



NHRS

New Hampshire Retirement System

Independent Investment Committee's Quarterly Report to the Board February 11, 2025



NHRS

New Hampshire Retirement System

Discussion Topics

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

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 20.9% of total assets. The fixed income allocation was slightly below the policy range by 0.7%, 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.

Investment Performance

- The Fund had a gross return of 4.94% over the first quarter of Fiscal Year 2025, underperforming the market benchmark return of 5.18% and ranking in the 39th percentile of its peers. On a net-of-fees basis, the Fund returned 4.78%
 - The Alternative Assets and Non-U.S. Equity portfolios detracted most from relative performance over the quarter. The Fund's overweight to Alternatives Assets and active manager performance in Non-U.S. Equity also detracted from performance.
 - By contrast, the Domestic Equity, Fixed Income, and Real Estate portfolios contributed to performance. The Fund's overweight to Domestic Equity and underweight to Real Estate 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 23% of peers for the trailing 10-year period, and in the top 49% 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 30% of peers.

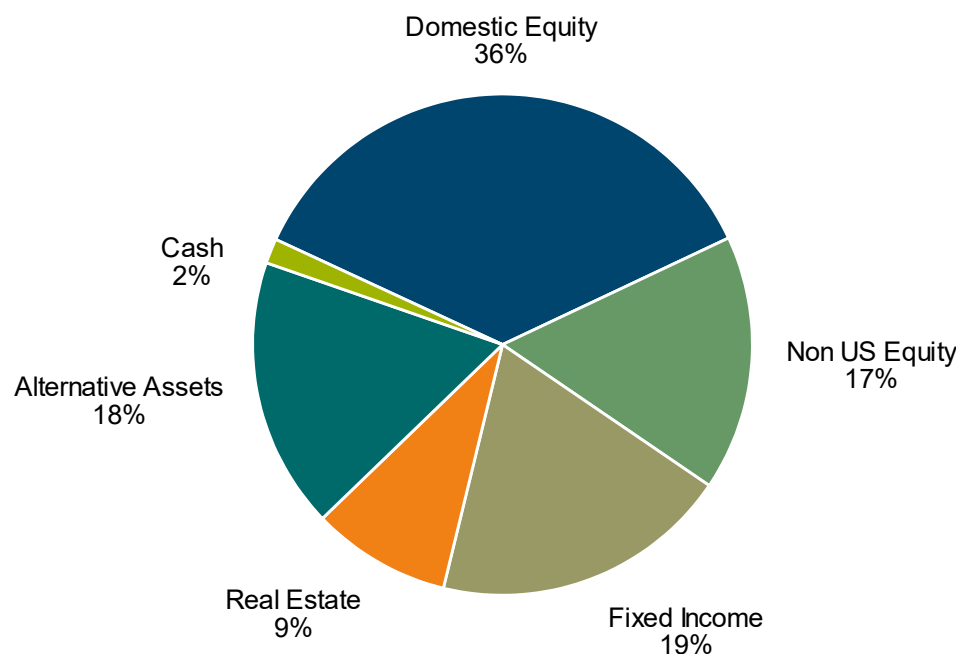
Other Developments

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

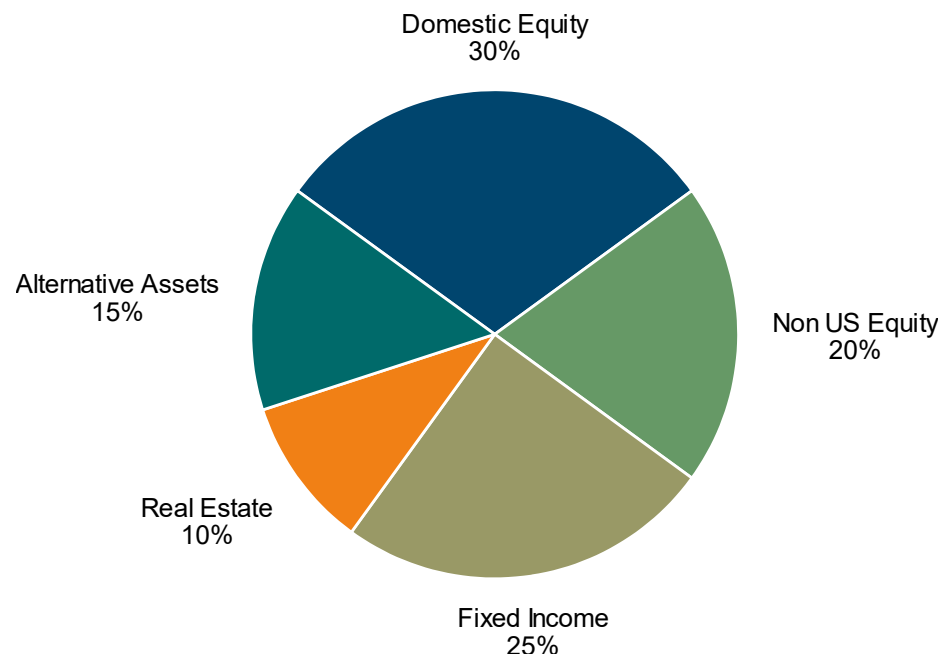
Total Fund

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

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$Millions Actual	Weight Actual	Target	Percent Difference	\$Millions Difference
Domestic Equity	4,604	36.1%	30.0%	6.1%	777
Non US Equity	2,108	16.5%	20.0%	(3.5%)	(444)
Fixed Income	2,464	19.3%	25.0%	(5.7%)	(726)
Real Estate	1,146	9.0%	10.0%	(1.0%)	(129)
Alternative Assets	2,235	17.5%	15.0%	2.5%	321
Cash	201	1.6%	0.0%	1.6%	201
Total	12,759	100.0%	100.0%		

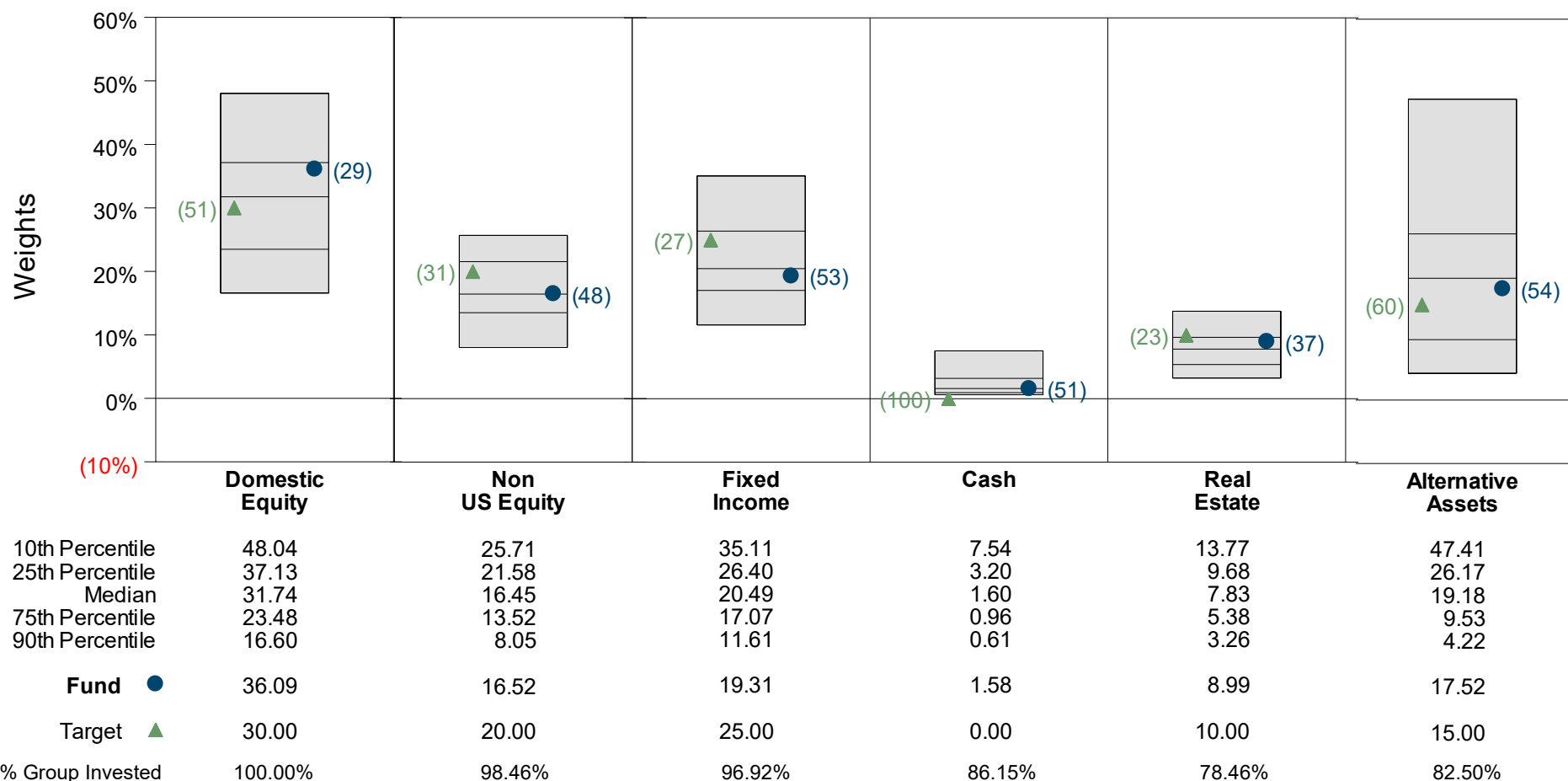
*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net lagged 3 months, 10% Russell 3000 Index lagged 3 months+2.0%, 2.5% Bloomberg HY Corp lagged 3 months+1.0%, and 2.5% S&P/LSTA Lev Loan 100 lagged 3 months+1.0%.

