



# SBCERA INVESTMENTS OVERVIEW

---

September 19, 2019

# Agenda

---

- **Describe our portfolio**

- Priorities
- Strategies

- **Describe our approach**

- Working with managers
- Working with our advisors
- Working with the Board

- **Compare and contrast**

- How we differ and where we align with more traditional funds
- Performance results

## About SBCERA Investments

---

- \$10.7 Billion Trust Fund
- Primary Goal is earn a long-term rate of return in excess of the assumed rate as consistently as possible
  - Mission: Diversify to minimize loss
  - Mission: Maximize the rate of return
- Multiple Advisors
  - Investment Consultant
  - Outside Counsel
  - Operational Due Diligence
  - Investment Managers
- Investment Department
  - Mission: Strategically plan for the future
  - Operations and Investments
    - Relationships not asset classes

## Describe our Portfolio

---

### Asset Allocation Targets

- Global Core Fixed 3%
- Emerging Market Debt 8%
- Global Private Debt 24%
- Public Equity 28%
- Private Equity 16%
- Real Estate 7%
- Real Assets 5%
- Absolute Return 7%
- Cash 2%

### Role of Broad Asset Ranges

Broad ranges around the asset classes allow the Staff to effectively manage the portfolio and take asset price into consideration

### Role of Position Size

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

## Describe our Portfolio – Global Debt

---

### Portfolio Role

- Receive contractual income from corporations and/or assets
- Receive some price appreciation
- Credit strategies comprise below investment grade debt
- Core fixed income uses government bond futures
- Non-US strategies have some currency exposure as well as credit risk

## Describe our Portfolio – Global Debt

---

### Representative Strategies

- Direct Lending – loans from nonbank lenders to middle market borrowers; often asset-backed or secured by real estate
- Specialty Finance – niche lending opportunities
- Non-Performing Loans – purchase loan pools at a discount; renegotiate terms with borrowers and sell once re-performing
- Distressed – purchasing discounted debt in a company in bankruptcy or other financial distress, with a view to converting to equity and/or recovering value above the purchase price
- Opportunistic/Special Situations – niche opportunities involving unique dislocations; highly negotiated with custom structures
- Structured Credit – mezzanine or equity positions in collateralized loan obligations (CLOs)
- Relative Value – long/short credit and credit derivatives
- Regulatory Capital Relief Trades – taking first-loss position in loan portfolios held on bank balance sheets

# Describe our Portfolio – Global Debt

## US Fixed Income 15%

US Fixed Income (15% Target)	<b>Core Fixed Income (2%)</b>	Russell Investments (Bloomberg Barclays US Agg. Bond TR Index)
	<b>Credit Strategies/ High Yield Strategies (13%)</b>	Apollo Credit Strategies Fund LP (MCA) Beach Point Select Fund LP GoldenTree Credit Opportunities - Gold Coast X GoldenTree Distressed Debt Fund 2010 GoldenTree Asset Management SMA - Gold Coast X Halcyon Direct Portfolio (MCA) Halcyon Solutions Fund LP (MCA) MacKay Shields High Yield Bond Strategy - Gold Coast III Manulife Asset Management - Gold Coast IV Waterfall - Sutherland REIT Holdings LP (MCA) Waterfall Asset Management SMA (MCA) Waterfall Victoria Fund LP (MCA)

# Describe our Portfolio – Global Debt

## International Fixed Income 15%

International Core (1%)	Russell Investments (Barclays Global Aggregate ex US Unhedged)
<b>International Credit (11%)</b>	Alcentra Clareant European Direct Lending Fund - Kneiff Tower
	Alcentra Clareant Strategic Credit Fund - Kneiff Tower
	Alcentra Limited SMA - Kneiff Tower
	Alcentra Mezzanine III/Alcentra Capital Corp. - Kneiff Tower
	Alcentra Structured Credit Opportunity Fund III - Kneiff Tower
	Cairn Capital Limited SMA - Kneiff Tower
	Cairn European CLO Strategy - Kneiff Tower
	Cairn Loan Investments - Kneiff Tower
	Cairn Special Opportunities Credit Fund - Kneiff Tower
	Cairn Strata Credit Fund - Kneiff Tower
	Cairn Subordinated Financials Fund II - Kneiff Tower
	Halcyon European Credit Opportunities Fund Ltd. (MCA)
	Marathon Asset Management SMA - Gold Coast I
	Marathon CLO Equity Fund - Gold Coast I
	Marathon Distressed Debt Fund - Gold Coast I
	Marathon European Credit Opportunities Fund - Gold Coast I
	Marathon European Credit Opportunity Fund II - Gold Coast I
	Marathon European Credit Opportunity Fund III - Gold Coast I
	Marathon Loan Opportunities Fund - Gold Coast I
	Marathon Structured Product Strategies Fund - Gold Coast I
	York Global Credit Income Fund

