REQUEST FOR PROPOSALS FOR LEGAL SERVICES

AS INVESTMENT COUNSEL

This Request for Proposals ("RFP" or "solicitation") invites the submission of offers to the New Hampshire Retirement System ("NHRS") for the provision of legal services as Investment Counsel. NHRS reserves the right to enter into Letters of Engagement with one or more entities for such counsel.

A. LEGAL SERVICES SOUGHT

I. Background.

The New Hampshire Retirement System ("NHRS") is a contributory public employee governmental defined benefit plan intended to be qualified under section 401(a) of the Internal Revenue Code (Code) and funded through a trust which is exempt from tax under Code Section 501(a). Assets under management were approximately $8.75 billion as of May 31, 2019. NHRS provides benefits to its eligible members and their beneficiaries upon retirement, disability, or death. Benefits are based on members' average final compensation and years of creditable service. Separate benefit structures apply to Group I members (employees and teachers) and Group II members (police officers and firefighters). In addition, NHRS administers a Code Section 401(h) subtrust for four post-retirement medical plans covering qualified retired members. It has approximately 48,000 active members including firefighters, police officers, teachers, and state and local government employees. Approximately 37,000 individuals currently receive a monthly benefit from NHRS.

The plan is administered by the NHRS Board of Trustees ("Board"), consisting of 13 members including the State Treasurer as an ex-officio member, four public non-members, four employer representatives, one employee, one teacher, one police officer, and one firefighter. NHRS is governed by New Hampshire RSA 100-A, the rules and regulations promulgated by the Board and federal laws. The Board of Trustees formulates administrative policies and procedures, authorizes benefit payments to members and their beneficiaries and manages the trust fund.

NHRS investment activity is managed and administered by the Independent Investment Committee ("IIC") which is charged with statutory authority under New Hampshire RSA 100-A:14-b and RSA 100-A:15 to review investment performance, choose fund managers and make investments on behalf of the Board.

The Executive Director oversees all NHRS administrative functions which are carried out by the staff of approximately 70 employees, including the investment management staff which consists of the Director of Investments and a team of three individuals. The Director of Investments is responsible for working with the IIC to manage, implement, and administer NHRS investment policy in accordance with statutory authority as referenced above. For purposes of this RFP as it concerns the provision of investment-related legal services, the Director of Investments shall be considered as a "designee" of the Executive Director and will have the authority to act in the stead of the Executive Director in any and all instances as outlined below.

II. General Requirements.

The investment activities of the NHRS require legal support as necessary and appropriate. It is expected that outside counsel will provide counsel and representation before third parties as requested. The nature and extent of legal services needed by the NHRS cannot be predetermined with reasonable precision. Consequently the Board may enter into letters of engagement with one or more legal entities for the provision of investment services as described in Section A.III., below.

III. Statement of Work.

a. NHRS anticipates needing legal support from its Investment Counsel for matters consistent with its Investment Policy, as amended on May 19, 2019, attached as Exhibit A.

b. Under the direction of NHRS Executive Director or designee, the legal support described above may require the Investment Counsel to:

1. Provide oral and written legal advice to the NHRS;
2. Advise the NHRS on potential risks and liability;
3. Attend Board or IIC meetings and make or review presentations to the Board or IIC;
4. Represent the NHRS or assist in representing the NHRS before third parties, including other governmental entities, in matters not involving litigation;
5. Represent the NHRS or assist in representing the Board in litigation before administrative and judicial tribunals;
6. Draft or review NHRS materials, including policies and procedures;
7. Draft or review legislative and regulatory materials;
8. Provide the NHRS with notice of significant changes in the law affecting investments;
9. Provide opinions on behalf of the NHRS to auditors and other oversight or investigative entities; and

10. Conduct training for the Board, IIC, and staff, as appropriate.

IV. Engagement Provisions.

The following clauses shall be included in all Letters of Engagement with the Board:

a. Compensation.

1. Legal fees will be provided in accordance with section B.III. of this RFP under Fee Proposals.

2. The Executive Director or designee may specify the labor mix for any specific project. The selected firm shall adhere to the specified labor mix unless amended in writing by the Executive Director or designee.

3. Award of an engagement does not guarantee the selected firm will receive a minimum amount of work.

4. Only reasonable, allowable, and allocable direct costs and expenses are reimbursable. Expenses are reimbursable at cost and shall not contain a mark-up of any kind. Such expenses include:

   a. Postage;

   b. Messenger and overnight delivery services if requested by the Executive Director or designee.

   Expenses that are not reimbursable include:

   a. Photocopying;

   b. Secretarial services;

   c. Local transportation (including after-hours transportation);

   d. Paraprofessional overtime expenses;

   e. First class mail; and

   f. Non-local travel expenses without the prior written authorization of the Executive Director or designee.

5. The Executive Director or designee reserves the right to object to any legal fees and expenses it reasonably considers to be excessive.

b. The period of performance shall be for three years from the effective date. The Board may unilaterally exercise options for two additional periods of performance not to exceed one (1) year each. The engagement shall extend automatically unless NHRS provides written notice to the firm of its intent not to exercise the option not less than thirty (30) days prior to the Engagement's expiration date (as extended by an exercised option).

c. Administration Data.

