



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 13

MEETING DATE: May 15, 2024

SUBJECT: Cash Management Policy

SUBMITTED FOR: ___ Consent X Deliberation and Action ___ Receive and File

RECOMMENDATION

Amend Cash Management Policy to establish parameters for SCERS' cash held in Sacramento County's Pooled Investment Fund.

PURPOSE

This item supports the Strategic Management Plan goal to provide prudent and effective funding policies and practices that assist in producing low contribution rate volatility and plan sustainability.

SUMMARY

The Cash Management Policy (Policy) exists to identify processes and tools to assist SCERS in the management of cash, monitoring of liquidity, and the management of liquidity risk. As stated by the Policy, the objectives are to:

- Ensure that member benefit payment and funding obligations are met without interruption regardless of financial market conditions.
- Provide a process for the oversight and management of cash.
- Oversee liquidity risk and maintain appropriate liquidity profiles within the Plan.

The Policy generally provides direction regarding SCERS' custodied assets held by State Street. However, SCERS also maintains a cash account in Sacramento County's Pooled Investment Fund (PIF) as a pass-through vehicle to pay regular operating expenses, including staff payroll and retiree benefit payments. SCERS' cash account is pooled with Sacramento County's pool of cash assets and managed internally by the Sacramento County Department of Finance. SCERS holds a monthly operating balance in the PIF that can range from \$0 to \$22 million.

Proposed amendments to the Policy formally recognize the SCERS' cash held in the PIF and the role it plays for the System. Specifically, the proposed amendments:

- Establish that SCERS will maintain an adequate cash balance in the PIF;
- Formalize SCERS' longstanding business practice to retain bi-monthly employer and employee contributions in the PIF; and,
- Establish that SCERS' cash in the PIF will be accounted for as part of SCERS' dedicated cash allocation in the investment portfolio.
- Remove reference to the specific target of a "1%" dedicated cash allocation, as that allocation is subject to change and is currently 2%.
- Add minor language changes for clarity and conciseness.

DISCUSSION

SCERS requires timely cash access to pay retiree pension benefits, taxes, death benefit claims, and to pay operating expenses and employee payroll, all at varying times throughout a month. The operational cash needs fluctuate widely over a 30-day period depending on the time of month. The fluctuation through the SCERS' PIF account can vary from \$0 to \$65 million over the course of just a few days.

SCERS also receives approximately \$18 million in monthly cash inflows to the PIF from bi-monthly employer and employee contributions, services purchase payments, and collections from overpaid benefits (which can occur after a member's death). The long-standing business practice at SCERS has been to retain that income in the PIF account for cash accessibility and efficiency, instead of sweeping funds and depositing the cash at State Street. The exception is the County's annual prepayment of employer contributions (approximately \$345 million), which is transferred to State Street and invested through the cash-overlay program.

By retaining the monthly cash inflows, staff can more easily pay monthly expense obligations without making multiple cash drawdowns from State Street throughout the month. Consequently, it is more prudent to keep invested assets at State Street, thus reducing costs associated with liquidating and transferring money between the custodian bank and PIF.

Current cash management practices require only one monthly cash draw from the investment portfolio to cover monthly benefit payments, ranging from \$25 million to \$48 million, with an average monthly cash draw of \$41 million. Transferring money to the PIF from State Street takes 3 to 5 business days. To ensure accurate cash management, SCERS' accounting staff utilize cash-flow projections and coordinate with the SCERS' investment staff to ensure there is sufficient cash liquidity available within the investment accounts to allow for timely transfer of money from the custodial bank.

Other considerations

Maintaining an overly large cash balance in the PIF could result in a cash drag on the SCERS' investment program. However, a relatively small cash balance that is recognized as part of the total portfolio is actuarially acceptable, per SCERS' consulting actuary, Segal.

An \$18 million PIF balance represents about 0.15% of the \$13 billion total fund. Though the PIF cash is recognized in SCERS' financial statements, it is not currently included in the fund's 2% dedicated cash allocation. Including the PIF balance as part of the total fund investment portfolio would prevent SCERS from over-allocating cash.

