

TRUSTEES OF THE PUBLIC LIBRARY OF THE CITY OF BOSTON

**Meeting of the Trustees Finance and Audit Committee
Wednesday, November 12, 2014 / 8:00 a.m.
Commonwealth Salon
Central Library, 700 Boylston Street, Boston, MA 02116**

NOTES

A meeting of the Trustees Finance and Audit Committee was held on Wednesday, November 12, 2014 at 8:00 a.m. at the Boston Public Library, Central Library, Commonwealth Salon, 700 Boylston Street, Boston, MA 02116.

Present at the meeting were Finance and Audit Committee Chair Evelyn Arana-Ortiz and Committee member John Hailer. Board of Trustee Chair, Jeffrey Rudman, participated via telephone.

Absent from the meeting were Committee members Zamawa Arenas and Rep. Byron Rushing.

Boston Public Library Staff: President Amy Ryan, Director of Administration and Technology David Leonard, Chief Financial Officer Ellen Donaghey, Budget and Procurement Manager Edward Maheigan, and Clerk of the Board Deborah Kirrane. Attending from City of Boston was Corporation Counsel Caroline Driscoll. Also present were New England Pension Consultant Representatives Sebastian Grzejka and Michael Gaughan.

Ms. Arana-Ortiz, Chair of the Trustees Finance and Audit Committee (“Committee”) presiding.

Ms. Arana-Ortiz called the meeting to order at 8:07 a.m. and explained for the record that because a quorum did not exist for this meeting, the Committee would be unable to vote to approve the minutes from the October 16, 2014 and September 11, 2014 meetings of the Trustee Finance and Audit Committee. Further, Ms. Arana-Ortiz explained that for all votes listed on the agenda, the members of the Committee would discuss same and any votes would be made by the Trustees at their next meeting on November 18, 2014.

Sebastian Grzejka of New England Pension Consultants (“NEPC”) reviewed the Q3 portfolio material and October 2014 flash report as distributed to the Committee. He explained that the portfolio had performed extremely well since 2009 on both an absolute and relative basis, and overall the portfolio has returned 10.5% over the past five years, placing the portfolio in the 26th percentile as compared to its peers and the top 10% to 20% over all time periods.

The portfolio is in line with the long-term targets from an asset allocation perspective. BPL’s investment of \$46 million has earned \$24 million over the last five years – a significant amount of money. While volatility is generally in line with peers, the return is significantly above peers and NEPC is very pleased with the results. NEPC will present to the Committee 2015 areas of concern in the market and recommendations as to how best to diversify the portfolio.

NEPC next reviewed the October flash report. Mr. Grzejka indicated that after a difficult start at the beginning of October, the portfolio bounced back and presented a return of 1.6% for the month. Year to date the portfolio has experienced a 6.6% return, which is a strong overall result given the current market environment.

From a manager perspective, SSgA is offering values slightly over the index. Batterymarch had a good month for the portfolio with a 7.9% return. The Boston Company lagged behind the

Deborah Kirrane, Clerk of the Board (December 16, 2014)

benchmark but is doing well over the long term and, internationally, Ernest is down about 2.3%. NEPC explained this is due to the US dollar appreciating during this timeframe and Ernest has been beating the benchmark.

Mr. Hailer asked that NEPC be prepared to speak about large cap opportunities at the next Finance and Audit Committee meeting.

PIMCO management/staff changes were discussed. In particular, Mr. Grzejka discussed that while the fund is insulated, NEPC was concerned with how investors would react to changes at PIMCO from a cash flow perspective. NEPC has been watching these funds and believes things are stabilizing. NEPC will continue to monitor managers and confirm that nothing detrimental is happening.

Mr. Grzejka referred the Committee to Tab 5, page 36 of the NEPC handout. He reiterated that NEPC has been discussing, with the Committee, the fixed income allocation, where the exposure is, and if there was a way to diversify the management of the allocation and the exposure of the allocation. Various strategies were discussed and page 36 provides a summary of the strategies.

