

**Note:** These minutes from the November 12, 2014, regular meeting were approved and executed at the December 9, 2014, Meeting of the Board of Trustees.

**Board of Trustees  
November 12, 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; Bill Dwyer; Maureen Kelliher, David McCrillis; Germano Martins; Don Roy; Hershel Sosnoff; and George Walker. Jack Wozmak, *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*; 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*; Christine Basha, *Public Information Specialist*; Shannan Hudgins, *Administrative Coordinator*.

*Guests:* Michael Delaney, Esq., *McLane Law Firm*; David Kausch and Heidi Barry, *Gabriel Roeder Smith and Company*.

Chair Gustafson called the meeting to order 9:02 a.m. On a motion by Trustee Sosnoff, seconded by Trustee Roy, the Board of Trustees unanimously approved the public and non-public minutes of the October 14, 2014 Board of Trustees Meeting.

Trustee Beardmore provided an update of the morning's Audit Committee meeting, noting that the auditors from KPMG had indicated that the annual audit was positive and that no issues were anticipated with respect to the final report. He stated that the Surry Village Charter School withdrawal proposal had been set aside for want of a timely response to Staff requests for additional information. Following last month's presentation to the full Board, on a motion by Trustee Beardmore, seconded by Trustee Roy, the Board unanimously voted to accept the recommendations of the Audit and Governance Committees to approve the Service Purchase Policy dated October 9, 2014. In closing, Trustee Beardmore stated *Internal Auditor*, John Browne, along with the Employer Audit staff had been assisting KPMG with NHRS employer census audits and their efforts had proved both cost-effective and productive.

Trustee Walker reported that the Benefits Committee had met immediately following the October Board meeting and received a legal update from Staff in a non-public session. No decisions had been made or matters presented requiring action by the

Committee. He anticipated convening a Benefits Committee meeting before the December 9<sup>th</sup> Board Meeting.

Trustee Roy stated that the Governance Committee had convened on October 28<sup>th</sup> to review the revised Service Purchase Policy. The Committee unanimously voted to rescind its approval of the first version of the Policy, followed by a unanimous vote to approve the revised Policy. A brief explanation of the Actuarial Standards Board request for comments was provided by *Executive Director* George Lagos and David Kausch, the System's consulting actuary from *Gabriel Roeder Smith and Company (GRS)* who provided additional detail on the Committee's recommendation. On a motion by Trustee Roy, seconded by Trustee McCrillis, the Board unanimously voted to authorize and designate the Executive Director to endorse a draft letter to the Actuarial Standards board in response to a Request for Comments as proposed by NASRA, NCPERS, and NCTR.

Trustee Sosnoff presented the Investment report, stating that as of September 30, 2014, funds held in trust totaled \$7.261 billion, representing a 2% decrease for the month, as well as a 2% decrease for the first quarter of FY 15. He reported that the US economy continued to make good progress, noting that Calendar Year third-quarter growth was 3.5%. He reported that the US unemployment rate had fallen to 5.8%, a trend that had continued through most of 2014. Trustee Sosnoff offered a brief report of the October 24<sup>th</sup> IIC meeting at which PIMCO's management agreement was terminated following the departure of Bill Gross and remaining funds under its management will be transferred to other fixed income managers. The IIC had renewed contracts for three domestic small capital managers (Boston Trust, SB&H, and Wellington), and had discussed co-investment opportunities in private equity. The Committee had also reviewed the Draft Comprehensive Annual Investment Report.

*Director of Investment*, Larry Johansen, discussed the details of the Total Fund performance report, with particular attention to private equity. He stated that the November 21<sup>st</sup> IIC meeting would include discussion of utilizing a short-term fixed income vehicle funded from domestic equity to cover cash needs for both capital calls and the monthly annuity payroll. In addition, he referenced the draft Comprehensive Annual Investment Report (CAIR) in the meeting materials. The Independent Investment Committee is expected to approved the CAIR at its November meeting and recommend the Board approve it at the December meeting when it approves the Comprehensive Annual Financial Report (CAFR). He noted that he would undertake a detailed review of the CAIR with the Board at the December 9<sup>th</sup> meeting.

PPCC Chair Crombie reported that a Committee meeting would be convened before the December 9<sup>th</sup> Board meeting. The agenda would include PIP matters, as well as initial preparation for the Executive Director evaluation.

Trustee Sosnoff reported that Legislative Committee had met on November 7<sup>th</sup> to review plans for the upcoming Legislative session. The discussion had centered on requesting a legislative study committee specifically focused on working after retirement issues, including the 32-hour rule. On a motion by Trustee Sosnoff, seconded by Trustee Martins, the Board unanimously voted to approve the Legislative Committee's recommendation to authorize staff to pursue the creation of a legislative study committee to review working after retirement issues.

