

May 20, 2014  
Minutes #502

**Minutes of the Board of Trustees' Meeting -1-**

**Call to Order:** Chairman Pinard called the meeting to order at 8:34 a.m.

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

**Absent:** Mayor Gatsas, Bill Sanders and Dianne Mercier

**In Attendance:** John Rich of the McLane Law Firm and Kevin Leonard of New England Pension Consultants  
Also in attendance were Retirees, Hazel Gott, Joan Porter, Paul Porter, Ron Ludwig, Harry Ntapolis, David Hodgen and Leo Bernier

**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 April 8, 2014, seconded by Trustee Woitkowski 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 has been previously reported, Mr. Fleury stated that MECRS filed a claim in Manchester District Court on November 27<sup>th</sup> to recover an overpayment of retiree benefits. A hearing was scheduled on Friday, February 21, 2014 for mandatory mediation to which no resolution was reached. A subsequent hearing was scheduled for May 1, 2014 and a judgment was obtained for the full amount. Mr. Fleury informed the Board that if payment in full is not submitted by June 1, 2014, he will then seek further direction from the board and legal counsel.

**Legislative Update:** Mr. Fleury stated that SB 225 has passed both the House and Senate and MECRS is waiting for it to be "Chaptered" before placing it into effect.

**Auditor's Report for 2013 Schedule for June:** Mr. Fleury informed the board that the audit for 2013 has been completed and Mr. Mark LaPrade of Berry Dunn McNeil & Parker will be present at the June 10<sup>th</sup> Board of Trustees Meeting to deliver the audit findings.

**Milestone Surpassed:** Mr. Fleury then noted that the retiree payroll for the month of May crossed a milestone. For the first time ever, the payroll amount exceeded \$1 million.

**Status of Custody Issues With State Street:** Mr. Fleury reported on accomplishments in the System's ongoing discussions with the custodian, State Street Bank. As of April 17<sup>th</sup>, the MECRS now has a

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feature called "Custody View" installed on the computers which will allow staff to confirm that requested transactions have been processed. In addition, Mr. Fleury stated that staff is able to view the daily incoming cash receipts including check deposits and income distributions from those managers who are designed to distribute certain income earnings automatically.

The next step in improved operations, Mr. Fleury reported, will allow staff to deposit checks electronically. That feature will eliminate the risk associated with items lost in the mail, allow immediate access to funds while eliminating the time delay associated with banking by mail, and also eliminate the need to make copies of checks being mailed to the bank. Once checks are scanned, the voided document will be permanently retained instead of photocopies of the checks, which has been the practice in the past.

In closing his report, Mr. Fleury informed the board that he had attended the 19<sup>th</sup> Annual New England Pension Consultants (NEPC) Client Conference which he felt was very informative. He then mentioned that he had also attended a Conference sponsored by Berry, Dunn, McNeil & Parker in conjunction with Cross Insurance, regarding legal issues facing organizations, such as cyber security and the like. Mr. Fleury stated that he felt that the event was also very informative and worthwhile.

Trustee Molan asked Mr. Fleury the status on collecting of the annual Standard of Conduct Questionnaire from the MECRS staff/board members, to which Mr. Fleury replied that 2 trustee questionnaires are still outstanding Mr. Fleury stated that he would investigate further and report his findings.

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

Committee Chairman Woitkowski reported that the A&A Committee had met just prior to the MECRS board meeting, to review the Consumer Price Index for calendar year 2013 and other criteria set forth in the Administrative Rules to determine if a retiree COLA should be awarded. Based on the Committee's review of the Administrative Rule and related COLA Guidelines, Committee Chairman Woitkowski reported that the A&A Committee's recommendation to the full MECRS board was to approve a 1.5% retiree COLA.

Board Chairman Pinard opened the meeting up for discussion, when Ms. Aboshar asked for a confirmation of the effective date of the stated COLA recommendation.

Mr. Fleury explained that generally retiree COLA's only apply to retirees who have been retired for a period of more than one year, however, the last COLA award was for retirees who had been retired for 18 months.

Trustee Lynch then amended his motion granting a 1.5% retiree COLA, effective July 1, 2014, for those members who have been retired on or before July 1, 2013, seconded by Trustee Molan and passed unanimously by all those trustees present.

### **Consent Agenda:**

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

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**New Business:**

NEPC – 1<sup>st</sup> Quarter 2014 Performance Review – NEPC Representative, Kevin Leonard first provided an outline of his presentation, while distributing the Investment Performance Analysis booklets to the board members.

Directing the trustees' attention to Tab 1 of the presentation booklet, Mr. Leonard explained that the Market Thoughts segment of the booklet would provide the trustees with insight into recent market conditions and assist with their interpretation of investment results.

