

2024-2025



SCERS

INVESTMENT YEAR IN REVIEW

2024

ANNUAL INVESTMENT PLAN

2025

Sacramento County Employees' Retirement System
Sacramento, California

2024 - 2025



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ANNUAL INVESTMENT PLAN

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Sacramento County Employees' Retirement System
Sacramento, California

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Table Of Contents

SECTION 1 Introduction

Letter Of Introduction.....	6
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SECTION 2 Portfolio Overview

Market Overview.....	8
Strategic Asset Allocation	10
2024 Investment Activity.....	12
Other Activity and Considerations.....	15

SECTION 3 Asset Classes

Global Equity.....	17
Market Overview.....	17
SCERS Global Equity Portfolio.....	18
2024 Activity	20
2025 Annual Plan	20
Fixed Income.....	21
Market Overview.....	21
SCERS Fixed Income Portfolio	22
2024 Activity	23
2025 Annual Plan	23
Absolute Return.....	24
Market Overview.....	24
SCERS Absolute Return Portfolio.....	25
2024 Activity	27
2025 Annual Plan	27
Private Equity	28
Market Overview.....	28
SCERS Private Equity Portfolio	30
2024 Activity	32
2025 Annual Plan	33
Private Credit	35
Market Overview.....	35
SCERS Private Credit Portfolio	36
2024 Activity	38
2025 Annual Plan	38

Table Of Contents

Real Assets.....	40
Market Overview.....	40
SCERS Real Assets Portfolio.....	41
2024 Activity	44
2025 Annual Plan	44
Real Estate	46
Market Overview.....	46
SCERS Real Estate Portfolio	47
2024 Activity	49
2025 Annual Plan	49
Liquid Real Return	51
SCERS Liquid Real Return Portfolio	51
2024 Activity	51
2025 Annual Plan	51

SECTION 4 Other Investment Activities

2024 Activities	53
2025 Initiatives	53

SECTION 5 Board Education

2024 Board Education.....	55
Anticipated 2025 Board Education.....	55

SECTION 6 Appendix

Appendix	57
Appendix 1 — Verus 2024 Year In Review	57
Appendix 2 — Cliffwater Alternative Assets 2025 Investment Plans.....	59
Appendix 3 — Townsend Real Estate Year In Review	62

The image features a top-down aerial view of a lush, dense forest. The canopy is composed of numerous trees with varying shades of green, from deep forest greens to bright, sunlit yellows and light greens. The texture is highly detailed, showing the individual crowns and branches of the trees. A solid, medium-green horizontal band runs across the middle of the image, serving as a background for the text.

SECTION ONE

Introduction

Letter Of Introduction

As Chief Executive Officer of the Sacramento County Employees' Retirement System (SCERS), I am pleased to present the 2024 SCERS Investment Year in Review and 2025 Annual Plan, as crafted by SCERS' Investment Staff and consultants.

The purpose of this report is to summarize the major events and developments in the investment program in the past year and preview the investment program's projects and objectives for the upcoming year.

Overall, this annual report on SCERS' investment program helps track our progress toward achieving near-term and long-term investment objectives, and in particular, meeting the fundamental goal of providing funding for the benefits paid to our members.

In 2024, as markets responded to slowing inflation and thawing interest rates, the SCERS Board of Retirement maintained its disciplined investment approach. SCERS held strong to its strategic asset allocation by keeping the portfolio balanced across asset class targets while supporting new opportunities across a highly diversified investment portfolio. The strategy continues to place the portfolio in the top-quartile of pension plan performance over 5- and 10-year timeframes.

While keeping a steady hand, SCERS is also looking ahead to ensure the portfolio continues to demonstrate resiliency. The Board, Staff, and consultants spent 2024 on a robust review of asset class performance and the purpose each segment plays in the portfolio. These education sessions, conducted at monthly Board meetings, served as the backdrop for an Asset Liability Modeling (ALM) study now underway. The ALM project, which evaluates how future investment returns can meet SCERS funding needs, will continue into 2025 to inform potential adjustments to the strategic asset allocation.

Fundamentally, the investment program will continue to drive growth in the pension fund, and provide the sustainability of SCERS to protect our members' retirement security.

Respectfully Submitted,



ERIC STERN
Chief Executive Officer





SECTION TWO

Portfolio Overview



Market Overview

As 2024 concludes, inflation has moderated from its pandemic highs and the Federal Reserve (Fed) implemented its first rate cut since March of 2020 to cut borrowing costs as the labor market has shown some signs of weakening during the third quarter. The federal funds rate increased from 0.25 to 5.5% from March 2022 through July 2023 as the Fed battled inflation, and the rate stayed at this level for over a year as the Fed balanced its pursuit to control inflation while attempting to mitigate the potential impacts of higher rates on the economy.

Inflation has come a long way since the aftermath of the pandemic, where inflation peaked at 9.1% in 2022. As of August 2024, headline CPI inflation sits at 2.4%, still above the Fed's 2% target, but below the 3.7% level around this time last year. Core inflation, which strips out more volatile food and energy, sits at 3.3%. Services inflation continues to be the stickiest, driven by shelter and transportation services. The Fed tends to look at the Personal Consumption Expenditures (PCE) price index over CPI and that measure sits at 2.2%, closer to the Fed's target.

The Fed has a dual mandate to support full employment and keep inflation rates low and stable. While inflation has moderated significantly, prices are not yet stable. The labor market has shown some recent weakness which has garnered the Fed's attention, as evidenced by its 50 basis point interest rate cut in September, with targeted cuts the remainder of the year. The unemployment rate has ticked up in recent months to 4.1%, off a low of 3.5% earlier in the year, though it remains low by historical standards. However, net monthly payroll gains have slowed from monthly highs of close to 300,000 new jobs earlier in the year but are expected to stabilize at around 100,000 going forward. Fed statements and remarks during the latter half of the year have acknowledged the growing balance of risks in the economic outlook to both parts of its dual mandate.

U.S. economic data remains robust as second quarter 2024 GDP came in at an annualized rate of 3.0%, up from a weaker 1.6% print during the first quarter. The U.S. economy is forecasted to grow at a solid rate over the next few years, between 2.0% and 3.0%. With moderating inflation, the Fed is in the good position of being able to lower interest rates even though economic growth is solid and the unemployment rate is still relatively low.

Outside of the U.S., the economic outlook is mostly sluggish. While the Eurozone has seen a decline in inflation which will allow the European Central Bank (ECB) to cut rates at a steady pace, there are fewer expectations that this will boost consumer demand, and GDP forecasts are sluggish at around 1.0% over the next few years. The UK also experienced its first rate cut since 2020, but like the Eurozone growth, forecasts are sluggish with GDP of between 1.0% and 1.5% forecasted over the next few years. In Japan, the Bank of Japan ended negative rates in March and raised the short-term borrowing rate to 0.25% with additional rate hikes expected going forward. GDP growth has been strong, fueled by improved consumer spending as inflation levels off at around 2.0% and the country looks to stay out of the deflationary environment of the prior decade.

Emerging economies are forecast to grow at around 4.0% over the next few years, led by India with GDP forecasts of above 6.0%, where the economy has performed well over the past several years. China introduced a broad stimulus package in the fall aimed at reviving its slowing economy which included interest rate cuts and a substantial stimulus package. The measures injected liquidity and a boost to the stock market, though there are concerns as to whether the measures will be enough to boost China's economy, which is forecasted to grow at around 4.0% over the next few years.

Geopolitical risks continue to be front and center with Russia's ongoing invasion of Ukraine and a rapidly escalating Middle East conflict which has extended beyond Israel's war against Hamas, to Hezbollah and Iran.

Major global market returns in 2024 continued their strong performance from the prior year. Within equities, the global MSCI ACWI IMI has returned 17.1% as of September 30, 2024, with domestic equities outperforming international equities. Emerging markets have had a strong year performing in line with U.S. equities with returns greater than 20%, while international developed equities have lagged, though they have still generated double digit returns. Within styles, growth stocks have continued their multi-year recent trend of outperforming value stocks, and large capitalization stocks have outperformed small capitalization stocks year to date.

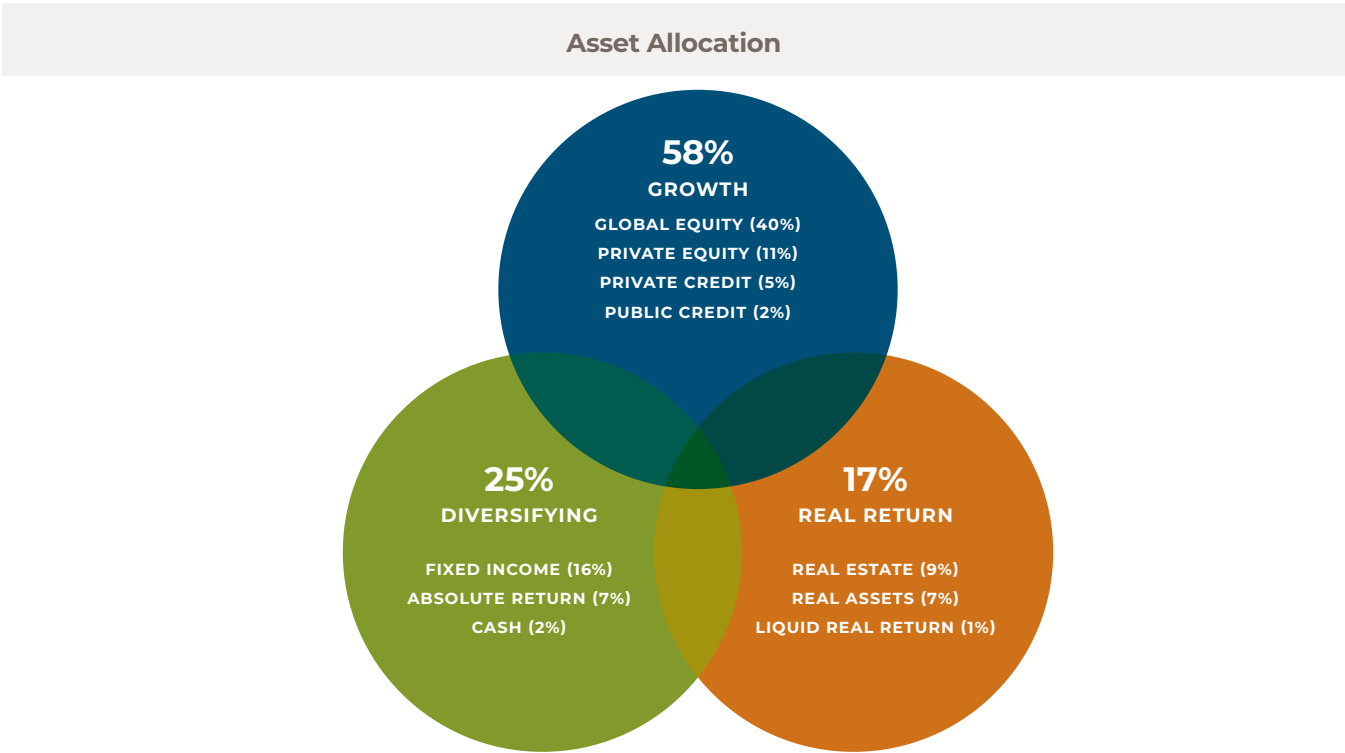
Fixed income markets have also performed well year to date, across government bonds and credit. Government bonds have benefitted from a drop in yields during the year as the market priced in central bank interest rate cuts. The Bloomberg U.S. Treasury Index is up 3.6% as of September 30, 2024, as longer duration Treasury yields have had a volatile year but have mostly been lower after spiking in the spring over renewed inflation fears. Overall, the 10-Year Treasury yield decreased from 3.9% on December 31, 2023 to 3.7% on September 30, 2024, though it has increased back above 4.0% during the fourth quarter. Short-term rates remain high at around 4.8% and the yield curve remains inverted which has historically been a prelude to a recession. Credit has generated strong returns in 2024, with high yield bonds returning 8.0% (Bloomberg U.S. Corporate High Yield Index). The broad-based Bloomberg Barclays Aggregate Index, which contains an equal mix of Treasuries, agency mortgages, and investment grade credit, is up 4.5% as of September 30, 2024.

The landscape for 2024 is best characterized as a balance between controlling inflation and maintaining economic growth. Financial markets, while they have been resilient, have experienced their share of volatility this year, and further volatility and geopolitical uncertainties loom ahead. The coming year should present both challenges and opportunities for SCERS' investment portfolio, emphasizing the importance of a disciplined and dynamic strategic asset allocation in navigating a shifting landscape.

Strategic Asset Allocation

SCERS’ investment program is structured around a strategic asset allocation with the objective of ensuring diversification of investments in a manner that generates a desired rate of investment return with an acceptable level of investment risk. The asset allocation targets are not tactical, but rather are long term in nature, consistent with the nature of our members’ lifelong benefit obligations. Ranges are incorporated around target allocations to add flexibility around the implementation of the portfolio based on relative value considerations across asset classes.

SCERS’ strategic asset allocation incorporates a functional framework that groups and classifies segments of the portfolio to link those segments that are exposed to similar economic environments and risk factors, and which would be expected to have similar roles and outcomes in a portfolio. The functional grouping breaks the portfolio into three asset categories: (1) Growth; (2) Diversifying; and, (3) Real Return, with asset classes that underlie these asset categories. The current allocation is shown below:



The Growth asset category includes those segments of the portfolio that tend to perform best in a high growth and low/moderate inflationary environment, including most equity and credit investments. In contrast, they tend to perform poorly during recessionary periods, when GDP growth is contracting, or during certain periods when unexpected inflation arises. Growth assets tend to comprise the dominant allocation within most institutional investment portfolios, including that of SCERS. The Diversifying asset category includes those segments of the portfolio which are expected to protect capital and perform better than the Growth asset category during dislocated and stressed market environments, including traditional fixed income and absolute return strategies. The Real Return asset category includes those segments of the portfolio that protect against inflation, generate cash flow, and provide further portfolio diversification, including real estate, infrastructure, energy, and agriculture investments, as well as liquid real return investments.

SCERS' strategic asset allocation takes a risk-balanced approach that emphasizes having enough return generating assets to drive performance toward the actuarial rate of return; however, it also maintains meaningful diversification, especially to investment strategies with low and negative correlations to equity markets that can reduce portfolio volatility and protect against significant market drawdowns. It is also expected to generate cash flow for SCERS' plan. The strategic asset allocation contains a meaningful allocation to less liquid private market investments, so tracking SCERS' liquidity profile in order to maintain sufficient liquidity and cash flows to meet benefit payment obligations is a key focus of SCERS' Board, investment staff, and investment consultants.

SCERS will initiate an asset liability modeling (ALM) study at the end of 2024 and during the year conducted some pre-analysis for the ALM study including an enterprise risk tolerance (ERT) survey with the Board, which was conducted by SCERS' general investment consultant Verus. The ERT survey showed that SCERS continues to have an ability to take risk and the Board continues to have a willingness to take risk, in a prudent manner that achieves SCERS' broader investment objectives.

Also during the year, in anticipation of the upcoming ALM study, Staff and investment consultants provided education on each major asset class within the SCERS portfolio, covering the role and objectives of each asset class, a timeline of the evolution of the assets class within SCERS' portfolio, how the asset class has performed relative to expectations, and trends and considerations within the asset class that could impact the upcoming ALM study.

SCERS utilizes an Overlay Program, managed by State Street Global Advisors (SSGA), to bring SCERS' portfolio in line with its target asset allocation, and to invest excess portfolio cash. The Overlay Program uses public market proxies to replicate exposures within the portfolio, making it particularly effective in rebalancing public market assets, and less so for alternative assets. Any over- and under-weights within the portfolio are rebalanced quarterly by SCERS' Overlay Program, and when any physical rebalancing activity takes place, the Overlay Program is adjusted accordingly.

