New Hampshire Retirement System

A Component Unit of the State Of New Hampshire

Comprehensive Annual Investment Report

For the Fiscal Year Ended June 30, 2011

NHRS
New Hampshire Retirement System

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

Table of Contents

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

October 21, 2011

The Honorable John Lynch, Governor
The Honorable Peter Bragdon, President of the Senate
The Honorable William O'Brien, Speaker of the House of Representatives

The Independent Investment Committee (Committee) of the New Hampshire Retirement System ("NHRS") is pleased to present the comprehensive annual investment report for the fiscal year ended June 30, 2011. This report satisfies the provisions of the Revised Statutes Annotated ("RSA") 100-A:15, VII of the State of New Hampshire.

Fiscal year 2011 marked the second 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; selecting investment managers, agents, and custodial banks; reviewing performance; and making recommendations to the Board regarding investment consultants, asset allocation, and other investment policy matters.

The Committee meets monthly and is currently 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 required by statute to have significant experience in institutional investing or finance. The three independent members are Harold Janeway (Chair), Patrick O'Donnell and Tom Silvia. The two Board members serving on the Committee are Dr. Lisa Shapiro and State Treasurer Catherine Provencher. David Jensen served as an independent member on the Committee from its inception through December 2010. Brief biographies and photographs of the Committee members follow this report.

Investment Philosophy

The Committee developed and adopted a philosophy statement, consistent with statutory requirements. Put simply, NHRS pursues an investment strategy designed to support the long-term funding obligations of the Plans. This involves a continuous balance of risk and return. (The NHRS Investment Philosophy is included in Appendix D of this report.) The Investment Philosophy describes the System's Investment Objectives; Portfolio Structure and Implementation; and Performance Measurement metrics.

The Committee's primary roles are, first, recommending to the Board of Trustees the appropriate asset mix among the broad spectrum of available investments, and second, selecting the assets or products that best fulfill our objectives. We do not judge the merits of individual securities. Rather, we select organizations, and in some instances indices, that offer participation in various categories which will add value to the fund.

Investment Results

Aided by a rising tide on world-wide equity markets, the System recorded a 23% total return, net-of-fees, for the twelve months ended June 30, 2011. Before getting into the details, it is important to be reminded that one year is part of a continuum for this fund which is designed to provide income for both current and future retirees. A five-year rolling average of market values is used in calculating the funding ratio (the percentage of estimated accrued benefits covered by the fund at a particular point in time). Thus, the two recent years in which the System experienced losses (fiscal years 2008 & 2009) are still included in the smoothing calculation. The gains of fiscal years 2010 and 2011 likewise will be recognized over the next four to five years.

Equity returns of the magnitude recorded last year are unusual. What makes such returns particularly so in this instance is that they were rung up under adverse economic circumstances. True, the economy was recovering from the near melt-down of the financial system, but at a well-below-average pace. Deleveraging or debt reduction, both voluntary and involuntary, continued. The housing market remained weak, sapping consumer confidence and capacity to spend. Absent increased demand, businesses saw little need to hire, borrow or expand capacity.

That left the unemployment rate, however measured, uncomfortably high. Moreover, authorities went to unusual ends to drive interest rates to near zero. The corporate sector has seldom seen stronger earnings, on the heels of previous drastic cost-cutting measures. Concern shifted to the severely strained finances of countries, most notably Greece, Spain, Italy and Ireland. The U.S. budget deficit and ballooning debt led to an historic rating downgrade of U.S. government debt. The recent debt-ceiling-extension fiasco did little to instill confidence, nor did the Europeans' efforts to head off a financial crisis over sovereign (country) debt. Gold, an indicator of confidence or lack thereof, soared. Market volatility intensified. At one time in the not-so-distant past, any single event would have a limited impact on the rest of the world's markets and economies, it is now clear that the globe has never been as small as it is today. Investment diversification remains important to reducing risk, but it no longer provides the degree of protection it once did.

Why, then, did stocks perform so well? In short, they provided the best value and opportunity in an uncertain world.

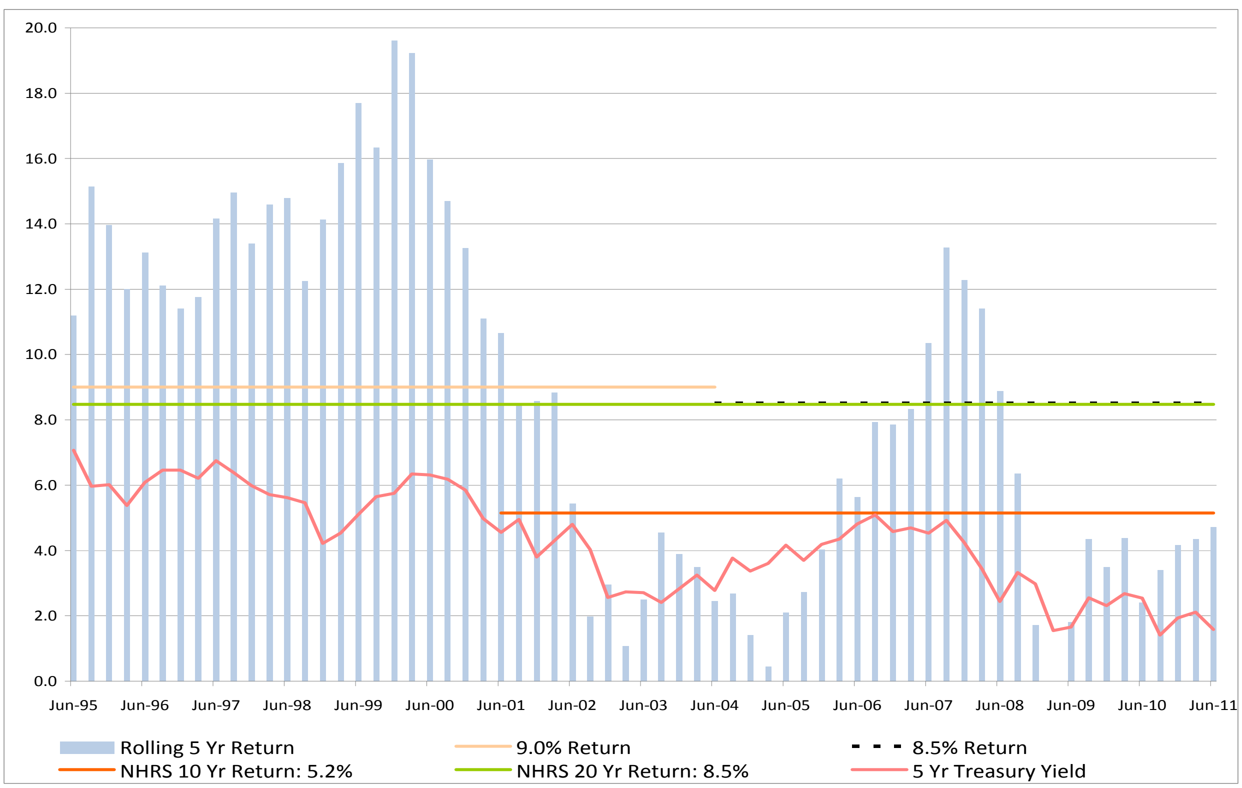
Annualized Investment Returns for the period ended June 30, 2011

Asset Class	Weight 6/30/2011	Fiscal Year 2011	3 Year	5 Year	10 Year
Total NHRS Fund (Gross Returns)	100.0%	23.3%	4.6%	5.0%	5.5%
ICC Public Fund Universe Ranking[1]		22	54	45	58
Total NHRS Fund (Net Returns)	100.0%	23.0%	4.4%	4.7%	5.2%
Total Fund Custom Index		22.1%	4.1%	4.7%	5.5%
U.S. Equity	42.9%	31.2%	2.9%	2.1%	2.6%
Total U.S. Equity Blended Benchmark[2]		32.4%	4.0%	3.4%	3.3%
Non-U.S. Equity	21.4%	34.2%	1.2%	4.5%	6.9%
Total Non-U.S. Equity Blended Benchmark[2]		29.7%	-0.3%	3.7%	7.1%
Fixed Income	26.8%	7.9%	8.8%	8.1%	7.8%
Total Fixed Income Blended Benchmark[2]		4.8%	6.7%	6.5%	6.2%
Real Estate	5.6%	14.9%	-7.0%	0.7%	8.2%
Total Real Estate Blended Benchmark[2]		17.3%	-2.2%	3.7%	7.8%
Alternative Investments	2.1%	9.7%	-6.5%	-3.0%	-4.5%
Consumer Price Index + 5%[2]		8.6%	6.1%	7.2%	7.4%
Cash Equivalents	1.2%	0.2%	0.5%	2.2%	2.3%
Cash Index		0.2%	0.4%	2.0%	2.1%

[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 Total NHRS Fund returns are not adjusted for transfers to the Special Account as a result of Gain Sharing.

The chart below shows the 20-year performance of the Total NHRS Fund through June 30, 2011 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. An actuarial valuation is completed every other year to determine the employer contribution rates for a subsequent two-year fiscal period. For example, the actuarial valuation of the Retirement System's assets and liabilities as of June 30, 2011 will be used by the Board of Trustees to certify the employer contribution rates for the fiscal years ending June 30, 2014 and June 30, 2015.

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 8.5% actuarial rate of return used from July 1, 2004 through June 30, 2010 and the rate of 9.0% used prior to July 1, 2004. As discussed below, the assumed rate of return has been reduced to 7.75% beginning with the actuarial valuation as of June 30, 2011.



It is important to note that the investment returns do not reflect the impact of gain-sharing, a process that diverted $987.3 million from the pension fund between 1989 and 2006, primarily during the bull market of the 1990s. Gain-sharing, established in 1983, called for the transfer to a separate fund (the Special Account) any "excess returns" defined as the returns above the actuarial assumed rate of return as determined by statute. In essence, this deprived the fund of a cushion to offset the down years that followed in the decade beginning in 2000. This policy was suspended until the NHRS reaches an 85% funded ratio by House Bill 653 passed in 2007.

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

Annual Investment Policy Statement

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
- Various considerations related to the oversight of investments, including the selection of service providers
- 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; the Investment Committee; and analysis provided by the investment consultant and other industry experts. A written opinion letter on this subject is included in this report as Appendix B. The net-of-fees return of 5.2% over the past decade fell short of the current 7.75% assumed rate of return effective for the actuarial valuation as of June 30, 2011. The 20-year annualized, net-of-fees return of 8.5% exceeded the current 7.75% assumed rate of return.

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	Actual Allocation at June 30, 2011
U.S. Equity	30%	20 - 50%	43.9%
Non-U.S. Equity	20%	15 - 25%	20.6%
Fixed Income	30%	25 – 35%	27.8%
Real Estate	10%	0 – 15%	5.6%
Alternative Investments	10%	0 – 15%	2.1%

Allocation targets for Real Estate and Alternative Investments are 10% each. Based on a recommendation of the Investment Consultant, a dynamic approach was implemented such that the reported target allocations for these asset classes reflect the actual allocation at prior quarter-end. As Domestic Equity holds assets set aside for future redeployment into Real Estate and Alternative Investments, the reported Domestic Equity allocation target is increased accordingly.

