



# NHRS

New Hampshire Retirement System

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## **Independent Investment Committee's Quarterly Report to the Board April 8, 2025**



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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 within the permissible Policy ranges at quarter-end. The Fund's allocation to defensive positions, including fixed income and cash, represented 23% of total assets. The fixed income allocation was 21.3%, below the policy's 25% target but within the policy's 20%-30% range. 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 -0.76% over the second quarter of Fiscal Year 2025, underperforming the market benchmark return of -0.58% and ranking in the 37<sup>th</sup> percentile of its peers. On a net-of-fees basis, the Fund returned -0.89%.
  - The Alternative Assets and Fixed Income portfolios detracted most from relative performance over the quarter. The Domestic Equity and Real Estate portfolios detracted to a lesser degree. The Fund's underweight to Real Estate also slightly detracted from performance. By definition, the Alternative Assets portfolio will not keep up with the benchmark during high momentum markets given the benchmark proxies that are used to measure the performance of this component of the portfolio.
  - By contrast, the Non-U.S. Equity portfolio contributed to performance. The Fund's overweight to Alternatives, Domestic Equity, and Cash as well as an underweight to Fixed Income and Non-U.S. Equity 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 29% of peers for the trailing 10-year period. However, over the last 25 years, the Fund ranked in the 60<sup>th</sup> percentile of peers.
- 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 31% of peers.

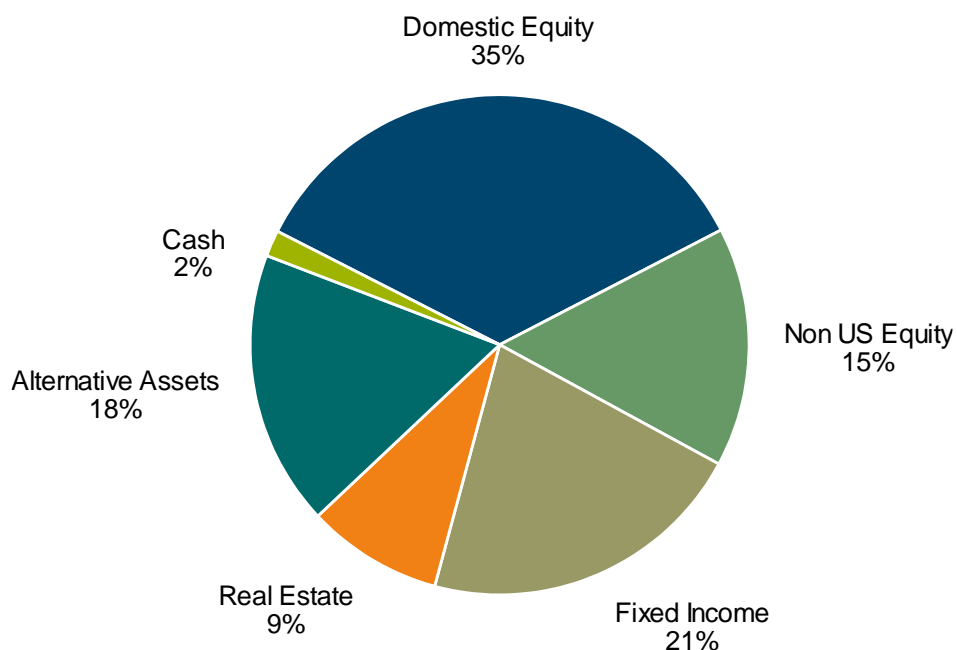
### Other Developments

- Callan and NHRS Staff are working to implement the recently approved asset allocation strategy.

