

NHRS Board of Trustees
Minutes-January 12, 2021

Note: These minutes from the January 12, 2021 Public Session were approved and executed at the February 9, 2021 Board of Trustees meeting.

**Board of Trustees
January 12, 2021
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, Melvin Friese, and Andrew Martineau.

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*.

Chair Lesko called the January 12, 2021 regular meeting of the NHRS Board of Trustees to order at 10:04 a.m. Having established a quorum, Chair Lesko called for a vote to approve the minutes of the December 8, 2020 Board meeting. On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted to approve the minutes, as presented. Trustee Friese abstained.

Trustee Mezzapelle provided the Audit Committee report, noting that the Committee met preceding today's Board meeting and approved its December 8, 2020 meeting minutes. The Committee then reviewed its FY20-21 Open Audit Issues Tracker report, receiving its monthly updates, which Trustee Mezzapelle reported are all on schedule. Next, the Committee took up the Internal Audit Plan, noting the ongoing consulting and progress. With regard to the Data Security follow-up review, NHRS met with external advisors last month and the Committee anticipates it will have a final report in the near future.

Trustee Mezzapelle continued, noting that Finance is still working with Plante Moran to finalize the GASB 68 and 75 reports, as well as the remaining outstanding item from the last audit, which the Committee expects to be completed by the end of

January. She stated that the GASB reports would come before the Audit Committee and the Board at their February meetings.

The Committee then heard an update on the PGV3 implementation, noting it was 33% complete and on schedule.

In closing, she thanked Internal Auditor Nancy Cone, who retired in December 2020, for continuing to serve part time, while the search for her replacement continues.

Trustee Roy gave the Governance Committee report, noting there would be two Committee items up for Board vote today. The Committee last met following the December 8, 2020 Board of Trustees meeting, and approved its November 2, 2020 meeting minutes. Next, the Committee heard from Attorney Cavanaugh, who reported on the annual review of the Governance Manual and proposed updates. The Committee unanimously voted that it recommend to the full Board to approve the annual revisions to the Manual.

Next, the Committee considered the renewal of the fiduciary insurance coverage, and heard from Attorney Crutchfield who stated that NHRS was able to secure the renewal coverage with the same terms, conditions, and pricing that it has had since 2016. The Committee then voted unanimously to recommend to the full Board that it renew its annual fiduciary insurance coverage with Hudson Insurance.

Following Trustee Roy's report, on a motion by Trustee Hannan, seconded by Trustee Mezzapelle, the Board unanimously voted to approve the revised Governance Manual, as presented.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted unanimously to renew the annual fiduciary insurance coverage for \$20 million with Hudson Insurance Company, as presented.

Trustee Kelliher then reported on the December 18, 2020 IIC meeting, stating that the IIC approved the November meeting minutes, followed by Director Johansen's review of the plan's investment returns and an update on asset allocations and liquidity, with an emphasis on funding requirements for benefit payments over the next 30 to 90 days. In addition, Mr. Johansen provided a review of the Work Plan and reported the early December finalization of the termination of LSV International Large Cap Value fund, and the hiring of Lazard and Aristotle.

Trustee Kelliher referenced the Committee's December meeting, during which it heard presentations from BlackRock, Alliance Bernstein, and Thompson, Siegal & Walmsley, and stated that the Committee voted to approve a two-year contract renewals with each.

Next, the Committee heard a presentation from Monroe representatives on its Capital Private Credit Fund IV, which is a middle market, direct lending vehicle with a focus on opportunities in North America. After consideration of Monroe's presentation, the Committee voted to commit \$50 million to Fund IV. Trustee Kelliher noted that NHRS previously invested \$50 million in Monroe's Funds I, II and III in 2013, 2015 and 2018, respectively. Trustee Kelliher continued her report, adding that the Committee

also heard from Townsend Group representatives on the six-month update on the System's real estate portfolio. The Committee then heard from Sean Gill, a partner at NEPC, who reviewed the private equity and private debt portfolios, including commentary on the internal rates of return (IRR) for the fiscal year ending June 30, 2020. Since the program's restart in 2009, the since-inception return was at 8.4%, with a trailing five-year return of 7.9%. She concluded her report, noting that December was NEPCs last meeting with NHRS.

