

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

Michael J. Dirrane, 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  
(617) 854-1871, 1123**

Minutes of Board Meeting – Performance Review & Analysis  
January 10, 2017

The regular meeting of the Massachusetts Housing Finance Agency Employees' Retirement Board was held at the offices of the Massachusetts Housing Finance Agency, One Beacon Street, Boston, Massachusetts at 10:00 am.

Present were:

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

Others present:

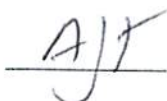
Joseph M. Petty, Executive Secretary  
Michelle Shinnick, Retirement Analyst  
Frank Benham, Meketa Investments  
Dan Dynan, Meketa Investments  
Stephen MacLellan, Meketa Investments  
Craig Merry, MassHousing

Absent were:

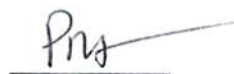
Michael J. Dirrane, Appointed Member

Andris Silins asked Meketa Investment Group to review our investment philosophy. Paul Hynes asked Meketa to explain why we are not in PRIT and why the recording of fees is not uniform. Mr. Dynan began by stating that we are an important client and valued the relationship. Mr. Dynan stated that they will review the rationale for the historical and current positioning of the Retirement System, and discuss why the System is poised to perform well and based on its objectives that staying the course is important when an asset class, strategy, manager, or even consultant goes through a period of difficult performance. It is during this time that we need to challenge our thesis. Meketa Investments believes in taking a long term approach to investing and seeks to diversify broadly to protect against a wide variety of risks. Dan Dynan also explained that he thought the PERAC fee report was inaccurate and we should focus our talks on risk.





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He noted that the Board has adopted a conservative investment strategy because the retirement system is well funded compared to other retirement systems. More conservative generally means less equity exposure and more fixed income exposure. It also means that a well-diversified portfolio, built to produce stable returns in many difficult market environments. Most performing Systems also had smaller allocations to fixed income and international equities, which have lagged domestic equities significantly.

Mr. Dynan stated that since mid-2015, the Retirement System has been active in seeking to improve the System's portfolio and performance by replacing underperforming managers, DFA emerging markets value, RS Natural Resources and Stone Harbor Emerging Markets Debt; conducted a private equity fund of fund search; issued and RFP to evaluate Core Infrastructure Opportunities and Investment Grade Bond.

Mr. Dynan next mentioned that for the period January 1, 2013 through December 31, 2015, the System returned a 4.6%, while the average System returned 8.0% and PRIT returned 7.9%. Mr. MacLellan then noted that the performance through November, 2016 was 8.4 % compared to PRIT at 6%. He expected our year end return to be over 9% and PRIT should also be higher. Mr. Dynan stated that we should be in the top quartile for the calendar year 2016.

Mr. Torres inquired to the amount of assets managed by Meketa. It was noted that Meketa has assets under advisement of \$435 billion and aggregate client assets over \$900 billion. Paul Hynes asked whether the funding status is still important. Mr. Dynan noted it is an important issue among the largest states, but we cannot slip in our performance because we are too conservative; we need to improve to get closer to being 100% funded. Mr. Fitzmaurice noted that the Agency is investing significant dollars into the retirement system and it is important that we close the gap and not get behind in our funding status. Mr. Torres noted the funding status is impacted by people living longer and the mortality tables. Mr. Benham agreed the adopting the new mortality tables would affect us. Mr. Dynan stated that because we are well funded we have the ability to be more risky, however, we need to evaluate is it worth being more risky if our funded status dropped from 79% to 60%. Paul Hynes asked how we improve performance. Mr. Dynan noted that to have a portfolio that will increase performance to 8.5% your risk is increased by 20%-25%.

