NOTE: These minutes were approved and executed at the March 22, 2013 Independent Investment Committee meeting.

Independent Investment Committee
February 22, 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, absent.

NHRS Trustees: Dean Crombie.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; 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. He surveyed the Committee for comments on the draft minutes of the January 18, 2013 Investment Committee meeting. As there were none, a motion to approve the public minutes of the January 18, 2013 Investment Committee meeting was made by Mr. O'Donnell and seconded by Mr. Jensen. The motion carried unanimously.

A motion was made by Mr. Jensen and seconded by Mr. O'Donnell to unseal and approve the non-public minutes of the December 21, 2012 Investment Committee meeting. The motion carried unanimously.

Mr. Johansen informed the Committee that the transition of assets from the U.S. small cap equity portfolio formerly managed by C.S. McKee has been completed and that a summary of the transition is included in the Informational Items section of the Committee materials. The assets were transitioned to existing U.S. small cap managers as follows: 50% to Wellington Management Company; 25% to Boston Trust; and 25% to Segall Bryant & Hamill. He commented that the rebalancing of the fixed income portfolio in conjunction with the asset allocation approved by the System's Board of Trustees in September 2012 has been completed. The rebalancing effort reduced the assets managed by core plus fixed income manager PIMCO and core fixed income manager Income Research & Management to achieve the 25% target allocation to fixed income.

Mr. Johansen discussed the status of the redemption of the absolute return portfolio managed by Arden Asset Management ("Arden"). He indicated that approximately $32 million would be redeemed from the Arden portfolio over the first and second calendar quarters of 2013. This $32 million represents approximately 72% of the portfolio's January 31st market value. He commented that by the end of 2013, approximately 85% of the Arden portfolio is expected to be liquidated, with the remaining portfolio assets considered illiquid and expected to take longer than a year to liquidate. In response to a question from the Committee, Mr. Johansen indicated that staff would work closely with Arden throughout the liquidation process to prudently expedite the process as opportunities to do so are presented.

Mr. Johansen briefly reviewed the performance of the Marketable Investments portfolio for periods ending January 31, 2013. For the fiscal year-to-date through January 31, the Marketable Investments returned 11.6%, exceeding the return of its custom benchmark of 10.7% by 90 basis points. For the one-year period ending January 31, the Marketable Investments returned 13.4%, exceeding the return of its custom benchmark of 12.6% by 80 basis points. For the three-year period ending January 31, the Marketable Investments returned 10.8%, exceeding the return of its custom benchmark of 10.6% by 20 basis points.

Mr. Johansen discussed the performance results of the following firms, each of which have underperformed their respective portfolio benchmarks since the inception of their portfolios: small cap U.S. equity manager Segall Bryant & Hamill ("SBH"); small/mid cap U.S. equity manager Thompson Siegel & Walmsley ("TSW"); and emerging markets equity manager Batterymarch Financial Management ("Batterymarch").

Mr. Johansen noted that SBH has struggled in recent periods, given their focus on companies that feature high Return on Invested Capital ("ROIC") metrics. He commented that in 2012 the top quintile of stocks in terms of ROIC was the bottom quintile in terms of performance returns. He noted that this trend appears to be a short-term market cycle phenomenon and that staff and NEPC continue to maintain confidence in SBH's process and philosophy.

Mr. Johansen remarked that the relative performance of the TSW portfolio has weakened in recent periods. He commented that staff held a call with TSW recently to discuss the portfolio's performance and has scheduled another call next week and a meeting will be scheduled in

NEPC's offices with TSW to review performance in more detail and discuss the firm's process and philosophy.

Mr. Johansen noted that Batterymarch was funded just prior to the 3rd quarter of 2011, which was a very tough quarter for markets in general and emerging markets in particular. He remarked that Batterymarch's relative performance has improved in recent periods and that staff would continue to monitor the portfolio's returns and maintain an open line of communication with the manager.

Mr. Johansen also discussed the relative portfolio return pattern of small cap value U.S. equity manager Netols Asset Management ("Netols"). He noted that the Netols portfolio was funded just prior to 2007 and significantly outperformed its benchmark during calendar year 2007 when the strategy had approximately $500 million in assets under management. He noted that the portfolio has struggled in more recent periods, and is slightly ahead of the benchmark for the 5-year period ending January 31, 2013. He commented that the strategy now has in excess of $1 billion in assets under management and that this increased asset level coincides with the strategy's relative performance issues. He noted that staff would continue to monitor the portfolio's returns and would provide an update for the Committee's discussion at the March Committee meeting.

Messrs. Johansen and Lagos provided a brief legislative update, noting that the legislative environment with regard to bills that impact the retirement system has changed significantly since 2012. They commented that bills before the legislature in 2013 that focus on the retirement system are single-issue in nature, and do not propose significant plan-level changes.

Mr. Johansen provided an update to the Work Plan dated February 1, 2013. He indicated that HarbourVest Partners, LLC ("HarbourVest") would be presenting to the Committee today in conjunction with the 2013 Alternative Investments Work Plan. He and Mr. Gill provided a brief overview of HarbourVest.

Mr. Jeffrey Keay, Managing Director; Mr. John Morris, Managing Director; and Mr. John Toomey, Managing Director, of HarbourVest presented an overview of their firm and its secondaries fund Dover Street VIII. They referred to the "New Hampshire Retirement System" presentation, dated February 2013.

In response to a question from the Committee, Mr. Morris indicated that senior partners at HarbourVest are compensated based on the success of the firm as a whole in an effort to promote teamwork and an alignment of interests with the firm's limited partners. He noted that all of the firm's senior partners are invested in HarbourVest's funds alongside the limited partners.

