

Note: These minutes from the December 11, 2018 Public Session were approved and executed at the January 8, 2019 Regular Meeting of the Board of Trustees.

**Board of Trustees
December 11, 2018
Public Minutes**

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

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

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Nancy Miller, *Director of Member Services*; Larry Johansen, *Director of Investments*; Jack Dianis, *Interim Director of Finance*; Heather Fritzky, *Assistant Director of Finance & Controller*; Frank Clough, *IT Director*; Kathy Ashton, *IT Administrative Assistant*; Cecile Merrill, *Project Manager*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; and Margaret Astles; *Executive Assistant*.

Chair Gustafson called the December 11, 2018 regular meeting of the NHRS Board of Trustees to order at 10:30 a.m. Having established a quorum, Chair Gustafson called for a motion to accept the November 13, 2018 regular meeting minutes. On a motion by Trustee Roy, seconded by Trustee Milligan, the Board unanimously approved the minutes, as presented.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began by noting that the Audit Committee met with the external auditors, Plante Moran, who performed the Comprehensive Annual Financial Report (CAFR) audit. The Audit Committee voted to approve the CAFR and recommend its adoption by the full Board.

Jack Dianis, Interim Finance Director, thanked Heather Fritzky, Assistant Director of Finance & Controller, for dedicating the last six months to gathering data for the FY '18 CAFR and for her work with Plante Moran.

Mr. Dianis gave the Board an overview of the structure of the CAFR and offered tips on navigating the document. He noted that the CAFR is set up based on criteria dictated by the Government Finance Officers Association (GFOA) and the auditors follow criteria set up by the Government Accounting Standards Board (GASB).

Mr. Dianis highlighted Chair Gustafson's report on the State of the System, noting that for the Fiscal Year ending June 30, 2018, NHRS's rate of return was 8.9%, the funded ratio stood at 63.6%, and assets held in trust were \$8.87 billion. He stated that NHRS received a clean or unmodified opinion from the auditors.

Chair Gustafson recognized that, over the years, NHRS has received GFOA recognition for the quality of the CAFRs produced, and thanked Mr. Dianis and Ms. Fritzky for their efforts.

Trustee Dwyer commented on the favorable outcome received, such as the unmodified opinion letter from the auditors, with no journal entries noted. He stated that Plante Moran was very complimentary on the good work and collaboration that they received and noticed within the NHRS management team.

On a motion by Trustee Dwyer, seconded by Trustee Hart, the Board unanimously accepted the recommendation of the Audit Committee to approve and accept the Comprehensive Annual Financial Report for Fiscal Year 2018.

Trustee Dwyer reported that a new audit was added to the Tracker regarding the Employer Contribution Reconciliation audit, which identified three issues to be addressed. He noted that the Tracker is still carrying the QDRO audit, which is now slated for completion in 2019.

Lastly, Trustee Dwyer reported that the Audit Committee received an update on the data security remediation effort, noting that 58% of the identified items were addressed.

Chair Don Roy reported that the Governance Committee met on November 13, and received an update on paperless Board meetings. A recent survey confirmed a willingness by Trustees to pursue paperless meetings further and, as a result, staff will create an RFI that will go out to potential providers.

The Legal RFP for fiduciary, tax and benefits counsel was discussed and it was noted that staff has been pleased with the work done by Groom Law Group, but because the current agreement with Groom Law expires in May 2019, and as a best practice, an RFP was recommended.

On a motion by Trustee Roy, seconded by Trustee Lesko, the Board unanimously accepted the recommendation of the Governance Committee to approve the issuance of an RFP for the fiduciary, tax and benefits, and legislative counsel.

Trustee Roy noted that an actuarial RFP had recently been issued. An ad hoc committee will review the responses, which are due at the end of this week.

Trustee Kelliher reported that the Independent Investment Committee (IIC) met on November 16, and Director of Investments Larry Johansen recognized Greg Richards, Senior Investment Officer, who was named one of 2018's Top 30 Public Pension Institutional Investors by Trusted Insight. The Committee approved the 2019 IIC meeting schedule. The Committee then voted to renew investment management agreements with Boston Trust, a small cap equity manager, and DoubleLine, an unconstrained fixed income manager, through October 31, 2020. The IIC unanimously agreed to recommend to the Board that it extend the Investment Consulting Services Agreement with NEPC through December 31, 2020. The Committee discussed and unanimously agreed to terminate the Investment Management and Subscription Agreement with AberdeenStandard, as it pertains to its Global Absolute Return Strategy, and agreed to move \$200 million of assets in equal proportions to recently retained fixed income managers, Fidelity and BlackRock, with the remaining proceeds to be held in cash.

