

NHRS Board of Trustees

March 14, 2023

**Note:** These minutes from the March 14, 2023 Public Session were approved and executed at the April 11, 2023 Board of Trustees meeting.

**Board of Trustees**

**March 14, 2023**

**Public Minutes**

**New Hampshire Retirement System**

**54 Regional Drive**

**Concord, New Hampshire 03301**

Participating: *Tim Lesko, Chair; Trustees Sue Hannan\*, Maureen Kelliher\*, Robert Maloney\*, Andrew Martineau\*, Germano Martins\*, Ken Merrifield, Monica Mezzapelle\*, Paul Provost\*, Don Roy\*, and Joshua Quigley.*

*\*These Trustees participated remotely; therefore, all votes were by roll call.*

Absent: *Trustee Jon Frederick.*

Staff: *Jan Goodwin, Executive Director; Timothy Crutchfield, Deputy Director and Chief Legal Counsel; Raynald Leveque, Chief Investment Officer; Marie Mullen, Director of Finance; Nancy Miller, Director of Member Services; John Laferriere, Director of IT; Rosamond Cain, Director of Human Resources; Marty Karlon, Director of Communications and Legislative Affairs; Mark F. 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; Greg Richard, Senior Investment Officer; and Christine McKenney, Administrative Assistant.*

Chair Tim Lesko called the March 14, 2023, regular meeting of the NHRS Board of Trustees to order at 10:30 a.m. Because the Chair determined there were items on today's agenda that required immediate Board action, the establishment of a physical quorum was not required under RSA 91-A due to today's inclement weather.

After establishing a quorum, Chair Lesko called for a vote to approve the minutes of the February 14, 2023, Board meeting. On a motion by Trustee Merrifield seconded by Trustee Martins, the Board voted to approve the meeting minutes, as amended, with Trustees Mezzapelle and Roy abstaining.

Trustee Mezzapelle opened with her report of the Audit Committee, which met earlier this morning, stating the Committee heard internal audit updates, and noted several audits that have been put on hold because of the PGV3 parallel processing. She stated the Committee heard a presentation from Marie Mullen, Director of Finance, on the Fiscal Year (FY) 22 GASB 68 & 75 Audit Reports and the results from the System's external auditor, Plante Moran, noting the reports were issued with unmodified opinions, meaning there were no material issues identified. Trustee Mezzapelle stated the Committee voted unanimously to approve and recommend that the full Board accept the June 30, 2022 GASB 68 & 75 Reports.

On a motion by Trustee Merrifield, seconded by Trustee Quigley, the Board voted unanimously to accept the recommendation of the Audit Committee to approve the June 30, 2022 GASB 65 & 75 Statement Reports, as presented.

Trustee Mezzapelle concluded her report, noting that Finance would be working on implementing three of the audit recommendations from Plante Moran in its FY 22 opportunities letter while simultaneously managing requirements for the PGV3 project.

Trustee Roy provided an update on the Governance Committee, noting it met March 6 and reviewed proposed staff revisions to the Voluntary Compliance Program Policy regarding the required minimum distributions resulting from the recently passed federal legislation, Secure 2.0. NHRS's external tax counsel, Groom Law, also reviewed these revisions. He reported that the Committee voted unanimously to recommend to the full Board that it adopt the proposed revisions, which will be presented at the April Board meeting. Lastly, he noted the Committee conducted its annual review of the NHRS fee schedules for copies and determined no changes were required.

Trustee Kelliher gave her report on the February 14, 2023, Independent Investment Committee (IIC, Committee) meeting. The Committee heard from Chief Investment Officer Raynald Leveque, who provided an update on investment returns through recent time-periods, referring to Callan's December 31, 2022, review, holdings within the NHRS portfolio, rebalancing, and the Work Plan, which is undergoing staff analysis. Trustee Kelliher reported that the Committee discussed and voted unanimously to change the current public markets investment management contract terms from two years, with an automatic 12-month renewal, to a five-year term, with a 12-month automatic renewal, which would take effect for new mandates and renewals going forward.

She stated that the Committee then unanimously voted to extend the contract with Fidelity Investments (Fidelity), who manages a \$349 million in a tactical bond strategy for the System, for a five-year term through January 2028, following Fidelity's presentation at its January meeting. Also at the February meeting, the Committee heard from the System's Fixed Income investment manager, Manulife, as part of its contract review. Trustee Kelliher noted the Committee next heard from AbelNoser on its calendar year 2022 analysis of the System's equity trading costs, which was determined to be favorable relative to peers. Callan gave the IIC an overview of its 2023 Long-Term Capital Markets Assumptions on building Market Assumptions by asset class.

