

November 18, 2020  
Minutes #577

**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 due to social distancing requirements.

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 General's 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.

Conference call connection details were provided to invited participants, and would have been provided to members of the public seeking to attend but no such requests were received.

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

Before moving forward with the agenda items Mr. Fleury referenced the SPECIAL NOTICE regarding the COVID-19 Pandemic, and read it into the minutes.

**Linked Via Conference Call:**

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

**Participating Remotely:** Chairman Molan, Trustee Gagne, Trustee Ntapalis, Bunker and Trustee Wickens. All trustees stated that they were alone during the remote session.

Also linked remotely, in addition to Mr. Fleury were, MECRS staff members, Sandi Aboshar and Suzanne Wilson, Attorney John Rich from McLane Middleton Professional Association, Mr. Ken Alberts, and Mr. Kevin Noelke, both from Gabriel, Roeder, Smith & Co., Mr. Tyler Butler from Berry Dunn, Mr. Sebastian Grzejka from NEPC as well as incoming Executive Director, Mr. William Shea

**Not Participating:** Mayor Joyce Craig

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

Chairman Molan entertained a motion for approval of the previous board minutes of October 13, 2020. Trustee Gagne made that motion, which received a second from Trustee Bunker.

Executive Director Fleury then conducted a roll call vote.

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

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 Ntapalis.

Executive Director Fleury conducted a roll call vote.

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

Nays: None

Motion Carried

For the benefit of those participating in the remote meeting for the first time, Chairman Molan explained that NH Law requires that when meetings are conducted remotely, a roll call vote is required for each vote taken.

Chairman Molan indicated that four sub-committees of the MECRS board will be submitting reports during the remote session. In addition, he stated, MECRS's financial advisor, auditor and actuary, are all linked into the day's meeting as we will further explore the options regarding recommendations carried forward from last week's special meeting on the results of the Experience Study that was commissioned last spring. He further stated that in the interest of maintaining a quorum, he would ask that the trustees move through the agenda in an expedient manner and to be conscious of the time, so that the remainder of the board meeting is dedicated to the Experience Study.

Chairman Molan then reminded the trustees of the upcoming Board of Trustee election for two seats, as employee representatives, on December 10, 2020. He indicated that the ballot is for incumbent Trustee Robert Gagne, seeking another three year term, in addition to two candidates,

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Thomas Bozoian who is running to fill the unexpired term resulting from the resignation of Trustee Plourde and Matthew Ciechon who is filing for a full 3-year term.

**Report of the Executive Director**

PPCC Award for 2020: Mr. Fleury stated that for the last 17 years, MECRS has applied for and has been awarded the Public Pension Coordinating Counsel, (PPCC) Award for maintaining an adequate funding level. He explained that The PPCC is a consortium of the National Association of State Retirement Administrators, (NASRA), the National Council on Teachers Retirement, (NCTR) and the National Council on Public Employee Retirement Systems, (NCPERS), of which MECRS is a member. He explained that MECRS barely misses qualifying for a much higher award on Administrative Standards, only because the System has not spent a considerable sum having the work of the actuary re-affirmed by a third party in the last decade. In any event, Mr. Fleury noted the System has met the Funding Status for 2020 and is in receipt of the award again this year.

Network Security Enhanced: Mr. Fleury reported that recent steps have been taken to further ensure that unauthorized individuals cannot gain access to the MECRS's local area network. He explained that a new and inexpensive generation of network routers have been available for a while and earlier in November, the System replaced the existing router with a new model with enhanced security features. The most outward indication of this new hardware is that any time anyone accesses the router from outside of the office, the party seeking access is sent an access code by email, which is only good for a limited time. In addition, he noted the director and the System's IT consultant are notified by email that an access code has been issued. He further informed the trustees that there are other features which are too technical to address in this report, but for a very minor expenditure, which was within the IT budget, the System now has top of the line security between the modem and the MECRS's network.

Phone System Reconfigured to operate in the event of a power failure: As reported last month, Mr. Fleury stated that the System's aged phone system was replaced within budget, with a new system possessing superior features. As the new features were explored, the System took advantage of the system's ability to continue in operation in the presence of a power failure. Generally, he explained that when the power fails, the phones, (which require a small AC adapter to provide power to the base) also fail. He explained that while we were using a UPS system to provided power for a limited number of minutes, that design allowed for a graceful shutdown as opposed to a more indefinite period of operation. With the new setup, power to the phones no longer comes from an AC adapter but channels instead via the phone connection itself. He was pleased to report that power could be out for many hours without the System's phones being affected. He further indicated that additional backup continues to be available which can route calls to each employee's personal cell phone, as was the case during our COVID-19 work from home period last spring.

