

December 9, 2014  
Minutes #509

**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, Robert Lynch, Mike Woitkowski and William Sanders and Richard Molan arrived at 8:37 a.m.  
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Dianne Mercier and Mayor Gatsas

**In Attendance:** Attorney John Rich of the McLane Law Firm and Sebastian Grzejka of New England Pension Consultants

**Approval of the Minutes of the Previous Board Meeting:**

Chairman Pinard entertained a motion to approve the previous board minutes of November 18, 2014.

Trustee Lynch moved to approve the board minutes of November 18, 2014, seconded by Trustee Sanders and passed unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

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

**Report of the Executive Director:**

**Status Report on Recovery of Payments -** Mr. Fleury began by reporting that a second payment for the recovery of funds had been received, following a court ordered payment schedule, which began in November. He informed the Board that work continues toward the establishment of a lien on personal property to ensure that MECRS eventually recovers the amounts due. Mr. Fleury then stated that routine reporting on this subject will cease as of this month unless events unfold which are worthy of reporting.

**Revised CPI Process Coming Soon** – Next, Mr. Fleury stated that effective with the release of the January 2015 CPI, on February 26, 2015, the Bureau of Labor Statistics (BLS) will utilize a new estimation system for the Consumer Price Index. It is less than clear at the present time, Mr. Fleury explained, whether these changes will affect the formulas incorporated into the System's COLA rules, to the extent that the rules may need to be updated. He stated that the BLS predicts that the impact on the annual inflation rate will be minimal, but if the format of historically published data changes, it may necessitate revisiting the language in our COLA rules. Mr. Fleury informed the trustees that he will keep them apprised as the date approaches or if additional details become available.

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Internet Web Filter Installed – Mr. Fleury reported that in late November, the routing of the MECRS server and its path to the internet was redirected through a web filter. The effect of this change, he noted, was to prohibit access to unauthorized websites in one direction, while blocking malicious content from reaching the MECRS server and associated computers in the workgroup. While virus and malware protection, which has been in place for years, also offers such protection, the new filter would prevent problems before they can reach those barriers on the local platform. Mr. Fleury also added that this change will improve the security and reliability of the Systems computer operations, without a detrimental effect to system performance.

Mr. Fleury then provided the trustees with a demonstration that he had prepared, of how the MECRS portfolio activity is accessed, how the assets are tracked, as well as real time reporting of daily cash flow processes. The short demonstration was designed to provide the trustees with a better understanding of the System's procedures.

Referring to Consent agenda Item #10, Monthly Cash Management Report, Mr. Fleury explained that the document identifies the cash balance amount at the end of the month and works through finding all cash inflows and outflows as well as the estimated future funding commitments.

Mr. Fleury went on to explain the handling of all checks received in the MECRS office and the procedures in place to document steps taken to assure reconciliation with the Systems custodial bank, State Street Bank & Trusts.

Mr. Fleury continued with his demonstration on viewing real time funding commitments, portfolio transfers, month ending data and comparison information which he feels is key to the trustees understanding of how staff processes the trustee's portfolio directives.

Chairman Pinard inquired as to the activity to date in the S&P Fund, to which Mr. Fleury replied that there has been no withdrawal activity within the fund since it was established, noting that the timing of the capital calls has been very accommodating. Mr. Fleury further demonstrated that the value of the S&P fund had increased by approximately \$2.5 million since inception.

Chairman Pinard directed his next inquiry to NEPC Consultant, Sebastian Grzejka, regarding the \$2.5 million S&P Fund and its status. He questioned whether that gain should remain in the fund and whether there was a plan for its eventual use.

Mr. Grzejka explained that the S&P cash fund was to act as liquidity for private equity and the reason there is a 3% overweight to domestic equities is the proxy for the present 3% underweight in private equity. In the coming months Mr. Grzejka noted, NEPC will be making recommendations in the private real asset space and the S&P Fund will be drawn down at that time.

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Attorney Rich referred to Mr. Fleury's earlier comments regarding the revision to the CPI calculation that is used for purposes of the COLA and noted since the revision will not be made until February, 2015, it did not appear that the change would impact the December 2014 CPI figure currently scheduled to be used for the upcoming COLA.

Mr. Fleury confirmed that coming changes should not have any effect on the December CPI used in the calculation of any upcoming COLA considerations. The board continued to discuss the purpose and the impact of the revised CPI calculation briefly and then moved on.

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

Committee Chairman Woitkowski stated that he would like to schedule an A&A Committee meeting for the month of January, 2015.

Mr. Fleury stated that A&A Committee members have been receiving information from NCPERS on executive director evaluations. He informed the board that the information received from Grand Rapids, Michigan has proven to be a comprehensive and meaningful evaluation process and that he will adapt that information for MECRS and will make it available for the A&A Committee's review.

