

**NEW HAMPSHIRE RETIREMENT SYSTEM (NHRS)
Investment Management Objectives, Guidelines & Restrictions
NOVEMBER 9, 2004**

Investment Philosophy

The investment philosophy of the Board of Trustees flows from its responsibility as fiduciary with respect to the System's members and beneficiaries. As such, the System's assets are invested and managed for the exclusive purpose of providing plan benefits and are invested pursuant to RSA 100-A:15.

The Board pursues an investment strategy designed to meet the long term funding requirements of the system as determined by the System's actuary. To this end, the Board authorizes an Investment Policy Study to be performed at least once in every ten year period. The last study was performed in 2001. Such a study determines the mix of investments, by asset class, which will most likely produce the real (inflation adjusted) return required to meet future funding requirements at the lowest level of risk.

The Investment Policy Study serves as a guide in structuring System investments. In concert with advice received from its Investment Consultants, the Board seeks to position and/or reposition System assets in accordance with the Investment Policy Study. However, given the long term nature of the Investment Policy Study, the Board generally seeks to avoid rapid shifts in asset allocation. The foregoing notwithstanding, the Board is free to make rapid investment shifts with regard to the majority of its assets, should extreme conditions warrant such actions.

The Investment Policy Study process generally results in at least 65 to 80 percent of System assets being invested in traditional domestic equity and fixed income (stocks and bonds) investments. The balance is invested in asset classes designed to produce risk modifying diversification and reasonable returns. Such asset classes can include, but are not limited to, real estate, venture capital, absolute return, international securities and private placements in such investment alternatives as timberland.

It is further the policy of the Board of Trustees to require monthly investment performance reports from its various equity and fixed income managers and to require regular, comprehensive, comparative performance reports and review of all asset managers in conjunction with the System's investment consultants. This reporting and comprehensive review process enables the Board, with the investment consultants, to examine in detail any reason for less than acceptable investment performance consistent with this policy. On an annual basis the investment consultant will provide a comprehensive total fund review.

In addition, all investment manager contracts, offering memoranda, and limited partnership agreements, in each instance, are thoroughly reviewed by legal counsel with respect to legal form and content for the protection of the NHRS Interests, prudence and consistency with the statute governing the investments of the NHRS under RSA 100-A:15.

The Board opposes all forms of social investing as such policies are inconsistent, on a prima facie basis, with the fiduciary mandate to manage System assets for the exclusive benefit of the System's members and beneficiaries.

From time to time, asset classes need to be rebalanced due to market activity. Generally, the NHRS uses ongoing cash flow and liquidity requirements to maintain the asset allocation close to the policy targets. Given that assets are taken from the most overweight classes this rebalancing policy is a system of insuring that the NHRS is selling assets that have outperformed. In extreme cases, the NHRS may implement an intrusive rebalancing program where by assets are sold from one class, such as domestic equity, and transferred into another class such as fixed income. Due to the expense of both commissions and market impact this strategy will be employed in very rare cases and only with the approval by the Board with input from the staff and the investment consultant.

NEW HAMPSHIRE RETIREMENT SYSTEM (NHRS) Investment Management Objectives, Guidelines & Restrictions

Investment Objectives/ Risk Tolerance

Equity

It is understood that in order for equity portfolios to achieve a rate of return greater than a base index, it may be necessary to posture a commensurate risk level higher than such an index. Both variability of return (mean absolute deviation) and volatility of return (Beta coefficient) will be monitored on a continuing basis. It must be understood, however, that portfolio risk levels substantially higher than the market index by any reasonable measure (30%) over an extended period of time are to be avoided without prior consultation with the Board.

Fixed Income

With respect to the cash equivalent and fixed income portions of the account, outside quality ratings of Standard & Poor's will be the primary guide. Both variability of return (mean absolute deviation) and volatility of return (Beta coefficient) will be monitored on a continuing basis. It must be understood, however, that portfolio risk levels substantially higher than the market index by any reasonable measure (30%) over an extended period of time are to be avoided without prior consultation with the Board.

