

## NEW HAMPSHIRE RETIREMENT SYSTEM (NHRS)

### Investment Management Objectives, Guidelines & Restrictions

NOVEMBER 14, 2006

#### Portfolio Restrictions

##### General

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.

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

All managers may utilize the NHRS benchmark exchange-traded fund and/or I-share for their particular asset class in order to maintain market exposure and invest excess liquidity while searching for suitable investments. These investments should not represent a permanent portfolio allocation. The combined allocation to exchange-traded funds, I-shares and cash may not exceed 10% of a manager's portfolio at any time. Large cap equity managers may use S&P 500, small cap equity managers may use Russell 2000, international equity managers may use MSCI EAFE, domestic and global fixed income managers may use Lehman Universal and JP Morgan Global Broad Bond, respectively.

All investment managers are required to comply with AIMR investment performance calculation and presentation standards.

##### Common Stocks, Preferreds (U.S. Equity Managers)

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. Equity Managers)

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 is permitted.

**Portfolio Restrictions  
(continued)**

**Fixed Income Securities & Convertibles (U.S. Fixed Income Managers)**

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

Fixed income securities must be rated by Standard & Poor's, Moody's or Fitch.

Minimum BBB rating for corporate, Yankee and Eurodollar bonds and notes, including floating rate notes.

No more than 5% of the portfolio at market value may be invested in municipal issues, with a minimum rating of AA or better.

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.

Total portfolio must have minimum A rating. No unrated securities.

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.

The portfolio should be managed within a +/- 20% band of the modified duration of the benchmark index.

**Fixed Income Securities & Convertibles (Global Fixed Income Managers)**

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 must seek approval from the NHRS 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, 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 Investment Committee.

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 Investment Committee. 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. Core and non-core real estate investments may also include international investments. 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 Investment Committee. 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 is permitted.

**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 B.

## NEW HAMPSHIRE RETIREMENT SYSTEM

### Investment Manager Objectives By Asset Class and Style

	Objective
<b>EQUITY</b>	
Domestic Growth	Exceed the Russell 1000 Growth Index on a net of fees basis.
Domestic Value	Exceed the Russell 1000 Value Index on a net of fees basis.
Domestic Small Cap Growth	Exceed the Russell 2000 Growth Index on a net of fees basis.
Domestic Small Cap Value	Exceed the Russell 2000 Value Index on a net of fees basis.
Micro Cap	Exceed the Russell 2000 Value Index on a net of fees basis.
International	Exceed the MSCI EAFE Index on a net of fees basis.

## NEW HAMPSHIRE RETIREMENT SYSTEM

### Investment Manager Objectives By Asset Class and Style

	Objective
<b>FIXED INCOME</b>	
Opportunistic Core	Exceed the Lehman Brothers Universal Bond Index (65% LB Aggregate / 35% LB High Yield for Loomis, Sayles) on a net of fees basis.
Core Domestic	Exceed the Lehman Brothers Aggregate Bond Index on a net of fees basis.
Corporate Focus	Exceed the Lehman Government / Credit Bond Index on a net of fees basis.
Global	Exceed the J.P. Morgan Global Broad Index on a net of fees basis.
<b>REAL ESTATE</b>	Exceed the NCREIF Property Index on a net of fees basis.
<b>ALTERNATIVE INVESTMENTS</b>	
Venture Capital	Exceed the Consumer Price Index + 5% on a net of fees basis.
Absolute Return	Exceed the Consumer Price Index + 5% on a net of fees basis.
Timber	Exceed the Consumer Price Index + 5% on a net of fees basis.

**NEW HAMPSHIRE RETIREMENT SYSTEM**

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**Appendix A**

Separate Agreements With Managers

**Appendix B**

Investment Manager Communications

**NEW HAMPSHIRE RETIREMENT SYSTEM**  
**Separate Agreements with Managers**

**Brandywine:** (1) May invest up to 20% of the portfolio in below investment grade securities; (2) may hold up to 15% of the portfolio in emerging markets debt; (3) may enter into cross hedges through the use of forwards, futures and options for currency hedging; (4) may maintain 5% of the portfolio at market value in a single issue of any non-sovereign issues with no more than 10% of the portfolio at market value in any one non-sovereign issuer.

**Dalton Greiner:** (1) May invest in securities with market values below \$100 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; (4) may invest up to 5% of the portfolio at market value in un-levered futures positions; (5) may invest up to 5% of the portfolio at market value in credit default swaps.

**TCW:** (1) May invest up to 25% of the portfolio at market value in IOs, POs, inverse floaters, or residual tranches of CMOs.

**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.



## NEW HAMPSHIRE RETIREMENT SYSTEM

## Investment Manager Reporting and Correspondence

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>Individual Trustees</u>	<u>NHRS Adm Staff</u>	
<b><u>EQUITY AND FIXED INCOME</u></b>			
<b>Investment Related</b>			
<b>Monthly:</b>			
• 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
<b>Quarterly:</b>			
• Performance measurement and/or valuation reports.	--	x	30
<b>Annual:</b>			
• Performance measurement and/or valuation reports.	--	x	45
• Annual audit reports of the firm.	--	x	45
• ADV Report (Part I & II)	--	x	45
<b><u>EQUITY ONLY</u></b>			
<b>Compliance to Proxy Voting Guidelines</b>			
<b>Quarterly:</b>			
• Written response to proxy voting when requested by NHRS staff, addressing reasons for exceptions.	--	x	When requested
<b>Annual:</b>			
• Proxy voting results.	--	x	45
<b><u>COMMERCIAL REAL ESTATE</u></b>			
<b>Quarterly:</b>			
• 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
<b>Annual:</b>			
• Fiscal Year Performance analysis of the total portfolio compared to the indices and the budget accompanied by a narrative report.	x	x	32
<b><u>ALTERNATIVE INVESTMENTS (INCLUDING TIMBER FUNDS)</u></b>			
<b>Quarterly:</b>			
• 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
<b>Annual:</b>			
• 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 Ennis Knupp; all documentation regarding real estate will be copied to Townsend; and all documentation regarding alternatives will be copied to Bisys.