



NHRS

New Hampshire Retirement System

**Independent Investment Committee's
Quarterly Report to the Board
October 12, 2021**



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 21.4% of total assets. The fixed income allocation was slightly below the policy range by 0.2%, balanced by a 1.6% 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
- Following Callan's asset/liability study and manager structure review, the NHRS Investment Committee and Board of Trustees have approved the following new benchmarks for the U.S. Equity portfolio, effective July 1, 2021:
 - Primary Benchmark: The Russell 3000 Index
 - Secondary Benchmark: A custom benchmark consisting of the following components: 60% S&P 500, 20% Russell 2500, and 20% Russell 2000

Investment Performance

- The Fund had a return of 6.61% over the quarter (6.54% net of fees), outperforming the market benchmark by 1.53% and ranking in the 12th percentile of its peers
 - The Alternative Assets and Real Estate portfolios had the largest positive impact on relative performance, outperforming their target benchmarks by 9.8% and 2.8%, respectively, net of fees
 - The fixed income portfolio also contributed to results. All of the managers in the fixed income portfolio outperformed their respective benchmarks over the quarter. Brandywine and Fidelity posted the highest relative performance over the period
- The Fund outperformed its market benchmark by a comfortable margin in Fiscal Year 2021, ranking near the top third of its peer group
- Performance is competitive relative to the peer group median over the long term, reflecting the strength of the Fund's asset allocation policy

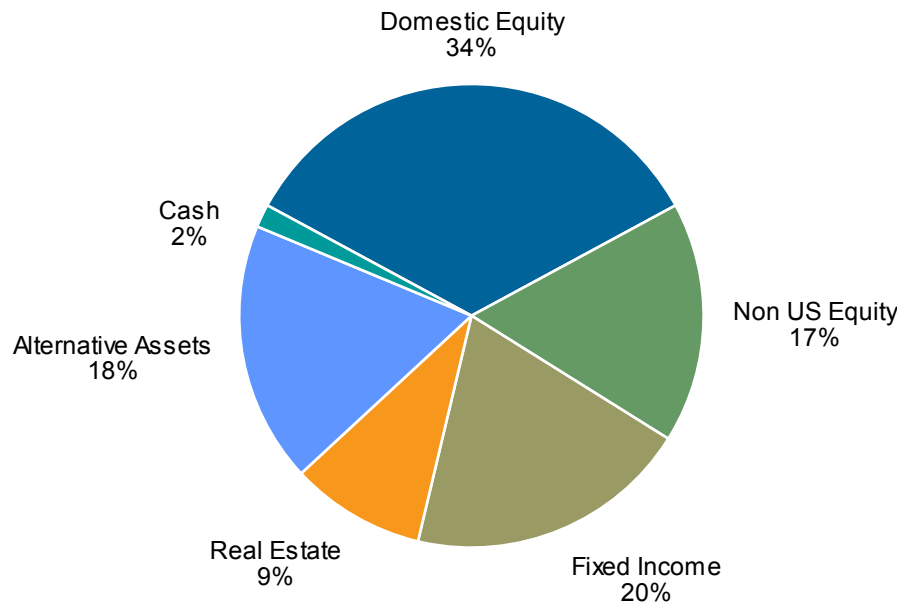
Notable Developments

- Callan is in the process of evaluating qualified candidates for an international small cap core equity assignment in the portfolio