Trustee Kelliher turned to Mr. Leveque, who reported on the NHRS performance as of January 31, 2023, noting the Total Fund return came in at 4.3%, down 93 basis points from the policy benchmark of 5.22% for the month. NHRS's FY 23 Total Fund performance fiscal year-to-date outperformed the policy benchmark by +150 basis points, with positive performances for 3, 5, and 10-year periods. The Plan is currently valued at \$11.2 billion AUM (Assets Under Management).

Trustee Merrifield began the report of the Legislative Committee, which had not met since the February Board meeting, and noted the Legislative calendar and tracker in the Board materials, turning to Director of Communications and Legislative Affairs Marty Karlon to provide an update on legislative activity. Mr. Karlon gave a summary of pending bills that would have significant impact on NHRS, including House Bill (HB) 436, which proposes to move Group II, Tier B members into Tier A to enable them to receive nearly the same benefits as the vested Tier A members; HB 50, regarding the state paying 7.5% of local employer retirement contributions to Group I and Group II

members; HB 555, which would allocate 75% of future state surplus to the System's unfunded accrued liability; HB 250, relative to doubling the Group II accidental death benefit; and HB 571, a Group II Cost-of-Living-Adjustment (COLA) bill, which he noted could be amended to be a one-time payment next year. He also reported on two other bills relative to NHRS investments that staff is monitoring and may require Board consideration. The first bill would prevent NHRS from investing in companies that boycott Israel, commenting that the House ED & A Committee voted to recommend it expedient to legislate last week. The other bill would prohibit the System from investing in any managers that put ESG (Environmental Social Governance) above or in concert with its fiduciary duty to act solely in the interest of its members and beneficiaries and Mr. Karlson noted the bill was amended with different language and would instead require NHRS to provide a quarterly report to the State Legislative Budget Assistant Office on its compliance with that fiduciary duty. The House ED & A voted unanimously that the bill Ought to Pass (OTP) and moves on to the House for a vote this week. Mr. Karlson concluded with an update on the System's legislative clean-up bill, HB 193, which is scheduled for a public hearing in the Senate tomorrow.

Trustee Martins delivered a brief update of the Benefits Committee, noting it had not met since the February Board meeting.

Trustee Hannan gave the PPCC report, which had not met since the last Board meeting, noting it is scheduled to meet next week. Ms. Hannan announced she would email the Executive Director Evaluation to Trustees this week for completion.

Chair Lesko turned to Ms. Goodwin for her Executive operating report, and she opened with the announcement of the new Director of IT John Laferriere and Controller Jennifer Gordon. Next, she noted the KPMs, which were at 98.86% for the month, and commented on the 12-month rolling average, which is well above the 95% benchmark. She then gave an update on the PGV3 project, noting it is 75% complete, with Deliverable 5 (D5) (Benefit Payroll) at 100% complete, and mentioned that staff would be in UAT testing of Deliverable 6 (D6) (Year-End Processes, Auditing, and Security), which is 90% complete, through the end of this month. She stated D7 (Member Direct) is 6% complete and design review meetings are underway on this deliverable. Ms. Goodwin reported on the progress of the employer XML test files and noted the items on hold for D6 because of the extensive work expected during parallel processing, which involves duplicating data in the current PGV2 system and in PGV3. She further explained the E-Team has been meeting regularly to determine which processes can be put on hold during parallel processing. She noted that the April Board meeting will have a presentation on parallel processing. Ms. Goodwin reported she met her KPMs for the month. She gave an update on the Contact Center, which continues to achieve its monthly goals, as well as her monthly calls to members, employers, and retirees, which continue to elicit favorable responses and positive feedback. She closed with her action plan, noting Item 4 would be moved to an "on-hold" status, because it would not be completed by the end of the month. She informed Trustees that many of the E-Team action plans would contain an "on-hold" section until parallel processing is done.

Mr. Leveque presented his report on Investments, noting his department met all its KPMs last month and provided an overview of the agenda for the March IIC meeting, which will occur after today's Board meeting. He noted his action plan has not changed this month but anticipates a portfolio review of the Total Plan by the Investment Team next month and a strategic asset allocation update due in the third quarter. Mr. Leveque apprised the Board of the recent volatility of the banking industry, notably two institutions, Silicon Valley Bank

(SVB) and Signature Bank, explaining that the federal government has backstopped all deposits in SVB. He reported that the NHRS portfolio has 0.3% of indirect exposure to the two banks and a contingent third, First Republic, translating to about \$3 million in the Public Markets portfolio. He noted the First Republic Bank is not insolvent, but the NHRS is monitoring the banks and taking appropriate action relative to any scheduled private equity capital calls. A brief discussion followed about the banking situation, which the NHRS is experiencing minimal exposure, about 4.5% of its total assets in the banking industry.

