New Hampshire Retirement System

A Component Unit of the State Of New Hampshire

Comprehensive Annual Investment Report

For the Fiscal Year Ended June 30, 2010

NHRS
New Hampshire Retirement System

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October 22, 2010

The Honorable John Lynch, Governor
The Honorable Sylvia B. Larsen, President of the Senate
The Honorable Terie Norelli, Speaker of the House of Representatives

The Independent Investment Committee of the New Hampshire Retirement System ("NHRS") is pleased to present the comprehensive annual investment report for the fiscal year ended June 30, 2010. This report is designed to comply with the provisions of the Revised Statutes Annotated ("RSA") 100-A:15, VII of the State of New Hampshire.

Fiscal year 2010 marked the first full reporting period for which the Independent Investment Committee conducted oversight and management of the investment program. Prior to January 1, 2009, the Board of Trustees served as the NHRS Investment Committee. On that date, the Independent Investment Committee assumed its responsibilities in accordance with the provisions of RSA 100-A:14-b. The Committee is responsible for investing in accordance with policies established by the Board; making recommendations to the Board regarding investment consultants, asset allocation, and other policy matters; selecting investment managers, agents, and custodial banks; and reviewing performance.

The Committee, which meets monthly, is comprised of five members: three independent members appointed by the Governor and Executive Council, and two members of the Board of Trustees appointed by the Chair of the Board. All are expected to have significant experience in institutional investment or finance. The three independent members are David Jensen, Patrick O'Donnell and Tom Silvia. The two Board members serving on the Committee are Senator Harold Janeway and Dr. Lisa Shapiro. Senator Janeway is the Chair of the Committee. Brief biographies and a picture of the Committee members follow this report.

Investment Philosophy

Consistent with statutory requirements, the Committee developed and adopted a philosophy statement. The NHRS Investment Philosophy is included in Appendix D of this report. Among other things, the Investment Philosophy describes the System's Investment Objectives; Portfolio Structure and Implementation; and Performance Measurement.

Investment Results

The twelve months ending June 30, 2010 marked the beginning of a slow but unsteady recovery in the economy. The consequences of the bursting of the housing bubble and the near collapse of the credit markets resulted in a significant reduction of consumer confidence. Subdued demand left U.S. companies with very little reason to increase payrolls or capital spending. Similar conditions prevailed in most of the economies of the developed nations. Federal stimulus programs and emergency measures no doubt pulled the U.S. economy and the capital markets back from the brink, but had only a modest effect on the growth of the U.S. economy. Furthermore, aggressive quantitative monetary easing and the sheer size of the stimulus programs raised fears of long-term inflation even though deflation remains a real possibility. The Federal Reserve Bank maintained short-term interest rate targets at minimal levels. The federal government continued to introduce and implement programs to support businesses, banks, and the public. Governments around the world were beset by concerns over potential default on sovereign debt, continued weakness in the banking sector, and civil protests caused by announcements of austerity measures.

The market recovery that began in the spring of 2009 and continued through the summer months of 2009 generated strong gains for the first 3 months of the fiscal year. The gains moderated in the second and third quarters and turned negative in the fourth quarter as it became evident that the recovery was too anemic to generate meaningful job growth. The huge federal deficits limited the will and the ability of the federal government to take further actions to spur growth.

Against this backdrop, the NHRS investment program produced a 12.9% net-of-fees return for fiscal year 2010. This was a welcome relief from a decline of 18.1% the previous fiscal year, but left us short of a full recovery. The return for fiscal year 2010 was primarily driven by across the board strength in the domestic equity and fixed income portfolios. The following table summarizes performance over various time periods relative to the asset-class benchmarks. Gross returns (before fees are deducted) compared to the universe places our results in the middle of the field over the past 1, 3 and 5-year periods, but in the bottom quartile over the past decade. Results for last year relative to our own benchmarks were positive for the fund as a whole and for all but one of the asset classes (global equity). However, with the exception of fixed income, the fund fell short of its asset class benchmarks over the 3, 5 and 10-year periods.

Performance returns are calculated on a net-of-fees time-weighted rate of return basis.

Annualized Investment Returns for the period ended June 30, 2010					
Asset Class	**Weight 6/30/10**	**Fiscal Year 2010**	**3 Year**	**5 Year**	**10 Year**
Total NHRS Fund (Gross Returns)	100.0%	13.2%	-3.8%	2.7%	2.6%
ICC Public Fund Universe Ranking[1]		47	53	48	76
Total NHRS Fund (Net Returns)	100.0%	12.9%	-4.1%	2.4%	2.3%
Total Fund Custom Index		11.7%	-3.8%	2.6%	2.8%
Domestic Equity	42.5%	15.5%	-10.6%	-1.5%	-1.6%
Total Domestic Equity Blended Benchmark[2]		15.7%	-9.5%	-0.5%	-1.2%
International Equity	14.3%	12.2%	-9.4%	3.6%	0.9%
Total International Equity Blended Benchmark[2]		10.4%	-10.7%	3.4%	1.6%
Global Equity	5.3%	9.0%	-	-	-
MSCI ACWI		11.8%	-	-	-
Fixed Income	30.6%	13.6%	8.7%	6.6%	7.9%
Total Fixed Income Blended Benchmark[2]		10.6%	7.2%	5.5%	6.6%
Real Estate	5.1%	1.8%	-9.0%	1.6%	6.9%
Total Real Estate Blended Benchmark[2]		-1.0%	-4.5%	3.9%	7.2%
Alternative Investments	1.9%	8.3%	-12.4%	-3.8%	-6.4%
Consumer Price Index + 5%[2]		6.2%	6.6%	7.4%	7.4%
Cash Equivalents	0.3%	0.2%	1.9%	3.0%	2.9%
Cash Index		0.2%	1.6%	2.8%	2.7%

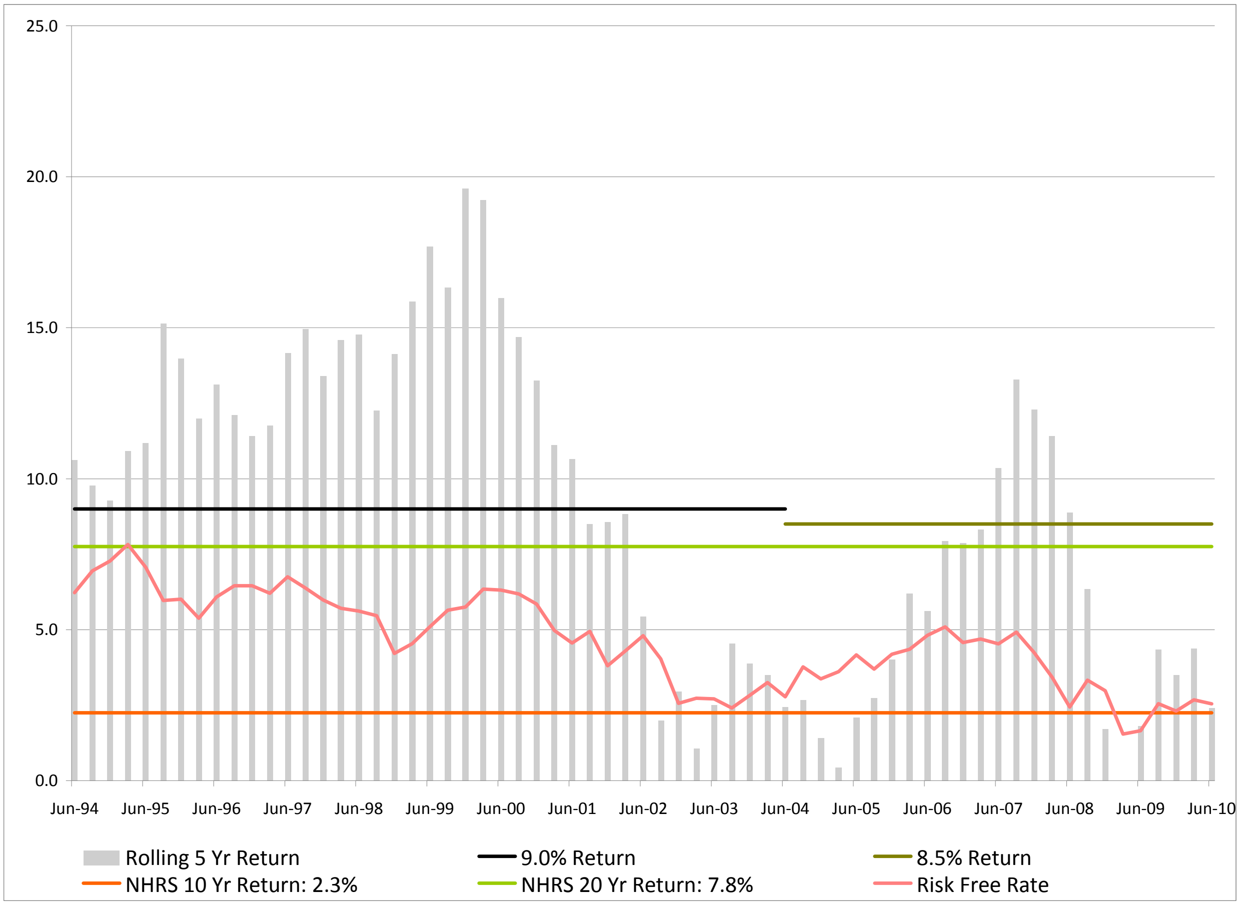
[1] The Independent Consultants Cooperative Public Fund Universe represents more than 150 public fund observations. The rankings are in percentile terms on a scale from 1 as the highest score to 100 as the lowest score.

[2] In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions. Detailed descriptions of the benchmarks above are available by contacting NHRS.

The chart below shows a history, over 20 years, of the performance of the Total NHRS Fund over rolling five-year periods. Rolling five-year returns are consistent with the five-year smoothing of assets employed in the actuarial valuation used to determine the required employer contribution rates. The purpose of using five-year smoothing is to dampen the volatility of the employer contribution rates that would otherwise result from large year-to-year market fluctuations. That is why the peaks and valleys shown on the chart lag considerably the annual market changes. The actuarial valuation is completed every other year and determines the employer contribution rates for the subsequent two fiscal years. For example, the actuarial valuation of the Retirement System's assets and liabilities as of June 30, 2009, was used by the Board of Trustees to certify the employer contribution rates for the fiscal years ending June 30, 2012 and June 30, 2013.

It is important to note that these rates of return need to be considered within the context of historical gain sharing on the assets of the NHRS. Until June 30, 2006 returns in excess of the actuarial rate of return plus 50 basis points were transferred to the Special Account and were used to support extra benefits for members. Those transfers totaled approximately $900 million substantially reducing the ability of the NHRS to cushion significant market declines such as those in 2000 and 2009. The 10-year and 20-year annualized returns for the Total NHRS Fund are shown in the following chart. In addition, the chart contains the current actuarial rate of return of 8.5% and the prior rate of 9.0%.

Performance History of the New Hampshire Retirement System



Additional information regarding the investment program is detailed in Appendix A.

<u>Annual Investment Policy Statement</u>
The NHRS Statement of Investment Policy was established by the NHRS Board to provide governance and oversight of the pension fund assets. Highlights of the Statement of Investment Policy, which is presented in Appendix D of this report, include:

- Description of the roles and responsibilities of the Board, the Investment Committee, NHRS Staff, and the System's service providers
- Detail regarding various considerations related to the oversight of investments, including the selection of service providers
- Establishment of the program's asset-allocation policy
- Specification of asset class performance measurement and monitoring policy

The Board sets the assumed rate of return based on the recommendations of the System's actuary. A written opinion letter on this subject is included in this report as Appendix B. The net-of-fee return of 2.3% over the past decade fell far short of the current 8.5% assumed rate of return. The 20-year annualized, net-of-fee return of 7.8% comes closer to meeting this objective in the absence of gain sharing. To determine future funding requirements, the actuary retained by the NHRS Board will perform a 5-year experience study following the June 30, 2010 actuarial valuation. The recent national trend has been for public pension plans to lower the assumed rate of return. U.S. Treasury Notes, considered the safest investments and the benchmark against which other fixed income securities are priced, yield 2.7% and 4.0% for 10-year and 30-year maturities, respectively. While such low rates provide needed support for the economy, they simply do not provide a sufficient return for funds such as ours to meet long-term obligations without exposing the fund to unacceptable risk.

Asset Structure

The target allocation and range for each asset class, as adopted by the Board of Trustees on July 13, 2010, are as follows:

Asset-Class	Target Allocation	Allocation Range
Domestic Equity	30%	20 – 50%
Non-U.S. Equity	20%	15 – 25%
Fixed Income	30%	25 – 35%
Real Estate	10%	0 – 15%
Alternative Investments	10%	0 – 15%

Appendix D contains further detail regarding the target allocation and ranges for subclasses of equity and fixed income investments, as well as real estate and alternative investments.

The current benchmarks for each asset class are as follows:

Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
Non-U.S. Equity	MSCI All Country World Ex-U.S. Index
Fixed Income	Barclays Capital Universal Bond Index
Real Estate	NCREIF Property Index + 50 basis points
Alternative Investments	Consumer Property Index + 5%
Total Fund	Total Fund Custom Benchmark[1]

[1] The Total Fund Custom Benchmark is comprised of the asset class specific benchmarks, weighted in the same proportion as the target allocation for each asset class.

Governance, Benchmarks and Measurement of Outcomes

As previously mentioned, the management and administration of the pension trust is a complex effort involving multiple stakeholders with distinct roles and responsibilities as described in the Statement of Investment Policy and in statute. At each monthly meeting of the Board or Committee, status reports are provided regarding the outcomes of various investment initiatives. Additionally, performance is reviewed versus benchmarks at the manager-level, asset-class level, and portfolio-level on a monthly or quarterly basis, as appropriate, over various time-periods since the inception of a particular investment mandate or strategy to continually evaluate the portfolio. An overview of stakeholder functions and interactions is outlined in the following table.

Level	Policy	Strategy	Implementation
Board of Trustees	Approve		
Investment Committee	Recommend	Approve	
NHRS Investment Staff	Recommend	Recommend	Manage
Consultants	Recommend	Recommend	

Additional discussions of the mandates of these stakeholders are located in this report, specifically, in the Investment Committee Charter and the Board of Trustees Charter, in Appendix C and in the Statement of Investment Policy in Appendix D.

Administrative Comments

Under RSA 100-A:15, VII.(d) the Committee may include in the annual investment report suggested changes in legislation which the Board may seek in order to better serve the members of the System. Given the Committee's current focus on the structure of the investment program, no legislative changes related to investment matters are being proposed at this time.

The Committee meets at the System's offices monthly. Notice is provided regarding the time and location of these meetings pursuant to RSA 91-A:2, II. The Committee promotes transparency regarding the investment program through these public meetings, investment materials and reports, and meeting minutes which are posted on the NHRS website. Certain investment matters may require discussion in non-public session in accordance with statute. On a regular basis, the Committee receives presentations from investment managers currently retained by the NHRS as well as from prospective manager candidates.

