MASSACHUSETTS WATER RESOURCES AUTHORITY
EMPLOYEES' RETIREMENT BOARD
FEBRUARY 29, 2024

A regular meeting of the MWRA Employees' Retirement Board was conducted in-person on Thursday, February 29, 2024. 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. Present at the in-person meeting were Board members Matthew Horan, Kevin McKenna, Brian Peña, and James Fleming, staff members Carolyn Russo, Julie McManus and Danielle DiRuzza, and Sebastian Grzejka and Michael Sullivan representing NEPC. Mr. Frank Zecha joined via remote participation. Members of the public also attended via remote access. Mr. Fleming called the meeting to order at 10:10 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) Term of Consulting Services Agreement – VOTE

   Mr. Fleming noted that the prior agreement was approved for three years with two options to extend for two years, for a total term not to exceed seven years.

   On a motion by Mr. Horan and seconded by Mr. Peña:
   VOTED
   to set the term of the consulting services contract awarded to NEPC as three years, with two optional two-year extensions for a total term not to exceed seven years. 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 Minutes – VOTE

   a) January 25, 2024
   b) January 25, 2024 Executive Session

c) February 7, 2024

On an omnibus motion made by Mr. McKenna and seconded by Mr. Horan:
<u>VOTED</u>
to approve the Minutes of the meetings 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.

5) Approval of Warrants – VOTE

a) Warrant 2-2024
b) Warrant 2A-2024 – Payroll

On an omnibus motion made by Mr. Horan and seconded by Mr. Peña:
<u>VOTED</u>
to approve Warrant 02-2024 and Warrant 02-2024A. 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) Approval of Monthly Transfers 02-2024 – VOTE

On a motion made by Mr. McKenna and seconded by Mr. Peña:
<u>VOTED</u>
to approve the monthly transfers for February. 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) Acknowledgement of retirement applications under G.L. c 32 §5 – VOTE

a)	Kieran McGrath	DOR 1/12/2024
b)	Patricia Veiga-Phillips	DOR 1/28/2024
c)	Stephen Buczko	DOR 1/20/2024
d)	Vicki Mucci	DOR 1/24/2024
e)	William Kurtz	DOR 2/3/2024
f)	Richard Williams	DOR 2/3/2024
g)	Marianne Ouellette	DOR 2/10/2024
h)	Susan Viera	DOR 2/10/2024

On an omnibus motion made by Mr. Peña and seconded by Mr. Horan:
<u>VOTED</u>
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.

8) Approval of January 2024 Bank Reconciliation – VOTE

On a motion made by Mr. McKenna and seconded by Mr. Peña:
VOTED
to approve the Bank of America reconciliation for January 2024. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

9) Approval of Renee Angelo's buyback of 9 months of MWRA contract employment – VOTE

Mr. Horan asked if there is a process by which employees with prior contract service are notified of their right to purchase this type of service. The Retirement Coordinator responded that the question is included on the Enrollment Form filled out when the employee becomes full-time permanent. When the employee lists prior service, Retirement Staff reaches out in regard to the ability to purchase the time and the payment options. Mr. McKenna asked if Staff tracks the payments to be sure the System receives buyback funds in full. The Retirement Coordinator responded that for those employees who do not pay by lump sum, the maximum repayment period is 5 years, and payments are tracked on a weekly basis.

On a motion made by Mr. Horan and seconded by Mr. Peña:
VOTED
to approve Renee Angelo's purchase of nine months of contract 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.

10) Acceptance of Section 7 Retirement Application re. Joseph Comeau – VOTE

Through the Chair, the Executive Director explained that the vote is whether to accept the application and forward it to PERAC for appointment of a medical panel. She reported that there had previously been a deficiency in the Physician's Statement which has now been sufficiently addressed, according to Board Counsel's assessment. Mr. McKenna stated that there appear to be four separate injures in this case, and the Executive Director noted that potential issue was addressed in Board Counsel's communication, which was included in the Board packets.

