

August 12, 2014
Minutes #505

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 8:37 a.m.

Present: Trustees: Donald Pinard, Bob Lynch, Richard Molan, Dianne Mercier and William Sanders arrived at 8:38 a.m.
MECRS Staff: Gerard Fleury Sandi Aboshar and Suzanne Wilson

Absent: Mayor Gatsas and Mike Woitkowski

In Attendance: Kevin Leonard and Sebastian Grzejka, from New England Pension Consultants and Attorney Steve Dutton of the McLane Law Firm

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the previous board minutes of June 10, 2014 and July 8, 2014.

Trustee Molan moved to approve the board minutes of June 10, 2014 and July 8, 2014, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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.

Chairperson Comments

Chairman Pinard referred to the upcoming MECRS Pre-Retirement Seminar, scheduled for September 9, 2014, giving recognition to the large number of employees from the Department of Public Works who wish to attend the seminar but are unable to attend due to departmental demands. He stated that the department must operate regularly on the day of the seminar, therefore only employees with seniority have been granted permission to attend. In light of the departmental constraints, Chairman Pinard suggested that the Board of Trustees consider scheduling a second Pre-Retirement Seminar for those members who may have a conflict on September 9th.

After brief discussion by the trustees, the board recognized the need to schedule an additional seminar to accommodate the City and School employees. Trustee Molan then moved to authorize the additional expense to the Retirement System as well as directing Mr. Fleury to coordinate the scheduling of a second Pre-Retirement Seminar, to be held sometime in October, seconded by Trustee Sanders and passed unanimously by all those trustees present.

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Report of the Executive Director:

Update on Recovery of Overpayment - Mr. Fleury updated the trustees on the steps taken to pursue collection of an overpayment and reported that a hearing date has recently been received and is scheduled for Friday, October 10, 2014.

MECRS 2013 CAFR - Moving on, Mr. Fleury reported that printing of the Comprehensive Annual Report for 2013 has been completed, the delivery has been received, and reports mailed out to MECRS participants. An adobe version has been loaded to the MECRS web site and can be viewed in that manner.

Attendance at OPAL Public Funds Summit - In accordance to MECRS policy, Mr. Fleury reported that he attended the Opal Public Funds Summit, in Newport RI from July 21 -23, where he moderated a panel discussion on Real Assets. He commented that the presentations and subjects at this year's summit were highly informative and provided a glimpse of issues facing public plans elsewhere in the country along with an awareness of how common problems are being addressed by peer organizations. Also, he informed the board that details on the conference are available, for those trustees who are interested. He also thanked the board for granting him permission to participate in the conference.

Partial Liquidation of Gated Investment with Benchmark – Next, Mr. Fleury reported that in July, after having begun the liquidation of Benchmark Portable Alpha investment in the first quarter of 2013, the System received the holdback of \$498,977. He explained that one of the managers within the Fund of Funds dropped a redemption gate and a distribution in-kind has been received. Benchmark continues to manage the fund and a partial liquidation on Brooksdale International Partners, a gated holding, amounting to \$183,949 was also received. Mr. Fleury reported that this leaves \$574,028 to be liquidated in future quarters.

Mr. Fleury informed the trustees that MECRS has taken delivery of a check scanning device. He explained that rather than completing deposit slips and mailing the checks to the custodial bank, State Street Bank & Trusts, and waiting for the check to be processed, scanning the checks will be a more efficient procedure with timely deposits and will eliminate an audit observation that MECRS has had in the past.

Mr. Fleury also elaborated on the Informational items in the trustees' agenda packets, Pensionomics 2014 and the 2nd Annual New England Institutional Investors Forum. He thought that the board would find these items worthwhile and stated that if anyone is interested in attending the upcoming Investors Forum in Boston, to please let the MECRS office know and staff will process their registration.

In closing his report, Mr. Fleury recapped the board's request, authorizing the System's actuary, Mr. Alberts of Gabriel Roeder Smith & Co. to conduct a study on the implication of changes in mortality on the survivor options. He informed the trustees that Mr. Alberts is scheduled to attend the September board meeting to deliver the results of that study and the actuary's recommendation.

Trustee Molan then inquired as to annual reaffirmation of compliance with the MECRS Code of Ethics.

