

NOTE: These minutes were approved and executed at the January 18, 2013 Independent Investment Committee meeting.

**Independent Investment Committee
December 21, 2012**

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*; 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 9:03 a.m. He surveyed the Committee for comments on the draft public and non-public minutes of the November 16, 2012 Investment Committee meeting. As there were none, a motion to approve the public and non-public minutes of the November 16, 2012 Investment Committee meeting was made by Mr. Jensen and seconded by Mr. O'Donnell. The motion carried unanimously.

Mr. Johansen briefly reviewed the performance of the Marketable Investments portfolio through the period ending November 30, 2012. For the fiscal year-to-date through November 30th, the Marketable Assets portfolio has returned 6.1%, exceeding the return of its custom benchmark of 5.5%. He noted that the 3-year return of 8.7% exceeded the custom benchmark return of 8.5% and the 10-year return of 7.3% matched the benchmark for that period.

Mr. Johansen provided an update on the fixed income portfolio rebalancing plan which was approved by the Committee at its November meeting. He stated that a total of \$48 million will have been liquidated from the Core and Core Plus fixed income managers through December 31st representing approximately 35% of the total amount to be rebalanced.

Mr. Johansen updated the Committee on Loomis Sayles & Co. (Loomis), a firm that manages a multi-sector fixed income mandate on behalf of the System. He indicated that both NHRS and NEPC have held discussions with Loomis and that there have not been any significant employee departures since portfolio manager Kathleen Gaffney left the firm. Mr. Leonard stated that NEPC recently met with the senior members of the Loomis team which included Jae Park, Chief Investment Officer; Dan Fuss, Matthew Eagan, and Elaine Stokes, Full Discretion Multi-Sector Portfolio Managers.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. Jensen and seconded by Mr. O'Donnell to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff

Nay: None

Motion carried.

The Committee discussed recent organizational changes at Loomis.

A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff

Nay: None

Motion carried.

At 9:30 am, Mr. Janeway called for a moment of silence for the victims of the school massacre in Newtown, Connecticut.

Mr. Johansen referred to the Work Plan dated November 19, 2012 and provided a brief update. He summarized a Security Litigation Policy that was recently approved by the Governance Committee and will be

considered for approval by the Board of Trustees at their January 2013 meeting. Mr. Johansen noted that the System participates as a member of the class in the security litigation process but does not take the lead plaintiff role as larger public plans with significantly more resources and larger portfolios generally take on this role. He stated that this policy is not directly related to the responsibilities of the Committee but thought the Committee should be kept informed of such developments.

Mr. Johansen provided an organizational update on CS McKee, a firm that manages a Small Cap Domestic Equity portfolio on behalf of NHRS, and referenced a confidential memo from CS McKee which indicated the retirement of a senior member of the portfolio team, Ms. Suda Vatsan, along with another senior member.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. O' Donnell and seconded by Mr. Jensen to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff

Nay: None

Motion carried.

The Committee discussed recent organizational changes at CS McKee and the performance of the portfolio.

A motion was made by Mr. O' Donnell and seconded by Mr. Jensen to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff

Nay: None

Motion carried.

A motion was made by Mr. O' Donnell and seconded by Mr. Jensen to terminate the investment management agreement with CS McKee and

allocate the assets among the following three existing Small Cap Domestic Equity managers: 50% to Wellington; 25% to Boston Trust; and 25% to Segall Bryant & Hamill. The motion carried unanimously.

Mr. Johansen mentioned the article titled “Murder on the Orient Express”, authored by Charles Ellis. Mr. Janeway encouraged the Committee to read this article along with two GMO articles all of which were included in the Committee materials.

The Committee discussed the January meeting agenda and agreed to invite the following participants to make presentations as follows: GMO - Investing in a low yield, low growth environment; AllianceBernstein – Why there will not be earnings disappointments in 2013; and Blackrock - Proliferation of Exchange Traded Funds and Passive Index Funds and their impact on active management. In addition, NEPC will make a presentation on the investment strategies used by institutional investors with more successful long-term results than the NHRS.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. Jensen and seconded by Mr. O’Donnell to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O’Donnell; Ms. Provencher; and Mr. Sosnoff
Nay: None

Motion carried.

