

**NOTE:** These minutes were approved and executed at the October 21, 2016 Independent Investment Committee meeting.

**Independent Investment Committee Meeting  
September 23, 2016**

**Public Minutes**

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

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

*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*; and Ashley Lloyd, *Junior Investment Officer*.

*NEPC:* Kevin Leonard, *Partner and Senior Consultant*; Sean Gill, *Partner*; and Donna Szeto, *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 July 22, 2016 Investment Committee meeting, as presented.

Mr. Johansen opened his comments to the Committee by referring to a memo from NEPC that was handed out to the Committee regarding an investment opportunity within The Carlyle Group's ("Carlyle") Asia Structured Credit Opportunities Fund, LP ("CASCO"). The memo communicated that the Managing Director and Head of CASCO recently resigned. As such, Mr. Johansen stated that the CASCO opportunity may be reconsidered for discussion at a later date once additional clarity is provided by Carlyle as to how CASCO will proceed. The investment opportunity was presented for the Committee's consideration as a potential replacement for reallocation of the prior \$27 million commitment to Carlyle South American Fund, which will not be raised.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending August 31, 2016. He discussed the returns of various managers and asset classes over multiple time periods. Mr. Johansen

also reviewed preliminary total fund performance for the fiscal year ended June 30, 2016 and stated that performance will be finalized in the near future.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He reminded the Committee of the need for completion of a draft copy of the transmittal letter to be included in the Fiscal Year 2016 Comprehensive Annual Investment Report (“CAIR”), stating that such a draft transmittal letter should be completed and reviewed by the Committee at its October meeting.

Mr. Eric Crabtree, Chief Client Service Officer; and Mr. Conor Muldoon, Portfolio Manager; of Causeway Capital Management (“Causeway”) provided a brief introduction of themselves, their firm, and an overview of their firm’s investment relationship with the NHRS. They referred to the “New Hampshire Retirement System” presentation dated September 23, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Crabtree commented on the recent observation in the asset management industry of a significant shift in assets moving from actively managed investment vehicles to passively managed investment vehicles. He stated that Causeway has not experienced a meaningful impact to its business as a result of the large migration of assets into passive strategies, commenting on the firm’s total assets under management of \$43 billion as of August 31, 2016, up from \$35 billion total assets under management when Causeway was hired by NHRS in the spring of 2014.

Mr. Crabtree addressed relative underperformance as it related to most time periods ending August 31, 2016, but confirmed the investment team’s strong conviction that the challenged performance is relatively short-term. A thorough review of the investment philosophy and process of the firm’s flagship fundamental value strategy in which the System invests, International Value Equity, was discussed by Mr. Muldoon and Mr. Crabtree. A further detailed discussion was offered, including the investment team’s research process, the application of the firm’s proprietary risk model and its impact on stock selection, and the long-term benefits of active stock picking with a bias toward the value investing style.

Messrs. Crabtree and Muldoon concluded their comments with a review of the portfolio’s current industry group exposures, explaining significant overweight allocations to sectors with crowded, oversupplied markets and to sectors that exhibit defensive characteristics yet trade at reasonable valuations.

Dr. Bhaskaran Swaminathan, Partner and Director of Research; and Mr. Peter Young, Partner and Director of Client Portfolio Services; of LSV Asset Management (“LSV”) provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” presentation dated September 23, 2016. A lengthy discussion with the Committee followed.

Mr. Young communicated that the firm has not experienced any recent significant personnel changes or any changes with regard to ownership structure, confirming that venture capital firm SEI continues to hold a 40% equity stake in the firm and the remaining equity continues to be held by founders and employee partners of LSV. Mr. Young confirmed that no changes have been made with respect to the firm’s quantitative investment process but that evolution within the model has allowed for the inclusion of investment themes and trends within the asset management industry over time. In response to a question from the Committee, Mr. Young confirmed that LSV had witnessed some outflows of client assets into passive strategies, but that the firm reported net inflows for the trailing one-year period of approximately \$1.2 billion, of which an approximate \$500 million flowed into the International Large-Cap Value Fund, the commingled vehicle in which the NHRS invests. He added that the firm continues to experience strong search activity by prospective institutional clients.

Responding to questions from the Committee, Dr. Swaminathan reviewed the challenges that the value investing style has experienced as a result of the willingness of many investors to pay elevated premiums for perceived safety in bond-proxy stocks. He commented upon investor sentiment toward active management both prior to and following the Great Financial Crisis, noting his belief in a contrarian investment approach and how it relates to the current active/passive trend in today’s markets.

