

Semi-Annual Investment Performance Summary

# PERFORMANCE PULSE

December 2020



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# INTRODUCTION

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The Performance Pulse is a semi-annual summary of SamCERA's investment performance answering key questions to explain the performance of the fund, where the fund was invested and any significant updates or changes.

## THE KEY QUESTIONS

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### *How Did We Do?*

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Learn about SamCERA's total fund performance and how it compares to the policy benchmark.

2

### *Where Did We Invest?*

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Discover where the fund was invested. Compare the market value and allocation percentages for the current period and the prior period.

3

### *What Did We Do?*

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Explore details about updates to policies and any changes to the fund that occurred during the current period.

# HOW DID WE DO?

Table One shows SamCERA's total fund performance over various trailing time periods. As seen in the table, the portfolio returned 9.2% net of investment manager fees for the calendar year ended December 31, 2020, underperforming SamCERA's policy benchmark return of 9.3%. This calendar-year performance resulted in below median performance relative to SamCERA's peers, as defined by large (greater than \$1 billion in assets) public plans.

TABLE ONE: SAMCERA TOTAL FUND NET PERFORMANCE CHARACTERISTICS ENDING DECEMBER 31, 2020

	1 Year	3 Years	5 Years	10 Years
<b>SamCERA Return</b>	9.2%	6.7%	8.6%	7.9%
<b>Benchmark Return</b>	9.3%	7.3%	9.2%	8.3%
<b>Excess Return</b>	(0.1%)	(0.6%)	(0.6%)	(0.4%)
<b>Peer Rank Return (Percentile)</b>	75th	84th	82nd	51st
<b>SamCERA Risk (Std Dev)</b>	13.9	9.6	8.0	8.0
<b>Benchmark Risk (Std Dev)</b>	13.6	9.5	8.0	8.2
<b>SamCERA Sharpe Ratio</b>	0.6	0.5	0.9	0.9
<b>Benchmark Sharpe Ratio</b>	0.7	0.6	1.0	0.9

## RETURN/RISK MEASURE

SamCERA also looks at “risk-adjusted” returns to compare how much return was received given the risk (measured by standard deviation of returns) taken to achieve that return. This is typically measured by the Sharpe Ratio. The higher the ratio, the better, as it measures the return provided per unit of risk taken. For example, if a fund has a lower return than the benchmark but also a much lower risk level (as measured by standard deviation of returns), it may result in a higher risk-adjusted outcome. Conversely, if a fund has a higher return but also takes higher than commensurate risk than the benchmark, then its risk-adjusted return may be lower than that of the benchmark. Underperformance in the past three calendar years, along with elevated risk over the past year, has resulted in a lower risk-adjusted return relative to the benchmark over the past five years.

Table Two shows performance for each of SamCERA’s four primary composites. Three of four SamCERA asset class composites had positive returns for the calendar year. Alternatives was by far the best performing composite and returned 31.9%, while Inflation Hedge returned -6.9% and was the lowest returning asset class composite. Public Equity returned 13.7%, while Fixed Income returned 6.8%.

Inflation Hedge, in addition to being the worst-performing asset class composite, was also the worst performer relative to its benchmark return. Conversely, Alternatives provided the highest positive absolute return as well as the highest level of relative outperformance during the year.

TABLE TWO: SAMCERA COMPOSITE NET PERFORMANCE FOR TRAILING YEAR ENDING DECEMBER 31, 2020

<b>Composite</b>	<b>Composite Return</b>	<b>Benchmark Return</b>	<b>Excess Return</b>
Public Equity	13.7%	15.7%	-2.0%
Fixed Income	6.8%	7.0%	-0.2%
Alternatives	31.9%	11.8%	20.1%
Inflation Hedge	-6.9%	-0.6%	-6.3%

# WHERE DID WE INVEST?

In this section we show where the fund is invested, displaying both the market value and resulting allocation percentages for the current period end as well as six months ago. The allocation percentages include exposures from SamCERA's cash overlay program. Table Three shows that SamCERA's total market value was \$5.533 billion as of December 31, 2020, an increase of \$866.6 million from June 30, 2020. As can be seen below, during the second half of 2020 SamCERA 'leaned into' risk a bit by slightly increasing the allocation to public equity and slightly decreasing the exposure to fixed income.

TABLE THREE: SAMCERA ASSET ALLOCATION COMPARISON

	12/31/2020		6/30/2020		Change in %
	Market Value (\$m)	Allocation (%)	Market Value (\$m)	Allocation (%)	
Public Equity	2,266.7	41.0	1,866.3	40.0	+1.0
Fixed Income	1,642.3	29.7	1,475.2	31.6	-1.9
Alternatives	729.4	13.1	557.8	12.0	+1.1
Inflation Hedge	760.0	13.7	702.7	15.0	-1.3
Cash	134.8	2.4	64.6	1.4	+1.0
<b>Total</b>	<b>5,533.2</b>		<b>4,666.6</b>		

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## WHAT DID WE DO?

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During the period SamCERA continued contemplating the potential impacts that plan maturity may have on the plan, with particular emphasis on ways SamCERA can manage its cash flow needs by potentially establishing a liquidity buffer. In addition, we further diversified the manager risk within our absolute return portfolio by adding two new strategies. Both absolute return strategies will help SamCERA “diversify its diversifiers” by providing a more compelling expected positive carry compared to bond duration, given the current suppressed interest rate environment.

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