

April 14, 2020
Minutes #568

Minutes of the Board of Trustees' Meeting -1-

Special Notice: Due to the COVID-19 outbreak, this meeting of the MECRS Board of Trustees was conducted exclusively as a conference call as the Retirement System offices are closed to the public.

Pursuant to RSA 91-A:2 III (B), Executive Order 2020-04, Section 8 and Emergency Order #12, Section 3, Chairman Molan has determined that an emergency exists due to the worldwide COVID-19 pandemic and, therefore, a physical presence of a quorum is not practical.

Pursuant to the Attorney Generals Public Guidelines by Emergency Order #12, Section 4, the requirement that the public body still provide a physical location to allow public access was waived. All votes taken during a meeting at which any member participates electronically must be a roll call vote, listing all members participating and their vote on each motion.

Call to Order: Chairman Molan called the meeting to order at 8:31 a.m.

Linked via Conference Call:

Executive Director Fleury conducted a roll call for those in participating via conference call.

Participating Remotely: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Also linked remotely, including himself, Mr. Fleury listed, MECRS Staff Sandi Aboshar and Suzanne Wilson, Attorney John Rich from McLane Middleton Professional Association as well as Mr. Keven Leonard and Mr. Sebastian Grzejka from NEPC

Not Participating: Trustee William Sanders and Mayor Craig

Before moving forward with the day's agenda, Attorney Rich noted a preliminary matter in which the board minutes must reflect, that the trustee's identity any person in their presence, while being linked remotely to the board meeting. All trustees responded that no one else was present at their individual locations.

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion for approval of the previous board minutes. Trustee Ntapalis moved to approve the previous minutes of March 10, 2020, seconded by Trustee Gagne.

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Executive Director Fleury then conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion Carried.

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 Bunker.

Executive Director Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion Carried:

Chairperson Comments:

Chairman Molan thanked Mr. Fleury and the MECRS Staff for their efforts and commitment in keeping the MECRS Retirement System running smoothly during this COVID-19 pandemic.

Citizens Comments:

Chairman Molan asked Mr. Fleury to identify if any citizens who have joined the meeting remotely, to which Mr. Fleury responded that there were none.

Report of the Executive Director:

Report of Legislative Initiative: Regarding MECRS legislative initiative, Mr. Fleury reported that due to the COVID-19 pandemic, the House Committee has suspended operations until May 4, 2020. He did note however, that he contacted Vice Chairman of the ED&A Committee inquiring about what he could expect in the coming weeks. Mr. Fleury indicated that that response was received just before the start of the board meeting and that he was informed that the pending legislation is before the Senate and that the projection is that it should move forward eventually. Mr. Fleury informed the trustees that he has forwarded the response via email to all the MECRS's Board Members.

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Status of GL Replacement: Mr. Fleury informed the trustees that the Retirement System is approaching a point where the new GL system will be fully operational. Only cosmetic customizations, and a few more special reports remain outstanding. This month Mr. Fleury noted, the financial statements from both the legacy system and the new system were included in the agenda packets. He explained that while the statements are not identical the new statements conform more closely to GASB recommended formats. Addressing his concern Mr. Fleury indicated that one continuing problem is the issue of rounding to the nearest dollar. He explained that long advocated by GASB and the MECRS's auditors, rounding to the nearest dollar creates a labor-intensive need to ensure that totals are correct, which culminates in very low value results. Absent careful manually checking and the overriding of values produced by our computer systems, the published totals can easily be off by a dollar here or a dollar there because of the aggregate accumulation of fractional dollars. He stated that work will continue in rectifying that procedure.

COVID-19 Virus Response: Moving on, Mr. Fleury stated that the COVID-19 virus pandemic has impacted just about every facet of operations. However, notwithstanding that MECRS's staff is largely working remotely it continues to carry out business processes and accomplish all of necessary objectives. He indicated that he has been monitoring the reports of the System's service providers and money managers who are also reacting to the pandemic and sharing any investment related concerns with MECRS's Investment Consultant at NEPC.

