

NOTE: These minutes were approved and executed at the October 19, 2018 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
September 21, 2018**

Public Minutes

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

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

NHRS Trustees: Dr. Richard Gustafson.

Staff: George Lagos, *Executive Director*; 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*.

Ms. Kelliher called the meeting to order at 9:00 a.m.

On a motion by Mr. Lesko, seconded by Ms. Clinton, the Committee unanimously approved the public and the non-public minutes of the July 20, 2018 Investment Committee meeting and the public minutes of the August 7, 2018 Investment Committee meeting, as presented.

Ms. Kelliher and Mr. Johansen welcomed newly appointed Independent Investment Committee member Dan LaPlante. Mr LaPlante introduced himself to the Committee and offered a brief overview of his professional background.

Mr. Johansen reviewed investment returns through recent time periods, referring to the NEPC Marketable Investments performance flash report for periods ending August 31, 2018. He discussed the returns of various managers and asset classes over multiple time periods and advised the Committee that final Fiscal Year 2018 performance is nearing finalization. He reviewed the Work Plan and updated the Committee on several initiatives, including the status of the rebalance of the domestic equity portfolio as agreed upon by the Committee at its May meeting, noting that the rebalance will be complete by the end of November 2018. Mr. Johansen discussed the decision by the Committee at its July meeting to terminate its investment with AberdeenStandard, adding that NHRS has fully exited

its investment with the manager as of the date of the meeting. He apprised the Committee on the status of the termination of the System's investment with GAM, which was voted on by the Committee at the August meeting, and stated that the System has received approximately 60% of the funds with full liquidation expected to be completed by the end of calendar year 2018. He also indicated that GAM is no longer as optimistic about avoiding a discount on the remaining assets. He provided an update on the search for a replacement manager for the GAM Unconstrained Bond Fund, adding that Fixed Income Managers BlackRock and Fidelity will present their strategies to the Committee for their consideration at the October Committee meeting.

Mr. Orlando Bravo, Managing Partner; and Ms. Jennifer James, Managing Director, Investor Relations & Marketing; of Thoma Bravo, presented a brief introduction of themselves and an overview of their firm and its private equity Fund, Thoma Bravo Fund XIII ("Fund XIII"). They referred to the "Thoma Bravo Fund XIII, L.P." presentation dated September 21, 2018. A lengthy discussion with the Committee followed.

Mr. Bravo provided an overview of the Fund's organizational structure and strategy, and described the careful selection process associated with the various firms in which it invests. He described Thoma Bravo's impact as a control investor, adding that the firm nets returns by accumulating recurring revenue created by improving business functionality and operational capacity. He discussed the wide range of software investing opportunities available to the firm, noting that the investable universe is highly receptive to private ownership, as Thoma Bravo provides well-informed guidance throughout the process of transitioning to a more efficient company. Mr. Bravo offered a discussion on the highly efficient nature of the market, which allows companies to grow quickly and provide a favorable return in a short period of time.

Mr. Christopher Turner, Chief Administrative Officer; and Mr. James Wilson, Managing Director; of Warburg Pincus, presented a brief introduction of themselves and an overview of their firm and its private equity Fund, Warburg Pincus Global Growth Fund ("Global Growth Fund"). They referred to the "Warbug Pincus Private Equity" presentation. A lengthy discussion with the Committee followed.

Mr. Turner emphasized the firm's position as a global, long-term investor, which allows it the opportunity to capture favorable growth opportunities over various stages of the business cycle while still sustaining consistent returns over longer periods. He discussed the importance of minority investing in global markets, noting that Warburg partners with each firm's management team to effect change over the entire business cycle. Mr. Turner noted the five core sectors in which the firm invests and offered an example of various implemented investments within those sectors. He

discussed the benefit of the firm's well-recognized institutionalized platform, adding that the firm's broad and deep investment staff support the firm's global investment initiatives. Mr. Turner underscored the benefit of the firm's established history in the industry and the advantages associated with creating and sourcing portfolio companies. Mr. Wilson closed with an overview of predecessor Funds as well as NHRS' current investment in Warburg Pincus Fund XII and noted his conviction that Global Growth Fund will mirror those Funds' favorable performance.

