May 12, 2009
Minutes #447

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: Kevin Leonard, Senior Consultant and Sebastian Grzejka, Senior Analyst from New England Pension Consultants.
Joe Furey and Mike Weilheimer, CFAs from Eaton Vance.
Chuck Koeniger, VP and Rick Raczkowski, Portfolio Manager at Loomis Sayles.
Bob Sherman, CEO from Seix Advisors
Grady Crews of Ferdidnando Ins. and Harry Ntapalis City of Manchester Risk Management

Approval of the Minutes of the Previous Board Meeting:

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

Approval of the Immediate Meeting Agenda:

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

Other Business:

Directors & Officers Ins. Coverage with AIG - Mr. Grady Crews of Ferdinando Insurance and Mr. Harry Ntapalis, City Risk Manager, were present, at the request of the board, to discuss concerns which arose after non-renewal notices of Directors & Officers Insurance coverage were received as the policy expiration date approached.

Subsequent to the receipt of a non-renewal notice, AIG had been in contact with the System and reversed its position indicating that they would insure the System for another year. The MECRS had submitted the required application forms and the policy had been renewed so that coverage is still in force. Mr. Fleury explained that questions still remained as a result of the high profile financial controversy surrounding AIG.

Trustee Sanders had questioned whether MECRS would have been indemnified if it had voluntarily switched carriers and it was subsequently discovered that a liability had been incurred before the switch. Under such circumstances, would the new carrier cover the System or would the previous carrier still have been liable. The board also inquired whether the insurance coverage is adequate.

Mr. Grady Crews stated that it was his understanding that the Fiduciary Liability and the Directors & Officers Markets are sound. He went on to state his personal feelings on the question after having heard from both the Pennsylvania Insurance Dept. and the New York Insurance Dept. which regulates the property and casualty components of AIG. Analysis was done on mainstream carriers of AIG on the property and casualty side, those companies that underwrite the property, Liability, D & O and Fiduciary coverage, and that those departments are solid.

Speaking of the insurance market in general, Mr. Crews noted that if the trustees feel uncomfortable with the present carrier, and considering switching, there are only a few other carriers who write policies in this area of liability, due in part to the underfunded positions of some pension trusts.

Regarding the inquiry made by Trustee Sanders, Mr. Crews noted that if the System had switched carriers and a claim had been made which transpired under the AIG watch, then AIG would have been liable. The System would have notified the new carrier of the incident and a prior and pending date would have been included in the new policy, with a retro date that goes back 10 years. Under such circumstances, the liability would have remained with AIG.

Risk Manager Harry Ntapalis questioned Mr. Crews about the particulars of Fiduciary and D & O Insurance coverage. He asked if, at the time when AIG indicated their intent not to renew and then reversed their decision, opting to renew for one year, whether they had deviated from the coverage at all.

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Mr. Crews replied that there has been no change from the current coverage.

Mr. Ntapalis made several inquires regarding the System's coverage, all of which were answered satisfactorily by Mr. Crews.

In closing, Mr. Crews' recommendation to the board was to remain with AIG for now and in September revisit the Insurance Market for alternative carriers, terms and premiums.

Trustee Sanders requested that Mr. Crews provide the board with a layman's summary of the current terms of the Directors and Officers Policy.

Mr. Crews replied that he would be happy to prepare such a summary and to return before the board at their convenience following the preparation of the summary to review the scope of coverage and answer any follow up questions.

The board thanked Mr. Crews and Mr. Ntapalis for their expertise on the insurance matter and the two departed.

Report of the Executive Director:

Progress with School District Payroll Imports - Mr. Fleury began by reporting that a vastly improved data feed from the Manchester School District is now in full operation. A software update required in order to facilitate the receipt of an advanced data format was completed and as a result, MECRS staff now employs the latest version of the Microsoft Office Suite. Conversion was time consuming but generally went very well. Staff was obligated to adapt to the new software as some features were considerably different but results on the whole were positive.

Mr. Fleury noted that one aspect of the change which stems from an audit recommendation two years ago and which still remains to be addressed is electronic payment by the MSD. He indicated that MECRS would continue to urge implementation of electronic payments but it is not clear whether the MSD is in a position to comply.