1. The Executive Director is responsible for this Engagement:

Name: George P. Lagos, Executive Director
Address: New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301

Telephone: (603) 410-3520
Fax: (603) 410-3505
Email: george.lagos@nhrs.org

2. All instructions, notices, demands, other correspondence to be given by either party to the other party shall be in writing and shall be given by first class mail with verification of delivery or by a recognized delivery or courier service that maintains written verification of actual delivery or by email. Such communications shall be sufficient and effective upon delivery to the Executive Director, his designee or the designated point of contact in section B.II.c. or designee.

3. Invoices for worked performed and expenses incurred shall be submitted to the Executive Director or designee monthly no later than thirty (30) days after the end of the preceding month. Monthly invoices shall be in two parts consisting of:

A. A summary table showing:

i. The names of each attorney and paraprofessional who performed work during the preceding month;

ii. The time spent by each attorney and paraprofessional during the preceding month broken down by quarter hour, or as otherwise provided in the Letter of Engagement;

iii. The hourly rate for each attorney and paraprofessional;

iv. The total charge (hours x hourly rate) for each attorney and paraprofessional; and

v. Total expenses incurred broken down by type of expense.

B. A detailed table showing:

i. All dates work was performed by each attorney and paraprofessional;

ii. A brief description of the work performed by date broken down by matter worked on; and

iii. The time spent by each attorney and paraprofessional by date broken down by matter worked on.

C. Or, as in such other mutually agreeable format as provided in the Letter of Engagement.

d. Special Engagement Terms.

1. Bar Membership.

A. All attorneys working on matters pursuant to this Agreement shall at all times be active members in good standing of the Bar of the State of New Hampshire, another state, the District of Columbia, or the Commonwealth of Puerto Rico.

B. Notwithstanding the above, all attorneys representing the NHRS before any entity of the State of New Hampshire in litigation or any other matter, must be active members in good standing of the Bar of the State of New Hampshire or admitted pro hac vice.

2. This Engagement shall be effective upon approval by the Board or its designee and execution of the Letter of Engagement.

3. This Engagement may be terminated by the Board or its designee at its discretion at any time with ten (10) days prior written notice to the firm.

4. If the continued provision of legal services to the Board would create a professional conflict of interest that is not subject to mitigation under the New Hampshire Rules of Professional Conduct or other applicable authority (mitigation shall not include a waiver of a conflict by the Board), the firm shall immediately cease performance and notify the Executive Director in writing.

5. Dispute resolution.

A. The parties waive the right to trial by jury in any judicial action, proceeding or counterclaim arising from this Engagement.

B. Any legal proceedings involving this Engagement shall be filed with a state court located in the State of New Hampshire with subject matter jurisdiction, and New Hampshire law shall apply, excluding its choice of law provisions.

6. Neither party will, directly or indirectly, assign or transfer any claim arising out of this Engagement.

7. The failure of either party to enforce any of the terms of this Engagement shall not be a waiver or relinquishment of any future requirements of this Engagement.

8. This Engagement, which includes the Letter of Engagement, the RFP and the firm's proposal, constitutes the entire engagement between the parties regarding the subject matter of this Engagement. It replaces and supersedes any previous understandings or representations between the parties, whether written or oral, regarding the subject matter of this Engagement. Except as explicitly stated otherwise, this Engagement may not be modified, amended, changed, or altered except by written engagement executed by the parties.

9. The section headers in this Engagement are for information only and shall not be used to construe the meaning of any particular clause.

10. The firm shall discharge its duties and responsibilities under this Engagement with the standard of care, skill, and diligence normally provided by legal counsel in the performance of similar services under similar circumstances.

11. The firm shall at all times maintain sufficient insurance to reimburse the Board and the participants and beneficiaries of the NHRS in full for any professional liability on its part.

12. This Engagement is severable. If any provision or term hereof is determined, for any reason, to be illegal or otherwise unenforceable, such determination shall not affect the validity of the remaining provisions and terms hereof. The provision or term determined to be illegal or unenforceable shall be amended to conform to applicable law and the intent of the parties.

13. The rights and remedies described in this Engagement are cumulative and are in addition to any other remedies available to the Board in law or in equity, and the exercise of any one or more of such remedies shall not be construed as a waiver of any other right or remedy.

14. The Firm shall promptly notify the Executive Director or designee of any change in the availability of the personnel proposed to perform legal services under this Engagement, and shall propose a replacement of similar experience and knowledge who will be subject to acceptance by the Executive Director.

15. The Firm shall assist the NHRS in asserting a claim of privilege when so requested.

16. The Firm shall not subcontract any of the services to be performed under this Engagement without the prior written consent of the Executive Director or designee.

17. In the event of a conflict between a Letter of Engagement, the Board's Request for Proposals (RFP), and the Firm's Proposal, the order of precedence shall be:

    A. the Letter of Engagement;

    B. the RFP; and

    C. the Firm's Proposal.

18. The Firm shall perform such work as is necessary to correct errors, defects, and omissions in the services provided under this Engagement without undue delay and without cost to the NHRS.

19. The Executive Director or designee may order the Firm to suspend, delay, or interrupt all or any part of work it is performing without cost for such period of time as he or she may deem appropriate.

20. During the term of this Engagement, the Firm shall not represent any person or entity in a matter, proceeding, or lawsuit against the NHRS. Following expiration or termination of this Engagement, the Firm shall not represent any person or entity in a matter, proceeding, or lawsuit substantially related to this Engagement for a period of no less than five years after such termination.

21. This Engagement is non-exclusive, and work within the purview of this Engagement may be awarded to other contractors or performed in-house.

