

NOTE: These minutes were approved and executed at the May 24, 2013 Independent Investment Committee.

**Independent Investment Committee
April 19, 2013**

Public Minutes

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

Committee Members: Harold Janeway, *Chair*; David Jensen; Patrick O'Donnell; Catherine Provencher; and Hersh Sosnoff.

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

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

Mr. Janeway called the meeting to order at 9:00 a.m.

At 9:00 am, Mr. Janeway called for a moment of silence for the victims of the Boston marathon explosions in Massachusetts.

Mr. Janeway surveyed the Committee for comments on the draft minutes of the March 22, 2013 Investment Committee meeting. As there were none, a motion to approve the public minutes of the March 22, 2013 Investment Committee meeting was made by Ms. Provencher and seconded by Mr. Jensen. The motion carried unanimously.

Mr. Johansen noted that each Board and Committee member has been provided a NHRS Briefing Book containing an overview of the System including membership, funding, governance and investment information. He noted that this Book will be updated and distributed periodically. Mr. Johansen confirmed that additional information will be added based on a Committee member suggestion.

Mr. Johansen briefly reviewed the performance of the Marketable Investments portfolio for periods ending March 31, 2013. For the fiscal year-to-date through March 31st, the Marketable Investments returned 14.6%, exceeding the return of its custom benchmark of 13.5% by 110

basis points. For the one-year period ending March 31st, the Marketable Investments returned 11.4%, exceeding the return of its custom benchmark of 10.9% by 50 basis points. For the three-year period ending March 31st, the Marketable Investments returned 9.5%, exceeding the return of its custom benchmark of 9.3% by 20 basis points. As requested by a Committee member, Mr. Johansen confirmed that a report will be distributed at the May Committee meeting summarizing exposure to Europe within the core non-U.S. equity managers.

Mr. Johansen provided an update on the custodial RFP process, noting that Staff held half-day meetings with each potential custodian at the NHRS offices with on-site meetings scheduled with two of the three finalists, noting it was not necessary to have an on-site meeting with the incumbent as the System is very familiar with their capabilities. The Committee discussed the process, including custodial fees, and agreed that the three potential custodians would make presentations at the May Committee meeting.

Mr. Johansen provided a brief legislative update, referring to the “2013 Legislative Tracker”, dated April 10, 2013. Mr. Johansen and Mr. Lagos summarized HB 364 which would require NHRS-participating employers to provide written notice to existing and prospective part-time employees, who are NHRS retirees, of the statutory limitations on hours for part-time employment.

Mr. Johansen provided an update to the Work Plan dated March 27, 2013. He indicated that Aberdeen Asset Management (“Aberdeen”) would be presenting to the Committee today in advance of their potential contract renewal. He noted that the first quarter of Fiscal Year 2014 has been added to the Work Plan for the Committee’s consideration and briefly reviewed the items included for the first quarter. He commented that the Work Plan is flexible and subject to revision by the Committee. A motion was made by Mr. O’Donnell and seconded by Mr. Jensen to approve the Work Plan for the first quarter of Fiscal Year 2014. The motion carried unanimously.

Mr. Johansen provided an update on the transition of the Netols Asset Management portfolio noting that the transition had been completed and that the transition recap would be provided in the May Committee materials.

Mr. Johansen provided a brief overview of two Advisory Board meetings, SL Capital European Smaller Funds I and Industry Ventures VI, which he recently participated in via conference call. He noted that as a member of the Advisory Board, he typically receives information earlier

than a regular limited partner. Mr. Johansen stated that he met with NEPC yesterday to review the current private debt/equity pipeline and provided a brief overview of the meeting and potential investments.

Mr. Johansen noted that he and Mr. Janeway met with Loomis Sayles & Co., one of the System's fixed income managers, to discuss the recent organizational changes including the departure of Ms. Kathleen Gaffney, and to gain insight on the firm's strategy regarding the future interest rate environment. He summarized the meeting noting it was very productive and that they met with the three portfolio managers (Brian Kennedy, Matthew Eagan and Elaine Stokes) of the team and Jae Park, the Chief Investment Officer. Mr. Janeway concurred that it was an effective meeting and noted that Loomis stated that in today's low interest rate environment, they rely on their significant expertise in evaluating credit risk to obtain higher yields while providing downside protection.

Ms. Provencher departed at this time.

The Committee discussed the presentation made by Wellington Trust Company (Wellington) at the March Committee meeting. A motion was made by Mr. O' Donnell and seconded by Mr. Jensen to extend the relationship with Wellington to manage the emerging market portfolio through May 2015. The motion carried unanimously.

The Committee discussed the presentation made by Batterymarch Financial Management (Batterymarch) at the March Committee meeting. A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to renew the investment management agreement with Batterymarch through May 2015. The motion carried unanimously.

Ms. Maree Mitchell, Senior Equity Specialist; and Mr. Jack Kirkpatrick, Deputy Head of Institutional Business Development, of Aberdeen Asset Management ("Aberdeen") presented a brief introduction of themselves; an overview of their firm; and portfolio management changes since being retained by the System in 2011. They referred to the "New Hampshire Retirement System" presentation dated April 19, 2013.

Mr. Kirkpatrick detailed a recent transaction in which Aberdeen acquired 100% of Artio Global Investors, Inc. noting that the firm was purchased for its fixed income business. In response to Committee member questions, Ms. Mitchell stated that over the last several years the number of holdings within the firm's small cap emerging markets fund has historically fluctuated between 60 and 80 and she provided an in-depth review of performance attribution. Ms. Mitchell noted that

although investment guidelines permit individual stock holdings up to 5% of the fund's market value, in practice, holdings generally do not exceed 3%. Ms. Mitchell confirmed that the resolution of the Eurozone's protracted debt crisis will take 5-10 years to resolve. She stated that Aberdeen does not avoid investing in certain countries based solely on political risk and that often times heightened political risk can present an opportunity to purchase high quality stocks, identified through thorough bottom-up stock selection, at a discount. Ms. Mitchell confirmed that the increase in passive investing in the emerging markets does not negatively impact Aberdeen's ability to outperform the benchmark. She concluded by noting that Aberdeen must have a high degree of confidence in the accounting provided by companies in order to invest in them and that annual turnover is typically in the 20% range.

The Committee reviewed the NEPC Currency Exposure report as of 12/31/12. Mr. Sosnoff noted that although overall exposure to foreign currencies is relatively low, specific managers such as GMO have large exposures to currencies such as the Euro and Yen. Mr. Johansen confirmed that GMO will present to the Committee at the May meeting and would be prepared to discuss this item. In addition, Mr. Johansen noted that Staff would contact Walter Scott to discuss their significant exposure to the Yen.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the meeting adjourned at 11:00 a.m.