

# SBCERS

Santa Barbara County Employees' Retirement System

---

**DATE:** January 24, 2024  
**TO:** SBCERS BOARD OF RETIREMENT  
**FROM:** SBCERS Investment Staff  
**RE:** **U.S. Equity Structure Study**

---

## **Recommendation**

That the Board of Retirement receive and file the U.S. Equity Structure Study presented by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc., consider the recommendations of RVK, Inc., and take one of the following actions:

- A. Approve the restructuring of the Public U.S. Equity portion of the portfolio to terminate the Rice Hall James Small Cap Opportunities (SA) and Dimensional U.S. Small Cap Value (CF) allocations and reallocate the balances of approximately \$69 million into DFA U.S. Small Cap Portfolio Institutional Class (DFSTX); or
- B. Take other action as appropriate.

## **Summary**

SBCERS has three types of studies that are implemented at various intervals to review the System's investment strategy and determine whether changes should be made to reallocate funds based on capital market expectations and the most efficient way to access various asset classes. The types of studies are Asset/Liability, Asset Allocation and Asset Class Structure Studies. An Asset/Liability Study looks broadly at the plan's ability to meet its long-term liabilities. Asset Allocation studies narrow the scope to focus on the appropriate mix of Equity, Fixed Income and Alternative assets. Lastly, Asset Class Structure Studies are a deep dive into one specific asset class and are a review on whether the current iteration of the managers and strategies are the ideal implementation approach for the asset class.

Recent Asset Class Structure Studies include Global Fixed Income - Core (June 2022), Global Fixed Income - Non-Core (August 2022) and Global Public Equity - Developed Non-U.S. (December 2022). Two-thirds of the recent studies have included recommendations to consolidate managers to streamline the manager line-up without compromising SBCERS Risk/Return measures.

Today's Asset Class Structure Study is to review Global Public Equity - U.S. Currently, SBCERS has 4 managers within the Global Public Equity – U.S. Asset Class (U.S. Equity). Of the 4

managers there are 2 Large Cap and 2 Small Cap. Both Large Cap managers are passive and both Small Cap managers are active.

The recommendation of RVK, endorsed by Investment Staff, is to consolidate SBCERS' Small Cap into one core holding. SBCERS currently utilizes Rice Hall James (RHJ) Small Cap Opportunities Fund and Dimensional U.S. Call Cap Value (DFA). These funds are considered complimentary as RHJ is growth oriented and DFA is value oriented. As noted in previous Board Meetings, RHJ has been on the RVK's Watch List meeting the requirements of both Test 1 and Test 2 since Second Quarter 2023. Given the performance coupled with the relatively high fee, it is reasonable for SBCERS to consider alternatives. In addition, given RHJ's growth tilt, it does not make sense to maintain Dimensional U.S. Call Cap Value as a complimentary manager if Rice Hall James was terminated unless it was replaced by another growth-oriented manager, as that would result in a strong value tilt for the portfolio. Consolidating both managers into a core-styled manager for Small Cap is the logical choice for the aforementioned reasons in addition to lowering overall fees,

#### **Attachments**

- 2024-01 SBCERS U.S. Equity Structure Review (Final)