

Note: These minutes from the January 13, 2015, regular meeting were approved and executed at the February 10, 2015 regular Meeting of the Board of Trustees.

**Board of Trustees
January 13, 2015**

The Public Minutes

**New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire**

Trustees: Dick Gustafson, Ph.D., *Chair*; John Beardmore; Bill Dwyer; Julia Griffin; Maureen Kelliher; Germano Martins; David McCrillis; Don Roy; Hershel Sosnoff; George Walker; and Jack Wozmak. Tonya Angwin and Dean Crombie, *absent*.

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Denise Call, *Director of Employer Services*; Nancy Miller, *Director of Member Services*; Frank Clough, *Director of IT*; Marty Karlon, *Public Information Officer*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Nina Calkins, *Process Improvement Manager*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Rosamond Cain, *Human Resources Manager*; Shannan Hudgins, *Administrative Coordinator*.

Guest: Ian Lanoff, Esq., *Groom Law Group*

Chair Gustafson called the January meeting of the NHRS Board of Trustees to order at 9:09 a.m. On a motion by Trustee Roy, seconded by Trustee Wozmak, the Board of Trustees unanimously voted to approve the December 9, 2014 Regular Board Meeting public and non-public minutes.

Audit Committee Chair Beardmore began his report with the Committee's decision that morning to table the Surry Village Charter School's (SVCS) Application for Withdrawal pending additional review by the System's actuary, Gabriel Roeder Smith & Company (GRS). Trustee Beardmore then reported that the Committee had received an update on System Engineering's progress with its IT review. He concluded his update with the Audit Committee's adoption of revisions to its Charter. On a motion by Trustee Beardmore, seconded by Trustee Roy, the Board unanimously voted to accept the recommendation of the Audit Committee that the Board approve the revisions to the Audit Committee Charter.

Trustee Walker presented the report of the Benefits Committee meeting of Monday, January 12, 2015, stating that the Committee had voted to pursue recoupment in the matter of Michael Pearson. He noted Staff and Committee members had reviewed current procedures regarding medical examinations for ordinary disability applicants based on physical impairments. After discussion, the Committee had agreed that a physical examination would be performed for an ordinary disability applicant by an

NHRS IME if the IME determined that the medical evaluation form submitted by the applicant's physician did not conclusively state the applicant's medical condition and disability.

Trustee Roy reported that the Governance Committee had convened following the December Board meeting and had determined that no changes to its Charter were warranted. The Committee had received an update on the progress of the SVCS withdrawal process and had made no additional changes to Ret. 103. The Committee would convene following the full Board meeting that afternoon.

Trustee Sosnoff presented the Investment report, stating that funds held in trust as of November 30, 2014, were \$7.42 billion, representing a marginal increase over the previous month and a 0.2% increase for fiscal year-to-date. He stated that US unemployment figures had dropped to 5.6%, a .2% decrease that was trending ever-closer to 5%, a percentage which was considered full employment. A small up-tick in US wages, coupled with lower gasoline prices because of the falling price for a barrel of oil, were positive indicators for the US economy. He stated that global uncertainty continued to affect international markets. In his Independent Investment Committee (IIC) update of its December meeting, Trustee Sosnoff reported the Committee had approved sale of domestic equities to establish and fund a \$200 million cash reserve, which would be managed by IR&M. Trustee Sosnoff noted that Townsend, the System's real estate manager, had reported a 16% annualized return over the last five years, explaining that NHRS had approximately \$657 million managed by Townsend in 33 different investments positions. He closed by stating that macroeconomic trends, particularly oil prices, future interest rates, and the European economy, would be the focus of the February 9th IIC meeting.

