

NOTE: These minutes were approved and executed at the November 16, 2018 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
October 19, 2018**

Public Minutes

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

Committee Members: Maureen Kelliher, *Chair*; Christine Clinton; Tim Lesko; and Keith Quinton. Daniel LaPlante, *absent*.

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. Lesko, seconded by Mr. Quinton, the Committee unanimously approved the public minutes of the September 21, 2018 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent time periods, referring to the NEPC Total Fund performance flash report for periods ending June 30, 2018 and September 30, 2018. He discussed the returns of various managers and asset classes over multiple periods, highlighting the Fund's favorable net-of-fees return of 8.9% for Fiscal Year 2018, outperforming the benchmark return of 7.8% and placing NHRS in the top 20% of its peers. He discussed the efficacy of the Independent Investment Committee as established by legislation on January 1, 2009 by comparing returns prior to and following the inception of the Committee. He noted the total fund ranked in the top decile for the trailing 5-9 years ending June 30, 2018 as compared to underperformance for 5-9 years ending June 30, 2009, ranking in the third and fourth quartiles.

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 2019 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. Clinton, seconded by Mr. Quinton, the Committee unanimously

approved the Work Plan for the third quarter of Fiscal Year 2019, as presented.

Mr. Johansen provided an update on the rebalance of the domestic equity portfolio, adding that as of the date of the meeting, 90% of assets have been rebalanced with the remainder to be completed by the end of November 2018. He also offered an update on the secondary sale of the Arden assets, noting that 85% of assets are expected to settle by beginning of next week.

Mr. Johansen referenced the “Proposed 2019 Investment Committee Meeting Schedule” memo dated September 27, 2018. The Committee discussed the schedule, which is to be presented for approval at the November Committee meeting.

The Committee discussed the presentations made by small cap U.S. equity managers Segall Bryant and Hamill (“SBH”) and Wellington Management (“Wellington”) at the September Committee meeting.

On a motion by Mr. Quinton, seconded by Mr. Lesko, the Committee unanimously agreed to renew the Investment Management Agreement with SBH through October 31, 2020.

On a motion by Mr. Quinton, seconded by Ms. Clinton, the Committee unanimously agreed to renew the Investment Management Agreement with Wellington through October 31, 2020.

Mr. Johansen discussed the System’s relationship with current proxy voting service provider Institutional Shareholder Services (“ISS”) and the services ISS provides. On a motion by Ms. Clinton, seconded by Mr. Quinton, the Committee unanimously agreed to provide a recommendation to the Board of Trustees to extend the Master Services Agreement with ISS through November 30, 2020.

Mr. Jeffrey Mayberry, Portfolio Manager; and Mr. Aaron Prince, Senior Product Specialist; of DoubleLine, presented a brief introduction of themselves and an overview of their firm. They referred to the “Flexible Income Strategy” presentation dated October 19, 2018. A lengthy discussion with the Committee followed.

Mr. Mayberry discussed the firm’s macroeconomic view as it relates to the rising rate environment and the changes expected to be made to the NHRS portfolio to accommodate the environment. He opined on the possibility of a recession, noting that typical factors such as high unemployment and high yield spreads are not present, and as such, the firm is comfortable holding riskier assets in the portfolio for the near term. Mr. Mayberry highlighted his conviction in future rate increases and discussed the

expected changes associated with a new U.S. Federal Reserve Chair, while Mr. Prince discussed the expected impact of the unwinding of quantitative easing by the European Central Bank and the addition of a new president to the European Central Bank.

Mr. Mayberry reviewed returns through recent periods and provided an overview of the Flexible Income product in which NHRS invests. Mr. Prince discussed the diversified nature of the low duration, low interest rate risk strategy, noting that performance bets made by the investment team are what drives returns within the strategy. He discussed his outlook on emerging markets, noting that the sector appears underpriced and as such, it presents a favorable buying opportunity. Responding to a question from the Committee, he stated that he does not expect an increase in credit defaults in the near term, however, he believes that watching for an increase in defaults will provide a gauge for market health. Mr. Mayberry discussed the way the team structures the portfolio, with a focus on maintaining risk within acceptable parameters and instances in which assets in the portfolio would be hedged.

Ms. Belinda Cavazos, Portfolio Manager; Mr. Mark Cushing, Managing Director; and Mr. Kenneth Scott, Executive Managing Director; of Boston Trust, presented a brief introduction of themselves and an overview of their firm. They referred to the “Investment Review for New Hampshire Retirement System” presentation dated October 19, 2018. A lengthy discussion with the Committee followed.

Mr. Cushing opened by providing an overview of the firm’s ownership structure, investment philosophy and process, investment performance over recent periods, and market outlook as it relates to sector allocation within the current portfolio. Ms. Cavazos provided further detail on the strategy’s objectives and discussed the factors associated with an attractive investment in the small cap strategy. She discussed the structure of the small cap team and the vast resources available to the firm to create a well-structured portfolio. Ms. Cavazos offered an overview of the firm’s rigorous security selection process and the precision and care associated with assembling the small cap portfolio with the goal of providing favorable performance over a full market cycle. Mr. Cushing discussed performance expectations over various market environments, noting that the firm strives to participate in favorable environments and outperform in poor market environments.

