

July 10, 2018
Minutes #546

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:33 a.m.

Present: Trustees: Richard Molan, Bob Lynch, Mike Woitkowski, Bob Gagne and Dianne Mercier arrived at 8:42 a.m.

MECRS Staff: Gerard Fleury, and Suzanne Wilson

Absent: Trustees: Mayor Joyce Craig and Bill Sanders

In Attendance: Attorney John Rich from McLane Middleton, Professional Association, Investment Consultant Kevin Leonard from NEPC and Principal Mark LaPrade and Senior Manager Tyler Butler both from the audit firm, Berry Dunn

Approval of the Minutes of the Previous Board Meeting:

Trustee Woitkowski moved to approve the minutes for the board meeting held May 8, 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.

New Business:

Presentation of the MECRS Audit Results for 2017 – Representatives, Mark LaPrade and Tyler Butler of the firm Berry Dunn were in attendance to deliver the MECRS annual CPA audit results for 2017. Mr. LaPrade began by distributing the Auditor Communications and outlining the presentation.

Mr. Butler described the recent implementation of Governmental Accounting Standards Board (GASB) Statement No. 74, which is the Financial Reporting for Postemployment Benefit Plans Other Than Pension Benefits (OPEB). He explained that the OPEB health trusts reporting, is designed to mirror the pension plan reporting. He then listed items that were added and removed from the financial statements, such as removal of the concept of the funded ratio disclosure related to the Health Trust portion, which was replaced with an addition to Note 9, schedule of the Net OPEB Liability as a percentage of the fiduciary net position as well as the Net OPEB Liability to single discount rate assumption.

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Moving on to slide 4 of the presentation booklet, Mr. Butler summarized the Key Financial Information beginning with the net increase in fiduciary net position noting that 2017 was a strong year with a growth of \$29 million, primarily driven by the 16% investment return. He reported that the Employer Contributions were up about \$4 million while the Employee Contributions remained flat, with an increase in benefit payments of 5%. Mr. Butler then stated that the benefit payments have exceeded contributions for the past 2 years, therefore necessitating reliance on the investment income to fund the benefit payments.

Mr. Butler highlighted the Funded Status of the Pension Trust in 2017 at 63.67% and the funded status of the Health Trusts at 47.8%. He pointed out that the percentage decrease from 2016 is actuarially driven and includes actuarial smoothing of gains and losses over a 5 year period.

Mr. Butler stated that the audit was performed in accordance with U.S. generally accepted auditing standards and Government Auditing Standards and was designed to obtain reasonable, not absolute assurance. He noted that the audit was performed on a test basis and requires understanding of internal controls. The audit does not cover Required Supplementary Information and Mr. Butler stated that Berry Dunn's opinion is unmodified which is the highest level of assurance

Mr. Butler directed the board to turn to page 7 of the Auditor Communications handout as he summarized the list of Required Supplementary Information. He referred to the five audit footnotes on page 8 of the audit report and highlighted the more significant footnotes such as foot notes #3, 7, 8, 9 and Note 10.

Mr. LaPrade continued with the audit presentation and turned the trustees' attention to the letter addressed to the Board, stating Berry Dunn's responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards. Mr. LaPrade explained that, as stated in the engagement letter dated November 14, 2017, Berry Dunn's responsibility as described by professional standards, is to express an opinion whether the financial statements prepared by management with your oversight are fairly presented.

Chairman Molan entertained a motion to go into Non-public Session at 9:04 a.m. pursuant to RSA 91-A:3 II C, Matter which, if discussed in public, would likely affect adversely the reputation of any person, other than a member of the body or agency itself, unless such person requests an open meeting.

