

April 8, 2008
Minutes # 435

Minutes of the Board of Trustees' Meeting

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:30 a.m.

Present: Trustees: Chairman, Donald Pinard, Chuck Hungler, Jeff Duval, Jennie Angell and Kevin Barry arrived at 8:31 a.m.
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta, William Sanders

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Hungler to approve the amended minutes of the March 11, 2008 distributed by MECRS Staff, Suzanne Wilson, upon the trustees' arrival, seconded by Trustee Duval and passed unanimously by all the trustees present. The amendments were minor and consisted of spelling changes and date corrections.

Approval of the Immediate Meeting Agenda:

It was moved by Trustee Duval to accept the immediate meeting agenda, seconded by Trustee Hungler and passed by all those trustees present.

Report of the Executive Director:

Disability Re-Examination Pursuant to Chapter 218:15 IV for 2008 - Mr. Fleury reported that last year the board included funding which was sufficient to conduct one re-examination of a disability recipient and those results were reported to the board in March of 2008. The board has authorized funds in the 2008 operating budget to continue the re-examination process, pursuant to Administrative Rule 3.4.1. Therefore, Mr. Fleury announced that the System will be proceeding with two re-examinations in the coming months in order to satisfy the regulatory requirements for 2008.

Status of Housekeeping Legislation – Next, Mr. Fleury informed the board that on March 11, 2008, SB371 passed in the Senate as originally introduced. The bill was subsequently introduced in the House on March 12th and referred to the House Committee on Executive Departments & Administration on March 18th. A hearing was conducted on Thursday, April 3, 2008, where Senator D'Alessandro introduced the bill and answered questions from the Manchester Delegation. Mr. Fleury also gave testimony and distributed copies of a notice indicating that the bill was approved by the Board of Mayor

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& Aldermen. The house expects to vote upon the bill on May 6, 2008 and the board will be kept informed on the status as the bill advances to the Governor's desk for signature.

Mr. Fleury followed up by reporting that the dental subsidy bill number, SB 373, was stripped of any reference to its original purpose and has been adapted for use by the New Hampshire Retirement System. The NHRS will use the bills framework to address their need for amendments to their Plan to keep them in compliance with the January 2008 Civil Union legislation which is now in effect.

In concluding his report, Mr. Fleury noted that the McLane Law Firm has requested a meeting with him to address any concerns or issues and to evaluate services received from their firm. That meeting is scheduled for April 16th, and Mr. Fleury extended an invitation to the trustees to participate in that meeting but absent that, he asked the trustees to share any concerns with him that they may have which he could reply to the McLane representatives. There were no immediate comments or concerns raised by the Board.

Report of the Investment Committee:

Committee Chairman Hungler reported on the previous days' Investment Committee meeting which focused primarily on issues associated with Portable Alpha contracts. He commended Executive Director, Gerard Fleury and Attorney, John Rich of the McLane Law Firm for their due diligence in reviewing the lengthy contracts from the two Portable Alpha Managers, Benchmark Plus and Gottex.

Committee Chairman Hungler noted that Mr. Kevin Leonard of New England Pension Consultants had been present at the meeting to answer questions regarding the contracts. During the meeting, Mr. Leonard informed the Investment Committee that NEPC had just learned of a key personnel change at Benchmark Plus which gave them reason to reexamine the operational stability of the manager. An individual categorized as a key person within the Benchmark organization announced his departure citing personal reasons. Upon further investigation, NEPC was told that the individual would be leaving Benchmark to assume responsibilities in a family business. NEPC was therefore recommending a delay in any funding of investments with Benchmark until there has been sufficient time to investigate the claim more carefully and to assess the impact of that person's loss on Benchmark's operational efficiencies.

Committee Chairman Hungler went on to report that Mr. Leonard had been able to respond to the inquiries regarding Gottex and had suggested employing use of a most favored nation clause. Mr. Leonard had explained that if Gottex were to grant most favored nation status to the MECRS and a fee break were subsequently awarded to

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another investor, that the MECRS would receive that more favorable fee structure because of the existence of the clause.

Finally, Committee Chairman Hungler reported that the contracts will continue to be reviewed by Attorney John Rich of the McLane Law Firm until a satisfactory comfort level as been reached with respect to terms and conditions.

In closing, Committee Chairman Hungler announced that the next Investment Committee Meeting is tentatively scheduled for May 12, 2008 immediately following the Administrative & Accounting Committee Meeting. Representatives from Causeway International will be present on that date to discuss their lackluster performance in 2007.

Trustee Duval asked Mr. Fleury if Portable Alpha Manager, Benchmark Plus, had a favored nation provision within their contract.

Mr. Fleury responded that he did not recall such a clause but that he would investigate the possibility further and request such language if it were not found to already be present.