The IIC heard presentations from BNY Mellon regarding its cybersecurity efforts, and from domestic mid-cap equity managers, Thompson, Siegel & Walmsley and AllianceBernstein, both in conjunction with the two-year contract renewal process. Lastly, the IIC unanimously approved the Comprehensive Annual Investment Report (CAIR) for FY 2018 to be presented

and recommended for approval to the Board at today's meeting.

On a motion by Trustee Maloney, seconded by Trustee Roy, the Board unanimously accepted the recommendation of the IIC to approve the NEPC contract extension, as presented.

On a motion by Trustee Kelliher, seconded by Trustee Lesko, the Board unanimously voted to approve and accept the Comprehensive Annual Investment Report (CAIR) for Fiscal Year 2018, as prepared and approved by the IIC.

Director of Investments Larry Johansen reported on the market's recent volatile performance. For the three months ending October 31, the total marketable assets were down 5.0%, trailing the benchmark return of -4.1% by 90 basis points. For three years, the total marketable assets were up 6.6%, exceeding the benchmark return of 6.4% by 20 basis points and for five years, the total marketable assets were 5.7%, trailing the benchmark return of 6.0% by 30 basis points.

Mr. Johansen reported that the NEPC PF Universe Comparison chart showed that NHRS' investment expense is 0.33% against the 2016 NEPC PF Universe average of 0.44% and the 2017 NCPERS Universe average of 0.40%. The chart also shows that NHRS' administrative expense is at 0.10% against NEPC PF Universe 2016 average of 0.12% and NCPERS Universe 2017 average of 0.19%. He reported that this week the IIC will meet to conduct its annual review of the private equity private debt portfolio and noted that the total portfolio performance of the new commitments that the IIC has made for the five years ending June 30, 2018 is 11.6%. He explained that adding in the legacy assets decreases the percentage to 11.4%, affecting total performance less and less, as time goes on.

The IIC's January meeting will host Manulife, who will speak on economic issues, and the IIC will do a review of the System's marketable assets. In February, the IIC will do an Asset Allocation Liquidity Study, in anticipation of a March review of asset allocation targets and ranges.

Trustee Myers reported that the Legislative Committee did not meet this month. He asked Public Information Officer Marty Karlon to report on the recent activities regarding the service purchase bill, and any new LSRs pertinent to NHRS. Mr. Karlon reported that Representative Schultz is the prime sponsor of the bill and that it was anticipated that there would be multiple co-sponsors. Mr. Karlon explained that he has been working to inform those in the Legislature, as well as other stakeholders, about the bill, prior to the upcoming legislative session. In regard to new LSRs, he stated that it appears that there are ten titles in the LSR list that are related to NHRS and five titles that require seeing the bill's content to determine if there is an impact on the System.

Trustee Hart reported that the Personnel, Performance and Compensation Committee, (PPCC) met on November 30, with an update from HR Manager Rosamond Cain on PGV3 staffing. The PPCC also discussed the process for conducting the annual performance review of the NHRS Executive Director. The Committee discussed personnel issues in non-public session. Lastly, following the meeting, the PPCC discussed the Collective Bargaining Agreement, which expires at the end of June 2019. Staff's proposed approach to conducting the upcoming CBA negotiations will be discussed at the January meeting. Executive Director Lagos noted that the State collective bargaining process started this week and that NHRS is on the same bargaining cycle with the State, meaning both collective bargaining contracts expire in June.

Trustee Walker reported on the Benefits Committee meeting of November 7, noting that Associate Counsel and Compliance Officer Mark Cavanaugh presented the Final Proposals of the Ret. 300 and Ret. 400 rule revisions, as approved by the Office of Legislative Services

(OLS). The Benefits Committee recommended approval of the Final Proposals to the full Board at today's meeting. The Committee also discussed a recoupment issue in non-public session, with no votes taken.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board unanimously accepted the recommendation of the Benefits Committee to approve the Final Proposals for Ret. 300 and 400.