Mr. Vijay Rajguru, Global Chief Investment Officer; and Mr. Thorne Gregory Jr., Managing Director; of Alcentra, presented a brief introduction of themselves and an overview of their firm and its private debt Fund, Clareant European Direct Lending Fund III ("DLF III"). They referred to the "Clareant European Direct Lending Fund III" and the "European Direct Lending Investment Review" presentations dated September 2018. A lengthy discussion with the Committee followed.

Mr. Rajguru discussed the inception of Alcentra's Direct Lending strategy and its drivers of return, explaining that its business is highly focused on leverage provided to companies. He provided a thorough overview of the Direct Lending team and highlighted the importance of the firm's structure and its role as a key differentiator to competitor firms in its lending business. He discussed the current global direct lending market as well as opportunities and challenges as they relate to the direct lending investable universe. Mr. Rajguru reviewed the two Funds in which NHRS currently invests, comparing drivers of return, performance, and expectations and noted that DLF III is expected to exhibit similar characteristics.

The Committee discussed Thoma Bravo's presentation and the opportunity to invest in Fund XIII. On a motion by Mr. Lesko, seconded by Mr. Quinton, the Committee unanimously agreed to commit \$50 million to Fund XIII, subject to contract and legal review.

The Committee discussed Warburg Pincus' presentation and the opportunity to invest in the Global Growth Fund. On a motion by Mr. Lesko, seconded by Mr. Quinton, the Committee unanimously agreed to commit \$50 million to the Global Growth Fund, subject to contract and legal review.

The Committee discussed Alcentra's presentation and the opportunity to invest in DLF III. On a motion by Mr. Quinton, seconded by Ms. Clinton, the Committee unanimously agreed to commit \$50 million to DLF III (Unlevered), subject to contract and legal review. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board.

Mr. Mark Dickherber, Principal, Director of Small Cap Strategies; Mr. Jeffrey Paulis, Principal, Senior Portfolio Manager; and Mr. Clark Koertner,

Principal, Director of Institutional Sales; of Segall Bryant & Hamill (“SB&H”) provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” U.S. equity small cap presentation dated September 21, 2018. A lengthy discussion with the Committee followed.

Mr. Koertner opened with a discussion on the current market environment and the expected impact on performance of the small cap portfolio in which NHRS invests. Mr. Paulis discussed SB&H’s investment philosophy, process, and the firm’s key differentiators as it relates to executing its niche investments within the small cap market. Mr. Dickherber provided a thorough overview of SB&H’s proprietary due diligence models and the ways in which it can uncover favorable investment opportunities. A detailed discussion took place regarding the portfolio construction process, including the investment team’s conviction in specific sectors due to the historical nature of favorable niche investments found within those sectors. Mr. Paulis reviewed performance over various time periods and offered his expectations for future portfolio performance in the current market environment.

Mr. Matthew McKenna, Vice President and Investment Director; and Mr. Jason Law, Managing Director and Relationship Manager; of Wellington Management Company (“Wellington”) presented a brief introduction of themselves and their firm. They referred to the “Small Cap 2000 Review” presentation dated September 21, 2018. A lengthy discussion with the Committee followed.

Mr. Law provided an overview of Wellington’s team, process, and strategy and discussed the private firm’s unique boutique structure and the purposeful absence of a firm CIO and the resulting autonomy given to investment managers to make investment decisions. Mr. McKenna discussed characteristics of the Small Cap 2000 portfolio in which NHRS invests, outlining the objective approach both the team and individual analysts take within the portfolio. He highlighted the importance of analysts’ fundamental analysis and the collaborative efforts associated with managing the small cap portfolio and reviewed performance over recent periods. Mr. McKenna discussed the expected impact of various market environments on portfolio performance, adding that analysts avoid making style or sector bets and instead focus on sector diversification. He closed by providing an overview of some of the names and industries in which the portfolio’s analysts see value and discussed portfolio positioning.

On a motion by Mr. Lesko, seconded by Ms. Clinton, the meeting adjourned at 12:54 p.m.