

# Santa Barbara County Employees' Retirement System

Private Credit and General Investment Consulting Services

June 1, 2023



# RVK – Firm Introduction



# RVK Overview



Year  
founded  
**1985**



Investment  
professionals  
**113**

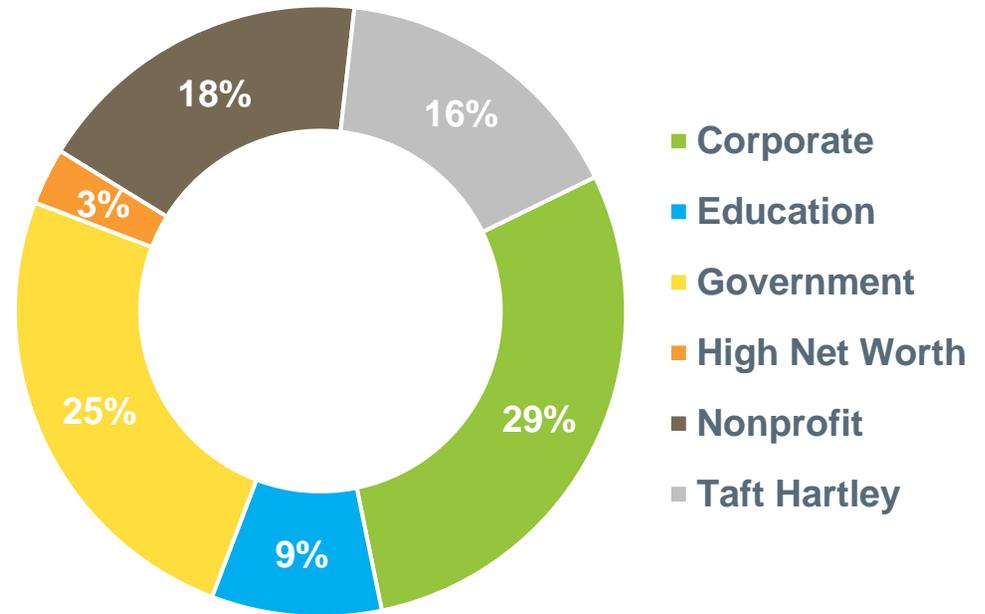


Advanced degrees  
& certifications  
**65**



Assets under  
advisement  
**\$3T**

## Accounts by Client Type (by count)



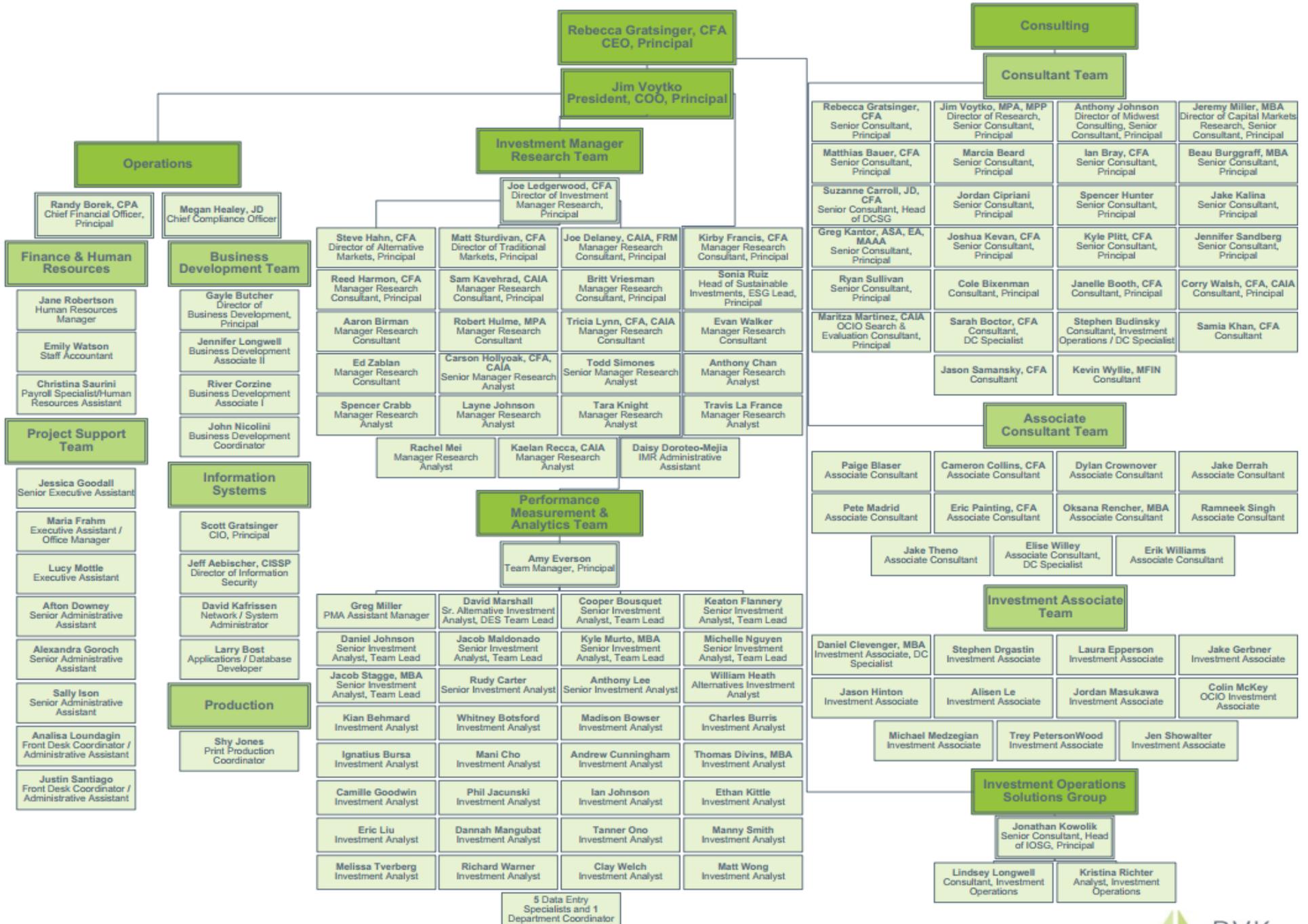
# 100%

Revenue Derived From Client Fees  
Employee Ownership  
Non-discretionary Consulting

## RVK Offices

- Portland, OR
- Boise, ID
- Chicago, IL
- New York, NY

# RVK Staff



# RVK Consulting Team



# Consulting Team Structure

A collaborative relationship keeps clients involved and informed.



# Philosophy & Approach



# RVK Consulting Philosophy

## Our Vision & Mission

To provide expert, deeply-researched investment advice and comprehensive, long-term investment solutions to clients—with the integrity and objectivity that is rooted in our longstanding no-conflicts-of-interest policy.



### ASSET ALLOCATION

The most important decision for Fund success.



### LONG-TERM OUTLOOK

Help clients maintain a long-term perspective to achieve investment objectives.



### INVESTMENT POLICY STATEMENT (IPS)

An effective IPS helps facilitate an effective long-term investment process and risk management.



### INVESTMENT MANAGER STRUCTURE

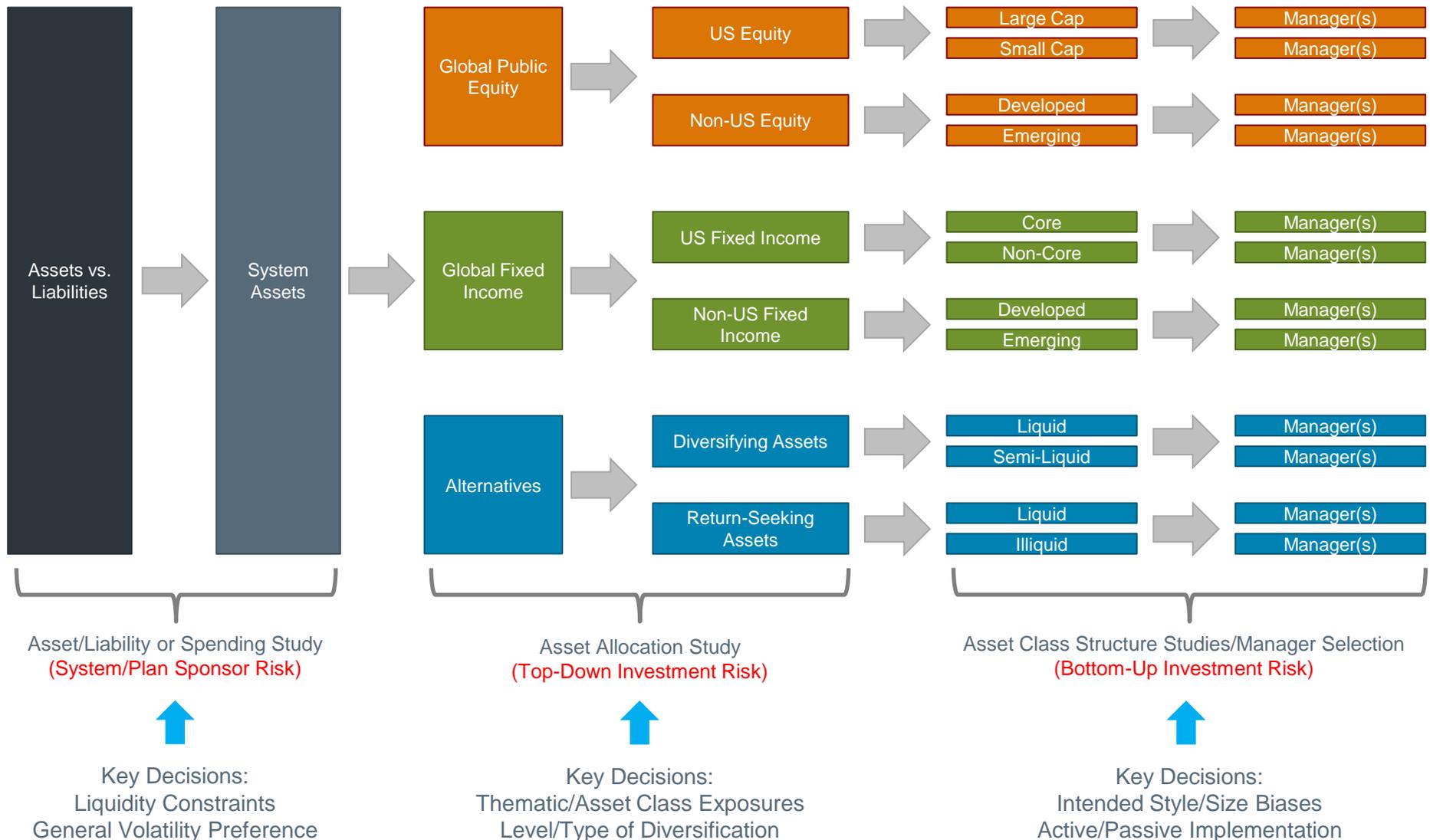
Customized manager implementation to align with strategic objectives and constraints.



### EXTENSION OF STAFF

Partner with clients to provide objective information for prudent decision making.

