

NHRS Board of Trustees

Minutes – February 14, 2023

Note: These minutes from the February 14, 2023 Public Session were approved and executed at the March 14, 2023 Board of Trustees meeting.

Board of Trustees

February 14, 2023

Public Minutes

New Hampshire Retirement System

54 Regional Drive

Concord, New Hampshire 03301

Participating: *Tim Lesko, Chair; Trustees Christopher Coates, Jon Frederick, Sue Hannan, Maureen Kelliher, Robert Maloney, Andrew Martineau, Germano Martins, Ken Merrifield, Paul Provost, and Joshua Quigley.*

Absent: *Trustees Monica Mezzapelle and Don Roy.*

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; Rosamond Cain, Director of Human Resources, Marty Karlon, Director of Communications and Legislative Affairs; Mark F. Cavanaugh, Associate Counsel and Compliance Officer; Diana Crichton, Hearings Examiner; Heather Hoffacker, Internal Auditor; Nina Calkins, Administrative and Contact Center Manager; Deanna Higgins, Contact Center Supervisor; Tracy Knight, Project Manager; and Christine McKenney, Administrative Assistant.*

Guest: *Keith Brainard, Research Director of NASRA (National Association of State Retirement Administrators)*

Chair Tim Lesko called the February 14, 2023, regular meeting of the NHRS Board of Trustees to order at 10:00 a.m.

A quorum was established and Chair Lesko called for a vote to approve the minutes of the January 10, 2023, Board meeting. On a motion by Trustee Hannan, seconded by Trustee Frederick, the Board voted to approve the meeting minutes, with Chair Lesko abstaining.

Executive Director Jan Goodwin started the Committee reports, speaking on behalf of Trustee Mezzapelle for the Audit Committee, which met February 10, 2023. She stated the Committee heard internal audit updates and reported all outstanding items on the Audit Tracker continue to make progress. She mentioned that the results from the Alternatives Investments Monitoring Audit and the Market Value Confirmation Audit as part of the FY 2023 Audit will be presented at the Committee's March meeting. The Committee heard from Finance on the Fiscal Year (FY) 22 opportunity letter from the System's external auditor, Plante Moran, and staff responded accordingly to two repeat recommendations, and concurred with three new ones. Ms. Goodwin remarked on the audit comments that had to do with control deficiencies, which were primarily due to vacancies in the Finance Department, adding that procedures would be put into place to

prevent them in the future. She noted that Finance also presented to the Committee on the RFP for an external auditor, adding that the RFP Review Committee decided to contract with NHRS's current external auditor, Plante Moran, because of the qualifications of its staff, their experience, and knowledge of the System. Ms. Goodwin reported the Committee voted unanimously to contract Plante Moran for an additional five years of external audit services. In closing, she noted that the FY 22 GASB 68 & 75 reports on the proportional share for employers would come before the Audit Committee and the Board at their respective meetings next month.

On behalf of Trustee Roy, Tim Crutchfield, Deputy Director and Chief Legal Counsel, provided an update on the Governance Committee, noting it had not met since the January Board meeting. He stated the Committee is expected to meet next month to conduct the annual review of the fee schedules for copies that NHRS charges for public records, pursuant to an administrative rule, and comparing those costs to what other agencies charge. He also mentioned the Committee would also perform its annual review of the voluntary corrections program policy.

Trustee Kelliher gave her report on the January 10, 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 November 30, 2022, review. He reported on holdings within the NHRS portfolio and discussed the staff's non-U.S. equity holdings rebalancing plan that is in progress. Mr. Leveque then presented an update to the Work Plan with the inclusion of the fourth quarter, which the Committee unanimously voted to accept. The Committee heard from Mr. Leveque on a recommendation memo regarding a five-year investment management contract agreement term, which the IIC agreed to discuss at its February meeting.

Trustee Kelliher reported that the Committee heard a presentation from Fidelity Investments (Fidelity), who manages a tactical bond strategy for the System, on its philosophy, current performance, and outlook on its investment strategy, as part of its contract extension renewal. She reported that Mr. Leveque shared the non-U.S. equity rebalancing plan for fixed income holdings that staff recommended, proposing to invest in the BNY Mellon Investments Corporation U.S. Bond Index Fund to replicate the Bloomberg Barclays U.S. Aggregate Bond Index, which the IIC unanimously voted to accept, subject to contract and legal review.

