

**MASSACHUSETTS WATER RESOURCES  
AUTHORITY EMPLOYEES' RETIREMENT  
BOARD MEETING  
AUGUST 25, 2016**

A meeting of the MWRA Employees' Retirement Board was held on August 25, 2016 at 10:00 a.m. at the offices of the MWRA, 2 Griffin Way, Chelsea, MA. The following Board Members were present: James M. Fleming, Thomas J. Durkin, and Kevin McKenna. Frank Zecha entered while the meeting was in progress. Joseph C. Foti was absent. Carolyn Russo, Executive Director, and Julie McManus, Retirement Coordinator, were also present. Attorney Thomas Gibson and Attorney Gerald McDonough were present as Board Counsel. Sebastian Grzejka was present from New England Pension Consultants (NEPC) as Investment Consultant. Chairman Fleming called the meeting to order at 10:10 a.m.

- 1) Call the meeting to order
- 2) Committee Reports  
By-Laws Committee: No Report  
Human Resources Committee: No Report  
Special Committee, Stipend: No Report  
Job Review Committee: No Report
- 3) Discussion regarding Method for Calculating Three-Year-Average – it was decided that this item would be discussed later in the meeting when The Segal Co. made its presentation.
- 4) Approval of July 28, 2016 Minutes – VOTE

Discussion. Mr. Durkin corrected the minutes as follows: Item 13) paragraph 2 changed the wording from "...but if the Board were to vote..." to "...and asked if the Board were to vote..." Item 13) paragraph 5 changed the wording from "...he believes that the unfunded liability would not increase." to "he believes that the unfunded liability would not increase for future retirees."

On motion by Kevin McKenna and seconded by Thomas J. Durkin:

**VOTED**

to approve the July 28, 2016 Minutes as amended. 3-0

- 5) Approval of Warrant 8-16 – VOTE

On motion by Thomas J. Durkin and seconded by Kevin McKenna:

**VOTED**

to approve Warrant 8-16 as presented. 3-0

Mr. Zecha entered the meeting at 10:16 a.m.

6) Approval of Monthly Transfers 8/2016

On motion by Thomas J. Durkin and seconded by Kevin McKenna:

**VOTED**

to approve the 8/2016 Monthly Transfers as presented. 4-0

7) Acknowledgment of Retirement applications under G.L. c 32 §5 – VOTE

Retirement Board Staff has verified that the necessary paperwork is in order and has determined applicants to be eligible for such benefit.

- |    |                     |               |
|----|---------------------|---------------|
| a) | John Ford           | DOR 7/30/2016 |
| b) | Chen Liu            | DOR 8/3/2016  |
| c) | William Stoney, Jr. | DOR 8/6/2016  |

On motion by Thomas J. Durkin and seconded by Kevin McKenna:

**VOTED**

to acknowledge §5 retirements for John Ford DOR 7/30/2016, Chen Liu DOR 8/3/2016, and William Stoney, Jr. DOR 8/6/2016. 4-0

8) Approval of one month creditable service for Doreen Thornton for the month of December 2008 and one month of creditable service for the month of March 2016 pursuant to G.L. c. 32, s. 4(1)(c), which allows the Board to grant up to one month creditable service without contribution – VOTE

On motion by Kevin McKenna and seconded by Thomas J. Durkin:

**VOTED**

to approve one month creditable service for Doreen Thornton for the month of December 2008 and one month of creditable service for the month of March 2016 pursuant to G.L. c. 32, s. 4(1)(c), which allows the Board to grant up to one month creditable service without contribution. 4-0

9) Discussion regarding changing the date of the December 2016 Board Meeting. It was decided to change the date of the meeting from December 22, 2016 to December 15, 2016.

10) Manager Due Diligence Summaries/Presentations

The following managers underwent annual investment manager reviews pursuant to 840 CMR 16.07. The managers presented performance and investment reports detailing the managers' activities which the Board reviewed.



### Cerberus

Entrust Permal – Chairman Fleming noted that he and Mr. Durkin had met with Gregg Hymowitz earlier in the month and discussed the merger of Entrust and Permal.

