

NHRS Board of Trustees
Minutes-January 8, 2019

Note: These minutes from the January 8, 2019 Public Session were approved and executed at the February 12, 2019 Regular meeting of the Board of Trustees.

**Board of Trustees
January 8, 2019
Public Minutes**

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

Trustees: Richard Gustafson, Chair; Bill Dwyer, Sue Hannan, Bill Hart, Maureen Kelliher, Tim Lesko, Bob Maloney, Michael Milligan, Scott Myers, Don Roy, and George Walker. *Telephonically:* Christopher Coates. *Absent:* Melvin Friese.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Frank Clough, *IT Director*; Mark Cavanaugh, Esq., *Associate Counsel & 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*; and Margaret Astles, *Executive Assistant*.

Also attending: Jack Dianis, *Finance Consultant*.

Chair Gustafson called the January 8, 2019 regular meeting of the NHRS Board of Trustees to order at 10:38 a.m. Chair Gustafson welcomed Gerard Murphy, the new Director of Finance for NHRS and thanked Jack Dianis, for his work as Interim Director of Finance and assistance with Gerard's transition. Having established a quorum, Chair Gustafson called for a motion to accept the December 11, 2018 public Board of Trustees meeting minutes.

On a motion by Trustee Roy, seconded by Trustee Myers, the Board voted to approve the minutes, as presented. *Abstention:* Trustee Hannan.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began by noting that the Audit Issues Tracking Report reflects four open audit issues. The resolution of the QDRO Member Retirement Procedures item has been extended to March 2019. The other three audit issues relating to the Employer Contribution Reconciliation Audit

should be concluded when the remediation actions are put into effect. The Committee also reviewed the FY 2019 Internal Audit plan, noting that audits for Employer Hire and Separation procedures and System Access User Rights will likely be added to the Tracker in March 2019. Concerning the Data Security Response update, Mr. Dwyer noted that Nancy Cone, Internal Auditor, provided the Committee with a well-received status summary. He explained that staff continues to address the implementation of remediation measures and currently have achieved 61% completion. The Committee also reviewed a letter from Plante Moran as part of the CAFR audit, which identified opportunities for internal control improvements. He was happy to report that in several instances, the NHRS staff had already implemented recommendations, noted in Plante Moran's letter.

Mr. Dwyer reported on the draft GASB 68 & 75 Employer Allocation reports, which provide the allocation of both pension liabilities, as well as post-employment benefits expenses for participating employers. Mr. Dwyer explained that GASB 68 & 75 requires employers to identify these liabilities in their financial statements.

On a motion by Trustee Dwyer, seconded by Trustee Hannan, the Board unanimously accepted the recommendation of the Audit Committee to accept the June 30, 2018 GASB 68 & 75 Reports, as presented, subject to receipt of an unmodified opinion letter from Plante Moran.

Trustee Dwyer noted that the Audit Committee had considered and acted upon a recommendation from staff regarding a peer actuarial audit. This would be done by an independent actuary by performing a full scope actuarial review of the last valuation performed by GRS, as a matter of best practice. It is expected that the consulting firm chosen would complete its work in May or June 2019, with an estimated cost of \$70,000, not to exceed \$80,000.

On a motion by Trustee Dwyer, seconded by Trustee Myers, the Board unanimously voted to accept the recommendation of the Audit Committee that the Board select Segal Consulting to perform a full scope actuarial audit of the June 30, 2017 valuation performed by GRS, subject to due diligence and successful contract negotiations.

Executive Director George Lagos noted that the GRS contract expires at the end of next year. At that time, an RFP will be issued for these services. Replying to a question as to how often a peer actuarial audit would be done, Mr. Lagos suggested that an audit mid-way through the next actuary's contract would be appropriate.

Lastly, Trustee Dwyer noted that the Audit Committee received a draft of a new Data Risk Assessment Policy, which will also be provided to the Governance Committee for review. The expectation is that the Governance Committee will

consider it for recommendation to the full Board for approval at a future meeting.

Chairman Roy reported for the Governance Committee, stating that the Committee met on December 11, 2018. The first matter discussed was an update from Chief Legal Counsel Crutchfield on the issuance of an RFI to providers relating to the potential transition to paperless Board meetings. The Committee also discussed the annual Governance Manual review, with revisions to three Board policies, revisions to the PPCC Charter, and an annual update of certain information included in the Appendices and Exhibits.

On a motion by Trustee Roy, seconded by Trustee Lesko, the Board voted unanimously to accept the recommendation of the Governance Committee that the Board approve the revised Governance Manual, as presented.

Next, Trustee Roy reported that at its December 11, 2018 meeting, the Governance Committee voted unanimously to recommend to the full Board that it renew its fiduciary insurance coverage with the Hudson Insurance Company. Hudson had confirmed that it would renew, at the same terms of the expiring policy, for the next two years, with \$20 million in coverage, with a \$100,000 deductible, at an annual premium of \$123,000.

