

Note: These minutes from the December 9, 2014, regular meeting were approved and executed at the January 13, 2015, regular Meeting of the Board of Trustees.

**Board of Trustees
December 9, 2014**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; John Beardmore; Dean Crombie; Maureen Kelliher, David McCrillis; Germano Martins; Don Roy; George Walker; and Jack Wozmak. Hershel Sosnoff and Trustee-elect Julia Griffin, *telephonically*. Bill Dwyer, *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 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*; Rosamond Cain, *Human Resources Manager*; and Shannan Hudgins, *Administrative Coordinator*. Nancy Miller, *Director of Member Services*, and Frank Clough, *Director of IT*, *absent*.

State-wide inclement weather created travel conditions that were deemed unsafe for Trustee Sosnoff and Trustee-elect Griffin, who participated in the meeting via telephone connection and confirmed that they were the only parties participating in the call, in compliance with RSA 91-A:2, III.

Because poor driving conditions delayed the arrival of Chair Gustafson, Trustee Crombie called the December meeting of the NHRS Board of Trustees to order at 9:10 a.m. On a motion by Trustee McCrillis, seconded by Trustee Wozmak, the Board of Trustees unanimously voted to approve the November 12, 2014 Regular Board Meeting public and non-public minutes.

Audit Committee Chair Beardmore began his report with the Comprehensive Annual Financial Report (CAFR) that had been presented to the Committee that morning for approval in advance of recommendation to the full Board for its acceptance and approval. He interrupted his remarks with the arrival of Chair Gustafson at 9:14 a.m. to express congratulations to Trustee Dean Crombie for his recent celebration of 40 years as a police officer in New Hampshire, twenty-five of those years as Chief of Police in Somersworth. Trustee Crombie expressed his thanks for the recognition.

Trustee Beardmore then asked Jack Dianis, *Director of Finance*, to present an overview of the CAFR. Mr. Dianis focused his remarks on select pages which presented key financial data. He noted that in pages 21 – 25 readers would find narrative, table, and

chart explanations of key financial information, noting the substantial growth in Net Position from \$6.4 billion at fiscal year-end 2013 to \$7.4 billion at fiscal year-end 2014. Mr. Dianis briefly explained the additional GASB detail included in the CAFR.

On a motion by Trustee Beardmore, seconded by Trustee McCrillis, the Board unanimously voted to accept the recommendation of the Audit Committee to approve and accept the CAFR for Fiscal Year 2014.

On a motion by Trustee Beardmore, seconded by Trustee Wozmak, the Board unanimously voted to accept the recommendation of the Audit committee to approve the annual ethics survey scorecard as presented.

Trustee Beardmore stated there was no action to be taken at this time with respect to the pending application for withdrawal previously filed by the Surrey Village Charter School. He closed his report with the Committee's review and recommended changes to its Charter, which would be presented to the full Board for consideration and approval at its January meeting.

Trustee Sosnoff presented the Investment report, stating that funds held in trust as of October 31, 2014 were \$7.35 billion, representing a 1¼ % increase over the previous month but a 0.8% decline for fiscal year-to-date. He stated that US employment figures were holding steady and that global uncertainty continued to affect international markets. In his Independent Investment Committee (IIC) update, Trustee Sosnoff reported the Committee had renewed contracts with AllianceBernstein and TS&W and had received presentations from NGP, and affiliate of the Carlyle Group, Manulife and Pyramis, approving an investment of \$200 million to Manulife and a \$75 million commitment to NGP. He noted that the IIC would next meet on Friday, December 19th and indicated that the Committee's February 9th meeting would be devoted to a semi-annual macroeconomic review.

