



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 17

MEETING DATE: May 21, 2025

SUBJECT: Asset Class Restructuring and Implementation: Global Equity

SUBMITTED FOR: X Action Information

RECOMMENDATION

Approve revised structure and implementation plan to the Global Equity asset class as recommended by Staff and Verus. The specific recommendations include:

- Approve a range of +/- 4% around the Global Equity target allocation of 39% (35% - 43%), and sub-asset class targets as described below.
 - The Global Equity asset class target allocation of 39% was approved as part of the revised Strategic Asset Allocation in March 2025.
- Adopt 19% target allocation for the Domestic Equity sub-asset class, a decrease of 1 percentage point from the current 20% target, and maintain the existing sub-asset class target allocations.
 - 50% Large Cap Passive target allocation.
 - 40% Large Cap Active target allocation.
 - 10% Small Cap Active target allocation.
- Adopt 14% target allocation for the International Equity sub-asset class, a decrease of 2 percentage points from the current 16% target, and maintain the existing sub asset class target allocations.
 - 60% Developed International Large Cap target allocation.
 - 10% Developed International Small Cap target allocation.
 - 30% Emerging Markets target allocation.
- Adopt 6% Global/Unconstrained Equity sub-asset class target allocation, an increase of 2 percentage points from the current 4% target, and maintain the existing sub asset target allocations.
 - > / = 50% target allocation to Global Equity
 - < / = 25% target allocation to Long/Short (Non-Beta 1) strategies
 - < / = 25% target allocation to Unconstrained / Niche strategies
- Conduct a manager search for the Global / Unconstrained sub-asset class to increase the allocation toward the 6% target allocation.

- Evaluate current managers of the Developed Large Cap segment of the International Equity sub-asset class, and consider potential manager and structure changes, including conducting a formal manager search as necessary.
- Rebalance the Global Equity portfolio, to meet the revised target allocations, either in conjunction with the results of manager search activity or as necessary based on market conditions.

PURPOSE

This item supports the implementation of the revised strategic asset allocation, which calls for Staff and consultants to identify structuring considerations and implementation plans for each major asset class.

PUBLIC EQUITY STRATEGIC CHANGES

SCERS' Board approved a revised strategic asset allocation for SCERS in March 2025, which resulted in a 39% target allocation to the Global Equity asset class. At the March Board meeting, it was communicated that Staff and Verus would present an updated structure for the Global Equity asset class at a future date, comprising the underlying targets and ranges for the sub-asset classes within the overall Global Equity asset class. The table below shows the revised target allocations for asset classes within the Growth asset category.

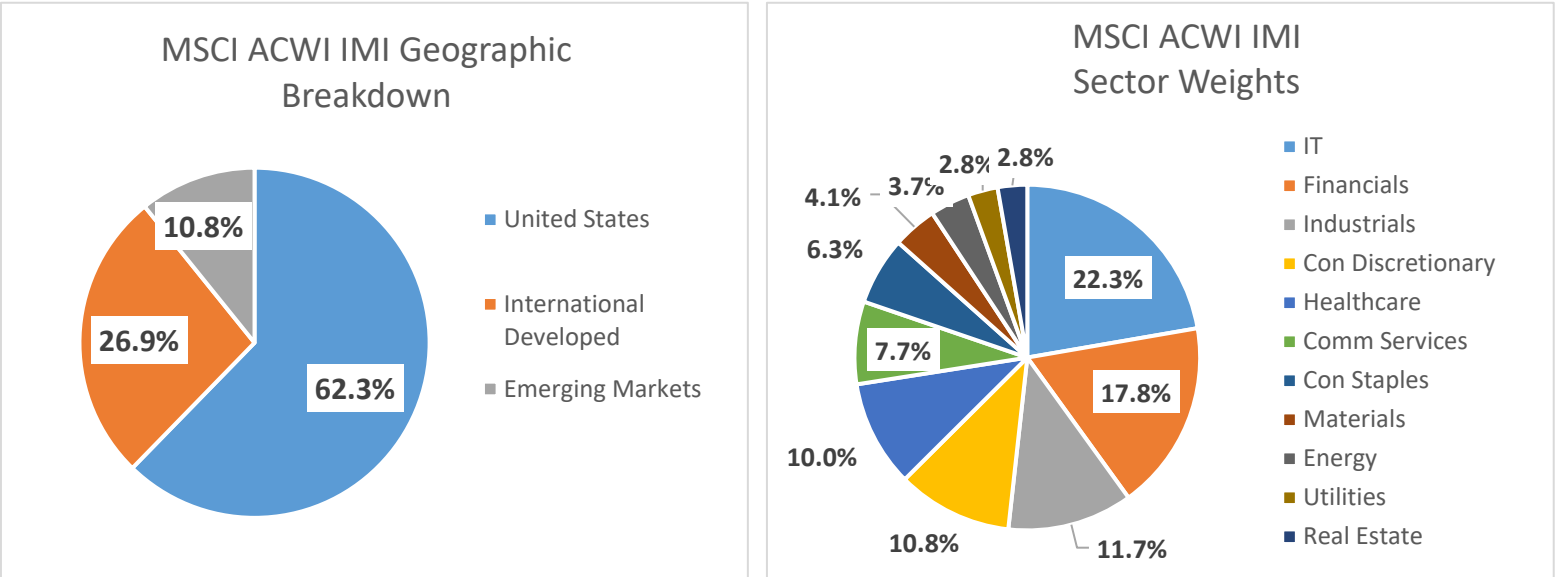
Asset Class	Prior Target Allocation	Revised Target Allocation	Change
Global Equity	40.0%	39.0%	-1.0%
Private Equity	11.0%	11.0%	0.0%
Public Credit	2.0%	-	
Private Credit	5.0%	-	
Credit	-	9.0%	2.0%
Growth Asset Category	58.0%	59.0%	1.0%