Preparation for Audit of 2019: Next, Mr. Fleury stated that over the past few years, the manner in which the staff has provided data to the MECRS's auditors has steadily shifted from bulk delivery of paper files to secure electronic formats. Given the recent pandemic, he indicated that migration to a more electronic process has served the System well. Back in February, he indicated that the System's auditors at Berry Dunn provided staff with their list of requirements for the audit. He reported that the list has been largely completed and that the Retirement System is well postured for the audit to be performed on schedule.

Mr. Fleury referred to the recently received engagement letter from the System's Actuary, GRS, for the Board authorized, Experience Study. He informed the board that the engagement letter has been reviewed, signed and returned to Mr. Alberts of GRS. Mr. Fleury indicated that the results of the Experience Study are to be received in early September and reviewed by MECRS' sub-committees. He then noted that the Experience Study results will feed into the actuarial valuation for 2020.

In closing his report, Mr. Fleury referred to the emailed pdf versions of the GASB 67 & 68 Reports sent to the board members. He informed the board that later in the meeting under the Other Business section of the agenda, the trustees will be asked, to accept and place on file the GASB 67 & 68 Reports from GRS. Mr. Fleury explained that the acceptance will allow him to

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incorporate those values into the 2019 Comprehensive Annual Financial Report and finalize the CAFR for publication. He noted that copies of the GASB 67 & 68 Report will be forwarded to the various City Departments.

Monthly Cash Balance Report:

Moving on to the next agenda item, Chairman Molan asked for a review of the Cash Balance Report for period ending March, 2020.

Mr. Fleury reported a healthy cash balance of approximately \$7.5 million for the period ending March, 2020. Based on information learned from conference calls with investment managers, he expressed his concern that there may be delays or holdbacks with scheduled distributions. He then indicated that later in the meeting under New Business, the trustees will be asked to approve a request for re-balancing which will provide an extra \$1.5 million to the cash flow.

Report of the Administrative Report:

Committee Chairman Plourde stated that he had nothing to report at this time.

Executive Director Fleury reported that he has completed the 2020 Cost of Living Computations and he has received the inflation values from the Labor Department. With the valuation data in hand Mr. Fleury stated that he has been able to review those formulas. He indicated that he will be working with Committee Chairman Plourde in scheduling a meeting of the Administration & Accounting Committee sometime before June, to Arrive at a COLA recommendation for this year.

Report of the Investment Committee:

Committee Chairman Ntapolis reported that the Investment Committee is scheduled to meet remotely via conference mode on Thursday, April 16th at 8:30, to interview real estate and real asset managers. Members of the Investment Committee have been provided with connection information for the meeting and anyone else interested in participating should contact the Executive Director Mr. Fleury, no later than April 15, 2020 by noon, to receive call connection details.

Later in today's meeting, Committee Chairman Ntapolis stated that the trustees will be requesting the rebalancing of investments between existing managers, pursuant to NEPC's recommendation, to shift assets from fixed income to equities and to simultaneously raise cash for continued operations.

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Report of Special Committee:

Succession Committee Chairman Gagne reported that after a review by MECRS's counsel, the engagement letter with EFL Associates, for the Executive Director Search was signed by Chairman Molan on April 9th, with the first installment payment of \$12,833.33 due upon signing.

He stated that Mr. Fleury has placed the endorsed agreement on file and notified EFL Associates that they may direct the first installment invoice to his attention.

Committee Chairman Gagne informed the trustees that there will be further reports as project milestones are reached.

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 Ntapalis.

Executive Director Fleury conducted a Roll Call Vote:

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion Carried.

New Business:

Request for Transfer – Requested transfer of \$3,931.98 between accounts in order to have the 2019 Administrative Budget close out without any individual lines exceeding the appropriated amount.

Chairman Molan entertained a motion to approve the requested transfer.

Trustee Gagne move to approve the request for transfer, seconded by Trustee Plourde.

Executive Director Fleury indicated that it has been an annual customary event to request a transfer between budget lines from areas of surplus to areas of deficit. Mr. Fleury explained that this request is subsequent to a larger request last month, which failed to include a payroll expense related to State Street Bank and Trust. Invoices received from State Street Bank & Trusts for payroll and lump sum processing costs necessitate this final transfer request.

