

**NOTE:** These minutes were approved and executed at the December 20, 2013 Independent Investment Committee meeting.

**Independent Investment Committee  
November 22, 2013**

**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. Catherine Provencher, absent.

*NHRS Trustees:* Dean Crombie; Dick Gustafson, Ph.D.; and Germano Martins.

*Staff:* George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Jeff Gendron, *Investment Officer*; and Scott Needham, *Investment Analyst*.

*NEPC, LLC:* Kevin Leonard, *Partner and Senior Consultant*; Sean Gill, *Partner*; Jeff Markarian, *Senior Research Consultant*; and Phillip Nelson, *Research Consultant*.

Mr. Janeway called the meeting to order at 9:00 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public and non-public minutes of the October 18, 2013 Investment Committee meeting. A motion to approve the public and non-public minutes of the October 18, 2013 Investment Committee meeting, with the inclusion of one minor revision to the public minutes as requested by the Committee, was made by Mr. Jensen and seconded by Mr. O'Donnell. The motion carried unanimously.

Mr. Johansen referenced the "Revised Proxy Voting Policy" memo dated October 24, 2013 and the updated version of the NHRS Proxy Voting Policy that was presented for the Committee's consideration. He commented that staff had worked with Institutional Shareholder Services Inc., the System's proxy voting agent, to review and update the document to reflect current industry practices and changes that have resulted from the impact of legislation that has been enacted since the Policy was adopted initially in December of 2010. A motion was made by Mr. Sosnoff, seconded by Mr. Jensen, for the approval of the revised Proxy

Voting Policy, with the inclusion of one minor revision as requested by the Committee, for recommendation to the Board of Trustees. The motion carried unanimously.

Mr. Johansen referenced the “Proposed 2014 Investment Committee Meeting Schedule” memo dated October 24, 2013. The Committee briefly discussed the proposed meeting schedule. A motion was made by Mr. Jensen, seconded by Mr. O’Donnell, to approve the 2014 Investment Committee meeting schedule as presented. The motion carried unanimously.

Mr. Johansen referred to the Standard Life Investments’ (“SLI”) Global Absolute Return Strategy (“GARS”) overview dated November 4, 2013. He provided a brief description of GARS. The Committee decided that they would like to schedule a presentation by SLI at a future Committee meeting to further discuss GARS.

Mr. Johansen provided a brief update on the returns of the Marketable Investments portfolio through October 31, 2013. For the four-month fiscal year-to-date period ending October 31<sup>st</sup> the Marketable Investments portfolio returned 8.6%, underperforming the return of its custom benchmark of 9.0% by 40 basis points. The 1-year return through October 31, 2013 for the Marketable Investments portfolio was 18.7%, 50 basis points above the 18.2% return of the custom benchmark for the same period. The 5-year return of the Marketable Investments portfolio through October 31, 2013 was 13.5%, 70 basis points ahead of the custom benchmark return of 12.8%.

The Committee discussed the recent returns of global markets and the current interest rate environment, as well as the expectation that the Federal Funds Rate will remain near historic lows based on the recently released Federal Reserve meeting minutes.

Mr. Johansen provided an update on the status of the liquidation of the fund-of-funds absolute return portfolio managed by Arden Asset Management (“Arden”). He indicated that to date, NHRS has received approximately \$35 million in proceeds from Arden, which represents approximately 80% of the portfolio’s pre-liquidation market value. He commented that the remainder of the portfolio is invested in less-liquid assets, and is expected to be distributed to NHRS slowly over time.

Mr. Johansen indicated that small-cap U.S. equity manager Segall Bryant & Hamill (“SBH”) has notified NHRS that it will be exiting its ownership relationship with Dougherty Financial Group and entering into an ownership agreement with private equity firm Thoma Bravo. He commented that the agreement with Thoma Bravo will allow SBH to grow

the firm and increase equity ownership among its senior professionals. A motion was made by Mr. O'Donnell, seconded by Mr. Jensen, to authorize staff to consent to SBH's structural transition from a Partnership to a Limited Liability Company in conjunction with Thoma Bravo's investment in the firm.