On a motion made by Mr. Peña and seconded by Mr. McKenna:
VOTED
to accept the application of Joseph Comeau for accidental disability retirement and to submit the application to PERAC for the appointment of a medical panel. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

11) NEPC

a) Flash Report as of 1/31/2024
b) Asset Allocation Review & Outlook
c) Rebalancing Recommendation – VOTE
d) International Equity Structure Review

Mr. Grzejka began by thanking the Board for their continued confidence and stated that he appreciates the long-standing relationship. In regard to the Flash Report, Mr. Grzejka reported that January was flat. Only US Large Cap and Credit posted positive returns. February to date has been positive. The Large Cap portfolio has performed well vs. the index. Small Cap was negative. SEG beat their benchmark by 150 basis points for the month, while Baillie Gifford underperformed. Emerging Markets have seen headwinds, largely attributable to China. Axiom was hurt by the exposure. ABS is now positive over the one-year. Credit-oriented funds have been positive. Mr. Horan asked when the final 2023 numbers would be available. Mr. Grzejka stated that the private equity and some real estate funds have not yet reported, and could be up to 180 days. Mr. Horan asked if that is industry-standard, and Mr. Grzejka responded that a lot of Private Equity funds report 90 days after the close of a quarter, and some take up to 180 days for year-end reporting, which makes timely reporting difficult.

