

Note: These minutes from the June 12, 2018 Public Session were approved and executed at the July 10, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees
June 12, 2018
Public Minutes**

**New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire 03301**

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

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*; Frank Clough, *IT Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Diana Crichton, *Interim Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Christine Basha, *Public Information Specialist*; Christina Minervini, *Public Information Specialist*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson began by thanking Trustee McCrillis for chairing the May 8, 2018 Board meeting. He informed the Trustees that former Trustee Stephen Marro has left the Board and in speaking with Mr. Marro, noted that he valued his time as a Trustee and appreciated the work of his colleagues on the Board.

Chair Gustafson called the June 12, 2018, regular meeting of the NHRS Board of Trustees to order at 10:07 a.m. Having established a quorum, Chair Gustafson called for a motion to accept the May 8, 2018 meeting minutes. On a motion by Trustee Roy, seconded by Trustee Walker, the Board unanimously approved the minutes, as amended.

Trustee Dwyer reported on the Audit Committee meeting held that morning, noting that the full Audit Committee met with representatives from Plante Moran, the new external auditor for NHRS. Plante Moran outlined their approach to audit work focusing on the audit of the CAFR, as well as the employer allocations for net pension liability and employer allocations for net OPEB liabilities. Early indications are that Plante Moran will be pro-active in facilitating discussions with NHRS staff.

Trustee Dwyer reported that the Internal Auditor presented the Committee with a very positive audit of cash flow forecasting and cash planning for cash operation purposes, noting that good internal controls and processes are in place. The only recommendation to the cash operation is to document the associated policies and procedures into PPM.

The Audit Committee continues to review the steps that are being taken for risk remediation following last year's data security incident and that the Committee will continue to receive updates on a regular basis.

There are only four outstanding issues within the Audit Tracker and the Committee anticipates that the two items regarding gainful occupation are to be addressed next month. Lastly, the Audit Committee approved the FY 2019 Internal Audit Plan as presented.

Trustee Walker reported on the Benefits Committee meeting of May 29th, 2018, noting that Chief Legal Counsel Crutchfield and Associate Counsel Cavanaugh presented an overview of revisions to rules Ret 300 and 400. The Benefits Committee voted unanimously to recommend to the full Board that the proposed revisions be approved so that the rulemaking process can begin by first going to OLS.

On a motion by Trustee Walker, seconded by Trustee Roy, the Board voted unanimously to accept the recommendation of the Benefits Committee to approve the proposed revisions to the Ret 300 and 400 rules to begin the rulemaking process, as presented.

Trustee Walker reported that the Benefits Committee voted to recommend to the full Board amendments to Ret 309.01 in accordance with the Conditional Approval.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board voted unanimously to accept the recommendation of the Benefits Committee to approve the proposed revisions to Ret 309.01 in accordance with the Conditional Approval, as presented.

Lastly, Trustee Walker stated that Attorney Cavanaugh presented a review of the disability reexamination process from the past two years, noting that out of the 33 cases identified for reexaminations, 25 were the result of IME recommendations, 4 were the result of the gainful occupation process and 4 were Board decisions based on statutory discretion. Attorney Cavanaugh noted that even though psychiatric exams are costlier than physical exams, the overall IME expenditures appear to be reasonable.

Regarding the Ret 200 rules, Chair Gustafson encouraged the Board to carefully review the proposed revisions as recommended by the Benefits Committee and presented to the Board for the typical one-month waiting period before action is sought this July.

Trustee Roy reported on the Governance Committee meeting held on May 8th, when the Committee voted unanimously to recommend that the full Board accept proposed revisions to a Board Self-Evaluation policy.

On a motion by Trustee Roy, seconded by Trustee McCrillis, the Board voted unanimously to accept the recommendation of the Governance Committee to approve the proposed Board Self-Evaluation Policy, as presented.

Trustee Roy informed the Board that at the next Governance Committee meeting,

upon the conclusion of today's Board's meeting, the focus of discussion will be on the renewal of cyber insurance coverage.

Trustee Kelliher reported on the May 18th Independent Investment Committee (IIC) meeting. The Committee heard an update on the work plan from the Director of Investments. The Committee then voted on two-year extensions of the investment management agreements with Causeway Capital Management and Fisher Investments, both active non-US core equity managers and also BlackRock, which manages an S&P 500 index fund on behalf of the NHRS. The Committee also heard a presentation from Artisan Partners on their active non-US core equity portfolio as part of a two-year contract renewal process that will be voted on at the June meeting. Lastly, the Committee unanimously voted to extend its custody agreement with Bank of NY Mellon for a term of five years with the option to extend the contract for two additional two-year periods, subject to contract and legal review. BNYMellon, at the request of the Committee, agreed to come back in November for a more comprehensive discussion on their cyber security processes and policies.

