Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 6

MEETING DATE: November 18, 2026

SUBJECT: 2026 Year in Review and 2027 Investment Plan

SUBMITTED FOR: _X_ Action ___ Information

RECOMMENDATION

Adopt the 2027 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 2026 and details initiatives for 2027.

ATTACHMENTS

- Board Order
- 2026 Investment Year in Review and 2027 Investment Plan Presentation
- 2026 Investment Year in Review and 2027 Investment Plan Report

Prepared by:

/S/

Steve Davis
Chief Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
November 18, 2026

AGENDA ITEM:

2026 Year in Review and 2027 Investment Plan

THE BOARD OF RETIREMENT hereby approves the Staff recommendation to adopt the 2027 Investment Plan.

I HEREBY CERTIFY that the above order was passed and adopted on November 18, 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

SCERS

2026 Investment Year in Review and 2027 Investment Plan

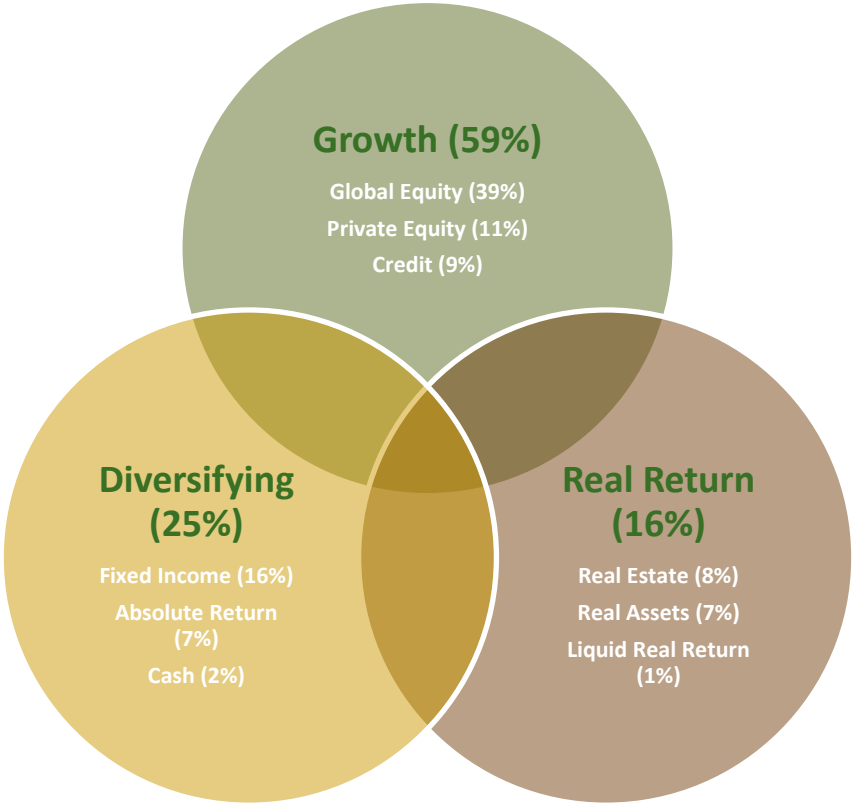
November 18, 2026

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Market Overview

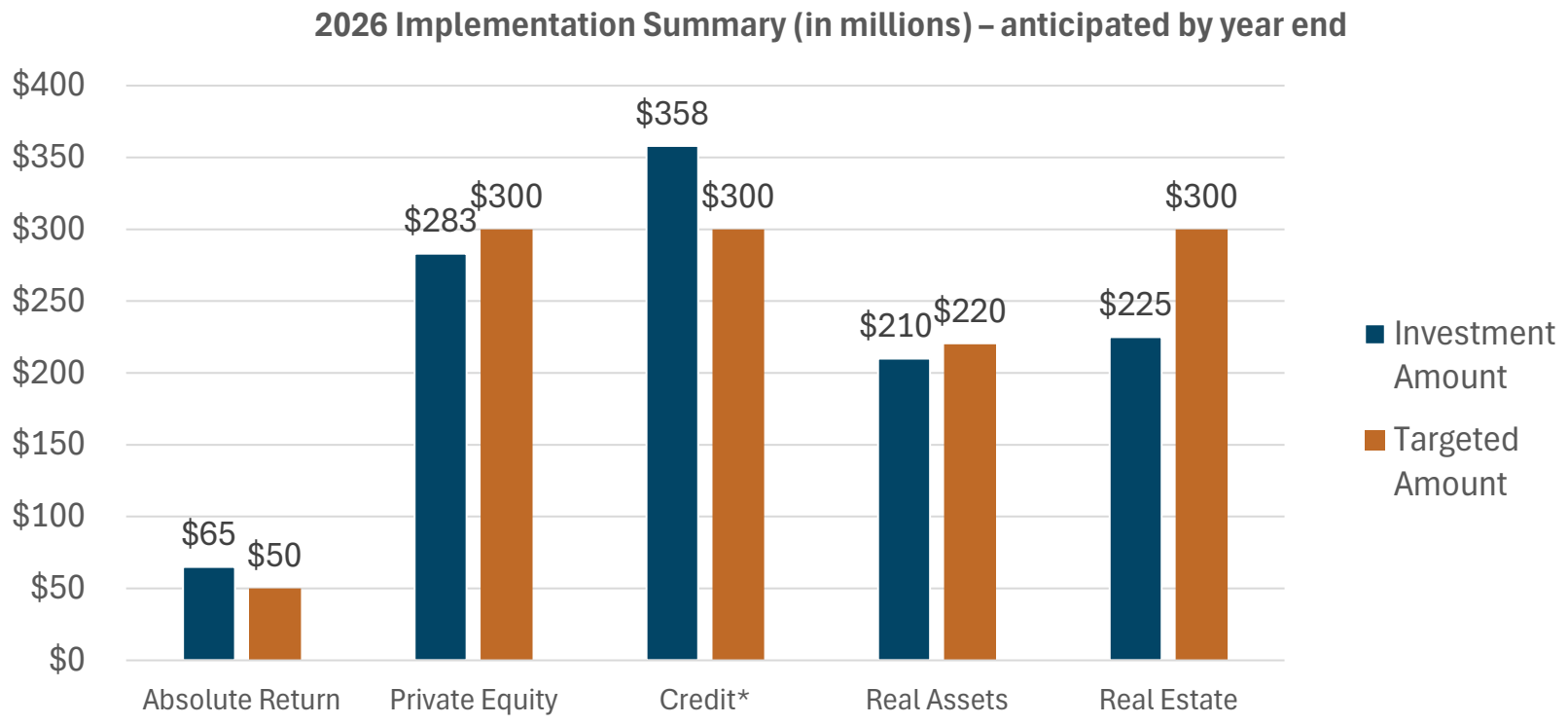
- Conflict-borne energy shocks shake the economy
- Hawkish pivot by central banks to contain growing inflation
  - One interest rate hike in the fall of 2026, possibly another before year-end
- “Low-hire, low-fire” labor market
- Bifurcated economic state – “haves and have-nots”
- Geopolitical risks persist
- Very strong global equity market
- Concerns over AI overspend

Strategic Asset Allocation



- Strategic asset allocation takes a risk balanced approach, with ample return generating assets combined with meaningful diversification to low correlated and cash flowing assets
  - Asset categories supported by underlying asset classes

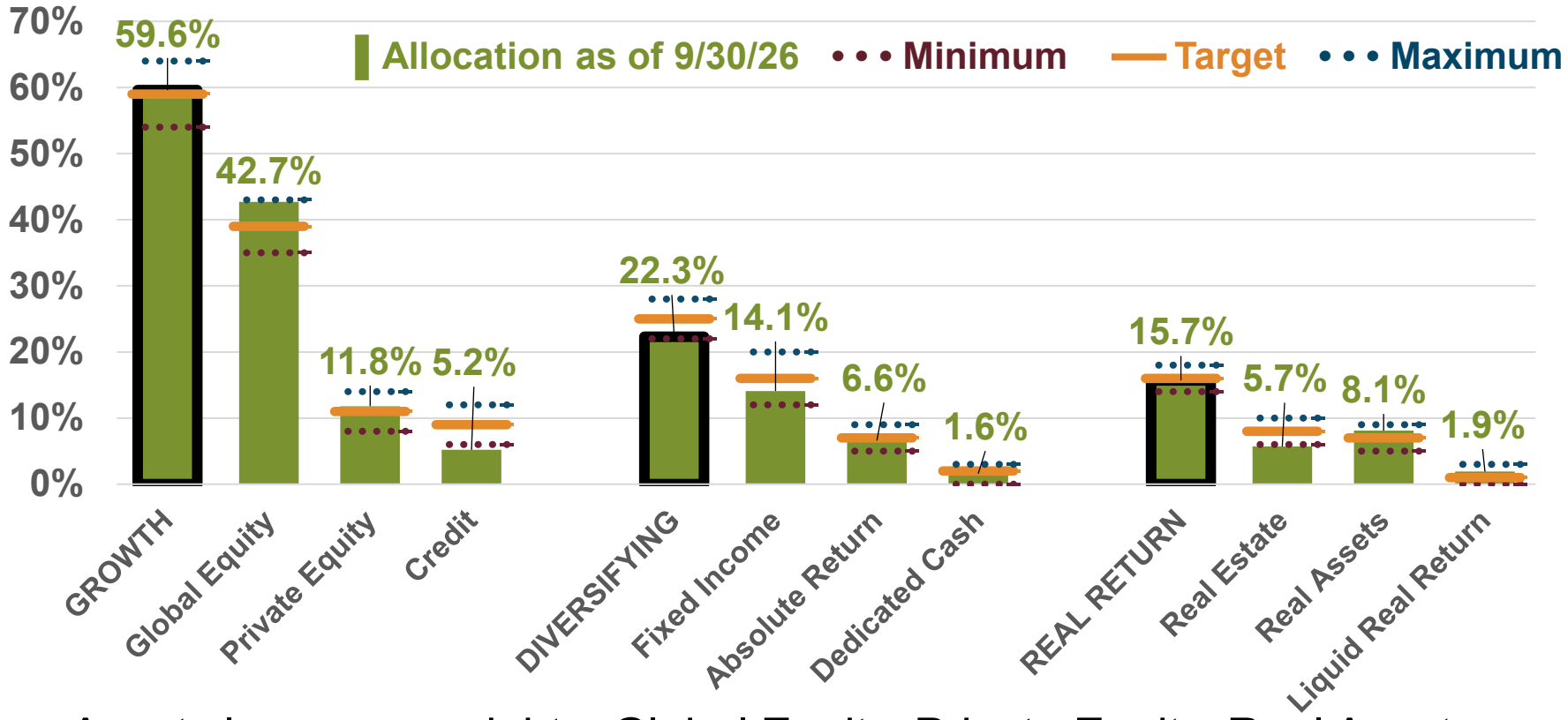
Implementation



*Investment amount is net of a $100 million redemption from a legacy Public Credit mandate

- One international public equity manager search completed, in addition to public equity and fixed income rebalances
- Private market commitments close to targets, except for Real Estate and Credit

