

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** August 28, 2024

**TO:** SBCERS BOARD OF RETIREMENT

**FROM:** SBCERS Investment Staff

**RE:** **Real Return Public Market Survey Results**

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## **Recommendation**

That the Board of Retirement receive and file the Real Return Public Market Survey Results presentation by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc, the finalist presentation by State Street Global Advisors, and take one of the following actions:

- A. Authorize the SBCERS CEO to negotiate and execute a written agreement with State Street Global Advisors to manage the Public Real Return mandate.
- B. Take other action as deemed appropriate.

## **Summary**

The Board recently approved increasing the Private Real Return component from 60% to 75% of the Total Real Return allocation at the recommendation of RVK. This resulted in a corresponding reduction to the public/liquid portion of the allocation to a target of approximately \$165 million based on a \$4.4 billion portfolio size. Previously, the public portion had been allocated across three investment mandates, however, given the size reduction, RVK recommended studying the implementation of the public portion. In response to the recommendation, the Board approved the issuance of an Invitation to Bid (ITB) to public Diversified Inflation Strategy (DIS) managers.

The minimum qualifications for the ITB include at least \$500 million Assets Under Management (AUM), a DIS performance track record longer than five years and a lowest stated fee less than 75 bps for a \$100 million mandate. Daily liquidity of the strategy is not a minimum qualification but is a preferred criterion. Of the incumbent public real return managers, Cohen & Steers and Nuveen were invited to bid, the third manager, BNY was not invited due to the fact that the mandate was not DIS strategy, rather it was an undiversified Treasury Inflation Protection Strategy (TIPS) strategy. In addition to the incumbents, nine other DIS managers were invited to bid.

Of the eleven DIS managers invited to bid, five were selected as semi-finalists (shown alphabetically) to participate in interviews:

- Cohen & Steers
- Fidelity
- Nuveen
- PIMCO

- State Street Global Advisors (SSgA)

The semi-finalists represent those strategies that would be fit a beta-driven liquidity sleeve for Real Assets. From the semi-finalists, RVK selected State Street Real Asset Strategy as the finalist for presentation to the Board of Retirement. SSgA's Real Asset Strategy offers a lower cost of implementation through a passive index product with a fee of 20 bps. Another driving factor for SSgA's selection, is the meaningful allocation to TIPS which is important to replace the current dedicated TIPS exposure that will be eliminated as part of the restructuring of the Public Real Assets portfolio. The value of the public real return allocation was \$117 million as of June 30, 2024.

State Street Real Asset Strategy presentation will be introduced by Managing Directors Sonya Park and Michael Martel. Covering the strategy specifics will be Vice Presidents and Senior Portfolio Managers Tyhesha Harrington and Michael Narkiewicz.

**Attachments**

- Diversified Inflation Strategies ("DIS") Invitation to Bid Process Memo from RVK, Inc.
- State Street Global Advisors Real Asset Strategy Presentation