

Note: These minutes from the August 9, 2016, regular meeting were approved and executed at the September 13, 2016, Annual Meeting of the Board of Trustees.

**Board of Trustees
August 9, 2016**

The Public Minutes

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

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

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

Chair Gustafson called the August 9, 2016 Regular Meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, on a motion by Trustee Roy, seconded by Trustee Dwyer, the Board unanimously voted to approve the public minutes of the July 12, 2016, as amended.

Trustee Beardmore presented the Audit Committee update with a review of that morning's meeting. *Internal Auditor* Nancy Cone had presented results of the Finance Retiree Payroll audit and Trustee Beardmore noted it had been a clean audit report. The FY 16 Audit Plan had been completed, and the Committee had reviewed the FY 17 Plan status with Ms. Cone. Trustee Beardmore reported that Staff had presented updates on KPMG and IT, as well as the Audit Tracker before the Committee took action on the NHRS Fraud Policy. The Committee had unanimously voted to recommend that the full Board accept and approve the Policy, if similarly approved at the afternoon's Governance Committee meeting.

Trustee Roy announced that the Governance Committee, which had not convened in July, would meet following the full Board meeting. On the Committee's agenda was review of the Fraud Policy which the Audit Committee had reviewed at its meeting that morning. Given the Audit Committee's approval and recommendation, Trustee Roy anticipated a similar review and approval of the policy for action by the full Board at the September 13th meeting.

Trustee Sosnoff presented the Investment Committee report, stating that the preliminary funds held in trust as of June 30, 2016, were \$7.351 billion, representing a total fund loss of \$41 million, or less than 1% for the month. The fund was down preliminarily \$179 million, or 2.4% for Fiscal Year 2016. He reported that all asset classes were within their target ranges, and that alternative investments had reached an allocation of 13%. In his macro-economic report, Trustee Sosnoff noted that the US economy had generated 255K new jobs in July, and year-over-year wage gains of 2.6%. He noted that real GDP had grown at only 1.2%, annualized, in the second quarter. Public sector GDP had shrunk by 1.2% as a result of federal-level sequestration and state and local election-year, non-deficit budgeting. Conversely, GDP generated by the private sector had risen 2.4%, resulting in the 1.2% overall growth figure. Trustee Sosnoff commented that international trade pacts were key issues for both US political parties in the upcoming presidential election. In his report on the July 22nd IIC meeting, he stated that active vs. passive investing had been the focus of the discussion. BlackRock had offered an impressive presentation on the two investment strategies, and the Committee had also received an informative presentation on opportunities and risks in fixed income from Loomis Sayles. *Director of Investments* Larry Johansen reviewed preliminary performance as of June 30th, and noted that final FY 16 investment figures would be available by the September IIC meeting but not by the September 13th Board meeting. He also announced that the August IIC meeting had been cancelled.

Executive Director George Lagos opened the discussion on Legislative matters, stating that the Expedited Legislative Action Policy and Procedure documents in the Board materials had been documented in the system's PPM data base, which was used to track and communicate all internal policy and procedure documents. Jack Dianis, *Director of Finance*, briefly discussed the anticipated agenda for a September Legislative Committee meeting which would include the annual review of its charter and preparation for and discussion of the 2017 Decennial Retirement Commission. Mr. Lagos stated that potential areas for the Commission's review included OPEB, medical subsidy, disability administration, retiree health insurance, and GASB changes. He noted that the State fiscal committee has scheduled a public hearing for September 23, 2016, on proposed changes to the state retiree group insurance plan.

In the PPCC update, Chair Gustafson reported the Committee had met on July 21, 2016, and reviewed the simplified and updated NHRS mission statement before entering into non-public session to discuss personnel and compensation matters. Chair Gustafson reported that CBA negotiations had been unsuccessful and that fact-finding was scheduled for Monday, August 22, 2016.

Trustee Walker reported that the Benefits Committee had met on July 21, 2016 with a full agenda. The Committee heard an update from Atty. Cavanaugh, *Associate Counsel and Compliance Officer*, on the 84 certification requests he had sent to employers in order to verify that NHRS retirees occupying management-level positions were indeed performing their duties within the 32-hour per week limit required by HB 342. Atty. Cavanaugh reported that no significant or intentional violations had been noted in the responses received to date. Trustee Walker noted the Committee had discussed and approved Staff's request to allow the preparation of a draft policy for consideration relating to gainful occupation offset or reduction by the Board. He then reported that the Committee had reviewed Staff's draft amendment to the

administrative rules to explicitly allow electronic filings, which was included in the Board materials for review and would be presented at the September meeting for consideration.

