



Investment Plan and Update

2024 Investment Forum

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San Bernardino County Employees'
Retirement Association

Agenda

Purpose of our Investment Forum

- Investment Beliefs
- Priorities & Anticipated Actions
- Strategy Reminder During the Tough Times

Investment Beliefs

- The Foundations
- The Methods

What We Said

- Asset Allocation History
- Performance Results

What Concerns Us

- Inflation, Equity Valuations, Government Budgets, and Global Growth

Investment Beliefs (The Foundations)

Income

Value

Opportunistic

Income for SBCERA Means:

- We focus more on income, and less on price change as a return driver
- Contractual income is preferable to asset appreciation/dividends
- Realized gains and income are worth more than unrealized gains and accrued income
- Relying on Public Markets for liquidity is added risk
- Cash flow allows investors to reinvest during volatile markets

Value for SBCERA Means:

- What you pay for an asset significantly determines your outcome
- Losses hurt more than gains help (investment returns compound over time/negative cash outflows reinforce the need to manage volatility)
- All assets must compete for an allocation, from both a return and risk perspective
- Diversification (while important) is not a sufficient reason to invest in an asset

Opportunistic for SBCERA Means:

- Maintain liquidity for rebalancing or purchasing attractive assets in times of distress
- Concentrate to size positions for our portfolio
- Hold small (toe-hold) allocations until pricing improves when allocations can meaningfully increase
- Cash has option value; probabilistic outcomes are part of the cost of capital. A 10% chance of a -20% market imputes 200bp to cash value (for example)

Investment Beliefs (The Methods)

Relationship

Platform

Governance

The Relationship

- Fiduciary for SBCERA
- Formal recommendation to SBCERA
- Senior-level, whole platform focused portfolio management
- Collaborative, hands-on relationship for asset-level discussion

The Platform

- Negotiate fees based on actual assets managed versus committed
- Single fee and master account level terms for more competitive fees and better alignment of interest
- Unified contractual terms and conditions

Investment Allocation

2024 Asset Allocation		Ranges	Benchmark
Domestic Equity	17%	10%-27%	R3000
International Equity	13%	8%-18%	ACWI x US
Private Equity	18%	6%-23%	R3000
Domestic Fixed	15%	10%-20%	US Agg
International Fixed	17%	11%-21%	Global Agg x US
Real Estate	5%	0%-10%	NCREIF
Real Assets	6%	0%-10%	GSCI/TIPS
Absolute Return	7%	0%-12%	US Agg
Cash	2%	0%-10%	3m T-Bill

Role of Broad Asset Ranges

Broad ranges around the asset classes allow SBCERA to effectively manage the portfolio and take asset price into consideration/model-based rebalancing.

Role of Position Sizing

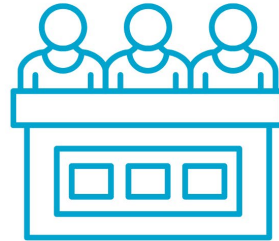
Modest allocations in conjunction with broad asset ranges allow SBCERA to allocate a meaningful amount when pricing is more appropriate, but to only maintain a nominal position when pricing is less attractive.

GOVERNANCE



ACTUARY

Evaluate Funding Adequacy



BOARD OF TRUSTEES

- Provide Administrative Oversight
- Review Strategic Asset Allocation
- Approve Recommendations



CONSULTANT

Provide Independent Advice



INVESTMENT COMMITTEE

- Review Policy
- Make Recommendations



INVESTMENT STAFF

- Recommend asset allocation targets, ranges, and benchmarks.
- Implement policy and program, including structure, manager allocations.
- Assist Committee and Board