## Describe our Portfolio – Global Debt

### Emerging Market Debt 8%

#### Emerging Market Debt (8%)

Ashmore Emerging Markets MCA  
Gramercy Capital Solutions Fund (MCA)  
Gramercy Distressed Argentina Fund III Private (MCA)  
Gramercy Distressed Opportunity Fund II (MCA)  
Gramercy Distressed Opportunity Fund III (MCA)  
Gramercy Emerging Markets Debt Allocation Fund (MCA)  
Gramercy Separate Account (MCA)  
Gramercy Venezuela Opportunity Fund (MCA)  
Marathon Global Emerging Markets Fund - Gold Coast I  
PGIM Emerging Market Debt Opportunities Fund

## Describe our Portfolio – Public Equity

### Public Equity 28%

Public Equity Portfolio (28% Target)	US Equities (13% Target)	Large Cap (8%)	Russell Investments (Russell1000 Index) StateStreet Global Advisors S&P500 Buy/Write Call Option Strategy TOBAM Anti-Benchmark US Equity Fund
		Small Cap (2%)	Russell Investments (Russell2000 Index)
		Volatility (3%)	Russell Investments (Russell1000 Index)
	International Equities (15% Target)	Developed Markets (6%)	Russell Investments (MSCI EAFE Index) TOBAM Anti-Benchmark World ex-US Fund
		Emerging Markets (6%)	Mondrian Emerging Markets Equity Fund LP Russell Investments (MSCI EM Index) TOBAM Anti-Benchmark EM Equity Fund
		Volatility (3%)	Russell Investments (MSCI EAFE Index)

### Portfolio Role

Participation in the earnings of corporations globally. Volatility premiums either hedge equity or add differentiated equity exposure. Implementation of the equity allocation is a mixture of futures and physical exposure.

## Describe our Portfolio – Private Equity

---

### Representative Strategies

- Buyout Fund strategies mainly focus on private company growth through accretive acquisitions. The Diversified allocation are managers that either invest in other managers, or have a very broad mandate.
- Venture Capital, accesses innovative business models and high growth potential of companies.
- Secondary Funds are vehicles to purchase other LP interests in other private equity funds. Key characteristics are the timing of the secondary purchase which is after the fund has closed and usually have made initial investments that can be underwritten directly.
- Private credit strategies broadly reflect either income producing private financings, or distressed debt/re-org equity where creditor rights were enforced and the lenders are the new owners.
- Specialty funds are all part of broader mandates and have either significant income as part of the strategy or were a negotiated discount transaction.

## Describe our Portfolio – Private Equity

### Private Equity 16%

<b>Diversified</b>	Partners Group SMA (MCA) Pathway Capital SMA (MCA) Pathway PE Fund VII LLC SL Capital European Strategic Partners 2004 SL Capital European Strategic Partners 2008
<b>Buyout Funds</b>	Aurora Equity Partners IV Kayne Partners Fund IV LP (MCA) Partners Group Direct Equity 2016 (MCA) Partners Group Direct Investments 2012 LP (MCA) Partners Group European Buyout 2005 (A) LP (MCA) Waterfall Sentinel Fund (MCA)

