



Santa Barbara County Employees' Retirement System

DATE: March 22, 2023

Agenda Item #2

TO: SBCERS' BOARD OF RETIREMENT

FROM: SBCERS' Investments

RE: **2023 Capital Market Assumptions Review**

Recommendation

That the Board of Retirement receive and accept the 2023 Capital Market Assumptions report presented by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc.

Summary

Each year, RVK's general consulting and research teams collaborate to review the capital markets environment and update long-term, forward-looking capital markets assumptions (CMAs) for each investable asset class. Assumptions on return, risk (volatility of returns), and correlation (relationship of asset class returns with all other asset classes) are reviewed with a long-term time horizon of over 10+ years. It's important to note that return assumptions are index based, net of fees, and assume no manager alpha.

The presentation intends to explain at length the major findings and themes for the Board to consider from this year's CMA review. RVK's 2023 inflation assumption remained the same from 2022 and took into consideration inflationary pressures in both the short and intermediate term from ongoing supply chain issues. Equity returns assumptions increased given the improved valuation levels after the negative performance of 2022. Fixed income assumptions increased as well reflecting the current yield environment. The Nominal Returns for Geometric and Arithmetic were 5.70 and 6.22, respectively for the 2022 Capital Market Assumptions. 2023 Capital Market Assumptions now reflects Nominal Geometric and Arithmetic of 6.59 and 7.10, respectively. This is in alignment with the increased assumptions across Inflation, Equity and Fixed Income.

A comparison between 2016 and 2023 capital market expectations weighted in accordance with existing portfolio allocations is provided on page 15. Notably, RVKs assumption of return improved slightly over this period from 6.42% to 6.59% while assumptions for risk decreased significantly from 12.23 to 10.52.

Attachments

- RVK Capital Market Assumptions Review