

April 12, 2011  
Minutes #469

**Minutes of the Board of Trustees' Meeting -1-**

- Call to Order:** Chairman, Donald Pinard called the meeting to order at 8:30a.m.
- Present:** Trustees: Chairman, Donald Pinard, Richard Molan, Michael Woitkowski, Paul Porter and Bill Sanders  
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson
- Absent:** Trustees: Mayor Ted Gatsas and Dianne Mercier
- In Attendance:** Attorney John Rich of the McLane Law Firm  
Sebastian Grzejka, Consultant and Kevin Leonard, Partner, both of New England Pension Consultants

**Approval of the Minutes of the Previous Board Meeting March 18, 2011:**

Chairman Pinard announced that the approval of the March 18, 2011 board minutes will be deferred to the next meeting of the Board of Trustees on May 10, 2011, pending completion of a customary review by legal counsel.

**Approval of the Immediate Meeting Agenda:**

A motion was made by Trustee Molan to approve the immediate meeting agenda, seconded by Trustee Woitkowski, motion carried.

**Report of the Executive Director:**

**Status of RMK Timber Investment -** Mr. Fleury began by reporting that properties associated with the MECRS, EFG Evergreen Timber Investment, were sold in the past month and the System received \$1.73 million in proceeds on April 7, 2011 representing the sale of all tracts in Louisiana. Sale of Florida tracts will be the next item on the schedule and the trustees can expect to be kept informed of progress as events unfold.

Mr. Fleury stated that rather than dealing directly with RMK, he has been working with the other Timber investors, Wells Fargo and the University of Alabama, to sure up the terms for RMK to continue the management of the timber investments. Originals of two amended, Timberland Investment Agreements Contracts, were signed this morning by Chairman Pinard and will subsequently be sent to the other investors for their signature. The contracts will give MECRS the ability to reject any offers on liquidation if they are not at least 90% of the appraised value of

**Minutes of the Board of Trustees' Meeting -2-**

the property and will also guarantee that the System is updated on the progress of the sale of the property.

Synchronization of Insurance Policies – Next, Mr. Fleury reported that last month the board was informed that the term of the D&O insurance coverage had been changed from one year to 10 months so that it could come due at the same times as Fiduciary Liability coverage. The reason for making the change was to allow a single carrier to bid on both forms of coverage simultaneously and to potentially realize a saving in premiums. Subsequently, a number of coverage options, (eight to be exact) common to most D&O coverage were identified which were not included in traditional MECRS coverage and which were available at no additional cost. Mr. Fleury noted that these additional coverage grants have been added to MECRS 2011 policy and details on the exact types of coverage are available to interested trustees.

Status of Legislation for 2011 – Moving on, Mr. Fleury informed the board that SB-127FN has been adopted by both the Senate and the House and will eventually be “Chaptered”. Once Chapter numbers have been assigned and the law takes effect, revised MECRS law books will be produced and issued.

Progress on Computer System Replacement – Mr. Fleury indicated that work has been underway for over a month now with Pension Technology Group and weekly sessions to review computer screen layouts and file definitions are progressing well. Access to the new system is expected by early summer and a conversion to the new system is likely in the third quarter. Monthly details will be provided as the situation warrants.

In concluding his report, Mr. Fleury informed the trustees that there is now an electronic version of the MECRS board packet that is being produced at the request of the Mayor’s Office. He informed the trustees that if anyone is interested in receiving their agenda packet electronically, they should let a MECRS staff member know and arrangements will be made for electronic delivery.

Also, Mr. Fleury noted that the MECRS Annual Audit is still underway and the Comprehensive Annual Financial Report is nearing completion.

**Previous Business:**

New England Pension Consultants, Kevin Leonard and Sebastian Grzejka were in attendance and distributed search booklets designed to facilitate discussion on potential Emerging Market Debt Managers. – Mr. Grzejka began by reviewing the Preliminary Investment Performance “Flash Report” and a Market Update that was distributed to the trustees at the beginning of the meeting.

**Minutes of the Board of Trustees' Meeting -3-**

Mr. Grzejka reported favorable performance of the MECRS portfolio February year-to-date with a total composite return of 3.7%, 1% of which he attributed to active management with one notable exception for Emerging Markets manager, City of London. Mr. Grzejka stated however that NEPC expects City of London's, emerging markets performance through March to improve sufficiently to bring the market return to more than 4%.

