A regular meeting of the Retirement Board was held remotely via WebEx on Wednesday August 26, 2020 at 2PM Per Governor Bakers Executive Order on Remote Participation & Remote Conduct for Open Meetings. The Board will be voting per roll call vote.

Members confirmed verbally their presence: Wayne Marquis, Chairman; Mike Hagan, Elected Member; Joe Collins, Elected Member; Steve Swanson, Fifth Member; Heather Varney, Ex Officio

Others present Rodney Conley (Director of Admin. and Finance); Susan Little (Retirement Manager); Isabelle Eckel (Investment Consultant); Cliff White (Investment Consultant); representatives from Bailard Real Estate, Intercontinental Real Estate Corp., and Boyd Watterson Asset Mgmt.

Wayne Marquis, Chairman read the Town of Danvers script for remotely conducted open meetings.

The Board began the interviews of the top three proposals submitted for the Open-ended Real Estate RFP, as graded by Graystone Consulting. The Board asked each firm the same predetermined questions.

Bailard Real Estate presented to the Board the “Bailard Real Estate Fund”. They described the fund as utilizing a traditional diversification metrics with a, Enhanced Risk Metrics consisting of 8 proprietary economic clusters to enhance diversification and pursue alpha. They focus on mid-size investments of $15 - $70 million, in overlooked areas. They acquire properties with an opportunity for value enhancement, execute to Core, then hold for cash flow and additional appreciation or redeploy proceeds into new opportunities. All Independent Directors and all Senior Investment Team Members are Fund Shareholders.

Wayne asked, what is the overall investment philosophy? Preston answered, their average deal size is between $20 - $60 Million, which is a little small for the large companies, so they do not have to compete and too large for the dentists and doctors. They believe this differentiates them and they can purchase a better property. They describe their style as active asset management. They visit properties every quarter and they believe this really sets them aside from every other advisor out there. They utilize what they describe as a “cradle to grave” responsibility for all steps of their investment. Each Sr. Investment Manager has no more than 9 properties. Allowing them to be involved in every aspect of the investment. Which they believe drives accountability and alignment. The Larger firms are more assembly line with a purchasing group, closing group, management group, and disposing group.

Steve asked, how do you see your exposure to commercial real estate going forward? Specifically, office and retail space. Preston explained on page 6 of the presentation details their diversification by property type by region and economic cluster. They are significantly underweighted to office sector knowing whatever downturn might happen. They are overweight to multifamily and underweight to retail. They feel they are in good possession state. However, as things move forward there might be some significantly attractive deals out there.

Mike asked, how do you do credit screening for your tenants? Preston answered they do a credit report and interview every tenant (virtually right now). As they come into ownership of a property, they continue to monitor credit worthiness, more episodic. Mike followed up with asking if they hire a consultant. Preston answered they do this research themselves; they mainly use Dunn and Bradstreet and internet search.

Joe asked, how much leverage do you use on a purchase? They answered 17 properties have leverage of a 30% average. They explained they generally have a lot of cash and frequently purchase all equity and add leverage through traditional bank and insurance companies financing. They have no mezzanine financing. Preston said they have a very conservative financing approach.

Heather asked, how do create liquidity if there is a quarterly withdrawal? They answered they generally have $40 million in cashflow, although in the 4th quarter of 2019 they sold two properties currently they have $100 million in cash. They do have a blocker and they do not leverage for liquidity.

Mike asked, what gives us confidence that your performance in the future will be as strong as the recent years? Preston answered, would be careful not to indicate they would have the same performance given the current scenario. Their acquisition approach is active, and nibble and they anticipate they will continue to do the things they do very well.

Steve asked, what did learn from low returns and the prior recession. To be blunt I do not know that we have learned much. I worked for a large top firm, Kennedy Associates, and we had $750 Million in cash with 10% leverage at the time of the great recession. Which is not too different than how Bailard went into the pandemic. I will say at Kennedy, we were very well positioned but did have too much office.

Wayne asked Preston to spend a few minutes wrapping up why Bailard is a good fit for Danvers. Preston asked if he could lob this to Ben Lathrop and have him explain. Ben advised page 9 provides a good recap. To recap much of what has been covered. They have been around for 30 yrs.; they are very proud of their track record and executing on this strategy. Hands on active management. They are very comfortable they can find value and drive value in all assets they invest in. Lastly, their silo-less structure “cradle to grave” responsibility for all steps of their investment makes them a bit different than their competitors and they believe drives accountability and alignment.

