

**NOTE: These minutes were approved and executed at the December 16, 2011 Investment Committee Meeting.**

**Investment Committee Meeting  
November 18, 2011**

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

The Investment Committee meeting was called to order at 9:04 a.m. Present were:

Investment Committee: Mr. Harold Janeway (Committee Chair); Mr. Patrick O'Donnell; Ms. Provencher; Dr. Lisa Shapiro; and Mr. Thomas Silvia.

NHRS Board Members: Mr. Dean Crombie; Dr. Richard Gustafson; and Dr. Kate McGovern.

NHRS Staff: Ms. Kim France, Interim Executive Director; Mr. Lawrence Johansen, Director of Investments; Mr. Jack Dianis, Director of Finance; Mr. John Browne, Internal Auditor; Mr. Jeff Gendron, Investment Officer; Mr. Scott Needham, Investment Analyst; and Mr. Greg Richard, Investment Analyst.

NEPC, LLC ("NEPC"): Mr. Kevin Leonard, Partner and Senior Consultant; Mr. Sean Gill, Partner; and Mr. Joel Paula, Research Consultant.

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 October 21, 2011 Investment Committee Minutes

Mr. Janeway surveyed the Committee for comments regarding the draft minutes of the October 21, 2011 Investment Committee meeting. As there were no comments, a motion to approve the public and non-public minutes of the October 21, 2011 Investment Committee meeting was made by Mr. Silvia and seconded by Mr. O'Donnell.

Aye: Mr. Janeway, Mr. O'Donnell, Ms. Provencher, Dr. Shapiro; and Mr. Silvia

Nay: None

Motion carried unanimously.

Mr. Janeway announced that Mr. Silvia is resigning from the Investment Committee, after having served for the past three years. He and the Committee thanked Mr. Silvia for his service and contributions to the Committee's deliberations.

#### Comments from the Director of Investments

Mr. Johansen provided a draft 2012 Investment Committee meeting schedule for the Committee's consideration and approval at the December Committee meeting.

Mr. Johansen referred to the Work Plan and related cover memo dated October 26, 2011. The Committee requested that the search for a "go anywhere" unconstrained domestic equity manager be specifically included on the Work Plan, and that issuing a request for proposal for investment consulting services be moved from the 2<sup>nd</sup> to the 3<sup>rd</sup> quarter of the fiscal year. The Committee also requested that Mr. Johansen present the investment consultant search process to the Board of Trustees, to ensure that they and the Committee are both in agreement with the process.

Mr. Johansen referred to a Legislative Service Request ("LSR") that has been filed for the 2012 legislative session, and has been made available to the public. The Committee briefly discussed the parameters of the LSR, which was generated from a Study Commission that was established to review and make recommendations regarding NHRS. This LSR calls for the establishment of a defined contribution plan for public employees.

Mr. Johansen referred to "The Townsend Group Contract Renewal" memo, dated November 4, 2011.

Motion to extend the real estate investment management agreement with The Townsend Group, Inc. through December 2013:

Motion: Mr. Silvia

Second: Mr. O'Donnell

The Committee discussed the extension of the investment management agreement with The Townsend Group ("Townsend"), and the established contract renewal process. The Committee decided to hold off on the Townsend contract extension until its December meeting, at which time Townsend is scheduled to present. Mr. Silvia withdrew his motion to extend the real estate investment management agreement with Townsend.

Mr. Johansen referred to the "Abel/Noser Corp. Contract Renewal Memo", dated November 4, 2011. The Committee decided to hold off on extending the contract with Abel/Noser Corp. ("Abel") for trading cost analysis services, pending Abel's presentation to the Committee in the first calendar quarter of 2012.

#### Review Revised Investment Policy & Securities Lending Policy

Mr. Johansen referred to the "Revised Investment and Securities Lending Policies" memo, dated

November 15, 2011, as well as several supporting documents including the revised policies themselves.

In response to questions from the Committee, Ms. France confirmed that the Committee's reconsideration for approval of the revised Investment Policy and Securities Lending Policy for recommendation to the Board of Trustees at this time is consistent with the process outlined by the Board's Governance Committee. Dr. Shapiro noted that she had not received copies of the revised policies in advance of the meeting, and accordingly would abstain from voting.

Motion to recommend that the Board of Trustees approve the Investment Policy and the Securities Lending Policy, as presented:

Motion: Ms. Provencher  
Second: Mr. Silvia

Aye: Mr. Janeway, Mr. O'Donnell, Ms. Provencher, and Mr. Silvia  
Nay: None  
Abstain: Dr. Shapiro

Motion carried.

