

Note: These minutes from the July 10, 2012, regular meeting were approved and executed at the August 14, 2012, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
July 10, 2012**

The Public Minutes

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

Trustees: Danny O'Brien, *Vice Chair, presiding*; Dean Crombie; Kate McGovern, Ph.D.; Brian Morrissey; Cathy Provencher, *ex officio*; Tara Reardon; Don Roy; and Hershel Sosnoff. Lisa Shapiro, Ph.D., *Chair*; Dick Gustafson, Ph.D.; Karen McDonough; and 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*; Paul Zahensky, *Director of Information Technology*; John Browne, *Internal Auditor*; Heather Fritzky, *Accounting & Finance Reporting Supervisor*; Denise Call, *Director of Employer Services*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; and Shannan Hudgins, *Administrative Coordinator*.

Guest: David T. Kausch, *Chief Actuary*, Gabriel Roeder Smith & Company

Vice Chair O'Brien, presiding in the absence of Board Chair Shapiro, called the meeting to order at 9:02 a.m. and requested a motion to approve the public and non-public minutes from the June 8, 2012 Regular Meeting. On a motion from Trustee Reardon, seconded by Trustee Morrissey, the public and non-public minutes were approved unanimously.

Vice Chair O'Brien requested reports from Board Committees, beginning with Audit. Committee Chair Provencher reported that the Committee had not met that morning, noting that two items had been added to the Audit Tracker, specifically related to the Qualified Domestic Relations Order (QDRO) audit. Mr. Browne stated that target dates had been changed for the Delegation of Authority documentation and the Process and Procedures project for Finance. Mr. Lagos stated that the Delegation of

Authority documentation had been submitted to the PPPC, would next be submitted to the Governance Committee, and then put in final form for Board approval. He noted that the documentation of the movement of funds was the last issue to be completed.

Vice Chair O'Brien asked for the Benefits Committee report, which was given by Trustee McGovern. She stated that recoupment had been the primary topic of the Committee's last meeting during which Staff had presented six recoupment policies for review and discussion: Post-Retirement Employment; Medical Subsidy; Death of a Retiree or a Beneficiary; Group II Surviving Spousal Allowance; Gainful Occupation; and Overpayment of Monthly Benefit. Trustee McGovern reported that specific criteria were being considered for recommendation for staff discretion, including technical administrative outcome; how much staff activity is warranted and a proposed dollar amount for staff's discretion. She also discussed the Manchester Group II contracts that included a severance payment agreement in which the member paid both the member and employer contributions on the funds, in violation of RSA 100:A. Staff was investigating how widespread the practice was, both in Manchester and with other employers, although acknowledging that such knowledge would most likely only come to light in an employer audit.

Atty. Crutchfield gave a brief update on the Welch matter, stating that following the Board decision in June, steps were underway to begin recoupment of overpaid pension funds from Mr. Welch with the July retirement payroll.

Trustee Roy requested that the Governance Committee report be presented by Mr. Lagos as Trustee Roy was absent from the last Committee meeting. Mr. Lagos opened with a request that Trustees respond to the electronic Board survey. Trustee O'Brien, a Committee member, discussed the Political Contributions Policy that would be discussed at the meeting immediately following the Board meeting. The Trustee Education Policy was also expected to be discussed at the Committee meeting with the intent to include the Independent Investment Committee (IIC) members, as revised by the Governance Committee, for the Board's consideration at a future meeting.

Trustee Sosnoff delivered the IIC report, stating that as of May 31, 2012, net assets were valued at approximately \$5.5 billion. He focused his remarks on the activities of the IIC at its June 5, 2012 and June 22, 2012, meetings. He reported that the IIC had been very thorough in its asset allocation review in a specially called meeting, as well as its vetting of investment consultants, which would continue at the July 20, 2012, meeting. He reported that an informative and detailed discussion of hedge funds had been beneficial. The IIC report concluded with a lengthy

discussion of the NHRS diversified real estate portfolio as managed by Townsend. Mr. Johansen expected, under appropriate market conditions, all individually owned real estate assets would be sold in the next twelve to eighteen months.

Trustee Reardon provided a brief update of the Legislative Committee, noting that the Committee did not plan to convene until the fall after requests for legislation (LSR) had been submitted. She announced that the NH House had formed the Special House Committee on Defined Contribution Retirement Plans for Public Employees. The Special Committee had no Senate members, eight Republican and three Democratic House members, and the leadership expected to present a formal report by November 1, 2012. Questions regarding NHRS involvement and support were addressed by Staff and Trustee Reardon.

Mr. Lagos provided a brief update of the Personnel, Performance & Compensation Committee (PPCC). He opened his remarks with a description of the draft PPCC charter, stating that the document would most likely be finalized at the next Committee meeting. He then focused his comments on the completion of the Delegation of Authority documents that he anticipated presenting to the Board at the August meeting. He reported that he was continuing his evaluation of the Hay Report, noting that additional work was required before he brought his recommendations to the PPCC and the Board for review and consideration. He planned to convene a Committee meeting before the August Board Meeting.

In presenting his operating report, Mr. Lagos provided a careful description of the Policies and Procedures Project and emphasized the long-term efficiency of a central repository for all controlling documents for NHRS staff. He stated that the initial phase was targeted for completion by August 31, 2012. He announced that the date to reestablish My Account on the website had been moved to at least August because of employer data issues and the incorporation of recent legislation.

