

NHRS Board of Trustees
Minutes-July 14, 2020

Note: These minutes from the July 14, 2020 Public Session were approved and executed at the August 11, 2020 meeting of the Board of Trustees.

**Board of Trustees
July 14, 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, Melvin Friese, Sue Hannan, Bill Hart, Maureen Kelliher, Robert Maloney, Monica Mezzapelle, Scott Myers, Donald Roy and George Walker. *Absent:* Ben Jean

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, *Public Information Officer*; Rosamond Cain, *Human Resources Manager*; Nina Calkins, *Process Improvements Manager*; Cecile Merrill, *Project Manager*; and Margaret Astles, *Executive Assistant*.

Chair Lesko called the July 14, 2020 regular meeting of the NHRS Board of Trustees to order at 10:01 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 June 9, 2020 Board meeting. On a motion by Trustee Hannan, seconded by Trustee Roy, the Board unanimously voted to approve the minutes as presented.

Chair Lesko provided the Audit Committee report noting that the Committee met this morning and approved the June 9 minutes. The Committee then reviewed the open audit tracker issues and noted that progress is being made. Chair Lesko reported that the Committee discussed the FY 2020-2021 Audit plan, a security update, the Fraud Policy, and changes to the Actuarial Calendar.

Trustee Roy reported that the Governance Committee met on June 9, 2020 and approved the May 12, 2020 minutes. He then reported that the Committee voted to recommend to the full Board that it consider adopting the Weapons Policy, which was developed over the past several months. On a motion by Trustee Hannan, seconded by Trustee Hart, the Board unanimously voted to accept the recommendation of the Governance Committee that the Board adopt the Weapons Policy as presented.

Trustee Roy then reported on the Governance Committee's recommendation to adopt staff's recommendation to approve a local vendor for 1099 printing and mailing services. On a motion by Trustee Hart, seconded by Trustee Hannan, the Board unanimously voted to accept the recommendation of the Governance Committee that the Board select N.H. Print and Mail to provide payee 1099 R and vendor 1099 Misc. printing and mailing services, subject to successful contract negotiations, as presented today.

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

Trustee Kelliher reported that the IIC met on June 19 and approved the minutes of the May 29 meeting. Director of Investments Johansen began the meeting by reviewing the work plan. The Committee then continued its discussions on COVID-19 and its effects on the System's cash flow and asset allocation. The IIC unanimously voted to renew the Investment Management Agreement with Causeway Capital Management through August 31, 2022, also with Artisan Partners through September 30, 2022, and with the passive U.S. large-cap equity mandate managed by BlackRock through July 31, 2022. The Townsend Group presented a review of the Real Estate Investment Plan for FY 2020, which was unanimously approved by the IIC. NEPC presented a detailed review of the System's private debt and private equity investments. Trustee Kelliher mentioned that the markets continue to trend upwards, but noted that at any time, depending on the COVID-19 status, the market could be volatile.

Director of Investments Johansen reported that the current marketable assets at May 31 were down -1.2%. He noted that in the next few days we should have the preliminary June 30 performance with real estate and private equity, which should reflect improved preliminary results. The books are held open at June 30 through late September when most but not all real estate, private equity and private debt partnerships report their net asset value giving NHRS the final June 30 numbers. Mr. Johansen then reported on asset class targets vs. actual allocation, noting that all asset allocations are within range with non-US equity close to the lowest end of its range because the dollar has strengthened. He then reported on Townsend's overview of the System's real estate portfolio at the June IIC meeting, noting that the goals set a year ago were achieved and that Townsend's goals for FY 2021 were approved. Mr. Johansen then reported that the allocation target for the real estate program is 10% of total plan assets and as of December 31, 2019, the System was at 10.1% or \$959 million in net asset value. He noted the dramatic real estate program transformation under Townsend, taking allocations in 2009 from \$374 million to \$950 million in 2019 and outperformance over every measurable time-period. Lastly, Mr. Johansen mentioned that the next IIC meeting will focus on macroeconomic presentations on ESG, China opportunities and political risks, and opportunities that could unfold on the other side of the COVID-19 pandemic.

Trustee Myers reported on legislative activities, noting that due to COVID-19 two NHRS bills were rolled into omnibus bills containing a number of provisions unrelated to the retirement system. The first omnibus bill is HB 1234; relative to NHRS, this bill requires the quarterly report of the IIC to include a description of investment fees. This bill also requires that IIC reports be made available on the NHRS website. The second bill is HB 1494; relative to NHRS, this bill eliminates the retirement system's offset for workers' compensation benefits

applicable to Group I accidental death benefit annuities. Both bills were adopted by the Legislature and will be sent to the Governor.

Trustee Walker reported on the Benefits Committee meeting of June 30. The Committee considered two waiver requests where two individuals were mistakenly granted service credit for varying periods of time when they averaged 30-35 hours per week. The Committee voted unanimously to recommend to the full Board that these waiver requests be supported and they will be on the August Board agenda. The Committee also reviewed updates from staff on a pending earnable compensation appeal, the reporting of 2019 retiree hours under HB 561, and the start of the gainful occupation reporting for this year.