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
U.S. 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 Price Index + 5%
Total Fund	Total Fund Custom Benchmark[1]

[1] In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions.

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 regular 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 and 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	
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 Responsibilities 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, agenda 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. Meeting minutes 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 managers.

In January of 2010, Lawrence A. Johansen joined the NHRS as the Director of Investments. In his role, Mr. Johansen serves as the primary staff liaison on investment matters. In addition, he 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.

The members of the Committee would like to recognize and publicly thank former member David A. Jensen for his thoughtful contributions to the deliberations and decisions of the Committee. Mr. Jensen served from the inception of the Committee in January 2009 through December 2010.

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, in addition to other actuarial statistics. Once finalized, the CAFR is available on the System's website, www.nhrs.org.

Overview of Significant Investment Committee Initiatives During this Fiscal Year:

- Completed an Asset Liability Modeling Study in conjunction with the System's investment consultant, NEPC, LLC, which resulted in recommendations to the Board of Trustees to revise the asset-allocation targets and ranges.
- Recommended an assumed rate of return of 7.75% for adoption by the Board of Trustees based on a thorough review of Capital Market expected returns and volatility.
- Continued a thorough review of investment managers that was initiated in the prior year. The review was designed to determine the areas where expected added value relative to the appropriate benchmark was available. Based on that review, the portfolio was refocused by increasing exposure to those areas of the Capital Markets where it is more likely that active management will add value. As an example, passive management was increased in the large-cap domestic equity portfolio and passive management in the non-U.S. equity portfolio was decreased.
- The changes in the domestic equity portfolio noted above represented approximately 34% of the total portfolio. The continuous review of investment managers is not expected to result in changes of this magnitude on a regular basis. The additional result of the changes was a reduction in management fees paid by the NHRS on the total domestic equity portfolio. A list of the manager changes is contained in Appendix E.

- Reviewed the long-term performance of all current investment managers against their respective benchmarks to determine if they met the Committee's expectation. Renewed the contracts with those managers that continued to meet the Committee's expectations.
- Restructured the domestic equity portfolio, including the establishment of an S&P 500 index portfolio and retaining active managers of small-cap and small/mid-cap portfolios, with the expectation of adding value over the benchmark on a net-of-fees basis.
- Restructured the non-U.S. equity portfolio by adding new active managers to complement the existing portfolio by increasing the exposure to foreign small-cap securities as well as to emerging market countries which are expected to experience greater prospects relative to developed market holdings.
- Hired a replacement fixed income manager to provide opportunistic exposure to various segments of the bond market by tactically shifting assets among different sectors.
- Implemented the first steps to expand the alternative investments program. It will take a number of years to reach the target allocation of 10%. New commitments were made to private equity investment strategies that are expected to benefit from the current phase of the economic cycle.
- Adopted an annual real estate manager investment plan and continued the transition from existing direct property holdings to a more diversified program of real estate funds.
- Terminated the securities lending program and exited commingled index funds that participated in securities lending.
- Hired an external firm to vote proxies on behalf of the retirement system in accordance with the policy adopted by the Board of Trustees.

The Committee recognizes its responsibility to achieve the best long-term investment results within acceptable risk levels and consistent with responsible and prudent policies and practices.

Respectfully submitted,

Harold Janeway, Chair
Patrick O'Donnell
Catherine Provencher, State Treasurer
Dr. Lisa Shapiro
Tom Silvia

Kimberly D. France, Interim Executive Director
Lawrence A. Johansen, Director of Investments

Senator Harold Janeway chairs the Committee. A New Hampshire State Senator for two terms from 2006-2010, he was appointed by the Senate President to serve on the NHRS Board of Trustees. In December 2010 he was appointed to the Independent Investment Committee as a public member. 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.

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.

Catherine Provencher is the State Treasurer of New Hampshire and serves as the ex-officio member of the Board of Trustees. She is a certified public accountant who has been employed in New Hampshire State service for the past 26 years. She has a Bachelor of Science degree in Accountancy from Bentley College and a Masters in Business Administration from Southern New Hampshire University.

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 third 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

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

NEPC, LLC

KEVIN M. LEONARD
PARTNER

October 11, 2011

Board of Trustees
Investment Committee
Interim 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, 2011.

The overall objective of 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 maximum expected 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 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, 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. The following pages report on the performance and attributes of the investment program for fiscal year 2011.

During fiscal year 2011, the economy continued the halting recovery from the lows experienced in fiscal year 2009. Market sentiment and macroeconomic events played key roles as drivers of global markets throughout the fiscal year. Support from governments and central banks continued for much of the fiscal year until the last quarter, which saw the expiration of quantitative easing by the Federal Reserve and fiscal austerity measures across Europe being implemented in an attempt to reign in public debt. Investors flocked to riskier assets during most of the fiscal year until global concerns mounted, causing a pullback and flight to safer assets during the second quarter of calendar year 2011. Sentiment turned negative as the European debt crisis, heightened inflation concerns, and multiple geopolitical risks weighed heavily on investors' minds. Further increasing investor negative sentiment was the inability of Congress to reach a deal on the U.S. debt ceiling until the deadline of August 2, 2011.

For the fiscal year ended June 30, 2011, the NHRS Total Fund returned +23.0% on a net-of-fees basis outperforming the Total Fund Custom Benchmark return of +22.1%. The NHRS Total Fund gross-of-fees return of +23.3% ranked in the 22nd percentile relative to other investors in the Independent Consultants Cooperative Public Fund Universe. For the trailing ten year period ending June 30, 2011, the NHRS Total Fund returned 5.2% on an annualized net-of-fees basis. For the trailing twenty year period ending June 30, 2011, the NHRS Total Fund returned 8.5% on an annualized net-of-fees basis.

During fiscal year 2011, we continued work originally started in 2010 with the NHRS Investment Committee. This work entailed a structural review of the individual asset classes utilized within the NHRS portfolio. The goal of the structural review was to reduce the investment program's expected volatility by diversifying the assets more broadly within the traditional and non-traditional asset classes, both domestically and internationally, and to enhance the Fund's ability to generate higher expected returns.

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,

New Hampshire Retirement System

Investment Performance Review – Fiscal Year 2011

Market Commentary

During fiscal year 2011, the economy continued the halting recovery from the lows experienced in fiscal year 2009. Market sentiment and macroeconomic events played key roles as drivers of global markets throughout the fiscal year. Support from governments and central banks continued for much of the fiscal year until the last quarter which saw the expiration of quantitative easing by the Federal Reserve and fiscal austerity measures across Europe being implemented in an attempt to reign in public debt. Investors flocked to riskier assets during most of the fiscal year until global concerns mounted, causing a pullback and flight to safer assets during the second quarter of calendar year 2011. Sentiment turned negative as the European debt crisis, heightened inflation concerns, and multiple geopolitical risks weighed heavily in investors' minds. Further increasing investors' negative sentiment was the inability of Congress to reach a deal on the U.S. debt ceiling until the deadline of August 2, 2011.

The broad domestic equity market, as measured by the S&P 500 Index, continued its strong recovery from fiscal year 2009, producing a +30.7% return for fiscal year 2011. The domestic bond market, as measured by the Barclays Capital Aggregate Bond Index, returned +3.9% in fiscal year 2011 representing a drop from the previous two years at +6.1% in 2009 and +9.5% in 2010. The global equity market, as measured by the MSCI All Country World Index (net), returned +30.1% in fiscal year 2011 relative to a positive +11.8% in fiscal year 2010.

The quarter ended September 30th, 2010 proved to be a volatile start to the fiscal year as markets moved along with investor sentiment each month, eventually rallying in September to post strong gains for the quarter. Hints of more quantitative easing from the Federal Reserve helped drive the rally as the S&P 500 Index posted its best September since 1939 and finished the quarter at +11.3%. These hints also helped global markets as U.S. dollar depreciation contributed heavily to the MSCI Europe, Australia, Far East (EAFE) Index which returned +16.5% for the quarter. Foreign currency gains against the dollar contributed +9.4% to the MSCI EAFE Index. The late September rally masked overall concerns in the global economy as sovereign-debt levels remained unattractively high and further quantitative easing provided only a short-term catalyst to stimulate the market and improve liquidity.

The quarter ended December 31, 2010 saw a continuation of volatile, sentiment-driven markets. The Federal Reserve's initiation of a second round of Quantitative Easing (QE2) in November along with a tax deal that included a payroll tax cut, extension of unemployment benefits, and a tax credit for business capital expenditures helped boost equity market returns. Small-cap stocks led the way as the Russell 2000, Russell 2000 Growth, and Russell 2000 Value indices posted gains of +16.3%, +17.1%, and +15.4%, respectively, for the quarter. International markets also benefited from QE2 as it overshadowed the lingering European debt issue. Interest rates rose sharply during the quarter which caused most fixed income markets to turn negative as investors shifted to riskier assets.

The first quarter of 2011 featured a plethora of external events that dominated headlines across global markets. Political turmoil in the Middle East; multiple natural disasters in Japan; a deepening civil war in Libya; and the downgrading of Greek, Portuguese, and Spanish government bonds all played a role in the volatile quarter. Though the markets continued to be volatile, equity markets, with the exception of Japan, posted positive returns for the quarter. The S&P 500 Index posted a +5.9% return while small-cap stocks continued to outperform other indices as the Russell 2000 Index posted a +7.9% return. International markets fared well but were weighed down by performance in Japan as the MSCI Japan Index was down -4.9% while the MSCI EAFE Index was +3.4% for the quarter. Fixed income markets proved to be resilient through the first quarter with U.S. credit sectors posting strong results based on improving business and unemployment indicators. Rising commodity prices and further QE2 sparked concern over high inflation causing yields on 10-year Treasuries to rise 15 basis points to 3.45% as investors sought safety in treasuries. The Federal Reserve also announced that it would maintain a federal funds rate near zero for an extended period.

The quarter ended June 30, 2011 began on a positive trend but macroeconomic headlines dominated market movements in May and June, wiping away most gains. The European debt crisis, growing inflation concerns in China, and poor U.S. job reports fed investor sentiment that the global recovery was stalling. Fiscal austerity measures in Europe and the Federal Reserve's decision to forgo any additional quantitative easing further reduced support systems for the global recovery. Overall, most U.S. equity markets posted relatively flat returns for the quarter with mid-cap stocks performing best. Internationally, the developed markets outperformed emerging markets as the MSCI EAFE Index posted a +1.6% return compared to -1.1% for the MSCI Emerging Markets (EM) Index. The MSCI EAFE Index owed most of its gains to dollar weakness as it returned -0.8% in terms of local currency. Fixed income markets posted positive returns for the quarter as investors sought safety, driving yields downward across the yield curve. The Barclays Capital TIPS Index posted a +5.3% return over the quarter highlighting increased attention toward hedging the risk against inflation. At the end of the quarter, Congress had not yet reached a deal on the U.S. debt ceiling and this looming concern weighed on the financial markets.

