

NHRS Board of Trustees
Minutes-September 8, 2020

Note: These minutes from the September 8, 2020 Public Session were approved and executed at the October 13, 2020 Regular meeting of the Board of Trustees.

**Board of Trustees
September 8, 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, and Donald Roy. *Absent:* Melvin Friese

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *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*; Nina Calkins, *Process Improvements Manager*; Christine Rice, *Administrative Assistant*; and Margaret Astles, *Executive Assistant*.

Chair Lesko called the September 8, 2020 annual meeting of the NHRS Board of Trustees to order at 10:04 a.m. Executive Director Lagos announced the protocols for the remote WebEx meeting. Having established a quorum, Chair Lesko called for a vote to approve the minutes of the August 11, 2020 Board meeting. On a motion by Trustee Hannan, seconded by Trustee Roy, the Board voted to approve the minutes as presented. Motion passed.

Trustee Kelliher provided the Audit Committee report, noting that the Committee met this morning and approved the August 11 meeting minutes. The Committee then reviewed the open audit report, noting that no changes occurred from last month, and the only item outstanding is the PGV3 upgrade, with completion expected this month. She then reported on the FY 20-2021 Audit Plan status, noting that the employer audits are completed. Pension Gold Access Rights report will be completed after the annual review in October. Ms. Kelliher reported that there are no updates on the Data Security Remediation due to the original consulting team being very busy due to today's security environment. There are no updates from Plante Moran's FY 2020 audit, but Gerard Murphy, Finance Director, noted that the last actuarial extract would go out to Plante Moran after the end of this month. The Audit Committee reviewed its charter and policy, determining there were no revisions recommended.

Trustee Roy gave the Governance Committee report, noting that the Committee last met on July 14, and that it would be meeting after today's Board meeting to discuss the annual review of the Committee charter and the OFAC policy. On a motion by Trustee Hart, seconded by Trustee Mezzapelle, the Board unanimously voted to approve the 2021 Board Meeting Calendar as presented today.

Trustee Kelliher reported on the IIC meeting of August 21, noting that the minutes were approved from the July meeting, and Director Johansen reviewed the work plan. Then the Committee continued discussion of the effects of COVID-19 on cash flow and asset allocation. Director Johansen updated the Committee on the proposals received for the investment consultant services. Four interviews were completed and two semi-finalists will present to the Committee at its September meeting. In conjunction with their two-year contract renewal, the Committee heard presentations from the following US Equity Managers: Wellington Management, Boston Trust Walden, and Segall, Bryant & Hamill. Then NEPC reviewed the System's marketable investment portfolio with the Committee. The final order of business was to discuss and vote on an adjustment to the System's fixed income guidelines, with the Committee unanimously voting to lower the fixed income investment guidelines from a minimum allocation of 75% for core fixed income, to a minimum allocation of 60%. The reduction was made to accommodate the prior changes to the fixed income portfolio and to provide the fixed income portfolio with more flexibility.

Investment Director Johansen began by noting that our relative performance compared to peers for fiscal year June 30, 2020 was well below median at the bottom of the fourth quartile, the first time since 2010. For the fiscal year the S&P 500 and the Barclay's Aggregate outperformed all others, while our well diversified portfolio includes the S&P 500 and Barclay's Aggregate any diversification away from those two indices hurt relative performance. Performance has recently improved. For the recent three months, marketable securities are above the benchmark. He noted that portfolio diversification is working. Mr. Johansen then reported on the investment consultant RFP, noting that as Ms. Kelliher mentioned, two presentations will be made by the semi-finalists at the September meeting. In addition, at that meeting, a presentation from Thoma Bravo, a private equity investor will be made. He then noted that the proxy-voting contract with ISS expires on 12/31. The Investment Committee will review the RFP in September and bring a recommendation to the Board in October to issue the RFP. Mr. Johansen answered Trustee questions regarding our relative performance compared to peers that was under median for the past year. He then explained that over a number of years, the Committee has expanded our fixed income portfolio to include, in addition to the core manager IR&M, a number of global multi-sector fixed income managers. The change in the guidelines reflected the change in the makeup of the portfolio that has happened historically, and no changes to the portfolio have been made recently.

