

July 12, 2016
Minutes #525

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, 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: William Sanders and Mayor Gatsas

In Attendance: Attorney John Rich, & Legal Intern Jacqueline Botchman both from the McLane Middleton Professional Association and Mark LaPrade of Berry Dunn

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the previous board minutes of June 14, 2016.

Trustee Molan moved to approve the board minutes of June 14, 2016, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

New Business:

Presentation of MECRS Audit Results for 2015 - System Auditor, Mark LaPrade, of the firm Berry Dunn, was in attendance to deliver the MECRS audit results for 2015.

Mr. LaPrade began by distributing the Executive Summary of the audit results and outlining his presentation.

Directing the trustees attention to page 3 of the Executive Summary, Mr. LaPrade stated that the audit was performed in accordance with U.S. Generally Accepted Auditing Standards and Government Auditing Standards. He also stated that it is Berry, Dunn's responsibility to obtain reasonable, not absolute assurance to express an opinion about whether the financial statements prepared by management are fairly presented in all material respects.

July 12, 2016
Minutes #525

Minutes of the Board of Trustees' Meeting -2-

Mr. LaPrade noted that the audit does not relieve management of its responsibility and he further commented on a job well done by the MECRS staff in preparing the Plan's financial statements to the audit team.

Mr. LaPrade explained that the audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessment of accounting principles, assessment of estimates used by management and evaluation of overall financial statement presentation. Mr. LaPrade stated that Berry, Dunn's audit opinion, covers the basic financial statements and does not cover other information included in the MECRS 2015 Comprehensive Annual Financial Report.

Moving on to the qualitative aspect of accounting practices, Mr. LaPrade reported that there were no new accounting policies adopted by the retirement system and the application of existing policies was not changed during 2015.

Mr. LaPrade stated that there were no transactions where there was a lack of authoritative guidance or consensus and all significant transactions had been recognized in the proper period.

Turning the trustees attention to slide 3 of the presentation booklet, Mr. LaPrade identified the most sensitive disclosures as, the schedule of net appreciation (depreciation) in fair value of investments, reflected in Note 3 of the CAFR, the disclosures required by GASB 40 for the investments held as of December 31, 2015 found in Note 7 of the financial statements, and the net pension liability of the Plan, found in Note 9.

He further noted that there will be an additional sensitivity disclosure to Note 10, Actuarial Valuation Method and Assumptions, which will include the net pension liability to a 1% change in the discount rate.

Next, Mr. LaPrade listed the more significant accounting estimates that affected the financial statements. Those include: the calculation of actuarially determined contributions, actuarial accrued liability, the actuarial value of plan assets of the Health Trust, as well as the total pension liability and net pension liability of the Pension Trust. He informed the board that the Health Trusts is reflected in Note 8 of the financial statements, and Note 9 reflects the Pension Trusts.

Mr. LaPrade reported the fair value of investments, valued on a basis other than at quoted prices in an active market, as \$34.9 million at 12/31/2015, compared to \$31.3 million at 12/31/2014.

July 12, 2016
Minutes #525

Minutes of the Board of Trustees' Meeting -3-

He then informed the board that the last accounting estimate which affected the financial statements is the allocation of financial statement amounts between the Pension and Health Subsidy Trusts and he noted that the management judgments used in developing the accounting estimates are appropriate.

From an audit adjustment standpoint, Mr. LaPrade reported that there were not any adjustments to the financial statements as a result of the audit process. However, he listed the five unrecorded audit adjustments for 2015, which were similar to the prior year.

Mr. LaPrade reported that the cumulative effect of the unrecorded audit adjustments would result in an increase in the net decrease in fiduciary net position of approximately \$238,000 (4% of the net decrease).

Regarding the second unrecorded audit adjustment, the impact of the actuarially calculated underpayment of employer contributions for the applicable City Departments, Trustee Mercier asked Mr. Fleury how the City makes the correction.

Mr. Fleury replied that the City makes the adjustment in the form of a "True-up", which is documented in the MECRS annual valuation, and that it has never been an issue in the past.

Mr. Fleury then took the opportunity to thank Mr. LaPrade for his part in providing input on a conference call held with the MECRS Actuary, Gabriel, Roeder Smith & Co., to expanding the chart of accounts and improve the tracking of employer contributions for various enterprise funds and for the City's general fund.

Requesting input from the trustees, Mr. LaPrade asked, if any of the trustees were aware of any instance or allegations of fraud with the System, to which the trustees responded, that they were not aware of any instances or allegations.

Next, Mr. LaPrade summarized the Required Supplementary Communications, Yellow Book Report. He explained that the Yellow Book Report is required by GASB and related to internal controls over financial reporting and compliance, however, the key distinction to note is that Berry, Dunn is not expressing an opinion on the Required Supplemental Information (RSI).

Mr. LaPrade explained that certain tests were performed on the Retirement System's compliance with certain provisions of laws, regulations, contracts and grant agreements where noncompliance would be direct and material to the financial statements. He informed the board that the audit did not detect any instance of noncompliance or other matters that would require reporting.

Referring to the audit presentation, Mr. LaPrade summarized the statement of changes in the Fiduciary Net Position for 2015 and highlighted the components of the

July 12, 2016
Minutes #525

Minutes of the Board of Trustees' Meeting -4-

increases and decreases within 2015. He noted that the gap is narrowing between the Total Contributions and Benefit Payments.