Fiscal Year Overview

Investment Performance

For the fiscal year ended June 30, 2011, the NHRS Total Fund (NHRS) returned +23.0% on a net-of-fees basis outperforming the Total Fund Custom Benchmark return of +22.1%. The NHRS gross-of-fees return of +23.3% for the fiscal year ranked in the 22nd percentile 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 non-U.S. equity portfolio, the fixed income portfolio, and the private equity portfolio. For the trailing ten year period ending June 30, 2011, the NHRS Total Fund returned 5.2% on an annualized net-of-fee basis and for the trailing twenty year period ending June 30, 2011, returned 8.5% on an annualized net-of-fee basis.

During fiscal year 2011, the NHRS spent considerable time restructuring the composition of both the domestic equity and non-U.S. equity portfolios. For the domestic equity portfolio, more emphasis was placed on passive management within the large-capitalization portfolio, while active management was increased within the mid- and small-capitalization portfolios. For the non-U.S. equity portfolio, further diversification was attained through the implementation of a dedicated developed country small-capitalization portfolio, as well as a diversified emerging markets country portfolio. On average during the year, the combined domestic and non-U.S. equity portfolios comprised more than 60% of the NHRS total fund. This significantly aided the NHRS as the broad domestic and international equity markets posted double-digit gains for the fiscal year ended June 30, 2011. The S&P500 Index posted a return of +30.7% and the MSCI All Country World Index (ACWI) ex U.S. posted a return of +29.7%. Emerging market equities, as defined by the MSCI EME Index, were up +27.8%. The broad fixed income markets posted modest gains, as the Barclays Capital Aggregate Index posted a return of +3.9% and the Barclays Capital Universal Index posted a return of +4.8%. Global bonds posted a return of +10.5%, as defined by the Citigroup World Government Bond Index.

U.S. Equity Markets

U.S. equity returns continued the momentum from a solid fiscal year 2010 to post higher returns across-the-board in fiscal year 2011 with each category producing returns above 25%. Similar to 2010, large-cap stocks underperformed in 2011 relative to small-cap stocks with the S&P 500 Index up 30.7% versus the Russell 2000 Index up 37.4%. However, unlike 2010, growth stocks outperformed value stocks considerably in 2011 with the Russell 1000 Growth Index up 35.0% versus the Russell 1000 Value Index up 28.9% and the Russell 2000 Growth Index up 43.5% versus the Russell 2000 Value Index up 31.4%.

The NHRS total domestic equity portfolio is comprised of active small-cap, small/mid-cap, and large-cap portfolios, as well as a passive large-cap equity portfolio benchmarked to the S&P500 Index. This aggregate portfolio returned +31.2% for fiscal year 2011, underperforming the Russell 3000 Index return of +32.4% by 120 basis points. Relative underperformance was due to the S&P500 Index portfolio lagging the Russell 3000 benchmark and also due to legacy managers that were transitioned out of the portfolio during the year as part of the restructuring process.

U.S. Fixed Income Markets

For the fiscal year, U.S. fixed income returns were positive but performance lagged compared to fiscal year 2010 partly due to strong equity markets. The Barclays Aggregate Bond Index returned +3.9% while high-yield bonds were the best performers returning +15.6% for the one-year period ended June 30, 2011. U.S. Treasury bonds finished the fiscal year at +2.2%.

The NHRS total fixed income portfolio is comprised of broadly diversified active portfolios, as well as an allocation to a passive portfolio, and includes domestic and international exposures. This aggregate portfolio generated a +7.9% return and outperformed the Barclays Capital Universal Index return of +4.8% by 310 basis points. The total active fixed income portfolio provided a +7.8% return which outperformed the Barclays Capital Universal Index return of +4.8% by 300 basis points during the fiscal year. The passive fixed income portfolio return of +3.8% slightly underperformed the Barclays Capital Aggregate Bond Index return of +3.9% by 10 basis points.

International Markets

International developed market equities as measured by the MSCI EAFE (net) Index returned +30.4% for the year ended June 30, 2011. Emerging markets equities, as measured by the MSCI EME Index returned +27.8%. The JPM EMBI Global Diversified, a key barometer for emerging market debt, returned +11.8% for the year. The Citigroup World Government Bond Index also posted strong returns at +10.5%.

The NHRS total non-U.S. equity portfolio is comprised of active portfolios representing foreign stocks across the market capitalization spectrum, with exposures to both developed and emerging countries. The portfolio returned +34.2% for fiscal year 2011, outperforming the MSCI ACWI ex U.S. Index return of +29.7% by 450 basis points. The total core non-U.S. equity portfolio returned +36.0%, 630 basis points ahead of the MSCI ACWI ex U.S. Index return of +29.7%. The global equity portfolio underperformed by 270 basis points with a return of +27.4% compared to the MSCI ACWI Index return of +30.1%. The newly-implemented emerging markets portfolio received initial funding in June 2011 and outperformed the benchmark by 590 basis points for the month as a late month rally in emerging markets coincided well with the timing of funding. The newly-implemented non-U.S. small-cap portfolio received initial funding at the end of June 2011 with an official inception date of July 2011.

Alternative Investments and Real Estate

Similar to the experience in traditional long-only asset classes, most alternative asset classes rebounded in fiscal year 2011.

Private equity experienced a continuation of positive momentum from 2010. Business operations generally stabilized and consequently, valuations rose. The NHRS had approximately 1.4% of its plan assets in private equity strategies as of June 30, 2011. For fiscal year 2011, the private equity portfolio generated a return of +13.9%, outperforming its respective benchmark by 530 basis points. After several years of dormancy in which the System did not make new private equity commitments, the NHRS restarted the program and made $80 million of commitments to four private equity funds in fiscal year 2011. This included commitments to secondaries and distressed private fund managers.

In fiscal year 2011, the Dow Jones Credit Suisse Core Hedge Fund Index for absolute return strategies generated a +7.8% return. The NHRS has one absolute return fund-of-funds manager representing 0.7% of plan assets as of June 30, 2011. For fiscal year 2011, the NHRS absolute return portfolio produced a +4.2% return, underperforming its respective benchmark by 440 basis points. In fiscal year 2011, the NHRS started a multi-year process to increase its alternative investment program towards its policy target allocation of 10%.

The real estate market rebounded in fiscal year 2011. The NCREIF NPI Index generated a +16.7% return, while the NCREIF ODCE Index (a universe of open-end core real estate funds) generated a +20.5% return. The NHRS real estate portfolio returned +14.9%, underperforming its respective benchmark by 240 basis points. 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 comprised approximately 5.6% of total plan assets as of June 30, 2011.

Summary

Although fiscal year 2011 was a strong year for NHRS on both an absolute basis and relative basis, we continue to be cautious as elevated uncertainty surrounds the global economy and corresponding markets, leading to a forecast of heightened volatility. Expectations in the near-term indicate that performance across most asset classes will be lower than the long-term historical averages. Diversification aims to reduce volatility and better equalize the contribution to an overall plan's risk across a variety of asset classes with low correlation of 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.

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

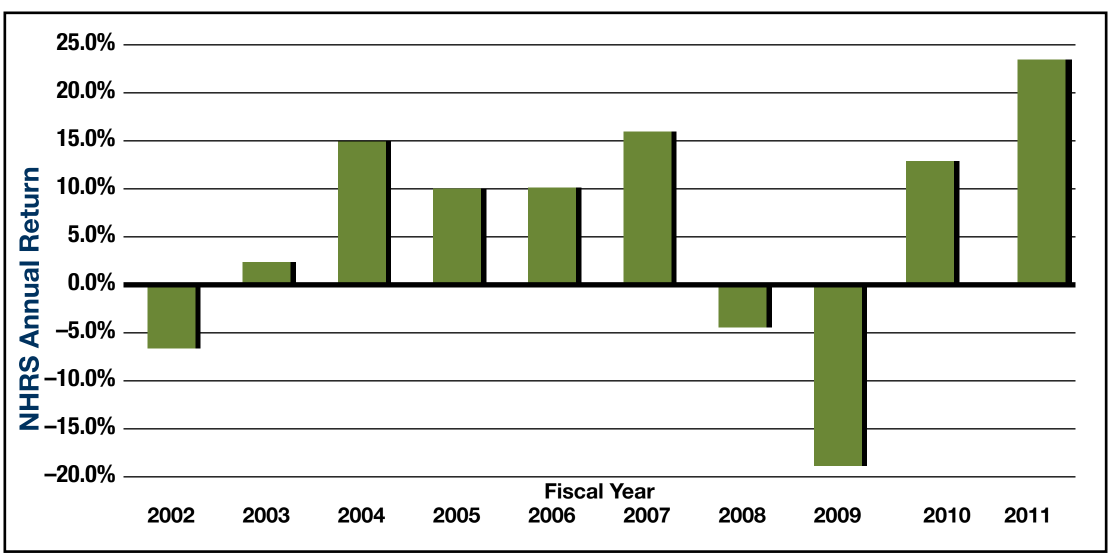
ANNUALIZED INVESTMENT RETURNS—ACTUAL VERSUS INDICES

	Current Year 2011	3 Year	Annualized 5 Year	10 Year
Total NHRS Fund	23.0%	4.4%	4.7%	5.2%
Total Fund Custom Index*	22.1	4.1	4.7	5.5
Domestic Equity	31.2	2.9	2.1	2.6
Total Domestic Equity Blended Benchmark*	32.4	4.0	3.4	3.3
Non-U.S. Equity	34.2	1.2	4.5	6.9
Total Non-U.S. Equity Blended Benchmark*	29.7	–0.3	3.7	7.1
Fixed Income	7.9	8.8	8.1	7.8
Total Fixed Income Blended Benchmark*	4.8	6.7	6.5	6.2
Real Estate	14.9	–7.0	0.7	8.2
Total Real Estate Blended Benchmark*	17.3	–2.2	3.7	7.8
Alternative Investments	9.7	–6.5	–3.0	–4.5
Consumer Price Index + 5%	8.6	6.1	7.2	7.4
Cash Equivalents	0.2	0.5	2.2	2.3
90 Day T-Bills	0.2	0.4	2.0	2.1

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

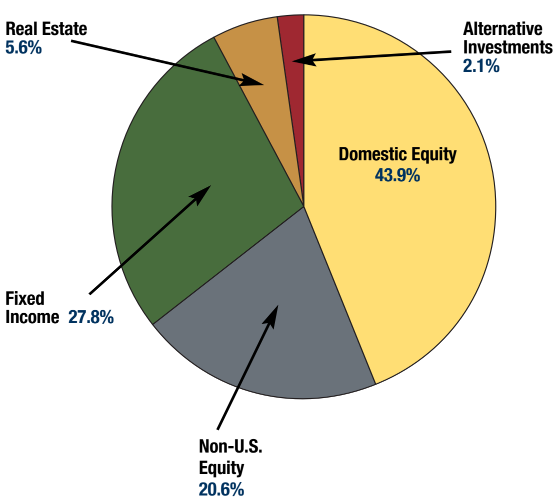


ACTUAL ASSET ALLOCATION VERSUS TARGET ASSET ALLOCATION

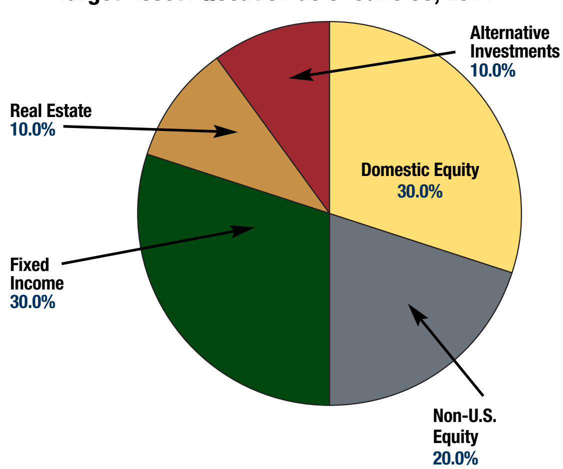
	Actual %	As of June 30, 2011 Target %*	Target Range %*
Domestic Equity	43.9 %	30.0 %	20 – 50
Non-U.S. Equity	20.6	20.0	15 – 25
Fixed Income	27.8	30.0	25 – 35
Real Estate	5.6	10.0	0 – 15
Alternative Investments	2.1	10.0	0 – 15
TOTAL FUND	**100.0 %**	**100.0 %**	

*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.

