

NOTE: These minutes were approved and executed at the May 23, 2014 Independent Investment Committee meeting.

**Independent Investment Committee
April 25, 2014**

Public Minutes

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

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

NHRS Trustees: Dean Crombie and Germano Martins.

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

NEPC, LLC: Kevin Leonard, *Partner and Senior Consultant*; Sean Gill, *Partner*; Jeff Markarian, *Senior Research Consultant*; and Phil Nelson, *Research Consultant*.

Mr. Janeway called the meeting to order at 9:06 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public minutes of the March 21, 2014 Investment Committee meeting. A motion to approve the public minutes of the March 21, 2014 Investment Committee meeting was made by Mr. O'Donnell and seconded by Mr. Sosnoff. The motion carried unanimously.

Mr. Johansen reviewed the returns of the Marketable Investments portfolio for periods through March 31, 2014, referring to the NEPC "Total Marketable Assets" performance flash report for periods ending March 31, 2014.

Mr. Johansen noted that the transition of assets from the Batterymarch Financial Management emerging markets equity portfolio to Neuberger Berman ("Neuberger") has been completed. He indicated that the initial investment in the Neuberger emerging markets commingled fund was funded effective April 1st.

Mr. Johansen commented that contract documents associated with the System's \$150 million commitment to The Carlyle Group ("Carlyle") are close to being finalized. He commented that Carlyle's Sub-Saharan Africa fund had recently closed, but noted that a portion of that fund has been held for NHRS. He noted that contract documents associated with the System's \$150 million commitment to Standard Life Investments' Global Absolute Return Strategy are also close to being finalized, with an anticipated initial funding date of June 1st.

Mr. Johansen referred to the "Investment Work Plan" dated March 28, 2014, updated the Committee on several initiatives and provided an overview of today's agenda. He noted that the work plan for the 1st quarter of Fiscal Year 2015 has been added 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. Sosnoff to approve the investment work plan for the 1st quarter of Fiscal Year 2015. The motion carried unanimously.

The Committee agreed to focus the agenda for the July Committee meeting on discussion of global macroeconomic issues, and discussed several potential presentation topics.

Mr. Johansen and Mr. Markarian provided a brief introduction of core non-U.S. equity managers Fisher Investments ("Fisher") and Thornburg Investment Management ("Thornburg"). They referred to the "Core Non-U.S. Equity Manager Presentations" memo from L. Johansen dated April 7, 2014, and the "Fisher and Thornburg Peer Comparison Analysis" materials from NEPC dated April 25, 2014.

The Committee discussed the recent portfolio management team changes at Thornburg, as well as Fisher and Thornburg's historical performance returns and attribution in comparison to those of other managers on NEPC's core non-U.S. equity Focused Placement List. They discussed the difficulties faced by active portfolio managers when making investment decisions across global markets.

Mr. Aaron Anderson, Senior Vice President of Research and Investment Policy Committee member; and Mr. Tony Wang, Vice President and Relationship Manager, of Fisher provided a brief introduction of themselves and their firm. They referred to the "All Foreign Equity" presentation. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Wang indicated that there has been minimal recent turnover among Fisher's investment staff. He and Mr. Anderson commented that Fisher's institutional and retail

client groups both benefit from the firm's single centralized investment management process. Mr. Anderson discussed the varying top-down and bottom-up investment perspectives of the members of Fisher's Investment Policy Committee, and how macroeconomic factors are incorporated into the investment process.

Responding to a question from the Committee, Mr. Anderson discussed Fisher's sell discipline. He noted that generally there are three reasons that a stock would be sold from the portfolio: changes to Fisher's strategic macro-level thinking, which represents approximately 70% of historical portfolio turnover; stock specific issues or concerns, which represents approximately 20% of historical turnover; and general portfolio guideline compliance, which historically has represented approximately 10% of turnover.

In response to questions from the Committee, Mr. Anderson noted that the portfolio's annual turnover rate has not changed significantly over time, with the exception of 2012 in which turnover increased significantly as the portfolio was significantly repositioned. Mr. Wang compared the turnover of names in the portfolio to the portfolio's dollar turnover. Mr. Anderson indicated that the firm's competitive advantage lies in its ability to understand the macroeconomic environment better than its competition and to broadly diversify its portfolio in conjunction with the firm's macroeconomic beliefs. He discussed the portfolio's exposure to countries widely discussed in the media for featuring significant current account deficits.