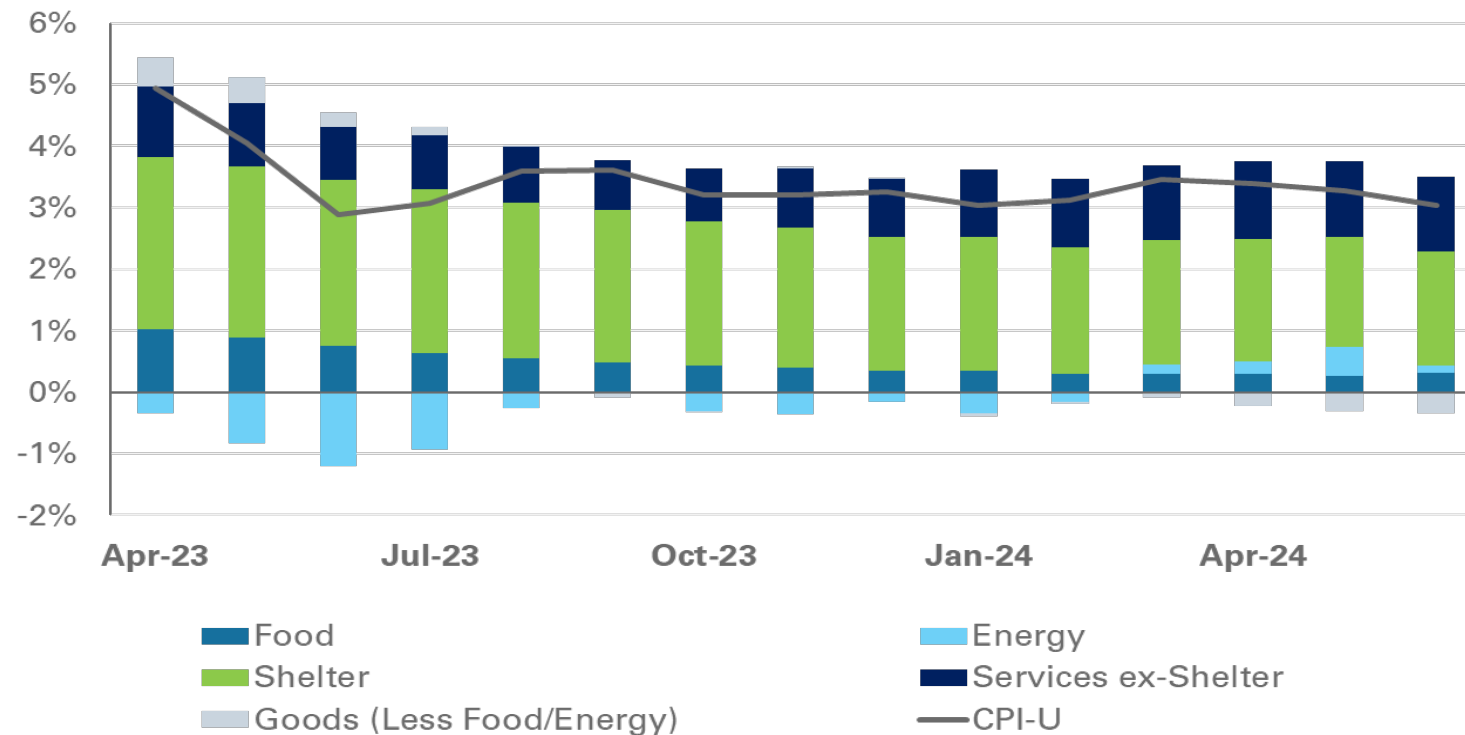


What Concerns Us

- A resurgence in inflation
- Global economic growth
- Pressure on long-term fiscal health of US budget and sovereign debt
- Potential for significant correction in US equity markets due to a valuation 'reset'

Inflation Pressures Are Softening

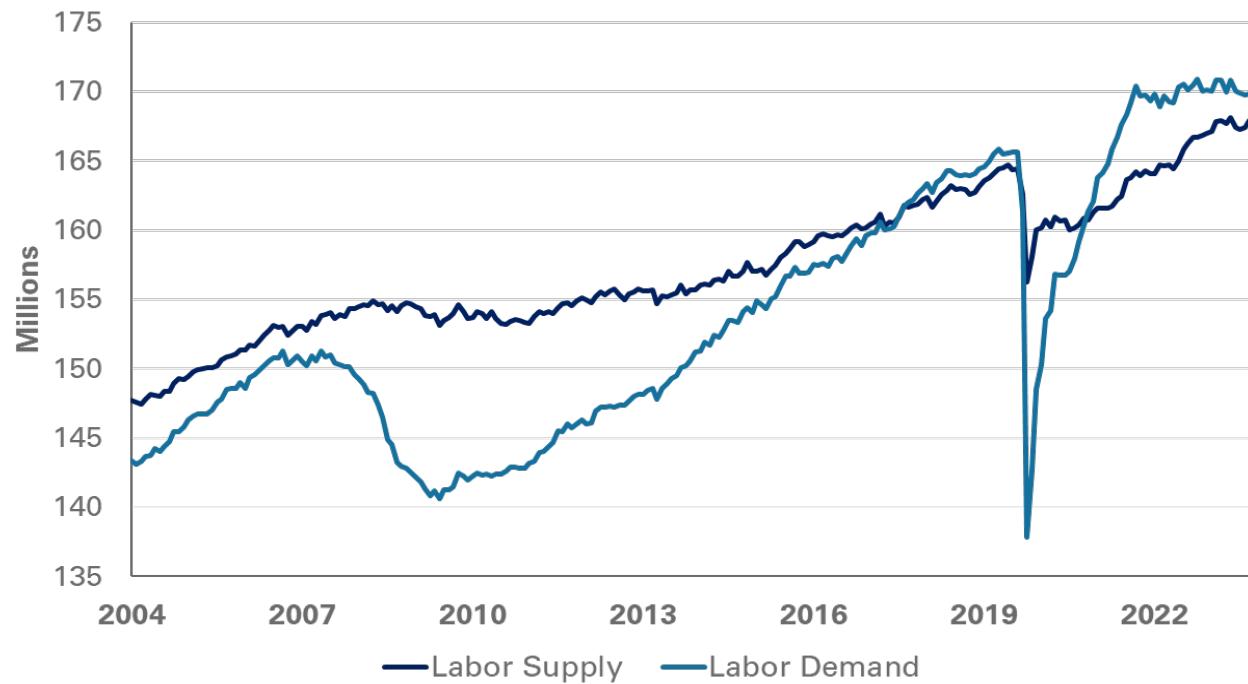
Annual Change in the U.S. Consumer Price Index



