SCERS
SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 13

MEETING DATE: **September 16, 2026**

SUBJECT: **Education: Portable Alpha**

SUBMITTED FOR: **____ Action** **__X__ Information**

RECOMMENDATION

Receive and file educational presentation on Global Equity investment strategy designed to enhance returns while managing overall market risk.

PURPOSE/STRATEGIC PRIORITY

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

DISCUSSION

Portable Alpha is an investment strategy that combines passive market exposure (beta) with an uncorrelated Alpha source. Implemented within the Global Public Equity asset class, the goal is to efficiently generate excess returns above a public equity benchmark. Portable Alpha is implemented by utilizing derivatives to gain market exposure (beta), which require minimal initial cash investment, and then deploying excess cash to an Alpha strategy that delivers positive absolute returns in excess of financing costs.

Staff and Cerity will provide education on all aspects of Portable Alpha including key definitions, key components, return expectations, implementation considerations, and risk factors. Potential next steps following the education presentation include a manager search and potential Investment Policy Statement adjustments, as necessary.

ATTACHMENTS

- Board Order
- Portable Alpha Education Presentation

Prepared by:

/S/

Brian Miller
Senior Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

/S/

Steve Davis
Chief Investment Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
September 16, 2026

AGENDA ITEM:

Education: Portable Alpha

THE BOARD OF RETIREMENT hereby approves the Staff recommendation to receive and file educational presentation on Global Equity investment strategy designed to enhance returns while managing overall market risk.

I HEREBY CERTIFY that the above order was passed and adopted on September 16, 2026 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

Education – Portable Alpha

September 2026

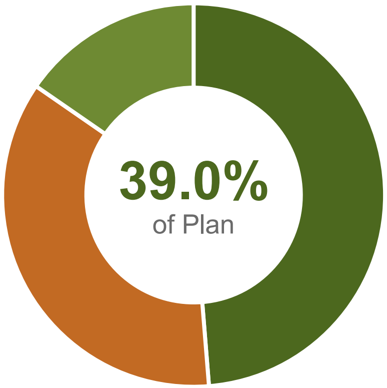
Introduction

- SCERS Global Equity Portfolio
- Defining Portable Alpha and Mechanics
- Defining Portable Alpha
- Structural Considerations
- Return Expectations
- Risk Considerations
- Differentiating Factors
- Management Fees and Liquidity
- Key Takeaways and Next Steps

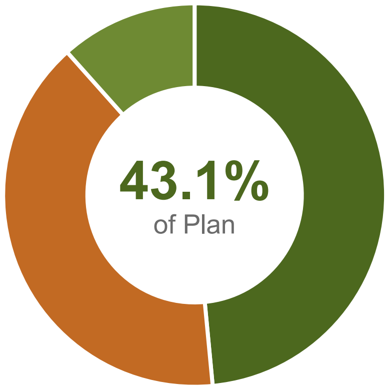
SCERS Global Equity Portfolio

Global equity allocation — target versus current weight, as of June 30, 2026.

Target



Current*



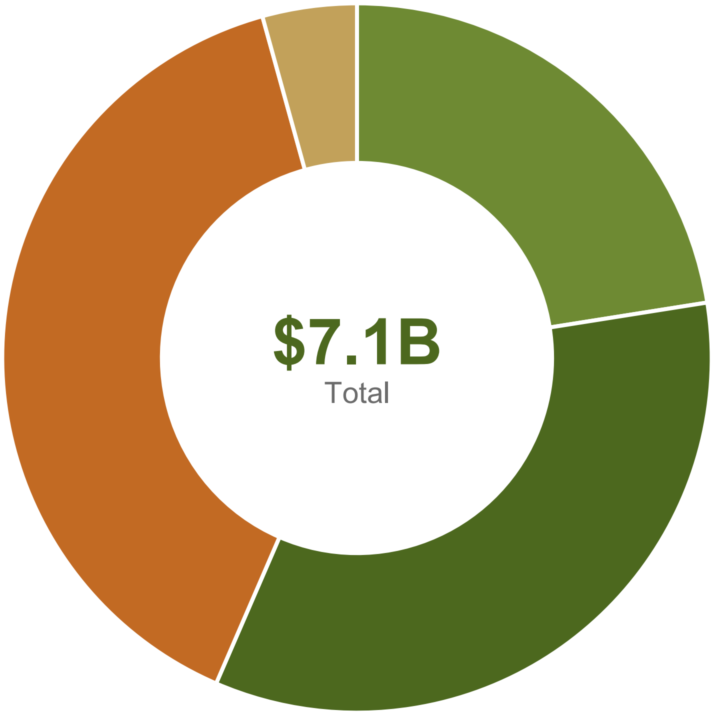
Domestic Equity | International Equity | Global / Unconstrained

