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Minutes #450

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:32 a.m.

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

Absent: Trustees: Kevin Barry, William Sanders and Mayor Frank Guinta

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Molan to approve the minutes of the July 14, 2009 board meeting, seconded by Trustee Hungler and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Trustee Angell 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:

Request From a Vested Deferred Member- Mr. Fleury reported that a vested deferred member of the Retirement System has asked whether they are eligible to participate in the Additional Contributions Program. After carefully reviewing the laws and the System's Administrative Rules, Mr. Fleury noted that he sees no prohibition to such a request; however he wanted to go on record, stating that he has requested an opinion from legal counsel before responding to the client's inquiry.

The trustees continued to discuss the various scenarios that would qualify a member to take part in the additional contributions program, and how such participation might be integrated with eligibility for early retirement.

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NCPERS on GASB, FYI - Next, Mr. Fleury noted that the System is a member of the National Council of Public Employee Retirement Systems (NCPERS) which lobbies on behalf of public plans across the country. He informed that Board that NCPERS has recently submitted an opinion to the Governmental Accounting Standards Board, (GASB) regarding certain accounting standards affecting public plans. Mr. Fleury noted that a copy of that letter submitted by NCPERS to GASB has been included in the board packets for the trustee's information.

Opportunity for Fiduciary Education - Mr. Fleury stated that information on the upcoming 5th Annual Northeast Public Employee Retirement System Forum, to be held Tuesday, October 27th in Boston has been included in the trustee's agenda packets. Mr. Fleury informed the trustees that he has been on the IMN Advisory Board for the past few years and as such, has been able to arrange free admission to the forum for interested trustees. He also noted that MECRS has money in the budget for travel accommodations should a trustee care to attend. Interested parties should let the staff know as soon as possible so that arrangements can be made.

In closing his report, Mr. Fleury informed the trustees that he and Staff Member, Sandi Aboshar will be traveling to the office of Taunton Employee Public Retirement System, the first week in September, to conduct an onsite review of their upgraded, pension administration system. Mr. Fleury noted that the Taunton Retirement System is currently using the same vendor as the MECRS, but have just recently upgraded the pension administration system. The current application in use by MECRS was designed about 9 years ago and Mr. Fleury stated that he would like to see the upgraded version in operation so as to assess the vendor's ability to deliver a product upgrade on time and under budget. Mr. Fleury stated that the site visit to the Taunton System would help him determine how effectively the vendor could satisfy deliverables on a new System contract.

Report of Investment Committee:

Committee Chairman Hungler reported on the Investment Committee Meeting which had been held the previous day. MECRS, Investment Consultant, Mr. Kevin Leonard of NEPC, had been present to brief the committee on its pending recommendation on private equity fund of fund mezzanine managers, for the trustee's consideration. Booklets were distributed by NEPC with their recommendation for three mezzanine managers to be interviewed. After a review of those managers the Committee agreed to recommend interviews of, Audax

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Group, Newstone Capital Partners and Kayne Anderson Mezzanine Partners. NEPC recommended a commitment of \$1.5 million to this segment of the asset class and all three groups will be allowed 30 minutes to conduct their presentations before the full MECRS' board at its September meeting if it was the pleasure of the board. Chairman Pinard expressed his approval for interviews to be conducted by the full board as recommended by Committee Chairman Hungler.

Also, Committee Chairman Hungler noted that NEPC has recommended the addition of more real assets to the MECRS portfolio. Once the trustees determine whether they are disposed to hire a mezzanine manager, subsequent Investment Committee meetings would explore the composition and target levels of real assets to supplement existing investments in real estate and timber.

Committee Chairman Hungler then addressed his Committee's review of cash flow within the System's portfolio. MECRS is currently a net cash flow generator but cash reserves are currently earning less than 1% which the Committee thought could be improved. Mr. Fleury noted that subsequent to the Committee's adjournment that he had inquired within State Street Bank & Trust regarding any vehicles that could achieve a higher rate of return on cash.

Mr. Fleury also noted that he had contacted Citizens Bank and TD Banknorth as had been suggested by Trustee Sanders regarding cash management options and will be meeting with representatives from both institutions in the coming weeks. Mr. Fleury concluded his comments by stating that he expects to have a full report of those meetings for the trustees at the September board meeting.