Sources: U.S. Bureau of Labor Statistics, FactSet

Labor Supply-Demand In Better Place

U.S. Labor Market Supply Versus Demand

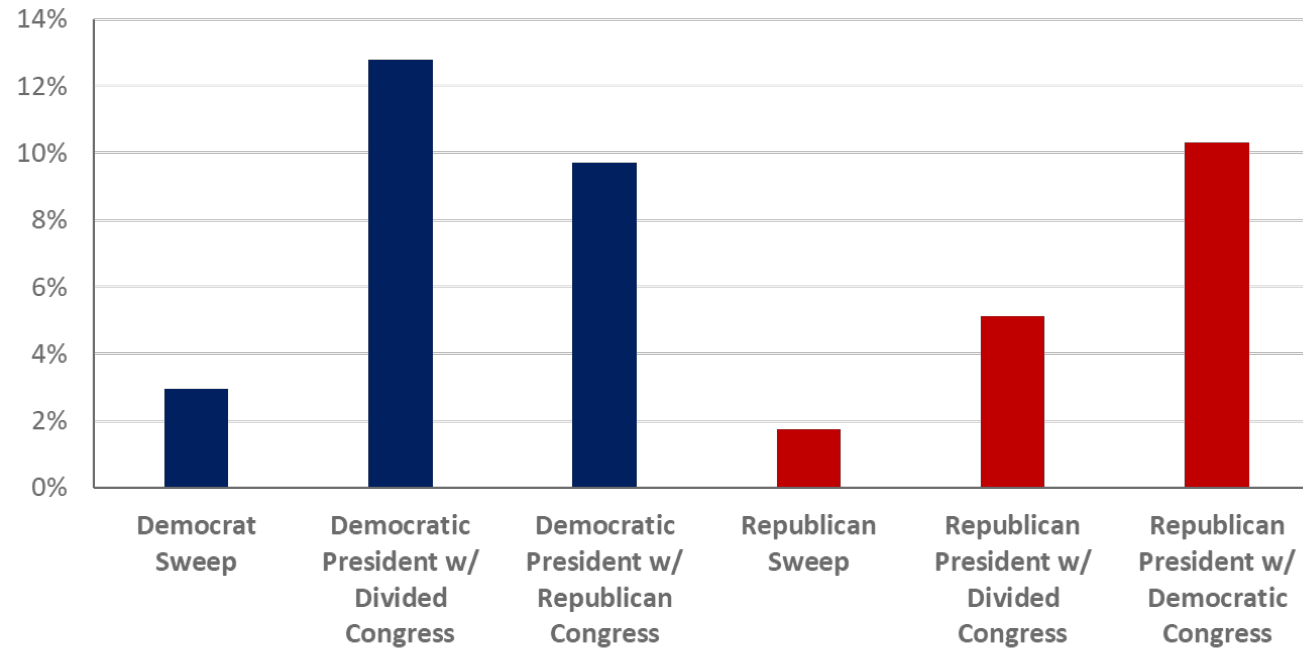


Note: Labor Supply = labor force, Labor Demand = total employed + nonfarm job openings

Sources: U.S. Department of Labor, FactSet, NEPC

A Divided Government is Good for Markets

Average Annual S&P 500 Returns During Election Years



Notes: Data calculated 1938 to present

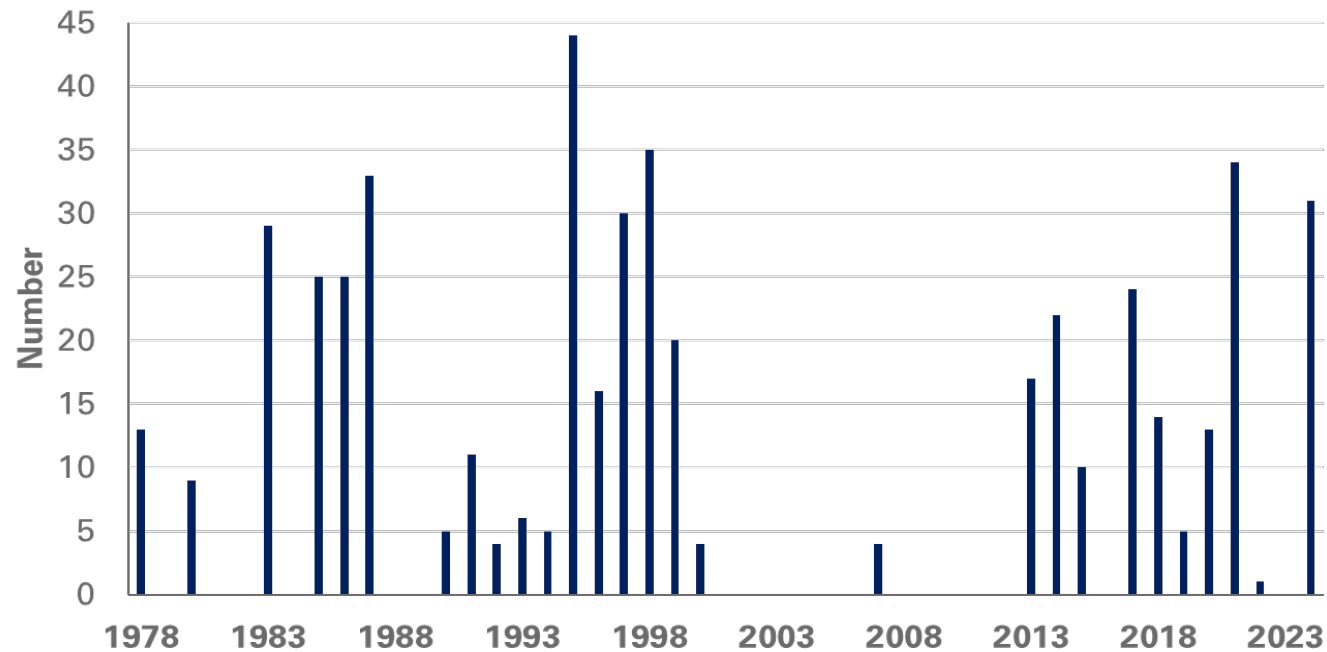
Sources: White House History, House Press Gallery, S&P, FactSet

When US Equities Beat Everything Else

- Maintain strategic focus and trust the strong governance and asset allocation structures in place.
- As Trustees, it is important to wear your “pension hat” and consider the actuarial hurdle rate, negative net cash flow position, and monthly cash flows in and out of the pension.
- Strategic Asset allocation is about the financial well-being of plan participants and protecting against what might happen.
- Strategic Asset allocation is not about managing the pension based on what has already happened.

