

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

**Board of Trustees  
January 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; Dean Crombie; Bill Dwyer; Julia Griffin; Maureen Kelliher; David McCrillis; Bruce Moorehead; Hershel Sosnoff; and George Walker. Germano Martins, Don Roy, *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 Fritzky, *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*.

Chair Gustafson called the January meeting of the NHRS Board of Trustees to order at 10:08 a.m. On a motion by Trustee Dwyer, seconded by Trustee Griffin, the Board of Trustees unanimously voted to approve the public minutes of the December 8, 2015 Regular Board Meeting.

Reporting for Audit Committee Chair Beardmore on the Committee meeting held immediately prior to the Board meeting, Trustee Dwyer began with a brief statement regarding the GASB 68 Report as discussed by *Director of Finance*, Jack Dianis. Trustee Dwyer noted that although the report was in final form, KPMG had not yet completed its audit of the report. He stated that a substantive discussion with Staff regarding the Audit Tracker had followed, noting that future auditing of the Department of Administrative Services and the automation of JRP reporting were in progress. He closed his remarks with reference to two IT sole-source contracts that had been discussed but not presented for Committee vote.

On a motion by Trustee Dwyer, seconded by Trustee Sosnoff, the Board unanimously voted to accept the recommendation of the Audit Committee to accept the June 30, 2015 GASB 68 Report, subject to receipt of an unmodified opinion letter from KPMG.

Trustee Walker stated that the Benefits Committee had not met following the December Board Meeting, but he anticipated scheduling a meeting before the February Board meeting.

Moving to the Governance Committee report, the Chair requested *Chief Legal Counsel* Tim Crutchfield to comment on the efforts to renew the Board's fiduciary insurance

coverage. Following a discussion of the updated terms, conditions and pricing presented by Trustee McCrillis, on a motion by Trustee Walker, seconded by Trustee Griffin, the Board unanimously voted to accept the recommendation of the Governance Committee to renew its annual fiduciary insurance coverage for \$20 million with Hudson Insurance Company, with a two-year premium guarantee, as discussed.

Following brief remarks by Atty. Crutchfield, on a motion by Trustee McCrillis, seconded by Trustee Griffin, the Board unanimously voted to accept the recommendation of the Governance Committee that the full Board approve the revised Governance Manual.

Trustee Sosnoff presented the Investment report, beginning with funds held in trust as of November 30, 2015, which totaled \$7.331 billion, representing a loss of \$7 million for the month, and a \$199 million loss FYTD. Trustee Sosnoff attributed the losses to the volatility in the S&P 500, as well as the Federal Reserve's recent interest rate change. He stated that all asset classes were within their target ranges, with domestic equity continuing to hold funds for future alternative investments. The US economy continued its steady growth, with GDP at 2.5%, as well as jobs added in December totaling almost 300,000, with the upward adjustment of October-November jobs numbers by 50,000. He reported that the December Independent Investment Committee (IIC) meeting had included regular housekeeping matters, as well as a discussion of the possible acquisition of 54 Regional Drive. The IIC had renewed contracts with Abel/Noser and Townsend, and had received a presentation from the Townsend Group. *Director of Investments* Larry Johansen provided an investment performance review, stating that returns at three and five years were 8.5% and 8.4% respectively, despite market volatility. He stated that at the January IIC meeting the Committee would address capital market assumptions as a springboard to the Board's discussion of the NHRS assumed rate of return. NEPC would address the full Board at its February 10, 2016 meeting.

Trustee Dwyer excused himself from the meeting at 10:30 a.m.

Trustee Crombie focused his PPCC report on the annual Board review of the Executive Director and the related envelope of materials each Trustee had received that morning. He provided a timeframe for the review, requesting that all documents be returned no later than Friday, January 22, 2016. He would compile the results and prepare a report for the PPCC to review prior to the February 10, 2016 Board meeting.

Marty Karlon, *Public Information Officer*, provided a Legislative update at the request of Trustee Sosnoff. He reported that hearings for several of the NHRS-related bills had been scheduled, beginning Wednesday, January 13<sup>th</sup>. Trustee Sosnoff announced that questions and discussion on the pending bills would occur at the Legislative Committee meeting immediately following the Board meeting that day.

Chair Gustafson provided a brief update on the Real Estate Committee's decision on the first-refusal option to purchase 54 Regional Drive as granted by the NHRS lease agreement. After a tour and review of the premises with both the potential buyer's agent and the Townsend Group, the NHRS real estate investment manager, the

Committee had unanimously voted not to act upon the right of first refusal to purchase the property.

