

Note: These minutes from the May 9, 2017, Regular Meeting were approved and executed at the June 13, 2017 regular Meeting of the Board of Trustees.

**Board of Trustees
May 9, 2017**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; John Beardmore; Bill Dwyer; Julia Griffin; Bill Hart; Maureen Kelliher; Stephen Marro; Germano Martins; David McCrillis; 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*; Nancy Miller, *Director of Member Services*; Frank Clough, *Director of Information Technology*; Nancy Cone, *Internal Auditor*; Heather Fritzky, *Controller*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: Michael Delaney, Esq., McLane Middleton; David T. Kausch and Heidi Barry, *Consulting Actuaries*, GRS

Chair Gustafson called the May 9, 2017, Regular Meeting of the NHRS Board of Trustees to order at 10:01 a.m. Having established a quorum, Chair Gustafson called for a motion on the April 11, 2017 meeting minutes. On a motion by Trustee Marro, seconded by Trustee McCrillis, the Board voted to approve the public minutes of the April 11, 2017, as amended. Trustees Gustafson and Sosnoff abstained.

Trustee Beardmore reported that at the morning's Audit Committee meeting, *Internal Auditor* Nancy Cone had presented updates on the Gainful Occupation Audit Report, FY 2017 Audit Plan Status, and items on the Open Audit Issues Tracking Report. The Committee had also reviewed the FY 2018 Risk Assessment and the proposed Audit Plan for the upcoming fiscal year. He reported that five vendors had responded to the System's RFI for a pension administration management system and Staff were conducting due diligence research on each firm.

Trustee Walker reported on the Benefits Committee meeting held Monday, May 8th, stating that the Committee had received an IME update from Staff and had also reviewed proposed Gainful Occupation rule revisions.

With Atty. Michael Delaney present, on a motion by Trustee Walker, seconded by Trustee Kelliher, the Board unanimously voted to temporarily adjourn the meeting for the purpose of consulting with legal counsel under RSA 91-A:2, I(b).

On a motion by Trustee Martins, seconded by Trustee Roy, the Board unanimously voted to reconvene the meeting.

On a motion by Trustee Walker, seconded by Trustee McCrillis, in the matter of Deborah Bulkley, the Board unanimously voted to accept the recommendation of the Benefits Committee, as amended, to deny the Hearing Examiner's recommendation and remove the matter from the jurisdiction of the Hearings Examiner and schedule a hearing before an alternative Hearings Examiner. In conducting the hearing, the alternative Hearings Examiner is requested to address in his or her factual and legal analysis the following issues:

- (1) whether, under New Hampshire law and any applicable administrative rules of the Board of Education, a school district is authorized to contract with a private entity to exercise or assume responsibility for a superintendent's supervisory duties over a school principal, or over a person performing the functions of a school principal;
- (2) whether, under New Hampshire law and any applicable rules of the Board of Education, a superintendent may relinquish control over the performance of a school principal, or over a person performing the functions of a school principal;
- (3) whether, under New Hampshire law and any applicable administrative rules of the Board of Education, a private entity may control the details of work of a school principal, or control the details of work of a person performing the functions of a school principal;
- (4) whether the contract between the Allenstown School District and Granite State Transitional Principals is an *ultra vires* contract; and
- (5) Ms. Bulkley's claim that she worked less than the hours required for mandatory membership.

Trustee Roy presented the Governance Committee report, stating that at its April 3rd meeting the Committee had reviewed the Right-to-Know Request from the Concord Monitor, the fee schedule for document reproduction, the Voluntary Compliance Plan with IRS, and proposed revisions to the current Procurement Policy. He noted that the draft policy could be found under Tab 4 for Trustee review and consideration before the June meeting. In closing, Trustee Roy noted that the Committee would meet today, following the full Board meeting.

Trustee Sosnoff reported that as of March 31, 2017, funds held in trust totaled \$7.984 billion, realizing an increase of \$89 million for the month and \$523 million for the fiscal year-to-date. He noted that all investments were within their target ranges. The U.S. unemployment rate was 4.4% in April, which was the lowest rate in a decade, and below the percentage considered full employment. Trustee Sosnoff stated that Europe continued its slow growth, China was experiencing a property bubble, and North Korean leadership continued to spur unrest in the region. The April IIC meeting had included the regular housekeeping items, renewed commitments to Aberdeen,

Wellington, and Manulife, as well as presentations from Standard Life, Walter Scott, and Apollo. Larry Johansen, *Director of Investments*, provided additional detail, noting that at its May meeting, the IIC would decide on the renewal of management contracts with Standard Life and Walter Scott. He stated that relative performance continued to do well, noting that S&P, NASDAQ, and the Dow Jones were each in record territory. He closed by inviting interested Trustees to the May 19, 2017 IIC meeting.

