

NHRS Board of Trustees
Minutes-October 13, 2020

Note: These minutes from the October 13, 2020 Public Session were approved and executed at the November 10, 2020 Board of Trustees meeting.

**Board of Trustees
October 13, 2020
Public Minutes**

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

The NHRS office was closed to the public as a result of COVID-19, and the meeting was held via video conferencing, as authorized under Executive Order 2020-04. Pursuant to RSA 91-A, all votes were by roll call.

Participating: Trustees Tim Lesko, Chair; Scott Christensen, Christopher Coates, Sue Hannan, Bill Hart, Ben Jean, Maureen Kelliher, Robert Maloney, Monica Mezzapelle, Scott Myers, Melvin Friese, and Donald Roy.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Deputy Director and Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Frank Clough, *Director of Information Technology*; Nancy Miller, *Director of Member Services*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Marty Karlon, *Director of Communications & Legislative Affairs*; Rosamond Cain, *Human Resources Manager*; and Christine Rice, *Administrative Assistant*.

Absent: Nina Calkins, *Contact Center and Administrative Manager*.

Executive Director Lagos reviewed the protocols for the remote WebEx meeting. Chair Lesko called the October 13, 2020 annual meeting of the NHRS Board of Trustees to order at 10:02 a.m. Having established a quorum, Chair Lesko called for a vote to approve the minutes of the September 8, 2020 Board meeting. On a motion by Trustee Myers, seconded by Trustee Roy, the Board voted to approve the minutes, as presented. Trustee Friese abstained, and Trustee Hart was not in attendance. Motion passed.

Trustee Mezzapelle provided the Audit Committee report, noting that the Committee met this morning and approved its September 8, 2020 meeting minutes. The Committee reviewed internal audit activities, beginning with the Pension Gold User Access rights Internal Audit Report for the Legal and Finance areas, for which there were no notable issues. It then reviewed the FY21 Audit Plan. The Committee received a status update for the progress on the FY19 audit recommendations, with one completed this month, and one outstanding item scheduled for completion by December 31, 2020, along with a progress update on the FY20 audit. An RFP for an Actuarial Consultant is in process with receipt of five proposals that are under review. Finance anticipates having a recommendation for the Board at the November meeting.

On a motion by Trustee Jean, seconded by Trustee Christensen the Board voted unanimously to accept the Audit Committee's recommendation to approve the annual Code of Ethics Scorecard.

Trustee Hart joined the Board meeting at 10:10, following the Audit Committee report.

Trustee Roy gave the Governance Committee report, noting that the Committee met immediately after the Sept. 8, 2020 Board meeting, and it approved the June 9, 2020 Committee minutes. The Committee conducted its annual charter review, and determined there were presently no revisions needed. The Committee then heard Atty. Mark Cavanaugh's presentation of the annual OFAC Compliance review, during which he stated that NHRS staff was in compliance and that there were no known or suspected violations. Atty. Cavanaugh also provided the Committee with proposed revisions to the Policy, noting that they were merely grammatical and clarifying edits, with no substantive changes to the Policy. The Committee voted unanimously to recommend to the full Board that it accept the OFAC Policy revisions. On a motion by Trustee Mezzapelle, seconded by Trustee Kelliher, the Board unanimously voted to approve the OFAC Policy, as presented.

Lastly, Trustee Roy mentioned that the Committee briefly discussed the Board Self-Evaluation Policy, which was last revised in June 2018, and the last Board Self-Evaluation was conducted in March 2019. The Committee determined it would be unnecessary to conduct a review this year, unless the Board Chair discerns otherwise.