Trustee Myers reported that the Legislative Committee has not met since the last Board meeting. He noted that the Legislative season is over and that veto day is coming up with the House and the Senate next week. There were two bills with small ties to NHRS, which the Governor vetoed, and Trustee Myers noted that the Governor's actions were not relative to any association with NHRS. He noted that today is the first day for incumbent representatives to file Legislative Service Requests (LSRs) for next year.

Trustee Coates reported that the Benefits Committee met on August 18. At that meeting, the Committee voted to approve the minutes of the June 30 meeting. The Committee then conducted its annual review of the Committee charter and deemed that no revisions are

necessary. The Committee also conducted its annual review of Independent Medical Examiners of which NHRS currently has four conducting disability examinations, two for physical exams and two for psychiatric exams. As part of the annual review, staff researched medical boards in New Hampshire where our IMEs are licensed, and found that no actions were either taken or pending against any of our IMEs. Mr. Coates then asked the Chair for a temporary adjournment to discuss litigation strategy. On a motion by Trustee Coates, seconded by Trustee Hart, the Board unanimously voted to temporarily adjourn the meeting for the purpose of consulting with legal counsel under RSA 91-A:2, I(b). All Non-Trustees except for Attorney Cavanaugh were placed into the virtual lobby for the temporary adjournment.

On a motion by Trustee Coates, seconded by Trustee Roy, the Board voted unanimously to reconvene the Board meeting.

Trustee Hart, reporting on behalf of the PPCC requested that the Board go into non-public session.

On a motion by Trustee Hart, seconded by Trustee Jean, the Board unanimously voted to enter into 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 Hart, seconded by Trustee Roy, the Board unanimously voted to conclude the non-public session.

Trustee Hart continued, noting that the Committee met on August 28 and on September 2, with the minutes from the prior meetings approved. Mr. Hart then reported that the PPCC charter was reviewed and it was determined that no revisions were necessary at this time. Then the PPCC discussed the contact center, noting that Project Improvement Manager Nina Calkins has been appointed as the Contact Center manager, and Deanna Higgins has been appointed to the supervisor position.

Chair Lesko introduced discussion regarding the FY 2022 & 2023 Employer Contribution Rates. He began by stating that under RSA 100-A, the Board is required to have an actuarial valuation of pension system assets and liabilities completed at least once every two-year period, in odd numbered years, to determine the biennial employer contribution rates. The Board had previously approved the GRS FY 2019 valuation report. The report incorporated changes to the actuarial assumptions, as recommended by the GRS Experience Study, including the adoption of new mortality tables; a reduction in price inflation from 2.5% to 2.0%; a reduction in payroll growth from 3.25% to 2.75%; and a reduction in the assumed rate of return from 7.25% to 6.75%. Because of these changes, there was an increase in stated liabilities of \$938.8 million, bringing the unfunded liability to \$5.89 billion as of June 30, 2019, and a corresponding decrease in the funded ratio from 64.8% to 60.8%. As a result of these changes, the employer contribution rates will increase significantly, averaging approximately 20% overall. Under Part I, Article 36-A of the NH Constitution, NHRS Trustees are required to set employer contribution rates based upon sound actuarial valuation and practice. Trustees are required to act in accordance with this Constitution provision, applicable statutory provisions, and fiduciary duties that govern the conduct of NHRS Trustees. The increase in employer contribution rates will likely present budgetary challenges for all participating employers. Chair Lesko stated that the amount of deliberation surrounding this process was immense, and involved the participation of multiple investment managers, as well as our investment consultant and

actuaries. Chair Lesko thanked the Trustees for their thoughtful consideration of all of the information that has come to the Board throughout the process, and for their commitment in ensuring the funding of the pension plan to benefit the plan's participants and beneficiaries. On a motion by Trustee Roy, seconded by Trustee Coates, the Board unanimously approved and certified the Employer Contribution Rates for Fiscal Years 2022 and 2023 based on the June 2019 GRS Actuarial Valuation, as presented.