Sub-Asset Class	Target	Current*	Change
● **Domestic Equity**	19.0%	20.9%	+1.9%
● **International Equity**	14.0%	17.2%	+3.2%
● **Global / Unconstrained**	6.0%	5.0%	–1.0%
Total Global Equity	**39.0%**	**43.1%**	**+4.1%**

** Current as of June 30, 2026. Overweight to Domestic and International Equity is partially offset by a Global / Unconstrained underweight.*

SCERS Global Equity Allocations

Global equity by management style — current as of June 30, 2026.



Totals may not sum due to rounding.

Management Style	Allocation	Market Value
● **Passive**	22.5%	$1.60B
● **Quant-Systematic**	34.0%	$2.42B
● **Fundamental**	39.2%	$2.78B
● **Other**	4.3%	$0.30B
Total Global Equity	**100%**	**$7.10B**

Active strategies (Quant-Systematic, Fundamental, Other) make up ~77% of the book; passive ~23% provides low-cost beta.

Definitions

- Beta – Market or benchmark exposure. Beta is cheap!
- Alpha – Excess return over the benchmark. Also referred to as active return, the potential reward for being different than the benchmark.
- Portability – Alpha from one source can be “ported” to another.
- Overlay – A process of layering, or adding one source of return to another, typically using derivative instruments (futures or swaps).

Defining Portable Alpha

Portable Alpha is a portfolio construct that combines passive market exposure (***beta***) to an index with a separate, uncorrelated ***Alpha*** source — with the goal of efficiently generating returns in excess of the benchmark.

The core idea — "divorcing Alpha from Beta": the Alpha is generated by one strategy (often a lower-volatility or market-neutral hedge fund) and "ported" on top of a passive benchmark, so the two return drivers are sourced independently.

Market Beta

Index exposure obtained synthetically via futures / swaps

+

Uncorrelated Alpha

A separate, low-correlation alpha source (e.g., hedge fund)

=

Portable Alpha

Full benchmark exposure plus the potential for excess return

How It Works – The Mechanics

Portable Alpha portfolios are built with derivatives-based leverage, freeing up cash to invest in an alpha source while retaining full market exposure.

1 **Choose the beta / benchmark**

Select a target index for market exposure (e.g., S&P 500 or MSCI ACWI).