The Committee also acted on two recoupment matters. Trustee Walker then noted that there is a disability re-exam matter from the Committee's May meeting before the Board for action at today's meeting. On a motion by Trustee Hart, seconded by Trustee Walker, the Board unanimously voted to accept the recommendation of the Benefits Committee in the disability matter of J.K., as presented.

Trustee Hart reported that the PPCC met twice since the last Board meeting, June 16 and 30. On a motion by Trustee Maloney, seconded by Trustee Mezzapelle, 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.

On a motion by Trustee Hart, seconded by Trustee Hannan, the Board unanimously voted to temporarily adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations under RSA 91-A:2, I(a).

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

On a motion by Trustee Hart, seconded by Trustee Maloney, the Board unanimously voted to approve the tentative Collective Bargaining Agreement between the SEA and the NHRS as presented today and authorize the Executive Director or his designee to sign the Agreement.

David Kausch of GRS presented the draft June 30, 2019 Valuation to the Board, reporting on the measurement of the System's progress since the date of the last valuation report. This report will serve as the basis for determining employer contribution rates for fiscal years 2022 and 2023. Mr. Kausch reviewed the June 30, 2019 valuation plan experience noting that the market return was 5.58% with the market value of assets at \$9.21 billion and the actuarial rate of return of 6.55% with the actuarial value of assets at \$9.16 billion. Mr. Kausch reported that the overall plan experience was unfavorable for pension and favorable for the medical subsidy over the period since the previous rate-setting valuation. The proposed employer pension contribution rates increased for all valuation groups since the previous rate-setting valuation. He noted that the increase in those rates on a percent of payroll basis is 2.87% for employees; 3.49% for teachers; 5.90% for police and 3.35% for fire. These increases were predominantly the result of updated actuarial assumptions following the recently concluded experience study. This impact was not mitigated by provision changes or positive plan experience as it was in 2011 and 2015, respectively. The

increased margin for adverse experience used to determine the solvency rate for the teachers' medical subsidy resulted in a larger calculated employer subsidy contribution for that member group.

Mr. Lagos asked Mr. Kausch if he had any views on the potential implications of COVID-19 on fiscal year 2020 investment returns and on employment and the payroll growth factor of state and local governments. Mr. Kausch replied that when investments results are flat, that is much lower than expected, as the assumed rate of return is now 6.75%. As far as payroll, if people are not working or furloughed, there are two impacts: contributions would be reduced, and benefits would not be accruing. Depending on the extent of payroll reduction, the impact on a group could vary and would most likely be a negative impact overall. Chair Lesko and Mr. Lagos thanked Mr. Kausch for his presentation.

Mr. Lagos reported to the Board that staff have requested that GRS do some additional risk analysis work given current economic conditions.

Mr. Lagos gave a brief overview of his operating report, noting his participation in a recent NHMA Board meeting via video conference to discuss the NHRS Board's recent action to revise various actuarial assumptions and the potential implications for contribution rates. He noted that he has also reached out to the School Board Association, the Association of School Administrators, and the NHMA to assure that affected groups have a sound understanding of the basis for the Board's actions and the likely implications of the assumption revisions on employer contribution rates.

Project Manager for the PG V3 project, Cecile Merrill, reported that her team is focusing on Deliverable 2 testing which begins in mid-August and she noted that LRS is preparing for training and testing remotely.

Chief Legal Counsel Tim Crutchfield reported that NHRS did get confirmation from the Supreme Court of its acceptance of the petition filed in the matter of Robert Pederson, and, noted that we now have two cases pending in the Supreme Court, both regarding restoration to service determinations.

Finance Director Gerard Murphy reported that the FY 2020 net position of NHRS at the end of May was \$9.057 billion as opposed to May of FY 2019 at \$8.755 billion. Cash flows have been as expected and FYTD spending is below the budgeted amount.

Director of IT Frank Clough reported that IT completed the telephone system upgrade last month, as well as the Secureworks migration. The iPad deployment is now complete, with the last iPads deployed to the IIC last month. Preliminary work is underway to initiate another round of vulnerability and penetration testing,

Director of Members Services Nancy Miller reported that the focus continues on the July payroll, with 703 applications submitted and with 183 applications remaining to be processed. A lot of energy and time is being devoted to PGV3 and preparation for testing.

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

Chair Lesko reported that there are no travel requests.

Mr. Lagos reported that all Action Items from the June 9, 2020 meeting have been addressed.

Chair Lesko thanked Trustee Christensen and Trustee Mezzapelle for accepting committee appointments. Chair Lesko encouraged anyone who wishes to speak with him or has questions, to reach out to him at any time.

Mr. Lagos reminded the Board that as per the actuarial calendar, two very important meetings are coming up. Next month's meeting will include a vote on approving the FY 2019 Actuarial Valuation Report. In September, employer contribution rates will be certified for FY 2022 and 2023. Mr. Lagos gave the Board a COVID-19 update, noting that NHRS operations are status quo as the lobby remains closed and staff are still not conducting face-to-face meetings. Typically, three quarters of the staff is working remotely every day. Currently, there is no date set to return to the work place, although a transition plan is being developed.

With no further business to be discussed, 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