# Investment Decision-Making Hierarchy



# SBCERS – Asset Allocation Review



# Asset Allocation Study

## Efficient Portfolios

	Min	Max	1	2	3	4	5	6	7	8	9	10	Current Target
Broad US Equity	15	30	15	15	15	15	15	15	15	17	22	30	19
Dev'd Market Non-US Equity	10	30	10	10	10	10	10	10	10	10	13	20	11
Emerging Markets Equity	0	10	0	1	4	5	5	5	5	7	9	10	7
Core Fixed Income	10	35	35	29	26	23	20	18	15	12	10	10	17
Custom Non-Core Fixed Income	0	15	15	15	15	15	14	12	10	8	7	7	11
Custom Real Return	0	15	10	15	15	15	15	15	15	15	9	8	15
Custom Real Estate	0	15	15	15	15	15	15	15	15	15	15	0	10
Private Equity	0	15	0	0	0	2	6	10	14	15	15	15	10
Total			100	100	100	100	100	100	100	100	100	100	0
Capital Appreciation			40	41	44	47	50	52	55	58	66	82	58
Capital Preservation			35	29	26	23	20	18	15	12	10	10	17
Alpha			0	0	0	0	0	0	0	0	0	0	0
Inflation			25	30	30	30	30	30	30	30	24	8	25
<b>Expected Return</b>			<b>5.95</b>	<b>6.15</b>	<b>6.35</b>	<b>6.56</b>	<b>6.76</b>	<b>6.96</b>	<b>7.17</b>	<b>7.37</b>	<b>7.57</b>	<b>7.78</b>	<b>7.10</b>
<b>Risk (Standard Deviation)</b>			<b>6.81</b>	<b>7.29</b>	<b>7.81</b>	<b>8.37</b>	<b>9.02</b>	<b>9.70</b>	<b>10.41</b>	<b>11.19</b>	<b>12.16</b>	<b>13.99</b>	<b>10.52</b>
<b>Return (Compound)</b>			<b>5.73</b>	<b>5.90</b>	<b>6.06</b>	<b>6.23</b>	<b>6.38</b>	<b>6.52</b>	<b>6.67</b>	<b>6.79</b>	<b>6.89</b>	<b>6.88</b>	<b>6.59</b>
Return/Risk Ratio			0.87	0.84	0.81	0.78	0.75	0.72	0.69	0.66	0.62	0.56	0.67
RVK Expected Eq Beta			0.26	0.27	0.30	0.33	0.37	0.41	0.46	0.51	0.61	0.76	0.48
RVK Liquidity Metric			65	63	63	62	59	57	54	55	59	70	61

Allocations shown may not sum up to 100% exactly due to rounding.  
 Total International Equity cannot exceed Broad US Equity allocation.  
 Custom Non-Core Fixed Income cannot exceed 2/3 Core Fixed Income allocation.  
 Emerging Markets Equity cannot exceed 2/3 Developed International Equity allocation.

# Asset Allocation Study

## Monte Carlo Analysis: Percentage Chance of Achieving Target Return

Time Period	Target Return	1	2	3	4	5	6	7	8	9	10	Current Target	
1 Year	Target 0%	81	80	79	78	77	76	76	74	72	69	74	
	Target 6.25%	51	52	53	53	54	54	55	55	54	53	53	
	Target 6.5%	50	51	52	52	53	53	54	54	54	52	52	
	Target 6.75%	48	50	50	51	52	52	53	53	53	52	52	
	<b>Target 7%</b>	<b>47</b>	<b>48</b>	<b>49</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>51</b>	<b>51</b>
	Target 7.25%	46	47	48	49	50	50	51	51	51	51	51	50
3 Years	Target 0%	88	87	86	86	85	85	84	83	81	78	83	
	Target 6.25%	49	51	52	53	54	54	55	55	55	53	53	
	Target 6.5%	47	48	50	51	52	53	53	53	53	52	52	
	Target 6.75%	45	46	48	49	50	51	52	52	52	51	50	
	<b>Target 7%</b>	<b>42</b>	<b>45</b>	<b>46</b>	<b>47</b>	<b>48</b>	<b>49</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>49</b>	<b>49</b>	<b>49</b>
	Target 7.25%	40	42	44	45	47	48	49	49	49	49	48	47
5 Years	Target 0%	91	90	90	89	89	88	88	86	85	82	87	
	Target 6.25%	47	49	50	52	53	54	55	55	55	54	53	
	Target 6.5%	45	47	48	50	51	52	53	53	53	52	51	
	Target 6.75%	42	44	46	47	49	50	51	52	52	51	50	
	<b>Target 7%</b>	<b>39</b>	<b>42</b>	<b>44</b>	<b>45</b>	<b>47</b>	<b>48</b>	<b>49</b>	<b>50</b>	<b>50</b>	<b>49</b>	<b>48</b>	<b>48</b>
	Target 7.25%	36	40	42	43	45	46	47	48	49	49	48	46
10 Years	Target 0%	95	95	94	94	93	93	92	92	91	89	92	
	Target 6.25%	44	47	48	50	52	53	55	55	55	54	53	
	Target 6.5%	40	43	46	47	49	51	52	53	53	52	50	
	Target 6.75%	37	40	43	45	47	48	50	51	51	50	48	
	<b>Target 7%</b>	<b>33</b>	<b>37</b>	<b>39</b>	<b>42</b>	<b>44</b>	<b>46</b>	<b>47</b>	<b>48</b>	<b>49</b>	<b>48</b>	<b>46</b>	<b>46</b>
	Target 7.25%	30	34	36	39	41	43	45	46	47	46	43	

\*SBCERS current actuarial assumed rate of return is 7.0%

Monte Carlo simulation results shown for the Current Target and efficient portfolios as detailed on page 11.



# Manager Research Capabilities



# RVK Investment Manager Research Value Add

## Client First Approach

- RVK does not have model portfolios, nor do we support only RVK's own positively rated managers. This results in customized recommendations that best fit each of our clients'

## Transparent Due Diligence Process

- Complete access to RVK due diligence across all asset classes

## Experienced and Well-Resourced Team

- Dedicated investment manager research professionals with significant experience across asset classes. Team is a mixture of internal development and external experience

## Alignment of Interests

- RVK provides objective recommendations, as we have no bias or favor for investment managers due to our non-discretionary, no conflicts of interest status

## Integration with RVK's General Consulting Team

- Investment Manager Research works seamlessly with the General Consulting team. Together, they create a service model for our clients that best fit their ongoing needs

## Engagement Beyond Manager Research

- Investment Manager Research professionals are also experts across a broad range of other topics that touch clients, including but not limited to portfolio construction, pacing, rebalancing, and broad asset class education

# Dedicated Investment Manager Research Team

**Joe Ledgerwood, CFA**  
Director of Manager Research  
21 Years Industry Experience

## Traditional Markets Team

**Matt Sturdivan, CFA**  
Director, Traditional Markets  
16 Years Industry Experience

<b>Britt Vriesman</b> International/Emerging Equity	<b>Aaron Birman</b> High Yield/Bank Loans/LDI
<b>Sam Kavehrad, CAIA</b> Long/Short Equity	<b>Ed Zablan</b> Core/Core Plus/Global/EMD
<b>Evan Walker</b> MWBE/Generalist Equity	<b>Anthony Chan</b> Fixed Income Generalist
<b>Carson Hollyoak, CFA, CAIA</b> Global Equity	<b>Daisy Doroteo-Mejia</b> Traditional Markets Generalist

## Environmental, Social, Governance

**Sonia Ruiz**  
Head of Sustainable Investment Solutions

**Travis LaFrance**  
ESG Generalist

## Alternative Markets Team

**Steve Hahn, CFA**  
Director, Alternative Markets  
27 Years Industry Experience

<b>Kirby Francis, CFA</b> Private Equity/Infrastructure	<b>Cameron Collins</b> Hedge Funds
<b>Joseph Delaney, CAIA, FRM</b> Real Estate	<b>Spencer Crabb</b> Hedge Funds
<b>Robert Hulme, MPA</b> Real Estate	<b>Kaelan Recca, CAIA</b> Real Estate
<b>Reed Harmon, CFA</b> Private Credit/Multi-Asset	<b>Tara Knight</b> Private Equity
<b>Tricia Lynn, CFA, CAIA</b> Private Credit	<b>Rachel Mei</b> Multi-Asset
<b>Todd Simones</b> Private Credit	<b>Layne Johnson</b> Private Credit

### Sr. Leadership Average Experience

21 years in the industry

15 years at the firm

### Team Credentials

7 CFA Charterholders

5 CAIA Certifications

1 FRM



# Manager Searches, Perpetual Due Diligence

## Deep pool of available products:

- Over 450 Positive ranked products across 160 firms covering all major asset classes

## Client benefits:

- Access to an extensive manager universe
- Peace of mind knowing that managers are continually monitored
- Proactively made aware of new investment ideas or strategies

	Five-Year Average As of 12/31/2022
Annual Searches / Placements	144
Assets Placed Annually	\$21.2 billion
Annual On-Site Manager Visits (Physical or Virtual)	126*
Annual Manager Meetings	1,441*

\*For 2020-2021, the number of site visits decreased while the number of manager searches increased (due to COVID-19).

# Manager Evaluation/Ranking Process

## Analytical Resources/Research

### Proprietary

- RVK Manager Evaluation Database
  - RVK Due Diligence Questionnaire/Memos
  - Focused CIO/PM Interviews
- Reference Calls with Manager's Former Clients/Employees
- RVK Manager Research/Rankings
  - RVK Performance Reports

### Non-Proprietary

- eVestment
- Morningstar
- Manager Reports/Attribution

## Analysis Approach

### Firm

We look for healthy and stable firms that are preferably owned by employees or have a strong performance-based incentive. We review ownership structure, regulatory compliance, insurance levels, client base, asset base, etc.

### Team

We prefer experienced and consistent teams of professionals that are appropriately staffed, but we recognize this can be structured in a variety of ways. We review experience in the industry, experience at the firm, credentials, historical changes in structure, etc.

### Process

We look for long-term stability, consistency of application, alignment with the firm, and team resources employed to successfully manage the product. We review stated philosophy and process, historical changes made, alignment with the team structure, portfolio characteristics, risk controls, and historical changes made to portfolio construction.

### Performance

We concentrate our research on firms that have demonstrated consistent performance in line with the returns expected given the philosophy/process employed. We review consistency of rolling period excess return, volatility, outlier performance periods, and multiple risk factors.

### Product Assets

We prefer products that have enough assets to ensure that their track record is repeatable at a significant asset base, yet not so large that the process can no longer be employed appropriately. We review the asset history and the rate of change.

