February 10, 2009
Minutes #444

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:30 a.m.

Present: Trustees: Chairman, Donald Pinard, Chuck Hungler, Richard Molan, William Sanders, Jennie Angell and Kevin Barry arrived at 8:41 a.m.
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustee: Mayor Frank Guinta

In Attendance: Attorney John Rich from the McLane Law Firm
Sebastian Grzejka, Analyst and Kevin Leonard, Senior Consultant, of New England Pension Consultants. Mr. Mark Laprade of Berry, Dunn, McNeil & Parker.

Chairman Pinard opened by welcoming Mr. Richard Molan to the board. Mr. Molan succeeded Trustee Duval as Aldermanic Appointee to the MECRS Board.

Approval of the Immediate Meeting Agenda:

Trustee Hungler made a motion to accept the immediate meeting agenda, seconded by Trustee Angell and passed unanimously by all those trustees present.

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Hungler to approve the minutes of the December 9, 2008 seconded by Trustee Angell and passed unanimously by all those trustees present.

New Business:

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

Minutes of the Board of Trustees' Meeting -2-

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

The trustees voted unanimously for the re-appointment of Donald Pinard as Chairman of the MECRS for a one year term.

The Chairman then exercised his prerogative to delay the completion of Board Organization until later in the meeting in order to hear from auditors who were present and prepared to make their presentation.

Berry, Dunn, McNeil & Parker – Mr. Mark Laprade was present to conduct the "annual mandatory preliminary communication" with the board. One function of this meeting was to solicit any awareness of fraud. This process is mandated by audit practices and no concerns were identified by trustees or staff. Mr. LaPrade continued by referring to the 2008 Audit Planning Summary, included in the trustees agenda packets. He highlighted a few areas under the first section entitled Anticipated Response for the 2008 Audit, and explained the level of responsibility that the audit firm assumes at the conclusion of the audit.

Mr. Laprade indicated that an audit is not designed to provide absolute assurances, but rather to provide reasonable assurance. He elaborated by explaining that the audit will review internal controls and will perform tests of the Retirement System's compliance with certain provisions of laws, regulations, contracts and contract agreements.

Next, Mr. Laprade informed the board that there would be a few new disclosures regarding the financial statements from 2008 with emphasis placed on fair value disclosures, FASB 157 as well as GASB 50.

Mr. Laprade noted that his firm expects one of the significant estimates to be the actuarially determined contributions required by the Retirement System to sufficiently fund the benefits to its members. That value would be in addition to estimates of the fair value of the investments carried at appraised value or otherwise determined.

He further noted that focus of sensitive disclosures affecting the financial statements would be deposit and investment risk as well as enhanced disclosures on fair value measurements.

Minutes of the Board of Trustees' Meeting -3-

Mr. Laprade stated that he does not anticipate any significant audit adjustments for the 2008 audit.

He noted that at the conclusion of the audit, the auditors would also report on their advisory comments issued in last year's audit.

Moving on, Mr. Laprade informed the Board that during the course of the audit planning procedure, his firm would take into account their familiarity with the City of Manchester Employees' Contributory Retirement System and the industry, and would emphasis the areas in the financial statements that have the greatest risk of material misstatement. Those areas are as follows:

- Investments
- Contributions Received and Receivable
- Participant Data Maintained by the Retirement System
- Benefits Paid and Payable to Participants
- Net Assets Held in Trust for Pension and Medical Benefits

The estimated time commitment for the audit is expected to approximate 250 hours inclusive of the completion of all audit-related work.

Mr. Laprade listed the new reporting requirements as stipulated by Statement of the Governmental Accounting Standards Board (GASB) 50 Pension Disclosures – an amendment of GASB Statements No. 25 and 27. GASB 50 requires defined benefit plans to disclose information in note disclosures or as Required Supplemental Information. He also briefed the board on FASB No. 157 Fair Value Measurements (as amended).

Trustee Sanders asked Mr. Laprade if the fund managers will provide Berry, Dunn, McNeil & Parker with the basis for their valuations and will the audit team be using that information as the starting point of the audit as opposed to another valuation method.

Mr. Laprade relied, "Absolutely"; the managers do provide their valuation numbers.

Trustee Sanders then asked if there are additional requirements on the fund managers to be providing more robust information, and if so has that been communicated to the manager.

Mr.Laprade responded that this is the first year end where FASB 157 is applicable.

Attorney Rich asked Mr. Laprade if the System is likely to see comments regarding FASB 157 and what types of issues the audit team has encountered to date.

Mr. Laprade referred to one of last years comments which were related to alternative investments and the need to have due diligence procedures in place. The results of this audit will address the status of that comment.