Allocations Versus Targets



- Asset class over weights: Global Equity, Private Equity, Real Assets
- Asset class under weights: Credit, Fixed Income, Absolute Return, Real Estate
- Credit and Real Estate out of range

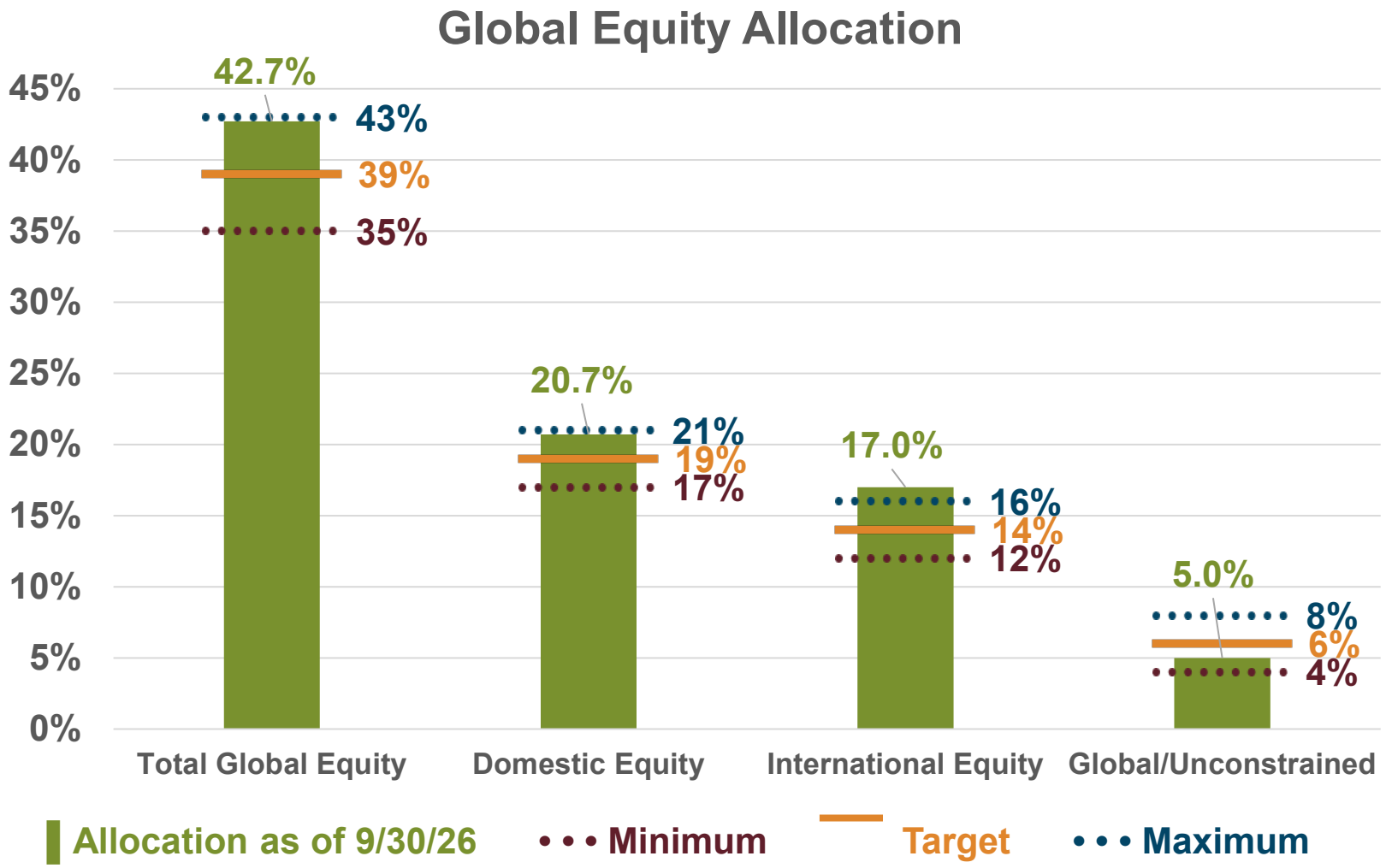
2027 Initiatives and Considerations

- Staff and Cerity expect to perform asset allocation modeling in 2027 to incorporate updated capital market assumptions
- Investment consultants
  - Conclude general consultant RFP in early 2027
  - Townsend contract expires in June 2027 – real estate
- Evaluate Overlay program and underlying overlay proxies
- Evaluate approaches to cash and liquidity management

2027 Initiatives and Considerations

- Continue to focus on measures to ensure sufficient investment portfolio oversight
  - Managing the manager count
  - Board engagement with investment managers
  - Evaluating staff resources and technology
- 2027 Investment Forum

Global Equity



Global Equity

2026 Activity

- Completed international developed large cap manager search within International Equity
  - $450 million with Man Numeric Global Core ex-US strategy
  - Fully funded with rebalancing from existing International Equity mandates
- $140 million termination and redemption from the Alger-Weatherbie Specialized Growth mandate – Domestic Equity Small Cap Growth
  - Initiated manager search for Small Cap Growth manager within Domestic Equity – recommendation to be presented to Board in December 2026
  - Domestic small cap growth exposure maintained through interim ETF, which will be used to fund new active mandate

Global Equity

2026 Activity

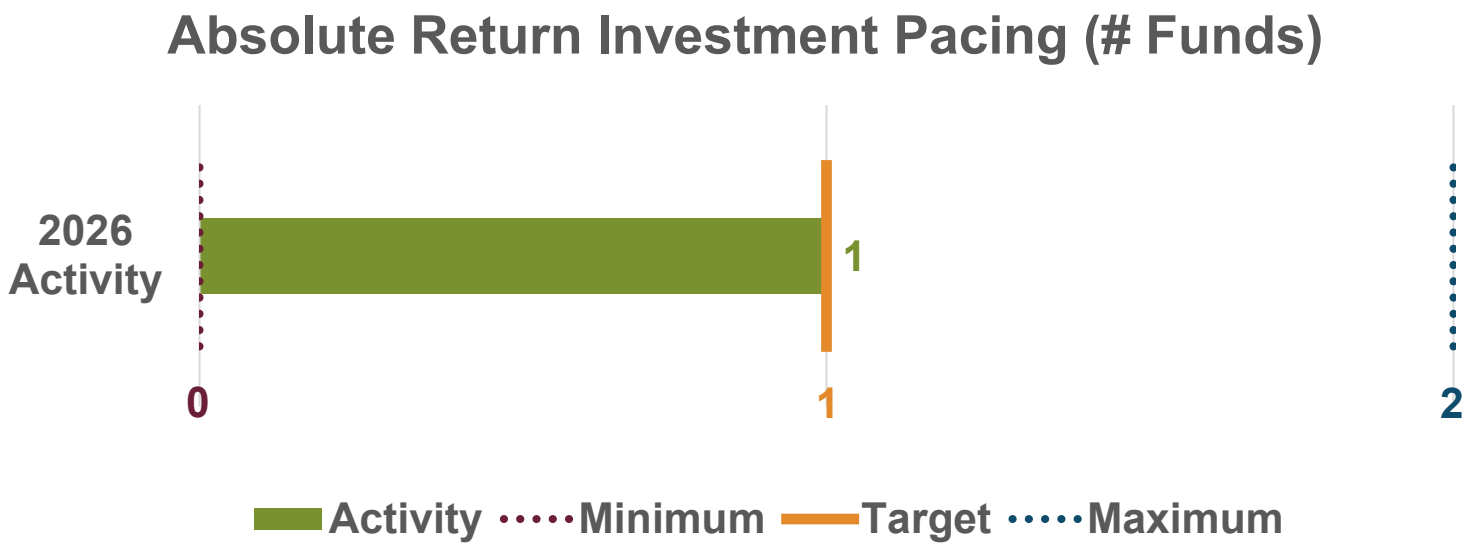
- Rebalanced Domestic Equity
  - $300 million total in partial redemptions
- Rebalancing planned for fourth quarter 2026 for approximately $200 million from Domestic and International Equity mandates
  - Targeted to reduce Global Equity portfolio by approximately 1.1%

Global Equity

2027 Plan

- Implement Domestic Small Cap Growth mandate (pending Board approval)
- Evaluate potential additions to Global/Unconstrained sub-asset class to bring it towards 6% target allocation
  - Continued evaluation of Portable Alpha strategies
- Rebalance Global Equity portfolio as necessary to adjust sub-asset class segments and minimize style or market capitalization tilts

Absolute Return

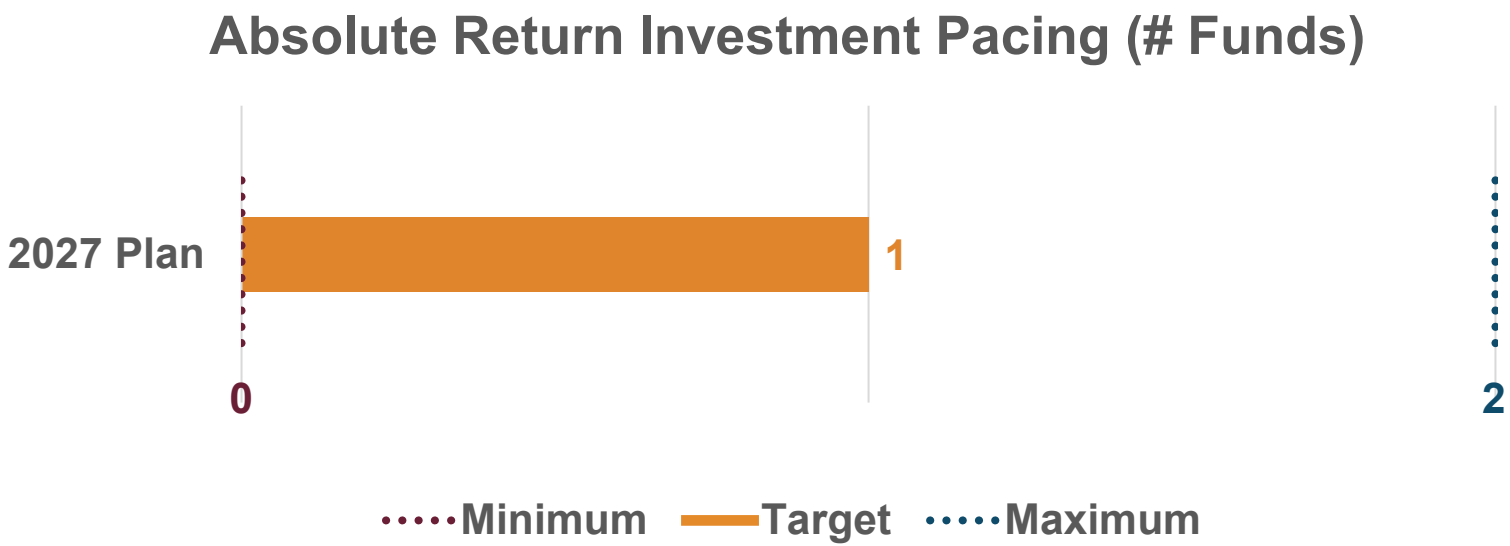


Absolute Return

2026 Activity

- One investment was made during the year
  - $50 million investment in HBK Merger Strategies Fund (Event-Driven)
- Received proceeds of redemptions submitted in 2025
  - Approximately $55 million from full redemption of PSquared US Feeder Fund (Event Driven)
  - Approximately $13 million representing the balance of the partial redemption from the GCM Grosvenor fund-of-funds vehicle
- A portion of redemption proceeds redeployed within the Market Neutral segment
  - $10 million addition to Capula Global Relative Value Fund
  - $5 million addition to Capula Volatility Opportunities Fund

