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Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:34 a.m.

Present: Trustees: Richard Molan, Matthew Ciechon, Tom Bozoian,
and Richard Bunker

MECRS Staff: Gerard Fleury, Suzanne Wilson

Absent: Sharon Wickens, Harry Ntapalis and Mayor Craig

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

Linked Remotely: Kevin Noelke from Gabriel, Roeder, Smith & Co.

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of August 10, 2021.

Trustee Bunker moved to approve the minutes of August 10, 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 Bunker moved to approve the immediate meeting agenda, seconded by Trustee Bozoian and passed unanimously by all those trustees present.

Report of the Executive Director:

Surplus Requested for Health Insurance Premiums: Mr. Fleury began by reporting that HealthTrust, from whom we obtain employee health care coverage, has announced that they have surplus reserves and plan to refund approximately \$4,800 to MECRS in the month of December. Steps will be taken to receive the refund in the form of a contribution holiday in order to simplify the process. He indicated that a final announcement and certification of the credit amount is planned for October 5th, 2021.

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Status of Data Breach at TA Realty: Mr. Fleury explained that for the time being, MECRS has reached a closure point on the report from TA Realty, that their systems were hacked back in the spring. He informed the board that Attorney John Weaver of the McLane Law Firm sent a request for information to TA Realty at our request, and TA did respond. In summary he stated, it does not appear that any confidential information about our organization or contract signatories was compromised. The Retirement Systems' own monitoring of financial accounts has not detected any suspicious activities and there is little more to be done other than to maintain of vigilant watch.

Executive Director Search: Moving on Mr. Fleury stated that at the time he drafted the Executive Directors report, the status of Executive Director search had been delayed pending receipt of final background checks. He was pleased to report that background checks have been completed and official action has been taken. Chairman Molan will brief the trustees further on in the meeting.

Manager Hiring's and Portfolio Rebalancing Next, Mr. Fleury stated that the manager hiring and portfolio rebalancing schedule, approved at the August Board meeting is at various stages of completion. There were slight delays in the completion of subscription agreements due to potential confidentiality disclosure issues. While it is expected that those will be resolved, redemptions from target managers were delayed, due to the uncertainty.

Processing Delays and Complications with August Accounts Payable: In closing his report Mr. Fleury informed the board that regular monthly invoices were received and processed for our vendors in accordance with the System's regular schedule however, a processing problem at the MECRS's custodial bank, resulted in a two-day delay in the production of accounts payable payments. He stated that the payments have all been made, but rather than making them in the closing hours of August, they were done in the opening hours of September. For that reason, he explained, there is no monthly operating expense report this month and next month, that report will reflect both the August and September transactions.

Report of the Monthly Cash Balance:

Mr. Fleury reported the cash balance to be "cash heavy", which is to be expected due to the recent fund re-balancing. He referred to recent capital calls and redemptions as well as liquidation from Rothschild, all which resulted in a healthy cash balance of, \$9.8 million.

Report of the Succession Planning Committee:

Committee Chairman Molan reported that the Succession Planning Committee met as scheduled on Friday, August 27, 2021 at 8:00 a.m. to review the recently scheduled candidate interviews and to formulate a recommendation for the full Board.

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As a result of that meeting, a motion was forthcoming from Trustee Wickens and seconded by Trustee Bunker, that Melanie Murray be offered the position as the next Executive Director for MECRS. The vote was unanimously in favor and Mr. Cummings of EFL Associates and Mr. Fleury were authorized to handle notification to candidates, establish a starting date, and finalize any salary and benefit issues.

Committee Chairman Molan then moved that the full board ratify the decision of the Succession Planning Committee seconded by Trustee Bozoian and passed unanimously by all those trustees present.

Interim Executive Director Gerard Fleury stated that Ms. Murray is scheduled to begin in her new role as Executive Director on November 9, 2021 which coincides with the November Board of Trustees meeting.

Previous Business:

Revisiting Earnings Assumption – Actuarial Consultant Kevin Noelke from Gabriel, Roeder, Smith & Co was linked via ZOOM for discussion. Also, in attendance during the meeting were investment consultants Kevin Leonard and Sebastian Grzejka, both from the NEPC Investment Consulting Firm.

Mr. Grzejka referred to a handout which had been provide for discussion purposes and called the trustees attention to page 4 of the presentation. He stated that the Asset Allocation Comparison chart reflects the current portfolio asset allocation, which was approved early in 2021. He explained that over the last couple of years NEPC has been exploring the process of revamping the asset allocation to better align it with the goals and objectives of the Plan.