On a motion by Trustee Roy, seconded by Trustee Kelliher, the Board unanimously voted to accept the recommendation of the Governance Committee to renew its annual fiduciary insurance coverage for \$20 million with Hudson Insurance Company, as presented.

Lastly, Trustee Roy reported that at the Governance Committee meeting today, following the Board meeting, the Committee would be discussing the proposed draft Data Security Policy mentioned by Trustee Dwyer.

Trustee Kelliher provided a recap from the IIC's meeting of December 14, 2018. She noted that the Director of Investments reviewed the IIC's work plan and the IIC unanimously voted to renew the investment management agreements with mid-cap investment managers TSW and AllianceBernstein, through November 30, 2020. The IIC then reviewed the status of the Real Estate Investment Plan for FY 2019, as presented by the Townsend Group. Lastly, in that meeting, the IIC heard a presentation from NEPC on the performance of the private equity & private debt investments included in the NHRS portfolio. After the presentation, the IIC unanimously approved the private equity & private debt strategic plan for calendar year 2019.

Commenting on the market and economic conditions, Trustee Kelliher noted the last couple of months have been the most tumultuous market many had ever experienced and, after one of the worst Decembers on record in the stock market, it was welcomed to see cooler heads prevail last week. Two of the

largest factors driving the uncertain market at the end of 2018 were concerns over the Federal Reserve and its judgement regarding balance sheet reduction and 2019 interest rate increases. She noted that the Federal Reserve Chair recently quelled market jitters by clarifying that the Federal Reserve will be data-dependent regarding additional moves in 2019. More importantly, regarding the low point in Federal Reserve confidence levels, the employment report from January 4, 2019, was remarkable, showing strength and resolve that the Federal Reserve and the FOMC were justified in the decisions they made in December 2018.

Director of Investments Johansen reported on NEPC's Private Equity & Private Debt Portfolio review ending December 2018. He noted that fiscal year-end June 30, 2018 saw strong S&P 500 total return gains of 14.4% and the Barclay Aggregate Fixed Income saw a return of -0.4%. The Private Equity portfolio's FY '18 return was up 18.1% against the S&P return of 14.4% and continues to perform well. The Private Debt portfolio was up 6.5% relative to the Barclay Cap, down 40 basis points. He noted that the alternative program continues to add value relative to the public market results.

Mr. Johansen reviewed the Private Equity & Private Debt Executive Summary, highlighting the target asset allocation at 10.0%, the actual net asset value at 14.1% and the committed but unfunded at 11.0%. The Private Equity & Private Debt exposure of the net asset value, plus the unfunded, is at 25.6%. The trailing 5-year internal rate of return as of June 30, 2018 for the full program, was 11.4%. The return was hampered by the Legacy Program, down by -4.3%, but buoyed by the Restart Program, which was up 11.6%. The review for December 2018 shows the number of commitments made at 55, with 39 meeting expectations, 4 that are of concern, and 12 commitments that have had a year or less of operation.

In summary, NEPC's Private Equity & Private Debt Strategic Plan for CY 2019 recommends that NHRS consider making \$300-\$400 million of new commitments per calendar year for the next several years. Roughly, \$365 million of commitments have already been made for CY 2019. In closing, Mr. Johansen noted that the portfolio is doing extremely well.

Trustee Myers reported on the Legislative Committee meeting held prior to the Board meeting on January 8, 2019. Public Information Officer Karlon reported on the latest list of LSRs and noted that after the Board meeting, he, the Director of Investments and the Executive Director would be making an informational presentation to the House Executive Departments and Administration Committee (ED&A) on the retirement system.

Executive Director Lagos noted that at today's presentation, he wanted to make sure that the ED&A Committee, especially the new legislators, were aware of three important points: 1) NHRS provides a modest benefit to its members;

2) the actual cost of that benefit is modest and represents only about 20% of the total cost that employers pay into the system; and 3) that the key is not really where NHRS is in terms of its funded liability, but rather where NHRS is going. Mr. Lagos wanted to make clear that NHRS has a plan in place that it is executing and the existing fund deficit is being amortized and will be paid down by 2039.

Trustee Walker reported that the Benefits Committee did not meet in December, but Board action is expected at today's meeting to approve the proposed rule revisions to Chapters Ret 200, 300, and 400, for final adoption.

Associate Counsel and Compliance Officer Cavanaugh explained that the final adoption of the rule revisions would be the end of the process. Upon approval by the Board, the rule revisions to all three chapters would be filed today and become effective at midnight. Mr. Cavanaugh noted that the process went very well with the Office of Legislative Services (OLS) and JLCAR accepted all substantive revisions that were recommended. He noted that NHRS will not have to re-adopt rules Ret 200, 300, and 400, for another 10 years.

