

February 21, 2017
Minutes #532

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 8:32 a.m.

Present: Trustees: Donald Pinard, Bob Lynch, Bill Sanders and Mike Woitkowski
MECRS Staff: Gerard Fleury and Suzanne Wilson

Absent: Mayor Gatsas

Excused: Dick Molan and Dianne Mercier

In Attendance: Attorney John Rich, from McLane Middleton, Professional Association
and Kevin Leonard of NEPC

Approval of the Minutes of the Previous Board Meeting:

Trustee Woitkowski moved to approve the minutes for the meeting held January 10, 2017. Trustee Sanders seconded the motion and it was 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.

Report of the Executive Director:

Status on Audit of MECRS for 2016: Mr. Fleury began by informing the board that the auditors from the firm, Berry Dunn, are scheduled to arrive on site for the audit of 2016, on Monday, April 3, 2017. A detailed list of materials to be examined has already been provided to the auditors. Mr. Fleury stated that an initial entry meeting with the auditors was held on January 26, 2017, regarding new disclosure requirements for the MECRS Comprehensive Annual Financial Report. Mr. Fleury elaborated further that the new requirements call for an expansion to a note on investments, so that it addresses and identifies asset classes and how their valuations are determined.

The Comp Study is Underway: Mr. Fleury informed the trustees that pursuant to their directive, the Compensation Study is underway. Questionnaires have been completed by staff, followed by interviews by personnel from Condrey Associates. Mr. Fleury noted that the entire process is

February 21, 2017
Minutes #532

Minutes of the Board of Trustees' Meeting -2-

scheduled to be completed early in the spring and the results will be available for the 2018 administrative budget process this fall.

Website Analytics Training Received: Next, Mr. Fleury reported that he and Executive Assistant Sandi Aboshar, received initial training on Google Analytics from Wedu on January 19, 2017. Subsequent to training, access was configured on two MECRS desktop computers and basic demographic data was reviewed. He informed the board that more time will be required to experiment with the Google Analytics before its maximum value can be realized.

Full Scale System Recovery Test: In closing, Mr. Fleury explained that on February 2, 2017 the MECRS conducted a full scale file recovery test, to simulate a system ransom or hardware failure recovery scenario. The exercise went as planned and without difficulty and the entire file library was restored in under two hours.

Report of the Administrative & Accounting Committee: Committee Chairman Woitkowski reported on the A&A meeting held earlier in the day and stated that the committee members voted to make a recommendation to the full board for adoption of the new Administrative Rule 13, Compliance Addendum, designed to keep the system in compliance with IRS Code 401.

Trustee Lynch offered a motion to adopt Administrative Rule Part 13, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Consent Agenda:

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

New Business:

NEPC Representative, Mr. Kevin Leonard was Present to Review Preliminary 2016 Investment Results: Mr. Fleury recapped the board's concerns from a previous meeting, after a review of the November 2016 Investment Summary, which indicated gross returns of 6%. He noted however that after a review of the December 2016 Investment Summary, the market had improved in some segments, which resulted in the annualized assumed rate of return, just above 7%.

Mr. Leonard distributed the January 2017 Investment Summary and the 2017 Asset Allocation Review booklet, and first addressed the December 2016 Investment Summary results.

February 21, 2017
Minutes #532

Minutes of the Board of Trustees' Meeting -3-

Mr. Leonard informed the trustees that the December Summary, total annualized rate of return of 7.12%, does not include the alternative private equity valuations, which are pending, due to a 60 or 90 day delay.

Mr. Leonard reviewed the performance of the System investments against their respective indices. He stated that the 7.12% return for 2016 underperformed against the policy index of 7.96%. He noted that some of the portfolio asset classes cannot be indexed. He then referred to the 5-year composite outperformance of 7.66% versus the policy index of 7.21% and the 10-year composite of 4.41% versus the policy index of 4.50%.

Mr. Leonard then discussed the 2016 underperformance of the Domestic Equity Composite at 11.22%, underperforming the Russell 3000 Index of 12.73%, explaining each of the manager's performance versus their index. Mr. Leonard noted that for 2016, indexing had outperformed active management.

Mr. Leonard explained the underperformance of Sands Capital and the large impact that it played in the overall 2016 performance results. He explained that Sands is a concentrated growth manager and that they employ a bottom-up, aggressive growth approach to equity investing.

Mr. Fleury referred to the January, 2017 investment summary and noted the positive return by Sands Capital. He asked Mr. Leonard to explain NEPC's analysis of that manager's volatility and to justify its inclusion in the portfolio.

Mr. Leonard directed the trustees to turn to page 4 of the Asset Allocation Review booklet and reiterated that Sands Capital is a concentrated manager, which tends to result in more volatility. He explained that Sands Capital should perform well, when quality and growth are rewarded by the market but could struggle when macro factors influence the market. Mr. Leonard reported that since inception, Sands Capital has outperformed its benchmark, with the exception of 2016. He stated that Sands Capital's performance has been sound, both on an absolute and relative basis and was therefore of minor concern.

Trustee Sanders noted Mr. Leonard's explanation of Sands Capitals' performance and expressed his interest in maintaining a focus on preservation of capital.

Mr. Leonard and the trustees continued a lengthy discussion regarding active versus passive management as well as the performance outlook for Sands Capital Management.

Further discussion officially ceased because a schedule conflict required that Trustee Lynch depart for the day and quorum requirements would no longer be met.

February 21, 2017
Minutes #532

Minutes of the Board of Trustees' Meeting -4-

Motion to Adjourn:

Having conducted all the business of the day, Trustee Woitkowski moved to adjourn the meeting at 9:09 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director