

NHRS Board of Trustees
Minutes – June 8, 2021

Note: These minutes from the June 8, 2021 Public Session were approved and executed at the July 13, 2021 Board of Trustees meeting.

**Board of Trustees
June 8, 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, Bill Hart, Maureen Kelliher, Robert Maloney, Andrew Martineau, Kenneth Merrifield, Monica Mezzapelle, Scott Myers, and Donald Roy.

Absent: Trustees Melvin Friese, Sue Hannan.

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; Mark Cavanaugh, Esq., Associate Counsel & Compliance Officer; Diana Crichton, Esq., Hearings Examiner; Nancy Cone, Internal Auditor; Nina Calkins, Administrative and Contact Center Manager, David Crepeault, Information Security Officer; and Christine Rice, Administrative Assistant.

Chair Lesko called the June 8, 2021 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, Chair Lesko called for a vote to approve the public minutes of the Board of Trustees meeting on May 11, 2021. On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted unanimously to approve the minutes, as presented.

Trustee Mezzapelle began with the report of the Audit Committee, which met earlier this morning and heard a presentation from Plante Moran auditors on the FY21 audit.

The Committee reviewed the Internal Audit Tracking Report, which Trustee Mezzapelle noted had the same open items as last month. She explained that one issue would be resolved with the conversion to PGV3, and another, in Legal Compliance, related to the Employer Audit process and has an expected completion date in December. Next, the Committee went over the FY21 Internal Audit Plan, and Trustee Mezzapelle reported that the GASB Employer Reporting Census Data Audits are in process, with 21 of 23

audits completed, and 11 reviewed and submitted to Plante Moran. She then noted that the Committee would take up the FY22 Risk Assessment and draft Internal Audit Plan at its July meeting. Trustee Mezzapelle provided the Board with the status on the Data Security Response, noting that seven items remain, of which two are under review and five that are ongoing items. She then provided an update on the PGV3 project, which is overall 41% complete, with Deliverable 3 (D3) at 66% complete. In closing, she shared that LRS would be on site at NHRS in August for user acceptance testing and training of D3.

Trustee Roy gave the Governance Committee report, noting the Committee had not met since the last Board meeting, but would meet immediately following today's meeting to discuss the annual review of cyber insurance coverage, with Board action expected at its July meeting.

Trustee Kelliher presented the report on the Independent Investment Committee (IIC, Committee), which met on May 21, 2021, during which Mr. Johansen, Director of Investments, gave a review of investment returns over recent time-periods, and provided an update on asset allocations and liquidity, and discussed the Work Plan.

Next, the Committee discussed House Bill (HB) 173, which requires the IIC to provide a description of its investment fees, as well as post its quarterly reports on the NHRS website. Mr. Johansen then informed the Committee of a potential investment performance audit by the Legislative Performance Audit Oversight Committee. The IIC then discussed possible changes to the System's U.S. equity and Walter Scott Global equity benchmarks.

The IIC heard from Callan regarding its concerns with the Segal, Bryant, & Hamill non-U.S. equity portfolio and a discussion followed, during which the Committee requested staff to start a search for a core non-U.S. equity manager as a potential replacement. Next, the Committee voted to extend its two-year contract, through June 2023, with Wellington Management, who manages a \$206 million emerging markets equity portfolio on behalf of NHRS. The IIC then heard two presentations, as part of the two-year contract, renewal process from Brandywine, and Loomis/Sayles, who both manage global, multi-sector fixed income portfolios on behalf of the System. Brandywine manages \$269 million, while Loomis/Sayles manages \$290 million for NHRS.

Mr. Johansen then updated the Board on the System's total fund performance, commenting on its notable improvement since the beginning of the fiscal year. NHRS was up 22.1%, for fiscal year-to-date, as of April 30, 2021; 26.4% over the last 12 months; 9.8%, at three years; and 10.3%, at five years. He reported that all asset classes are close to target and well within range. He shared that the System took funds from the S&P 500 for cash flow purposes. As of April 30, 2021, assets are at \$10.9 billion. Mr. Johansen noted that NHRS's quarterly performance, compared to its peers, is just shy of the top quartile. At three, five, seven, and 10 years, the System is in the second quartile. Lastly, Mr. Johansen gave an overview of agenda topics for the IIC's upcoming June meeting.

Trustee Myers reported on the Legislative Committee, which met on June 7 to discuss sections 14 and 15 of HB2, which contain language pertaining to the application of medical subsidy payments to the state. The System consulted with Groom Law, who reviewed the bill's language and found that it is ambiguous and may not align with other

provisions of RSA 100-A. The Legislative Committee voted 3-0 to recommend that the Board oppose these two sections of the bill.

