

NHRS Board of Trustees
Minutes

Note: These minutes from the November 12, 2019 Public Session were approved and executed at the December 10, 2019 regular meeting of the Board of Trustees.

**Board of Trustees
November 12, 2019
Public Minutes**

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

Trustees: Richard Gustafson, Chairman; Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Benjamin Jean, Maureen Kelliher, Tim Lesko, Bob Maloney, Scott Myers, Don Roy, George Walker, and Christopher Coates (via telephone, as it was not practicable for him to attend due to work commitments).

Staff: George Lagos, *Executive Director*; Frank Clough, *Director of Information Technology*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Gerard Murphy, *Director of Finance*; Mark Cavanaugh, Esq., *Associate Counsel & 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*; Cecile Merrill, *Project Manager*; and Margaret Astles, *Executive Assistant*.

Chair Richard Gustafson called the November 12, 2019 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 approve the October 8, 2019 public Board of Trustees meeting minutes, as amended. On a motion by Trustee Roy, seconded by Trustee Myers, the Board voted to approve the October 8, 2019 minutes, as amended, upon a roll call vote. *Abstaining:* Trustee Jean.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began with the Audit Tracker, noting that of the five audit issues remaining, four are scheduled to be completed by the end of December. The Internal Auditor will be adding one audit to the December tracker for employer-audit record adjustments, involving both Legal and Member Services. Mr. Dwyer noted that the Audit Committee continues to track the progress with addressing data security remediation measures, as well as internal control opportunities with Plante Moran.

Trustee Dwyer reported that three of the high-priority data remediation items would be completed within the next 90 days and the remaining two would be completed with the conversion to PGV3. The medium-level security enhancements are complete and two of the low-security enhancements would be complete within 90 days, leaving five of those enhancements to be completed during the conversion to PGV3.

Lastly, Trustee Dwyer noted that once again, as part of the CAFR Audit, Plante Moran would be providing management with its efficiency and internal control recommendations.

Trustee Don Roy reported that the Governance Committee met on October 8, 2019, to evaluate responses to the RFP for investment counsel, and recommending to the full Board

the approval of the Foster Garvey law firm. The Committee also recommended to the full Board the approval of the issuance of an RFP for New Hampshire counsel.

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 select Foster Garvey law firm as investment legal counsel, subject to successful engagement negotiations, on a roll call vote.

On a motion by Trustee Dwyer, seconded by Trustee Roy, the Board unanimously voted to accept the recommendation of the Governance Committee to approve the issuance of an RFP for New Hampshire counsel, on a roll call vote.

Lastly, in reply to a Board member's question, IT Director Frank Clough reported on the paperless board meeting topic, noting that the iPads have been ordered and testing would begin as soon as they arrive.

Trustee Kelliher reported that the Independent Investment Committee (IIC) did not hold its regular meeting in October, but would hold its regularly scheduled meeting on November 22, 2019. However, the IIC had met by conference call on October 22, 2019, to discuss the rapidly-evolving situation regarding non-U.S. equity manager, Fisher Investments. At that meeting, Director of Investments Larry Johansen reviewed NEPC's recommendation to terminate the manager, adding that the comments Mr. Fisher made were not consistent with the values held by the New Hampshire Retirement System. The Committee unanimously voted by roll call vote to terminate the System's investment in Fisher Investments' core, non-U.S. equity portfolio. The Committee instructed that the liquidated funds of approximately \$250 million be divided evenly among the remaining developed market, non-U.S. equity managers: Artisan Partners, Causeway Capital, LSV International Value, and Walter Scott. The motion carried unanimously.

Trustee Kelliher reported that the economy and the markets over the last several weeks were surprised by the economic rebounds that have occurred from the summer, but there remains real concern that there could be a recession sometime in 2020. Although the manufacturing sector remains weak and under pressure because of the global manufacturing slowdown, the U.S. service sector remains very resilient, as reflected in the most recent jobs report, showing an increase in job creation in the past three months. In turn, investors are seeing better equity market returns and better yields in the bond market.

