



INVESTMENT COMMITTEE

Staff Report

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FROM: Don Pierce, Chief Investment Officer

SUBJECT: Asset Allocation: 2021 Capital Markets Outlook and Asset-Liability Modeling Process.

RECOMMENDATION:

Asset Allocation: NEPC's 2021 Capital Markets Outlook and Asset-Liability Modeling Process.

BACKGROUND:

Each year, NEPC updates their expected return estimates for various asset classes. We take the opportunity to review their findings with the SBCERA Investment Committee and Board. This preliminary report details the current SBCERA policy portfolio under the new asset class expectations and provides comparative portfolios for benchmarking purposes. While SBCERA reviews the asset allocation each year, the asset allocation does not necessarily change each year.

The 2021 preliminary NEPC report indicates the current asset allocation does not meet the Board approved 7.25% funding rate over the next 10-year period, while it still meets expectations over the 30-year horizon. As a result, the Staff currently anticipates reviewing potential changes to the asset allocation for 2021-22. This year, we also are including an asset-liability study, which today's material covers in more detail.

As a reminder, the last change to the asset allocation occurred in 2018, which reduced the strategic allocation to Real Estate in favor of Emerging Market Debt (EMD).

NEPC and staff will discuss this preliminary report and the implications for SBCERA. The Investment Committee and the Board will review this material several more times before a final asset allocation is considered for adoption by July 2021.

BUDGET IMPACT:

None.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Don Pierce

ATTACHMENTS:

Exhibit A: 2021 Asset Class Assumptions