Director of Member Services Nancy Miller updated the Board on the latest activity in her department, noting continued work on PGV3, alongside payroll, and the large number of calls it received this month following the tax correction letters to impacted retirees, noting the corrected payments would be distributed in April. Ms. Miller reported her department is reviewing activities that it can delay due to planning for parallel processing. Her department is working with Finance, the project manager at LRS, the in-house project team, and E-Team on assigning leaders to perform certain activities as part of parallel processing. She noted Member Services met all 21 of its KPMs, and in closing, gave an update of her action plan.

Director of Finance Marie Mullen gave her Finance report, noting her department's PGV3 involvement with D6 testing and D7 design document reviews this month, and the work on employer reporting, noting its weekly meetings with PIO on developing the employer reporting training. She also noted her department is evaluating items that can be delayed during parallel processing and identifying the resources needed to meet year-end requirements, such as the ACFR (Annual Comprehensive Financial Report). Ms. Mullen reported that Finance met 12 of its 15 KPMs for the month, noting three of the KPMs did not have deliverables for the month. She stated that cash flows for January 2023 and fiscal year-to-date were within the expected range. She reported that in March, NHRS anticipates reimbursement from the state in the amount of about \$10.8 million for the authorized \$500 per person COLA bill in FY 22. She reported on the administrative expenses, commenting that both statutory and investments are below budget for the year. Ms. Mullen mentioned that a few categories are overbudget because of quarterly payments, and most of it would come into balance over the year. She updated the Board on PGV3 project spending, noting it has been below budget since inception and remains below budget in FY 23. In closing, she reported on her action plan, noting two or three items would be put on hold to focus on PGV3, the parallel processing, and year-end items.

Rosamond Cain, Director of Human Resources, opened her report, echoing similar comments that her department will place some action plan items on hold in preparation for parallel processing, including all staff training. She noted there are four staff openings for which NHRS is actively recruiting. She mentioned there are several temporary employees and that there will be a need for more for PGV3. In closing, she reported that NHRS will move to its new payroll vendor, ADP, next month, and would go live for staff payroll on May 5.

Deputy Director and Chief Legal Counsel Tim Crutchfield opened his Legal report with the ongoing lawsuit filed by five employees from the Department of Corrections at the Berlin facility who believed they should have been reclassified from Group I to Group II, approximately 20 years ago, noting that NHRS's external counsel, Attorney Peter Foley, along with the State Attorney General's Office, each filed a Motion To Dismiss and the petitioners filed a response and NHRS would file a reply in the coming weeks. Mr. Crutchfield reported that Legal met seven of its eight KPMs this month, noting that because of competing priorities with PGV3, the employer auditors missed the KPM of performing a rolling average of two employer audits per experienced auditor per month over a 12-month period. He commented that he expects it to be a persistent issue while there is PGV3 testing, but that

his department is working to determine if there are any efficiencies that can be implemented to meet that KPM. In closing, he noted items on his action plan have either been completed or are on schedule.

Mr. Karlon gave his report on PIO, commenting on the work his team has been doing while his focus has been on legislative activities, noting their support with the day-to-day operations and planning for future events. He mentioned the retirement education sessions held during school vacation week last month. He reported that PIO met all seven of its KPMs for the month. Lastly, he mentioned three items on his action plan have been put on hold until the PGV3 project is completed, noting that PIO would be involved with the PGV3 training during the summer.

Chair Lesko introduced John Laferriere, the new Director of IT, who presented his first operating report to the Board, beginning with cyber security awareness, noting that IT continues to send monthly phishing tests to keep staff alert, noting there were two failures this month, down from four last month. He gave a status update on several projects, including the completed Dell Storage Upgrade for PGV3; moving Office 365 to the cloud; and integrating Teams into the phone system. He stated IT is seeking quotes for a replacement generator, cloud technology for the PGV3 services and running payroll, and new copiers. He reported IT met all eight of its KPMs and gave an overview of upcoming projects. Mr. Laferriere closed his report with customer satisfaction, which is at 99%, and noted two new items on his action plan, which is on schedule.

Chair Lesko next presented the Consent Agenda, and on a motion by Trustee Quigley, seconded by Trustee Merrifield, the Board voted to approve the Consent Agenda, as presented, with Trustee Quigley abstaining on Item 1.

There were no travel reports or requests.

Ms. Goodwin provided an update on Action Items from the February 14, 2023, Board meeting, commenting that Items 1, 4, and 5 are complete, and that three others are in process.

During the Board checkpoint, Chair Lesko acknowledged the importance of the PGV3 project and congratulated staff for their work on the project.

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

Respectfully submitted,

Christine McKenney  
Administrative Assistant