## Proprietary Rankings

Positive

Neutral

Negative

Research

# Investment Manager Selection: Liquid Strategies

## Customized Manager Research Process

- Searches customized to meet client needs
- Proprietary and third-party databases and tools
- Client access to extensive manager universe
- Open architecture – ideas provided by clients are researched



## Ongoing Monitoring

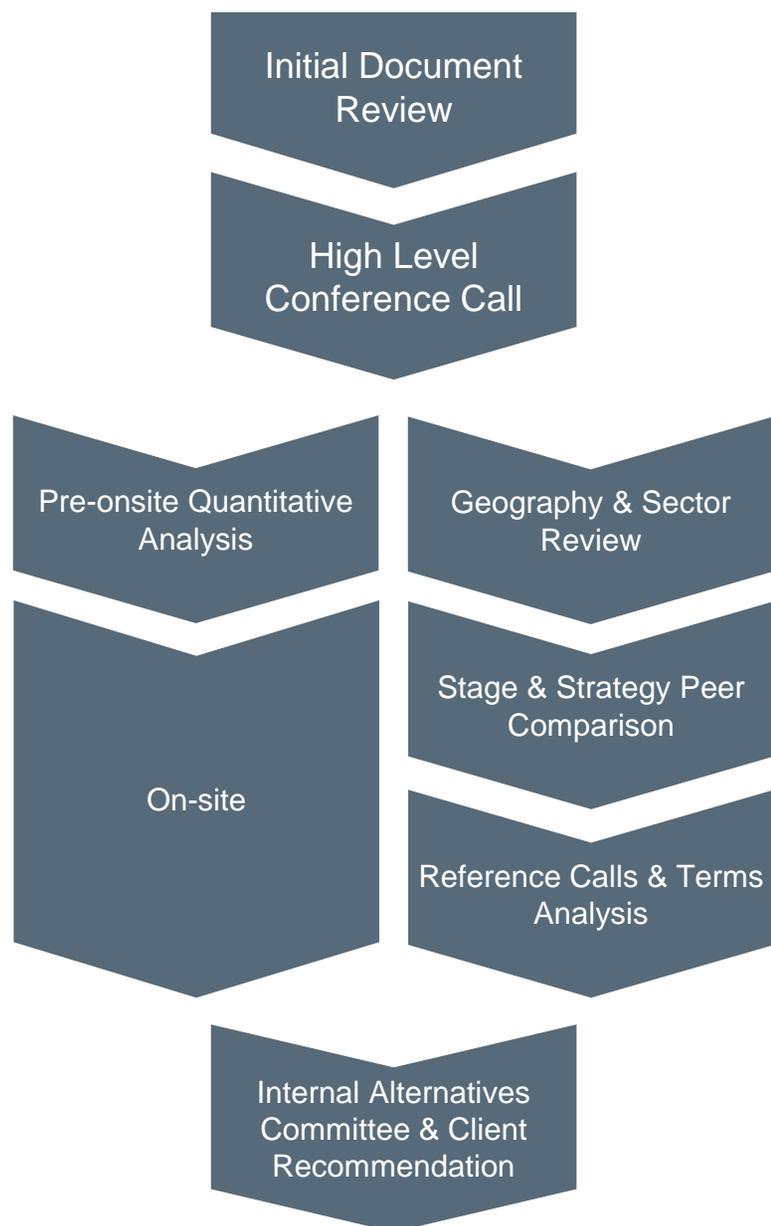
- RVK's research team continually monitors all managers to which our clients have exposure.
- All material changes or events regarding the manager or strategy are immediately disseminated to all consultants and then promptly communicated to clients in their preferred method (e.g., phone call, email, memorandum, etc.).

## Review/Termination Process

- Change to the investment management team, firm, or process; strategy grew above AUM capacity.
- Plan re-allocation due to target asset allocation changes.
- Poor performance relative to expectations.

# Investment Manager Selection: Illiquid Strategies

We take a consistent approach to evaluating private investment opportunities.



- Preliminary review of sponsor and strategy
  - Performance relative to peers
- 
- Initial conference call to better understand strategy, lead investment professionals, and unique value-add relative to peers
- 
- In-depth quantitative analysis prior to onsite including attribution (lead personnel, sector, geography, size, profitability, leverage levels, and others depending on strategy), sensitivity analysis, risk of loss, and others
  - Extensive onsite covering strategy, investment results, portfolio review, leadership, compensation, incentive structure, and back office
  - Parallel review of expected geography and sector
  - Evaluation of competitive landscape within the target market of the strategy (other general partners that focus on the area, performance relative to peers)
  - Reference calls to current and former CEOs, limited partners, lenders, and intermediaries
  - Review of fund terms relative to market norms
- 
- Review by RVK Alternatives Group to facilitate comparison of other asset classes and opportunities

# **RVK's Approach to Private Credit Portfolio Construction**



# RVK's Approach to Private Credit

## Portfolio Construction

We focus on three components during portfolio construction:

1. Program Size and Return Target	Typical RVK Client Solution
Investor's Objective and Return Target	Augment the long term returns of the Fixed Income or Alt portfolio while providing risk control, diversification, and an attractive risk-adjusted return for the Total Fund
Source of Capital	Fixed Income, Hedge Funds, or Equities, among others
Target Allocation Size	4% - 10% Target Allocation

2. Diversification and Risk	Typical RVK Client Solution
Geographic Diversification	We believe that most investors should allocate opportunistically and globally based on the greatest relative value, as opposed to "set" percentage allocations
Appropriate Strategy Mix	Allocate opportunistically among private credit sub-strategies depending upon market cycle placement and relative value
Target Fund Size	Institutional quality size, typically \$500 million or above
Tolerance for Fund-Level Leverage	RVK will typically avoid recommending funds with high levels of fund-level leverage

3. Pacing, Liquidity, and Structure	Typical RVK Client Solution
Number of Underlying Investments	8-10 fund series over the next 5-8 years
Investment Size	\$25 - \$200 million
Vintage Year Diversification	2 - 3 funds each year
Investment Time Horizon Restrictions	Varies by client
Structural Considerations	Varies by client

# RVK's Approach to Private Credit

## Opportunity Set

RVK sources opportunities across the entire private credit landscape, including a variety of strategies and collateral types with additional diversification across return targets, geographies, duration, and use of fund-level leverage.



# RVK's Approach to Private Credit

## Market Cycle

RVK seeks a diversified selection of private credit asset classes across the full market cycle.



Asset Class	Growth	Slowing	Recession	Recovery	Growth
Direct Lending	35%	10%	5%	25%	35%
Asset-Backed / Real Estate Debt	25%	40%	35%	20%	25%
Specialty Finance	35%	40%	20%	30%	35%
Distressed Debt / Special Situations	5%	10%	40%	25%	5%

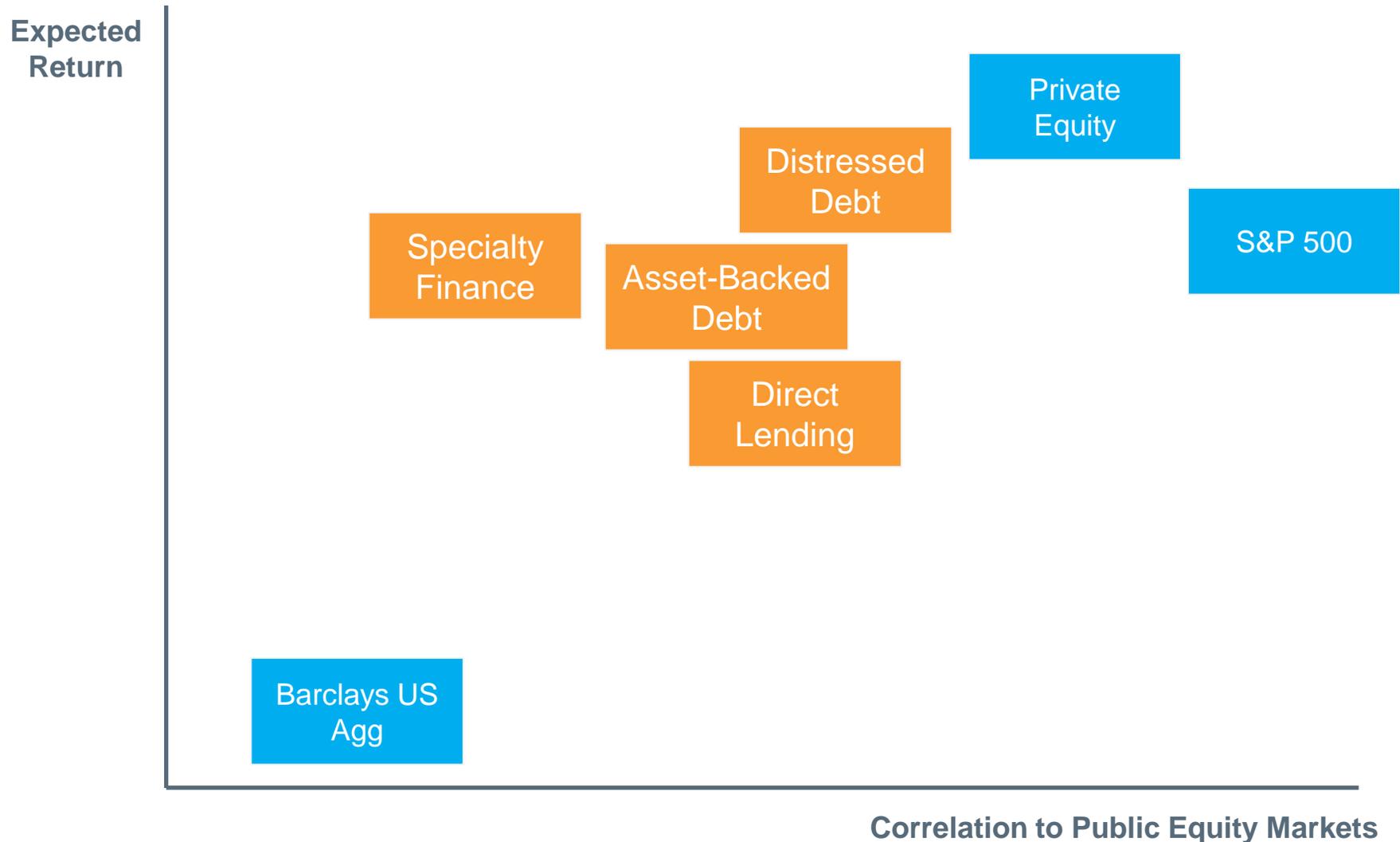
Presented for illustrative purposes only. Client specific recommended allocations should depend on individual investment goals and constraints. Please see the Appendix for strategy profiles and typical terms of each asset class.



# RVK's Approach to Private Credit

## Sub-Asset Class Return & Correlation Spectrum

Private Credit offers a variety of risk, return, and correlation profiles depending on the sub-strategy and collateral type.



Private credit investments are not traded in public markets, and as such, a true correlation to public markets cannot be accurately calculated. Presented for illustrative purposes only.

