

August 12, 2025
Minutes #633

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:32 a.m.

Present: Trustees: Richard Molan, Peter Capano, Mathew Ciechon, Sharon Wickens and Michael Carpenter

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

Absent: Mayor Jay Ruais

Excused: Richard Bunker

Also in Attendance: Attorney John Rich, Jr. – McLane Middleton
Mark LaPrade and Samantha Edie – Berry Dunn
Sebastian Grzejka – NEPC

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of July 8, 2025.

Trustee Ciechon moved to approve the minutes of July 8, 2025, seconded by Trustee Wickens, and passed by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

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

New Business:

Representatives from Berry Dunn were in attendance to deliver the results of the MECRS 2024 Audit. Mr. LaPrade Principal/CPA introduced Samantha Edie, CPA, manager of the MECRS audit.

Ms. Edie began by directing the Board's attention to page 3 of the presentation booklet, Key Financial Information. She summarized the key financial indicators, reporting that the Fiduciary Net Position increased by \$27.9 million, noting another year of positive net investment income. She explained that while benefit payments continue to outpace the contributions, the difference is less than in prior years, indicating a positive trend.

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Referring to the last two ratios listed in the chart, Fiduciary Net Position as a percent of Total Pension Liability (62.85%) and Total OPEB Liability (66.45%). Ms. Edie reported an increase in both, which is an additional positive indicator, noting that these ratios differ from the actuary's funding ratios because of the investment income smoothing effect used by the actuary.

Moving on to the next page, Ms. Edie explained that the audit is performed in accordance with U.S. generally accepted auditing standards and Government Auditing Standards. The audit is designed to provide reasonable, not absolute, assurance and requires an understanding of internal controls, but does not necessarily test all the controls. The audit opinion does not cover the Required Supplementary Information or other information. She noted that Berry Dunn was able to provide an Unmodified Opinion over the basic financial statements, which is the highest level of assurance that they can provide.

Trustee Capano asked for clarification on the Required Supplementary Information and why the audit opinion does not cover it.

Mr. LaPrade explained that the whatever is part of the financial statements, is required to be part of the audit and is dictated by the Government Accounting Standards Board (GASB). He noted that this is the general practice of audit firms across the country.

Working through the presentation, Ms. Edie referred to the footnotes of the audit, relative to the MECRS Annual Report. She elaborated on each footnote beginning with Note 3, Investments, which summarizes the net appreciation versus the net depreciation by investment type. Note 7, she stated, highlights the deposit and investment risks exposure. Notes 8 and 9, GASB 67 and GASB 74 respectively, cover the net pension and net OPEB liability. Note 10, Ms. Edie reported, summarizes the actuarial methods and assumptions, including the sensitivity of net pension and OPEB liability adjusting to a 1% change in the discount rate. The footnote also details the impact of the liability if the rate were to fluctuate. Ms. Edie then turned to Mr. LaPrade to continue with the next segment of the audit presentation.

Mr. LaPrade directed the Board to page 7 of the presentation booklet covering Required Auditor Communications. He highlighted that the MECRS Staff does a thorough job in preparing the Annual Report. He explained that internal controls are management's responsibility, that the audit team is not a component of management's internal controls, and that the audit does not relieve management or those charged with governance of their responsibilities. He reminded the Board that it is the responsibility of the audit team to express an opinion on the Retirement System's financial statements.

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Mr. LaPrade reiterated that the audit is designed to obtain reasonable assurance that the financials are free from material misstatement, not to test everything. He stated that they identify management override of controls, valuation of investments, and contributions to the Retirement System as the significant risks of material misstatement. He reported no significant audit adjustments, no transactions lacked authoritative guidance, and all significant transactions were reported in the proper period. He noted that Investments were understated by \$575,000 related to the subsequent reporting of the fair value of investments, which occurs annually because of the timing required for MECRS to close out the year in order to have the actuary perform the valuation in a timely fashion.

In reviewing the Required Auditor Communications section, Mr. LaPrade reported no disagreements with management and no difficulties performing the audit. Berry Dunn obtained a signed letter from management attesting to certain representations made during the audit. Mr. LaPrade stated that Berry Dunn is not aware of management having consultations with other accountants and that Berry Dunn communicated with management throughout the year on a variety of matters. He noted that those discussions were in the ordinary course of business and not a condition of their retention.

