

Note: These minutes from the January 5, 2012 NHRS Governance Committee meeting were approved and executed at the March 13, 2012, meeting of the Governance Committee.

**Governance Committee
of the
Board of Trustees
January 5, 2012**

PUBLIC MINUTES

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

Committee Members: Danny O'Brien, *Chair*; Dean Crombie; Richard Gustafson, Ph.D.; Kate McGovern, Ph.D.; Donald M. Roy.

Staff: Kim France, *Interim Executive Director*; Larry Johansen, *Director of Investments*; Tim Crutchfield, *Chief Legal Counsel*; Denise Call, *Director of Employer Services*; Carolyn Johnson, *Hearings Examiner*; Tracey Horner; *Member Accounting Team Lead*; Scott Needham, *Investment Analyst*.

Guests: Sen. Harold Janeway, *Chair, Independent Investment Committee*; Kevin Leonard, *Partner and Senior Consultant, NEPC, LLC*.

Chair O'Brien called the meeting to order at 9:40 a.m. On a motion by Trustee Gustafson, seconded by Trustee McGovern, the minutes of the November 8, 2011 Committee meeting were unanimously approved and entered into the record.

Chair O'Brien requested an overview of the Matter of Ronald Mello/Town of Hudson case, which was referred to the Committee for review and recommendation by the Board of Trustees at its November 8, 2011 regular meeting. Ms. Call and Ms. Horner summarized the matter for the Committee and confirmed that the recommendation of NHRS staff to recover unpaid contributions from the Town of Hudson for this former Group II member is consistent with other similar situations the System has previously experienced. Following a brief discussion, Trustee Gustafson moved that the Committee recommend to the Board that they uphold the NHRS staff's determination that employer contributions should be collected from the Town of Hudson for Ronald Mello in the amount of \$3,723.22. Seconded by Trustee Roy, the motion passed unanimously.

Chair O'Brien noted that the Board approved a two-year retainer with its Governance Consultant, Hewitt Ennis Knupp (HEK), at its November 8, 2011 regular meeting, with the retainer in effect for calendar years 2012 and 2013. He indicated that the Board referred the retainer to the Committee for review and to determine whether or not HEK has met its deliverables for calendar years 2010 and 2011, as outlined in the previous retainer. Chair O'Brien opened the discussion by noting that the services to be provided

under the new retainer are similar to those provided by HEK under the previous agreement, with the addition of assisting with the search for a new Executive Director and the integration process. He commented that the fee for the two-year retainer was \$50,000, unchanged from the prior agreement. Chair O'Brien also noted that Board Chair Dr. Lisa Shapiro had expressed that her experiences with HEK as Governance Consultant have been favorable.

Chair O'Brien listed several projects and initiatives that HEK has assisted the Board with, indicating that these services were consistent with the both the previous and the proposed annual Governance Consulting work plans. In response to a question from Chair O'Brien, Ms. France commented that her interaction with HEK has been limited, as HEK reports directly to the Board and only interacts with staff at the direction of the Board. She referenced the March 18, 2010 HEK retainer, and noted that the only work plan item not completed to her knowledge was a Board self-evaluation. She further referenced the August 30, 2011 addendum to the March 18, 2010 retainer, commenting that the new Trustee orientation program development deliverable contemplated under this retainer was carried out by staff, at the direction of the Board Chair.

Mr. Crutchfield commented that the recently executed retainer for calendar years 2012 and 2013 has very specific deliverables and recommended that the Committee review the progress of these deliverables quarterly going forward. The Committee agreed to the quarterly review process. In response to a Committee question, Mr. Crutchfield opined that the retainer allows NHRS to terminate the contract at any time with 30 days advance notice. Trustee Gustafson noted his comfort level with the retainer given its flexibility, the ability for NHRS to terminate the agreement, and the historical working relationship with HEK. Upon a suggestion from Trustee Roy, the Committee agreed to review Part 2A of the Securities and Exchange Commission Form ADV filed by HEK at its next meeting.

On a motion by Trustee McGovern, seconded by Trustee Crombie, the Committee entered into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely adversely affect the reputation of a person other than a member of the public body, on a roll call vote, as follows:

Ayes: Trustees O'Brien, Crombie, Gustafson, McGovern and Roy.

Nays: None

On a motion by Trustee Gustafson, seconded by Trustee Gustafson, the Committee unanimously voted to conclude the non-public session.

Chair O'Brien opened the Investment Policy review discussion by noting that the intent of this conversation is to receive input from the System's General Investment Consultant to ensure that the Investment Policy represents best practices in the industry while at the same time is tailored to the specific needs of NHRS. Mr. Leonard and Mr. Johansen recapped NEPC's historical relationship with the System and actions taken to date regarding the creation of the Investment Policy. Mr. Leonard commented that NEPC supports the Investment Policy as written, and recommends that the Committee support this document for adoption by the Board.

Mr. Leonard described how the Policy outlines the investment program's basic structure and works in conjunction with asset class-level guidelines and specific manager portfolio-level guidelines that are contractually negotiated and very detailed. In response to questions from the Committee, Mr. Leonard expressed that specific risk tolerance-level information and items such as concentration limits should be included within the asset class and manager portfolio guidelines and not within the broader Policy document, as there is more accountability and more appropriate monitoring capabilities at these levels.

Trustee Gustafson remarked that the Investment Policy as presented provides a solid framework to serve as a guide for the Board and Independent Investment Committee (IIC) in the continued implementation of the System's investment portfolio, and that he is comfortable recommending the document to the Board for approval. He noted that NEPC, HEK, the IIC, and staff have the requisite expertise and experience and have all reviewed and approve of the Policy. Chair O'Brien commented that following this discussion he feels much better about the Policy, but still has some non-material changes that he would like to submit for the Committee's consideration, including definition of the term "asset", as resolved by the Board in July 2009, within the Policy.

A brief conversation regarding next steps followed. Senator Janeway agreed with Chair O'Brien and Trustee McGovern that when the Policy is approved, the Board and the IIC need to maintain open lines of communication to ensure that both parties are well-informed and on the same page. Chair O'Brien suggested, and the Committee agreed, that he will submit his changes to staff for incorporation into the Policy before the Committee's next meeting, at which time the Committee will review the updated Policy and the IIC's asset class guidelines, with the intent of providing a recommendation to the Board at the Board's March meeting.

The Committee determined that its next meeting will be on February 14, 2012, immediately following that day's Board meeting.

Chair O'Brien asked Mr. Crutchfield to provide a brief update on the Governance Manual. Mr. Crutchfield indicated that he had spoken with Trustee Cathy Provencher about the composition of the Board's Audit Committee. He noted that Trustee Provencher would address this issue at the next Audit Committee meeting, and would present a recommendation regarding the composition of the Audit Committee to the Board at its next meeting. Mr. Crutchfield commented that staff will review the Governance Manual and present recommended changes to the Governance Committee at a future Committee meeting.

On a motion by Trustee Crombie, seconded by Trustee Roy, the meeting adjourned at 11:50 a.m.

Respectfully submitted,
Scott Needham