

Note: These minutes from the December 11, 2012, regular meeting were approved and executed at the January 8, 2013, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
December 11, 2012**

The Public Minutes

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

Trustees: Lisa Shapiro, Ph.D., *Chair, presiding*; John Beardmore; Dean Crombie; David McCrillis; Kate McGovern, Ph.D.; Jack Wozmak; Dick Gustafson, Ph.D.; Hershel Sosnoff ; Karen McDonough; Guy Scaife; George Walker; and Cathy Provencher, *ex officio*. Don Roy, *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*; Denise Call, *Director of Employer Services*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Carolyn Johnson, Esq., Rosamond Cain, *HR Manager*; Nina Calkins, *PPM Manager*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: Harold Janeway, *Chair, Independent Investment Committee*.

Chair Shapiro called the regular meeting of the NHRS Board of Trustees to order at 9:10 a.m. and welcomed John Beardmore as the newest Trustee. She then requested a motion to approve the public and non-public minutes from the November 13, 2012, regular meeting. On a motion by Trustee Wozmak, seconded by Trustee Gustafson, the minutes were approved unanimously.

Trustee Provencher opened her report from the Audit Committee by announcing that the NHRS Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2012, was received, accepted and approved by the Audit Committee with an unqualified opinion from the System's outside, independent auditor KPMG. Trustee Provencher stated the Committee had also reviewed the two comments from the Management Letter. She next asked Jack Dianis, Director of Finance, to discuss the audited CAFR , before offering the report for vote by the Board.

Mr. Dianis presented a detailed orientation to the CAFR, stating that its long-term usefulness and usability was best described as an almanac of the 2012 Fiscal Year. He explained that the five-section structure of the CAFR was dictated by the best practice rules of the Government Finance Officers Association (GFOA) and provided a

systematic detailing of actuarial and financial information that served all constituents. Mr. Dianis next identified the financial section (pages 18-49) that is required by generally accepted accounting principles and is the focus of the independent audit.. Mr. Dianis lastly noted that the statistics section was particularly helpful to the Public Information Office because of the various 10-year trend schedules. Trustee Provencher closed the Audit Committee report by announcing that the next meeting date had been set for Tuesday, January 8, 2013, at 8:30 a.m.

On a motion by Trustee Provencher, seconded by Trustee Walker, the Board unanimously approved and accepted the Comprehensive Annual Financial Report for Fiscal Year 2012.

Trustee McGovern presented the Benefits Committee report with a brief description of the Committee's review of the matter of Leon Forcier which had been referred to the Committee by the Board at its November meeting. A lengthy discussion ensued which included retirement date deadlines for NHRS and employers, as well as the statutory requirements driving those deadlines.

On a motion by Trustee McGovern, seconded by Trustee Wozmak, the Board voted to accept the recommendation of the Benefits Committee that the full Board approve the Hearings Examiner's recommendation in the matter of Leon Forcier, as follows:

Ayes: Trustees Crombie, McCrillis, Wozmak, Gustafson, Sosnoff, Beardmore, Walker, and Provencher.

Nays: Trustees McGovern, Scaife, McDonough, and Shapiro.

In the absence of Trustee Roy, Governance Committee Chair, Trustee Crombie reported that at its last meeting, the Committee had reviewed and approved a housekeeping revision to the Indemnification Policy that would allow staff coverage. On a motion by Trustee Crombie, seconded by Trustee McCrillis, the Board unanimously accepted the recommendation of the Governance Committee and approved the proposed revisions to the Indemnification Policy. The policy was then referred back to the Governance Committee for additional review and consideration regarding the right to select counsel.

Chair Shapiro welcomed Harold Janeway, *Chair, Independent Investment Committee (IIC)*, and invited him to address the Board and present the Comprehensive Annual Investment Report (CAIR) that had been approved by the IIC and would be voted upon by the Board. Mr. Janeway offered an overview of the report, providing national and international market details that had influenced investment results for the FY '12. He noted that the IIC was devoting its January 2013 meeting to review and discuss issues in the markets facing institutional investors.

Trustee Sosnoff followed Mr. Janeway's presentation with a brief investment update for the month ending October 31, 2012. Noting that all asset classes were up in a difficult market, he reported that the November IIC meeting had approved five-to-seven commitments of \$30 million in private equity and private debt for the 2013 calendar year. He concluded his remarks by stating that the IIC had approved the CAIR and had set its 2013 meeting schedule. Larry Johansen, *Director of Investments*, turned

the Board's attention to the final document in the investment materials, stating that it was a comparative investment document providing three-, five- and ten-year investment results in the Public Fund Defined Benefit Universe as of September 30, 2012. He made particular note that the fee comparisons provided were fees relative to NHRS assets, not payroll.

On a motion by Trustee Sosnoff, seconded by Trustee Provencher, the Board unanimously approved and accepted the Comprehensive Annual Investment Report for Fiscal Year 2012.

As Chair of the Legislative Committee, Trustee Sosnoff asked Mr. Dianis to provide the Committee update to the Board. In his remarks, Mr. Dianis reported that both the New Hampshire House and Senate were busy organizing, naming committee members and leadership positions. Also, a team would be meeting with senators that afternoon to present the NHRS proposed legislative changes approved at the November Board meeting. He stated that only four retirement related Legislative Service Requests (LSRs) had been submitted to date, and of those, only one had required a fiscal note worksheet. Mr. Lagos added that staff had agreed to set aside a proposed employer-penalty request, stating that a focus on proper reporting processes rather than penalties was the System's priority at this point in time.