**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 September 30, 2024

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

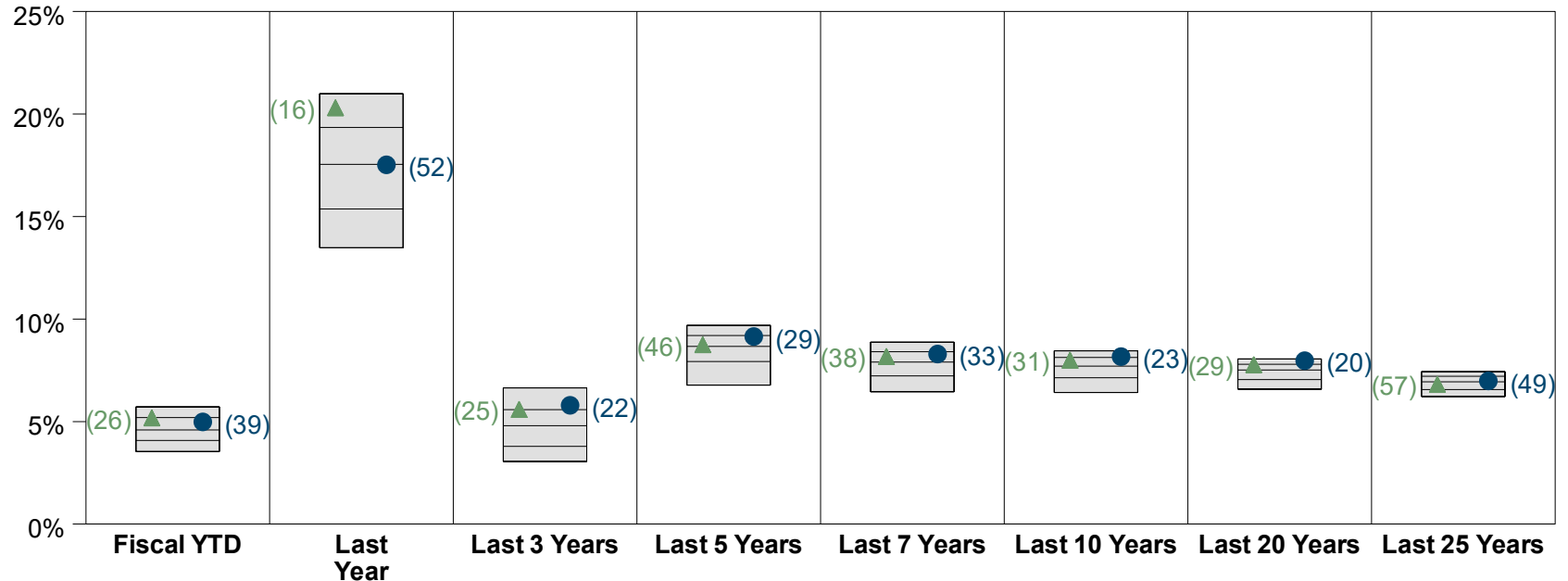


*Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net lagged 3 months, 10% Russell 3000 Index lagged 3 months+2.0%, 2.5% Bloomberg HY Corp lagged 3 months+1.0%, and 2.5% S&P/LSTA Lev Loan 100 lagged 3 months+1.0%.

Total Fund Performance – Gross of Investment Management Fees

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

Performance vs Callan Public Fund Large DB (Gross)



10th Percentile	5.71	20.99	6.64	9.69	8.87	8.45	8.06	7.43
25th Percentile	5.19	19.35	5.58	9.20	8.41	8.13	7.80	7.21
Median	4.59	17.54	4.80	8.67	7.91	7.70	7.51	6.93
75th Percentile	4.08	15.37	3.79	7.93	7.23	7.13	7.04	6.56
90th Percentile	3.54	13.48	3.06	6.78	6.45	6.42	6.58	6.22
Total Fund Composite	● 4.94	17.48	5.75	9.11	8.26	8.13	7.93	6.94
Total Fund Benchmark	▲ 5.18	20.30	5.59	8.75	8.18	7.99	7.78	6.82

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 9/30/24 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	4,604,381	3,385	3,385
Non-U.S.	2,108,070	2,486	2,486
Fixed Income Investments	2,464,076	1,565	1,565
Alternative Investments	2,234,847	8,564	8,564
Real Estate Investments	1,146,471	2,823	2,823
Cash	201,249		
Subtotal Gross Investment Mgt Fees		18,822	18,822
Custodial Fees		176	176
Brokerage Fees		654	654
Investment Advisor Fees		163	163
Investment Professional Fees		207	207
Investment Staff Administrative Expense		283	283
Subtotal Investment Servicing Fees		1,484	1,484
TOTAL GROSS INVESTMENT EXPENSES	12,759,094	20,305	20,305

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.