Report of the Administrative & Accounting Committee:

Committee Chairman, Kevin Barry reported on issued reviewed by his committee the previous day. He cited the need for an Administrative Rule amendment which is attributable to a minor word change in Administrative Rule 7.2. The need for the amendment had been identified by counsel and resulted from an oversight the last time that rule had been revised. In the most recent revision to Section 7, a new section 7.4 had been added. Committee Chairman Barry went on to explain that each year the trustees are called upon to determine if there are sufficient Retirement System earnings to pay a COLA by undertaking an analysis set forth in section 7.2. That Section reads "There shall be a presumption that there are sufficient earnings if any one of the test set forth in section 7.2.1 through 7.2.3 are met". When the rule was last revised a new Section 7.2.4 was added and so Section 7.2 now needs to be amended to cover the full scope of Section 7.

On behalf of the Administrative & Accounting Committee, Committee Chairman Barry moved to release the Administrative Rule amendment for 30-day public comment, to be followed by a public hearing and consideration for ratification by the full Board of Trustees, seconded by Trustee Duval and passed by all those trustees present.

Next, Committee Chairman Barry referred to an excerpt from Mayor Guinta's budget speech, which was identified as Policy Item #5, and read as follows: "While the budget

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includes COLA's for retirees, I personally believe the city is not obliged to appropriate a COLA that relies on taxpayer monies. The city should look into this matter and if there is an ambiguity in the law, then legislation should be crafted that gives taxpayers the final say on who decides how COLA's are funded." Committee Chairman Barry expressed concern about what might result from that policy statement.

Trustee Duval commented that when addressing statutory COLA obligations, working with a limited pool of available funds creates a dilemma for the committee and the board. Referring to a COLA Adequacy Study commissioned from Gabriel, Roeder & Smith in 2007, Trustee Duval noted that to the extent that small classes of retirees should be considered for a one-time special adjustment to compensate for past inequities, it only further reduces the limited funds available and exacerbates the already inadequate level of funding available to address the current year's COLA requirements. Trustee Duval expressed his belief that as long as the committee and the board at least recognized the problem in public session that it would document that there was at least an effort being made to address the situation.

Trustee Duval expressed his belief that a Trustees' responsibility includes the well being of the System and its members and is not limited to the employer contribution rate which must be paid by the City. He went on to express his feelings about the position of Ex-officio Board Member, Mayor Guinta, by stating that the Mayor's position on granting COLA's as it appears in the excerpt read by Trustee Barry is a conflict of interest with his role on the MECRS Board of Trustees.

Committee Chairman Barry noted that in reviewing the COLA study, the Committee thought that bringing members who retired between 1974 and 1984 to parity at the 75% inflation adjusted level might be a laudable objective. Speculation had ensued at the Committee Meeting about the number of individuals who might have passed away since the study was conducted. Committee members had expressed a desire to know what the dollar cost of such an adjustment would be and they had instructed the Executive Director to request the information from the System's actuary.

The committee had also asked to have the dollar value of the pre-funded COLA pool quantified and had directed the Executive Director to add that to the list of items to be provided by the actuary.

In closing his report, Committee Chairman Barry announced that the next meeting of the Administrative & Accounting Committee had been tentatively set for Monday, May 12, 2008, at 8:00 AM.

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Report of the Benefits Committee:

Benefits Committee Chairman Angell reported on recent activity by the Advisory Committee to the MECRS. She noted that Member, Steve Quinn of the Water Works, has accepted chairmanship for the Advisory Committee and Paul Porter has resigned as retiree representative. Trustee Angell noted that Retiree, Ron Ludwig has rejoined the Advisory Committee replacing Paul Porter.

Trustee Angell informed the board that Executive Director Fleury has volunteered to help the committee with administrative tasks such as creating agendas and minutes of Advisory Committee Meetings.

Mr. Fleury reaffirmed his believe and support for the Advisory Committee because of the effective job the Committee did conveying information about the System out to the membership through its representatives. He noted that those volunteers to the Advisory Committee lacked the time to coordinate the production and distribution of agendas and minutes which were instrumental to its operation. As the sanctioned technical advisor to the group, he had agreed to handle those administrative tasks for the Committee and he wanted to be sure that the MECRS Board of Trustees was not only aware of this arrangement but that they also had no objections to his involvement. There were no subsequent concerns or objections to his disclosure statement.

Previous Business:

Ratification of the Revised Valuation for 2007 – It was moved by Trustee Hungler to accept the 2007 valuation in it's final form as received from the actuary, inclusive of COLA phase-in changes and subsidy utilization changes requested by the board at its March 11, 2008 meeting, seconded by Trustee Duval and passed by all those trustees present.

Consent Agenda:

A motion was offered by Trustee Duval to accept the Consent Agenda, seconded by Trustee Barry and passed unanimously by all those trustees present.

Next Meeting Schedule:

Chairman Pinard noted that the next meeting of the Board of Trustees is scheduled for May 13, 2008 at 8:30 a.m.

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It was then moved by Trustee Hungler to adjourn the meeting at 9:12 a.m. seconded by Trustee Angell and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director