



# Santa Barbara County Employees' Retirement System (SBCERS)

Board Meeting

**January 22, 2025**

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# Firm & Overlay Overview

# Overlay Solutions at Parametric

We offer a *comprehensive platform of solutions* engineered by our team of derivative investment experts, built to help solve evolving investor challenges, such as the overlay objectives of SBCERS

## Efficiency Solutions

Core overlay solutions focused on **cash equitization, portfolio rebalancing, and transition management**

## Exposure Solutions

Advanced overlay solutions including portfolio completion, portable alpha, and hedging

## Cross Asset Portfolio Solutions

A full beta management toolkit and investment team focused on outsourced implementation and exposure management

With access to dynamic, wide-ranging instruments:

Futures

Options

Swaps

ETFs

Equities

Fixed Income

## Why we are an Overlay Leader

### Experience

**35+**

*years managing overlay programs*

### Scale

**\$155B**

*in overlay assets under management*

### Execution

**\$1T+**

*in exposure value traded annually on behalf of clients<sup>1</sup>*

### '37 Act Clients

**12**



*'37 Act County Peers that are Parametric Overlay Clients*

Data as of September 30, 2024.

<sup>1</sup> Trade statistic includes physical and derivative instruments traded on behalf of Overlay Solutions clients.

<sup>2</sup> Average annual client retention for the most recent 5-year period.

# Dedicated SBCERS Team

Our high-touch client service and relationship experience is a key differentiator for Parametric. As a Parametric overlay client, SBCERS will have direct access to the following dedicated team:

