

May 10, 2011
Minutes #470

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Acting Chairman, William Sanders called the meeting to order at 8:30 a.m.

Present: Trustees: Richard Molan, Michael Woitkowski, Paul Porter, William Sanders and Dianne Mercier arrived at 8:37 a.m.
MECRS Staff: Gerard Fleury and Sandi Aboshar

Absent: Trustees: Chairman Pinard and Mayor Ted Gatsas

In Attendance: Attorney John Rich of the McLane Law Firm
Sebastian Grzejka, Consultant and Kevin Leonard, Partner, both of New England Pension Consultants
Scott Coppez representing the late Stephan Coppez

Due to the absence of Chairman Pinard, Trustee Sanders assumed the role of Acting Chairman in accordance with Article 2.04 of the By-Laws. Chairman Sanders exercised the prerogative of the Chair to take the events of the agenda out of order as an accommodation to attendee Scott Coppez.

New Business:

Disability Approval Request for Stephen Coppez of the Highway Dept. - Acting Chairman Sanders began by recognizing the presence of Mr. Scott Coppez on behalf of his brother Stephen Coppez whose application for disability was scheduled for consideration by the Board.

Mr. Fleury explained that Stephen Coppez had filed a complete application and all required materials for ordinary disability but before he was able to attend his two scheduled IME appointments, his health took a serious turn for the worse and he passed away. Subsequent to his passing, Mr. Fleury stated that he consulted with the System's legal counsel regarding the chain of events cited in and required by regulations, as they pertain to the late Mr. Coppez's application for disability retirement. In short, the regulations require the IME's in order to determine eligibility but the member's passing prevented the IME's from being conducted.

Upon reviewing Mr. Coppez's application and supporting documents with legal counsel, it was concluded that his case contained the necessary evidence which would allow an objective reviewer to conclude that after years of treatment and steady progression by advanced stages of cancer, it was clear that the applicant's condition did prevent him from carrying out job duties as listed in his job description. On that basis, Mr. Fleury was recommending approval.

May 10, 2011
Minutes #470

Minutes of the Board of Trustees' Meeting -2-

Trustee Porter asked Mr. Fleury, if it was likely that the findings would have resulted in a similar recommendation had Mr. Coppez been able to attend the scheduled IMEs.

Mr. Fleury replied that although he is not a medical professional, had the IME's results corroborated the contents of Mr. Coppez's file and his Attending Physician Statement, then yes, Mr. Coppez's disability application would have received an administrative recommendation for approval.

It was moved by Trustee Porter to grant the approval of disability retirement benefit to be paid to Mr. Coppez's beneficiary, seconded by Trustee Molan and passed unanimously by all those trustees present.

Before departing Mr. Scott Coppez thanked the trustees for their service and commented that his brother had enjoyed working for the City of Manchester.

Review of Investment Issues

Chairman Sanders recognized the representative of NEPC and asked that they come forward. Mr. Kevin Leonard and Mr. Sebastian Grzejka were present to review the search book for a Hedge Fund of Funds Manager and to present the fourth quarter 2010 Private Market Review. Mr. Leonard began by stating that when clients don't require an RFP process, NEPC utilizes a Focus Placement List (FPL) of managers, representing the best of breed in each asset class. He cited the trustees decision a month earlier to terminate one of the two Hedge Fund of Fund Managers in the MECRS's portfolio, Attalus Capital, and to seek a replacement to compliment the remaining manager, Archstone's, approach to hedge fund of funds investing.

Mr. Leonard reminded the Board that the initial decision to get into Hedge funds years earlier was to mitigate risk associated with volatility in the equity markets and that the purpose for having Hedge Fund of Funds in particular was to further mitigate specific manager risk.

Utilizing charts in the search booklet, Mr. Grzejka summarized allocations for each of the prospective managers and showed how their allocations which were translated into performance. He explained how NEPC goes about charting the performance to enhance comparisons between managers and to distinguish between different manager styles and areas of focus. The results of the comparisons helped to narrow the selection process to top performers which complemented the remaining manager in MECRS fund. Then, by electing to interview at least three managers from the top performers, Permal Group, Pacific Alternative Asset Mgmt. Co. (PAAMCO) and EnTrust Capital emerged as the more suitable candidates.