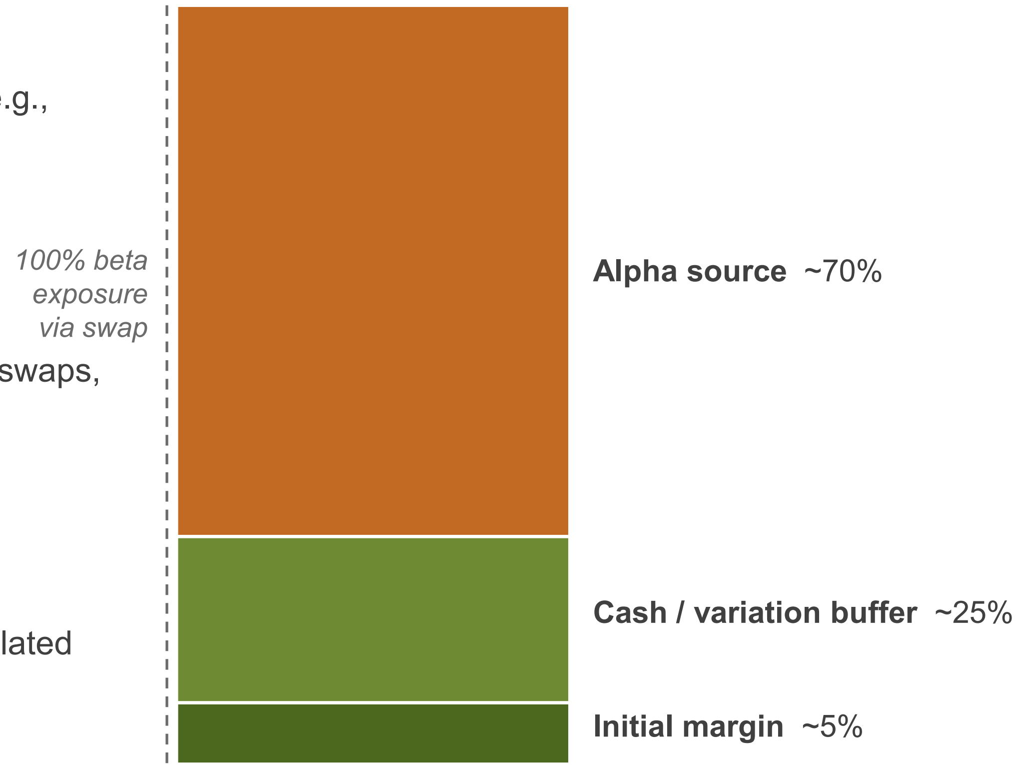
2 **Replicate it synthetically**

Gain the index exposure through futures or swaps, posting margin and holding a cash buffer.

3 **Deploy the freed-up cash**

Invest the remaining capital into the uncorrelated alpha source to seek excess return.

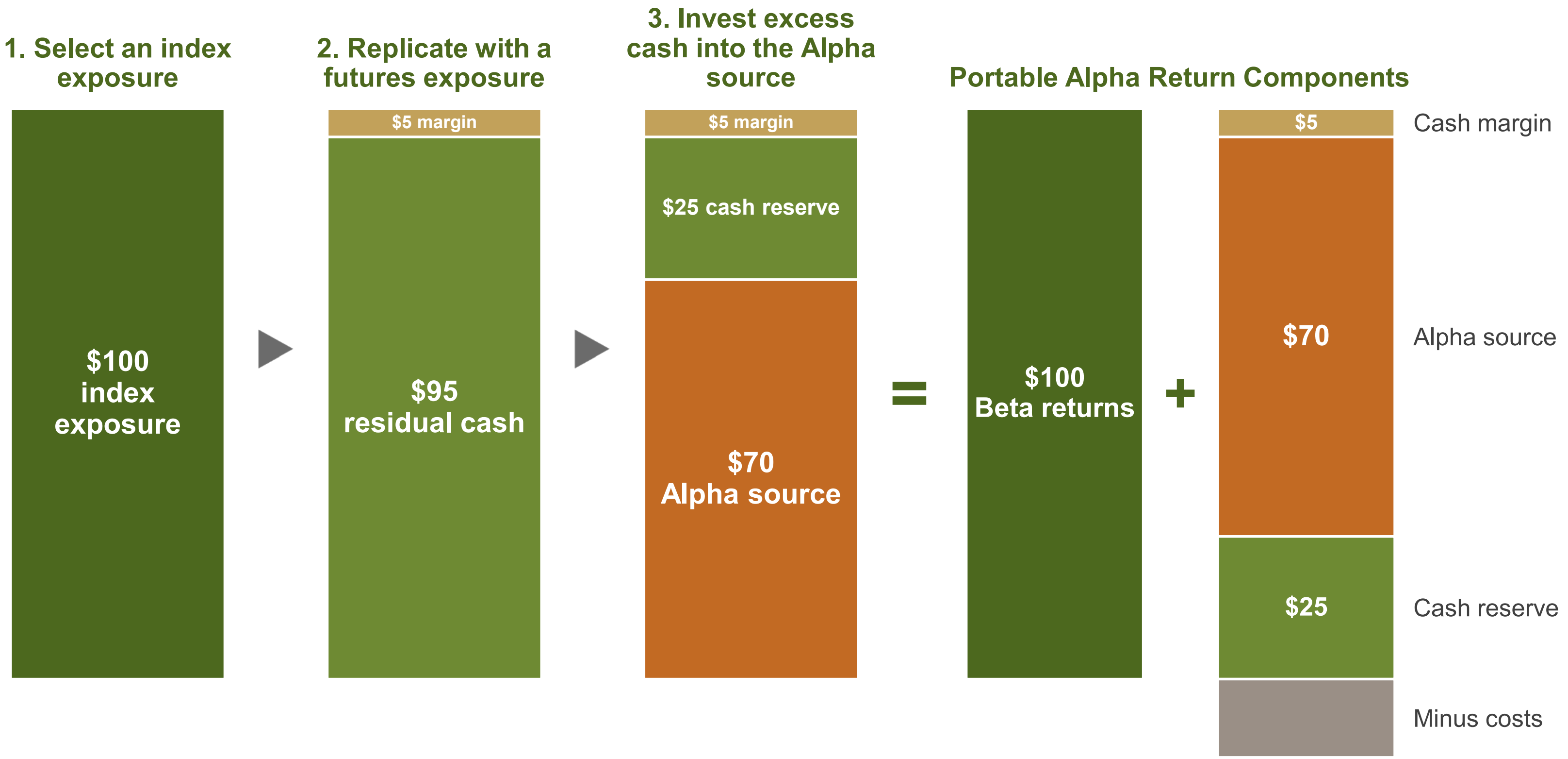
Illustrative capital structure ($100)



