

NOTE: These minutes were approved and executed at the January 23, 2015 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
December 19, 2014**

Public Minutes

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

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

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Scott Needham, *Investment Officer*; Greg Richard, *Investment Officer*; and Ami Carvotta, *Junior 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. Jensen, seconded by Mr. Sosnoff, the Committee unanimously approved the public minutes of the November 21, 2014 Investment Committee meeting, as presented.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. He noted that NGP XI, a private equity fund the Committee approved at its November meeting, closed yesterday and the GAM Unconstrained Bond portfolio was funded in December with \$200 million of the PIMCO redemption proceeds.

Mr. Johansen provided an update on the establishment of a cash management account ("CMA") which the Committee authorized at its November meeting. He indicated that Staff has had discussions with several potential managers and requested further guidance from the Committee. Mr. Johansen reminded the Committee that this account would be used primarily to support benefit payments and private debt/equity capital calls. The Committee agreed to move forward with discussions with IR+M, an existing NHRS fixed income manager, as IR+M is on NEPC's Focused Placement List and would provide a favorable fee structure given the existing relationship with the System. The

Committee also agreed to adjust the investment parameters established at the November Committee meeting as the strategy has evolved during the evaluation process. Mr. Johansen confirmed that updates would be provided to the Committee as the process continues.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Marketable Assets performance flash report for periods ending November 30, 2014. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen provided an overview of today's meeting noting that NEPC will provide a detailed presentation on the private equity/debt program and noted that performance has been very good since the program restart in 2009.

Mr. Johansen commented that Townsend would present a six-month update of their fiscal year 2015 real estate Investment Plan to the Committee. He noted that this plan includes the gradual rebalancing of the underlying strategic and tactical real estate portfolios to a 50%/50% target weighting and the gradual increase of the total real estate portfolio to its 10% target allocation. He provided a brief update of the two remaining direct properties in the portfolio.

Mr. Anthony Frammartino, Partner; Mr. Tony Pietro, Assistant Portfolio Manager; and Mr. Joe Davenport, Analyst, of Townsend provided an overview of their firm, reviewed the performance of the System's real estate portfolio, and presented an update of their Fiscal Year 2015 Investment Plan. They referred to the "New Hampshire Retirement System" presentation, dated December 19, 2014.

In response to Committee member questions, Mr. Frammartino noted that the firm currently generates approximately 80% of its revenue from discretionary relationships such as NHRS. Mr. Pietro noted that this shift away from the traditional advisory model has been driven by client demand. Mr. Frammartino provided an update on the investment team, noting that Asieh Mansour had been retained as an exclusive advisor to Townsend to enhance Townsend's global macro view.

In response to additional Committee questions, Mr. Frammartino stated that the NHRS target allocation of 10% to real estate is within the typical range of 8-10% for public pension plans. Mr. Leonard confirmed that NEPC public pension clients are, generally speaking, within this range. Mr. Frammartino noted that NHRS has benefited from the transition from owning direct properties to a more diversified portfolio and highlighted the performance returns. Mr. Pietro provided an update on

the remaining two direct properties within the real estate portfolio. Mr. Frammartino and Mr. Pietro confirmed that the projected distributions from existing real estate investments will be reinvested and are factored into each annual strategic plan.

Mr. Frammartino concluded by providing an overview of the global real estate outlook; associated investment opportunities; and answered Committee member questions regarding specific regions and sectors. He stated that given the strength of the United States Dollar, Townsend will look to hedge foreign currency exposure whenever possible.

Mr. Gill presented an overview of the status of the NHRS private equity/debt program; private equity/debt markets; and investment opportunities, as well as a proposed calendar year 2015 private equity/debt strategic plan for approval by the Committee. He referred to the presentations titled “Private Debt & Private Equity Portfolio Review” and “Annual Strategic Plan – Private Debt & Private Equity”, dated December 19, 2014.

In response to Committee member questions, Mr. Gill confirmed that the liquidity pacing model incorporates the quicker anticipated return of capital from private debt compared to private equity, which requires higher committed amounts to reach the target allocation of 5% to private debt. Mr. Gill stated that the asset allocation target of 10% to private equity & private debt is currently forecasted to be reached within the next few years, given certain assumptions including growth of the overall Total Fund; timing of investment cash flows; and opportunities. He confirmed that the pacing schedule is analyzed each year and adjustments are made accordingly as needed.

In response to additional Committee member questions, Mr. Gill stated that a lot of the private debt portfolio is priced on floating rates which should provide some protection when interest rates increase. Mr. Gill noted that as distributions are made from private debt and equity investments, the capital may be recycled within the existing investments or allocated to follow-on funds with General Partners that have been successful. Mr. Johansen noted that Staff and NEPC hold bi-weekly calls to discuss potential private debt/equity opportunities across a broad range of strategies.

A motion was made by Mr. Jensen and seconded by Ms. Kelliher to approve the private equity & debt strategic plan for calendar year 2015 which includes a pace of 3-4 commitments totaling approximately \$150 million, subject to market conditions. The motion carried unanimously.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(d) for the purpose of considering the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to the general community. A motion was made by Mr. Jensen and seconded by Ms. Kelliher to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Ms. Kelliher, and Mr. Sosnoff.

Nay: None

Motion carried.

Mr. Gill presented a detailed overview of the status of the NHRS private equity/debt program which included a thorough review of each investment since the program restart in 2009. He referred to the presentation titled "Private Debt & Private Equity Portfolio Review", dated December 19, 2014. A lengthy discussion with the Committee followed.

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

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Ms. Kelliher, and Mr. Sosnoff.

Nay: None

Motion carried.

The Committee discussed various benchmark options for private debt and private equity. Noting that the NHRS Investment Policy was last approved two years ago, Mr. Johansen asked the members of the Committee to review the NHRS Investment Policy for possible revisions.

The Committee discussed potential options for the semi-annual global macroeconomic presentations scheduled for the February Committee meeting. The Committee agreed on the following presentation topics: the declining price of oil and associated impact from both an economic and geopolitical perspective; the anticipated rise in interest rates and its impact on investments and the federal budget; and the European economy and outlook for the Euro.

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On a motion by Mr. Jensen, seconded by Ms. Kelliher, the meeting adjourned at 12:33 p.m.