

January 9, 2018
Minutes #541

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Acting Chairman Bill Sanders called the meeting to order at 8:32 a.m.

Present: Trustees: Bill Sanders, Bob Lynch, Bob Gagne and Dianne Mercier
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Mike Woitkowski, and Mayor Craig

In Attendance: Attorney John Rich, from McLane Middleton, Professional Association, Sebastian Grzejka from NEPC, Ken Alberts from Gabriel, Roeder, Smith & Co. and Mark Laprade from Berry Dunn

Linked Telephonically: Trustee Richard Molan who was present, alone on the phone line.

Acting Chairman Sanders began by welcoming Robert Gagne as the newly elected Trustee and stated that he is looking forward to Mr. Gagne's participation on the MECRS Board.

Acting Chairman Sanders then acknowledged Chairman's Pinard's dedication and due diligence during his tenure as a MECRS Board Chairman and stated that Mr. Pinard will be greatly missed. He then informed the board that Trustee Pinard has offered his continued support, should any of Board Members have any questions or concerns regarding activity within the Retirement System.

First order of business Acting Chairman Sanders stated is the MECRS board organization. He noted that the trustee election of December 14, 2017, necessitates the appointment of a new Chairman.

Mr. Fleury pointed out that that the MECRS By-Laws stipulate that an ex-officio member of the board is not eligible to be nominated as Chairman, which eliminates Trustee Sanders and Mayor Craig. Also Mr. Fleury stated that Acting Chairman Sanders is not eligible to vote on the Chairman nominations.

Referring to the MECRS's 2018 Committee Assignments distributed before the meeting, Mr. Fleury informed the board that the nomination of Chairman will create a vacant seat on one of the MECRS's standing committees, which will need to be addressed at some point in time.

Acting Chairman Sanders opened nominations for MECRS Chairman

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Trustee Mercier nominated Trustee Dick Molan as MECRS Chairman, seconded by Trustee Lynch. Acting Chairman Sanders closed nominations.

Trustee Molan accepted the nomination as MECRS Chairman.

Pursuant to Title VI, Public Officers and Employees, Chapter 91-A, Section 91-A:2(c) Meetings Open to Public, Acting Chairman Sanders entertained a motion to approve the nomination of Trustee Molan for Chairman of the MECRS and conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs. Mercier, Lynch, Gagne and Molan

Nays: None

Motion carried.

Approval of the Minutes of the Previous Board Meeting:

Pursuant to Title VI, Public Officers and Employees, Chapter 91-A, Section 91-A:2(c) Meetings Open to Public, Acting Chairman Sanders entertained a motion to approve the previous board meeting minutes of December 12, 2017 and conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs. Mercier, Lynch, Molan and Sanders

Nays: None

Abstentions: Robert Gagne

Motion carried.

Approval of the Immediate Meeting Agenda:

Pursuant to Title VI, Public Officers and Employees, Chapter 91-A, Section 91-A:2(c) Meetings Open to Public, Acting Chairman Sanders entertained a motion to approve the immediate meeting agenda and conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs. Mercier, Molan, Lynch, Gagne and Sanders

Nays: None

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Motion carried.

Report of the Executive Director:

Status of Year End Closing: Mr. Fleury reported that efforts to close calendar year 2017 for valuation purposes are underway. The closing strategy is designed to synchronize values reported by State Street Bank, the individual money managers, and investment performance results computed by NEPC. He also noted that asset valuations from alternative asset managers have been received.

Computer Upgrades Completed: Moving on Mr. Fleury informed the board that MECRS was eligible for a free upgrade of the operating systems on its desktop computers from Windows 7 to Windows 10. That upgrade was undertaken in late December and was successfully completed with only minor issues, which have been resolved.

Microsoft Office Suite Upgrade Planned: Mr. Fleury then stated that MECRS continues to depend upon the 2007 version of the Microsoft Office Suite for day to day operations. Included in the 2018 budget, he informed the trustee's that the allows for funds to upgrade to the latest version of Office. He noted the importance of the upgrade, since Microsoft plans to discontinue support for the 2007 version of its Office product suite. The upgrade is not expected to be problematic and should be accomplished with minimum interruption to work flow.

In closing his report, Mr. Fleury's updated the board on the December authorization to liquidate certain assets to raise cash. Currently, Mr. Fleury reported that one liquidation has been completed resulting in a cash balance of 4 million with 2 liquidations pending until the end of January.

Report of the Monthly Cash Balance – Mr. Fleury stated that there is nothing unusual to report regarding the monthly cash balance and no action is needed.

Previous Business:

Ken Alberts of Gabriel, Roeder Smith & Co was Present to Continue his Presentation of the 5-Year Experience Study” results - Mr. Alberts continued with his presentation on the “5-Year Experienced Study” that began at the December Board of Trustees meeting. He provided the trustees with a background review of the study, for those trustees that were not in attendance in December and he reiterated that the study was conducted for the purpose of reviewing and where necessary, updating the assumptions used in the MECRS's actuarial valuation model.