+ commitment facility available as a liquidity backstop

Portable Alpha – Return Components

Following an illustrative $100 through each step — from index selection to the final return components.



Total Return = Beta + Alpha – Management Fees and Financing Costs

Adapted from Cerity Partners, Portable Alpha Primer (illustrative).

Is this leverage?

- If SCERS were to buy S&P Futures and kept all residual cash in cash equivalents, it would **NOT** be leverage
  - There would be a 1-to-1 relationship between the futures exposure and the cash being held as collateral

- If SCERS were to invest half of the cash in risk assets (i.e. alpha source funds), it **would** be considered economic leverage as the risk assets will perform differently from cash

- SCERS would underperform versus the pure index if alpha source portfolio underperforms cash + fees & expenses

Objectives of Portable Alpha in a Portfolio

Return enhancement

Layers an uncorrelated excess-return stream on top of benchmark beta, seeking to outperform a passive or long-only allocation.

Efficiency

Captures hedge-fund alpha while keeping full market exposure — obtaining desired beta and alpha from the same capital.

Alpha independent of allocation

Lets alpha decisions be made separately from strategic and tactical asset allocation, concentrating in highest-conviction sources.

Flexible portfolio fit

Can sit in the return-seeking equity sleeve or the absolute-return / diversifier sleeve — useful for adding hedge-fund exposure at target.

Portable Alpha – Why Now

Portable Alpha is not new — it was pioneered in the mid-1980s and its popularity has ebbed and flowed over ~40 years. Interest has resurged as hedge funds have generated more alpha than long-only equity, and as investors seek differentiated, capital-efficient return streams.

68%

of investors surveyed express interest in portable alpha

48%

of those interested are already invested

72%

of current users plan to increase allocations within 12 months

Why now?

- Higher rates lift the return on the cash that backs the Beta overlay
- Greater market dispersion and volatility creates a richer Alpha opportunity set
- Ability to generate Alpha in a capital efficient format without giving up Beta

Survey data: UBS Investor Survey (illustrative of broad institutional interest).

Structural Considerations

Three common ways to access a portable alpha program:

One-stop shop
The manager packages both the Beta and Alpha legs in a single share class, fund, or separate account.

Outsourced provider
A prime broker, trading desk, or solutions specialist implements the Beta overlay alongside the Alpha.

Self-directed
The allocator invests in the Alpha source and trades futures / derivatives directly to obtain the Beta.

Key build considerations

Beta implementation
Customizable to any liquid benchmark across equities, fixed income, FX, and commodities.

Collateral & financing
Margin management, a cash buffer, and a commitment facility to back the overlay.

