

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:32 a.m.

Present: Trustees: Richard Molan, Harry Ntapalis, Robert Gagne, William Sanders and Dianne Mercier arrived at 8:33 a.m.

MECRS Staff: Gerard Fleury, and Sandi Aboshar

Absent: Jeff Flourde and Mayor Craig

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
Mark LaPrade and Tyler Butler from Berry Dunn

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the minutes of the previous board meeting held June 11, 2019.

Trustee Gagne moved to approve the minutes of June 11, 2019, seconded by Trustee Ntapalis 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 Ntapalis and passed by all those trustees present.

New Business:

Presentation of the MECRS Audit Results for 2018 – Representatives, Mark LaPrade and Tyler Butler of the firm Berry Dunn were in attendance to deliver the draft MECRS annual CPA audit results for 2018. Mr. LaPrade began by distributing the Auditor Communications booklet and outlining the presentation, stating that Mr. Butler will first report on the Key Financial Information followed by his review of the Required Auditor Communication, as well as the Yellow Book Report.

Referring to slide 3 of the presentation booklet, Mr. Butler summarized the gain and loss investment return chart, reporting a loss of 5.5% money weighted return, smoothed out and adjusted for cash flows on a monthly basis. He reported the total contributions increase of 6.7% and benefit payments up 7%., with a net loss of slightly under \$16 million.

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -2-

Moving on to the next slide, Funded Ratio, Mr. Butler reported a dip in the Pension Trust, Net Position as a percentage of total pension liability and a dip in the Medical Trust Net Position. Referring to the Required Supplementary Information (RSI) chart within the MECRS Comprehensive Annual Financial Report (CAFR), Mr. Butler stated that the chart details how the actuarial driven numbers were affected.

Mr. LaPrade elaborated further that the top two numbers within the chart are based on actual net position as of 12/31/2018, reflective of a substantial dip and the funded status is more of an actuarial number with the 5-year smoothing of gains and losses built in, which is why the Medical Trust Net position shows less of a dip from 2017 to 2018.

Mr. Butler stated that the audit was performed in accordance with U.S. generally accepted auditing standards and Government Auditing Standards and is designed to obtain reasonable, not absolute assurance.

Mr. Butler reported that the audit requires understanding of internal controls and does not cover Required Supplementary Information or other information and he also reported that the audit is an unmodified opinion which is the highest level of assurance offered.

Referring to the RSI chart noted earlier in the audit presentation, Mr. Butler explained that the RSI pertains to both trusts, the RSI for the Pension Trust and the RSI for the Medical Trust. He then reviewed the Financial Statement Footnotes on page 7 of the booklet and highlighted the more significant footnotes such as Note 3, 7, 8, 9 and Note 10.

Before turning the presentation over to Mr. LaPrade, Mr. Butler asked the trustees if they had any questions or concerns regarding the Audit or the CAFR, for which there were none.

Mr. LaPrade continued with the presentation, highlighting Berry Dunn's responsibility to express an opinion of the financial statements and stating that the audit does not relieve management or the Board of their responsibility over financial statements. Mr. LaPrade noted that it is management's responsibility to prepare and present the financial statements commenting further that Executive Director Fleury does an exceptional job in doing so and is one of the top tier clients, who take complete ownership of the tasks. In addition, Mr. LaPrade stated it is management's responsibility to design, implement and maintain of internal controls.

Mr. LaPrade stated that Berry Dunn performed tests in key audit areas which may change from year to year and that an element of unpredictability has also been incorporated.

Mr. LaPrade briefed the board on the qualitative aspects of accounting policies, management's judgements and estimates and the financial statement disclosures which were neutral, consistent and clear. Mr. LaPrade reported that there were no significant audit adjustments. As in past years, there were a couple unrecorded audit adjustments. The first one is the reversal of prior year unrecorded adjustments that impacted the fiduciary net position as of December 31, 2017.

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -3-

The second is to adjust the fair value of investments for investment statements subsequently reported by investment managers. Mr. Fleury noted that because certain private equity managers do not issue fourth quarter statements in time for the actuarial report, third quarter numbers are used. Mr. LaPrade reported the total impact of the adjustments is a decrease in fiduciary net position of approximately \$297,000.