B. INSTRUCTIONS TO OFFERORS

I. <u>In General</u>.

a. Offerors must submit an original and four (4) copies of each technical and fee proposal and one electronic copy by email.

b. Proposals shall be delivered to:

Timothy J. Crutchfield, Chief Legal Counsel
New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301

c. Proposals must be received no later than Friday, September 13, 2019, at 4:00 pm EST. Untimely proposals shall not be considered.

d. Questions about the solicitation shall be in writing and directed to:

Timothy J. Crutchfield, Chief Legal Counsel
New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301

Fax: (603) 410-3505
Email: tim.crutchfield@nhrs.org

Questions must be received by Friday, August 30, 2019, at 4:00 pm EST in order to be assured of a response. Questions and responses shall be shared with all entities at their request.

e. The Board or NHRS staff may convene a pre-proposal meeting to which all or some of the Offerors requesting or sent an RFP may be invited.

f. The Board may amend or terminate this RFP at its discretion at any time prior to awarding a Letter of Engagement.

g. Technical proposals shall be no more than ten (10) pages in length, excluding a cover page described in section B.I.m., below, an introductory page, an index page, and résumés for all personnel identified as available to work on the contract. Pages exceeding this limit will not be read or evaluated.

h. Fee proposals shall be no more than three (3) pages in length, excluding an introductory page and an index page. Pages exceeding this limit shall not be considered or evaluated.

i. The text of all proposals shall be in 12 point Times New Roman type.

j. Pages of a proposal containing confidential or proprietary information shall contain a header and footer with an appropriate restrictive legend.

k. Under no circumstances shall the NHRS be responsible for the expense of preparing a proposal for this RFP.

l. Proposals shall be self-contained and shall not refer to a web site or other external sources for additional information.

m. The cover page of the technical proposal shall contain the name, title, street address, telephone and fax numbers, email address and signature of an individual attesting that:

1. He or she has actual authority to accept the terms of engagement on behalf of the Offeror;

2. The offer may be accepted by the Board without discussions and

3. The entity accepts all of the terms of the engagement as set forth herein.

n. Proposals may be withdrawn at any time up to award. Unless withdrawn, all offers shall remain in effect for ninety (90) days after the proposal due date, including any extensions thereto.

o. Graphics in a technical or price proposal shall be included in their respective page limits.

II. <u>Technical Proposals</u>.

Offerors shall provide in their technical proposals:

a. The names, titles, and résumés of the attorneys who are expected to provide legal services under the Engagement;

b. A description of the experience and knowledge of those attorneys for the past ten (10) years (or for the entire time they have been practicing, if shorter) in the area of investment counsel, including:

1. The nature of advice and representation provided on such matters;

2. The length of engagement;

3. The outcomes of such matters;

c. The name of the attorney who will serve as the point of contact for strategic, tactical, administrative, and performance matters relating to the engagement;

d. A brief description of how attorney assignments are made, how work load is managed by the Offeror, and how back up assistance is provided;

e. The percentage of annual attorney turnover;

f. A certification that the Offeror is not and has not been for the past thirteen (13) years disbarred or suspended by the State of New Hampshire, the U.S. Government, or any other jurisdiction from doing business, and that no attorney proposed to work on the Agreement has been disbarred or suspended by any jurisdiction for the past thirteen (13) years;

g. A certification that the Offeror has no known conflicts that would restrict its ability to provide advice to the Board; if any conflict is known, the nature of the conflict and its effect on performance of the contract must be described in detail;

h. A description of the Offeror's conflicts avoidance procedures;

i. A description of the Offeror's professional liability insurance applicable to the work described in this contract, including limits of coverage;

j. The Offeror's process and resources for keeping abreast of proposed and actual changes in the laws affecting its area(s) of engagement;

k. A description of any other relevant experience and knowledge; and

l. Names and telephone numbers of three clients for purposes of reference checking.

Technical proposals shall not contain or describe proposed hourly rates or other price factors. Proposals violating this requirement shall not be considered.

III. Fee Proposals.

a. Offerors shall provide in their fee proposals the hourly rates of the attorneys and paraprofessionals proposed to perform services and their fully-loaded hourly rates, including discount rates for governmental plans. In the alternative, Offerors have an option to provide blended rates.

b. Offerors shall provide justifications for proposed hourly rates significantly below or in excess of prevailing market rates.

c. The NHRS reserves the right to negotiate with the selected Offeror any contract pricing or terms more favorable to the NHRS than those presented in the Offeror's proposal.

IV. Evaluation of Proposals.

a. Proposals shall be reviewed for soundness of technical capability and reasonableness of fees. Technical factors shall constitute 2/3 of a proposal's overall rating and fees shall constitute 1/3 of its overall rating.

b. Awards shall be made to those Offerors whose proposals are most advantageous to the NHRS, fees and other factors considered.

c. Appropriate NHRS staff will evaluate the proposals and provide recommendations to the Board or a Board committee for selection.

d. Offerors may be required to make presentations to the Board or a Board committee prior to award of an engagement. Offerors shall be solely responsible for any costs associated with such presentations, including travel expenses.

New Hampshire Retirement System
Investment Policy
Amended by NHRS Board of Trustees on May 14, 2019

I. Introduction to the Investment Policy

The purpose of this Investment Policy is to:

A. Fulfill the Board's and IIC's statutory duty to oversee the investments of NHRS in accordance with the basic fiduciary responsibilities. These duties include:

- Managing the fund with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.

