

NHRS Board of Trustees

Minutes – October 10, 2023

Note: These minutes from the October 10, 2023 Public Session were approved and executed at the November 14, 2023 Board of Trustees meeting.

Board of Trustees

October 10, 2023

Public Minutes

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

Participating: *Tim Lesko, Chair; Trustees Sue Hannan, Maureen Kelliher, Robert Maloney, Andrew Martineau, Germano Martins, Ken Merrifield, Monica Mezzapelle, and Joshua Quigley.*

Absent: Trustees Jon Frederick, Jason Henry, Paul Provost, and Don Roy.

Staff: Jan Goodwin, Executive Director; Timothy Crutchfield, Deputy Director and Chief Legal Counsel; Raynald Leveque, Chief Investment Officer; John Laferriere, Director of IT; Marty Karlon, Director of Communications and Legislative Affairs; Mark F. Cavanaugh, Associate Counsel and Compliance Officer; Rosamond Cain, Director of Human Resources; Heather Hoffacker, Internal Auditor; Nina Calkins, Administrative and Contact Center Manager; Greg Richard, Senior Investment Officer; Shana Bilech, Investment Officer; Jesse Pasierb, Investment Operations Analyst; Diana Crichton, Hearings Examiner; and Christine McKenney, Communications Specialist.

Guests: Jay Kloepfer, Pete Kelouotis, Angel Haddad, and Catherine Beard, all of Callan, LLC.

Chair Tim Lesko called the October 10, 2023, regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. and after establishing a quorum, he called for a vote to approve the meeting minutes of the September 12, 2023, Board meeting. On a motion by Trustee Maloney, seconded by Trustee Hannan, the Board voted unanimously to approve the meeting minutes.

Due to last-minute exigencies, the Board's action on the Consent Agenda was considered next. On a motion by Trustee Hannan, seconded by Trustee Martins, the Board voted unanimously to approve the Consent Agenda, as presented.

Trustee Mezzapelle gave the report of the Audit Committee, which met earlier this morning. The Committee reviewed the open items in Internal Audit, which are on hold until PGV3 parallel processing is completed. She noted the GASB Census Data Audits are under review with NHRS's external auditor, Plante Moran. She reported the Committee reviewed the Fraud Policy, which had minor changes, and voted unanimously to approve the amended policy and will recommend it to the Board at its November meeting. Lastly, Trustee Mezzapelle gave a status update on the Financial Statements Audit, which is in process, and noted Plante Moran will be at NHRS by the end of the month to continue work on the audit.

On behalf of Trustee Roy, Associate Counsel Mark Cavanaugh gave a brief update on the Governance Committee, which had not met since the last Board meeting.

Trustee Kelliher reported on the September 12, 2023, Independent Investment Committee (IIC, Committee) meeting. Chief Investment Officer Raynald Leveque reported on investment returns through recent time periods, referring to Callan's July 31, 2023, report. He gave updates on holdings within the NHRS portfolio and confirmed asset allocations are within range. Mr. Leveque also reviewed plan liquidity, Russian holdings, and the Work Plan. Trustee Kelliher noted staff continue to prepare the strategic asset allocation for presentation by the end of the calendar year. She mentioned that in 2024 staff will submit a request for proposal (RFP), for an analytic system to assist with their total plan analysis. She reported that Mr. Leveque reviewed the August Committee vote to commit \$50 million to Ares Management Pathfinder Fund II and with the staff's recommendation to commit an additional \$25 million, the IIC, at its September meeting, voted unanimously to approve the recommendation, subject to contract and legal review, resulting in a \$75 million total commitment to the fund. She reported the Committee reviewed the September presentation from Income Research & Management (IR+M) and voted unanimously to renew the five-year contract with IR+M, ending October 31, 2028. In closing, Trustee Kelliher summarized a presentation that the Committee heard from Callan on the retirement system's performance in the public market in Fiscal Year (FY) 2023, its broad market performance, and future plans for asset allocation positioning. She then turned to Mr. Leveque for further updates on portfolio performance.

Mr. Leveque reported on performance for NHRS as of August 31, 2023, noting the Total Fund net return for the fiscal year-to-date (FYTD) period was -1.34%, outperforming the benchmark, which returned -1.71% by 37 basis points. The plan trailed the benchmark for the calendar year-to-date (CYTD) period, by 194 basis points. He reported on the long-term performance of the plan relative to the policy benchmark for three, five, and 10-year periods, which generated 2.41%, 0.14%, and -0.04% of excess returns, respectively. Mr. Leveque noted the positive return to NHRS cash holdings, and the performance for the private markets are still reporting 1st Quarter returns. He expects to have 2nd Quarter returns to present next month. In closing, he reported all of the asset classes are in line with the balancing ranges, and noted the Total Plan is at \$11.4 billion. He opened the floor for questions. A Trustee requested a spreadsheet for next month on the duration of the fixed-income portfolio. Lastly, Mr. Leveque referred to Callan's quarterly review, noting asset allocations and the gross performance compared to the Callan peer universe of large public plans greater than \$1 billion. NHRS's gross Total Plan lands in the top half of the peer universe and continues to show strong performance in the fiscal years for three, five, seven, 10, 20, and 25 years. He ended his report with a summary of the total plan attribution on a one-year basis, as listed in Callan's review.

