

Note: These minutes from the May 12, 2020 Public Session were approved and executed at the June 9, 2020 Board of Trustee Meeting.

**Board of Trustees
May 12, 2020
Public Minutes**

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

Telephonically present: Trustees Maureen Kelliher, Vice Chair; Scott Christensen, Christopher Coates, Melvin Friese, Sue Hannan, Bill Hart, Benjamin Jean, Tim Lesko, Robert Maloney, Monica Mezzapelle, Scott Myers, Donald Roy and George Walker. *Staff:* George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Frank Clough, *Director of Information Technology*; Nancy Miller, *Director of Member Services*; 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*.

Acting Chair Kelliher called the May 12, 2020 regular meeting of the NHRS Board of Trustees to order at 9:40 a.m. Having established a quorum, Chair Kelliher called for a motion on the April 14, 2020 meeting minutes. On a motion by Trustee Roy, seconded by Trustee Maloney, the motion passed 11-0, on a roll call vote, with Trustee Friese abstaining.

Trustee Roy provided the Governance Committee report noting that the Committee met twice since the last Board meeting. On April 24, the Committee met and as empowered by its Charter, and voted to recommend Trustee Kelliher as Vice Chair of the Board. On a motion by Trustee Roy, seconded by Trustee Hart, the Committee unanimously voted by roll call to accept the recommendation of the Governance Committee that the Board appoint Trustee Kelliher to fill the position of Vice Chair.

Trustee Roy then reported on the Governance Committee meeting of April 14 noting that the Committee reviewed the draft Weapons Policy, addressing weapons in the workplace. No action was taken in order to allow the full Board additional time to review and comment on the draft. The Committee also reviewed the annual fee schedule for copies. He noted that the Committee felt that NHRS fees remain reasonable and no changes were deemed necessary. Lastly, Trustee Roy explained that revisions to the Voluntary Correction Program (VCP) Policy were required due to changes to the federal tax code. On a motion by Trustee Roy, seconded by Trustee Hart, the Board unanimously voted by roll call to accept the recommendation of the Governance Committee that the Board adopt the revisions to the VCP Policy as presented.

Trustee Lesko reporting for the Audit Committee, noted that the Committee reviewed the Audit Tracker and the FY 2021 internal audit plan. There was also discussion on the progress made in addressing Plante Moran's suggestions following the FY 2020 audit.

Trustee Lesko stated that the Committee would be meeting with Plante Moran in June to discuss preparation for the FY 2021 financial audit.

Vice Chair Kelliher gave a recap of the Independent Investment Committee's (IIC) meeting of April 24, 2020, noting that the work plan was approved for the first quarter of FY 2021. Next, the IIC voted unanimously to recommend the issuance of the Investment Consultant RFP, as presented, to the Board. The IIC then voted unanimously to extend the investment relationship with emerging markets equity manager Neuberger Berman through April 30, 2022. The IIC heard a presentation from private debt manager Comvest Credit Partners and unanimously agreed to commit \$50 million to Comvest Credit Partners V (unlevered), subject to contract and legal review. The IIC heard presentations from LSV Asset Management regarding the active U.S. Large-Cap Equity portfolio and the Non-U.S. Core Equity Fund managed on behalf of NHRS as part of the two-year contract renewal process. Then, following discussion, the IIC voted unanimously to recommend an assumed rate of return of 6.5% to the full Board.

Director of Investments Larry Johansen began by reporting on performance through March 31, 2020, and the effect that COVID-19 is having on the portfolio, cash flow, and asset allocation. For the 3-months ending March 31st, the portfolio was down 12.1%, 1 year was down 4.2%, 3 years was up 3.4%, 5 years was up 4.2%, and 10 years was up 7.0%. Mr. Johansen explained that Investments failed to achieve the KPM this month due to the performance for the 3 and 5 year periods as NHRS was under the benchmark for domestic equity. Mr. Johansen noted that there is some good news, in that performance relative to other public pension plans for the 1 and 3 year periods, NHRS is in the top quartile, for 5 and 10 year periods NHRS is in the top decile, and for the last 25 years, NHRS is in the top quintile.

Mr. Johansen explained that with respect to cash flow and asset allocation, the IIC recognized that Non U.S. Equity is slightly below the low end of the allocation range, primarily due to the strength of the dollar, noting that he is expecting that the situation will self-correct if the dollar weakens and the emerging markets and/or Non-U.S. markets come back from their lows. He noted that more importantly, the IIC spent considerable time discussing cash flow in support of monthly annuity and benefit payments. He added that Finance is closely monitoring the receipt of employer contributions coming into NHRS and keeping the investment operation apprised on a regular basis. So far, revenues are coming in as expected. Mr. Johansen noted that everything is in good order and NHRS has cash on hand to meet expenses over the next 90 days. At the upcoming May IIC meeting, two Non-U.S. managers are expected to present for a 2-year contract renewal process. In June, the IIC will have the annual review of the real estate portfolio and will set the real estate plan for FY 2021. In addition, the IIC will have the 6-month review of the private equity private debt portfolio, making any mid-course corrections, if needed.

