

NHRS Board of Trustees

Minutes – May 9, 2023

Note: These minutes from the May 9, 2023, Public Session were approved and executed at the June 13, 2023, Board of Trustees meeting.

Board of Trustees

May 9, 2023

Public Minutes

New Hampshire Retirement System

54 Regional Drive

Concord, New Hampshire 03301

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

Absent: *Trustee Andrew Martineau.*

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; Greg Richard, Senior Investment Officer; Ashley Lloyd, Investment Officer; Shana Bilech, Investment Officer; Diana Crichton, Hearings Examiner; and Christine McKenney, Administrative Assistant.*

Chair Tim Lesko called the May 9, 2023, regular meeting of the NHRS Board of Trustees to order at 10:31 a.m., and after establishing a quorum, Chair Lesko called for a vote to approve the public and non-public meeting minutes of the April 11, 2023, Board meeting. On a motion by Trustee Roy, seconded by Trustee Frederick, the Board voted unanimously to approve the meeting minutes.

Trustee Mezzapelle began her report of the Audit Committee, which met earlier this morning, stating the Committee heard internal audit updates, including the status of items on the audit tracker and the Fiscal Year (FY) 23 Audit Plan. She mentioned that internal audit is preparing for the GASB 67 & 74 audits. She noted the opinion letter from the System's external auditor, Plante Moran, and a new report generated from the PGM3 test environment that will be used to simplify the GASB audit work. Trustee Mezzapelle reported on the recent testing of a component of the Business Continuity Plan, noting an update is expected on the testing at the Committee's next meeting. She stated the Committee approved the FY 24 Audit Plan and heard a status report from Finance on the FY 22 Audit recommendations, noting Finance would implement the changes by Fiscal Year-end. In closing, she referred to the commencement of the FY 23 Audit and noted that Plante Moran would attend the June Audit Committee meeting.

Trustee Roy reported on the Governance Committee, noting it had not met since the April

Board meeting, but expects to meet in June for the annual review of the cyber insurance renewal and to prepare a recommendation to the Board for its July meeting.

Trustee Kelliher gave her report on the April 11, 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 February 28, 2023, review. He gave updates on holdings within the NHRS portfolio, rebalancing, liquidity, and Russian holdings. Investment Officer Shana Bilech provided an update on the bank exposure and subsequent bailout of Silicon Valley Bank, continued volatility of the regional bank sector, and the sale of Credit Suisse to UBS. Trustee Kelliher reported that Mr. Leveque presented updates to the Work Plan and following a brief discussion, the Committee voted unanimously to accept the first quarter of the FY 24 Work Plan. She noted the Committee heard presentations from two of the System's equity managers, Wellington and Walter Scott, both of whom discussed their respective relationships with NHRS, strategies, and roles in the portfolio, and investment outlooks.

Trustee Kelliher turned to Mr. Leveque, who reported on the NHRS performance as of March 31, 2023, noting the Total Fund return for the month was +1.10% versus the policy benchmark of +1.15%. NHRS's FY 23 total fund performance fiscal year-to-date (FYTD) outperformed the policy benchmark by 142 basis points. He noted the long-term performance of the last 12 months, with the System outperforming the benchmark by 306 basis points. He gave an update on portfolio performance by asset class and noted that cash flow and the returns for 3-, 5-, and 10-year periods were within range. Mr. Leveque commented on fixed income and the staff's work on implementing the rebalancing plan. A Trustee requested information on the duration of the portfolio's fixed income investments, and a brief discussion followed on the fund's aggregate debt positioning. There was also a brief discussion on the Silicon Valley Bank business profile and subsequent bailout.

Trustee Merrifield began the report of the Legislative Committee, which had not met since the April Board meeting, providing updates on a few bills that are now in House Bill (HB) 2, the budget trailer bill, including HB 436, impacting Group II, Tier B members with certain provisions; HB 50 for a Group II COLA; and the funding of the call firefighter death benefit that NHRS provides to two widows. He commented that Senate Finance would review the bills in the coming weeks and that the deadline for the Senate to act on bills is June 8. Trustee Merrifield reported that the Governor signed two NHRS-related bills last week: HB 30, which allows county commissioners to exempt their chief administrative officers from mandatory membership of the System at the time of hiring; and HB 193, NHRS's legislative cleanup bill. beneficiaries: are three bills on the Senate calendar this Thursday that would not directly affect NHRS: HB 461, which creates a committee to study local employers transferring full-time positions to part-time; HB 457, which requires the System to report on a quarterly basis that it remains in compliance of its fiduciary duty of acting solely in the interests of members and beneficiaries; and HB 555, which would earmark 25% of any future state biennial surpluses to the reduction of the System's unfunded accrued liability. He added that all three bills have committee recommendations as ought to pass. Trustee Merrifield turned to Marty Karlon, Director of Communications and Legislative Affairs, for further comments and he had nothing to add.