## Describe our Portfolio – Private Equity

---

### Private Equity 16%

#### **Venture Funds**

Industry Ventures Direct LP (MCA)  
Industry Ventures Fund V LP (MCA)  
Industry Ventures Fund VI LP (MCA)  
Industry Ventures MCA  
Industry Ventures Partnership Holdings II LP (MCA)  
Industry Ventures Partnership Holdings III LP (MCA)  
Industry Ventures Partnership Holdings III-A LP (MCA)  
Industry Ventures Partnership Holdings IV LP (MCA)  
Industry Ventures Special Opportunities Fund II-A LP (MCA)

## Describe our Portfolio – Private Equity

---

### Private Equity 16%

#### Secondary Funds

Aberdeen Standard Secondary Opportunities Fund IV  
Industry Ventures Secondary VII LP (MCA)  
Industry Ventures Secondary VIII LP (MCA)  
Lexington Capital Partners VI  
Lexington Capital Partners VII  
Lexington Middle Market Investors I  
Lexington Middle Market Investors II  
Partners Group Secondary 2004 LP (MCA)  
Partners Group Secondary 2008 LP (MCA)  
SL Capital Secondary Opportunities Fund I  
SL Capital Secondary Opportunities Fund II  
SL Capital Secondary Opportunities Fund III

## Describe our Portfolio – Private Equity

### Private Assets 16%

#### Credit/Distressed/ Opportunistic/ Special Situations

Apollo Private Equity Fund VII  
Ares European Loan Funding LP (MCA)  
Ares ICOF II (MCA)  
Ares ICOF III (MCA)  
Ares SMA (MCA)  
Ares Special Situations Fund IV (MCA)  
Catalyst Fund LP II  
Crestline Portfolio Financing Fund  
Kayne Anderson Solutions Fund (MCA)  
Sigular Guff Distressed Opportunity Fund III LP  
Tennenbaum Co-Invest (MCA)  
Tennenbaum Opportunities Fund V LLC (MCA)  
Tennenbaum Opportunities Fund VI LLC (MCA)  
Tennenbaum Special Situations Fund IX LLC (MCA)

## Describe our Portfolio – Private Equity

---

### Private Assets 16%

<b>Sector Specific Funds</b>	Kayne Anderson Energy Fund VII LP (MCA)
	Tennenbaum Energy Opportunities Fund LP (MCA)
<b>Direct Lending</b>	Ares Private Credit Solutions Fund (MCA)
	Tennenbaum Lending Fund VIII LLC (MCA)
	Tennenbaum Waterman Fund LP (MCA)

## Describe our Portfolio – Real Estate

### Real Estate 7%

Core Real Estate (3.5%)	<b>Core Real Estate</b> PRISA II 348 West Hospitality Invesco Real Estate Asia Fund Kayne Anderson Real Estate Debt III (MCA) Marathon Real Estate Debt Fund Pramerica Real Estate Capital VI LP
Non-Core Real Estate (3.5%)	<b>Enhanced Real Estate/ High Return</b> Apollo Real Estate Fund II LP (MCA) Bryanston Retail Opportunity Fortress Japan Opportunity Fund II Kayne Anderson Real Estate Partners V LP (MCA) Morgan Stanley RE Fund V International Oaktree RE Opportunities Fund V PRISA III Starwood Global Opportunity Fund VII-A Starwood Opportunity Fund VII Walton Street Real Estate Fund V
	<b>Real Estate Secondaries</b> Partners Group Real Estate Secondary 2013 A LP (MCA) Partners Group Real Estate Secondary 2017 A LP (MCA)

### Portfolio Role

Receive contractual income from lease payments as the equity owner.  
 Receive debt payments for loans on assets as a lender, and transact in the secondary market for LP interests. Distributions accrue upon the sale of an asset.

## Describe our Portfolio – Real Assets

### Real Assets 5%

Real Asset Portfolio (5% Target)	<b>Commodities (2% Target)</b>	Energy Spectrum Partners VI LP Pinnacle Natural Resources LP Pinnacle Physicals & Financing LTD Starwood Energy Infrastructure Fund
	<b>Infrastructure (1% Target)</b>	Fortress Worldwide Transportation & Infrastructure LP Highstar Capital III Kayne Anderson MLP Strategy (MCA)
	<b>Timber (2% Target)</b>	Hancock Timberland VII & VIII LP Timbervest Crossover Partners II LP Timbervest Partners II LP

### Portfolio Role

Participate in real economic activity as opposed to the financial markets.  
Timber is an allocation over time we expect to wind down.

