

NHRS Board of Trustees
August 14, 2012

Note: These minutes from the August 14, 2012, regular meeting were approved and executed at the September 11, 2012, Annual Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
August 16, 2012**

The Public Minutes

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

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

Guests: Sean Gill and Kevin Leonard, NEPC

Chair Shapiro called the meeting to order at 9:06 a.m. and welcomed the two newest members to the Board of Trustees, Guy Scaife and George Walker. She then asked the assembled Trustees and Staff to introduce themselves.

Following introductions, Chair Shapiro requested a motion to approve the public and non-public minutes from the July 12, 2012, Regular Meeting. On a motion from Trustee Crombie, seconded by Trustee Provencher, the public and non-public minutes were approved unanimously.

Before she requested Committee reports from their respective chairs, Chair Shapiro provided a review of the NHRS committee structure and the role each committee served in the successful completion of Board

NHRS Board of Trustees
August 14, 2012

responsibilities for the benefit of the new Trustees. Noting that every Committee, except the Independent Investment Committee, needed members, she asked that Trustees consider which Committees they would be interested in participating when listening to the individual reports.

The Committee reports then began with the Audit Committee from Trustee Provencher, who discussed that morning's Audit meeting. The Committee reviewed the Audit Tracker, approved the 2013 Internal Audit Plan, and unanimously recommended a change to the Audit Policy to reflect the change in statute relative to the annual due date of the audited financial report from December 1st to December 31st. Trustee Provencher stated the Committee had reviewed and discussed the Delegation of Authority documents provided by Mr. Lagos, and she reported that the KPMG FY '12 audit was progressing on schedule and no specific audit issues had been identified to date.

On a motion by Trustee Provencher, seconded by Trustee Crombie, and pursuant to the statutory change to RSA 100-A:15, VI,(a), the Board unanimously voted to accept the Audit Committee's recommendation to amend the Audit Policy to reflect the statutory change for the presentation of the audited financial report from December 1 to December 31 each year unless the Board of Trustees extends that date for good cause.

Next, Benefits Committee Chair Trustee McGovern described the role of the Benefits Committee, noting that it was charged with assuring that NHRS benefits were administered properly according to statute, administrative rules, and best practices. The work included reviewing Consent Agenda recommendations forwarded by the full Board to the Committee for additional review, consideration, and recommended action by the Board. She added that as its next project the Committee would be evaluating more detailed recoupment policies developed by Mr. Lagos and Staff to supplement and refine the current NHRS recoupment policy.

Trustee Roy, Chair of the Governance Committee, reported that at its July meeting the Committee had reviewed proposed revisions to the Education Policy to include non-Trustee members of the Independent Investment Committee. Trustee Sosnoff suggested an additional change from "where necessary" to "as appropriate". On a motion by Trustee McGovern, seconded by Trustee Roy, the Board unanimously approved the proposed revisions to the Education Policy as discussed.

Atty. Crutchfield then explained the principle changes suggested by the Committee to the Political Contributions Policy, specifically a reduction

NHRS Board of Trustees
August 14, 2012

in the amount of an allowable contribution from \$1000 to \$350 which aligns with the Securities and Exchange Commission (SEC) policy. Also, the former policy was specific to investment managers but the revised policy covered all NHRS vendors. A brief discussion followed that included the correction of a typographical error on page 5, §4.3 of the proposed Policy revisions.

On a motion by Trustee Roy, seconded by Trustee Provencher, the Board unanimously approved the proposed revisions to the Political Contributions Policy.

Mr. Lagos discussed the Trustee survey results, noting that a desire for more education was a key element in the results. He stated that education sessions would be incorporated into the Board meetings on a regular basis, beginning with a Right-To-Know session at this meeting. He also reported that the NHRS governance consultant, Nancy Williams, had expressed her approval of the survey instrument and the information sought.

Trustee Sosnoff opened his Independent Investment Committee (IIC) report with year-end figures for the System. As of June 30, 2012, there was \$5.757 billion in trust for benefits, compared to \$5.891 as of June 30, 2011, which represented a decline of \$133 million, approximately two percent (2%). He emphasized that his analysis excluded cash-flow for benefit payments and was a snapshot of year-end values. The System earned an estimated .7% on its investments for the year. He provided details on asset classes, noting there were gains in all asset classes *except* non-US equity. Trustee Sosnoff gave a detailed report of the IIC's meeting and investment manager presentations.

Following his report, Chair Shapiro invited guests Sean Gill and Kevin Leonard from NEPC to speak to the full Board and present the IIC's recommended changes to the asset allocation targets and ranges. Trustee Sosnoff referred Trustees to Tab 13 and the written recommendations from the IIC in Mr. Johansen's report. Mr. Leonard began his presentation with an explanation of asset allocation's importance in the management of a portfolio and NEPC's standard practice with NHRS and all its clients. He provided details of their seven-month deliberate process for these recommendations. An extended discussion ensued, and at the suggestion of Trustee Gustafson, the Board agreed to defer the asset allocation decision, to the September 11, 2012, Board meeting.

Mr. Lagos reported for the Legislative Committee, noting that it had not met in July or August. He discussed the House Pension Committee that

NHRS Board of Trustees
August 14, 2012

had been meeting all summer, noting that Marty Karlon attended the meetings and provided materials to the Committee, as appropriate. Mr. Lagos was in the process of scheduling a meeting with Rep. Will Smith, chair of the House Committee. Defined contribution plan legislation for the 2013 Session was a probable outcome of that Committee's meetings. Mr. Lagos stated that scheduling a Legislative Committee meeting would be appropriate and beneficial. Chair Shapiro asked for a continued regular legislative memorandum from Mr. Karlon, which she found both informative and instructive.