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Mr. Fleury conducted a roll call vote;

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion carried.

Portfolio Rebalancing with NEPC – Mr. Kevin Leonard and Mr. Sebastian Grzejka were linked by phone to discuss NEPC's revised recommendation, calling for rebalancing between existing accounts in light of recent market volatility.

Mr. Grzejka asked the trustees to turn to page 2 of the NEPC Quarterly Market Update included in the board's agenda packets, First Quarter Market Summary. He reported that global risk assets declined during the quarter as markets digested the potential economic impact of COVID-19.

Mr. Grzejka stated that the duration of containment policy is unclear and policy makers are focused on "bending the curve" and ensuring ICU bed capacity is not overwhelmed all at once by COVID-19 cases. The duration of containment policies is the key unknown as the market struggles to discount the potential of the economic costs.

Mr. Grzejka directed the board to page 5 of the quarterly review, Assessing the Economic Impact. He referenced the World-Wide Bank Study and noted that the impact and severity of containment and quarantine is likely the largest economic cost from a pandemic. He explained that restrictive containment strategies can lead to both a demand and a supply shock to economic activity. Mr. Grzejka then detailed how containment strategies impact millions of jobs by industries/categories in the United States. He provided in detail, a real time look at the economic impact.

Working through his presentation Mr. Grzejka explained the expectations of contraction on various economy's globally and whether there will be a global recession and how deep of a recession it may be.

Trustee Ntapalis asked if the economic comeback will still be volatile in the days ahead or will it be primarily a direct or indirect result of COVID-19 and are there other issues that we should be aware of besides the COVID -19 impact, going forward.

Mr. Leonard responded that the longer it takes for the economy to open up and the longer it takes for the public to get back to work, the more negative the impact on the economy will be.

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Mr. Leonard stated that the unprecedented low demand on oil has been put on the back burner to the global pandemic. He explained that activity in the transportation sector has fallen dramatically, therefore the production and demand of oil has been slowed and oil prices have dropped significantly as well. The low demand of oil could have a direct impact on employment within the energy sector in the United States, as well as in impact on the Russian economy.

Looking ahead, Mr. Leonard highlighted three possible scenarios of economic recovery describing them as “V”, “U” and “L” shaped.

Mr. Grzejka continued his presentation by noting that given the global pandemic, the board can expect to see volatility increase in the coming months. He then referred to the Allocation Summary Estimate included in the Board’s agenda packet Mr. Grzejka explained NEPC’s recommendation of re-balancing back to target, taking from the fixed income composite and re-balancing back to equities.

Mr. Grzejka reported due to the uncertainty within the market, NEPC’s recommendation is to re-allocate \$1.5M from fixed income, Income Research & Mgmt. as well as \$2m from Vanguard TIPS and re-allocating \$2M to PZENA and \$1.5M back to cash, which would result in partially getting the Fund back towards target. Mr. Grzejka stated that NEPC’s second part of the recommendation, is to re-evaluate the Funds potential cash needs in the next quarter.

Trustee Gagne moved to accept NEPC’s recommended portfolio rebalancing, seconded by Trustee Plourde.

Mr. Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion carried.

Chairman Molan thanked the NEPC representatives for their time and expertise and they ended the call.

Other Business:

Acceptance of GASB 67 & 68 – Chairman Molan referred to the GASB 67 & 68 Report that was explained by Mr. Fleury earlier in the meeting. He then entertained a motion to accept and place of file the GASB 67 & 68 Report from GRS Consulting.

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Trustee Bunker moved to accept and place on file the GASB 67 & 68 Reports from GRS Consulting, seconded by Trustee Ntapalis.

Mr. Fleury conducted a Roll Call Vote:

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion carried.

Chairman Molan entertained a motion to adjourn the meeting. Trustee Ntapalis moved to adjourn the meeting at 9:18 a.m., seconded by Trustee Bunker.

Mr. Fleury conducted a Roll Call Vote:

Ayes: Chairman Molan, Trustee Gagne, Trustee Plourde, Trustee Ntapalis, and Trustee Bunker

Nays: None

Motion carried.

Respectfully Submitted,

Gerard E. Fleury
Executive Director