In January of 2010, Lawrence A. Johansen started with the NHRS as the Director of Investments. In his role, Mr. Johansen serves as the primary staff liaison on investment matters and directs all aspects of the System's investment program including the development of recommendations regarding the System's overall investment strategy and asset allocation; oversight of external portfolio managers, and promoting productive relationships with investment consultants and service providers. A brief biography of Mr. Johansen follows this report.

Each fiscal year, the NHRS produces a Comprehensive Annual Financial Report (CAFR) which details the operation and financial condition of the System. This report also includes a financial section which outlines the funded status and unfunded actuarial accrued liability as well as an actuarial section. The CAFR is available on the System's website, www.nhrs.org.

Overview of Significant Investment Committee Initiatives to Date:

The investment program has been enhanced through the following major initiatives.

- Establishing the Investment Committee Charter and the Investment Philosophy, and updating related governing policies.

- Conducting an Asset Liability Modeling Study in conjunction with the System's investment consultant, NEPC, LLC which resulted in recommendations to the Board of Trustees on revised asset-allocation targets and ranges.
- Reviewing the long-term performance of all investment managers against their respective benchmarks to determine if they meet the Committee's expectations and evaluating prospective manager candidates, as appropriate. The review was focused on where the opportunities for active management had the highest potential for exceeding the benchmark, net of fees.
- Identifying replacements for seven investment firms, including the establishment of an S&P 500 index portfolio and four new active investment managers. The S&P 500 is an efficient means to gain broad large-cap market exposure at minimal cost. The active management of the small-cap equities has the greater expectation of adding value over the benchmark, net of fees.
- Implementing the first steps in a complete review and restructuring of the alternative investments program.
- Reducing risk by decreasing exposure to the lending of securities in the investment program and transitioning out of commingled index funds which participated in securities lending.
- Migrating investment data to a central book of record platform which will serve as a common recordkeeping system for assets held in custody on behalf of the NHRS (equities, fixed income, and cash accounts) as well as those assets held in custody by managers or general partners (real estate and alternative investments).
- Adopting an annual real estate manager investment plan and initiating a transition from existing direct property holdings to a more diversified program of real estate funds.

Looking ahead, the Committee's Plan for fiscal year 2011 includes:

- Continuing to evaluate small/mid-cap U.S. equity managers.
- Reviewing the structure of the non-U.S. equity program.
- Initiating the review of the structure of the fixed income portfolio.
- Establishing investment work plans for alternative investments and real estate.

The Committee recognizes the importance of its role in achieving the best long-term investment results consistent with responsible and prudent policies and practices. The themes of service to the members, continuous improvement, and implementation of best practices have been prominent in the work conducted by the stakeholders of the NHRS.

Respectfully submitted,

Senator Harold Janeway, Chair

Dr. Lisa Shapiro

David A. Jensen

Patrick O'Donnell

Tom Silvia

Richard W. Ingram, Executive Director

Lawrence A. Johansen, Director of Investments

Clockwise from the left: Lawrence Johansen, Patrick O'Donnell, Tom Silvia, David Jensen, Chair Senator Harold Janeway, and Dr. Lisa Shapiro.

Biographies

Senator Harold Janeway chairs the Committee. A New Hampshire State Senator since 2006, he was appointed by the Senate President to serve on the NHRS Board of Trustees. He brings nearly 50 years of investment experience to the Committee. After 18 years on Wall Street as a securities analyst and director of research he established an investment advisory firm in Concord, serving individual and institutional clients. He retired in 2006. He is a Chartered Financial Analyst and a member of the Financial Analysts Federation.

David Jensen is currently self-employed as a health care consultant. He has had a long career in the health care and insurance industries throughout the country. Among his positions he has served as CEO or President of such industry leaders such as Anthem Blue Cross Blue Shield of New Hampshire and Healthsource Management, Inc.

Patrick O'Donnell has several decades of investment experience. He was a securities analyst at Donaldson, Lufkin & Jenrette and other firms. He held executive positions at Prudential Securities and at Putnam Investments, where he was Managing Director of Global Equity Research and portfolio manager for the Research Fund.

Dr. Lisa Shapiro is Chief Economist with Gallagher, Callahan & Gartrell. She analyzes economic and industry trends, and provides strategic advice to businesses and institutions. For more than 15 years, she has worked on complex economic and financial projects in public and private settings. She holds a Ph.D. in economics from Johns Hopkins University. She is currently serving her second term as Chair of the Board of Trustees of the New Hampshire Retirement System.

Tom Silvia brings over two decades of institutional investment experience to the committee. Presently, Tom operates his own investment management company. Previously, Tom was Senior Vice President and Bond Group Leader with Fidelity Investments. Tom worked in increasingly responsible positions with Fidelity for over 15 years after tenure with both Donaldson, Lufkin & Jenrette, and LF Rothschild.

Lawrence A. Johansen has more than three decades of experience with investment and administration of public pensions. He held progressively more responsible positions at the New York State Teachers' Retirement System. His most recent positions at the New York State Teachers' Retirement System were Managing Director, Securities Investment Officer and Actuary.

Appendix A

Investment Consultant’s Letter

Investment Performance Review & Market Commentary

Investment Reports

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KEVIN M. LEONARD
SENIOR CONSULTANT

October 14, 2010

Board of Trustees
Investment Committee
Executive Director
The New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301-8507

Dear NHRS Fiduciaries:

NEPC, LLC (NEPC) is pleased to introduce this overview of the New Hampshire Retirement System (NHRS) investment program for the fiscal year ended June 30, 2010.

The overall objective of the New Hampshire Retirement System (NHRS) is to provide service, disability, death and vested retirement benefits, and other postemployment benefits to members and their beneficiaries. To ensure a solid foundation for the future of the System, NHRS plans and implements an investment program designed to achieve the actuarial assumed rate of return over the long term, while prudently managing the risk of the portfolio. Additionally, the NHRS investment program is administered in accordance with sound governance practices and applicable statutes. The Board of Trustees ("Trustees") established a Statement of Investment Policy which includes asset allocation targets and acceptable ranges as well as benchmarks for performance measurement. The Trustees also adopted an Alternative Investment Policy Statement and a Real Estate Policy. The Trustees retain the services of actuaries and consultants to provide guidance regarding actuarial matters, asset allocation, and investment policy. The Investment Committee manages the investment program pursuant to the Statement of Investment Policy and other related policies, monitors and evaluates performance, and makes determinations regarding the retention of managers. Professional investment managers are selected by the Investment Committee to manage portfolios in accordance with investment management agreements and NHRS proxy voting guidelines. The following pages report on the performance and attributes of the investment program for fiscal year 2010.

Fiscal year 2010 provided a much needed respite after the significant market downturn experienced in fiscal year 2009. For much of the period, markets continued their remarkable rebound from the lows reached in March 2009, as governments and central banks around the world coordinated efforts to stimulate their faltering economies. Although investors left the perceived safe havens of government bonds and cash to invest in riskier assets during the latter half of 2009 and early 2010, a cautious tone returned in the final quarter of fiscal year 2010. Sentiment became increasingly negative due to concerns surrounding the European sovereign debt crisis, more restrictive lending policies by the Chinese central bank, sluggish U.S. growth and U.S. financial reform.

For the fiscal year ended June 30, 2010, the NHRS Total Fund returned 12.9% on a net-of-fees basis and 13.2% on a gross-of-fees basis, outperforming the Total Fund Custom Benchmark return of 11.7%. The NHRS gross-of-fees return of 13.2% for the fiscal year ranked in the 47% percentile, above the median, relative to other investors in the Independent Consultants Cooperative Public Fund Universe. For the trailing ten year period ending June 30, 2010, the NHRS Total Fund returned 2.3% on an annualized net-of-fee basis and for the trailing twenty year period ending June 30, 2010, returned 7.8% on an annualized net-of-fee basis.

Diversification aims to reduce volatility and mitigate overall plan risk across a range of asset classes with varied return patterns. Our goal is to increase the diversification of the System's assets more broadly within the traditional and non-traditional asset classes for the purpose of reducing volatility, while at the same time enhancing the Fund's ability to generate superior returns throughout all market conditions.

NEPC provides NHRS with quarterly economic and investment market updates and performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. Investment performance analysis and comparisons produced by NEPC have been calculated using standard performance evaluation methodologies and are consistent with industry standards. Performance results are calculated using a time-weighted return methodology and are reported on a net-of-fees basis.

Sincerely,

Market Commentary

Fiscal year 2010 provided a much needed respite after the significant market downturn experienced in fiscal year 2009. For much of the period, markets continued their remarkable rebound from the lows reached in March 2009, as governments and central banks around the world coordinated efforts to stimulate their faltering economies. Although investors left the perceived safe havens of government bonds and cash to invest in riskier assets during the latter half of 2009 and early 2010, a cautious tone returned in the final quarter of fiscal year 2010. Sentiment became increasingly negative due to concerns surrounding the European sovereign debt crisis, more restrictive lending policies by the Chinese central bank, sluggish U.S. growth and U.S. financial reform.

The broad domestic equity market as measured by the S&P 500 Index returned +14.4% in fiscal year 2010 relative to losing 26.2% in fiscal year 2009. The domestic bond market as measured by the Barclays Aggregate Bond Index returned +9.5% in fiscal year 2010 outpacing the fiscal year 2009 return of +6.1%. The global equity market as measured by the MSCI All Country World Index (net) returned +11.8% in fiscal year 2010 relative to losing 29.3% in fiscal year 2009. The global bond market as measured by the Citi World Government Bond Index returned +3.0% in fiscal year 2010, expanding on the +4.0% posted in fiscal year 2009.

During the past fiscal year the Federal Open Market Committee held rates steady at the target range of 0.0 – 0.25% as it saw little risk of near-term inflation, coupled with continuing signs of a less than robust economic recovery. Official unemployment remained relatively high, with much of the improvement in the official figures due to Americans dropping out of the job search, and therefore no longer being counted in the government estimates. Temporary jobs created by the 2010 U.S. Census briefly sustained employment figures but this impact unwound in the spring. Residential housing continued to linger on the edge of recovery and continued decline. The expiration of the federal homebuyer tax credit in April, expanded to include existing homeowners as well as first-time buyers, was marked by a drop off in sales for both new and existing homes. Prices through the second calendar quarter were up 1.3% on a year earlier. Gross Domestic Product (GDP) numbers, as released by the Bureau of Economic Analysis, reflected the wavering economic recovery. After a sharp increase in real GDP in the fourth calendar quarter of 2009, growth tapered off as many government stimulus programs came to an end and consumer spending and private investment failed to emerge as a source of strength.

The quarter ended September 30th, 2009 was the best calendar quarter for the S&P 500 since 1970, as the index returned +15.6%. Most risky assets rebounded from their lows in March, 2009 with Emerging Markets equities leading the way. It was widely estimated that the U.S. emerged from recession during the quarter, which helped to quell investor fears. The CBOE Volatility Index (VIX), a measure of investors' expectations on near-term market volatility and proxy for risk, returned to normal levels in the mid-20s. VIX levels greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty. Government programs such as "cash for clunkers" were very successful in recharging consumer spending, if only temporarily. Liquidity in the credit markets was also aided by government programs such as The Term Asset-Backed Securities Loan Facility (TALF) and the Public-Private Investment Program for mortgage-backed securities.

An appetite for riskier assets and concern about the growing U.S. deficit amidst high unemployment and slow economic growth weighed on the dollar during the quarter. It lost ground against most other developed economies' currencies, with the Canadian and Australian dollar valuations increasing as a result of their linkage to commodities.

The quarter ended December 31, 2009 saw the continuation of the market rally as investor confidence continued to improve and the Federal Reserve reiterated its commitment to keeping rates low to provide economic stimulus. This resulted in what was a very steep yield curve at the end of 2009, with the difference between the 10-year yield and 2-year yield at 271 basis points. Expectations for longer term inflation were apparent as the longer term implications of the large Federal Reserve balance sheet and large deficits loomed.

The first quarter of 2010 continued to see rising valuations in the equity markets, although cracks were beginning to emerge in the economic recovery. Domestic U.S. equities outperformed both developed and emerging international markets as concerns over sovereign debt in Europe and concerns over a bubble in Chinese markets prevailed. The S&P 500 Index was up 5.4% for the quarter after ending January down 3.6%, while the MSCI Europe, Australia, Far East (EAFE) Index was only up 0.9% and the MSCI Emerging Market Equity (EME) Index up 2.4%. The debt crisis in Greece and similar fiscal woes facing other peripheral European economies plagued the euro and benefited the U.S. dollar, as the dollar gained 6% against the euro. Ultimately, Greece was bailed out by a consortium of European Union countries, primarily Germany, and the International Monetary Fund. China announced its intention to allow the yuan to fluctuate against the U.S. dollar, though expectations of significant adjustments in the near term have fallen short.

The quarter ended June 30, 2010 marked a retrenchment point for the markets and the economy. Beset by rising fears of the strength of the economic rebound, continued sovereign debt issues in Europe, stubbornly high unemployment in the U.S., and the shadow cast by the worst oil spill in history in the Gulf of Mexico, markets retreated sharply. Large-cap domestic and developed-market international equities saw the brunt of the downswing, as investors flocked to Treasuries and the U.S. dollar strengthened. The S&P 500 Index was down 11.4% and the MSCI EAFE Index declined by 14.0%. U.S. Treasuries were up 4.2%.

The Dodd-Frank Wall Street Reform and Consumer Protection Act emerged from reconciliation and was subsequently signed into law on July 21st. This represented the largest and most sweeping overhaul of the financial system since the Great Depression and is expected to have long-ranging impacts on the markets, banks, derivatives markets and executive compensation. The 2,319 page bill, however, left most of the details up to regulatory agencies, including the newly-formed Consumer Finance Protection Bureau and the Financial Stability Oversight Council. The actual implications and specifics will be realized over time as the details are finalized and reforms are implemented.

Fiscal Year Overview

Investment Performance

For the fiscal year ended June 30, 2010, the NHRS Total Fund (NHRS) returned +12.9% on a net-of-fees basis and +13.2% on a gross-of-fees basis, outperforming the Total Fund Custom Benchmark return of +11.7%. The NHRS gross-of-fees return of +13.2% for the fiscal year ranked in the 47% percentile, above the median, relative to other investors in the Independent Consultants Cooperative Public Fund Universe. Outperformance relative to the Custom Benchmark was primarily driven by active management within the international equity portfolio and active management within the fixed income portfolio. The total real estate portfolio returned +1.8% relative to its benchmark return of -1.0%. The total alternative investments portfolio comprised of private equity and absolute return strategies returned +8.3% during the fiscal year. For the trailing ten year period ending June 30, 2010, the NHRS Total Fund returned 2.3% on an annualized net-of-fee basis and for the trailing twenty year period ending June 30, 2010, returned 7.8% on an annualized net-of-fee basis.

Towards the end of fiscal year 2009, the NHRS began a process of strategic rebalancing within the equity and fixed income portfolios. As a result of the market decline experienced during fiscal year 2009, the portfolio had drifted to be slightly overweight fixed income and underweight equities. This disciplined repositioning significantly aided the NHRS as the broad domestic and international equity markets posted double-digit gains for the fiscal year ended June 30, 2010. The Russell 3000 Index posted a return of +15.7% and the MSCI All Country World Index (ACWI) ex U.S. posted a return of +10.4%. Emerging market equities, as defined by the MSCI EME Index, were up +23.2%. The broad fixed income markets posted impressive gains, as the Barclays Capital Aggregate Index posted a return of +9.5% and the Barclays Capital Universal Index posted a return of +10.6%.

