

Note: These minutes from the February 9, 2016, regular meeting were approved and executed at the March 8, 2016, regular Meeting of the Board of Trustees.

**Board of Trustees
February 9, 2016**

The Public Minutes

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

Trustees: Hershel Sosnoff, *Acting Chair*; Tonya Angwin; John Beardmore; Dean Crombie; Bill Dwyer; Germano Martins; David McCrillis; George Walker; and Julia Griffin, *telephonically*. Dick Gustafson, Ph.D., Maureen Kelliher, Bruce Moorehead, and Don Roy, *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*; Heather Fritzky, *Controller*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Mark Cavanaugh, *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Rosamond Cain, *Human Resources Manager*; Shannan Hudgins, *Administrative Coordinator*.

Acting Chair Sosnoff confirmed the presence of a quorum and called the February meeting of the NHRS Board of Trustees to order at 9:35 a.m. It was noted that Trustee Griffin was participating by telephone because of her responsibilities to assist with the administration of primary voting in her town. On a motion by Trustee Beardmore, seconded by Trustee Walker, the Board of Trustees voted to approve the public minutes of the January 12, 2016 Regular Board Meeting, as follows:

Ayes: Trustees Sosnoff, Angwin, Beardmore, Crombie, Dwyer, Griffin, McCrillis, and Walker.

Nays: None.

Abstention: Trustee Martins.

Audit Committee Chair Beardmore opened his report by announcing that the final GASB 68 Report had been issued with the System's auditors, KPMG, unmodified opinion. He stated that the Committee had reviewed items on the Audit Tracker, but had not discussed IT items because of time constraints. There were no items which required Board discussion or review.

Trustee Walker reported that the Benefits Committee had met on January 22, 2016 and received updates on the Pearson matter and Gainful Occupation statistics. The Committee had also reviewed recoupment recommendations. He stated that the Committee would convene before the March 8, 2016 Board meeting.

Chief Legal Counsel Tim Crutchfield stated that the Governance Committee had not met in January and there were no items to present to the Board.

Trustee Sosnoff presented his Investment report, beginning with funds held in trust as of December 31, 2015, which totaled \$7.222 billion, representing a loss of \$109 million for the month, or 1.5%, and a \$236 million, or 3.2%, loss FYTD. Trustee Sosnoff noted continued volatility in the S&P 500 as the primary reason for the losses. He reported that at its January meeting, the Independent Investment Committee (IIC) had concluded that achievement of the 7.75% investment target was unlikely. He reported that US unemployment was 4.9%, and that wage growth was approximately 2.5% year-over-year. Larry Johansen, *Director of Investments*, stated that the declining price of crude oil continued to create market volatility. He also reported that there would be four presentations to the IIC at its February 19th meeting: Abel Noser would present an analysis on transaction costs, followed by investment manager presentations by Alcentra, Thoma Bravo, and Riverstone Credit.

Trustee Crombie reported that the PPCC would convene before the March Board meeting to discuss the collective bargaining negotiations and the annual review of the Executive Director. Both matters would be taken up at the Board meeting on March 8th.

Marty Karlon, *Public Information Officer*, provided a Legislative update at the request of Trustee Sosnoff. He reported that several bills, both Senate and House, had been passed by their respective chambers and were moving forward. Following a discussion of a potential cash balance plan proposal, on a motion by Trustee Martins, seconded by Trustee Griffin, the Board unanimously voted to accept the recommendation of the Legislative Committee that the Board authorize Staff to engage Groom Law Group and/or Gabriel Roeder Smith & Company (GRS) for purposes of establishing that the pending Cash Balance Plan legislation conforms to Internal Revenue Code requirements for the qualification of the plan, or clarifying provisions of the legislation if it appeared to conflict with existing plan provisions or was incapable of being administered if enacted.

Executive Director George Lagos conducted his annual Preserve/Achieve/Avoid strategic planning exercise with the Board's participation. He explained that the priorities, suggestions, and commentary from Trustees would be shared with members of the Executive Team in order to refine not only the three-year strategic plan, but also to develop each executive's action plan for the next fiscal year. Following a productive discussion, Mr. Lagos stated that the revised documents would be presented to the Board for approval and implementation.

Mr. Lagos next offered a review of his monthly reports, noting that the KPM score of 97.8% was a result of Staff's diligence in meeting deadlines and prescribed goals, and that the twelve month rolling average indicated that the 95% target was being achieved. He noted that Nancy Cone, in her new role as *Internal Auditor*, was reviewing all PPM documents for any necessary updates or additions. In closing, Mr. Lagos reiterated that his weekly calls to ten NHRS members or retirees continued to reveal an exemplary level of service to NHRS constituents and provided valuable insights on issues of importance.