Despite recent market volatility, SCERS' Global Equity portfolio is overweight the 39% target allocation at approximately 40.3% as of April 30, 2025. As detailed below, relative to the MSCI ACWI benchmark, Domestic Equity exposure (as a percentage of total Global Equity) has been underweight the benchmark while International Equity exposure has been overweight. The overweight and underweight positions of the sub-asset classes will be updated based on the recommended structure of the Global Equity portfolio.

The 'Implementation Plan' section for Global Equity below will cover the future steps to implement the proposed structure, including new manager searches and rebalancing of the portfolio, as appropriate.

GLOBAL EQUITY BENCHMARK CHARACTERISTICS

The MSCI ACWI Investable Market Index (IMI) is the Policy Index benchmark for SCERS’ public equity exposure. The MSCI ACWI IMI “captures large, mid, and small cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries”¹ and includes nearly 8,400 constituents covering with a combined market cap of \$86 trillion or approximately 99% of the global equity investment universe. With the strong outperformance of the U.S, public equity markets over the past several years, the U.S. weighting within the benchmark has reached unprecedented levels. The U.S. outperformance has been due to several factors including sector concentration, earnings growth, and foreign currency. Concurrent with the U.S. outperformance, valuation levels for U.S. equities, both on an absolute and relative basis, have also reached high levels. The following charts show geographic and sector representation of the MSCI ACWI IMI global equity benchmark, which will be taken into consideration for the recommended structure for SCERS’ Global Equity asset class.

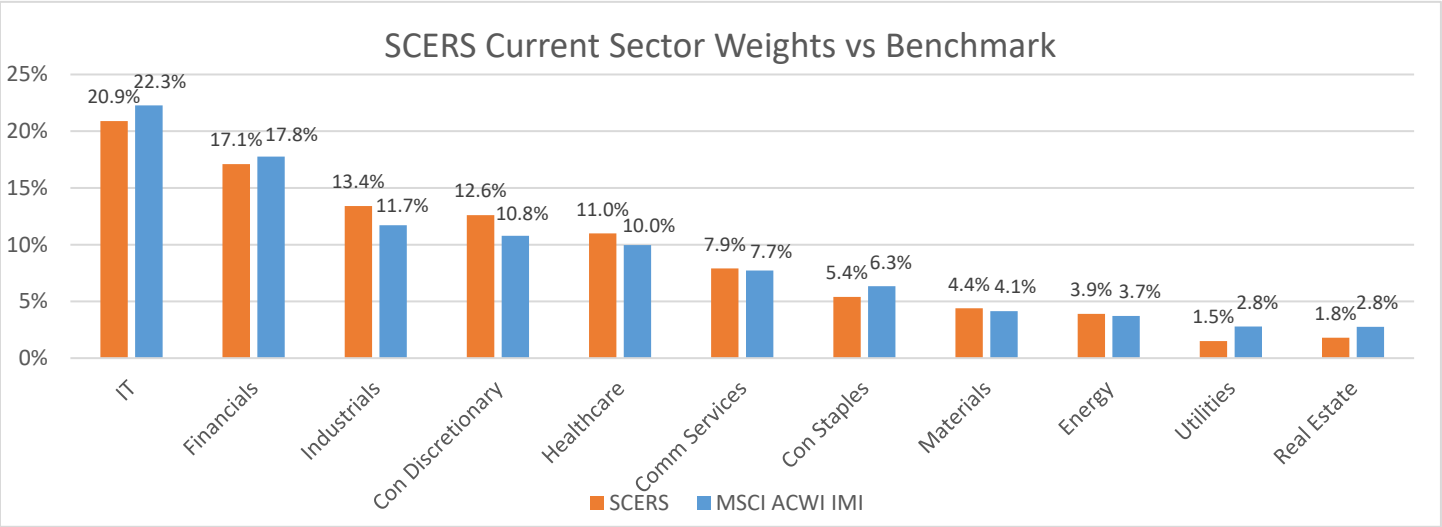
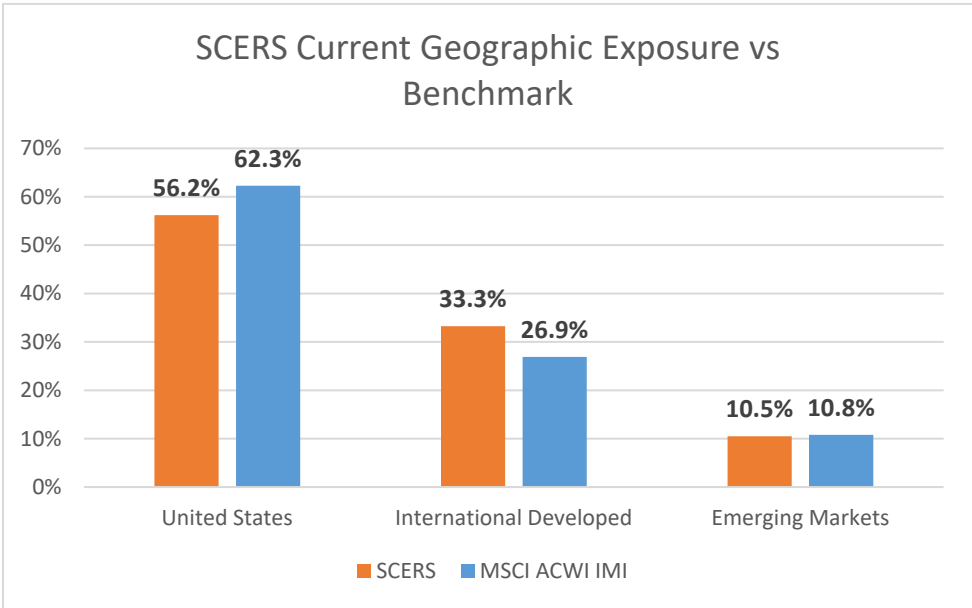