Trustee Merrifield gave an update on the Legislative Committee, which has not met since September. He mentioned the House filing period for Legislative Service Requests (LSRs) ended, and noted the Senate filing period ends soon. Trustee Merrifield then reported staff identified 11 LSRs that are relative to NHRS, and they continue to monitor others that may possibly affect the retirement system. He gave an update on the Retirement Benefits Commission, which met twice in the last month, but had no votes to recommend any actions. The Commission is scheduled to meet this Thursday, October 12. He turned to Attorney Cavanaugh for an update on the Private Letter Ruling (PLR) to the IRS pertaining to the 2021 House Bill (HB) 2 on the medical subsidy payment process. Attorney Cavanaugh reported that the IRS declined to make a ruling on the matter after months of inquiries and NHRS providing requested information. He stated NHRS will notify the NH Legislature that there was no ruling and contact the Department of Administrative Services (DAS) with the result. Attorney Cavanaugh mentioned there is no change to the current order of the medical subsidy payment process, and there would not be unless it is proposed in legislation. With no further discussion, Attorney Cavanaugh returned the floor to Trustee Merrifield, who requested Marty Karlon, Director of Communications and Legislative Affairs, to provide any other updates, and

he had none to add.

Trustee Martins reported on the Benefits Committee, which met September 27 and referred to Attorney Cavanaugh's presentation of the annual Gainful Occupation (GO) Report for the Committee's review, noting that Attorney Cavanaugh provided an overview on the GO reporting process and the CY 2022 results, which were consistent with past years and noted there was an increase of allowable earnings due to inflation in 2021 and 2022. The Committee voted unanimously to recommend that the Board vote to authorize staff to implement the offsets and excess earnings and non-compliance withholdings, as described in the report. Trustee Martins mentioned the Committee went into non-public session to discuss a disability matter. Upon return to public session the Committee voted unanimously to recommend to the Board to rescind its prior reward of an Ordinary Disability Retirement (ODR) benefit. This will be brought to the Board for a vote at the November meeting.

On a motion by Trustee Martins, seconded by Trustee Mezzapelle, the Board voted unanimously to accept the recommendation of the Benefits Committee that the Board approve the Calendar Year 2022 Gainful Occupation Compliance Report, as presented.

Trustee Hannan next gave a brief report on the PPCC, noting it has not met since last month.

The Board was next presented with an analysis of the long-term Capital Market Assumptions (CMA). Mr. Leveque spoke briefly about why Callan, the retirement system's investment consultant, is presenting today on the CMA and introduced the team and representatives from Callan. Angel Haddad, Senior Vice President of Callan, introduced Jay Kloepfer, Callan's Executive Vice President and Director, who provided a detailed overview of Callan's methodology. This presentation was part of an assessment of NHRS's strategic asset allocation review to be presented to the Board at a future meeting. Following that presentation, a Trustee inquired about how fossil fuel investment might factor into the CMAs. Mr. Haddad commented on how the CMA generally takes into consideration the market volatility of certain investments, such as fossil fuels, when estimating the asset class assumptions.

Chair Lesko turned to Executive Director Goodwin for her operating report. She began by noting the KPMs were at 100% for the month, and thanked management and staff for their work. She cited the 12-month rolling average, which has been well above the 95% benchmark for several months. She announced the start of PGV3 parallel processing, which began October 9, as part of the implementation of the new data system. She explained that prior to parallel, NHRS was operating in a blackout period, which prevented staff from using PGV2 or PGV3, and blocked employers from using the Data Reporting System (DRS) to report to NHRS, while LRS converted 378 million records from PGV2 into PGV3. Employers began filing their September reports on Monday. Finance, and LRS, who are on site, have been fielding questions to assist staff and employers with the transition to the new system. Ms. Goodwin reported that the implementation of new legislation from 2023 is on hold until after parallel processing. She provided an update on employer XML test files, noting there are approximately 10 that NHRS seeks to obtain.

Ms. Goodwin informed the Trustees of three consulting contracts with former employees to assist with finance and PIO matters relating to the PGV3 transition. It is anticipated that the total costs will be well within the Executive Director's limits under the Procurement Policy. Further disclosure of the final costs and rationale for sole sourcing will be provided to the Board at the end of the engagement period.

Ms. Goodwin then presented the annual Call Firefighter Report on behalf of Finance Director Marie Mullen. She referred to the legislation last fall that provided an additional \$40,000 from the general fund to support the benefit. As of June, the balance of the allocated funding, with the \$40,000, was

\$52,000. Earlier this year, NHRS was providing benefits to two Call Firefighter beneficiaries, and one beneficiary has since died, resulting in a reduced amount of funds necessary to allocate for the benefit. Any remaining monies from the additional \$40,000 will go back into the general fund. She provided an update on the Contact Center, which continues to achieve its monthly goal. She noted she continues to receive favorable feedback from her monthly calls to employers, members, retirees, and beneficiaries on NHRS' customer service. She referred to her action plan and presented the NHRS Dashboard on behalf of Ms. Mullen. Lastly, she mentioned that, for the first two weeks of parallel processing, all staff will be on site, along with LRS. After the two-week period, staff will return to a hybrid schedule to conduct remote testing of PGV3.