Moving on to the Yellow Book Report, Mr. LaPrade reported that Berry Dunn did not identify any control matters that would be considered a material weakness. The audit performed certain tests of compliance with certain provisions of laws, regulations, contracts and agreements. Lastly, regarding the Internal Control Matters, Mr. LaPrade stated that as part of the audit, Berry Dunn will obtain a signed letter from management attesting to certain representations made during the audit.

Chairman Molan thanked Mr. LaPrade and Mr. Butler for their presentation and they departed.

Chairman Molan questioned whether the board needed to take any action with respect to the audit or the CAFR. Mr. Fleury stated that when the MECRS CAFR is finalized and ready for printing, the trustees will be asked to approve that final version and place it on file.

Report of the Executive Director:

Office Lease Complications: Mr. Fleury began by informing the board that the MECRS office received a request from a property management firm, whose services were obtained by the mortgage holder of the MECRS's office building. He explained that the owner of the property has not been submitting the mortgage payments on time, therefore the bank has moved to exercise an option to seize monthly rent payments from the tenants. Mr. Fleury stated that he has notified MECRS legal counsel on the communications received and has also sent legal counsel backup details regarding the current lease agreement with the existing property manager. Moving forward, Mr. Fleury reported the daily management of the property has effectively changed to Colliers International.

General Ledger Upgrade: Mr. Fleury informed the board that on Thursday, June 27th, a trial version of Cougar Mountain's Denali general ledger ("GL") was loaded to the MECRS server and workstations. He explained that the product is being configured for the MECRS's organization and the plan is to import legacy data from the present GL and to run parallel for a few months before making the license permanent and discontinuing use of the existing GL application.

Report of Legislative Initiative: Regarding the proposed legislative initiative, Mr. Fleury reported that he has reached out to Legislative Services, the City Clerk's Office and to Representative Patrick Long. While he has yet to hear from Legislative Services to obtain the focus impact forms, he stated that he did receive a reply from the City Clerk's office stating that

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -4-

they would abide by the language that was in any bill. He then reported that Representative Long is requesting more time to get the current legislative session wrapped up. Mr. Fleury

explained that the draft LSR is with counsel for review and may still need to have the effective date and referendum language amended.

State Street Bank & Trust – Problem Status Report: Mr. Fleury informed the board that on June 21st a regularly scheduled conference call was conducted with MECRS's client representatives from State Street Bank. During that call Mr. Fleury stated, problems were reviewed with a recent software upgrade, issues with manager statements failing to reach the bank were addressed and the lack of identification for past problems associated with vendor payments. He informed the trustees that there was also an outstanding matter of MECRS being overcharged for postage on the monthly payrolls going back several years. Mr. Fleury reported that the postage matter has been resolved and the System collected \$4,604.54 in a cash settlement for cumulative postage overcharges, plus interest.

In addition, Mr. Fleury referred to the issues with the recent software rollout and the inoperability of applications that are needed to complete daily assignments. He stated that the State Street Representative agreed that the release of the software was inadequately tested before it was rolled out and that similar problems are being experienced by State Street staff. Mr. Fleury reported that the conference call included discussion regarding the high employee turnover rate, short term notice of representative changes, and messages received from unrepresented bank personnel seeking MECRS staff assistance to remedy asset valuation problems the bank is having with the System's investment managers.

Trustee Gagne asked Mr. Fleury how the postage overcharge issue was discovered and Mr. Fleury responded that the State Street discovered the postage issue after an internal audit was conducted.

Trustee Ntapolis asked if there was a designated senior representative at State Street Bank who is working to remedy the dissatisfaction with the retiree services to which Mr., Fleury responded, that due to the recent representative turnover within the organization, MECRS is currently dealing with the second representative since January. Mr. Fleury stated that he would continue to pursue the matters and provide further reports at future meetings.

State Street Alternative Being Investigated: Mr. Fleury stated that after briefing the Administrative & Accounting Committee at a meeting held on June 18, 2019, whereby dissatisfaction with services at State Street Bank was the focus, it was agreed to reach out to an alternate supplier of custodial services and to schedule a subsequent meeting to explore alternatives in greater depth. Mr. Fleury reported that a meeting is scheduled for Thursday, July 11th with Mr. Anthony Teberio from People's United Bank. Mr. Fleury noted for record, so as to avoid any implication of a conflict of interest, that Trustee Mercier, who has employment

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -5-

affiliations with People's United, was not involved in the selection of the institution and that Trustee Mercier was unaware that Mr. Fleury had reached out to Mr. Teberio.

