June 11, 2013
Minutes #492

**<u>Minutes of the Board of Trustees' Meeting -1-</u>**

**<u>Call to Order</u>:** Chairman Pinard called the meeting to order at 8:37 a.m.

**<u>Present</u>:** Trustees: Chairman Donald Pinard, William Sanders
Richard Molan, Robert Lynch
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**<u>Absent:</u>** Mayor Gatsas, Dianne Mercier and Michael Woitkowski

**<u>In Attendance:</u>** Attorney John Rich of the McLane Law Firm

**<u>Approval of the Minutes of the Previous Board Meeting:</u>**

Trustee Lynch moved to approve the board minutes of April 9, 2013, seconded by Trustee Molan and passed unanimously by all those trustees present.

**<u>Approval of the Immediate Meeting Agenda:</u>**

It was then moved by Trustee Molan to approve the immediate meeting agenda, seconded by Trustee Lynch, and passed unanimously by all those trustees present.

**<u>New Business:</u>**

<u>Presentation of the Results of the 2012 Audit of MECRS</u> – Chairman Pinard introduced Mr. Mark LaPrade of the audit firm, Berry Dunn, the System's outside auditor, who delivered the draft audit for 2012.

Referring to materials distributed at the start of the meeting, Mr. LaPrade provided the trustees with an outline of his audit presentation which included a review of the required communications, and a summary of the "Yellow Book" report, as well as a review of the MECRS financial highlights.

Mr. LaPrade indicated that, as stated in the engagement letter dated January 8, 2013, it is Berry Dunn's responsibility as described by professional standards, to express an opinion about whether the financial statements prepared by management, are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. He also indicated that as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, the audit team preformed tests on the Retirement System's compliance with certain provisions of laws, regulations, contracts and grants. However, he noted, that the objective of the tests was not to provide an opinion on compliance with such provisions.

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During the 2012 audit, Mr. LaPrade stated that the firm noted no transactions entered into by the Retirement System for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. Within the financial statements, Mr. LaPrade informed the trustees that sensitive disclosures were highlighted, the first being the schedule of net appreciation, depreciation and investments.

Mr. LaPrade informed the trustees that the more significant accounting estimates that affected the financial statements included: the calculation of actuarially determined contributions, actuarial accrued liability and actuarial value of the plan assets, the fair value of investments valued on a basis other than at quoted prices in an active market ($21.2 million at 12/31/11 compared to $20.2 million at 12/31/12) and the allocation of financial statement amounts between the Pension and Health Subsidy Trusts.

Mr. LaPrade went on to report that as a result of the audit process, that there are no adjustments to the financial statements, however, he noted that there were three unrecorded audit adjustments for 2012, the same as the previous year, just different dollar values, which relates to the timing of the City's contributions and the payment submitted on a semi-annual basis verses a weekly basis.

Referring to the Comprehensive Annual Financial Report (CAFR) Note #8, Mr. LaPrade reported that the funded status of the pension plan did not change from the previous year however the Health Trust did increase slightly from 2011.

Moving on, Mr. LaPrade referred to the Required Supplementary Information (RSI) and noted that "limited procedures" were applied to the supplementary information. Berry, Dunn does not provide an opinion on the RSI, only a review. He also stated that there were no difficulties or disagreements with management in performing the audit.

Next, Mr. LaPrade asked the Trustees, if they were aware of any instances of allegations of fraud.

The trustees did not report any concerns.

Mr. LaPrade provided the board with a summary of the "Yellow Book Report", internal controls over financial reporting and stated that the audit did not identify any control matters that would be considered to be a material weakness. Also, Mr. LaPrade stated, that from the compliance perspective, it has been noted that there were no instances of noncompliance or other matters that would be required to be reported.

In completing his presentation, Mr. LaPrade reported that the net position held in trust increased $20.6 million, the contributions also went up due to the increase in the employer rate, with the benefits payments increasing, due to the number of new retirees.