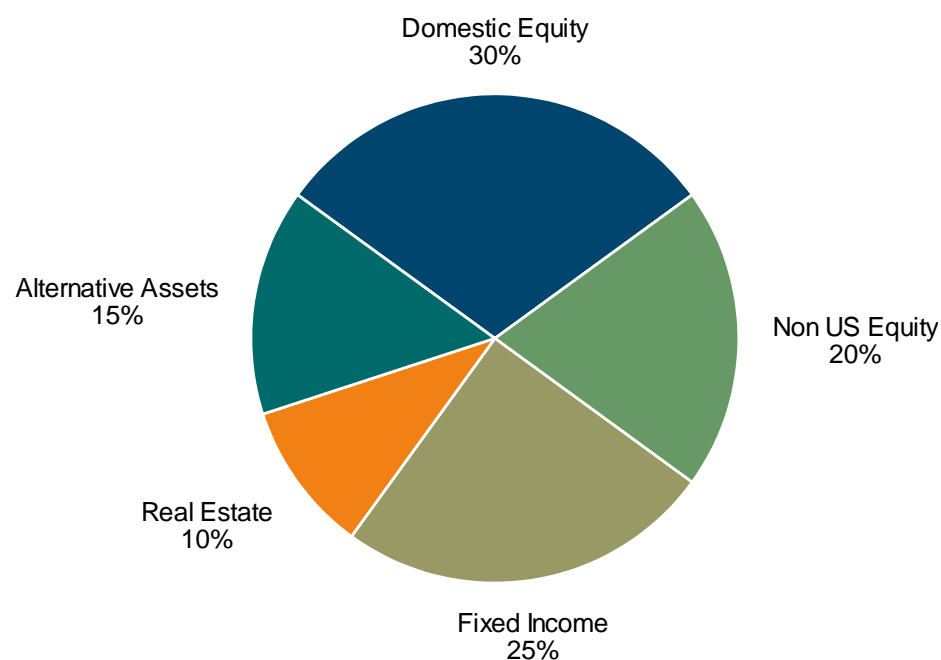
# Total Fund

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

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$Millions Actual	Weight Actual	Target	Percent Difference	\$Millions Difference
Domestic Equity	4,400	34.9%	30.0%	4.9%	619
Non US Equity	1,953	15.5%	20.0%	(4.5%)	(567)
Fixed Income	2,684	21.3%	25.0%	(3.7%)	(467)
Real Estate	1,107	8.8%	10.0%	(1.2%)	(153)
Alternative Assets	2,242	17.8%	15.0%	2.8%	352
Cash	217	1.7%	0.0%	1.7%	217
Total	12,603	100.0%	100.0%		

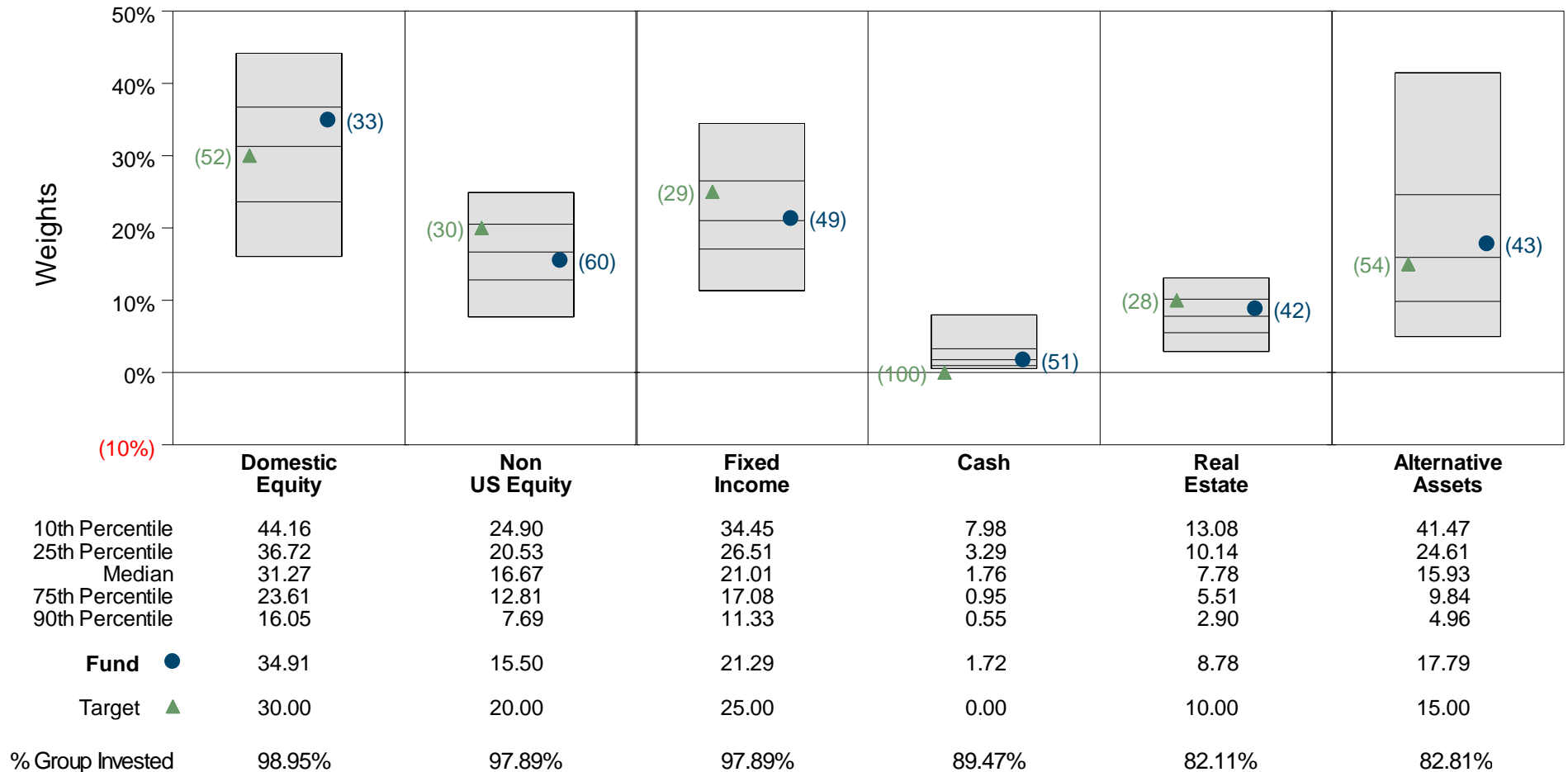
\*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net lagged 3 months, 10% Russell 3000 Index lagged 3 months+2.0%, 2.5% Bloomberg HY Corp lagged 3 months+1.0%, and 2.5% S&P/LSTA Lev Loan 100 lagged 3 months+1.0%.