The Board reviewed and compared the managers' performance with the Retirement System's investment goals and policies. The Board ensured that comprehensive written quarterly reports were filed with the Board and with PERAC and that these reports included a review of investment performance and relative performance, a review of the System's investments, and a report on the investment managers' current investment outlook or forecast as well as strategy for the future and key personnel staffing changes.

The Board determined that the investment managers continue to operate in a manner represented when retained and outlined in the agreement between the Board and the manager in the agreement between the Board and the manager.

### 11) William Connolly/The Segal Co. – Actuarial Presentation

- a) Interim January 1, 2016 Valuation – Mr. Durkin stated that the Authority had given the Retirement System an additional pension contribution of \$1,500,000 as they have in past years and noted that the FY18 appropriation will be less than originally valued. Discussion about the impact of reducing the investment return assumption from 7.75% to 7.50% or 7.25%. Mr. Connolly stated if the Board wants to change any of the factors used in calculating the valuations going forward, they should do so sooner rather than later as there are only 7 more years left on the funding schedule. Because it was an interim valuation, the numbers presented on the proposed funding schedules did not include the actuarial losses sustained because 2015 investment returns were well below the current assumed rate of return of 7.75%.
- b) Cost of Changing Three-Year Average Compensation Method – Mr. Connolly stated that he estimated the impact on the FY17 appropriation of changing the three-year average compensation to include 157 weeks of pay instead of 156 weeks as follows: if the change were applicable to current and future retirees, the FY17 appropriation would increase by \$509,608; if the change were applicable to future retirees only, the FY17 appropriation would increase by \$371,204. Mr. Connolly noted that changing to the "36 highest method" as described in PERAC's analysis from the "156 weeks ignoring final paycheck" method, which he assumed is

closest to our current method, he said the result would be roughly a 1.24% increase, which would amount to \$987,366 per year for the 7 years remaining on the funding schedule.

Mr. Zecha asked if the estimated increase included retroactive payments to current retirees, and Mr. Connolly answered that it did not. Mr. Zecha stated that he has no problem increasing benefits for retirees but questioned the fairness to people who retired in the past. He suggested that increasing the COLA base would be a fairer way to increase benefits for all retirees. Mr. Zecha stated that if the Authority would accept liability for the increase in appropriation, he would be in favor of changing the methodology for future retirees and retirees since 2010. He also noted for the record that he played softball with Daniel Cronin who was in attendance as a union member. Mr. Zecha asked that no vote be taken until the full Board was present.

Mr. McKenna stated that in fairness to all retirees, he would want to include all past and future retirees and to calculate using the 157-week method or the 36-month method whichever would provide the highest average salary and to recalculate current retirees' benefits on a prospective basis, and to apply the new methodology to all new retirees going forward.

Mr. Durkin stated that he would consider the 3-year exact method to be applicable to current and future retirees with no retroactive adjustment.

Mr. Fleming stated he supports the position expressed by Mr. McKenna as the most fair and equitable application.

Attorney Gibson stated that a change in prior retirements would probably affect 3(8)(c) billings and the amounts would have to be recalculated. Mr. Fleming noted that the representatives from PERAC had not raised that point.

Mr. Zecha asked if any members in attendance would like to speak and Bob Roussel, president of Unit 6, thanked the Board for all of its research, noted that the System was in very good shape financially, and asked that the Board consider changing the three-year average to 157 weeks.

On motion by Frank Zecha and seconded by Thomas J. Durkin:

**VOTED**

to table the item of changing the method of calculating the three-year average until next month's meeting. 4-0



- 12) Attorney Thomas Gibson/Legal Update
- a) Stanton DALA Appeal – Mr. Stanton's attorney has been reinstated by the Board of Bar Overseers
  - b) Ponder – still at CRAB
  - c) Michael O'Leary lump sum settlement pending
  - d) Disability Status Update
  - e) Robbins Geller Rudman & Dowd re. Tetraphase – Attorney Gibson noted that Plymouth County Retirement was chosen as lead plaintiff as they had experienced about \$500,000 loss as opposed to the Board's \$84,000 loss

13) Travel Approval – VOTE

MACRS Fall Conference, October 2, 2016 – October 5, 2016,  
Springfield, MA

On motion by Thomas J. Durkin and seconded by Kevin McKenna:

**VOTED**

to approve attendance for Board Members and Staff at MACRS Fall Conference, October 2, 2016 – October 5, 2016, Springfield, MA. 4-0

Mr. Zecha left the meeting at 1:10 p.m.

