

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

**Board of Trustees
February 10, 2015**

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; Bill Dwyer; Germano Martins; David McCrillis; and George Walker. Julia Griffin and Hershel Sosnoff, *telephonically*. Maureen Kelliher 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*; 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*.

Guests: Kevin Leonard and Tim McCusker, NEPC

Chair Gustafson called the February meeting of the NHRS Board of Trustees to order at 9:07 a.m. On a motion by Trustee Dwyer, seconded by Trustee Beardmore, the Board of Trustees unanimously voted to approve the January 13, 2015, Regular Board Meeting public and non-public minutes.

Audit Committee Chair Beardmore reported that representatives of KPMG had attended the Audit Committee meeting that morning to review the proposed audit schedule for fiscal year 2015, including the newly adopted requirements of GASB 68. The Committee had voted to approve the KPMG proposal and would be executing the engagement letter in due course. Trustee Beardmore also noted that the expectation was that the Surry Village Charter School withdrawal application would be acted upon at the next Audit Committee meeting and would come before the Board at its March meeting.

Trustee Walker indicated that there had not been a Benefits Committee since the last Board meeting so there were no developments to report.

In the absence of Committee Chair Roy, Trustee McCrillis offered the report of the Governance Committee, which had convened following the January Board meeting to review the text of the final rule on proposed revisions to Ret. 103. Trustee McCrillis

voiced a motion to establish the text of the final rule on revisions to Ret. 103, thereby allowing staff to proceed with the rulemaking process, which was seconded by Trustee Beardmore. Following a brief discussion, Trustee Martins noted that the intention was that members and annuitants would not be required to pay costs for obtaining their own information and offered a friendly amendment to add the phrase “at no cost” at the end of paragraph (b) of Ret 103.01 as presented. Seconded by Trustee Beardmore, the Board unanimously voted to approve the friendly amendment. Chair Gustafson then called the vote on the initial motion as amended, which the Board unanimously approved.

Trustee Sosnoff delivered the Investment report, stating that funds held in trust as of December 31, 2014 were \$7.355 billion, representing a decrease over the previous month of \$72 million and a 0.2% decrease for the first six months of the fiscal year. He stated that US unemployment figures had risen to 5.7%, a slight increase that he believed was caused by the number of previously unemployed people re-entering the job market. He stated that global uncertainty continued to affect international markets, including the recent election in Greece, political unrest in the Ukraine, and ongoing conflict in the Middle East. The Independent Investment Committee (IIC) February meeting had been cancelled because of inclement weather.

In a follow-up to Trustee Sosnoff’s remarks, *Director of Investments* Larry Johansen stated he anticipated rescheduling the February macro-economic presentations for the March 20, 2015 meeting. He reported that the Committee would be revising benchmarks and reviewing the current ranges of asset classes for recommendation to the Board.

Trustee Crombie, who had arrived at approximately 9:25 a.m., discussed the annual Executive Director evaluation by the PPCC that was scheduled for Tuesday, February 17, 2015, at 10:00 a.m. He noted that a non-public session to review the Committee’s report would likely occur at the March 10, 2015 meeting.

Trustee Sosnoff opened the Legislative Committee report and requested Legislative updates from Marty Karlon, *Public Information Officer*. Mr. Karlon reported that the cash balance and defined contribution plan bills had been retained in Committee to allow for further work sessions. He noted that the Committee would not reconvene until after cross-over in mid-March. Mr. Karlon also described recent outreach efforts to provide factual information and NHRS education opportunities to key committees and legislators. Additionally, NHRS 101 sessions for the general public were scheduled with Mr. Lagos and Mr. Karlon sharing the presentations.

Chair Gustafson provided the Board with a Real Estate update, stating the Committee continued to work on the 16 Foundry Street office space, negotiating fit-up costs, accommodations, and appropriate and fulfilling use of the space. Of note was the anticipated need for additional demolition work which had not been originally anticipated. Chair Gustafson emphasized that the Committee would take no action without full Board knowledge and approval.