Roll Call Vote:

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

Nayes: None

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Following the conclusion of Non-public Session at 9:40 a.m. Chairman Molan entertained a motion to seal the minutes of Non-public Session pursuant to RSA 91-A:3 III

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

Nays: None

Report of the Executive Director:

Investment Guidelines Updated and Posted: Mr. Fleury reported that following the addition of new investments, specifically the Vanguard International ETF and the Kayne Anderson Real Estate investment, the manager specific appendices in the MECRS Investment Guidelines have been updated. He stated that the manager order was revised to cluster like kind investments together and NEPC assisted by updating the benchmark descriptions for each manager and the updated document is now on the MECRS website.

Video Conference Capability: Next, Mr. Fleury informed the board that he has been exploring video conference capabilities, which would allow the Board to link its investment advisors, actuaries, auditors and similar service providers, when travel to Manchester to attend the meeting might be difficult to justify. Mr. Fleury stated that he believes that the video conferencing can be made available for low costs and will remain within the retirement system budget.

Real Estate Investor Calls: During the month of May, Mr. Fleury stated that he participated in investor calls conducted by real estate manager Blue Vista on 5/15/2018 and PRISA on 5/16/2018. He noted that both investor calls reported optimistic results and copies of the presentation materials can be made available for interested trustees.

GASB 74 CAFR Complications: Moving on, Mr. Fleury referred to the size and scope of the GASB 74 report recently received from actuary, Gabriel, Roeder & Smith & Co. which necessitated significant rewrites to work in progress on the 2017 CAFR. He informed the Board that associated revisions to work in progress will increase the production cost of the CAFR beyond original estimates. The issues associated with GASB 74 are new "first year" issues and involved reporting of OPEB, namely, health insurance subsidy matters.

2018 MECRS Pre-Retirement Seminar Scheduled: Moving on, Mr. Fleury stated that a date has been set and the facilities reserved for the Bi-Annual MECRS Pre-Retirement Seminar. This year's seminar will be held on Tuesday, November 6th at the Puritan Conference Center. Thus far, a number of presenters have confirmed their attendance at the seminar.

The board briefly discussed the efforts in coordinating the Pre-retirement seminar and the time when most participants would have the ability to attend.

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Report of the Monthly Cash Balance:

Mr. Fleury reported that the MECRS's current cash balance is low due to recent capital calls. Referring to New Business, agenda item #3, Mr. Fleury stated that the board will be asked to approve the recommendation by MECRS's Investment Consultant NEPC, to rebalance the MECRS's portfolio, in order to provide adequate operating cash for the coming months.

Report of the Administrative & Accounting Committee: Committee Chairman Woitkowski informed the trustees that he will be scheduling an A&A meeting in the coming months.

Report of the Investment Committee: Committee Chairman Lynch noted that the next Investment Committee Meeting is scheduled for Monday, July 23, 2018 at 10:30 a.m.

Report of the Benefits Committee: Committee Chairman Gagne reported on a series of Benefits Committee meetings held to continue the review of documents received from GRS Retirement Consulting, regarding proposed legislative changes to the Plan.

During the meeting held on June 7, 2018, Committee Chairman Gagne reported that after approximately an hour of discussion, the committee once again elected to conduct further discussions at a date to be determined, at which time it plans to receive additional information from counsel and from the System's actuary.

Committee Chairman Gagne reported that preliminary cost estimates for further actuarial work were obtained after the June 7th meeting, and those estimates indicate that approximately \$3,600 to \$5,400 in expenses need to be incurred to further explore the effects of changes discussed.

After brief discussion by the trustees, Committee Chairman Gagne entertained a motion to authorize a legal review of the proposed changes to the Plan, as well as requesting and updating the actuarial fiscal impact statement prior to introducing legislative changes, relative to the GRS Supplemental Valuation Stage II Report. Trustee Woitkowski seconded the motion and it was approved unanimously by all those trustees present.

June Consent Agenda:

Chairman Molan entertained a motion to approve the June Consent Agenda, to which Chairman Molan requested the removal of Consent Item # 1 for discussion.

Trustee Woitkowski moved to accept the June Consent Agenda items, omitting item #1, seconded by Trustee Gagne and passed unanimously by all those trustees present.

