



**NHRS**

New Hampshire Retirement System

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**Independent Investment Committee's  
1st Quarter Report to the Board  
August 13, 2024**



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New Hampshire Retirement System

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## Discussion Topics

- Asset Allocation and Portfolio Structure
- Investment Performance
- Universe Comparisons
- Investment Expenses by Asset Class

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## Key Observations

### NHRS Pension Plan

#### Asset Allocation and Portfolio Structure

- Overall, the Fund's asset allocation was close to the permissible Policy ranges at quarter-end. The Fund's allocation to defensive positions, including fixed income and cash, represented 19.5% of total assets. The fixed income allocation was slightly below the policy range by 0.8%, partially balanced by a 0.3% allocation to cash equivalent instruments. The Fund had an overweight to domestic equity and alternatives relative to target, and underweight positions to international equity fixed income, and real estate.

#### Investment Performance

- The Fund had a gross return of 3.83% over the third quarter of Fiscal Year 2024, underperforming the market benchmark return of 4.78% and ranking in the 73<sup>rd</sup> percentile of its peers. On a net-of-fees basis, the Fund returned 3.72%
  - The Alternative Assets and U.S. Equity portfolios detracted most from relative performance over the quarter
  - By contrast, the Non-U.S. Equity and Real Estate portfolios contributed to performance. Artisan, Lazard, Wellington EM, and Wellington International Small Cap drove Non-U.S. Equity outperformance.
- Overall, performance is competitive relative to both benchmarks over longer periods measured. The Fund outperformed the peer group median over the long term, ranking in the top 24% of peers for the trailing 10-year period, and in the top 43% of peers over the last 25 years
- The Fund exhibits attractive risk-adjusted performance, as measured by the Sharpe Ratio over the last five years. In addition, relative risk-adjusted scores, as measured by the Excess Return Ratio, are also strong. Both of these ratios ranked in the top 34% of peers

