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Minutes of the Board of Trustees' Meeting -1-

Call to Order: Acting Chairman Bill Sanders called the meeting to order at 8:33 a.m.

Present: Trustees: Bill Sanders, Bob Lynch, Bob Gagne Mike Woitkowski and Dianne Mercier left at 9:21 a.m.

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Excused: Chairman Dick Molan

Absent: Trustees: Mayor Craig

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

Due to the excused absence of newly elected Chairman Richard Molan, Trustee Sanders served as Acting Chairman throughout the meeting.

Approval of the Minutes of the Previous Board Meeting:

Trustee Lynch moved to approve the minutes for the board meeting held January 9, 2018, seconded by Trustee Woitkowski 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 Monthly Cash Balance – Mr. Fleury reported that, board authorized redemptions were completed in January, resulting in a current cash account balance of approximately \$7 million and that his Executive Director's report will provide further detail of the transaction.

Report of the Executive Director:

Participation in "NEPC 2018 Market Outlook Webinar" - Mr. Fleury informed the trustees that on January 30th he and Sandi Aboshar, Executive Assistant, participated in a webinar conducted by the System's Investment Consultant, NEPC, which focused on the investment outlook for 2018. He noted that a replay of the event was subsequently made available by NEPC and the link was sent to all trustees.

Status of Portfolio Rebalancing - Referring to his earlier statement regarding the monthly cash balance, Mr. Fleury recapped the Board of Trustees meeting of December, 2017, whereby the

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Trustees authorized the sale of certain securities in order to raise cash for System operations. He explained that shares in S&P Exchange Traded Funds had been sold, while shares in growth and value funds had been delayed a few weeks because the cash was not needed immediately and it allowed for a full investment performance snapshot of 2017. During the last week of January, Mr. Fleury reported, the remaining authorized investments were liquidated and the proceeds transferred to the cash account.

Status of Plan Year Closing - At the time this report was written, Mr. Fleury stated, two vendor invoices for services rendered in 2017 were still outstanding. Mr. Fleury reported that the outstanding invoice for an investment manager fee has since been received; however receipt of an invoice for the custodian fees is still pending. He then informed the trustees that a test closing for 2017 has been conducted to assure that the System will be able to generate statements for the Comprehensive Annual Financial Report, quickly and accurately once the final transactions for the year have been posted. Also, Mr. Fleury indicated that reconciliations between the custodian bank, State Street Bank & Trust and the Investment Consultant, NEPC, have been completed and all asset values were found to be in sync.

Executive Director's Milestone Report - In closing, Mr. Fleury informed the trustees that his Executive Director's report marks a milestone and that he is beginning his fifteenth year with the MECRS. He thanked the board for the continued support that they have given to all of the administrative staff during this time.

Consent Agenda:

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

New Business:

MECRS Sub-Committee Chair Assignments - Acting Chairman Sanders referred to the Committee Assignment spreadsheet, included in the trustees' agenda packets and entertained a motion to accept the assignments.

Trustee Woitkowski moved to accept the 2018 Committee Chair Assignments as presented.

Acting Chairman Sanders thanked the committee chairmen for their continued due diligence in serving on the sub-committees.

Trustee Lynch seconded Trustee Woitkowski's motion to accept the 2018 Committee Assignments and the motion passed unanimously by all those trustees present.

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Interest in NCPERS Conference & NEPC Client Conference - Acting Chairman Sanders stated that if any of the board members are interested in attending either conference, the MECRS Staff would be happy to assist in the pre-registration process.

Investment Strategy Review for 2018 – Mr. Kevin Leonard and Sebastian Grzejka from NEPC, were present to review performance for 2017 and to discuss any need to adjust the asset allocation percentages or rebalance the MECRS investment portfolio.

Mr. Grzejka directed the trustees' attention to the booklet titled 2018 Asset Allocation Review. He listed the five key market themes and opportunities that NEPC believes will drive the market in 2018 as: Extended U.S. Economic Cycle, Synchronized Economic Resurgence, Federal Reserve Gradualism, China Transitions, and Globalization Backlash.

Mr. Grzejka stated that the outlook for developed market equities outside the US has improved. Growth conditions across the globe are on the upswing supported by easy financial conditions and an improved corporate earnings outlook.

Mr. Grzejka then elaborated on each key market theme which prompted several questions from the board regarding the Federal Reserve Gradualism and the expected path of the Fed policy through 2020.

Referring to NEPC's recommendation to invest in Treasury Inflation Protected Securities, TIPS, Mr. Fleury asked the NEPC representatives when the allocation to TIPS will prove itself as a positive strategy.

Mr. Leonard replied that NEPC believes that TIPS is a replacement to investment grade core bonds and that TIPS are expected to outperform the Barclays Aggregate Index over a 5 to 7 year period.

Turning the trustees' attention to the chart, Year Over Year Asset Allocation Review, Mr. Grzejka stated that NEPC's review of the MECRS asset allocation indicates that the present mix is correct for the immediate future. He then provided the board with the 5 -7 Year Return Assumptions for each asset class.

Mr. Grzejka explained that given the recent changes to the MECRS portfolio structure, NEPC is not recommending further structural changes to the asset classes at this time, however, given the robust nature of markets in 2017 and strong return experience by the Plan, NEPC is recommending continued rebalancing. He further stated that private market allocation will be a priority in 2018 and NEPC plans to address the pacing plan and will offer recommendations during the first half of 2018. Furthermore Mr. Grzejka noted that some asset balances were at the low end of their recommended levels and that some rebalancing or additional commitments

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might be forthcoming as a result. One such commitment would be adding a private real estate/real asset manager in the first half of 2018.

In conclusion, and as part of NEPC's recommendation for non-US equity exposure, Mr. Grzejka stated that NEPC would return with a specific recommendation for a trustee vote and that a Vanguard, Exchange Traded Fund who's specific ticker would be identified at that time, will be their likely recommendation.

The NEPC representatives briefly addressed performance noting that there are no concerns regarding manager performance at this time.

Referring to the Real Assets Program Review & Strategic Investment Plan presentation booklet, Mr. Grzejka provided the trustees with a Private Real Assets overview for 2018. He stated NEPC's recommendation is to commit up to \$4 million to one real estate or real assets fund.

Mr. Grzejka noted the three manager profiles that might possibly be interviewed including existing manager Kayne Anderson. He stated that if the Investment Committee were disposed to meet, some degree of urgency would be required because the final closing on some funds was rapidly approaching. He suggested that the Investment Committee convene prior the next regularly scheduled MECRS Board Meeting so that Investment Committee recommendations could be delivered by March 13, 2018.

Mr. Fleury agreed to work with Mr. Grzejka in scheduling the manager interviews in the coming weeks.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 10:03 a.m., seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director