

NHRS Board of Trustees

Minutes – March 8, 2022

Note: These minutes from the March 8, 2022 Public Session were approved and executed at the April 12, 2022 Board of Trustees’ meeting.

**Board of Trustees
March 8, 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 Don 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; 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; Deanna Higgins, Contact Center Supervisor; Tracy Knight, Project Manager; Matthew Dahl, IT Support Specialist; Chris Murphy, IT System Administrator, and Christine Rice, Administrative Assistant.*

Chair Lesko called the March 8, 2022 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m.

A quorum was established and Chair Lesko called for a vote to approve the public minutes of the February 8, 2022 Board meeting. On a motion by Trustee Myers, seconded by Trustee Maloney, the Board voted unanimously to approve the minutes.

Chair Lesko opened the meeting with the Committee reports, turning the floor to Trustee Mezzapelle for her report on the Audit Committee, which met prior to today’s Board meeting. She gave an update on internal audit activities and the Audit Plan, including the status of several items on the Internal Audit Tracker. Trustee Mezzapelle reported that the Committee received an update regarding the Actuarial Calendar, noting that discussions are under way to consider the timing of when the June 30, 2021 Actuarial Valuation Report is issued, and when the Board certifies the employer contribution rates for Fiscal Years 2024 and 2025.

Next, Trustee Roy gave the Governance Committee report, noting that it did not meet last month, but that it would meet immediately following today's Board meeting.

Trustee Kelliher opened her report of the Independent Investment Committee (IIC), by updating the Board on NHRS's three Russian holdings, two equity ADRs and a sovereign bond. The bond has been sanctioned by OFAC and cannot be traded, and the market for these ADRs is essentially closed. She noted the total value of the three securities was \$15.6 million at purchase, and the current value represents less than three one-hundredths of 1% of the portfolio's current value of \$11.5 billion. She reported that at the next ICC meeting, scheduled for March 18, the Committee would consider a vote to sell these securities as soon as practical and prudent. She noted the IIC would also consider a vote to instruct the System's investment managers to refrain from investing in Russian securities until the Committee reverses the prohibition. She then reported on the IIC, which met in an emergency meeting via video-conferencing on February 25th, because of inclement weather and the timing of certain investments. During the meeting, Director of Investments Larry Johansen updated the Committee on investment returns through recent time-periods, asset allocations, liquidity, as well as the Work Plan.

Trustee Kelliher reported on the presentations that the Committee heard, including one from Thoma Bravo on its Fund XV, of which the IIC considered and voted unanimously, to commit \$50 million to, subject to contract and legal review. She mentioned that the System previously has invested in Thoma Bravo's Funds XII, XIII, and XIV. The Committee also heard from Abel Noser, who reviewed the System's trading cost analysis through December 31, 2021. The Committee next heard from Clearlake Capital Group on its direct lending fund. Following the presentation and discussion, the Committee voted unanimously to commit \$50 million to the Clearlake Capital Group Fund VII. Lastly, Callan presented its 2022 Capital Markets Assumptions by asset class over the next 10 years, and the 2022 Long-Term Capital Assumptions for NHRS.

She then turned to Mr. Johansen, who updated the Board on the Total Fund Performance through January 31, 2022, stating that NHRS is marginally up Fiscal Year to Date (YTD), 11.9% at three years, 10.3% at five years, and 9.5% at 10 years. Next, he reported that asset allocations were within range and close to target. Mr. Johansen mentioned that cash is higher than usual because of the volatility in the marketplace, and that NHRS has an ample amount to cover through the summer months and meet all capital calls. He concluded his report with an outline of the IIC's March regular meeting agenda.

Trustee Myers provided the Legislative Committee update, noting that the Committee had not met since its meeting last month, and then proceeded to update the Board on Legislative activity. He reported on the status of several bills, starting with House Bill (HB) 1079 and HB 1549, both relative to working after retirement for a System employer, which the House ED&A Committee recommended as Inexpedient to Legislate (ITL); both bills will now advance to the full House for a vote. He continued his report, noting the bills that are with the House Finance Committee, Division I, including HB 1417 regarding the state paying 7.5% of local employer contributions for Group I teachers, and Group II police and fire members; and HB 1535, the cost-of-living adjustment (COLA) bill. Lastly, he noted that the full House meets Thursday and is expected to vote ITL on HB 1257, which required NHRS to divest in China. Trustee Myers then turned to Marty Karlon, Director of Communications and Legislative Affairs, who provided a commentary on the financial impact of some of the bills this year that prompted further discussion.

Trustee Coates then gave a brief report of the Benefits Committee, which had not met since the last Board meeting.

