MWRA EMPLOYEES' RETIREMENT BOARD SPECIAL MEETING
JANUARY 11, 2024

A special meeting of the MWRA Employees' Retirement Board was conducted with the Board members in attendance via remote access on Thursday, January 11, 2024 to discuss the Large Cap Value Search responses. 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 remote 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. Fleming was having connectivity difficulties and Mr. Horan called the meeting to order at 10:06 a.m.

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

   Mr. Fleming joined the meeting at 10:08 a.m.

   Mr. Grzejka introduced Mr. Daniel Schutz, Senior Investment Analyst with NEPC. Mr. Grzejka stated that he would be reviewing the twenty-three managers remaining with twenty-five fund offerings among them. NEPC will be targeting the January 25, 2024 meeting for interviews assuming finalists' availability. Mr. Grzejka stated he would not share the screen since the members already have the written materials, unless the Board members would prefer that he did. Mr. McKenna asked that he share the screen so that the members would not have to try to keep up with the discussion while scrolling through the presentation. Mr. Grzejka reminded the Board that NEPC's rating scale is 1-5, while PERAC's is 1-4, so it does not directly translate from one to the other. A neutral rating on NEPC's scale would be a 3, but that designation does not disqualify a candidate. It may simply indicate that NEPC is not as familiar with the strategy so cannot offer as great a depth of insight. Mr. Fleming asked Mr. Grzejka to clarify whether NEPC is just not as familiar with the Large Cap Value products specifically, or whether NEPC is not familiar with the firms generally, and Mr. Grzejka responded that NEPC may be familiar with the firms but not the specific Large Cap Value strategy being offered. Mr. McKenna asked if it would be an issue if the Board ultimately selected a 3, and Mr. Grzejka state he would not expect it to be, provided the rationale was detailed during the discussion. The Large Cap Value universe is finite, so the Board needs to determine what the differentiators are. A 3 rating would not necessarily translate to a "not advantageous" rating on PERAC's scale. Mr. McKenna asked if NEPC could do extra research on the finalists in the next two weeks and change the ratings, and Mr. Grzejka stated he cannot promise that, is not sure it is appropriate at this point in the process, and noted not all of the offerings are strictly Large Cap Value products so it would not make sense to do so.

