

NHRS Board of Trustees  
January 9, 2018

**Note:** These minutes from the January 9, 2018 Public Session were approved and executed at the February 13, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees  
January 9, 2018**

**Public Minutes**

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

*Trustees:* Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; Bill Dwyer; Julia Griffin; Bill Hart; Maureen Kelliher; Stephen Marro; David McCrillis; Michael Milligan; Don Roy; and George Walker. *Absent:* Germano Martins

*Staff:* George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Carolyn Madden, *Controller*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Marty Karlon, *Public Information Officer*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager* and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the January 9, 2018, 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 to accept the December 12, 2017 meeting minutes. On a motion by Trustee Marro, seconded by Trustee Roy, the Board voted unanimously to approve the public minutes as amended and non-public minutes as presented.

Trustee Dwyer presented the Board with an update to the morning's Audit Committee meeting, noting that two internal audits were discussed. First, the telephone system reporting and analytics review resulted in three observations and recommendations. The second audit related to insurance premium rate processing with an observation that the process works very well and the only recommendation was to document revisions to existing policies and procedures. The Committee reviewed the Audit Plan for 2018 and added 4 new audits, making 8 audits currently outstanding.

Trustee Dwyer reported that the audit contract with KPMG will expire on June 30, 2018. The recently issued audit RFP is for a 3-year contract with two, 1-year renewal options at the discretion of NHRS. He commented that the Audit Committee was happy to have received proposals from six audit firms in response to the RFP.

Trustee Dwyer noted that a draft report has been submitted by our two consultants regarding the Data Risk Assessment and is being reviewed by staff. It is expected that the consultants will appear at the February 13, 2018 Audit Committee meeting to present the final report. Trustee Dwyer also reported on the status of the Pension Administration System Evaluation project.

On a motion by Trustee Dwyer, seconded by Trustee Griffin, the Board voted unanimously to accept the recommendation of the Audit Committee to approve the June 30, 2017 GASB 68 Report, as presented subject to receipt of an unmodified opinion letter from KPMG.

Trustee Walker informed the Board that the Benefits Committee meeting was canceled due to a lack of quorum and will be rescheduled.

Trustee Roy reported that the Governance Committee met last month and voted on two recommendations to come before the Board. The first is the renewal with Hudson Insurance Company of the fiduciary insurance policy for \$20 million, with a deductible of \$100,000 and at the same annual premium of \$123,000 as per the expiring policy. Hudson also agreed to renew upon the same terms and pricing for a second year if there is no claims activity during the first year of the renewal.

On a motion by Trustee Roy, seconded Trustee Dwyer, the Board voted to accept the recommendation of the Governance Committee to renew the fiduciary insurance coverage for \$20 million with Hudson Insurance Company as presented. Trustee McCrillis abstained.

Trustee Roy continued with the second recommendation from the Governance Committee for annual revisions to the 2018 Governance Manual. These revisions included four Board policies that were adopted or revised since the January 2017 Board meeting: the Procurement Policy, the Private Markets Disclosure Policy, the OFAC Policy, and the Gainful Occupation Offset Waiver Policy; as well as the removal of a duplicate copy of the Employer Withdrawal Policy that had been inadvertently added last year. Lastly, the revisions included the annual updates to the Appendices and Exhibits.

On a motion by Trustee Roy, seconded by Trustee Dwyer, the Board voted unanimously to accept the recommendation of the Governance Committee that the full Board approve the revised Governance Manual as presented.

Trustee Kelliher reported that the Independent Investment Committee met last month and approved a 2-year contract renewal with Abel/Noser, LLC who reviews and presents the System's equity trading costs to the Committee each year. Representatives from Townsend, the NHRS discretionary real estate manager, presented a semi-annual review of the System's real estate portfolio. Subsequently, the Committee approved a 2-year contract renewal with Townsend. Next, the representatives from NEPC, investment consultant to the NHRS, presented an annual review of the System's private debt and equity portfolio. Subsequent to that review the IIC approved the private equity and private debt strategic plan for 2018 calendar year. Lastly, she reported that the December 2017 IIC meeting was Patrick O'Donnell's final meeting and the IIC thanked Mr. O'Donnell for his service on the Committee and to NHRS.

Trustee Kelliher went on to report that as of November 30, 2017 the System's total fund value was more than \$8.5 billion, compared with \$8.2 billion at the beginning of the fiscal year. In the first 5 months of the fiscal year, the fund has returned 7.0%. Updating the Board on economic conditions, Ms. Kelliher reported that the US economy remains on solid footing. The US Consumer Index continues to be supported by strong job growth, low unemployment and expanding household net worth driven by rising stock prices as well as home prices. The US Industrial Sector experienced a strong recovery in 2017 as rebounding oil prices rejuvenated the energy complex and the dollar's decline made US goods less expensive abroad. Ms. Kelliher then explained that the recent enactment of the Tax Cuts and Jobs Act of 2017 is another enhancement for expanded capital expenditures and consumer spending in 2018. She reported that the global economies as well as emerging economies maintain a synchronized recovery and continue to expand into the new year. During the first week of January, the S&P 500 Index gained 2.6% and the Dow Jones rose 2.4%. International markets also performed well with the MSCI E Index increasing 2.5% and emerging markets climbing 3.7%. Replying to Board questions regarding how long the strong economic growth will continue, Ms. Kelliher noted that

with the current strong, synchronized growth of both the domestic and global economies, she felt that it is hard to see a recession on the horizon.

