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### **Minutes of the Board of Trustees' Meeting**

**Call to Order:** Chairman, Donald Pinard called the meeting to order at 8:46.m.

**Present:** Trustees: Chairman, Donald Pinard, William Sanders, Chuck Hungler, Jeff Duval, Jennie Angell and Kevin Barry departed at 10:39. MECRS Staff: Gerard Fleury, Sandi Aboshar, Suzanne Wilson

**Absent:** Trustees: Mayor Frank Guinta

**In Attendance:** Attorney, John Rich of McLane, Graf, Raulerson & Middleton, PA as well as Representatives, Mr. Sebastian Grzejka and Mr. Kevin Leonard, from New England Pension Consultants

### **Approval of the Minutes of the Previous Board Meetings**

A motion was made by Trustee Hungler to approve the minutes of the December 11, 2007 meeting of the Board of Trustees, seconded by Trustee Sanders and passed unanimously by all the trustees present.

Chairman Pinard welcomed Jennie Angell to the board, replacing Trustee Ntapalis.

### **Nominations and Election of Board Chairman**

Chairman Pinard opened nominations for Board Chairman. Trustee Barry then moved to nominate Donald Pinard as Board Chairman, seconded by Trustee Hungler. Chairman Pinard asked if there were any other nominations. With no other nominations Chairman Pinard closed nominations for Board Chairman.

Chairman Pinard then asked the Board of Trustees "Is everyone in favor of Donald Pinard as Chairman of the Board".

All the trustees voted unanimously for the re-appointment of Donald Pinard as Chairman of the MECRS.

### **Appointment of Committee Chairs:**

Chairman Pinard re-appointed Trustee Hungler as Chairman of the Investment Committee and Trustee Barry as Chairman of the Administrative & Accounting Committee. Chairman Pinard then asked Ms. Jennie Angell if she would be interested in

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chairing the Benefits Committee due to her affiliation with the Advisory Committee. Ms Angell accepted her appointment as Chairperson of that Committee.

Chairman Pinard recessed the meeting at 8:49 a.m. to allow trustees to discuss Committee assignments amongst themselves.

Chairman Pinard reconvened the meeting at 8:51 a.m.

**Approval of the Immediate Meeting Agenda:**

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

**Committee Assignments:**

Chairman Pinard then asked Committee Chairman Hungler for his appointments to his Investment Committee. Chairman Hungler stated his committee members as Trustee Sanders, Trustee Angell, and ex-officio Board Chairman Pinard.

Committee Chairman Barry listed Trustee Hungler, Trustee Duval and ex-officio Board Chairman Pinard as well as ex-Officio, Trustee Sanders to his Administrative & Accounting Committee.

Committee Chairman Angell listed Trustee Barry, Trustee Duval and ex-officio, Board Chair Pinard to her Benefits Committee.

**New Business:**

Ratify By-Laws Articles II & III Pursuant to Hearing Conducted – It was moved by Trustee Barry to ratify By-Laws, Articles II & III, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Ratify Amendments to Administrative Rules, Part 7 Pursuant to Hearing Conducted - It was moved by Trustee Duval to accept the amendments to Administrative Rule Part 7, seconded by Trustee Barry and passed unanimously by all those trustees present.

Discussion on Revised Investment Policies & Guidelines Developed by NEPC - Mr. Fleury stated that the objective of the revision was to bring the investment policy in line with the actual operations of the System. The previous Investment Policy was designed to work with a slate of managers who were running separate accounts, which failed to

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recognize the implications of having essentially all of the managers running pools or groups. There had also been changes in the nature of the Systems portfolio, where the board had moved into tactical asset allocations, which allowed the manager to engage in shorting. The board had made amendments to the previous policy before taking that action, however, additional amendments were being introduced in this latest version in order to provide the Board with greater investment opportunities.

Mr. Fleury also noted that during today's meeting the board will hear recommendations from NEPC on portable alpha and having the revised policy in place would allow the board to proceed in that direction, should it elect to do so.

