

NOTE: These minutes were approved and executed at the April 25, 2014 Independent Investment Committee meeting.

**Independent Investment Committee
March 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; and Hersh Sosnoff.

NHRS Trustees: Dean Crombie and Dick Gustafson, Ph.D.

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

NEPC, LLC: Kevin Leonard, *Partner and Senior Consultant*; and Sean Gill, *Partner*.

Mr. Janeway called the meeting to order at 9:03 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public minutes of the February 21, 2014 Investment Committee meeting. A motion to approve the public minutes of the February 21, 2014 Investment Committee meeting was made by Mr. Jensen and seconded by Mr. O'Donnell. The motion carried unanimously.

Mr. Johansen referred to the "Investment Work Plan" dated February 25, 2014, updated the Committee on several initiatives and provided an overview of today's agenda.

Mr. Johansen noted that the transition of assets from Batterymarch Financial Management to Neuberger Berman has been substantially completed with the funding of Neuberger Berman to occur on April 1st. He stated that the transition recap will be included in the April Committee materials.

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 a brief update on the returns of the Marketable Investments portfolio through February 28, 2014. For the eight-month fiscal year-to-date period ending February 28th the Marketable Investments portfolio returned 13.0%, underperforming the return of its custom benchmark of 13.5%. The 1-year return through February 28, 2014 for the Marketable Investments portfolio was 15.8%, 10 basis points above the 15.7% return of the custom benchmark for the same period. The 5-year return of the Marketable Investments portfolio through February 28, 2014 was 17.1%, 20 basis points ahead of the custom benchmark return of 16.9%.

Mr. Johansen provided manager updates to the Committee and noted that private equity General Partner Paul Capital recently notified NHRS that it will cease all new investment and fundraising activity. He referred to the notification letter dated March 5, 2014. Mr. Johansen informed the Committee that approximately \$10 million of the System's \$50 million commitment has been called and that the remaining approximately \$40 million will not be called. In response to a Committee member question, Mr. Gill provided an overview of NEPC due diligence on Paul Capital and confirmed that the events that lead to the shuttering were unforeseen.

Mr. Johansen informed the Committee that contractual documentation for both Carlyle and CCMP are currently being reviewed by legal counsel with both closings anticipated in the near-term.

Mr. Johansen and Mr. Leonard summarized and provided rationales for their recommendations to allocate between 25%-30% of the System's fixed income asset allocation target to unconstrained fixed income. They referred to the NHRS memo titled "Unconstrained Bond Recommendation", dated March 10, 2014 and the NEPC memo titled "Unconstrained Fixed Income", dated March 10, 2014. The Committee discussed, at length, the current NHRS fixed income roster and agreed that the Committee would take a holistic view of any alternative options to investing within the fixed income asset class. The Committee agreed that the next step is for NEPC and Staff to initiate a manager search which will result in finalist manager candidates making a presentation to the Committee at a future meeting.

Mr. Johansen and Mr. Gill provided a brief introduction of Crescent Capital Group (Crescent) and referred to the NEPC memos titled “Crescent Direct Lending Levered Fund, LP”, dated March 11, 2014 and “Crescent Direct Lending Fund, LP – Fund Review and Evaluation”, dated October 2013.

Mr. John Bowman, Managing Director, and Mr. Scott Carpenter, Managing Director, of Crescent provided a brief introduction of themselves and the firm. They referred to the “Crescent Direct Lending – Presentation to: New Hampshire Retirement System”, dated March 21, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Bowman and Mr. Carpenter defined the unitranche structure as a hybrid loan structure that combines senior debt and subordinated debt into one loan and noted that this is sometimes referred to as ‘one-stop shopping’ for borrowers. Mr. Bowman commented on the firm’s organization indicating that Crescent was spun-out of TCW in January 2011. He explained that Crescent has had no payment defaults since inception in 2005 and a low annual loss rate of less than 20 basis points per year.

In response to additional Committee member questions, Mr. Carpenter explained that the increased fund size compared to the prior fund will allow Crescent to meet borrower needs by providing larger credit amounts instead of needing to have other lenders participate. Mr. Bowman noted that interest costs on the credit facility used to finance the leverage are based on floating interest rates. He explained the management and incentive fee structure on the unlevered and levered fund.

The Committee discussed the Crescent presentation. A motion was made by Mr. Sosnoff and seconded by Ms. Provencher to commit \$50 million to Crescent Direct Lending Levered Fund, subject to contract and legal review. Mr. O’Donnell recused himself. The motion carried.

Mr. Janeway recognized Ms. Provencher who announced that she had accepted the position of Vice Chancellor for Financial Affairs and Treasurer for the University System of New Hampshire and that the March Committee meeting would be her final one. Mr. Janeway and the Committee thanked Ms. Provencher for her service and contributions to the Committee’s deliberations. A motion was made by Mr. Sosnoff and seconded by Mr. O’Donnell to execute a resolution proclaiming the Committee and Staff’s appreciation to Ms. Provencher. The motion carried unanimously. Ms. Provencher expressed her sense of pleasure and privilege and stated that she had enjoyed her three plus years on the

Committee, thanking her colleagues for their collective work on behalf on the System. She received an ovation.

Ms. Provencher departed the meeting at this time to fulfill a prior obligation as State Treasurer.

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 Follow Up”, dated March 11, 2014.

Mr. Tam McVie, Investment Director and Absolute Return Specialist; 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 March 10, 2014 and March 21, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Roberts and Mr. McVie confirmed that the firm has a business continuity plan in place should a referendum pass this fall establishing Scotland as an independent country, although both opined that this scenario is unlikely. Mr. McVie stated that the GARS investment professionals are encouraged to take an unconstrained view to establish investment ideas and the most efficient ways to implement the permitted investment universe (PIU) ideas. He stressed that as there is no requirement to invest in any asset class, which frees up investment professionals to seek out the best longer term investment strategies that are both scalable and liquid.

In response to additional Committee member questions, Mr. McVie confirmed that the majority of the debate surrounding the best investment ideas is internal within the firm but that GARS does occasionally utilize external sources, such as banks. Mr. McVie stated that the annual turnover in security names is approximately 80%, however, the annual turnover of the PIU ideas is significantly lower. Mr. Roberts and Mr. McVie explained that the idea generation process is robust with all ideas openly challenged. Mr. McVie concluded by stating that, based on current levels of inflows into the fund, the fund has AUM capacity for a couple more years.

The Committee discussed the GARS presentation and the appropriate sizing of a potential commitment. A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to commit \$150 million to SLI GARS, subject to contract and legal review. The motion carried unanimously.

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On a motion by Mr. O' Donnell, seconded by Mr. Jensen, the meeting adjourned at 11:47 a.m.