September 13, 2016
Minutes #527

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, Dick Molan and Robert Lynch, and Dianne Mercier arrived at 8:43 a.m. and Mike Woitkowski departed at 10:02 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, Sebastian Grzejka and Kevin Leonard both from NEPC and Ken Alberts from Gabriel, Roeder, Smith and Co.

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the previous board minutes of August 9, 2016.

Trustee Molan moved to approve the board minutes of August 9, 2016, seconded by Trustee Lynch 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:

Ransomware Concerns Addressed: Mr. Fleury began by stating that a whole new generation of cyber threats are disrupting the operations of businesses every day and while MECRS is well postured to recover from a cyber attack, preventing one is a preferable tactic. He went on to explain that in response to a serious increase in the threat rate, MECRS has begun implementing new procedures to mitigate the likelihood of a service disruption. Ransomware utilities have been added to the Malware and virus protection suite, and a comprehensive review of security has been undertaken to keep threat levels as low as possible.

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Password Vault: Mr. Fleury then reported that MECRS has been testing the use of a password vault. He informed the trustees that keeping track of a large number of complex passwords and using passwords of high enough complexity, to ensure maximum security, was a concern discussed with consultants during the security audit, earlier this year. After evaluating competitive products, one was selected, installed, configured and tested. He explained how the password vault works and makes access more secure and that it also improves business efficiency and hence productivity.

Website Development: Next, Mr. Fleury updated the board on the development of the new MECRS website and he informed the board that the list of outstanding issues, continues to dwindle. He noted that the System will not "Go live" until the new site is fully operational and that in the mean time, the current MECRS's website continues to operate with minimum difficulty.

Pre-Retirement Seminar: Moving on, Mr. Fleury reported on the recent MECRS Pre-Retirement Seminar, held September 1, 2016. He informed the board that there were 143 registered attendees, including spouses of members. For the first time , after years of conducting these seminars, he noted that the System was made aware that one of the registrants was hearing impaired and required a sign language interpreter. Mr. Fleury commended Sandi Aboshar for her role in locating and booking interpreters for the session. The other presenters were notified in advance that an interpreter for the hearing impaired would be present and that entire aspect worked out fine. Mr. Fleury then wanted to go on record, thanking both staff members for their help. He noted that when he arrived at the conference center at 7 a.m., both staff members were already there and in the process of setting things up. One of the staff members left the seminar early as planned, in order to open the Retirement Office at a set time. Mr. Fleury also reported that, request for services forms and seminar evaluation forms, were collected from participants and are currently being reviewed and will be processed as time permits. Thank you notices have been sent to all the presenters and, in general, the seminar could not have gone much better. He then requested that if the trustees should hear anything to the contrary, to please notify the System so that those criticisms can be addressed.

Reporting for Jury Duty: Mr. Fleury then informed the board that he has been selected for Jury duty for the months of November and December and that the schedule indicates, he would not be able to attend the MECRS Board meetings for either of those months. Mr. Fleury explained that MECRS' legal counsel suggested he submit a letter to the courts, requesting exemption for the second Tuesdays in both months, explaining that it would create hardship for the organization if he was not in attendance during those meetings. He was pleased to report that the court system has granted his request for those dates, but that he is expected to be at jury duty for those days in the other weeks.

In closing his report, Mr. Fleury noted that he spoke with Administrative & Accounting Committee Chairman Woitkowski, about scheduling a meeting of the A&A Committee to review a draft of the 2017 MECRS administrative budget. Mr. Fleury then referred to the pending 5-year study which is due. He reminded Mr. Ken Alberts of Gabriel, Roeder Smith and Co., of the firm's need to submit a cost estimate to be included in that budget.

Consent Agenda:

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

New Business:

Special Report From Gabriel, Roeder, Smith & Co – Mr. Alberts directed the trustees attention to the Benefit Changes Supplemental Valuation Report, which was commissioned by the board in connection with exploring options to improve the long-term viability of the System. He noted that the report is intended to describe the financial effect on the pension portion of the Retirement System were any of the options to be implemented and that the report is not intended to make formal recommendations for any changes. He explained that the project has been broken down into 2 phases, which consist of individual proposals, and the aggregate proposal.

Phase One of the requested analysis, Mr. Alberts stated, comprises stand-alone valuations of the first eight items from the May 13, 2016 fee letter describing the requests. Phase Two, will indicate how each proposal interacts with each other and effects each other's costs, when combined.

Mr. Alberts then listed the current pension provisions, assumptions and policies, which will be affected by the proposals as; the adoption of COLA's, normal retirement age 60, early retirement reduction, 3-year final average earnings (FAE), member contribution rate and the 24-year closed amortization period.

Next, Mr. Alberts identified eight proposals in detail. Referring to proposal five, which states, "Change in early retirement reduction from 1/6 of 1% per month early to an actuarial equivalent." Trustee Sanders asked Mr. Alberts to clarify the term, actuarial equivalent reduction. Mr. Alberts provided the trustees with a couple of different scenarios where the actuarial equivalent reduction would be used.

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Trustee Woitkowski asked Mr. Alberts if any consideration was taken for employees who choose to retire early and have made the additional contributions. Mr. Alberts referred to a notation that states that the additional contributions are fully funded by the member's contributions, therefore it does not affect the System's cost. However, any of these changes will affect the member's commencement date for collecting their retirement benefit. Mr. Alberts explained that a change in the early retirement reduction, basically changes the members target date for retirement.