It was then moved by Trustee Sanders to accept the audit results of 2012 as presented, seconded by Trustee Lynch and passed unanimously by all those trustees present.

The trustees thanked Mr. LaPrade for his presentation, to which he thanked the trustees and departed.

**Previous Business:**

Acceptance of Revised Investment Objectives & Guidelines – Moved by Trustee Molan to accept and place of file version 2013-1 of the MECRS Investment Objectives & Guidelines pursuant to board action taken at the April 9, 2013 meeting, rebalancing of the portfolio and updating allowable investment categories, seconded by Trustee Sanders.

As a note of explanation, Mr. Fleury stated that the reason for this course of action is that the System has not previously invested in an S&P 500 Index Fund. Therefore, the guidelines need to be amended to clear the way for any action that would include consideration of investment in an S&P 500 Index Fund.

Referring to the pending sale of the Regions Morgan Keegan Fund, Trustee Sanders inquired as to the status of the sales agreement of RMK.

Mr. Fleury responded that he received a confirmation from RMK that the System should be receiving a minimum of $1 million within a week, followed by subsequent payments at such time as reserves for liabilities are retired and funds associated with those reserves can be distributed.

Chairman Pinard called for the vote and the motion carried unanimously by all those trustees present.

**Chairperson Comments:**

Chairman Pinard stated that on behalf of the MECRS, he will be sending former trustee, Mr. Paul Porter a letter of appreciation in recognition for his time as a MECRS board member. Chairman Pinard continued by reading Mr. Porter's letter into the record.

Dear Paul,

In recognition of the completion of your three year term on the BOT on the Manchester Employees Contributory Retirement System, in addition to service previously rendered, it is the pleasure of the Board, on behalf of all of the membership, to formally thank you for your dedication and service to the organization on this 11th day of June, 2013.

**Report of the Executive Director:**

**Status of Rebalancing for 2013:** Mr. Fleury reported on the rebalancing effort, pursuant to action taken by the Board at their meeting on April 9th, stating that $2 million was redeemed from IR&M and reallocated to Loomis Sayles in the first week of May. He further reported that an entry queue had developed for new investments with PRISA and so the $1 million allocated by the board's decision had been entered into the queue and Prudential anticipated that it may be two quarters before our funds are called. As an update to this situation, after participating in the PRISA investor conference call on May 10th, we now know that the total entry queue for PRISA stands at $150 million. PRISA's return for 2013 is estimated at 8% with 5.5% to 6% attributed to income. Continuing his report on rebalancing, Mr. Fleury noted that on April 15th, $750,000 was added to investments with Causeways International and on May 1st, another $750,000 was added to Archstone Partners, along with $1.25 million to Permal Holdings.

Also, Mr. Fleury reported that on Tuesday, April 30, 2013 the Retirement Office experienced a phone system failure, where incoming calls were unable to be received. Since then, the System's service provider has been changed and the quality of the service has improved, and telephone expenses have been further reduced.

Next, Mr. Fleury informed the trustees that on May 29th, a pair of member presentations was conducted at the Public Works Dept. The sessions were well received, followed by a question and answer segment that covered a number of subjects.

In closing his report, Mr. Fleury stated that **o**n June 10, 2013, a telephone call was received from the Director of Human Resources at the Manchester School District, questioning what might result, with respect to benefit eligibility, if the contract year were reduced to less than 180 days. Mr. Fleury explained that this will cause a problem with compliance with Chapter 218:7, Minimum Participation Standard, which cites 180 days as the contract length.

Whereas the legislative sessions have ended for 2013, Mr. Fleury stated that it is his recommendation, that the Board allow him to draft an amendment to Chapter 218:7, to strike out the 180 day requirement and to replace it with some form of language that indicates a contract year pursuant to the amount currently in use by the school district, therefore, preventing a conflict with any future changes to the contract length.

Chairman Pinard asked Mr. Fleury how the full-time status of employees is determined.

Mr. Fleury responded that in the case of City employees, it mirrors a City ordinance. The school district does not have a counterpart to that ordinance.