Referring to the past MECRS's Request for Proposal, Mr. Fleury stated that all vendor responses to the RFP were sufficiently detailed to allow for a logical organization to be selected to conduct the System's tasks.

Chairman Molan noted that after reviewing the RFP's submitted, the MECRS A&A Committee felt that the People's United would be the best candidate, however it was agreed by the committee to postpone any discussion regarding the replacement of State Street Bank until further investigations were concluded.

In the coming months, Mr. Fleury reported that he plans to conduct a site visit with clients of People's United to consult with them on their experience and satisfaction with the custodial services they receive.

Trustee Ntapalis asked Mr. Fleury if there have been recent issues which impacted the quality of service to MECRS clients by State Street Retiree Services.

Mr. Fleury referred to a recent issue whereby a member refund batch was delayed in processing for about a week as well as monthly vendor payment issues, which have since both been resolved. To date no issues associated with retiree payrolls has occurred.

Progress Report of Portfolio Rebalancing: Mr. Fleury updated the board on the portfolio rebalancing since the June meeting. While some aspects of portfolio rebalancing were still in progress at that time, he reported that the balance of redemptions and reallocations have now been completed. Referring to the New Business item on the day's agenda, Mr. Fleury stated that the board will be asked to accept and place on file, the revised Investment Guidelines which recognize the manager changes and include the revised asset allocation. He noted that approval of the Guidelines will complete the rebalancing exercise for 2019.

Mr. Fleury notified the board that he received notification from TA Associates that none of the properties in California sustained any damage from the recent earthquakes.

In closing his report Mr. Fleury informed the trustees that he will be liquidating \$2 million in S&P 500 Exchange Traded Funds in order to raise cash for. Given a number of capital calls, and in order to meet the August payroll, Mr. Fleury stated that the \$2 million will be a sufficient amount. He then reported that next month he will be working with the System's Investment Consultant, NEPC to provide a more detailed, long-term cash flow schedule to take the organization into the fall.

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -6-

Report of the Monthly Cash Balance:

Mr. Fleury reported that the cash balance ending June, 2019 was \$3.5 million. He explained that during the summer months the System no longer receives school contributions, which along with the COLA increase and capital calls, explains the need for the redemption from the S&P Exchange Traded Funds.

Trustee Gagne moved to accept and place on file the report of the monthly cash balance, seconded by Trustee Ntapolis and passed unanimously by all those trustees present.

Report of the Administration & Accounting Committee:

Due to the absence of Committee Chairman Plourde, Mr. Fleury presented the A&A Committee report. He stated that on June 18, 2019, the Administration & Accounting Committee met to review the status of service problems being experienced with State Street Bank & Trust.

The Committee received an update on problems experienced and reviewed the pros and cons of a potential vendor change.

After deliberating on the matter, Mr. Fleury informed the board that the committee agreed to allow the Executive Director to contact one of the competitive vendors who bid on the Custodial Services RFP from a few years ago, and to contact other retirement systems in Massachusetts, whose banking services are provided by that institution.

Mr. Fleury noted that the staff will report back on their findings and any further recommendations at a future date.

Consent Agenda Items:

Chairman Molan then entertained a motion to approve the consent agenda, removing the Request for Pension, the motion was offered by Trustee Gagne, seconded by Trustee Ntapolis and passed unanimously by all those trustees present.

Chairman Molan then suggested that the MECRS Office send Request for Pension participant, Jennie Angell, a form of recognition for her years of service as Trustee to the Retirement System. Mr. Fleury indicated that he would do so.

Chairman Molan then entertained a motion to approve the remaining Consent Item, Request for Pension. Moved by Trustee Mercier to approve the Request for Pension, seconded by Trustee Ntapolis and passed unanimously by all those trustees present.

July 9, 2019
Minutes #559

Minutes of the Board of Trustees' Meeting -7-

Update to MECRS Investment Guidelines: Mr. Fleury explained that the Investment Guidelines enclosed in the agenda packets reflects the addition of new managers and the termination of previous managers.

Trustee Gagne moved to accept and place on file the 2019 MECRS Investment Guidelines, seconded by Trustee Ntapalis and passed unanimously by all those trustees present.

2018 Gainful Occupation Report - Trustee Gagne moved to accept and place of file the 2018 Gainful Occupation Report, seconded by Trustee Sanders and paced unanimously by all those trustees present.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Sanders moved to adjourn the meeting at 9:15 a.m., seconded by Trustee Ntapalis and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director