

NOTE: These minutes were approved and executed at the May 29, 2020 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
April 24, 2020**

Public Minutes

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

Committee Members (by video conference): Maureen Kelliher, *Chair*; Christine Clinton; Daniel LaPlante; Tim Lesko; and Keith Quinton. Mike McMahon; *absent*.

Staff (by video conference): George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Greg Richard, *Senior Investment Officer*; Shana Bilech, *Junior Investment Officer* and Ashley Lloyd, *Junior Investment Officer*.

NEPC (by video conference): Kevin Leonard, *Partner and Senior Consultant*; Sean Gill, *Partner and Director of Private Markets Research*; and Tim McCusker, *Chief Investment Officer*.

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

On a motion by Mr. Lesko, seconded by Mr. Quinton, the Committee unanimously approved the public minutes of the March 20, 2020 Investment Committee meeting, as presented, by roll call vote.

Mr. Johansen reviewed investment returns through recent periods and referred to the NEPC Total Fund performance flash report for periods ending March 31, 2020, discussing the returns of various managers and asset classes over multiple periods. He noted significant market volatility and underperformance in the past several weeks has resulted in particularly steep losses to U.S. and non-U.S. equities. As a result of the market selloff, the NHRS non-U.S. equity allocation has fallen slightly below its target range; however, there will not be any immediate changes to bring the portfolio back to target ranges at this point due to market volatility. Further, as a result of market volatility, staff has been working to source one quarter's worth of the System's liquidity needs. As such, \$150 million will be redeemed from the non-core fixed income portfolio managers through June 30, 2020. Mr. Johansen confirmed that the redemption will boost the portfolio's liquidity and added that additional cash is available to be drawn if needed. Staff and NEPC will continue to monitor the portfolio and will communicate a rebalancing plan and

proposed updates to the portfolio's fixed income guidelines when the market settles.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He noted that the Work Plan for the first quarter of Fiscal Year 2021 has been added for the Committee's consideration and approval, clarifying that the Work 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 first quarter of Fiscal Year 2021, as presented, by roll call vote.

Mr. Johansen reviewed the Investment Consultant Request for Proposal ("RFP") and explained that the final RFP will be presented to the NHRS Board of Trustees at the May meeting for their approval before issuance. On a motion by Mr. Lesko, seconded by Mr. Quinton, the Committee unanimously voted to recommend the issuance of the Investment Consultant RFP to the Board of Trustees, as presented, by roll call vote.

The Committee discussed the presentation made by non-U.S. equity manager Neuberger Berman at the March Committee meeting. On a motion by Mr. Lesko, seconded by Ms. Clinton, the Committee unanimously voted to extend the investment relationship with Neuberger Berman through April 2022, by roll call vote.

Mr. Sean Gill, Partner; of NEPC introduced Comvest Credit Partners ("Comvest") and provided an overview of the System's investments in previous Comvest funds, Comvest Credit Partners III and Comvest Credit Partners IV. He discussed NEPC's conviction in Comvest and its private debt fund, Comvest Credit Partners V ("Fund V"), adding that an investment in Fund V would be a re-up to previous funds.

Mr. Robert O'Sullivan, Managing Partner; Mr. Greg Reynolds, Partner & Co-Head of Direct Lending; and Mr. Jason Gelberd, Partner & Co-Head of Direct Lending; of Comvest Partners provided a brief introduction of themselves and an overview of their firm and Fund V. They referred to the "Comvest Credit Partners: Middle Market Direct Lending" presentation dated April 24, 2020. A lengthy discussion with the Committee followed.

Mr. O'Sullivan opened by providing a history of the firm's previous funds, noting they have been positioned to perform favorably in all market cycles. Mr. Reynolds reviewed Comvest's investment strategy as it relates to the opportunity to invest in Fund V, stating that the Fund will target loans to middle market companies with EBITDA ranging from \$10 million to \$50 million annually. He explained that the Fund's strategy is focused on the fragmented portions of the market with less competition, allowing Comvest to assume a senior secured, first lienholder position with the ability to negotiate covenants as needed, adding significant downside protection.

Mr. Reynolds discussed fund terms, noting the firm is targeting a fund size of \$1.25 billion. He discussed the expected impact of COVID-19 on Fund V and reviewed the ways in which the firm is evaluating risk relating to the effects of the pandemic.

Dr. Bhaskaran Swaminathan, Partner and Director of Research; and Mr. Peter Young, Partner and Director of Client Portfolio Services; of LSV provided a brief introduction of themselves and their firm. They explained they would present updates on the two LSV strategies in which NHRS invests, beginning with the System's active domestic large cap equity portfolio. They referred to the "U.S. Large Cap Value Equity" presentation dated April 24, 2020. A lengthy discussion with the Committee followed.

Mr. Young opened with an overview of the impact of COVID-19 on the firm, confirming there were no significant changes to the firm's operating structure to note. Dr. Swaminathan provided a detailed overview of the firm's philosophy and process and described the firm's quantitative, deep value investment approach which is primarily derived from fundamentally-based valuation data such as price-to-cash flow, price-to-earnings, and price-to-book value ratios. Dr. Swaminathan discussed the underperformance of value stocks over long periods, noting value stocks are cheaper now than they have been historically. He explained that the LSV portfolio is geared toward deep value, smaller large-cap stocks. The significant underperformance of these stocks has caused the portfolio to underperform in recent periods. Furthermore, Dr. Swaminathan explained that the underperformance of value stocks has created favorable buying opportunities, and that the stocks added to the portfolio are projected to withstand the current market environment.

Transitioning the discussion to the System's non-U.S. large cap equity fund, Dr. Swaminathan and Mr. Young referred to the presentation titled "International Large Cap Value Equity" dated April 24, 2020.

Mr. Young confirmed that the same investment team managing the domestic large-cap portfolio also manages the assets in the LSV International Value Equity Fund. He stated that, similar to the sector selection approach in the U.S. portfolio, LSV's international strategy remains both sector and country-neutral, refraining from high active sector and country weightings relative to the fund's benchmark. Dr. Swaminathan highlighted the similarities in philosophy and approach between the U.S. portfolio and the international fund investment. He also noted that the performance of value stocks in many foreign markets have trailed growth stocks, just as in U.S. equity markets, albeit slightly more muted in magnitude. Dr. Swaminathan concluded the presentation by noting the names held within the portfolio display favorable fundamentals, adding that the team constantly tests their models to ensure the stocks held have the ability to recover from a market downturn.

The Committee discussed the presentation made by Comvest and the opportunity to invest in Fund V. On a motion by Mr. LaPlante, seconded by Mr. Lesko, the Committee unanimously voted to commit \$50 million to Fund V (unlevered), subject to contract and legal review, by roll call vote. Mr. Johansen confirmed that NHRS has a seat on the Advisory Board.

The Committee discussed the assumed rate of return. Mr. Johansen referenced the “Assumed Rate of Return” document and discussed the forecasted returns provided by NEPC, Alliance Bernstein, J.P. Morgan, Neuberger Berman, and GRS. Mr. Tim McCusker, Chief Investment Officer; of NEPC, noted a general downward trend in the long-term assumed rate of return. A lengthy discussion with the Committee followed. On a motion by Ms. Clinton, seconded by Mr. Quinton, the Committee unanimously voted to recommend an assumed rate of return of 6.5% to the Board of Trustees, by roll call vote.

On a motion by Mr. LaPlante, seconded by Mr. Lesko, the Committee unanimously voted to adjourn the meeting, by roll call vote.

The meeting adjourned at 11:40 a.m.