

January 12, 2016  
Minutes #519

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

**Call to Order:** Chairman Pinard called the meeting to order at 8:31 a.m.

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

**Absent:** Dianne Mercier and Mayor Gatsas

**In Attendance:** Attorney John Rich of the McLane Middleton Law Firm 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 December 8, 2015.

Trustee Sanders moved to approve the board minutes of December 8, 2015, seconded by Trustee Molan and passed unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

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

**Report of the Executive Director:**

Final Distribution Received from PRISA/CIGNA Portfolio - Mr. Fleury began by stating that MECRS had carried a real estate related investment with CIGNA on its books. That portfolio represented a residual, which was illiquid and of dubious value. He reported that in December, MECRS was informed that a settlement and final distribution amount had been reached through class action litigation and MECRS subsequently received a final distribution by wire transfer, bringing closure to the investment.

Attendance at Seminar on Internal Controls – Next, Mr. Fleury reported that he attended a free seminar on internal controls, held December 15, 2015 at the Local Government Center in Concord. The seminar provided an opportunity to reaffirm the Systems' posture with respect to fraud indicators, segregation of duties in small organizations and adequacy of internal controls. Mr. Fleury indicated that he found no areas covered in the review, which suggested vulnerabilities at MECRS.

**Minutes of the Board of Trustees' Meeting -2-**

End-of-Year Activities Underway – Mr. Fleury informed the board that the annual physical inventory and petty cash reconciliations have been completed for 2015. He also reported that annual member statements have been prepared and mailed and that the 2015 draft comprehensive Annual Financial Report is underway and awaiting closing asset values from the MECRS investment managers, the System's custodial bank, and the System's investment consultant. In addition, Mr. Fleury stated that the valuation reports will be prepared and forwarded to the actuary before the next board meeting. Mr. Fleury then noted that the valuation should be ready for the March 8, 2016 Board of Trustees meeting.

MECRS Website Update – Moving on, Mr. Fleury reported that the MECRS website is no longer fully operational and, to date, no workaround has been found to extend its full operation. An automatic upgrade issued by Microsoft to server operators was loaded by the host in early December. That upgrade incapacitated many websites by rendering them unable to import files and load them to the site. Microsoft has issued a "hot fix" to the problem but the System's hosting company, Go Daddy, has refused to manually install the fix. Mr. Fleury indicated that Microsoft has responded that the fix will be part of an upgrade in January, but whether that actually restores upload capability, is guesswork at this time. Mr. Fleury stated that for reasons too complex to explain, a special workaround which allows MECRS website to keep the benefit calculator up-to-date, is in place and has worked thus far. Talks with prospective website vendors to replace Go Daddy are currently underway and a decision on the engagement of a vendor should be made shortly.

Trustee Lynch asked Mr. Fleury, once the contract is finalized with the new vendor, how long would it be before the new MECRS website is fully operational.

Mr. Fleury estimated that the new website would take a couple of months. He explained that the vendor would also provide a test environment of the new website, which would allow staff to review the development of the website, as well as the enhanced website controls, prior to becoming fully operational.

Investment Directives from December Completed – In closing his report, Mr. Fleury recapped the board's investment directive that Standish Mellon be terminated from the System's portfolio and the proceeds be invested in the S&P 500 Exchange Traded Fund. He explained that the directive was completed prior to the close of 2015; therefore, MECRS will begin 2016 with the allocation to Emerging Market Debt position closed, and a temporary allocation to the S&P in place.

Chairman Pinard inquired as to the total amount of the liquidated proceeds from Emerging Market Debt.

Mr. Fleury responded that the \$9 million in proceeds will temporarily be placed in the S&P 500 ETF, because of the ETF fund's daily liquidity options. Mr. Fleury mentioned that later in the meeting he would be requesting authorization from the Board, granting the Executive Director

**Minutes of the Board of Trustees' Meeting -3-**

the authority to liquidate shares of S&P 500 ETF (if necessary) in order to insure that sufficient operating cash is available for operations and until a long term cash flow plan is instituted.

Trustee Sanders inquired about the Board's past request, to review actuarial calculations with the current assumed rate of return and along with a lower assumed rate of return.