Trustee Kelliher reported on the IIC meeting of September 18, 2020, noting that the IIC approved the August meeting minutes. Director Johansen reviewed the portfolio's performance over various time-periods, and there was continued discussion on the COVID-19 pandemic's effects on the System's cash flow and asset allocation. The Committee approved a recommendation for the Board to consider today on issuing a survey for NHRS' Proxy Voting services. The Committee voted on extending its two-year contract renewals with small cap stock managers Wellington Management, Boston Trust Walden, and Segall, Bryant & Hamill. The Committee heard a presentation from Thoma Bravo, a private equity firm that invests in software and technology companies, on its Fund XIV, acknowledging the strong performance in NHRS' past investments in Funds XII and XIII. The IIC voted to commit up to \$75 million to Thoma Bravo Fund XIV. The Committee also heard presentations from NEPC and Callan on their respective proposals for providing Investment Consulting Management services. After deliberating, the IIC voted to recommend Callan to the Board as the System's Investment Management Consultant.

Investment Director Johansen presented to the Board the Committee's recommendation to approve hiring Callan as the System's Investment Consultant as of January 1, 2021. He stated that NEPC has been NHRS' consultant since 2009, noting their commendable work. Mr. Johansen responded to a Trustee's question with regard to the IIC's decision to hire Callan, explaining that the Committee had no concerns with NEPC, and that it was his perspective that the IIC was seeking a fresh perspective after 10 years of working with them. Trustee Kelliher added that the Committee found Callan's presentation to be stronger, and noted that the current IIC members were not involved with the original hiring of NEPC.

Mr. Johansen also responded to a Trustee question regarding consulting fees, noting that the System expected to save about \$500,000 in consulting fees over the next five years. He then gave an overview of Callan in response to a Trustee's question, stating that it is one of the leading independent, employee-owned firms and one of the largest in the business. Callan is headquartered in San Francisco and its New Jersey office would service the System.

On a motion by Trustee Hannan, seconded by Trustee Hart, the Board voted unanimously to accept the IIC's recommendation to approve Callan Associates as the NHRS general investment consultant.

Trustee Hannan momentarily left the meeting at this time.

On a motion by Trustee Jean, seconded by Trustee Kelliher, the Board voted unanimously to accept the IIC's recommendation to issue the Institutional Proxy Voting Survey.

Mr. Johansen then informed the Board that the System received the final June 30 NAVs and the custodian, BNY Mellon, has reconciled them. Finance is working to close the books ending June 30, with the expectation of receiving the final June 30 Total Fund Performance later this week. The IIC will hold its October meeting next week.

Trustee Myers gave the Legislative Committee's report, stating it has not met since the previous update at the September 8, 2020, Board meeting, but acknowledged that veto day occurred at the end of September and any legislation related to NHRS was either tabled, deemed inexpedient to legislate, or vetoed. He reported that this legislative session marked the first time since 2015 that there were no changes to RSA-100:A. Trustee Myers stated that there are three House LSRs (Legislative Service Requests) pending. One pertains to NHRS' request to clarify medical subsidies paid to the state, and the two others are repeat LSRs; one requiring the IIC to report its fees quarterly, and the other, for the state to return to contributing toward employer costs for retirement benefits on behalf of municipal teachers, police, and fire.

Trustee Hannan rejoined the meeting at this time.

Trustee Coates reported on the Benefits Committee, noting it last met on August 18, 2020. He then directed the Board to the annual Gainful Occupation Report for 2019 that Atty. Cavanaugh prepared that gives a summary of NHRS disability recipients who are employed and requests Board action on those recipients who had excess earnings in 2019, and those who have not yet provided the required paperwork.

On a motion by Trustee Kelliher, seconded by Trustee Roy, the Board voted unanimously to approve the calendar year 2019 Gainful Occupation Compliance Report, as presented.

Trustee Coates concluded the Committee's report by reminding the Board that Executive Director Lagos, in his weekly update, indicated that a settlement agreement has been reached on the pending NH Supreme Court case in the Pedersen restoration-to-service matter, as previously discussed at the September 8, 2020, Board meeting.

