

NHRS Independent Investment Committee  
July 18, 2014

**NOTE:** These minutes were approved and executed at the August 22, 2014 Independent Investment Committee meeting.

**Independent Investment Committee  
July 18, 2014**

**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:* Dick Gustafson, Ph.D, David McCrillis and Don Roy.

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

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

Mr. Janeway called the meeting to order at 9:00 a.m.

Mr. Janeway introduced Ms. Maureen Kelliher, who was appointed to the Committee by the Board Chair at the July meeting of the NHRS Board of Trustees.

On a motion by Mr. O'Donnell, seconded by Mr. Sosnoff, the Committee approved the public minutes of the June 20, 2014 Independent Investment Committee meeting, as presented. Mr. Jensen abstained given his early departure from the June 20<sup>th</sup> meeting.

Mr. Johansen reviewed preliminary investment returns through recent periods, referring to the NEPC Total Fund performance flash report for periods ending June 30, 2014. For the fiscal year ending June 30<sup>th</sup> the Total Fund portfolio returned 16.9%, underperforming the return of its custom benchmark of 18.4%. He noted that the final Total Fund performance returns will be available in September once the real estate and alternative investments actual June 30<sup>th</sup> market values are incorporated. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen provided an update on the status of the Non-U.S. Equity portfolio decisions approved by the Committee at its May meeting. He indicated that the Investment Management Agreements (“IMAs”) for the three new mandates are under review by the System’s external legal counsel and will be finalized in the near term. He commented that portfolio transition activity will be executed shortly thereafter.

Mr. Johansen referenced the “Investment Work Plan” dated June 24, 2014 and noted that the work plan for the 2<sup>nd</sup> quarter of Fiscal Year 2015 has been added for the Committee’s consideration. He commented that the work plan remains flexible and subject to change as the Committee deems appropriate. A motion was made by Mr. Jensen and seconded by Mr. O’Donnell to approve the investment work plan for the 2<sup>nd</sup> quarter of Fiscal Year 2015. The motion carried unanimously.

Mr. Johansen provided an overview of today’s agenda and stated that several presentations would be made on global macroeconomic issues.

Mr. Joseph Carson, Director of Global Economic Research and Ms. Elizabeth Smith, Senior Managing Director of Public Funds, of AllianceBernstein provided a brief introduction of themselves and their firm. They referred to the “U.S. Longer Run Outlook” presentation, dated July 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Carson stated that, as much as possible, AllianceBernstein independently confirms the U.S. Bureau of Labor Statistics data. He indicated that recent studies suggest that the vast majority of people who have left the labor workforce have done so on a permanent basis which results in a drag on GDP. Mr. Carson stated that the recent energy boom, driven by new technology, has had a significant positive impact on GDP and that if government regulation allows exporting of energy products, the related economic growth will be even more substantial.

In response to further Committee questions, Mr. Carson stated that there is much debate within the Fed as to how to reduce the Fed’s approximately \$4 trillion balance sheet. He stated that he is not aware of any Fed studies that have illustrated the cost to savers of the quantitative easing (QE) program. Mr. Carson concluded by stating that AllianceBernstein is modestly optimistic that GDP could reach 3% but acknowledged that forecasting has become increasingly difficult in the post great recession world.

Mr. Conrad Saldanha, Managing Director and Portfolio Manager of Global Equity, and Ms. Carter Reynolds, Managing Director and Team Leader of Public Funds Relationship Management, of Neuberger Berman (“Neuberger”) provided a brief introduction of themselves and their firm. They referred to the “Discussion - Emerging Markets Economies” presentation, dated July 18, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Saldanha explained the criteria typically used to categorize countries between Developed, Emerging, and Frontier Markets. Mr. Saldanha stated that Neuberger favors local companies instead of global companies in Emerging Markets as coverage of these companies is generally more inefficient. He confirmed that Neuberger spends a great deal of time ensuring that the governance structure is satisfactory prior to making any investment. Mr. Saldanha stated that negative current account deficits had a significant negative impact on foreign currency performance in 2013 including the Fragile Five as these countries are more susceptible to retail cash flows into and out of the countries.

In response to additional Committee member questions, Mr. Saldanha stated that the MSCI EM Forward P/E ratio of 12.3, as of June 30<sup>th</sup>, appears low but is being driven down by the Financial and Energy sectors as other sectors such as Health Care and Consumer Staples are expensive with ratios of approximately 23. He concluded by noting that investors need to be very selective from both a country and company standpoint versus viewing Emerging Markets in a generalized way. Mr. Saldanha noted that regarding the portfolio managed on behalf of NHRS, he thought that a three-year period, which is considered a full market cycle for that portfolio, is a reasonable timeframe for judging performance.

Mr. Jeffrey Gundlach, Chief Executive Officer and Chief Investment Officer; Mr. David Hennessy, Institutional Representative for Global Sales; and Ms. Barbara VanEvery, Director of Investor Services, of DoubleLine Capital (“DoubleLine”) provided a brief introduction of themselves and their firm. They referred to the “Fixed Income Capabilities” presentation, dated July 18, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Gundlach stated that regarding the housing market, he thinks that new construction will perform poorly and provided various reasons for his view. Mr. Gundlach opined that he does not see any indicators, such as GDP growth or inflationary pressures, which would necessitate the Fed raising interest

rates in the near term. Regarding emerging market debt, Mr. Gundlach noted that he expects investors to increase allocations in this asset class over the next several years which should support returns. Mr. Gundlach concluded by providing details of the various products and strategies offered by DoubleLine.

The Committee discussed the DoubleLine fixed income presentation, the firm's capabilities and its various strategies as well as the current NHRS fixed income portfolio structure.

On a motion by Ms. Kelliher, seconded by Mr. O'Donnell, the Committee voted to reduce the portfolio assets managed by PIMCO by \$50 million and to retain DoubleLine to manage a Flexible Income portfolio, subject to contract and legal review, with the portfolio assets removed from PIMCO to be transitioned to DoubleLine. The motion carried unanimously.

The Committee briefly discussed the organizational changes at Windhaven Investment Management, which manages an opportunistic portfolio on behalf of NHRS, and agreed to continue the discussion at the August Committee meeting.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the meeting adjourned at 1:13 p.m.