Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 5

MEETING DATE: **November 19, 2025**

SUBJECT: **2025 Year in Review and 2026 Annual Investment Plan**

SUBMITTED FOR: **_X_ Action** **__ Information**

RECOMMENDATION

Adopt the 2026 Annual Investment Plan.

PURPOSE

This item contributes to the effective management and oversight of investment activities.

DISCUSSION

The Implementation Protocol section of SCERS' Master Investment Policy Statement directs the SCERS Board to approve a 12-month (annual) investment plan for each of SCERS' underlying asset classes. This report reviews activity from 2025 and details initiatives for 2026.

ATTACHMENTS

- Board Order
- 2025 Investment Year in Review and 2026 Annual Investment Plan Presentation
- 2025 Investment Year in Review and 2026 Annual Investment Plan Report

Prepared by:	Reviewed by:
/S/	/S/
Steve Davis Chief Investment Officer	Eric Stern Chief Executive Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
November 19, 2025

AGENDA ITEM:

2025 Year in Review and 2026 Annual Investment Plan

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to adopt the 2026 Annual Investment Plan.

I HEREBY CERTIFY that the above order was passed and adopted on November 19, 2025 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

____
Chris Giboney
Board President

____
Eric Stern
Chief Executive Officer and
Board Secretary

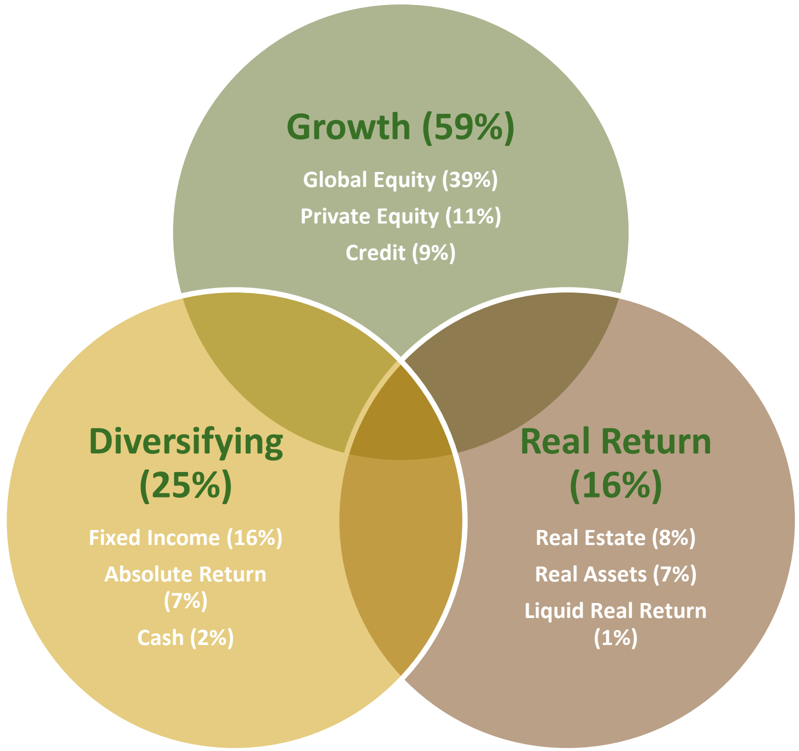
2025 Investment Year in Review and 2026 Annual Investment Plan

November 19, 2025

Market Overview

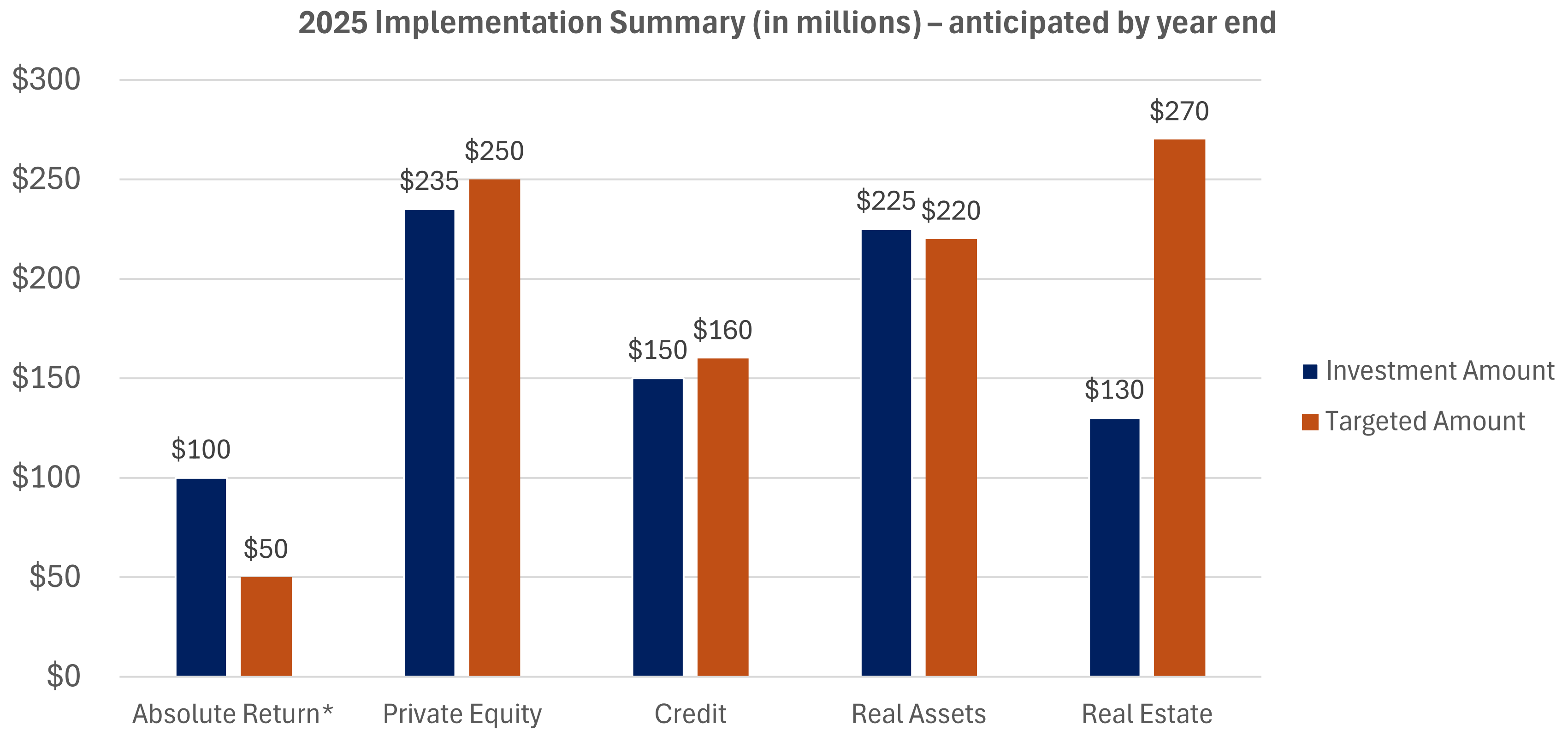
- Tariff policy focal point of the markets and economy
- Inflation mostly in check, but remains high
- Resumption of Fed easing following weakness in the jobs market
  - 2 interest rate cuts in the fall of 2025
- Geopolitical risks remain front and center
- Resilient market returns in 2025 in the midst of the volatile environment

Strategic Asset Allocation



- Asset liability modeling study resulted in moderate revisions to the SAA
  - **Asset classes** - increased Credit from 7% to 9% (consolidated Private Credit and Public Credit), reduced Global Equity and Real Estate by 1% each
  - **Asset Categories** - Growth asset category increased by 1% and Real Return decreased by 1%

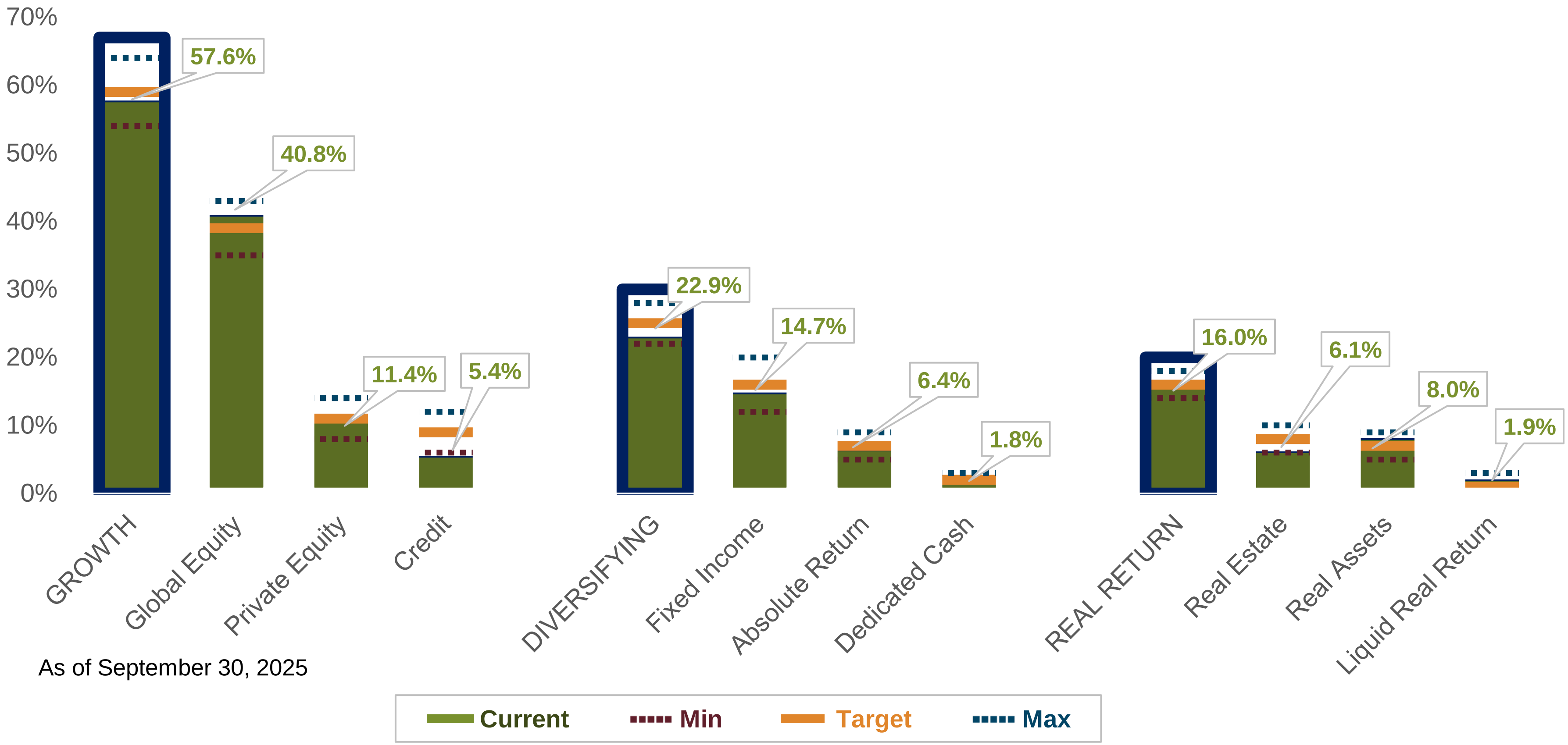
Implementation



* SCERS also fully redeemed from one Absolute Return fund ($53 million) during 2025

- Several public equity manager searches completed, in addition to public equity and fixed income rebalances
- Private market commitments close to targets, except for Real Estate

Allocations Versus Targets



As of September 30, 2025

- Asset class over weights – Global Equity, Private Equity, Real Assets
- Asset class under weights – Credit, Fixed Income, Absolute Return, Real Estate
- Credit is only asset class out of range (restructured and target increased from 7% to 9% during the year)

2026 Initiatives and Considerations

- Onboarding of new custodian – Northern Trust
- Investment consultants
  - Issue general consultant RFP in early 2026
  - Cliffwater contract expires in June 2026 – alternative assets
- Evaluate Overlay program and underlying overlay proxies
- Evaluate institutional approaches to cash and liquidity management

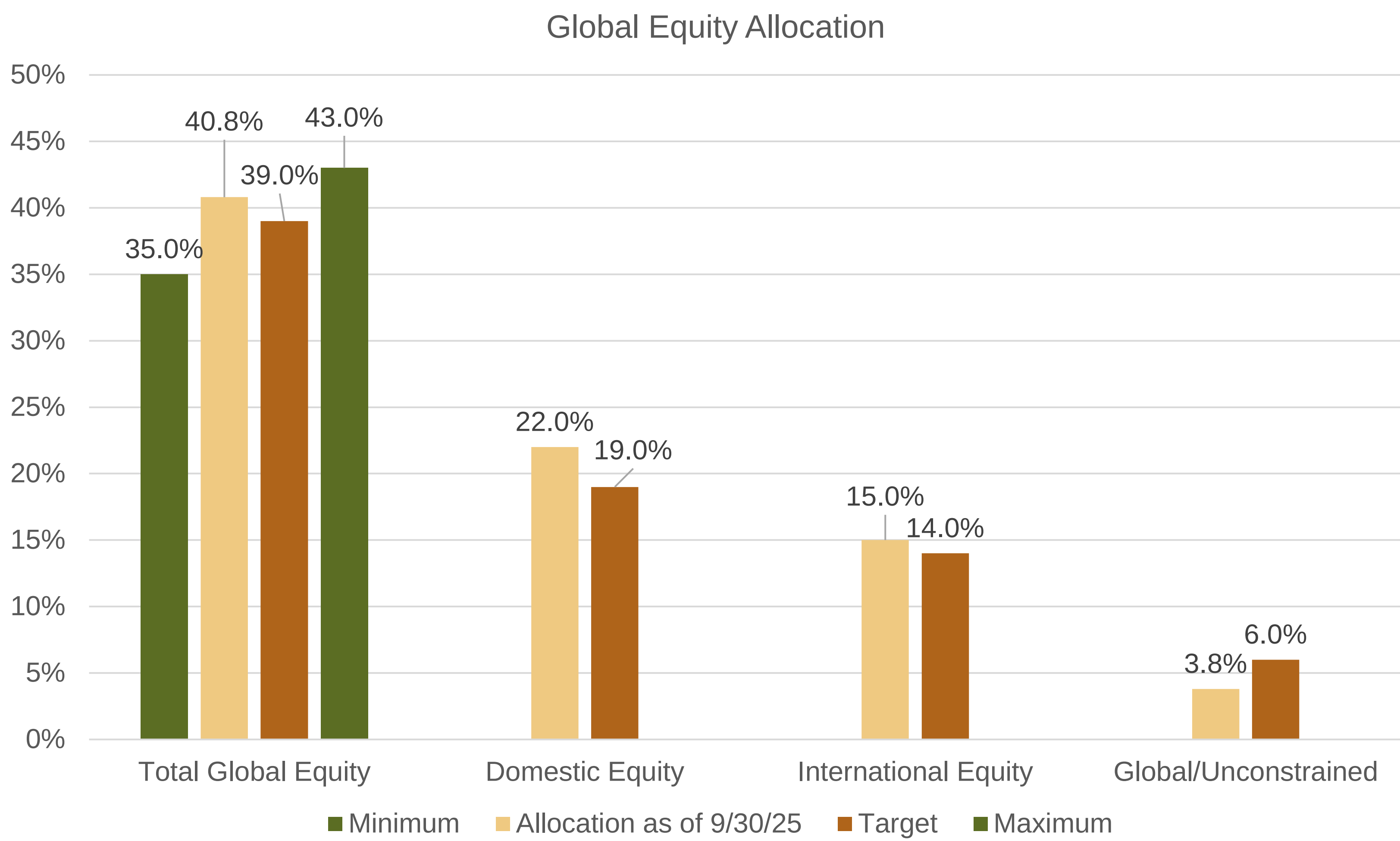
2026 Initiatives and Considerations

- Continue to focus on measures to ensure sufficient investment portfolio oversight
  - Managing the manager count
  - Proper Staff resources
  - Board engagement with investment managers
  - Evaluating third party technology applications and software

- 2026 Investment Forum

- Other Board education
  - Real estate affordable housing
  - Approaches to managing currency exposure
  - Performance attribution and analytics

Global Equity



Global Equity

2025 Activity

- Hired new manager for Global Equity Active Extension mandate within the Global/Unconstrained sub-asset class
  - $250 million in Acadian Global Equity Extension Fund LLC

- Consolidated International Equity Small Cap mandates within International Equity
  - Converted Acadian mandate from Non-U.S. Small Cap Value to Non-U.S. Small Cap mandate, and made an additional investment of $50 million to the mandate
  - $125 million termination and redemption from William Blair International Small Cap Growth CIT mandate

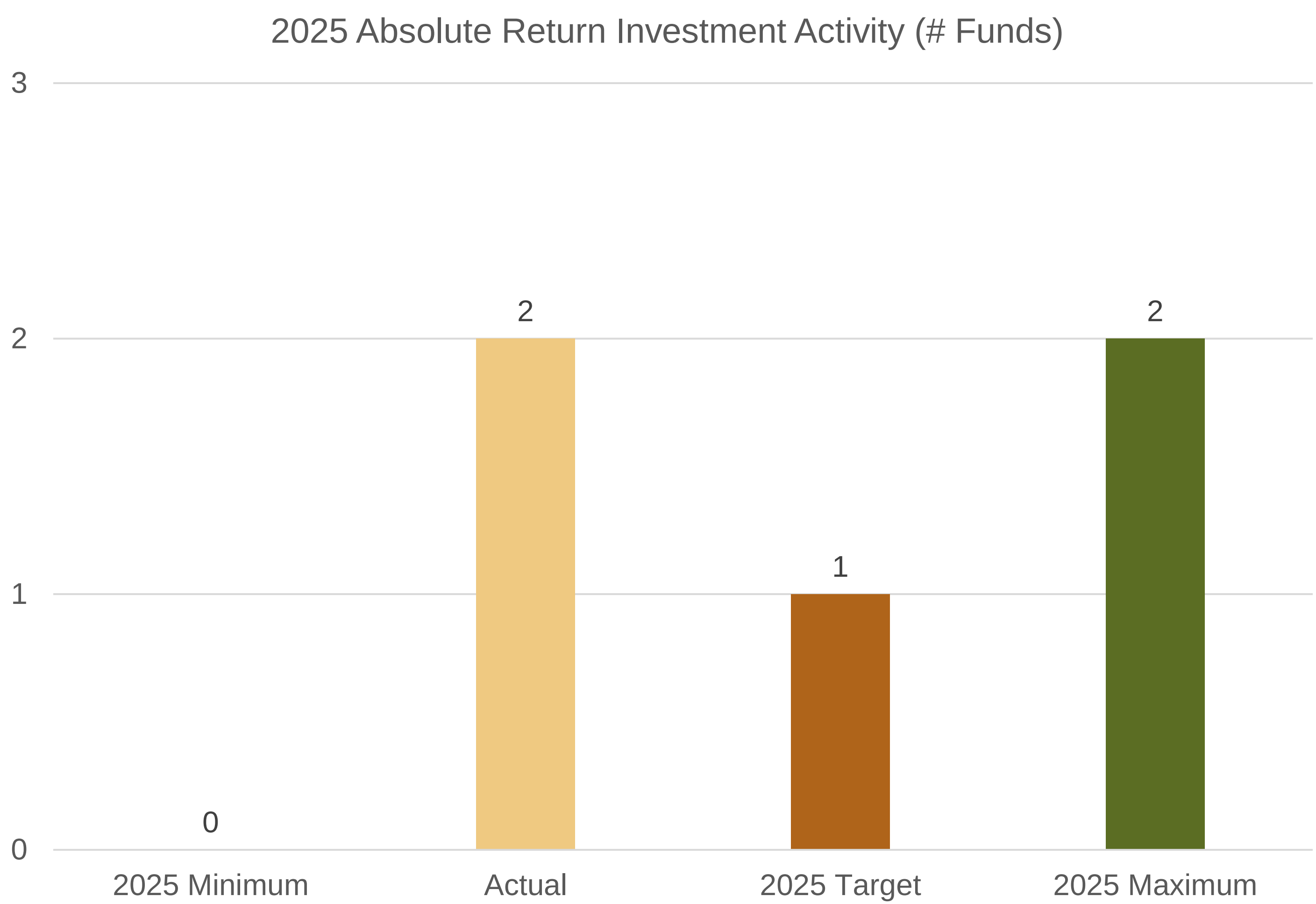
- $390 million termination and redemption from the Lazard International Strategic Equity ex-EM mandate - International Large Cap Developed
  - Initiated manager search for International Developed Large Cap core manager - expect manager search and recommendation to be completed in the first half of calendar year 2026

