

NOTE: These minutes were approved and executed at the September 20, 2013 Independent Investment Committee meeting.

**Independent Investment Committee
July 19, 2013**

Public Minutes

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

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

NHRS Trustees: 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 Scott Driscoll, *Consultant*.

Mr. Janeway called the meeting to order at 9:02 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public minutes of the June 21, 2013 Investment Committee meeting. As there were none, a motion to approve the public minutes of the June 21, 2013 Investment Committee meeting was made by Ms. Provencher and seconded by Mr. O'Donnell. Mr. Jensen abstained from the vote, as he did not attend the June 21st Committee meeting. The motion carried unanimously.

Mr. Johansen updated the Committee on the System's response to concerns raised by external auditor KPMG on the management letter that was issued upon conclusion of KPMG's 2012 audit of NHRS. He commented that the concerns raised by KPMG regarded the documentation of due diligence and the valuation procedure for alternative investments; and the procedure for validating the June 30th valuation of real estate investments. He remarked that KPMG has approved the procedures that NHRS has implemented with regard to all of these processes.

Mr. Johansen provided a brief update on the status of the transition of custodial banking services from Northern Trust to Bank of New York Mellon (“BNYM”). He indicated that the transition has gone very smoothly and that a couple of minor related issues that have arisen with Northern Trust in conjunction with the transition have been resolved. He commented that among the enhancements in services NHRS receives from the transition to BNYM is a much simpler, more robust private market capital call process that features an improved audit trail. He noted that the initial capital call received subsequent to the transition was due July 1st, and that the capital call was successfully funded via this improved process with BNYM. He commented that the performance reporting transition is the next phase of the conversion process.

Mr. Johansen provided an update on the liquidation of the absolute return fund-of-funds strategy managed by Arden Asset Management (“Arden”). He noted that a distribution of approximately \$7 million is expected from Arden around August 1st, which brings the total amount received from Arden to date to approximately \$31 million, representing approximately 70% 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 fully liquidated over the next 12 months.

Mr. Johansen reviewed the preliminary performance of the Marketable Investments portfolio for periods ending June 30, 2013. For the fiscal year ended June 30th, the Marketable Investments portfolio returned 14.8%, exceeding the return of its custom benchmark of 13.4% by 140 basis points. For the three-year period ending June 30th, the Marketable Investments portfolio returned 12.3%, exceeding the return of its custom benchmark of 12.0% by 30 basis points. For the five-year period ending June 30th, the Marketable Investments portfolio returned 6.1%, exceeding the return of its custom benchmark of 5.6% by 50 basis points. The Committee briefly discussed the recent performance returns of the fixed income managers.

Mr. Johansen informed the Committee that Aberdeen Asset Management (“Aberdeen”) recently offered NHRS additional investment capacity in the amount of \$25 million in their Emerging Markets Small Cap commingled fund in which the System currently invests. Following a brief discussion, a motion was made by Mr. O’Donnell and seconded by Mr. Jensen to invest an additional \$25 million in the Aberdeen Emerging Markets Small Cap commingled fund, with the funds to be sourced from the BlackRock S&P 500 Index portfolio. The motion carried unanimously.

After a brief discussion, a motion was made by Ms. Provencher and seconded by Mr. Jensen to cancel the August 23, 2013 Investment Committee meeting, given its light agenda. The motion carried

unanimously. The next meeting of the Investment Committee is scheduled for Friday, September 20, 2013.

Mr. Johansen provided an update to the Work Plan dated June 26, 2013. He noted that the second quarter of Fiscal Year 2014 has been added to the Work Plan for the Committee's consideration and briefly reviewed the items included for the second quarter. He commented that the Work Plan is flexible and subject to revision by the Committee. A motion was made by Mr. Jensen and seconded by Mr. O'Donnell to approve the Work Plan for the second quarter of Fiscal Year 2014. The motion carried unanimously.

Mr. Johansen provided a legislative update, referring to the "2013 Legislative Tracker" dated July 10, 2013. In response to questions from the Committee, Mr. Lagos provided an update on lawsuits related to previously enacted legislation regarding House Bill 1645 and House Bill 2.

The Committee discussed the presentation made by fixed income investment manager Brandywine Global Investment Management ("Brandywine") at the June Committee meeting. A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to renew the investment manager agreement with Brandywine through August 2015. The motion carried unanimously.

The Committee discussed the presentation made by fixed income investment manager Loomis Sayles & Company ("Loomis") at the June Committee meeting. In response to a question from the Committee, Mr. Leonard indicated that Loomis has not experienced significant client turnover since the departure of former portfolio manager Kathleen Gaffney earlier this year. A motion was made by Ms. Provencher and seconded by Mr. O'Donnell to renew the investment manager agreement with Loomis through August 2015. The motion carried unanimously.

Mr. Johansen and Mr. Gill provided a brief introduction of middle-market private debt manager Monroe Capital ("Monroe"). They briefly explained Monroe's investment strategy and process.

Mr. Theodore Koenig, Managing Director; Mr. Zia Uddin, Managing Director; and Mr. Kyle Asher, Vice President, of Monroe presented an overview of their firm and its private debt fund, Monroe Capital Senior Secured Direct Loan Fund LP ("SSDL Fund"). They referred to the "New Hampshire Retirement System" presentation dated July 19, 2013.

