

NHRS Board of Trustees

Minutes – April 11, 2023

Note: These minutes from the April 11, 2023, Public Session were approved and executed at the May 9, 2023, Board of Trustees meeting.

Board of Trustees

April 11, 2023

Public Minutes

New Hampshire Retirement System

54 Regional Drive

Concord, New Hampshire 03301

Participating: *Tim Lesko, Chair; Trustees Jon Frederick, Sue Hannan, Maureen Kelliher, Robert Maloney, Germano Martins, Ken Merrifield, Monica Mezzapelle, Paul Provost, Don Roy, and Joshua Quigley.*

Absent: *Trustee Andrew Martineau.*

Staff: *Jan Goodwin, Executive Director; Timothy Crutchfield, Deputy Director and Chief Legal Counsel; Raynald Leveque, Chief Investment Officer; Marie Mullen, Director of Finance; Nancy Miller, Director of Member Services; John Laferriere, Director of IT; Rosamond Cain, Director of Human Resources; Marty Karlon, Director of Communications and Legislative Affairs; Mark F. Cavanaugh, Associate Counsel and Compliance Officer; Heather Hoffacker, Internal Auditor; Nina Calkins, Administrative and Contact Center Manager; Deanna Higgins, Contact Center Supervisor; Tracy Knight, Project Manager; Greg Richard, Senior Investment Officer; Ashley Lloyd, Investment Officer; Shana Bilech, Investment Officer; Diana Crichton, Hearings Examiner; and Christine McKenney, Administrative Assistant.*

Guests: *Jack Blonski, LRS Senior Project Manager; and Shawn Farris, LRS Senior Manager.*

Chair Tim Lesko called the April 11, 2023, regular meeting of the NHRS Board of Trustees to order at 10:00 a.m., and after establishing a quorum, Chair Lesko called for a vote to approve the minutes of the March 14, 2023, Board meeting. On a motion by Trustee Hannan, seconded by Trustee Roy, the Board voted to approve the meeting minutes, with Trustee Jon Frederick abstaining.

Trustee Mezzapelle began her report of the Audit Committee, which met earlier this morning, stating the Committee heard internal audit updates, and noted the outstanding audits on the internal audit tracker, adding that several items have been put on hold while parallel processing for Pension Gold Version 3 (PGV3) takes priority. She mentioned the Audit Plan, noting the commencement of work on the FY 23 GASB Census Data Audit. The Committee reviewed the updated data risk management information and items for the FY 24 Audit Plan, which the Committee will vote on at its May meeting. In closing, Trustee Mezzapelle reported the Committee heard from Finance Director Marie Mullen regarding the FY 22 opportunities letter from Plante Moran and that the recommended changes would be implemented by the fiscal year end.

Trustee Roy reported on the Governance Committee, noting it met on March 6 and reviewed proposed staff revisions to the Voluntary Compliance Program (VCP) Policy regarding the required minimum distributions resulting from the recently passed federal legislation, SECURE 2.0. He noted the System's external legal counsel, Groom Law Group, also reviewed the revisions to the Policy. The Committee voted unanimously to recommend to the full Board that it adopt the proposed revisions. On a motion by Trustee Maloney, seconded by Trustee Roy, the Board voted unanimously to accept the recommendation of the Governance Committee to approve the revisions to the VCP Policy as presented.

Trustee Kelliher gave her report on the March 14, 2023, Independent Investment Committee (IIC, Committee) meeting. The Committee heard from Chief Investment Officer Raynald Leveque, who provided an update on investment returns through recent time-periods, referring to Callan's January 31, 2023, review. He gave updates on holdings within the NHRS portfolio, rebalancing, liquidity, and the Russian holdings, as well as the status of Silicon Valley Bank (SVB) and Signature Bank, which NHRS holds minimal exposure to, and staff continues to monitor the situation and will report to the Committee as needed. Trustee Kelliher reported that the Committee discussed and voted unanimously to recommend revisions to the NHRS Proxy Voting Policy to the Board of Trustees.