Performance Standards

For each manager, comparison against relevant market indices and databases as specified in the attachment. When results fall below the median in any one calendar year, the manager will be viewed critically, unless unusual circumstances precipitated such results. The NHRS Board of Trustees has adopted a formal Watch List whereby a manager's rolling three year returns (measured at the end of each calendar quarter) are compared to the three year rolling returns of a pension consultant's database of managers employing a similar investment style. If a manager's rolling three year returns fall below median, the watch procedure begins and the manager is allowed four quarters to raise that return above median. If that level is not achieved, the manager may be terminated.

Although the long-term benchmarks are generally indices such as the S&P 500 or Russell 2000, shorter-term performance may be measured against style specific indices such as the Russell 2000 growth for comparative purposes only. The total marketable portion of the total fund is measured against a bundled benchmark of indices which replicates the NHRS fund asset allocation structure to illustrate the value created from the active managers utilized by the system. The Board of Trustees for the New Hampshire Retirement System recognizes that there will be short-term volatility in the marketplace. As the Board is seeking to maximize long term gains on the total fund, the emphasis has been placed on long term strategic asset allocation with broad diversification in an attempt to minimize the impact of short term volatility. It is for this reason, that the Board will use style-specific benchmarks to analyze short term performance while focusing long term performance analysis on broader-based markets and peer groups.

The Board of the New Hampshire Retirement System requires all investment managers to comply with AIMR investment performance calculation and presentation standards.

Manager Trading

Annually, the New Hampshire Retirement System requires each investment manager to provide responses into the standard of conduct questionnaire. In this questionnaire, the NHRS seeks for each firm to list all direct or indirect ownership or beneficial interest that you or your relatives or co-venturer may have in any investment interest or in any issuer of publicly or non-publicly traded securities held by the System.

The New Hampshire Retirement System has requested that all of their managers participate in a directed brokerage program and has negotiated with each manager the target percentage of all shares to be directed through one of the approved providers. The Board fully recognizes that all trades executed by investment managers should be subject to best execution. Each manager's negotiated percentage appears in Appendix B-2. Fixed income managers have been excluded from the program because the fixed income market is a negotiated market where bonds trade without commission. In practice, many bond dealers simply mark up a bond's price in relation to the amount requested for recapture so this would only add administrative burden to the NHRS without being economically feasible. At some point in the future, if directed brokerage is an economically viable program for fixed income, the Board of the New Hampshire Retirement System will direct fixed income managers to participate in the directed brokerage program.

Portfolio Restrictions

General

No single investment firm should receive an allocation greater than 10% of the total fund assets.

No more than 5% of the portfolio at market value in the securities of one company.

No limits on the use of U.S. government, agency or guaranteed issues.

The Trust holds the investment managers responsible for voting proxies, consistent with NHRS' proxy voting guidelines for investment in domestic holdings. The international equity managers should follow the spirit of the proxy voting guidelines for domestic holdings.

The Trust may specify use of specific brokerage firms subject to best execution and competitive commissions.

Directed brokerage must be at least 35%, unless otherwise agreed upon with the manager by NHRS. Specific agreed targets are shown as Appendix B-2.

All managers must disclose any third party marketing arrangements or any fees paid in connection with any investment management mandates awarded by the System.

Common Stocks, Preferreds (U.S.)

All domestic securities must be listed on NYSE, Amex or OTC exchanges.

No more than 5% of the portfolio at market value in any one security.

No more than 3% of the outstanding shares of any one corporation.

May invest up to 5% in ADRs at market value.

Minimum acceptable capitalization of companies considered for investment is \$100 million.

Common Stocks, Preferreds (Non-U.S.)

All securities must be listed on national exchanges; also securities that trade in the U.S. markets as American Depository Receipts.

At any time, no more than 5% of the portfolio at market value in any one security.

At any time, no more than 1% of the outstanding shares of any one corporation.

Minimum acceptable capitalization of companies considered for investment is \$500 million.

Forward purchases or sales of currencies, including cross currency hedges, are permitted to protect or enhance the U.S. dollar value of the non-U.S. investments. The use of derivative instruments such as currency futures or options for currency shall also be permitted upon completion of any necessary disclosure or other documentation. No speculative hedging will be permitted.

