

**Note:** These minutes from the February 13, 2018 Public Session were approved and executed at the March 20, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees  
February 13, 2018  
Public Minutes**

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

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

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

Chair Gustafson called the February 13, 2018, regular meeting of the NHRS Board of Trustees to order at 10:04 a.m. Having established a quorum, Chair Gustafson called for a motion to accept the January 9, 2018 meeting minutes. On a motion by Trustee Walker, seconded by Trustee Marro, the Board approved the public and non-public minutes as amended. Trustee Martins abstained.

Chair Gustafson welcomed new Trustee Scott Myers to the Board, noting that he is the Laconia City Manager and had been the Mayor of Dover for four terms. Chair Gustafson also welcomed new Trustee Tim Lesko, who was unable to attend the Board meeting but will be joining Trustee Kelliher on the IIC.

Chair Gustafson pointed out that the Board now has a good compliment of Committee members. Maureen Kelliher will continue to serve on the IIC; Don Roy will continue as chair of the Governance Committee; George Walker will continue as chair of the Benefits Committee; Bill Dwyer will continue as chair of the Audit Committee; Bill Hart will serve as chair of the PPCC and will also serve on the Benefits Committee; Scott Myers and Mike Milligan will serve on the PPCC and the Legislative Committees; Stephen Marro will serve on the Governance Committee and Tim Lesko will serve on the Audit Committee and IIC.

Trustee Milligan was excused from the Board meeting.

Trustee Dwyer, having just concluded the Audit Committee meeting, began with the review of an internal audit of the PensionGold Direct Deposit and Demographic Changes but noted that due to time constraints, the Audit Committee tabled the review until the March meeting. The Audit Tracker has 10 new audits. He commended Internal Auditor, Nancy Cone, for her good work. Trustee Dwyer then noted that the Committee reviewed the 2018 Audit Status report which allows a more global look at what NHRS will be doing in FY 2018. The Audit Committee took action to approve Plante Moran as the system's new financial audit firm for a three year term,

with two one year extensions, subject to further due diligence and contract negotiation. Trustee Dwyer thanked all of those involved in the evaluation process.

Trustee Dwyer reported that the Committee discussed and approved an actuarial audit of the system's actuarial firm, GRS, at some point following the acceptance of the FY 17 valuation report.

Regarding the PASE project, Trustee Dwyer reported that if the upgrade from PGV2 to PGV3 goes forward, the conversion is expected to take between three and five years. The Audit Committee will be taking a deeper look at the proposed project before they take action in March 2018. Executive Director Lagos added that this is a substantial and expensive proposal and asked the Trustees to review the documentation contained within the February 13, 2018 Board book, especially his detailed memo of January 29, 2018.

Trustee Dwyer reported on the Data Risk Assessment presentation held earlier in the day with Cam Shilling of the McLane Law Firm and Andy Obuchowski of Charles River Associates. They had previously conducted a very thorough assessment of the data security incident last summer and subsequently met with staff in November to review the operations of NHRS. Mr. Shilling and Mr. Obuchowski noted that the potential impact of a full scale data breach was avoided due to the robust security and technology measures already in place at NHRS. The assessment concluded that NHRS is sound and secure, and identified areas where further security enhancements would be beneficial. Chair Gustafson noted that NHRS was served well by the staff and administration when the incident occurred.

Trustee Walker reported on the Benefits Committee meeting held on January 30, 2018, noting that the minutes of November 7, 2017 were approved. He advised that Associate Counsel Mark Cavanaugh had reported on revisions to the Gainful Occupation rules, noting that the amendment process is on schedule. Also, the interim rules process is expected to be completed in April. The Committee conducted a non-public session at that meeting to discuss confidential matters. Trustee Walker suggested that the Board enter into a non-public session to address the three items that were the subject of Committee recommendations to the Board from the January 30, 2018 Benefits Committee meeting.

