

NOTE: These minutes were approved and executed at the November 17, 2017 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
October 20, 2017**

Public Minutes

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

Committee Members: Maureen Kelliher, *Chair*; David Jensen; and Keith Quinton. Patrick O'Donnell, *absent*.

NHRS Trustees: Dr. Richard Gustafson and Germano Martins.

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

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

Ms. Kelliher called the meeting to order at 9:00 a.m.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the Committee unanimously approved the public minutes of the September 29, 2017 Investment Committee meeting, as presented.

Ms. Kelliher commended Mr. Johansen and Investment Staff on the recent recognition of Mr. Johansen as a top 30 Public Pension Investment Officer by institutional investor network Trusted Insight and applauded efforts toward achieving notable Fiscal Year ended 2017 performance results.

Mr. Johansen reviewed investment returns through recent time periods, referring to the NEPC Total Fund performance flash reports for periods ending June 30, 2017 and September 30, 2017. He discussed the returns of various managers and asset classes over multiple time periods, highlighting the Fund's favorable net-of-fees return of 13.5% for Fiscal Year 2017 which outperformed the benchmark return of 11.9%, placing NHRS in the top 18% of its peers. He added that the System placed in the top decile relative to its peers over the three and five-year periods ending June 30, 2017, and the top quintile over 10-, 20-, and 25-year periods ending June 30, 2017.

Mr. Johansen discussed the efficacy of the Independent Investment Committee as established by legislation on January 1, 2009, noting total fund performance following its inception ranked in the top decile over periods ranging from five to eight years ending June 30, 2017. By contrast, performance prior to the inception of the Committee over periods ranging from five to eight years ending June 30, 2009 ranked in the third quartile. Mr. Johansen thanked the Independent Investment Committee for their hard work and dedication to the NHRS and their efforts toward achieving the 2017 Fiscal Year end net-of-fees return of 13.5%.

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 2018 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 Mr. Jensen, seconded by Mr. Quinton, the Committee unanimously approved the Work Plan for the third quarter of Fiscal Year 2018, as presented.

Mr. Johansen referenced the "Draft NHRS Transmittal Letter"; "Draft NEPC Letter"; and "Draft GRS Letter" for the Fiscal Year 2017 Comprehensive Annual Investment Report ("CAIR"). He asked the Committee to review each of the letters and provide any comments or feedback directly to him prior to the November meeting, at which time the Committee will vote to approve the full CAIR for recommendation to the Board of Trustees at the December Board meeting.

Mr. Johansen referenced the "Proposed 2018 Investment Committee Meeting Schedule" memo dated October 2, 2017. 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 fixed income manager Income Research + Management ("IR+M") at the September Committee meeting. On a motion by Mr. Jensen, seconded by Mr. Quinton, the Committee unanimously agreed to renew the Investment Management Agreement with IR+M as it pertains to the short duration and government/credit portfolios through October 31, 2019.

Mr. Gill provided an educational overview of private equity co-investments and referred to the "Co-Investment Strategy Overview" presentation dated October 9, 2017. Mr. Johansen offered an overview of BlackRock and their history with NHRS, noting that all investments within the existing BlackRock co-investment portfolio are performing ahead of schedule, on schedule, or are too early in their investment cycle to tell. Mr. Gill discussed the benefits of co-investments, notably the

opportunity to achieve greater diversification of investments at lower fees resulting in higher returns, and offered a historical overview of co-investment performance. He explained that BlackRock can leverage their relationship with general partners to source a multitude of deals which allows BlackRock the ability to choose a small selection of compelling investments from a large opportunity set.

Mr. Stephen Kelly, Managing Director and Chief Operating Officer of BlackRock Private Equity Partners; Mr. Leo Chenette, Managing Director; Mr. Kamal Maruf, Director; and Ms. Jennifer Chruszcz, Associate; of BlackRock provided a brief introduction of themselves and their firm and a detailed overview of their co-investment program. They referred to the “Global Direct Co-Investment Strategic Partnership Review and Proposal” presentation dated October 20, 2017. A lengthy discussion with the Committee followed.

Mr. Chenette opened the discussion by providing an overview of BlackRock’s experience as a co-investment manager, highlighting their track record and the team’s rigorous underwriting process and the ways in which it is used to mitigate risk, explaining the firm’s investment process in detail. Due to BlackRock’s prominent position in the co-investment industry, the firm experiences tremendous deal flow which allows the ability to source several investment opportunities and choose only the most compelling investments, typically around three to five percent of all presented deals. Mr. Kelley explained that co-investing provides a double-layer of due diligence, offering a detailed discussion of the ways in which BlackRock reviews each investment opportunity.

Responding to questions from the Committee, Mr. Chenette discussed the firm’s relationship with NHRS and reviewed performance of the current portfolio to date. He highlighted deal terms associated with the proposed re-up of \$150 million to the existing investment in the NHRS Private Opportunities Fund, adding that lower management fees have been negotiated for the re-up. He stated that the proposed co-investment deal is expected to reflect the same investment process and themes as the existing portfolio, adding that the investment team will adjust allocations, pacing, and investment deals as they arise based on the market and available opportunities. Mr. Maruf provided a brief overview of case studies for multiple investments held within the NHRS Private Opportunities Fund, reviewing company backgrounds, investment thesis, and performance.

The Committee discussed the presentation made by BlackRock and the opportunity to invest in the BlackRock Private Opportunities Fund (“Fund”). On a motion by Mr. Quinton, seconded by Mr. Jensen, the Committee unanimously voted to renew the investment in the Fund and

agreed to commit an additional \$150 million over a three to five year period to the Fund, subject to contract and legal review.

Mr. Johansen reviewed the tentative agendas for the Committee's upcoming November and December Committee meetings, noting that the November meeting will focus on a broad overview of the Public Markets portfolio and will tentatively include a presentation from private debt manager Riverstone Credit Partners. He reminded the Committee that the December meeting will consist of NEPC's annual review of the Private Debt and Private Equity portfolio and a review of the System's real estate portfolio by discretionary real estate manager The Townsend Group. He solicited input from the Committee regarding the January 2018 Committee meeting, which will focus on a macroeconomic overview of the investment environment.

On a motion by Mr. Jensen, seconded by Mr. Quinton, the meeting adjourned at 10:31 a.m.