U.S. Equity Markets

U.S. Equity returns over the fiscal year remained higher, though the last quarter was starkly negative. Large-cap stocks underperformed small-cap stocks (S&P 500 Index up 14.4% versus Russell 2000 Index up 21.5%) while value stocks generally fared better than growth stocks (Russell 1000 Value Index up 16.9% versus Russell 1000 Growth Index up 13.6%; Russell 2000 Value Index up 25.1% versus Russell 2000 Growth Index up 18.0%).

The NHRS total domestic equity portfolio was comprised of active domestic growth, active domestic value, and passive domestic equity. This portfolio returned +15.5% for fiscal year 2010, slightly underperforming the Russell 3000 Index return of +15.7% by 20 basis points. Active management within the domestic equity growth portfolio detracted from performance. The total active domestic growth equity portfolio (+12.6%) underperformed the U.S. Growth Equity Index (+13.9%) by 130 basis points. The total active domestic value equity portfolio generated a +16.8% return which underperformed the U.S. Value Equity Index return of +17.6% by 80 basis points. The passive domestic equity portfolio slightly outperformed the benchmark. During the fiscal year, approximately 10% of total fund assets were temporarily invested in the passive domestic equity portfolio to gain market exposure pending redeployment into real estate and alternative investments over the next several years.

U.S. Fixed Income Markets

For the fiscal year, U.S. Fixed Income returns were strong. The Barclays Aggregate Bond Index returned +9.5%. High-Yield bonds were the best performers returning +26.8 for the one-year period ended June 30, 2010. U.S. Treasury bonds also held up well as investors resorted to U.S. government debt as equity markets slid during the final quarter of fiscal year 2010. Treasuries returned +6.7% for the one-year period ended June 30, 2010 and +4.7% for the quarter ending June 30, 2010.

The NHRS total fixed income portfolio is comprised of active and passive fixed income components. This aggregate portfolio generated a +13.6% return and outperformed the Barclays Capital Universal Index return of +10.6% by 300 basis points. The passive fixed income portfolio return of +9.9% outperformed the Barclays Capital Aggregate Bond Index return of +9.5% by 40 basis points. This relative outperformance was due to improvement in valuations in the index fund's securities lending program during the year. The total active fixed income portfolio provided a +14.3% return which outperformed the Barclays Capital Universal Index return of +10.6% by 370 basis points during the fiscal year.

International Markets

International developed market equities as measured by the MSCI EAFE (net) Index, a broad index of the international developed market equities, returned +5.9% for the year ended 6/30/2010. Emerging markets equities, as measured by the MSCI EME Index returned +23.2%. Developed markets were hurt by a resurgence of double-dip recession fears compounded by the Greek debt crisis, returning -13.2% in the last six months. Emerging Market bonds continued to gain favor as investors fled Europe in the wake of Greece's debt troubles and the relative strength of many Emerging Market nation's balance sheets. The JPM EMBI Plus, a key barometer for emerging market debt, returned +17.4% for the year. The Citigroup World Government Bond Index was hit by the European fears and was down 1.0% for the first six months of 2010 and up only 3.0% for the fiscal year.

The NHRS total international equity portfolio is comprised of active international equity and passive international equity. The portfolio returned +12.2% for fiscal year 2010, outperforming the MSCI ACWI ex U.S. Index return of +10.4% by 180 basis points. The total active international equity portfolio returned +12.7%, 230 basis points ahead of the MSCI ACWI ex U.S. Index return of +10.4%. The passive international equity portfolio slightly outperformed its benchmark. The global equity portfolio provided a return of +9.0% compared to the MSCI ACWI Index return of +11.8%.

Alternative Investments and Real Estate

Similar to the experience in traditional long-only asset classes, most alternative asset classes rebounded in fiscal year 2010. The exception was real estate, where deteriorating conditions continued to erode returns.

Private equity experienced a substantial turnaround in fiscal year 2010. Business operations generally stabilized and consequently, valuations rose. The NHRS has approximately 1.1% of its plan assets in private equity strategies as of June 30, 2010. For fiscal year 2010, the private equity portfolio generated a return of +1.8%. The private equity portfolio is largely mature with no commitments made between calendar years 2006

- 2009. During fiscal year 2009, in coordination with our investment consultants, the NHRS initiated a “fresh start” within the alternative investment program and is in the midst of a multi-year process to increase and further diversify its alternative investment program, including private equity strategies, toward its policy target allocation of 10%.

In absolute return strategies, managers were able to make up most of the losses from the previous year. In fiscal year 2010, the CS Tremont Hedge Fund Composite generated a positive 11.3% return. The NHRS has one absolute return fund-of-funds manager after terminating one activist equity manager in the first quarter of fiscal year 2010. For fiscal year 2010, the NHRS absolute return portfolio generated a return of +16.0%. Absolute return strategies represent 0.8% of total plan assets as of June 30, 2010. The NHRS is in the midst of a multi-year process to increase its alternative investment program, including absolute return strategies, towards its policy target allocation of 10%.

The real estate market continued to struggle in fiscal year 2010. The NCREIF NPI Index generated a -1.5% return, while the NCREIF ODCE Index (a universe of open-end core real estate funds) generated a -6.0% return. The NHRS real estate portfolio returned +1.8%. The NHRS is working with its real estate consultant to actively manage the portfolio of direct property holdings and move towards a more diversified real estate portfolio using funds. Real estate comprises approximately 5% of total plan assets as of June 30, 2010.

Summary

In September 2010, the National Bureau of Economic Research (NBER) announced an end to the 18-month long recession that began in December of 2007 and ended in June of 2009; much earlier than originally forecasted. The NBER is an American private nonprofit research organization dedicated to studying the science and empirics of economics, especially the American economy. Further evidence of a recovery was the positive developments in corporate profits as the “credit crisis” has shown signs of easing. Although fiscal year 2010 was a strong year for NHRS on both an absolute basis and relative basis, we continue to be cautious as much uncertainty surrounds the global economy and the expectations for near-term market results are projected to be lower than the long-term averages. Diversification aims to reduce volatility and better equalize the contribution to an overall plan’s risk across a variety of asset classes with unrelated return patterns. The focus will remain on the long-term: diversifying the NHRS investment program within traditional assets, real estate, and alternative investments to reduce volatility, achieve above-market returns, and position the portfolio to meet the objectives of the pension plan.

Investment Reports

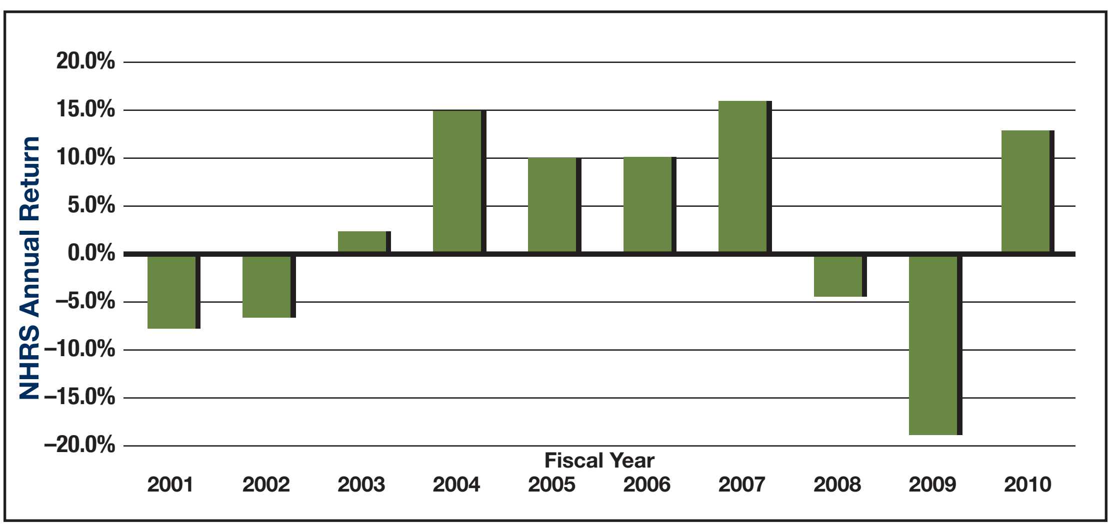
ANNUALIZED INVESTMENT RETURNS—ACTUAL VERSUS INDICES

	Current Year 2010	Annualized 3 Year	5 Year	10 Year
Total NHRS Fund	12.9%	–4.1%	2.4%	2.3%
Total Fund Custom Index*	11.7	–3.8	2.6	2.8
Domestic Equity	15.5	–10.6	–1.5	–1.6
Total Domestic Equity Blended Benchmark*	15.7	–9.5	–0.5	–1.2
International Equity	12.2	–9.4	3.6	0.9
Total International Equity Blended Benchmark*	10.4	–10.7	3.4	1.6
Global Equity	9.0	—	—	—
MSCI ACWI	11.8	—	—	—
Fixed Income	13.6	8.7	6.6	7.9
Total Fixed Income Blended Benchmark*	10.6	7.2	5.5	6.6
Real Estate	1.8	–9.0	1.6	6.9
Total Real Estate Blended Benchmark*	–1.0	–4.5	3.9	7.2
Alternative Investments	8.3	–12.4	–3.8	–6.4
Consumer Price Index + 5%	6.2	6.6	7.4	7.4
Cash Equivalents	0.2	1.9	3.0	2.9
90 Day T-Bills	0.2	1.6	2.8	2.7

Performance returns are calculated on a net-of-fees time-weighted rate of return basis.

*In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions. Detailed descriptions of the benchmarks above are available by contacting NHRS.

Ten Year History of Time-Weighted Total NHRS Fund Annual Returns

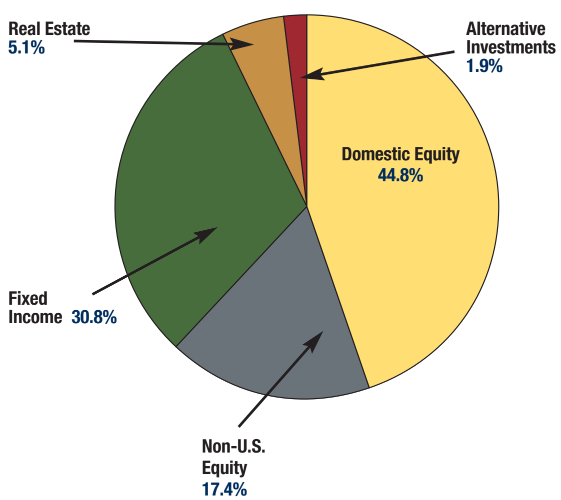


ACTUAL ASSET ALLOCATION VERSUS TARGET ASSET ALLOCATION

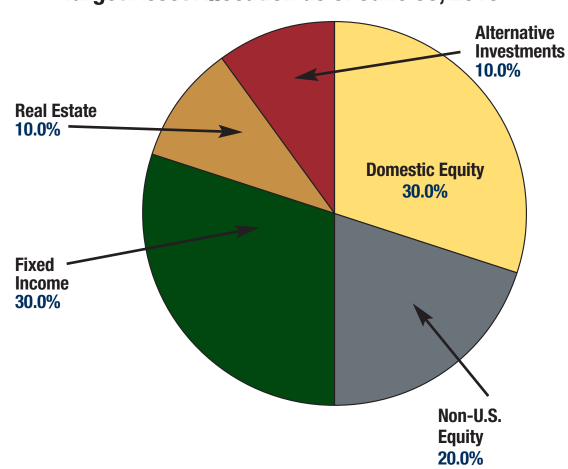
		As of June 30, 2010	
	Actual %	Target %*	Target Range %*
Domestic Equity	44.8 %	30.0 %	20 – 50
Non-U.S. Equity	17.4	20.0	15 – 25
Fixed Income	30.8	30.0	25 – 35
Real Estate	5.1	10.0	0 – 15
Alternative Investments	1.9	10.0	0 – 15
TOTAL FUND	**100.0 %**	**100.0 %**	

*The asset allocation targets and ranges were approved by the Board of Trustees on July 13, 2010 based on a recommendation of the Investment Committee. Prior to this, the non-U.S. equity asset allocation target was International Equity (15%) and Global Equity (5%).

Actual Asset Allocation as of June 30, 2010



Target Asset Allocation as of June 30, 2010



TEN LARGEST STOCK HOLDINGS BY FAIR VALUE*

(in thousands)

	Shares	Stock	June 30, 2010 Fair Value
1	136,562	Apple Inc.	$34,349
2	518,904	PepsiCo Inc.	31,627
3	1,293,092	Cisco Systems Inc.	27,556
4	460,629	Exxon Mobil Corp.	26,288
5	374,632	Chevron Corp.	25,423
6	1,696,004	Pfizer Inc.	24,185
7	635,467	JPMorgan Chase & Co.	23,264
8	385,402	Procter and Gamble Co.	23,116
9	980,019	Microsoft Corp.	22,550
10	879,255	Wells Fargo & Co.	22,509

TEN LARGEST FIXED INCOME HOLDINGS BY FAIR VALUE*

(in thousands)

	Par	Security	June 30, 2010 Fair Value
1	17,009,000	U.S. Treasury Note — 0.875%, 2011	$17,090
2	14,450,000	U.S. Treasury Bond — 4.5%, 2038	15,938
3	14,015,000**	New South Wales Treasury Bond — 5.5%, 2017	11,920
4	11,717,000	U.S. Treasury Note — 1.125%, 2011	11,829
5	10,042,000	U.S. Treasury Note — 4.0%, 2015	11,083
6	9,155,271	Small Business Administration Bond — 5.6%, 2028	10,054
7	8,790,868	Small Business Administration Bond — 6.02%, 2028	9,912
8	69,310,000**	Kingdom of Sweden Treasury Bond — 5.5%, 2012	9,709
9	9,391,000,000**	Republic of Korea Treasury Bond — 5.75%, 2018	8,128
10	5,072,000**	Government of U.K. Gilt — 4.25%, 2036	7,687

The NHRS also invests in the following Collective Investment Trust:***

(in thousands)

Units	Security	June 30, 2010 Fair Value
30,203,745	Pyramis Core Plus Commingled Pool	$435,538

* A complete listing of holdings custodied at Northern Trust is available for review by contacting the NHRS offices.