The Board voted on a motion by Trustee Myers, seconded by Trustee Hart, to adopt the recommendation of the Legislative Committee that the Board oppose sections 14 and 15 of House Bill 2, as passed by the Senate, because these sections could create exposure for NHRS under Internal Revenue Service (IRS) rules, including those requiring that plan benefits be definitely determinable and administered in accordance with plan terms and that plan assets are to be used for the exclusive benefit of NHRS participants and their beneficiaries, and direct staff to notify legislative leadership of this action. The motion passed, 10-0, with Trustee Mezzapelle abstaining.

Trustee Myers next gave an overview of the Legislative Tracker, noting that, as previously mentioned, HB 173, regarding the IIC reporting its investment fees, became law, while the remaining bills impacting NHRS had been either tabled, retained in committee, or voted inexpedient to legislate.

Trustee Coates provided the report on the Benefits Committee, which met on May 25, 2021, and approved the April meeting minutes, followed by a non-meeting under RSA 91-A to consult with legal counsel about a recoupment matter.

Next, Trustee Hart reported that the PPCC met on June 1. The Committee reviewed the proposed changes to the NHRS employee handbook, with revisions that reflect gender neutrality, the addition of an anti-bullying policy, and anti-racism statements, and an updated dress code. The amended handbook will come before the Board at its July meeting. The Committee then went into non-public under RSA 91-A, to discuss compensation matters regarding non-union staff.

At this time, Mr. Johansen welcomed representatives from Callan, the System's investment consultant, who gave a presentation on the results of the Asset Liability Study, and Asset Allocation Review. Callan concluded that the System's current asset allocations' targets and ranges are appropriate, and meet the needs of the benefit plan. Callan shared how their Capital Markets are developed and what that means for return expectations for the NHRS' target asset allocations, over 10 and 30 years.

After a brief question-and-answer session, Chair Lesko thanked Callan for their informative presentation.

Next, Executive Director Jan Goodwin gave her report, commenting on the recent assessment that NHRS received from Fusion Cell, who is in support of the July 1 phase of the System's COVID-19 transition plan, with increased staff returning to the office. With regard to holding in-person meetings, NHRS is awaiting the Governor's decision this Friday on the extension of the current Emergency Order before determining what it will do, and how it may affect the June IIC meeting.

Ms. Goodwin provided the KPM score, which is at 91.4%, below the 95% benchmark, and attributed most of the missed KPMs to seasonal and staffing issues. She informed the Board that NHRS has not heard anything further from the Legislature on the potential audit on investment performance. Next, Ms. Goodwin gave an update on the PGV3 project, noting it is currently at 43% complete.

She then provided a review on Contact Center progress, noting that the Center has met

expectations, presenting the most recent statistics on the Center's performance rate of managing customer calls. She noted that the May Action Items are either completed or in progress.

Ms. Goodwin then informed the Board of a sole source contract from IT that would need its approval. She also shared that she had approved another IT contract this month for less than \$5,000 annually, as authorized under the Procurement Policy.

Frank Clough, Director of Information Technology, expanded on the sole source contract for Board approval, explaining the need to purchase updated Microsoft Server software, which is vital for NHRS' operating system. Mr. Clough stated that the upgrade would suffice for another eight years.

On a motion by Trustee Hart, seconded by Trustee Christensen, the Board voted unanimously to approve the recommendation of the Executive Director that the Board approve the purchase, as presented in the Board materials, subject to contract and legal review.

Next, Mr. Crutchfield presented his Legal report, noting that progress on the GASB audits over the past month have been positive, reiterating that 21 of the 23 audits that Plante Moran assigned have been completed by the employer audit team, under the oversight of Internal Auditor Nancy Cone. The two that remain consist of a small municipality and the state. He then gave an update on the annual cyber insurance renewal process, noting that NHRS received two quotes from the incumbent carrier, and hopes to receive more from other carriers prior to the Board's consideration in July.

Director of Finance Gerard Murphy provided a comparison on the fiscal-year-to-date net position of NHRS assets as of April 30, 2021, which are up \$2.1 billion since April 2020, to \$10.9 billion. He then reviewed cash flows, and the budget vs. actual, noting the System is over budget by \$149,000. Mr. Murphy explained that it is due to the negative variance of \$2.7 million because of the increase in investment management fees, due to investments performing better than expected. However, he noted the positive variance of \$2.5 million in all other budget categories. Mr. Murphy next shared that Finance continues to work with employers on converting them to making their payments electronically, noting that NHRS would discontinue the lock box on July 1, 2021, as previously announced to employers last year. Employers will have the option to use the NHRS Quick Pay option at no charge, or make ACH payments through their own banking partners. He noted Finance missed two KPMs this month because of unavailable information and new staffing.