## Describe our Portfolio – Absolute Return

### Absolute Return 7%

<p><b>Absolute Return (Alpha Pool) (7% Target)</b></p>	<p><b>Core &amp; Credit Strategies (7%)</b></p> <ul style="list-style-type: none"> <li>Apollo Accord Fund (MCA)</li> <li>Apollo Global SMA (MCA)</li> <li>Apollo MicCap Financial Holdings Trust (MCA)</li> <li>Apollo Offshore Credit Fund LTD (MCA)</li> <li>Ares Enhanced Credit Opportunites Master Fund II, LTD (MCA)</li> <li>Birch Grove Credit Strategies Fund</li> <li>Corrum Capital Global Credit Opportunities Fund</li> <li>Corrum Capital GCO Co-Invest Fund</li> <li>StateStreet Global Advisors Short Term Treasury Strategy SMA</li> <li>Zais Group SMA</li> <li>Zais Opportunity Fund, LTD</li> <li>Zais Zephyr A-6, LP</li> </ul>
--	--

### Portfolio Role

These assets are credit and income focused and are one part of the collateral for the SBCERA overlay program to implement the broader asset allocation.

## Describe our Portfolio – Cash

---

Cash 2%

Cash (2%)

State Street Short Term Investment Fund

### Portfolio Role

Cash has operational value to facilitate transactions, and allows SBCERA to be a liquidity provider when assets become priced more attractively.

# Describe our Approach

---

We are opportunistic value-oriented investors

- Prefer investments where investment returns are derived more from cash flow rather than market price change
- Assets have a portfolio wide opportunity cost and are not evaluated only in relation to a specific asset class
- Work with managers on best ideas to allow us to size positions for a \$10b pension plan
- Focus on assets versus funds

# Describe our Approach

---

We prefer broad investment platforms

- Collaborative, hands-on relationship for asset-level discussion
- Allow for tactical allocation of capital between and among strategies
- Senior-level, whole platform focused portfolio manager is necessary
- Ensure alignment of interest through a unified fee structure, based on invested capital, with a hurdle aligned to the plan's assumed rate

