

SBCERS

Santa Barbara County Employees' Retirement System

DATE: April 24, 2024
TO: SBCERS BOARD OF RETIREMENT
FROM: SBCERS Investment Staff
RE: **2024 Capital Markets Assumptions and Asset Allocation Review**

Recommendation

That the Board of Retirement receive and file the 2024 Capital Market Expectations report and Asset Allocation study presented by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc.

Summary

The presentation covers RVK's 2024 Capital Market Assumptions (CMAs) before moving into Asset Allocation. Each year, RVK's general consulting and research teams collaborate to review the capital markets environment and update long-term, forward-looking CMAs for each investable asset class. Assumptions on return, risk (volatility of returns), and correlation (relationship of asset class returns with all other asset classes) are reviewed using a long-term time horizon of over 10+ years. These return assumptions are index based, net of fees, and assume no manager alpha.

RVK's 2024 inflation assumption remained the same from 2023 at 2.50% and took into consideration near term inflationary pressures while accounting for longer-term deflationary pressures created by persistent budget deficits, increasing debt and changing demographics. Equity return assumptions decreased given increased valuation levels and lower dividends yields following the significant performance of 2023. Fixed income assumptions remained unchanged.

The projected Nominal Returns both Geometric and Arithmetic were 6.59 and 7.10, respectively for the 2023 Capital Market Assumptions. 2024 Capital Market Assumptions now reflect projected Nominal Geometric and Arithmetic returns of 6.47 and 7.00, respectively.

The Asset Allocation process models specific targets to asset classes and is used to select the overall target allocation. Asset allocation is among the most important investment decisions fiduciaries make and is the key determinant of total fund performance in the long run.

Asset Allocation relies on several return and risk assumptions for each Asset Class. This presentation focuses on summary results for Nominal Geometric Return, Standard Deviation, Nominal Arithmetic Return, Return/Risk Ratio and RVK's proprietary liquidity metric. Return and risk metrics are used to perform a Monte Carlo analysis of Expected Compound Return by Percentile, Expected Gain/Loss by Percentile and Percentage Chance of Achieving Target Return. Based on this analysis, RVK recommends leaving the current Asset Allocation unchanged.

Attachments

- SBCERS CMA Asset Allocation Review