

NOTE: These public minutes were approved and executed at the November 21, 2014 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
October 24, 2014**

Public Minutes

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

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

NHRS Trustees: Dick Gustafson, Ph.D. and Germano Martins.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Scott Needham, *Investment Officer*; and Greg Richard, *Investment Officer*.

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

Mr. Janeway called the meeting to order at 9:02 a.m.

On a motion by Mr. Jensen, seconded by Ms. Kelliher, the Committee unanimously approved the public minutes of the September 19, 2014 Investment Committee meeting, subject to a minor revision.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. He commented that the transition of assets from the non-U.S. equity portfolio formerly managed by Thornburg Investment Management to Causeway Capital Management and LSV Asset Management has been completed and the Abel/Noser post trade analysis report is included in the Committee materials. Mr. Johansen indicated that the transition of 50% of the portfolio assets from non-U.S. equity manager Fisher Investments to Artisan Partners has also been completed and that the post trade analysis would be included as part of the November Committee meeting materials. He noted that the investment management agreements with recently retained unconstrained fixed income managers DoubleLine and GAM have been finalized and that he anticipates funding those mandates in the near-term. The Committee discussed various options for the remaining assets in the PIMCO portfolio. On a motion by Mr. Jensen, seconded by

Mr. Sosnoff, the Committee unanimously approved a motion to terminate the investment management agreement with PIMCO.

Mr. Johansen surveyed the Committee regarding the process used in retaining private equity General Partners in which the System has previously made commitments to the prior fund, otherwise known as re-ups. The Committee agreed to review each investment opportunity on an individual basis but that in the near-term would require the General Partner to make a presentation to the Committee for each potential new fund commitment. The Committee also discussed and agreed that energy-related private equity strategies should continue to be considered as potential investment opportunities.

Mr. Johansen noted that the 3rd quarter of Fiscal Year 2015 has been added to the Work Plan for the Committee's consideration. He commented that the work plan remains flexible and subject to change as the Committee deems appropriate. A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to approve the investment work plan for the 3rd quarter of Fiscal Year 2015. The motion carried unanimously.

Mr. Johansen referenced the "Proposed 2015 Investment Committee Meeting Schedule" memo dated October 24, 2014. The Committee discussed and proposed changes with the revised schedule to be presented for approval at the November Committee meeting.

The Committee discussed the presentations made by small cap U.S. equity managers Boston Trust; Segall Bryant & Hamill ("SBH"); and Wellington Management Company ("Wellington") at the September Committee meeting. Mr. Johansen referenced memos from L. Johansen and NEPC which recommend that the investment management agreements with Boston Trust; SBH and Wellington be renewed. On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee unanimously voted to renew the investment management agreements with Boston Trust; SBH; and Wellington through October 2016.

As a follow-up to the Committee's discussion at the September meeting, Mr. Johansen informed the Committee that Staff and NEPC had a preliminary discussion with Institutional Capital ("ICAP"), a NHRS large cap U.S. equity manager, to explore a sector neutral product. The Committee discussed funding options and agreed to continue to explore this option with ICAP.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Marketable Assets performance flash report

for periods ending September 30, 2014. He discussed the returns of various managers and asset classes over multiple time periods. Mr. Johansen also reviewed the final investment returns through June 30th, referring to the NEPC Total Fund performance flash report for periods ending June 30, 2014. He discussed the returns of various managers and asset classes over multiple time periods and noted the fiscal year end return of 17.6% and stated that NHRS performed better than 85% of its peers over the one-, five- and, 10-year periods and better than 90% of its peers over the three-year period.

Mr. Gill presented an educational session on private equity co-investments and referred to the “Overview of Private Equity Co-Investments” memo, dated October 24, 2014. Mr. Johansen and Mr. Gill then provided a brief introduction of BlackRock Private Equity Partners and the firm’s co-investment strategy. They referred to the “BlackRock Private Equity Partners Direct Co-Investments Solutions Investment Due Diligence Report” dated October 16, 2014. The Committee discussed the opportunity; deal sourcing; other firms that provide the co-investment strategy; and the alignment of interest with BlackRock.