In response to several questions from the Committee, Mr. Koenig indicated that the SSDL Fund will hold approximately 50 positions over

its lifecycle and will be well-diversified across sectors; he commented that the Fund's concentration limits are 10% for an individual position and 20% for an individual sector; he remarked that the SSDL Fund seeks a three to five-year contractual lending period with its portfolio companies; he noted that less than 5% of portfolio companies end up listing on a public stock exchange; and he cited the main risk to the Fund as the possibility that Monroe underwrites the wrong companies.

Responding to additional questions from the Committee, Mr. Koenig commented that pension funds, endowments and family offices are the primary investors in the SSDL Fund. He remarked that there are many new large competitor firms in this asset space, but that industry relationships are what drive the underwriting deals. With regard to staff turnover, Mr. Koenig commented that Monroe reduced its origination and underwriting staff in 2008-09, given the market environment and the significant reduction in competition; he noted that subsequently the staffing level of these groups have been brought back to pre-reduction levels. Mr. Uddin commented that the key competency of Monroe is its experience in the middle-market space, which is difficult for the competition to replicate.

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 Mr. O'Donnell to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Mr. O'Donnell, and Ms. Provencher.
Nay: None

Motion carried.

The Committee discussed the opportunity to invest in the Monroe Capital Senior Secured Direct Loan Fund LP and in the Ridgewood Energy Oil & Gas Fund II.

A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Mr. O'Donnell, and Ms. Provencher.

Nay: None

Motion carried.

A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to commit up to \$50 million to Monroe Capital Senior Secured Direct Loan Fund LP Levered Vehicle, subject to contract and legal review. The motion carried unanimously. The Committee acknowledged that the System's commitment may exceed 10% of the SSDL Fund in the event that the Fund does not meet its \$500 million commitment hard cap, and that NHRS has been offered a seat on the SSDL Fund advisory board.

Mr. Johansen noted that Industry Ventures, a private equity secondaries manager with which NHRS initiated an investment in 2011 (Industry Ventures Fund VI), is coming to market with a new fund that he would like to bring to the Committee for consideration at the September meeting. Mr. Gill briefly described the new fund, which is expected to be over-subscribed, and its investment process to the Committee. In response to a question from the Committee, Mr. Gill reviewed the performance returns of Fund VI. The Committee agreed to a tentative commitment to Fund VII subject to confirmation at the September meeting.

Mr. Nishant Upadhyay, Senior Vice President and Portfolio Manager; Ms. Elizabeth Philipp, Executive Vice President and Account Manager; and Mr. Ignacio Galaz, Vice President and Account Manager, of PIMCO provided a brief introduction of themselves and their firm. They referred to the "2013 Secular Outlook: New Normal...Morphing" presentation, dated July 19, 2013. A lengthy conversation with the Committee followed.

In response to questions from the Committee, Mr. Upadhyay discussed the opportunities and choices facing governments around the world that will impact the change in their respective economies' future GDP growth rates; he discussed the significant level of potentially troubled loans outstanding in the Chinese economy; he discussed the investment opportunity in various emerging markets for a firm as large as PIMCO; and he commented PIMCO's expectation that the euro currency will survive, but perhaps not in its current form.

Upon conclusion of the Secular Outlook presentation, Mr. Upadhyay, Ms. Philipp, and Mr. Galaz referred to "The Rate Debate" presentation, dated July 19, 2013, which focused on PIMCO's expectations for the future direction of interest rates. A robust discussion with the Committee followed.

The Committee discussed fixed income benchmarking and the attractiveness of unconstrained non-traditional fixed income products, and agreed to further discuss this topic at a subsequent Committee meeting.

Mr. Ray Prasad, Director and Senior Portfolio Manager; Ms. Liz Su, Portfolio Manager; and Mr. Jon Simon, Director of Client Service, of Batterymarch Financial Management (“Batterymarch”) provided a brief introduction of themselves and their firm. They referred to the “China: The Story Behind the Headlines” presentation, dated July 19, 2013. A lengthy conversation with the Committee followed.

In response to questions from the Committee, Mr. Prasad and Ms. Su indicated that China’s political leaders as a group are determined to proceed with positive market reforms, despite the different political leanings among the individual politicians, and that these reforms are being enacted more rapidly than anticipated. Mr. Prasad confirmed that Batterymarch focuses on data trends with respect to China rather than specific data points, which are difficult to validate. Mr. Prasad commented that commercial codes in China are changing to be more similar to those in western economies, but that China remains an economy in transition.

Mr. Steve Weiss, Principal; Mr. Jake Remley, Senior Portfolio Manager; and Mr. Jim Gubitosi, Senior Portfolio Manager, of Income Research + Management (“IR+M”) presented a brief introduction of themselves and their firm. They referred to the “Toxic Assets – From Pre-Crisis to Now” presentation, dated July 19, 2013. A thorough discussion with the Committee followed.

In response to questions from the Committee, Mr. Remley commented that the remaining outstanding debt that was considered toxic during the credit crisis and market downturn of 2007-08 is viewed somewhat positively today if purchased at attractive prices, given: the attractive coupon rates on these bonds; the reduced loss expectations for many of these securitized issues; and improvements in the housing markets. Mr. Gubitosi indicated that IR+M considers these securities similar to high yield bonds today, in that there is greater potential for additional write-downs with these securities than with more traditional investment-grade fixed income issues. He discussed the outstanding litigation that could further impact these bonds.

Responding to questions from the Committee, Mr. Remley commented that the entire universe of this outstanding debt represents approximately \$800 billion in market value, which is declining by approximately 20% on an annual basis. Mr. Gubitosi remarked that the

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systematic risk with regard to these bonds has been reduced as they are now held in investor portfolios rather than on bank balance sheets.

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the meeting adjourned at 1:48 p.m.