

**Note:** These minutes from the July 10, 2018 Board of Trustees’ meeting were approved and executed at the August 14, 2018 Board meeting.

**Board of Trustees  
July 10, 2018  
Public Minutes**

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

*Trustees:* Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; Bill Dwyer; Bill Hart; Maureen Kelliher; Tim Lesko; Germano Martins; David McCrillis; Scott Myers; Don Roy; and George Walker. Michael Milligan, *absent*.

*Staff:* George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Heather Fritzky, *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*; Christine Rice, *Administrative Assistant*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the July 10, 2018 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, Chair Gustafson called for a motion to accept the June 12, 2018 meeting minutes. On a motion by Trustee Dwyer, seconded by Trustee Roy, the Board approved the minutes, as presented. Trustee Hart abstained.

Trustee Dwyer reported on the Audit Committee meeting held earlier in the day, beginning with the Audit Tracker showing four open issues. He noted that an audit plan had been approved for FY19, as well.

Trustee Dwyer reported that the Committee received an update from the Internal Auditor regarding the progress on the data security remediation project. He noted that the Board’s Fraud Policy was reviewed by the Audit Committee, and will be reviewed by the Governance Committee at its August meeting.

Lastly, Trustee Dwyer reported that the relationship with the recently appointed independent auditor, Plante Moran, is proceeding well and bi-weekly status calls have been held regularly. Preliminary fieldwork is expected to begin the last two weeks in July.

Trustee Walker reported for the Benefits Committee, noting that there was no meeting

in June and he had nothing to report.

Chief Legal Counsel Tim Crutchfield reported on the Ret 200 rules, noting that the Benefits Committee has recommended approval of the proposed revisions and to begin the rule-making process.

On a motion by Trustee Walker, seconded by Trustee Hart, the Board unanimously voted to accept the recommendation of the Benefits Committee to approve the proposed revisions to the Ret 200 rules and to begin the rule-making process, as presented.

Mr. Crutchfield then introduced the final action on the Gainful Occupation rule, Ret 309.01, noting that if the Board approved the revisions for final adoption, Attorney Cavanaugh will then promptly file the rules with the Office of Legislative Services.

On a motion by Trustee Walker, seconded by Trustee McCrillis, the Board unanimously voted to approve the proposed revisions to Ret 309.01 for final adoption, as presented.

Trustee Roy reported on the June 12, 2018 meeting of the Governance Committee. The primary focus of the discussion was the favorable renewal terms of the cyber insurance policy that afforded a reduced deductible and premium rates as compared to the expiring policy. Mr. Crutchfield indicated that the current three million dollar liability limit would be reviewed during the renewal process next year. Lastly, Trustee Roy noted that the Committee discussed Trustee education and reviewed a chronology of the various educational sessions presented to the Board over the past five years and asked the Trustees to bring forward any additional topics, speakers or educational opportunities, to the Committee for consideration.

On a motion by Trustee Dwyer, seconded by Trustee Myers, the Board unanimously voted to accept the recommendation of the Governance Committee to approve the renewal of the cyber insurance coverage, as presented.

Trustee Kelliher presented the Independent Investment Committee (IIC) report for the June 22, 2018 meeting. The Committee unanimously voted on a two year extension of the management agreement with Artisan Partners, an active core non-us equity manager, through September 2020. The Townsend Group presented a review of the real estate investment work plan for FY 2018 and presented the investment plan for FY 2019 for the Committee's consideration, which was unanimously approved by the Committee. NEPC, the Retirement System's consultant, then presented a detailed six-month review of the System's private debt and private equity assets. Lastly, the Committee extended its gratitude to Mr. David Jensen for his service on the Committee and to the Retirement System. Mr. Jensen was one of the original IIC members and the last of the original IIC members to retire.

Trustee Kelliher noted that June is the fiscal year end and she congratulated Director of Investments Larry Johansen and his team on a job well done. Concerning the US economy, she noted that although there are still headline risks in the markets and concern over trade and tariffs, it is remarkable how strong and thriving the US economy is. This is evidenced by the July 6 unemployment report with 600,000 new workers who are attempting to enter the work force, resulting in an increase in the

unemployment rate from 3.8% to 4.0%. The second quarter gross domestic product will likely be at least 4.0% annualized.