Trustee Kelliher informed the Board that all is well globally and the US economy has been experiencing a nice rebound in the second quarter, showing a 3 to 4 % annualized growth rate.

Regarding the impact of the recent summits, both the G7 Summit and the historic Southeast Asia Summit will likely mean that China will benefit the most because conditions on the Korean peninsula are expected to remain as is. There has been little reaction in the market in regard to the Summits to date.

Ms. Kelliher noted that in looking at year to date returns in U.S. capital markets, the equity market is positive at 4 to 5%. The international markets are slightly positive as well. The bond markets are still in a tight trading range, but things look good for the moment.

Director of Investments Johansen reported that all asset classes are well within ranges and very close to targets. One of the things discussed at the May IIC meeting was the status of the domestic equity portfolio as the passive component was approaching the lower end of the range according to the Committee's guidelines. The Committee agreed to rebalance active management to add to the passive management allocation with seven active managers which are building a plan over the next 6-7 months so that they are all not in the marketplace at once.

The IIC will have their annual real estate portfolio review in June and an update on the FY 2018 work plan and their proposed FY 2019 work plan. Also at the June meeting, the IIC will conduct the 6-month review of the private debt and equity program. He noted that the private equity/private debt program is doing extremely well and closing the performance gap created by the legacy assets relative to the commitments made since the restart of the program.

Trustee Milligan asked Trustee Kelliher if the Federal Reserve would be meeting this week and whether the anticipated rate increase will affect the NHRS. Trustee Kelliher replied that the Federal Reserve is meeting and we expect a quarter percent rate change from the range of 150 – 175 to 175 – 200 basis points.

Trustee McCrillis asked if we have stress-tested the entire portfolio should there be a significant market correction. Mr. Johansen replied that the IIC has done that before and is expecting to do it again in the early part of the second half of the 2019 Fiscal Year. He also noted that when we annually review the private equity and real estate plans, stress testing is used to make sure we have available liquidity.

Public Information Officer Marty Karlon reported on behalf of the Legislative Committee, noting that seven bills were passed by the House and Senate with four of them signed by the Governor. Two of the three remaining bills that we are waiting for are HB 561 - the Working After Retirement bill - and HB 1756 - the \$500 temporary supplemental allowance (TSA) payment to retirees whose annual annuities are not more than \$30,000.00. Internally, on the assumption that those two bills will pass, staff is developing news releases, Q & A's and working on buildouts for employer reporting.

Last week the Governor signed HB 1805 regarding the Decennial Commission's recommendation for the study of Level Dollar Amortization and an increase of NHRS Trustee terms from 2 years to 3 years. The Governor also signed a bill moving the State Office Complex Police into Group II.

Executive Director Lagos noted that regarding the Working After Retirement bill, there will be a lot of administrative work that needs to be done so that staff is prepared to answer the many questions that members and retirees will have. Regarding the \$500 TSA payment to retirees, the staff has identified over 20 potential factors regarding eligibility.

Executive Director Lagos noted that Trustee Hart is not able to report on the Personnel, Performance and Compensation Committee today as he is out of town attending the CAPPP education program.

The Board of Trustees took a brief break to allow for setting up a presentation.

Next, Executive Director Lagos introduced Mr. Keith Brainard, Research Director at the National Association of State Retirement Administrators (NASRA). Mr. Brainard has appeared before Congress, numerous state legislative committees and public pension boards and is often quoted by the media as a recognized expert on public pensions.

Mr. Lagos further noted that this is the fourth time that Mr. Brainard has addressed the NHRS Board of Trustees and last fall, at the request of NHRS, he gave a presentation to the Decennial Commission.

Mr. Brainard then spoke about the public pension landscape in the U.S., trends in funding conditions; benefit reforms; increases to employee contributions and shifting risk to employees; employer and taxpayer costs; and actuarial assumptions and methods.

At the conclusion of Mr. Brainard's informative presentation, the Board thanked him for his presentation and continued good work.

Director Lagos gave his Executive Report noting that key performance measures this

month were under 90% due to a number of factors. Internal auditing will be conducting a review of the KPMs before the next Board meeting to make sure that all measures are relevant and measurable.

Reporting on the status update for PGV3, Mr. Lagos stated that two consultants responded to our RFP with both of the bid proposals coming in far in excess of what was expected by NHRS. The project requirements are being reviewed with both consultants, with the expectation that revised bids will be submitted following NHRS meetings with each of the consultants.

Mr. Lagos pointed out to the Board that within the Trust Fund budget, there has been an increase of \$200,000 for funding a PGV3 project plan consultant in the next fiscal year.

As per the Procurement Policy, Mr. Lagos advised the Board that there has been a renewal of the IT Helpdesk contract for three years at a total cost of \$3,235.41.

Lastly, Mr. Lagos stated that he continues to monitor our performance in customer satisfaction and it continues to be going well.

