



NHRS

New Hampshire Retirement System

**Independent Investment Committee's
Quarterly Report to the Board
January 11, 2022**



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 within permissible Policy ranges at quarter-end. The Fund's allocation to defensive positions, including fixed income and cash, represented 21.5% of total assets. The fixed income allocation was slightly below the policy range by 0.4%, balanced by a 1.9% allocation to cash equivalent instruments. The Fund had an overweight to domestic equity and alternatives, and underweight positions within non-U.S. equity, real estate, and fixed income

Investment Performance

- After a volatile quarter, the Fund had a return of -0.33% over the period (-0.39% net of fees), underperforming the market benchmark by 1.06% and ranking in the 83rd percentile of its peers
 - Relative performance was impacted by SBH International Small Cap, Neuberger Berman Emerging Markets Equity and Brandywine relative to the Fund's target benchmark
 - Lagged performance for Alternative Assets and Real Estate exhibited slightly negative returns on a time-weighted basis, trailing their respective custom market benchmarks
- The Fund had exceptional performance over the trailing 12-month period, outperforming the Total Fund Benchmark by 5.5% and ranking within the top 20% of its peers
- Performance is competitive relative to the peer group median over the long term, reflecting the strength of the Fund's asset allocation policy

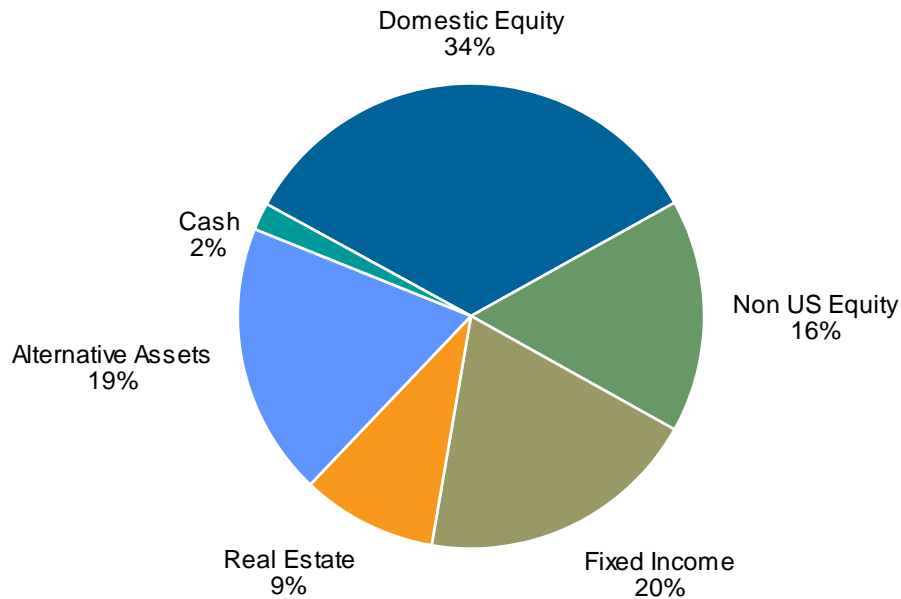
Notable Developments

- The SBH International Small Cap strategy was terminated on October 22, 2021 due to structural issues and performance concerns. The portfolio's market value was ~\$143 million as of September 30, 2021. This strategy will be replaced by Wellington's International Small Cap Research product, following a detailed manager search process and analysis.
- The transition out of the SBH International Small Cap portfolio began on October 25, 2021 and is expected to be completed by November 16, 2021

