

**NOTE:** These minutes were approved and executed at the January 26, 2018 Independent Investment Committee.

**Independent Investment Committee Meeting  
December 15, 2017**

**Public Minutes**

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

*Committee Members:* Maureen Kelliher, *Chair*; David Jensen; Patrick O'Donnell; and Keith Quinton.

*NHRS Trustees:* Dr. Richard Gustafson; and Germano Martins.

*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*.

Ms. Kelliher called the meeting to order at 9:01 a.m.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the Committee unanimously approved the public minutes and the non-public minutes of the November 17, 2017 Investment Committee meeting, as presented.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He provided a brief overview of the day's meeting, noting Townsend would present a semi-annual overview of the discretionary real estate program, followed by an annual update of the Private Equity and Private Debt program by NEPC. Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending November 30, 2017. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen referred to the "Abel/Noser Contract Renewal Memo" and briefly discussed the System's relationship with current trading cost analysis provider Abel/Noser, L.L.C. ("Abel/Noser"). He explained that the trading cost monitoring agreement is up for renewal upon completion

of the trading cost analysis for the quarter ending December 31, 2017, which Abel/Noser will present to the Committee at the February meeting.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously approved to renew the trading cost analysis agreement with Abel/Noser through December 31, 2019.

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 15, 2017. A lengthy discussion with the Committee followed.

Mr. Frammartino opened the discussion by providing an organizational update, noting Aon's acquisition of Townsend announced in early September is proceeding as anticipated and is expected to close in early 2018. He confirmed that the acquisition provides Townsend with the autonomy they need to continue to service clients and make investment decisions as they have done historically, adding that there will be no disruption to the NHRS relationship. Mr. Johansen added that Staff will continue to monitor the acquisition and will report to the Investment Committee if there are any adverse changes.

In his response to questions from the Committee, Mr. Pietro provided a thorough overview of the System's real estate program, noting just under \$1 billion has been committed to or invested across 52 investments since Townsend was awarded discretion of the NHRS real estate portfolio in 2009, resulting in a net annualized return of 13.9%. He reviewed the program's Fiscal Year 2018 goals and confirmed all goals have been met as of the date of the meeting. Mr. Pietro discussed asset management, noting the Committee's decision in June 2017 to adjust asset allocation guidelines was beneficial to performance, allowing increased allocation to income-driven open-ended funds to provide downside protection. He discussed plans to initiate new investments, noting the team will continue to actively manage the portfolio to look for favorable opportunities and will adjust allocation as needed. He reviewed the firm's strategy of negotiating discounts when trading into core diversified funds, a practice which results in significant management fee savings and is additive to the performance of the NHRS portfolio, which ranks in the top 5% over the past 10 years relative to comparable real estate investors. He added that the portfolio continues to add value as investments are realized and remains in compliance with guidelines.

Responding to questions from the Committee, Mr. Davenport reviewed new investments initiated over the Fiscal Year, providing a detailed

overview of the investment thesis and the team's expectations for each. Mr. Davenport reviewed the fee discounts Townsend negotiated on NHRS's behalf and provided growth expectations for each investment, noting the team remains convicted in open-ended funds, particularly due to the added liquidity and downside protection the income-producing investments provide. Mr. Frammartino closed by providing a detailed overview of the firm's market outlook, noting that the portfolio's high quality investments should perform favorably and produce income in an uncertain environment, adding that the program has been strategically designed to provide downside protection.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously agreed to renew the real estate investment management agreement with The Townsend Group through December 31, 2019.

Mr. Sean Gill, Partner; of NEPC referred to the "Private Equity & Private Debt Annual Portfolio Review" presentation dated December 15, 2017 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, 2017. 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, 2017 over various time periods.

Responding to questions from the Committee, Mr. Gill reviewed portfolio returns over the year, noting a trailing five-year return of 10.7% for the full program and a five-year return of 11.2% for investments from the Restart program, initiated in 2009. He added that investments in the full program are performing as expected or better than expected, adding that there are a small number of investments underperforming their target. He confirmed that relative underperformance of these investments is not significantly concerning and added that the investments will continue to be monitored. He provided a thorough overview of the portfolio, reviewing performance over each vintage year and the changes made to the program over the year, noting the program continues to perform as expected and continues to add value to the total portfolio.

In his response to questions from the Committee, Mr. Gill confirmed that the legacy investments continue to wind down and make up a small slice of the portfolio. He highlighted the funds projected to come to market in the near future and the program's funding plans over the 2018 calendar year, noting that he expects the program to commit approximately \$250 million over the 2018 calendar year. 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 and closed by providing his market outlook and the expected impact on funding and performance.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the Committee unanimously agreed to approve the private debt & private equity strategic plan for calendar year 2018.

Mr. Johansen and Ms. Kelliher offered their congratulations to Mr. O'Donnell on his retirement from the Independent Investment Committee and recognized his lengthy period of service on the Committee and the impact he had on the New Hampshire Retirement System. Mr. O'Donnell discussed his tenure on the Committee and offered his gratitude and appreciation to the Committee members and staff.

On a motion by Mr. O'Donnell, seconded by Mr. Quinton, the meeting adjourned at 10:40 a.m.