

October 9, 2018  
Minutes #549

**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, Dianne Mercier,  
Bob Gagne

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Trustees: Bill Sanders, Mike Woitkowski and Mayor Joyce Craig

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

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

Trustee Lynch moved to approve the minutes for the board meeting held September 11, 2018, seconded by Trustee Mercier and passed unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

Trustee Gagne moved to approve the immediate meeting agenda seconded by Trustee Mercier and passed unanimously by all those trustees present.

**Chairperson Comments:**

Referencing the audit report submitted by Berry Dunn regarding succession planning, Chairman Molan stated that the trustees received an informational packet from EFL Associates with the firm's overview as well as their general guidelines in succession planning. Due to the upcoming trustee elections in January, Chairman Molan suggested a delay in the formation of a special committee to address succession planning, until after the first of the year. There were no objections to his recommendation.

Mr. Fleury informed the board that he has recently been in contact with officials at EFL Associates and that they have consented to conduct a conference call, with the special committee or board members, at the committee's convenience, to address any questions or concerns moving forward.

Mr. Fleury also assured the board that the MECRS's is well-postured against key person risk and that all administrative processes have been documented in the network, for quick access.

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**Report of the Executive Director:**

MECRS Website Issues Completely Resolved: Mr. Fleury began by reporting that a couple of operational issues with the MECRS website had been discovered and both were remedied quickly. He explained that a "contact feature" issue was corrected within a day and the site has been fully operational since that time. In addition, he reported that new weekly tests on the contact feature have been implemented to verify the continued operational integrity of the MECRS website.

Plan to Migrate MECRS GL to the Cloud: Mr. Fleury informed the board that a meeting will be held on October 23rd with the System's current Microsoft GL support provider, RSM, to explore the potential for migration of the Great Plains General Ledger, from a server based application to the Cloud. He explained that the System's present server will need to be replaced early in 2020 when its operating system will cease to be supported by Microsoft and that migration of the server based GL will be complicated and expensive. He also noted that a onetime expense to migrate to the Cloud will mitigate future annual support costs, improve reliability, and lessen the functional demand for the replacement server and its operating system. If this route proves promising, there will be a 2019 budget expense for migration in 2019 to avoid a dual push in 2020, when support for the existing server by Microsoft is scheduled to cease.

Status Report on Private Equity Investments: Referring to last month's Board decision to invest with a pair of private equity managers and directing staff and legal counsel to pursue subscriptions, Mr. Fleury updated the board that the subscription agreement and Side Letter for HarbourVest V has been prepared and submitted and that the subscription agreement for Private Advisors has also been drafted. Since the closing date for HarbourVest was sooner than for Private Advisors, Mr. Fleury stated that emphasis was placed on the HarbourVest documents.

Communications from the City Clerk Regarding MECRS Trustee Elections: Mr. Fleury informed the Trustees that he was contacted by the Manchester City Clerk's office regarding the traditional method in which the MECRS conducts Trustee elections, and suggested that the System consider an alternate form of electronic voting. Mr. Fleury indicated he offered to meet with the City Clerk to discuss how an alternate voting system might work and to voice his concerns over its control and legality. In response, Mr. Fleury stated that the City Clerk has expressed a willingness to continue the existing election process. On advice from the System's legal counsel, Mr. Fleury is simply reporting this matter to the board, with no further action needed.

Meeting of the A&A Committee Requested: In closing his report, Mr. Fleury noted that a meeting of the A&A Committee would be advisable in the month of November, to review the draft 2019 MECRS Administrative Budget and to discuss the organization's posture on succession planning.

Trustee Gagne referred to the plan to migrate Great Plains GL to the Cloud and asked Mr. Fleury if the issue is Great Plains GL, not supporting the data base. Mr. Fleury explained that the issue

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stems from multiple updates to the GL over time, for which the MECRS has no requirement or business need. Since upgrades often result in complications which are best avoided, the System has not participated in the upgrades. Mr. Fleury reported that in order to upgrade with the current release of the GL, the System would have to migrate in stages, which would be time consuming and costly to the System.

