

**NOTE:** These minutes were approved and executed at the September 21, 2018 Independent Investment Committee meeting.

**Independent Investment Committee Meeting  
July 20, 2018**

**Public Minutes**

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

*Committee Members:* Maureen Kelliher, *Chair*; Christine Clinton; and Tim Lesko. Keith Quinton; *absent*.

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

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

Ms. Kelliher called the meeting to order at 10:45 a.m.

On a motion by Ms. Clinton, seconded by Mr. Lesko, the Committee unanimously approved the public minutes of the June 22, 2018 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent time periods, referring to the preliminary NEPC Total Fund performance flash report for periods ending June 30, 2018. He emphasized that this report is preliminary and that the final version will be available once all private market investments are trued up. He discussed the returns of various managers and asset classes over multiple time periods. He updated the Committee on several initiatives, including the status of the rebalance of the domestic equity portfolio as agreed upon by the Committee at its May meeting.

Mr. Johansen reviewed the Work Plan with the Committee, noting that the Plan has been updated to include the second quarter of Fiscal Year 2019. He reminded the Committee that the Plan remains flexible and subject to change as the Committee deems appropriate. On a motion by Mr. Lesko, seconded by Ms. Clinton, the Committee unanimously approved the Work Plan for the second quarter of Fiscal Year 2019, as presented.

Ms. Kelliher entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body.

The vote on the motion was conducted by roll call.

Roll call vote:

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

Nay: None

Motion carried.

Mr. Johansen communicated a development with respect to the System's emerging market equity investment with AberdeenStandard, formerly known as Aberdeen Asset Management. He stated that, since initially communicating and discussing the downgrade of the product by NEPC at the June Committee meeting, NEPC notified its clients in late June that the firm's profit-sharing plan intends to liquidate its investment in the product. The Committee discussed the potential impact of this action.

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

Motion carried.

On a motion by Ms. Clinton, seconded by Mr. Lesko, the Committee unanimously agreed to terminate the investment management and subscription agreement with AberdeenStandard. The Committee directed Staff to move the assets in equal proportions into the accounts of the two existing emerging market equity managers, Neuberger Berman and Wellington.

Ms. Elizabeth Smith, Senior Managing Director of Public Funds; and Mr. Eric Winograd, Senior Economist of AB provided a brief introduction of themselves and their firm. They referred to the "US Economic Outlook" presentation dated July 20, 2018. A lengthy discussion with the Committee followed.

Mr. Winograd provided an overview of his and his AB colleagues' baseline expectations relative to the global economy for the remainder of 2018 and into 2019, discussing key themes such as growth rates, inflation rates, monetary and fiscal policy outlook, and geopolitical implications. He emphasized that the economy remains in the latter stages of the business cycle, clarifying that despite the observance of late cycle

dynamics, this stage can last for some time and doesn't necessarily imply that an end to the cycle is currently near. Mr. Winograd led a focused discussion on the state of the domestic economy, speaking to the current unemployment rate of approximately 4%, the lowest level since the early 2000s. He also shared his expectations that U.S. wage growth should rise gradually, supported by the tight labor market, applying upward pressure on inflation rates. He stated that while core inflation expectations remain unchanged and still below the Fed's 2% target, he believes inflation will gradually rise and as a result, the Fed will further tighten. Mr. Winograd addressed questions from the Committee regarding the flattening yield curve, stating that while no recession has ever occurred without prior flattening, the reliability upon the yield curve as predictor of recession is challenging given the difficulties in measuring the timing from the moment of inversion to when a recession begins.

Mr. Jonathan Cordo, Senior Relationship Manager; Mr. Anujeet Sareen, Portfolio Manager; and Mr. Stephen Smith, Managing Director and Portfolio Manager of Brandywine Global Investment Management ("Brandywine") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated July 20, 2018. A lengthy discussion with the Committee followed.

Mr. Cordo provided an overview of the investment relationship between Brandywine and NHRS, explaining that the firm has managed a high-quality, benchmark agnostic, global bond portfolio for approximately 20 years on behalf of the System. Responding to questions from the Committee, Mr. Smith led a robust discussion on current global economic events with emphasis on global trade and potential trade policy revisions. The impact of a trade war between the U.S. and China and the effects on other emerging markets were discussed at length, including effects on developed market interest rates and currency movements between the USD relative to various emerging market currencies. Mr. Sareen contributed to the discussion by providing an overview of the health of the U.S. economy and also answered a question with respect to the portfolio's exposure to Mexico, a market in which Brandywine finds both the bonds and the currency attractive. Mr. Smith closed the presentation with a thought-provoking question, asking whether free trade or fair trade is present in current global trade policy.

Mr. Mark Flinn, Managing Director; and Ms. Megan Greene, Global Chief Economist of Manulife Asset Management ("Manulife") provided a brief introduction of themselves and their firm. They referred to the "Is The Economy Overheating?" presentation dated July 2018. A lengthy discussion with the Committee followed.

Ms. Greene began the presentation with a review of soft U.S. economic data, including measures involving sentiment, manufacturing, and

various asset class returns during calendar year 2017, all of which suggest a positive economic outlook. Conversely, she reviewed hard measures that reflected decelerating loan activity, flat retail sales and wage growth since the Great Financial Crisis (GFC), and relatively flat home sales since 2015, all of which dampen the rosy outlook portrayed by the soft data. She also touched upon the lack of U.S. productivity growth since the GFC, suggesting relationships between this lack of growth and the influence of technological advancement, changing demographics, and declining labor force participation. Addressing questions from the Committee, Ms. Greene touched upon historical monetary policy decisions in the U.S. and the longer-term economic effects of such decisions. She also discussed current debt levels in the U.S. relative to both households and corporations prior to discussing similar concerns related to the use of leverage in emerging markets. Ms. Greene also shared her views on the use and impact of tariffs in global trade policy and closed with a review of the changing political environment in Italy and the potential effects on the EU.

On a motion by Ms. Clinton, seconded by Mr. Lesko, the meeting adjourned at 11:58 a.m.