Trustee Martins delivered a brief update of the Benefits Committee, noting it met on May 8, during which the Committee heard a presentation from Mr. Karlon on member benefits

education. The Committee then held a non-meeting in accordance with RSA 91-A to discuss legal matters with in-house counsel.

Trustee Hannan reported on the PPCC, which had not met since the last Board meeting, but plans to meet prior to the June Board meeting.

Chair Lesko turned to Executive Director Goodwin to begin the operating reports. She opened her Executive report with the KPMs, which were at 96.47% for the month, with three missed KPMs systemwide. She gave an update on the PGV3 project, which is at 78% complete overall, with Deliverable 6 (D6) (Year-End Processes, Auditing, and Security) at 99% complete, and D7 (Member Direct-MyAccount) at 23% complete. She commented that the design document review for D7 is under way, and staff are working with LRS on key business procedures, with expected completion of the first set of procedures later this month. Ms. Goodwin reported on the progress of the employer rollout, noting staff continue to review XML test files from employers and payroll providers, and that training sessions for employers are scheduled to begin next month. She commented on the ongoing meetings to ensure staff is ready for parallel processing, noting NHRS would hold a mock parallel beginning in August, followed by the actual parallel processing beginning in early October. Ms. Goodwin mentioned the annual test of the Business Continuity Plan that was conducted last month by Internal Auditor Heather Hoffacker, and noted some areas of improvement that the System would address.

She informed Trustees of two contracts she approved in accordance with the Procurement Policy, which allows the Executive Director to approve contracts under \$25,000. The first contract was with Consolidated Communications, as a three-year addendum to a current contract to increase internet access and bandwidth by 100% to assist NHRS with such activities as the onboarding of PGV3 and system migration to the cloud. The second is a short-term contract with Green Pages to evaluate NHRS's existing in-house phone system and provide operational knowledge to staff. She gave an update on the Contact Center, which continues to achieve its monthly goal of answering phone calls within 2 minutes, and less than a 5% abandon rate. Ms. Goodwin affirmed the positive responses she receives from her monthly calls to members, employers, and retirees regarding NHRS customer service. She closed her report with her action plan, which is on schedule.

Ms. Goodwin presented the proposed FY 24 Strategic Plan, which is a three-year plan required for Board review annually as part of the Strategic Plan Policy. She first referred the Trustees to the Preserve, Achieve, and Avoid (PAA) document in the Board materials, which includes staff's suggested changes and updates. Ms. Goodwin requested that the Board review the PAA document over the next two weeks and provide feedback prior to the June Board meeting. She noted the primary focus remains PGV3 for the near future, and that staff also reviewed the Strategic Plan objectives, and requested Trustee input on that document, as well. Lastly, she mentioned that staff put together plan priorities, and that the Board's feedback on the PAA and plan objectives would be incorporated in the FY 24 Strategic Plan for final approval at the next Board meeting. A brief discussion followed her presentation on whether staff considers other retirement systems' plans to produce NHRS's Strategic Plan. Ms. Goodwin noted staff participation in a variety of national retirement organizations to obtain different perspectives.

Ms. Goodwin then provided an overview of the preliminary FY 24 Trust Fund budget, breaking down the components of the overall budget, including the Investment internal

expenses, Investment external expenses, and non-Investment third-party expenses. She noted the proposed FY 24 Trust Fund budget is \$48,643,562, which is \$1.4 million lower than the adopted FY 23 budget, a total decrease of 2.8%. Chair Lesko reminded Trustees that the budget would be voted on at the June Board meeting.

Director of Finance Marie Mullen gave her Finance report, noting her department continues work on PGV3, and achieved 10 of the 15 KPMs in April, adding that three of the 15 KPMs were not applicable. Of the two missed KPMs, one had to do with banking reconciliation and was missed because Finance was training a new staff member. The second missed KPM was relative to employer account reconciliation and was missed because Finance had not received payment from an employer, and she suggested reviewing this KPM requirement since it is out of the department's control. She reported on cash flows for March and FYTD, which were each in the expected range and noted receipt of State reimbursement from the general fund of \$10,792,000 in March for the legislation passed last year for the one-time \$500 COLA payment. She also reported that in April, NHRS received the Board-approved \$42.9 million from the general fund regarding HB 1587. Ms. Mullen noted FYTD 23 spending for the first nine months is below budget, with several categories that are overbudget because the budget is prorated to nine-month expenses as opposed to incurred expenses that may be for full year. Ms. Mullen reviewed the various expense categories, commenting that those that are overbudget would resolve by FY-end, adding that the balance from the FY 22 budget would cover any overages. Lastly, she mentioned her action plan was on schedule.