Mr. Johansen referenced the draft Fiscal Year 2013 Comprehensive Annual Investment Report ("CAIR"). He commented that changes requested by the Committee since the document was initially presented at the October meeting have been incorporated. A motion was made by Mr. Jensen, seconded by Mr. Sosnoff, for the approval of the Comprehensive Annual Investment Report for Fiscal Year 2013, with the inclusion of a revision to the final paragraph of the transmittal letter as requested by the Committee. The motion carried unanimously. The Committee directed staff to submit the revised CAIR to the Board at its December meeting, with a recommendation from the Committee for the Report's approval.

Mr. Johansen provided a preview of the January 2014 Committee meeting, which will feature presentations focused on macroeconomic issues. He indicated that he has preliminarily scheduled the following speakers: the Chief Economist of AllianceBernstein to discuss global macroeconomic and capital market issues; an individual from BlackRock's fixed income management team to discuss the local and global interest rate environment; and John Minahan of the Massachusetts Institute of Technology to discuss behavioral economics and the related impact on the development of NEPC's capital market expectations. The Committee requested that staff reach out to Jeffrey Gundlach of Doubleline Capital to request that Mr. Gundlach present his market expectations at the January meeting.

Mr. Aaron Anderson, Senior Vice President of Research and Investment Policy Committee member; and Mr. Tony Wang, Vice President and Relationship Manager, of Fisher Investments ("Fisher") provided a brief introduction of themselves and their firm. They referred to Fisher's "All Foreign Equity" presentation.

In response to questions from the Committee, Mr. Anderson indicated that Fisher analyzes companies' geographical revenue sources when comparing companies that operate in the same sector but are incorporated in different countries. He discussed Fisher's top-down decision to implement a relative underweight allocation to Japan within the portfolio. He discussed Fisher's approach to sentiment analysis and how that impacts the portfolio construction process.

Mr. Anderson responded to further questions, commenting that Fisher focuses on longer-term market trends and expectations, and not on circumstances that lead to short-term market fluctuations and volatility. He noted that while the portfolio's 1 and 3-year returns do not vary significantly from the benchmark, performance within these timeframes feature shorter periods of significant relative outperformance and underperformance.

In response to questions from the Committee, Mr. Anderson discussed the impact of the proliferation of Exchange-Traded Funds on traditional fundamental stock-pickers. He commented that the portfolio will hold less securities in the existing macroeconomic environment in which Fisher expects mega cap stocks to outperform compared to an environment in which they expect small cap stocks to outperform. He indicated that the turnover in portfolio names is generally 30-35% on an annual basis, which is consistent with the portfolio's dollar-turnover ratio.

Mr. Lei Wang, Portfolio Manager and Managing Director; Rolf Kelly, Associate Portfolio Manager and Managing Director; and Mr. Sean Hull, Client Service Associate, of Thornburg Investment Management ("Thornburg") provided a brief introduction of themselves and their firm. They referred to the "New Hampshire Retirement System" presentation dated November 22, 2013.

In response to questions from the Committee, Mr. Hull remarked that Thornburg does not manage the portfolio to intentionally track closely to the returns of the benchmark. Mr. Wang reviewed the portfolio's sector positioning, highlighting that current sector positioning is significantly different than the index. He commented that the number of securities in the portfolio remains fairly consistent over time at between 65 and 75. He indicated that portfolio turnover in terms of dollars is generally 35% on an annual basis.

Responding to questions from the Committee, Mr. Wang voiced his opinion that China will continue to pursue the further privatization of its corporations. He also expressed his view that China will move towards a free-floating currency. Mr. Kelly commented that growth in Europe is expected to remain subpar; however companies in Europe still have the opportunity to increase profits with even modest increases in revenue and through the continuation of cost-cutting initiatives.

In response to questions from the Committee, Mr. Kelly and Mr. Wang discussed the portfolio's currency hedging activity, acknowledging that 50% of the portfolio's Yen exposure is currently hedged back to the U.S. Dollar and that one-third of the portfolio's Euro exposure is currently

hedged back to the U.S. Dollar. Mr. Wang discussed the portfolio's emerging markets exposure in the context of the firm's bottom-up investment process.

Mr. Wang responded to further questions by commenting that Portfolio Manager Bill Fries currently maintains research responsibility for one or two securities in the portfolio. He indicated that the investment process remains collaborative however, and that any new position in the portfolio requires a consensus decision between Mr. Fries, himself, and Wendy Trevisani, the third Portfolio Manager on the strategy.

