

August 10, 2021
Minutes #587

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:26 a.m.

Present: Trustees: Richard Molan, Sharon Wickens, Tom Bozoian,
Harry Ntapalis and Richard Bunker

MECRS Staff: Gerard Fleury, Kim Barrett and Suzanne Wilson

Absent: Mayor Craig and Matthew Ciechon

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
Kevin Leonard and Sebastian Grzejka both from NEPC

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of July 13, 2021.

Trustee Wickens moved to approve the minutes of July 13, 2021, seconded by Trustee Bozoian 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 Wickens moved to approve the immediate meeting agenda, seconded by Trustee Ntapalis and passed unanimously by all those trustees present.

Report of the Executive Director:

Manager Security Breach - Interim Executive Director, Mr. Fleury reported that as of August 4, 2021, after reviewing a letter drafted by counsel to TA Realty regarding a breach they suffered, he requested that counsel proceed to mail the letter requesting details about the breach. To date, Mr. Fleury indicated that the Retirement System has not received a response from TA Realty regarding the event and the System has not detected any suspicious activity on any other accounts.

Second Redemption of Securities to Augment Cash Flow - Moving on Mr. Fleury stated that he was authorized to redeem \$2 million in S&P 500 shares to augment cash flow requirements.

August 10, 2021
Minutes #587

Minutes of the Board of Trustees' Meeting -2-

Subsequent to that action he stated the System received a capital call for \$1.3 million which was not foreseen or expected, which necessitated that he acts to redeem an additional \$1million to guarantee adequate liquidity. Mr. Fleury then noted that both the MECRS' Board and the Retirement System's investment consultant, were notified of the transaction in keeping with standing instructions for events of this type. He noted that later in the meeting NEPC representatives will present a comprehensive rebalancing plan to address cash flow needs for the coming months.

Executive Director Search – Mr. Fleury reported that he and Chairman Molan have been working with Dan Cummings of EFL Associates, on a renewed Executive Director search. He informed the trustees that that he has met remotely with Mr. Cummings to review three potential candidates. Mr. Fleury further noted at the time he drafted his report, that he has scheduled in office meetings with the 3 existing candidates, one of which has already taken place, whereby he carefully demonstrates operational procedures, expressing to the candidates what is expected of the replacement Executive Director.

Mr. Fleury then informed the trustees that an additional candidate has been recognized by EFL Associates and that prior to the official interview process, he will be scheduling a 2-hour in office visit with him next week as he did with the other candidates.

Chairman Molan then appointed members to the Succession Planning Committee as Trustee Wickens, Trustee Bunker, Trustee Ntapalis and Trustee Bozoian, all of whom agreed to serve on the committee.

Report of the Monthly Cash Balance:

Mr. Fleury reported a cash balance at the beginning of July as slightly over \$4 million. He stated that throughout the month, cash inflows resulted in total cash of \$5.5 million which included \$3 million of S&P proceeds. Mr. Fleury listed the cash outflows inclusive of large capital calls, resulting in an end of month cash balance of \$5,048,801.29, which he stated is a significant healthy balance, for working through the month of August and into September.

Before moving on with the day's agenda, Attorney John Rich recommended Board approval of the appointment of committee members to the Succession Planning Committee.

Chairman Molan then entertained a motion to ratify the selection of the Succession Planning Committee.

Trustee Ntapalis moved to ratify the Succession Planning Committee members nominated by Committee Chairman Molan, seconded by Trustee Wickens and passed by all those trustees present.

Minutes of the Board of Trustees' Meeting -3-

Report of the Investment Committee:

Committee Chairman Ntapalis reported that on Tuesday, July 20, 2021 at 9:00 a.m. the Investment Committee met to conduct manager interviews with Arrowstreet Capital, GQG Partners, and Loomis Sayles, as recommended by our advisors at NEPC.

Committee Chairman Ntapalis stated that all three fund managers provided an overview of their firms and presentations of their funds. The interviews were conducted in non-public session. After the completion of the presentations and returning to public session, Committee Chairman Ntapalis reported that a motion was offered by Committee Member Wickens to make a recommendation to the full Board of Trustees that MECRS commit an investment of \$30 million to global equity, split equally between Arrowstreet and Loomis Sayles, and subject to satisfactory review by legal counsel, with funding to come in part from the liquidation of investments with PIMCO, and the balance of funding to come from a general rebalancing of the portfolio, details of which will be provided by NEPC later in the meeting. This drew a second from Committee Member Bunker. Committee Chairman Ntapalis stated that the committee members voted all in favor.

Chairman Molan entertained a motion by the full board, to commit an investment of \$30 million to global equity as recommended as recommended by the Investment Committee.

Committee Chairman Ntapalis moved to recommend \$30 million to global equity, split equally between Arrowstreet and Loomis Sayles subject to review by legal counsel, seconded by Trustee Wickens and passed unanimously by all those trustees present.