On a motion by Trustee Roy, seconded by Trustee Walker, the Board unanimously voted to approve the proposed rule revisions to chapters Ret 200, 300, and 400, for final adoption.

Trustee Roy inquired if the rule revisions would be difficult to implement. Chair Gustafson replied that the adoption of the rule revisions aligns with the rules that were previously in place, but had expired.

Trustee Hart reported on the PPCC meeting held on January 2, 2018, noting that the Committee had entered into non-public session to discuss personnel matters. Upon reconvening in open session, the PPCC discussed the Executive Director evaluation. Trustee Hart explained the ED evaluation process to the Trustees. He and Chair Gustafson asked all Trustees to participate in the evaluation, answering to the best of their ability, even though many of the Trustees are newly appointed. Trustees were requested to return the evaluations to NHRS on or before Friday, January 18. Lastly, he asked that the Board enter into a temporary adjournment to discuss the collective bargaining strategies or negotiations.

On a motion by Trustee Hart, seconded by Trustee Milligan, the Board unanimously voted to temporarily adjourn the meeting, for the purpose of discussing collective bargaining strategies or negotiations, under RSA 91-A:2, I(a).

On a motion by Trustee Myers, seconded by Trustee Dwyer, the Board unanimously voted to reconvene the Board meeting.

Executive Director Lagos provided his operating report, noting that Key Performance Measures scored 97.75% for the month. He noted that the PG-V3 kick-off date would be January 24, 2019.

Concerning his telephone survey results, Executive Director Lagos noted that he has now spoken with 999 members and retirees on his weekly calls, as of December 31, 2018. His telephone survey response rate is very favorable, with 91% positive, 8% neutral, and 1% negative.

Lastly, Executive Director Lagos reported that given the ongoing challenges of maintaining the security of our systems, it would be beneficial to hire an IT Security Officer (ISSO), given the security threats that are, unfortunately, part of the day-to-day business activities.

Chief Legal Counsel Crutchfield gave his legal update, noting that Attorney Crichton revised the format on the monthly appeals report, hopefully, making it easier to read. He then thanked the Trustees for submitting their annual Statement of Financial Interests forms, by the January 18, 2019 due date.

Mr. Crutchfield noted that responses for the legal RFP for fiduciary, tax and benefits counsel are due by January 18, 2019. The RFI for the transition to paperless Board meetings was issued on January 4, 2019, to five providers, based on information provided by several different retirement plans, and a survey of the NHRS Trustees.

Jack Dianis reported on behalf of Finance, thanking the Board for its contingent acceptance on the GASB 68 & 75 report, which will enable Finance to provide the reports to employers so they can complete their financial statements.

Mr. Dianis reviewed and explained the net position, the cash flow report of contributions, benefits and investment income, and the budget-to-actual report. Lastly, he noted that now that the audit is complete, Finance is focusing on internal projects that will continue to be outlined in the monthly FY 2019 Action Plan Summary.

Chair Gustafson, thanked Mr. Dianis and Heather Fritzky, the Assistant Director of Finance and Controller, for their continued work and support to NHRS, and their willingness to assist new Director of Finance, Gerard Murphy, with his transition.

IT Director Clough presented his report, and noted that the IT Disaster Recovery plan has been completed. The next step is to develop a plan to test and validate the Plan.

Concerning email redundancy, Director Clough explained that a second email server at our co-location in Massachusetts will afford protection, and if one email server goes down, emails will be transferred to the second server.

Director of Member Services Nancy Miller reported on July retirements, noting that because of the new forms, new process, and the education programs, which PIO coordinated, all of the July employer retiree termination forms have been received by NHRS. By the end of January 2019, 714 termination forms out of 743 would be processed.

Concerning recruiting, Ms. Miller reported that a new Member Services Manager was starting at the end of the week and a third-round candidate for the Benefit Coordinator position was being interviewed. She remarked that the timing could not be better, with the upcoming PG-V3 kick-off.

Ms. Miller noted that Member Services did not make the KPM, relating to member refunds due. There should be a correlation between employer file reconciliations and member refunds, but there is currently a 30-day timing difference between the two functions. She expects that since this problem was identified, a resolution will come about shortly.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board unanimously voted to approve the consent agenda, with the exception of disability application recommendation #6-R.T.

On a motion by Trustee Dwyer, seconded by Trustee Hart, the Board voted unanimously on a roll-call vote to enter into non-public session, under RSA 91-A:3 II(c) to discuss a disability application.

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

In public session, on a motion by Trustee Dwyer, seconded by Trustee Myers, the Board voted unanimously to approve the disability application recommendation of #6-R.T.

Executive Director Lagos noted that the Action Items from the December 11, 2018 meeting have either been completed or are underway.

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

Respectfully submitted,

Margaret M. Astles
Executive Assistant