Global Equity

2026 Plan

- Complete manager search and recommendation for Developed Large Cap mandate within International Equity
- Evaluate potential additions to Global/Unconstrained sub-asset class to bring it towards 6% target allocation
- Rebalance Global Equity portfolio as necessary to adjust sub-asset class segments and minimize style or market capitalization tilts

Absolute Return



Absolute Return

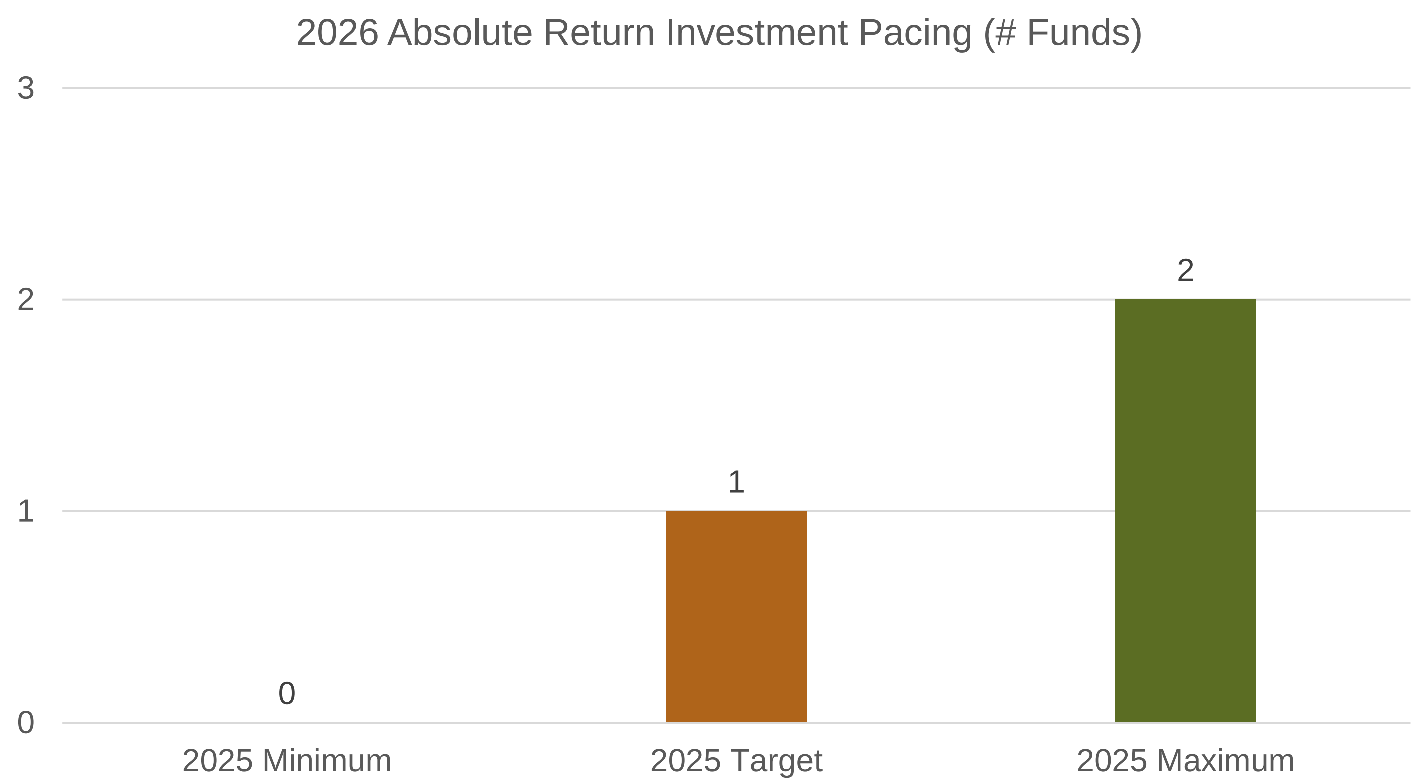
2025 Activity

- 2 investments were made in 2025
  - $50 million investment in Graham Capital Management – Absolute Return Trading Ltd. (Discretionary Global Macro)
  - $50 million investment in BlackRock Systematic Total Alpha Fund (STA) (Multi-Strategy)

- Rebalanced portfolio in the third quarter
  - $50 million in partial redemptions from three managers, with proceeds received over the subsequent two quarters

- Submitted full redemption from Event Driven fund in the fourth quarter, with proceeds to be received during the first quarter of 2026

Absolute Return



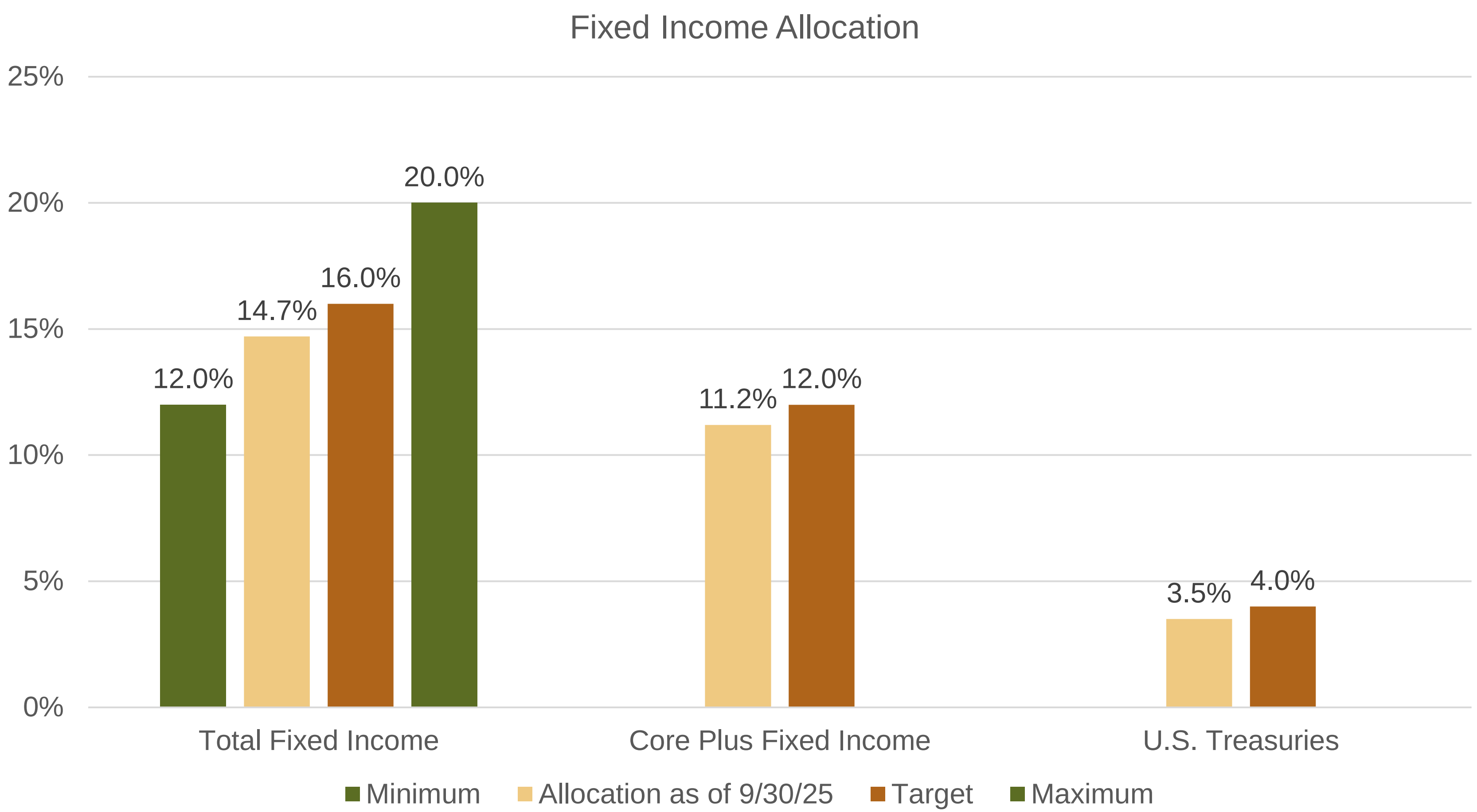
Investment per Fund ($ millions)	$30	$50	$60

Absolute Return

2026 Plan

- Target 1 fund (0-2 range); $50 million per fund
- Evaluate investment levels and rebalance portfolio as necessary
- Evaluate the potential addition of new strategies to bring the Absolute Return portfolio in line with 7% target allocation and improve risk-adjusted returns

Fixed Income



- Fixed Income remains underweight due to strong performance of equities

Fixed Income

2025 Activity

- Market Activity
  - Yield curve returned to upward slope
    - Short-term yields falling due to weak macro data and Fed cuts
    - Long-term yields elevated due to market uncertainty
  - Tactical opportunities for bond traders in event-driven volatility
  - Yield curve will likely remain sensitive to data and headlines such as Fed rate actions, tariffs, and geopolitical events

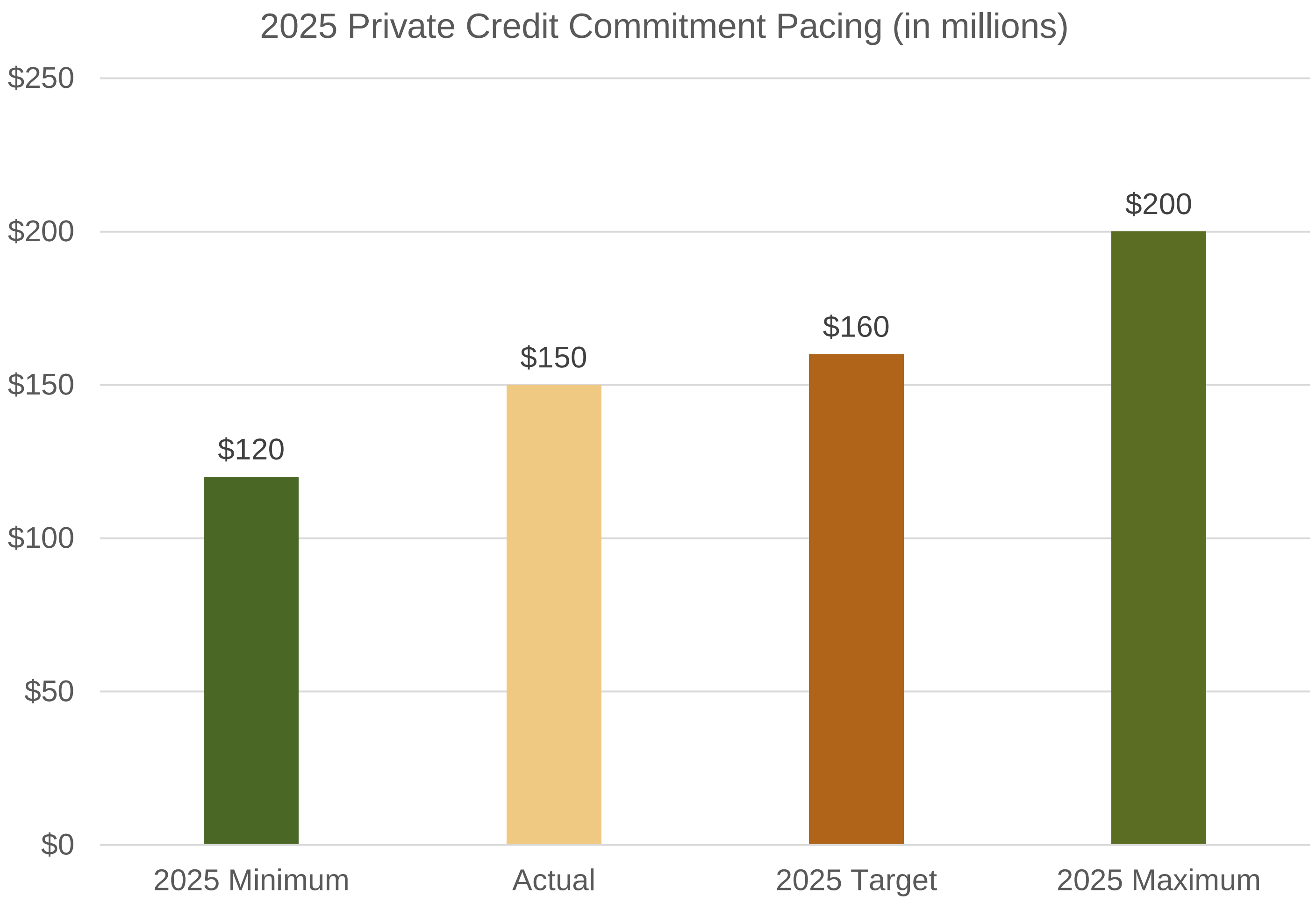
- Portfolio Activity
  - Physical rebalancing activity
    - $100 million to SCERS' U.S. Treasury manager, Neuberger Berman
    - $160 million equally among SCERS' four Core Plus Fixed Income managers ($40 million each)
  - No manager/strategy changes during the year

Fixed Income

2026 Plan

- Monitor allocations to existing managers and rebalance the portfolio as appropriate

Credit


2025 Private Credit Commitment Pacing (in millions)
$250
$200
$150
$100
$50
$0
$120
$150
$160
$200
2025 Minimum
Actual
2025 Target
2025 Maximum

Credit

2025 Activity

- Established Credit Asset Class
  - In March 2025, the Board approved combining SCERS' legacy Private Credit and Public Credit asset classes into a single Credit asset class with Illiquid (Private) and Liquid (Public) Credit sub-strategies
  - Increased Credit's target from 7% (5% private, 2% public) to 9%, offset by reductions in Real Estate and Global Equity

- Illiquid Credit Activity
  - $50 million investment in Comvest Credit Partners VII Levered Feeder, L.P. (Direct Lending)
  - $50 million investment in an Opportunistic Lending fund in process and expected to close by end of year

- Liquid Credit Activity
  - $50 million investment in Diameter Dislocation Fund III, LP

Credit


2026 Credit Commitment Pacing (in millions)
$400
$350
$300
$250
$200
$150
$100
$50
$0
$250
$300
$350
2026 Minimum
2026 Target
2026 Maximum

Credit

2026 Plan

- Target $300 million; 5 funds (3-7 range); $60 million each
- Budget is meaningfully higher than 2025 due to the restructuring of the asset class and increased target allocation of 9%
- Budget assumes all new investments will be made within Illiquid Credit
    - Any Liquid Credit strategies will draw from this budget
- Expect to reach the 9% target in 2031
    - Investments in larger Illiquid and Liquid open-end/evergreen mandates could shorten timeline
    - Remain judicious and selective in making new investments, particularly within the private credit markets, where there is an overabundance of capital and funds
- Investment strategies and themes of focus in 2026 include:
    - Follow-on investments to existing managers/strategies
    - Niche and specialty lending/leasing strategies
    - Diversified direct lending strategies
    - Flexible and opportunistic public credit strategies

Private Equity

Private Equity

2025 Activity

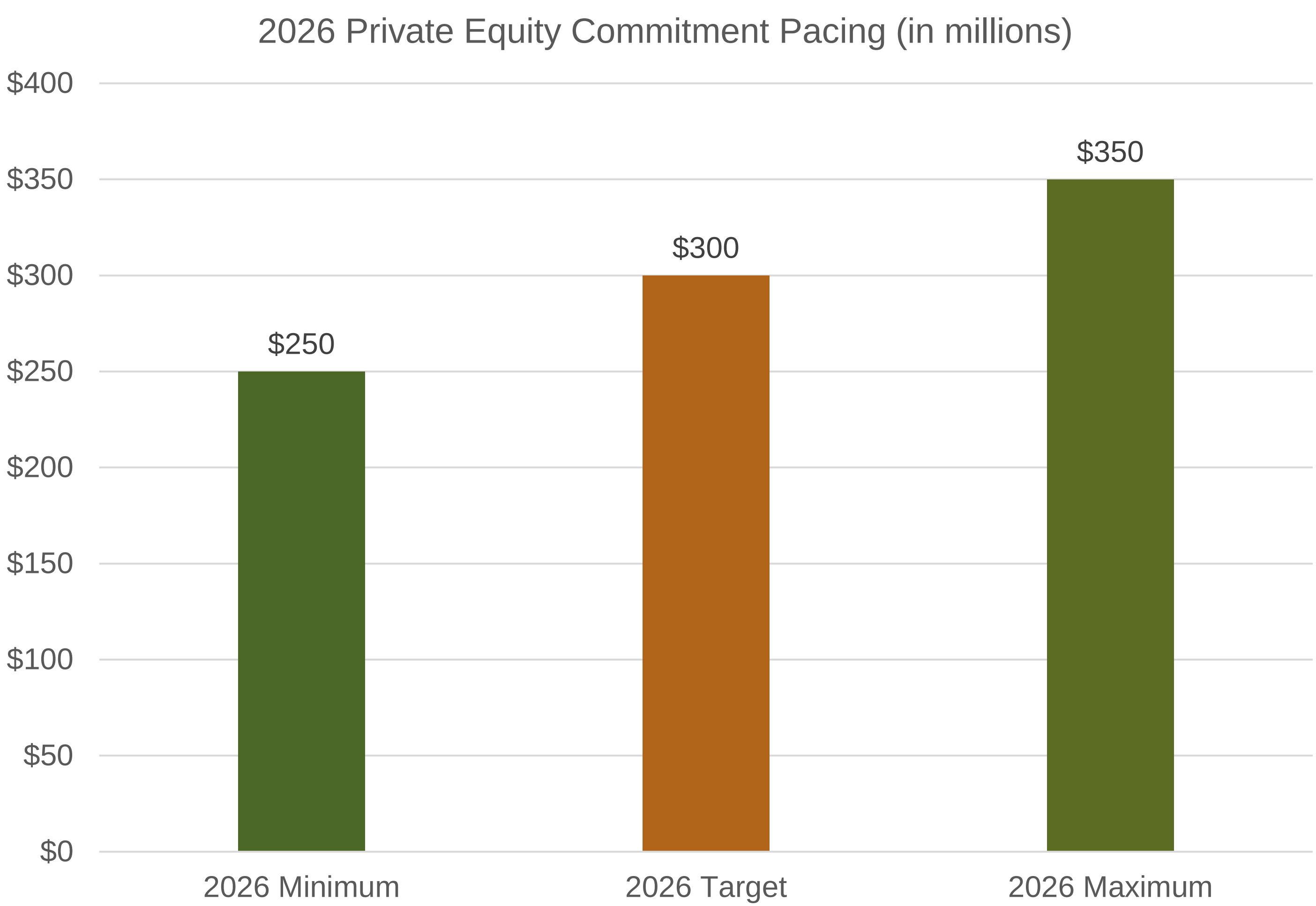
- 4 commitments were made in 2025
  - $40 million follow-on investment in Khosla Ventures IX (Venture Capital)
  - $25 million follow-on investment in Threshold Ventures V (Venture Capital)
  - $35 million follow-on investment in Orbimed X (Venture Capital)
  - $35 million investment in Riverside Value Fund II (Buyout)

- $100 million follow-on investment in process for a 2025 investment with a co-investment Buyout manager

- In the last 12 months, almost $280 million in distributions from the Private Equity portfolio, which outpaced capital calls by almost 50%

- Moved four funds from the Distressed Debt portfolio to Illiquid Credit and moved distressed for control funds to the Buyout portfolio

