



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 12

MEETING DATE: September 18, 2024

SUBJECT: Enterprise Risk Tolerance Survey

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Receive and file results of Enterprise Risk Tolerance (ERT) Survey, as presented by Verus.

PURPOSE

This item represents a component of the asset liability modeling (ALM) study, which supports SCERS' Master Investment Policy Statement (IPS). The Master IPS calls for an ALM study to be conducted at least every five years.

DISCUSSION

Verus recently conducted an ERT survey with the SCERS Board. A primary objective of the assessment is to gauge Board member's understanding of risk considerations for the SCERS plan, as well as their and the plan's ability, willingness, and comfort in taking various types of risk in order to achieve SCERS' investment objectives. The assessment also covers plan objectives. The assessment combines quantitative and qualitative considerations based on feedback from Board members. The feedback from the Board will play an important role in considering asset allocation mix options when conducting the ALM study over the next several months.

A secondary objective of the ERT assessment was to gain insight related to the Board's view across a number of other topics, such as portfolio preferences related to investment philosophy, asset allocation, portfolio complexity, governance, and implementation approaches, as well as organizational and operational risks.

Verus will present the results of the ERT assessment for further discussion with the Board.

ATTACHMENTS

- Board Order
- Verus Enterprise Risk Tolerance (ERT) Assessment presentation

Prepared by:

/s/

Steve Davis
Chief Investment Officer

Reviewed by:

/s/

Eric Stern
Chief Executive Officer



Retirement Board Order

Sacramento County Employees' Retirement System

**Before the Board of Retirement
September 18, 2024**

AGENDA ITEM:

Enterprise Risk Tolerance Survey

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to receive and file results of Enterprise Risk Tolerance (ERT) Survey, as presented by Verus.

I HEREBY CERTIFY that the above order was passed and adopted on September 18, 2024 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:

(Present but not voting)

Board President

Eric Stern
Chief Executive Officer and
Board Secretary



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



SEPTEMBER 2024

Enterprise Risk Tolerance (ERT) Assessment

Sacramento County Employees' Retirement System

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SEATTLE 206-622-3700
LOS ANGELES 310-297-1777

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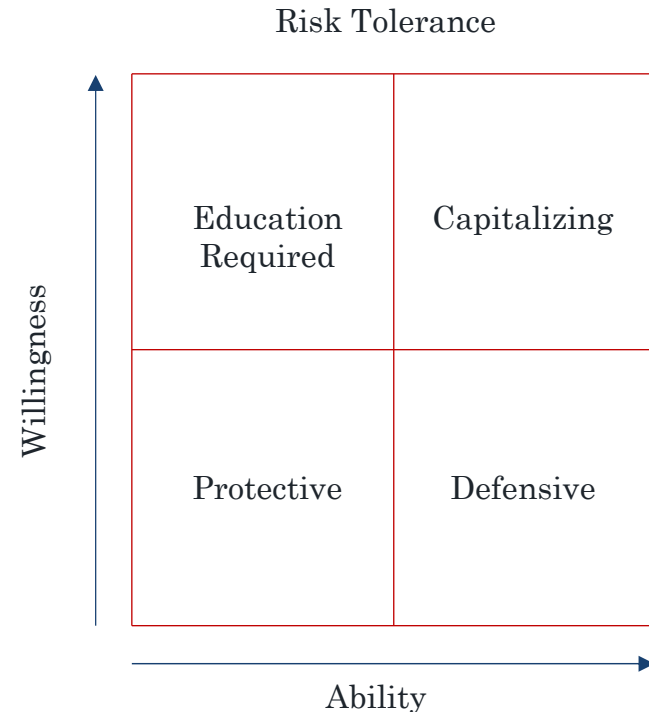
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I. Introduction

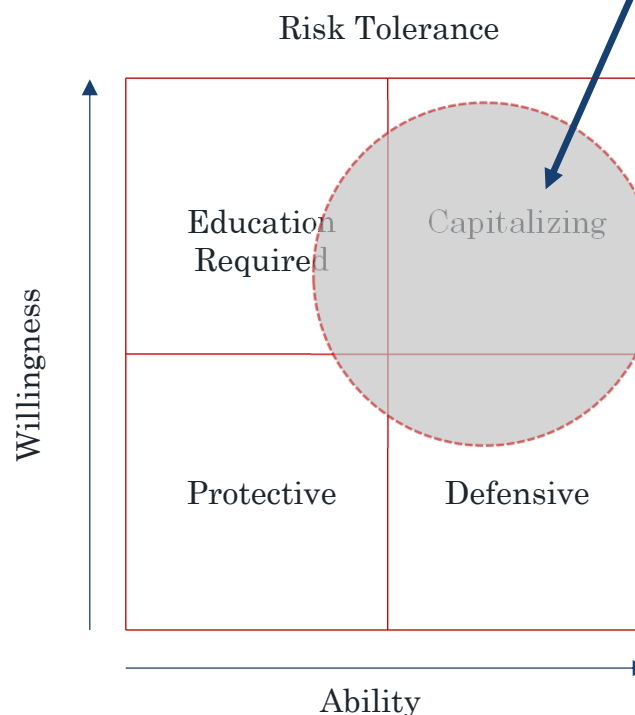
Enterprise Risk Tolerance in context

- Properly assessing enterprise risk tolerance (“ERT”) has important and practical implications for investment strategy development.
- Identifying the appropriate risk tolerance for a plan involves viewing risk in terms of the Plan’s willingness and ability to bear risk.
- The ability to bear risk depends on financial circumstances while the willingness to bear risk is generally based on investor’s attitudes and beliefs about investments.
- **In today’s session, we review SCERS willingness and ability to incur investment risk, based on our findings from recent Trustee interviews.**
- Although the SCERS Board’s duty is to the beneficiaries of the Association, assessing the County’s financial situation and ability to make contributions to the Pension is one component in evaluating the Plan’s ability to take on risk.



Summary observations

- ERT interviews indicate a Trustee's willingness to accept risk include:
 - Not overly concerned about peer risk
 - Willingness to deviate from the herd (thought leader)
 - Confidence in governance structure
 - Willingness to consider new strategies with appropriate education/understanding
- Some potential opportunities to provide more reporting on investment managers and education on functional portfolio approach



ERT Trustee interviews would imply SCERS is somewhere here

Trustees are comfortable with current level of risk/downside protection

Similar results to last ERT study conducted in 2021

SCERS ERT interview objectives

—Primary objectives:

- Assess the Trustees' understanding of as well as ability, willingness and comfort in taking different types of risks to achieve the objectives of the SCERS mission
- Put current Trustee perspectives and views into historical context and incorporate into the 2024/25 asset/liability study

—Secondary benefit/opportunity:

- Validate the governance process and effectiveness among Trustees, Board, Staff and service providers
- Understanding and acknowledgement of what is working
- Identify potential opportunities for improvement across investment, operations and governance processes and practices

II. Mission and Objectives

Mission and objectives

“How would you describe SCERS mission and objectives, and do you prioritize any objectives over others? “

“Diversified well performing investments and making certain that obligations are met for beneficiaries in a most efficient and timely manner. “

Pay benefits, minimize plan sponsor volatility

Important objectives is customer service. Better informing active and retired members

Current mission statement is spot on, dedicated and effective in a prudent way

Customer service is #1, Sustainability/Investment planning and growth, Organizational growth

See lower contributions from county and get to 100% funded (keeping in mind diversification and risk management)

Sustainably manage a pension fund for the county. Meet the goal of paying out benefits to members. Trying to maximize profits and adhere to risk benefits vs gains

Dedicated to providing highest level of retirement services and managing systems resources in efficient and prudent manner

Making sure we have enough assets to pay off liabilities is paramount. Everything else is secondary.