Following Ms. Kelliher, Mr. Johansen reviewed the System's marketable assets performance through November 30, 2020. He stated that the marketable assets fiscal year to date were up 14.2% compared to the benchmark of 12.5%, noting the dramatic improvement in performance since June 30, 2020. He noted the marketable performance at 10.9% for one year, 11.2% for two years, 7.1% for three years, 8.7% for five years, and 8.6% for 10 years. He reviewed allocations and indicated that all asset classes are close to target and within range. He explained the System is evaluating liquidity and cash needs over the next 30 to 90 days and will take money out of the S&P 500 index fund for liquidity purposes during that time, if required.

In addition, Mr. Johansen stated that the Total Market Fund was \$9.9 billion as of November 30, 2020. He announced that the System is, as of December 31, just over \$10 billion for the first time, a significant milestone, noting that the System had just crossed \$5 billion as of December 31, 2009.

He stated that private equity was up 7.6% and that the private debt was down 4.6%. The private equity portfolio slightly outperformed the S&P due to the change in interest rates, the public markets did well and the private markets not as well. Mr. Johansen then gave an overview of the five-year IRR, stating the full program is at 7.8% and the restart at 7.9%.

In closing, Mr. Johansen reviewed the agenda for next Friday's Investment Committee meeting, noting that Callan will give its first presentation and provide the commitment pace for 2021 of approximately \$400 million, which is slightly lower than past annual commitments, for the Committee's consideration.

Trustee Myers reported on the Legislative Committee, stating that it met on January 11, and approved the minutes of the December 8, 2020 meeting. The Committee then reviewed the 2021 legislative service requests list (LSRs), of which a few have become House Bills. Trustee Myers explained to the Board the NHRS-sponsored bill, HB130, which seeks clarification of the administration of the medical subsidy for state of NH retirees. Next, he described HB 173, which also appeared last year, and has to do with reporting investment fees. Trustee Myers went on to describe HB 274, which proposes a state subsidy of 5% of the local share of employer contributions for teachers, police, and fire, noting that prior bills had historically sought a 15% contribution.

Lastly, he discussed HB 390, which proposes adding 5 years to the 30-year amortization of the unfunded liability. He commented on legislation proposed in 2017, which asked for a 10-year extension that would have added \$4 billion to the cost for employer contributions. The proposed 5-year extension would add \$1.4 billion to employer contributions, extending the amortization period to 2044. Trustee Myers

stated the Committee discussed the bill at length, concluding that it infringes upon the Board's fiduciary duty and is inconsistent with sound actuarial practice, and voted to recommend that the Board oppose this legislation.

Prior to roll call vote, discussion ensued regarding sponsorship of the bill and the Board's process for evaluating and taking a position on proposed legislation. Mr. Karlon, Director of Communications and Legislative Affairs, stated that if the Board voted to oppose the bill, NHRS would notify the bill's prime sponsor and testify at the next scheduled public hearing. He noted that, in accordance with the Legislative Committee charter, the Board rarely takes a position on legislation, and therefore when it does, it is typically given due consideration.

Mr. Lagos added that in 2017, the Board took a similar approach to similar proposals that dealt with the unfunded liability and extending the 30-year amortization schedule. He noted that based upon the Board's prior position, it would not be a surprise to the Legislature if the Board voted to oppose HB 390 on fiduciary grounds.

Following the discussion, on a motion by Trustee Hart, seconded by Trustee Friese, the Board voted to adopt the recommendation of the Legislative Committee that the Board oppose House Bill 390, with Trustee Mezzapelle abstaining.

Trustee Coates opened his Benefits Committee report, stating it met on January 6, 2021, and approved the November 3, 2020 meeting minutes. The Committee then discussed an administrative policy in place since 2002 of not paying interest on refunds of contributions determined not to qualify as earnable compensation. Trustee Coates reported that the issue recently arose with a member who received this type of refund. Following discussion, the Committee determined that no change in the policy was required at this time. He closed his report by noting that the Committee received an update on a pending recoupment matter.

Next, Trustee Hart provided his report on the PPCC, which he noted met on January 6, 2021, and approved its December 4, 2020 meeting minutes. He shared that the Committee reviewed an update on the Executive Director search, stating it had received a list of eight proposed candidates and their backgrounds from EFL, the executive search firm that is assisting with the search. Mr. Hart noted the Committee will meet with EFL tomorrow to narrow the list of potential candidates to interview. In closing, he reminded the Trustees to return the Executive Director Evaluation Form to Rosamond Cain, Human Resources Director, by January 25, noting the annual evaluation assists with the development of the System's strategic plan for next year.