In response to questions from the Committee, Mr. Keay discussed the pressure facing financial institutions to sell their private equity assets for non-economic issues. He indicated that these regulatory-driven asset sales present opportunities for secondaries investors such as HarbourVest to obtain these assets at attractive prices. Mr. Toomey indicated that while the investment opportunities available to Dover Street VIII would make it possible to draw down commitments from limited partners more quickly than historically, HarbourVest would be sure to maintain its intent to call commitments over a three-to-five year period for vintage year diversification purposes.

Mr. Toomey discussed the firm's net present value and discount rate calculation methods in response to a question from the Committee, noting that these calculations differ per investment. He commented that HarbourVest's experience is that seller motivation is directly correlated with the purchase prices that HarbourVest pays for secondary interests, much more so than any correlation between return expectations associated with the interests and purchase price.

In response to a question from the Committee, Mr. Keay indicated that HarbourVest has struggled in the past with early-stage venture investments. He noted that these investments generally take longer to harvest gains, which is not typically aligned with secondaries funds that feature shorter investment periods and attempt to mitigate the J-curve effect typically associated with private equity portfolios. He commented that the firm now generally avoids early-stage venture investments in its funds. Mr. Toomey indicated the NHRS will have a seat on the Advisory Board of Dover Street VIII.

The Committee discussed the HarbourVest presentation and the opportunity to invest in Dover Street VIII as well as the appropriate sizing of a potential commitment. A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to commit $50 million to HarbourVest Dover Street VIII, subject to contract and legal review. The motion carried unanimously.

Mr. William Conlin, President and Chief Executive Officer; and Mr. Ian Leverich, Vice President, of Abel/Noser Corp. ("A/N") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System Transaction Cost Analysis" presentation for the period January 1, 2012 through December 31, 2012.

In response to questions from the Committee, Mr. Conlin confirmed that A/N is paid by NHRS directly, not via a soft dollar arrangement. Mr. Leverich commented that there were no negative outlier managers within the active domestic equity manager composite in terms of trading costs. Mr. Conlin noted that BlackRock's positive trading results are reflective of the manager's trading capabilities and not simply a reflection of the firm's size. Mr. Johansen agreed to work with A/N to incorporate longer-term trading cost data in future A/N presentations.

Mr. Curtis Mewbourne, Managing Director and Head of Portfolio Management; and Ms. Elizabeth Philipp, Executive Vice President and Account Manager, of Pacific Investment Management Company, LLC ("PIMCO") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System Strategy Review" presentation dated February 22, 2013.

In response to a question from the Committee, Mr. Mewbourne discussed the risks associated with large holdings of U.S. government debt by foreign states. He commented that in an environment of rapid inflation in the U.S. accompanied by a weakening U.S. Dollar, these foreign state holders of U.S. government debt could begin to divest their positions, which would put further pressure on debt prices and the value of the Dollar and exacerbate the situation.

Responding to questions from the Committee, Mr. Mewbourne commented his belief that the Federal Reserve Bank is beginning to recognize the "New Normal" lower growth environment. He remarked that this is more evident in the central bank's actions than in their written comments. He indicated that while PIMCO believes that there is a risk of future inflation as a result of the Federal Reserve Bank's quantitative easing, the firm believes that this risk is very low over the next 18-to-24 months.

In response to questions from the Committee, Mr. Mewbourne cited the will of European countries to maintain the Euro and the European Union ("EU") as the main reason behind the lower-than-historical yields offered on the government debt of economically struggling European countries, given that the EU also has member countries with strong economies and balance sheets. He noted that the support of the European Central Bank also supports these yield levels. Mr. Mewbourne commented that there are significant risks associated with investing in China, but that a strong central government with significant resources mitigates these risks.
Mr. Mewbourne responded to a question from the Committee by commenting that PIMCO does not expect that a "grand bargain" deal will be reached between the current Presidential administration and Congress to resolve the long-term structural issues of the U.S. economy.

Ms. Jane Kirk-Henderson, Investment Manager, of Walter Scott Global Investment Management ("Walter Scott") presented a brief introduction of herself and an overview of her firm. She referred to the "Global Equity Presentation" dated February 22, 2013.

Ms. Kirk-Henderson noted that Ian Clark has recently stepped down as Executive Director of Walter Scott's board of directors, due to health issues. She commented that he remains involved with the firm to the extent that his health allows, and that Rodger Nisbet and Jane Henderson continue to manage the day-to-day operations of the firm as they have in recent years. She remarked that succession planning with regard to Mr. Clark has been underway for several years, given his approaching retirement age.

In response to questions from the Committee, Ms. Kirk-Henderson commented that the portfolio's sector and geographical exposure are a direct result of bottom-up stock selection decisions and are not overlaid with any top-down approach. She noted that the portfolio's diversification, therefore, is a result of the investment team seeking industry leading companies capable of sustainable growth, which leads to exposure across sectors and countries.

Responding to a question from the Committee, Ms. Kirk-Henderson commented that Walter Scott's parent company, Bank of New York ("BNY"), does not interfere in the operations of the firm. She remarked that the shared services of BNY, such as technology, work effectively as this allows Walter Scott to maintain its focus on investment management.

Ms. Kirk-Henderson responded to a Committee question by commenting that the quality of the companies held in the portfolio and the high hurdle-rates demanded by Walter Scott with regard to growth and cash generation supports the investment team's confidence in the portfolio in difficult market environments.

The Committee held a lengthy discussion about the macroeconomic presentations made at the January Committee meeting. They concluded that the topics were well structured and that the presentations were very informative and useful. The Committee agreed to schedule these types of presentations on a regular basis in the future and discussed various topics that are of interest.

Mr. Leonard presented an overview of Total Fund performance returns for the period ending December 31, 2012. He referred to the "Investment Summary, Quarter Ending December 31, 2012" presentation.

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the meeting adjourned at 1:08 p.m.