



# NHRS

New Hampshire Retirement System

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## **Independent Investment Committee's 4th Quarter Report to the Board April 9, 2024**



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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 20.3% of total assets. The fixed income allocation was slightly below the policy range by 0.1%, partially balanced by a 0.4% allocation to cash equivalent instruments. The Fund had an overweight to domestic equity, alternatives and real estate relative to target, and underweight positions to international equity and fixed income.

### Investment Performance

- The Fund had a gross return of 7.02% over the second quarter of Fiscal Year 2024, outperforming the market benchmark return of 6.93% and ranking in the 57<sup>th</sup> percentile of its peers. On a net-of-fees basis, the Fund returned 6.88%
  - The Alternative Assets and Fixed Income portfolios had positive impacts on relative performance
  - By contrast, the Real Estate and U.S. Equity portfolios detracted from performance. This is a reflection of more modest valuations within real estate as well as underperformance from small/mid cap equity manager TSW over the quarter
- Overall, performance is competitive relative to both benchmarks over longer periods measured, including the most recent fiscal year. 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 34% 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 within the top 38% of peers

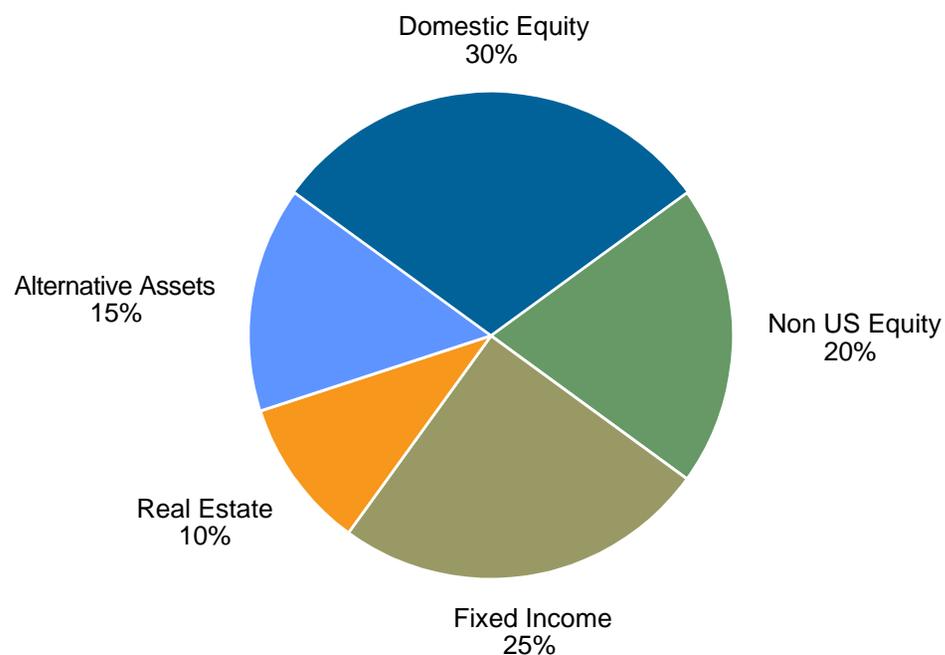
### Other Developments

- 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, will assume 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.

# Total Fund

Actual Asset Allocation vs. Target, as of December 31, 2023

**Target Asset Allocation**



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	4,048,532	34.4%	30.0%	4.4%	517,377
Non US Equity	1,869,115	15.9%	20.0%	(4.1%)	(484,988)
Fixed Income	2,346,688	19.9%	25.0%	(5.1%)	(595,941)
Real Estate	1,242,240	10.6%	10.0%	0.6%	65,188
Alternative Assets	2,217,599	18.8%	15.0%	3.8%	452,022
Cash	46,343	0.4%	0.0%	0.4%	46,343
<b>Total</b>	<b>11,770,517</b>	<b>100.0%</b>	<b>100.0%</b>		

