

November 8, 2016  
Minutes #529

**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, Dick Molan, Robert Lynch and Mike Woitkowski  
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

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

**Excused:** None

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

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

Trustee Molan moved to approve the minutes for the meetings held September 13, 2016 and October 11, 2016. Trustee Lynch 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 Woitkowski and passed unanimously by all those trustees present.

**Executive Director Report:**

Website Development - Mr. Fleury began by informing the board that the new MECRS website launched on Wednesday, October 19<sup>th</sup> and he stated that as with all endeavors, there are always refinements that need to be made, and those minor issues have been resolved. He noted that a flier was designed and was distributed to plan participants promoting the new website and also providing them with instructions, so that they can create an account, giving them the ability to run their own benefit calculations.

Meeting with Peoples United Bank - Next, Mr. Fleury reported that on October 27<sup>th</sup>, a team from the Retirement System, as well as a representative from the City Finance Department, met with a team from People's United Bank, to hear about alternatives to the custodial services currently provided by State Street Bank & Trust.

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As a result of that meeting, Mr. Fleury informed the board that representatives from People's United Bank agreed to provide the MECRS with a proposal for custodial services.

Once the proposal is received and any refinements have been addressed, Mr. Fleury stated that People's United Bank has agreed to meet with the MECRS Administration & Accounting Committee, to explore the merits of a migration of custodial services to Peoples United Bank.

Trustee Molan asked Mr. Fleury if he has researched any other financial institutions that offer custodial services, to which Mr. Fleury explained, there are a limited number of banks that offer custodial services.

Sebastian Grzejka interjected that NEPC was near completion of its analysis of materials received from a Request For Information, regarding custodial services, conducted at the board's request. He noted that NEPC has received seven responses which includes the pending proposal from Peoples United Bank. He noted that the responses to the RFI will be available to the board in the coming weeks. Chairman Pinard noted that in light of Trustee Mercer's leadership position at People's United Bank, that the appropriate conflict of interest protocols would be followed when the Board considered the responses to the RFI.

**Status of Portfolio Rebalancing:** Mr. Fleury stated that in response to the trustee's actions at the September board meeting, in accepting the rebalancing recommendations of NEPC, he reported that the following actions have been completed:

- An additional commitment of \$5 million to Gryphon International effective November 1<sup>st</sup>
- Redemption of Archstone commenced on September 30<sup>th</sup>. Mr. Fleury explained that due to the proceeds not being received for several weeks, it appears as though the fund suddenly dropped by \$9.3 million on custodial reports. He reported, the funds are a receivable as of September 30<sup>th</sup> and are carried as such, on the MECRS books.

**MECRS Cash Flow Concerns.** Mr. Fleury reported that the MECRS S&P 500 ETF contains a residual temporary commitment of \$1,131,169 from the liquidation of Standish Mellon back at the end of 2015. He explained that the Board had granted a temporary authorization, for a limited period, for the use of those proceeds to meet cash flow needs, however, funds were not needed and that period has expired. He further stated that at the October MECRS board meeting, the trustees voted to commit \$10 million to Standard Life, with proceeds to come from the liquidation of Archstone. The Archstone liquidation only produced \$8,874,292, which leaves \$467,067 as a receivable until next June or July. Therefore, the immediate proceeds from Archstone are inadequate by \$1,125,708 to meet the funding for Standard Life. Utilizing the balance of the Standish Mellon residual, Mr. Fleury reported, will allow MECRS to cover the new investment and remain inside our operating cash target.

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Mr. Fleury then recommended that the Board consider granting authorization, to draw upon the Standish Mellon residual, to meet the funding target for Standard Life of November 25th. Trustee Lynch moved to grant authorization to draw upon the S&P 500 Index Fund, in the amount of \$1,131,169 to meet the funding target for Standard Life, seconded by Trustee Molan and passed unanimously by all those trustees present.

**Budget Development for 2017 Underway:** Mr. Fleury stated that all budget estimates have now been quantified and the 2017 draft budget is ready for review by the Administration & Accounting Committee. He reported that the draft budget is a fractional percentage lower than the 2016 level and adequately addresses the operational needs of the MECRS Organization. He further requested that Committee Chairman Woitkowski, schedule a meeting of the Administrative & Accounting Committee, to review and make any changes to the draft budget before offering a recommendation to the full Board. Mr. Fleury recommended that to conform with the Generally Accepted Accounting Principles relating to 2017 expenditures, the full Board should approve the 2017 budget at the December 13<sup>th</sup> meeting.

After brief discussion on the committee member's availability, Committee Chairman Woitkowski scheduled the next A&A Committee Meeting for Tuesday, November 22, 2016 at 8:30 a.m.

**Consent Agenda:**

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

**New Business:**

**Identification of Potential Managers for International SMID Cap Interviews –** Sebastian Grzejka from NEPC, MECRS Investment Consultant, was in attendance to showcase six potential, International SMID Cap Managers, and to assist the board in selecting three of those firms for interview purposes by the MECRS Investment Committee.

Mr. Grzejka explained that the International SMID Cap Manager search is the final piece of NEPC's review and recommended changes to the MECRS asset allocation. He further noted that the research process identifies a Focused Placement List of preferred strategies representing the strategies that NEPC expects will provide superior investment performance over time.

After distributing the Manager Search Booklets to the board, Mr. Grzejka directed the trustees attention to tab 2, listing the six potential candidates: DFA, Fidelity International SMID Cap, Grantham, Mayo, Van Otterloo & Co., Highclere International Investors, Kabouter Mgmt. and Segall Bryant & Hamill. He provided the board with an in-depth overview of each firm,

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inclusive of their Investment style/strategy, performance expectations and portfolio positioning.

After a brief question and answer session regarding footnotes on the candidates within the Manager Search Booklet, Chairman Pinard asked Mr. Grzejka to reiterate the MECRS strategy for investing in the International SMID Cap sector.

Mr. Grzejka indicated that the MECRS portfolio is currently set up with International Equity Managers: Gryphon, Causeway, and City of London. He explained that City of London is focused on emerging markets, Gryphon is more of a growth manager, large cap oriented, focused on developed non-U.S, and Causeway International is focused on value within the developed space, resulting in a core portfolio. He elaborated on the opportunities of the small cap space as an alpha generator.

After a review of country allocation graphs for each of the firms and discussion regarding the investment approach of each firm, the board agreed to schedule an Investment Committee meeting and selected Fidelity, Kabouter Management and SBH for interviews on Monday, December 5, 2016.

Mr. Grzejka referred to the September Flash Report and summarized MECRS' total composite of \$204,009,940, which he noted is up 6% year to date. Mr. Grzejka highlighted some of the strong returns in asset classes, such as: Fixed Income, Real Estate/Real Assets , and Hedge Funds.

**Other Business:**

**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:30 a.m. seconded by Trustee Molan and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director