Private Equity



Private Equity

2026 Plan

- Target $300 million; 7 funds (5-9 range); $40 million per fund
- Continue a measured approach to new commitments to return to 11% target allocation in 2026
- Investment strategies and themes of focus in 2026 include:
  - Follow-on investments to existing managers/strategies
  - Continued attention on specialist buyout funds
  - Re-evaluate venture capital investment strategy
  - Monitoring of secondary pricing for potential fund sales

Real Assets


2025 Real Assets Commitment Pacing (in millions)
$300
$250
$200
$150
$100
$50
$0
$190
$225
$220
$250
2025 Minimum
Actual
2025 Target
2025 Maximum

Real Assets

2025 Activity

- 4 commitments were made in 2025
  - $75 million follow-on investment in NGP Royalty Partners III, LP (Energy and Power)
  - $50 million investment in Aberdeen Global Sustainable Infrastructure Partners IV, LP (Infrastructure)
  - $50 million investment in KKR Global Infrastructure Investors V, LP (Infrastructure)
  - $50 million investment in Manulife Infrastructure Fund III, LP (Infrastructure)

- Ended the third quarter at an 8% allocation, versus the 7% target

- Slight revision to the Real Assets structure to change the target allocation for ‘Agriculture and Timber’ from 10% to 0% - maintained the same range

Real Assets


2026 Real Assets Commitment Pacing (in millions)
$300
$250
$200
$150
$100
$50
$0
$190
$220
$250
2026 Minimum
2026 Target
2026 Maximum

Real Assets

2026 Plan

- Target $220 million; 4 funds (3-6 range): $55 million per fund

- Continue to favor unique and differentiated investment strategies that are less sensitive to the broader economy and offer a significant portion of the total return from current yield
  - Target plan is weighted toward Infrastructure over Energy and Power strategies

- Investment strategies and themes of focus in 2026 include:
  - Follow-on investments to existing managers/strategies
  - Mid-size to larger scale infrastructure strategies
  - Regulated assets and social infrastructure strategies
  - Multipronged approach to energy

Real Estate

2025 Real Estate Commitment Pacing (in millions)
$350
$300
$250
$200
$150
$100
$50
$0
$180
$130
$270
$320
2025 Minimum
Actual
2025 Target
2025 Maximum

Real Estate

2025 Activity

- 2 commitments were made in 2025
  - $50 million investment in FPA Core Plus Fund VI (Core Plus)
  - $30 million investment in FPA Apartment Opportunity Fund IX (Value Add)

- $50 million investment in a non-core real estate fund in process and expected to close by end of year

- Ended the third quarter at a 6.1% allocation, versus the 8% target
  - Target allocation was decreased from 9% to 8% in 2025

Real Estate

2026 Real Estate Commitment Pacing (in millions)
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
$155
$300
$400
2026 Minimum
2026 Target
2026 Maximum

Real Estate

2026 Plan

- Target $300 million
  - 3 non-core funds (2-4 range): $50 million per fund
  - 2 core funds (1-2 range): $65 million per fund

- Rebalance the U.S. core open-end portfolio to bring the strategy and geographic mixes within targeted ranges
  - Re-evaluate the number of core diversified funds

- Investment strategies and themes of focus in 2025 include:
  - Specialty/niche strategies and property types
  - Value-add focus within the non-core segment

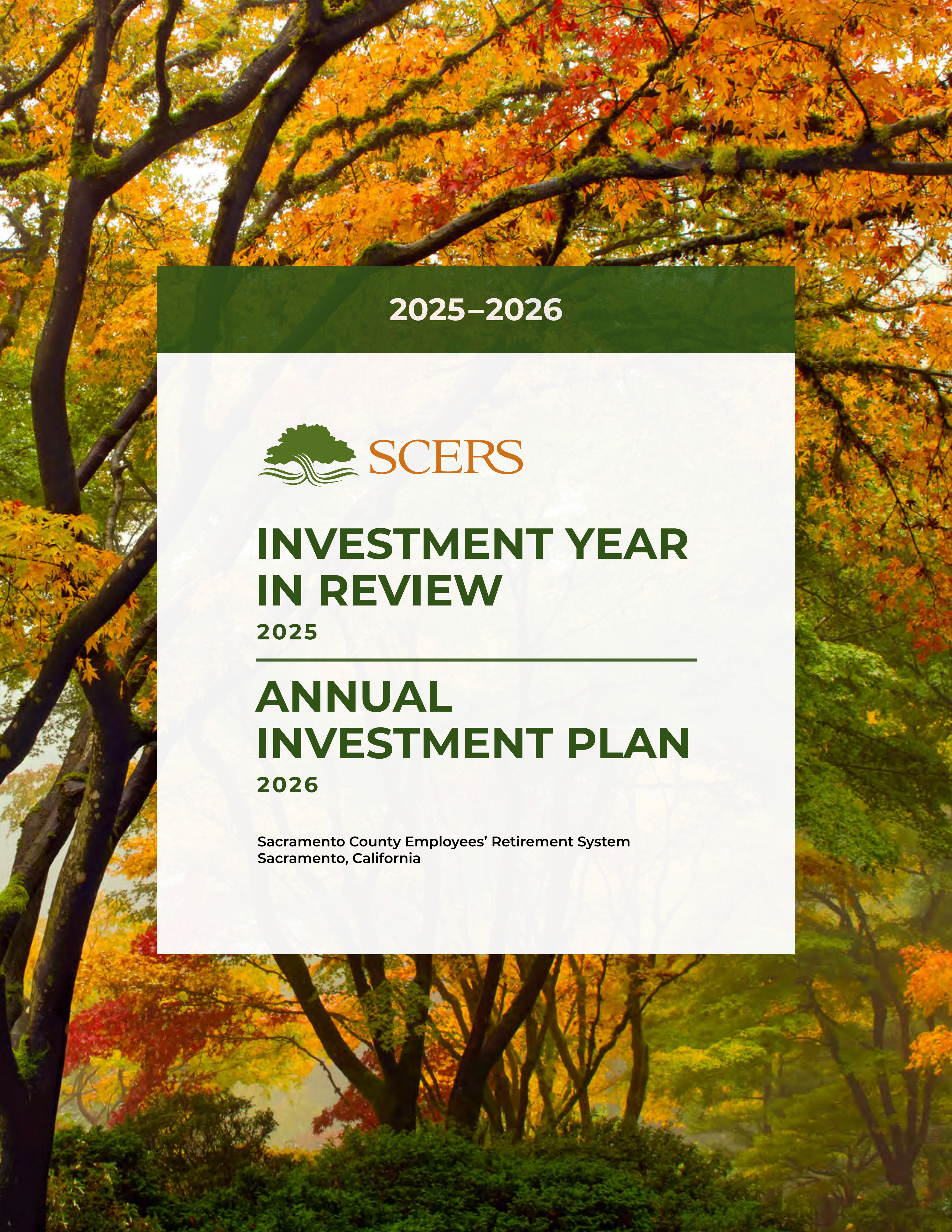
Liquid Real Return

2025 Activity

- Oversaw, monitored, and met with SCERS’ existing Liquid Real Return manager

2026 Plan

- Perform any rebalancing activity as necessary
- Oversee, monitor, and assess the existing manager lineup



2025–2026

SCERS

INVESTMENT YEAR IN REVIEW

2025

ANNUAL INVESTMENT PLAN

2026

Sacramento County Employees' Retirement System
Sacramento, California

2025–2026

INVESTMENT YEAR IN REVIEW

2025

ANNUAL INVESTMENT PLAN

2026

Sacramento County Employees' Retirement System
Sacramento, California

Issued By:

ERIC STERN
Chief Executive Officer

STEVE DAVIS
Chief Investment Officer

JIM DONOHUE
Deputy Chief Investment Officer

BRIAN MILLER
Senior Investment Officer

KAREN MCMILLEN
Investment Officer

KENTER LUDLOW
Investment Analyst

Sacramento County Employees' Retirement System

980 9th Street, Suite 1900
Sacramento, CA 95814

SCERS.gov

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SECTION ONE

Introduction

Letter of Introduction

I am pleased to present the 2025 Investment Year in Review and 2026 Annual Plan for the Sacramento County Employees' Retirement System (SCERS). This report was produced by SCERS' investment staff and investment consultants and highlights the progress of SCERS' investment program over the past year and looks ahead to the initiatives that will guide us forward.

In the fiscal year that ended June 30, 2025, SCERS achieved a strong 10.8% net return, well above the actuarial target of 6.75%, despite a year of market volatility driven by trade policy shifts, inflation, central bank interest rate policy, geopolitical tensions, and the U.S. government shutdown. Assets under management grew to $14.5 billion, building on the growth SCERS has achieved over the past decade. These results underscore the value of SCERS' long-term, disciplined investment approach—maintaining a range of diversified investments that can provide consistency in the growth of the fund while navigating uncertain and volatile market environments.

Over the past year, the Board and Staff have focused on long-term sustainability through adjustments to SCERS' strategic asset allocation, while remaining responsive to market opportunities through an active year of implementation. By thoughtfully balancing risk and reward within the asset allocation structure and across asset classes, SCERS continues to position the fund for long-term growth and stability—ensuring we provide retirement security for our members and meet their needs today and into the future.

SCERS' commitment is unwavering: to safeguard retirement security through prudent management, careful planning, and a steady focus on the people we serve.

Respectfully Submitted,

STEVE DAVIS
Chief Investment Officer

SECTION TWO

Portfolio Overview

Market Overview

As we head toward the end of calendar year 2025, equity and credit markets are priced near record highs but the path to get here has been a volatile one, highlighted by tariff and trade policy, geopolitical tensions, uncertain policy of the Federal Reserve (the Fed), a weakening labor market, stronger inflation, and the U.S. government shutdown.

The focal point of the markets and economy have been on the tariff policy coming out of the White House early in the year, which peaked in early April with the "Liberation Day" announcement of sweeping tariffs on foreign imports from trading partners around the world to rectify trade deficits. The Liberation Day announcement was met with a dramatic selloff in equities and U.S. Treasuries along with extreme levels of volatility, as the tariffs presented uncertainty around almost all forward looking economic data, including company hiring decisions and the impact on the labor market, inflation and how much of the tariffs would be passed on to the consumer, the impact on GDP growth, and monetary policy and the Fed's path on interest rate policy. Since that time the tariff measures have been delayed and adjusted as the White House engages in the negotiation of trade deals, which has reduced volatility and led to a meaningful rally in equities. There is still much uncertainty related to the ultimate impact of the tariffs, but the markets have mostly looked past them so far.

While inflation has remained mostly in check, it has recently ticked up suggesting that businesses are starting to pass elevated import costs onto consumers, though to this point they have been fairly mild. As of September, headline inflation sits at 3.0%, still above the Fed's 2% target. Core inflation, which strips out more volatile food and energy, also sits at 3.0% and up from March levels of 2.8% prior to the tariff announcements.

The other side of the Fed's dual mandate of supporting full employment and keeping inflation rates low and stable, the jobs market, has experienced some weakness and is where the Fed is more focused. While the unemployment rate remains low at 4.3%, the monthly payroll gains have slowed dramatically over the past several months. The latest report showed that only 22,000 jobs were added during the month of August, which followed several downward revisions from prior months, which is an indication that while companies aren't necessarily laying workers off, they have been stagnant in their hiring decisions, partly due to the uncertainty around tariffs. The weakening of the labor market caused the Fed to take action at its most recent meetings in September and October, by lowering interest rates by 0.50% total to a range of 3.75% to 4.00%. The basis for the cut(s) is characterized by the Fed as "risk management" rather than directed at shoring up a weak economy, given the slowdown in job gains and elevated inflation levels.

U.S. GDP has remained fairly steady to date, with real gross domestic product increasing at an annual rate of 3.8% (revised up from 3.3%) in the second quarter of 2025, which is consistent, if not higher than the strong measures over the prior year, though the first quarter of 2025 saw a 0.5% decrease in GDP due to a surge in pre-tariff imports as businesses and consumers looked to stockpile goods ahead of the implementation of the tariffs. Economic growth in the U.S. compares favorably to other developed economies across Europe, the UK, and Japan whose real GDPs are all under 2.0%. This has afforded the Federal Reserve a more patient approach to adjusting interest rates as it evaluates ongoing economic uncertainty. Among major emerging economies, India is leading the way with GDP growth of 7.0%, though their economy faces going forward challenges in the face of the U.S. tariffs. China is growing at a more modest 5.2%, with growth expected to slow due to the tariffs.

Geopolitical risks continue to be front and center, highlighted by the continuing multi-year conflicts in Ukraine and the Middle East, as well as broader and growing geopolitical tensions around the world. While these ongoing conflicts haven't had a significant impact on broad financial markets, they remain key risks and a catalyst for market volatility.

Major global market returns have been very strong in 2025, led by public equities. Within equities, the global MSCI ACWI IMI has returned 14.3% as of September 30, 2025, with international equities outperforming domestic equities, which is a reversal from prior years. U.S. stocks have returned 10.8% (Russell 1000), while international developed (MSCI EAFE) and emerging markets (MSCI EM) have returned 22.8% and 19.0%, respectively, benefitting from a weaker U.S. dollar and stimulus measures.

Fixed income markets have also performed well year to date, across government bonds and credit. U.S. Treasury yields have been volatile in 2025; however, the Bloomberg U.S. Treasury Index has returned 4.5% as of September 30, 2025. Credit has generated robust returns in 2025, with high yield bonds returning 6.4% (Bloomberg U.S. Corporate High Yield Index). Credit spreads remain exceptionally tight but are balanced by strong fundamentals. The broad-based Bloomberg Barclays Aggregate Index, which contains an equal mix of Treasuries, agency mortgages, and investment grade credit, is up 5.0% as of September 30, 2025.

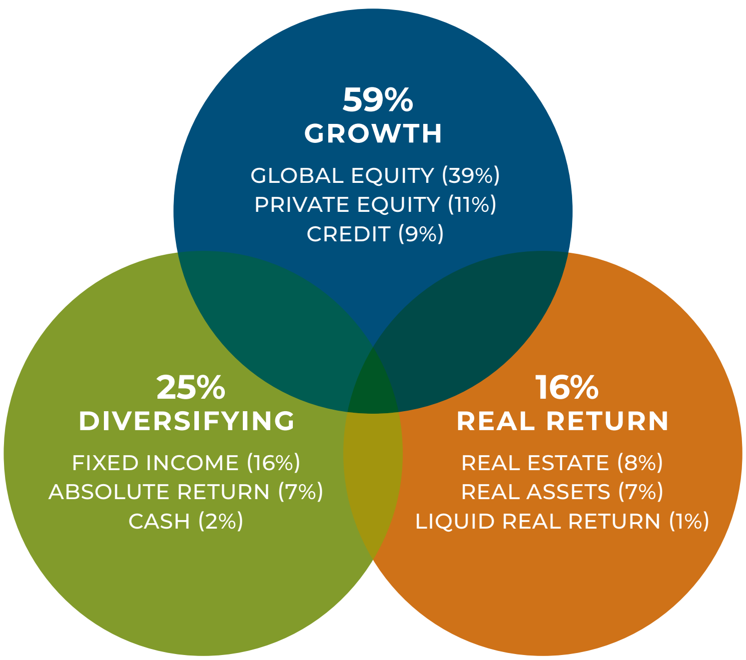
While SCERS welcomes the strong returns that have been generated within the portfolio in 2025, especially within the public equity markets, we are reminded that many risks exist including high valuations, uncertainty around tariffs, and geopolitical tensions, that can potentially disrupt markets. The diversification and long-term discipline afforded by SCERS' strategic asset allocation will help SCERS navigate today's dynamic environment.

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 to 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:

Asset Allocation



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, and energy 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 meaningful 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 in order to meet benefit payment obligations is a key focus of SCERS' Board, investment staff, and investment consultants.

During 2025, SCERS completed an asset liability modeling (ALM) study, which saw moderate changes to SCERS' strategic asset allocation. The revisions included a 1% reduction of the Global Equity asset class, a consolidation of the Private Credit and Public Credit asset classes into a single Credit asset class with a target allocation of 9%, an increase of 2% from SCERS' prior aggregated credit target of 7%, and a 1% decrease in the Real Estate asset class, as shown in Table 1. The revised asset allocation slightly shifted risk within the portfolio toward higher yielding assets. At the asset category level, it increased Growth assets, slightly decreased Real Return assets, while leaving Diversifying unchanged.

Strategic Asset Allocation Changes

TABLE 1

Asset Class	Prior Policy	Revised Policy	Changes
Growth	**58%**	**59%**	**1%**
Global Equity	40%	39%	-1%
Private Equity	11%	11%	0%
Public Credit	2%	–	–
Private Credit	5%	–	–
Credit	–	9%	2%
Diversifying	**25%**	**25%**	**0%**
Fixed Income	16%	16%	0%
Absolute Return	7%	7%	0%
Cash	2%	2%	0%
Real Return	**17%**	**16%**	**-1%**
Real Estate	9%	8%	-1%
Real Assets	7%	7%	0%
Liquid Real Return	1%	1%	0%

Upon completion of the ALM study, SCERS undertook several initiatives related to implementation of the revised strategic asset allocation. These included:

- Structural modifications to several underlying asset classes, with the most significant changes occurring to the new Credit asset class; the other asset class revisions were more modest
- Several policy benchmark changes across the portfolio, including a new policy benchmark for the Credit asset class, and smaller adjustments to the Private Equity and Real Assets benchmarks
- Updated SCERS' investment policy statements (IPSs), including the Master IPS and asset category IPSs, to reflect the changes to the strategic asset allocation and any underlying asset class structural revisions, as well as other changes
- Initiated implementation of the revised strategic asset allocation with implementation within the Global Equity and Credit asset classes
- Transitioned the Overlay Program to the revised strategic asset allocation

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.

2025 Investment Activity

SCERS had an active year with investment implementation and activity taking place under the guidance of the Board approved 2025 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 made several investment manager changes 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
- In Global Equity, terminated an international developed large cap manager
- In Global Equity, terminated an international small cap growth manager and converted an international small cap mandate from a value to a core style
- 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

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.

Following is a summary of the alternative asset/private market implementation for 2025, 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 2025 consisted of a mix of follow-on fund investments with existing managers and investments with new managers. The individual asset class sections of this report provide greater detail related to implementation activity in 2025.

2025 Implementation Summary

TABLE 2

	Investment Amount (in millions)	Targeted Amount (in millions)	Total # Investments
Absolute Return*	$100	$50	2
Private Equity	$235	$250	5
Credit	$150	$160	3
Real Assets	$225	$220	4
Real Estate	$130	$270	3

*SCERS also fully redeemed from one Absolute Return fund ($53 million) during 2025.

SCERS was active making commitments in the alternative/private markets in 2025; however, commitments came in under budget for the Real Estate asset class. Private market fundraising activity continues to be lackluster as a result of the higher cost of debt, a drop in capital deployment, fewer realizations, and extended fundraising periods. While Staff and consultants remain selective in committing capital, the below target commitment activity within Real Estate was mostly due more to the recent retirement of a key member of the investment team, and limited resources to move the investment pipeline forward while a recruitment was taking place. Any below target commitment activity will be reflected in the forward budgets.

Table 3 compares SCERS' actual physical allocations as of September 30, 2025 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.

Actual Allocations vs. Target Allocations

TABLE 3

Asset Catagory/Asset Class	Actual Allocation*	Target Allocation	Variance
Growth**	**57.6%**	**59.0%**	**-1.4%**
Global Equity	40.8%	39.0%	1.8%
Private Equity****	11.4%	11.0%	0.4%
Credit****	5.4%	9.0%	-3.6%
Diversifying**	**22.9%**	**25.0%**	**-2.1%**
Fixed Income	14.7%	16.0%	-1.3%
Absolute Return	6.4%	7.0%	-0.6%
Cash	1.8%	2.0%	-0.2%
Real Return***	**16.0%**	**16.0%**	**0.0%**
Real Estate****	6.1%	8.0%	-1.9%
Real Assets****	8.0%	7.0%	1.0%
Liquid Real Return	1.9%	1.0%	0.9%
Overlay Program	**0.9%**	**0.0%**	**0.9%**
Other Cash	**2.6%**	**0.0%**	**2.6%**
	100.0%	**100.0%**	

* Based on State Street Global Advisors market values as of 09/30/2025
** Does not include Overlay exposure
*** Includes Overlay exposure
**** Private market asset class valuations are lagged a quarter

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 3 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

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 flow is made up by the returns of the investment portfolio. SCERS also has various forms of liquidity structured into the portfolio, including a dedicated cash allocation to serve as a liquidity buffer. The annual liquidity study conducted by Verus in 2025 demonstrated that SCERS continues to be in a strong liquidity position, with ample liquid assets and cash inflows to meet cash outflows over a 10-year period and maintain the plan's allocation to private market investments. During 2025, the Board held meetings to discuss longer-term strategic visioning for SCERS. One topic discussed was SCERS' expected increasing negative cash flow profile, which will be driven by changing plan demographics and the growing ratio of retired to active members. The discussion focused on potential changes that will need to be incorporated into SCERS' strategic asset allocation over time to evolve with SCERS' changing cash flow profile.