Continuing his report, Committee Chairman Hungler referred to the Second Quarter, 2009 Investment Review and noted the composite net return for the quarter had been 9.75% and for the year to date, 4.4%. Committee Chairman Hungler felt August was beginning as a positive month and he expressed guarded optimism that the System should be able to achieve its 7.5% earnings assumption by year end. The trustees discussed a manager by manager review against each manager's benchmark. It was noted that the System is in the top 45th percentile of all public funds tracked by NEPC for the first 6 months of this year. This is a significant improvement over the ranking at the end of 2008 when MECRS only ranked 89th. Major contributors to the improvement were Global Tactical Asset Allocation, Portable Alpha, International Equity, Emerging Markets, Fixed Income Investments, and Hedge Fund of Funds performance. Also, Committee Chairman Hungler reminded the trustees that last month they had approved the concept of a side letter agreement to be requested in all prospective investment

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contracts. The draft side letter agreement had subsequently been reviewed and revised slightly by legal counsel and had been included in the agenda packets for the trustees review.

Chairman Hungler then moved to include the revised side letter agreement in all investment contracts moving forward, seconded by Trustee Angell and passed by all those trustees present.

Lastly, Committee Chairman Hungler referred to the MECRS Proforma Cash Flow Chart prepared by Mr. Fleury. Chairman Hungler expressed his belief that the new cash flow schedule would be an important tool in the determination of funding sources when making investment decisions. It was noted that the cash flow chart identifies the key events that are going to occur over the ensuing year, such as draw downs from private equity managers and the semi-annual payments of employer contributions by the city. The chart correlates to a spread sheet which provides an actual cash ending balance, and is reconciled back against the balance sheet. Annualized expenses which affect cash flow are prorated out across eighteen months and provide a reliable and relatively accurate prediction of future cash positions. The ultimate value of such a tool is to allow the trustees to know with some certainty where the money will come from to fund various investment plans at the time they make the decision.

There being nothing else to report and no further questions, that concluded Committee Chairman Hungler's report.

Consent Agenda:

Prior to voting on the Consent Agenda, Chairman Pinard asked the trustees if anybody wished to remove any item for discussion. Trustee Hungler responded and removed Consent Item #C3. It was then moved by Trustee Molan to approve the remaining Consent Agenda, seconded by Trustee Angell and passed unanimously by all those trustees present.

Regarding Consent Item #3, Trustee Hungler inquired why there were two large amounts in the pension payroll.

Ms. Aboshar explained that the transactions in question were the results of pensions to vested deferred members whose eligibility had been overlooked due to unusual circumstances and who were now being processed retroactively.

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Trustee Hungler moved Consent Agenda Item #C3, seconded by Trustee Angell and passed unanimously by all those trustees present.

New Business:

GRS Experience Study Scope and Cost - Chairman Pinard explained that the board needs to decide whether to commission a study of actuarial assumptions as 2009 marks the 5th anniversary of the last study.

Mr. Fleury noted that there is a standard among public plans that strongly recommends that organizations conduct a study of their actuarial assumptions every 5 years. GRS's requested fee for the study is \$24,000 and the last charge five years ago for a similar study had been \$20,000. Mr. Fleury reported that the GRS fee was slightly in excess of the amount budgeted for that purpose but that he might be able to negotiate the cost of the study to keep it within budget constraints if the board were to approve it. He also stated that he believes it is in the best interest of the Plan to conduct the study.

The trustees discussed certain perceived changes in demographics within the Plan and the need to proceed with the experience study. It was then moved by Trustee Hungler to conduct the experience study, seconded by Trustee Molan and passed by all those trustees present.

Request from the Executive Director for a Motion to Accept and Place on File the 2008 Report on Gainful Occupation - Mr. Fleury informed the board that by statute the System is obligated to conduct a survey of those individuals who are in receipt of a disability pension and determine whether or not they are gainfully employed. There was one individual who was found to be earning in excess of the allowable cap. Provisions to recover the excess in the form of a pension deduction have been made.

Mr. Fleury noted that he respectfully request the acceptance of the report on gainful occupation for 2008.

Trustee Molan moved to accept the report on gainful occupation, seconded by Trustee Hungler and passed unanimously by all those trustees present.

The next meeting of the MECRS Board is tentatively scheduled for Tuesday, September 8, 2009 at 8:30 am at the MECRS offices at 1045 Elm Street, Suite 403.

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Trustee Molan moved to adjourn the meeting at 9:45 a.m., seconded by Trustee Angell and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director