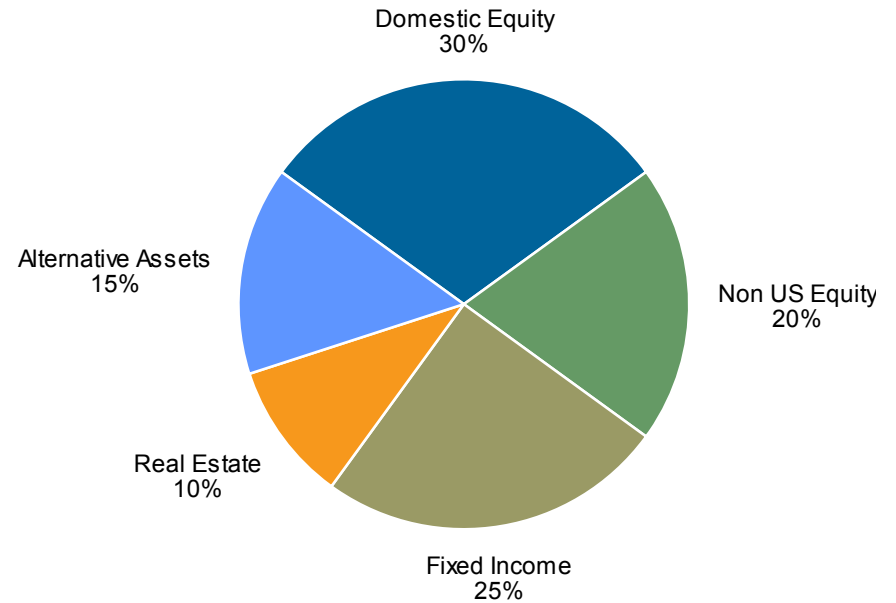
Total Fund

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

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$Millions Actual	Weight Actual	Target	Percent Difference	\$Millions Difference
Domestic Equity	3,848	34.2%	30.0%	4.2%	468
Non US Equity	1,890	16.8%	20.0%	(3.2%)	(363)
Fixed Income	2,235	19.8%	25.0%	(5.2%)	(582)