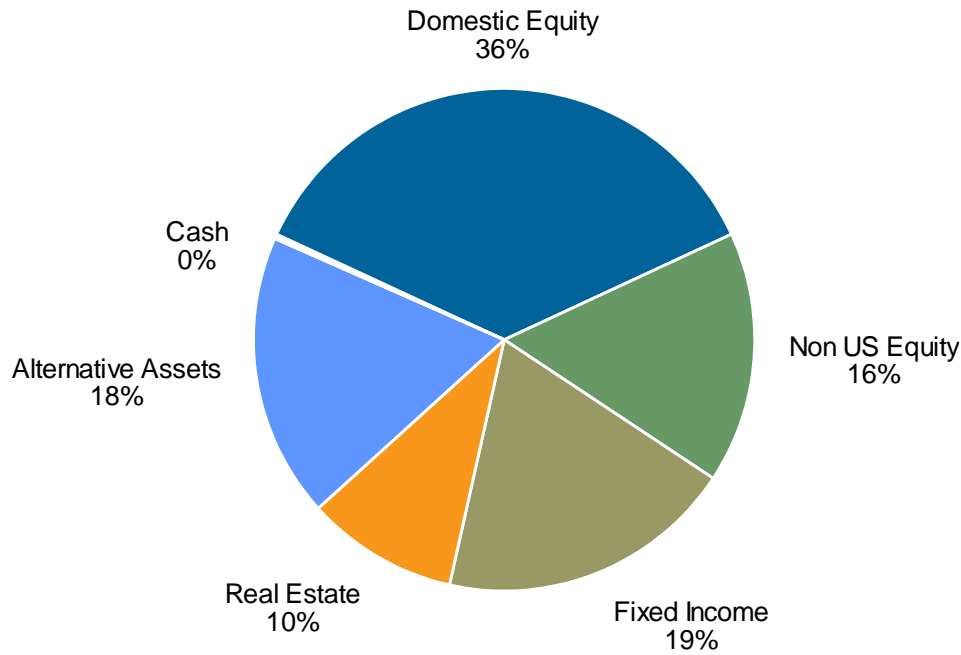
#### Other Developments

- In late April, Jeff Moore, co-PM of FIAM Tactical Bond (and FIAM Core Plus Fixed Income strategies), announced his retirement effective end of year 2024. FIAM is still determining how they will restructure the impacted PM teams and a replacement co-PM has not been named for FIAM Tactical Bond. Callan does not have any immediate concerns regarding the FIAM Tactical Bond PM team given Mike Plage has been a co-PM on the strategy since 2016 and Jeff will remain on the team until the end of the year.
- Murali Srikantaiah, Partner and PM of Wellington Emerging Markets Local Equity (“EMLE”), will be withdrawing from the Wellington partnership on June 30, 2024. Bo Meunier, a partner of the firm and current PM of Emerging Markets Equity (“EME”) and dedicated China equity strategies, assumed Co-PM responsibilities of EMLE on January 1, 2024. David Reed will be named Meunier’s backup portfolio manager. Meunier will be supported by the dedicated EME team, whose existing research will effectively translate to both EME and EMLE portfolios. Meunier is relocating from Hong Kong to London to manage the broader Emerging Markets team better. There are no plans for resource expansion. Callan will continue to monitor the transition but does have concerns about a potential change in investment philosophy and portfolio structure given Srikantaiah’s departure.

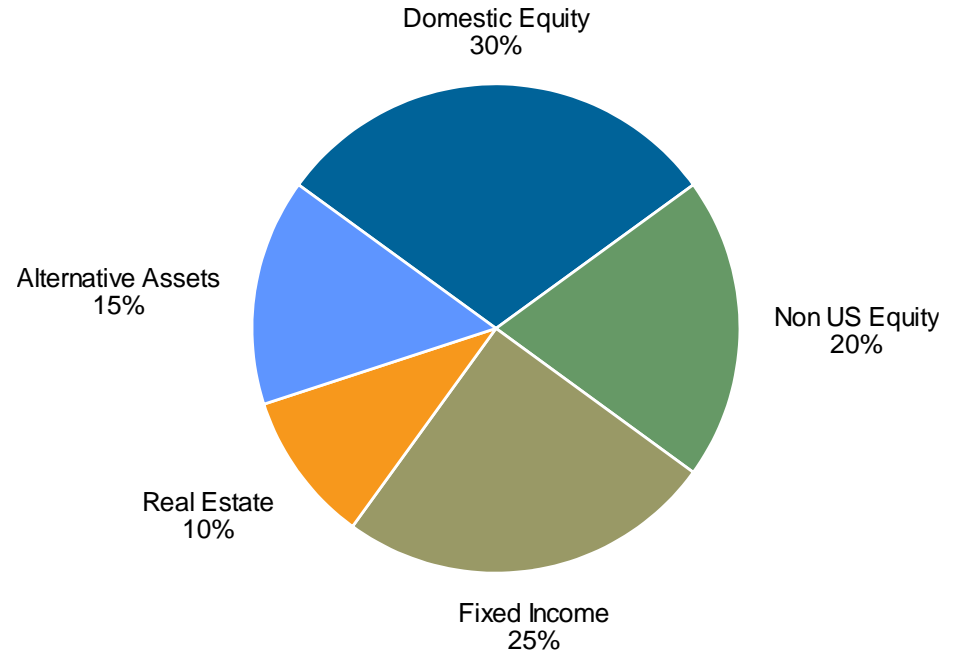
# Total Fund

Actual Asset Allocation vs. Target, as of March 31, 2024

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	4,417,181	36.3%	30.0%	6.3%	763,188
Non US Equity	1,969,763	16.2%	20.0%	(3.8%)	(466,233)
Fixed Income	2,335,505	19.2%	25.0%	(5.8%)	(709,489)
Real Estate	1,187,800	9.8%	10.0%	(0.2%)	(30,198)
Alternative Assets	2,227,808	18.3%	15.0%	3.3%	400,811
Cash	41,920	0.3%	0.0%	0.3%	41,920
<b>Total</b>	<b>12,179,977</b>	<b>100.0%</b>	<b>100.0%</b>		

