

NOTE: These minutes were approved and executed at the March 23, 2012 Investment Committee meeting.

**Investment Committee Meeting
February 24, 2012**

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

The Investment Committee meeting was called to order at 9:06 a.m. Present were:

Investment Committee: Mr. Harold Janeway (Committee Chair); Mr. David Jensen; Mr. Patrick O'Donnell; and Ms. Cathy Provencher. Mr. Hershel Sosnoff was not in attendance.

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

NHRS Staff: Mr. George Lagos, Executive Director; Mr. Lawrence Johansen, Director of Investments; Mr. John Browne, Internal Auditor; 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. Timothy McCusker, Partner and Director of Traditional Research.

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:

Mr. Janeway welcomed new NHRS Executive Director Mr. George Lagos.

Approval of the January 20, 2012 Investment Committee Minutes

Mr. Janeway surveyed the Committee for comments regarding the draft minutes of the January 20, 2012 Investment Committee meeting. As there were none, a motion to approve the public minutes of the January 20, 2012 Investment Committee meeting was made by Mr. Jensen and seconded by Mr. O'Donnell.

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

Nay: None

Motion carried.

Comments from the Director of Investments

Mr. Johansen provided a brief performance overview for the period ended January 31, 2012, noting that the Total Marketable performance returns for the fiscal year-to-date, one-year and three-year periods were -1.4%, 2.3% and 16.4%, respectively. He also summarized the returns at the asset class level.

Mr. Johansen summarized the high-level tasks and projects being addressed by the Committee and Staff and referred to the Work Plan and related cover memo dated February 14, 2012. He mentioned that a review of portfolio hedging strategies has been added to the fourth quarter of the Work Plan. Mr. Johansen stated that Staff is currently working with The Townsend Group and NEPC to develop the real estate investment guidelines and, once completed, a draft will be presented to the Committee for approval. Mr. Johansen noted that once the real estate guidelines are approved, the only outstanding asset class guidelines to be developed will be the alternative investment guidelines which will be discussed in detail as part of the Asset Liability Modeling Study and Asset Allocation Review. He reminded the Committee that these asset class guidelines are part of the Investment Manual which also includes the Investment Policy; Proxy Voting Policy; Securities Lending Policy; and the Accountability Matrix. Mr. Johansen noted that the Investment Consultant Request for Proposal (RFP) is included in the Committee materials along with the associated cover memo. He requested that any suggestions or comments on the RFP or cover memo be directed to him and indicated the final RFP will be reviewed by Legal Staff before it is issued.

Mr. Johansen referred to the Legislative Update dated February 20, 2012. He referenced Senate Bill 229 (SB229), which proposes closing the NHRS defined benefit plan, and noted that Staff spent time with the bill sponsor this week answering questions about SB229 and clarifying and understanding the various proposed amendments before it was sent to GRS for a fiscal impact analysis. He noted that SB249, which proposed to privatize the System, was voted inexpedient to legislate (ITL) by the Senate.

Mr. Johansen concluded by providing an overview of today's agenda which includes a trading cost analysis by Abel/Noser Corp.; capital market assumption presentations from AllianceBernstein and GMO; a currency hedging discussion with NEPC; and an overview of the NEPC performance report for the most recent quarter ended December 31, 2011. He noted that NEPC is in the process of upgrading their performance reporting platform which will allow for more robust risk and attribution reporting. The new reporting is scheduled to begin in the second half of 2012.

Abel/Noser Corp. Presentation

Mr. Ian Leverich, Assistant Vice President, of Abel/Noser Corp. (Abel/Noser) presented an overview of the firm and a review of the transaction costs, commission and execution costs, for the System's equity managers. He referred to the "New Hampshire Retirement System Transaction Cost Analysis – Analysis Period: January 1, 2011 – December 31, 2011".

In response to questions from the Committee, Mr. Leverich noted the trading cost analysis highlights trends and outliers to assist Staff in monitoring and communicating with investment managers. Mr. Johansen noted that the System's policy is to not use Soft Dollars and that Abel/Noser holds quarterly meetings with Staff to review the in-depth analysis.

Overall, Mr. Leverich noted that both U.S. Equity and Non-U.S. equity total trading costs for calendar year 2011 were favorable and above the universe median, ranking in the 27th and 48th percentiles, respectively. He stated that the U.S. Equity analysis excludes the NHRS BlackRock S&P 500 Index Portfolio ("BlackRock") as BlackRock executes trades based on market closing prices to avoid tracking error with its benchmark, the S&P 500 index. In contrast, all other managers trade intraday and are therefore benchmarked against the Volume Weighted Average Price (VWAP). Mr. Leverich noted that BlackRock, benchmarked against market closing prices, ranked in the 35th percentile.

Based on questions from the Committee, Mr. Leverich noted that there are currently no concerns with any of the System's individual investment managers and noted that there is not a strong correlation between high trading volumes and low total trading costs. Mr. Leverich concluded by stating that both Mr. Abel and Mr. Noser, the two founders of the firm, are still actively involved in daily operations.