SCERS GLOBAL EQUITY PORTFOLIO EXPOSURE

The following charts highlight SCERS’ Global Equity geographic and sector exposures versus the MSCI ACWI benchmark. As part of the prior strategic asset allocation revisions completed in 2021, SCERS added the Global/Unconstrained sub-asset class with a 4% target allocation, funded by a reduction to the International Equity sub-asset class. The addition of Global/Unconstrained strategies has been a net positive for the portfolio, as global strategies have outperformed International Developed and Emerging Markets strategies over the past three years. While the addition of Global/Unconstrained and reduction to International Equity helped to better align the Global Equity portfolio to the benchmark, SCERS’ Global Equity portfolio has remained underweight U.S. equity and overweight International, which has been a headwind to relative performance given the strong U.S. equity performance during calendar years 2023 and 2024. The recommended structural changes below will further align the Global

¹ Source: MSCI ACWI IMI monthly factsheet, as of April 30, 2025

Equity portfolio with the benchmark, allowing relative performance to be driven predominately by active manager performance, versus geographic or sector differences.



Source: MSCI and SCERS-Caissa, as of April 30, 2025

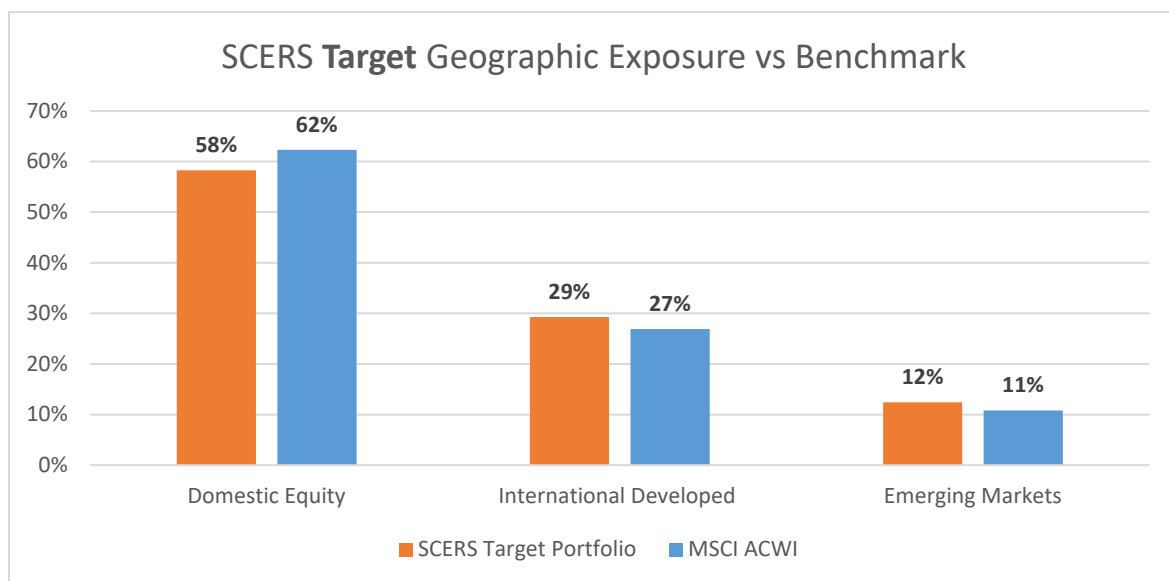
RECOMMENDED GLOBAL EQUITY STRUCTURE REVISIONS

In conjunction with the recently completed Strategic Asset Allocation process, the overall target for Global Equity was reduced to 39% from 40%. As detailed above, Staff and Verus recommended the following structure, including the sub-asset class targets.

Asset Class	Prior Target %	Revised Target %
Global Equity	40%	39%
Sub-Asset Class	Current Target %	Recommended Target %
Domestic Equity	20%	19%
International Equity	16%	14%
Global/Unconstrained Equity	4%	6%

Based on the recommended adjustments to the sub-asset class targets, when fully implemented, SCERS' Global Equity portfolio moves closer to current benchmark weights for geographic exposure. The goal of moving toward benchmark weight is to allow relative performance to be driven predominately by active manager performance versus geographic or sectoral differences driven by asset allocation structure.