Director of Investments Larry Johansen offered a brief overview of the Comprehensive Annual Investment Report (CAIR), explaining that the transmittal letter from the Committee Chair served as a summary of the entire year. Mr. Johansen commented that investment highlights for calendar year 2014. The Investment Committee continued to develop a successful Private Debt and Private Equity program with commitments to eight Private Equity/Debt General Partnerships totaling \$570 million. Two of these commitments totaling \$300 million were multi-year strategic relationships over three to five years. The Committee further diversified manager-specific risk and increased expected sources of return by successfully transitioning assets from four managers terminated for organizational reasons which had also contributed to poor relative performance (Emerging Markets Equity Manager, International Equity Manager, Fixed Income Manager and an Alternatives Manager) to seven new Managers and one existing Manager. While "a rising tide lifts all boats," the NHRS investment performance for the fiscal year of 17.6% exceeded the actuarial assumed rate of return of 7.75% and placed NHRS in the top 15% of the peer universe of public pension plans. The longer-term performance over five years of 13.5%, coincident with the term of the IIC, exceeded the benchmark by 20 bps, exceeded the actuarial assumed rate of return of 7.75%, and placed NHRS in the top 15% of the peer universe of public pension plans.

Following a few questions and comments with respect to investment expense, the Chair noted that recent investment results had exceeded those of 85% of the public pension plan peer universe while expenses were substantially less than the average of those same plans. On a motion by Trustee Sosnoff, seconded by Trustee Beardmore, the Board unanimously approved the CAIR for Fiscal Year 2014.

Trustee Crombie presented an update of the PPCC preparations for the annual review of the Executive Director in accordance with Board policy. He explained that Trustees would be provided with Mr. Lagos' self-evaluation and evaluation forms at the next Board meeting for completion and subsequent return to Trustee Crombie's attention. He anticipated the review would be completed by February 2015.

Trustee Sosnoff opened the Legislative report by noting that the Committee had reviewed its Charter and made no changes. He then asked Marty Karlon, *Public Information Officer*, to provide an update of current Legislative matters. Mr. Karlon stated that only LSR titles were available until the submission period closed, and his review of those titles had revealed fewer than ten titles that mentioned NHRS or retirement. He advised the Board that once an LSR had been assigned a bill number, its content became public.

Chair Gustafson provided the Board with a Real Estate update, starting with the recent negotiations for the 16 Foundry Street office complex in Concord. He noted that Trustee Sosnoff negotiated very effectively on behalf of NHRS and that the Committee was awaiting cost estimates for the fit-up of the space to further discussions. Chair Gustafson also reported that the owners of the System's current location were intent on selling the property and not particularly interested in space and lease negotiations. He noted that NHRS had received confirmation from external counsel that it should qualify as a tax-exempt organization, which would influence potential ownership of property.

Executive Director Lagos gave a brief update of his operating report, expressing satisfaction with achieving success with 95% of the KPMs. He commented that he had begun making weekly calls to members and retirees as a mechanism for determining customer satisfaction, and that early indications were very positive. He then directed Trustees to the last document under Tab 10, a 2014 Year-in-Review memorandum that would provide an outline for subsequent operating area reports focusing on important accomplishments during the 2014 calendar year.

In accordance with RSA 91-A guidelines, Chair Gustafson officially opened a public hearing for the proposed change to Retirement System rule 103.01 at 10:00 a.m. At the end of five minutes, during which no one appeared to offer public comments or pose any question regarding the proposed rule change, he closed the public comment portion of the hearing at 10:05 a.m. Chair Gustafson announced that pursuant to the JLCAR process, the record would remain open until the close of business on December 17, 2014, for the submission of materials in writing, by email or by facsimile to NHRS.

Trustee Walker presented an update for the Benefits Committee, which had met on December 3rd to consider any changes to its Charter, of which there were none. He noted that there was discussion about the NHRS disability process and the status of the further development of online forms for NHRS members and retirees. He closed by

stating the Committee had considered four recoupment matters in accordance with the NHRS recoupment policy.

Trustee Roy reported that the Governance Committee had reviewed Ret. 103 revisions and the fee schedule at its meeting following the November Board meeting. He stated the Committee would perform the annual review of its Charter at its meeting following the Board meeting that afternoon.

