

NOTE: These minutes were approved and executed at the October 19, 2012 Investment Committee meeting.

**Independent Investment Committee
September 21, 2012**

Public Minutes

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

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

NHRS Trustees: Kate McGovern, Ph.D.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; John Browne, *Internal Auditor*; 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. He surveyed the Committee for comments on the draft public and non-public minutes of the August 17, 2012 Investment Committee meeting. As there were none, a motion to approve the public and non-public minutes of the August 17, 2012 Investment Committee meeting was made by Mr. Sosnoff and seconded by Ms. Provencher. Mr. Jensen and Mr. O'Donnell abstained from voting as they had not attended the August 17th Committee meeting. The motion carried unanimously.

Mr. Johansen informed the Committee that the Total Fund return for the Fiscal Year ended June 30, 2012 has been finalized at 0.9%, as market values for all Real Estate and Alternative Investments at June 30 have been confirmed. He briefly reviewed the performance of the Marketable Investments portfolio through the period ending August 31, 2012. For the fiscal year-to-date through August 31st. the Marketable Assets portfolio has returned 3.0%, matching the return of its custom benchmark.

Mr. Johansen informed the Committee that discretionary real estate manager The Townsend Group (Townsend) has informed the System that

Portfolio Manager Terri Herubin left the firm for personal and professional reasons. He noted that Ms. Herubin cited her desires to be closer to her family; to travel less frequently; and to focus more on portfolio management and direct property acquisitions as opposed to fund underwriting and client management, among her reasons for leaving Townsend.

Mr. Johansen informed the Committee that he and Mr. Lagos were in the process of working with NEPC to select appropriate public fund peers for purposes of comparative measurement. The Committee requested that when NEPC presents manager contract renewal memos, they include manager fee schedules in the memos and include a schedule of all manager fees in the quarterly IPA.

Mr. Johansen presented the Committee with copies of the System's Investment Manual, which is now finalized with the inclusion of the Alternative Investment Guidelines, which were approved at the August committee meeting.

Mr. Johansen informed the Committee that he has scheduled a meeting with NEPC on Friday, October 12th, to discuss the implementation of the recent changes to the Fund's asset allocation policy. The changes include reducing the policy target allocation to Fixed Income from 30% to 25% and increasing the policy target allocation to Alternative Investments from 10% to 15%. The Committee requested that the possibility of achieving the new targets synthetically or otherwise be researched by staff and NEPC. The meeting with NEPC will lead to discussions with the Committee at the October 19th meeting. Due to the timing of the October meeting, related material will be distributed at the meeting on October 19th and will not be available for the pre-meeting mailing of hardcopy meeting materials. He also noted that the System's master custodian, The Northern Trust Company, will be making a presentation to the Committee at its October meeting, as will absolute return fund-of-funds manager Arden Asset Management.

The Committee discussed the presentation made by Segall, Bryant & Hamill (SBH) at the August Committee meeting, as well as the portfolio's recent relative underperformance. A motion was made by Mr. Janeway and seconded by Mr. Sosnoff to renew the investment management agreement with SBH through October 2014. The motion carried unanimously.

The Committee discussed the presentation made by Wellington Management Company (Wellington) at the August Committee meeting. A motion was made by Ms. Provencher and seconded by Mr. O'Donnell to

renew the investment management agreement with Wellington through September 2014. The motion carried unanimously.

The Committee discussed the fee schedule for SBH and Wellington.

Mr. Leonard presented an overview of preliminary Total Fund performance returns for the period ending June 30, 2012. He referred to the "Preliminary Investment Summary, Quarter Ending June 30, 2012" presentation. The Committee requested that future quarterly performance reports detail Total Fund performance attribution at the individual manager level. The Committee discussed appropriate methods of presenting performance results in an Executive Summary.

Mr. Leonard referred to the "NHRS Equity Manager Underperformance" memo that was sent to the Committee electronically and handed out at the meeting. The Committee discussed the individual managers' performance returns; the overall active domestic equity manager environment; and the short-term nature of the results under consideration in the memo. The Committee expressed concerns with the performance of the Small Cap Domestic Value Equity portfolio managed by Netols Asset Management (Netols). Mr. Johansen informed the Committee that Netols will be making a presentation at the October Committee meeting.

Mr. Leonard provided a brief introduction of Small/Mid (SMid) Cap Domestic Equity manager AllianceBernstein.

Karen Sestin, Senior Portfolio Manager; and Aaron Montano, Manager, Public Funds, of AllianceBernstein (AB) presented an overview of their firm and the SMid Cap Equity portfolio that the firm manages on behalf of the System. They referred to the "New Hampshire Retirement System, US SMID Style Blend" presentation dated September 21, 2012.

In response to questions from the Committee, Ms. Sestin cited the experience and judgment of AB's portfolio managers and industry analysts, as well as their working relationships with company managements, as key factors in their ability to forecast earnings surprises that may be missed by the broader market research universe. She also indicated that AB does not see significant risk to profit margin levels as companies have become much more efficient in managing their margins, due in part to technological advances and lower financing costs. She indicated that AB's analysts expect fewer negative earnings surprises in the coming quarters, provided there is not a meaningful contraction in Gross Domestic Product.

