

April 12, 2022
Minutes #594

Minutes of the Board of Trustees' Meeting -1-

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

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

MECRS Staff: Melanie Murray, Kim Barrett, and Suzanne Wilson

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

In Attendance: Attorney John Rich from McLane Middleton, Professional Association and Sebastian Grzejka from NEPC. Also, MECRS's retirees Gerard Fleury, Ron Ludwig and Kevin Buckley

Not Participating: Mayor Joyce Craig, Donald Pinard and Mathew Ciechon

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of March 8, 2022.

Trustee Bunker moved to approve the minutes of March 8, 2022, seconded by Trustee Wickens. Motion carried unanimously.

Approval of the Immediate Meeting Agenda:

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

Trustee Bozoian moved to approve the immediate meeting agenda, seconded by Trustee Wickens and passed unanimously by all those trustees present.

Citizens Comments:

Chairman Molan recognized three citizens in attendance and requested that they each identify themselves for the record.

Retiree, Mr. Gerard Fleury, former Executive Director of the Retirement System identified himself and stated that he was in attendance with his fellow compatriots, to observe the process of the approval of the Administrative & Accounting Committee's COLA recommendation to the full MECRS Board.

Next, Retiree, Mr. Ronald Ludwig, former Director of Parks & Recreation identified himself and stated that he too was present to support the A&A Committee's recommended COLA. He also noted that any COLA amount is greatly appreciated by all retirees.

April 12, 2022
Minutes #594

Minutes of the Board of Trustees' Meeting -2-

Lastly, Retiree Mr. Kevin Buckley, former City Auditor, identified himself and reiterated Mr. Ludwig's comment, stating that in light of the current economic factors, retirees would be appreciative of any awarded COLA amount.

Report of the Executive Director:

DPW Retirement Session Update: Executive Director Murray reported that she has been in communication with the Department of Public Works, regarding scheduling a requested educational session for plan participants. She indicated that Human Resources, is planning their annual insurance open enrollment session, which she stated, would also be a great opportunity to include an educational session on the Retirement benefit. In preparation of the session, Ms. Murray informed the Board that she has prepared a handout, highlighting frequently asked questions by plan participants.

Annual Actuarial Valuation Report for 2021: Next, Ms. Murray referred to the March Board of Trustees meeting whereby representative Kevin Noelke, from Gabriel, Roeder, Smith & Co. delivered the preliminary valuation results in depth. She stated that later in the meeting, Mr. Noelke is scheduled to deliver the final actuarial valuation with a few added comments for the Board's approval, inclusive of the MECRS current funding policy with an employer contribution rate of 34.86%

2021 Annual Audit: In closing her report, Ms. Murray informed the board that she and Executive Assistant, Kim Barrett have forwarded all the requested backup documentation to the audit firm Berry Dunn, in preparation of the annual audit. She stated that the audit was initially scheduled to start April 18th, but later was advised that the audit would begin on April 11th and that she looks forward to working with Berry Dunn representatives, through the audit process.

Report of the Monthly Cash Balance:

Moving on to the cash balance, Ms. Murray reported a healthy balance in the beginning of March of slightly over \$8 million, with an end of month value slightly over \$6.5 million. She informed the trustees that for the month of April, the cash balance is looking strong, with no anticipated capital calls at this time.

Report of the Administrative & Accounting Committee:

Due to the absence of A&A Committee Chairman Pinard, Ms. Murray delivered the report of the A&A Committee meeting held on March 28, 2022. She reported that the A&A Committee met to formulate the annual recommendation for the issuance of a COLA in 2022.

Minutes of the Board of Trustees' Meeting -3-

Ms. Murray indicated that A&A Committee members received copies of the statute, regulations pertaining to COLA and as well as calculations called for in the rules. The calculations were based upon regulatory factors in the valuation and upon inflation factors determined by the US Labor Department for calendar year 2021.

Ms. Murray reported that after brief deliberation, a motion was offered by Committee Member Bozoian, which received a second from Committee Member Bunker, to recommend the 1.15% COLA as provided in the gain sharing calculation provided for in the MECRS's Administrative Rules. The committee voted unanimously in favor.

Ms. Murray then indicated that Committee Chairman Pinard was scheduled to make a motion that the full MECRS Board approve the recommendation of the Committee and award a 1.15% COLA. Due to Committee Chairman's Pinard's absence, Trustee Bozoian moved to approve a 1.15% COLA to all members retired on or before July 1, 2021, with payment to commence with the July 2022 annuity payroll, seconded by Trustee Bunker, and passed unanimously by all those trustees present.

Next, Ms. Murray read into the record, emails received, in support of the COLA Award.

From Harry Ntapalis: Dear Executive Director Murray, As a current city pensioner, please feel free to add to the minutes, my name and support for the proposed 1.15% COLA, (which includes the gain share), during your upcoming MECRS A&A Committee meeting, that I believe is scheduled for April 12th. I appreciate you doing that for me. Best regards, Harry

From Joanne Roy: I am in favor of receiving a COLA increase of 1.15%. Thank you for your consideration.

From Judy Walsh Heminger: Based on the current economic conditions with inflation at 8%, that is a very small increase but will help retirees considerably. Thank you for your support on this important issue.

