

Note: These minutes from the January 8, 2013, regular meeting were approved and executed at the February 12, 2013, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
January 8, 2013**

The Public Minutes

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

Trustees: Lisa Shapiro, Ph.D., *Chair, presiding*; John Beardmore; Dean Crombie; David McCrillis; Kate McGovern, Ph.D.; Dick Gustafson, Ph.D.; Hershel Sosnoff ; Karen McDonough; Don Roy; Guy Scaife; George Walker; and Cathy Provencher, *ex officio*. Jack Wozmak, *absent*.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer Services*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Carolyn Johnson, Esq., *Hearings Examiner*; Rosamond Cain, *HR Manager*; Nina Calkins, *PPM Manager*; Marty Karlon, *Public Information Officer*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: Harold Janeway, *Chair, Independent Investment Committee*; Kevin Leonard, *NEPC*.

Chair Shapiro called the regular meeting of the NHRS Board of Trustees to order at 9:07 a.m. and requested a motion to approve the public and non-public minutes from the December 11, 2012, regular meeting. An amendment to the travel request motion in the December minutes was noted and on a motion by Trustee Walker, seconded by Trustee McGovern, the minutes, as amended, were approved unanimously.

Trustee Provencher opened her report from the Audit Committee with a description of the payroll audit that showed no exceptions. She reported that the Audit Tracker as of January 1, 2013, revealed eleven closed items, two new issues, and ten outstanding issues. The Annual Code of Ethics Report Card revealed 100% participation from all constituent groups with the exception of two former trustees. On a motion by Trustee Provencher, seconded by Trustee Walker, the Board unanimously voted to approve the annual ethics survey scorecard.

Trustee Provencher next discussed the PPM presentation to the Committee and stated that it was a particularly useful application and that NHRS membership was well-served by its implementation. She then asked Jack Dianis, *Director of Finance*, to

report on the Government Finance Officers Association (GFOA). Mr. Dianis stated that he would be attending the GFOA meeting on Wednesday, January 9, 2013, and would present GASB changes to municipality employees. He noted that they were looking for volunteer employers to participate in a working group study.

Trustee McGovern offered a brief Benefits Committee report, stating that the next meeting was scheduled for Friday, January 18, 2013, at a time to be determined. The Committee would consider two cases referred at the December Board meeting, as well as a review of the docket report of cases on appeal. Executive Director Lagos stated that two recoupment cases would be referred to the Benefits Committee, noting that he expected the backlog of such cases would be handled in the first quarter of the year.

Trustee Crombie provided the Governance Committee report, stating that the Committee had reviewed and discussed the proposed Securities Litigation Policy. Messrs. Johansen and Lagos addressed the various considerations involved in developing the policy, including staff time required, relative pension fund size, and the potential opportunity for financial recovery in class action lawsuits. It was specifically noted that the interests and rights of the system are currently being protected and that results are monitored on a regular basis. Trustee Sosnoff requested removal of the word "alleged" in the first page of the policy. On a motion by Trustee Provencher, seconded by Trustee McCrillis, the Board unanimously voted to accept the recommendation of the Governance Committee to approve the proposed Securities Litigation Policy as amended.

Trustee Sosnoff opened his remarks on behalf of the Investment Committee with a description of the planned educational session for the January 18th IIC meeting and invited all Trustees to attend. He reported that as of November 30, 2012, NHRS assets were \$5,988,500, up \$200 million from June 30, 2012, approximately 3.5% FYTD. Trustee Sosnoff referenced the updated NEPC report and its format, stating that the Committee's goal was to offer clear and beneficial reports for the Board's review for both the monthly and quarterly reports. Larry Johansen, Director of Investments, briefly discussed the Request for Proposal (RFP's) for custodial services and the process that would unfold.

Mr. Johanson next reviewed the favorable findings in the peer investment performance and expense analysis provided by NEPC. He noted that fees were calculated as a percentage of assets, not a percentage of payroll, which was a necessary and important distinction.

As Chair of the Legislative Committee, Trustee Sosnoff requested a report from Mr. Dianis regarding the upcoming legislative session and potential Retirement System bills. Mr. Dianis explained that three technical corrections to retirement legislation were under consideration and that a Legislative Services Request (LSR) had been filed as a placeholder. He confirmed that Thursday, January 10, 2013, was the LSR deadline for the Senate. Mr. Dianis also stated that House and Senate ED&A Committees were assuming responsibility for NHRS-related legislation in place of the Special Pension committee which had been created two years ago. A brief discussion of legislation and procedures ensued.

