

Note: These minutes from the June 11, 2013, regular meeting were approved and executed at the July 9, 2013, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
June 11, 2013**

The Public Minutes

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

Trustees: Lisa Shapiro, Ph.D., *Chair*; John Beardmore; Dean Crombie; Dick Gustafson, Ph.D.; David McCrillis; ; Karen McDonough; Germano Martins; Cathy Provencher; Hershel Sosnoff; Guy Scaife; George Walker. Don Roy; Jack Wozmak, *absent*.

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer Services*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Kelly Brown, Sr. *Finance Accountant*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Regulation Compliance Officer*; Nina Calkins, *PPM Manager*; Marty Karlon, *Public Information Officer*; Rosamond Cain, *Human Resources Manager*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: Harold Janeway, *Chair, NHRS Independent Investment Committee*. Andrew Schulman, Esq.

Chair Shapiro called the regular meeting of the NHRS Board of Trustees to order at 9:12 a.m. and requested a motion to approve the public and non-public minutes from the May 14, 2103, regular meeting. On a motion by Trustee Gustafson, seconded by Trustee Provencher, the Board approved the minutes, as follows:

Ayes: Trustees Shapiro, Beardmore, Crombie, Gustafson, McCrillis, McDonough, Provencher, Scaife, Sosnoff, and Walker.

Nays: None.

Abstention: Trustee Martins.

Chair Shapiro addressed the Audit Committee and requested an update from Committee Chair Provencher. Trustee Provencher began with a report of the morning's meeting in which the Medical Subsidy Audit had been a principle item of discussion. Trustee Provencher noted that the July Tracker would include several items as a result of that audit. She reported that the KPMG auditors had completed the first round of field work at NHRS and would return at the end summer. In closing she stated that the FY '14 audit plan would be finalized in August and brought to the Board for approval.

Moving to the next Agenda item, Chair Shapiro requested a report from the Benefits Committee. At Trustee Walker's request, Mr. Lagos explained the system issues inherent in the benefit structure in place since 1967 for call firefighters. He stated that the anachronistic statutory requirement placed NHRS in a precarious legal position because it created potential conflicts with the exclusive benefit rule as applied to trust fund assets benefitting non-members. Although current receipts covered the two existing benefit claims, reduced participation (at \$6 per person per annum) or additional claims could cause a funding problem. Mr. Lagos emphasized that administration of the call firefighter provision was not an appropriate function for the system. It was noted that a structured annuity may be required to assure the future funding of the two current call fire benefits. He was seeking Board approval for staff to seek remedial legislation for either repeal or appropriate amendment of 100-A:19.

On a motion by Trustee Scaife, seconded by Trustee Beardmore, the Board unanimously voted to approve the staff recommendations regarding the proposed remedial legislation and administration of call firefighters under RSA 100-A:19. Chair Shapiro asked Trustee McCrillis to participate in staff review efforts given his long call fire background.

In Trustee Roy's absence, Trustee Crombie presented the Governance Committee's report, focusing on a proposed revision to the quarterly reporting requirement in § 6.3 of the Political Contributions Policy. He explained that the proposed revisions would waive the quarterly reporting requirement if a vendor had no reportable activity but would continue to require an annual confirmation that the vendor had nothing to report.

On a motion by Trustee Crombie, seconded by Trustee Sosnoff, the Board unanimously voted to accept the recommendation of the Governance Committee to approve the proposed revisions to the Political Contributions Policy.

Trustee Sosnoff presented the Independent Investment Committee's (IIC) report for both the quarter ending March 31, 2013, and the month ending April 30, 2014, stating that funds held in trust as of April 30, 2013 totaled \$6.47 billion,

showing an increase of 1.5% from March 31, 2013. He announced that comparisons with the NHRS public fund peer group revealed the system was in the 25th percentile in the third quarter of FY '13, the 7th percentile for the calendar year, the 17th percentile in the three-year comparison, and the 43rd percentile over five years. He explained that the 1% percentile represented the best performance and 100% as the worst. Trustee Sosnoff expressed public congratulations to Mr. Johansen and the internal investments team for their successful investment efforts.