** Par value is denoted in local currency.

*** Custodied outside of The Northern Trust Company (Master Custodian for NHRS).

SCHEDULE OF INVESTMENT MANAGEMENT AND SERVICE FEES

	YEAR ENDED JUNE 30, 2010		
	Assets Under Management (in thousands)	Fees (in thousands)	Average Basis Points
INVESTMENT MANAGEMENT FEES			
Equity Investments:			
Domestic	$2,137,780	$ 5,277	25
Non-U.S.	854,004	4,920	58
Fixed Income Investments	1,399,283	3,106	22
Alternative Investments	93,840	1,845	197
Real Estate	244,839	2,482	101
Cash and Cash Equivalents	110,911	—	—
TOTAL INVESTMENT MANAGEMENT FEES	**$4,840,657**	**$17,630**	**36**
INVESTMENT SERVICE FEES			
Custodial Fees	$4,501,978	$ 447	1
Investment Advisor Fees	4,840,657	768	2
Security Lending Management Fees	471,642	323	7
TOTAL INVESTMENT MANAGEMENT AND SERVICE FEES	**$4,840,657**	**$19,168**	**40**

SCHEDULE OF BROKERAGE COMMISSIONS PAID

Brokerage Firm	YEAR ENDED JUNE 30, 2010 Number of Shares Traded (in thousands)	Total Commissions (in thousands)	Commissions Per Share
Merrill Lynch & Company, Inc.	6,889	$ 89	$0.01
Credit Suisse First Boston Corporation	6,072	87	0.01
Morgan Stanley & Company, Inc.	5,589	85	0.02
Goldman Sachs & Company, Inc.	6,392	64	0.01
Liquidnet, Inc.	2,286	55	0.02
Bear Stearns Securities Corporation	2,714	55	0.02
UBS AG	2,791	45	0.02
J.P. Morgan Securities, Inc.	1,728	45	0.03
Knight Securities, L.P.	2,426	44	0.02
Barclays Capital	1,840	44	0.02
Jeffries & Company, Inc.	1,144	36	0.03
Citigroup Global Markets, Inc.	2,159	34	0.02
Caylon Securities, Inc.	5,243	33	0.01
Investment Technology Group, Inc.	1,773	31	0.02
Bank of New York Mellon Corp.	1,169	30	0.03
Robert W. Baird & Company	691	28	0.04
Piper Jaffray Inc.	767	26	0.03
All Others (147 not listed separately)	27,685	649	0.02
TOTAL BROKERAGE COMMISSIONS PAID	**79,358**	**$1,480**	**$0.02**

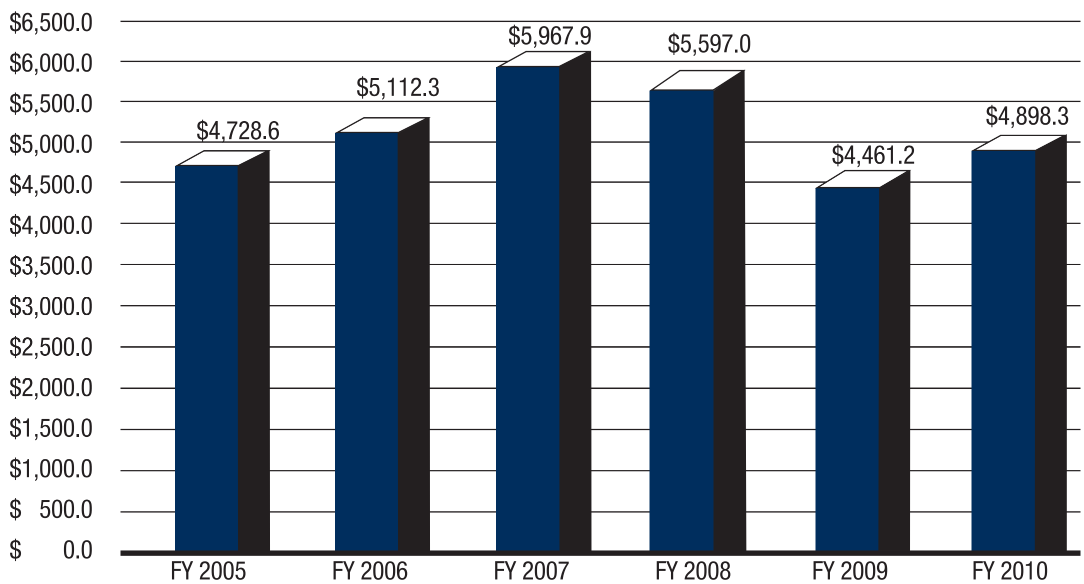
Commission detail is not included in the schedule above for the following funds because they are commingled investments:

- NTGI Collective Daily Aggregate Bond Index Funds
- NTGI Collective Daily All Country World Index ex-U.S. Funds
- NTGI Collective Daily Russell 1000 Index Funds
- NTGI Collective Daily Russell 2000 Index Funds
- NTGI Collective Daily Russell 3000 Index Funds
- Pyramis Core Plus Commingled Pool

SUMMARY OF INVESTMENTS

TYPE OF INVESTMENT	June 30, 2010 Fair Value (in millions)	June 30, 2010 Percent of Total Fair Value
FIXED INCOME		
Collateralized/Asset Backed Obligations	$ 97.9	2.0%
Corporate Bonds	416.8	8.6
Government and Agency Bonds	315.1	6.5
NTGI Collective Daily Aggregate Bond Index Fund	134.0	2.8
Pyramis Core Plus Commingled Pool	435.5	9.0
TOTAL FIXED INCOME	**1,399.3**	**28.9**
EQUITY		
Consumer Discretionary	207.4	4.3
Consumer Staples	154.2	3.2
Energy	163.9	3.4
Financial Services	270.6	5.6
Health Care	224.7	4.6
Industrials	174.0	3.6
Information Technology	292.7	6.0
Materials	104.8	2.2
Telecommunication Services	60.8	1.2
Utilities	27.6	0.6
NTGI Collective Daily All Country World Index ex-U.S. Funds	142.3	2.9
NTGI Collective Daily Russell 1000 Index Fund	1,072.6	22.2
NTGI Collective Daily Russell 2000 Index Fund	96.2	2.0
TOTAL EQUITY	**2,991.8**	**61.8**
OTHER INVESTMENTS		
Alternative Investments	93.9	1.9
Real Estate	244.8	5.1
Cash and Cash Equivalents	110.9	2.3
TOTAL INVESTMENTS	**$4,840.7**	**100.0%**

Net Assets Held In Trust For Benefits
(in millions)



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Appendix B

Gabriel Roeder Smith & Company

Actuarial Opinion Letter

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GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

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Suite 800
Southfield, MI 48076-3723

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www.gabrielroeder.com

September 22, 2010

Board of Trustees
New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire 03301-8509

Re: Reasonableness of the Assumed Rate of Return

Dear Board Members:

The purpose of this letter is to provide our actuarial opinion regarding the reasonableness of the assumed rate of return for the New Hampshire Retirement System and to address any differences between the assumed rate of return and the expected rate of return under the System's investment policy statement as required under New Hampshire statute.

Background:

The requirement under New Hampshire statute is as follows.

RSA 100-A:15 VII.

(c) An annual investment policy statement which shall incorporate the following:

> (1) A clear statement of investment objectives including the adoption of a reasonable and sound expected rate of return the retirement system is attempting to earn. The expected rate of return utilized for the statement of investment objectives shall bear some reasonable relationship to the assumed rate of return set by the trustees for the biennial actuarial calculation. *The retirement system's actuaries shall issue a written opinion in regard to the reasonableness of the assumed rate of return that shall address any difference between the assumed rate of return and the expected rate of return.*

We understand the current investment policy to be based on asset liability modeling and asset allocation recommendations from New England Pension Consultants (NEPC). We further understand that this policy became effective July 1, 2010 and that NEPC has indicated the following:

- During the 5-7 year period:
  - The expected rate of return is 7.3%, gross of investment expenses;
  - The standard deviation is 10.9%;
  - The implicit inflation rate is 3.0%;
  - The implied real return is 3.8% based on investment expenses of 0.5%.
- During the 30 year period:
  - The expected rate of return is 8.5%, gross of investment expenses;
  - The standard deviation is 10.9%;
  - The implicit inflation rate is 3.0%;
  - The implied real return is 5.0% based on investment expenses of 0.5%.

In determining the assumed rate of return for the actuarial valuation, we abide by the Actuarial Standards of Practice (ASOP) No. 27, Selection of Economics Assumptions for Measuring Pension Obligations, as prescribed by the American Academy of Actuaries.

Under ASOP No. 27, we determine the best estimate range for each economic assumption then pick a single value within the best estimate range. For the investment return assumption we use the building block method which determines the assumed rate of return as sum of inflation and real return assumption.

However, for actuarial valuation purposes, we focus on the long term, which is similar to NEPC's 30 year period.

Actuarial Opinion:

For the June 30, 2010 valuation, the actuarial assumed rate of return is made up of a wage inflation assumption of 4.5% and a real rate of return assumption of 4.0% for a total of 8.5% per year, net of investment expenses.

The best estimate range is the narrowest range within which the actual results compounded over the measurement period are more likely than not to fall. This range is typically defined as being between the 25th and 75th percentiles of the distribution of outcomes over the appropriate time horizon. Using a 30-year time horizon and the capital market assumptions for the fund in total, as provided by NEPC, we have calculated the best estimate range for the net investment return assumption to be between 7.11% to 9.87%.

The current NHRS net investment rate assumption of 8.50% falls within that range.

Differences between the expected rate of return in the System's Investment Policy and the actuarial assumed rate of return are attributable in part to the different objectives of the measurement. Key differences are:

- The Investment Policy focuses on asset allocation decisions and establishes benchmarks for manager performance. The assumed rate of return is a long-term assumption for funding policy.
- The Investment Horizon of 5-7 years in the Investment Policy is based on a shorter time frame than used to determine the assumed rate of return which can be 30 years or longer. When focusing on the 30-year time horizon the policy and the actuarial assumption actually produce similar expected returns.

- The underlying inflation assumption used by NEPC was 3.0%, resulting in a real return assumption of 5.0% per year (for the 30-year time horizon). Under the valuation assumptions, the wage inflation assumption of 4.5% is more conservative for pension valuation purposes since benefits grow with wages and the real return assumption of 4.0% used in the valuation is more conservative than the 5.0% real return in the expected return from the Investment Policy analysis.

Given the purpose and use of the different assumptions, different results are not uncommon. Under the actuarial standards of practice, the current assumed rate of return for valuation purposes falls within the reasonable range and therefore meets the requirements of those standards.

The investment return assumption used for the valuation is formally reviewed every 5 years with the 5-year experience study. NHRS is scheduled to have a 5-year experience study completed following the June 30, 2010 actuarial valuation. This review will incorporate the data produced by NEPC on the current asset allocation and may result in a revised investment return assumption. It may also result in a revised wage inflation assumption as well as revised demographic assumptions. Any new assumptions adopted by the Board will then be used to produce the June 30, 2011 actuarial valuation, which will be used to set rates for the 2014/15 biennium.

The undersigned actuaries are independent of the plan sponsor and are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Kenneth G. Alberts

Kenneth G. Alberts

David T. Kausch

David T. Kausch, FSA, EA, MAAA

KGA/DTK:mrb

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Appendix C

Summary of Functions & Interactions: NHRS Investments

Board Responsibilities – Adopted October 14, 2008

Investment Committee Charter – Adopted March 13, 2009

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SUMMARY OF FUNCTIONS & INTERACTIONS: NHRS INVESTMENTS

Level	Policy	Strategy	Implementation
Board of Trustees	Approve		
Investment Committee	Recommend	Approve	
NHRS Investment Staff	Recommend	Recommend	Manage
Consultants	Recommend	Recommend	

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IV. BOARD RESPONSIBILITIES - Approved at the October 14, 2008, NHRS Board meeting.

The Board of Trustees has certain responsibilities set forth in State law and also other implied responsibilities that are necessary for its prudent oversight of the System.

Together these include the responsibilities or authority to:

- Adopt a strategic plan including a mission statement that is consistent with the statutory mandate and core values that set forth proper standards of behavior. The current strategic plan is contained in the Appendix of this manual.
- Establish governance policies to guide the Board in an effective and efficient manner. Currently all governance polices are contained in this Governance Manual.
- Establish standing and special committees of the Board, as necessary. The Committees are contained in Section VII of this manual.
- Articulate and adopt a statement of risk management principles. Those principles are contained in Section X of this manual.
- Adopt a Statement of Investment Policy consistent with statutory requirements and current best industry practices including an appropriate asset allocation policy for the investment of the System's assets.
- Hire the necessary professionals (e.g.: actuaries, investment consultants, and legal counsel) to support the operation of the System).
- Approve an annual investment report, prepared by the Independent Investment Committee as described by statute, for submission to the President of the Senate, the Speaker of the House, and the Governor.
- Adopt a funding policy with necessary contribution rates to keep the System actuarially sound.
- Adopt reasonable actuarial assumptions and methodologies upon the advice of the actuary.
- Adopt a sufficient administrative budget on a biennial basis and monitor compliance.
- Ensure that an independent audit of the System's financial statements takes place each year.
- Evaluate those to whom duties have been delegated on a regular basis.
- Keep a record of all its proceedings and file an annual financial report, as described by statute, for submission to the President of the Senate, the Speaker of the House, the Governor and the Commissioner of Administrative Services.
- Annually provide active member statements as outlined by the statute.
- Annually make relevant System-related information publicly available.

There are several aspects of NHRS that the Board does not control as the New Hampshire Legislature retains the responsibilities for these items. These items include:

- The structure of the Board of Trustees
- The legal and types of benefits to be provided to public employees

- The level of employer and employee contributions
- Funding of the benefits

INDEPENDENT INVESTMENT COMMITTEE

The Independent Investment Committee has certain responsibilities set forth in State law and also other implied responsibilities that are necessary for its prudent oversight of the System’s investments.

Together these include the responsibilities or authority to:

- Recommend an investment policy and investment consultants to the full board for approval.
- Review investment performance, choose fund managers, and have the full power to invest and reinvest funds on behalf of the System in accordance with the policy adopted by the Board of Trustees.
- Select and retain a custodial bank to hold and safeguard assets of the System.
- Select and authorize investment managers and other similar agents to make necessary decisions regarding investment actions or the disposition of assets on behalf of the independent investment committee.
- Report to the Board of Trustees at least quarterly on the actions taken by the independent investment committee and developments regarding the investment program.
- Prepare a comprehensive annual investment report, consistent with statute, for review and approval by the full board and submission to the President of the Senate, the Speaker of the House, and the Governor.

New Hampshire Retirement System
Investment Committee Charter

Adopted March 13, 2009

Overview

The Investment Committee (IC) was established by Chapter 300 of the 2008 Session Laws with an effective date of January 1, 2009. The purpose of the IC is to invest the funds of the New Hampshire Retirement System ("NHRS" or "System") in accordance with the policies approved by the NHRS Board of Trustees (the Board). The IC will also make recommendations to the Board on investment policy, prepare a comprehensive annual investment report, and provide quarterly investment program updates to the Board.

As fiduciaries, the IC members must exercise the highest degree of care, skill, prudence, and loyalty to beneficiaries of the trust funds.

Composition

The IC consists of not more than 5 members. Three members, who shall not be members of the NHRS Board, will be appointed by the Governor with the consent of the Executive Council. Up to two members, who will be members the NHRS Board, will be appointed by the chairperson of the NHRS Board of Trustees. All members of the IC shall have substantial experience in the field of institutional investments or finance (beyond experience as a trustee of the New Hampshire Retirement System).

