

June 13, 2023  
Minutes #608

**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, Mathew Ciechon, and Donald Pinard

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

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

**Absent:** Michael Carpenter, and 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 May 9, 2023.

Trustee Pinard moved to approve the minutes of May 9, 2023, seconded by Trustee Bunker. The motion was approved by all trustees present.

**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 trustees present.

**Report of the Executive Director:**

School and City software upgrades – Ms. Murray first updated the Board on the pension system software upgrades, reporting that she received a test file from the School District, which had been subsequently sent to the System's pension maintenance system, Pension Technology Group. PTG is working on updating the payroll import process to accommodate the new format. Ms. Murray further stated that she is hoping to receive a test version in the next couple of weeks. Once the format is deemed successful, she reported that the School District will share the report setup with the City so they can mirror their file.

2022 Audit/Annual Report – Next, Ms. Murray informed the Board that the System auditor, Berry Dunn still awaits final confirmations from a few of the System's alternative investment managers, which currently has Berry Dunn in a holding pattern in finalizing the annual audit.

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**Benefit Fairs** - Ms. Murray referred to the City's four Benefit Fairs held during their open enrollment season. Ms. Murray stated that she manned a table for MECRS each day and that she felt it was a great way to connect with members of the Retirement System. She reported that she spoke to about 200 City employees and that for some participants, it was just an introduction of the Retirement System, however many got an in-person overview of the Plan, and others had general questions. Ms. Murray provided Members with various member change forms and had Members provide updates to beneficiary information. She also had Members request benefit estimates and/or begin the retirement process, as well as received inquiries about the Additional Contribution Program. The health insurance subsidy benefit seemed to interest a lot of people, which they were pleased in learning that it was an available benefit at retirement.

Because the Additional Contribution Program was hands down the most common topic, Ms. Murray informed the Board that she is drafting a handout on the program to be included with the packets currently offered to employees who express interest in the program. She explained that the packets currently include a copy of the governing Rule, but this handout will provide a general overview of the program in plain language.

**Report of the Monthly Cash Balance** – Ms. Murray stated that the cash balance started the month with almost \$23 million. She explained that a portion was from the liquidation of Rothschild and reminded the Board that Rothschild had inadvertently overpaid the System. During the course of the month, the overpayment was returned and the remainder of the liquidation was sent to fund Boston Trust Walden. Also, she reported one large capital call, resulting in an end of month cash balance of a little over \$5.5 million.

### **Special Committees:**

Chairman Molan referred to the Executive Director's Performance Review, noting that he has reviewed several forms which may be used and that he will be forwarding the selected forms to committee members for further review and consideration.

### **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 passed unanimously by all those trustees present.

### **New Business:**

**GRS – Option Factor Update** – Mr. Kevin Noelke from Gabriel, Roeder, Smith & Co was linked remotely to present the Board its requested review of Assumptions for the Optional Forms of Benefit Payments.

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Mr. Noelke first provided a review of the optional forms of payment for retirement benefits. The Retirement System offers 100%, 66 23% and 50% joint and survivor forms of payment (with pop-up) in addition to a 10-year Certain and Life option. He stated that approximately 50% of retirees elect a straight life annuity and 50% elect an optional form of benefit that would be impacted by the Assumptions. He explained that the main assumptions affecting calculations for the System's optional forms of payment are the interest rate, mortality rates and the mix of males and females electing optional forms of payment.

Currently, Mr. Noelke stated, option factors for survivor benefits are calculated using a 7.50% interest rate assumption and the 1983 Group Annuity Mortality Tables, with a 73.9% unisex blend for the 100% joint and survivor benefit and a 45% unisex blend for the other three options.

Mr. Noelke explained that the purpose of the requested study is to review the impact of updating the mortality tables. If the mortality table is updated it will project longer future life expectancies. He stated that if there is a longer life expectancy, it would increase the amount of money that retiree would receive and the option factors would be less expensive to the retiree.

On page 3 of his presentation, Mr. Noelke detailed the impact of the mortality component, unisex component and the interest rate component, also providing illustrations on how the option factors would apply to a \$1,000 monthly benefit amount of various sample ages, assuming beneficiaries are the same age as the retiree. He stated that the proposals are not exhaustive of all of the combinations of assumptions that could be possible. He then stated that GRS will provide additional proposals using different assumptions than those shown, upon the Board's request.

Attorney Rich asked Mr. Noelke if other Systems are using the same factors and tables as MECRS.

Mr. Noelke replied that the current mortality assumptions are very common among other Plans.

Trustee Wickens asked Mr. Noelke, if the System were to implement the proposed changes, how would it affect the funded status of the Plan.

Mr. Noelke replied that the Plan initially, would not see any changes to the funded status. It would not affect the employer contribution rate or the valuation. Over time, when members elect the different options, it would be reflected in the gains and losses for each year, for which he provided examples.

