

Note: These minutes from the October 11, 2016, Regular Meeting were approved and executed at the November 8, 2016 Meeting of the Board of Trustees.

**Board of Trustees
October 11, 2016**

The Public Minutes

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

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

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Frank Clough, *Director of IT*; Denise Call, *Director of Employer Services*; Nancy Miller, *Director of Member Services*; Nancy Cone, *Internal Auditor*; Heather Fritzky, *Controller*; Mark Cavanaugh, *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*; Christine Basha, *Public Information Specialist*, and Shannan Hudgins, *Administrative Coordinator*.

Acting Chair McCrillis called the October 11, 2016 Regular Meeting of the NHRS Board of Trustees to order at 10:04 a.m. Having established a quorum, on a motion by Trustee Walker, seconded by Trustee Roy, the Board voted to approve the public and non-public minutes of the September 13, 2016 meeting. Trustee Dwyer abstained.

Trustee Beardmore presented the Audit Committee update, reporting that at the morning's meeting the Committee had reviewed the Audit Tracker, to which four items had been added and two removed since the last meeting. The Committee had also reviewed a \$30K sole-source IT contract to acquire two data domains in support of the system's disaster recovery plan. Executive Director Lagos presented a detailed proposal and action plan to review the system's PensionGold pension administration application and consider possible upgrades or alternatives. On a motion by Trustee McCrillis, seconded by Trustee Dwyer, the Committee unanimously voted to present the Pension Administration System Evaluation Proposal and Action Plan to the full Board for approval at its next meeting.

Trustee Walker provided the Board with an update from the October 4, 2016 meeting of the Benefits Committee. He noted that after approving minutes from its July 21st meeting, the Committee had entered into a non-public session to discuss disability and recoupment matters. In public session the Committee had reviewed its charter and made no changes, reviewed the *curriculum vitae* of the doctors who served NHRS as Independent Medical Examiners, and reviewed the annual Gainful Occupation report and recommended that the Board do the same. The Committee had also

discussed the second installment of *Executive Director* George Lagos' "Working After Retirement" letter that was released the afternoon of October 4.

On a motion by Trustee Walker, seconded by Trustee Beardmore, the Board unanimously voted to accept the recommendation of the Benefits Committee to approve the Calendar Year 2015 Gainful Occupation Compliance Report as presented.

Trustee Roy reported that the Governance Committee had met immediately following the September Board meeting to review its Committee Charter and Ret. 401.04(d), the provision of the NHRS Administrative Rules addressing gift limits. No changes were made to either document, and Trustee Roy noted that with no items for review, the Committee would not convene that afternoon.

Larry Johansen, *Director of Investments*, presented the Independent Investment Committee (IIC) report, beginning with the US economy, which continued to improve modestly. The U.S. economy added 156,000 jobs in September, less than the consensus estimate of 172,000. August figures were revised upward by 16,000 jobs from 151,000 to 167,000. The unemployment rate increased to 5.0% in September, more than the consensus estimate of 4.9%. Mr. Johansen stated that the increase was believed to be temporary and attributed to more people entering the work force.

The Retirement System's Total Fund performance as of June 30, 2016 had just been finalized. For one, three, five, ten, twenty and twenty-five years, results were 1.0%, 7.1%, 7.2%, 6.0%, 7.0% and 8.2% respectively. Only the twenty-five year return exceeded the new actuarial assumed rate of return of 7.25%. However, these returns for one, three, five, ten, twenty and twenty-five years put the NHRS in the 35th, 14th, 10th, 19th, 22nd and 13th percentiles respectively of the peer universe. He stated that again this year, real estate and private equity and debt returns bolstered the total fund return.

Mr. Johansen discussed the September IIC meeting, reporting that the Committee heard presentations from Causeway, LSV, Artisan, ComVest and NEPC. Causeway, LSV and Artisan, all non-US equity managers, made presentations as part of the regularly scheduled two-year renewal process. He described ComVest as a private debt manager which made a presentation on its Fund IV. The NHRS was an LP in Fund III. NEPC made a presentation on active and passive management for the Domestic Equity portfolio. He reminded the Trustees that the next IIC meeting was scheduled for Friday, October 21st. The Committee would act upon contract renewals for Causeway, LSV and Artisan as well as a potential \$50 million commitment to ComVest Fund IV. In addition, the Committee would hear presentations from Fidelity, Segall Bryant and Hamill (SB&H), Boston Trust and GAM. He described Fidelity and SB&H as potential small cap non-US developed markets equity managers. SB&H and Boston Trust were making presentations as part of the two-year contract renewal process. The Committee planned to continue its ongoing discussion of active and passive management of the Domestic Equity portfolio and start their discussions of the CAIR letter.