## Investment Leadership

**Tom Lee, CFA**  
*Co-President, Chief Investment Officer*

**Richard Fong, CFA**  
*Managing Director, Co-Head of Overlay Solutions*

**Clint Talmo, CFA**  
*Managing Director, Co-Head of Overlay Solutions*

## SBCERS Overlay Team

**Sylvia Horstmann, CFA**  
*Executive Director, Overlay Solutions*

**Dan Wamre, CFA**  
*Executive Director, Overlay Solutions*

**Heather Wolf, CFA**  
*Portfolio Manager*

**Jacob Christina, CFA**  
*Associate Portfolio Manager*

**Moises Sanchez Garcia**  
*Associate Portfolio Manager*

## Research

**Ben Hood, PhD**  
*Managing Director, Derivatives Research*

**Patrick Persons**  
*Senior Researcher*

**Vathana To**  
*Associate Quantitative Analyst*

## SBCERS Relationship Management Team

**Dan Ryan**  
*Executive Director, Institutional Relationship Management*

**Laura Loizeaux**  
*Relationship Management Associate*

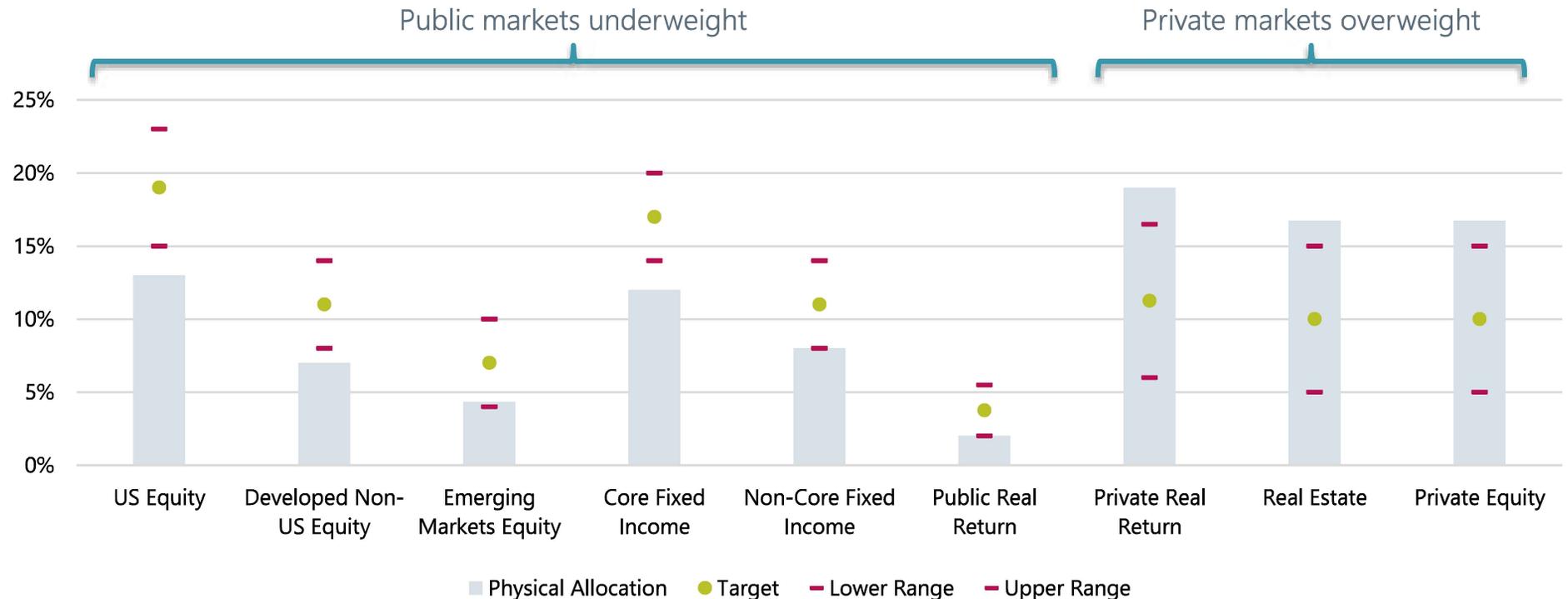
**Jesse Cauble**  
*Executive Director, Institutional Relationships*

# Scenario Response

# SBCERS Illustrative Scenario Overview

## Parametric was provided the following illustrative scenario for analysis:

- > To meet required cash distributions, SBCERS must raise \$25 million
- > Due to a major market dislocation event, SBCERS portfolio asset classes are outside of rebalancing ranges and therefore SBCERS desires to rebalance to the extent possible



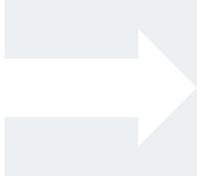
For illustrative purposes only. Data provided by SBCERS and RVK. There is no assurance that the investment objectives and intended benefits will be achieved. Investing in an overlay strategy involves risk. All investments are subject to loss.

# SBCERS Scenario Observations

Key observations in reviewing this illustrative scenario include:

## Liquidity challenges

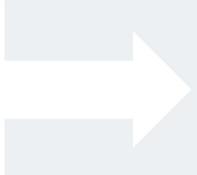
Selling public markets exposures at depressed levels is undesirable and private markets overweight is exacerbating portfolio illiquidity.



*Source most liquid markets* for cash while maintaining exposure with futures.

## Basis risk

Futures instruments are generally available for most public markets exposure but are essentially nonexistent for private markets.



Select futures that are *reasonable proxies* for the asset class or exposure to be hedged.

## Denominator effect

Magnitude of public markets stress and *stale valuation* of private investments is causing distortion in the asset allocations relative to target.