Mr. Johansen then reported on the Investment Consultant RFP, noting that the contract with NEPC is scheduled to expire on December 31, 2020, with no further extensions. While the IIC has been satisfied with the service provided by NEPC, to be consistent with good governance, it is time to issue an RFP for consulting services. After the IIC reviewed the draft RFP at its April 24 meeting, it voted unanimously to recommend to the Board that it vote to approve the RFP at today's meeting. On a motion by Trustee Roy, seconded by Trustee Lesko, the Board voted unanimously by roll call, to accept the recommendation of the IIC to approve the investment consultant RFP, as presented.

Vice Chair Kelliher added that the IIC wanted the Board to be aware that it has discussed the assumed rate of return and the effect of COVID-19 at length. She noted that the March 31 flash report numbers are sobering, which does not bode well for market returns. Also concerning, is the fact that the U.S government, as well as others globally, are issuing debt to offset the devastation from the pandemic.

Trustee Myers presented the Legislative Committee report, noting that the Legislature has had limited activity due to the COVID-19 pandemic. He reported that the House Municipal and County Government Committee met last week and the House Ways and Means Committee is meeting today. No activity has been scheduled in the Senate to date.

Trustee Walker reported that the Benefits Committee met on May 6 to review a request from the Department of Corrections (DOC) to reclassify four additional positions from Group I to Group II. Staff verified that the four additional positions met Group II requirements and the Committee voted unanimously to recommend to the full Board that it approve the request. On a motion by Trustee Hart, seconded by Trustee Walker, the Board voted unanimously by roll call to approve the prospective reclassification of the four DOC positions recently provided to NHRS pursuant to HB 116, effective upon receipt of the necessary enrollment forms from the DOC. *Abstention:* Trustee Jean

Trustee Hart reported that the PPCC did not meet in April. He noted that there have been no new developments regarding the CBA contract negotiations. The PPCC anticipates having a meeting on Non-Collective Bargaining Unit compensation and responses to the COVID-19 situation sometime before the June Board meeting.

Mr. Lagos introduced David Kausch of GRS, NHRS' actuarial firm, who presented the GRS Experience Study to the Board in preparation for the June 9, 2020 Board meeting discussion and action on the Experience Study, demographic and economic assumptions, and the assumed rate of return. Mr. Kausch noted that GRS recommends lowering the assumed rate of return from 7.25% and has indicated that a number between 6.0% and 7.0% would be considered reasonable. He also expressed his preference that the return be set at 6.75% or less. Mr. Kausch noted that the recent trend across public pension plans is to reduce the rate of return and the current average is less than 7.5% and declining. The presentation included various scenarios demonstrating the employer contribution rate impact resulting from both demographic and economic assumptions. In addition to the pension analysis provided, Mr. Kausch put forth a recommendation to increase the margin for medical subsidy contributions from 20% to 50%, on the premise that due to the time lag between the setting of rates and their effective dates, the pay-as-you go funding mechanism can result in an insufficient cushion to assure the payment of these benefits.

Mr. Lagos noted that Mr. Kausch and representatives from NEPC would be attending the June 9 meeting as well, to answer any Board questions relating to capital market forecasts or the Experience Study.

Vice Chair Kelliher called for a five-minute recess.

Mr. Lagos gave his operating report noting that KPMs fell below the benchmark to 90.48% this month, due to a couple of one-time events. He expressed his confidence that the standard would be achieved for the month of May. He then turned the Board's attention to the Member Satisfaction Dashboard for the 3rd Quarter FY 2020, noting that overall performance remains strong, with telephone and email satisfaction levels running behind targets. These are issues which will be addressed by the contact center project.

Mr. Lagos then asked Mr. Johansen to address the approval request for renewal of the contract with ISS for investment litigation management services. Mr. Johansen added that our custodian BNY Mellon handles the overwhelming majority of investment-related class action litigation on behalf of NHRS while ISS handles international cases and certain domestic cases outside the scope of BNY Mellon's responsibilities. On a motion by Trustee Hart, seconded by Trustee Walker, the Board voted unanimously by roll call to accept the Executive Director's recommendation that the Board approve the procurement of the ISS contract renewal as presented in the Board materials, subject to contract and legal review as presented.

Project Manager Cecile Merrill presented the PGV3 Status Report, noting 21% completion on the project and 38% completion on Deliverable 2-Employer Reporting. Staff continues actively addressing data conversion issues as they arise. Although LRS is working remotely, the project remains on schedule with testing for Deliverable 2 slated for August.