- Making all decisions solely in the interest of, and for the exclusive purpose of providing benefits to the members, retirees, and their beneficiaries.

- Defraying reasonable administrative expenses.

B. Set forth the investment policies the Board and IIC judge to be appropriate, prudent and, in consideration of the Systems' needs, to comply with current laws and to direct the investment of the System's assets.

C. Ensure appropriate flexibility within the investment process to allow for the System to participate in prudent investment opportunities while also establishing risk parameters within which the portfolio will operate.

D. Establish criteria to evaluate the System's investment performance.

E. Communicate investment policies, objectives, asset class guidelines, and performance criteria to staff, external investment managers/advisors, consultants, custodians, and all other interested parties.

F. Serve as a review document to guide ongoing oversight of the System's investments for compliance with the laws of New Hampshire.

II. Responsible Parties and Their Duties

Key parties that participate in the investment decision-making and oversight process for NHRS include the:

- Board of Trustees
- Independent Investment Committee (IIC)
- Investment Staff
- Investment Consultants
- Investment Managers
- Custodian Bank
- Proxy Voting Service Provider

Board of Trustees:
The Board sets investment policy in accordance with applicable State and Federal laws, hires the investment consultant(s), and sets policy for establishing and modifying investment objectives. The Board also has responsibility to review quarterly and annual reports from the IIC.

Independent Investment Committee:
The IIC prepares for the Board's review and approval an investment policy statement, including investment objectives, an expected rate of return the System is attempting to earn, asset allocation targets and ranges, and identification of appropriate benchmarks. The IIC has the full power to hold, purchase, sell, assign, transfer, and dispose of any securities and investments, as well as the proceeds of such investments, in accordance with the policy set by the Board. The IIC has the responsibility to establish asset class guidelines and for selecting, monitoring, and terminating investment managers. The IIC is responsible for reporting to the Board on a quarterly and annual basis as directed by the statute.

Investment Staff:
The NHRS investment staff, led by the Director of Investments, is responsible for implementation of the investment decisions made by the Board of Trustees and/or the IIC. In general, the responsibilities of the investment staff include:

- Ensuring the asset allocation of the Fund is implemented in accordance with the policy approved by the Board, including rebalancing as necessary in accordance with the investment policy
- Monitoring policy and statutory compliance of the portfolio
- Assisting the IIC in developing investment policy recommendations to present to the Board for approval
- Monitoring investment managers and performing due diligence on new investment opportunities or managers as directed by the IIC
- Coordinating work with the investment consultant or any other investment-related service provider selected by the Board
- Conducting special research or analysis as directed by the Board, IIC, or Director of Investments

- Ensuring the Board and IIC receive appropriate reporting regarding the investment portfolio

Investment Consultant:
The investment consultant will perform those services as described in its contract. The investment consultant is hired by the Board, and is expected to work cooperatively and collaboratively with the Board, the IIC, as well as the investment staff. In general, the investment consultant's responsibilities include:

- Providing advice on asset allocation
- Assisting the Board, IIC, and staff with decision-making
- Providing reviews of investment policy, asset class structure, and investment managers
- Calculating performance
- Reporting and analyzing performance of the total portfolio, asset classes, and individual investment managers
- Performing research as needed
- Providing investment education to the Board, IIC and staff as requested
- Reports quarterly to the Board on investment consultant contract fulfillment actions
- Reports to the Board quarterly on recommendations made to the IIC and the status of their recommendations.

Investment Managers:
The investment managers hired by the IIC have the duty to manage the assets allocated to them as fiduciaries and in accordance with the Investment Management Guidelines established for their accounts and their individual contracts. Investment managers must execute all transactions for the benefit of NHRS and update NHRS regarding any major changes to the portfolio management team, investment strategy, portfolio structure, ownership, organizational structure, or other changes relevant to the account.

Custodian Bank:
The duties of the custodian bank are set forth by their contract with NHRS. In general, the custodian's responsibilities include:

- Safekeeping of NHRS assets
- Settling investment transactions and collecting income
- Preparing monthly and year-end accounting statements
- Serving as the "book of record" for investment transactions and valuations
- Properly recording and reporting investment activities, transactions, income, and valuations

When selecting the custodian bank the IIC will use the current industry standards appropriate for evaluating the qualifications of a custodian bank.

Proxy Voting Service Provider:
The duties of the proxy voting service provider are set forth by their contract with NHRS. In general, those responsibilities include:

- Voting proxies on behalf of NHRS per the Proxy Voting Policy
- Providing research reports
- Preparing monthly and year-end summaries
- Alert staff to issues not covered by the NHRS Proxy Voting Policy
- Recommending revisions to the NHRS Proxy Voting Policy
- Assisting in revising the NHRS Proxy Voting Policy

The Accountability Matrix adopted by the Board on April 10, 2012 and incorporated herein by reference further summarizes key responsibilities and duties of the Board; IIC; Director of Investments and Investment Staff; Internal Legal Staff; Investment Consultant(s); and Actuary. Additional responsibilities are also detailed in the Board's governance manual, contracts, and NHRS's position descriptions for staff.

III. Investment Objectives

In light of the purpose of the System, the Board, based on the recommendation of the IIC, has adopted the following investment objectives:

- Efficiently allocate and manage the assets of the Fund so that beneficiaries will receive promised benefits.

- Manage the portfolio on a total return basis, which recognizes the importance of the preservation of capital, as well as the fact that reasonable and varying degrees of investment risk are generally rewarded over the long-term.