In closing his presentation, Mr. Laprade referred to the final page of the Audit Planning Summary and informed the trustees of the New Auditing Standard. He noted that the purpose of this auditing standard was to revise the definitions of a material weakness and significant deficiencies. The new definitions align the AICPA standard with the Public Company Accounting Oversight Board Standard No. 5.

Mr. Laprade remarked that the changes result in "a much higher bar" and give the audit team more latitude in defining items examined during an audit.

There being for further questions of Mr. LaPrade and his presentation materials having been covered, he thanked the board for their time and departed.

Previous Business:

2008 Performance Results – Mr. Kevin Leonard, Senior Consultant and Mr. Sebastian Grzejka, Senior Analyst from New England Pension Consultants were present to deliver the performance results of all asset classes and to address recommended initiative for 2009.

Mr. Leonard asked the trustees to turn to page 4 of the Fourth Quarter 2008 Investment Review Booklet, distributed to all the trustees.

Mr. Leonard provided a Market Environment Overview for the last year and a layout of what transpired and how that had impacted fund performance. He spoke to the alternative investment portion of the Systems portfolio, reporting upon the results of Hedge Fund of Funds and Potable Alpha.

He indicated that the Hedge Fund of Funds composite for last year was down 20.1%. He noted that Hedge Funds were never recommended to the NEPC Clients with the expectation that they would provide an absolute return. He reminded the Board that NEPC bills Hedge Funds as an asset class with returns in between stocks and bonds but with bond like volatility.

Mr. Leonard explained that credit markets remain illiquid, the economy continues to weaken and that job losses continue to mount. He stated that while there is no way to be certain how long the present market downturn will last, a return to normal markets may take several years.

Mr. Leonard suggested that over the next couple of meetings with the board, that the group reflect upon the short and longer term needs of the Retirement System. Such a process is imperative to moving forward with an effective Asset Allocation Strategy which melds the needs of the System with a review of NEPC's 2009 market return assumptions.

Continuing, Mr. Leonard directed the trustees to page 10 of the Investment Performance, Key Benchmark Ranking vs. Active Management Universes.
Mr. Leonard pointed out that Core Fixed Income for the year ranked in the 18 percentile, which tells NEPC that 82% of the active managers, last year, underperformed the aggregate index. Most of the active managers were overweight corporate bonds, underweight treasuries and mortgages.

Next, Mr. Leonard stated that NEPC's recommended general actions for clients included actions such as reducing equity exposure, allowing managers to take advantage of tactical opportunities, and positioning for volatility. He noted that the Retirement System has already implemented these recommendations which should have the plan well postured.

NEPC's capital observations and expectations for 2009 are that global recession will persist into 2009 and equity market volatility will continue. As markets stabilize, opportunities for attractive returns should materialize.
In 2009 the general actions for clients are to:

- Position for opportunities but size risk positions appropriately
- Consider broader risks of the total investment program
- Prepare for continued market volatility
- Assess liquidity needs and commit capital accordingly

Due to last years lagging performance in fixed income investments, Mr. Leonard recommended bringing in Loomis Sayles to conduct a presentation on their fund. Loomis has always been known to be more volatile but to generally outperform in good times. The portfolio could be of interest now because of their high yield investment products. NEPC would also like to review other possible components within a Loomis portfolio such as the credit market instruments which could further broaden the System's portfolio exposure.

Mr. Leonard referred to the System's Asset Allocation as of 12/31/2008. He listed the categories to be reviewed as Target Asset Allocation, the Actual Manager Allocation and the Net Asset Class Exposure. A chart in the materials provided indicated that the System is significantly underweight in equities, overweight in fixed income, and underweight in GTAA, but in line in Real Estate. NEPC would likely recommend prudent rebalancing to achieve some broadening of the real estate portfolio.

Mr. Leonard summarized last year's performance beginning with the domestic equity side of the portfolio. He stated that State Street Global Advisors was down 20.7% and outperformed the benchmark, ranking them in the 33rd percentile. Last year they were down 36.6%, slightly outperforming the benchmark which ranked them in the 40th percentile.

Moving on to the next equity manager, Mr. Leonard informed the board Cadence Capital had not done well last year. They were down 42.1% vs. the benchmark which is down 38.4%, ranking them in the 67 percentile. They had a decent 4th quarter, ranking in the 39%. He stated that despite having missed a benchmark, NEPC feels that Cadence is still a very good large cap growth manager.

Looking at Emerging Markets, City of London did slightly outperform their benchmark and outperformed the median manager ranking by finishing in the 13th percentile.

Referring to Fixed Income, Mr. Leonard commented that active bond managers had not done well last year. Bonds are no longer considered the anchor of a portfolio that generates income and that always provide positive results.

Moving on to Hedge Funds, Archstone was down, just shy of 23%, and Attalus was down 21%, while the hedge fund of funds index as a whole, was down 20.1%. Hedge funds in general did poorly last year because some turned out to have had more Beta exposure than originally expected. In addition, many were forced to sell into an illiquid market.