In responding to a Committee question, Ms. Sestin indicated that the recent overall market trend of moving from actively-managed strategies to passive funds represents a tremendous opportunity for active managers such as AB to add alpha. She also noted that over the life of the SMid blend portfolio, between 85 and 90% of the alpha generated has been due to stock selection, with the remainder due to sector positioning. Ms. Sestin cited a potential decline in global growth; the resolution of the European debt crisis; and the resolution of the U.S. “fiscal cliff” as top macroeconomic concerns. In response to a question about the impact of the Federal Reserve’s most recent quantitative easing program (QE3), Ms. Sestin noted AB’s perspective that while they expect QE3 to have a modest positive impact on the economy overall, unemployment is at elevated levels as a result of slow economic growth as opposed to liquidity constraints.

Mr. Leonard provided a brief introduction of SMid Cap Domestic Equity manager Thompson, Siegel & Walmsley (TSW).

Mr. Brett Hawkins, Portfolio Manager; and Ms. Tracy Musser, Client Service Manager, of TSW, presented an overview of their firm and a review of the SMid Cap Equity portfolio that the firm manages on behalf of the System. They referred to the “NHRS” presentation dated September 21, 2012.

In response to a question from the Committee regarding TSW’s competitive advantage, Mr. Hawkins cited the firm’s disciplined, consistent investment process; its organizational structure; and the compensation structure at TSW. He further noted the firm’s focus on identifying catalysts through earnings modeling, cashflow analysis, and relative price strength analysis as distinctive hallmarks of TSW’s investment process.

In response to Committee questions, Mr. Hawkins indicated his opinion is that earnings estimates and profit margins are high, and that he expects more negative earnings surprises than positive earnings surprises over the coming periods. He noted the portfolio’s favorable positioning based on his expectations, citing that the stocks in the portfolio are relatively cheap in comparison to the overall market.

Mr. Johansen and Mr. Leonard provided a brief overview of “go anywhere” investment managers Windham Capital Management (Windham) and Windhaven Investment Management (Windhaven). Mr. Johansen noted the differing investment processes between the two firms and commented that each firm implements their strategies through electronically-traded funds (ETFs).

Mr. Mark Kritzman, Founding Partner and Chief Executive Officer; Mr. Lucas Turton, Managing Partner and Chief Investment Officer; and Ms. Karen Fernandes, Vice President, of Windham presented an overview of their firm and a review of the firm’s investment strategy. They referred to the “New Hampshire Retirement System” presentation dated September 21, 2012.

In response to questions from the Committee, Ms. Fernandes noted that Windham has a consultative relationship with State Street Bank & Trust Company via its affiliation with State Street Associates. She commented that the proliferation of ETFs has helped Windham evolve from consulting on investment strategy to implementation and portfolio management.

Responding to Committee questions, Mr. Kritzman indicated that Windham measures systematic risk in the markets through a series of factor analyses. He further commented that Windham’s analysis indicates that there are low levels of systematic risk across markets currently as markets appear very resilient. Mr. Turton provided an in-depth description of Windham’s investment process and experiences.

In response to questions from the Committee, Mr. Turton explained that simulated portfolio regime changes would have occurred only three or four times in the ten-year historical period considered in their presentation. Mr. Kritzman commented that Windham’s investors can view their portfolios on a daily basis. Mr. Turton added that when portfolio changes are made, related communications are sent to investors the following day.

Responding to questions regarding Windham’s back-testing of the simulated performance presented to the Committee, Mr. Kritzman commented that the firm went through a robust validation process that has also been vetted by outside third parties. He explained that Windham has since refined and improved their investment process, but has not allowed these process enhancements to affect the reported historical simulations. He offered his opinion that the simulated performance results understate the strategy’s hypothetical expected performance, not overstate it.

Mr. Stephen Cucchiaro, Chief Investment Officer; Mr. Bryan Olson, President; and Mr. John McManmon III, Managing Director, of Windhaven presented an overview of their firm and a review of the firm's investment strategies. They referred to "The New Hampshire Retirement System" presentation dated September 21, 2012.

In response to a question from the Committee, Mr. Cucchiaro indicated that Windhaven does not use derivatives, leverage or options to hedge against perceived portfolio risks. He commented that Windhaven hedges by taking positions in asset classes that are expected to outperform when the asset classes that they seek to hedge against decline. He noted that this is a more effective and less costly way to hedge against portfolio risks over time.

The Committee held a lengthy discussion regarding the investment opportunities presented by Windham and Windhaven, respectively. The Committee requested that Windhaven be invited to present again at the October Committee meeting. The Committee also requested that Windham be discussed again after NEPC concludes their Focus Placement List (FPL) due diligence process for Windham.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(d) for the purpose of considering the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to the general community. A motion was made by Ms. Provencher and seconded by Mr. O'Donnell to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

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

Nay: None

Motion carried.

The Committee discussed the presentations by AllianceBernstein and Thompson, Siegel & Walmsley.

NHRS Independent Investment Committee
September 21, 2012

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

Roll call vote:

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

Nay: None

Motion carried.

On a motion by Ms. Provencher, seconded by Mr. O'Donnell, the meeting adjourned at 2:27 p.m.