

Note: These minutes from the October 9, 2018 Public Session were approved and executed at the November 13, 2018 regular meeting of the Board of Trustees.

**Board of Trustees
October 9, 2018
Public Minutes**

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

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

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Jack Dianis, *Interim Director of Finance*; Frank Clough, *IT Director*; Mark Cavanaugh, Esq., *Associate Counsel and 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 Kelliher called the October 9, 2018 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. She commenced the meeting by welcoming new Trustee, Christopher Coates, who is the Cheshire County Administrator. Chair Kelliher then welcomed back Jack Dianis, as the System's Interim Director of Finance and acknowledged Attorney Michael Kreps of the Groom Law Firm, who would be making a Fiduciary Responsibilities presentation later in the meeting.

Having established a quorum, Chair Kelliher called for a motion to accept the September 11, 2018 regular meeting minutes, as amended. On a motion by Trustee Dwyer, seconded by Trustee Hannan, the Board unanimously approved the minutes, as amended.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He reviewed the Audit Issues Tracker, noting that there is one open audit regarding Qualified Domestic Relations Order (QDRO) administration, which continues to be tracked, and is scheduled for completion in December. The Employer Contribution Reconciliations audit will likely appear on next month's report. The Committee received the Data Security Remediation update from Internal Auditor, Nancy Cone, and it stands about 33% complete as of this date.

Concerning the CAFR Audit, NHRS' new auditor, Plante Moran, will be on site throughout October and has committed more auditors to be on hand than the System has seen in the past. Trustee Dwyer noted that Plante Moran's work has been a collaborative and positive experience to date and it appears that the audit is on track to wrap up in December. Lastly, he noted that the Audit Committee adopted changes to the Audit Policy and seeks the Board's approval at this meeting.

On a motion by Trustee Dwyer, seconded by Trustee Hannan, the Board voted unanimously to accept the recommendation of the Audit Committee to approve the proposed revisions to the Audit Policy, as presented.

Trustee Walker reported for the Benefits Committee, noting that it did not meet last month, but will likely schedule a meeting before the November Board meeting. Associate Counsel and Compliance Officer Mark Cavanaugh reported on the Calendar Year 2017 Annual Gainful Occupation Compliance Report, summarizing the employment activities and income of disability recipients, based on filings that NHRS received as of September 25, 2018. Mr. Cavanaugh stated that staff would be seeking to offset the State annuity portion and related cost of living allowance of those disability recipients who earned more than the difference between the retirement allowance payable and the “current comparable compensation” as well as withhold those respective allowances for beneficiaries who fail to provide the necessary documents before the December benefit of payments are issued. Mr. Cavanaugh noted that, in general, the System usually has 10 to 15 members with excess earnings each year. Approximately 131 people have not yet complied and the System will mail out reminder letters on October 10.

On a motion by Trustee Hart, seconded by Trustee Walker, the Board voted unanimously to approve the Calendar Year 2017 Gainful Occupation Compliance Report, as presented.

Trustee Roy reported for the Governance Committee, stating that it did not meet in September but will meet after the Trustee meeting today to discuss alternative delivery methods for the Board of Trustee’s monthly materials.

Chair Kelliher reported for the Investment Committee, noting that the IIC met on September 24. The Committee heard presentations from alternative managers and unanimously agreed to commit \$50 million each to the Thoma Bravo Fund XIII; private equity manager Warburg Pincus Global Growth Fund; and private debt manager Alcentra European Direct Lending Fund III. All commitments are subject to contract and legal review. Lastly, the Committee heard presentations from small cap U.S. equity managers, Segall Bryant & Hamill and Wellington, in conjunction with the two-year contract renewal process.

Chair Kelliher, reporting for Director of Investments, Larry Johansen, stated that we have completed the process of moving assets from the terminated emerging market equity manager Aberdeen to Neuberger Berman and Wellington, our other two emerging market managers. The rebalancing of the domestic equity from active to passive is now 75% complete at the end of September, is expected to be 95% complete at the end of October, and fully completed by the end of November. We have received 66% of the assets from liquidated manager GAM and we expect to see the rest of the assets by the end of the calendar year, but it is possible that we will not get 100% on the dollar. Lastly, Chair Kelliher reported that we expect to have total fund performance for the past fiscal year on October 11.

Mr. Lagos pointed out for the newer Trustees that the NEPC Universe Comparison relative to NHRS, as presented in the Board materials, shows that, compared to the averages of NEPC PF Universe and NCPERS Universe, NHRS’ fees as a percentage of assets for both investment and administrative expenses are lower than those of peer pension systems.

Trustee Myers reported on the Legislative Committee meetings held on September 11, noting that the Committee’s Charter was reviewed and it was concluded that no changes are necessary.

Public Information Officer Marty Karlon provided a legislative overview of recent activity and upcoming deadlines for House members to submit Legislative Service Requests (LSRs). He also reported on the latest developments with the Level Dollar Study Committee, noting that the Committee is leaning toward a recommendation of staying with the percentage of payroll

because of the large contribution increase that would fall upon the employers in the first year.

Trustee Myers also reported that the Legislative Committee met this morning, with Mr. Karlon providing an additional update on the LSRs and several retained bills. The Committee discussed proposed language to amend statutory service credit purchase provisions, including employer oversight provisions, which addresses situations when employers fail to enroll employees into the System on a timely basis. The consensus of the Committee was that the member should not be penalized due to an employer oversight. The Committee intends to have proposed language and a recommendation for the Board meeting in November.

