

## **Introductions and overview**

*Cathy Minehan, President & CEO, Federal Reserve Bank of Boston*

*State Treasurer Timothy P. Cahill, Massachusetts Department of the State Treasurer*

*Dr. Larry Beeferman, Director Pensions & Capital Stewardship Project, Labor & Worklife Program, Harvard Law School*

Cathy E. Minehan, President Federal Reserve Bank of Boston, opened the session and welcomed the participants. She explained the goals of the Federal Reserve Bank of Boston that include promoting sound economic growth and financial stability in New England and the nation. The bank stimulates economic growth in the region through its high-quality research, regulatory oversight, and financial services. The bank has a responsibility under the Community Reinvestment Act (CRA) to promote investment in communities. “The primary interest of public pension funds is their fiduciary responsibility,” said Cathy E. Minehan, “But public pension funds are also looking for new investments. So today is about exploring whether and how public pension funds can earn safe, market-rate returns while improving communities.” Cathy Minehan commented that the Federal Reserve Bank itself does not lend money but brings lenders together within the communities it serves. There is money to be made by investing in low-to-moderate income communities. The funds have to benefit all parties in terms of making the financial returns and improving the community.

State Treasurer Cahill commented on Massachusetts' experience with targeted investing. “As state Treasurer, I chair the Massachusetts Pension Reserves Investment Management (PRIM) Board,” said the Treasurer. “The goal of PRIM’s Economically Targeted Investment (ETI) program is to responsibly invest locally to promote job growth, business development, and affordable housing.” State Treasurer Cahill was elected in 2002 and sworn in 2003 and since that time total assets of the pension fund have grown from \$26 billion in 2002 to \$45 billion as of December, 2006. The state hired McKinsey and Company to assess the field of economically targeted investing and identify those investments that were successful and those that failed. It was very important to have an *independent*, outside consultant perform the study so as to deflect any political interference. McKinsey found that what does not work is investing with your heart and mind. Fiduciary responsibility comes first. The treasurer commented that economically targeted investments (ETIs) are small scale and a lot of work. To date MassPRIM has committed \$160 million representing .37% of the total portfolio. Economically targeted investments cross the three asset classes of fixed income, equity real estate, and private equity. Through the McKinsey study the board approved the ETI policy that sets out the following five criteria that was included in the 2006 PRIM ETI RFP:

1. Investments must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments, at commensurate levels of risk. Economic or social benefits will not justify a lower return on any PRIM investment.
2. Investments must not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Massachusetts economy and ensuring appropriate geographic diversification.
3. Investments should be placed with an experienced and capable manager through an objective and transparent process. Investments should be managed by qualified discretionary investment managers. PRIM will not make any direct investments.
4. Investments should target a “capital gap” where there are likely to be underserved markets.
5. Investments must be tracked (both investment performance and collateral benefits) and managed with the same rigor and discipline imposed on other investments. Investments should be reviewed and monitored by PRIM staff and consultants without disproportionate expenditure of time and resources.

MassPRIM started with fixed-income with their first investment in Access Capital having a proven track record. The pension fund was getting investment proposals year round but in an effort to reduce time taken away from the staff’s core portfolio the fund now reviews investment proposals during the first two months of the year. The staff then evaluates proposals and presents them to the board in the Spring.

Dr. Larry Beeferman, Director, Pensions & Capital Stewardship Project, Harvard Law School, then welcomed participants. The Pensions & Capital Stewardship project researches retirement security issues and practices of pension fund investment that encourages capital markets and corporate policies to work more effectively for workers and the health and well-being of the community at large. The two interests overlap and it is an important time to promote research in these areas as retirement security faces new challenges. More particularly, current schemes for enabling households in America to achieve security in retirement are seriously challenged, and public sector pension schemes, in particular, are not only challenged, but in some cases, under attack. Changes in these and other pre-funded retirement schemes will not only greatly affect the future financial security of those households, but also through changes in the structures, priorities, and means for investing accumulated assets, may also impact on capital markets and the kinds of investments with which we are concerned here today.