Vice Chair O'Brien moved to the legal update, and Atty. Crutchfield provided a brief description of the outstanding legal cases that were of import to NHRS. He noted that the Carrier appeal had been accepted by the NH Supreme Court. Atty. Crutchfield also described the interlocutory appeal filed on July 9, 2012 for the HB2 suit, along with a similar filing expected this month in the HB 1645 suit, stating that the filings would likely expedite action to the Supreme Court on those suits.

Vice Chair O'Brien stated he would entertain a motion to enter into non-public session under RSA 91-A:3, II(e) to discuss the current lawsuits in which the NHRS is a party. Moved by Trustee Morrissey, seconded by

Trustee Reardon, the motion passed unanimously on a roll call vote, as follows:

Ayes: Trustees O'Brien, Crombie, Reardon, McGovern, Sosnoff, Roy, Morrissey, and Provencher.

Nays: None.

On a motion by Trustee Crombie, seconded by Trustee Morrissey, the Board unanimously voted to conclude the non-public session.

Vice Chair O'Brien asked Jack Dianis for his finance report Mr. Dianis began his report with the statement of assets, stating they were down \$340.7 million compared to May 2011. He reported fiscal year statutory administrative expenses, the state portion of the NHRS budget, were 24% under budget with only one month left in the fiscal year.

He continued his report with detailed explanations of the investment advisor fee projections and plan expenses memorandum, which the Board had requested at its July meeting. A lengthy discussion followed that focused on the Investment Advisor Fee Projections chart provided in the Board materials.

On a motion by Trustee Provencher, seconded by Trustee Reardon, the Board unanimously voted to remove the contingent acceptance of the Fiscal Year 2013 Trust Fund Non-Statutory Administrative Budget from the June meeting and to accept the Fiscal Year 2013 Trust Fund Non-Statutory Administrative Budget.

Mr. Dianis introduced Mr. David Kausch, Chief Actuary for Gabriel Roeder Smith & Company, and asked for his presentation of the Actuarial Valuation as of June 30, 2011. Mr. Kausch then led the Board discussion on the valuation review, answering questions and providing details relating to the purpose of the valuation, as well as the additional information the Board had requested from the prior draft valuation. Mr. Kausch referred Trustees to page 18, noting that the State employer contribution rates also included an adjustment due to a timing difference in the implementation of HB2 member contribution increases which were effective on July 1, 2011. He also reviewed the UAAL amortization schedules at pages 26-27 of the valuation.

Mr. Kausch discussed the recently announced new GASB standards and the effect on the retirement system and participating employers. He stated that the Plan needed to adopt the new GASB standard in 2014, and employers would need to adopt the new GASB standard in 2015. He noted that each employer will be required to reflect on its balance sheet its

calculated percentage of the unfunded liability. This calculation will be made by NHRS. Mr. Dianis noted that GASB rules were a financial reporting requirement not a change in actuarial methodology for funding purposes. An extended discussion followed.

On a motion by Trustee Crombie, seconded by Trustee Morrissey, the Board unanimously voted to accept the GRS actuarial valuation as of June 30, 2011.

Vice Chair O'Brien next requested the IT report, and Mr. Zahensky presented his department's completed tactical plans from June and its projected plans for July. He made particular note of the completion of security issues identified in the Audit Tracker, which included passwords and Wi-Fi access. He closed his remarks by stating his department was supporting the Policies and Procedures Project through software support and training, and he had reestablished the Staff web committee to review, evaluate, and plan for improving the website.

Ms. Miller's update of Member Services focused on the number of new retirements, a drop in member refunds from 2011, but an increase in member appointments in June 2012 compared to June 2011. She emphasized HB2 support efforts by her teams, as well as the broad tasks associated with the Policy and Procedures Project for each of her areas in the retirement system.

Mr. Johansen began his remarks by cautioning the Board that the probability of a 7.75% return on investments for Fiscal Year 2012 was very low given the poor market experience of the first and last quarters of FY 12. He dovetailed his report with Trustee Sosnoff's earlier statements, noting that the interviews of the two finalists for investment consultant services will occur at the July 20, 2012 IIC meeting. The asset allocation decision will also be discussed at that meeting. Because these are recommendations from the IIC to the Board, Mr. Johansen strongly encouraged Trustees to attend the July IIC meeting. Mr. Johansen then referenced the last page of his Tab, a draft private equity report. He indicated this report will be developed with the IIC for annual reporting of private equity investments to the Board.

On a motion by Trustee Morrissey, seconded by Trustee Reardon, the Board unanimously voted to approve the Consent Agenda as presented.

Trustee Provencher noted that two trustees would be leaving the board following the meeting, Trustee O'Brien and Trustee Morrissey. She, along with several other Trustees, indicated their appreciation for the years of service to the Board by both men.

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After adding his personal appreciation for their commitment and contributions to the NHRS, Mr. Lagos read the following statement from Chair Shapiro into the record:

I would like to personally thank both Danny O'Brien and Brian Morrissey for their service to the NHRS. Brian is our longest serving member and has ably participated throughout many changes that the System has gone through. I personally appreciate his hard work, honesty, and pragmatic problem solving perspective exercised during some very important times. We will miss his perspective based on many years of service.

Danny O'Brien has been a key Board member throughout his tenure. He brought an independent, fresh, and business-experienced voice to the many challenges NHRS has faced over his time of service, and I greatly appreciate his hard work and significant contributions to improving the management and performance of the NHRS. My hope is that we continue progress to meet that shared vision.

On a motion by Trustee Morrissey, seconded by Trustee Crombie, the Board voted unanimously to adjourn the meeting at 11:47 a.m.

Respectfully submitted,
Shannan Hudgins