

September 10, 2019
Minutes #561

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 and Bill Sanders

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Jeff Plourde, Dianne Mercier and Mayor Craig

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
Kevin Leonard from NEPC

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the minutes of the previous board meeting held August 13, 2019.

Trustee Gagne moved to approve the minutes of August 13, 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 Sanders moved to approve the immediate agenda, seconded by Trustee Ntapalis and passed by all those trustees present.

Report of the Executive Director:

GL Upgrade: Mr. Fleury reported that MECRS now has the knowledge needed to import legacy data from its obsolete accounting package to the new system. Manageable steps are being taken to perform test transactions in the new system and all staff members are being kept up to date on the advances. He informed the trustees that Executive Assistant Sandi Aboshar, will be traveling to a regional training session on the GL module in Portland Maine in October as a prelude to the start of parallel testing. He explained that there are many features included in the new software, that the Retirement System doesn't plan to use immediately, but which could have far reaching implications for the way the organization operates. He stated that the details and possibilities are too many to discuss in a monthly briefing, so those details will be routed to the agenda of the next A&A Committee meeting, for which he and Committee Chairman Plourde are working together to schedule sometime in October.

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Report of Legislative Initiative: Mr. Fleury stated he met with Representative Patrick Long at a meeting held August 29, 2019 regarding his sponsorship of the two legislative initiatives, which the board is seeking to obtain. Also, in attendance, he reported were Trustee Gagne and Executive Assistant Sandi Aboshar. He noted that the draft Legislative Services Request, LSR on the housekeeping measure was received from legal counsel the previous day and the LSR on Plan Amendments had been completed earlier. Representative Long informed those in attendance that another bill he previously sponsored will create a referendum question on a separate ballot at the November 2020 election and he speculated that the System's referendum vote could be included on that same ballot. Mr. Fleury stated that he will keep the board informed on the ongoing process. Trustee Molan indicated that he had reached out to Secretary of State Gardner on the referendum question.

State Street Alternatives Being Investigated: Mr. Fleury informed the board that on August 15th he conducted a conference call with Jessica Baker, Vice Present of Client Services of State Streets' Kansas City operations. He reported that the call resulted from a less than glowing response that he submitted to a customer satisfaction survey that the System was invited to complete. Mr. Fleury noted that he did not hold back on a list of concerns related to the operation of State Street's custody and accounts payable business, and he received agreement from the State Street Representatives that there were issues which needed to be resolved. Subsequent to the call, Mr. Fleury stated that the System was contacted by other individuals at State Street Bank, who gave instructions on how to resolve problems with their reporting software. Although the instructions were incomplete, he noted that staff was able to eventually make all of the reports work.

Mr. Fleury continued to explain that issues still remain with the custodial bank not receiving statements and cash disbursement notices from investment managers and it was discovered that State Street Bank had changed the notification addresses without ever notifying the managers, or the Retirement System. Mr. Fleury explained that when manager reports never reach a destination within State Street, they simply come to us requesting details and backup for every transaction, even though some details can often be found in the custodial bank's own system files.

On September 3, 2019, Mr. Fleury and Executive Assistant Sandi Aboshar conducted a conference call with Mark Minervini, Board Administrator for Medford Massachusetts Retirement System. Working from a prepared list of questions, Mr. Fleury stated that the 35-minute conference call resulted in obtaining valuable information on how Medford conducts its custody related business with People's United Bank, after having left State Street Bank. Also, he stated that they were able to learn of possible alternate ways of performing transactions by hearing how Medford and other Massachusetts Retirement Plans operate. In addition, he noted that the call provided further direction on next steps that can be taken in the System's exploration for remedies to ongoing custodial issues.

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Recognition Plaques Presented: Next, Mr. Fleury referred to the August Board of Trustees meeting whereby Chairman Molan signed proclamation plaques recognizing the retirement of past Board members Jennie Angell and Donald Pinard. Mr. Fleury stated that it came to his attention that a retirement dinner was being held for Mr. Pinard on August 29th. He informed the Board that he attended that dinner at the Derryfield Country Club along with Trustee Gagne and was afforded the opportunity to present Mr. Pinard's plaque for his multiple terms on the MECRS Board, before his family and friends. Former Trustee Angell's plaque was sent to her home via US Mail.