On a motion by Trustee McCrillis, seconded by Trustee Walker, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss a matter that would likely adversely affect the reputation of a person other than a member of this body, by roll call vote.

Ayes: Trustees Dick Gustafson, Bill Dwyer, Bill Hart, Maureen Kelliher, Stephen Marro, Germano Martins, David McCrillis, Scott Myers, Don Roy, and George Walker. Nays: none

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

On a motion by Trustee Walker, seconded by Trustee Hart, the Board unanimously voted to direct staff to pursue a disability re-examination in the matter of T.S., as presented.

On a motion by Trustee Marro, seconded by Trustee Roy, the Board voted unanimously to accept the recommendation of the Benefits Committee that the Board find good cause under Ret. 314 and that the re-examination requirement under Ret. 309.01(f) be suspended permanently in the matter of J.Z., as presented.

On a motion by Trustee Hart, seconded by Trustee McCrillis, the Board voted to accept the recommendation of the Benefits Committee, that pursuant to Ret. 204.09(b)(2), the Board accept

the factual findings of the Hearings Examiner's January 9, 2018 recommendation and make the following two legal determinations:

1. Not to recoup the overpaid benefits; and
2. Reduce the monthly benefit by \$17.90 as determined by staff.

*Motion passed. Opposed: Trustee Martins*

Trustee Roy reported that the Governance Committee met on February 9, 2018 and approved the minutes from the previous meeting. The Committee also discussed the proposed PensionGold upgrade from PGV2 to PGV3, and the adoption of a policy of conducting Board Self Evaluations, as considered in 2008 but never adopted. The adoption of interim rules as they relate to the NHRS Administrative rules was discussed as a remedy to expediently rectify the October 14, 2017 expiration of the Administrative Rules for a substantial part of Ret. 300, as well as Ret. 400, and Ret. 500.

On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted unanimously to accept the recommendation of the Governance Committee to authorize staff to apply for the adoption of interim rules.

Trustee Kelliher reported on the Independent Investment Committee's meeting of January 26, 2018. She noted that two new Committee members were introduced, Christine Clinton, a Chartered Financial Analyst and Trustee Tim Lesko of Granite Investment Advisors. The Committee then entertained presentations on the macro economic environment and the capital markets outlook from several NHRS vendors. Trustee Kelliher reported that NHRS has done extremely well through the end of December 2017 with January 2018 also proving to be another very positive month. After the passage of the Tax Cut and Jobs Act of 2017, the domestic equity markets climbed 6% in January with the international equity markets following suit. However, February is reflecting volatility due in part to the Tax Reform Act and possible increased inflation concerns. Also, ten-year treasury notes moved from 2.4% to 2.8%, showing an increase in interest rates. The market has adjusted, making very sharp corrections. Trustee Kelliher anticipated that as we move through 2018, volatility will remain. Interest rates in the US are increasing but even more importantly, the European Union and Japan, are all starting to limit the stimulus and move toward interest rate normalization.

Director of Investments Larry Johansen reported that another factor contributing to market volatility was the wage inflation reported on February 2, 2018 at 2.9%, higher than expected. He commented that with two new IIC members, the next meeting would focus on presentations for Private Equity-Private Debt-101, to get the Committee up to speed. Industry Ventures Partnership Holdings is coming back to make a presentation as well as Able/Noser, who measures equity transaction costs. He noted that the cost of short-term borrowing is going up and there is a high probability of at least three rate hikes by the Fed in 2018. Lastly, in accordance with good governance, the IIC issued the 2017 Proxy Voting Summary Report.

Executive Director Lagos reported for Marty Karlon on the Legislative Committee beginning with recent updates from the House ED&A sub-committee which voted 5-0 against HB 1754, the Defined Contribution bill. HB 1603, which changes the makeup of the IIC so that one of the three public members would be an active member of NHRS nominated by public employee labor groups, was voted 5-0 in favor of the bill by the sub-committee. Two hearings were being held today: one on HB 1823, to adopt layered amortization and another on HB 1805, to establish a committee to study level dollar amortization of NHRS' unfunded actuarially accrued liability. An amendment will be introduced which would change the terms of the Retirement System Trustees from two to three years. HB 561, Working after Retirement, is coming to the full Senate for a vote this Thursday.

