

NOTE: These minutes were approved and executed at the March 23, 2018 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
February 23, 2018**

Public Minutes

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

Committee Members: Maureen Kelliher, *Chair*; Christine Clinton; David Jensen; Tim Lesko; 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*.

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

On a motion by Mr. Jensen, seconded by Mr. Lesko, the Committee unanimously approved the public minutes of the January 26, 2018 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending January 31, 2018. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen apprised the Committee of proposed HB 1603, a bill which, if enacted, would require that one of the Independent members on the Independent Investment Committee be an active member employee appointed from a list of nominations. He noted that the bill has not been voted into law and that he would keep the Committee updated on its progress.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He provided a brief overview of the day's agenda, noting that NEPC will provide an educational overview of the System's private equity/private debt portfolio and due diligence process and

provide a high level overview of the revised and consolidated Investment Summary report.

Ms. Kelliher entertained a motion to convene into non-public session under RSA 91-A:3, II(d) for the purpose of considering the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to the general community. A motion was made by Mr. Jensen and seconded by Mr. Quinton to enter into non-public session, in accordance with the aforementioned provision.

The vote on the motion was conducted by roll call.

Roll call vote:

Aye: Ms. Kelliher, Ms. Clinton, Mr. Jensen, Mr. Lesko, and Mr. Quinton.

Nay: None

Motion carried.

Mr. Johansen updated the Committee on the liquidation of NHRS's fund-of-funds absolute return investment in Arden Institutional Series N ("Arden") which was terminated in December 2012 and notified the Committee of a secondary bid on the investment.

A motion was made by Mr. Lesko and seconded by Mr. Jensen to conclude non-public session.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the Committee unanimously agreed to accept a secondary bid on the NHRS investment in Arden that allows for a full exit of the investment.

Mr. Ian Leverich, Senior Vice President of Sales and Client Services of Abel/Noser Corporation ("Abel/Noser") provided a brief introduction of himself, his firm, and an overview of the services Abel/Noser provides to the System. He referred to the "New Hampshire Retirement System Transaction Cost Analysis" presentation for the calendar year 2017. A lengthy discussion with the Committee followed.

In his response to questions from the Committee, Mr. Leverich provided a brief overview of Abel/Noser's analysis methodology, noting that the firm segments the universe to identify the manager's trading style to obtain the most accurate trading cost comparisons. He noted the importance of monitoring trading cost and execution, adding that NHRS's monitoring favorably factors into each manager's performance. Mr. Leverich provided details on Abel/Noser's calculation of trading costs, adding that NHRS's

active U.S. equity managers, passive U.S. equity manager, and active non-U.S. equity managers all outperformed their respective universe benchmarks for the year ending December 31, 2017. He noted that NHRS active U.S. equity manager total trading costs outperformed for the year, both adding value and reducing costs relative to the benchmark, while passive U.S. equity manager BlackRock maintained low commission costs, remaining consistent with previous exemplary performance. Mr. Leverich noted the System's non-U.S. equity managers had slightly higher commission costs than average but were offset by strong execution costs, an impressive accomplishment due to the esoteric market in which those managers trade, reflecting a total trading cost lower than that of the benchmark.

Mr. Sean Gill, Partner; of NEPC referred to the "Private Markets Overview" report dated February 23, 2018 and provided a detailed educational overview of private debt and private equity investments and an overview of NEPC's due diligence and selection process. He discussed the current market environment and the benefits of private investments which act as a return enhancer and diversifier to the NHRS portfolio and reviewed the structure of the NHRS portfolio. Mr. Gill provided an overview of the various strategies in the private universe and listed some of the important factors NEPC reviews when considering private investments for the NHRS portfolio, such as multiple arbitrage, net returns, and earnings growth. He closed by providing a detailed overview of NEPC's due diligence process, noting the firm reviews and recommends investments based on their fit for the NHRS portfolio and a variety of components such as the growth of plan assets, payout, and future commitments.

Mr. Roland Reynolds, Managing Director; Mr. Ken Wallace, Managing Director; and Ms. Alex Adam, Vice President, Head of Investor Relations; of Industry Ventures presented a brief introduction of themselves and an overview of their firm and its venture capital fund, Industry Ventures Partnership Holdings V, L.P. ("Fund V"). They referred to the "Industry Ventures Partnership Holdings V, L.P." presentation dated February 23, 2018. A lengthy discussion with the Committee followed.

Mr. Reynolds opened the discussion by noting that Fund V is a re-up to existing Industry Ventures funds in which NHRS invests, explaining that the Committee made a \$20 million commitment to Industry Ventures Partnership Holdings IV in September 2015 and a \$20 million commitment to Industry Ventures Partnership Holdings III in September 2013. He provided a broad overview of the ways in which the firm sources and reviews opportunities and the advantage of the firm's experienced and diversified team and location in the San Francisco area. Mr. Wallace discussed the firm's venture platform of three various

strategies and the risk and return characteristics associated with Fund V.

Responding to questions from the Committee, Mr. Reynolds discussed market opportunity and the various investment structures that Industry Ventures uses to construct their portfolios, including primary commitments, secondary commitments, and direct commitments. He reviewed the opportunity to invest in Fund V and discussed the commitment period, term, and the target size for the fund which is \$250 million, the majority of which are expected to be re-ups. He stated the goals with regard to Fund V include a hybrid construction of early and mid-stage companies; diversification across the portfolio; and a shortened J-curve.

Mr. Lesko departed the meeting at 11:35 am.

The Committee discussed the Industry Ventures Partnership Holdings presentation and the opportunity to invest in Industry Ventures Partnership Holdings V, L.P. On a motion by Mr. Jensen, seconded by Ms. Clinton, the Committee unanimously agreed to commit \$25 million to Industry Ventures Partnership Holdings V, L.P., subject to contract and legal review. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board.

Mr. Kevin Leonard, Partner and Senior Consultant; of NEPC referenced the "4th Quarter 2017 Investment Summary" report dated February 2018. He provided a detailed overview of the updated report and the information it contains, noting the portions of the report which contain cumulative fund data and which contains more detailed manager-specific information. He closed the presentation by explaining that the report can be customized as necessary to incorporate the information NHRS would like to include.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the meeting adjourned at 12:08 p.m.