

January 14, 2014
Minutes #499

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 8:35 a.m.

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

Absent: Mayor Gatsas and Dianne Mercier

In Attendance: Representatives Kevin Leonard and Sebastian Grzejka, both of New England Pension Consultants, as well as 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 Lynch moved to approve the board minutes of December 10, 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 Molan to approve the immediate meeting agenda, seconded by Trustee Woitkowski, and passed unanimously by all those trustees present.

Report of the Executive Director:

Update on Recovery of Overpayment: As first reported in November, Mr. Fleury updated the trustees on the status of the recovery efforts on payments made to a deceased member. He informed the board that MECRS had filed a claim in Manchester District Court on November 27th and has been notified that a hearing date is scheduled for Friday, February 21, 2014 at 8:30 a.m. for mandatory mediation.

Final Distribution from BGT Pactual, (formerly RMK Timber): Mr. Fleury informed the board that the final distribution for timber investments with the former RMK, was received at the end of December. He was pleased to report that the liquidation, concludes the lengthy unwinding of the Evergreen Timber Portfolio which began a few years ago.

Legislative Update: Mr. Fleury reported that the legislation which the board authorized, LSR 2014-S-2639-R, has been designated SB 225 for the 2014 session of the New Hampshire Legislature and is posted on the legislative web site. The bill was "read in" on January 8th and a hearing is scheduled before a Senate Committee on Wednesday, January 15, 2014. Mr. Fleury stated, he will be in attendance to testify on the bill.

January 14, 2014
Minutes #499

Minutes of the Board of Trustees' Meeting -2-

Conference Call with GRS: Moving on, Mr. Fleury notified the board that on Friday, December 13th, a conference call was conducted with Ken Alberts of Gabriel, Roeder, Smith & Company to discuss options for the upcoming actuarial valuation. Also present for the call, Mr. Fleury stated, were Board Chairman Pinard, and Trustee Sanders. Mr. Fleury reported that the objectives articulated at the board's December meeting were discussed with Mr. Alberts and as a result, the preliminary valuation will provide options to shorten the amortization period incrementally, should higher than expected gains result from the System's 2013 investment experience.

Mr. Fleury also informed the board of a subsequent conference call regarding a change in the option factors. He reported that concurrent with the receipt of the preliminary valuation, the board can expect a review of the longevity assumptions, as well as a recommendation from the actuary for adoption of alternate mortality assumptions. Mr. Fleury noted that the board is currently utilizing mortality tables from 1983.

Status on Custodial Services : Mr. Fleury updated the board on the status of the RFI for custodial services, reporting that an analysis of the five responses is currently underway and results should be completed in time for the February 11, 2014 MECRS board meeting.

Audit of 2013 Scheduled for April 7th: Mr. Fleury reported that MECRS has received the preliminary audit questionnaires for the upcoming audit of 2013. The system's auditors, Berry, Dunn, have scheduled Monday, April 7th as the first day in which an audit team will be in the MECRS offices.

In closing his report, Mr. Fleury referred to the boards' directive at the December Board of Trustees' meeting, to investigate alternate services which will identify deceased retirees. He explained the different segments of his Special Report, included in the trustees' agenda packets, summarizing his findings. Mr. Fleury noted that he also included the New Hampshire Retirement System's procedures in locating deceased benefit recipients.

Mr. Fleury reminded the board that in past years of operation, MECRS has had only one event in which it received delayed notification of a deceased member. He further stated his concerns regarding the implementation of a new system, such as transmitting confidential data securely as well as keeping the data current.

Trustee Sanders inquired as to System staff's procedure in identifying deceased retirees and also what led to the discovery of the present situation.

Mr. Fleury explained how the staff currently tracks deceased benefit recipients as well as the bi-annual service provided from State Street Bank & Trust in identifying deceased pensioners and the annual death audit, conducted by Pension Benefit Information, on reporting retirees' deceased beneficiaries. To change MECRS present custodial service from bi-annual to monthly, would result in an increase in the custodial fee of \$1,000 per year.

Chairman Pinard asked Mr. Fleury the amount of the pending claim, to which Mr. Fleury replied, the recovery amounts to slightly over \$7,000.

January 14, 2014
Minutes #499

Minutes of the Board of Trustees' Meeting -3-

Mr. Fleury also mentioned that he, along with the NHRS, is investigating alternative death audit services with the firm, LexusNexus.

After brief discussion, Trustee Sanders stated that it was Trustee Mercier's suggestion that Mr. Fleury research the cost of an ongoing service, which would be able to provide immediate notification of retirees death or beneficiary's death, therefore he asked Mr. Fleury to submit his formal recommendation to the board, at the next board meeting when Trustee Mercier will be in attendance.

Mr. Fleury agreed to submit his formal recommendation at the February, Board of Trustees meeting.

Consent Agenda:

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

New Business:

Board Organization for 2014 – Chairman Pinard explained that there have not been any changes in board composition since 2013 due to Mr. Woitkowski's re-election and Ms. Mercier's re-appointment. He asked the trustees if there was any opposition to continue with the existing committee assignments, to which there was none.

