

**Investment Committee Meeting  
March 18, 2011**

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

The Investment Committee meeting was called to order at 9:02 a.m. Present were:

Investment Committee: Mr. Harold Janeway (Committee Chair); Ms. Cathy Provencher; Dr. Lisa Shapiro; and Mr. Thomas Silvia. There is currently one vacant seat on the Committee.

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

NHRS Staff: Ms. Kim France, Interim Executive Director; Mr. Lawrence Johansen, Director of Investments; Mr. Jack Dianis, Director of Finance; Ms. Nancy Miller, Director of Member Services; Mr. Jeff Gendron, Investment Officer; and Mr. Greg Richard, Investment Analyst.

NEPC, LLC (“NEPC”): Mr. Kevin Leonard, Partner and Senior Consultant; Mr. Sean Gill, Partner; Mr. Christopher Levell, Partner and Mr. Joel Paula, Senior Analyst for fixed income.

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:**

Approval of the February 18, 2011 Investment Committee Minutes

Mr. Janeway surveyed the Committee for comments regarding the draft minutes of the February 18, 2011 Investment Committee meeting. As there were none, he requested a motion for approval of the minutes.

Motion for approval of the public and non-public minutes of the February 18, 2011 Investment Committee meeting:

Motion: Mr. Silvia

Second: Ms. Provencher

Motion carried unanimously.

## Comments from the Director of Investments

Mr. Johansen referred to the Work Plan and related cover memo dated February 28, 2011, and provided a brief update to the Committee. He noted that the agenda for today's meeting consisted of presentations from two core plus fixed income managers; a presentation from a private equity manager; the proposed renewal of the Walter Scott & Partners Ltd. contract; and a discussion about the assumed rate of return and related recommendation to the Board of Trustees.

Mr. Johansen provided an update to the Committee regarding the 2011 private equity work plan, which was approved by the Committee in January, noting that Staff and NEPC have been working on the private equity pipeline and anticipate that one general partner will be presenting at the April Committee meeting.

Mr. Johansen stated that, at the direction of the Committee, Staff and NEPC have had multiple conversations and meetings regarding international small cap equity and emerging market equity managers and that he expects that emerging markets managers will present to the Committee in April, given that this strategy is closing faster than the international small cap managers.

Mr. Johansen mentioned that The Townsend Group met with Staff yesterday to provide an update on the fiscal year 2011 real estate work plan. He noted that Townsend would be presenting to the Committee in June to provide a recap of fiscal year 2011 and to outline the plan for fiscal year 2012.

Mr. Johansen noted that the current legislative session in New Hampshire featured several proposed bills regarding the System and referenced the Legislative Update summary dated March 7, 2011.

## Fixed Income Manager Introduction

Mr. Leonard presented a summary of the core plus fixed income manager search process and referred to the memo titled "Core Plus Fixed Income Manager Search", dated March 8, 2011. Mr. Paula provided a brief introduction on the two finalist core plus fixed income managers presenting to the Committee: Wellington Management Company and Pacific Investment Management Company.

In response to questions from the Committee, Mr. Leonard stated that a structural review of the fixed income portfolio will be initiated in the second quarter of calendar year 2011 and will include a discussion of appropriate fixed income benchmarks.

## Wellington Management Company ("Wellington")

Mr. Thomas Coleman, Vice President and Investment Director; Mr. Joseph Marvan, Vice President and Fixed Income Portfolio Manager; and Ms. Elizabeth O'Hara, Vice President and Relationship Manager presented an overview of their firm and the capabilities of its core plus fixed income strategy. They referred to the "Core Bond Plus – March 18, 2011" presentation.

In response to questions from the Committee, Mr. Coleman explained the compensation and incentive structure for the team responsible for managing the core plus fixed income portfolio. Mr. Marvan explained how the individual sector and macroeconomic teams interact to construct a portfolio and detailed how the quantitative group at Wellington calculates the duration of the portfolio. Regarding the non-US holdings in the composite core plus portfolio, Mr. Marvan stated that these holdings are typically from the G-10 countries which limit the credit risk.

#### Pacific Investment Management Company (“PIMCO”)

Mr. Marc Seidner, Managing Director and Generalist Portfolio Manager; Mr. Robert Morena, Executive Vice President and Head of Institutional Business Development; and Mr. James Clarke, Senior Vice President and Account Manager presented an overview of their firm and the capabilities of its core plus fixed income strategy. They referred to the “A Presentation on PIMCO’s Core Plus Total Return Strategy to: NHRS – March 18, 2011” presentation.