Director of Investments Larry Johansen offered a detailed review of the alternative investment strategy from its restart in 2009. He stated that the IIC had continued to develop a successful Private Debt and Private Equity program with commitments to nine Private Equity/Debt General Partnerships totaling \$645 million in calendar year 2014. He described two of these commitments, totaling \$300 million, as multi-year strategic relationships, specifically three to five years. Since the restart of the program by the IIC in 2009, Mr. Johansen stated that the Committee had made 26 commitments (18 equity and 8 debt), all but one starting in 2011, totaling \$1.1 billion, 75% equity and 25% debt commitments. The value of the amount invested as of June 30, 2014, was approximately \$251 million, 50% debt and 50% equity. He stated that for the one-year ending June 30, 2014, the program had returned 15.2%, and for the period 2009 to June 30, 2014, the restart of the program, returns were 16.25%. He emphasized that recent returns were substantially better than the 4.4% annual return of the prior program that was launched in 1985.

In Trustee Crombie's absence, Chair Gustafson presented the PPCC report and discussed the annual Executive Director evaluation materials provided each Trustee, noting that confidential mailing instructions had been included. He stated the deadline for returning the evaluations was January 23rd, and once received, Trustee Crombie would compile the results and hold a PPCC meeting before the February Board meeting. He urged all Trustees to complete their reviews in a timely manner and referred any questions to Trustee Crombie or himself.

Trustee Sosnoff opened the Legislative Committee report and asked Marty Karlon, *Public Information Officer*, to provide details on the retirement LSRs described in the Board materials. Mr. Karlon also provided an update of NHRS outreach efforts to the Legislature which he described as “NHRS 101” sessions.

Chair Gustafson provided the Board with a Real Estate update, noting that Fox Brook had confirmed the \$750K fit-up costs estimate at 16 Foundry Street. He announced that the Real Estate Committee would meet at 11:00, Thursday, January 15th, to review the pending Letter of Intent proposal and emphasized that the Committee would make no binding commitment without full Board knowledge and approval.

Fiduciary Attorney Ian Lanoff, of the Groom Law Group in Washington D.C., presented an education session to Trustees focused on fiduciary responsibilities for Trustees. He provided a detailed explanation of the exclusive benefit rule inherent in trust management that included statutory and Internal Revenue Code requirements, the duty of loyalty, the duty of prudence, and the power to delegate. In his remarks on principles of indemnification and the benefits of fiduciary insurance, Atty. Lanoff provided three specific reasons in support of maintaining adequate fiduciary insurance coverage: to protect the trust, to protect Board members individually in any legal suits, and to protect Trustees from being in the position of having to make determinations of good-faith motives of their fellow Trustees in difficult situations. His presentation was well-received by the Trustees who asked questions concerning ethical conflicts, common fiduciary violations, as well as details on fiduciary insurance.

Following a ten-minute recess, the Board reconvened for a review of the new NHRS website, facilitated by Mr. Karlon, with *Director of Member Services* Nancy Miller, and *Director of Information Technology* Frank Clough. Mr. Karlon explained the changes and upgrades to the site, focusing on the visual and structural enhancements that should increase member usage and satisfaction. Ms. Miller detailed the behind-the-scenes link to the System’s PensionGold data base and MyAccount, through which members and retirees could access their personal accounts and make personal information changes, generate pension calculations and prepare and submit specific retirement-application documents. Mr. Clough explained that SilverTech had been engaged to host the website and that there were servers in two locations that provided data redundancy and uninterrupted service in the event of an on-site emergency at the NHRS office location. The presentation was well received.

Executive Director Lagos gave a brief update of his operating report, expressing satisfaction with achieving success with 95% of the KPMs for the second month in a row. He anticipated presenting a revised Trustee planning session at the February Board meeting, noting that successful progress with the initial three-year strategic plan invited a new approach to developing the FY 2016 strategic plan. In his discussion of the PIP insurance and medical subsidy review, Mr. Lagos emphasized that the process improvement plans for insurance were completely linked to PensionGold and that LRS would be on site the week of February 1st to develop an implementation plan. He commented on the pending medical subsidy questionnaire review project which was focused on a complete record review and verification that included securing Medicare card information for all Medicare-eligible subsidy recipients. He anticipated project completion by the end of February.