Additionally, increasing the Global/Unconstrained sub-asset class target allows for SCERS to reduce the geographic exposure differences versus the benchmark, without directly increasing the target weight to Domestic Equity at a time when valuations are above average and weight within global benchmarks are at all-time high levels. The increased allocation to the Global/Unconstrained sub-asset class serves the dual purpose of further aligning SCERS' overall equity portfolio with the benchmark and increasing the weight to active managers that have greater flexibility in their mandates to overweight/underweight geographic exposure, with the goal of generating excess returns versus the MSCI ACWI benchmark. The chart below reflects SCERS' estimated target portfolio exposure when fully implemented². The net result of the changes is a slight increase to Domestic Equity and a reduction to International Equity, implemented via the addition to Global/Unconstrained strategies.



² Source: SCERS-Caissa, as of April 30, 2025. Target estimated exposure assumes that Global/Unconstrained active mandates have exposure similar to benchmark weight.

Recommendations related to the structure of SCERS' Global Equity asset class are detailed below. The recommended changes will go into effect upon Board approval; however, actual implementation of the changes will occur over several quarters, depending on the result of manager searches, sub-asset class structural revisions, and rebalancing. Global Equity resides within the broader Growth asset category, along with Private Equity and Credit allocations. Staff will present a revised Growth asset category Investment Policy Statement (IPS) that incorporates the proposed revisions to the Global Equity asset class, as well as the other Growth asset classes, following approval by the Board. The Master IPS will also be updated accordingly.

Global Equity Target and Range:

The Global Equity asset class has a target allocation of 39%, and Staff and Verus recommend a range of +/- 4% around the 39% target as shown below:

Asset Class	Target %	Range
Global Equity	40%	36% - 46%

The range of +/-4% allows for flexibility in managing the portfolio across market cycles, recognizing that market values for liquid market assets such as public equity can change rapidly and lead to shifts in the relative weight of asset classes. Additionally, SCERS utilizes its Overlay program to adjust asset class exposures back in line with policy targets. Therefore, while physical exposure may shift due to changing market values, the Overlay program will bring SCERS' actual exposure close to the target on a quarterly basis. As of April 30, 2025, the Global Equity portfolio was approximately 40.3% of the total SCERS portfolio, above the target allocation approved for the asset class.

Global Public Equity Structure

As detailed within the Growth asset category IPS, specific asset class guidelines are established to meet investment objectives and to control for risks inherent to each specific asset class. For Global Public Equity, portfolio construction guidelines with specific target allocations for each sub-asset class are established to diversify portfolio exposure and risk across market capitalization, investment style or strategy, and geography. The following sections will detail the recommended portfolio structure updates and sub-asset class targets.

Domestic Equity

Recommended Domestic Equity Structure

Asset Class	Target Allocation	Target Allocation
Domestic Equity	19.0%	
Domestic Equity Large Cap	90.0%	
Large Cap Passive		55.0%
Large Cap Active		35.0%
Domestic Small Cap	10.0%	
Small Cap Active		10.0%

Recommend reducing the sub-asset class target allocation for Domestic Equity to 19%, a reduction of 1 percentage point from the current 20% target allocation. SCERS' Domestic Equity portfolio is a mix of passive and active exposures across large and small market capitalizations. SCERS established the passive component of the domestic equity portfolio many years ago, recognizing that the large cap domestic equity segment is a relatively efficient component of the public equity universe. Staff and Verus recommend maintaining the target allocation to passive strategies at 50%, benchmarked to the large cap Russell 1000 index. The segment will provide large cap market returns, with essentially no tracking error or deviation from the index, at an extremely low management fee. The current passive weight is slightly below the 50% target allocation, driven by strong performance of active strategies over the past several years. Active strategies (as a whole) have been able to outperform passive, despite extreme market concentration at the index level, driven by the top ten companies in the index. Entering calendar year 2025, market cap weighted indices were more highly concentrated than at any point in history, with the top ten companies in the S&P 500 representing 39% of the index, versus the historical average of approximately 20% over the past 40 years. Overall, SCERS' domestic equity portfolio has similar market cap, sector, and style exposure to the index, with slight variations based on actively managed portfolios.

As reflected in the Growth Asset Category IPS, the structure of the Domestic Equity portfolio reflects allocations to passive and active segments (large cap and small cap). The large cap active segment consists of a mix of systematic and fundamental active strategies (fundamental, 130/30, systematic multi-factor), designed to reflect core allocations with differentiated drivers of returns and low excess return correlations. The large cap core active strategies, despite having moderate overall tracking error, are expected to generate outperformance versus the passive component of the large cap portfolio and enhance total portfolio returns. Performance of this segment over the past several years has been quite good, with both quantitative and fundamental strategies outperforming over the past 1 and 3 years.

The small cap segment of the domestic equity portfolio is entirely actively managed. Small cap equities have proven to be less efficient compared to the large cap segment, with active managers able to deliver alpha above the small cap index benchmarks. SCERS' small cap managers have delivered meaningful outperformance over the longer term, with some fluctuation in performance over the intermediate 3- and 5-year periods.

