

NHRS Board of Trustees
May 10, 2016

Note: These minutes from the May 10, 2016, regular meeting were approved and executed at the June 14, 2016 regular Meeting of the Board of Trustees.

**Board of Trustees
May 10, 2016**

The Public Minutes

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

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

Guests: Harold Janeway, *Chair, NHRS Independent Investment Committee*; David T. Kausch, *Chief Actuary, Gabriel Roeder Smith & Company*; Kevin Leonard, *Principal, NEPC*.

Chair Gustafson called the May 10, 2016 Regular Meeting of the NHRS Board of Trustees to order at 9:01 a.m. On a motion by Trustee Sosnoff, seconded by Trustee Beardmore, the Board unanimously voted to approve the April 12, 2016 Regular Board Meeting public and non-public minutes, as amended.

Trustee Beardmore presented his Audit Committee report of that morning's meeting, noting that there had been no changes to the Audit Tracker in the last month. He stated that *Internal Auditor* Nancy Cone had presented a Risk Assessment plan that was thoughtful and thorough, and well-represented the operations matrix of the Retirement System. He closed with a statement on the Employer Withdrawal Rule, explaining that upon approval by the Board, the rule would become effective once filed with JLCAR. On a motion by Trustee Beardmore, seconded by Trustee Dwyer, the Board unanimously voted to adopt the Employer Withdrawal Rule, thereby allowing staff to file the JLCAR-approved Rule with the Office of Legislative Services, with an expected effective date of Wednesday, May 11, 2016.

Trustee Walker stated that the Benefits Committee had not met since the April Board of Trustees meeting, but he would call a Committee meeting in advance of the June 14, 2016 full Board meeting.

Trustee Roy announced that the Governance Committee had not met since the April Board of Trustees meeting. He would be in contact with *Chief Legal Counsel* Tim Crutchfield in determining the appropriate scheduling of the Committee's next meeting.

Trustee Sosnoff presented the Investment Committee report, stating that funds held in trust at March 31, 2016 were \$7.3 billion, up \$339 million, or 4.9% for the month. He noted that for Fiscal Year-to-Date, funds were down \$232 million, or 3.1%. Trustee Sosnoff stated that global economic changes were static, although the effects of Puerto Rico's default on its non-general obligation bonds could be considerable. Domestically, both employment and wage growth had experienced gains in the past month, and he anticipated a positive impact of low oil prices would occur soon. With reference to the April Independent Investment Committee (IIC) meeting, Trustee Sosnoff reported that in addition to hearing presentations from ICAP and LSV, the Committee had renewed its contract with Neuberger Berman, an emerging markets manager and following a discussion of domestic equity strategy, had made no changes. Mr. Johansen, *Director of Investments*, stated that the May 20th IIC meeting would include presentations from Fischer and BlackRock and discussion of the long-term effects of longer and lower global interest rates.

Trustee Sosnoff asked that *Public Information Officer* Marty Karlon present the Legislative update. Mr. Karlon reported that SB 390, the hearings officer bill, had been signed by Governor Hassan and would become law July 2, 2016, noting that discussion in the Legislature had cast the matter as a fairness issue. He reported that HB 1352, the bill modifying the imposition of administrative penalties imposed upon employers for late reporting of retiree data, was on its way to the Governor for signature. On SB 129, the post-retirement beneficiary change bill, he stated that the Senate had requested a Committee of Conference to reconcile the House and Senate versions of the bill. He closed by reporting that the retiree health bills, HB 1591 and SB 495, would be voted on later in the week.

In his PPCC report, Trustee Crombie reported that at its last meeting the Committee had received a staffing report from *Human Resources Manager* Rosamond Cain, and they had discussed a potential revision of the NHRS mission statement. He stated that negotiations with the State Employees Association (SEA) had stalled over the Collective Bargaining Agreement (CBA), and the two groups were moving to mediation with a mutually-agreed-upon mediator. The current CBA would expire June 30, 2016.