The Board thanked Preston and Ben for their time. The Board prepped for the next firm.

Intercontinental presented their proposal to the Board.

Bart Weinstein and Peter Palandjian from Intercontinental R.E. Corp. presented to the Board. Wayne began by asking what the overall investment philosophy is? Peter said he suspects we will be hitting on this in the presentation but since you ask, my answer may sound like a strange answer, but our first objective is to not loose your money. If you know anything about compounding this is very important. We will go through a few mechanisms and mitigants we believe in. Our second goal is to make you a good risk adjusted return. We believe in diversification, both by property type and geography. Finally, I would say our investment philosophy you get a top down bottom up. The bottom up piece you get 60 years of a company where we have been building and developing and investing, 25 years as pension fund managers. You get a firm that underwrites the brick and mortars, the cash flow of tenants. The top down piece is the overlay of research, playing defense and tracking market conditions i.e. population growth/decline in any given market or economic trend. These inform our investment committee thoughts about investment opportunity.

Steve asked, how do you view the office sector given Covid? Peter said if pushed, he would say net/net. There are two sides to this. Of course, there will be pressure on office for sure. He said take our accounting dept. We have 30 people; we have learned they can work from home. I did not know that prior to March. That said I am not going to outsource our accounting. I will bring everyone back because I like us all being under one roof. That said take a Raytheon or McDonalds, their real estate line item expense is much greater than our 120-person company. If they move 10,000 employees' home that could save them some real money. You will see pressure on office the same way you saw Amazon pressure retail. The other side to this is that tenants are taking more space right now. We are hearing from brokers in all major cities that large chunk users are looking for more space. Gone are the days of shoulder to shoulder open concept office space. Even though there is likely a negative net absorption it does not mean sell off all office ex: I would want to own the Back Bay of Boston, but I wouldn't want to own in Tewksbury. The direction for us is to own the best building in the submarket and underwrite to what the use is.

Mike Hagan asked, how do you do credit screening for your tenants? Peter said, respectfully it is something we do well and something we have been doing for a long time. We run credit reports but that can only tell you so much. We interview our tenants. We are not owned by banks or insurance companies we do this work ourselves. Our Asset Managers work hand in hand with acquisitions. The Asset Manager is in the deal from the very beginning. They are interviewing perspective tenants. We are getting bank references. For instance, if they say they deal with Wells Fargo or BOA our CFO calls our lender at that bank and asks to see the CNI banker in another division and talk about xyz tenant. We do that level of underwriting with the preponderance of our tenants. 80% of our commercial tenants are investment grade, giving us great comfort in this environment.

Joe Collins, asked how much leverage do you use on a purchase? Peter said our average leverage is 29% and 28% of the portfolio has no leverage at all. Our balance sheet is very good. We are one of the only in the Core Odyssey Index that does not have a redemption gate. Anyone who wanted cash in the first quarter we paid in the first 10 days and we have 90 days to pay it. The same thing for Q2 although we did not have much but any requests, we had we are meeting them with cash. We also have a reserve at the property level for repairs and improvements $150Million at the property level and an additional $150 Million at the Fund level. To go back to the leverage, about 85% of our debt is fixed rate. We do not think you are hiring us to financial engineer our returns. To be honest 29% leverage is higher than the average in the Odyssey, but we began telling Graystone research 5 years ago we were going to reduce leverage down from 40% and we did bring it down to 29%. If you strip away leverage, measure Intercontinental's net performance unlevered against our competitors our numbers are still the best in the index. Our performance on a 1, 3, 5, 7-year basis we rank the best in the index. On a 10 yr. basis we rank #4. Leverage does not help us.

Heather said I believe you already answered this but how do you create liquidity if there is a quarterly withdrawal? Peter said #1 we have cash reserves as I mentioned. #2 we spin off a significant amount of money in the fund every quarter. There is a redemption gate in the industry. We do not have a gate.

