

NHRS Board of Trustees  
Minutes-December 8, 2020

**Note:** These minutes from the December 8, 2020 Public Session were approved and executed at the January 12, 2021 Board of Trustees meeting.

**Board of Trustees  
December 8, 2020  
Public Minutes**

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

*The NHRS office was closed to the public as a result of COVID-19, and the meeting was held via video conferencing, as authorized under Executive Order 2020-04. Pursuant to RSA 91-A, all votes were by roll call.*

*Participating:* Trustees Tim Lesko, Chair; Scott Christensen, Christopher Coates, Sue Hannan, Bill Hart, Maureen Kelliher, Robert Maloney, Monica Mezzapelle, Scott Myers, Donald Roy, and Benjamin Jean. *Absent:* Melvin Friese.

*Staff:* George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Deputy Director and Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Frank Clough, *Director of Information Technology*; Nancy Miller, *Director of Member Services*; Marty Karlon, *Director of Communications & Legislative Affairs*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Cecile Merrill, *Project Manager*; Rosamond Cain, *Human Resources Manager*; Nina Calkins, *Contact Center and Administrative Manager*; and Christine Rice, *Administrative Assistant*.

Executive Director Lagos reviewed the protocols for the remote WebEx meeting. Chair Lesko called the December 8, 2020 regular meeting of the NHRS Board of Trustees to order at 10:03 a.m. Having established a quorum, Chair Lesko called for a vote to approve the minutes of the November 10, 2020 Board meeting. On a motion by Trustee Roy, seconded by Trustee Hannan, the Board voted to approve the minutes, as presented. Trustee Jean abstained.

Trustee Mezzapelle provided the Audit Committee report, noting that the Committee met that morning and approved its November 10, 2020 meeting minutes. She stated that the Committee then heard from Plante Moran auditors on their unmodified audit opinion. Ms. Mezzapelle noted that Plante Moran found no instances of non-compliance or other matters requiring reporting under government auditing standards and complimented NHRS staff on their cooperation throughout the audit and the positive working relationship between the two firms. Ms. Mezzapelle reported that the Committee voted and approved the CAFR and the auditors' unmodified opinion and that it recommended it to the Board for its approval and acceptance.

On a motion by Trustee Hart, seconded by Trustee Hannan, the Board unanimously voted to accept the recommendation of the Audit Committee to approve and accept the Comprehensive Annual Financial Report (CAFR) for FY20, as presented.

Ms. Mezzapelle continued, noting that the Committee reviewed the results of two internal audit reports. The first was the employer auditing process, which concluded that employer audits were thorough, with opportunities for process improvements. The second was the employer audit record adjustment process, which she said the report confirmed the original findings, of which three outstanding remain. She said the Committee also reviewed an update on the open audit issues tracking report.

Other Committee topics discussed included a follow-up review on the data security remediation project scheduled for Wednesday, December 9; an update on the implementation of Plante Moran's recommendation from the PY audit, regarding the GASB 68 and GASB 75 reports; and that the Committee would begin receiving regular updates on the PGM3 project to monitor its progress.

Trustee Roy gave the Governance Committee report, noting that the Committee had not met since November 2, but would convene following today's Board meeting. He stated the Committee would discuss the annual review of the updates to the Governance manual, and the renewal of the fiduciary insurance company coverage, with the expectation that both items will go before the Board next month.

Trustee Kelliher reported on the November 20, 2020 IIC meeting, stating that the IIC approved the October 23, 2020 meeting minutes, followed by Director of Investments Larry Johansen's review of the Work Plan, and the monitoring of NHRS's cash flow and asset allocation in consideration of the economic impact of the COVID-19 pandemic. Next, Ms. Kelliher noted that the Committee approved its meeting schedule for FY21, and the annual update on investment manager Commission Sharing Agreements.

Trustee Kelliher stated that the Committee heard several presentations from investment managers in November, including representatives of BlackRock's Co-Investment Team, who provided an overview of its private equity co-investment product. After review, the Committee approved a \$150 million commitment to that product, which follows previous three-year commitments in 2014 and 2017. The Committee heard from representatives of BlackRock's Fixed Income Team, as part of the two-year contract renewal process. Ms. Kelliher stated that BlackRock manages about \$250 million in a global, multi-sector, fixed income portfolio on behalf of NHRS. Alliance Bernstein (AB) representatives presented, as part of a two-year contract renewal process, and Ms. Kelliher noted that AB manages about \$300 million in U.S. small and mid-cap equity portfolio (SMid) on behalf of the System. Finally, the Committee heard from representatives from Thompson, Siegal, and Walmsley (TSW), who also presented as part of a two-year contract renewal process, with regard to the approximate \$155 million that it manages on behalf of NHRS in a SMid equity portfolio.