# RVK's Approach to Private Credit

## Sub-Asset Class Profile: Direct Lending

- **Definition:** Private loans to stable corporate borrowers which are backed by borrower cash flows.
- **Use of Proceeds:** These loans are typically used to finance investments in areas such as working capital, capital structure refinancings, corporate transactions such as acquisitions or leveraged buyouts, and other related uses of capital expected to increase the earnings and value of the corporate borrower.
- **Typical Target Return:** 5-8% Net IRR (Unlevered), 8-13% Net IRR (Levered)

### Sample "RVK Best Idea" Direct Lending Fund

- Strategy Focus: Lower-Middle Market Direct Lending in the US
- Target Return: 6-8% Net IRR (Unlevered), 10-13% Net IRR (Levered)

#### Key Strategy Attributes

- Defensive strategy through a transaction leadership role and a focus on first lien, senior secured debt
- Large and well-resourced investment team
- Dynamic monitoring capabilities with real-time data tracking
- Diversified portfolio of over 120 loans across various industries

# RVK's Approach to Private Credit

## Sub-Asset Class Profile: Asset-Backed Debt

- **Definition:** Private loans to established corporate borrowers which are backed by borrower assets, such as pools of receivables, inventory, property, plant and equipment, royalty streams, or portfolios of investments owned by the borrower. This category may also include strategies dedicated exclusively to debt that is collateralized by borrower's real estate.
- **Use of Proceeds:** These loans are typically used to financing investments in areas such as working capital, capital structure refinancings, and other related uses of capital expected to increase the earnings and value of the borrower.
- **Typical Target Return:** 8-10% Net IRR (Unlevered), 10-13% Net IRR (Levered)

### Sample "RVK Best Idea" Asset-Backed Debt Fund

- Strategy Focus: Senior-Secured Asset-Backed Lending in the US
- Target Return: 8-10% Net IRR (Unlevered), 11-13% Net IRR (Levered)

#### Key Strategy Attributes

- Deep industry experience and successful track record
- Defensive strategy posture through highly structured transactions
- Active monitoring and value-add approach
- Strong proprietary sourcing ability with emerging borrowers

# RVK's Approach to Private Credit

## Sub-Asset Class Profile: Specialty Finance

- **Definition:** Niche investments where targeted borrowers, loan structures, or collateral packages have atypical features. Specialty Finance encompasses an extremely wide range of specialized investments, borrowers, and types of collateral.
- **Use of Proceeds:** This may include, but will not be limited to, a strategy focused on consumer lending, a strategy focused on a single industry, a strategy focused on providing liquidity to other asset managers, or a strategy focused on the purchase of discounted private loan portfolios through secondary market transactions.
- **Typical Target Return:** 10-15% Net IRR (Unlevered)

### Sample "RVK Best Idea" Specialty Finance Fund

- Strategy Focus: Asset-Based Specialty Finance in the US and Western Europe
- Target Return: 11-13% Net IRR (Unlevered)

#### Key Strategy Attributes

- Large and established investment manager
- Substantial team with experience across multiple alternative credit sectors
- Capital preservation focus through strong structural protections
- Excess return potential through complexity

# RVK's Approach to Private Credit

## Sub-Asset Class Profile: Distressed Debt

- **Definition:** Debt investments in unstable borrowers, where borrower companies may not be expected to persist as going concerns. This may also include investments made in the debt of borrower companies where expected returns are primarily driven by a specific event or series of events.
- **Use of Proceeds:** In many cases, investments are made under the assumption that the investment will appreciate in value following a restructuring of the company's obligations. This may include borrower companies undergoing restructurings both inside Bankruptcy Court and outside through private negotiations.
- **Typical Target Return:** 12-20% Net IRR (Unlevered)

### Sample "RVK Best Idea" Distressed Debt Fund

- Strategy Focus: Distressed-for-Control in the US and Western Europe
- Target Return: 15% Net IRR (Unlevered)

#### Key Strategy Attributes

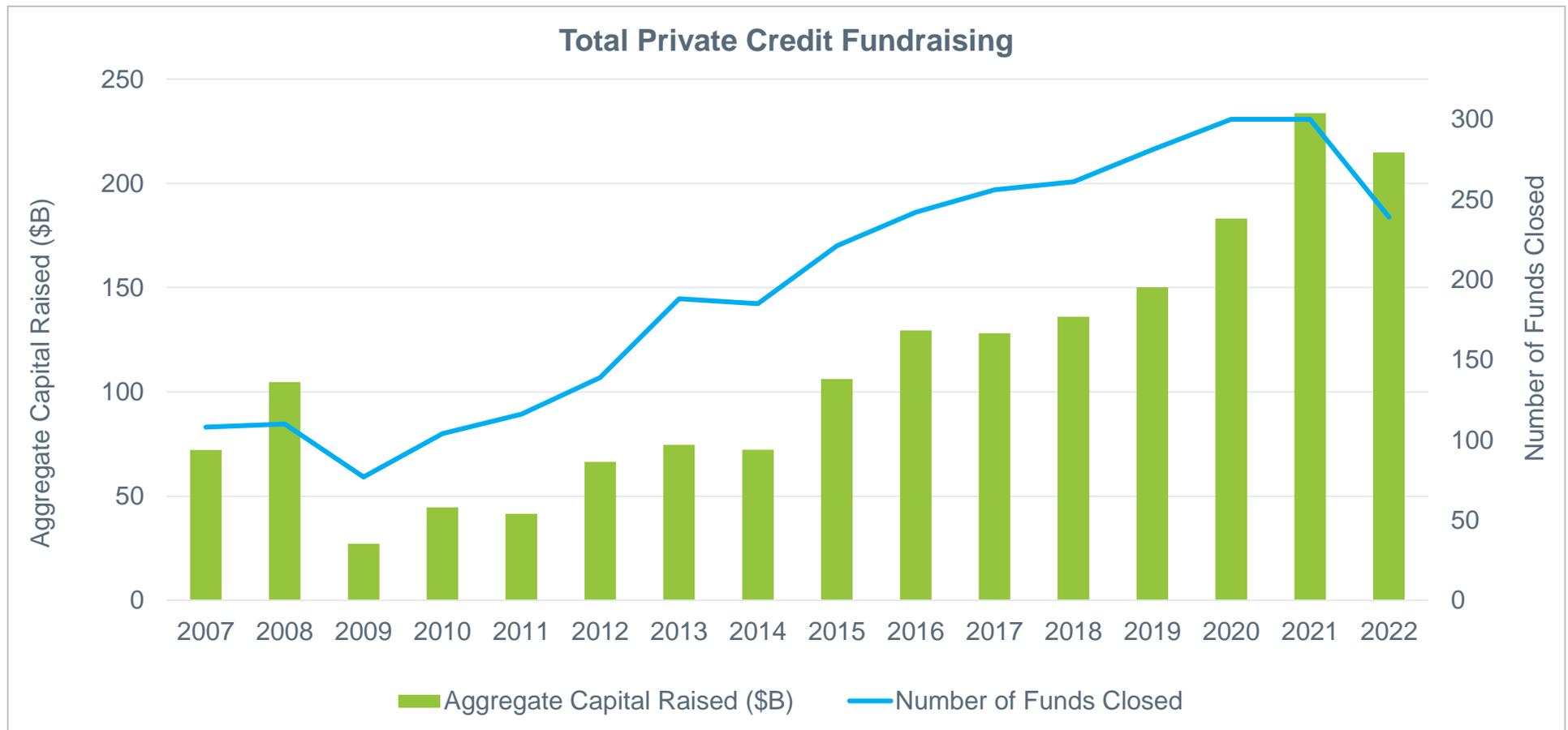
- Significant distressed debt experience and tenure
- Extensive sourcing network
- Strong value creation ability through business operations expertise
- Historically successful track record performance

# Private Credit Current Landscape



# Private Credit Current Landscape

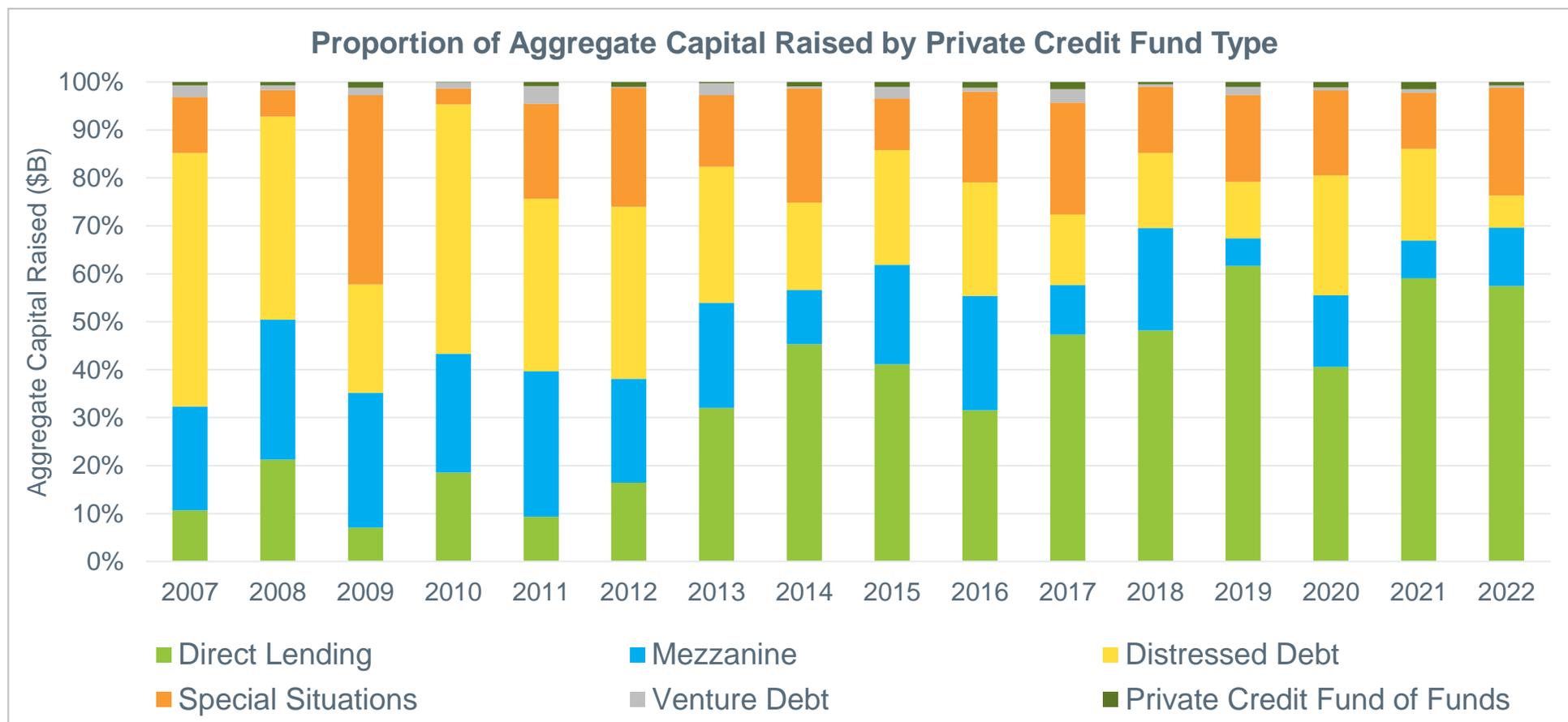
## Fundraising



- The size of the private credit asset class has enjoyed consistent growth in recent years as a greater number of investors seek the benefits found in private credit, such as high risk-adjusted yield, low market sensitivity, and meaningful portfolio diversification.
- Since the Global Financial Crisis, fundraising has been robust, leading to overcrowding, compressed yields, and lower investor protections within many private credit strategies.

# Private Credit Current Landscape

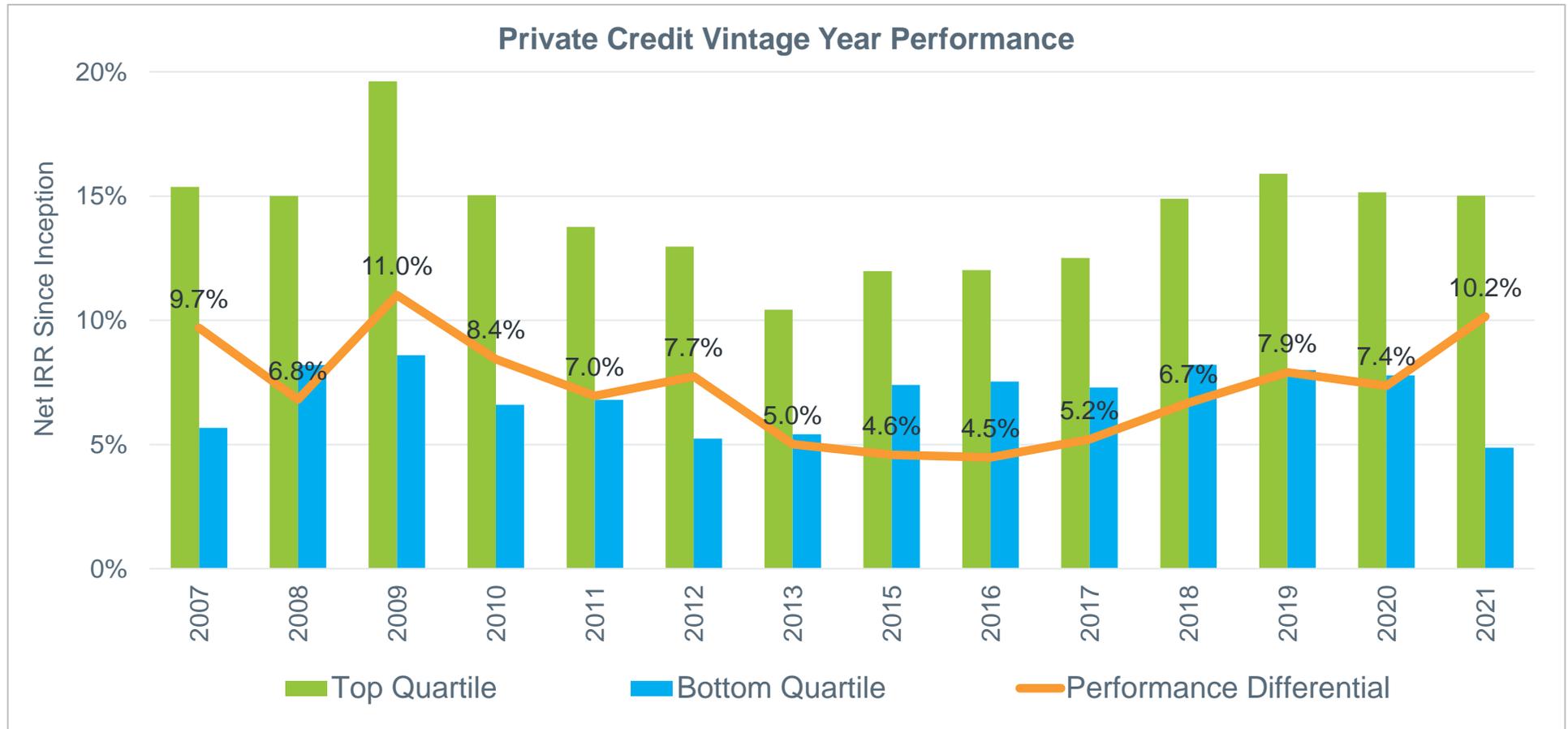
## Strategy Specific Fundraising



- Direct Lending continues to be the dominant strategy within Private Credit, as approximately half of the capital raised since 2017 has been committed to Direct Lending managers.
- RVK focuses on direct lending managers which benefit from substantial experience within their market segment, target low levels of borrower and fund-level leverage, and demonstrate a defensive strategy posture by emphasizing senior debt and strong covenants.

# Private Credit Current Landscape

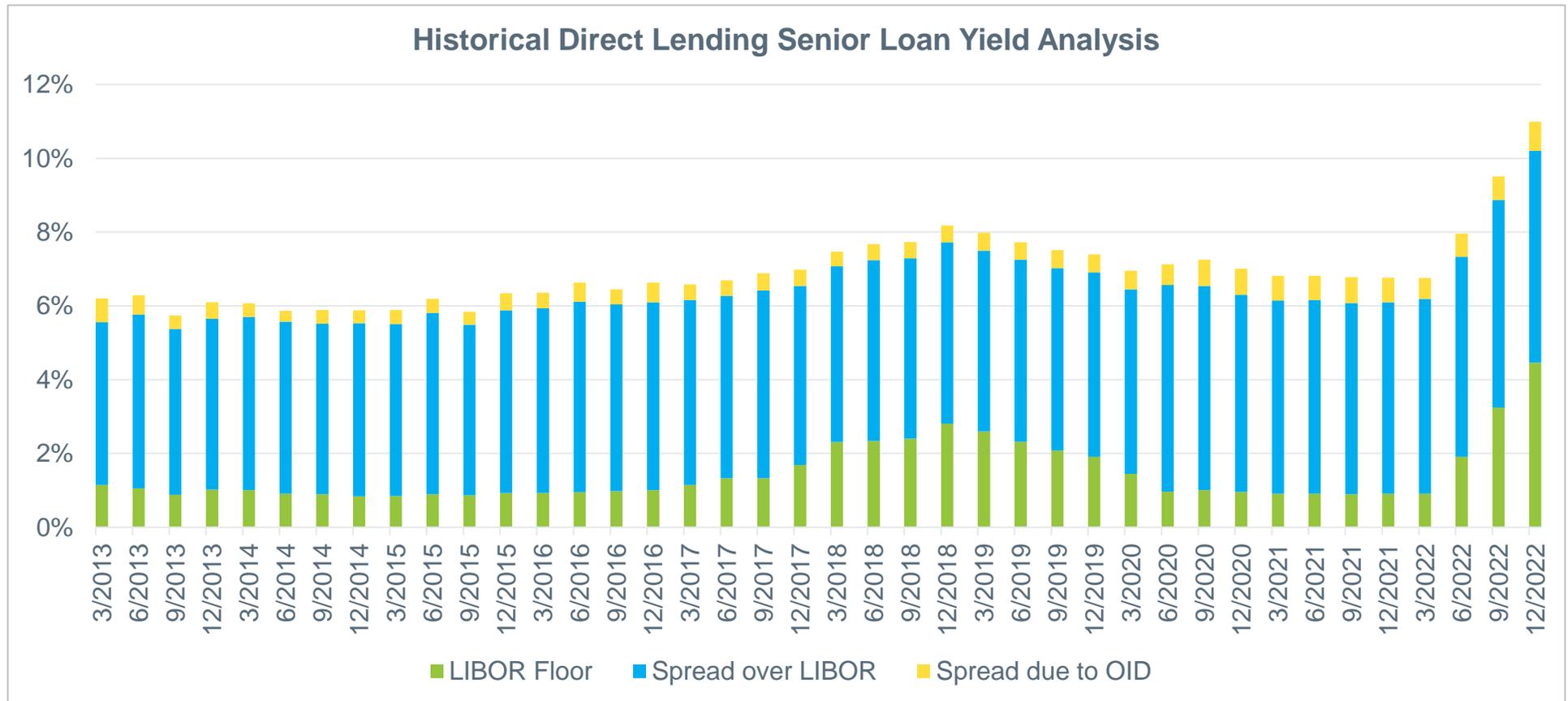
## Performance



- Private credit median performance has been approximately 8% to 10% net IRR since 2007.
- Manager selection within private credit is essential, as the spread between the top and bottom performing private credit funds is significant, with an average differential of approximately 7.1% since 2007.

# Private Credit Current Landscape

## Yield Characteristics



- Investors in private credit can generally expect an increased yield compared to their public fixed income portfolios, as private middle-market loans often provide a yield premium of 1% to 3% over securities of comparable credit quality in public fixed income markets.
- Senior loans in the direct lending market have historically offered lenders consistent all-in yields of between 6% and 8%, with an average yield of 6.7% from 2013 through 3/31/2022.
- Base rate floors, spreads and all-in yields have increased to historic highs, reaching an approximate 11% as of year end 2022.

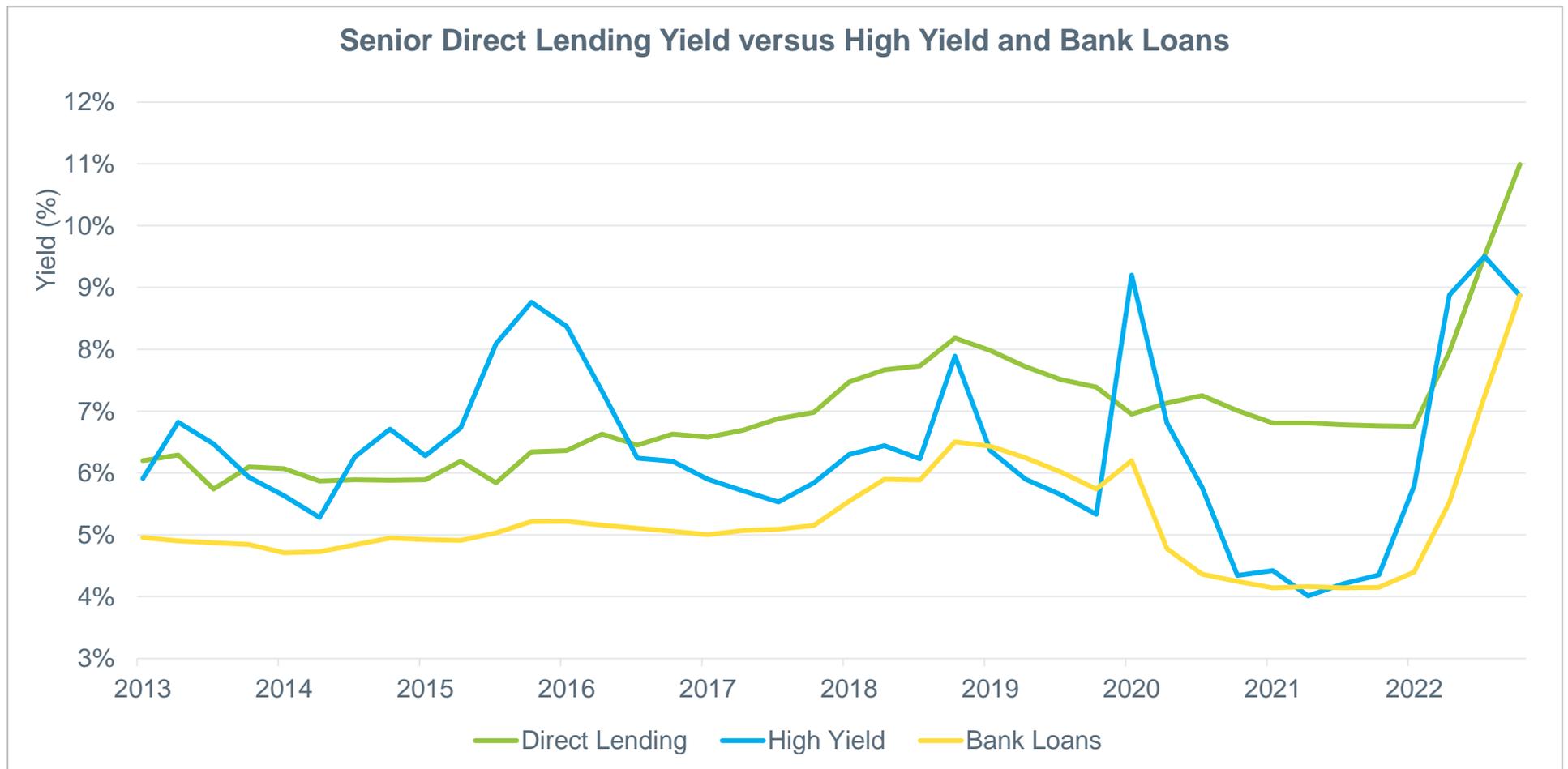
Source: Refinitiv LPC, RVK. Represents the average first-lien term loan yield with a three-year term. Data is based on private data submissions and excludes unitranche and second lien term loans. Data as of 12/31/2022.



