

April 10, 2018  
Minutes #544

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

**Call to Order:** Chairman Molan called the meeting to order at 8:30 a.m.

**Present:** Trustees: Richard Molan, Bill Sanders, Bob Lynch, Mike  
Woitkowski and Bob Gagne

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Trustees: Mayor Craig and Dianne Mercier

**In Attendance:** Attorney John Rich from McLane Middleton, Professional Association,

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

Trustee Woitkowski moved to approve the minutes for the board meeting held March 20, 2018, seconded by Trustee Lynch 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 Gagnon and passed unanimously by all those trustees present.

**Report of the Executive Director:**

**MECRS Annual Audit Schedule to Begin:** First, Mr. Fleury informed the board that the MECRS's 2017 Annual Audit, conducted by Berry Dunn is scheduled to begin on Monday, April 16<sup>th</sup>. He informed the trustees that the information necessary for the audit has been collected and supplied, in anticipation of the audit's commencement and that the Board will be kept apprised as key milestones in the audit process are reached.

**Meeting with Lexington:** Mr. Fleury reported that on March 27, 2018 he met with Mark Andrew and Lee Tusconi of Lexington Partners, regarding an update on MECRS's participation in Fund VII and VIII, and to also hear about their upcoming Fund IX. He stated that Lexington is interested in having MECRS participate in their upcoming Fund IX, which will be similar in many ways to Lexington VIII. Mr. Fleury noted that he informed the Lexington representatives that a recommendation from NEPC would need to preface consideration by MECRS regarding participation in Fund IX.

**Annual Employer Contribution Rate Notices Sent:** Next, Mr. Fleury reported that notifications of the employer contribution rate beginning July 1, 2018 were prepared and sent to the City Finance Department, Human Resource Department, Water Works, Airport and the Manchester School District. This is a routine annual event he stated, which follows the Board's acceptance of the preliminary valuation.

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**State Street Intro to ECFM Platform:** In closing his report Mr. Fleury informed the board that the Systems' custodial bank, State Street Bank & Trust, conducted an introductory session with the MECRS staff on Thursday, March 29<sup>th</sup>, to demonstrate the features of their Electronic Cash Flow Management Platform. Access to the platform will allow MECRS staff to directly enter and confirm wire transfers and accounts payable transactions. Also, the staff will have the ability to choose whether payments are processed by check or paid electronically. There is no additional charge to use the ECFM platform, Mr. Fleury noted and the staff will be moving ahead with its use in order to take advantage of the platform's operational flexibility. In closing his report, Mr. Fleury indicated that there is not a scheduled implementation date; however preliminary steps to its use have been identified and will be pursued.

**Report of the Monthly Cash Balance**

Mr. Fleury reported a MECRS's monthly cash balance for period ending March 31, 2018, of approximately \$6 million. Regarding the Board's authorization to liquidate \$7 million in investments, to purchase Vanguard Exchange Traded Fund shares in ticker VTSNX, he explained that the \$6 million transfer from Gryphon International has been completed, however, due to the timing of the withdrawals; the remaining \$1 million from City of London is pending until early May.

Trustee Gagne referred to the \$5 million minimum in share value associated with institutional shares like VTSNX and asked Mr. Fleury if, through liquidations and transfers, the share balance is allowed to drop below the \$5 million level.

Mr. Fleury replied that NEPC is aware of the concern, but does not anticipate an immediate need for the funds. The question of permissible share balance can, therefore, be deferred until NEPC is prepared to recommend a liquidation event.

**Report of the Administrative & Accounting Committee:**

Committee Chairman Woitkowski reported on the MECRS A&A Committee meeting which was held on April 2, 2018, and he listed the agenda items reviewed by the Committee as follows:

- 1.) Review of the MECRS Funding Policy;
- 2.) Review of Administrative Rule Part 7 on COLA;
- 3.) Review of COLA Award for 2018; and;
- 4.) Review of interest rates set forth in Administrative Rules Part 6.6 and Part 13.9.

Referring to the board's approval in January of 2018 to revise certain actuarial assumptions used in the valuation process, Chairman Woitkowski stated that one portion of the MECRS's Funding Policy which cites valuation assumption rates, requires updating. He stated the Committee's

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recommendation, is that references to a target rate of return of 7.25% be amended to 7.00%, and that the wage inflation rate of 3.00% be amended to 2.75%.

In addition, Committee Chairman Woitkowski referred to numerous references to a 1.25% COLA assumption contained in Part 7.3 of the Administrative Rules, and he stated that it is the Committee's recommendation to amend the COLA assumption to 1.00%.

Regarding the COLA Award of 2018, Committee Chairman Woitkowski explained that the Committee used the new 1.00% COLA assumption adopted by the full board in January, and CPI results indicating an inflation rate of 2.1%. As a result of their analysis, he stated that the committee is also recommending a Cost of Living Adjustment of 1% effective July 1, 2018 for the August 2018 payroll, to those annuitants retired for at least one year.