**Portfolio Restrictions
(continued)**

Fixed Income Securities & Convertibles (U.S.)

No limits on the use of U.S. Government, agency or guaranteed issues.

Minimum BBB rating by Standard & Poor's or Moody's for corporate, Yankee and Eurodollar bonds and notes, including floating rate notes. Total portfolio must have minimum A rating. No unrated securities.

Mortgage backed securities issued by GNMA, FNMA and FHLMC, and collateralized mortgage obligations backed by GNMA, FNMA and FHLMC pools. Other issues may be used so long as each issue has a rating of AA or higher.

No more than 7% at market value in a single issue, 10% in an issuer.

No more than 10% of the portfolio at market value may be invested in IOs, POs, inverse floaters or residual tranches of CMOs, including those in closed-end bond funds. No one position in any of these securities should exceed 2% of the market value.

Fixed Income Securities & Convertibles (Non-U.S.)

No limits on the use of U.S., Canadian, U.K., Japanese, Australian, Scandinavian or European monetary systems (EMS) bloc governments and their agencies and supra-national borrowers in local currency or ECU. A 15% limit is placed on all other issues.

The use of forwards, futures and options for interest rate and currency hedging is permitted but not for speculative purposes or to the extent that a leveraged position is established.

Derivative Policy

This section provides an overview of the System's derivative policy, however, a close review of the various asset class restrictions sections are necessary to fully understand the derivative restrictions.

Any manager that seeks to utilize derivatives in their management of a NHRS portfolio must seek prior approval from the Board prior to initiating any position.

The NHRS permits the use of derivatives for hedging purposes only. Naked option writing is not permitted.

Domestic equity: Any derivative strategy within this portion of the fund may only be used for equitizing cash or initiating positions for a new portfolio. In no case can a portfolio be in a leveraged position at any time.

Fixed income: Futures and options may only be used for initiating long positions on Treasuries or to manage the interest rate position of the portfolio. Mortgage derivatives are limited in their use within a portfolio and are covered specifically in the fixed income section of the guidelines. Portfolios may not be in a leveraged position at any time.

International equity: Portfolios may use futures and options in the same fashion as domestic equity portfolios and also may use forwards, as well as futures and options, to hedge currency positions. Currency hedging must be for defensive purposes only, naked hedging and leveraged positions are prohibited.

Cash Equivalents (maturity of one year or less)

No more than 5% of the portfolio at market value in one issue, no more than 10% in one issuer.

Certificates of deposit and bankers acceptances with major money center banks that are members of the Federal Reserve System and insured by FDIC.

Repurchase agreements with major money center banks and broker/dealers that are members of the Federal Reserve System, must be collateralized to at least 102%.

Commercial paper rated A-1 by Standard & Poor's and P-1 by Moody's.

Money market funds or similar investment vehicles in existence for at least 3 years with restricted investments in short-term instruments rated A-1 by Standard & Poor's and P-1 by Moody's if outside of trustees STIF.

**Portfolio Restrictions
(continued)**

Structured Notes

All notes must be guaranteed by the issuer to return 100% of principal.

There can be no leveraging of principal.

Minimum issuer credit rating must be AA/Aa or higher.

The maximum final maturity for any issue must be two years or less.

No commodity based notes are permitted (e.g. notes linked to oil, precious metals or commodity index prices and currency); all notes must be based on interest rates within developed markets.

Collateralized Bond Obligations

The NHRS may only invest in equity notes.

The NHRS must own less than half of the total outstanding equity so they are not deemed to be in control of the structure.

Investment portfolios must be diversified such that there is no more than 3% of the investments in any single issuer and no more than 15% in any single industry.

The average life of the collateral debt securities must be less than 10 years with no investments in the emerging markets, zero coupon or other payable in kind type securities.

Principal coverage must be at least 110% and interest coverage must be at least 135%.

Stock Liquidation Policy

The System has appointed one marketable investment manager to liquidate stock distributions from the venture capital portfolios. This manager, acting upon standing direction from the NHRS Board, will liquidate upon receipt any stocks received in this manner. The proceeds from these sales will be directed to the NHRS cash account.