Real Estate	1,060	9.4%	10.0%	(0.6%)	(67)
Alternative Assets	2,053	18.2%	15.0%	3.2%	363
Cash	182	1.6%	0.0%	1.6%	182
Total	11,268	100.0%	100.0%		

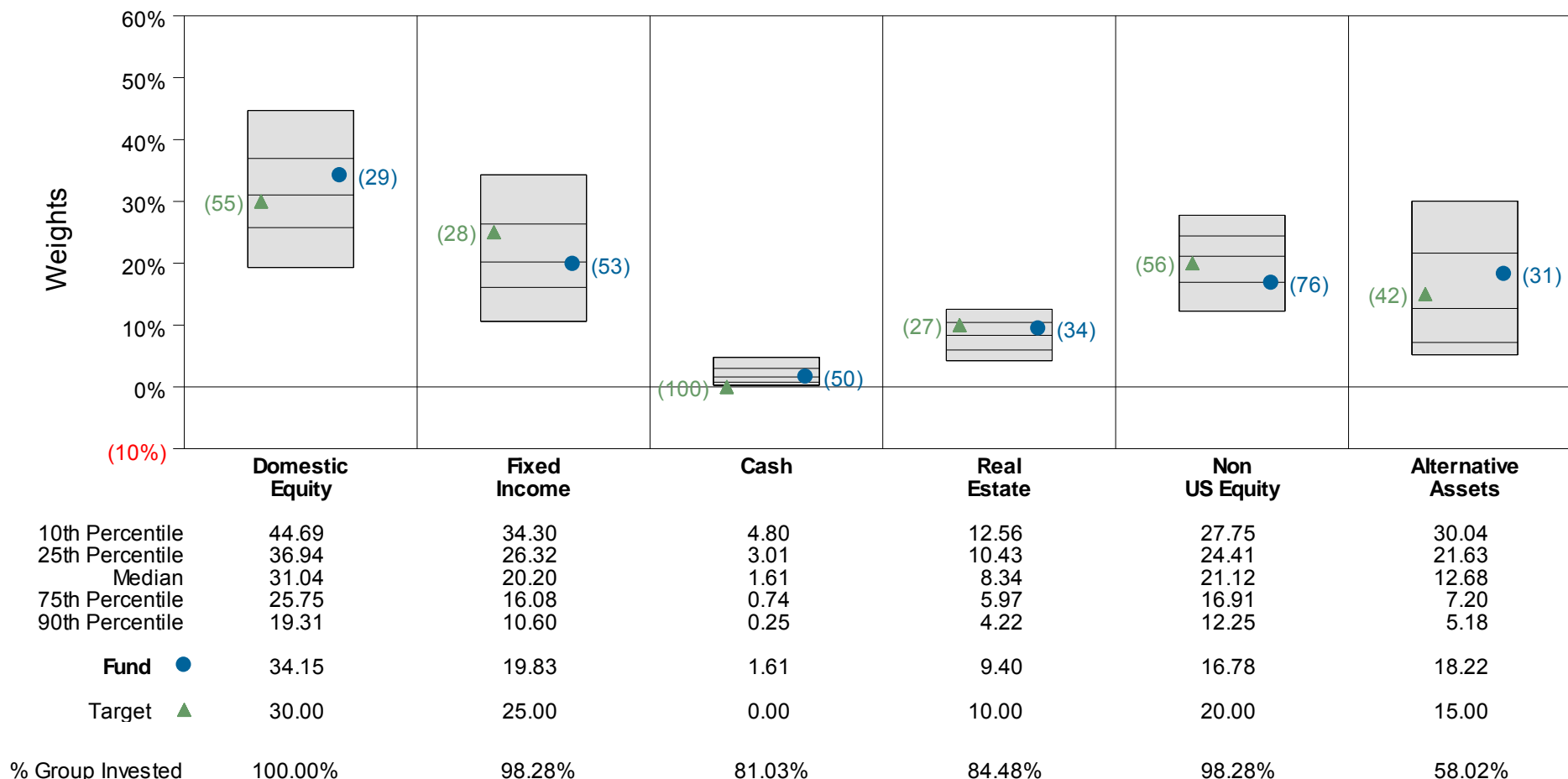
Current Quarter Target = 30% S&P 500 Index, 25% Bloomberg Universal, 20% MSCI ACWI ex US, 10% NCREIF NFI-ODCE Val Wt Net, 10% S&P 500 + 3% (1 qtr lag), and 5% S&P LSTA Leveraged Loan 100 (1 qtr lag).