Mr. Fleury explained that his understanding is that the actuary was comfortable in providing those options to the MECRS board, but only within a certain range. The preliminary valuation will include options of the current rate of 7.25%, as well as lower rates, to be presented at the March Board of Trustees meeting. The actuarial analysis will also provide the trustees with the implications of the different rates. Mr. Fleury noted that the System's investment consultant NEPC is also scheduled to attend the March board meeting.

Trustee Sanders asked Mr. Fleury to confirm with the actuary, that the 6.75% assumed rate of return, falls into the range of rates that the actuary is comfortable with and will be included in the preliminary valuation, to which Mr. Fleury responded, he would seek confirmation from the actuary that the 6.75% rate will be included in the preliminary valuation.

Mr. Fleury stated that the objective of the March BOT meeting is to review the range of earnings assumptions by the actuary, for the MECRS investment consultant to corroborate the return expectations as adequate and to provide an optimized asset allocation to keep the return expectation as high as possible and to provide adequate liquidity.

Mr. Fleury then distributed a request for motion to the board and explained that, historically, the MECRS Board has been unable to make quorum for the February board meetings, therefore, he noted the importance of the request for board action, granting authorization to the Executive Director to liquidate shares of S&P 500 ETF, (if necessary) in order to insure that sufficient operating cash is available to prevent overdrafts by the monthly annuity payroll, to honor capital calls on pre-existing investment commitments, and pay vendors and service providers until the March 8, 2016 board meeting.

Mr. Fleury further explained that the exact timing of capital calls on investment commitments cannot be determined with precise accuracy and until such time as a long term cash flow plan is instituted, authorizations of this type may be needed periodically because of the irregular nature of the System's cash flow.

After lengthy discussion and consideration by the board, Mr. Fleury amended his request for motion by adding that upon exercising the requested motion, the Executive Director must also notify the Board of Trustees of the amount of the transfers.

**Minutes of the Board of Trustees' Meeting -4-**

Trustee Sanders stated his concern with the pending cash flow decision moving forward and he also expressed his frustration with NEPC representatives in the delay in recommending a comprehensive cash flow plan and process for the Board's consideration.

At that point in the meeting, Mr. Grzejka, NEPC investment consultant arrived and Mr. Fleury updated him as to the concerns of the board regarding the cash flow plan and liquidity needs within the MECRS portfolio. He asked Mr. Grzejka if he would be able to set a date as to when the Comprehensive Cash Flow Plan will be presented to the MECRS Board for adoption.

Mr. Grzejka began by stating that the S&P 500 ETF is a good source of funding for capital calls and the like. Other cash flow needs can be addressed by reviewing the System's portfolio to determine where it is relative to the target allocation, placing the focus on asset classes that are overweight, which can be reduced to raise cash. He stated that Private Equity and Hedge Funds are fairly illiquid funds and, therefore, they are not a potential source to meet the System's cash flow needs.

Attorney Rich of the McLane Middleton Law Firm inquired whether additional commitments to real estate would add to the existing long term obligations shown on the financial statements.

Mr. Fleury replied that they would and he elaborated on the complexities associated with cash flow and the challenges which exist because many of the balances available for reconciliation purposes are several weeks old.

Mr. Grzejka confirmed that S&P Fund is the appropriate proxy to use for capital calls, to keep the funds invested.

Trustee Sanders expressed his concern in keeping the portfolio in target with the asset allocation model. He mentioned possibly redeeming funds from Hedge Funds and managing the cash flow issue with a mechanism to reconvert some of the more liquid funds. This could be done in recognition that more cash is needed while maintaining the 2% cash allocation.

Trustee Molan reminded the board that when it decided on the allocation to the S&P 500, it was not as a strategic investment for cash.

Trustee Molan asked Mr. Grzejka when NEPC will be presenting the board with a cash flow plan, to which Mr. Grzejka replied, NEPC will have a Plan for the board's consideration at the March Board meeting.

Trustee Molan moved to authorize the Executive Director to liquidate shares of the S&P 500 ETF, (if necessary) in order to insure that sufficient operating cash is available to prevent overdrafts by the monthly annuity payroll, to honor capital calls on pre-existing investment commitments, and to pay vendors and service providers, until rescinded by the MECRS Board of Trustees. Also, as part of his motion, Trustee Molan stated that each time the Executive Director

**Minutes of the Board of Trustees' Meeting -5-**

exercises authority granted by this motion, members of the MECRS Board of Trustees shall immediately be notified. Trustee Lynch seconded the motion, and the motion passed unanimously by all those trustees present.