Actual Asset Allocation as of June 30, 2011



Target Asset Allocation as of June 30, 2011



TEN LARGEST STOCK HOLDINGS BY FAIR VALUE*

(in thousands)

	Shares	Stock	June 30, 2011 Fair Value
1	633,312	Exxon Mobil Corp.	$51,539
2	392,970	Chevron Corp.	40,413
3	1,918,911	Pfizer Inc.	39,530
4	108,734	Apple Inc.	36,499
5	862,383	JPMorgan Chase & Co.	35,306
6	1,336,404	Microsoft Corp.	34,747
7	484,308	Johnson & Johnson	32,216
8	994,153	Wells Fargo & Co.	27,896
9	744,516	Merck & Company, Inc.	26,274
10	389,025	The Coca-Cola Co.	26,177

TEN LARGEST FIXED INCOME HOLDINGS BY FAIR VALUE*

(in thousands)

	Par	Security	June 30, 2011 Fair Value
1	23,940,000	U.S. Treasury Bond — 4.25%, 2040	$23,401
2	13,990,000**	Government of U.K. Gilt — 3.75%, 2021	22,826
3	17,349,000	U.S. Treasury Note — 0.75%, 2011	17,396
4	15,933,000	U.S. Treasury Note — 0.875%, 2012	16,003
5	15,255,000**	Government of Canada Note — 2.0%, 2012	15,927
6	14,450,000	U.S. Treasury Bond — 4.5%, 2038	14,834
7	12,430,000**	New South Wales Treasury Bond — 6.0%, 2016	13,707
8	11,717,000	U.S. Treasury Note — 1.125%, 2011	11,771
9	15,235**	Federal Republic of Brazil Bond — 10.0%, 2017	9,307
10	8,038,809	Small Business Administration Bond — 5.6%, 2028	8,806

*A complete listing of separate account portfolio holdings is available by contacting the NHRS offices. NHRS also invests in various commingled investment vehicles, which are custodied outside of The Northern Trust Company (Master Custodian for NHRS), as reported on the Summary of Investments schedule.

**Par value is denoted in local currency.

SCHEDULE OF INVESTMENT MANAGEMENT AND SERVICE FEES

	YEAR ENDED JUNE 30, 2011		
	Assets Under Management (in thousands)	Fees (in thousands)	Average Basis Points
INVESTMENT MANAGEMENT FEES			
Equity Portfolios:			
Domestic	$2,568,863	$ 6,214	24
Non-U.S.	1,208,131	4,702	39
Fixed Income Portfolios	1,554,761	3,607	23
Alternative Investments*	123,641	71	6
Real Estate	326,257	2,592	79
Cash and Cash Equivalents**	71,716	—	—
TOTAL INVESTMENT MANAGEMENT FEES	**$5,853,369**	**$17,186**	**29**
INVESTMENT SERVICE FEES			
Custodial Fees	$5,403,471	$ 427	1
Investment Advisor Fees	5,853,369	752	1
Security Lending Management Fees***	—	83	—
TOTAL INVESTMENT MANAGEMENT AND SERVICE FEES	**$5,853,369**	**$18,448**	**32**

* Fees for Alternative Investments reflect only direct cash payments.

** Does not include cash and cash equivalents held in manager portfolios, only in designated cash portfolios.

*** Securities Lending program was exited in full in January 2011.

SCHEDULE OF BROKERAGE COMMISSIONS PAID

Brokerage Firm	YEAR ENDED JUNE 30, 2011 Number of Shares Traded (in thousands)	Total Commissions (in thousands)	Commissions Per Share
State Street Bank and Trust Company	74,296	$ 446	$0.01
Ridge Clearing & Outsource Solutions, Inc.	23,386	206	0.01
UBS AG	20,519	172	0.01
Credit Suisse First Boston Corporation	17,329	137	0.01
Morgan Stanley & Company, Inc.	7,064	128	0.02
Merrill Lynch & Company, Inc.	5,489	87	0.02
J.P. Morgan Securities, Inc.	2,368	67	0.03
Instinet, Inc.	2,189	57	0.03
Goldman Sachs & Company, Inc.	5,020	56	0.01
Barclays Capital, Inc.	1,923	49	0.01
Investment Technology Group, Inc.	2,565	45	0.02
Deutsche Bank AG	3,339	39	0.01
Citigroup Global Markets, Inc.	1,410	39	0.03
Cantor Fitzgerald & Company	1,617	38	0.02
Macquarie Securities, Inc.	16,976	36	0.01
Liquidnet, Inc.	1,497	30	0.01
Knight Securities, L.P.	1,407	27	0.02
Sanford C. Bernstein & Company, LLC	803	25	0.03
All Others (146 not listed separately)	26,889	529	0.02
TOTAL BROKERAGE COMMISSIONS PAID	**216,086**	**$2,213**	**$0.01**

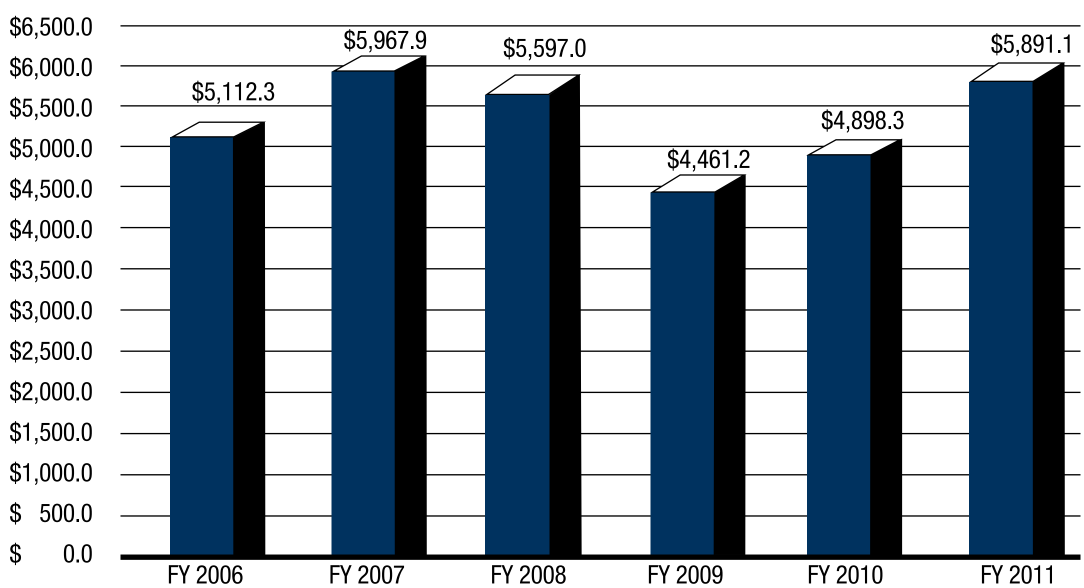
Commission detail is not included in the schedule above for the commingled funds in which NHRS invests.

SUMMARY OF INVESTMENTS

TYPE OF INVESTMENT	June 30, 2011 Fair Value (in millions)	Percent of Total Fair Value
FIXED INCOME		
Collateralized/Asset Backed Obligations	$ 116.9	2.0%
Corporate Bonds	392.2	6.7
Government and Agency Bonds	369.3	6.3
NTI Collective Daily Aggregate Bond Index Fund	109.5	1.9
PIMCO Total Return Fund	452.3	7.7
TOTAL FIXED INCOME	**$1,440.2**	**24.6%**
EQUITY		
Consumer Discretionary	428.0	7.3
Consumer Staples	306.8	5.2
Energy	415.5	7.1
Financial Services	598.3	10.2
Health Care	422.8	7.2
Industrials	379.9	6.5
Information Technology	552.1	9.4
Materials	214.9	3.7
Telecommunication Services	101.3	1.7
Utilities	97.7	1.7
Aberdeen Emerging Markets Smaller Companies Fund	49.3	0.9
GMO Foreign Small Companies Fund	100.0	1.7
Russell 2000 Index Fund iShares	2.0	0.1
Wellington Emerging Markets Local Equity Fund	75.8	1.3
TOTAL EQUITY	**$3,744.4**	**64.0%**
OTHER INVESTMENTS		
Alternative Investments	123.6	2.1
Real Estate	326.3	5.6
Cash and Cash Equivalents	218.8	3.7
TOTAL INVESTMENTS	**$5,853.3**	**100.0%**

Net Assets Held In Trust For Benefits

(in millions)



Appendix B

Gabriel Roeder Smith & Company Actuarial Opinion Letter

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

November 28, 2011

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 asset allocation targets and ranges are based on asset liability modeling and asset allocation recommendations from New England Pension Consultants (NEPC). We further understand that these asset allocation targets and ranges were adopted by the Board of Trustees in July 2010 and that NEPC has indicated the following:

- During the 5-7 year period:
  - The expected rate of return is 6.4%, gross of investment expenses*;
  - The standard deviation is 11.2%;
  - The implicit inflation rate is 3.0%.
- During the 30-year period:
  - The expected rate of return is 8.1%, gross of investment expenses*;
  - The standard deviation is 11.2%;
  - The implicit inflation rate is 3.0%.

*With the exception of the alternatives asset class which is net of investment expenses. Alternatives make up 10% of the target portfolio.