She stated the Committee unanimously voted to extend the contract with Manulife for a five-year term through February 2028. Manulife, who manages \$200 million in a fixed income strategy for the System, gave a presentation at the Committee's March meeting as part of its contract renewal. Also at the March meeting, the Committee heard two other presentations, one from BlackRock on geopolitical risks, and the other from Morgan Stanley on global macroeconomics and its view on asset allocations. A Trustee inquiry on rising interest rates led to a brief discussion on the System's fixed income allocation and rebalancing plan.

Trustee Kelliher then turned to Mr. Leveque, who reported on the NHRS performance as of February 28, 2023, noting the Total Fund return for the month was -1.57%, down 1 basis point from the policy benchmark of -1.56%. NHRS's FY 23 total fund performance fiscal year-to-date (FYTD) outperformed the policy benchmark by 146 basis points, with positive returns for 3-, 5-, and 10-year periods. He noted the long-term performance of the last 12 months, with the System outperforming the benchmark by 360 basis points. He gave an update on the rebalancing, anticipating it will be completed in April 2023. Mr. Leveque closed his report with a review of the NHRS during the fourth quarter 2022, noting positive performance of the five-year attribution analysis versus policy benchmark for the total plan. On a motion by Trustee Quigley, seconded by Trustee Provost, the Board voted unanimously to approve the recommendation of the IIC to approve the revisions to the Proxy Voting Policy as presented.

Trustee Merrifield began the report of the Legislative Committee, which met April 4, noting the Committee heard a presentation on legislative activity from Director of Communications and Legislative Affairs Marty Karlon. Trustee Merrifield gave a synopsis of three bills that will be included as part of House Bill (HB) 2, the budget trailer bill. They are HB 50, a one-time appropriation of \$50 million toward the System's unfunded liability in FY 23; HB 436, the adjustment of benefits for Group II, Tier B members; and HB 571, a one-time payment to retired Group II members or their beneficiaries who have been retired for more than 10 years. He then turned to Mr. Karlon, who provided an update on the most recent legislative action, including the

System's legislative cleanup bill, HB 193, which the House ED & A Committee voted to recommend as ought to pass (OTP), with the Senate to vote on the bill this week. Mr. Karlon then gave an explanation on HB 1587, a bill passed last year that modified the average final compensation for certain Group II members and required the Board of Trustees to certify the actuarial costs associated with the modification. He referenced his memo and a letter from GRS, the System's actuary, as presented in the Board materials. Trustee Mezzapelle, State Treasurer, clarified that there was nothing noted by law that would require her to recuse herself from voting on the matter and on a motion by Trustee Merrifield, seconded by Trustee Hannan, the Board voted unanimously to certify the amount of \$42.9 million, as determined by GRS per HB 1587, in order for the Director of Finance to initiate a request for reimbursement, as presented.

Trustee Martins delivered a brief update of the Benefits Committee, noting it had not met since the March Board meeting.

Trustee Hannan reported on the PPCC, which met on March 22 and April 10. At the March meeting, the Committee reviewed the Executive Director evaluation process and heard staffing updates on open positions from Director of Human Resources Rosamond Cain and the status of temporary staff who are assisting with the PGV3 project. During its April meeting, the PPCC voted on the March meeting minutes and then entered non-public. At approximately 10:24 a.m., Trustee Hannan requested the Board enter non-public session. Chair Lesko asked for a motion that the Board enter non-public session, under RSA 91-A:3 II(c) to discuss matters that would likely adversely affect the reputation of a person other than a member of this public body. On a motion by Trustee Maloney, seconded by Trustee Martins, the Board voted unanimously by roll call vote to go into non-public session. On a motion by Trustee Mezzapelle, seconded by Trustee Kelliher, the Board voted unanimously on a roll call vote to conclude the non-public session at approximately 10:32 a.m. No action was taken during the non-public session.

