



Memorandum

To	SBCERS Board of Retirement (“SBCERS”)
From	RVK, Inc. (“RVK”)
Subject	Diversified Inflation Strategies (“DIS”) Invitation to Bid Process Memo
Date	August 28, 2024

Purpose of the Memorandum

The purpose of this document is to provide an overview of the Invitation to Bid (“ITB”) process by which RVK and SBCERS Staff selected a finalist for the Diversified Inflation Strategies (“DIS”) mandate. This search was driven by the Board’s decision to increase the Private Real Return target to 75% of the Real Return portfolio thereby changing the role of the 25% Public Real Return assets target to a “liquidity sleeve” for safety, rebalancing, and cash needs. The objective of the Public assets within the Real Return portfolio has shifted to liquidity provided by a multi-asset real return-oriented investment mandate that would match the theme of the Real Return Allocation. Given that the Public assets will decrease, cost was also a consideration.

Following an in-depth review of the manager responses and semifinalist interviews, RVK and SBCERS Staff recommend SSgA Real Asset Strategy for the DIS mandate.

Process: Invitation to Bid

In total, ten firms were invited to bid. Invitations were based on RVK’s knowledge of multi-asset real return managers active in the marketplace, in addition to those categorized as such in the eVestment Alliance database. Of 26 managers identified, ten firms met the following minimum requirements:

1. At least \$500m assets under management (AUM) reported in the relevant strategy.
2. Track record of at least five years.
3. Fees on least expensive vehicle reported within the eVestment Alliance database of 75bps or less for a hypothetical \$100m mandate.

At the Board meeting on June 26th, RVK presented the list of managers that met the minimum requirements, and all parties agreed to invite AllianceBernstein, DWS, Fidelity, PIMCO, Principal, SSgA, T. Rowe Price, Wellington, and the two incumbents Cohen & Steers and Nuveen to bid. The Invitation to Bid was issued on July 2nd and RVK provided each manager with a Request for Information (“RFI”) document to serve as the basis of their response. Responses were due on July 12th and all ten managers who were invited to bid submitted responses.

Selection of Semi-Finalists

RVK and SBCERS Staff reviewed and scored all responses based on quantitative and qualitative criteria, including firm, team, philosophy/process, performance and fees. RFI submissions were reviewed in detail, considering evaluation of selection criteria RVK considers to be of critical importance when vetting DIS managers for this mandate. Examples of characteristics we prefer to see in these managers include:



- Match the role/objective/theme of the Real Return Allocation,
- Provide liquidity for safety, rebalancing, and cash needs,
- Competitive fees, and
- Asset class diversification.

Five firms were removed from consideration due to scoring the lowest in the RFI. The five firms were:

- AllianceBernstein,
- DWS,
- Principal,
- T. Rowe Price and
- Wellington.

The five firms that advanced to the semi-finalist round, consisting of an in-depth phone interview were:

- Cohen & Steers,
- Fidelity,
- Nuveen,
- PIMCO and
- SSgA.

Selection of Finalist

RVK and SBCERS Staff held interviews with Cohen & Steers, Fidelity, Nuveen, PIMCO, and SSgA from August 6th to August 8th. On August 12th, after interviews were complete, the RVK search team and SBCERS Staff discussed merits of the managers and determined to invite SSgA to the August 28, 2024, SBCERS Board meeting to present as the finalist.

The selection of SSgA as the finalist has extensive supporting rationale. Previously, RVK communicated to the Board that this mandate is intended to be a liquidity sleeve in the portfolio and used as a source for cash needs and rebalancing purposes with competitive fees. SSgA offers a passive index product, allowing for low-cost passive implementation with a fee of 20 bps. SSgA's strategy is well diversified across asset classes, with a meaningful allocation to Treasury Inflation Protected Securities (TIPS) that the search team views as important to replace the current dedicated TIPS exposure that will be eliminated as part of the restructuring of the Public Real Return assets. Additionally, SSgA's correlation over 10 years between Hamilton Lane's Private Infrastructure and Private Natural Resources is -0.02 and -0.13 respectively, inferring that they are diversifying against their private counterparts.

To be consistent in our approach with the objectives of the new mandate, the goal is not for the Public Real Return sleeve to be the best performing part of the Total Real Return Structure or intended to be top quartile amongst peers consistently, but again a source for liquidity with low fees while maintaining beta exposure to the multi-asset Public Real Return market. It is expected that active alpha generation will come through Hamilton Lane and their discretionary sleeve.