**Report of the Investment Committee:**

Committee Chairman Molan reported that the MECRS Investment Committee met at its scheduled time on Thursday, January 7th. Present in addition to himself were Committee Members Diane Mercer and Mike Woitkowski, NEPC Consultants Kevin Leonard and Sebastian Grzejka, Attorney John Rich, Jr., Executive Director Fleury and Executive Assistant Aboshar.

Committee Chairman Molan noted that the objective of the meeting was to interview three potential real estate managers to expand exposure to real assets and real estate in particular.

Committee Chairman Molan reported that the Committee had interviewed Blue Vista Capital Management, which is geographically diversified across the US and also by asset class, (office, multi-family, industrial and retail).

The second interview Committee Chairman Molan reported was with Brookfield Strategic Real Estate Partners, which is geographically distributed across the US, China, India, Australia, Europe and Brazil and also by asset class, (office, multi-family, retail, industrial and hospitality).

The third manager, DSF Group, Committee Chairman Molan reported, is geographically clustered in the northeast corridor, (Boston, New York & the District of Columbia) and focuses on multi-family, transportation oriented properties which include a host of tenant amenities.

Committee Chairman Molan continued to report that NEPC's original recommendation was for MECRS to commit an additional \$4 million to real estate. He explained that while all three of the managers would welcome a commitment of that amount, the Committee was so impressed with the presentations of all three managers, that selecting a single manager for the \$4 million allocation proved to be difficult. The Committee considered splitting the allocation between two managers and also asked NEPC whether increasing the new allocation above the \$4 million level was possible. It was recognized by the committee that Blue Vista and DSF were approaching their final closing, while Brookfield was not scheduled to close until later in 2016.

Committee Chairman Molan reported that during the Investment meeting, Committee Member Mercier offered a motion to have the Committee recommend that the MECRS Board potentially split an initial \$4 million investment between Blue Vista and DSF Group and to charge NEPC to come before the MECRS Board with a recommendation on how best to split that allocation. Furthermore, he stated, the motion requires that NEPC be tasked to consider whether MECRS should revisit the question of an allocation to Brookfield later in the year, based upon the more distant closing date of the Brookfield offering, and to identify which existing allocations would

**Minutes of the Board of Trustees' Meeting -6-**

be liquidated to provide funds for that investment. The motion received a second from Committee Chairman Molan; the vote was taken and motion passed unanimously.

Committee Chairman Molan reported, it is the Investment Committee's recommendation, the full Board consider NEPC's recommendation to allocate specific amounts to specific Real Estate managers at this time.

Before turning the meeting over to NEPC Representative Grzejka, Committee Chairman Molan noted, it was the committee consensus that all three managers were impressive with similar returns and fee requirements, and they all indicated that within a short time period, they would be returning income to the MECRS's portfolio.

Mr. Grzejka distributed the NEPC 2016 Outlook booklet to the Trustees. He then reiterated Committee Chairman Molan's earlier comments that all 3 managers offered different volatility characteristics that were deemed attractive by the Investment Committee as well as NEPC.

Mr. Grzejka reported that after researching the possibility of investing in all three managers, without detrimentally impacting the System's portfolio or future commitments, NEPC is now recommending that MECRS commit a \$6 million allocation to Real Estate and to invest \$2.5 million to Blue Vista, \$2 million to Brookfield and \$1.5 million to DSF Group.

Chairman Pinard referred to an earlier comment by Mr. Grzejka that the DSF Group is better suited for larger institutions and he asked Mr. Grzejka for NEPC's rationale in recommending the DSF Group to MECRS.

Mr. Grzejka replied that on a standalone basis, he confirmed his earlier comment that DSF Group is good for a larger fund, however, as part the value add real estate allocation, the DSF Group will offset the shortcomings of the other managers and will compliment the other managers as well. The combination of all three managers would provide a broad and diversified exposure to value added and opportunistic real estate.

