

Note: These minutes from the July 9, 2019 Public Session have been approved and executed at the August 13, 2019 regular meeting of the Board of Trustees.

**Board of Trustees
July 9, 2019 Public Minutes**

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

Trustees: Richard Gustafson, Chairman; Christopher Coates, Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Maureen Kelliher, Tim Lesko, Bob Maloney, Scott Myers, Don Roy, and George Walker.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, *Chief Legal Counsel*; Esq., Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Nancy Miller, *Director of Member Services*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; and Margaret Astles, *Executive Assistant*.
Absent: Frank Clough and Cecile Merrill.

Chair Gustafson called the July 9, 2019 regular meeting of the NHRS Board of Trustees to order at 10:30 a.m. Having established a quorum, Chair Gustafson called for a motion to approve the June 11, 2019 public and non-public Board of Trustees meeting minutes, as amended.

On a motion by Trustee Roy, seconded by Trustee Myers, the Board voted unanimously to approve the June 11, 2019 minutes, as presented.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began with the Audit Issue Tracker, noting that Item 155 relating to segregation of duties and management oversight, had been addressed by a new hire in Finance. Item 114b relating to the QDRO process had been partially resolved with the remaining issues to be addressed by the implementation of the PGM3 project.

Mr. Dwyer provided additional background information on the Audit Tracker and the Audit Plan, which had been approved for FY 2020. He went on to report on an update on the Data Security Remediation, noting that overall, 82% of the high and medium priority items have been completed and most of the remaining items will be resolved within 90 days.

Trustee Hannan joined the meeting at 10:37 am.

Trustee Roy reported that at the June 11, 2019 Governance Committee meeting, the Committee had authorized staff to make a conditional approval for the renewal of cyber insurance, either with NAS, NHRS' current provider, or with Chubb, based on cyber security scenarios developed by IT to assess which company would offer the best insurance coverage, should a claim arise. Mr. Roy noted that the Committee then discussed the Board self-evaluation questionnaire, which is under review. At the July 3, 2019 Governance Committee meeting, based on the small difference between the two quotes, the better

coverage under the NAS policy, and the positive experience that NHRS has had with NAS, the Committee voted unanimously to recommend to the full Board that it approve the cyber insurance renewal with NAS.

On a motion by Trustee Roy, seconded by Trustee Hart, the Board unanimously voted to accept the recommendation of the Governance Committee that the Board approve the renewal of the cyber insurance coverage with NAS, as presented.

Trustee Kelliher reported on the IIC meeting held on June 21, 2019, noting that after the minutes of the May 2019 meeting were approved, the Director of Investments reviewed the status of the final GAM distribution, and the recently legislated addition of a new non-voting member position to the IIC, effective August 4, 2019.

The IIC reviewed investment returns through May 31, 2019 and discussed the current makeup of the Fixed Income Portfolio. After an analysis of the portfolio and a discussion of the late stage of the current expansion, the IIC voted to rebalance the portfolio by reducing its credit exposure and increasing its stability. To achieve rebalancing, the IIC approved partial redemptions from both Loomis Sayles and Brandywine and the transfer of those redemptions to core bond manager IRM. The majority of the remaining funds from GAM and those from a full liquidation of DoubleLine, were approved for transfer to Fidelity, also a core bond manager.

The IIC then voted unanimously to extend the investment management agreements for two years with Brandywine and Loomis Sayles, each of which manage multi-sector global fixed-income portfolios for NHRS.

Representatives from the Townsend Group, which manages the System's Real Estate Portfolio, updated the IIC on the results of the FY 2019 Investment Plan, and introduced the FY 2020 Investment Plan, which the IIC voted to approve unanimously. The Real Estate Portfolio has exceeded its benchmark over every measurable period since inception.

Lastly, NEPC presented its Private Equity & Private Debt Portfolio six-month review for June 2019. The IIC reviewed recent themes in the private markets including fundraising, deal and exit volumes, as well as relative returns through the end of last year. NEPC then presented its private market outlook and recommendations for each of the private market strategies.

Director of Investments Larry Johansen reported that relative to the June 30 performance, preliminary returns are expected next week, and final returns will be coming in September. Mr. Johansen reported on the Real Estate Portfolio provided by Townsend, noting that the program is part of a diversified portfolio, with an allocation target of 10% toward real estate, which has done extremely well. At the time, NHRS originally granted Townsend discretionary authority in 2009, the System owned 17 direct properties, representing over 91% of the Real Estate Portfolio. NHRS now has a far better diversified portfolio with 12 open end funds, 33 closed end funds and 15 co-investment/secondary funds. The Portfolio is 87% invested in America, 7% invested in Europe and 6% invested in Asia. Over the 10 years with Townsend, the NHRS' annualized net performance is 13% for an equity multiple of 1.5, which means for every \$1.00 invested, \$1.50 is returned. In addition, \$1,320 million was committed to 66 investments, with over \$541 million of value created. Mr. Johansen then reviewed the three goals that Townsend set and met for 2019 and commented that performance continues to be in the top 95th percentile.

Mr. Johansen then gave a 6-month update on private equity and private debt, reporting on the 5-year return, which was 9.9% on new investments since the program re-start in 2011, but noted that adding the legacy assets drops performance to 9.8%. Overall, the portfolio is doing extremely well, with 59 limited partner investments.

Trustee Myers gave the Board an update on the Legislative tracker, explaining that the remaining bills have either been signed into law by the Governor, or enrolled and waiting for the Governor's signature. Public Information Officer Marty Karlon highlighted that HB 675, which modifies cost calculation methodologies for service credit purchases in NHRS for active service in the Armed Forces prior to NHRS membership, and in cases of employer enrollment oversight, was approved and will take effect on July 14, 2019. Staff has already revised the forms for that bill to be ready for July 14.

