

FINAL
MASSACHUSETTS MEDICAL MALPRACTICE
REINSURANCE PLAN

INVESTMENT COMMITTEE

Minutes of a Meeting

Thursday, September 24, 2009

A Meeting of the Investment Committee of the Massachusetts Medical Malpractice Reinsurance Plan (“MMMRP”; the Plan) was held at its Executive Offices, 95A Turnpike Rd, Westborough, MA, on Thursday, September 24, 2009 at 2:00PM.

The following committee members were present:

James R. Bacon, Chairman
John W. Tympanick
Peter F. Kiely
William T. McGrail

The following MMMRP Staff/Consultants were present:

Susan Smith, Director of Administration
Moe Edwards, CPA, CFO

William Fain, Madison Scottsdale
Anjanette Fowler, Madison Scottsdale
Scott Notargiacomo, The Dubilo Hill Group at Graystone Consulting

The meeting was called to order by Chairman Bacon at 2:07 PM. Ms. Susan Smith kept a record of the proceedings.

1. Previous Minutes

Minutes to the previous meeting dated May 6, 2009 had been distributed. A **motion** was made by Mr. Tympanick and seconded by Mr. Kiely to approve the minutes. The motion passed unanimously.

2. Performance Review

Mr. Notargiacomo began by advising that he was the sole Dubilo and Hill representative since Mr. Dubilo and Mr. Hill were at a conference. He also pointed out that the Dubilo and Hill Team has been re-branded, as a result of the Morgan Stanley Smith Barney merger. The new name is The Dubilo Hill Group at Graystone Consulting. All in attendance received a copy of the Graystone Consulting presentation booklet dated September 2009, and a copy is included with the minutes. Booklet contents include data on portfolio performance and asset allocation, as well as an overview of Madison Investment Advisors, with data as of 8.31.09. Mr. Notargiacomo began by reviewing Section 3, Managed Account Performance Measurement. He noted that non-fixed income ETF's, now at an allocation of 26%, due to relative appreciation should be at the neutral level of 20%.

3. Fixed Income

Ms. Fowler from Madison Scottsdale introduced herself, stating that she is in her 16th year with the firm. She is a Team Manager and back-up Portfolio Manager for Mr. Fain, who is the Lead Manager. Mr. Fain then updated the committee on the status of Bill Maguire, the current CIO. He announced that Madison recently acquired CUNA, a credit union investment group with roughly 30 investment professionals, many of whom will be integrated into Madison, and that Mr. Maguire will join the parent Co. in Wisconsin. Chris Berberet will pick up all of Mr. Fain's clients, so that Mr. Fain and Ms. Fowler will not need to take on more. Therefore, for the next six-to-twelve months, they won't need to hire anyone.

Mr. Fain then distributed the Madison Scottsdale presentation booklet with performance reviews and portfolio analysis for both IBNR and Case Reserves, and a copy is included with these minutes. He first reviewed the IBNR Portfolio, noting that it had been reduced considerably, due to the assessment return and the rebalance to Case Reserves. Ms. Fowler reviewed the Performance Review data on pages 8, 9 and 10. It was noted that the portfolio is rated Aa1 and is very high quality. Mr. Fain then discussed the Portfolio Analysis data on page 12, and also reviewed details on Agency Mortgage Backed Securities.

Mr. Fain continued with a review of Case Reserves, noting that there is about \$500k in cash. He added that cash had been reduced due to several purchases. He would like to discuss cash needs later in the meeting. Mr. Fain reviewed page 17 of the Madison booklet, pointing out that there was a 4.41 Book Yield on the total portfolio. He also noted that this portfolio is excellent quality with an AAA rating.

4. Cash Flow Briefing

Since the Cash Needs topic came up again, the committee agreed to discuss it now rather than wait until later as the Agenda suggested. Mr. Edwards stated that we will probably return \$4-5 million for the return assessment. He continued that it is difficult to predict the cash needs for claims. He noted that there is now \$5 million in cash, with \$4 million at Avidia and \$1 million at Clinton Savings Bank. He felt this should cover the current cash needs. A discussion then ensued about concerns of taxable income. It was also pointed out that there is \$50k cash in ETFs and perhaps we should discuss a rebalance. The committee then reviewed section 3, page 1 of the Graystone booklet, showing that there is 26% in ETFs, which they would like to go to 20%. There is also approximately \$9 million in equities. Mr. Fain stated that he will produce an Expected Cash Flow Analysis for the committee. Lastly, it was noted that there will be a meeting with the actuaries at Towers Perrin on October 14, 2009, where more information about cash needs and claims predictions will be provided.

The committee then reviewed section 3, page 2 of the Graystone booklet in more detail. Mr. Tympanick suggested adding a “since inception” column, as well as keeping the 3, 5, YTD and Trailing 12 Months columns. Mr. Fain stated that he will re-run the numbers and get them to Mr. Notargiacomo in the next couple of weeks.