Executive Director George Lagos opened his operating report, commenting on the employer outreach program with regard to the recent change in employer contribution rates. He then acknowledged the good work of Mr. Karlon and Nina Calkins regarding the implementation of the Contact Center, which started taking calls early last month. Mr. Lagos noted the data shows it has been very effective, with agents answering members' questions 90% of the time on the first call, with no calls going to voicemail.

He then noted the 12-month rolling KPM chart shows the System is once again moving in a more positive direction.

At this time, Trustee Coates left the meeting.

Mr. Crutchfield began his Legal operating report, highlighting the Employer Audit team's achievement of meeting its KPM for employer audits, while noting a new employer auditor began last month and a second one is expected to begin at the end of February.

He thanked those Trustees who have already provided their RSA15-A Statement of Financial Interest forms, noting the forms are due this Friday to the Secretary of State's office.

He continued his report, noting Atty. Cavanaugh's extensive work on revising the Contract Administration procedures, to ensure that all contracts are properly negotiated, renewed, and/or terminated in a timely manner.

Mr. Crutchfield continued his report by referencing his contract summary memo, from FY19 to the present, that documents contract approvals in accordance with the requirements of the Board's Procurement Policy. He noted that, overall contract spending is similar to the prior two years, even with a number of COVID-related contracts this fiscal year.

He closed his report by referencing the Legal Action Plan, with all items either completed or on schedule.

Director of Finance Gerard Murphy gave his report, noting the plan balance as of November 30, 2020, was just over \$9.9 billion, which is \$600 million over the prior month and \$800 million over the beginning of the year. He went on to state that the cash flows for November were as expected and spending through the fiscal year in November was under budget.

Moving onto KPMs, Mr. Murphy noted that Finance missed the one on cash receipts because of staff turnover, but with a recent filling of one of the positions, he expects Finance will meet its KPMs next month. His team is finalizing the 1099s for beneficiaries, which are on schedule for completion at the end of this week, and will then appear on My Account, and sent on to the printer to be mailed by the January 31 deadline.

In closing, Mr. Murphy stated the System is on track for the GASB 68 & 75 reports to come before the Audit Committee and the Board at their respective February meetings.

Director of IT Frank Clough opened his report, stating that the System has completed negotiations to install the enterprise firewalls. He noted the kick-off date is still to be determined and that hardware, software, and other applicable items for the project are on order. Next, Mr. Clough shared that his team is on schedule with Fusion Cell's COVID health and safety recommendations, noting the recent installation of the HEPA-13 filters. In addition, IT installed touchless faucets, mobile hand-sanitizing stations, and the UV lights in the HVAC units, noting that the UV lights, as recommended by Fusion Cell and the CDC, is a technology that scans the air particles passing through the HVAC system and kills nearly 100% of all viruses.

Mr. Clough also noted a number of other ongoing activities in IT regarding improved cyber security, increasing the System's bandwidth for improved remote work, and a firewall upgrade. He then reported on the recent vulnerability testing, adding that only two items remain for remediation. He also noted all staff would be required to do monthly security awareness training, by watching a 3- to 5-minute training video to institute best practices with respect to cyber security awareness, starting this month and concluding in June.

Mr. Clough commented on the increase in help desk tickets over the year because of the need to support remote staff, and noted that customer service satisfaction, over the last few months was 100%. Ending with his action plan, he stated that several items are in process, with one item to be completed within the next couple of months.

Project Manager Cecile Merrill gave the Board a PGV3 update, noting it is 33% complete overall, with Deliverable 3, which deals with benefit calculations, at 18%. She recapped progress on the design document phase, noting four are completed and the last three are due January 25.

Ms. Merrill noted that NHRS added seven change requests, which may impact the timeline of the project. She advised that NHRS would have its quarterly steering committee meeting with LRS and Segal, the third-party project oversight vendor, in early February.

Member Services Director Nancy Miller presented her report, noting continued progress with the benefit calculations design work for PGV3, and that Member Services is highly involved with the project, and regularly attends meetings with LRS. She expressed appreciation for LRS and commended Ms. Merrill for keeping the challenging meetings productive.