Ms. Edie directed the Board to page 11 of the presentation Material Weakness and Significant Deficiency. She was pleased to report that the audit did not identify any material weaknesses or significant deficiencies in internal controls as a result of the audit procedures.

Ms. Edie then summarized the Yellow Book Report, reiterating that they do not audit internal controls, but they do review them, and they did not identify any material weaknesses or deficiencies. They do perform tests of compliance and found no instances of noncompliance, resulting in a very clean and successful audit.

In closing the audit presentation, Ms. Edie asked the Board, as well as staff members, if they had any concerns regarding fraud or noncompliance that they would like to express, for which the response was, "None".

Ms. Edie stated that she will contact the Executive Director to finalize documents needed to complete the audit

Chairman Molan thanked Mr. LaPrade and Ms. Edie for their report, and they left the meeting.

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Report of the Executive Director:

Public Funds Summit East – Ms. Murray reported that she attended the annual Public Fund Summit in Rhode Island. She noted that there were sessions on a variety of pension related topics, mostly investment related. She informed the Board that there was a whole session on Private Debt, which she found to be timely. In addition, she stated there was also a session on risk management, of which one of the recommendations for mitigating cash flow risks was to invest in private credit markets. Ms. Murray stated that her favorite session each year is the panel of actuaries. Throughout the summit, the topic of assumed rate of return came up frequently, she stated, with a most commenting on targets much higher than the MECRS, while one of the actuaries stated the industry average was currently 6.75%. As a side note she stated, the National Association of State Retirement Administrators recently reported an average of 6.91%.

Administrative Assistant Retirement – Next, Ms. Murray referred to the upcoming retirement of the MECRS Administrative Assistant, after 27 years. Ms. Murray stated that she has updated the job description which has been posted with the City Departments. Ms. Murray is hoping to receive submissions in the coming weeks and to begin interviews by the end of August or early September, with a goal of getting someone on board to work with Ms. Wilson for at least a few weeks before her retirement date.

Referring to the auditor's findings that the employee contributions are catching up to the benefit payments, Chairman Molan observed that, with the recent change in the compensation of City employees effective in July 2025, the System should see a substantial increase in contributions.

Chairman Molan then entertained a motion to accept the 2024 audit as presented. Trustee Carpenter moved to accept the MECRS 2024 Audit Report, seconded by Trustee Capano and passed unanimously by all those trustees present.

Report of the Monthly Cash Balance:

Ms. Murray reported that the month of July began with just under \$9.9 million. There have been a fair number of distributions and a few capital calls, resulting in a healthy balance of \$9.6 million at the end of the month.

Chairman Molan entertained a motion to accept the Cash Balance Report.

Trustee Ciechon moved to accept the Cash Balance Report and place on file. Trustee Carpenter seconded the motion and it was passed unanimously by all those trustees present.

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Report of the Investment Committee:

Due to the excused absence of Investment Committee Chairman Bunker, Ms. Murray reported that the Investment Committee met as scheduled on Wednesday, July 16, 2025 at 9:00 a.m. to discuss Private Markets and review private debt managers, as recommended by NEPC. NEPC reviewed four managers, explaining the differences in approach, and the merits of each. After some discussion, the Committee agreed to invite all four managers to present their funds.

Ms. Murray continued reporting that the committee next met on Wednesday, July 30th at 9 a.m. to hear presentations in non-public session. The Committee discussed the varied strategies of each investment before returning to public session, after which, Trustee Wickens made a motion to commit \$7 million to Willow Tree Evergreen Fund and \$5 million to Arbour Lane Credit Opportunity Fund IV, each subject to satisfactory review by counsel. The motion was seconded by Trustee Molan, and all present were in favor.

Chairman Molan asked Sebastian Grzejka to elaborate on the Investment Committee's recommendation to fund Willow Tree and Arbour Lane.