Trustee Walker reported that the Benefits Committee did not meet in June.

Trustee Hart reported that the Personnel, Performance and Compensation Committee met on June 27, and had approved the minutes from June 4 and went into non-public session to discuss personnel-related matters, with a primary focus on proposed compensation of staff members who are not members of the bargaining unit. Collective bargaining was discussed and he noted that negotiations are now at an impasse with the main issue being compensation. Mr. Hart informed the Board that a mediator has been mutually agreed upon by the Union and NHRS.

Executive Director Lagos gave his Operating Report, noting that the Key Performance Measures score for June was 98.8%. Mr. Lagos asked the Executive Team to report on their Action Plan result summaries at this meeting, as they will document objectives achieved during the fiscal year.

Mr. Lagos reported that LRS is on site this week to work with staff on PGV3 software design. He indicated that a PGV2 M&S addendum was being submitted for Board approval. This addendum amends the PGV2 maintenance and support agreement, reducing the anticipated annual costs by more than \$200,000.00.

On a motion by Trustee Hart, seconded by Trustee Hannan, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve the PGV2 contract addendum, subject to contract and legal review.

Mr. Lagos reported on his FY 2019 Action Plan Summary, noting that services provided to members were improved; an increase in outreach to mid-career stage members was made; a comprehensive employer communication and education had been implemented; IT security and redundancy was enhanced; data security recommendations were implemented; the upgrade to PGV3 was initiated; and PIP Phase II for Finance and QDRO have been substantially completed. In addition, the transition to Plante Moran was made; and contribution rates for FY 2020 and FY 2021 were set, as per statutory requirements. Lastly, Mr. Lagos noted that a contract would soon be in place to enhance security at staff computers by implementing dual authentication.

Reporting for Project Manager Cecile Merrill, Mr. Lagos reviewed the PGV3 project action plan, noting that the project is going very well and is 4% complete. He reported that a significant number of new requirements had been identified, which impacted anticipated project costs, but were well within the terms and conditions of the present contract provisions. Mr. Lagos also explained that approximately 100 "out-of-scope" features had been identified, which will have to be priced out by LRS for further discussion.

Chief Legal Counsel Tim Crutchfield reported that 19 of 21 GASB audits for FY 2019 have been completed to date. The two remaining GASB audits are in process, as well as three regular audits with a total active membership of 1,009 members. It is expected that the remaining GASB audits will be completed in the next month.

Mr. Crutchfield reported that the two vacancies on the Audit Team were recently filled. He then turned the Board's attention to the FY 2019 Legal Action Plan summary, noting that all plans were complete, with only Action #1 - Data Remediation considered as partially completed due to data security provisions in the vendor contracts that will be addressed as those contracts come up for renewal.

Director of Finance Gerard Murphy updated the Board that the Governor vetoed the budget and there is a continuing resolution in place for partial appropriations for FY 2020. NHRS does not anticipate any problems related to this issue.

Mr. Murphy reported on the new PGV3 Total Project Lifecycle Budget, which will be a regular addition to the monthly Finance report. The new report will show all PGV3 upgrade costs for both external (largely LRS related) and internal reporting through the project implementation.

Mr. Murphy reported on the Finance FY 2019 Action Plan, noting that all action items are complete except for Action #5, which is to implement an online employer pay module to convert 75% of all employers to ACH electronic payments. Development of the secure website is underway and implementation will take place during FY 2020 and is included in the FY 2020 action plans.

Mr. Lagos reported for Director of IT Frank Clough in his absence, noting that staff continues to be engaged with the imaging project, with 432 boxes now shelved on site and are slated for imaging. The next step in this process will be to retrieve boxes stored by the State of NH Archives and initiate the imaging process for those documents.

Mr. Lagos reported that the IT Action Plan Summary is complete, aside from the ongoing DRAPP remediation, which has 19 of 22 remediation efforts completed.

Member Services Director Nancy Miller reported that the focus for her staff is July retirements, with well over 700 to be placed on payroll for the end of July. Member Services is still actively recruiting for three vacancies. In July, the Member Services Retiree Insurance Team will be processing a high volume of retiree premium changes. In addition, data cleansing is ongoing, with staff working closely with the Project Manager and LRS to identify data issues that can be cleansed either by staff or by script written by LRS.

Ms. Miller reported that the FY 2019 Member Services Action Plan is complete aside from the DRAPP remediation, which is an ongoing project, and the development and implementation of QDRO Estimator and Wizard (PIP II). She noted that the QDRO Estimator is built for PGV2 but calculations are still under QC review. It was decided to have the Wizard built in PGV3.

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

Chair Gustafson called the Board's attention to the Education Evaluation forms that were submitted for the Board's review for Trustee Hart's recent attendance at the NCPERS Conference and Trustee Maloney's attendance at the CAPPP Conference.

Mr. Lagos reported that there are several ongoing items on the Action Plan from the June 11 Board meeting. The Plante Moran medical subsidy issue is scheduled for discussion when they will be on site in late July. There was a demo for the pilot project for paperless Board meetings, and it was decided to obtain a new iPads with styluses for further testing. The new target date for the paperless Board meeting demo is for the August meeting.

Chair Gustafson reminded the Board that the Employee Appreciation BBQ would be held at the conclusion of the meeting.

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

Respectfully submitted,

Margaret M. Astles
Executive Assistant