

NHRS Board of Trustees

Minutes – June 14, 2022

**Note:** These minutes from the June 14, 2022 Public Session were approved and executed at the July 12, 2022 Board of Trustees' meeting.

**Board of Trustees**

**June 14, 2022**

**Public Minutes**

**New Hampshire Retirement System**

**54 Regional Drive**

**Concord, New Hampshire 03301**

Participating: *Trustees Tim Lesko, Chair; Christopher Coates\*, Bill Hart, Maureen Kelliher, Robert Maloney, Andrew Martineau, Germano Martins, Monica Mezzapelle, Scott Myers, and Don Roy.*

Absent: *Trustees Scott Christensen, Sue Hannan, and Ken Merrifield.*

*\*This Trustee 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; Heather Fritzky, Assistant Director of Finance and Controller; Frank Clough, Director of Information Technology; Marty Karlon, Director of Communications & Legislative Affairs; Rosamond Cain, Director of Human Resources; Nancy Miller, Director of Member Services; 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 Business Analyst; Chris Murphy, IT System Administrator; and Christine Rice, Administrative Assistant.*

Chair Lesko called the June 14, 2022, regular meeting of the NHRS Board of Trustees to order at 10:02 a.m.

A quorum was established and Chair Lesko called for a vote to approve the minutes of the May 10, 2022 Board meeting. On a motion by Trustee Roy, seconded by Trustee Martineau, the Board voted to approve the May 10, 2022 meeting minutes, with an amendment to the public meeting minutes.

Chair Lesko opened the floor for the Committee reports, turning to Trustee Mezzapelle for the report of the Audit Committee, which met immediately prior to today's Board meeting. The Audit Committee first heard a presentation from Plante Moran, the System's external auditor who will begin the FY 22 Audit. Plante Moran provided an overview of the process and mentioned recent revisions in the auditing standards, and other minor changes in their independent requirements, including the format of the auditor's Opinion Letter. The Committee discussed internal audit activities, and heard an update on the GASB 68 Census Data Audits, with 22 completed and under evaluation by Ms. Hoffacker, the

Internal Auditor. Lastly, Trustee Mezzapelle reported on the Data Security review, noting the pending implementation of a multi-factor authentication in the Contact Center.

Trustee Roy gave the Governance Committee report, noting it did not meet since the May 10 Board meeting, but would meet immediately following today's Board meeting to discuss the annual renewal of cyber insurance coverage, with anticipation of Board action at its July meeting.

Trustee Kelliher presented her report of the Independent Investment Committee (IIC, Committee), which met on May 20, with updates from Director of Investments Larry Johansen on investment returns through recent time-periods, asset allocations, and liquidity. Mr. Johansen also provided the status of NHRS's three Russian holdings, which remain suspended from trading. He then gave an update on the Work Plan. Trustee Kelliher reported that the IIC discussed a proposal to move the IIC meetings from the third Friday of the month to the second Tuesday, in the afternoon, on the same day as the Board meetings. She said a vote on the new meeting schedule was expected in June, with the change beginning in September, if adopted.

The IIC then discussed the proposed two-year contract renewal with Neuberger Berman, a non-U.S. emerging markets equity manager. Following further consideration of the investment manager's performance, the Committee agreed to vote on the contract renewal at its meeting in June. The IIC then considered Callan's recommendation to change the private markets benchmarks, and voted to revise the private equity and private debt benchmarks, effective July 1, 2022. The Committee unanimously voted to recommend these proposed benchmark changes to the Board at today's Board meeting.

The IIC also heard a presentation from HarbourVest on an investment opportunity in its Fund XI. Trustee Kelliher reported that the Committee voted to commit \$50 million to Fund XI. She proceeded to provide an overview of the commitments NHRS had made over the years to HarbourVest's Dover Street funds VIII, IX, and X.

Trustee Kelliher stated the Committee heard from three U.S. equity small cap managers: Boston Trust Walden, Segall Bryant & Hamill (SBH), and Wellington Management (Wellington), who each presented as part of their two-year contract renewals. In closing, she noted Callan presented an analysis of manager fees.

