

Note: The minutes from the January 10, 2012, regular meeting were approved and executed at the February 14, 2012 meeting of the Board of Trustees.

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

Public Minutes

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

Trustees: Lisa Shapiro, Ph.D., *Chair, presiding*; Danny O'Brien; *Vice Chair*; Dick Gustafson, Ph.D.; Keith Hickey; Karen McDonough; Kate McGovern, Ph.D.; Cathy Provencher; Tara Reardon; Don Roy; Hershel Sosnoff; and Jack Wozmak. Dean Crombie and Brian Morrissey, *absent*.

Staff: Tim Crutchfield, Esq., *Interim Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer Services*; John Browne, *Internal Auditor*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Kristie Kathan, *Human Resources Coordinator*; Heather Fritzky, *Accounting and Finance Reporting Supervisor*; Christine Stoddard, *Retiree Services Team Leader*; Tracey Horner, *Member Accounting Team Leader*; Ann Forrestall, *Member Benefits Specialist*; Christine Basha, *PI Specialist*; Gary Lanoie, *DBA/Systems Development*; Jason Weir, *Technical Support Specialist*; Dan Houde, *Technical Support Specialist*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: David Kausch, *Gabriel Roeder Smith & Company*. Ian Lanoff, Esq., *Groom Law Group*.

The Chair called the regular meeting of the NHRS Board of Trustees to order at 9:03 a.m.

On a motion by Trustee Gustafson, seconded by Trustee Roy, the public and non-public minutes of the December 13, 2011, Regular Board meeting were approved unanimously.

On a motion by Trustee O'Brien, seconded by Trustee Gustafson, the minutes of the December 13, 2011, Special Board meeting were approved unanimously.

On a motion by Trustee Gustafson, seconded by Trustee Sosnoff, the Board unanimously approved the Consent Agenda, but for three disability recommendations: M.D., S.O., and J.V.

On a motion by Trustee Reardon, seconded by Trustee O'Brien, the Board approved the Hearings Examiner's recommendations for M.D. and J.V., as follows:

Ayes: Trustees Shapiro, O'Brien, Reardon, McGovern, Wozmak, Gustafson, Sosnoff, McDonough, Roy, Morrissey and Provencher.

Abstention: Trustee Hickey.

On a motion by Trustee Reardon, seconded by Trustee O'Brien, the Board approved the Hearings Examiner's recommendations for S.O., as follows:

Ayes: Trustees Shapiro, O'Brien, Reardon, McGovern, Wozmak, Hickey, Sosnoff, McDonough, Roy, Morrissey and Provencher.

Abstention: Trustee Gustafson.

Chair Shapiro welcomed Karen McDonough, the newest member to the Board of Trustees, and then introduced David Kausch, Chief Actuary from the System's consulting actuary, Gabriel Roeder Smith & Company (GRS), to present a detailed analysis of the revised draft of the June 30, 2011 actuarial evaluation report. The deadline to formally accept the report is October 1, 2012, which means the Board has until the September 11, 2012, meeting to formally certify employers' contribution rates for fiscal years 2014 and 2015.

Mr. Kausch's presentation included discussion on contribution rates, asset valuation, corridor, effect of HB 2 on new hires, projections for unfunded liability, and solvency test. Trustee McGovern asked if it would be appropriate to add another column to the amortization schedule that shows the funded ratio. Chair Shapiro added that it would be an educational tool. Mr. Kausch agreed to add this to the report. Chair Shapiro stated that the report is usually finalized in the spring; she would like to review it with legal counsel and Atty. Crutchfield and revisit it at the February Board meeting. Chair Shapiro stated that the Board's constitutional duty is to set an appropriate rate based on actuarial advice.

On a motion by Trustee Reardon, seconded by Trustee Wozmak, the Board voted unanimously to temporarily adjourn the meeting to consult with legal counsel under RSA 91-A:2, I(b).