Next, Trustee Hart gave the PPCC report, noting that the PPCC met on February 24 and heard a staffing update from Director of Human Resources Rosamond Cain. He then mentioned the recently hired executive search firm EFL and its initial outreach to stakeholders as part of the search for a new Director of Investments to ensure finding a qualified candidate for Mr. Johansen, who will retire on September 1. Trustee Hart then reported on the Committee's discussion about the Executive Director's annual evaluation, explaining its decision to use a different model this year because it is Executive Director Goodwin's first year with NHRS and with the challenges of the COVID-19 pandemic and the Board having to hold mostly remote meetings. The Committee will perform a 360-evaluation. Each Trustee, the Executive Director's direct reports, and the PGV3 Project Manager will be asked to complete a detailed survey. Board review is expected at the April 13 Board meeting.

Chair Lesko then called for a temporary adjournment to discuss collective bargaining. On a motion by Trustee Hannan, seconded by Trustee Hart, the Board voted to temporarily adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations under RSA 91-A:2, I(a) at approximately 10:30.

The Board re-entered its regular meeting at 10:43 a.m., at which time Ms. Goodwin introduced Pension Gold Version 3 (PGV3) Project Manager Tracy Knight, who, along with Director of Finance Gerard Murphy, provided an update on the PGV3 software upgrade, with Mr. Murphy focusing on the employer reporting and financial pieces of it. Ms. Knight described what each of the Deliverables entail, and discussed design document testing, and the System's ongoing collaboration with LRS. Lastly, she explained about the different change requests and highlighted several before turning the presentation over to Mr. Murphy. He began his portion of the presentation by discussing the Employer Reporting Rollout Project, noting NHRS has engaged with an Employer Working Group and top payroll providers as part of the transition to PGV3, with continual communication and ongoing development of materials and processes for testing of new reporting files and new system functionality. He proceeded to outline the Budget vs. Actual for the project, explaining the internal and external expenses and the revised budget, project to date. A brief question-and-answer session followed.

Next, Chair Lesko opened the floor for operating reports, starting with Ms. Goodwin, who began her Executive Report with a COVID update, noting that NHRS is no longer requiring masks for those in the office who have been vaccinated. She added that NHRS increased staff occupancy to 75% in the building. She then discussed the KPMs, noting after analyzing the KPMs over the past 16 months, she determined that the majority of those missed are because of being short-handed, having new staff, or the lack of timeliness on the part of employers who are responsible for submitting information. Ms. Goodwin explained how NHRS would remedy these impacted KPMs by staff issues, and mentioned the proposed legislation that the System is endorsing that would impose a penalty on employers for not submitting information on time. Since some of the KPMs are not in the System's control, she stated that she and the rest of the Executive Team (E-Team) would review the KPMs.

She then gave an update on upcoming plans and projects, including the timing of receiving the annual valuation, and the proposed contribution rates from GRS this year,

noting it would receive the proposed rates in June and NHRS would certify them in July. Ms. Goodwin reported on the progress of PGV3, which is 52% complete, and mentioned that LRS is on site this week to provide training for User Acceptance Testing for Deliverable 4, Phase I. She informed the Board that a presentation took place on the progress of the project during an All Staff meeting last week.

Next, she noted that the Contact Center missed one of its goals this month of achieving answering calls within two minutes, with a 5% abandon rate, and mentioned it was because of the high call volume in February and that a Contact Center Representative has been out on an extended leave of absence. She reported that she continues to receive positive feedback from her calls to members, retirees, and employers on NHRS's customer service. In closing, she announced that her action plan is progressing.

She then discussed the Strategic Plan, which is prepared every year and covers three years, and requested any Trustees' feedback via email. She referred to the E-Team's feedback on her Strategic Plan in the Board meeting materials, and noted that the information on the ED evaluation would be incorporated and an updated Strategic Plan would be available at the Board meeting following the ED evaluation.

Following Ms. Goodwin, Mr. Murphy gave his Finance report, noting the January 31, 2022 net position of \$11.6 billion, an increase of \$26 million in the first seven months of FY22. He reported that cash flows were as expected and total spending through the first six months of FY22 was below budget. He stated that all of the main budget categories presently have positive variances, and Finance has begun creating the FY 23 Trust Fund Budget request, with a preliminary budget expected for the Board meeting in May, and Board action in June. He then explained that his department missed one of its 15 applicable KPMs this month, which had to do with employer reconciliation. Finance missed the KPM again because it is still awaiting information from a small number of employers, and noted the Employer Reporting Manager is working on obtaining that information and expects to meet the KPM next month. Lastly, he reported that his action plan is in progress.

