

May 11, 2010
Minutes #459

Minutes of the Board of Trustees' Meeting -1-

- Call to Order:** Chairman, Donald Pinard called the meeting to order at 8:55 a.m.
- Present:** Trustees: Chairman, Donald Pinard, Jennie Angell, Chuck Hungler, Richard Molan, Bill Sanders and Paul Porter
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson
- Absent:** Trustees: Mayor Ted Gatsas
- In Attendance:** Attorney John Rich of the McLane Law Firm
Mr. Kevin Leonard and Sebastian Grzejka of New England Pension Consultants

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Porter to approve the minutes of the April 13, 2010 board meeting, seconded by Trustee Hungler and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

Report of the Executive Director:

Status of Rule Change – Mr. Fleury began by reporting that amendments to Administrative Rule 6 have been completed and reviewed by counsel. The rule has been released for a thirty day period of public comments and will likely be scheduled for a public hearing prior to the opening of the MECRS board meeting on June 8, 2010.

Informational Copy of “The Monitor” - Mr. Fleury informed the trustees that as members of the National Council of Public Employee Retirement Systems, (NCPERS) our office receives a soft copy version of their monthly publication called “The Monitor”. He indicated that in most months, the articles are of little relevance to MECRS but this time there were items dealing with Foreign Bank Account Reporting, (FBAR) which continues to affect us, national healthcare, and interesting rebuttals to the public pension doom and gloom of a Pew Study released a few months earlier. Mr. Fleury thought that given the relevance of those articles, that the trustees should receive a copy, so one had been included in board packets this month. Mr. Fleury

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informed the Board that if any were interested in receiving the soft copy on a regular basis that he could arrange for it but that it would not be forwarded automatically unless requested.

Three trustees indicated a desire to receive future copies so Mr. Fleury stated that it would be done.

Monthly Status Report on Pension Administration System Upgrade/Replacement - Next, Mr. Fleury reported that work is wrapping up on an RFP for Pension Administration Software to replace the decade old system presently in use. Three competitive vendors have expressed interest in the RFP and it will be sent directly to each of them as well as released publicly. If things unfold according to plan, bid proposals should be analyzed and an administrative recommendation should be available for review by the A&A Committee in July.

Follow-up on Board Requests Regarding NEPC Flash Reports - Moving on, Mr. Fleury recapped the MECRS April board meeting by noting that some frustration had arisen over past requests to have certain historical numbers included on the monthly Flash Reports. MECRS has complained that historic manager returns were not listed for time periods on the reports which pre-dated MECRS's hiring of certain managers. MECRS had asked for historic performance numbers to accompany the benchmark returns for three, five and ten years regardless of how long the manager has been associated with plan. Because the matter appeared to remain unresolved at meetings end in April, a careful review of the March 31, 2010 Flash Report was done following adjournment. That review discovered that the "N/A" listing for three, five and ten years for Rothschild been corrected as requested. Further review of those managers which still displayed "N/A" revealed that in case of Benchmark and Gottex, those managers did not have Portable Alpha products and therefore did not have track records for some of the earlier periods. The same was true for Seix Advisors in the credit opportunity category. Numerous categories filled with N/A for March were attributable to the recent close of the quarter and the lack of performance numbers for those categories. On the whole however, it appeared that NEPC had complied with earlier requests for previously missing performance data and Mr. Fleury had thought it important to set the record straight.

Conversion from NBX to PLUS Web - In closing his report, Mr. Fleury informed the trustees that MECRS will be upgrading the toolset provided by State Street Bank for its retiree services and lump sum processing. In the months to come, a batch oriented application running on the MECRS local area network known as NBX will be replaced by an internet based version called PLUS Web, which will be more reliable and more robust. The primary improvements will center on real time processing as opposed to monthly batch processing, immediate access to copies of tax forms and processed checks, and an ability to process stop payments directly in the bank's systems. In addition to immediate gains in efficiency, this transition will also posture MECRS for integration with a more efficient pension administration system being sought via the RFP mentioned earlier in his report.

