

August 14, 2018
Minutes #547

Minutes of the Board of Trustees' Meeting -1-

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

Present: Trustees: Richard Molan, Bob Lynch, Mike Woitkowski,
Bob Gagne and Bill Sanders arrived at 8:36 a.m.

MECRS Staff: Gerard Fleury, and Suzanne Wilson

Absent: Trustees: Mayor Joyce Craig, Dianne Mercier

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

Approval of the Minutes of the Previous Board Meeting:

Trustee Woitkowski moved to approve the minutes for the board meeting held July 10, 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 Lynch and passed unanimously by all those trustees present.

Report of the Executive Director:

Attendance at 2018 Opal Public Employee Retirement Conference: Mr. Fleury reported that on July 16, 17 & 18th, he attended the Opal Public Funds Summit in Newport, RI and participated on a panel of executive directors, chief investment officers, trustees and fund advisors. He stated that the summit had a reoccurring theme on retiring pension risk through liability matching using fixed income investments. Public fund trustees, actuaries and investment advisors had strongly different opinions on the practicality and effectiveness of strategies adopted from liability driven investment models, used in the private sector. This all made for an emotionally charge conference in which moderators were called upon to keep things civil. Mr. Fleury stated that the summit was educational and enjoyable and he recommended that the trustees consider attending the Opal Summit in the future.

Status of July Rebalancing Exercise: Mr. Fleury noted that at the July MECRS's Board meeting, the staff was authorized to raise cash in accordance with a recommendation from NEPC by redeeming shares in two equity investments. In the weeks which followed, those instructions were carried out and the transactions are now complete.

Minutes of the Board of Trustees' Meeting -2-

Alarm System Failure and Replacement: Mr. Fleury informed that trustees that in mid July, it was discovered that the MECRS's office alarm system had a technical issue which was preventing it from operating properly. The sudden appearance of an error code in the control panel resulted in service calls and an investigation into the cause of the fault. In short Mr. Fleury stated, the system was deemed to be obsolete and could not be made operational without expensive on-going monthly fees. After considering alternatives, Mr. Fleury noted, that a replacement system was installed using a different provider, which will provide equal and adequate protection using superior and more reliable technology at half of the annual monitoring cost associated with the predecessor system. Mr. Fleury reported that the new system is now operational.

Meeting Schedules – Investment Committee & Administration & Accounting Committee: Mr. Fleury stated that the Board has expressed the need to convene meetings of both its Investment Committee and Administrative & Accounting Committee. He noted that the Investment Committee meeting schedule has been complicated and delayed by the need to adopt a Manager Acknowledgement Policy, before private manager interviews can be conducted. He noted that representatives from MECRS's investment consultant NEPC, are expected to arrive to today's meeting, with a recommendation to interview Private Investment managers this fall. In addition, Mr. Fleury stated that he will consult with A&A Committee Chairman Woitkowski on scheduling the next A&A Committee meeting.

Chairperson Comments:

Chairman Molan was pleased to report that Trustee Woitkowski will continue to serve on the MECRS Board, following his employment departure with the City. Chairman Molan stated that pursuant to applicable law, Chapter 218:5, Trustee Woitkowski may continue to represent the membership as a trustee for a period not to exceed 6 months, which coincides with the remainder of his term, ending December 31, 2018.

Report of the Monthly Cash Balance:

Mr. Fleury reported that the Cash Balance value ending July, 2018 as approximately \$5 million. He indicated that distributions from the various private investments, along with \$2.5 million in equity redemptions have resulted in an adequate operational cash balance.

Report of the Investment Committee:

Investment Committee Chairman Lynch reported that the MECRS Investment Committee met on Monday, July 23, 2018 to review the Private Manager Interview & Hiring Process and to consider drafts for a Disclosure Statement and Manager Acknowledgment, designed to precede the interview of private market managers.

Committee Chairman Lynch stated that in light of the Investment Committee's desire to employ private market managers, who closely guard information relating to their proprietary investment

Minutes of the Board of Trustees' Meeting -3-

processes, and the practice of these managers to include strict confidentiality provisions in their contract documents, the Committee discussed the option of conducting future Investment Committee meetings in non-public sessions, when permitted under RSA 91-A. Committee Chairman Lynch informed the board that, following a consultation with legal counsel, a motion was made by Committee Member Sanders to recommend to the full Board, the adoption of a new practice, that Private Market Investment Interviews and manager performance reports regarding private market managers, to be conducted in non-public sessions. He reported that a vote was taken in the affirmative and the motion passed by the Investment Committee.

Next, Committee Chairman Lynch reported that the committee voted unanimously to recommend adoption of the use of a Private Markets Disclosure Statement & Manager Acknowledgement. He stated that the document would be used by NEPC to screen managers on disclosure requirements, prior to recommending them for interviews. He reported that a vote was taken in the affirmative and the motion passed by the Investment Committee.

Committee Chairman Lynch then offered a motion that the full Board adopt the stated recommendations of the Investment Committee to implement a non-public session practice regarding managers with confidentiality concerns, and to also adopt the draft Private Markets Disclosure Statement & Manager Acknowledgement and instruct NEPC to employ that form to pre-screen future manager interview candidates.

Mr. Fleury noted that the Private Markets Disclosure & Manger Acknowledgement had been work shopped and reviewed by MECRS legal counsel as well as the investment consultants at NEPC.

Chairman Molan requested that the board be allowed additional time to review the Disclosure Statement and Manager Acknowledgment. Copies of the agreement were then distributed to the trustees for review.