A Trustee inquired about the actuarial funding rate in relation to the allocation between what is currently funded and what is unfunded. Ms. Goodwin noted the shortfall amount is approximately \$5.7 billion, noting the actuarial fund is a 30-year amortization, with 18 years remaining. A brief discussion followed on layered amortization.

Mr. Leveque gave his report on Investments, noting his team achieved six of the 10 KPMs, noting four were not applicable for the month. He then summarized the agenda for today's IIC meeting, which immediately follows the Board meeting.

Rosamond Cain, Director of Human Resources, gave her HR report, noting the department achieved all four of its KPMs for the month. HR is recruiting for two positions: Investment Officer, and an Executive Assistant, which is a confidential position, as approved by the union. HR is also working with ADP on performance appraisals to streamline the current manual process to a fully electronic one. She reported on training for the HR Generalist, who has a new title, and will be responsible for tracking employee leave time that Ms. Cain previously performed. In closing, she noted HR is planning trainings for all staff for next year.

On behalf of Deputy Director and Chief Legal Counsel Tim Crutchfield, Attorney Cavanaugh presented the legal report. He began with a discussion of the possible delegation of the Consent Agenda for approved disability applications to the Benefits Committee to accommodate the Board's new meeting schedule starting in 2024. He conveyed that the Legal Department had reviewed the statute and consulted with Groom Law, the NHRS outside fiduciary and tax counsel, on what actions are permissible for the Board relative to delegating duties to subcommittees. Groom Law confirmed that the Board has the authority to delegate pursuant to its general powers of administration under RSA 100-A:14. Attorney Cavanaugh then gave an overview of how the delegation would be implemented, noting the Governance Committee would review the Benefits Committee Charter, make any necessary amendments to affirm its powers, and recommend the revised charter to the Board at its November meeting.

Some discussion followed regarding the opportunity for a disability applicant's right to appeal and the notification process to the member of that right. Trustee Merrifield encouraged the Board to review the relevant sections of the statute, including Section 100-A:1, A:6, A:14 and A:14-a, regarding delegation by the Board. Chair Lesko reminded Trustees that any Board member can attend any committee meetings.

Mr. Karlson gave his PIO report, beginning with a summary of the communications and trainings outreach on PGV3, which, to date, has included extensive written documentation on how to perform certain things online; development of reporting and insurance slides for multiple types of employers; and holding about 25 employer presentations. He provided the Board with a list of other projects that PIO and a contracted former employee are working on, including aspects of the PGV3 project that is not included in parallel processing, such as the new version of My Account, which goes live in December. Mr. Karlson explained that PIO will roll out communication incrementally on My Account 2.0 to prevent oversaturation of access to the system, starting with retirees because the

1099-Rs needed for tax filing purposes will be distributed in January via My Account. Lastly, he noted his department met all applicable KPMs for the month.

Mr. Laferriere opened his IT report with cyber security awareness, noting IT regularly conducts phishing tests and stated no extra training for staff was necessary in August. He commented on the completion of the onboarding of the new Managed Security Service Provider (MSSP), Green Pages, which is now called Blue Mantis. He noted IT is working with the MSSP to create new phishing exercises for staff. In addition, he commented on the implementation and monitoring of infrastructure security monitors and patching deployment and noted the advantages of having an MSSP. He gave a summary of the MSSP's recent activities and steps to maintain high security for the retirement system.

He reported IT scored 100% on customer satisfaction and met all eight of its KPMs. He also gave an update on several projects. He noted his department is now fully staffed, and gave an overview of upcoming projects, including an AI chat bot. Lastly, he noted his action plan, which is on track.

Following his report, Mr. Laferriere presented to the Board the AI chat bot and explained how it would work on the NHRS website and demonstrated what it can do to answer retirement-related questions and how it responds to non-retirement-related ones. He explained how the bot was developed and the training involved for it to pull accurate information from internal existing sources: NHRS documentation and the website.

A healthy discussion on the validity of the information the bot retrieves and how the bot could be a benefit to the general public, aside from NHRS members, and the ability to include a legal disclaimer to protect NHRS from what information the bot shares. Mr. Laferriere displayed various settings on the slide presentation to show how IT can monitor the bot and track statistics on the information the bot retrieves. He mentioned the bot would be trained every 24 hours to keep it updated on current NHRS information.

Chair Lesko next presented the travel reports and requests, and there were none.

Ms. Goodwin provided an update on Action Items from the September 12, 2023, Board meeting, noting everything will be completed at the conclusion of today's meeting.

During the Board checkpoint, Chair Lesko requested that Trustees think about what information the Board would want to receive between the months that it meets in 2024.

With no further business to discuss, on a motion by Trustee Merrifield, seconded by Trustee Martins, the Board voted unanimously to adjourn the meeting at 12:14 p.m.

Respectfully submitted,

Christine McKenney
Communications Specialist