In determining the assumed rate of return for the actuarial valuation, we abide by the Actuarial Standards of Practice (ASOP) No. 27, Selection of Economic 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, 2011 valuation, the actuarial assumed rate of return is made up of a price inflation assumption of 3.00% and a real rate of return assumption of 4.75% for a total of 7.75% per year, net of investment expenses. This assumption was adopted by the Board to be effective in the June 30, 2011 valuation based on the 2005-2010 Experience Study.

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 6.34% and 9.08%.

The current NHRS net investment rate assumption of 7.75% 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.

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

Respectfully submitted,

David T Kausch

David T. Kausch, FSA, EA, MAAA

Randall J. Dziubek, ASA, EA, MAAA

DTK/RJD:sac

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

Appendix C

Summary of Functions & Interactions: NHRS Investments

Board Responsibilities – Adopted October 14, 2008

Investment Committee Charter – Adopted March 13, 2009

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

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	

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

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

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

Appendix D

NHRS Investment Philosophy – Adopted July 17, 2009

Asset Allocation Overview – Adopted July 13, 2010

Statement of Investment Policy – Adopted December 9, 2008

Proxy Voting Policy – Adopted December 14, 2010

Alternative Investment Policy Statement – Adopted November 12, 2008

2009 Real Estate Policy – Adopted September 9, 2008

Board Resolution Interpreting System Assets – Adopted July 14, 2009

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

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.

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

Asset Allocation Overview

The NHRS retains NEPC, LLC ("NEPC") as the general investment consultant. NEPC conducted an asset-liability study in conjunction with NHRS staff and the Independent Investment Committee ("IIC"). The resulting asset allocation was recommended by the IIC 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 in 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 increases the non-U.S. equity 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 NEPC 5-7 year capital market assumptions for this asset allocation produces an expected annualized return of 6.4% and an expected standard deviation of 11.2%. The NEPC 30-year capital market assumptions for this asset allocation produces an expected annualized return of 8.1% and an expected standard deviation of 11.2%.

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

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.

.

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

[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

New Hampshire Retirement System
Proxy Voting Policy

INTRODUCTION

A proxy is a written power of attorney given by a shareholder of a corporation, authorizing a specific vote on the shareholder's behalf at corporate meetings. A proxy will normally pertain to election of members of the corporation's board of directors, or to various resolutions submitted for shareholder approval. The System's Proxy Voting Policy has been established to protect the System's long-term investment interests and to promote responsible corporate policies and activities which enhance a corporation's financial prospects.

U.S. PROXY VOTING GUIDELINES

I. OPERATIONAL ITEMS

Adjourn Meeting

Generally vote **against** proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.

Vote **for** adjournment proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction. Vote **against** such proposals if the wording is too vague or if the proposal includes "other business."

Amend Quorum Requirements

Vote **against** proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.

Amend Minor Bylaws

Generally, vote **for** proposals to make bylaw or charter changes that are of a housekeeping nature (updates or corrections) unless the proposed changes are believed to be detrimental to shareholder value.

Change Company Name

Generally, vote **for** proposals to change company name unless the reasons behind the change and necessity of the change have not been clearly provided by the company.

Change Date, Time, or Location of Annual Meeting

Generally, vote **for** management proposals to rotate the time or place of annual meetings unless the proposed change is unreasonable and motivation is unclear.

Generally, vote **against** shareholder proposals to rotate the time or place of annual meetings unless the current scheduling or location is unreasonable and change is determined to be in the best interests of the company and its shareholders.

Ratifying Auditors

Generally, vote **for** proposals to ratify auditors unless:

- More than 20 percent of total fees paid to the auditors are attributable to nonaudit, but not including, SEC-related work. Nonaudit fees should be calculated by adding financial information systems design and implementation fees and all other fees.
- An auditor has a financial interest in or association with the company, and is therefore not independent
- There is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position
- Poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures

Vote **for** shareholder proposals that request the company rotate its auditors every five years.

Vote **for** shareholder proposals that request the board adopt a policy stating that the company's independent accountants will only provide audit services to the company and no other services.

Vote **for** shareholder proposals requesting the company submit the ratification of its auditors to a shareholder vote.

Transact Other Business

Vote **against** management proposals asking for authority to vote at the meeting for "other business" not already described in the proxy statement.

II. THE BOARD OF DIRECTORS

Voting on Director Nominees in Uncontested Elections

Votes on management proposals to elect director nominees are evaluated by taking the following factors into account: composition of the board and key board committees, attendance at board meetings, corporate governance provisions and takeover activity, long-term company performance relative to a market index, directors' investment in the company, whether the chairman is also serving as CEO, and whether a retired CEO sits on the board. However, there are some actions by directors that should result in votes being withheld. These instances include directors who:

- Attend less than 75 percent of the board and committee meetings without a valid excuse
- Implement or renew a dead-hand or modified dead-hand poison pill
- Adopts a poison pill with a term of more than 12 months ("long-term pill"), or renews any existing pill, including any "short-term" pill (12 months or less), without shareholder approval (Review such companies with classified boards every year, and such companies with annually-elected boards at least once every three years, and vote **against** or **withhold** votes from all nominees if the company still maintains a non-shareholder-approved poison pill)
- Make a material adverse change to an existing poison pill without shareholder approval
- Ignore a shareholder proposal that is approved by a majority of the shares outstanding
- Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years
- Failed to act on takeover offers where the majority of the shareholders tendered their shares
- Are inside directors or affiliated outsiders and sit on the audit, compensation, or nominating committees
- Are inside directors or affiliated outsiders and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees
- Are audit committee members and the non-audit fees paid to the auditor are more than 20 percent of total fees paid to the auditors
- Are audit committee members and the company receives an adverse opinion on the company's financial statements from its auditor

- Are audit committee members and poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures
- Are audit committee members and the audit committee entered into an inappropriate indemnification agreement with its auditor
- Are inside directors or affiliated outside directors and the full board is less than majority independent.
- Sit on more than two outside public company boards (i.e. more than three boards in total, including the board seat of the company for which the vote is being cast), or sit on more than one outside public company board if they are CEOs of public companies (i.e. more than two boards in total, including the seat for which the vote is being cast)
- Are on the compensation committee and potentially the full board when there is a negative correlation between chief executive pay and company performance
- Are on the compensation committee and potentially the full board when the company has problematic pay practices
- Have failed to address the issue(s) that resulted in any of the directors receiving more than 50% withhold votes out of those cast at the previous board election

In addition, directors who enacted egregious corporate governance policies or failed to replace management as appropriate would be subject to recommendations to **withhold** votes.

If the board lacks accountability and oversight coupled with sustained poor performance relative to peers, any or all appropriate nominees may be held accountable.

If the board is classified and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a **withhold/against** vote recommendation is not up for election, any or all appropriate nominees may be held accountable.

Exception may be made for new nominees.

Term Limits

Generally, vote **against** term limits unless it is determined that the lack of new perspectives, resulting from insufficient turnover, may be unfavorable to long-term investment interests.

Board Size

Vote **for** a fixed number of directors on the board.

Vote **for** management proposals to change the size of the board unless the request seeks to increase the board size to more than 12 total directors. Requests for board changes dealing with less than 12 directors will generally be supported.

Fixing the number of directors makes it more difficult for management to manipulate board size in order to advance its own interests. Adding members may be a ploy to dilute the power of opposition already on the board. Decreasing board size may be a ploy to remove opposition. Therefore, both measures should be opposed.

Classification/Declassification of the Board

Vote **against** management proposals to classify the board.

Vote **for** shareholder proposals to repeal a classified board.

Cumulative Voting

Vote **against** proposals to eliminate cumulative voting.

Vote **for** proposals to restore or permit cumulative voting in those cases where shareholders have access to the board through their own nominations.

Director and Officer Indemnification and Liability Protection

Vote **for** indemnification proposals that only cover legal expenses when the officer acted in good faith in what he/she believed was the company's interest.

Vote **against** proposals that totally eliminate officers' liability.

A certain level of protection is desirable so as to attract and keep qualified candidates as directors and officers. This protection, however, must not go so far as to excuse officers from being accountable for their actions or for becoming negligent in their duties. The protection should only be effective when officers act in good faith, for the best interests of the company. Specifically, officers should be liable for:

a) breach of loyalty;

b) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law;

c) unlawful purchases or redemptions of stock;

d) payments of unlawful dividends; or

e) receipt of improper personal benefits.

Establish/Amend Nominee Qualifications

Generally, vote **for** management proposals to establish or amend director qualifications unless the proposed criteria are unreasonable and would have a demonstrable effect in precluding dissident nominees from joining the board.

Vote **against** shareholder proposals requiring two candidates per board seat.

Filling Vacancies/Removal of Directors

Vote **against** management proposals to allow for a director's removal from the board only for cause. Directors should be elected or removed by a simple majority vote of shareholders.

Vote **against** management proposals which provide that only continuing directors may fill vacancies on the board.

Vote **for** proposals which allow shareholders to fill vacancies on the board.

Vote **for** proposals to restore shareholder ability to remove directors with or without cause.

Independent Chairman (Separate Chairman/CEO)

Vote **for** shareholder proposals to separate the position of chairman of the board and CEO. The combination of the two positions creates an inherent conflict of interests.

Majority Vote Proposals

Vote **for** reasonably crafted proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).

Majority of Independent Directors/Establishment of Committees

Generally, vote **for** shareholder proposals asking that boards be comprised of a majority of independent directors, unless it has been determined that the current board composition satisfies our independence threshold.

Vote **for** shareholder proposals asking that board audit, compensation, and/or nominating committees be comprised exclusively of independent directors.

Open Access

Vote **for** any and all equal access proposals.

Equal access proposals generally relate to three major topics:

a) discussion of management nominees for the board of directors;

b) discussion of other management proposals;

c) discussion of shareholders' own proposals or nominees.

Shareholders should have the freedom to obtain information and discuss all of these topics. Only with sufficient information will they be able to vote their proxies wisely and maximize the value of their stock.

Management will often oppose these equal access proposals, seeing them as an infringement of its rights. Management will argue that the added cost and length of proxy statements is inefficient. The marginal cost of longer proxies, however, will be minimal, and the cost will be borne by the stockholders anyway.

Stock Ownership Requirements

Vote **for** shareholder proposals requiring directors to own company stock in order to qualify as a director, or to remain on the board.

Shareholder proposals asking that the company adopt a holding or retention period for its executives (for holding stock after the vesting or exercise of equity awards)shall be evaluated by taking into account any stock ownership requirements or holding period/retention ratio already in place and the actual ownership level of executives.

Plurality Vote Requirement for Director Nominees

Vote **for** proposals to elect director nominees by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

III. PROXY CONTESTS

Voting for Director Nominees in Contested Elections

Votes in a contested election of directors are evaluated based on the long-term economic interest of the System, and must be examined by taking the following factors into account:

- Past performance relative to its peers;

- Market in which fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

Reimbursing Proxy Solicitation Expenses

Generally, vote **for** proposals to reimburse all appropriate proxy solicitation expenses when voting in conjunction with support of a dissident slate. We will also generally support shareholder proposals calling for the reimbursement of reasonable costs associated with nominating one or more candidates in a contested election where the following apply:

- The election of fewer than 50% of the directors to be elected is contested in the election;
- One or more of the dissident's candidates is elected;
- Shareholders are not permitted to cumulate their votes for directors; and
- The election occurred, and the expenses were incurred, after the adoption of this bylaw.