Trustee Sanders noted that the goal is to create a higher degree of confidence, that the MECRS will remain stable for another 20 years.

Next, the trustees discussed the effects of proposal 6, Increase the Final Average Earnings (FAE) period to 5 years (but not less than the 3-year FAE on the date of the change.)

Mr. Fleury stated that currently, the Plan calculates the members FAE using the highest 36 consecutive months in the last ten years and extending the 3-year period to 5-years may bring in some lower salaries. Mr. Fleury suggested that due to the complexity of the proposal the board may want to consider gradually increasing the 3-year average. The trustees continued to discuss all the factors which would need to be taken into consideration regarding proposal 6.

Referring to page 5 of the Supplemental Actuarial Report Mr. Alberts highlighted the effects on the Employer Pension Total, between utilizing the existing MECRS current data and assumptions and the affects under the proposed changes.

Trustee Sanders asked Mr. Alberts what the affect would be of eliminating the 4% yearly increase in the MECRS health insurance subsidy. Without being specific, Mr. Alberts replied that the elimination of the increase would have a great impact.

Chairman Pinard expressed concern that the System could see a significant drop in retirees using the subsidy. Because of the high cost of the City's health insurance currently in place, the enrollment could definitely be affected if the System were to eliminate the subsidy increases.

After lengthy discussion regarding the health of the Pension Fund, each of the trustees stated the combination of proposals that they were interested in reviewing in Phase Two of the Supplemental Report.

The trustees then reviewed a tally of which combinations they were interested in pursuing and subsequently refined it to the most common combinations. Mr. Alberts noted the request and agreed to begin Phase Two of the Supplemental Valuation.

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It was then moved by Trustee Molan to table the Supplemental Valuation Report, seconded by Trustee Lynch and passed by all those trustees present.

Discussion with NEPC Investment Consultant – Representatives Mr. Kevin Leonard and Mr. Sebastian Grzejka were present to discuss the selection of three Liquid Alternative Managers to be interviewed at the next Investment Committee meeting and to discuss the re-balancing of the MECRS portfolio and the transfer of assets between existing managers.

Mr. Grzejka began by referring to the recent liquidation of Archstone Management and NEPC's recommendation to move 5% of the MECRS portfolio to Liquid Alternatives.

Mr. Grzejka then referred to a hand-out entitled Liquid Alternative Manager Search and directed the trustees turn to pages 10 and 11. He provided the board with an overview of 5 managers for their consideration.

Mr. Leonard explained that NEPC's investment manager research process identifies a Focused Placement List of preferred strategies, representing the strategies that NEPC expects will provide superior investment performance over time.

Mr. Grzejka provided the trustees with the investment style, strategy and fee structure of each of the 5 managers. He then informed the trustees that based on all the characteristics of each of the liquid alternative managers, NEPC is recommending interviews with the firms, William Blair, AQR Capital Management and Standard Life Investments.

Mr. Grzejka reminded the board that the liquid alternative allocation is an evolution of the Hedge Fund space. Liquid Alternatives are more liquid, less expensive than traditional hedge funds and they offer the same characteristics from a diversification perspective.

After brief discussions regarding NEPC's presentation of the liquid alternative search, the board agreed to schedule interviews with the three managers that NEPC recommended.

Regarding NEPC's rebalancing recommendation, Mr. Grzejka reported August to be a positive month for the composite level, year to date through August, which should be right around 5% from a performance perspective. Also, Mr. Grzejka reported on the asset allocation adjustments that were made earlier this year, and he stated that NEPC is recommending, to take gains from large cap and small cap off the table and bring them to other parts of the portfolio. He informed the trustees of the recommended transfer from Mellon Capital and Rothschild Investments and adding to Gryphon International Equities.

Within the fixed income sector, Mr. Grzejka recommended a small adjustment from Loomis Sayles to Blackrock and Income Research Management, which would be pulling from a manager that has had a very strong year. Also, Mr. Grzejka recommended adjusting the core real estate allocation to target through an additional funding to PRISA.

Mr. Fleury expressed his concerns regarding NEPC allocating funds away from Loomis Sayles, which have historically been positive performers and re-investing in Income Research & Mgmt., which has never come close to contributing in a meaningful way to the MECRS earnings assumption, and he asked NEPC for their rational in making that recommendation. He expressed his belief that it is a philosophy more appropriate to an endowment than a public fund.

Mr. Grzejka replied that NEPC's approach to portfolio construction does not provide for every investment to meet the return assumption but rather some managers are there not for return diversification but as a risk mitigator in the portfolio. Also, Mr. Grzejka explained that Loomis has done a phenomenal job and NEPC's strategy is to transfer the gain, before there is a down month.

In response to Mr. Fleury's earlier comment, Mr. Leonard explained NEPC's views on risk and volatility, between an endowment fund and a public fund.

The trustees thanked Mr. Fleury for addressing his concerns regarding the investment consultant's investment strategy in rebalancing the MECRS portfolio.

Trustee Molan moved to adoption of NEPC's recommendation for the rebalancing of the MECRS portfolio, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Mr. Fleury asked Investment Committee Chairman Molan for his availability in scheduling the next Investment Committee meeting. After brief discussion, Committee Chairman Molan agreed to schedule the next Investment Committee meeting for Thursday, October 6, 2016 at 9:00 a.m. to conduct the Liquid Alternative Manager interviews as recommended by NEPC.

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Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 10:38 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director