

November 12, 2013
Minutes #497

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 8:30 a.m.

Present: Trustees: Donald Pinard, Mike Woitkowski, Bob Lynch and Richard Molan
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Mayor Gatsas, Dianne Mercier and Bill Sanders

In Attendance: Attorney John Rich of the McLane Law Firm

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the minutes of the previous meeting. Trustee Woitkowski moved to approve the board minutes of October 8, 2013, seconded by Trustee Molan and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

Report of the Executive Director:

Legislative Update - Mr. Fleury began by reporting that on Tuesday, October 29th, the Manchester Board of Mayor & Aldermen acted upon the System's request for support on a 2014 Legislative Services Request, (LSR) for housekeeping amendments to Chapter 218. The changes include a reference to the minimum participation standard and the number of days in a school year from 180 days to 175 days and also an obsolete reference to the definition of spouse, RSA 457A. He informed the trustees that the BMA voted to support the measure and so the next step will be Senate & House Committee hearings on the bill, after the first of the year.

Status on Custodial Services From State Street - Next, Mr. Fleury briefed the trustees regarding ongoing disappointment with the System's custodial services and reported that a conference call was conducted on October 29th between MECRS staff and representatives at New England Pension Consultants, as the next step toward resolving less than desirable levels of service from State Street Bank.

Referring to the MECRS contractual agreement with NEPC, Mr. Fleury noted that the preparation of RFIs and RFPs are included by the System's consultants, at no extra charge. As a prelude to the development of an executive recommendation to the board, participants on the conference call agreed to develop an RFI which would serve to identify custodial products available in the marketplace, which might improve operational efficiency at MECRS, while

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also addressing the plethora of issues currently experienced with State Street Bank. He explained that the information collected from the RFI will serve to define the scope of services in an RFP, which can subsequently be issued at a later date, if it receives board approval. Mr. Fleury informed the board that MECRS received that draft RFI from NEPC on November 4th, and following a review of that draft, a date for its release and for submissions will be set. He noted that his future monthly reports will chronicle progress on this task.

Chairman Pinard asked Mr. Fleury how much State Street Bank & Trust is paid for their services, to which Mr. Fleury responded that it is a variable rate, a percentage of assets under management for the System's two separate accounts and a nominal rate to collect information from the remaining MECRS managers, which is incorporated into their record keeping system.

Attorney Rich noted that the NH Retirement System had recently changed vendors and is currently using Mellon Bank for their custodial services. He then suggested that it may be helpful if Mr. Fleury were to inquire as to NHRS's experience in seeking a new custodial service provider.

After continued discussion regarding the dissatisfaction with State Street Bank services, Chairman Pinard asked Mr. Fleury if he knew the number of prospective custodial firms available that would be interested in responding to an RFP.

Mr. Fleury replied that he believes there are less than 6 such organizations.

Completion of Annual Death Audit - Mr. Fleury indicated that the annual audit of retiree beneficiaries was conducted at the end of October and of 195 retirees who elected a survivorship option, no unreported deaths were detected.

Status of Investments Being Closed Out - In closing his report Mr. Fleury stated that contrary to what he thought would be a "final" distribution, proceeds from the settlement of CIGNA which has been on the books for the past few years at a value of \$1,060 yielded \$2,163.37, however, a balance remains in that account of \$41.01 which will obligate MECRS to keep the account open until a final settlement is reached. Also, in the category of closing accounts, he informed the board that after receiving \$19,134.47 from RMK against what had been a carrying balance of \$16,549.00, that the System is still entitled to an additional \$22,396.00 which is its share of damages to timber which occurred during their period of ownership. He also noted, that the former RMK was acquired and now operates under the name BTG Pactual, a Brazilian multi-national investment banking firm. Finally, a second partial distribution was received from Benchmark, pursuant to a redemption directive issued last spring. A third quarter payment of \$501,258.14 was received in October and the balance of the redemption is expected after January 1, 2014 in accordance with the terms of the agreement.

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In closing his report, Mr. Fleury referred to the re-print of the MECRS Administrative Rule booklet that was distributed to the trustees upon their arrival to the meeting. Mr. Fleury explained that their previous Administrative Rule booklets had mistakenly included an incorrect version of draft language, which was never acted upon by the Board of Trustees and, therefore, should never have been included in rule booklet. Mr. Fleury took responsibility for the error and he noted that there were no instances where the erroneous language was ever acted upon and that the System has been operating consistently with the intentions of the board.