In discussing broader economic factors, Trustee Sosnoff stated that the US economy continued to show signs of slow growth, noting that new activity in the construction sector served as both a leading indicator and a driver of overall economic growth. He stated that inflation was stable at 1.1%. International indicators were mixed, with the initiatives of the Bank of Japan well received despite the continued fall of the Yen, and Europe continuing to “bobble along.” In his brief review of the May IIC meeting, he stated that the agreement with Aberdeen Management had been renewed given its very good record with NHRS (+9.1% from inception). Of particular import had been the custodial services presentations from BNY Mellon, State Street, and Northern Trust, resulting in the IIC selection of BNY Mellon. Mr. Johansen reported that the newly selected custodian had been fully involved with the NHRS Finance and Investment Teams in preparing for the July 1, 2013 conversion, and he anticipated a positive and productive collaboration with BNY Mellon. Mr. Johansen closed by noting that the July IIC meeting would be focused on macroeconomic education and encouraged all Trustees to attend at their availability.

Trustee Sosnoff requested the Legislative Report be given by Marty Karlon, who briefly described the two NHRS bills awaiting Senate votes – HB 124 and HB 342. He also discussed an unexpected development, the formation of an ad hoc committee to review alternative pension plans, noting that Rep. Sullivan of Manchester was the chair. Committee of Conference deadlines were provided in the materials behind Tab 7.

Trustee Gustafson provided a brief public report on the PPCC, stating that collective bargaining continued, with the next meeting scheduled for Friday, June 21, 2013. He stated that work continued on the employee handbook. The PELRB hearing had been rescheduled for August 14, 2013. In closing his public remarks, Trustee Gustafson described the Process Improvement Project (PIP) as a massive undertaking with a goal to shift system processes to technology-based formats utilizing NHRS electronic resources. He also noted ongoing efforts to fill the vacant IT Director position. He then requested a temporary adjournment to discuss CBA bargaining matters.

On a motion by Trustee McDonough, seconded by Trustee McCrillis, the Board unanimously voted to temporarily adjourn the meeting to discuss collective bargaining strategy or negotiations under RSA 91-A:2, I(a).

On a motion by Trustee Crombie, seconded by Trustee Walker, the Board voted unanimously to reconvene the Board meeting.

Following a brief intermission, Chair Shapiro moved to the operational reports on the Agenda. Mr. Lagos referred the Trustees to his reports under Tab 8. He emphasized that the number of process reviews was extensive, in particular the 401 (h) insurance subsidy sub-trust reviews, two of which were under funded. He described the medical subsidy process as quite complex and that it was expected that there would be a report to the Board in the next sixty days. Mr. Lagos stated that a reply to Senator Larsen's second letter was forthcoming, and that he anticipated that Trustees would receive a 401(k) sub-trust letter from GRS before the July Board meeting addressing immediate solvency-issue concerns.

Mr. Dianis briefly discussed the system's trust fund budget, prepared to entertain any questions Trustees had following its original presentation to the Board at the May meeting.

On a motion by Trustee McCrillis, seconded by Trustee Beardmore, the Board unanimously voted to accept the Fiscal Year 2014 Trust Fund Administrative Budget as presented.

With the arrival of Senator Janeway, Chair of the IIC, Chair Shapiro requested a discussion of the custodial search and the Committee's decision. Mr. Johansen began by explaining that the deciding factor between the firms had been the advanced technology capabilities of State Street Bank and Bank of New York-Mellon. He then turned the discussion over to Sen. Janeway, who stated that Northern Trust had been the NHRS custodian for a minimum of 25 years, and certainly since 1987. In addressing two comments from the KPMG management letter – alternatives/private equity documentation and monitoring - he stated that Northern Trust did not have the capacity to manage three critical tasks: capital calls; cash distributions; and unfunded commitments. He emphasized these three tasks had been a critical piece of the RFP. Sen. Janeway stated that the changing of custodians was one of the most difficult tasks an investment entity could undertake and the change to BNY Mellon had, therefore, not been made lightly. In explaining the fee increase, Sen. Janeway and Mr. Johansen confirmed the annual \$500k flat fee was fixed over the five year contract and that the remaining fees were variable. Mr. Johansen noted that an ancillary benefit of the Committee's choice was BNY Mellon's location in Everett, Massachusetts, which would readily allow for face-to-face meetings.

