

Note: These minutes from the May 14, 2019 Public Session were approved and executed at the June 11, 2019 Regular Meeting of the Board of Trustees.

**Board of Trustees
May 14, 2019
Public Minutes**

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

Trustees: Richard Gustafson, Chairman; Christopher Coates (via telephone as it was not practicable for him to attend), Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Maureen Kelliher, Tim Lesko, Bob Maloney, Michael Milligan, Scott Myers, Don Roy, and George Walker.

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

Chair Gustafson called the May 14, 2019 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. Chair Gustafson began the meeting by thanking Trustee Kelliher for substituting as Chair in his absence at the April meeting. Having established a quorum, Chair Gustafson called for a motion to approve the April 9, 2019 public Board of Trustees meeting minutes.

On a motion by Trustee Lesko, seconded by Trustee Dwyer, the Board voted to approve the minutes, as presented, on a roll call vote with Trustee Hannan abstaining.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began by noting that Internal Auditor Nancy Cone had completed an audit of PGV2's User Access Rights and that the Audit Tracker is still carrying two items, one related to QDRO with a proposed target completion date of July 2019 and the other involving the Employer Contribution Reconciliation Process with a proposed completion date by the end of May.

Trustee Dwyer updated the Board on the Data Security Remediation project, noting that all of the medium-priority items and 50% of the high-priority items have been addressed. With the exception of issues to be addressed by the PGV3 system project, most of the remaining high-priority items will be completed in the near future and attention will now be focused on the lower-priority items.

He reported that work continues on Plante Moran's recommendation to strengthen the internal controls concerning the retiree medical insurance premiums. He indicated that the Audit Committee received an update on the pending actuarial audit of GRS's work by Segal,

noting that the report is forthcoming. Segal will be presenting its report at the June Board meeting.

On a question from Chair Gustafson, Trustee Dwyer replied that regarding the Data Security Remediation recommendations of several years ago, the high-priority items should be approximately 80-85% complete in August or September. Executive Director Lagos added that there are recommendations that will take longer to complete, such as the adoption of data security language in contracts, which will be addressed upon each contract renewal.

Trustee Roy reported that the Governance Committee met on April 9, 2019, approving the meeting minutes of March 7, 2019. The Committee then conducted its annual review of the fee schedule for copies and after comparing the fees with those charged by other state agencies, no changes were recommended. The fees continue to be \$.20 per page for copies (plus postage) and \$10.00 per flash drive (plus postage). Attorney Cavanaugh's Annual Voluntary Correction Program Policy was reviewed with no compliance issues found. The Committee also received an update on paperless Board meetings following presentations from two vendors the previous week. Following the presentations, a third option was discussed, to institute a pilot project with the paperless Board materials being provided by NHRS via agency-owned devices.

On a question asked by Chair Gustafson, Chief Legal Counsel Crutchfield responded that one of the paperless Board meeting vendor's estimated annual cost was approximately \$11,000 and the other vendor's cost was approximately \$22,000. Mr. Lagos added that he expected the pilot project to commence prior to the next Trustees' meeting.

IIC Chair Kelliher reported that the IIC met on April 26, 2019 approving the minutes of March 22, 2019. She noted that the Director of Investments Johansen then reviewed the Work Plan, which the Committee approved for the first quarter of FY 2020. The Committee then unanimously voted to extend the investment manager agreement through May 31, 2021 with Walter Scott, an active global equity portfolio manager. The Committee also heard presentations from Wellington Management in the normal course of contract renewal for its Emerging Markets Local Equity Fund. Next, the Committee heard from Top Tier Capital Partners presenting the Venture Velocity Fund III and after the review, the IIC unanimously agreed to commit \$25 million to Top Tier's Venture Velocity Fund III, subject to contract and legal review. The IIC next heard from HarbourVest's Dover Street Fund X. This fund is expected to be a diversified portfolio of secondary purchases of limited partnership interests in private equity funds. After reviewing the proposal, the Committee unanimously agreed to commit \$50 million to HarbourVest Dover Street Fund X, subject to contract and legal review.

The IIC then discussed revisions to the Asset Class Guidelines and will consider its approval at the May IIC meeting. Finally, the Committee approved revisions made to the Proxy Voting Policy and to the Investment Policy, to be presented to the Board of Trustees for action at today's Board meeting.

Director of Investments Johansen, reported on performance through March, noting that fiscal year to date, the total fund is up 1.9%, 3 years is up 8.8% and 5 years is up 6.5%. April was a very strong month in the public markets and May began strong, but has taken a downward trend. Lastly, he reported that this is a rate-setting year, so the actuarial gain or loss on assets as of June 30, 2019 will have a meaningful impact on the employer contribution rate calculations. The May IIC meeting will be held on May 31, 2019, a week later than usual, because of the Memorial Day holiday.