	<u>YTD</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
SCERS Domestic Equity	-4.1%	8.4%	9.1%	18.7%	11.8%
Russell 3000 Index	-4.7%	7.2%	8.2%	18.2%	11.8%
 Large Cap Portfolio	-3.5%	9.5%	10.1%	19.4%	12.4%
Russell 1000 Index	-4.5%	7.8%	8.7%	18.5%	12.2%
 Small Cap Portfolio	-10.1%	-2.1%	-0.3%	12.1%	7.3%
Russell 2000 Index	-9.5%	-4.0%	0.5%	13.3%	6.3%

As of March 31, 2025. SCERS performance net of fees.

Recommend maintaining the sub-asset class targets for large cap passive (50%), large cap active (40%) and small cap (10%). While the 10% target allocation to small cap is currently above the small cap weight within the broader Russell 3000 index, the longer-term average weight for small caps is near the 10% target. Additionally, despite U.S. large cap securities generally considered to be the most efficient segment of equity markets, all of SCERS' active managers have delivered positive excess returns, net of fees, over both the short term (1 and 3 years) and since inception. Therefore, SCERS recommends maintaining the sub-asset class targets for Domestic Equity, which have provided significant value to the portfolio.

International Equity

Recommended International Equity Structure

Asset Class	Target Allocation	Target Allocation
International Equity	14.0%	
International Equity Developed Markets	70.0%	
Developed Markets Large Cap Active		60.0%
International Developed Small Cap Active		10.0%
International Equity Emerging Markets	30.0%	
Emerging Markets Active		30.0%

Recommend reducing the sub-asset class target allocation for International Equity to 14%, a reduction of 2% from the current 16% target allocation. International equity, both developed and emerging markets, has underperformed domestic equity for several years. While a strong U.S. dollar and multiple expansion (for U.S. equity) have been contributing factors, the magnitude of the underperformance has been driven by earnings growth for U.S. companies significantly outpacing foreign companies. While international equity markets have significantly outperformed during the first part of 2025, calling into question continued U.S. exceptionalism experienced over the past decade, the growth in earnings for U.S. companies is still expected to exceed international companies³ going forward. While international equity markets may outperform in the near term due to certain factors such as multiple contraction in the U.S. (i.e., given higher absolute and relative valuations) and foreign currency movements, the recent outperformance of international equity markets provides an opportunity to equal weight SCERS' portfolio versus the MSCI ACWI benchmark, from a geographical perspective. Therefore, Staff and Verus recommend a reduction in the sub-asset class target allocation to International Equity, offset by an increase in Global/Unconstrained exposure (as detailed below), to further align the total Global Equity portfolio with the benchmark.

SCERS' International Equity portfolio is actively managed across all segments of the portfolio, which includes developed large cap, developed small cap, and emerging markets. Despite relative underperformance over the more recent periods, active management has generated

³ Source: Goldman Sachs, Equity Market Updates, April 2025

excess returns over the long term. The overall International Equity sub-asset class is benchmarked against the MSCI ACWI ex USA Index, with various underlying benchmarks for different segments and strategies included in the portfolio. The table below shows performance for different segments of the portfolio versus benchmarks assigned to each segment.

	<u>YTD</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
SCERS Total Int'l Equity	5.3%	4.4%	3.9%	10.0%	5.4%
MSCI ACWI ex USA	5.2%	6.1%	4.5%	10.9%	5.0%
Int'l Large Cap Developed	5.2%	2.6%	4.8%	10.7%	6.1%
MSCI World ex USA	6.2%	5.3%	5.7%	12.2%	5.5%
Int'l Small Cap Developed	4.0%	9.0%	2.7%	9.7%	5.1%
MSCI World ex USA Small Cap	3.4%	3.6%	0.8%	10.7%	5.4%
Emerging Markets	5.6%	9.0%	1.9%	8.2%	3.6%
MSCI Emerging Markets Index	2.9%	8.1%	1.4%	7.9%	3.7%

As of March 31, 2025. SCERS performance net of fees

International Developed Large Cap

Within the large cap developed segment of the international portfolio, SCERS currently has dedicated allocations to core, growth, and value-oriented mandates. Near-term performance for this segment of the portfolio has been disappointing, with outperformance from SCERS' value-oriented manager being more than offset by underperformance of the core and growth-oriented mandates, resulting in negative relative performance versus the MSCI World ex-USA benchmark. The magnitude of the recent underperformance over the past two years has had a meaningful impact on the intermediate 3- and 5-year returns. Therefore, **Staff and Verus recommend evaluating alternative managers for this segment, including conducting a formal manager search, as necessary.** Evaluation of this segment will include individual managers and/or manager structure (i.e., number of managers and style allocations), which could result in meaningful changes to the segment. However, at this time, the recommendation is to further evaluate alternatives and return to the Board at a later date with results of the evaluation and further recommendations.

International Developed Small Cap

The international small cap segment of SCERS' public equity portfolio is entirely actively managed and is currently allocated to two managers, which employ growth and value styles in their investment strategy. While style factor performance may fluctuate from year to year, collectively the allocations to growth and value are expected to deliver outperformance over the core MSCI World ex-USA Small Cap index. As shown in the performance table above, SCERS' international developed small cap portfolio has delivered meaningful outperformance recently but struggled over the longer-term periods. Outperformance has been due to the value-oriented manager (Acadian), which was hired in April 2023, while the growth-oriented manager (William Blair) has underperformed and is currently on SCERS' Watch List.

