



# NHRS

New Hampshire Retirement System

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## **Independent Investment Committee's Quarterly Report to the Board December 10, 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 20.7% of total assets. The fixed income allocation was slightly below the current policy range by 0.9%, partially balanced by a 1.6% 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. Note that NHRS investment Staff presented new policy ranges for each asset class to the Independent Investment Committee (IIC) at the October 8<sup>th</sup> IIC meeting, which will in effect expand the respective ranges to better reflect the volatility inherent in the Fund's investments and the new asset allocation strategy. The new policy ranges will be presented to the Board for approval and adoption

### Investment Performance

- The Fund had a gross return of 0.74% over the fourth quarter of Fiscal Year 2024, underperforming the market benchmark return of 1.63% and ranking in the 89<sup>th</sup> percentile of its peers. On a net-of-fees basis, the Fund returned 0.61%
  - The Domestic Equity, Non-U.S. Equity, and Real Estate portfolios detracted most from relative performance over the quarter. The Alternative Assets portfolio detracted slightly from performance
  - By contrast, the Fixed Income portfolio contributed to performance. The Fund's overweight to Alternative Assets also contributed to performance
- 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 27% of peers for the trailing 10-year period, and in the top 45% 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. These ratios ranked in the top 40% of peers

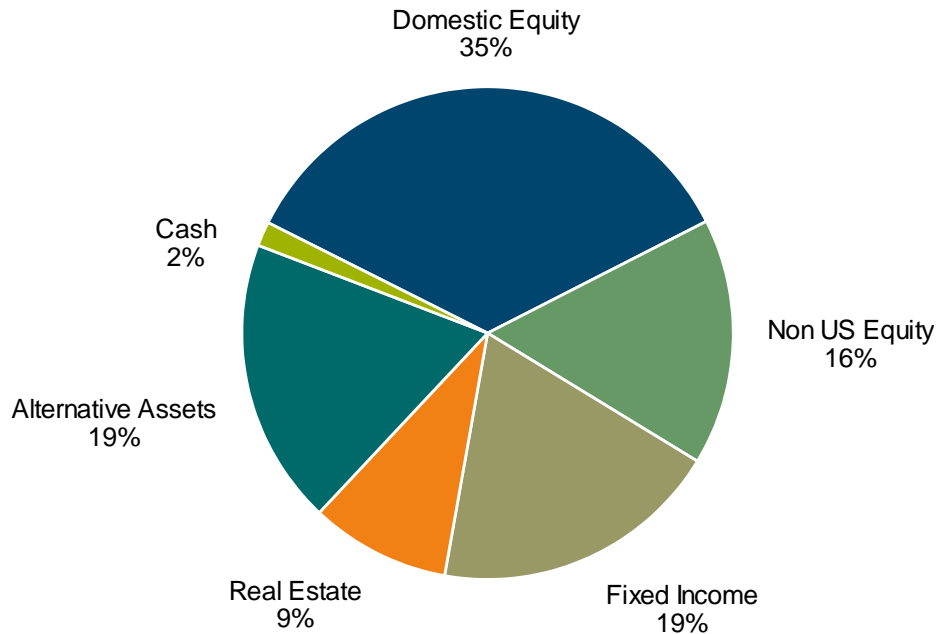
### Other Developments

- NHRS Staff is working diligently to implement the recently approved asset allocation strategy and impending structural modifications. Callan will collaborate closely with Staff to achieve these objectives