Mr. Fleury noted that Trustee Hungler had brought to his attention the way in which the draft policy described the members of the police and fire departments who are not otherwise eligible to participate. Mr. Fleury suggested amending the draft to read, Group II members of the fire and police departments, which would clearly differentiate them from Group I members who participate in the MECRS.

Trustee Hungler directed the trustees' attention to the second page of the policy, second paragraph, number one. "The total return target is 4.5% net compounded annually." Trustee Hungler asked if the 4.5% was net of fees.

Mr. Fleury replied, that the percentage is net of fees, but recommended that the Board entertain a motion to add "net of fees" to the language in the draft policy.

Next, Trustee Hungler referred to Appendix IV, Performance Objective. The policy states that the manager shall meet or exceed their index over a full market cycle. Trustee Hungler asked how a full market cycle is defined.

Mr. Fleury suggested that Trustee Hungler pose his question to the representatives of NEPC who are scheduled to begin their presentation as the next item on the meeting agenda.

In closing, Trustee Hungler referred to Appendix I of the policy, under Alternatives and noted that if the Board votes to adopt Portable Alpha Strategies, the Investment, Objectives and Guidelines, and the Asset Allocation Exhibit will need to be amended by the Board of Trustees.

Chairman Pinard introduced representatives from NEPC, Mr. Kevin Leonard, and Mr. Sebastian Grzejka.

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Mr. Fleury reflected upon Trustee Hungler's earlier question and asked Mr. Leonard to provide the board with clarification on the Investment Policy where it addresses performance objective. The recurring phrase, "the manager shall meet or exceed their index over a full market cycle", is not clear to the trustees and clarification is needed on what constitutes a full market cycle.

Mr. Leonard responded that NEPC defines the full market cycle as a 3 to 5 year period, which is the industry norm, and offered to clearly define it as a footnote in the policy.

It was then moved by Trustee Duval to accept the Investment Objectives and Guidelines as amended, seconded by Trustee Sanders and passed unanimously by all those trustees present.

**Previous Business:**

Special NEPC Report of SSGA Staff Changes - Mr. Kevin Leonard reported that there have been recent changes with State Street Global Advisors, the world's largest money manager, as defined by assets under management. He indicated that SSGA had lost analysts in the International Equities Group, but that was not viewed as problematic given the size of SSGA.

Mr. Leonard reported that State Street is under scrutiny and subject to some litigation relative to a fixed income fund under their management. The case involves a short duration fixed income fund that had exposure to the sub prime mortgages where they lost in excess of 11% in a six month period, as a result of the sub prime component in that fund. There is a class action lawsuit against SSGA as a result. Mr. Leonard explained that MECRS is in the equity market with State Street, not the sub prime market which mitigates the need for concern.

Mr. Leonard also informed the board that the head of the fixed income investment unit of SSGA is leaving the firm and more staff departures are expected. At this time NEPC is not recommending that their clients terminate SSGA because of these issues but he indicated that NEPC would continue to monitor the situation.

Next, Mr. Leonard began his presentation on the Portable Alpha Manager Search. At a previous meeting of the Board of Trustees, Mr. Leonard and associates had delivered an educational presentation on Portable Alpha. Following that presentation, Trustee Hungler had requested that NEPC suggest a slate of possible portable alpha managers for the Board's consideration.

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Referring to a handout provided to the trustees', Mr. Leonard explained that portable alpha is a newer asset class to the public fund arena which is not meant to add risk to the portfolio. Portable Alpha should be viewed as a more effective way of getting active manager returns. Mr. Leonard discussed alpha sources with different characteristics and how each correlated with the System's portfolio.

Mr. Leonard explained why NEPC believed that Portable Alpha carried the same risk as the S&P 500 with more return potential. He acknowledged that the beta derivative aspect of Portable Alpha was dependent on parties trading cash flow exposure to the index and that there was some risk at the liquidity event and counter-party risk. However, he indicated that in the products that would be presented to the MECRS for consideration, the risk was contained within the manager's pool of funds, therefore, the risk was on the manager and not on the MECRS. He indicated that the S&P 500 was the most frequently traded instrument which is why NEPC had the utmost confidence in using swaps and derivatives for the S&P 500.