Ms. Wendy Trevisani, Managing Director and Portfolio Manager; and Ms. Frances D'Alessio, Managing Director and Director of Client Relations, of Thornburg provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated April 25, 2014. A lengthy discussion with the Committee followed.

In response to several questions from the Committee, Ms. D'Alessio and Ms. Trevisani discussed the recent changes to the strategy's portfolio management team and the reasons behind the changes. Ms. Trevisani indicated that the changes were designed to enhance the strategy's execution dynamics and decision making in an effort to improve performance. She noted that internal discussion regarding potential portfolio management team changes had been ongoing for some time at Thornburg as relative performance has been poor in recent periods. She discussed efforts at the firm to ensure that investment decisions are consistent with the strategy's philosophy and investment process.

Responding to questions from the Committee, Ms. D'Alessio noted that the majority of outflows that the strategy has experienced lately have

come from the firm's retail client base. Ms. Trevisani indicated that portfolio turnover has been healthy since the changes to the portfolio management team were implemented, and discussed some of the different investment decisions made between the institutional client portfolios for which she now maintains responsibility and the retail mutual fund which is now overseen by portfolio managers Lei Wang and Bill Fries. She indicated that there has been no turnover among Thornburg's professional investment staff. However, she indicated there have been some changes in the responsibilities of some members of the investment staff.

Ms. Trevisani discussed risk control tools that the firm recently employed to better understand and analyze overall portfolio-level exposures. She indicated that she is very comfortable with the recent reorganization to the investment team and the analysts on which she relies to support the strategy's institutional clients, and she expects that portfolio performance should begin to improve by the end of the calendar year. Ms. D'Alessio indicated that the strategy in which NHRS invests represents half of Thornburg's assets under management, and commented that the firm remains fully committed to the strategy and efforts to make it is successful.

Mr. Johansen and Mr. Gill provided a brief introduction of private equity secondaries manager Lexington Partners ("Lexington") and Lexington Capital Partners VIII, LP ("LCP VIII"). They discussed the NHRS' existing investment in Lexington's prior secondaries fund, Lexington Capital Partners VII, LP ("LCP VII"), and the opportunity to invest in LCP VIII.

Mr. Lee Tesconi, Partner; and Mr. Mark Andrew, Principal, of Lexington provided a brief introduction of themselves and their firm. They referred to the "Lexington Capital Partners VII & VIII, L.P. – Global Secondary Acquisition Funds" presentation dated April 2014. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Tesconi indicated that regulatory changes enacted in the United States and Europe have resulted in a significant volume of private equity partnerships owned by financial institutions that will be sold on the secondary market over the next five years at levels of \$25-30 billion per year, similar to the volume of partnerships that have been on the market over the past couple of years. He commented that financial institutions were heavily invested in private equity historically with the expectation of gaining incremental business from general partners. He remarked that the ability of a secondaries general partner to execute and close on transactions with financial institutions that are looking to sell their partnership interests in

a timely manner is crucial, and is one of Lexington's key competitive advantages.

Following a brief break for lunch, the Committee discussed the Lexington presentation and the opportunity to invest in LCP VIII. A motion was made by Mr. Sosnoff and seconded by Mr. O'Donnell to commit \$50 million to Lexington Capital Partners VIII, LP, subject to contract and legal review. The motion carried unanimously.

Mr. Janeway 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. A motion was made by Mr. O'Donnell and seconded by Mr. Sosnoff to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Mr. O'Donnell, and Mr. Sosnoff.

Nay: None

Motion carried.

The Committee discussed the Fisher and Thornburg presentations; the structure of the System's non-U.S. equity portfolio; and the structure of the System's fixed income portfolio.

A motion was made by Mr. Sosnoff and seconded by Mr. O'Donnell to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Mr. O'Donnell, and Mr. Sosnoff.

Nay: None

Motion carried.

On a motion by Mr. O'Donnell, seconded by Mr. Sosnoff, the meeting adjourned at 12:58 p.m.