During 2025, the SCERS Board also approved the hiring of a new custodian, Northern Trust. During 2026 SCERS will transition from legacy custodian, State Street, to Northern Trust. On the consultant front, during the year SCERS renewed its contracts with general investment consultant, Verus, and real estate consultant, Townsend, each for a two-year term. SCERS plans on issuing an RFP for general consulting services in 2026, to evaluate the landscape for general investment consultants.

During 2025, Staff acted on themes that were presented to the Board in 2024 related to initiatives to ensure sufficient oversight of a growing SCERS investment portfolio. This included adding Investment staff resources, maintaining a reasonably sized investment manager lineup, providing the Board with consistent engagement and exposure to SCERS' investment managers, and evaluating third party technology applications and software. On the staff front in 2025, SCERS filled an Investment Officer position that was created by the Board in 2024, with the hiring of Karen McMillen. Also, during 2025, Senior Investment Officer JR Pearce retired after more than twelve years with SCERS. Recruiting is currently taking place to fill this position. On the investment manager front, SCERS added some new manager relationships to the portfolio in 2025 but also made follow-on investments with several of SCERS' existing managers.

During 2025, SCERS held an Investor Forum, in which many of SCERS' investment managers across several asset classes participated. There were a variety of discussions at the macro and asset class levels between managers, consultants, and staff that provided the Board with a level of investment manager engagement that is difficult to replicate during typical monthly Board meetings. On the technology front, Staff added an AI tool in 2025 that can transcribe and summarize meetings and summarize documentation from investment managers, which will make due diligence and oversight of investment managers more efficient. During 2026, Staff plans on evaluating internal workflow process management and contact relationship management (CRM) software to continue to make investment oversight more productive and efficient.

The exposure, budgeting, and pacing data within the upcoming asset class sections were provided by SCERS' consultants, in particular Cliffwater (Absolute Return; Private Equity; 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 entered the year on a high note following back-to-back years of robust returns, particularly in the United States, where the S&P 500 returned 25% in 2024 and 26% in 2023. International equity markets also delivered positive results during these years but significantly trailed the United States, with the MSCI ACWI ex USA Index returning 5% in calendar year 2024 and 16% in 2023. U.S. equities benefited from substantial exposure to the technology sector and investments in artificial intelligence (AI), which have driven returns for the largest companies in the index. The gains of recent years have resulted in extreme levels of concentration—both within the U.S. equity market and in the U.S. share of global equity market indices. The top ten companies in the S&P 500 now represent approximately 40% of the index by market capitalization, an all-time high. Additionally, the U.S. equity market accounts for approximately 65% of the global equity market, as measured by the MSCI ACWI Index, up from 55% in 2020 and 43% in 2010.

Through the first nine months of 2025, equity markets experienced elevated volatility compared to recent years. Market activity was relatively benign during the early months but declined sharply in March and early April due to uncertainty surrounding tariffs, capped by “Liberation Day” tariff announcements on April 2. Peak-to-trough, the S&P 500 fell more than 15%, while the Nasdaq declined more than 20%. However, equity markets staged a historic comeback as tariff measures were delayed or adjusted, with the S&P 500 advancing 23% in just 54 trading days—its fastest-ever recovery following a decline of 15% or more. Market sentiment continued to improve during the third quarter, with U.S. equity market indices hitting record highs at the beginning of October, despite U.S. government turmoil leading to a shutdown of the federal government.

International developed and emerging markets significantly outperformed the United States equity markets through the first nine months of the year, reversing the recent trend of U.S. dominance. International equity markets benefited from a variety of factors, including expectations for additional European stimulus, shifting sentiment away from U.S. equity by foreign investors following tariff announcements, and foreign currency movements including a declining U.S. dollar. Emerging markets were led by a rebound in China, which gained more than 40% in U.S. dollar terms. China has been a major contributor to emerging market returns since 2024 after multiple years of decline, supported by optimism around AI innovation, government stimulus, and attractive relative valuations.

From a valuation perspective, U.S. equities have reached lofty levels. To start the fourth quarter of 2025, the forward price-to-earnings (P/E) multiple of the S&P 500 has reached 23x, almost two standard deviations above the 30-year average of 17x. However, the extreme valuation levels are primarily driven by the top ten companies, which have a forward P/E of 30x, compared to the remaining 490 companies that collectively have a forward P/E of 19.5x. The valuation difference for the top ten companies is attributable to significantly higher growth rates than the broader market. Following strong returns for international and emerging markets during 2025, valuation levels have risen above their trailing 20-year averages but remain at a significant discount to the U.S. It remains to be seen whether international equity markets can continue to narrow the gap versus the U.S., either by delivering excess returns or through a decline in U.S. equity multiples.

From a style perspective, the performance of growth versus value varied by region. In the United States and emerging markets, growth outperformed value by 5% and 4%, respectively. This contrasted with developed international equity markets, where value outperformed growth by nearly 11% year-to-date through September. Interestingly, U.S. and emerging markets had significantly higher exposure to the Information Technology sector (35% and 25%, respectively) than developed international markets (9%).

Global Equity Portfolio

SCERS' Global Equity portfolio began the year slightly overweight the 40% target allocation, at 40.1%, despite rebalancing twice during calendar year 2024 and reducing exposure by $455 million or approximately 3%. Following completion of the asset liability modeling study, the revised strategic asset allocation reduced the target for Global Equity from 40% to 39%. Adjustments were also made to the sub-asset class targets including reducing the Domestic Equity target by 1% (20% to 19%), reducing the International Equity target by 2% (16% to 14%), and increasing the Global/Unconstrained target by 2% (4% to 6%).

As noted in the Market Overview section above, equity markets have delivered strong returns through the first nine months of the year, resulting in SCERS' Global Equity portfolio remaining above the 39% target allocation, despite steps taken to reduce exposure during the third quarter and align the portfolio with the revised asset allocation targets. During the third quarter, SCERS reduced International Equity exposure by terminating an underperforming large cap manager and consolidating small cap exposure. The net results reduced International Equity by $465 million or approximately 3%, bringing the sub-asset class near the 14% target allocation. Additionally, at the end of the third quarter, SCERS partially funded a new global equity extension mandate, with the mandate fully funded during October. Upon full funding, the new global equity extension mandate increased the Global/Unconstrained sub-asset class exposure by $250 million or 1.6%. Additional activity planned for the remainder of the year includes rebalancing the Domestic Equity sub-asset class, which remains overweight the target allocation given strong results throughout the year.

Looking forward to 2026, SCERS will conduct a manager search for a developed international large cap manager and rebalance this segment of the portfolio. Additionally, SCERS will evaluate potential additions to the Global/Unconstrained sub-asset class segment, which remains below the 6% target allocation.

SCERS Global Equity Portfolio Structure

	Minimum	Target Allocation	Maximum	Est. Allocation as of 9/30/25
Total Global Equity Portfolio	**35%**	**39%**	**43%**	**40.8%**
Domestic Equity	17%	**19%**	21%	22.0%
International Equity	12%	**14%**	16%	15.0%
Global/Unconstrained	4%	**6%**	8%	3.8%

Domestic Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/25
Domestic Equity	**19.0%**	**-**	**22.0%**
Domestic Equity Large Cap	90.0%	-	90.9%
Large Cap Passive	-	50.0%	-
Large Cap Active	-	40.0%	-
Domestic Small Cap	10.0%	-	9.1%
Small Cap Active	-	10.0%	-

International Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/25
International Equity	**14.0%**	**-**	**15.0%**
International Equity Developed Markets	70.0%	-	64.5%
Developed Markets Large Cap Active	-	60.0%	-
Developed Markets Small Cap Active	-	10.0%	-
International Equity Emerging Markets	30.0%	-	35.5%
Emerging Markets Active	-	30.0%	-

Global/Unconstrained Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/25
Global/Unconstrained Equity	**6.0%**	**-**	**3.8%**
Global Equity	-	>/= 50%	78.8%
Sector or Country Concentrated	-	</= 25%	20.5%
Non-Beta 1 (Long/Short)	-	</= 25%	0.7%

2025 Activity

- Funded Global Equity mandate within the Global/Unconstrained sub-asset class. Manager recommendation was presented at the June Board meeting, and the approved mandate was fully funded in the fourth quarter:
  - $250 million in Acadian Global Equity Extension Fund LLC
- Consolidated International Equity Small Cap mandates within the International Equity sub-asset class. Recommendations were presented at the June Board meeting, and consolidation activity was completed during the third quarter:
  - Converted mandate with Acadian from Non-U.S. Small Cap Value to Non-U.S. Small Cap mandate, and made an additional investment of $50 million to the mandate
  - $125 million termination and redemption from William Blair International Small Cap Growth CIT mandate
- Terminated International Large Cap Developed mandate within the International Equity sub-asset class. Recommendation was presented at the August Board meeting, and the redemption was completed during the third quarter:
  - $390 million termination and redemption from the Lazard International Strategic Equity ex-EM mandate
- Initiated manager search for International Large Cap Developed mandate within the International Equity sub-asset class
- Performed manager due diligence on additional strategies for the Global/Unconstrained sub-asset class
- Oversaw, monitored, and met with SCERS' existing Global Equity managers

2026 Annual Plan

- Complete manager search for the developed large cap segment of International Equity
- Evaluate potential additions to the Global/Unconstrained sub-asset class to bring it towards the 6% target allocation
- Rebalance the Global Equity portfolio, as necessary, to keep the sub-asset class segments within range and minimize style or market capitalization tilts
- Oversee, monitor, and assess the existing manager lineup

Fixed Income

Market Overview

The fixed income markets have delivered strong returns in 2025 with the Federal Reserve (Fed) policy dominating investor considerations, shaping both risk sentiment and positioning as markets weighed the path of rates against shifting economic data. In June, Fed Chair Jerome Powell advised that policymakers are “well positioned to wait” and see few signs of economic weakening, signaling caution against premature interest rate cuts. Citing ongoing inflation risks, including potential uncertainty regarding the inflationary impact of tariffs, the Fed held the federal funds target range at 4.25%–4.50% through September 2025. While inflation has eased, it remains above the Fed’s 2% target, and the August 2025 jobs report pointed to a cooling labor market. These developments culminated in the Fed’s recent decisions to lower the target range by 50 basis points to 3.75% to 4.00%, a long-anticipated pivot that marked the start of its easing cycle and the centerpiece of market focus in 2025.

The Fed’s actions were only one part of a wider global policy landscape, where other central banks responded differently to their own domestic pressures. For example, Japan raised rates to 0.5% to contain inflation after years of deflation, France held rates at 2% amid moderate inflation and subdued economic growth, and Switzerland cut rates to 0% to fight deflation and a stagnant economy.

The 10-year Treasury yield began 2025 at 4.55%, trended lower through the first quarter, and got as low as 4%. However, longer duration yields increased dramatically after the White House’s April 2 “Liberation Day” tariff announcement due to the inflation uncertainty caused by the tariffs and fears about potential future increases in Treasury supply and reduced foreign appetite for U.S debt. Yields eventually settled once the tariffs were suspended to allow time for trade negotiations but still remain at elevated levels. As of September 30, 2025, the 10-year Treasury yield sits at 4.1%. Importantly, the yield curve not only returned to an upward slope from an inverted shape, but reached its steepest level since early 2022, when the Fed began rapid rate hikes. The steepening reflected falling short-term yields driven by weak macro data and expectations of Fed cuts, contrasted with rising long-term yields as investors demanded greater compensation for potential volatility such as tariff-related inflation, Fed and geopolitical policies, and concerns surrounding sustainability of the U.S. deficit given increasing fiscal spending.

This environment of shifting yields, Fed policy uncertainty, and political shocks translated directly into market performance, with event-driven volatility emerging as a defining theme of 2025. Episodes such as the April 2 tariff announcement triggered sharp swings that, while disruptive in the short term, also created tactical opportunities for bond traders. Overall, fixed income markets have performed well year to date. Even with the volatile Treasury yields the Bloomberg U.S. Treasury Index has returned 5.5%

as of September 30, 2025. Credit has generated robust returns in 2025, with investment grade bonds returning 7.2% (Bloomberg U.S. Credit Index). The broad-based Bloomberg Barclays Aggregate Index, which contains an equal mix of Treasuries, agency mortgages, and investment grade credit, is up 6.2% as of September 30, 2025.

There are risks going forward in the fixed income markets as the yield curve will likely remain sensitive to data and headlines, particularly surrounding the Fed and other central banks' actions. Credit spreads remain exceptionally tight, even if they are balanced by strong fundamentals. If Fed cuts materialize as anticipated, the extent and pace of easing in the face of above-target inflation and a cooling jobs market will be central to market direction and opportunities in the year ahead.

Fixed Income Portfolio

SCERS' fixed income exposure sits within the Diversifying asset category and 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.

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 aggregate fixed income targets and benchmarks are shown below.

SCERS Fixed Income Portfolio Structure

	Minimum	Target Allocation	Maximum	Policy Index Benchmark	Allocation as of 9/30/25
Total Fixed Income Portfolio	**12%**	**16%***	**20%**	**Custom Blend of benchmarks below:**	14.7%
Core Plus Fixed Income	9%	**12%***	15%	75% Bloomberg Barclays U.S. Aggregate Index	11.2%
U.S. Treasuries	3%	**4%***	5%	25% Bloomberg Barclays U.S. Treasury Index	3.5%

*Percentage of total portfolio

As of September 30, 2025, the actual total Fixed Income allocation is 14.7%, which is below the 16% target, but within the range of 12%–20%. SCERS rebalanced the Fixed Income portfolio twice during 2025. The first occurred in June 2025, when SCERS contributed $100 million to its U.S. Treasury mandate. The second occurred in September 2025, when SCERS contributed $160 million equally among its four Core Plus Fixed Income managers. Rebalancing was necessary due to the asset class being underweight as a result of underperformance of fixed income versus other asset classes, in particular equities. SCERS' Overlay Program rebalances the Fixed Income allocation to target on a quarterly basis using futures positions when the physical allocation is below or above target.

There were not any changes made to the Fixed Income asset class as a result of the broader strategic asset allocation changes made earlier in the year. In addition, SCERS did not make any manager changes to the Fixed Income portfolio in 2025 and spent the year evaluating the structure and underlying managers.

2025 Activity

- Performed physical rebalancing by contributing $100 million to SCERS' U.S. Treasury manager, Neuberger Berman, and $160 million equally among SCERS' four Core Plus Fixed Income managers
  - $40 million each to TCW, PGIM, Reams, and Brandywine
- Oversaw, monitored, and met with SCERS' Fixed Income managers

2026 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

Calendar year 2025 produced a strong environment for the Absolute Return asset class through the first nine months of the year, with most strategy categories generating positive results. Capital markets across asset classes generally delivered positive returns with volatility levels that led to attractive trading opportunities for absolute return managers. Equity markets have delivered strong results during the calendar year, led by Developed International and Emerging Markets, and with U.S. Equity markets posting a strong rebound following a nearly 20% decline in the first half of the year. Credit markets have also delivered positive returns year-to-date, as yields have moved lower during the year along with the expectation of interest rate cuts. Commodities, as measured by the Bloomberg Commodity Index, are mostly higher than at the start of the year led by significant increases in gold and precious metals. Volatility levels have generally remained elevated compared to prior years due to shifting government policy announcements surrounding tariffs, inflation, interest rates, and geopolitical uncertainty. The combination of these factors has created a market environment that was generally positive for hedge funds to generate returns but also presented risks for certain strategies that had difficulty navigating a choppy environment, such as trend-following strategies. Despite marginal declines in interest rates, overall rates remained at elevated levels that provide a tailwind for absolute return. In response to the higher level of interest rates, some managers and strategies are starting to incorporate a cash hurdle for performance fees, which is a favorable development for investors. Year-to-date through September 30, 2025, the broad HFRI Composite Weighted Index is up 7.3% and the HFRI Fund of Funds (FoF) Composite Index is up 5.5%.

At the strategy level, Equity Long/Short continues to be the top-performing strategy year-to-date, following strong results in the prior year. Long-biased strategies have benefited from the equity market rally through the first part of the year, with both growth and value-oriented equity managers generating strong returns, as technology and healthcare are top-performing market sectors. Event-Driven strategies have delivered good results during the year, as the regulatory environment for mergers has become more favorable and capital market deal activity has increased compared to prior years. Market Neutral (Relative Value) strategies also generated positive returns year-to-date, benefiting from dispersion and trading arbitrage opportunities, particularly during the second half of the year following strategy declines in March and April when geopolitical factors contributed negative returns. Credit-oriented strategies have benefited from expectations of declining interest rates and tightening credit spreads to post moderately positive returns. Macro strategies have generated mixed results, with Discretionary Macro generally holding up well and benefiting from market volatility, while Systematic Macro strategies have suffered, particularly trend-following strategies that have been subjected to sharp market swings and generated negative returns year-to-date. Despite some slight declines at the start of the year, Multi-Strategy has rebounded during the latter part of the year to generate mid-single-digit returns.

Asset flows for hedge funds have been positive for the year, with positive net inflows experienced in eight out of nine months to start the year. Market estimates have ranked 2025 calendar-year inflows as the strongest start to a year since 2021. Following asset outflows during the fourth quarter of 2024, the increase in assets during 2025 has pushed total industry assets back above $4.0 trillion and near all-time highs. Equity Long/Short and Credit-Oriented strategies have seen the largest inflows, from a total dollar value perspective, while Trend and Event-Driven strategies have experienced a slight decline in assets. From a geographic perspective, European-based managers saw the majority of inflows, followed by North America and Asia managers.

Absolute Return Portfolio

SCERS' Absolute Return asset class began the year at 6.6% of the overall portfolio, below the 7.0% target allocation. The asset class is slightly below target due to strong performance from growth-oriented assets, led by public equity, which was up over 15% in the prior year compared to SCERS' Absolute Return performance of 7.3%.

SCERS funded a new Absolute Return investment in the second quarter of 2025, a $50 million investment with Graham Capital Management in their Absolute Return Fund (Discretionary Global Macro). This is the second discretionary macro investment within the SCERS direct investment portfolio. At the end of the third quarter, SCERS funded a new investment in the BlackRock Systematic Total Alpha (STA) fund, a quantitative multi-strategy fund that invests across equity and fixed income markets. SCERS invested $50 million in the BlackRock STA fund, which is the second multi-strategy direct fund investment (not including the investments made by the Grosvenor Fund of Funds portfolio). The investments with Graham and BlackRock will help provide diversification to SCERS' Absolute Return portfolio, adding to existing sub-strategy allocations to Discretionary Global Macro and Multi-Strategy.

SCERS also submitted one full redemption request during the fourth quarter, which will be effective at the start of 2026. Additionally, SCERS submitted partial redemption requests to several funds during the year for rebalancing purposes. The redemption notices for rebalancing were submitted during the third quarter, with capital to be received over the subsequent two quarters. Rebalancing determinations are based on existing and targeted portfolio exposures, with the goal of maintaining a balanced portfolio, right-sizing individual manager allocations, and creating capacity for future investment opportunities, as appropriate.

As of September 30, 2025, SCERS' Absolute Return allocation was 6.4%. Based on existing market values and planned capital activity, the estimated allocation at year-end will be approximately 6.3% versus the 7.0% target allocation. This will allow for additional investments in calendar year 2026, not including investments made for portfolio adjustments and rebalancing.

