

NHRS Board of Trustees
April 10, 2018

Note: These minutes from the April 10, 2018 Public Session were approved and executed at the May 8, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees
April 10, 2018**

Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; Bill Dwyer; Bill Hart; Maureen Kelliher; Tim Lesko; 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*; Heather Fritzky, *Director of Finance*; Nancy Miller, *Director of Member Services*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Marty Karlon, *Public Information Officer*; Rosamond Cain, *Human Resources Manager*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the April 10, 2018, regular meeting of the NHRS Board of Trustees to order at 10:00 a.m., having established a quorum. Chair Gustafson called for a motion to accept the March 20, 2018 meeting minutes. On a motion by Trustee Roy, seconded by Trustee Dwyer, the Board voted to approve the public minutes as amended with Trustees Lesko, Marro, McCrillis, Roy and Walker abstaining.

Trustee Milligan noted that he wished the record to reflect his abstention from the vote approving the minutes of the February Board meeting.

Trustee Dwyer presented the Board with an update from the morning's Audit Committee meeting. He reviewed the FY18 overall audit plan as well as audit planning for FY19. In the open issues tracking report, three items were completed relating to the administration, telephone system and direct deposit changes to bank accounts.

In regard to the external auditor transition, Plante Moran will be meeting with our former auditor, KPMG, in Boston next week. Plante Moran is also expected to visit NHRS at that time and will be taking a closer look at the census work that NHRS conducts. Lastly, Trustee Dwyer reported that the Audit Committee discussed the VMWare procurement proposal that would be presented to the Board later in its meeting.

Trustee Walker reported on the Benefits Committee meeting held on March 29, 2018. Attorney Cavanaugh reported on the status of the final proposal of the Gainful Occupation rule revisions, noting that if the rule revisions gain approval by the Board, they will then be submitted to JLCAR. Trustee Walker also reported that JLCAR approved the adoption of the Interim Rules for Ret 300 and Ret 400 and if the Interim Rules gain approval from the Board, the rules will become effective on April 11, 2018. NHRS will then have 180 days to readopt amended versions of the permanent rules. Attorney Crutchfield introduced proposed revisions to the administrative appeals rules, in an effort to address various issues that had been identified. This review is the first in years and the Benefits Committee

will review the revisions further at its next meeting.

The Benefits Committee meeting of March 29, 2018 entered into non-public session to discuss disability-related matters. The issue of a re-examination for L.T. was considered and it was unanimously recommended to the full Board that the annual re-examination requirement be permanently waived.

On a motion by Trustee McCrillis, seconded by Trustee Walker, the Board unanimously voted to accept the recommendation of the Benefits Committee that the Board permanently waive the annual re-examination requirement in the matter of L.T.

The Benefits Committee also reviewed a matter of non-compliance in a disability case where the annuitant failed to provide updated medical records for review, despite repeated requests. The Committee voted to recommend to the full Board that the retiree's state annuity portion of that benefit be suspended beginning with the June payment. Following the meeting, the medical records of the retiree were received, negating the need for further action. The Committee also reviewed the disability reconsideration for M.O. but due to an absence of a Committee member that day, it was decided to table the discussion until all members could participate.

The Committee also acted on two recoupment matters.

Trustee Roy reported on the Governance Committee meeting of April 3, 2018. The Committee reviewed the draft Board Self-Evaluation policy and offered staff some drafting suggestions. The Committee expects to take action at its next meeting.

The Governance Committee conducted its annual review of the fee schedule for copies made pursuant to public requests for information. Staff reported that most requests are by email, requiring no charge. After reviewing fees charged by other state agencies, the Committee agreed to maintain the fee of \$.20 per page (plus postage) for hard copies and to delete fees for CDs and, instead, insert a fee of \$10.00 for flash drives.

The Committee also received a report from Attorney Cavanaugh on the annual VCP Policy review and he verified that there were no issues.

Next, Finance Director Fritzky reported on proposed changes to Ret. 303.01 which would extend the current due date for employer contribution payments to the 25th of each month to allow employers a reasonable amount of time to make payments following the reporting due date on the 15th of the month.

Lastly, Trustee Roy reported on the Governance Committee's detailed review with Executive Director Lagos on the PASE proposal to upgrade PensionGold from Version 2 to Version 3. The Governance Committee voted unanimously to recommend to the full Board that the upgrade project be approved.

Trustee Kelliher began her IIC report, noting that the IIC met on March 23, 2018. Presentations were given by Blue Bay Asset Management, a private debt firm working primarily in Europe. The IIC unanimously voted to commit 50 million dollars to Blue Bay's Direct Lending Fund III on an unlevered basis. As part of the NH Retirement System's two-year renewal process, the Committee then heard from LSV Asset Management regarding their actively managed US Large Cap Value Equity Portfolio and their Non-US Value Fund. Also, as part of the system's two-year renewal process, the Committee heard from NHRS Emerging Markets Equity manager Neuberger Berman.

