

December 10, 2019
Minutes #564

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:30 a.m.

Present: Trustees: Richard Molan, Harry Ntapalis, Robert Gagne,
Bill Sanders and Jeff Plourde

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Dianne Mercier and Mayor Craig

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
and Tony Teberio, Sr. Inst. Trust Officer, Vice President from People's
United Bank

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the minutes of the previous board meeting held November 12, 2019.

Trustee Ntapalis moved to approve the minutes of November 12, 2019, seconded by Trustee Gagne and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Chairman Molan entertained a motion to approve the immediate meeting agenda.

Trustee Gagne moved to approve the immediate agenda, seconded by Trustee Sanders and passed by all those trustees present.

Report of the Executive Director:

Progress Report- Replacement GL: Mr. Fleury reported that the Retirement System is now operating parallel with the old and new GL Systems. He stated that the new GL system is running smoothly, however there is still work to be done to make the system all it can be. He stated that working with the new GL System will continue into 2020 to be certain that it can do everything it needs to do before discontinuing use of the legacy system. The remaining work centers on refining reports and becoming comfortable with the closing process.

Retiree Access to Payment Records: Mr. Fleury reported that on December 6th, information about an online access system whereby retirees could access pension payment records was

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received. He viewed it as a first step toward implementing such an online internet feature for the MECRS's retirees, and he explained other features that the retirees would have in addition to immediate access to online payment information. Mr. Fleury concluded by promising to keep the Board informed as further information and various details become available.

Initial 2019 CAFR Production Underway: Next, Mr. Fleury stated that much of the setup work required to produce the Comprehensive Annual Financial Report has been done. The work consists of bringing 2018 values to their correct locations and clearing various data fields and text sections for 2019 data, once the year is completed. He noted that this process will continue until next March, when the valuation result become available and the draft CAFR is ready for review by external auditors.

Report of Legislative Initiative: As of Monday, December 2nd, Mr. Fleury reported that both of the Retirement System's LSRs had been issued House Bill numbers and were a matter of public record. He informed the trustees that he had been contacted by the City Clerk and was told that the Retirement System's legislative initiative would be on the Tuesday, December 17th meeting agenda of the Board of Mayor & Aldermen. Mr. Fleury also indicated that a prepared letter to the Mayor and another to the BMA for the agenda, were finalized and sent before the December 9th deadline.

Mr. Fleury explained that retirees will be notified by direct mail at about the same time that active members are informed. For active members, the notice will accompany their annual member statement in early January. He stated that copies of each notice will be posted on the website and a composite press release will be ready in the event that the System is contacted by the press, seeking details.

Monthly Cash Balance Report:

Chairman Molan asked for a review of the Cash Balance Report for November.

Mr. Fleury referred to a handout which had just been distributed and he stated that cash flow was healthy, and there were no immediate concerns. He noted that capital calls for December had been issued by both HarbourVest investments and that a final call was also issued by Blue Vista Fund IV.

There were no questions on the report and the meeting moved on to the report of the A&A Committee.

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Report of the Administrative & Accounting Committee:

Committee Chairman Plourde reported that on November 27, 2019, the Administration & Accounting Committee met to review the draft MECRS Administrative Budget for 2020.

During that meeting he stated that the Executive Director reviewed the key areas of change from the 2019 budget and explained the rationale behind the resulting amounts. After a series of questions and answers from Committee Members, Committee Member Gagne offered a motion to recommend the budget as requested to the full MECRS Board, which received a second from Committee Member Ntapolis. The vote was approved unanimously.

As Chairman of the MECRS A&A Committee, Trustee Plourde moved the MECRS Administrative Budget for 2020 in the amount of \$1,083,215.31 pursuant to a vote of the Committee at their November 27, 2019 meeting. The motion drew a second from Trustee Ntapolis. Chairman Molan called the vote and it was all in favor.

Report of the Investment Committee:

There was no report from the Investment Committee.

Consent Agenda:

Chairman Molan entertained a motion to approve the consent agenda and asked if there were any items which the Trustees wished to remove. There being none, Trustee Gagne moved to accept the Consent Agenda, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Previous Business:

Mr. Anthony Teberio, Vice President of People's United Bank had been invited for informal discussions on custody services available from People's United. Mr. Teberio distributed a handout to support his presentation and Mr. Fleury explained to the Board that Mr. Teberio was formerly employed by State Street Bank & Trust where he was assigned to MECRS as the account representative. Mr. Fleury stated that Mr. Teberio was therefore familiar with MECRS as an organization and understood its business needs.