Next, Mr. Crutchfield introduced guest speaker Mr. David Levine, Principal with the Groom Law Group, located in Washington, D.C., stating that Mr. Levine advises plan sponsors, advisors, and other plan providers on a wide range of employee benefit matters from retirement, executive compensation, to health and welfare plan matters. Mr. Levine has advised NHRS since 2009 on a wide variety of matters, including fiduciary duty, legislation, ethics and IRC interpretation as it relates to RSA 100-A.

Mr. Levine's Trustee training session included the basics of the Trustees' fiduciary duties, which are based on the New Hampshire Constitution, Part I, Article 36-a, and statutory provisions such as RSA 100-A: 15. He spoke of the fiduciary duties of prudence and loyalty, the power to delegate, non-investment duties, fiduciary liability, and conflicts of interest. He also discussed issues related to pension funding shortfalls, and ethics, including limitations on the acceptance of gratuities and gifts.

Mr. Lagos and Mr. Crutchfield thanked Mr. Levine for his expertise and presentation to the Board.

Mr. Lagos added that the best approach is to always avoid even the appearance of impropriety. Mr. Crutchfield noted that if Trustees ever have questions about any particular situation, they should reach out to him to review the matter in advance. Chair Lesko noted that today's presentation was very timely in that the Board just went through the rate setting process. Mr. Lagos added that the amount of information, analysis and discussion that Trustees received in connection with the rate setting process was in alignment with the Board's fiduciary duties and in support of the conclusion that was reached at the end of the process.

Mr. Lagos gave his operating report beginning with the KPMs, noting that this month we are once again below the benchmark of 95.00%. He stated that results have been below benchmark for the past several months and steps are being taken to rectify the situation and reverse direction. Mr. Lagos then reported on the Contact Center, noting that the project is moving along nicely and staffing is well underway. He reported that Fusion Cell will deliver their recommendations on COVID-19 remediation issues by Friday, September 11, in preparation for transitioning staff back on-site. The PGM3 project is now 28% complete and currently NHRS is in testing mode for Deliverable 2, which will take several more weeks. He then turned the Board's attention to the 2020 NHRS Fiscal Year in Review noting the accomplishments over the past twelve months. Four significant matters included the progress made on the PGM3 project, developing the Contact Center, completing the GRS Experience Study, and the response to COVID-19.

Mr. Lagos then explained the four proposed contracts and vendor quotes received. This information was provided to the Board with staff's intent to enter into contracts for an alarm system upgrade, internal/external network Penetration testing, Pension Gold V2 virtualization p and a phone system upgrade in support of the Contact Center.

On a motion by Trustee Hart, seconded by Trustee Jean, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve the procurement of goods and services as presented in the September 8, 2020 Board materials, subject to contract and legal review, as presented.

Trustee Coates was temporarily excused from the meeting.

Mr. Crutchfield gave the Legal Operating Report beginning with the annual ethics surveys, thanking the Trustees for returning their surveys. He then reported that as of August 31, the Employer Audit Team completed 19 standard and 22 GASB audits in the last 12 months. There are five standard audits in process. He noted that seven of eight Legal department KPMs were achieved, but noted the rolling average of six audits per auditor per quarter over the period of 12 months for employer audits was not met. Mr. Crutchfield and Mr. Cavanaugh are working on improvements to this process.

Mr. Crutchfield then explained that the annual review of committee charters and the OFAC Policy have begun. The annual Gainful Occupation Report will be provided to the Board at its October meeting.

Director of Finance Gerard Murphy began by reporting that, as is typically the case each year, we are holding the FY 2020 books open, awaiting receipt of financial statements for alternative investments. Cash flow for July was as expected with slight bumps in contributions and benefit payments. The budget to actual report for FY 2021 shows spending below budget for each of the major categories. He then explained that changes were made to the PGM3 lifecycle budget, noting that we now have a payment schedule for the implementation costs for the project and a clearer picture of internal staffing costs, and as a result, budget adjustments have been made. Mr. Murphy asked that the Board review the changes in preparation of a discussion at the October meeting. He then reported that Finance has missed the cash receipt KPMs, due to an incongruity caused by the relatively few instances of employers making their monthly payments early, so he will be working to tweak the KPM to address the issue.