Mr. Johansen gave a brief background on the revised Proxy Voting Policy, noting that the IIC works with Institutional Shareholder Services (ISS), who act as the System's proxy advisor and voting agent. He then reviewed the U.S. and Non-U.S. voting guideline changes to the policy.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board unanimously voted to approve the proposed revisions to the Proxy Voting Policy, as presented, on a roll-call vote.

Mr. Johansen then reviewed the revised Investment Policy, noting that the revisions will update the verbiage defining risk management, the allocation range for Domestic Equity, and the Asset Class benchmarks, to more accurately reflect investment objectives of the NHRS portfolio.

On a motion by Trustee Roy, seconded by Trustee Hannan, the Board unanimously voted to approve the proposed revisions to the Investment Policy, as presented, on a roll-call vote.

Trustee Myers reported on the morning's Legislative Committee meeting, noting that the Committee approved the meeting minutes of April 9, 2019. He then highlighted three NHRS-related House bills: HB 110, HB 468 and HB 616 that would be acted on by the Senate on May 15 and 16, 2019. Trustee Myers also reported that no further action this session is expected on HB 497. Lastly, HB 675 and SB 28 are awaiting action by the Governor.

Trustee Walker reported that the Benefits Committee did not meet last month, but he anticipates a meeting prior to the next Board meeting. Chair Gustafson introduced two Benefits Committee recommendations: The first vote to approve the Committee's recommendation to waive any further re-examination for E.R., and the second vote to approve the Committee's proposed revisions to the Medical Review of Disability Retirees Policy.

On a motion by Trustee Walker, seconded by Trustee Milligan, the Board voted unanimously to accept the Committee's recommendation to waive any further re-examinations for E.R., as presented, on a roll-call vote.

On a motion by Trustee Dwyer, seconded by Trustee Maloney, the Board voted unanimously to accept the Committee's recommendation to revise the Medical Review of Disability Retirees Policy, as presented, on a roll-call vote.

Trustee Hart reported that the PPCC met on May 2, 2019, and approved the public and non-public meeting minutes of March 28, 2019. He commented that HR Manager Cain provided an update on staffing, as there have been vacancies created due to opportunities for advancement offered to internal staff. In non-public session, succession planning was discussed and steps have been taken to address the potential for vacancies in management. A succession planning presentation will be made to the Board in June. While in non-public session, the preliminary compensation plan was reviewed for non-bargaining union managers and professionals. After adjourning, the Committee discussed strategy pertinent to the ongoing negotiations on the expiring collective bargaining agreement.

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

On a motion by Trustee Lesko, seconded by Trustee Hannan, the Board unanimously voted to reconvene the Board meeting, on a roll call vote.

Chair Gustafson introduced discussion on the Board Self-Evaluation. On a motion by Trustee Hannan, seconded by Trustee Dwyer, the Board unanimously voted to enter into non-public session under RSA 91-A:3, II(c), on a roll call vote.

On a motion by Trustee Myers, seconded by Trustee Dwyer, the Board unanimously voted to reconvene the meeting, on a roll-call vote.

Mr. Lagos then gave a Power Point presentation on the Customer Relationship Management Program, noting that Ms. Calkins, the Process Improvement Manager, is largely responsible for tracking, measuring and reporting NHRS' performance. He indicated that the target satisfaction rate for customer satisfaction or internal performance is 95%. Mr. Lagos went on to review NHRS' Mission, Vision, and Values; managing the customer's experience; improvement measures; Key Performance Measures; surveys, following customer interactions, weekly customer phone calls, shared feedback with management and staff; results posted quarterly to the website; and other NHRS feedback initiatives.

Chair Gustafson suggested putting our monthly dashboard on the website, which staff agreed to do.

Mr. Lagos gave his Executive Report, beginning with operations, noting that the KPM score for April was 96.70%. He also reported that Action Plans for FY 2020 are being finalized. Mr. Lagos provided a PGV3 update, noting that staff is still working on "parked" or unresolved items and some data cleansing items. Mr. Lagos explained that since the date of the last meeting, staff had negotiated a significant reduction on PGV2 costs for maintenance and support during the pendency of the PGV3 project.

Chief Legal Counsel Tim Crutchfield gave his Legal Report, noting that a recent opening in one of the positions for employer compliance auditor has been filled with an internal hire.