In recent months, the Board and Staff have held several discussions about SCERS' cash holdings and counterparty risk. Staff reviewed the PIF profile and confirmed the County cash pool is managed prudently and conservatively, and includes securities such as U.S. Treasuries, U.S. Agencies, and commercial paper, which is similar to the types of securities invested within SCERS' custodial cash. The County cash pool earns a yield in line with that of SCERS' custodial cash, and has similar risk exposure, including duration and counterparty risk.

ATTACHMENTS

- Board Order
- Segal Letter, SCERS Cash Management Policy, May 6, 2024
- Redlined version of policy with proposed amendments
- Clean version of policy with proposed amendments

Prepared by:

/s/

Margo Allen
Chief Operations Officer

Reviewed by:

/s/

Eric Stern
Chief Executive Officer



Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
May 15, 2024

AGENDA ITEM:

Cash Management Policy

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to amend Cash Management Policy to establish parameters for SCERS' cash held in Sacramento County's Pooled Investment Fund.

I HEREBY CERTIFY that the above order was passed and adopted on May 15, 2024 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES
(Present but not voting):

James Diepenbrock
Board President

Eric Stern
Chief Executive Officer and
Board Secretary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary
T 415.263.8283
ayeung@segalco.com

180 Howard Street
Suite 1100
San Francisco, CA 94105-6147
segalco.com

May 6, 2024

Mr. Eric Stern
Chief Executive Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

**Re: Sacramento County Employees' Retirement System (SCERS)
Cash Management Policy**

Dear Eric:

In our July 1, 2019 through June 30, 2023 Actuarial Experience Study report dated June 13, 2023, we discussed the 6.75% per annum investment return assumption adopted by the Board and used starting with the June 30, 2023 valuation.

The 6.75% investment return assumption was developed using the latest target asset allocation at the time when we completed our analysis. Based on that target asset allocation and the real rate of return assumptions for the various asset classes available at the time, we calculated SCERS' portfolio expected arithmetic real rate of return as 5.92%. After applying adjustments for: inflation, conversion to geometric return, expenses and a risk adjustment, we came up with the 6.75% final investment return assumption.

We understand that at the meeting on June 21, 2023, the Board decided to revise SCERS' target asset allocation by increasing the Cash allocation from 1% to 2%, and reducing the Liquid Real Return allocation from 2% to 1%. Using this slightly modified target asset allocation together with the exact same adjustments as described above from our experience study, there would have been a slight decrease from 5.92% to 5.88% in the portfolio expected arithmetic real rate of return. Along with the other components, this slight reduction in real return would result in a slight decrease to the 62% confidence level associated with the 6.75% investment return assumption.* We note that the 62% confidence level is higher than the confidence level of 54% observed in the triennial experience study recommending the investment return assumption used starting with the June 30, 2020 valuation.

We understand that to ensure efficient management of liquidity and cash available to meet benefit payments and other obligations, SCERS maintains a cash account in Sacramento County's Pooled Investment Fund (PIF). The balance in the PIF was \$7.7 million as of June 30, 2023, and we understand the monthly operating balance in the PIF ranges from \$0 to \$22 million. In a memo prepared by your office for the May 2024 Board meeting, SCERS references an \$18 million in the PIF and that the balance is not currently included in SCERS' 2% Cash allocation. As \$18 million is only about 0.15% of the total plan assets of \$13 billion, we

* Decrease from 62.1% to 61.6%, which both round to 62%.

Mr. Eric Stern
May 6, 2024
Page 2

do not believe a 0.15% over allocation to Cash would be expected to have a very significant impact on the System's long term investment return assumption of 6.75%.

We understand that the \$18 million PIF balance cited above has been funded with bi-monthly employer and employee contributions, services purchase payments, and collections from overpaid benefits. From an actuarial perspective, we do not believe the source of fund would change the comment we express above regarding the impact of the PIF on the 6.75% assumption.

Please let us know if you have any questions.

Sincerely,



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary

ST/elf

cc: Margo Allen



CASH MANAGEMENT POLICY

RED LINE VERSION WITH PROPOSED AMENDMENTS

PURPOSE

This Policy identifies processes and tools to assist the Sacramento County Employees' Retirement System (SCERS, the Plan, or the System) in the management of cash, monitoring of liquidity, and the management of liquidity risk.