Trustee Hart reported on the PPCC meeting held on September 14. The staffing plan for the PGM3 project was discussed. The Committee reviewed its charter and unanimously voted to recommend revisions to the Board. The PPCC met again on September 21 to discuss personnel matters in non-public session.

On a motion by Trustee Hannan, seconded by Trustee Myers, the Board unanimously voted to accept the recommendation of the PPCC to approve the proposed revisions to its Charter as presented.

Chief Legal Counsel Tim Crutchfield introduced Attorney Michael Kreps of the Groom Law Group who was making a presentation to the Board on Fiduciary Responsibilities. Mr. Crutchfield stated that Mr. Kreps specializes in matters relating to public policy, fiduciary responsibilities and pension plan funding/restructuring. Mr. Kreps has served as senior pension employment counsel to the US Senate Committee on Health, Education, Labor, and Pensions. Mr. Crutchfield noted that he has worked with Mr. Kreps since 2009 on NHRS matters such as revisions to the Code of Ethics, Right-to-Know matters, charter and contract reviews, and legislation.

Mr. Kreps began his presentation by stressing the importance of Trustees as the primary guardians of people's pension benefits. He further noted that Trustees deserve credit for taking on the responsibilities, and risks associated with the role of public pension fiduciaries. He then gave an overview of the legal authority under which NHRS is operating. He noted that the New Hampshire Constitution Part I, Article 36-a, essentially states that all trust fund assets must be used for the exclusive purpose of providing benefits for participants and beneficiaries of the System. This unique provision prevents the State from borrowing from the pension fund to finance government operations.

Mr. Kreps then outlined key fiduciary requirements under NH law and the Internal Revenue Code, starting with NHRS law that covers fiduciary duties such as loyalty and prudence; the power to delegate; non-investment duties; fiduciary liability and ethics. He emphasized the importance of the "two-hat rule," which requires Trustees to act exclusively for the benefit of participants and beneficiaries when conducting NHRS business, irrespective of their occupations or other affiliations.

Upon the conclusion of the presentation, Chair Kelliher called for a five-minute recess.

Upon reconvening the meeting, Executive Director Lagos gave his operating report and began by reminding the Trustees that if they are in doubt or have any questions concerning NHRS fiduciary duties or potential conflicts of interest, they should consult with Chief Legal Counsel Crutchfield.

Mr. Lagos noted that key performance issues scored 100% this month, following recent revisions made to the KPM reporting tool. He noted that monthly results would continue to be

monitored. He also provided an update on various contracts, which had been entered into during the current and two prior fiscal years.

In response to an earlier question, Mr. Lagos noted that the NEPC contract expires at the end of 2018, and an RFP for the actuarial audit of GRS will be issued in December.

Project Manager Cecile Merrill updated the Board on the status of the PGV3 project. She noted that the project team is working on recruitment with one person hired as of September 14. Ms. Merrill reported that NHRS has received feedback from LRWL on the LRS contract document and comments and edits have been submitted to the vendor, LRS, for review and response. Process workflows are being reviewed and updated; and lastly, out of 35 data cleansing items identified in the data conversion from Version 2 to Version 3, 11 items are being worked on and 24 items have been closed. Executive Director Lagos added that a re-examination of proposed contract pricing is underway.

Chief Legal Counsel Tim Crutchfield gave his Legal report noting that in addition to the Board materials under Tab 10, he has received confirmation that the parties in the Scaglione reconsideration matter are available to be heard at the November Board meeting.

Interim Finance Director Jack Dianis gave the Finance report and highlighted that NHRS had authority for a Budget Roll-Forward for FY 2018-19 in the statutory administrative budget, part of which will be utilized to fund \$20,500 in Independent Medical Examiner expenses for disability examinations. The remaining balance of \$928,745 will be available for PGV3 project expenses.

Mr. Dianis then explained the annual Call Fire Report, noting that the benefit program was repealed in 2014, but NHRS is still paying two beneficiaries from the remaining fund balance which, as of June 30, was \$41,450.35.

Director of IT Frank Clough reported that with regard to the telephone system redundancy, the conversion over to SIP lines has occurred. He indicated that the Microsoft Exchange email server upgrade is being tested now and is expected to be completed in November. Mr. Clough commented that the staff members who failed a recent phishing test, will be required to attend further IT security training. Lastly, Mr. Clough intends to expand the current Security Awareness training program and is in discussions with a potential vendor.

Director of Member Services Nancy Miller reported that the State of NH insurance rate holiday for retirees is on schedule and has been integrated into the payroll system for October. Member Services had 746 retirements for the month of July and, as of last week, 299 of those retiree pension benefits had been finalized, using the revised employer termination form. She reported that her team is receiving positive employer feedback on the revised termination forms and the training has been helpful.

On a motion by Trustee Roy, seconded by Trustee Hart, the Board unanimously voted to approve the Consent Agenda, as presented.

Executive Director George Lagos noted that the Action Items from the September 11 meeting either have been addressed or are proceeding as planned.

Addressing other business, Executive Director Lagos highly recommended that the Trustees, particularly those who are new members, consider attending the CAPPP Program, which is a two-part and two-day program that covers all aspects of public-pension plan management and administration.

Mr. Lagos asked the Trustees to consider attending the BIA dinner on October 24, honoring Richard Gustafson, current NHRS Board Chair. He asked that they let him know by end of day on Wednesday, October 10, whether they would be able to attend.

Lastly, Mr. Lagos noted that PIO Director Marty Karlon put together a handout of acronyms that the System frequently uses, which could be found in their respective Board folders.

On a motion by Trustee Milligan, seconded by Trustee Walker, the Board voted unanimously to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles
Executive Assistant