

Note: These minutes from the October 13, 2015, regular meeting were approved and executed at the November 10, 2015 regular Meeting of the Board of Trustees.

**Board of Trustees
October 13, 2015**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; John Beardmore; Dean Crombie; Bill Dwyer; Julia Griffin; Maureen Kelliher; Germano Martins; David McCrillis; Bruce Moorehead; Don Roy; and George Walker. Hershel Sosnoff, *absent*.

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

Chair Gustafson called the October meeting of the NHRS Board of Trustees to order at 10:05 a.m. On a motion by Trustee Roy, seconded by Trustee Griffin, the Board of Trustees unanimously voted to approve the public minutes of the September 8, 2015 Regular Board Meeting.

Audit Committee Chair Beardmore reported that at its meeting that morning, System auditors KPMG had been present to deliver a FY 15 Audit update, noting that it was progressing well and on schedule. He stated that the Committee had reviewed its Charter and made no changes. In closing, Trustee Beardmore stated that the Committee had reviewed and approved Staff's two minor proposed revisions to the Employer Withdrawal Policy and was presented a related draft rule for review in conjunction with the Governance Committee.

Trustee Walker reported the Benefits Committee had met twice in September, first on September 23rd, at which the Committee had reviewed its Charter and made minor changes.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board unanimously voted to accept the recommendation of the Benefits Committee to approve the proposed revisions to its Charter.

The Committee had also reviewed maximum benefit rules, findings from an audit of the Oyster River School District, and matters pertaining to medical subsidies for Carroll County employees. At its September 29th meeting, the Committee had reviewed a disability matter that was before the Board for review in a non-public session.

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 the disability case in the matter of R.G. on a roll call vote, as follows:

Ayes: Trustees Gustafson, Angwin, Beardmore, Crombie, Dwyer, Griffin, Kelliher, Martins, McCrillis, Moorehead, Roy, and Walker.

Nays: None.

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

No votes were taken during the non-public session.

On a motion by Trustee Roy, seconded by Trustee Dwyer, the Board unanimously voted to amend its December 11, 2012 grant of disability retirement for R.G. such that a reexamination was no longer required.

Chair Gustafson expressed his appreciation for the extensive work that Board Committees managed in preparation for full Board meetings. He stated that the Committee Chair leadership, together with each Trustee's dedication, served to support the System and its Staff in their service to the members, retirees, and beneficiaries of NHRS.

Trustee Roy reported that the Governance Committee had met following the September meeting of the Board of Trustees and discussed the IRS determination letter program, which had been terminated. Trustee Roy noted that at the IFEBP Conference the week of October 5th, participants had learned that the program had been discontinued because the IRS lacked funds to support it. Following a brief discussion, Atty. Crutchfield confirmed that the June 2014 IRS determination letter issued to NHRS left the system in good standing. Trustee Roy then presented the OFAC Policy for consideration by the full Board, stating that the Governance Committee had reviewed and approved all suggested changes.

On a motion by Trustee Roy, seconded by Trustee Martins, the Board unanimously voted to accept the recommendation of the Governance Committee and approve the revisions to the OFAC Policy.

Larry Johansen, *Director of Investments*, presented the Investment update to the Board in the absence of Trustee Sosnoff. He reported that the recent market downturn and market volatility precipitated by China's unannounced devaluing of its currency in August continued. He further noted a continued slow-down in China's economy, a national jobs report reflecting less than anticipated growth in jobs for the last few months, an underemployment rate of 10% and a delay by the Federal Reserve in

increasing the Fed Funds Rate continued to adversely impact market performance, despite a national unemployment rate for the last two months of 5.1%. As a result, System assets declined from \$7.53 billion at June 30th, to \$7.22 billion at August 31st. He noted that the markets had partially recovered from that recent low.

Mr. Johansen announced that Final performance numbers for June 30, 2015 were now available, noting that for the one-year period ending June 30th, the Total Fund returned 3.5%, putting NHRS in the top 30% of pension system peers. He added that the Alternative Assets and Real Estate had substantially helped increase returns. The marketable assets, approximately 80% of assets, returned 2.2%, for the fiscal year and the remaining 20% of assets increased the total return to 3.5%, a demonstration of the positive effects of a well-diversified investment portfolio. He reported the Total Fund return for three, five, ten and twenty years as 11.7%, 11.6%, 6.9% and 7.8%, respectively. The performance for three and five years put NHRS in the top 10% of its peers, and the performance for ten and twenty years put the System in the top 15% and 25% of peers, respectively. He made note that the three, five and twenty year returns exceeded the 7.75% assumed rate of return. For the five years ending June 30th, the marketable assets performance of 11.3% equaled the benchmark. The Total Fund return of 11.6% for that same period fell short of the benchmark by 10 basis points. The five-year return for the Private Equity and Debt commitments made starting in 2009 returned 12.3%. The five-year return for the Private Equity and Debt commitments made prior to 2009 returned 1.4%, evidencing the drag of the legacy investment program, which will have a declining effect on the total portfolio over time.

Mr. Johansen reported that at the September IIC meeting, the Committee renewed the investment management agreement with IR&M, an NHRS fixed income manager; made a \$20 million commitment to Industry Ventures Partnership Holdings IV, a venture capital secondary manager, to whom the Committee made a \$20 million commitment in September 2013; made a \$75 million commitment to Warburg Pincus Private Equity XII, a global multi-sector private equity manager; and, heard a presentation from 400 Capital, a credit focused manager. At the October IIC meeting, discussions of the draft CAIR will continue as well as a review of Emerging Markets and the current market conditions.

