

Note: These minutes from the March 12, 2019 Public Session were approved and executed at the April 9, 2019 Regular Meeting of the Board of Trustees.

**Board of Trustees
March 12, 2019
Public Minutes**

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

Trustees: Richard Gustafson, Chair; Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Tim Lesko, Bob Maloney, Michael Milligan, Scott Myers, Don Roy, and George Walker. *Absent:* Trustees Christopher Coates and Maureen Kelliher.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Frank Clough, *IT Director*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Cecile Merrill, *Project Manager*; Tracy Knight, *Sr. IT Business Analyst*; Tracey Horner, *Member Services Benefits Manager*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the March 12, 2019 regular meeting of the NHRS Board of Trustees to order at 10:04 a.m. Having established a quorum, Chair Gustafson called for a motion to approve the February 12, 2019 public Board of Trustees meeting minutes.

On a motion by Trustee Myers, seconded by Trustee Lesko, the Board voted to approve the minutes, as amended. *Abstentions:* Trustees Friese, Hannan, and Roy.

Trustee Maloney complimented the NHRS staff for getting the 1099-R forms out so quickly.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began by noting that the audit tracker is still carrying four items, one related to QDRO and three employer contribution reconciliation items, which he expects will be completed by the end of March. He noted that the next audit will review System User Access Rights and will be included in the May audit tracker.

Trustee Dwyer noted that the Committee reviewed the status of the Data Security Remediation update and stated that 67% of the identified items have been

completed. He reported that 14 of the 16 process enhancement recommendations provided by Plante Moran have been addressed. The two remaining recommendations need to be reviewed with Plante Moran. Lastly, he noted that the Committee received an update on the pending Actuarial Audit. Segal has received all of the information that they requested from GRS and the expectation is that Segal will provide a draft report to NHRS in either late April or early May.

Trustee Roy reported on the recent activities of the Governance Committee, noting that it met on February 12 and March 7. At the February 12 meeting, the Committee unanimously voted to recommend to the Board of Trustees that it adopt the Data Security Policy.

On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted unanimously to accept the recommendation of the Governance Committee to adopt the Data Security Policy, as presented.

Trustee Roy explained that at the March 7 Governance Committee meeting, it voted unanimously to recommend to the Board of Trustees to engage Groom Law Group based on the RFP evaluation undertaken by staff.

Chief Legal Counsel Crutchfield explained that pursuant to the RFP, firm responses were weighted 2/3 for technical responses and 1/3 for fees. Staff involved in the scoring unanimously selected Groom as their first choice. Another key factor in staff's decision to recommend Groom was that since 2009, Groom has had intimate knowledge of RSA 100-A, as well as the reasoning and history of multiple revisions to the statute over the past 10 years. This knowledge has led to time efficiencies and expense reductions.

Chair Gustafson directed the Board's attention to Mr. Crutchfield's February 28, 2019 memo, outlining the downtrend in legal expense over time. He also noted that the staff has been very satisfied with the quality of Groom's legal work, responsiveness and commitment to assisting with Trustee education.

On a motion by Trustee Roy, seconded by Trustee Dwyer, the Board voted unanimously to accept the recommendation of the Governance Committee that the Board select Groom Law Group as outside legal counsel for fiduciary, tax and benefits, and legislative matters per the recent legal RFP for those services, as presented. The engagement period under the RFP will be for a three-year term, following the expiration of the current agreement in May. NHRS will retain the option to unilaterally extend the agreement for three additional periods, not to exceed one year at a time.

Chair Gustafson reported on the Board Self-Evaluation Policy adopted at the June 12, 2018 Board meeting. He encouraged the Board members to complete and return the *Overall Board Evaluation* form to assess Board function and effectiveness. Executive Director Lagos noted that the *Self-Evaluation* section is for the Trustees' personal use and is not intended to be returned to the Board.

Trustee Roy gave the Board an update on the progress made on the due diligence on possibly moving to paperless Board meetings. He reported that two presentations have been made to staff by respondents to the RFI, Convene and Diligent.

Director of Investments Larry Johansen gave the Board an economic update in Trustee Kelliher's absence. He reported that new jobs in January were expected to be up 180,000 jobs but only 20,000 jobs were realized. Unemployment came in at 3.8%, with 3.9% expected. CPI came in with the year-over-year up 1.5%, as compared to the expected 1.6%. He noted that Federal Reserve Chairman Powell's recent speech indicated that the economy continues to grow, although more slowly. There are concerns about the economies slowing down in China and Europe, but none of the economists have indicated expectations for a recession in this calendar year.

Mr. Johansen recapped the February IIC meeting, noting that non-US small-cap equity manager Segall Bryant & Hamill and global fixed income manager Manulife gave presentations in conjunction with the two-year contract renewal process. AbelNoser presented an analysis of the System's equity trading costs for calendar year 2018, with all categories reflecting lower-than-average costs. NEPC presented the results of its Asset/Liability study and Liquidity Analysis. A brief summary indicated that nearly 75% of its assets maintain monthly or better liquidity. In the event of a significant market turndown, NHRS would have ample assets to meet benefit payments.