On a motion by Trustee Reardon, seconded by Trustee Gustafson, the Board voted unanimously to reconvene the meeting.

On a motion by Trustee O'Brien, seconded by Trustee Provencher, the Board voted unanimously to waive the Attorney-Client Privilege of Confidentiality on the two Groom Law Group memos dated January 6, 2012, related to proposed legislation.

In reporting on the Legislative Committee, Trustee Reardon stated that the Executive Summary in the GRS Defined Contribution study report is an opportunity to educate the Legislature. Two findings were added to the Executive Summary: first, closing the defined benefit plan means lowering the assumed rate of return; and second, the employer's cost for newly hired members going forward will increase. The Legislative Committee also discussed how the legislation for the proposed DC plan might evolve. Trustee Reardon thanked Sen. Janeway, Chair of the Investment Committee, for his help.

Mr. Kausch provided a brief overview of the defined contribution study report, stating that the report's two objectives are to look at the specific defined contribution proposal and provide educational information to compare it with a defined benefit plan. Trustee Reardon stated that it is important to make this report available publicly and to educate the Legislature. Chair Shapiro stated that the Board will discuss at its February meeting whether to take a specific position on the bill. Trustee Provencher added that if the bill becomes law, the Board has a constitutional responsibility to make sure adequate funds still come in. She commended the Legislative Committee, staff, and actuaries on producing an excellent report. When asked if the Board has a strategy to inform the legislature, Chair Shapiro stated that staff was empowered by the Board to educate legislators proactively and the Board will support staff as necessary. Atty. Crutchfield added that based on the process successfully used last session, PIO Marty Karlon and Jack Dianis have already reached out to educate and inform. Trustee McGovern pointed out specific points from the report that would be educationally helpful.

On a motion by Trustee Reardon, seconded by Trustee Wozmak, the Board unanimously voted to accept the defined contribution report and make the report and the Groom Law Group memos dated January 6, 2012, available for public distribution.

Trustee Provencher presented the Audit Committee report. The Audit Committee will provide the annual ethics survey results in February. With regard to the internal investment administration report, the Audit Committee recommends more complete documentation of investment staff diligence, with a target date of June. Trustee Provencher also noted that the audit tracker now has a summary page, making the document easier to read and more user-friendly. The Audit Committee also recommended to the full Board that the composition of the Audit Committee change from seven members to five, with the state treasurer being a permanent member. Atty. Crutchfield stated the proposed change to the Audit Committee composition would align its membership with the other Board committees.

On a motion by Trustee Provencher, seconded by Trustee Hickey, the Board unanimously voted that the composition of the Audit Committee be changed from its current number of seven members to five members, with the State Treasurer being a permanent member.

On a motion by Trustee O'Brien, seconded by Trustee Hickey, the Board voted unanimously to waive the Attorney-Client Privilege of Confidentiality on the November 7, 2011, memo from the Groom Law Group per the recommendation of the Governance Committee.

In his Governance Committee report, Trustee O'Brien stated that in the Governance Committee meeting earlier this month, the Committee reviewed an EnnisKnupp report on the Investment Policy draft. EnnisKnupp found the draft Policy's organization, content and general detail to be best practice. The exception was asset guidelines. EnnisKnupp worked with the IIC in developing a responsibility matrix which the Committee is working on. At the last Committee meeting, general investment consultant NEPC explained their involvement in drafting the pieces of the policy. These policies will be reviewed at the Committee's February meeting with a recommendation expected for the full Board at its March meeting. Beginning in April, the Committee will review quarterly the governance consultant's agreement to be sure the deliverables specified in the agreement are completed in a timely manner.

Trustee McGovern reported on the Benefits Committee and stated that Administrative Rule 304 is now ready for Board action as an Initial Proposal. Atty. Crutchfield explained that the proposed revisions in the rule were sent to employers with a request for comments as requested by the Board at its November meeting. He noted that no comments were received during the three-week period.