Dan Dynan reviewed in depth the Risk Analysis. He noted that while our performance was poor relative to PRIT and other systems, it is expected given our conservative and diversified investment approach; and noted that our volatility of returns has been amongst the lowest of Massachusetts Public fund peers over the trailing periods. The Board preferred a conservative risk profile relative to peers due to its historically lower actuarial assumed rate of return; its higher funded status (even with lower assumed rates of return); and relatively strong cash flow position, while other systems are cash flow negative. Because the health of the System has been strong we did not need to reach for returns. Mr. Dynan noted that while PRIT and MassHousing Retirement System had similar assumed rate of return, PRIT invested its portfolio to have an expected return of 9.2%. Whereas, we have historically invested a portfolio with a return close to its actuarial assumed return. PRIT, like other retirement systems who are underfunded must "earn their way out" by reaching for returns. Due to our lower required return and funded status, the Board has explicitly sought out a less volatile portfolio than PRIT. The Retirement System has consistently been among the most conservative funds in Massachusetts and has exhibited less volatility (risk) than 92% of the Massachusetts public fund peers over the past 15 years.

Handwritten signatures in blue ink: MT, AJS, AJT, and Pna.



Steve MacLellan reviewed the 2016 YTD performance by asset class and reviewed the 2016 YTD PRIT attribution. Paul Hynes inquired as to the accuracy in grossing up by .3%, PRIT's gross performance. Mr. Dynan said he would review and confirm. Next, Frank Benham reviewed the Meketa's Strategic Investment Philosophy. He noted that they take a long-term approach to investing, and recommends that clients focus primarily on strategic asset allocation. Asset allocation will be the largest determinant of long term investor's performance. He then reviewed expected returns and long-term expected return and risk. Mr. Fitzmaurice noted that an 8% return is riskier versus a return of 7.9%. Mr. Dynan stated that the question is whether a 54% probability of a 7.75% return is good enough. Mr. Fitzmaurice noted that more risk is needed to increase the standard deviation. Paul Hynes asked to see the probability at 60% and Mike Fitzmaurice asked what PRIT's probability was. Mr. Behnam responded it was 60%.

In summary, Mr. Dynan noted that our recent underperformance relative to peers was due primarily to asset allocation as a result of being underweight to U.S. equities in an extremely strong U.S. equities market; Meketa remains confident that the diversified structure of the System is a prudent strategy to earn a return of 7.75%; and the System's measured approach to asset allocation and investing has been validated by both research and historical results and continue to prove the highest probability to meet its objectives over the long term.

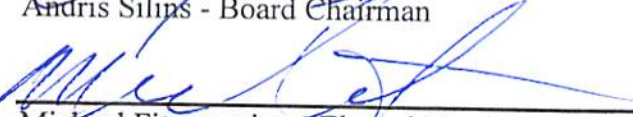
Dan Dynan reviewed their fee analysis and noted the System currently pays total fees equal to .82% of total assets; however, this is driven by performance-based fees in the private equity and real estate portfolios, which not all retirement systems report to PERAC. If these fees are removed, the Systems fee burden falls to .66%, which is in line with other systems. 60% of the Systems' assets will be invested in low cost or passive funds. It was noted that we have taken further steps to reduce fees by renegotiating custody fees (savings of \$45,000); selection of a passive natural resources manager (savings of \$41,000) and rebid indexing manages (savings of \$8,000). Our portfolio is also benefited by leveraging Meketa's entire firm to negotiate advantageous fee structures for all clients, which has resulted in a savings of \$27,000 per year. Mr. Silins noted that we believe in transparency, however, we need direction by PERAC on how to report fees. Mr. Silins asked that a letter be sent to PERAC asking for their guidance.

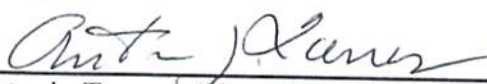
Finally, Mr. Dynan reviewed non-performing PRIT issues. The benefit and drawbacks of investing with PRIT.

UPON MOTION DULY MADE AND SECONDED, it was voted:

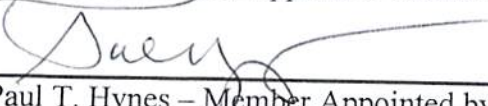
To adjourn the meeting at 12:15 p.m, (4-0)

  
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Andris Silins - Board Chairman

  
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Michael Fitzmaurice - Elected Member

  
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Antonio Torres - Elected Member

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Michael J. Dirrane, Appointed Member

  
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Paul T. Hynes - Member Appointed by Other Members