Trustee Kelliher noted that the IIC unanimously voted to have the IIC Chair send a letter in opposition of HB 1603 to the Chair of the Senate ED & A Committee.

Lastly, Trustee Kelliher reported on the March markets, noting that March ended slightly negative but not substantially so and the retirement plan's performance has been in line with the markets. In

looking forward to the next quarter, GDP will see seasonal weakness and a return of 2.2% in the first quarter, as a result of a downturn in consumption. A rebound in the second quarter is expected with good numbers coming from the auto industry and strong retail sales are expected. Labor had been doing very well in the first quarter but softened at the end of March. It is expected that in terms of growth, the second quarter should see a repeat of 2017 levels.

Director of Investments Johansen reported that all of the asset classes are very close to target. The next IIC meeting will be held on April 20, 2018 with presentations by international equity managers, Causeway Capital and Fisher Investments, as part of the two-year contract renewal. The IIC will be considering a 50 million dollar investment with Monroe Capital, a private debt manager whose focus is on direct lending primarily in the US. In response to a question from Trustee Martins, Mr. Johansen indicated that all System assets are managed externally and none are managed internally.

Public Information Officer Karlon began his Legislative report, noting that there are still eleven bills related to NHRS that are working their way through the House and Senate. Regarding HB 561, the Working after Retirement bill, the House voted to request a committee of conference to reconcile the House and Senate versions of the bill. HB 1427, which allows a school district governing body to exempt a superintendent from compulsory membership in the retirement system, is still with the Senate ED&A Committee. No hearing has been scheduled yet but it needs to be voted on by the full Senate by May 3, 2018. HB 1756, the COLA bill, is currently with the Senate Finance Committee but there has been no action yet. HB 1823, the layered amortization bill, was passed by the Senate by voice vote, as "ought to pass" (OTP) and has moved to the Governor. SB 324, allowing a retiree whose optional allowance was terminated as a result of a final divorce decree and to nominate a current spouse for a new optional allowance, was passed by the House on a voice vote and has also moved on to the Governor.

Chair Gustafson presented background with respect to HB 1603, a bill that requires that one of three public members of the IIC be an active NHRS member appointed from a list of nominations provided by public employee labor organizations. The bill has been referred to the Senate ED&A Committee. Chair Gustafson noted that this bill was discussed extensively by the IIC, who unanimously voted to send a letter to the Chair of the Senate ED&A Committee in opposition to the bill.

Trustee Martins spoke to the IIC's letter of opposition to HB 1603, stating that he felt the IIC acted without permission from the Board of Trustees. He expressed the view that there are no provisions in RSA 100-A that authorize the IIC to send a letter of opposition to HB 1603 without first gaining approval from the Trustees.

Chair Gustafson took Trustee Martins' comments under advisement. He reiterated that HB 1603 had been discussed at great length by the Legislative Committee at its meeting on March 27, 2018, leading to the Committee's recommendation that the Board support the IIC's opposition to the bill by a vote of 4-1.

Executive Director Lagos reported on Board discussions which took place a year ago relative to SB 140, which was similar to HB 1603. To provide a frame of reference for the discussion, he then read an excerpt from the minutes of February 14, 2017 Board of Trustees meeting as follows:

"Executive Director George Lagos respectfully stated that Staff believed that the issues addressed in SB 140 were matters of policy within the Legislature's purview and did not have the same fiduciary duty implications as the other two bills, HB 369 and HB 425. He suggested that in the alternative, it would be appropriate to provide information to the Legislature with respect to the considerations and concerns with the potential impact and consequences of the changes proposed in SB 140."

He noted that the Board voted not to adopt the recommendation of the Legislative Committee to oppose SB 140 by a vote of six to five, with one abstention.

Returning to discussion regarding HB 1603, Chair Gustafson called for a motion to adopt the

recommendation of the Legislative Committee that the Board support the opposition to HB 1603.

The motion was made by Trustee Myers, seconded by Trustee Milligan, for discussion purposes only.

Trustees Milligan and Hart opined that HB 1603 pertained to public policy and was a matter for the Legislature.

Trustee Martins stated that HB 1603 is a Legislative matter and that taking action on public policy and on HB 1603 would be detrimental to the Board and would set a precedent of involving the Board in Legislative and policy matters.

Trustee Myers stated that he supported opposing HB 1603 at the Legislative Committee meeting and still supports opposing it today as a matter of fiduciary duty. He noted that the IIC has acted in the best interest of the retirement system's members and beneficiaries and has performed well against its benchmarks.

Trustee Marro felt that the bill related to fiduciary responsibilities, stating that he would support the original motion. He also commended the IIC for its good work and the good financial position it has placed NHRS in.

Trustee Martins noted that he has great respect for the work done by the IIC and Board members. He spoke to the investment results of the Retirement System, both before and after the creation of the IIC, expressing the view that the IIC's performance has been good, but not exceptional.

