

NOTE: These minutes were approved and executed at the July 19, 2013 Independent Investment Committee meeting.

**Independent Investment Committee
June 21, 2013**

Public Minutes

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

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

NHRS Trustees: Dean Crombie; Dick Gustafson, Ph.D.; and Germano Martins.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; 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 9:20 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public and non-public minutes of the May 24, 2013 Investment Committee meeting. As there were none, a motion to approve the public and non-public minutes of the May 24, 2013 Investment Committee meeting was made by Mr. O'Donnell and seconded by Ms. Provencher. The motion carried unanimously.

Mr. Johansen provided a brief update on the Work Plan, referring to the "Work Plan" memo, dated May 28, 2013. He summarized the legislative update, referring to the "2013 Legislative Tracker", dated June 7, 2013. Mr. Johansen stated the custodian conversion is in process and moving along smoothly with a conversion date of July 1, 2013.

Mr. Johansen provided an update on the liquidation of the absolute return fund-of-funds portfolio managed by Arden Asset Management ("Arden"). He indicated that the portfolio's market value as of March 31st was approximately \$42 million. He commented that through the

beginning of June, \$19.3 million has been liquidated. He noted that an additional \$13 million is expected to be distributed through July and August, which will bring the amount of the total investment liquidated through that time to approximately 75%. He indicated that the remainder of the portfolio is somewhat illiquid and commented that he will continue to provide updates to the Committee as additional information is available.

Mr. Johansen noted that there are two handouts: one related to the passing of Dr. Ken Lyall at Walter Scott and the other a memo detailing the retirement of Linn Arbogast of Segall Bryant & Hamill (“SBH”). He noted that he recently visited SBH and anticipates a smooth transition, noting that Mr. Arbogast will be involved in the firm for a number of years in an advisory role.

Mr. Johansen previewed the July 2013 Committee meeting, which will feature presentations focused on global macroeconomic issues that impact markets and the portfolio. He stated that PIMCO will make a presentation on their annual Secular Forum and also discuss the debate on interest rate increases. Mr. Johansen also mentioned that there will be a presentation on China and that NHRS core fixed income manager Income Research & Management will make a presentation on the current status of debt that was written down and considered “toxic” during the credit crisis and market downturn of 2007 and 2008.

Mr. Johansen briefly reviewed the performance of the Marketable Investments portfolio for periods ending May 31, 2013. For the fiscal year-to-date through May 31st, the Marketable Investments returned 17.3%, exceeding the return of its custom benchmark of 15.9% by 140 basis points. For the one-year period ending May 31st, the Marketable Investments returned 21.0%, exceeding the return of its custom benchmark of 19.5% by 150 basis points. For the three-year period ending May 31st, the Marketable Investments returned 12.2%, exceeding the return of its custom benchmark of 11.8% by 40 basis points. Mr. Johansen noted that the fixed income managers generated negative absolute performance during the month of May but tracked relatively close to the benchmarks. He noted that two of the NHRS fixed income managers; Brandywine Global Investment Management (“Brandywine”) and Loomis Sayles (“Loomis”) will be making presentations to the Committee today and will discuss the interest rate environment and potential portfolio impact.

Mr. Johansen provided an overview of the local tax agent in India noting that this is a requirement of the Securities and Exchange Board of India for any investors, such as NHRS, that have direct holdings in India. He referred to the “J. Ghevaria & Co. – Tax Agent (India)” memo, dated June 12, 2013. The Committee held a brief discussion. A motion was made by Ms. Provencher and seconded by Mr. O’Donnell to authorize Staff to engage J. Ghevaria & Co. as local tax agent for the NHRS in India. The motion carried unanimously.

The Committee discussed the presentation made by core fixed income manager Income Research & Management (IR&M) at the May Committee meeting. A motion was made by Mr. O’Donnell and seconded by Ms. Provencher to renew the investment management agreement with IR&M through July 2015. The motion carried unanimously.

The Committee discussed the presentation made by small cap non-U.S. equity manager GMO at the May Committee meeting. A motion was made by Mr. O’Donnell and seconded by Ms. Provencher to extend the investment management relationship with GMO through June 2015. The motion carried unanimously.

Mr. Johansen commented that The Townsend Group (“Townsend”), the System’s discretionary real estate manager, would present a recap of their fiscal year 2013 real estate Investment Plan. 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. Johansen summarized the current plan to liquidate the direct property holdings.

Mr. Anthony Frammartino, Principal; Mr. Tony Pietro, Assistant Portfolio Manager; and Mr. Joe Davenport, Analyst, of Townsend provided an overview of their firm, an update on the Fiscal Year 2013 Investment Plan and presented the Fiscal Year 2014 Investment Plan for consideration by the Committee. They referred to the “New Hampshire Retirement System Real Estate Fiscal Year 2014 Investment Plan” presentation, dated June 21, 2013.

In response to Committee member questions, Mr. Frammartino stated that European banks continue to sell real estate assets and the expectation is that transaction flow will increase meaningfully throughout Europe in distressed and recapitalization transactions. Mr. Frammartino noted that as interest rates rise, the NHRS real estate

portfolio is expected to continue to perform relatively well primarily due to the already priced in spread and anticipated economic growth.