Mr. Notargiacomo continued with a discussion of the Asset Allocation table in section 2, page 1, and how to rebalance the equities part of the portfolio. He made a suggestion on how to get to the 80/20 goal. A discussion then ensued about the 34% tax implication for both short and long term

capital gains, as well concerns regarding impaired investments. Mr. Fain noted that in some cases capital gains can offset operating losses.

Mr. Notargiacomo then discussed suggestions for the rebalance, in section 2, page 2. In the chart, the equity-only allocation is depicted. They believe large cap and large value are over-weighted. They suggest trimming the large cap growth and value by \$500k to get back to 80/20. This would go to the bond portfolio, and be implemented in the most tax-efficient way. It would be invested in cash or bonds to get to 80/20, allowing for a dividend of \$2 million on 3/31/10.

Mr. Notargiacomo also suggested trimming \$150k from mid-cap growth and moving that to a newly initiated commodity allocation in the portfolio. This is suggested as it acts as a hedge against potential inflation, likely driven by tight commodities and materials supplies, rising pricing and possibly exacerbated by a weakening USD. Mr. Notargiacomo then distributed two fact sheets on commodity ETFs, and a copy is included with these minutes. Mr. Notargiacomo then reviewed section 2, page 1 of 3, pointing out that later in the meeting he would present a draft of the Investment Policy Statement, which shows a range of 0-5% for commodities.

A **motion** was made by Mr. Kiely and seconded by Mr. Tympanick to reduce the growth and value large cap allocations by \$500k and move that into Bonds, and also to reduce mid-cap growth by \$150k and move that into commodities, subject to Mr. Edward's and Mr. Fain's ability to do so in the most tax efficient manner. The motion passed unanimously.

5. Historical Perspective on Inflation and Cash Management

Mr. Fain and Mr. Bacon then led a discussion regarding inflation and deflation. Two articles had previously been emailed and both are included with these minutes.

In addition, Mr. Tympanick asked Mr. Fain if Madison could waive partial or entire fees on cash only for the short term. Mr. Fain replied that cash is part of the strategy and should be paid for. Mr. Bacon also asked Mr. Notargiacomo if they could contact the MMF on MRP's behalf to explore a fee waiver, as many other funds have done, since we are receiving a negative return. This would be

temporary, reflecting the unusually-low short term yields. Mr. Notargiacomo said he would look into it.

6. Investment Policy Statement Revision (draft)

Mr. Notargiacomo distributed a draft copy of the revised Investment Policy Statement, and a copy is included with these minutes. He reviewed some of the key changes, including page 11, section 2, which is a new Equity Allocation component. Next he discussed page 12, which is a new section on Rebalancing Procedures. Mr. Notargiacomo added that it is their goal to review portfolio performance quarterly, and to update the Investment Policy Statement annually. The committee then discussed the “Preferred (Tactical %)” column on page 11, and agreed that it is not necessary for the IPS and that it should be removed, but that the Strategic Range Minimum and Maximum columns should remain. It was further agreed to include the preferred/tactical figures in reports only. Lastly, Mr. Notargiacomo reviewed the Madison Investments addendum on page 15, noting that this had not previously been included in the IPS. Mr. Fain added that it is consistent with state regulations and with what has been provided in the past. Mr. Notargiacomo requested that everyone reads the IPS document thoroughly and email him with feedback. Mr. Bacon suggested that once the document is finalized, the committee can vote on it during a conference call. Then the Governing Committee will vote on it when they next meet on December 8, 2009.

Mr. Bacon then made some general observations on asset allocation and performance, pointing out that all the MRP ETFs had under-performed against their index’s using a six month time frame. He cited various examples, and said that six out of twelve had underperformed their respective indices by over 200 basis points. Mr. Bacon acknowledged the multiple reasons for shifting from active to passive portfolios, but that he would be uncomfortable if this pattern continued for an extended period, and therefore requested that they be monitored.

7. Adjournment

A motion was made and duly seconded to adjourn the Investment Committee meeting at 4:00PM. The motion passed unanimously.

The next scheduled meeting will be held Tuesday, December 2, 2009.

A true record transcribed on September 25, 2009.

MMMRP Investment Committee

ACTION ITEMS -

- Mr. Fain will produce a schedule of '09-'10 Expected Cash Flow for the committee.
- D&H Consulting will add a "since inception" column, and retain the other period columns, to section 3, page 2. Mr. Fain will re-run the numbers and get them to Mr. Notargiacomo in the next couple of weeks.
- Mr. Notargiacomo and Mr. Fain will rebalance assets by reducing LCV, LCG & MCG by \$500k, to be allocated to fixed income. D&H will also reduce mid-caps by \$150k and move that into commodities, subject to Mr. Edwards and Mr. Fain's ability to do so in the most tax efficient manner.
- Mr. Notargiacomo will look into a MMF fee waiver possibility since we are getting a negative return.

- Committee Members will review the revised IPS and provide feedback to Mr. Notargiacomo.
Once finalized, the Investment Committee will vote on the IPS prior to the next Governing Committee meeting which is scheduled for December 8, 2009.
- D&H will report at future meetings on performance variances between ETF's and their indices