**Report of the Monthly Cash Balance:**

Mr. Fleury stated that the NEPC Representatives will be in attendance to present recommendations for raising \$3 million in cash through a variety of transactions, and also will recommend a re-allocation of funds between existing asset classes.

Mr. Fleury reported that the Cash Management Report reflects a stable balance of \$3.6 million, however, he is concerned with the magnitude of drawdowns with HarbourVest V and Kayne Anderson, should an additional call present itself.

Regarding the balances of the future funding, Trustee Mercier asked Mr. Fleury if he has an idea when the drawdowns from HarbourVest and Kayne Anderson will be complete.

Mr. Fleury indicated that, in general, it depends on opportunities and the difference between the nature of each investment, which can potentially extend timelines.

Trustee Mercier stated that having an expected deadline for each commitment would provide the board with a direction, if not a target of capital calls and she requested a revision to the Cash Flow Report to include an additional column with the expected target date of each call. Mr. Fleury indicated that he would make the revision to the report.

Attorney Rich noted that the HarbourVest subscription agreement includes a funding timeline, expecting to make all investments within the first 3 years. While each investment can vary, most have an estimated timeline when the fund is created.

Mr. Fleury then informed the board of an unusual situation whereby investment manager, Blue Vista Real Estate, was wiring erroneous distributions repeatedly to MECRS' Custodial Bank and that the error was recognized and documented. Pending MECRS authorization from the custodian, State Street Bank, Mr. Fleury reported that the incorrect transaction will be reversed. Mr. Fleury also indicated that the previous Cash Balance Reports did not reflect the excessive distribution amounts by design so as to avoid an overstatement of the actual balance.

**Consent Agenda:**

Chairman Molan entertained a motion to approve the Consent Agenda. Trustee Mercier moved to accept the Consent Agenda seconded by Trustee Gagne and passed by all Trustees present.

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**Benefits Committee:**

Committee Chairman Gagne stated that the Benefits Committee met, as scheduled, to review and act upon the September 7, 2018 update from the actuary on possible benefit changes to the Plan. In addition he noted that the committee reviewed a list of administrative implementation concerns, which were identified by staff, should proposed changes be enacted.

He reported that the committee discussed the options and projections from the actuary on how cost reductions resulting from Plan changes could be applied. On a motion from Committee Member Woitkowski and a second by Committee Member Molan, Committee Chairman Gagne listed four possible Plan changes that were recommended for consideration by the full Board.

- Normal retirement age increased to from age 60 to age 62, for all new entrants.
- Early Retirement reduction increased to (7/12) of 1 % per month before Normal Retirement age, for all new entrants.
- FAE period increased to 5 years, for all new entrants.
- Member contribution rate increased to 7% (5.75% pension, 1.25% health), for all new entrants.

After lengthy discussion regarding the employer cost of the Plan changes as well as the impact on Plan participants, the trustees agreed that the proposed changes merit further discussion by the full board, whereby all board members can express their views and have input on each of the proposals.

On behalf of the Benefits Committee, Committee Chairman Gagne then moved that the full MECRS Board, consider the four Plan amendments stated earlier in his report, and in addition, a cap on severance allowed for inclusion in the retirement benefit calculation for all new entrants.

After brief discussion regarding Committee Chairman Gagne's motion of the Plan amendment options, Chairman Molan asked that the motion be amended to allow that the full MECRS Board to consider the five proposed Plan options as stated by Committee Chairman Gagne, including any other legislative changes, which may have a positive impact on the Fund. Committee Chairman Gagne amended his motion, seconded by Trustee Lynch and it passed unanimously as amended by all those trustees present.

Attorney Rich suggested that given the significance, the proposed benefit changes should be listed as a line item on a future trustee agenda when up for discussion rather than discussed under the Benefits Committee report.