May 10, 2011
Minutes #470

Minutes of the Board of Trustees' Meeting -3-

Mr. Leonard therefore expressed NEPC's comfort in recommending that the Board of Trustees interview Permal, PAAMCO and EnTrust Capital as potential replacements for Attalus Capital.

He also noted that NEPC continues to support the current MECRS target allocation to hedge funds of funds of 10%.

After brief discussion and a further review of the potential Hedge Fund of Fund Managers, it was moved by Trustee Molan to act on NEPC's recommendation and to invite Permal, PAAMCO and EnTrust to be interviewed at the Investment Committee level on June 13, 2011, seconded by trustee Porter and passed unanimously by all those trustees present.

Moving on Mr. Grzejka turned the trustee's attention to the Investment Performance Analysis (IPA) booklet and reported first quarter 2011 observations and opportunities. The charts pointed out those U.S. Equities out-performed the rest of the world as investors continued to take on risk.

The charts also reflected the S&P's return of 5.9 and small cap outperforming large cap with the Russell 2000 return 7.9%, a 2% outperformance over the S&P.

Mr. Grzejka noted that markets continued to return positive numbers for the month of April, in all sectors. Mr. Leonard elaborated further on various sectors and on the generally favorable results.

Next, Mr. Grzejka recapped the total Plan asset allocation, noting the MECRS target policy, the actual allocation by manager, and then explaining how they are allocated by asset class. He noted a recent adjustment to MECRS's allocation attributed to the 6% target to emerging market debt beginning on April 10, 2011.

Referring to goals and objectives, Trustee Mercier expressed concern over MECRS's assumed rate of return of 7.5%, questioned whether it was reliable and pondered the implications of reducing it to 5% or 6%.

Mr. Grzejka replied that the numbers which Trustee Mercier referred to are based on an actuarial assumed rate of return, which is a 30yr. assumption. He indicated that from the investment consultant's prospective when developing asset allocations, the outlook is over a 5 to 7 year period. He further indicated that 7.5% is below the average assumed rate for the peer group which is currently 8%.

Turning the trustee's attention to page 21, Total Fund Performance, in the IPA booklet, Mr. Grzejka reported a 3.8% return for the first quarter 2011 ranking in the 63rd percentile. He did note however that the equity rating was slightly below the average relative to our peers.

Minutes of the Board of Trustees' Meeting -4-

Mr. Grzejka referred to the hand out, Investment Performance “Flash Report” which was distributed to the trustees at the beginning of the meeting and provided them with a more detailed performance overview of the MECRS portfolio. There were no items of immediate concern.

Mr. Fleury informed the trustees that he had had the opportunity to monitor the PRISA Investors' call on May 6th. During the call, PRISA representatives made note that there has been a reversal in the previous existence of liquidity cues. In the past six months, those exit cues have become entry cues reflecting improved liquidity and greater interest in investments in the fund. Furthermore debt in the PRISA portfolio is down to 30% from higher levels. Earnings estimates of 2011 are in excess of 10% and properties have a 90% occupancy rate.

Before the NEPC representatives departed, Mr. Fleury asked the group when the next meeting of the Investment Committee Meeting to conduct interviews of the Hedge Fund of Fund Managers should be scheduled.

After brief discussion it was agreed to schedule an Investment Committee Meeting on Monday, June 13, 2011 to conduct interviews of the three Hedge Fund of Funds Managers.

Noting that his departure from the immediate agenda had resulted in events being taken out of order, Chairman Sanders returned to the posted meeting agenda.

Approval of the Minutes of the Previous Board Meeting March 18, 2011 and April 10, 2011:

Trustee Molan moved to approve the previous board meeting minutes of March 18, 2011 and April 10, 2011 seconded by Trustee Porter and passed unanimously by all those trustees present.

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:

Improvement to MECRS Communications Environment – Mr. Fleury reported that multiple power failures during April pointed out a weakness in internet and local data access by servers and workstations otherwise protected by uninterrupted power supplies, (UPS). He noted that data communication through the hub and the router were interrupted because those devices did not continue to function even though servers and workstations continued to operate in the absence of power. Any files which are open when power fails cannot be closed in a controlled manner when power is lost at the hub and router. As such, database files can require re-indexing

Minutes of the Board of Trustees' Meeting -5-

or recovery if they are in use at such times. Mr. Fleury reported that in order to avoid this problem, a UPS was installed in the communications closet so that loss or corruptions of files attributed to loss of power to the hub can no longer occur when the power fails. This added level of protection can be important to stable operation of general ledger, image scanning systems, and

in the months to come, our new cloud based pension administration system. Mr. Fleury went on to inform the board that the cost of the new UPS was slightly over one hundred dollars and will be covered by the equipment replacement budget.