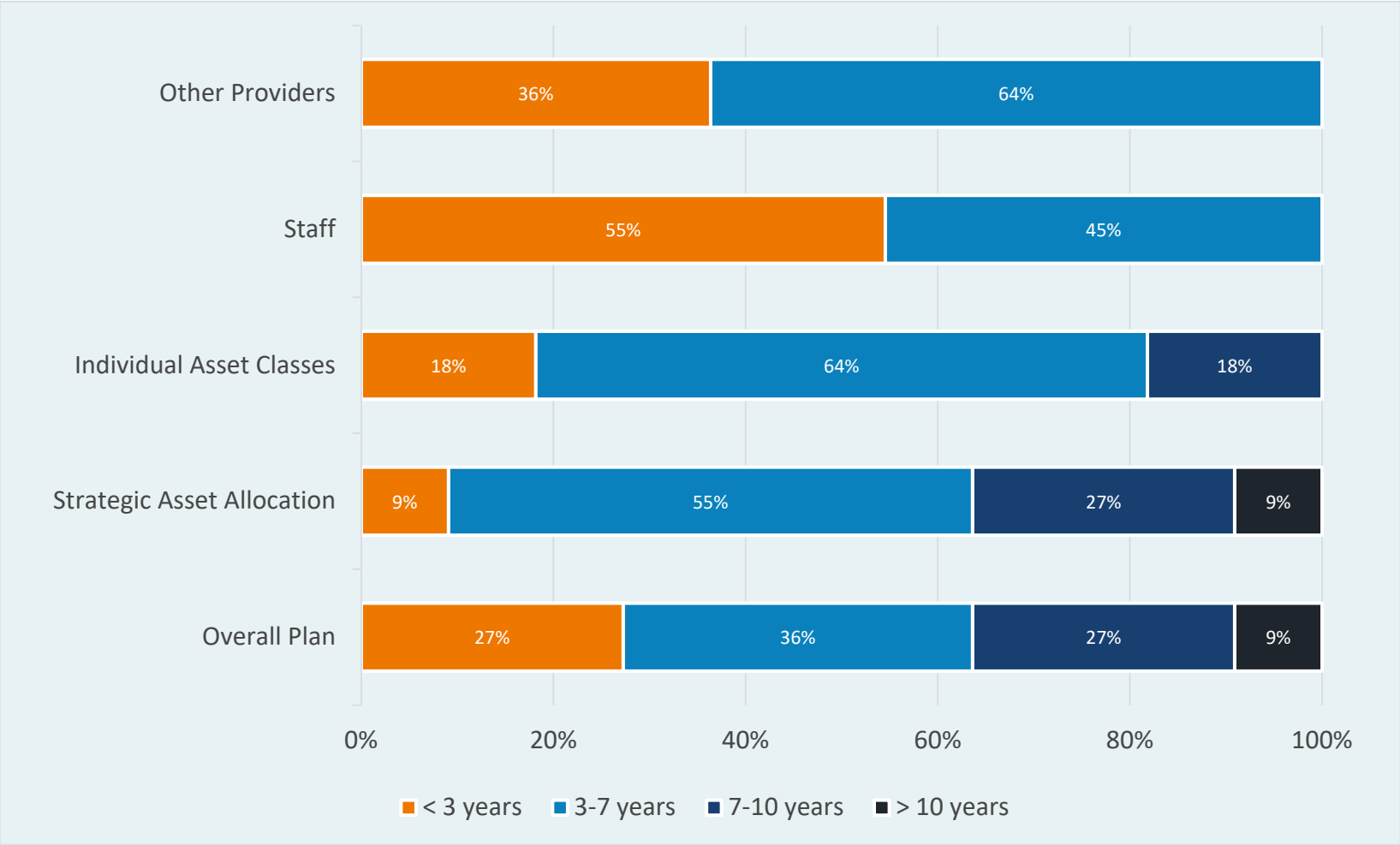
Fund benefits for retirees, need to hit return targets, administer benefits, everything else secondary (e.g., ESG)

Grow assets to a sustainable level to account for losses, inflation and protect downside risk. Process the pension payments to members.

There is broad agreement on SCERS overall mission, objectives, and priorities

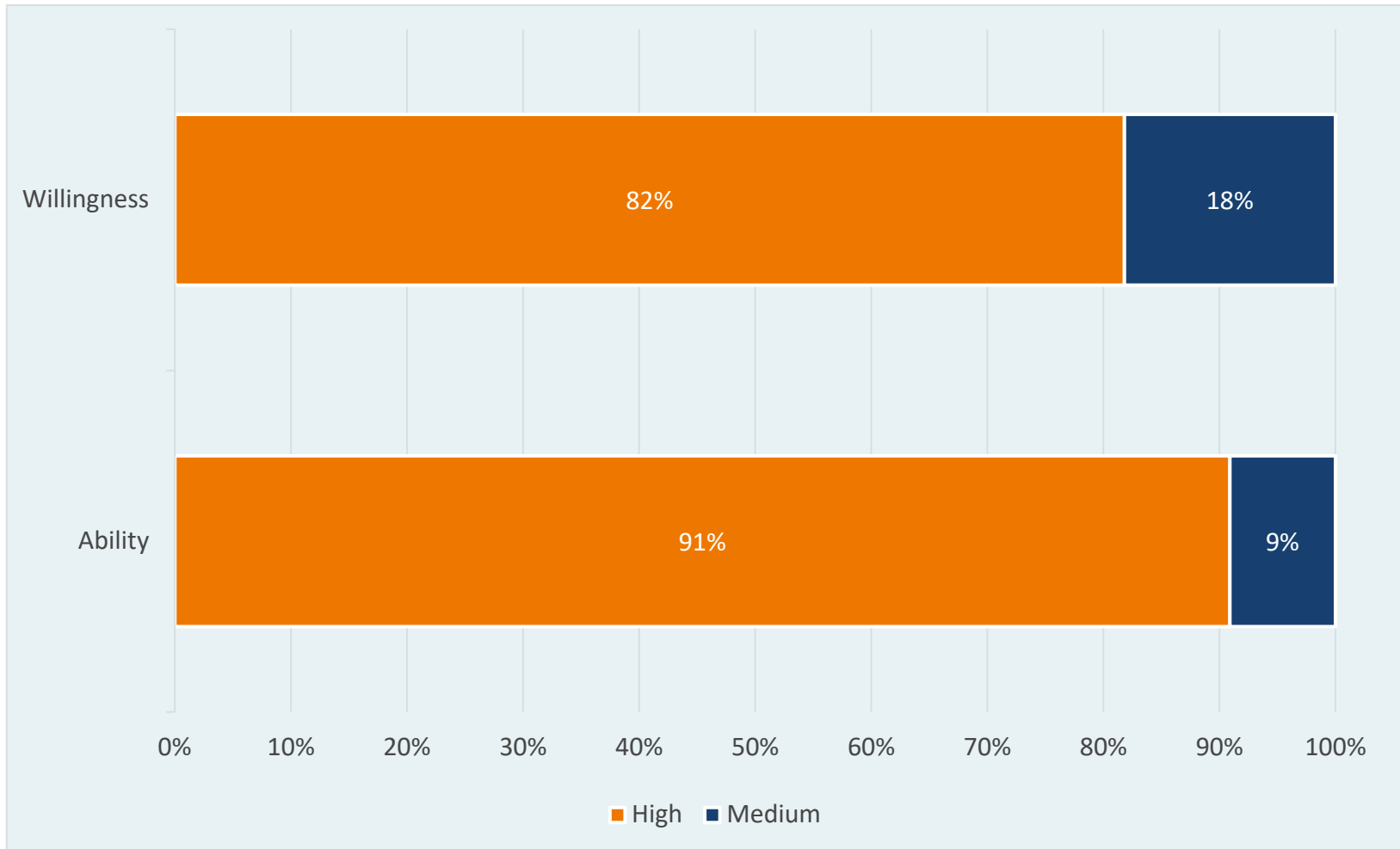
Some view objectives like customer service as an important objective, others see that (and others) as secondary to meeting financial obligations

Evaluation period



Trustees generally had a longer-term focus with investment performance and a medium-term focus with Staff and other service providers