IV. ANTI - TAKEOVER MECHANISMS

Confidential Voting

Vote **for** a confidential voting policy.

Confidential voting would minimize the ability of management to influence proxy votes. It would allow shareholders the freedom to vote solely in their best interests, not considering actual or perceived pressure from management.

In order to maintain and monitor fiduciary responsibility, fiduciaries should still make their records available to clients after the confidential vote. Therefore, fiduciaries can still be held accountable for their votes.

Advance Notice Requirements for Shareholder Proposals/Nominations

Generally, vote **for** advance notice resolutions provided that the proposals seek to allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible. A reasonable deadline for shareholder notice of a proposal/ nominations must not be more than 60 days prior to a meeting, with a submittal window of at least 30 days prior to the deadline.

Amend Bylaws without Shareholder Consent

Vote **against** proposals giving the board exclusive authority to amend the bylaws.

Vote **for** proposals giving the board the ability to amend the bylaws in addition to shareholders.

Poison Pills

Vote **for** shareholder resolutions requiring that poison pills must be submitted for shareholder approval before going into effect.

Generally, vote **against** management proposals to approve or renew a poison pill unless the following factors are present:

1) 20 percent or higher flip-in
2) Two- to three-year sunset provision
3) No dead-hand or no-hand provision
4) Shareholder redemption feature: If the board refuses to redeem the pill 90 days after an offer is announced, ten percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.

Shareholder Ability to Act by Written Consent

Vote **against** management proposals to restrict or prohibit shareholders' ability to take action by written consent.

Vote **for** shareholder proposals to allow or make easier shareholder action by written consent.

Shareholder Ability to Call Special Meetings

Vote **against** management proposals to restrict or prohibit shareholders' ability to call special meetings.

Vote **for** shareholder proposals to allow or make easier shareholders' ability to call special meetings.

Supermajority Vote Requirements

Vote **against** management proposals to require a supermajority vote to amend any bylaw or charter provision.

Vote **for** shareholder proposals to lower supermajority vote requirements to amend any bylaw or charter provision.

V. MERGERS AND CORPORATE RESTRUCTURINGS

Appraisal Rights

Vote **for** shareholder proposals to provide rights of appraisal to dissenting shareholders.

Asset Purchases

Votes on asset purchase proposals are evaluated based on the long-term investment interests of the System, and are examined by considering the following factors:

- Purchase price
- Fairness opinion
- Financial and strategic benefits
- How the deal was negotiated
- Conflicts of interest
- Other alternatives for the business
- Noncompletion risk

Asset Sales

Votes on asset sales are evaluated based on the long-term investment interests of the System, and are examined by considering the following factors:

- Impact on the balance sheet/working capital
- Potential elimination of diseconomies
- Anticipated financial and operating benefits
- Anticipated use of funds
- Value received for the asset

- Fairness opinion
- How the deal was negotiated
- Conflicts of interest

Bundled Proposals

Vote **against** bundled proxy proposals.

Conversion of Securities

Votes on proposals regarding conversion of securities are determined based on the long-term economic interest of the System. When evaluating these proposals the investor should review the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

Vote **for** the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

Corporate Reorganization/Debt Restructuring/Prepackaged Bankruptcy Plans/Reverse Leveraged Buyouts/Wrap Plans

Votes on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan are determined based on the long-term investment interest of the System, by taking into consideration the following:

- Dilution to existing shareholders' position
- Terms of the offer
- Financial issues
- Management's efforts to pursue other alternatives
- Control issues
- Conflicts of interest

Vote **for** the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

Formation of Holding Company

Votes on proposals regarding the formation of a holding company should be determined based on the long-term economic interests of the System, taking into consideration the following:

- The reasons for the change
- Any financial or tax benefits
- Regulatory benefits
- Increases in capital structure
- Changes to the articles of incorporation or bylaws of the company

Absent compelling financial reasons to recommend the transaction, vote **against** the formation of a holding company if the transaction would include either of the following:

- Increases in common or preferred stock in excess of the allowable maximum as calculated by the ISS Capital Structure model
- Adverse changes in shareholder rights

Going Private Transactions (LBOs and Minority Squeeze Outs)

Going private transactions are evaluated based on the long-term economic interest of the System, by taking into account the following: offer price/premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and noncompletion risk.

Joint Ventures

Proposals seeking to form joint ventures are determined based on the long-term investment interests of the System, by taking into account the following: percentage of assets/business contributed, percentage ownership, financial and strategic benefits, governance structure, conflicts of interest, other alternatives, and noncompletion risk.

Liquidations

Proposals on liquidations are considered based on the long-term investment interests of the System, by taking into account the following: management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

Vote **for** the liquidation if the company will file for bankruptcy if the proposal is not approved.

Mergers and Acquisitions/ Issuance of Shares to Facilitate Merger or Acquisition

Proposals to merge one company with another, or for one company to acquire another are determined based on the long-term economic interest of the System. When evaluating the proposals, shareholders should weigh the cost to the company, market reaction, strategic rationale, the immediate and long-term benefits to shareholders, conflict of interests, and the resulting corporate governance changes.

Private Placements/Warrants/Convertible Debentures

Votes on proposals regarding private placements should be determined based on the long-term investment interests of the System. When evaluating these proposals the investor should review: dilution to existing shareholders' position, terms of the offer, financial issues, management's efforts to pursue other alternatives, control issues, and conflicts of interest.

Vote **for** the private placement if it is expected that the company will file for bankruptcy if the transaction is not approved.

Spinoffs

Votes on spinoffs should be considered based on the long-term investment interests of the System, taking the following factors into account:

- Tax and regulatory advantages
- Planned use of the sale proceeds
- Valuation of spinoff
- Fairness opinion
- Benefits to the parent company
- Conflicts of interest
- Managerial incentives
- Corporate governance changes
- Changes in the capital structure

Value Maximization Proposals

Shareholder proposals seeking to maximize shareholder value by hiring a financial advisor to explore strategic alternatives, selling the company or liquidating the company and distributing the proceeds to shareholders should be evaluated based on the following factors: prolonged poor performance with no turnaround in sight, signs of entrenched board and management, strategic plan in place for improving value, likelihood of receiving reasonable value in a sale or dissolution, and whether company is actively exploring its strategic options, including retaining a financial advisor.

VI. STATE OF INCORPORATION

Control Share Acquisition Provisions

Vote **for** proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.

Vote **against** proposals to amend the charter to include control share acquisition provisions.

Vote **for** proposals to restore voting rights to the control shares.

Control Share Cashout Provisions

Vote **for** proposals to opt out of control share cashout statutes.

Disgorgement Provisions

Vote **for** proposals to opt out of state disgorgement provisions, if maximizing shareholder value.

Fair Price Provisions

Vote **for** management proposals to adopt a fair price provision, as long as the shareholder vote requirement embedded in the provision is no more than a majority of the disinterested shares. Vote **against** all other management fair price proposals.

Vote **for** shareholder proposals to lower the shareholder vote requirement embedded in existing fair price provisions.

Generally, vote **against** fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

Freeze Out Provisions

Vote **for** proposals to opt out of state freeze out provisions, if maximizing shareholder value.

Greenmail

Vote **for** proposals to restrict the company's ability to pay greenmail.

Reincorporation Proposals

Proposals to change a corporation's state of incorporation should be examined based on the long-term economic interest of the System, giving consideration to both financial and corporate governance concerns including the following:

- Reasons for reincorporation;
- Comparison of company's governance practices and provisions prior to and following the reincorporation; and
- Comparison of corporation laws of original state and destination state

Vote **against** proposals that seek to reincorporate the company outside of the jurisdiction of the United States.

Stakeholder Provisions

Vote **against** proposals that ask the board to consider nonshareholder constituencies or other nonfinancial effects when evaluating a merger or business combination.

VII. CAPITAL STRUCTURE

Adjustments to Par Value of Common Stock

Vote **for** management proposals to reduce the par value of common stock, if it will not adversely affect shareholder rights.

Common Stock Authorization

Votes on proposals to increase the number of shares of common stock authorized for issuance are determined based on the long-term economic interest of the System, using a model developed by ISS.

Vote **against** proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

Vote **for** proposals to approve increases beyond the allowable increase when a company's shares are in danger of being delisted or if a company's ability to continue to operate as a going concern is uncertain.

Dual-Class Stock

Proposals to recapitalize a company into dual classes of voting stock must be examined based on the long-term economic interest of the System.

Vote **against** the creation of stock with supervoting privileges.

Vote **against** proposals that introduce nonvoting shares or exchange voting shares for nonvoting shares.

Vote **for** shareholder proposals asking that a company report to shareholders on the financial impact of its dual class voting structure.

Vote **for** shareholder proposals asking that a company submit its dual class voting structure for shareholder ratification.

Issue Stock for Use with Rights Plan

Vote **against** proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

Preemptive Rights

Vote **against** preemptive rights for shareholders:

Vote **against** proposals which request the issuance of shares with preemptive rights over a level 100 percent above currently issued capital.

Vote **against** proposals which request the issuance of shares without preemptive rights over a level 20 percent above currently issued capital.

Preferred Stock

Vote **against** proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote **for** proposals to create "declawed" blank check preferred stock (stock that cannot be used as a takeover defense).

Vote **for** proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Vote **against** proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.

Votes on proposals to increase the number of blank check preferred shares are determined after analyzing the number of preferred shares available for issue given a company's industry and performance in terms of shareholder returns.

Recapitalization

Votes on recapitalizations (reclassifications of securities) are considered based on long-term investment interests of the System, taking into account the following: more simplified capital structure, enhanced liquidity, fairness of conversion terms, impact on voting power and dividends, reasons for the reclassification, conflicts of interest, and other alternatives considered.

Reverse Stock Splits

Generally, vote **for** management proposals to implement a reverse stock split provided that the number of authorized shares will be proportionally reduced. In the event that a proportional reduction of authorized shares is not reciprocated, we will only support such proposals if:

- A stock exchange has provided notice to the company of a potential delisting; or
- The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with stock authorization model developed by ISS.

Share Repurchase Programs

Proposals to repurchase shares should be considered based on the long-term economic interest of the System. For example, if this is done because management believes the stock is undervalued then the measure should be approved. If the purchase is proposed as an antitakeover device, then it ought to be opposed. We generally vote **for** management proposals to institute open market share repurchase plans in which all shareholders may participate on equal terms.

Stock Distributions: Splits and Dividends

Vote **for** management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance as determined using a model developed by ISS.

Generally, vote **for** proposals to approve stock splits or share dividends unless it is determined that such authorities are detrimental to the long-term economic interest of the System.

Tracking Stock

Votes **against** the creation of tracking stock.