Ms. Karen Sestin, Senior Portfolio Manager; and Ms. Elizabeth Smith, Senior Managing Director of Public Funds, of AllianceBernstein (“AB”) presented an overview of their firm and the SMid Cap Domestic Equity portfolio that the firm manages on behalf of the System. They referred to the “New Hampshire Retirement System – Current Strategy Review” presentation dated October 24, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Ms. Sestin confirmed that the firm uses a fundamental, bottom-up approach to stock selection and explained the methodology the firm utilizes to rebalance between the growth and value sleeves within the portfolio. She concluded by stating that the firm’s view on interest rates is that rates will remain low for an extended period of time.

Mr. Russ Steenberg, Managing Director and Global Head of BlackRock Private Equity Partners (“PEP”); Mr. Stephen Kelly, Managing Director of PEP; Mr. Leo Chenette, Managing Director; Mr. Douglas McNeely, Managing Director; and Mr. Andrew McCue, Associate, of BlackRock provided a brief introduction of themselves and their firm and a detailed presentation on their co-investments strategy. They referred to the “BlackRock PEP Direct Co-Investments Solutions” presentation dated October 24, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Steenberg explained the significant amount of co-investments made by PEP in 2007 at the height of the market as well as the lessons learned during this period. Mr. Kelly noted that although PEP has made investments as small as \$2 million, typically the minimum threshold is \$5 million in order to justify the amount of due diligence required. He explained that deals are allocated across clients on a pro-rata basis based on the client's commitment amount. Mr. Steenberg mentioned that the proprietary advantage of BlackRock to source deals is due the relationships that PEP has established and also the significant staffing level within PEP in which turnover is significantly below the industry. Mr. Steenberg concluded by noting the high transparency level into each investment and that the BlackRock commitment into the co-investment strategy is significant although limited due to Dodd-Frank.

The Committee discussed the opportunity to invest with PEP; the presentation made by BlackRock; and the source of funds for this potential commitment as well as future private equity and debt investments. On a motion by Mr. Jensen, seconded by Ms. Kelliher, the Committee voted to commit up to \$150 million to the BlackRock Co-Investment strategy over a 5-year period on behalf of NHRS, subject to contract and legal review. Mr. O'Donnell abstained.

Mr. Jensen departed the meeting at this time.

Mr. Brett Hawkins, Portfolio Manager; and Ms. Tracy Musser, Institutional Client Service Manager, of Thompson, Siegel & Walmsley LLC ("TSW"), presented an overview of their firm and a review of the SMid Cap Domestic Equity portfolio that the firm manages on behalf of the System. They referred to the "NHRS – Account Review" presentation dated October 24, 2014.

Mr. Johansen requested that Ms. Musser summarize the recent senior leadership updates at the firm and noted that he previously provided this information to the Committee. Ms. Musser detailed the changes which will occur by the end of 2014 and include Mr. Larry Gibson stepping down as Co-CEO but remaining as the Chairman of the Board and Mr. Horace Whitworth, currently Co-CEO, becoming the sole CEO. In addition, Mr. Frank Reichel, currently CIO will become President with Mr. Hawkins becoming the CIO. She confirmed that these changes are positive which allow the younger generation an opportunity to grow within the company and that the System's portfolio management team has not changed.

In response to Committee member questions, Mr. Hawkins provided a detailed summary of performance attribution including the sectors that the portfolio is over and underweight as compared to the benchmark. He concluded by explaining how cash flow and profit margins are incorporated into the analysis of potential investments.

The Committee discussed active versus passive investing and agreed to continue the discussion at a future meeting.

Mr. Johansen referenced the “Draft Transmittal Letter” for the Fiscal Year 2014 Comprehensive Annual Investment Report (“CAIR”). He asked that the Committee review the draft report and provide any comments or feedback directly to him in advance of the November meeting. The Committee had a lengthy discussion on the funded status narrative included in the CAIR; provided some preliminary thoughts on the content in the draft; and agreed to provide any additional comments directly to Mr. Johansen. Mr. Johansen noted that the Committee will vote to approve the report at the November Committee meeting for recommendation to the Board of Trustees at the December Board meeting.

On a motion by Mr. O’Donnell, seconded by Mr. Sosnoff the meeting adjourned at 1:42 p.m.