

NHRS Board of Trustees

Minutes – January 11, 2022

Note: These minutes from the January 11, 2022 Public Session were executed and approved at the February 8, 2022 Board of Trustees' meeting.

**Board of Trustees
January 11, 2022**

Public Minutes

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

Participating: *Trustees Tim Lesko, Chair; Scott Christensen, Christopher Coates*, Sue Hannan, Bill Hart, Maureen Kelliher, Robert Maloney, Andrew Martineau, Germano Martins, Ken Merrifield*, Monica Mezzapelle, Scott Myers, and Donald Roy*.*

**These Trustees participated remotely because of meeting conflicts, as permitted under RSA 91-A:2. As a result, all votes were by roll call.*

Staff: Jan Goodwin, Executive Director; Tim Crutchfield, 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; Rosamond Cain, Director of Human Resources; Diana Crichton, Esq., Hearings Examiner; Mark Cavanaugh, Associate Counsel and Compliance Officer; Heather Hoffacker, Internal Auditor; Nina Calkins, Administrative and Contact Center Manager; Tracy Knight, Project Manager; Ann Stetson, Senior IT Business Analyst; David Hill, IT Support Specialist; and Christine Rice, Administrative Assistant.

Chair Lesko called the January 11, 2022 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m.

A quorum was established and the Chair called for a vote to approve the public minutes of the December 14, 2021 Board meeting. On a motion by Trustee Maloney, seconded by Trustee Hart, the Board voted to approve the minutes, as presented.

Chair Lesko opened the floor for Committee reports, starting with Trustee Mezzapelle, who presented the Audit Committee report. She noted the Committee met this morning prior to the Board meeting, and gave a status update on internal audit activities, as well as items on the Internal Audit Tracker.

Trustee Mezzapelle then referred to the Audit Plan, reporting that the Death Audit was in process, the audit for Cash Management and Cash Flow Projections had recently begun, and that she expected the reports to be available to the Committee next month.

She continued her report with an update on the Policy and Procedure Assignment Audit, explaining that staff are working on updating procedures. In closing, Trustee Mezzapelle stated the Committee had also received an update from Finance, sharing that Finance had received the draft fiscal year GASB 68 and 75 reports from GRS and submitted them to Plante Moran for auditing, and that the reports would come before the Audit Committee and the Board at their meetings next month. Lastly, she noted that Plante Moran provided the FY21 Opportunities Letter, which lists recommendations to improve operations and internal controls, and that Finance is reviewing the letter and preparing responses and would present it to the Audit Committee at its meeting next month.

Following Trustee Mezzapelle, Trustee Roy gave the report of the Governance Committee, which had met on January 4, 2022, in part to review the annual revisions to the Governance Manual. He said that after a brief discussion, the Committee voted unanimously to recommend to the Board that it approve the annual updates to the Manual, including the new term use for “Annual Comprehensive Financial Report,” or “ACFR,” throughout the Manual in accordance with the recent policy change.

Trustee Roy then reported that the Committee next reviewed the renewal of the fiduciary insurance policy. The Committee heard from Deputy Director and Chief Legal Counsel Tim Crutchfield on the proposal from the incumbent carrier, Hudson Insurance, who had increased the premium for the first time in seven years. Mr. Crutchfield explained that the carrier said it was due to the national rise in fiduciary claims in the past two years, as NHRS has not filed any claims during that time. The Committee then voted unanimously to recommend to the full Board that it approve this year’s renewal of the fiduciary policy with Hudson Insurance.

On a motion by Trustee Hart, seconded by Trustee Hannan, the Board voted to accept the recommendation of the Governance Committee that the Board approve the revised Governance Manual, as presented.

At this time, Trustee Christensen joined the Board meeting.

On a motion by Trustee Martins, seconded by Trustee Maloney, the Board voted unanimously to approve the recommendation of the Governance Committee to renew the annual fiduciary insurance coverage with Hudson Insurance Company, as presented today.

