Semi-Annual Investment Performance Summary

PERFORMANCE PULSE

June 2020

SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

CONTENTS

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 -0.2% net of investment manager fees for the fiscal year ended June 30, 2020, underperforming SamCERA's policy benchmark return of 1.6%. This fiscal-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 JUNE 30, 2020

	1 Year	3 Years	5 Years	10 Years
SamCERA Return	-0.2%	3.9%	4.9%	8.0%
Benchmark Return	1.6%	5.3%	5.9%	8.6%
Excess Return	(1.8%)	(1.4%)	(1.0%)	(0.6%)
Peer Rank Return (Percentile)	79th	87th	72nd	38th
SamCERA Risk (Std Dev)	12.1	8.8	8.0	8.2
Benchmark Risk (Std Dev)	11.5	8.6	8.0	8.5
SamCERA Sharpe Ratio	-0.1	0.3	0.5	0.9
Benchmark Sharpe Ratio	0.0	0.4	0.6	1.0

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 fiscal years, along with elevated risk over the past year, has resulted in a lower risk-adjusted return relative to the benchmark over all trailing periods.

Table Two shows performance for each of SamCERA's four primary composites (Risk Parity was removed during the period and is not shown below). Three of four SamCERA asset class composites had positive returns for the fiscal year. Fixed Income was the best performing composite and returned 4.4%, while Inflation Hedge returned -10.5% and was the lowest returning asset class composite. Alternatives returned 2.5%, while Public Equity returned 0.5%.

Inflation Hedge, in addition to being the worst-performing asset class composite, was also the worst performer relative to its benchmark return. Conversely, while providing the highest positive absolute return, Fixed Income detracted in terms of relative performance versus the benchmark. Alternatives outperformed during the year.

TABLE TWO: SAMCERA COMPOSITE NET PERFORMANCE FOR TRAILING YEAR ENDING JUNE 30, 2020

Composite	Composite Return	Benchmark Return	Excess Return
Public Equity	0.5%	2.1%	-1.6%
Fixed Income	4.4%	6.4%	-2.0%
Alternatives	2.5%	0.0%	2.5%
Inflation Hedge	-10.5%	-6.7%	-3.8%

Portfolio underperformance during the fiscal year came from three main positions:

1. A tactical position in public midstream energy equity within the Inflation Hedge category. Given the changed risk/return dynamics brought on by the COVID pandemic, SamCERA exited this position during the first quarter 2020 and repositioned the proceeds into US Equity.

2. Alternatives is comprised of both Private Equity and Absolute Return. Private Equity had substantial outperformance during the year, while Absolute Return had substantial underperformance (due to one investment). On the whole Alternatives had slight outperformance, although it would have been significantly higher without the impact from the Absolute Return investment which has experienced a multi-year drawdown. During the past year SamCERA downsized this position, and fully exited it effective July 2020. SamCERA is currently seeking a suitable replacement strategy.

3. Low volatility stocks with U.S. Equity. Low volatility stocks fully participated in the equity drawdown in March 2020 (not expected), and failed to participate fully in the market rebound during the second quarter (this was expected). SamCERA is maintaining this position going forward.

The two exited positions accounted for the majority of fund's underperformance during the current fiscal year. SamCERA believes that the fund is in better position to provide attractive risk-adjusted returns going forward.

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 $4.66 billion as of June 30, 2020, a decrease of $268 million from December 31, 2019.

TABLE THREE: SAMCERA ASSET ALLOCATION COMPARISON

	6/30/2020		12/31/2019		Change in %
	Market Value ($m)	Allocation (%)	Market Value ($m)	Allocation (%)	
Public Equity	1,866.3	40.0	2,043.5	41.4	-1.4
Fixed Income	1,475.2	31.6	1,065.0	21.5	+10.1
Alternatives	557.8	12.0	538.6	10.9	+1.1
Inflation Hedge	702.7	15.0	801.1	16.2	-1.2
Risk Parity	0	0	407.9	8.3	-8.3
Cash	64.6	1.4	78.5	1.6	-0.2
Total	**4,666.6**		**4,934.6**		

WHAT DID WE DO?

As can be seen by the large changes in positioning in Table Three, SamCERA completed the transition to the new asset allocation policy portfolio during the first half of 2020. The new policy eliminated the 8% allocation to Risk Parity and reduced Inflation Hedge by 3%, while Diversifying assets increased by 8% and Growth assets increased by 3%. The table below compares the new policy to the old policy. The new policy is in effect from July 1, 2020.

TABLE FOUR: ASSET ALLOCATION POLICY - PERFORMANCE DRIVER VIEW

	Old Policy	New Policy
Growth	**52%**	**55%**
Public Equity	37%	39%
Private Equity	6%	6%
Opportunistic Credit	9%	10%
Diversifying	**20%**	**28%**
Core Fixed Income	14%	21%
Absolute Return	6%	6%
Liquidity	0%	1%
Inflation Hedge	**20%**	**17%**
Real Estate	10%	10%
Private Real Estate	4%	3%
Public Real Assets	6%	4%
Risk Parity	**8%**	**0%**

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