VIII. EXECUTIVE COMPENSATION

Vote **for** resolutions intended to improve the transparency of executive compensation by:

- Requiring a company to place a dollar value on all forms of compensation paid to a company's top-five executives and to include such monetarized disclosure in the summary compensation tables filed by the company with the SEC.
- Requiring a company to disclose to shareholders that compensation paid to a company's top-five executives that are not tax-deductible for federal income tax purposes, and to state the monetary value of the costs of such non-deductibility to the company.
- Requiring a company to disclose to shareholders those gains realized by a company's top-five executives in their exercise of stock options (or in the vesting of restricted shares for restricted share grants) and to report what fraction, if any, is attributable to company outperformance of its industry peers.
- Requiring a company to periodically disclose to shareholders equity investments received as compensation and unloaded by any of the company's top-five executives.

Vote **for** resolutions intended to improve the linkage of executive pay-for-performance by:

- Indexing the exercise price of a company's stock option grants to industry sector or broad market stock movements, or by linking the exercise price to changes in the stock price of firms among the company's industry peer group.
- Establishing executive bonus plans that would discount those improvements in a company's financial performance attributable to industry sector or broad market movements.
- Establishing executive bonus plans that would not utilize metrics based on a company's absolute increases in earnings, sales, or revenues, but rather based on the company's performance relative to its industry peer group.
- Prohibiting a company's top-five executives from unwinding equity-based incentive compensation received from the company.
- Prohibiting a company's top-five executives from hedging or employing any measure intended to eliminate their exposure to a decline in the company stock price.
- Requiring a company's top-five executives to publicly disclose, not less than ten days in advance, their intention to sell company stock, including the number of shares to be sold.

- Requiring “clawback” provisions in executive compensation arrangements that would result in a return to the company of executive over-payments based on performance metrics that are subsequently depressed upon a company’s restatement of earnings.
- Requiring equity-based executive compensation arrangements to be “dividend neutral” – i.e., neither encouraging nor discouraging the payment of stock dividends to shareholders.
- Requiring executive stock option plans to adjust downward the exercise price of such options to reflect dividend payments made on company stock during the executive’s holding period.
- Curtailing Supplemental Executive Retirement Plans (SERPs) for the top-five executives in the event a company terminates, “freezes”, or otherwise curtails a defined benefit plan covering its rank-and-file employees.
- Reducing benefits provided under severance arrangements for a company’s chief executive officer (CEO).
- Limiting the ratio of the sum of the compensation paid to a company’s top-five executives to 8% of the company’s aggregate earnings.

Advisory Votes on Executive Compensation (Say-on-Pay) Management Proposals
Generally, evaluate executive pay and practices based on the overall executive compensation structure’s ability to effectively motivate participants to focus on long-term shareholder value and returns, while adhering to market law, disclosure and best practice standards.

Vote **against** management say on pay (MSOP) proposals, **against/withhold** on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or **against** an equity-based incentive plan proposal if:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices;
- The board exhibits poor communication and responsiveness to shareholders.

Frequency of Advisory Vote on Executive Compensation (Management "Say on Pay")

Vote **for** annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.

Advisory Vote on Golden Parachutes in an Acquisition, Merger, Consolidation, or Proposed Sale

We will evaluate these proposals based on our existing policies related to severance packages and problematic pay practices.

Equity-Based and Other Incentive Plans

Proposals concerning director compensation are determined based on compensation methodology developed by ISS.

Vote **against** awarding stock option plans as compensation for directors.

Stock Plans in Lieu of Cash

Votes **for** plans which provide directors with the choice of taking all or a portion of their cash compensation in the form of stock or which provide a dollar-for-dollar cash for stock exchange.

Director Retirement Plans

Vote **against** retirement plans for nonemployee directors.

Vote **for** shareholder proposals to eliminate retirement plans for nonemployee directors.

Management Proposals Seeking Approval to Reprice Options

Vote **against** management proposals seeking approval to reprice options.

Shareholder Proposals Regarding Executive and Director Pay

Vote **for** shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company.

Vote **against** shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.

Vote **against** shareholder proposals requiring director fees be paid in stock only.

Vote **for** shareholder proposals to put option repricings to a shareholder vote.

All other shareholder proposals regarding executive and director pay are evaluated by taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

Qualified Employee Stock Purchase Plans

Vote **for** proposals to approve qualified employee stock purchase plans where all of the following apply:

- Purchase price is at least 85 percent of fair market value;
- Offering period is 27 months or less; and
- The number of shares allocated to the plan is ten percent or less of the outstanding shares.

Nonqualified Employee Stock Purchase Plans

Vote **for** proposal to approve nonqualified employee stock purchase plans where all of the following apply:

- Broad-based participation (i.e., all employees of the company with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- Limits on employee contribution, which may be a fixed dollar amount or expressed as a percent of base salary;
- Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value;
- No discount on the stock price on the date of purchase since there is a company matching contribution.

In the event that company matching contribution exceeds 25 percent of employee's contribution, we will evaluate the cost of plan against an allowable cap developed by ISS.

Employee Stock Ownership Plans (ESOPs)

Vote **for** proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares.)

401(k) Employee Benefit Plans

Vote **for** proposals to implement a 401(k) savings plan for employees.

Performance-Based Awards

Generally vote **for** shareholder proposals advocating the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares, unless:

- The proposal is overly restrictive (e.g., it mandates that awards to all employees must be performance-based or all awards to top executives must be a particular type, such as indexed options)
- The company demonstrates that it is using a substantial portion of performance-based awards for its top executives

Pay-for-Superior-Performance Standard

Generally vote **for** shareholder proposals requesting to establish a pay-for-superior-performance standard whereby the company discloses defined financial performance criteria and a detail list of comparative peer group to allow shareholders to sufficiently determine the pay and performance correlation established in the plan. In addition, establish that no award should be paid out unless the company performance exceeds its peer's median or mean performance on the selected financial and stock price performance criteria.

Golden Parachutes and Executive Severance Agreements

Vote **for** shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts.

Proposals to ratify or cancel golden parachutes are determined based on several qualifying factors. An acceptable parachute should include the following:

- The triggering mechanism should be beyond the control of management
- The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs)
- Change-in-control payments should be double-triggered, i.e., (1) after a change in control has taken place, and (2) termination of the executive as a result of a “change in control”, meaning a change in the company ownership structure.

Pension Plan Income Accounting

Vote **for** shareholder proposals to exclude pension plan income in the calculation of earnings used in determining executive bonuses/compensation.

Supplemental Executive Retirement Plans (SERPs)

Vote **for** shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company’s executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.

In addition, generally vote **for** shareholder proposals urging the board to limit the executive benefits provided under the company's supplemental executive retirement plan (SERP) by limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.

Advisory Vote on Executive Compensation (Say-on-Pay)

Generally vote **for** shareholder proposals asking the board to propose an advisory resolution seeking to ratify the compensation of the company's named executive officers (NEOs) on an annual basis. The proposal submitted to shareholders should make it clear that the vote is non-binding and would not have an impact on compensation paid or awarded to any NEO.

Disclosure of Board or Company's Utilization of Compensation Consultants

Generally vote **for** shareholder proposals seeking disclosure regarding the Company, Board, or Board committee's use of compensation consultants, such as company name, business relationship(s) and fees paid.

IX. SOCIAL AND ENVIRONMENTAL ISSUES

Social issue proposals will be considered based on their potential impact on the long-term economic interests of the System. Generally, we will **abstain** absent clear effect of proposal on share value.

NON-U.S. PROXY VOTING GUIDELINES

I. OPERATIONAL ITEMS

Allocation of Income

Vote **for** approve of the allocation of income, unless:

- The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.

Amend Minor Bylaws/Articles of Association

Generally, vote **for** proposals to make bylaw or charter changes that are of a housekeeping nature (updates or corrections) unless the proposed changes are believed to be detrimental to shareholder value.

Amend Quorum Requirements

Proposals to amend quorum requirements for shareholder meetings are evaluated based on several factors which include: market norms, the company's reasons for the change, and the company's ownership structure.

Change in Company Fiscal Term

Vote **for** proposals to change a company's fiscal term unless the company's motivation for the change is to postpone its annual general meeting.

Financial Statements/Director and Auditor Reports

Vote **for** proposals to approve financial statements and director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

General Meeting Formalities

In some markets, shareholders are routinely asked to approve:

- the opening of the shareholder meeting
- acknowledge proper convening of meeting

- that the meeting has been convened under local regulatory requirements
- the presence of quorum
- the agenda for the shareholder meeting
- the election of the chair of the meeting
- the appointment of shareholders to co-sign the minutes of the meeting
- regulatory filings
- the designation of inspector or shareholder representative(s) of minutes of meeting
- the designation of two shareholders to approve and sign minutes of meeting
- the allowance of questions
- the publication of minutes
- the closing of the shareholder meeting
- authorize board to ratify and execute approved resolutions
- prepare and approve list of shareholders

As these are typically formalities associated with the convening of general shareholder meetings, generally vote **for** these and similar routine management proposals.

Lower Disclosure Threshold for Stock Ownership

Vote **against** proposals to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

Stock (Scrip) Dividend Alternative

Generally, vote **for** stock (scrip) dividend proposals.

Vote **against** proposals that do not allow for a cash option unless management demonstrates that the cash option is detrimental to shareholder value.

Transact Other Business

Vote **against** other business when it appears as a voting item.

II. AUDITORS

Appointment of Auditors and Auditor Fees

Vote f**or** the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:

- There are serious concerns about the accounts presented or the audit procedures used;
- The auditors are being changed without explanation; or
- Non-audit-related fees are substantial or are routinely in excess of standard annual audit-related fees.

Vote **against** the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Appointment of Internal Statutory Auditors

Vote **for** the appointment or reelection of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Auditor Indemnification and Liability Provisions

Vote **against** proposals to indemnify auditors.

III. THE BOARD OF DIRECTORS

Voting on Director Nominees in Uncontested Elections (Non-U.S.)

Votes on management nominees in the election of directors are evaluated by observing relevant market listing rules and regulations, coupled with local market best practice standards. We will typically not support nominees if:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;

- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote **for** individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote **against** individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Votes in a contested election of directors are evaluated based on the long-term economic interest of the System, and must be examined by taking the following factors into account:

- Past performance relative to its peers;
- Market in which fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

Vote **for** employee and/or labor representatives if they sit on either the audit or compensation committee *and* are required by law to be on those committees. Vote **against** employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.

Under extraordinary circumstances, vote **against** or **withhold** from directors individually, on a committee, or the entire board, due to:

- Material failures of governance, stewardship, or fiduciary responsibilities at the company; or
- Failure to replace management as appropriate; or
- Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Board Structure

Vote **for** proposals to fix board size.

Vote **against** the introduction of classified boards and mandatory retirement ages for directors.