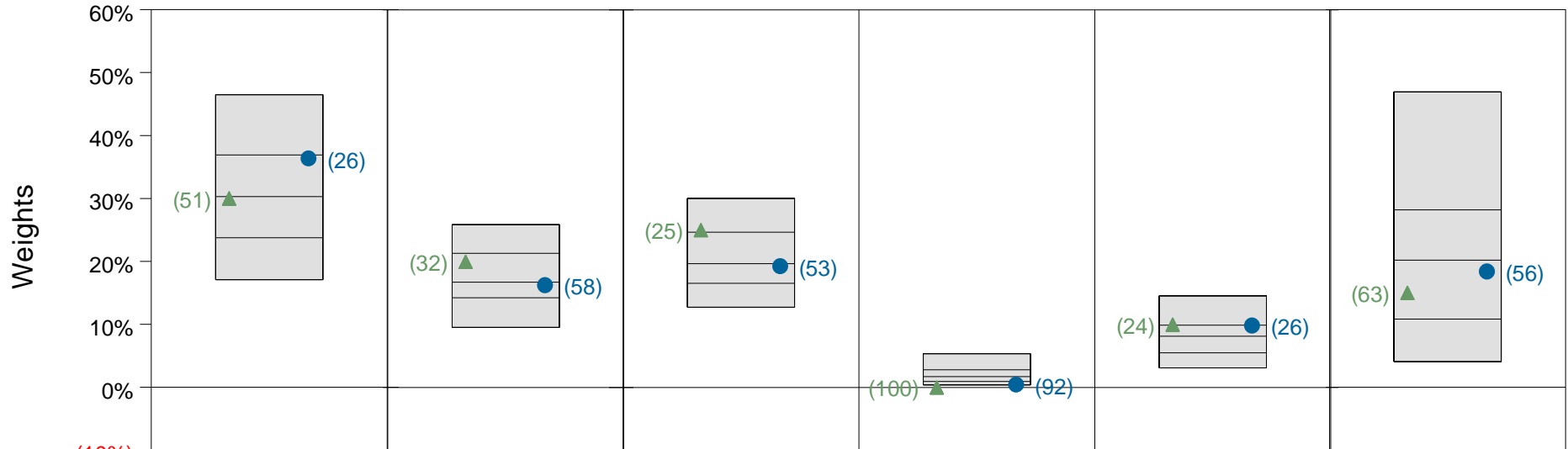
\*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net lagged 3 months, 10% Russell 3000 Index lagged 3 months+2.0%, 2.5% Bloomberg HY Corp lagged 3 months+1.0%, and 2.5% S&P/LSTA Lev Loan 100 lagged 3 months+1.0%.

\*\*The United States equity portion of the Walter Scott Global Equity fund is allocated to the Domestic Equity composite.

# Total Fund

Actual Asset Allocation vs. Large Public DB Plan (>\$1B) Peer Group, as of March 31, 2024

## Asset Class Weights vs Callan Public Fund Spons - Large (>1B)



(10%)

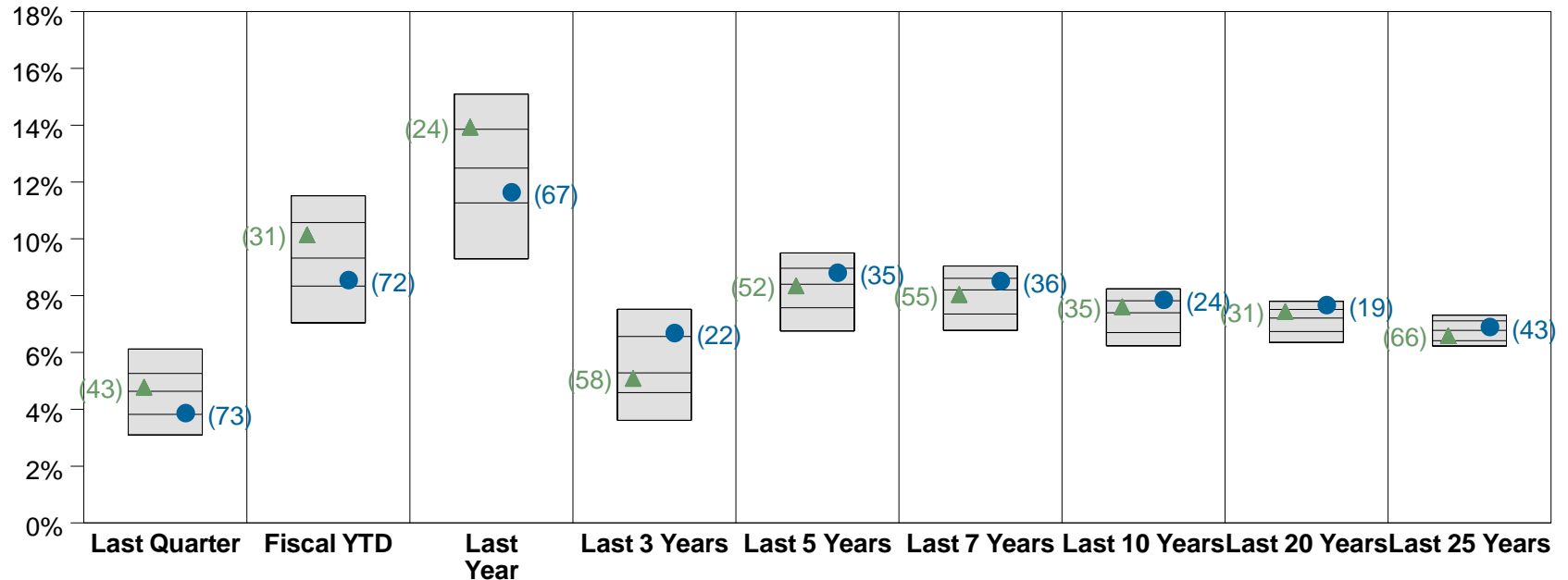
	Domestic Equity	Non US Equity	Fixed Income	Cash	Real Estate	Alternative Assets
10th Percentile	46.49	25.88	30.04	5.36	14.55	46.92
25th Percentile	36.90	21.33	24.69	2.80	9.89	28.18
Median	30.29	16.73	19.68	1.72	8.15	20.19
75th Percentile	23.76	14.25	16.56	0.95	5.52	10.83
90th Percentile	17.09	9.54	12.74	0.40	3.11	4.06
<b>Fund</b> ●	36.27	16.17	19.17	0.34	9.75	18.29
<b>Target</b> ▲	30.00	20.00	25.00	0.00	10.00	15.00
% Group Invested	100.00%	98.36%	96.72%	85.25%	80.33%	80.00%

