August 12, 2008
Minutes # 439

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, William Sanders and Jennie Angell
MECRS Staff: Gerard Fleury, and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta, Jeff Duval and Kevin Barry

In Attendance: Senior Consultant, Kevin Leonard and Analyst, Sebastian Grzejka both from NEPC. VP, Loic Rentiers and Analyst, Tess Amodeo-Vickery both from AIG Investments. Partner, Scott Conners from Landmark Partners and Partner, Lee Tesconi from Lexington Partners

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Hungler to approve the minutes of the July 8, 2008 seconded by Trustee Sanders and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Trustee Hungler made a motion to accept the immediate meeting agenda, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Report of the Executive Director:

Seminar in Newport RI - Executive Director, Fleury reported that he had attended the 2008 Opal Financial Group Conference of East Coast Pension Funds and noted that it was very informative and provided valuable insight into issues facing public plans. Speakers included administrators, trustees' attorneys, actuaries, money managers, consultants, public officials, and covered a broad range of topics germane to public plans. Panel discussions often presented diametrically opposed points of view on subjects like, 130/30 long short, timber fund investments, hedge funds, and social investing. Mr. Fleury further noted that one particular session on Private Equity Fund of Funds was particularly timely given present interest on the subject later in today's meeting.

Minutes of the Board of Trustees' Meeting -2-

Analysis of Historic Pension Fund Obligations - Mr. Fleury stated that at the request of Trustee Hungler, a review of the funding obligations to the pension fund had been undertaken with the objective of determining how costs to the employer had changed over time. The most reliable data source for this analysis was the audited financial statements of the system which were easily accessible back to 1991. Since the data was also readily available, member contributions data were also included in the analysis. Mr. Fleury informed the trustees that a graph of the analysis data was included in their trustees packets accompanied by a short narrative which identifies key contributing factors to rate changes over the years.

Mr. Fleury explained that the chart was designed to display the magnitude and direction of pension contributions by plan members and their employer. The employer contributions include all funding sources and all purposes such as; employer normal, accrued liability, the effects of ad hoc COLA's, plan changes and health subsidies. The employee contribution rates include; member contributions, buybacks of previously withdrawn service, service credit upgrades, permissive service purchases of non-contributory temporary time, additional contributions, and health insurance subsidies.

Mr. Fleury reminded the Board that the service credit upgrades exist as a contingent liability, which isn't factored in by the actuary until it materializes. Mr. Fleury speculated that shortly after the effective date of that plan amendment, members interested in upgrading their time did so. The chart shows that the actuary recognized those events in the following valuation resulting in an upward trend. In the periods which followed, a number of members reaching retirement chose not to upgrade their service credit and waived their right to do so thus negating part of that future contingent liability.

Mr. Fleury also reminded the Trustees that the health subsidy worked on an alternate assumption that everybody who could would take the health subsidy.

Trustee Sanders referred to the pension contribution trends chart and asked why the employer contribution appeared to increase drastically in recent times.

Mr. Fleury explained that the decision to recognize ongoing COLA obligations by pre-funding COLA and severance payouts previously omitted from actuarial assumptions were two major factors affecting the increase.

The trustees continued to discuss the contribution trends and the how they affected the total number of dollars being paid into the Plan. In conclusion, they accepted Mr. Fleury's presentation and asked that he continue with his monthly report.

Minutes of the Board of Trustees' Meeting -3-

Permission to Seek Legislative Sponsor for 2009 - As in previous years, Mr. Fleury reported that work has been ongoing with the assistance of legal counsel to identify and remedy conflicts and inefficiencies in the Retirement System's Legislative authority. Currently, there are two potential subject areas dealing with entitlements after attaining normal retirement age and also with the assessment of penalties on employers for failure to remit contributions in a timely fashion. Mr. Fleury explained that legal counsel is scheduled to appear before the MECRS Board in September to explain the rationale for these legislative recommendations, but given that this will be an election year, waiting too long to find a sponsor may result in missing the deadline for submission of new legislation for 2009. He urged that the Board authorize him to seek a sponsor immediately to ensure a smooth entry into the legislative season.

The board agreed to grant Mr. Fleury permission to seek a sponsor for new legislation in 2009.

Update of Security System – Mr. Fleury reported that after receiving the board's approval to transfer existing appropriations in July to fund audit recommended actions, he was able to obtain and compare proposals submitted by competitive service providers, and selected Brinks Business Security to installed an electronic security system. He stated that this action put the System into compliance with the full scope of security recommendations included in the audit report of 2007.