Mr. Leonard concluded his report by noting that real estate values are going down, with Morgan Stanley down 6.3% and Prudential down 14.5%. On the bright side however, the real estate composite is a long term investment and has done 12% over the last 5 years which is well above what the portfolio return expectations should be.

Mr. Fleury questioned the date of the upcoming NEPC Client Conference.

Mr. Leonard replied that the conference will be held May 20th and 21st and mentioned a keynote speaker scheduled to attend. He stated that the System should expect to receive a formal agenda in the coming weeks.

Trustee Sanders commented that currently in the System's assumed annual return of return for actuarial purposes is 7.5%. He asked Mr. Leonard, how comfortable NEPC is with this assumption?

Mr. Leonard replied that NEPC will be sure that the 2009 assumptions continue to be built it into the System's target policy, and show what the return expectation will be. Mr. Leonard stated that the asset allocation now assumes approximately 8% and that 7.5% is on the low end of what NEPC is seeing in the public funds universe.

Report of the Investment Committee:

Investment Committee Chairman Hungler reported that at their regularly scheduled meeting on January 12, 2009, the Investment Committee had interviewed three SMID Cap Core Managers with the assistance of NEPC and voted to recommend hiring one of them. Committee Chairman Hungler as part of his monthly report to the full Board therefore moved to hire "SMID" Core Manager, Rothschild Asset Management to replace Vanguard, seconded by Trustee Angell and passed unanimously by all those trustees present.

For the record, Mr. Fleury clarified that the funds for Rothschild would come from the complete liquidation of the Vanguard portfolio and that the actual amount of the investment with Rothschild would be dependent upon the proceeds obtained from the liquidation of Vanguard shares.

Report of the Executive Director:

Automatic Notification of Buy-in Option - Mr. Fleury reported that a few months ago, the board had requested an investigation on whether plan participants who had been out on workers' compensation and lost service credit, could be notified of their right to buy in that time. After some study, it appears that the System already receives the information necessary to provide that feature, but only for city workers, as comparable information is not available from the school district. There would be a small annual increase for postage if the board wishes to proceed to the implementation stage.

Mr. Fleury reported that in the past he has not had much cooperation when requesting payroll data from the School District for such matters.

After brief discussion, the board asked Mr. Fleury to proceed with implementation of an automatic notification system but also asked that he write to the new Superintendent, Thomas Brennan, seeking better cooperation and attempting to resolve the information access problem.

D&O Coverage Non-Renewed by National Union/AIG - Next, Mr. Fleury notified the board that the System had received a cancellation notice on December 15th from National Union, a subsidiary of AIG who has been underwriting the Director's & Officer's Coverage. The cancellation cited an excuse about increase potential for patient infringement as the reason for non-renewal. Mr. Fleury noted that he had immediately contacted Grady Crews at Ferdinando Insurance. Mr. Crews assured Mr. Fleury that the Ferdinando Agency would locate another carrier or straighten things out with National Union. Mr. Fleury informed the board that he will continue to track the situation.

Closing of 2008 - Mr. Fleury reported on the status of the closing of 2008, informing the trustees that progress is further ahead of schedule than it has ever been before. A process to automate production of financial schedules in the CAFR was developed for 2007 and is now being applied to 2008 which reduces work to only hours and also allows for comprehensive updates to all schedules as revised closing numbers need to be introduced. As usual, assess to private equity statements remains a sticking point and third quarter values are likely to be used for CAFR production as has been past practice.

Annual Member Statements and Valuation Data Being Processed – In closing, Mr. Fleury reported that interest to member accounts was posted on January 2, 2009, the valuation data set for 2008 has been sent to the actuary for the 2008 valuation and 2008 member's statements were generated and mailed, and 1099R forms for calendar year 2008 were also sent to retirees and refund recipients.

Also, 1099R tax forms generated by State Street Bank for both monthly annuity payments and lump sum distributions have been requested in electronic form again this year so that individuals who may have misplaced their tax forms can obtain duplicates directly from our office on demand.

Chairman Pinard mentioned that he has heard from members regarding their recently received Member Benefit Statements and that the present year contribution amount does not match the amount on their last pay stub for 2008.

Mr. Fleury reminded the group that the amount on pay stubs is reflective of the mandatory 1.25% health subsidy in addition to the member's 3.75% employee contribution rate reflected on the annual statement. That difference explains why the numbers don't match but does not indicate a problem as the funds are separately accounted for.

Previous Business:

Request for a Motion – Mr. Fleury referred to agenda item Previous Business #2 explaining that the there are three accounts in 2008 that have exceeded budgeted amounts and where he is requesting a transfer from areas of surplus in order to close 2008 with all accounts in the black.