For the Legislative Committee update, Marty Karlon, *Public Information Officer*, stated that the Committee planned to convene in November to discuss the Decennial Commission, expected to convene in July 2017, as well as any 2017 session bills. Mr. Karlon reiterated details of the 2016 Legislative session and provided a final review on

the NHRS-related bills from the September 2015 House special pension committee meeting. HB 369, the defined contribution plan bill, had not been recommended for the next session. HB 1673, the cash balance plan, had been recommended for future legislation on a 7 to 6 party-line vote. HB 1449, the COLA bill, had no recommendation because of a 6 to 6 party-line vote that nullified action. Mr. Karlon noted that none of the actions were binding upon the upcoming Legislative session. He explained that the November election guaranteed two filing periods for bill titles, and he anticipated preparing a December report on NHRS-related bills. In a brief discussion of the upcoming Decennial Commission as directed by RSA 100-A:57, Mr. Karlon stated that of 17 members on the panel, the next Governor would appoint ten. The Commission's report is due by December 1, 2017.

In her PPCC update, Trustee Griffin reported that the Committee had met September 22nd in non-public session to discuss staffing and CBA negotiations. In public session, the Committee had unanimously approved the Mission, Vision and Values Statement as developed by an NHRS staff committee. She commended the efforts of the participants of committee that developed the concise and improved statement over a three month time period.

On a motion by Trustee Griffin, seconded by Trustee Walker, the Board unanimously voted to accept the recommendation of the PPCC that the Board approve the revisions to the Mission, Vision and Values Statement.

Following a five-minute recess, Acting Chair McCrillis invited Mr. Karlon and Jack Dianis, *Director of Finance*, to present an overview of the NH legislative process. In their half-hour presentation, Mr. Dianis and Mr. Karlon provided definitions of key legislation-related terms, described the life of a proposed bill, and explained the variance in process between the NH House of Representatives and the NH Senate. Included in the presentation was a complete explanation of NHRS' role in the legislative process, with emphasis on the System's need to present accurate data and factual analysis without policy-driven commentary. A brief question and answer period concluded the presentation.

George Lagos, *Executive Director*, began his update with a review of the KPMs, noting that the 95% performance target was exceeded once again and that each operation was performing well. He stated that although there were presently no RFPs, development of a project plan for evaluating whether or not to upgrade or replace the NHRS pension benefit database was underway. Mr. Lagos anticipated a thoughtful, evaluative process that would extend over several months. In reference to the second "Working After Retirement" letter released on October 4th, Mr. Lagos described the general content of the 45 responsive emails he had received. He noted that the questions and comments he had received proved informative as Staff prepared for the Decennial Commission next summer. He then briefly described the sole-source contract before the Board for approval, noting that the data domain servers were critical to the effective administration of the system's data recovery plan. He advised the Board that the funding request was inclusive, with no anticipated collateral expenses outside the costs as submitted.

On a motion by Trustee Griffin, seconded by Trustee Dwyer, the Board voted unanimously to accept the recommendation of the Executive Director that the Board approve the procurement of two data domains, subject to contract and legal review.

Chief Legal Counsel Tim Crutchfield began with the HB2 Benefits case in his legal update, stating that the petitioners had filed a response brief that reiterated their position on the unmistakability doctrine, a doctrine he stated had been applied in two other related Supreme Court cases. He noted that the *Cloutier* decision, a Judicial Retirement Plan case, did not apply in the HB 2 Benefits case despite the petitioners' position that it did. Atty. Crutchfield stated that all briefings had now been submitted to the Court. He referenced the OFAC policy in the Board materials in reporting that the annual compliance review had revealed no actual or potential prohibited transactions. He then stated that a public hearing on the electronic filing rules change submitted to the Office of Legislative Services would be held at the November 8th Board meeting, as required by JLCAR rules. In closing, Atty. Crutchfield reported that no appeal had been filed by the employer in the Sheri O'Day case, in which the Board had ruled that the member was entitled to receive two years of service credit as a 50/50 job-share teacher. The employer had been billed and has paid the employer contributions required as per the Board's August reconsideration decision.

