

NHRS Board of Trustees

Minutes – May 10, 2022

Note: These minutes from the May 10, 2022 Public Session were approved and executed at the June 14 Board of Trustees' meeting.

Board of Trustees

May 10, 2022

Public Minutes

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

Participating: *Trustees Tim Lesko, Chair; Scott Christensen, Sue Hannan, Maureen Kelliher, Robert Maloney, Andrew Martineau, Germano Martins, Ken Merrifield, Monica Mezzapelle, Scott Myers, and Don Roy.*

Absent: *Trustees Christopher Coates and Bill Hart.*

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; 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; Deanna Higgins, Contact Center Supervisor; Tracy Knight, Project Manager; Ann Stetson, Senior Business Analyst; Dave Hill, IT Support Specialist; and Christine Rice, Administrative Assistant.*

Chair Lesko called the May 10, 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 and non-public minutes of the April 12, 2022 Board meeting. On a motion by Trustee Maloney, seconded by Trustee Hannan, the Board voted to approve the April 12, 2022 meeting minutes, with Trustee Mezzapelle abstaining.

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 discussed open internal audits, including the Policy and Procedure Assignment audit, of which training and applicable resources will be provided, resulting in the removal of this item from next month's Audit Tracker. Trustee Mezzapelle mentioned the GASB 68 Census Audits, which are in process and an update will be provided at the June Audit Committee meeting. She noted other progressing items and that the Committee reviewed the updated Risk Assessment, presented last month, noting that based on the assessment of those risks, the FY23 Audit Plan was developed and the Committee voted to approve the Plan. The Committee then heard from Director of Finance Gerard Murphy on the response to the opportunities letter from external auditors and plans for the implementation of GASB 87, regarding leases.

Trustee Roy gave the Governance Committee report, noting it had not met since the April 12 Board meeting, but would meet next month to discuss the annual review of cyber insurance coverage, with the expectation of Board action at its June meeting.

Trustee Kelliher presented her report of the Independent Investment Committee (IIC), which met on April 22, noting it heard from Director of Investments Larry Johansen, who provided an update on investment returns through recent time-periods, and the status of NHRS's three Russian holdings, which remain suspended from trading. He then presented the first quarter of the FY23 Work Plan, which the Committee voted to accept.

Trustee Kelliher reported the Committee decided to review the proposed two-year contract renewal with Neuberger Berman, a non-U.S. emerging markets equity manager, at its May meeting, following a review of the investment manager's performance. The IIC then heard two presentations from active, non-U.S. equity managers Artisan Partners (Artisan) and Causeway, as part of their respective two-year contract renewal processes. The Committee plans to vote on each of these two-year contract extensions at its June meeting.

Lastly, she stated Callan provided a review of the System's public equity portfolio, and presented an analysis of alternative investments benchmarks, which the Committee will review at its May meeting.

She then turned to Mr. Johansen, who updated the Board on the Total Fund Performance through March 31, 2022 fiscal year to date (FYTD), noting that NHRS is up 1.2% versus the benchmark of 2.3%, and explained the lag in real estate and alternatives. He proceeded to give the long-term performance summary: 11.2% at three years, 9.7% at five years, and 9.1% at 10 years. He noted that non-U.S. equities are below the low end of the asset allocation range and attributed that to the volatility of the market, however all other asset classes were within range and close to their targets. In closing, Mr. Johansen provided an overview of the agenda for the IIC's May 20 meeting.

Trustee Myers reported on the Legislative Committee, noting the Committee met on April 12, immediately following the conclusion of the Board meeting. He updated the Board on the statuses of several NHRS-related bills, with both chambers passing four that will move onto the Governor: Senate Bill (SB) 363, Group II "middle tier" members' service purchase; House Bill (HB) 1587, a formula modification of the average compensation over base pay calculation for Group II "middle tier" members; HB 1497, the deadline change for electing a survivorship benefit option; and HB 536, relative to eliminating the offset for Group I workers' compensation of accidental death benefits. Trustee Myers then reported on the NHRS-sponsored legislation, HB 1313, which would penalize employers for noncompliance of timely data reporting requirements to the System, and noted the Senate amended the bill to impose a significantly higher penalty. The bill has returned to the House for review. He next provided an update on two other bills: HB1535, a \$500 one-time stipend to qualifying retirees, and HB1221, a one-time state payment for FY23 of 7.5% toward municipal teachers, police, and fire members. Trustee Myers turned to Director of Communications and Legislative Affairs Marty Karlon, who mentioned the System would be holding internal meetings on the implementation of any or all of these bills should they become law. There was a brief discussion surrounding HB1221, regarding employer contributions.

