

NOTE: These minutes were approved and executed at the September 18, 2015 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
August 21, 2015**

Public Minutes

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

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

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

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

Mr. Janeway called the meeting to order at 8:59 a.m.

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the Committee unanimously approved the public minutes of the July 24, 2015 Investment Committee meeting, as presented.

Mr. Johansen reviewed the following articles from NEPC and Neuberger Berman that were handed out at the meeting regarding China and the country's recent devaluation of the yuan and its potential impact on the global economy: *China's Devaluation of Yuan; Perspective of the Renminbi Devaluation; CNY Depreciation: Side FX*.

Mr. Johansen notified the Committee that Arden Asset Management LLC ("Arden"), GP of the fund-of-funds absolute return strategy in which NHRS invests, entered into an agreement with Aberdeen Asset Management Inc. ("Aberdeen"), by which Aberdeen will acquire Arden. NHRS currently invests in Aberdeen's Emerging Markets Small Cap Fund. He stated that as the Arden fund continues to be liquidated, opportunities to potentially expedite the liquidation sooner and reduce associated discounts are being discussed with Aberdeen.

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

for periods ending July 31, 2015. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He stated that the NHRS portfolio will undergo a full review in anticipation of discussions that will take place in early 2016 regarding NHRS's assumed rate of return. He indicated that NEPC will present their capital markets assumptions to the Committee in January 2016, followed by similar presentations from asset management firms at the February 2016 Committee meeting in advance of the Committee making a recommendation with regard to the assumed rate to the Board of Trustees at the Board's March 2016 meeting.

Mr. Johansen provided a brief preview of the September Committee meeting. He indicated that 400 Capital Management ("400 Capital") would be making a presentation to the Committee at that meeting. He commented that 400 Capital is a structured credit asset management firm with a multi-sector approach featuring active rotation across sectors.

Mr. Theodore Koenig, President, CEO, and Founder; and Mr. Sean Duff, Managing Director of Institutional Relationships, of Monroe Capital ("Monroe") presented a brief introduction of themselves and an overview of their firm and its direct lending fund, Monroe Capital Private Credit Fund II ("Fund II"). They referred to the "Monroe Capital Private Credit Fund II LP" presentation dated August 21, 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Koenig described Monroe as a lower middle market asset manager that is positioned in an underserved market with limited competition, as regional banks have exited the market following the financial crisis. He also reviewed Monroe's history as a private debt investment advisor and Monroe's investment philosophy, highlighting the firm's investment vehicles.

Responding to questions from the Committee, Mr. Koenig and Mr. Duff reviewed performance characteristics of Monroe Senior Secured Debt Loan Fund LP ("Fund I"), the firm's prior fund in which NHRS is a limited partner. He indicated that Fund I has called approximately 90% of its committed capital. Mr. Koenig stated that Fund II is nearing its second close and has reached \$600 million in commitments, \$150 million shy of its hard-cap limit of \$750 million.

In response to questions from the Committee, Mr. Koenig described Monroe's views on risk, noting the firm's focus on senior secured, full collateral positions with low downside risk and 0.25% default rate over

the last 12 years. He also stated that Fund II will consist of a similar profile as Fund I, focused on working with smaller companies with EBITDA under \$25 million, minimal if any changes to regional or sector diversification, and loan terms generally no longer than 5 years, with Monroe being the sole lender on the majority of its deals.

Mr. Robert Koenigsberger, Managing Partner, Chief Investment Officer, and Emerging Markets Distressed Portfolio Manager; Mr. David Herzberg, Senior Partner, Head of Research, and Emerging Markets Distressed Portfolio Manager; and Mr. Stephen LaVersa, Partner and Head of Business Development, of Gramercy presented a brief introduction of themselves and an overview of their firm and its emerging markets debt fund, Gramercy Distressed Opportunity Fund III (“Fund III”). They referred to the “Gramercy Distressed Opportunity Fund III” presentation dated August 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Koenigsberger reviewed Gramercy’s views on the opportunity set in Emerging Markets private debt. He explained the firm’s views on asymmetry in the market and increasing opportunity for private debt funds due to increased regulation in the banks. He described Gramercy’s use of credit default swaps in the construction of the portfolio so as to minimize country specific risk, emerging markets systemic risk, and global market risk and provided an overview of how the strategy is expected to perform across various market scenarios.

Responding to questions from the Committee, Mr. Koenigsberger reviewed the effects of the hedging strategy employed in Gramercy’s prior fund, GDOF II, in which NHRS is a limited partner, and how GDOF II performed in environments where the market index had been positive and in environments where the market index had been negative. Mr. Herzberg reviewed the net performance of GDOF II, which began calling capital in June of 2012. He stated that the fund had been 100% drawn as of December 2014.