Mr. Alberts informed the board that the investigation was based upon the statistical data furnished regarding annual active members and retired life actuarial valuations during the period January 1, 2012 through December 31, 2016. He stated that a file-matching technique was utilized to track individual member activity from one year to the next.

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Mr. Alberts explained that GRS looks back and review assumptions, versus what actually happened and tweaks the assumption or makes major changes to the assumptions. The assumptions are split into two different categories, Demographic and Economic and Mr. Alberts provided the board with descriptions of each assumption stating that economic assumptions are more volatile. He elaborated on the workings of the annual actuarial procedure and creation of assumptions.

Mr. Alberts directed the board members to turn to page B-1 of the presentation booklet and he provided a breakdown of decrement experience between 2012 and 2016 and compared the history of pension gains and losses during that same 5 year period.

He noted the importance that the economic gains and losses do not match up to the demographic gains and losses and that the data collected, indicates that the end of career payments, do not flow into the data of active members.

Currently, Mr. Alberts reported, normal and early retirement costs are adjusted by 9% to recognize lump sum severance payouts at retirement. Referring to a chart on page B-5, data over the 5-year period indicates that the average increase over the expected Final Average Earnings resulting from these lump sums at retirement, is over the 14%, while the 10-year average is just over 12%, therefore GRS is recommending an adjustment, to be increased to 12%.

Trustee Mercier asked Mr. Alberts if the lumpsum load of 9%, indicates that the expected pension is increased by 9%, to which Mr. Alberts responded that Trustee Mercier was correct.

Mr. Alberts commented that the lump sum load is one of the major sources of the demographic losses.

Trustee Mercier asked Mr. Alberts if he was aware of other pension plans experiencing demographic losses such as the MECRS, to which Mr. Alberts responded that it is fairly common and it is based on Plan provisions as well as groups receiving overtime pay.

The board continued to work through Mr. Alberts presentation of the 5-Year Study and posed several questions regarding the Early Retirement incentive, which was offered to city employees and has since expired, and the effect the incentive program had on the lumpsum load.

After lengthy discussion regarding the material evidence that resulted from the 5-Year Study the board agreed to increase the lumpsum load assumption to 10%, for which Mr. Alberts stated that he would be in agreement with the trustees decision.

To analyze the relationship between assumed investment return and price inflation in the context of the capital market assumption modeler, Mr. Alberts outlined different scenarios of inflation assumptions as well as expectations of eight investment consultants.

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Mr. Alberts stated that given past experience and current economic trends, GRS is recommending consideration of 5 sets of alternative assumptions on page B-7 of the presentation booklet.

After lengthy discussion and consideration of the Contribution Calculation Comparison, Trustee Mercier moved to accept alternative assumptions #2, modifying the COLA assumption of 1.25% to 1% as well as modifying the Lump Sum load assumption of 12% to 10% with the understanding that, in no longer than 3-years from the date of adoption, the actuary will certify that the assumptions adopted, remain valid.

Mr. Alberts of GRS agreed to conduct another study just prior to the 3-year mark.

Pursuant to Title VI, Public Officers and Employees, Chapter 91-A, Section 91-A:2(c) Meetings Open to Public, Acting Chairman Sanders entertained a motion to approve Trustee Mercier's motion to adopt alternate assumptions #2, modify the COLA assumption to 1%, the lumpsum load to 10% , and the assumed rate of return to 7% and he conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs. Mercier, Molan, Lynch, Gagne and Sanders

Nays: None

Motion carried.

Trustee Molan ended his participation in the meeting and disconnected telephonically at 9:53 a.m

Consent Agenda:

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

New Business:

Request for Ordinary Disability – Jayne Ainsworth - Mr. Fleury referred to the request for Ordinary Disability submitted by Ms. Jayne Ainsworth. He noted that pursuant to the provisions of Chapter 218:15 Laws of 1974, as amended, and Administrative Rule Section 2.3, that two mandatory Independent Medical Examiner reports have been received and both results were supportive of a total and permanent disability. Mr. Fleury reported his recommendation to approve the request for Ordinary Disability for Ms. Jayne Ainsworth.

Trustee Lynch moved to approve the Ordinary Disability request for Ms. Jayne Ainsworth, seconded by Trustee Mercier and passed unanimously by all those trustees present.

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Mr. Grzejka stated that he believes that the trustees decision to modify the assumed rate of return to 7% is in line with the national average. He then directed the board's attention to the 2018 Asset Allocation Review, Tab 2. He listed the 2017 expected 5-7 year return as well as the 2018 expected 5-7 year return.

Given the recent changes to the portfolio structure, NEPC is not recommending further structural changes at this time, however Mr. Grzejka stated the NEPC does believe there is an opportunity to overweight certain parts of the portfolio relative to target allocations, which will be discussed more in detail at the February Board Meeting.

Mr. Grzejka then detailed the Flash Report, Total Plan Performance through November, 2017 at \$229,389, 669, year-to-date up 15%, reporting strong results throughout the portfolio. He also reported that the Plan is starting to see the benefits of some of the new allocations, Blue Vista and Kayne Anderson, both adding value.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:58 a.m., seconded by Trustee Gagne and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director