Annual Treasury Department Filing Completed – Mr. Fleury indicated that a few years ago the Treasury Department announced that certain investors including public pension plans would need to file form TD F 90-22.1 annually. The form discloses the maximum annual account balance of investments held offshore and typically includes Hedge Fund of Funds operating from the Cayman Islands. For the MECRS, Mr. Fleury stated that investments in Attalus, Archstone and Gottex made the list. Filings must be made before June 30th each year for asset values in the preceding calendar year. Mr. Fleury reported that the form was filed for 2010, this past April.

In concluding his report, Mr. Fleury commented on recent press regarding a surge of retirees at the NH Retirement System. He noted that while MECRS has not seen a corresponding surge at this time, he wanted to inform the trustees that he has been in contact with the City Human Resources Department regarding the possibility of a surge in member filings should budget issues necessitate layoffs and he assured them that the System will be prepared to meet the needs of the members if layoffs become inevitable.

Report of the Investment Committee:

Investment Committee Chairman Molan reported that an Investment Committee Meeting was held May 2, 2011, at which time three prospective Emerging Market Debt Managers were interviewed. Chairman Molan noted that the MECRS Investment Consultants were also present to assist in the interview process.

Of the three interviews conducted, Committee Chairman Molan informed the trustees that the Investment Committee is recommending that the full board, hire Standish as the EMD Manager, based on the age and experience of the firm as well as their outstanding investment track record and negotiated fee concessions.

For the record, Committee Chairman Molan noted that the Standish Fund is heavily dependent on its' investment director which was a singular cause for concern. He noted that the investment consultants do not believe that key person risk is great enough to merit more than a watchful eye and that should the director depart from the firm there will be a notification to all NEPC investors in the fund so that appropriate action can be considered. Committee Chairman Molan

May 10, 2011
Minutes #470

Minutes of the Board of Trustees' Meeting -6-

further noted that a rapid response to concerns in the Standish portfolio would not be difficult because of the fund's daily liquidity feature.

It was moved by Chairman Molan to hire Standish Mellon to manage MECRS Emerging Market- Local Currency asset allocation with the funds to come from proceeds of the liquidation of Seix Credit Opportunities, which approximates \$6.3 million at the time of the decision, seconded by Trustee Porter and passed unanimously by all the trustees present.

Report of the Administration & Accounting Committee:

Newly appointed, A & A Committee, Chairman Woitkowski stated that there has been no meeting of the A&A Committee, however, he wished to schedule an A&A before the next regular MECRS Board of Trustees meeting to go over the Administrative Rule regarding COLA, as well as reviewing the functions of the committee.

It was agreed to schedule an Administrative & Accounting Committee at June 14, 2010 at 8:00 a.m. before the scheduled monthly Board of Trustees meeting.

Discussion ensued regarding the annual audit observations as well as the scope of the audit conducted by Berry, Dunn, McNeil and Parker. The task of preparing the Financial Statements became the focus of attention and Mr. Fleury noted that last year it was agreed to collaborate with BDM&P regarding the issue since the statements appearing in the MECRS CAFR and the statements issued by the Auditor have been identical for a number of years.

Report of the Benefits Committee:

Committee Chairman Porter reported that there has not been a meeting of the Benefits, Committee.

Consent Agenda:

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

Acting Chairman Sanders informed the trustees that he will not be able to attend the next Board of Trustees meeting June 14, 2011.

Due to Trustee Mercier's late arrival to the board meeting, she inquired as to the decision made regarding New Business, Item 2, Disability Request for Stephan Coppez.

May 10, 2011
Minutes #470

Minutes of the Board of Trustees' Meeting -7-

Mr. Fleury recapped discussion by the board of trustees and explained the reason and decision made by the board in approving the disability request for Mr. Coppez.

Motion to Adjourn:

Having completed all of the items of business for the day, Acting Chairman Sanders entertained a motion to adjourn. Trustee Molan moved to adjourn at 9:45 a.m. seconded by Trustee Porter and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director