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**Wire Transfer Limits Amended:** Mr. Fleury indicated that in light of the potential problems associated with wire transfers in excess of \$10 million, the control and contact agreement with State Street Bank has been updated. He explained that wires out for less than \$10 million require only one verification, other than the initiator of the wire. Wires out in excess of \$10 million require verification from both of the individuals on file other than the initiator. Since inception, he noted that Sandi Aboshar's verification limit was \$10 million but that limit has now been removed entirely which corrects the problem the System was facing when wiring larger amounts of cash associated with manager changes.

**Executive Director Transition:** In closing his report Mr. Fleury informed the trustee's that following the January 2021 board meeting, it will be necessary to sign replacement authorizations used for investment purposes and signatures from the Board Chairman and the new Executive Director will be needed. He also indicated that in the month of January it will be necessary to notify all managers and service providers regarding the change in contact information, to the incoming Executive Director. At present Mr. Fleury noted that the plan is for the existing and new Director to have equal access and authority for January, which will be limited to only the new Executive Director beginning February 1, 2021.

**Monthly Cash Balance Report:**

Mr. Fleury reported a healthy cash balance in the amount of \$3,500,000.00 which includes reserves to cover the next payroll and he also indicated that there are no large capital calls expected.

**Report of the Administrative & Accounting Committee:**

Committee Chairman Bunker informed the trustees that the A&A Committee has just received final amounts needed to formulate a DRAFT Budget for 2021 and that a formal meeting of the A&A Committee will be scheduled in the next 7 to 10 days.

**Report of the Investment Committee:**

Committee Chairman Ntapolis reported that the Investment Committee met as scheduled on Tuesday, October 27<sup>th</sup> at 8:30 a.m. to plan future manager reviews, to receive an explanation on relative performance of the MECRS compared to that of the NHRS and to conduct interviews with three International Equity Managers recommended by advisor NEPC to replace Gryphon International, which was terminated in October.

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Committee Chairman Ntapalis stated that the Committee interviewed Baillie Gifford – EAFE Plus Alpha, GQG – International Equity, and Hardman Johnston International. At the completion of interviews and a period of deliberation, a motion was offered by Committee Member Gagne to engage the services of Hardman Johnson International for a commitment of \$15 million. A second was provided by Committee Member Bunker and the motion passed by an affirmative vote of all committee members present.

Committee Chairman Ntapalis then made a motion that the full MECRS Board ratify the recommendations of the Investment Committee to hire Hardman Johnson for a \$15 million commitment, subject to the satisfactory review of subscription documents by the Executive Director and legal counsel.

In addition, Committee Chairman Ntapalis moved that distributions from Gryphon International in excess of the \$15 million be retained in the cash account to satisfy cash flow requirements of the System, seconded by Trustee Gagne.

Chairman Molan called for discussion on the motion.

Representative Sebastian Grzejka from NEPC updated the board by disclosing the recent departure from Hardman Johnson of a team analyst, but Mr. Grzejka stated that NEPC was not concerned with the departure.

Executive Director Fleury then conducted a roll call vote.

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

Nays: None

Motion carried.

Regarding the Administrative & Accounting Report, Mr. Fleury added that on October 29, 2020, the A&A Committee met to review draft amendments to the MECRS Administrative Rules. Specifically he noted, the committee heard testimony from the Executive Director and Legal Counsel on recommended changes to Section 9.1.2 and 2.6.1, to address service credit buybacks associated with the COVID-19 pandemic.

After brief deliberation by the Committee, Mr. Fleury reported that a motion was offered by Committee Chairman Bunker, which received a second from Committee Member Wickens, to recommend that the full MECRS Board allow the draft to be posted for public comments for 30 days, following by a public hearing at a future date.

Mr. Fleury stated that a motion is needed, authorizing the Executive Director to post the draft amendments to the rules with a letter of explanation, for public comments for 30 days, subsequent to a schedule a public hearing to review comments prior to possible adoption by the MECRS Board.

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Committee Chairman Bunker moved to authorize the Executive Director to post the draft amendments to the rules with a letter of explanation, for public comments for 30 days, and then schedule a public hearing to review comments prior to possible adoption by the MECRS Board, seconded by Trustee Ntapolis.

Executive Director Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Ntapolis, Trustee Bunker and Trustee Wickens

Nays: None

Motion carried.

**Report of the Benefits Committee:**

Committee Chairman Gagne recapped recent efforts to introduce Plan Amendments in the 2020 session of the NH Legislature which failed when the COVID-19 pandemic effectively shut down the legislative process before the Plan Amendments could make crossover and clear the Senate.