#### SL Capital European Smaller Funds I

Mr. Johansen referred to the NHRS "SL Capital European Smaller Funds I – Recommendation" memo, dated October 12, 2011. Mr. Gill referenced the NEPC memo titled "SL Capital European Smaller Funds I – Fund Review and Evaluation" dated November 2011.

The Committee discussed the opportunity to invest in SL Capital European Smaller Funds I. They referenced their decision to postpone voting on this opportunity at the October Committee meeting, given uncertainty with the ongoing European debt and economic crises. They determined that it was appropriate to vote on the investment opportunity at this time as the uncertainty in Europe is not expected to be resolved in the short-term, and provided that the Committee and staff will continue to evaluate the situation in Europe as it develops and any possible impact these developments may have on this opportunity.

Motion to commit 15 million Euro to SL Capital European Smaller Funds I, subject to contract and legal review:

Motion: Ms. Provencher  
Second: Mr. Silvia

Aye: Mr. Janeway, Mr. O'Donnell, Ms. Provencher, and Mr. Silvia  
Nay: None  
Abstain: Dr. Shapiro

Motion carried.

## Total Fund Performance for the Period Ended September 30, 2011

Mr. Leonard referred to the “Third Quarter 2011 Investment Performance Analysis” presentation. He provided a brief market overview and summarized the performance returns of asset classes and investment managers for periods through September 30, 2011.

The Committee expressed concern with the Total Fund’s recent performance, and requested that future quarterly performance reports provide Fund-level attribution analysis and more clearly identify those managers that have added value and those whose performance detracted from results. The Committee requested that Fisher Investments and Thornburg Investment Management be scheduled to present to the Committee at an upcoming meeting. Staff confirmed an upcoming quarterly call with LSV Asset Management to better understand their recent performance results. The Committee also requested that staff work with NEPC to review the exposure to common securities across managers at the Total Fund level, and to compare the System’s asset allocation to those of its peers.

## GMO, LLC – Emerging Market Debt Presentation

Ms. Tina Vandersteel, Portfolio Manager, and Mr. Tom Smith, Client Relationship Manager, of GMO, LLC (“GMO”) presented an educational overview of Emerging Market Debt. They referred to various related presentation materials.

In response to a Committee question, Ms. Vandersteel indicated that the current attractive pricing levels associated with local currency emerging market debt is the result of the recent significant depreciation of foreign currencies relative to the U.S. dollar. She also commented that the yields offered by local currency emerging market bonds are comparable to those yields offered by the sovereign bonds of peripheral European countries; however emerging market countries offer much better credit fundamentals.

## AllianceBernstein – Emerging Market Debt Presentation

Mr. Paul DeNoon, Director of Emerging Markets Debt, and Ms. Liz Smith, Senior Managing Director, of AllianceBernstein presented an educational overview of Emerging Market Debt. They referred to the “Local Currency Emerging Market Debt” presentation dated November 2011.

In response to questions from the Committee, Mr. DeNoon commented that JP Morgan Global Bond Index - Emerging Markets is a difficult benchmark for an active manager to beat. He also remarked that China has an enormous impact on many of the emerging markets as a significant trading partner, citing Brazil as an example.

## Emerging Market Debt Recap

The Committee continued the discussion of investment opportunities in the emerging markets debt local currency space from prior meetings, as part of the structural review of the NHRS fixed income portfolio. Mr. Paula referred to the “Risks Associated with Emerging Markets Debt

Local Currency” presentation, dated November 2011.

The Committee discussed the significant impact of China on the emerging market economies; the improving credit fundamentals of emerging market countries; how investing in this asset class would increase the portfolio’s exposure to emerging market currencies; and how an allocation to local currency emerging market debt would fit within the portfolio. The Committee asked NEPC to make a recommendation regarding the appropriate size of an allocation to local currency emerging market debt, and how the funds for this allocation would be sourced. The Committee also requested an analysis of the portfolio’s exposure to world currencies.

#### Investment Committee Checkpoint Discussion

In response to questions from the Committee, Mr. Leonard confirmed that NEPC is in frequent contact with each of the System’s investment managers, and promptly advises staff when there are changes at any of the firms, either in terms of personnel, philosophy, or investment process.

#### **Informational Items:**

Investment Performance – FYTD September 2011

Asset Allocation Update

NEPC Performance Report – September 2011

Private Monitor Report – September 2011

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

Motion: Mr. O’Donnell

Second: Mr. Silvia

Motion carried unanimously.

The meeting adjourned at 12:42 pm.