

September 17, 2024
Minutes #622

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

Present: Trustees: Chairman Molan, Richard Bunker, Donald Pinard, Mathew Ciechon and Michael Carpenter

MECRS Staff: Melanie Murray, Kimberly Barrett and Suzanne Wilson

In Attendance: Attorney John Rich from McLane Middleton and Sebastian Grzejka from NEPC

Excused: Sharon Wickens

Absent: Mayor Jay Ruais

Public Hearing:

The meeting was recessed from 8:30 a.m. to 8:33 a.m. for the posted public hearing on the proposed plan changes.

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan referred to the August 13, 2024 minutes and stated that Trustee Carpenter's absence was due to a work conflict, therefore his attendance should be recorded as excused.

Chairman Molan then entertained a motion to approve the amended minutes of August 13, 2024,

Trustee Bunker moved to approve the minutes of August 13, 2024 as amended, seconded by Trustee Pinard, and passed by all the 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 Ciechon, and passed by all the trustees present.

Chairman Comments:

Chairman Molan stated that he and the Executive Director, Ms. Murray, attended the NEPC Conference in Boston the previous week and he felt that the conference was well done and very

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Report of the Executive Director:

informative. He highlighted the various presentations, stating the conference to be worthwhile and he encouraged the other board members to attend future conferences.

NEPC Conference: Ms. Murray reiterated Chairman Molan's comments regarding the NEPC Conference. She stated that she too felt it to be a very informative and that it was good to gain a broader understanding of the processes conducted by NEPC in vetting investment managers prior to their recommendation to MECRS.

Employee Appreciation Barbecue: Ms. Murray informed the Board that the City of Manchester will be holding their annual Employee Appreciation Barbecue at the Hill Restaurant on September 18th, and the City has invited the Retirement System to attend. She noted that this will be the System's second year of participation and another opportunity to share information with the members.

Citizen Representative Election: Moving on, Ms. Murray reminded the trustees of the upcoming Trustee Election for the Citizen Representative. She noted that it will be held on Thursday, December 12th, and that nominations are due to the Retirement System office by October 16th, 2024. Also noting the importance, that nominees must file an Assent to Candidacy form at the City Clerk's Office during the filing period of October 28 – November 1, 2024.

Plan Changes: As discussed last month, Ms. Murray reported that the Plan Changes the Board has been working on were posted for Public Hearing at the start of today's meeting. She informed the Board that she and Chairman Molan met with Mayor Ruais on September 11th to discuss those changes, and he is supportive of those changes to the Plan. The next steps, she stated, will be to retain sponsors for introduction of the Bill, as well as meeting with the Board of Mayor and Aldermen.

2025 Budget: In closing her report, Ms. Murray stated that she has begun gathering information for the 2025 Budget. She noted that she is currently waiting for cost and timing estimates from PTG for the proposed plan change modifications to the System's software. Also, she added that she plans to attend the HealthTrust Rate Setting Public Hearing on September 26th, at which time she expects to receive a sneak peek at the 2025 insurance rate increases. Dental insurance rates, she noted, have already been received due to the plan year beginning in October. She informed the Board that those rates have increased by 10%, which she felt was a bit steep, until she reviewed the history and found that dental rates have not increased in the past 10 years.

Ms. Murray was also pleased to report that the Annual Financial Report has been mailed to all Retirement System members the day before the meeting, so they should be received by participants and retirees in the next few days.

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Chairman Molan also added that he too felt that the meeting with Mayor Ruais, regarding the Proposed Plan Changes, went extremely well and that the Mayor is very familiar with Defined Benefit Plans and is supportive of the proposal.

Report of the Monthly Cash Balance:

Ms. Murray noted a substantial cash balance of \$20 million at the beginning of August. She reported that Arena Capital was funded with \$12 million but a number of smaller distributions had been received, which resulted in a balance of \$10 million ending August 2024.

She stated that later in the meeting, Mr. Grzejka would elaborate on the balance, inclusive of a rebalancing recommendation for the Board's consideration.

Referring to the MECRS Personnel Policies, Chairman Molan suggested the Administrative & Accounting Committee review and update the discrimination section of the Policy.