The S&P 500 Hit New All-Time Highs

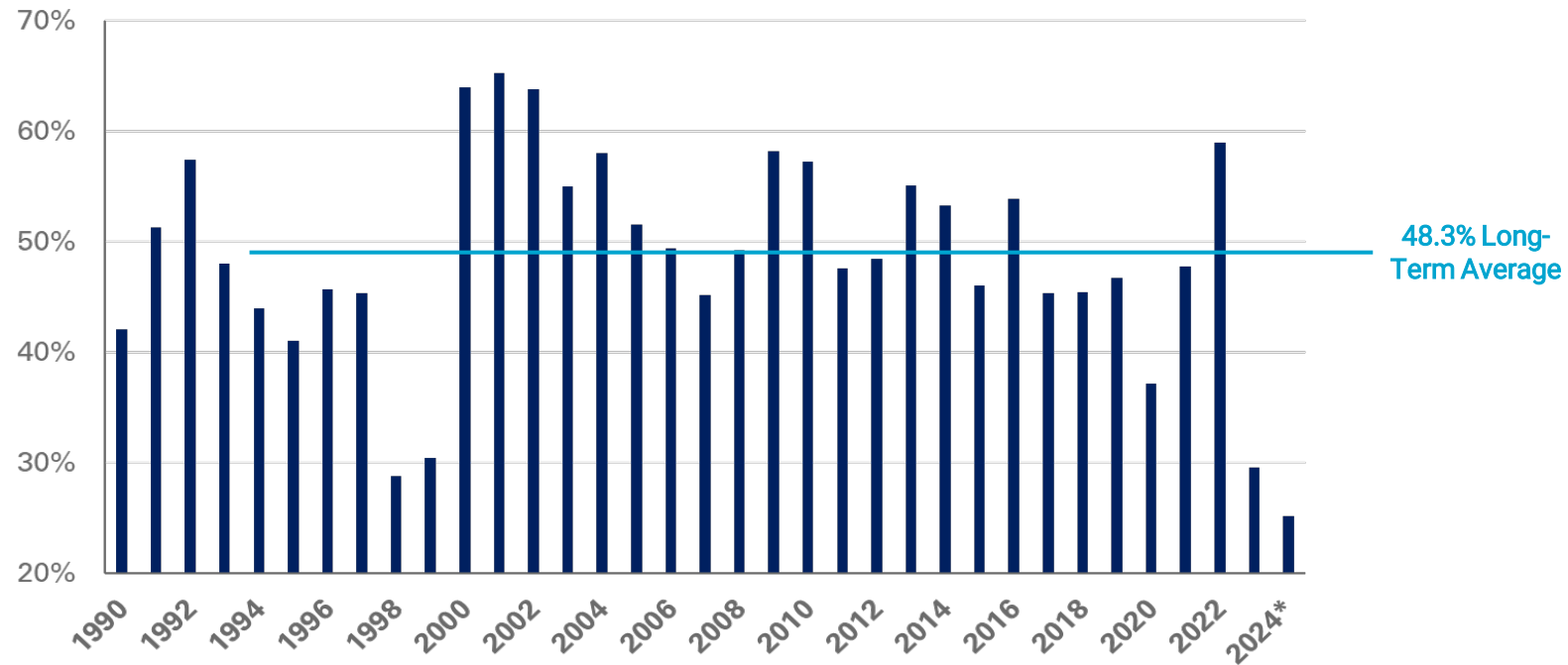
Number of Record Highs Hit in First 6-Months of Year



Sources: S&P, FactSet

U.S Equities Have a Breadth Problem

S&P 500 Index: % of Stocks Outperforming the Index

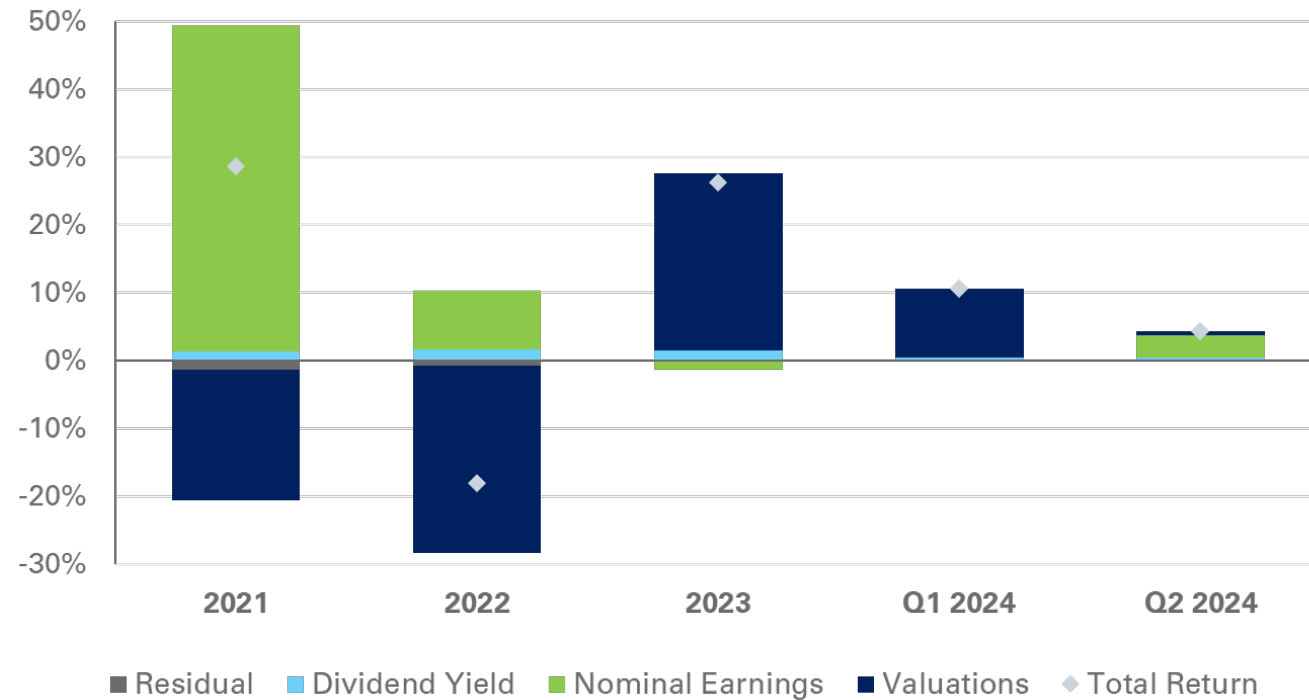


Note: *2024 reflects year-to-date returns through 06/30/2024. Data reflects price returns.