Trustee Hart reported on the PPCC, noting that the Committee met on September 24, 2020, and approved its September 2, 2020 meeting minutes. The Committee considered the pending retirement of Executive Director Lagos and recruiting plans for a successor. Mr. Hart explained that after the Committee reviewed its charter, it determined it had the authority to manage the search process, and take initial responsibility to identify candidates to present to the Board. The Committee adopted a timetable to proceed, finalized a position description, and set the compensation range. The Committee agreed it would start the recruitment process without utilizing a search firm. Human Resources Manager Rosamond Cain confirmed she had posted the Executive Director position with several public pension organizations and local media. While the Committee has already received some resumes, it agreed it would revisit the need for a search firm if the current approach did not develop a pool of qualified applicants. Trustee Hart noted that the target date to finalize negotiations with the selected candidate is mid-January, which would be ample time to meet the transition date of March 1, 2021.

Next, Mr. Crutchfield and Atty. Cavanaugh presented an overview of the Governance Manual. Mr. Crutchfield recalled Atty. David Levine's fiduciary training presentation last month, noting the Trustees have two basic fiduciary duties: loyalty and prudence. He then focused on the duty of prudence, explaining that meeting that duty is typically determined as to whether the Trustees have engaged in a deliberative process in making decisions, more than the results of those decisions. He emphasized that the manual is a valuable resource in documenting these processes, and it details responsibilities, protocols, charters, and policies.

Atty. Cavanaugh focused on some of the Manual's specific Board conduct policies, including Ethics, Communications, Indemnification, Education and Travel, and the Board Self-Evaluation. He then gave an overview of the Manual's governance policies, including Audit, Procurement, Strategic Planning, Recoupment and Hardship, Funding, and Fraud Policies.

Mr. Lagos then gave his operating report, beginning with the Employer Outreach Program, which NHRS initiated following the recent increase in employer-contribution rates. He added that he and Mr. Karlon would be virtually attending the Claremont Town Council Meeting on October 14, 2020. Mr. Lagos stated that the System is willing to attend any municipalities' meetings on these matters. He added that the next presentation would be with the School Administrators Association in two weeks. Mr. Lagos then reported on the status of the Contact Center, noting it is on schedule and due to go live this December.

Next, he stated the System achieved slightly above the benchmark of 95% for KPMs this month and that the PGV3 project is approximately 28% complete, noting that PGV3 Project Manager Cecile Merrill is engaged in the final week of testing Deliverable 2, followed soon thereafter by Deliverable 3 Design meetings.

He then turned the Board's attention to four contracts in the Board materials relative to internet bandwidth, management coaching, and the remediation efforts for staff's safe return-to-the-office phasing. Regarding the latter, Mr. Lagos stated that staff, together with Fusion Cell, developed a comprehensive plan that would be reviewed

with the Management Team on Monday, October 19, 2020. He noted the plan included some safety steps that would be necessary to implement prior to allowing additional staff to return to the office in early 2021, subject to applicable federal and state guidelines and the number of COVID-19 cases in NH at that time. These steps included additional cleaning services and utilization of HEPA and UV filters. Mr. Lagos and Mr. Clough responded to a Trustee's question regarding the procurement process for COVID-related goods and services, stating that while NHRS is not an Executive Branch agency, it does have access to state vendor pricing and that is typically the first place staff looks in seeking vendors for goods and services.

On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted unanimously to accept the recommendation of the Executive Director to approve the procurement of the HVAC UV filters, as presented in the Board materials, subject to contract and legal review.

Mr. Crutchfield gave the Legal operating report. He noted that Atty. Crichton had provided the Supreme Court with the Certified Record in the Pedersen matter, which was 922 pages, and thanked her for her diligence in preparing the file in a timely fashion. He then reported on the KPMs, noting that the Legal department achieved six of eight KPMs and that steps were in place to enhance productivity of the employer audit process. In closing, he referred the Board to his memo regarding recent contract activity and invited the Trustees to give any input on the dissemination of this information.

Director of Finance Gerard Murphy began his Finance operating report with an update of the implementation costs for the PGV3 project, stating that there would be expected decreases to the original \$13.5 million budget to \$13.3 million. He stated the System has spent about \$3.8 million to date on the project, which remains on budget.

He then reported that Finance missed the employer penalty notification KPM, noting that there was a delay in issuing notification letters because of staff focusing on PGV3 D2 User Acceptance testing this month.