Trustee Kelliher turned to Mr. Leveque who reported on the NHRS performance as of November 30, 2022. Mr. Leveque noted the Total Fund return for December 31, 2022, came in at -1.95% for a total of 108 basis points above the policy benchmark of -3.03%. The FY 23 Total Fund performance at one year was -8.81%, outperforming the benchmark of -11.67%. Mr. Leveque remarked on the long-term performance of the Total Fund for 3, 5, and 10 years, noting it continues to do well relative to the policy benchmark. He provided a calendar year-to-date overview of the System's portfolio performance, highlighting the positive returns in fixed income, real estate, private debt, and private equity. The Plan is currently at \$10.7 billion. With regards to the FY 22 proxy voting summary report, Mr. Leveque commented that NHRS had 14,537 proposals and the System aligned with its voting policy 100%, and without issues with any activity, according to ISS (Institutional Shareholder Services), NHRS's third-party proxy voting service provider.

Trustee Merrifield began the report of the Legislative Committee, which had not met since the January 10 Board meeting, and called the Board's attention to the Legislative

tracker. Trustee Merrifield turned to Director of Communications and Legislative Affairs Marty Karlon to provide an update on legislative activity. Mr. Karlon gave a summary of bills that the House and Senate will vote on next Thursday, including House Bill (HB) 436, which has been amended, proposing to move Group II members in Tier B into Tier A on a rolling basis and adjust applicable annuity multipliers.

He reported that the House ED & A Committee last week voted on the System's legislative clean-up bill, HB 193, recommending ought to pass to the House, which is voting on it this morning. Mr. Karlon mentioned that the Governor would present his budget this afternoon to a joint session of the Legislature, noting that NHRS was told the funding for the call firefighter benefit account that NHRS administers is included in HB 2. He then noted that the first of two investment-related bills will be heard on Wednesday morning, adding that this bill pertains to banning NHRS from investing in any managers that put ESG (Environmental Social Governance) considerations above or in concert with its traditional fiduciary duty. Lastly, he discussed a defined contribution bill for new Group I state employees, and two COLA bills, which will go before the House or Senate ED & A Committee next week. A brief discussion regarding the ESG bills took place following his report.

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

Trustee Hannan gave the PPCC report, which met on January 18, 2023, noting the Committee heard a staffing update from Rosamond Cain, Director of Human Resources, and that the Committee decided to postpone discussion of the annual Executive Director evaluation process until its February meeting. She reported that the Committee met earlier this morning, at which time Ms. Cain updated the PPCC on staffing, noting the new Director of IT and the Controller will begin at NHRS on Wednesday, February 15. The PPCC then discussed the Executive Director Annual Evaluation process, favoring the use of the 360-evaluation process again this year. Trustee Hannan noted that a mailing on the Executive Director evaluation would go to the Board and staff in early March. Lastly, the PPCC discussed the Employee Engagement Survey, which 68% of staff participated in, and was mostly positive with a few items to address, noting one common theme of the remote work policy, which has been established and communicated. The Executive and Management teams have reviewed the survey results and distribution of the results will go to staff later this week.

Chair Lesko turned to Ms. Goodwin who welcomed today's guest presenter, NASRA Research Director Keith Brainard, who last presented to the NHRS Board of Trustees in April 2021. Today, Mr. Brainard presented on Public Pension issues, beginning with a comparative analysis of public versus private sector retirement benefits in the United States. He proceeded to give a comprehensive overview of the variation of funding levels in public pensions, public pension revenue resources, assumptions, and statistics, and lastly, an explanation of amortization policies and periods. There was some discussion about NHRS's amortization plan after the presentation.

Ms. Goodwin began her Executive Report with the KPMs, which were at 95.51% for the month. She then gave an update on the PGV3 project, noting it is 73% complete. Levi, Ray, and Shoup, Inc., (LRS) was on site last week for the training of Deliverable 6 (D6), and staff testing began this week. She mentioned D7 (Member Direct-My Account), noting progress with design documents and that meetings have been scheduled with LRS for review. Ms. Goodwin continued her report with the 12-month rolling KPMs,

commenting that the System's ongoing performance is well above the 95% benchmark. She commended the Contact Center's success with achieving its monthly goal of answering calls within 2 minutes with a 5% abandonment rate, noting that the average pick-up time is within 23 seconds. She noted she did make calls to members, employers, and retirees in January but a timing difference in the reports would have the calls reflected in the February reports. She proceeded to give a status report on the quarterly outcome of member surveys sent to those who had appointments or other contact with NHRS staff, which often result in positive feedback on the System's customer service. Ms. Goodwin concluded her operating report describing an existing contract with The Segal Company (Segal), the consultant NHRS hired to oversee services during the implementation of the PGV3 project, noting the need to extend the contract on a per-month basis during parallel processing. She reported the total to extend the contract would be \$25,200. Lastly, she noted her action plan continues to make progress.

On a motion by Trustee Coates, seconded by Trustee Provost, the Board voted unanimously to approve the procurement of services as presented in the Board materials, subject to contract and legal review.

