

TRUSTEES OF THE PUBLIC LIBRARY OF THE CITY OF BOSTON

Meeting of the Trustees Finance and Audit Committee
Tuesday, July 19, 2016 at 8:00 a.m.
Commonwealth Salon, Central Library
700 Boylston Street, Boston, MA

A meeting of the Boston Public Library Trustees Finance and Audit Committee was held on Tuesday, July 19, 2016, 8:00 a.m., 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 members Rep. Byron Rushing and John Hailer.

Also present were Boston Public Library staff including President David Leonard, Chief Financial Officer Ellen Donaghey, Chief of Collections Strategy Laura Irmischer, Head of Special Collections Beth Prindle, Supervisor of Accounting Sean Monahan, Business Manager Jane Sproul and Records Management Assistant Mary Bender. Sebastian Grzejka of New England Pension Consultants was also in attendance.

Ms. Arana-Ortiz, Chair of the Trustees Finance and Audit Committee (“Committee”), called the meeting to order at 8:06 a.m. and addressed review and approval of minutes of the Tuesday, June 14, 2016 meeting. Upon a motion made and duly seconded, Minutes of Trustees Finance and Audit Committee meeting of June 14, 2016 were unanimously approved.

Ms. Donaghey described the vote before the Committee on the awarding of a Contract for Fabrication of the Shakespeare Unauthorized Exhibition. Though the bidding was not advertised on BPL.org, seven vendors were solicited through social media and other means, and five submitted bids. Ms. Donaghey said a very complete RFP process was done in collaboration with the exhibition designer. As the exhibition is to open in October, Ms. Donaghey asked that the Committee approve the selection of a Fabricator at this summer meeting so that work on the actual construction of the exhibition could commence.

Upon a motion duly made and seconded, the Committee:

VOTED: “that there be entered into with R.H. Guest Incorporated, 1300 Church Avenue, Brooklyn, New York, 11226 a contract for the Fabrication of the Shakespeare Unauthorized Exhibition for a period of one year, not to exceed eighty six thousand, five hundred dollars and no cents (\$86,500).”

Sebastian Grzejka of New England Pension Consultants (NEPC) presented three packets of information. The first was an Investment Summary for the month ending June 30, 2016. He described June 2016 as a “roller coaster of a ride” in financial markets. The market did bounce back and he reported the Boston Public Library had ended in the positive for the month and up 4 percent year-to-date.

In discussing the Library’s current allocations, Mr. Hailer said he noticed that the Library’s holdings with Earnest International Investment Trust Fund were invested quite heavily in emerging markets. He said he personally finds emerging markets “challenging” as an investment and asked that Mr. Grzejka keep an eye on those particular funds.

Mr. Grzejka described in detail a report called *Boston Public Library Large Cap Value Equity Manager Search*. The report was prepared at the request of the Committee who asked for a review of Large Cap Value Allocation in preparation for making any desired fund changes late in 2016. The Boston Public Library’s Large Cap Fund has been with The Boston Company for almost two decades and there have been some changes at the firm over time, so now is a good time to review the manager of the Library’s holdings to see if a change is in order, said Mr. Grzejka.

The discussion centered on the approximately \$6 million invested with The Boston Company and replacing that manager with a new firm.

The list of managers under consideration for this search are: Brandywine Global Investment Management LLC’s Classic Large Cap Value (Brandywine); Bridgeway Capital Management, Inc.’s Bridgeway Large Cap Value (Bridgeway); Coho Partners, Ltd.’s Coho Relative Value Equity (Coho); Diamond Hill Capital Management, Inc.’s Diamond Hill Large Cap (Diamond Hill); Institutional Capital LLC’s ICAP Select Equity (ICAP); and The Boston Company Asset Management, LLC’s US Dynamic Large Cap Value (The Boston Company).

He described the firms as varied and said the candidates include a sampling of different types of strategies from traditional large cap, (ie Brandywine, The Boston Company and ICAP), to flex equity with concentrated holdings, (ie Coho), and a manager who is quantitative in nature based on a model (Bridgeway). Mr. Grzejka described Diamond Hill as a firm focused on absolute returns, with a compensation structure that includes bonuses based on performance.

Mr. Hailer said he has seen that bigger funds are active managers and charge a fee, but often mimic their returns benchmark. He said he gravitates towards managers that add value without adhering to a benchmark so closely.

President Leonard summed it up, saying if the BPL is paying for active management, we should be seeing the results of active management.

Mr. Grzejka called their attention to charts that demonstrate where each of the firms has performed against the benchmark. The question becomes if you are paying a lower fee but getting returns that only hug the benchmark, could paying higher fees, yet seeing higher performance be a better strategy?

Mr. Hailer said that he believed the Committee had been presented with a good selection of possible managers and that he leaned toward either Coho or Diamond Hill.

Mr. Grzejka called the Committee's attention to the 10-year performance of all the firms and said that Coho and Diamond Hill showed outperformance with less volatility. Based on that, NEPC recommends them as firms to review further.

Mr. Hailer spoke of the possibility of the Committee, working with NEPC, creating their own benchmark or goals as a way of the Library determining its own risk based on its needs.

Mr. Grzejka said that the Library's Investment Policy addresses some of those issues and the Committee could revisit it.

President Leonard agreed saying that the Investment Policy had been helpful as the Library recently achieved the level of diversification it had set as a goal. While the Library has to be somewhat risk-averse in its investing, he said, just beating the benchmark seems, to him, to be a very conservative goal.

Mr. Grzejka reminded the Committee that the genesis of the discussion was that the Library currently has an unintended risk with 40% of the Library's US fixed income currently with one manager. NEPC's review and recommendations are designed with an eye toward broadening the Library's approach.

Ms. Arana-Ortiz clarified that the discussion is about the approximately \$6 million invested with The Boston Company and replacing that manager with a new firm.

Mr. Rushing asked for more discussion about Bridgeway as a possible replacement.

Mr. Grzejka said that Bridgeway has performed well but their approach is to hold closely to the benchmark. He said their presentation might show Committee members a good contrast to the other two firms and their less quantitative approaches.

Committee members decided to invite representatives from Bridgeway, Coho, and Diamond Hill to their next meeting to offer presentation on their portfolio management strategies. The meeting is set for 8:00 a.m. on Tuesday, September 13, 2016 and will run for two hours to allow for 20-minute presentations.

Mr. Grzejka presented a quick review of the third packet of information he had distributed, titled *Global Multi-Sector Absolute Return Fixed Income Manager Search*. He reminded Committee members that this review is in line with their desire to make the portfolio less U.S.-centric.

IR&M currently manages approximately \$21.6 million for the Boston Public Library. The Committee is looking at options for moving approximately \$5.5 million from that fund.

The four managers NEPC presented were: BlackRock Strategic Income Opp; Brandywine-Global Opp Fixed Income; Loomis-Multisector Full Discretion; and Manulife Strategic Fixed Income.

Mr. Hailer wanted to acknowledge his professional relationship with Loomis Sayles. He is responsible for that firm through his work at Natixis Global Asset Management. He thinks Loomis should stay in the selection pool because they are a top performer, so he will recuse himself from discussions involving the selection of a fixed income multisector manager.

The Committee chose to wait a few months to meet with fund managers, after the review and selection of a large cap manager.

With no New Business or Public Comment, the meeting adjourned at 9:10 a.m.

Respectfully submitted,

Mary A. Bender
Records Management Assistant