

**NOTE:** These minutes were approved and executed at the September 21, 2012 Investment Committee meeting.

**Independent Investment Committee  
August 17, 2012**

**Public Minutes**

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

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

*NHRS Trustees:* Dick Gustafson, Ph.D. and Kate McGovern, Ph.D. (*delayed arrival*).

*Staff:* George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; John Browne, *Internal Auditor*; 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 9:08 a.m. He surveyed the Committee for comments on the draft public and non-public minutes of the July 20, 2012 Investment Committee meeting. As there were none, a motion to approve the public and non-public minutes of the July 20, 2012 Investment Committee meeting was made by Mr. Sosnoff and seconded by Ms. Provencher. The motion carried unanimously.

Mr. Johansen noted that at its meeting on August 14<sup>th</sup>, the Board of Trustees unanimously approved the retention of NEPC as General Investment Consultant, as recommended by the Committee. He stated that NEPC will serve as NHRS' General Investment Consultant for a term of three years with the ability to extend the contract for two additional one-year periods, commencing January 1, 2013. Mr. Johansen indicated that the negotiated NEPC fee will save NHRS a minimum of \$100,000 over the contract term.

Mr. Johansen informed the Committee that at its meeting on August 14<sup>th</sup>, the Board of Trustees discussed the asset allocation ranges and targets, as recommended by the Committee, but deferred voting on the

recommendation. He mentioned that the discussion will continue at the Board's September meeting with a decision expected at that meeting. At the August Board meeting, Mr. Johansen assured the Board that the recommended asset allocation mix was not an attempt to reach for yield but rather to address expected returns for fixed income given the current market environment of a 30-year secular decline in interest rates. He noted that Staff and NEPC will develop a detailed investment pacing plan to illustrate to the Board how the System would reach the recommended Alternative Investment target of 15%. Mr. Johansen stated that two "go anywhere" managers will present to the Committee at its September meeting, noting that these potential mandates would fit into the Alternative Investment asset class. A Committee member recommended that an analysis of historical private equity performance also be provided to the Board in conjunction with the recommendation to increase Alternative Investments to 15%. Mr. Lagos commented that the Board would benefit from receiving an analysis of the System's proposed asset allocation targets compared to other public pension plans in order to confirm that NHRS would not be an outlier. Mr. Johansen confirmed that this data will be provided at the September Board meeting and noted that the Board will also be provided with additional information as to why fixed income returns are forecast to be less than historical returns.

Mr. Johansen referenced the draft Alternative Investments Asset Class Guidelines, which were presented for the Committee's consideration. He noted that the guidelines outline a target to Private Equity of 5% and to Private Debt of 5% with a target of 0% for both Opportunistic and Hedge Funds. Mr. Johansen recommended that the System's current hedge fund manager make a presentation to the Committee at a future meeting. The Committee discussed the Guidelines, and suggested adding targets of 3% to Opportunistic and 2% to Hedge Funds while maintaining the target ranges for each of 0-7%. The Committee also suggested adding language regarding the annual analysis that Staff and NEPC prepare for approval by the Committee, as well as language describing the manager selection process. A motion to approve the Alternative Investment Asset Class Guidelines, contingent upon amending the guidelines as outlined above, was made by Ms. Provencher and seconded by Mr. Sosnoff. The motion carried unanimously.

Mr. Johansen concluded his remarks with a quick update on the Work Plan. A Committee member suggested adding an analysis on underperforming managers to the Work Plan. Mr. Johansen noted that the revised NEPC investment performance analysis (IPA) report will be provided at the September meeting and will include attribution analysis

of the managers and asset classes. He confirmed that a separate summary memo will be provided to supplement the IPA.

Mr. Johansen and Mr. Gill provided a brief introduction of Lighthouse Capital Partners (“Lighthouse”) and how the proposed investment fits in the context of the System’s Private Equity Work Plan. Gwill York, Managing Director and Co-founder; Jeff Griffor, Managing Director; and Ned Hazen, Managing Director, of Lighthouse presented an overview of their firm and Lighthouse Capital Partners VII, LP (“LCP VII”).