# Describe our Approach

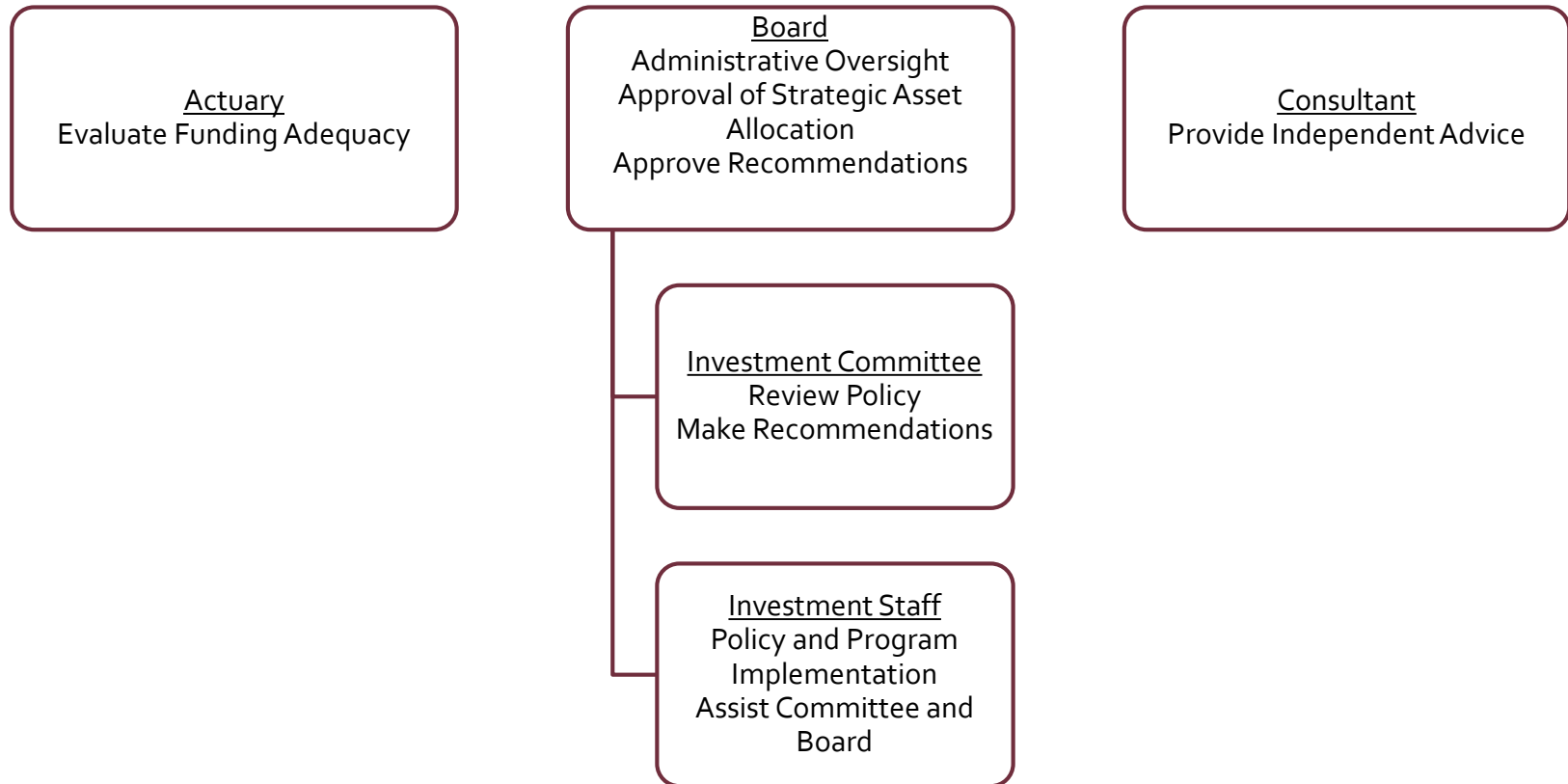
---

## Fiduciary relationship

- Manager recommends investments
- Single fee and master account level terms for better alignment of interest
- Transparency is absolutely required: SBCERA engages a CPA firm for operational due diligence, fee and expense review, and contractual compliance
- Engage a single investment consultant to reinforce a total plan focus