The objectives of the cash management policy are to:

- Ensure that member benefit payment and funding obligations are met without interruption regardless of financial market conditions.
- Provide a process for the oversight and management of cash.
- Oversee liquidity risk and maintain appropriate liquidity profiles within the SCERS Plan.

POLICY

SCERS' assets are broken into different liquidity categories, measured by the expected time it takes to convert an asset into cash. –They are shown below from most liquid, including cash, to least liquid. –The ability to convert an asset into cash within the non-cash categories is impacted by whether financial markets are in a “normal” or “stressed” liquidity environment. A stressed liquidity environment occurs during a broad disruption within financial markets that could have unfavorable effects on the Plan's ability to meet liquidity needs. –A stressed liquidity environment is often triggered by a severe, unanticipated market or non-market event.

Dedicated ~~1%~~ Cash Allocation

- A dedicated ~~1%~~ cash allocation is included in SCERS' strategic asset allocation and serves as a key liquidity tool.
- The cash allocation is intended to close the gap between annual benefit payments and total contributions in an environment where investment earnings fall short of the targeted assumed rate of ~~return, and~~ return and will be used prior to other Plan assets during a stressed liquidity environment.

Other Cash

- Cash ~~not included~~excluded as part of the dedicated ~~1%~~ cash allocation ~~that~~ is reserved for other uses. ~~It~~ This cash includes:
 - ~~Employer and employee~~Prepayment of employer annual contributions.
 - Cash held to fund alternative assets commitments.
 - Distributions from illiquid assets and investment income.
- ~~'Other Cash'~~ is reserved for:
 - Monthly benefit payments.
 - Funding of private market capital calls.
 - Other plan expenses.
- Cash not included as part of the dedicated ~~1%~~ cash allocation is invested by SCERS' Overlay Program in a manner which replicates SCERS' policy target strategic asset ~~allocation, and~~allocation and is exposed to market risks.
- This 'Other Cash' can be used to supplement cash needs over interim time periods; however, it is reserved for future uses as described above.

Liquid Financial Assets

- Assets that typically have the ability to convert to cash within 1 to 7 days in a "normal" liquidity environment, and 7 to 10 days in a "stressed" liquidity environment.
- Includes: Public Equities (both domestic and international) and Fixed Income (U.S. Treasuries; core/core plus fixed income).
 - U.S. Treasuries represent SCERS' most liquid asset outside of cash, typically offering 1-day liquidity regardless of liquidity environment.
 - Often trade at a higher value in a stressed market environment.
 - U.S. Treasuries are a favored liquidity source outside of cash.
 - Core plus fixed income typically provides liquidity in approximately 3 to 7 days depending on the liquidity ~~environment, and~~environment and is also considered a favored liquidity source.
 - Typically lose less value than "risky" assets such as public equities during a stressed market environment, and can sometimes trade at a higher value.
 - U.S. equities are typically more liquid (3-7 days) than non-U.S. equities (7-10 days).
 - U.S. and non-U.S. public equities typically experience meaningful losses during a broad market downturn, and are considered an

unfavorable source of liquidity, as liquidity taken during a market downturn will typically result in selling assets at discounted prices.

Semi-Liquid Assets

- Assets that are invested within open-end commingled funds with monthly and quarterly liquidity in a “normal” liquidity environment.
- Includes: Absolute Return, Core Real Estate, and parts of Real Assets (Infrastructure).
- Liquidity can move from monthly/quarterly in a ‘normal’ liquidity environment to one year or greater in a “stressed” liquidity environment.

Illiquid Financial Assets

- Assets that are invested within closed-end multi-year fund structures.
- Includes: Private Equity, Private Credit, Real Assets, and Non-Core Real Estate.
- For liquidity purposes, these assets are defined as having the ability to convert to cash in one year or greater, whether in a “normal” or “stressed” liquidity environment.
 - These are typically 5-15 year fund structures, and are generally held until maturity.
 - Liquidity can be gained through the secondary markets; however, this can result in realizing a discounted price to fair market value.
- Liquidity becomes more limited in a “stressed” liquidity environment.