Mr. Grzejka responded that Private Debt has been an area that has seen a lot of support due to liquidity needs. Willow Tree, Mr. Grzejka stated, was chosen because of a very senior secure loan strategy, their fee structure, and a very nice yield which is distributed throughout the year. Arbour Lane, he continued, is a little more return seeking and they have more secondary transactions. He stated that this is a good opportunity to enter private debt and both should be a nice compliment to the rest of the MECRS portfolio.

Attorney Rich asked Mr. Grzejka if both of the private debt managers are evergreen funds, to which Mr. Grzejka responded that Willow Tree is an evergreen fund and Arbour Lane is a draw down fund.

Trustee Wickens move to accept the Investment Committee recommendation to commit \$7 million to Willow Tree Evergreen Fund and \$5 million to Arbour Lane Credit Opportunity Fund IV, each subject to satisfactory review by counsel. The motion received a second from Trustee Carpenter and the motion passed unanimously by all those trustees present.

Consent Agenda:

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

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

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New Business:

NEPC Monthly Performance Report – Mr. Grzejka first stated that year-to-date, MECRS performance has been very strong, up 6.3% with a total composite \$344 Million, a high water mark for the Plan, with very solid results throughout.

Referring to the June Flash Report, Mr. Grzejka reported an interesting nuance that changed this year, with a good amount of return coming from non US equities with the S&P 500 up 6.2% for the end of June and expecting to be a bit higher by the end of July. Looking at the equivalent outside of the U.S. the MSCI over the same timeframe was up 19.4%. Mr. Grzejka stated that a big shift in currency helped the return and manager outperformance. Continuing through the June report, Mr. Grzejka stated that global equity as well as fixed income are in-line with expectations, outperforming their benchmark. He informed the Board that the Private Market composite values are stale and updates to that sector will be carried over to the July report, for which he is expecting positive results.

Mr. Grzejka then referred to the handout on Performance Review and stated that NEPC was asked to review the historical performance of the Plan. He explained that prior to 2007, which is when NEPC was retained, the prior advisor provided performance on a gross of fee basis only. As a result, net of fee returns, for this prior period, were calculated as zero. Since 2007, both net and gross performance have been calculated.

Initially he stated, NEPC continued to report on a gross of fee basis in order to build out a meaningful net of fee track record, which NEPC now has in place. However, by switching to net of fee reporting he explained, it inadvertently resulted in since inception returns that are inaccurate due to the missing data.

In order to help remedy the discrepancy, Mr. Grzejka explained that NEPC recommends linking the historical gross returns to the net of fee track record and footnote accordingly, which results in a more accurate reflection of since inception performance.

Based on the explanation just stated, Trustee Molan noted his understanding that the Total Composite Net of Fee is 3.8%. Mr. Grzejka explained that the net of fee since inception is understated, due to the missing data from October of 1998 to December of 2006.

Trustee Wickens asked Mr. Grzejka if NEPC could change the since inception date to 2007, for which Mr. Grzejka stated that he would be happy to accommodate the Board's request.

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After continued discussion, Chairman Molan asked Attorney Rich if there would be any liability in changing the inception date. Attorney Rich questioned the standard reporting for governmental plans and asked, what is the value of having data from 1996, other than historical, most of those investment managers are no longer part of the MECRS portfolio. Chairman Molan asked Attorney Rich to provide a recommendation on whether to continue to report from 1996 or from 2007 given the information provided by NEPC.

After brief discussion regarding the future performance reporting Mr. Grzejka stated that for the trustees' further review, at the September board meeting, he will provide the trustees with both reporting, net of fee returns and gross of fee returns.

Attorney Rich referred to the 2024 Annual Report and asked Mr. Grzejka about the Investment Guidelines for credit quality risk in fixed income, which have a limitation that the minimum rating is DD for any security and an overall average rating of A. Mr. Grzejka explained that the guidelines are for separate accounts and he provided examples.

Ms. Murray suggested the scheduling of an Administrative & Accounting Committee meeting to address a few pending issues. After a brief review of their calendars the committee members agreed to meet on Wednesday, August 27, 2025 at 8:30 a.m.

Motion to Adjourn:

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

Trustee Capano moved to adjourn the meeting at 9:25 a.m., seconded by Trustee Ciechon, and passed by all those Trustees present.

Respectfully Submitted,

Melanie Murray
Executive Director