

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** June 26, 2024

**TO:** SBCERS BOARD OF RETIREMENT

**FROM:** SBCERS Investment Staff

**RE:** **Real Return Structure Part 2**

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## **Recommendation**

That the Board of Retirement receive and file the Real Return Structure Part 2 presented by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc.

## **Summary**

At the Board of Retirement's May 22<sup>nd</sup>, 2024, Board Meeting, the Board approved recommended changes to the Private to Public mix within Real Return that allocated 75% of the assets to private investments and the remaining 25% to public assets. RVK also recommended the Board review the structure of the Public Real Return allocation given the decreased allocation, which could result in a manager decrease. The current investment managers in Public Real Return include Mellon TIPS, Cohen & Steers Real Asset Mult-Strategy and Nuveen Real Asset Income.

In addition to achieving the broader goals for the asset class, the Public Real Return also provides liquidity. Should the System need a cash distribution and the total Real Return asset class is near the upper end of its target range, cash would be pulled from Public Real Return due to the illiquid nature of private investments. Thus, the objective is to find investment manager(s) that can provide liquidity and match the role of Real Return in the overall portfolio. Other special considerations supporting the recommendation to perform a search are the smaller size of assets going forward, fees and investment vehicle.

Diversified Inflation Strategies (DIS) are the best fit based on the role of Real Return in the overall portfolio. Invitations to bid will be issued to current DIS Managers that meet certain minimum qualifications established by RVK. The minimum qualifications, include at least \$500 million UAM, track record longer than 5 years and a lowest stated fee less than 75 bps for a \$100 million mandate. Of the current roster of Public Real Return Managers, Cohen & Steers will be Invited to Bid and Nuveen (despite not meeting minimum qualifications), in addition to 9 other DIS Managers. Mellon TIPS will not be invited to bid, as the strategy is not diversified across multiple inflation strategies. Daily liquidity of the strategy is not a minimum qualification but will be a preferred criteria of consideration for the respondents.

After the invitations are distributed, RVK will score the respondents and present the findings of the bid at the August 28<sup>th</sup>, 2024 Board Meeting. Scores will be based on 4 criteria: Firm, Team,

Philosophy/Process and Performance. The intention is to provide the Board of Retirement with the optimal manager(s) for the Public Real Return allocation.

**Attachments**

- 2024-06 SBCERS Real Return Structure Part 2 (Final)