

May 13, 2008
Minutes # 436

Minutes of the Board of Trustees' Meeting

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:47 a.m.

Present: Trustees: Chairman, Donald Pinard, Chuck Hungler, Jennie Angell and Kevin Barry
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta, William Sanders and Jeff Duval

In Attendance: Attorney, John Rich of the McLane Law Firm

Approval of the Minutes of the Previous Board Meeting:

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

Approval of the Immediate Meeting Agenda:

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

Report of the Executive Director:

Status of Case Before NH Supreme Court – Mr. Fleury indicated that he was pleased to report that the case against the MECRS in the NH Supreme Court had been dismissed as the court concluded that it did not have authority to hear the case.

Updates to MECRS Website – Next, Mr. Fleury noted that a few enhancements had been made the MECRS website. Staff email addresses have been added in places so that website visitors who want to contact the System or request further information need only click on the link appearing on the web page to open an email to the staff member in question. In addition, the Investment Objectives & Guidelines which were revised in January and which have never before been posted to the website were added in April.

Status of Housekeeping Legislation – In closing his report Mr. Fleury stated that on April 23, 2008, SB371 passed in the House as originally introduced. The bill will eventually be signed into law by the Governor and be “Chaptered” at which time the official revisions to Chapter 218 will be released. Once those steps have been completed, new

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law books will be produced, the new versions will be posted to the website, and the summary plan description will be amended as required.

Mr. Fleury informed the Board of Trustees that System auditors will be coming before the board at the June board meeting with the final version of the official financial statements. Once we have received the auditor's letter, the Annual Report should be ready to go to press.

Report of the Investment Committee:

Committee Chairman Hungler recapped the previous days Investment Committee meeting where Mr. Leonard of NEPC as well as Mr. Hoffman, Client Service Officer from Causeway Capital Management had been in attendance. Chairman Hungler noted that Mr. Hoffman had been asked to appear before his Committee because Causeway investment return for a portion of 2007 had created concerns which NEPC could not casually dismiss.

Copies of Causeways' materials were distributed to the trustees upon arrival to the board meeting.

Mr. Hoffman gave a lengthy presentation, reviewing fundamentals about the firm. He reported that there had been ownership changes whereby employee control was now at the ninety percent level, up from a previous level of eighty percent. Mr. Hoffman had expressed his belief that greater ownership was a win for both owners and investors.

Committee Chairman Hungler reported that Causeways' assets and fund characteristics had been reviewed for the month of April and that the results of that review revealed that performance had been up 6%.

Committee Chairman Hungler further reported that NEPC had recommended continued observation of Causeway Capital's performance in the coming quarters despite their removal from the performance watch list.

Moving on, Chairman Hungler reported that his Committee had also received the System's First Quarter 2008 Investment Review, copied of which had also been distributed to the trustees at the beginning of today's meeting. He reported that from a portfolio performance perspective, the first three months of 2008 had not been an encouraging period. The composite portfolio reportedly declined 6.4% net of fees between January 1st and March 31st.

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Committee Chairman Hungler informed the board that one of the more disappointing sectors had been Global Tactical Asset Allocation managed by Mellon Capital.

Committee Chairman Hungler updated the board on the status of a new investment in Portable Alpha strategies. He indicated that once the fully signed copies of the contract documents with Gottex Portable Alpha are received, that funding will take place with proceeds redemptions in the Mellon Account providing the needed \$3.75 million allocated to Gottex.

Next, Committee Chairman Hungler stated that the Investment Committee had begun initial discussions on Liability Driven Investments and on credit market opportunities described in a White Paper issued by NEPC on the subject. Further discussion by the Investment Committee will take place at its next scheduled meeting on June 9, at 9:00 a.m.

Committee Chairman Hungler noted that key personnel changes previously reported at Benchmark Plus continued to be under investigation by NEPC which had conducted an onsite visit of that manager. He went on to say that the MECRS is currently waiting for NEPC's assessment from that onsite visit and that no action would be taken on the Benchmark investment until all reasonable assurances are in hand.

Report of the Administrative & Accounting Committee:

Committee Chairman Barry recapped the previous day's A & A meeting by listing the findings recognized by his committee. The focus of the meeting had been on COLA recommendations for the summer of 2008 and had focused upon materials requested from and provided by the Retirement System's actuary. The list of key consideration included:

- The cost of a 1% COLA in dollar terms is \$773,000.
- The total dollar value of COLA awards which can be granted without increasing the employer contribution rate is \$1,352,750.
- Legal Council recommends addressing the 2007 COLA Study results at least partially.
- The cost to bring retiree historic COLA inequities to 85% level per Gabriel Roeder Smith 2008 update to the 2007 COLA study in dollar terms is \$127,075.

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- Subtracting the dollar cost of bringing all retirees to the 85% level from the total amount which can be granted without affecting employer contribution rates leaves \$1,225,675 for COLA awards to the balance of eligible retirees.
- Dividing the remaining \$1,225,675 by the \$773,000 cost for a one percent COLA increase gives you an across the board increase of 1.585608% which could be granted without increasing the employer contribution rate.
- Granting an overall COLA which is less than the inflation rate postpones the eventual need to bring all retirees up to the inflation adjusted level.
- The Committee and the Board can delay a COLA award until their meeting of June 10, 2008 without needing to do a retroactive payment.
- The Executive Director has recommended that the Board determine a COLA rate at their May meeting if possible and to confirm the impact on the employer rate with the actuary before ratifying the rate at the June meeting.
- The Committee does not have a recommended rate for the full Board's consideration because of minimal participation at the Committee Meeting and because of the importance of the issue.
- Committee suggests that the Board Chairman open the subject for discussion to see if there is consensus by the full Board for a COLA award.