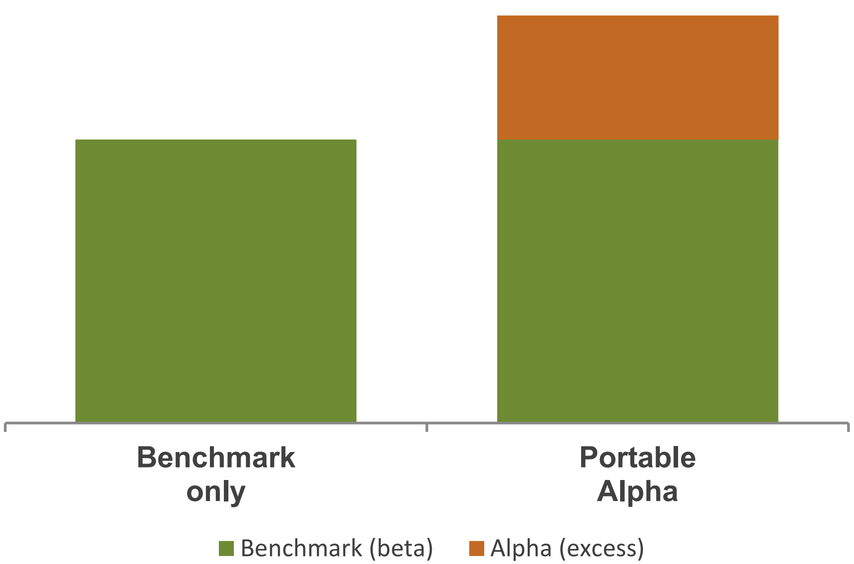
Rebalancing
Ongoing rebalancing between the Alpha and Beta legs to maintain target exposure.

Governance
Board / committee comfort with leverage and shorting; oversight of the Alpha managers.

Return Expectations

Total return is built from layers: the benchmark index return (less financing cost) plus the return on cash / margin, plus the contribution from the uncorrelated alpha source.

Illustrative annualized return



Illustrative only — not a forecast or target of any specific fund.

~ +350 bps

Typical net return target in excess of the benchmark, per annum

~ 7–8% p.a.

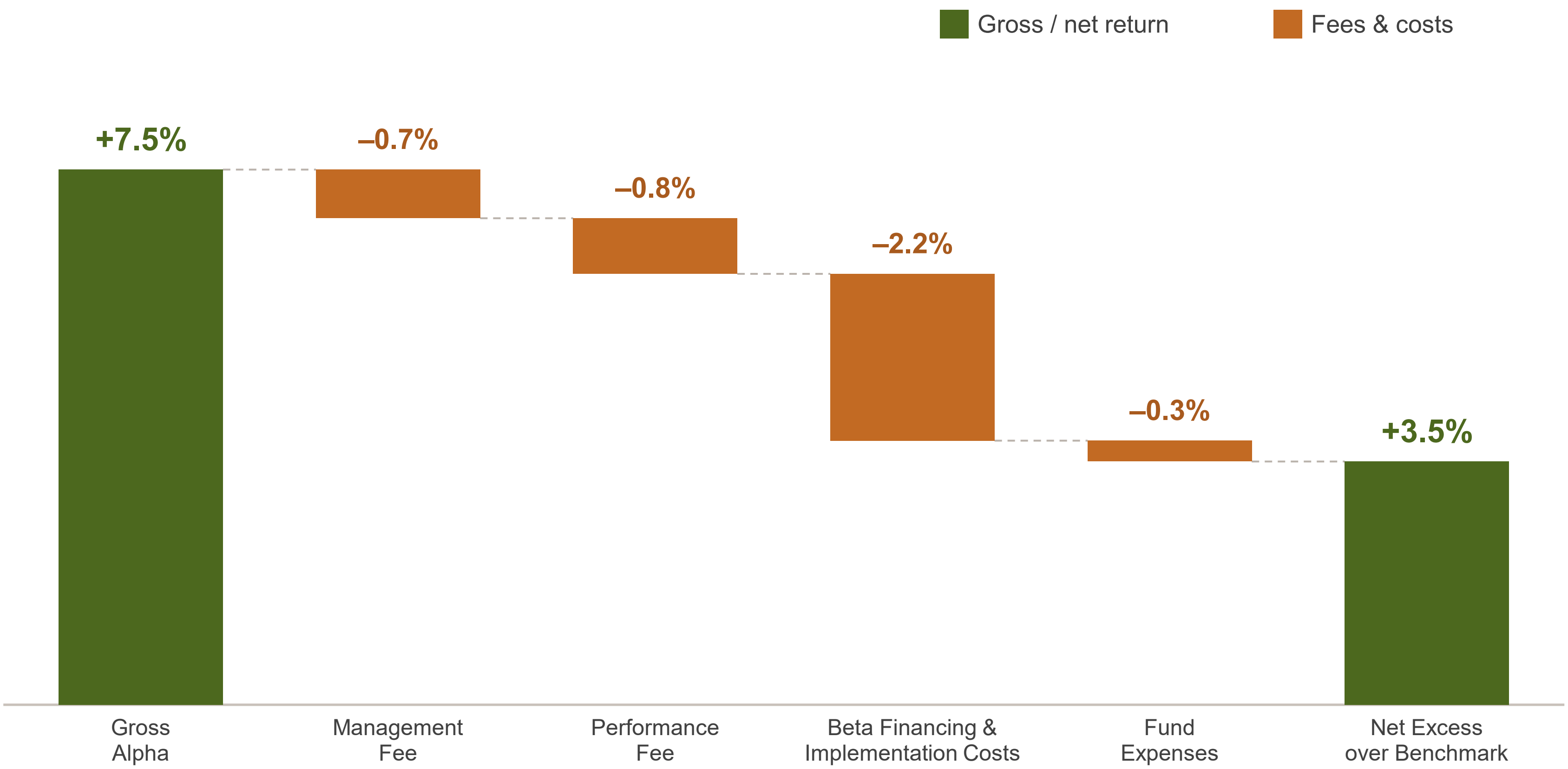
Historical return range of the uncorrelated alpha sources used

