

**Note:** These minutes from the August 14, 2018 Public Session were approved and executed at the September 11, 2018 Regular meeting of the Board of Trustees.

**Board of Trustees  
August 14, 2018  
Public Minutes**

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

*Trustees:* Dick Gustafson, Ph.D., *Chair*; Melvin Friese; Bill Dwyer; Bill Hart; Maureen Kelliher; Tim Lesko; Bob Maloney; Scott Myers; Don Roy; and George Walker. Michael Milligan, and Sue Hannan *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*; Diana Crichton, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Cecile Merrill, *Project Manager*; and Christine Rice, *Administrative Assistant*.

Chair Gustafson called the August 14, 2018 regular meeting of the NHRS Board of Trustees to order at 10:30 a.m. He commenced the meeting by welcoming the new Trustees: Bob Maloney, a public member, Melvin Friese, the employee member, and lastly, Sue Ellen Hannan, the teacher member, who had a prior commitment that morning. Chair Gustafson noted the contributions of the three outgoing Trustees: Tonya Angwin, Germano Martins, and David McCrillis. Chair Gustafson reported that both he and Executive Director George Lagos spoke to each of them by phone, thanking them for their service and the perspectives that they brought to the Board. He asked that the minutes reflect the Board's appreciation for their service.

Having established a quorum, Chair Gustafson called for a motion to accept the July 10, 2018 meeting minutes. On a motion by Trustee Roy, seconded by Trustee Walker, the Board approved the minutes, as amended. Trustees Friese and Maloney abstained.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He discussed the internal audit review of the monthly KPM reporting, noting that the August's KPM results for the September Board meeting will reflect the revisions made, resulting from the audit recommendations.

Trustee Dwyer apprised the Board of the continued progress the System has made on the Data Security Remediation, with respect to medium and high-priority items identified following last year's data security incident. He noted that, of those items, the System addressed and resolved 15% of the high-priority items and about two-

thirds of the medium-priority items. Executive Director Lagos responded to an inquiry regarding an expected timeline of the remediation process, indicating that he anticipated it would continue for at least the next six months.

The Audit Committee discussed its FY18 Audit Plan, noting most of the scheduled audits were completed and that a couple have rolled over to FY19. In addition, the Committee reviewed the Board's Audit Policy, the revised Actuarial Funding Policy, as well as its Charter. It anticipates taking action on each at the next Audit Committee meeting, with the expectation that all three items would be on the Board agenda next month.

Lastly, Trustee Dwyer noted that representatives from the recently appointed independent auditor, Plante Moran, were on site at the System at the end of July into August, and that the audit was progressing well, thus far.

Trustee Walker reported on the Benefits Committee meeting of August 1, 2018. He stated that the Committee conducted the annual review of its Charter and had no recommended changes. The Committee also reviewed the CVs of the System's six IMEs, which it will present to the Board at the September meeting as an informational item, pursuant to the IME Review Policy.

He commented that Associate Counsel Mark Cavanaugh had updated the Committee on how recent changes to the State's short-term disability program will be taken into consideration to assure appropriate service credit for state employees.

Attorney Cavanaugh also presented proposed revisions to the Medical Review Policy, regarding disability retirees. The Committee expects to vote on the proposed revisions at its next meeting, before presenting them to the Board for its consideration.

Trustee Walker reported that the Committee discussed the disability recommendation of L.N., referred to it by the Board, and that it concurred with the recommendation of the Hearings Examiner.

On a motion by Trustee Hart, seconded by Trustee Dwyer, the Board voted unanimously to accept the recommendation of the Benefits Committee to accept the recommendation of the Hearings Examiner in the matter of L.N.

Following the adjournment of the meeting, the Committee consulted with Attorney Delaney of the McLane firm to discuss an administrative reconsideration matter that will come to the Board at a future meeting.