Mr. Schutz began that the Board needs to assess the question of active vs. passive management. Passive works well for some clients, but the Board has to test how a prospective fund fits in with the overall asset allocation, other asset classes, core large cap products, etc. If the large cap core is S&P 500, passive management makes more sense, and alpha may be generated through active management on the value piece. Page 7 shows the top quartile's rolling three-year returns. Numbers need to be adjusted for fees. The Board should seek top quartile performers for added value. Mr. Fleming asked Mr. Schutz to identify the top 25%. Mr. Grzejka referred the Board to pages 10 and 11 for three and five-year risk/return profiles. Mr. Schutz noted that "relative value" managers have outperformed their peers, but have held names such as Amazon, which are considered growth securities, so they are not strictly value managers. Mr. Fleming remarked that they are not holding to the value style. Mr. Schutz agreed, and stated that is why they are classified as "relative value" products. Mr. McKenna stated that without having the details about each product's specific holdings it is difficult to determine, but that a lot of the upper tier likely have the 7 names driving the S&P's performance, and Mr. Schutz concurred. Their returns may be strong, but they're holding Meta in the portfolio. Mr. Schutz stated you would need not only the names, but also the weightings and how they are being traded. Mr. McKenna stated he just wants outperformance and is not focused on the sector. Mr. Schutz reiterated it has to fit in with the rest of the portfolio, and that the goal is to minimize overlap, which will harm the portfolio. Mr. Grzejka stated the "magnificent 7" should not be in a Large Cap Core Value fund. A fund may hold 1 or 2 growth names, but if the positions are sizeable, there will be too much correlation, increasing portfolio risk overall. Mr. Grzejka described a "spectrum of value" which Mr. Schutz stated would include Core Value (based on Russell 1000 metrics), Relative Value (trading above the benchmark), and Deep Value (trading below the benchmark). Given the backdrop, Mr. Grzejka stated it is more appropriate to look at ten-year returns as shown on page 10, because of the amount of noise there has been over the most recent five-year period. Some of the strategies skewed toward Large Cap, others had Mid Cap exposure. For the additional risk, we want to see excess return over the benchmark, but the amount of additional risk assumed is important. Most are "hot dots" which outpaced the Russell 1000, so what is driving the outperformance? Mr. Grzejka also cautioned the Board that performance will revert to the mean, and he does not want to see the Board invest at a high point only to lag thereafter, as has happened with an all-asset manager. Mr. McKenna asked why two are showing net of fees numbers (Dodge & Cox and Seizert) while the rest are showing gross numbers, and asked if Mr. Grzejka would make the adjustments. Mr. Grzejka noted that even net of fees, Seizert and Dodge & Cox still outperformed the benchmark. Aristotle provides downside protection and upside capture. Artisan is a known name on the growth side, but has a sizeable value portfolio as well, with a fee of 60bps. The fund has significant outperformance over the one-year vs. the benchmark (18% vs. 5%), so what is driving it? Over the ten-year period, their returns revert to just above the benchmark. Because the fund is so actively managed it will provide less downside protection. Mr. Horan asked if the Side Letter would be an issue for those managers that included caveats in the footnotes. Mr. Grzejka stated there is a form Side Letter with individual terms that are negotiated among the respective legal counsels when we onboard new managers, but on those marked Separately Managed Account (SMA) it wouldn't matter because the funds can be tailored to reflect the statutory restrictions. Any that have said a flat "no" to a side letter have already been removed. NEPC is not very familiar with Beutel, Goodman & Co., but their returns are below both the median and the bench. Mr. McKenna asked if there is an industry standard for returns vs. fees (i.e. at what return would a given fee be justified), and Mr. Grzejka responded that each manager has its own standard. Mr. Schutz stated it is also nuanced with the strategy style, trading activity, amount invested, etc. Mr. McKenna asked if we pay $250,000 in fees per year, what should we expect for returns. Mr. Schutz reiterated that there is no set number. The Board needs to be concerned with how this would fit in the portfolio overall. There is both an art and a science to balancing return and risk. Mr. Grzejka stated that is why it is part of the due diligence process-the question should be what is the excess return, rather than what is the return. Boston Partners is a former manager in the small cap space, so we are very familiar with them as a manager. This is their flagship strategy. The fund carries a 40bps fee with 30-40bps alpha. NEPC is not as familiar with Brandes, which returned 9-10% with a 47bps fee. Performance was 90bps above the bench with downside protection, but there have been large outflows from the fund, which may be cause for concern. Brandywine has struggled relative to the benchmark and peers. They are in line with the bench over the short term, but relative performance was lower over the long term. Mr. Schutz reported that the fund is Deep Value, which does not perform well in the current macro environment. It is not an "all-weather" strategy, and will underperform in a strong equity market. Mr. McKenna asked if that would translate to better downside protection, and Mr. Grzejka responded that it would not necessarily because there are other sectors outperforming, and they were well behind the bench. However, when they do hit, they're really strong. NEPC is not as familiar with Cambiar. Their process is similar, with a lower fee of 30bps, but there are not a lot of institutional assets in this particular product. The incumbent manager in the space, Coho, has no "magnificent 7" exposure which has impaired performance vs. their peers over the short term, but they did well over time. Mr. Schutz stressed that they underperformed based on what they did not hold, not because of what they did hold. They could have outperformed simply by holding one name outside their set mandate, but they adhered to it. If underperformance were to persist long-term, then it is a problem, but NEPC still has conviction in the Coho strategy. The Board just needs to decide if the strategy still fits the portfolio moving forward. Diamond Hill offers a 54pbs fee and roughly 1% of outperformance. Dodge & Cox has been in the strategy since the 1960's so they are very experienced, offer consistent outperformance, and a 50bps fee. The fund is somewhat more diversified, holding 77-80 names. Hotchkis and Wiley is a quantitative manager. The fund holds about 70 names, outperforming over the long term, with a 50bps fee. Lazard's returns are in line with the benchmark. They have over $900m in the strategy with a 30bps fee. LSV is fully quantitative, but did not add much value net of fees. Manulife had significant outperformance over the short term, which raises the question of performance drivers. The fee is 40bps. MFS is a well-known classical value manager. The fund is defensively positioned, has a 45bps fee, and performance that is in line with the benchmark. Newton uses both quantitative and qualitative metrics, with outperformance out to ten years, a fee of 40bps and positive up and down ratios. Pzena has had a recent ownership change. The fund has been below the benchmark over the ten-year period, but the strategy is Deep Value. The fund carries a fee of 40 bps. Seizert has performed above the bench and above peers, with a good risk/return profile. They were on NEPC's preferred list, but the firm's namesake retired. They are a "smaller shop." Mr. Schutz commented that the concentration of client accounts is a concern, with one holding 10% of the fund, and the top five holding 35%. The team is small and, in Mr. Schutz's opinion, under-resourced. The London Company's offering is a classical value strategy with a fee of 33bps. The fund has outperformed the benchmark over time, but not the broader markets. Voya is a well-known firm, but NEPC is not as familiar with their Large Cap Value strategy specifically. The fee is 48bps, and the fund's performance is just below the benchmark's. Mr. Horan asked about the "most favored nations clause." Mr. Grzejka stated the Side Letter refers to it. The Board is contemplating a fairly sizeable investment, and obviously we want the same consideration given to other large clients. Westwood's performance lags over the long term. Zacks has a 45bps fee, but has not demonstrated outperformance.

