

**NOTE:** These minutes were approved and executed at the March 18, 2016 Independent Investment Committee meeting.

**Independent Investment Committee Meeting  
February 19, 2016**

**Public Minutes**

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

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

*NHRS Trustees:* Dr. Richard Gustafson.

*Staff:* 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*.

Mr. Janeway called the meeting to order at 9:02 a.m.

On a motion by Ms. Kelliher, seconded by Mr. Sosnoff, the Committee unanimously approved the public minutes of the January 22, 2016 Investment Committee meeting, as presented.

In response to a request at the January Committee meeting, Mr. Johansen and Mr. Gill provided a brief review of energy exposure within the System's private equity portfolio and judged that the exposure was not a significant impairment to the NHRS portfolio.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending January 31, 2016. He discussed the returns of various managers and asset classes over multiple time periods. Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives.

Mr. Ian Leverich, Vice President of Sales and Client Services of Abel/Noser Corporation ("Abel/Noser") provided a brief introduction of himself, his firm, and an overview of the services Abel/Noser provides to

the System. He referred to the “New Hampshire Retirement System Transaction Cost Analysis” presentation for the calendar year 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Leverich provided a brief review of Abel/Noser’s analysis methodology and confirmed that there have been no changes in the firm’s business model or analytical approach since his most recent presentation to the Committee in April of 2015. He highlighted the longstanding relationship between NHRS and Abel/Noser and acknowledged that the System’s continued interest and consideration for the trading cost impact on its actively managed equity portfolios is “no coincidence” that resulted in positive performance relative to its peer universe for the prior calendar year.

Responding to questions from the Committee, Mr. Leverich provided detailed summaries of the trading activity with respect to the System’s active U.S. equity managers, passive U.S. equity manager, and active non-U.S. equity managers. He highlighted that the System’s managers in aggregate outperformed their respective universe median benchmarks. He noted the significant contribution of the non-U.S. equity managers’ execution costs to the total trading cost’s relative outperformance, which he commented is challenging to obtain based on the high commission costs that are associated with conducting transactions in foreign markets.

In response to questions from the Committee, Mr. Leverich clarified Abel/Noser’s rationale of analyzing the trading costs separately in lieu of one data set combining the active, passive, and non-U.S. equity results in aggregate. He stated that the results would be skewed due to the various asset allocations of the portfolios that comprise the Abel/Noser peer universe.

Mr. Lee Mitchell, Managing Partner; and Ms. Jennifer James, Director and Head of Investment Relations and Marketing of Thoma Bravo provided a brief introduction of themselves and an overview of their firm and its buyout fund, Thoma Bravo Fund XII (“Fund XII”). They referred to the “New Hampshire Retirement System” presentation dated February 19, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Mitchell discussed the firm’s investment process and philosophy, emphasizing the importance of industry consolidation and the opportunities that emerge as result of overcrowding and the effect that increased competition has within a particular sector. He explained that greater scale, greater scope, and more experienced management teams all result by merging businesses together, consolidating market share and reducing competition.

Responding to the Committee's inquiries, Mr. Mitchell noted the attractiveness of the Information Technology sector, specifically the software industry and described the space as ideal for their consolidation strategy as the industry continues to experience rapid growth. Mr. Mitchell commented upon the benefit of "recurring revenue" that exists in providing software as a service, highlighting the annuity-like cash flow revenue of software companies and the differences in customer relationships of such "recurring revenue" companies.

Responding to a question from the Committee, Mr. Mitchell elaborated upon Thoma Bravo's universe of investment opportunities. He also reviewed the geographical capacity of their available investment space, confirming that the firm's focus remains within the U.S. Ms. James reviewed the terms of the investment opportunity in Fund XII, adding that over 70% of Fund XII is expected to be comprised of re-up's from prior investors.