Sources: S&P, FactSet

Can Earnings Support Equity Momentum?

S&P 500 Return Decomposition



Sources: S&P, FactSet, NEPC

What we said and how it worked.

Asset Allocation History and Performance Results

Year-by-Year Change in Asset Allocation

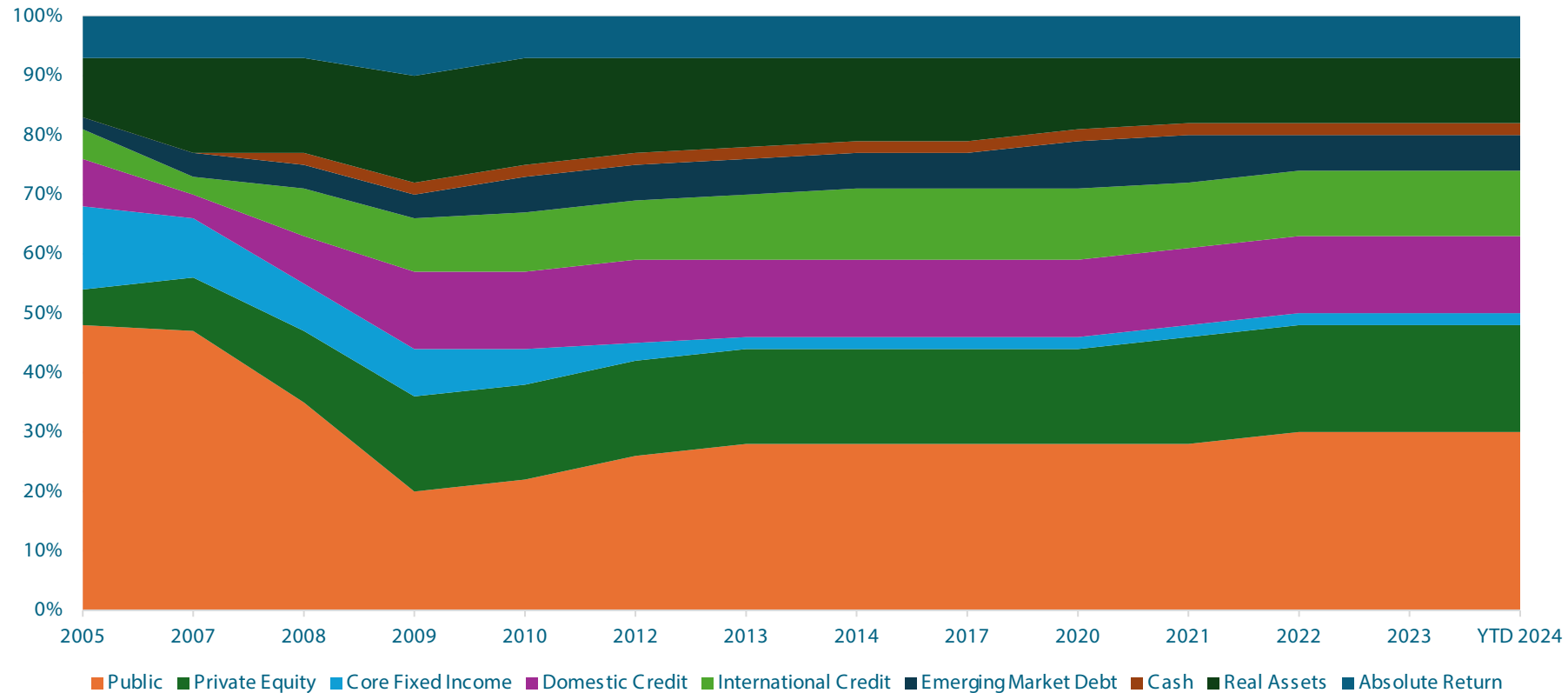
Asset Class	GFC Period													June 2024
	2005	2007	2008	2009	2010	2012	2013	2014	2017	2020	2021	2022	2023	
Public	48%	47%	35%	20%	22%	26%	28%	28%	28%	28%	28%	30%	30%	30%
Private Equity	6%	9%	12%	16%	16%	16%	16%	16%	16%	16%	18%	18%	18%	18%
Core Fixed Income	14%	10%	8%	8%	6%	3%	2%	2%	2%	2%	2%	2%	2%	2%
Domestic Credit	8%	4%	8%	13%	13%	14%	13%	13%	13%	13%	13%	13%	13%	13%
International Credit	5%	3%	8%	9%	10%	10%	11%	12%	12%	12%	11%	11%	11%	11%
Emerging Market Debt	2%	4%	4%	4%	6%	6%	6%	6%	6%	8%	8%	6%	6%	6%
Cash			2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Real Assets	10%	16%	16%	18%	18%	16%	15%	14%	14%	12%	11%	11%	11%	11%
Absolute Return	7%	7%	7%	10%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%

Past 20 Years

- Reduction in public equities
- Reduction in public fixed income
- Increase in private equity and credit
- Reduction in real assets

No major allocation changes over past 10 years.

