

NOTE: These public minutes were approved and executed at the September 19, 2014 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
August 22, 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 9:00 a.m.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously approved the public minutes of the July 18, 2014 Independent Investment Committee meeting, with one minor change.

Mr. Johansen provided an update on the Work Plan and reviewed investment returns through recent periods, referring to the NEPC Total Marketable Assets performance flash report for periods ending July 31, 2014, the Preliminary NEPC Total Fund performance flash report for periods ending June 30, 2014 and the NEPC Investment Performance Analysis for periods ending June 30, 2014. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen informed the Committee that Staff and NEPC have been in discussion with BlackRock to establish a strategic relationship focused on private equity co-investments. He stated that NEPC will prepare educational materials on co-investments to be presented in conjunction with a presentation from BlackRock at the October Committee meeting.

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. Jensen, Ms. Kelliher, Mr. O'Donnell, and Mr. Sosnoff.

Nay: None

Motion carried.

The Committee discussed upcoming organizational changes at Thornburg Investment Management (Thornburg) and provided an update on the transition of assets from Thornburg, which the Committee terminated at its May meeting, to Causeway Capital Management and LSV Asset Management.

The Committee discussed recent organizational changes at Windhaven Investment Management (Windhaven), which manages an opportunistic portfolio on behalf of NHRS. Mr. Johansen noted the recent resignation of Stephen Cucchiaro, effective June 27, 2014, who was the founder of Windhaven and served as Windhaven's Chief Investment Officer, Chair of its Investment Committee, and developed the proprietary quantitative model that serves as the foundation for the firm's investment process. According to Windhaven's senior management and parent, Charles Schwab & Co. (Schwab), Mr. Cucchiaro's resignation was unexpected and solely his decision. The motivations for Mr. Cucchiaro's resignation from Windhaven are not fully known but are personal in nature. Mr. Johansen stated that effective June 27th, the investment team has been led by current Head of Research, Linda Zhang and newly appointed Chair of the Investment Committee, Liz Ann Sonders. Ms. Sonders has been a member of Windhaven's Advisory Board since Schwab's acquisition of Windhaven in 2010 and will provide global macro and thematic investment views. This was a perspective previously provided by Mr. Cucchiaro. In addition to her duties as Investment Committee Chair, Ms. Sonders will remain in her current role as Chief Investment Strategist for Schwab. Mr. Johansen indicated that Staff and NEPC held productive meetings with Windhaven in which Ms. Sonders and the entire Research Team participated. He referenced the NEPC memo titled

“Windhaven Investment Management – Stephen Cucchiaro Departure”
dated August 22, 2014.

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

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Ms. Kelliher, Mr. O’Donnell, and Mr.
Sosnoff.

Nay: None

Motion carried.

On a motion made by Mr. Jensen, seconded by Mr. Sosnoff, the
Committee unanimously voted to terminate the investment management
agreement with Windhaven Investment Management (Windhaven) with
the portfolio assets removed from Windhaven to be transitioned to
Standard Life Investments Global Absolute Return Strategy, an
opportunistic strategy in which the System also currently invests.

Mr. Johansen and Mr. Gill provided a brief introduction of Alcentra and
the firm’s European Direct Lending Fund (EDLF).

Mr. Graeme Delaney-Smith, Head of European Direct Lending and
Mezzanine Investments; and Mr. Julian Colville, Managing Director, U.S.
Business Development, of Alcentra provided a brief introduction of
themselves and their firm. They referred to the “Alcentra European
Direct Lending Fund” presentation dated August 2014. A lengthy
discussion with the Committee followed.

In response to Committee member questions, Mr. Delaney-Smith
indicated that there is minimal deal flow in Portugal. He noted that the
EDLF loans generally contain a full suite of standard maintenance
covenants and provided examples of loans made by Alcentra which
included a detailed overview of a loan that needed to be restructured. Mr.
Colville explained that the \$2 million co-investment figure illustrated in
the presentation is invested alongside \$100 million from BNY Mellon,
which owns Alcentra. Mr. Delaney-Smith concluded by describing the
compensation structure received by Alcentra investment professionals,
which is designed to align with investors.

Mr. Johansen and Mr. Gill provided a brief introduction of HarbourVest and the firm's International Private Equity Partners VII fund (HIPEP VII). Mr. Johansen noted that the Committee made a \$50 million commitment in HarbourVest's secondary strategy fund (Dover Street VIII) in February 2013 and that the investment is performing as expected.