He then turned the Board's attention to the FY22 Preliminary Trust Fund Budget proposal and noted that the numbers had not changed since last month's proposal, adding that the budget is at \$48.8 million, \$8.7 million higher than the FY21 adopted budget. Mr. Murphy explained that \$8.6 million of the increase is in the external investment category, driven by higher asset values leading to increased investment management fees. The total increase of the other budget categories is nearly \$60,000.

On a motion by Trustee Roy, seconded by Trustee Mezzapelle, the Board voted unanimously to approve the Fiscal Year 2022 Trust Fund Budget.

Mr. Clough gave his IT report, updating the Board on ongoing projects, including

upgrades to the firewall to enhance protection of web-based traffic. He noted that staff has responded positively to the monthly security trainings, and that IT would continue to give the short, monthly security training and tests through year-end. Mr. Clough shared that Finance completed testing on the Microsoft Dynamics application and it is moving into production and would be complete by the end of the day. He then described the pending implementation of a chat-bot feature for the NHRS website to respond to questions 24/7. Mr. Clough also reported that IT performed its yearly audits on Pension Gold, to update specific accessibility for staff, and DRS, a reporting system that NHRS employers use, to eliminate old and unused accounts. In closing, he noted that IT met its KPMs and customer satisfaction is at 99%, with a decrease in help desk tickets this month.

Director of Member Services Nancy Miller presented her report, updating the Board on July retirements, noting there are currently 760 retirement applications in process for July 2021, up from 695 this time last year. She added that this is not the final number. She then discussed ongoing staffing issues in her department, including that an internal candidate filled the open Member Accounts Specialist-Audit position, which focuses on Employer Audit correction work, leaving a vacancy for a Member Accounts Specialist. Ms. Miller updated the Board on the status of the Judicial Retirement Plan's efforts to secure a new administrative vendor, noting she has not received official notice of a change at this time. Lastly, she noted the KPMs that Member Services did not meet because of seasonal exceptions, and new staffing.

Marty Karlon, Director of Communications and Legislative Affairs, provided his report, which focused on providing an overview of what happens to bills that the Legislature tabled, or retained this session. In closing, he noted PIO had met its monthly KPMs.

Next, Rosamond Cain, Director of Human Resources, presented her report, expanding on the recent Fusion Cell assessment, noting that NHRS is reviewing its policy on wearing masks, and group meetings during Phase 2 of the COVID-19 transition plan. Ms. Cain commented on the recruitment process, and challenges in filling open positions.

Chair Lesko presented the Consent Agenda. On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted to approve the Consent Agenda, as presented. Trustee Christensen abstained on the J.C. recommendation.

There were no travel requests.

Ms. Goodwin reported on the May 2021 Action Items, noting that after today's Board meeting, five of the seven items would be complete. She stated, as Ms. Miller mentioned, that NHRS is awaiting action from the JRP regarding an administrator. Ms. Goodwin noted she received reports from the retirement systems in Maine, Rhode Island, and Massachusetts on how many retirees remain in state, which are each relatively at 80%, noting that Maine's percentage fluctuates during the winter months, with a higher amount of retirees living out of state. Ms. Goodwin added that she is still waiting on information from Vermont and Connecticut.

Chair Lesko then called for the Checkpoint Discussion, and offered the floor to Ms. Goodwin, who reported on an initiative to improve the accessibility of pertinent information to trustees and to provide the materials via ShareFile on their iPads. She stated that materials such as the Board meeting minutes, the Governance Manual, the

Trustee's confidential contact list, educational and conference resources, statutes and rules, actuarial information, and the budget matrix, would become available on their iPads. She invited the trustees to contact her, or Mr. Crutchfield, over the next two weeks, with their requests for any information they would find helpful on their iPads. Ms. Goodwin next asked the Trustees to inform her, or Mr. Crutchfield, of which materials in the disability application materials they find most helpful.

With no further business to discuss, on a motion by Trustee Christensen, seconded by Trustee Roy, the Board voted unanimously to adjourn the meeting at 11:30 a.m.

Respectfully submitted,

Christine Rice,
Administrative Assistant