Ms. Kelliher continued her report, adding that the Committee approved a recommendation to the Board to approve an Investment Policy revision to reflect the change in the assumed rate of return adopted by the Board of Trustees in June. In

closing, she stated that the Committee reviewed the Comprehensive Annual Investment Report (CAIR) for FY20 and voted to approve a recommendation to the Board for its approval of the CAIR.

Trustee Coates joined the meeting at 10:30 a.m.

Next, Mr. Johansen reported on the System's marketable performance as of October over various time-periods, noting it was down for the month. He stated that the November performance is not yet available, but added that NHRS is up 4.2% Fiscal Year to date, which is a dramatic improvement since 2020 Fiscal Year end. He noted the marketable performance at 3% for one year, 7% for two years, 4.5% for three years, 6.8% for five years, and 7.5% for 10 years. In addition, Mr. Johansen stated that the current cash position is approximately \$60 million and monitored continuously to anticipate the System's payroll needs for the next 90 days.

On a motion by Trustee Jean, seconded by Trustee Roy, the Board voted to accept the recommendation of the IIC that the Board adopt the proposed revision to the Investment Policy. Trustee Christensen abstained.

Following Mr. Johansen's review of the CAIR, on a motion by Trustee Hart, seconded by Trustee Jean, the Board unanimously voted to approve and accept the Comprehensive Annual Investment Report for FY20, as prepared and approved by the IIC.

Mr. Johansen referenced the Presidential Order issued last month regarding the ownership of certain Chinese companies. He stated that the System is working with external investment counsel and investment managers to ensure compliance with the Order. Mr. Johansen continued his report with a status update on the transition from LSV to Aristotle and Lazard, which is going well, with assets from LSV moving to Lazard and also, to Aristotle, as soon as there is a signed contract. He noted that the investment consultant transition from NEPC to Callan is also going smoothly. Callan is working on the Private Debt/Equity commitment pace for 2021, the Asset/Liability study, and the Asset Allocation review. In conclusion, Mr. Johansen reviewed the agenda for the IIC meeting scheduled for Friday, December 18.

Trustee Myers reported on the Legislative Committee, stating that it would meet after today's Board and Governance Committee meetings. He directed the Board's attention to the list of the 2021 Legislative Service Requests (LSRs), noting that the House filing deadline is past, but the possibility remains for additional submissions by the Senate. He explained the two-part list, describing the first section as NHRS-related LSRs, and the second section as LSRs the System would monitor in case any become relevant to NHRS. He focused on the NHRS-related LSRs, including two that deal with proposals for the State to subsidize contributions to the System on behalf of municipalities for police, firefighters and teachers, as it had done historically for years. Another LSR under watch has to do with the amortization of the unfunded accrued liability, as it seeks to extend the amortization beyond its current 2039 timeframe. Trustee Myers noted that increasing the amortization period would increase costs overall to the employers over time. He stated that the New Hampshire Municipal Association (NHMA) would be addressing this LSR at its meeting on Friday, and has reached out to NHRS regarding the language on the bill, with permission from its prime sponsor.

Director of Communications and Legislative Affairs Marty Karlon confirmed that NHMA had contacted him, but stressed the importance of complying with LSR confidentiality guidelines contained in state law.

Trustee Coates was unavailable to give the Benefits Committee report. Deputy Director and Chief Legal Counsel Tim Crutchfield updated the Board on Committee activity, noting that it had not met since its November 3 meeting, and that he expects it to convene prior to the January Board meeting.

Next, Trustee Hart provided his report on the PPCC, which he noted met twice since the last Board meeting. He stated it had met on November 13, 2020, approved its October 30, 2020 meeting minutes, and had discussed the Executive Director's performance evaluation, assessing whether to engage in the process with Mr. Lagos' pending departure. He said the Committee agreed on the importance of this process with respect to prioritizing strategic objectives for the next fiscal year. Mr. Hart reported that the Committee considered recruitment of an executive search firm, as discussed last month with the Board, for assistance with identifying additional candidates for the Executive Director position upon Mr. Lagos' retirement. Mr. Hart noted that the Committee interviewed two search firms, and after deliberation, the Committee recommended that the Board retain EFL, a national-recognized professional executive search firm.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board unanimously voted to accept the recommendation of the PPCC that the Board select EFL to assist in the Executive Director search.