Mr. Frammartino and Mr. Pietro detailed the plan to prudently liquidate the remaining six direct properties through a creative solution that involves selling approximately half the properties to an open-end commingled fund in exchange for fund units with the remaining properties managed by a new separate account manager that will liquidate the properties over approximately eighteen months. Mr. Frammartino stated that the new separate account manager, whom Townsend is currently in negotiations with, has significant experience and would be the same manager that manages the aforementioned open-end commingled funds.

In response to additional Committee member questions, Mr. Frammartino stated that only 3% of the NHRS real estate portfolio is invested in REITs which limits the amount of real estate exposure subject to stock market volatility. He noted that when Townsend invests outside of the U.S., the investments are made from a return enhancement perspective rather than for diversification purposes. He concluded by stating that the Townsend is not pursuing the single-family housing strategy but is currently preparing a white paper on the strategy that will be distributed once completed.

A motion was made by Mr. O' Donnell and seconded by Ms. Provencher to approve The Townsend Group's Fiscal Year 2014 Investment Plan. The motion carried unanimously.

Mr. Gill and Mr. Johansen provided a brief overview of energy-focused private equity manager Ridgewood Energy ("Ridgewood"). Mr. Gill discussed the capabilities of the firm, the strategy, the associated risks and fund raising activity. He concluded by noting that the low cost basis of approximately \$20 per barrel of oil, which is well below industry standards, is due primarily to Ridgewood's technology and that this low-cost basis creates a significant cushion if oil prices were to decline from today's \$90-\$110 range.

Mr. Bob Gold, Executive Vice President and Mr. Pete Zwart, Executive Vice President – Commercial of Ridgewood presented an overview of their firm and its energy-focused private equity fund, Ridgewood Energy Oil & Gas Fund II ("Fund II"). They referred to the "Ridgewood Energy Oil & Gas Fund II presentation for New Hampshire Retirement System Investment Committee" document.

In response to a question from the Committee, Mr. Gold stated that two-thirds of the portfolio will be committed to specific projects by the final fund close which helps to mitigate blind pool risk. Mr. Zwart noted that Ridgewood's competitive advantages include having the right technology, using that technology efficiently and targeting smaller oil wells that are under the radar of larger competitors like BP and Exxon. Mr. Zwart detailed the economics and underlying conservative assumptions that Ridgewood utilizes to illustrate the expected returns of Fund II. He stated that the average life of these off-shore wells is about 7-8 years, after which the wells are closed down and made environmentally safe. Mr. Gold stated that the current per barrel oil price of about \$95 is driven by demand. Mr. Zwart concluded by noting that due to the Macondo incident, the industry is much better positioned to avoid and mitigate the risk of a similar incident.

The Committee discussed the potential opportunity to invest in Fund II and Mr. Gill summarized the strategy, noted that there are a significant number of public pension plans investing in this strategy. He provided additional details on Riverstone's investments with Ridgewood. Mr. Johansen re-iterated that Ridgewood's competitive advantage is the technology, specifically the seismic data and the firm's geologists that have the experience to read the data. In addition, he stated that the niche of targeting smaller wells also allows Ridgewood to avoid competition with the major oil E&P companies. A motion was made by Mr. O'Donnell, seconded by Ms. Provencher, to defer a vote to make a commitment to Fund II until the July Committee meeting. The motion passed unanimously.

Mr. Stephen Smith, Managing Director and Portfolio Manager; and Ms. Nedra Hadley, Senior Vice President, of Brandywine provided a brief introduction of themselves and their firm and delivered an in-depth review of global markets and the portfolio in which NHRS invests. They referred to the "New Hampshire Retirement System Global Opportunistic Fixed Income" presentation, dated June 21, 2013.

Ms. Elaine Stokes, Vice President and Portfolio Manager; and Mr. Gregory Ward, Client Portfolio Manager, of Loomis provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System Loomis Sayles" presentation, dated June 21, 2013.

In response to questions from the Committee, Ms. Stokes confirmed that Dan Fuss is still involved in the investment process at Loomis from a big-picture macroeconomic perspective. She commented that while Mr. Fuss

continues to participate in the investment team's daily morning meeting, he has stepped back from day-to-day due diligence work.

Responding to questions from the Committee, Ms. Stokes indicated that the funding for the portfolio's recent increase in U.S. Treasury exposure was sourced from available cash reserves. She discussed Loomis' favorable outlook for Brazil, commenting that recent street protests in the country may lead to meaningful beneficial policy change within the country. She remarked that the likely successor to Federal Reserve Chairman Ben Bernanke is expected to maintain existing policy, should Mr. Bernanke step down. She expressed her expectation that the interest rate environment one year from now will look very similar to today's environment, however, the road to get there may be bumpy.

On a motion by Mr. O'Donnell, seconded by Ms. Provencher, the meeting adjourned at 1:12 p.m.