

**NOTE:** These minutes were approved and executed at the November 18, 2016 Independent Investment Committee meeting.

**Independent Investment Committee Meeting  
October 21, 2016**

**Public Minutes**

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

*Committee Members:* Harold Janeway, Chair; David Jensen; Maureen Kelliher; Hersh Sosnoff; and Patrick O'Donnell.

*NHRS Trustees:* Dr. Richard Gustafson.

*Staff:* George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Greg Richard, *Senior Investment Officer*; Shari Crawford, *Junior Investment Officer*; Ashley Lloyd, *Junior Investment Officer*.

*NEPC:* Kevin Leonard, *Partner and Senior Consultant*; Sean Gill, *Partner*; Donna Szeto, *Senior Research Consultant*; and Jeff Markarian, *Senior Research Consultant*.

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

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the Committee unanimously approved the public minutes of the September 23, 2016 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Fund performance flash reports for periods ending June 30, 2016 and September 30, 2016. He discussed the returns of various managers and asset classes over multiple time periods and noted that the fiscal year end net-of-fees return of 1.0% underperformed the total fund benchmark of 2.4% by 140 basis points, placing NHRS in the top 35% of its peers. He reminded the Committee that the decision to change the Domestic Equity portfolio's benchmark from the Russell 3000 Index to the S&P 500 Index effective July 1, 2015 was a headwind to total fund performance relative to the benchmark.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. He noted that the Work Plan for the

third quarter of Fiscal Year 2017 has been added for the Committee's consideration and commented that the Work Plan remains flexible and subject to change as the Committee deems appropriate. On a motion by Ms. Kelliher, seconded by Mr. Sosnoff, the Committee unanimously approved the Work Plan for the third quarter of Fiscal Year 2017, as presented.

Mr. Johansen referenced the "Proposed 2017 Investment Committee Meeting Schedule" memo dated October 3, 2016. The Committee discussed and proposed changes with the revised schedule to be presented for approval at the November Committee meeting.

The Committee discussed the presentation made by Comvest Partners ("Comvest") at the September Committee meeting. On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee unanimously agreed to commit \$50 million to Comvest Capital IV, L.P., subject to contract and legal review. Mr. Johansen confirmed that NHRS is in discussions regarding a seat on the Advisory Board.

The Committee discussed the presentations made by non-U.S. equity managers Causeway Capital ("Causeway"), LSV Asset Management ("LSV"), and Artisan Partners ("Artisan") at the September Committee meeting.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee voted unanimously to renew the Investment Management Agreement with Causeway through August 31, 2018.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee voted unanimously to extend the investment relationship as it pertains to the non-U.S. equity mandate managed by LSV through September 2018.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee voted unanimously to renew the Investment Management Agreement with Artisan through September 30, 2018.

Mr. Johansen and Mr. Markarian referred to NEPC's "International Small Cap Equity Manager Search" presentation, dated October 2016, and discussed the existing structure of the non-U.S. small cap equity component within the NHRS portfolio. Mr. Markarian briefly described the manager candidate firms scheduled to present to the Committee and commented on differences in each firms' investment strategy and how each could potentially complement the NHRS portfolio.

Mr. Arthur Greenwood, Senior Vice President, Sales Relationship Manager; and Mr. Robert Feldman, Portfolio Manager; of Fidelity

Institutional Asset Management (“Fidelity”) provided a brief introduction of themselves and their firm. They referred to the “Select International Small Cap” presentation dated October 21, 2016. A lengthy discussion with the Committee followed.

Mr. Greenwood opened the discussion by providing an overview of Fidelity’s team and investment process, deep fundamental research resources, and long-term consistent outperformance. He commented upon the firm’s steady growth over the years and the vast range of investments available to the firm as a result of its size. Mr. Feldman emphasized the importance of active management in the current market and noted that a long investment horizon is beneficial to the team’s search for alpha. He provided an overview of the team’s approach to research by designating specialized analysts, noting each analyst’s specialization provides the firm with an advantage when it comes to discovering investment opportunities.