At the Committee meeting, *Chief Legal Counsel* Tim Crutchfield had provided a staff recommendation regarding the implementation of SB 390 which required that if a disability application was denied by the Board of Trustees and a hearing was required upon reconsideration, then a different presiding officer had to be engaged for the reconsideration hearing. Trustee Walker stated that the Committee unanimously recommended that for disability applications in which the IME recommended denial, Associate Counsel Cavanaugh would provide the initial recommendation to the Board. Upon a request for reconsideration, Atty. Carolyn Johnson would then act as the Hearings Examiner of record.

On a motion by Trustee Walker, seconded by Trustee Martins, the Board unanimously voted to accept the Benefits Committee's recommendation that the Board approve the disability process suggested by Staff pursuant to 2016 Chapter Law 49.

Trustee Walker briefly discussed the Committee's non-public meeting during which the status of disability re-examinations had been reviewed. Following the Committee's unanimous vote, on a motion by Trustee Walker, seconded by Trustee Dwyer, the Board unanimously voted to accept the Benefits Committee's recommendation that a review of ongoing disability eligibility be required in two years in the matter of C.S.

Attorney Ian Lanoff of *Groom Law Group*, presented a comprehensive review of the fiduciary responsibilities required of all public pension trustees. Atty. Lanoff included the New Hampshire Constitutional protection of the pension trust codified in Part I, Article 36-a, as well as RSA 100-A:15, I-a(a) in his discussion of the protections and responsibilities inherent in prudent fiduciary care of the NHRS pension trust. He discussed trustee immunity, indemnification, and the critical importance of adequate insurance protection. He focused on the duties of loyalty and prudence, conflict of interest matters, the refusal of gratuities, and the Board's duties regarding provider and investment oversight. His presentation was informative, instructive and well-received.

Following a ten-minute recess, Mr. Lagos briefly referenced his Board memo and the operational details provided every month. He then reported that his recent annual calls to each Trustee had proved instructive, and he noted that the Trustees continued to work collaboratively to support the Staff and the Executive Team in their efforts to provide quality service to all NHRS members, retirees and beneficiaries.

Chief Legal Counsel Tim Crutchfield stated that the Petitioner's brief had been filed in NH Supreme Court in the HB 2 Benefits case and noted that the Petitioner was essentially asking the Court to disagree with its previous decisions in the HB 2 Contribution and AFT cases. He reported that seven employer audits had been completed in August, bringing the total to date for this quarter to 13 of the 18 expected under KPMs.

Jack Dianis, *Director of Finance*, began his update with the new Dashboard report developed by PIO with collaboration from ETeam. He stated that the document

provided a comprehensive view of the System's position in a single place on a quarterly basis. He briefly discussed the financial statements and then discussed the Preliminary FY 2018-19 NHRS Statutory Budget, noting that a Board vote is expected next month.

Director of Information Technology Frank Clough opened his update with the reported security vulnerabilities statistics, noting that none were critical but did require appropriate follow-up. He reported that the co-location site in Dallas was closed and that hardware was being transitioned to Marlboro, Massachusetts. The telephone system upgrade had been completed, and Mr. Clough stated that Staff training on the accompanying Jabber software would occur in the next few weeks.

Nancy Miller, *Director of Member Services*, reported 699 new retirees had been added to the annuity payroll. She continued work on automating benefit calculations which included benefit continuance for beneficiaries, online applications and MyAccount enhancements.

Director of Employer Services Denise Call provided a brief PIP update, stating that the development processes were continuing as outlined in her report and that several employers and TPAs were assisting in the evaluation of the recent insurance authorization build by LRS.

On a motion by Trustee Dwyer, seconded by Trustee Walker, the Board of Trustees unanimously voted to approve the Consent Agenda, as presented, with Trustee Beardmore abstaining from voting on the Matter of R.J.

On a motion by Trustee Walker, seconded by Trustee Roy, the meeting was adjourned at approximately 11:59 a.m.

Respectfully submitted,
Shannan Hudgins