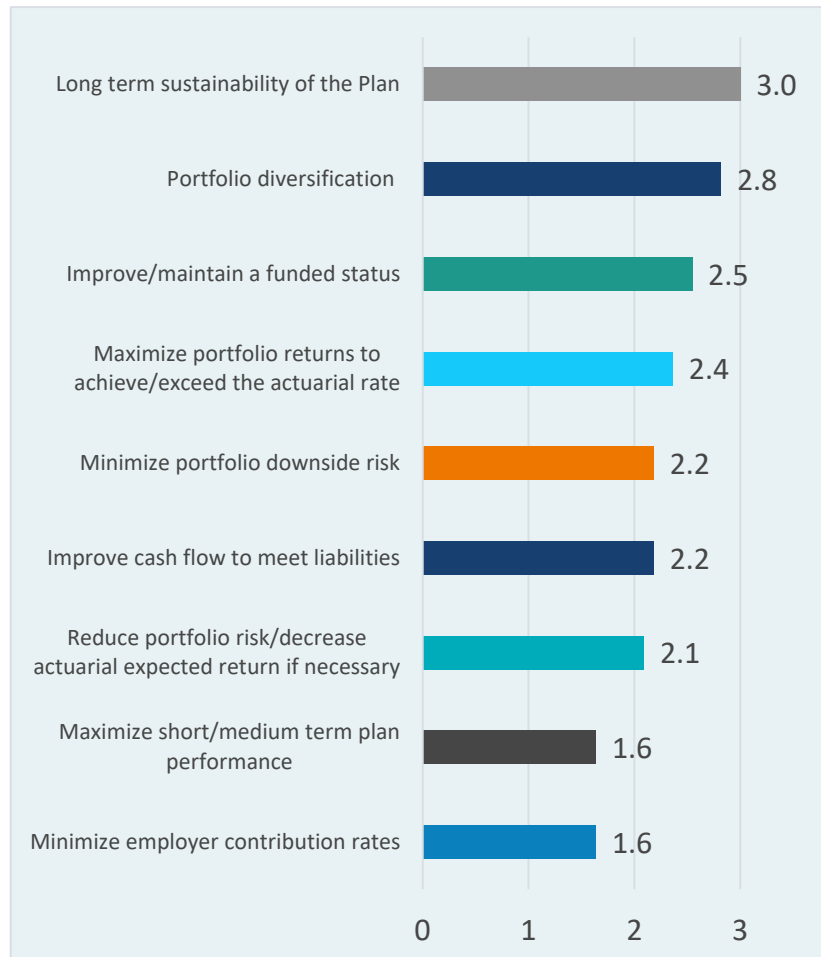
Plan sponsor support



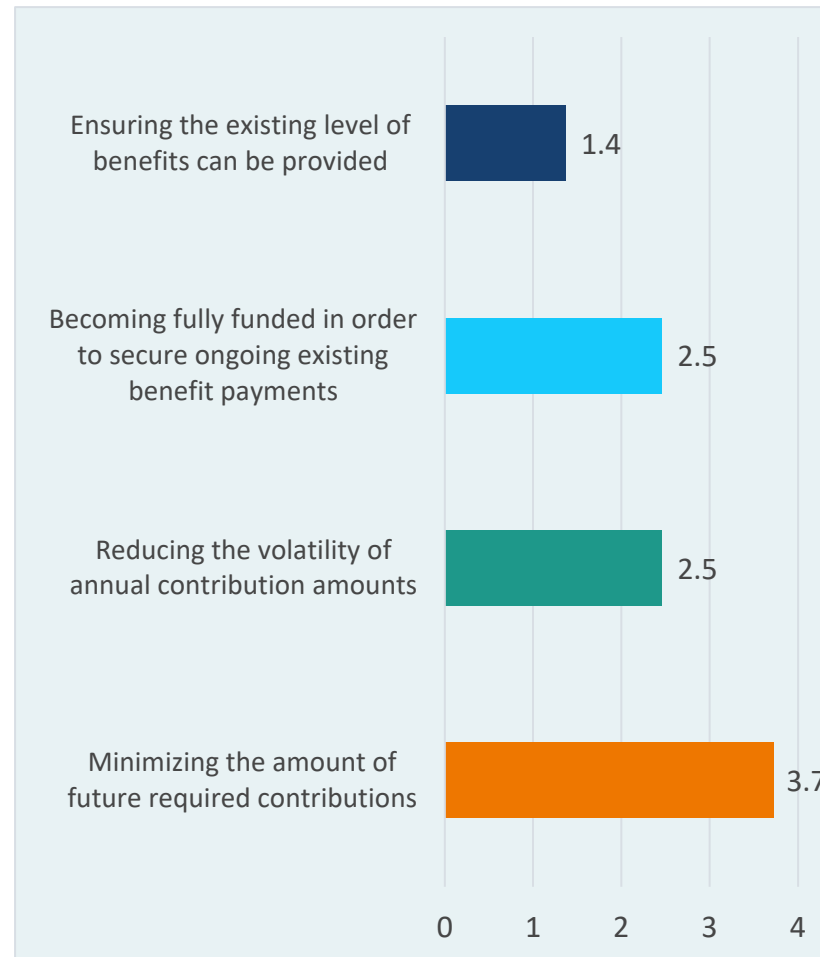
High level of Trustee confidence in both willingness and ability to support SCERS

Plan objectives

DESCRIBE THE LEVEL OF IMPORTANCE (3=HIGH, 1=LOW)



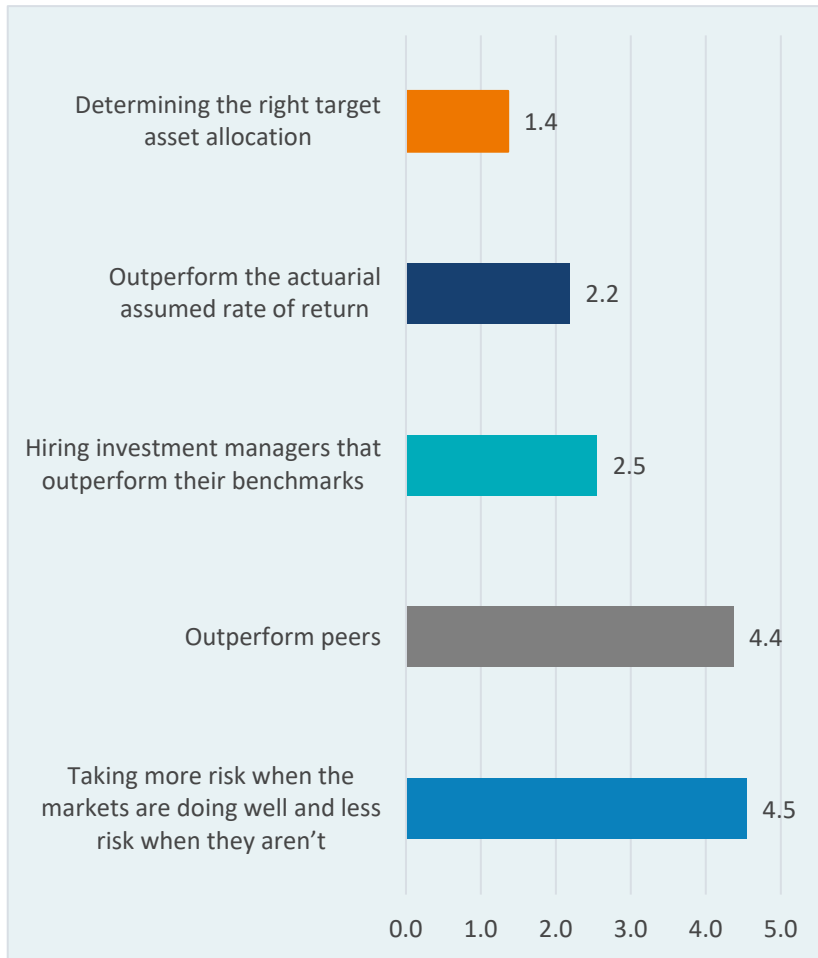
RANK IN ORDER OF IMPORTANCE (1=HIGHEST, 4=LOWEST)