Ms. Cain presented her Human Resources report, by beginning with the one missed KPM relative to filling positions within 45 days, and explained the inability to meet that goal because of remote scheduling challenges with candidates. She mentioned she had four open positions prior to the Board meeting, but a fifth one opened today and that recruiting efforts continue to fill those positions. She then reported on the NHRS COVID transition plan and reiterated the change in the mask policy, and noted she received a few complaints from unvaccinated staff with having to wear their masks. Ms. Cain spoke to that, noting the E-Team would revisit the mask policy in the next couple of weeks.

Next, Director of IT Frank Clough presented his report, providing an update on the monthly Security Awareness Training for staff, noting that IT did not perform one for this month but rather provided staff with the annual Cyber Security Culture survey, to measure staff's concerns regarding cyber security. He then reported on the status of the Vulnerability and Penetration Audit, which IT is working to complete one last issue. Mr. Clough mentioned one of the problems arising from the audit had to do with staff-created passwords and that IT plans to strengthen its process of securing passwords, by prohibiting staff from using dictionary words, which lead to the testers' accessibility. He then provided a staffing update, informing the Board that the new Network Administrator began a couple of weeks ago, and that IT is still recruiting for an Information Systems Security employee. He then announced that IT failed one of its KPMs, which involved a server crash because Dell support failed to upgrade the hardware correctly, and that staff worked 30 hours to get the System back

online the next morning, to help lessen the impact. In closing, he reported that IT achieved 99% customer satisfaction, and his action plan is in progress.

Deputy Director and Chief Legal Counsel Tim Crutchfield presented his Legal report, beginning with an update on the Lafasciano appeal regarding whether the Petitioner could remove his former spouse as beneficiary of his annuity. Mr. Crutchfield noted the Supreme Court has provided the briefing schedule for the case, and Attorney Peter Foley, who has represented NHRS in administrative appeals for over 30 years, will be drafting the brief, which is due at the end of this month. He then discussed a provision passed last summer under HB2 regarding the medical subsidy changes and the payments by NHRS on behalf of eligible state retirees, and that NHRS is seeking a ruling from the IRS on whether the provision affecting the payment of the subsidy would potentially violate the IRS qualification rules. He apprised the Board on the status of the pre-submission letter that the System submitted to the IRS, commenting that the IRS in turn has requested an interpretation of the new law and NHRS has solicited the Attorney General's office to provide the interpretation. Finally, he updated the Board on the progress of the annual reporting requirement from employers for retiree work hours and compensation by February 15, and noted that 80 had not yet reported as of March 4. In closing, he noted that his action plan is in progress, as expected.

Next, Mr. Johansen gave his report on Investments, noting that it achieved seven of seven of applicable KPMs, and that all projects are in process or ahead of schedule.

Mr. Karlson then presented his operating report, providing an update on the member education presentations, noting an increase from last year, and has since added more programs. He mentioned PIO has received multiple requests from employers for presentations, and noted a rise in the Group II sessions. He commented on the addition of the application webinars, noting their growth in popularity after their launch last fall, and mentioned the positive survey results from the presentations. Lastly, he discussed his action plan, noting its progress, adding that PIO posted the Past, Present, and Future presentation online.

Next, on behalf of Member Services Director Nancy Miller, Ms. Goodwin presented her operating report, noting that many staff will be in training this week with LRS for the User Acceptance Testing for Phase 1 of Deliverable 4. She discussed staffing, noting there are two positions open in Member Services, with an offer extended to a candidate for one of the positions. She reported on the status of work with LexisNexis on death audits, noting Member Services would have a data file report to them later this week. Member Services missed two KPMs in February, the first, benefit finalizations, because of the higher volume of July '21 finalizations against other months and the staff vacancies and the second, on benefit estimates, which fell below target because of training new staff in Member Accounts, which plays a role in the process of generating estimates. In closing, she noted that Ms. Miller is making progress on everything in her action plan.

Chair Lesko next presented the Consent Agenda, and on a motion by Trustee Roy, seconded by Trustee Martins, the Board voted to approve the Consent Agenda, with Trustee Myers abstaining on Item 2, M.G.

There were no travel reports.

Next, Ms. Goodwin provided an update on Action Items from the February 8, 2022 meeting, noting all items would be complete at the close of today's Board meeting.

Chair Lesko opened the Checkpoint discussion, noting his appreciation of the focus on the KPMs and the explanations of where the shortfalls were, and he encouraged the idea to review KPMs to measure what we can control. He then reminded everyone of the Governance Committee meeting scheduled to take place shortly after the adjournment of today's Board meeting.

Prior to adjournment, Trustee Maloney suggested a presentation for next month on the retirement annuity options. Chair Lesko agreed that it would be an educational opportunity for the Board to learn what the System offers its constituents.

With no further business to discuss, on a motion by Trustee Hart, seconded by Trustee Myers, the Board voted unanimously to adjourn the meeting at 11:42 a.m.

Respectfully submitted,

Christine Rice,
Administrative Assistant