Mr. Johansen offered the Board a broad review and explanation of the Private Equity and Private Debt investment strategy, utilizing a segment of the detailed materials compiled by NEPC for the December 18, 2015 IIC meeting. He noted at the outset that the performance of the private equity and debt commitments provided diversification to the investment portfolio and contributed positively to its performance. In a question-and-answer format, Mr. Johansen provided Board members with helpful explanations of private equity concepts, the life cycle of a private equity investment, and an overview of the performance of these investments from inception and since the initiation of the new strategy which was put in place in 2009.

Following a ten-minute recess, *Executive Director* George Lagos offered a review of his report, focusing on those KPMs which had not been met and which he stated would be addressed individually. Mr. Lagos reported that over the course of his weekly telephone calls to NHRS members and retirees in the last fifteen months, in more than 300 conversations he had only encountered three or four situations than might have been better handled by Staff for a more positive resolution. He then discussed the three sole-source contracts before the Board for review and approval, two IT contracts and the building cleaning contract. Mr. Lagos explained that the Network Administration contract and the Co-location contract were with Systems Engineering, the technology firm that had been instrumental in assisting NHRS with substantial IT improvements in the past two years. He stated that the cleaning contract with Ed Tyler, a long-term supplier, entailed reasonable terms and a modest increase in fees. Following a brief discussion, on a motion by Trustee Sosnoff, seconded by Trustee McCrillis, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve Network Administration Agreement, the Co-location Agreement, and the EDSCO Agreement, subject to contract and legal review.

Atty. Crutchfield requested that those Trustees who had not completed their required RSA 15-A forms please do so as soon as possible to comply with the January 15<sup>th</sup> filing deadline. He announced that a hearing on the HB2 Suit had been scheduled for February 3, 2016, at 9:00 a.m. He closed his remarks by noting that a public hearing on the Employer Withdrawal Rule would be scheduled to take place during the February 9, 2016 Board of Trustees Meeting.

Jack Dianis, *Director of Finance*, began his Finance report with an announcement that everyone had been provided with a Summary Comprehensive Annual Financial Report (CAFR) and the complete CAFR and Comprehensive Annual Investment Report (CAIR) were available to anyone wishing a copy. He stated that KPMG was in the process of completing its GASB 68 review, as announced in that morning's Audit Committee meeting. Mr. Dianis stated that approximately 35,000 1099R statements would be mailed in the next few weeks by the Finance Team. He referred Board members to the budget-to-actual investment salary and benefit line, noting that all vacant positions had been filled. In closing, he stated that the investment legal expenses represented in Line 20 would likely fall in line with the budget as the year progressed.

*Director of Information Technology* Frank Clough reported that a new internal help-desk system with an improved survey capability had been implemented and he

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anticipated a more representative report in his February update. He noted a continued reduction in System security vulnerabilities and anticipated additional progress in future reports. In closing, Mr. Clough explained that the transition to the LRS imaging solution was in process. The volume of records slated for transfer was significant and he expected the project would be completed in 60-90 days.

Nancy Miller, *Director of Member Services*, provided a detailed explanation of the two KPMs which had not met the standard and described the steps which were being taken to address them. Specifically, she noted that a recent PensionGold build would be of substantial benefit in making member record adjustments associated with increased employer auditing findings of improperly reported earnable compensation.

Trustee Beardmore joined the Board meeting at 11:45 a.m.

Trustee Angwin excused herself from the meeting at 11:50 a.m.

*Director of Employer Services* Denise Call reported that automation of insurance premium rate changes for NHRS employers had been successful. She commented that the focus had shifted to working with employers to move to ACH payment of employer contributions to reduce or eliminate payment by check. She closed by stating that automation of the medical subsidy questionnaire process was her next priority.

Chair Gustafson introduced the Consent Agenda and requested Item #7 be set aside for separate review. On a motion by Trustee Griffin, seconded by Trustee Walker, the Board unanimously voted to approve the Consent Agenda, as adjusted.

Following a brief review of the central issue in the Administrative Reconsideration of Dixon Leslie, on a motion by Trustee McCrillis, seconded by Trustee Beardmore, the Board unanimously voted to accept the recommendation of the Hearings Examiner that the Board permit Dixon Leslie to make an oral presentation limited to fifteen (15) minutes on the timely filing matter to the full Board at a date to be mutually determined between the Petitioner and NHRS.

On a motion by Trustee McCrillis, seconded by Trustee Walker, the Board unanimously approved the travel request presented by Chair Gustafson on behalf of Trustee Crombie.

On a motion by Trustee Crombie, seconded by Trustee Sosnoff, the meeting was adjourned at approximately 12:06 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*