Attorney Rich of the McLane Law firm commented that the MECRS Plan Document states that the school district employees shall be eligible if contracted for at least 30 hours per week for a minimum of 180 days, except in the case of school food and nutrition staff who must work 20 hours per week, for a minimum of 180 days.

Trustee Molan moved to authorize the executive director to move in the direction of seeking an amendment to Chapter 218:7, seconded by Trustee Sanders.

Trustee Sanders requested that Mr. Fleury work with the school district in developing the amendment to Chapter 218:7 and to work with the newly hired, School Superintendent as well as the School Business Administrator.

Motion carried.

**Report of the Investment Committee:**

Committee Chairman Molan reported that the Investment Committee met with representatives from NEPC to conduct a telephone interview with representatives of Vanguard, relative to their S&P 500 Index Fund. NEPC had previously reviewed similar products available from three other firms and in discussions with the Executive Director, those firms were not scheduled for interviews, due to the combination of annual fees and higher expense ratios, which rendered them uncompetitive with Vanguard's institutional fund product.

Committee Chairman Molan informed the trustees that following the interview, and after reviewing information provided by NEPC, the Committee voted to recommend that the full board approve the use of Vanguard's S&P 500 Institutional Index Fund, ticker symbol VINIX . Funding for the commitment would come from excess cash associated with redemptions from Portable Alpha managers and from rebalancing existing domestic equity managers.

Committee Chairman Molan then moved that the Board authorize the Executive Director to work with NEPC and State Street Bank, to establish an institutional investment account with Vanguard, consisting of shares in Vanguard fund VINIX, with an allocation target of 5%, and that he subsequently fund said account with a combination of excess cash and proceeds from the rebalancing of domestic equity managers; Sands, Pzena, and Rothschild, bringing their percentages of the portfolio toward 7.5%, 7.5% and 7% respectively.

Chairman Pinard offered a second the motion and it was passed unanimously by all those trustees present.

Next, Committee Chairman Molan stated that the Investment Committee received a brief review of the portfolio as of April 30, 2013 from NEPC representatives, that there are no manager issues which need to be addressed, and that returns are within expected levels in comparison to the benchmarks.

Moving on, Committee Chairman Molan informed the trustees that the committee received a presentation on the present status of investments in Private Equity and of the recommended future role of Private Equity investments in the MECRS portfolio. In summary, he reported that NEPC recommends additional allocations to private equity in keeping with one of two possible options. He noted that in order for Board members to become familiar with these options before deciding on a course of action, a fiduciary education session has been planned at the full board level for the August meeting.

In closing his report, Committee Chairman Molan stated that it has been brought to the committee's attention, that the System does not have a cash management policy. Due to the current allocation with the Vanguard S&P Institutional Index Fund, Committee Chairman Molan reported that the Investment Committee and NEPC will work together to develop a policy for future funding needs.

**Report of the Administrative & Accounting Committee:**

Due to Committee Chairman Woitkowski's absence, Mr. Fleury delivered the A&A Committee Report relative to the May 6, 2013 committee meeting. Mr. Fleury reported that the A&A Committee met to review the CPI for calendar year 2012 and determined that a retiree COLA would be justified.

The committee reviewed the CPI as compiled by and reported by the US Labor Dept, pursuant to the Laws and Rules applicable to MECRS. Mr. Fleury noted that he had compiled, reviewed and submitted information to the committee, which had also been corroborated by counsel and by the actuary. The information included the affordability and cost implications of a COLA, which the committee used to reach the following recommendation. The motion, which Mr. Fleury stated needs to be offered by a trustee, is that the board move to approve a COLA of 1.5%, effective July 2013, for retirees eligible to receive a COLA on January 1, 2013.

Mr. Fleury further reported, that the a motion was in order for the executive director to amend obsolete references in Administrative Rule 7, so that they coincide with new actuarial assumptions adopted by the board in March, 2013. Mr. Fleury elaborated further, stating that on a recent visit by the System's actuary, the board changed the assumptions on earnings from 7.5% to 7.25%. The Administrative Rule still cites the 7.5%, which needs to be amended.