Mr. Karlon gave his report on Legislative Affairs and PIO, commenting on the high level of activity surrounding the legislative session, while his department simultaneously maintains its yearly schedule of hosting education sessions for NHRS members and employers. He described an email initiative his department employs to its mailing list to keep members, retirees, and employers informed and shared data on the overall reach and frequency with the use of the email software application, noting it generates member interest and an increased volume of visits to the NHRS website. PIO met all seven of its KPMs.

Mr. Leveque presented his report on Investments, noting his department met all 10 of its KPMs last month and provided an overview of the February IIC meeting agenda. The IIC will meet immediately following today's Board meeting.

Director of Member Services Nancy Miller updated the Board on the latest activity in her department, including work on PGV3 with LRS regarding the final average salary calculations for teachers. She noted recruitment for a position in Member Services is underway and that the medical subsidy questionnaires went out last week, noting her department has already received thousands in return that are in process. Member Services met all 21 of its KPMs. In closing, she gave a summary of upcoming plans and projects and noted the items on her action plan are either in process or completed.

Director of Finance Marie Mullen gave her Finance report, beginning with the KPMs, which Finance completed 11 of the 15 and she explained the reasons for the missed KPMs. She then updated the Board on cash flows for December 2022 and fiscal year-to-date, noting they are in the expected range. She reported on the administrative expenses, commenting that both statutory and investments are below budget for the year. Ms. Mullen mentioned that a few categories are overbudget because of timing issues and noted her resolutions to compensate for them in the future. She updated the Board on PGV3 project spending, noting it is also below budget. She referred to Finance's involvement with PGV3, noting her staff is reviewing design documents for D7 and performing testing on D6 this week. In closing, she reported that Item 11 on her action plan regarding the RFP was completed.

Ms. Cain opened her Human Resources report with a clarification, stating that the Controller who starts Wednesday, February 15, is different than the one mentioned in the Board

materials. She reported that HR seeks to secure ADP as the new payroll provider, noting that the current vendor cannot produce the monthly employer reports that NHRS requires. She noted that while her action plan states all staff training has been put on hold, NHRS continues to support individual staff in pursuit of professional development, noting four staff members are enrolled in degree programs and that a staff member who recently received her bachelor's degree qualifies her for a one-time monetary bonus as described in the CBA.

Ms. Goodwin presented the IT operating report, noting that IT conducted its monthly phishing test as part of cybersecurity awareness. She updated the Board on the quest to replace the generator, commenting that NHRS is working with the landlord to find options on getting a new one. She reported that the annual penetration and assessment security testing with K logix recently occurred, and the results are forthcoming.

Mr. Crutchfield opened his Legal report commending Trustees for the timely submission of their Annual Statements of Financial Interests, which NHRS provided to the Secretary of State's Office by the January 20 deadline, per statute. He reported on NHRS's initiative of issuing penalty letters to delinquent employers, providing them with a 30-day notice as an effort to prompt them to supply NHRS with the necessary information required to complete retiree benefit information and employer audit corrections. Legal missed one of eight KPMs this month, and Mr. Crutchfield explained that due to competing priorities with PGV3 testing, the auditors could not meet the set KPM of performing a rolling average of two employer audits per experienced auditor per month over a 12-month period. In closing, he gave an overview of upcoming plans and projects, including the CY23 Gainful Occupation notices, which will be mailed March 15. There was a brief discussion about the employer penalty legislation following his report.

Chair Lesko next presented the Consent Agenda, and on a motion by Trustee Hannan, seconded by Trustee Martins, the Board voted unanimously to approve the Consent Agenda, as presented.

There were no travel reports or requests.

Ms. Goodwin provided an update on Action Items from the January 10, 2023, Board meeting, commenting that five of the eight items are expected to be completed by the end of today's meeting. She gave the status of the three remaining items: the GASB 68/75 reports, which would be presented at the March meeting; the two other employers that NHRS is waiting on information from to complete their certifications; and lastly, the legislative appropriation for funding the call firefighter benefits, which is in progress.

During the Board checkpoint, Chair Lesko announced that this would be Trustee Coates' last Board of Trustees meeting and thanked him for his time on the Board, which began in 2018. He then presented Trustee Coates with a granite statue of New Hampshire, which he accepted in a roomful of applause. Trustee Coates thanked the Board and spoke of his future endeavors and commitment to working on projects for Cheshire County.

With no further business to discuss, on a motion by Trustee Maloney, seconded by Trustee Hannan, the Board voted unanimously to adjourn the meeting at 12:09 p.m.

Respectfully submitted,

Christine McKenney,
Administrative Assistant