

**NOTE:** These minutes were approved and executed at the June 21, 2013 Independent Investment Committee meeting.

**Independent Investment Committee  
May 24, 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; and Dick Gustafson, Ph.D.

*Staff:* George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance* (by telephone); Heather Fritzky, *Controller*; 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 9:03 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public minutes of the April 19, 2013 Investment Committee meeting. As there were none, a motion to approve the public minutes of the April 19, 2013 Investment Committee meeting was made by Mr. O'Donnell and seconded by Ms. Provencher. The motion carried unanimously.

Mr. Johansen briefly reviewed the performance of the Marketable Investments portfolio for periods ending April 30, 2013. For the fiscal year-to-date through April 30<sup>th</sup>, the Marketable Investments returned 16.7%, exceeding the return of its custom benchmark of 15.7% by 100 basis points. For the one-year period ending April 30<sup>th</sup>, the Marketable Investments returned 13.7%, exceeding the return of its custom benchmark of 13.3% by 40 basis points. For the three-year period ending April 30<sup>th</sup>, the Marketable Investments returned 9.7%, exceeding the return of its custom benchmark of 9.6% by 10 basis points.

Mr. Johansen noted that the transition of the small cap U.S equity portfolio formerly managed by Netols Asset Management had been

completed without issue. The assets were transitioned into U.S. equity portfolios managed on behalf of the System by AllianceBernstein and Wellington Management Company. He referenced the post-trade report provided by State Street Global Markets in their capacity as the transition manager for this event, dated April 29, 2013.

Mr. Johansen referred to a letter from real estate portfolio manager The Townsend Group (“Townsend”), dated May 13, 2013, regarding the status of the seven remaining direct property holdings in the NHRS portfolio. He indicated that one of the properties is expected to be sold in June and that Townsend is working with four different entities in an attempt to roll all or most of the six remaining properties into an open-ended real estate fund in exchange for units of that fund. He commented that appraisals will be done on the properties, and that Townsend will be presenting at the Committee’s June meeting and can provide additional comments at that time. In response to a question from the Committee, Mr. Johansen noted that the funds Townsend is currently reviewing with regard to this transaction are funds that Townsend would otherwise consider for investment by NHRS.

Mr. Johansen updated the Committee on the status of contract negotiations with Hancock Capital Management (“Hancock”) regarding the \$30 million commitment made by the Committee in March of 2013 to the firm’s Hancock Capital Partners V mezzanine fund. He noted that Hancock was unable to agree to acceptable terms with the NHRS. He indicated that as a result, NHRS would not close on this commitment.

Mr. Johansen referenced a letter from small cap U.S. equity manager Segall Bryant & Hamill (“SBH”), dated May 13, 2013, that announced the transition into retirement of lead portfolio manager Linn Arbogast, effective July 1, 2013. He commented that Mark Dickherber, who has worked on the portfolio with Mr. Arbogast since 2006, will assume lead portfolio manager responsibilities on July 1<sup>st</sup>. He noted the Mr. Arbogast has signed a 6-year employment contract with SBH and will maintain a consulting role with the investment team via a home office that SBH is providing. Mr. Johansen commented that NHRS has held conference calls with SBH and NEPC to discuss this transition, and that he is comfortable that it will proceed in an orderly fashion. Mr. Leonard agreed. Mr. Johansen indicated that NHRS will closely monitor the situation as it evolves, and will provide updates to the Committee as necessary.

In response to a question from the Committee, Mr. Johansen discussed the recent underperformance of small cap U.S. equity manager Boston Trust & Investment Management Company (“Boston Trust”). He noted Boston Trust’s focus on companies that feature strong return on invested

capital (“ROIC”) metrics. He commented that firms in the top quintile of ROIC were in the bottom performance quintile for much of the recent market rally, and as a result, the portfolio’s relative underperformance in the market rally is understandable. Mr. Leonard agreed, and indicated that the Boston Trust portfolio’s relative underperformance is consistent with the returns of other managers with a ROIC investment focus.

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 31<sup>st</sup> was approximately \$42 million. He commented that through the beginning of June, approximately \$18.9 million will have 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. In response to a question from the Committee, Mr. Johansen confirmed that the Arden liquidation proceeds are being used to offset monthly cash needs.

