

Note: These minutes from the April 10, 2012, regular meeting were approved and executed at the May 8, 2012, regular Meeting of the Board of Trustees.

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

The Public Minutes

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

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

Guest: Andrew Schulman, Esq.

Chair Lisa Shapiro called the regular meeting of the NHRS Board of Trustees to order at 9:10 a.m., welcoming the group and announcing the resignation of Trustee Keith Hickey from the NHRS Board. She thanked him for his long service and wished him well. On a motion by Trustee Reardon, seconded by Trustee McGovern, the public and non-public minutes of the March 13, 2012, regular Board meeting were approved.

Trustee Provencher presented the Audit Committee report, stating that at the morning's meeting the Committee had discussed two in-progress internal audits: retiree death benefits and qualified domestic relations orders. She noted that KPGM would present its audit plan for 2012 at the May meeting and did not anticipate any changes in relation to prior years. The Audit Committee also received an update on upcoming GASB exposure drafts that were anticipated in June regarding many changes to

pension accounting and reporting with implementation expected in 2014. Trustee Provencher commended staff for keeping the audit tracker up-to-date as a useful tool for the Board and staff to monitor progress, and she added that items would be incorporated into action plans by the executive management team.

Chair Shapiro moved to the Benefits Committee report. On a motion by Trustee McGovern, seconded by Trustee Reardon the Board unanimously voted to approve and adopt the Final Rule of Ret. 304 as unanimously approved by the Joint Legislative Committee on Administrative Rules (JLCAR) on its Consent Agenda at its March 30, 2012 meeting and presented to the Board.

Trustee McGovern thanked Atty. Crutchfield for his work and informed the Board that a rules workshop was scheduled for May 4th at the Bureau of Education and Training.

In response to the Chair's request for the Governance Committee report, Trustee Roy stated that the Committee had met after the March Board meeting to review the proposed changes in the Investment Policy and had approved them. Larry Johansen, Director of Investments, explained the policy had also been reviewed by EnnisKnupp, NEPC, Foster Pepper, and Groom Law Group. He explained that the final Investment Manual would have three sections: policies adopted by the Board, the Accountability Matrix, and Investment Guidelines. The Securities Lending Policy stated that the System did not participate in securities lending. Trustee Roy asked if the Investment Policy allowed investment in hedge funds, and Mr. Johansen answered in the affirmative.

On a motion by Trustee Roy, seconded by Trustee Sosnoff, the Board unanimously adopted the Investment Policy as revised, the Securities Lending Policy, and the Accountability Matrix as approved by the Governance Committee at its March 13, 2012, meeting for recommendation to the Board.

Trustee McDonough arrived at 9:34 a.m.

Chair Shapiro requested the Investment Committee report, which Trustee Sosnoff presented, explaining the new format that presented a summary of investment performance, allocations, and historical performance. He reported that for fiscal year to date, total marketable funds showed a market gain of 1.9%, excluding alternative investments and real estate. The three-year return for marketable assets was very impressive, with a 20% growth in all asset classes. The total investment market value as of February 29, 2012, was \$5.8 billion which represented a healthy recovery from the 2009 financial downturn.

Following a discussion on managerial benchmarks, Trustee Sosnoff stated that the Committee would be discussing reduction of the allocation of fixed income investments, noting the Committee would bring a recommendation to the Board for its approval. Trustee Sosnoff stated that the Committee had issued a Request for Proposal for investment consultant services and had received sixteen responses. Investment Staff and the IIC would carefully review the proposals and report their recommendations to the full Board in late summer/early autumn.

In his concluding remarks, Trustee Sosnoff stated that consultant Abel/Noser had conducted a study of the fund as a whole and each individual manager, and found no excessive transaction costs or trading costs..

Trustee Reardon presented the Legislative Committee report, and following an extended discussion about SB 229 and HB 1460 and the potential financial implications to NHRS, the Board made the following decisions.

On a motion by Trustee Reardon, seconded by Trustee Provencher, the Board unanimously voted to support SB 229 and the creation of a study commission.

Trustee Provencher moved that the NHRS Board of Trustees oppose the adoption of HB 1460 as amended by the House (am 1163h) because the proposal lacked specificity and clarity relative to material legal and technical issues, including federal tax law, potential constitutional issues, as well as the significant increase that would result in the defined benefit trust unfunded actuarial accrued liability. Seconded by Trustee McGovern, the motion passed unanimously.

After careful consideration, Executive Director Lagos recommended Staff rewrite the NHRS Position on SB 229 and HB 1460 summary with the Board's recommended changes and forward the document to the Legislative Committee and the full Board for review. His recommendation received Board consensus.