Absolute Return

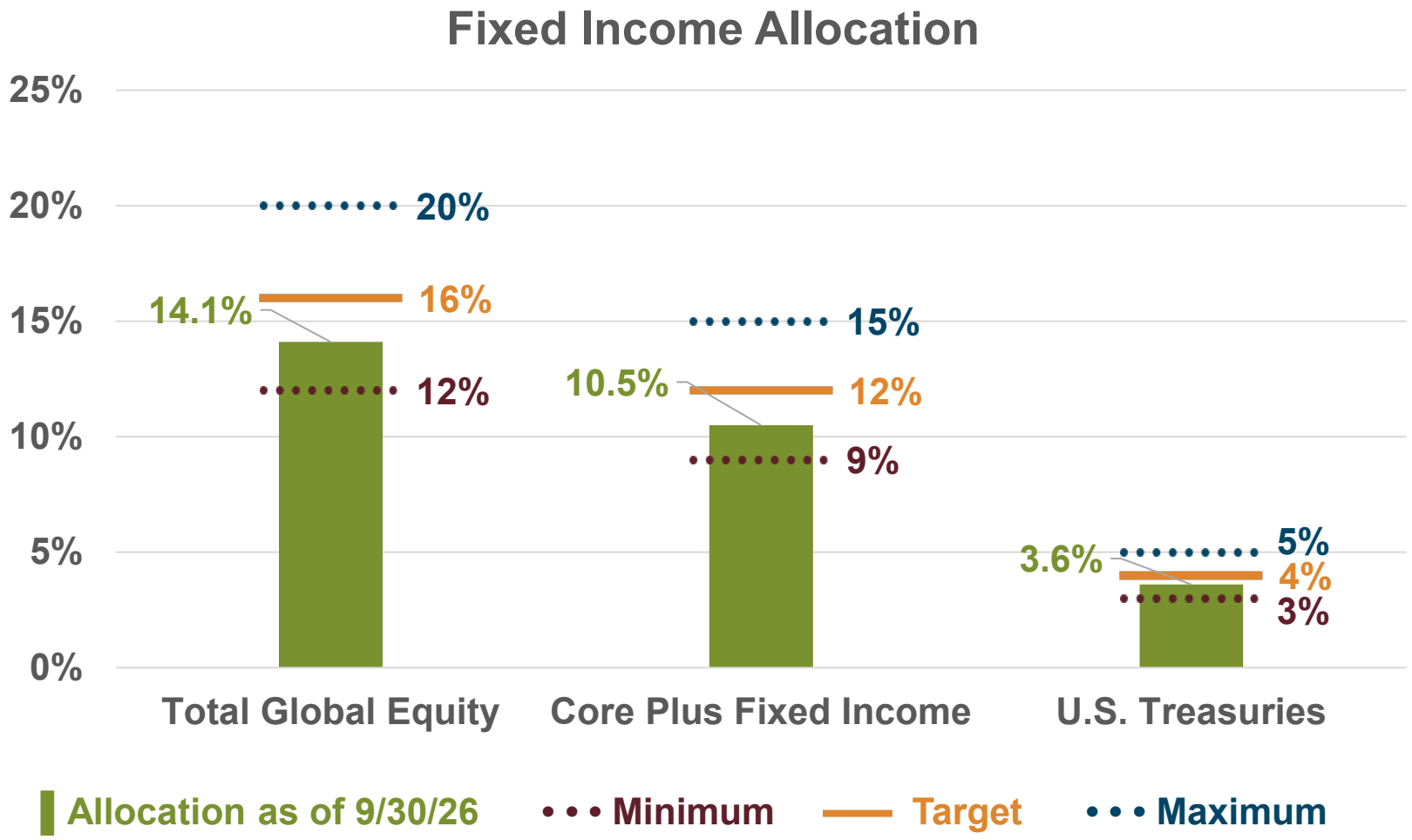


Absolute Return

2027 Plan

- Target 1 fund (0-2 range); $55 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

2026 Activity

Market Activity

- Yield curve flattened as Treasury yields rose across maturities
  - Short-term yields rose sharply as expectations shifted from Fed cuts to renewed tightening
  - Long-term yields increased amid inflation, fiscal concerns, and higher debt supply
- Higher yields pressured existing bond prices but improved reinvestment opportunities
- Significant AI-related investment-grade issuance increased corporate bond supply
- Yield curve will likely remain sensitive to inflation, Fed policy, debt supply, and fiscal concerns

Fixed Income

2026 Activity

Portfolio Activity

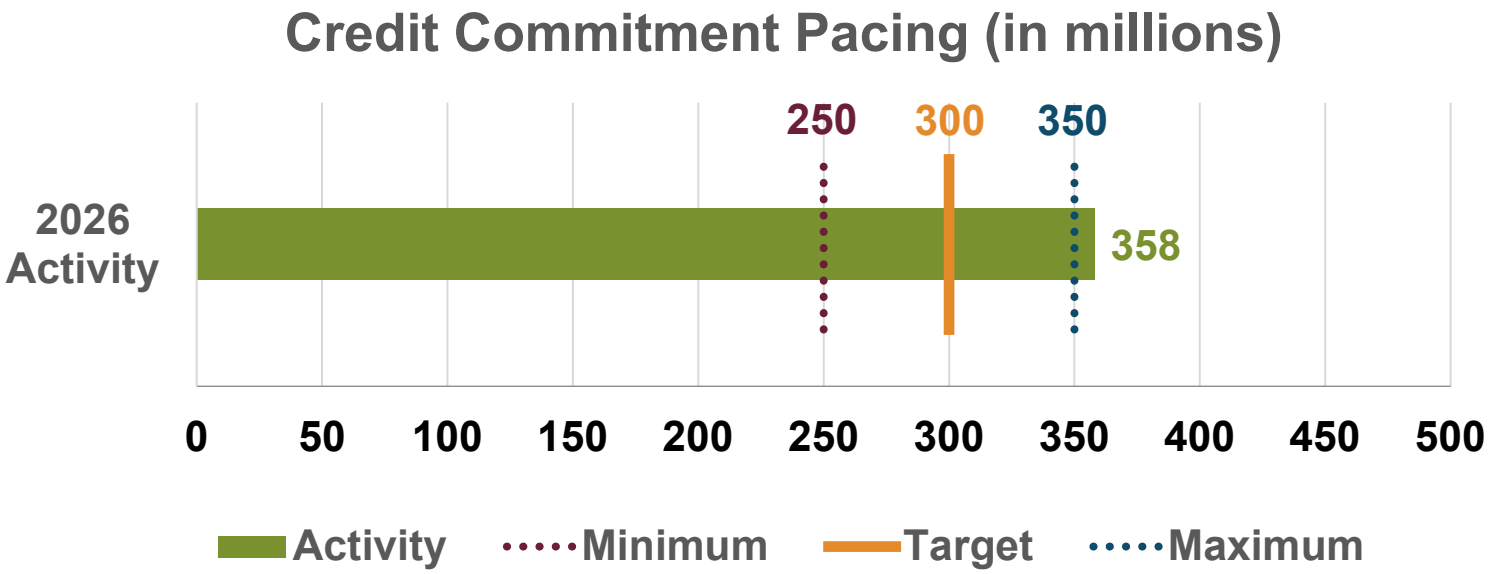
- Physical rebalancing activity
  - $100 million to SCERS' U.S. Treasury manager, Neuberger Berman
  - $160 million equally among SCERS' four Core Plus Fixed Income managers ($40 million each)
- No manager/strategy changes during the year

Fixed Income

2027 Plan

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

Credit



*Investment amount is net of a $100 million redemption from a legacy Public Credit mandate

Credit

2026 Activity

Illiquid Credit

- Four commitments were made during the year
  - $50 million investment in Stonepeak Infrastructure Credit Fund II, L.P. (Direct Lending)
  - $33 million investment in Ares Pathfinder Fund III, L.P. (Opportunistic)
  - $75 million investment in KKR Enhanced U.S. Direct Lending, SCSp (Direct Lending)
  - $50 million follow-on investment in Ares Senior Direct Lending Fund IV, L.P. (Direct Lending)

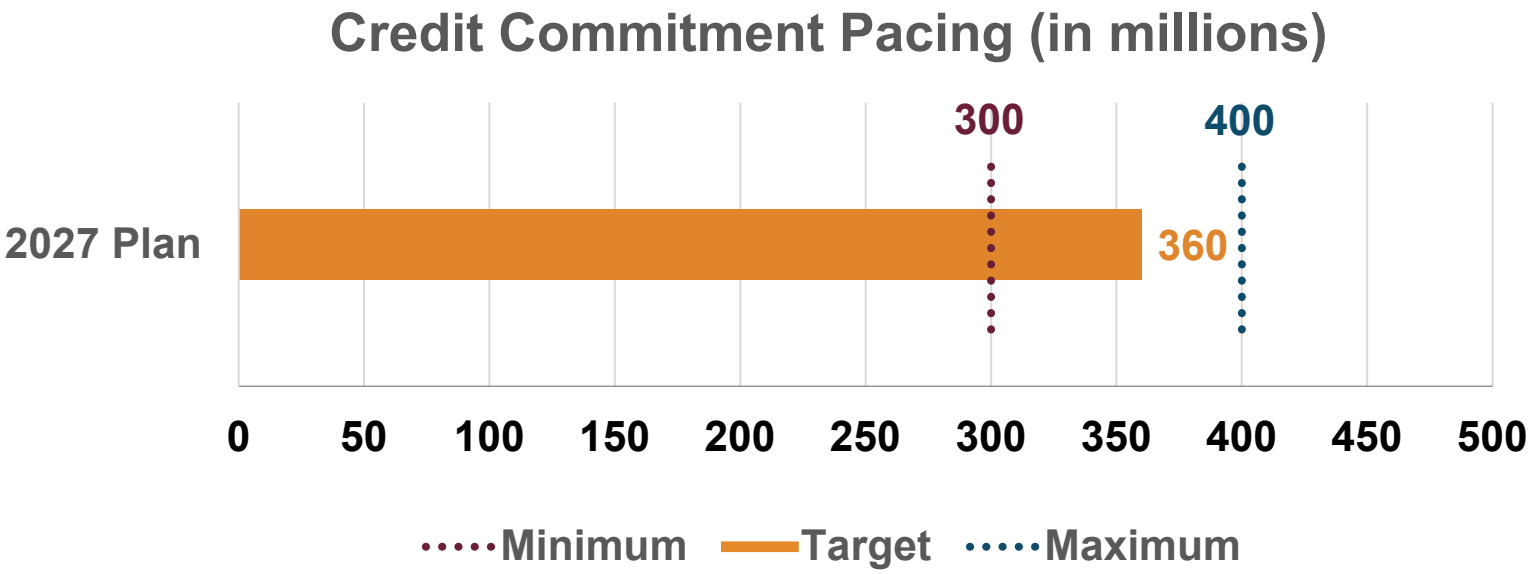
Credit

2026 Activity

Liquid Credit

- $100 million commitment to GoldenTree Master Fund, Ltd.
  - Funded by $100 million partial redemption from Brigade Capital Management
- $150 million to a public and private credit hybrid SMA in process and expected to close by year-end