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Mr. Teberio began by explaining that he is not a member of People's sales force and he described his role as a custodian, involved in day to day operations on behalf of clients. He circulated a handout to guide his presentation about Peoples United. He first referred to a section of the handout listing Massachusetts Pension Global Custody Accounts. The section identified each Plan, the current market value of their assets, and the year in which they became clients of People's United. He explained that Peoples has been a custodian for over one hundred years but they did so because clients came to them seeking that service. Until more recently, People's did not solicit custody clients through marketing efforts. He further explained that large pension funds generally obtain custodial services from a handful of providers including; State Street Bank & Trust, Bank of New York Mellon, Northern Trust and Citibank. He stated that for smaller pension funds, the big firms have little interest in providing those services because they cannot generate the desired revenue from only providing custody services. They focus on plans whose asset range between \$5 billion and \$50 billion and not the many small plans like MECRS with a couple of hundred million in assets. He noted however that there are far more small plans than there are big plans and that is an area that People's has targeted to offer their services. He went on to explain that smaller local banks can do custody for individuals but that they don't do the kind of institutional custody required by MECRS.

Mr. Teberio explained that People's focus on public plans to date has been on Massachusetts because surrounding states such as New Hampshire, Maine, and Rhode Island have few counterparts, with most municipalities providing pension benefits for their employees through larger State plans. He stated that rather than go through the entire pitch book, he preferred to answer any questions that Board Members might have. Trustee Sander asked whether People's would be able to provide all of the services currently provided by State Street, or would that be gaps that would need to be filled by other providers. Mr. Teberio replied that because People's is a medium sized bank, there is no way that they could ever provide institutional grade custody like State Street. He explained that People's has a relationship with Bank of New York Mellon, which he described as the largest institutional custody bank. Through People's relationship with Bank of New Mellon, all of the back-office services of the large-scale custody bank become available to smaller instructional clients, as though they were clients of BNY. People's functions as a front office operation so that clients access their account through People's but the services are actually running on Bank of New York's platforms. In this way, clients benefit from the sophisticated features of the Bank of New York back office, while having the local personal services of a client representative who is more available than the large money center banks can provide.

Mr. Teberio stated that People's United contacted NEPC and other investment advisors to determine how they would react to having back-office transactions processed by BNY and front-office services by People's, and the responses were positive.

Trustee Sanders then asked whether People's could also replicate the services provided by State Street Retiree Services. Mr. Teberio replied that those services could also be provided by Bank

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of New York, although they are not the number one provider in terms of the number of payments processed. He conceded that State Street is the leading provider for the total number of payments processed. He explained further that a contributing factor to State Street being the leading provider is that they process payments for the Pension Benefit Guarantee Trust which handles all private sector funds which fail and are taken over by that government agency. He went on to explain that People's is in the business of providing comprehensive custody services including securities lending, performance analytics and pension payroll.

Trustee Sanders then asked whether MECRS could see a copy of the engagement contract used by People's. Mr. Teberio replied that they could and he described the agreement as being very simple, consisting of only 5 or 6 pages. He added that if MECRS had any concerns about scope of services or terms, that People's legal department would be willing to address them.

Mr. Fleury stated that in reviewing services from People's in the past, he had little concern about the migration of assets from State Street and that he was comfortable with the understanding that People's systems were custom page headings on a BNY system. He went on to state that his primary concern was in the migration of retirees and related services from State Street Retiree Services. Mr. Fleury stated that when an RFP for custodial services had been issued a few years, it became clear that continuity of services and avoiding confusion for retirees would be a paramount issue. He stated that in some cases, new direct deposit enrollments from all of the existing retirees was identified as a requirement, and that by itself would have been a major undertaking given the size of the MECRS staff.

Mr. Fleury addressed Mr. Teberio directly and asked which of People's clients are currently having their retiree payroll processed by BNY. He expressed concern because most of the Massachusetts clients are divisions within a municipality whose Human Resource or Treasury departments process employee payroll and also handle retiree payroll. He expressed frustration with not being able to talk with an organization that is of like size to MECRS, whose retiree payroll and tax reporting is currently handled through People's.

Trustee Sanders asked whether Bank of NY would handle a conversion of retirees from State Street. Mr. Teberio replied that they would and he described the way in which State Street would transfer records and how an effective date would be determined. He stated that conversions can generally be done in about three months. In a conversion, BNY would do a shadow processing where the live transaction would be done by State Street and duplicated by BNY. Afterwards, the results would be compared to be sure that nobody dropped out of the batch.

Mr. Teberio then addressed the method in which tax reporting would be handled. He explained that each institution would issue tax statements for the portion of the year for which they processed the payments. This would result in retirees receiving two 1099-R forms, one from each institution, and he emphasized the need for retirees to be notified in advance of this situation so that they would know to combine the two forms for tax filing purposes.