Director of Investments Larry Johansen reported that all asset classes are very close to target. The IIC has initiated a program in June to rebalance the System's domestic equity by moving funds from active to passive management. In June, the IIC was approximately 20% through that rebalancing process and it should take several more months.

Director Johansen noted that on the IIC Investment Report's Securities Litigation Proceeds, the \$1,470 figure shown through May 31 would increase to \$52,000 in June, noting that proceeds on an annual basis are typically unpredictable and depend on the timing of settlements made.

Director Johansen then outlined investment performance through March, noting that the total fund performance of 7.1% includes only six months of real estate and private equity private debt, which represents approximately 25% of assets.

The marketable assets through May 31 returned 8.7% so by June 30 NHRS expects to exceed the 7.25% assumed rate of return once all of the alternative and real estate results are recorded.

Director Johansen reported on the annual review from the Townsend Group, noting that the real estate portfolio continues to do extremely well. NHRS has performed in the top 5% relative to other comparable institutional real estate investors over the past ten years. In looking at the first quarter of the calendar year as reported through June 22<sup>nd</sup>, \$900 million was reported with a gross return of 3.1% and a net return of 2.6%, clearly exceeding the benchmark of 2.2% gross return and 2.0% net return.

He then explained the current profile of the FY 2019 Investment Plan, noting that the real estate program has steadily progressed to achieve the desired allocation and targets have been achieved and maintained.

Director Johansen pointed out that the July 20, 2018 IIC meeting will focus on macroeconomics, discussing interest rates and the global economy. He asked that if anyone would like to attend the meeting, to contact him so the materials can be provided in advance.

PIO Officer Marty Karlon presented the final Legislative report for this year's session, noting that all NHRS-related bills have been signed and an internal working group has been formed to prepare for the implementation of HB 1756 regarding the \$500 TSA. Mr. Karlon also noted that the same group is working on a FAQ for the implementation of HB 561 regarding working after retirement, as the changes are significant and there will be many questions from members and retirees.

Mr. Karlon noted, with regard to HB 1805, which established a study committee for level dollar amortization, that he heard from Representative Carol McGuire, who let him know that she would be chairing the committee and scheduling an informational meeting soon.

Trustee Hart reported on the Personnel, Performance and Compensation Committee (PPCC) meeting held on June 19, 2018. The purpose of the meeting was to discuss personnel matters, including compensation for non-bargaining staff members.

On a motion by Trustee Hart, seconded by Trustee Dwyer, the Board unanimously voted by a roll call vote to enter into a 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 Kelliher, seconded by Trustee Hart, the Board unanimously voted to conclude the non-public session.

Back in public session, on a motion by Trustee Hart, seconded by Trustee McCrillis, the Board unanimously voted to recognize the positive contributions of the Executive Director over the past year by accepting the compensation recommendation of the PPCC, as presented.

Mr. David Kausch and Ms. Heidi Barry of GRS gave a presentation to the Board on the NHRS' June 30, 2017 valuation. The discussion covered the purposes of the valuation as well as measuring the System's funding progress and to determine the employer contribution rates for FY 2020 and FY 2021; determining actuarial information for reporting purposes in compliance with GASB Statements Nos. 67 and 74; providing supporting schedules for the System's Comprehensive Annual Financial report for the Actuarial Section and Statistical Section; and providing notes to the financial statements and required supplementary information. Also included in the presentation was an overview of the methodologies used; plan experience; historical data; and risk metrics.

Mr. Kausch suggested that the Board review its current actuarial funding policy in view of recent legislation that requires the utilization of layered amortization for future valuations. He opined that good progress had been made in the last 10 years with the System's funding ratio now at 61.8% and increasing. Lastly, he noted that although the employer contribution rates are high from an historical perspective, they have stabilized.