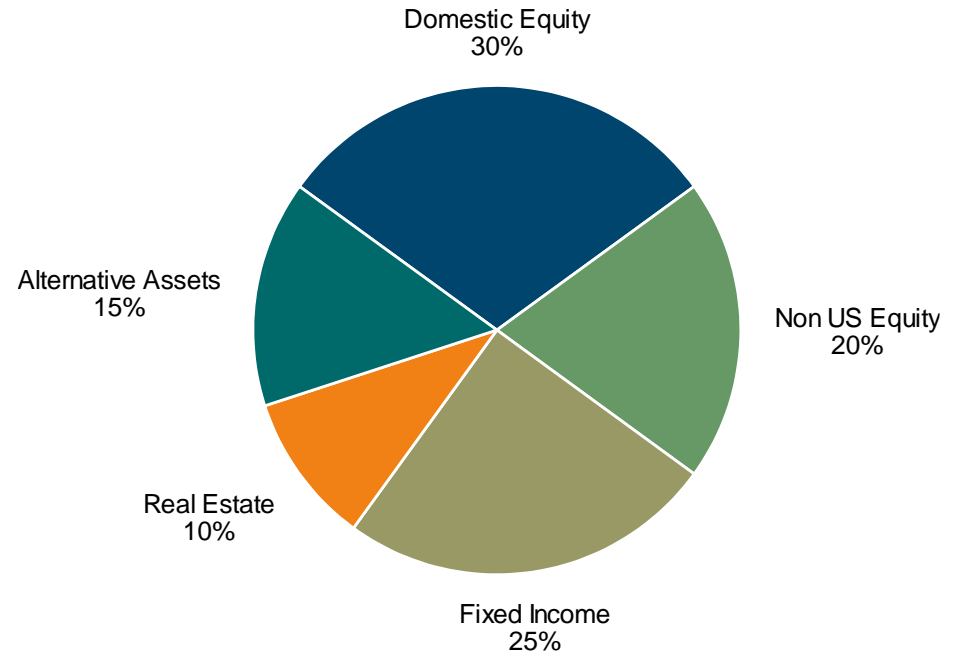
# Total Fund

Actual Asset Allocation vs. Target, as of June 30, 2024

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$Millions Actual	Weight Actual	Target	Percent Difference	\$Millions Difference
Domestic Equity	4,282	35.1%	30.0%	5.1%	619
Non US Equity	1,974	16.2%	20.0%	(3.8%)	(467)
Fixed Income	2,336	19.1%	25.0%	(5.9%)	(716)
Real Estate	1,129	9.2%	10.0%	(0.8%)	(92)
Alternative Assets	2,291	18.8%	15.0%	3.8%	460
Cash	196	1.6%	0.0%	1.6%	196
<b>Total</b>	<b>12,208</b>	<b>100.0%</b>	<b>100.0%</b>		

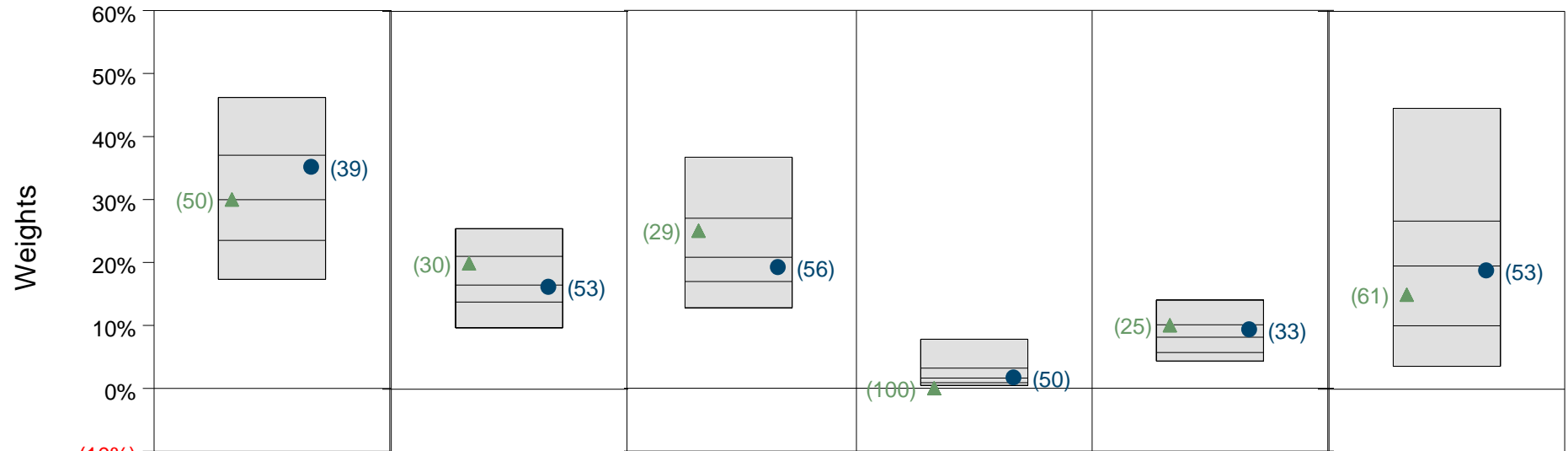
\*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net, 10% Russell 3000 Index +2.0%, 2.5% Bloomberg HY Corp +1.0%, and 2.5% Mstar LSTA Lev Loan 100 +1.0%.

\*\*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 June 30, 2024

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



(10%)

