

NOTE: These minutes were approved and executed at the May 19, 2017 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
April 21, 2017**

Public Minutes

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

Committee Members: Maureen Kelliher, *Chair*; David Jensen; Patrick O'Donnell; Hersh Sosnoff; and Keith Quinton.

NHRS Trustees: Germano Martins.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Greg Richard, *Senior Investment Officer*; Shari Crawford, *Junior Investment Officer*; and Ashley Lloyd, *Junior Investment Officer*.

NEPC: Kevin Leonard, *Partner and Senior Consultant*; and Sean Gill, *Partner*.

Guest: Harold Janeway.

Ms. Kelliher called the meeting to order at 9:00 a.m.

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the Committee unanimously approved the public minutes of the March 24, 2017 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Fund performance flash report for periods ending March 31, 2017. He discussed the returns of various managers and asset classes over multiple time periods. Mr. Johansen updated the Committee on the status of a recent Right-to-Know ("RTK") request received by the System and added that NHRS provided their second response to the requestor last week. Mr. Lagos provided additional details on the RTK request.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. Mr. Johansen noted that the Work Plan for the first quarter of Fiscal Year 2018 has been added for the Committee's consideration and approval, adding that the Work Plan remains flexible and subject to change as the Committee deems appropriate. On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the

Committee unanimously approved the Work Plan for the first quarter of Fiscal Year 2018, as presented.

The Committee discussed the presentations made by non-U.S. emerging markets equity managers Aberdeen Asset Management (“Aberdeen”) and Wellington Management Company (“Wellington”); and multisector fixed income manager Manulife at the March Committee meeting.

On a motion by Mr. Sosnoff, seconded by Mr. Jensen, the Committee voted unanimously to extend the relationship with Aberdeen through June 2019.

Mr. Quinton joined the meeting at approximately 9:21 a.m.

Mr. Johansen introduced Mr. Keith Quinton, the newest member of the Independent Investment Committee, and offered a brief overview of his background and qualifications. Mr. Quinton provided an introduction of himself.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the Committee voted to extend the relationship with Wellington to manage the EMLE portfolio through June 2019. Messrs. O’Donnell and Quinton abstained from the vote.

On a motion by Mr. Sosnoff, seconded by Mr. Jensen, the Committee voted to extend the relationship with Manulife through February 2019. Mr. Quinton abstained from the vote.

Mr. Neil Richardson, Investment Director; and Mr. John Grybauskas, Head of Relationship Management; of Standard Life Investments (“Standard Life”) provided a brief introduction of themselves and their firm. They referred to the “Global Absolute Return Strategies (GARS)” presentation dated April 21, 2017. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Grybauskas provided an update on the recently announced Aberdeen and Standard Life merger. He briefly reviewed the organizational changes expected to take place as a result of the merger and noted that the deal is expected to close at the end of the year, adding that Standard Life’s GARS product will be an asset to Aberdeen’s offerings. Mr. Richardson provided an overview of the GARS product’s objectives and explained that the strategy is designed to reduce volatility. He noted that 2016 was a year of turbulent performance following four years of favorable strategy performance, adding that the team still maintains conviction in their investment process and thesis.

In his response to questions from the Committee, Mr. Richardson discussed the strategy's underperformance during the first quarter of 2016, providing an overview of the investment team's thought process and investment methodology. He projected an improvement in future performance due to the belief that the Federal Open Market Committee is less of a dominating factor in the markets than it was during the first half of 2016. He reviewed the strategy's first quarter attribution for 2017 and noted the strategies which contributed to and detracted from performance over the time period. He provided his outlook on the global environment by discussing the political climate in Europe and the role a change in political party is expected to have on investment opportunities. Responding to questions from the Committee, Mr. Richardson discussed the factors which would convict the team to terminate an investment position and added that while the investment process will remain the same, the team is always looking for additional ways to improve returns.

Mr. Roy Leckie, Director; of Walter Scott presented a brief introduction of himself and his firm. He referred to the "Investment Review: New Hampshire Retirement System" presentation dated April 21, 2017. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Leckie provided a firm update, noting the stability of the firm, its strategies, and processes. He reviewed the firm's refined organizational structure, explaining that the structure allows for a fresh perspective on daily functions and processes. He added that the firm has recently relocated to a new office, a beneficial move which provides the opportunity to grow and improve functionality. Mr. Leckie provided a comprehensive overview of the fundamentals of Walter Scott's investment approach, detailing their role as a long-term, research driven, and benchmark unaware stock-picker and provided the firm's investment thesis for holding U.S. vs. non-U.S. securities and the factors which drive investment decisions.

