

NOTE: These minutes were approved and executed at the June 16, 2017 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
May 19, 2017**

Public Minutes

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

Committee Members: Maureen Kelliher, *Chair*; David Jensen; Patrick O'Donnell; Keith Quinton, and Hersh Sosnoff.

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. Jensen, seconded by Mr. O'Donnell, the Committee unanimously approved the public minutes of the April 21, 2017 Investment Committee meeting, as presented.

Mr. Johansen reviewed the Work Plan and updated the Committee on several initiatives. He noted that there were no significant developments to report regarding the proposed merger between Standard Life Investments and Aberdeen Asset Management, both of which the System has current investment relationships. He also apprised the Committee of the recent dismissal of Peter Kraus, the now former CEO and Chairman of the Board at AB, which manages a U.S. mid cap equity portfolio on behalf of the NHRS. Mr. Leonard added that the change in executive management at AB has no immediate impact on the System's investment with AB at the present time.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending April 30, 2017. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen provided a brief overview of the upcoming June Committee meeting, noting that the System's discretionary real estate manager, The

Townsend Group, will present a review of fiscal year 2017 real estate portfolio performance and activity. He advised that the Committee will also review and vote to approve Townsend's Investment Plan for fiscal year 2018. Additionally, Mr. Johansen advised that NEPC would present an update of the private equity and private debt portfolio at the June Committee meeting. Relating to the upcoming July Committee meeting, he solicited suggestions from the Committee for broad macroeconomic topics of interest for discussion.

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the Committee voted unanimously to extend the investment relationship with Standard Life as it pertains to the Global Absolute Return Strategy ("GARS") mandate through May 2019.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee voted unanimously to renew the Investment Management Agreement with Walter Scott through May 31, 2019.

Mr. Johansen reviewed the agenda for today's meeting. He noted that Crescent Direct Lending Levered Fund II ("Fund II") has not yet been voted on by the NEPC Investment Committee due to scheduling conflicts. That vote is expected to take place before the June NHRS Independent Investment Committee ("IIC") meeting. The Committee will consider a commitment to Fund II at the June IIC meeting.

Mr. John Bowman, Managing Director; and Mr. Mark DeVincentis, Managing Director; of Crescent provided a brief introduction of themselves, their firm, and its direct lending fund. They referred to the "Crescent Direct Lending" presentation dated May 2017. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Bowman provided a brief history of the rise of the private credit asset class in the U.S., suggesting its continued growth is primarily a result of the shrinking banking industry, creating an opportunity for private, non-bank lenders to fill voids left behind by traditional lending institutions. He provided a review of Crescent's investment process that targets low to middle market sized borrowers for which Crescent conservatively structures senior and unitranche loans so as to offer a healthy risk-adjusted return with the intention of eliminating the volatility that is ordinarily observed in the public fixed income space. Further, he explained the appeal of the firm's target market with emphasis on those which are backed by private equity sponsors. The importance of a target borrower's management team and capital structure was also noted by Mr. Bowman.

Further addressing the Committee's questions, Mr. Bowman provided a review of fund performance and industry exposure as it relates to

Crescent Direct Lending Levered Fund I, the strategy's predecessor fund in which NHRS is an investor. He described the differences and similarities between Fund I and Fund II in addition to the differences between the Fund's levered and unlevered structures. He concluded the presentation with a detailed update on the status of Fund II, which held its first close in January 2017, stating that 90% of Fund II's current commitments are re-up's from existing L.P.'s. He communicated his expectations that Fund II will be fully subscribed and reach its target size of \$1 billion by late 2017 or early 2018. When addressing a final question regarding risks and concerns, Mr. Bowman elaborated on the changing nature of competitor firms loosening their covenant structures, adding pressure onto Crescent's investment strategy and competitive edge.

