

January 14, 2020  
Minutes #565

**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,  
Jeff Plourde and Richard Bunker

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** William Sanders and Mayor Joyce Craig

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

Chairman Molan first began by congratulating Trustee Plourde on his re-election to the Board of Trustees and welcoming the Mayoral Appointee, Mr. Richard Bunker, noting Mr. Bunker's professional background, expertise in finance as well as his civic numerous activities.

**Board Organization** – Chairman Molan opened nominations for the MECRS Board Chairman, pursuant to Article II, 2.01 of the MECRS By-Laws.

Trustee Gagne nominated Richard Molan to continue serving as MECRS's Board Chairman, seconded by Trustee Ntapalis. Chairman Molan asked if there were any other nominations. As there were no other nominations, Trustee Gagne moved to close nominations for Board Chairman, seconded by Trustee Ntapalis and passed unanimously by all those trustees present. The trustees then voted unanimously for Chairman Molan to continue in his role as MECRS Board Chairman.

Chairman Molan thanked the trustees and stated that he was pleased to continue to serve a two-year term as Chairman of the Board.

Chairman Molan stated that it was a personal privilege to attend the monthly City of Manchester Board of Mayor and Aldermen meeting, along with Mr. Fleury and Attorney John Rich, where the BMA heard a presentation led by Executive Director Fleury regarding the MECRS pending 2020 legislative initiative. Chairman Molan reported that after a question and answer segment on the Plan changes, the Retirement System received a majority vote of support from the BMA to move forward with the legislative initiative. Chairman Molan thanked Mr. Fleury and Attorney Rich for a job well done and their fiduciary responsibility in representing the Retirement System.



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The next item of board organization, pursuant to Article V, 5.01 of the MECRS By-Laws, was the appointment of committee chairs for the three sub-committees, Investment, Administration & Accounting, and Benefits Committee.

Chairman Molan reported that presently, Trustee Plourde is chairing the Administrative & Accounting Committee, Trustee Ntapolis is chairing the Investment Committee and Trustee Gagne is chairing the Benefits Committee.

Chairman Molan asked the committee chairpersons if there were any requested changes to their individual assignments, to which there were none.

Referring to the By-Laws Article V, 5.02 Standing Committee Membership, Chairman Molan stated that Trustee Mercer's departure from the Board will create a vacant seat on the Investment Committee. He then asked the Mayoral Appointee Richard Bunker if he would like to fill the vacant seat on the Investment Committee and also, if he would accept an additional assignment on the Administrative & Accounting Committee. Mr. Bunker responded that he was pleased to accept both committee assignments.

Pursuant to MECRS By-Laws Article VI, 6.01 Special Committees, Chairman Molan asked Trustee Gagne to be the Chairperson of the Succession Committee, for which Trustee Gagne agreed to do so. In addition, Chairman Molan assigned Trustee Sanders and Trustee Ntapolis to the Succession Committee.

Chairman Molan also noted for the record that Pursuant to Article VI, 6.02, of the MECRS's By-Laws the three Succession Committee members shall serve for no longer than one (1) year, unless an extension for a time certain is approved by the Board. Vacancies in the membership of a Succession Committee during its term shall be filled by the Chair of the special committee.

It was then moved by Trustee Gagne to accept all committee assignments, seconded by Trustee Plourde and passed unanimously by all those trustees present.

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

Chairman Molan entertained a motion to approve the minutes of the previous board meeting held December 10, 2019.

Trustee Gagne moved to approve the minutes of December 10, 2019, seconded by Trustee Ntapolis and passed unanimously by all those trustees present.



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#### **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.

