

NHRS Board of Trustees
Minutes-November 10, 2020

Note: These minutes from the November 10, 2020 Public Session were approved and executed at the December 8, 2020 Board of Trustees meeting.

**Board of Trustees
November 10, 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, and Donald Roy. *Absent:* Benjamin Jean.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Deputy Director and 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*; Marty Karlon, *Director of Communications & Legislative Affairs*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Cecile Merrill, *Project Manager*; Rosamond Cain, *Human Resources Manager*; Nina Calkins, *Contact Center and Administrative Manager*; and Christine Rice, *Administrative Assistant*.

Executive Director Lagos reviewed the protocols for the remote WebEx meeting. Chair Lesko called the November 10, 2020 annual meeting of the NHRS Board of Trustees to order at 10:02 a.m. Having established a quorum, Chair Lesko called for a vote to approve the minutes of the October 13, 2020 Board meeting. On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted unanimously to approve the minutes, as presented.

Trustee Mezzapelle provided the Audit Committee report, noting that the Committee met this morning and approved its October 13, 2020 meeting minutes. The Committee reviewed the internal audit activities, starting with the audit report on the Bank and Investments account user access rights. Next, the Committee reviewed the tracking report, noting there were only two changes this month, relative to the new user access rights report. Ms. Mezzapelle stated that a follow-up on employer audit adjustments is expected to be completed prior to next month's Board meeting. She added that staff has confirmed that a data risk reassessment will be conducted before calendar-year end by the same firms that conducted the initial assessment in 2017. Lastly, she reported that the FY20 Audit Plan is on track, with fieldwork done and no major issues. In closing, Ms. Mezzapelle indicated that the CAFR report would come before the Board at the December meeting.

Next, Trustee Roy gave the Governance Committee report, noting that the Committee met Monday, November 2, and approved its September 8, 2020 meeting minutes, followed by consideration of the System's actuarial consulting services in view of the expiration of the GRS contract as of December 31, 2020. Director of Finance Murphy summarized for the Committee the staff review of the five proposals that NHRS received in response to the RFP that was issued in August. He reported that while all of the firms were qualified for the engagement, staff recommended to retain GRS because of its responsiveness, consistent, quality work and positive, longstanding relationship with NHRS and the Board. Trustee Roy advised that the Committee reviewed the proposed contract terms with Mr. Murphy, followed by a unanimous Committee vote to recommend to the Board to retain GRS for a three-year term, with the eligibility for two, one-year extensions.

On a motion by Trustee Hannan, seconded by Trustee Myers, the Board voted unanimously to retain GRS to provide actuarial consulting services to NHRS.

Trustee Kelliher reported on the IIC meeting of October 23, 2020, stating that the IIC approved the September 18, 2020 meeting minutes. She noted that Director of Investments Johansen then gave his review of the portfolio's performance over various time-periods, and that discussion continued on the COVID-19 pandemic's effects on the System's cash flow and asset allocation.

Trustee Kelliher stated that the Committee unanimously voted to recommend to the Board that it retain ISS for institutional proxy voting services, for a five-year term, beginning December 1, 2020, with three, one-year extensions, subject to contract and legal review.

The Committee heard presentations from investment managers, Aristotle and Lazard, the finalists from the Committee's search for two non-U.S. equity managers. The Committee found both managers to be a good fit as international equity investors. It voted unanimously to hire both firms, and divide assets equally between them, following its vote to terminate its investment in a large cap fund in LSV.

Ms. Kelliher stated that the Committee also heard from private debt manager CarVal, unanimously voting to commit \$50 million to its Credit Value Fund V, subject to contract and legal review. She noted that NHRS currently invests in CarVal's Funds III and IV. Ms. Kelliher stated that the Committee also heard a presentation from private equity manager Industry Ventures and unanimously voted to commit \$50 million to its Fund IX, subject to contract and legal review. She added that the System currently invests in Industry Ventures' Funds VI and VII. Lastly, Ms. Kelliher mentioned that the Committee considered the proposed FY21 IIC meeting schedule, which will be voted upon at its meeting next week.

