

NHRS Board of Trustees

May 8, 2018

Note: These minutes from the May 8, 2018 Public Session were approved and executed at the June 12, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees
May 8, 2018
Public Minutes**

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

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

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*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Christine Rice, *Administrative Assistant*; and Margaret Astles, *Executive Assistant*.

Acting Chair McCrillis called the May 8, 2018, regular meeting of the NH Retirement System Board of Trustees to order at 10:30 a.m., having established a quorum.

On a motion by Trustee Walker, seconded by Trustee Hart, the Board voted to unanimously approve the April 10, 2018 public minutes as amended.

Trustee Dwyer presented the Board with an update from the morning's Audit Committee meeting. He noted that the Internal Auditor is providing the Audit Committee with a monthly summary of the progress made on data incident remediation efforts which are underway. One enhancement discussed will be the identification of any specific items that involve a dependency on LRS.

He reported that three audit issues remain outstanding in the Audit Issues Tracker, all of which are expected to be completed by July 2018.

The Committee also discussed the FY 2019 risk assessment as prepared by the Internal Auditor. The Audit Committee did not take action on this, but is expected to in June.

Lastly, the Committee voted to approve engaging KPMG to conduct the GASB 75 audits for the fiscal years of 2016 and 2017, subject to successful contract negotiations.

Trustee Walker reported on the Benefits Committee meeting held on April 25, 2018. He noted that Chief Legal Counsel Crutchfield and Associate Counsel Cavanaugh provided an overview of the comprehensive revisions proposed for the Ret 300 and 400 rules in an effort to achieve clarity and process improvement and to bring the rules into statutory compliance. No action was taken by the Committee on the proposed revisions but it is anticipated at the next Committee meeting. The Committee did approve recommending revisions to the 200 rules and will provide those rules to the Board next month. Mr. Crutchfield requested that if the Board members have any questions at all, to please contact either he or Attorney Cavanaugh over the course of the next month.

Finally, the disability reconsideration of M.O. that was previously referred by the Board was discussed and the Committee concurred with the recommendation of the Hearings Examiner.

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 accept the recommendation of the Hearings Examiner in the matter of M.O.

Trustee Roy reported that the Governance Committee did not meet last month but would be meeting today after the Board of Trustees meeting. Over the past several meetings, the Committee has discussed the implementation of the Board Self-Evaluation Policy as a best practice measure. He noted that the Committee expected to recommend that the full Board approve the Self-Evaluation Policy and asked that the Board review the Policy over the course of the month.

Trustee Kelliher presented her report for the Independent Investment Committee (IIC), noting that the IIC met on April 20, 2018. The IIC's first order of business was a unanimous vote to withdraw the letter in opposition to HB 1603 and to have a subsequent letter sent to the Chair of the Senate ED & A Committee.

Ms. Kelliher reported that the IIC unanimously voted to extend a two-year extension for management of a U.S. large-cap equity portfolio with LSV Asset Management through June 30, 2020 and to extend the two-year contract as it pertains to the core non-U.S. equity mandate managed by LSV Asset Management through September 2020. The IIC unanimously voted to extend the investment relationship with emerging markets equity manager, Neuberger Berman, through April 2020. The Committee heard presentations from core non-U.S. equity managers, Causeway Capital and Fisher Investments, in conjunction with the two-year renewal process. The IIC unanimously agreed to commit \$50 million to Monroe Capital Private Credit Fund III, unlevered, subject to contract and legal review. Ms. Kelliher noted that the Retirement System's total commitments to Monroe Capital have reached \$150 million.

Ms. Kelliher then reported on the capital markets, noting that the volatility that the market is experiencing is due to potential trade wars, tariffs, Washington, D.C. decisions and interest rate increases from the Federal Reserve. Even though the market is more volatile, it is holding up relatively well and in trading range. Corporate earnings growth is very strong and the economy is doing well. There are indications that bonds are stabilizing. Although Europe is coming out of a very bad winter causing a slow global economy, we expect to see a rebound. The rest of the global economy continues to expand.

Ms. Kelliher reported that the U.S. is experiencing 2.3% annualized growth in the first quarter which is stronger than prior first quarters and we hope to see 2.9% to 3.0% in the second quarter. Job growth remains tepid but the unemployment rate is down to 3.8%, the lowest level since 2000.

Director of Investments Johansen reported that the total portfolio for the 9 months ending March 31, 2018, was up 7.1%. All asset classes are well within ranges and very close to targets. The June 2018 IIC meeting will have a presentation from Townsend Group regarding their progress on their FY 2018 real estate work plan and they will be presenting their 2019 work plan for the Committee's approval. NEPC will also give the IIC a 6-month update on the private equity and private debt program. The July 2018 IIC meeting will have a macro-economic update with presenters speaking about interest rates and public debt, and how they expect the debt to be reduced in the years to come. Mr. Johansen noted that if anyone is interested in attending the meeting, to please let him know in advance so he can provide the materials for the meeting.