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Mr. Fleury stated that he will review the number of questionnaires from the vendors and trustees that remain outstanding and report back to the board.

New Business:

2nd Quarter Investment Performance Results - MECRS Investment Consultants, Mr. Kevin Leonard and Mr. Sebastian Grzejka were present to deliver the First Quarter 2014 Private Markets Review as well as the 2nd quarter Investment Performance Analysis.

First Mr. Leonard requested that the trustees turn to page 9 of the IPA booklet and stated that New England Pension Consultants is proud to announce that they have become a signatory and partner with Principles for Responsible Investment initiative (PRI). He stated that the United Nations-supported PRI Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and encourage signatories to incorporate these issues into their investment decision making and ownership practices.

Mr. Leonard stated that PRI will not change any advice that NEPC gives their clients only that NEPC supports what PRI stands for. How NEPC clients implementing some of the PRI standards, will be subject to their acceptance of the principals on a case by case basis.

Elaborating further, Mr. Grzejka explained that the PRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of Environmental, Social, and Governance issues, and to incorporate these factors into their investment decision making and ownership practices.

Trustee Mercier asked about the commitment to follow the PRI guidelines.

Mr. Leonard responded that NEPC will not be changing their advice to clients based on the PRI principles. NEPC is simply disclosing that they are supporting the PRI Initiative. They are not changing their advice based on the PRI principles.

Directing the trustees' attention to page 23 of the IPA, Mr. Grzejka provided a synopsis of what transpired during the second quarter. He stated that up until June 30th it was a fairly low volatile market environment and that low volatility can persist for long periods as a tailwind to markets but can also lead to complacency as excesses build in capital markets.

NEPC's themes remain consistent, Mr. Grzejka reported. Clients are advised to rebalance to policy targets, maintain their portfolio risk balance, and continue to allocate to emerging markets and private markets for higher returns in a low return world. MECRS focus on opportunities to be dynamic, particularly in credit markets with its current manager, Looms Sayles.

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Working through the IPA booklet, Mr. Grzejka addressed rebalancing that was completed over the first quarter which reduced the overweighting to domestic equity and added to emerging markets equity, real estate and hedge fund allocation.

Mr. Grzejka reported that the Plan finished the quarter with a return of 3.5%, a result that ranked at the 57th percentile of peers. The one year return was 16.8% which ranked in the 33rd percentile of peers. He noted that for the longer term, the portfolio results have improved, however, they are still impacted by the 2011 and 2008 performance of the Plan.

In response to manager interviews conducted during the last quarter, Mr. Grzejka stated that NEPC will continue to monitor Mellon Expanded Global Alpha and Standish Emerging Market Debt Local Currency in the next quarter.

Mr. Grzejka stated that two years ago a real estate pacing plan was implemented, the board voted to structure the portfolio using certain target allocations to core real estate assets and private real estate assets. Looking to the future, a market review will be conducted and strategies will be adjusted for the next few quarters. NEPC will also continue to build out private equity real estate allocations and evaluate the composition of the fixed income portfolio.

Mr. Grzejka recapped the board's vote to commit \$5m to Lexington VIII and \$4M to Private Advisors Small Company Buyout Fund VI at April meeting.

Trustee Mercier referred to the MECRS portfolio asset allocation chart and stated that currently the MECRS portfolio is 1.9% overweighted in large cap and she asked Mr. Grzejka if the strategy is to reduce the large cap so that it is not overweight.

Mr. Grzejka explained that the large cap overweight along with part of the Mellon overweight was really a proxy for private equity allocations which require time to implement. Private equity has been underweight for a number of years as NEPC has been building it out, which is the difference between the target for private equity of 5%, and what the current allocation which is under 2%.

Next, Mr. Grzejka stated that he was very pleased to report that the Total Composite for the MECRS portfolio has grown to \$200,596.863. He then provided detailed explanations of charts within the IPA for, Total Plan Asset Allocation vs. Policy Targets, Asset Allocation Exposure, Asset Allocation History, and Asset Growth Summary by Manager as well as Total Plan Performance Detail.

Trustees Sanders expressed his concern with Mellon Capital and he asked the NEPC representatives their thoughts and recommendations regarding Mellon.

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Mr. Leonard responded that Mellon GAA is the main source of underperformance at present, that NEPC has placed Mellon on a watch list, and that a Due Diligence Committee will continue to closely monitor their performance.