Committee Chairman Gagne reported that in mid-summer, the committee members reached out again to last year's sponsor, Representative Pat Long, to see if he would once again sponsor MECRS's in the 2021 session. At that time, Representative Long consented to do so, conditional on his re-election to another term in the House of Representatives, to which he was re-elected.

Just recently, Committee Chairman Gagne noted that Representative Long contacted the Retirement System in preparation for the next session and the System provided him with recent versions of the amendments. He noted that the versions included the revisions added to one of the bills by the House ED&A Committee and also additional language amendments recommended by legal counsel, which removed ambiguity from the ED&A amendment.

Committee Chairman Gagne then informed the Board that Mr. Fleury is prepared to provide fiscal impact statements to Legislative Services at such time as the bills are assigned LSR numbers for the 2021 session.

Committee Chairman Gagne concluded his report, noting that he will keep the Board informed on the progress as this uncertain process moves forward.

Mr. Fleury noted that he was concerned about the relative obsolescence of the data contained in the last fiscal impact statement which was submitted to the legislature. His concern was that it would be extremely difficult, time consuming and costly to prepare updated values for that purpose. To make the situation potentially more complex Mr. Fleury stated, if the board elects to adopt different assumptions for future valuations, those revised values will also potentially impact the fiscal cost of the changes being requested.

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Trustee Gagne stated that while he recognized the impact of any assumption changes, that the legislation would only serve to reduce cost to the City and would not likely generate opposition. The same would be true of legislative committees who might conduct hearings on the legislation. He emphasized that the direction of costs was more important than the magnitude. The Board discussed the legislative process including whether it was necessary to go back to the Board of Mayor and Alderman to request approval for the legislation as it had last year when the legislation was initially proposed.

Chairman Molan suggested that an approval from the BMA might not be required since the essence of the legislation had not changed and the BMA had already approved the legislation in concept.

**Report of the Succession Planning Committee;**

Committee Chairman Gagne stated that he was pleased to report that as of October 22, 2020, under the authority granted to himself by the full Succession Planning Committee and the MECRS Board, an employment offer as the next Executive Director was made and accepted by Mr. William Shea.

Committee Chairman Gagne stated that Mr. Shea will be beginning employment on January 1, 2021 and he will work with Mr. Fleury for the month of January to ensure a smooth transition.

Committee Chairman Gagne then moved to release the official announcement of Mr. William Shea as the next Executive Director of the MECRS, seconded by Trustee Bunker.

Executive Director Fleury conducted a roll call vote.

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

Nays: None

Motion carried.

Committee Chairman Gagne further stated that the committee will also draft a public press release announcing the new Executive Director by mid-December.

Chairman Molan commended Committee Chairman Gagne and his committee on a job well done in seeking the replacement of the next Executive Director and he then requested that Committee Chairman Gagne continue to work with Mr. Fleury, on retaining his services upon his retirement, for a recommended time to include compensation, following the transition. Committee Chairman Gagne agreed to do so.

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Mr. Shea thanked the Committee and the Board of Trustees for the opportunity to serve as the next Executive Director and for the invitation to join the remote November, BOT meeting.

**Consent Agenda:**

Chairman Molan entertained a motion to accept the Consent Agenda.

Trustee Gagne moved to accept the Consent Agenda, seconded by Trustee Bunker.

Mr. Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Ntapalis, Trustee Bunker and Trustee Wickens.

Nays: None

**New Business:**

Ratification of the e-mail poll vote of October 20, 2020 - Chairman Molan entertained a motion to ratify the e-mail poll vote authorizing the Chairman of the Succession Planning Committee to negotiate a salary level for the replacement Executive Director.

Trustee Bunker moved to ratify the e-mail poll vote taken on October 20, 2020, seconded by Trustee Gagne.

Mr. Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Ntapalis, Trustee Bunker and Trustee Wickens.

Nays: None

**Previous Business:**

Continued discussion from the Special Meeting of November 5, 2020, regarding the actuarial presentation of the board commissioned Experience Study- Before Mr. Alberts from the actuarial firm, Gabriel, Roeder, Smith & Co. began, Chairman Molan stated that NEPC Representative, Mr. Sebastian Grzejka, was also linked remotely to deliver the MECRS's Asset-Liability Study, inclusive of NEPC's investment return expectations.



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Mr. Grzejka referred to the MECRS Asset Liability Study included in the trustee's agenda packets. Within the Study, he explained, MECRS current policy target, asset allocation and future market opportunities, were reviewed by the NEPC asset allocation team. The team derived at forward 10-year and 30-year asset class assumptions as part of its study.