Next, Committee Chairman Woitkowski stated that during the Board meeting of January 2018, the actuary recommended the review of interest rates cited in Administrative Rule Parts 6.6 and 13.9. which deal with the rate of interest applied to option factors, used to compute the cost of buyback and service credit upgrades, as well as the interest rate paid on member accounts and additional contributions. After the committee's full review of the actuary's concerns, Committee Chairman Woitkowski reported, it is the committee's recommendation that no changes be made to those rates, as they continue to be beneficial to the Plan and are not unreasonable or onerous to the Plan Participants.

Committee Chairman Woitkowski then moved to adopt the full slate of the A&A Committee recommendations as reported. Trustee Gagne offered a second to the motion.

Relative to the A&A's recommendations, Mr. Fleury explained that the revision to the Funding Policy target rate from 7.25% to 7% is also listed as an agenda item under New Business. Therefore, Mr. Fleury noted, acting on the A&A's recommendation as recommended by Chairman Woitkowski, would eliminate the need to address New Business item #2.

Chairman Molan called for a vote and the motion to adopt the full slate of A&A Committee recommendations, passed unanimously by all those trustees present.

**Report of the Investment Committee:**

Chairman Molan referred to the recent Investment Committee recommendation and Board approved funding investment of \$4 million each with Oaktree Real Estate Debt Fund II and Kayne Anderson Real Estate Fund V. He asked Attorney Rich from the McLane Middleton Law Firm to report on the ongoing negotiations.

Before Attorney Rich addressed the board, Mr. Fleury placed a conference call to the System's Investment Consultant, NEPC, and Representatives Sebastian Grzejka and Kevin Leonard joined the discussion.

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Attorney Rich summarized the status of the review of the subscription agreements and side letter agreements with Kayne Anderson and Oaktree.

He noted that the side letter agreement includes specific language allowing disclosure of non-confidential information and other provisions related to the NH Right to Know Law, due to the fact that the MECRS is a public entity. At the time when both managers were interviewed, they indicated that the language relative to the Right to Know Law that had been submitted to them in advance of the interviews by NEPC would not be problematic. Subsequently, Attorney Rich explained, MECRS was notified by Oaktree, that the side letter language was not acceptable.

Chairman Molan recapped that when the MECRS Board requested financial indemnification from Oaktree in the event that it incurred legal expenses to protect Oaktree's confidential information, the request was ignored.

Mr. Grzejka stated that in NEPC's initial discussion with Oaktree representatives, there was affirmation that Oaktree would agree to the NH Right to Know Law side letter language. Mr. Grzejka suggested that the MECRS' Board of Trustees permit NEPC contact Oaktree for further negotiations, hoping to reach an agreement.

Regarding the Kayne Anderson subscription agreement and side letter, Mr. Rich indicated that he had received a favorable response regarding the side letter language relative to the Right to Know Law.

Following brief discussion on how to proceed in the matter with Oaktree and input from NEPC as to the level of additional commitment to make to Kayne Anderson in the event no investment is made with Oaktree, it was moved by Trustee Woitkowski that Mr. Fleury, MECRS's legal counsel, and Chairman Molan, be authorized to contact Oaktree representatives in an effort to resolve the contract negotiations. In the event of a failure to reach an agreement on the terms and conditions of the subscription agreement with Oaktree, MECRS would then pursue an increase in the commitment to Kayne Anderson from \$4 million to \$5 million.

Trustee Gagne seconded the motion and the motion passed by all those trustees present.

Mr. Fleury thanked the NEPC representatives for their participation and the call ended.

**Report of the Benefits Committee:**

Committee Chairman Gagne reported that he has scheduled a tentative date of the next Benefits Committee meeting for May 17, 2018 at 9:00 a.m.

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**Consent Agenda:**

Trustee Sanders moved to accept the Consent Agenda, seconded by Trustee Gagne and passed unanimously by all those trustees present.

**New Business:**

Request for Motion - Referring to the Requested Transfer spreadsheet, included in the board agenda packets, Mr. Fleury explained that the requested transfer of previously approved and budgeted funds for 2017, from areas with a surplus appropriation to areas which ran a deficit. He noted that these transfers are needed to balance the appropriation lines in the ME CRS budget for 2017 before they are submitted for outside audit. This is a customary end of year exercise to wrap up the budget each year without any lines overdrawn and without the need to increase the original appropriation request.

Trustee Gagne moved to approve the transfer request, seconded by Trustee Lynch and passed unanimously by all those trustees present.

**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Sanders moved to adjourn the meeting at 9:05 a.m., seconded by Trustee Lynch and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director