Next, Trustee Kelliher gave the report of the Independent Investment Committee (IIC, Committee), which met on December 17, 2021, noting Director of Investments Larry Johansen updated the Committee on investment returns through recent time-periods, as well as on the Work Plan. Trustee Kelliher next reported that the IIC reviewed House Bill (HB) 1257, which proposes requiring NHRS to divest from direct investments in companies in China. She indicated she would come back to this topic at the end of her report. She then noted that the IIC agreed to approve the renewal of a two-year contract with Abel Noser Solutions, the System’s trading cost analysis provider. Next, she mentioned the presentation that the Committee heard from NHRS’ real estate investment manager, The Townsend Group (Townsend), who took over the management of the System’s real estate portfolio in 2009. Trustee Kelliher stated that Townsend representatives gave the IIC a panorama of its performance since its inception, noting that the portfolio had created over \$757 million in value, representing a 12.0% net return and 1.5 X equity multiple. The Committee then voted unanimously to renew the real estate agreement with Townsend through December 31, 2023.

Trustee Kelliher next reported that the Committee had heard a presentation from the NHRS investment consultant, Callan, who referred to the “Annual Alternatives Portfolio Review” and provided a thorough picture of the System’s private equity and private debt assets portfolio, as of June 30, 2021. The Committee then voted unanimously to approve the private debt and private equity strategic plan for calendar year 2022.

Trustee Kelliher then turned the Board’s attention to House Bill 1257, noting the IIC’s opposition to the proposed legislation. She stated that the Committee believes it directly conflicts with the constitutional and statutory requirements of the System, as well as general trust law, under the Internal Revenue Code, all of which require that the NHRS fiduciaries act solely for the exclusive benefit of its members and beneficiaries at all times, pursuant to RSA 100-A, and Part I, Article 36 of the New Hampshire Constitution. At its December meeting, the Committee voted unanimously to recommend to the Board that it oppose HB 1257. Following Trustee Kelliher’s statement from the Committee, the Board engaged in a discussion on HB 1257.

On a motion by Trustee Hart, seconded by Trustee Martins, the Board voted to accept the recommendation of the Independent Investment Committee that the Board oppose House Bill 1257, as presented, with Trustee Mezzapelle abstaining.

Trustee Kelliher then turned to Mr. Johansen, who updated the Board on the total fund performance through November 30, 2021, stating that NHRS is at 12.1% at three years, 10.8% at five years, and 10% at 10 years. Next, he reported that asset allocations were close to target and well within range, with assets, Fiscal Year to Date, at \$11.5 billion.

He then provided a high-level review of Callan’s and the Committee’s summary of the private debt and private equity portfolio as of June 30, 2021, as well as the commitment pace for 2022. He noted the Internal Rate of Return (IRR) had increased significantly since 2019, at 12.1% as of June 30, 2021, up from 9.4% as of December 31, 2019, and 9.8% as of December 31, 2020. The program became cash flow positive in 2021 for the first time since the re-start of the program in 2011. The NHRS alternatives portfolio accounts for 19.4% of assets, and the IIC will work toward achieving the 15% target, without missing any vintage years. The IIC plans to commit \$250 million to private equity and \$200 million to private debt during Calendar Year 2022. The IIC will revisit the pacing schedule in June and make any required mid-year course corrections. In December 2022, he noted the IIC would set the 2023 commitment pace. Following his overview, there were several inquiries from Trustees before he concluded his report with an outline of the IIC’s January meeting agenda.

Next, Trustee Myers provided the Legislative Committee update, noting that the Committee met after the December 14, 2021 Board meeting to review the 2022 Legislative Service Requests (LSRs), and the 2021 retained bills, and mentioned that all of the 2022 LSRs had now become bills. He updated the Board on Legislative activity, reporting that there are nine House and Senate public hearings this week. Trustee Myers proceeded to highlight NHRS-related bills, providing a summary of SB 363, HB 1079, HB 1257, HB 1535, and HB 1590. Several Trustees inquired on particular bills and their potential impact on NHRS, which Trustee Myers and Marty Karlon, Director of Communications and Legislative Affairs, addressed.

