

**Investment Committee Meeting  
April 22, 2011**

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

The Investment Committee meeting was called to order at 9:02 a.m. Present were:

Investment Committee: Mr. Harold Janeway (Committee Chair); Ms. Cathy Provencher; Dr. Lisa Shapiro; and Mr. Thomas Silvia. There is currently one vacant seat on the Committee.

NHRS Board Members: Mr. Dean Crombie; Mr. Samuel Giarrusso; and Dr. Kate McGovern.

NHRS Staff: Ms. Kim France, Interim Executive Director; Mr. Lawrence Johansen, Director of Investments; Mr. Jack Dianis, Director of Finance; Mr. Jeff Gendron, Investment Officer; Mr. Scott Needham, Investment Analyst; and Mr. Greg Richard, Investment Analyst.

NEPC, LLC (“NEPC”): Mr. Kevin Leonard, Partner and Senior Consultant; Mr. Sean Gill, Partner; and Mr. Jeff Markarian, Research Consultant.

Supporting documentation for the items listed below is maintained on file and available for review at the New Hampshire Retirement System’s (“NHRS” or “System”) administrative office.

**Items requiring Committee discussion or action:**

Approval of the March 18, 2011 Investment Committee Minutes

Mr. Janeway surveyed the Committee for comments regarding the draft minutes of the March 18, 2011 Investment Committee meeting. As there were none, he requested a motion for approval of the minutes.

Motion for approval of the public and non-public minutes of the March 18, 2011 Investment Committee meeting:

Motion: Mr. Silvia  
Second: Dr. Shapiro

Motion carried unanimously.

## Comments from the Director of Investments

Mr. Johansen provided a brief overview of the meeting agenda, which includes presentations by a distressed debt private equity general partner; emerging markets small cap portfolio managers; and emerging markets equity managers. He reviewed the performance of the System's marketable assets portfolio through March 31, 2011, referring to the NEPC Performance Report for March 2011. He noted that the transition of fixed income portfolio assets from Pyramis Global Advisors to Pacific Investment Management Company is expected to be substantially completed prior to April month-end.

Mr. Johansen referred to the Legislative Update, dated April 11, 2011, and presented a brief update of proposed legislation that impacts the NHRS. He also referred to the Work Plan and related cover memo dated March 25, 2011, and noted that the first quarter of fiscal year 2012 has been added for the Committee's consideration. The Committee agreed that the Investment Policy should be added to the work plan for the first quarter of fiscal year 2012.

Motion to approve the work plan for the first quarter of fiscal year 2012, with the added task of the Investment Policy:

Motion: Mr. Silvia

Second: Ms. Provencher

Motion carried unanimously.

## Avenue Special Situations Fund VI, LP and Additional Contribution to Lexington Capital Partners VII, LP

Mr. Gill provided a brief introduction of Avenue Capital Group ("Avenue") and the Avenue Special Situations Fund VI, LP. He noted that the firm has three lines of business, all distress-related; the three lines of business focus on the U.S., European, and Asian markets, respectively. He commented that Avenue Special Situations Fund VI is focused on the U.S. middle market space. In response to questions from the Committee, Mr. Gill noted that if NHRS were to make a commitment to this fund, any capital calls would include a rate of interest, calculated at LIBOR + 2%, as NHRS would be a late investor in the fund. He then described how a commitment to this fund would fit into the System's Private Equity Work Plan.

Responding to Committee questions, Mr. Johansen explained that the investment opportunity windows for private equity vehicles are often much shorter than those associated with public market investments. He noted that private equity managers are generally scheduled to present to the Committee based on the timing of their fund closings.

In response to a Committee question Mr. Gill noted Avenue's distinguishing characteristics within the distressed space as their track record with security selection; their portfolio diversification and trading strategies; and their ability to identify and implement macroeconomic themes into their portfolio. The Committee requested that staff and NEPC provide a snapshot of

the System's private equity allocation targets and current portfolio positioning when future general partner presentations are scheduled.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(d) for the purpose of considering the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to the general community. A motion was made by Mr. Silvia and seconded by Ms. Provencher to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.  
Nay: None

Motion carried.

Mr. Marc Lasry, Chairman, Chief Executive Officer and Co-Founder; and Ms. Gina Strum, Senior Vice President, of Avenue presented an overview of their firm and the Avenue Special Situations Fund VI, LP. They referred to the "Avenue Capital Group - Avenue Special Situations Fund VI" presentation, dated March 2011.