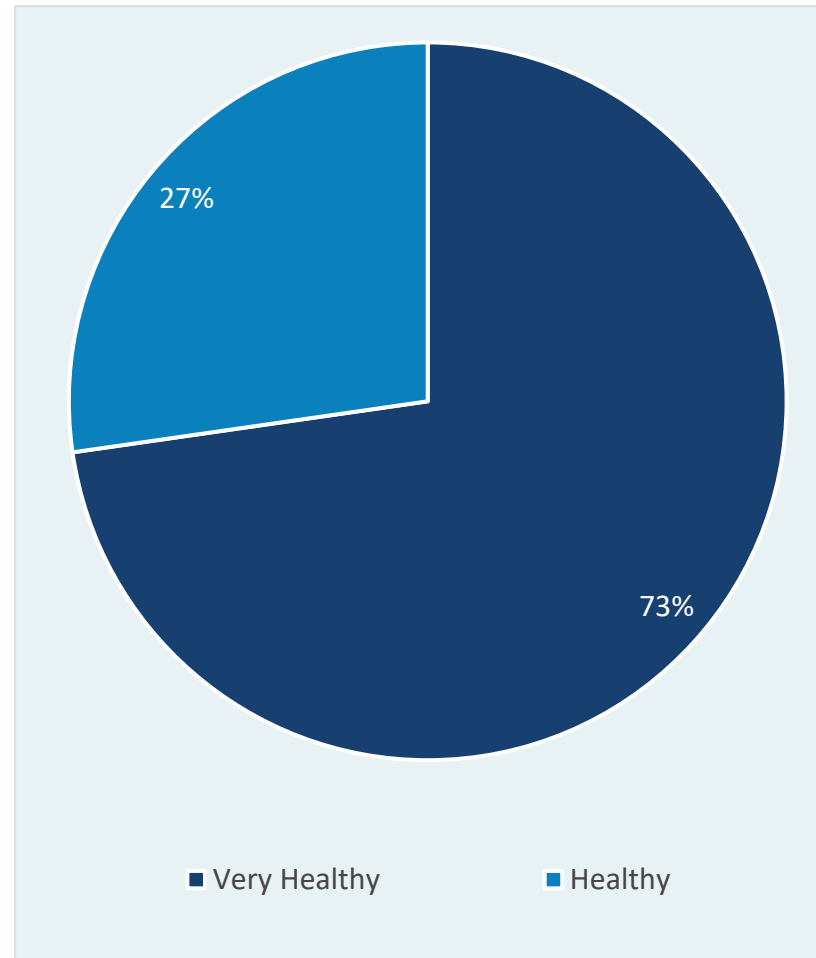
Sustainability of the Plan and paying benefits were the Trustees' most important objectives

Plan objectives

RANK IN ORDER OF IMPORTANCE (1=HIGHEST, 5=LOWEST)



CHARACTERIZE THE CURRENT HEALTH OF THE PLAN

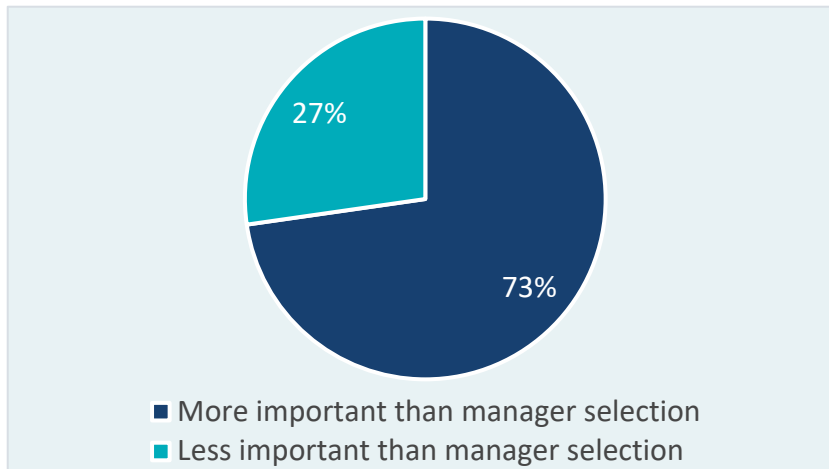


Getting the right asset allocation is the most important investment decision

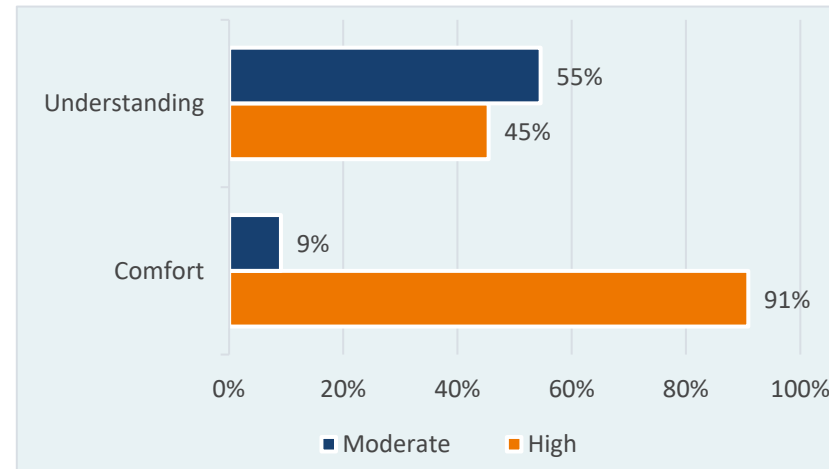
III. Portfolio Preferences

Portfolio preferences

ASSET ALLOCATION IS GENERALLY



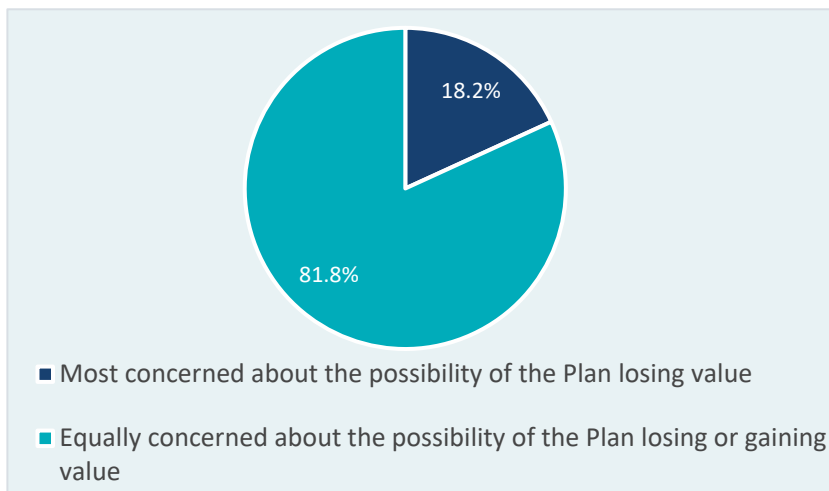
UNDERSTANDING AND COMFORT WITH FUNCTIONAL APPROACH



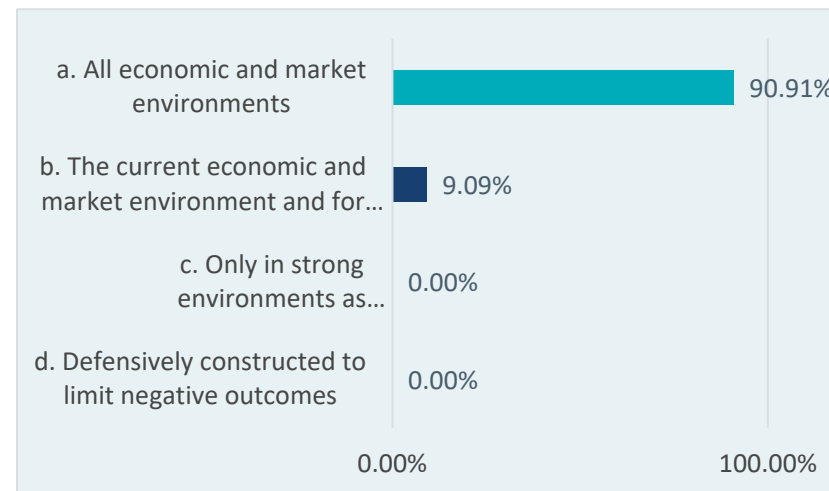
General agreement across portfolio preferences among Trustees.