Jack Dianis, *Director of Finance*, began his update with reference to the Dashboard, stating the quarterly document would be revised with complete FY 2016 figures and presented to the Board at its November meeting. He explained that the increased negative cash-flow was attributable to an anticipated two-month hiatus in teacher contributions during the summer. In closing, Mr. Dianis presented the 2016 Call Fire Report, confirming that contributions to the fund had ceased with the 2014 change in statute. He stated that the two remaining beneficiaries were aged 80 and 87. He noted that a mechanism was in place for any monies remaining when the program closed to be refunded to participating fire departments.

Director of Information Technology Frank Clough opened his report with the recently completed system security testing that had involved a team of hired technicians tasked with trying to penetrate NHRS' networks and systems in an effort to identify weaknesses and vulnerabilities. He reported that the results were very positive and that he was awaiting receipt of a written report. He noted that testing was underway on the newly developed responsive design for MyAccount which would provide for user-friendly access for members using various mobile devices. He concluded his update with a brief discussion of plans under development with various NHRS functional teams to increase utilization of the recently deployed imaging system from LRS which would focus on improving workflow and reducing paper.

Mr. Lagos offered the Member Services report for Ms. Miller, who had excused herself at 11:23 a.m. The updates were PensionGold specific, he noted, and included internal testing of online electronic direct deposit forms and an automated wage-correction function in Member Services which would assist in improving record correction and refund processes. Mr. Lagos closed the Member Services update with a member-statement report. The release of annual statements had been carefully timed in a cascading rollout that prevented a traffic jam on the website. To date, he reported that 5,457 members had opened the online link to review their statements.

Denise Call, *Director of Employer Services*, opened her update with insurance authorization system updates from LRS. She stated that twenty-five identified issues were being addressed that included the employer training module, as well as data clean-up capabilities. New data fields had been added to the medical subsidy module, and she stated that LRS had been tasked with reworking the questionnaire. She noted that although an online questionnaire would be expedient, it would not be effective as many retirees did not have access to nor did they utilize computers in their correspondence with NHRS.

Trustee Angwin excused herself at approximately 11:50 a.m.

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

Acting Chair McCrillis opened the floor for a checkpoint discussion. Mr. Lagos announced that David Kausch of GRS would attend the November Board meeting to address GASB 74 & 75 and other matters.

Mr. Lagos then announced to the Board of Trustees that Director of Employer Services, Denise Call was retiring effective November 1st, following 42 years of service to the New Hampshire Retirement System. He noted that when Denise joined NHRS, it was located in the Statehouse Annex and was organized within the State Treasurer's Office. The retirement system had 24,629 members – about half of what we have today – and the trust fund stood at \$165.5 million. The average salary for all members was \$159 a week.

Mr. Lagos noted that over the years and through a half-dozen moves – including two stints at 54 Regional Drive – Denise held a variety of positions at the retirement system. She developed strong relationships with many of our stakeholders. In whatever capacity she served in, her focus was always to provide the best possible service to our members, retirees, and employers.

In closing, Mr. Lagos stated, “In recognition of her decades of dedicated service to the retirement system, I would like to present this granite marker on behalf of the Board of Trustees.”

Ms. Call offered brief remarks, commenting that her retirement from NHRS was bittersweet as it has been her ‘home’ for the better part of her life. She closed by reiterating that she would truly miss NHRS and offered her sincerest “thank you” to the Trustees for their support over the years.

On behalf of Chair Gustafson and the full Board of Trustees of the NHRS, Trustee McCrillis expressed his appreciation for Ms. Call's dedicated service to the members and beneficiaries of the System. He wished her well in her retirement.

On a motion by Trustee Martins, seconded by Trustee Roy, the meeting was adjourned at approximately 12:02 p.m.

Respectfully submitted,
Shannan Hudgins