

August 9, 2022
Minutes #598

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, Richard Bunker, Thomas Bozoian, Mathew Ciechon, Sharon Wickens, and Donald Pinard

MECRS Staff: Melanie Murray, and Kim Barrett

In Attendance: Attorney John Rich from McLane Middleton, Professional Association Mark LaPrade and Samantha Bailey from Berry Dunn

Linked Remotely: Sebastian Grzejka from NEPC

Not Participating: Mayor Joyce Craig

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of July 12, 2022.

Trustee Bunker moved to approve the minutes of July 12, 2022, seconded by Trustee Wickens, and approved by all present.

Motion Carried

Approval of the Immediate Meeting Agenda:

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

Trustee Pinard moved to approve the immediate meeting agenda, seconded by Trustee Wickens, and approved by all present.

Motion Carried

2021 Audit Presentation by Berry Dunn

Chairman Molan turned to Mark LaPrade from Berry Dunn, who introduced Samantha Bailey, Senior on the audit.

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Ms. Bailey began with a highlight of key financial information on page 3 of the presentation. She noted that Fiduciary Net Position of \$307 million at the 2021 year-end was an increase over 2020 and that Net Investment Income is strong and consistent. She emphasized that benefit payments exceeded contributions, but that has been improving, as contributions increase. She also explained there was an increase in refunds and a decrease in administrative expenses in 2021. Lastly, she explained that the Fiduciary Net Position as a percent of both Pension and OPEB Liabilities has been increasing.

Ms. Bailey continued to page 4, where she explained their audit is performed in accordance with Government Auditing Standards, sampling risk areas which designed to obtain reasonable assurance that there are no misstatements. They gain an understanding of internal controls but do not test them. Their opinion does not cover the Required Supplementary Information or Other Information, though it is reviewed. The auditors have issued an Unmodified Opinion on the Basic Financial Statements, which is the highest level of assurance they can provide.

On page 5, Ms. Bailey continued to highlight some of the footnotes of the audit. Note 3 refers to the investments and fair value, identifying those that exceed 5% of the portfolio. Note 7 explains custodial credit risks for deposits. Notes 8 and 9 include required disclosures for Net Pension and OPEB Liability for GASB 67 and 74. Note 10 represents the sensitivity disclosures relative to a 1% change in the discount rate. Net Pension Liability under the current rate of 6.75% is \$139 million and for Net OPEB Liability is \$17.5 million.

Mr. LaPrade continued with page 7, reviewing the different responsibilities of management and the auditors. For example, management prepares and presents the financial statements, while the auditors express an opinion on the statements. Part of their responsibility is to identify areas which could be at risk of misstatement. These risks, which are not new, include management override of controls, valuation of investments, contributions to the system, and benefit payments and obligations.

On page 8, Mr. LaPrade moved on to the required auditor communications. The accounting policies are included in Note 2 of the financial statements. They found that the judgements and estimates were reasonable. There were no significant audit adjustments. Mr. LaPrade stated that because of the timing required to close the System's books and get information to the actuary, there are investment results not received in time to be booked to the current fiscal period. This year the impact was an understatement of \$4.1 million, while last year was an understatement of \$1.3 million, for a net understatement of \$2.8 million. Because of the smoothing impact in the actuarial process, this amount is not significant. He reported no difficulties or disagreements during the performance of the audit.

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The next section of the report is called the Yellow Book Report, and Mr. LaPrade spoke to the differences of material weaknesses or significant deficiencies. They did not discover any material weaknesses or significant deficiencies in internal controls, though they do not audit the internal controls. Trustee Wickens asked if they ever audit internal controls. Mr. LaPrade responded that it is rare. Ms. Bailey indicated that banks with assets over \$1 billion in assets are required to have their internal controls audited. They did test compliance and did not note any instances of noncompliance.

The auditors did have some advisory comments. They noted some posting errors in the general ledger that did not affect the net position, but did require allocations among the City departments to be corrected. They recommended an independent review of general ledger journal entries. Ms. Murray offered that she has implemented a reconciliation process monthly to review those allocations in an effort to catch any errors prior to yearend. They also noted that one retiree's calculation had included a service upgrade that was not purchased. This resulted in an overstatement of the benefit to the retiree, which was corrected. They recommended an independent review of benefit calculations. Trustee Pinard inquired if that meant that the retiree had his pension reduced. Ms. Murray confirmed that the pension amount was corrected and the retiree was understanding of the situation. Ms. Bailey confirmed it was a minimal amount and immaterial as far as the audit is concerned. Attorney Rich asked for clarification on the independent review, to which Ms. Bailey indicated the recommendation was that one individual prepare and a different one review.