# Describe our Approach - Governance

---



# Compare and Contrast

---

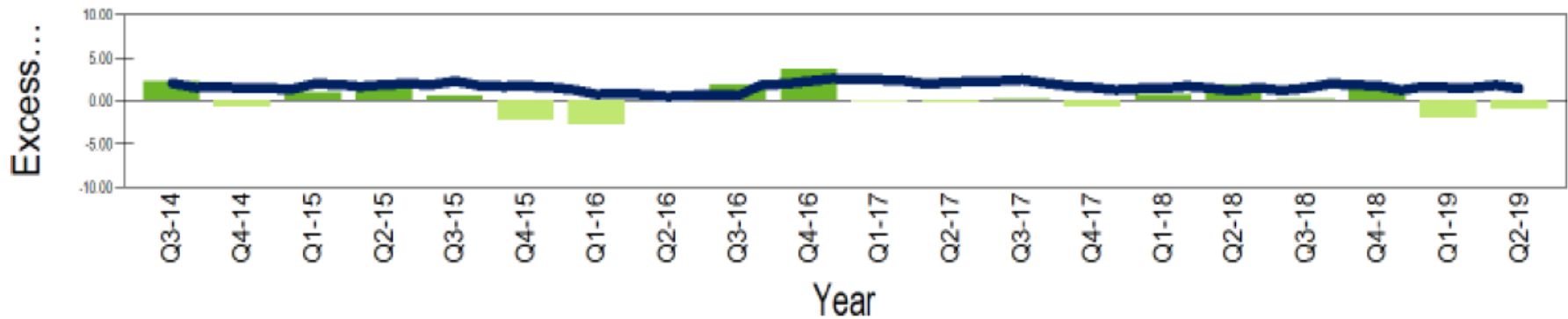
## SBCERA – Principles

- We are opportunistic value-oriented investors
  - Focus more on income, and less on price change as return driver
    - Realized gains and income are worth more than unrealized gains and accrued income
    - Relying on Mr. Market for liquidity is added risk; being a forced seller is terrible
    - Losses hurt more than gains help
  - Concentrate to size positions for our portfolio
    - Hold small allocations until pricing improves when allocations can meaningfully increase
  - Cash has option value
  - All assets must compete for an allocation
    - The value of an asset is the present value of future cash flows, hence what you pay for the asset determines your outcome
    - Diversification is the least compelling reason to invest in an asset

# Compare and Contrast - Performance

	Market Value	3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	10 Yrs	Rank
<b>Total Fund</b>	<b>\$10,459,614,886</b>	<b>2.3%</b>	<b>84</b>	<b>7.2%</b>	<b>99</b>	<b>5.1%</b>	<b>53</b>	<b>9.2%</b>	<b>33</b>	<b>6.2%</b>	<b>36</b>	<b>8.9%</b>	<b>71</b>
<i>Policy Index</i>		3.3%	20	10.3%	58	6.2%	26	7.0%	95	4.9%	94	8.0%	93
<i>S&amp;P 500</i>		4.3%	1	18.5%	1	10.4%	1	14.2%	1	10.7%	1	14.7%	1
<i>BBgBarc US Aggregate TR</i>		3.1%	32	6.1%	99	7.9%	5	2.3%	99	2.9%	99	3.9%	99
<i>60% MSCI ACWI (Net) / 40% FTSE WGBI</i>		3.7%	9	12.0%	21	6.0%	27	7.4%	94	4.2%	97	7.1%	95
<i>InvMetrics Public DB &gt; \$1B Gross Median</i>		2.7%		10.5%		5.2%		9.0%		6.0%		9.2%	

## Rolling 5 Year Annualized Excess Return



# Compare and Contrast – Risk Adjusted Performance

3 Years Ending June 30, 2019				
	Sharpe Ratio	Sharpe Ratio Rank	Sortino Ratio	Sortino Ratio Rank
Total Fund	2.3	1	3.0	1
InvMetrics Public DB > \$1B Gross Median	1.2	--	1.6	--

5 Years Ending June 30, 2019				
	Sharpe Ratio	Sharpe Ratio Rank	Sortino Ratio	Sortino Ratio Rank
Total Fund	1.4	1	2.5	1
InvMetrics Public DB > \$1B Gross Median	0.7	--	1.2	--

Statistics Summary				
8 Years 6 Months Ending June 30, 2019				
	Sharpe Ratio	Sharpe Ratio Rank	Sortino Ratio	Sortino Ratio Rank
Total Fund	1.8	1	2.4	1
InvMetrics Public DB > \$1B Gross Median	1.0	--	1.4	--