In response to Committee member questions, Mr. Hazen noted that once LCP VII goes live, the only investments that will be made in the prior fund (LCP VI) will be follow-on investments as all new investments will be allocated to LCP VII. Mr. Griffor stated that the loss rate on LCP VI is currently 1.1% which allows nearly 99% of the principal to be recycled in order to reach the target of 3x recycling of principal. Ms. Gwill indicated that LCP III underperformed expectations given the market environment during the fund’s investment period, which included the bursting of the tech bubble, and noted that the fund did manage to return capital during this stressful time period.

Ms. Gwill and Mr. Hazen concluded by opining on the expected future merger and acquisition environment as well as the initial public offering market.

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. Sosnoff 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 and Mr. Sosnoff.

Nay: None

Motion carried.

The Committee discussed the Lighthouse presentation and the opportunity to invest in LCP VII.

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

Roll call vote:

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

Nay: None

Motion carried.

A motion was made by Ms. Provencher and seconded by Mr. Janeway to commit \$20 million to Lighthouse Capital Partners VII, LP, subject to contract and legal review. The motion carried unanimously.

Mr. Leonard provided a brief overview of Segall Bryant & Hamill (“SBH”) and Wellington Management Company (“Wellington”) which included strategy and firm overviews and performance history.

Mr. Philip Hildebrandt, Chief Executive Officer; and Mr. Linn Arbogast, Senior Portfolio Manager of SBH, presented an overview of their firm and a review of the Small Cap Domestic Equity portfolio that the firm manages on behalf of the System. They referred to the “NHRS - August 17, 2012” presentation.

In response to Committee member questions, Mr. Arbogast indicated that holding 100 portfolio positions is a risk management mechanism intended to diversify the portfolio and mitigate the volatility and illiquidity associated with small cap stocks. He noted that the entire small cap domestic equity team plays devil’s advocate with each security selection. Mr. Arbogast confirmed that there have been no significant strategy changes in the process since SBH was retained by the System in 2010. He expanded on the strategy of seeking a 3:1 upside to downside ratio. Mr. Hildebrandt confirmed that although the ETF market has been taking market share in the small cap space, that the asset class remains the most inefficient with ample opportunities for firms like SBH which uses a bottom-up, fundamental research driven process.

Mr. Arbogast indicated that the underperformance for the six-month period ended June 30<sup>th</sup> 2012 was due to both the allocation effect and selection effect primarily due to being underweight financials and security selection in health care, respectively.

Mr. Edward Baldini, Senior Vice President, Partner, and Associate Director of Equity Product Management; and Mr. Akin Greville, Vice President and Business Development Manager of Wellington, presented an overview of their firm and a review of the Small Cap Domestic Equity portfolio that the firm manages on behalf of the System. They referred to

the “NHRS - August 17, 2012” presentation.

Mr. Greville provided an update on the firm indicating that, as of July 1<sup>st</sup> 2012, Mr. Brendan Swords assumed the role of President noting that Mr. Perry Traquina, prior President, would remain as Chairman and Chief Executive Officer.

In response to questions from the Committee, Mr. Baldini noted that there has not been a prolonged period of underperformance in the strategy as stock selection has been able to overcome sector neutrality during periods in which some sectors vastly outperformed.

Mr. Baldini responded to a Committee member question by stating that the annual Russell 2000 reconstitution has minimal impact on the portfolio. He explained that the portfolio is rebalanced quarterly which brings the industry sectors into line with the benchmark. Mr. Baldini concluded by noting that the number of positions in the portfolio will likely decrease in the near term and that the firm will cap the strategy to new investors between \$2.0 and \$2.5 billion in assets under management, primarily in order to maintain a high level of liquidity.

On a motion by Mr. Sosnoff, seconded by Mr. Janeway, the meeting adjourned at 12:22 p.m.