Public Relations Event - Mr. Fleury noted that the Manchester Community Television produces a program known as "State of the City" in which local officials and business leaders are interviewed by students enrolled in Media Curriculum about events affected the City and its future. The MECRS was asked to participate in the program; Mr. Fleury volunteered and will be taping a session in late May. Mr. Fleury also stated that if there were any trustees who would like to participate in the event, that it could probably be arranged.

Production of the 2008 CAFR & Audit Wrap-up for 2008 – Mr. Fleury reported that production of the 2008 Comprehensive Annual Financial Report is on schedule after a number of enhancements recommended by the auditors. The auditors also expect to have their final report ready for presentation to the full board in June.

NEPC Client Conference - In closing his report, Mr. Fleury reminded the board members who expressed interest in attending the 2009 NEPC Client Conference, that they had been registered and should have received their acknowledgement directly from NEPC.

Report of the Benefits Committee – Trustee Angell briefed the Board on a meeting of the Advisory Committee held on, April 16, 2009. She reported that Mr. Fleury had delivered a report to the committee on the status of the Plan. One of the inquiries made was whether a Cost of Living Adjustment was to be awarded to the retirees this year. Mr. Fleury had replied that the MECRS Board had explored that question as a result of discussions associated with their acceptance of the actuary's valuation result for 2008. It had been determined that the Consumer Price Index, against which COLA's are measured, ended the year almost flat after having jumped for a time due to high energy prices in the summer of 2008. The relatively flat inflation rate, when taken into consideration along with the poor earnings results for the year, had caused the trustees to conclude that awarding a COLA could not be justified and they had officially voted to forego COLA at their March meeting. The Board's position had been well accepted by the Committee.

Mr. Fleury also reported a Pre-Retirement luncheon seminar which had been conducted on February 17, 2009 at the office of the Information Systems. Mr. Fleury noted that the luncheon had been well received by plan participants who attended. He went on to say that he had provided a flier announcing the event, solicited questions in advance which he then addressed during he presentation, and that lunch was provided. Mr. Fleury informed the committee that he was prepared to conduct similar seminars upon request as long as the department requesting the session could provide a conference room or similar location where he could conduct his presentation while participants ate lunch.

Consent Agenda:

It was moved by Trustee Molan to approve the Consent Agenda, seconded by Trustee Hungler and passed unanimously by all those trustees present.

New Business:

Motion to Accept Changes to Administrative Rule Part 1 and Creation of Admin. Rule Parts 10,11 and 12 - Moved by Trustee Molan to accept changes to Administrative Rule Part 1 and creation of Administrative Rule Parts 10, 11 and 12, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Ratification of Revised Investment Policy - Mr. Fleury explained that the System's existing Investment Policy, Appendix IV, Section 3 is specific to each investment manager. That section had to be revised when Vanguard was terminated from the Systems portfolio and Rothschild Management was hired. Mr. Fleury noted that he had the assistance of the System's Investment Consultant, NEPC in completing that revision to the policy and noted that this is simply a housekeeping measure.

Moved by Trustee Sanders to ratify the revised Investment Policy, seconded by Trustee Molan and passed by all those trustees present.

New Business:

Presentation by Fixed Income Managers on Opportunities in Fixed Income – New England Pension Consultants Representative, Kevin Leonard and Sebastian Grzejka were present to introduce specialized fixed income managers who will make presentations on their products.

Mr. Leonard began by stating that NEPC had made a recommendation to the MECRS Investment Committee a month earlier, urging that the System look into Credit Opportunities in the current market environment.

Mr. Leonard explained the objective of an Opportunistic Corporate Credit Strategy is to take advantage of the current credit dislocation by investing in a combination of senior secured loans, investment grade corporate bonds, high yield corporate bonds, and other corporate obligations. Such a strategy could actively and tactically allocate funds across the capital structure and across credit segments as the economy moves into a corporate credit recovery cycle. The strategy would not use financial leverage or derivatives. First to present details about their product were representatives from Eaton Vance.

Mr. Leonard asked Mr. Michael Weilheimer, Vice President and Mr. Joseph Furey of Eaton Vance Investment Management to introduced themselves and distribute presentation booklets to the trustees.