Director of Investments Johansen then gave an overview of the System's performance over various timeframes, referencing NEPC's Total Fund Performance Flash Report. He noted that performance improved since June 30th, with returns at 3.7% for 3 months, and 4.7% for 1 year, and substantial improvements to 3, 5, and 10 year results since June 30, 2020. However, Mr. Johansen added that because of the equity diversification away from the S&P 500 and fixed income diversification away from the

Barclay's Aggregate, the System is still below benchmark. He noted that he expects that diversification will lead to outperformance in the long term. He remarked that the System's asset classes are close to target and well within permitted ranges.

Next, Mr. Johansen referenced the Institutional Proxy Voting Survey, which went out in mid-October to Glass Lewis and ISS, the System's current vendor. He explained that of the two proposals received, the IIC voted to recommend ISS, based on its relationship with NHRS, its experience, and its proposed pricing.

Chair Lesko called for a motion that the Board accept the IIC's recommendation to retain ISS to provide proxy voting services. Trustee Hart moved and Trustee Roy seconded. In response to a Trustee's request for clarification regarding the renewal rate, Mr. Johansen confirmed that the renewal rate would be lower than the expiring contract terms with ISS. The motion carried unanimously.

Next Mr. Johansen informed the Board of a recommended update to the Investment Policy to reflect the revised assumed rate of return from 7.25% to 6.75%, noting that the Committee would make a formal recommendation during its meeting on November 20. The change would be up for Trustees' approval at the December Board meeting, along with the Comprehensive Annual Investment Report (CAIR).

Following a Trustee's question about the System's historical performance of alternative investments to date, Mr. Johansen replied that it has been doing very well overall, and that through December 31, the five-year rate of return on the total program is 11.3%. He noted that while private market performance has been better than fixed income, it has not outperformed the S&P 500, noting that nothing has over the past several years. Mr. Johansen continued with his report, noting that the June 30 performance at 1-year is at 1.1%, at 20 years, the return is 5.4%, and over 25 years, returning at 7.5%.

In closing, Mr. Johansen updated the Board on the transition plan with Callan, who will replace NHRS' current investment consulting firm, NEPC, in January, and he gave an overview of the IIC's agenda for its November meeting.

At this time, Chair Lesko experienced some technical difficulties and Vice Chair Kelliher stepped in to facilitate the meeting.

Trustee Myers gave the Legislative Committee report, stating that the Committee has not met in several months, and added that the status of the legislation has not changed since the October Board meeting. With the recent election, he said the new representative-elects would have the chance to submit legislation. Trustee Myers then gave an overview of party leadership in the House, some perspective on COVID and how the Legislature could operate come January in relation to the pandemic.

Mr. Karlon, Director of Communications and Legislative Affairs, gave an update on proposed new legislation, reporting that there are about 100 LSRs to date, and noting that none relate to NHRS based on the titles. He stated that the filing period for the House runs through November 20th. With that, Trustee Myers concluded his report.

Chair Lesko returned to the meeting and called on Trustee Coates for the Benefits Committee report however, Trustee Coates was experiencing audio issues, and Chair Lesko called on Trustee Hart for the PPCC report.

Trustee Hart reported that the PPCC met twice since the last Board meeting, first on October 16, at which time it approved its September 24 meeting minutes, and reviewed the status of the pending search for an Executive Director, followed by a non-public session on personnel matters. He reported that the Committee met on October 30, and it approved its October 16 meeting minutes and continued discussion on the progress of the Executive Director search. Mr. Hart stated the Committee had received about a dozen resumes at that time, and that a sub-committee evaluated the responses, narrowing down to six candidates who were presented three essay questions to respond to by November 9. Trustee Hart reported that the Committee would discuss the responses when it reconvenes this Friday to determine which candidates to schedule for videoconference interviews later this month.

Trustee Hart continued, stating that the Committee is contemplating the retention of a search firm, noting that Human Resources Manager Rosamond Cain had identified three firms that specifically focus on public pension plans. Mr. Hart noted that there would be considerable costs relative to hiring a search firm, adding that the firms typically set their fees at one-third of the annual compensation for the person hired. Mr. Hart then gave an overview of the timeline for the search and said the Committee anticipates a recommendation of the best candidate to the Board and acceptance of an offer by the end of the year. Lastly, Mr. Hart brought up the Executive Director evaluation and noted the importance of this exercise in identifying goals for the FY22 Strategic Plan.