Tim McCusker, NEPC Chief Investment Officer, and Kevin Leonard, Partner, offered a formal investment presentation to the Board of Trustees that was focused on future investment assumptions. Combining historical data and forward-looking analysis of

both domestic and foreign investments, they discussed the prospect of lower expectations of returns in equity markets attributable to anticipated earnings, inflation, and dividend yields for NHRS. Mr. McCusker provided a concise description of the US financial recovery since 2009, and he also included potential global interest rate changes in his presentation. Mr. Leonard provided helpful analysis of NHRS' liquidity program, noting that the System had a well-functioning liquidity program and a healthy liquidity status in relation to its entire portfolio which allowed it to engage in further alternative investment opportunities. Following a question and answer period, Mr. Leonard and Mr. McCusker closed their investment presentation.

Following a ten-minute recess, the Board reconvened and Executive Director Lagos began his FY 2016 Strategic Planning presentation. Referencing the NHRS Objectives Overview 2016 in the Board materials, Mr. Lagos stated that the NEPC presentation represented the first step in Plan #7, Trust Fund Administration, Funding and Actuarial Assumptions. He and the Trustees engaged in the annual Preserve/Achieve /Avoid exercise that yielded a few additions, as well as removal of items that had been successfully achieved. In his monthly report, Mr. Lagos noted the third consecutive month of Key Performance Measures score over 95%. He noted that the PIP II insurance process work had been delayed because of the inability of LRS to travel to the NHRS offices for meetings because of inclement weather. The Request For Proposals (RFP) for the telephone system was on target for release on February 20th with an anticipated implementation date of June 30, 2015. He closed by noting that the PELRB Supreme Court appeal was expected to be scheduled in March or April.

Tim Crutchfield, *Chief Legal Counsel*, focused his remarks on the final resolution of the Supreme Court decisions on two pension-related cases. He reported that GASB 67 and 68 employer audit scheduling was underway, noting that the pace and number of audits had increased and new field auditors were also preparing for 2016 audits.

Director of Finance, Jack Dianis presented the Finance report. He noted that approximately 31,000 1099R's had been mailed with few issues. The Governor's Budget Presentation on Thursday, February 12th would eventually become Senate and House bills that would then be combined into the Capitol Budget Bill. Mr. Dianis did not anticipate any discussion of the NHRS statutory budget. He specifically addressed the change in contributions in the financial report, explaining that the increase was directly related to covered payroll.

Mr. Clough, *Director of Information Technology*, discussed the upgrades and changes in his department, beginning with an anticipated bandwidth increase through FairPoint that would increase the System's internet capabilities. The Cisco Firewall Replacement was completed and would provide necessary cybersecurity. He closed by stating that the target date for server migration was March 16, 2015.

Ms. Miller provided a brief update of Member Services, noting that late winter and spring months were busy as teachers prepared to retire. MyAccount functionality was under review and she anticipated additional features would be proposed after the LRS site visit. Ms. Miller explained that the manual benefit calculation work was an example of a process which would benefit from further automation.

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Mr. Lagos commented that at a recent meeting with Manchester police officers, it was evident that there were a number of concerns with the potential for legislative activity which might impact or reduce member benefits during the pending legislative session. Mr. Lagos expressed concern that this could translate into an acceleration in Member Services activity and possibly, retirement filings, depending on what legislation was moved forward concurrently with the legislative budget process.

Director of Employer Services Denise Call announced that LEAN follow-up planning with the State was scheduled for February 11, 2015. She noted that the medical subsidy project was two-thirds through review and she anticipated a timely completion.

On a motion by Trustee Martins, seconded by Trustee Beardmore, the Board of Trustees unanimously voted to approve the Consent Agenda as presented.

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

Chair Gustafson announced the following Committee assignments:

Governance: Bill Dwyer
Audit: David McCrillis
Legislative: Julia Griffin
PPCC: Julia Griffin

On a motion by Trustee Beardmore, seconded by Trustee Martins, the meeting was adjourned at approximately 11:31 a.m.

Respectfully submitted,
Shannan Hudgins