Venture Capital (Alternative Investments)

The Fund shall be limited to a maximum 15% participation in any single fund with a minimum investment of \$10 million in new funds and \$5 million in follow-on funds.

Organization expenses or deal fees must be embedded within the management fee.

General partner incentive fees must begin only after distributions to the limited partners equal to their commitment amount.

Capital calls should be executed on an as needed basis; capital call projection must be provided when requested.

It is required that Fund closings occur within 120 days of approval by the NHRS Board of Trustees.

All non-reinvested proceeds should be distributed back to limited partners.

Asset valuation procedures must be disclosed at the commencement of the investment period and revaluations should be communicated on a quarterly basis.

No unrelated business taxable income (UBTI).

No more than 25% in one portfolio company.

Foreign investments may be made only if they were specified in the offering memorandum.

Although NHRS is a public fund, it is expected that the assets will be managed in a fashion consistent with ERISA guidelines.

Co-investments by NHRS with any limited partnership is prohibited.

Each fund must provide audited financial statements each year.

**Portfolio Restrictions
(continued)**

Timber Funds (Alternative Investments)

General partner incentive fees must begin only after distributions to the limited partners equal to their commitment amount. Asset valuation procedures must be disclosed at the commencement of the investment period for any partnership. Capital calls should be executed on an as needed basis; capital call projection must be provided when requested. It is required that Fund closings occur within 120 days of approval by the NHRS Board of Trustees. All non-reinvested proceeds should be distributed back to limited partners. No unrelated business taxable income (UBTI). No more than 25% invested in one portfolio company. Foreign investments may be made only if they were specified in the offering memorandum. Although NHRS is a public fund, it is expected that the assets will be managed in a fashion consistent with ERISA guidelines. Each fund must provide audited financial statements each year.

Absolute Return Investments (Alternative Investments)

The Fund shall be limited to a maximum of 15% participation in any single fund with a minimum investment of \$10 million. The absolute return investment manager will be bound by the investment restrictions of the underlying funds and not be constrained by the general, market specific or categorical restrictions contained in these guidelines. In general, short selling is prohibited, however, shorting is permitted as part of absolute return investment strategies. Although leverage is prohibited, the absolute return investment manager may utilize leverage to the extent allowed by its management contract with the System. No unrelated business taxable income (UBTI). Foreign investments may be made only if they were specified in the disclosure document. In order to invest in absolute return funds, the NHRS recognizes the risk of such investments and will seek to minimize risk to the Total Fund by only investing in Fund of Funds. Each fund must provide audited financial statements each year.

Commercial Real Estate

Geographic and economic diversification should be maintained and areas with stable or growing employment bases should be targeted. Property type diversification should be maintained within the major institutional categories such as retail, office, industrial, hotel and apartments. Acquired properties should be substantially leased to provide relatively attractive current income. New properties should be acquired generally at prices comparable to or below reproduction costs; with competitive income characteristics displaying potential income stream improvements. All real estate acquisitions must be made in compliance with the Commercial Real Estate Acquisition Guidelines as approved by the Board.

**Absolute Restrictions
For Equity & Fixed
Income Portfolios**

No: Short sales; unbundled stock units; margin purchases or other use of lending or borrowing money (leverage); letter stock; private or direct placements (including Rule 144A securities); commodities; direct ownership of real estate or mortgage; short-term securities of the custodian bank, investment managers or affiliated companies; securities lending activity is done by the custodian and managers are not allowed to lend securities, purchase or other direct interest in gas, oil, or other mineral exploration or development programs.

**Communications and
Reporting**

The NHRS has established formal communications and reporting requirements which must be met at all time as outlined in Appendix C.