She then turned to Mr. Johansen, who updated the Board on the Total Fund Performance through April 30, 2022 fiscal year to date (FYTD), noting performance in April was down 3.2% versus the benchmark of 2.9%. He proceeded to give the long-term performance summary: 8.9% at three years, 8.4% at five years, and 8.6% at 10 years. He noted that non-U.S. equities are below the low end of the asset allocation range because of the volatility of the market, and that if it persists, the Committee would discuss how to address it at a future meeting. He noted that Assets under Management have decreased to \$11 billion as of April 30, 2022, from \$11.5 billion at the end of June 2021. Mr. Johansen affirmed that the cash flow remains consistently good, with sufficient funds to cover the more challenging part of the year, with payroll growing due to the 700-plus new retirees in July, and with employer and member contributions dropping significantly in July and August because teacher contributions decrease significantly during those months. In closing, Mr. Johansen provided an overview of the agenda for the IIC's June 24 meeting. Mr. Johansen reiterated the benchmark changes, adding that they are a part of the Investment Policy. On a motion by Trustee Maloney, seconded by Trustee Myers, the Board voted unanimously to accept the IIC's

recommended changes to the private equity and private debt benchmarks, as presented.

Trustee Myers reported on the Legislative Committee, noting the Committee had not met since the Board meeting in May. He added that the Legislative Session ended in late May. He updated the Board on the seven NHRS-related bills passed by the Legislature. The Governor has signed three of the seven bills as follows: Senate Bill 363, allowing Group II middle-tier members to purchase service to reduce the minimum age and service requirements that were increased in 2011; HB 1497, related to the designation of survivorship options; and HB 536, which eliminated the workers' compensation offset of Group I accidental death benefits. Four of the seven bills await Governor's action: HB 1221, a one-time reimbursement of 7.5% by the state to offset the local employer contributions for teachers, police and fire members in FY 2022; HB 1318, a bill submitted on behalf of the Board and NHRS staff that establishes an employer penalty for noncompliance with certain data reporting requirements necessary for the administration of the System; HB1535, the one-time \$500 payment to eligible retirees and beneficiaries; and HB 1587, a modification to the compensation over base pay calculation for Group II middle-tier members. Trustee Myers turned to Director of Communications and Legislative Affairs Marty Karlon to explain how NHRS would administratively account for HB 1221 and HB 1535. Mr. Karlon provided a synopsis of how NHRS would implement these bills and other new Legislation. A discussion followed surrounding HB 1221.

Trustee Coates presented the Benefits Committee report, noting the Committee did not meet since the May Board meeting.

Trustee Hart gave the report of the PPCC, which met twice since the last Board meeting, on May 24 and June 7. He provided an update on staffing, as reported by Director of Human Resources Rosamond Cain at both meetings, noting recruitment continues for the Director of Investments. The System received over 40 applications for the position, with six interviews already conducted and one more scheduled. Recruitment has been under way for the Director of Finance, with a second interview planned for one of the two candidates. HR is also recruiting for three open positions in IT.

At 10:33 a.m., Chair Lesko called for a motion that the Board temporarily adjourn to discuss collective bargaining. On a motion by Trustee Hart, seconded by Trustee Mezzapelle, the Board voted unanimously to adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations under RSA 91-A:2, I(a). At 10:43 a.m., on a motion by Trustee Maloney, seconded by Trustee Hart, the Board voted unanimously to reconvene the Board meeting.

On a motion by Trustee Hart, seconded by Trustee Maloney, the Board voted unanimously to approve the proposed Collective Bargaining Agreement between the SEA and the NHRS, as presented today and authorize the Executive Director or her designee to sign the Agreement.

Next, Ms. Goodwin welcomed representatives from GRS, the System's actuary, who presented a comprehensive overview of the draft FY 21 actuarial valuation, which will be used to determine employer contribution rates for FY 24 and 25. An extensive discussion followed the presentation regarding the assumed rate of return. The Board expects to vote on the FY 24 and FY 25 employer rates at the July meeting.

Chair Lesko then turned to Ms. Goodwin to commence the operating reports. She opened her Executive Report with a COVID update, noting the System continues its

safety protocols and that NHRS is at 75% occupancy, with staff in the building daily. She then mentioned the KPMs, which came in this month at 97.67%, above the 95% benchmark, and noted that there were two missed KPMs agency-wide. One of the missed KPMs was the weekly staff update, which she sent out one day late. She added that the KPMs recently underwent a review to determine whether the measurements are in the manager's control, with particular consideration of the KPMs in Members Services and Finance. She gave a status report on the PGV3 project, which is 57% complete, with Deliverable 3 (D3) at 100%, D4 at 98%, and D5 at 9%, with meetings scheduled on design requirements for D5. She reported that LRS provided NHRS with the employer-reporting tool, which will aid Finance with managing test files received from over 460 employers more efficiently. Ms. Goodwin referred the Board to information on the Contact Center, which experienced an elevated number of calls in May because of the volume of July retirement filings. She noted her phone survey results from calls she makes to members, retirees, and employers each week to hear feedback on NHRS's customer service, which she reported continues to be positive. In closing, Ms. Goodwin turned the Board's attention to a sole source contract with Presidio for assistance in IT to help migrate the System's email service to the "cloud." On a motion by Trustee Hart, seconded by Trustee Martins, the Board voted unanimously to accept the recommendation of the Executive Director that the Board approve the procurement of services as presented in the Board materials, subject to contract and legal review.

