

NHRS Board of Trustees  
Minutes – November 13, 2018

**Note:** These minutes from the November 13, 2018 Public Session were approved and executed at the December 11, 2018 Regular meeting of the Board of Trustees.

**Board of Trustees  
November 13, 2018  
Public Minutes**

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

*Trustees:* Richard Gustafson, *Chair*; Christopher Coates, 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, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Larry Johansen, *Director of Investments*; Jack Dianis, *Interim Director of Finance*; Frank Clough, *IT Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Cecile Merrill, *Project Manager*; and Margaret Astles, *Executive Assistant*.

*Guests:* David Kausch and Heidi Barry, GRS.

Chair Gustafson called the November 13, 2018 regular meeting of the NHRS Board of Trustees to order at 9:30 a.m. Having established a quorum, Chair Gustafson called for a motion to accept the October 9, 2018 public Board of Trustees meeting minutes. On a motion by Trustee Roy, seconded by Trustee Hannan, the Board unanimously approved the minutes, as amended.

Trustee Dwyer presented the Audit Committee update, noting that the only item being carried now in the Audit Tracker relates to the QDRO-member retirement procedures, which is expected to be resolved in December. He noted that the Employer Reconciliation audit has been completed and will be included in the Tracker next month. The next audit will likely be either the QDRO Qualification audit or an Employee Hire/Separation. The latter audit is more likely, because of the staffing changes that are taking place with the PG V3 project.

Trustee Dwyer continued, stating that the Committee received an update regarding the remediation of the data security incident, noting that last month staff was at 36% in resolution of the remediation items to be addressed, and is up to 52% this month. The Audit Committee received an update from Interim Finance Director Jack Dianis regarding the CAFR audit. A status call is scheduled with Plante Moran on November 14, and it is expected that they will sign off on the audit shortly thereafter.

In conclusion, Trustee Dwyer reported that the Code of Ethics report card was

reviewed, and a high percentage of responses were received, which is consistent with prior years. No items of concern were noted.

On a motion by Trustee Dwyer, seconded by Trustee Myers, the Board voted unanimously to accept the recommendation of the Audit Committee to approve the annual Ethics Survey scorecard, as presented.

Trustee Roy reported on the October 9<sup>th</sup> Governance Committee meeting. The majority of the meeting was spent discussing the paperless Board meeting initiative. He noted that positive feedback was received from other retirement systems who have already gone paperless, and a Request for Information (RFI) will be drafted.

Trustee Kelliher, reporting for the IIC, noted that the Committee approved a two-year renewal with domestic small-cap equity managers Segall Bryant & Hamill, and Wellington, both through October 31, 2020. The IIC unanimously agreed to recommend to the Board that it extend the current contract with ISS for proxy voting services through November 30, 2020.

The IIC heard presentations from unconstrained fixed income manager DoubleLine and from domestic small-cap equity manager, Boston Trust, both in conjunction with the two-year contract renewal process. In addition, the IIC heard presentations from prospective multi-sector/fixed income managers Fidelity and BlackRock as potential replacements for the System's former unconstrained fixed income manager, GAM. The Committee unanimously agreed to retain Fidelity to manage a \$150 million multi-sector fixed income portfolio; and to retain BlackRock to manage a \$150 million unconstrained fixed income portfolio, both subject to contract and legal review. Lastly, the IIC discussed the draft transmittal letter for the Comprehensive Annual Investment Report (CAIR).

Reporting on the markets, Trustee Kelliher noted that for equity investors, as well as the fixed income markets, volatility has returned due to the decision of the Federal Open Markets Committee (FOMC), the federal committee that addresses the interest-rate setting function of the US Government, to no longer provide transparency in terms of its future actions. Major concerns to the market are US and China trade, and the possibility of the FOMC continuing to raise rates. She noted it seems that long-term interest rates are peaking, however the Fed may continue to raise short-term interest rates.

Investment Director Larry Johansen reported that the total fund performance was 2.0% for the three months ending September 30, 2018, trailing the benchmark return of 3.0%. For the three years ending September 30, 2018, the performance of the total fund was 10.5%, which exceeded the benchmark return of 9.7%. Lastly, the performance of the total fund for the five years ending September 30, 2018, was 8.1%, which trailed the benchmark return of 8.4%. He reminded the Board that these results did not include returns from non-marketable investments for the quarter.