Mr. Murphy also updated the Board on the pending RFP for Actuarial Consulting services, noting that NHRS received five proposals and a review committee would hear presentations from each of the five firms in the coming week. He added that a recommendation to the Board remains on schedule for the November meeting.

Lastly, Mr. Murphy provided the annual financial activity report on Call Fire, a benefit program for call volunteers or substitute firefighters who were disabled or killed in the line of duty that the Legislature repealed in 2014. Mr. Murphy stated there are two beneficiaries receiving payments under this program.

Director of IT Frank Clough presented his operating report, informing the Board on plans to replace firewalls, improved web filtering for website security, and various safety upgrades to accommodate the anticipated phased, staff return to the office.

Mr. Clough then reported that IT met all of its KPMs this month, noting the customer satisfaction score is at 98%. He explained to the Board that the score derives from

performance surveys that IT sends to staff, following the closure of help-desk tickets related to facility or technology issues.

Mr. Clough gave an overview of upcoming and existing projects, stating there would be an upgrade to the alarm system, with installation scheduled for October 19, 2020. He then noted that IT would be conducting system-wide vulnerability-and-penetration testing in the near future. Mr. Clough reported that NHRS achieved positive results in similar testing last year.

Lastly, he shared that his department would soon be testing the virtualization of PGV2 on remote laptops in an effort to enable the System's remote users to operate more efficiently.

Member Services Director Nancy Miller gave her report, noting that issues identified with the first round of COLA payments had been rectified. She then updated the Board on GRS's review of the option factor testing, which LRS facilitated, noting that some inconsistencies previously identified had been resolved and that Member Services would complete in-house testing this week. She stated the schedule for implementing the new factors is on target. Ms. Miller shared that Member Annual Statements went out as scheduled in September, noting it was the first time the department handled that process remotely. She advised that Member Services is working with the Contact Center on training materials and transition plans, as well as working with HR and resulting staffing changes in Member Services.

Ms. Miller shared that her department is working on the PGV3 Deliverable 3-Benefits Calculation design with LRS over the next few weeks. Lastly, she reported on the department's KPMS, stating that it met all except for the completion of the calculation of final benefits within three months, which was due to the related volume of work for July retirees.

Director of Communications and Legislative Affairs Marty Karlon began his PIO report by expanding on the Employer Outreach efforts that Mr. Lagos discussed earlier in the meeting, stating that there are scheduled meetings in November, including the NH Municipal Association. Mr. Karlon stated that following the November elections, NHRS expected to be presenting to select House and Senate committees beginning in January.

Mr. Karlon also updated the Board on outreach through educational webinars, new member mailings, and the Contact Center implementation project, targeted for launch in December.

Chair Lesko introduced the Consent Agenda. On a motion by Trustee Hart, seconded by Trustee Hannan, the Board unanimously voted to accept the Consent Agenda, as presented, noting that Trustee Myers abstained on Item 6, initials M. F.

Mr. Lagos had nothing new to report on Action Items, noting that everything was in process and included in the Board materials.

Next, Chair Lesko publicly thanked NHRS' Internal Auditor Nancy Cone, who announced her retirement during the Audit Committee meeting earlier this morning.

She will be retiring December 31. Chair Lesko then commended Mr. Lagos for his work in making the Board meetings occur virtually, during the pandemic, and for his thoughtful consideration on soliciting the Board for input on returning to in-person meetings. He also thanked Mr. Lagos and Mr. Clough for creating a safe working environment for NHRS.

Chair Lesko invited Trustees to provide their perspectives on reconvening in-person, making clear that it is each Trustee's individual decision whether to attend in-person during the pandemic. Mr. Lagos explained that with the safety protocols in place, the Board room would accommodate the Trustees comfortably. He stressed that there is no urgency to return to in-person meetings, as the safety and health of everyone is the top priority, and that Board business can continue virtually for the foreseeable future.

With no further business to discuss, on a motion by Trustee Kelliher and seconded by Trustee Hart, the Board voted unanimously to adjourn the meeting.

Respectfully submitted,

Christine Rice, Administrative Assistant