Director and Officer Indemnification and Liability Provisions

Votes on proposals seeking indemnification and liability protection for directors and officers are examined based on the indemnification and liability protections applicable in each respective market, provided that they are within reason. We will generally only support those proposals that provide directors and officers protection if they have acted in good faith on company business and were found innocent of any civil or criminal charges for duties performed on behalf of the company.

Discharge of Directors

Generally vote **for** the discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties warranted by:

- A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
- Other egregious governance issues where shareholders will bring legal action against the company or its directors.

IV. PROXY CONTESTS

Voting for Director Nominees in Contested Elections

Votes in a contested election of directors are evaluated based on the long-term economic interest of the System, and must be examined by taking the following factors into account:

- Past performance relative to its peers;
- Market in which fund invests;

- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

V. ANTI - TAKEOVER MECHANISMS

Anti-takeover/Entrenchment Devices

Generally vote **against** all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Depositary Receipts and Priority Shares

Generally vote **against** the introduction of depositary receipts and priority shares.

Issuance of Free Warrants

Generally vote **against** the issuance of free warrants.

Mandatory Takeover Bid Waivers

Generally, vote **for** proposals to waive mandatory takeover bid requirements provided that the event prompting the takeover bid is a repurchase by the company of its own shares. During a buyback of shares, the relative stake of a large shareholder increases even though the number of shares held by the large shareholder has not changed. In certain markets, the mandatory bid rules require a large shareholder to make a takeover offer if its stake in the company is increased on a relative basis as a result of a share repurchase by the company. Companies in such markets may seek a waiver from the takeover bid requirement applicable to their large shareholder.

Renew Partial Takeover Provision

Generally vote **for** the adoption of this proposal as this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests.

VI. MERGERS AND CORPORATE RESTRUCTURINGS

Control and Profit Transfer Agreements

Generally vote **for** management proposals to approve control and profit transfer agreements between a parent and its subsidiaries.

Expansion of Business Activities

Vote **for** resolutions to expand business activities unless the new business takes the company into risky areas.

Mergers and Acquisitions/ Issuance of Shares to Facilitate Merger or Acquisition

Proposals to merge one company with another, or for one company to acquire another are determined based on the long-term economic interest of the System. When evaluating the proposals, shareholders should weigh the cost to the company, market reaction, strategic rationale, the immediate and long-term benefits to shareholders, conflict of interests, and the resulting corporate governance changes.

Vote **against** if the companies do not provide sufficient information upon request to make an informed voting decision.

Related-Party Transactions

Evaluate resolutions that seek shareholder approval on related party transactions (RPTs), considering factors including, but not limited to, the following:

- the parties on either side of the transaction;
- the nature of the asset to be transferred/service to be provided;
- the pricing of the transaction (and any associated professional valuation);
- the views of independent directors (where provided);
- the views of an independent financial adviser (where appointed);
- whether any entities party to the transaction (including advisers) are conflicted; and
- the stated rationale for the transaction, including discussions of timing.

If there is a transaction that NHRS deemed problematic and that was not put to a shareholder vote, we may recommend against the election of the director involved in the related-party transaction or the full board.

Reorganizations/Restructurings

Proposals to approve reorganizations and restructurings are evaluated based on the long-term economic interest of the System. When evaluating such proposals, shareholders should consider if there are clear conflicts of interest among the various parties, if shareholder rights' are being negatively affected, or if certain groups or shareholders appear to be getting a better deal at the expense of general shareholders.

VII. COUNTRY OF INCORPORATION

Reincorporation Proposals

Proposals to change a corporation's country of incorporation should be examined based on the long-term economic interest of the System, giving consideration to both financial and corporate governance concerns including the following:

- Reasons for reincorporation;
- Comparison of company's governance practices and provisions prior to and following the reincorporation; and
- Comparison of corporation laws of original country and destination country

VIII. CAPITAL STRUCTURE

Adjust Par Value of Common Stock

Vote **for** management proposals to reduce par value of common stock.

Capitalization of Reserves for Bonus Issues/Increase in Par Value

Vote **for** requests to capitalize reserves for bonus issues of shares or to increase par value.

Debt Issuance Requests

Votes on non-convertible debt issuance requests with or without preemptive rights are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company. We will examine the potential impact the proposed authority may have on the company's debt ratio, and further compare the level with similar peers in the industry.

Vote **for** the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets recommended guidelines on equity issuance requests.

Vote **for** proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Increases in Authorized Capital

Vote **for** non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

Vote **for** specific proposals to increase authorized capital to any amount, unless:

- The specific purpose of the increase (such as a share-based acquisition or merger) does not meet recommended guidelines for the purpose being proposed; or
- The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote **against** proposals to adopt unlimited capital authorizations.

Increase in Borrowing Powers

Votes on proposals to approve increases in a company's borrowing powers are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company. We will examine the potential impact the proposed authority may have on the company's debt ratio, and further compare the level with similar peers in the industry.

Pledging of Assets for Debt

Votes on proposals to approve the pledging of assets for debt are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company. We will examine the potential impact the proposed authority may have on the company's debt ratio, and further compare the level with similar peers in the industry.

Preferred Stock

Vote **for** the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.

Vote **for** the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote **against** the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Vote **against** the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Votes on proposals to increase blank check preferred authorizations are evaluated based on the rationale for requested increase, the ability for the company to use the blank check preferred stock as a takeover defense, and whether the company has historically issued such stock for legitimate financing purposes.

Preemptive Rights

Vote **against** proposals which request the general issuance of shares with preemptive rights over a level 100 percent above currently issued capital (33 percent for the UK, 50 percent for France).

Vote **against** proposals which request the general issuance of shares without preemptive rights over a level 20 percent above currently issued capital (five percent for the UK).

All requests for a specific issuance are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company.

Reduction of Capital

Vote **for** proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Generally, vote **for** proposals to reduce capital in connection with corporate restructuring, as opposition could lead to insolvency, which is not in the long-term economic interests of shareholders. Evaluation of this type of proposal should take a realistic approach to the company's situation and the future prospects for shareholders.

Reissuance of Repurchased Shares

Vote **for** requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Share Repurchase Programs

Generally vote **for** share repurchase programs/market repurchase authorities, provided that the proposal meets the following parameters:

- Maximum volume: 10 percent for market repurchase within any single authority and 10 percent of outstanding shares to be kept in treasury (“on the shelf”);

- Duration does not exceed 18 months.

For markets that either generally do not specify the maximum duration of the authority or seek a duration beyond 18 months that is allowable under market specific legislation, we will assess the company's historic practice. If there is evidence that a company has sought shareholder approval for the authority to repurchase shares on an annual basis, we will support the proposed authority.

In addition, vote **against** any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks;
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

We may support share repurchase plans in excess of 10 percent volume under exceptional circumstances, such as one-off company specific events (e.g. capital restructuring). Such proposals will be assessed based on merits, which should be clearly disclosed in the annual report, provided that following conditions are met:

- The overall balance of the proposed plan seems to be clearly in shareholders' interests;
- The plan still respects the 10 percent maximum of shares to be kept in treasury.

IX. EXECUTIVE COMPENSATION

Executive Compensation Plans

All compensation proposals will be reviewed based on local market best practice standards.

Director Remuneration and Compensation

Vote **for** proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

Votes on non-executive director compensation proposals that include both cash and share-based components are determined based on whether the terms of the proposed compensation can effectively motivate participants to focus on long-term shareholder value and returns, while adhering to local market law, disclosure and best practice standards. However, we will typically vote **against** awarding stock option plans as compensation for non-executive directors.

Votes on proposals that bundle compensation for both non-executive and executive directors into a single resolution are determined based on whether the terms of the proposed compensation can effectively motivate participants to focus on long-term shareholder value and returns, while adhering to local market law, disclosure and best practice standards. However, we will typically vote **against** awarding stock option plans as compensation for non-executive directors.

Vote **against** proposals to introduce retirement benefits for non-executive directors.

Director and Statutory Auditor Retirement Plans

Vote **against** retirement plans for nonemployee directors and statutory auditors.

Vote **for** shareholder proposals to eliminate retirement plans for nonemployee directors and statutory auditors.

Remuneration Report

Management proposals seeking ratification of a company’s remuneration policy are evaluated by considering a combination of local market law and best practice standards. We will typically oppose a company’s remuneration policy if the proposed compensation policy/report was not made available to shareholders in a timely manner, or if the level of disclosure of the proposed compensation policy is below what local market best practice standards dictate.

X. SOCIAL AND ENVIRONMENTAL ISSUES

Social issue proposals will be considered based on their potential impact on the long-term economic interests of the company. Generally, we will **abstain** absent clear effect of proposal on share value.

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

ALTERNATIVE INVESTMENT POLICY STATEMENT

Adopted: November 12, 2008
Effective: January 1, 2009

STATE OF NEW HAMPSHIRE RETIREMENT SYSTEM
ALTERNATIVE INVESTMENT POLICY STATEMENT
TABLE OF CONTENTS

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.

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

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.

Appendix E

Manager Changes to the NHRS Investment Program
During Fiscal Year 2011

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)

Manager Changes to the NHRS Investment Program During Fiscal Year 2011

U.S. Equity

Retained:	Terminated:
AllianceBernstein, L.P.	Capital Guardian Trust Company
BlackRock Institutional Trust Company, N.A.	Century Capital Management, L.L.C.
Boston Trust & Investment Management Co.	Dalton, Greiner, Hartman, Maher & Co., L.L.C.
C.S. McKee, L.P.	Investment Counselors of Maryland, L.L.C.
Segall, Bryant & Hamill	Lee Munder Capital Group, L.L.C.
Thompson, Siegel & Walmsley, L.L.C.	Legg Mason Capital Management
Wellington Management Company, L.L.P.	Northern Trust Investments, N.A.

Non-U.S. Equity

Retained:	Terminated:
Aberdeen Asset Management, Inc.	Northern Trust Investments, N.A.
Batterymarch Financial Management, Inc.	Templeton Investment Counsel, L.L.C.
Grantham, Mayo, Van Otterloo & Co., L.L.C.	
Wellington Trust Company, N.A.	

Fixed Income

Retained:	Resigned:
Pacific Investment Management Company, L.L.C.	Pyramis Global Advisors Trust Company

Private Equity

<u>Retained:</u>
Avenue Special Situations Fund VI(A), L.P.
Industry Ventures Fund VI, L.P.
Siguler Guff Distressed Opportunities Fund IV(T), L.P.

Real Estate Funds

<u>Retained:</u>
Brockton Capital II, L.P.
Brookfield Real Estate Finance Fund III, L.P.
Exeter Industrial Value Fund II, L.P.
European Investors Incorporated Realty Securities, Inc.
GE Polish Retail Feeder S.a.r.l.
H2 Special Opportunities II, L.P.
JP Morgan CB Special Situation Property Fund
JP Morgan Strategic Property Fund
Prime Property Fund, L.L.C.
Prosperitas Real Estate Partners III, L.P.
Savanna Real Estate Fund II, L.P.
Waterton Residential Property Venture XI, L.P.

(THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK)