

NOTE: These minutes were approved and executed at the January 20, 2017 Independent Investment Committee meeting.

Independent Investment Committee Meeting
December 16, 2016

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.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Greg Richard, *Senior Investment Officer*; Shari Crawford, *Junior Investment Officer*; Ashley Lloyd, *Junior Investment Officer*.

NEPC: 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. O'Donnell, the Committee unanimously approved the public minutes of the November 18, 2016 Investment Committee meeting, as presented.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He provided an overview of the upcoming January Committee meeting, stating that Actis will present the Committee with an opportunity to invest in their private equity energy fund, Actis Energy 4, and that the Committee will hear macroeconomic presentations from AB, Manulife, Neuberger Berman, and NEPC. Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending November 30, 2016. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen discussed the System's existing stable of transition managers and proposed adding a fifth transition manager to the pool. He provided a brief background of Pavilion Global Markets, Ltd. ("Pavilion"), noting that while he does not anticipate any upcoming transitions, adding the transition manager will allow for a more comprehensive review of transition management proposals in the future.

On a motion by Mr. Sosnoff, seconded by Ms. Kelliher, the Committee unanimously voted to add Pavilion to the NHRS transition manager pool, subject to contract and legal review.

Mr. Johansen provided an update on the status of the transition of the System's assets from the GMO Foreign Small Companies Fund to Segall, Bryant and Hamill's International Small Cap Collective Investment Trust, noting that staff is in the final stages of contract negotiation and that the transition is expected to finalize within the next couple of weeks.

The Committee discussed the presentations made by domestic smid cap equity managers AB and Thompson, Siegel & Walmsley ("TSW"); domestic small cap equity manager Wellington Management Company ("Wellington"); and unconstrained fixed income manager DoubleLine Capital ("DoubleLine") at the November Committee meeting.

On a motion by Mr. Jensen, seconded by Ms. Kelliher, the Committee voted unanimously to renew the Investment Management Agreement with AB through November 30, 2018.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the Committee voted unanimously to renew the Investment Management Agreement with DoubleLine through October 31, 2018.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee voted unanimously to renew the Investment Management Agreement with TSW through November 30, 2018.

On a motion by Mr. Sosnoff, seconded by Ms. Kelliher, the Committee voted unanimously to renew the Investment Management Agreement for the small cap U.S. equity mandate managed by Wellington through October 31, 2018.

Ms. Carolina Espinal, Managing Director; and Mr. John Morris, Managing Director; of HarbourVest Partners ("HarbourVest") provided a brief introduction of themselves and an overview of their firm and its buyout fund, HIPEP VIII Partnership Fund ("HIPEP VIII"), a re-up to the buyout fund HIPEP VII Partnership Fund ("HIPEP VII"), in which the System currently invests. They referred to the "New Hampshire Retirement System" presentation dated December 2016. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Ms. Espinal discussed the expected impact of Brexit on the global environment, adding that there were no changes to HarbourVest's investment strategy as a result of the

British referendum to leave the European Union. Mr. Morris discussed potential opportunities that may be created by market dislocations as a result of Brexit, stating that favorable private equity deals are typically sourced in times of uncertainty and volatility such as these. He discussed the structure and construction of HIPEP VIII, noting that the fund's mix of investments will provide the team with the opportunity to make diversified and well informed decisions.

Ms. Espinal provided a thorough review of the System's existing investment in HIPEP VII, explaining that the fund is nearly 85% committed and is expected to be fully committed by early 2017. She noted that differentiation of the fund's strategy and diversification across geography has been vital to the fund's success, allowing the fund to mitigate the J-curve, a favorable attribute which would be carried over to HIPEP VIII. Ms. Espinal provided her outlook on global investment opportunities, explaining that the team will look at consumer growth and opportunities across varying regions for HIPEP VIII, adding that having experienced team members regionally embedded in target locations provides a unique advantage when sourcing deals.

