

NOTE: These minutes were approved and executed at the June 20, 2014 Independent Investment Committee meeting.

**Independent Investment Committee
May 23, 2014**

Public Minutes

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

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

NHRS Trustees: Dean Crombie.

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 9:04 a.m. On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the Committee unanimously approved the public and non-public minutes of the April 25, 2014 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Total Fund performance flash report for periods ending March 31, 2014 and the Total Marketable Assets performance flash report for periods ending April 30, 2014. He discussed the returns of various managers and asset classes over multiple time periods in detail.

Mr. Johansen discussed the System's existing stable of transition managers. He indicated that BNY Mellon recently exited the transition business, which reduced the NHRS stable from four transition managers to three: Abel/Noser Corp.; BlackRock; and State Street. He described the attributes of the three remaining transition managers and the process employed by NHRS when a transition occurs. On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the Committee unanimously voted

to add Russell Investments to the NHRS transition manager pool, subject to contract and legal review.

Mr. Johansen provided a brief update to the Committee regarding the upcoming funding of the \$150 million Standard Life Investments Global Absolute Return Strategy (“SLI GARS”) mandate. He indicated that the SLI GARS mandate would be funded next week for a June 2nd initial investment. Mr. Leonard and Mr. Johansen discussed the recent departure of Portfolio Manager Ian Pizer from SLI. They referenced an upcoming meeting with SLI at NEPC’s offices on June 2nd in which Mr. Johansen will participate. The Committee raised several questions regarding Mr. Pizer’s departure. Mr. Johansen indicated that NHRS and NEPC would continue to follow the situation closely, and update the Committee as the situation develops.

Mr. Johansen referenced the “Investment Work Plan” dated April 30, 2014, updated the Committee on several initiatives, provided an overview of today’s meeting agenda, and previewed the next couple Committee meetings.

Mr. Johansen and Mr. Leonard referred to NEPC’s “International Equity Manager Search – Finalist Book” document; discussed the existing structure of the NHRS Non-U.S. Equity composite with the Committee; and briefly described the manager candidate firms that are schedule to present to the Committee at today’s meeting. The Committee discussed portfolio sizing and the appropriate thresholds to consider when determining mandate sizes.

Mr. James Doyle, Portfolio Manager; and Mr. Paul O’Grady, Head of National Accounts, of Causeway Capital Management (“Causeway”) provided a brief introduction of themselves and their firm. They referred to the “International Value Equity” presentation dated May 23, 2014. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Doyle described the background of Causeway as well as that of lead portfolio managers and senior executives Sarah Ketterer and Harry Hartford. Mr. Doyle described the specific roles of Ms. Ketterer and Mr. Hartford in the context of the overall investment team. He indicated that equity ownership in Causeway is broadly diversified among the firm’s professional staff.

Responding to questions from the Committee, Mr. Doyle commented that Causeway’s bottom-up investment process lends itself to markets where macroeconomic and geopolitical events are less impactful. As a result, they prefer to gain portfolio exposure to emerging markets through

companies that are incorporated in developed markets, which typically are more stable and generally feature better accounting standards and corporate governance measures.

Mr. O'Grady responded to questions from the Committee by indicating that Causeway has previously closed the strategy to new investors, but reopened it in 2008. He commented that the strategy has seen strong asset growth in the last three and a half years, but currently has capacity for additional mandates. Mr. Doyle described how Causeway's investment team covers all market segments, despite the fact that they aren't always invested in all industries. He spoke about the valuation metrics Causeway employs when analyzing companies in different industries.

Mr. Bhaskara Swaminathan, Partner and Director of Research; and Mr. Peter Young, Partner and Director of Client Portfolio Services, of LSV Asset Management ("LSV") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated May 23, 2014. A lengthy discussion with the Committee followed.