Tab 5, page 39 describes the impact of an interest rate move on the bond holdings. Page 40 shows a move of 10% from core bonds to an unrestrained or diversified mandate, which moves the BPL up a bit on performance and effectively maintains the current risk and return profile of portfolio. Page 41 examines what BPL is holding and reviews the yields (6% to 6.5%). The yield and duration show that the BPL is moving 10% to an unconstrained bond mandate, increasing its yield from 2.5% to 2.85%, and decreasing the duration by about two years.

Based on NEPC's presentation, Ms. Arana-Ortiz summarized the following action items for NEPC: (1) asset information - identifying where the money is invested; (2) review The Boston Company and provide index fund options; and (3) review options for diversifying the fixed income.

Mr. Hailer asked that the Committee identify exactly what it wants to accomplish with the investments over the next three to five years. He would like to see a conversation focused on what the BPL wants for the long term in regard to its investments. He highlighted that the BPL has been very fortunate and he hopes that will continue.

Ms. Arana-Ortiz explained that the Committee, over the past few years, has been more balanced, with an eye toward reducing the amount of risk it was previously exposed to.

Mr. Hailer told the Committee that long term goals need to be established and formalized, particularly if the BPL is using the investments as a source of funding.

NEPC explained that the goals and the policy of the investments are laid out in the portfolio and will be presented to the Committee at the next meeting. Ms. Donaghey will send Mr. Hailer a copy of the BPL's investment policy.

Ms. Donaghey told the Committee that the Trustees are expected to vote to approve the moving of funds to new managers. She will then work with NEPC and City of Boston Treasurer to move the appropriate funds.

Mr. Rudman would like the Committee to think about a 60/40 allocation stocks to bonds. He is worried more about preserving capital on the bond side than on the equity side and, if interest rates go higher, the BPL investment could be hurt on the bond side.

Ms. Arana-Ortiz next explained the roles and responsibilities of the Committee pursuant to the investment policy. She explained that the Committee only has the authority to recommend a change in investment managers to the Trustees and not the authority to actually vote on that change. Thus, the vote to change managers taken at the last meeting would need to be rescinded and a new vote to recommend be taken.

NEPC representatives then left the meeting.

The status of the food service operator contract was next presented by Ms. Donaghey. The contract is currently operating under an extension, based on a vote at the Trustees Annual Meeting in May 2014. When the most recent contract opened for bids, the current operator was the only bid, despite other parties showing interest and attending the mandatory walk-through of the facilities. Corporation Counsel confirmed that the BPL could proceed with only one bid, but should perhaps re-examine the bid and speak to vendors who, despite initial interest, decided not to submit a bid.

When questioned, potential bidders expressed concern that a contract beginning in May would cause a delay in revenue as events for the spring, summer, and fall seasons would already be under contract with the prior vendor. The proposal before the Committee is to extend the contract with the current vendor – The Catered Affair – for another year, and put forth a Request for Proposal that would allow bidders to begin signing catering contracts one year in advance before taking possession in May 2016. This will address the concerns heard by potential bidders and allow for revenue immediately upon starting. Ms. Donaghey explained that the current operator earned approximately \$650,000 from the café and restaurant, and \$5 million in event revenue.

Mr. Hailer asked that the new request for proposal include that respondents provide a marketing plan for advertising the café and restaurant.

Ms. Ryan confirmed that the Trustees would be asked to vote to extend the current contract at the next Trustee meeting.

Ms. Donaghey next explained the need for the BPL to “surplus” space. The need for designating space as surplus arose in preparing bids for potential enterprise space in the renovated Johnson Building. The State Procurement Law requires that space for commercial enterprise be designated as “surplus” by the governing body. The Trustees will be asked to vote at the next meeting to designate commercial space in the McKim and Johnson Buildings as surplus.

Corporation Counsel Caroline Driscoll further explained that surplus space means simply that the space is not needed for a municipal purpose and that it is a routine process. Ms. Ryan confirmed that the BPL can fulfill its library requirements without use of this space. Ms. Donaghey cited the Boston Public School’s designation of surplus space at the Ferdinand Building in Dudley Square. Chris Gordon will be available at the Trustee meeting to answer further questions.

The Finance and Audit Committee will next meet on January 8, 2015 at 8:00 a.m. There being no other business, the meeting adjourned at 8:50 a.m.