APPLICATION

Liquidity Measurement

SCERS shall keep track of the liquidity profile of the overall Plan. SCERS’ investment consultants and actuarial consultant will assist in forecasting cash flows, and SCERS’ general investment consultant will perform a liquidity analysis. SCERS’ liquidity will be measured in the form of a liquidity coverage ratio that compares the Plan’s liquid assets and cash inflows to the Plan’s cash outflows and expenses, including:

Liquid assets and cash inflows:

- Liquid financial assets
- Total employer and employee contributions
- Distributions from illiquid assets (i.e., private equity; private credit; real assets; real estate)
- Investment Income

Cash outflows and expenses:

- Member benefit payments
- Plan expenses
- Capital calls for illiquid assets

The objective is for the aggregate of liquid financial assets and total cash inflows to be greater than total cash outflows and expenses. A liquidity coverage ratio provides a gauge whether SCERS has sufficient liquidity coverage with Cash and Liquid Financial Assets to cover cash outflows over a designated time period after a major market dislocation (i.e., 5 years), and not be in a position where it needs to sell Illiquid Financial Assets to meet plan obligations. It provides an indication of the level of illiquid financial assets exposure the Plan can maintain, with the higher the liquidity coverage ratio the higher the potential exposure to illiquid assets.

To err on the side of prudence, a more conservative liquidity coverage ratio will also be measured, which will measure only the liquidity of Liquid Financial Assets that the Plan would be more comfortable using and/or selling in a stressed market environment in which broad markets are likely down in value. These include cash, U.S. Treasuries, and core/core plus fixed income, rather than public equities, which as referenced above tend to experience meaningful losses during a broad market downturn, and would not be favorable to sell for liquidity purposes.

Measurement Period

SCERS' Staff (Staff) and SCERS' general investment consultant will evaluate and monitor SCERS' liquidity profile on an ongoing basis and will report to SCERS' Board of Retirement (Board) any identified liquidity issues. At a minimum, Staff and SCERS' general investment consultant will update the Board on SCERS' liquidity profile annually. A meaningful imbalance between the level of the Plan's liquid assets and cash inflows and the Plan's cash outflows and expenses will trigger a discussion with the Board to identify a course of action to address the potential liquidity shortfall.

Cash Flow Forecasting

Cash flow forecasts will be prepared for all areas of the Plan where business activity can result in a material impact to the liquidity coverage of the System.

SCERS' actuarial consultant will provide forecasts of member benefit payments, and employer and employee contributions that are used as inputs into the calculation of the liquidity coverage ratio.

For the purpose of creating annual investment plans for private market asset classes, and as an input to the calculation of a liquidity coverage ratio, SCERS' alternative assets and real estate consultants will provide private market cash flow forecasting on an annual basis, or more frequently as needed. This data will be primarily focused on ~~the~~

~~Private~~Private Equity, Private Credit, Real Assets, and Real Estate asset classes. The private market cash flow forecasting typically covers new commitment pacing, fair value as a percentage of plan assets estimates, and net cash flow forecasts over a 10-year period.

Rebalancing

SCERS employs an Overlay Program to rebalance the asset allocation to policy targets and minimize the risk that SCERS falls short of achieving its targeted return due to the asset allocation straying from policy target ranges. The Overlay Program also invests all available cash outside of the dedicated ~~4%~~ cash allocation, including: (1) unallocated cash; (2) cash balances in manager portfolios; and (3) cash held for previously committed to, but un-invested private market investments, in a manner which replicates SCERS' policy target strategic asset allocation.

As an alternative to overlay rebalancing, SCERS also employs physical rebalancing: (1) when there is low correlation between the overlay proxies designed to replicate the underlying asset classes and managers, as is the case with many alternative assets; and (2) when there is a persistently large difference between physical assets and the target allocation.

Physical rebalancing will serve as an additional tool to managing cash flows by reducing exposure to asset classes that are overweight to their respective target allocations, and adding exposure to asset classes that are underweight their respective target allocations, including the dedicated cash allocation.