Mr. Johansen informed the Committee that he has had discussions with a few large general partners in an effort to select a firm with which to establish a strategic relationship for purposes of evaluating and advising NHRS with regard to private equity co-investment opportunities. He commented that these types of investments generally feature more favorable fee structures than traditional private equity limited partnership investments. Mr. Gill confirmed that this type of relationship is common among NEPC’s larger public fund clients. In response to a question from the Committee, Mr. Gill indicated that the commitment size for co-investments varies depending on the specific investment opportunity under consideration.

Mr. Johansen previewed the July 2013 Committee meeting, which will feature presentations focused on global macroeconomic issues that impact markets and the portfolio. He discussed some of the topics that the Committee had previously expressed an interest in discussing at the July meeting, including: profit margin expectations; investing in a slow-growth environment; U.S. debt levels; and European economic concerns. The Committee also expressed an interest in presentations on the current status of debt that was written down and considered “toxic” during the credit crisis and market downturn of 2007 and 2008; and on investing in China. Mr. Johansen asked Committee members to send him any additional suggestions that they may have so that he can begin scheduling presentations for the meeting.

The Committee discussed the presentation made by emerging markets small cap investment manager Aberdeen Asset Management (Aberdeen) at the April Committee meeting. A motion was made by Mr. Sosnoff and seconded by Mr. O'Donnell to extend the investment management relationship with Aberdeen through May 2015. The motion carried unanimously.

Mr. Gill and Mr. Johansen provided a brief overview of emerging markets distressed debt manager Gramercy. Mr. Gill discussed the capabilities of the firm and answered questions about the firm's historical performance and fund raising activity.

Mr. Robert Koenigsberger, Managing Partner and Chief Investment Officer; Mr. David Herzberg, Partner and Head of Corporate Research; and Ms. Kelly Griffin, Managing Director of Business Development, of Gramercy presented an overview of their firm and its emerging markets debt fund, Gramercy Distressed Opportunity Fund II ("GDOF II"). They referred to the "Investment Presentation for New Hampshire Retirement System" document, dated May 24, 2013.

In response to a question from the Committee, Mr. Koenigsberger acknowledged that a lot of competitor firms have entered and exited the emerging markets space as it has evolved over the past 10 to 15 years. He acknowledged that while there are some very large competitors today, few offer a similar suite of products and have the capabilities to evaluate emerging market debt restructuring opportunities as Gramercy does.

Responding to questions from the Committee, Mr. Koenigsberger explained the investment thesis behind GDOF II's Argentinian debt positions. He also discussed the large inflows of cash into emerging market index funds, and how this effects the investment environment for Gramercy. He noted that these cash flows have resulted in record levels of new issues, which has made it difficult for older issues to refinance and has resulted in overbought markets that provide hedging opportunities for GDOF II.

Mr. Koenigsberger discussed the use of credit default swaps within GDOF II and how Gramercy uses these in an attempt to reduce portfolio risks. He talked about Gramercy's relationships with various local investment firms in the emerging market countries and the importance of ensuring that the interests of all parties in deal negotiations are aligned. Mr. Herzberg and Mr. Koenigsberger explained how Gramercy ensures compliance with restrictions placed on them via the U.S Foreign Corrupt Practices Act.

Mr. Stephen Weiss, Principal; and Mr. Jim Gubitosi, Senior Portfolio Manager, of Income Research + Management (“IRM”) provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” presentation, dated May 24, 2013.

In response to questions from the Committee, Mr. Leonard noted that IRM ranks in the top performance quartile of the eVestment Alliance U.S. core fixed income manager composite over the 10-year period ended March 31, 2013, on a net-of-fees basis. Mr. Weiss confirmed that there is nothing within the existing portfolio management guidelines that IRM seeks to change at this time. Mr. Gubitosi indicated that the level of distressed homes for sale in the U.S. has been reduced substantially over the past year, due to various reasons including attractive interest rates for homebuyers and the bulk purchase of underwater homes by opportunistic investors. Mr. Gubitosi indicated that the portfolio’s holdings of U.S. Treasury securities has increased over the past year for liquidity purposes to ensure that IRM has funds available when an attractive investment opportunity in a spread product is presented.

Mr. John O’Callaghan, Portfolio Strategist; and Mr. Brian Huggon, Client Relationship Manager, of GMO provided a brief introduction of themselves and their firm. They referred to the “New Hampshire Retirement System” presentation, dated May 24, 2013.

In response to a question from the Committee, Mr. O’Callaghan explained GMO’s process with respect to currency management and hedging activity. Mr. O’Callaghan indicated that GMO is monitoring market activity in Japan closely, given the rapid rise in stock prices in that country in a short time. He also noted that GMO is comfortable with their European portfolio holdings, and expects to maintain this exposure. He discussed GMO’s view that foreign small cap stocks are not overvalued relative to U.S. stocks or foreign large cap stocks.