A motion to renew the service provider agreement with Abel/Noser Corp. through the December 31, 2013 reporting period was made by Mr. O' Donnell and seconded by Mr. Jensen.

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

Nay: None

Motion passed unanimously.

Capital Market Assumption Presentations

In conjunction with the Asset Liability Modeling Study (ALM) and Asset Allocation Review, and as requested by the Committee at its January meeting, market outlook and expected return presentations were provided by AllianceBernstein, LP and GMO, LLC.

AllianceBernstein, LP

Mr. Dokyoung Lee, Director of Research – Strategic Asset Allocation, and Mr. Aaron Montano, Manager – Public Funds, of AllianceBernstein, LP (AllianceBernstein) presented an overview of their firm and a review of their capital market assumptions. They referred to the "AllianceBernstein - New Hampshire Retirement System" presentation dated February 24, 2012.

Responding to questions from Committee members, Mr. Lee noted that the U.S. Household Financial Obligation Ratio is at its lowest level in nearly twenty years. Mr. Lee will do further research to determine the components, such as lower mortgage payments, that have resulted in the ratio's steep decline over the last couple of years. He stated that the historical view that bonds are conservative needs to be rethought given today's low interest rate environment and

mentioned that in the context of asset allocation, in today's environment it is difficult to achieve, in the short-term, the actuarial rate of return with a diversified portfolio designed to limit volatility. Mr. Lee noted that the primary risk to the capital market forecasts are event risks, particularly political risks. In regards to China, Mr. Lee stated that AllianceBernstein is less concerned today about a 'hard landing' than six months ago. Mr. Lee summarized the AllianceBernstein forecast by stating that, based on the current policy asset allocation of the System, the forecasted return over five and thirty year periods are 6.5% and 8.1%, respectively.

GMO, LLC

Mr. Nick Nanda, Member - Asset Allocation Team and Mr. Brian Huggon, Institutional Client Relationship Manager, of GMO, LLC (GMO) presented an overview of their firm and a review of their capital market assumptions. They referred to the "GMO - New Hampshire Retirement System" presentation dated February 24, 2012.

In response to Committee member questions, Mr. Nanda stated that the yield on U.S. High Quality companies is about 2.5-3.0% and there are approximately 120 companies that GMO would consider to be in this category. Mr. Nanda stated that although individual companies may be able to increase profit margins, as a whole, these companies are offset by other companies in which profit margins are decreased. He explained the different assumptions underlying GMO's forecasted return of the S&P 500 of 3.9% as compared to their U.S. High Quality companies forecast of 7.8%. Mr. Nanda noted that the difference between the two forecasts results primarily from an estimated substantial loss in profit margin for the S&P 500 companies while the profit margins for U.S. High Quality companies remains flat. In addition, there is some P/E expansion built into the U.S. High Quality forecast while the S&P 500 companies are relatively flat.

Mr. Nanda concluded by stating that the accurate 10-year forecast from December 2001 was primarily due to GMO focusing on the long-term GDP and valuation which happened to be fairly valued at end of 10-year period. He stated that, based on the current asset allocation of the System, the forecasted return over a seven year period is 5.0%. Mr. Nanda outlined an alternative asset allocation which significantly reduces the fixed income allocation and allocates a significant portion of assets to an absolute return strategy.

Currency Hedging Discussion

As the Committee requested at its January meeting, Mr. McCusker provided an analysis on currency hedging, specific to the System's current portfolio. The analysis included the impact of hedging on portfolio returns, the associated expenses, and the practical issues with implementing such a program. He referred to the "Managing Currency Exposure memo" dated February 24, 2012.

In response to Committee member questions, Mr. McCusker stated that due to the incremental addition of non-U.S. equity exposure to public pension plans, most public pension plans are not currently hedging the associated currency exposure. Mr. McCusker noted that in his experience non-U.S. equity managers tend to think less about currency risk than global bond managers when

making buy and sell decisions. Mr. Johansen stated that, at a practical level, there are costs associated with hiring a currency manager and that the academic literature is not quite as optimistic as the NEPC currency hedging presentation. Mr. Janeway requested further analysis and Mr. Johansen noted that Staff and NEPC will generate the analysis for presentation at the next Committee meeting.

Total Fund Performance for the Period Ended December 31, 2011

Mr. Leonard referred to the “Fourth Quarter 2011 Investment Performance Analysis” presentation. As requested by the Committee, Mr. Leonard briefly summarized the performance and focused on outliers.

Investment Committee Checkpoint Discussion

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

Informational Items:

Investment Performance – FYTD December 2011

Asset Allocation Update

NEPC Performance Report – December 2011

Private Monitor Report – December 2011

Motion to adjourn the February 24, 2012 meeting of the NHRS Investment Committee:

Motion: Ms. Provencher

Second: Mr. O’ Donnell

Motion carried unanimously.

The meeting adjourned at 12:51 pm.