Chair Gustafson reported on the Real Estate Committee progress with negotiations on the property at 16 Foundry Street in Concord. He also stated that test-fit preparations were underway to evaluate space planning needs. Chair Gustafson also noted that the Committee was engaged in discussions with the current landlord regarding adjusted lease opportunities. He stated that the Committee was aggressively balancing cost matters, and that the System's tax status in such real estate transactions was a critical component in all considerations.

On a motion by Trustee Crombie, seconded by Trustee Kelliher, the Board of Trustees 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 Gustafson, Angwin, Beardmore, Crombie, Kelliher, Martins, McCrillis, Roy, Sosnoff and Walker.

*Nays:* None.

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

Following a five-minute break, Chair Gustafson welcomed the System's consulting actuaries from GRS, David Kausch and Heidi Barry, who discussed the draft June 30, 2014 Interim Actuarial Valuation. Mr. Kausch provided an overview of the purposes of regular valuations, emphasizing that this interim valuation was not for rate setting purposes. He explained entry age methodology, answering questions and providing specific detail throughout his presentation. Ms. Barry briefly discussed the System's experience for the last fiscal year and also described the purpose and merits of the five-year experience study, which would be prepared following the conclusion of FY 2015. Mr. Kausch explained the details of medical subsidy funding and the important distinction of its pay-as-you-go funding status from the pension advanced funding. In closing, he suggested that the results of the next experience study should be taken into consideration as a part of the next statutory rate setting process which would take place in 2016.

*Director of Finance*, Jack Dianis, presented the Board with a detailed explanation and review of the newly adopted Government Accounting Standards Board (GASB) 67 & 68 rules. He emphasized that the rules governed accounting standards and practices, not funding, but noted that the requirement of employers to include their portion of the Unfunded Accrued Actuarial Liability (UAAL) on their balance sheets would be a likely source of confusion. His presentation outlined the various components of the GASB changes and emphasized Staff's ongoing efforts to assist employers in understanding the changes and the fact that those changes did not have any impact on employer rate setting. In closing, he reported twenty GASB required employer census audits had been successfully completed this fall, explaining that 300 participating employers must be audited over the next ten years.

Following the presentations, Chair Gustafson requested staff reports. Mr. Lagos opened the Operating Reports portion of the Agenda, noting that KPM statistics had improved over October, assisted by timely employer payroll reporting by the State of

NH. He stated the PIP process was ongoing and he anticipated positive results with the insurance and medical subsidy operation.

In his Legal Update, Atty. Crutchfield, *Chief Legal Counsel*, stated he would send a link to the NH Supreme Court website in the event any Trustee wished to hear Thursday's oral argument in the AFT case but was unable to attend.

*Director of Finance* Jack Dianis presented a focused discussion on the NHRS Budget-to-Actual report. Mr. Johansen commented on the FY 15 budget for investment related legal expenses, noting that additional legal work required by an increase in private equity transactions and the termination of underperforming investment managers, leading to the addition of several new investment managers to the portfolio had led to a budget variance which was being monitored. Mr. Dianis referenced the unaudited Comprehensive Annual Financial Report (CAFR) under Tab 13, pointing out the GASB footnotes on page 44. He noted that he would undertake a detailed review of the audited CAFR with the Board at the December 9<sup>th</sup> meeting.

Frank Clough, *Director of IT*, reported that the collaboration with Systems Engineering had been productive, noting they were onsite weekly. An IT working group was meeting weekly with positive results. He closed by stating that the new NHRS website development project was on schedule.

*Director of Member Services*, Nancy Miller, focused her remarks on the final physical mailing of Member Statements. Of the 57,000 mailed, 133 requests for paper statements had been made, but only 45 requesters had returned the forms to date. She noted that the project centered on balancing the substantial cost savings with customer service, and that the improved website would boost MyAccount usage, providing members with immediate access to their statements at any time.

Denise Call, *Director of Employer Services*, stated that the State's reporting and reconciliation continued to improve. NHRS Staff were engaged with State personnel in a LEAN project with a goal to further streamline State reporting processes.

On a motion by Trustee Beardmore, seconded by Trustee Roy, the Board of Trustees unanimously voted to approve the Consent Agenda as presented, including the addition of the Wentworth School District Participation Request.

Trustee Angwin excused herself from the meeting at approximately 12:00 p.m.

In response to a question, Atty. Crutchfield confirmed that the JLCAR process for adopting a rule to authorize NHRS to charge reasonable fees for right-to-know copying requests was proceeding as anticipated and that a public hearing would be scheduled to coincide with an upcoming board meeting.

On a motion by Trustee Roy, seconded by Trustee Walker, the meeting adjourned at approximately 12:10 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*