Website Domain Name Situation – Next, Mr. Fleury reported that in January of 2008, the MECRS had been notified that the domain name of its website, "Manchesterretirement .org" would expire in June of 2008 and that action needed to be taken to renew the name for the ensuing period. The domain name was originally registered by TACS Inc. the website developer, and the site was registered such that renewals and changes were limited to the original applicant. Subsequent to the website's development, TACS Inc. was acquired by Tyler technologies who subsequently became the technical supporter of MECRS PERA 2000 pension software as well as its website. The MECRS relayed notification of the domain renewal requirement to Tyler Technologies in January of 2008 and asked that they be certain to address the need so that the domain would not be lost. Loss of the domain name could necessitate an alternative to Manchesterretirement.org being used for email and website access. It was noted at that time that the address has been widely publicized and that loss of the domain name was to be avoided. The MECRS was assured by Tyler Technology representatives that the necessary steps would be taken.

Mr. Fleury continued, informing the board that on July 24, 2008 the MECRS was contacted via email by a party claiming to have purchased the Manchesterretirement.org domain name at a public auction after the registration had expired without being renewed. Subsequent investigation by MECRS staff revealed this to be true. Fortunately, the purchaser of the domain name had no particular interest in retaining the name other than for resale purposes and was willing to sell it to the MECRS for a small profit. With time being of the essence and with no response from requests for assistance from Tyler Technologies in the days following the incident, Mr. Fleury contacted counsel at the McLane Law Firm requesting assistance in actions necessary not only to regain ownership of the domain name but to register it directly to the System for future use. Joint action by staff and counsel were eventually successful at recovering the domain registration at some expense.

Mr. Fleury expressed his opinion that these circumstances cast a serious doubt on the reliability of Tyler Technologies to effectively respond to the future Information Technology needs of the System. He explained that while website support and operation are relatively generic functions that can be handled directly by the System or by a variety of third parties, the same is not true for support of the PERA2000 pension software. Still at issue was the question of whether MECRS should consider pursuing recovery of expenses related to the reacquisition of the domain name which Tyler allowed to expire.

After brief discussion by the Board of Trustees, Trustee Hungler moved to direct Mr. Fleury to pursue recovery of expenses related to the reacquisition of the MECRS domain from Tyler Technologies, seconded by Trustee Sanders and passed by all those trustees present.

<u>Pre-Retirement Seminar Reminder -</u> In concluding his report, Mr. Fleury reminded the board that the September board meeting will be held on the third Tuesday, September 16th as back to back pre-retirement seminars are being conducted on the Monday and Tuesday usually reserved from MECRS Committee and Board meetings. Mr. Fleury noted that the Tuesday in particular was important to school district attendance because it coincides with a teacher workshop day when school will not be in session and para-profession MECRS members will not require expensive and limited substitute replacements in order to attend. He noted that a good turnout is expected for both days.

Previous Business:

Representatives Mr. Kevin Leonard and Sebastian Grzejka, from NEPC were present to coordinate Private Equity Fund of Fund Manger presentations.

NEPC's recommendation to the Trustees was to consider investing in one of the following Private Equity Fund of Funds managers: Lexington Capital Partners VII, Landmark Euity Partners XIV, or AIG PineStar Capital II: Mr. Leonard noted that all three managers have a strong presence in the marketplace and have demonstrated success in the strategy.

Mr. Leonard introduced the first presenters from AIG PineStar Capital II, L.P., Vice President, Loic Rentiers, and Business Development Associate Tess Amodeo-Vickery. Miss Amodeo –Vickery used conference call equipment to link in Mr. Kevin Sullivan, VP of AIG, who had been unable to attend the presentation in person because of air travel delays.

After distributing presentations booklets to all of the trustees, Ms. Amodeo-Vickery began the presentation by noting that AIG Investments has over $750 billion in assets under management and over 2,100 employees worldwide including more than 530 investment professionals. AIG has an integrated Global Platform and commits to every single product offered to their clients and will not ask investors to invest into a fund that AIG would not invest in.

VP, Kevin Sullivan commented that AIG PineStar Capital II, L.P. is a globally diversified portfolio of private equity fund assets acquired on the secondary market. The fund is targeting acquisitions through three transaction structures; individual private equity funds, portfolios of fund investment, and portfolios of direct investment. The fund is seeking a minimum of US $1 billion in aggregate commitments and is targeting a gross IRR of approximately 20%. As a participant in the PineStar Capital II, L.P. fund, the AIG Companies will invest US $275 million of their own money toward the Fund's total commitment.

Trustee Hungler asked Mr. Sullivan, "What type of an organization is AIG."

Mr. Sullivan replied, "AIG Investments is an investment management firm, a subsidiary of basically the American International Group and is a corporation".

Ms. Amodeo-Vickery then explained the background in which the AIG Investments had grown into a flourishing asset management firm.

VP, Mr. Loic Rentiers addressed the issue within the confines of the alternative investment class with private equity, and provided the trustees with an understanding of how the prices of the portfolio in private equity are derived and how they are monitored and reported.

