

Note: These minutes from the July 9, 2013, regular meeting were approved and executed at the August 13, 2013, regular meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
July 9, 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*; Paul Zahensky, *IT Consultant*; Heather Fritzky, *Controller*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Regulatory Compliance Officer*; Nina Calkins, *PPM Manager*; Marty Karlon, *Public Information Officer*; and Shannan Hudgins, *Administrative Coordinator*.

Chair Shapiro called the regular meeting of the NHRS Board of Trustees to order at 9:10 a.m. and requested a motion to approve the public and non-public minutes from the June 11, 2103, regular meeting. On a motion by Trustee Provencher, seconded by Trustee Roy, the Board unanimously approved the minutes.

Chair Shapiro addressed the Audit Committee and requested an update from Committee Chair Provencher, who stated there had been no Committee meeting that morning. Referring to the Tracker, Trustee Provencher noted eleven issues had been added in June, and receiving no questions or commentary, she concluded her remarks.

Moving to the next Agenda item, Chair Shapiro requested a report from the Benefits Committee. Committee Chair Walker provided a recapitulation of that morning's meeting, focusing on the U.S. Supreme Court repeal of the Defense of Marriage Act ("DOMA") and its anticipated impact on NHRS. Staff indicated

that they were awaiting an anticipated decision from the IRS regarding the possible application of retroactive benefits to members and/or beneficiaries impacted by the DOMA repeal. Mr. Karlon, *Public Information Officer*, briefly described the communication strategy that included an NHRS website posting and an email communication, noting that the System had received 14 inquiries to date and more were expected.

For the Governance Committee report, Trustee Crombie and Atty. Crutchfield discussed the draft Office of Foreign Assets Control (“OFAC”) compliance policy developed by Atty. Cavanaugh and on the agenda for discussion at the afternoon’s Governance Committee meeting. Noting that no action items had come before the Committee in June, Atty. Crutchfield reported that thirteen responses for investment-related legal services had been received by the RFP (Request for Proposal) due date of June 28, 2013. He anticipated the internal review of the submissions would begin within the week.

Chair Shapiro next requested the Investment Committee report, and Trustee Sosnoff opened by stating that funds held in trust totaled \$6.49 billion and represented an increase of \$23 million – .33%, for the month ending May 31, 2013, compared to last month’s April numbers. For the fiscal year-to-date, trust fund earnings totaled \$723 million, representing an increase of 1.3%. All asset class earnings were up, and despite the volatility of the market in June, Trustee Sosnoff anticipated positive investment returns to close out FY ’13.

Trustee Sosnoff provided a brief report on the June IIC meeting, noting that the Ridgewood Energy investment opportunity would be discussed further at the July meeting. Additionally, the July agenda would be devoted primarily to macroeconomic issues with three manager presentations: PIMCO, Batterymarch, and IRM. He and Mr. Johansen encouraged Board members to attend. Mr. Johansen discussed the progress of changing custodians, noting that the June 30, 2013, deadline had required tremendous effort from both NHRS staff and BNY Mellon personnel, but that the change had occurred smoothly and successfully. Given the increased service capabilities offered by BNY Mellon, Mr. Johansen reported that improved efficiencies were expected, particularly with the administration of capital calls. He briefly discussed recent developments with the real estate portfolio and the securities litigation report.

In reporting for the PPCC, Trustee Gustafson discussed the Summary of the Board Self Evaluation included in the materials, emphasizing that it was the first evaluation in the Board’s history. The scoring results indicated that the Board was functioning well. The evaluation also revealed that the Trustees were interested in focusing on monitoring NHRS’ service to its members more carefully.

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

Trustee Martins excused himself from the temporary adjournment.

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

Chair Shapiro requested an update from the Legislative Committee and Mr. Karlon reported that the Committee of Conference reports on both HB 124 (Gainful Occupation) and HB 594 (related to HB 342 town clerk/tax collector grandfathering) had been accepted by the House and the Senate and would be enrolled and sent to the Governor for signature. He assured the Trustees that final disposition of the bills would be communicated through their weekly update from Mr. Lagos.

In his Executive Director report, Mr. Lagos directed Trustees to the revised KPM document, noting that the highlighted sections had been added or revised. He emphasized the importance of the Process Improvement Project group and its weekly meetings to analyze, review, and revise system processes. Mr. Lagos made special note of the Medical Subsidy Analysis from GRS located in Tab 8 and explained the overall issues concerning the 401(h) subaccounts. The differences between the administration of state and political subdivision accounts were important, and the timing issue between rate setting and receipt of funds at NHRS created difficulties in the proper funding and administration of the individual sub-accounts. He stated that GRS consultants would attend the August Board meeting to fully explain the analysis and their recommendations. Trustee Provencher requested that the consultants be specifically asked about why prior remedial actions had proven inadequate to address the medical subsidy funding issues.