Executive Director George Lagos opened his report with a discussion of his monthly operating report. Specifically, Mr. Lagos noted that the insurance authorization automation rollout would require 60-90 days for full implementation. Additionally, he noted that Staff were reviewing the Lexis/Nexis demographic research tool for NHRS use in obtaining and maintaining pertinent demographic data for System members. Mr. Lagos then briefly discussed the 2017 NHRS Strategic Plan, stating that if approved by the Board, a finalized and expanded version of the document would be placed on the NHRS website. Following discussion, Mr. Lagos requested the Board's approval of the Strategic Plan. On a motion by Trustee Griffin, seconded by Trustee Beardmore, the Board unanimously voted to accept the FY 2017 Strategic Plan as presented.

Atty. Crutchfield reported that neither the Supreme Court nor the Superior Court had issued rulings in the two pending cases, noting that decisions could be issued at any time. He also reported that the System Employer Audit Team was on target with both the standard audits and the GASB audit and he anticipated completion of the GASB audits, in particular, well in advance of the autumn deadline.

Chair Gustafson introduced the three guests who were integral to the Board's evaluation and decisions about the Five-Year Experience Study and the anticipated change of the NHRS Assumed Rate of Return (ARR): David T. Kausch, of Gabriel Roeder Smith & Company, Kevin Leonard, of NEPC, and Sen. Harold Janeway, Chair of the IIC. Chair Gustafson described the ARR document which had been provided to all Trustees two weeks in advance of the Board meeting, noting that nationally, most pension systems were lowering their ARR's to appropriately administer their trust funds. Mr. Kausch began a detailed explanation of the Experience Study which included potential wage growth, changing demographics in the work force, and the requisite setting of price inflation assumptions. He emphasized that once approved, the assumptions set forth in the Experience Study would serve as the basis for the Board's setting employer rates for the 2018-19 biennium at its September 2016 meeting.

Mr. Kausch reviewed the experience study and the various findings and recommendations presented.

On a motion by Trustee Dwyer, seconded by Trustee Martins, the Board unanimously voted to accept the GRS Five-Year Experience Study for the period July 1, 2010 through June 30, 2015.

Mr. Kausch reviewed the various demographic assumptions and recommendations presented in the study.

On a motion by Trustee Roy, seconded by Trustee Griffin, the Board unanimously voted to accept the proposed demographic assumptions as set forth in the GRS Five-Year Experience Study for the period July 1, 2010 through June 30, 2015.

Following the acceptance of the experience study and the adoption of the demographic assumptions, Chair Gustafson introduced the very important discussion of the assumed rate of return. He noted that GRS had opined that an assumed rate of between 7.0% and 7.5% would be reasonable, and that in considering this issue, the Board's fiduciary duty was to act solely in the interest of the system's participants and beneficiaries. He concluded by reminding the Board that it should adopt whatever assumptions deemed prudent and reasonable to assure the proper funding of the plan and while the potential impact on the State and political subdivisions was well understood, the Trustees' fiduciary duty was only to members and beneficiaries of the retirement system.

Chair Gustafson then invited Senator Janeway to offer his perspectives as Chair of the Independent Investment Committee ("IIC"). Sen. Janeway provided background commentary on the state of the economy and global and domestic markets. He observed that economic assumptions were different from estimates and forecasts, and

he emphasized the difficulty in looking out into the future over a 30 year horizon, especially in light of the looming significant Federal budget deficits. He noted that changing demographics in the United States and across Europe, specifically aging population, was an additional factor for consideration. He stated that with current interest rates barely above zero, and the Ten-Year Treasury at 1.7%, the short term economic forecast was unlikely to support returns more than 7%, which was the ARR recommended by the IIC.