County Pooled Investment Fund

SCERS will maintain an adequate cash balance within the Sacramento County Pooled Investment Fund (PIF) to meet SCERS' cash flow needs and payment obligations. Below are characteristics of the cash balance held in the PIF:

- Includes bi-monthly employer and employee contributions, and other cash inflows;:-
- The amount of cash will vary on a monthly basis depending on the timing of cash inflows and outflows;:-
- SCERS will not maintain an excessive balance, and any excessive cash will be transferred to SCERS' custodial cash account; and, -
- Cash held in the PIF will be accounted for within SCERS' total portfolio in combination with the aggregate cash levels held at SCERS' custodian.

Annual prepayments of employer contributions will not be held in the PIF:

- The annual prepayment will be transferred to the custodian and invested through SCERS' overlay program according to SCERS' strategic asset allocation, in order to earn a return in line with the discount that is embedded into the annual employer prepayment.
- The annual prepayment incurs a wider variety of markets risks including equity, credit, and duration risk, and therefore necessitates longer holding periods as these funds are drawn down over the following year.

BACKGROUND

The Board has the sole and exclusive responsibility to administer SCERS in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The Board may delegate certain responsibilities to SCERS' Staff for purposes of implementation, administrative efficiency, and expertise. Among these responsibilities are the management of cash, monitoring of liquidity, and the management of liquidity risk in order to assist the Board with its fiduciary duties.

SCERS' strategic asset allocation emphasizes diversification across market segments to reduce volatility and portfolio downside risk, reduce the range of outcomes that the portfolio is subjected to, and generate increasing levels of cash flows. However, in a stressed market environment, SCERS' assets can experience negative returns, which will make earning the actuarial rate of return challenging. Falling short of the actuarial rate of return over an extended period could put pressure on SCERS' ability to meet benefit payment and funding obligations, which emphasizes the need for maintaining sufficient liquidity within the investment portfolio. The cash management policy will assist in ensuring that SCERS is in a sufficient liquidity position across economic and market cycles.

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
<u>05-15-2024</u>	<u>Board amended policy</u>
09-21-2022	Board re-affirmed policy with minor corrections
08-21-2019	Board approved Cash Management Policy



CASH MANAGEMENT POLICY

CLEAN VERSION AS AMENDED

PURPOSE

This Policy identifies processes and tools to assist the Sacramento County Employees' Retirement System (SCERS, the Plan, or the System) in the management of cash, monitoring of liquidity, and the management of liquidity risk.

The objectives of the cash management policy are to:

- Ensure that member benefit payment and funding obligations are met without interruption regardless of financial market conditions.
- Provide a process for the oversight and management of cash.
- Oversee liquidity risk and maintain appropriate liquidity profiles within the SCERS Plan.

POLICY

SCERS' assets are broken into different liquidity categories, measured by the expected time it takes to convert an asset into cash. They are shown below from most liquid, including cash, to least liquid. The ability to convert an asset into cash within the non-cash categories is impacted by whether financial markets are in a "normal" or "stressed" liquidity environment. A stressed liquidity environment occurs during a broad disruption within financial markets that could have unfavorable effects on the Plan's ability to meet liquidity needs. A stressed liquidity environment is often triggered by a severe, unanticipated market or non-market event.

Dedicated Cash Allocation

- A dedicated cash allocation is included in SCERS' strategic asset allocation and serves as a key liquidity tool.
- The cash allocation is intended to close the gap between annual benefit payments and total contributions in an environment where investment earnings fall short of the targeted assumed rate of return and will be used prior to other Plan assets during a stressed liquidity environment.

Other Cash

- Cash excluded as part of the dedicated cash allocation is reserved for other uses. This cash includes:
 - Prepayment of employer annual contributions.
 - Cash held to fund alternative assets commitments.
 - Distributions from illiquid assets and investment income.
- Other Cash is reserved for:
 - Monthly benefit payments.
 - Funding of private market capital calls.
 - Other plan expenses.
- Cash not included as part of the dedicated cash allocation is invested by SCERS' Overlay Program in a manner which replicates SCERS' policy target strategic asset allocation and is exposed to market risks.
- This 'Other Cash' can be used to supplement cash needs over interim time periods; however, it is reserved for future uses as described above.

