

DRAFT
MASSACHUSETTS MEDICAL MALPRACTICE
REINSURANCE PLAN

INVESTMENT COMMITTEE

Minutes of a Meeting
Monday, September 13, 2010

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 Monday, September 13, 2010 at 10:00AM.

The following committee members were present:

James R. Bacon, Chairman
John W. Tympanick
Peter F. Kiely
Gerald J. Cassidy

The following MMMRP Staff/Consultants were present:

William T. McGrail, President
Moe Edwards, CPA, CFO
Susan Smith, Director of Administration

Frank Hill, Graystone Consulting
Scott Notargiacomo, Graystone Consulting

The following guests were present:

Frederick C. Meltzer, PhD, Senior Vice-President, Dwight Asset Management Company
Donald R. Hill, Jr., Senior Vice-President, Insurance Asset Management, Dwight Asset Management Company

The meeting was called to order by Chairman Bacon at 9:55 AM. Ms. Susan Smith kept a record of the proceedings.

1. Minutes

Minutes to the previous meeting dated May 25, 2010 had been distributed. A **motion** was made by Mr. Tympanick and seconded by Mr. Cassidy to approve the minutes. The motion passed unanimously.

2. Portfolio Review

Mr. Notargiacomo distributed the presentation booklet for MMMRP dated September 2010, and a copy is included with the minutes. Mr. Notargiacomo then reviewed Asset Allocation, tab 2, stating that the portfolio total is just over \$22M. It was further noted that \$4.4M of the portfolio is currently in equities.

A discussion then ensued regarding the Investment Policy Statement (IPS) Equity Allocation section. It was noted that this section presently provides a strategic range of 0-5% for commodities. The committee discussed the pros and cons of changing the range to either 0-10% or 5-10%. Most members and the consultants agreed that the 0-10% range provided the greatest flexibility. In addition, it was noted that several asset classes have a 0-10% range and that all minor classes should be consistent.

A **motion** was made by Mr. Tympanick and seconded by Mr. Kiely to amend the IPS to reflect a strategic range of 0-10% for the Commodity position as well as for Domestic and International REIT's, MicroCap and Currencies. The motion passed by a unanimous vote.

Mr. Notargiacomo then distributed a one page handout entitled MMMRP Summary of Asset Allocation Changes, and a copy is included with these minutes. He reviewed the changes which had been made in March and April of 2010. He added that Graystone will continue to use this summary sheet to monitor tactical changes moving forward. All members and the consultants felt this was a very useful tool.

Mr. Hill then reviewed tab 3 of the presentation booklet, titled Managed Account Performance Management, and discussed the European financial situation. He stated his belief that there will be a

rise in corporate mergers occurring soon, primarily due to the large volume of cash at many large corporations. He then reviewed the fixed income position of Intermediate Bonds (IBNR) at Madison. He added that Scott recently spoke to Bill Fain regarding putting the extra cash to work. Mr. Tympanick stated that he would like to see more details on that, and Mr. Notargiacomo stated he has to verify the cash at US Bank.

Mr. Edwards then discussed the potential amount for the 2011 return assessment, noting this amount is presently projected to be lower than the past several years. Based on the actuarial reports, Mr. Edwards estimated that it may be a \$2M return in 2010, to be distributed on March 31, 2011.

Mr. Tympanick then began a discussion of MMMRP's overall bond strategy, questioning if we want to be market-timing driven or market-index driven. He added that he believes Madison Scottsdale is market-timing driven. The group then discussed the history of the past five years with Madison, noting various pros and cons. The group reviewed the purpose of fixed income and the bond portfolio, as well as duration, maturity and book yield. Mr. Notargiacomo stated that Graystone is comfortable with Madison Scottsdale's performance, adding that they have been very close to benchmarks, and he thinks that Mr. Fain has done an adequate job.

3. Dwight Asset Management Company Presentation

Mr. Bacon introduced the two representatives from Dwight: Frederick C. Meltzer, PhD, Senior Vice-President and Donald R. Hill, Jr., Senior Vice-President, Insurance Asset Management.

