benefits for everyone in the System, but that the actuary adds the administrative expenses on top of that in each year of the schedule. (Editorial note-administrative expenses assumed by the Actuary are based on actual expenditures in prior years, and budget projections for the current year, with an assumed 3% inflation assumption. The larger portion of the Retirement System budget, representing investment-related expenses, is figured into the overall investment return assumption used for the valuation.)

Since the Board was ahead of schedule and Attorney Gibson had not yet signed on the call, the Chair took matters out of order and asked NEPC to begin the Flash Report update. Mr. Grzejka stated that the high-rate environment has been a drag on performance. The portfolio was down 1.9% overall for October, but remains positive at 1.5% year-to-date. Some managers, though negative, have still outperformed their benchmarks, or are in line with the benchmarks. Exposure to China has been driving Emerging Market performance. The Fixed Income managers are more sensitive to the rate movements. November month-to-date has seen lower than expected inflation, and the S&P is up 7% through November 15. The “higher for longer” conditions are leading to mixed results for the portfolio. Mr. Horan noted that a lot of managers have not yet reported returns for October. Mr. Grzejka concurred that the October results are “very preliminary” and that there will likely be adjustments. Mr. Zecha asked for an update on Garcia Hamilton. Mr. Grzejka stated that Mr. Garcia had come in third in the Houston mayoral primary, and is not a participant in the run-off, so he expects no impact to the fund. Mr. Zecha stated that the year is not going well. Mr. Grzejka explained that equity returns have been driven by seven names, so exposure to them will determine performance. Managers without those stocks or with lower exposure will lag. On the Fixed Income side duration has affected performance. Mr. Zecha asked whether the $115m Fixed Income exposure is too high, given the negative returns. Mr. Grzejka reminded the Board that the Fixed Income exposure was determined as part of the overall asset allocation based on long-term expectations and is appropriate to the portfolio. The equity risk premium has certainly been compressed. Fixed Income has seen some reversal in November to date, and if rates continue to fall, the annual Asset Allocation which takes place in February would be an appropriate time to discuss its role moving forward. Mr. Zecha stated he would be available to meet in the first week in December to adjust any over-weightings. Mr. Grzejka stated that the current rebalance recommendations were intended to address that. Mr. Fleming stated that the markets have recovered in November, and Mr. Grzejka concurred, provided the turnaround lasts through month-end. Mr. McKenna remarked that this has been the perfect storm, and that it does not bode well that the fund is losing vs. its peers in timeframes up to 20 years with the exceptions of 2013 and 2017. Mr. Fleming responded that the Board’s positioning is intentionally more conservative relative to its peers, and Mr. Grzejka agreed, noting the asset allocation is different, with less exposure to Equities and Fixed Income, and more exposure to Real Estate and Private Equity. He acknowledged that the returns are frustrating, and being in the 94% percentile isn’t helping, but reminded the Board that this is the problem with “point in time” data. In five of the last ten years, MWRAERS has also doubled its return expectation. Some of the portfolio’s structure has played into the relative performance. Mr. McKenna countered that the problem may not be all structure, and that a lot of the peer group had more exposure to Fixed Income and Opportunistic. Mr. Grzejka responded that the Board has also done several searches and made several changes in the past year, and it takes time to reveal whether the moves and manager selections were productive. Mr. Grzejka returned to the rebalance issue, and noted that the rebalance was to take some returns off the table, as well as to raise cash for payroll, expenses and capital calls. Staff has received some large calls exceeding $3m, and the payroll and expenses comes to roughly $3.5m, so the cash position is not high.