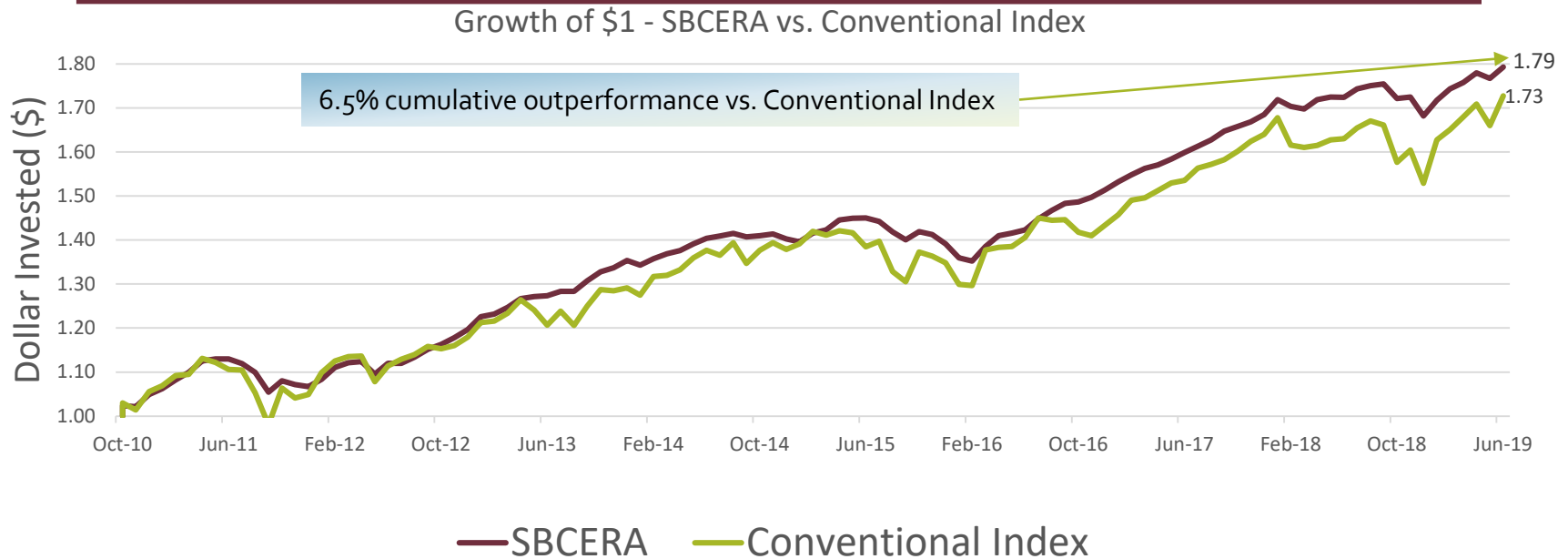
# Compare and Contrast – Fiscal Years

Total Fund vs. InvMetrics Public DB > \$1B Gross



	Return (Rank)											
5th Percentile	7.8		10.3		15.3		2.8		4.8		19.4	
25th Percentile	6.2		9.4		14.0		1.4		3.9		17.8	
Median	5.2		8.7		12.9		0.3		3.2		16.7	
75th Percentile	4.2		8.0		11.9		-0.6		2.3		15.4	
95th Percentile	3.6		6.8		9.1		-2.1		0.6		13.9	
# of Portfolios	26		62		108		91		92		65	
• Total Fund	5.1	(53)	9.0	(38)	13.7	(29)	-0.6	(77)	4.6	(7)	11.8	(99)
▲ Policy Index	6.2	(26)	6.9	(94)	8.0	(97)	3.4	(3)	0.0	(97)	14.4	(87)
◆ 60% MSCI ACWI (Net) / 40% FTSE WGBI	6.0	(27)	7.2	(90)	9.1	(95)	2.3	(11)	-3.2	(99)	16.4	(58)

# Compare and Contrast - Performance



10/1/2010 - 6/30/2019					
	Return	Sharpe Ratio	Sharpe Ratio Rank	Sortino Ratio	Sortino Ratio Rank
SBCERA Total Fund	7.9%	1.8	1	2.4	1
Conventional Index	7.4%	0.8	88	1.2	87
SBCERA Policy Index	6.5%	1.0	51	1.6	22
InvestorForce Public DB > \$1B Gross Median	7.4%	1.0	--	1.4	--

Note: Conventional index is 30% Russell 3000, 15% REIT, 15% EAFE, 10% EM Equity, 15% US TIPS, 15% US Bonds  
Growth of \$1 assumes 0.15% monthly benefit payment expense.



## Compare and Contrast – Asset Allocation: The Key Investment Decision

	Current Target	Public 60/40	Public Fund >\$1B Median
<b>Cash</b>	<b>2%</b>	<b>0%</b>	<b>2%</b>
US Equities	13%	33%	27%
Int'l Equities (Unhedged)	15%	27%	23%
Private Equity	16%	0%	10%
<b>Total Equity</b>	<b>44%</b>	<b>60%</b>	<b>60%</b>
US Core Bonds	2%	40%	20%
Non-US Bonds	1%	0%	4%
US Credit*	13%	0%	0%
Non- US Credit*	11%	0%	0%
Emerging Market Debt	8%	0%	1%
<b>Total Fixed Income</b>	<b>35%</b>	<b>40%</b>	<b>25%</b>
Real Assets (Liquid)	0%	0%	2%
Core Real Estate	4%	0%	7%
Non-Core Real Estate*	4%	0%	0%
Private Real Assets - Energy/Metals	5%	0%	0%
<b>Total Real Assets</b>	<b>12%</b>	<b>0%</b>	<b>9%</b>
Absolute Return	7%	0%	4%