In regard to the asset allocation review, Mr. Grzejka referred the Board to page 2 of the presentation for themes. The goal is to outperform the 6.9% assumption. NEPC will be initiating a discussion with Segal following the Board vote in regard to the long-term expectations. NEPC will be looking to identify today's as well as forward-looking opportunities. The portfolio is generally well-positioned, and will just have some positions tweaked. Page 5 provides an overview of current markets. Better than expected unemployment and growth numbers pushed out rate cut expectations. The "Magnificent 7" were responsible for 70% of the S&P's returns. Mr. Horan asked whether the 7's performance, Meta's transition to paying dividends, and NVIDIA's sudden surge could precede a collapse of valuations. Mr. Grzejka concurred that valuations are "sky-high." Apple pays dividends, but it is not really common in the tech space. The "Magnificent 7" are quality companies, are cash-flush, are not highly leveraged, and have monopolies or near-monopolies in their specific areas. Value exposure helps de-risk the S&P exposure. We want some exposure in the portfolio, but it needs to be balanced. Mr. Sullivan noted that if you had dropped NVIDIA at year end, you would have missed its 70% price appreciation YTD. Mr. Horan asked whether the price is expected to stabilize. Mr. McKenna commented that it looks like the TIPS asset class is making a comeback, but Mr. Grzejka disagreed. Mr. McKenna asked if we've had a good run with the 7 and now should tilt toward value in Large Cap. Mr. Grzejka state we want purposeful differentiation, but we don't want a single manager holding 10% of the assets. Mr. Horan asked if there is a formal policy, and Mr. Grzejka responded that there is not, although there is one relative to single holdings. NEPC is recommending adding a formal strategic cash position. The System is now cash flow negative, so we need to make sure there is cash on hand to pay benefits, expenses, and any capital calls. Mr. Fleming asked Mr. Grzejka the amount. Mr. McKenna responded $3m. Mr. Grzejka stated expenses, calls and payroll come to about $4m per month. Mr. Grzejka noted that if you had $1 at the beginning of 2022, it would still be just $1 at the end of 2023. You'd be in the same spot. There have been headwinds, so upside capture is important. The "higher longer" rate environment, including the associated higher cost of capital, has been acknowledged by the markets as here to stay, and there is no motivation for the Fed to move on rates. Geopolitical uncertainty is prevalent. Relatively low unemployment and wage growth may be an indication that there might be positive growth moving forward. Page 20 shows the current policy alongside two proposed asset allocation options. Mr. Grzejka began by stating that the portfolio is currently well-positioned to meet the return assumptions, with the two options presented offering small adjustments. Mr. McKenna asked what the additional risk would be to get to 7% over the ten-year. Mr. Grzejka suggested perhaps an increase to the Private Equity allocation, because Large Cap has not been helping long-term returns, but on average the current allocation will get the Board to target. The long-term expectation for large cap is 4.5% over the ten-year. A Global Equity allocation may help as well. Emerging Markets could be increased, but that comes with greater risk. Mr. Horan asked if the Actuary uses a period longer than ten years. Mr. Grzejka deferred to the Executive Director who responded that the focus is generally on the 20-year, but looking beyond the 20-year at both the shorter and longer-term expectations is still part of the Actuarial firm's modeling process. In regard to the two asset mix options, Mr. Grzejka noted that both options add a strategic allocation to cash. Rates have been positive, and the 2% position is recommended to ensure sufficient cash is available for benefits, expenses and capital calls. A reduction from 10% to 8% is recommended to Core Bonds, with the Multi-Sector Credit allocation remaining stable at 10%. Mix B adds a Global Equity component, where managers will have the flexibility to pivot on countries and sectors as necessary. Active management adds value. Some managers in the space will have "Magnificent 7" exposure, so that needs to be watched, but they are able to seek world-wide opportunities. Mr. Horan asked whether the options were stress tested, and Mr. Grzejka referred the Board to page 21 for protections offered over time in drawdown scenarios. The graphs on the bottom of the page show possible results assuming no action is taken over upside, initial shock, drawdown and bounce-back periods over five years. Page 22 provides a liquidity overview. Mr. Horan asked if page 20 assumes a recession of a certain duration, and Mr. Grzejka responded affirmatively, stating that in this scenario the first year of the recession would be the shock period with equities declining, followed by an expected rebound in the second or third year of the recession. Mr. Peña asked about Global Equity vs. Non-US. Mr. Grzejka responded that Global Equity can invest anywhere and use managers all over the world. Non-US refers generally to Europe and other developed countries. Approach matters. Mr. Sullivan added that Global lets all managers fish in all ponds. Mr. Fleming asked if the System has mid-cap exposure. Mr. Grzejka commented that the large cap managers can reach down and the small cap managers can reach up, so that there is mid-cap exposure, for example in Loomis Sayles and Mesirow. Mr. McKenna asked if there will be an RFP for a Global Manager. Mr. Grzejka responded that there will be if mix B is voted by the Board. Mr. McKenna asked if overlap is a concern. Mr. Grzejka responded that some would be expected, but looking at how the manager is positioned would be part of the vetting process before the hire decision is made. Mr. McKenna asked if passive is available in this space. Mr. Grzejka reiterated that active management adds value within the Global Equity space. Mr. Horan asked why we do not currently have Global Equity in the portfolio, and Mr. Grzejka responded that it has to a large degree been a matter of time. We've done 25 searches over the last contract, including both mandatory discretionary RFPs, and Global Equity is an "evergreen opportunity." Mr. McKenna asked if Schroders and SEG's contracts are up. Mr. Grzejka stated that SEG's is, not Schroders', and we have to prioritize the mandatory searches for compliance reasons. We can do the International Equity Search, but mix B will require another RFP. Mr. Horan asked if the diversification benefit justifies the added work and expense of the added asset class. Mr. Sullivan responded that the Board should expect the Global Equity manager(s) to beat the benchmark to justify the addition. Mr. McKenna commented that the mixes dial back real estate exposure, and Mr. Grzejka concurred, stating that the already-scheduled redemptions from Morgan Stanley PRIME will get the Board to target. Mr. McKenna asked where the $44m from Coho and Polen will go. Mr. Grzejka stated that the Board first has to finish discussing the asset mix and an exit strategy before that may be determined. Mr. Horan asked about whether a CD might be worthwhile in the cash allocation. Mr. Grzejka responded that it's possible, but that the 2% level of cash represents 3 months of outflows, and is necessary for known expenses and payroll as well as unanticipated capital calls. Mr. McKenna stated that we might have "buyer's remorse" if we sell off Coho and Polen and the Magnificent 7 continue to run. Mr. Grzejka stated that we are dialing back exposure, not eliminating it, and the Large Growth managers seem to be lowering exposure already. Page 24 shows trends among NEPC's 400+ clients. Most are passive in Large Cap, as the benefits of active management have dwindled with the advent of immediately available information. Of the ones with active management within the Large Cap space, most are split 70% passive/30% active. The approach the Board adopted recently with Rhumbline and Aristotle will suffice within this framework. If you look at the portfolio structure, it is comparatively overweight in passive. Mr. Horan commented that it is getting more difficult for managers to beat the index. Mr. Grzejka responded that the tracking was outside of expectations so the Board's best option is to select a manager that has shown consistency over time. Mr. Zecha asked where we stand with the Morgan Stanley Redemption, and Mr. Grzejka responded that it's in process with assets being monetized quarterly. Through the Chair, the Executive Director responded that so far we've received a small piece back (roughly $350k), and added that another piece is scheduled to be distributed in March. Mr. Zecha asked if we should be getting in the queue for the rest of it, and Mr. Grzejka responded we will be forcing property sales at rock bottom. The Board already requested a 30% redemption. Mr. Grzejka suspects that some of the office/retail properties will transition to housing and industrial. Mr. Horan asked if some of this will be student housing. Mr. Grzejka expects it will, and noted that the TA Core property did not have legacy office assets in the portfolio. Mr. Grzejka recommends that the Board adopt Mix B. Mr. McKenna asked if any money will stay in Coho and Polen, and Mr. Grzejka state it will for about a month. Mr. Horan made a motion to accept Mix B, with a second by Mr. McKenna.