Upon conclusion of the ALM study, there will be several initiatives to undertake in 2025, including:

- Evaluation of any structural modifications to the underlying asset classes, including policy benchmark revisions
- Updating the Master investment policy statement (IPS) and asset category IPSs to reflect the changes to the strategic asset allocation and any underlying asset class structural revisions
- Implementation of the revised strategic asset allocation
- Transitioning the Overlay Program to the revised strategic asset allocation, and recommendation of any adjustments to the overlay proxies

2024 Investment Activity

SCERS had an active year with investment implementation and activity taking place under the guidance of the Board-approved 2024 investment plan. The public market asset classes (global equity and fixed income) do not have budgeted plans like the alternative asset classes; however, SCERS was active implementing rebalancing activity and conducting a manager search within public equities, including:

- In Global Equity, completed a manager search for a global equity alpha extension mandate within the Global/Unconstrained sub-asset class; however, it was not funded due to not being able to come to an agreement on acceptable side letter terms
 - Also conducted two Global Equity rebalances during the year
- SCERS did not make any manager changes within the Fixed Income asset class, but did conduct rebalance activity within the asset class during the year

Within private markets, SCERS was active making new commitments during the year. Private market asset classes require consistent annual commitments to new funds to account for existing funds that sell investments and distribute capital back to SCERS, while newer funds draw down capital and make new investments. Private market investments have longer investment periods, and it is important to maintain vintage year diversification, while also maintaining allocations with top tier investment managers.

While SCERS was active in the alternative/private markets, commitments came in at the lower end of the Board-approved budgets for a couple of the private market asset classes, while a couple were at or slightly above target. Like the prior year, the fundraising environment was slower during the first half of the year, driven by the higher cost of debt, a drop in capital deployment, fewer realizations, and extended fundraising periods. However, fundraising activity has picked up in the second half of the year as described within the asset class sections of this report, due to a pick up in exit activity and central bank interest rate cuts for the first time since the pandemic. This is reflected in the pacing of SCERS' private market commitments in 2024, where there were few commitments in the first half of year, but SCERS commitment activity has increased meaningfully in the back end of the year. However, even with the increase in commitment activity, Staff and consultants remain selective given the uncertain economic environment and considering that a couple of asset classes are overweight their targets.

Below is a summary of the alternative asset/private market implementation for 2024, which includes funds that are expected to close by the end of the year. Each alternative/private market asset class had defined budgets approved by the Board. The implementation in 2024 consisted of mostly follow-on fund investments with existing managers, in addition to some investments with new managers. The individual asset class sections of this report provide greater detail related to implementation activity in 2024.

2024 Implementation Summary

TABLE 1

	Investment Amount (in millions)	Targeted Amount (in millions)	Total # Investments
Absolute Return*	\$160	\$50	3
Private Equity	\$210	\$250	6
Private Credit	\$140	\$160	3
Real Assets	\$76	\$180	2
Real Estate	\$130	\$120	3

*SCERS also fully redeemed from one Absolute Return fund (\$45 million) during 2024

Table 2 below compares SCERS' actual physical allocations as of September 30, 2024 to the target allocations.

While some asset classes are overweight their target allocations, and others are underweight, SCERS remains within the targeted range for each major asset class, except for Real Estate, which is below the target and the range. The Real Estate underweight is discussed in the Real Estate section of this report.

Actual Allocations vs. Target Allocations

TABLE 2

Asset Catagory/Asset Class	Actual Allocation*	Target Allocation	Variance
Growth***	59.1%	58.0%	1.1%
Global Equity	41.4%	40.0%	1.4%
Private Equity*****	12.3%	11.0%	1.3%
Public Credit	1.7%	2.0%	-0.3%
Private Credit *****	3.2%	5.0%	-1.8%
Growth Absolute Return**	0.5%	0.0%	0.5%
Diversifying***	22.0%	25.0%	-3.0%
Fixed Income	14.2%	16.0%	-1.8%
Absolute Return	5.9%	7.0%	-1.1%
Cash	1.9%	2.0%	-0.1%
Real Return****	16.9%	17.0%	-0.1%
Real Estate*****	6.3%	9.0%	-2.7%
Real Assets*****	8.1%	7.0%	1.1%
Liquid Real Return	2.5%	1.0%	1.5%
Overlay Program	-0.1%	0.0%	-0.1%
Other Cash	2.1%	0.0%	2.1%
	100.0%	100.0%	

* Based on State Street Global Advisors market values as of 09/30/2024

** Growth Absolute Return was eliminated from the strategic asset allocation

*** Does not include Overlay exposure

**** Includes Overlay exposure

***** Private market asset class valuations are lagged a quarter

As a reminder, for asset classes that are out of balance to their targets, the Overlay Program rebalances the asset categories to their target allocations at the end of each quarter, using a combination of derivatives (Growth and Diversifying asset categories) and physical exposures (Real Return asset category). The Overlay Program brings the allocations to target when physical rebalancing is not utilized. The 'Actual Allocation' column in Table 2 does not reflect the Overlay exposure for the Growth and Diversifying asset categories; however, the Real Return Overlay exposures are reflected.

Other Activity And Considerations

During 2024, Staff completed the onboarding of the recently acquired portfolio analytics software platform, Caissa, which is now an MSCI company. The portfolio analytics software provides a total portfolio view that can holistically view exposures and risk across the entire portfolio (i.e., publics and privates), as well as granularly within asset classes, including the alternative asset classes. The software enables Staff to dynamically view portfolio exposures, examine performance attribution, and perform stress testing, and it also has investment accounting capabilities.

SCERS, like many public plans has negative cash flows, meaning on an annual basis more benefit payments go out than contributions come in. The difference in cash flows is made up by the returns of the investment portfolio. The annual liquidity study conducted by Verus in 2024 demonstrated that SCERS continues to be in a strong liquidity position, with ample liquid assets and cash inflows to meet cash outflows over a 5-year period and maintain the plan's allocation to private market investments. The results of the liquidity study will be factored into the upcoming ALM study as the Board evaluates different asset allocation mixes.

On the consultant front, during the year SCERS renewed its contract with alternative assets consultant, Cliffwater, for a two-year term. SCERS also issued an RFP for custodial services, to evaluate the landscape for custodian providers.

During the year, Staff presented to the Board some measures to ensure sufficient oversight of a growing SCERS investment portfolio, including adding Investment staff resources, maintaining a reasonably sized investment manager lineup, and providing the Board with consistent engagement and exposure to SCERS' investment managers. The 2025 budgets for several of the private market asset classes within the report reflect targeting a fewer number of funds combined with a larger average commitment size per fund compared to last year, in an effort to manage the number of investment manager relationships within the SCERS portfolio.

The exposure, budgeting, and pacing data within the upcoming asset class sections were provided by SCERS' consultants, in particular Cliffwater (Absolute Return; Private Equity; Private Credit; Real Assets) and Townsend (Real Estate), with the recommended budgets presented by Staff and Cliffwater/Townsend.



SECTION THREE

Asset Classes

Global Equity

Market Overview

Equity markets started the year on strong footing, following exceptional returns in calendar year 2023 that surpassed expectations. In the prior year, global equity markets advanced 22%¹, led by the U.S. which was up 26% for the year. U.S. equity markets were driven higher by the “Magnificent Seven”², with these seven stocks averaging 76% and contributing roughly 63% of total U.S. equity market returns. In contrast, the other 493 stocks in the S&P 500 index averaged an 8% return for 2023. With the strong performance, U.S. equity markets started the year at elevated valuations, with the S&P 500 trading at 19.5x forward earnings, roughly one standard deviation above the 30-year historical average of 16.6x. With lofty valuations as the starting point, return expectations for calendar year 2024 were relatively muted, supported by hopes that the Federal Reserve and other central banks would lower interest rates as signs of inflation pressures abated.

Despite the elevated valuations and moderate expectations, global equity markets have delivered strong returns through the first three quarters of 2024, with the MSCI ACWI IMI up 18% through September. In the U.S., equity markets reached all-time highs at the end of the third quarter with the S&P 500 up 21%, the strongest start through the first nine months of a calendar year since 1997. Equity markets posted a strong first half and continued their advance in the third quarter following the 50 basis point cut in the federal funds rate in September. Market performance continued to be driven by a handful of the largest stocks and market concentration reached record levels, however, market breadth expanded a bit in the third quarter as the equal weighted S&P 500 index outperformed the market cap weighted index during the quarter. Through the end of September, the average performance of the Magnificent Seven stocks was 35% and contributed 45% of market returns, compared to an average return of 11% for the other 493 stocks in the S&P 500. Additionally, the weight of the top ten stocks in the S&P 500 was approximately 36%, which represented an all-time high level of market concentration.

U.S. equity markets outperformed most developed international markets through the first part of the year, with the MSCI World ex-U.S. index up 13%. Emerging markets trailed developed markets for the first half of the year but delivered strong performance in the third quarter following the announcement of stimulus measures from China. The MSCI Emerging Markets Index was up 9% in the third quarter, bringing year to date performance through September to 17%. After significantly lagging most other equity markets for the past few years, China equity markets were up 23% in September following announced government stimulus measures, bringing year to date performance to 29%. Taiwan and India also delivered strong performance through the first nine months of the year, up 30% and 25%, respectively.

Across both domestic and international equity markets, large cap stocks continue to outperform small cap stocks. In the U.S., the Russell 1000 index has outperformed the Russell 2000 index by 8% year to date, following outperformance of 10% in calendar year 2023. Internationally, the MSCI World ex-USA

1 MSCI ACWI IMI 2023 calendar year return

2 “Magnificent Seven” includes the following U.S. companies: Apple, Microsoft, NVIDIA, Amazon, Meta, Tesla, and Alphabet (Google)

index outperformed the MSCI World ex-USA Small Cap index by 2% year-to-date. Despite the large cap outperformance, there have been some positive signs for small cap stocks, including outperformance of 3% in the U.S. during the third quarter. Small cap stocks also stand to benefit from a reduction in interest rates as smaller companies tend to have higher borrowing costs and greater debt levels compared to larger companies. Additionally, small cap valuations remain at historical discounts relative to large cap stocks.

From a style perspective, 2024 has been another year where growth outperformed value. Through the first three quarters of the year, growth has outperformed value by approximately 4%, as measured by the MSCI AWCI Growth and Value indices. The difference between growth and value was more pronounced in the U.S., given the larger index weight to the technology and communication services sectors. Growth outperformed value by approximately 8% in the U.S., as measured by the Russell 3000 Growth and Value indices. In the U.S. over the past ten years, growth has outperformed value by nearly 7% on an annualized basis.

SCERS Global Equity Portfolio

SCERS' Global Equity portfolio began the year just slightly overweight the 40% target allocation, at 40.6%. The U.S. and International segments were slightly overweight, while the Global/Unconstrained segment was underweight. During the first half of 2024 the Global Equity portfolio increased its weight as a percent of SCERS' total portfolio, due to strong absolute and relative performance, reaching a high of 42.7% in May. SCERS rebalanced its Global Equity portfolio during June 2024, reducing the allocation by approximately \$240 million (1.8%). Rebalancing activity reduced the allocation to U.S. and International Developed large cap and slightly added to emerging markets. Some additional rebalancing was performed in August, slightly reducing the U.S. large cap exposure and adding to U.S. small cap (\$20 million), which helped bring the U.S. equity portfolio closer to the sub-asset class target allocations for large cap and small cap. Equity markets continued to deliver strong performance through the third quarter, which resulted in SCERS' Global Equity portfolio ending September above the 40% target allocation at approximately 41.4%. The charts on the next page detail the asset class structure including targets, ranges, and estimated allocations as of September 30, 2024.

During calendar year 2024, SCERS did not make any changes to the Global Equity manager lineup. At the March Board meeting, a recommendation was approved to add a Global Equity - Alpha Extension strategy, which would have helped reduce the underweight allocation to the Global/Unconstrained sub-asset class. However, SCERS was unable to complete the investment due to not being able to come to an agreement on acceptable side letter terms. SCERS will continue to look for opportunities to add alpha generative strategies to the Global/Unconstrained segment of the Global Equity portfolio.

Looking forward into 2025, SCERS will evaluate the structure and sub-asset class targets for the Global Equity asset class. Following completion of the strategic asset allocation review, SCERS will evaluate the Global Equity structure including active and passive mandates, style, and market capitalization exposure.

SCERS Global Equity Portfolio Structure

	Minimum	Target Allocation	Maximum	Est. Allocation as of 9/30/24
Total Global Equity Portfolio	36%	40%	44%	41.4%
Domestic Equity	18%	20%	22%	21.8%
International Equity	14%	16%	20%	16.5%
Global/Unconstrained	1%	4%	6%	3.0%

Domestic Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/24
Domestic Equity	20.0%	-	21.8%
Domestic Equity Large Cap	90.0%	-	90.6%
Large Cap Passive	-	50.0%	-
Large Cap Active	-	40.0%	-
Domestic Small Cap	10.0%	-	9.4%
Small Cap Active	-	10.0%	-

International Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/24
International Equity	16.0%	-	16.5%
International Equity Developed Markets	70.0%	-	72.1%
Developed Markets Large Cap Active	-	60.0%	-
Developed Markets Small Cap Active	-	10.0%	-
International Equity Emerging Markets	30.0%	-	27.9%
Emerging Markets Active	-	30.0%	-

Global/Unconstrained Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/24
Global/Unconstrained Equity	4.0%	-	3.0%
Global Equity	-	>= 50%	75.1%
Sector or Country Concentrated	-	<= 25%	23.8%
Non-Beta 1 (Long/Short)	-	<= 25%	1.1%

2024 Activity

- Completed a manager search for a Global Equity – Alpha Extension mandate within the Global/Unconstrained sub-asset class; manager recommendation was presented in March 2024
 - Mandate ultimately was not funded due to unacceptable side letter terms
- Rebalanced Domestic and International Equity sub-asset classes in June 2024
 - Redeemed \$170 million from Domestic Large Cap mandates
 - Redeemed \$90 million from International Large Cap mandates
 - Added \$20 million to Emerging Markets mandate
- Rebalanced Domestic Equity sub-asset classes in August 2024
 - Redeemed \$20 million from a Domestic Large Cap passive mandate
 - Added \$20 million to a Domestic Small Cap mandate
- Performed manager due diligence on additional strategies for the Global/Unconstrained sub-asset class
- Oversaw, monitored, and met with SCERS' existing Global Equity managers

2025 Annual Plan

- Rebalance the Global Equity portfolio, as necessary, to keep the sub-asset class segments within range and minimize style or market capitalization tilts
 - Review geographic, sector, and style allocations across the entire Global Equity portfolio
- Evaluate potential additions to the Global/Unconstrained sub-asset class to bring it towards the 4% target allocation
- Oversee, monitor, and assess the existing manager lineup

Fixed Income

Market Overview

The fixed income markets have performed well in 2024, benefitting from central banks' transition toward interest rate cuts and resilient credit fundamentals. As the Federal Reserve (Fed) continued its battle against inflation, the Federal Funds target rate held at 5.25% from July 2023 until the Fed lowered the rate 50 basis points in September 2024. The rate cut signaled a change in the Fed's monetary policy as it transitions to balance its pursuit to control inflation while attempting to mitigate the potential impacts of higher rates on the economy.

The Treasury yield curve has remained inverted, with shorter maturities sitting around 5% or above for most of the year, and longer maturities at lower levels, though the latter has experienced meaningful volatility. The 10-year Treasury yield came into the year at 3.9% and rose across the first half of the year to a high of 4.7% in April, as investors priced in "higher for longer" rates. As the Fed began to get inflation under control, investors' concern over the economic impact of higher rates combined with the anticipation of future interest rate cuts led to a steady decline in the 10-year Treasury yield, to a low of 3.6% in September. Longer dated 30-year Treasuries have experienced a similar path. Through this volatility, the Bloomberg U.S. Treasury Index is up 3.6% as of September 30, 2024.

