

NHRS Independent Investment Committee
February 21, 2014

NOTE: These minutes were approved and executed at the March 21, 2014 Independent Investment Committee.

**Independent Investment Committee
February 21, 2014**

Public Minutes

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

Committee Members: Harold Janeway, *Chair*; David Jensen; Patrick O'Donnell; Catherine Provencher, *delayed arrival*; and Hersh Sosnoff, *telephonically*.

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*; and Tim McCusker, *Partner and Director of Traditional Research*.

Mr. Janeway called the meeting to order at 9:08 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public and non-public minutes of the January 24, 2014 Investment Committee meeting. A motion to approve the public and non-public minutes of the January 24, 2014 Investment Committee meeting was made by Mr. Jensen and seconded by Mr. O'Donnell. The motion carried unanimously.

Mr. Johansen referred to the "Six-month Investment Work Plan" dated February 3, 2014, updated the Committee on several initiatives and provided an overview of today's agenda.

Mr. Johansen provided an update on the status of the liquidation of the fund-of-funds absolute return portfolio managed by Arden Asset Management ("Arden"). He indicated that to date, NHRS has received approximately \$39 million in proceeds from Arden, which represents approximately 88% of the portfolio's pre-liquidation market value. He

commented that the remainder of the portfolio is invested in less-liquid assets, and is expected to be distributed to NHRS slowly over time.

Mr. Johansen provided manager updates to the Committee and noted that a portfolio manager recently departed Batterymarch Financial Management (Batterymarch) and that the transition of assets from Batterymarch to Neuberger Berman is being expedited and is expected to occur on April 1st. He stated that Staff has had multiple conference calls with Thornburg Investment Management regarding the recent portfolio manager changes discussed at the January Committee meeting and noted that Staff will continue to monitor and provide pertinent updates to the Committee.

Mr. Johansen stated that the transition management contracts with BNY Mellon and Abel/Noser have been finalized.

Mr. Johansen updated the Committee on the status of a private debt commitment the Committee approved in August 2012 and recommended a withdrawal of the commitment. A motion was made by Mr. Jensen and seconded by Mr. O' Donnell to withdraw the System's \$20 million commitment to Lighthouse Capital Partners VII. The motion carried unanimously

Mr. Johansen provided a brief update on the returns of the Marketable Investments portfolio through January 31, 2014. For the seven-month fiscal year-to-date period ending January 31st the Marketable Investments portfolio returned 8.9%, underperforming the return of its custom benchmark of 9.5%. The 1-year return through January 31, 2014 for the Marketable Investments portfolio was 12.0%, 20 basis points below the 12.2% return of the custom benchmark for the same period. The 5-year return of the Marketable Investments portfolio through January 31, 2014 was 14.8%, 30 basis points ahead of the custom benchmark return of 14.5%.

Mr. Johansen and Mr. Leonard provided a brief introduction of Standard Life Investments and referred to a NEPC memo titled "Standard Life Global Absolute Return Strategy GTAA", dated February 10, 2014.

Mr. Guy Stern, Head of Multi-Asset and Macro Investing; Mr. Eric Roberts, Head of U.S. Business Development; and Ms. Megan Costa, Director of U.S. Business Development, of Standard Life Investments provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System – Global Absolute Return Strategies (GARS)" presentation, dated February 21, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Stern provided specific examples of how investment ideas are implemented within the GARS portfolio including the various instruments utilized. He noted that positions are sized based on risk, as measured by volatility. Mr. Stern informed the Committee that annual turnover is approximately 20%-30% as investments are made with the intention of a 3-year holding period as opposed to daily portfolio churning. He confirmed that the GARS portfolio is constructed to meet its investment objective in most economic environments. Mr. Stern noted that there are currently about 55 investment ideas in the GARS universe with the most attractive of those ideas implemented within the portfolio.

In response to additional Committee member questions, Mr. Stern opined that GARS is unique primarily due to the significant firm research resources as well as taking the longer-term view versus most competitors which take a much shorter-term view. He noted that the average daily volume on each investment is measured and that GARS has plenty of capacity remaining. Mr. Stern stated that historically about 69% of investment ideas implemented achieve their investment objective. He concluded by noting that in his opinion the GARS product is no more complicated than an equity portfolio as equity portfolios tend to not only hold more positions but also have a much greater turnover level than GARS.