Trustee Gustafson discussed the meeting of the Personnel, Performance, and Compensation Committee (PPCC) on December 27, 2012, which had focused on the Executive Director review. He explained the process of Mr. Lagos' review, and stated that the survey results would be reviewed at the anticipated PPCC meeting at the end of January. Those results would then be offered to the Board for consideration at its February meeting. He requested Trustees return the evaluation surveys by January 14 for review by the PPCC at its late January meeting.

On a motion by Trustee Gustafson, seconded by Trustee McCrillis, the Board unanimously voted to temporarily adjourn the meeting to discuss collective bargaining strategy or negotiations under RSA 91-A:2, (a).

On a motion by Trustee Provencher, seconded by Trustee Walker, the Board unanimously voted to reconvene the Board meeting.

Chair Shapiro welcomed Harold Janeway, *Chair, Independent Investment Committee (IIC)*, and Kevin Leonard, *NEPC*, and invited them to address the Board and present the Investment Education Session. Chair Janeway focused his remarks on the development of the IIC through the NH Legislature and its unique status in public pension funds. He described the IIC's role as recommending investment policy, asset allocations, and the investment consultant relationship, noting that the IIC also had the authority to act on its decisions.

Mr. Leonard discussed the relationship between NEPC and the investment staff of NHRS, emphasizing his view that NEPC was an extension of the System investment staff, an "outsourced CIO" which worked in collaboration to achieve solid investment returns based on good decisions. He stated that his firm's forty-plus researchers provided market expertise to NHRS. Mr. Leonard identified poor decision making as the primary cause of funds' difficulties and believed that NEPC, Staff, and the IIC working in tandem resulted in good investment decisions that benefitted the trust fund and its beneficiaries.

Following the Investment Education Session, Executive Director Lagos offered his operating report and focused his remarks on the Key Performance Measures ("KPMs") presented in the Board materials. He noted that the Voluntary Correction Program (VCP) laundry list review would be completed in the first quarter of this calendar year and stated that recoupment actions were slated for review and resolution within a thirty-to-ninety-day timeframe. In his concluding remarks, Mr. Lagos stated that the KPMs served as a useful management tool to monitor performance. Mr. Lagos reported briefly on the Process Improvement Plan ("PIP") which will focus on reviewing work flows and potential business improvements over the next 18 months.

Chief Legal Counsel Tim Crutchfield offered a brief report on the legislatively-driven lawsuits, which were fully discussed in his legal memoranda. He reported that at the December 20, 2012, hearing on the 32-hour case, Judge McNamara seemed inclined to rule that because the issue before the court was a monetary one and money damages could supply relief, there was no need for an injunction. Atty. Crutchfield expected a full decision in a few months.

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In reporting results of the fiduciary insurance bid, Atty. Crutchfield reiterated that the deductible for the coverage had increased to \$100k from \$25k, and that the increase was reflective of the insurance market's view of potential exposure for general public pension industry as opposed to any negative NHRS claims experience. He stated that the insurance broker affirmed that the Chubb policy was favorable to NHRS. Following a brief discussion of the policy and the \$20m coverage, on a motion by Trustee Provencher, seconded by Trustee Walker, the Board unanimously voted to renew its annual fiduciary insurance coverage for \$20 million with Chubb Insurance as the primary insurer and Chartis providing excess coverage.

Chair Shapiro led a brief discussion of the Gabriel Roeder Smith & Co. Interim Valuation. On a motion by Trustee McCrillis, seconded by Trustee McGovern, the board unanimously voted to accept the 2012 Interim Valuation.

On a motion by Trustee Scaife, seconded by Trustee Sosnoff, the Board unanimously approved the Consent Agenda, with Trustee Provencher noting her abstention on Item #9.

On a motion by Trustee Sosnoff, seconded by Trustee Walker, the Board voted to approve Trustee travel request for Trustee Crombie, as follows:

Ayes: Trustees Shapiro, McGovern, Sosnoff, McCrillis, Gustafson, Scaife, McDonough, Beardmore, Roy, Walker, and Provencher.

Nays: None.

Abstention: Trustee Crombie.

On a motion by Trustee Provencher, seconded by Trustee Crombie, the meeting adjourned at approximately 12:35 p.m.

Respectfully submitted,
Shannan Hudgins