# Private Credit Current Landscape

## Private Credit Illiquidity Premium

- The yield of senior loans in middle-market direct lending is approximately 11.0% as of 12/31/2022.
- The illiquidity premium in private credit has historically been around 2%.



Source: Refinitiv LPC, Federal Reserve Bank of St. Louis, Ice Data Indices LLC, Credit Suisse, RVK. Direct Lending represents the average first-lien term loan yield with a three-year term. Direct Lending data is based on private data submissions and excludes unitranche and second lien term loans. High Yield represents the effective yield of the ICE BofA US High Yield Index. Bank Loans represent the current yield of the Credit Suisse Levered Loan Index. Data as of 12/31/2022.



# Private Credit Current Landscape

## RVK's Sub-Strategy Comments

### Direct Lending:

- We are once again experiencing overcrowding as more competition floods the market. Many middle and upper-middle market lenders have essentially become “price takers,” willing to accept increased leverage and weaker lender documents.
- We believe a risk-adjusted premium still exists in the lower-middle market, characterized by reduced competition leading to increased lender protections and yield.
- Strong lower-middle market lenders are gaining market share over their weaker competitors due to their performance in protecting investor capital during the pandemic. We expect this dynamic to continue over the course of the year.

### Distressed Debt:

- A significant amount of capital entering the distressed debt space paired with low levels of defaults across below investment grade bonds and loans has led to a lack of compelling opportunities in traditional large-cap corporate distress.
- Our focus is on distressed managers with significant experience, compelling track records, the ability to invest in more niche opportunities outside of large-cap distress, and the capability to add value to companies at the operational level.

# Private Credit Current Landscape

## RVK's Sub-Strategy Comments

### Asset-Backed Specialty Finance:

- Banks continue to exit the asset-backed specialty finance lending market, opening the door for private lenders.
- We believe the risk-adjusted relative value of private asset-backed specialty finance strategies remains compelling relative to more traditional and well-trafficked private lending opportunity sets, such as middle market direct lending.
- Top-tier strategies in this space can offer unlevered senior debt returns of 8-10% with strong structural protections and high levels of overcollateralization.

### Opportunistic Lending and Special Situations:

- With the overcrowding of more commoditized private credit sub-strategies such as direct lending and distressed debt, RVK has shifted its focus to investment managers that lend to borrowers in niche opportunity sets or some form of complicated transition.
- RVK is seeking opportunistic lending and special situations managers with significant experience in their unique target markets, robust track records, and the ability to navigate complex events to generate expected returns of 10-15%.

# Glossary

<b>Borrower Leverage</b>	A term used in private credit that is generally a reference for the debt/EBITDA of the borrower. A higher amount of borrower leverage (debt/EBITDA) indicates a greater amount of credit risk.
<b>Commitment</b>	The maximum amount of capital an investor expects they would invest during a fund's life. Most funds call between 95% and 100% of commitments.
<b>Contribution</b>	A cash flow into the private market investment, sent by the investor. Also described as 'Paid In (Capital)'.
<b>Distribution</b>	A cash flow out of the private market investment, received by the investor.
<b>Fund Term</b>	Defined length of time for the fund to liquidate any investment interests. Such defined terms are usually subject to extensions, often requiring approval of either the GP or a portion of the LPs.
<b>GP (General Partner)</b>	The legal entity responsible for managing a fund's investments. The GP makes all of the investment decisions for a private markets fund and earns the management fee.
<b>IRR (Internal Rate of Return)</b>	A dollar-weighted measure of return. IRR is defined as the discount rate that reduces the net present value of an investment to zero. IRR almost always represents inception to date annualized returns.
<b>LP (Limited Partner)</b>	Passive investor in a private markets fund, does not take part in active management of the fund.
<b>Preferred Return</b>	The defined return, typically measured by IRR, which the fund must achieve before the General Partner can receive its allowed performance fee.
<b>Vintage Year</b>	Name given to year of inception for a private market investment. For funds, this is typically the first year that the fund calls committed capital.

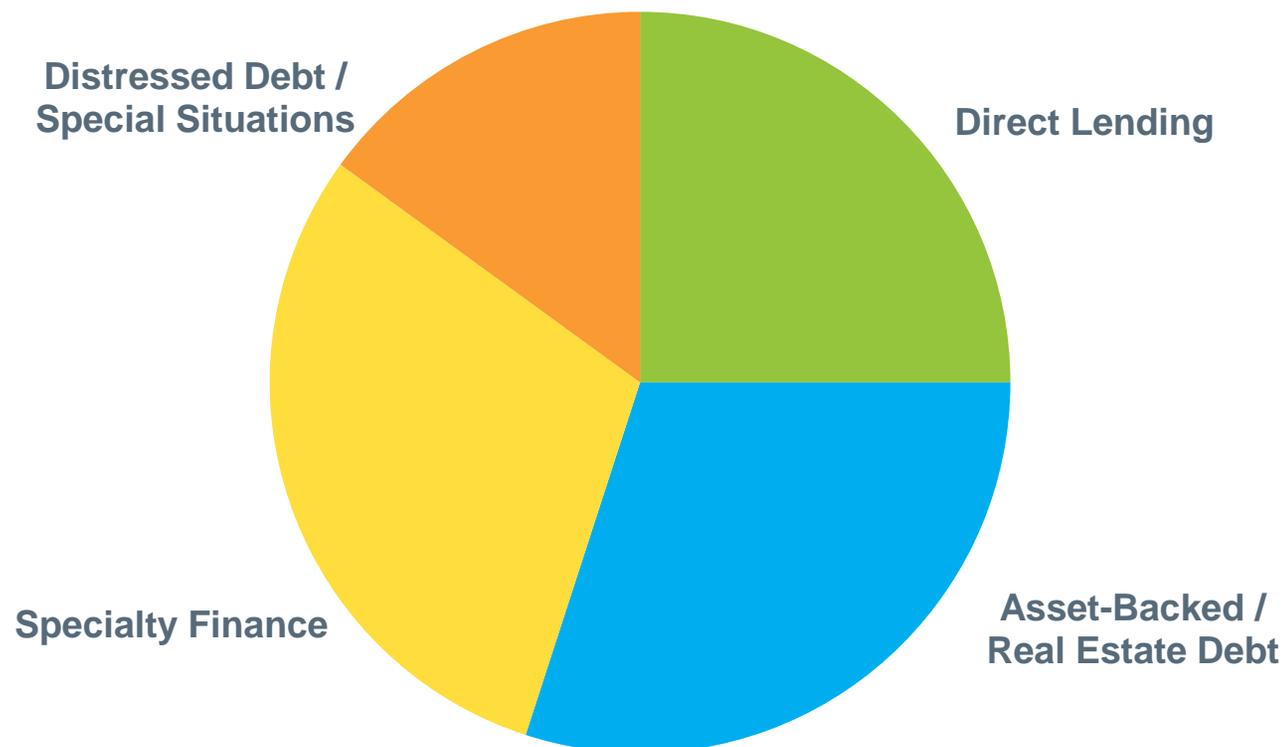
# Private Credit Education



# Private Credit Education

## Introduction

- Since the Global Financial Crisis, the private credit opportunity set has greatly expanded in size, breadth, and complexity.
- RVK sources opportunities across the entire private credit landscape, including a variety of sub-strategies and collateral types with additional diversification across return targets, geographies, and use of fund-level leverage.
- For illustrative purposes, the sample allocation below represents one “typical” diversified institutional investor allocation to private credit:



Client specific recommended allocations will depend on each client's investment goals and constraints.

# Private Credit Education

## Definition and Characteristics

Private credit refers to debt financing provided by non-bank institutions that are not traded on the public market.

### Characteristics

- Investments span a wide range of sub-strategies and collateral types
- High current income component
- Limited dependence on capital gains through price appreciation
- Limited liquidity
- Less efficient, more complex opportunity set than public fixed income
- More defensive profile than public fixed income driven by stronger lender protections
- Bespoke investment structures are typical
- Lower levels of risk and return than private equity
- Higher fees than public fixed income, lower fees than private equity

**Sub-strategies include direct lending, asset-backed debt, real estate debt, specialty finance, special situations, and distressed debt, among several other private credit sub-strategies.**

# Private Credit Education

## Benefits and Risks

### Benefits

- High and stable cash yields
- Superior risk-adjusted returns vs public fixed income
- Defensive profile with greater lender protections compared to public fixed income
- Bespoke investments are typical
- Low to moderate correlation to other asset classes
- Wide variety of sub-strategies and collateral types
- Diversification available across risk and return targets, geographies, and use of fund-level leverage
- Portfolios can be tailored to meet investors' specific risk/return needs and objectives

### Risks

- Long-term, illiquid fund structures
- Lower return potential than some other alternative strategies like private equity
- Occasional use of fund-level leverage
- Higher fees than public fixed income
- Recent record fundraising has driven increased competition
- Managers within over-crowded sub-strategies have recently become “price-takers”
- In some congested markets, lender protections have weakened

**Private Credit offers investors portfolio-level diversification and a high risk-adjusted yield with limited dependence on asset price appreciation.**

# Private Credit Education

## Asset Class Comparison

### Benefits of Private Credit:

- ✓ Superior risk-adjusted returns due to a less efficient investment space than more liquid, widely traded, and well-understood asset classes, such as public fixed income.
- ✓ Features a heavy income component with limited dependence on asset price appreciation.
- ✓ Typically includes greater lender protections, indicating a more defensive profile.

### Drawbacks of Private Credit:

- Illiquid fund structures with investor's capital locked-up for 4-8 years.
- Higher fees than public fixed income as a result of added asset class complexity.
- Lower levels of long-term return vs. higher-risk asset classes, such as private equity.