Authority

The IC is granted authority as outlined in statute, as may be amended from time to time, and as summarized below. The IC has the authority to invest and reinvest fund assets in accordance with the policy set by the Board, and in recognition of the assumed rate of return set by the Board. Furthermore, the IC has the authority to hire and terminate investment managers, and the custodian, and other related investment agents, consistent with statute.

The IC has the authority to review research data, historical information, consultants' reports, and other documents it deems reasonably necessary to form an opinion on the capabilities of the investment managers and related agents, custodian, and investment consultant of the fund. The Committee is allowed to ask any questions of the firms that are relevant to the services they perform on behalf of the trust funds.

The IC also has the authority to call upon the NHRS Executive Director, Director of Investments or his or her designee, legal counsel, investment consultant, actuary, and auditor to assist it in carrying out its responsibilities.

Implementation of IC decisions and directives is delegated to NHRS staff.

Statutory Obligation to Act as Fiduciary (excerpts from RSA 100-A:15):

I-a.(a) A trustee, independent investment committee member, or other fiduciary shall discharge duties with respect to the retirement system:

(1) Solely in the interest of the participants and beneficiaries;

(2) For the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the system;

(3) With the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;

(4) Impartially, taking into account any differing interests of participants and beneficiaries;

(5) Incurring only costs that are appropriate and reasonable; and

(6) In accordance with a good-faith interpretation of the law governing the retirement system.

(b) In investing and managing assets of the retirement system pursuant to subparagraph (a), a trustee or independent investment committee member with authority to invest and manage assets:

(1) Shall consider among other circumstances:

(A) General economic conditions;

(B) The possible effect of inflation or deflation;

(C) The role that each investment or course of action plays within the overall portfolio of the retirement system;

(D) The expected total return from income and the appreciation of capital;

(E) Needs for liquidity, regularity of income, and preservation or appreciation of capital; and

(F) The adequacy of funding for the system based on reasonable actuarial factors;

(2) Shall diversify the investments of the retirement system unless the trustee or independent investment committee member reasonably determines that, because of special circumstances, it is clearly prudent not to do so;

(3) Shall make a reasonable effort to verify facts relevant to the investment and management of assets of a retirement system; and

(4) May invest in any kind of property or type of investment consistent with this section.

(c) The board of trustees shall adopt a statement of investment objectives and policy for the retirement system as provided in subparagraph VII(c).

I-b. Paragraph 1-a shall apply to all board members, independent investment committee members, and other fiduciaries, as well as staff and vendors to the extent they exercise any discretionary authority or discretionary control respecting management of the retirement system or exercise any authority or control respecting management or disposition of its assets, or they render investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the retirement system, or have any authority or responsibility to do so, or they have any discretionary authority or discretionary responsibility in the administration of the retirement system.

I-c. The fiduciary obligations of the members of the board of trustees and the independent investment committee are paramount to any other interest a trustee or independent investment committee member may have arising from another role or position that he or she holds, including the position which qualified the person for appointment to the board of trustees or independent investment committee.

Responsibilities of the Committee

The IC has the following responsibilities:

- Determine the IC's philosophy for investing the assets of the System
- Recommend changes in the Statement of Investment Policy to the Board
- Review, with the assistance of the investment consultant or Director of Investments or his or her designee, the performance of the fund, asset classes, and investment managers versus the benchmarks set forth in the Statement of Investment Policy
- Select and, as appropriate, terminate the investment managers or related investment agents, consistent with statute
- Appoint and periodically review a custodian bank for the assets
- Report to the Board at least quarterly on the management, investment, and reinvestment activities of the IC
- Recommend an investment consultant to the Board and participate in the Board's annual evaluation of the investment consultant
- Prepare a comprehensive annual investment report as outlined in statute for review and approval by the Board
- Suggest legislative changes to the Board
- Maintain an orientation and education program for its members

Responsibilities of the Committee Members

Individual committee members have the following responsibilities:

- Discharge duties solely in the interest of the members and beneficiaries and for their exclusive benefit
- Observe relevant policies and procedures of NHRS such as those covering Code of Ethics, disclosure, confidentiality, travel, and communications.

- Observe appropriate distinctions in roles and responsibilities with NHRS staff, service providers, IC members and Trustees
- Be informed about the System's investment policies and remain current on developments in the pension and public fund industry
- Work constructively with other IC members
- Interact appropriately with NHRS staff, outside service providers, and the full Board
- Be prepared and regularly attend IC meetings
- Respect open meeting laws by not convening meetings with fellow IC members to discuss NHRS business outside the properly noticed meetings
- Maintain co-fiduciary responsibility
- Live up to high ethical standards and avoid the appearance of impropriety

Reporting to the NHRS Board of Trustees
By statute the IC is required to provide quarterly and annual investment reports to the Board.

The quarterly investment program updates will be provided to the Board in advance of its scheduled meetings in March, June, September and December. They will include, at a minimum, the following:

- Review of the performance of the total fund, asset classes, and investment managers' versus benchmarks
- Comparison of the fund's actual asset allocations versus target allocations, with explanation of deviations
- Summary of actions taken which involved moving investment proceeds or assets during the period (such as liquidity events, rebalancing, manager hire or termination)

In addition to the items above, supplemental information for the annual period ending June 30th will be provided to the Board in advance of its September meeting. This will be presented as the comprehensive annual investment report. It will include, at a minimum, the following:

- A description of the IC's investment philosophy, including a summary of any significant changes to that philosophy that have occurred since the last annual report.
- A review of the Statement of Investment Policy with any recommended changes, including asset class target allocations and allowable ranges
- A summary of compliance with the Statement of Investment Policy, including an explanation for exceptions and steps taken to return to compliance
- An analysis of returns on investment by investment category
- Summary of changes to investment structure or portfolio managers
- An assessment of the current asset structure to determine if it will allow the funds to reach its long range objectives, and any recommended changes
- Statement of investment costs
- Summary of any other relevant investment program developments, including those affecting securities lending, proxy voting, divestment, etc.
- Any suggested changes in legislation which are requested to better serve the members of the System
- Other items as required by statute

Upon approval of this comprehensive annual investment report by the Board, it will be submitted to the president of the senate, the speaker of the house, and the governor.

As the IC is also responsible for recommending an investment consultant to the Board of Trustees, the IC will provide a report, upon request from the Board, which may include any of the following:

- An assessment of the current investment consultant
- A recommendation to retain, competitively review, or terminate the investment consultant
- An assessment of proposals from investment consultants, including a recommendation for an investment consultant

Meetings

The IC shall set an annual calendar and meet no less frequently than quarterly. All meetings will be held in compliance with open meeting laws.

Governance

The IC will elect a chair person for a one-year term, or until a successor is chosen, from among the Committee members who will have the following responsibilities:

1. Communicating with the chair person of the NHRS Board of Trustees, the NHRS Executive Director, and the Director of Investments or his or her designee, on a regular basis
2. Setting the schedule and agendas for the meetings
3. Conducting the IC meetings or appointing another IC member to conduct them in his or her absence
4. Calling special or emergency meetings, when necessary
5. Enforcing the governing policies of the IC
6. Scheduling and attending new member orientations

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Appendix D

NHRS Investment Philosophy – Adopted July 17, 2009

Asset Allocation Overview – Adopted July 13, 2010

Statement of Investment Policy – Adopted December 9, 2008

Resolution of the Board of Trustees – Adopted July 14, 2009

Alternative Investment Policy Statement – Adopted November 12, 2008

2009 Real Estate Policy – Adopted September 9, 2008

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NHRS Investment Philosophy:

Adopted by the Investment Committee at the July 17, 2009 meeting

Purpose: The New Hampshire Retirement System ("NHRS" or "System") Investment Philosophy sets forth guiding principles for the management of the investment program.

Description of the Fund: The NHRS is a defined-benefit pension plan. Contributions to the plan are made by employees and employers participating in the System. These contributions are invested to support the payment of plan benefits and to pay reasonable expenses of administering the System.

The System's assets are invested pursuant to the Constitution of the State of New Hampshire and all applicable statutes and are managed in accordance with the NHRS Statement of Investment Policy for the exclusive purpose of providing plan benefits to members and beneficiaries. NHRS plan fiduciaries are beholden to a duty of loyalty and a standard of care as described in RSA 100-A:15. The Board of Trustees ("Board") and the Investment Committee ("Committee") seek the advice and assistance of internal and external professionals and shall exercise conscious discretion when making investment decisions. The Committee members recognize their fiduciary duty to invest the System's funds prudently and in continued recognition of the fundamental long-term nature of the System.

The NHRS investment program has a distinctive profile. The objective of supporting plan benefits is one primary differentiator from the goals of other types of institutional investors, for example, endowments or foundations. The NHRS also differs from other public pension plans because each plan has its own distinctive characteristics such as benefit structures and legislative mandates. The System has a high proportion of retirees relative to actively-contributing members. The demographics of a mature plan require more liquidity from the investment program because contributions into the plan do not fully offset the benefits paid. Additionally, the size of the NHRS investment program provides the System with the ability to invest in certain opportunities but may not provide the scale necessary to gain access to other opportunities. All of these factors guide the design of the NHRS investment program.

Investment Objectives: The NHRS pursues an investment strategy designed to support the long-term funding obligations of the plan. The Board adopts an assumed rate of return and sets asset-allocation policy. The Committee manages the components of the investment program with the goal of achieving the plan's objectives with a comprehensive understanding of risk. This involves designing a program that balances expected return and risk over long time periods through a range of market conditions. For the reasons previously mentioned, peer performance or universe comparisons are not the most appropriate measurements of the effectiveness of the NHRS investment program. Performance comparisons within the context of the stated investment objectives will promote alignment with the System's mission.

The primary objective of the Committee is to manage the investment program to support the payment of plan benefits over the long-term. A secondary objective is to exceed the policy benchmark on a net-of-fees basis over a three to five-year period.

NHRS Investment Philosophy:

Market View and Context: The Committee believes that financial markets are largely, but not entirely, efficient. This means that there is a central tendency to the markets and that in some developed and accessible segments it is difficult to gain an advantage relative to other investors. However, there are areas of the market in which inefficiencies exist due to more limited access, information, coverage, or other factors; and investors can benefit from participation in these areas. Investment opportunities emerge and evolve over time and the NHRS Committee, staff, and consultants will remain vigilant concerning market developments in order to identify these opportunities and to build a sustainable advantage.

Diversification: The Board and the Committee recognize that it is necessary to maintain broad diversification both among and within various asset classes. The asset allocation of the investment program will be reviewed monthly by staff relative to the asset-class policy targets and ranges established by the Board in the Statement of Investment Policy. Staff shall strive to maintain the System's asset allocation within policy ranges. When rebalancing assets already within ranges, staff will give due consideration to market conditions, costs and risks of implementation, potential impacts on manager-level performance, and other relevant factors.

Portfolio Structure and Implementation: The Committee may utilize a combination of passive and active management strategies. The goal of passive management is to gain diversified exposure to the desired asset class while incurring minimal expense and seeking performance returns comparable to the asset class benchmark. The goal of active management is to exceed the performance of the appropriate benchmark on a net-of-fees basis, measured across market cycles, at a commensurate level of risk. The Committee will structure the program and implement its philosophy through the use of external investment management firms.

Performance Measurement: The ultimate measurement of the pension plan is how well it achieves its funding objectives and supports plan benefits. This is a shared responsibility between the Board who set the assumed rate of return and also determines the contribution rates and the Committee who seek to augment those contributions with investment returns over the long term. Achievement of the plan objectives in absolute terms is contingent on sound return assumptions and the execution of a clear investment process which recognizes that market conditions will vary over time.

Relative investment performance can be an important measurement tool. The Board adopts specific benchmarks which represent the standards of measurement used for the various asset classes utilized by the NHRS. Individual managers are also measured relative to benchmarks. As a model for performance measurement of the investment program, the NHRS uses a plan-level policy benchmark comprised of index returns (or proxy asset returns in the case of illiquid assets) weighted to reflect the asset-allocation policy targets set by the Board. This provides insight into the ways in which the actual portfolio performs relative to a passively-managed representation of plan policy during various market conditions.

Since investment returns will vary under different economic conditions and market cycles, an optimal period for effectively measuring performance would span three to five years or more. NHRS returns are expected to exceed the relevant benchmark on a net-of-fees basis over time.

NHRS Investment Philosophy:

Risk: Risk must be viewed within the context of the total portfolio. Since most risks are not readily quantifiable, defining the appropriate level of risk and creating a portfolio that reflects a reasonable balance between potential risk and return is a matter of judgment. Risk comes in a variety of forms including the risk of the unknown, liquidity risk, valuation risk, regulatory risk, geopolitical risk, and volatility risk as well as excessive diversification, fraud, inconsistency of investment discipline, and the risk of the destruction of capital. The Committee takes a broad view of risk in its oversight and endeavors to mitigate risk through rebalancing, monitoring managers, and conducting strategic reviews of the portfolio.

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Asset Allocation Overview

The NHRS retains NEPC, LLC ("NEPC") as the general investment consultant. During fiscal year 2010, NEPC conducted an asset-liability study in conjunction with NHRS staff and the Independent Investment Committee. The resulting asset allocation was recommended to the Board of Trustees for consideration.

On July 13, 2010, the Board of Trustees adopted the following policy target allocations and ranges for each asset class:

Asset Class	Target Allocation	Allocation Range
Domestic Equity	30%	20 – 50%
Non-U.S. Equity	20%	15 – 25%
Fixed Income	30%	25 – 35%
Real Estate	10%	0 – 15%
Alternative Investments	10%	0 – 15%

The current allocation policy differs slightly from the prior asset allocation policy which is outlined the Statement of Investment Policy. Both allocations include a 30% allocation to fixed income and a 70% allocation to equity-like investments (equities, real estate, and alternative investments). The prior 5% global equity allocation was comprised of both U.S. equity and non-U.S. equity components. The new asset allocation policy fully shifts this exposure into non-U.S. equity to increase that allocation from 15% to 20%. The NHRS recognizes that it will require several years to achieve the real estate and alternative investment policy target allocations of 10% to each asset class. The domestic equity portfolio weight has been temporarily increased in order to maintain the target of 70% equity exposure. The NEPC 5-7 year capital market assumptions for this asset allocation produces an expected annualized return of 7.3% and an expected standard deviation of 10.9%.

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Statement of Investment Policy – **Approved at the December 9, 2008, NHRS Board meeting.**

This Statement of Investment Policy is issued by the Board of Trustees of the New Hampshire Retirement System ("NHRS" or "System") to provide for the governance and oversight of the pension fund assets. The System's assets are invested pursuant to the Constitution of the State of New Hampshire and all applicable laws and regulations and managed for the exclusive purpose of providing plan benefits and paying plan expenses. This document supersedes all prior documents entitled Statement of Investment Policy and related sections of NHRS investment guidelines.

I. Roles & Responsibilities

A. The Board of Trustees (the "Board")

The NHRS is intended to be a "Qualified Pension Plan" under Section(s) 401(a) and 414(d) of the Internal Revenue Code and is administered by a Board of Trustees.