Mike asked, what gives us confidence that your performance in the future will be as strong as the recent years? Peter said I can promise it will not be as strong in the next 4 quarters. The next 4 quarters will be volatile. All asset classes in 2021 will be experiencing a very tough year. You will not have to worry about us because we will not draw your money. We typically draw in the first quarter averaging the first 90 days. We have done something different with these falling knives environment. We went out to all investors and said if you sign up with us you can elect to not have your money drawn until after October 1st – January 1st. Should you sign up with us we will covenant to not be drawing your money until after the first of Q1 of 2021. Unless we saw a deal, stealing a property we do not want to buy something thinking we got a great deal only to see the market turn worse. So, on the one hand we are asking you to trust our discipline on the other hand we are giving you a mechanism to make sure we draw your money for a little while. If you look at the very best investing it was in 1993/1994. Early 1990's 47 banks failed in Massachusetts; real estate was horrible but coming out of that in 1993/1994/1995/1996 it was the best purchasing time in real estate. We expect late 2021/2022 should start presenting quality opportunities so you likely will not get drawn until the middle of next year.

Steve Asked, what did you learn from 07, 08, 09 economic recession and what is your strategy going forward? First, do not panic because values came back quickly, and people were rewarded. There is an old Armenian saying real estate can get sick, but it never dies. It is true if you do not have 60-70% leverage. Hard assets perform well when there is inflationary pressure. Second lesson, we learned quality matters. Secondary markets suffer. When they go down, they stay down for a while. The primary markets go down, but they bounce up quickly. That is why quality matters. Third and really this should be the first lesson, client retention is always more profitable. Therefore, places like Verizon focus on training customer service. This also goes for tenants. Therefore, we reached out to our tenants proactively in March when things got tough. Knowing they had a 7 year lease, we offered to lower their rents for this year and next, gradually increasing per square foot until they were up back to the original level in 7 but we asked them to extend the 7 year lease another 3 years. Our bargain is we get to extend the lease and the tenant gets some relief now. On a net basis we actually make money with them because we grow their rent in year 8, 9, 10. We went out systematically within our office and industrial portfolio and did this knowing if we lost them, that space would likely sit empty for 6 to 36 months, you would be paying a new commission to a broker, paying for paint and carpet (tenant improvement allowance).

Wayne asked Peter to explain why Danvers should select Intercontinental. Peter said, we started 60 years ago as a construction company. My father immigrated from Armenia to Boston, did not speak English went to North Eastern and started Intercontinental. We were builders in the late 50's and 60's. In the 70's we became who we are today. We began managing money. In the 70's and 80's we did it in partnership structures. We did several larger structures in Boston you would know of. In the 90's we went national and began managing money for public pension funds. Our first two investors were MACRS investors, the MBTA was our third investor. We built the firm with our third fund with 25 MACRS investors including most of the County systems, we work for Mass PRIM. After 4 closed end funds we started this open-ended fund. We started it in 2007. An important point, unlike most of the managers you would hear from, we only have one fund. So, we do not offer properties on a rotation structure. Anything we buy you get. We have 112 employees mostly in Boston, 9-person office in LA. We are #1 on most matrix. Employees have $50 Million of their own money in the fund side by side with you. If you do well, we do well. We are considered union friendly; we offer competitive wages. We win best company to work for by the Boston Globe every year, and by Pension and Investments every year. The average tenure is 15 years, our CIO has been with the firm over 30 years. We are unique in that we have construction in our DNA, but we have the fancy MBA's and Fiduciaries in someone you would want in someone managing a $10 Billion fund. If you look at the portfolio, we have shed all secondary mkts with the exception of 2 or 3. An important question you should be asking of any firm, how much of our commercial portfolio rolls over this year. 3% of our leases expire this year. If we had 20% of our leases expiring this year, I would be having heart palpitations. We are very conservative and are set up well for the volatility I see coming in the next year. We also have very little retail, only 2% of the portfolio is retail, which is all grocery anchored, no mall or box stores. Our income is roughly 4.50% to 5%. You can take this as cash, or you can let it accrue to the NAV. Peter explained the fee structure and focused on the performance fee.

The Board thanked Peter and Bart for their time. The Board prepped for the next firm.

Boyd Watterson presented their GSA proposal to the Board.

Michael Bee and Casey Wendeln from Boyd Watterson (Jack Hylan audio only) presented to the Board.