<b>Expected Return 5-7 yrs</b>	<b>7.8%</b>	<b>5.7%</b>	<b>6.3%</b>
<b>Expected Return 30 yrs</b>	<b>8.6%</b>	<b>7.0%</b>	<b>7.5%</b>
<b>Standard Dev Accounting</b>	<b>11.0%</b>	<b>10.9%</b>	<b>12.2%</b>
<b>Sharpe Ratio (5-7 years)</b>	<b>0.39</b>	<b>0.29</b>	<b>0.31</b>
<b>Sharpe Ratio (30 years)</b>	<b>0.42</b>	<b>0.36</b>	<b>0.37</b>

<b>Probability of 1-Year Return Under 0%</b>	<b>28.1%</b>	<b>30.1%</b>	<b>30.2%</b>
<b>Probability of 6-Year Return Under 0%</b>	<b>7.8%</b>	<b>10.1%</b>	<b>10.2%</b>
<b>Probability of 6-Year Return Under 7.25%</b>	<b>46.1%</b>	<b>63.5%</b>	<b>57.4%</b>
<b>Probability of 30-Year Return Under 7.25%</b>	<b>28.9%</b>	<b>55.2%</b>	<b>45.0%</b>



\* Modeled using private assets and therefore difficult to compare to median public fund. Median public fund assumes only core private real estate.

## Compare and Contrast – Asset Allocation: The Key Investment Decision

	2002	2003	2005	2007	2008	2009	2010	2012	2013	2014	2017	2019
Domestic Equity	43%	33%	32%	29%	20%	10%	11%	13%	13%	13%	13%	13%
International Equity	18%	13%	13%	14%	11%	7%	7%	8%	9%	9%	9%	9%
Emerging Market Equity		3%	3%	4%	4%	3%	4%	5%	6%	6%	6%	6%
Private Equity		6%	6%	9%	12%	16%	16%	16%	16%	16%	16%	16%
<b>Total Equity</b>	<b>61%</b>	<b>55%</b>	<b>54%</b>	<b>56%</b>	<b>47%</b>	<b>36%</b>	<b>38%</b>	<b>42%</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>
Domestic Fixed	28%	17%	14%	10%	8%	8%	6%	3%	2%	2%	2%	2%
Domestic Credit		8%	8%	4%	8%	13%	13%	14%	13%	13%	13%	13%
International Core/Credit	5%	5%	5%	3%	8%	9%	10%	10%	11%	12%	12%	12%
Emerging Market Debt		2%	2%	4%	4%	4%	6%	6%	6%	6%	6%	8%
Cash					2%	2%	2%	2%	2%	2%	2%	2%
<b>Total Debt</b>	<b>33%</b>	<b>32%</b>	<b>29%</b>	<b>21%</b>	<b>30%</b>	<b>36%</b>	<b>37%</b>	<b>35%</b>	<b>34%</b>	<b>35%</b>	<b>35%</b>	<b>37%</b>
Real Estate	6%	8%	8%	8%	8%	10%	9%	9%	9%	9%	9%	7%
Timber			2%	4%	3%	3%	3.5%	3%	3%	2%	2%	2%
Infrastructure & Energy				2%	2%	2%	2%	1%	1%	1%	1%	1%
Commodities				2%	3%	3%	3.5%	3%	2%	2%	2%	2%
<b>Total Real Assets</b>	<b>6%</b>	<b>8%</b>	<b>10%</b>	<b>16%</b>	<b>16%</b>	<b>18%</b>	<b>18%</b>	<b>16%</b>	<b>15%</b>	<b>14%</b>	<b>14%</b>	<b>12%</b>
Absolute Return		5%	7%	7%	7%	10%	7%	7%	7%	7%	7%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>