Director of Investments Larry Johansen reported that short-term investment performance has been somewhat lackluster through September 30, 2019, due to small and mid-cap domestic equity underperforming the S&P 500, but longer term, peer performance for 3 years puts NHRS in the top 31%, peer performance at 5 years is in the top 22%, and at 10 years is in the top 13%. Asset allocation is well within range, and non-U.S. equity and alternatives are on target.

Mr. Johansen reported that at the next IIC meeting on November 22, 2019, the draft Comprehensive Annual Investment Report (CAIR) for fiscal year ending June 30, 2019 would be discussed, and if the IIC recommends approval, the Board of Trustees would be asked to take action to approve the CAIR at the December 10, 2019 meeting.

Trustee Myers gave his Legislative report, noting that the Committee did not meet in October. He stated that the 2020 NHRS-related LSRs have been filed in the House, and

there may be some NHRS-related Senate bills yet to be filed. Public Information Officer Marty Karlon added that the Board has the most recent LSR list, as of November 8, 2019.

Trustee Walker reported that the Benefits Committee met on November 8, and prior to the official start of the meeting, a non-meeting under RSA 91:A was called to consult with external legal counsel on an ongoing difference of opinion between NHRS staff and the Dept. of Administrative Services, relating to the administration of medical subsidy benefit. The consultation was to discuss whether the subsidy should be applied before, or after, the contributions required of Medicare eligible state retirees. After consulting with external counsel in a non-meeting, the regular meeting officially began.

Trustee Walker noted that the Benefits Committee addressed the request of the Dept. of Corrections (DOC) to reclassify 52 positions from Group I to Group II, pursuant to recently passed HB 116. The Committee unanimously voted to recommend to the full Board to approve the reclassification for all 52 positions, and that item would be presented at the upcoming December 10 Board meeting.

The Benefits Committee then reviewed a proposed revision to the Recoupment Policy, which was in response to a recently completed internal audit that suggested the Committee amend the Policy to memorialize the process for administering medical subsidy adjustments for state retirees. The Benefits Committee voted unanimously to recommend to the full Board that it adopt the proposed revision, and that item would also be presented at the December 10 meeting.

The Benefits Committee received an update on the number of current beneficiaries that receive monthly paper benefit checks and whether NHRS should consider making electronic deposits mandatory. The Committee recommended that staff maintain the current process of only providing paper checks for new retirees who specifically ask for them. Finance Director Gerard Murphy added that about 1,200 retirees receive paper checks per month, while the number of beneficiaries receiving their monthly pension benefits by electronic deposit is approximately 37,000.

Lastly, the Committee reviewed an annual hardship case in non-public session.

Trustee Hart reported that the Personnel, Performance, and Compensation Committee did not meet in October. He recommended a temporary adjournment to discuss collective bargaining. 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 roll call vote.

On a motion by Trustee Hart, seconded by Trustee Dwyer, the Board unanimously voted to reconvene the Board meeting, on a roll call vote.

David Kausch and Heidi Barry of GRS Retirement Consulting presented the Board with an overview of the FY 2019 GASB reports and an actuarial overview. The presentation provided an explanation of the difference between the GASB reports and the upcoming FY 2019 valuation report, which would come before the Board in the near future. Mr. Kausch indicated that the recommendations, which Segal Consulting put forward in the actuarial audit conducted earlier in the year, would be incorporated into the valuation report. He also pointed out that there were four actuarial assumptions for the Board to reflect upon, including the assumed rate of return of 7.25%, the payroll growth factor, mortality tables, and future contribution margins for the teachers' medical subsidy benefits.