Cohen & Steers, Fidelity, Nuveen, and PIMCO were removed from consideration for the following reasons:

- Cohen & Steers – While Cohen & Steers was a strong candidate, the higher fees, higher equity beta and higher volatility were not consistent with the desired mandate.
- Fidelity – While Fidelity’s strategy offers attractive downside protection, equity beta and volatility statistics, the higher fee made this strategy less attractive given the historical performance of the underlying active strategies.
- Nuveen – Given the desire to consolidate to one mandate, Nuveen’s strategy does not offer sufficient asset class diversification given the heavy allocation to equity strategies and REITs. The equity beta, volatility and performance experienced over the performance evaluation period were less desirable when compared to the finalist candidate.

PIMCO – PIMCO’s well-diversified strategy offers attractive downside protection with low equity beta and volatility. However, the higher fee was less desirable when compared to the finalist candidate.

Recommendation

RVK and SBCERS Staff recommend that SBCERS hire SSgA as the new Diversified Inflation Strategies manager to fill the Public Real Return portfolio.

State Street Real Asset Strategy

Firm: SSGA was founded in 1978 as the asset management division of the State Street Corporation, a Boston-based publicly-traded bank holding company. State Street is organized into three main divisions: a custodian bank, their aforementioned Global Advisors group, and a Global Markets business offering research and trading services. As of June 2024, the firm had more than \$4.4 trillion in assets under management (includes cash in addition to active and passive assets), making them one of the largest asset managers in the world.

Team: The Real Asset Strategy is managed by Tyhesha Harrington and Mike Narkiewicz, who allocate to several passive teams within SSGA. Harrington was added as a named PM in August of 2024 as the previous co-PM, Robert Guiliano announced his upcoming retirement effective September 2024. Although the strategy is managed to a static blend of inflation-sensitive asset classes, Harrington and Narkiewicz revisit the risk and return expectations of the underlying asset classes on an annual basis. Due to the strategy's indexed nature, portfolio managers from SSGA's Global Equity Beta Solutions Team and Global Fixed Income Team are also formally listed as managers for the strategy.

Strategy Overview: The Strategy is intended to provide performance of 4% in excess of CPI over long periods of time, with the fund's composition designed to result in a reduced correlation to traditional GTAA strategies. Real assets tend to lead traditional assets when changes to inflation expectations are discounted into the market and provide potential diversification benefits to traditional assets. The strategy provides diversified liquid real asset exposure in a fund-of-funds structure that includes the following: 25% Indexed Commodity Strategy, 25% Indexed Natural Resource Equity Strategy, 20% Indexed Global Infrastructure Strategy, 10% Indexed US REIT Strategy, and 20% Indexed US TIPS Strategy. The Investment Solutions Group rebalances strategy allocations quarterly. Strategic weights are evaluated annually based on forecasts of risk and return used to determine if the portfolio is expected to meet its stated objectives. Changes are seldom made, as the process is not intended to be tactical and should be viewed as a long-term decision.

Product Snapshot

RVK Rank:	Positive
Firm/Product AUM (06/2024):	\$4.4T / \$7.0B
Vehicle:	Commingled Fund
Benchmark:	Real Asset Custom Benchmark*
Return Target:	CPI + 4%
Fee (%):	0.20%**
Asset Class:	Diversified Inflation Strategies

Comparative Fund Performance

(Period Ending June 30, 2024)

	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
State Street Real Asset	1.5	2.7	5.9	4.7	6.7	6.3	3.3
Real Asset Custom Benchmark*	1.6	2.8	5.9	4.5	6.3	6.0	3.0
Difference	-0.1	-0.1	0.0	0.2	0.4	0.3	0.3
eA Liquid Real Assets Median	0.7	1.8	7.3	2.5	5.7	5.4	3.1
Rank	5	28	69	14	28	34	42

Performance shown is gross of fees. *Custom benchmark is a blend of 25% Bloomberg Roll Select Commodity Index, 25% S&P® Global LargeMidCap Commodity and Resources Index, 20% S&P® Global Infrastructure Index, 10% Dow Jones U.S. Select REIT Index, and 20% Bloomberg US Government Inflation-Linked 1-10 Year Bond Index.

** SSGA proposed a CF vehicle at 20bps on all assets for this SBCERS mandate.