NEW HAMPSHIRE RETIREMENT SYSTEM
Investment Manager Objectives
By Asset Class and Style

	Objective #1	Objective #2
EQUITY		
Domestic Growth	Perform above median consistently over a three year rolling period compared to a universe of growth style equity investment managers.	Exceed the S&P 500 Index by at least 115 basis points annually over a three-year rolling period. Relative strength expected in rising markets.
Domestic Value	Perform above median consistently over a three year rolling period compared to a universe of value style equity investment managers.	Exceed the S&P 500 Index by at least 100 basis points annually over a three-year rolling period. Relative strength expected in falling markets.
Domestic Mid Cap Value	Perform above median consistently over a three year rolling period compared to a universe of mid cap value style equity investment managers.	Exceed the S&P Mid Cap Index by at least 100 basis points annually over a three-year rolling period. Relative strength expected in falling markets.
Domestic Small Cap Growth	Perform above median consistently over a three-year rolling period compared to a universe of small cap growth style equity investment managers.	Exceed the Russell 2000 Index by at least 200 basis points annually over a three-year rolling period.
Domestic Small Cap Value and Value Tech	Perform above median consistently over a three-year rolling period compared to a universe of small cap value style equity investment managers	Exceed the Russell 2000 Index by at least 200 basis points annually over a three-year rolling period.
Micro Cap	Perform above median consistently over a three-year rolling period compared to a universe of micro cap equity investment managers	Exceed the Russell 2000 Index by at least 200 basis points annually over a three-year rolling period.
International	Perform above median consistently over a three year rolling period compared to a universe of non-U.S. equity investment managers.	Exceed the MSCI EAFE Index (net) by at least 100 basis points annually over a three-year rolling period. Relative strength expected in falling markets.

NEW HAMPSHIRE RETIREMENT SYSTEM
Investment Manager Objectives
By Asset Class and Style

	Objective #1	Objective #2
FIXED INCOME		
Opportunistic Core	Perform above median consistently over a three-year rolling period compared to a universe of opportunistic core fixed income investment managers.	Exceed the Lehman Brothers Universal Bond Index (65% LB Aggregate / 35% LB High Yield for Loomis, Sayles) by at least 50 basis points annually over a three-year rolling period.
Core Domestic	Perform above median consistently over a three-year rolling period compared to a universe of core domestic fixed income investment managers.	Exceed the Lehman Brothers Aggregate Bond Index by at least 50 basis points annually over a three-year rolling period.
Corporate Focus	Perform above median consistently over a three-year rolling period compared to a universe of core domestic fixed income investment managers.	Exceed the Lehman Government / Credit Bond Index by at least 50 basis points annually over a three-year rolling period.
Global	Perform above median consistently over a three-year rolling period compared to a universe of global fixed income investment managers.	Exceed the J.P. Morgan Global Broad Index by at least 100 basis points annually over a three-year rolling period.
REAL ESTATE		
	Perform above median consistently over a three-year rolling period compared to a universe of active equity real estate managers.	Exceed the NCREIF Property Index by 50 basis points or the CPI +5% annually over a five-year rolling period.
ALTERNATIVE INVESTMENTS		
Venture Capital	Exceed the median of the appropriate Venture Economics peer group.	Exceed the S&P 500 by 600 basis points over the full life cycle of the funds.
Absolute Return	Perform above median consistently over a three-year rolling period compared to EAI's universe of fund of fund managers.	Exceed the ML 91-Day T-Bill by 3-7% over rolling three-year periods.
Timber	Exceed the NCREIF timber index over a three-year rolling period.	Exceed the CPI by 500 - 600 basis points.



NEW HAMPSHIRE RETIREMENT SYSTEM Index of Appendices

Appendix A	Investment Managers
Appendix B	Separate Agreements With Managers
Appendix C	Investment Manager Communications
Appendix D	General Investment Objectives & Guidelines
Appendix E	Manager Search Process Performance Monitoring

NEW HAMPSHIRE RETIREMENT SYSTEM
Investment Managers

EQUITY

Domestic Growth

American Express Asset Management
Ark Asset Management
Davis Hamilton Jackson & Associates
MacKay Shields, LLC

Domestic Value

Ark Asset Management
Institutional Capital
J&W Seligman & Co.
LSV Asset Management
State Street Global Advisors

Domestic Small Cap Growth

Duncan-Hurst Capital Management

Domestic Micro Cap

Duncan-Hurst Capital Management
Dalton Greiner, Hartman, Maher & Co.