Mr. William Elcock, Chief Executive Officer; Mr. David Lazenby, Deputy Chief Investment Officer, Head of Emerging Markets Team and Senior Portfolio Manager; and Mr. Jon Simon, Director of Client Service, of Batterymarch Financial Management ("Batterymarch") provided a brief introduction of themselves and their firm. They referred to the "Global Emerging Markets Equity" presentation dated November 22, 2013.

Mr. Elcock addressed recently announced turnover among Batterymarch's emerging markets equity team. He noted that Senior Portfolio Manager Claudio Brocado will be retiring from the firm effective December 31, 2013. He commented that Mr. Brocado's retirement announcement coincides with Batterymarch's intent to focus more on quantitative analysis going forward. He noted that Mr. Brocado's experience and skills are more fundamental in nature, which does not coincide with the direction the investment process at Batterymarch is heading.

Mr. Elcock also discussed the recent resignation of Jana Minn, a Quantitative Analyst on the team, due to differences in opinion between the firm and Ms. Minn over her future role. She has joined another investment firm in Boston in an analyst role. Mr. Elcock noted that Mr. Lazenby has reached out to the remaining members of the emerging markets investment team, and that they remain committed to the product and the firm.

Mr. Elcock also addressed the recent resignation of a senior client service executive on the firm's developed market investment team. He noted that this individual did not have portfolio management responsibilities, and is leaving Batterymarch to join a mutual fund firm in Boston. Mr. Elcock indicated that Batterymarch has reached out to the firm's parent company, Legg Mason, regarding the possibility of implementing an equity ownership program for the firm's professionals to assist with employee retention efforts.

In response to questions from the Committee, Mr. Elcock addressed client withdrawal activity from the emerging markets strategy in which NHRS invests. Mr. Elcock commented that the strategy currently has \$2.2 billion in assets under management (“AUM”), down from \$3.8 billion at the start of 2013. Mr. Simon noted that when NHRS initiated its investment in the summer of 2011, the strategy had approximately \$10 million in AUM.

Mr. Lazenby indicated that in hindsight, the strategy was not as nimble as it was thought to be at its peak level of AUM, which had a detrimental effect on performance. Mr. Elcock commented that Batterymarch remains committed to and focused on its existing investors, not on growing assets under management. He commented that if the emerging markets strategy’s AUM were to increase, a market cap would be implemented when the firm deems it appropriate, but could not specify what that level would be.

In response to questions from the Committee, Mr. Lazenby indicated that the portfolio has historically held between 200 and 250 stocks. He commented that portfolio turnover from a dollar-perspective has historically been approximately 100% on an annual basis, but was closer to 140% in the last year. He discussed the portfolio’s current positioning and his expectation that the portfolio is positioned to outperform in the long-term. Mr. Elcock commented that Batterymarch remains consistently focused on a long-term investment horizon, despite short-term market trends and volatility.

Mr. Lazenby remarked that Batterymarch is not committing to a completely quantitative process, and that a fundamental understanding of market drivers will continue to be an important part of the investment process going forward. Mr. Elcock indicated that he has been in communication with parent company Legg Mason, and that Batterymarch continues to have Legg Mason’s full support.

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 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 Batterymarch presentation.

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.

Mr. Nelson referred to NEPC's "Investment Thesis for Unconstrained Fixed Income" paper dated November 12, 2013. The Committee discussed the paper and the opportunities and risks associated with investing in the unconstrained fixed income space. The Committee discussed how an allocation to unconstrained fixed income would fit within the aggregate NHRS fixed income portfolio.

In response to questions, Mr. Nelson noted that many of the existing products do not have long track records. He commented that there has been a proliferation of unconstrained fixed income products recently given the interest in these types of portfolios, and that NEPC is proceeding cautiously in evaluating these strategies. The Committee requested that Mr. Johansen and staff work with NEPC to select one or two unconstrained fixed income portfolio managers from their Focused Placement List to make educational presentations at a future Committee meeting.

Mr. O'Donnell departed the meeting at this time.

Mr. Leonard presented a brief overview of NHRS Total Fund performance returns for the period ending September 30, 2013. He referred to the "Investment Summary, Quarter Ending September 30, 2013" report.

The Committee referenced the articles related to behavioral finance and economics that were included with the November Committee meeting materials. They stressed the importance of considering elements of behavioral finance in assessing investment opportunities.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the meeting adjourned at 1:10 p.m.