Tim Crutchfield, *Chief Legal Counsel*, focused his remarks on fiduciary insurance matters before the Trustees. The fiduciary insurance quote comparisons had been compiled by Atty. Mark Cavanaugh, *Associate Counsel and Compliance Officer*, who presented the details to the Board of Trustees and answered questions concerning the carriers, the suggested coverage, and rate and deductible amounts. Following discussion, on a motion by Trustee Sosnoff, seconded by Trustee Roy, the Board voted to renew its annual fiduciary insurance coverage for \$20 million with Hudson Insurance as the primary insurer and National Union as the excess carrier, as follows:

Ayes: Trustees Gustafson, Beardmore, Griffin, Kelliher, McCrillis, Roy, Sosnoff, Walker, and Wozmak.

Nays: Trustees Dwyer and Martins.

Director of Finance, Jack Dianis presented the Finance report. He specifically addressed Line 39 on the Budget-to-Actual report and the negative variance triggered by unanticipated GASB-related audit expenses. He also noted increases in contribution rates for both employers and members which indicated an increase in covered payroll. He closed by stating that KPMG, the System's external auditor, would appear before the Audit Committee at its February meeting.

Mr. Clough, *Director of Information Technology*, discussed the anticipated purchase of a new telephone system that would be easily relocated if the System office were to move location. In answer to a question, he stated that webhosting costs were approximately \$200 per month. He concluded his IT report by stating that a new Cisco firewall was scheduled for installation during the first week of February. He noted that facilities issues were ongoing and that they were primarily related to HVAC problems and roof and window leakage.

Ms. Miller provided a brief update of Member Services, noting that statistics for visits, telephone inquiries, and retirements were in expected ranges. She also explained that the new website also accommodated self-scheduling for members seeking an appointment with NHRS benefits staff.

Director of Employer Services Denise Call provided an informative update of the LEAN process that NHRS and NH State staff members had collaborated on in an effort to improve reporting for State retirement contributions and member records. The group had presented its report to both Mr. Lagos and Commissioner Linda Hodgdon in December and she anticipated additional meetings to formalize their work and develop next steps would follow in 2015.

On a motion by Trustee Wozmak, seconded by Trustee Roy, the Board of Trustees unanimously voted to approve the Consent Agenda with the exception of disability application #6, T.L.

On a motion by Trustee Martins, seconded by Trustee Dwyer, the Board of Trustees voted to enter into non-public session under RSA 91-A:3, II(c) to discuss a disability application on a roll call vote, as follows:

NHRS Board of Trustees
January 13, 2015

Ayes: Trustees Gustafson, Beardmore, Dwyer, Griffin, Kelliher, Martins, McCrillis, Roy, Sosnoff, Walker, and Wozmak.

Nays: None.

On a motion by Trustee McCrillis, seconded by Trustee Roy, the Board unanimously voted to conclude the non-public session during which no action had been taken.

On a motion by Trustee Walker, seconded by Trustee Martins, the Board unanimously voted to table the Hearings Examiner's recommendation in the disability application of T.L.

Chair Gustafson formally thanked Trustee Jack Wozmak for his three and a half years of dedicated service to the NHRS as nominated representative of the Association of Counties. Mr. Wozmak served on the Audit, Benefit, Legislative and PPCC Committees during his tenure and was a key member of the Committee which hired George Lagos as Executive Director in January 2012. Mr. Wozmak expressed his appreciation for the Board of Trustees and the Staff of NHRS whose combined efforts supported and protected the financial security of 88,000 retirees and members who dedicated their careers in public service to the State of New Hampshire.

On a motion by Trustee Roy, seconded by Trustee Sosnoff, the meeting was adjourned at approximately 12:18 p.m.

Respectfully submitted,
Shannan Hudgins