Trustee Coates joined the Board meeting at 10:30 and provided the Benefits Committee report, noting that it met on November 3, 2020, at which time the Committee approved its August 18 meeting minutes, and went into non-public to review an overpayment recovery matter and the delayed responses from three disability retirees on providing supporting documents for re-examination. Mr. Coates concluded his report, stating that the Committee took no action during its non-public session.

Mr. Lagos gave a two-part presentation to the Board on the System's COVID Transition Plan. The first part focused on staff's work with Fusion Cell, the consultant that NHRS contracted with to assist in the formulaic approach to the Plan. He noted that Fusion Cell's extensive expertise and prior experience had proven to be invaluable to the process.

Mr. Lagos then gave an overview of the four proposed phases to the Transition Plan, which was designed to return more staff to the office and re-establish public access over the next six months. Mr. Lagos emphasized that the phases are fluid and that the System is handling the return conservatively and judiciously, requiring masks and temperature checks for all staff and visitors.

Chair Lesko commended Mr. Lagos on his comprehensive report and the extensive planning involved with assuring the health and safety of the staff, as well as the System's members. Chair Lesko then moved to hear staff operating reports.

Mr. Lagos then began his operating report with the Employer Outreach Program, noting the System had recently presented to the School Administrators Association, the Association of Counties, and had recorded a presentation for NHMA's upcoming annual meeting. Trustee Coates attended the Association of Counties and shared that he had heard from county administrators and commissioners that it was informative and easy to understand for those not familiar with the legislature.

Mr. Lagos then reported on the status of the Contact Center, noting it is on schedule for early December. He added that NHRS is also interviewing other pension systems who are using LexisNexis offerings, which provide increased security for identifying callers. He noted that the call recording system is on backorder and would arrive a month after the Center's start date, but would not affect the launch.

Next, he addressed the KPMs, noting that results have been below the 95% benchmark for the past five out of seven months. Mr. Lagos expressed disappointment with the unusually low performance and managers know improvement is expected. Mr. Lagos mentioned the PGM3 Project, noting that Project Manager Cecile Merrill is keeping it moving along well. He then reported on the customer satisfaction survey, stating that he expected to see improvement in email and phone call satisfaction scores with the implementation of the Contact Center.

In closing, he notified the Board of his recent authorization to purchase two kiosks to conduct health screenings for staff and visitors, as part of the aforementioned COVID Transition Plan. In response to a Trustee's question, Director of IT Frank Clough said that although he did not have a specific delivery date, the kiosks were expected to arrive in about a month.

Next, Ms. Merrill gave a progress update on the PGM3 project, stating that it is 31% complete overall, adding that Deliverable 2, which involves employer reporting, is at 99% completion. She said the System has started on Deliverable 3 (D3), which is benefit calculations, and is 9% complete. Ms. Merrill stated LRS is still on a travel ban and continues to work with NHRS remotely. Ms. Merrill noted that there were seven change requests out of D3 and of those, the System has chosen three and Ms. Merrill is reviewing them with Mr. Lagos. Mr. Lagos noted that there is a Steering Committee scheduled to meet Friday with regard to the project, noting that it meets quarterly.

Mr. Crutchfield gave his Legal operating report, noting that Legal is undergoing a process improvement plan for the Employer Audit operation in response to not meeting its KPM regarding productivity. He reported that a new employer auditor began last week on the same day another auditor switched positions to a different department. He then commended Internal Auditor Nancy Cone for her assistance and recommendations on how to revise audit procedures and streamline information that the System requests and records, and how NHRS presents its reports to the employers. In other business, Mr. Crutchfield noted that Attorney Cavanaugh is working on the annual review of the Governance Manual, which will come before the

Board at its January meeting, as will the annual renewal of the System's fiduciary insurance policy.