Mr. Murphy then turned the Board's attention to the FY 22-2023 Administrative Budget, noting the difference between today's version and the preliminary version is an approximate net cost increase of \$18,000. The difference is attributable to two factors, a decrease in both years in the projection for NHRS retiree health costs and an increase in the estimated salary and associated benefit costs in FY 2023 due to a 27th payroll falling during that fiscal year. Mr. Murphy requested approval of the statutory administrative budget. On a motion by Trustee Roy, seconded by Trustee Mezzapelle, the Board unanimously voted to approve the NHRS statutory administrative budget for Fiscal Years 2022 and 2023, as presented.

Director of IT Frank Clough reported on important developments and prioritized issues. He noted that we currently utilize three Cisco Firewalls that are nearing end of life, and meetings are underway to replace them. IT is working with Fusion Cell on assessing the NHRS facility and cleaning processes to assist with the recommendations on providing a safer environment for when staff begin to transition to on-site. Mr. Clough explained that IT is implementing additional protection against potential internet threats. Mr. Clough commented that there would be much activity in the coming months with regard to the completion and implementation of the several contracts approved by the Board at today's meeting.

Director of Member Services Nancy Miller reported that cost-of-living increases were put in place for those eligible retirees in the month of August, with notice letters mailed out to recipients in the middle of the month. She also reported that due to a programming issue, there were issues impacting a number of beneficiaries that is being addressed as a part of the September payroll process. She reported that PGM3 Design 2 testing is ongoing. Concerning COVID-19, Member Services has worked closely with HR throughout August to balance the number of staff required to be working in the office versus overall headcount in the building. On other monthly highlights, Ms. Miller reported that Member Services is about to begin testing newly developed option factors, following the recently completed experience study. The Retiree Insurance Unit began the first round of mailing the annual medical subsidy eligibility questionnaires to recipients. Ms. Miller noted that Member Services has begun the July benefit finalization process in line with action plans. She explained that Member Services did not meet the KPM benchmark for new member enrollment due to an unexpected leave of absence. Staff has been moved from other areas to cover for this situation. Member Services also did not meet the phone KPM, as the phone queue handling all questions relative to retirement has been very busy since Member Services is not meeting people at the office. Lastly, Ms. Miller noted that the issuing of annual member statements is targeted for distribution in September, and that the JRP has been provided with draft COLA distribution reports.

Director of Communication & Legislative Affairs Marty Karlon reported that he, Mr. Lagos, Ms. Cain, and Ms. Calkins are working on the Contact Center implementation project in accordance with an internal action plan and timeline, with both being on schedule. His team is also working with employer organizations, such as the School Administrators organization and NH Municipal Association, regarding employer contribution rate presentations scheduled for the end of October. An employer rate FAQ has been released and a rate presentation was given to the NH Municipal Managers group in August. In terms of legislation, it has been very quiet but NHRS is monitoring the NH House bill filing period, September 8 – 22, for titles related to retirement. Staff is also waiting for the disposition of NHRS-related legislation vetoed by the Governor. Mr. Karlon noted that the KPM for webinars has not been met due to COVID-19, but employer webinars and live presentations will be priority on the list for next year.

Chair Lesko introduced the Consent Agenda. On a motion by Trustee Hannan, seconded by Trustee Maloney, the Board unanimously voted to approve the Consent Agenda, as presented.

Chair Lesko then introduced Executive Director Lagos' Action Items and Mr. Lagos noted that all are moving along as expected.

Chair Lesko advised the Board that he has joined the PPCC Committee. He also thanked Trustee Mezzapelle for taking over as Audit Committee Chair, and thanked Trustee Kelliher for acting as interim Chair following the departure of former State Treasurer Bill Dwyer.

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

Respectfully submitted,

Margaret Astles, Executive Assistant