At the March IIC meeting, global equity manager Walter Scott will make a presentation in conjunction with a two-year contract renewal process. The IIC will spend significant time with NEPC discussing asset allocation targets and ranges. Mr. Johansen noted that he is not expecting any significant changes to the asset class targets, but there may be some changes within the asset classes and manager benchmarks. The IIC has been very busy over the last few months. In December, a thorough review with NEPC occurred for the private portfolio and, in January, a thorough review was conducted of the public market portfolio and NEPC's capital market assumptions. In February, a significant amount of time was spent reviewing the asset liability study and liquidity analysis, and March will culminate with decisions regarding asset class targets and ranges.

In reply to a Trustee's question regarding Board member attendance at the NEPC Conference in Boston on May 7-8, Mr. Johansen replied that Trustees are welcome to attend, and he would provide attendee information to Mr. Lagos to be circulated in the weekly Board Update.

Chair Gustafson called the Board's attention to Page 2 of the NEPC's Comparative Performance and Fee Analysis. The analysis reflects that NHRS has done very well in terms of both investment and administrative expense management, as compared to peer pension systems.

Trustee Myers reported on the Legislative Committee, highlighting the noteworthy bills in the 2019 Legislative Tracker. He began with HB 629, to establish a defined contribution to the state retirement plan for new members of the retirement system, who begin service on or after July 1, 2019, which was deemed inexpedient to legislate. He also noted that SB 28, as amended, which adds an active NHRS member, appointed from a list of nominations provided by public employee labor organizations, to the NHRS's Independent Investment Committee as a non-voting member, was passed by the Senate, and will move to the House.

Mr. Lagos mentioned that HB 2 includes proposed changes to the Judicial Retirement Plan (JRP), which could have implications with regard to retirement system expenses associated with providing administrative services to the JRP. An internal meeting is planned later in the week to discuss this further.

Trustee Walker reported for the Benefits Committee, noting that there was no meeting in March but a meeting is expected before the April Board meeting.

Trustee Hart reported that following the last Board meeting, he and Chair Gustafson met with Executive Director Lagos to review the recently completed Executive Director Performance Evaluation, and to discuss strategic goals that will be integrated into the Strategic Planning process. A "non-meeting" to discuss the collective bargaining strategy was held on March 7. Trustee Hart requested that the Board temporarily adjourn to discuss collective bargaining.

On a motion by Trustee Hart, seconded by Trustee Milligan, the Board voted unanimously to temporarily adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations under RSA 91-A:2, I(a).

On a motion by Trustee Hart, seconded by Trustee Lesko, the Board voted unanimously to reconvene the Board meeting.

Director of Member Services Nancy Miller, along with Public Information Officer Marty Karlon, began the Trustee Education session on the "Retirement Application Process." Ms. Miller and Mr. Karlon gave the Board an overview of benefits, planning for retirement, required documentation, timeframes and the options available to members, with respect to filing for retirement. Ms. Miller and Mr. Karlon then fielded questions from the Trustees.

Executive Director Lagos remarked that the Member Benefit Specialists on the Member Services Team are doing an outstanding job and noted that NHRS consistently receives positive feedback from the members and beneficiaries on a regular basis.

Mr. Lagos reported on the annual update to the 2020 Strategic Planning Process. This plan is the basis for creating action plans for the next fiscal year for each NHRS operating area. He then explained the "Preserve, Achieve and Avoid" (PAA) exercise, which identifies functions and activities that are positive contributors to the NHRS

mission; additional opportunities or initiatives not yet being realized; and situations or circumstances that are perceived as detrimental and ought to be mitigated or eliminated.

Mr. Lagos provided the Board with a draft of the preliminary FY 2020 NHRS Three-Year Strategic Plan, which incorporated the objectives identified by the Trustees as a part of the Executive Director Performance Evaluation Process. Mr. Lagos noted that the Board would again be discussing Strategic Planning at the April meeting, and the final plan would likely be adopted at the May meeting.

Mr. Lagos reported on the Executive Operating Report, noting that Key Performance Measures (KPMs) scored 95.51% this month. A Plante Moran recommendation, with regard to medical subsidies and the way employers provide their rate changes on their insurance programs to NHRS, is still under review. A conference call is being scheduled with Plante Moran to discuss possible corrective measures.

The PGV3 Project is underway, with meetings held in February to develop requirements. NHRS hired a new IT Senior Business Analyst, Tracey Knight.

The Data Risk Assessment or (DRAPP) remediation effort is now 67% complete. Most of the remaining issues will be resolved in the near term, but those items requiring system solutions will take additional time, as will issues related to vendor contracts.