Mr. Jonathan Cordo, Vice President and Senior Relationship Manager; and Mr. Jack McIntyre, Portfolio Manager; of Brandywine Global Investment Management ("Brandywine") provided a brief introduction of themselves and their firm. They referred to the "Global Opportunistic Fixed Income" presentation dated May 19, 2017. A lengthy discussion with the Committee followed.

Responding to questions from the Committee, Mr. Cordo noted the firm's approximate \$70 billion in total assets under management, 75% being fixed income assets of which a substantial subset is invested in the firm's flagship Global Opportunistic Fixed Income strategy, the strategy in which NHRS invests. He provided a review of Brandywine's investment philosophy and the emphasis the firm places upon its benchmark agnostic, macro-driven, sovereign-oriented, and value-focused principles. He notified the Committee of three additions to the Global Fixed Income team over the past twelve to eighteen months, including portfolio manager Anujeet Sareen and global research analysts Alberto Boquin and Dorothee Rainis. Mr. Cordo clarified that although no one on the team is planning to retire in the short or medium-terms, the additions were a result of efforts in consideration of succession planning.

Mr. Cordo and Mr. McIntyre reviewed the portfolio's performance returns for periods ending March 31, 2017. Mr. Cordo noted the relative outperformance for all time periods presented, including the absolute since-inception portfolio return of 7.36%, besting the benchmark by more than 300 basis points on a net-of-fees basis. He reviewed performance attribution for the trailing one-year, noting that the portfolio outperformed as a result of strong security and currency selections.

In response to questions from the Committee, Mr. McIntyre offered a detailed discussion relating to the portfolio's current positioning as well as the firm's macroeconomic views that are driving the global fixed income investment team's decisions. He thoroughly described a relative value trade which favors emerging markets over developed markets given

increased anticipation of stability in the developed world as reflected in improving fundamentals and expected inflation rates. Mr. McIntyre discussed the composition of the portfolio's non-USD exposure, noting the skew toward emerging markets, particularly commodity-related economies, which supports a yield superior to that of the benchmark. He explained Brandywine's oil price expectations and the firm's views on the strength of the dollar, further supporting relative underweight allocations to developed market bonds and currencies. He closed with comments regarding broad, high level themes influencing investor sentiment and markets, including globalization, technology, and government debt levels.

Mr. Gregory Ward, Vice President and Client Portfolio Manager; and Mr. Brian Kennedy, Vice President and Co-Portfolio Manager; of Loomis Sayles & Company ("Loomis") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated May 19, 2017. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Ward highlighted Loomis's total assets under management of approximately \$250 billion at March 31, 2017, an all-time high for the firm. He advised that long-time Chairman Robert Blanding retired at the beginning of May and that executive management remains stable under the leadership of Kevin Charleston, Loomis's CEO, who assumed the additional role of Chairman upon Mr. Blanding's retirement.

Mr. Kennedy reviewed portfolio performance returns for the first quarter of 2017 and for the calendar year 2016, noting gross relative outperformance of 103 and 405 basis points, respectively. He commented that minimal strategic changes took place during the first quarter of 2017 and that several themes driving relative outperformance during the second half of 2016 remained into the new calendar year. He spoke favorably of recent performance within the portfolio's credit allocations across all major sectors including Industrials and Energy, Telecommunications, and Financials. In response to a question from the Committee, Mr. Kennedy commented upon the portfolio's intentional underweight allocation to the securitized sectors, citing Loomis's attraction to securities offering more convexity rather than securities with callable attributes.

Responding to the Committee's inquiries, Mr. Kennedy described the rationale for the portfolio's current positioning, commenting on oil price expectations, interest rate expectations, and the current stage of the credit cycle.

Mr. Johansen and Mr. Lagos apprised the Committee of proposed revisions to the System's Private Markets Disclosure Policy, currently in

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development by the Governance Committee of the Board of Trustees. The Committee discussed the proposed changes with Messrs. Johansen and Lagos.

On a motion by Mr. Sosnoff, seconded by Mr. O'Donnell, the meeting adjourned at 11:46 a.m.