

Semi-Annual Investment Performance Summary

PERFORMANCE PULSE

December 2022



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INTRODUCTION

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

1

How Did We Do?

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

2

Where Did We Invest?

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?

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 -7.8% net of investment manager fees for the calendar year ended December 31, 2022, exceeding SamCERA's policy benchmark return of -9.6% by 1.8%. This calendar-year performance resulted in above 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, 2022

	1 Year	3 Years	5 Years	10 Years
SamCERA Return	-7.8%	4.0%	4.6%	6.9%
Benchmark Return	-9.6%	4.0%	4.9%	7.1%
Excess Return	1.8%	0.0%	(0.3%)	(0.2%)
Peer Rank Return (Percentile)	19th	74th	76th	55th
SamCERA Risk (Std Dev)	9.1	10.0	8.8	7.5
Benchmark Risk (Std Dev)	11.1	10.5	9.2	7.9
Peer Median Risk (Std Dev)	11.0	11.4	10.1	8.1
SamCERA Sharpe Ratio	n.a.	0.3	0.4	0.8
Benchmark Sharpe Ratio	n.a.	0.3	0.4	0.8
Peer Median Sharpe Ratio	n.a.	0.3	0.4	0.7

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.

The portfolio had a higher return and lower risk than the policy benchmark during the past year, which resulted in a higher risk-adjusted return. However, since the one-year excess return was negative, the Sharpe Ratio ranking is counterintuitive, and as a result ‘n.a.’ is shown for the one-year results. For the three, five, and ten-year periods, the portfolio exhibited both slightly lower return and risk compared to the policy benchmark, resulting in similar risk-adjusted returns. Relative to the median plan, the portfolio exhibited lower risk levels, resulting in similar risk-adjusted returns across the three and five-year periods, and a higher risk-adjusted return over the longer-term ten-year period.

Table Two shows performance for each of SamCERA’s four primary composites. Only one of the four asset class composites had positive returns for the calendar year. Inflation Hedge, which was the one composite with a positive return for the year, was the best performing composite and returned 7.6%, while Public Equity returned -14.9% and was the lowest returning asset class composite. Alternatives returned -1.6%, while Fixed Income returned -11.0%.

All four composites had positive relative returns compared to their respective benchmark, with Alternatives outperforming by 3.0%, Inflation Hedge by 2.4%, Public Equity by 1.2%, and Fixed Income by 0.5.

TABLE TWO: SAMCERA COMPOSITE NET PERFORMANCE FOR TRAILING YEAR
ENDING DECEMBER 31, 2022

Composite	Composite Return	Benchmark Return	Excess Return
Public Equity	-14.9%	-16.1%	1.2%
Fixed Income	-11.0%	-11.5%	0.5%
Alternatives	-1.6%	-4.6%	3.0%
Inflation Hedge	7.6%	5.2%	2.4%

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 \$5.685 billion as of December 31, 2022, an increase of \$18.2 million from June 30, 2022. Liquidity was increased by 3% as SamCERA funded fiscal year 2025 expected net cash flows from fixed income, resulting in a reduction in fixed income. The reduction to fixed income was offset by additions to other fixed income segments, resulting in an overall reduction of 2.1% to the asset class. The increase in public equity was a result of market movements and rebalancing into the asset class. Meanwhile, the reduction in alternatives was the result of the combined impacts of rebalancing out of absolute return strategies that had strong returns during the period, and the lagged effects from private equity valuation markdowns from the public market drawdown six months prior.

TABLE THREE: SAMCERA ASSET ALLOCATION COMPARISON

	12/31/2022		6/30/2022		Change in %
	Market Value (\$m)	Allocation (%)	Market Value (\$m)	Allocation (%)	
Public Equity	2,249.8	39.6	2,137.5	37.7	+1.9
Fixed Income	1,301.0	22.9	1,416.3	25.0	-2.1
Alternatives	738.4	12.9	840.8	14.8	-1.9
Inflation Hedge	1,062.0	18.7	1,109.9	19.6	-0.9
Liquidity	334.1	5.9	162.6	2.9	+3.0
Total	5,685.3		5,667.1		

WHAT DID WE DO?

In October, SamCERA approved a recommendation to replenish the cash flow match pool to include fiscal year 2025's net cash flows, resulting in adding \$170 million to the cash-flow matched account, funded from defensive fixed income. As a result, the cash-flow matched account contains the expected net cash flows for fiscal years 2023, 2024, and 2025, and will have a 4.5% target allocation. The updated asset allocation policy that reflects this is shown below. As part of the updated asset allocation, SamCERA established a new asset grouping titled Liquidity. This new Liquidity composite includes the cash-flow matched liquidity assets along with cash equivalents.

SAMCERA ASSET ALLOCATION POLICY

GROWTH	57%
Domestic Equity	21%
International Equity	19%
Private Equity	7%
Opportunistic Credit	10%
DIVERSIFYING	19.5%
Defensive Fixed	12.5%
Absolute Return	7%
INFLATION HEDGE	18%
Public Real Assets	4%
Real Estate	9%
Private Real Assets	5%
LIQUIDITY	5.5%
Cash Flow Matched	4.5%
Cash & Cash Equivalents	1%

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