Ms. Miller updated the Board on progress with July retirement finalizations, noting that remote working is delaying the flow of information between staff and employers and impeding the finalization of benefits.

She reported that Member Services is recruiting for a Benefits Coordinator. Also, she stated that her team meets weekly with the manager of the Contact Center for streamlining work and consistent messaging on the front end to the back offices. Next, she reported on the KPMs, stating that there was one missed, relative to the processing of July finalizations. She closed her report with an update on her Action Plan.

Mr. Karlon opened his report with recognition for Ms. Calkins, Manager of the Contact Center, and its Supervisor, Deanna Higgins, for getting things up and running. He noted a few items that in progress for the Contact Center, including the LexisNexis identity-authentication portal, approved by the Board last month; the implementation of call recording for quality assurance; and settling on the best data metrics for measuring success.

Next, he noted that PIO has scheduled its Employer and Member Education Sessions for the first half of 2021. He reported on some upcoming projects, including the review of Employer Reporting instructions in PGV3 and the annual collection of retiree

work data from employers for 2020, which is due by February 15th. Mr. Karlon also announced that he, Mr. Lagos, Mr. Crutchfield, Mr. Murphy, and Mr. Johansen would be giving an NHRS presentation to the ED&A Committee tomorrow. He added that the presentation would become available via WebEx to the public.

Lastly, he reported that PIO met its KPMs, noting PIO met its Employer Outreach goals, despite the limitations imposed on presentations for most of 2020 because of COVID.

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

Chair Lesko noted there were no travel reports.

Mr. Lagos then confirmed that the December 8, 2020 Action Items were complete.

During the Checkpoint Discussion, Chair Lesko welcomed former Trustee and Board Chair Dick Gustafson, noting the Board reserved this time to give Dr. Gustafson a formal farewell, following his last meeting in March 2020, which was the last in-person meeting of the Trustees before going remote. Chair Lesko gave an overview of Dr. Gustafson's time on the Board, which began in August 2011.

In 2013, Governor Hassan designated him as Chair of the Board, and he served in that role until 2020. However, his tenure as a Trustee had been in holdover status since August 2019, until just prior to the April 2020 Board of Trustees Meeting, when Governor Sununu appointed Scott Christiansen as his successor on the Board. Dr. Gustafson also served on several Board Committees and the 2017 Decennial Commission, which the Legislature created to review and evaluate all aspects of the System.

The Board recognized Dr. Gustafson's brilliant leadership, during what was a tumultuous time for NHRS, with immense uncertainty for the System and all public-defined pension plans, and on the heels of the Great Recession.

Dr. Gustafson exemplified the true meaning of acting as a fiduciary, over his nine years of service to NHRS, and especially during his seven years as Board Chair. He always had the sole interest of all the members and beneficiaries in mind, while overseeing the operation of one of the state's largest financial institutions. In 2013, when he began serving as Board Chair, NHRS held approximately \$6 billion in assets. At the time of his departure in March 2020, NHRS had over \$9 billion in assets, with 461 participating public employers and over 100,000 members, retirees, and beneficiaries.

Dr. Gustafson was extremely effective at chairing the Board and Committee meetings, knowing how to lead efficiently, with the ability to prioritize and give focus to the significant challenges the System faced. He took a 360-degree view and was thoughtful and inclusive with analyzing issues and producing solutions.

Chair Lesko opened the floor to the Board for comments. Several Trustees and Executive Director Lagos noted their respect and appreciation of Dr. Gustafson's leadership and proficiency at managing Board meetings, offering personal remembrances.

Dr. Gustafson expressed his appreciation for the recognition, noting it had been an interesting 10 years, not only for him, but for staff as well, with the primary focus of serving the members and beneficiaries being what sustained the Board.

In closing, Dr. Gustafson proclaimed that the Board of Trustees was the best and most enjoyable board he has served on, that it was an honor to serve, and he wished everyone well, assuring the Board that it would continue to do the work it needs done, even with the upcoming transitions, because of the compass already in place that will help navigate them.

A round of applause filled the WebEx meeting and Chair Lesko again thanked Dr. Gustafson.

With no further business to discuss, on a motion by Trustee Hart, seconded by Trustee Roy, the Board voted unanimously to adjourn the meeting at 11:25 a.m.

Respectfully submitted,

Christine Rice,
Administrative Assistant