

NOTE: These public minutes were approved and executed at the October 24, 2014 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
September 19, 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: Dean Crombie.

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

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

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 and non-public minutes of the August 22, 2014 Investment Committee meeting, as presented.

Mr. Johansen provided an update on the Work Plan and updated the Committee on several initiatives. He indicated that staff and NEPC have scheduled manager interviews for early October in conjunction with the global multi-sector fixed income manager search. He noted that the opportunistic portfolio that had been managed by Windhaven Investment Management is being liquidated with the proceeds to be transferred to the Standard Life Global Absolute Return Strategy for investment next week. He commented that the transition of assets from the non-U.S. equity portfolio formerly managed by Thornburg Investment Management to Causeway Capital Management and LSV Management has been completed. He indicated that the transition of 50% of the portfolio assets from non-U.S. equity manager Fisher Investments to Artisan Partners has been initiated. He noted that the investment management agreement with recently retained unconstrained fixed income manager

GAM was in the legal review process, and that he anticipates funding that mandate in October.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Marketable Assets performance flash report for periods ending August 31, 2014. He discussed the returns of various managers and asset classes over multiple time periods.

The Committee discussed the Work Plan, and talked about the importance of staying connected to market trends and developments. They discussed how related conversations and presentations can be incorporated into future Committee meeting agendas, and agreed that they need to continuously challenge themselves and the status quo.

The Committee discussed the presentation made by large cap U.S. equity manager Institutional Capital (“ICAP”) at the August Committee meeting. Mr. Johansen referenced memos from L. Johansen and NEPC which recommend that the investment management agreement with ICAP be renewed. In response to questions from the Committee, Mr. Leonard addressed the recent relative underperformance of the ICAP portfolio, which he deemed consistent with the manager’s investment style. He discussed ICAP’s relative returns in comparison with their peers. On a motion by Mr. Sosnoff, seconded by Mr. Jensen, the Committee unanimously voted to renew the investment management agreement with ICAP through June 2016. Mr. Johansen commented that NEPC and Staff would continue to closely monitor ICAP’s relative performance and would raise any related concerns with the Committee.

The Committee discussed the presentation made by large cap U.S. equity manager LSV at the August Committee meeting. Mr. Johansen referenced memos from L. Johansen and NEPC which recommend that the investment management agreement with LSV be renewed. On a motion by Mr. Jensen, seconded by Ms. Kelliher, the Committee unanimously voted to renew the investment management agreement with LSV through June 2016.

The Committee discussed the benefits that a large cap U.S equity sector-neutral portfolio managed by a firm with a demonstrated skill in valuing securities could provide to the overall NHRS portfolio. They requested that staff and NEPC look into this and follow up at a subsequent Committee meeting. Mr. Johansen and NEPC will explore a sector neutral product with ICAP.

Mr. Johansen and Mr. Gill provided a brief introduction of Top Tier Capital Partners (“Top Tier”) and the firm’s Venture Velocity Fund I (“VVF”).

Mr. David York, Managing Director and CEO; Mr. Dan Townsend, Managing Director; and Ms. Jessica Archibald, Managing Director, of Top Tier provided a brief introduction of themselves and their firm. They referred to the “Top Tier Venture Velocity Fund” presentation dated September 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. York indicated his expectation that VVF would call capital within a 3-year commitment period and noted the fund’s 7-year term structure, which is shorter than the 10-year term structure typically offered by venture capital funds. Ms. Archibald described how Top Tier sources, screens, and analyzes investment ideas and the proprietary database that they utilize. Mr. Townsend discussed the niche market in which Top Tier operates and how VVF fits into an institutional portfolio alongside primary venture capital funds and other secondaries managers. He discussed the performance results of Top Tier’s prior funds and portfolio investments.

Responding to questions from the Committee, Mr. York described the purchase and valuation process associated with a couple of prior fund portfolio positions. He indicated that Top Tier does not pay intermediaries related to portfolio purchases. Ms. Archibald commented that general partners typically prefer when a firm such as Top Tier makes secondary purchases into their funds, as Top Tier represents a potential primary investor in subsequent funds. Mr. York discussed why Top Tier is targeting a fund size of \$200 million for VVF.