Credit has fared well with the enduring high interest rates as credit spreads remain historically tight. Investment grade corporate bond spreads over Treasuries have hovered below 100 basis points across much of 2024. The Bloomberg U.S. Investment Grade Corporate Bond Index returned 5.3% as of September 30, 2024. High yield bond spreads also remain historically tight at around 300 basis points over Treasuries. The Bloomberg U.S. Corporate High Yield Index returned 8.0% as of September 20, 2024.

The higher interest rate environment has provided investors the opportunity to de-risk portfolios without a substantial sacrifice to returns. Liquid credit markets have also provided investors with robust returns, in the realm of those within private credit. However, there are going forward risks in the fixed income markets as yield curve volatility should be expected as the Fed and other central banks shape their monetary policy paths, combined with highly valued credit markets.

SCERS Fixed Income Portfolio

SCERS' total fixed income exposures reside within different segments of the total SCERS portfolio. The bulk of the exposure sits within the Diversifying asset category, within a Fixed Income asset class, which consists of Core Plus Fixed Income and U.S. Treasuries exposure. The Fixed Income asset class has the objective of providing lower correlation to growth assets and diversification for SCERS' total portfolio, moderate income and cash flow generation, some return enhancement, and a source of liquidity.

SCERS also maintains fixed income exposure within the Growth asset category, in the form of a Public Credit asset class, which is comprised of mostly high yield corporate credit and bank loans.

This exposure has a higher risk and return profile than the Fixed Income asset class within the Diversifying asset category.

The custom blended benchmark for the Fixed Income asset class reflects the sub-strategies and their respective target weights (75% core plus fixed income and 25% U.S. Treasuries). The Public Credit has its own blended benchmark. The aggregate fixed income targets and benchmarks are shown below.

SCERS Fixed Income Portfolio Structure

	Asset Category	Minimum	Target Allocation	Maximum	Policy Index Benchmark
Total Fixed Income Portfolio	-	13%	18%	23%	Custom Blend of benchmarks below:
Core Plus Fixed Income	Diversifying	9%	12%*	15%	Bloomberg Barclays U.S. Aggregate Index
U.S. Treasuries	Diversifying	3%	4%*	5%	Bloomberg Barclays U.S. Treasury Index
Public Credit (high yield/bank loans)	Growth	1%	2%*	3%	50% ICE BofA ML High Yield + 50% Credit Suisse Leveraged Loan

*Percentage of total portfolio

As of September 30, 2024, the actual Total Fixed Income allocation is 15.9%, versus the target allocation of 18%. SCERS rebalanced the Fixed Income portfolio during June 2024, by contributing \$160 million to the asset class. The contributions were spread equally across SCERS' four core plus fixed income managers, \$40 million each. The rebalance brought the Fixed Income portfolio closer to the target allocation; however, continued outperformance of equities in the second half of the year has increased the underweight. As a reminder, SCERS' Overlay Program rebalances SCERS' Fixed Income allocation to target on a quarterly basis using futures positions when the physical allocation is below or above target.

SCERS did not make any manager changes to the Fixed Income portfolio in 2024 and spent the year evaluating the structure and underlying managers.

2024 Activity

- Performed physical rebalancing by contributing \$160 million equally among SCERS' four core plus fixed income managers
- Oversaw, monitored, and met with SCERS' Fixed Income managers

2025 Annual Plan

- Monitor allocations to existing managers and rebalance the portfolio as necessary
- Oversee, monitor, and assess the existing manager lineup

Absolute Return

Market Overview

The environment for absolute return strategies has been constructive over the past year, benefiting most strategies and segments of the absolute return universe. Equity markets have delivered strong results during the calendar year and despite a few large cap tech names driving performance, there has been a decent amount of dispersion, creating trading opportunities for equity-oriented strategies. Global fixed income markets have experienced high levels of volatility during the year, which created trading opportunities, but also presented risks for certain strategies that had difficulty navigating a choppy environment, such as discretionary macro and trend following strategies. Higher base level of interest rates overall provided a tailwind for absolute return, particularly for strategies that utilize derivatives and leverage, with managers generally able to deliver a positive excess return above cash interest rates. Year-to-date through September the broad HFRI Composite Weighted Index is up 8.1% and the HFRI Fund of Funds Composite Index is up 6.8%.

At the strategy level, Equity Long/Short has been the top performing strategy year to date, particularly longer-biased strategies that have benefited from the strong equity market rally through the first part of the year. Worth noting is that equity long/short performance has been strong for both growth and value-oriented equity managers, up 11% and 9%, respectively, year-to-date³. Market Neutral (Relative Value) and Credit-oriented strategies have also generated positive results during the year. Within Market Neutral, convertible and volatility arbitrage strategies were positive, along with equity market neutral, benefiting from dispersion and increased trading activity over the course of the year. Credit strategies delivered decent levels of alpha as long/short, capital structure arbitrage, and distressed sub-categories navigated volatile markets. Event Driven and Multi-Strategy segments have delivered positive returns year-to-date, up 8% and 6%, respectively.

Discretionary and Systematic Global Macro have been the bottom performing strategies so far in 2024, as shifting expectations around economic growth and interest rates, along with sub-asset class volatility within fixed income and commodity markets, have made it tough for these strategies to deliver consistent returns over the course of the year. It has been a tale of two halves, as Systematic Macro did well in the first half of the year but gave up most gains during a rocky third quarter. Conversely, Discretionary Macro returns were relatively muted during the first half of the year but did better during the third quarter as markets gained clarity around central bank activity and interest rates.

Asset flows for hedge funds have remained positive during calendar year 2024, following strong returns over the past few years. Assets under management in the hedge fund industry were at all-time highs at the end of the second quarter, at approximately \$4.3 trillion⁴. Hedge fund asset growth has been driven

³ Based on HFRI Equity Hedge Fundamental Growth and Fundamental Value Indices

⁴ HFR Global Hedge Fund Industry Report – Second Quarter 2024 © HFR, Inc. 2024, www.HFR.com

by the largest managers, particularly the large multi-strategy, multi-portfolio manager firms. Hedge funds that manage more than \$5 billion in assets grew their industry share to 73% by the end of the second quarter of 2024, up from 65% in 2018⁵. The competitive dynamics of the industry has led to an increase in fees as managers look for ways to attract portfolio management talent and pass the costs onto investors. Alternatively, there has been a push by investors to adjust hedge fund fee structures by implementing a cash hurdle for calculation of performance fees. The goal is to pay for alpha generation based on performance above a cash rate, which is particularly relevant as the base level of interest rates has risen significantly compared to levels for the past 15 years.

SCERS Absolute Return Portfolio

SCERS' Absolute Return asset class began the year at 6.3% of the overall portfolio, below the 7.0% target allocation. SCERS' Absolute Return portfolio was below the target allocation due to a combination of strong equity market performance in 2023 and redemptions made from the portfolio. During calendar year 2023, SCERS' Absolute Return portfolio was up 5% compared to the Global Equity portfolio up 22% and Fixed Income up 6%.

SCERS funded a new Absolute Return investment in the first quarter of 2024, a \$50 million investment with equity long/short manager Junto Capital Partners. This is the second direct equity long/short investment in the portfolio, bringing equity long/short to approximately 14% of the Absolute Return portfolio (excluding the investments made by the Grosvenor Fund of Funds portfolio). During the third quarter, SCERS approved a \$60 million investment with Capula Investment Management, which is a market neutral manager focused on fixed income and volatility arbitrage strategies. The investment with Capula was split between their Global Relative Value and Volatility Opportunities Funds. During the fourth quarter, SCERS also made a \$50 million investment in a U.S. based multi-strategy fund managed by Hudson Bay Capital Management. The investments with Junto, Capula, and Hudson Bay will help provide diversification to SCERS' Absolute Return portfolio and enhance risk-adjusted returns.

SCERS made one redemption during the calendar year from Davidson Kempner Institutional Partners (DKIP), a multi-strategy fund with an event driven focus. Following other fund redemptions in the prior year, the Absolute Return portfolio had become overweight event-driven strategies. The redemption from Davidson Kempner will allow SCERS to reallocate capital to a more diverse set of strategies and exposures.

As of September 30, 2024, SCERS' Absolute Return allocation was 5.9%. Adjusting for the recent investments with Capula and Hudson Bay, and redemption from DKIP, Staff estimates a year-end Absolute Return allocation of 6.5%. This would allow for an additional investment in calendar year 2025, not including any additional investments made for portfolio adjustments and rebalancing.

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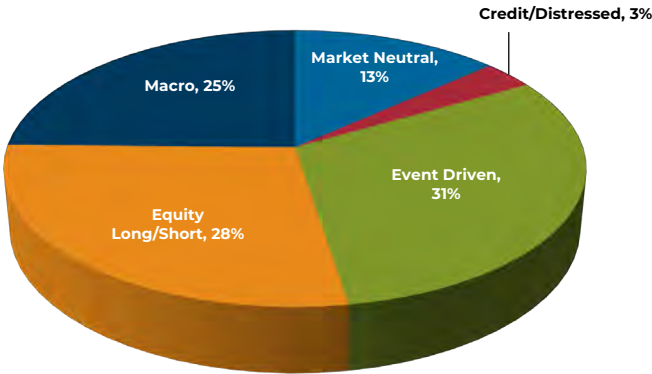
<https://www.reuters.com/markets/hedge-flow-big-hedge-funds-share-industry-hits-8-yr-high-says-bank-america-2024-09-24/>

The following charts show the construction parameters and guidelines for SCERS' Absolute Return portfolio, along with estimated portfolio allocations, per SCERS' alternative assets consultant, Cliffwater.

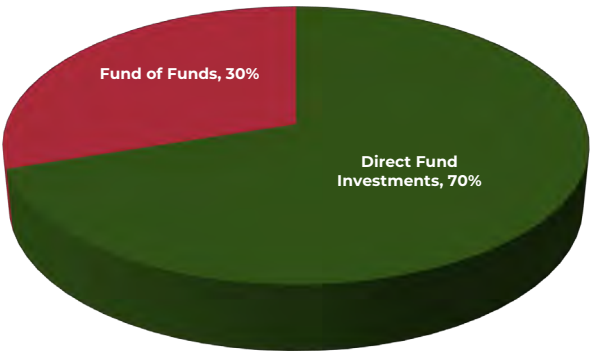
Absolute Return Portfolio Structure

Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Benchmark	Policy: HFRI FoF Conservative Index Long-term objective: T-bills + 2%
Risk Target	Standard Deviation < 25% of global equities
Market Sensitivity	Target an equity beta <0.2 Target equity correlation <0.5
Market Exposure	Total notional gross exposure < 750%
Target Allocation	7% of total assets
Allocation Range	5% to 9% of total assets
Number of Funds	Target 12 funds with a range of 8 to 15
Non-U.S. Exposure	Expect 20% to 50% non-U.S. exposure

Absolute Return Portfolio Strategy Allocations AS OF JUNE 30, 2024



Absolute Return Portfolio Allocations AS OF JUNE 30, 2024



2024 Activity

The 2024 Absolute Return annual investment plan was:

- A target of one fund commitment, with a range of 0-3 funds
- An average commitment size of \$50 million per fund

2024 actual activity:

- 3 investments were made during the year totaling \$160 million, as well as 1 fund redemption totaling \$45 million
 - Funded new investment in an Equity Long/Short fund in the first quarter
 - Junto Capital Partners, LP: \$50 million
 - Funded new investments with Capula Investment Management, effective October 1st.
 - Capula Global Relative Value Fund: \$40 million
 - Capula Volatility Opportunities Fund: \$20 million
 - Funded new investment in a Multi-Strategy fund in the fourth quarter
 - Hudson Bay Fund, LP: \$50 million
 - Fully redeemed from Event Driven, Multi-Strategy fund in the third quarter of 2024
 - Davidson Kemper Institutional Partners: \$45 million
- Performed manager due diligence on potential new fund investments to bring the portfolio up to the 7% target allocation
- Oversaw, monitored, and met with SCERS' existing Absolute Return managers

2025 Annual Plan

Below is the 2025 annual plan for the Absolute Return asset class, as recommended by Cliffwater and Staff:

SCERS Absolute Return Annual Investment Plan

	Target	Minimum Range	Maximum Range
Number of Funds	1	0	2
Investment per Fund	\$50 MM	\$30 MM	\$60 MM

- Evaluate investment levels with existing managers and rebalance the direct portfolio as necessary
- Evaluate potential addition of new strategies to bring the portfolio in line with the 7% target allocation and improve risk-adjusted returns
 - Potential additions include equity long/short, credit-oriented, and systematic macro strategies
- Oversee, monitor, and assess the existing manager lineup

Private Equity

Market Overview

In the first half of 2024, U.S. private equity (PE) fundraising demonstrated remarkable resilience, with commitments totaling \$155 billion, edging up from \$153 billion during the same period in 2023, according to PitchBook data. Despite the challenging macroeconomic environment and lingering exit concerns, fundraising remained more robust than anticipated, exceeding trend projections by 2.9%. However, this strength was not uniform across the board; the number of funds that closed shrunk from 160 to 129, signaling a pronounced shift toward established, top-tier managers. Megafunds, those exceeding \$5 billion in size, played a dominant role, amassing over \$73 billion in aggregate fund size and representing more than half of the total capital raised. This underscores a growing concentration of capital among the industry's largest players, as investors increasingly gravitate toward firms with proven track records in volatile markets. The fundraising environment has become increasingly competitive, with timelines for closing deals stretching significantly. The median time to close a fund increased to 18 months, up from 15 months in 2023, as firms faced more scrutiny and extended due diligence periods. Nevertheless, elite managers continue to thrive, securing larger-than-ever commitments. By June 2024, a record 76.7% of PE funds had closed at higher sizes, highlighting the continued appetite for private equity, particularly from institutions seeking stable, long-term returns amidst uncertainty.

U.S. venture capital (VC) fundraising has experienced a marked downturn since 2022, driven by a substantial accumulation of uninvested capital and a slowdown in company exits, which has dampened distribution activities. Currently, an estimated \$296 billion in dry powder remains on the sidelines, with more than 38% of these reserves concentrated among firms managing commitments exceeding \$1 billion. This significant capital overhang reflects heightened investor caution and a more selective deployment strategy. In the first half of 2024, both early-stage and late-stage deals saw a resurgence in activity, signaling cautious optimism in certain segments of the market. While deals exceeding \$100 million represented a relatively small share of the total transaction volume, they dominated in terms of value, contributing to more than 60% of the overall deal worth. This concentration highlights a continued focus on larger, high-growth companies poised to deliver outsized returns. Exit activity, while subdued relative to previous years, showed signs of recovery. The total exit value for the first half of 2024 reached an impressive \$49 billion across more than 130 companies. Notably, 37 public listings accounted for 58% of the total exit value, underscoring a considerable IPO backlog. These IPOs signal a gradual reopening of the public markets as companies seek to capitalize on favorable windows of opportunity, even amid broader market volatility. This wave of listings reflects the pent-up demand for liquidity events, which had been delayed during periods of heightened economic uncertainty.