Mr. Grzejka reported that the current policy target allocation is expected to produce an average return of 6.4% over the next 10 years, according to NEPC's capital market assumptions. He noted that the current actuarial investment return assumption is 7.0%. Based on NEPC's 30-year capital market assumptions, the expected return is 7.0%. He then turned to page 13, Asset Allocation Profiles, reporting 60% in total Equities and 20% allocation in Fixed Income with the remaining balance a mixture of Alternatives, Real Assets and Multi Assets.

Moving on Mr. Grzejka reported that the funded status is projected to improve over the next 10 years and asset returns are not projected to meet long-term expected return of 7.0%. He also indicated that the employer contribution rates are expected to increase over the next 10 years, while employee contributions are projected to remain level. Unfunded liability is amortized over a smaller period each year resulting in higher employer contribution levels.

Mr. Grzejka stated that NEPC will provide an asset allocation overview at the beginning of 2021 and during that time NEPC will make recommendations on future asset allocation approach and implementation.

Chairman Molan asked participants linked remotely if they had any questions or concerns regarding the Asset Liability Study. There being none Chairman Molan turned the meeting over to Mr. Ken Alberts from Gabriel, Roeder, Smith & Co.

Mr. Alberts first began by summarizing the Experience Study. Referring to Section B of the Study, Comments & Recommendations, he explained some of the more complex assumptions, such as withdrawal assumptions, rates of disability, marriage assumption, mortality rate assumptions, and the economic assumptions.

Mr. Alberts reported that based on past experience and current economic trends, GRS is recommending the assumption options on pages B-5 and B-8 of the Study, inclusive of Alternatives 1, 2 and 3.

Before Mr. Alberts continued, Trustee Gagne stated that he is satisfied with the demographic analysis provided. and he moved to adopt the updated price inflation rate of 2% and wage inflation rate of 2.5%, which were the same in all three alternatives presented, seconded by Trustee Wickens.

Chairman Molan asked Mr. Fleury to call the roll call vote.

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Mr. Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Ntapalis, Trustee Bunker and Trustee Wickens.

Nays: None

Chairman Molan then asked Mr. Alberts to continue.

Mr. Alberts referred to the Contribution Calculation Comparison Chart on page B-8, inclusive of the current economic assumptions as well as the three alternatives up for consideration. Mr. Alberts stated that NEPC preference is Alternative 1, however the NEPC team feels that any of the three alternatives, are reasonable.

Mr. Alberts did note that the board has just adopted the demographic assumptions and are now discussing the economic assumptions, however the board will still need to make a decision on the MECRS Funding Policy. Mr. Albert's reviewed the Amortization Period/Funding Policy described on page B-7. He noted that the current financing policy is to amortize all unfunded actuarial accrued liabilities (UAAL) over a closed period of 20 years as of the 2019 valuation. Since a closed period, results in every year's change in liabilities (due to gains/losses, plan changes, and/or assumptions changes) having a larger effect on the contribution rate. He noted that GRS is recommending adding a layered feature to the amortizations.

Trustee Gagne stated that all three alternatives change the current price inflation from 2.25% to 2.00%. Also all three alternatives change the current wage inflation from 2.75% to 2.50%..

Regarding the current interest rate assumption of 7.00%, Trustee Gagne stated that initially he was in favor of the 6.50% interest rate however, he felt in the best interest of the System's fiscal impact and the direction of the change, that the 6.75% in Alternative 2 would be the best option. Therefore, Trustee Gagne moved to adopt Alternative 2, inclusive of the 6.75 assumed rate of return.

Chairman Molan then asked the trustees individually their feelings on Trustee Gagne's motion to adopt Alternative 2, and all trustees stated that they agreed strongly in adopting Alternative 2, referenced on page B-8 of the Experience Study, and also that they felt it be a sound decision and the most reasonable.

Mr. Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Ntapalis, Trustee Bunker and Trustee Wickens.

Nays: None

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After brief discussion on the layered amortization schedule and there being no second to table the matter, Chairman Molan stated no action had been taken at this time.

Attorney Rich stated that following the last Experience Study, the board adopted a written Funding Policy. As an administrative matter he noted, the policy will need to be changed to reflect the Board votes that were taken during today's meeting. Attorney Rich suggested that he and Mr. Fleury work together to revise the policy, subsequent to the A&A Committee's review and recommendation. Mr. Fleury agreed to work with Attorney Rich on the matter.

**Motion to Adjourn:**

Trustee Gagne moved to adjourn the meeting at 9:40, a.m. seconded by Trustee Ntapalis

Mr. Fleury conducted a roll call vote.

Ayes: Chairman Molan, Trustee Gagne, Trustee Ntapalis, Trustee Bunker and Trustee Wickens.

Nays: None

Motion carried.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director