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Minutes #446

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:37 a.m.

Present: Trustees: Chairman, Donald Pinard, William Sanders, Jennie Angell, and Richard Molan and Chuck Hungler
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta and Kevin Barry

In Attendance: Attorney John Rich from the McLane Law Firm

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard announced that the approval of the March 18, 2011 board minutes will be deferred to the May board meeting. A motion was made by Trustee Molan to approve the minutes of the March 10, 2009 board meeting, seconded by Trustee William 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 Molan and passed unanimously by all those trustees present.

Report of the Executive Director:

Report From Insurance Broker - Mr. Fleury began by stating, that at the Board's request, he has arranged for Mr. Grady Crews of the Ferdinando Insurance Agency to brief the Board on the status of insurance coverage in the wake of the well documented AIG financial controversy. Mr. Crews was not available for the April meeting but has agreed to appear before the board in May. Mr. Fleury also noted that he has arranged for Mr. Harry Ntapolis, the City's Risk Manager, to be present as an invited, subject area expert, to ensure that the MECRS will be well represented for what may be an important and complex discussion.

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Valuation Reports Added to MECRS Website - Mr. Fleury reported that Valuation Reports have now been added to the list of information available to the public on the Systems website, Manchesterretirement.org.

Progress with School District Payroll Imports - As instructed by the Board, Mr. Fleury stated that a letter was sent to School Superintendent Brennan requesting the assistance of the Superintendent's office in obtaining a more informative payroll data file from the Manchester School District and with implementation of contribution payments via electronic funds transfer. Mr. Fleury reported that some progress has been made in obtaining the data requested via a new file format but that the use of the expanded data files will be delayed until a software upgrade required on the MECRS computers to allowing them to import the new format can be installed. He concluded by stating that a revised import procedure is operating in a test environment, that the results are promising, and that only minor technical issues remain to be resolved. Testing will continue after the software is upgraded and further reports will be forthcoming.

Report of the Investment Committee:

Committee Chairman Hungler reported on the Investment Committee Meeting held the previous day. Loomis Sayles Representatives, Ms. Maureen Keough, Vice President & Client Portfolio Manager, and Mr. Chuck Koeniger, Vice President of Institutional Sales had been in attendance. MECRS Investment Consultants, Mr. Kevin Leonard and Mr. Sebastian Grzejka of NEPC had also been present.

Committee Chairman Hungler stated that Loomis Sayles had a horrendous year in 2008 and that several funds have placed Loomis on a watch list. However, for the first quarter of 2009, Loomis' performance had been positive for two of the three months.

The Loomis presentation had focused on "credit opportunities" where timing was important in the pursuit of such opportunities. Extra handout materials from the Investment Committee meeting had been retained for those unable to make the meeting and those materials were distributed to the trustees for their review.

Chairman Hungler informed the board that three credit opportunity fund managers, one of which will be Loomis Sayles, had been asked to make presentations during next month's regular board meeting, scheduled for May 12, 2009.

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Attorney John Rich from the McLane Law Firm asked Committee Chairman Hungler, how Loomis had been able to stage a recovery from what Chairman Hungler had described as a horrendous year.

Chairman Hungler replied that the process consisted of multiple components but that the Loomis had performed considerable "fine tuning" within their portfolio.

Chairman Hungler also reported that NEPC delivered their first quarter review of the System's portfolio, which revealed that the period had seen market value declines of 4.4%. He noted that NEPC is not recommending any major changes in the composition of the asset allocate or of any existing managers, however they are supportive of the next steps to be taken in pursuing credit opportunities.

Next, Chairman Hungler reported that Mellon Capital's return had been up 6.4% for the month of March; however they were still down for the quarter by 6% because of poor performance in January and February. He noted that The System would continue to monitor Mellon's performance.

Committee Chairman Hungler then reported that the management contract with Lexington Partners had been completed and that the System is currently waiting to fund the investment.