Credit


Credit Commitment Pacing (in millions)
300
400
2027 Plan
360
0
50
100
150
200
250
300
350
400
450
500
Minimum
Target
Maximum

Credit

2027 Plan

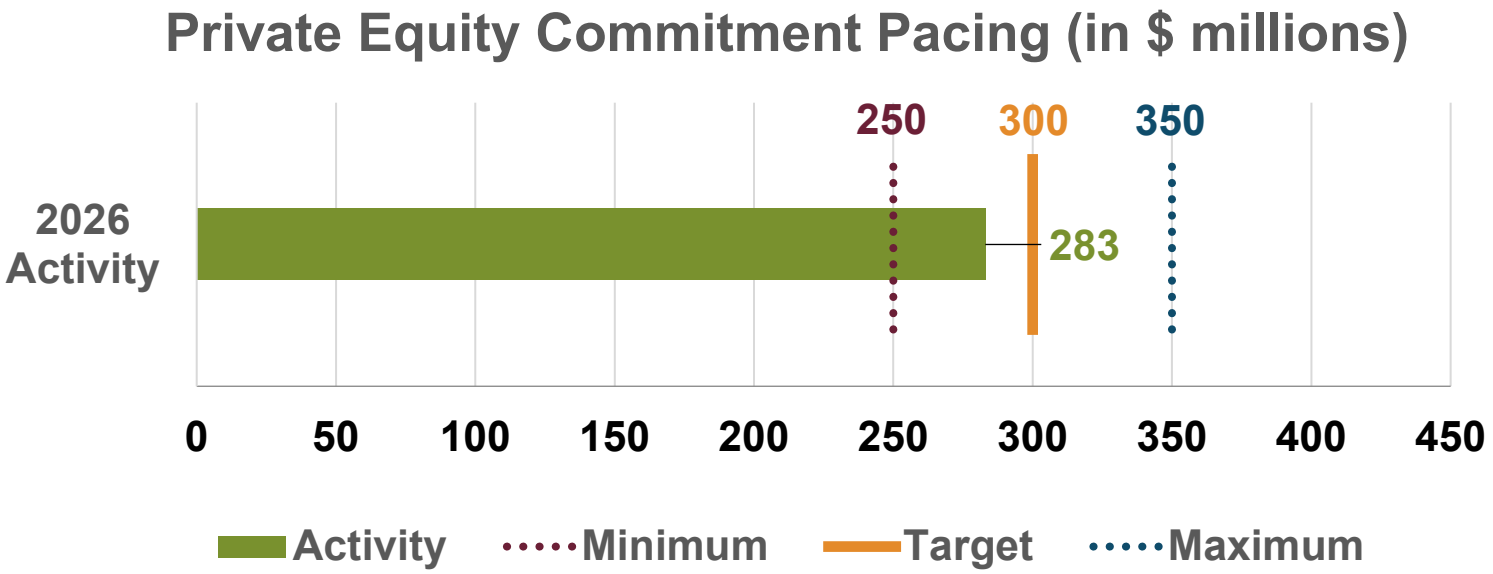
- Target $360 million; 5 funds (3-6 range); $75 million each
- Budget for 2027 is $60 million higher than the 2026 budget, mostly due to an increase in plan assets
- Budget assumes all new investments will be made within Illiquid Credit
  - Any Liquid Credit strategies will draw from this budget
- Expect to reach the 9% target in 2031
  - Investments in larger Illiquid and Liquid open-end/evergreen mandates could shorten timeline

Credit

2027 Plan

- Investment strategies and themes of focus in 2027 include:
  - Follow-on investments in existing managers/strategies
  - Niche and specialty lending/leasing strategies
  - Diversified direct lending strategies
  - Flexible and opportunistic public credit strategies

Private Equity



Private Equity

2026 Activity

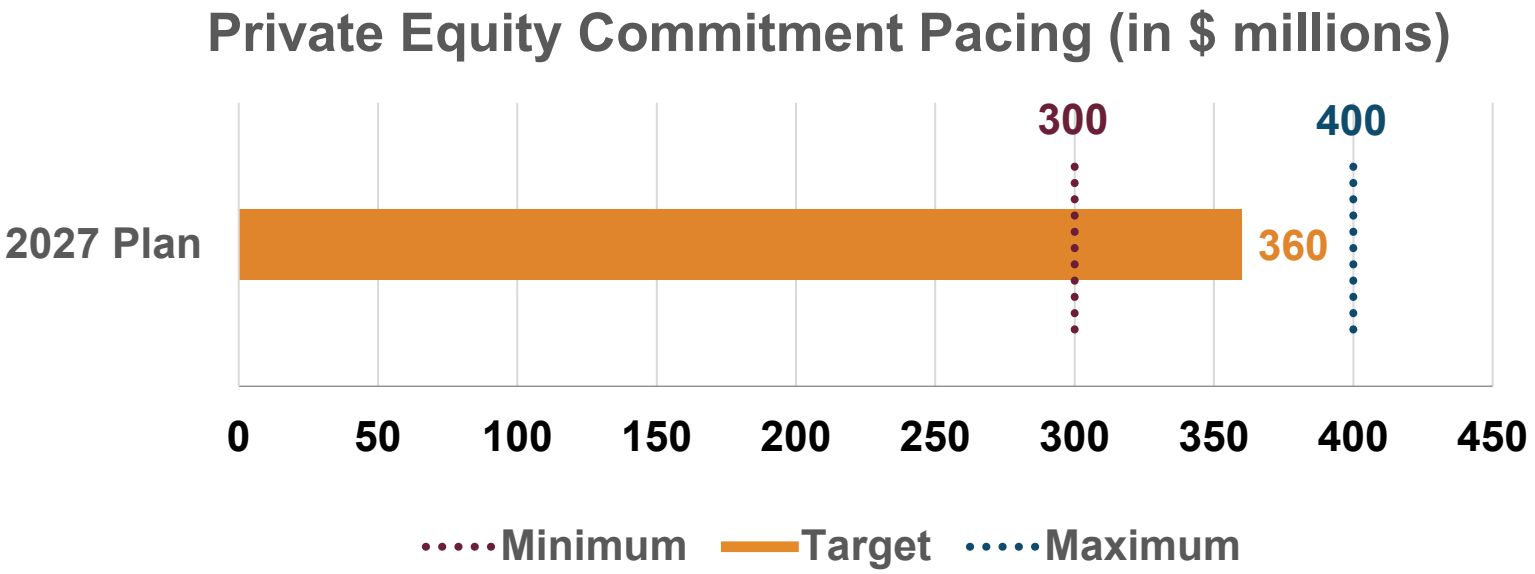
- Seven commitments were made during the year
  - $50 million follow-on investment in Gridiron Capital Partners VI (Buyout)
  - €25 million ($34 million equivalent) follow-on investment in Waterland Private Equity Fund X (European Buyout)
  - $30 million follow-on investment in Spectrum Equity Fund XI (Growth Equity)
  - $30 million follow-on investment in JFL Equity Investors VII (Buyout)
  - €25 million ($34 million equivalent) investment in Main Capital Partners IX (European Buyout)

Private Equity

2026 Activity

- $25 million investment in Water Street Healthcare Partners VI (Buyout)
- $40 million investment in Accel-KKR Strategic Capital II (Buyout)
- One $40 million follow-on investment in a venture capital fund in process and expected to close by year-end

Private Equity

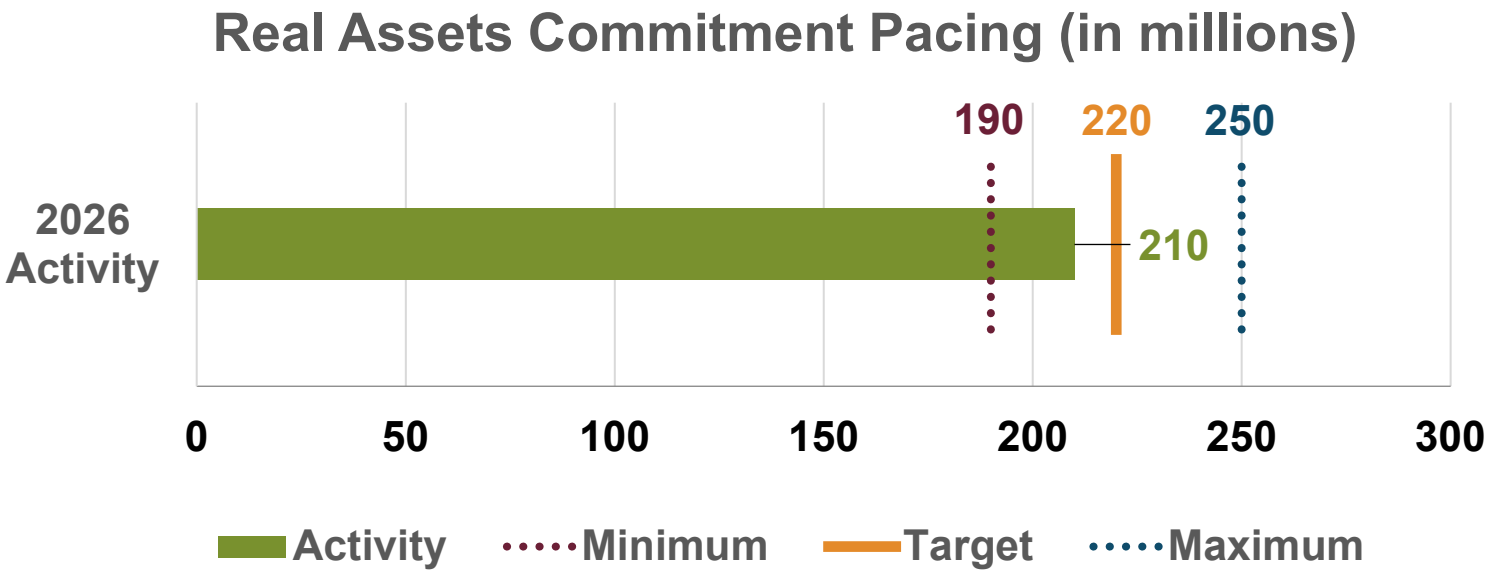


Private Equity

2027 Plan

- Target $360 million; 7 funds (5-9 range); $50 million each
- Continue a measured commitment pacing in 2027 amid below-normal distribution and exit activity
  - Pacing to reflect the slow distribution environment, the age of the existing portfolio, and the need to maintain appropriate vintage-year diversification
- Maintain flexibility to reduce the pace of new commitments if liquidity remains constrained, while retaining the ability to act selectively if distribution and exit activity improve
- Manager selection will continue to emphasize specialist strategies, repeatable sourcing advantages, and operating value creation rather than reliance on leverage or multiple expansion