In response to questions from the Committee, Mr. Seidner noted that the PIMCO investment committee votes via a secret ballot on investment decisions to avoid being lead solely by Mr. Bill Gross. Mr. Seidner stated that, with a fully flexible mandate, long-term fixed income returns in the mid-five percent range can be achieved. Responding to a Committee member question, he explained that when the debt to GDP ratio of a nation reaches above 90%, there are negative implications to long-term growth prospects. He noted that PIMCO’s viewpoint is that the debt dynamic, both the deficit which is currently about 10% of GDP and debt levels which are headed towards 90% in the next few years, need to be restrained or it will create an issue in the bond market.

#### Fixed Income Manager Recap

Mr. Janeway entertained a motion to enter into non-public session under RSA 91-A:3, II(c) to discuss matters which, if discussed in public, would likely adversely affect the reputation of a person, other than a member of the public body itself. A motion was made by Mr. Silvia and seconded by Dr. Shapiro to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.

Nay: None

Motion carried.

The Committee discussed the structure of the System’s fixed income portfolio.

A motion was made by Ms. Provencher and seconded by Mr. Silvia to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.

Nay: None

Motion carried.

Motion to retain PIMCO to manage a core plus fixed income mandate for an initial two-year term, subject to contract and legal review. The mandate will be funded in an approximate amount of \$450 million which represents the assets of the NHRS portfolio managed by Pyramis Global Advisors.

Motion: Mr. Silvia

Second: Dr. Shapiro

Motion carried unanimously.

#### Siguler Guff & Company (“Siguler”)

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(d) for the purpose of considering the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to the general community. A motion was made by Dr. Shapiro and seconded by Mr. Silvia to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.

Nay: None

Motion carried.

Mr. James Geregthy, Managing Director and Head of Distressed Investing; and Mr. Thomas McGowan, Managing Director and Head of Marketing, presented an overview of their firm and the capabilities of its private equity strategy. They referred to the “Distressed Opportunities Fund IV, LP – March 2011” presentation.

The Committee discussed its May 21, 2010 decision to commit \$20 million to the Siguler Guff Distressed Opportunity Fund IV.

A motion was made by Dr. Shapiro and seconded by Mr. Silvia to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Ms. Provencher, Dr. Shapiro, and Mr. Silvia.

Nay: None

Motion carried.

Motion to ratify the Committee's May 21, 2010 decision to commit \$20 million to the Siguler Guff Distressed Opportunity Fund IV.

Motion: Dr. Shapiro

Second: Mr. Silvia

Motion carried unanimously.

#### Contract Renewal: Walter Scott & Partners Ltd. ("Walter Scott")

Mr. Johansen informed the Committee that the investment management agreement between NHRS and Walter Scott is due for renewal. He noted that at its July 2010 meeting, the Committee requested that NEPC provide a recommendation with regard to such manager agreement renewals when they come due. He referenced memos provided to the Committee from L. Johansen and NEPC, which recommend that the agreement between the System and Walter Scott be renewed.

Motion to renew the investment management relationship with Walter Scott & Partners Ltd. through April 30, 2013:

Motion: Mr. Silvia

Second: Ms. Provencher

Motion carried unanimously.

#### Discussion of Assumed Rate of Return

Mr. Johansen noted the 5-7 year and 30 year return forecasts from NEPC are 6.4% and 8.1%, respectively. He mentioned that the 5 year and 30 year return forecasts for AllianceBernstein are 7.0% and 8.1%, respectively. Mr. Johansen stated that the System's actuarial consultant Gabriel Roeder Smith & Company recommended an assumed rate of return within the range of 7.5% to 8.0%. In addition, Mr. Johansen referenced a 2011 Public Fund Survey which illustrated that the majority of public funds use an investment rate of return of 8.0%.

The Committee discussed the assumed rate of return and Mr. Levell provided a brief overview of the NEPC forecast.

Motion to recommend an assumed rate of return of 7.75% to the Board of Trustees.

Motion: Mr. Silvia

Second: Mr. Janeway

Motion carried unanimously

#### Investment Committee Checkpoint Discussion

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

#### **Informational Matters:**

Investment Performance – FYTD January 2011

Financial Statements – December 2010

Asset Allocation Update

NEPC Performance Report – January 2011

Wall Street Journal Article – Productivity and Growth

Goldman Sachs Article – Developed Markets Core Inflation

Goldman Sachs Chart – Equity Risk and Credit Premiums

Credit Suisse Article – Russell Reconstitution

Motion to adjourn the March 18, 2011 meeting of the NHRS Investment Committee:

Motion: Ms. Provencher

Second: Mr. Janeway

Motion carried unanimously.

The meeting adjourned at 12:50 pm.