Mr. Dianis opened his Finance report with the actuarial valuation schedule provided in the materials behind Tab 10. He stated that NHRS had received three responses to the actuarial RFP – GRS, Segal, and Cheiron – and noted that Trustees Sosnoff and Beardmore had agreed to serve on an *ad hoc* committee to review and evaluate the submissions in preparation for Board review. He anticipated having a finalist for the September Board meeting.

In response to questions on the budget, Mr. Dianis explained that the salaries and benefits line was currently under budget by approximately 10%. With hiring and retention more stable, he anticipated that budget line to close out FY '13 at approximately 5% under budget.

Chair Shapiro requested a brief public legal review, and Mr. Crutchfield offered clarifying remarks on current litigation cases, explaining timing in the Superior Court cases and stating that oral argument in the Welch Supreme Court case had yet to be scheduled. Trustee Provencher requested the date be included with each of the legislatively-related suits since there were “HB 2” bills passed every biennium.

On a motion by Trustee Martins, seconded by Trustee Walker, the Board entered into non-public session under RSA 91-A:3, II(e) to discuss current legal actions, by a roll call vote, as follows:

Ayes: Trustees Shapiro, Beardmore, Crombie, Gustafson, McCrillis, McDonough, Martins, Provencher, Scaife, Sosnoff, and Walker.

Nays: None.

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

In continuing operational reports, Mr. Lagos provided the IT update by noting that all plans were on schedule and moving well. He reported that two IT candidates were being evaluated by an IT consultant based in Maine who was both familiar with NHRS operations and well-versed in candidate review.

Ms. Miller offered closing statistics on retirement appointments and filings, stating that there were 692 applications for July 1 retirements, half of which had been processed and moved to Retiree Services. She anticipated a lower final retirement number after all applications had been processed or rescinded. In closing, she reported that final steps for Required Minimum Distributions (RMDs) were underway, with a fall payment date scheduled.

Ms. Call noted that the Employer Services team was developing a project timeline in response to the process evaluations and extraordinary number of

processes in that department. She concluded with a Gainful Occupation summation, noting that 730 (of 1200) questionnaires had been returned. The large number of non-responders would receive follow-up letters, and beginning in October their benefits would be adjusted.

Moving to the Consent Agenda, Chair Shapiro requested a motion to approve or discuss any item. On a motion by Trustee Gustafson, seconded by Trustee Scaife, the Board unanimously voted to approve the Consent Agenda as presented.

On a motion by Trustee Provencher, seconded by Trustee Walker, the Board voted to approve the travel request for Trustee Martins as presented in the Board materials, as follows:

Ayes: Trustees Shapiro, Beardmore, Crombie, Gustafson, McCrillis, McDonough, Provencher, Scaife, Sosnoff, and Walker.

Nays: None.

Abstention: Trustee Martins.

In her Check Point discussion following the conclusion of all business matters, Chair Shapiro congratulated Trustee Beardmore on his confirmation as Commissioner of the Department of Revenue Administration. She then introduced and welcomed Germano Martins, the State Employees Association Board representative confirmed to the Board, noting that Trustee Martins had previously served for many years. Mr. Lagos identified the draft Quarterly Report to the General Court behind Tab 17, stating that the final report would be delivered by July 1, 2013.

On a motion by Trustee Martins, seconded by Trustee Scaife, the meeting adjourned at approximately 12:30 p.m.

Respectfully submitted,
Shannan Hudgins