Mr. Fleury asked NEPC representatives for their projections moving forward in the next quarter and if there are any other weaknesses that they feel, need to be addressed.

Mr. Leonard responded that NEPC is comfortable with the MECRS portfolio moving into the fall season. As we move into 2015, Mr. Leonard stated that the plan is to build up on real assets to generate alpha ahead of what the market's probably direction.

Mr. Fleury inquired as to the time frame for NEPC representatives to be in attendance to report on 3rd quarter performance as well as the updated strategy for private equity, to which Mr. Leonard responded that the investment consultants will work with the MECRS Investment Committee in October to address these issues and will report to the full board at the November Board of Trustees Meeting.

Trustee Molan inquired as to his request regarding a rotation schedule of current MECRS Investment Managers whereby the managers will be invited to attend a board meeting and review their performance results on a regular basis.

Mr. Leonard replied that he will contact the managers and coordinate a schedule.

Mr. Grzejka and Mr. Leonard thanked the board for their time and departed.

New Business:

Gainful Occupation Report for 2013 - Mr. Fleury reported that this is simply a standard annual report in compliance with Chapter 218:15V and all of the reports have been submitted.

Trustee Molan moved to accept the place on file the Gainful Occupation Report for 2013, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Consent Agenda:

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

Previous Business:

Audit of 2013 - Trustee Molan moved to accept the Required Communications and the Audit Report of 2013.

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Trustee Mercier inquired as to the reduced size of the 2013 auditor's report, to which Mr. Fleury explained that in past years, the audit included financial statements and that the financial statements are now accepted by the auditors as part of the Comprehensive Annual Financial Report, inclusive of the auditor's letter of acceptance. Mr. Fleury also was pleased to report that there were no management observations, which is attributed to the thin audit report.

Trustee Lynch then seconded the motion to accept and place on file the Audit of 2013 and the motion carried unanimously by all those trustees present.

Board of Trustees Consideration – Deliberation on Appeal of Administrative Denial, Doris Dionne – Addressing the board, MECRS legal counsel, Attorney Steve Dutton, stated that it is the Trustees' duty to weigh the evidence and to determine what probative value each piece of evidence has. The decision should be based solely on the evidence submitted during the hearing, which is the testimony heard by Mrs. Dionne's representatives, including their brief, and any other documentation submitted.

Trustee Sanders stated that Ms. Chagnon and Ms. Venne's evidence is their opinion, their feelings or their comments, without any substantial support.

Chairman Pinard stated that the MECRS staff had processed two separate mailings which were sent to retirees, notifying the retirees of their eligibility and their entitlement of the health subsidy, if they continued on the City's health insurance. Procedures and due diligence were followed by the MECRS staff to ensure notification to its members, and as soon as the MECRS became aware of the problem with Mrs. Dionne, not receiving the subsidy, the issue was immediately corrected.

Chairman Pinard went on to noted that there is a procedure in place, so that all prospective retirees are aware of the health subsidy option and documentation is signed on whether the retiree would like to enroll or decline the health subsidy program.

Trustee Mercier asked why Mrs. Dionne was not automatically enrolled in the health subsidy program.

Chairman Pinard explained that when the subsidy was implemented, members who were already retired from the MECRS, as was Mrs. Dionne, were entitled to half of the subsidy, if they had remained on the City's health insurance. The Retirement Office had no way of knowing, who those retirees were, or if a retiree had a spouse from the School District or the City, who was retired from the state of NH and enrolled in the City's health insurance, which explains the Retirement System's two mailings informing those retirees of the program.

Trustee Molan expressed sympathy for Mrs. Dionne, however he felt that the Dionne Family has never had any complaints about not receiving the monthly non-negotiables from State Street

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Trustee Sanders asked if there were any other incidents where a retiree has come forward, stating that they were not notified of the eligibility in the health subsidy to which Mr. Fleury replied, that there have been no other MECRS retirees who have had any issues regarding the notices.

Based on the testimony heard, Trustee Molan moved to uphold the MECRS administrative denial, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Other Business:

Motion to Adjourn:

Having conducted all the business of the day, Trustee Molan moved to adjourn the meeting at 10:03 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury
Executive Director