Chief Legal Counsel Crutchfield reported that the Petitioner's brief in the A. Scott restoration-to-service appeal at the NH Supreme Court was filed on May 8, following a second filing extension, with the NHRS reply due June. 9. He also reported that the Employer Audit staff is preparing for the annual GASB audits.

Finance Director Gerard Murphy began his report by noting that the net position balance as of the end of March 2020 was \$8.4 billion as compared to the end of March 2019 of \$8.9 billion, and \$9.2 billion as of the end of June 2019. Cash flows are in line with expectations and Finance has not seen any COVID-19 related impacts to employer contribution payments to date. The budget vs. actual comparison confirms that expenses remain under budget and most of the timing variances noted at previous meetings have been resolved.

Mr. Murphy noted that Finance continues to reach out to employers regarding their responses to a survey sent to gather information needed regarding the PGV3 project. He then addressed Finance's KPMs that were not met this month, noting that the widespread remote working arrangements with both NHRS and employers contributed to the negative results. He noted that Finance made some operational changes and he expects that the KPMs will be back on track moving forward.

Mr. Lagos gave an overview of the Fiscal 2021 Preliminary Trust Fund Budget, noting that NHRS has two budgets: a statutory administrative budget, which is filed with the state on a biannual basis, and an annual Trust Fund Budget, which shows overall spending and includes the statutory administrative budget. Mr. Lagos noted the \$3.5 million reduction in the total Trust Fund budget, and then went on to review the Budget without consideration of investment management expenses and those associated with the PGV3 project, resulting in a net Trust Fund Budget of \$13.4 million for FY 2021 as compared to \$13.0 million for FY 2020; a 2.7% overall increase. This increase is largely attributable to staff compensation and benefits as well as actuarial costs associated with the GRS actuarial experience study currently underway. Mr. Lagos then reviewed the NHRS budget history over the past seven years, noting that administrative expense had only increased by \$400K over that time period. Mr. Lagos noted that staff is mindful of the Trustees' fiduciary duty to expend only those funds that are reasonably necessary to administer the system.

Mr. Murphy noted that Finance has a robust internal budgeting and expense management process involving all of the Executive Director's direct reports creating the budget, and

tracking actual-to-plan expenditures with monthly management reporting. He then gave a detailed overview of the four budget sub-categories: Investment Expense/Internal; Investment Expense/External; Non-Investment Expense/Non-Statutory; and Statutory Administrative Expense. Mr. Murphy then explained that the total FY 2021 proposed Trust Fund budget is down \$3.5 million from the FY 2020 budget mostly due to the decline of investment management fees. Mr. Murphy then continued reviewing the remainder of the analysis contained in the Preliminary FY 2021 Trust Fund Budget packet.

Director of IT Frank Clough reported that IT is currently working on the ProofPoint upgrade for NHRS' existing spam filter to the enterprise version. He then reported on the telephone system upgrade, which was scheduled for two weeks ago, but issues arose that prevented the upgrade from going forward. IT is working with the engineer and project teams at Presidio, and are hopeful that the upgrade will be done in the next few weeks.

Director of Member Services Nancy Miller began her report by pointing out that Member Services is completely focusing on July retirement applications, watching them closely in the midst of COVID-19. In matching the numbers from last year at this time, NHRS has received 393 applications as opposed to 377 last year. Member Services is working its way through to being prepared for COLAs that begin in July by testing month by month with IT and the PGM3 Project manager making sure that the queries and scripts being used by the COLA recipients are accurate. Member Services is also working with PIO to finalize the letters that will be going out to the retirees each month once this process begins.

Vice Chair Kelliher turned the Board's attention to the consent agenda. On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted by roll call to approve the consent agenda as presented. *Abstention:* Trustee Jean on item #1, S.B.

The Board then addressed the Trustee travel request for Trustee Hart. On a motion by Trustee Jean, seconded by Trustee Maloney, the Board voted by roll call to approve the education request for Trustee Hart as presented in the Board materials. *Abstention:* Trustee Hart.

Mr. Lagos reported that all action items are progressing well. He then noted that since the Board approved the authorization to exercise a 5-year lease renewal, the agreed upon kitchen renovations are halfway completed. The lease renewal letter will be sent out before the next Board meeting. Lastly, on another matter, Mr. Lagos noted that the 1099 RFP responses are due on Friday, May 15.

Mr. Lagos then followed up on the GRS presentation to review the work the Board will be doing in regard to the experience study, valuation, and the setting of rates at its June meeting. Mr. Lagos explained that an informational package will be provided to the Board in two weeks and would include a number of exhibits to assist Trustees in their preparation for the important decisions at the June meeting. Mr. Lagos encouraged the Board to review the packet and to contact him should they have questions.

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

Respectfully submitted,

Margaret M. Astles, Executive Assistant