Report of the Investment Committee:

Committee Chairman Molan referred to the 3rd quarter NEPC Flash Report included in the trustees' agenda packets. Committee Chairman Molan reported that a quick review of the composite line at the top of the chart reveals a year-to-date return of 10.3% and a 5 year return of 7.4% which also includes the disappointing results for 2008. That value exceeds the new earnings assumption adopted by the board earlier this year. Committee Chairman Molan was also pleased to recognize the market value of assets for the fund which were at a record of \$183,676,538.

Committee Chairman Molan also reported that the reallocation of assets, which were targeted earlier in the year, are either complete or nearing completion. He then provided the board with a list of those objectives.

- Sale of Timber fund assets
- Redemption of Portable Alpha investments (Gottex & Benchmark)
- Establishment of an S&P 500 Index Fund (Vanguard)
- Expanded Investment in Real Estate (PRISA & TA Associates)
- Addition of managers for Private Equity & Private Debt. (J.P. Morgan & Crescent)

Committee Chairman Molan informed the board that the next steps for the Investment Committee will be identified in collaboration with our consultants at NEPC following the availability of fourth quarter performance results. He estimated that the next Investment Committee meeting would likely be scheduled for February of 2014.

Chairman Pinard expressed his satisfaction with the total fund performance.

Report of the Administrative & Accounting Committee:

Committee Chairman Woitkowski indicated that the A&A Committee had met earlier, prior to the start of the board meeting, to address the latest draft of the MECRS Administrative Budget for 2014. He reported that the committee voted to accept that draft and to recommend it for approval by the full board. The budget requests an increase in appropriations over the current year of \$1,483.16 which equates to .18%.

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Chairman Pinard asked if there were any concerns or questions regarding the adoption of the 2014 Administrative Budget, to which there were none. It was then moved by Trustee Molan to approve the MECRS budget for 2014 as submitted, in the amount of \$817,010.42, seconded by Committee Chairman Woitkowski and passed by all those trustees present.

Report of the Benefits Committee –

Benefits Committee Chairman Lynch reported that a meeting of the MECRS Advisory Group was held on Wednesday, October 23rd where the group discussed organizational issues and received an update on pending legislation as well as the general status of the plan.

Committee Chairman Lynch noted that the group nominated Steve Quinn from the Water Works to act as Chair for the next year. The Advisory Committee agreed that an effort should be made to recruit a replacement representative from the ranks of Para-Professionals to replace group member Jullie Allen who retired earlier in 2013. It was also agreed that a member in the group representing Pre-1974 members be discontinued due to the scant number of employees who remain in that category.

Committee Chairman Lynch noted that MECRS Executive Director Fleury was also present during that meeting to inform the group of the rationale behind the 2014 legislative initiative and to report on the status of the plan with respect to investment earnings and changes in the valuation assumptions.

Committee Chairman Lynch closed by indicating that no specific date has been scheduled for the next meeting of the Advisory Group.

Chairman Pinard asked Mr. Fleury how many active pre-74 employees are left in the System, to which Mr. Fleury responded, less than 10 active members.

Consent Agenda:

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

New Business:

Recovery of Overpayment – Deceased Retiree – Mr. Fleury reported an unprecedented situation involving payments to a deceased retiree. He stated that the untimely reporting of the retiree's death resulted in payments after the death of a retiree. Relatives of the deceased allege that insufficient assets exist to reimburse the System for amounts which should not have been paid.

Mr. Fleury explained the different scenarios on how the System becomes aware or is notified of the passing of a retiree and of the process customarily used through the custodial bank for the recovery of overpayments made electronically. Due to the late reporting in the newspaper and

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failure to notify the System of the death in question, two additional payments were made to the member's account and the funds were dispersed by someone, before the System became aware of the overpayment and could act to recover them.

After brief discussion by the board and a review of the chronology of the circumstances regarding the issue, Mr. Fleury requested approval from the board, to act on legal counsel's recommendation, that he be authorized in writing by the board, to pursue reimbursement of the overpayment, via small claims court.

Trustee Molan moved to approve the request as stated by Mr. Fleury, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Motion To Adjourn:

Having conducted all the business of the day, Trustee Molan moved to adjourn the meeting at 8:59 a.m., seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury