

August 9, 2016
Minutes #526

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, William Sanders, Mike Woitkowski, Dick Molan and Robert Lynch, and Dianne Mercier arrived at 8:35 a.m.
MECRS Staff: Gerard Fleury and Sandi Aboshar and Suzanne Wilson

Absent: Mayor Gatsas

Excused: None

In Attendance: Attorney John Rich, from the McLane Middleton Professional Association and Sebastian Grzejka of NEPC

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the previous board minutes of July 12, 2016.

Trustee Molan moved to approve the board minutes of July 12, 2016, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Trustee Sanders moved to approve the immediate meeting agenda seconded by Trustee Molan and passed unanimously by all those trustees present.

Executive Director Report:

MECRS Pre-Retirement Seminar: Mr. Fleury began by informing the board that the next MECRS Pre-Retirement Seminar has been scheduled for Thursday, September 1, 2016. He stated that in addition to his presentation, four guest speakers have agreed to attend the seminar and that he is anticipating an excellent turnout.

Opal Conference Report: Mr. Fleury took the opportunity to thank the Board for allowing him to attend the Opal Public Funds Summit in Newport, RI on July 18, 19 & 20th. He stated that he gained a great deal of information regarding challenges facing public funds across the country and steps taken to face those challenges. He stated that the opportunity to discuss issues with peers from other public plans, does not present itself too often and having three days without the interruption of daily work events, was of great value.

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Conversion of Blackrock Shares: Moving on, Mr. Fleury reported that pursuant to the directive given by the Board at the July meeting, Class I shares of Blackrock SIO, were sold and an equal value of Class K shares were purchased. He stated that the transaction was more complicated than anticipated, but was completed nevertheless and all transactions settled within the month of July.

Website Development: Mr. Fleury updated the board regarding the development of the new MECRS website and that progress is going well and the list of outstanding issues continues to dwindle. In the mean time, he noted, the System continues to operate the existing MECRS website.

In closing his report, Mr. Fleury informed the trustees, that they can expect to see their requested, Benefit Changes Supplemental Valuation Analyses in their September Board packets. Also, he reported on the discussions held with the City's Finance Department regarding the conversion of the Parking and EPD Departments, paying their employer contributions as a percentage of payroll as opposed to submitting the employer contributions in a lump sum, which would then simplify the payment and eliminate part of the true-up calculation for those organizations. Mr. Fleury indicated that he has researched and identified the implications of the potential conversion, submitted those findings to the MECRS actuary for confirmation, that all his ascertains were correct and subsequently, provided that information to the City, should the City decide to proceed with the conversion.

Trustee Sanders added, that based on a favorable decision, the City may want to convert its general fund departments over to that method, therefore putting the entire City on a percentage of payroll basis.

Trustee Mercier inquired about the ongoing discussion regarding the System's custodial bank, State Street Bank & Trust, and the service which they provide the MECRS.

Mr. Grzejka reminded the board that if service provided by State Street should be deemed problematic to the extent that the Board desired to send out an RFP or RFI, RFI issuance is part of the services offered by NEPC in their standard service agreement.

Mr. Fleury reiterated his dissatisfaction with the services provided by State Street Bank & Trust and noted the lack of positive changes by the custodial bank, since he first reported the matter to the board. After lengthy discussion of possibly exploring other options for custodial services, the trustees agreed to move forward and commissioned NEPC to prepare a Request For Information (RFI) for custodial services.

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Report of the Investment Committee:

Committee Chairman Molan reported on the Investment Committee Meeting, held July 28, 2016 where three prospective Private Equity managers recommended by NEPC were interviewed, all with a focus on Oil & Gas Energy opportunities. Committee Chairman Molan stated that all three presentations were very detailed and interesting and that each manager had exceeded the time allotment of 30 minutes. He summarized the focus and techniques used by each of the managers and the geological expertise in managing the funds. The three managers included: Kayne Anderson, Denham Capital and Juniper Capital.