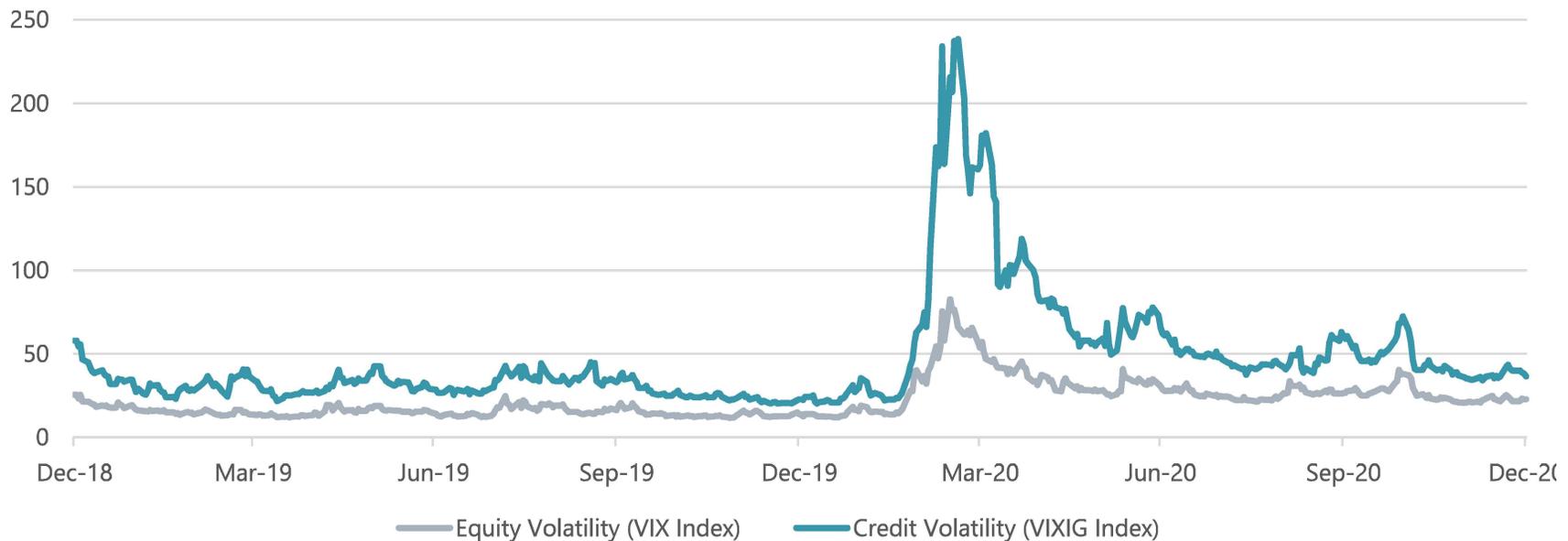
*Exercise restraint* in potentially over-correcting for transient valuation discrepancies.

There is no assurance that the investment objectives and intended benefits will be achieved. Investing in an overlay strategy involves risk. All investments are subject to loss. Please refer to the Risks and other Disclosures in the Appendices for further information.

# SBCERS Liquidity Challenges & Raising Cash

Parametric recommends *raising cash from US Equity*. Despite being underweight, equities are typically the most liquid and cost-effective asset class during market dislocations.

- > Volatility levels can be an indicator of transaction costs.
- > During times of market stress, fixed income has historically exhibited heightened volatility relative to equities, making it unfavorable to transact in.



For illustrative purposes only. It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses.

Source: Bloomberg; Date: Nov 30, 2024.

# Tackling Rebalancing with an Overlay

When considering severe market dislocations and the desire to rebalance a portfolio, there are a number of factors to consider to build the most cohesive rebalancing methodology.

<b><i>Treatment of Private Assets</i></b>	<b><i>Instrument Selection</i></b>	<b><i>Rebalancing Goal</i></b>
<ul style="list-style-type: none"><li>▪ Pro Rata (proportional allocation to public markets)</li><li>▪ Discretionary Mapping (group similar styles such as public and private equity)</li><li>▪ Beta Adjustments (scaling allocation best on market factors)</li><li>▪ Tactical Decisions</li></ul>	<p><i>Public markets</i> proxies are widely available:</p> <ul style="list-style-type: none"><li>▪ For example, S&amp;P 500, MSCI EAFE &amp; EM, U.S. Treasuries.</li></ul> <p><i>Private markets</i> proxies are very limited:</p> <ul style="list-style-type: none"><li>• For example, real estate futures exist but have significant limitations in tracking <i>illiquid private real estate</i>.</li></ul>	<ul style="list-style-type: none"><li>▪ Rebalance fully to target, halfway, or to bring exposure just within tolerance band levels?</li><li>▪ When considering a significant market dislocation, rebalancing just within tolerance bands may be most appropriate and least disruptive.</li></ul>