Trustees are broadly comfortable with the functional approach to asset allocation but perhaps some education is needed

WHEN DECIDING HOW TO INVEST PLAN ASSETS, I AM

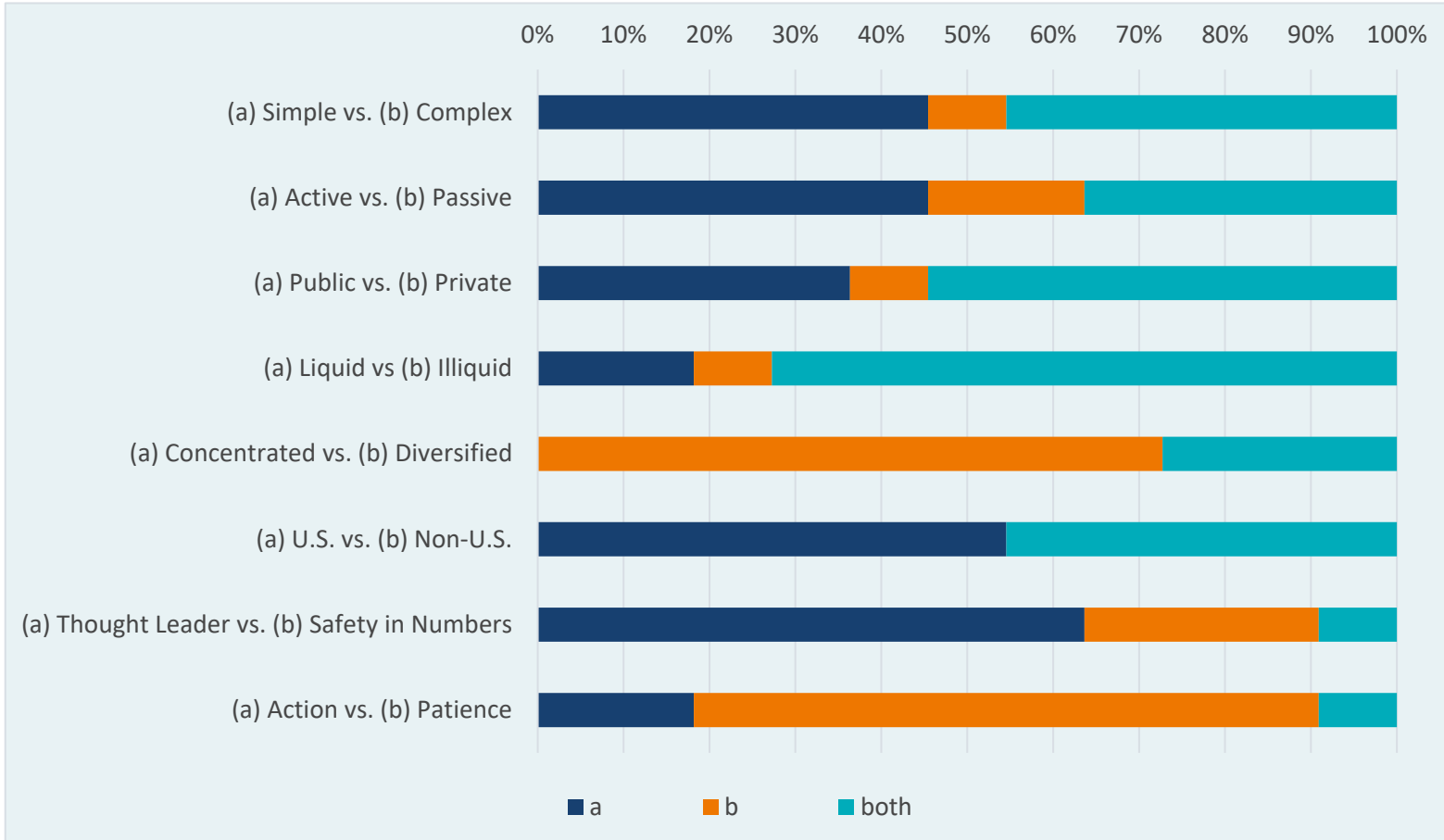


PORTFOLIO CONSTRUCTED TO DO WELL IN WHICH OF THE FOLLOWING



Portfolio preferences (cont..)

INVESTMENT PHILOSOPHY



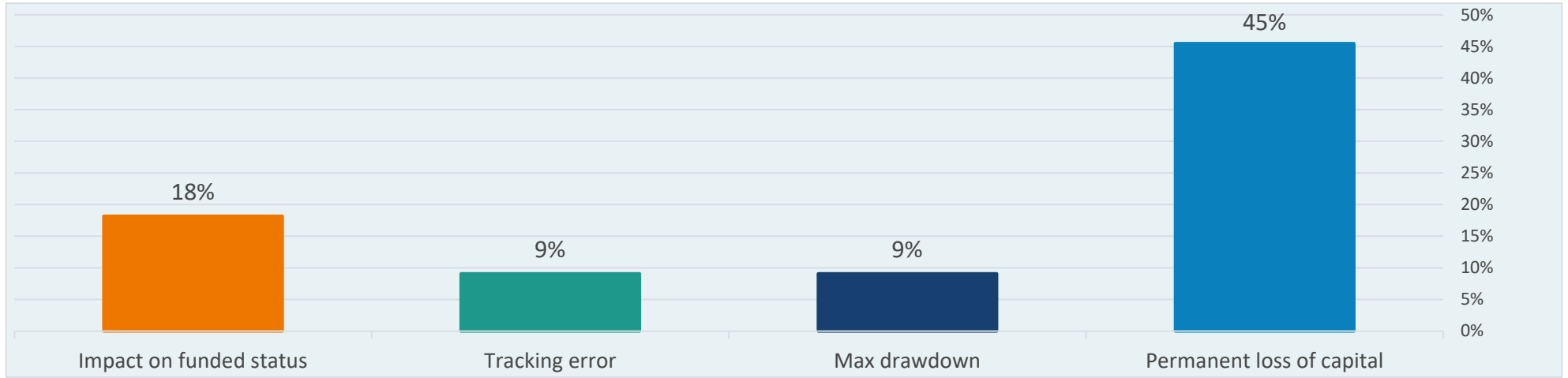
Trustees were generally flexible around investment preferences, preferring to utilize the full toolkit of investment options

Strong preference to be diversified across portfolio strategy and styles and remain patient vs. reactive or overly tactical

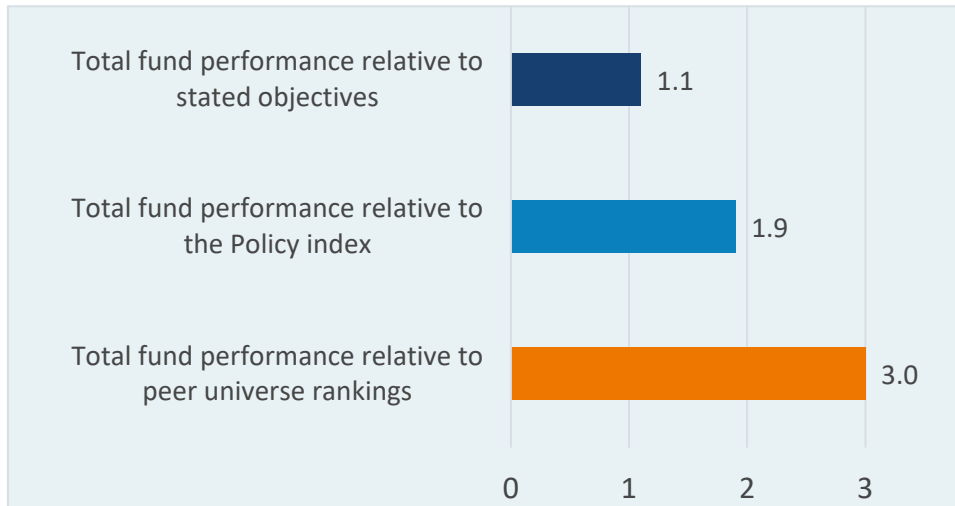
There was also some willingness to be a thought leader

Portfolio preferences (cont..)

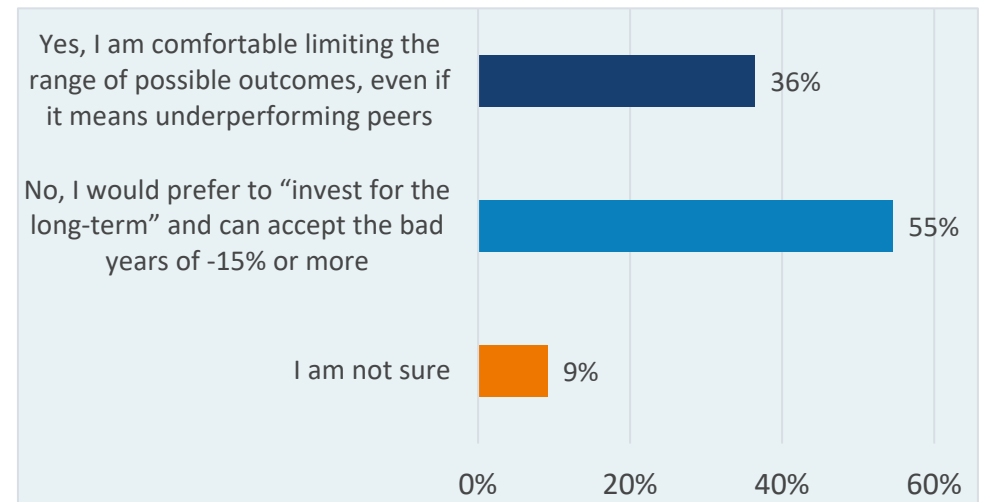
HOW DO YOU DEFINE RISK?