Wayne began by asking what the overall investment philosophy is? Casey said page 8 of the presentation shows the investment philosophy. The Boyd Watterson GSA fund deals in Federal Govt. lease assets. We are looking for very stable income with good credit. We are looking for long term leases. The Federal Govt. traditionally has very high renewal rates. Much higher than other asset classes. The income has been very stable. Since the pandemic they have received 99.6% of rent. Which validates their focus on strong credit and stability of income return. They look at the Federal govt and the real estate they own from a top down bottom up approach. We focus on the GSA agency, the tenant themselves and the people occupying the space. We look at the top levels of government because we have access to those people through some senior members of the team who have worked in the top of the GSA, which is the Nations landlord. Then we approach from the bottom up. We try to buy mission critical assets. Those are highly secure and crucial to the mission of the Federal Govt. We believe they are much more difficult for the Federal Govt. to leave. They are viewed as very sticky tenants. Likewise, we have purchased a lot of assets in what they call middle or medium sized assets. They are a little too big for some the Mom and Pop investors and too small for some of the larger Institutional investors. This approach has worked well for us. We have built a $3.6 Billion portfolio.   We also diversify based on lease term, geography, and Agency.

Steve asked, how do you anticipate any changes in Govt occupancy given Covid? We see the govt. increasing which is typically what happens in a recession. Anything related Health Care ex: CDC, HHS, FDA. We see the Federal Govt grow. Even though you see a lot of remote work, the Federal Govt. was already the leader in remote work, so we do not see there to be a lot of room to grow in that area. They already have quite a few teleworkers. A lot of the areas we focused on are National Security, Law Enforcement, and Defense Dept. Michael Bee added that with the GSA assets have grown with population growth. We would anticipate 1 – 2% growth in square footage in the long-term. A common question is usually what if the next Administration decides to cut agencies. Doubling back to what Casey said, we focus on mission critical agencies that are set up to continue working. Also, this is not big budget to the Federal Govt. We are talking 15 basis points of 1% so when Congress is looking to slash budget this is not an overly budgeted item.

Mike Hagan asked, how do you do credit screening for your tenants? Casey answered, well credit screening is very easy since the Federal Govt represents over 85% of our revenue. We have the best credit tenant in the world. The US Treasury backs all our leases. We do have some private tenants. But they represent only about 5% of the portfolio.

Joe Collins, asked how much leverage do you use on a purchase? We do not use debt for acquisition purchasing. We use debt on the balance sheet level. So, we are borrowing across the entire portfolio as opposed to asset by asset basis. Our portfolio leverage today is in the mid 30’s. We would like to be up around 40% for our target but given pandemic we are trying to keep a little bit lower leverage.

Heather asked how do you create liquidity if there is a quarterly withdrawal? Casey said they have a few ways. 1. If they have a que at quarter end. They currently have about $350 Million in a que of people looking to get into the fund We also keep and investment grade rating with the S&P. Secondly, if we have cash on hand, we can use that. Third, as I mentioned we are below our leverage guide so we could use leverage.

Mike asked, what gives us confidence that your performance in the future will be as strong as the recent years? The stability of our income stream with the Federal Govt. We are not reliant on appreciation on the asset.

Steve Asked, what did you learn from 07, 08, 09 economic recession and what is your strategy going forward? The biggest lesson would be not to over lever. This fund did not exist. Boyd Watterson was primarily a fixed income shop. In 2009 when things were falling apart, the one thing we did correctly forecast were declining fixed income returns for our clients. Fortunately, we knew a gentleman who had been in the Real Estate for roughly 30 years named Bob Law and he came on board and started building out a real estate practice.

Wayne asked Casey and Mike to explain why Danvers should select Boyd Watterson. Casey explained they validate their strategy. If you are looking for stability of income, stability of return we are the choice in that regards. When the market is hot, we will slightly underperform but when the market is down, we will grossly outperform our competitors. If you look at the Odyssey for Q2 we are going to outperform them by about 500 bps this year. Some of those Odyssey funds are looking at potentially negative returns for the year. We dedicate more to research to any competitors out there. We are leaders in our space. Mike said Pg. 32 over the long-term over 40 yrs. the range is 6 – 7.50% What I would say is across our clients we are going to provide that return in cash on an annual basis. This is somewhat unique and can be a compliment to some fixed income. This looks to meet the actuarial assumption with very little risk.