Mr. Rentiers then explained the expanding global secondary market opportunity, the strong Platform for secondary investments, investment strategies, processes and performance, as well as sponsorship by AIG Investments.

In concluding the presentation, Ms. Amedeo- Vickery noted AIG 's ability to leverage resources and investment, and operational and how AIG could be a significant strategic partner for the MECRS.

Prior to the conclusion and departure of AIG representatives, Mr. Fleury requested a sample of AIG Pinestar's contract/subscription agreement.

Chairman Pinard recessed the meeting at 10:01 a.m.

Chairman Pinard reconvened the meeting at 10:07 a.m.

Next, Mr. Leonard introduced Scott Connors, Partner of Landmark Partners to begin his presentation.

Mr. Connors began by distributing presentation booklets to the trustees and explaining how the four main points that he would focus on would be Landmarks tradition, performance, market and strategy.

He noted that Landmark has one of the largest and most experienced investment teams in the secondary industry and has completed over 250 investments, acquiring more than 1,000 interests managed by over 400 sponsors. Landmark was established in 1989 with the launching of Landmark Venture Partners. Landmark is recognized as the first institutional secondary investor, and has invested nearly $4 billion in that space since 1992. Headquartered in Simsbury, CT with offices in Boston, Greenwich, CT, and London, Landmark manages funds which focus on real estate (both primary and secondary), growth equity, mezzanine and secondaries.

Landmark has an 18-year strong track record with experienced leadership. Mr. Connors also noted that Landmark's Investment Committee, has an average of 14 years with the firm and has grown the organization over two decades and multiple investment cycles. He then went on to provide a brief profile for each partner within the firm.

Mr. Connors reviewed the benefits of secondary private equity investing as well as the demand dynamics for secondaries. In addition, he summarized Landmark's approach and investment strategy.

Having concluded his presentation, but prior to Mr. Connors departure, Mr. Fleury requested a sample of Landmark's contract/subscription agreement.

The board thanked Mr. Connors for his presentation and Chairman Pinard called for a recess at 10:55 a.m.

Chairman Pinard reconvened the meeting at 10:57 a.m.

Moved by Trustee Sanders to extend the board meeting pursuant to By-Laws, Articles XIII, beyond the 3-hour limit, seconded by Trustee Angell and passed unanimously by all those trustees present.

The final presentation began with Mr. Lee Tesconi, a Partner in Lexington Partners, distributing presentation booklets to the trustees and providing a description of the firm. Mr. Tesconi stated that Lexington was founded in 1990, and has grown to be one of the largest managers of secondary private equity and co-investment funds. With offices in Boston, New York, Menio Park and London, Lexington staff consists of 40 investment professionals.

Since its founding, Lexington has completed 230 secondary transactions, totaling over $7 billion committed to 750 partnerships. The firm has also invested $1.8 billion in 79 co-investments and placed $900 million in commitments with 150 primary funds. Lexington has managed 6 prior funds, and co-manages 6 secondaries of Lexington Capital Partners VII.

Mr. Tesconi informed the board that the primary goal of the Fund is to generate a net internal rate of return of 20% and a 1.7 times multiple of capital invested. The manager prices transactions which result in this return, with long term capital appreciation accounting for approximately 95% of the return, and with current income accounting for the remaining 5%.

Lexington Partners is targeting $5 billion in capital committed to Fund VII. The manager believes that certain fundamental and technical trends in the private equity markets support a fund of this size. Two primary factors are the rapid growth over the past few years in the amount of capital raised for private equity funds and the growing use of secondary transactions as an active portfolio management tool. Additional deal flow is attributed to direct secondary transactions, illiquid private equity assets held by hedge funds, and co-investment portfolios held by financial institutions. Lexington believes that the growing supply of potential deals will be enhanced as a result of difficulties in the credit markets and the associated decrease in distributions from private equity funds. This increased supply is expected to put downward pressure on prices over the next several years, producing exceptional purchasing opportunities for the Fund.

Mr. Tesconi summarized Lexington's leadership position, global platform, international activities, strong GP relationships and strong seller recognition.

Mr. Tesconi went on in great detail regarding the Secondary Market Review and the Secondary Investment Performance as of March 31, 2008. He then referred to page 16 of his presentation booklet and provided the trustees with a snapshot of the Lexington's top 10 holdings.

In concluding his presentation, Mr. Tesconi provided biographies of the key professionals within Lexington Capital as spoke to their commitment to Lexington.

Mr. Leonard explained that approximately a year ago NEPC, as the fund's consultant, recommended that Manchester either abandon its private equity allocation or plan to fund it to its target level. The issue was assigned a lower priority until a portable alpha recommendation could be explored, adopted and funded. With that step behind them, the board wanted to get into private equity to meet or exceed its earnings assumptions without the bumpy ride associated with traditional equity investments.