Trustee Roy reported that the Governance Committee did not meet last month, but plans to convene immediately following the conclusion of today's Board meeting for the annual review of its Charter, as well as the Fraud Policy.

Trustee Kelliher gave an update on the Independent Investment Committee (IIC), which held a regularly scheduled meeting on July 20, 2018. The IIC approved its FY19 Work Plan for the second quarter and voted unanimously to terminate Aberdeen Standard, an emerging market equity manager. It directed staff to move the funds equally into two existing equity market managers, Neuberger-Berman and Wellington.

The IIC heard global macro-economic presentations provided by three managers: AB, formerly Alliance Bernstein, an equity manager for the System; Brandywine, and Manulife, who manage fixed income portfolios.

An emergency IIC meeting was called on August 7, 2018, held by teleconference in reference to a development of one of the System's fixed income managers, GAM. After discussion of the facts, the Committee voted unanimously to affirm Director of Investments Larry Johansen's action to initiate liquidation of the System's investments with GAM's unconstrained bond fund, and, if necessary to protect the System's assets, authorized the Director of Investments to rescind this action.

Subsequent to the teleconference meeting, Trustee Kelliher reported that GAM's unconstrained bond fund would be liquidated and all proceeds would be returned to its shareholders.

Director of Investments Johansen began his update with a summary of his meeting with three representatives of GAM on August 13, 2018. GAM is expected to sell, in an orderly manner, all the assets of the fund. The most liquid portion of the fund, approximately 75%, will be sold over the next several weeks. The less liquid portion, approximately 10%, will be sold over the next few months. The least liquid portion of the fund, approximately 15%, will be sold by the end of the year. The representatives of GAM do not expect to incur any discounts when selling the assets.

Mr. Johansen continued with an indication that the domestic equity rebalancing will be 50% complete this week, adding that the termination of Aberdeen-Standard and the movement of those assets to Wellington and Neuberger-Berman will also be 50% complete this week. All asset classes are very close to target and well within approved ranges. The preliminary performance of 8.0% for the fiscal year ending June 30, 2018 does not include the fourth-quarter asset values for the Real Estate and Alternative portfolios, which account for approximately 25% of the total returns for those investments. The portfolio's performance will increase when those values are known, sometime in late August or September. Based on preliminary performance, NEPC expects the System's final one-year return to be in the top quartile of the peer universe. In response to a Trustee's question, Mr. Johansen clarified the need for GAM to take its time in liquidating the fund in an attempt to avoid any adverse market movement caused by the sale of these assets.

Chair Gustafson reported on behalf of the Legislative Committee, announcing it had not met since the July Board meeting. Marty Karlon, Public Information Officer, apprised the Board of an upcoming organizational meeting of the Legislative Study Committee for level dollar amortization slated for August 23, 2018, at 1 p.m., in the Legislative Office Building.

Trustee Hart provided his account of the PPCC meeting held July 27, 2018, noting the Committee discussed the staffing plan for the implementation of PGV3. The Committee will meet again, prior to the Board's September 11, 2018 meeting to review its Charter.

Chair Gustafson called a public hearing for the review of Ret rules 300 and 400. The Board received testimony from Mr. Richard Welch, who expressed his view that there had been a lack of communication and transparency with respect to public notice on proposed changes to administrative rules. He also inquired about the amount of time

allocated to taking testimony at public hearings on the rules' amendments.

Following Mr. Welch's testimony, Attorney Cavanaugh noted that copies of the proposed amendments were posted on the NHRS website in response to one or two phone calls from people asking to see copies of the rules, as filed. He stated that the website also posts announcements regarding upcoming public hearings.

The public hearing was temporarily adjourned, with Chair Gustafson announcing that any oral or written testimony would be accepted until noon that day.

Executive Director Lagos gave his report, noting that the System has been underperforming on the KPMs for several months, averaging a little less than the 95 % target. He informed the Board that NHRS expects that the \$500 Temporary Supplemental Allowance payment to eligible retirees will go out August 15, 2018, and that it posted a notice on the System's website. He then commented on the various customer satisfaction surveys in use, which indicated overall satisfaction ratings in the range of 95%.

