



BOARD OF RETIREMENT

Staff Report

File #: 22-101.1

Agenda Date: 5/5/2022

Agenda #: 21.

FROM: Don Pierce, Chief Investment Officer

SUBJECT: Informational: 2022 Preliminary Asset Allocation Review & Capital Market Assumptions

RECOMMENDATION:

2022 Preliminary Asset Allocation Review & Capital Market Assumptions.

BACKGROUND:

Each year, NEPC updates their expected return estimates for various asset classes. Staff then reviews their findings with the SBCERA Investment Committee and the Board as part of the annual Asset Allocation review and update. This year, the review is combined with a refresher on the underlying financial theory for asset allocation and the presentation reviews how each of the core elements that make up the Asset Allocation model are developed.

This year, Staff and NEPC are recommending changes to the Asset Allocation based on challenges to the global economy. With inflation flaring and an ongoing dislocation of global supply chains, we recommend an allocation to favor those that are suppliers of resources (the United States), with a reduction in those who are short natural resources (e.g. Europe and Japan). Consequently, we are recommending an increase to U.S. Equity at the expense of Europe and Japan. We are also recommending a shift from Emerging Market Debt to Emerging Market Equity to participate in the overall pricing power of resource providers. The specific details of the recommendations are encapsulated on Slide 35 of the presentation.

NEPC and staff will present this preliminary asset liability report and with guidance from the Investment Committee, prepare the final recommendation to be presented to the Investment Committee at its June 2022 meeting. The Asset Allocation would then be brought before the full Board for consideration and adoption at its July 2022 meeting.

COMMITTEE REVIEW:

This item was reviewed by the Investment Committee at its April 14, 2022 meeting.

BUDGET IMPACT:

None.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Don Pierce

ATTACHMENTS:

Exhibit A: NEPC 2022 Preliminary Asset Allocation & Capital Market Assumptions