Also, Chairman Hungler reported that a conference call with Mr. Brian Schneider, of NEPC had been conducted during the Investment Committee meeting regarding recent communications from Gottex. Mr. Schneider had informed the committee that Gottex was in the midst of restructuring in order to avoid complications associated with redemption requests in the last year. He noted that at one point Gottex had been forced to suspend redemptions and that the restructuring now underway would divide participants in the fund between those who wished to leave their investment in the original vehicle and those who were prepared to continue with a lesser degree of liquidity available. The incentive for those who remained with the fund would be lower fees as at the present 1% was to be lowered to .75% as part of the restructuring.

Mr. Schneider went on to explain that with all markets down the way they are, fundamental investment opportunities are beginning to emerge in abundance. If an investor was ever going to get into Hedge Funds, now would be the time because of the ability to manage risk and capture alpha while decreasing leverage.

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Mr. Leonard had wrapped up the phone conference by stating that NEPC continues to like Gottex as an investment vehicle and is recommending that its clients stay the course.

In closing his report, Chairman Hungler stated that he had the opportunity last month to attend a Public Pension Conference in California where the MECRS had been nominated as Small Pension Plan of the Year.

Chairman Hungler had distributed a handout to the trustees, on the other three nominated Plans and commented that it was an honor just to have been nominated. He suggested that information regarding the nomination be posted on the Retirement Systems website, Manchesterretirement.org, since it might be of interest to Plan Participants.

Previous Business:

Review and Accept the Revised Valuation for December 31, 2008 – Mr. Fleury began by commenting that Mr. Ken Alberts of Gabriel, Roeder, Smith and Company was standing by, to be linked by conference call, should the trustees have any questions regarding the revisions to the Revised Annual Actuarial Valuation 2008, which had been included in the trustees agenda packets.

Mr. Fleury referred to the bottom of the page A-7, Contribution Rate Reconciliation, showing the net affect of the trustees requested revisions. The elimination of the final increment in COLA prefunding reduced the employer contribution rate from the projected 19.25% down to 18.1%.

Trustee Sanders pointed out that on page A-8 of the Revised Valuation, the City contribution is listed at \$5,963,934 predicated on the projected payroll number of \$32,949.912. Mr. Sanders questioned if there is any mechanism in place for the City to “true-up” the projected payroll whether it be higher or lower than estimated in the valuation report.

Mr. Fleury replied that he believed the following year’s valuation would reflect the true-up results, in a line entitled “contribution rate reconciliation”. He went on to state that if the variance between projected payroll and the actual amount is minimal, the actuary may account for it as a miscellaneous item. If the variance is meaningful enough however, the actuary will itemize it to identify the cause.

Generally, all variances, regardless of size or cause are noted as actuarial gains or losses in the subsequent valuation.

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Trustee Sanders noted that the City is still engaged in the budget formulation process; hence the projected payroll amount could change significantly. He asked that the board to permit him to report back at such time the Manchester Board of Mayor and Alderman approve the City budget, citing again the uncertainty of the projected payroll, and the importance of producing a more accurate payroll estimate.

The trustee continued to discuss the issue regarding possible step and COLA increases, as well as the city staffing issues which would ultimately affect the projected payroll.

Chairman Pinard agreed with Trustee Sanders that waiting for an actual payroll appropriation number on which to based employer contribution rate was a reasonable position for the Board to take.

Attorney John Rich commented that he was not comfortable with the possible implications of shifting a payroll number on the whole valuation because of how it might affect the rate for all the city departments. Attorney Rich felt that the question should be posed to the actuary and suggested a telephone conference with Mr. Ken Alberts.

Chairman Pinard asked whether lowering the projected payroll number would increase the employer contribution rate percentage.

Trustee Sanders replied, "No, it will not change."

Mr. Fleury placed the call to the System's Actuary, Mr. Ken Alberts, of Gabriel, Roeder, Smith and Co. and linked him into the meeting via conference call.

Trustee Sanders referred to page A-8 of the Revised Valuation and stated that one request he had made of the Board of Trustees was to entertain the notion of holding off on approval of the valuation. The purpose for that delay would be to get a more accurate projected payroll number for 2009, after passage of the City budget. He could then provide the System and the actuary with that more accurate payroll number in order to establish the City's lump sum contribution amounts for 2009.

Trustee Sanders then asked Mr Alberts to confirm that the projected employer contribution rate will not change if the projected payroll number revised.

