

**Note:** These minutes from the September 11, 2012, Annual Meeting were approved and executed at the October 9, 2012, regular Meeting of the Board of Trustees.

**Annual Meeting  
Board of Trustees  
September 11, 2012**

**The Public Minutes**

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

*Trustees:* Lisa Shapiro, Ph.D., *Chair, presiding*; David McCrillis; Dick Gustafson, Ph.D.; Kate McGovern, Ph.D.; Hersh Sosnoff; Guy Scaife; Karen McDonough; Don Roy; George Walker. Dean Crombie; Cathy Provencher; 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*; Denise Call, *Director of Employer Services*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Rosamond Cain, *Human Resources Manager*; and Shannan Hudgins, *Administrative Coordinator*.

*Guests:* Mr. Harold Janeway, *Chair, Independent Investment Committee*; Kevin Leonard, *NEPC*; Sean Gill, *NEPC*; David Kausch, *Chief Actuary, Gabriel Roeder Smith & Company*; Randy Dziubek, *Gabriel Roeder Smith & Company*; Nancy Williams, Esq., *Hewitt EnnisKnupp*.

Chair Shapiro called the Annual Meeting of the NHRS Board of Trustees to order at approximately 9:06 a.m. She introduced Mr. David McCrillis, of Newport, as the newest member of the Board, and then requested a motion to approve the public minutes from the August 14, 2012, Regular Meeting. On a motion by Trustee Gustafson, seconded by Trustee Roy, the public minutes were approved unanimously.

Trustee Sosnoff presented a report of the Independent Investment Committee (IIC), focusing his remarks on the marketable securities performance for July 2012 and noting a modest increase of assets to

\$5.819 billion at July 31, 2012 compared with \$5.757 at June 30, 2012. After a brief review of the August IIC meeting, Trustee Sosnoff introduced Mr. Harold Janeway, Chair of the IIC, and invited him to discuss the background and process in developing the asset allocation recommendation that was before the Board for a vote.

Mr. Janeway gave a concise report of the IIC's purpose, process, and intention in the preparation of its asset allocation recommendation and addressed questions presented about capital market expectations and the risk profile of the portfolio. He then introduced Kevin Leonard and Sean Gill, from NEPC, who gave a detailed and thorough evaluation of the recommendation. Mr. Leonard reported that NEPC had conducted an asset liability modeling study, a liquidity study, and a factor analysis in preparing the recommendation. Mr. Gill discussed the alternative asset process and the strategic plan to appropriately manage risk.

Following a lengthy discussion, on a motion from Trustee Scaife, seconded by Trustee Gustafson, the Board voted unanimously to accept the recommendation of the Independent Investment Committee to modify the asset allocation targets and ranges.

Chair Shapiro requested the Governance Committee report from Trustee Roy who stated that the Committee had reviewed the Delegation of Authority documents and recommended the Board accept and approve them. Executive Director Lagos provided a background review of the Audit finding for delegation of authority, noting that the documents had been vetted and approved by the PPCC, Audit, and Governance Committees. On a motion by Trustee Roy, seconded by Trustee Gustafson, the Board unanimously approved the Delegation of Authority documentation as presented, subject to the finalization of the financial controls and authority provisions for the Finance and Investment functions.

In keeping with the trustee education portion of the Annual Meeting, Chair Shapiro introduced Nancy Williams, Esq., governance consultant from Hewitt EnnisKnupp, who spoke to the fiduciary principles and responsibilities inherent in Board governance. Referring to her printed materials, Ms. Williams explained that trustees were charged with the legal responsibility to protect the trust solely in the interest of all members and beneficiaries – the exclusive benefit rule – through the fiduciary duties of loyalty, prudence, and following the plan document. For NHRS, RSA 100-A was the plan document and was bolstered by other state statutes, court decisions, attorney general opinions, and general trust law. She encouraged the NHRS Trustees to exercise discretion and rely on staff experts if they had specific questions or

concerns about their fiduciary responsibilities as Trustees. In the second part of her presentation, Ms. Williams addressed Board governance. She defined governance as how the Board functions, and she outlined the division of tasks between boards and staff that together could produce an efficient and effectively managed organization. In closing, she urged the Trustees to develop a Board self-evaluation mechanism in conjunction with its review of the Executive Director, emphasizing that the dual process could produce an effective evaluative measurement of NHRS.

In preparation for the Board's setting of 2014-2015 employer contribution rates, Chair Shapiro welcomed David T. Kausch and Randy J. Dziubek, consulting actuaries from Gabriel Roeder Smith & Company, the System's actuarial consulting firm. They presented a detailed discussion of the proposed employer contribution rates that were based on the Actuarial Valuation of System Assets and Liabilities as of June 30, 2011, and the actuarial assumptions adopted by the Board in May 2011, including the lower assumed rate of return of 7.75%. Discussion followed that included the extended timeframe environment for rate setting, actuarial smoothing mechanisms employed in the normal cost equation, and the resulting employer cost increases driven by the elimination of the State's contribution to political subdivision retirement payments. Mr. Kausch also briefly discussed the Government Accounting Standards Board (GASB) changes to accounting that changed reporting but not contributions, as well as proposed changes to Moody's calculations for rating purposes.

On a motion by Trustee Gustafson, seconded by Trustee Sosnoff, the Board unanimously approved the Employer Contribution Rates for Fiscal Years 2014 and 2015 based on the June 2011 actuarial valuation.

Chair Shapiro requested a ten-minute lunch break, and upon its return the Board reviewed the proposed Statutory Administrative Budget for FY 2014 & 2015. Mr. Lagos asked Jack Dianis, Director of Finance, to provide an overview of the statutory budget and the State budgetary process. He referred Trustees to Tab 6 and the proposed budgets of \$8.47 million for 2014 and \$8.68 million for 2015, with detailed schedules that included fiscal years 2011, 2012, 2013, as well as 2014-15. Mr. Lagos spoke specifically to previous questions raised relating to budgeted salary and IT lines. He stated that the full-time-equivalent salary line was less than the current budget, and that the budget included funding for potential compensation increases increased agency-wide education, and training. A discussion of the proposed budget followed that included the lease agreement, salary and benefits schedules, and proposed IT costs.

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On a motion by Trustee McDonough, seconded by Trustee Scaife, the Board unanimously approved the NHRS statutory administrative budget for Fiscal Years 2014 and 2015 as presented.

Chair Shapiro offered some historical perspective on the NHRS statutory budget and its unique place in the state structure. She stated that although the NHRS budget was submitted to the legislature similar to state agency budgets, it was funded by the pension trust and not the general fund.

On a motion by Trustee Sosnoff, seconded by Trustee Roy, the Board unanimously approved the Consent Agenda.

Mr. Lagos referred the Board to tabs 10 – 24 which contained pertinent information from each member of the Executive Team, as well as trustee travel guidelines and contact information.

On a motion by Trustee Scaife, seconded by Trustee Walker, the Board unanimously approved the 2013 Board Meeting Calendar for its monthly meetings scheduled for the second Tuesday, beginning at 9:00 a.m.

In her checkpoint discussion, Chair Shapiro complimented Staff's preparation for the Board meeting, noting that each item from August's meeting had been answered with accompanying documentation, where appropriate. She then gave a brief assessment of the day's activities, emphasizing that three major decisions had been made by the Board after careful review and commentary. She discussed the Board's committee structure and the positive impact each Committee's work made to the effectiveness of the Board. In closing, she asked the Trustees to review their committee membership in light of both interest and expertise.

On a motion by Trustee Roy, seconded by Trustee Walker, the meeting adjourned at approximately 1:37 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*