Human Resources Director Rosamond Cain opened her report with a staffing update, noting there are three open positions at NHRS, including an Imaging Specialist, Communications Specialist, and a Finance Accountant. She noted the hiring of an Investment Operations Analyst and an Imaging Specialist, who both begin next Monday. She mentioned the current use of three temporary employees and that HR continues to assess NHRS's staffing needs for PGV3. She reported that recruitment of an Information Security Officer is on hold while NHRS evaluates the position. Ms. Cain announced the successful launch of the System's new payroll vendor, ADP, on May 5. She noted HR missed one of its KPMs last month regarding the recruitment of the Investment Operations Analyst position within 45 days. She closed her report noting HR's upcoming plans for Employee Appreciation Day in July.

Deputy Director and Chief Legal Counsel Tim Crutchfield began his Legal report with a status update on the ongoing lawsuit filed by five Department of Corrections' employees who believe they should have been reclassified from Group I to Group II approximately 20 years ago. The System received an order from Coos County Superior Court last month granting the Motion to Dismiss, each filed by NHRS and the Dept. of Administrative Services, who now await to see whether the Petitioners will request an appeal to the NH Supreme Court. Mr. Crutchfield reported that Legal met seven of its eight KPMs this month, noting the one KPM put on hold because of competing priorities with PGV3. He commented on the Barnstead embezzlement matter, noting that NHRS is researching whether any of its members were negatively affected relative to service credit.

He commented on the Private Letter Ruling (PLR) that the Groom Law Group is preparing for submission to the IRS regarding the medical subsidy provisions passed in 2021 as part of HB 2.

In closing, Mr. Crutchfield gave an overview of upcoming plans and projects, and noted five of the seven items on his action plan have been completed, and the remaining items are progressing.

Mr. Karlon gave his report on PIO, noting its simultaneous focus of monitoring legislation and planning for parallel processing. He mentioned his department's open position and that PIO is working with HR on recruitment. Lastly, he reported PIO met its KPMs for the month.

John Laferriere, Director of IT, presented his operating report, beginning with cyber security awareness and the monthly phishing tests, noting there were no staff failures in April. He reported on the results of the security scans, noting one finding of medium impact on the email portal that was remediated within 48 hours of discovery and that NHRS was not compromised. He commented on the open position in IT for an Information Security Officer, and that staff and service providers are fulfilling those duties in the interim.

Mr. Laferriere noted IT scored 100% on customer satisfaction and met all eight of its KPMs. He gave an update on the generator, noting IT installed and tested a temporary one until the new one arrives in July. He provided status updates on several IT projects. In closing, he gave an overview of upcoming projects and referred to his action plan, which is on schedule.

Mr. Leveque gave a brief operating report on Investments, noting his department met seven of the 10 KPMs, and the other three were not applicable this month. He then provided an agenda overview of the April IIC meeting, which will occur after today's Board meeting. He noted that his action plan is on schedule, aside from one item relative to the recently approved Bloomberg terminals.

Director of Member Services Nancy Miller updated the Board on her department, noting its continued work on PGV3 and preparations for parallel processing, alongside July retirement filings. She mentioned her department is preparing to produce and mail Member Annual Statements in September. She reported that Member Services met all 21 of its KPMs in April, noting that some KPMs would need adjustments to accommodate PGV3 parallel processing, adding that communication would be disseminated to members and stakeholders on the expected delays on certain processes. Lastly, she noted her action plan is in progress.

Chair Lesko next presented the Consent Agenda. On a motion by Trustee Martins, seconded by Trustee Roy, the Board voted unanimously to approve the Consent Agenda.

There were no travel reports or requests.

Ms. Goodwin provided an update on Action Items from the April 11, 2023, Board meeting, noting that Legal staff had reviewed the 12-month warranty period for PGV3, and was comfortable that the warranty period was sufficient.

During the Board checkpoint, Chair Lesko encouraged Trustees to attend the IIC meetings.

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 11:40 a.m.

Respectfully submitted,

Christine McKenney
Administrative Assistant