Mr. Johansen reported on the issue of securities litigation monitoring and NHRS's participation in class action securities litigation. NHRS's custodian, BNYMellon, monitors and manages most domestic class action securities litigation. In the past three calendar years, recoveries for NHRS have averaged approximately \$848,000 per year. However, BNYMellon does not handle domestic class action litigation that does not involve a specific security for NHRS, nor does it monitor international securities litigation for NHRS. In order to identify when NHRS might be a member of these two types of class action suits, staff is recommending that the Board approve a two-year

contract with Institutional Shareholder Services (ISS) with an option to extend the relationship for an additional one-year period at the annual fee quote of \$15,000, contingent upon successful contract negotiations. Mr. Johansen noted that the average annual recovery from similarly situated ISS clients has been \$29,000, although there are no guarantees for future recoveries.

Executive Director Lagos opined that a contract with ISS would provide NHRS with the assurance of participating in recoveries to which NHRS would be entitled but may not otherwise be aware of. Recovered funds would be categorized as “miscellaneous income” in our financial statements.

On a motion by Trustee Dwyer, seconded by Trustee Milligan, the Board voted unanimously to engage ISS to monitor certain agreed upon securities litigation services subject to successful contract negotiations.

Public Information Officer Karlon reported on the NHRS-related bills that are still active in the Legislature. The bills must be acted upon by May 24, 2018. HB 561, relating to working after retirement is going to a Committee of Conference to reconcile the House and Senate versions. The Committee of Conference must meet and issue a final report by May 17, 2018. Staff has shared administrative concerns with the Chairs of the House and Senate of the ED& A Committees and we will be following the conference deliberations.

HB 1756 was amended by the Senate and grants a one-time additional allowance of \$500 in FY 2019 to retired members who meet certain criteria. The House has not requested a Committee of Conference yet but has until May 10, 2018 to do so.

Mr. Karlon noted that five bills that have been passed by the House and Senate have moved on to the Governor for action. HB 1805 establishes a committee to study level dollar amortization of the retirement system’s unfunded actuarial accrued liability and increases NHRS trustee terms from 2 to 3 years. HB 1823 requires NHRS to amortize actuarial gains or losses accrued on or after July 1, 2017, for a closed and fixed period of no longer than 20 years. SB 324 allows a retiree, whose election of a retirement system optional allowance was terminated as a result of a final divorce decree or final settlement, to nominate a current spouse after remarriage for a new optional allowance. SB 458 provides for the election by a certain surviving spouse of a Group II member to purchase up to one month of creditable service. Lastly, SB 538 moves officers of the state office complex police force into Group II.

Trustee Hart presented the PPCC report from May 3, 2018, noting that the Committee entered into non-public session to discuss a number of personnel related matters. The PPCC reviewed the performance evaluation process and distribution of results over the last calendar year. It was noted that the process assures that individual performance evaluations that do not meet expectations are being addressed. Succession planning was reviewed, indicating that there are a number of Management Team members that will be eligible for retirement over the next several years and that several positions would have to be filled by recruiting from outside the agency. Staffing and recruitment were discussed and plans are being formulated to staff the needs of PGV3 project. Collective bargaining will begin after January 1, 2019 and management will provide the Board with its recommendations in the fall of 2018. Compensation for management and others who are not members of the bargaining unit will be reviewed over the next 6 weeks so that increases can be scheduled this summer.

Executive Director Lagos highlighted areas of his operating report, beginning with Key Performance Measures (KPM) which fell short of the 95.0% benchmark this month. He noted that the Internal Auditor will be doing an audit of the KPMs. Mr. Lagos reported that two responses to our RFP request for consulting services in connection with the PGV3 upgrade had been received, but the quotes far surpassed the amount that was initially planned for. Clarification will be made for the RFP respondents, that what we are looking for is oversight rather than a whole project plan.

Mr. Lagos presented the FY 2018 third quarter Member Satisfaction Survey Summary that continues to indicate overall sentiment as “very satisfied.” His individual telephone surveys, asking if members and visitors are happy with the service received from NHRS staff, continue to receive positive feedback as well.

Mr. Lagos then addressed the current GRS contract that expires December 31, 2018. The Audit Committee recommended in February 2018 that NHRS extend the current GRS contract to December 31, 2020 and to authorize staff to issue an RFP for an actuarial audit of the GRS FY 2017 valuation report as a best practice measure.