Monthly Cash Balance Report:

Mr. Fleury reported a monthly distribution in August of \$2 million from the S&P 500 Exchange Traded Funds. Subsequent to the distribution, the System received notice that there was to be an almost half a million-dollar distribution from one of the Real Estate Managers. As a result of both events, the cash flow balance for the end of August, 2019 was \$6.6 million.

Mr. Fleury then informed the Board that he contacted representatives at NEPC requesting a future long-range cash flow plan. He stated that Mr. Kevin Leonard from NEPC was in attendance and will elaborate on a plan to meet cash flow for the balance of calendar year 2019. Mr. Leonard's recommendation is also expected to address portfolio rebalancing.

Report of the Administrative & Accounting Committee:

Mr. Fleury briefed the trustees on issues that could improve the efficiencies of operations. He indicated that those issues will be brought to the attention of the Administrative & Accounting Committee, to be reviewed at meeting whose date has yet to be determined. Issues to be discussed will include; Completion of the new General Ledger System, following through on the legislative initiatives, addressing the ongoing custodial issues and Executive Director succession.

After brief discussion, Trustee Sanders suggested that when the LSR is submitted to the BMA, Mr. Fleury attach a detailed letter explaining the legislative initiative, which will help to eliminate any confusion and provide full transparency to the Board of Mayor & Aldermen regarding the request.

Mr. Fleury agreed that once he receives the LSR, he will prepare a written communication to the BMA.

Attorney Rich then suggested that Mr. Fleury prepare and distribute the written communication to the BMA, ASAP, which Mr. Fleury agreed to do.

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Consent Agenda:

Chairman Molan entertained a motion to accept the Consent Agenda.

Trustee Gagnon moved to approve the Consent Agenda, seconded by Trustee Sanders and passed by all those trustees present.

Pursuant to RSA Title VI, Chapter 91-A:3 II(d) Chairman Molan entertained a motion to go into Non-public Session at 9:07 a.m. to discuss the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to those of the general community.

Roll Call Vote:

Ayes: Trustee Gagne, Trustee Sanders, Trustee Ntapalis, and Chairman Molan

Nays: None

A roll call vote was conducted to end the Non-public session and resume Public session at 9:34 a.m.

Roll Call Vote:

Ayes: Trustee Gagne, Trustee Ntapalis, Trustee Sanders and Chairman Molan

Nays: None

Trustee Gagne then moved to seal the minutes of Non-public Session on the grounds that the failing to seal the minutes would render the proposed action ineffective, seconded by Trustee Sanders and passed by all those trustees present.

Previous Business:

Report from NEPC - Representative Kevin Leonard was present to recommend a Liquidity Plan to meet cash flow obligations to the end of the year.

Mr. Leonard distributed an Allocation Summary Recommendation, for the period ending August 31, 2019. He explained NEPC's recommendation to re-allocate \$1.5 million out of the Vanguard International Index Fund, \$1 million from Pzena Large Value and \$1.5 million from Sands Large Growth and move them into the passive S&P 500 Index Fund.

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Within the Fixed Income portion of the recommendation Mr. Leonard explained the need to redeem a total \$5 million dollars from Income Research, Loomis Sayles and Vanguard TIPS, which would be re-allocated into cash to provide liquidity until the end of 2019.

After brief discussion, Mr. Fleury stated that due to the timing of the re-balancing recommendation, he would like the board's approval to expanding the timeframe of the re-balancing to 30 or 45 days.

Trustee Ntapalis moved to approve NEPC's recommendation for re-balancing and to approve Mr. Fleury request to spread the re-balancing out over a period of 30 to 45 days, seconded by Trustee Sanders and passed by all those trustees' comment.

Mr. Fleury noted the importance of coordinating the next two Investment Committee meetings. After discussing the steps needed to set up the manager interviews as well as the Investment Committee member's review of their personal calendars, it was agreed to schedule the next Investment Committee on October 3rd, whereby the committee will select the managers to be interviewed, followed by a subsequent meeting to conduct the manager interviews to be held on October 23, 2019.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Sanders moved to adjourn the meeting at 9:45 a.m., seconded by Trustee Ntapalis and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director