In response to questions from the Committee, Mr. LaVersa stated that Fund III’s first close took place on July 1, 2015, and 20% of committed capital had been drawn to date. He reviewed Fund III’s fee offering terms and structure and stated that Fund III will be capped at \$1.25 billion. Mr. LaVersa stated that Gramercy estimates Fund III to have \$500 million in capital commitments by October 1, 2015.

The Committee discussed the Monroe presentation and the opportunity to invest in Monroe Capital Private Credit Fund II.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously agreed to commit \$50 million to Monroe Capital Private Credit Fund II Levered Vehicle, subject to contract and legal review. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board.

The Committee discussed the Gramercy presentation and the opportunity to invest in Gramercy Distressed Opportunity Fund III.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee unanimously agreed to commit \$50 million to Gramercy Distressed Opportunity Fund III, subject to contract and legal review. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board.

Mr. Anthony Fobel, Partner and Head of Private Lending; Ms. Danielle Hootnick, Co-Head of Business Development – Alternatives; and Mr. Bill Irvine, Managing Director of Institutional Sales, of BlueBay Asset Management (“BlueBay”) presented a brief introduction of themselves and an overview of their firm and its direct lending fund, BlueBay Direct Lending Fund II (“DLF II”). They referred to the “Direct Lending Fund II SLP” presentation dated August 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Fobel reviewed DLF II's objective in providing credit to medium sized European businesses. He noted the fund's geographic focus in Northern Europe and stated that the fund does not have interests in Italy, Greece, or Portugal. Mr. Fobel also discussed the nature of bank lending versus non-bank lending in Europe in comparison to the U.S., noting fewer non-bank lending sources in Europe, which constrain supply and create demand for private debt funds. He also commented on the effects of Basel III and its impact on the lending environment in Europe.

Responding to questions from the Committee, Mr. Fobel highlighted characteristics of Fund II's investment strategy, including their “shoe leather” origination strategy, which involves employing staff locally in each of the geographic regions of the fund's focus. He also commented on BlueBay's willingness to provide bespoke, flexible loans tailored to a Borrower's specific needs.

In response to questions from the Committee, Mr. Fobel provided an overview of BlueBay Direct Lending Fund I and reviewed performance for the period ending June 30, 2015. He also commented on BlueBay's extensive bottom up due diligence process.

The Committee discussed the BlueBay presentation and the opportunity to invest in BlueBay Direct Lending Fund II. On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee agreed to commit €45 million (approximately \$50 million) to Direct Lending Fund II, subject to contract and legal review. Mr. O'Donnell abstained from the vote. Mr. Johansen confirmed that NHRS is in discussions regarding a seat on the Advisory Board.

Mr. Jack Sommers, Managing Principal, Co-Founder, and Senior Portfolio Manager; Mr. Mike Sheldon, Principal and Senior Portfolio Manager; and Mr. Matt Drasser, Vice President, of Income Research + Management ("IR+M") presented a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated August 21, 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Sommers and Mr. Drasser reviewed IR+M's investment strategy and process, stating the firm's sole focus on U.S. dollar denominated investment grade fixed income. Mr. Drasser commented that both NHRS portfolios are target duration neutral relative to their respective benchmarks and are constructed via IR+M's bottom up security selection process. He also commented that portfolio risk is assessed on a daily basis so as to ensure adequate compensation for such risks assumed.

In response to questions from the Committee, Mr. Drasser commented on corporate market activity and those factors driving it, including U.S. Federal Reserve Bank activity, monetary policy easing in Europe, widening spreads, the impact of regulation, and M&A activity. He also reviewed the performance of NHRS's Government Credit Fixed Income portfolio for periods ending June 30, 2015, reviewing key drivers influencing the portfolio's performance. He also reviewed performance attribution, sector allocation, and credit rating.

Responding to questions from the Committee, Mr. Sommers and Mr. Drasser addressed uncertainties surrounding global interest rates and the possible effects on returns in a continued low interest rate environment. Mr. Drasser also discussed the portfolio's current characteristics and positioning for the near term.

Mr. Leonard reviewed NEPC's Preliminary Investment Summary for the quarter ended June 30, 2015. He discussed NHRS's ranking among its peers, and he reviewed returns for trailing periods. Mr. Leonard also discussed performance attribution for the 1 year period ending June 30, 2015.

NHRS Independent Investment Committee
August 21, 2015

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the meeting adjourned at 12:36 p.m.