The trustees continued to discuss the three Real Estate Manager's presentations at length and the strategy employed by each, with Mr. Grzejka highlighting their track records as well as their projected future returns.

It was then moved by Trustee Molan to accept NEPC's recommendation to move forward with the value-added Real Estate recommendation and to invest \$2.5 million to Blue Vista, \$2 million to Brookfield and \$1.5 million to the DSF Group, with each investment subject to review of the contracts by legal counsel. Trustee Sanders seconded the motion and it passed unanimously by all those trustees present.

January 12, 2016  
Minutes #519

**Minutes of the Board of Trustees' Meeting -7-**

**New Business:**

Review of Asset Allocation for 2016 - Mr. Grzejka began his presentation by directing the trustee's attention to page 3 of the NEPC 2016 Outlook booklet and he summarized the 2016 capital market observations. He stated that NEPC believes that maintaining exposure to U.S. risk assets in a low return environment makes sense and he provided examples of U.S. risk assets.

Mr. Grzejka also reaffirmed MECRS's commitment to emerging market equities. Relative to global equities, he indicated that NEPC believes that non-US equities make sense. In addition, Mr. Grzejka stated that NEPC would recommend seeking tactical fixed income strategies and to preserve duration exposure and to explore positive yielding assets resulting from energy market distress.

Mr. Grzejka then directed the trustees to turn to page 12 of the presentation booklet, 2016 Asset Allocation Review. He reported that relative to last year, most asset classes have seen an increase in expected return with the exception of cash and real assets. The Plan's expected return slightly increased in 2015, from 6.2% to 6.3%. The 2016 expected 30 year return remained the same at 7.4%.

Working through the presentation booklet, Mr. Grzejka listed several asset allocation strategies for the board's consideration and discussion. The goal, he informed the trustees, is to get a sense of the board's risk appetite.

Attorney Rich asked Mr. Grzejka if NEPC's earlier recommendation to the real estate allocation was included in the Total Return column on page 13 of the booklet, to which Mr. Grzejka replied that the Total Return column and Aggressive column both include NEPC's recommendation to the real estate allocation.

Mr. Grzejka and the board continued to discuss the allocation to traditional equities, low current yields in fixed income, and the MECRS hedge fund allocation. Mr. Grzejka also raised the potential for a new liquid alternatives strategy.

The board continued a lengthy discussion regarding lowering the 7.25% assumed rate of return, the amortization period and the funded status of the Plan. The board concluded that these subjects should be further discussed at the March BOT meeting when the actuary would be present and the 2015 valuation would be largely complete.

Trustee Molan requested that NEPC provide a list of the managers within the MECRS portfolio as well as the manager's objective and asset class, to which Mr. Grzejka responded that he would do so.

**Minutes of the Board of Trustees' Meeting -8-**

Lastly, Mr. Grzejka stated that the current total return approach is appropriate given the goals and objectives of the Plan and that some enhancements can be made to better position the Plan for today's opportunities which will require a discussion around the risk profile of the portfolio.

As part of the review, Mr. Grzejka listed the following recommendation for the board's consideration. Review of the international equity exposure and structure, consider adding an absolute return fixed income manager, reorganize hedge fund allocation to include liquid alternative and for a continued commitment to private investments.

It was then moved by Trustee Sanders to direct NEPC to begin the absolute return fixed income search, seconded by Trustee Molan and passed unanimously by all those trustees present.

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

**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 – Chairman Pinard stated that none of the MECRS Trustees have indicated that they are unable to continue with their current committee assignments, therefore, the Investment Committee, Administrative & Accounting Committee and the Benefits Committee will remain unchanged for the coming year.

**Other Business:**

Chairman Pinard announced that due to a schedule conflict, he is unable to attend the February MECRS Board meeting. Historically, he stated, it has been difficult to have a quorum in the month of February.

Mr. Fleury commented that, other than the standard Consent Agenda, there was not anything critical coming up in the February timeframe.

After brief discussion by the trustees, it was agreed to cancel the February MECRS Board meeting and to resume the meetings on the second Tuesday in March. All the trustees in attendance were in agreement with Chairman Pinard's suggestion.



January 12, 2016  
Minutes #519

**Minutes of the Board of Trustees' Meeting -9-**

**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 10:40 a.m. seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director