Following the Legislative Committee report, Trustee Coates gave a brief report of the Benefits Committee, which met on January 5, 2022, and went into non-public session under RSA 91-A to discuss two pending Gainful Occupation cases with counsel.

Trustee Hart then gave the PPCC report, noting the Committee had met January 4, 2022. The Committee heard from Director of Human Resources Rosamond Cain on succession planning and the status on staff recruiting. The Committee then discussed Mr. Johansen's upcoming retirement as of September 1, 2022, recommending that NHRS engage a search firm to assist with finding his replacement. Trustee Hart next reported that the Committee also reviewed the process for the annual evaluation of the Executive Director, which he said the PPCC expects to begin in February.

Next, Chair Lesko turned the floor to Mr. Karlon who gave a presentation on the legislative process, providing an overview of the key terms, important dates for legislative sessions, the life cycle of bills, the statutory budget process, which occurs every other year, and NHRS' role in working with the Legislature. He explained that NHRS does not take a position on legislation unless there are fiduciary or IRS issues with a proposal, but does provide data and impartial analysis on all bills that would affect NHRS. Lastly, he provided a reference list of tools and resources for Trustees to refer to current and past legislation. A brief question-and-answer session followed the presentation.

With no further discussion, Chair Lesko opened the floor to Executive Director Jan Goodwin to begin the operating reports. Ms. Goodwin updated the Board on the COVID-19 Transition Plan, noting that the System has permitted up to 50% of its staff to return safely to the office, under the advisement of its consulting firm, Fusion Cell. She then turned the Board's attention to the KPMs, which came in at 98.8% this month, above the 95% benchmark. She then commented on the progress of PGV3, noting it has reached 50% completion, and that NHRS had successfully transitioned since Project Manager Cecile Merrill's retirement in December.

Next, Ms. Goodwin reported on the competitive bid on the Death Audit Services, and announced the retention of LexisNexis, with an annual cost of \$6,750, which is less than the threshold of \$25,000 needed of Board approval. She then mentioned the continued success of the Contact Center, achieving all of its KPMs and noting its 100% customer satisfaction rating last month, concurrent with celebrating its one-year anniversary. In conclusion, she reported on her Action Plan, noting that everything is in process satisfactorily.

Next, Mr. Karlon gave his operating report, noting PIO's preparation for the legislative session, and the scheduling of its annual member and employer events. He reported PIO achieved all of its KPMs, and that it is on track with its Action Plan.

Following PIO's report, Director of Member Services Nancy Miller provided the Board with an update on moving to the new death audit vendor, noting Member Services would be transitioning to LexisNexis, as Ms. Goodwin mentioned. She then provided an update on recruiting in Member Services. Ms. Miller made the Board aware of the full transition of the JRP to its new third-party administrator, noting that NHRS had transferred the necessary data to them, and that the new administrator would handle the January payroll. She mentioned NHRS would be involved with the 2021 JRP Audit.

Ms. Miller then reported that Member Services achieved all of its KPMs. She provided the Board with a summary of upcoming projects, including staff creating design documents for PGV3's Deliverable 4, and she mentioned about the continued progress on audit corrections, which should align with a Member Services Action Plan item.

