

SBCERS

Santa Barbara County Employees' Retirement System

DATE: May 22, 2024

TO: SBCERS BOARD OF RETIREMENT

FROM: SBCERS Investment Staff

RE: **Real Return Structure Review**

Recommendation

That the Board of Retirement receive and file the Real Return Structure Review presented by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc., consider the recommendations of RVK, Inc., and take one of the following actions:

- A. Approve the restructuring of the Real Return portion of the portfolio to increase Private Real Return from 60% to 75%, while decreasing Public Real Return from 40% to 25%.
- B. Take other action as appropriate.

Summary

The SBCERS real return asset class is \$612.2 million and currently comprises 15% of the total portfolio. It focuses on investments that provide an inflation hedge, income and a decorrelated return stream, and includes investments in natural resources, infrastructure, inflation protected securities and real estate.

Asset Class Structure Studies are a deep dive into one specific asset class and are a review on whether the current implementation of the managers and strategies remain ideal for the asset class. Periodic review of individual asset classes is best practice for any investment portfolio. SBCERS last completed a Real Return Structure Study in 2017. Other recent Asset Class Structure Studies include Global Fixed Income - Core (June 2022), Global Fixed Income - Non-Core (August 2022), Global Public Equity - Developed Non-U.S. (December 2022) and U.S. Small Cap Equity (2024). The purpose of today's study is to review and evaluate diversification, risk characteristics, performance, and fees.

The presentation will review the current Real Return Private/Public split and whether the current target split of 60%/40% remains appropriate given the needs of SBCERS. Hamilton Lane has been managing the Private Real Return portfolio on a discretionary basis since 2014. The asset class currently contains 80.9% private assets, above its target of 60%. This is due to strong returns from the asset class relative to public market returns and the fact that the private assets are less liquid.

In Public Real Return, SBCERS currently uses three different managers: BNY Mellon TIPS (2019), Cohen & Steers Real Assets Fund (2017) and Nuveen Real Assets Income (2017).

Currently, the Public Real Assets managers' allocations underweight the 40% target. Further, within the public allocation Mellon, Cohen & Steers and Nuveen represent 8.8%, 45.8% and 45.4% when the weights should be 40%, 30% and 30% respectively. The primary driver of the dislocation was the liquidity needs of the system in 2022 and TIPS providing a cost-effective means of raising capital from the asset class which was overweight in total.

The presentation will discuss Real Assets and the function Real Assets needs to play as part of SBCERS broader investments. The presentation will conclude with next steps for the Real Return, should the recommendation to adjust the Private/Public targets be approved by the Board of Retirement.

Attachments

- SBCERS Real Return Structure Review