~ 1.2–1.4

Approximate Sharpe ratio of those alpha sources over long horizons

Gross-to-Net Performance Bridge

How a ~7–8% gross Alpha source translates into the targeted ~+350 bps net excess return over the benchmark, after manager fees and implementation costs. ***Illustrative.***



Illustrative bridge. *Endpoints anchored to disclosed figures: the alpha source targets cash + 5–7% gross and the uncorrelated composite returned ~7.6–8.1% p.a.; an assumed 65 bps management fee and 10% performance fee over cash; and a net target of benchmark + ~350 bps (net of all fees). Beta financing & implementation costs (index swap, financing / commitment facility, margin and cash drag) and fund expenses are illustrative estimates that reconcile the gross and net endpoints, not disclosed line items. Sources: J.P. Morgan, GCM Grosvenor, PIMCO.*

Alpha Component – Manager Comparison

Five low-correlation hedge-fund strategies that could populate the alpha sleeve. Combining uncorrelated managers lifts the blended Sharpe and shrinks drawdowns.

Performance & risk statistics (Jul 2014 – Apr 2026 · 142 months)

FULL HISTORY

	Manager Strategy	Annualized Return	Volatility	Sharpe Ratio	% Months Positive	Maximum Drawdown
Manager 1	Discretionary Multi-Strat	10.2%	4.1%	1.99	80%	–2.4%
Manager 2	Diversified Event Driven	7.7%	3.0%	1.87	77%	–2.3%
Manager 3	Fixed Income Relative Value	6.8%	1.6%	2.97	89%	–1.0%
Manager 4	Equity Long / Short	8.0%	3.4%	1.74	78%	–2.9%
Manager 5	Systematic Multi-Strat	10.1%	7.8%	1.02	67%	–9.8%
Equal-Weight Blend	**Diversified alpha composite**	**8.6%**	**2.4%**	**2.75**	**89%**	**–2.3%**

Pairwise return correlation

	Mgr 1	Mgr 2	Mgr 3	Mgr 4	Mgr 5
Mgr 1	**1.00**	0.16	–0.09	0.36	0.19
Mgr 2	0.16	**1.00**	0.07	–0.07	0.08
Mgr 3	–0.09	0.07	**1.00**	–0.24	0.10
Mgr 4	0.36	–0.07	–0.24	**1.00**	0.25
Mgr 5	0.19	0.08	0.10	0.25	**1.00**

Correlation: ≤ 0.12 | 0.12–0.25 | > 0.25

Diversification at work

- Pairwise correlations are low — averaging ~0.08, with nearly all below 0.25
- Diversification cuts blended volatility to ~2.4%, well below the ~4.0% average of the managers
- The blend delivers a ~2.8 Sharpe with just a –2.3% maximum drawdown