Trustee Hart continued his report, noting that the Committee also met on December 4, and approved its November 13, 2020 meeting minutes. He added that the Committee met with Dan Cummings of EFL, who had interviewed members of the PPCC, and certain staff to determine expectations and review the qualification requirements of the Executive Director position.

Next, Executive Director George Lagos gave his operating report, with a focus on the progress of two notable items. First, the Employer Outreach Program, noting there are upcoming sessions with employers in Derry and Londonderry. He added that there has been some media coverage at various town meetings on the impact of employer rate increases on local budgets. Second, Mr. Lagos reported on the launch of the Contact Center yesterday, which initially had a few technical and operational issues at the outset, but said he expected they would be addressed in the next few days.

He then reported on the KPMs, stating that the System scored above the 95% average, coming in at 96.7% this month, noting the positive improvement from the missed target over the last few months.

Mr. Lagos continued his report with procurement recommendations for two contracts. The first regarding the firewall upgrade, and the second with LexisNexis to enhance security with validating and authenticating callers into the System, adding that, initially, the Contact Center would utilize it, but it would subsequently be utilized by other NHRS operational areas.

At this time, there was a momentary pause in the meeting while IT addressed some audio issues.

The meeting then proceeded with a motion by Trustee Hart, seconded by Trustee Roy, for the Board to accept the recommendations of the Executive Director that the Board approve the procurement of the two contracts as presented in the Board materials, subject to contract and legal reviews. The motion carried unanimously.

Trustee Mezzapelle departed the meeting at this time.

Next, Mr. Lagos introduced Project Manager Cecile Merrill to give the PGV3 progress report, and noted that she would present the progress of the PGV3 project to the Audit Committee at its future meetings, starting next month.

Ms. Merrill stated that the PGV3 project is now 33% complete overall, adding that it is presently engaged on Deliverable 3, which involves benefit calculations, and is at 15% complete with about 28 items under review. The System expects this phase would continue over the next two months, with reviews and feedback from LRS. Ms. Merrill noted that staff would be reviewing two change requests that the System had originally declined. She reported that the data conversion process is slow going because of the need for detailed reviews of individual records. Ms. Merrill concluded her report, noting that NHRS is working with Segal, a third-party project management firm, to assist with producing a plan to help roll out PGV3 to the System's employers.

Mr. Crutchfield began his Legal operating report with a review of the recent Supreme Court order in the Alexander Scott appeal noting that because the Court issued it as a "final order" it has no precedential value in terms of citing it in future cases. The Court remanded the matter back to NHRS, thereby requiring action acknowledging the Court's order and adjusting Mr. Scott's NHRS record as necessary.

On a motion by Trustee Hart, seconded by Trustee Jean, the Board unanimously voted to accept the Supreme Court's final order on December 1, 2020, in the Petition of Alexander Scott, and accordingly delegates authority to staff to adjust Mr. Scott's NHRS record to the extent necessary, to comply with the Court's order, and to notify Mr. Scott of this vote.

Mr. Crutchfield continued his report, noting that the Department of Administrative Services recently notified NHRS that a change in the state's health insurance premium would affect more than 600 Medicare-eligible state retirees as of January 1. Mr. Crutchfield noted that this involves differing interpretations between NHRS and DAS as to the statute governing the medical subsidy. He reminded the Board that this has been an ongoing issue, resulting in a request for legislative clarification, which the Board approved in January, and there is an LSR in place for 2021.

On the Employer Audit front, Mr. Crutchfield stated that the Employer Auditors would begin working with employers to ensure correct data files are submitted following audit findings so that Member Services can make the proper record adjustments.

Mr. Crutchfield noted the annual Governance Manual update and fiduciary insurance renewal would come before the Board at its January meeting. Lastly, he commended

Hearings Examiner Diana Crichton on her work on significantly reducing the number of pending administrative appeals.