Deputy Director and Chief Legal Counsel Tim Crutchfield presented the Benefits

Committee report on behalf of Trustee Coates, noting the Committee had not met since the last Board meeting.

On behalf of Trustee Hart, Trustee Myers gave the report of the PPCC, which met twice since the last Board meeting, on April 21 and May 3. He provided an update on staffing, as reported by Director of Human Resources Rosamond Cain at both meetings, and noted recruitment continues for several open positions, including in IT and the Contact Center. He then updated the Board on the search for a replacement for Mr. Johansen, who is retiring September 1. The System's executive search firm, EFL, has provided five candidates for consideration and the NHRS hiring committee plans to meet soon to review them. Recruitment for the Director of Finance position is underway, and presently, NHRS has two applications. Trustee Myers mentioned the Executive Director's annual evaluation was completed and Chair Lesko and Trustee Hart recently met with Executive Director Jan Goodwin to discuss the evaluation.

At 10:15 a.m., Chair Lesko called for a motion that the Board enter into a non-public session under RSA 91-A:3, II(c) to discuss a matter that would likely adversely affect the reputation of a person other than a member of this public body. On a motion by Trustee Hannan, seconded by Trustee Christensen, the Board voted unanimously via roll call to go into non-public session. No staff participated in the non-public session.

On a motion by Trustee Maloney, seconded by Trustee Hannan, the Board voted unanimously to conclude the non-public session. There was no action taken in the non-public session.

Immediately upon returning to public session, on a motion by Trustee Mezzapelle, seconded by Trustee Myers, the Board voted to temporarily adjourn the meeting for the purpose of discussing collective bargaining under RSA 91-A:2, I(a), and no action was taken during the temporary adjournment.

On a motion by Trustee Christensen, seconded by Trustee Kelliher, the Board voted to reconvene at 10:40 a.m., and Chair Lesko commenced the return to the public session with the operating reports. Ms. Goodwin opened with her Executive Report, providing the Board with a COVID update, noting that she expects staff to come into the office at least twice a week for the benefits of in-office culture and in-person, contemporaneous communication. She then mentioned the KPMs, which came in this month above the 95% benchmark, at 97.65%. She gave an update of the PGV3 project, which is 56% complete, with staff in the midst of User Acceptance Testing (UAT) on Phase 2 of Deliverable 4 (D4), QDRO, Insurance, and Benefit Maintenance, and the design requirements for D5, which includes benefit payroll.

She referred the Board to information on the Contact Center, which continues to meet its monthly goals. She provided an overview of the phone survey results from calls she makes to NHRS's members, retirees, and employers each week to hear feedback on NHRS's customer service, which she reported continues to be positive. She stated her action plan is progressing. In closing, Ms. Goodwin turned the Board's attention to the FY23 Strategic Plan, explaining that the recently completed Executive Director evaluation did not prompt any changes to the Plan and she proceeded to review its objectives. On a motion by Trustee Martins, seconded by Trustee Roy, the Board voted unanimously to approve the FY23 Three-Year Strategic Plan.

Ms. Goodwin then turned the Board's attention to several contracts, and gave an overview of all four requests, two from IT, one from Investments, and the fourth coming

from the PPCC as a recommendation for an executive leadership coaching program. Following a brief discussion of the presented contracts, on a motion by Trustee Roy, seconded by Trustee Mezzapelle, the Board voted unanimously to accept the recommendation of the Executive Director for the procurement of goods and services as presented in the Board materials, subject to contract and legal review.

Director of IT Frank Clough began his report, including an update on monthly cyber security training, penetration testing, efforts to strengthen passwords, and staffing. Following a Trustee's question regarding the recent penetration test findings, Mr. Clough noted that the 14 findings were minor and that overall the audit was successful.

Mr. Crutchfield opened his Legal report with an update on the pending Supreme Court appeal, regarding whether the Petitioner could remove his former spouse as beneficiary. Next, he noted NHRS received the first two of the 22 annual GASB audits, which he stated are going well. He updated the Board on NHRS's solicitation of the Attorney General's (AG) Office to provide an interpretation to the IRS on the medical subsidy changes passed last summer under HB2, noting that the AG was actively working on the opinion and it is expected by the end of this week. Legal continues to work with Finance on the non-compliant employers who have not submitted timely reports on participating retirees' work hours and compensation. He mentioned that the Finance team sent out second notices to those employers, giving them a response deadline of May 15. He noted the overall progress on his action plan, commenting on professional development efforts.

