

Note: These minutes from the May 8, 2012, regular meeting were approved and executed at the June 12, 2012, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
May 8, 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; Karen McDonough; Don Roy (*delayed arrival*); Dick Gustafson, Ph.D.; and Hershel Sosnoff. Lisa Shapiro, Ph.D., *Chair*, 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*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Kristie Kathan, *Human Resources Coordinator*; Janet Goodridge, *HR Technician*; Kathy DeNutte, *Employer Services Team Leader*; and Shannan Hudgins, *Administrative Coordinator*.

Vice Chair O'Brien, presiding in the absence of Board Chair Shapiro, called the meeting to order at 9:06 a.m. and requested a motion to approve the public and non-public minutes from the April 10, 2012 Regular Meeting. Following amendments proffered by Trustees McGovern and Provencher, on a motion by Trustee Morrissey, seconded by Trustee Reardon, the April 10, 2012 Regular Board Meeting public and non-public minutes, as amended, were approved, as follows:

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

Nays: None.

Abstention: Trustee O'Brien.

Vice Chair O'Brien requested reports from Board Committees, beginning with the Audit Committee. Committee Chair Provencher began with details of the KPMG audit plan for 2012 presented by the auditors at the Committee meeting held that morning at 8:30 a.m. Trustee Provencher stated that the auditors did not foresee any difficulties with the process, and she anticipated receiving an Auditor's Opinion by December 1, 2012. She referenced the Audit Tracker located behind Tab 2, noting one issue had been closed and none had been added since the April Board meeting. A death benefit audit had been conducted and an item would be added to the next month's tracker. She expressed her pleasure at the arrival of the Director of IT, noting that many of the items on the tracker would be addressed by the new Director of IT.

In response to Vice Chair O'Brien's question regarding the timing of the audit, Trustee Provencher stated that the statutory deadline of December 1 was under review by the Legislature. Jack Dianis, Director of Finance, provided more details, stating that the technical corrections bill, SB 244, currently in the House would move the deadline for the Comprehensive Annual Financial Report (CAFR) from December 1 to December 31. The anticipated date change by the Legislature would eliminate the need for the Board's November vote to move the CAFR acceptance to the December Regular Meeting of the Board. She concluded her remarks by announcing that the next Audit Committee meeting had been scheduled for Tuesday, June 12, 2012, at 8:30 a.m.

Vice Chair O'Brien requested the Benefits Committee report from Trustee McGovern. Trustee McGovern briefly outlined the Committee's review of the J. Bartels matter and its recommendation to the full Board for action. On a motion by Trustee McGovern, seconded by Trustee Morrissey, the Board unanimously approved the recommendation of the Benefits Committee that the full Board approve the Hearings Examiner's recommendation that the Board uphold its December 14, 2004 decision in the matter of Janet Bartels.

Trustee Roy presented the Governance Committee's recommended changes to specific sections of the Governance Manual. On a motion by Trustee Morrissey, seconded by Trustee McGovern, the Board unanimously approved the recommendation, as amended, of the Governance Committee that the full Board approve the proposed revisions to Sections I, III, V and VI of the Governance Manual.

Trustee Roy then presented the Committee's recommended changes to the Voluntary Correction Program Policy as suggested by Groom Law Group to comply with Internal Revenue Code changes pursuant to the Pension Protection Act. On a motion by Trustee Provencher, seconded by

Trustee Reardon, the Board unanimously voted to accept the revisions to the Policy.

Trustee Roy next discussed the governance consultant contract review requested by Mr. Lagos after his analysis of the Hewitt EnnisKnupp contract. In discussing his review, Mr. Lagos stated that of the eleven items detailed in the contract, he indicated that three were of particular value and that the other services could be purchased on an if and as needed basis. On that basis, he was requesting authority to renegotiate the contract with Hewitt EnnisKnupp. On a motion by Trustee Reardon, seconded by Trustee Morrissey, the Board unanimously voted to accept the recommendation of the Governance Committee that the full Board empower Executive Director Lagos to renegotiate the governance consultant contract with Hewitt EnnisKnupp. Trustee Roy closed his remarks by announcing that the Governance Committee would meet that day immediately following the full Board meeting.

Vice Chair O'Brien next asked Trustee Reardon for the Legislative Committee's report. Noting that the Legislative Committee had not met since the last Board meeting, Trustee Reardon stated that Trustees had received updates from staff concerning bills and work sessions at the NH Legislature. She asked Marty Karlon, Public Information Officer, to provide a briefing of activities in both the House and the Senate. He announced that Thursday, May 10, 2012, was the executive session deadline for all bills. In reference to HB 1460, Mr. Karlon explained that draft testimony had been written for the Board's review. Mr. Lagos reiterated that RSA 100-A prohibited the NHRS from funding the Legislature's study of the development of a defined contribution plan unless it adversely affected the funded status of the NHRS. He noted that the proposed testimony clarified the Board's fiduciary responsibilities with regard to the expenditure of funds.

Following a detailed discussion of the conceptual issues, on a motion by Trustee Reardon, seconded by Trustee McGovern, the Board unanimously authorized staff to provide testimony to the Legislature concerning appropriate expenditures by the NHRS if the Legislature established a DC study commission, as discussed by the Board.

Vice Chair O'Brien asked Trustee Sosnoff for the report from the Independent Investment Committee (IIC). In his remarks, Trustee and IIC member Sosnoff reported total fund gains of 8.4% in the three-month period ending March 31, 2012, with growth in all asset categories except alternative investments. He reported a 2.9% gain for the nine months of fiscal year 2012, and a three-year gain of 16.4%. He discussed the drag of alternative investments – hedge funds, private equity, and real estate - on the total fund for the three-month and three-year performance

periods, noting that those investments were in transition but review and action were under study by the IIC. Trustee Sosnoff noted that the asset allocation remained unchanged from April's report. He provided an overview of the IIC's work in maintaining an appropriate funded ratio, analyzing asset class mixes under various macro-economic scenarios, and approving the real estate investment guidelines.