- Work towards achieving and then maintaining a fully funded pension status.

- Exceed the Policy benchmark on a net of fees basis over a full market cycle.

IV. Risk Management

The Board's role in risk management is to approve the asset allocation targets and ranges for each asset class of the Fund. The Board recognizes that in order for the Fund to achieve its investment objectives, a reasonable level of risk must be present within the investment portfolio. Risk is referenced both in terms of absolute risk (the risk of loss) and volatility (the variability of returns). The Board will seek to minimize the risk of loss by approving an asset allocation that includes an appropriate level of diversification of Fund assets. The Board will periodically review the level of risk as represented by the asset allocation targets and ranges within the Fund and each asset class to ensure it is reasonable and within its tolerance for risk. Equity volatility (risk) is among the highest for any asset class. Other risks that the Board will consider when approving investment policy include benchmark risk, timing risk, market risk, credit risk, currency risk, liquidity risk, and any other risk it determines is relevant.

The Board acknowledges that the IIC also has a responsibility to consider risk when recommending asset allocation, and to monitor risks within the portfolio. The IIC will consider market risk, credit risk, currency risk, liquidity risk, and any other risk it believes to be relevant when it determines an asset allocation to recommend to the Board. The IIC is responsible for risk management at the manager level as it decides upon the number and types of managers to utilize within each asset class portfolio. When making decisions, the IIC will consider idiosyncratic risk (firm specific risk), benchmark risk, timing risk, market risk, credit risk, liquidity risk, interest rate risk, operational risk, concentration risk or any other risk it determines relevant as it makes its decisions.

The investment managers are responsible for risk management within the portfolio they manage on behalf of NHRS. Investment managers will consider those risks most relevant to their portfolio, which could include market risk, credit risk, currency risk, liquidity risk, inflation risk, geo-political risk, political risk, interest rate risk, and operational risk.

Descriptions of major types of risk follow:

A. Credit Risk: The risk of default of a party owing cash to the System as the result of a transaction. These parties may include, but are not limited to, the counterparty and the issuer.

B. Counterparty risk (default risk): The risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract.

C. Liquidity Risk: There are two types of liquidity risk: market liquidity risk and funding liquidity risk. Market liquidity risk is the risk of being unable to purchase or liquidate a security quickly enough (or in requisite quantities) at a fair price. Market liquidity risk differs from market risk (defined below). Market liquidity risk only reflects realized price changes, while market risk reflects both realized and unrealized price changes. Funding liquidity risk relates to the relative ease of the organization to meet its cash flow needs as they come due.

D. Market Risk: The risk of unexpected change in market price (amount or direction). Price changes in securities can result from movements in equity markets, interest rates, and currency exchange rates, in addition to various other factors. Market risk incorporates both realized and unrealized price changes.

E. Systemic Risk: Risk that affects an entire financial market or system, and not just specific asset classes. Systemic risk cannot be avoided through diversification.

F. Absolute Risk: Risk of loss of capital.

G. Volatility Risk: The variability of returns often used as a proxy for risk.

H. Operational Risk: The risk of inadequate controls against fraud, incorrect market valuation, failure to record or settle a deal, settlement with the wrong counterparty, failure to collect amounts due, failure of the computer system, or enforceability of contracts. The implications of operational risk include both financial loss and loss of reputation.

I. Geo-Political Risk: The risk of the occurrence of an unanticipated international and/or domestic incident such as war, assassination, terrorism or energy shock that adversely affects global and capital markets resulting in the re-pricing of securities.

J. Political Risk: The risk of nationalization or other unfavorable government action.

K. Idiosyncratic Risk: Firm specific risk or the risk of the change in price of a security due to the unique circumstances of that security.

L. Benchmark Risk: The risk that an investment may outperform or underperform its target return.

M. Interest rate risk: The risk of an investment losing value (such as bonds) when interest rates rise. Rising interest rates increase the cost of doing business for most companies and can also, thereby, raise market risk.

N. Inflation risk: The risk that rising inflation may erode the value of income and/or assets.

O. Currency risk: The risk that currency movements will negatively impact an investment's return. If the value of the U.S. dollar rises in relation to other currencies, the value of foreign stock shares translates into a smaller number of U.S. dollars for investors who hold those shares. Put another way, a "strong" dollar can buy more foreign goods, including foreign stocks. Conversely, if the dollar falls in relation to other currencies, the value of foreign stock shares rises, as more "weak" dollars are needed to buy a given amount of foreign stock.

P. Timing risk: The risk that the market will not move in the anticipated direction when an investment is made (upward for long positions, and downward for short positions).

Q. Concentration risk: The risk that the System does not appropriately and effectively diversify the assets within an asset class. An example of concentration risk is having too large a percentage of System assets with a single investment manager.

V. Asset Allocation

The Board approves the asset allocation targets and ranges for each asset class of the Fund (the allowable asset classes and the distribution of assets among those asset classes) based on recommendations from the IIC. As fiduciaries, the Board and the IIC have a duty to diversify the investments of the System to reduce risk, while maximizing the investment return. Approximately ninety percent (90%) of the long-term total return stems from the asset allocation decision. The remaining ten percent (10%) is expected to be attributable to either the selection of individual assets or timing. Accordingly, asset allocation is one of the most important fiduciary decisions. The Board adopts an asset allocation based on recommendations from the IIC, which relies upon the advice from the Director of Investments and the investment consultant to formulate its recommendations to the Board.