1. The Board of Trustees adopts a Statement of Investment policy, including an asset allocation of the System's assets.

2. The Board approves a Comprehensive Annual Investment Report presented by the Investment Committee.

3. The Board shall receive a report from the Investment Committee on its actions at least quarterly.

4. The Board has additional authority and responsibilities as outlined in statute.

B. The Investment Committee (the "Committee")

1. The Investment Committee recommends an investment policy and investment consultants to the Board for approval.

2. The Committee reviews investment performance and related matters, selects and retains managers for the System's assets, and invests and reinvests funds on behalf of the System in accordance with the Board's Statement of Investment Policy.

3. The Committee selects and retains a custodian bank to hold and safeguard System assets.

4. The Committee selects and retains other investment-related agents

consistent with statutes.

5. In addition to its quarterly reports to the Board, the Committee, prepares a Comprehensive Annual Investment Report.

C. Staff Responsibilities

The Director of Investments, or designee, is responsible for administration of the investment program of the System consistent with the requirements established by law, this Statement of Investment Policy, and the directives of the Committee, and the policies set by the Board. Areas of direct responsibility include:

1. Identify policy issues for consideration by the Committee and the Board and prepare recommendations regarding such matters. Provide other advice and counsel, as appropriate.

2. Assess and report the condition of the overall investment program to the Executive Director, the Committee, and the Board, relative to goals, objectives, policies and guidelines.

3. Monitor and assess service providers, including conducting on-site due diligence visits, and ensure that they meet expectations and conform to policies and guidelines. Recommend selection and termination of service providers, as needed.

4. Effectively implement the policies of the Board and decisions of the Committee, using judgment and care while being mindful of implementation risks and costs.

5. Initiate rebalancing and liquidity events.

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6. Proactively encourage and support the ongoing education and professional development of investment staff. Provide for educational opportunities for the Committee and the Board.

The Director of Investments, or designee, receives policy direction from the Board and actionable directives from the Committee and provides updates to the Executive Director, to the Committee, and to the Board.

To carry out this Policy and investment-related decisions of the Investment Committee as well as administration of the investment program, the Director of Investments, or designee, is authorized to execute and amend agreements and other necessary or proper documents pertaining to investment-related service providers or other investment functions.

D. Service Providers

Service Providers, including custodian banks, investment consultants, investment managers, transition managers, and similar agents, shall acknowledge their fiduciary status, to the extent permitted by law, within the contractual agreement. Legacy contracts will be amended accordingly. Exceptions will be reported to the Committee.

The Board will retain the services of investment consultants with experience in the analysis and performance measurement of asset types within large public and private funds and plans. The consultant will provide an independent report and evaluation of manager and portfolio performance quarterly for relevant periods, compare results to appropriate benchmarks and peers. Consultants may also conduct Asset Liability studies as assigned, participate in manager searches as assigned, assist in client education on investment-related matters, and provide independent advice and counsel to the Board and the Committee.

Investment Managers shall possess and demonstrate to NHRS staff sufficient attributes to warrant engagement and retention. Investment Managers shall manage investments in accordance with investment guidelines, and investment management agreements, as they may be modified from time to time.

Custodians will assume responsibility for the safekeeping and / or accounting of all assets held on behalf of the System, preparing timely unaudited performance calculations, and other duties as agreed to by contract.

II. Investment Oversight Considerations

The System's assets are invested and managed for the exclusive purpose of providing plan benefits and paying plan expenses.

Trustees and members of the Investment Committee of the New Hampshire Retirement System recognize their fiduciary duty to invest the System's funds in compliance with RSA 100-A. Within this context of investment management, the Trustees and members of the Committee shall rely upon appropriate professional advice.

Asset managers and other investment-related service providers or opportunities shall be evaluated and utilized based on the intrinsic merits of the situation and not based on other external factors including but not limited to a social investing focus or economically-targeted objectives. Economically-targeted investments (“ETI”) and socially-targeted investments (“STI”) are defined as those that are promoted or selected for the economic and / or social benefits they create in addition to the expected investment return. As with any other investment decision, the process and resulting decision must be consistent with the objectives of the investment program. The fiduciary principles of prudence and exclusive benefit provisions will be followed in the consideration of ETI or STI and similar situations. Each investing situation will be evaluated using an integral, objective process based on risk/return criteria and other factors outlined in sections I. D. and II.A. of this Policy.

A. Selection of Service Providers

The Director of Investments shall recommend investment managers, custody banks, and other service providers to the Committee for hire. In order to create an efficient and effective process, the Director of Investments, or designee, may utilize RFI, RFP, investment consulting services, third party proprietary software or database, review of existing service provider capabilities or any combination of these or other methods to identify service provider finalists for consideration by the Committee.

Existing managers may have a change in discretion within their mandate, or even be considered for a change in asset class (as between international equity and global equity, for example). Any mandate changes across asset types will be recommended and documented by staff.

Contact and communication with service providers proposing products, mandates, or business relationships to System-related individuals for consideration and potential retention shall be directed to the Director of Investments, or staff designee. During searches, existing service providers retained by the NHRS shall limit communication with System-related individuals and to NHRS business matters unrelated to the search to avoid a violation of policy.

Staff will recommend asset class policies and guidelines for investment managers, the custodian, and other service providers for action by the Committee.

Service providers are retained by executing a written contract with the System which describes the responsibilities and other relevant matters for all parties.

Service providers are required to abide by the NHRS Code of Ethics and the Political Contributions and Prohibitions on Investment Management Business Policy.

III. Asset Allocation Policy

The Trustees recognize that it is necessary to maintain proper diversification both among and within the asset classes and pursue an investment strategy designed to meet the long term funding requirements of the System as determined by the System's actuary. To this end, the Board's asset allocation will reflect the results of an Asset Liability Study performed at least once in every five year period, or more often, as recommended by System staff and investment advisors.

The Asset Liability study determines the mix of investments, by asset class, which is expected to produce the return required to meet future funding requirements at the lowest level of risk, given all of the assumptions made and employing a mean-variance optimization model. The current 8.5% assumed rate of return results in an "equity-centric" model in that equity-like returns are needed to achieve the result. Equity volatility (risk) is among the highest for any asset class. In order to address this risk, an emphasis on both diversification and risk management becomes important to the long-term success of the investment program.

The Board adopts an asset allocation based on recommendations from the Committee, the Director of Investments, and the investment consultant. The Trustees chosen asset allocation may differ from that proposed in the Asset Liability study provided there is an accepted rationale for doing so.

Generally, investment managers are expected to fully invest the funds under their management, allowing that from time to time the investment manager will require a portion of the allocated funds to be temporarily held in cash pending reinvestment. The investment and use of derivatives, including but not limited to futures, options, and swaps, is also permitted under the specific guidelines applicable to each investment mandate.[1] Managers are permitted to use exchange traded funds (ETFs) for a limited portion of the portfolio on a temporary basis.

Certain managers using well defined strategies, and within certain asset classes, may benefit from being permitted to hold portions of cash from time to time. If permitted, the guidelines for such managers will reflect

[1] On January 15, 2008 the Investment Committee approved the addition of this sentence to the Policy, to address the use of derivatives.

this, and the written description of their strategy will explain the rationale for such discretion.

The following allocation targets have been adopted for the NHRS[2]:

Asset Class	Target Allocation	Allocation Range
Domestic Equity	30%	26 – 43%
International Equity	15%	11 – 19%
Global Equity	5%	3 – 7%
Fixed Income[3]	30%	26 – 34%
Real Estate	10%	5 – 15%
Alternative Investments	10%	0 – 15%

The actual asset class allocation of the NHRS investment program will be reviewed by staff relative to the asset class policy targets. The allocation range for domestic equity reflects commitment time periods needed to raise the actual alternative and real estate allocations up to their targets. Staff shall maintain the System's actual asset allocation within allocation ranges at all times. When rebalancing assets already within ranges, staff will give due consideration to market environments, costs and risks of implementation, potential impacts on manager-level performance, and other relevant factors.

In order to meet the long-range goals and stated objectives of the NHRS investment program, the System may allocate assets across a combination of passive and active management strategies. The goal of passive management is to gain diversified exposure to the desired asset class while incurring minimal expense and seeking performance return comparable to the asset class benchmark. Nonetheless, it is recognized that many asset classes, especially those that are illiquid, and many investment strategies are not easily replicated in a passive manner. The goal of active management is to exceed the performance of the appropriate index on a net-of-fees basis at a commensurate level of risk over a market cycle.

IV. Asset Class Performance Measurement and Monitoring Policy

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[2] On April 8, 2008 the Investment Committee voted to approve the allocation targets provided in this Policy, with an effective date of July 1, 2008. The allocation targets had previously been as follows: 44% to Domestic Equity; 16% to International Equity; 30% to Fixed Income; 5% to Commercial Real Estate; and 5% to Alternative Investments.

[3] On June 12, 2007 the Investment Committee voted to combine the Domestic Fixed Income and Global Fixed Income asset classes into a single combined Fixed Income asset class, with a target asset allocation of 30%. The asset allocation had previously been 26% to Domestic Fixed Income and 4% to Global Fixed Income.

The following benchmarks represent the standards of measurement to be used for the various investment asset classes of the New Hampshire Retirement System as determined by the Board.

Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
International Equity	MSCI All Country World Ex-U.S. Index
Global Equity	MSCI All Country World Index
Fixed Income	Lehman Brothers Universal Bond Index
Commercial Real Estate	NCREIF Property Index + 50 basis points
Alternative Investments	Consumer Price Index + 5%
Total Fund	Total Fund Custom Benchmark *

* Total Fund Custom Benchmark is a weighted average return comprised of the following benchmarks in the same proportion as the target asset allocation: Russell 3000 Index, MSCI All Country World Ex-U.S. Index, MSCI All Country World Index, Lehman Brothers Universal Bond Index, NCREIF Property Index + 50 basis points, and Consumer Price Index + 5%.[4]

The Committee is cognizant that performance results may vary under different economic conditions and market cycles. Therefore, an optimal period for measuring performance effectively would span three to five years or more. Performance returns are expected to exceed the relevant benchmark on a net-of-fees basis over time.

Individual managers' performance results are appropriately measured against market indices, similarly constrained peers, tracking error expectations and other appropriate criteria that may include such measures as amount of active risk taken, information ratios, upside-downside capture ratios, and other metrics. Individual managers may have different benchmarks assigned to their specific mandate than those selected for an asset class as a whole. This approach is intended to provide better total returns over time but at the cost of slightly greater interim performance tracking error within an asset class. Manager benchmarks are assigned when they are hired but may be adjusted by the Committee if a recommendation to do so is approved. Such a change may be the result of granting greater discretion to a manager to invest outside their existing benchmark, or even a change of mandate sufficient to move an existing manager to another asset class, or for other reasons.

[4] The respective weighting of those indices that comprise the Total Fund Custom Benchmark will be updated over time as implementation progresses toward the allocation targets approved by the Investment Committee on April 8, 2008.

The Committee, working with consultants and staff, will make appropriate determinations of number, and relative size, of manager mandates within an asset class. When doing so, the Committee will consider factors such as asset class risk, overall portfolio diversification and risk, costs, and expected investment outcomes. The timing of any changes may reflect other portfolio considerations such as a liquidity event or rebalancing.

V. Other Policies

A. Securities Lending

The Committee has determined that a carefully tailored program permits the Fund's custodian to lend certain of the assets that are held by the custodian. The Committee may make changes in the program from time to time, up to, and including, its termination.

B. Proxy Voting

The Committee will establish policies and procedures under which proxy voting of the System's investments will occur.

C. Alternative Investment Policy Statement

D. 2009 Real Estate Policy

**RESOLUTION OF THE BOARD OF TRUSTEES
OF THE
NEW HAMPSHIRE RETIREMENT SYSTEM**

WHEREAS, Sections 100-A:14 and 100-A:15 of the New Hampshire Revised Statutes Annotated (the "RSA") provide that the Board of Trustees (the "Board") of the New Hampshire Retirement System (the "System") is vested with the authority to administer and set the investment policy of the System; and

WHEREAS, Section 100-A:14 of the RSA grants the Board the authority to adopt such rules and regulations as it deems necessary to the fulfillment of its duties to the System; and

WHEREAS, Section 100-A:15, I-b of the RSA provides that various standards of conduct apply to vendors and other fiduciaries that have discretionary control over the management of the "assets" of the System; and

WHEREAS, Section 100-A:15, I-b of the RSA does not define when the underlying assets of a commingled entity will be deemed to be "assets" of the System;

NOW, THEREFORE, pursuant to its authority to administer the System and establish its investment policy, the Board hereby adopts the following resolutions:

RESOLVED, that when the System makes an equity investment in another entity, the underlying assets of such other entity will be deemed "assets" of the System for purposes of Section 100-A:15, I-b of the RSA except with respect to investments in the following entities:

(a) Publicly-offered securities

(b) An investment company registered under the Investment Company Act of 1940

(c) A Company primarily engaged, either directly or through majority-owned subsidiaries, in the production and/or sale of goods and/or services (other than the investment of capital) ("Operating Company")

(d) A private equity fund whose primary objective is to invest in Operating Companies in which it has contractual rights to influence company management

(e) A private investment fund whose primary objective is to invest in real estate with respect to which it has the right to participate directly in the development or management

(f) A government mortgage pool guaranteed by the United States or an agency or instrumentality thereof

July 14, 2009

(g) An investment fund or entity in which:

(1) (i) private U.S. employee benefit plans subject to Part 4 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA Plans"), (ii) plans subject to Section 4975 of the Internal Revenue Code ("4975 Plans"), and (iii) other entities deemed under ERISA to hold assets of such ERISA Plans and 4975 Plans (together with ERISA Plans and 4975 Plans, "Benefit Plan Investors"), hold less than 25% of any class of equity interests and

(2) the System holds less than 25% of the total equity interests

(h) An insurance company general account to the extent that the non-guaranteed policy portion of such account is less than 25% held by Benefit Plan Investors and less than 25% held by the System

RESOLVED, that it is the intention of the Board that in settling any ambiguity regarding foregoing resolution, the Board shall look to available guidance under ERISA to settle such ambiguity.

NHRS

New Hampshire Retirement System

ALTERNATIVE INVESTMENT POLICY STATEMENT

Adopted: November 12, 2008

Effective: January 1, 2009

STATE OF NEW HAMPSHIRE RETIREMENT SYSTEM
ALTERNATIVE INVESTMENT POLICY STATEMENT
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1. SCOPE & PURPOSE

This policy applies to the alternative investments in the Fund. This policy provides the broad strategic framework for managing the alternative investments allocation.

In general, alternative investments are incorporated into programs to provide multiple sources of returns, diversify volatility, and enhance the overall portfolio's risk-adjusted return. *Private Equity* tends to be incorporated into plans to provide return enhancement, *Absolute Return* strategies seek to provide diversification and non-correlation benefits, and *Real Asset* strategies seek to provide inflation protection. *Opportunistic* strategies are non-definable in advance and seek to capitalize on temporary anomalies in the capital markets.

2. INVESTMENT PHILOSOPHY

The alternative investments program predominantly uses active management strategies and is 100% externally managed. For certain commodity-related *real asset* investments, a passive commodity index may be utilized. The Fund's Annual Investment Plan establishes the short and long-term approaches for achieving the performance objectives consistent with the requirements of this policy.

