



Real Return Structure Review

Part 2 – Public Real Return

Santa Barbara County Employees' Retirement System
June 26, 2024



Introduction

Recap of Recommendations Approved at the May 2024 Board Meeting

1. Increasing the Private Real Return target from 60% to 75% of the Real Return portfolio.
2. Additional discussion on potential structures for the Public Real Return portfolio given the role change to a “liquidity sleeve”.

Objectives and Considerations for Public Real Return Portfolio

- Given the reduced size, the Public Real Return portfolio’s role will shift to a “liquidity sleeve” for safety, rebalancing, and cash needs.
- As a result, a need to assess the current manager line-up is recommended while considering the below.

Objectives

- Liquidity.
- Match the role / objective / theme for the Real Return Allocation.

Considerations

- Less assets to invest.
 - While the current public mandates have served SBCERS well, the reduced size of the Public Real Return portfolio makes it difficult to retain three separate managers and their associated minimum investment requirements.
- Fees.
- Investment Vehicle (preference for Commingled Fund or Mutual Fund).

Why does RVK Recommend a Diversified Inflation Strategy?

Based on the objectives and considerations listed for the Public Real Return portfolio, RVK recommends a review of the current Diversified Inflation Strategies “(DIS)” universe. The goal is for the Board to select one mandate for the SBCERS Public Real Return portfolio.

What is a Diversified Inflation Strategy?

An investment strategy that seeks to protect against inflation by investing across multiple asset classes and strategies with the goal of providing long-term returns that exceed inflation by investing in assets that perform well when inflation is rising.

- Tactical element potentially beneficial – some sub-asset classes may be more optimally accessed through broader and more dynamic products.
- Exposure to more sub-asset classes can create an overall diversified portfolio with reduced emphasis on the inherent ups and downs of the underlying strategies.
- Outsourced due diligence, risk management, and reporting on individual component strategies.
- Ease of administration.

Public Real Return Search Process for DIS Mandate

RVK recommends that an Invitation to Bid “(ITB)” process be utilized for the DIS manager search. The ITB process including review, evaluation and recommendation to the Board, will be conducted by RVK and Investment Staff.

What is an Invitation to Bid?

- Used when the available opportunity set is limited and/or when a specific type of manager is being targeted.
- Can also be used when the service being offered is commodity like and price is the most important decision-making point.
- Appropriate for alternative asset searches or passive searches.
- An ITB is better suited than an RFP for this search due to the specific type of manager being targeted and the limited universe size.

Invitation to Bid Steps

1. Set minimum qualifications for the mandate.
2. Identify managers offering DIS products.
3. Narrow list based on set parameters.
4. Conduct semi-finalist conference calls.
5. Make finalist recommendation to the Board.

Minimum Qualifications for DIS Search

What are Minimum Qualifications (“MQs”)?

- MQs are not intended to meaningfully narrow the opportunity set.
- Instead, they are meant to eliminate managers from consideration that would not be competitive in an ITB or RFP process.
- MQs will vary across asset classes and clients depending on the unique circumstances of the search.

Proposed MQs for the SBCERS DIS Search

1. At least \$500m assets under management “(AUM)” reported in the relevant strategy.
2. Strategy track record longer than five (5) years.
3. Lowest stated fee less than 75 bps for a \$100m mandate.

DIS Investable Universe

- Below is the investable universe for DIS that has been screened using the recommended MQs.
- Green/red highlighting indicates the strategies that pass/fail the proposed MQs.
- Of the 26 strategies in the DIS universe, 10 pass the proposed MQs.

