



**NHRS**

New Hampshire Retirement System

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**Independent Investment Committee's  
Quarterly Report to the Board  
August 9, 2022**



# NHRS

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 20.2% of total assets. The fixed income allocation was below the policy range by 1.1%, balanced by a 1.3% allocation to cash equivalent instruments. Opportunities to rebalance the fixed income allocation back within the Investment Policy parameters should be explored. Ideally, cash flows should be used to rebalance the portfolio in the most cost efficient manner, though caution should be exercised given current market conditions. 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 fueled by geopolitical conflict, declining economic fundamentals, and the continued challenges associated with COVID-19, the Fund had a return of -3.18% over the period (-3.24% net of fees), underperforming the market benchmark by 0.92%, but ranking in the 34<sup>th</sup> percentile of its peers
  - Poor relative performance from the Non-U.S. Equity portfolio, particularly emerging markets, detracted from results
  - An overweight to U.S. Equity and slight U.S. Equity underperformance relative to target also detracted from relative performance
  - Lagged performance for Alternative Assets detracted from results on a time-weighted basis
- The Fund had exceptional performance over the trailing 12-month period, outperforming the Total Fund Benchmark by 2.5% (net of fees) and ranking within the top 22% of its peers
  - Alternatives and real estate contributed positively to results
- The Fund's long-term performance has been strong in absolute terms and mixed in relative terms. Results are consistently above the expected actuarial target return of 6.75% and above the peer group median, but slightly below the market benchmark. As we have discussed with the IIC in the past, performance results relative to the market benchmark reflect the use of the S&P 500 Index as the target benchmark for the Fund's diversified domestic equity portfolio, as well as a strategic overweight to small cap stocks. Small cap stocks contributed to the Fund's success in Fiscal Year 2021, but will continue to yield volatile results relative to the Russell 3000 Index going forward

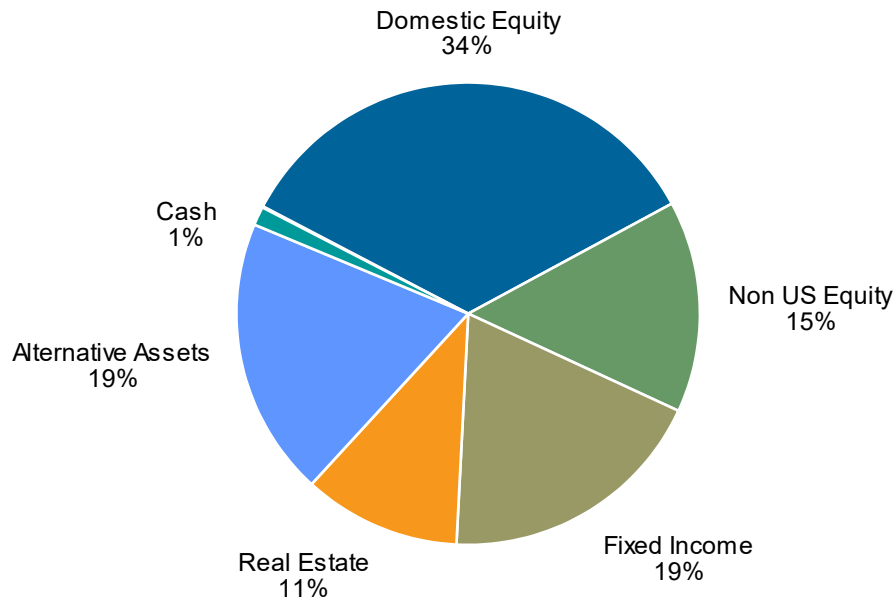
### Notable Developments

- Nothing significant to report: All the managers in the Fund were stable from a personnel and investment process perspective. We will continue to monitor the Fund closely and will report back to the IIC with guidance if any changes are warranted

