

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

**Independent Investment Committee
March 22, 2013**

Public Minutes

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

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

NHRS Trustees: Dean Crombie.

Staff: Larry Johansen, *Director of Investments*; Jeff Gendron, *Investment Officer*; 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 9:04 a.m. He surveyed the Committee for comments on the draft minutes of the February 22, 2013 Investment Committee meeting. As there were none, a motion to approve the public minutes of the February 22, 2013 Investment Committee meeting was made by Mr. O'Donnell and seconded by Mr. Janeway. The motion carried unanimously.

Mr. Johansen briefly reviewed the performance of the Marketable Investments portfolio for periods ending February 28, 2013. For the fiscal year-to-date through February 28th, the Marketable Investments returned 12.1%, exceeding the return of its custom benchmark of 11.3% by 80 basis points. For the one-year period ending February 28th, the Marketable Investments returned 10.1%, exceeding the return of its custom benchmark of 9.7% by 40 basis points. For the three-year period ending February 28th, the Marketable Investments returned 10.4%, exceeding the return of its custom benchmark of 10.2% by 20 basis points.

Mr. Johansen provided an update on the custodial RFP process, noting that Staff has reviewed the three RFPs received and has scheduled half-day meetings over the next couple weeks with each potential custodian at the NHRS offices.

Mr. Johansen provided an update on Avenue Capital, one of the System's private debt general partners. He noted that recently there have been articles in the press regarding Avenue's co-founder, Mr. Marc Lasry, and the possibility of him leaving the firm to become the U.S. ambassador to France. Mr. Johansen stated that he had discussed this possibility with Mr. Lasry and concluded that because of the deep bench at Avenue, including the other co-founder, and since the fund the System is invested in is approximately 85% invested, that Mr. Lasry's departure would not be a significant cause for concern.

Mr. Johansen provided a brief legislative update, referring to the "2013 Legislative Tracker", dated March 8, 2013. He noted that the bill which proposed to study a cash balance retirement plan for NHRS was recommended as Inexpedient to Legislate by the House Executive Department & Administration and that the bill is set to be voted on by the full House next week.

Mr. Johansen noted that he and Mr. Janeway will meet with Loomis Sayles & Co., one of the System's fixed income managers, next week to discuss the recent organizational changes including the departure of Ms. Kathleen Gaffney, and to gain insight on the firm's strategy regarding the future interest rate environment.

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

Mr. Johansen briefly summarized recent conversations with TSW regarding performance and discussed the relative portfolio returns of SBH, referring to the NEPC memo "Segall Bryant & Hamill Performance Update", dated March 12th. The Committee concluded that SBH continues to invest in a manner consistent with their mandate and that there is no reason to believe that the strategy will not be rewarded over a full market cycle.

Mr. Johansen discussed the relative portfolio return pattern of Netols, referring to the NEPC memo "Netols Asset Management Performance Review and Recommendation", dated March 11th. 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 February 28, 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. The Committee discussed Netols and noted concerns regarding the aforementioned underperformance, asset under management growth and lack of a succession plan.

A motion was made by Mr. O'Donnell and seconded by Ms. Provencher to terminate the investment management agreement with Netols Asset Management. The motion carried unanimously.

The Committee had a lengthy discussion regarding the various options for allocating the assets of the Netols portfolio. A motion was made by Mr. Sosnoff and seconded by Ms. Provencher to allocate the assets amongst small/smud cap domestic equity managers as follows: \$50 million to AllianceBernstein and the remainder of approximately \$32 million to Wellington. The motion carried unanimously.

The Committee discussed the presentation made by PIMCO at the February Committee meeting. A motion was made by Mr. Sosnoff and seconded by Ms. Provencher to renew the investment management agreement with PIMCO through April 2015. The motion carried unanimously.

The Committee discussed the presentation made by Walter Scott & Partners Ltd ("Walter Scott") at the February Committee meeting. A motion was made by Mr. O'Donnell and seconded by Ms. Provencher to renew the investment management agreement with Walter Scott through April 2015. The motion carried unanimously.

Mr. Johansen provided an update to the Work Plan dated February 25, 2013. He indicated that Hancock Capital Management ("Hancock") 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 Hancock. Responding to Committee member questions, Mr. Gill outlined Hancock's competitive advantage and explained the European style distribution waterfall.

Mr. Stephen Blewitt, Senior Managing Director; Mr. Scott McFetridge, Senior Managing Director; and Mr. Saverio Costa, Managing Director, of Hancock Capital Management presented an overview of their firm and its mezzanine fund Hancock Capital Partners V ("Fund V"). They referred to the "New Hampshire Retirement System – Investment Committee Meeting" presentation, dated March 22, 2013.

In response to questions from the Committee, Mr. Blewitt confirmed that the companies financed by Hancock generally do not have access to the high yield market due to their relatively small size. He noted that each financing deal contains both a debt and equity component. Mr. McFetridge stated that company exits are achieved primarily through refinancings or sales to financial/strategic buyers, with IPOs representing a smaller portion of exits.

The Committee discussed the Hancock presentation and the opportunity to invest in Fund V as well as the appropriate sizing of a potential commitment. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board of Hancock V. A motion was made by Mr. Sosnoff and seconded by Ms. Provencher to commit \$30 million to Hancock Capital Partners V, subject to contract and legal review. The motion carried unanimously.

Mr. David Lazenby, Deputy Chief Investment Officer and Head of Emerging Markets; Mr. Ray Prasad, Director and Senior Portfolio Manager; and Mr. Jon Simon, Client Service Director, of Batterymarch Financial Management (“Batterymarch”) provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System – Global Emerging Markets Equity” presentation dated March 22, 2013.

In response to questions from the Committee, Mr. Lazenby and Mr. Prasad shared their views on China including the demographics; the real estate market; the ongoing transition from an export economy to a consumption-oriented economy; the political risks; and the movement towards urbanization. Mr. Lazenby summarized the portfolio characteristics and noted that there is generally a 10-15% overweight to small cap companies as compared to the benchmark and explained the firm’s competitive advantage in selecting small cap companies.

Mr. Charles Seidman, Vice President and Investment Director; and Ms. Elizabeth O’Hara, Vice President and Relationship Manager, of Wellington Management Company (“Wellington”) presented a brief introduction of themselves; an overview of their firm; and portfolio management changes since being retained by the System in 2011. They referred to the “New Hampshire Retirement System” presentation dated March 22, 2013.

In response to questions from the Committee, Mr. Seidman explained that although health care was the best performing sector in calendar year 2012, the sector represents less than 2% of the MSCI Emerging Markets benchmark index. He confirmed that the firm utilizes a bottom-

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up stock selection process with sectors and countries being a residual of that process. Mr. Seidman stated that annual turnover in portfolio holdings is approximately 65% and explained the portfolio manager's approach to managing this turnover.

The Committee discussed today's investment manager presentations and requested a summary of the System's foreign currency exposure. Mr. Leonard confirmed that NEPC will present this information at the April Committee meeting.

On a motion by Mr. Sosnoff, seconded by Mr. O'Donnell, the meeting adjourned at 12:21 p.m.