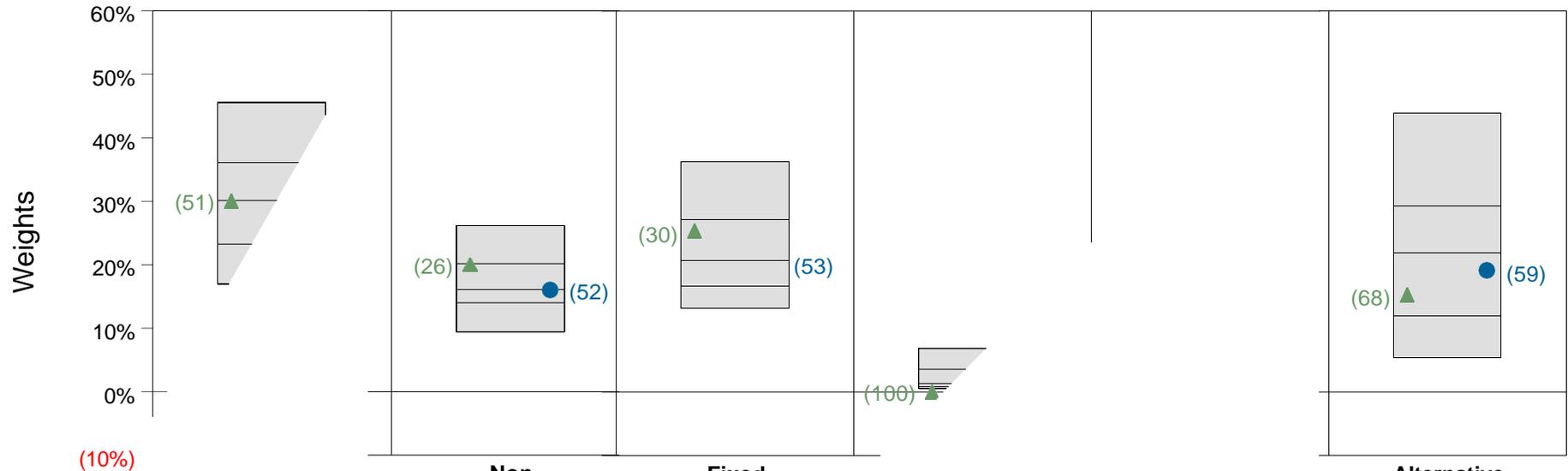
\*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net lagged 3 months, 10% Russell 3000 Index lagged 3 months+2.0%, 2.5% Bloomberg HY Corp lagged 3 months+1.0%, and 2.5% S&P/LSTA Lev Loan 100 lagged 3 months+1.0%.