#### **Report of the Executive Director:**

Employee Recognition: Mr. Fleury began by reporting a case which resulted in an improvement to services and a reduction in MECRS operational costs. Mr. Fleury informed the board that Executive Assistant Sandi Aboshar taken it upon herself to follow up on a cold call offer for employee payroll services. He had informed Ms. Aboshar that he would support her conclusions and recommendation. He stated that the competitive firm issued their price proposal and it was considerably less than what the System was currently paying. Ms. Aboshar followed up with references, which she requested from the vendor and when it seemed logical that changing service providers would be the best option, Ms. Aboshar first contacted MECRS's existing service provider to negotiate their current fee. As a result of her initiative, Mr. Fleury reported, there was no need to change service providers, and MECRS continues to receive the same service from their current vendor, however the costs for that service was reduced, which allows the System to live comfortably within the budget.

Office Building in Foreclosure Sale: Mr. Fleury reported that the Retirement Systems office building had been scheduled for a foreclosure sale on January 7, 2020, which did not take place and has been postponed until February 24, 2020. He indicated that he will keep the Board apprised of any new information as he receives it.

MECRS February Board Meeting: Mr. Fleury stated that the next scheduled MECRS Board of Trustees meeting is Tuesday, February 11<sup>th</sup>, which this year coincides with the NH Presidential Primary. He asked the Trustees if there is any sentiment for changing the date of the Board meeting, to which there was none.

Progress Report- Replacement GL: Next, Mr. Fleury indicated that the existing financial reports provided to the Board each month are specialty constructs from years ago. As processes on the new GL are being replicated, some of the customizations that were done in the old system are proving to be a challenge and the actual need for such customizations is questionable. Since reporting is driven by Board directive and GAAP, Mr. Fleury suggested that it may be wise to revisit the need for the traditional reporting structure to see if complex and possibly unnecessary custom reports can be eliminated. Mr. Fleury then requested to employ the services of the MECRS's auditors to participate in a meeting of the Administration & Accounting Committee to discuss the issues and decide on a path forward.



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Trustee Gagne felt that the updated standard reporting structure of the new GL will be adequate going forward and that he did not see the need to schedule a meeting. Trustee Gagne moved to use the updated standard reports provided by the new GL System, seconded by Trustee Bunker and passed by all those trustees present.

**Retiree Access to Payment Records:** Mr. Fleury informed the Board that work on a retiree access program for payment and tax records has been placed on hold until a final decision is made whether to continue custody services with State Street Bank & Trust or to migrate custody and associated retiree service features to another service provider. He stated that, at this time, it would be wasteful and unwise to launch a retiree access project with State Street and then migrate to an entirely different platform a short time later.

**Report of Legislative Initiative:** In closing his report Mr. Fleury updated the board that notices have been mailed to active, vested deferred members and to retirees on the Board's legislative initiatives. Copies of the notices and a Legislative Status Report are kept current and posted on the website.

**Monthly Cash Balance Report:**

Chairman Molan asked for a review of the Cash Balance Report for December, 2019.

Mr. Fleury referred to the spreadsheet included in the agenda packets and he reported a cash balance at the end of December of slightly over \$11M. Mr. Fleury noted that the MECRS had its last capital call for Blue Vista in December and that consultants from NEPC will have likely candidates to replace Blue Vista in the coming months.

There were no questions on the report and Chairman Molan moved on to next agenda item.

**Report of the Investment Committee:**

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

Mr. Fleury indicated the need to schedule NEPC Investment Consultants to appear before the board to review investment results for year ending 2019, as well as revisiting the investment strategy going into 2020. That meeting would be scheduled as soon as ending 2019 returns have been compiled.

Referring to the recent MECRS Investment Committee recommendation to allocate \$5 million to Searchlight Capital and \$5 million to Collier Capital, both subject to satisfactory completion of subscription documents by counsel, Chairman Molan asked Mr. Fleury and Attorney Rich to provide the trustees with an update regarding why the System did not invest in the Collier Capital fund.



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Mr. Fleury stated that the after legal counsel's lengthy review of the two recommended private equity managers' subscription agreements and closing documents, it was decided, not to move forward with Collier Capital due to Collier's refusal to abide by its prior commitment to include MECRS side letter language in the investment documents relating to compliance with disclosure issues required by NH Law. Instead, \$3 million of the \$5 million originally designated for Collier was committed to Searchlight upon the recommendation of MECRS Investment Consultant NEPC.