The IIC reviewed the draft Comprehensive Annual Investment Report (CAIR) at its October meeting and the ICC, at the November meeting is expected to recommend approval of the report by the Board at the December meeting.

Mr. Johansen concluded his report commenting on the ISS Proxy Voting Services sole-source contract renewal, stating that the IIC seeks Board approval, in accordance with

the Board Procurement Policy, to extend the current contract with ISS for the next two years. Mr. Johansen indicated that the contract pricing would remain unchanged and an RFP process would be initiated prior to the conclusion of the extension period.

On a motion by Trustee Hart, seconded by Trustee Lesko, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve the ISS contract extension, as presented.

Trustee Scott Myers reported on the Legislative Committee meeting held on November 2, 2018. He stated that the Committee reviewed the proposed legislation presented by staff regarding revisions to how military and oversight service purchases are calculated and voted unanimously to recommend to the Board of Trustees that it endorse that legislation. It was noted that these revisions were considered by staff to be administrative in nature and consistent with prior legislative intent.

On a motion by Trustee Myers, seconded by Trustee Hart, the Board unanimously voted to adopt the recommendation of the Legislative Committee to propose a legislative amendment to the statutory service credit calculation provisions as presented.

Trustee Hart reported on the Personnel, Performance & Compensation Committee (PPCC) meeting held on November 2, 2018. There was a high-level discussion on the CBA negotiations with HR Director Rosamond Cain indicating that the State of NH had negotiated some changes in its collective bargaining agreement that may have some implications to the NHRS contract because the NHRS agreement is aligned with the State's with respect to health insurance related matters.

The PPCC discussed the PG V3 staffing initiative and noted that despite the low levels of unemployment, NHRS has seen a number of qualified applicants. One of the related challenges to the staff increases is the location and accommodations for the new hires. The Committee went into non-public session to discuss the status of the recruitments for the new Director of Finance position and an offer to the lead candidate is imminent.

Trustee Walker reported on the Benefits Committee meeting held on November 1, 2018, noting that the Committee voted unanimously to recommend to the full Board that it approve the Final Proposal of the Ret. 200 rules. Ret. 300 and 400 rules are still under review by the Office of Legislative Services. The Committee also discussed a benefit matter in non-public session, with no votes taken.

On a motion by Trustee Walker, seconded by Trustee Milligan, the Board unanimously voted to adopt the Final Proposal of the Ret. 200 rules, moving the rules forward to the next step in the process.

David Kausch and Heidi Barry of GRS presented an overview on actuarial services for the benefit of the newer Board Trustees and the June 30, 2018 NHRS' Draft Interim Valuation. The purpose of the valuation is to measure the System's funding progress and to determine actuarial information for reporting purposes in compliance with the Governmental Accounting Standards for Statement 67 regarding pensions and for Statement 74 regarding the medical subsidy benefit. The valuation is also used to provide support to schedules for the System's Comprehensive Annual Financial Report (CAFR) for the actuarial and statistical sections and provide notes to financial

statements.

Following the GRS presentation, the Board took a five-minute recess.

The Board reconvened and Chair Gustafson introduced the Patricia Scaglione Reconsideration Hearing and proceeded to explain the procedures for the hearing granted at the discretion of the Board under the governing NHRS administrative rules and modeled after the oral argument process followed at the NH Supreme Court. Chair Gustafson introduced Attorney Greg Silverman, representing the interests of Ms. Scaglione, and Attorney Peter Foley, representing the interests of the NHRS. Attorney Michael Delaney, the Board's external counsel, acted as the official timekeeper.

Attorney Silverman presented his oral argument on why Ms. Scaglione was eligible to continue making contributions, and thereby earn service credit, after June 30, 2014.

Attorney Foley presented his oral arguments in response.

At the conclusion of the oral presentations a motion was made by Trustee Hannan, seconded by Trustee Hart, and unanimously approved by the Board, to temporarily adjourn the meeting for the purpose of consulting with legal counsel under RSA 91-A:2 I(b).