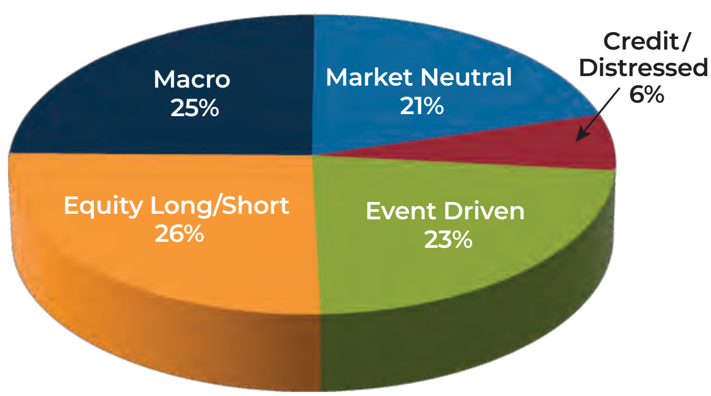
The following charts show the construction parameters and guidelines for SCERS' Absolute Return portfolio, along with estimated portfolio allocations, per SCERS' alternative assets consultant, Cliffwater.

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 13 funds with a range of 10 to 16
Non-U.S. Exposure	Expect 20% to 50% non-U.S. exposure

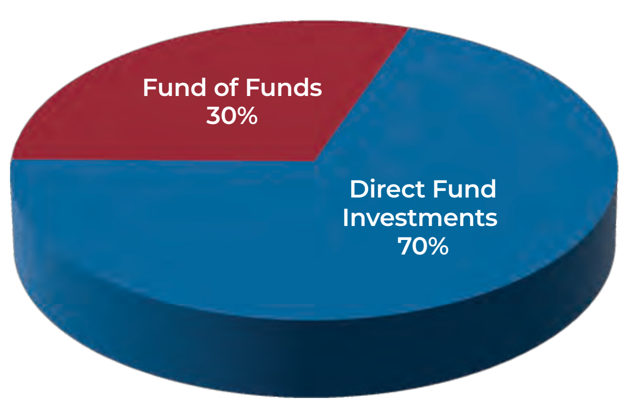
Absolute Return Portfolio Strategy Allocations

AS OF JUNE 30, 2025



Absolute Return Portfolio Allocations

AS OF JUNE 30, 2025



2025 Activity

The 2025 Absolute Return annual investment plan was:

- A target of one investment, with a range of 0–2 funds
- An average commitment size of $50 million per fund

2025 actual activity:

- Two investments were made during the year totaling $100 million, as well as one fund redemption totaling $53 million:
  - $50 million investment in Graham Capital Management – Absolute Return Trading Ltd. (Discretionary Global Macro), effective July 1
  - $50 million investment in BlackRock Systematic Total Alpha Fund (STA) (Multi-Strategy), effective October 1
  - Fully redeemed from an Event Driven fund in the fourth quarter, with estimated proceeds of $53 million to be received in the first quarter of 2026
- Rebalanced during the third quarter ($50 million total partial redemptions), with proceeds to be received over the subsequent two quarters:
  - Partial redemption from GCM Grosvenor Fund of Funds: $25 million
  - Partial redemption from Elliott International Limited: $15 million
  - Partial redemption from BlackRock Event Driven Equity: $10 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

2026 Annual Plan

Below is the 2026 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

Recommend an investment budget of $50 million for 2026, targeting 1 fund, with a range of $30 to $60 million.

- Evaluate investment levels with existing managers and rebalance the 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
- Oversee, monitor, and assess the existing manager lineup

Private Equity

Market Overview

In the first half of 2025, private equity displayed both resilience and restraint, producing a picture less of collapse than of recalibration. The aggregate figures are imposing, yet they reveal a market in which capital formation and liquidity, once abundant and unquestioned, are now rationed with discernment. On a global basis, buyout, growth equity, and venture capital funds together raised approximately $384 billion through June. While formidable by any historical standard, this represents a 17% decline compared with the first half of 2024 and is the weakest first half since 2020 when pandemic disruptions throttled activity. Only 247 funds achieved a final closing, well below the 500-plus closings that were common a decade ago, signaling consolidation around a smaller cohort of established managers. The pattern is unmistakable: scale, brand, and a demonstrable track record command commitments, while novelty struggles.

The distribution of capital underscores this dynamic. Buyouts accounted for roughly half of the total capital raised, capturing about $192 billion. These funds remain the dominant focus of private equity, benefiting from scale, established processes, and the enduring appetite of large institutions. Growth equity funds attracted approximately $54 billion, or about 14% of the global total, reflecting investor preference for established businesses with expansion prospects but lower binary risk than start-ups. Venture capital funds raised about $42 billion, equating to 11%, a stark contrast with the more than $80 billion raised in the United States alone as recently as 2021. Secondaries amassed an estimated $65 billion, or 17% of all fundraising, marking their ascendance as a mainstream strategy.

In the United States, the bifurcation between established managers and first-time entrants is even more pronounced. Buyout and growth equity vehicles secured $149 billion across 146 funds, a strong showing but one that lags the run-rates of 2021 and 2022. Venture fundraising was limited to $26.6 billion across 238 funds, a level that represents a substantial drop from $81 billion in 2024 and $98 billion in 2023. Of particular note, first-time managers accounted for only $1.8 billion across 44 funds—a minuscule share of commitments, suggesting that institutional investors are prioritizing liquidity, predictability, and sponsor familiarity over originality.

The exit environment tells a complementary story. U.S. buyout and growth funds generated $319 billion of exits in the first half of 2025, a figure nearly equivalent to the entirety of 2024. Yet the number of exits declined, indicating that while certain large transactions occurred, broad-based liquidity has not returned. The concentration of value is evidence of cautious buyer behavior. Moreover, momentum slowed in the second quarter: exit counts fell by approximately 25% quarter-over-quarter, and total value declined, a reflection of macroeconomic volatility, tariff-related uncertainty, and shifting capital market sentiment.

Strategic acquirers accounted for the majority of exit activity. Transactions by corporates such as Microsoft, seeking to deepen its exposure to artificial intelligence, and Procter & Gamble, continuing its acquisition of consumer-facing brands, provided substantial realizations. By contrast, the initial public offering channel, long the preferred exit path for venture-backed companies, reopened only modestly. Venture-backed exits totaled $120 billion in the first half of 2025, up 51% year-over-year, of which $44 billion came from IPOs, $56 billion from mergers and acquisitions, and nearly $20 billion from buyouts. This improvement is encouraging, but it remains highly concentrated among a few large technology companies. The vast majority of start-ups continue to face a closed or only partially open IPO window.

The secondary market has become indispensable. According to Evercore, global secondary volume reached $102 billion in the first half of 2025, the largest six-month period ever recorded. General partner–led continuation vehicles, once stigmatized, now represent a significant share of activity. Many sponsors have embraced these tools to provide partial liquidity and maintain exposure to favored assets. For limited partners, secondaries offer optionality: the ability to reduce exposure, rebalance portfolios, or gain access to high-quality companies at discounts. Their record volume is evidence not of distress, but of structural adaptation within the asset class.

For institutional investors such as pension plans, endowments, and sovereign wealth funds, the implications are clear. First, commitments should be paced deliberately, favoring re-ups with established managers who have proven resilient through multiple cycles. Second, liquidity planning is paramount. While exit values are recovering, they remain concentrated, and the denominator effect continues to constrain allocations. Third, selectivity in venture and growth commitments is critical: the ability to distinguish between genuine technological innovation and ephemeral enthusiasm will separate successful allocators from disappointed ones.

2025’s first half is not about disaster, but about finding balance. The industry is being reminded of some basic truths: capital comes at a cost, risk demands compensation, liquidity is uncertain, and trust is hard to earn but easy to lose. It’s an industry where size still impresses, but growth has slowed. Liquidity is coming back, but slowly, and incumbents are being rewarded while innovators are facing temporary setbacks. In the long run, the outlook is still strong. Private equity has weathered higher interest rates, tighter liquidity, and periodic downturns before. Its ability to adapt, through bigger funds, new structures, secondaries, and ongoing evolution remains powerful. The temporary slowdown in fundraising and uneven exit market are signs of caution, not signs of decline.

While global fundraising moderated in 2025, SCERS’ Private Equity portfolio continued to pursue a disciplined approach aligned with long-term objectives.

Private Equity Portfolio

SCERS' Private Equity portfolio has a strategic target allocation of 11%, diversified across several key strategies: buyouts, venture capital, and growth equity. 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 MSCI ACWI IMI, reflecting SCERS' aim to outperform traditional global equity markets by leveraging the unique opportunities within private equity. During a modest restructuring of the asset class, the long-term performance objective changed from the U.S. focused Russell 3000 + 3% to the global focused MSCI ACWI IMI + 3%. The specific target ranges for exposure to the Private Equity sub-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	40%	**65%**	80%	-
Venture Capital	10%	**20%**	40%	-
Growth Equity	10%	**15%**	35%	-
U.S. Private Equity	70%	**80%**	90%	-
Non-U.S. Private Equity	10%	**20%**	30%	-

During the year, four private equity fund positions were shifted into the new Credit assets class, including:

- Shamrock Capital Content Fund II, L.P. and Shamrock Capital Content Fund III, L.P. - $22 million total of NAV– Opportunistic Lending
- Sixth Street Opportunities Partners IV, L.P. and Sixth Street Opportunities Partners V, L.P. - $50 million of total NAV– Special Situations

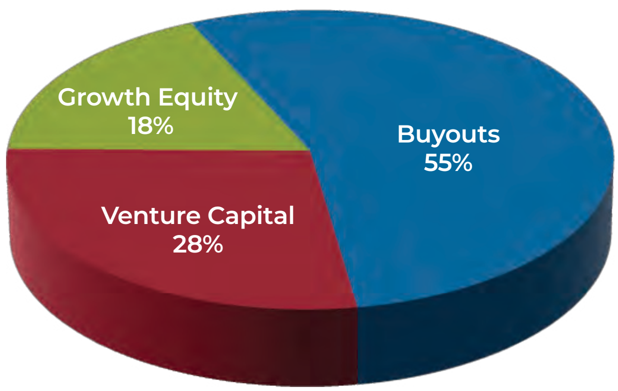
These assets were transferred because their investment strategies have a greater credit focus than their former home in Private Equity. As part of a modest restructuring in Private Equity, SCERS dissolved the Distressed Debt sub-strategy and moved existing exposures either into the Credit asset class or the Buyout sub-strategy within Private Equity.

Incorporating these transfers, as of September 30, 2025, the current Private Equity allocation stands at 11.4%. Although the allocation slightly exceeds the 11% target, it has decreased significantly from 15.4% in 2022. Due to private equity's unique cash flow characteristics, SCERS must commit to private equity funds across different vintage years to maintain its target allocation to the asset class. Cliffwater incorporates the Private Equity overweight into its modeling forecasts used to determine the annual Private Equity budget. SCERS' investment activity over the last few years has been at the lower end of the approved annual private equity budgets, reflecting the slowdown in liquidity.

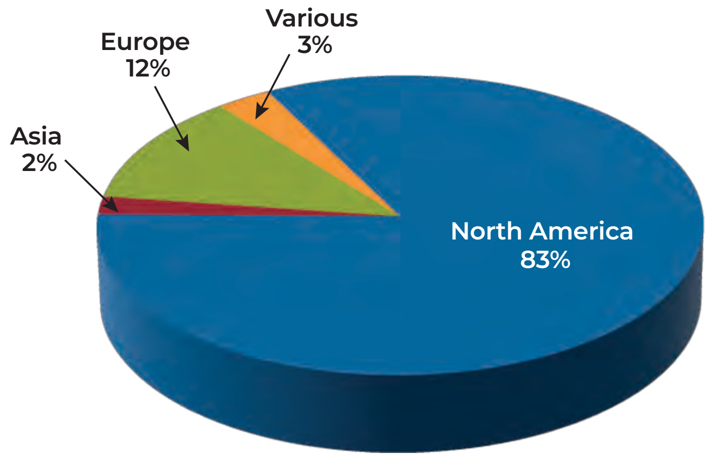
Cliffwater and Staff strive to exercise disciplined prudence, refraining from allocating to follow-on funds that no longer align with the portfolio's evolving strategic objectives or when a new manager offers a more compelling proposition. Staff projects that maintaining approximately 25-30 active GP 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, 2025:

Private Equity Portfolio Strategy Allocations
AS OF JUNE 30, 2025



Private Equity Portfolio Geographic Allocations
AS OF JUNE 30, 2025



Venture capital, accounting for 28% of the Private Equity allocation, currently exceeds its 20% target but remains within an acceptable range. The overweight position in venture capital is due to SCERS' investments in more mature funds, along with the strong performance of a single fund that makes up 20% of the venture exposure in the portfolio, mainly with vintage years before 2018. Although these funds have seen valuation declines, the slow exit environment has greatly affected mature investments that would typically be liquidated under normal market conditions. Additionally, 58% of SCERS' venture portfolio is invested in funds from before 2018, which have also had a similar impact; however, these funds continue to generate strong net multiples exceeding 2.0x overall. Given the slowdown in the exit market for venture-backed companies, Cliffwater and Staff believe it's wise to slow down investment activity in this sub-strategy until market conditions improve to reduce the overweight. Currently, commitments to mature private equity funds from 2006-2018 make up 22% of the asset class's NAV. After five years of slowdown within the private equity market, SCERS' legacy portfolio of investments remains a concern as exits stay sluggish.

2025 Activity

The 2025 Private Equity annual investment plan was:

- A total of $250 million in commitments, with a range of $200-$300 million
- A target of 6 fund commitments, with a range of 5-8 funds
- An average commitment size of $40 million per fund

2025 actual activity:

- 4 fund commitments have been made during the year, totaling $135 million in aggregate (three follow-on investments with existing managers and one new GP relationship):
  - $25 million follow-on investment in Threshold Ventures V, LP (Venture Capital)
  - $35 million new investment in Riverside Value Fund II, LP (Buyout)
  - $40 million follow-on investment in Khosla Ventures IX, LP (Venture Capital)
  - $35 million follow-on investment in OrbiMed X, LP (Venture Capital)
- In process and expected to close by year-end, a $100 million follow-on investment in a co-investment vehicle
- Oversaw, monitored, and met with SCERS' Private Equity managers.

2026 Annual Plan

Below is the 2026 capital commitment plan for the Private Equity asset class, as recommended by Cliffwater and Staff:

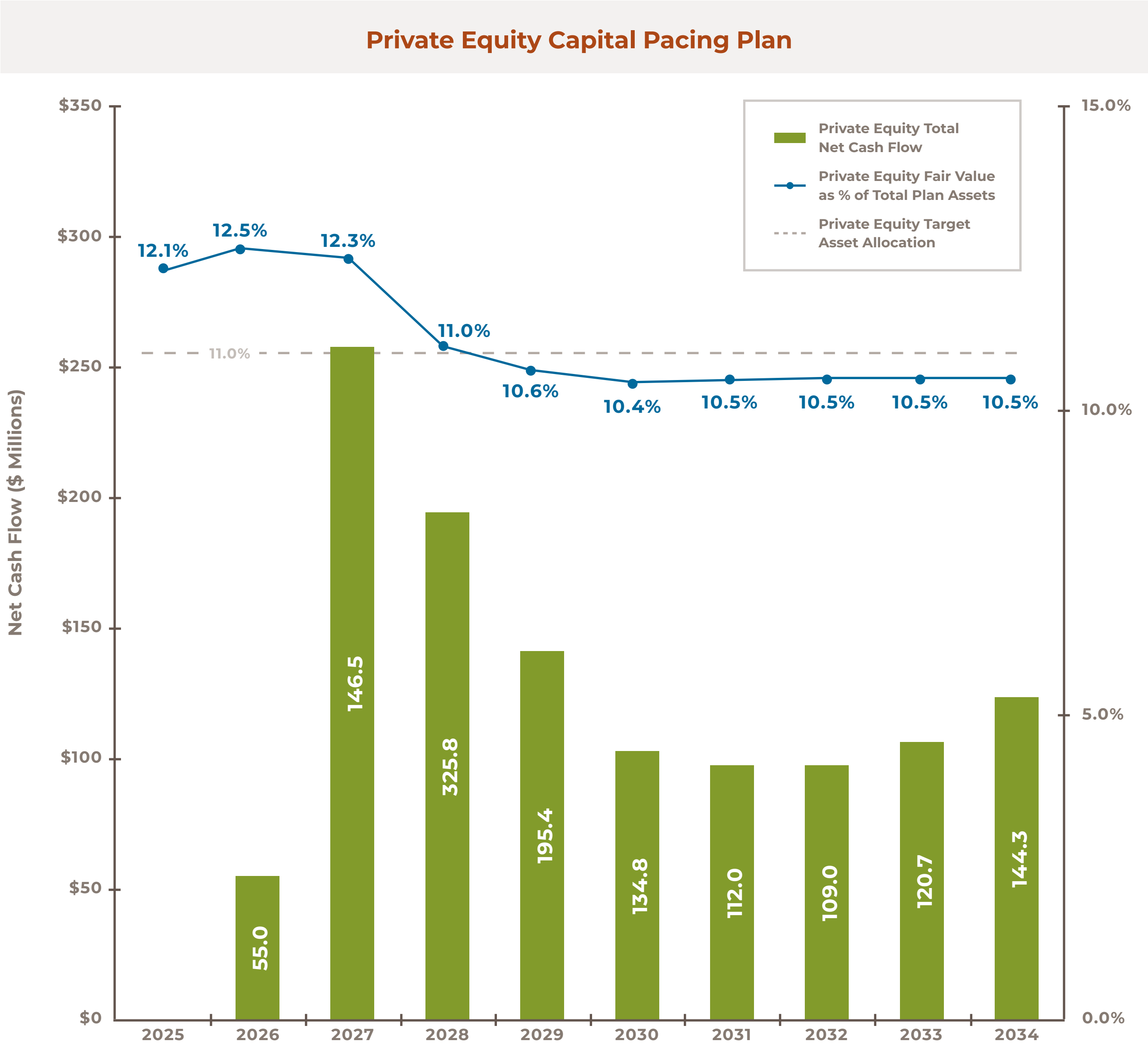
SCERS Private Equity Annual Investment Plan

	Target	Minimum Range	Maximim Range
Commitment Level	**$300 MM**	$250 MM	$350 MM
Number of Funds	**7**	5	9
Buyout fund(s)	5	3	6
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	$55 MM

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

- Recommend a commitment budget of $300 million for 2026, with a range of $250 to $350 million.
  - Target 7 fund commitments at an average commitment size of $40 million, with a range of $20-$55 million per fund
  - The total commitment budget for 2026 is higher than the $250 million budget from the prior year, mostly due to an increase in plan assets
  - The 2026 budget does not include any funds in which a commitment was made in 2025 but capital has not been called
- Oversee, monitor, and assess the existing manager lineup
- Staff and Cliffwater continue to take a measured approach when making new commitments because of the slowdown in distributions

Below is the projected Private Equity capital-pacing plan:



- Given the abundance of capital in the markets for select GPs and the prolonged fundraising environment, 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 and are looking at ways of maximizing returns
- 2026 investment strategies and themes include:
  - Follow-on investments to existing managers/strategies
  - Continued attention to specialist buyout funds
  - Re-evaluation of venture capital investment strategy
  - Monitoring of secondary pricing for potential fund sales
- Oversee, monitor, and assess the existing manager lineup

Credit

Market Overview

Credit markets have delivered steady but modest returns in 2025. Much of the momentum has come from private credit, which continues to experience tremendous growth as an asset class. PitchBook data highlights the depth of this growth. Private debt fundraising reached $197.1 billion in 2024, surpassing venture capital for the second consecutive year and ranking just behind private equity. Total assets under management (AUM) exceeded $2.2 trillion by mid-2024, with uninvested capital at a record $566.8 billion. Deployment also increased, with 20,605 deals totaling $1.9 trillion in 2024, up from $1.2 trillion in 2023, much of it sponsor-driven. Within the private equity sponsor-backed market, the median buyout size rose to $3.3 billion year-to-date in 2025, reflecting larger take-private transactions and sector consolidation, which in turn drives demand for debt financing across private credit markets. Direct lending continues to dominate, with AUM of $678.5 billion, growing at a 22% compound annual growth rate (CAGR) over the past decade.