Trustee Hungler moved to transfer between the three budgeted accounts listed on Mr. Fleury's written request, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Consent Agenda:

It was moved by Trustee Hungler to approve the January and February Consent Agendas, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Minutes of the Board of Trustees' Meeting -10-

New Business:

Board Organization - Continued - The Chairman took up the matter of Board Organization postpone from earlier in the meeting and nominated Trustee Hungler as Chairman of the Investment Committee, seconded by Trustee Angell.

With no other nominations, Chairman Pinard closed the nominations and congratulated Committee Chairman Hungler on his re-appointment.

Chairman Pinard then nominated Trustee Barry as Chairman of the Administrative & Accounting Committee, seconded by Trustee Molan.

With no other nominations, Chairman Pinard closed the nominations and congratulated Committee Chairman Barry on his re-appointment.

Trustee Sanders nominated Trustee Angell to the Benefits Committee, seconded by Trustee Barry.

With no other nominations, Chairman Pinard closed nominations and congratulated Committee Chairman Angell on her re-appointment.

Committee Assignments:

Investment Committee, Chairman Hungler, asked Trustee Sanders and Trustee Angell to serve on his committee. They both accepted.

Administrative & Accounting, Chairman Barry, asked Trustee Hungler, and Trustee Molan to serve on his committee as well as ex-officio Trustee Sanders. They all accepted.

Benefits Committee, Chairman Angell asked Trustee Barry and Trustee Molan to serve on her committee. They both accepted.

Committee organization having been completed, Chairman Pinard recessed the board meeting for Attorney/Client Privileged Session at 10.45 a.m.

Chairman Pinard reconvened the board meeting at 11:10a.m.

Review of Pending Legislation (HB149) with Legal Counsel – Attorney Rich was present to address this issue. He reported that there is a pending House Bill

#149 that was put into the legislature to clarify the provisions of Chapter 218. In connection with that process the Executive Director has recently determined from the actuary that there will be a cost associated with the pending bill. The cost had not been realized when the bill was drafted and this discovery is now causing uncertainty about the bill's future.

Trustee Sanders noted that the bill is currently pending with the Manchester Board of Mayor and Alderman, who have been asked to review and approve it.

Mr. Fleury explained that he has calculated the cost associated with all of the individuals who were eligible for the benefit but who had never been given the option of taking it. His preliminary results indicate that it would cost the System approximately $11,000 per year in additional annuity payments for 12 affected members. Upon reviewing Mr. Fleury's figures, the actuary noted that this benefit eligibility oversight also results in an accrued liability for future cases not considered in historic valuations. Because of the unfortunate timing of these discoveries, the city is unaware of the actuarial implication.

Attorney Rich explained that this is not a new benefit, just an attempt at clarifying an existing benefit that members should have always had the option of selecting. The reading of the statute has been misinterpreted until Mr. Fleury began to question it the spring of 2008.

Mr. Fleury informed the board that the language in an earlier version of a Summary Plan Description which was discontinued in 2005 was inconsistent with the statute. That inconsistency had provided the basis for practices which failed to notify certain members of a basic entitlement which subsequent practices have since corrected. The intent of HB149 had been to clarify the present statutory entitlements rather than to amend them but the longer term actuarial implication had been overlooked until the actuary called attention to it. The trustee's continued to discuss this issue at length.

In light of the pending misconceptions of HB 149 it was moved by Trustee Molan to ask the sponsor withdraw the legislation and withdraw the request from the BMA, seconded by Trustee Hungler.

Trustee Hungler noted that the System's actuary is scheduled to attend a meeting at the Retirement Office and will address the cost calculation.
Trustee Sanders noted that it is not clear to most people why the System had to ask for legislation. In addition to the actuary's report Trustee Sanders stated that

he would like a clear opinion from legal counsel for The Board of Mayor and Aldermen clarifying the situation.

In observation of Article XIII of the MECRS By Laws, it was moved by Trustee Molan to extend the meeting beyond the 3 hour limitation, seconded by Trustee Sanders and passed by all those trustees present.

The trustees continued to discuss the pending legislation and the steps needed in resolving the issue. Mr. Fleury agreed to consult with the actuary and request clarification in the pending actuarial report of the benefit entitlements associated with this issue.

Mr. Fleury noted the importance of understanding that being eligible for retirement and being vested are two mutually exclusive factors which had been at the heart of the confusion. Members who were eligible for a benefit were systematically denied an option simply because they were not vested. The law does not require that a member be vested and had the law actually been written that way, it could have been deemed discriminatory.

Trustee Molan withdrew his motion so that a final decision on the most appropriate action could be deferred until after the Board hears from the actuary at their March 10, 2009 meeting.

Having no further business to discuss, Trustee Molan moved to adjourn the meeting at 11:55 a.m., seconded by Trustee Barry and passed by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director