8) Legal Update

Attorney Gibson signed on the call at 10:25 a.m. and apologized as he had another appointment which took longer than expected. There has been no movement on the Capozzi matter. Attorney Gibson, Attorney McDonough, and two other attorneys will be meeting with the Assistant Attorney General assigned to CRAB to discuss the multi-year backlog. There has been no movement on the Vargus appeal. The bill to provide Veterans another opportunity to purchase military service remains in committee, and the legislature is now out of session until January 2. PERAC has submitted its regulation changes to the legislature for approval. The changes are deemed approved if not rejected within 45 days. Attorney Gibson recommended that the Board review the PERAC Annual Report for accuracy, as several systems he represents have found errors. PERAC released Memo #23 in regard to PFML. C. 55 of the acts of 2023 made it permissible for employees to receive earned time (sick/vacation) in conjunction with PFML payments. In Memo #23, PERAC opines that these supplemental payments may not be considered regular compensation, there should be no retirement contributions withheld, and no creditable service may be granted. The PFML payments are paid from a trust rather than by the employer for services performed by the employee, and are paid because the employee is not able to provide services to the employer. They therefore should be treated similarly to payments supplemental to Worker's Compensation pursuant to *Vernava*. Attorney Gibson noted that in contrast salary continuation programs are considered regular compensation. Mr. McKenna asked what triggered PERAC to change the Annual Report. Attorney Gibson responded that there is constant movement, PERAC is required to report on some items included such as excess earners and disabilities, but in his opinion, PERAC could do a better job in presenting the data. In the first year of MWRAERS's existence no appropriation was made, and that had previously skewed the numbers, so it's always good to double–check the information presented. Returning to the matter of PFML payments, Mr. Horan asked Attorney Gibson to clarify that employees will not receive service credit while on PFML, and Attorney Gibson confirmed Mr. Horan's understanding. PERAC's interpretation since PFML's inception in 2018 has been that PFML payments do not constitute regular compensation, but the recent memo clarifies that now that under C. 55 of the Acts of 2023 supplemental payments are allowed in conjunction with PFML, that the supplemental payments will not constitute regular compensation and therefore will not entitle members to service credit. Mr. Horan stated that a member of his staff had been advised otherwise by HR and had made a decision to use PFML based upon incorrect information. Mr. Zecha asked whether payments from a sick leave bank would be regular compensation, and Attorney Gibson stated that they would, just not when used with PFML. Mr. Zecha reported that he attended the recent PERAC Administrators' training, and said he had a test for Attorney Gibson. He asked if he worked 9 years 10 months, left for a month leaving his funds on deposit with the System, then came back and worked two months whether he could retire, and Attorney Gibson responded affirmatively. Mr. Zecha said "then according to PERAC we'd both be wrong" because at the training PERAC stated such an employee would be subject to the two-year rule (i.e. s. 3(6)(e)). Mr. Zecha noted that the spoken word is like the wind, but wanted to question PERAC's interpretation. Attorney Gibson stated that he would address it with PERAC. Mr. McKenna stated that he has been coached repeatedly not to answer employees' questions in the hallway, but wanted to know if Attorney Gibson were to tier this, how to advise staff on PFML, and if they should be advised to use FMLA with their own paid time first, before using PFML. Attorney Gibson responded that if service credit is a concern, then yes. The Board can give up to one month credit for approve medical leave if someone has already lost service credit. Attorney Gibson stated that in the past there used to be periodic meetings with HR and Board Counsel, and that he knows Staff are in contact with HR regularly but that perhaps those periodic meetings should be brought back. Mr. McKenna and Mr. Fleming concurred. Attorney Gibson signed off the call at 10:42 a.m.

9) NEPC
   a) Flash Report as of 10/31/23
   b) Rebalance Recommendation – VOTE
   c) Large Cap Value RFP – VOTE
   d) Custody Search Ratings – VOTE
   e) Q3 2023 Investment Report

Mr. Grzejka returned to NEPC's portion of the agenda, specifically, to item 9 (c).

On a motion made by Mr. McKenna and seconded by Mr. Peña:
VOTED
to approve the Large Cap Value RFP as drafted by NEPC. 5-0, with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

The Large Cap RFP will be posted on NEPC's site and on PERAC's. Mr. Horan asked if the responses could be shown with a side-by-side comparison to PRIT. Mr. Grzejka stated that would not be an apples to apples comparison because the PRIT General Allocation Account includes all asset classes, not just Large Cap Value. Mr. McKenna asked if the dollar amount may change. Mr. Grzejka responded in the affirmative, and said the Board has options, depending on the situation at the time of funding.

In regard to the Custody Search, NEPC updated the rankings for presentation to the Board. The Executive Director explained that PERAC requires that the rankings be based on the "highly advantageous, advantageous, not advantageous, and not acceptable" scale, so NEPC updated their color-coded ratings to reflect this language. All responses were deemed advantageous by NEPC. Mr. Horan commented that based on overall experience, quality of services and price, M&T would be his preference. He expressed concern that given Comerica's bid that they did not fully understand the scope of services. Mr. Zecha asked that NEPC be sure to include the required language in ratings for future searches. Through the Chair, the Executive Director added that State Street's response to the recent incident regarding the custody services contract with Great Grey (Trustee for the Lord Abbett investment) gave her cause for concern, as State Street stated explicitly that employees are permitted to use personal cell phones to conduct official business, increasing risk for the System. Mr. Zecha added that he concurred with Mr. Horan, and that the M&T team has provided "top of the line" service consistently in all categories, and frequently works with staff to update controls as threat characteristics change.