Chairman Molan also added that the A & A Committee is responsible for reviewing the Executive Director's position, which should be completed by the end of 2024.

Consent Agenda:

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

Trustee Pinard moved to accept the Consent Agenda, seconded by Trustee Bunker, and passed by all the trustees present.

Informational Items:

NEPC Monthly Performance Report – Mr. Grzejka referred to the preliminary Performance Report, ending August 2024. He noted that the preliminary report reflects a funded status with Arena Capital with a zero return; however, once the report is updated, the return will reflect results of a positive composite level of 1.4%.

Overall, Mr. Grzejka reported a very good year so far. He stated that through the end of August the MECRS portfolio was up 8.2%. Both July and August were quite volatile, and Mr. Grzejka described those factors.

Focusing on the year-to-date column, Mr. Grzejka reported very strong returns for the majority of the investment managers.

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One of the things that NEPC has been working on, which ties into the rebalancing recommendation, Mr. Grzejka stated, is balancing out the active / passive exposure in U.S. Large Cap. Traditionally NEPC has favored active exposure. NEPC still supports an active allocation and is now recommending to balance that out and to be more equal between the S&P 500 and the two active managers, resulting in a more efficient portfolio, with less volatility and a savings of management fees, especially from Sands Capital, a very volatile manager. Mr. Grzejka continued to review the different sectors within the MECRS portfolio, citing very strong returns.

Moving on to the Real Estate and Private Equity side of the portfolio, Mr. Grzejka alluded to hitting a trough in Real estate, with valuations having issues over the last two years, particularly in office and retail space. He noted that valuations still are not back to normal such that NEPC is recommending that opportunities are available on the debt side of real estate.

Mr. Grzejka asked to schedule an Investment Committee meeting to review opportunities in funding of real estate. He stated that the committee's objective would be to look at a Pacing Plan, to review the commitment, and choose a few managers to be interviewed before the end of the year.

Trustee Pinard asked Mr. Grzejka to elaborate on his earlier comment, possibly eliminating Sands Capital Management.

Mr. Grzejka responded that that is likely the course of action, due to lack luster performance.

Attorney Rich asked Mr. Grzejka if the funding would be to re-allocate among the real estate managers or be funded by new money.

Mr. Grzejka replied that it would consist of new money, an allocation of new dollars. He suggested it would be similar to the strategy in Private Equity, drawing down capital over a number of years.

Mr. Grzejka referenced the rebalancing recommendation, explaining that it would take \$3 million from cash and \$1 million from the Loomis Sayles Global Growth Fund and transfer those funds to the S&P 500 index fund, which would balance out the active / passive exposure in U. S. Equity. On the global side it would balance out allocations between Arrowstreet and Loomis Sayles as well, while still remaining on target within the portfolio.

Trustee Bunker moved to accept NEPC's recommendation as stated by Mr. Grzejka, seconded by Trustee Pinard, and passed by all those trustees present.

After brief discussion regarding the scheduling of the Investment Committee, it was agreed to schedule the Investment meeting on Tuesday, October 15th at 9:00 a.m.

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The Board thanked Mr. Grzejka for his presentation.

Referring to recent dialogue with the System's actuary regarding the health subsidy aspect of the statute, Attorney Rich explained his concern with the rapid funding of the health subsidy, versus the pension funding. He stated that it would make sense to review the statute now, in conjunction with the upcoming Proposed Plan Changes, possibly putting contribution flexibility in the hands of the trustees so that the employee contribution could be adjusted when the health subsidy is fully funded.

Trustee Pinard asked Attorney Rich if the dental insurance could be included to the subsidy, slowing down the funding rate. Attorney Rich responded that he would look into adding dental as a permissible use, which would slow the funding down.

Chairman Molan then deferred the health subsidy funding discussion to the October Board of Trustees meeting. The Trustees discussed potential sponsors of the legislation in the Senate and House.

Motion to Adjourn:

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

Trustee Carpenter moved to adjourn the meeting at 9:05 a.m., seconded by Trustee Bunker and passed by all the trustees present.

Respectfully Submitted,

Melanie Murray
Executive Director