Ms. Kathleen Bacon, Managing Director; Mr. John Morris, Managing Director; and Mr. Scott Voss, Managing Director, of HarbourVest provided a brief introduction of themselves and their firm. They referred to the "HarbourVest – New Hampshire Retirement System" presentation dated August 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Morris explained that the largest investor in HarbourVest funds is a publicly listed vehicle called HVPE Limited that primarily consists of institutional investors and HarbourVest employees. Ms. Bacon confirmed that the first priority in the due diligence process is evaluating the fair value of the assets and forecasting the future cash flow of these assets and that the premium or discount paid for the assets is a direct result of this evaluation. Mr. Voss stated that peak equity exposure would be approximately 65 cents on each dollar committed. He noted that the re-up rate with existing managers in which HarbourVest invests has historically been about 70% but that HIPEP VII will be more concentrated so that figure will decline.

Mr. Jerrold Senser, Chief Executive Officer and Chief Investment Officer; Mr. Thomas Cole, Senior Executive Vice President and Deputy Chief Investment Officer; and Mr. Scott Weisenberger, Executive Vice President and Director of Client Service and Business Development, of Institutional Capital (ICAP) provided a brief introduction of themselves and their firm and a review of the Large Cap Value Domestic Equity portfolio that the firm manages on behalf of the System. They referred to the "New Hampshire Retirement System" presentation, dated August 22, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Senser provided an overview of recent organizational changes which included Mr. Cole's promotion from co-Director of Research to Deputy CIO. He also noted that Mr. Andrew Starr has been promoted to Director of Research and that Mr. Matthew Swanson has taken on day-to-day portfolio management responsibilities. Mr. Cole mentioned that ICAP is agnostic as to whether a stock is labeled as value or growth. He explained the portfolio strategy that has retired the "strong will get stronger" theme and maintains its "earn and return cash" theme.

In response to additional Committee member questions, Mr. Senser explained the recent underperformance of the portfolio and noted the reasons which included a few security selection mistakes. He noted that the philosophy has not changed and the firm believes that eventually the stocks in portfolio will be rewarded by the market. Mr. Senser stated that he does not believe that the strategy has suffered from capacity constraints. He concluded by stating that the strategy has gone through, and come out of, difficult times in the past and that eventually fundamental valuation will matter again.

Mr. Bhaskaran Swaminathan, Partner and Director of Research; and Mr. Peter Young, Partner and Director of Client Portfolio Services, of LSV Asset Management (LSV) provided a brief introduction of themselves and their firm and a review of the Large Cap Value Domestic Equity portfolio that the firm manages on behalf of the System. They referred to the “New Hampshire Retirement System” presentation, dated August 22, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Swaminathan explained the portfolio characteristics of the portfolio compared to various benchmarks and opined that stocks appear neither cheap nor overly expensive. Mr. Young noted that the trailing 12-month portfolio turnover was about 15% which is slightly less than the long-term average of 20% to 25%. Mr. Swaminathan concluded by stating that the strategy will generally outperform when value beats growth due to the deep value play and will tend to underperform when growth beats value.

The Committee discussed the Alcentra presentation and the opportunity to invest in EDLF. A motion was made by Ms. Kelliher and seconded by Mr. Jensen to commit \$50 million to Alcentra European Direct Lending Fund, subject to contract and legal review. The motion carried unanimously.

The Committee discussed the HarbourVest presentation and the opportunity to invest in HIPEP VII. Mr. Jensen made a motion to commit \$50 million to HarbourVest International Private Equity Partners VII, subject to contract and legal review. Ms. Kelliher seconded. Ayes: Mr. Janeway, Mr. Jensen, Ms. Kelliher, Mr. O'Donnell. Nay: Mr. Sosnoff. The motion passed.

The Committee continued the discussion from prior meetings regarding the Fixed Income Portfolio Structure. Mr. Johansen and Mr. Leonard summarized and provided rationales for their recommendations to allocate the System's fixed income asset allocation target of 25% to the following strategies: 10% to Multi-sector (tactical); 7% to Core; 5% to

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Global; and 3% to Unconstrained (tactical). They referred to the NEPC memo titled “Restructuring of the NHRS Fixed Income Portfolio”, dated August 22, 2014.

The Committee discussed, at length, the current NHRS fixed income portfolio and agreed with the recommendation outlined above.

On a motion by Mr. Jensen, seconded by Mr. O’Donnell, the Committee voted to reduce the portfolio assets managed by PIMCO by \$200 million and to retain GAM to manage an unconstrained fixed income portfolio, subject to contract and legal review, with the portfolio assets removed from PIMCO to be transitioned to GAM. The motion carried. Ms. Kelliher abstained due to her absence during the GAM presentations made at prior Committee meetings.

The Committee agreed that the next step is for NEPC and Staff to initiate a manager search which will result in finalist manager candidates to manage a multi-sector fixed income mandate and to make presentations to the Committee at a future meeting.

The Committee briefly discussed the article “The Global Security Deficit”.

On a motion by Mr. Sosnoff, seconded by Mr. Jensen, the meeting adjourned at 1:17 p.m.