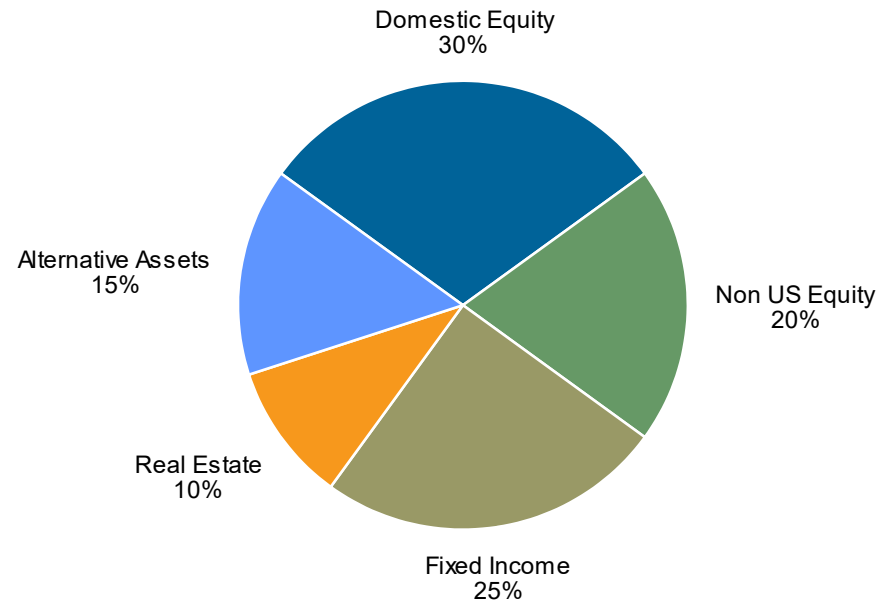
# Total Fund

## Actual Asset Allocation vs. Target, as of March 31, 2022

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$Millions Actual	Weight Actual	Target	Percent Difference	\$Millions Difference
Domestic Equity	3,966	34.4%	30.0%	4.4%	510
Non US Equity	1,705	14.8%	20.0%	(5.2%)	(598)
Fixed Income	2,182	18.9%	25.0%	(6.1%)	(698)
Real Estate	1,270	11.0%	10.0%	1.0%	118
Alternative Assets	2,246	19.5%	15.0%	4.5%	518
Cash	150	1.3%	0.0%	1.3%	150
<b>Total</b>	<b>11,518</b>	<b>100.0%</b>	<b>100.0%</b>		

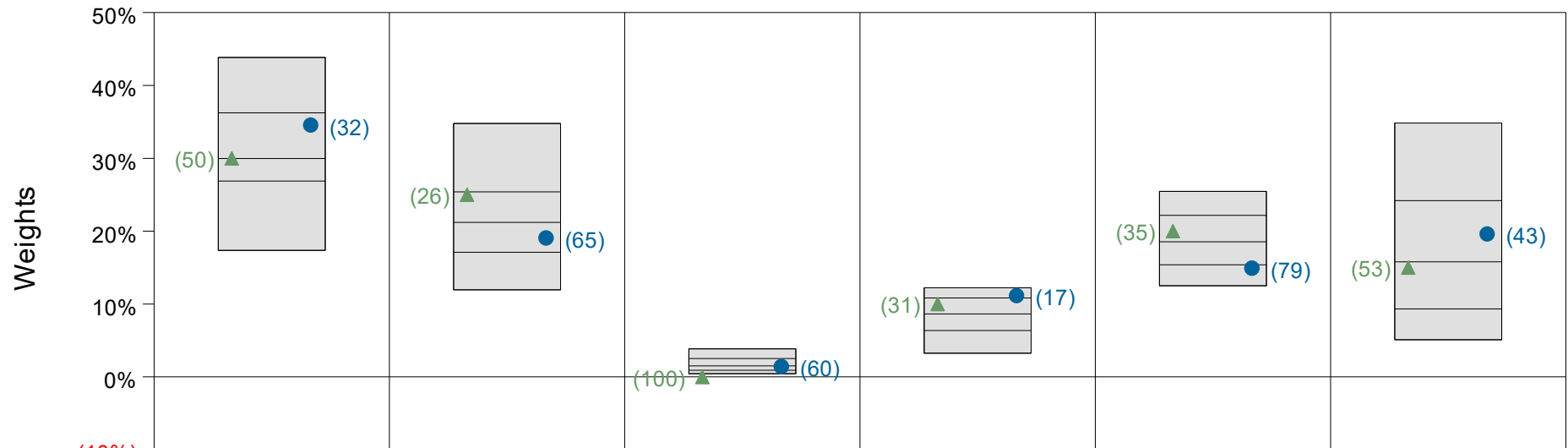
Current Quarter Target = 30% Russell 3000 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net, 10% S&P 500 + 3% (1 qtr lag), and 5% S&P LSTA Leveraged Loan 100 (1 qtr lag).

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 March 31, 2022

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



(10%)