The Committee discussed the opportunity to invest in VVF. In response to questions from the Committee, Mr. Gill discussed Top Tier’s peers in the venture capital secondaries space, and why NEPC recommends investing in VVF.

On a motion by Ms. Kelliher, seconded by Mr. Jensen, the Committee unanimously voted to commit \$20 million to VVF, subject to contract and legal review.

Mr. Mark Dickherber, Principal and Senior Portfolio Manager; and Mr. Clark Koertner, Principal and Director of Sales and Marketing, of Segall Bryant & Hamill (“SBH”) provided a brief introduction of themselves and their firm and a review of the small cap U.S. equity portfolio that the firm manages on behalf of the System. They referred to the “NHRS” presentation, dated September 19, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Koertner indicated that the firm has experienced positive client growth recently, as the small cap equity strategy in which NHRS invests has added approximately \$400

million in new mandates and the firm's investment-grade fixed income strategies have been very successful in adding new client portfolios. Mr. Dickherber commented that SBH requires portfolio companies to each have a forecasted return-on-invested-capital ("ROIC") ratio above the normalized cost of capital, which he identified as 10%. He noted that firms with higher ROIC metrics tend to have higher price-to-earnings ("P/E") ratios and produce more shareholder value over time.

Mr. Kenneth Scott, Managing Director and Director of Small Cap Investing; and Mr. Mark Cushing, Managing Director, of Boston Trust & Investment Management Company ("Boston Trust") provided a brief introduction of themselves and their firm and a review of the small cap U.S. equity portfolio that the firm manages on behalf of the System. They referred to the "Investment Review for New Hampshire Retirement System" presentation, dated September 19, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Scott indicated that the Russell 2000 Index appears quite steeply valued from a P/E ratio perspective with the anticipation of continued earnings growth, especially in comparison to the Boston Trust portfolio which features companies with relatively superior profitability and more sustainable growth. He indicated that in the recent low interest rate environment, companies that are the most financially levered have dramatically outperformed those that are the least levered, which he views as an unsustainable trend.

Responding to questions from the Committee, Mr. Scott indicated that a return to normalcy in terms of stock valuation levels, market volatility, and interest rates, relative to the last couple of years, would provide a tailwind to the portfolio's relative returns. He indicated that in order to benefit from stocks of companies that have taken on more leverage in the current low interest rate environment, the portfolio would have needed to invest in stocks of unprofitable companies.

Ms. Camilla Martin, Vice President and Portfolio Coordinator; and Ms. Elizabeth O'Hara, Vice President and Relationship Manager, of Wellington Management ("Wellington") provided a brief introduction of themselves and their firm and a review of the small cap U.S. equity portfolio that the firm manages on behalf of the System. They referred to the "Small Cap 2000 Review" presentation, dated September 19, 2014. A lengthy discussion with the Committee followed.

In response to Committee member questions, Ms. Martin indicated that Wellington's Global Industry Analyst structure has benefitted the portfolio's relative returns, as the Analysts have significant experience

and knowledge in their respective areas of coverage and tremendous resources at their disposal. She explained how the Analysts' compensation is aligned with their portfolio performance and how the Analysts' roles in the portfolio are managed in conjunction with their relative contributions to the portfolio. She confirmed that the Analysts have the ability to invest in non-benchmark companies.

Responding to questions from the Committee, Ms. Martin indicated that the portfolio's return-on-equity and company leverage characteristics are fall-outs of the investment process, and are not statistics that are actively targeted. Ms. Martin reviewed some of the portfolio's largest detractors from relative returns for the year-to-date through August 31st period. Ms. O'Hara commented that the changing regulatory environment is among Wellington's chief concerns from a business standpoint, while macroeconomic concerns are less of a focus from a portfolio management perspective, given the firm's bottom-up investment process.

On a motion by Mr. Sosnoff, seconded by Mr. O'Donnell, the meeting adjourned at 12:38 p.m.