

**Note: These minutes were approved and executed at the February 24, 2012 Investment Committee meeting.**

**Investment Committee Meeting  
January 20, 2012**

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

The Investment Committee meeting was called to order at 9:01 a.m. Present were:

Investment Committee: Mr. Harold Janeway (Committee Chair); Mr. David Jensen; Mr. Patrick O'Donnell; Ms. Cathy Provencher; and Mr. Hershel Sosnoff.

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

NHRS Staff: Mr. Tim Crutchfield, Interim Executive Director and Chief Legal Counsel; Mr. Lawrence Johansen, Director of Investments; Mr. Jack Dianis, Director of Finance; 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. Christopher Levell, Partner.

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 NHRS Trustee Mr. Hershel Sosnoff to the Committee and provided a brief overview of Mr. Sosnoff's professional background.

Approval of the December 16, 2011 Investment Committee Minutes

Mr. Janeway surveyed the Committee for comments regarding the draft minutes of the December 16, 2011 Investment Committee meeting. As there were none, a motion to approve the public and non-public minutes of the December 16, 2011 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

Abstain: Mr. Sosnoff

Motion carried.

## Comments from the Director of Investments

Mr. Johansen provided an overview of the high-level tasks and projects being addressed by the Committee and Staff and referred to the Work Plan and related cover memo dated December 21, 2011, indicating that the fourth quarter of fiscal year 2012 has been added to the Work Plan for the Committee's consideration. He also noted that three of the five Asset Class Guidelines have been drafted for the Committee's consideration. Mr. Johansen commented that staff and NEPC interviewed all-cap domestic equity managers at NEPC's offices earlier this week and would be conducting further due diligence on these managers before ultimately selecting a subset of the managers to present to the Committee at a future meeting.

Motion to approve the work plan for the fourth quarter of fiscal year 2012:

Motion: Mr. Jensen

Second: Mr. O'Donnell

Motion carried unanimously.

Mr. Johansen referred to the Legislative Update dated January 12, 2012. He referenced Senate Bill 229 (SB229), which proposes closing the NHRS defined benefit plan, effective October 31, 2012, and replacing it with a defined contribution plan, commencing on November 1, 2012. Mr. Johansen indicated that the System's actuary, Gabriel, Roeder, Smith and Company (GRS), presented a detailed analysis of SB229 at the January NHRS Board meeting. The GRS analysis concluded that SB229's proposed switch to a defined contribution plan would increase costs for employers and reduce benefits for employees. At the request of the Committee, Mr. Johansen agreed to provide a copy of the GRS report to each Committee member.

Mr. Johansen referenced the draft asset class guidelines for Domestic Equity, Non-U.S. Equity, and Fixed Income, which have been provided for the Committee's consideration and are to be included in the System's Investment Manual. He commented that the Investment Manual will be comprised of three sections: the first section will contain the Board's Investment Policy, Securities Lending Policy, and Proxy Voting Policy; the second section will contain an Accountability Matrix that defines the roles of various parties related to investments of the NHRS; and the third section will contain the Committee's Asset Class Guidelines.

As the Committee had only minor, non-material revisions to suggest, a motion was made to approve the Domestic Equity, Non-U.S. Equity, and Fixed Income Asset Class Guidelines, as amended by the Committee:

Motion: Mr. Jensen

Second: Mr. O'Donnell

Motion carried.

## Fisher Investments Presentation

Mr. Jeffrey Silk, Vice Chairman, and Mr. Daniel Concannon, Vice President/Relationship Manager, of Fisher Investments (Fisher) presented an overview of their firm and a review of the Non-U.S. Equity portfolio that the firm manages on behalf of the System. They referred to the “All Foreign Equity” presentation, dated January 20, 2012.

In response to questions from the Committee, Mr. Silk noted that portfolio turnover did not increase in the fourth calendar quarter of 2011. He remarked that the same securities that hurt the portfolio’s performance in the quarter-ended September 30, 2011, benefited the portfolio in the quarter-ended December 31, 2011. He also noted that currency expectations do play a role in deciding which countries Fisher invests in and over or under-weights. Mr. Silk commented that the portfolio is currently underweight European financials, and has been since mid-2007. He noted Fisher’s expectation that the Euro will continue to weaken against the U.S. Dollar, but will remain on par against other global currencies. He added that many of the portfolio’s European holdings feature global lines of business which are not solely dependant on European markets.