Director of Finance Gerard Murphy, prior to his operating report, introduced David Kausch of GRS, who gave an overview of the FY20 Comprehensive Annual Financial Report (CAFR) schedule, noting that this actuarial review did not have any direct impact on contribution rates. He noted that the funded ratio increased to 61%, below the expectation of 61.7%. He also reported that the market return on assets was at 1.12%, resulting in an actuarial return of 5.54%, due to five-year smoothing.

Mr. Murphy thanked Mr. Kausch and proceeded to give his operating report, noting the net position as of September 30 was at \$9.4 billion, an increase of \$261 million in the first quarter of FY21. He added that cash flows were as expected, with a drop in the most recent month's contributions because of the prior year being a three-payroll month for many employers, as opposed to a two-payroll month. He noted that FY21 spending is under budget through the first quarter.

He then reported on KPMs, noting that Finance missed two KPMs due to limited staff and the prioritization of PGV3 Deliverable 2 UAT testing for employer reporting. He expects improvement now that testing is complete.

Mr. Murphy stated that with regard to the FY20 Audit, Finance is on schedule to present the CAFR and is in constant contact with Plante Moran, who now has a draft copy of the CAFR. He added that GASB 67 and 74 reports would also go before the Board at its December meeting. Lastly, he updated the Board on the Statutory FY21 budget, which the State will consider at the scheduled Governor's budget hearings on November 19, 20, and 23. Mr. Murphy expects the State will invite the System to testify, as in the past.

Director of IT Frank Clough presented his operating report, informing the Board that the Enterprise Firewall project is underway, stating that IT has been in negotiations with the vendor and is awaiting a revised price. Mr. Clough referenced the Contact Center, noting that IT is managing the work on infrastructure and servers. He then noted the completion of a fire-alarm upgrade, and updated the Board on the virtualization project for PGV2, which would allow staff to access Pension Gold remotely on their laptops, resulting in improved performance. He continued his report, noting that IT is working with Consolidated Communications on the pending bandwidth upgrade, to better support remote staff. Lastly, Mr. Clough reported that the external vendor finished penetration testing on November 2, and added how the process works. Mr. Clough noted that IT expects the final report shortly.

Member Services Director Nancy Miller gave her report, noting that staff had completed actuarial option testing and that the results are with GRS for review. Ms. Miller then reported on various department issues with staffing, noting her team had five staff members move to the Contact Center, resulting in the need to fill three positions. She informed the Board that Member Services is working with the Contact Center Manager and Supervisor on training materials and carving out time for transition schedules for training staff, balanced with maintaining ongoing customer service activities.

Ms. Miller then shared that her department is working diligently on an aggressive short-term plan to complete outstanding calculations for July 1 retirees by calendar year-end. She added that the Medical Subsidy questionnaire mailing is also on track and requires the coordination of staff coming into the office to handle paperwork. She then noted the missed KPM on preparing monthly finalization of benefits, which she attributes to the sheer volume with catching up on finalizing over 700 July 1 retirement applications, while having to manage monthly payroll and finalizations. She shared that her department also missed the Member Benefits phone queue KPM because of staffing issues, as above referenced.

Director of Communications and Legislative Affairs Marty Karlon reported that the Contact Center implementation was on schedule. He commented on the ongoing Employer Outreach efforts, as Mr. Lagos had mentioned, with an upcoming NHMA meeting on November 20. He added that he and Attorney Cavanaugh would be presenting to School Business Administrators this Friday, addressing employer audits and the recent NHRS experience study. Mr. Karlon then noted that there would potentially be a Legislative Committee meeting in December to review the legislative titles and LSRs. He informed the Board that Public Information and Communications remains on track for KPMs this year. However, due to COVID, his team may not meet the KPM regarding the number of educational presentations.

Chair Lesko then introduced the Consent Agenda. On a motion by Trustee Hart, seconded by Trustee Friese, the Board voted to accept the Consent Agenda, with Trustee Friese recusing himself from Item A.P. Motion carried.

Mr. Lagos provided updates on two Action Items from last month, noting that the re-audit on the DRAPP process is in motion; and NHRS is waiting on a signed settlement agreement in the Pedersen case.

Chair Lesko then gave the Board Checkpoint, encouraging Trustees to review the CAIR and CAFR in preparation for the December meeting.

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

Respectfully submitted,

Christine Rice,
Administrative Assistant