

NOTE: These public minutes were approved and executed at the March 20, 2015 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
January 23, 2015**

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: Germano Martins.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Scott Needham, *Investment Officer*; and Greg Richard, *Investment Officer*.

NEPC, LLC: Tim McCusker, *Chief Investment Officer*; Kevin Leonard, *Partner and Senior Consultant*; and Sean Gill, *Partner*.

Mr. Janeway called the meeting to order at 9:01 a.m.

On a motion by Mr. Jensen, seconded by Ms. Kelliher, the Committee approved the public and non-public minutes of the December 19, 2014 Investment Committee meeting, as presented. Mr. O'Donnell abstained from the vote as he did not attend the December Committee meeting.

Mr. Johansen provided an update on the status of the restructuring of the Fixed Income portfolio. He indicated that the Income Research + Management ("IR+M") short-duration cash management fixed income mandate has been funded and that IR+M is in process of building the portfolio to its desired positioning. He noted that staff is engaged in the final phases of the contract negotiation process with Manulife, and that he anticipates this mandate being funded within the next couple of weeks. Lastly, he commented that the GAM mandate was funded in December. The Committee agreed to review the manager allocation within the aggregate Fixed Income portfolio at an upcoming Committee meeting.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Fund performance flash report for periods

ending December 31, 2014. He discussed the returns of various managers and assets classes over multiple time periods. The Committee discussed the impact of the strong U.S. Dollar on the Non-U.S. Equity portfolio's recent returns.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives and noted that the 4th quarter of Fiscal Year 2015 has been added to the Work Plan for the Committee's consideration. He commented that the Work Plan remains flexible and subject to change as the Committee deems appropriate. On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously approved the investment work plan for the 4th quarter of Fiscal Year 2015, as presented.

Mr. Johansen noted that the NHRS Investment Policy has been provided with the materials for today's meeting, for the Committee's review. The Committee agreed to review the benchmarks for the Domestic Equity, Real Estate and Alternative Investment asset classes, as well as the lower range of the target allocation to the Real Estate and Alternative Investments asset classes, at a future Committee meeting.

Mr. Gill provided a brief introduction of CarVal Investors LLC ("CarVal") and CarVal Investors Credit Value Fund III ("CVF III"). The Committee discussed the relationship between CarVal and Cargill Inc., as well as the nature of distressed investing in general.

Mr. Lucas Detor, Senior Managing Director; and Ms. Kerry Fauver, Managing Director, of CarVal presented a brief introduction of themselves and their firm. They referred to the "CVI Credit Value Fund III" presentation dated January 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Ms. Fauver indicated that CarVal anticipates drawing investor capital over the first 12 to 15 months of the CVF III investment period. Mr. Detor discussed CVF III's current positioning and explained how hard asset investments fit into the portfolio construction process. He discussed the net returns of CarVal's prior funds and how the firm's investment professionals are compensated.

Responding to questions from the Committee, Mr. Detor discussed the relationship between CarVal and Cargill. He indicated that the Cargill relationship is beneficial to CarVal from a strategic standpoint, but that Cargill does not influence CarVal's investment process. He noted that Cargill invests in CarVal's funds as a limited partner and receives no special benefits or discounts over other limited partners.

Mr. Detor expressed that NHRS would receive a management fee discount due to the System's relationship with NEPC, as well as the opportunity to hold a seat on CVF III's investment advisory committee.

In response to questions from the Committee, Mr. Detor explained how CarVal monitors its business deals in conjunction with the U.S. Foreign Corrupt Practices Act. He discussed CarVal's separate account clients, which he indicated are typically clients that are interested in CarVal's investment products but are precluded from investing in commingled fund vehicles.

Mr. Gill provided a brief introduction of Comvest Capital Advisors LLC ("Comvest") and Comvest Capital Fund III ("Fund III"). He discussed Comvest's fee structure and NEPC's existing client exposure to Comvest.

Mr. Robert O'Sullivan, Partner; Mr. Greg Reynolds, Managing Director; and Mr. Dan Lee, Managing Director, of Comvest presented a brief introduction of themselves and their firm. They referred to the "Comvest Capital Presentation to New Hampshire Retirement System" presentation dated January 23, 2015. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. O'Sullivan reviewed Comvest's organizational structure, which features a private equity team and a private debt team, both focused on the lower middle market space. He explained how the two teams share organizational resources and information.

In response to questions from the Committee, Mr. Reynolds indicated that Comvest makes repeat loans to portfolio companies that are performing well, while avoiding secondary loans to those companies that are not meeting performance expectations. Mr. O'Sullivan discussed the spread between Comvest's prior fund's gross and net returns. Mr. Reynolds commented that the gross/net spread is narrowing across the industry, to the benefit of limited partners.

Responding to questions from the Committee, Mr. O'Sullivan discussed examples of unsuccessful portfolio company loans and Mr. Lee discussed Comvest's loss modeling process. Mr. O'Sullivan indicated that approximately 65% of Fund III's limited partners will be repeat investors.

The Committee discussed in detail the presentations made by CarVal and Comvest, and the investment opportunities presented by CarVal's CVF III and Comvest's Fund III. They discussed the differences between the two

firms and the spaces in which they invest, as well as how each fund would respectively fit within the aggregate NHRS private debt portfolio.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee unanimously agreed to commit \$50 million to CarVal's CVF III, subject to contract and legal review.

On a motion by Mr. Jensen, seconded by Ms. Kelliher, the Committee unanimously agreed to commit up to \$40 million to Comvest's Fund III, subject to contract and legal review.

Mr. Johansen reviewed the process by which the Investment Committee participates in the Board of Trustees' five-year actuarial experience study and making a recommendation to the Board of Trustees for the actuarial assumed rate of return. He indicated that he would work with Mr. Lagos to prepare a calendar for the Board's upcoming experience study exercise.

Mr. McCusker referred to the "NEPC 2015 Outlook" presentation, dated January 2015. A lengthy discussion with the Committee followed.

The Committee discussed NEPC's 2015 expected returns across various asset classes, in conjunction with the System's actuarial assumed rate of return of 7.75%. In response to questions from the Committee, Mr. McCusker commented that he has a high level of confidence in the following: NEPC's fixed income return assumptions, given that starting yields are typically a reliable indicator of future returns; that emerging markets equities will outperform developed market equities over the next 5-7 years; and that illiquid asset classes will outperform liquid asset classes over the next 5-7 years. He also expressed his opinion that Commodities may outperform NEPC's 5-7 year return forecast of 5.25% given the recent fall in oil prices.

The Committee requested that NEPC review their 2015 asset class assumptions in conjunction with the System's target asset allocation, and present any recommendations that they may have that would assist NHRS in meeting its 7.75% actuarial assumed rate of return.

On a motion by Mr. Sosnoff, seconded by Mr. O'Donnell, the meeting adjourned at 12:23 p.m.