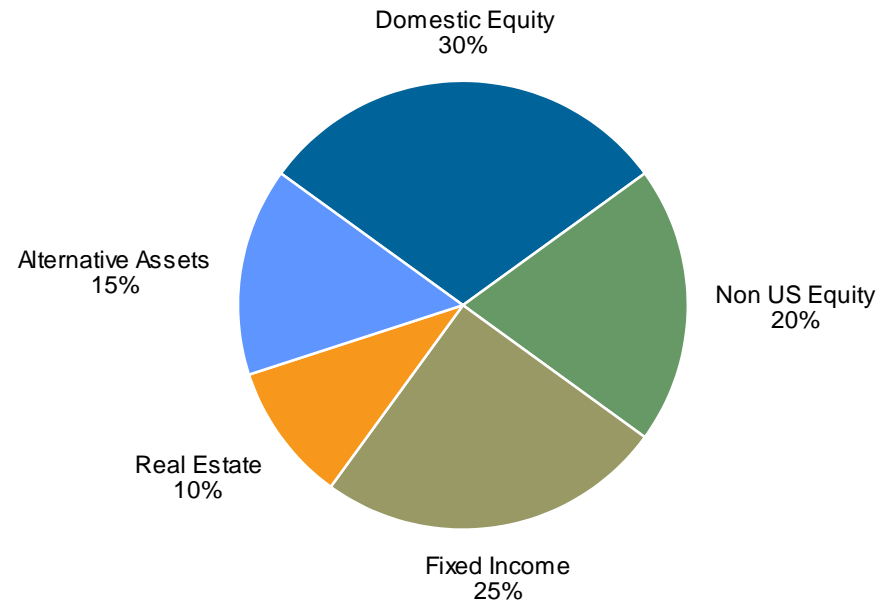
Total Fund

Actual Asset Allocation vs. Target, as of September 30, 2021

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$Millions Actual	Weight Actual	Target	Percent Difference	\$Millions Difference
Domestic Equity	3,861	33.9%	30.0%	3.9%	442
Non US Equity	1,846	16.2%	20.0%	(3.8%)	(433)
Fixed Income	2,230	19.6%	25.0%	(5.4%)	(619)
Real Estate	1,077	9.4%	10.0%	(0.6%)	(63)
Alternative Assets	2,169	19.0%	15.0%	4.0%	459
Cash	214	1.9%	0.0%	1.9%	214
Total	11,397	100.0%	100.0%		

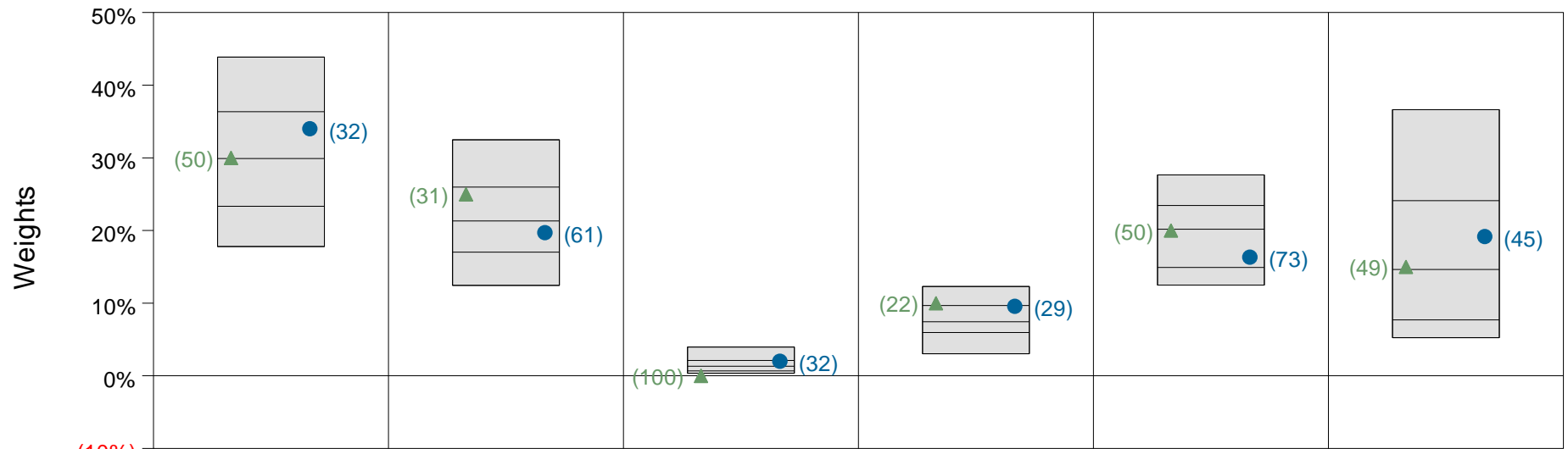
Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net, 10% S&P 500 + 3% (1 qtr lag), and 5% S&P LSTA Leveraged Loan 100 (1 qtr lag).

