

Semi-Annual Investment Performance Summary

PERFORMANCE PULSE

June 2023



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INTRODUCTION

The Performance Pulse is a semi-annual summary of SamCERA's investment performance answering key questions to explain the performance of the fund, where the fund was invested and any significant updates or changes.

THE KEY QUESTIONS

1

How Did We Do?

Learn about SamCERA's total fund performance and how it compares to the policy benchmark.

2

Where Did We Invest?

Discover where the fund was invested. Compare the market value and allocation percentages for the current period and the prior period.

3

What Did We Do?

Explore details about updates to policies and any changes to the fund that occurred during the current period.

HOW DID WE DO?

Table One shows SamCERA's total fund performance over various trailing time periods. As seen in the table, the portfolio returned 5.1% net of investment manager fees for the fiscal year ended June 30, 2023, underperforming SamCERA's policy benchmark return of 6.5% by 1.4%. This fiscal-year performance resulted in below median performance relative to SamCERA's peers, as defined by large (greater than \$1 billion in assets) public plans.

TABLE ONE: SAMCERA TOTAL FUND NET PERFORMANCE CHARACTERISTICS
ENDING JUNE 30, 2023

| | 1 Year | 3 Years | 5 Years | 10 Years |
|--|--------|---------|---------|----------|
| SamCERA Return | 5.1% | 7.7% | 5.7% | 6.8% |
| Benchmark Return | 6.5% | 7.9% | 6.4% | 7.3% |
| Excess Return | (1.4%) | (0.2%) | (0.7%) | (0.5%) |
| Peer Rank Return (Percentile) | 94th | 68th | 69th | 53rd |
| SamCERA Risk (Std Dev) | 8.5 | 7.7 | 8.8 | 7.5 |
| Benchmark Risk (Std Dev) | 10.5 | 8.8 | 9.2 | 7.9 |
| Peer Median Risk (Std Dev) | 10.4 | 9.7 | 10.5 | 8.5 |
| SamCERA Sharpe Ratio | 0.2 | 0.8 | 0.5 | 0.8 |
| Benchmark Sharpe Ratio | 0.3 | 0.8 | 0.6 | 0.8 |
| Peer Median Sharpe Ratio | 0.4 | 0.7 | 0.5 | 0.7 |

RETURN/RISK MEASURE

SamCERA also looks at “risk-adjusted” returns to compare how much return was received given the risk (measured by standard deviation of returns) taken to achieve that return. This is typically measured by the Sharpe Ratio. The higher the ratio, the better, as it measures the return provided per unit of risk taken. For example, if a fund has a lower return than the benchmark but also a much lower risk level (as measured by standard deviation of returns), it may result in a higher risk-adjusted outcome. Conversely, if a fund has a higher return but also takes higher than commensurate risk than the benchmark, then its risk-adjusted return may be lower than that of the benchmark.

SamCERA’s portfolio has lower returns than its policy benchmark over all historical periods. However, consistent with its risk-based approach, SamCERA’s portfolio also exhibited lower risk levels to its policy benchmark (and the median plan) over all historical periods. Taken together, the more significant underperformance over the past one and five-year periods resulted in lower risk-adjusted returns, while the slightly lower returns over the three and ten-year periods result in similar risk-adjusted returns. Relative to the median plan, the portfolio had a lower risk-adjusted return over the past year, similar risk-adjusted returns over the past five years, and higher risk-adjusted returns over the past three and ten-year periods.

Table Two shows performance for each of SamCERA’s four primary composites. Two of the four composites had positive returns for the fiscal year. Growth was the best performing composite and returned 10.2%, while Inflation Hedge returned -2.4% and was the lowest returning composite. Liquidity returned 3.1%, while Diversifying returned -1.4%.

Two of the composites had positive relative returns compared to their respective benchmark, with Inflation Hedge outperforming by 3.1% (even though it was our lowest returning composite on an absolute basis). Liquidity outperformed by 1.6%, while Diversifying underperformed by 3.5% and Growth underperformed by 2.3%.

**TABLE TWO: SAMCERA COMPOSITE NET PERFORMANCE FOR TRAILING YEAR
ENDING JUNE 30, 2023**

| Composite | Composite Return | Benchmark Return | Excess Return |
|------------------|-------------------------|-------------------------|----------------------|
| Growth | 10.2% | 12.5% | -2.3% |
| Diversifying | -1.4% | 2.1% | -3.5% |
| Inflation Hedge | -2.4% | -5.5% | 3.1% |
| Liquidity | 3.1% | 1.5% | 1.6% |

WHERE DID WE INVEST?

In this section we show where the fund is invested, displaying both the market value and resulting allocation percentages for the current period end as well as six months ago. The allocation percentages include exposures from SamCERA's cash overlay program. Table Three shows that SamCERA's total market value was \$5.990 billion as of June 30, 2023, an increase of \$305 million from December 31, 2022. The portfolio changes shown below are the result of SamCERA implementing a new asset allocation policy that the Board approved in February 2023 (more information below).

TABLE THREE: SAMCERA ASSET ALLOCATION COMPARISON

| | 6/30/2023 | | 12/31/2022 | | Change in % |
|-----------------|--------------------|----------------|--------------------|----------------|-------------|
| | Market Value (\$m) | Allocation (%) | Market Value (\$m) | Allocation (%) | |
| Growth | 3,483.2 | 58.1 | 3,211.6 | 56.5 | +1.6 |
| Diversifying | 1,070.1 | 17.9 | 1,077.6 | 18.9 | -1.0 |
| Inflation Hedge | 1,019.0 | 17.0 | 1,062.0 | 18.7 | -1.7 |
| Liquidity | 418.0 | 7.0 | 334.1 | 5.9 | +1.1 |
| Total | 5,990.3 | | 5,685.3 | | |

WHAT DID WE DO?

During the period SamCERA completed an asset liability study. As part of this project, the Board approved a new asset allocation policy portfolio. The new policy increases Growth assets by 2%, with a corresponding 1% decrease to both Diversifying and Inflation Hedge assets. In addition, at the sub-asset class level there are two additional changes to the policy:

1. Within domestic equity, the low volatility allocation was reduced in half from 8% to 4% within the Growth composite.
2. Within defensive fixed income, a new 3% exposure of long-term treasuries was added to the Diversifying composite with a corresponding decrease in core fixed income.

The interim policy is effective July 1, 2023. The long-term strategic asset allocation policy will include a 1% increase to Private Equity (funded from public equity), which will take multiple quarters to reach the target.

SAMCERA INTERIM ASSET ALLOCATION POLICY

| | Current Policy | New Interim Policy |
|-------------------------|----------------|--------------------|
| GROWTH | 57% | 59% |
| Domestic Equity | 21% | 23% |
| International Equity | 19% | 18% |
| Private Equity | 7% | 7% |
| Opportunistic Credit | 10% | 11% |
| DIVERSIFYING | 19.5% | 18.5% |
| Defensive Fixed | 12.5% | 12.5% |
| Absolute Return | 7% | 6% |
| INFLATION HEDGE | 18% | 17% |
| Public Real Assets | 4% | 3% |
| Real Estate | 9% | 9% |
| Private Real Assets | 5% | 5% |
| LIQUIDITY | 5.5% | 5.5% |
| Cash Flow Matched | 4.5% | 4.5% |
| Cash & Cash Equivalents | 1% | 1% |

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