Sandi Aboshar, Executive Assistant, inquired as to the wording of the motion and stated that in the past retirees had to be retired for one full year before becoming eligible to receive a COLA.

Mr. Fleury responded that the COLA is calculated on a calendar year basis, indicating that those retirees retired as of January 1, 2012 will become eligible.

Attorney Rich agreed with Mr. Fleury's response and stated that the Plan Document states that the trustees determine who receives a COLA and that if the trustees do make that decision, then the retiree has to have been retired for one calendar year, to be eligible.

Trustee Molan moved that the board approve a COLA of 1.5%, effective July, 2013 for retirees eligible to receive COLA on January 1, 2013, seconded by Trustee Lynch, with Trustee Sanders voting in opposition of a retiree COLA. Motion carried.

**Report of the Benefits Committee:**

Committee Chairman Lynch reported on a Benefits Committee meeting held on May 6, 2013. He stated that the committee reviewed a letter of request from Retiree, Leo Bernier, for a plan amendment to allow for renunciation of a benefit entitlement by the named beneficiaries of MECRS retirees, within certain restrictions.

Committee Chairman Lynch stated that after considering the request of Retiree Bernier and hearing the concerns of the executive director and legal counsel, it is the recommendation of the committee that the full board support further investigation into Mr. Bernier's request.

Committee Chairman Lynch went on to say that it was the consensus of the committee that a plan amendment, which allows a named beneficiary to renounce their entitlement, outweighs any additional administrative burden. Pending a determination by counsel, that any proposed amendment does not adversely affect the qualified status of the Plan, the committee recommends that the board support Mr. Bernier's request.

With the board's approval, Committee Chairman Lynch stated, that counsel will seek determination of legality of the proposed change as a step toward draft legislation for the 2014 session of the NH Legislature.

Committee Chairman Lynch moved that the board authorize counsel to determine whether the plan amendment in question can be enacted without resulting in an adverse affect on the qualified status of the plan, and upon such determination that the executive director be authorized to obtain necessary fiscal impact statements from the actuary.

Trustee Molan seconded the motion.

Trustees Sanders asked if this will have a fiscal impact on the funding of the plan.

Mr. Fleury replied that if there is no fiscal impact, then the question will not be a referendum question for the voters of Manchester and the response of the actuarial cost question will be documented.

Chairman Pinard asked if there was any reason why the board would not allow the renunciation by the named beneficiary.

Attorney Rich replied that if the renunciation is not allowed by the tax code, then the board would not want to pursue the change. Attorney Rich did note, however, that if it is allowed by the tax code then this question is a board policy decision.

Mr. Fleury noted that he NH Retirement System has enacted a similar provision and that his information indicates that they did not go to the actuary for a fiscal impact statement.

The trustees continued to discuss different scenarios as well as the affects of the renunciation provision and eventually proceeded with the vote.

Motion carried.

**May Consent Agenda:**

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

**June Consent Agenda:**

Trustee Molan moved to approve the June Consent Agenda, seconded by Trustee Lynch and passed by all those trustees present.

Trustee Molan moved that the board offer a formal recognition to Mr. Happy Ntapalis for his past tenure on the MECRS Board as well as his dedication to the City of Manchester. The motion was seconded by Trustee Lynch and passed unanimously by all those trustees present.

**New Business:**

Formal Acceptance of 2012 Actuarial Valuation - It was moved by Trustee Sanders to accept the 2012 MECRS Actuarial Valuation, seconded by Trustee Lynch and passed unanimously by all those trustees present.

**Motion to Adjourn:**

Having completed all of the items of business for the day, Chairman Pinard entertained a motion to adjourn. Trustee Molan moved to adjourn at 9:22 a.m., seconded by Trustee Lynch, and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard Fleury
Executive Director