Mr. Crutchfield opened his Legal report noting NHRS is still waiting on a legal interpretation letter first requested in March from the Attorney General's (AG) Office on the medical subsidy changes passed last summer under HB2, noting that the IRS has requested this letter. He gave a review of upcoming plans and projects, including a proposed list of legislative changes for the next Legislative Session. He concluded that his action plan is nearly complete for FY 22.

Mr. Johansen gave his report on Investments, noting seven of seven applicable KPMs were met this month. In closing, he reported that his action plan is on, or ahead, of schedule.

Mr. Karlon presented his operating report, commenting on several items PIO is working on, including the development of templates, in cooperation with Finance, for employer training on the data reporting system in PGV3. In reference to the training, PIO reviewed the results of its surveys to employers on their training preferences, and received feedback to help tailor the training. PIO is also launching ongoing messaging to inform members and stakeholders that NHRS would no longer be accepting attachments to the info@nhrs.org mailbox for security purposes and would direct users to the secure document upload on *My Account* or to the free Zix encryption portal. He said the change would take effect August 1 and several reminders of the upcoming change would be sent out between now and then.

Member Services Director Nancy Miller opened her operating report with the department's ongoing management of July retirement filings, alongside the competing priorities of PGV3, and making adjustments with the recent legislative changes. Member Services met 19 of 20 of its KPMs, again missing the benefit finalizations, but Ms. Miller noted that staff is reviewing the KPMs for Member Services to reflect appropriate benchmarks and goals. In closing, she reported that Member Services carried out the second of the retiree insurance deduction holidays and would resume deductions in July.

Assistant Director of Finance and Controller Heather Fritzky provided the Finance operating report, beginning with the fiscal year net position, as of April 30, 2022, of \$11.07 billion, noting it was \$10.938 billion a year ago. Ms. Fritzky stated cash flows were as expected for

the month and year-to-date. She proceeded to discuss the budget vs. actual, noting spending is below budget in total and within each of the major categories. She reported that Finance met all of its KPMs this month, and closed with the progress on the action plan.

Ms. Fritzky then presented the FY 23 Trust Fund Budget, informing the Board that there were no changes to budget amounts since the presentation of the Budget at the May meeting. She reported that the total FY 23 proposal was up \$1.25 million above the FY 22 adopted budget, explaining that the total budget increase stems from the projected increase of just over a \$1 million in investment expenses. She gave a breakout of particular expenses and further described what the offsets were in the Statutory Administrative budget, which the Board approved in September 2020. On a motion by Trustee Maloney, seconded by Trustee Roy, the Board unanimously approved the FY 23 Trust Fund Budget, as presented.

Ms. Cain presented her Human Resources report starting with recruitment, noting that there are new features offered through the payroll provider to help HR work more efficiently while recruiting, including the ability to reduce the time it takes to track the recruitment process, such as references, the number of interviews, and salary requirements. In closing, she mentioned her department implemented an electronic management system that would assign and track trainings for new and existing staff.

Director of IT Frank Clough began his report, including an update on monthly cyber security-awareness training, and penetration testing, which continues with the results from the follow-up audit with K-logix to ensure IT accurately completed the initial findings. IT is working on some additional findings resulting from that audit. He continued his report covering the findings from two other audits, the CISA (Cybersecurity and Infrastructure Security Agency), and the Bitsight Audit, which was performed as part of the cyber insurance renewal. He noted the AirWatch iPad upgrade for Trustees is in process. IT recently launched a new system of how staff will change their respective office passwords. He reported that IT met all eight of its KPMs and achieved 100% customer satisfaction in May. Lastly, he noted his upcoming projects, and that his action plan is in progress.

Chair Lesko next presented the Consent Agenda. On a motion by Trustee Mezzapelle, seconded by Trustee Hart, the Board unanimously voted to approve the Consent Agenda.

There were no travel reports.

Ms. Goodwin provided an update on Action Items from the May 10 meeting, noting that, with the exception of Item 2, everything was completed. In reference to Item 2, she reported that three of the four contracts are in process, with the fourth expected to be signed later this afternoon, at which time all Action Items would be completed.

During the Checkpoint Discussion, Chair Lesko reminded Trustees of the Governance Committee meeting immediately following today's Board meeting.

With no further business to discuss, on a motion by Trustee Martins, seconded by Trustee Roy, the Board voted unanimously to adjourn the meeting at 11:46 a.m.

Respectfully submitted,

Christine Rice,  
Administrative Assistant