Asset Allocation History



As of June 30, 2024

Median Peer Allocation Moved in Direction of SBCERA

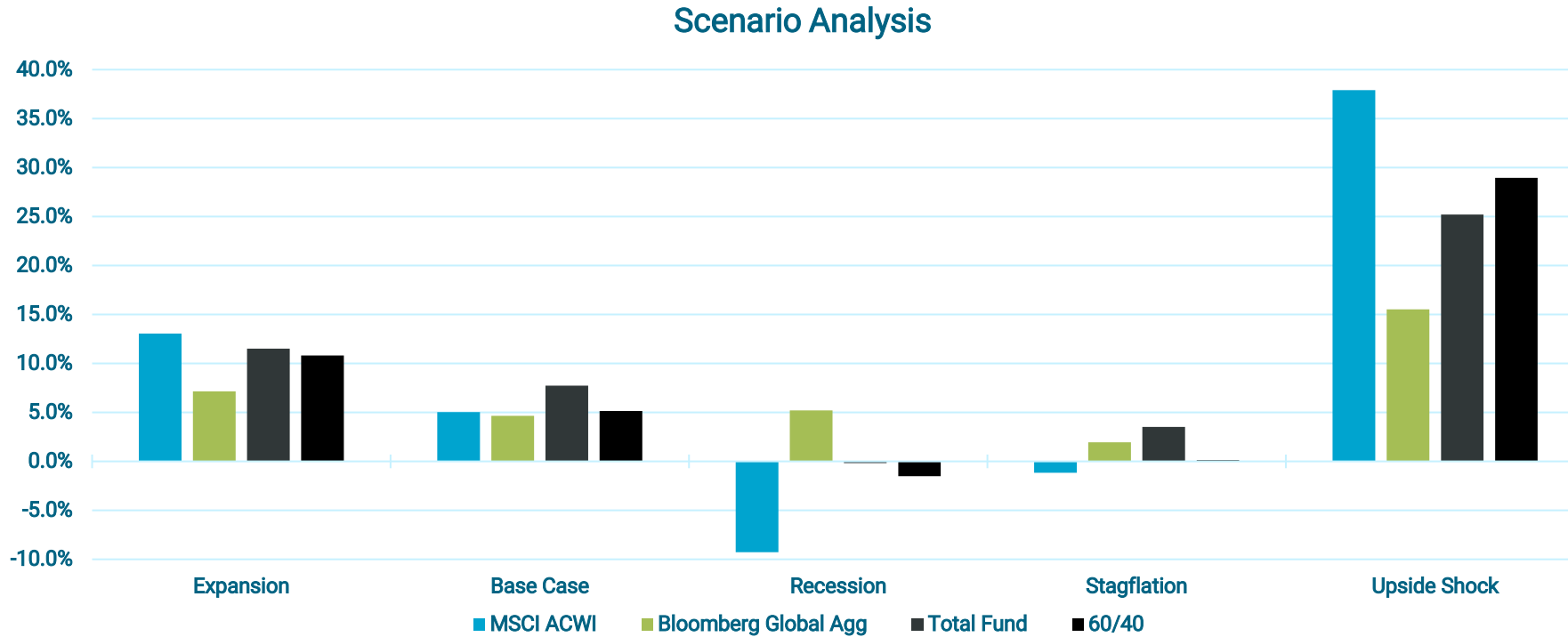
This is likely due to general agreement on certain market realities:

- Historically low interest rate environment has led to low expected returns for public bonds
- Recent high returns in US equities have “borrowed” from future expected returns for public equity
- With lower forecasted returns for traditional 60/40 assets, allocators have opted for greater diversification
- Private markets are believed to provide a liquidity premium as well as more persistence of returns from 1st and 2nd quartile managers

Asset Class	2002		2010		2024	
	SBCERA	Median Public Fund	SBCERA	Median Public Fund	SBCERA	Median Public Fund
Public Equity	61%	62%	22%	54%	30%	49%
Core Fixed Income	28%	40%	6%	29%	2%	9%
Private Equity	--	1%	16%	3%	18%	12%
Other Credit	5%	5%	29%	6%	30%	10%
Real Assets	6%	3%	18%	5%	11%	12%
Absolute Return	--	2%	7%	5%	7%	6%
Cash	--	1%	2%	2%	2%	2%
Total	100%		100%		100%	

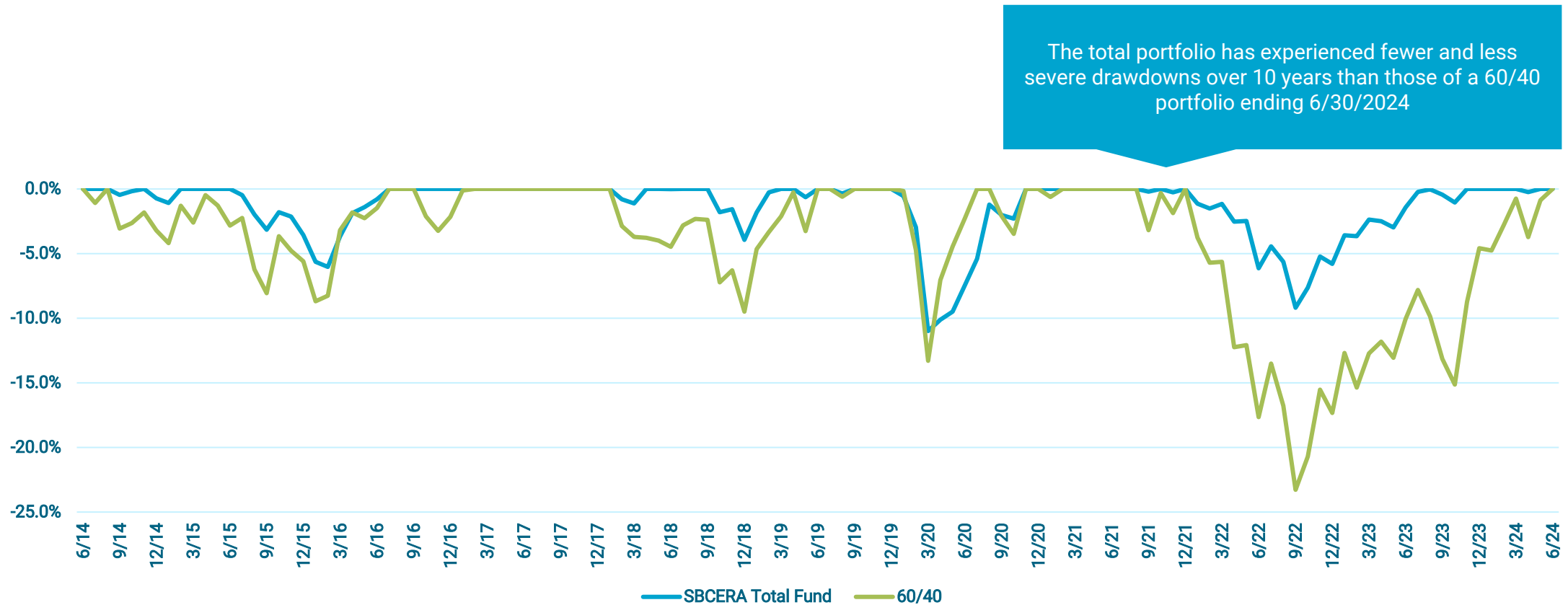
Median public fund is comprised of InvMetrics All Public DB in 2002 and 2010. In 2022 InvMetrics Public Funds >\$1B. Other Credit comprises private credit, non-US fixed income including emerging markets.