Director of Finance Murphy reported that the actuarial audit by Segal is on schedule and noted that he has a draft report related to the most recent 5-year experience study and is awaiting the draft report for the audit of the June 30, 2017 valuation. A presentation to the Board by Segal is expected at the June 2019 meeting, and at this point, no red flags or major variances in the audit process have been identified. On the Statutory Administrative Budget for FY 2020 and 2021, NHRS met and testified before the Senate Finance Committee and left the presentation believing that the Committee understood the PGV3 upgrade project was a necessary increase in the System's costs. He further explained that NHRS bought up HB 110, related to reimbursement of actuarial costs to NHRS due to legislation, expressing the opinion that the \$50,000 of general funds added to the NHRS budget in HB 1 was unnecessary. Mr. Murphy reported that an employer education session for school district employers will be held at NHRS on May 23, 2019. He also noted that NHRS has reached out to a small group of employers to participate in a working group in June to solicit feedback on the employer reporting module of the new PGV3 upgrade.

Mr. Murphy reviewed Finance's monthly reporting package, reminding the Board that the FY 2019 budget did not include any costs associated with PGV3, but since that time, PGV3 project spending has begun and Finance has utilized unexpended funds from the FY 2018 Statutory Administrative Budget to fund PGV3 costs incurred in FY 2019.

Executive Director Lagos gave a brief overview of the FY 2020 Preliminary Trust Fund Budget. He highlighted that the Trust Fund Budget includes all NHRS expenditures that have been divided into four categories: Investment Expense/Internal, Investment Expense/External, Non-Investment Expense/Non-Statutory, and Statutory Administrative Expense. Mr. Lagos also presented an overview of the Budget vs Actual from FY 2013 through FY 2019, without investment management fees and PGM3 costs, which showed that both the budget and actual spending has remained relatively flat over this six year period, and that NHRS has had a demonstrated record of underspending its annual budget.

Mr. Murphy gave the Board a detailed overview of the FY 2020 Preliminary Trust Fund Budget, noting that the budget is projected to be \$43,619,071, which is \$1,695,202 higher than the FY 2019 adopted budget of \$41,923,869, an increase of 4.0%. In terms of dollars, a budgetary increase of \$3,265,202 in trust fund expenditures, net of investment management fees, was partially offset by a decrease of \$1,570,000 in investment management fees, which were calculated on projected investment portfolio balances calculated based upon the current assumed rate of return of 7.25% to June 30, 2020. Mr. Murphy pointed out that the majority of the growth in the proposed FY 2020 Trust Fund Budget is driven by the increases in the Statutory Administrative Budget associated with the PGM3 project. Mr. Murphy noted that next month, the Board will vote to adopt the FY 2020 Trust Fund Budget. Mr. Lagos added that if the Board should have any questions, Mr. Murphy's phone number and email would be in the weekly Board update.

Next, Mr. Lagos provided the monthly IT update in the absence of Director of IT, Frank Clough. He began with explaining that in front of our firewalls, Cloudflare has been implemented to provide an additional layer of protection for our websites. Largely as a result of this security measure, Qualys has given NHRS an A+ security rating. In addition, multi-factor authentication is being considered as another layer of security in front of our NHRS "My Account" website through LexisNexis. Mr. Lagos remarked that the addition of a new security officer is paying dividends. Lastly, he noted that IT is working on a large imaging project in an attempt to reduce the amount of unnecessary storage.

Director of Member Services Miller reported that May is the last full month for accepting July retirement applications. She reported that Member Services has over 400 applications in-house to date and 200 appointments on the books for May. In regard to staffing, she currently is looking at filling five positions that are vacant due to promotions. The JRP audit is complete and no word has been received on the outcome. Ms. Miller informed the Board that Member Services did not hit a KPM regarding benefit estimates due to the massive volume of estimates in the July filing period. Lastly, she noted that three retirees were recently identified who did not receive the \$500 supplemental allowance issued last August due anomalies to their service credit records. However, their retiree accounts have been corrected and the allowances have been issued with interest.

On a motion by Trustee Walker, seconded by Trustee Hart, the Board unanimously voted to approve the Consent Agenda, as presented, on a roll call vote, with Trustee Myers abstaining on item #5.

Mr. Lagos noted that two Action Items from the previous Board meeting are still pending: resolution of Plante Moran's medical subsidy recommendation and the initiation of the pilot program for the paperless board meetings, with the latter expected to begin with the June meeting.

Under Board Checkpoint Discussion, Chair Gustafson noted that the June meeting would include the actuarial audit presentation by Segal and a discussion on succession planning.

With no further business to discuss, on a motion by Trustee Dwyer, seconded by Trustee Roy, the Board adjourned the meeting on a roll call vote.

Respectfully submitted,

Margaret M. Astles
Executive Assistant