\*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net lagged 3 months, 10% Russell 3000 Index lagged 3 months+2.0%, 2.5% Bloomberg HY Corp lagged 3 months+1.0%, and 2.5% S&P/LSTA Lev Loan 100 lagged 3 months+1.0%.

# Total Fund Performance – Gross of Investment Management Fees

Performance vs. Large Public DB Plan (>\$1B) Peers, as of March 31, 2024

## Performance vs Callan Public Fund Large DB (Gross)



10th Percentile	6.12	11.52	15.09	7.52	9.51	9.05	8.24	7.80	7.32
25th Percentile	5.26	10.58	13.86	6.56	8.97	8.61	7.82	7.52	7.12
Median	4.63	9.33	12.49	5.28	8.40	8.20	7.40	7.21	6.78
75th Percentile	3.83	8.34	11.26	4.59	7.58	7.35	6.70	6.74	6.41
90th Percentile	3.10	7.04	9.30	3.61	6.76	6.77	6.24	6.35	6.23
<b>Total Fund Composite</b>	● 3.83	8.52	11.61	6.66	8.78	8.49	7.82	7.64	6.87
<b>Total Fund Benchmark</b>	▲ 4.78	10.14	13.94	5.09	8.35	8.04	7.61	7.44	6.59

Note: Investment results are shown gross of investment management fees versus corresponding peer group.

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## INVESTMENT EXPENSES BY ASSET CLASS

Investment activity fees and other related expenses:

For the Quarter and Fiscal Year to Date through 3/31/24 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	4,417,163	2,536	7,790
Non-U.S.	1,969,782	2,322	6,833
Fixed Income Investments	2,335,505	1,501	4,425
Alternative Investments	2,227,808	3,301	14,569
Real Estate Investments	1,187,800	2,969	9,970
Cash	41,920		
<b>Subtotal Gross Investment Mgt Fees</b>		<b>12,629</b>	<b>43,587</b>
Custodial Fees		186	679
Brokerage Fees		687	1,550
Investment Advisor Fees		163	488
Investment Professional Fees		121	422
Investment Staff Administrative Expense		295	781
<b>Subtotal Investment Servicing Fees</b>		<b>1,451</b>	<b>3,920</b>
<b>TOTAL GROSS INVESTMENT EXPENSES</b>	<b>12,179,977</b>	<b>14,080</b>	<b>47,508</b>

Notes:

1. Fees for both the Quarter and the Fiscal Year to Date shown here are reported on a cash basis. For most fees, there is a lag between the service provided and payment of the fee.
2. Gross fees are those paid in the quarter for partnership operating costs.
3. Annual audited GAAP accrual fee amounts are included in the Annual Comprehensive Financial Report (ACFR), audited by the external auditor Plante Moran, as well as in the Comprehensive Annual Investment Report (CAIR). Both reports are available at <https://www.nhrs.org/funding-and-investments/reports-valuations>.
4. NHRS requires a "most favored nation" clause in investment contracts that states that if another comparable public plan invests in a fund at a lower fee structure, NHRS' fees will also be adjusted downward.

## **DEFINITION OF ASSET CLASSES**

**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.

**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.

**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.