Mr. Fleury then indicated that he will work with the Committee Chair to schedule a meeting in the January or February timeframe.

**Consent Agenda:**

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

**New Business:**

**3<sup>rd</sup> Quarter Performance Review and Site Visit to New England Pension Consultants Headquarters -** NEPC Representative Mr. Sebastian Grzejka began by distributing the Investment Market Update as of November 30, 2014, the Flash Report for the month ending October 31, 2014, as well as a booklet on 2014 Defined Benefit Plan Trends Survey. He explained that NEPC's defined benefit team had conducted a survey of defined benefit plans which is related more towards corporate plans.

Referring to the performance detail ending October, 2014, Mr. Grzejka reported that the MECRS portfolio composite was slightly over \$200 million and a positive return, up 80 basis points. He reported that active managers have had a difficult year because of market conditions and have not all done well in comparison to their benchmarks. Mr. Fleury questioned whether the inability of the two MECRS active managers to outperform their benchmarks in the short term but exceeding it in the longer term was a common event with other managers in the peer group. Mr. Grzejka replied that it was and identified volatility and the key culprit in active manager

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performance. Through October, Mr. Grzejka stated, a number of managers stand out, mainly Mellon Capital. He explained that after a period of Mellon's past underperformance, enhancements were made, gaining back losses and resulting in a period of outperformance, however, looking further back at the Mellon portfolio, there had been a similar period of underperformance, followed by enhancements and outperformance, only to experience the most recent underperformance once again. NEPC is, therefore, recommending a review of the allocation in 2015. He reported on PIMCO's performance with a positive year to date, up 5.2% as well as large cap managers Pzena and Sands, with positive year to date returns.

Mr. Grzejka continued to highlight performance results for the international equity market, fixed income, real estate and real assets as well as reporting on the hedge fund composite.

Trustee Sanders expressed his concern with the questionable likelihood of MECRS meeting its assumed rate of return of 7.25% for 2014, to which Mr. Grzejka responded that through the month of November the System is looking at a 1% return, bringing the year to date return rate to 5.2%. Historically, Mr. Grzejka noted, December is fairly uneventful; therefore, it will be a challenge to reach the 7.25% assumed rate. Relatively speaking, Mr. Grzejka stated the MECRS portfolio is doing very well, relative to their peers, but that it has been a challenging year in meeting the assumed rate.

Mr. Fleury asked Mr. Grzejka if NEPC was concerned with the year to date performance for Newstone Partners, private equity manager who is measured against Cambridge Associates with a considerably high benchmark year to date.

Mr. Grzejka, explained that Cambridge Associates is a broad based benchmark of underlying equity funds, who have had a phenomenal year, which is driving their year to date return to 22.0%. He then reminded the trustees that the return from this strategy was said to be in the 8 to 10% range and that Newstone currently has about 4 years ahead of them, to make sure the loans come through, so at this point NEPC is not concerned.

The trustees continued to ask Mr. Grzejka questions regarding the performance outlook for 2015 and the possible reallocation of assets.

Mr. Fleury elaborated on his request of NEPC for the Defined Benefit Trend Survey and stated that when he first reviewed the survey, he became aware that public funds are not the majority of NEPC client base. Therefore, with the upcoming reallocation of assets for 2015, Mr. Fleury stated that he wanted to reaffirm that the strategy for investments is different for corporations and endowments, than for public funds.

Mr. Grzejka reassured the board that all portfolios are customized to each clients unique set of circumstances and that there is no model portfolio. All the portfolios are built to meet each client's needs, their client's goals and their risk tolerance.

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Having concluded with the NEPC reports, Chariman Pinard moved on and congratulated Trustee Molan on his aldermanic re-appointment to the MECRS Board of Trustees, stating that Trustee Molan is an asset to the Board.

Trustee Molan replied that he enjoys serving on the MECRS Board.

Before Mr. Grzejka departed, Trustee Woitkowski asked for the details regarding the boards scheduled site visit to the NEPC headquarters.

Mr. Grzejka responded that January 20, 2015 is the scheduled date for the trustees visit. Mr. Grzejka reported that MECRS' current investment managers, Income Research & Management, City of London and Prudential will also be in attendance for performance reviews, the day of the site visit.

Mr. Fleury asked the trustees to get back to him ASAP on their availability in January, so that he would be able to move forward and make the needed travel arrangements.

Mr. Fleury then announced that he would be in touch with Mr. Grzejka, as soon as he knows how many board members will be able to make the trip.

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

**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:25 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury  
Executive Director