3. COMMITMENT PACE AND ALLOCATION

Funding of the alternative investments program (especially in the *private equity* and *real assets* strategies) through *closed-end funds* will occur over an extended time period and may take a number of years before the total allocation to those strategies is fully invested. Further, an individual investment may begin to return capital to the Fund prior to the full funding of the commitment, and the outstanding invested capital of the investment may at times be substantially less than the total commitment. In recognition of this, a committed allocation to private equity and certain real assets through closed-end funds should exceed the long-term private equity and real assets allocation target. In recognition of private equity and certain real assets investing characteristics, a committed allocation to private equity and real assets may equal up to 150% of the private equity allocation target. Over committing to target allocation is necessary to achieve/maintain policy target allocation as distributions are generally received prior to fund commitments being fully drawn.

4. STRATEGY ALLOCATION

Asset Allocation is a critical driver for the long-term success of the alternative investments program. Portfolio theory suggests that we control asset allocation risk by establishing strategy and sub-strategy target portfolio exposure parameters and optimizing the portfolio along risk and return. Alternative investments face challenges when utilizing mean-variance optimization methods for the construction of efficient portfolios. Utilizing mean-variance optimization, risk-budgeting, and historical observation, a diversified alternative investment strategic allocation is set forth below. There is wide variance in the permissible bands due to the cash flow characteristics, liquidity challenges, and non-normal distribution patterns observed in alternative investment strategies. The Board of Trustees has established a 10% target allocation to *alternative investments*. The table below represents the strategic target allocation to each alternative investment strategy as a percent of total plan assets.

Alternative Investment Strategy	Target Allocation As % of Total Portfolio	Minimum %	Maximum %
Private Equity	4%	0%	10%
Absolute Returns	4%	0%	10%
Real Assets	0%	0%	5%
Opportunistic	2%	0%	5%

Within each alternative investment strategy, sub-strategy allocation targets should be established as well. For the reasons alluded to above, mean-variance optimization does not work well for the sub-strategic allocation, either. The table below represents the sub-strategy target allocation as a percent of the sub-strategy allocation. It is not expected that the program during the development stage will be contained with sub-strategy allocation ranges.

Private Equity (4% of Total Plan Assets)

Private Equity Strategy	Target Allocation	Minimum %	Maximum %
Venture	15%	5%	30%
Growth Equity	15%	0%	30%
Buyouts	20%	5%	40%
Mezzanine	15%	5%	30%
Secondaries	15%	0%	30%
Distressed	10%	0%	25%
Energy / Infrastructure	10%	0%	20%
Special Situations	0%	0%	10%

Absolute Returns (4% of Total Plan Assets)

Absolute Returns Strategy	Target Allocation	Minimum %	Maximum %
Equity Linked	25%	0%	50%
Credit Linked	20%	0%	50%
Event-Driven	20%	0%	50%
Trading	10%	0%	50%
Multi-Strategy	25%	0%	50%
Other	0%	0%	20%

Real Assets (0% of Total Plan Assets)

Real Assets Strategy	Target Allocation	Minimum %	Maximum %
Inflation Linked Bonds (Public)	20%	0%	50%
Commodities (Public)	20%	0%	50%
Energy/Metals/Agriculture (Public & Private)	60%	0%	75%
Timberland/Farmland (Private)	0%	0%	25%
Infrastructure (Private)	0%	0%	25%

Opportunistic (2% of Total Plan Assets)

Opportunistic Strategies	Target Allocation	Minimum %	Maximum %
To be Determined	0%	0%	100%

4.1. Strategy Definitions – Private Equity

4.1.a. Venture Capital

Venture Capital implies early stage financing of rapidly growing companies with an innovative/disruptive business idea for a product or service that is proprietary.

4.1.b. Growth Equity

Growth equity is an investment strategy that provides expansion capital for small, growing businesses that are generating cash flow and profits. Generally, these types of investments have minimal exposure to technology risk.

4.1.c. Buyouts (Leveraged Buyouts, LBOs, Management Buyouts, MBOs)

Buyout investing provides leveraged capital and business development capital to enable the restructuring of existing business and industries.

4.1.d. Mezzanine

An investment strategy involving subordinated debt, (the level of financing senior to equity and below senior debt). Capital supplied by mezzanine financing is used for various situations such as facilitating changes in ownership through leveraged buyouts or recapitalizations, financing acquisitions, or enabling growth.

Venture lending and leasing is a subset of mezzanine financing that targets venture backed companies.

Revenue and Royalty interests are a subset of mezzanine financing that targets intellectual property, license agreements and other similar property that has the ability to restrict the rights to commercialization.

4.1.e. Secondaries

Private equity interests are generally purchased at a discount from valuation from motivated owners of private equity interests. The interests purchased are generally venture and buyout interests with limited exposure to unfunded capital commitments. The strategy also includes the purchase of direct interests in companies through the secondary market.

4.1.f. Distressed

Distressed strategies include trading strategies through control positions. For trading strategies, distressed securities are defined as securities with a current yield of 10% above comparable U.S. Treasury bonds. Investment instruments include publicly traded debt securities, private debt, trade claims, mortgage debt, common and preferred stock and commercial paper. Control strategies involve companies with poorly organized capital structures, turnaround situations and bankrupt companies. Long and short positions are commonly used as a technique to lock in profit or reduce risk.

4.1.g. Energy (See 4.3.c)

Investments will include exploration & production, generation, storage, transmission, distribution, renewable energy sources, clean technologies, energy technologies and other like-kind investments.

4.1.h. Infrastructure (See 4.3.g)

Investments in physical assets or companies that operates assets that provide essential services to society. Typically infrastructure assets exhibit one or more of the following qualities: monopolistic or quasi-monopolistic, high barriers to entry, long term assets, regulatory or permitting constraints.

4.1.i. Special Situations

Special situations generally have an open-ended investment objective and are seeking to capitalize on opportunities in a wide variety of sectors.

4.2. Strategy Definitions – Absolute Returns

4.2.a. Equity Linked

Investment Managers maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors or geographies and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

- Fundamental Long/Short equities
- Sector-focused Long/Short equities
- Equity Market Neutral equities
- Short-Biased equities

4.2.b. Credit Linked

Managers seek to profit from the realization of a valuation discrepancy in the relationship between multiple credit-linked securities. Managers employ a variety of fundamental and quantitative techniques to establish investment valuations, and security types range broadly across fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk-adjusted spread between these instruments represents an attractive opportunity for the investment manager.

- Convertible Arbitrage
- Capital Structure Arbitrage
- Structured Credit
- Corporate Credit
- Private Issue/Regulation D

- Yield Alternative

4.2.c. Event-Driven

Managers who hold positions in companies currently or prospectively involved in corporate transactions of a wide variety including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investments are typically evaluated on fundamental characteristics, as opposed to quantitative metrics.

- Distressed/Restructuring Securities
- Merger Arbitrage
- Special Situations
- Shareholder Activist strategies

4.2.d. Trading

Managers trade a broad range of strategies predicated on movements in underlying economic variables and the impact these have on equity, fixed income, currencies and other *derivative* instruments. Managers employ a variety of techniques, both discretionary and systematic analysis; combinations of top-down and bottom-up views; quantitative and fundamental approaches and long and short term holding periods. Although some strategies employ relative value techniques (e.g. volatility trading), Derivative strategies are generally directional and focus on capturing the market beta of the manager's view of a particular trade.

- Discretionary Thematic
- Systematic Diversified
- Volatility Trading

4.2.e. Multi-Strategy

Managers in this strategy use any combination of the strategies noted above in an attempt to produce returns in any market condition. While managers in this strategy use various techniques to produce returns, they are generally categorized by their diversified use of many strategies and no one strategy dominates. They generally have different teams in the firm running different strategies according to their defined expertise. The portfolio managers of each team focus on selecting the best investments for their portfolio based on their expertise and agreed-upon portfolio constraints. The top-level portfolio managers focus on capital allocation among the various strategies in search of the highest risk-adjusted returns available in the markets.

4.3. Strategy Definitions – Real Assets

4.3.a. Inflation Linked Bonds

The strategy targets inflation-linked bonds. Principal is adjusted for reported inflation (e.g. CPI) such that income payments are inflation-adjusted. In the US, these instruments are referred to as TIPS (Treasury Inflation Protection Securities). Global linked bonds are also available, and may complement the domestic TIPS allocation. Expected total return is due primarily to income, which fluctuates with expectations for future inflation.

4.3.b. Commodities

The strategy targets liquid investments in the commodities markets via derivatives (e.g. futures and swaps). Certain strategies may also include, to a lesser extent, investment in physicals for forward delivery. Exposure includes four major commodity market sectors: Energy Agriculture/Livestock, Industrial Metals, and Precious Metals. Expected total return is due primarily to spot price appreciation; secondarily to contract roll forward dynamics, or the differential between spot and future price (between near and longer term contracts); and thirdly to modest collateral income.

The real asset program will employ both passive and active commodity management. Examination of cash collateral, in particular the quality of fixed income market exposure, will be considered in risk mitigation.

4.3.c. Energy

The strategy targets both public and private energy-related entities. The Energy investment strategy consists of three segments: upstream, midstream, and downstream businesses. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific Energy market segment. Investments may include both traditional (oil, natural gas, coal) & alternative (wind, solar) energy sources.

The ***Upstream Investment Strategy*** focuses on the production of oil and gas, and includes petroleum Exploration and Production (E&P) businesses and power generation.

The ***Midstream Investment Strategy*** focuses on transporting the upstream products from the source to the end user, and includes storage and processing, as well as oilfield services (the equipment and services required to produce petroleum) and electricity transmission equipment and services. Midstream assets include pipelines, gathering and storage facilities, refining, power lines, and transformer stations. Services are also considered midstream elements, such as oilfield equipment like drill bits, drill rigs, well trees, and geologic and mapping services.

The ***Downstream Investment Strategy*** focuses on the end users of upstream production. Power generation is an end user of petroleum products, while households and businesses are the downstream users of power generation. Downstream assets can also be local distribution centers, such as home heating oil distributors or gas stations.

Each segment of the strategy has different investment characteristics, income profiles, and risks.

4.3.d. Metals & Mining

Public equities in the Industrial and Precious metals-related industries Investment opportunities include large core diversified global conglomerates and more specific, concentrated investments. Supply chain position may include upstream, midstream, and downstream companies. Expected total return is due primarily to appreciation and some income.

4.3.e. Public Agriculture-related

Invests primarily in Agriculture-related companies. Exposure may include both traditional agriculture and livestock investments and renewable energy sources. Supply chain position may include upstream, midstream, and downstream companies. Equity-based agriculture exposure ranges from upstream producing companies (i.e. growers) or those who are closely related to them, such as seed and agricultural chemicals companies, to downstream packaged foods producers. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific market segment. Expected total return is due primarily to appreciation and some income.

4.3.f. Timberland

The strategy targets both public and private Timberland Investment Management Organizations, TIMO. The Investment strategy includes investing in entities that derive their returns from the growth and harvest of timber, a renewable and biologically growing asset. The investments will include both plantations who utilize intensive management techniques to enhance biological growth and naturally regenerating strategies. The investment strategy has varying time horizons to liquidity, shorter term for softwoods (e.g. for pulp and lumber) to longer term time horizon (e.g. hardwoods).

4.3.g. Infrastructure

Public and private investments in direct physical assets, or a company that operates assets that provide essential services to society. Ranges from publicly held equities to very illiquid private partnerships. Exposure includes toll-oriented projects (e.g. roads, bridges, tunnels), transport-focused (e.g. railroads, airports, seaports); regulated utilities (e.g. gas pipelines; water/sewer treatment facilities); and social services (e.g. schools, hospitals). High toll-orientation offers inflation protection. Expected total return is due primarily to current income and to a lesser extent capital appreciation. Satellite strategies typically use more leverage than core.

Typically, infrastructure assets exhibit one or more of the following qualities: monopolistic or quasi-monopolistic, high barriers to entry, long term assets, significant regulatory or permitting constraints. Due to substantial risks, only a very modest allocation, within a mature and well diversified program, is considered appropriate.

5. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS

5.1. Investment Vehicles

This policy authorizes commitments to partnerships, limited liability companies and discretionary managers investing in partnerships, limited liability companies and other similar investment vehicles. When efficient to do so, funds-of-funds may be employed.

5.2. Co-Investment and Direct Placements

Investors' rights may include opportunities for additional capital participation such as co-investment or other side-by-side direct investments opportunities. At this time, the System does not exercise this right. Upon acquiring the necessary resources to efficiently manage a co-investment program in-house, the System may exercise this right. Discretionary managers may exercise the co-investment rights.

5.3. Derivatives

Investing in entities that purchase options, futures, swaps or derivative securities are prohibited within the private equity program. However, other alternative investment strategies and managers may utilize derivatives.

5.4. Real Estate

Real Estate is not within the scope of this policy and investments in entities targeted primarily to equity and/or debt of real estate is prohibited within the alternative investment program.

5.5. Stock Distributions

Stock distributions of publicly traded companies will be liquidated as soon as practicable. Unlisted and thinly traded stock distributions will be liquidated in an orderly manner. A post-distribution manager may be employed to manage the process.

6. PERFORMANCE OBJECTIVES

The System utilizes alternative investments within the total fund portfolio for diversification and return enhancements. Performance will be evaluated on a net-of-fees basis.

6.1. Long-Term – (Net of All Fees)

Alternative Program Composite

The program when fully developed is expected to generate sufficient returns in excess of the public markets to compensate for the complexity and liquidity of the program, the benchmark will be determined at a later date.

6.1.a. Private Equity

The Fund's private equity performance is benchmarked on a long-term, 10 year, rolling basis against 125% of the return from S&P 500 using an internal rate of return, (IRR), cash flow method. Over longer periods of time, the time-weighted return and the internal rate of return from the benchmark should be close to even. This return is based on a mature portfolio consisting of aged exposures and new commitments that have a negative impact on short-term performance, (J-Curve Impact).

6.1.b. Absolute Returns

The Fund's absolute return performance is benchmarked against a target return of FRB 3 Month T-Bills plus 400 basis points, net of fees over a market cycle. It is expected that that monthly volatility should fall between equities and fixed income. Additionally, the correlation of the absolute return portfolio to equity benchmark should be less than 0.50 over a market cycle

6.1.c. Real Assets

The real asset investment program will be benchmarked against reported inflation—to assess the long-term effectiveness of the strategy as an inflation hedge. The Consumer Price Index (CPI) is a valid starting point for a base-line real asset strategy benchmark. CPI can be used as a viable proxy for inflation as it is a well-known and reported measure of it. However, CPI can understate true inflation and is therefore only the minimum return requirement for a well-diversified real asset Program.

Importantly, the inflation estimate will be combined with the plan's liability return requirement to measure the true effectiveness of the real asset program. The investment objective of the real asset program is inflation protection—to maintain the purchasing power necessary to meet the plan's liabilities, without making additional contributions or liquidating excessive capital.