Real Assets

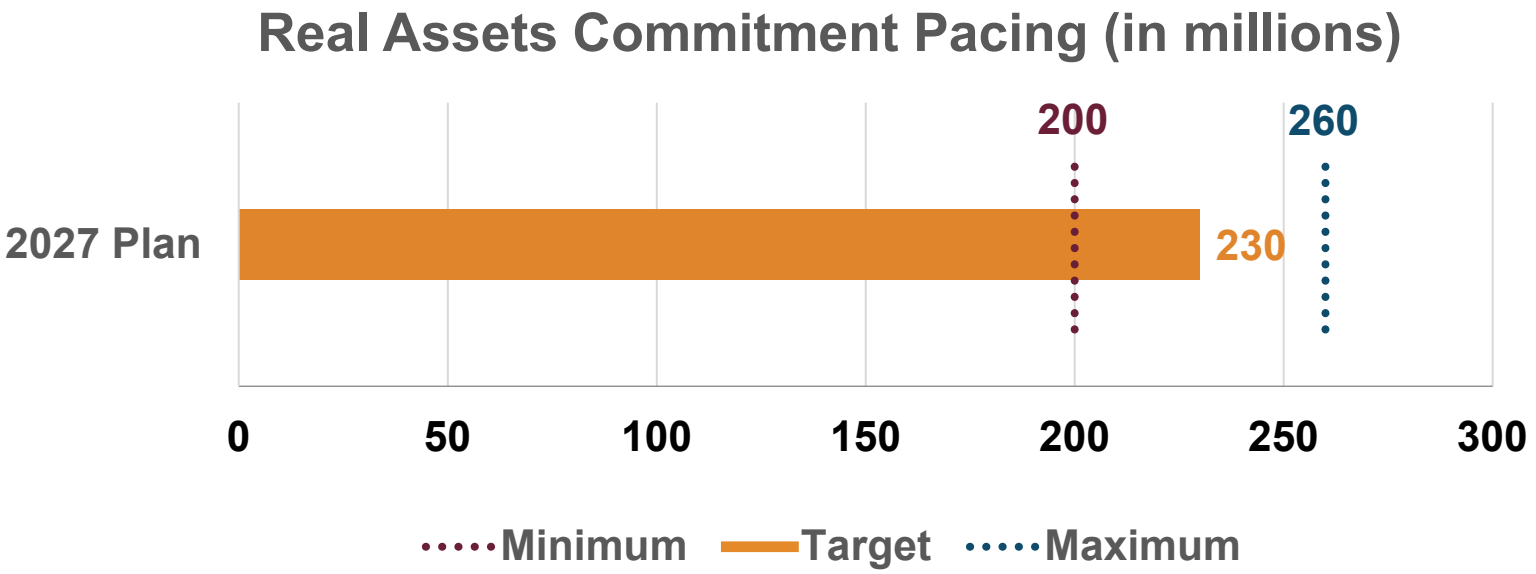

Real Assets Commitment Pacing (in millions)
2026 Activity
190
220
250
210
0
50
100
150
200
250
300
Activity
Minimum
Target
Maximum

Real Assets

2026 Activity

- Four commitments were made during the year
  - $55 million follow-on investment in Quantum Energy Partners IX-O, LP (Energy and Power)
  - $55 million follow-on investment in ISQ Global Infrastructure Fund IV, LP (Infrastructure)
  - $55 million follow-on investment in KKR Asia Pacific Infrastructure Investors III, SCSp (Infrastructure)
  - $45 million follow-on investment in Stonepeak Opportunities Fund II, LP (Infrastructure)

Real Assets

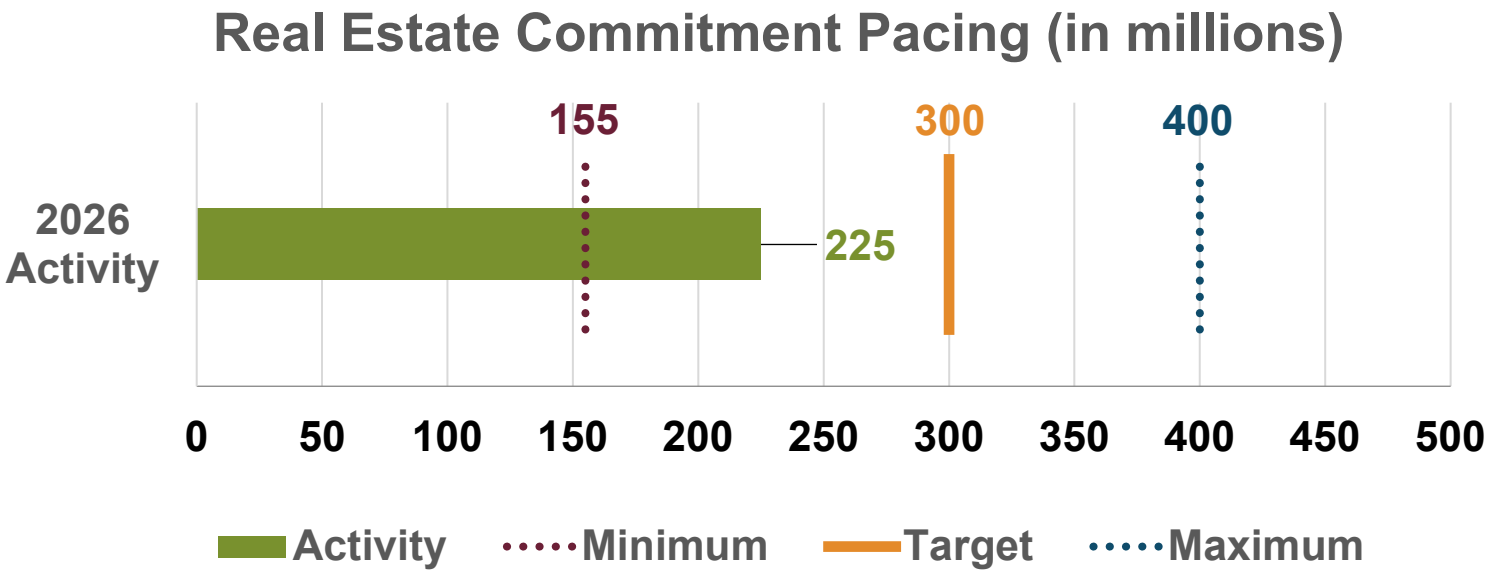

Real Assets Commitment Pacing (in millions)
200
260
2027 Plan
230
0
50
100
150
200
250
300
Minimum
Target
Maximum

Real Assets

2027 Plan

- Target $230 million; 4 funds (3-6 range); $60 million each
- Target plan is weighted toward Infrastructure over Energy and Power strategies
- Investment strategies and themes of focus in 2027 include:
  - Follow-on investments in existing managers/strategies
  - Mid-size to larger-scale infrastructure strategies
  - Regulated assets and social infrastructure strategies
  - Yield-driven returns
  - Multipronged approach to energy

Real Estate

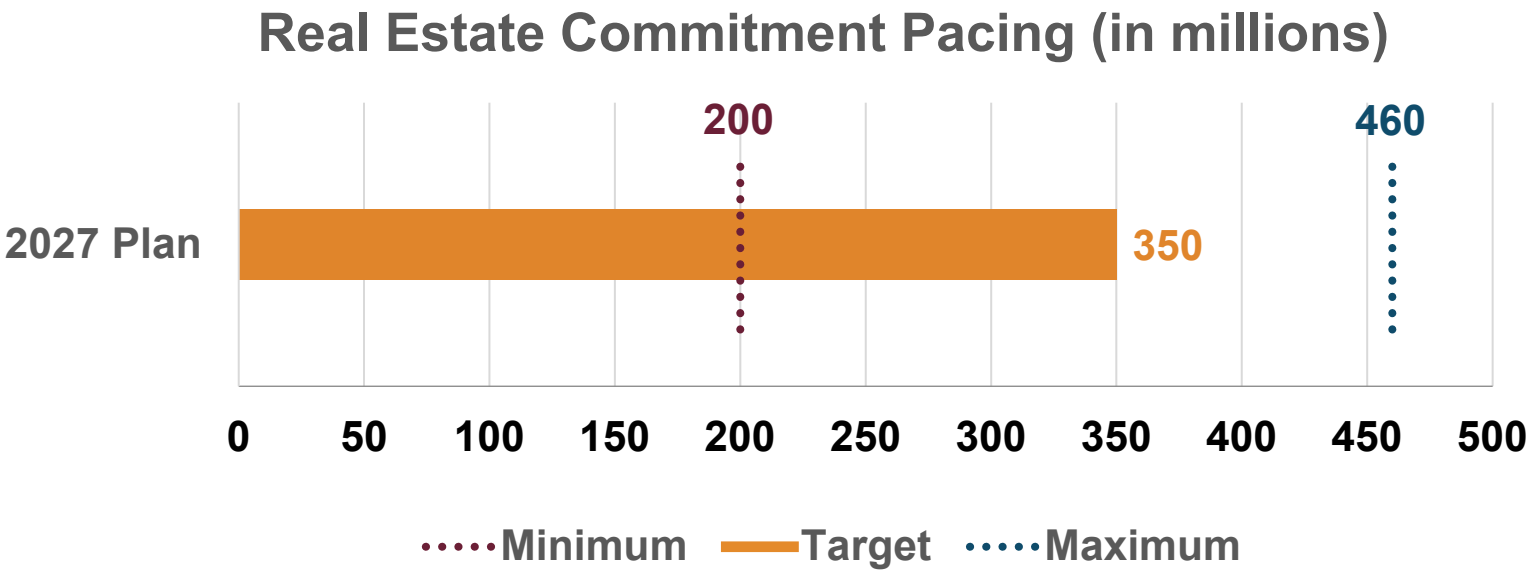

Real Estate Commitment Pacing (in millions)
155
300
400
2026 Activity
225
0
50
100
150
200
250
300
350
400
450
500
Activity
Minimum
Target
Maximum

Real Estate

2026 Activity

- One commitment was made during the year
  - $50 million investment in Wolff Credit Partners IV, LP (Value Add)
- Three commitments in process and expected to close by year-end
  - $50 million investment in a non-core real estate fund
  - $50 million investment in a core real estate fund
  - $75 million investment in a core-plus real estate fund
- Ended the third quarter at a 5.7% allocation, versus the 8% target
  - Target allocation was decreased from 9% to 8% in 2025

Real Estate


Real Estate Commitment Pacing (in millions)
200
460
2027 Plan
350
0
50
100
150
200
250
300
350
400
450
500
Minimum
Target
Maximum

Real Estate

2027 Plan

- Target $350 million; 6 funds (4-7 range); $50 million per Non-Core fund and up to $75 million per Core fund
- The 2027 commitment budget is higher than 2026, reflecting total fund growth and under-deployment of the 2026 Real Estate budget – increased commitment pacing will support progress toward the 8% Real Estate target
- Target plan is weighted toward Non-Core funds over Core strategies
- Investment strategies and themes of focus in 2027 include:
  - Follow-on investments in existing managers/strategies
  - Specialty and niche property types
  - Value-add strategies within the Non-Core segment
  - Selective international exposure