The Board discussed the three firm proposals. Wayne asked if Cliff could provide a sense of these three. Cliff said we have known all three firms, so they are not new to us. Baillard is buying smaller assets. They not buying were the big boy's shop. They have done a brilliant job of doing that. Most of the return is driven by appreciation as much as to income. They would be more traditional. Intercontinental is more mid cap or mid-size. They have a very cohesive approach to how they do things. Boyd-Watterson is basically a completely different scenario because they are buying real estate, but they only have basically one tenant. Boyd takes the approach, we are not trying to get appreciation on the properties, that is secondary. What we are looking for is income of cash flow.

Leverage on Bailard is around 37%, Intercontinental is around 29% and Boyd is around 34%. In comparison to PRIT, PRIT Core can go up as high as 50% and non-core can go as high as 70%. So, these three firms all use less leverage than PRIT does and all three have very low exposure to retail and smaller commercial space. I would say I am partial to Boyd for you because you basically have no credit risk unless the Federal Govt. reneged.

Wayne said, did not we have a tie. Isabelle said yes, Bailard and Boyd Watterson tied with Intercontinental next. Cliff said they are close enough to say they are right on top of each other. Wayne said Peter from Intercontinental is an impressive individual. Cliff said, Baine Consulting in his background, they do not hire a bunch of dummies there. Wayne said he had a command of their business and how they do things. Wayne said let me throw it out to Board to ask questions and discuss.

Wayne asked Steve if anything struck him about the three. Steve said he liked InterContinental's approach but when he compared the performance against Bailard they basically blew them out of the water. Boyd is more geared to income consistency.

Wayne asked Joe for any thoughts. Joe said with Intercontinental I have a comfort level where they are local. Boyd Watterson was stability. Given the current pandemic stability would win out over someone who is local.

Wayne asked Mike for any thoughts. Mike said I really liked Intercontinental presentation, their approach. They are local. However, I do agree with Joe about stability. I really liked both presentations, but I would go with stability.

Wayne asked Heather for her thoughts. Heather said she also really liked Intercontinental presentation. They are very hands on. It depends on what we really want to invest in.

Wayne said what he really liked about this grouping was we had different approaches. It allows us to really look at what direction we want to go. I narrowed it down to Boyd and Intercontinental. I like the way Joe looked at it with Boyd representing stability but there was really something intriguing about Intercontinental.

Steve said I think we have to ask ourselves are we looking for long-term returns or short-term stability.

Wayne asked if anyone else had anything to add. Cliff said with Boyd Watterson you are basically getting a 7% coupon on a Treasury bond. Because that is who is paying. Steve said that's a good point. You are almost better to take some of this fixed income stuff and throwing it into Boyd because you are getting a higher return. Rodney asked if Cliff is concerned with the performance fee of Intercontinental, is that as scary as it sounded? Wayne said it is interesting, they are almost in a profit-sharing scenario. Cliff said, it is Wayne but that would drive them towards getting maximum returns. They would get that through appreciation not income flow, so they are really going to look to goose up the property to get that appreciation. You are going to have to get an 8% appreciation before that profit sharing kicks in. Steve said the flip side is we will only have to pay 1.1 fee on the original not on the NAV so up to 8% we aren't going to pay an additional fee. Wayne asked if Cliff thought PERAC would approve. Cliff said yes, he believes all three of these would be approved. Susan mentioned Intercontinental had a significant number of the Systems that outperformed us last year.

Wayne asked Isabelle if she had any comments. Isabelle said she echo's Cliff in the stability of Boyd. It comes down to what the Board is looking for Stability or appreciation.

Steve suggested we put $1 Million with Intercontinental and take some of the current fixed income stuff and flip it into Boyd.

Mike asked Rodney to weigh in. Rodney did not have audio.

Steve said he was leaning to investing in both. Cliff said yes and you can even increase your original amount as well. Steve suggested taking the additional $1 Million from the fixed Income. Cliff said I like that idea. You could even take it from the High Yield Fund.

