

December 13, 2016  
Minutes #530

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

**Call to Order:** Chairman Pinard called the meeting to order at 8:33 a.m.

**Present:** Trustees: Donald Pinard, Dick Molan, Mike Woitkowski, Bill Sanders and Dianne Mercier  
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Mayor Gatsas and Robert Lynch

**Excused:** None

**In Attendance:** Attorney John Rich, from McLane Middleton, Professional Association and Member, Robert Gagne

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

Trustee Mercier moved to approve the minutes for the meeting held November 8, 2016. Trustee Woitkowski seconded the motion and the motion carried unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

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

**Executive Director Report:**

**Website Development:** Executive Director Fleury first reported that MECRS participants were sent a notice as a payroll stuffer in early November, informing them of their ability to request a User ID and password on the new MECRS Website. The notices resulted in several dozen members requesting access to their account information. All requests were processed within a day and the MECRS office has received positive feedback regarding the website.

**Status of Portfolio Rebalancing:** Next, Mr. Fleury referred to the Trustee's decision at the November board meeting, to invest \$10 million with Standard Life and he informed the trustees that all of the necessary steps were taken and funding occurred on December 1, 2016.

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**Status of Receivable from Archstone:** Moving on, Mr. Fleury noted that for the past few months, MECRS has carried a 10% holdback of \$467,068.01 related to the MECRS's portfolio complete redemption of investments with Archstone. He stated that it was expected that the receivable would continue into 2017, however, he reported that on December 2<sup>nd</sup>, the entire amount was paid, which closed MECRS' Archstone investment within 2016.

**Annual Routine Death Audit of Retiree Beneficiaries Completed:** In closing his report, Mr. Fleury stated that each year at this time, MECRS conducts an audit of all named beneficiaries on file for each retiree. The purpose of that audit is to be certain that none of those beneficiaries had passed away, without the System having been notified, so that pop-up provision could be implemented. He stated that failure to identify and adjust benefits in the same calendar year, in which the death of a beneficiary occurs, can complicate the tax reporting for MECRS and the retiree. This year he reported, the audit indicated that there are no reported deaths in the beneficiary population.

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

Committee Chairman Woitkowski reported that the MECRS Administrative & Accounting Committee met in a scheduled session on November 22, 2016 to review the 2017 Draft Administrative Budget.

Committee Chairman Woitkowski stated that the committee reviewed the requested appropriation amounts for 2017 and focused on budget lines which have either increased or decreased from current year levels. Committee Chairman Woitkowski reported that after 45 minutes of questions and discussions, a motion to recommend the draft 2017 Administrative Budget as submitted, was offered by Committee Member Sanders, which received a second from Committee Member Molan. The vote was taken with all in the affirmative.

As Chairman of the Administration & Accounting Committee, Chairman Woitkowski, moved to approve the 2017 MECRS Administrative Budget in the amount of \$911,545.50, which is a decrease from the 2016 approved budget of \$2,141.34, or 0.23%, seconded from Trustee Molan and passed by all those trustees present.

**Report of the Investment Committee:**

Committee Chairman Molan reported on the Investment Committee meeting held on December 5, 2016, whereby three "International Small Cap Managers" were interviewed, which had been

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selected by the full Board at a previous meeting based on the recommendation of NEPC. He listed the selected managers as:

Fidelity Select International Small Cap Fund  
Kabouter Management – International Small Cap Fund  
Segall Bryant & Hamill, (SBH) International Small Cap Fund

Committee Chairman Molan stated that after hearing presentations from all three managers and deliberating on the merits of each, Committee Member Sanders offered a motion to recommend Kabouter Management for a \$10 million allocation, to their International Small Cap Fund. The motion received a second from Committee Chairman Molan. At that meeting, it was decided that funding for Kabouter would come from the liquidation of an existing investment with Causeway International, which would provide approximately 85% of the funding required, with the balance to come from a partial redemption of investments with Mellon GTAA. Committee Chairman Molan reported that the vote passed unanimously by all committee members.

On behalf of the MECRS Investment Committee, Committee Chairman Molan offered a motion to accept the recommendation of the Investment Committee and to invest \$10 million with Kabouter Management in their International Small Cap Fund, with funding to come from the liquidation of Causeway International, and subject to a favorable review of subscription documents by legal counsel, as may be required. Trustee Sanders seconded the motion and the motion carried by all those trustees present.

Committee Chairman Molan stated that all three managers presentations were excellent and appear to offer very good products, but the committee members were impressed with Kabouter's Management's achievements in terms of consistent outperformance versus peers as well as their investing methodology which emphasizes meaningful ownership of smaller, unknown companies and providing assistance designed to help the companies grow to a point where Kabouter can realize profits as larger funds begin to take ownership positions. Committee Member Sanders concurred with Committee Chairman Molan's remarks.

Executive Director Fleury noted the timeframe for the funding from the two managers, which would be after the first of 2017, with the Kabouter subscription agreement, targeted for February, 2017.

**Consent Agenda:**

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

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**Other Business:**

Chairman Pinard referred to an authorization granted by the board in January of 2016, directing MECRS counsel to pursue a new Internal Revenue Service Determination Letter. As part of this process a new compliance addendum has been prepared which will come in the form of Administrative Rule Part 13. Chairman Pinard asked Attorney Rich to update the trustees as to the status of the IRS compliance filings, which have been undertaken.

Attorney Rich gave a brief summary of the actions that had been undertaken and the status of two components which are part of the compliance process. Attorney Rich further stated that MECRS By-laws require that the proposed amendment to the Administrative Rule be posted thirty days before a Public Hearing which is required before the adoption of the Administrative Rule. Mr. Fleury indicated that the Public Hearing will probably be at the February MECRS Board meeting.

Attorney Rich noted the importance of stating that the proposed compliance addendum will in no way change any of the current member benefits for active employees or retirees.

The trustees discuss the compliance addendum and expressed their concern that adequate descriptive language accompany the public notice of the posting, to re-assure the MECRS membership that there will be no changes to their benefits and the operation of the System.

Attorney Rich and Mr. Fleury agreed to revise the posting cover letter for clarity.

Mr. Fleury then reminded trustees of the upcoming MECRS Board Organization, which is scheduled for the January Board of Trustees meeting.

Trustee Mercier referred to the recent presentation done at the A&A Committee meeting by People's United Bank for custodial services. She expressed her desire to be proactive relative to her position at People's United Bank with respect to any appearance of a conflict of interest. She informed the Board that she will recuse herself from any vote, discussions or meetings, relative to the MECRS custodial services. Mr. Fleury noted that he has received RFP responses from several qualified institutions and will proceed forward with this project in 2017.

Trustee Woitkowski referred to the pending outcome of the MECRS's Board election drawing, which was due to a tie vote. He stated that in the event, he is not the winner in that drawing, it has been a pleasure to serve on the Retirement System, Board of Trustees.

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**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Molan moved to adjourn the meeting at 9:15 a.m. seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director