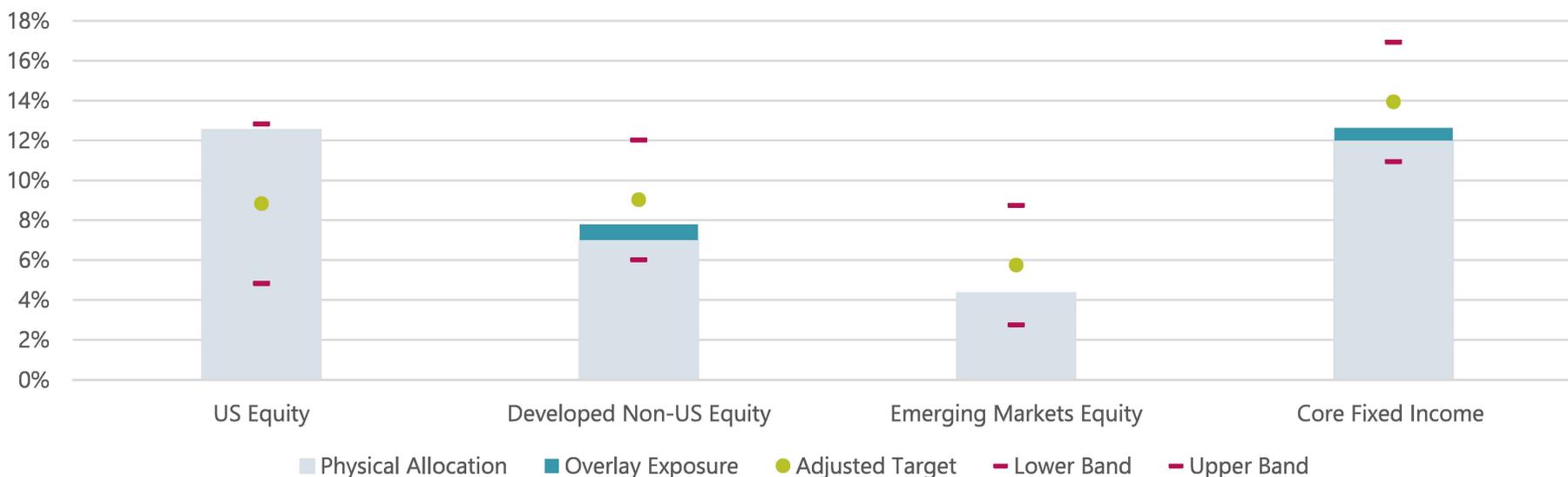
# Parametric's Rebalancing Recommendation

Utilize *adjusted targets* for public markets based on private markets overweights:

- > Allocate Private Equity → US Equity
- > Allocate Non-Core Fixed Income, Real Return, and Real Estate → *pro rata*

Parametric would overlay \$75mm cash proportionally across Developed Non-US Equity (MSCI EAFE futures) and Core Fixed Income (US Treasury futures).

Result: Public markets asset classes are within adjusted tolerance levels.



For illustrative purposes only. Based on data provided by SBCERS and RVK and potential overlay rebalancing framework by Parametric. There is no assurance that the investment objectives and intended benefits will be achieved. Investing in an overlay strategy involves risk. All investments are subject to loss.

# Caveats for the Proposed Rebalancing Framework

There is not a “one-size-fits-all” rebalancing solution.

Important differences for each market event may arise, leading to different conclusions.

- > Public markets may react differently from each other during market stress
  - ❑ For example, during the GFC and initially during COVID-19, a more sizeable rebalance between equities and fixed income may be warranted.
  
