

Note: These minutes from the February 14, 2012, regular meeting were approved and executed at the March 13, 2012, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
February 14, 2012**

The Public Minutes

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

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

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; John Browne, *Internal Auditor*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Kristie Kathan, *Human Resources Coordinator*; Christine Stoddard, *Retiree Services Team Leader*; Dan Houde, *Technical Support Specialist*; Gary Lanoie, *DBA/Systems Developer*; and Shannan Hudgins, *Administrative Coordinator*.

At the request of Board Chair Lisa Shapiro, Vice Chair Danny O'Brien 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 January 10, 2012 regular Board meeting were approved.

Prior to consideration of the Consent Agenda, it was noted by the Chair that the Administrative Reconsideration of Janet Bartels was removed for consideration at this time. On a motion by Trustee Gustafson, seconded by Trustee Sosnoff, the amended Consent Agenda, with the exception of Disability Recommendation 10, D.W., was unanimously approved.

On a motion by Trustee Morrissey, seconded by Trustee Roy, Disability Recommendation 10, D.W., was approved, as follows:

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

Nays: None.

Abstention: Trustee Gustafson.

In the absence of Audit Committee Chair Catherine Provencher, Attorney Crutchfield presented the ethics survey scorecard for Board approval, noting there had been a 100% participation rate by all NHRS service providers. He specifically credited the Investment Team for the complete participation rate, stating that each member had made personal calls to investment providers. On a motion by Trustee Morrissey, seconded by Trustee Roy, the NHRS Annual Code of Ethics Report Card for FY 2011 was unanimously approved.

Atty. Crutchfield asked John Browne, Internal Auditor, to discuss the Audit Tracker, who noted that items on the Tracker were being reviewed and cleared at a good pace. He stated that former Interim Executive Director Kim France's name would be replaced throughout the report with the appropriate staff member.

Trustee O'Brien, as Chair of the Governance Committee, discussed its recommendation that the Board uphold NHRS staff's determination that employer contributions in the amount of \$3,723.22, from the Town of Hudson on behalf of former employee Mello, should have been received at the time of his employment and should now be recouped. A lengthy discussion ensued, with Trustee Wozmak questioning a 20-year old collection issue with unclear records. Statute-of-limitation discrepancies between member, employer and NHRS were discussed. Hearings Examiner Carolyn Johnson stated that individual member records are typically not audited until a member files for retirement at NHRS. Chair Shapiro requested clarity on the System's auditing process. Director of Finance, Jack Dianis, explained the tiered auditing system that included regular field auditing of employers performed by the Employer Services staff, as well as the individual auditing that occurred upon a member's filing for retirement. Trustee Sosnoff expressed the moral hazard issue in maintaining the System's integrity in collection if NHRS did not pursue outstanding and/or unpaid contributions.

Executive Director George Lagos stated he would provide the Board with a summary of the NHRS audit process.

On a motion by Trustee O'Brien, seconded by Trustee Gustafson, the Board voted to accept the recommendation of the Governance Committee

that the full Board uphold staff's recommendation in the matter of R. Mello and the Town of Hudson to recoup \$3,723.22, as follows:

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

Nays: Trustee Shapiro.

Chair Shapiro next requested that Board members contact her with their Committee interests and requests so that she might be prepared to fully populate the committees. She noted that Trustee O'Brien was stepping down as Chair of the Governance Committee, and that Trustee Roy was assuming the role of Chair. She expressed her wish to have the committee structure fully established at the March regular board meeting.

Attorney Crutchfield presented his legal update, beginning with the announcement that oral argument for the Local Government Center (LGC) suit had been set at the Supreme Court for Tuesday, March 13, 2012, at 10:00 am. Chair Shapiro asked Attorney Crutchfield to provide the board with a description of the Retirement Coalition lawsuit regarding HB 2 and its implications for the Retirement System.

He stated that the suit filed in June 2011 by a coalition representing active and retired public employees, teachers, police and firefighters, had challenged two HB 2 provisions: one was the employer contribution rate recertification and the second was the increase in member contribution rates for all members. Attorney Crutchfield explained that the Court had ruled there was a contractual vested right to unreduced benefits after 10 years of service, and that the HB 2 increase in membership contribution rates effective July 1, 2011 was an unconstitutional impairment of that contract. Judge McNamara procedurally dismissed both claims because the Petitioners had not named individual effected plaintiffs. However, he offered the Petitioners 30 days to amend their complaint to allow them to identify who was vested in the context of suffering a substantial impairment of a vested contract right because of the increase in member contribution rates. Attorney Crutchfield informed the Board that counsel for the Petitioners had publicly stated an amended complaint would be filed, and that once the Superior Court had ruled on the amended complaint and subsequent filings, he expected that the decision would be appealed to the Supreme Court.

Trustee Reardon arrived at approximately 9:51 a.m.