Predicted SBCERA Performance Tendencies

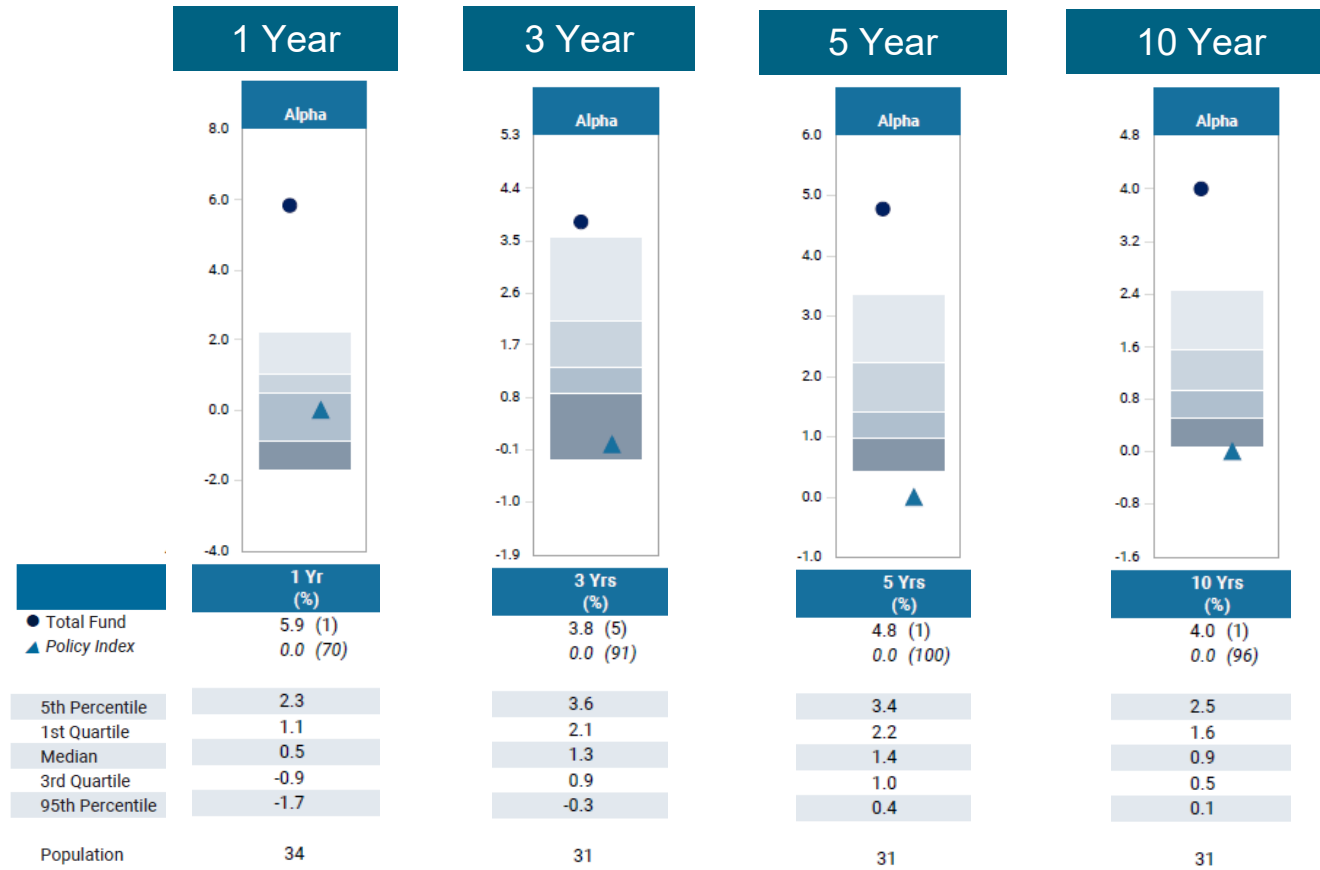


Note: Expansion, Base Case, Recession, Stagflation scenarios are based on NEPC 5 Yr stress test assumptions.
Upside Shock is based on NEPC one-year stress test assumptions.