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, 2021

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



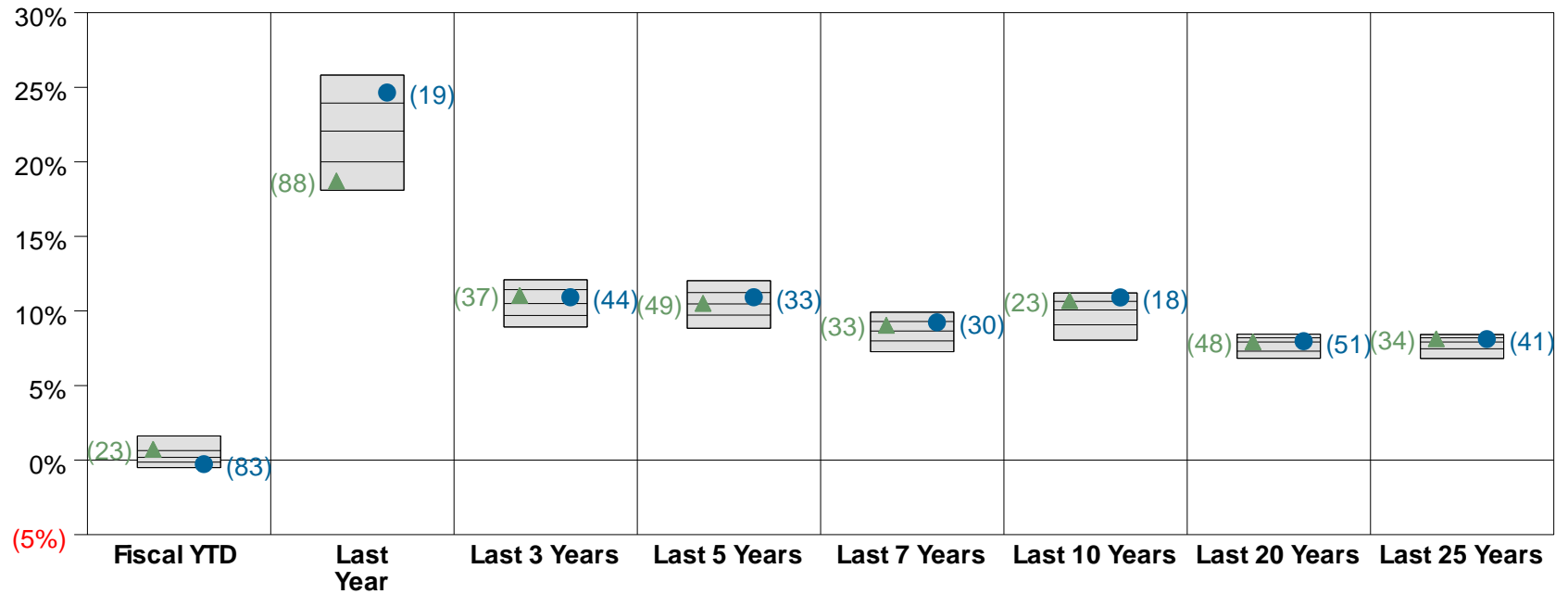
	Domestic Equity	Fixed Income	Cash	Real Estate	Non US Equity	Alternative Assets
10th Percentile	43.87	32.48	3.95	12.30	27.66	36.62
25th Percentile	36.36	25.98	2.11	9.68	23.45	24.11
Median	29.90	21.31	1.31	7.45	20.19	14.63
75th Percentile	23.33	17.02	0.68	5.95	14.92	7.70
90th Percentile	17.79	12.45	0.35	3.04	12.48	5.24
Fund ●	33.88	19.57	1.88	9.45	16.20	19.03
Target ▲	30.00	25.00	0.00	10.00	20.00	15.00
% Group Invested	100.00%	98.25%	80.70%	82.46%	98.25%	63.16%

Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net, 10% S&P 500 + 3% (1 qtr lag), and 5% S&P LSTA Leveraged Loan 100 (1 qtr lag)

Total Fund

Gross of Fee Performance vs. Large Public DB Plan (>\$1B) Peers, as of September 30, 2021

Performance vs Callan Public Fund Large DB (Gross)



	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years	Last 25 Years
10th Percentile	1.62	25.82	12.09	12.03	9.91	11.21	8.44	8.43
25th Percentile	0.64	23.94	11.43	11.23	9.29	10.65	8.20	8.20
Median	0.18	22.06	10.50	10.47	8.65	10.07	7.92	7.92
75th Percentile	(0.14)	20.00	9.70	9.72	7.99	9.07	7.31	7.46
90th Percentile	(0.50)	18.10	8.92	8.85	7.27	8.04	6.83	6.81
Total Fund Composite	● (83)	24.58	10.85	10.85	9.17	10.84	7.91	8.06
Total Fund Benchmark	▲ (23)	18.72	11.04	10.52	9.04	10.69	7.93	8.14

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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 9/30/21 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	\$ 3,861,344	\$ 2,811	\$ 2,811
Non-U.S.	\$ 1,846,329	\$ 2,765	\$ 2,765
Fixed Income Investments	\$ 2,230,038	\$ 1,549	\$ 1,549
Alternative Investments	\$ 2,168,876	-	-
Gross	-	\$ 1,459	\$ 1,459
Net	-	\$ (13,221)	\$ (13,221)
Real Estate Investments	\$ 1,076,517	-	-
Gross	-	\$ 2,946	\$ 2,946
Net	-	\$ (50,818)	\$ (50,818)
Cash	\$ 213,958	-	-
Subtotal Gross Investment Mgt Fees	-	\$ 11,530	\$ 11,530
Subtotal Net Investment Mgt Fees	-	\$ (56,914)	\$ (56,914)
Custodial Fees	-	\$ 139	\$ 139
Brokerage Fees	-	\$ 398	\$ 398
Investment Advisor Fees	-	\$ -	\$ -
Investment Professional Fees	-	\$ 45	\$ 45
Investment Staff Administrative Expense	-	\$ 199	\$ 199
Subtotal Investment Servicing Fees	-	\$ 781	\$ 781
TOTAL GROSS INVESTMENT EXPENSES	-	\$ 12,311	\$ 12,311
TOTAL NET INVESTMENT EXPENSES	\$ 11,397,062	\$ (56,133)	\$ (56,133)

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. Net fees reflect the repayment in the quarter of those costs paid in prior quarters.
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.