On a motion made by Mr. Horan and seconded by Mr. McKenna:
VOTED
to accept asset allocation Mix B as recommended by NEPC. 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. Grzejka then addressed the rebalance recommendations. He recommends exit from Coho and Polen. The Hedge Fund portfolio needs to be "right-sized" back to target, but the redemptions have some lead time. Mr. Zecha asked if any money will be left with Coho or Polen. Mr. Grzejka stated that it is not really a concern, we're dollar cost averaging selling and buying at the same time, the funds will not be out of the market for long, and the redemptions will be done in two tranches, one now, and one in two weeks.

On a motion made by Mr. Zecha and seconded by Mr. Peña:
VOTED
to redeem all assets from Coho and Polen over two tranches, one immediate in the amounts recommended on the rebalance sheet, and one in two weeks' time, to rebalance the proceeds to yield a 70% Passive/30% Active Value mix in the Large Cap Domestic Equity portfolio (Rhumbline S&P 500/Aristotle), and to implement now the other rebalance recommendations relative to the Hedge Fund portfolio and cash. 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. Horan asked if the Board needs to increase the weighting to active, whether that may be done at any time, and Mr. Grzejka responded that it may, with the existing managers. Mr. McKenna commented that we need to use all of the tools in the toolbox.

Mr. Sullivan began the International Equity Portfolio Structure Review, referring the Board to page 4 of the presentation for an active/passive analysis, noting that an active piece would save on fees. The green box on Page 6 framing the Current Allocation column shows a growth bias in the portfolio, and NEPC recommends adding a passive component. The lowest tracking error would be Mix 3, Passive + Schroders, which would approximate a core allocation. Page 7 contains a graph showing tracking error. Page 14 presents two options: adding a passive piece to the current multi-manager approach, or move to a core + satellite manager approach. The second option would be more cost-effective, but would require an RFP for a passive strategy SEG alone charges a 1bps fee so there would be fee savings. Mr. McKenna asked if the recommendation is to acquire an International index product and divest from two of the current managers in the space, and Mr. Grzejka responded affirmatively. EAFE (Europe, Australasia and Far East Index) is an efficient way to go. Mr. Grzejka noted that SEG is a value manager that has done a good job, but has struggled recently. This is a way both to reduce tracking in the portfolio and to reduce fees without sacrificing on the upside. Schroders would remain, as would Baillie Gifford for a period of time, to allow them to recover. Baillie has high reward potential but also high tracking error. Mr. McKenna asked if this piece is in just EU and Japan, but Global can invest in the same regions plus everywhere else. Mr. Grzejka confirmed, but noted that the International Index skews toward value. Mr. Peña asked whether the recommendation is that Schroders be the satellite, and Mr. Grzejka responded that it would, but the Baillie Gifford timing can be discussed later prices have recovered. Baillie invests in good companies that have unfortunately been hurt by market conditions. NEPC will need approval to issue an RFP now for the passive manager. Mr. Horan asked if the PRIT International sleeve is a viable alternative, but Mr. Grzejka noted that consists of active management. An index search will be faster than the usual RFP process because the responses are simplified.

On a motion made by Mr. Horan and seconded by Mr. McKenna:
VOTED
to approve a core-satellite manager approach (Option 2 as appears on page 14 of the presentation) for the International Equity Portfolio as recommended by NEPC. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

On a motion made by Mr. McKenna and seconded by Mr. Peña:
VOTED
to request that NEPC begin the RFP process for a Passive International Equity Manager. 5-0, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting yes.

On a motion made by Mr. Horan and seconded by Mr. Peña:
VOTED
to adjourn the February 29, 2024 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 11:42 a.m.

The following communications were distributed to the Board for review:

PERAC MEMO #7/2024 – Buyback and Make-up Repayment Worksheets
PERAC MEMO #8/2024 – PROSPER COLA Submission is almost here!
PERAC MEMO #9/2024 – Actuarial Data
PERAC Pension News Flash February 15, 2024

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, March 28, 2024 at 10:00 a.m., Chelsea, MA.

James M. Fleming, Chair

Matthew Horan Appointed Member

Kevin McKenna, Elected Member

Brian Peña, Ex Officio Member

Frank Zecha, Fifth Member