Total Portfolio 10-Year Drawdowns



SBCERA Portfolio Alpha Production

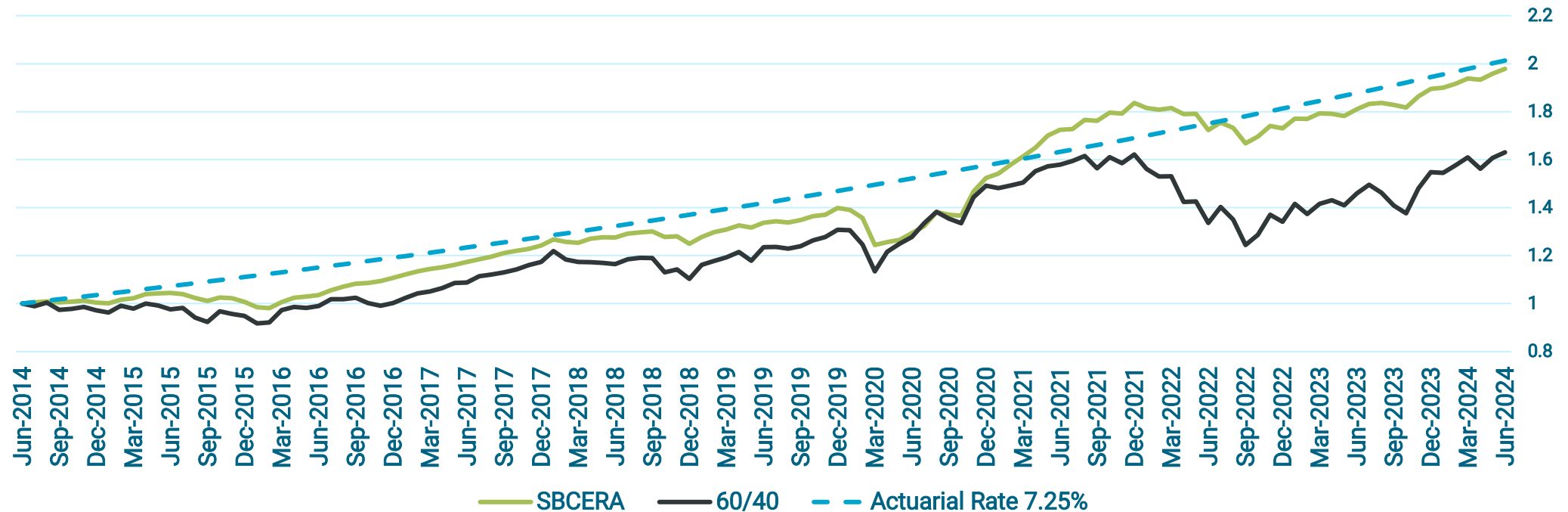


Data as of 6/30/24 and sourced from NEPC IPA.

Total Portfolio 10-Year Growth

10-Year portfolio growth is slightly below the 7.25% assumed rate of return but above the 60/40 Index

Growth of \$1



Historical Risk Return

	Allocation			Performance (%)			
	Market Value (\$)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	15,201,103,116	2.1 (1)	4.4 (67)	9.3 (46)	4.7 (7)	8.2 (9)	7.1 (16)
<i>Policy Index</i>		1.0 (45)	4.6 (55)	10.3 (25)	1.6 (92)	5.4 (100)	5.1 (100)
<i>S&P 500 Index</i>		4.3 (1)	15.3 (1)	24.6 (1)	10.0 (1)	15.0 (1)	12.9 (1)
<i>Blmbg. U.S. Aggregate Index</i>		0.1 (98)	-0.7 (100)	2.6 (100)	-3.0 (100)	-0.2 (100)	1.3 (100)
<i>60% MSCI World/40% FTSE WGBI</i>		1.0 (40)	5.4 (26)	11.8 (3)	1.6 (92)	6.1 (85)	5.5 (94)
<i>InvMetrics Public DB > \$1 Billion Median</i>		0.9	4.8	9.3	2.9	6.8	6.3

- Performance relative to the 7.25% actuarial rate and policy benchmark, as of June 30, 2024, was mixed given the unprecedented rally in the US equities and headwinds for any Plan that does not have a substantial allocation to the asset class. We do not believe that the pace of this performance is sustainable.
- Portfolio has outperformed the policy benchmark over the 3, 5, and 10 year periods and the actuarial rate over 5 years.
- Portfolio is designed and constructed to deliver high returns relative to risks taken.
- The high Sharpe Ratios (return relative to standard deviation) illustrate that the Plan design was effective relative to peers.

	5 Years Ending June 30, 2024		
	Return	Standard Deviation	Sharpe Ratio
Total Fund	8.15 (9)	7.44 (1)	0.79 (2)
<i>Policy Index</i>	5.42 (100)	10.50 (42)	0.35 (99)
<i>InvMetrics Public DB > \$1 Billion Median</i>	6.82	10.70	0.47

	10 Years Ending June 30, 2024		
	Return	Standard Deviation	Sharpe Ratio
Total Fund	7.06 (16)	5.86 (1)	0.93 (1)
<i>Policy Index</i>	5.14 (100)	8.45 (36)	0.46 (100)
<i>InvMetrics Public DB > \$1 Billion Median</i>	6.29	9.00	0.56

Data as of 6/30/24 and sourced from NEPC IPA.

Summary

SBCERA Investment History

- Early changes by SBCERA have seen public pension adoption over time

Investment Beliefs and Methods

- Income, Value, and Opportunistic – affirmed during the crisis
- Relationship and platform – open to more mandates
- Governance remains

We Said the Portfolio Would Hold Up Well in a Rising Rate Environment

- Resilient results

What Concerns Us

- Stretched equity valuations
- Potential for higher interest costs to exacerbate dwindling discretionary budgets
- Has inflation been constrained?

THANK YOU!