The asset allocation approved by the Board will reflect the results of an Asset Liability Study performed at least once in every five year period, or more often, as recommended by the IIC, System staff, and investment consultant.

The Asset Liability Study identifies a mix of investments, by asset class, which is expected to produce the return required to meet future funding requirements at the lowest level of risk, given all of the assumptions made and employing a mean-variance optimization model.

The asset allocation chart, which follows, lists the approved asset classes in the portfolio and the target percentages and ranges, at market value, of the System's assets to be invested in each. Due to fluctuations of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. Based on the approved asset allocation, recommendations from the System's consulting actuary, IIC, investment managers and staff, the Board adopts an assumed rate of return, which is subject to periodic change and which is the long-term return that can be expected from this combination of assets. As of May 10, 2016, the assumed rate of return was 7.25%.

Asset Class	Target Allocation	Allocation Range
Domestic Equity	30%	20 – 40%
Non-U.S. Equity	20%	15 – 25%
Fixed Income	25%	20 – 30%
Real Estate	10%	5 – 20%
Alternative Investments	15%	5 – 25%

The Board has approved the use of the above listed asset classes for the following reasons:

Domestic Equity: The allocation to domestic equity serves to expose the fund to the largest economy of the world. An allocation to domestic equity should allow for return enhancement and principal appreciation.

Non-U.S. Equity: The allocation to non-U.S. equity, both developed and emerging markets, will serve as potential for return enhancement and principal appreciation. A secondary consideration is the diversification it provides from the U.S. market. While the U.S. and non-U.S. markets are considerably correlated, they are not perfectly correlated. Assets that are not perfectly correlated serve to reduce volatility over the long term.

Fixed Income: The investment in fixed income will serve to reduce volatility experienced in the equity markets, as well as offer an opportunity for return enhancement by investment in selected securities (for example, investment grade corporates and high yield). A portion of the fixed income allocation is expected to be invested in Treasury or other government-related issues, which will serve to reduce risk within the portfolio.

Real Estate: The investment in real estate will serve as an inflation hedge, return enhancement opportunity, income generator, and diversification source and will include investments within core, value-added, and opportunistic opportunities.

Alternative Investments: Alternative investments are nontraditional investments, not covered by another investment class. In general, alternative investments are incorporated into the NHRS asset allocation to enhance the portfolio's risk-adjusted return (private equity/private debt) or to diversify volatility (opportunistic strategies). While the risk associated with these types of investments is higher than that of other asset classes, the expected return is also higher. Strategies the IIC may use in private equity/private debt may include, but are not limited to: Buyouts; Distressed Opportunities; Energy-focused; Growth Equity; Infrastructure; Mezzanine; Direct Lending; Secondaries; Special Situations; and Venture Capital. Strategies the IIC may use for opportunistic strategies include: Credit Linked; Equity Linked; Event Driven; Trading; and Multi-Strategy.

VI. Rebalancing

The actual asset class allocation of the Fund will be continuously reviewed by staff relative to the asset class policy targets. Market movements or cash flow requirements may require the actual allocations in the portfolio to deviate from the target allocations. Staff shall seek to maintain the Fund's actual asset allocation within allocation ranges at all times. When rebalancing is required, the staff will develop a rebalancing plan that, when possible, minimizes transaction costs. The plan will identify whether the assets will be rebalanced to a point within the allowable range, or to the allocation target. Staff will give due consideration to market environments, costs and risks of implementation, potential impacts on manager-level performance, and other relevant factors. The staff will report to the IIC and the Board regarding rebalancing activities that have occurred.

VII. Equity Investment in Another Entity

When the System makes an equity investment in another entity, the underlying assets of such other entity will be deemed "assets" of the System for purposes of Section 100-A15, I-b of the RSA except with respect to investments in the following entities:

(a) Publicly-offered securities

(b) An investment company registered under the Investment Company Act of 1940

(c) A Company primarily engaged, either directly or through majority-owned subsidiaries, in the production and/or sale of goods and/or services (other than the investment of capital) ("Operating Company")

(d) A private equity fund whose primary objective is to invest in Operating Companies in which it has contractual rights to influence company management

(e) A private investment fund whose primary objective is to invest in real estate with respect to which it has the right to participate directly in the development or management

(f) A government mortgage pool guaranteed by the United States or an agency or instrumentality thereof

(g) An investment fund or entity in which:

(1) (i) private U.S. employee benefit plans subject to Part 4 of Subtitle B of Title 1 of the Employee Retirement Income Security Act of 1974 ("ERISA Plans"), (ii) plans subject to Section 4975 of the Internal Revenue Code ("4975 Plans"), and (iii) other entities deemed under ERISA to hold assets of such ERISA Plans and 4975 Plans (together with ERISA Plans and 4975 Plans, "Benefit Plan Investors"), hold less than 25% of any class of equity interests and

(2) the System holds less than 25% of the total equity interests

(h) An insurance company general account to the extent that the non-guaranteed policy portion of such account is less than 25% held by Benefit Plan Investors and less than 25% held by the System.

It is the intention of the Board that in settling any ambiguity regarding this section of policy, the Board shall look to available guidance under ERISA to settle such ambiguity.

VIII. Liquidity

Currently, each fiscal year, the member benefit payments paid by the System exceed the employer contributions received by the System. As a result, maintaining appropriate liquidity is critical to the System's operations and the System's ability to meet its financial obligations. The staff will be responsible for ensuring the System maintains the appropriate liquidity for the payment of member benefits, fund expenses and capital calls from its General Partners.