At 10:20 a.m., Trustee Sosnoff formally opened the public hearing on the proposed Employer Withdrawal rules under Ret. 311 and 313. He stated that the proposed adoption of Ret 311 was based upon existing Board policy and set out the proposed procedure for an employer to withdraw from the NHRS under RSA 100-A:43, 43-a and 43-b. The proposed rule set out the employee's rights upon withdrawal and established how an employer's unfunded accrued liability would be calculated. The proposed amendment of Ret 313 allocated the actuarial costs incurred in determining a withdrawing employer's unfunded accrued liability and analyzing the employer's proposed alternative plan for parity with retirement system benefits. The rule was also based on existing Board policy.

Following an open public hearing period of ten minutes and with no public comments offered, Trustee Sosnoff formally closed the public comment portion of the hearing. He stated that pursuant to the JLCAR process, the record would remain open until 12:00 p.m., Tuesday, February 9, 2016, for the submission of materials in writing, by email, or by facsimile to the NHRS.

Tim F. McCusker, *Chief Investment Officer*, and Kevin M. Leonard, *Partner*, of NEPC offered the Board a comprehensive review of the System's investments entitled, NEPC 2016 Outlook: Assumptions and Actions for Clients. Mr. McCusker began with an explanation of their methodology in developing asset class assumptions, how those assumptions were used in market reviews, as well as the comprehensive economic research used to develop investment strategies and recommendations for NHRS. Mr. Leonard and Mr. McCusker indicated that expected returns over the next five to seven years and for the long term would be somewhat subdued, but moderately higher than last year's projection.

Chief Legal Counsel Timothy Crutchfield presented a brief legal update focused on the February 3, 2016 HB2 Hearing in Hillsborough County Superior Court. He provided an overview of the arguments and noted that the applicability of the "unmistakability doctrine" would be of central importance to the adjudication of the dispute. Atty. Crutchfield also anticipated the case would ultimately advance to the NH Supreme Court.

Jack Dianis, *Director of Finance*, began his Finance report with an announcement that copies of the complete GASB 68 report from KPMG were available in print for any Trustee who desired one. He reviewed the monthly financial reporting package, noting the reduction in the net position balance from \$7.354 billion to \$7.222 billion. He also commented on the favorable expense variance, largely attributable to reduced investment management expenses which tracked the reduction in net assets under management. He closed with a brief 1099-R update, stating that a high volume of statement-specific retiree calls were being handled by Finance Staff.

Director of Information Technology Frank Clough reported that the co-location initiative was moving forward and the imaging project was progressing on schedule. There had also been significant improvement in the reduction of identified system vulnerabilities. He noted that a SmartBoard had been recently acquired and training was scheduled for the end of the week.

Nancy Miller, *Director of Member Services*, provided an update of her division, noting that calls for scheduling retirement counseling appointments had increased significantly as educators planned ahead for July 1 retirements. She provided an update on several of the automation projects underway which were expected to eliminate a number of manual processes. Trustee McCrillis commented on a conversation he had with a soon-to- retire fire chief in Sullivan County who expressed his appreciation for the detailed and comprehensive retirement counseling he had received.

Director of Employer Services, Denise Call focused her remarks on insurance process improvement plans, particularly the work being done to improve the medical subsidy questionnaire and the enrollment authorization process. She also commented on efforts to transition employers to ACH payment of their retirement contributions.

Trustee Angwin excused herself from the meeting at 11:30 a.m.

Martin Atkin, *Investment Director*, and Aaron Montano, *Vice President*, of AB offered an investment strategies presentation entitled Multi-Asset Solutions: Capital Markets Outlook. Mr. Atkin's presentation largely echoed the themes previously articulated by NEPC and produced similar long-term investment performance forecasts modeled on the NHRS investment portfolio.

On a motion by Trustee Walker, seconded by Trustee Griffin, the Consent Agenda was presented for review. Following a request by Trustee Beardmore that Item #8 of the Consent Agenda be set aside for separate review, on a motion to amend by Trustee Dwyer, seconded by Trustee Griffin, the Board unanimously voted to approve the Consent Agenda, as adjusted.

Following a brief review of the central issue in the Administrative Recommendation of Sheri O'Day, on a motion by Trustee Beardmore, seconded by Trustee McCrillis, the Board voted to refer the matter to the Benefits Committee, as follows:

Ayes: Trustees Sosnoff, Beardmore, Dwyer, Griffin, Martins, McCrillis, and Walker.

Nays: None.

Abstention: Trustee Crombie.

On a motion by Trustee McCrillis, seconded by Trustee Walker, the meeting was adjourned at approximately 12:12 p.m.

Respectfully submitted,
Shannan Hudgins