Liquid Financial Assets

- Assets that typically have the ability to convert to cash within 1 to 7 days in a “normal” liquidity environment, and 7 to 10 days in a “stressed” liquidity environment.
- Includes: Public Equities (both domestic and international) and Fixed Income (U.S. Treasuries; core/core plus fixed income).
 - U.S. Treasuries represent SCERS' most liquid asset outside of cash, typically offering 1-day liquidity regardless of liquidity environment.
 - Often trade at a higher value in a stressed market environment.
 - U.S. Treasuries are a favored liquidity source outside of cash.
 - Core plus fixed income typically provides liquidity in approximately 3 to 7 days depending on the liquidity environment and is also considered a favored liquidity source.
 - Typically lose less value than “risky” assets such as public equities during a stressed market environment, and can sometimes trade at a higher value.
 - U.S. equities are typically more liquid (3-7 days) than non-U.S. equities (7-10 days).
 - U.S. and non-U.S. public equities typically experience meaningful losses during a broad market downturn, and are considered an

unfavorable source of liquidity, as liquidity taken during a market downturn will typically result in selling assets at discounted prices.

Semi-Liquid Assets

- Assets that are invested within open-end commingled funds with monthly and quarterly liquidity in a “normal” liquidity environment.
- Includes: Absolute Return, Core Real Estate, and parts of Real Assets (Infrastructure).
- Liquidity can move from monthly/quarterly in a ‘normal’ liquidity environment to one year or greater in a “stressed” liquidity environment.

Illiquid Financial Assets

- Assets that are invested within closed-end multi-year fund structures.
- Includes: Private Equity, Private Credit, Real Assets, and Non-Core Real Estate.
- For liquidity purposes, these assets are defined as having the ability to convert to cash in one year or greater, whether in a “normal” or “stressed” liquidity environment.
 - These are typically 5-15 year fund structures, and are generally held until maturity.
 - Liquidity can be gained through the secondary markets; however, this can result in realizing a discounted price to fair market value.
- Liquidity becomes more limited in a “stressed” liquidity environment.

APPLICATION

Liquidity Measurement

SCERS shall keep track of the liquidity profile of the overall Plan. SCERS’ investment consultants and actuarial consultant will assist in forecasting cash flows, and SCERS’ general investment consultant will perform a liquidity analysis. SCERS’ liquidity will be measured in the form of a liquidity coverage ratio that compares the Plan’s liquid assets and cash inflows to the Plan’s cash outflows and expenses, including:

Liquid assets and cash inflows:

- Liquid financial assets
- Total employer and employee contributions
- Distributions from illiquid assets (i.e., private equity; private credit; real assets; real estate)
- Investment Income

Cash outflows and expenses:

- Member benefit payments
- Plan expenses
- Capital calls for illiquid assets

The objective is for the aggregate of liquid financial assets and total cash inflows to be greater than total cash outflows and expenses. A liquidity coverage ratio provides a gauge whether SCERS has sufficient liquidity coverage with Cash and Liquid Financial Assets to cover cash outflows over a designated time period after a major market dislocation (i.e., 5 years), and not be in a position where it needs to sell Illiquid Financial Assets to meet plan obligations. It provides an indication of the level of illiquid financial assets exposure the Plan can maintain, with the higher the liquidity coverage ratio the higher the potential exposure to illiquid assets.

To err on the side of prudence, a more conservative liquidity coverage ratio will also be measured, which will measure only the liquidity of Liquid Financial Assets that the Plan would be more comfortable using and/or selling in a stressed market environment in which broad markets are likely down in value. These include cash, U.S. Treasuries, and core/core plus fixed income, rather than public equities, which as referenced above tend to experience meaningful losses during a broad market downturn, and would not be favorable to sell for liquidity purposes.

Measurement Period

SCERS' Staff (Staff) and SCERS' general investment consultant will evaluate and monitor SCERS' liquidity profile on an ongoing basis and will report to SCERS' Board of Retirement (Board) any identified liquidity issues. At a minimum, Staff and SCERS' general investment consultant will update the Board on SCERS' liquidity profile annually. A meaningful imbalance between the level of the Plan's liquid assets and cash inflows and the Plan's cash outflows and expenses will trigger a discussion with the Board to identify a course of action to address the potential liquidity shortfall.

