

February 9, 2021
Minutes #580

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 8:33 a.m.

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

Linked Via Conference Call:

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

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

Also linked remotely in addition to the Executive Director Mr. William Shea were, MECRS staff members, Sandi Aboshar and Suzanne Wilson, Attorney John Rich from McLane Middleton Professional Association and NEPC representatives, Mr. Sebastian Grzejka, Mr. Kevin Leonard. as well as retiree/citizen Mr. Gerry Fleury

Not Participating: Trustee Wickens and Mayor Joyce Craig

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Approval of the Minutes of the Previous Board Meetings:

Chairman Molan entertained a motion to approve the previous board meeting minutes as well as the Public Hearing Minutes, both held on January 12, 2021.

Trustee Bunker moved to approve the Public Hearing minutes as well as regular monthly minutes of January 12, 2021, seconded by Trustee Ntapalis.

Executive Director Shea then conducted a roll call vote.

Ayes: Chairman Molan, Trustee Ntapalis, Trustee Bunker, Trustee Bozoian and Trustee Ciechon.

Nays: None

Motion Carried

Approval of the Immediate Meeting Agenda:

Chairman Molan entertained a motion to approve the immediate meeting agenda.

Trustee Bozoian moved to approve the immediate agenda, seconded by Trustee Bunker.

Executive Director Shea conducted a roll call vote.

Ayes: Chairman Molan, Trustee Ntapalis, Trustee Bunker, Trustee Bozoain and Trustee Ciechon

Nays: None

Motion Carried

Report of the Executive Director

First Report: Mr. William Shea delivered his first report as the new Executive Director of the MECRS. He stated that over the past month, Executive Director Gerry Fleury, now retiree, has shown him all of the major components of Executive Director position, and that he truly appreciated Gerry's help during the transition period and that he also looks forward to working with the Board of Trustees. Executive Director Shea then expressed his thanks to NEPC consultant, Mr. Sebastian Grzejka and his team, for assisting him in reaching out to all of the MECRS's investment managers, informing them of the change in command.

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Forward Planning: Mr. Shea then listed four important calendar events of the Plan that will be coming up soon; closing the plan year 2020, the next actuarial valuation, the audit of 2020, and the publication of 2020 CAFR. He informed the trustees that all of these events are on track.

Plan Earnings Assumption Rate: Referencing a request that was received, Mr. Shea noted that as of January 1, 2021, GRS Consulting is using an assumed rate of return for the Plan of 6.75% down from 7.00%.

Legislation for 2021: Moving on, Mr. Shea referred to the MECRS's pending legislation, HB211 and HB356, which were both heard by the House Executive Departments and Administration (ED&A) Committee on 2/1/2021. He noted that the Committee had asked that Representative Patrick Long provide an update to the Manchester Board of Mayor and Alderman (BMA) meeting scheduled for 2/2/2021. Mr. Shea was pleased to report that during the BMA meeting, the Aldermen voted to support HB211 and HB356.

Pzena to Aristotle Transition: Mr. Shea recapped the December 8, 2020 meeting of the Board of Trustees, whereby the full board voted to approve the recommendation of the Investment Committee, to terminate Pzena and hire Aristotle as a domestic large cap value manager. Mr. Shea reported that the transition was completed in January, 2021, with \$30,220,186.18 liquidated from Pzena and \$29,000,000.00 funded to Aristotle. He noted that the \$1.2M balance remained in the cash account to support MECRS's monthly cash flow.

2021 MECRS Cost of Living Adjustment - Mr. Shea informed the trustees that he has begun working on the 2021 COLA consideration. He reported that the Consumer Price Index (CPI) was released in January and that he has provided Administration & Accounting Committee Chairman Bunker the preliminary information. Mr. Shea indicated that the next steps in formulating a committee recommendation, is upon delivery of the actuarial valuation results from Gabriel, Roeder, Smith & Co., the A&A Committee will meet in April to formulate a recommendation for consideration by the full MECRS's Board in May.

Report of the Investment Committee:

Committee Chairman Ntapolis reiterated Executive Director Shea's remarks regarding the transition of funds from the termination of Pzena Investment Manager, to the newly hired Aristotle Capital Mgmt.