Atty. Crutchfield provided a brief review of the legislation-related suits progressing through the Superior Court, noting that Judge McNamara was attuned to the importance of the HB2 cases before him and the number of System members and beneficiaries impacted by the court's rulings. Atty. Crutchfield announced two Supreme Court filings arising out of administrative decisions, Eskeland and Malisos, and stated that the petitions had been filed but not yet accepted by the Supreme Court.

Mr. Dianis presented the Finance update, focusing his remarks on GASB 67 and 68 and emphasizing that there were ongoing discussions with the auditors about the validity of using the 7.75% discount rate in GASB-related liability calculations for financial reporting.

He reported that the custodial transition to BNY Mellon had gone smoothly in concert with the June 30th fiscal year end. Mr. Dianis briefly discussed the financial statements and confirmed that he would present preliminary FY '13 actual-to-budget statements at the August 13, 2013, Board meeting. Trustee Provencher noted New Hampshire's solid standing in the June 27, 2013 Pension Liability Report by Moody's Investors Service, and Mr. Lagos confirmed he would include the document with his weekly Trustee report.

Mr. Zahensky presented an overview of IT accomplishments for infrastructure upgrades, noting that both hardware performance testing and PensionGold upgrade testing continued. The imaging project solution had been placed on hold until the second quarter of FY '14. The NHRS IT team had also focused on assisting employers whose system upgrades had resulted in unforeseen contribution reporting consequences. He closed with a brief review of disaster recovery planning, stating that final contract details for the co-location site in Dallas, Texas, were forthcoming and that implementation would begin in the first quarter of FY 14.

Ms. Miller discussed highlights of her Member Services report, noting that July retirement applications received by mail with no personal appointments were the highest number in recent memory. Her staff had processed 702 applications for July 1. Ms. Miller briefly discussed the Judicial Retirement Plan ("JRP") Board review of the Cloutier decision, noting that there was a hearing for clarification in that case in Superior Court on July 12, 2013. Ms. Miller stated that NHRS staff would participate in developing responsive solutions as the third party administrators of the fund.

Ms. Call reviewed both Employer Services and Retiree Services and the July increased work loads of each department triggered by a greater-than-average number of retirees and the annual insurance authorizations processing for employers. She noted that employer audits were proceeding as scheduled and that with positive response to the education sessions, the auditors were planning a session in the North Country to accommodate those employers. Ms. Call stated that a review of mandatory direct deposit was underway. Mr. Lagos reported that approximately 2,800 retirees did not utilize direct deposit and that a project was underway to reduce that number.

Following a ten-minute break, on a motion by Trustee Scaife, seconded by Trustee Martins, Consent Agenda items numbered 1, 2 and 3 were unanimously approved by the Board.

On a motion by Trustee Walker, seconded by Trustee Roy, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss disability applications on a roll call vote, as follows:

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

Nays: None.

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

On a motion by Trustee Walker, seconded by Trustee Provencher, the Board unanimously voted to send Item #4 to the Benefits Committee for review, as it deemed necessary, and recommendation.

On a motion by Trustee Provencher, seconded by Trustee Gustafson, the Board unanimously voted to send Item #5 to the Benefits Committee for review and recommendation.

At the conclusion of regularly scheduled Board matters, Mr. Lagos welcomed and introduced two former Trustees, Dr. Kate McGovern and Nashua Fire Chief Brian Morrissey. As senior member of the Board, Trustee Dean Crombie asked that they step forward for recognition. He offered statements of gratitude and appreciation for each and then presented them each with a granite plaque engraved with their years of service. Mr. Lagos then formally acknowledged the conclusion of Chair Shapiro's five-year tenure as Chair of the Board of Trustees and Trustee Crombie spoke of their work together and his appreciation of Dr. Shapiro's dedication to NHRS.

Mr. Lagos then introduced Senator Harold Janeway, Chair of the Independent Investment Committee, who spoke to Dr. Shapiro's expertise, commitment, and guiding leadership during some turbulent times. Mr. Lagos read a congratulatory resolution from the NH Senate and Senator Jeb Bradley. He read a note of thanks and appreciation from former Governor John Lynch, and a letter of commendation from Governor Maggie Hassan. Dr. Shapiro expressed her thanks and appreciation for the privilege of leading NHRS through challenging circumstances. She believed the System had set a course to protect the trust fund and the future benefit of thousands of NH public employees. Dr. Shapiro closed with a statement of thanks for the recognition and appreciation shown her.

On a motion by Trustee Provencher, seconded by Trustee Crombie, the meeting adjourned at 12:20 p.m.

Respectfully submitted,
Shannan Hudgins