On a motion by Trustee McGovern, seconded by Trustee O'Brien, the Board voted unanimously to approve the Initial Proposal on revisions to Ret. 304, thereby allowing staff to proceed with the rulemaking process.

Trustee Hickey next reported on the PPCC. With Kim France's resignation effective January 6, 2012, Atty. Crutchfield has agreed to serve as Interim Executive Director until or about February 1, 2012, when a permanent Executive Director is expected to start. Trustee Hickey thanked Atty. Crutchfield for taking on additional duties and reported that the PPCC has an accepted conditional offer with a candidate for the Executive Director position. The Committee is finishing background and pre-employment information and hopes to have the new director in place on February 1. Chair Shapiro thanked Atty. Crutchfield, Mr. Dianis, Ms. Miller, Mr. Johansen, and staff for their attention to hard work and looking out for interests of members.

On a motion by Trustee Hickey, seconded by Trustee Reardon, the Board voted to enter into non-public session under RSA 91-A:3, II(b) to discuss the hiring of a public employee, as follows:

Ayes: Shapiro, O'Brien, Reardon, McGovern, Wozmak, Gustafson, Sosnoff, McDonough, Roy, Hickey and Provencher.

Nays: None.

On a motion by Trustee Hickey, seconded by Trustee O'Brien, the Board voted to conclude the non-public session.

On a motion by Trustee Hickey, seconded by Trustee McGovern, the Board voted unanimously to provide wage adjustments to those staff who are not covered by the NHRS CBA, as recommended by the PPCC.

Chair Shapiro announced her resignation from the Audit Committee and Investment Committee and appointed Trustee Sosnoff to replace her on the Investment Committee. Chair Shapiro asked that the Trustees look at committee membership as she would like to have all Board members serve on two committees because currently some Trustees serve on three committees at once while others serve on only one. She added that committee meetings are at the discretion of its members and that a recent statutory change in RSA 100-A allows for committee participation via telephone.

Atty. Crutchfield reminded the Trustees that the annual Statement of Financial Interests forms are due to the Secretary of State's Office by January 20, 2012 per RSA 15-A. For new Board members who completed a

form for 2011, a new form must be submitted for 2012. Trustee Provencher added that Board members must provide to Atty. Crutchfield a completed copy of the form if they are sending in their form directly to the Secretary of State.

On a motion by Trustee Wozmak, seconded by Trustee Reardon, the Board voted unanimously to renew its annual fiduciary insurance coverage for \$20 million with Chubb Insurance as the primary insurer for a total cost of \$167,942.00.

On a motion by Trustee O'Brien, seconded by Trustee Reardon, the Board voted to enter into non-public session under RSA 91-A:3, II(e) to discuss a pending legal claim, as follows:

Ayes: Shapiro, O'Brien, Reardon, McGovern, Wozmak, Gustafson, Sosnoff, McDonough, Roy, Hickey and Provencher.

Nays: None.

On a motion by Trustee Gustafson, seconded by Trustee Sosnoff, the Board voted to conclude the non-public session.

Jack Dianis, Director of Finance, presented a finance and budget update to include two schedules, a budget vs. actual comparison of non-investment administrative expenses and an analysis for July 1 through December 31, 2011, administrative expenses of the last three years.

Larry Johansen, Director of Investments, presented the third quarter Investment Performance Analysis and Investment Committee Report. NHRS portfolio investments show a significant recovery since September 30, 2011. Year 2012 is starting out with positive news, but is overshadowed by market volatility as a result of the European debt crisis. At the November 2010 meeting of the Board, the contract with NEPC was extended for two years to the end of 2012. The extension netted a savings of approximately \$100,000 over two years. This quarter the Investment Committee will issue an RFP for investment consulting services and will bring its recommendation to the Board in the Fall of 2012 for a specific investment consultant.

On a motion by Trustee Provencher, seconded by Trustee Roy, the regular meeting adjourned at 2:10 p.m.

Respectfully submitted,
Deborah Kissell