

NOTE: These minutes were approved and executed at the September 23, 2016 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
July 22, 2016**

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: Dr. Richard Gustafson; and David McCrillis.

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*.

NEPC: 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 minutes of the June 24, 2016 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Fund performance flash report for periods ending June 30, 2016. He discussed the returns of various managers and asset classes over multiple time periods, noting figures are preliminary and will be finalized upon receipt of the fiscal year end valuations. Mr. Johansen also noted that, as the Committee had requested in an earlier meeting, there will be no Committee meeting in August.

Mr. Johansen notified the Committee of the pending trial of the Carlyle Group ("Carlyle"), an asset manager with which the NHRS invests, regarding the performance of its mortgage bond fund Carlyle Capital Corp. during the Great Financial Crisis. He confirmed NHRS did not invest in the fund and that Carlyle has been in contact with NHRS regarding the status of the trial. Mr. Gill commented on NEPC's recently

established sub-advisory partnership with investment manager Eaton Vance for the purpose of identifying exchange-traded managed funds and discussed the advantages of the partnership.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. He noted that the Work Plan for the second quarter of Fiscal Year 2017 has been added for the Committee's consideration. He commented that the Work Plan remains flexible and subject to change as the Committee deems appropriate.

On a motion by Ms. Kelliher, seconded by Mr. Sosnoff, the Committee unanimously approved the Work Plan for the second quarter of Fiscal Year 2017, as amended by the Committee.

Ms. Kate Moore, Managing Director; Mr. Douglas McNeely, Managing Director; Mr. Paddy McCrudden, Managing Director; Mr. Scott Dohemann, Managing Director; and Mr. Andrew McCue, Associate; of BlackRock provided a brief introduction of themselves and their firm. They referred to the "Active and Passive Investing" presentation dated July 22, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Ms. Moore discussed the role of uncertainty within the current economic environment and potential opportunities for growth. She explained that the current shift to passive and safe-haven assets has created a favorable environment for reallocation and noted the struggle associated with finding opportunities for growth in the current market. Mr. McCrudden provided an overview of challenges facing public pensions and discussed the benefits active investing may provide in the search for growth and alpha. Mr. Dohemann reviewed the various roles of active and passive investments within a portfolio and commented upon passive investment opportunities made available by market dislocations.

Responding to questions from the Committee, Mr. McCrudden noted the significant roles efficiency and liquidity needs play when choosing an investment strategy, arguing active managers can provide favorable performance relative to the volatility of returns. He explained recent growth within the passive investment market has created dislocations which can be exploited by active investing and commented upon the return premium active investments can provide when investors are willing to accept lower liquidity over longer periods of time. The Committee engaged in a robust discussion regarding the differences between active and passive management and debated the effectiveness of active management to consistently outperform the benchmark over long periods of time.

In response to questions from the Committee, Ms. Moore explained the favorable role active management can play within institutional investments as retail investors move to passive investments in a flight to safety. Mr. Dohemann discussed trends within the passive investment space as a result of the current low-yield environment and explained that new indexes have been created on a granular level to provide the opportunity to “tilt” investments to specific sectors while also minimizing volatility.

Mr. Matthew Eagan, Vice President and Portfolio Manager; and Mr. Gregory Ward, Vice President, Client Portfolio Manager and Product Manager; of Loomis, Sayles & Company (“Loomis”) provided a brief introduction of themselves and their firm. They referred to the “Market Slides” presentation dated July 22, 2016. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Eagan opened with a brief discussion of the opportunities and risks within the fixed income universe. He provided a thorough overview of central bank history and the effectiveness of monetary policy on the economy, discussing factors which led to and detracted from economic growth in the past. Drawing comparisons from Japan’s monetary policy as an example, Mr. Eagan discussed deflationary environments and the impact of quantitative easing and “helicopter money” on economies. He commented on the global and U.S. economy’s correlated relationship, discussing the effectiveness of various methods in resolving deflationary issues.

Responding to questions from the Committee, Mr. Eagan discussed recent inflows to U.S. credit markets and the shift to riskier, higher yielding assets in the search for yield as a result of quantitative easing and the global low yield environment. He provided an overview of global growth themes and forecasts as well as the impact of China’s GDP growth on the macroeconomic economy. Mr. Eagan gave a brief overview of Loomis’ investment strategy, the importance of liquidity, and the use of sector and stock selection to drive performance. He commented on leverage and opportunities to be exploited within the current credit repair cycle.

In response to questions from the Committee, Mr. Eagan identified potential headwinds to the U.S. and global growth environment as the European immigration crisis, political uncertainty, low global growth environment and sweeping lack of certainty. He provided his opinion that favorable investment opportunities may be difficult to find but are still available within the current environment.

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On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the meeting adjourned at 12:35 p.m.