The expansion of private credit has created new risks. At the deal level, intense competition has compressed spreads and loosened terms, making asset sourcing a top concern for lenders. Structurally, fundraising has become increasingly concentrated among megafunds, which captured more than 80% of fundraising in 2024, leaving smaller managers struggling to compete. At the systemic level, research published by the Federal Reserve has cautioned that the rapid growth of private credit may pose financial stability concerns, given banks' growing role as indirect funders and the potential for stress to transmit back into the banking system.

In contrast to the rapid growth in private markets, liquid credit has been steadier but not without volatility. April's tariff shock and a bear-steepening yield curve caused episodic spread widening, yet levels remain historically tight. Investment grade corporate spreads ended the third quarter of 2025 at 0.7%, down from 0.9% a year earlier, compared with a long-term average of 1.2%–1.5%. Long duration corporates narrowed to 0.9% from 1.1%, also below their historical range of 1.5%–1.8%. High yield spreads finished at 2.7%, compared to 3.0% in September 2024 and a long-term average of roughly 4.5%–5.0%. Bank loans contracted to 4.3%, down from 4.7% and beneath their typical 5.0%–5.5% range. Despite volatility, spreads remain well below historical norms, underscoring investors' strong appetite for corporate debt.

Both private and public credit strategies could be impacted if the Federal Reserve continues to cut rates. For private credit and broadly syndicated loans, which are floating rate, lower base rates could reduce coupons and dampen returns unless offset by wider spreads. High yield bonds could benefit from price gains, though this may come with further spread compression and thinner forward returns. Even so, private credit continues to attract strong institutional interest, from those seeking portfolio diversification and yields that remain compelling relative to traditional public credit.

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

Credit Portfolio

The Credit asset class sits within SCERS' Growth category and seeks to generate attractive risk-adjusted returns and steady cash flow through both Illiquid (Private) and Liquid (Public) Credit sub-strategies.

SCERS introduced Private Credit in 2017, focused on lending to mid-sized private companies. SCERS' Public Credit allocation, focused on the liquid credit markets, dates back to 2013. In March 2025 the Board approved combining SCERS' legacy Private Credit and Public Credit asset classes into a single Credit asset class with Illiquid (Private) and Liquid (Public) Credit sub-strategies, enabling a holistic approach and greater flexibility in implementation.

An attractive feature of credit investments is the cash yield provided, which generally constitutes the majority of total return. Verus' March 2025 asset allocation modeling projected cash yields above 8% for both liquid and illiquid strategies, the highest across SCERS' asset classes at the time. Given SCERS is a mature public pension plan with a negative cash flow profile, with annual benefit payments exceeding contributions, having a meaningful allocation to cash-flowing strategies is increasingly important.

The March 2025 revisions to the strategic allocation raised Credit's target from 7% (5% private, 2% public) to 9%, offset by reductions in Real Estate and Global Equity. The new target has a +/- 3% range. As of September 30, 2025, the actual Credit allocation is 5.4%.

Within Credit, allocations are made across Illiquid and Liquid Credit sub-strategies. There are no specific sub-strategy targets, but ranges are used to allow for flexibility. Illiquid Credit will comprise 60%–100% of the allocation, with Direct Lending expected to be the majority, followed by Opportunistic Lending and, to a lesser extent, Special Situations. Liquid Credit may comprise 0%–40% of the allocation and will be used opportunistically for strategies capable of generating returns comparable to Illiquid Credit.

The Cambridge Associates Private Credit Index serves as SCERS' Policy Index, and performance is expected to exceed the Index for the respective vintage years. In addition, the long-term objective of the Credit asset class is to outperform the Credit Suisse Leveraged Loan Index + 2%, net of fees and expenses.

The Credit sub-strategy targets and the benchmark are summarized below:

SCERS Credit Portfolio Structure

	Minimum	Target	Maximum	Policy Index Benchmark
Total Credit Portfolio	**6%**	**9%**	**12%**	**Cambridge Associates Private Credit Index**
Iliquid Credit	60%	-	100%	-
Liquid Credit	0%	-	40%	-
U.S. Credit	75%	-	100%	-
Non-U.S. Credit	0%	-	25%	-

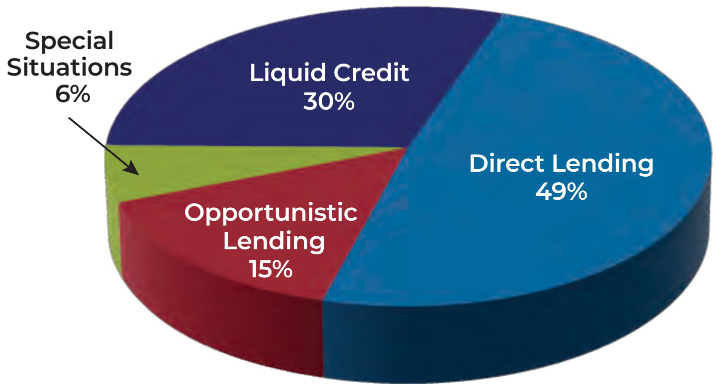
SCERS was on a path toward building out the prior 5% allocation to Private Credit and was expected to reach the target by year end 2027, while the prior 2% Public Credit allocation was fully allocated. With the increase in the overall Credit asset class from 7% to 9%, Cliffwater modeled the forecasted investment pace of the asset class over a 10-year period, and projects that SCERS will reach the new 9% target allocation by 2031. The implementation is expected to be through a combination of Illiquid and Liquid allocations, with the former making up most of the asset class and the latter the minority.

By the end of 2025, SCERS will have made three commitments for the year totaling $150 million, as shown in the "2025 Activity" section below, which is slightly below the 2025 private credit budget of $160 million but within the budget range of $120-$200 million. Commitments made during the year include a $50 million new investment with a direct lending fund within the Illiquid Credit sub-strategy, Comvest Credit Partners VII Levered Feeder, and a $50 million new investment with a multi-credit fund within the Liquid Credit sub-strategy, Diameter Dislocation Fund III. Staff also expects to close on a $50 million Illiquid Credit investment by year end.

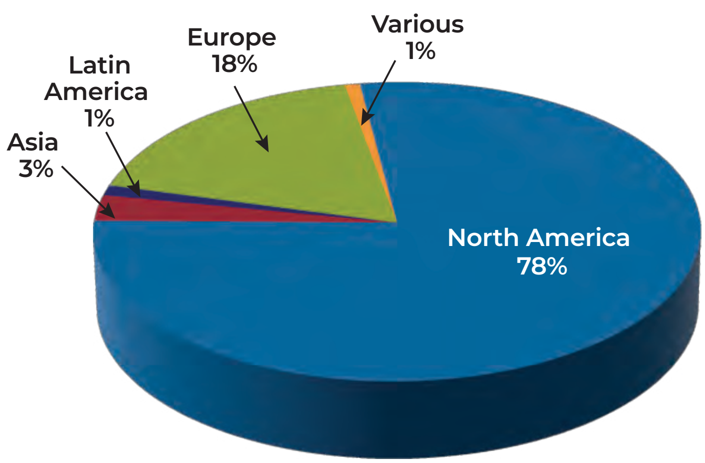
Within the larger Illiquid sub-strategy, most of the exposure will be with direct lending strategies that are based on the going-concern or future enterprise value of a company; either in the form of sponsored (private equity-owned) or non-sponsored companies. While SCERS has meaningful exposure to direct lending strategies, Staff and Cliffwater have also sought out lending strategies backed by hard, tangible, or recoverable collateral such as equipment, infrastructure, transportation assets, royalties, intellectual property, and online content, where the downside is mitigated by the collateral value; thereby, lessening the possibility of a complete loss. Additionally, collateral lending tends to be less sensitive to economic conditions particularly for assets that have long lives, long income streams, or are mission critical to the borrowing company.

Below is SCERS' Credit diversification by investment strategy and geography as of June 30, 2025. It includes SCERS' aggregate Illiquid and Liquid Credit allocations:

Credit Portfolio Strategy Allocations
AS OF JUNE 30, 2025



Credit Portfolio Geographic Allocations
AS OF JUNE 30, 2025



2025 Activity

The 2025 Credit annual investment plan was:

Illiquid (Private) Credit

- A Total of $160 million in commitments, with a range of $120–$200 million
- A Target of 3 fund commitments, with a range of 2–5
- Average commitment size of $55 million per fund

Liquid (Public) Credit

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

2025 Actual Activity:

Illiquid Credit

- 1 commitment was made during the year totaling $50 million (new GP relationship):
  - $50 million investment in Comvest Credit Partners VII Levered Feeder, L.P. (Direct Lending)
- In process and expected to close by year-end
  - $50 million investment in an Opportunistic Lending fund

Liquid Credit

- 1 commitment made during the year totaling $50 million (new GP relationship):
  - $50 million investment in Diameter Dislocation Fund III, LP
- Oversaw, monitored, and met with SCERS' Credit managers

2026 Annual Plan

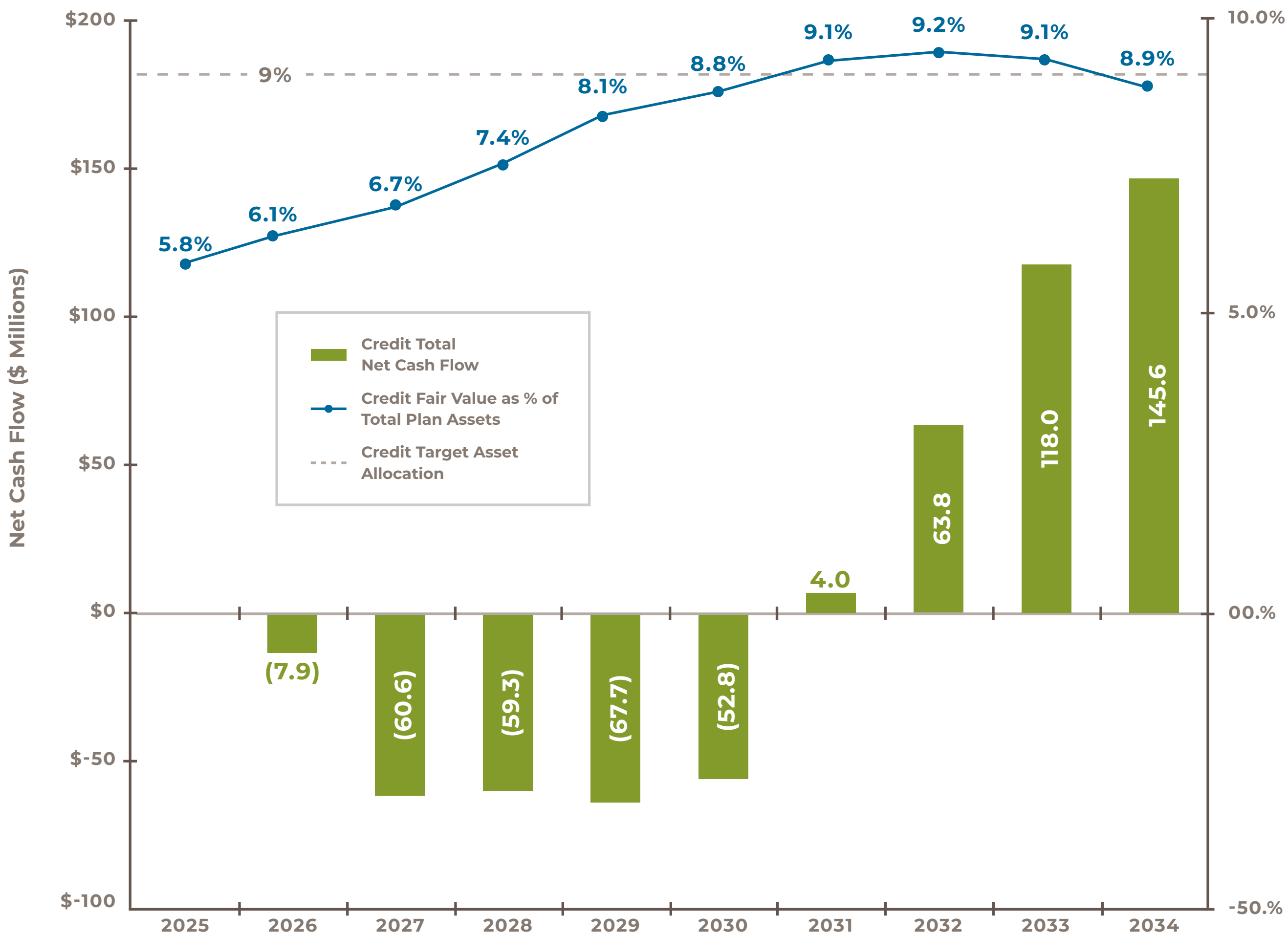
Below is the 2026 capital commitment plan for the Credit asset class, as recommended by Cliffwater and Staff:

SCERS Illiquid Credit Annual Investment Plan

	Target	Minimum Range	Maximim Range
Commitment Level	**$300 MM**	$250 MM	$350 MM
Number of Funds	**5**	3	7
Direct Lending Fund(s)	3	2	4
Opportunistic Lending Fund(s)	2	1	3
Special Situations Fund(s)	0	0	1
Commitment per Fund	**$60 MM**	$40 MM	$100 MM

- Recommend a $300 commitment budget for 2026, with a range of $250 million to $350 million
  - Target 5 fund commitments averaging $60 million each, with a range of $40-$100 million per fund
  - The 2026 budget of $300 million is meaningfully higher than the 2025 budget of $160 million due to the restructuring of the asset class to include both Illiquid and Liquid Credit, and the increased target allocation of 9%
  - The budget assumes that all new investments will be made within the Illiquid Credit sub-strategy
    - Any investments made within the Liquid Credit sub-strategy will draw from this budget; with capital budgeted for Illiquid investments reduced by that amount
  - The 2025 budget does not include any funds in which a commitment was made in 2025 but capital has not been called

Credit Capital Pacing Plan



- Staff, Cliffwater, and Verus forecast reaching the increased 9% Credit target allocation in 2031
  - Investments in larger open-end/evergreen mandates within Illiquid and Liquid Credit would potentially shorten the timeline
  - Staff and Cliffwater will remain judicious and selective in making new investments, particularly within the private credit markets, where there is an overabundance of capital and funds
- 2026 investment strategies and global themes include:
  - Follow-on investments to existing managers/strategies
  - Niche and specialty lending/leasing strategies
  - Diversified direct lending strategies
  - Flexible and opportunistic public credit strategies
- Oversee, monitor, and assess the existing manager lineup

Real Assets

Market Overview

The past year has been largely defined by political and geopolitical tension, as well as tariff and inflation concerns. Real assets benefit the portfolio with lower correlation to the broader markets and resiliency in a higher-interest-rate environment, due to inflation linkage in infrastructure contracts and long-term contractual revenues.

Policy changes and executive orders from the new administration, aimed at reorganizing domestic manufacturing and curbing the energy transition, influenced the infrastructure and energy and power markets. In January 2025, the U.S. withdrew from the Paris Agreement, which aims to reduce greenhouse gas emissions and increase resilience to climate change. The “Unleashing American Energy” executive order initiated the repurposing and clawback of Infrastructure Investment and Jobs Act (IIJA) funds earmarked for states’ infrastructure projects, including the curbing of electric vehicle (EV) expansion. Despite these and other policy shifts and continued regulatory uncertainty, the energy transition continues abroad, and momentum remains in the U.S.

The AI boom of the past few years has continued to demand a significant amount of investment in many areas, from new and improved hyperscale data centers and fiber-optic networks to the power generation and transmission requirements, and even transportation and social infrastructure. Notably, technology capital expenditures have accounted for nearly a third of U.S. real GDP growth during the year, and some in the industry expect global hyperscale investment in data centers alone to surpass $1 trillion. Yet despite this exuberance today, investors in infrastructure funds must remain cautious about the ability to sell multibillion-dollar portfolio companies five or ten years from now. Likewise, energy remains an important consideration for investors, as energy supply is the major bottleneck for this tech boom. The immense power demand necessitates broad sourcing, including transitional/renewable and conventional energy. Energy investors are expected to seek a balanced, multipronged approach as the global energy landscape continues to evolve.

Deal activity has been mixed since its downturn in 2022, according to data from Preqin. Global infrastructure deal count in 2024 had a year-over-year decline of 8%, while fundraising levels had an increase of 14%, with deal value largely led by core and value-add strategies. However, investor sentiment has been positive, with higher activity expected for 2025 in Europe and especially in North America. The first quarter of 2025 saw $48 billion in private infrastructure fundraising (CBRE), signaling a slight rebound for the asset class, while power and utilities deal value reached $44 billion for the quarter (PwC), a major increase from prior quarters.

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.

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

SCERS Real Assets Portfolio Structure

	Minimum	Target		Policy Index Benchmark
Total Real Assets Portfolio	**5%**	**7%**	**9%**	**Custom blend of benchmarks below:**
Infrastructure	50%	**65%**	80%	65% Cambridge Associates Private Infrastructure
Energy and Power	20%	**35%**	50%	35% Cambridge Associates Private Energy
Agriculture, Timber, Other	0%	**0%**	20%	

Within Real Assets, the two primary sub-strategies are infrastructure and energy and power. The "agriculture, timber, and other" sub-strategy target was revised during the year from 10% to 0%, due to limited opportunities within these segments. The range was maintained to keep flexibility to invest in these segments opportunistically.

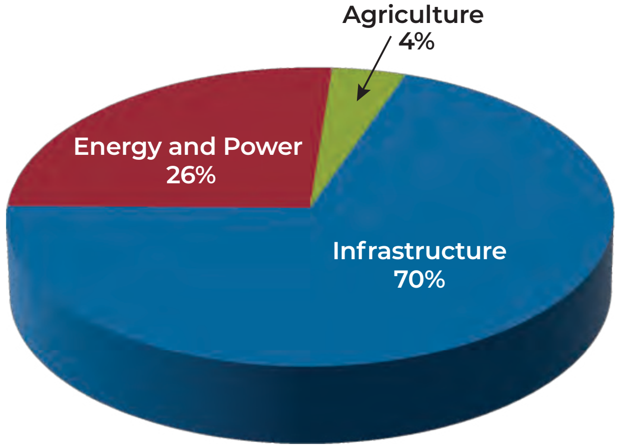
The Real Assets target allocation is 7%, with a +/- 2% range around the target. As of September 30, 2025, the actual Real Assets allocation is 8.0%, above the target but within the range of 5%-9%. According to Cliffwater capital budget forecasting, the actual allocation is expected to revert to the target by 2026.

SCERS' Real Assets portfolio has performed well on an absolute and relative basis, both across infrastructure and energy and power. Staff and Cliffwater continue to seek investment opportunities with the long term in mind by building around foundational investments with specialist, niche, or sector specific strategies. SCERS' investments during the year reflect a focus on managers with strong track records and strategies with reliable cash flows and longer-term contracts.

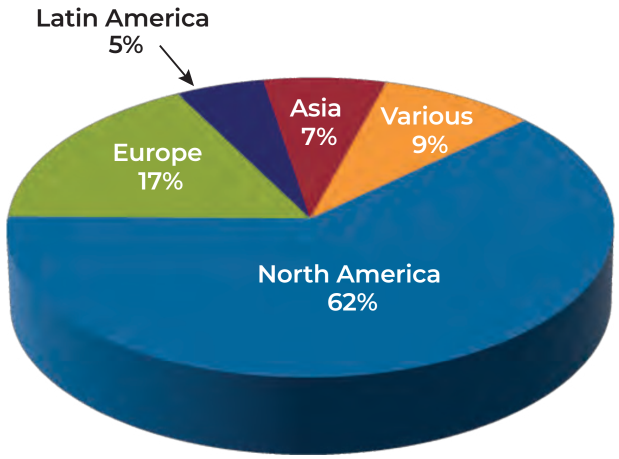
In 2025, SCERS made four commitments totaling $225 million, which slightly exceeded the target of $220 million but remained within the budget range of $190 million to $250 million. Commitments made during the year include a $75 million follow-on investment with an existing energy and power manager, NGP Royalty Partners III, and $50 million investments with three new infrastructure funds: Aberdeen Global Sustainable Infrastructure Partners IV, KKR Global Infrastructure Investors V, and Manulife Infrastructure Fund III.