Chairman Pinard asked for verification of his understanding that the cost to bring pre-1983 retirees up the 85% funding level would amount to \$127,075.

Mr. Fleury responded he had been careful to verify the cost factors cited by the actuary in his correspondence to the Committee and that he believed Chairman Pinard's understanding was correct.

Chairman Pinard then asked to know the affect of a hypothetical 1.58% COLA on the City's contribution rate if such a rate were to be granted.

Mr. Fleury replied that bringing the pre-1983 retirees up to the 85% level and then granting all eligible retirees a 1.58% COLA, would not increase the City's contribution rate.

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Trustee Angell then inquired about the affect of granting a COLA amount above the current pre-funded threshold and asked when such a hypothetical action would affect the City budget.

Chairman Pinard replied that any COLA amount greater than the pre-funded level would increase the City's pension obligation beginning in the City's fiscal year in 2010, or in other words, as of July 1, 2009.

The board continued to discuss the COLA options at length, considering many variables. The board agreed to direct Mr. Fleury to request confirmation from the System's actuary on the impact of a possible 2.5% COLA award and the affect on the employer rate. Subsequently, the Administrative & Accounting Committee will review the confirmation and submit a COLA award recommendation to the MECRS Board at the June meeting.

Committee Chairman Barry concluded his report by announcing that the next A & A Committee meeting would be held on June 9, 2008 at 8:30

Report of the Benefits Committee:

Committee Chairman Angell of the Benefits Committee reported that while her Committee had not formally met, that she had attended a meeting of the Advisory Committee held April 10, 2008. She explained that Mr. Bob Beaurivage of the Water Works Dept. will be filling the vacant seat on that Committee previously held by Ms. Judy Heminger, as the representative of pre-1974 employees.

Committee Chairman Angell informed the trustees that while the Senate Bill originally introduced in the 2008 session of the NH Legislature regarding expanded uses for the health subsidy has been withdrawn, the Advisory Committee may elect to re-submit it to mirror the allowable uses for funds under Section 401(h) of the Internal Revenue Code and to locate a sponsor for it in some future legislative session.

She also reported that the Advisory Committee will be working with the City Clerk to obtain aldermanic representative for the committee.

Committee Chairman Angell informed the trustees that the Advisory Committee is not planning to meet again until Thursday, September 11, 2008.

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Consent Agenda:

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

New Business:

Special Authorization to the Chairman or Board Members - Chairman Pinard stated that whereas the Manchester Employees' Contributory Retirement System (MECRS) elected by action of the Board on April 8, 2008 to invest funds in Portable Alpha Strategies,

And whereas a subsequent review of contract provisions for the Gottex investment resulted in the negotiation of a Side Letter Agreement with Gottex granting the MECRS a "Most Favored Nation" status with respect to fees and the timing of redemptions,

And whereas the terms of the Most Favored Nation status require official response to Gottex within 15 days from the receipt of notice by the MECRS,

It is hereby recommended that should such notice be received under circumstance where a regularly scheduled monthly meeting of the Board would not occur in time to authorize the exercise of the Most Favored Nation option, that the Chairman of the board, (and in the event of Committee Chairman's unavailability) the Chairman of the Investment Committee (and in the event of the Chairman's unavailability) any other member of the MECRS Board of Trustees, shall be authorized to exercise the option in order to secure its benefits within the 15 day window of opportunity.

It was then moved by Trustee Hungler to adopt the recommendation put forth by Chairman Pinard, seconded by Trustee Angell and passed unanimously by all those trustees present.

Attorney/Client Privileged Session - Chairman Pinard recessed the meeting for Attorney/Client Privileged Session at 9:24.a.m.

Chairman Pinard reconvened the meeting at 9:36 a.m.

Trustee Hungler moved to authorize a response to a letter received by Attorney Rich from Attorney Morrisette regarding MECRS retiree Donald Carreau, by authorizing Attorney Rich on behalf of the board, to submit a letter indicating that the board does not have the authority to apply statutes not yet effective in a retroactive manner to his client. Trustee Angell seconded the motion, with Trustee Barry abstaining. Motion passed.

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Other Business:

Trustee Angell commented that she would like to re-visit past inquiries regarding the relationship that the MECRS has with the Members First Credit Union and their willingness to help employees' fund their credit service upgrades pursuant to Chapter 159 Laws of 2004. Trustee Angell noted that in July 2004, the City formerly recognized a special relationship that the City has with Members First Credit Union, and she presented documentation of that meeting to support her statement.

Trustee Angell asked if, based on the City's relationship with Members First Credit Union, it would be possible to re-visit establishing a relationship with the credit union for better facilitate access to funds for the upgrading of service credit. She stated that it is her understanding that the credit union is willing to grant favorable rates that could be automatically deducted from a member's monthly pension amount.

Mr. Fleury reminded the Board that this had been explored in the past and that he had been directed not to engage in a collaborative program because it might be deemed to be biased toward the credit union over other competitive financial institutions without the MECRS having investigated whether the credit union's terms were in fact most advantageous to the client. This might result in allegations of unfair practices by competitive institutions or from members who might subsequently find more favorable terms after having accepted the collaborative offer of the MECRS/MFCU.

The trustees discussed all the different scenarios in developing a relationship with the credit union and also the need in assisting the membership in upgrading their time.

The trustees asked Attorney Rich to research the possibility of establishing an association with the Members First Credit Union and to come back to the board with a recommendation.

Next Meeting Schedule:

Chairman Pinard noted that the next meeting of the Board of Trustees is scheduled for June 10, 2008 at 8:30 a.m.

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It was then moved by Trustee Barry to adjourn the meeting at 9:56 a.m. seconded by Trustee Angell and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director