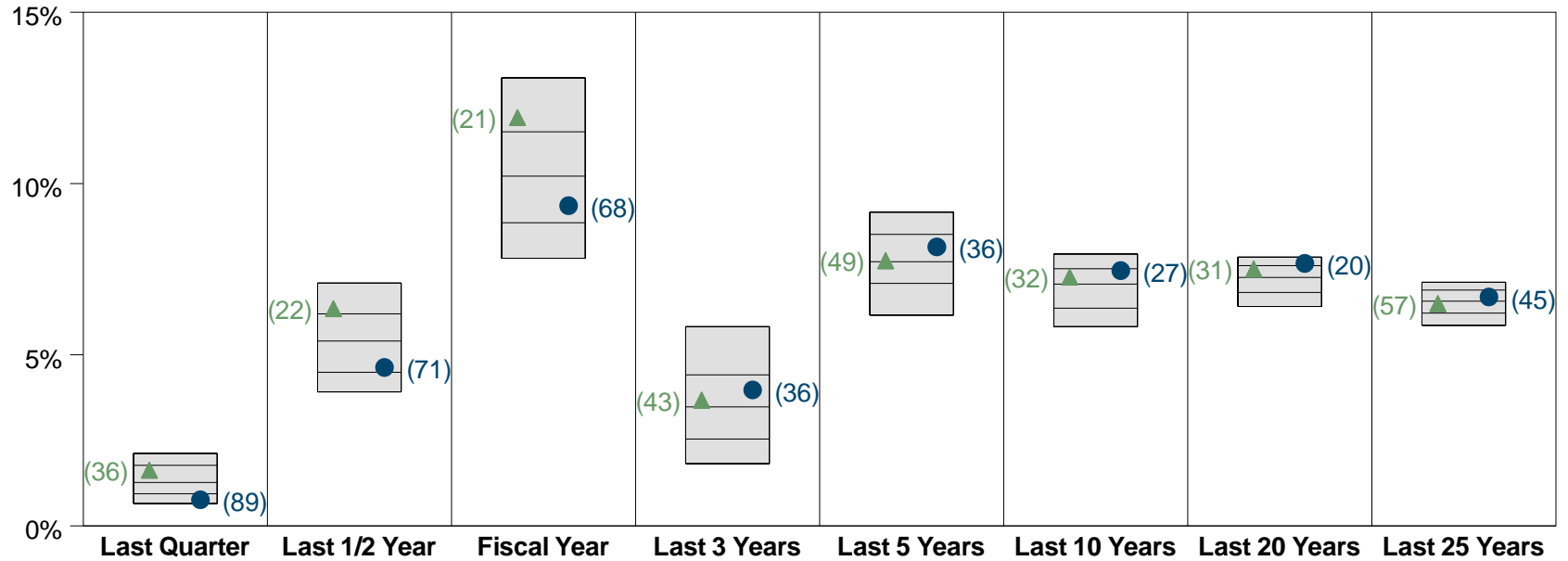
	Domestic Equity	Non US Equity	Fixed Income	Cash	Real Estate	Alternative Assets
10th Percentile	46.21	25.47	36.67	7.75	14.01	44.60
25th Percentile	37.02	21.10	26.98	3.17	10.07	26.69
Median	29.97	16.55	20.80	1.61	8.10	19.57
75th Percentile	23.51	13.83	16.93	0.87	5.66	10.07
90th Percentile	17.31	9.73	12.75	0.43	4.31	3.63
<b>Fund</b> ●	35.07	16.17	19.14	1.61	9.24	18.77
Target ▲	30.00	20.00	25.00	0.00	10.00	15.00
% Group Invested	100.00%	98.44%	96.88%	85.94%	79.69%	81.01%

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# Total Fund Performance – Gross of Investment Management Fees

Performance vs. Large Public DB Plan (>\$1B) Peers, as of June 30, 2024

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



	Last Quarter	Last 1/2 Year	Fiscal Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years	Last 25 Years
10th Percentile	2.12	7.09	13.08	5.82	9.16	7.94	7.85	7.12
25th Percentile	1.77	6.19	11.51	4.41	8.52	7.51	7.60	6.89
Median	1.27	5.40	10.21	3.48	7.72	7.06	7.25	6.56
75th Percentile	0.94	4.49	8.85	2.54	7.08	6.36	6.82	6.22
90th Percentile	0.66	3.91	7.82	1.82	6.16	5.82	6.41	5.86
<b>Total Fund Composite</b> ●	0.74	4.61	9.33	3.95	8.13	7.44	7.64	6.66
<b>Total Fund Benchmark - Unlagged</b> ▲	1.63	6.35	11.92	3.67	7.74	7.27	7.50	6.49

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

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

## INVESTMENT EXPENSES BY ASSET CLASS

Investment activity fees and other related expenses:

For the Quarter and Fiscal Year to Date through 6/30/24 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	4,277,695	2,947	11,206
Non-U.S.	1,958,332	2,381	9,033
Fixed Income Investments	2,332,643	1,492	5,915
Alternative Investments	2,291,255	7,970	22,539
Real Estate Investments	1,128,554	3,171	12,289
Cash	195,521		
<b>Subtotal Gross Investment Mgt Fees</b>		<b>17,962</b>	<b>60,982</b>
Custodial Fees		350	1,029
Brokerage Fees		478	2,029
Investment Advisor Fees		163	650
Investment Professional Fees		109	532
Investment Staff Administrative Expense		299	1,080
<b>Subtotal Investment Servicing Fees</b>		<b>1,399</b>	<b>5,319</b>
<b>TOTAL GROSS INVESTMENT EXPENSES</b>	<b>12,184,001</b>	<b>19,361</b>	<b>66,301</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.