Below is SCERS' Real Assets diversification by investment strategy and geographic region, as of June 30, 2025:

Real Assets Portfolio Strategy Allocations
AS OF JUNE 30, 2025



Real Assets Portfolio Geographic Allocations
AS OF JUNE 30, 2025



2025 Activity

The 2025 Real Assets annual investment plan was:

- A total of $220 million in commitments, with a range of $190-250 million
- A target of four fund commitments, with a range of three to six
- An average commitment size of $55 million per fund

2025 Actual Activity:

- 4 commitments made during the year totaling $225 million in aggregate (one follow-on investment with an existing manager, one new fund investment with an existing manager, and two new GP relationships):
  - $75 million follow-on investment in NGP Royalty Partners III, LP (Energy and Power)
  - $50 million investment in Aberdeen Global Sustainable Infrastructure Partners IV, LP (Infrastructure)
  - $50 million investment in KKR Global Infrastructure Investors V, LP (Infrastructure)
  - $50 million investment in Manulife Infrastructure Fund III, LP (Infrastructure)
- Oversaw, monitored, and met with SCERS' existing Real Assets managers

2026 Annual Plan

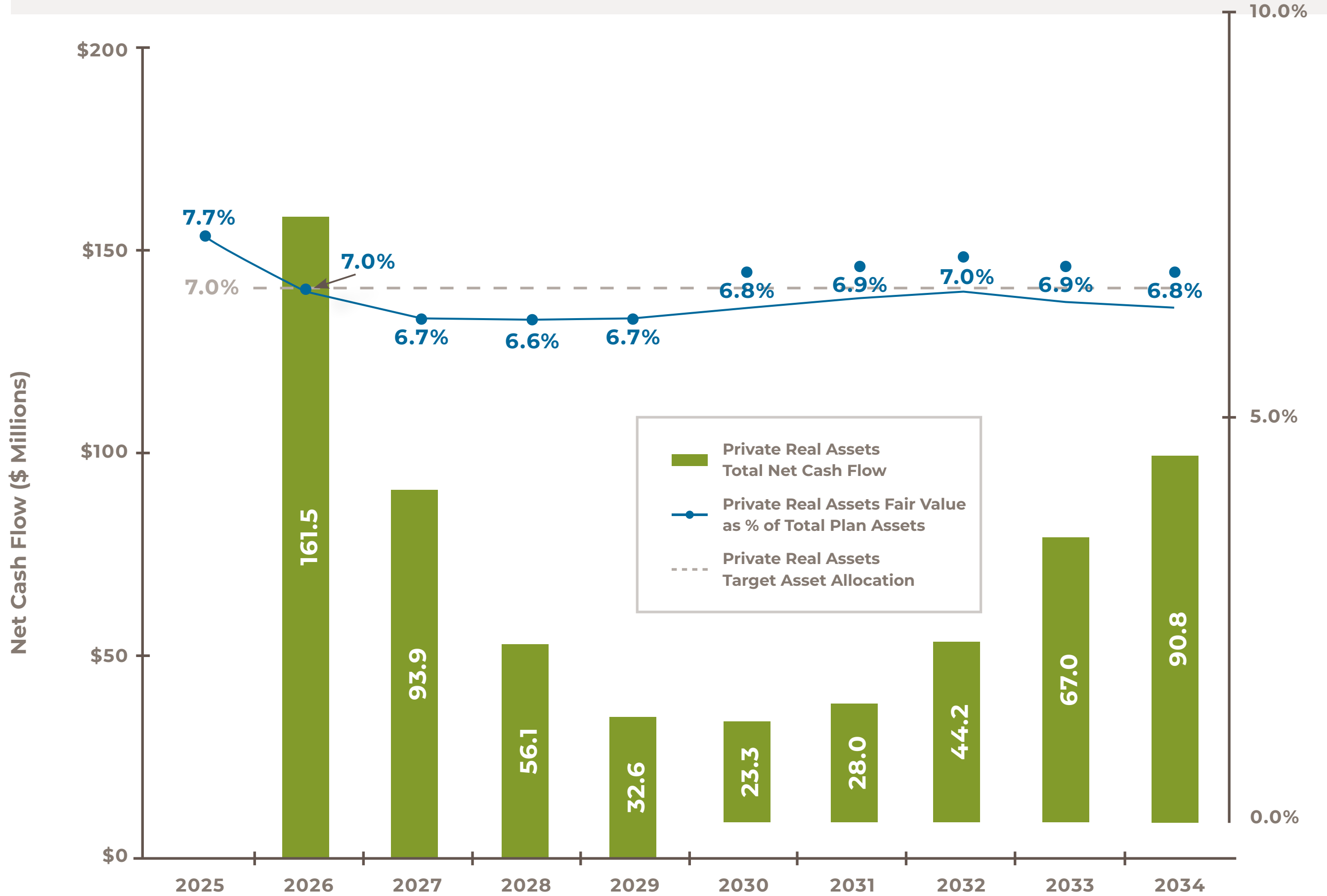
Below is the 2026 capital commitment plan for the Real Assets asset class, as recommended by Cliffwater and Staff:

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 2026, with a range of $190 million to $250 million
  - Target 4 fund commitments averaging $55 million, with a range of $40-$100 million
    - Three Infrastructure and one Energy and Power
  - The total commitment budget for 2026 is the same as the budget from the prior year
  - The 2026 budget does not include any funds for which a commitment was made in 2025 but capital has not been called

Real Assets Capital Pacing Plan



- Capital deployment will be prudent but selective given that the Real Assets portfolio is above the target allocation
- 2026 investment strategies and global themes of focus include:
  - Follow-on investments with existing managers/strategies
  - Mid-size to larger-scale infrastructure
  - Yield-driven returns
  - Multipronged approach to energy (transitional and conventional)
- Oversee, monitor, and assess the existing manager lineup

Real Estate

Market Overview

Within the real estate markets, 2025 has seen signals of recovery from the yearslong slump that dates back to 2022. Monetary easing during the second half of 2024 turned to monetary balancing during the first half of 2025, with central banks hoping to neither heat nor cool the economy too much. While monetary policy held a stabilizing pattern mid-year, uncertainty remains going into the end of 2025.

One sign of hope for real estate markets; however, is the Federal Reserve's decision to lower its target rate by 25 bps in September, to a range of 4.00% to 4.25%. Real estate is particularly sensitive to interest rates due to the greater use of debt financing. The interest rate hikes that were necessary for battling inflation in 2022 were a major contributor in the decline in real estate values and activity for 2023. Market participants holding on to expectations for increased activity and liquidity in a potential 2025 upcycle would likely be reassured by this return to easing.

Fundraising in real estate has begun showing improvement. According to PitchBook, in the first half of 2025 commitments reached more than $67 billion. When compared with 2024's total of $109 billion, 2025 commitments are currently on track to match or surpass those of the prior year. Capital raised in the first half of 2025 was primarily for non-core opportunistic and value-add funds, which accounted for more than three-quarters of fundraising during the period. Deal activity has shown signs of recovery as well. According to MSCI, transaction volume increased by 13% in the first half of 2025 compared with the first half of 2024, with office, industrial, and retail all more than 15% higher year-over-year (YoY) and senior housing up 79% YoY. The largest real estate funds to close in the first half of 2025 were Blackstone Real Estate Partners Europe VII, a $10.7 billion fund located in the U.K., and Blackstone Real Estate Debt Strategies V, an $8 billion fund located in the U.S. The tenth largest was one of SCERS' 2025 investments, FPA Apartment Opportunity Fund IX, which is a $1.8 billion U.S. fund.

Property fundamentals have not seen significant improvement. Notably, U.S. office vacancies have hovered around 19% for the past several quarters and reached a new all-time high of 20.7% in the second quarter of 2025, according to Moody's. Industrial vacancy has also increased slightly, though this increase is largely attributable to new construction. According to JLL Research, improvement in real estate fundamentals is expected across the board in the U.S. and within most property types in the U.K.

Capitalization rates (cap rates) fell around 5 bps or less in the second quarter 2025 across most property types, according to Capital Economics. Office and mall segments had the largest YoY drops, while warehouse and R&D segments rose by 10 bps YoY. All-property capitalization-rate estimates fell 9 bps, according to CBRE's cap-rate survey for first half of 2025. Cap rates are generally expected to move in line with interest rates, and lower cap rates generally indicate lower risk and expected return. However, the relationship between cap rates and interest rates is not perfect, as it can be influenced by other dynamics, such as credit availability and supply and demand among property types.

Heading into 2026, real estate investment may see some improvement. Much will depend on the stabilization and improvement in underlying real estate fundamentals, the strength of the broader economy, the impact of tariffs on businesses real estate needs, and the affordability of capital.

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 serve as 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 2025, the Real Estate target allocation was decreased from 9% to 8%, to right-size the asset class with its risk/return profile and the opportunity set, as shown below. 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 target allocation. As of September 30, 2025, the actual Real Estate allocation is 6.1%, below the 8% target but still within the range of 6%-10%. The 8% target is expected to be reached by 2030.

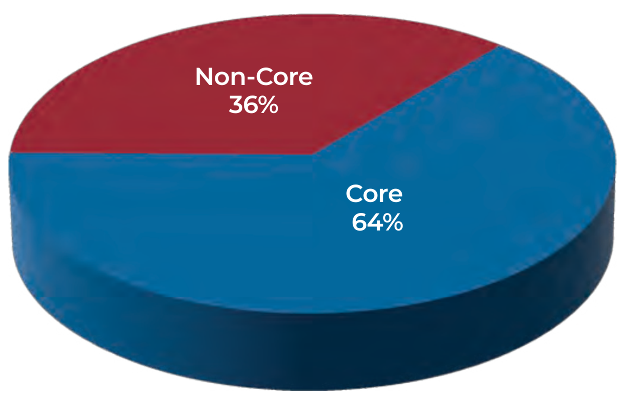
SCERS Real Estate Portfolio Structure

	Minimum	Target		Policy Index Benchmark
Total Real Estate Portfolio	**6%**	**8%**	**10%**	**Custom blend of benchmarks below:**
Core Real Estate	50%	**60%**	70%	60% NFI-ODCE
Non-Core Real Estate	30%	**40%**	50%	40% NFI-ODCE + 1%
Non-U.S. Real Estate	0%	**N/A**	35%	-

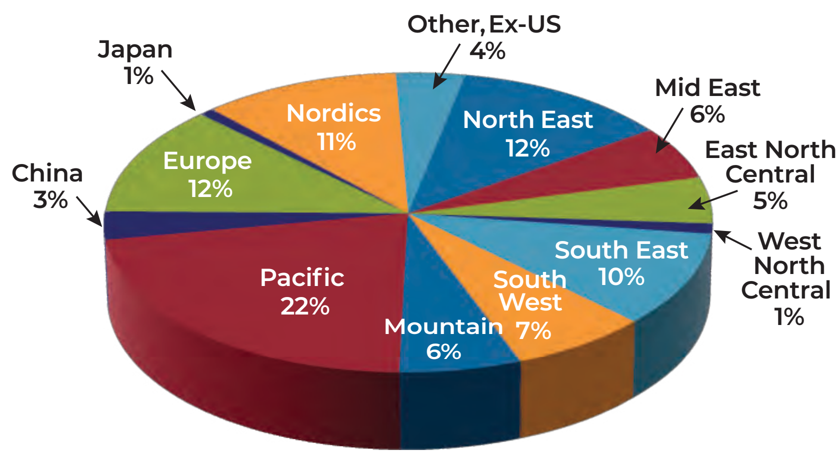
The real estate market has felt the impact of inflation, heightened interest rates, and the uncertain economic environment over the past few years, which has translated to a cautious and selective investment approach by Staff and Townsend. There were some interesting investment opportunities during the year that Staff and Townsend evaluated, but with Staff turnover within this segment of the portfolio, only two commitments have been made through the first three quarters of 2025. This included a $50 million investment in FPA Core Plus VI and a $30 million investment in FPA Apartment Opportunity Fund IX, both focused on the multi-family property type. One additional real estate fund investment is expected to close by year-end. Going into the 2026 investment year, Staff and Townsend expect to make investments within both the Core and Non-Core segments to work toward bringing the Real Estate allocation toward its 8% target.

Below is SCERS' Real Estate diversification by investment strategy and geographic region, as of June 30, 2025:

Real Estate Portfolio Strategy Allocations
AS OF JUNE 30, 2025



Real Estate Portfolio Geographic Allocations
AS OF JUNE 30, 2025



2025 Activity

The 2025 Real Estate annual investment plan was:

- $270 million in total commitments, with a range of $180–$320 million
- Target 5 fund commitments, with a range of 3–6
  - 1 core funds fund
  - 4 non-core funds
- An average core fund commitment size of $75 million and non-core commitment size of $40 million per fund

2025 Actual Activity:

- 2 commitments have been made during the year, totaling $80 million in aggregate (new GP relationship):
  - A $50 million investment in FPA Core Plus Fund VI, LP (Core Plus)
  - A $30 million investment in FPA Apartment Opportunity Fund IX, LP (Value Add)
- In process and expected to close by year-end:
  - $50 million investment in a non-core real estate fund
- Oversaw, monitored, and met with SCERS' existing Real Estate managers

2026 Annual Plan

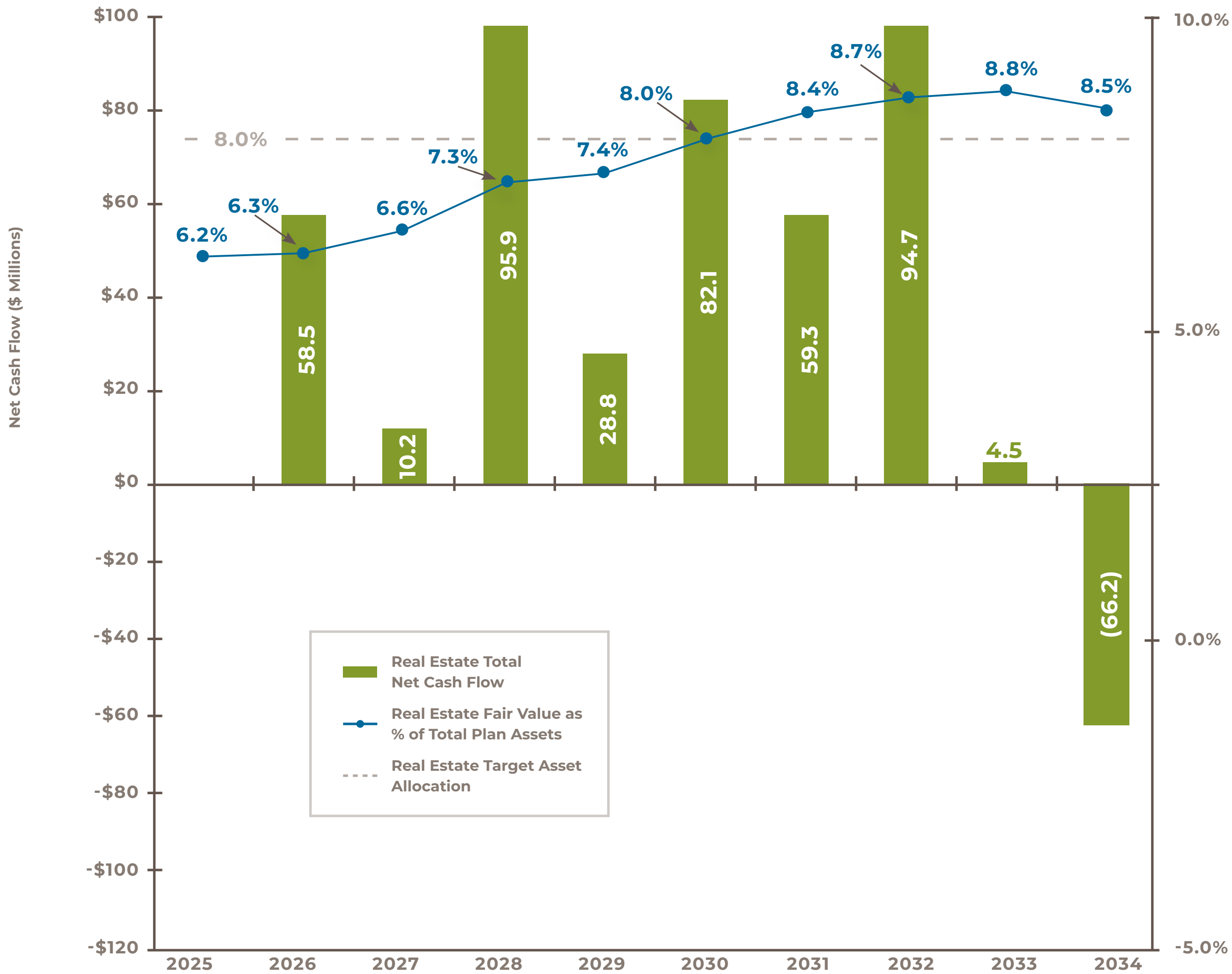
Below is the 2026 capital commitment plan for the Real Estate asset class, as recommended by Townsend and Staff:

SCERS Real Estate Annual Investment Plan

	Target	Minimum Range	Maximum Range
Commitment Level	**$300 MM**	$155 MM	$400 MM
Number of Funds	**5**	4	6
Core Fund(s)	2	1	2
Non-Core Fund(s)	3	2	4
Commitment per Non-Core Fund	**$50 MM**	$45 MM	$60 MM
Commitment per Core Fund	**$75 MM**	$65 MM	$80 MM

- Recommend a $300 million commitment budget for 2026, with a range of $155 million to $400 million
  - Target 2 core fund commitments averaging $75 million each, with a range of $65-$80 million per fund
    - Expect to redeem from an existing core manager in 2026, which investments from the 2026 core budget would replace
  - Target 3 non-core fund commitments averaging $50 million each, with a range of $45-$60 million
  - The total commitment budget for 2026 is larger than the budget from the prior year, due to total fund growth and SCERS coming in under the 2025 Real Estate budget
  - The 2026 budget does not include any funds in which a commitment was made in 2025 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
- 2026 investment strategies and global themes include:
  - Specialty or niche property types
  - Focus on value-add strategies within the Non-Core segment
- Oversee, monitor, and assess the existing manager lineup

Liquid Real Return

Liquid Real Return Portfolio

SCERS' Liquid Real Return 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, 2025, the actual Liquid Real Return allocation stood at 1.9%, 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.