Chair Lesko opened the return of the public session by welcoming NHRS's IT Project Manager Tracy Knight and the lead Pension Gold Version 3 (PGV3) representatives from Levi, Ray & Shoup (LRS), the software vendor for Pension Gold, to present on Parallel Processing. Parallel Processing, which involves staff entering data into the current system and the new system simultaneously, begins in October. Executive Director Goodwin introduced Jack Blonski, LRS Senior Project Manager; and Shawn Farris, Senior Manager, Implementations, who each spoke briefly of their history of working at LRS and with NHRS on PGV3. Mr. Farris provided an explanation of Pension Gold (PG), the software NHRS uses daily to manage important tasks such as calculating member benefits, service purchase credits, benefit payroll, and facilitating employer reporting. NHRS has been using PGV2 for about 20 years. He noted that since January 2019, LRS and NHRS have been working together to design and test various deliverables of PGV3 to help improve and streamline the System's daily operations. Ms. Knight then presented an overview of the project and what improvements NHRS will see in PGV3, including enhanced security and self-service capabilities for members, ease of processes, and better workflow for staff. Mr. Blonski provided the key components necessary to execute parallel processing, as well as the posed risks and how to mitigate them. Ms. Knight closed the presentation with the expectations after NHRS goes live with PGV3 in December and noted the 12-month warranty period on the PGV3 software and the continued support available from LRS.

Chair Lesko thanked Ms. Knight and the LRS representatives for an informative

presentation and with no further discussion, turned to Ms. Goodwin to begin the Operating Reports. Ms. Goodwin opened her Executive operating report with the KPMs, which came in at 97.59% for the month, with two failed KPMs agencywide, and mentioned the 12-month rolling average, which ranks well above the 95% benchmark. She gave the latest update on the PGV3 project, noting it is 76% complete, with Deliverable 6 (D6) (Year-End Processes, Auditing, and Security) at 95% complete. She stated D7 (Member Direct-MyAccount) is 11% complete; meetings are underway on the design review for this deliverable; and staff continues to work on the final, identified workflow. Ms. Goodwin reported on the progress of the employer XML test files, noting that staff is reviewing them to ensure they work in the new system. She mentioned ongoing meetings with LRS in preparation for parallel processing and identified HB 436, which could potentially delay parallel processing, if passed.

She informed Trustees of a five-year contract she approved in accordance with the Procurement Policy to lease four copiers at \$5,802 per year. She gave an update on the Contact Center, which continues to achieve its monthly goal of answering phone calls within 2 minutes, and less than a 5% abandon rate. Ms. Goodwin affirmed the positive responses she receives from her monthly calls to members, employers, and retirees. She then gave an overview of two sole-source contracts, one from Investments for up to two additional Bloomberg terminals and one from IT for a new generator. On a motion by Trustee Hannan, seconded by Trustee Roy, the Board voted unanimously to approve the procurement of goods and services as presented in the Board materials, subject to contract and legal review, as presented. Ms. Goodwin closed her report with her action plan, noting four of her five items are in process as planned, with the fifth item on hold due to competing interests with PGV3.

Following her report, a brief discussion ensued on the breadth and depth of the PGV3 project, as well as consideration of the 12-month warranty after its implementation.

Director of Member Services Nancy Miller updated the Board on her department, noting its continued work on PGV3 and preparations for parallel processing. She informed the Board that the vacant position in Member Services was filled this week. She reported that the adjusted payments for those retirees whose taxes were underwithheld in January will be made in April's payroll. Ms. Miller noted her department met all 21 of its KPMs in March. Lastly, she mentioned she has a team in place to manage the increased volume associated with July retirement filings, and noted her updated action plan.

A Trustee inquiry on filing for retirement led to a robust discussion of the topic, including the availability of information to members about when and how to file, and the options and requirements for disability retirement.

Director of Finance Marie Mullen gave her Finance report, noting her department's achievement of meeting 10 of the 15 KPMs in March, adding that three of the 15 KPMs were not applicable. Of the two missed KPMs, one had to do with banking reconciliation and was missed because Finance was training a new staff member on the process, and the second was relative to employer account reconciliation and was missed because Finance had not received payment from two employers for timely completion. She commented on cash flows for February 2023 and FYTD, which were each in the expected range and mentioned receipt of State reimbursement from the general fund of \$10,792,000.00 in March for the legislation passed last year for the one-time \$500 COLA payment. She reported the 2023 FYTD spending is below budget, noting several categories that are overbudget because they relate to quarterly and annual expenses, and expects those areas to resolve by fiscal year end. Ms.

Mullen reviewed the PGV3 budget, noting spending is below budget FYTD and overall. In closing, she reported everything is on track or completed on her action plan, aside from a couple of items that are on hold and another item that is not applicable.

