



# INVESTMENT COMMITTEE

## Staff Report

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**File #:** 22-197

**Agenda Date:** 6/9/2022

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**FROM:** Don Pierce, Chief Investment Officer

**SUBJECT:** 2022 Asset Allocation Review

**RECOMMENDATION:**

Recommend that the Board approve the 2022 Asset Allocation Review.

**BACKGROUND:**

Each year, NEPC updates their expected return estimates for various asset classes. Staff then reviews their findings with the SBCERA Investment Committee and Board. This year, the Investment Committee and the Board had presentations related to asset allocation in March and April 2022. This final presentation to the Investment Committee and Board reflects feedback we have received from the respective Committee and Board, as well as internal discussions with SBCERA Staff and NEPC.

Each alternative asset mix has a few common themes: first each mix attempts to address a world where supply chains are realigned due to macro political factors and a deglobalization trend away from China. Moreover, each mix attempts to focus on resource rich countries and lean away from net commodity importers. As a result, both asset mixes reduce international developed market equity (Europe and Japan) in favor of US equity. The second theme is more operational. It is a realization that the investment manager implementation of emerging market debt has resulted in chronically more price change and less income than we expect. As a result, we propose shifting this allocation away from emerging market debt and into more upside participating equity: either more to US equity, or an increase to emerging market equity.

The resulting staff and consultant recommendation involves an increase into US Equity from international developed market equity and emerging market debt. Given these two asset classes have demonstrated significant price change return drivers, we do not believe this shift to US equity meaningfully alters our risk posture from an income vs price change return driver perspective.

**BUDGET IMPACT:**

None.

**STRATEGIC PLANNING GOAL/OBJECTIVE:**

Prudent Fiscal Management

**STAFF CONTACT:**

Don Pierce

**ATTACHMENTS:**

Exhibit A: NEPC 2022 Asset Allocation Review