On a motion by Trustee Hart, seconded by Trustee Marro, the Board accepted the recommendation of the Legislative Committee that the Board support HB 1823 regarding layered amortization. *Motion passed with abstentions from Trustees Dwyer and Martins.*

The Board wished to enter into non-public session to discuss the Executive Director's annual performance evaluation.

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

Ayes:

Trustees Dick Gustafson, Bill Dwyer, Bill Hart, Maureen Kelliher, Stephen Marro, Germano Martins, David McCrillis, Scott Myers, Don Roy, and George Walker. Nays: none

On a motion by Trustee Hart, seconded by Trustee Martins, the Board voted to conclude non-public session.

No votes were taken in non-public session.

Executive Director Lagos gave the Executive report noting that key performance measures were 94.32%, falling short of the 95.00% target. There have now been 1657 member calls made with 822 members speaking with Executive Director Lagos. Member feedback remains very positive, specifically with regard to interactions with staff. The Employer Outreach program is going well with PIO Officer Marty Karlon and Executive Director Lagos meeting with the Bedford School Board last evening. Plans are being made to visit Portsmouth and Nashua school districts in the near future. Regarding contracts, the space planning project has been tabled for now as the building is still under a purchase and sales agreement and NHRS is considering the possibility of a reduction of the amount of space utilized in the building. Also, space planning for accommodating the project management teams will have to be considered if the PGV3 upgrade proceeds.

Chief Legal Counsel Tim Crutchfield directed the Board to his Legal reports in the Board book as he had no further business to report.

Finance Director Heather Fritzky reported that the net position as of December 31, 2017 was \$8.789 billion, a \$1.1 billion dollar increase over December 31, 2016. In the Budget to Actual report, total Investment Internal and External is under budget by \$700,000; however, line 34, IME expense continues to track over budget. Line 49, Total Administrative Expense is under budget by \$1.2 million which puts us in a strong financial position half-way through the current fiscal year. She noted that weekly meetings have been ongoing with the P.I.O staff to develop an employer training program focused on addressing the most common reporting exceptions.

Executive Director Lagos, reporting for IT Director Frank Clough, began with the Telephone System Redundancy issue, noting that Frank Clough was working with Fairpoint and SE to develop a solution. VMWare infrastructure is a pressing issue and IT is evaluating four proposals for replacement servers. Ongoing discussions continue with SE on customer service issues. Lastly, recent phone tree testing of the Business Continuity Plan was successful.

Director of Member Services Nancy Miller reported that Member Services is engaged with Health Trust to review the processing of health insurance authorizations. She confirmed that the new insurance rate deductions for State of New Hampshire retirees were successfully implemented in

January. Member Services continues to address staffing issues and is currently looking to fill two positions in time for their busy July filing period.

The Board then reviewed the Consent Agenda. On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted to approve the Consent Agenda. *Motion passed. Abstained: Trustee Walker on Item 10-J.F. and Trustee Marro on Item 7-S.S.*

Trustee Martins had requested to attend the NCPERS meeting in NYC, a trustee educational seminar and conference, from May 12 through May 16, 2018. On a motion by Trustee Roy, seconded by Trustee Walker, the Board voted to approve the travel request for Trustee Martins as presented in the Board materials. *Motion passed with Trustee Martins abstained.*

Executive Director Lagos then presented Action Items from the January 9, 2018 meeting and noted that all Action Items are complete.

Under the Board Checkpoint discussion, Executive Director Lagos reminded the Board that David Kausch of GRS will be making a presentation at the March meeting on the payroll growth factor, in particular with respect to the continued decline in the teacher population in New Hampshire.

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

Respectfully submitted,

Margaret M. Astles