In response to questions from the Committee, Ms. Espinal discussed investment opportunities in the current market and the need for private equity stability and management to grow companies. She explained the details of the fund's primary strategy and added that the fund's complementary strategy consisting of secondary and co-investments will accelerate short-term performance and mitigate the J-curve. She provided a detailed overview of the fees and structure of HIPEP VIII, noting the fund will have a target size of \$1.0 billion and is expected to have its first close by the end of March 2017.

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

Mr. Anthony Frammartino, Principal; Mr. Tony Pietro, Portfolio Manager; and Mr. Joe Davenport, Vice President; of The Townsend Group ("Townsend") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated December 16, 2016. A lengthy discussion with the Committee followed.

Mr. Frammartino opened the discussion by commenting on the resilience of the real estate market in the current environment and briefly opined on the macroeconomic outlook for real estate. He provided an overview of the markets in which Townsend expects to find favorably priced assets

and discussed the recurring theme of investors overpaying for perceived safety, noting the importance of finding pricing dislocations in an overpriced market. Mr. Pietro commented on Townsend's investment plan, discussing long term drivers of performance and portfolio positioning. He provided a brief overview of the goals associated with the Fiscal Year 2017 Investment Plan, confirming that the firm has already achieved all three outlined goals for the fiscal year.

In response to questions from the Committee, Mr. Davenport reviewed significant contributors to performance since Townsend was awarded discretionary authority of the NHRS real estate portfolio in 2009. He explained that the excess value could be attributed to several factors including negotiated fee discounts and favorable execution within the core space. He commented upon the portfolio's since-inception outperformance which consistently places NHRS in the top quartile relative to its peers.

Responding to questions from the Committee, Mr. Frammartino provided an organizational update on Townsend's partnership with NorthStar Asset Management Group, Inc. ("NSAM"), noting that the merger finalized in early 2016 and that NSAM has since initiated a strategic partnership with Colony Capital, which is progressing with shareholder support and is expected to close in early 2017. He explained that NSAM and Colony Capital have maintained the integrity of Townsend's operating agreement and that the firm continues to operate efficiently.

Mr. Sean Gill, Partner; of NEPC referred to the "Private Equity & Private Debt Annual Portfolio Review" presentation dated December 16, 2016 and provided a detailed overview of the System's asset allocation of the private debt and private equity assets of the NHRS portfolio as of June 30, 2016. He discussed NEPC's private equity market thoughts and recommendations for each of the private equity strategies, supported by recent themes observed in fundraising, deal and exit volume, and relative returns at June 30, 2016 over various time periods.

Responding to questions from the Committee, Mr. Gill provided a broad overview of the private debt and private equity portfolio, noting that the portfolio continues to see favorable returns with relatively few underperformers. He commented on the portfolio's performance through June 30, 2016, noting that investments made since the portfolio restart in 2009 significantly boosted Fiscal Year 2016 returns for the full program (including legacy assets made prior to 2009 and investments made since 2009). He explained that the portfolio's illiquid program is performing better than expected and continues to add value to the total portfolio.

Mr. Gill provided a brief review of the twelve new commitments NHRS made over the past year, discussing the ways in which they complement the System's alternative asset portfolio. He commented upon the strength of the private equity and private debt program and reviewed the individual partnership details of select funds, noting that some newer funds struggled due to the J-curve impact. He highlighted funds expected to come to market in the near future, noting some may be potential re-up candidates.

Mr. Gill discussed NEPC's assumptions and recommendations for the successful positioning of the System's private markets portfolio going forward into 2017. He highlighted the strategic plan for the coming year and reviewed projected return assumptions by strategy, assumed net growth rate, and cash flow expectations. He noted that the plan remains flexible to allow for participation in favorable opportunities and avoidance of unfavorable opportunities.

On a motion by Mr. Sosnoff, seconded by Ms. Kelliher, the Committee unanimously agreed to approve the private debt & private equity strategic plan for calendar year 2017.

The Committee discussed upcoming market expectation presentations scheduled for the January meeting and potential topics of discussion for the remainder of 2017.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the meeting adjourned at 12:23 p.m.