RANK IN ORDER OF IMPORTANCE (1-3)

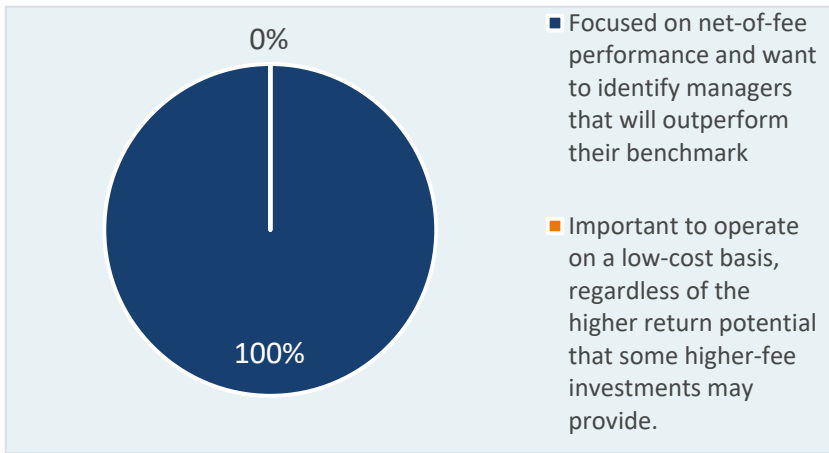


FOREGO THE ABILITY TO EARN OUTSIZED RETURNS TO LIMIT THE DOWNSIDE

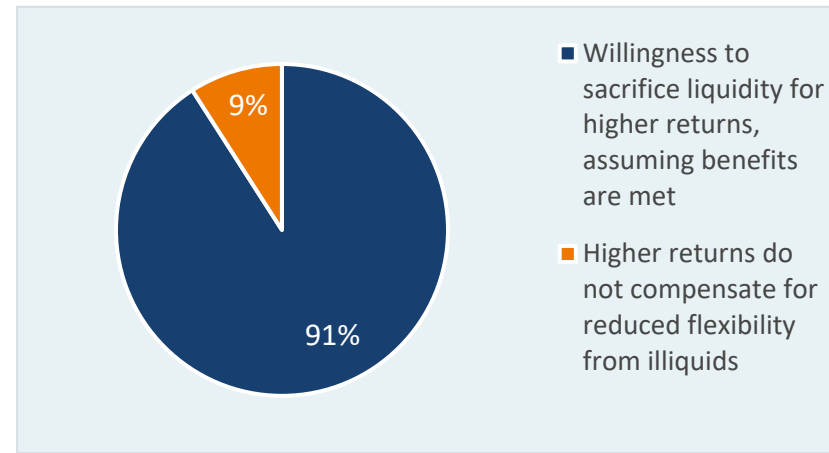


Portfolio preferences (cont..)