	Public Fixed Income	Private Credit	Private Equity
Target Net Return	3-6%	6-14%	10-18%
Fund Life	Evergreen	4-8 Years	10-12 Years
Liquidity	Daily	None	None
Income Distributions	Monthly	Quarterly	None
Management Fee	0.25% - 0.75%	0.75% - 1.75%	2%
Incentive Fee	None	15% - 20% over a 6% - 8% Hurdle	20% over an 8% Hurdle
J-Curve	None	Moderate	Drastic

# Private Credit Education

## Private Credit Sub-Asset Class Comparisons

Fund Strategy	Description	Target Return (Net IRR)	Investment Period	Fund Term	Management Fee	Incentive Fee	Preferred Return
<b>Direct Lending</b>	Private loans to stable corporate borrowers which are backed by borrower cash flows	5 – 13%	2 – 3 years	5-7 years	0.75% – 1.25% on invested capital	15%	5 – 7%
<b>Asset-Backed / Real Estate Debt</b>	Private loans to established borrowers which are backed by assets such as pools of receivables, royalty streams, inventory, or real estate	8 – 13%	3 – 5 years	7-10 years	1.00% – 1.50% on invested capital	15% - 20%	6 – 8%
<b>Specialty Finance</b>	Niche investments where targeted borrowers, loan structures, or collateral packages have atypical features.	10 – 15%	3 – 5 years	5-10 years	1.25% – 1.75% on invested capital	20%	6 – 8%
<b>Distressed Debt / Special Situations</b>	Debt investments in unstable borrowers, where companies may not be expected to persist as going concerns or expect an upcoming event	12 – 20%	3 – 5 years	7-10 years	1.50% – 1.75% on invested capital	20%	8%

# Private Credit Education

## Implementation – Closed-End vs. Evergreen Vehicle

	Closed-End Fund (“Traditional”)	Open-Ended Fund (“Evergreen”)
<b>Fund Life</b>	<b>Typically 6 to 10 Years</b> (Typically a 3-5 year investment period followed by a 3-5 year harvest period)	<b>Perpetual</b> (Typically investors have an option to reinvest income, while principal is reinvested automatically)
<b>Vehicle Type Prevalence</b>	<b>High</b> (~600 closed-end funds currently fundraising)	<b>Moderate</b> (~140 open-ended funds currently fundraising)
<b>Strategy Diversification</b>	<b>Low - Moderate</b> (Typically one private credit sector)	<b>Moderate - High</b> (Typically several private credit sectors)
<b>Risk Profile</b>	<b>Similar</b> (Dependent on strategy type)	<b>Similar</b> (Dependent on strategy type)
<b>Return Profile</b>	<b>Similar</b> (Dependent on strategy type)	<b>Similar</b> (Dependent on strategy type)
<b>Illiquidity Premium</b>	<b>High</b> (Entirely private debt)	<b>Moderate - High</b> (Primarily private debt, though some strategies may include some public fixed income securities)
<b>Fee Burden</b>	<b>Similar</b> (Dependent on strategy type)	<b>Similar</b> (Dependent on strategy type)
<b>Liquidity</b>	<b>Low</b> (No liquidity, capital is returned during harvest period)	<b>Low - Moderate</b> (Typically a “slow pay” structure, in which capital is returned over 3-5 years following redemption)
<b>Deployment Speed</b>	<b>Low</b> (Capital invested over 3-5 year investment period)	<b>Low - Moderate</b> (Capital typically invested over 6-18 month period, but may take 2-3 years)
<b>Administrative Burden</b>	<b>High</b> (Must re-commit to each fund in the fund series)	<b>Low</b> (Following the initial commitment, no additional commitment is necessary)

# Reporting



# Alt Invest Report

## Santa Barbara County Employees' Retirement System Alternative Investment Private Credit Fund Performance Listing

As of December 31, 2022

Fund Name	Vintage	Asset Class	Commitment (\$)	Paid In Capital (\$)	Distributions (\$)	Valuation (\$)	Fund IRR (%)	Index IRR (%)	Fund Multiple
AG Direct Lending Fund III, LP	2018	Private Credit - Direct Lending	25,000,000	23,035,117	13,503,653	17,788,864	10.40	3.90	1.36
First Eagle Direct Lending Fund IV	2019	Private Credit - Direct Lending	20,000,000	37,102,322	23,587,845	16,529,782	6.43	3.71	1.08
PIMCO Private Income Fund Onshore Feeder LLC	2019	Private Credit - Direct Lending	20,000,000	20,000,000	0	25,673,055	9.39	5.00	1.28
AG Direct Lending Fund IV, LP	2020	Private Credit - Direct Lending	20,000,000	17,129,726	1,421,156	18,764,314	14.97	0.23	1.18
Deerpath Capital V, LP	2020	Private Credit - Direct Lending	20,000,000	18,338,462	2,218,389	18,828,602	7.93	2.58	1.15
Deerpath Capital VI, LP	2021	Private Credit - Direct Lending	20,000,000	15,460,563	903,186	15,764,925	8.19	-0.61	1.08
First Eagle Direct Lending Fund V-B	2021	Private Credit - Direct Lending	20,000,000	15,292,750	3,518,493	13,040,188	9.06	-1.08	1.08
AG Direct Lending Evergreen Fund LP	2022	Private Credit - Direct Lending	20,000,000	9,500,000	0	9,474,404	N/M	N/M	1.00
			<b>165,000,000</b>	<b>155,858,939</b>	<b>45,152,722</b>	<b>135,864,134</b>	<b>9.23</b>	<b>3.18</b>	<b>1.16</b>

Certain valuations (marked with a \*\*) are preliminary estimates of valuation as of the date of reporting and reflect the estimated impact of subsequent net cash contributions/distributions. These figures may be used in calculations contained in this report. Index IRR represents the dollar-weighted returns calculated using the Credit Suisse Lvg'd Loan Index assuming an index investment with the same cash flow timing. IRRs are shown only for investments with one year or more of cash flows and for which an accurate IRR could be calculated. Applicable IRRs are marked with 'N/M' for not material. Fund IRR is the annualized since-inception net internal rate for the indicated fund or composite. Fund Multiple is the since inception sum of distributions and valuation divided by paid in capital.



# Final SBCERS Questions



# Consultant Closing Remarks



# Appendix



# SBCERS Team Members



Marcia Beard  
Senior Consultant

- Joined RVK in 1996 and based in our Portland office
- 40+ years of industry experience.
- Shareholder of the firm.
- B.A. in Agriculture Economics from University of Illinois.



Matthias Bauer, CFA  
Senior Consultant

- Joined RVK in 2007 and based in our Portland office.
- 16 years of industry experience.
- Shareholder of the firm and serves on the firm's Board of Directors and Audit Committee.
- B.A. in Finance from Portland State University. CFA Charterholder and member of the CFA Institute and the CFA Society of Portland.



Joe Ledgerwood, CFA  
Director of Investment  
Manager Research

- Joined RVK in 2010 and based in our Portland office.
- 20+ years of industry experience.
- Shareholder of the firm and leads our team of Research Consultants who serve as practice experts for their assigned asset class.
- B.B.A in Business Administration with a concentration in finance. CFA Charterholder and member of the CFA Institute and the CFA Society of Portland.

# SBCERS Team Members



Paige Blaser  
Associate Consultant

- Joined RVK in 2012 and based in Ketchum, Idaho, supported by our Boise office.
- Works closely with consulting teams on a variety of projects including asset allocation studies, manager structure analysis, managing transition and rebalancing of client portfolios, and client education presentations.
- B.A. in Business Administration from Washington State University.



Jordan Masukawa  
Investment Associate

- Joined RVK in 2019 and based in our Portland office.
- Responsibilities include working with consulting teams on a variety of projects, such as asset allocation and manager structure analyses, client education presentations, and portfolio rebalancing.
- B.A. in Business Administration and MSF degree in Finance both from the University of Oregon.

# Asset Allocation Study

## Key Inputs

### Return/Risk Assumptions

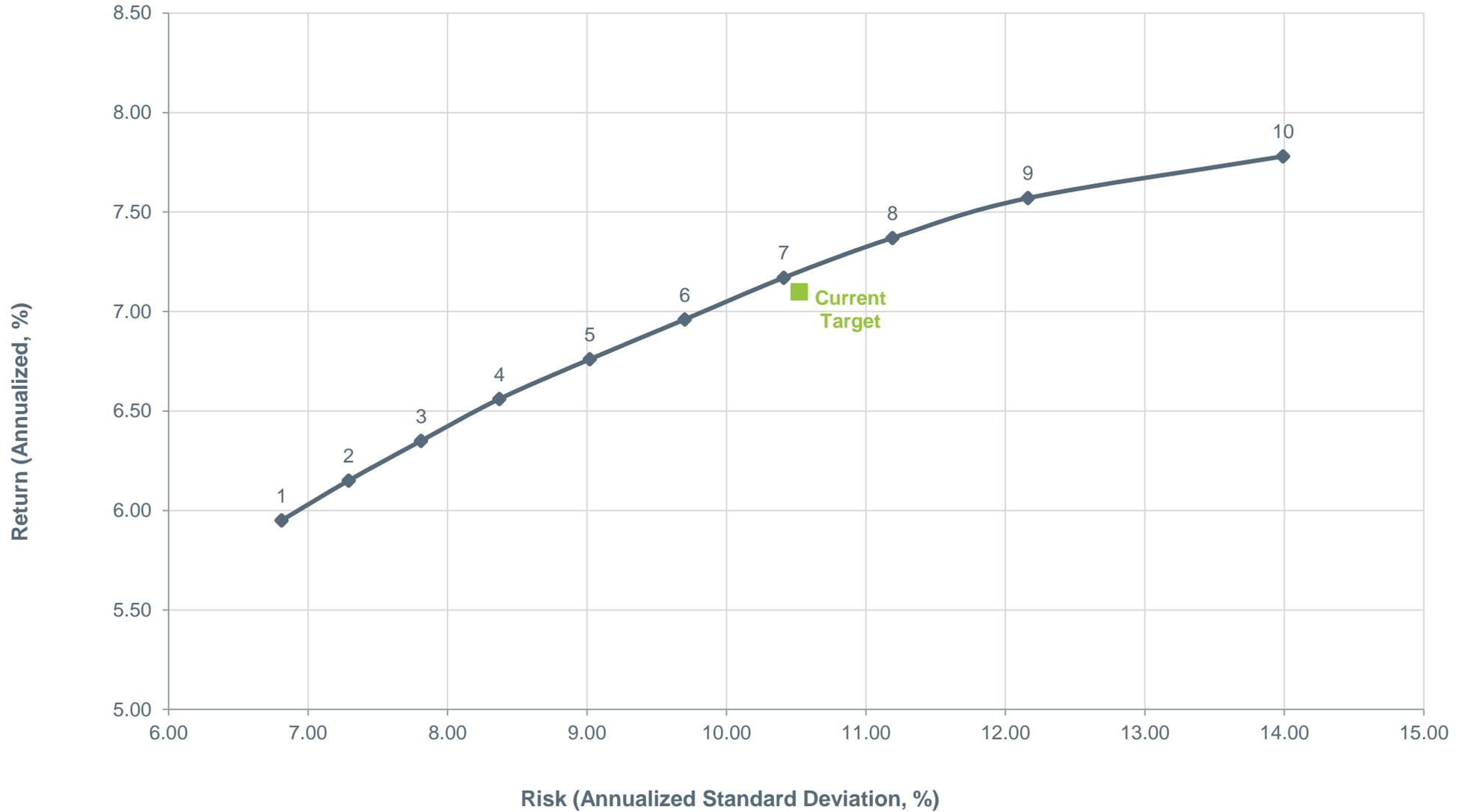
	Nominal Return (Geo.)	Standard Deviation Assumption	Nominal Return (Arith.)	Return/Risk Ratio (Geo.)	RVK Liquidity Metric	Thematic Bucket
Broad US Equity	6.61	16.10	6.80	0.35	95	Capital Appreciation
Dev'd Market Non-US Equity	7.19	17.00	8.50	0.42	90	Capital Appreciation
Emerging Markets Equity	8.54	25.00	11.25	0.34	85	Capital Appreciation
Core Fixed Income	3.88	5.00	4.00	0.78	85	Capital Preservation
Custom Non-Core Fixed Income	6.61	7.24	6.85	0.91	35	Capital Appreciation
Custom Real Return	6.33	8.70	6.68	0.73	45	Inflation
Custom Real Estate	5.58	14.39	6.54	0.39	17	Inflation
Private Equity	7.86	22.00	10.00	0.36	5	Capital Appreciation