Ms. Provencher arrived at this time.

Mr. Johansen and Mr. Gill provided a brief introduction of The Carlyle Group (Carlyle) and referred to the NEPC memos titled “Carlyle Solutions Group”, dated February 11, 2014 and “Carlyle – Investment Due Diligence Research Report”, dated February 6, 2014.

Mr. David Rubenstein, Co-Founder and Co-CEO; Mr. Nadim Barakat, Managing Director; and Ms. Jessica Brennan, Managing Director of Investor Relations, of Carlyle provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” presentation, dated February 2014. A lengthy discussion with the Committee followed.

Mr. Sosnoff terminated his participation by telephone at this time.

In response to Committee member questions, Mr. Rubenstein confirmed that if the System retained Carlyle, the System would have access to four Carlyle funds focused on Africa, Asia, Japan and South America, as well as co-investment opportunities. Mr. Rubenstein confirmed that India is a complicated area to invest in and that he doesn't anticipate deploying

any capital in India over the short-term. He stated that the firm does not expect to invest in Argentina over the next few years. Ms. Brennan confirmed that Carlyle would have discretion over co-investments. Mr. Rubenstein explained the various ways to exit an investment such as via an IPO and noted that about half of exits take the form of selling the investment to another private equity firm. He concluded by noting that as the third largest economy in the world, there are significant opportunities to invest private capital in undermanaged Japanese companies.

Mr. Johansen and Mr. Gill provided a brief introduction of CCMP Capital (CCMP) and referred to the NEPC memos titled “CCMP Capital Investors III”, dated February 11, 2014 and “CCMP Capital Investors III – Fund Review and Evaluation”, dated February 2014.

Mr. Jonathan Lynch, Managing Director and Investment Committee member, of CCMP provided a brief introduction of himself and the firm. He referred to the “CCMP Capital – Presentation for New Hampshire Retirement System”, dated February 21, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Lynch confirmed that CCMP focuses on growing companies organically rather than through acquisitions. He noted that the firm is continuously performing research on sub-sectors within the four major sectors that the firm specializes in to gauge the attractiveness of the sub-sectors and generate investment ideas. Mr. Lynch noted that CCMP’s owners have committed approximately 5% of the total capital in the CCMP III fund. He concluded by stating that CCMP III will target 12-15 investment positions.

Mr. Ian Leverich, Vice President, of Abel/Noser Corporation (A/N) provided a brief introduction of himself and the firm. He referred to the “New Hampshire Retirement System Transaction Cost Analysis” presentation for the period January 1, 2013 through December 31, 2013.

In response to questions from the Committee, Mr. Leverich confirmed that the A/N transaction cost analysis is performed only on the System’s separate accounts.

Mr. Jack Flaherty, Investment Director; Mr. Alex McKnight, Investment Manager; and Ms. Kristin Hovencamp, Director, Institutional Sales of GAM provided a brief introduction of themselves and their firm. They referred to the “Unconstrained Bond Strategies” presentation, dated February 21, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Flaherty and Mr. McKnight provided some investment examples within the GAM Unconstrained Bond portfolio and summarized the historical returns.

Mr. Rick Rieder, Managing Director and CIO of Fundamental Fixed Income; Mr. Matthew Marra, Managing Director and Senior Product Strategist; Mr. Douglas McNeely, Managing Director of Institutional Client Business; and Ms. Shannon Nelson, Associate of Institutional Client Business, of BlackRock provided a brief introduction of themselves and their firm. They referred to the “Unconstrained Fixed Income” presentation, dated February 21, 2014. A lengthy discussion with the Committee followed.

The Committee discussed today’s presentations and Mr. Johansen summarized the opportunities to invest with Carlyle, CCMP and SLI GARS.

A motion was made by Mr. O’Donnell and seconded by Mr. Jensen to commit up to \$150 million with Carlyle over a multiple year period to invest in emerging markets and developed Asia on behalf of NHRS, subject to contract and legal review. The motion carried unanimously.

A motion was made by Mr. Jensen and seconded by Ms. Provencher to commit \$50 million to CCMP Fund III, subject to contract and legal review. The motion carried unanimously.

The Committee agreed that SLI GARS would be added to the March agenda to present to the Committee.

On a motion by Mr. Jensen, seconded by Mr. O’Donnell, the meeting adjourned at 2:25 p.m.