Turning to page 2 of the presentation booklet, NEPC Updates, Mr. Leonard reiterated Mr. Fleury's earlier comments regarding the 19th NEPC Client Conference, which Mr. Fleury attended and he provided the trustees with a list of the headline speakers as well as their topics of discussion.

Mr. Leonard then stated that he was pleased to announce that NEPC has been recognized for industry-leading stability and excellence. He reported that Greenwich Associates, an independent research firm, surveys 1,000 large fund sponsors every year and that NEPC ranked #1 for proactive advice and innovative ideas in nine of the last eleven years, ranked #1 for long-term asset allocation in 6 of the last 11 years and that NEPC also was ranked in the top three in 10 of the last 11 years.

Working through the Investment Analysis booklet, Mr. Leonard listed the positives and negatives for the first quarter of 2014, elaborating on each bullet item.

He highlighted one of the negatives, which was low inflation. Mr. Fleury asked Mr. Leonard if his comment on low inflation, helps to explain the low performance for the System's inflation hedge manager, Wellington.

Mr. Leonard replied that Wellington, a diversified inflation hedge, has struggled due to volatility in commodities and that NEPC is currently monitoring the manager, although the lack luster performance is not seen as an issue.

Mr. Leonard focused the trustees attention on the Executive Summary within the presentation booklet and noted the portfolio's ending asset allocation at the end of March 2014, in the amount of \$195.6 million. Mr. Leonard further noted that equity levels were slightly in excess of the allocation while the alternative portfolio was slightly under its allocation.

Mr. Leonard went on to report that following the MECRS Board's recent vote to commit \$3 million to Crescent Direct Lending, that some of that commitment was funded in the first quarter. The MECRS Board also voted to commit \$5 million to Lexington VIII and \$4 million to

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Private Advisors Small Company Buyout Fund VI at their April meeting, which will move the private equity commitment closer to its allocation level.

Mr. Leonard reported that a rebalancing exercise recommended by NEPC after the first of the year, was completed at the end of the first quarter, which reduced the overweight to domestic equity, while adding to emerging markets equity, real estate and hedge fund allocations. The plan finished the quarter with a 1.0% return, which resulted in a performance rank of 92<sup>nd</sup> against the peer universe.

He noted that for longer terms, the portfolio's results had improved, however, they are still impacted by negative results in 2011 and 2008.

Mr. Leonard detailed the total plan performance of each manager, noting their rankings since inception, as well as the strategies within each sector.

Mr. Leonard stated that NEPC's recommendation is to continue to build out private equity and real estate allocations and to evaluate the fixed income portfolio.

Mr. Fleury reported on his participation in a recent PRISA conference call, noting that an entry queue currently exceeds \$1 billion. He asked Mr. Leonard how comfortable NEPC is with the one year waiting period for drawing down the entry queue.

Mr. Leonard responded that it is negative of investing in open-ended real estate, which is a competitive environment.

Mr. Fleury voiced his concern regarding the cash in the S&P 500 holding fund and the volatile market and that when commitments are called, if the market is in the midst of a prolonged downturn, that meeting the capital call could create a liquidity problem.

Mr. Leonard responded that NEPC is aware of the situation.

Attorney Rich asked Mr. Leonard, if when the S&P holding fund plan was put together, if the plan contemplated the funding of the additional Private Equity, to which Mr. Leonard responded, yes.

Mr. Fleury stated that the policy of the S&P holding fund was created not quite a year ago in conjunction with the initiation of a monthly reconciliation report, so that the trustees could see all transactions within the cash account.

Mr. Leonard then turned to NEPC concerns affecting two managers in the MECRS portfolio. He recommended that the Investment Committee convene to meet with representatives from Mellon Capital and Standish so that each manager's vision for the future of their operations could be shared with the Committee, Mr. Leonard stated that he will work with Mr. Fleury, monitoring the portfolios and working to set a date for a meeting.

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**Other Business:**

Non-Public Session Pursuant to RSA 91-A:3 II (d) : to review investment contract negotiations -  
Chairman Pinard entertained a motion to go into Executive Session pursuant to RSA 91-A:3 II(d)  
at 9:31 a.m

Roll Call Vote:

Ayes: Messrs. Pinard, Lynch, Molan and Woitkowski

Nays: None

Following the conclusion of the Non-Public Session at 9:59 a.m., Chairman Pinard then  
entertained a motion to seal the minutes of executive session pursuant to RSA 91-A:3, III.

Trustee Lynch moved to seal the minutes of executive session, seconded by Trustee Molan 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  
10:00 a.m. seconded by Trustee Lynch and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury  
Executive Director