In closing his report, Mr. LaPrade noted that there will be a few minor edits to the CAFR, but nothing substantial.

Regarding Mr. LaPrade's earlier comment that internal controls are not included in the audit, Chairman Pinard asked Mr. LaPrade if that was usual practice by the audit team to which he replied, that it is common practice not to audit the internal controls in the audit.

Mr. Fleury noted that the structure of the internal controls is documented with flowcharts which are updated annually. Those flow charts are provided to the audit team since they indicate the internal procedures used by the organization.

Trustee Lynch motioned to accept and place on file the 2015 MECRS Audit results, seconded by Trustee Woitkowski and passed by all those trustees present.

Mr. LaPrade thanked the board for their time and stated that he would be submitting the final audit letter to the System.

New Business:

NEPC Recommendation on Blackrock SIO - Mr. Fleury explained that MECRS recently invested in Blackrock SIO Institutional Shares at the recommendation of the System's Investment Consultant, NEPC. NEPC is now recommending that the System "swap" the existing shares of Blackrock SIO for a new issue which has a lower fee structure. He further stated that in order for administrative staff to act upon NEPC's recommendation, the board's approval is necessary.

Mr. Fleury then placed a call to NEPC Consultant, Sebastian Grzejka so that he would provide the board with a better understanding of the recommendation, but he was unable to reach Mr. Grzejka, therefore, leaving a message to return his call.

The trustees briefly discussed the Blackrock investment and agreed that until such time that NEPC consultants could explain their recommendation, they would move to table the agenda item.

Trustee Woitkowski moved to table the recommendation on Blackrock SIO, seconded by Trustee Molan and passed unanimously by all those trustees present.

July 12, 2016
Minutes #525

Minutes of the Board of Trustees' Meeting -5-

Consent Agenda:

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

Report of the Executive Director:

Termination of Archstone Underway: Mr. Fleury reported that last month, the Board directed that Hedge Fund manager, Archstone be terminated as part of revisions to the asset allocation. The request to redeem all shares was issued before the end of the quarter ending June 30th, which indicates that the Fund can expect the first proceeds in early October. Complete redemption is not likely to occur until the Archstone audit for 2016 is completed mid way through 2017. He noted that the redemption status has been added to the monthly cash flow report and will record progress until the redemption is complete.

Website Development: Next, Mr. Fleury informed the board that testing on the new MECRS's website is now underway and as expected; there are many items which need to be addressed before development is complete. He further noted, however, that he expects rapid progress on the project and will continue to provide the board with updates.

Report of the Investment Committee:

Investment Committee Chairman Molan confirmed that the next Investment Committee meeting has been scheduled for Thursday, July 28, 2016 at 9:00, to follow through with NEPC's recommendation, to conduct interviews of three prospective Private Equity Managers for the board's consideration.

New Business:

Mr. Grzejka from NEPC then returned Mr. Fleury's call made earlier in the meeting and was available via speaker phone to address the trustees' questions and concerns, regarding the Blackrock conversion.

Chairman Pinard then entertained a motion to remove the New Business item #2, NEPC Recommendation on Blackrock. Trustee Molan made a motion to remove the New Business Item #2 off the table, seconded by Trustee Lynch and passed unanimously by all those trustees present.

July 12, 2016
Minutes #525

Minutes of the Board of Trustees' Meeting -6-

Mr. Fleury asked Mr. Grzejka to elaborate on the difference between Fund I and Fund K, Mutual Fund Shares and to also provide the trustees with a better understanding as to why Blackrock would be interested in running a portfolio with the same content, but for a lesser fee.

Mr. Grzejka explained that it has become an industry wide trend that managers are re-evaluating fees across the board and Blackrock has been proactive in this area. He also stated that while reviewing the universe of absolute return and diversified fixed income managers, those manager fees tend to be lower than what Blackrock was offering in there institutional share class. He elaborated further on the different share classes as well as the managers reasoning for offering a slightly lower share class.

He continued to explain that this is a fund for investors who have at least \$5 million to invest and who constitute true institutional investors.

Trustee Mercier inquired about past investment fees paid and whether the System has been overpaying. She also asked whether other managers are also offering lower fees in which the System can take part.

Mr. Grzejka replied that NEPC is reviewing all investment managers' fee structures.

Chairman Pinard asked Mr. Grzejka, why Blackrock did not simply just reduce their fees in the I Shares, rather than introducing the new K series.

Mr. Grzejka suggested that with the Blackrock I shares, they may be willing to negotiate on the minimum investment to get into the Fund and on the K series they may be more stringent with the minimum of \$5 million.

Trustee Woitkowski asked if both funds are managed the same, for which Mr. Grzejka replied, that both funds are identical.

Chairman Pinard thanked Mr. Grzejka for his time and the conference call ended.

It was moved by Trustee Woitkowski to move forward with NEPC's recommendation to swap the existing shares of Blackrock SIO for a new issue which has a lower fee, seconded by Trustee Molan and passed by all those trustees present.

July 12, 2016
Minutes #525

Minutes of the Board of Trustees' Meeting -7-

Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:06 a.m. seconded by Trustee Molan and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director