Consent Agenda Items:

Chairman Molan then entertained a motion to approve the Consent Agenda items.

Trustee Ntapalis moved to accept the Consent agenda, seconded by Trustee Bozoian and passed by all those trustees present.

New Business:

NEPC's Recommendation for Re-balancing – Representative Sebastian Grzejka from NEPC referenced the handout, Total Plan Performance and he stated that the report is preliminary and does not include the performance detail ending July, 2021 but he indicated that for the most part, July has been positive. Mr. Grzejka stated that the total composite reflected in the preliminary report, is \$296 million. He was pleased to report that for the period ending July, a market value amount of over \$300 million was exceeded. Total plan performance is up 6.8% year-to-date due to good performance from many of the investment managers.

August 10, 2021
Minutes #587

Minutes of the Board of Trustees' Meeting -4-

Mr. Grzejka detailed each sector, highlighting Sands Large Cap Growth up 11.1% in the second quarter and Hardman Johnston International Equity Manager up 8%, overall very good results and in line with what was expected from these strategies.

Regarding the completed fixed income consolidation, Mr. Grzejka reported more of a credit tilt in the MECRS portfolio, more correlated to growth and providing a bit more yield to the Plan, with Loomis Sayles up 14.1%.

Moving on, Mr. Grzejka reported on the real asset composite, noting PRISA up 6.1%, a very strong return. Later in 2021 Mr. Grzejka indicated that the real estate composite pacing plan will be reviewed.

Lastly, Mr. Grzejka noted that the private equity composite has not been updated however with the recent capital calls and valuations that are expected, the 8.1% does bring the portfolio closer to target allocation.

Mr. Kevin Leonard stated that on the next Flash Report inclusive of updated values for private equity, the expectation is a sizable increase in private equity. The trustees continued to discuss the real asset market and growth opportunities in technology, as well as the impact of the COVID -19 pandemic.

Next Mr. Grzejka referred to the asset allocation decision of the MECRS board whereby it was voted to eliminate global asset allocation. Mr. Grzejka stated that NEPC is recommending the full elimination of PIMCO and utilizing approximately \$4,000,000 to bringing the cash allocation to target and further re-balancing and hiring Global Equity Managers Arrowstreet and Loomis Sayles for an allocation of \$15 million each.

Mr. Fleury stated that this re-balancing is one of the more aggressive actions that the board has taken in some time and he wanted the trustees to be aware of time constraints and complex actions, as well as necessary documentation needed to affect the liquidation and transfer of the re-balancing called for in this exercise.

It was then moved by Trustee Wickens to accept NEPC recommendation as stated, seconded by Trustee Bozoian and passed by all those trustees present.

Previous Business:

Revisiting Earning Assumption - The Board discussed the merits of increasing the assumption rate. Mr. Leonard of NEPC referred to the concern whether or not the 7% rate of return

August 10, 2021
Minutes #587

Minutes of the Board of Trustees' Meeting -5-

assumption is achievable over the long-term. He stated that the new asset allocation using the 2021 NEPC assumptions did outperform a 7% return assumption over a 30-year period of time. He noted as NEPC releases its return assumptions quarterly, that 2022 assumptions might be available in September. He indicated that NEPC is open to having the discussion with the board on a 7% return assumption but he suggested that the System's actuary Gabriel, Roeder, Smith & Co also be present during the discussion.

After brief discussion by the trustees it was agreed to schedule actuarial representatives from GRS to attend the September Board of Trustees meeting as well as NEPC representatives, for further discussion and to explore the implications of changing the MECRS's rate of return assumption.

New Business:

Request for Work-Related Disability – Richard Bourgeois - Mr. Fleury reported that the required documentation was received from Mr. Bourgeois in the allotted time frame and the two required Independent Medical Exams, ascertained that the Mr. Bourgeois' disability is total and permanent, therefore Mr. Fleury stated that it is his recommendation that the disability request be approved.

Trustee Bozoian moved to accept the recommendation of the Executive Director Fleury to approve the Work-Related Disability request from Richard Bourgeois, seconded from Trustee Ntapolis and passed by all those trustees present.

Attorney Rich reminded Chairman Molan of the new development by one of the investment managers to extend their contract. Attorney Rich further explained that in late 2013-2014 the Board invested in a 5-year investment with Crescent Direct Lending and that contract provides that Crescent itself can extend the contract. They are now requesting another 2-year extension as there are 8 investments that have not been liquidated. He further indicated that the board needs to approve the extension.

It was then moved by Trustee Ntapolis to extend the Crescent contract as requested, seconded by Trustee Wickens and passed unanimously by all those trustees present.

August 10, 2021
Minutes #587

Minutes of the Board of Trustees' Meeting -6-

Motion to Adjourn:

Trustee Wickens motioned to adjourn the meeting at 9:23 a.m., seconded by Trustee Ntapalis and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard Fleury
Executive Director