Focusing next on fixed income, Mr. Grzejka reported that IR&M, Loomis Sayles and Seix also did well with a return of 1.8%. The portfolio's two Hedge Fund Managers outperformed their benchmark year-to-date, and lastly, Mr. Grzejka reported that the Wellington Diversified Inflation Hedge had slightly trailing its benchmark, but was up 5.3% year-to-date.

Turning to the generic Investment Market Update, Mr. Grzejka explained that through the first quarter of 2011, although the top performers were Small Cap Growth, SMID Cap, overall it had been a positive quarter for all sectors of the markets.

Mr. Leonard elaborated further on the growth in the MECRS's portfolio, stating that the System has met the policy index however, had not yet achieved their assumed rate of return. He noted that tactical changes made to the portfolio over the last 3 to 5 years have helped the MECRS's portfolio to take advantage of the risk premium built into the market. Mr. Leonard went on to explain that a logical next step in the tactical plan is supported by NEPC's present recommendation for an Emerging Market Debt component in the portfolio and hence an Emerging Market Debt Manager Search.

Mr. Leonard recapped NEPC's recommendation to their clients one year ago, as being bullish on the emerging markets opportunities set across both equities and bonds. He noted that the MECRS portfolio currently has adequate emerging market equity exposure and went on to suggest that the bond or fixed income component be considered to take advantage of local currency, local government's treasury debt or corporate debt. NEPC's recommendation, he explained, is to take focus on first two, currency and buying the sovereign debt of these emerging market countries.

Referring to the search booklet which had been distributed to the trustees, Mr. Leonard listed five potential EMD Managers for the board's consideration and provided an introduction of each firm as well as a summary on their product. He also stated that NEPC is recommending the 6% allocation, which the board has adopted for this sector allocation. He urged the trustees to narrow the search down to three finalists to be interviewed, ultimately hiring only one manager rather than choosing multi managers in EMD asset class.

**Minutes of the Board of Trustees' Meeting -4-**

Mr. Leonard explained that when researching the emerging markets debt local currency opportunity, NEPC had determined that there are potentially two benchmarks, and two differing philosophies associated with this asset class. The JP Morgan Emerging Local Markets Index Plus (ELMI+) is basically a money market/currency only approach. It has the longest history, and also the highest level of diversification (in terms of country exposure). The JP Morgan Global Bond Index – Emerging Markets (GBI-EM) attempts to capture the performance of investable local emerging bond markets. The JP Morgan GBI-IM series of indexes tracks the most recent trends in the asset class where developing country's governments have begun borrowing beyond money markets using nominal debt instruments in one, three, five, ten and in some cases longer dated maturities.

Mr. Leonard noted that there are benefits, and drawbacks to using either index. Solutions to invest in the asset class may depend on client circumstance, and on which strategy is most appropriate for specific client needs.

Chairman Pinard asked Mr. Leonard the difference between each of the five managers that NEPC is recommending.

In responding to Chairman Pinard's question, Mr. Leonard directed the trustees' attention to page 8 of search booklet which contained an NEPC Investment Thesis on each manager.

After addressing investment detailed style/strategy, performance expectations and portfolio positioning for each manager, Mr. Leonard stated that it is NEPC's recommendation that the trustees invite EMD Managers, Pictet Asset Mgmt, Standish Mellon Asset Management and Stone Harbor Investment Partners to be interviewed by the MECRS Investment Committee, who will subsequently formulate a recommendation for the full MECRS board.

Trustee Sanders asked about the monetary value of the total commitment NEPC is recommending be invested in EMD.

Mr. Leonard replied, 6% of the MECRS total portfolio, or roughly 8 million dollars.

Trustee Sanders moved to approve NEPC's recommendation of the three EMD Managers to be interviewed, seconded by Chairman Pinard and passed unanimously by all those trustees present.

At this point, the board paused to review individual schedules and to discuss the availability of each trustee before scheduling an Investment Committee Meeting. The board agreed to schedule the Investment Committee Meeting for May 2, 2011 at 8:30 a.m., and to allowing EMD Manager 30 minutes each to present their product.

**Minutes of the Board of Trustees' Meeting -5-**

Next, Mr. Fleury brought up the issue of the board action which terminated Attalus Capital Management effective June 30, 2011. The stated objective at that time was to find another hedge fund of fund manager to replace Attalus, interview prospective managers and review subscription agreements so that they could be endorsed in time to fund a new manager with proceeds which will be received on July 1, 2011.