According to PitchBook, U.S. private equity dealmaking in the first half of 2024 exhibited robust growth, expanding by approximately 12% year-over-year in both transaction volume and total value. This uptick signals a stabilization in deal activity, with total deal value projected to surpass \$375 billion across more

than 4,200 transactions. Notably, deals valued under \$100 million surged, increasing from 65% of total deal volume in the first half of 2023 to 71% in the first half of 2024. This rise is largely attributed to the dominance of add-on acquisitions, which accounted for 77% of all buyout activity, reflecting PE firms continued focus on building out portfolio companies through bolt-on strategies rather than large-scale transformative acquisitions. On the financing side, the debt-to-enterprise value (EV) ratio for new leveraged loans increased slightly to 46.2% in Q2, up from 45.7% for all of 2023, though it remained below the 10-year historical average of 53.4%. This modest rise in leverage ratios indicates that while lenders are willing to extend credit, there remains a degree of caution in the market, likely influenced by tightening credit conditions and macroeconomic uncertainty. Similarly, debt-to-EBITDA ratios saw a modest improvement, climbing to 5.2x in Q2, though still below the 10-year average of 5.6x, further underscoring the disciplined approach to debt financing in the current market environment. This nuanced combination of higher deal volumes, increased focus on smaller transactions, and relatively conservative leverage levels suggests that while the market is regaining momentum, PE firms are navigating carefully, balancing growth opportunities with a heightened awareness of market risks and capital constraints.

Based on Jefferies' analysis, the pricing for limited partner (LP) interests on the secondary market exhibited improvement during the first half of 2024. This improvement was observed across all investment strategies, with an overall aggregate increase of 3% in LP portfolio pricing compared to the second half of 2023. During this period, bid-ask spreads also narrowed. Specifically, younger buyout funds, those with vintages from 2021 or newer, were priced and traded at approximately 99% of net asset value (NAV), indicating strong market demand and pricing. Conversely, tail-end buyout funds, with vintages from 2011 or older, were observed to trade at approximately 69% of NAV.

Exit activity in the first half of 2024 remained relatively muted, but with a sharp focus on high-quality transactions. Although the number of exits was roughly in line with the same period in 2023, the total exit value surged by 15% year-over-year, propelling the median exit value to an impressive \$493 million. This increase reflects a strategic shift among general partners (GPs), who are prioritizing fewer, but larger, higher value exits to maximize returns. A key development in the exit landscape is the growing reliance on Continuation Vehicles (CVs), which are underwritten by secondary firms. GPs are increasingly turning to CVs to provide liquidity options for limited partners while allowing GPs to retain ownership of well-performing assets and continue generating value from their portfolio companies. CVs have evolved into a significant exit mechanism, with 45 such deals closed in the first half of 2024 alone, underscoring their rising prominence within the industry. Notably, initial public offering (IPO) activity saw a significant rebound, with \$22 billion raised across just eight transactions in the first half of 2024, eclipsing the total IPO value for all of 2023. This resurgence in public listings highlights the reopening of capital markets for high-quality companies and reflects a cautious optimism as investors regain confidence in the public markets, despite ongoing macroeconomic uncertainties. The combination of CVs and robust IPO exits signals a more diversified and adaptable exit strategy for GPs as they navigate a challenging yet opportunistic environment.

SCERS Private Equity Portfolio

SCERS' Private Equity portfolio has a strategic target allocation of 11%, diversified across several key strategies: buyouts, venture capital, growth equity, and distressed debt. To evaluate the performance of this asset class, SCERS employs the Cambridge Associates Global Private Equity & Venture Capital Pooled Index as its policy benchmark. The long-term objective of the Private Equity portfolio is to generate returns comparable to public equities, with an added premium of 3% to account for the liquidity risk inherent in private market investments. Performance is benchmarked against the Russell 3000 Index, reflecting SCERS' aim to outperform traditional equity markets by leveraging the unique opportunities within private equity. The specific target ranges for exposure to these investment strategies are outlined below.

SCERS Private Equity Portfolio Structure

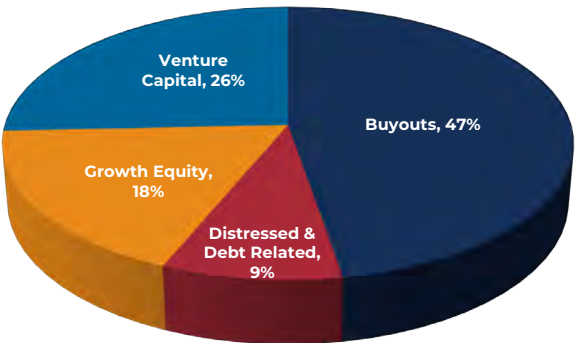
	Minimum	Target Allocation	Maximum	Policy Index Benchmark
Total Private Equity Portfolio	8%	11%	14%	Cambridge Associates PE/VC Index
Buyout	35%	55%	75%	-
Venture Capital	10%	20%	40%	-
Growth Equity	10%	15%	35%	-
Distressed Debt	5%	10%	30%	-
Other	0%	0%	15%	-
U.S. Private Equity	70%	80%	90%	-
Non-U.S. Private Equity	10%	20%	30%	-

SCERS has been investing directly with private equity managers since 2011. As of September 30, 2024, the current allocation is 12.3%. While the Private Equity allocation is overweight to the 11% target allocation, it has decreased significantly from 15.4% in 2022, when private market valuations became inflated when public equities and fixed income were down double digits that year. Given private equity's unique cash flow characteristics, SCERS must commit to private equity funds across vintage years to maintain its target allocation to the asset class. Cliffwater incorporates the Private Equity overweight into its modeling forecasts that are used to determine the annual Private Equity budget. SCERS' investment activity in 2023 and 2024 has been at the lower end of the approved annual private equity budgets.

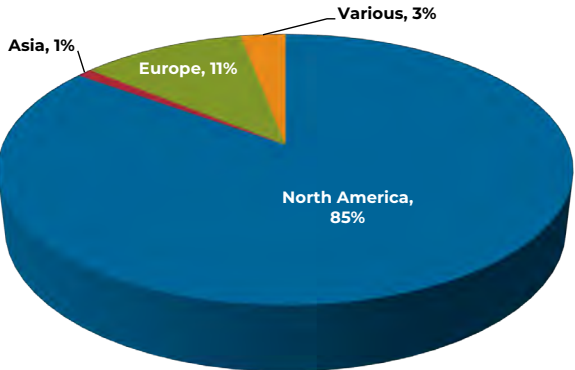
With a mature Private Equity portfolio, Staff and Cliffwater seek to find a balance between reinvesting with established managers and integrating select new partnerships. Each follow-on investment with an existing manager undergoes meticulous underwriting, scrutinized as if it were a new relationship, ensuring that capital commitments are driven by the opportunity's caliber rather than the partnership's tenure. Cliffwater and Staff strive to exercise disciplined prudence, refraining from allocating to follow-on funds that no longer align with the portfolio's evolving strategic objectives or when a new manager offers a more compelling proposition. Staff projects that maintaining approximately 25-30 active GP relationships across the Private Equity asset class will optimize both diversification and performance outcomes.

Below is SCERS' Private Equity diversification by investment strategy and geography as of June 30, 2024:

Private Equity Portfolio Strategy Allocations
AS OF JUNE 30, 2024



Private Equity Portfolio Geographic Allocations
AS OF JUNE 30, 2024



Venture capital, at a 26% allocation within Private Equity, is currently above its 20% target but within the permissible range. The overweight to venture can be attributed to SCERS' more mature funds with vintage years prior to 2018. While these funds have been impacted from valuation declines, the lack of an exit environment has been equally as impactful, though these funds are still generating strong net multiples of over 2.0x in aggregate. The top five most significant venture fund exposures, all of which are pre-2018 vintages, account for 49% of SCERS' total venture capital exposure. Staff and Cliffwater believe it is important to continue investing in the sector for vintage year diversification; however, with the slowdown in the exit market for venture-backed companies, Staff and Cliffwater believe it is also prudent to slow down the pace of investing within the sub-strategy until the exit market picks up to manage the overweight.

2024 Activity

The 2024 Private Equity annual investment plan was:

- A target of 8 fund commitments, with a range of 6-10 funds
- A total of \$250 million in commitments, with a range of \$200-\$300 million
- An average commitment size of \$35 million per fund

2024 actual activity:

- 6 fund commitments were made during the year totaling \$210 million in aggregate (four follow-on investments with existing managers and two new GP relationships):
 - \$40 million follow-on investment in Linden Capital Partners VI, LP (Buyout)
 - \$40 million follow-on investment in Oaktree Power Opportunities VII, LP (Buyout)
 - \$40 million follow-on investment in Shamrock Capital Growth Fund VI, LP (Buyout)
 - \$30 million investment in JFL Equity Investors VI, LP (Buyout)
 - \$20 million investment in Resurgens Technology Partners III, LP (Buyout)
 - In process and expected to close by year-end, a \$40 million follow-on investment in a distressed/special situations fund
- Oversaw, monitored, and met with SCERS' Private Equity managers.

2025 Annual Plan

Below is the 2025 capital commitment plan for the Private Equity asset class, as recommended by Cliffwater and Staff:

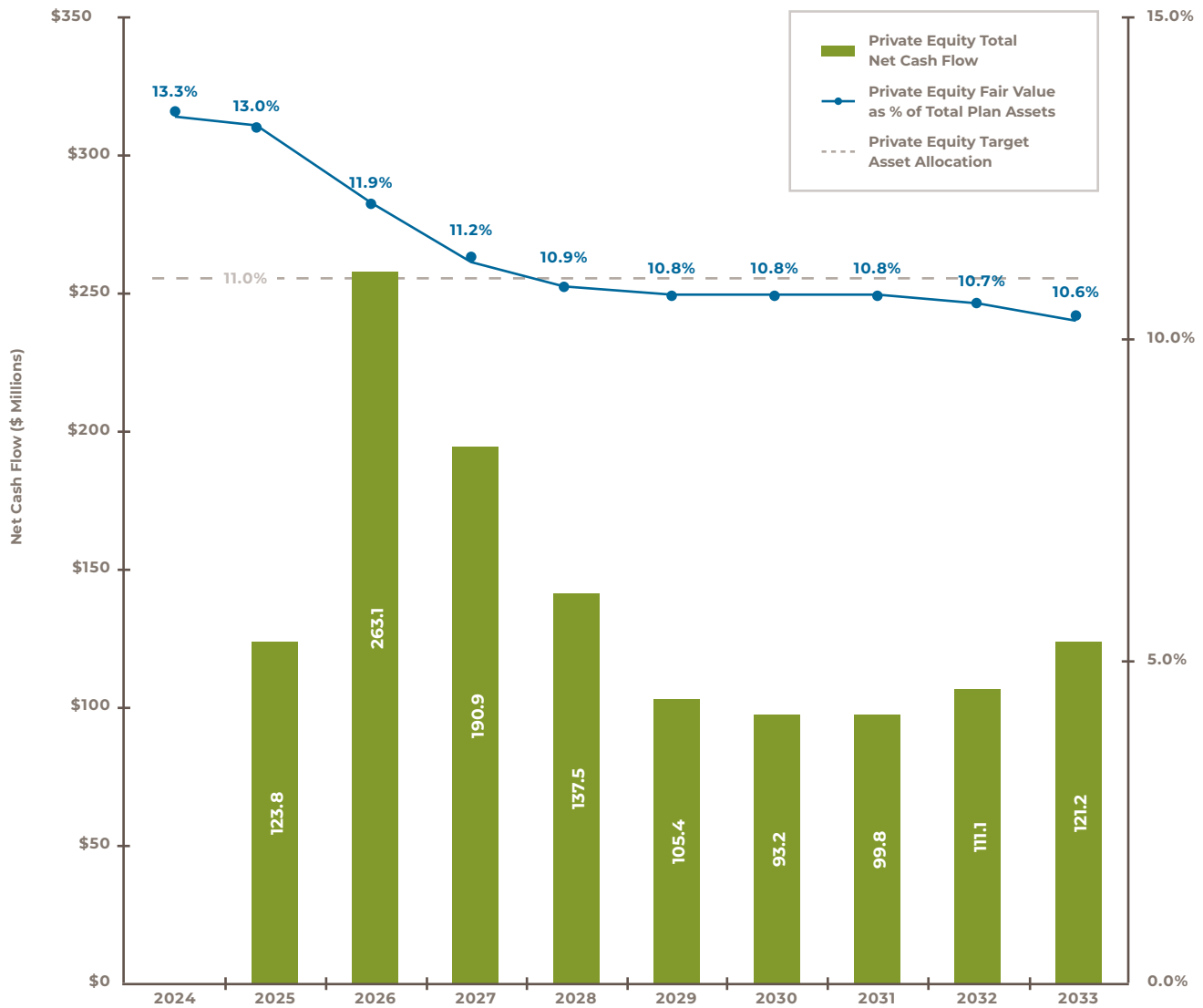
SCERS Private Equity Annual Investment Plan

	Target	Minimum Range	Maximim Range
Commitment Level	\$250 MM	\$200 MM	\$300 MM
Number of Funds	6	5	8
Buyout fund(s)	4	3	5
Distressed fund(s)	0	0	1
VC fund(s)	1	0	2
Growth Equity fund(s)	1	0	2
Other fund(s)	0	0	1
Non-U.S. fund(s)	1	0	2
Commitment per Fund	\$40 MM	\$20 MM	\$50 MM

Note: Non-US funds are already reflected in the strategy categories above.

- Recommend a commitment budget of \$250 million for 2025, with a range of \$200 to \$300 million.
 - Target 6 fund commitments at an average commitment size of \$40 million, with a range of \$20-\$50 million per fund
 - Targeting a fewer number of funds with a larger average commitment size per fund compared to last year
 - The total commitment budget for 2025 is in line with the budget from the prior year
 - The 2025 budget does not include any funds in which a commitment was made in 2024 but capital has not been called

Private Equity Capital-Pacing Plan



- Staff and Cliffwater continue to take a measured approach when making new commitments because the portfolio is above the 11% PE target allocation
- Given the abundance of capital in the markets, Staff and Cliffwater will remain prudent and thoughtful when making new commitments
- Staff and Cliffwater continue to seek out specialist managers in specific sectors and industries
- 2025 investment strategies and themes include:
 - Follow-on investments to existing managers/strategies
 - Continued attention to buyout funds over other sub-strategies
 - Monitoring of secondary pricing for potential fund sales
- Oversee, monitor, and assess the existing manager lineup

Private Credit

Market Overview

When central banks hiked interest rates to combat heightened inflation in 2022, bank and private lending froze up. However, as the markets became more accustomed to higher rates, lending picked up in the latter half of 2023 and accelerated in the first quarter of 2024. Not only was private credit more active but the syndicate bank lending market jumped in. Borrowing companies capitalized on the increased competition to refinance and extend loans. In particular, the private equity backed companies took advantage of the syndicated bank's lower interest rates and covenant light loans, which continues.

While liquidity has come back to the market, especially for private equity backed borrowers, there remains uncertainty as to how active banks will be. Nevertheless, with expected interest rate cuts globally, banks will be looking to be active lenders as their bank deposit rates decline. Despite the renewed competition from the banking sector, private credit has taken significant market share both in the U.S. and Europe over the past 5 years. Recent industry reports highlight private credit's assets under management (AUM) having exceeded \$1.6 trillion and is now the second largest private asset class behind private equity at \$8.5 trillion, but ahead of real estate and infrastructure. According to PitchBook 2023 research, private credit AUM has grown 15% annually since 2012 versus 10.6% for real estate, 14.5% for private equity, and 17.3% for Infrastructure.

The growth and success of private credit has brought multiple hundreds of new participants to the market and nearly every large private equity (PE) firm has a private credit business also. In fact, PitchBook's second quarter 2024 report on transaction activity noted the seven largest publicly traded PE firms lent \$121.1 billion just in the second quarter compared to only \$11.3 billion in corporate acquisitions by the same firms.

Competition is only getting fiercer as there are 1,069 private debt funds in the market seeking a combined \$457 billion in capital commitments according to Preqin data. Direct lending strategies represent the largest number of funds at 582, with aggregate capital sought at \$273 billion. Geographically, 64% of the funds are targeting the U.S. and 29% are Europe focused. However, an opportunity exists in Asia as only 7% of the funds are focused on Asia, an area Staff and Cliffwater have been evaluating.