For the Personnel, Performance and Compensation Committee report, Mr. Lagos discussed the April 30, 2012 Committee meeting in general terms, noting that the Committee's Charter warranted review and revision. He formally introduced Paul Zahensky, Director of Information Technology, who had joined the NHRS on April 30th.

Mr. Lagos next presented his Executive Director Update, beginning with the NHRS Fact Sheet created by Marty Karlon and provided to each Trustee. He believed it was a helpful informational tool for both the Legislature and the general public and planned to have it printed and available as part of the NHRS education toolkit.

Referencing his Strategic Plan memorandum, Mr. Lagos explained that the draft Action Plans the Board had reviewed in April had been finalized and were the backbone of a one-year strategic plan for 2012 that he wished the Board to approve. He emphasized that the one-year plan for 2012 represented the first step in addressing the Governance Manual mandated three year strategic plan and would be reviewed at year's end.

On a motion by Trustee Gustafson, seconded by Trustee Roy, the Board voted unanimously to approve the calendar year 2012 strategic plan as presented by Mr. Lagos.

Mr. Lagos continued his report with an explanation of the process for developing policies and procedures. As per the action plans, management staff would assess all existing documents pertaining their areas of responsibility and develop any needed policies and procedures to support their respective operations. The Complaint Procedure in his written report served as an example of the work product staff would be producing.

He informed Trustees that he, Mr. Dianis, and Mr. Johansen were scheduled for a conference call with David Kausch of Gabriel Roeder Smith & Company (GRS) later in the week, during which actuarial valuation issues would be discussed. Mr. Lagos anticipated a discussion of an interim valuation, as well as the appropriate timeframe for the acceptance of the 2011 actuarial valuation before the deadline of September 2012, taking into consideration any pending litigation.

Vice Chair O'Brien requested the legal update from Chief Legal Counsel Tim Crutchfield, who made particular note of the status of the two HB 2 lawsuits. He also reported that NHRS staff were meeting weekly to attempt to anticipate administrative implications to the System of any potential court-mandated reversals to the HB 2 legislation.

Director of Finance, Jack Dianis, presented his financial report in two parts, the statement of assets and a formal explanation of the trust fund budget. He reported NHRS assets through March 2012 as up \$78.2 million from March 2011. Following a brief discussion of indirect costs and the Technology line items, Mr. Dianis presented a detailed explanation of the NHRS Trust Fund Budget. Mr. Lagos stated that the goal of the Trust Fund Budget discussion was to provide a conceptual framework of the Statutory Budget and its relationship to the Trust Fund Budget. He first explained that the Statutory Budget was a completed one, approved for the biennium 2012 and 2013 and was the document that Mr. Dianis reviewed every month with the Board. Mr. Lagos then explained that the remaining Trust Fund Budget was on a one-year cycle, approved by the Trustees annually, and included all investment expenses, both internal and external, and also included all third-party fees, such as non-investment legal fees, audit fees, and consultant fees. Mr. Lagos noted that these third-party fees were ones that could be managed and controlled. Taken together, these expense categories represented all NHRS expenses and constituted the Trust Fund Budget.

Mr. Dianis provided information regarding the work on the reconciliation of investment management fees. He also offered insight to specific line item expenses and explained the depreciation issue that occurred in 2010 and the subsequent non-cash adjustment in line 33 for the nine months ending March 31, 2012. Mr. Lagos indicated that a one-year Trust Fund Budget for FY 2013 would be presented to the Trustees for acceptance at the June 2012 regular meeting. Staff would then begin the budget-building process for the FY 2014 and 2015 Statutory Budget.

Nancy Miller, Director of Member Services, reported that HB 2 implementation had progressed well with the deployment of PensionGold builds for average final compensation and eligibility calculations. Her teams were focused on July retirements, typically the busiest retirement month of the year, and informal monitoring of member satisfaction had been positive.

Mr. Johansen, Director of Investments, focused his report on the goals and plans for the May 18, 2012, IIC meeting. He stated that there would be a continued discussion of asset allocation, with six additional asset mixes presented to the IIC for consideration and discussion. Additionally, the Committee would discuss a presentation on hedge

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funds by NEPC and would discuss a presentation on tail risk by an NEPC.

On a motion by Trustee Morrissey, seconded by Trustee McGovern, the Board approved the Consent Agenda, with the exceptions of the items concerning A. Macaione and N. Crawford.

Following Board discussion, on a motion by Trustee Morrissey, seconded by Trustee Reardon, the Board voted to accept the Hearings Examiner's recommendation to *not* uphold the NHRS Staff's determination to recoup \$3,004.48 from Mr. Macaione's former employer's health plan, as follows:

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

Nays: Trustee O'Brien.

On a motion by Trustee Morrissey, seconded by Trustee Reardon, the Board voted to accept the Hearings Examiner's recommendation to waive recoupment of \$78,050.30 in erroneous medical subsidy payments, consistent with the six other cases similarly situated and comparably voted by the Board of Trustees, and to uphold the NHRS staff's administrative decision that Mr. Crawford was not entitled to continue receiving the medical subsidy.

On a motion by Trustee Sosnoff, seconded by Trustee Morrissey, the meeting adjourned at 11:14 a.m.

Respectfully submitted,
Shannan Hudgins