Attorney Rich provided an overview of the numerous legal documents involved with private investments and explained the lengthy and time consuming involved with reviewing the subscription and other documents. He then explained the process that MECRS had put in place to ensure that prospective private managers who required confidentiality of investment information were aware of MECRS' obligations under the New Hampshire public records law, RSA 91-A. He described that in advance of an interview, prospective managers were required to execute the Private Markets Disclosure Statement and Manager Acknowledgment under which they acknowledged that MECRS was subject to RSA 91-A and agreed to the MECRS contract language. Attorney Rich explained that Collier and its counsel refused to include the agreed upon contract language in the investment documents. Collier instead proposed its own alternative contract language for RSA 91-A that was unsatisfactory. As a result of Collier Capital's refusal to abide by the terms of the Private Markets Disclosure Statement and Manager Acknowledgment, Attorney Rich and Mr. Fleury, following consultation with Trustees Molan and Ntupalis, notified Collier of the MECRS decision not to invest with Collier. After consultation with MECRS Investment Consultant NEPC, a decision was made to increase the allocation to Searchlight Capital.

After lengthy discussion, the trustees requested that Mr. Fleury calculate the costs incurred by the Retirement System in negotiations with Collier Capital, for their review.

Sebastian Grzejka from NEPC and the board discussed the closing process, complexities with new investment managers, and the steps needed to avoid costly reviews, which would result in the Retirement System's decision to withdraw from the investment offering.

**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 Plourde and passed unanimously by all those trustees present.



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**New Business:**

Chairman Molan recognized that New Business agenda item, Private Investment Confidentiality Issue, had been discussed earlier in the meeting, therefore he invited Mr. Grzejka to do a quick review of the preliminary Flash Report, although that report did not yet contain asset values for private markets.

Mr. Grzejka distributed a MECRS Flash Report for period ending December 31, 2019 and reported a phenomenal year with a Total Composite of \$248,407,213. He stated that across the board all investment managers performed well. Focusing on the one-year column, Mr. Grzejka reported a preliminary estimate of 16.4% increase year-to-date in the total plan performance. He noted that the preliminary results do not include the assets for private markets, which will drive the performance to increase slightly.

Working through the Flash Report, Mr. Grzejka provided the trustees with performance details on Equities, Fixed Income, Cash, and Real Estate as well as the Private Markets Composite which are fairly new.

Referring to the Private Markets Composite, Trustee Gagne asked Mr. Grzejka to elaborate on Private Advisors VIII one-year return of -10.3.

Mr. Grzejka explained that there are two reporting methodologies in looking at performance, a time rated return and an IRR (internal rate of return). The Flash Report is a time rated return report, which looks at beginning and ending market values, adjusted for performance and does not consider cash flows. The private managers' report on an IRR basis, because cash flows and timing and the size of the cash flows have a huge impact on performance. Private Advisors VIII is a time rated return, which is a function of when the cash flow happened and what the value was at the most recent valuation. As such, it does not reflect how the underlying fund is performing. Mr. Grzejka informed the trustees that, in the coming weeks, NEPC will provide the board with an IRR report which includes the actual investor performance results of the Private Equity Managers.

Mr. Fleury expressed his concerns regarding the percentage of the MECRS portfolio which is in Private Debt and Private Equity because of the time delay of at least one quarter in receiving manager statements. Mr. Fleury stated that a prime example would be a lag in reporting from the Dalfen Last Mile Fund. He noted that no statement had yet been received from Dalfen since inception in June, 2019.

Mr. Grzejka responded that that all private equity managers have 90 days, following quarter end to submit investor reporting. NEPC has been assured that the Dalfen reports will be sent in the coming days.



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After brief discussion regarding the MECRS's asset allocation Mr. Grzejka stated NEPC's strategy moving forward is to review the market environment as well as the MECRS Investment Guidelines to craft a portfolio strategy for the coming year.

**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