Following Senator Janeway's commentary, the Chair requested a motion from the floor with regard to the economic assumptions and the assumed rate of return. Trustee McCrillis moved to accept the proposed economic assumptions as set forth in the GRS Five-Year Experience Study for the period July 1, 2010 through June 30, 2015, and specifically, a Wage Inflation Assumption of 3.25%; a Price Inflation Assumption of 2.50%; and, an Assumed Rate of Return Assumption of 7.25%. Trustee Dwyer seconded the motion.

Several Trustees shared their observations and raised questions which were addressed by Messrs. Kausch, Leonard and Janeway. Mr. Leonard commented that NEPC's capital market assumptions indicated a 5 – 7 year expected return for the NHRS portfolio of 6.47%, noting his concurrence with Senator Janeway's previous observations on current market conditions, and that the 30 year expectation was 7.49%.

The Chair called the question and the motion carried, on a roll call vote, as follows:

Ayes: Trustees Gustafson, McCrillis, Sosnoff, Griffin, Moorehead, Roy, and Dwyer.

Nays: Trustees Beardmore, Kelliher, Walker, Crombie, and Martins.

Abstentions: None.

Chair Gustafson called a recess at 10:55 a.m.

The meeting reconvened at 11:09, and Chair Gustafson requested the Finance report. *Director of Finance* Jack Dianis provided a high level review of financial performance and noted specifically the detail in the Budget-to-Actual report of Legal-Investment fees, explaining the variance was caused by timing. Mr. Dianis moved then to a presentation of the preliminary FY 2017 Draft Trust Fund Budget for the Board's review. Mr. Lagos provided an overview of the structure of the budget and focused on what he termed as the Net Trust Fund Budget, excluding external investment management expenses. He commented that FY 16 Actual expenditures were expected to be lower than those for FY 15 and that the preliminary FY 17 budget was lower than the FY 16 budget. In closing, Mr. Lagos noted that Mr. Dianis would present a draft Statutory Budget for FY 2018 and 2019 later this year.

Mr. Dianis provided an overview of the structure of the budget exhibits and invited Trustees to contact him with any specific questions they might have prior to the June meeting when the budget would be submitted for approval.

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May 10, 2016

In his IT report, *Director of Information Technology* Frank Clough reported that he and his staff were working through the four remaining security vulnerabilities. He explained that two were false positives as identified by Systems Engineering. Mr. Clough closed his update with details from his site visit to the co-location facility. He described it as a highly secure plant with very tightly managed access protocols.

Director of Member Services Nancy Miller reported that she anticipated concluding her staff recruitment efforts by month's end. She added that May was the busiest month of the year for her staff, with retirement processing the top priority.

Denise Call, *Director of Employer Services*, focused her remarks on automation of the insurance authorizations from employers. She stated that the PG build had been received from LRS and would require extensive testing prior to implementation for use by System employers..

The Consent Agenda was introduced by the Chair. On a motion by Trustee Griffin, seconded by Trustee Dwyer, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss disability matters, on a roll call vote, as follows:

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

Nays: None.

On a motion by Trustee McCrillis, seconded by Trustee Beardmore, 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 Beardmore, the Board unanimously voted to approve Items # 1 – 6, and #8, of the Consent Agenda as presented. On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board unanimously voted to accept the Hearings Examiner's recommendation in the matter of A.W., but withdrew the annual medical reporting requirements for the petitioner.

Chair Gustafson closed the business portion of the meeting to recognize Trustee Dean Crombie, who was retiring as Chief of Police of Somersworth as of June 1st, and was, therefore, participating in his final NHRS Board of Trustees meeting. Chair Gustafson presented Trustee Crombie with a proclamation from Governor Maggie Hassan, which he read to the entire Board. Following brief remarks on his experience and service on the Board, Trustee Crombie expressed his thanks and best wishes to his trustee colleagues and the NHRS staff.

On a motion by Trustee Crombie, seconded by Trustee Roy, the meeting was adjourned at approximately 11:56 a.m.

Respectfully submitted,
Shannan Hudgins