Not only has private credit fundraising been incredibly robust, but it has also become more concentrated among managers. Preqin reported that on a trailing five-year basis, the top 25 private credit managers received 48% of all commitments made in 2023, up from 40% in 2018. This is a result of firms reaching for scale through ever larger fund sizes to achieve a competitive advantage in providing a one-stop financing solution, with the ability to make loans exceeding \$1 billion. The downside of this is managers outside of the top 25 are competing for business by providing loans with lower interest rate spreads, little to no fees, and light covenants. This dynamic has caused commoditization within the market where the lender with the lowest rate, limited covenants, and highest leverage wins the deal. Too much competition brings risks as firms stretch to win deals.

Given the highly competitive private credit market, Staff and Cliffwater remain prudent in making new commitments. The focus remains on selecting cycle-tested managers, who are disciplined, can generate transactions and deal flow, and earn higher returns with lender friendly lending terms due to their competitive advantage or specialization. Having workout experience and in-house resources to navigate a potential default cycle is essential and a key consideration.

SCERS Private Credit Portfolio

Initiated in 2017, the Private Credit asset class sits within SCERS' Growth asset category and represents loans to private companies, primarily mid-sized private businesses. Increasingly, private credit has moved into lending to large public corporations traditionally served by large money center banks and the public market.

An attractive feature of private credit investments is the cash yield provided, which is generally most of the return. Cash yield comes from contracted loan payments (interest and principal) and the various fund fees such as origination fees and call protections. Since private credit is an illiquid investment, SCERS' Private Credit investments must generate a premium for the illiquidity, as measured by exceeding publicly traded bank loan returns by 2%, which SCERS measures against the Credit Suisse Leveraged Loan Index, an index of over 1,600 publicly traded bank loans.

The Private Credit asset class has a 5% target allocation, with a +/- 2% range around the target, broken out between Direct Lending and Opportunistic Lending sub-strategies. As of September 30, 2024, the actual Private Credit allocation is 3.3%.

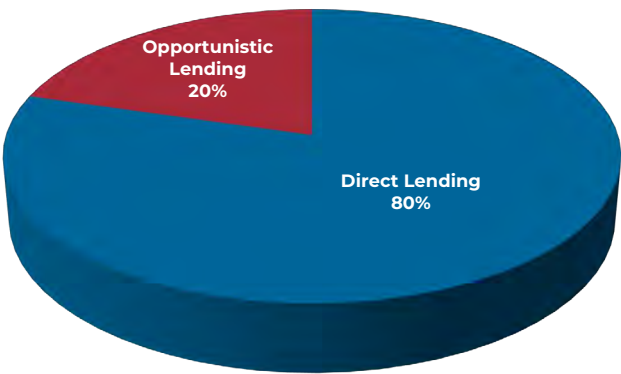
The Private Credit sub-strategy targets and geographic mix are shown below:

SCERS Private Credit Portfolio Structure

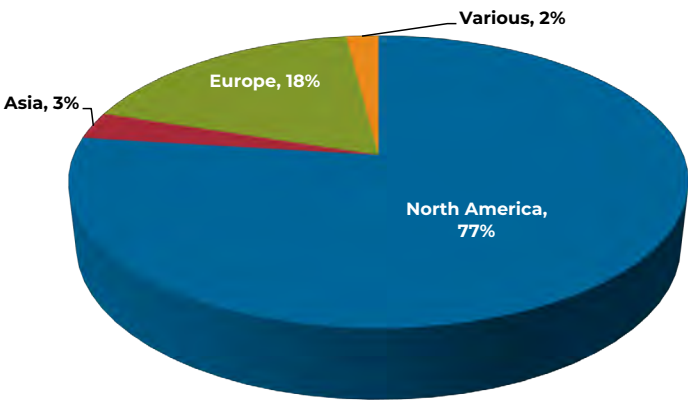
	Minimum	Target Allocation	Maximum	Policy Index Benchmark
Total Private Credit Portfolio	3%	5%	7%	Credit Suisse Leveraged Loan + 2%
Direct Lending	50%	65%	90%	-
Opportunistic Lending	10%	35%	50%	-
U.S. Private Credit	65%	75%	100%	-
Non-U.S. Private Credit	0%	25%	35%	-

Below is SCRES' Private Credit diversification by investment strategy and geography as of June 30, 2024:

Private Credit Portfolio Strategy Allocations
AS OF JUNE 30, 2024



Private Credit Portfolio Geographic Allocations
AS OF JUNE 30, 2024



2024 Activity

The 2024 Private Credit annual investment plan was:

- A target of 4 fund commitments, with a range of 2-6
- A total of \$160 million in commitments, with a range of \$120-\$200 million
- An average commitment size of \$40 million per fund

2024 actual activity:

- 3 commitments made during the year totaling \$140 million (two follow-on investments with existing managers and one new GP relationship):
 - \$50 million follow-on investment in Ares Capital Europe Fund VI, LP (Direct Lending)
 - SCERS is an investor in Ares Capital Europe Fund V (Direct Lending) and Ares U.S. Senior Direct Lending Fund III, LP (Direct Lending)
 - \$40 million investment in SKY Leasing Fund VI, LP (Opportunistic Lending)
 - In process and expected to close by year-end
 - \$50 million follow-on investment with a healthcare royalty fund
- Oversaw, monitored, and met with SCERS' existing Private Credit managers

2025 Annual Plan

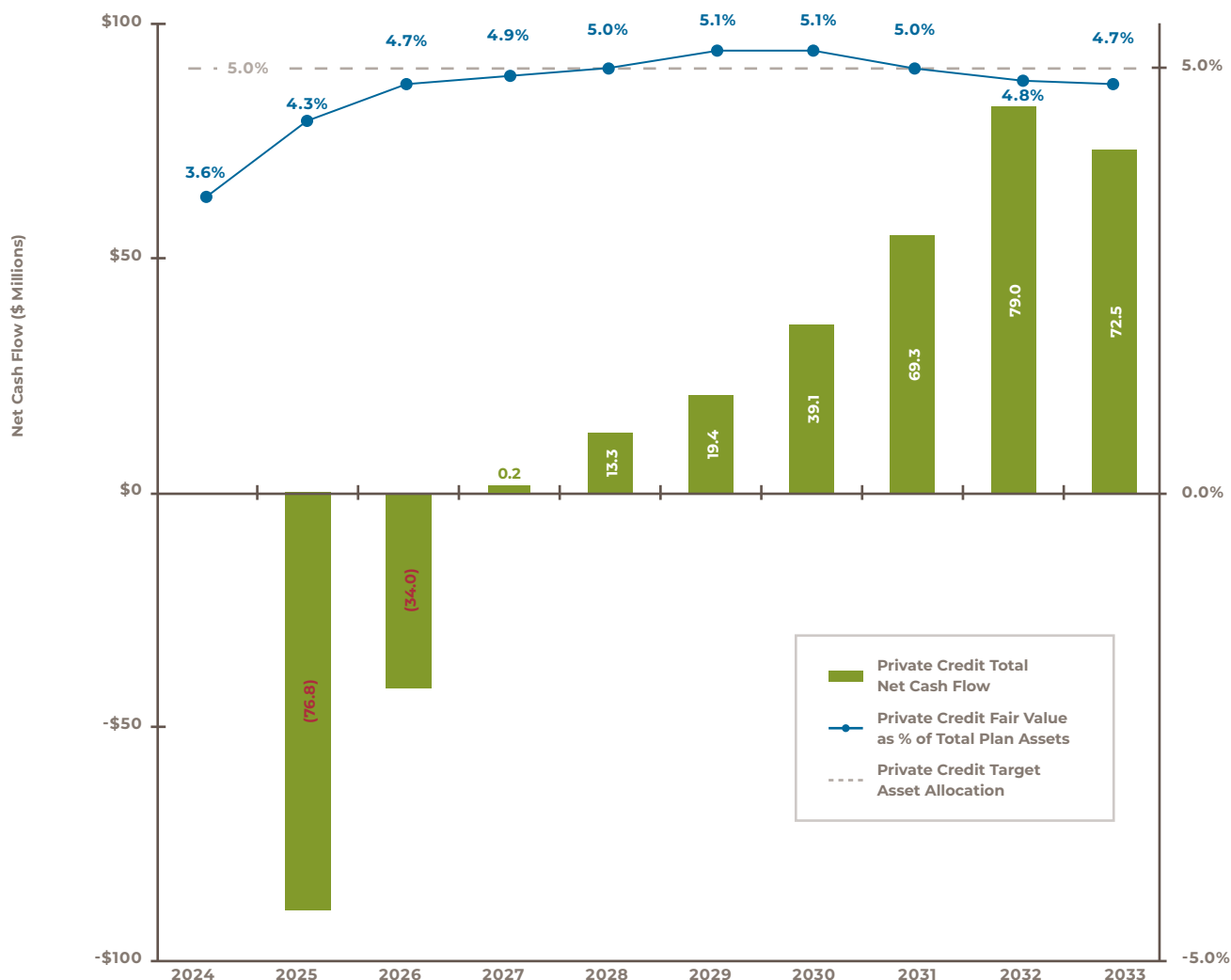
Below is the 2025 capital commitment plan for the Private Credit asset class, as recommended by Cliffwater and Staff:

SCERS Private Credit Annual Investment Plan

	Target	Minimum Range	Maximum Range
Commitment Level	\$160 MM	\$120 MM	\$200 MM
Number of Funds	3	2	5
Direct Lending fund(s)	2	1	3
Opportunistic Lending fund(s)	1	0	2
Commitment per Fund	\$55 MM	\$40 MM	\$75 MM

- Recommend a \$160 million commitment budget for 2025, with a range of \$120 million to \$200 million
 - Target 3 fund commitments averaging \$55 million each, with a range of \$40-\$75 million per fund
 - Targeting a fewer number of funds with a larger average commitment size per fund compared to last year.
 - The 2025 budget does not include any funds in which a commitment was made in 2024 but capital has not been called

Private Credit Capital-Pacing Plan



- Staff and Cliffwater continue to make progress, though selective, towards reaching the 5% Private Credit target allocation, which is expected to be reached by year-end 2027
- Given the overabundance of capital in the private credit markets, Staff and Cliffwater will remain judicious and selective in making new commitments
- Staff and Cliffwater continue to seek out specialist managers in corporate going-concern lending but are favoring collateral-based credit and niche lending/leasing strategies
- 2025 investment strategies and themes include:
 - Follow-on investments to existing managers/strategies
 - Niche and specialty lending/leasing strategies
 - Hard collateral or intellectual property-based lending
 - Geographic focused lending strategies
- Oversee, monitor, and assess the existing manager lineup

Real Assets

Market Overview

Real assets have been a bright spot within private markets as investors favor the asset class's low volatility, inflation protection, and diversification properties. This characteristic hastened investor shift away from the volatile oil and gas sector into infrastructure and energy transition. Up until 2013, real asset commitments were split between infrastructure and oil and gas, but since 2019, 80% of fund raising has been in infrastructure strategies emphasizing energy transition (renewables, batteries, and EV charging) and digital (data centers, fiber, and cell towers) sectors.

Infrastructure has enjoyed a secular change in how energy and power is generated and consumed. Global mandates to reduce carbon emissions and cleaner energy has exploded the construction of solar and wind installations big and small, in all regions of the world. Previously and still relevant, infrastructure managers were focused on replacing and repairing aging public bridges, roads, transit, and other public facilities. Now, the advent of 5G and soon to be 6G cell service, the exponential growth of the internet of things, and the exuberance in artificial intelligence (AI) has supercharged the expansion in digital infrastructure including cell towers, hyperscale data centers, fiber, and satellite communications.

The growth in digital transmission and storage has increasingly lessened digital infrastructure's sensitivity to the macroeconomy, having uncoupled from economic conditions and more driven by technological innovation. Despite this, some sectors of infrastructure, primarily renewables, are facing competitive pressures and financial stress due to heated competition, construction costs, elevated interest rates, and supply chain disruptions. However, it does not mean that other infrastructure sectors are unaffected by high interest rates and weak economic conditions, but since renewable construction uses more leverage, the sector has felt the negative impact more so. However, public infrastructure, with its long-contracted revenues and built-in income increases, has shown to be resilient during Covid and interest rate increases.

Infrastructure's appeal continues to capture investor interest as 2023 fundraising reached \$121 billion according to PitchBook research. A couple of massive infrastructure funds raised \$30 billion each. Infrastructure managers have increased their subsequent fund sizes by multiples to acquire and build ever larger infrastructure platforms. The downside of this is the question of who will be the buyers of these immense infrastructure platform companies and will there be a receptive public market for an initial public offering.

According to PitchBook, of the infrastructure funds that closed in Q1 2024, 10 funds were in sustainable infrastructure, primarily renewable energy, 7 funds in digital infrastructure, and 6 funds focused on transportation. Geographically, the majority of the funds targeted North America followed by Europe. Asia infrastructure has received more interest of late as the developing markets in Asia are seeing rising domestic consumption and productivity, rapid urbanization, and an emerging middle class. Staff and Cliffwater are finding Asia a less competitive market that offers a potentially better risk-return compared to the U.S. and Europe.

SCERS Real Assets Portfolio

Real Assets sits within the Real Return asset category. The investment objective of the Real Assets asset class is to generate returns with a moderate cash yield component, lower return volatility, less correlation to other asset classes, and the ability to adjust with inflation.

Within Real Assets, there are several sub-asset classes and investment strategies across infrastructure, energy and power, agriculture, timber, and other real assets. Staff and Cliffwater have found limited opportunities in agriculture and timber, especially with experienced managers with a long track record. Agriculture and timber markets experience bouts of poor performance due to economic conditions or weather, which can't be predicted, making financial projections difficult. A consideration going forward is to remove a specific target allocation to agriculture and timber while maintaining flexibility to invest in the segment opportunistically.

The Real Assets target allocation is 7%, with a +/- 2% range around the target. As of September 30, 2024, the actual Real Assets allocation is 8.1%, above the target but within the range of 5%-9%. According to Cliffwater capital budget forecasting, the actual allocation is expected to revert to the target by 2026. The Real Assets asset class reached and moved beyond its 7% target allocation a few years ago, ahead of projections, due to valuation increases, the funding of commitments, and strong performance relative to other asset classes.

The sub-strategy targets and ranges for Real Assets are shown below:

SCERS Real Assets Portfolio Structure

	Minimum	Target Allocation	Maximum	Policy Index Benchmark
Total Real Assets Portfolio	5%	7%	9%	Custom blend of benchmarks below:
Infrastructure	45%	60%	75%	60% Cambridge Associates Private Infrastructure
Energy	15%	30%	45%	30% Cambridge Associates Private Energy
Agriculture, Timber, Other	0%	10%	20%	10% NCREIF Farmland

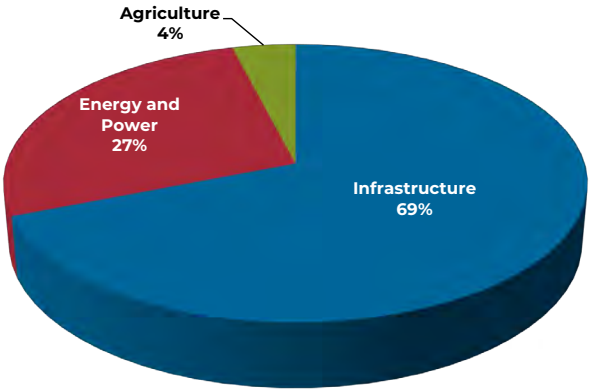
It has become increasingly difficult to source differentiated infrastructure strategies as many managers are pursuing similar thematic and sectors, including energy transition (battery storage, renewables, liquefied natural gas (LNG), and EV charging stations), digital (data centers, fiber, and cell towers), and transportation (ports, roads, and logistics). Staff and Cliffwater believe many infrastructure funds provide more beta (market like returns) than alpha (excess returns), with less differentiation, and are better suited as larger foundational investments in an open-end fund structure in SCERS' portfolio. To achieve excess returns or alpha, Staff and Cliffwater look to build around the foundational investments with specialist, niche, or sector specific strategies.

