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Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:39 a.m.

Present: Trustees: Richard Molan, Sharon Wickens, Tom Bozoian, Mathew Ciechon and Richard Bunker

MECRS Staff: Gerard Fleury, Kim Barrett and Suzanne Wilson

Absent: Harry Ntapalis and Mayor Craig

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
Mark LaPrade and Tyler Butler both from Berry, Dunn

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of June 8, 2021.

Trustee Bunker moved to approve the minutes of June 8, 2021, seconded by Trustee Wickens 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 Bunker moved to approve the immediate meeting agenda, seconded by Trustee Wickens and passed unanimously by all those trustees present.

Report of the Executive Director:

Interim Executive Director, Mr. Fleury first stated that the last couple of weeks have been an orderly transition from Executive Director Bill Shea back to himself and that he wished to recognize Bill's efforts to help ensure a smooth transition.

Manager Security Breach: Mr. Fleury then reported that on June 16th, MECRS's was notified by TA Realty that their systems had been hacked, resulting in unauthorized access to investor information including Tax ID Number and bank account information. The MECRS's Chairman and MECRS's legal counsel were immediately notified as well as MECRS's custodian bank

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State Street Bank & Trust and investment advisor NEPC. State Street Bank & Trust provided the System with a list of all transactions in the last quarter, all of which appeared to be legitimate. Mr. Fleury indicated that he will continue to monitor this situation and keep the board apprised of any new developments.

Daily Operation: Moving on, Mr. Fleury reassured the board that with the recent departure of the Executive Director, Bill Shea, the Retirement System remains well postured for continued and successful operation.

Recovery of Residual Cash: Next, Mr. Fleury reported that it was discovered that dividends which were declared and payable to Pzena Investments at the time their account was closed, were residual in the investment account. Subsequent steps were taken to move slightly more than \$15,000 to the agency cash account and to update the MECRS's records.

Exception to the Above: Referencing the full upgrade to the General Ledger that was completed in early May, Mr. Fleury informed the board that adequate post upgrade testing had not been conducted and upon later examination, it was discovered that the budget module is inoperative and none of the general ledger customizations operate. Mr. Fleury was pleased to report that the vendor has been notified and corrections will be completed as soon as possible.

Primary Contact at GRS has Retired: Mr. Fleury then reported that he has received notification from a key advisor, Mr. Ken Alberts, from the System's actuarial firm, Gabriel, Roeder, Smith & Co., that he will be retiring at the end of July. He responded to Mr. Alberts by stating that he too had tried to retire as well but it didn't work. Mr. Alberts countered that he would be staying on part-time as needed and he indicated that that GRS would provide the Retirement System with a more formal notification, which is anticipated to be in the form of an informational item on the August agenda.

Executive Director Search: Mr. Fleury updated the board that an Executive Director search is once again underway and that he and the MECRS's Chairman Molan have been working with Dan Cummings of EFL Associates, who will be providing continuous updates to the Board as needed.

Change in Janitorial Services: Mr. Fleury informed the board that the self-employed individual, Ms. Donna Johnson of DMJ Cleaning, has terminated her employment with the System for health reasons, which has necessitated the engagement of a new provider. A new provider has been identified and a meeting was held to review terms and conditions of the existing contract.

In closing his report Mr. Fleury stated that in the past, the Executive Director has had authorization to liquidate shares from the Vanguard S&P Index Fund in order to ensure adequate cash flow for operations. Mr. Fleury requested that as the interim Executive Director he be

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allowed to move \$2M out of the Vanguard S&P Index Fund account into cash on a temporary basis.

He noted an upcoming MECRS's Investment Committee meeting on July 20th whereby the committee is expected to hire a Global Equity Manager to replace PIMCO. At that time, he stated, cash can be harvested from the redemption of PIMCO to repay the S&P 500 Fund and augment any other cash requirements needed.

Chairman Molan entertained a motion to approve Mr. Fleury's withdrawal of the \$2M from existing manager PIMCO, into the cash account.

Trustee Wickens moved to approve the transfer of Funds by Mr. Fleury, seconded by Trustee Bozoian and passed unanimously by all those trustees present.

Before moving on with the day's agenda, Chairman Molan requested that Mr. Fleury send Mr. Ken Alberts from GRS a formal letter from the MECRS Board, thanking Mr. Alberts for his service and wishing him well in his retirement. Mr. Fleury agreed to do so.

New Business:

Presentation of the MECRS's 2020 Audit – Mr. Mark LaPrade from the audit firm Berry Dunn referred to the booklets he distributed entitled, 2020 Audit Communications, as well as utilizing the PowerPoint slides, to summarize key financial information for the last two years.

Mr. LaPrade reported the Fiduciary Net Position, which represents assets minus liabilities, at the end of the 2020 in the amount of \$277,349,000 has increased noticeably since 2018. He also reported a substantial increase in the Net Investment Income, which is consistent with 2019. From a contribution standpoint, Mr. LaPrade reported an increase in Total Contributions attributed to the Employer rate increase as well as the increase in the payroll base. He indicated that the Benefits Payments also increased slightly but lagged a little behind the contribution growth. He then reported the Funded Net Position on the pension side to be about 59% and on the health side, approximately 46%.