Given the recommended reduction to the International Equity sub-asset class (to 14% from 16%), the target allocation to international small cap declines by approximately \$30 million, from approximately \$225 million to \$195 million⁴. Staff and Verus will evaluate which manager(s) are a best fit for the structure going forward.

Emerging Markets

SCERS’ emerging markets (EM) portfolio currently has a 30% target allocation, as a percent of International Equity, emphasizing an all-cap approach versus dedicated large and small cap allocations. SCERS’ EM portfolio is allocated to three managers including value, growth, and core mandates. The segment has a single benchmark, the MSCI Emerging Markets index. Following the prior strategic asset allocation review in 2021, the target allocation to emerging markets was increased to 30%, which aligned SCERS’ overall emerging markets exposure with the MSCI ACWI benchmark. Two of SCERS’ emerging markets managers were hired in 2023. While the performance evaluation period since hiring these managers is relatively short, the results have been mixed, with one manager outperforming and another underperforming. Overall, despite higher levels of volatility, this segment has delivered outperformance versus the MSCI Emerging Markets index benchmark.

Staff and consultant recommend maintaining the sub-asset class targets for international developed large cap (60%), international developed small cap (10%) and emerging markets (30%).

Global/Unconstrained Equity

Recommend increasing the sub-asset class target allocation for Global/Unconstrained to 6%, an increase of 2 percentage points from the current 4% target allocation. The chart below presents the recommended structure for the Global/Unconstrained sub-asset class.

Sub-Asset Class	Target Allocation	Sub-Asset Class Target Allocation
Global/Unconstrained Equity	6%	
Global Equity		>/= 50%
Non Beta 1 (Long/Short)		</= 25%
Niche or Country/Sector Concentrated		</= 25%

SCERS added the Global/Unconstrained sub-asset class in 2021 to increase flexibility in the asset allocation, allowing SCERS to invest in a broader range of strategies that have the potential to generate excess returns above the overall public equity benchmark (MSCI ACWI IMI). The Global/Unconstrained segment allows for allocations to traditional long-only global equity mandates, as well alternative (“unconstrained”) mandates with additional flexibility such as long/short or niche strategies. Additionally, global strategies offer the manager greater flexibility from a geographic perspective (i.e., wider range of country and security selection) to determine portfolio allocations and generate alpha. As noted above, the Global/Unconstrained

⁴ Based on estimated total plan assets of \$13.9 billion, as of April 30, 2025, and 16% and 14% target allocations.

segment was initially funded by a reduction to International Equity, which has been additive to performance. Staff and Verus believe there is a broad opportunity set for managers/strategies that would fit under the Global/Unconstrained sub-asset class segment. Therefore, **Staff and Verus recommend increasing the target allocation for Global/Unconstrained to 6%, maintaining the sub-asset class targets, and authorizing Staff and Verus to initiate a manager search for additional global equity manager(s).**

Staff and Verus completed a search in 2024 and made a manager recommendation for a global active extension 130/30 strategy. Unfortunately, the mandate was not funded due to issues that arose during legal negotiations on the investment contract. Based on prior and ongoing manager due diligence, Staff and Verus believe a manager recommendation could be brought to the Board in the near future. The manager recommendation would provide additional details on the size of the mandate, funding and implementation timeline, and other portfolio construction considerations.

GLOBAL EQUITY ASSET CLASS BENCHMARKS

The tables below detail the Global Equity sub-asset class benchmarks, which are included in the Growth Asset Category IPS. Given the adjustments recommended above are focused on the sub-asset class target allocations, without change to the components of the sub-asset classes, there are no changes needed to the asset class benchmarks. The sub-asset class benchmarks are not included in the Policy benchmark for Global Public Equity, which remains the MSCI ACWI IMI index, but are used to evaluate the performance of individual managers and underlying segments of the portfolio.

Domestic Equity Benchmarks

Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
Domestic Equity Large Cap	Russell 1000 Index
Large Cap Passive	Russell 1000 Index
Large Cap Active	Russell 1000 Index
Domestic Small Cap	Russell 2000 Index
Small Cap Active	Russell 2000 Index

International Equity Benchmarks

Asset Class	Benchmark
International Equity	MSCI ACWI ex-US Index
International Equity Developed Markets	MSCI World ex-US Index
Developed Markets Large Cap Active	MSCI World ex-US Index
Developed Markets Small Cap Active	MSCI World ex-US Small Cap Index
International Equity Emerging Markets	MSCI Emerging Markets Index
Emerging Markets Active	MSCI Emerging Markets Index

Global/Unconstrained Benchmark

Asset Class	Benchmark
Global/Unconstrained Equity	MSCI ACWI IMI Index

GLOBAL EQUITY IMPLEMENTATION PLAN

Upon Board approval of the recommended structure and actions for the Global Equity asset class, Staff will begin implementation. Given volatility in the equity markets, Staff and Verus will continue to monitor current portfolio exposures, adjusted target exposures with the recommended sub-asset class targets, and exposures relative to the MSCI ACWI IMI benchmark. While SCERS' overall equity exposure is slightly above the Global Equity target (40.3% versus 39% target), it is still within the proposed range (35-43%). The Domestic Equity and International Equity sub-asset classes are above the recommended targets, while the Global/Unconstrained segment is below the recommended target allocation. The accompanying table shows the current Global Equity portfolio and sub-asset class allocations, along with the estimated over and underweight allocations based on the revised target allocations.