Mr. Grzejka stated that in making a selection, the Board needs to identify the differentiators, and is seeking outperformance within the specified mandate. A value strategy will not, and should not, perform like a growth strategy. He cautioned the Board that some funds have benefitted from temporary catalysts. NEPC's recommendation is that Coho, Dodge and Cox, Aristotle, Newton, and Seizert be called in for interviews. They each have a different lens and concentration, but all have been consistent in approach. Mr. Horan asked if Seizert has been downgraded are they still worth calling in, and Mr. Grzejka responded that in his view they are. The firm has made changes over the last 4 years, outflows are not up, inflows and AUM are steady, and performance is strong. The caution would be that the firm is a boutique, small, but flexible. Mr. Horan asked if the separate account minimum is $60m, whether they should be eliminated because of the asset allocation, but Mr. Grzejka does not expect that to be an issue. Mr. Horan asked if there is another choice which might be a better fit. Mr. Grzejka stated that market variability has been a factor, but they have benefitted from active account management. We are late cycle, and the "party may be almost over", so the system may benefit from active management. They did not say "no" to the Side Letter. Mr. McKenna asked if there are any client concentration concerns with Seizert. Mr. Schutz commented that since the fund offered is an SMA, the system is really the only investor. Mr. Grzejka responded that concentration risk will arise more with the boutique shops. Coho has $500m between two clients, Artisan has 40-50% held by the top five clients, etc. The goal is to find a good all-weather strategy with a strong track record and differentiators. Mr. Fleming asked Mr. Grzejka to repeat the five names, which he listed as Coho, Dodge, Seizert, Newton, and Aristotle. Mr. Zecha noted Lazard is a well-known firm among MA public funds. Mr. Grzejka noted that it is a good product, but performance has been in line with the benchmark, so not a lot of added value. Mr. Zecha asked what the current RhumbLine fee is, and Mr. Grzejka responded 4bps. Mr. Horan asked if Coho were not the incumbent, would NEPC still include them. Mr. Grzejka answered that the Board has traditionally allowed the incumbent to present. Coho has adhered strictly to the mandate for which they were hired, has rebounded consistently after bad years, and should not be disqualified based on short-term performance. Mr. McKenna acknowledged that they have bounced back, but questioned whether the Board has outgrown their approach. Mr. Zecha commented that December was a positive month, and asked whether any of the five had a “blow up.” Mr. Grzejka stated the December numbers are not available yet. Mr. Fleming asked for the Board members’ preferences. Mr. Zecha stated that he agrees with Mr. Horan and does not see the point of bringing in Coho. Others are above them on the scatter graph. Mr. Grzejka cautioned that when others are high, the Board will also be buying in at what may be a temporary high, which has hurt the System in the past. The Board may be better served by considering buying into a fund identified as at a temporary low. Mr. Horan stated that even the ten-year returns are behind, and Mr. Zecha commented about the 50bps fee. Mr. Grzejka commented that while Coho was slightly behind through November, they did exactly what they were hired to do, kept overlap to a minimum, and NEPC still has conviction in the strategy. One year could either make or break an entire 10-year return number. Mr. Schutz added that Coho focuses on avoiding the landmines, noting that in 2022, Coho was down 4% while Seizert was down 22%, so the Board needs to be careful about making long-term decisions based on a “hot dot.” Mr. McKenna acknowledged that Coho has provided great downside protection, and asked whether a core manager plus a small piece for downside protection would be appropriate. Mr. Fleming stated he would like to see the Board adhere to past practice, to respect the incumbent as was done with Boston Partners, and to call in all five. Mr. McKenna made a motion to call in all five as finalists, based on NEPC’s recommendation. Mr. Fleming seconded the motion. Mr. Grzejka stated that if the Board were to call in only four, NEPC’s recommendation would be to eliminate Newton. Mr. Zecha stated he would be voting no. He wants to call in only four, eliminating Coho, noting that people look at the returns and compare them to PRIT’s. Mr. McKenna stated he would amend his motion to eliminate Coho. Mr. Pena seconded the amendment.

On a motion made by Mr. McKenna and seconded by Mr. Peña:
VOTED
to amend the original motion to call in for finalist interviews Coho, Dodge & Cox, Newton, Seizert and Aristotle, to call in Dodge & Cox, Newton, Seizert and Aristotle, eliminating Coho. 4-1 on a roll call, with Mr. Horan voting yes, Mr. McKenna voting yes, Mr. Peña voting yes, Mr. Zecha voting yes, and Mr. Fleming voting no.

On the original motion as amended:
VOTED
to call in as finalists in the Large Cap Value search Dodge & Cox, Newton, Seizert and Aristotle. 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. Fleming asked if that would give the managers enough time before the meeting on the 25th, and Mr. Grzejka expects it will because they will only be attending remotely. Mr. Horan asked if Mr. Grzejka would please make a 1-page summary sheet for the January meeting, and Mr. Fleming concurred. Mr. Grzejka confirmed that he would.

On a motion made by Mr. Horan and seconded by Mr. Peña:
VOTED
to adjourn the January 11, 2024 special 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 11:39 a.m.

The following communications were distributed to the Board for review:

01/2024 Large Cap Value Search Book

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, January 25, 2024, 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