In his response to questions from the Committee, Mr. Leckie discussed performance for periods ending March 31, 2017, commenting on the volatile year 2016 was and the factors which aided and detracted from performance. He noted Walter Scott's "buy and hold" strategy and the excess return created by their disciplined long-term focused investment strategy, offering the portfolio's long-term performance as an example. He thoroughly reviewed recent purchases and sales within the portfolio and provided the investment thesis supporting each decision. Mr. Leckie commented on uncertainty within the macroeconomic environment, highlighting the resilience of equity investments in all environments and predicting favorable equity investment performance over the long-term. Discussing the recent trend of passive investing and the characteristics necessary to be a successful active investing long-term manager, Mr.

Leckie expressed optimism in the portfolio's ability to weather the uncertain environment going forward.

Mr. Matthew Nord, Senior Partner; and Ms. Livia Carega, Principal; of Apollo Global Management ("Apollo") provided a brief introduction of themselves and an overview of their firm and its buyout/co-investment fund, Apollo Fund IX ("Fund IX"). They referred to the "Apollo Overview and Private Equity Update" presentation dated April 2017. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Nord reviewed the strength and stability of the firm and the unique advantage created by the "credit-approach" the private equity firm takes to investing. He discussed the benefits of the team's industry knowledge when sourcing and cultivating investment opportunities and noted several key differentiating points between Apollo and other private equity firms in the market. Mr. Nord reviewed historical performance for Apollo's prior funds and the factors leading to excess returns within the funds. He commented on the current credit cycle, explaining the way in which the firm plans grow in an economically uncertain environment.

In his response to questions from the Committee, Mr. Nord provided his outlook on global growth in the market and commented on rising valuations within the private equity market, noting Apollo's conservative investment approach and its ability to create value. Mr. Nord provided historical fund performance and explained the firm's flexible investment process as an example of one of the ways in which the firm expects to capture value. He reviewed the firm's opportunistic nature and ability to tailor each fund to the current market environment, noting the advantage of this strategy in terms of fund performance. Mr. Nord discussed Apollo's competitive edge, explaining that the firm's approach of "discounted complexity" trades complexity for value which allows the opportunity to harvest returns.

Responding to questions from the Committee, Mr. Nord opined on the strength of the current private equity market and discussed Apollo's ability to weather a potentially volatile environment. He reviewed returns and the investment thesis associated with Apollo Fund VIII, noting the ways in which Apollo Fund IX would compare. Mr. Nord discussed terms for Fund IX and provided an overview of the pace and frequency of investments expected to take place over the fund's investment period.

On a motion by Mr. Sosnoff, seconded by Mr. Jensen, the Committee agreed to commit \$50 million to Apollo Fund IX, subject to contract and legal review. Mr. Quinton abstained from the vote.

The Committee discussed the composition of the System's non-U.S. equity portfolio. Mr. Leonard referred to NEPC's "Non-U.S. Equity Overview" presentation, dated April 2017. He reviewed the current structure of the System's non-U.S. equity portfolio and discussed manager performance and strategy. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Leonard reviewed characteristics and performance of the program as compared to the index and provided his outlook for performance in each market going forward. He discussed the background of NHRS's non-U.S. equity structure and reviewed changes made to the non-U.S. equity portfolio over time, focusing on the different investment approaches taken by each manager and the impact each has on the portfolio. Mr. Leonard discussed the nature of the portfolio's structure and added that no changes to the non-U.S. equity portfolio are recommended at this time.

Mr. Johansen and Mr. Lagos offered congratulations to Senator Janeway on his retirement from the Independent Investment Committee and recognized his lengthy period of service on the Committee, highlighting his vast achievements and the significant impact he had on the New Hampshire Retirement System. Sen. Janeway spoke about his experience on the Committee and offered his gratitude and appreciation to the Committee members and staff.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the meeting adjourned at 12:09 p.m.