\*\*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 December 31, 2023

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



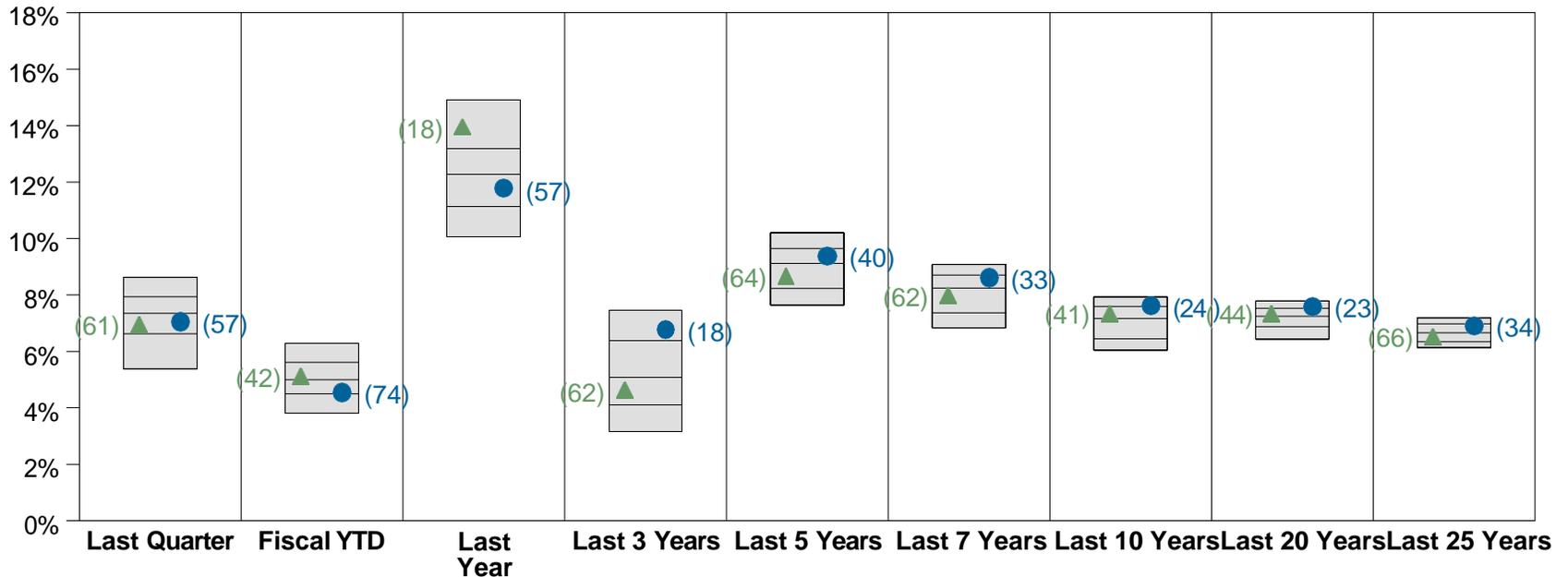
	Non US Equity	Fixed Income		Alternative Assets	
10th Pe	26.15	36.34		43.95	
25th P	20.16	27.17		29.37	
	16.08	20.72		21.95	
75th	14.00	16		12.00	
90	9.41	1		5.41	
	15.88			18.84	
	20.00			15.00	
% Group Invested	98.31%	96.61%	88.14%	79.66%	74.32%

\*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 December 31, 2023

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



	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years	Last 25 Years
10th Percentile	8.63	6.29	14.91	7.45	10.20	9.08	7.93	7.79	7.19
25th Percentile	7.94	5.61	13.20	6.44	9.65	8.70	7.59	7.53	6.98
Median	7.34	5.00	12.27	5.08	9.12	8.24	7.17	7.25	6.66
75th Percentile	6.62	4.50	11.14	4.09	8.23	7.37	6.45	6.87	6.34
90th Percentile	5.38	3.81	10.07	3.18	7.64	6.83	6.05	6.43	6.13

	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years	Last 25 Years
<b>Total Fund Composite</b> ●	7.02	4.51	11.70	6.71	9.35	8.58	7.59	7.56	6.88
<b>Total Fund Benchmark</b> ▲	6.93	5.11	13.92	4.60	8.65	7.97	7.34	7.34	6.52

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 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%.

## INVESTMENT EXPENSES BY ASSET CLASS

Investment activity fees and other related expenses:

For the Quarter and Fiscal Year to Date through 12/31/23 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	4,048,506	2,678	5,254
Non-U.S.	1,869,142	2,165	4,511
Fixed Income Investments	2,346,688	1,461	2,924
Alternative Investments	2,217,599	5,296	11,268
Real Estate Investments*	1,242,240	2,320	5,418
Cash	46,343		
<b>Subtotal Gross Investment Mgt Fees</b>		<b>13,920</b>	<b>29,375</b>
Custodial Fees		186	372
Brokerage Fees		426	863
Investment Advisor Fees		163	325
Investment Professional Fees		84	301
Investment Staff Administrative Expense		259	486
<b>Subtotal Investment Servicing Fees</b>		<b>1,117</b>	<b>2,347</b>
<b>TOTAL GROSS INVESTMENT EXPENSES</b>	<b>11,770,517</b>	<b>15,037</b>	<b>31,722</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.
5. \*The Real Estate Investments quarterly fee represents 70% of underlying assets. The remainder have not reported yet as of 3/28/24.

## **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.