Executive Director Lagos provided his Executive Report, stating that the KPM score was 95.6%, above the benchmark this month. He asked Project Manager Cecile Merrill to give an update on the PGM3 project. Ms. Merrill noted that LRS had been on site this week to provide PGM3 demos to all staff. In regard to PGM3 staffing, two of the five positions, the Benefit Certifier and IT's Administrative Assistant, have been filled. Interviews for the MS Manager and Imaging Specialist are in process. Concerning data cleansing, the System is working on one remaining item. Workflows have been identified and sent to LRS for review and the project's kick-off meeting will be scheduled for January 2019.

Executive Director Lagos indicated that the contracts with LRS had been executed and explained that a decision was made to move from the original subscription-licensing model to the perpetual-licensing model. He reviewed the updated costs for the license, implementation and software maintenance and support, noting that negotiations had yielded material savings. Mr. Lagos complimented Cecile Merrill for the very good job she has done meeting the pre-implementation action plan.

Trustee Dwyer noted that the savings realized is outstanding and commended the efforts made in driving down all of the costs during the negotiations.

Mr. Lagos was asked where NHRS stands with short-term space planning with Stibler & Associates. He replied that further work with Stibler & Associates was placed on hold until a short-term plan has been finalized to accommodate the new staff, the auditors, and the LRS Project Team.

Chair Gustafson echoed Trustee Dwyer's comments on the good work done with the negotiations on the PGM3 project.

Chief Legal Counsel Tim Crutchfield reported that the Board would receive an email from him very soon on the annual submission of the Statement of Financial Interests under RSA 15-A. He explained that by law, the Secretary of State requires updated forms for Trustees by January 18, 2019. Attorney Crutchfield noted that although the forms could be sent directly to the Secretary of State's office, he asked that the Board members return the forms to him directly, as NHRS requires copies to comply with the Code of Ethics.

Interim Director of Finance Jack Dianis noted that it has been very busy working with the auditors and completing the CAFR. The actuarial audit RFP has been issued and submissions are due Friday, December 14. Finance is now working on the GASB 68-75 report that is provided to employers and, today, is asking the Board to accept the Interim Valuation report prepared by GRS.

On a motion by Trustee Milligan, seconded by Trustee Myers, the Board unanimously accepted the Fiscal Year 2018 Interim Valuation.

Director of IT Frank Clough began his report by updating the Board with the latest developments concerning the IT Department. He noted that with the build-out of the Co-location site (COLO), IT is finalizing the Disaster Recovery Plan, which is currently in draft

form. He reported that the Microsoft Exchange email upgrade has been completed.

There has been ongoing Security Awareness Training, with on-site, mandatory training provided to staff last week by the Steel Root Company. The sessions went very well and staff gave positive feedback.

Mr. Clough then addressed Item 2 on his FY 2019 Action Plan Summary regarding the completion of the deployment of My Account Trusted Devices, noting that this security enhancement is for members logging into the My Account portal. This is a best practice and is essentially multifactor authentication. Members will now be required to change their passwords every 180 days.

Director of Member Services Nancy Miller reported on July pension finalizations, sharing that upon close of payroll in December, Member Services will have 686 of the 743 retirees finalized. The approach of using the new forms developed by PIO, and dedicating additional staff to the process has yielded positive results. In the area of the Judicial Retirement Plan, Member Services is processing the annual COLAs this month. With respect to PGV3, Member Services is heavily involved with recruiting a Member Services Manager.

On a motion by Trustee Roy, seconded by Trustee Walker, the Board unanimously approved the Consent Agenda, as presented.

On a motion by Trustee Dwyer, seconded by Trustee Hart, the Board approved the travel request for Trustee Maloney to attend the CAPPP Employee Pension Education programs Part I and Part II in Boston next June. Abstention: Trustee Maloney.

Executive Director Lagos noted that there were two items from the November 13 Action Items list that will be carried forward: the RFI on the paperless Board meetings and the issue regarding seeking to identify of members impacted by HB 1494 in 2014.

Chair Gustafson noted that an exercise to conduct a self-evaluation of the Board of Trustees would be initiated, after the completion of the Executive Director's annual performance evaluation.

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

Respectfully submitted,

Margaret M. Astles
Executive Assistant