Referring to the comparison chart, he reported the Total Equity composite of 66%, 12% in Total Real Assets, and 20% in Total Fixed Income. He stated that the goal over the long-term is for the current policy to meet or exceed the assumed rate of return of 6.75%. Based on the current policy, the portfolio net of fees, beta only, it is expected to achieve a return of 7%, which is slightly in excess of the 6.75%.

Mr. Grzejka then pointed out the Sample Mix column of the chart which could be adopted to increase the expected rate of return. He noted that the Sample Mix increases risk assets, increases correlation, reduces diversification and increases downside probabilities.

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Mr. Grzejka continued referring to the matrix at the bottom of the chart showing the results of expected returns for 10 years, 30 years, standard deviation, and the downside risk of current policy and the Sample Mix. He noted that while the Sample Mix is correlated to risk assets and could experience a greater drawdown, that from the long-term approach, the current policy is sound and NEPC believes that the approach has worked and it will continue to work.

Attorney Rich referred to Mr. Grzejka's earlier comment that the comparison chart is net of fees and beta only. He stated that every manager adds value to the policy and he asked what NEPC tells clients with respect to how much active managers add to the return assumption.

Mr. Grzejka replied that NEPC believes that over the 30-year period, a 30 or 50 basis points, active managers outperformance is potentially expected. NEPC thinks an assumed rate of return range of 7.3 to 7.5% could be expected.

Mr. Leonard concurred with Mr. Grzejka and stated that the MECRS portfolio is probably closer to the higher end of 30 basis points.

Chairman Molan then asked Mr. Noelke for his opinion regarding NEPC's presentation.

Mr. Noelke stated that from the actuarial prospective, investment assumptions should not be based on what to the investment portfolio can and cannot afford, or in determining the goal contribution rate. He stated that GRS has other suggestions to achieve a contribution rate, which are not based it on the investment returns, and that he would be happy to go over them upon request by the Board.

Also, Mr. Noelke stated that according to Mr. Grzejka's presentation, the 2020 results versus the 2021 results, expected returns are declining in some assets. He explained that GRS uses tools to develop a reasonable expected return which have also gone down in the last year. When the Experience Study was performed in 2019, Mr. Noelke stated that 6.75% rate was recommended. To have expectations of 7% would be going in the opposite direction from actual performance. He further stated that as the actuary, he would recommend different alternatives.

Chairman Molan asked Mr. Noelke to provide the Board with his alternative options.

Mr. Noelke reported that the easiest and straight-forward option would be to extend the amortization period to 22 to 25 years from the current 19 years, because having more time to pay off the unfunded liability then the contribution rate, would decrease temporarily.

The 2nd consideration Mr. Noelke explained would be to reset to market value of assets and he elaborated on the smoothing effect, phasing in the asset gains over the next 4 or 5 years, which

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would effectively provide temporary contribution relief. However, he stated the downside would be if the portfolio experiences losses in the future then the losses would not be offset.

Investment Committee Chairman Bunker felt that the assumed rate of return could be tweaked a bit and that he is not comfortable liquidating fixed income component of the portfolio as would occur should the Board move toward the Sample Mix, but that the Board could make the investments more proactive. Also, he stated the possible board consideration of reviewing a blend allocation and possibly extending the amortization period from 19 to 20 years.

After lengthy discussion regarding consideration of changing the earnings assumption, the trustees were all in agreement to re-visit the earning assumption in the 1st quarter of 2022.

Trustee Bunker moved to accept and place of file the NEPC report, seconded by Trustee Bozoian and passed by all those trustees present.

Mr. Noelke thanked the board for their time and he ended the ZOOM Conference and NEPC representative also extended thanks to the trustees and departed.

Consent Agenda Items:

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

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

New Business:

Request for Ordinary Disability - Member R.M.- Mr. Fleury reported that the required documentation was received from the member in the allotted time frame and the two required Independent Medical Exams, opined that the member's disability is total and permanent, therefore Mr. Fleury stated that it is his recommendation that the disability request be approved.

Trustee Bunker moved to accept the recommendation of the Executive Director Fleury to approve the Ordinary Disability request, seconded from Trustee Ciechon and passed by all those trustees present.

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Motion to Adjourn:

Trustee motioned to adjourn the meeting at 9:16 a.m., seconded by Trustee and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard Fleury
Executive Director