Mr. Johansen provided an overview of the custodial RFP process. He commented that NHRS issued the RFP to four custodial banks: BNY Mellon (“BNYM”), JP Morgan (“JPM”), State Street (“SS”), and the incumbent custodian, Northern Trust (“NT”). He noted that JPM declined to submit a proposal due to capacity constraints. He commented that staff held meetings in the NHRS offices with BNYM, NT and SS; and participated in on-site visits at BNYM and SS. He commented that an on-site visit with NT was not necessary, as NT has been the System’s custodial bank for many years and NHRS is very familiar with their capabilities.

Mr. George Gilmer, Managing Director and Head of Asset Servicing - Americas; Mr. Robert Dollard, Managing Director and Relationship

Executive; and Mr. Robert Carroll, First Vice President and Senior Sales Representative, of BNYM presented an overview of their firm and its custodial banking capabilities. They referred to the “New Hampshire Retirement System” presentation, dated May 24, 2013.

In response to questions from the Committee, Mr. Gilmer indicated that BNYM has had recent success in gaining new public fund custodial clients and has significant experience in successfully transitioning assets onto its custodial platform. He indicated that BNYM has recently won custodial mandates from the State of Rhode Island and the State of Connecticut.

Responding to questions from the Committee, Mr. Dollard discussed how BNYM’s client service plan is tailored to each individual client and is adaptive to the different needs of different clients. Mr. Gilmer explained how BNYM would prudently convert assets from the incumbent custodian in time for a July 1<sup>st</sup> conversion date; discussed the intricacies of dealing with assets in foreign markets; and gave examples of recent conversions that would be on a comparable scale to a conversion of NHRS’ assets.

Mr. William Morrison, President and Chief Operating Officer; Ms. Laurel Neu, Senior Vice President and Group Head for Public Entities and Institutions; Mr. Harland Abraham, Vice President and Client Executive; and Ms. Jennifer Beattie, Vice President and Senior Consultant, of NT provided an overview of their firm and its custodial banking capabilities. They referred to the “Custodial Banking Services” presentation, dated May 24, 2013.

Mr. Mark Schafer, Senior Vice President and Client Services Director; Ms. Lisa Tyrrell, Vice President and Client Relationship Manager; Mr. Hildebrando Izquierdo, Vice President, Private Equity Services; and Ms. Diane Johnson, Vice President, Sales and Territory Management, of SS provided an overview of their firm and its custodial banking capabilities. They referred to the “A Discussion with New Hampshire Retirement System” presentation, dated May 24, 2013.

In response to a question from the Committee, Mr. Schafer indicated that SS has laid off a small number of employees in the Public Fund Services group. He commented that employee turnover within the Public Fund Services group is approximately 3%, with much of the turnover due to promotion. He indicated that SS currently has 187 public fund clients. He noted that a \$6 billion fund such as NHRS would rank at the median of SS’s public fund client base in terms of asset size.

Responding to a question from the Committee, Mr. Izquierdo indicated that SS has several clients for which SS handles the accounting and administrative duties with regard to their alternative investment programs.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. O'Donnell and seconded by Ms. Provencher to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff  
Nay: None

Motion carried.

The Committee discussed the custodial banking presentations and candidate firms, as well as the opportunity to invest in GDOF II.

A motion was made by Mr. O'Donnell and seconded by Mr. Sosnoff to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff  
Nay: None

Motion carried.

A motion was made by Mr. O'Donnell, seconded by Mr. Sosnoff, to commit \$50 million to GDOF II, subject to contract and legal review. The motion carried unanimously. Mr. Johansen confirmed that NHRS has been offered a seat on the Advisory Board of GDOF II.

A motion was made by Ms. Provencher, seconded by Mr. O'Donnell, to retain BNYM to provide master custodial services to NHRS for a term of five years with the ability to extend the contract for two additional one-year periods, commencing July 1, 2013, subject to contract and legal review. The motion carried unanimously.

Mr. Sosnoff noted that the Total Fund's performance returns rank in the top quartile of the Investor Force Public Fund Defined Benefit universe for the 3-year period ended March 31, 2013 and in the top half of the

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universe for the 5-year period ended March 31, 2013, on a net-of-fees basis.

On a motion by Ms. Provencher, seconded by Mr. Sosnoff, the meeting adjourned at 2:25 p.m.