SCERS Global Equity Portfolio	Current Target %	Estimated Current Allocation	Revised Target %	Estimated Target Allocation*	Over/(Under) Target
Domestic Equity	20%	2,812	19%	2,641	171
International Equity	16%	2,362	14%	1,946	416
Global/Unconstrained	4%	414	6%	834	(420)
Total Global Equity Portfolio	40%	5,588	39%	5,421	167

\$ millions

* Target allocation based on estimated \$13.9 billion total SCERS investment portfolio

Given the underweight to Global/Unconstrained, and the recommendations detailed above, the initial implementation steps are as follows:

- Complete manager search and recommendation for Global/Unconstrained segment.
- Evaluate portfolio exposures and rebalance as necessary to align with recommended sub-asset class targets and fund new mandate(s).

The initial Global/Unconstrained manager recommendation and portfolio rebalancing are expected to occur over the next few months. Additional action items detailed in the recommendations above include evaluation of the International Developed segment, both large cap and small cap. Staff plans to evaluate these segments and bring forward recommendations to the Board for consideration. Additional future steps in the implementation process include continued evaluation of potential unconstrained strategies that could be additive to the portfolio.

ATTACHMENTS

- Board Order

- Global Equity Structure and Implementation Presentation

Prepared by:

/S/

Brian Miller
Senior Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

/S/

Steve Davis
Chief Investment Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
May 21, 2025

AGENDA ITEM:

Asset Class Restructuring and Implementation: Global Equity

THE BOARD OF RETIREMENT hereby approves the recommendation of staff to approve the revised structure and implementation plan to the Global Equity asset class as recommended by Staff and Verus. The specific recommendations include:

- Approve a range of +/- 4% around the Global Equity target allocation of 39% (35% - 43%), and sub-asset class targets as described below.
 - The Global Equity asset class target allocation of 39% was approved as part of the revised Strategic Asset Allocation in March 2025.
- Adopt 19% target allocation for the Domestic Equity sub-asset class, a decrease of 1 percentage point from the current 20% target, and maintain the existing sub-asset class target allocations.
 - 50% Large Cap Passive target allocation.
 - 40% Large Cap Active target allocation.
 - 10% Small Cap Active target allocation.
- Adopt 14% target allocation for the International Equity sub-asset class, a decrease of 2 percentage points from the current 16% target, and maintain the existing sub asset class target allocations.
 - 60% Developed International Large Cap target allocation.
 - 10% Developed International Small Cap target allocation.
 - 30% Emerging Markets target allocation.
- Adopt 6% Global/Unconstrained Equity sub-asset class target allocation, an increase of 2 percentage points from the current 4% target, and maintain the existing sub asset target allocations.
 - > / = 50% target allocation to Global Equity

Retirement Board Order

Sacramento County Employees' Retirement System

- $< / = 25\%$ target allocation to Long/Short (Non-Beta 1) strategies
- $< / = 25\%$ target allocation to Unconstrained / Niche strategies
- Conduct a manager search for the Global / Unconstrained sub-asset class to increase the allocation toward the 6% target allocation.
- Evaluate current managers of the Developed Large Cap segment of the International Equity sub-asset class, and consider potential manager and structure changes, including conducting a formal manager search as necessary.
- Rebalance the Global Equity portfolio, to meet the revised target allocations, either in conjunction with the results of manager search activity or as necessary based on market conditions.

I HEREBY CERTIFY that the above order was passed and adopted on May 21, 2025 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:
(Present but not voting)

James Diepenbrock
Board President

Eric Stern
Chief Executive Officer and
Board Secretary



Global Equity Asset Class Structure and Implementation

May 21, 2025

Strategic Asset Class Target Allocation

- 39% Target Allocation for Global Equity
 - Decline of 1% from prior 40% target allocation

Asset Class	Prior Target Allocation	Revised Target Allocation	Change
Global Equity	40.0%	39.0%	-1.0%
Private Equity	11.0%	11.0%	0.0%
Public Credit	2.0%	-	
Private Credit	5.0%	-	
Credit	-	9.0%	2.0%
Growth Asset Category	58.0%	59.0%	1.0%