14) Presentation by Sebastian Grzejka/NEPC

- a) Expand the description of mandate for the RFP for Growth Equity Buyout and Special Situations Manager and extend for two weeks – VOTE

On motion by Thomas J. Durkin and seconded by Kevin McKenna:

**VOTED**

to expand the description of mandate for the RFP for Growth Equity Buyout and Special Situations Manager and extend for two weeks. 3-0

- b) Flash Report as of 7/31/2016
- c) Custody Search Summary – VOTE  
NEPC recommended the Board invite all four respondents to present to the Board at its September meeting.

On motion by Thomas J. Durkin and seconded by Kevin McKenna:

**VOTED**

to accept NEPC's recommendation and invite all four custody respondents to present at September's Board Meeting. 3-0

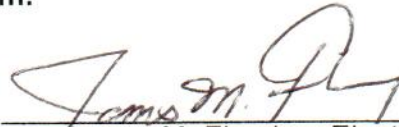
- d) Investment Summary Quarter Ending March 31, 2016

- e) Investment Summary Quarter Ending June 30, 2016 – Preliminary
- f) First Quarter 2016 Private Markets Review
- g) First Quarter 2016 Real Estate Review

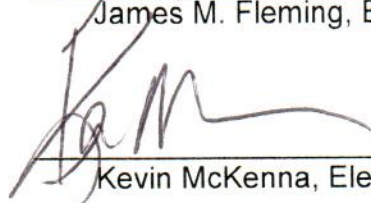
The Retirement Board was presented with the following documents at the meeting:

Cerberus Presentation  
 Entrust Permal Presentation  
 The Segal Co. Interim January 1, 2016 Valuation with Proposed Funding Schedules Using Investment Return Assumptions of 7.50% and 7.25%  
 The Segal Co. Cost of Changing Three-Year Average Compensation  
 NEPC Flash Report as of 7/31/2016  
 NEPC Investment Summary Quarter Ending March 31, 2016  
 NEPC Investment Summary Quarter Ending June 30, 2016  
 NEPC First Quarter 2016 Private Markets Review  
 NEPC First Quarter 2016 Real Estate Review  
 NEPC Custodian Bank Search Summary  
 NEPC Expanded RFP for Growth Equity and Buyout and Special Situations Managers  
 PERAC Memo #19/2016 re. COLA for Dependent Allowance  
 PERAC Memo #20/2016 re. Reinstatement to Service under G.L. c § 105  
 PERAC Memo #21/2016 re. Updating PERAC's Website on Supplemental Regulations  
 PERAC Pension News – August 2016  
 TA Realty Personnel Changes  
 Cerberus Capital Management Personnel Changes  
 TerraCap August 2016 Newsletter  
 Kayne Anderson Investor Conference – October 26 & 27, 2016

The meeting was adjourned at 1:33 p.m. The next regularly scheduled meeting of the MWRA Employees' Retirement Board will be held **Thursday, September 29, 2016 at Massachusetts Water Resources Authority, 2 Griffin Way, Chelsea, Conference Room 2D, 10:00 a.m.**



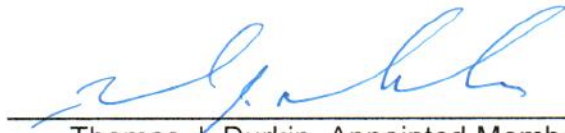
James M. Fleming, Elected Member



Kevin McKenna, Elected Member

ABSENT

Joseph C. Foti, Ex Officio



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Thomas J. Durkin, Appointed Member

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Frank Zecha, Fifth Member