In 2024, SCERS made two commitments totaling \$80 million, which was well below the budget of \$180 million and below the range of \$140-\$210 million. Given SCERS' Real Assets allocation is over the target allocation, combined with fewer appealing investment strategies during the year, Staff and Cliffwater view coming in under budget as prudent and acceptable. Commitments made during the year include \$40 million to a new infrastructure manager, Stonepeak Opportunities Fund and a \$40 million follow-on investment with an existing energy and power manager, Quantum Energy Partners VIII.

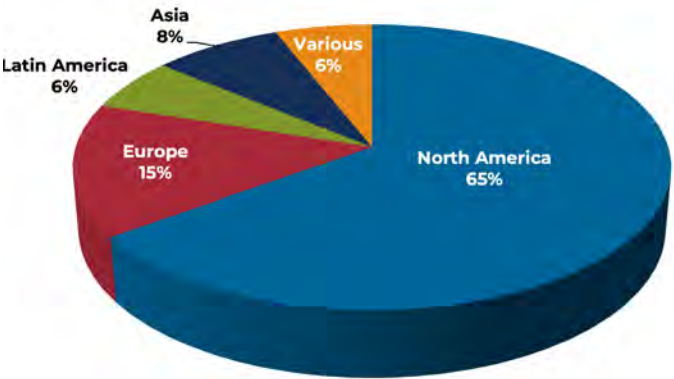
Staff and Cliffwater continue to favor unique and differentiated real assets investment strategies that provide attractive risk adjusted returns and are comfortable being selective in new Real Assets commitments.

Below is SCERS' Real Assets diversification by investment strategy and geographic region, as of June 30, 2024:

Real Assets Portfolio Strategy Allocations
AS OF JUNE 30, 2024



Real Assets Portfolio Geographic Allocations
AS OF JUNE 30, 2024



2024 Activity

The 2024 Real Assets annual investment plan was:

- A target of 4 fund commitments, with a range of 3-6
- A total of \$180 million in commitments, with a range of \$140-210 million
- An average commitment size of \$45 million per fund

2024 actual activity:

- 2 commitments made during the year totaling \$76 million (one follow-on investment with an existing manager and one new GP relationship):
 - \$36 million investment in Stonepeak Opportunities Fund, LP (Infrastructure)
 - \$40 million follow-on investment in Quantum Energy Partners VIII, LP (Energy and Power)
- Oversaw, monitored, and met with SCERS' existing Real Assets managers

2025 Annual Plan

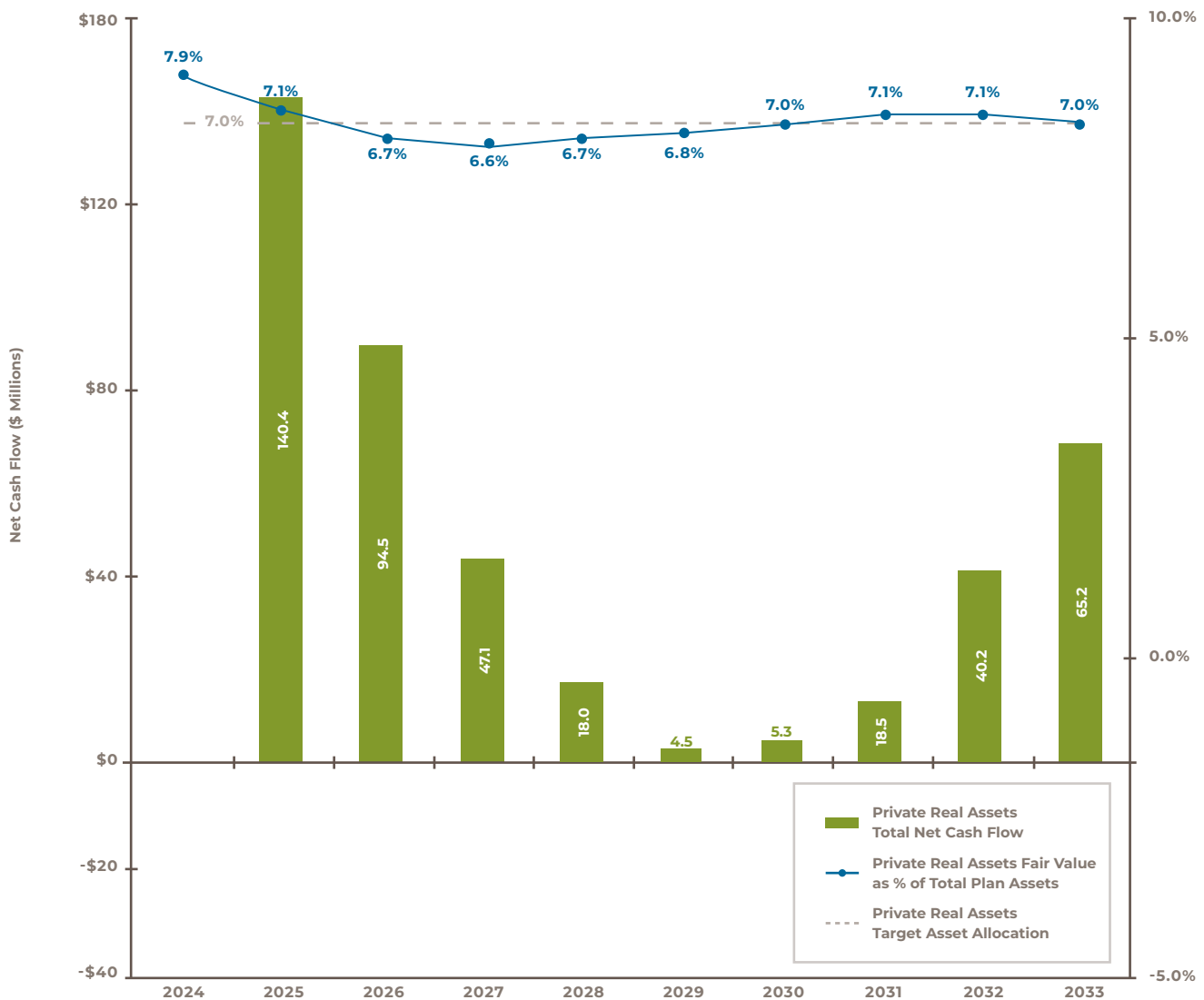
Below is the 2025 capital commitment plan for the Real Assets asset class, as recommended by Cliffwater and Staff:

SCERS Private Real Assets Annual Investment Plan

	Target	Minimum Range	Maximim Range
Commitment Level	\$220 MM	\$190 MM	\$250 MM
Number of Funds	4	3	6
Energy Related	1	0	2
Infrastructure	3	2	4
Ag, Minerals, Timber	0	0	1
Other	0	0	1
Commitment per Fund	\$55 MM	\$40 MM	\$100 MM

- Recommend a \$220 million commitment budget for 2025, with a range of \$190-\$250 million
 - Target 4 fund commitments averaging \$55 million, with a range of \$40-\$100 million
 - 3 Infrastructure and 1 Energy and Power
 - The total commitment budget for 2025 is larger than the budget from the prior year
 - Targeting a similar number of funds as the prior year but a larger average commitment size per fund
- The 2025 budget does not include any funds in which a commitment was made in 2024 but capital has not been called

Real Assets Capital-Pacing Plan



- Staff and Cliffwater expect to focus on specialist, niche, or sector specific strategies
 - Capital deployment will be prudent but selective given that the Real Assets portfolio is above the target allocation
- 2025 investment strategies and themes of focus include:
 - Follow-on investments with existing managers/strategies
 - Small/mid-sized infrastructure
 - Transportation sectors
 - Specialty and sector focused real assets strategies
 - Environmentally driven strategies (de-carbonization, circular economy, and alternative energy/fuels)
 - Geographic focused infrastructure strategies
- Oversee, monitor, and assess the existing manager lineup

Real Estate

Market Overview

As interest rates increased to combat inflation across the major markets, real estate values and transaction volumes plummeted from their peak in 2022. But as the market digested the higher interest rates and the repricing of property values, market activity started to reawaken in late 2023 and beginning of 2024. In addition, investors began to price in interest rate cuts across the U.S. and Europe, with market consensus that monetary easing would occur over the latter half of 2024. This action is expected to signal an increase in investment activity and bring liquidity into the market pointing to a potential upcycle in 2025.

With transaction activity severely depressed since 2022, property values dropped globally, particularly within the office segment. While Europe was earlier in adjusting property values lower, many believe that the U.S. is furthest along in its price adjustment cycle, followed by Europe and Asia Pacific. According to JLL research, market repricing varied across the developed markets, but Japan's property values have held up and remained steady although transaction volumes were down. The weak Japanese yen has contributed to Japan's increased exports and a dramatic influx of tourist activity that have exceeded pre-Covid levels. Global investors have increased their investment activity in Japan, particularly for multi-family, industrial, and hospitality properties, and Japan has been one of the few bright spots among the global property markets.

In its 2024 mid-year report, JLL found increasing global investment activity with property values stabilizing after months of steady declines. The second quarter of 2024 is reflective of improved transactions with global investment volumes reaching \$155 billion, up from the first quarter volume of \$132 billion. According to JLL, deal volumes were 4% lower year-over-year in North America but modestly up in Europe and Asia Pacific, an indication of the cycle bottoming out. Interestingly, across the major markets, investor activity has centered on the living sector, logistics, and data center property types. Institutional investor sentiment surveys have pointed to more capital to be allocated to these three property types, and alternative property types across all regions, with hotels and retail seeing improvements from a jump in international travel and domestic consumption.

Despite real estate's recent difficulties, the returns over the 2013-2023 period have compared favorably to other asset classes. Using data from Bloomberg, JLL provided return comparisons across various asset classes, with U.S. equities the top performer earning 11.2%, with Europe and Asia Pacific private real estate generating an 8.0% return, and U.S. private real estate returning 6.4%. But the poor performance over the last two years has dampened investor's appetite as real estate fundraising has dropped off. Many institutional investors paused on any new commitments to real estate and pivoted to other private assets such as private credit. But as previously noted, investment activity has revived and JLL believes that real estate investment activity will steadily improve but will be focused on value add and opportunistic strategies.

Staff and Townsend have been focusing on non-core opportunities for some time and specifically into secular themes of demographics, consumption, and medical delivery. In addition, Staff and Townsend have been taking a relative value approach to portfolio construction by identifying opportunities outside of the U.S. and non-traditional property sectors that have a better risk-return profile, such as ambulatory care centers and cold storage. Several investments made outside of the U.S. have been a positive return contributor to SCERS' portfolio, including investments in the Nordics and Japan, with sector specific strategies such as industrial and medical generating strong absolute returns. These have been countered by underperforming investments in logistics investments within China.

SCERS Real Estate Portfolio

SCERS' Real Estate asset class sits within the Real Return asset category and is expected to generate moderate current income with lower return volatility, adjust with inflation, and is a diversifier to SCERS' overall portfolio. The Real Estate portfolio has flexibility in sector and geographic investment ranges and investment structures such as closed and open-end commingled funds, customized separate accounts, and secondary investments.

Real estate investment strategies fall within two broad categories – core/core plus and non-core. Investments in core/core plus strategies will typically possess a lower but stable risk-return profile and serve as the hub/foundation of the Real Estate asset class. Non-core investments represent the spoke/alpha component of the Real Estate asset class and can serve as a complement and return enhancer to the overall portfolio, but also entail more risk as they typically employ greater levels of leverage. Core/core plus investments are typically made in open-end fund structures, while non-core investments are made in closed-end fund structures.

In 2021, the Real Estate sub-strategy allocation targets were adjusted, with the overall target allocation increasing from 7% to 9%, as shown below. However, over the past few years limited investment activity took place within the Real Estate portfolio given the challenges facing the real estate market, putting SCERS behind pace in reaching the revised 9% target allocation. As of September 30, 2024, the actual Real Estate allocation is 6.3%, below the 9% target and the bottom of the range of 7%-11%. The 9% target is expected to be reached by 2030.

SCERS Real Estate Portfolio Structure

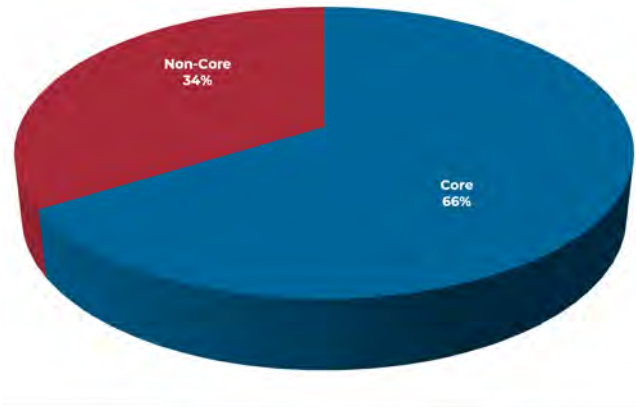
	Minimum	Target Allocation	Maximum	Policy Index Benchmark
Total Real Estate Portfolio	7%	9%	11%	Custom blend of benchmarks below:
Core Real Estate	50%	60%	80%	60% NFI-ODCE
Non-Core Real Estate	30%	40%	50%	40% NFI-ODCE + 1%
Non-U.S. Real Estate	0%	0%	35%	-

The Real Estate allocation has suffered due to the value declines over the past two years in response to the rapid increase in interest rates and the uncertainty as to whether the economy would suffer a hard landing. In contrast, public equity markets and other asset classes generated strong returns during this period leading to SCERS’ total portfolio value increasing while the real estate portfolio values declined.

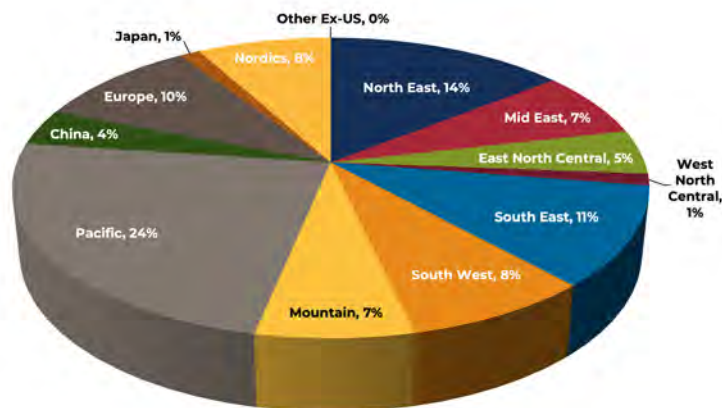
The real estate market has felt the impact of inflation, heightened interest rates, and the slowing of the economic environment, which has translated to a cautious and selective investment approach over the past couple of years by Staff and Townsend. There were a few interesting investment opportunities during the year that Staff and Townsend evaluated, including U.S. and Asia data centers and cold storage. An investment was made in a cold storage focused fund, and two follow-on fund investments are expected to close by year end. For the 2025 investment year, Staff and Townsend are reviewing opportunities in Europe, attainable/affordable housing in the U.S., and multifamily strategies globally.