Mr. Scott discussed performance over previous market cycles, the team’s expectations for the current market, and valuation metrics of the small cap portfolio as compared to the Russell 2000 index. He explained that the team shares a relatively favorable outlook on the US economy, noting that the team expects the domestic, small cap companies in which it invests to benefit from continued economic growth. Mr. Cushing closed by

discussing the role sector allocation and security selection play in the well-diversified portfolio and shared his optimism as it relates to the NHRS portfolio positioning in the current environment.

Mr. Johansen provided an update on the status of the termination of the System's investment with GAM, noting that the System has received approximately 66% of the funds with full liquidation now expected to be completed by the end of February 2019. He provided an overview of the day's presenters, adding that representatives from Fidelity and BlackRock will present their Fixed Income strategies for consideration as a replacement to the System's investment in the GAM Unconstrained Bond Fund. Mr. Leonard discussed NEPC's due diligence process associated with selecting potential replacement Fixed Income managers and the compilation of the NHRS Fixed Income portfolio. Further, he highlighted the differences between Fidelity and BlackRock and the ways in which either would complement the NHRS portfolio.

Mr. Arthur Greenwood, Senior Vice President, Sales Relationship Manager; Mr. Christian Pariseault, Head of Fixed Income and Global Asset Allocation Institutional Portfolio Managers; and Mr. Jeffrey Moore, Portfolio Manager; of Fidelity, presented a brief introduction of themselves and an overview of their firm. They referred to the "Tactical Bond Strategy" presentation dated October 19, 2018. A lengthy discussion with the Committee followed.

Mr. Pariseault provided an overview of the Tactical Bond Strategy, highlighting the stable nature of the team and the vast resources at their disposal to create a favorably positioned portfolio. He discussed characteristics associated with the Tactical Bond Strategy and the nature of the strategy's investments, as well as the team's ability to invest away from the benchmark to take advantage of favorable investment opportunities. Mr. Moore reviewed performance expectations for the Tactical Bond Strategy and the top-down, multi-step investment process associated with portfolio construction. He reviewed in detail the team-oriented nature of the Tactical Bond Strategy group and the benefits associated with open communication between all members of the investment team. Mr. Pariseault reviewed the firm's proprietary research software and noted the autonomy offered to analysts to research various components of the bond universe, allowing for free flowing ideas and resulting in favorable performance.

Mr. Moore reviewed historical portfolio performance, allocation, and the ways in which the team leverages duration to reap favorable returns. He discussed his outlook and portfolio positioning for the current market environment, discussing in detail the sectors in which he expects favorable opportunities. He highlighted the firm's focus on downside protection and discussed the importance of balancing low volatility to reap favorable returns over long-term periods. Mr. Pariseault closed by reviewing the

firm's oversight and risk management platform, adding that the platform is used in conjunction with the valuable experience provided by members of the long-tenured team to create a well-positioned portfolio for all market environments.

Mr. Rick Rieder, Managing Director; Ms. Gargi Pal Chaudhuri, Director; Mr. Douglas McNeely, Managing Director; and Ms. Jennifer Chruszcz, Vice President; of BlackRock, presented a brief introduction of themselves and an overview of their firm. They referred to the "BlackRock Strategic Income Opportunities Fund (SIO)" presentation dated October 19, 2018. A lengthy discussion with the Committee followed.

Ms. Chaudhuri provided an overview of the BlackRock global fixed income platform and the investment philosophy and process associated with the Strategic Income Opportunities Fund ("Fund"). She discussed the importance of diversification of various sectors and asset classes and the resulting stability these factors provide. Mr. Rieder reviewed the unique nature of the current market environment and the ways in which the current market varies from history. Further, he underscored the importance of minor, consistent returns to create a stable portfolio of investments, noting the importance of diversification and low volatility to realize favorable returns over long-term periods.

Mr. Rieder outlined the team's definition of an unconstrained bond strategy and discussed their ability to implement various tools to mitigate risk and provide stable performance over longer periods. He discussed the composition of the Fund's investment team and the role each member plays in sourcing and cultivating favorable ideas and highlighted the importance of research, portfolio optimization, and risk management to create a favorably structured portfolio. Mr. Rieder discussed the importance of downside management, adding that a flexible but stable duration stance is critical to generating return and controlling risk. He discussed the portfolio's propriety risk dashboard and the ways it can optimize holdings within the Fund. Ms. Chaudhuri closed by highlighting the Fund's ability to provide attractive, risk-adjusted returns throughout various market environments.

The Committee discussed the presentations given by Fidelity and BlackRock, the structure of the System's Fixed Income portfolio, and the current allocation to Fixed Income, which remains marginally under its asset allocation target. A decision was made to take approximately \$225 million in proceeds from GAM's liquidation plus an additional \$75 million from the domestic equity rebalance to bring the Fixed Income portfolio back in line with its target allocation, for a total commitment of \$300 million.

On a motion by Mr. Quinton, seconded by Mr. Lesko, the Committee unanimously agreed to retain Fidelity Investments and BlackRock to each manage a \$150 million Global Fixed Income portfolio on behalf of NHRS, subject to contract and legal review.

Mr. Johansen referenced the “Draft NHRS Transmittal Letter”; “Draft NEPC Letter”; and “Draft GRS Letter” for the Fiscal Year 2018 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.

On a motion by Mr. Lesko, seconded by Ms. Clinton, the meeting adjourned at 12:41 p.m.