Next, Director of Finance Gerard Murphy provided his Finance report, starting with the net position, as of November 30, 2021, of \$11.55 billion, representing a \$20 million decrease in the first five months of Fiscal Year (FY) 2022, and noted that cash flows were as expected, and that spending was below budget. He then explained that his department missed one KPM that had to do with banking reconciliation, which Finance was unable to meet because of a vacant position. He also mentioned that NHRS had recently filled this position. He reported that the candidate began after the holidays and that training is underway. Mr. Murphy noted that his Action Plan is progressing, and that Finance has been working on the Employer Roll-Out of the PGM3 project, meeting with payroll providers to review details on the schedule for the process of accepting and validating XML files. He reported that staff are working on the Employer Profile Project to ensure NHRS has current information on file for its employers prior to the implementation of PGM3. Lastly, he mentioned that Finance is in the process of preparing to issue 1099-Rs to NHRS beneficiaries. He noted that the 1099-R mailing would occur by the end of January.

Ms. Cain followed with her Human Resources operating report, providing an update to the Board on recruiting, noting there are currently five vacant positions, with two in Member Services, two in IT, and one in Finance. She reported that HR had begun transferring data to the new payroll vendor. She said she anticipates a “go live” date of April 1, 2022. Ms. Cain concluded her report with the announcement that NHRS had instituted the new CDC protocols on isolation and quarantine, noting staff would have to isolate or quarantine for five days depending on COVID-19 test results.

Next, Director of IT Frank Clough presented his report, providing an update on the monthly Security Awareness Training. He then provided a review of the email incident that occurred in late November 2021, confirming that the issue has been resolved and that IT continues to work with one of its third-party vendors to ensure continued oversight.

Mr. Clough then gave status updates on the firewall audit and the penetration-testing audit, noting they were completed and that staff are reviewing the findings. He informed the Board of several projects that are underway, including new software features for better management of iPads that the Trustees use. Lastly, he spoke about staffing, noting the position left open this past week by the departure of a network administrator, and that training continues for the recently hired Information Systems Security Officer (ISSO).

Following Mr. Clough, Deputy Director and Chief Legal Counsel Crutchfield presented his report and informed the Board that this week PIO had sent out the annual notice to retirees and employers regarding the annual limits on hours worked. He also noted that participating employers who hire NHRS retirees to work part-time have to report annually to NHRS of the hours worked and any compensation paid for the past calendar year, by February 15.

He then thanked the Trustees for their timely responses on the annual Statements of Financial Interests due later this month. Next, Mr. Crutchfield gave an overview of upcoming plans, and commended Attorney Diana Crichton for her management of pending appeals. He noted that Legal met all of its KPMs in December. Mr. Crutchfield then updated the Board on NHRS’s engagement with Groom Law Group on a provision in HB 2, regarding the application of the medical subsidy for state retirees, and the System’s related concerns surrounding compliance with the Internal Revenue Code. Lastly, he mentioned that collective bargaining negotiations were to begin this week for the current agreement, which expires on June 30, 2022. A Trustee inquired about which CBA group it involves, and Mr. Crutchfield explained that less than half of NHRS staff belong to the union and that the

agreement duration is for three years.

Finally, Mr. Johansen gave his report on Investments, noting it had met seven KPMs, explaining that three KPMs were not applicable for the month. He announced that there would be three presentations on inflation at next Friday's IIC meeting. He invited any Trustee who would like to attend remotely to contact him for the meeting materials. In closing, he informed the Board that the items in his Action Plan were ahead of schedule or in process.

Chair Lesko next presented the Consent Agenda, and on a motion by Trustee Myers, seconded by Trustee Hart, the Board voted to accept the Consent Agenda, with Trustee Merrifield abstaining on Item 4.

There were no travel reports.

Next, Ms. Goodwin provided an update on Action Items from the December 14, 2021 meeting, noting all items would be complete at the close of today's Board meeting.

Chair Lesko opened the Checkpoint discussion and congratulated Mr. Johansen on his pending retirement. He then commended NHRS on its hard work on the KPMs.

With no further business to discuss, on a motion by Trustee Hart, seconded by Trustee Christensen, the Board voted unanimously to adjourn the meeting at 11:21 a.m.

Respectfully submitted,

Christine Rice,

Administrative Assistant