Value Tech

Dalton Greiner, Hartman, Maher & Co.

Domestic Mid Cap Value

Dalton Greiner, Hartman, Maher & Co.

Domestic Small Cap Value

DePrince, Race & Zollo

International

Fisher Investments, Inc.
Thornburg Investment Management
Walter Scott & Partners

FIXED INCOME

Opportunistic Core

Loomis, Sayles and Company
Lord, Abbett & Co.

Core Domestic

TCW Group

Corporate Focus

Income Research & Management

Global

Brandywine Asset Management

ABSOLUTE RETURN (Alternative Investments)

AIG Global Investment Group
Arden Asset Management
Pine Street Institutional Advisors

NEW HAMPSHIRE RETIREMENT SYSTEM
Investment Managers

TIMBERLAND (Alternative Investments)

Chile Timber
New Zealand Timber I
New Zealand Timber II
RII Timberland 3, LLC
RII World Timber Fund

VENTURE CAPITAL MANAGERS (Alternative Investments)

Allegra Capital Partners III
Brandy Equity I & II
Castle Harlan II & III
Castle Harlan Australian Mezzanine Partners
Coral Partners II, IV & V
Crescendo IV
Energy Investors I & II
Euclid Partners IV
Euclid SR Partners
HEV III US
New England Growth Fund I & II
North Atlantic Ventures II
Patricof IV, V & VI
Prism Venture I, II, III & IV
RFE Investment Partners VI
Richland Ventures I & II
Schroder German
Sterling Venture Partners
Sprout Group VI, VII & VIII
TCW Crescent Mezzanine
Venture Capital of New England II
Weiss, Peck & Greer Venture Assoc. V & VI
Zero Stage V, VI & VII

COMMERCIAL REAL ESTATE

Hart Advisors
LaSalle Investment Management
UBS Realty Investors

NEW HAMPSHIRE RETIREMENT SYSTEM
Separate Agreements with Managers

American Express: (1) May invest up to 7% of the portfolio at market in any one security.

Ark (LG): (1) May hold up to 5% or 2x the index weighting in any single security.

Brandywine: (1) May invest up to 20% of the portfolio in below investment grade securities.

Dalton Greiner: (1) May invest in securities with market values below \$100 million; (2) may invest up to 4% at cost or 7% at market in any one security in the mid cap portfolio; (3) may invest up to 7% at cost or 10% at market in any one security in the Value-Tech portfolio.

Duncan-Hurst: (1) May invest up to 30% of the portfolio in any one industry; (2) may invest 15% of the portfolio in companies with market capitalizations below \$100 million; (3) may invest up to 50% of the portfolio in mid-cap stocks; (4) may invest up to 6% of your portfolio in non-U.S. securities with a market capitalization of less than \$500 million.

ICAP: (1) May invest up to 20% at market value in sponsored ADRs.

IR&M: (1) May invest 7% of the portfolio at cost or 10% at market in any one security; (2) may invest up to 10% of the portfolio in securities below investment grade; (3) may invest up to 10% of the portfolio in 144A Securities; (4) may invest up to 10% of the portfolio in capital securities; (5) may invest up to 15% of the portfolio in CMBS; (6) may invest up to 10% of the portfolio at market value in municipal securities.

Loomis, Sayles: (1) May invest up to 35% of the portfolio at market value in non-investment grade, including non-rated securities; (2) the average portfolio quality must be Baa3 or higher; (3) may invest up to 10% in 144A securities; (4) the portfolio must have a minimum of 80% U.S./Canadian *dollar* bonds with a maximum of 20% in Canadian dollar; (5) the portfolio must have a minimum of 80% of the portfolio in U.S. or Canadian *issuers* with a maximum of 20% in Canadian issuers; (6) the portfolio may have up to 5% in common stock and up to 20% in preferred stock; (7) permitted securities include trust preferred, convertibles, asset backed securities, zero coupon securities, foreign government and corporate securities, state and local government bonds, non-U.S. dollar securities and REIT debt; (8) the benchmark will be comprised of 65% Lehman Aggregate index and 35% Lehman High Yield index and Loomis will be compared to the opportunistic core fixed income database.