Computed from the provided sample monthly return series. *Statistics use the common period Jul 2014 – Apr 2026 (142 months) where all five managers have history. Returns and volatility are annualized from monthly data; Sharpe uses the realized 3-month U.S. T-Bill rate (FRED series TB3MS, ~1.95% average over the period) applied month-by-month; Maximum drawdown is the worst peak-to-trough of compounded returns; correlations are pairwise Pearson. The equal-weight blend is rebalanced monthly. Manager names and returns are illustrative sample data for board education.*

Risk – Key Risks and Mitigants

Risk	Why it matters	How it is managed
Leverage	Utilization of leverage can amplify losses	Margin stress-testing, commitment-facility backstop, and monitoring of each manager's leverage Diversify Alpha sources and minimize manager risk
Funding & liquidity	Liquid assets are needed to meet variation-margin calls	Tiered liquidity, a cash buffer, and a dedicated collateral-management process
Counterparty	Exposure to swap / derivative counterparties on the beta leg	Diversify and actively monitor counterparties; review managers' financing arrangements
Implementation / tracking	The synthetic beta may not perfectly track the index	Experienced trading desk, efficient beta options, and periodic rebalancing between the Alpha and Beta legs
Correlation	Alpha and Beta can draw down together in stress	Use genuinely uncorrelated Alpha; manage correlation assumptions in construction

Properly applied to true diversifiers, leverage does not necessarily increase total portfolio risk — disciplined implementation is what matters.

Risk – Lessons from History

Pre- and through the GFC

- Some programs caused outsized losses, painful for large pensions
- Leverage profiles and hedge-fund exposures were not fully understood
- Alpha and beta legs drew down simultaneously
- Forced equity margin calls coincided with hedge funds suspending redemptions

Good practice today

- Tiered liquidity sized to withstand multi-sigma drawdowns
- Commitment facilities and cash buffers backing the overlay
- Beta structures engineered to survive 40%+ equity sell-offs
- Lower-volatility, market-neutral alpha that is genuinely uncorrelated

Takeaway: implementation discipline — liquidity, correlation and collateral management — is what separates a robust program from a fragile one.

Management Fees and Liquidity

Management Fees

- Alpha leg priced like a hedge fund: ~1–2% management + ~10–20% incentive
- Incentive charged only on excess returns above the index
- Some use a lower base fee plus a partial expense pass-through
- Beta is relatively inexpensive while higher active management fees paid only on the Alpha components

Liquidity

- Alpha leg: typically monthly–quarterly redemption with 30–90 days' notice
- Lock-ups range from none to multi-year (soft or hard); gates of ~10–25%
- Beta leg is highly liquid (exchange-traded or swap)
- Net liquidity is governed by the least-liquid component and by margin needs

Typical terms observed across portable-alpha offerings

Management fee	Incentive fee	Redemption	Notice period	Gate
~1.0% – 2.0%	~10% – 20% (often over a benchmark)	Monthly – Quarterly	30 – 90 days	~10% – 25%

Ranges are illustrative of current market practice and vary by manager, share class, and benchmark.

Key Takeaways

1. Portable Alpha “ports” an uncorrelated Alpha source onto passive benchmark Beta to seek benchmark-plus returns in a capital-efficient manner.
2. It can enhance return, improve diversification, and alpha drivers can deliver excess returns generally independent from broad market risks.
3. It relies on derivatives-based leverage to obtain market Beta — disciplined collateral, liquidity, and correlation management are essential.
4. Return objectives seek to deliver net excess returns above benchmark (~+350 bps), greater than long-only active management; the Alpha source is the key differentiator.
5. Fees resemble hedge funds (often with a benchmark hurdle), and overall liquidity is set by the alpha component.
6. Using an outsourced provider is the preferred approach for efficient implementation and managing risk.

Next Steps

1. **Formal discussions with potential managers**

2. **Key considerations**
   - Beta exposure (swap vs. futures)
   - Customized SMA vs. commingled fund
   - Potential IPS Adjustments
   - Alpha options
   - Fees & expenses

3. **Future manager recommendation**