Attorney Crutchfield confirmed that employers had been cautioned to continue deducting the higher statutory member contribution rate until

the suit had reached its final disposition, likely at the Supreme Court. Regarding the NHRS position on member contributions, Trustee Wozmak asked if an internal tracking of increased contribution receipts had been considered or instituted in the event the final judicial disposition required some sort of credit or refund to effected members. An extended conversation included the subtleties of an accounting system that would provide a snapshot of the amount of contributions made, for whom, and when, that necessarily would include vesting details. Attorney Crutchfield confirmed that discussions had occurred at the executive level on such a ruling, and Executive Director Lagos assured the Board that staff would keep the issue at the forefront of its concerns, carefully reviewing potential outcomes. Dr. Shapiro emphasized that NHRS had an interest in the remedy and asked staff to follow the case closely.

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

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

Chair Shapiro requested a report from the Legislative Committee. Trustee Reardon stated that the Committee had met on February 7, 2012, with the discussion centered on SB 229, the Defined Contribution Plan proposal. She reported that the legislative hearing introducing SB 229 on February 2, 2012, had been long and complex, with a late amendment introduced by Senator Groen. The Committee had decided that staff should follow proceedings carefully, but that the Board would not offer much guidance in crafting a bill potentially detrimental to NHRS. She noted that legislators had appreciated the Gabriel Roeder Smith & Company (GRS) defined contribution report.

Mr. Lagos reported that following the hearing, a senator had requested an analysis of the amendment, which had been completed and sent to Sen. Groen as sponsor of the bill. He expected more discussion of SB 229 based on the supplemental information. Additionally, Mr. Lagos reported that SB 249, the bill requesting proposals for the administration and management of the NHRS, had been deemed *inexpedient to legislate by committee vote*, and he expected the bill to be voted down at the Senate session scheduled for Wednesday, February 15, 2012.

Chair Shapiro next asked for the finance report. Mr. Dianis directed Trustees to the statements behind Tab 7, noting net available assets for benefits were down \$70.3 million as of December 31, 2011 from a year ago, attributable to unrealized investment losses. He stated that the three-year comparison of net assets was a more thorough representation

than previous reports had supplied. Mr. Dianis also noted that the change in Line 26, Investment Administrative Expenses, reflected the shift in how those expenses were accounted for in the Trust: investment administrative expenses were no longer moved through the administrative budget, but through the trust budget. He also noted that contributions were up, and he referred Trustees to the contribution graphs provided behind the Statement of Assets and Changes. In response to a question from Chair Shapiro about management fees, Mr. Dianis and Mr. Johansen agreed to prepare a report explaining the variance on the management fee line.

Mr. Dianis stated he would return to the Board with an analysis of refund increases. Chair Shapiro requested information that would reflect vested employees and employees with less than five years in the System, in an effort to better understand any emerging trends.

Trustee Hickey returned at 10:50 a.m.

In his investment report, Larry Johansen, Director of Investments, provided a brief overview of the portfolio performance for the periods ending December 31, 2011, noting that for the three months ending December 31st, the total fund returned 6.7%, out-performing the blended benchmark by 50 basis points. For the six months ending December 31st, the total fund returned -5.1%, under-performing the blended benchmark by 100 basis points, and for the calendar year 2011, the total fund returned .2%, under-performing the blended benchmark by 50 basis points. For the 3 years ending December 31st, the total fund returned 10.8%, equal to the performance of the blended benchmark. For the 5 years ending December 31st, the total fund returned 1.9% under performing the blended benchmark by 10 basis points. For the 10 years ending December 31st, the total fund returned 4.8%, under performing the blended benchmark by 50 basis points. He stated that much of the short-term underperformance was attributable to the enormous market volatility in the third quarter of 2011, and that much of that underperformance had been recovered in the fourth quarter of 2011.

The S&P 500 finished January 2012 up 4.5%. The fixed income markets, as represented by the Barclays Aggregate, are also off to a strong start, finishing January 2012 up .9%. Mr. Johansen noted that the positive employment figures in the U.S. – a net increase of 243,000 jobs – were counter-balanced by the continuing European sovereign debt crisis that overshadowed the markets. He drew particular attention to a new document at the end of his reports under Tab 8, stating it was a high-level summary of Proxy Voting in 2011 that he would include annually. Trustee Roy asked about the Board's alternative risk management

strategies, to which Mr. Johansen stated that the IIC regularly addressed risk management.

On a motion by Trustee Hickey, seconded by Trustee Morrissey, the Board unanimously voted to approve Trustee Wozmak's travel request to attend the NCPERS Trustee educational seminar and conference from May 5-10, 2012, in New York City.

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(c) to discuss matters which, if discussed in public, would likely adversely affect the reputation of a person, other than a member of the public body itself, as follows:

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

Nays: None.

Trustee Provencher arrived at approximately 11:10 a.m., immediately following the Board vote to enter non-public session, and she joined her colleagues.

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

A general discussion of the process for the acceptance of the June 30, 2011 Actuarial Valuation and the process of the certification of the employer contribution rates followed. Mr. Lagos informed the Board that he could not attend the Board meeting scheduled for Tuesday, March 13, 2012, because of a commitment made before he joined NHRS. Conflicting calendars revealed that a changed meeting date could result in a lack of a quorum, and the next regular Board meeting was confirmed for Tuesday, March 13, 2012, 9:00 a.m.

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

Respectfully submitted,
Shannan Hudgins