Steve motioned taking $1 Million and investing in Intercontinental and take $1 Million from fixed Income Baring High Yield fund and invest with Boyd Waterson GSA Fund. (**Vote: Steve Swanson motioned with Heather seconding and the Board unanimously approving via roll call vote: Heather “yes”; Mike “yes”; Joe “yes”; Steve “yes”; Wayne “yes”).**

The Board unanimously approved the minutes of the July 29, 2020 meetings (**Vote: Joe Collins motioned with Steve Swanson seconding and the Board unanimously approving via roll call vote: Heather “yes”; Mike “yes”; Joe “yes”; Steve “yes”; Wayne “yes”).**

Board reviewed and voted to approve the April 2020 Cashbooks (**Vote: Steve Swanson motioned with Mike Hagan seconding and the Board unanimously approving via roll call vote: Heather “yes”; Mike “yes”; Joe “yes”; Steve “yes”; Wayne “yes”).**

The bills payable warrants were unanimously approved (**Vote: Mike Hagan motioned with Joe Collins seconding and the Board unanimously approving via roll call vote: Heather “yes”; Mike “yes”; Joe “yes”; Steve “yes”; Wayne “yes”).**

August Payroll	$1,099,714.00
August Expenses	$ 24,420.78

Purchases were unanimously accepted (**Vote: Joe Collins motioned with Steve Swanson seconding and the Board unanimously approving via roll call vote: Heather “yes”; Mike “yes”; Joe “yes”; Steve “yes”; Heather “yes”; Wayne “yes”).**

Sales were unanimously accepted (**Vote: Steve Swanson motioned with Joe Collins seconding and the Board unanimously approving via roll call vote: Heather “yes”; Mike “yes”; Joe “yes”; Steve “yes”; Wayne “yes”).**

SECURITIES PURCHASED:

BMO July

698	Stoneridge Inc
2508	Vericel Corp

SECURITIES SOLD:

BMO July

990	K12 Inc
6	Stonex Group Inc

The Board noted with sympathy the passing of **Kathryn Zmijewski**, retired Hunt Hospital nurse, died 7/22/2020.

The Board unanimously approved the following retirements: **Barbara Hoffman,** Superannuation Option B, effective 9/9/2020 (age 58 with 12 yrs. 5 months C/S); **Lynda Gotts,** Superannuation Option B, effective 9/12/2020 (age 62 with 30 yrs. C/S) (**Vote: Steve Swanson motioned with Joe Collins seconding and the Board unanimously approving via roll call vote: Heather "yes"; Mike "yes"; Joe "yes"; Steve "yes"; Wayne "yes").**

Approvals received from PERAC: **Doug McQuirk** (survivor), **Sheryl James, Richard Aspesi**

The Board unanimously approved the following refund: **Laura Soper, rollover to Mass Mutual**, former School employee, totaling $15,158.76 with 7 yrs. 4 months C/S. **(Vote: Mike Hagan motioned with Joe Collins seconding and the Board unanimously approving via roll call vote: Heather "yes"; Mike "yes"; Joe "yes"; Steve "yes"; Wayne "yes").**

Rodney Conley reviewed items of interest with the Board: Susan explained Rodney is having technical difficulty connecting to Webex. He asked I mention the Melanson audit is in the census testing phase.

Cliff White and Isabelle Eckel of Morgan Stanley Graystone updated the Board on portfolio performance/investment policy and other items of interest. Cliff provided the regular monthly overview of portfolio performance. He advised the July 31, 2020 YTD performance is -2.11% vs the Strategic Benchmark of -1.49. The Monthly performance is +4% vs the Strategic Benchmark of +2.95%. Isabelle explained the System has $125.5 Million in the portfolio as of 7/31/2020. She mentioned we are in full compliance with our Investment Policy.

Cliff explained the need for the BMO amendment. He explained the Board asked him to reach out to the managers to see about reducing the Investment Fee. BMO agreed to reduce the fee. The Board unanimously authorized an amendment. **(Vote: Steve Swanson motioned with Joe Collins seconding and the Board unanimously approving via roll call vote (Heather "yes"; Mike "yes"; Joe "yes"; Steve "yes"; Wayne "yes").**

Meeting Adjourned: 3:55PM **(Vote: Joe Collins motioned with Steve Swanson seconding and the Board unanimously approving via roll call vote (Heather "yes"; Mike "yes"; Joe "yes"; Steve "yes"; Wayne "yes").**

NEXT MEETING: September 30, 2020 @ 3PM likely via WebEx

Joseph Collins, Elected Member

Michael Hagan, Elected Member

Heather Varney, Ex-Officio Member

Wayne P. Marquis, Chairman

Stephen Swanson, Fifth Member