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Trustee Gagne stated that MECRS had discussed the potential for a clean break at calendar year end, whereby one institution would cease processing and the other would take up at the start of the ensuing year. He went on to say that since it was sounding like the conversion would be mid-year, he thought that doing it in the middle of the year, away from the start or finish, would be less confusing for retirees.

Trustee Gagne then asked when a retiree would receive their tax forms. Hopefully that would not happen mid-year on the heels of a conversion. Mr. Teberio replied that he believed that tax forms were only generated and mailed at the end of January, regardless of who generates them.

Attorney Rich then asked Mr. Teberio about key person risk with People's United. He noted that this is a concern any time that money managers are hired and that the concern is relevant in this situation too. He noted that while Mr. Teberio is very experienced in the industry, would he elaborate on the others in the organization who would be part of a client service team. In addition, in recognition of frequent mergers and acquisitions in the banking industry, he questioned how entrenched custody services is within People's in the event that they were to become part of a larger organization. Mr. Teberio began by describing the team at People's in Massachusetts and Bridgeport, Connecticut, and discussing their backgrounds. To Attorney Rich's second question, he replied that People's has been going out and buying smaller banks but has not lended the appearance of wanting to be acquired. Trustee Gagne asked that with BNY providing back-office services, if People's were acquired by another bank that had no interest in continuing custody services, might another front end be located? His concern was not having MECRS find itself in this same situation in the near term. Mr. Teberio offered that BNY might express interest in opening a Boston office and continuing small local custody themselves because of the aggregate asset management group which People's has created.

Trustees Sanders returned to the question of a contractual arrangement between MECRS and Peoples. He asked if an agreement were to include retiree services in addition to custody, would MECRS be the first client of this type or are there already other clients with such agreements. Mr. Teberio replied that MECRS would be the first of his clients to have that broad arrangement. He noted however that People's United's own retiree payments are processed through BNY. Trustee Sanders asked Mr. Teberio to confirm that their own retiree payments were processed through BNY and he reiterated that they were.

Chairman Molan then asked what the fee structure would be through People's United, to which Mr. Teberio replied that there were three components to custody charges. Fees are assessed on total assets under custody, another charge is assessed for each separate account manager in the portfolio, and finally a commission on trades for every buy and sell.

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Mr. Fleury asked if MECRS were to go with People's United for both custody and retiree services through BNY, if we would be their great experiment, to which Mr. Teberio replied that we would. Trustee Sanders then pushed the question of what it would cost annually for all services, to which Mr. Teberio replied that based on earlier estimates, a figure of around \$90,000 came to mind. He noted that was based on estimates from a few years ago but the annual cost was certainly not going to be \$200,000 but it certainly wouldn't be \$50,000 either. Trustee Gagne asked what the current annual cost is for MECRS, to which Mr. Fleury replied that he preferred not to guess from memory. He explained that each component of services is billed separately and he would need time to compile the cost. Trustee Sanders suggested that the amount be quantified by the next time the discussion came up. He then asked Mr. Teberio how much lead time People's would need for a hypothetical July conversion. He replied that the pure custody conversion could be done in a week. For the retiree services component, a minimum of three months would be required.

Mr. Fleury asked the Board what the path forward was, did they want a proposal with prices and a scope of services? Trustee Gagne replied that he would. Chairman Molan expressed his desire to see that as well. Trustee Sanders asked if that could be available in time for the January meeting but Mr. Fleury asked that it be extended to February because of the of the already busy schedule for January and the approach of the December holidays. Mr. Teberio stated that he could at least provide a contract format and fee schedule which could act as a starting place for further discussions. Chairman Molan asked that it be routed through the A&A Committee and Mr. Fleury took note of that directive.

Chairman Molan expressed the Board's appreciation for Mr. Teberio's time and interest and he stated that he had found the discussion very helpful. Mr. Teberio thanks the Board and departed at 9:45 a.m.

Chairman Molan then called a recess for a meeting with counsel at 9:46 a.m.

Chairman Molan called the meeting back from recess at 10:10 a.m. and asked if there were any motion that Trustees wished to make.

Trustee Gagne offered a motion, that in the event the investment with Collier Capital approved by the Trustees at the November meeting is not made, that an investment previously approved by the Board with Searchlight Capital for \$5 million be increased to \$10 million or any lesser amount as may be recommended by investment consultant NEPC. Trustee Sanders provided the second, Chairman Molan called for the vote and the it was all in favor.

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Other Business:

Motion to Adjourn:

Having conducted all the business of the day, Trustee Gagne moved to adjourn the meeting at 10:12 a.m., seconded by Trustee Ntapalis and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director