Lord, Abbett: (1) May invest up to 15% of the portfolio in 144A securities; (2) may invest up to 15% of the portfolio in high yield securities; (3) may invest up to 15% of the portfolio in non-dollar securities or non-U.S. issuers.

State Street Global Advisors: (1) May hold 5% of the portfolio at cost or 7% at market in any one security.

State Street Research: (1) may invest up to 15% of the portfolio in securities below investment grade including non-levered high yield index swaps and high yield credit default swap index securities as well as other non levered derivatives and structured notes; (2) may invest up to 10% of the portfolio in 144A securities; (3) may invest up to 15% of the portfolio in the State Street Research Opportunistic International Bond Fund; (4) may invest up to 10% of the portfolio in capital securities; (5) may invest up to 10% of the portfolio in unlevered futures and options

TCW: (1) May invest up to 25% of the portfolio at market value in IOs, POs, inverse floaters, or residual tranches of CMOs; (2) may hold up to 3.5% of the portfolio at market value in an individual security.

Thornburg Investment Management: (1) May invest up to 20% of the portfolio in emerging markets.

Walter Scott & Partners: (1) May invest up to 15% of the portfolio in emerging markets.



Evaluation Associates
A Milliman Company

APPENDIX B

**NEW HAMPSHIRE RETIREMENT SYSTEM
Directed Brokerage Agreements**

Shown below are specific agreements with managers related to directed commissions:

Investment Manager	Percent Directed	Preferred Broker/Comment
Growth Equity Managers		
American Express	50%	
Ark Asset Management	50%	Lynch, Jones & Ryan
MacKay Shields	50%	
Davis Hamilton Jackson & Associates	50%	
Duncan-Hurst	15%	Lynch, Jones & Ryan
Value Equity Managers		
Ark Asset Management	50%	Lynch, Jones & Ryan
Dalton, Greiner	10%	Lynch, Jones & Ryan
DePrince, Race & Zollo	25%	
Institutional Capital	50%	Abel/Noser
J&W Seligman & Co.	50%	
LSV Asset Management	25%	
State Street Global Advisors	25%	
International Equity Managers		
Fisher Investments	25%	Lynch, Jones & Ryan/Abel/Noser
Thornburg Investment Management	25%	
Walter Scott & Partners	25%	
Domestic Fixed Income Managers		
Income Research & Management	None	Will trade new issues through Lynch, Jones & Ryan, but the bulk of business is in secondary issues
TCW	None	Will conduct a competence test
Lord, Abbett	None	
Loomis, Sayles	None	
Global Fixed Income Managers		
Brandywine Asset Management	None	

**NEW HAMPSHIRE RETIREMENT SYSTEM
Investment Manager Communications**

The System requires a communication and reporting system that ensures a continual awareness of each manager's activity and investment holdings. Following is a schedule for such reporting:

	Recipients		<u>Due Date*</u>
	<u>Board of Trustees</u>	<u>NHRS Admn Staff</u>	
<u>EQUITY AND FIXED INCOME</u>			
Investment Related			
Monthly:			
• Month-end valuation summary: Cashflow/Asset Value, Investment Performance and Asset Mix.	x	x	30
• Month-end Account Reconciliation: Market Value Reconciliation of total portfolio under management: Master Custodian v/s Investment Managers, detailing breakdown of difference.	--	x	28
• Brief Narrative Summary: Performance and financial highlights: no constraints for the format and content.	x	x	30
Quarterly:			
• Performance measurement and/or valuation reports.	--	x	30
• Summary of directed brokerage.	--	x	45
Annual:			
• Performance measurement and/or valuation reports.	--	x	45
• Annual audit reports of the firm.	--	x	45
• ADV Report (Part I & II)	--	x	45
<u>EQUITY ONLY</u>			
Compliance to Proxy Voting Guidelines			
Quarterly:			
• Written response to proxy voting when requested by NHRS staff, addressing reasons for exceptions.	--	x	When requested
Annual:			
• Proxy voting results.	--	x	45
<u>COMMERCIAL REAL ESTATE</u>			
Quarterly:			
• Activity by each property: Detail balance sheet and P&L.	--	x	25
• Performance by each property compared to the budget accompanied by a narrative report commenting on differences.	x	x	32
Annual:			
• Fiscal Year Performance analysis of the total portfolio compared to the indices and the budget accompanied by a narrative report.	x	x	32
<u>ALTERNATIVE INVESTMENTS (INCLUDING TIMBER FUNDS)</u>			
Quarterly:			
• Detail financial activity report for the fund at Book and market, based on fair market appraisals.	--	x	45
• Comprehensive quarterly financial report providing rate of return for the quarter, fiscal year and since inception accompanied by written comments on investments.	--	x	50
Annual:			
• Detail Audited Annual Reports of the Alternative Investments (including Timberfunds).	--	x	90
• Number of days after the close of the reporting period.			

