

MASSACHUSETTS MEDICAL MALPRACTICE
REINSURANCE PLAN

INVESTMENT COMMITTEE

Minutes of a Meeting
Friday October 17, 2008

A Meeting of the Investment Committee of the Massachusetts Medical Malpractice Reinsurance Plan (“MMMRP”; the Plan) was held at the MMMRP Executive Offices, 95A Turnpike Road, Westborough, MA on Friday, October 17, 2008 at 9:00AM.

The following committee members were present:

John W. Tympanick (*via conference call*)
John S. Coldiron, MD (*via conference call*)
James R. Bacon
Peter F. Kiely, Chairman

The following MMMRP Staff/Consultants were present:

William T. McGrail, President
Dolores M. Ivester, Director of Administration
Moe Edwards, CPA, CFO

Scott Notargiacomo, Citigroup /Dubilo & Hill
Frank Hill, Citigroup /Dubilo & Hill

The meeting was called to order by Chairman Mr. Kiely at 9:02AM. Dolores Ivester kept a record of the proceedings.

1. Previous Minutes

Minutes to a previous meeting dated August 21, 2008 had been distributed. A **motion** was made by Mr. John Tympanick and duly seconded by Mr. James Bacon to accept the minutes as presented. The motion passed unanimously.

Minutes to the previous meeting dated September 30, 2008 had been distributed. A **motion** was made by Mr. John Tympanick and duly seconded by Mr. James Bacon to accept the minutes as presented. The motion passed unanimously.

2. Investment Policy Statement

All in attendance had received a copy of the the Citigroup meeting material presentation booklet which includes an updated Investment Policy Statement and a copy is included with the minutes. Mr. Frank Hill reviewed the updates which consisted of a revision to the *Specific Investment Goals* section beginning on p7 and *Prohibited Assets* on p10. The revisions were approved by the committee at its previous meeting and 1) allows the bond portfolio manager to invest to a dual purpose objective of book yield and total return and 2) that no direct ownership of commodities and futures contracts is allowed. The committee had no objection to the updates and Mr. Kiely noted that the revised IPS will need to be signed by the Governing Committee at its upcoming meeting.

3. Following a question by Mr. Kiely, Mr. Hill stated that benchmarks now used by Citigroup are consistent with Madison Scottsdale as well as ETFs. In addition, future performance reports will include a comparison between strategic and current allocations as requested by the committee.

Mr. McGrail reported that the \$3M cash asset transfer from Madison Scottsdale to Avidia Bank will take place once recently received claim invoices are evaluated. The Plan has performed due diligence on financial stability of Avidia Bank as well as DIF to its satisfaction.

Mr. Edwards discussed Case Reserves and IBNR and the trend that is happening. Case Reserves are up \$1.7M from 12/31/07 while IBNR is down \$5M and claim payments substantially higher than expected. The Plan had scheduled to return \$8M assessment in Q1 2009, but further evaluation will take place at next month's Compliance Committee meeting which will have reports reflecting updated cash needs. Mr. Hill noted that making any portfolio recommendations at this time would be difficult based on the changing cash needs of the Plan.

4. Asset Allocation

Mr. Hill referred to Tab 3 of the presentation booklet noting chart of current investment assets at \$43.7M of which \$5.8M is cash at Madison. Not included in the chart is \$3.4M at Avidia Bank and

\$1.2M at Clinton Savings Bank. The committee discussed how confidence level would affect assessment return with 85% confidence level requiring only \$6M return. Mr. Tympanick commented on the difficulty of determining proper asset allocation with unknown future cash needs suggesting the Plan come up with conservative cash needs estimate for next 3 years. In response to a question, Mr. Hill estimates a 5 year recovery period for equities and Mr. Bacon noted that throughout its history, the stock market has always recovered following any large devaluation including 1929. He commented the committee might consider rebalancing and let the portfolios perform as they were intended. Mr. Hill discussed securities pricing with the committee noting that true price would only be known at time of sale. In response to a discussion regarding equity valuations, Mr. Notargiacomo noted that valuation statistics are available for ETFs and would be provided to the Plan. The committee continued to discuss pros and cons of adding funds to equities portfolio with market down 40%. Mr. Tympanick suggested looking at current ETF valuations and comparing to historical numbers to determine which asset class may be a better investment at this time. The committee discussed having Towers Perrin project worse case scenario for cash needs as far as 3-5 years as Mr. Edwards feels the trend for cash needs will continue. Mr. McGrail suggested another investment committee meeting for December 2. The committee continued to discuss rebalancing portfolios, drop in IBNR, return of assessment, cash needs and federal tax scenarios. The committee agreed to postpone final decision on portfolio rebalancing until next meeting when more details on longer term cash needs of the Plan would be available. Mr. Edwards and Mr. Tympanick again discussed the financial positions of Avidia and DIF to the committee's satisfaction in regards to transfer of \$3M from investment portfolio. Mr. McGrail noted the Governing Committee will receive full disclosure of Avidia and DIF at its meeting on October 21 before making final decision.

A **motion** was made by Mr. Tympanick and duly seconded by Mr. Kiely to accept the changes to the IPS as presented with the exception that item #10 under Prohibited Assets is redundant with item #1. The motion passed unanimously. Ms. Ivester will see that the Governing Committee signs the updated policy.

Following management recommendation, a **motion** was made by Mr. Tympanick and duly seconded by Dr. Coldiron to recommend transfer of \$3M from Investment Portfolio to Avidia Bank pending final approval of Governing Committee. The motion passed unanimously.

Dubilo & Hill noted there were no recommendations to make any changes to the bond portfolio at this time. Led by Mr. Bacon, the committee began discussion on corporate bond holdings particularly Lehman. Mr. Edwards noted that holding the Lehman bonds will affect Y/E accounting as a loss on P&L and he would use NAIC pricing for value in this situation. The committee discussed the weighting of corporate bonds in portfolio and sub-prime market condition signs. Dubilo & Hill expressed full faith and confidence in Madison Scottsdale management. Mr. McGrail suggested that Mr. Fain attend the next IC meeting at least by conference call to address the committee's concerns especially in regard to Mr. Fain's continued recommendation to hold the Lehman bonds. Dubilo & Hill have been asked to provide backup analysis regarding the purchase and holding of Lehman bonds in the Plan's investment portfolio.

Adjournment

A **motion** was made and duly seconded to adjourn the Investment Committee meeting at 10:50AM. The motion passed unanimously.

A true record transcribed on November 28, 2008.

MMMRP Investment Committee

ACTION ITEMS -

- Dubilo & Hill will provide analysis on Lehman bond purchase as well as ETF valuations.
- Dubilo & Hill will arrange \$3M transfer to Avidia after Governing Committee approval.
- Ms. Ivester will have Governing Committee sign updated Investment Policy Statement.
- Mr. Edwards will contact Towers Perrin to request further cash needs analysis.