Larry Johansen, Director of Investments, added that through November, marketable assets are up 7.0%, and December is showing positive growth, noting that 2018 is off to a good start with domestic equities trading in record territory. Mr. Johansen noted that he is expecting confirmation that the January 19, 2018 IIC meeting will be rescheduled to January 26, 2018. Mr. Johansen then reported on the NEPC's review of the Private Equity-Private Debt portfolio, reviewed the pacing of commitments and commented on the overall positive performance of the portfolio.

Mr. Johansen and Director Lagos noted for the benefit of the Trustees that the valuations of the individual investments in the Private Equity – Private Debt portfolio are audited by KPMG and the Investment Team pays very close attention to these investments.

Trustee Griffin reported on the December 7, 2017 PPCC meeting, stating that the main focus of the non-public session was to discuss the process for the Executive Director's Performance Evaluation. She asked that the Board review the packet of information received at this meeting and to return the completed evaluation form no later than January 19, 2018 to the NHRS Executive Assistant to the attention of Trustee Griffin.

Chair Gustafson reported on the recent activities of the ad hoc Real Estate Committee, noting that Trustee Stephen Marro is now a member of Committee. Chair Gustafson explained that the current facility housing NHRS is on the market and a purchase and sales agreement is now being considered but that NHRS has the right of first refusal on the property. Chair Gustafson explained that in the past, on two separate occasions we had asked our real estate consultants, the Townsend Group, to do a physical inspection of the property, to give NHRS market comparisons in New Hampshire and to give NHRS a technical and financial analysis of the feasibility of investing in the current facility. Townsend's earlier reporting had indicated that there was no compelling basis for making an offer on the property. Chair Gustafson noted that conditions and circumstances were largely unchanged from those earlier evaluations and that the Real Estate Committee found no reason to move ahead to try and purchase the facility. He further noted that we have options to extend our lease out to 2037 if we wish.

On a motion by Trustee Marro, seconded by Trustee Roy, the Board voted unanimously to accept the recommendation of the ad hoc Real Estate Committee that NHRS decline to make an offer to purchase the 54 Regional Drive office building upon the terms and conditions set forth in the December 20, 2017 letter from BerCar, LLC and to authorize the Committee and staff to proceed accordingly.

Marty Karlon, Public Information Officer, addressed several of the pending 13 Legislative Service Requests (LSRs) for the 2018 legislative session. HB 1756 is a \$500 one-time payment to retirees making less than \$30,000 in pension benefits and who have been retired more than 5 years. The LSR also contains language regarding a COLA payment of 1.5% but there is no funding attached to that proposed benefit. HB 1756 will be reviewed by the House Finance Committee on January 10, 2018. Also, on January 10, 2018, a public hearing is scheduled in Senate ED&A to review HB 561, which is a holdover bill that was passed by the House last year but retained and subsequently amended. The bill limits retirees to working no more than 1,040 annual hours for participating employers with penalties assessed to those that exceed the limit. The LSR also requires a 60-day separation of service from the time of retirement to re-employment with the same or another public employer. The public hearing will be to review an amended version, moving the annual hourly limit to 1,300 hours and reducing the separation of service from 60 to

28 days. Also being heard will be SB 324 that would allow an optional retirement system allowance to include a subsequent spouse of a divorced retiree.

Chair Gustafson reported on the final actions of the Decennial Commission. He explained that at the December 7, 2017 meeting, the Commission adopted the report along with recommendations to be submitted, except for the executive summary, due to differences of opinion over details. On December 27, 2017, the Commission reconvened and adopted an agreed upon executive summary. Because the Commission Chair has recessed the Commission but has not adjourned it, if the Commission wishes to reconvene at a later time, it can do so. A final report is anticipated soon.

Mr. Karlon and Director Lagos recognized and thanked Chair Gustafson for the tremendous amount of energy and effort that he has devoted to the Decennial Commission as Chair of the retirement system.

Mr. Karlon presented a slide presentation of the Decennial Commission's work. He explained that the Commission made recommendations on funding, working after retirement, a COLA, the Group I Age 65 adjustment, the Commission schedule, and the NHRS Trustee terms. The Commission's final report will focus on the key themes with a major emphasis on growth of the UAAL, the success of the IIC, and cost as the major roadblock to future COLAs and any proposed reinstatement of the employer contribution subsidy. Also, the Commission report will incorporate the Boston College Center for Retirement Research findings and recommendations report.

