

NHRS Board of Trustees
July 12, 2016

Note: These minutes from the July 12, 2016, regular meeting were approved and executed at the August 9, 2016, regular Meeting of the Board of Trustees.

**Board of Trustees
July 12, 2016**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; John Beardmore; Bill Dwyer; Julia Griffin; Germano Martins; David McCrillis; Don Roy; Hershel Sosnoff; and George Walker. Maureen Kelliher, *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*; 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*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: David Kausch and Heidi Barry, *Gabriel Roeder Smith and Company*

Chair Gustafson called the July 12, 2016 Regular Meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, on a motion by Trustee Roy, seconded by Trustee Griffin, the Board voted to approve the June 14, 2016, Regular Board Meeting public minutes, as follows:

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

Nays: None.

Abstentions: Trustees Angwin, Beardmore and Martins.

Trustee Beardmore presented the Audit Committee update, stating that the Committee had met that morning before the full Board meeting. *Internal Auditor* Nancy Cone had explained the insurance authorization planned automation, noting that implementation was anticipated for the fall. The Committee had reviewed and approved the 2017 Internal Audit Plan, which included six new audits. Trustee Beardmore stated that the Committee's review of the Fraud Policy had resulted in suggested edits that the Audit Committee, as well as the Governance Committee, would review at subsequent meetings. In closing, he briefly commented on the updated audit tracker.

Trustee Walker reported that the Benefits Committee would meet on July 21, 2016 to review a draft of the electronic filing rule discussed at the June Board meeting. He briefly discussed the two white papers entitled Working After Retirement which the Board had reviewed in June, noting they would likely be released in the fall. On a motion by Trustee Walker, seconded by Trustee Martins, the Board unanimously voted to accept the recommendation of the Benefits Committee that the Board authorize the Executive Director to release the Working After Retirement Letters at his discretion.

Trustee Roy announced that at the Governance Committee in June, the Committee had reviewed cyber insurance policy quotes provided by Staff, and opted for more coverage with better terms and reduced premiums. On a motion by Trustee Roy, seconded by Trustee Sosnoff, the Board unanimously voted to accept the recommendation of the Governance Committee that it approve the purchase of cyber insurance coverage as presented in the Board materials.

Trustee Sosnoff presented the Investment Committee report, stating that funds held in trust as of May 31, 2016, were \$7.392 billion, representing a total fund increase of \$24 million, or less than 1% for the month. The fund was down \$138 million, or less than 2% for the Fiscal-Year-to-Date. He reported that all asset classes were within their target ranges. In his macro-economic report, Trustee Sosnoff noted that the June jobs number of 287,000 was impressive, and that the unemployment rate had risen to 4.9%, as additional job-seekers entered the market. Internationally, the United Kingdom's vote to exit the European Union had caused significant market fluctuations which were beginning to stabilize in July. Trustee Sosnoff stated that the July IIC meeting would be focused on macro-economic matters, including passive versus active investing and the prospects for fixed income investing in this prolonged low interest rate environment. Mr. Johansen, *Director of Investments*, reported that the June 20th IIC meeting had included a presentation from Townsend, the System's real estate manager, as well as NEPC, that had included a full review of the 2016 Real Estate program and a six-month review of the private equity and private debt program. The Real Estate and the private equity and debt portfolios continued to perform well. Mr. Johansen then provided a summary of the extensive review of the real estate portfolio the Committee performed with Townsend, noting that the Committee had approved the 2017 Real Estate work plan.

Following a brief discussion on Legislative matters, including recent developments on PEPTA as an example, on a motion by Trustee Sosnoff, seconded by Trustee Roy, the Board unanimously voted to accept the recommendation of the Legislative Committee that the Executive Director be authorized to respond to legislative issues of a time-sensitive nature, with the prior approval of the majority of the Legislative Committee and the Board Chair, providing that the full NHRS Board of Trustees would promptly receive a copy of the response.

In her PPCC update, Committee Chair Griffin reported that the Committee would meet on July 21, 2016, to discuss the NHRS mission statement proposed by Staff, review compensation matters, and the management response to the union's most recent collective bargaining proposals, noting that fact-finding has been scheduled for August 22nd.

David Kausch and Heidi Barry, consulting actuaries from *Gabriel Roeder Smith and Company*, presented a review of the Draft Actuarial Valuation Report as of June 30, 2015, which reflected the updated actuarial assumptions from the recent experience study, including the revised assumed rate of return of 7.25% as approved by the NHRS Board at its May 10, 2016 meeting. Mr. Kausch and Ms. Barry detailed the highlights of the valuation, specifically the anticipated employer rate increases for the fiscal 18-19 biennium, which would be set by the Trustees at the September 13, 2016 meeting. Mr. Kausch also discussed the recent GASB 74 & 75 OPEB reporting requirements that would be implemented in 2017 and 2018, respectively.

In his Executive update, Mr. Lagos noted that Key Performance Measures continued to score above 95%, which he considered a positive indicator of Staff performance. He stated that each operating report included two action plan summaries, the completed FY 16 summary, as well as the recently approved FY 17 plans. Mr. Lagos addressed the lengthy list of pending Process Improvement Items which required automation enhancements to PensionGold. He stated that Staff efforts were refocusing on prioritizing pending projects given the significant volume of projects which are in process. Mr. Lagos discussed the impact of employer auditing activities on internal capacity to process record corrections and refunds, and the importance of implementing appropriate training and education of employer staff. He closed his remarks by stating that the internal changes necessitated by recent legislation were being developed.

Chief Legal Counsel Tim Crutchfield stated that he had no new litigation updates. With regard to employer audits, he reported that of the eighteen required audits per quarter, six had already been completed.

Jack Dianis, *Director of Finance*, presented a brief update of Finance, noting that although the new fiscal year had begun, his department was focused on closing the books on FY 16. He noted that the FY 18-19 Statutory Budget would come before the Board in time for an October 1 submission to the State. He announced that NHRS had once again received the GFOA award for both the 2015 CAFR and the Summary CAFR, and he expressed his appreciation and thanks for the efforts of Heather Fritzky and Marty Karlon.

Director of Information Technology Frank Clough reported on the status of the vulnerability scans and indicated that arrangements were underway to schedule system security penetration testing to measure the effectiveness of the various infrastructure improvements which had been deployed over the past year. He noted that relocation of the co-location facility from Texas to Massachusetts was on schedule. He closed with a report on the telephone system, stating that an upcoming system upgrade would provide password protection for conference calls and enhancements to the Jabber system.

Nancy Miller, *Director of Member Services*, reported that over 700 retirement applications had been filed for July 1. Approximately 662 had been calculated and 625 certified for the July pension payroll.

Director of Employer Services Denise Call stated that the PG insurance rate build was very successful and that employers had utilized the new on-line capability effectively.

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She commented that the insurance authorization build, incorporating recent test results, was expected in August, and should be ready for implementation in September.

On a motion by Trustee Dwyer, seconded by Trustee Walker, the Board of Trustees unanimously voted to approve the Consent Agenda, as presented.

Chair Gustafson announced that the annual Board of Trustees staff appreciation cookout was to follow the meeting.

On a motion by Trustee Walker, seconded by Trustee Griffin, the meeting was adjourned at approximately 11:42 a.m.

Respectfully submitted,
Shannan Hudgins