Liquid Real Return

2026 Activity

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

2027 Plan

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



2026–2027

SCERS

INVESTMENT YEAR IN REVIEW

2026

INVESTMENT PLAN

2027

Sacramento County Employees' Retirement System
Sacramento, California



2026–2027

SCERS

INVESTMENT YEAR IN REVIEW
2026

INVESTMENT PLAN
2027

Sacramento County Employees' Retirement System
Sacramento, California

Issued By:

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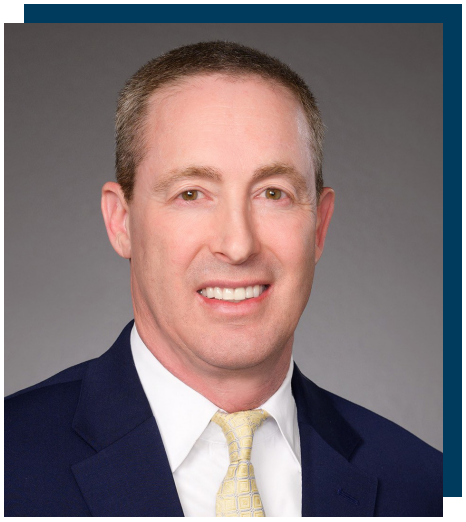


SECTION ONE

Introduction



Letter of Introduction



I am pleased to present the 2026 Investment Year in Review and 2027 Investment 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, 2026, SCERS achieved a strong 14.8% net return, well above the actuarial target of 6.75%, despite much uncertainty within the broader economy around geopolitical tensions and conflicts, persistent inflation, central bank interest rate policy, and the future of artificial intelligence (AI). SCERS' assets under management grew from $14.5 billion to $16.5 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.

During the year, the SCERS Board kept SCERS' actuarial target rate at 6.75% after being presented with an option to lower it to 6.5% by SCERS' actuarial consultant, Segal. The actuarial rate was kept at 6.75% due to the strength of recent investment returns generated by the SCERS portfolio, SCERS' strong funding ratio, and to mitigate contribution increases for plan participants. As SCERS becomes fully funded and contribution rates change, the Board, Staff, and consultants have discussed and will continue to discuss changes to SCERS' strategic asset allocation that will need to be considered to ensure that SCERS' liquidity profile is sufficient to meet future benefit payment obligations.

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

While 2025 was the story of a cooling labor market and a Federal Reserve (Fed) that cut interest rates three times while tariff-related inflation lingered, the story flipped in early 2026. The U.S.-Israel war with Iran and the closure of the Strait of Hormuz drove an energy shock, pushed headline inflation above 4%, and shifted central banks from easing toward tightening. Even so, U.S. equities have held up and sat near record highs at the end of 2026, driven by earnings growth of more than 20% and a continued AI/tech-led rally.

Within days of the Iran war, oil shipping traffic within the Strait of Hormuz had collapsed. The strait carries about a fifth of the world's oil, and Brent crude went from roughly $72 a barrel to nearly $120 at its peak. Gasoline followed, and by May it was up more than 40% from a year earlier. A ceasefire and talks brought some relief, and by late June Brent crude had fallen back to pre-war levels. Then July brought renewed U.S. strikes, Iranian attacks on shipping, and a reinstated U.S. naval blockade, and the oil rally resumed. Hormuz flows have since recovered to about 77% of normal, but the recovery depends on workarounds that remain exposed to attack.

The inflation numbers reflect this sequence of events. The headline Consumer Price Index (CPI) ran near 2.7% for the latter part of 2025 and early in 2026, then increased on the oil shock due to the closure of the Strait of Hormuz, rising above 3.0% and peaking at 4.2% in May of 2026. Headline CPI sat at 3.7% as of September of 2026. Core CPI, which excludes food and energy, sat at 2.6% and closer to the Fed's target of 2.0%; however, food and energy are essential components to the economy and prices are having a significant impact on consumers.

After cutting the federal funds rate three times in 2025 in 25-basis-point increments each, from 4.25–4.50% to 3.50–3.75%, due to a softening labor market, the Fed held the rate at every 2026 meeting through the first half of the year. In June, new Fed Chairman Kevin Warsh chaired his first meeting, and the Committee held the interest rate unanimously, but the projections turned hawkish, with inflation forecasts rising and projections of future interest rate hikes. The Fed then raised interest rates 25 bp in September to 3.75%–4.00%, its first increase since 2023, with one additional 25 basis point rate hike projected before the end of 2026, though the Fed held rates steady at its October meeting.

The Fed was not alone. The European Central Bank (ECB) raised its deposit rate to 2.5% in September, its second hike of the year, with eurozone inflation at 3.3%. The Bank of Japan (BoJ) continued normalizing its rate, taking interest rates from 0.75% at the start of the year to 1.25% in September, the highest in 31 years. The Bank of England held its interest rate at 3.75%, with inflation coming in at around 3.0%. In China, the People's Bank of China (PBOC) has talked about easing all year but has left its main policy rate unchanged amid a slowing economy where growth has slowed from 5.4% in early 2025 to 4.3% as of the second quarter of 2026.

The labor market has shifted into what many economists have termed a “low-hire, low-fire” equilibrium: layoffs remain historically low but hiring and job openings have slowed. During 2026, the labor market has been softening quietly. Monthly payroll gains averaged 68,000 jobs per month in 2026, but the pace slowed each quarter, with the monthly average for the third quarter coming in at 51,000. September payrolls rose by just 29,000, far below the roughly 90,000 expected, and earlier months were revised down. The unemployment rate sat at a very low 4.1% as of September 2026 and has stayed in a narrow 4.1%–4.3% band since March. Wages rose 3.0% over the year, which means real pay is falling behind inflation.

Economic growth was robust in 2026, as the first and second quarter real GDP grew at 2.5% and 2.2%, respectively, but accelerated to 3.4% for the third quarter. Recent drivers of growth have been resilient consumer spending and business investment, with net imports detracting from growth. In the first half of the year, consumer spending was strong, helped in the spring by tax refunds, and remained resilient. However, consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, dropped to 48.1 as of September, and neared historic lows while real spending stayed robust, so households were spending despite feeling gloomy. Though growth overall has been robust, many economists point to the K-shape of the current economy, which describes a bifurcated economic state where high-income earners and asset owners are thriving while lower- and middle-income households face mounting financial strain, a “have vs. have-not” economy.

Major global market returns been very strong in 2026, continuing the trend experienced in 2025, led by public equities. Within equities, the global MSCI ACWI IMI returned 13.0% as of September. U.S. stocks returned 12.3% (Russell 1000), while international developed (MSCI EAFE) and emerging markets (MSCI EM) returned 10.3% and 23.4%, respectively.

Fixed income markets struggled in 2026, especially government bonds. U.S. Treasury yields rose in 2026, which translated to poor performance for the Bloomberg U.S. Treasury Index, which has returned -2.8% as of September. Credit generated muted returns in 2026 in an environment of exceptionally tight credit spreads, with high yield bonds returning 0.1% (Bloomberg U.S. Corporate High Yield Index). The broad-based Bloomberg U.S. Aggregate Bond Index, which contains a market cap weighted mix of Treasuries, agency mortgages, and investment grade credit, was down -2.9% as of September.

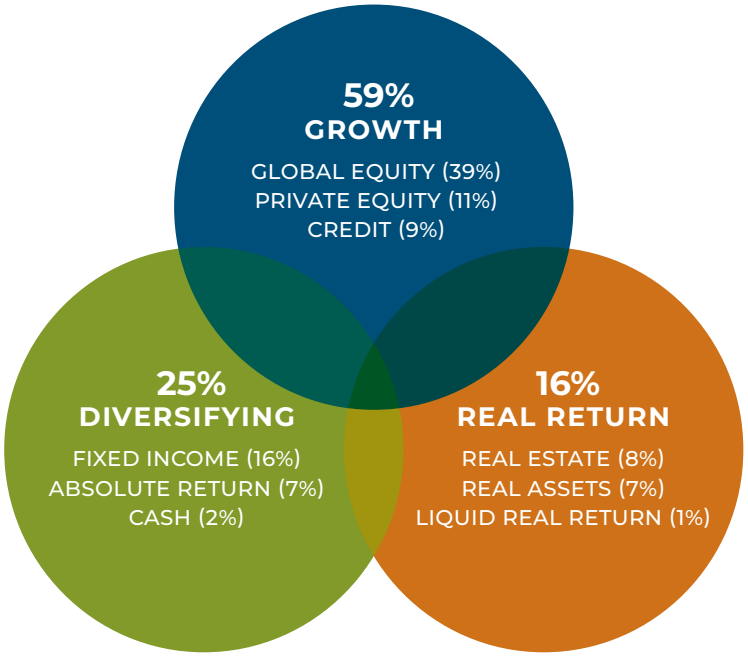
While SCERS has benefited from the strong returns that have been generated within the overall portfolio in 2026, we are reminded that many risks exist, including geopolitical uncertainty, persistent inflation, the aftermath of the midterm elections, and potentially overextended artificial intelligence spending that can possibly disrupt markets. SCERS’ investment program is designed to help SCERS navigate those challenges while supporting the retirement security of our members.

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 2026, SCERS continued with the implementation of strategic asset allocation changes approved by the Board in 2025. Implementation activity during 2026 included conducting manager searches within the public market asset classes and meaningful implementation within the private markets, consistent with Board-approved annual investment plans.

SCERS utilizes an Overlay Program, managed by State Street Investment Management (SSIM), 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.

2026 Investment Activity

SCERS had an active year with investment implementation and activity taking place under the guidance of the Board-approved 2026 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 market asset classes, including:

- In Global Equity, completed a manager search for an international large-cap mandate within the International Equity sub-asset class
- In Global Equity, conducted rebalance activity within the Domestic Equity and International Equity sub-asset classes
- 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.

Below is a summary of the alternative asset/private market implementation for 2026, 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 2026 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 2026.

2026 Implementation Summary

TABLE 1

	Investment Amount (in millions)	Redemptions (in millions)	Net Amount Invested (in millions)	Targeted Amount (in millions)	Total # Investments
Absolute Return	$65	$0	$65	$50	2
Private Equity	$243	$0	$283	$300	7
Credit*	$458	$100	$358	$300	6
Real Assets	$210	$0	$210	$220	4
Real Estate	$225	$0	$225	$300	4

* Redeemed $100 million from a legacy Public Credit mandate during the year

SCERS was active making commitments in the alternative/private markets in 2026, with net commitments coming in near budget across the various asset classes. Private market deal activity, distributions, and fundraising activity continue to be below longer-term averages due to a combination of renewed questions about portfolio-company earnings, general partners holding underlying companies for longer, higher interest rates, and inflation uncertainty. Any below-target commitment activity will be reflected in the forward budgets.

Table 2, on the following page, compares SCERS' actual physical allocations as of September 30, 2026 to the target allocations. Global Equity and Real Assets have the largest overweights, but are within range, while Credit and Real Estate have the largest underweights, and are slightly below the bottom of their ranges. Credit and Real Estate are on a multi-year path to getting to their target allocations, and SCERS has been active in both asset classes making new investments in 2026.