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In closing his report, Mr. Fleury noted that Auditors, Berry, Dunn, McNeil & Parker will be coming before the BOT at the June board meeting to deliver summary audit observations. Mr.

Fleury stated that he is anticipating favorable audit results, so rather than asking the Administration & Accounting Committee to schedule a meeting to initially hear the review of the auditor; the results will be brought directly to the full MECRS board for acceptance.

Report of the Administrative & Accounting Committee: Committee Chairman Angell reported on the A& A Committee Meeting held just prior to the meeting of the full Board. She stated that after careful review and consideration of Administrative Rule 7, (the COLA Guidelines, adopted the MECRS Trustees), that the committee is recommending that no COLA be granted to retirees in 2010. She therefore she offered a motion, to that effect. The motion was seconded by Trustee Sanders. Chairman Pinard called for a vote and the motion passed with Trustee Porter casting a dissenting vote.

Next, Committee Chair Angell informed the trustees that the committee is also recommending that the board direct, Executive Director, Fleury, to review Administrative Rule 7, Costs of Living Adjustments, and to possibly amend the CPI tables used in the determination of COLA's.

The board agreed to have Mr. Fleury workshop Administrative Rule 7.

Chairman Pinard thanked the trustees for their attention to this onerous task and stated his appreciation for their diligence in carrying out their fiduciary responsibility for the greater good of the fund on the retiree COLA decision.

Report of the Benefits Committee:

Newly appointed Committee Chairman Porter asked the trustees whether there was an optimum time that warrants the scheduling of a Benefits Committee Meeting.

Chairman Pinard replied that in recent years a Benefits Committee meeting was held whenever a significant event which merited dialogue with the membership occurred. He noted that it was also possible that such a need could be signaled by the membership through their Advisory Committee.

Mr. Fleury stated that meetings were generally twice a year and that the committee did not meet for meeting sake.

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Previous Business:

Employer Rate Estimation Tool From GRS – Mr. Fleury reminded the Board that at its March meeting, the Systems Actuary, Mr. Ken Alberts of Gabriel, Roeder, Smith & Co. had made an informal presentation on a tool that GRS offers which is essentially an elaborate excel spreadsheet. That tool trends up payroll, liabilities, adds the smoothing method along with the market value of assets, calculates the funding value of assets and projects the funding status and employer contribution rates for the coming year in advance of the valuation. The assumptions and salary scale are not changed by the tool and what is being measured is the impact of actual investment experience in any given year. The tool allows for the entering of different values.

Mr. Alberts had subsequently provided the Board with a cost breakdown for the spreadsheet tool in response to their interest and to facilitate a decision on whether to pursue acquisition. Mr. Albert's letter did more to expand questions than to facilitate a decision however and so the Board instructed Mr. Fleury to seek further clarification on the tool's useful life, alternate cost, and relative effectiveness.

Attorney Rich noted that the tool could be of value if the board was contemplating changes to the fund and it should be helpful in estimating the funded ratio.

The board agreed to postpone a decision on the tool and address the question again once Mr. Fleury had obtained additional information.

MECRS Annual Valuation Report, December 31, 2009 – Trustee Hungler offered a motion to accept the 2009 Valuation Report which had been received in its final form, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Consent Agenda:

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

New Business:

Commercial Real Estate Manager Presentations - Mr. Kevin Leonard and Mr. Sebastian Grzejka of NEPC were in attendance to coordinate Real Estate Manager presentations and to brief the board on past year's activity.

Mr. Leonard reported that Mr. Joe Finnigan of Moran Stanley Real Estate who was originally scheduled to appear before the Board in person, had called the System the previous day with

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news of a schedule conflict which necessitated re-scheduling Morgan Stanley's presentation until the next board meeting on June 8, 2010. In light of the postponement, a telephone interview of Prudential Real Estate was moved ahead.

Mr. Fleury initiated a conference call to Mr. Eric Sabol, Client Service Rep., of Prudential Real Estate Investors and handled phone introductions of those present on both ends before turning the presentation over to Mr. Sabol.

Working from a handout which had been distributed to the Board in anticipation of the presentation, Mr. Sabol outlined MECRS' performance since inception in 2004. The investment had been initiated with a deposit of about 2 million dollars and followed by additional deposits. Over time distributions were received by the system and as of March 31, 2010, the value of the portfolio was down to about \$9,000,000. Mr. Sabol noted that MECRS has been receiving cash flow distributions on a quarterly basis. He further noted that another cash distribution was scheduled for June 30, 2010. While the market value of the portfolio had declined because of market forces in recent years, the good news is that value declines have moderated the past three quarters.

Mr. Sabol called the trustee's attention to page 4 of the hand out, noting significant improvement in the capital markets within the past 90 days. He stated that debt is available, spreads are tightening, and that transactions cap rates have fallen 50 – 100 basis points. Investor sentiment has been positive with renewed interest in the core real estate space and core funds are raising money.

Turning to page 5 of the presentation, Executive Summary - First Quarter Performance, Mr. Sabol reiterated that values are stabilizing; valuations are attractive relative to other core funds, and relative to the benchmark. Liquidity has dramatically improved with redemption requests shrinking and debt maturities becoming more manageable. Mr. Sabol stated that PRISA is very well positioned for a market recovery and new client contributions are expected to exceed original projections.

Moving on, Mr. Sabol noted that PRISA is an open-end core real estate fund with a forty year track record. The investment objective is to offer clients a core equity real estate portfolio that generates a high proportion of its total return from income. He elaborated on the PRISA profile as of March 31, 2010 as well as on projections for the end of 2010.

Mr. Sabol then summarized PRISA's sources and uses of cash. He noted that there is a plan in place to reduce leverage by the end of 2012 and that he anticipates positive performance for the end of the year.

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Kevin Leonard asked Mr. Sabol to speak to the existence of a redemption queue of over a billion dollars.

Mr. Sabol replied that the queue is at 1.1 billion dollars, and that it had peaked at 1.4 billion. He stated that when a withdrawal payout is announced, he believes that the \$1.1 billion number will go down even further, because it will force investors to go to their boards and decide whether or not they want to take the money.

Mr. Sabol continued to provide the trustees with a detailed explanation as to why he felt optimistic about PRISA.

Mr. Leonard questioned Mr. Sabol further on PRISA's historical occupancy average.

Mr. Sabol replied that historically, a core portfolio like PRISA has been in the high 80 percentile range in terms of total fund occupancy.

Mr. Grzejka asked Mr. Sabol if PRISA has any debt coming due and if so, does it have any issues refinancing.

Mr. Sabol answered that they do have debt coming due, with no issues in refinancing. He stated that the debt maturities are manageable for 2010 and beyond.

In closing his prepared comments Mr. Sabol stated that PRISA has a 40 year track record, a proven investment platform, and a valuation policy where every asset in PRISA is valued by a third party appraiser every quarter. In terms of, why PRISA now, a strong income return is projected for 2010 and the portfolio is attractively priced, given its current valuation as well as its attractively priced leverage.

After answering a few questions posed by the board, Mr. Sabol thanked the board for their time and ended the conference call.

Mr. Leonard recapped the presentation and the made a recommendation that in the next few months, the Board profile Real Estate Managers recommended by NEPC and consider conducting interviews.

Mr. Leonard then referred to a MECRS liquidity study recently concluded by NEPC and distribute to the Board which incorporates the effect on the portfolio of allocations to illiquid (private equity and real estate) investments. He summarized the opportunities and showed the trustees NEPC's vision of what the projected benefit payment and current illiquid profile would be.

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The board agreed to accept the recommendation of a 5% target to real estate and to decrease its timber exposure.

Trustee Hungler asked Mr. Leonard if NEPC could submit a booklet of Real Estate Mangers for the board's review, to be considered at the June board meeting.

Mr. Leonard agreed to do so.

There being no further questions on presentation materials, Mr. Leonard and Mr. Grzejka thanked the board for their time and departed.

Motion to Adjourn:

Having concluded all of the items of business for the day, Chairman Pinard entertained a motion to adjourn. Trustee Sanders moved to adjourn at 11:16 a.m. seconded by Trustee Angell and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director