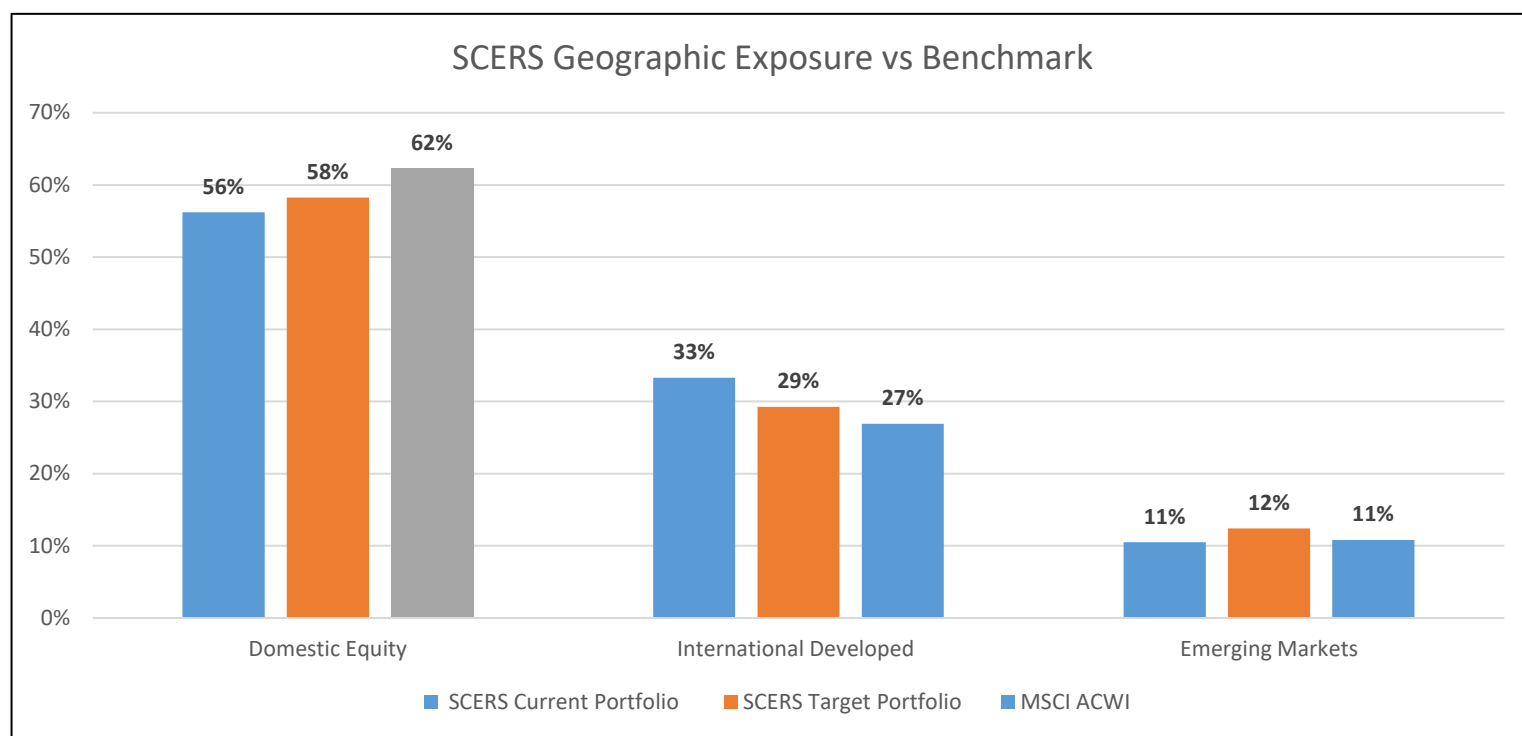
- Recommend adjustment to sub-asset class target allocations

Asset Class	Current Target %	Recommended Target %	Estimated Current Allocation*
Domestic Equity	20%	19%	20.3%
International Equity	16%	14%	17.0%
Global/Unconstrained Equity	4%	6%	3.0%

**Estimated as of April 30, 2025*

Global Equity Portfolio vs Benchmark

- Current portfolio exposure underweight U.S. and overweight International
- Recommended target allocations further align geographic exposures with MSCI ACWI IMI benchmark



Domestic Equity

Recommended Domestic Equity Structure

Asset Class	Target Allocation	Target Allocation
Domestic Equity	19.0%	
Domestic Equity Large Cap	90.0%	
Large Cap Passive		55.0%
Large Cap Active		35.0%
Domestic Small Cap	10.0%	
Small Cap Active		10.0%

- Maintain sub-asset class target allocations to Passive, Large Cap Active, and Small Cap Active
- Strong performance from active strategies generating excess returns (net of fees)
- Maintain small cap target, in line with long term benchmark allocation, despite recent underperformance

International Equity

Recommended International Equity Structure

Asset Class	Target Allocation	Target Allocation
International Equity	14.0%	
International Equity Developed Markets	70.0%	
Developed Markets Large Cap Active		60.0%
International Developed Small Cap Active		10.0%
International Equity Emerging Markets	30.0%	
Emerging Markets Active		30.0%

- Maintain sub-asset class target allocations to Int'l Developed Large/Small Cap and Emerging Markets
- Review Int'l Developed structure and manager roster
- Maintain emerging market structure and managers, given recent changes
 - Manager additions made in 2023

Global/Unconstrained

Sub-Asset Class	Target Allocation	Sub-Asset Class Target Allocation
Global/Unconstrained Equity	6%	
Global Equity		>/= 50%
Non Beta 1 (Long/Short)		</= 25%
Niche or Country/Sector Concentrated		</= 25%

- Increase target allocation to 6% from 4%
- Attractive opportunity set for managers/strategies to generate alpha vs ACWI benchmark
- Conduct manager search to help close underweight
 - Continuation of manager search from prior year
- Explore alpha generating opportunities for future allocations

Next Steps

Conduct manager search for Global/Unconstrained segment

Evaluate managers and structure for International Developed

Evaluate portfolio exposure and rebalance portfolio to align with revised targets and implement new mandates

Ongoing review of markets and managers, particularly given heightened market volatility