Executive Director Lagos presented the NHRS Executive report beginning with Key Performance Measures, noting the December score is just shy of the 95.00% target. He explained that in regard to data security, our consultants did a good job evaluating the NHRS operation and exposures. The consultants will be coming to the Audit Committee meeting on February 13, 2018 and Mr. Lagos suggested that the Trustees may want to attend. Regarding the PASE project, LRS made a very comprehensive presentation to NHRS in November. He commented that our current version of the system is approximately 13 years old and because of that, we are missing out on a number of features and functionalities that LRS PG Version 3 offers. The Executive Team is meeting this week to discuss the status of PASE, the PGV-3 proposal and the next steps to take.

Chief Legal Counsel Tim Crutchfield addressed the Legal Administrative Appeals chart noting that in January 2017, Hearings Examiner Carolyn Johnson had a total of 18 cases on appeal and has reduced that number to 12. He commended her for her diligence.

Executive Director Lagos reporting for Finance Director, Heather Fritzky, began with the statement of Net Position which showed that November 2016 end of period was \$7.573 billion net position compared to the November 2017 figure of \$8.694 billion, a dramatic increase of over \$1.1 billion. On the expense side, Budget vs. Actual, overall, NHRS is running under budget by \$1,840,146. Under line #34, Independent Medical Examiners or Consultants, NHRS is running over budget by \$25,483 due to the uptick in the number of psychological disability applications and the fact that these examinations are more costly than physical examinations. Under line 39, Actuarial Fees, Mr. Lagos noted that the overage of \$23,462 was associated with the Decennial Commission, which requested an analysis from GRS. The Commission will reimburse NHRS.

Mr. Lagos reporting for IT Director Frank Clough, explained that IT is currently challenged by the high number of Helpdesk tickets which has resulted in an addition to staff to assist with the workload. Director Lagos stated that Systems Engineering (SE) continues to provide us with a high level monitoring of the security of the system via SE EventWatch, which immediately flags

any problems encountered. In terms of our IT infrastructure, our Data Risk Assessment consultants were impressed by the various security measures which have been put in place by Mr. Clough. Mr. Lagos updated the Board regarding the Telephone System Redundancy problems that NHRS has had with SE, explaining that the problems began with a phone system outage as a result of a bad Intel chip. Discussions with SE on this and other issues are ongoing.

Director of Member Services, Nancy Miller, reported that in December and into January, Member Services has worked to implement the new state retiree insurance rates into PG. She noted that at this point the rates have been placed into the system and comparison reports are being reviewed by NHRS and DAS. Member Services has also been focused on staffing issues, with the administrative assistant position having been filled, a final candidate identified for the member account specialist position, and some long term leave of absence planning being addressed.

Chair Gustafson presented the Consent Agenda. Trustee Hart asked to discuss disability application #3-C.G., and Trustee Walker asked to refer #12-P.R. back to the Benefits Committee.

On a motion by Trustee Roy, seconded by Trustee Walker, the Board unanimously voted to approve the Consent Agenda except for disability application #3-C.G. and administrative recommendation #12-P.R.

On a motion by Trustee Dwyer, seconded by Trustee Hart, on a roll call vote, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss disability applications which could adversely impact the reputation of someone other than a member of the Board.

Ayes: Trustees Gustafson, Angwin, Dwyer, Griffin, Hart, Kelliher, Marro, McCrillis, Milligan, Roy and Walker.

Nays: None.

On a motion by Trustee Roy, seconded by Trustee Angwin, the Board voted unanimously to conclude non-public session.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted unanimously to approve disability application recommendation #3-C.G.

On a motion by Trustee Walker, seconded by Trustee Marro, the Board voted unanimously to approve referring the administration recommendation of #12-P.R. to the Benefits Committee for further review.

Executive Director Lagos informed the Board that he is inviting David Kausch of GRS to the February 13, 2018 Board of Trustees meeting to do a preliminary presentation on the FY 2017 valuation with a focus on payroll growth factors, particularly for teachers.

Chair Gustafson noted that the Board of Trustees may potentially lose Trustee Julia Griffin, as her name has not been put forward for reappointment by the Governor's Office. Chair Gustafson stated that Trustee Griffin has served with distinction for two and a half years and has been fully engaged as a Trustee. Her dedication and contributions have been noted and her work has been truly exemplary.

In response, Trustee Griffin explained that when she was first appointed, she stepped into the role of Trustee with some skepticism regarding the NHRS. However, that has not been her experience. She commended Chair Gustafson as being an outstanding Board Chairman and

Executive Director Lagos and staff as doing a wonderful and capable job. Lastly, she stated that she cannot say enough that is positive about NHRS.

On a motion by Trustee Roy, seconded by Trustee Angwin, the Board voted unanimously to adjourn.

Respectfully submitted,

Margaret M. Astles  
Executive Assistant