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Mr. Alberts replied that the employer rate would not change nor would anything else in the valuation change.

Trustee Sanders then asked Mr. Alberts what the fee adjustment would be to generate the projected payroll change.

Mr. Alberts replied that it would be a modest fee adjustment. A new report would not be necessary, simply a letter inclusive of the new numbers.

Attorney Rich asked Mr. Alberts if the board agreed to Trustee Sanders request, how would the eventual revision be presented to the board?

Mr. Alberts responded that after the actuarial firm is given the more accurate projected payroll number, the corresponding numbers would be replicated from page 8 and a revised letter would be sent to the Retirement System.

The trustees thanked Mr. Alberts for his expertise in explaining the revised actuarial report and ended the telephone conference.

Mr. Fleury asked that the board accept the valuation with the caveat that it will revisit the projected City salary assumption for 2009 as shown on page A-8. That action would allow him to issue rate notices to enterprise funds not affected by the previous discussions and he pointed out the importance of eventually gaining Board approval for the revised schedule on page A-8 because it formed the legal basis for the invoices which would need to be generated and mailed to the City in July and December of 2009.

Chairman Pinard asked Trustee Sanders if he would agree to provide the more accurate, projected salary totals in writing when they became available.

Trustee Sanders agreed to do so.

Mr. Fleury explained that when the System receives the budgeted city salary totals, he would forward them to the actuary and place the resultant revised schedule of page A-8 of the 2008 Actuarial Report on the agenda of next meeting of the MECRS Board for ratification. He explained that doing so would provide document of the approval process for the 2008 Actuarial Report.

Moved by Trustee Sanders to accept the 2008 valuation with the caveat, as stated by Mr. Fleury, seconded by Trustee Molan and passed by all those trustees present.

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Trustee Sanders thanked the board for their support in accepting the valuation.

Consent Agenda:

Trustee Molan moved to accept the Consent Agenda.

Prior to the motion to second, Trustee Hungler removed consent item C1, Budget and Expenses, from the Consent Agenda.

Seconded by Trustee Sanders to approve the Consent Agenda, not including item #C1, motion passed unanimously.

Trustee Hungler inquired who the carrier was for the Directors and Officer Insurance payment of \$32,820 and whether the System had a contract agreement in hand.

Mr. Fleury responded that the current carrier of the Directors and Officers Insurance is AIG and he noted that for every contractual agreement in the organization, hard copies are obtained with full endorsements and that materials are kept in soft copy form and backed-up off site as well.

Trustee Hungler then moved to accept Consent Item C1, Budget and Expenses, seconded by Trustee Sanders and passed unanimously by all those trustees present.

New Business:

Acceptance of Application for Membership - Mr. Fleury reported that an application for membership form a "pre74" employee of the City had been received. He noted that all documentation was in order regarding the request from Mr. Brian Fitzpatrick to purchase time in the MECRS as an old System participant and that he is recommending approval by the board.

After brief discussion by the board, it was moved by Chairman Pinard to approve the request by Mr. Fitzpatrick to purchase the time in the MECRS, seconded by Trustee Sanders and passed unanimously by all those present.

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Other Business:

Mr. Fleury reminded the trustees about the upcoming NEPC Annual Conference, May 20th and 21st and asked if any of the board members are considering attending the event so that he could arrange for registration and transportation.

Trustee Hungler commented that having attended in the past; he felt the conference would be very informative and worthwhile, but that a schedule conflict prohibited him from attending this year.

Other trustees expressed interest and Mr. Fleury noted who they were so that he could see to arrangements. Trustees Pinard, Sanders, Angell and Molan all expressed interest.

As a closing remark, Mr Fleury reported that HB149 has passed the House, received the support of the Board of Mayor & Aldermen, and will now be scheduled to go before the Senate where he expect it will pass without objection.

Next Meeting:

Chairman Pinard noted that the next scheduled board meeting will be Tuesday, May 12, 2009 at 8:30 a.m.

Having no further business to discuss, Trustee Sanders moved to adjourn the meeting at 9:42 a.m., seconded by Trustee Hungler and passed by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director