On behalf of the Investment Committee, Committee Chairman Molan moved to invest \$3 million in the Kayne Anderson Energy Fund VII, subject to a review of the subscription agreement by legal counsel.

After lengthy discussion on the history of the Kayne Anderson firm, their investment approach, the success of their past Oil and Gas Funds, as well as their competitive advantages, Trustee Sanders seconded the motion to invest \$3 million in Kayne Anderson. The motion was brought to a vote and was passed without objection.

Consent Agenda:

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

New Business:

Adoption of Amendments to Existing Policy – MECRS Right To Know Law Disclosure to Investment Mangers – Mr. Fleury explained that in 2014, the MECRS Board adopted a policy on Right To Know. Due to difficulties encountered recently, Mr. Fleury noted that MECRS legal counsel is recommending the addition of a paragraph that clearly defines that the System is to be held harmless on liabilities, costs and expenses in trying to litigate any non-disclosure associated with Right To Know in New Hampshire.

It was moved by Trustee Sanders to adopt the amendment to the MECRS existing Right To Know Policy, seconded by Trustee Molan and passed by all those trustees present.

Gainful Occupation Report for 2015 – Next, Mr. Fleury explained that Chapter 218.15 V Law requires that the System conduct an annual survey of disability recipients, until such time as they

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reach normal retirement age, to determine whether they are gainfully employed and if their employment exceeds certain limits.

Mr. Fleury informed the trustees that there is one individual who has not been able to complete the mandatory requirement, due to the member submitting a requested extension to file Federal income tax. He stated that MECRS staff will continue to pursue the completion of the members' Gainful Occupation Report.

In an effort to avoid future delays regarding submission of the Gainful Occupation reporting requirement, Trustee Mercier suggested the option of amending the process for disability applicants, under the age of 60, by requiring applicants to complete an IRS authorization which would allow the System to retrieve the member's tax documents, if necessary. She explained that the IRS Document would be granting authorization to the System, to seek confirmation of the status of the disability recipients' annual tax filing, if needed.

After brief discussion by the board, Mr. Fleury stated that he will research Trustees Mercier's suggestion.

It was then moved by Trustee Molan to receive and place on file the 2015 Gainful Occupation Summary Report, seconded by Trustee Sanders and passed without objection.

Moving on, NEPC Representative, Sebastian Grzejka distributed the MECRS Flash Report for month ending June, 2016 and reviewed the contents with the Board. Mr. Grzejka reported that the Fund is down slightly, by about 40 basis points. He reported on Managers PIMCO, Pzena Sands, Rothschild, all who struggled in the month of June, but have come back quite strong in July.

Regarding the International Equity allocation, Mr. Grzejka stated that the plan moving forward is to change the International Equity composite, by consolidating the exposure for developed non U.S. equities to one manager. At the same time, the manager would be designated as an International Small Cap Manager.

Working through the Flash Report, Mr. Grzejka stated that all Fixed Income Managers were positive in July.

Mr. Grzejka then reported that the MECRS's core real estate allocation is up 4.2% for the year, however, the expected return by year end should be high single digits and that NEPC will continue to closely track performance of the real estate segment of the portfolio.

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Mr. Grzejka went on to report disappointing performance for the month of June from the System's two Hedge Fund Managers, Permal and Archstone. He noted, however, following June's poor performance, he was pleased to report the Hedge Fund universe was positive in July.

Next, Mr. Grzejka turned the trustees' attention to the one page Performance Summary as of 7/29/2016 and noted positive results for all managers despite a slight pull back in commodities. Highlighting the year-to-date column, Mr. Grzejka noted that the top performers have all been long treasuries or bonds.

Mr. Fleury questioned seeming underperformance of Private Advisors. Mr. Grzejka responded that despite the negative 8.6 % return, the nature of this investment conforms to a J curve and that, at this point in the investment's life cycle, a negative life to date return is to be expected.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Mercier moved to adjourn the meeting at 9:22 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director