> On a motion made by Mr. Zecha and Seconded by Mr. McKenna**:**
> **VOTED**
> to adopt the updated Custodian rankings as presented by NEPC, and to select M&T Bank as the Custodian for the MWRA Employees' Retirement System. While acknowledging that all three were ranked equally as "advantageous" overall, the personal relationship the M&T team has worked to build with staff, the extensive efforts to establish and consistently re-evaluate controls, and the track record of effective management of the large number of accounts were differentiators. Overall experience, quality, and pricing made M&T the optimal candidate. 5-0, on a roll call with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Pena voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

Mr. Grzejka reported that the deadline to commit to PRIT PEVY2024 is approaching, and would pass prior to the next meeting. A $12m Private Equity allocation is recommended as part of the pacing plan for 2024. Mr. Zecha asked what the annual allocation to the PRIT PE sleeve has been, and Mr. Grzejka stated that previously it had been single-digits, but would now be at least $10m. Mr. Zecha moved that a $5m allocation be made to PRIT PEVY 2024. Mr. Horan questioned whether the intent is for only $5m of the $12 recommendation to go to PRIT, and asked whether the Board could go lower if the vote were for $10m. Mr. Grzejka stated that the Board may not subsequently go lower. $10m would be the commitment in that case. Mr. McKenna asked about the timing on the PE search if some funds were held back for a private manager. Mr. Grzejka stated that the search would probably begin after the Asset Allocation discussion in February. Mr. McKenna noted that some funds are winding down. Mr. Zecha stated he would amend his motion to make a $10m allocation to PRIT PEVY 2024.

On a motion made by Mr. Zecha and seconded by Mr. Peña:
VOTED
to approve a $10m commitment to the PRIT PEVY 2024. 4-0, with Mr. Fleming voting no, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Horan voting yes.

Mr. Horan stated that he had to sign onto another meeting and would have to leave, handing over the Chair to Mr. Zecha. Mr. Horan left the meeting at 10:53 a.m.

Mr. Zecha asked Mr. Grzejka to review the cash position with the Board, and inquired whether there is sufficient cash to get through January. Mr. Grzejka responded that after the rebalance recommendations are implemented there will be $20m in cash, but that the Board recently received $3.5m in calls, and another $3.5 will be going out for payroll and accounts payable in the next few days. Mr. Zecha asked how much money is left in Octagon, and Mr. Grzejka stated that account has already been fully liquidated. Mr. McKenna stated that the Board's new opportunistic fund (i.e. LMCG Serenitas) is close to being closed to new investment and suggested adding to that account. Mr. Grzejka responded that the Board needs to be cautious about over-exposure in that area. Mr. Zecha questioned with Lord Abbett and Garcia Hamilton posting negative returns whether it might still make sense to add. He asked Mr. Grzejka to update the Board on the departure of Mr. Greg Balewicz from Lord Abbett and the impact on the account. Mr. Grzejka responded that Mr. Balewicz was the Relationship Manager but not actively engaged in portfolio management, so he did not expect any impact on the investment. He continued that roles are currently being consolidated industry-wide. Through the Chair, the Executive Director stated that she had spoken to Mr. Balewicz, and that is not how his departure was characterized to her, and Mr. Fleming stated the same. Mr. Grzejka stated he is expecting cuts industry-wide in the coming months. Mr. Zecha stated he would like NEPC to be prepared to discuss the Fixed Income portfolio at the December meeting.

Mr. Zecha extended to Mr. Fleming belated Veteran's Day wishes, and thanked him for his service. Mr. Fleming thanked Mr. Zecha for his remarks, and stated that he hopes the legislature will pass the pending Veterans' buyback legislation soon.

On a motion made by Mr. Fleming and seconded by Mr. Peña:
VOTED
to adjourn the November 16, 2023 meeting of the MWRA Employees' Retirement Board. 4-0, with Mr. Fleming voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, and Mr. Zecha voting yes. The meeting was adjourned at 11:00 a.m.

The following communications were distributed to the Board for review:

2022 PERAC Annual Report
PERAC MEMO # 23/2023 – Paid Family and Medical Leave (“PFML”) & Supplemental Payments
PERAC MEMO #24a/2023 – Outsourced Chief Investment Officer (OCIO) Policy
PERAC MEMO #25/2023 – Cybersecurity Training

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, December 14, 2023, 10:00 a.m., Chelsea, MA.

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Matthew Horan, Acting Chair

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James Fleming, Elected Member

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Kevin McKenna, Elected Member

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Brian Peña, Ex Officio Member

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Frank Zecha, Fifth Member