Mr. Johansen gave his report on Investments, beginning with the one missed KPM this month, which pertained to the 3- and 5-year performance, noting the System underperformed the benchmark by 10 and 20 basis points, respectively, and attributed it primarily to the small cap bias in the portfolio and the volatility created by the geopolitical events. In closing, he reported that his action plan is on, or ahead of schedule.

Mr. Karlon presented his operating report, directing the Board to his bar chart in the Board materials and commenting that if all seven bills impacting NHRS become law, they would be the most passed since 2018. He then noted that PIO has exceeded its record number of educational events for FY22, with seven more weeks left in the fiscal year. Mr. Karlon noted it was largely due to the new webinars on retirement applications polled by Contact Center Supervisor Deanna Higgins. He commented on NHRS in the news, noting that since 2018, the System has received increased media attention because of legislation regarding Group II and the COLA bills.

Member Services Director Nancy Miller opened her operating report with Member Services' productivity during the July filing period, noting those filings may result in an increase in applications relative to last July. Her team is also finishing D4 testing on PGV3 and the D5 requirements. She mentioned that Member Services has completed about two-thirds of the JRP Audit. Ms. Miller reported missing one KPM, the benefit finalizations, noting that staff are managing the 700-plus finalizations, while also handling those received month after month. Her team is working with the Department of Administrative Services on a retiree insurance deduction holiday for the months of May and June. In closing, she noted that her action plan is in progress.

Director of Finance Gerard Murphy provided his report, beginning with the fiscal year net position, as of March 31, 2022, of \$11.6 billion, noting it is \$11 million higher than June 30, 2021, and over \$913 million since March of last year. Mr. Murphy reported that cash flows were as expected year-to-date, and the negative cash flows this fiscal year were less than in

the prior year, due to the increase in employer contribution rates in FY22. He proceeded to discuss the budget vs. actual, noting spending is below budget in total and within the major categories, with positive variances throughout and three months remaining in the fiscal year. He reported that Finance met all of its KPMs this month, and closed with the progress on his action plan.

He then presented the FY23 Preliminary Trust Fund Budget, which includes FY21 actual figures, the FY22 budget figures, and the projected actual FY22 expenditures. He described the main four categories within the budget, which are Investment Expenses/Internal, Investment Expenses/External, Non-Investment Expenses/Non-Statutory, and Statutory Administrative Expenses. Mr. Murphy explained the methodology of determining the Trust Fund Budget, and provided projected numbers, describing some of the increased expenditures and to what they are attributable. Mr. Murphy fielded Trustee questions relative to the projected increases. He then provided a detailed explanation of the variances reflected in the various budget categories. He mentioned the net trust fund budget and noted its history over the past two fiscal years. In closing, Mr. Murphy invited Trustees to contact him with any further questions pertaining to the FY23 Preliminary Trust Fund Budget before it comes before the Board at its June meeting for a vote.

Ms. Cain presented her Human Resources report, beginning with recruitment, noting that NHRS created a new title for the existing Contact Center Representatives (CCRs), who are now Senior CCRs to reflect their high-level knowledge of NHRS, to set them apart from the external recruitment of a new CCR. She then informed the Board that the new payroll vendor, Paycor, made its first successful issuance of NHRS employee payments on May 6. She noted there is an issue regarding tax withholding but overall the transition to Paycor has gone smoothly.

Chair Lesko next presented the Consent Agenda. There was a Trustee inquiry about the Town of Effingham's election to participate, and Mr. Crutchfield explained that teacher, fire, and police groups are mandatory participants of the System, and under statute, employee membership is optional at the election of the employer. On a motion by Trustee Martins, seconded by Trustee Maloney, the Board voted to approve the Consent Agenda, with Trustee Merrifield abstaining from disability item 6.

There were no travel reports.

Ms. Goodwin provided an update on Action Items from the April 12, 2022 meeting, noting their completion after today's Board meeting.

During the Checkpoint Discussion, Ms. Goodwin announced the departure of Mr. Murphy, who has accepted an opportunity in the private sector, and thanked him for his service to NHRS. Her salutation prompted a roomful of applause.

With no further business to discuss, on a motion by Trustee Hannan, seconded by Trustee Roy, the Board voted unanimously to adjourn the meeting at 11:25 a.m.

Respectfully submitted,

Christine Rice,
Administrative Assistant