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 June 30, 2021

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

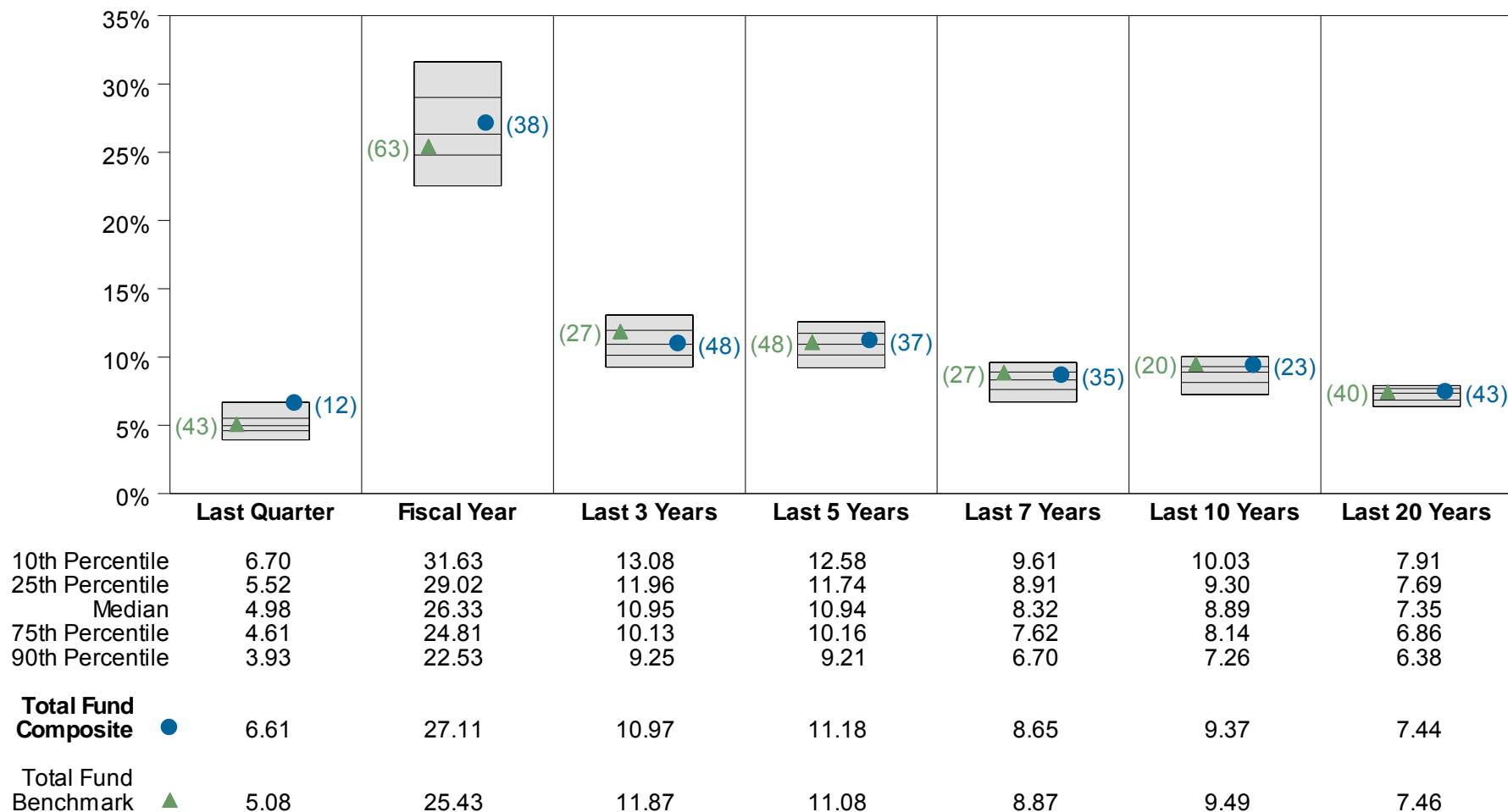


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Total Fund

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

Performance vs Callan Public Fund Large DB (Gross)



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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 6/30/21 (in thousands)

	Assets Under Management	Fees (Quarter)	Fees (FYTD)
Equity Investments			
Domestic (U.S.)	\$ 3,848,136	\$ 2,599	\$ 8,864
Non-U.S.	\$ 1,890,428	\$ 2,630	\$ 9,437
Fixed Income Investments	\$ 2,234,614	\$ 1,531	\$ 6,019
Alternative Investments	\$ 2,053,397	-	-
Gross	-	\$ 2,985	\$ 12,609
Net	-	\$ (94,691)	\$ (210,160)
Real Estate Investments	\$ 1,059,513	-	-
Gross	-	\$ 3,123	\$ 11,296
Net	-	\$ (17,529)	\$ (56,513)
Cash	\$ 181,696	-	-
Subtotal Gross Investment Mgt Fees	-	\$ 12,868	\$ 48,225
Subtotal Net Investment Mgt Fees	-	\$ (105,460)	\$ (242,353)
Custodial Fees	-	\$ 142	\$ 563
Brokerage Fees	-	\$ 323	\$ 1,817
Investment Advisor Fees	-	\$ 325	\$ 700
Investment Professional Fees	-	\$ 96	\$ 556
Investment Staff Administrative Expense	-	\$ 151	\$ 673
Subtotal Investment Servicing Fees	-	\$ 1,037	\$ 4,309
TOTAL GROSS INVESTMENT EXPENSES	-	\$ 13,905	\$ 52,534
TOTAL NET INVESTMENT EXPENSES	\$ 11,267,784	\$ (104,423)	\$ (238,044)

Notes:

1. Alternative and Real Estate Investments fee figures provided by BNY and Townsend, respectively.
2. 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.
3. 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.
4. 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>.
5. 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.