

**NOTE:** These minutes were approved and executed at the April 20, 2018 Independent Investment Committee meeting.

**Independent Investment Committee Meeting  
March 23, 2018**

**Public Minutes**

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

*Committee Members:* Maureen Kelliher, *Chair*; Christine Clinton; David Jensen; Tim Lesko; and Keith Quinton.

*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*; Ashley Lloyd, *Junior Investment Officer*; Marty Karlon, *Public Information Officer*; Carolyn Madden, *Controller*.

*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. Quinton, seconded by Mr. Jensen, the Committee unanimously approved the public and non-public minutes of the February 23, 2018 Investment Committee meeting, as presented.

Mr. Johansen began his comments with a brief overview of the day's agenda, advising that one general partner with which the System currently has an investment relationship, BlueBay Asset Management ("BlueBay"), would present an opportunity to invest in its subsequent direct lending vehicle. Mr. Johansen reminded the Committee that a prior commitment to BlueBay's predecessor fund, Direct Lending Fund II ("DLF II"), was made at the August 2015 Investment Committee meeting and that should a commitment be made today, it would constitute a re-up. He advised the Committee that following BlueBay's presentation, LSV Asset Management ("LSV") would present updates on the domestic and non-U.S. large-cap equity mandates which LSV manages on behalf of NHRS, in conjunction with the biannual public market manager review process. He also advised that emerging markets equity fund manager Neuberger Berman would present in accordance with the same, following LSV. Mr. Johansen also communicated that former Independent Investment Committee Chair, Sen. Harold Janeway, will address the

Committee and provide an overview of the history and intent behind the legislation that created the Committee and his concerns about HB 1603.

Mr. Johansen reviewed investment returns through recent time periods, referring to the NEPC Marketable Investments performance flash report for periods ending February 28, 2018. He discussed the returns of various managers and asset classes over multiple time periods. He also reviewed the Work Plan and updated the Committee on several initiatives.

Mr. Sean Gill of NEPC provided a brief introduction of BlueBay and its direct lending strategy.

Ms. Danielle Hootnick, Partner and Head of Business Development; and Mr. Anthony Fobel, Managing Partner and Head of Private Debt; of BlueBay provided a brief introduction of themselves, their firm, and their firm's private debt platform and its European regional focus. They referred to the presentation titled "Direct Lending Fund III" dated March 2018. A lengthy discussion with the Committee followed.

Mr. Fobel described that BlueBay's investments, which are primarily senior-secured loans with strong covenants, are typically made to medium and larger sized borrowers that are high quality businesses and are generally market leaders in their respective industries. He reviewed the criteria that the firm defines as its key strengths, including its size and scale, its long-standing presence within the European private debt market, its leading reputation, experienced and talented investment personnel with expertise within both private equity investing and credit restructuring, a sophisticated and efficient infrastructure, and its long-standing performance track record. Responding to a question from the Committee, Mr. Fobel described what the firm seeks in new hires and commented upon the moderate number of junior level staff, which are valuable assets as they assist senior-level personnel with a number of initiatives.

Mr. Fobel reviewed structural and performance characteristics of BlueBay's previous direct lending funds, emphasizing his focus on DLF II, in which NHRS is a limited partner. He also reviewed the performance of a similar vehicle known as the Senior Loan Fund, defined and explained the use of unitranche loans, and highlighted the significance of origination fees that alleviate the J-curve. A question from the Committee regarding BlueBay's currency hedging practices was also addressed. Before closing the presentation with a summary of Direct Lending Fund III's ("DLF III's") investment terms, Mr. Fobel offered several comments on the current European private lending environment, which has changed very little over the past 10 years since the end of the Great Financial Crisis. He indicated that the private lending space in Europe remains

attractive primarily due to structural issues as a result of Basel III rather than due to monetary policy and quantitative easing measures by the ECB.

The Committee discussed BlueBay's presentation and the opportunity to invest in DLF III. On a motion by Mr. Lesko, seconded by Mr. Jensen, the Committee unanimously agreed to commit \$50 million to BlueBay Direct Lending Fund III (USD unlevered), subject to contract and legal review. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board.

Dr. Bhaskaran Swaminathan, Partner and Director of Research; and Mr. Peter Young, Partner and Director of Client Portfolio Services; of LSV provided a brief introduction of themselves and their firm. They explained that they would present updates on the two strategies in which NHRS is invested with the firm, beginning with the System's domestic large-cap equity portfolio. They referred to the "U.S. Large Cap Value Equity" presentation dated March 23, 2018. A lengthy discussion with the Committee followed.

Mr. Young opened the discussion with a brief history of LSV's relationship with the System, which began in 2004 when LSV was awarded the domestic large-cap equity mandate. Dr. Swaminathan continued the discussion describing the firm's quantitative, deep value investment approach which is primarily derived from fundamentally-based valuation data such as price-to-cash flow, price-to-earnings, and price-to-book value ratios.