Ms. Cain opened her report with the work her department is doing with the new payroll vendor, ADP, in time for the May 5 “go-live” date. She mentioned that the System reached out to a new consultant to obtain a quote for assisting NHRS with the job evaluation process and anticipates having a proposal for the Board next month. Ms. Cain commented that NHRS used to work with the Hay Group and implemented its review and redesign method about 20 years ago. The System seeks to update and streamline assessing positions with appropriate salaries into the wage schedule.

Deputy Director and Chief Legal Counsel Tim Crutchfield began his Legal report with a status update on the ongoing lawsuit filed by five Department of Corrections’ employees who believed they should have been reclassified from Group I to Group II approximately 20 years ago. The System awaits a hearing date on the matter. Mr. Crutchfield reported that Legal met seven of its eight KPMs this month, noting the one missed KPM, relative to the average number of employer audits performed over a rolling 12-month period, has been put on hold because of competing priorities with PGV3. He commented on the annual reporting of retirees and their hours worked, noting there are 25 employers who have not yet filed their reports and NHRS will send out penalty letters next week. Lastly, he gave an overview of upcoming plans and projects, and noted four of the seven items on his action plan have been completed, and the other three items are progressing.

Mr. Karlon gave his report on PIO, commenting on the work his team has been doing on monthly employer reporting relative to PGV3, planning and scheduling at least 23 training events for employers, as well as planning events for insurance and retiree reporting after parallel processing commences. His department is also monitoring legislation that could impede the PGV3 project and parallel processing and making plans, should legislation pass, to update relevant member and employer materials. Lastly, he reported PIO met its KPMs for the month.

John Laferriere, Director of IT, presented his operating report, beginning with cyber security awareness and the monthly phishing tests, noting there were no staff failures in March. He provided an update on system management, including the ability to perform remote and on-premises patching, as well as IT’s review of the Password Policy and meeting NIST 800 63-B, the government standard, which increases password security and lessens the need to frequently change passwords. Mr. Laferriere provided the status of the cloud-based phone system project, noting IT is reviewing two vendors for that service. He remarked on the generator replacement approval, noting IT would initiate that project soon, and added that he expects installation of the new copiers would occur by month end. He mentioned that IT deployed secured wireless access points for corporate Wi-Fi availability. In closing, he reported IT met all eight of its KPMs; gave an overview of upcoming projects; stated customer satisfaction was at 100%; and noted his action plan is on schedule.

Mr. Leveque gave a brief operating report on Investments, noting his department met six of the ten KPMs where four were not applicable this month. He then provided an agenda overview of the April IIC meeting, which will occur after today’s Board meeting.

Chair Lesko next presented the Consent Agenda and Trustee Martins requested to discuss Item 9 on the Agenda. On a motion by Trustee Martins, seconded by Trustee Hannan, the Board voted unanimously on a roll call vote to enter non-public session,

under RSA 91-A:3 II(c), to discuss matters that would likely adversely affect the reputation of a person other than a member of this public body. On a motion by Trustee Martins, seconded by Trustee Maloney, the Board voted unanimously on a roll call vote to conclude the non-public session. No action was taken in non-public session.

Upon returning to public session, on a motion by Trustee Roy, seconded by Trustee Hannan, the Board voted to approve the Consent Agenda, as presented, with Trustee Merrifield abstaining on Item 2, and Trustee Quigley abstaining on Item 4.

There were no travel reports or requests.

Ms. Goodwin provided an update on Action Items from the March 14, 2023, Board meeting, noting four items will be completed by the end of today's meeting, and gave an update on two outstanding items: Item 2 in which one employer has not certified its contributions to NHRS regarding HB 1221, and Item 6, the legislative appropriation of call firefighter benefits, which is in process.

During the Board checkpoint, Chair Lesko yielded to Ms. Goodwin who referred to the Conference Resource List in the Board materials and encouraged Trustees to attend upcoming training events designed for both new and experienced Trustees.

With no further business to discuss, on a motion by Trustee Maloney, seconded by Trustee Roy, the Board voted unanimously to adjourn the meeting at 12:10 p.m.

Respectfully submitted,

Christine McKenney
Administrative Assistant