Trustee Gustafson discussed the meeting of the Personnel, Performance, and Compensation Committee (PPCC) on November 29, 2012. He reported that the System-wide job descriptions project had been completed, and the first phase of training for managers had gone well. Performance evaluations would follow in the first quarter of 2013, which would in turn initiate additional mid-management training. Final Key Performance Measures (KPMs) would be tracked monthly by each individual beginning in January, and Trustee Gustafson expected Trustees would have detailed reports in their monthly meeting materials. The Executive Director review had been fully vetted at the Committee level, with both the review instrument and the proposed process in draft form, and the documents were provided in the Board materials. He requested any comments or revisions be forwarded to him. He reported that he had spoken with Nancy Williams, the NHRS Governance Consultant, and received her concurrence on the documents. Another PPCC meeting was planned for December to finalize the instrument, which would be distributed to Board members in early January. He closed by stating the ED review would be conducted in February or March.

On a motion by Trustee Provencher, seconded by Trustee McDonough, the Board voted unanimously to authorize the PPCC to finalize the Executive Director evaluation form.

Following a ten minute break, Executive Director Lagos offered his operating report and focused his remarks on the KPMs presented in the Board materials. He referenced the updated Organizational chart that reflected changes he had made since his arrival at NHRS. Mr. Lagos referenced the Summary of Action Plans and the KPM documents, emphasizing the documents were fluid in nature, thus allowing for necessary updates, changes and business-related alterations. He summarized the progress of the policies and procedures project (PPMs), and then discussed the three-year strategic plan and the 18-month action plans senior staff were preparing with a

view to integrating those plans into a fiscal-year plan model. He closed by reporting that CBA planning was underway and negotiations would begin in the new year.

Chief Legal Counsel Tim Crutchfield offered a brief report on the legislative-driven lawsuits, which were fully discussed in his legal memoranda. In reporting results of the fiduciary insurance bid, Mr. Crutchfield stated that the small number of carriers offering such insurance was shrinking and he had only received a quote from Chubb. He added that the deductible for the coverage had increased to \$100k from \$25k, and the increase was reflective of the general public pension industry as opposed to any negative NHRS claims experience. He stated that the insurance broker affirmed that the Chubb policy was favorable to NHRS.

Chair Shapiro stated she would entertain a motion to enter into non-public session under RSA 91-A:3, II(e) to discuss the current legal actions referenced on the agenda. On a motion by Trustee McCrillis, seconded by Trustee Crombie, the motion passed unanimously on a roll call vote, as follows:

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

Nays: None.

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

On a motion by Trustee Sosnoff, seconded by Trustee Walker, the Board voted unanimously to seal the non-public minutes under RSA 91-A:3, III, as divulgence of the information could render the proposed action discussed in non-public session ineffective.

Mr. Dianis opened his finance report by stating that net assets available for benefits as of October 31, 2012 totaled \$5.942 billion, an increase of \$167.5 million fiscal year-to-date. He reviewed the Statement of Plan Assets (balance sheet), Statement of Changes in Plan Assets (income statement), budget-to-actual statements for the statutory administrative expenses and the entire trust fund administrative expenses, and the key performance indicator summary. Trustee Scaife requested additional data be included in future reports to also reflect favorable budgetary variances.

Paul Zahensky, *Director of IT*, discussed the ongoing security work plan procedures that he and his staff were completing, which included PensionGold upgrades and data clean up. He noted that the proposed infrastructure improvements were the most critical items on his action plan and that his group's progress was on target. He closed with an explanation of disaster recovery planning and the process he was employing to identify an appropriate co-location site.

Nancy Miller, *Director of Member Services*, briefly updated the Board on her team's continuing efforts to provide support and assistance to System members and beneficiaries. She noted that the statistics in the Board materials reflected expected member activity. In closing, she stated that the policies and procedures documentation was continuing on target.

Denise Call, *Director of Employer Services*, discussed the ongoing process reviews in both Retiree Services and Employer Services, noting that some work processes would be appropriately shifted to Finance. Judicial Retirement Plan cost-of-living adjustments were being processed, as well as gainful occupation adjustments for the end-of-year payroll term. She closed with a discussion of state employee questionnaires, and Trustee Provencher asked that she work collaboratively with Commissioner Hodgdon and her staff in the implementation of the mailing and response timeframe.

On a motion by Trustee Scaife, seconded by Trustee McCrillis, the Board unanimously approved the Consent Agenda *without* Items # 2 and #7. Both items were referred to the Benefits Committee for review and recommendation.

On a motion by Trustee Provencher, seconded by Trustee Walker, the Board voted to approve Trustee travel requests for Trustees McGovern, Sosnoff, and Wozmak, as follows:

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

Nays: None.

Abstention: Trustees McGovern, Sosnoff, and Wozmak.

On a motion by Trustee Sosnoff, seconded by Trustee McGovern, the meeting adjourned at approximately 1:25 p.m.

Respectfully submitted,
Shannan Hudgins