Below is SCERS’ Real Estate diversification by investment strategy and geographic region, as of June 30, 2024:

Real Estate Portfolio Strategy Allocations
AS OF JUNE 30, 2024



Real Estate Portfolio Geographic Allocations
AS OF JUNE 30, 2024



2024 Activity

The 2024 Real Estate annual investment plan was:

- Target 3 fund commitments, with a range of 2-5
- \$120 million in total commitments, with a range of \$100-\$180 million
 - 0 core funds
 - 3 non-core funds totaling \$120 million
- An average non-core commitment size of \$40 million per fund

2024 actual activity:

- 3 commitments were made during the year totaling \$130 million:
 - A \$50 million investment in WCP NewCold Fund III (Non-Core – Cold Storage)
 - In process and expected to close by year-end
 - \$50 million follow on investment in a Non-Core opportunistic real estate fund
 - \$30 million follow on investment in a Non-Core Japan focused value-add real estate fund
- Oversaw, monitored, and met with SCERS' existing Real Estate managers

2025 Annual Plan

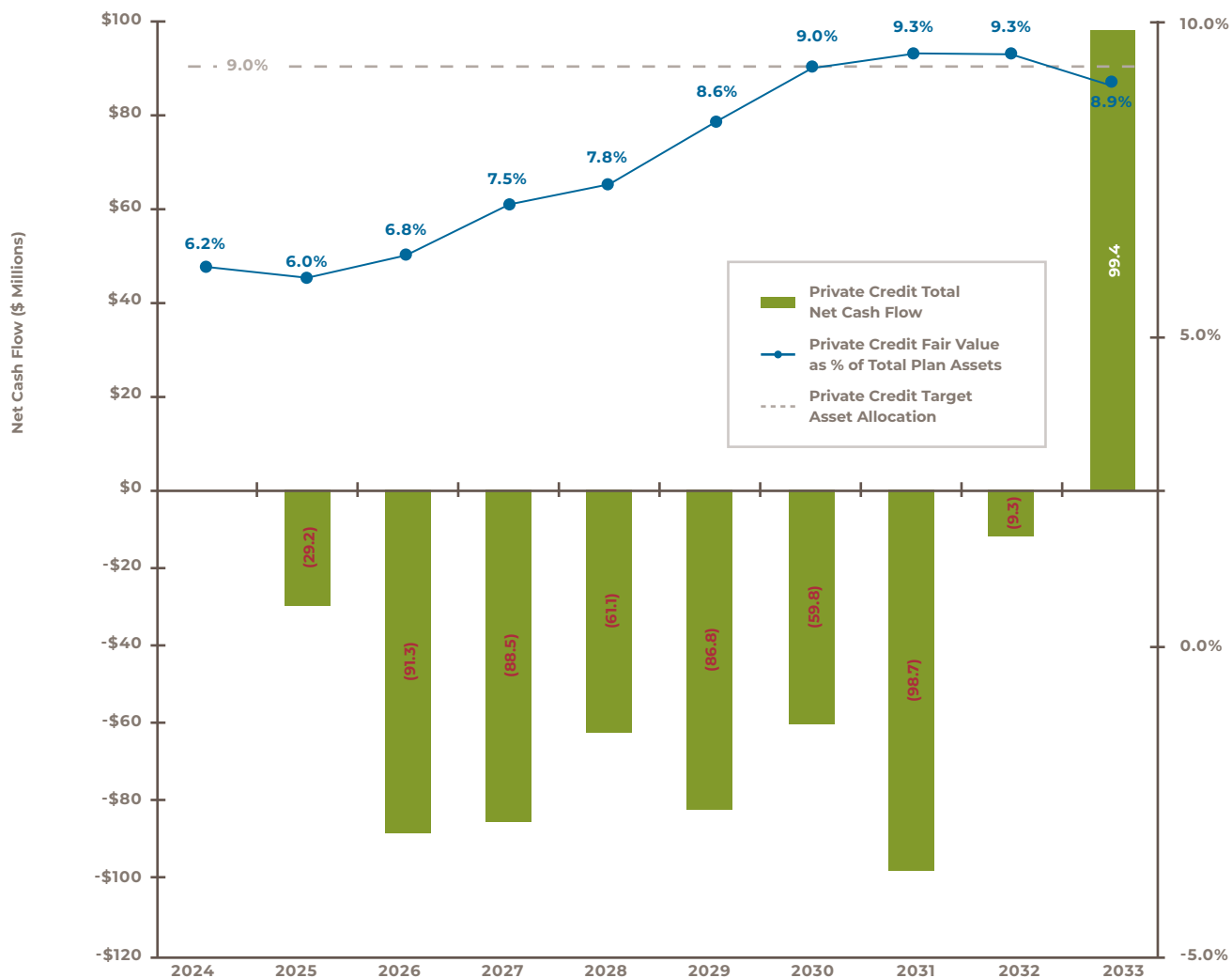
Below is the 2025 capital commitment plan for the Real Estate asset class, as recommended by Townsend and Staff:

SCERS Real Estate Annual Investment Plan

	Target	Minimum Range	Maximum Range
Commitment Level	\$270 MM	\$180 MM	\$320 MM
Number of Funds	5	3	6
Core Fund(s)	1	0	2
Non-Core Fund(s)	4	3	4
Commitment per Non-Core Fund	\$40 MM	\$30 MM	\$60 MM
Commitment per Core Fund	\$75 MM	\$50 MM	\$100 MM

- Recommend a \$270 million commitment budget for 2025, with a range of \$180-\$320 million
 - Target 4 Non-Core fund commitments averaging \$40 million each, with a range of \$30-\$60 million per fund
 - Target 1 Core fund commitment for \$75 million, with a range of \$50-\$100 million
 - The total commitment budget for 2025 is larger than the budget from the prior year
 - The 2025 budget does not include any funds in which a commitment was made in 2024 but capital has not been called

Real Estate Capital-Pacing Plan



- Rebalance the U.S. core open-end portfolio to bring the strategy and geographic mixes within targeted ranges
 - Reevaluate the number of core diversified funds
 - With core real estate valuations at or near the bottom, Staff and Townsend believe it may be an opportune time to invest in core/core plus
 - Considerations will be made for specialist core funds in multifamily, healthcare, and other specialty sectors
- 2025 investment strategies and global themes include:
 - Specialty/niche property types
 - Geographic focused value-add strategies
- Oversee, monitor, and assess the existing manager lineup

Liquid Real Return

SCERS Liquid Real Return Portfolio

SCERS' Liquid Real Return portfolio is implemented with a separate account mandate managed by SCERS' Overlay Program manager, State Street Global Advisors (SSGA). The SSGA mandate serves a dual purpose, part strategic allocation and part overlay proxy that rebalances the overall Real Return allocation to its target allocation. As of September 30, 2024, the actual Liquid Real Return allocation stood at 2.5%, above the 1% target. The overweight is attributed to overlay program rebalancing activity that offsets an underweight in Real Estate to maintain the overall Real Return asset category allocation at its target allocation.

The SSGA Liquid Real Return mandate consists of a diversified series of liquid publicly traded real return exposures that complement the broader objectives of the Real Return asset category. Underlying investments include global real estate investment trusts (global REITS), global infrastructure equities, commodities, Treasury inflation protected securities (TIPS), global natural resource equities, and floating rate notes. Given that underlying exposures are publicly traded, Liquid Real Return exposures tend to have higher correlations to equities and fixed income, compared to their private market equivalents within Real Assets and Real Estate.

2024 Activity

- Meaningful Real Return asset category overlay rebalancing activity took place to offset an overweight to Real Assets and an underweight to Real Estate
- Oversaw, monitored, and met with SCERS' existing Liquid Real Return manager

2025 Annual Plan

- Perform any rebalancing activity as necessary
- Oversee, monitor, and meet with SCERS' existing Liquid Real Return manager



SECTION FOUR

Other Investment Activities



2024 Activities

Other projects, activities, and enhancements within the investment program in 2024 included:

- Initiated an asset liability modeling (ALM) study in late 2024 (December)
- Modified the implementation of SCERS' dedicated cash allocation, from a demand deposit account to a government short-term investment fund
- Renewed SCERS' contract with alternative asset consultant, Cliffwater
- Introduced a new annual Investment Operations Report
- Conducted an annual liquidity analysis as called for in SCERS' Cash Management Policy
- To comply with California Government Code Section §7514.7, provided public disclosure of calendar year 2023 information regarding fees, expenses, and returns for alternative investment funds in which SCERS invests
- Updated SCERS' Master Investment Policy Statement to include ESG considerations
- Updated SCERS' Cash Management, Securities Litigation, and Proxy Voting policies
- Approved adding an Investment Officer position to the investment staff structure
- Attended and participated as speakers/panelists at several industry conferences
- Evaluated fee audit service providers

2025 Initiatives

- Conclude the asset liability modeling (ALM) study in the first half of 2025
- Upon conclusion of the ALM study, evaluate any structural modifications to asset classes, including policy benchmark revisions
- Update the Master investment policy statement (IPS) and asset category IPSs to reflect the changes to the strategic asset allocation and underlying asset class structural revisions
- Transition the Overlay Program to the revised strategic asset allocation, and recommend any adjustments to the overlay proxies
- Conclude the custodian RFP evaluation process, and approve a custodian
- Evaluate contracts of general investment consultant Verus, and real estate consultant The Townsend Group
- Evaluate workflow process management and contact relationship management (CRM) software
- Evaluate alternative approaches to maintaining a dedicated cash allocation to meet SCERS' liquidity needs
- Conduct annual liquidity analysis as called for in SCERS' Cash Management Policy
- To comply with California Government Code Section §7514.7, provide public disclosure of calendar year 2024 information regarding fees, expenses, and returns for alternative investment funds in which SCERS invests
- Attend and participate in industry conferences



SECTION FIVE

Board Education

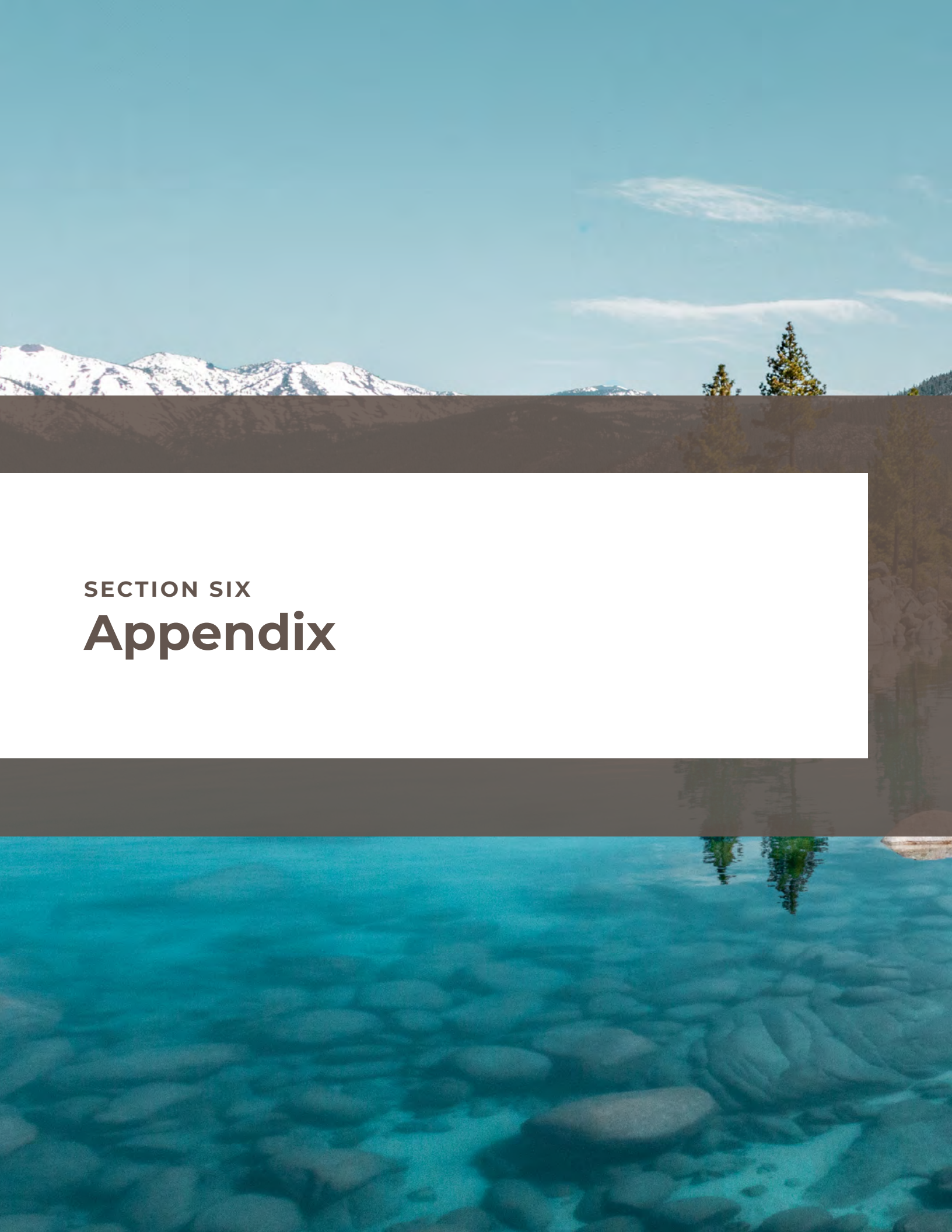


2024 Board Education

- Educational overview of the asset liability modeling study process
- Education series covering each of SCERS' major asset classes
- Investment oversight initiative education
- Education on cryptocurrency
- Education on SCERS' portfolio analytics software system

Anticipated 2025 Board Education

- Education on performance attribution and analytics
- Strategy update presentations by SCERS' investment managers
- Other educational presentations by Consultants and Staff



SECTION SIX

Appendix

Memorandum

To: Sacramento County Employees' Retirement System (SCERS) Board
From: John Nicolini; Verus
 Brian Kwan; Verus
Date: November 20th, 2024
RE: 2024 Investment Year in Review

Executive Summary

Much of 2024 was dedicated to the preparation for and beginning of the asset-liability management (ALM) study. Leading up to the ALM study was a series of educational presentations covering each of the asset categories and asset classes within the SCERS portfolio. Additionally, we conducted manager searches, reviewed plan liquidity, started a custodian search, and provided some additional Board education. Detailed below are the portfolio initiatives completed in 2024 and planned projects for 2025.

PORTFOLIO INITIATIVES IN 2024

Global/Unconstrained Equity

Following the 2021 adoption of a new Global/Unconstrained Equity sub-asset class (4% target) and the hiring of 3 global equity managers, SCERS conducted a global equity search in 2024 as part of the continued buildout of this sub-asset class. Unfortunately, SCERS was unable to agree on contract terms with the chosen global equity manager, so a 4th manager was not added to the Global/Unconstrained Equity portfolio. We continue to assess additional managers to complete the 4% target allocation.

ALM Study

Staff and Verus kicked off 2024 with an education presentation on the ALM process. The first step in the process was to conduct an enterprise risk tolerance study which was completed over the past summer. The next step will be a liability and asset allocation review which will be presented in December.

Liquidity Study

Verus presented an updated liquidity study for the SCERS portfolio which covered multiple measures of liquidity and stress tested the cash flow and return assumptions. The portfolio's liquidity remains robust, based on our assumptions.

Custodian Search

With the upcoming contract expiration of SCERS' current custodian, Staff recommended that a search be conducted for custodial services. Verus is assisting Staff with the custody search process with the goal of recommending a custodian by year-end or early in 2025.

Board Education

Verus presented a cryptocurrency and blockchain education piece to the Board given some interest shown by institutional investors in the emerging technology.

PROJECTS FOR 2025

Finalize ALM Study

The final stages of the ALM study will likely be completed in early 2025. Following the adoption of a new asset allocation, Staff and Verus will update the Investment Policy Statements for Board approval and begin the implementation process.

Asset Allocation Implementation

Staff and Verus will begin the process of implementing the new asset allocation by asset category and asset class. Where necessary, board education opportunities may precede some implementation recommendations.

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Verus – also known as Verus Advisory™.



