

July 8, 2008
Minutes # 438

Minutes of the Board of Trustees' Meeting

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:40 a.m.

Present: Trustees: Chairman, Donald Pinard, Chuck Hungler, William Sanders, Kevin Barry. Jennie Angell arrived at 9:15 a.m.
MECRS Staff: Gerard Fleury, and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta and Jeff Duval

In Attendance: Senior Consultant, Kevin Leonard of NEPC and Mr. Chuck Douglas

Approval of the Public Hearing Minutes on Amendment to Administrative Rule 7

A motion was made by Trustee Hungler to approve the Public Hearing Minutes of June 10, 2008 regarding housekeeping amendment to Administrative Rule 7, seconded by Trustee Sanders and passed unanimously by all the trustees present.

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Hungler to approve the minutes of the June 10, 2008 seconded by Trustee Barry and passed unanimously by all those trustees present.

Executive Director, Gerard Fleury notified the Board that he had received a phone call from Trustee Angell notifying him of her expected late arrival to the meeting as well as requesting an amendment to the June 10 minutes, page 6. Trustee Angell asked for clarification on her second to a motion made by Trustee Duval, to grant a 2.8% COLA to all eligible retirees. Trustee Angell requested that the draft minutes be amended to indicate that her second to the motion was made for discussion purposes only and that it was not her intent to support the 2.8% COLA.

It was then moved by Trustee Barry to accept the June 10, 2008 minutes as amended, 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 Barry and passed by all those trustees present.

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Mr. Fleury introduced the visitor in attendance as Mr. Chuck Douglas, Chairman of the State Judicial Retirement Board who had expressed interest in the presentation to be made by NEPC.

Report of the Executive Director:

COLA Calculation Update - Mr. Fleury began by notifying the board that the COLA calculation bringing plan participants retired before 1983 up to 85% of their original purchasing power was completed by staff and verified by the actuary. Each recipient of the COLA adjustment will receive a customized letter reaffirming the amount of their pension benefit, explaining and quantifying their new adjusted base amount, compounding the 2% award and providing them with their new gross benefit amount. Besides this limited group of older retirees, all retirees will receive a generic notification of the 2% COLA award with their first affected payment.

Seminar in Newport, RI – Mr. Fleury reminded the board that he will be in Newport, RI for the rest of the week at a public retirement system seminar which begins Wednesday at noon and concludes at noon on Friday. He reassured the Board that staff will be able to reach him by cell phone in the event of an emergency and he concluded by stating that he would submit a report of the seminar at the August, MECRS Board Meeting.

Status of Portable Alpha Funding - Next, Mr. Fleury informed the Board that the Retirement System had received its first report indicating the number of shares acquired in Gottex Portable Alpha as a result of the \$3.75 million investment authorized at a previous meeting. In addition, he reported that instructions had been issued to liquidate shares in equal amounts by the System's three domestic equity managers and that the proceeds had been wired to Benchmark Plus in the amount of \$3.75 million on July 1, 2008.

Recommendation For Standardization: Mr. Fleury noted that at the present time, the MECRS operates under a number of self imposed constraints, some of which go back many years and are more likely the results of happenstance than forward planning. He informed the Trustees that he had encountered a few such constraints in the process of reallocating assets over the past few weeks. He reported that the funding and redemption terms associated with most of the Systems investments go back to the original subscription agreements. Some of the original signatories to those agreements are no longer affiliated with the organization and other self imposed constraints such as the bank accounts from which funds must come or must be sent also stem from the original subscription agreements and in some cases, should probably be revised.

Mr. Fleury recommended that the board authorize an overhaul of funding and redemption procedures to include updated medallion guarantees from the custodian bank where

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necessary for all present managers, expansion of the number of individuals authorized to fund and liquidate holdings, and establishment of a required two person call back procedure for redemptions. There would be no cost to the System to perform such an update and it would improve security, enhance flexibility and standardize the trading process.

The Board of Trustees agreed to authorize Mr. Fleury to move forward with his recommendation, updating the funding and redemption procedures used by the Retirement System.

Procedural Changes Recommended by Audit 2007 Audit - In concluding his report, Mr. Fleury noted that a number of new security procedures had been implemented as recommended by the audit report received last month. Keys have been obtained for some files cabinets which previously could not be locked for lack of keys, and both active and retired member files are now being locked at the close of business each day. With respect to computer system improvements, while individual workstations were not deemed to be at risk, the MECRS file servers had been deemed to be vulnerable to unauthorized access by anyone who might gain access to the facility outside of business hours. Mr. Fleury reported that as a result of collaborative efforts with its technical consultant, an additional level of security had been added to the server environment. The new features now require that a significant amount of technical sophistication or an inordinate amount of time be required to accomplish what could have been done with relative ease when the observation was made. Also, the frequency of backup media delivered to offsite storage locations was now being done daily as recommended.

