

**Note:** The public minutes from the October 27, 2011 Governance Committee meeting were approved and executed at the November 8, 2011, Committee meeting.

**Governance Committee  
of the  
Board of Trustees  
October 27, 2011**

**PUBLIC MINUTES**

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

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

*Staff:* Kim France, *Interim Executive Director*; Larry Johansen, *Director of Investments*; Tim Crutchfield, *Chief Legal Counsel*; Shannan Hudgins, *Administrative Coordinator*.

*Guest:* Sen. Harold Janeway, *Chair, Independent Investment Committee*

Chair O'Brien called the meeting to order at 1:02 p.m. On a motion by Trustee Gustafson, seconded by Trustee McGovern, the minutes of the June 14, 2011, Committee were unanimously approved and entered into the record.

Chair O'Brien requested a detailed review of the Investment Policy, Securities Lending Policy, and the Accountability Matrix that were referred to the Committee by the Board of Trustees at its October 11, 2011 meeting. Sen. Janeway offered the background of the formation of the Independent Investment Committee (IIC), noting that the IIC had been statutorily created to provide investment expertise to better manage the NHRS Trust Fund, which had historically performed in the lower third of performance relative to peers. His remarks included the formation of the Investment Policy and its subsequent review.

Mr. Johansen followed with a detailed explanation of the development of Investment Policy, beginning in October 2010. The Chair asked whether the policy had been reviewed by Foster Pepper, KPMG, or GRS in an effort to obtain a broad spectrum of consultation and commentary. Both Sen. Janeway and Mr. Johansen stated that the consultants referenced were not investment experts and had therefore, not been engaged in the policy review.

Trustee Gustafson asked how managers and their results were reviewed and the accountability practices NHRS used in such reviews. Mr. Johansen answered that two sets of benchmarks were employed by Staff and NEPC, NHRS's investment consultants. The first benchmark was the one set by Board policy that addressed broad benchmarks for each asset class. The second set of benchmarks was for each asset manager and was monitored by NEPC, NHRS investment professionals and the IIC. He explained that current practice is for the Investment Team to meet with individual managers quarterly, and a formal meeting with the IIC every two years. Performance and contract review were addressed at these biennial meetings, and if successful, the managers' contracts were renewed for two years. Issues that arise between the two-year formal review are addressed by staff and/or the IIC as appropriate. Mr. Johansen noted that prior to his arrival, an evergreen policy had existed and he believed the change in practice was beneficial to the Trust Fund.

The Chair expressed concern about the language of RSA 541:A, the rule making process with Joint Legislative Committee on Administrative Rules (JLCAR). In response to Trustee O'Brien's concerns, Atty. Crutchfield stated that he had contacted Groom Law Group for its opinion on the statute's rule-making language policy. Groom's opinion was that the policy was not subject to rule making, but if the IIC or Board wished to address policy changes through rule making, it had to do so through the JLCAR process. Committee consensus was that the JLCAR process would impede the IIC's and Board's independence. Trustee Gustafson suggested a formal statement from Groom for clarity would be helpful.

Trustee McGovern requested an expanded investment glossary that would include terms not necessarily found in the Investment Policy, but pertinent to investment meetings and discussion. Mr. Johansen offered to produce a stand-alone document that might best meet the investment education needs of Board members. Trustee McGovern agreed to that suggestion.

In addressing the issue of the assumed rate of return being stated in the investment policy, Mr. O'Brien suggested that the policy reference the RSA requiring the Board of Trustees to set the assumed rate of return, including the process used by the Board. Referencing the statute and

Board's process could clarify the assumed rate of return and the actuary's expected rate of return. Both Sen. Janeway and Mr. Johansen stated that since the Policy would be reviewed annually, any change in the assumed rate of return would be included in a revised policy.

Following a discussion of next steps, the Committee reviewed Chair O'Brien's Investment Policy Revision Considerations with Sen. Janeway, Mr. Johansen, and Ms. France. Each item was discussed, and when further action required, the item was assigned to either the IIC or NHRS staff to follow up. Staff was asked to verify investment policy best practice suggestions from NEPC, Hewitt, KPMG, and GRS. As Chair of the IIC, Senator Janeway addressed Trustee O'Brien's concerns with immediate answers or an assurance that he would prepare a response for later review. Trustee Gustafson suggested that specific language addressing each of Trustee O'Brien's concerns would provide the Board reassurance from the IIC that the Trustees were meeting their fiduciary duty as dictated by statute. Trustee McGovern asked that Sen. Janeway review the list and address any issues he could that day.

After the Committee's review of the list, it was determined that the IIC would review the outstanding items and submit its comments and recommendations to the Governance Committee after review by NEPC, Hewitt EnnisKnupp, and Foster Pepper. Upon completion of its review and a review by fiduciary counsel, the Committee would then make its recommendation on the policies to the full Board of Trustees.

A brief review of the Accountability Matrix and the Securities Lending Policy followed, with assurances by both Sen. Janeway and Mr. Johansen that securities lending were prohibited transactions in both separate accounts and commingled funds. Mr. Johansen explained that the policy was written before NHRS had exited securities lending and that it would be updated. Additionally, a careful review of the assignment of responsibility in the Accountability Matrix would be undertaken by Staff, to include consultation with EnnisKnupp and Groom Law Group.

Trustee McGovern asked that at its November 8, 2011, the Committee review the Board's decision at its June 2011 meeting regarding Patrick O'Donnell's legal fees incurred in identifying the indemnification issues involving Trustees and independent members of the IIC. She noted that at the June Governance Committee, the full history of the issue was not available to the Committee. Atty. Crutchfield stated that Robert's Rules of Order would allow a "motion to rescind a prior Board motion." Additional information would be provided for the November 8, 2011 meeting of the Governance Committee.

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Trustee O'Brien stated that the next Committee meeting would include a review of RSA 100-A:15, V. Ms. France suggested a review of Staff recommendations for the Governance Manual arising from the change in Board composition be considered.

On a motion by Trustee McGovern, seconded by Trustee Gustafson, the meeting adjourned at 3:09 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*