On a motion by Trustee Marro, seconded by Trustee Hart, the Board voted unanimously to accept the recommendation of the Audit Committee and staff to extend the GRS contract and to conduct an RFP for an actuarial audit, as presented.

Mr. Lagos updated the Board on two contract upgrades per the Procurement Policy. The first upgrade will be for Microsoft Office from version 2010 to version 2016, at a one-time cost of approximately \$16,000. The second upgrade is regarding copiers. The current copier contract with Conway Office Solutions for four multi-function copiers are ending this June. After obtaining proposals from three copier vendors as well as the option of proceeding under the State's copier contract, staff decided to enter into a five-year contract with SBM, who offered the fastest copiers at the lowest annual cost of approximately \$9,000.

Lastly, Mr. Lagos provided the Board with a summary of FY 2017 and 2018 contract activity.

Chief Legal Counsel Crutchfield reported on outreach efforts by the Legal Team, noting that Associate Counsel Cavanaugh has developed a good working relationship with state personnel and has a presentation scheduled for May 17, 2018 with a number of State HR and Payroll administrators to discuss proper reporting of earnable compensation and timely membership enrollment. Attorney Cavanaugh drafted an interpretive memo for school employers. He has a presentation scheduled for June 22, 2018 with the NH Association of School Business Officials.

Finance Director Fritzky reported on the net position of \$8,745 billion as of March 31, 2018, an improvement over last month and a \$761 million increase over March 31, 2017. The Budget to Actual report reflects a few line items that are tracking over budget, however we remain under budget overall for the fiscal year.

Ms. Fritzky noted that Finance has been working diligently with the PIO staff to assist our employers, providing them with guidance on the exception clearing process and reporting. A lot of content has been added to the employer resource page which is on NHRS.org and recently we've added exception instructions for the top five exceptions that employers face. We have received good feedback from employers regarding the changes and are now working on the next phase of instructions to be added. The next employer reporting education session is scheduled for later this month at NHRS.

Executive Director Lagos introduced the FY 19 Preliminary Trust Fund Budget which includes all NHRS expenditures, divided into four categories: 1) Investment Expense/Internal; 2) Investment Expense/External; 3) Non-Investment Expense/Non-Statutory; and 4) Statutory Administrative Expense.

Director of Finance Fritzky explained the preliminary Trust Fund Budget for FY19. In summary, the Trust Fund budget of \$41,723, 869 is \$3,407,196 higher than the FY18 budget of \$38,316,673, an increase of 8.9%. Of that amount, the increase of \$3,190,800 is attributable to increased marketable investment and real estate management fees. Investment values are assumed to increase by the current assumed rate of return of 7.25%. Investment expense increases as assets under management increase. The increase in all other expenses is 2.13% over last year's budget.

Executive Director Lagos, reporting for IT Director Frank Clough, indicated that IT is currently testing a product that will monitor and manage web utilization by staff. The Telephone System Redundancy project is nearing conclusion. Regarding the VMWare infrastructure, the Board previously approved the replacement of the VMWare servers and that equipment is on order.

Member Services Director Miller reported that Member Services is focused on the July retirement filings. Thus far we have received 349 applications which are on par with what Member Services

received last year at this time. The staff has already processed approximately 50 July retirements with a little over three weeks left in the filing period. Ms. Miller reported on the significant revisions that were made to the employer termination forms in conjunction with PIO. She explained that the required employer termination form must be returned in a timely manner so there is no delay in a retiree's final pension calculation. The form revisions included "FAQs" and "How To" instructions and a video is also being created, all to assist employers in proper and timely completion of the forms. Ms. Miller noted that feedback received from employers relative to the new form has been good.

Acting Chair McCrillis introduced the Consent Agenda. On a motion by Trustee Dwyer, seconded by Trustee Martins, the Board unanimously voted to approve the Consent Agenda as presented.

Executive Director Lagos presented his action items from the April 10, 2018 meeting and noted that all items are being addressed. In regard to Trustee Martins' April 10th comments regarding the IIC's authority to take a position on legislative matters, Mr. Lagos pointed out that this matter was reviewed with external counsel and there was no dispositive conclusion as there is no language in the statute that specifically authorizes the IIC to take such action nor is there language which prohibits it.

Trustee Martins asked if other Committees could take positions on matters and write to the Legislature, acting independently from the Board. Mr. Lagos replied that the IIC was created as an independent statutory committee whereas the other committees are actually sub-committees of the Board and have no authority to act without the Board's approval.

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

Respectfully submitted,

Margaret M. Astles
Executive Assistant