Previous Business:

2021 Actuarial Valuation Results - Representative Kevin Noelke from GRS was linked remotely to deliver the final 2021 Actuarial Valuation results.

Chairman Molan asked Mr. Noelke to begin his presentation.

Mr. Noelke began by stating that the final valuation report is not much different than the preliminary report presented in March. After inserting the revised asset information received, he reported that there was no change to the contribution rate and dollar amount that was reported in the preliminary valuation. The unfunded liability increased by approximately \$2,000.

April 12, 2022
Minutes #594

Minutes of the Board of Trustees' Meeting -4-

He reported a few of the values in the final audit may be different than the preliminary, however once again, no significant change.

Mr. Noelke turned the Trustees' attention to page A-13 of the final valuation, highlighting the comment regarding the assumed rate of return. He explained that given that the current assumption of 6.75% is at the high-end of this range, the Board may wish to consider lowering this assumption for future valuations. He explained that the higher the investment return assumption, the less margin that will exist for actuarial standards reasonability purposes in future years if capital market expectations are lowered from their current levels.

Mr. Noelke asked the board if there were any questions.

There being none, Chairman Molan entertained a motion to approve the final valuation, reflecting the computed contribution rate of 34.86%, a combination of the employer pension total and health contribution.

Trustee Bunker moved to accept the final valuation as presented, seconded by Trustee Wickens, and passed by all those trustees present.

Report of the Investment Committee:

Committee Chairman Bunker reported that on March 28th, the Investment Committee met, with the primary focus being a discussion of performance of System investments in Kabouter International and Sands Capital.

The discussion was led by Sebastian Grzejka, representative from NEPC, with presentations from both managers. After the reviews with each firm, NEPC recommended the Board take no action on either investment at this time, but they will continue to monitor the performance of each.

Mr. Grzejka went on to update the Committee on MECRS' exposure to Russia and Ukraine. Managers have adjusted where possible, and any remaining exposure is de minimis.

Lastly, Mr. Grzejka spoke about the request MECRS received from CarVal regarding their proposed agreement with AllianceBernstein. NEPC has reviewed the information and recommends MECRS consent to the assignment. The Investment Committee voted unanimously to support the request.

April 12, 2022
Minutes #594

Minutes of the Board of Trustees' Meeting -5-

Therefore, as Chairman of the MECRS Investment Committee, Trustee Bunker moved that the full MECRS Board approve the recommendation of the Committee and authorize the consent of the Assignment.

Trustee Bozoian seconded the motion. The motion was passed unanimously by all those trustees present.

Consent Agenda:

Chairman Molan entertained a motion to accept the Consent Agenda items.

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

New Business:

Asset Allocation Review & Outlook – Representative Sebastian Grzejka referred to the previous discussion with the GRS regarding the MECRS' asset allocation and he asked the trustees to turn to page 5 of the Asset Allocation Review & Outlook. He stated that over the next number of years, Key Market Themes will drive the market, the fund performance as well as asset allocation. The new theme he reported is Economic Crossroads for which provided an example, the trajectory of COVID, and how global economies reacted to the pandemic. He then explained that it has since switched off simply because COVID is now a part of life and not as prevalent as a theme as it once was and not impacting the market as it once had. Mr. Gazeka further described other key market themes, such as Permanent Intervention, Globalization Backlash and China Transitions.

Moving on Mr. Grzejka stated that NEPC is not recommending any changes to the MECRS strategic target allocation at this time. From a risk and return perspective and a diversification perspective, NEPC feels that MECRS portfolio is in a stable position.

Page 7 of the Review & Outlook Mr. Grzejka stated, provides a detailed breakout of the MECRS current allocation, with 66% in total equities, 20% in Fixed Income, 12% in Real Assets and 2% in Cash. From a risk and return perspective, Mr. Grzejka reported, over a 30-year period, the portfolio is expected to return 6.9% net of fees, on a beta adjustment only. The MECRS portfolio is predominately geared toward growth.

With the Total Fixed Income running about 20%, and high-quality bonds making up 12%, Trustee Bunker asked if those could be reduced, given the extended period of higher interest rates.

April 12, 2022
Minutes #594

Minutes of the Board of Trustees' Meeting -6-

Mr. Grzejka concurred with Trustee Bunker's assessment and responded that Trustee Bunker's inquiry would be part of rebalancing the portfolio which is planned to be reassessed next month.

Informational:

NEPC February Performance Report – Mr. Grzejka reiterated his earlier comment that NEPC is not recommending change to the MECRS portfolio. The current allocation has gone through cycles before and year to date the total composite is -6.7%, but overall long-term perspective of the portfolio is meeting and exceeding the goals and objectives of the funding policy.

NEPC will continue to be active in terms of monitoring the MECRS portfolio and next month there will likely be the opportunity for rebalancing.

After brief discussion regarding the pending rebalancing, Chairman Molan thanked Mr. Grzejka for his report.

Motion to Adjourn:

With no other business to come before the Board, Chairman Molan entertained a motion to adjourn the meeting.

Trustee Bunker moved to adjourn the meeting at 9:00 a.m., seconded by Trustee Bozoian, and passed by all those trustees present.

Respectfully Submitted,

Melanie Murray
Executive Director