IX. Active and Passive Management

The IIC may implement the Board's approved asset allocation through the use of both passive and active management. The use of active and passive management is detailed in the guidelines for each asset class. The goal of passive management is to gain diversified exposure to the desired asset class while incurring minimal expense and seeking a performance return comparable to the asset class benchmark. The goal of active management is to exceed the performance of the appropriate index on a net-of-fees basis at a commensurate level of risk over a full market cycle.

X. Benchmarks

The following benchmarks represent the standards of measurement to be used for the various investment asset classes of the New Hampshire Retirement System as determined by the Board and IIC.

Asset Class	Benchmark
Domestic Equity	S&P 500 Index
Non-U.S Equity	MSCI All Country World Ex-U.S. Index
Fixed Income	Bloomberg Barclays Capital U.S. Universal Bond Index
Real Estate	NCREIF NFI-ODCE Index (net of fees)
Alternative Investments:	
Private Equity	S&P 500 Index + 3%
Private Debt	S&P/LSTA U.S. Leveraged Loan 100 Index
Total Fund	Total Fund Custom Benchmark

The Total Fund Custom Benchmark is a weighted average return comprised of the respective asset class benchmarks in the same proportion as the target asset allocation.

As performance results may vary under different economic conditions and market cycles, an effective period for measuring performance would span three to five years or more. Performance returns are expected to meet or exceed the relevant benchmark on a net-of-fees basis over time.

The IIC has responsibility for identifying appropriate benchmarks for each investment in the Fund.

Definitions of the benchmarks are listed below:

A. The S&P 500 Stock Index measures the total return of 500 large capitalization U.S. common stocks. The index tracks leading industries and is capitalization-weighted.

B. The MSCI ACWI (All Country World Index) is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The term “free float” refers to the number of shares of stock publicly owned and available for trading.

C. The Bloomberg Barclays Capital U.S. Universal Index represents the union of Bloomberg Barclays Capital's U.S. Aggregate Index (see below), U.S. Corporate High-Yield, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or below investment grade.

D. The Bloomberg Barclays Capital U.S. Aggregate Index is an unmanaged, market-value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed and mortgage-backed securities, with maturities of one year or more.

E. The National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index Open-End Diversified Core (NFI-ODCE) is a composite comprised of primarily Core open-end funds widely used by institutional investors for exposure to domestic private market real estate. An open-end fund is a large pool of properties held in a commingled fund structure where investors have redemption rights (typically quarterly right to make capital deposits or withdrawals). Because of quarterly purchase or redemption of fund shares, open-end funds have some of the best valuation disciplines in private market real estate. The funds report performance quarterly to NCREIF. Nearly all open-end funds are designed to be perpetual life vehicles, with many having history dating back to the 1970s.

F. The S&P/LSTA U.S. Leveraged Loan 100 Index (LL100) is a daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leverage loans. The constituents are drawn from a universe of syndicated leveraged loans representing over 90% of the leveraged loan market.

XI. Reporting to the Board

Pursuant to RSA 100-A:15, II-a, the IIC will report to the Board at least quarterly on the management, investment, and reinvestment activities of the IIC, and may delegate such reporting as it deems appropriate. The quarterly report will include:
- A report on the investment performance of the assets of the System
- Changes, if any, in the investment managers of the System
- Changes, if any, in the investment guidelines for each of the asset classes
- Rebalancing activities, if any

Pursuant to RSA 100-A:15, VII, the IIC will prepare, for Board approval, a comprehensive annual investment report for the Board. The annual report will include:
- A description of the IIC's philosophy for investing the assets of the System
- An analysis of the return on investment, by category
- An annual investment policy statement
- Any suggested changes in legislation which the Board may seek in order to better serve the members of the system

After Board approval, the comprehensive annual investment report is submitted to the president of the senate, the speaker of the house, and the governor.

The investment staff, investment consultant(s), custodian bank, and other parties will also provide reporting to the Board as requested or needed.

XII. Manager Selection, Monitoring, and Termination

The IIC, with the assistance of the investment staff and the investment consultant, will establish a process by which to select investment managers. Criteria for each manager search will be tailored to the search underway and NHRS' specific needs and requirements. Examples of criteria include:
- Organizational stability
- Investment staff, experience and tenure
- Investment process
- Ownership
- Fees
- Performance

Manager searches will be conducted in a fair and transparent manner. During a manager search, a "no contact policy" will be in effect. During this time, only staff designated by the Director of Investments will have any contact with potential candidates. Trustees, IIC members, and other staff members will refrain from discussing the search with candidate firms or potential candidate firms. This policy does not preclude existing managers from carrying out their normal business requirements with NHRS.

The IIC has delegated selected manager monitoring efforts to the investment staff and the investment consultant. Any significant changes to a manager's investment philosophy, fees, personnel, ownership or organizational structure will be summarized and reported to the IIC. The IIC will receive quarterly and annual reporting regarding the performance of the investment managers within the fund.