Dr. Swaminathan discussed his economic outlooks for the various regions of the world to which the fund has exposure, including those countries that comprise the MSCI EAFE index and the emerging market countries. In response to a question from the Committee, he explained how momentum contributes to a stock’s expected return as demonstrated in LSV’s expected return model, reviewing those attributes of a stock which are analyzed in order to determine expected momentum. Dr. Swaminathan emphasized that, in accordance with LSV’s deep value approach, the investment team works to successfully analyze a stock and purchase it before it becomes expensive.

Mr. Jamie Sandison, Managing Director of Institutional Sales and Client Services; of Artisan Partners (“Artisan”) provided a brief introduction of

himself and his firm. He referred to the “New Hampshire Retirement System” presentation. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Sandison commented on the recent observation in the asset management industry of a significant shift in assets moving from actively managed investment vehicles to passively managed investment vehicles. He stated that Artisan has not experienced a meaningful impact to its business as a result of the large migration of assets into passive strategies, commenting on the firm’s total assets under management of approximately \$100 billion at August 31, up from \$95 billion total assets under management at June 30, 2016 primarily as a result of market improvement.

Mr. Sandison provided a detailed overview of the Non-U.S. Growth Strategy’s investment focus on well-managed businesses with sustainable growth prospects. He added that thematic elements are frequently present in the team’s investment analysis and research, citing growth trends in demographics, environmental concerns, and technology and innovation as attractive long-term secular growth themes. He commented upon the rising wealth levels of emerging markets and how exposure to the asset class will affect the portfolio’s composition going forward. He reviewed that current emerging markets exposure is approximately 4% of the total portfolio, a small allocation relative to that which has been held historically, and added that the limit is 35% of the total market capitalization of the portfolio.

Responding to questions from the Committee, Mr. Sandison acknowledged recent underperformance, including the since-inception time period to date. He reviewed longer-term performance attribution for the strategy, specifically for the five-year period ending June 30, 2016, highlighting that the investment team’s strong stock selection abilities added significant alpha relative to the benchmark. He reminded the Committee that this demonstration of long-term relative outperformance is what the investment team strives toward.

Further, Mr. Sandison reviewed notable transaction activity and discussed specific portfolio positions as they contributed to or detracted from recent performance. He discussed the firm’s global market outlook, including the impacts of Brexit within the U.K. and broader Europe.

The Committee discussed the presentations made by Causeway, LSV, and Artisan.

Mr. Robert O’Sullivan, Managing Partner; Mr. Greg Reynolds, Partner; and Mr. Dan Lee, Partner; of Comvest Partners (“Comvest”) provided a brief introduction of themselves and an overview of their firm and its

direct lending fund, Comvest Capital IV, L.P. (“CVC IV”; “the Fund”). CVC IV is a re-up opportunity as NHRS previously invested in CVC III. They referred to the “Comvest Capital IV” presentation dated September 23, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Reynolds reviewed Comvest’s investment strategy as it relates to the opportunity to invest in CVC IV, stating that the Fund will target loans to lower middle market companies with EBITDA ranging from \$5 million to \$50 million annually. He stated that emphasis will be placed on those industries that are “underbanked” with preference to companies that are not currently private equity sponsored. Mr. Reynolds added that as a private lender, Comvest typically assumes a senior secured, first lienholder position with the ability to negotiate covenants as needed and that this position at the top of the capital structure adds significant downside protection.

Further responding to inquiries from the Committee, Mr. Reynolds and Mr. Lee offered a detailed explanation as to how increased banking regulation in recent years has benefitted the opportunity set for Comvest’s prior direct lending fund, Comvest Capital III (“CVC III”), in which the NHRS has been an investor since January 2015.

A detailed review of the performance and characteristics of CVC III and its predecessor fund, CVC II, were provided as these funds reflect the same investment strategy and process as proposed for CVC IV. Mr. O’Sullivan commented that CVC III is a \$450 million fund, conservatively leveraged with \$150 million, that recycles investment principal while paying out interest and capital gains. He reviewed that at June 30, 2016, CVC III had a net IRR of 9.2%.

Ms. Szeto of NEPC offered a brief overview of the System’s current domestic equity portfolio allocation, referring to NEPC’s “NHRS Domestic Equity Portfolio – Active vs Passive” presentation, dated September 23, 2016. She assisted the facilitation of the Committee’s discussion by suggesting the Committee determine their level of conviction in active management, in value as an investment style, and whether the Committee believes the existing active equity managers are an appropriate fit within the NHRS portfolio.

The Committee had a lengthy discussion that included both the positive and negative attributes of the passive and active management styles as they relate to the global public equity markets and confirmed that the discussion would continue at the October Committee meeting.

On a motion by Mr. Jensen, seconded by Ms. Kelliher, the meeting adjourned at 12:55 p.m.