Actual Allocations vs. Target Allocations

TABLE 2

Asset Category/Asset Class	Actual Allocation*	Target Allocation	Variance
Growth[2]	**59.6%**	**59.0%**	**0.6%**
Global Equity	42.7%	39.0%	3.7%
Private Equity[4]	11.8%	11.0%	0.8%
Credit[4]	5.1%	9.0%	-3.9%
Diversifying[2]	**22.3%**	**25.0%**	**-2.7%**
Fixed Income	14.1%	16.0%	-1.9%
Absolute Return	6.6%	7.0%	-0.4%
Cash	1.7%	2.0%	-0.3%
Real Return[3]	**15.7%**	**16.0%**	**-0.3%**
Real Estate[4]	5.7%	8.0%	-2.3%
Real Assets[4]	8.1%	7.0%	1.1%
Liquid Real Return	2.0%	1.0%	1.0%
Overlay Program	**0.9%**	**0.0%**	**0.9%**
Other Cash	**1.3%**	**0.0%**	**1.3%**
	100.0%	**100.0%**	

[1] Based on State Street Investment Management market values as of 10/02/2026
[2] Does not include Overlay exposure
[3] Includes Overlay exposure
[4] 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 2 does not reflect the Overlay exposure for the Growth and Diversifying asset categories; however, the Real Return Overlay exposures are reflected.

Other Activity and Considerations

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 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 Cerity in 2026 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.

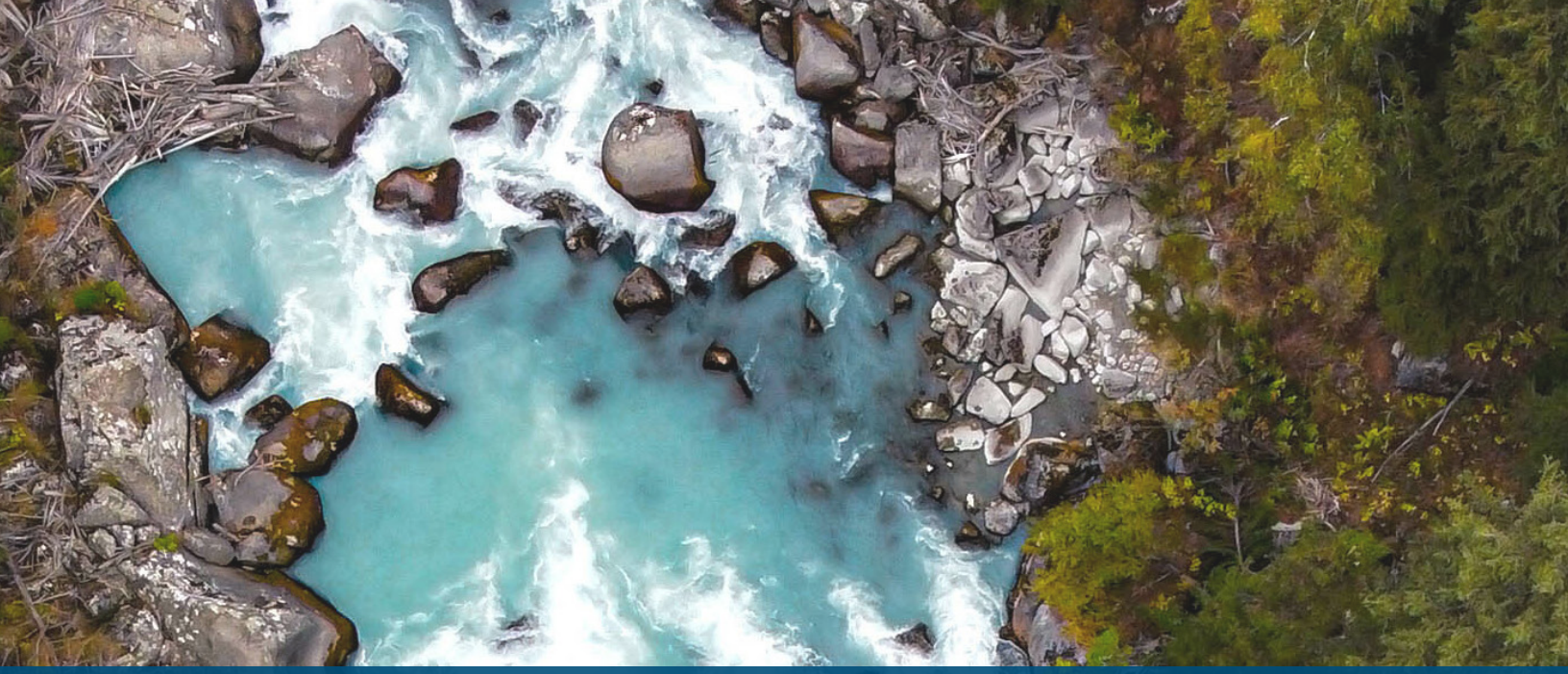
During 2025, the SCERS Board approved the hiring of a new custodian, Northern Trust. During 2026, SCERS transitioned from legacy custodian, State Street, to Northern Trust and the onboarding process was completed in March. On the consultant front, during the year SCERS renewed its contract with alternative assets investment consultant, Cliffwater. SCERS issued an RFP for general consulting services earlier in 2026, to evaluate the landscape for general investment consultants, and the Board formed an ad hoc committee to evaluate candidates with Staff. The evaluation process is ongoing, with a conclusion to the process expected early in 2027.

On the investment staff front in 2026, Omar Martin joined SCERS as a Senior Investment Officer covering the Real Return asset category, which was an open position due to the retirement of a key member of the investment team in 2025.

During 2026, SCERS held its annual Investment 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 engagement that is difficult to replicate during typical monthly Board meetings.

On the technology front, Staff continues to look at software solutions to complement staff expertise and resources, including AI solutions. This included internal workflow process management and contact relationship management (CRM) software as a potential solution to make investment due diligence and oversight more productive and efficient, with potential implementation expected in 2027.

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 2027 budgets presented by Staff and Cliffwater/Townsend.



SECTION THREE

Asset Classes



Global Equity

Market Overview

Equity markets entered 2026 following three consecutive years of strong returns, where the S&P 500 returned 18% in 2025, 25% in 2024, and 26% in 2023. International markets delivered their best calendar year in more than a decade in 2025, with the MSCI ACWI ex USA Index returning 33% in U.S. dollar terms, finally reversing a long stretch of U.S. dominance. Market concentration nevertheless remained near record levels entering the year. The top ten companies in the S&P 500 represented approximately 41% of the index by market capitalization, and the U.S. share of the global equity market, as measured by the MSCI ACWI Index, stood at approximately 64%.

Through the first nine months of 2026, equity markets delivered solid returns in a considerably calmer environment than the prior year, despite geopolitical and valuation concerns. The S&P 500 returned 12.7% and the Russell 3000 Index returned 12.4%. The largest peak-to-trough decline during the year was approximately 9%, compared with a 19% drawdown in 2025 surrounding the April tariff announcements. Index-level results continued to be powered by a narrow set of sectors tied to artificial intelligence. Information Technology, which now represents nearly 40% of the S&P 500, returned 28% year-to-date, and Energy was the strongest sector, returning 40%. Earnings growth was exceptional at the index level, with consensus estimates calling for S&P 500 earnings growth in excess of 30% for the full year. Beneficiaries of AI infrastructure spending accounted for more than half of that growth, supported by hyperscaler capital expenditures of roughly $800 billion in 2026, which is expected to exceed $1.1 trillion in 2027.

Beneath the index-level results, market breadth narrowed to its most extreme level since the dot-com era. While the S&P 500 finished September within a few percentage points of its record high, the median constituent traded approximately 17% below its own 52-week high, and the equal-weighted S&P 500 trailed the capitalization-weighted index. Several sectors posted negative returns for the year, including Consumer Discretionary at negative 6%, Utilities at negative 6%, and Financials at negative 1%. One notable change from recent years is that the largest technology companies no longer accounted for a disproportionate share of index returns; the “Magnificent 7” returned approximately 12% year-to-date, broadly in line with the remaining 493 companies in the index, compared with contributing roughly half of the index return in 2025.

From a style perspective, 2026 brought a significant reversal of recent leadership in the United States. The Russell 1000 Value Index returned 19.3% year-to-date through September, outperforming the Russell 1000 Growth Index, which returned 6.3%, by approximately 13 percentage points. This contrasts with 2025, when growth outperformed value in the U.S. by approximately 5%. Value leadership was supported by strength in Energy, which carries a weight of approximately 6% in the Russell 1000 Value Index versus less than 1% in the Russell 1000 Growth Index, as well as by multiple compression among the largest growth companies even as their earnings continued to rise. A meaningful portion of the

divergence, however, was mechanical rather than fundamental, reflecting a shift in the composition of the style indices themselves. Through the first half of the year, the semiconductor companies that were the principal beneficiaries of AI infrastructure spending were classified within the Russell 1000 Value Index, where they represented approximately 9% of the index, while the hyperscalers that funded that spending sat in the Russell 1000 Growth Index at a weight of approximately 22%. On a simple-average basis across a selected group of large companies, the semiconductors returned more than 300% through late June while the hyperscalers declined 8%. Russell's annual index reconstitution in June largely reversed that positioning, moving semiconductors from the Value Index into the Growth Index at a weight of approximately 9% and raising the hyperscaler weight within the Value Index to approximately 11%. Semiconductors then corrected during the third quarter while several hyperscalers rebounded, which again favored the Value Index at the expense of the Growth Index. The episode illustrates that style index returns can be driven as much by classification and reconstitution as by underlying company fundamentals. Small-cap stocks modestly outpaced large-cap stocks for the year, with the Russell 2000 Index returning 13.7%, although small-cap stocks gave back performance in the third quarter with a decline of 7.2%.

International markets have outperformed the United States for a second consecutive year, though by a narrower margin than in 2025. As of September 30, 2026, the MSCI ACWI ex USA Index returned 14.7% in U.S. dollar terms, the MSCI EAFE Index returned 10.3%, and the MSCI Emerging Markets Index returned 23.4%. In contrast to 2025, when a declining U.S. dollar added approximately eight percentage points to unhedged international returns, currency was a modest headwind in 2026, with the ACWI ex USA Index returning 16.1% in local currency terms versus 14.7% in dollars. Emerging market leadership was also unusually narrow and concentrated in the AI semiconductor supply chain, with Korea returning 98% and Taiwan returning 71% in U.S. dollar terms. This masked sharp declines in the two largest emerging market populations, as China returned negative 12% and India negative 15%, a full reversal from 2025, when China gained more than 30% and led the asset class. Within developed markets, Japan was the standout at 23%, while continental Europe lagged, with Germany returning less than 1% and France declining 2%.

From a valuation perspective, the headline change in 2026 was meaningful multiple compression in the U.S. market. The forward price-to-earnings (P/E) multiple of the S&P 500 declined from 22.0x at the start of the year to 19.0x as of September 30, 2026. The multiple is now modestly above the 30-year average of 17.2x and below the one standard deviation level of 20.5x, a marked change from a year ago, when the multiple stood at roughly 23x and approached two standard deviations above average. Importantly, the multiple declined even as the index gained 12.7%, because consensus forward 12-month earnings estimates rose by approximately 29% over the same period. Rising interest rates contributed to the compression, with the 10-year U.S. Treasury yield at 5.29% at quarter-end.