Cash Flow Forecasting

Cash flow forecasts will be prepared for all areas of the Plan where business activity can result in a material impact to the liquidity coverage of the System.

SCERS' actuarial consultant will provide forecasts of member benefit payments, and employer and employee contributions that are used as inputs into the calculation of the liquidity coverage ratio.

For the purpose of creating annual investment plans for private market asset classes, and as an input to the calculation of a liquidity coverage ratio, SCERS' alternative assets and real estate consultants will provide private market cash flow forecasting on an annual basis, or more frequently as needed. This data will be primarily focused on Private Equity,

Private Credit, Real Assets, and Real Estate asset classes. The private market cash flow forecasting typically covers new commitment pacing, fair value as a percentage of plan assets estimates, and net cash flow forecasts over a 10-year period.

Rebalancing

SCERS employs an Overlay Program to rebalance the asset allocation to policy targets and minimize the risk that SCERS falls short of achieving its targeted return due to the asset allocation straying from policy target ranges. The Overlay Program also invests all available cash outside of the dedicated cash allocation, including: (1) unallocated cash; (2) cash balances in manager portfolios; and (3) cash held for previously committed to, but un-invested private market investments, in a manner which replicates SCERS' policy target strategic asset allocation.

As an alternative to overlay rebalancing, SCERS also employs physical rebalancing: (1) when there is low correlation between the overlay proxies designed to replicate the underlying asset classes and managers, as is the case with many alternative assets; and (2) when there is a persistently large difference between physical assets and the target allocation.

Physical rebalancing will serve as an additional tool to managing cash flows by reducing exposure to asset classes that are overweight to their respective target allocations, and adding exposure to asset classes that are underweight their respective target allocations, including the dedicated cash allocation.

County Pooled Investment Fund

SCERS will maintain an adequate cash balance within the Sacramento County Pooled Investment Fund (PIF) to meet SCERS' cash flow needs and payment obligations. Below are characteristics of the cash balance held in the PIF:

- Includes bi-monthly employer and employee contributions, and other cash inflows;
- The amount of cash will vary on a monthly basis depending on the timing of cash inflows and outflows;
- SCERS will not maintain an excessive balance, and any excessive cash will be transferred to SCERS' custodial cash account; and,
- Cash held in the PIF will be accounted for within SCERS' total portfolio in combination with the aggregate cash levels held at SCERS' custodian.

Annual prepayments of employer contributions will not be held in the PIF:

- The annual prepayment will be transferred to the custodian and invested through SCERS' overlay program according to SCERS' strategic asset allocation, to earn

a return in line with the discount that is embedded into the annual employer prepayment.

- The annual prepayment incurs a wider variety of markets risks including equity, credit, and duration risk, and therefore necessitates longer holding periods as these funds are drawn down over the following year.

BACKGROUND

The Board has the sole and exclusive responsibility to administer SCERS in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The Board may delegate certain responsibilities to SCERS' Staff for purposes of implementation, administrative efficiency, and expertise. Among these responsibilities are the management of cash, monitoring of liquidity, and the management of liquidity risk in order to assist the Board with its fiduciary duties.

SCERS' strategic asset allocation emphasizes diversification across market segments to reduce volatility and portfolio downside risk, reduce the range of outcomes that the portfolio is subjected to, and generate increasing levels of cash flows. However, in a stressed market environment, SCERS' assets can experience negative returns, which will make earning the actuarial rate of return challenging. Falling short of the actuarial rate of return over an extended period could put pressure on SCERS' ability to meet benefit payment and funding obligations, which emphasizes the need for maintaining sufficient liquidity within the investment portfolio. The cash management policy will assist in ensuring that SCERS is in a sufficient liquidity position across economic and market cycles.

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
05-15-2024	Board amended policy
09-21-2022	Board re-affirmed policy with minor corrections
08-21-2019	Board approved Cash Management Policy