The final aspect of internal security to be addressed required the Board's support as it requires the reallocation of funds and expenditure authorization for the installation of a burglar alarm system. Price quotes had been requested but only one had been received in time for the meeting. The minimum service protection plan available from the company which responded, (Brinks) involves a one time equipment purchase and installation fee of \$299, plus an ongoing monthly fee for equipment service and monitoring of \$42.49, or 509.88 annually, (that price is guaranteed not to change for three years). Mr. Fleury reported that other vendors were scheduled to submit quotes in the weeks to come but that based on the cost obtained from Brinks, he was prepared to request a motion to transfer \$265 between budget lines for the cost of implementing an alarm system for the remainder of the budgeted year.

New Business:

Transfer of previously approved and budgeted amounts from an area of surplus to an area where expenses were not anticipated - Moved by Trustee Hungler to move forward with

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the implementation of an alarm system and to transfer \$265 between budget lines recommended by Mr. Fleury, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Consent Agenda:

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

New Business:

Request from the Executive Director to accept and place on file the 2007 Report on Gainful Occupation – Moved by Trustees Sanders to accept and place on file the 2007 Gainful Occupation Report, seconded by Trustee Hungler. Mr. Fleury reported that the process had been conducted as required by statute, that there had been no problems with non-compliance, and that he was recommending that the Trustees accept the report. The vote was taken and passed unanimously by all those trustees present.

NEPC Presentation of a Private Equity Program Review and 2008 Strategic Investment Plan Previously Authorized by the Board – Chairman Pinard welcomed Senior Consultant, Mr. Kevin Leonard and asked that he begin his presentation.

Mr. Leonard began by distributing a generic performance report for the period ending June 30, 2008. He explained that for all asset classes, some in which the plan does not invest, only Commodities and certain Fixed Income sectors were positive. Every other asset class for 2008 year to date showed a negative return. The highest return for the six month period was 27.2%, which is attributable to commodities. Global fixed income was up 5% year-to-date, and core fixed income, which is the Lehman Aggregate, was up 1.1%. The worse performing asset class had been large cap value stocks which were down 13.6% for the year.

In the days leading up to the meeting, the Retirement System had received a request from Gottex seeking investor support for changes in operating procedures related to the rebalancing of the fund. Mr. Leonard updated the board on the rebalancing provisions being sought by Gottex and noted that the Gottex Board of Directors is recommending an amendment to the System's current subscription agreement. The rebalancing process described in the PPM dictates certain events involving Swaps and Mark to Market amounts affecting the NAV of the Fund. The proposed amendments would change existing thresholds between 99% and 101% to 95% and 105%, and from a monetary value of \$.5 million up to \$5 million.

After continued discussion on the Gottex request, it was moved by Trustee Hungler to

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have the MECRS Chairman sign the amended subscription agreement, subject to the review of Systems legal counsel, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Moving along to the Private Equity Study, Mr. Leonard explained the importance of diversification and a further expansion of the System's Private Equity portfolio, which is one of the recommendations identified in the study. Working from the Private Equity Program Review and 2008 Strategic Investment Plan booklet which had been included in the Trustee's agenda packets, Mr. Leonard laid out NEPC's recommendation that the MECRS consider a \$2 million allocation for vintage year 2008 funds. The amount was based on the Systems market value today and using simple projections on asset growth to determine the dollar amount needed on an annual basis to reach a 5% target allocation.

Mr. Leonard continued his presentation by reviewing charts of vintage year performance and fund projections, as well as cash flow assumptions with the Board.

In closing his presentation, Mr. Leonard stated that if the trustees agree with the NEPC recommendation, that NEPC would provide 3 to 4 names of Private Equity Fund of Funds Managers to be presented as finalists and interviewed by the full Board at their next regularly scheduled meeting.

Trustees Hungler lent his opinion that a presentation to the full Board would probably be more productive than meeting with the Investment Committee because of recent challenges in making a quorum and because of the importance of subject matter.

The Trustees agreed to have NEPC conduct a search for three Private Equity Fund of Funds Managers to be interviewed by the board, at their August meeting.

Next Meeting Schedule:

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

It was then moved by Trustee Hungler to adjourn the meeting at 10:16 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director