Lastly Mr. LaPrade asked if there was any knowledge of fraud or non-compliance, to which they received a resounding, "No". With that, Chairman Molan thanked Mr. LaPrade and Ms. Bailey, and a recess was called at 8:46 a.m.

At 8:50 a.m. Chairman Molan resumed the meeting.

Report of the Executive Director:

Public Funds Summit: Ms. Murray began by updating the Board on her attendance at the Public Funds Summit. She explained the format consisted of a panel format, made up of Public Funds Trustees, Directors, etc. who addressed various topics of interest. She explained that the information was a good exposure to the various topics, but that unfortunately no one had the Secret Sauce formula. Each category had their own reasons for recommending their own investment strategy. They spoke about Stagflation, Bitcoin, ESG, as well as various other topics, and she encouraged others to partake if they are able.

2021 Annual Audit & Report: Next, Ms. Murray reported that the 2021 Annual Audit & report process wrapping up. The auditors presented their opinion earlier in the meeting and with that done, the Annual Report will be finalized in short order.

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School Nurses: Ms. Murray informed the Board that she continues to reach out to the School District on the Nurses' transition. She reported that she worked with Attorney Rich in developing a form for their written acknowledgement if they wished to stay in the System rather than move to the NHRS. Trustee Pinard inquired about the timelines. Ms. Murray indicated the conversion was effective July 1, 2022, during summer break, and that she was working toward resolution before the new school year begins. Trustee Wickens offered to follow up with additional School District contacts.

Surplus Equipment: Ms. Murray explained to the Board that there are surplus items that are of no use to MECRS that she would like to explore options for disposal. For example, the previous phone system could be of use to another party for parts perhaps. She will work with Jeff Houston on disposal.

Report of the Monthly Cash Balance:

Ms. Murray reported a healthy cash balance for the period ending July 31, 2022, noting that the ending balance was over \$7 million dollars. Contributions are lower in the summer months, but she noted no significant upcoming activity in August.

Report of the Investment Committee:

Committee Chairman Bunker reported that the committee will meet on August 30th.

Consent Agenda:

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

Trustee Bunker moved to accept the Consent Agenda, seconded by Trustee Wickens, and all present were in favor.

Motion Carried

New Business:

NEPC Update

Chairman Molan asked Mr. Grzejka to comment on June performance. Mr. Grzejka explained that July numbers are not yet available, but that they will look much better than June reporting. He explained that the uncertainty of recession has had a negative impact; however, consumption and demand continue and earnings are up. He noted on the non-US side Kabouter was

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underperforming, but reported up almost 7% in July. On the earlier NEPC correspondence regarding Kabouter, he explained that holdings in Kabouter are included in the NEPC Profit Sharing Plan, which NEPC will be redeeming. Chairman Molan asked about the size of MECRS investment, which Mr. Grzejka advised was approximately \$7 million with July performance. Trustee Pinard asked what the recommendation would be for those redeemed funds if the Trustees voted to terminate Kabouter. Mr. Grzejka suggested index funds for short term, to allow for the determination of the best fit. Trustee Bunker suggested with the positive results in July, the matter could be reviewed at the Investment Committee meeting, where Mr. Grzejka will provide an update and a recommendation.

Mr. Grzejka continued on the performance review, Global Equity has been performing well, Fixed Income has a few trailing results, but no concerns overall. On the Real Estate side, managers are doing well, though results are not available for much of the private markets. He advised that while the portfolio has seen volatility, there are stronger results to be seen in July.

As a due diligence update, Mr. Grzejka explained to the Board that Loomis Sayles has advised that a sale of securities was performed not as instructed, which resulted in a negative impact. The impact to their portfolio was approximately \$237,000, but minimal impact to the MECRS investment. Loomis has filed a class action lawsuit.

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 9:14 a.m., seconded by Trustee Pinard, and confirmed by all present.

Motion Carried

Respectfully Submitted,

Melanie Murray
Executive Director