

September 12, 2017  
Minutes #538

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

**Call to Order:** Chairman Pinard called the meeting to order at 8:34 a.m.

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

**Absent:** Trustees: Bill Sanders, Dianne Mercier and Mayor Gatsas

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

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

Trustee Lynch moved to approve the minutes for the board meeting held August 8, 2017.  
Trustee Molan 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:**

**Work on 2017 CAFR Underway:** Mr. Fleury began by reporting that work has begun on the 2017 CAFR. He informed the trustees of their opportunity to update their photos, in both the MECRS Comprehensive Annual Financial Report or on the MECRS's website.

**Budget Development for 2018 in Progress:** Next, Mr. Fleury reported that work on the 2018 MECRS budget is underway. He stated that Microsoft has announced that certain operating systems currently in use will cease to be supported in the coming year and good technology management necessitates that those operating systems be upgraded before support for the existing system ends. He further stated that some additional appropriations for these technological related matters may be in order, since outside consulting services will be necessary to oversee those operating system upgrades.

Moving on, Mr. Fleury indicated that in October, he expects to have the 2018 employee health insurance cost, which is determined by Local Government Center. He then stated that at some point the Administrative & Accounting Committee will want to schedule a meeting to review the structure of the MECRS Operating Budget.

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

**Status of RFP Process:** In closing his report, Mr. Fleury summarized the progress, on the evaluation of the proposals received in response to the RFP issued for custodian banking services. During the evaluation process, he stated that significant risks associated with a custodial conversion have been identified, while the reason for originally seeking to replace the custodian have diminished, due to significant improvements in the scope and quality of custodial services. Mr. Fleury indicated that at the present time, the headline risk associated with the complex task of migrating retiree services, may not justify changing custodial service providers. He then informed the board that a full report on the RFP evaluations will be made at the next meeting of the MECRS Administrative & Accounting Committee.

**Chairperson Comments:**

Chairman Pinard stated that at the May 9, 2017 MECRS Board meeting, Ken Alberts of the actuarial firm, Gabriel, Roeder, Smith & Co. was present to discuss the supplemental valuation work, commissioned by the board in 2016. As a result of Board discussions with Mr. Alberts, the trustees tabled the report he had prepared and commissioned Mr. Alberts to refine and update his report, using more recent valuation data. Chairman Pinard explained that the updated supplemental valuation report is rather complicated and will require more initial discussion time than is desirable at a regular Board meeting. Therefore, Chairman Pinard recommended that the MECRS Benefits Committee, schedule a meeting to review the updated GRS results in detail and to formulate a recommendation for the full Board at a future meeting. Chairman Pinard noted that Mr. Fleury will work with Benefits Committee Chairman Lynch, to schedule a committee meeting to review the latest GRS update.

**Report of Monthly Cash Balance:**

Referring to the Monthly Cash Balance Report, distributed at the start of the meeting, Mr. Fleury first explained that the report creates a higher sense of awareness as to the details of cash inflows and outflows. He reported the cash balance at the beginning of August, in the amount of \$4,140,747.11, with the end of the month closing with a balance of \$3,233,979.79. Mr. Fleury informed the trustees that in the coming month, over \$9 million in cash proceeds is expected from the total redemption from Investment Manager Entrust/Permal.

Mr. Fleury attributed the favorable cash balance, to the City's conversion to paying the employer contributions on a weekly basis versus bi-annual payments.

**Report of the Investment Committee:**

Committee Chairman Molan reported that there has not been a scheduled meeting of the Investment Committee, however, he did express his concerns with the underperformance with Crescent Direct Lending and he requested a meeting with MECRS's Investment Consultant, NEPC, for a full performance review with Crescent Advisors.

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

Mr. Fleury stated that he will work with NEPC to schedule the requested meeting with Crescent Advisors.

Upon the entrance of the NEPC representatives, Sebastian Grzejka and Kevin Leonard, Mr. Fleury recapped Committee Chairman Molan's concerns regarding the underperformance of Crescent Direct Lending.

Mr. Grzejka reminded the trustees that Crescent is a private direct lending manager, making loans to mid-size companies across the country. He explained that part of the reason NEPC liked the strategy was the opportunistic strategy which takes time to achieve results and he noted that the MECRS commitment to Crescent was only made in 2014. At the present time, interest payments are the only return on the investment. Loans will come due in roughly 6 or 7 years which is when MECRS will see the benefit of the strategy. Mr. Grzejka stated that in time, NEPC is expecting a high single digit return from Crescent.