The trustees briefly debated whether to hire two managers to reduce risk but at the recommendation of NEPC, decided against it because it could result in unproductive concerns if one manager marginally outperformed the other.

As with the other presentations, Mr. Fleury requested a sample contract/subscription agreement and sample reporting prior to Mr. Tesconi's closing statements and departure.

Following Mr. Tesconi's exit, Mr. Kevin Leonard highlighted the pros and cons of each of the presentations and provided the trustees with important factors to be considered, including, the number of times a private equity fund of this type had been established by the firm, knowledge of the industry exemplified by the presenters, how well the proposals achieved vintage year spreads, the performance record of previous funds, the valuation of assets under management, and expected delays in reporting time for financial statements.

Trustee Hungler asked to go on record in order to prevent the appearance of any conflict of interest that his son works for AIG Valic, which has no relationship to AIG Pinestar. He also expressed concerns that Lexington's presentation contained a number of unclear answers.

Mr. Leonard assured Trustee Hungler and the Board that they conducted extensive reviews on the recommended firms and that none of the managers interviewed would have been asked to appear if they had failed to live up to analytical scrutiny. He stated that if there are any questions about any of the firms, NEPC will be happy to address them with the specific manager and will relay the responses back to the Trustees.

After lengthy discussion with NEPC representatives, it was moved by Trustee Sanders to select Lexington Partners as the Private Equity Manager, and to fund $2 million in commitments in 2008, with the source of those funds to be determined, and also contingent on the lack of any serious issues in the contract agreement during a review to by conducted by legal counsel. Seconded by Trustee Angell and passed by all those trustees present.

Moving along on the agenda, Chairman Pinard then asked Mr. Kevin Leonard of NEPC for clarification on certain values contained in an Investment Performance "Flash" Report which had been distributed. Mr. Pinard referred to an Annualized Return for last year of -3.3%, expressed his recollection that the System's portfolio was not negative for last year and he question whether the figure he was seeing was a rolling number for the past twelve months.

Mr. Leonard responded that it is a trailing return as of June 30, 2008. Therefore, the one year return of -3.3% would represent the period between July 1, 2007, the June 30, 2008.

With that explanation accepted, Mr. Leonard proceeded to review the balance of the Investment Manager Performance Report for the second quarter of 2008. The balance of the review was uneventful and prompted few questions. In conclusion, Mr. Leonard expressed a desire to come before the MECRS Investment Committee in September to discuss the present makeup of equity investments, both International and Domestic, and by capitalization size noting the lack of any small cap exposure in the existing mix. NEPC would also want to visit real estate investments held by the MECRS in order to reaffirm any forward strategies for that asset class.

Mr. Fleury noted that September meeting would be a week later than customary owing to a pair of pre-retirement seminars being conducted on the customary meeting days that month.

Investment Committee Chairman, Hungler reviewed the calendar while NEPC representatives were still present and scheduled an Investment Committee meeting for September 15, 2008.

Consent Agenda:

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

August 12, 2008
Minutes # 439

New Business:

Request for Motion #1 – The Executive Director is requesting a motion to transfer a total of $1227.20 between various lines in the budget to cover actual cost in excess of budgeted amounts. Said funds are to come from account balances deeded to be otherwise excess. A motion was offered by Trustee Hungler to grant the request of the Executive Director to transfer $1227.20 between budget lines, to cover actual costs in excess of budgeted amounts. Seconded by Trustee Sanders and passed unanimously by all those trustees present.

Request for Motion #2 – The Executive Director is requesting a motion to accept and place on file the 2008 results of disability re-examinations pursuant to Chapter 218:15 IV It was moved by Trustee Sanders to accept and place on file the 2008 results of disability re-examination, seconded by Trustee Angell.

Trustee Hungler asked if the trustees should know the names of the disability recipients chosen for re-examination. Mr. Fleury replied that the names are not a matter of public record because the law required that they be conducted but that he believed that the identity of the client was not a matter for public scrutiny under RSA 91-A, Right to Know.

After brief discussion the trustees concluding that the question should be posed to legal counsel at the next board meeting.

Motion unanimously passed by all the trustees present.

Mr. Fleury reminded the Board that he had circulated an inquiry regarding interest in a tour of operations and back office support at New England Pension Consultants in Cambridge, Massachusetts. He encouraged the Trustees to consider such a visit so that they could obtain a first hand assessment of how back office operations which result in the reports and recommendation on which they based their decision are developed. The Board generally agreed that a group tour would be of interest and instructed Mr. Fleury to investigate the details and report back to them.

Next Meeting Schedule:

Chairman Pinard noted that the next meeting of the Board of Trustees is scheduled for Tuesday, September 16, 2008 at 8:30 a.m.

Minutes of the Board of Trustees' Meeting -11-

It was then moved by Trustee Sanders to adjourn the meeting at 1:02 p.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director