Included in the presentation materials were manager comparison summaries for the trustee's consideration as well as a performance table comparing the proposed managers and their respective track records. Mr. Leonard provided an extensive review of the Portable Alpha manager candidates and recommended that two of the candidates be eliminated from consideration because the size of the fund of funds hedge funds used in their products was viewed as not providing enough diversification.

If the managers are to be interviewed, Mr. Leonard suggested allocating a 45-minute presentation for each manager selected.

Mr. Leonard concluded his presentation on Portable Alpha and looked to the Trustees for a decision. Trustee Hungler moved to have NEPC arrange manager interviews with Austin Capital Management, Benchmark Plus Management, and Gottex Fund Management, seconded by Trustee Duval and passed unanimously by all those trustees present.

Mr. Fleury suggested that the interview proceedings take place with the Investment Committee on the Monday, February 11, 2008 at 8:30. There was no opposition to that suggestion so it was left that Mr. Fleury would work out the details with Mr. Leonard and notify the Investment Committee of the final schedule.

As a final item, Mr. Leonard distributed and summarized the Investment Performance "Flash Report" for the period ending November 30, 2007, showing the returns, net of manager fees and returns gross of manager fees. Given the market's recent volatility it

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would be inappropriate to speculate on how the Retirement System would close the year but the composite return year to date as of the end of November stood at 10.9% net of fees which made it reasonable to believe that the System's 7.5% earnings assumption would be achieved.

**Report of the Executive Director:**

Valuation Data Updated - Mr. Fleury reported that each year, as part of the evaluation process, population data requirements are reviewed to determine whether they have expanded as a result of industry changes in our Plan. This year the MECRS in conjunction with its actuary had identified an additional data item which will be instrumental in determining the effects of COLA awards with a much higher degree of reliability than estimation processes used in previous years. There was one additional data element, which our system cannot presently store and which is not regularly reported to Retirement System by the City, that being annual base salary without overtime. Staff at MECRS and representatives from Gabriel, Roeder, Smith & Co. agreed that the lack of this data was not material to the results of the valuation and was compensated for in part by the routine way in which overtime is earned and paid.

Trustee Sanders asked Mr. Fleury if there was a time table when the city's employer contribution rate will be determined.

Mr. Fleury responded that final investment results are due which will then be forwarded to the actuary for completion of the valuation. The trustee will receive the valuation results at the March Board Meeting at which time the trustees will certify the employer contribution rate for the City and School.

Retiree Re-Exam Program Conducted for 2007 – Mr. Fleury explained that as directed by the board at its November 2007 meeting, funds from areas of surplus in the budget were transferred to the line item, Independent Medical Examination, in order to fund disability re-exams on existing accidental disability retirees. While the authority to conduct such re-examinations has always been in the statute, there is no evidence that a retiree has been recalled for re-examination to verify continued eligibility since 1995. Subsequent to the board's November action transferring funds from surplus budget lines, there was sufficient funding for one such exam in 2007 and the process was conducted. Mr. Fleury reported that once all of the results have been received, a formal report will be prepared and provided to the board.

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Upcoming Events - Mr. Fleury speculated that the trustees most likely hear from constituents from time to time following various administrative actions. He noted that annual member statements will be generated and mailed out and that 1099R tax forms will be produced and mailed to retirees and lump sum distribution recipients in the weeks to come. Questions regarding either process are generally technical and cannot be answered without access and review of the member's file. This year, Mr. Fleury noted that because the System instituted the reporting of actual taxable distribution amounts to clients retired before 2001 on their 1099R forms, where previous reports indicated "taxable amount not determined", he is anticipating a number of inquiries related to that change. Should the trustees receive questions or complaints on either matter, Mr. Fleury stated that he would like to be contacted personally and he requested that the Board member refer such question to his attention. Mr. Fleury indicated that he would be happy to schedule a meeting with any client who is concerned about the accuracy of information compiled and to take whatever time is necessary to explain the original and rationale for the results.