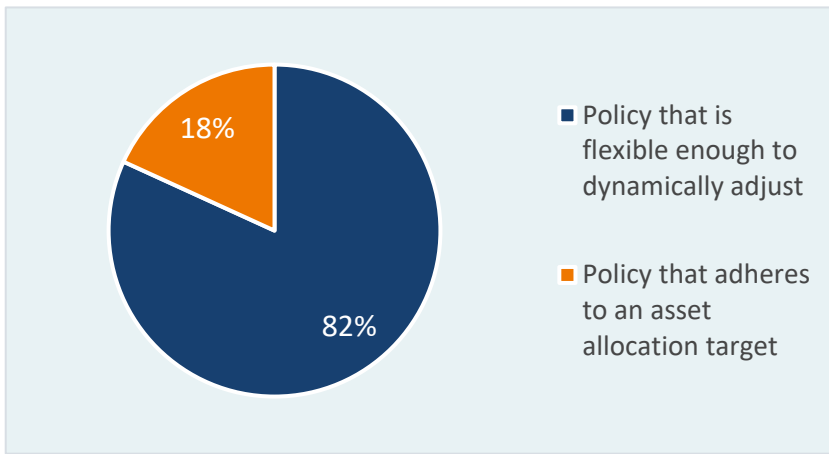
COMFORT WITH MANAGEMENT FEES



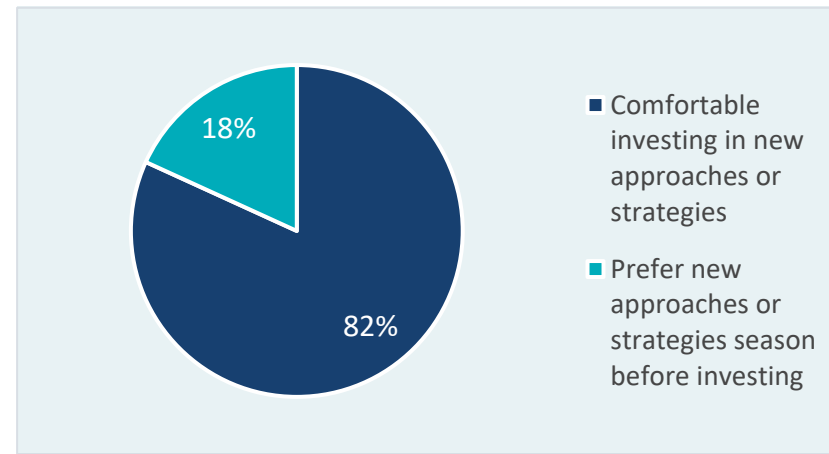
WILLINGNESS TO GIVE UP LIQUIDITY FOR HIGHER RETURNS



DYNAMIC OR STATIC ASSET ALLOCATION



WILLINGNESS TO PURSUE NEW STRATEGIES

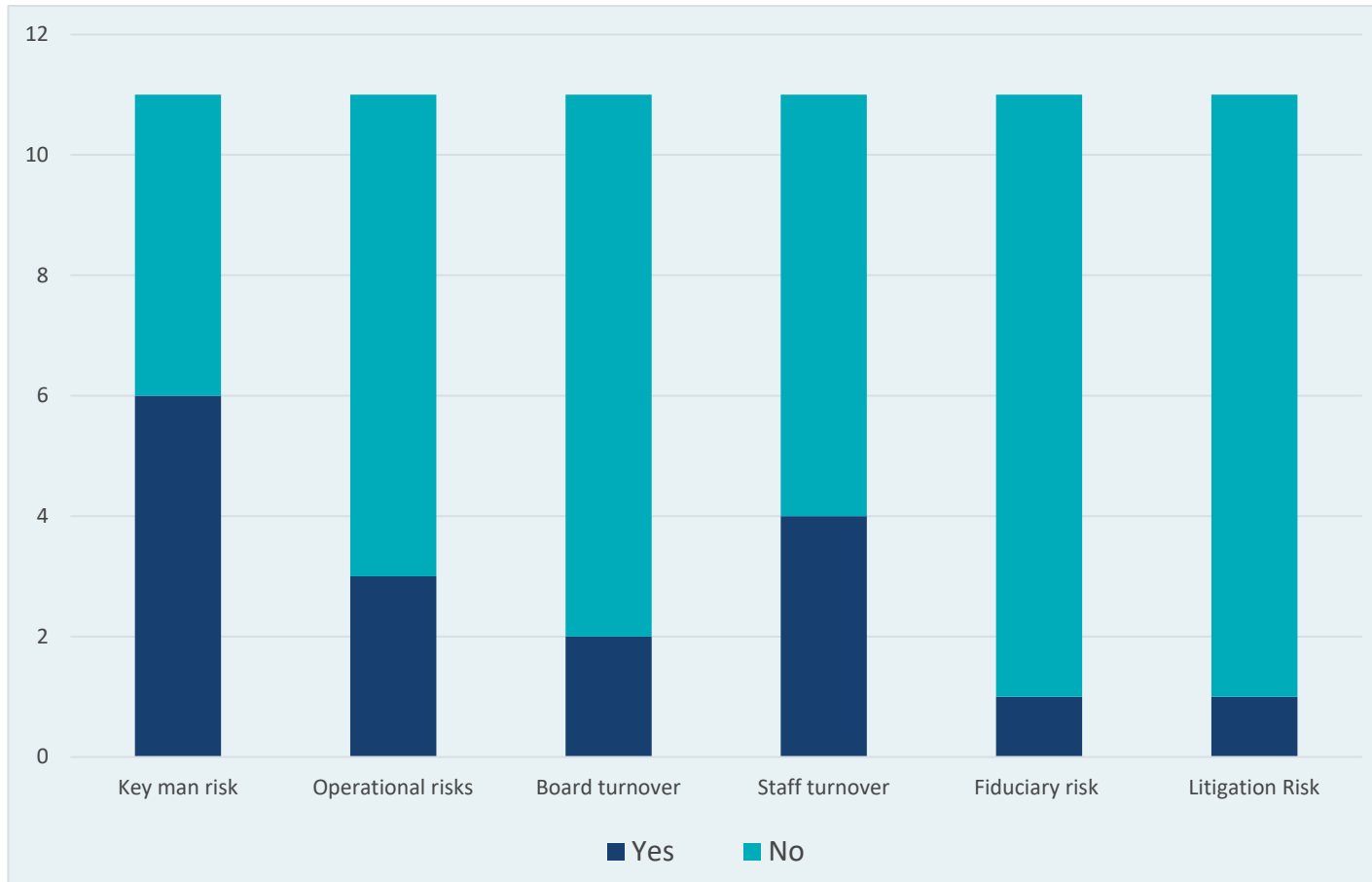


General agreement across portfolio preferences among Trustees

Trustees overwhelmingly agree that SCERS should seek the best investment opportunities available, assuming those would not put the Plan's mission at risk

IV. Other Risks

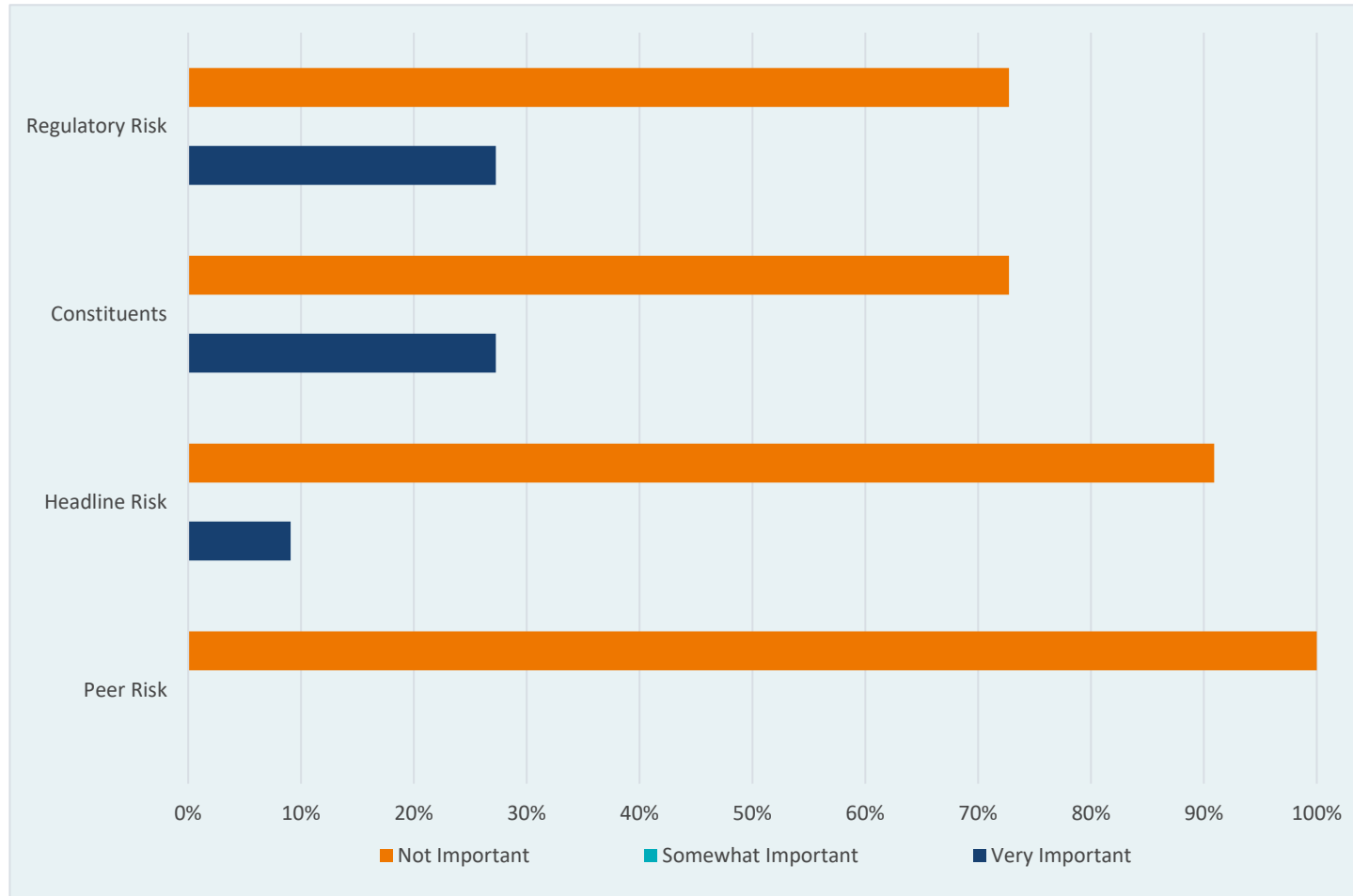
Operational and organizational risks



Maintaining continuity of CEO/CIO and current staff was mentioned by several Trustees as a potential risk area for monitoring/management

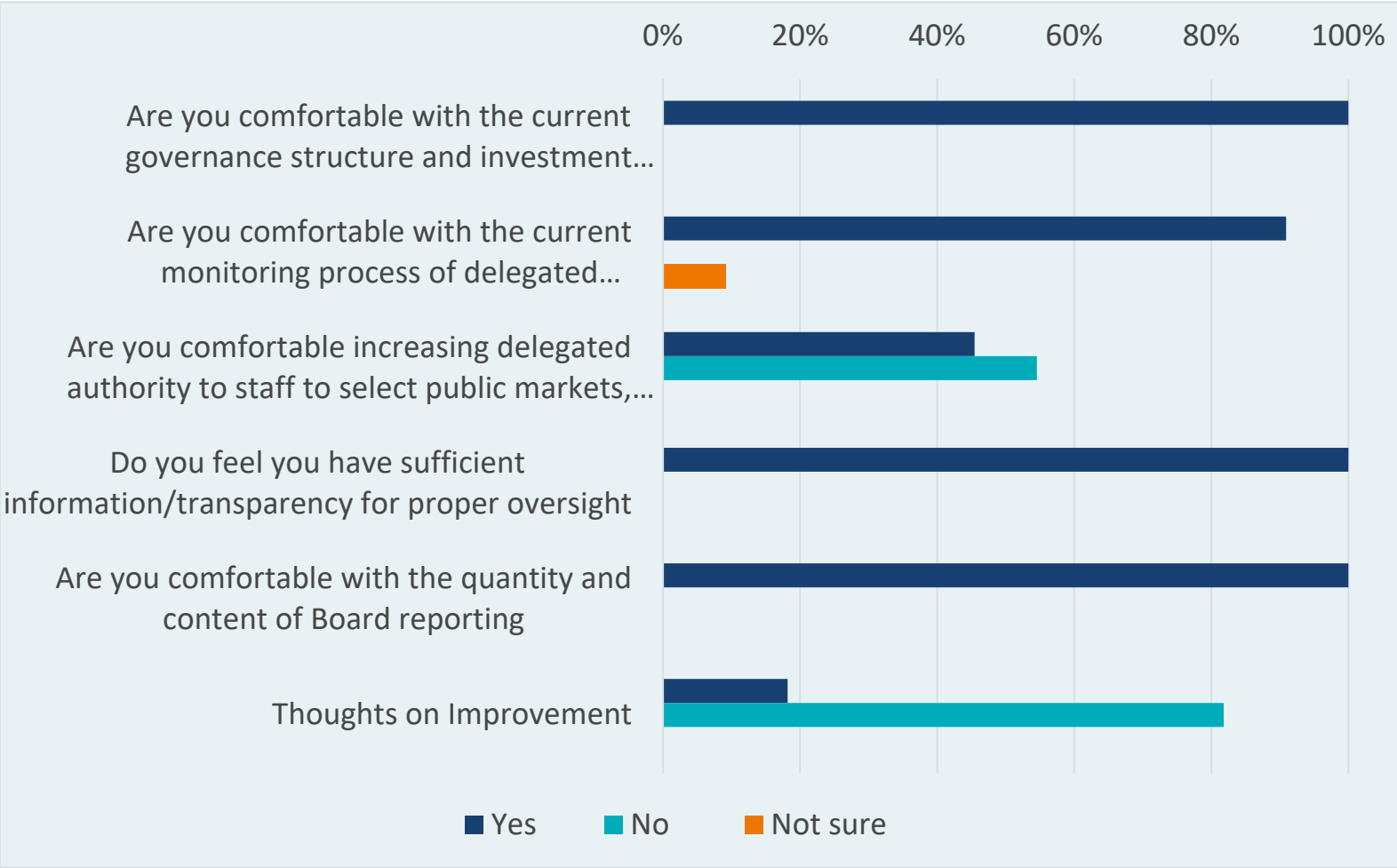
Overall, trustees indicated that they are comfortable with these organizational and external risks

