

Andris Silins, Chairman
Michael Fitzmaurice, Elected Member
Antonio Torres, Elected Member

Ping Yin Chai, Appointed Member
Paul T. Hynes, Appointed Member
Joseph M. Petty, Executive Secretary

**MASSACHUSETTS HOUSING FINANCE AGENCY
EMPLOYEES' RETIREMENT BOARD
ONE BEACON STREET
BOSTON, MA 02108
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Minutes of the Regular Meeting of Members
August 11, 2020

The regular meeting of the Massachusetts Housing Finance Agency Employees' Retirement Board was held via Zoom at 1:00 pm.

Present via Zoom were:

Andris Silins, Board Chairman
Ping Yin Chai, Appointed Member
Michael Fitzmaurice, Elected Member
Antonio Torres, Elected Member
Paul T. Hynes, Appointed Member

Others present via Zoom:

Joseph M. Petty, Executive Secretary
Michelle Shinnick, Retirement Analyst
Kent Moffatt, Applicant for 5th Member.
Reporter from Financial Investment News
Dan Dynan, Meketa Investments
Stephen MacLellan, Meketa Investments
Thomas Dunleavy, Meketa Investments

Andris Silins called the meeting to order.

UPON MOTION DULY MADE (ANTONIO TORRES) AND SECONDED (MICHAEL FITZMAURICE), it was voted:

To approve the minutes of the July 14, 2020 meeting. (5-0 roll call).

The bank reconciliations, budget and financial records were reviewed. Andris Silins inquired whether there were any transactions out of the ordinary. Joseph Petty noted that there were no transactions out of the ordinary and we had one retirement, Norman Brown.

UPON MOTION DULY MADE (MICHAEL FITZMAURICE) AND SECONDED (PING YIN CHAI), it was voted:

The retirements, refunds and transfer on the attached list were reviewed and approved along with the budget, retirement payroll, financial records and vouchers 2020061-2020066, and capital calls (5-0 roll call).

Joseph Petty introduced both applicants for the 5th Board member, Kent Moffatt and Paul Hynes. Each candidate were asked the same set of questions and they reviewed their work history and experience and how they would be a benefit to the Board as a member. The Board recommended Paul Hynes as the 5th member based on his 40 years of experience working with Chapter 32 and Retirement systems.

UPON MOTION DULY MADE (ANTONIO TORRES) AND SECONDED (MICHAEL FITZMAURICE), it was voted:

To approve Paul Hynes as the fifth Board member (4-0, roll call with Paul Hynes recusing himself.)

Dan Dynan and Steve MacLellan reviewed the system performance and noted that our System returned a 8.4% for second quarter and a -2.5% for year to date. As of June 30, 2020, the System's market value was \$169.4 million, an increase of \$11.8 million from the end of the first quarter. The increase was due to strong investment gains, primarily in equities. As of June 30, 2020, all asset classes were within their respective target asset allocation ranges with private equity notably at the top of its range. Private equity is at the top of the range due to a valuation lag as values are as of q1, adjusted for cash flows. Mr. Dynan noted that equities were down 3.5% for the year while international developed equities were down 11.3% and emerging market equities were down 9.8%. Fixed income returns were positive, while more risky fixed income declined alongside equities. Investment grade bonds were, up 6.1%. TIPS was up 6.0%, while High Yield bonds and Emerging Market debt were down 5.3% and 4.8% respectively. Real Estate performance was down 0.6% for the year while natural resources fell by 18%.

Steve MacLellan noted that PERAC released their 2019 investment report with returns and funded ratios of all Massachusetts retirement systems. We returned a 19.3% for the 2019 ranking, 14 out of 106 Massachusetts retirement systems. The median return across systems was 16.7%. PRIM's return was also 16.7% for the period.

Dan Dynan discussed investing in a low interest environment noting that covid 19 has had a greater impact on peoples' daily lives, the economy, and markets, than any event since World War II. The impact will not be known for quite some time. He also reviewed the risk and return curve, in today's environment taking more risk may mean you get less compensated for it; bonds as less protective and its cost is higher. Mr. Dynan suggested that we should tilt toward non-core strategies that can be nimbler and can benefit from these secular changes.

Mr. Dynan recommended the following changes.

1. Reallocation of emerging market assets

LMCG has underperformed the MSCI emerging market index in all trailing periods since the system hired them in August 2015. While some stylistic headwinds have negatively impacted their returns, LMCG has underperformed our expectations. Recommending the system terminate LMCG emerging market equity and move the assets to GQG.

2. Diversify real estate allocation with non-core real estate

This crisis has accelerated several secular trends that were already underway that core real estate has significant exposure to (i.e. the decline of brick and mortar retail had already begun, shift toward more working from home, less travel (i.e., lower demand for hospitality and leisure destinations). Non-core strategies tend to be more focused on particular geographies or property types. They suggested to tilting toward non-core strategies that will benefit from these secular changes. They recommended issuing an RFP for non-core real estate managers and electing to receive dividends in the form of cash (not reinvested) from the system's current core real estate managers.

3. Eliminate Natural Resources Allocation

Mr. Dynan noted that in a low inflation environment natural resources become less appealing. A large portion of these assets have suffered due to the ESG movement and low energy prices due to demand shocks. Returns for a broad bucket of natural resources has lagged the S&P by close to double digits in the 3, 5- and 10-year trailing periods. Meketa recommended that the System move the assets into equities. Over long periods of time equities provide similar inflation hedge characteristics, while presenting a better risk/return profile.

The Board discussed the pros and cons of the recommendations. Mr. Fitzmaurice inquired what is our expected rate of return based on our current asset allocation. It is 7.1%, it is hard to maintain the same level of return as in the past as interest rates decline. Mr. Fitzmaurice asked for an asset allocation analysis. Antonio Torres asked about our core vs. non-core real estate funds. It was noted that we have two core real estate funds, AEW and Intercontinental, which are very stable. The non-core investment would look at properties in distress such as the owner cannot afford the property, or it needs upgrades and amenities. Paul Hynes had some concerns with distressed properties investments and a discussion with Meketa and the Board ensued.

UPON MOTION DULY MADE (PAUL HYNES) AND SECONDED (MIKE FITZMAURICE), it was voted:

To terminate LMCG emerging market equity and move the assets to GQG. (roll call 5-0)

UPON MOTION DULY MADE (MIKE FITZMAURICE) AND SECONDED (Ping Yin Chai), it was voted:

To issue an RFP for a non-core real estate manager for a \$5 million-dollar investment and elect to receive dividends in the form of cash (not reinvested) from the system's current core real estate managers. (roll call 5-0).

UPON MOTION DULY MADE (MIKE FITZMAURICE) AND SECONDED (ANTONIO TORRES), it was voted:

To eliminate the investment in our Natural Resources allocation and transfer these assets to equities (roll call 5-0).

Joseph Petty reviewed the annual vendor disclosures, training including on-line conflict of interest training for Board members and PERAC Memos.

UPON MOTION DULY MADE (ANTONIO TORRES) AND SECONDED (MICHAEL FITZMAURICE), it was voted:

To adjourn the meeting at 2:25 pm (roll call 5-0).

Andris Silins - Board Chairman

Michael Fitzmaurice – Elected Member

Antonio Torres – Elected Member

Ping Yin Chai, Appointed Member

Paul T. Hynes – Member Appointed by Other Members