Director of Finance Gerard Murphy gave an overview of the FY20 Comprehensive Annual Financial Report (CAFR), explaining that it is a snapshot of the financial picture of the System as of June 30, 2020, and that GFOA sets the structure of it. He commended Heather Fritzky, Comptroller and Assistant Director of Finance, and staff on the work they put into the finalizing CAFR, and thanked Plante Moran for their professionalism.

He stated that FY20 investment performance was 1.1% and that the net position restricted for benefits as of June 30, 2020 was \$9.134 billion, with the actuarial funded ratio for the Pension plan at 61% and for the OPEB plan at 5.8%, as compared to 60.8% and 5.3% respectively for the prior fiscal year. He then provided a brief description of each section of the CAFR.

He continued his report, providing current year-to-date updates on net position, cash flow, and budgeted vs. actual spending and also, stating that, with UAT testing complete, Finance met this month's KPMs. In closing, he noted that he, Mr. Lagos, Mr. Johansen, and Mr. Karlon presented the FY22/23 statutory administrative budget for the Governor's phase of the budget process on November 20, and there were no issues to report coming out of that presentation.

Director of IT Frank Clough gave his IT report, stating that his team is in the process of upgrading the firewalls. He noted that the System continues to implement Fusion Cell's recommendations on COVID safety measures, including the installation of touchless water faucets and sanitizer stations throughout the building, and that NHRS expects the freestanding kiosks to arrive in two weeks.

Mr. Clough also updated the Board on other recent IT efforts, including protecting the System against malware; improving PGV2 remote access; and increasing bandwidth, resulting in faster downloads for staff. He then reported on the recent vulnerability testing, resulting in no critical findings. Mr. Clough added that the System is addressing a number of low-to-medium priority items identified in the report. He added that his department met this month's KPMs and received 100% ratings on IT customer satisfaction.

Mr. Lagos commended Mr. Clough and David Crepeault, Information Systems Security Officer, on the work they have been doing continuously to enhance data and system security for NHRS.

Member Services Director Nancy Miller presented her report, noting the work done to finalize the updated option factors from GRS and LRS, which are now in Pension Gold for use in 2021. She gave a status update on staffing, noting that offers have been accepted for the two benefit coordinators, and one opening remains for a retiree generalist.

She continued her report, referencing the PGV3 project and that staff has been heavily engaged in the design work surrounding benefit calculation. Ms. Miller updated the Board on progress with July retirement application finalizations, noting that staff was

about halfway through the 697 July retirements. She added that there were some unexpected challenges relative to the inaccuracy of employers' final payment information, slowing down the ability to finalize benefit payments. Next, she reported on the KPMs, stating that there was one missed and it was relative to the volume of July finalizations.

Director of Communications and Legislative Affairs Marty Karlon opened his report with the launch of the Contact Center this week, explaining that with the advantage of working remotely and currently having no walk-ins, the Center can devote its time on training on answering phones and emails. He added that in the near future, the Center would be utilizing an additional layer of security to authenticate and verify callers. Mr. Karlon continued his report, noting that there were six LSR titles related to NHRS filed with the Legislature. Next, Mr. Karlon reported that although COVID-19 adversely affected a number of scheduled employer and member sessions and other constituent events in 2020, his department still managed to meet the KPM for the number of events held. He said PIO has posted a schedule of virtual member events for the first quarter of 2021, and is developing the schedule of 2021 employer education events.

Trustee Coates left the meeting at 11:13 a.m.

Next, Chair Lesko presented the Consent Agenda. Trustee Hart moved to approve the Consent Agenda, as presented, and Trustee Roy seconded. The motion carried unanimously.

There were no travel reports, but Mr. Lagos noted that in his monthly update to the Board there is information on an NCPERS online pension education program, and encouraged Trustees to consider attending virtually.

Mr. Lagos then confirmed that the November 10, 2020 Action Items are either completed or in process.

During the Checkpoint Discussion, Chair Lesko noted that Trustee Jean was retiring and that this is his last meeting. He thanked Trustee Jean for his service to the Board since July 2019, and wished him well in retirement. Trustee Jean remarked that he had enjoyed his time as a Trustee and complimented his fellow Trustees and staff on their dedication to the System and its members and beneficiaries.

With no further business to discuss, on a motion by Trustee Roy, seconded by Trustee Hart, the Board voted unanimously to adjourn at 11:23 a.m.

Respectfully submitted,

Christine Rice,  
Administrative Assistant