Mr. Joseph Furey began with a quick snapshot of the firm, stating that Eaton Vance is one of the oldest financial services firms in the United Sates, with a history dating to 1924. Eaton Vance was created in 1979 by the merger of two Boston-based investment management companies – Eaton & Howard, Inc. He explained that Eaton Vance has a broad array of investment products from domestic equities and bonds to international equities, bank loans, high yield and global fixed income. The firm manages over $100.8 billion, of which nearly $44.0 billion is in fixed income securities.

He went on to explain that Mr. Michael Weilheimer, Vice President, and Co-Head of High Yield, is the principal decision-maker for the Eaton Vance Credit Opportunities portfolio. With input from the various investment teams, Mr. Weilheimer decides the overall allocation and strategy for the portfolio. The Eaton Vance's US bank loan team is comprised of thirteen credit analysts and eight portfolio managers who conduct research and trade a large portion of the overall bank loan market. Mr. Furey noted that only the bank loan team's high conviction ideas will be used in the in the Opportunistic Corporate Credit portfolio. On the high yield side, Mr. Weilheimer's team comprised of six analysts and three portfolio managers will also recommend their high conviction ideas for the portfolio.

Mr. Furey provided the board with brief biographies of key professionals within Eaton Vance Management. He also went over the advantages and strategies, and spoke on the stability with the firm.

Mr. Furey then turned the presentation over to Mr. Weilheimer, Vice President of Eaton Vance.

Mr. Weilheimer provided the trustees with an Eaton Vance's Opportunistic Corporate Credit Strategy overview which included a summary of the objectives and investment approach. Early in the credit cycle, the strategy is expected to be heavily allocated to bank loans and investment grade bonds, while in the later period, it will be more heavily allocated to high yield bonds.

Mr. Leonard noted that a reference to a three year lock-up period contained in NEPC handout materials was obsolete as Eaton Vance was no longer requiring the three year commitment.

After a brief question and answer session with the trustees, Mr. Weilheimer and Mr. Furey thanked the board for their time and departed.

Mr. Leonard then escorted Mr. Rick Raczkowski, VP, Portfolio Manager and Mr. Chuck Koeniger, VP, Public Funds of Loomis Sayles & Co. into the meeting, asked that they introduce themselves to the board, and assisted in distributing their presentation booklets.

Mr. Koeinger provided the trustees with an overview of the firm and its research capabilities. He noted that since 1926, Loomis Sayles has become one of the most well established investment management firms in the industry with $108 billion in assets under management. He explained that Loomis offers a comprehensive range of domestic and global fixed income and equity products. Loomis currently has 492 employees, 187 investment professionals and 104 CFA charter holders.

Mr. Koeinger turned the meeting over to Mr. Raczkowski who addressed events in the markets and the opportunities created by those events.

Referring to page 12 of the booklet, Mr. Raczkowski noted that dislocation in various credit markets has led to potential opportunities in various credit based asset classes/products. He noted that extreme market volatility has subsided, but remains relatively high as "real" economy unfolds. He went on to say that corporate revenue and earnings visibility is very limited and deflationary pressure continues to impact markets, investors, sectors and specific situations.

Mr. Raczkowski gave brief explanations of charts included in the presentation booklet including; Value of Corporate Bonds, Securitized Credit Spreads, and Bank Loan Spreads Over Libor, and he explained what the spreads are telling us about default rates, and Credit Cycle Theory as well as Credit Cycle History.

Mr. Raczkowski stated that the product they are offering is best described as a non-levered strategy that seeks exposure to the credit markets that offer the best risk and return potential. Investments include: Investment grade corporate, bank loans, high yield corporate and securitized assets.

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Mr. Kevin Leonard from NEPC asked Mr. Rackowski to summarize the terms of the fund.

Mr. Rackowski replied that the vehicle used for the fund is known as the NH Investment Trust. The valuation is daily and liquidity for the fund is bi-monthly with a withdrawal notice of 30 days. There are no redemption fees and the management fee is 45 basis points, plus another 10 basis points for the fund operating expense. Also in a vehicle of this type, there often is an impact reimbursement fee, which is 20 basis points maximum. Mr. Rackowski cited an example of an impact situation where a plan sponsor in this fund could be pulling funds out or putting funds in, where it has an impact of over 10% to the trading activity. Under those circumstances, they could be charged up to 20 basis points.