Trustee Kelliher responded to Trustee Martins' comments, stating that the problem with reporting, from the standpoint of investments, is results are based on the risks one takes and the level of return one receives over time. That is why the IIC uses independent consultants and the independent investment community, to provide the benchmark numbers and statistics that the IIC needs.

On a motion by Trustee Martins, seconded by Trustee Angwin, the Board voted to table the discussion regarding the adoption of the recommendation of the Legislative Committee that the Board oppose HB 1603. Ayes: 12 Trustee Myers: Nay.

Trustee Hart reported that the PPCC did not meet last month but that the next meeting is scheduled for May 3, 2018.

Chair Gustafson addressed consideration of the Teachers' payroll growth factor, noting the decline in Teachers' headcount and the prior Board discussions on this subject.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board unanimously voted to change the Teachers' headcount growth rate from -0.25% to -0.50% per year, thereby reducing the Teachers' payroll growth rate assumption from 3.0% to 2.75%, beginning with the FY 2017 valuation.

Executive Director Lagos gave the Board a presentation regarding the proposed upgrade from PensionGold Version 2 to Version 3 (PGV3). The presentation summarized information which had been provided to the Board over the past several months, including the benefits of the upgrade, due diligence which had been undertaken, and financial considerations.

On a motion by Trustee Hart, seconded by Trustee McCrillis, the Board unanimously voted to adopt the recommendations of the Audit and Governance Committees to approve staff's recommendation to move forward with upgrading from PensionGold Version 2 to Version 3, as presented today, subject to successful contract negotiations.

Executive Director Lagos then gave his Executive operating report, stating the key performance measures scored 96.59% this month and also that the Board will be asked to vote on the FY 2019 Strategic Plan. He mentioned that he continues to make his weekly survey calls to members and

retirees and consistently receives positive feedback. He recognized Member Services Director Miller and her staff for the exceptional and positive customer service work they are doing.

On a motion by Trustee Milligan, seconded by Trustee Roy, the Board voted unanimously to accept the FY 2019 Three Year Strategic Plan.

Chief Legal Counsel Crutchfield presented his monthly update, reporting that Attorney Cavanaugh has been working on revised amendments to Ret. 309.01, the Gainful Occupation rules.

On a motion by Trustee Marro, seconded by Trustee Walker, the Board voted unanimously to approve the Final Proposal text on Ret. 309.01 regarding the Gainful Occupation annual reporting, thereby allowing staff to continue with the rulemaking process.

Chief Legal Counsel Crutchfield then stated that the Interim Rules relative to the Ret. 300 and 400 rules were approved by JLCAR. If the Board votes to adopt these rules, they will become effective on April 11, 2018 when they are filed with OLS.

On a motion by Trustee Roy, seconded by Trustee Marro, the Board unanimously voted to adopt the Interim Rules Ret. 300 and 400, thereby allowing staff to continue with the rulemaking process.

Finance Director Fritzky reported that in regard to the recent Employer Reporting presentation held in Dover, this is a milestone for NHRS as it is the first presentation that NHRS has done on this topic. She noted that it went very well and work is underway on scheduling the next presentation of this topic at NHRS in May. The net position at the end of February 2018 fell to \$8,793.3 billion but still is up from the last fiscal year. She noted that the Budget vs. Actual report shows that the Independent Medical Examiners and Consultants, line 34, is still running over budget; but the Total Administrative Expense is still under budget for the fiscal year.

Executive Director Lagos, reporting on IT for Frank Clough, stated that helpdesk satisfaction scores have been good. With the IT Helpdesk tickets increasing, the additional IT staff hired is working out very well. He then reported on the VMWare upgrade contract proposal, noting that in comparing vendors, Mainstay, with two locations in NH, provided solutions tailored to the needs of NHRS and submitted the low bid by a wide margin. He requested that the Board approve the proposal to contract with Mainstay to undertake the VMWare upgrade.

On a motion by Trustee Kelliher, seconded by Trustee Marro, the Board voted unanimously to accept the recommendation of Executive Director Lagos that it approve the VMWare contract as presented, subject to legal review.

Director of Member Services Miller reported that the Judicial Retirement Plan audit has begun. In preparation for the expected volume of NHRS July retirements, the majority of which are teachers, Member Services staff is providing additional member appointments and processing multiple payroll setups.

Regarding the Consent Agenda, on a motion by Trustee Martins, seconded by Trustee Hart, the Board approved the April 10, 2018 Consent Agenda. Trustee Meyers abstained from the vote on Item 7-C.J.

Regarding Trustee Hart's travel request to attend CAPPP Program in Chicago, June 12-15, 2018, the Board voted to approve the travel request as presented in the Board materials, with Trustee Hart abstaining.

Chair Gustafson noted that the Actions Items from the March 20, 2018 Board of Trustee meeting are all on track.

On a motion by Trustee Walker, seconded by Trustee Marro, the Board unanimously voted to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles
Executive Assistant