[Inflation estimate	+ liability need	=	Real Asset benchmark]
[CPI	+ 5%	=	Real Asset benchmark]

6.1.d. Opportunistic

The opportunistic investment program will be benchmarked against a targeted return at the time the opportunistic investment program is implemented.

6.2. Investment Specific –

6.2.a. Private Equity

The benchmark for the fund's specific private equity investments will be measured against the Venture Economics Universe peer group, vintage year and strategy.

6.2.b. Absolute Returns

The benchmark for the fund's specific absolute return investments will be measured against the HFRI or Credit Suisse / Tremont strategy specific peer group.

6.2.c. Real Assets

The benchmark for the fund's specific real asset investments will be determined on a case-by-case basis as the industry lacks a recognized real asset peer universe at this time.

6.2.d. Opportunistic

The benchmark for the fund's specific opportunistic investments will be determined on a case-by-case basis when the investment is made.

7. RISK MANAGEMENT

Alternative investment strategies do not lend itself to traditional quantitative measures of risk such as standard deviation and benchmark tracking error. Rather, risk is managed through a combination of quantitative and qualitative constraints. The following sections identify the significant risks with alternative investments and method of control.

7.1. Liquidity

Alternative investments can be illiquid. Private equity, certain absolute return, and certain real asset investments may have expected holding periods of 10-12 years. Private investments are typically held until maturity and selling prior to maturity results in a discount to fair value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation exposure limits. Asset allocation exposure is controlled through the investment pacing described in the Annual Investment Plan. The Board of Trustees has authority to change asset allocation targets and recognizes that lowering the private equity target allocation may result in forced sales and increased exposure to liquidity risk. While absolute return managers and strategies may have quarterly liquidity, they should not be considered as liquid as other strategies in the traditional portfolio.

7.2. Vintage Risk

Vintage merely reflects the year of first capital draw and vintage risk refers to the variability of private equity and certain real asset commitments over time. The Annual Investment Plan controls the short and long-term investment pacing that minimizes vintage risk while achieving targeted exposure. Secondary opportunities will be pursued to gain prior vintage year exposure, further minimizing vintage risk.

7.3. Manager Risk

Manager risk consists of two elements, the exposure within an investment vehicle and the number of managers in the alternative investment program. The exposure to a specific manager within an investment vehicle is controlled by limiting the commitment size to a specific investment vehicle. The optimum number of managers in the portfolio varies with time. Both types of risk is controlled by the Annual Investment Plan.

7.3.a. Manager Concentration Risk – Fund Level

Not more than 1% of the System's total plan assets should be allocated to any alternative investment fund, except in the case of fund-of-funds. For Funds-of-funds containing at least 15 underlying investment managers, not more than 5% of the System's total plan assets should be allocated to any alternative investment manager's fund of funds.

7.3.b. Manager Concentration Risk – Manager Level

The System should comprise not more than 20% of any underlying alternative manager's or fund's investor base, unless specifically agreed to by the Board of Trustees.

7.4. Firm Risk

Firm risk is the exposure to an alternative investment firm and is controlled by limiting the maximum commitment to funds actively managed by a firm and its affiliates. The maximum allocation to any alternative investment manager firm should be 5% unless specifically agreed to by the Board of Trustees.

7.5. Currency

The alternative investment program accepts the currency risks consistent with the geographic constraints of the investment opportunity. Many alternative investments do not hedge currency risk and the alternative investment program will not implement currency hedges.

7.6. Industry

Typically, alternative investment funds are permitted to invest in a wide variety of industries with limited controls. Industry risk is controlled primarily through appropriate diversification across strategies and sub-strategies.

7.7. Geography

Geographic risk is controlled through a long-term international target exposure. Global opportunities generally indicate geographic limits and exposure will be attributed and monitored accordingly. The geographic risk is controlled by the Annual Investment Plan.

7.8. Leverage

Many underlying alternative investment programs will utilize leverage. The intent of the System is to not rely on managers employing high degrees of leverage. It is the policy of the System to avoid any individual manager/strategy utilizing leverage in excess of 20:1. Additionally, for the *absolute return* program, it is anticipated that leverage at the program level will not exceed 2:1, though certain underlying managers / strategies may at times have leverage in excess of that level.

8. ROLES AND RESPONSIBILITIES FOR THE ALTERNATIVE INVESTMENT PORTFOLIO

8.1. Board of Trustees

The Board is responsible for reviewing and approving the Alternative Investment Policy.

8.2. Investment Committee

The Investment Committee is responsible for implementing the Board's Alternative Investment Policy. The Investment Committee is responsible for adopting and implementing the Annual Investment Plan.

8.3. Investment Staff

The Investment Staff is responsible for recommending the Alternative Investment Policy and the Annual Investment Plan. The Investment Staff is also responsible for monitoring and reporting to the Board and the Investment Committee in accordance with requirements of the Alternative Investment Policy.

8.4. Investment Advisor

The Fund may engage an investment advisor(s) to assist in managing the alternative investment program. Specific responsibilities will be established with the investment advisor(s) through contractual agreements.

9. MONITORING AND REPORTING

9.1. Quarterly

Performance report prepared by investment advisor(s).

9.2. Annual

Annual Investment Plan prepared by staff and/or investment advisor(s).

10. HISTORY

The Alternative Investment Policy was adopted on November 12, 2008 by the NHRS Investment Committee, effective January 1, 2009.

New Hampshire Retirement System

2009 Real Estate Policy

September 9, 2008

The Townsend Group
Institutional Real Estate Consultants
Cleveland, Ohio   San Francisco, CA   Denver, CO

This document is the Strategic Policy for the New Hampshire Retirement System (the "Fund" or the "System") for the asset class of real estate. It establishes the long-term objectives of the real estate program and identifies the policies and procedures by which risk is managed. This document sets forth the Fund's current long-term objectives and policies. It is the intention that the Strategic Policy be reviewed as needed (at least every two years) to be kept timely and consistent with the changes in the marketplace and with the System's objectives.

I. OBJECTIVE

A. Role of Real Estate.

The primary role of real estate in the Fund's portfolio is to provide an inflation hedge and a return that has a low to negative correlation with stock and bond returns, thereby reducing the volatility of risk of the total Fund portfolio. Also, real estate must provide a total return which is competitive on a risk adjusted basis with stocks and bonds.

The Fund recognizes that real estate is an inefficient asset class relative to stocks and bonds. As such, the Fund may have the opportunity to make investments with superior risk adjusted returns. A secondary objective of the Fund is to capture these superior risk adjusted returns through investing in more tactically themed commingled fund investments as well as real estate related debt securities and public real estate securities. If necessary, the System will assume additional risk to make these investments contingent upon the risk of the total real estate program being consistent with the risk level of real estate programs of like pension fund investors.

B. Allocation.

The System has established an allocation to equity real estate of 10% of plan assets. The allocation shall be measured based upon the net equity value (gross real estate assets less any debt) of the portfolio. To achieve fully allocated levels of investment exposure, the discretionary manager may over-allocate within the Tactical Portfolio by 1.25x the targeted level of exposure within the Tactical Portfolio. Over-allocation in this portfolio is necessary due to the nature of private market investments that are executed via closed end fund commitments that drawdown and return capital sporadically over the investment life of the vehicle. It is uncommon to have the full commitment to an investment drawn down at any one point in time.

C. Investment Philosophy.

The System will pursue both a Strategic Portfolio and a Tactical Portfolio. NHRS will develop a Strategic Portfolio with a target of 50% (40% to 60% range) of its real estate allocation to provide its "keel in the water" similar to other U.S. pension funds and similar to the respective weight of the U.S. markets globally. NHRS will construct a Tactical

Portfolio with a target of 50% (40% to 60% range) of its real estate allocation in order to target high returns and drive alpha. The Fund will allocate up to 35% (of the total real estate allocation) to be invested in investments outside of the U.S.

D. Return Target.

The benchmark return objective for the portfolio is NCREIF Property Index (NPI) + 50 bps net of investment management fees.

II. RISK MANAGEMENT POLICIES

A. Strategic Portfolio.

The lowest risk life cycle of real estate that will attain the objectives of the real estate program are operating and substantially leased (60% occupied or more) institutional quality properties, which are defined as Core/Core-Plus investments. These investments may be in the form of the current direct property investments or commingled funds. These investments are institutional quality, well-located assets in the traditional property types: office, apartment, retail, and industrial and located inside the U.S. They generally offer relatively high current income returns and as a result a greater predictability of returns (7%-9% returns). The income component typically represents a significant majority of the expected total return of Core/Core-Plus investments. These investments are of comparatively low risk and provide a stable foundation for the Fund's real estate portfolio.

Consistent with the Fund’s objective to not assume any more risk than necessary for the real estate program to perform its role, an allocation of 40% to 60% of the Fund’s real estate investments will be in operating and substantially leased properties in the Strategic Portfolio with an initial target of 50%.

B. Tactical Portfolio.

A secondary objective of the real estate program is to capture superior risk adjusted returns caused by imbalances in the real estate and capital markets, which is characteristic of the relatively inefficient asset class of real estate. The investments in this portfolio may include strategies involving various property lifecycle risk levels such as lease-up, repositioning and development. It may also entail investments in niche sectors or property types and investments outside of the U.S. and in emerging markets. To access these opportunities the Fund will make investments that have more risk, and higher expected returns, than the Strategic portfolio. The Tactical Portfolio will target returns of approximately 14%+ net of fees, excluding ex-U.S. investments, which on average target 18%-20% returns net of fees. Between 40% to 60% of the real estate program’s allocation will be in tactical investments with an initial target of 50%, which is consistent with industry trends and peers whom allocate toward higher performing strategies.

C. Control.

The Fund will balance its preference for control against its other risk management policies. In order to diversify its investments, the Fund will use collective investment vehicles whenever possible for real estate execution of the Real Estate Program. Currently the System also holds direct ownership of properties within separate account portfolios.

D. Distribution of Investments.

Numerous studies indicate that distributing portfolio investments by certain attributes will reduce the risk of a real estate program. The attributes by which investments should be distributed or diversified to most effectively reduce risk are property type, geographic location, manager allocation and investment size.

1. Property Type Diversification.

No more than 40% of the allocation shall be invested in any one property type. The Fund will allocate tactically amongst the property types in response to real estate and capital markets conditions. The property type limit will ensure prudent diversification amongst the property types but will enable the Fund to capitalize on opportunities caused by shifts in the real estate and capital markets and will allow the Fund to be in compliance over the short term and long term.

2. Location Diversification.

The Fund will distribute its investments geographically for the purpose of attaining economic market diversification. By design, a minimum 65% of the Program will be located in the U.S. in the Strategic Portfolio and Tactical Portfolio. Potential investments outside the U.S. are part of the Tactical Portfolio allocation and are limited to 35% of the Total Real Estate allocation.

	Target %	**Allocation Range**	**U.S.**	**ex-U.S.**
Strategic Portfolio	50%	40% to 60%	100%	0%
Tactical Portfolio	50%	60% to 40%	30%-50%	50%-70%
Total Portfolio	100%	100%	>=65%	<=35%

3. Manager/Investments Diversification.

The System seeks to diversify its real estate program both by individual investment exposure and manager exposure. The System does not want the failure of a single investment to have a significant or material impact on the performance of the total real estate program. The System will limit the amount of equity as follows:

- No more than 20% of capital committed to any investment in Strategic Portfolio
- No more than 10% of capital committed to any investment in Tactical Portfolio
- No more than 40% of capital committed to any single investment manager
- No more than 50% of ex-U.S. exposure to come from investments in emerging markets.

D. Leverage.

Underlying fund managers may utilize debt in the execution of their investment mandates.

- The Strategic Portfolio loan-to-value ratio shall be no more than 50% at portfolio level.

- The Tactical Portfolio loan-to-value ratio shall be no more than 75% at portfolio level.

E Foreign Currency Exposures.

United States dollar denominated funds are preferred, although funds denominated in another functional currency are permitted as part of the Tactical Portfolio. As is feasible and economically practical, foreign currency fluctuations may be mitigated through hedging and other mechanisms. Should such measures be deemed advisable, Townsend would identify and retain a suitable and qualified third party to provide such services, oversee the third party relationship, and propose appropriate controls and policies relative to this program.

IV. Portfolio Investment Procedures

A. Roles and Responsibilities.

1. *Investment Committee.* The Investment Committee has delegated authority for due diligence, selection, review and management of the NHRS Real Estate Program to the Discretionary Manager. The Investment Committee is responsible for setting the overall allocation to the real estate asset class and for approving the Strategic Policy that establishes the objectives and risk management policies for the NHRS Real Estate Program. The Investment Committee will review and approve the Manager Investment Plan prepared and submitted by the Discretionary Manager. The Investment Committee, in conjunction with staff and other consulting resources, will evaluate the performance; structure; and effectiveness of the real estate program and its compliance with the Strategic Policy and Manager Investment Plan.

2. *Staff*. The Staff will provide oversight of the Discretionary Manager and serve as liaison between the Investment Committee and the Discretionary Manager. The Discretionary Manager will provide appropriate advance notice to Staff of developments and initiatives in the NHRS Real Estate Program including outlining the rationale, merits, and considerations of intended actions and the status of the program. The Staff will coordinate with the Discretionary Manager to formalize the Strategic Policy and Manager Investment Plan for approval by the Investment Committee. Staff is responsible for coordinating with the Discretionary Manager, custodian, consultant(s) and legal counsel to implement and administer the NHRS Real Estate Program, including the coordination of information between these parties and the management of funding relative to the investments. The Staff shall facilitate any other duties with the Discretionary Manager relative to the NHRS Real Estate Program, including the implementation of Investment Committee actions.

3. *Discretionary Manager*. The Discretionary Manager will coordinate with Staff on the development of the Real Estate Strategic Policy. The Discretionary Manager is responsible for the due diligence, selection, review, management and reporting of performance for the NHRS Real Estate Program consistent with the Strategic Policy and Manager Investment Plan. It will not acquire or manage assets directly but will select funds and provide oversight for properties managed by other third-party investment managers. The Discretionary Manager shall prepare a periodic (annually at a minimum) Manager Investment Plan that shall set forth the implementation and management plans for the portfolio investments. The Discretionary Manager will coordinate with other NHRS consultants, as needed, to provide information regarding the NHRS Real Estate Program, such as capital market expectations for the asset class.

4. *Investment Manager*. The Investment Managers will acquire, sell and manage real estate investments for their separate accounts and collective investment vehicles, respectively.

B. Search and Selection. The Discretionary Manager is responsible for the due diligence, search, selection and commitment pacing of the NHRS Real Estate Program. It will provide the due diligence material, or other such material, along with its recommendation with appropriate advance notice to the Staff regarding the investments being contemplated for selection. It will inform the Staff and the Investment Committee of its investment selections.

C. Monitoring and Reporting. The Discretionary Manager is responsible for monitoring the portfolio fund investments and Investment Managers. The Discretionary Manager shall report the performance of the NHRS Real Estate Program on a quarterly basis. Included in such reporting will be a narrative overview of the significant events affecting the various funds and the real estate capital markets. The Discretionary Manager will provide updates, as needed, on significant developments within the portfolio.

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