2025 Activity

- 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

2026 Annual Plan

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

SECTION FOUR

Other Investment Activities

2025 Activities

Other projects, activities, and enhancements within the investment program in 2025 included:

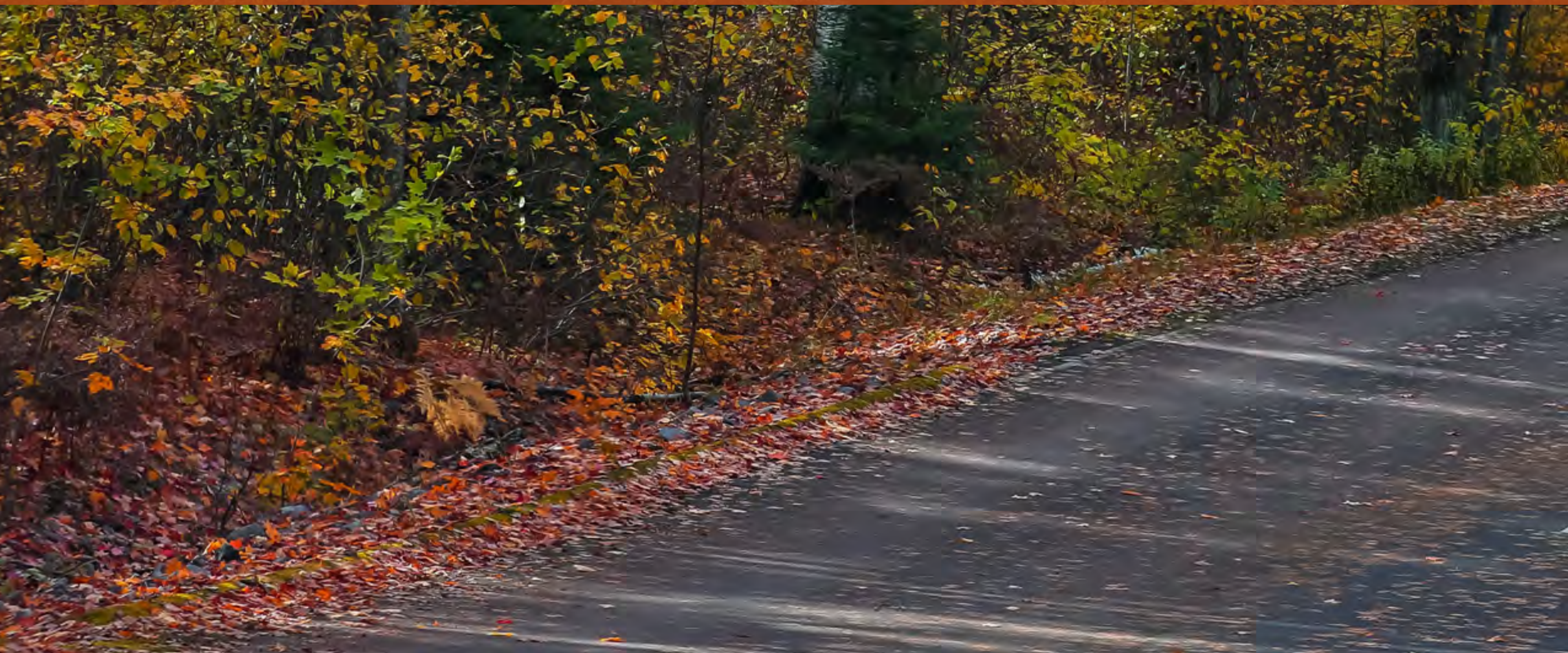
- Completed the asset liability modeling study in early 2025, and the Board approved a revised strategic asset allocation
- Made structural modifications to asset classes, including policy benchmark revisions
- Updated Master investment policy statement (IPS) and asset category IPSs to reflect the changes to the strategic asset allocation and underlying asset class structural revisions
- Transitioned the Overlay Program to the revised strategic asset allocation
- Approved the hiring of Northern Trust as SCERS' custodian
- Renewed the contracts of general investment consultant Verus, and real estate consultant The Townsend Group
- Added an AI tool that can transcribe and summarize meetings and documentation from investment managers
- Presented the annual Investment Operations Report
- Conducted an annual liquidity analysis as called for in SCERS' Cash Management Policy
- Provided public disclosure regarding fees, expenses, and returns for alternative investment funds in which SCERS invests
- Filled the Investment Officer position that the Board approved adding to the investment staff structure
- Attended and participated as speakers/panelists at several industry conferences

2026 Initiatives

- Evaluate potential strategic asset allocation modeling adjustments utilizing updated capital market assumptions
- Evaluate the Overlay Program and the underlying overlay proxies
- Evaluate the contract of alternative assets investment consultant Cliffwater, which expires on June 30, 2026
- Issue an RFP to evaluate the current landscape for general consulting services
- Evaluate workflow process management and contact relationship management (CRM) software
- Evaluate institutional approaches to cash management as it relates to SCERS' dedicated cash allocation and liquidity needs

SECTION FIVE

Board Education



2025 Board Education

- Education on the market outlook and multiple SCERS asset class strategies during the SCERS Investment Forum
- Education on private credit investing – Ares Management
- Education on governance implementation protocols
- Education on exit considerations for later-life private equity funds
- Update and education on SCERS' private equity co-investment program

Anticipated 2026 Board Education

- Education on real estate affordable housing
- Education on performance attribution and analytics
- Education on approaches to managing currency exposure
- Strategy update presentations by SCERS' investment managers
- 2026 Investment Forum

SECTION SIX

Appendix

Memorandum

To: Sacramento County Employees' Retirement System (SCERS) Board

From: John Nicolini; Verus
Brian Kwan; Verus
Trevor Parmelee, Verus

Date: November 19th, 2025

RE: 2025 Investment Year in Review

Executive Summary

Much of 2025 was focused on finalizing the new asset allocation from the ALM study and beginning the implementation of those changes. Additionally, we reviewed plan liquidity, conducted manager searches, and concluded a custodian search that resulted in the Board approving transitioning from State Street to Northern Trust. Detailed below are the portfolio initiatives completed in 2025 and planned projects for 2026.

Portfolio Initiatives in 2025

Finalize ALM Study
In March, SCERS adopted a new asset allocation which modestly changed the existing allocation by increasing the growth portfolio by 1% and decreased the real return portfolio by 1%. The diversifying portfolio was left unchanged. Within the growth portfolio, the asset allocation consolidated public and private credit into a single credit portfolio and decreased global equity by 1%. The real estate portfolio decreased by 1% in real return.

Implement New Asset Allocation
Following the approval of a new asset allocation, Staff and Consultants began implementing the new allocation.

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 liquidity model now projects 10 years' worth of cash flows and portfolio return assumptions, which is an improvement over the previous 5-year projections. The model shows that SCERS has sufficient liquidity to meet cash flow needs based on those assumptions.

Manager Searches
Staff and Verus conducted multiple manager searches in 2025, including an international small cap replacement, a new global equity manager, and a new liquid credit manager search.

Custodian Search
Staff and Verus conducted a custodian search due to the contract expiration of incumbent State Street. Following an RFP and lengthy search process, SCERS elected to hire Northern Trust as their new custodian. Implementation of the new custodian will take place through 2026.

PROJECTS FOR 2026

Custodian Onboarding
Staff will continue working on transitioning custodial services from State Street to Northern Trust, with support from Verus as needed. The transition is estimated to be completed by mid-year.

Evaluate Overlay Providers
Staff and Verus will begin the process of evaluating overlay providers. SCERS currently uses State Street Investment Management for overlay services, which is a company under State Street Corporation but separate from the organization that provides custodial services.

Implement Credit Portfolio
Staff and Verus will continue the process of implementing the single credit portfolio and initiating searches as necessary to achieve the objective of the new asset class.

Board Education on Cash Flow Matching
Staff and Verus will present an education piece to the Board on the tradeoffs of cash flow matching, and whether a cash flow matching program is appropriate for SCERS.

Other Board Education
Staff and Verus present education pieces on other topics as necessary.

CLIFFWATER

To: Sacramento County Employees' Retirement System
From: Cliffwater LLC
Date: November 19, 2025
Regarding: **Alternative Assets 2026 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 less liquid asset classes that include private equity, 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.

SCERS uses long-term commitment pacing forecasts for each private portfolio to set a target annual commitment pace as part of the annual investment planning process. 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. Cliffwater develops the multi-year commitment pacing forecasts for each private portfolio, covering private equity, 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 coming 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 2026 investment plan for private equity includes a commitment target of $300 million for 2026 vintage year private equity funds, with an expected commitment range of $250 million to $350 million. The plan is to target seven 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 $55 million. The lower end of the sizing range should primarily be for 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 11.9% at the end of the 2025 fiscal year, after reflecting recently approved changes to SCERS' investment policy statements. The 11.9% allocation represents a slight overallocation as compared to the SCERS target allocation of 11%. The SCERS Investment Staff and Cliffwater are forecasting the SCERS private equity percentage allocation will increase slightly over the

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next two years, as distribution activity has slowed, before trending closer to its targeted allocation in 2028 and beyond. The private equity portfolio is projected to remain cash-flow positive, with distributions expected to exceed contributions.

The 2026 investment plan for private equity is similar to the 2025 private equity investment plan. The recommended commitment target and expected commitment range are modestly higher than the pacing recommended in the 2025 annual investment plan. SCERS expects to commit to a slightly larger number of private equity funds in 2026, while maintaining or modestly increasing the expected sizing of individual commitments, as it remains mindful of its total number of private equity general partner relationships.

Credit

The recommended 2026 investment plan for credit includes a commitment target of $300 million for 2026 vintage year credit funds. The expected range for new commitment activity is $250 million to $350 million. The plan is to target five new partnership commitments, likely averaging $60 million per individual commitment. While $60 million represents the average expected commitment size, individual commitment amounts could range from $40 million to $100 million, depending on a number of fund-specific factors and portfolio construction considerations. SCERS expects to include Direct Lending and Opportunistic Lending funds within its new commitment activity in 2026. Funds categorized as Special Situations will also be considered, though will likely represent a small minority of potential new credit commitment activity. Liquid Credit sub-strategy investments will be considered as well and would draw from the $300 million 2026 budget.

Credit, unlike private equity, did see meaningful changes from its 2025 investment plan to its 2026 investment plan. The primary reason for the changes in credit follow SCERS' decision to adjust the composition of its credit portfolio and increase the target allocation for credit during its most recently completed asset liability modeling study. As a result, the recommended commitment target and expected commitment range both increased meaningfully from the 2025 pacing recommendations. The expected number of new credit funds and sizing of individual commitments also increased accordingly.

The SCERS Investment Staff and Cliffwater are forecasting the SCERS credit allocation will reach its new 9% targeted allocation within approximately five years. The SCERS credit portfolio is also projected to become cash-flow positive within a similar timeframe. While SCERS is taking a multi-year approach to prudently reaching its new target allocation, the credit allocation is expected to be within its new policy range by 2026.

Real Assets

The recommended 2026 investment plan for real assets includes a commitment target of $220 million for 2026 vintage year real asset funds, with an expected commitment range of $190 million to $250 million. The 2026 commitment target and range are identical to the recommended pacing for 2025. The plan targets four new real asset partnership commitments in 2026. The expected average size of individual commitments remains at $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. New commitments in 2026 should once again favor Infrastructure investments. SCERS will also continue to evaluate Energy and Power partnerships for new commitments in 2026.

The SCERS portfolio allocation to real assets was 8.4% at the end of the 2025 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 commitment pacing that is reflected in the 2026 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 2026 and beyond.

Absolute Return Portfolio

The recommended 2026 investment plan for absolute return strategies includes an expectation for one new fund investment to be made in 2026, 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 2026, 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.

Reviewing 2025

SCERS continued to adjust and refine its alternative assets portfolios through their ongoing implementation in 2025. In certain cases, like credit, SCERS made additional strategic and policy changes which more meaningfully impacted allocations and asset class composition. Other alternative assets portfolios saw fewer strategic changes. In all cases, however, the alternative assets implementation focus for SCERS remained 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. SCERS continues to be thoughtful in its approach to managing the portfolio, diligent in its implementation, and dedicated to maintaining investment discipline and following a well-defined, rigorous process.

TOWNSEND® GROUP

MEMORANDUM

TO:	**Sacramento County Employees' Retirement System**
DATE:	November 19, 2025
SUBJECT:	Real Estate Investment Year in Review (Data as of June 30, 2025)
FROM:	**Townsend Group**

SCERS has a target real estate allocation of 8.0%, with an allowable range of 6.0% to 10.0%. As of 2Q2025, real estate represented 6.4% of total plan assets, which is below the target and within the permissible range. However, commitments representing 1.8% of capital remain undrawn as of the second quarter. Many of these unfunded commitments correspond to older legacy funds and will likely never be fully called.

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	**6.5%**	**8.0%**	**9.0%**	**7.0%**	**5.0%**	**5.0%**	**6.3%**	**7.5%**
Standard Deviation	**6.7%**	**9.0%**	**8.6%**	**19.8%**	**4.7%**	**4.0%**	**10.1%**	**7.8%**

SCERS Private Real Estate Forecasts

SCERS resumed capital deployment at the end of 2024, following a period of limited new investment activity. The private real estate portfolio remains slightly overweight to core but has begun rebalancing toward its long-term target strategic allocation. The broader real estate market has also shown signs of recovery with the NFI-ODCE core benchmark generating positive returns over the past four quarters after bottoming out in the second quarter of 2024. In 2025, SCERS reduced its real estate target allocation from 9% to 8%, and the portfolio remains below this revised target. Staff and Townsend have adjusted future allocations accordingly, with the pacing forecast on the following page assuming a $150 million core commitments in 2026 and an average of $150 million in non-core commitments per annum between 2026 and 2029 in order to meet targets to core, non-core, and private real estate (within the total plan) by 2030.

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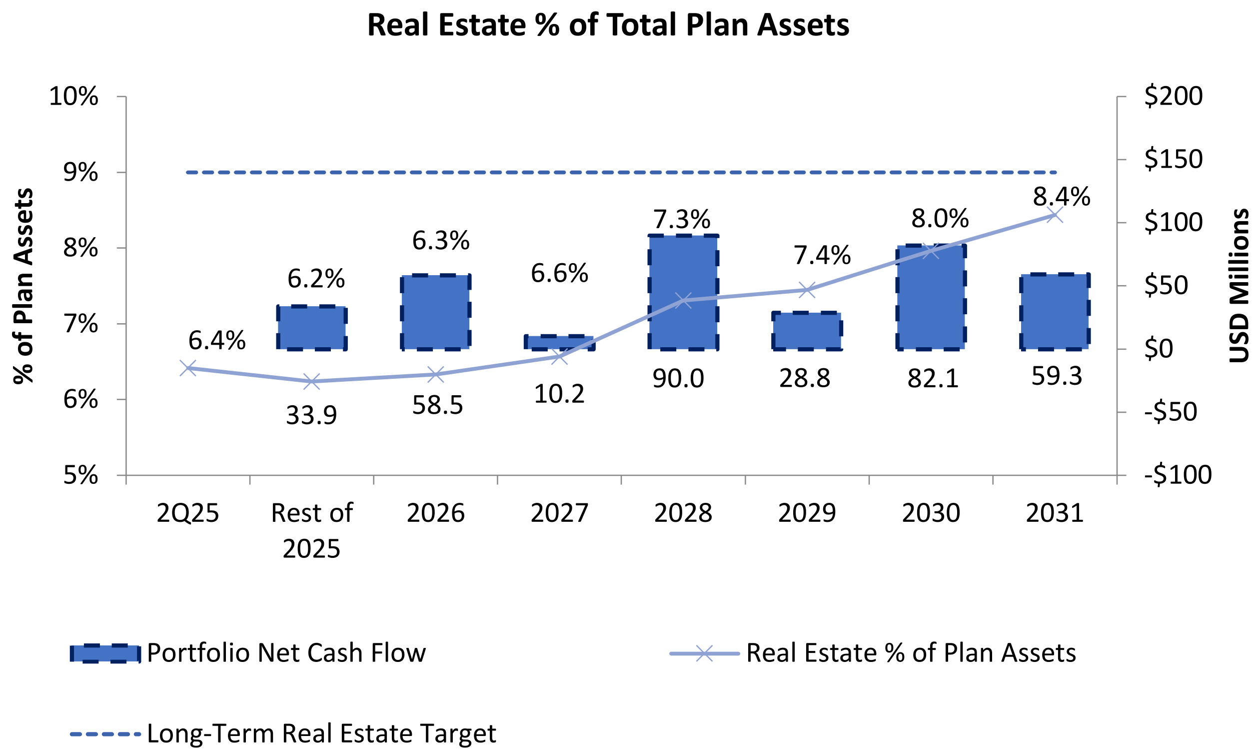

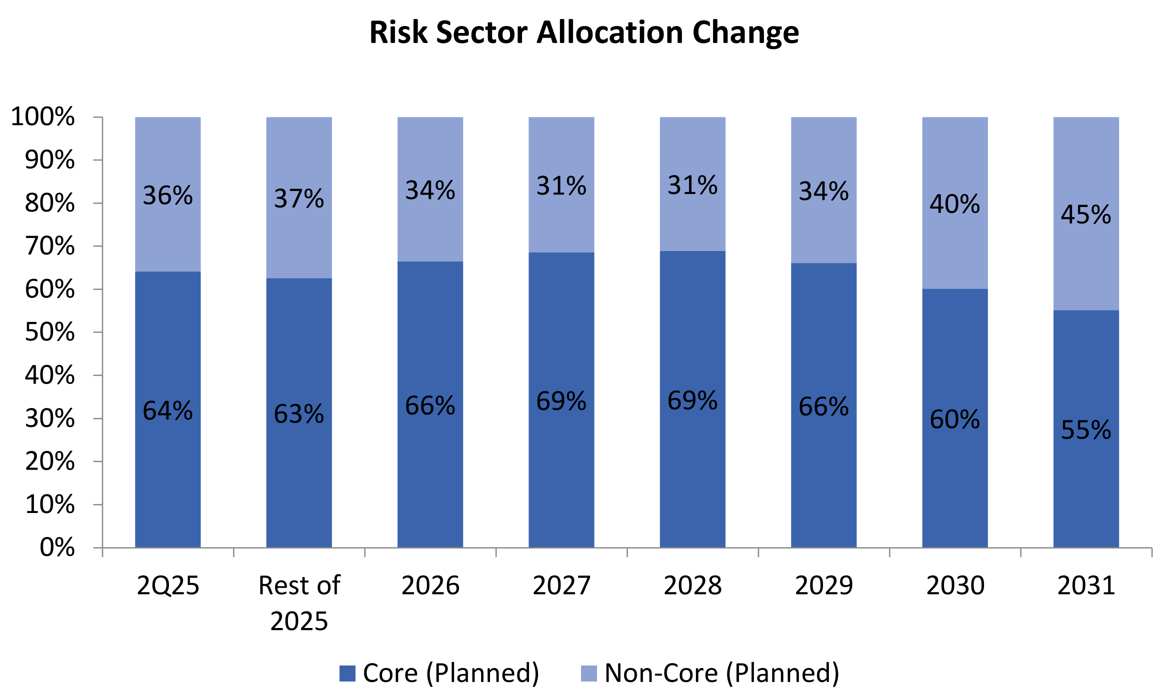

Page 2

Recap of 2025

With market conditions stabilizing and new opportunities emerging, 2025 was defined by SCERS efforts to position its real estate portfolio for sustained growth and improved diversification. During late 2024, SCERS completed one new non-core investment in a global cold storage fund, representing a new manager relationship. In early 2025, SCERS made two additional multifamily commitments – one core plus and one non-core strategy - both with a single new manager relationship and contributing to further diversification across the portfolio. Throughout 2025, SCERS and Townsend continued to evaluate additional opportunities to position the portfolio for long-term pacing objectives. Several investments are under review, including a preferred equity vehicle investing in U.S. multifamily development projects, triple-net lease strategies, a specialty fund focusing on medical office, senior housing and student housing and an international non-core opportunity with an existing manager relationship. Some of these may be considered in 2026 due to resource constraints. Within the existing portfolio, a partial redemption from a core diversified fund remained in place for rebalancing purposes and the fund continued to make periodic payments throughout the year and more than half of the requested amount was received.

Recap and Vision for 2026

Real estate performance showed continued signs of recovery in 2025, with market fundamentals stabilizing and values improving. The NFI-ODCE benchmark generated positive returns for four consecutive quarters and SCERS's portfolio recovered accordingly, performing well relative to its benchmark. While the portfolio remains slightly overweight to core, new commitments and rebalancing activity are expected to gradually align exposures with long-term strategic targets. Investment activity will need to increase measurably relative to previous for the portfolio to meet SCERS' allocation targets.

Looking ahead, SCERS and Townsend anticipate multiple compelling opportunities in 2026, particularly within the triple-net lease, data center sectors, and single-family residential, as well as tactical strategies such as secondaries. These areas continue to demonstrate strong underlying demand and attractive entry points relative to other sectors. Townsend intends to focus on offerings with attractive risk/return profiles that also enhance SCERS' private real estate portfolio. Additionally, we will review selective existing core fund rebalancing options with staff. Townsend will continue to identify select non-core opportunities accretive to SCERS' real estate 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 $75-150 million each and 3-4 new non-core commitments at $50-60 million per fund.

2025–2026

980 9th Street, Suite 1900
Sacramento, CA 95814
SCERS.gov