In response to questions from the Committee, Mr. Feldman explained that his team is solely dedicated to institutional clients and discussed the ways in which his team differs from Fidelity’s retail side of business. He outlined the tiers of analysts employed by the firm, noting that each level of analyst provides an advantage in sourcing ideas. He provided an in depth overview of the International Small Cap strategy, commenting on the methods the team uses to source opportunities and the investment parameters the team uses to maintain holdings. Mr. Feldman discussed the advantages created by choosing lesser-known names for the portfolio, explaining that his strategy has led to consistent historical outperformance.

Mr. Philip Hildebrandt, Principal, Chief Executive Officer; Mr. Scott Decatur, Principal, Senior Portfolio Manager; and Mr. Clark Koertner, Principal, Marketing & Business Development; of Segall Bryant & Hamill (“SB&H”) provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” non-U.S. equity small cap presentation dated October 21, 2016. A lengthy discussion with the Committee followed.

Mr. Decatur discussed the factors unique to SB&H’s International Small Cap strategy and provided an overview of the firm’s proprietary stock ranking model used for the purpose of exploiting pricing inefficiencies within the market. He explained that the information advantage gained by this quantitative approach provides the strategy access to a multitude of investments. Mr. Decatur reviewed the multi-factor approach used in stock selection and the importance valuation plays in determining a favorable investment, explaining that the model’s stable approach avoids pitfalls created by cyclical factors. He highlighted portfolio construction

guidelines while discussing turnover of names, dividend yields, and drivers of risk as they relate to the portfolio. In response to questions from the Committee, Mr. Decatur reviewed the impact of trading costs on the portfolio, noting that significant alpha opportunities exist net of these costs.

Responding to questions from the Committee, Mr. Koertner discussed the growth advantage of the current environment and noted the International Small Cap strategy's long-term performance and track record. He discussed funding of the strategy, noting assets under management have grown to approximately \$400 million and added that the firm expects to limit capacity to \$1.5 to \$2 billion. Mr. Hildebrandt explained that the firm's disciplined approach to limiting capacity will allow for sizable returns within the strategy. He closed by highlighting the benefits of the strategy, noting that the portfolio will be expected to exhibit favorable performance in both growth and value environments.

The Committee discussed the presentations made by Fidelity and SB&H and the structure of the System's non-U.S. equity small cap portfolio. On a motion made by Mr. Jensen, seconded by Ms. Kelliher, the Committee unanimously voted to terminate the investment management agreement with GMO and to retain Segall Bryant & Hamill to manage a non-U.S. equity small cap portfolio on behalf of NHRS, subject to contract and legal review, with the GMO portfolio assets to be transitioned to Segall Bryant & Hamill.

Mr. Philip Hildebrandt, Principal, Chief Executive Officer; Mr. Mark Dickherber, Principal, Senior Portfolio Manager; and Mr. Clark Koertner, Principal, Marketing & Business Development; of SB&H provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" U.S. equity small cap presentation dated October 21, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Dickherber discussed the firm's investment philosophy and emphasized the importance the investment team places on finding quality management teams focused on improving return on invested capital ("ROIC"). He discussed the implementation of the ROIC philosophy and the importance of risk-mitigation, a disciplined approach used to limit downside on both the purchase and sale of holdings within the portfolio. Mr. Dickherber discussed these factors and reviewed performance as it relates to the NHRS small cap domestic equity portfolio, noting that recent returns have been muted as a result of the market shift to passive investments. He highlighted the advantages active management will have in providing downside protection, noting that capital preservation is enough to materially benefit portfolio performance.

Mr. Dickherber provided a detailed review of portfolio construction guidelines and discussed the sectors and industries in which the team can find attractive opportunities for ROIC. He emphasized the importance company management teams and growth play when determining a favorable investment, noting that long-term outperformance comes from preserving capital in poor markets and participating in good markets.