The Committee also discussed increasing the NHRS commitment to Lexington Capital Partners VII, LP.

A motion was made by Dr. Shapiro and seconded by Ms. Provencher to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.  
Nay: None

Motion carried.

Motion to commit \$20 million to Avenue Special Situations Fund VI, LP, subject to contract and legal review:

Motion: Mr. Silvia  
Second: Dr. Shapiro

Motion carried unanimously.

Motion to commit an additional \$20 million to Lexington Capital Partners VII, LP:

Motion: Mr. Silvia  
Second: Ms. Provencher

Motion carried unanimously.

### Emerging Markets Small Cap Manager Introductions

Mr. Johansen briefly described the search process that led to today's emerging markets small cap manager presentations. He referred to the "Emerging Markets Equity Small Capitalization Manager Search" memo dated April 12, 2011, and the "Emerging Markets Small Cap Equity Manager Search" presentation dated March 2011.

Mr. Markarian spoke to the opportunities presented in the emerging markets small cap space and provided a brief introduction of the presenting managers. In response to questions from the Committee, he described the different attributes and qualities of candidate managers. The Committee reiterated their desire to identify and select managers within the emerging markets space that focus their portfolio construction on the rise of the emerging market consumer.

### Aberdeen Asset Management

Ms. Tracey Grant, Head Investment Specialist; and Mr. Jack Kirkpatrick, Senior Relationship Manager, of Aberdeen Asset Management ("Aberdeen") provided an overview of their firm and the capabilities of its emerging markets small cap strategy. They referred to the "Emerging Markets Smaller Companies" presentation, dated April 22, 2011.

In response to questions, Ms. Grant noted that Aberdeen will not initiate an investment in companies with market capitalizations over \$5 billion within the emerging markets small cap product; however they will not automatically sell an existing portfolio holding, should its market capitalization exceed \$5 billion. She noted that the portfolio's price-to-book and price-to-earnings ratios are much lower than the benchmark, and that the portfolio's return-on-equity is 20%, compared to 12% for the benchmark.

Responding to questions regarding product capacity, Mr. Kirkpatrick estimated that there is currently approximately \$500 million in capacity remaining, \$200 million of which is reserved for U.S. investors. He noted that Aberdeen could accept a \$50 million mandate from NHRS if selected by the Committee. Ms. Grant commented that they would prefer to receive funding in staggered increments of \$15-20 million, if selected. Mr. Kirkpatrick acknowledged that the product currently does not have any withdrawal restrictions in place.

### Wellington Management Company

Mr. Charles Seidman, Assistant Vice President and Portfolio Specialist; and Ms. Elizabeth O'Hara, Vice President and Relationship Manager, of Wellington Management Company ("Wellington") provided an overview of their firm and the capabilities of its emerging markets small cap strategy. They referred to the "Emerging Markets Local Equity" presentation, dated April 22, 2011.

In response to questions, Mr. Seidman attributed portfolio performance approximately 50/50% between top-down macroeconomic analysis and bottom-up security selection. He indicated that

recent portfolio turnover has been approximately 100%, which is slightly higher than usual, due to an increase in client funding. He noted that the preferred benchmark for the strategy is the MSCI Emerging Markets Index, despite the portfolio's benchmark agnostic profile.

#### Emerging Markets Small Cap Manager Recap

Mr. Janeway entertained a motion to enter into non-public session under RSA 91-A:3, II(c) to discuss matters which, if discussed in public, would likely adversely affect the reputation of a person, other than a member of the public body itself. A motion was made by Mr. Silvia and seconded by Ms. Provencher to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.

Nay: None

Motion carried.

The Committee discussed the emerging markets small cap manager candidates.

A motion was made by Mr. Silvia and seconded by Mr. Janeway to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.

Nay: None

Motion carried.

Motion to retain Aberdeen Asset Management to manage an emerging markets small cap equity mandate of \$50 million for an initial two-year term, subject to contract and legal review:

Motion: Mr. Silvia

Second: Ms. Provencher

Motion carried unanimously.

Dr. Shapiro left the meeting at this time.