Dr. Swaminathan reviewed broad market performance returns for various time periods as reflected by the returns of various U.S. equity market indices. He highlighted that the NHRS portfolio has consistently outperformed its benchmark on a net-of-fees basis for multiple time periods ended December 31, 2017, and attributed this alpha generation to the firm's stringent requirements relating to a stock's profitability relative to cash flow and earnings. Responding to questions from the Committee, Dr. Swaminathan attributed approximately 2/3 of the portfolio's since-inception outperformance to stock selection while the remaining 1/3 could be attributed to factors such as size, value, and momentum. A robust discussion was also held regarding the bifurcation between value and growth factors, and despite value's struggles in recent years relative to its growth peers, the value factor continues to outperform on long-term historical basis.

Transitioning the discussion to the System's Non-U.S. large-cap equity fund position, Dr. Swaminathan and Mr. Young began to refer to the presentation titled "LSV International (ACWI-Ex U.S.) Equity Fund" dated March 23, 2018.

Mr. Young confirmed that the same investment team that manages the domestic large-cap portfolio also manages the assets in the International Value Equity Fund (“the fund”), a commingled vehicle in which NHRS has been invested since the fall of 2014. He stated that, similar with their approach to sector selection in the U.S. portfolio, LSV remains both sector and country-neutral with respect to their international strategies, refraining from high active sector and country weightings relative to the fund’s benchmark. Responding to a question from the Committee, Mr. Young explained that, as a result of its country-neutral stance, the fund is also currency-neutral.

Dr. Swaminathan highlighted the similarities in philosophy and approach between the domestic portfolio and the international fund investment. He also noted that the performance of value stocks in many foreign markets have trailed growth stocks, just as in U.S. equity markets, albeit slightly more muted in magnitude. Following a brief review of fund performance and attribution for periods ended December 31, 2017, Dr. Swaminathan concluded the presentation explaining how position sizes are determined and described the risk controls that are utilized to maintain them at appropriate levels, as needed.

Ms. Carter Reynolds, Managing Director; and Mr. Patrick Ru, Managing Director and Associate Portfolio Manager; of Neuberger Berman provided a brief introduction of themselves and their firm. They referred to the “NB Emerging Markets Equity Fund L.P.” presentation dated March 23, 2018. A lengthy discussion with the Committee followed.

Ms. Reynolds began the presentation with a thorough overview of the firm’s investment platforms, which include several strategies within the equity, fixed income, and alternative asset classes. She noted that of the approximate \$104 billion in equity assets under management, the Emerging Markets Equity team, as led by Portfolio Manager Conrad Saldanha, manages approximately \$7.5 billion in assets as at December 31, 2017. She also provided a brief overview of the team’s additional resources, including Emerging Markets Product Specialists and Global Equity Portfolio Managers and Research Analysts. Mr. Ru added that collaboration with the firm’s Emerging Markets Debt Team also takes place at the portfolio management level.

Mr. Ru reviewed the firm’s investment philosophy and process, noting that no changes to either have taken place since the System’s relationship with Neuberger Berman began in the spring of 2014. He also reviewed the fund’s performance returns for periods ended December 31, 2017 and more recently, for periods ending February 28, 2018, commenting on recent bouts of volatility and emerging market economic activity thus far during the calendar year-to-date. He acknowledged the fund’s relative net outperformance of approximately 250 basis points for

the one-year period ended February 28, 2018. Mr. Ru continued the discussion, addressing the Committee's questions, commenting on the fund's sector and country exposure, explaining reasons behind changes made in allocations to China and India over the last two years. He further described the construction disciplines that influence the fund's composition, specifically as it relates to stocks that are included in the fund's benchmark, emphasizing the team's bottom-up, research driven stock selection process.

Responding to questions from the Committee, Mr. Ru shared his thoughts on the geopolitical situation relating to recent U.S.-imposed tariffs that will affect Chinese imports, noting that the escalation of such a policy would likely have a more significant impact than the current proposed policy itself.

The Committee asked former Independent Investment Committee Chair, Sen. Harold Janeway, to provide an overview of the history and intent of the legislation that created the Independent Investment Committee under NH RSA 100-A:14-b, effective January 1, 2009. An interactive and educational discussion was held between the Committee and Sen. Janeway, who expressed concern over the potential passing of HB 1603. Mr. Karlon answered the Committee's questions on the current status of HB 1603. On a motion by Mr. Jensen, seconded by Mr. Lesko, the Committee unanimously agreed to have the current Chair of the Investment Committee write a letter in strong opposition of HB 1603 to the Chair of the Senate ED&A Committee and for the Chair to direct Staff to draft said letter.

On a motion by Mr. Lesko, seconded by Mr. Jensen, the meeting adjourned at 12:17 p.m.