

Note: These minutes from the June 10, 2014, regular meeting were approved and executed at the July 8, 2014 regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
June 10, 2014**

Public Minutes

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

Trustees: Hershel Sosnoff, *Acting Chair*; Dean Crombie; Bill Dwyer; David McCrillis; Germano Martins; Don Roy; Guy Scaife; George Walker; and Jack Wozmak. Dick Gustafson, Ph.D. and John Beardmore, *absent*.

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer and Retiree Services*; 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*; Christine Basha, *Public Information Specialist*; Rosamond Cain, *Human Resources Manager*; Cecile Merrill, *Project Manager*; and Shannan Hudgins, *Administrative Coordinator*.

Acting Chair Sosnoff called the June 10, 2014, Regular Meeting of the NHRS Board of Trustees to order at 9:05 a.m. On a motion by Trustee Walker, seconded by Trustee Wozmak, the Board of Trustees unanimously approved the public minutes, as amended, and the non-public minutes, as presented, of the May 13, 2014, Board of Trustees Meeting. The public minutes were amended on page two to change “non-U.S. money managers” to “non-U.S. equity managers” and to delete a duplicate paragraph.

Trustee Wozmak presented a report of the Audit Committee meeting that immediately preceded the Board meeting. Staff continued their work with the system’s external auditors on GASB 67 and 68 implementation issues. He reported the Committee had learned of a small charter school seeking to withdraw from NHRS, which caused Staff to review the current Employer Withdrawal Policy and its provisions requiring a withdrawing employer to fully fund its pension liabilities. The IT audit by Systems Engineering (SE) had been completed and Trustee Wozmak stated that Staff would present a plan to address the action items identified by SE. He concluded his report by stating that no outstanding issues were in the Tracker, and The Committee had concluded its meeting with a discussion of the 2015 Audit Plan. The next Audit Committee meeting was scheduled for July 8, 2014, at 8:15 a.m., immediately preceding the full Board meeting.

George Walker, Chair of the Benefits, stated that the Committee had not met since the May Board meeting but he anticipated scheduling a Committee meeting before the July Board of Trustees meeting.

Governance Committee Chair Don Roy reported that the Committee had been apprised of the IRS Cycle C filing status at its May 13, 2014 meeting. The Committee would be meeting following the Trustee meeting to review the current Employer Withdrawal Policy as well as current NHRS Administrative Rules concerning charging reasonable costs for copies of records or documents, except with regard to a member or beneficiary requesting his or her own records. *Executive Director*, George Lagos, noted that the Audit Committee was reviewing the Employer Withdrawal Policy with respect to actuarial issues and the Governance Committee would review it as a Board policy matter. He anticipated the full Board would consider proposals to revise the Employer Withdrawal Policy in sixty to ninety days' time.

Trustee Sosnoff presented the Investment report, stating that as of April 20, 2014, funds held in trust totaled \$7.116 billion, representing a decrease of \$2 million from the previous month. For the FYTD representing ten months, trust assets had increased \$688 million, an 11% increase overall, and he confirmed that all asset classes were up for FYTD. He also discussed the quarterly report which indicated NHRS was at the median for its peer group fund for Calendar Year 2014 First Quarter returns. In his macro-economic report, Trustee Sosnoff focused on quantitative easing that the Federal Reserve (FED) used in its response to the Great Recession. Beginning in 2009, the FED began purchasing Treasury and Mortgage-Backed Securities to keep interest rates low and to provide liquidity for the market. These bonds, paid for by a credit to the purchaser's bank with reserves held at the FED, buoyed the U.S. economy without increasing the supply of money. The two-tiered quantitative easing program was anticipated to end in late 2014. He then gave an overview of the May IIC meeting at which the Committee had interviewed four non-U.S. equity managers. The Committee had terminated Thornburg, reduced its investment with Fisher by half and then divided the remaining funds between three of the four managers who had presented that day: Causeway Capital, LSV and Artisan. The July meeting agenda would be focused on broad economic matters and both he and *Director of Investments*, Lawrence Johansen, encouraged Trustees to attend.

Mr. Johansen briefly discussed high-frequency trading issues, a practice which had become a hot topic in the media following a "60 Minutes" program with author Michael Lewis discussing his book, Flash Boys, in which he asserted financial markets were artificially manipulated. Mr. Johansen stated that a Securities and Exchange Commission (SEC) investigation had been launched to discern whether Lewis' allegations were based in fact, noting that any SEC action would only follow if there were a finding of irregularities in high-frequency trading. He would continue to update both the Board and the IIC on the matter.

Atty. Andrew Schulman entered at approximately 9:25 a.m.

PPCC Committee Chair Dean Crombie noted the Committee had not convened and there were no items to report.

Chair Sosnoff requested a Legislative Update and Marty Karlon, *Public Information Officer*, presented the most current results of the 2014 Legislative Session. He began with HB 1494, the comprehensive legislation with nine separate, NHRS-specific provisions, stating it had passed the Committee of Conference and was on its way to the Governor for her signature. Two bills did not pass – a filing deadline for vested-deferred members and a penalty-provision bill for working-after-retirement. He noted that the affinity credit card bill was with the Governor and the bill exempting retirees from the 32-hour rule while fighting North Country forest had passed. Mr. Lagos thanked the Legislative Committee and Mr. Karlon for their diligent work for the benefit of NHRS which resulted in the enactment of several important changes beneficial to the administration of the system.