Mr. Lagos reported on the monthly Telephone Survey Results, noting that he has now personally spoken to 1,035 members about their experiences with NHRS. He commented that these calls have been valuable in providing insight into issues important to our members and beneficiaries.

Lastly, Mr. Lagos reported on the System's Policies & Procedures database, which now houses over 100 system policies, 150 procedures, and over 100 contracts, and other important documents.

Project Manager Cecile Merrill gave the Board an update on the PGV3 project. She reported that all seven of the project planning documents are complete, approved, and posted for staff to review. The Project Team has had two requirement gathering sessions with LRS, and reviewed a total of 491 requirements of which 20 are being held for further discussion; 35 requirements have been removed; 20 requirements have been added; and 13 requirements are out of scope. The 35 data conversion issues, which had been identified have been addressed. Ms. Merrill noted that the Team would now focus on data cleansing. LRS and LRWL will be on site next week for another requirements gathering session, looking at about 188 requirements. Ms. Merrill noted that the project is on schedule and all is going well.

Chief Legal Counsel Tim Crutchfield gave the Legal report, noting that Hearing Examiner Diana Crichton continues to do a good job managing pending appeals,

either administrative or disability, and has handled timely scheduling of all pre-hearings and hearings. Regarding gainful occupation (GO), March is the month that requests are sent out for those receiving disability retirement benefits, asking them to report any annual earnings they may have had. In October, the Board will receive the annual GO report, which includes benefit adjustments to be made for the next calendar year.

Mr. Crutchfield continued that during the past month, the Legal Department has worked on a variety of issues such as the Legal RFP, the RFI for the paperless Board meetings, and reviewing eligibility for earnable compensation and/or service credit. Legal meets with Member Services every two weeks to discuss pending issues which may lead to administrative appeals.

Director of Finance Gerard Murphy reported that on February 26, staff held an employer training session for municipal and county employers which was fully subscribed. The first session was on Employer Audits and the second session was on Employer reporting and the reconciliation process. The feedback on the sessions was very positive. Another session is planned for later in the year for school districts. Mr. Murphy directed the Board's attention to pages 4 and 5 of the Investment & Non-Investment Administrative Expenses – Budget vs. Actual. He explained that the negative expense variances shown for actuarial fees, audit fees, and insurance expenses are all attributable to timing differences. He further explained that another variance in audit fees is anticipated due to GASB 75 audit work, which was not included in the Plante Moran contract and had to be completed by KPMG.

Mr. Murphy noted that the KPM that Finance missed this month was due to a penalty notification to one employer which was late by one day.

Director of IT Frank Clough referred to a chart indicating the number of system outages reported from 2014 to 2018. The chart reflects a significant and consistent reduction in outages each year from 2014 through 2018 due in part to updated hardware, extended software support and the efforts of the IT staff. This measure evidences the improved effectiveness of the IT operation.

Mr. Clough reported on the Nessus security audit being done by David Crepeault, our recently hired IT Security Officer (ISSO). This audit involves a scan of all devices on our network infrastructure or anything that is plugged in.

Mr. Clough went on to note that we now have a second email server at the Massachusetts COLO site to provide redundancy. If one email server goes down, the other will take over.

Executive Director Lagos noted that NHRS received an alert earlier in the week from the FBI that there have been increased efforts to gain unauthorized access to participant and member accounts of pension systems, 401Ks, and other benefit related entities. A notice was provided to staff with a number of recommendations.

Director of Member Services Nancy Miller reported that staffing is still a priority with ongoing efforts to fill the Benefit Coordinator position, the newly created Clerk position and the Member Accounts Manager position, which had been recently vacated. She noted that Member Services did not meet the KPM for interest posting due to a decision to purposely delay the posting of all interest in all accounts until some corrections were made to individual files.

On a motion by Trustee Myers, seconded by Trustee Hart, the Board voted to approve the Consent Agenda as presented. *Abstentions:* Chair Gustafson for Consent Agenda item #4-M.P.

Executive Director Lagos reported that Action Items from the February 12 Board meeting are being addressed.

Mr. Lagos mentioned that staff has discussed the creation of an ad hoc sub-committee of the Board, to attend abbreviated presentations by Convene and Diligent with respect to their paperless Board book capabilities. Trustees Hart, Walker, Roy and Maloney expressed interest in participating on the sub-committee.

Mr. Lagos noted that at next month's Trustee Educational Session, there would be a presentation on the disability retirement process.

Trustee Myers asked if the NHRS facility has a back-up generator power source, if a power outage occurred. Mr. Lagos directed the question to Mr. Clough, who replied that NHRS does have a generator that will keep the power going in the Granite State Conference Room, and that it supports the IT systems and IT staff computers, as well.

With no further business to discuss, on a motion by Trustee Hannan, seconded by Trustee Hart, the Board unanimously voted to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles
Executive Assistant