Working through the presentation Mr. LaPrade reminded the board that the audit was performed in accordance with U.S. generally accepted auditing standards and Government Auditing Standards. All procedures conducted by Berry Dunn were on a test basis and designed to obtain reasonable, not absolute assurance. In addition, Mr. LaPrade stated that the audit requires understanding of internal controls, particularly as it relates to benefit payments and participant data and contributions and the audit opinion does not cover the Required Supplementary Information or other information.

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Turning to the next slide Mr. LaPrade highlighted important financial statement footnotes. Note 2, Risks and Uncertainties he explained, is relative to the level of risk associated with certain investment securities, it is a least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of Fiduciary Net Position. Referring to Note 3 he reported approximately \$155M in Net Asset Value (NAV) and \$33M in Unfunded Commitments. Note 7, Deposit and Investment Risks, Note 8 Net Pension Liability and Note 9 are all standard with no concerns. Note 10 Actuarial Methods and Assumptions, Mr. LaPrade reported, addresses the investment return and discount rate dropping from 7% in the prior year to 6.75% in the current year, and it also shows sensitivity in the pension liability and the OPEB Liability.

Mr. LaPrade then turned the presentation over to his colleague, Mr. Tyler Butler.

Mr. Butler referred to the Required Auditor Communications letter, which outlines the audit process and highlights the audit firm's responsibility, which is to express an opinion on the financial statements, and he also noted that the audit does not relieve management or the Board of their responsibility over financial statements. He stated that responsibility for the preparation and fair presentation of the financial statements and for their design, along with implementation and maintenance of internal controls rests with management.

Mr. Butler stated that management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Retirement System are described in Note 2 to the financial statement. There were no new accounting policies that were adopted and the application of existing policies was not changed during the year ended December 31, 2020. Also, Mr. Butler reported that there were no transactions entered into by the Retirement System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Mr. Butler reported that the most sensitive estimates affecting the financial statements were, the actuarially determined contributions to the Retirement System in amounts sufficient to fund the benefits set forth in the System, as well as the determination of the net pension liability and the value of plan assets, the estimated fair value of investments valued using the net asset value, and the allocation of assets, liabilities, net investment income, and administrative expenses between the Pension Trust and Health Trust, which is based upon the ratio of asset balances at the beginning of the period.

In closing Mr. Butler referenced the Yellow Book Report, a requirement under governmental auditing standards, which addresses internal controls over financial reporting. Mr. Butler stated that the audit did not identify any control matters that were considered to be a material weaknesses.

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Concluding the audit process, Mr. LaPrade asked the trustees and staff if there is any knowledge of any actual, suspected or alleged fraud affecting the Plan or if anyone has any knowledge of any possible or actual noncompliance or abuses of broad programs and controls occurring during the year, to which there were none.

Chairman Molan entertained a motion to accept and place on file the MECRS audit of 2020 as presented.

Trustee Bunker moved to accept and place on file the MECRS audit of 2020, seconded by Trustee Wickens and passed unanimously by all those trustees present.

Report of the Investment Committee:

In the absence of Investment Committee Chairman Ntapalis, Mr. Fleury reminded board members of the next Investment Committee meeting on Tuesday, July 20, 2021 at 9:00 a.m. whereby the committee will be interviewing managers in non-public session.

Mr. Fleury also noted that NEPC has allotted one hour for each manager interview, so the meeting is apt to run past noon time. He then noted that any investment manager materials will be made available in advance of the meeting so that members are not looking at those materials cold on the day of the meeting.

Trustee Bunker inquired whether the allotted time for the manager interviews could be reduced if the managers were requested to focus their presentations on just the essential aspects of their proposed investments.

After brief discussion of the allotted interview time, it was agreed to have Mr. Fleury reach out to NEPC with the Board's request to shorten the length of the interviews. Mr. Fleury agreed to do so.

Consent Agenda:

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

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

New Business:

Accept and Place on File the Gainful Occupation Report for 2020 - After explanation of the purpose of the report by Mr. Fleury, Trustee Wickens moved to accept and place of file the

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Gainful Occupation Report for 2020, seconded by Trustee Ciechon and passed by all those trustees present.

Report of the Monthly Cash Flow:

Mr. Fleury reported a cash balance for month ending June 30, 2021 in the amount of \$4,154,675.98 however, he referred to his earlier request for motion to transfer redemption funds from PIMCO into the cash account due to the pending obligations of the System, such as pension payments, large capital calls and the decrease in contributions during the summer months, Mr. Fleury expressed the need to have a safe cushion of cash in the fund to meet the funding obligation of the Retirement System.

Trustee Bozoian motioned to accept and place on file the Cash Flow Report, seconded by Trustee Wickens and passed unanimously by all those trustees present.

Motion to Adjourn:

Trustee Bunker motioned to adjourn the meeting at 9:26, seconded by Trustee Ciechon and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard Fleury
Executive Director