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Chairman Molan asked the board to turn to page 3 of Consent Agenda Item #1 and pointed out the legal fees incurred in association with Right To Know Laws, and relative to Investment Manager interviews. He suggested that a better process was needed to avoid sunken costs resulting from late stage deal failures.

The trustees continued to discuss the implementation of processes, designed to avoid high legal fees incurred, relative to investment manager subscription agreement and side letter development, following manager interviews where negotiations resulted in impasse.

Chairman Molan entertained a motion to approve June Consent Agenda Item #1, Retirement Office Expenses. Trustee Woitkowski moved to accept Consent Item #1, seconded by Trustee Lynch and passed by all those trustees present.

July 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:

Investment Redemption for Cash Flow Purposes- Mr. Fleury explained that NEPC is recommending a redemption of \$1.5 million from the S&P 500 ETF holdings and an additional \$1 million from Sands Capital, in order to meet payroll and other operating obligations throughout the summer months, when other contribution revenues are low.

Trustee Gagne moved to approve the investment redemption as stated by Mr. Fleury, seconded by Trustee Mercier and passed unanimously by all those trustees present.

Accept and Place on File GASB Statements 67 & 68 from Gabriel, Roeder, Smith & Co. Trustee Mercier moved to accept and place on file GASB Statement 67 & 68, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Accept and Place of File GASB Statement 74 from Gabriel, Roeder, Smith & Co. – Trustee Lynch moved to accept and place of file GASB Statement 74 from Gabriel, Roeder, Smith & Co., seconded by Trustee Woitkowski and passed unanimously by all those trustless present.

Accept and Place on File on 2017 Gainful Occupation Report – Mr. Fleury explained that the Gainful Occupation Report is an annual filing requirement for disability recipients. If they are employed, the disability recipient must also submit a copy of their tax returns until he or she reaches normal retirement age. Currently, Mr. Fleury noted, MECRS has 7 disability recipients, none of whom are gainfully employed.

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Trustee Woitkowski moved to accept and place on file the 2017 Gainful Occupation Report, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Presentation by NEPC – Private Investment Pacing Plan – NEPC Representative Kevin Leonard was present to discuss the pacing plan for future investment in Private Markets.

Mr. Leonard first distributed 3 handouts to the trustees and began with the May 31, 2018 Flash Report. He reported that the MECRS's total composite market value was just over \$235 million at the end of May. For the month of May, the total assets were up .4% relative to the MECRS's policy index of .3%, outperforming the policy index by 10 basis points.

Mr. Leonard noted a very strong Total Equity composite, on a year to date basis up 3.3% relative to a custom benchmark of 1.3%.

Continuing with the Total Plan Performance Detail, Mr. Leonard reported on non U.S. Investments composite, up 7.6% since inception, detailing manager returns for Gryphon, City of London, Kabouter and Vanguard.

Regarding the Fixed Income composite Mr. Leonard stated that investment grade U.S. Bonds was weak, with the Barclay US Aggregate down - 1.5%

Trustee Mercier expressed her concern regarding the MECRS Investment Guidelines and the reporting mechanism in place to publicize the Board's strategy to the Plan participants. The Trustees discussed the MECRS Investment Guidelines and the reporting strategy moving forward. Also discussed was the role of investments that may not be achieving the target rate of return.

Moving on to the Private Market Pacing Plan, Mr. Leonard briefed the board on the Plan overview and assumptions for Private Markets, as well as the recommended strategy that the Board should consider for the balance of 2018.

Mr. Leonard stated that the MECRS's recommendation is to consider up to an \$8 million allocation for 2018 vintage year funds. He recommended the Board evaluate making the commitment to one or two of MECRS' existing Investment Managers, HarbourVest, Lexington Capital, and Private Advisors Small Co. Fund that offer NEPC recommended Private Market products.

After brief discussion, Trustee Gagne moved to approve the \$8 million allocation to Private Markets and to document consideration and acceptance of NEPC's recommendation, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

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Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 10:38 a.m., seconded by Trustee Gagne and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director