Mr. Young responded to questions from the Committee by indicating that the team that manages the international large cap portfolio that is the focus of today's presentation is that same team that manages LSV's U.S. large cap value equity strategy in which NHRS invests; he noted that the quantitative investment process between the two strategies is very similar. He described the senior portfolio management team as well as the background of founding partner and LSV's CEO and CIO, Josef Lakonishok.

In response to questions from the Committee, Mr. Young described how LSV's portfolio turnover is impacted by the market environment at the time of rebalancing. Mr. Swaminathan described how LSV's investment process allows them to find attractive stocks in emerging market countries. He addressed the impact of market volatility in 2008 and 2009 on the portfolio and its return. He spoke to LSV's method of ranking companies within countries vs. against competitor firms in other countries, as accounting standards vary significantly across countries. He commented that LSV seeks to maintain their ability to add alpha by constantly reviewing and tweaking their model, and by identifying research opportunities that could have a meaningful impact.

Mr. Young responded to questions from the Committee about the strategy's capacity by indicating that while the portfolio has a lower market cap than the benchmark, the stocks held in the portfolio are liquid mid cap companies. He indicated that the strategy has an

additional \$5-7 billion in capacity at this time, based on existing market levels.

Mr. Mark Yockey, Managing Director and Portfolio Manager; and Mr. Jamie Sandison, Managing Director, of Artisan Partners (“Artisan”) provided a brief introduction of themselves and their firm. They referred to the “Non-U.S. Growth Investment Review” presentation dated March 31, 2014. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Sandison explained how the investment professionals at Artisan are solely-focused on portfolio management; they are not tasked with running the firm. He noted the dedicated autonomous research capabilities of the team, and the alignment of interest between the portfolio management team and the firm’s clients.

Mr. Yockey responded by questions from the Committee by indicating that investment ideas can be sourced from either macroeconomic observations or individual company research. He reviewed several of the portfolio’s largest holdings and the investment theses supporting these stock positions. He commented that the investment team is stable and there are no expected departures at this time. He indicated that the strategy has adequate capacity to add new investors at this time, but is approaching a point where they will consider closing to new business.

Mr. Marcus Smith, Investment Officer; and Ms. Karen Gray, Managing Director, of MFS Institutional Advisors (“MFS”) provided a brief introduction of themselves and their firm. They referred to the “MFS International Concentrated Equity” presentation dated May 23, 2014. A lengthy discussion with the Committee followed.

In response to questions from the Committee, Mr. Smith indicated that the strategy will underperform in speculative markets and that the portfolio management team at MFS will maintain their fundamental bottom-up discipline in these environments rather than chase short-term returns by investing in current market trends or momentum plays. He described how the team interacts and identifies attractive investment themes. He discussed examples of stocks that were recently added to the portfolio and stocks that were recently eliminated from the portfolio.

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. Sosnoff and seconded by Mr. Jensen to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Mr. O'Donnell, and Mr. Sosnoff.

Nay: None

Motion carried.

The Committee discussed the presentations made by Causeway, LSV, Artisan, and MFS; the structure of the System's core non-U.S. equity portfolio; and the structure of the System's fixed income portfolio.

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

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Mr. O'Donnell, and Mr. Sosnoff.

Nay: None

Motion carried.

On a motion made by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously voted to terminate the investment management agreement with Thornburg Investment Management ("Thornburg") and to retain Causeway and LSV to manage non-U.S. equity portfolios on behalf of NHRS, subject to contract and legal review, with the Thornburg portfolio assets to be allocated equally between and transitioned to Causeway and LSV.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the Committee voted to reduce the portfolio assets managed by Fisher Investments ("Fisher") by 50% and to retain Artisan to manage a non-U.S. equity portfolio on behalf of NHRS, subject to contract and legal review, with the portfolio assets removed from Fisher to be transitioned to Artisan. Mr. O'Donnell abstained from the vote.

On a motion by Mr. Sosnoff, seconded by Mr. O'Donnell, the meeting adjourned at 1:34 p.m.