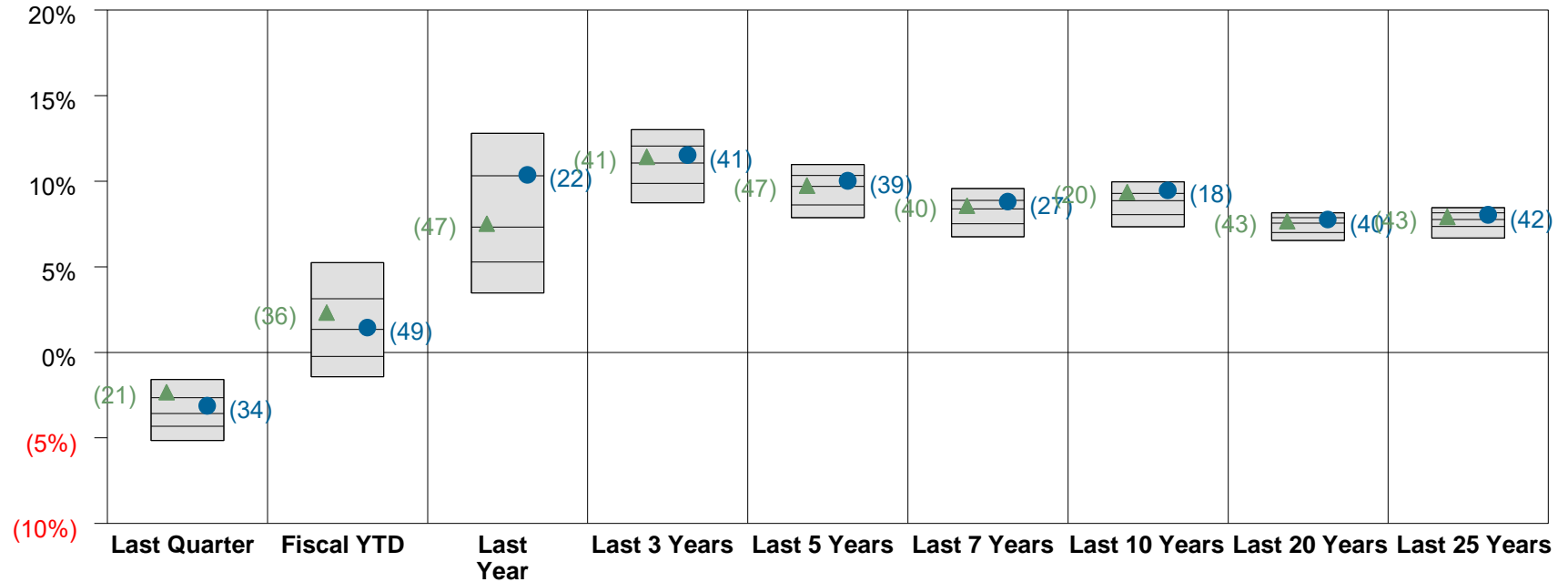
	Domestic Equity	Fixed Income	Cash	Real Estate	Non US Equity	Alternative Assets
10th Percentile	43.84	34.78	3.84	12.23	25.47	34.84
25th Percentile	36.24	25.39	2.53	10.83	22.17	24.19
Median	29.96	21.20	1.51	8.65	18.55	15.80
75th Percentile	26.88	17.10	0.91	6.36	15.40	9.32
90th Percentile	17.35	11.95	0.43	3.25	12.51	5.09
<b>Fund</b> ●	34.43	18.94	1.30	11.02	14.80	19.50
<b>Target</b> ▲	30.00	25.00	0.00	10.00	20.00	15.00
% Group Invested	100.00%	98.15%	85.19%	83.33%	98.15%	62.50%

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 March 31, 2022

## 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	(1.59)	5.25	12.81	13.02	10.98	9.57	9.95	8.15	8.45
25th Percentile	(2.65)	3.14	10.31	12.06	10.33	8.87	9.29	7.87	8.14
Median	(3.58)	1.33	7.32	11.06	9.69	8.37	8.86	7.56	7.77
75th Percentile	(4.32)	(0.25)	5.28	9.88	8.62	7.51	8.05	7.00	7.36
90th Percentile	(5.14)	(1.42)	3.47	8.74	7.87	6.75	7.34	6.53	6.69
<b>Total Fund Composite</b>	● (3.18)	1.38	10.32	11.47	9.97	8.76	9.41	7.71	7.97
Total Fund Benchmark	▲ (2.32)	2.33	7.52	11.42	9.75	8.57	9.36	7.67	7.92

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).

## INVESTMENT EXPENSES BY ASSET CLASS

Investment activity fees and other related expenses:

For the Quarter and Fiscal Year to Date through 03/31/22 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	\$ 3,965,690	\$ 2,902	\$ 8,909
Non-U.S.	\$ 1,705,237	\$ 2,818	\$ 7,968
Fixed Income Investments	\$ 2,181,737	\$ 1,581	\$ 4,698
Alternative Investments	\$ 2,245,922	-	-
Gross	-	\$ 1,732	\$ 4,926
Net	-	\$ 749	\$ (11,841)
Real Estate Investments	\$ 1,269,697	-	-
Gross	-	\$ 1,504	\$ 5,962
Net	-	\$ (10,942)	\$ (72,556)
Cash	\$ 150,002	-	-
<b>Subtotal Gross Investment Mgt Fees</b>	-	<b>\$ 10,537</b>	<b>\$ 32,463</b>
<b>Subtotal Net Investment Mgt Fees</b>	-	<b>\$ (2,892)</b>	<b>\$ (62,822)</b>
Custodial Fees	-	\$ 161	\$ 449
Brokerage Fees	-	\$ 152	\$ 1,146
Investment Advisor Fees	-	\$ 163	\$ 326
Investment Professional Fees	-	\$ 121	\$ 273
Investment Staff Administrative Expense	-	\$ 176	\$ 555
<b>Subtotal Investment Servicing Fees</b>	-	<b>\$ 773</b>	<b>\$ 2,749</b>
<b>TOTAL GROSS INVESTMENT EXPENSES</b>	-	<b>\$ 11,310</b>	<b>\$ 35,212</b>
<b>TOTAL NET INVESTMENT EXPENSES</b>	<b>\$ 11,518,285</b>	<b>\$ (2,119)</b>	<b>\$ (60,073)</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. 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.