Trustee Sosnoff opened the Legislative report by commenting on the four NHRS-related bills remaining in the Legislature. *Public Information Officer* Marty Karlon noted that the three House bills and the Senate bill would be decided in the next few weeks. George Lagos, *Executive Director*, provided an overview of preliminary discussions with the Governor's office about the upcoming Decennial Commission, noting that staff was on-track with its preparations.

Trustee Griffin presented the PPCC report from the Committee's meeting on May 8th, stating recruitment for *Director of Finance* continued. She reported that Rosamond Cain, *Human Resources Manager*, had presented an update on the culture-change initiative, ongoing staff training plans, and the annual leave sell-back provision that only four employees had taken advantage of since the execution of the most recent CBA.

Mr. David Kausch and Ms. Heidi Barry, consulting actuaries from Gabriel Roeder Smith & Company, offered a presentation focused on layered amortization and risk metrics. Ms. Barry presented the philosophy and structure of layered amortization. She emphasized that the utilization of a layered amortization approach, prospectively, would not impinge upon the full funding of the current unfunded actuarially accrued liability (UAAL) by 2039. The two most important benefits would be the reduction in potential employer rate volatility as the thirty year amortization period nears its end, and the ability to segregate future funding results from the current UAAL. Mr. Kausch noted that layered amortization has been in use in Florida for a long period of time and that it is an emerging actuarial practice which merits consideration. Discussion followed and Mr. Lagos noted that it could be an appropriate topic for the Decennial Commission to consider.

Mr. Kausch focused his presentation on risk metrics, identifying the risk factors most pertinent to NHRS as: current funded ratio (total and retiree); UAAL rate as a large portion of the employer rate; and the amortization period expiration. In his materials, Mr. Kausch added a column in the Ratio-to-Payroll section that identified the standard deviation of contribution rate.

Chair Gustafson thanked Ms. Barry and Mr. Kausch for their presentations and then requested Staff operating reports. Each update was brief. Mr. Lagos noted that KPMS continued to exceed the 95% success benchmark. Following a brief explanatory statement, on a motion by Trustee Dwyer, seconded by Trustee Hart, the Board unanimously voted to accept the FY 2018 Strategic Plan as presented.

Atty. Tim Crutchfield, *Chief Legal Counsel*, stated that he had no further updates to his Board report.

Director of Finance, Jack Dianis, began with a brief statement concerning the NHRS Statutory Budget, noting it remained with the Senate, but with no suggested changes.

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He announced that he had attended a State closing process meeting on May 8th which directed how the NHRS General Ledger would be closed for the FY 17 Fiscal Year. Mr. Dianis next discussed the Trust Fund Budget included for review and discussion before final presentation at the June Board meeting. There was a review of actual expenditures over the past three years, both including and excluding investment manager expenses. Mr. Dianis encouraged Board members to call him directly in the weeks before the June meeting if they had any specific questions about the budget.

Frank Clough, *Director of Information Technology*, focused his brief remarks on vulnerability reports, noting that no material threats had been revealed. Additionally, regular discussions had been arranged with Systems Engineering to address issues with service and the phone system reporting. He also commented on recent efforts to assist the NH Department of Administrative Services with its file submission process, which had proven successful, attributable largely to the recently increased capacity of NHRS servers.

Nancy Miller, *Director of Member Services*, briefly noted that appointments, filings and preparations for the increased number of July retirements were moving along historical trends.

On a motion by Trustee Sosnoff, seconded by Trustee Martins, the Board voted to approve the Consent Agenda, as presented. Trustee Beardmore requested his abstention from a vote on Matter #8 be reflected in the public minutes.

Chair Gustafson formally recognized Senator Harold Janeway for his contributions to the NHRS Board of Trustees and most particularly his dedicated efforts to establish the Independent Investment Committee and his role in overseeing its performance, thereby assuring the stability of the trust fund for the benefit of all NHRS members and retirees. Chair Gustafson read a formal proclamation from Governor Sununu which delineated the particulars of Senator Janeway's contributions to NHRS.

On a motion by Trustee Roy, seconded by Trustee Walker, the meeting was adjourned at approximately 12:03 p.m.

Respectfully submitted,
Shannan Hudgins