On behalf of the *Ad Hoc* Real Estate Committee, Mr. Lagos reported that Bill Norton, the real estate broker, had shown him a number of properties in Concord that were possible sites for a potential NHRS office move. He, with Mr. Dianis and Mr. Johansen, would return to a few sites for a second visit at week's end. Mr. Norton had also attended a meeting at NHRS with the current landlord. Mr. Lagos reported that a number of building improvements would be made over the next few months, and he stated NHRS would likely be in a better position by the end of the current lease in March 2016.

On a motion by Trustee Martins, seconded by Trustee Dwyer, the Board voted to enter into non-public session under RSA 91-A:3, II(e) to discuss current legal actions on a roll call vote, as follows:

Ayes: Trustees Crombie, Dwyer, McCrillis, Martins, Roy, Scaife, Sosnoff, Walker and Wozmak.

Nays: None.

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

Chair Sosnoff then requested the Operating Reports, beginning with Mr. Lagos, who opened his remarks with the KPM statistics which continued to be adversely influenced by the State of NH data reporting issues. Although progress had been made with the State, the reconciliation of their data remained 90 days in arrears. His direct reports were finalizing their individual action plans following the Board's approval of the Three Year NHRS Strategic Plan for 2015 at its May meeting. He also discussed the evaluation of the retiree payroll processing/1099 RFP responses for which he anticipated a recommendation would be presented to the Board at the July 8th meeting.

Tim Crutchfield, *Chief Legal Counsel*, referred the Trustees to his written legal update for any additional detail on NHRS matters currently working through the court system. He then discussed HB 342 reporting details and Atty. Mark Cavanaugh, *Associate Counsel and Compliance Officer*, confirmed that the true number of NHRS retirees working after retirement for a System employer was relatively low based on five months of reporting data. Noting that most retirees exceeding the 32-hour-per-week limit were minimal and usually by only one or two hours, he reported that one

third of employers did not hire any retirees, and of those employers who did, retirees worked an average of 18 hours per week. Atty. Crutchfield concluded the Legal update by stating that the statute which required this reporting would sunset in five years.

Chair Sosnoff asked *Director of Finance* Jack Dianis for his report and he briefly discussed the Statement of Net Position and the Budget vs. Actual statements. Mr. Dianis then presented the FY 15 Trust Fund Budget for final discussion and review, noting that the additional reports requested at the May Board meeting had been incorporated into the final budget.

On a motion by Trustee McCrillis, seconded by Trustee Scaife, the Board unanimously voted to approve the Fiscal Year 2015 Trust Fund Budget as presented.

In Mr. Clough's absence, Mr. Lagos noted that SE had been engaged to conduct an audit of the IT operation. Mr. Karlon provided details of the ad hoc Website Committee's RFP recommendation, noting that of the four national applicants, the Manchester firm of SilverTech had been the Committee's top choice based on functionality and cost. Due diligence reference calls had confirmed the selection.

On a motion by Trustee Dwyer, seconded by Trustee Scaife, the Board unanimously voted to approve the Committee's recommendation to enter into an agreement with SilverTech, subject to the satisfactory conclusion of fee negotiations.

Mr. Lagos then introduced the LRS contract extension for maintenance and support, referring Trustees to the historical data provided behind Tab 13 in support of his recommendation to the Board. He noted the contract included ninety-day (90) a termination clause.

On a motion by Trustee Roy, seconded by Trustee Crombie, the Board unanimously voted to approve the LRS contract extension as presented.

Director of Member Services Nancy Miller presented a brief update that focused on the July 1 retirement date and staff efforts to meet the resulting increased scheduling calendar and processing deadlines. A total of 208 individual counseling appointments had been made during May, and a total of 683 new retirees were scheduled for the July annuity payroll.

Director of Employer & Retiree Services Denise Call reported that Staff were preparing for the increased work associated with employer insurance changes, noting that the automated insurance rate load process would significantly reduce staff time devoted to this process. Medical Subsidy questionnaires and Gainful Occupation questionnaires were being processed, as well as the associated paperwork for July 1 retirees.

On a motion by Trustee Wozmak, seconded by Trustee Roy, the Board unanimously voted to approve the Consent Agenda, excepting Items T.C, M.G. and B. Woodburn.

On a motion by Trustee Martins, seconded by Trustee Wozmak, the Board voted to approve the recommendation of the Hearings Examiner in the Disability Applications of T.C., M.G., and the Administrative Recommendation of B. Woodburn, as follows:

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Ayes: Trustees Dwyer, Crombie, McCrillis, Roy, Scaife, Sosnoff, Walker and Wozmak.

Nays: Trustee Martins.

On a motion by Trustee Martins, seconded by Trustee Dwyer, the Board unanimously approved the travel request for Trustee Crombie as presented in the Board materials.

Following a brief review of the May Action Items, on a motion by Trustee Martins, seconded by Trustee Roy, the meeting was adjourned at approximately 11:16 a.m.

Respectfully submitted,
Shannan Hudgins