Chief Legal Counsel Tim Crutchfield had no new items to report, however respectfully requested members of the Board, who served in FY18, to return the Annual Ethics Surveys as soon as possible to Executive Assistant Margaret Astles.

Director of Finance Heather Fritzky discussed the financial reports, noting the Preliminary Net Position for FY18 is \$8.7 billion. She briefly gave an update on budget to actual expenses, highlighting that the total expense continues to land well under budget. Ms. Fritzky affirmed Chair Gustafson's observation of the continued expectation of an increase in spending with regard to Independent Medical Examiners arising from disability re-examinations.

Mr. Lagos then introduced Cecile Merrill, the Project Manager of the PVG3 implementation, who gave an overview of what to expect over the next four years in terms of the System upgrade. She noted that pre-implementation work was already in process, including hiring additional staff, contract finalization with LRS, identifying external legal counsel to review software contracts, and space planning. In addition, she discussed the importance of keeping staff abreast and engaged throughout the process. She also commented on data cleansing, which is underway to identify data issues prior to the initiation of the conversion.

Mr. Lagos reviewed the financial impact of the PGV3 project with regard to the statutory budget, noting the System's net budget historically has remained flat since 2012, with a consistent spending pattern over that timeframe. The PGV3 expenditure is a total of \$14.3 million over the next 10 years, with the majority expended over the next five, due to the upfront costs for initial licensing and implementation.

Ms. Fritzky continued the discussion on the FY20-21 statutory administrative budget, which is one component of the trust fund budget, noting that it is a two-year budget, which has to go through the state legislative budget process, though the money does not come from the general fund. She gave an overview of the proposed expenditures the System will present to the state, emphasizing two areas that comprise 80% of the budget: Non-PVG3-related salaries and benefits, which make up 57% of the total budget, and the PGV3 project costs, which make up 23%. NHRS will present a final

FY20-21 statutory administrative budget to the Board for review and approval at its September meeting.

Director of IT Frank Clough reported on the Telephone System Redundancy project, noting that he anticipates completion of the SIP installation, which enables the System to make calls through the Internet, on August 23, 2018. Upon the completion, SIP will provide backup communication from the COLO should there be a disruption of service at NHRS. IT has implemented training and testing to improve staff-system security awareness.

Director of Member Services Nancy Miller provided statistics regarding her department's busy season, with 744 July 1 retirees added to the payroll, along with over 1,000 changes to retirees' insurance premiums. She noted that, for the first time, employers could make premium changes themselves through the online insurance authorization module, implemented over the past year. Ms. Miller additionally noted that Member Services expects delivery of another significant Pension Gold enhancement in August, enabling QDRO estimates to be generated out of the system versus the existing manual calculation process.

On a motion by Trustee Roy, seconded by Trustee Myers, the Board unanimously approved the Consent Agenda.

Executive Director Lagos then addressed the Action Items from the July 10, 2018 meeting, noting that all Items listed are complete or on target for a timely completion.

Chair Gustafson reported on the orientation session held for the three new Board members, which was held last week, which included discussion about the importance and utilization of committees. He stated that he would be talking with those new members shortly, and had already briefly spoken with Trustee Maloney about joining certain committees that need support.

Executive Director Lagos reiterated the statutory timeframes governing the administrative budget process and invited Trustees to present any questions or concerns to him, or Director of Finance Fritzky, prior to the September meeting.

Chair Gustafson reconvened the public hearing on the Ret rules 300 and 400, asking whether anyone had further testimony on the matter, and provided a reminder of the submission deadline of 12 p.m. that day, for oral or written testimony to NHRS on the proposed rules revisions. He then formally closed the public hearing.

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

Respectfully submitted,

Christine L. Rice  
Administrative Assistant