Executive Director George Lagos provided his Executive report, noting that staff did not meet Key Performance Measures this month due to several issues. He explained that staff is currently revamping the KPM report to be sure it captures relevant data.

As per the Procurement Policy, he informed the Board that two small contracts were entered into in the month of June: The IT Helpdesk Renewal contract costing \$3,235.41 and a contract with Defiance Electric for \$4,898.00.

Regarding the FY 18 Executive Action Plan items, Executive Director Lagos reported that the majority of the items are complete, with partial work left to be done in developing the QDRO calculator. Action on implementing a call center and demographic self-service capability has been deferred due to the decision to upgrade the PGV2 system to PGV3.

Lastly, Executive Director Lagos reported on the revised bids that were received on the PGV3 consulting RFP at considerably lower fees. Staff has recommended that the contract be awarded to LRWL, based upon its proposal; expertise; and experience with working on the original LRS PGV2 implementation project 15 years ago.

On a motion by Trustee Kelliher, seconded by Trustee Lesko, the Board unanimously accepted the recommendation of the Executive Director that the Board approve the procurement of LRWL for PGV3 consulting services, subject to contract and legal review, as presented.

Executive Team members reported on the completion of the FY 2018 action plans and provided additional information on those specific plans that were either not completed or deferred. Chief Legal Counsel Tim Crutchfield noted that the data breach response plan had been drafted and will be edited, following receipt of suggestions from outside counsel. He also commented that the administrative appeal rules and changes are now ready to be filed.

Finance Director Heather Fritzky reported on her FY 2018 Action Summary, noting that although the plan to convert 75% of all employers to ACH/electronic payment had not been completed, there has been good progress and a vendor system has been identified. She also indicated that by agreement of the Board, the actuarial audit that was targeted for completion in FY 18 has been rescheduled to FY 19.

Finance Director Fritzky noted that of the items that were completed, she is particularly proud that all financial and reporting deadlines were met ahead of schedule and that significant progress was made with regard to finance- and reporting-related employer education and communication initiatives.

IT Director Frank Clough reported that the upgrade to the COLO hardware, servers and storage, was not completed, due to the delay in receiving the new servers for day-to-day operations, which was necessary in order to make the current servers available for back-up use. He commented that the data remediation plan is in place and good progress is being made in addressing the high priority items.

Director of Member Services Nancy Miller reported on her FY 2018 Action Summary, noting that four of the eight Action items are on hold or delayed, due to the PGV3 upgrade. She noted that Member Services has been quite busy automating the insurance authorization model and consolidating the medical subsidy questionnaire mailing and distribution using PG correspondence, which cut staff time significantly. Also, Member Services undertook and completed a project with PIO to overhaul the employer termination forms and the associated detailed training.

Executive Director Lagos noted that many PGV2 enhancements are underway and while there is a long list of items to be accomplished, given the fact that the decision has been made to upgrade to PGV3, it does not make financial sense to invest a lot of money in the current system, which will be replaced in a couple of years.

On a motion by Trustee Martins, seconded by Trustee Dwyer, the Board voted to unanimously approve the consent agenda with the exception of the disability

recommendation of L.N.

On a motion by Trustee Martins, seconded by Trustee Roy, the Board voted unanimously by a roll call vote to enter into non-public session under RSA 91-A:3, II(c) to discuss the disability recommendation of L.N.

On a motion by Trustee Dwyer, seconded by Trustee Hart, the Board unanimously voted to conclude the non-public session.

On a motion by Trustee McCrillis, seconded by Trustee Martins, the Board unanimously voted to refer the disability case of L.N. to the Benefits Committee for further review.

On a motion by Trustee Hart, seconded by Trustee Myers, the Board voted unanimously to temporarily adjourn the public session to enter into a non-meeting for the purpose of consulting with legal counsel under RSA 91-A:2, I(b).

On a motion by Trustee Angwin, seconded by Trustee Kelliher, the Board voted unanimously to reconvene the public session of the meeting.

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

Respectfully submitted,

Margaret M. Astles  
Executive Assistant