### Correlations

	Broad US Equity	Dev'd Market Non-US Equity	Emerging Market Equity	Custom Core Fixed Income	Custom Non-Core Fixed Income	Custom Real Return	Custom Real Estate	Private Equity
Broad US Equity	1.00	0.85	0.73	0.21	0.83	0.84	0.17	0.78
Dev'd Market Non-US Equity	0.85	1.00	0.80	0.12	0.86	0.87	0.15	0.77
Emerging Market Equity	0.73	0.80	1.00	0.10	0.88	0.85	0.04	0.66
Core Fixed Income	0.21	0.12	0.10	1.00	0.09	0.08	-0.21	-0.06
Custom Non-Core Fixed Income	0.83	0.86	0.88	0.09	1.00	0.87	0.11	0.79
Custom Real Return	0.84	0.87	0.85	0.08	0.87	1.00	0.22	0.78
Custom Real Estate	0.17	0.15	0.04	-0.21	0.11	0.22	1.00	0.34
Private Equity	0.78	0.77	0.66	-0.06	0.79	0.78	0.34	1.00

# Asset Allocation Study

## Efficient Frontier



# Asset Allocation Study

## Monte Carlo Analysis: Expected Compound Return by Percentile

Time Period	Percentile	1	2	3	4	5	6	7	8	9	10	Current Target
1 Year	1st Percentile	-23.22	-25.95	-26.79	-28.24	-29.43	-30.77	-31.56	-33.30	-34.67	-35.48	-29.71
	5th Percentile	-8.06	-8.76	-9.64	-10.34	-10.99	-11.63	-12.36	-13.63	-14.97	-17.72	-12.98
	25th Percentile	1.60	1.33	1.06	0.86	0.65	0.45	0.20	-0.34	-0.99	-2.79	-0.38
	<b>50th Percentile</b>	<b>6.49</b>	<b>6.70</b>	<b>6.84</b>	<b>6.99</b>	<b>7.18</b>	<b>7.34</b>	<b>7.57</b>	<b>7.65</b>	<b>7.69</b>	<b>7.47</b>	<b>7.20</b>
	75th Percentile	11.29	11.99	12.56	13.05	13.62	14.18	14.77	15.55	16.39	17.83	14.91
	95th Percentile	18.54	19.90	21.29	22.52	23.67	24.89	26.22	28.13	30.33	34.58	27.12
	99th Percentile	23.74	25.81	28.03	29.81	31.60	33.49	35.38	38.19	41.70	48.29	36.70
3 Years	1st Percentile	-12.04	-13.79	-14.79	-15.84	-16.71	-17.28	-18.09	-19.25	-20.40	-21.24	-17.64
	5th Percentile	-3.50	-4.13	-4.59	-4.98	-5.35	-5.66	-6.11	-6.81	-7.59	-9.11	-6.24
	25th Percentile	2.95	2.88	2.79	2.71	2.61	2.54	2.42	2.14	1.78	0.87	2.13
	<b>50th Percentile</b>	<b>6.16</b>	<b>6.35</b>	<b>6.45</b>	<b>6.58</b>	<b>6.76</b>	<b>6.91</b>	<b>7.05</b>	<b>7.11</b>	<b>7.12</b>	<b>6.88</b>	<b>6.79</b>
	75th Percentile	9.12	9.62	10.03	10.42	10.80	11.21	11.61	12.14	12.60	13.35	11.65
	95th Percentile	13.40	14.36	15.24	16.03	16.79	17.55	18.28	19.42	20.73	22.77	18.70
	99th Percentile	16.59	17.73	18.81	19.79	20.74	21.87	22.91	24.45	26.13	29.79	23.42
5 Years	1st Percentile	-7.86	-9.24	-10.00	-10.69	-11.22	-11.91	-12.53	-13.61	-14.78	-15.23	-12.33
	5th Percentile	-1.80	-2.35	-2.68	-2.97	-3.23	-3.62	-3.96	-4.57	-5.11	-6.28	-4.04
	25th Percentile	3.34	3.28	3.22	3.18	3.16	3.12	3.07	2.86	2.60	1.86	2.85
	<b>50th Percentile</b>	<b>5.96</b>	<b>6.15</b>	<b>6.29</b>	<b>6.45</b>	<b>6.58</b>	<b>6.73</b>	<b>6.89</b>	<b>6.98</b>	<b>7.00</b>	<b>6.87</b>	<b>6.72</b>
	75th Percentile	8.36	8.75	9.10	9.44	9.77	10.10	10.45	10.84	11.23	11.78	10.39
	95th Percentile	11.66	12.35	13.05	13.69	14.26	14.86	15.45	16.37	17.30	18.81	15.74
	99th Percentile	13.93	14.85	15.78	16.54	17.37	18.24	18.92	20.16	21.51	24.23	19.47
10 Years	1st Percentile	-3.78	-4.64	-5.17	-5.67	-6.10	-6.58	-7.21	-7.92	-8.59	-9.32	-6.82
	5th Percentile	0.24	-0.10	-0.37	-0.58	-0.73	-0.94	-1.17	-1.61	-2.04	-2.93	-1.31
	25th Percentile	3.90	3.90	3.88	3.91	3.93	3.95	3.97	3.88	3.70	3.20	3.81
	<b>50th Percentile</b>	<b>5.85</b>	<b>6.00</b>	<b>6.13</b>	<b>6.28</b>	<b>6.44</b>	<b>6.60</b>	<b>6.74</b>	<b>6.83</b>	<b>6.87</b>	<b>6.77</b>	<b>6.55</b>
	75th Percentile	7.63	7.97	8.24	8.53	8.81	9.09	9.36	9.67	9.94	10.20	9.27
	95th Percentile	9.96	10.48	10.99	11.44	11.88	12.35	12.83	13.46	14.07	15.13	12.91
	99th Percentile	11.57	12.38	12.97	13.61	14.27	14.89	15.54	16.41	17.33	18.94	15.72

Monte Carlo simulation results shown for the Current Target and efficient portfolios as detailed on page 9.

# Asset Allocation Study

## Monte Carlo Analysis: Expected Gain/Loss by Percentile

Time Period	Percentile	1	2	3	4	5	6	7	8	9	10	Current Target
1 Year	1st Percentile	-880.4	-961.2	-1,004.9	-1,065.9	-1,108.4	-1,146.2	-1,200.2	-1,263.3	-1,322.5	-1,340.7	-1,159.4
	5th Percentile	-320.8	-358.5	-390.5	-417.0	-443.5	-467.7	-499.6	-542.5	-593.5	-692.7	-496.7
	25th Percentile	66.6	59.3	50.0	42.8	35.4	26.1	15.7	-2.6	-29.7	-97.8	-5.4
	<b>50th Percentile</b>	261.8	271.3	277.9	284.3	291.0	297.9	304.1	309.1	307.6	294.7	289.8
	75th Percentile	445.8	471.4	495.4	518.4	541.9	563.9	587.6	618.9	652.9	706.2	590.7
	95th Percentile	726.2	782.6	836.3	885.8	930.9	979.4	1,031.4	1,107.7	1,191.4	1,369.7	1,065.5
	99th Percentile	943.6	1,031.6	1,116.8	1,190.2	1,254.4	1,313.9	1,379.5	1,501.2	1,633.8	1,929.8	1,456.3
3 Years	1st Percentile	-1,171.6	-1,335.5	-1,416.6	-1,500.5	-1,554.6	-1,599.8	-1,675.4	-1,779.0	-1,856.3	-1,899.2	-1,669.6
	5th Percentile	-387.9	-450.5	-492.3	-540.5	-581.8	-629.2	-670.8	-743.4	-818.2	-946.7	-670.4
	25th Percentile	360.5	349.6	338.4	330.9	320.9	312.1	299.7	262.0	222.6	128.8	265.7
	<b>50th Percentile</b>	778.7	805.8	823.9	847.5	865.7	883.5	901.3	911.7	921.1	905.3	877.8
	75th Percentile	1,187.0	1,249.1	1,307.9	1,362.9	1,418.8	1,480.4	1,535.6	1,611.2	1,680.2	1,778.8	1,529.4
	95th Percentile	1,789.5	1,920.9	2,049.3	2,165.9	2,282.9	2,397.6	2,533.8	2,710.9	2,912.2	3,319.6	2,583.0
	99th Percentile	2,209.4	2,406.8	2,590.8	2,761.3	2,915.5	3,094.5	3,292.7	3,552.7	3,891.5	4,571.5	3,373.1
5 Years	1st Percentile	-1,235.3	-1,409.1	-1,511.5	-1,609.3	-1,684.2	-1,762.7	-1,820.7	-1,922.4	-2,028.6	-2,098.5	-1,780.7
	5th Percentile	-306.8	-396.1	-462.6	-515.7	-563.4	-617.8	-667.0	-766.8	-849.2	-1,030.2	-655.6
	25th Percentile	735.1	722.8	717.2	714.8	712.8	704.3	692.8	655.5	603.4	432.7	646.0
	<b>50th Percentile</b>	1,339.6	1,381.2	1,421.5	1,460.8	1,502.3	1,545.3	1,580.1	1,600.3	1,611.3	1,570.7	1,524.1
	75th Percentile	1,954.1	2,069.4	2,166.8	2,259.1	2,353.2	2,450.2	2,549.6	2,669.6	2,784.4	2,937.5	2,542.5
	95th Percentile	2,874.0	3,093.7	3,291.6	3,490.3	3,683.7	3,878.6	4,079.8	4,393.8	4,716.6	5,344.5	4,180.9
	99th Percentile	3,598.2	3,906.4	4,265.6	4,571.7	4,834.2	5,123.9	5,427.7	5,872.4	6,397.8	7,411.9	5,565.0
10 Years	1st Percentile	-1,174.0	-1,435.2	-1,548.9	-1,703.9	-1,826.3	-1,929.7	-1,999.0	-2,166.0	-2,302.5	-2,401.6	-1,954.1
	5th Percentile	109.8	-45.3	-126.4	-208.4	-282.7	-355.3	-425.3	-579.4	-713.7	-919.0	-419.5
	25th Percentile	1,824.3	1,813.5	1,816.4	1,836.7	1,837.0	1,839.8	1,847.0	1,770.1	1,690.0	1,413.2	1,766.3
	<b>50th Percentile</b>	3,012.7	3,113.2	3,212.6	3,313.2	3,420.6	3,517.1	3,605.4	3,662.6	3,695.0	3,597.9	3,494.1
	75th Percentile	4,243.2	4,494.4	4,720.6	4,945.9	5,177.6	5,413.8	5,648.1	5,919.1	6,180.2	6,467.5	5,598.8
	95th Percentile	6,240.2	6,720.9	7,220.8	7,678.3	8,157.1	8,667.1	9,198.5	9,939.7	10,752.8	12,234.3	9,287.0
	99th Percentile	7,798.2	8,583.3	9,412.5	10,110.0	10,815.3	11,580.0	12,366.0	13,546.2	15,226.6	17,686.1	12,734.6

Monte Carlo simulation results shown for the Current Target and efficient portfolios as detailed on page 9.

Gain/Loss projections assume no cash flows and a starting market value of \$4.0B. Gain/Loss projections shown in millions and are in nominal terms.



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