All documentation regarding marketable securities will be copied to EAI, all documentation regarding real estate will be copied to Townsend and all documentation regarding alternatives will be copied to DML Group.

**NEW HAMPSHIRE RETIREMENT SYSTEM
General Investment Objectives & Guidelines
Total Fund Assets**

Goal

The Board of Trustees recognizes that their primary responsibility is to protect the financial interests of the retirees and the members of the New Hampshire Retirement System (NHRS). To that end, the NHRS has established a goal to consistently achieve a reasonable total fund return on a long-term basis, commensurate with prudent investment policy.

Applicable Statutes

All investments shall be in accordance with New Hampshire Revised Statutes Annotated 100-A:15(supp.).

Cash Flow

The System's investment policy dictates investment managers remain fully invested at all times. However, there may be times when cash flow from the portfolio is insufficient to cover benefit payments. As such, the managers will be notified in advance to raise capital, based upon the current over/under weightings versus the target asset allocation.

Performance Objectives

Each marketable asset class is expected to produce a total annual compounded rate of return in excess of the following benchmarks over a full market cycle, which is estimated to be three to five years.

◆ Equity Investments (Domestic)	Russell 3000 Index
◆ Equity Investments (International)	MSCI ACWI (ex-US)
◆ Fixed Income (Domestic)	Lehman Brothers Universal Bond
◆ Fixed Income (Global)	JP Morgan Global Broad Bond

Strategic Asset Allocation

It is the responsibility of the board of Trustees to maintain a strategic asset allocation policy for the Trust Fund. The current policy has been established as follows:

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>
Domestic Equity	47%	43%-53%
International Equity	12%	9%-15%
Domestic Fixed Income	18%	14%-22%
Global Fixed Income	3%	0%-5%
Real Estate	10%	5%-12.5%
Alternative Investment	10%	5%-12.5%

Within Domestic Equity

The domestic equity asset class should be invested based on a 45% growth/55% value equity allocation structure. Three large cap value managers are targeted at 11%, two large cap value managers at 5.5%, two small cap value at 5.5%, four large cap growth at 9% and one small cap growth at 9%. The System will seek liquidity opportunities over time to align manager balances with the target allocations.

Risk

- **Overall.** Risk will reflect the basic tenets of ERISA's prudent expert rule, which is that the risk of any component of the NHRS portfolio should be considered with respect to its impact on overall portfolio risk. No single investment firm should receive an allocation greater than 10% of the total fund assets.
- **Equity.** While it is understood that the achievement of a rate of return greater than a base index may require a risk level that is also higher than the index, both variability of return (mean absolute deviation) and volatility of return (Beta coefficient) will be monitored on a continuing basis. For individual managers, portfolio risk levels substantially higher than the market index (30%) over an extended period of time are to be avoided without prior consultation with the Board.
- **Fixed Income.** Quality ratings by Standard & Poor's and Moody's will be the primary guide as covered in the detail of these guidelines.
- **Venture Capital.** Participation's will be limited to a maximum of 15% in a single fund, with a minimum investment of \$10 million in new funds and \$5 million in follow-on funds.