Mr. Johansen completed his report by noting that at last month's meeting of the National Association of State Investment Officers (NASIO), two topics dominated the discussion: the assumed rate of return and Private Equity fees. While many public plans continue to discuss a reduction in their assumed rate of return, some have opted to maintain them at current levels. The Institutional Limited Partners Association (ILPA) is working on an industry standard for the disclosure of Private Equity fees by the General partner to the Limited partners. That standard is expected late this year or early next year.

Trustee Crombie provided a brief Personnel, Performance and Compensation Committee (PPCC) update from its September 29th meeting, noting that Rosamond Cain, *Human Resources Manager*, had presented her annual report for the prior fiscal year. The Committee had discussed various staffing matters and he noted that NHRS currently employed 55 people. In closing, Trustee Crombie reported that the Committee had reviewed its Charter and confirmed that no changes were proposed.

Marty Karlon, *Public Information Officer*, stated that the Legislative Committee would meet on October 15th at 11:00 to discuss bill titles filed by the House of Representatives. He reported the bills concerned COLAs, provisions relating to Employer penalties, and a proposed cash balance plan. Mr. Karlon also stated that at this time the Senate had not filed any LSRs. He closed by reporting that the Special Committee on Pensions had neither met since this summer nor scheduled any meetings for October or November.

Atty. Michael Delaney, of McLane Middleton, arrived at approximately 10:09 a.m. to address the Board of Trustees in a non-public session.

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

Ayes: Trustees Gustafson, Angwin, Beardmore, Crombie, Dwyer, Griffin, Kelliher, Martins, McCrillis, Moorehead, Roy, and Walker.

Nays: None.

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

No votes were taken during the non-public session.

Executive Director George Lagos began his update with Key Performance Measures, making note of the successful meeting of targets throughout the organization for the third consecutive month. He provided broad updates on Employer Reporting process improvement efforts (PIP) and the deployment of the new telephone system, recognizing the efforts of the IT staff in making the successful technical transition. Mr. Lagos concluded his remarks by confirming that no contracts had been entered since the September 8th Board meeting.

Tim Crutchfield, *Chief Legal Counsel*, opened his report with a discussion of Staff's drafting of a proposed Employer Withdrawal Rule to mirror the current Board Policy. He explained that the Committee Charter reviews were part of the annual review of the Governance Manual, which was considered best practice. Atty. Crutchfield then offered a Gainful Occupation update, noting that although the report had traditionally been presented to the Board in October, Compliance Staff had assumed the administrative responsibility for this process and developed an integrated approach utilizing PensionGold, the System's data base system. Mark Cavanaugh, *Associate Counsel and Compliance Officer*, reported data received to date, noting that approximately twenty annuity recipients had exceeded the earnings cap and would have their State annuity reduced accordingly. Atty. Cavanaugh anticipated presenting a full and complete report at the December 8th Board of Trustees meeting.

Jack Dianis, *Director of Finance*, presented his Finance report, beginning with GASB, noting that he and his team had received very few calls or questions from employers. He also stated that NHRS had received limited responses to the audit RFP. Mr. Dianis theorized that New England did not enjoy a mid-sized CPA firm presence with the staff

and specialized pension expertise, which resulted in a narrow field of potential firms interested in bidding for the System's audit contract. In reviewing the financial statements, he made note of changes which had been made to better account for budget-to-actual discrepancies that were driven by the timing of large quarterly payments. He closed with a Call Fire accounting, noting the death of one beneficiary in the last twelve months which would reduce the future pay-out rate. Two beneficiaries remained in the program.

Director of Information Technology Frank Clough reported that the telephone implementation over the weekend of October 1st had gone smoothly. His team continued to work with Staff and the new system on training issues. He continued to make progress on developing a disaster recovery plan, focusing on procedures and costs associated with establishing a functioning co-location site. Mr. Clough concluded his report with an update on the new Helpdesk System, noting that it would replace the current system which had limited reporting capabilities and was unsupported.

Nancy Miller, *Director of Member Services*, reported a fairly smooth release of Member Statements through the NHRS website MyAccount, resulting in material financial savings and greater security for member information. She noted her Staff had received fewer than 500 requests for paper statements out of a total of approximately 55,000 members. Following the statement release, the NHRS website had received a record number of hits and over 300 members had established new MyAccount access. Ms. Miller continued to work toward automation for Member Services, particularly for the processing of member record changes resulting from employer audits. She explained that a single employer's audit-driven refund currently required manual changes to every employee's record and often over many years. A PG automation would save a significant amount of staff time and reduce potential error rates.

Director of Employer Services, Denise Call provided the Trustees with an update on the Insurance PIP, explaining that screen changes for employers had been implemented. She anticipated a new Insurance PIP PG build before month's end which would enable employers and vendors to enter their own insurance rate changes. She indicated these changes would require additional employer training through webinars, both live and recorded on the website, as well as training session at NHRS and with individual employers, as needed. She closed by noting that Employer Reporting PIP matters would follow the conclusion of process changes for the insurance operation.

On a motion by Trustee Martins, seconded by Trustee Roy, the Board of Trustees voted to approve the Consent Agenda, as presented, as follows:

Ayes: Trustees Gustafson, Crombie, McCrillis, Martins, Beardmore, Kelliher, Angwin, Roy, Walker, and Dwyer.

Nays: None.

Abstention: Trustee Moorehead.

NHRS Board of Trustees
October 13, 2015

On a motion by Trustee Roy, seconded by Trustee Beardmore, the Board unanimously voted to approve the travel request for Trustee Crombie as presented in the Board materials.

On a motion by Trustee Angwin, seconded by Trustee Martins, the meeting was adjourned at approximately 11:38 a.m.

Respectfully submitted,
Shannan Hudgins