To: Sacramento County Employees' Retirement System
From: Cliffwater LLC
Date: November 20, 2024
Regarding: **Alternative Assets 2025 Annual Investment Plans**

The Sacramento County Employees' Retirement System ("SCERS") annual investment plans serve as near-term implementation guides to support SCERS' long-term strategic planning decisions. The SCERS Investment Staff works closely with Cliffwater to develop the annual investment plans for the alternative assets in the SCERS portfolio. These assets include the absolute return strategies as well as the illiquid asset classes that include private equity, private credit, and real assets. Each annual plan begins with a review of the asset class current exposures, performance, and investment objectives. The annual investment plans are developed to enable each asset class to continue to meet its objectives, reach its targeted allocation, and maintain its desired portfolio exposures.

The unique investing characteristics of private asset partnerships utilized in the illiquid asset classes requires prospective planning to enable allocators like SCERS to regularly commit new capital to private funds and effectively manage the allocation to these illiquid asset classes over time; the goal is to reach or maintain targeted allocations without significantly overallocating or having outsized unfunded commitments. SCERS uses long-term commitment pacing forecasts, described below, for each private portfolio to set a target annual commitment pace. SCERS includes an expected range of activity around the target to allow for flexibility to adapt as needed to changing market conditions or quality of available investment opportunities. This pacing process is intended to provide vintage year diversification without making unintended "bets" on specific vintage years. Prudent pacing is also intended to limit situations in which allocators may not have the capacity to commit to strategies when desired.

Cliffwater develops the multi-year commitment pacing forecasts for each private portfolio, covering private equity, private credit, and real assets. Each forecast includes fund- or strategy-specific assumptions for expected contributions (capital calls), fair value growth of investments (capital appreciation), and distributions (returns of capital and investment gains) within the private portfolios. Cliffwater applies these assumptions to each of the investments in the current portfolios, as well as to the expected future commitments which are developed through this process. By combining the forecasts for the private asset classes with expectations for SCERS' total portfolio growth, Cliffwater and the SCERS Investment Staff determine an appropriate level of annual commitment pacing. These annual commitment "budgets" for each private asset class then serve as the basis for determining the number, size, and type of new commitments SCERS expects to make in future years. The annual investment plans presented to the SCERS Board include the subsequent year's annual commitment plan, and multi-year projected allocations and cash flow forecasts for each of the private asset classes.

Private Equity

The recommended SCERS 2025 investment plan for private equity includes a commitment target of \$250 million for 2025 vintage year private equity funds, with an expected commitment range of \$200 million to \$300 million. The plan is to target six new partnership commitments, diversified primarily across buyout, growth equity, and venture capital funds. The expected average size of individual commitments is \$40 million, with a range of \$20 million to \$50 million. The lower end of the sizing range should primarily be for

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funds with limited access where SCERS is looking to establish a new general partner relationship, or potentially for funds with a higher expected risk which may warrant a reduced allocation.

The SCERS portfolio allocation to private equity was 13.1% at the end of the 2024 fiscal year. This represents a modest overallocation as compared to the SCERS target allocation of 11%. The SCERS Investment Staff and Cliffwater are forecasting the SCERS private equity allocation will continue to trend closer to its targeted allocation through 2027, then remain near the 11% target by 2027 and beyond. The private equity portfolio is projected to remain cash-flow positive, with distributions expected to exceed contributions. The SCERS private equity portfolio remains well-diversified by strategy, sector, geography, and vintage year, with these allocations within their targeted exposure ranges.

The 2025 investment plan for private equity is substantially similar to the 2024 private equity investment plan. The recommended commitment target and expected commitment range remain the same as the pacing recommended in the 2024 annual investment plan. SCERS expects to commit to a slightly smaller number of private equity funds in 2025, with a modest increase in the expected average size of individual commitments, as it remains mindful of its total number of private equity general partner relationships.

Private Credit

The recommended 2025 investment plan for private credit includes a commitment target of \$160 million for 2025 vintage year private credit funds. The expected range for new commitment activity is \$120 million to \$200 million. The plan is to target three new partnership commitments, likely averaging \$55 million per individual commitment. While \$55 million represents the average commitment size, individual commitment amounts could range from \$40 million to \$75 million, depending on a number of fund-specific factors and portfolio construction considerations. SCERS expects to include both Direct Lending and Opportunistic Lending funds within its new commitment activity in 2025.

As with private equity, the private credit 2025 investment plan is substantially similar to the 2024 private credit investment plan. The recommended commitment target and expected commitment range remain the same as the 2024 pacing recommendations, with a slight decrease in the expected number of new private credit funds and a modest increase in the expected average size of individual commitments.

The SCERS Investment Staff and Cliffwater are forecasting the SCERS private credit allocation will essentially reach its targeted allocation by the end of 2027. The SCERS private credit portfolio is also projected to become cash-flow positive within a similar timeframe. The SCERS private credit portfolio's allocations are currently within their targeted exposure ranges for strategy and geography.

Real Assets

The recommended 2025 investment plan for real assets includes a commitment target of \$220 million for 2025 vintage year real asset funds, with an expected commitment range of \$190 million to \$250 million. The 2025 commitment target is a bit higher than the recommended pacing for 2024; the slightly higher pacing is primarily driven by 2024 commitment activity being lower than planned. New commitments in 2025 may favor Infrastructure investments, though are likely to also include allocations to new Energy and Power partnerships. The plan targets four new real asset partnership commitments in 2025. The expected average size of individual commitments is \$55 million, with a range of \$40 million to \$100 million. Setting the upper end of the sizing range at \$100 million is once again intended to allow SCERS to make a larger allocation to funds that are intended to broadly deliver on the portfolio's objectives, while being complemented by smaller commitments to more specialized, often niche, funds that are intended to generate higher returns and further diversify the portfolio's exposures.

The SCERS portfolio allocation to real assets was 8.3% at the end of the 2024 fiscal year. This represents a modest overallocation as compared to the target allocation of 7%. The SCERS Investment Staff and Cliffwater are forecasting the SCERS real assets allocation will continue to move closer to its targeted allocation through the next few years, as more seasoned investments continue to distribute capital back to SCERS. The new commitment pacing that is reflected in the 2025 investment plan and in subsequent

years is intended to allow SCERS to return to its targeted 7% allocation in the near term, without materially undershooting or overshooting its target. SCERS Investment Staff and Cliffwater are also forecasting that the real assets portfolio will remain cash-flow positive in 2025 and beyond. The SCERS real assets portfolio remains well-diversified by strategy, sector, geography, and vintage year. The portfolio's allocations are within their targeted exposure ranges.

Absolute Return Portfolio

The recommended 2025 investment plan for absolute return strategies includes an expectation for one new fund investment to be made in 2025, likely sized at \$50 million. Since the absolute return portfolio is already fully developed, including being appropriately diversified across funds and sub-strategies, the only expected new investment activity would be for marginal additions to the portfolio to continue to refine the portfolio's exposures and positioning. While only one new investment is anticipated in 2025, additional changes are certainly possible, particularly if any fund replacements are desired during the year.

The absolute return portfolio does not require a similar private asset commitment pacing analysis, since the absolute return strategies are typically fully invested at the inception of each investment. However, the SCERS Investment Staff and Cliffwater actively monitor the absolute return investments and will adjust exposures as needed and strive to maintain the portfolio quality with investments in the highest conviction strategies.

Maintaining SCERS' Long-Term Focus

Since most of the SCERS alternative assets portfolios are relatively mature, it is not surprising to see the alternative investment annual plans remaining fairly consistent from year to year. However, even with this high-level consistency, SCERS continues to adjust and refine these portfolios through their ongoing implementation. SCERS may also change its asset class allocation targets or adjust the desired portfolio structure of underlying asset classes in connection with its 2025 asset liability modeling study. Whether these decisions do or do not impact allocations or asset class composition, the alternative assets implementation focus for SCERS should remain executing on its long-term investment pacing plans, supplementing existing allocations with new high-quality opportunities, and providing differentiated sources of return for the total SCERS portfolio.



MEMORANDUM

TO: Sacramento County Employees' Retirement System
DATE: November 20, 2024
SUBJECT: Real Estate Investment Year in Review (Data as of June 30, 2024)
FROM: Townsend Group

SCERS has a target real estate allocation of 9.0%, with an allowable range of 7.0% to 11.0%. As of 2Q2024, real estate represented 6.6% of total plan assets, which is below the target and slightly below the permissible range. However, commitments representing 1.2% of capital remain undrawn as of the second quarter.

Real Estate Return and Risk Forecasts

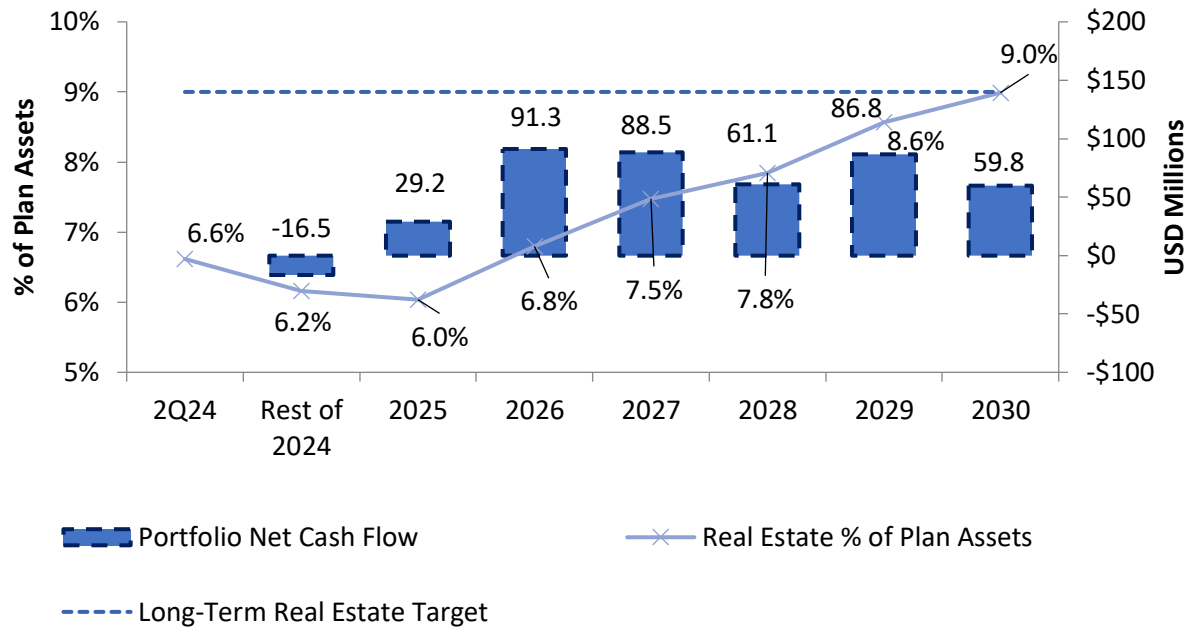
Townsend's long-term return expectations for private real estate and real assets are provided below:

Risk & Return	Core	Value	Opportunistic	REITs	Timber	Row Crop	Perm Crop	Private Infrastructure
Expected Net Return	6.0%	6.5%	9.0%	6.0%	5.8%	6.0%	11.0%	7.0%
Standard Deviation	6.4%	9.1%	10.3%	20.9%	5.0%	4.3%	10.7%	7.3%

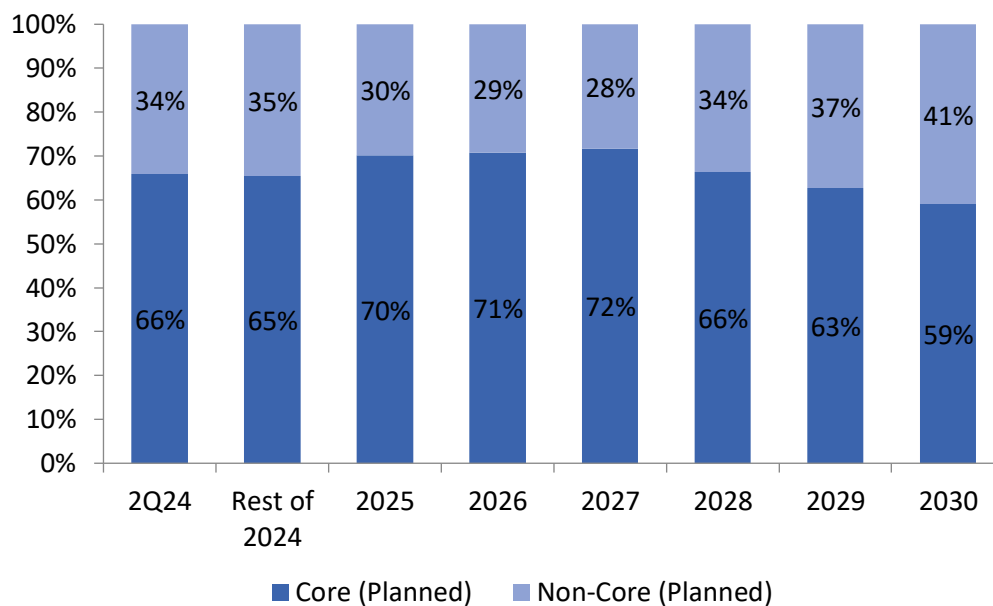
SCERS Private Real Estate Forecasts

SCERS made a conscious decision to limit new capital deployment in recent years during a period of market uncertainty. As a result, the private real estate portfolio is expected to remain slightly below the 9% real estate target for the near term. Managers continued to slowly adjust valuations downward following rising interest rates and resulting expanding capitalization rates, which further contributed to the SCERS real estate portfolio's relative underweight position. Staff and Townsend have adjusted future model allocations to address this underweight, notably through an increase in non-core commitments designed to meet the 40% non-core allocation target. The pacing forecast below assumes \$120 million commitment in core in 2025 and an average of \$150 million of non-core commitment per annum between 2025 and 2028 in order to meet allocation targets to core, non-core, and broadly real estate (within the total plan) by 2030.

Real Estate % of Total Plan Assets



Risk Sector Allocation Change





Recap of 2024

In 2024, investment activity was focused on non-core niche sectors and tactical opportunities that align with the Townsend View of the World. Three funds are under review by staff and anticipated to close before 2024 year-end. These include a global cold storage fund and two renewed commitments to previously successful fund series in SCERS' real estate portfolio with targeted strategies. SCERS made no new core investments this year, a reflection of expected (and observed) valuation correction. The only activity in the core portfolio was formalizing a partial redemption from a core diversified fund for rebalancing purposes. The partial redemption remains in place as the fund continues to make payments.

Recap and Vision for 2025

The last two years has been challenging for real estate, but we expect improvements going forward. Unlike the prior growth cycle, we expect more selective improvement and continued bifurcation across regions and sectors. For 2025, we anticipate a number of interesting non-core opportunities, particularly in niche sectors such as data centers, industrial outdoor storage, and single family residential, as well as tactical opportunities like secondaries. These areas continue to show strong growth potential and present compelling investment prospects. Although SCERS' real estate portfolio was impacted by market movements during the year, the portfolio performed relatively well compared to its benchmark.

Townsend and Staff will continue to pursue the real estate portfolio's strategic objectives, as approved by SCERS' board. As such, we will consider core opportunities, as we believe valuations have largely adjusted to more reasonable levels providing an attractive entry point. Additionally, we will review with staff the existing core portfolio with the probability of re-balancing selective existing core funds. Townsend will continue to identify select non-core opportunities accretive to SCERS' Portfolio, with a focus on sector or regional specialists in thematically interesting offerings likely to take advantage of current market opportunities. We recommend targeting 1-2 new core commitments at \$50-120 million each and 4-5 new non-core commitments at \$40-50 million per fund.



2024 - 2025



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[SCERS.gov](https://www.scers.gov)