Further responding to Committee questions, Mr. Silk indicated that if Fisher were managing a global portfolio, the second largest overweight position in the portfolio would be to the United States, behind a larger Emerging Markets overweight position. He also commented that Fisher’s level of confidence in Chinese economic statistics has increased, but remains lower than their confidence in developed market statistics. Mr. Silk added that Fisher focuses on loan growth when evaluating Chinese financials, not the quality of loans that these institutions hold on their balance sheets, due to the different standards of accounting and financing in China. He remarked that the Chinese financials owned in the portfolio are focused more on insurance products than loan financing.

Ms. Provencher departed the meeting at this time.

Mr. Silk commented that political uncertainty throughout the world is among Fisher’s chief concerns. Responding to questions about risk control, Mr. Silk noted that Fisher limits its market over-weights and caps individual holdings at 5% of the portfolio’s market value and referred the Committee to the risk controls in the presentation.

## Thornburg Investment Management Presentation

Mr. William Fries, Co-Portfolio Manager and Managing Director (via telephone), and Ms. Christa Maxwell, Senior Client Service Executive, of Thornburg Investment Management (Thornburg) presented an overview of their firm and a review of the Non-U.S. Equity portfolio that the firm manages on behalf of the System. They referred to the “New Hampshire Retirement System” presentation.

In response to questions from the Committee, Mr. Fries noted that Thornburg develops a target price for each security, based on internally developed intrinsic value calculations. He commented that the valuation process differs among industries and franchise classifications. Ms. Maxwell noted that the portfolio’s country and sector weights are a result of the firm’s bottom-

up investment process. Mr. Fries indicated that the portfolio's holdings in the financials sector was a drag on 3-year performance returns, as Thornburg misinterpreted investor sentiment regarding this sector and initiated some positions too early. He commented that Thornburg has reduced its weighting in the financials sector recently.

Responding to a Committee question about the negative impact of stock selection across most sectors on the portfolio's calendar year 2011 returns, Mr. Fries notes that this has resulted in the firm reviewing its research processes and thoroughness and paying greater concern to macro-level considerations when implementing portfolio decisions. In response to follow-up questions, Mr. Fries indicated that Thornburg sees a slow-growth environment ahead for the United States, and a "soft-landing" in China. He also confirmed that the portfolio has a partial Euro hedge in place. The Committee requested that Thornburg follow up with Staff after the meeting by providing additionally requested portfolio-level statistics.

#### NEPC 2012 Actions and Assumptions

Mr. Levell provided an overview of NEPC's updated asset class return forecasts and recommended actions for clients. He referred to the "2012 Actions and Assumptions" presentation, dated January 2012.

In response to comments from the Committee, Mr. Levell remarked that NEPC's return assumptions for emerging markets have decreased from a year prior, as these markets continue to develop, are more integrated in the global economy, and should begin to experience margin contraction. He further noted, however, that the debt overhang in developed nations, the lack of action by policymakers to solve these issues, and NEPC's expectation that these problems will not be resolved over the next five to seven years, all result in emerging markets being more attractive from an investment standpoint than developed markets over that period.

In response to Committee concerns about the unknown impact of central bank actions on markets and asset returns, and the fact that these unknowns cannot be factored into asset class forecasting models, Mr. Levell cited three related considerations that NEPC takes into account as they determine their asset class assumptions: first, that market is pretty good about understanding these impacts over the shorter-term five to seven year period; second, by incorporating higher volatility expectations around their fixed income assumptions; and finally, by modeling several different market scenarios when analyzing the impact of these assumptions on client portfolios when conducting Asset/Liability Modeling studies.

Mr. Gill responded to Committee questions about the role of hard assets and gold in an investment portfolio by noting that, in general, a dedicated allocation to hard assets reflects a hedge against inflation whereas a dedicated allocation to gold represents a philosophical view that central bankers will not be able to successfully manage currencies effectively in the future.

The Committee requested that for its next meeting, NEPC provide an analysis on currency hedging, specific to the System's current portfolio. The analysis shall include the impact of hedging on portfolio returns, the associated expenses, and a recommendation on the best method of implementing such a program.

In response to Committee questions, Mr. Leonard confirmed that Thornburg is currently on their Non-U.S. Equity Focused Placement List.

Investment Committee Checkpoint Discussion

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

**Informational Items:**

Investment Performance – FYTD November 2011

Asset Allocation Update

NEPC Performance Report – November 2011

2011 Proxy Voting Summary

2012 Board & Investment Committee Calendar

Motion to adjourn the January 20, 2012 meeting of the NHRS Investment Committee:

Motion: Mr. Sosnoff

Second: Mr. Jensen

Motion carried unanimously.

The meeting adjourned at 12:49 pm.