In concluding his report, Mr. Fleury informed the board that the System had received a distribution that was unanticipated from Causeway International in the amount of \$1.4 million. It was not clear why the original instructions to Causeway were to take capital gains from that fund annually and to send them, via check, to the Retirement System, but those were the instructions which had been crafted by advisors at Prime Buchholz at that time. Mr. Fleury noted that those instructions conflicted with other equity investments and so the instructions had been amended after polling the Board so that future distributions will be rolled over as with every other equity investment vehicle. The \$1.4 million was deposited in the Systems custodial bank, State Street Bank & Trust, upon receipt and subsequently reinvested back with Causeway International.

Finally, Mr. Fleury informed the board that the rebalancing authorized by the Board at an earlier meeting which transferred assets between City of London emerging markets and Mellon Capital Mgmt. Global TAA, had been completed in the previous week.

### **Benefits Committee**

Committee Chairman Duval reported results of the November 29 meeting of the Advisory Committee. The committee had received copies of the actuary's cost analysis on LSR 2008-S-2645-R, regarding the use of subsidy entitlements for dental premiums. Member, Steve Quinn has communicated with Mark Laliberte, the Mayor's legislative liaison about this LSR. A cover letter to the BMA was being written to share those costs

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estimates with them and to determine what position they may wish to take with respect to his legislative initiative.

Also, Committee Chairman Duval informed the board that the vacancy on the Advisory Committee, created by the retirement of Ron Ludwig, had been filled with the acceptance of Tim Soucy as Department Head Representative. Mr. Soucy was not present for the meeting but had indicated his willingness to serve in that capacity if nominated.

Next, Committee Chairman Duval noted the committee's discussion on the need to have a member of the BMA assigned to the committee by the Mayor. In the past, Alderman Thibault had been the official member with Alderman Lopez long recognized as an interested party. With Alderman Thibault leaving the BMA at the end of the year, Jennie Angell indicated that she would communicate this need to the Mayor's office.

Committee Chairman Duval noted that Jennie Angell of Information Systems Department won the MECRS Board election competing for the seat vacated by Harry Ntapalis. Also, Chairman Duval commented that in filling the MECRS Board vacancy she must resign from the Advisory Committee in order to avoid a conflict of interest.

Continuing, Committee Chairman Duval indicated that the legislation sought by the Advisory Committee has been issued a Senate Bill number (SB-373) and the Committee has been advised of this event. This bill should still be presented by the Advisory Committee to the Board of Mayor and Aldermen before it is scheduled for its first legislative hearing. The committee has been advised of this but no action has been taken to date that we are aware of.

In concluding his report, Committee Chairman Duval reflected upon the fact that with the December election of Jennie Angell to the MECRS Board, the Advisory Committee would now need to elect a new Chairperson.

**Consent Agenda:**

It was moved by Trustee Sanders to accept the Consent Agenda, seconded by Trustee Duval and passed unanimously by all those trustees present.

**New Business:**

Request for a Motion - Mr. Fleury informed the board that the MECRS insurance premium for Fiduciary Liability was higher than expected by \$2,363, and while the original appropriation slightly exceeded the expected amount, it still resulted in an



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appropriation shortfall which needed to be addressed. Therefore, Mr. Fleury requested the transfer of \$1,162 from the budget line for Directors and Officers coverage into the Fiduciary Liability line in order to cover the premium expense.

Moved by Trustee Hungler to proceed with the requested transfer, seconded by Trustee Sanders and passed by all those trustees present.

Chairman Pinard recessed the meeting at 10:51 a.m.

Chairman Pinard reconvened the meeting at 11:00 a.m.

**Discussion With Legal Counsel:** Attorney Rich was present to explain IRS requirements associated with maintaining compliance with IRS regulations and the Board directed Attorney Rich to recommend any necessary changes to the Administrative Rules.

**Next Meeting Schedule:**

Chairman Pinard noted that the next meeting of the Board of Trustees is scheduled for February 12, 2008 at 8:30 a.m.

Chairman Pinard also reminded the board that the next Investment Committee meeting is scheduled for February 11, 2008 at 8:30 and he urged their attendance in light of the important decision related to portable alpha investment which might result.

It was then moved by Trustee Duval to adjourn the meeting at 11: 03 a.m. seconded by Trustee Hungler and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director