The Committee discussed Arden Asset Management (Arden), an absolute return manager that manages a hedge fund-of-funds mandate on behalf of the System.

A motion was made by Mr. O’Donnell and seconded by Mr. Jensen to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O’Donnell; Ms. Provencher; and Mr. Sosnoff
Nay: None

Motion carried

A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to seal the non-public minutes by a 2/3 vote under RSA 91-A:3, III, as divulgence of the action would likely affect adversely the reputation of someone other than a member of this public body. The motion carried unanimously.

Mr. Johansen and Mr. Gill provided a brief introduction of Paul Capital and how the proposed investment fits in the context of the System's Private Debt/Equity Plan. In response to Committee member questions, Mr. Gill explained the exit strategy for investments purchased by Paul Capital; the historical performance trend of Paul Capital's prior funds; and a generic disclosure made in the NEPC "Paul Capital X Fund Review and Evaluation" memo dated October 2012.

Simon Guenzl, Partner; Brian Sullivan, Partner; and Joshua Glaser, Director of Investor Relations, of Paul Capital presented an overview of their firm and Paul Capital X. They referred to the "NHRS – Paul Capital Partners X" presentation, dated December 21, 2012.

In response to Committee member questions, Mr. Guenzl explained what a sourcing agent is and how these agents benefit Paul Capital. He summarized the logistics behind purchasing unfunded commitments from limited partners who do not want to break their relationships with the general partners. Mr. Sullivan expanded on the role of co-investments and confirmed the modest increase in the fund size of Paul Capital X to \$2 billion from \$1.7 billion for Paul Capital IX.

Mr. Sullivan and Mr. Guenzl concluded by confirming that Paul Capital does not separate the role of performing both sourcing and due diligence on investments and further detailed the controls in place to ensure that the due diligence process remains rigorous.

The Committee discussed the Paul Capital presentation and the appropriate sizing of a potential commitment. Mr. Johansen confirmed that NHRS would be offered a seat on the Paul Capital X advisory board and that he would occupy that seat.

A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to commit \$50 million to Paul Capital Partners X, LP, subject to contract and legal review. The motion carried unanimously.

Mr. Johansen commented that The Townsend Group ("Townsend"), the

System's discretionary real estate manager, would present a six-month update of their fiscal year 2013 real estate Investment Plan to the Committee. He noted that this plan includes the gradual rebalancing of the underlying strategic and tactical real estate portfolios to a 50%/50% target weighting, the prudent opportunistic liquidation of the System's direct property holdings, and the gradual increase of the real estate portfolio to its 10% target allocation.

Mr. Anthony Frammartino, Partner and Mr. Tony Pietro, Assistant Portfolio Manager, of Townsend provided an overview of their firm, reviewed the performance of the System's real estate portfolio, and presented an update of their Fiscal Year 2013 Investment Plan. They referred to the "New Hampshire Retirement System Real Estate Portfolio Update" presentation, dated December 21, 2012.

In response to Committee member questions, Mr. Frammartino explained the System's favorable 5-year performance return as compared to its peers. He detailed the direct property portfolio and specifically the property sales that have been made to date as well as the plan for selling the remaining properties. Mr. Frammartino discussed the firm's view on cap rates as well as different supply levels for each real estate sector.

Mr. Leonard presented an overview of Total Fund performance returns for the period ending September 30, 2012. He referred to the "Investment Summary, Quarter Ending September 30, 2012" presentation. He noted that, as requested by the Committee, the Executive Summary section of the presentation has been enhanced. Mr. Leonard explained the new enhancements and fielded questions from the Committee. The Committee requested several changes which will be incorporated into the December 31, 2012 report to improve both readability and usability.

Mr. Johansen referred to the "Request for Proposals for Custodial Banking Services" (RFP) document, provided an overview of the document and outlined the process to the Committee. He reminded the Committee that the RFP would be issued in early January on an invitation-only basis to the following four custodial banks: Bank of New York Mellon; JP Morgan Chase & Co.; State Street; and Northern Trust.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the meeting adjourned at 1:03 p.m.