Ms. Belinda Cavazos, Portfolio Manager; Mr. Mark Cushing, Managing Director; and Mr. Kenneth Scott, Managing Director; of Boston Trust & Investment Management Company (“Boston Trust”) provided a brief introduction of themselves and their firm. They referred to the “Investment Review for New Hampshire Retirement System” presentation dated October 21, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Cushing discussed the impact the recent shift from active to passive investing has had on the firm, explaining that the current environment presents challenges when it comes to finding favorable investments. He reviewed the domestic equity small cap strategy, noting that the firm’s long-term investment focus and ability to focus on specific anomalies provides the firm with an advantage in weathering the current environment. Mr. Scott reviewed the objectives and philosophies of the strategy in which NHRS invests, explaining that the high quality securities within the portfolio can achieve returns in an up market and preserve capital in a down market.

Responding to questions from the Committee, Mr. Scott reviewed the firm’s investment process, confirming that there have been no changes to the firm’s strategy or process. He reviewed portfolio performance over recent periods, commented on portfolio characteristics and the factors that led to returns over the recent period, and provided an overview of the team’s outlook for the current environment. Ms. Cavazos explained the sector-comparable strategy and use of diversification provides Boston Trust with the ability to add high quality names to the portfolio. Mr. Cushing closed the presentation by affirming the team’s conviction in their long-term execution, strategy and thesis.

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 “New Hampshire Retirement System: GAM Unconstrained Bond Strategy” presentation dated October 21, 2016. A lengthy discussion with the Committee followed.

Mr. Flaherty began his presentation by reviewing the investment profile of the fund, and explained that the diversified, globally balanced, high quality portfolio of investments has exhibited a long track record of solid returns. He provided a thorough overview of the fund's quantitative analysis team, noting that the team remains stable and that there were no organizational changes to report. Mr. McKnight discussed the challenges associated with finding yield in the current low rate environment, noting the factors that impact returns and the team's plan to take advantage of moves within the market. He explained that the fund's duration guidelines allow the team the flexibility to adapt to changing interest rate environments.

Responding to questions from the Committee, Mr. Flaherty reviewed returns for periods ending September 30, 2016 and expressed his conviction that the strategy will continue its outperformance. He discussed current themes in the market, commenting on the impact of central bank decisions and the impact those decisions will have on the fund, noting that the team is adjusting the fund's rate positioning to withstand a volatile environment.

Mr. Johansen opened the Active vs. Passive discussion by providing an overview of the NHRS portfolio structure and confirming that all asset classes remain within their respective target allocations. He reminded the Committee that the large-cap value domestic equity mandates managed by Institutional Capital and LSV Asset Management have been reduced by 50% since 2010. Ms. Szeto of NEPC offered a brief review of the Committee's discussion at the September Committee meeting regarding the System's current domestic equity portfolio allocation. She referred to NEPC's "NHRS Active vs. Passive Discussion Memo" dated October 12, 2016 and "NHRS Domestic Equity Portfolio - Active vs Passive" presentation, dated September 23, 2016.

In response to questions from the Committee, Ms. Szeto discussed the core orientation of the NHRS portfolio and the impact the current growth and value managers have on the portfolio. The Committee continued their discussion of the positive and negative attributes of the passive and active management styles as they relate to the global public equity markets. They discussed growth and value biases and their conviction in these themes going forward, concluding that no changes to the portfolio were necessary at this time.

Mr. Johansen referenced the "Draft Transmittal Letter" for the Fiscal Year 2016 Comprehensive Annual Investment Report ("CAIR"). He asked that the Committee review the draft letter and provide any comments or feedback directly to him in advance of the November meeting. Mr. Johansen noted that the Committee will vote to approve the full CAIR at

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the November Committee meeting for recommendation to the Board of Trustees at the December Board meeting.

On a motion by Mr. Sosnoff, seconded by Ms. Kelliher, the meeting adjourned at 1:22 p.m.