Mr. Leonard asked what the minimum investment would be.

Mr. Rackowski replied that 5 million would be the minimum investment.

Mr. Fleury asked if they would consent to go lower on the minimum investment.

Mr. Rackowski stated that due to the fact that MECRS is an existing client with Loomis that the minimum is negotiable.

As the Loomis presentation had concluded and there were no further questions of Loomis representatives, Mr. Rackowski and Mr. Koeniger thanked the board for their consideration and departed.

The final presentation was delivered by Mr. Bob Sherman, Chief Executive Officer, from Seix Advisors.

He gave a brief profile of the firm noting that it was founded in 1992, by Christina Seix, Chairman. Seix Advisors is located in Upper Saddle River, New Jersey with a business focus of Fixed Income, only. Total Staff is 80 people within investment staff of 40 Investment Professionals. Total Assets are $20.1 Billion.

Mr. Sherman noted that Seix was an independent firm up until May, of 2004. At that time, it agreed to be acquired by SunTrust Bank. SunTrust is a conservative bank and Seix Advisors is a conservative fixed income manager.

Seix believes that successful Investment Management Firms often have a singular focus. The singular focus at Seix is fixed income.

Seix also believes that a clearly a defined investment style and the willingness to adhere to it, is a key to long term success.

Mr. Sherman referred to a lengthy Representative Client list which includes; Corporations, Public Funds, Taft-Hartley Funds, Mutual Funds, Endowments & Foundations, Hospitals & Medical Centers and Religious Organization.

Mr. Sherman stated that there is now an historic opportunity in credit and Seix has unique qualifications to take advantage of that opportunity. Seix's approach has always emphasized prudent, bottom-up, fundamental credit research. The research team is comprised of industry specialists with an average of 18 years of experience. Seix has the proven ability to truncate downside risk and protect capital. Also, Seix has never owned a defaulted bond in our flagship high quality, high yield portfolios at time of default.

In closing his presentation, Mr. Sherman provided brief biographies on a few of the credit research team members and the flow of information and ideas within his organization.

Mr. Sherman thanked the board for their time and consideration and departed.

It was moved by Trustee Hungler at 11:20 a.m. to extend the meeting beyond the three hour limit, seconded by Trustee Angell and passed by all those trustees present.

Mr. Kevin Leonard addressed the trustees and stated that as a firm, NEPC is recommending to all of its clients, to take advantage of the credit opportunities in the market place and noted that doing so is a tactical decision.

After completing a review of all three presentations and reflecting upon the System's Asset Allocation Model, Trustee Hungler expressed his belief that the trustees should consider funding two of the three managers who had just completed their presentations. He stated that it would be beneficial while providing diversification within such credit opportunities.

After discussion by the trustees of the qualifications of the 3 candidates interviewed it was moved by Trustee Hungler to fund Eaton Vance and Seix Advisors with $5 million each with funds coming equally from Mellon Global and Loomis Sayles, subject to the review of the subscription agreement by legal counsel and subject to the liquidity provisions in the source portfolios. The motion was seconded by Trustee Molan and passed unanimously by all those trustees present.

Next, Mr. Leonard and Mr. Grzejka delivered a brief First Quarter 2009, Investment Review. Mr. Leonard referred to page 19 of the Investment Review and noted that the total composite for the quarter was down 4.7% which ranked in the 23td percentile of a universe of other public funds. The policy index for the first quarter was down 6.7%. However, Mr. Leonard stated that the returns have improved since March.

Mr. Leonard went on to provide an overview of performance by manager. For the international equity portfolio, Gryphon did very well while Causeway had been disappointing. In the area of fixed income, bonds managers were slightly positive for the quarter. On the Hedge Fund of Fund side, investments were doing well. Mr. Leonard completed his review with only minor questions from the Board.

Before departing, Mr. Leonard noted that the NEPC 14th Annual Client Conference would be held the following Wednesday and he urged all the trustees to attend if they could.

Next Meeting:

Chairman Pinard noted that the next scheduled board meeting will be Tuesday, June 9, 2009 at 8:30 a.m.

Having no further business to discuss, Trustee Sanders moved to adjourn the meeting at12:01 p.m., seconded by Trustee Hungler and passed by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director