**Consent Agenda:**

Trustee Woitkowski moved to accept the Consent Agenda, seconded by Trustee Molan and passed by all those trustees present.

**New Business:**

Approval of Revisions to Administrative Rule, Parts 4 & 13 and By Laws, Amendments and Additions to Articles X & XI – Chairman Pinard entertained a motion to approve the revisions to Administrative Rules Parts, 4 & 13 and By-Law amendments and additions to Articles X & XI. The amendments were presented at the Public Hearing prior to the start of the regular board meeting

Trustee Woitkowski moved to approve the revisions to Administrative Rules, Parts 4 & 13 and By-Law amendments and additions to Articles X & XI, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Performance Report and Rebalancing Recommendations from NEPC – NEPC representatives were in attendance to review July year-to-date performance and to make a recommendation for the redistribution of proceeds from Entrust/Permal.

Mr. Grzejka distributed the MECRS July Flash report and the allocation summary dated August 25, 2017. He began by stating that year-to-date, the fund is up 10% and that the total portfolio is valued at approximately \$222,000,000.

Mr. Grzejka reported positive results from Investment Manager, Sands Capital, which was up 28% after a down year in 2016. He noted that managers Rothschild and Pzena added value as well. Regarding the international equity composite, Mr. Grzejka reported positive rebalancing results with Kabouter International Opportunities Fund and Gryphon International.

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

Moving on to the fixed income side of the portfolio, Mr. Grzejka highlighted both Income Research & Mgmt. and Loomis Sayles adding value, year-to-date, with only the Blackrock Strategic Fund falling slightly behind the benchmark.

Next, Mr. Grzejka informed the board of good strong results in the Real Estate/Real Asset Composite sector, which was up 4.3% year-to-date. He noted that part of the re-balancing recommendation to be delivered later in the meeting would seek to add to core real estate, by the end of the year or the early part of 2018.

Chairman Pinard inquired about Kayne Anderson's return, shown on the flash report of 35.9%. NEPC explained that the high return, while accurate, is a mathematical oddity related to return extrapolation from the short time period that MECRS has been in the fund.

With respect to the Global Asset Allocation managers, Mr. Leonard reported that PIMCO has performed extremely well in the last year, however, Mellon Capital has been underperforming, relative to their benchmark, due to a very conservative posture and their more bearish outlook on the market.

Mr. Fleury asked the NEPC representatives if they have any concern about the performance since inception by DSF Group, to which Mr. Grzejka responded that the DSF Group is an opportunistic investment and the initial year of investing is not concerning at this time. This is a perfect example of the J curve return at work.

Mr. Grzejka then turned the trustees' attention to the allocation summary handed out earlier. That summary recommended rebalancing the portfolio using proceeds anticipated from pending hedge fund redemptions. They stated that the goal is to rebalance to target levels and provided an explanation on each recommended transfer.

At the recommendation of NEPC, and as Chairman of the Investment Committee, Trustee Molan then made a motion that administrative staff be authorized to affect the orderly allocation of proceeds, from the redemption of our investment with Entrust/Permal, to existing investment categories, as follows:

Gryphon International Equities	\$1,500,000.
Loomis Sayles Multi Sector Fixed Income	\$ 750,000.
Blackrock Strategic Income Fund	\$1,750,000.
Standard Life, Global Absolute Return Strategy	\$2,000,000.
PRISA – Commercial Real Estate Fund	\$2,000,000.
Cash – Remaining balance of	<u>\$1,989,641.77</u>
Reported total .....	<u>\$9,989,641.77</u>

September 12, 2017  
Minutes #538

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

Trustee Woitkowski seconded Trustee Molan's motion and the motion carried unanimously by all those trustee's present.

After brief discussion by the trustees on the MECRS' rebalancing exercises, the trustees requested that NEPC include a summary of the target allocations for each MECRS investment category which NEPC agreed to do.

In response to a question from Mr. Fleury as to the likely closing dates of the pending private equity investments with CarVal and HarbourVest Partners, the NEPC representatives indicated that both funds would have December closings.

**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:15 a.m., seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director