Operational, organizational and external risks



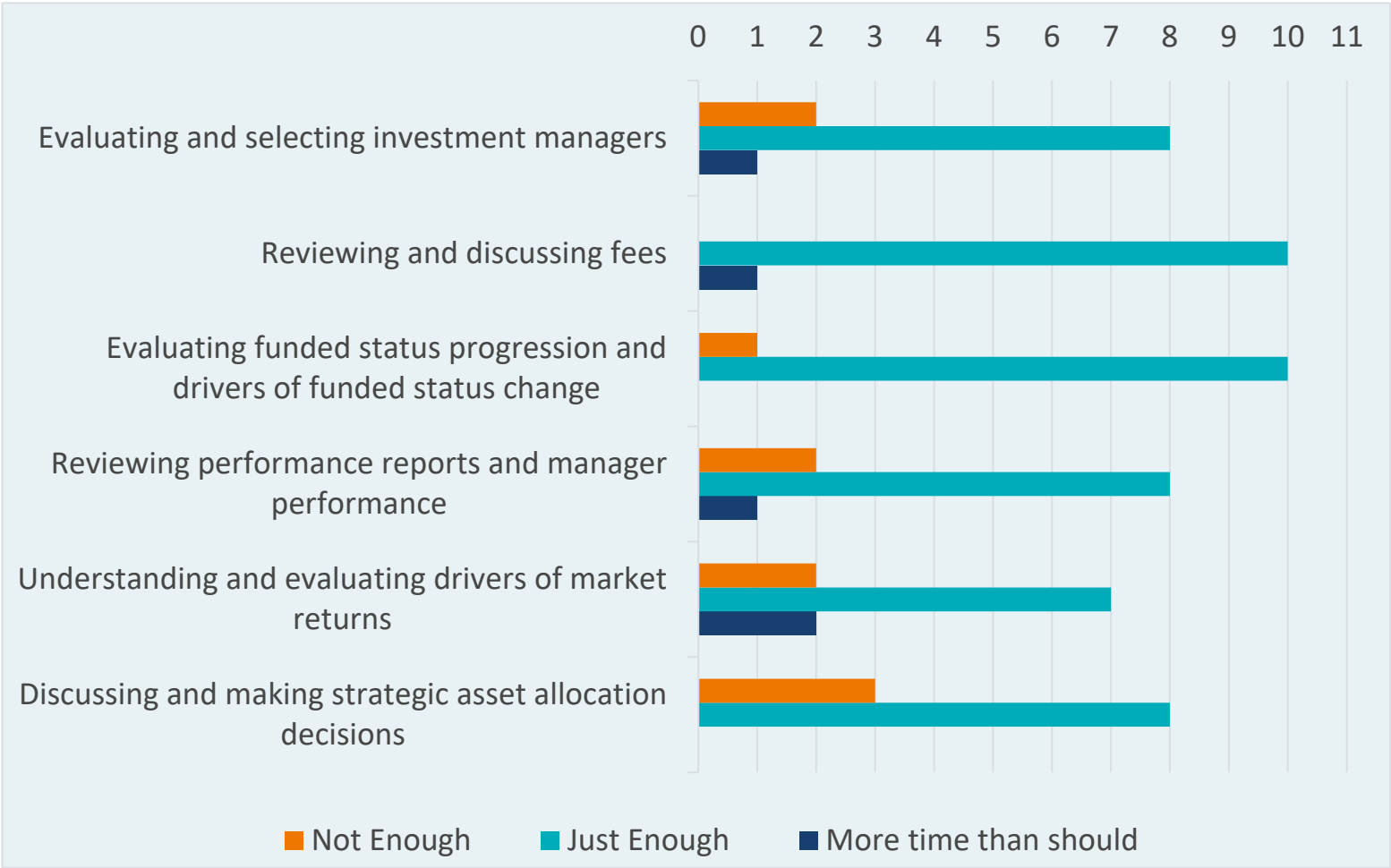
Most trustees agree that external risks are of low importance relative to the Plan's investment risks

Governance structure – delegation



General agreement that we spend sufficient time across topics

Governance structure – Board time

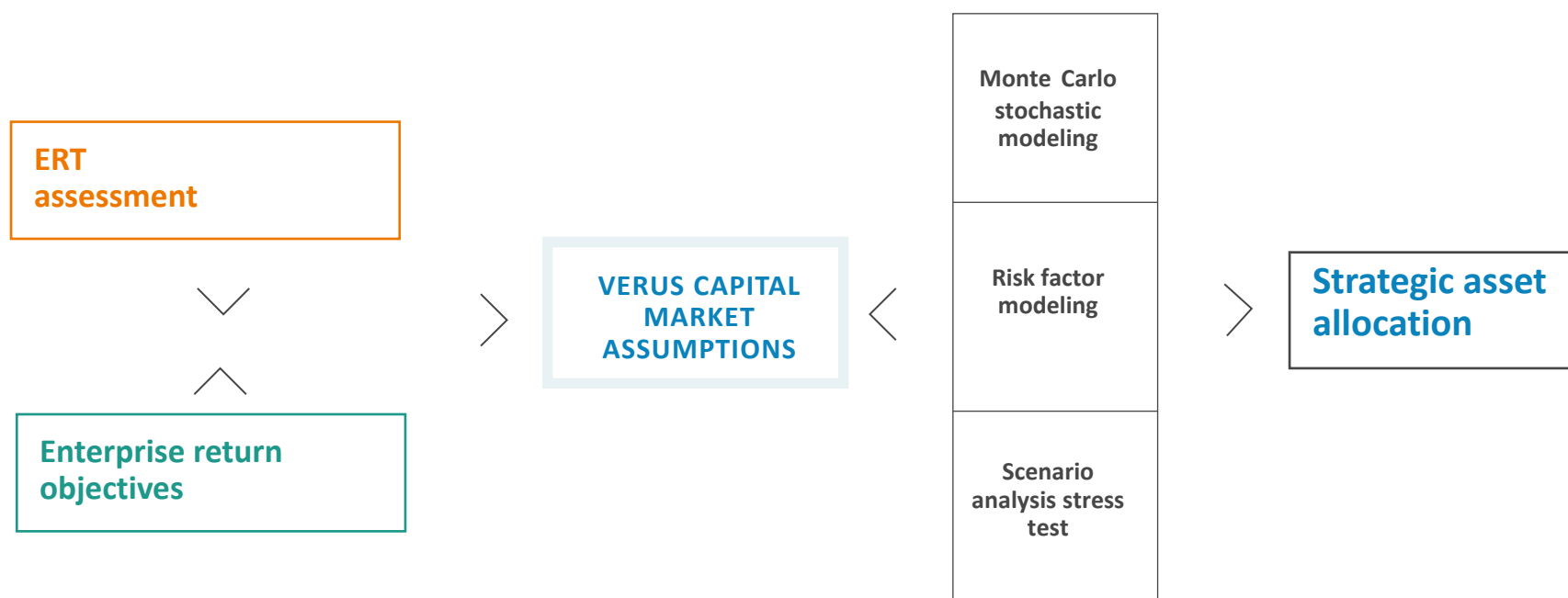


General agreement that we spend sufficient time across topics

V. Next Steps

Next steps

Results from the ERT interview will be incorporated into an overall ERT assessment for SCERS and incorporated into the modeling of different potential long-term strategic asset allocation portfolios for evaluation and consideration in the upcoming asset/liability study.



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