Strategy	Firm			AUM & Inception		Fees for \$100m allocation
	AUM(\$m)	City	State	AUM (\$m)	Inception	Lowest
AB All Market Real Return	\$758,660.25	Nashville	Tennessee	\$812	03/31/2010	70
Amundi Real Assets Target Income USD	\$2,285,436.63	Paris	Other	\$230	03/28/2014	—
Brookfield Diversified Real Assets Strategy	\$25,472.67	New York	New York	\$1,346	11/19/2014	80
CBRE Listed Global Real Assets Strategy	\$8,945.87	Radnor	Pennsylvania	\$105	07/01/2019	45
Cohen & Steers Balanced Real Assets Multi-Strategy	\$81,234.55	New York	New York	\$14	01/30/2017	65
Cohen & Steers Real Assets Multi-Strategy	\$81,234.55	New York	New York	\$1,669	01/31/2012	70
DWS Real Assets Strategy	\$1,015,528.53	Frankfurt	Germany	\$4,642	07/30/2007	60
Fidelity Strategic Real Return Fund	\$4,971,169.45	Boston	Massachusetts	\$501	09/07/2005	51
Lazard Real Assets	\$210,501.91	New York	New York	\$47	02/01/2015	85
Macquarie Global Listed Real Assets	\$611,712.28	Philadelphia	Pennsylvania	\$252	09/30/2018	75
Metis Real Asset Index Fund	\$3,633.39	San Diego	California	\$338	04/19/2023	25
Neuberger Berman Diversified Real Assets Strategy	\$474,233.71	New York	New York	\$64	08/31/2013	35
New Century Multi-Asset Real Return Strategy	\$3,942.49	Chevy Chase	Maryland	\$135	05/01/2009	85
Nuveen Real Asset Income	\$1,234,136.41	New York	New York	\$1,663	07/01/2011	78
Passaic Partners Multi-Asset (PPP)	\$1,286.26	Newark	New Jersey	\$262	07/01/2013	55
PGIM Real Assets	\$101,600.00	Newark	New Jersey	\$92	01/01/2011	60
PIMCO All Asset All Authority	\$1,885,393.36	Newport Beach	California	\$14,932	10/31/2003	94
PIMCO Inflation Response Multi-Asset	\$1,885,393.36	Newport Beach	California	\$3,139	08/31/2011	69
PIMCO Diversified Real Asset Collective Trust	\$1,885,393.36	Newport Beach	California	\$176	10/30/2009	41
Principal Diversified Real Asset	\$554,355.69	Des Moines	Iowa	\$5,067	03/16/2010	65
Principal Real Asset	\$554,355.69	Des Moines	Iowa	\$146	06/25/2019	133
Russell Investments RITC Real Asset Fund	\$302,745.90	Seattle	Washington	\$97	06/29/2012	80
SSGA Real Asset Strategy	\$4,335,582.13	Boston	Massachusetts	\$7,071	04/01/2005	29
T. Rowe Price Global Real Assets Equity Strategy	\$1,489,100.00	Baltimore	Maryland	\$24,018	07/31/2010	64
Wellington Balanced Real Assets	\$1,254,522.00	Boston	Massachusetts	\$674	05/31/2010	50
Wellington Diversified Inflation Hedges	\$1,254,522.00	Boston	Massachusetts	\$1,665	12/31/2004	69

Universe Fee Summary: Max Fee = 133 basis points, Median Fee = 65 basis points, Min Fee = 25 basis points.

Invitation to Bid Scoring Parameters

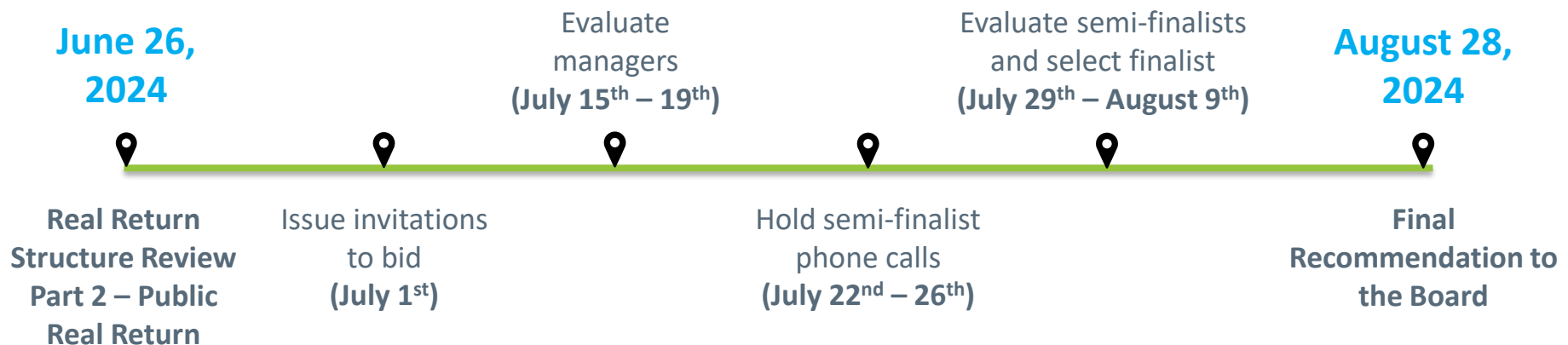
- Managers passing MQs will be invited to bid and asked to complete a comprehensive due diligence questionnaire.
- RVK and Investment Staff will jointly evaluate the manager submissions across the below criteria in order to narrow the universe further for finalist interviews.

Scoring Criteria	
Firm	<ul style="list-style-type: none"> • Employee ownership • Assets under management (AUM) • Well-established organization • Organizational stability
Team	<ul style="list-style-type: none"> • Senior personnel turnover • Depth of investment personnel • Broad firm resources/breadth of in-house teams
Philosophy/Process	<ul style="list-style-type: none"> • Asset class diversification • Diversity of returns/return drivers • Differentiating/unique characteristics • Consistent investment approach • Evidence of tactical value add decisions
Performance (absolute and relative to peers)	<ul style="list-style-type: none"> • Training • Length of track record • Calendar year • Market Regime • Risk-adjusted • Mandate flexibility

Search Process Timeline

Proposed Timeline

1. Send invitation to bid to DIS managers who pass the proposed MQs.
2. Evaluate managers based on listed criteria.
3. Hold calls with subset of managers based on ITB response.
4. Re-evaluate managers based on semi-finalist calls.
5. Present final recommendation to the Board at August meeting including interview with recommended manager.



Proposed timeline is subject to change should any unforeseen circumstances arise.

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