The IIC has the right to terminate any investment manager at any time. Grounds for termination may include, but are not limited to:

- Changes in asset allocation that require re-structuring of the portfolio
- Failure to comply with investment management agreements
- Underperformance
- Significant process, organizational, ownership or personnel changes
- Unethical behavior
- Loss of confidence in the organization
- Unresponsiveness or inability to satisfy reporting requests

XIII. Private Equity Fund Advisory Board/Committee Participation

The primary purpose of a private equity fund advisory board/committee is to (1) provide "checks and balances" on the general partner's power and authority to operate the fund; and (2) act as a "sounding board" for matters where the interests of all the fund's partners may not be aligned. The System has determined that the benefits of staff participating on advisory boards/committees far outweigh the risks or potential risks of not participating on advisory boards/committees. As a result, it is appropriate for System staff to represent the System as a member of an advisory board/committee, with the approval of the IIC and provided that there are appropriate protections for such members (e.g., with respect to fiduciary duty/standard of care, indemnification, confidentiality, etc.).

XIV. Use of Derivatives

Derivatives may only be used to modify risk/return characteristics of the portfolio, implement asset allocation changes in a cost-effective manner, or reduce transaction costs or taxes. Derivatives may not be used for speculation or leverage (borrowing).

Contracts with separate account managers will identify the types of derivatives that may be used, consistent with this Manual and prudent discretion. Managers must notify the Director of Investments of modifications in the types of derivatives used and obtain the Director of Investments' approval of such modifications. The System's Non-U.S. Equity managers generally have authorization for broader use of derivatives; however, their actions will be monitored for excessive risk.

Investments in commingled funds are open to other investors; therefore, it is not possible for the System to insist that the managers of such funds abide by System policy regarding the use of derivatives; however, their actions will be monitored for excessive risk. The Director of Investments will monitor a manager's use of derivatives on an ongoing basis to determine whether continued investment in a fund is prudent.

XV. Prohibited Transactions

The following transactions will be prohibited unless stated otherwise in the investment manager guidelines:

- "Prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA).

- Transactions that involve a broker acting as a "principal", where such broker is also the investment manager who is making the transaction.

- Any or all investment activities forbidden by SEC or other applicable governing bodies.

The exposure for options, when permitted by contract, must be based on an appropriate options pricing model.

XVI. Review of Investment Policy

The IIC will review the investment policy at least annually to ensure it remains appropriate and to determine whether any modifications are needed and make a recommendation to the Board for changes, if any, to the investment policy. The Board will review the recommendations of the IIC regarding the investment policy and review the policy at least annually.

XVII. Glossary of Common Investment Terms

Investment in any particular instrument or security remains subject to applicable law and circumstances then prevailing. Notwithstanding, the most common investments are cited below:

A. <u>Alternative Investments</u> are non traditional investments, not covered by another investment class (e.g. private equity/private debt and opportunistic strategies)

B. <u>American Depositary Receipts (ADRs)</u> are receipts for the shares of a foreign-based corporation held in the vault of a U.S. bank and entitling the shareholder to all dividends and capital gains. These are traded on various U.S.-based exchanges and are available for hundreds of stocks from numerous countries.

C. Commercial Mortgage Backed Securities (CMBS) are multi-class bonds backed by pools of commercial mortgages.

D. Commercial Mortgage Lending investments are notes and bonds secured by a mortgage or deed of trust providing first lien on real estate.

E. Derivatives are financial instruments such as forwards, futures, options, or other instruments whose values are "derived" from another financial instrument.

F. Domestic Equity Securities for System purposes typically consist of corporate common stock. These stocks must be registered on a national securities exchange or must be otherwise registered as provided in the Securities Exchange Act of 1934 as amended, with price quotations furnished through a nationwide automated quotations system approved by the National Association of Securities Dealers, Inc. (NASD). Domestic Equity Securities also include stock in corporate real estate investment trusts (REITs), which are traded on a national exchange and acquired as part of an index fund or by one of the System's domestic equity managers.

G. Domestic Fixed Income Securities are U.S. Treasury or Government agency obligations; equipment trust certificates; corporate, industrial, or utility bonds; U.S. dollar denominated Euro or Yankee bonds, including Canadian obligations payable in U.S. dollars; residential and commercial mortgage-backed securities; and pass-through certificates. For System purposes, Domestic Fixed Income Securities primarily consist of instruments with maturities in excess of twelve (12) months at time of purchase.

H. Emerging Market Equities are common or preferred stocks and investment shares which are registered on exchanges outside the U.S. Emerging market countries are the developing international countries which have a relatively low per capita Gross National Product. There is wide variety of economic, regulatory, and market development among the emerging countries.

I. Equity Real Estate Investments are any investments in real property, either made directly or through the use of pooled vehicles such as limited partnerships, open or closed-end commingled funds, Real Estate Investment Trusts (REITs) including publicly traded REIT securities, and Real Estate Operating Companies (REOCs).

J. Non-U.S. Equity Securities are common or preferred corporate stocks and investment trust shares. Only stocks registered on recognized exchanges outside the U.S. are to be considered Non-U.S. Equity Securities.

K. Real Estate Mezzanine Funds are investments in funds or partnerships whose portfolios consist of junior loans secured by real estate or partnership interests in real estate ownership.

L. Repurchase Agreements are agreements between a seller and a buyer, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

M. Securities Lending occurs when a lender transfers a security to a borrower for cash or non-cash collateral pursuant to an agreement to return the collateral for an identical security in the future.

N. Short Term Investments (Cash Equivalents) include, but are not limited to, interest bearing or discount instruments such as money market funds; U.S. Treasury Bills; corporate-issued commercial paper; bank-issued Certificates of Deposit; bankers' acceptances; and fully collateralized repurchase agreements. For System purposes, short-term investments consist primarily of instruments maturing in twelve (12) months or less at time of purchase.