Mr. Fleury provided historical perspective regarding the Proposed Plan Options, and he explained past practice for communications sent to the Board of Mayor and Aldermen.

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Because of the importance of the Proposed Changes to the Plan, Trustee Mercier expressed her concerns and suggested sending an invitation to Mayor Craig, requesting her presence during the meeting of the full MECRS Board when Plan Changes would be discussed. This would serve to open dialogue regarding the proposed amendments with the City and create awareness of the anticipated impact on the Fund and to the City of Manchester.

**New Business:**

NEPC Presentation of Rebalancing & Future GTAA Allocations – Representatives Kevin Leonard and Sebastian Grzejka were on hand to recommend redemptions for cash flow requirements and to review the present allocation to GTAA and options for recommended changes.

Mr. Grzejka first referred to the Flash Report which had been distributed and reported a total composite value as of the period ending August 31, 2018 as \$237,000.00 year-to-date, up 3.2%, noting good performance throughout the MECRS portfolio. He stated that the domestic equity manager's performance was very good with all strategies within, and specifically Sands Large Cap Growth, which is up about 30% on a year-to-date basis.

Mr. Grzejka reported that International Equity has been rough going with the dollar continuing to move forward on its upward trajectory, therefore impacting the portfolio return. Mr. Grzejka stated that currency and trade wars impact emerging markets resulted in a negative 7.4% return since inception. U.S. Equity has continued to perform well, Mr. Grzejka reported.

Mr. Grzejka reviewed the Total Plan Performance Detail for Fixed Income, Cash, and the Real Estate/Real Asset Composite.

Mr. Leonard stated, that on a relative benchmark comparison, the MECRS portfolio is doing very well.

Mr. Grzejka stated that due to the pending capital calls from new managers, Private Advisors, Kayne Anderson and HarbourVest V that NEPC is recommending a redistribution of funds, pulling \$6 million from a combination of Mellon Dynamic Growth and Sands Large Growth, and reallocating \$1million into Vanguard International, \$1million into Loomis Sayles, and \$1million into Vanguard Tips, with the balance of \$3 million allocated to the portfolios' cash account.

Trustee Mercier questioned, since value stocks are assumed to be favorable, wouldn't it be a wise strategy to reallocate \$1 million into value fund Pzena, rather than, into Vanguard Tips. Mr. Leonard agreed that value stocks are expected to be favorable and that the alternative recommendation would remain within the MECRS policy guidelines.

Trustee Mercier then moved to accept NEPC's stated \$6 million reallocation recommendation, swapping the \$1 million from Vanguard Tips with \$1million to equity fund, Pzena Large Value, seconded by Trustee Gagne and passed unanimously by the trustees present.

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Next, Mr. Grzejka turned the trustee's attention to the Global Asset Allocation Review booklet and stated that MECRS current target is 10% with an allocation of 9.6% which includes investment with two managers, Mellon Dynamic Growth (4.8%) and PIMCO All Asset (4.7%).

Mr. Grzejka continued to provide the board with a GAA overview, defining the multi-asset philosophy and the GAA strategies and the purpose of the GAA strategies.

Mr. Grzejka reported that both the global market environment and GAA strategies have a cyclical return profile. Also, he stated that extended periods of low volatility in equity markets historically have reduced alpha opportunities for GAA strategies.

Mr. Leonard stated that GAA can play a complementary role in the portfolio, however, the size and exposure should be rationalized. He noted that there was some overlap between Mellon and other managers. As a result of several factors, he recommended that consideration should be given to reduce the GAA target.

After brief discussion by the trustees regarding GTAA, NEPC representatives recommended a full asset allocation review in early 2019, with a focus on the future role and sizing of the GTAA allocation within the MECRS portfolio. Mr. Leonard and Mr. Grzejka thanked the board for their time and departed.

**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 10:15 a.m., seconded by Trustee Gagne and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director