Chair Shapiro stated that Trustee Hickey's resignation had left the Chair of the Personnel, Performance & Compensation Committee open and that she would call a meeting before the May board meeting to appoint a Chair and a fifth member. She agreed to act as temporary Chair until the Committee was fully populated.

Following a brief recess, Chair Shapiro proceeded to the Operating Reports. Agreeing to Mr. Lagos' recommendation to adjust the report order to accommodate the presence of outside counsel, she requested the

Legal Update. On a motion by Trustee Roy, seconded by Trustee Reardon, and in a roll call vote, the Board voted to enter into non-public session under RAS 91-A:3, II(e) to discuss the current lawsuits in which the NHRS was a party, as follows:

Ayes: Trustees Shapiro, Crombie, Reardon, McGovern, Sosnoff, McDonough, Roy, Morrissey, and Provencher.

Nays: None.

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

In his report, Executive Director Lagos announced that Mr. Paul Zahensky would be joining NHRS as Director of IT beginning April 30th. Mr. Lagos stated that the first quarterly staff meeting held Friday, April 6, 2012, had been productive, informative and had included the recognition of the following IT employees for their efforts: Cecile Merrill, Jason Weir, Dan Houde, Gary Lanoie and Aaron Vrooman. He discussed the action plans included in the Board materials, stating they would be finalized within thirty days and then presented to the Board for approval. Mr. Lagos explained that the first set of plans were for calendar year 2012, accommodating his arrival in the midst of the NHRS fiscal year, and that long-term plans would be developed in accordance with the governance manual.

Mr. Jack Dianis, Director of Finance, presented his budget reports and provided details on the Statement of Assets and the Administrative Expense budget. He also explained that the KPMG letter confirmed that moving from a defined benefit to a defined contribution plan required moving to a level-dollar method of amortization. If future actual contributions (based on level percentage of payroll amortization) were less than calculated Annual Required Contribution (ARC), GAAP rules would require the System to report any shortfall in contributions. In the third portion of his report, Mr. Dianis presented a detailed explanation of actuarial, legal, and accounting costs in FY '12 as of March 27, 2012.

Director of Member Services, Ms. Nancy Miller announced that HB 2 deployment in PensionGold was carried out successfully on March 30th, and the on-line pension calculator "My Account" would be reactivated soon. She noted that there had been the usual seasonal increase in retirement counseling appointments for benefit specialists, but not at last year's record volume.

Mr. Johansen, Director of Investments, presented the investment report, stating that total marketable assets (approximately 90% of System

assets) both for the three months ending February 29, 2012, and three years ending February 29, 2012, exceeded benchmarks. At its April meeting the IIC would review the NEPC asset allocation policy based on input from GRS and the June 20, 2011, Valuation. The Committee would consider four alternative asset allocation targets to potentially decrease fixed income and increase equities allocation. He stated that the current target policy of asset allocation was 70/30, but that the actual asset allocation was 75/25. The Committee would consider an 80/20 asset mix and its effect on expected returns. Mr. Johansen encouraged Board members to attend the IIC meetings to gather as much information as possible regarding potential changes in asset allocation; ultimately, a recommendation would be made to the Board for adoption. He stated that work continued on completing the Investment Manual. Mr. Johansen reported that the initial cuts for RFP investment consulting services had been made and interviews would be scheduled.

Mr. Dianis explained the Administrative Expense Factor (specific non-investment part of budget) chart found behind Tab 4 in the Board materials. He stated that the GRS evaluation tallied all assumptions and calculated a rate for administrative costs to add to the formula, emphasizing that the Board was charged with setting the administrative costs rate. Confirming that the rate had been .35% for several valuations, Mr. Dianis stated that NHRS was evaluating whether the .35% factor was appropriate. Executive Director Lagos added that the GRS valuation had to be approved prior to October.

On a motion by Trustee Sosnoff, seconded by Trustee McGovern, the Consent Agenda was unanimously approved, with the exception of the J. Bartels matter. On a motion by Trustee Provencher, seconded by Trustee McGovern, the J. Bartels matter was tabled and referred to the Benefits Committee for review.

On a motion by Trustee Roy, seconded by Trustee Reardon, the Trustee Travel requests were approved, as follows:

Ayes: Trustees Shapiro, Dean, Reardon, McGovern, McDonough, Morrissey, Roy, and Provencher.

Nays: None.

Abstention: Trustee Sosnoff.

Chair Shapiro discussed the three committee openings, and Trustee Sosnoff agreed to serve on the Legislative Committee, making it fully populated. She stated that there were openings on the Audit Committee

NHRS Board of Trustees
April 10, 2012

and PPCC, including Chair of that Committee, and asked that Trustees contact her to discuss their opportunities to serve on committees.

On a motion by Trustee Crombie, seconded by Trustee Provencher, the meeting adjourned at 12:15 p.m.

Respectfully submitted,
Shannan Hudgins