

NOTE: These minutes were approved and executed at the June 19, 2015 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
May 29, 2015**

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.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Scott Needham, *Investment Officer*; Greg Richard, *Investment Officer*; and Shari Crawford, *Junior Investment Officer*.

NEPC: Kevin Leonard, *Partner and Senior Consultant*; and Sean Gill, *Partner*.

Mr. Janeway called the meeting to order at 9:01 a.m.

On a motion by Mr. O'Donnell, seconded by Mr. Sosnoff, the Committee unanimously approved the public minutes of the April 24, 2015 Investment Committee meeting, with the inclusion of a minor edit requested by the Committee. Mr. Jensen abstained from the vote, as he did not attend the April Committee meeting.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. He referred to the "Summary of Quarterly Active Equity Manager Discussions: Q4 2014" memo, dated April 28, 2015. He indicated that based on staff's quarterly portfolio review discussions with the noted equity managers, all were performing in line with expectations, given the market environment and their respective investment processes. He indicated that quarterly calls would be conducted with Fixed Income managers as well, and that similar summary memos would be provided to the Committee on a quarterly basis going forward.

The Committee discussed the presentation made by global equity manager Walter Scott at the April meeting. On a motion by Ms. Kelliher,

seconded by Mr. Sosnoff, the Committee voted unanimously to extend the Investment Management Agreement with Walter Scott through May 31, 2017.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable Investments performance flash report for periods ending April 30, 2015. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Osamu Yamagata, Investment Manager; and Mr. Kieran McGlynn, Head of Institutional Relationship Management, of Aberdeen Asset Management (“Aberdeen”) presented a brief introduction of themselves and their firm. They referred to the “Performance review” presentation dated May 29, 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. McGlynn noted that Aberdeen’s investment staff includes close to 100 associates that provide “boots on the ground” company research in both developed and emerging markets around the globe. Mr. Yamagata commented that Aberdeen sometimes takes a significant ownership interest in some company stocks, which provides an advantage when Aberdeen seeks to engage with company management as a shareholder. He explained how Aberdeen sizes and builds individual stock positions within the fund, and discussed the fund’s low-turnover approach.

Responding to questions from the Committee, Mr. Yamagata discussed the rationale behind Aberdeen’s relative overweight allocation to Brazil, which has had a negative impact on recent relative performance results. He explained how political risks are factored into Aberdeen’s investment process. He noted that Aberdeen does not hedge the fund’s currency exposure, but rather analyzes currency exposures at the individual company level. Mr. McGlynn commented that at the firm-level, Aberdeen feels that currency fluctuation is a “zero-sum game” over the long-term, and does not hedge currency exposure across its product line accordingly.

In response to questions from the Committee, Mr. Yamagata discussed the fund’s poor recent relative returns. He compared recent periods to the fund’s underperformance in 2007, which was followed by a period of relative outperformance. He commented that the fund is expected to underperform in market environments during which company fundamentals are not recognized. He explained the fund’s investment approach with regard to China.

Mr. Drew Spangler, Head of the International Active Team; Mr. Eric Ikauniks, member of the International Active Team; and Mr. Tom Smith,

Client Relationship Manager, of GMO presented a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” presentation dated May 29, 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Spangler commented that while the fund currently holds approximately 125 stocks, the number of holdings fluctuates depending on valuation levels. He discussed the headline risks associated with investing in Europe in conjunction with current valuation levels across Europe and the fund’s European holdings.

Responding to questions from the Committee, Mr. Ikauniks discussed the impact of borrowing by Chinese state-owned enterprises on currency exchange rates. He spoke to current levels of foreign exchange reserves and U.S. Dollar-denominated debt across emerging markets in comparison to those prior to the 1998 Asian financial crisis. He discussed current Chinese stock valuation levels, noting that they have more than doubled over the past year. Mr. Spangler noted the outsized impact that China has on emerging markets in aggregate.

In response to questions from the Committee, Mr. Spangler reviewed the rationale behind the fund’s current relative neutral allocation to Japan. He commented that while the team feels that Japanese valuations are at fair-value levels in aggregate, the team continues to find attractive company-specific opportunities within the country.

Mr. Murali Srikantaiah, Portfolio Manager; Mr. John Smallcomb, Investment Director; and Ms. Elizabeth O’Hara, Relationship Manager, of Wellington Management (“Wellington”) presented a brief introduction of themselves and their firm. They referred to the “Emerging Markets Local Equity Review” presentation dated May 29, 2015. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Smallcomb discussed the beneficial impact of the fund’s exposure to India on relative returns and credited the investment team’s disciplined approach with regard to this exposure as India has fallen into and out of favor among investors over time. Mr. Srikantaiah noted the pro-business reform environment in India and its positive impact on productivity within the country as supportive of the fund’s relative overweight allocation to the country.

Responding to questions from the Committee, Mr. Srikantaiah discussed the current volatile political situation in Brazil and the related impact on Brazilian markets. He talked about the corruption scandal in Brazil as well as similar concerns in China and India and the positive anticipated

impact of reform initiatives in these countries. He compared these situations to the similar historical environment in Germany, which emerged as a much stronger market following the successful implementation of difficult reform efforts.

In response to questions from the Committee, Mr. Srikantiah discussed his views on China and explained the rationale behind the fund's large allocation to the country. He explained his investment approach with regard to Chinese companies.

The Committee discussed the presentations made by Aberdeen, GMO, and Wellington. Mr. Johansen discussed the agenda for the June Committee meeting, which includes a presentation by discretionary real estate manager The Townsend Group; presentations by fixed income managers Brandywine Global Investments and Loomis Sayles & Company, in conjunction with these managers' two-year contract renewals; and an economic presentation by Standard Life Investments.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the meeting adjourned at 11:56 a.m.