\*\*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, 2024

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

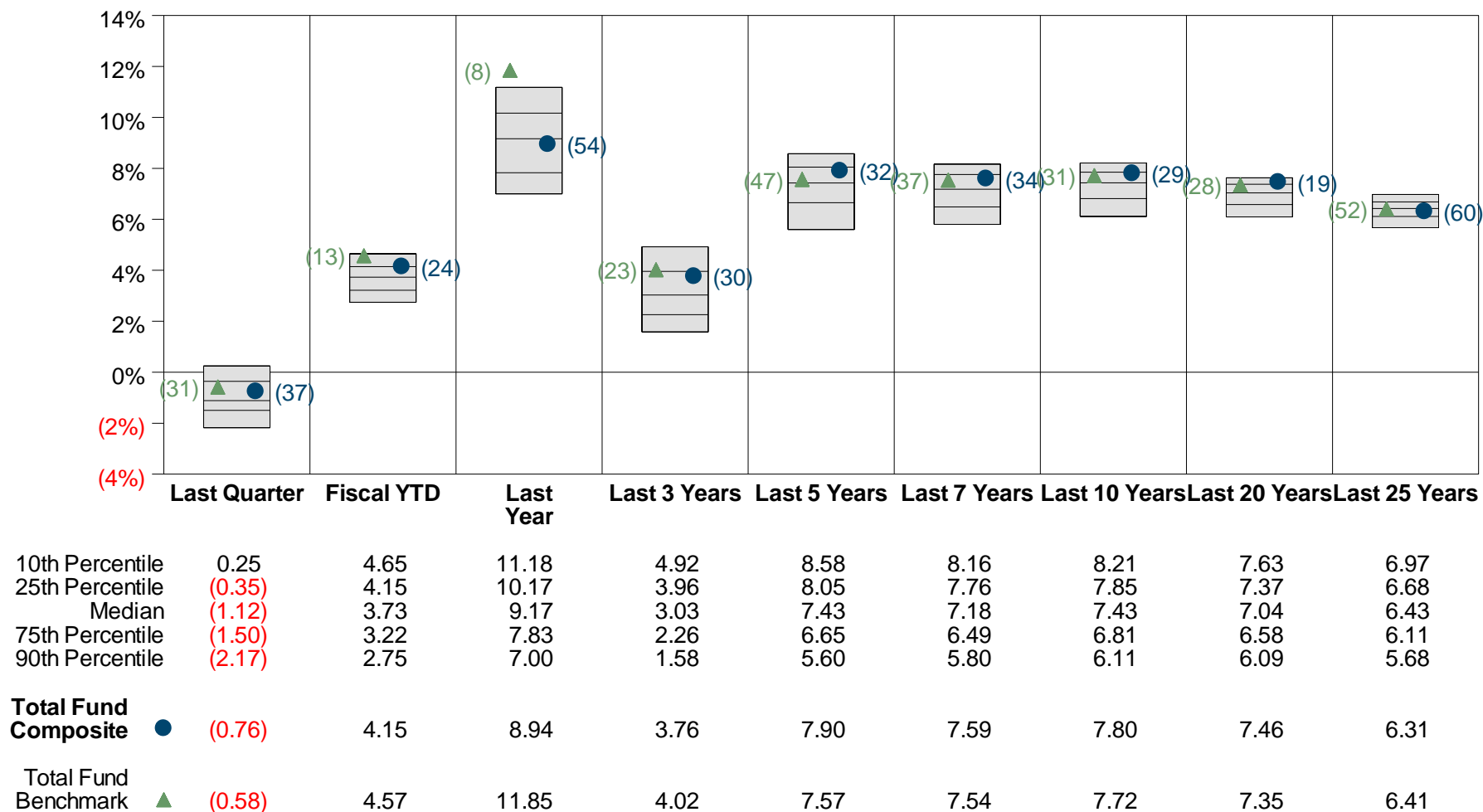


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# Total Fund Performance – Gross of Investment Management Fees

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

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



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 12/31/24 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	4,399,728	3,212	6,597
Non-U.S.	1,953,432	2,419	4,905
Fixed Income Investments	2,683,675	1,560	3,124
Alternative Investments	2,242,319	6,163	14,727
Real Estate Investments*	1,106,859	1,442	4,265
Cash	217,258		
<b>Subtotal Gross Investment Mgt Fees</b>		<b>14,796</b>	<b>33,618</b>
Custodial Fees		176	352
Brokerage Fees		572	1,226
Investment Advisor Fees		163	325
Investment Professional Fees		150	357
Investment Staff Administrative Expense		275	558
<b>Subtotal Investment Servicing Fees</b>		<b>1,335</b>	<b>2,818</b>
<b>TOTAL GROSS INVESTMENT EXPENSES</b>	<b>12,603,272</b>	<b>16,131</b>	<b>36,436</b>

Notes:

\*Real Estate fees are based on preliminary figures, with approximately 70% of NAV reporting for the quarter ended 12/31/2024.

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.