Chair Gustafson then requested the reports from the Executive Team members who would provide an annual review of their departments, beginning with *Chief Legal Counsel* Tim Crutchfield. Atty. Crutchfield discussed the staff reorganization that had placed the employer auditing function under the legal operation, noting the timely completion of 19 employer audits to comply with newly implemented GASB standards in concert with the oversight of the System's internal auditor and KPMG as part of the annual audit. He also discussed the favorable IRS compliance letter, the legal counsel request-for-proposals process, several favorable court decisions involving NHRS, and an overall summation of NHRS legal matters. In closing, he noted that fiduciary insurance renewal would be an action item for the Board's consideration at its January 13, 2015 meeting.

Mr. Dianis presented an outline of the Finance Department's accomplishments, beginning with the successful implementation of new GASB standards in the CAFR. He noted that the Statutory Budget submitted to the State was under the FY 15 budget. The annuity payroll change had been implemented with the October payroll without material difficulties. He closed by stating NHRS initial budget presentation had been well received by the Governor's Budget Committee.

Director of Employer Services Denise Call focused her 2014 update on the results of a strategic direct deposit campaign that reduced the number of physical checks disbursed to retirees to 5.12% of the 31,000 annuity payroll recipients, resulting in substantial financial savings to the system.

In his PIO annual update, Mr. Karlon described the redevelopment of the NHRS website and its anticipated rollout in January 2015. He briefly discussed Legislative matters, commenting on the successful efforts to clarifying a number of statutory provisions in the last legislative session. He indicated that he anticipated a proposal for the creation of a working-after-retirement study committee would be introduced in the 2015 legislative session, which would benefit both NHRS retirees and employers.

Commenting that Mr. Clough was engaged with pressing facility matters, Mr. Lagos provided an update on IT, stating that the implementation of PG Secure was an essential project to assure the ability of NHRS to issue retiree payroll checks in the event of a business interruption. He also noted that the collaboration with Systems Engineering of Maine, in conjunction with the establishment of an internal IT working group, had proved beneficial to addressing a number of IT initiatives.

Mr. Lagos advised that Ms. Miller was presently unavailable because of jury duty, and reported that the move by Member Services to provide member statements online would result in a cost savings of approximately \$34K. He assured Trustees that members maintained the option of receiving paper statements upon request, but only

a few annuitants had made that request. Creating the option for online forms was a continuing priority for the department as Member Services worked in concert with PIO and IT to improve service options for its members and retirees. Mr. Lagos anticipated significant progress upon implementation of the updated website and the ability to submit several commonly used forms electronically.

On a motion by Trustee Wozmak, seconded by Trustee Beardmore, the board of Trustees unanimously voted to approve the consent Agenda with the exception of disability applications E.B. and A.H.

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

Ayes: Trustees Gustafson, Angwin, Beardmore, Crombie, Kelliher, Martins, McCrillis, Roy, Sosnoff, Walker, and Wozmak.

Nays: None.

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

On a motion by Trustee Martins, seconded by Trustee Beardmore, the Board unanimously voted to approve the Hearings Examiner's recommendation in the Disability Application of E.B.

On a motion by Trustee McCrillis, seconded by Trustee Kelliher, the Board voted to approve the Hearings Examiner's recommendation in the Disability Application of A.H., as follows:

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

Nays: Trustee Martins.

On a motion by Trustee Beardmore, seconded by Trustee Roy, the Board unanimously voted to approve the travel request for Trustee Crombie as presented in the Board materials.

A brief discussion followed in which newly-appointed Trustee Julia Griffin offered her appreciation for the professionalism of the NHRS Audit Team and its work with the Town of Hanover.

On a motion by Trustee Martins, seconded by Trustee Roy, the meeting was adjourned at approximately 11:17 a.m.

Respectfully submitted,
Shannan Hudgins