Chair Shapiro gave a brief report of the Personnel, Performance & Compensation Committee (PPCC) meeting. The revised Charter was approved by the PPCC and the Committee discussed the Hay report, the Delegation of Authority, and personnel issues. She noted that the annual evaluation of the Executive Director would be managed by the PPCC. The details on the format of the evaluation would be brought to the full Board for consideration at the October meeting.

On a motion by Trustee Gustafson, seconded by Trustee Roy, the Board unanimously approved the proposed PPCC Charter as recommended by the PPCC.

Dr. Shapiro asked for the Right-to-Know (RTK) education session presented by Atty. Edward Kaplan, Labor and Employment Counsel for NHRS. In his remarks, Atty. Kaplan addressed the inherent tension between public interest and privacy imbedded in RSA 91-A, the controlling NH statute on governmental records and meetings. He explained public posting requirements for public meetings, access to governmental records, and the RTK issues with e-mail correspondence among trustees. Atty. Kaplan cautioned against trustees discussing NHRS issues outside a properly called meeting and discussed the protocol and rules governing non-public sessions and non-meetings. He concluded his information session by asserting the three steps in privacy analysis: 1. evaluation of a privacy interest at stake; 2. assessment of the public's interest in disclosure; and 3. the balancing of public/governmental interest against privacy interest.

Mr. Lagos gave a brief summation of his report to the Board, noting in particular the Delegation of Authority documents that had been approved by the PPCC, presented to the Audit Committee during the morning's meeting, and would be reviewed by the Governance Committee at its meeting in the afternoon. He stated the documents would be on the September Agenda for Board action. Mr. Lagos stated that the Board orientation session presented in July for new Trustees had been well-

NHRS Board of Trustees
August 14, 2012

received and invited any Trustee to attend the orientation for Mr. McCrillis, noting it would be scheduled before the next Board meeting.

In his legal update, Atty. Crutchfield stated that the HB 1645 suit from 2009 and the HB 2 Contributions suit from 2011 had been approved by the Superior Court for interlocutory appeal and would move to the New Hampshire Supreme Court for its consideration of accepting those appeals. Atty. Crutchfield stated that Atty. Schulman expected to file a Motion to Dismiss in the 2012 HB 2 Benefits suit within the week.

Chair Shapiro then asked for the financial reports from Jack Dianis, Director of Finance. An extended discussion ensued regarding the total dollars paid into NHRS, and although the amount received was relatively the same, the source of payments had shifted and employees and Political Subdivisions were responsible for a higher percentage of the total. Mr. Dianis next addressed the statutory administrative expense budget, explaining that the variance in salaries resulted from System vacancies, and the Technology line variance served as a place holder in anticipation of significant upgrades or changes to the PensionGold system.

Mr. Dianis next addressed the statutory, biennial budget for NHRS, and the State process the System had to follow for preparation. He explained that statute requires an initial submission to Administrative Services by October 1, and described the extended process for the Governor's budget in February. He noted that salaries, benefits and IT costs were the largest portion of the statutory budget and directed Trustees to the spreadsheet with figures from 2011 through 2015. An extended discussion of technology expenses followed. Mr. Dianis next presented an analysis that detailed actual FY 2011 and actual FY 2012 expenses, as well as budgeted FY 2013 and proposed FY 2014 expenses. Mr. Lagos stated that additional budget documents would be prepared and forwarded to the Board before the regular Board mailing of September 5, 2012, and he asked Trustees to contact him with any additional questions and requests for information.

Mr. Zahensky, Director of IT, provided an update of technology developments that included the installation of an upgraded uninterruptible power supply (UPS) and preparations for a Microsoft upgrade for the System. He spoke to the facilities issues of the building and stated he was working to renegotiate the lease. Mr. Zahensky also discussed the PensionGold platform and required changes to support HB 2 legislation.

NHRS Board of Trustees
August 14, 2012

Nancy Miller, Director of Member Services, stated that July – a historically busy retirement month – had progressed seamlessly and successfully. Retirements in July 2012 were 585, compared to 686 in July 2011, and the number of member refunds was also down; 144 in 2012, compared with 171 in 2011. She concluded by stating that delivery of member statements was on target for September 28, 2012.

Larry Johansen, Director of Investments, directed the Board to the Marketable Manager Fee Schedules that the Board had requested at the July 10, 2012 meeting. A brief discussion followed that included performance-based fees compared to flat-based fees, and the most prudent investment approach. Mr. Johansen discussed the General Investment Consultant RFP process and interviews that the IIC performed, resulting in the IIC's recommendation of NEPC as the System's Investment Consultant.

On a motion by Trustee Sosnoff, seconded by Trustee Provencher, the Board unanimously voted to accept the recommendation of the IIC to retain NEPC as NHRS' general investment consultant for a term of three years commencing January 1, 2013, with the ability to extend the contract for two additional one-year periods, subject to contract and legal review.

On a motion by Trustee McGovern, seconded by Trustee Roy, the Board unanimously voted to remove items #8 and #9 from the Consent Agenda and forward them to the Benefits Committee for review and recommendation, and subsequently unanimously approved the seven remaining recommendations on the Consent Agenda.

On a motion by Trustee McGovern, seconded by Trustee Roy, the Board unanimously approved the travel requests of Trustees Wozmak and Crombie.

On a motion by Trustee Provencher, seconded by Trustee Sosnoff, the Board voted unanimously to adjourn the meeting at 1:35 p.m.

Respectfully submitted,
Shannan Hudgins