#### Emerging Markets Equity Manager Introductions

Mr. Markarian and Mr. Leonard briefly described the search process that led to today's emerging markets equity manager presentations and provided an introduction of the presenting managers. They referred to the "Emerging Markets Equity Manager Search" memo dated April 12, 2011, and the "Emerging Markets Equity Manager Search" presentation dated March 2011. Mr.

Markarian described how the manager candidates would complement each other and Aberdeen.

#### Batterymarch Financial Management

Mr. David Lazenby, Director, Head of Emerging Markets Team and Senior Portfolio Manager; and Mr. Timothy Stanton, Deputy Director of Global Marketing and Sales, of Batterymarch Financial Management (“Batterymarch”) provided an overview of their firm and the capabilities of its emerging markets equity strategy. They referred to the “Global Emerging Markets Equity” presentation, dated April 22, 2011.

In response to questions, Mr. Lazenby commented that Batterymarch’s current investable universe of approximately 1,700 emerging market companies that meet the firm’s liquidity and data screens compares to a universe of approximately 700 companies in 2002. He noted that Batterymarch’s quantitative model has evolved over time to allow for analysis across multiple peer groups. Additionally, he stated that there is a monthly review of the model’s factors to see which, if any, require adjustment. Mr. Lazenby commented that the Batterymarch portfolio would best complement a manager with a concentrated, value-tilted portfolio.

#### Mondrian Investment Partners

Mr. Gregory Halton, Senior Portfolio Manager; and Ms. Patricia Karolyi, Executive Vice President, of Mondrian Investment Partners (“Mondrian”) provided an overview of their firm and the capabilities of its emerging markets equity strategy. They referred to the “Focused Emerging Markets Equity Portfolio” presentation, dated April 22, 2011.

In response to questions, Mr. Halton commented that the portfolio’s annual turnover ratio is typically between 30-50%, as Mondrian employs a buy-and-hold philosophy. He also noted that from a price-to-book and price-to-cashflow perspective, the portfolio is generally more expensive than the benchmark. Ms. Karolyi indicated her expectation that private equity investment firm Hellman & Friedman LLC would be looking to sell their 27% ownership stake in Mondrian within the next 12 months.

#### William Blair & Company

Mr. Jeffrey Urbina, Principal; and Mr. Edward Finn, Principal, of William Blair & Company (“William Blair”) provided an overview of their firm and the capabilities of its emerging markets equity strategy. They referred to the “Emerging Markets Growth” presentation, dated April 22, 2011.

In response to questions, Mr. Urbina commented that he considers companies with market capitalization under \$5 billion to be small cap stocks. He noted that currently 20% of the portfolio is invested in small cap stocks, but historically the portfolio’s small cap percentage has been closer to 30%. Mr. Urbina also commented that over the next 5-10 years, he anticipates that emerging markets will continue to grow at higher rates than developed markets, due to the existing financial and banking system issues in the developed markets.

### Emerging Markets Equity Manager Recap

Mr. Janeway entertained a motion to enter into non-public session under RSA 91-A:3, II(c) to discuss matters which, if discussed in public, would likely adversely affect the reputation of a person, other than a member of the public body itself. A motion was made by Ms. Provencher and seconded by Mr. Silvia to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, and Mr. Silvia.

Nay: None

Motion carried.

The Committee discussed the emerging markets equity manager candidates.

A motion was made by Mr. Silvia and seconded by Ms. Provencher to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, and Mr. Silvia.

Nay: None

Motion carried.

Motion to retain Batterymarch Financial Management to manage an emerging markets equity mandate of \$125 million for an initial two-year term, subject to contract and legal review; and Wellington Management Company to manage an emerging markets small cap equity mandate of \$75 million for an initial two-year term, subject to contract and legal review:

Motion: Mr. Silvia

Second: Ms. Provencher

Motion carried unanimously.

### Discussion of Passive Fixed Income

This item was moved to the May 2011 Investment Committee meeting.

### Investment Committee Checkpoint Discussion

The Committee determined that there were no additional items to discuss.

**Informational Matters:**

Investment Performance – FYTD February 2011

Asset Allocation Update

NEPC Performance Report – February 2011

Motion to adjourn the April 22, 2011 meeting of the NHRS Investment Committee:

Motion: Ms. Provencher

Second: Mr. Silvia

Motion carried unanimously.

The meeting adjourned at 2:36 pm.