After brief discussion on the transfer of funds in the portfolio, Mr. Grzejka commented that hedge fund of fund, search booklets will be available for the May Board of Trustees meeting. The full board could review the NEPC manager search book at that time and schedule for the June board meeting.

There being no further investment related business to discuss, the Chairman thanked the NEPC Representatives for their time and efforts and Mrs. Leonard and Grzejka departed.

**Consent Agenda:**

Trustee Molan moved to accept the Consent Agenda for February, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

**New Business:**

COLA Consideration for 2010 - The next order of business, Chairman Pinard stated is the consideration of the 2010 COLA for retirees. Referring to the Administrative Rule, Part 7, which sets forth the criteria for the trustees in determining whether there are sufficient earnings to allow the trustees to grant the payment of a COLA, Chairman Pinard asked Mr. Fleury if any of those criteria have been met.

Mr. Fleury replied that of the three of the four criteria in Part 7 of the Admin Rules have not been met due to the Systems funded ratio.

Chairman Pinard went on to read the remaining regulation of Part 7, 7.2.4.

Mr. Fleury informed the trustees that copy of section 7.2.4 which was handed out is obsolete. He reminded the trustees that when the Administrative Rule was drafted, the intent of the board was to gradually pre-fund COLA up to the 2% level, however the board subsequently halted the funded strategy at 1.75% in light of the many factors which were driving up the employer contribution rate and the language in that section was amended to read 1.75% rather than 2% as originally drafted.

After lengthy discussion of past COLA decisions and a review of the CPI numbers for 2010 included in the trustees agenda packets, Attorney Rich commented that 7.2.4 recognizes the fact

**Minutes of the Board of Trustees' Meeting -6-**

that the board made a decision to pre-fund a COLA but reminded the trustees that the structure of the administrative rules provided for an evaluation of all of the facts and circumstances and allowed the trustees to gather input from professional advisors, including input from the System's actuary before making a COLA decision. Referring to a segment of the DRAFT March BOT minutes, Attorney Rich reminded the board of their thought that the market volatility going forward was going to be minimized and that it might make sense to re-start the smoothing process.

Trustee Molan moved to grant a 1.5% COLA to retirees, seconded by Chairman Pinard for discussion.

Trustee Sanders stated for the record that he could not vote in favor of the motion and expressed his concern that the Retirement Plan is significantly underfunded and that the trustees should consider the impact to the Plan of the possible layoffs within the School District and the City, if the Mayors budget plan is adopted.

Trustee Porter stated that he understands the budget problems facing the City, however there is confusion when news of possible layoffs within the City comes mixed with indications that city employees are to receive a 2% increase in salary, funded by the City. Trustee Porter indicated his support for Trustee Molan's motion.

Trustee Woitkowski moved to amend Trustee Molan's motion of a 1.5% COLA by increasing the rate to 1.75%, seconded by Trustee Porter and opened for discussion.

Chairman Pinard felt the importance of granting a 1.75% COLA, due to the retirees not receiving a COLA for the past two years and the fact that a 1.75% COLA would not affect the City's contribution rate, according to the Systems' actuary.

Mr. Fleury interjected a procedural note, stating that an amendment was now on the floor and that an upcoming vote would be to approve the amendment and that a subsequent vote would be required to determine whether the COLA would be granted.

Chairman Pinard then called for a Roll Call Vote to amend the original motion of granting a retiree COLA of 1.5% to 1.75%

Roll Call Vote:

Ayes: Messrs. Pinard, Woitkowski and Porter

Nays: Sanders and Molan

April 12, 2011  
Minutes #469

**Minutes of the Board of Trustees' Meeting -7**

Motion carried and the amendment passed.

Roll Call Vote to approve a 1.75% retiree COLA, effective July 1, 2011

Ayes: Messrs. Pinard, Molan, Woitkowski and Porter

Nays: Sanders.

Motion carried

It was then moved by Trustee Molan to direct Systems legal counsel and the Systems actuary to review the Administrative Rule, Part 7, Cost of Living Adjustments, as to the continued appropriateness, seconded by Trustee Porter and passed unanimously by all those trustees present.

Chairman Pinard informed the trustees that he will not be able to attend the next Board of Trustees meeting May 10, 2011. In his absence and pursuant to Section 2.04 of the Bylaws Trustee Sanders will conduct the May board meeting.

**Motion to Adjourn:**

Having completed all of the items of business for the day, Chairman Pinard entertained a motion to adjourn. Trustee Woitkowski moved to adjourn at 10:12 a.m. seconded by Trustee Molan and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director