Ms. Natalia Tsitoura, Executive Director; Mr. Jack Yang, Head of the Americas and Global Head of Business Development; and Mr. Jon Schlafman, Managing Director of Alcentra presented a brief introduction of themselves and provided an overview of their firm and its direct lending fund, Clareant European Direct Lending Fund II ("EDL II"). They referred to the "Alcentra European Direct Lending" presentation dated February 19, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Yang reviewed Alcentra's investment strategy, describing the opportunities in the European market as a result of persistent quantitative easing measures set forth by the European Central Bank in response to the Great Financial Crisis. He stated that non-bank lending in the region continues to rise, providing ample investment opportunities for private debt firms. Mr. Yang reviewed EDL II's primary focus on senior, collateralized debt, stating that their secured investment positions provide an element of capital preservation.

Addressing the Committee's inquiries, Ms. Tsitoura provided a review of Alcentra's Direct Lending and Research teams and their internal Investment Committee. She reviewed the firm's disciplined due diligence process and stressed the significance of an investment's fundamentals as opposed to its position for growth. She confirmed that Alcentra self-originates or is the lead arranger on the vast majority of their investment activity.

Responding to the Committee's questions, Mr. Schlafman provided a brief review of the opportunity to invest in EDL II and summarized its terms, including the targeted fund size, targeted returns, and fee

structure. Mr. Yang addressed a question from the Committee, confirming that NHRS's potential investment in EDL II would be fully currency hedged. He also discussed current political activity within the European Union and how such activity may impact Alcentra investments.

Mr. Christopher A. Abbate, Managing Director; Mr. Jamie M. Brodsky, Managing Director; and Mr. Patrick J. Connell, Principal of Riverstone Holdings ("Riverstone") provided a brief introduction of themselves and an overview of their firm and its energy-focused credit strategy, Riverstone Credit Partners, L.P. ("RCP"). They referred to the "Riverstone Credit Partners, L.P." presentation dated February 2016. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Abbate confirmed Riverstone's sole investment focus within the energy space and highlighted the firm's reputation as the largest private equity energy investor in the world in terms of capital raised and capital distributed. He explained the professional relationship that both he and Mr. Brodsky had with each other and with Riverstone in their prior careers as investment bankers and that they agreed to launch the equity manager's credit division after being approached by the firm. Mr. Abbate commented on the operational expertise of Riverstone's investment personnel within both its equity and debt teams.

In response to questions from the Committee, Mr. Abbate reviewed RCP's investment strategy, confirming that the majority of their dynamic investment portfolio consists of directly originated opportunities, all of which are subject to extensive due diligence research. Mitigating risk, Mr. Brodsky stated that RCP is most often the primary lender and first lien holder on 87% of the portfolio's assets as of December 31, 2015. Mr. Abbate reviewed the market-based opportunities and capital relief investment opportunities which are intended to compliment RCP's primary strategy of direct lending. He and Mr. Brodsky clarified that market-based strategies permit the investment team to capitalize on pricing dislocations and that capital relief strategies allow trades for bank assets which can no longer be held on bank balance sheets as a result of evolving regulations. Mr. Brodsky closed the presentation emphasizing that the firm's ability to diversify investments across sub-industries within the energy sector and the ability to utilize various debt structures, such as fixed or floating rate instruments, is advantageous.

The Committee discussed the presentations made by Thoma Bravo, Alcentra, and Riverstone.

On a motion by Ms. Kelliher, seconded by Mr. O'Donnell, the Committee unanimously agreed to commit \$50 million to Riverstone Credit Partners, subject to contract and legal review. Mr. Johansen confirmed that NHRS is in discussions regarding a seat on the Advisory Board.

On a motion by Mr. Sosnoff, seconded by Ms. Kelliher, the Committee unanimously agreed to commit \$50 million to Clareant European Direct Lending Fund II Levered Option, subject to contract and legal review. Mr. Johansen confirmed that NHRS is in discussions regarding a seat on the Advisory Board.

The Committee discussed the structure of the System's current fixed income portfolio and agreed to continue the discussion at its March meeting.

On a motion by Mr. O'Donnell, seconded by Mr. Sosnoff, the meeting adjourned at 1:25 p.m.