Following the consultation, the Board unanimously adopted a motion made by Trustee Dwyer, seconded by Trustee Hart, to reconvene the Board meeting.

In open session, a motion was made by Trustee Hart, seconded by Trustee Myers, and unanimously approved by the Board to uphold the May 8, 2018 Board determination that Ms. Scaglione was not eligible to continue making contributions and earn service credit after June 30, 2014, due to the July 1, 2014, effective date of 2014 Chapter law 183:5 (HB 1494).

Following that vote, Trustee Coates left the meeting at 11:35 a.m.

Executive Director Lagos reported on the Executive operating report, noting that the KPM benchmark of 95.% was not met in October due to missed targets in Investments, Finance and Member Services.

Mr. Lagos then provided an update on contracts entered into in FY 17, 18 and 19 under the Board's Procurement Policy. The update does not include the engagement of the external auditor, as that is under the jurisdiction of the Audit Committee per statute.

Mr. Lagos asked Project Manager Cecile Merrill to report on the PG V3 Project Status as of November 1, 2018. She reported that the IT Administrative Assistant has been hired and recruitment continues for other positions; interviews are scheduled for the MS Manager position; a statement of work was received from LRS with comments and LRS will make a PG V3 presentation to all staff in December. All flowcharts are complete except for vendor payroll; the employee outreach budget has been completed; and, regarding the data conversion, of the 35 data cleansing items, 34 have been closed.

Mr. Lagos reported that there had been productive contract negotiations with LRS. He

indicated that a review was underway with respect to the comparing the cost of subscription versus perpetual licensing of the software, as it appears likely that the PG V3 platform would remain in use for a considerable period of time.

Chief Legal Counsel Tim Crutchfield thanked the Trustees for responding to the paperless Board meeting survey, noting that the responses indicate, a general willingness to pursue this further.

Mr. Crutchfield, reported that the System is developing an RFP for Fiduciary, Tax and Benefits, and Legislative Counsel. He gave a preview of the next steps, noting that the RFP will be submitted to the Board for approval at the December meeting. He also indicated that later in the year, staff will come back to the Board with an RFP for an investment counsel and again still later in 2019; there will be an RFP for local NH counsel.

Mr. Crutchfield addressed the annual Office of Foreign Assets Control (OFAC) Report. In response to a question, Attorney Cavanaugh explained that there were no known violations discovered during the annual review and that NHRS largely relies on its custodial and payroll banks and their sophisticated banking systems to assure compliance with this federal law.

Director of Finance Jack Dianis reported that the external audit should be completed on schedule in December. He asked the Board to notice that on the financial report, this month and going forward, the financial report will show net position, cash flow and budget to actual figures now that all of the investment performance data had been received and recorded for the alternative investments. He noted that Finance had a backlog in administering cash receipts and penalties, which has been addressed.

Director of IT Frank Clough reported that the Telephone System Redundancy process was tested and the system works well. The Microsoft Exchange email upgrade has also been tested and training is underway. He explained that NHRS is working with an IT consulting firm, Steel Root, on security awareness training for staff scheduled for December.

Director of Member Services Nancy Miller updated the Board that a report is included in the Board's meeting materials providing the status of finalizing July retirement benefits. Ms. Miller noted that through the joint efforts of PIO and Member Services staff, an action plan had been put in place to expedite the finalization of the July retirements. She indicated that the improvements to the employer termination form, together with employer trainings, had significantly improved the process.

Ms. Miller explained that the State Retiree insurance rate holiday was successfully implemented and the rates are back in place for November as planned. She noted that Member Services had experienced a delay in processing member refunds due to issues with file reconciliations.

On a motion by Trustee Dwyer, seconded by Trustee Hart, the Board unanimously voted to approve the Consent Agenda, as presented.

Executive Director George Lagos stated that everything is moving along well concerning the Action Items from the October 9 Board meeting.

Chair Gustafson thanked the Board for their participation in a number of matters that were dealt with at this meeting. He also thanked the Board and staff for their support with respect to the recognition he received at the recent BIA dinner.

On a motion by Trustee Milligan, seconded by Trustee Hart, the Board voted unanimously to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles  
Executive Assistant