Consent Agenda:

Moving on to the Consent Agenda, Chairman Molan entertained a motion to approve July Consent Agenda. Trustee Woitkowski moved to accept the July Consent Agenda, seconded by Trustee Lynch and passed by all those trustees present.

New Business:

Accept and Place on File the 2017 Required Communications Letter and Yellow Book Report submitted by Berry Dunn – Trustee Sanders moved to accept and place on file the 2017 Required Communications Letter and Yellow Book Report, seconded by Trustee Gagne and passed unanimously by all those trustees present.

August 14, 2018
Minutes #547

Minutes of the Board of Trustees' Meeting -4-

After a review of the Private Markets Disclosure Statement and Manager Agreement, Board Chairman Molan referred back to the motion made by Investment Committee Chairman Lynch and asked the trustees if there were any concerns or questions regarding the agreement.

Trustee Sanders asked Sebastian Grzejka of NEPC if the MECRS would be unique in adopting the Private Market Manager Acknowledgement.

Mr. Grzejka stated that other Public Funds do have similar side letter agreements in their Manager hiring process and that NEPC is in favor of the MECRS's Board implementation of the agreement.

Chairman Molan reiterated Committee Chairman Lynch's motion to adopt the use of a Private Markets Disclosure Statement & Manger Acknowledgement, which would be used by NEPC to screen managers on disclosure requirements, prior to recommending them for interviews. Trustee Woitkowski seconded the motion and the motion passed unanimously by all those trustees present.

Next, Chairman Molan recapped the second motion made by Investment Committee Chairman Lynch to adopt the Investment Committee's recommendation to implement a non-public session practice regarding managers with confidentiality concerns, seconded by Trustee Gagne and passed unanimously by all those trustees present.

Mr. Fleury clarified the intent of the Board's actions and stated that the adoption of the two recommendations will be unique to private investments where confidentiality is a concern. Other manager changes associated with publically traded stock and bond portfolios will not need to be done in non-public sessions.

Accept and Place on File the 2017 MECRS Comprehensive Annual Financial Report.

Trustee Woitkowski moved to accept and place on file the 2017 MECRS CAFR, seconded by Trustee Lynch and passed by all those trustees present.

Continuation of Mellon GTAA as a MECRS Manager – Mr. Kevin Leonard and Sebastian Grzejka both from NEPC were present to deliver the results of NEPC's investigation into an alternate trading practice being adopted by Mellon GTAA pursuant to an exemption granted by the United States Department of Labor.

First, Mr. Fleury provided a brief summary for the trustees, stating that the Retirement System was contacted by Mellon GTAA informing the board that they have received permission to conduct certain processes that would otherwise be prohibited by ERISA and they now intend to exercise that right. Mellon is notifying the System now as required by the exemption and informing the System that it has an option to exit the investment.

Minutes of the Board of Trustees' Meeting -5-

Mr. Leonard stated that NEPC is not concerned with Mellon's issuance of the process notification, however, the Board should discuss if they want to continue investing in GTAA as an investment opportunity for the MECRS Fund.

The trustees discussed the performance of Mellon GTAA and Mr. Fleury provided a history of MECRS's investments with GTAA. Mr. Leonard reported that Mellon performance since inception is 5%.

Mr. Fleury noted that the record shows that the trustees were put on notice and that the board, after hearing the recommendation from legal counsel and the MECRS investment advisors to continue with the Fund, were in agreement that there will be no action taken in response to the notice and MECRS will continue its investment with Mellon GTAA.

After brief discussion regarding the MECRS GTAA allocation at 9%, Mr. Leonard recommended that the Investment Committee conduct a meeting in the fall to determine whether to change the total allocation to GTAA by amending the investment policy and potentially allotting the all or a portion of the present GTAA investments to other asset classes. Mr. Fleury indicated that the matter would be pursued with Committee Chairman Lynch once private investment manager commitments have been concluded.

Mr. Grzejka then focused on the matter of the three recommended private investment managers to be interviewed by the Investment Committee: Private Advisors, HarbourVest and Lexington Partners., MECRS currently has investments with all three but the existing HarbourVest investment has a different strategy.

After a review of the trustee's personal calendars, Trustee Lynch scheduled a meeting of the Investment Committee on Wednesday, September 5, 2018 at 9:00 a.m. to conduct the manager interviews.

Mr. Grzejka reported on the total plan performance through June at \$235 million, with a 1.6% year-to-date positive return that ranked in the top 8th percentile in the public fund universe. Regarding the domestic equity side, the active managers are outperforming the benchmark across all time periods. Mr. Grzejka noted that the good mix of managers is doing quite well.

Mr. Grzejka summarized the International Equity Composite noting that it is also outperforming the benchmark. Regarding Fixed Income, Real Estate/Real Asset Composite and the Private Markets Composite, Mr. Grzejka pointed out that June was a positive month.

New Business:

Chairman Molan entertained a motion to go into Non-public Session at 9:25 a.m. pursuant to RSA 91-A:3 II (a), The dismissal, promotion or compensation of any public employee or the disciplining of such employee, or the investigation of any charges against him, unless the

August 14, 2018
Minutes #547

Minutes of the Board of Trustees' Meeting -6-

employee affected (1) has a right to a meeting and (2) requests that the meeting be open, in which case the request shall be granted.

Roll Call Vote:

Ayes: Messrs: Molan, Sanders Gagne, Woitkowski, Lynch

Nays: None

Following the conclusion of Non-public Session at 9:49 a.m. Chairman Molan entertained a motion to seal the minutes of Non-public Session pursuant to RSA 91-A:3 III

Trustee Gagne moved to seal the minutes of the Non-Public Session, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:50 a.m., seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director