- > Makeup of private markets may lead to different treatment for adjusted targets
  - ❑ For example, mapping of private equity may be more appropriate across global markets, rather than US equity alone.
  
- > Ability to receive off-cycle valuations from private markets managers would offset some of the denominator effect
  - ❑ For example, intra-quarter estimates of private markets may alter the overlay rebalancing positions.

# Gameplan Following Market Dislocation

The focus amidst severe market dislocations is damage control.

In the context of overlay rebalancing, key pillars are to *maintain adequate liquidity, limit basis risk, and manage the denominator effect*.

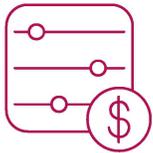
As such, when market stress subsides, it is important to revisit portfolio rebalancing and liquidity needs:

- > Reevaluate whether private markets balances have been updated to reflect a more accurate depiction of the overall asset allocation (reversing denominator effect).
- > Review synthetic positions and determine if they can be unwound to allow for physical rebalancing.
- > Review cash balances and determine if liquidity sources are still adequate.

# The Parametric Advantage

Creativity in solving client challenges. Unparalleled, diligent execution in doing so.

## Why Clients Continue to Choose Parametric:



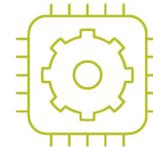
### Customization

Each overlay solution is wholly-tailored to the unique needs of the client.



### Engagement

Our investment and client service team members have consistent, two-way communication with our clients.



### Technology

We continuously refine our proprietary systems to seamlessly fit and evolve with our clients.



### Transparency

We provide detailed, timely exposure and performance reporting day in and day out.

# Appendix

# Tackling Rebalancing: Available Instruments

Asset Class	SBCERS Benchmark	Available Futures Exposure	Additional Considerations
US Equity	Russell 3000 Index	Optimized futures basket: S&P 500, S&P MidCap 400, Russell 2000	
Developed Non-US Equity	MSCI EAFE Index (USD) (Net)	MSCI EAFE	
Emerging Markets Equity	MSCI Emerging Markets Index (USD) (Net)	MSCI EM	Contract has minimal tracking error to benchmark. May be appropriate for long exposure, but perhaps less for hedging underlying portfolio.
Core Fixed Income	Bloomberg US Agg Bond Index	US Treasury futures (duration-matched)	Includes interest rate exposure only (excludes credit) which may result in increased tracking error.
Non-Core Fixed Income	Custom Non-Core FI Benchmark	N/A	EMD and HY CDX trade similarly to futures but would exhibit significant tracking error.
Public Real Return	CPI + 4%	N/A	
Private Real Return	Custom Real Return Benchmark	N/A	
Real Estate	NCREIF ODCE Index (AWA) (Net) (1 Qtr Lag)	Dow Jones Real Estate	May be appropriate depending on the underlying portfolio and market conditions.
Private Equity	Russell 3000 + 3% (1 Qtr Lag)	N/A	

For illustrative purposes only. The information presented represents how the investment team generally applies its investment process under normal market conditions.

# Scenario Asset Allocation

Asset Class	Allocation (%)	Target (%)	Lower Range (%)	Upper Range (%)	Deviation (%)
US Equity	13.00%	19%	15%	23%	-6%
Developed Non-US Equity	7.00%	11%	8%	14%	-4%
Emerging Markets Equity	4.33%	7%	4%	10%	-3%
Core Fixed Income	12.00%	17%	14%	20%	-5%
Non-Core Fixed Income	8.00%	11%	8%	14%	-3%
Public Real Return	2.00%	4%	2%	6%	-2%
Private Real Return	19.00%	11%	6%	17%	8%
Real Estate	16.75%	10%	5%	15%	7%
Private Equity	16.75%	10%	5%	15%	7%
Cash	0.94%	0%	0%	2%	1%
Transition Account (Illiquid Assets)	0.03%	0%	0%	0%	0%
SBCERS Headquarters	0.20%	0%	0%	0%	0%

# Disclosures

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