For clarification, Attorney Rich stated that the 7.5% interest rate assumption is better for the retiree than the 6.75%, which Mr. Noelke confirmed.

Attorney Rich then stated that he is assuming that all of Mr. Noelke clients that have adopted the changes did so prospectively for future retirees, which Mr. Noelke confirmed.

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Finally, Mr. Noelke stated that the next step would be, if the Board decided to do nothing at this time, no further action is needed. If the board does decide on a set of option factors then GRS would provide a table for input to the System's software.

There being no further questions from the trustees, Chairman Molan thanked Mr. Noelke for his presentation and the remote session ended.

Ms. Murray stated that she has reached out to Pension Technology Group and the estimated charge to the System would be about \$4,000 to update the pension system to accommodate the proposed changes.

After brief discussion on the System's impact of the optional assumption changes, Chairman Molan suggested that the Assumptions for Optional Forms of Benefit Payments be referred to the Benefits Committee for further review, to which the trustees agreed.

Benefits Committee Chairman Ciechon stated that he will work with committee members to schedule a meeting.

NEPC – Performance Update – Mr. Sebastian Grzejka and Mr. Kevin Leonard from NEPC were in attendance to present a review of the portfolio performance and pacing analysis.

First Mr. Grzejka reported a positive return, total composite for the period ending April 2023, up 4.5% with a total composite of slightly under \$278 million. He commented that it was a challenging couple of months.

Regarding the US Equity Composite, Mr. Grzejka stated that Boston Trust Walden was funded last month and those results will be included on the Flash Report moving forward. Those funds were in cash for a while during the transition, but since the System is earning interest on cash, there were positive results.

Mr. Grzejka reported that the domestic equity composite up 7.5% year-to-date is made up of three managers, Aristotle, Sands Capital, Boston Trust Walden as well as the S&P Index Fund. Sands Large Cap Growth has done well, with a 15.4% year-to-date return and the S&P Index Fund has had a similar return. About 80% of the return comes from 6 or 7 stocks.

Moving on to the non-US equity portion of the Fund, Mr. Grzejka reported a positive performance of 5.6% for the International Composite and stated that the Global Equity Composite was up 11.9% year-to-date with Loomis Sayles as the more global compliment.

The Fixed Income side of the portfolio, Mr. Grzejka was pleased to report was up 3.6% at the composite level, year-to-date, with yields being quite attractive. He then added that cash earned about 3% over the last year.

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The last two pages of his presentation, Mr. Grzejka reported, reflects the Real Estate/Real Asset Composite. He stated that Real Estate has felt a little bit of a pinch over the last couple of quarters with commercial real estate leading the way. The report indicates some reflection of adjustments in valuation with the biggest one being Prudential PRISA Fund/Core Real Estate Fund. He reminded the Board of the requested \$3 million withdrawal from Prudential towards the tail end of 2022. Many real estate funds have a queue for redemption and those proceeds should be trickling in and that will reduce that allocation. Mr. Grzejka stated that Real Estate Composite is an allocation that will be reviewed later in his presentation, while discussing the Pacing Plan.

Ms. Murray stated that the System has about \$2.5 million remaining due from Prudential.

On the Private Equity side of the portfolio Mr. Grzejka stated one of the concerns after last year, was the lag in Private Equity, however the MECRS' managers held up very well. He is quite pleased with this part of the MECRS portfolio and what has been achieved.

Next Mr. Grzejka referred to the Board's Quarterly Performance Report for period ending March 2023 noting a positive return of 4.4%. Mr. Grzejka then referred to page 70 of the report, and he provided a return summary of the Private Equity Managers which also provided a snapshot of how private equity performance compares to the public markets. Mr. Grzejka stated that the analysis on page 70 demonstrates that that private equity does add value.

Moving on to the Private Markets Pacing Plan booklet, Mr. Grzejka turned the Board's attention to pages 7 and 8, Cash Flow Projections Chart and Private Equity Assumptions, which he summarized.

Mr. Grzejka then stated that each year NEPC provides a review of MECRS private markets allocations to determine the commitment budget for the upcoming year. The strategy is to maintain an active commitment pace in each vintage year going forward, being mindful of the liquidity needs.

Based on the NEPC review, Mr. Grzejka stated that MECRS should commit to Private Equity, up to \$4 million in 2023 vintage year funds. NEPC recommend focusing on diversifying options for 2023 vintage strategies and re-upping with existing managers where possible. He noted that NEPC will provide manager recommendations at a future date.

Chairman Molan asked for NEPC's outlook for the next 7 years.

Mr. Leonard responded that it is possible that we may see a recessionary period with a market downturn and an economic slowdown. Also, he felt that inflation needs to be in check without freezing the economy.

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Mr. Grzejka informed the Board that NEPC will prepare of list of noncore managers to be interviewed by the Investment Committee.

**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 9:35 a.m., seconded by Trustee Wickens, and passed unanimously by all those trustees present.

Respectfully Submitted,

Melanie Murray  
Executive Director