In his Legal update, Chief Legal Counsel Crutchfield noted that Hearings Officer Carolyn Johnson has informed him that she has had an inquiry regarding a recent reconsideration appeal, noting that she expects it to be appealed to the NH Supreme Court.

Finance Director Fritzky gave her Finance report beginning with the penalty assessment statistics, noting that most penalties are waived when requested by the employers. Penalties are a mechanism for assuring that employers are accountable for reporting the information that NHRS needs on a timely basis.

Ms. Fritzky then reviewed the net position, noting that through April 30th, the net position was \$8.748 billion, an increase of \$676 million as compared to the same period in FY 2017.

Ms. Fritzky noted that the Budget to Actual comparison is reporting tight in some categories as we near the end of our fiscal year. With the additional disability reevaluations and psychiatric examinations, Independent Medical Examiner (IME) expenses have grown substantially. Ms. Fritzky replied to a Trustee's question regarding budgeting for these expenses in the next fiscal year. She explained that the amount budgeted for IME exams will be separated in the 2020-2021 statutory administrative budget with the reexaminations amount established by the Legal team and initial disability examination amount established by Member Services.

Ms. Fritzky then discussed the final Fiscal Year 2019 Trust Fund Budget, noting that the only change from the preliminary budget presented at the May meeting was the additional \$200,000 budgeted in Other Consultants. On a motion by Trustee Dwyer, seconded by Trustee Roy, the Board voted unanimously to approve the Fiscal Year 2019 Trust Fund budget as presented.

IT Director Clough gave his report, addressing the addition of a second Cisco firewall, which is included in the Executive Director's Action Plan. He explained a second firewall has been instituted to assure for redundancy should the primary firewall fail, allowing NHRS to continue internet access in the office without impacting productivity or operations.

Mr. Clough noted that completing the Telephone System Redundancy to our co-location (COLO) has been difficult because we are still waiting for SIP line cutover times from Consolidated Communications, formerly FairPoint.

Lastly, Mr. Clough reported on the long awaited VM Ware Infrastructure installation, noting that this is the core of all of our operations. The new VM Ware hardware will provide us faster speeds and other benefits. The old infrastructure will be moved to our COLO so we will have redundancy and the data that we have at NHRS will be replicated offsite. It is expected that the VM Ware Infrastructure project will be completed by July.

Member Services Director Miller reported that the July 1st filing period has closed and the staff is now experiencing less pressure with appointments. Member Services has received 749 retirement applications and the challenge now is calculating benefit setups for all of the retirees in a timely manner. To date, 424 setups have been completed, putting us in a better position this year than last. Ms. Miller noted that she is impressed and proud of the entire Member Services team.

Ms. Miller explained that staff has put together FAQs for the newly revised Employer Termination and staff is in the third month of using the revised forms. Quicker turn around times are being seen as a result of the adjustments to the forms and Ms. Miller noted that she is optimistic that the KPMs related to finalizing the large number of July preliminary benefits will be met this year.

On a motion by Trustee Roy, seconded by Trustee Myers, the Board unanimously voted to approve the Consent Agenda as presented.

Chair Gustafson pointed out that Trustee educational evaluation forms have been submitted by Trustees McCrillis and Martins for review by the Board.

Executive Director Lagos noted that all Action Items from the May 8th meeting are moving forward and on track.

Chair Gustafson noted that the Annual Board of Trustees' employee appreciation BBQ will be held immediately following next month's meeting.

Chief Legal Counsel Crutchfield reminded the Board that Hearings Examiner Carolyn Johnson will be retiring at the end of June and that this is her last Board meeting. He also introduced Ms. Johnson's replacement, Ms. Diana Crichton, noting that NHRS is fortunate to have her on board as she comes to us with many years of experience as a Hearings Examiner with DHHS.

Mr. Crutchfield spoke in recognition of Ms. Johnson's service to NHRS, noting that she came to NHRS in 2005 and in the past twelve and half years, she has produced hundreds of recommendations, both disability and administrative, written for the Board in a thoughtful and understanding manner. Over those years, nine of her recommendations supported by the Board were appealed to the NH Supreme Court and of those nine, seven were upheld. Speaking for his co-workers, Mr. Crutchfield stated that it has been a pleasure working with her through the past twelve years and that he will miss her congenial demeanor and her willingness to assist NHRS in a variety of ways, including the often challenging task of shepherding rule amendments through the JLCAR process as well as reviewing proposed legislation that could impact NHRS. He asked that those present join him in thanking her for a job well done. Ms. Johnson was presented with a plaque as a token of appreciation from the Board of Trustees and given a warm round of applause for her efforts.

On a motion by Trustee Walker, seconded by Trustee Milligan, the Board voted to unanimously adjourn at 12:00 pm.

Respectfully submitted,

Margaret M. Astles
Executive Assistant