They distributed three informational packets on their firm: Economic & Bond Market Quarterly Update newsletter, The Economy as of September 9, 2010, and Presentation to MMMRP dated 9/13/10. Copies of all three packets are included with the minutes. They introduced themselves, providing their titles and length of service at Dwight. They reviewed their organizational structure and noted that they have \$64B under management, \$2B of which is cash management. They also stated that they manage \$8B for insurance companies as of 3/31/10. It was additionally stated that they are currently 8% employee owned, and that figure could potentially go up to 25%. It was also noted that

they have one other medical malpractice insurance client, Physicians Underwriting Group in Knoxville.

Mr. Don Hill then reviewed the services section of the presentation booklet, discussing topics such as reporting services and the fact that they have two actuaries on staff in VT and that they also outsource to Pinnacle Actuarial Resources. He also reviewed their return to the benchmark, high level of transparency and their general investment process. They further noted that they had no Lehman Brothers exposure, and that they were roughly 7% underweight on duration. In general, they stated that they are active managers, focusing on modest duration moves and adding most value through sectors and securities.

A discussion then ensued regarding the intricacies of commingled funds and the pros and cons of MMMRP being able to use them. It was noted that there is an inherent problem with commingled funds because of reporting. It was agreed that MMMRP would discuss the use of commingled funds with the DOI. In addition, it was noted that MMMRP would not qualify for Dwight's minimum for separate accounts. Mr. Bacon and the Dwight representatives both agreed that further research is required to see if MMMRP can utilize trust funds.

Dwight continued reviewing the booklet, suggesting the Dwight Intermediate Core Fund as well as using Barclays Capital U.S. Intermediate Government Aggregate Index as a benchmark. Lastly, Dwight noted a fee scale as follows:

Target 2 Commingled Funds: 20 basis points on first \$100M

Intermediate Core Commingled Fund: 25 basis points on first \$50M

Mr. Tympanic added that he feels the interviews with the fixed income managers have been helpful to see what we have and also to see what alternatives are available. He noted the following issues:

- A.) He believes we are using the wrong index for the IBNR portfolio, specifying that he does not feel the ML 5-10 is a good index, but that the Barclays Capital U.S. Intermediate Government Aggregate Index is more in line with MMMRP's mix and requirements.
- B.) He noted that year-to-date and five-year Madison performance figures exceeded those of Dwight.
- C.) Lastly, he stated that he felt there are too many issues surrounding commingled funds. After some discussion of this topic, it was agreed that a discussion with the DOI was required to determine if they are prohibitive.

Mr. Bacon then noted that the duration ranges for various strategies we have considered in the search vary considerably which we should take into account when judging performance.

4. Further Action

The Committee agreed to do the following research and reconvene on Thursday, September 30th at 9:00 AM to come to a decision on retaining Madison, or replacing them with AAM or Dwight.

- A.) Dwight's longer term performance and access to State Street's pricing for SVO. Don Hill is looking further into State Street reporting/pricing.
- B.) Mr. Edwards will look into commingled trust pricing & Division of Insurance acceptance of trusts.
- C.) Mr. Bacon and Graystone will develop a list of agreed upon pros and cons among AAM, Dwight and Madison. This is to be distributed to members to review prior to the 9-30-10 meeting.
- D.) Graystone will speak with Madison Scottsdale about potential liquidity and diversification impact at lower asset sizes. They will also discuss Madison's thoughts on the Barclays index. Graystone will also instruct Madison to invest un-invested cash. Graystone will also revise the

IPS to reflect a strategic range of 0-10% for the Commodity position as well as for Domestic and International REIT's, MicroCap and Currencies.

5. Adjournment

A motion was made and duly seconded to adjourn the Investment Committee meeting at 12:30PM. The motion passed unanimously.

A true record transcribed on September 16, 2010.

MMMRP Investment Committee