Executive Director George Lagos provided his operating report, beginning with Key Performance Measures that scored 96.74% this month, once again exceeding the 95.00% target. He turned the Board's attention to the NHRS Member Satisfaction Survey Summary report, noting that NHRS consistently receives positive ratings from its members and retirees, particularly with respect to face-to-face interactions. He noted that management was reviewing the approach utilized for call management and that a consultant had been engaged to provide further insights on how efficiencies may be improved in that area.

Mr. Lagos presented a recommendation to approve a contract to replace IT switches. On a motion by Trustee Hart, seconded by Trustee Lesko, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve the proposed IT hardware purchase subject to contract and legal review, as presented, on a roll call vote.

Lastly, Mr. Lagos informed the Board that on November 18, 2019 he would be participating on a panel at the annual BIA Leadership conference discussing the retirement system, along with Barbara Reid from NHMA and Senator Jeb Bradley. He also noted that NHRS would be represented at a booth at the annual NHMA convention later this week.

Project Manager Cecile Merrill provided a PGV3 update, noting that the PGV3 conversion project is now 10% complete. LRS was on site last week to train staff on test cases for the first Deliverable. There are 27 test cases and 471 scenarios that must be tested by December 11, 2019. LRS will be on site next week, meeting with staff to review proposed out-of-scope requirements, and coming from that meeting, there would be developing-related cost estimates. Ms. Merrill noted that LRS continues to review the System's data and identify which issues need attention, prior to transitioning to Version 3.

Chief Legal Counsel Tim Crutchfield reported that the Hearings Examiner continues to do a very good job on case management with Administrative Appeals. Mr. Crutchfield noted that NHRS replaced two of its three employer auditors over the summer, and over the past month, the new auditors issued their first audit reports.

He also noted that an appeal was recently filed with the NH Supreme Court in an administrative matter relating to mandatory enrollment and pension recoupment. This is a discretionary appeal, meaning the Supreme Court may or may not accept the case.

Finance Director Gerard Murphy began by noting that the format of the Finance Reporting package is now back to standard format, with the closing of the books on the 2019 fiscal year. NHRS's net position is still above \$9 billion. Mr. Murphy stated that NHRS is in a good position with the unaudited CAFR and the completed draft has been delivered to Plante Moran, who will provide its comments sometime this week. Staff expects to present the CAFR to the Audit Committee in December, and to seek action to approve the CAFR by the full Board at its December meeting.

Lastly, Mr. Murphy reported that the limited roll-out of NHRS *QuickPay*, the ACH online payment program, went well, with no substantive issues reported. This capability has now been made available to all NHRS participating employers.

Director of IT Frank Clough turned the Board's attention to a new feature in his report, Daily Metrics, a high-level overview showing scores based on NHRS IT responsiveness to Tyler Technologies security-related inquiries. This report replaces the one previously provided by SE EventWatch.

Mr. Clough noted that penetration testing is complete and a report is expected within the next few weeks. The contract for multifactor authentication capability is under legal review. Lastly, the COLO hardware has been repositioned at the off-site facility following a change in providers. Testing is underway to make sure the COLO and hardware are in good working order after the move.

Ms. Nancy Miller, Director of Member Services, reported that finalizing July retirements continue to be a large focus. The Member Services team was able to process 90% of all the employer termination forms by the end of October, however there are still employers that have not complied by returning the requisite termination forms.

PGV3 User Acceptance Testing is now underway, requiring the participation of a number of Member Services staff.

On a motion by Trustee Roy, seconded by Trustee Hannan, the Board unanimously voted to approve the Consent Agenda, as presented, on a roll call vote.

Under Action Items, Executive Director Lagos noted that staff is expecting delivery of the hardware required to implement the pilot project for the paperless Board meetings and hopes to have a pilot demonstration for the Board at the December 10 meeting.

Under Board checkpoint discussion, Chair Gustafson noted that the vote to accept the CAIR and the CAFR is scheduled for the December meeting.

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

Respectfully submitted,

Margaret M. Astles
Executive Assistant