It was then moved by Trustee Molan to continue with the trustees various committee assignments for 2014, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Revised Investment Plan – Representative, Kevin Leonard and Sebastian Grzejka of New England Pension Consultants were present to discuss strategy revisions in the wake of an inability to conclude a contract with JP Morgan, for a private equity investment and a possible replacement for JP Morgan.

Mr. Leonard began by informing the trustees that he had received a call that morning, from JP Morgan on his way into the MECRS's office, notifying him that they would like to submit an updated side letter and ask for reconsideration by the MECRS Board.

Mr. Leonard informed the trustees that he expressed his opinion to the representative at JP Morgan that he felt that it was the board's final decision, not to endorse the subscription agreement with JP Morgan, but that he would inform the MECRS Trustees and legal counsel of their revised offer.

Mr. Fleury stated that a lot of time and expense has gone into reviewing the subscription agreement with JP Morgan. He asked that the board consider the additional time and cost which

January 14, 2014
Minutes #499

Minutes of the Board of Trustees' Meeting -4-

would be involved to review yet another subscription agreement with an alternate private equity manager. Also, he expressed concern for the timing of the investment, noting the likelihood of additional interest to the System in the form of a catch up fee which could reduce return expectations.

Mr. Leonard explained that, at this time, the board does have more attractive alternatives and that NEPC's view is that private equities remains a preferred vehicle in which to invest.

At 9:05 a.m. Chairman Pinard recessed the meeting.

Chairman Pinard reconvened the meeting at 9:22 a.m.

It was moved by Trustee Molan to have the executive director and legal counsel review the updated side letter and correspondence from JP Morgan, before making a final decision on the JP Morgan investment, seconded by Trustee Lynch and passed by all those trustees present.

Mr. Leonard stated that if the board is not able to negotiate a side letter with JP Morgan, NEPC can have a list of alternative managers for the March or April timeframe, in the private equity space.

Next, Mr. Grzejka addressed 2014 performance, stating that he was pleased to announce a positive year for the MECRS portfolio due to investment in U.S. Equities. He then referred to the booklet distributed to the trustees, NEPC 2014 Outlook, and highlighted observations for 2014.

Mr. Grzejka provided the trustees with capital market observations and listed NEPC's recommended general actions for clients which include, taking the gains in US equities, allocating to underperforming asset classes, and maintaining a long-term commitment to emerging markets.

Referring to page 6 of the handout, Mr. Grzejka reviewed the MECRS's 2014 asset allocation. He reported that NEPC is not making any recommendation to change MECRS's current portfolio structure. NEPC feels that the allocation continues to provide a strong foundation.

Due to the positive run in equities over the past two years, Mr. Grzejka went on to explain that NEPC's outlook for equities is subdued for 2014, and recommends reducing exposure to small cap and large cap equities. Within fixed income, however, Mr. Grzejka noted an increase in their 5 – 7 year outlook and in their 30 year outlook, as well as a positive outlook for global asset allocation.

Mr. Grzejka also informed the board that the focus for this year will be a private markets allocation as well as revisiting the real estate allocation, to get it up to target.

Minutes of the Board of Trustees' Meeting -5-

Mr. Grzejka then turned the trustees' attention to the Investment Summary for month ending November 30, 2013. He was pleased to report a total composite for the end of November, 2013 of 191 million, up 15.1%. He highlighted positive returns for the different asset classes and he also noted that the domestic equity market returned 37% over the last year.

Mr. Grzejka continued to detail MECRS portfolio performance and discuss future strategy.

Regarding the real estate sector, Mr. Grzejka stated that MECRS is currently in the queue for adding funds to PRISA.

Mr. Fleury confirmed the pending \$1 million commitment remaining with PRISA from proceeds from the consolidation from Morgan Stanley. Mr. Fleury stated that he had been advised that the call would be made before the end of 2013, which did not happen.

Mr. Grzejka went on to provide the trustees with an investment market update as of December 31, 2013, stating that equities continue to outperform and the diversified portfolio returned about 1.1% through December. Overall, quite a good year, Mr. Grzejka stated.

Mr. Fleury reminded the board that MECRS is currently holding \$10 million in the Vanguard Institutional Index Fund. MECRS is scheduled to receive a \$4.5 million distribution tomorrow from Benchmark. The intention is that those funds be added to the S&P Index Fund.

Mr. Grzejka concluded his presentation by stating that NEPC will bring a re-balancing recommendation to the next MECRS Board Meeting.

Mr. Fleury suggested that the board consider re-scheduling the May BOT meeting, due to the same day scheduling of the upcoming NEPC Client Conference which some of the trustees may wish to attend.

After brief discussion it was moved by Trustee Lynch to re-schedule the May 13th BOT meeting to May 20, 2014, seconded by Trustee Woitkowski and passed by all those trustees present.

Mr. Fleury then requested permission from the board to attend the NEPC Conference in May, which was granted.

Motion To Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at

January 14, 2014
Minutes #499

Minutes of the Board of Trustees' Meeting -6-

9:49 a.m., seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury
Executive Director