Board Chairman Molan asked Mr. Kevin Leonard to report on the status of existing real-estate investment manager DSF Group. Mr. Leonard from NEPC updated the board that DSF has acquired an additional fund in the market, Fund V, He explained that DSF is a closed-ended fund and the closing date for Fund V is scheduled for April 1, 2021. He noted that the Board has expressed interest in engaging in the

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new fund, therefore due to the short time-frame in which to invest, he suggested that the Investment Committee schedule an interview with DSF Group in late February or early March, in an effort to allow adequate time for legal counsel to review subscription documents, should the board agree to allocate funds to Fund V.

Investment Committee Chairman Ntapalis stated that he will work with Executive Director Shea on scheduling the next Investment Committee meeting as soon as possible.

Attorney Rich of the McLane Law Firm asked Mr. Leonard to elaborate on the subscription terms on the 2016 existing investment with DSF.

Mr. Leonard explained that the terms of the existing 2016 contract with the DSF Group would not be extended to include Fund V. Fund V would have separate subscription documentation.

Report of the Benefits Committee:

Chairman Molan suggested that the Benefits Committee Chairman Bozoian schedule a meeting to review the status of the pending MECRS's legislation, to which Committee Chairman Bozoian responded that he will work to schedule a meeting at the beginning of March.

Consent Agenda:

Chairman Molan entertained a motion for approval of the Consent Agenda.

Trustee Ntapalis moved to approve the Consent Agenda, seconded by Trustee Bunker.

Executive Director Shea conducted a roll call vote.

Ayes: Chairman Molan, Trustee Ntapalis, Trustee Bunker, Trustee Bozoian and Trustee Ciechon

Nays: None

Motion Carried

New Business:

December 2020 Flash Report – NEPC representatives were connected remotely to discuss the investment performance analysis report - Mr. Kevin Leonard began his report, utilizing a PowerPoint presentation. He first reviewed 2020 from an absolute basis to a relative basis. He stated that following the equity and credit market sell-off in March, driven by COVID -19, asset valuations and market sentiment rebounded at an unprecedented pace. He noted that the 40-day COVID-19 was the shortest bear market in history.

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Mr. Leonard reported that U.S. equities, emerging market equities and gold led the way for asset classes in 2020. He noted that 2020 was momentous year.

From a market outlook perspective, Mr. Grzejka explained that given all of the things relating to COVID-19 that have occurred over the past 12 months, the stimulus package, the consumer stay at home orders, and now the distribution of the vaccine, it is expected that the second half of 2021, could see the pent-up demand for goods and service and substantial growth. However, Mr. Grzejka indicated, that the outlook relative to the rise in spending, may lead to some inflation as well.

Referring to the US Treasury Yield Curve, Mr. Leonard reported that treasury yields have declined significantly over past few years. The market sell-off that occurred in March, 2020 led to unprecedented quantitative easing from the Federal Reserve and drove short term interest rates near zero.

Mr. Leonard then touched on NEPC's key market themes, explaining that key market themes are factors that define global markets and can be expected to both evolve and remain relevant without a clear timeline of conclusion. At times, he noted, themes may be challenged or disrupted and generate market volatility.

Next, Mr. Leonard referred to slide 14 NEPC's Strategic Outlook by Beta Group. He provided the board with the 10-year return for each asset class noting that NEPC saw positive news at the front end with debt hurting returns at the back end of the 10-year period.

Moving on to the Executive Summary part of the presentation. Mr. Leonard reported preliminary results for 2020, gross of fee performance, was up 14.2% on an absolute basis and the policy index return was 12.7%, significantly outperforming the policy index and outperforming the median public fund. He reported a very strong fourth quarter for the MECRS's portfolio.

Mr. Leonard than summarized the investment actions taken during 2020, highlighting those performance drivers.

Directing the Board's attention to Total Plan Performance, Mr. Leonard detailed 1-year and 10-year results for all sectors, with a total composite of \$278,158,487.

In closing his presentation Mr. Leonard noted a very strong absolute calendar year, very strong relative to the MECRS's Investment Policy and peer group.

Chairman Molan requested the market projections from NEPC from 10-years, 5-years and 3-years. Mr. Leonard and Mr. Grzejka replied that they would do so and that they would have that information for the next Board of Trustees meeting.

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Chairman Molan thanked Mr. Leonard and Mr. Grzejka for their presentation.

Motion to Adjourn:

Trustee Bunker moved to adjourn the meeting at 9:52 a.m., seconded by Trustee Ntapalis.

Executive Director Shea then conducted a roll call vote.

Ayes: Chairman Molan, Trustee Ntapalis, Trustee Bunker, Trustee Bozoian and Trustee Ciechon

Nays: None

Motion Carried

Respectfully Submitted,

William T. Shea
Executive Director