The compression was concentrated in the largest companies, which had been the primary source of elevated index valuations in prior years. The top ten companies in the S&P 500 traded at a forward P/E of 20.9x at quarter-end, down from approximately 30x a year earlier and essentially in line with their

own 20-year average. The remaining 490 companies traded at 17.9x, or approximately 112% of their long-term average. Measures based on longer-term or cash-based earnings remain more elevated, including a cyclically adjusted P/E near record levels at 40.9x and a free cash flow yield of 3.3% against a historical median of 4.4%, reflecting investor concern that the AI investment cycle is causing companies to over-earn relative to a sustainable level of profits. Non-U.S. valuations also rose above their long-term averages but continue to trade at a significant discount to the United States, with non-U.S. developed markets at 14.8x against a 20-year average of 12.6x and emerging markets at 13.3x against an average of 9.7x. The valuation gap between value and growth narrowed over the year following value's strong run, with the Russell 1000 Value Index trading at a 24% discount to the Russell 1000 Growth Index, compared with a long-term average discount of 30%.

Global Equity Portfolio

SCERS' Global Equity portfolio entered 2026 above its target allocation. As of December 31, 2025, the portfolio was approximately 42.4% of the total fund against a 39% target, just slightly below the top of the 35%–43% range. The overweight followed a strong year for global equity markets, with the SCERS Global Equity portfolio returning 23.8% and outperforming the benchmark MSCI ACWI IMI Index return of 22.1% in 2025. All three sub-asset classes were away from target entering the year, with Domestic Equity at 22.1% against a 19% target, International Equity at 15.6% against a 14% target, and Global/Unconstrained Equity at 4.8% against a 6% target.

In January 2026, SCERS executed a $300 million physical rebalance of the Domestic Equity sub-asset class, which was the most overweight segment of the portfolio entering the year. Funds were raised from four domestic large-cap mandates, with the redemption focused on large-cap exposure given the outperformance of large-cap relative to small-cap over the prior 12 months. The rebalance reduced equity exposure by approximately 2%, with Global Equity going from approximately 43.2% to 41.2% of the total fund and Domestic Equity from 22.5% to 20.6% at the end of January.

SCERS also completed the international developed large-cap manager search that was initiated in 2025 following the termination of the Lazard International Strategic Equity ex-EM mandate. At the March 2026 Board meeting, the Board approved the hiring of Man Numeric and its Global Core ex-US strategy for a $450 million International Developed large-cap mandate. The mandate was funded entirely by rebalancing existing International Equity mandates by approximately $450 million, which held total International Equity exposure unchanged while moving the sub-asset class segments closer to their targets.

Notwithstanding the rebalancing activity, strong equity market returns left the Global Equity portfolio further above target at the end of the third quarter, at 42.6% of the total fund against the 39% target, and near the upper end of the 35%–43% range. Domestic Equity at 20.7% remains above its 19% target. International Equity at 17.0% is above the 16% upper end of its range, driven by the strength of emerging markets. Global/Unconstrained Equity ended the period at 5.0%, below its 6% target.

Entering the fourth quarter, Staff is planning to perform additional portfolio rebalancing prior to the end of the 2026 calendar year to reduce the overweight allocation. In total, the rebalance will seek to raise approximately $200 million, reducing the overall public equity portfolio by 1.1%, coming from a mix of Domestic and International accounts.

Staff is also planning to present a manager recommendation at the December Board meeting for the small cap growth segment of Domestic Equity. Staff and Cerity have been conducting a manager search for this segment of the portfolio during the second half of the year, following termination of the prior manager during the second quarter.

Looking forward to 2027, the principal priority for the Global Equity portfolio is rebalancing. Both the total Domestic Equity allocation and the International Equity sub-asset class were above target toward the end of 2026, with International Equity outside the top end of its range, and the emerging markets segment overweight its 30% target within International Equity. SCERS will also continue to evaluate potential additions to the Global/Unconstrained sub-asset class to move it toward the 6% target allocation, including further evaluation of Portable Alpha strategies and fundamental strategies recently added to SCERS' Watch List.

SCERS Global Equity Portfolio Structure

	Minimum	Target Allocation	Maximum	Est. Allocation as of 9/30/26
Total Global Equity Portfolio	**35%**	**39%**	**43%**	**42.7%**
Domestic Equity	17%	**19%**	21%	20.7%
International Equity	12%	**14%**	16%	17.0%
Global/Unconstrained	4%	**6%**	8%	5.0%

Domestic Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/26
Domestic Equity	**19.0%**	**-**	**20.7%**
Domestic Equity Large Cap	90.0%	-	90.9%
Large Cap Passive	-	50.0%	47.0%
Large Cap Active	-	40.0%	43.9%
Domestic Small Cap	10.0%	-	9.1%
Small Cap Active	-	10.0%	9.1%

International Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/26
International Equity	**14.0%**	**-**	**17.0%**
International Equity Developed Markets	70.0%	-	62.9%
Developed Markets Large Cap Active	-	60.0%	54.1%
Developed Markets Small Cap Active	-	10.0%	8.8%
International Equity Emerging Markets	30.0%	-	37.1%
Emerging Markets Active	-	30.0%	37.1%

Global/Unconstrained Equity Structure

Asset Class	Target Allocation	Target Allocation	Est. Allocation as of 9/30/26
Global/Unconstrained Equity	**6.0%**	**-**	**5.0%**
Global Equity	-	≥ 50%	78.5%
Sector or Country Concentrated	-	≤ 25%	21.5%
Non-Beta 1 (Long/Short)	-	≤ 25%	0.0%

2026 Activity

- Rebalanced the Domestic Equity sub-asset class. Trading was completed in January 2026, with proceeds received in early February:
  - $190 million partial redemption from the AllianceBernstein large-cap passive mandate
  - $50 million partial redemption from the AQR U.S. Enhanced Equity mandate
  - $30 million partial redemption from the D.E. Shaw Broad Market Core Alpha Extension mandate
  - $30 million partial redemption from the Eagle Capital Management mandate
- Completed the international developed large-cap manager search within the International Equity sub-asset class. The recommendation was approved at the March 2026 Board meeting, with transition and funding completed during the second quarter:
  - $450 million mandate with Man Numeric for its Global Core ex-US strategy, which began managing assets effective June 1, 2026
- Rebalanced existing International Equity mandates by approximately $450 million to fully fund the Man Numeric mandate, moving the sub-asset class segments closer to their target allocations:
  - $250 million partial redemption from LSV Asset Management
  - $50 million partial redemption from Walter Scott International EAFE Growth
  - $70 million partial redemption from Baillie Gifford EM All Cap

  - $50 million partial redemption from ARGA EM
  - $30 million partial redemption from Oaktree EM
  - The net effect increased developed markets large-cap exposure by $150 million and reduced emerging markets exposure by $150 million
- Terminated Domestic Equity small cap growth mandate with Alger-Weatherbie Specialized Growth for $140 million and implemented interim portfolio solution
- Conducted manager search for replacement manager for small cap growth mandate within Domestic Equity
  - Manager recommendation planned for December 2026 Board meeting
- Planned fourth quarter rebalancing for approximately $200 million from Domestic and International Equity mandates, reducing the Global Equity portfolio by 1.1%
- Coordinated with SCERS' Overlay manager, State Street Investment Management, to adjust Overlay exposure in conjunction with each physical rebalancing
- Performed manager due diligence on additional strategies for the Global/Unconstrained sub-asset class
- Oversaw, monitored, and met with SCERS' existing Global Equity managers

2027 Investment Plan

- Implement Domestic Small Cap growth manager recommendation
- Rebalance the Global Equity portfolio toward the 39% target allocation, with priority given to the International Equity sub-asset class, which is above the top end of its permissible range, and to the emerging markets segment, which is overweight its 30% target within International Equity
- Continue to rebalance the Domestic Equity sub-asset class, which remains above its 19% target allocation
- Evaluate potential additions to the Global/Unconstrained sub-asset class to bring it toward the 6% target allocation
- Oversee, monitor, and assess the existing manager lineup

Fixed Income

Market Overview

Fixed income markets delivered subdued returns through the first three quarters of 2026, as income from bonds was offset by declining bond prices when Treasury yields rose. Inflation remained elevated, supported in part by higher energy prices related to the war in the Middle East. After maintaining the federal funds target range at 3.50%–3.75% through July, the Federal Reserve raised rates by 25 basis points in September.

U.S. Treasury yields rose across the curve in 2026, with the sharpest increase at shorter maturities as investors shifted from expecting further Federal Reserve rate cuts in the early part of the year to anticipating renewed tightening midyear. Longer-term yields also rose, reflecting inflation and growth expectations as well as concerns about government borrowing and debt supply. The 2-year yield climbed from 3.47% at the start of the year to 4.88% by the end of September. Over the same period, the 10-year yield rose from 4.19% to 5.29%, reaching its highest level since May 2002, and the 30-year yield increased from 4.86% to 5.64%. Shorter-term Treasury yields rose more sharply than longer-term yields, flattening the yield curve relative to year-end 2025.

Corporate bond markets were shaped by significant AI-related borrowing. Amazon, Alphabet, Meta, and Oracle issued approximately $194 billion of bonds through early July 2026, compared to $108 billion in all of 2025. Much of this debt is investment grade and therefore eligible for core and core-plus fixed income portfolios. The scale of this borrowing added to broader market supply pressures and increased competition for investor capital.

Higher yields pressured duration-sensitive holdings even as they improved prospective income on newly purchased bonds. The Bloomberg U.S. Aggregate Bond Index returned 0.0% in the first quarter, 0.7% in the second quarter, and -3.5% in the third quarter. Its year-to-date return was -2.9% as of September 30. Bonds continued to provide income, but rising interest rates reduced the market value of existing holdings. The index's performance reflects the tension between stronger starting yields and mark-to-market losses as rates rose.

Global fixed income markets were also shaped by policy normalization, currency intervention, and fiscal concerns. Japan raised rates and conducted a record currency intervention coordinated with the U.S. to support the yen, while Japanese government bond yields reached multidecade highs. Fiscal concerns also pushed U.K. long-term borrowing costs to their highest level since 1998 and increased the risk premium on French government bonds to its highest level since 2012.

Looking ahead, the path of inflation and Federal Reserve policy will remain central to the short end of the curve. At longer maturities, debt supply, fiscal concerns, and global demand for sovereign bonds

could continue to influence yields. For fixed income managers, higher yields improve the income available on reinvestment, but the risk of further rate increases and differences in credit quality warrant continued attention to duration, issuer exposure, and portfolio liquidity.

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 9/30/26
Total Fixed Income Portfolio	**12%**	**16%***	**20%**	**Custom Blend of benchmarks below:**	14.1%
Core Plus Fixed Income	9%	**12%***	15%	75% Bloomberg U.S. Aggregate Bond Index	10.5%
U.S. Treasuries	3%	**4%***	5%	Bloomberg U.S. Aggregate Bond Index	3.6%

*Percentage of total portfolio

As of September 30, 2026, the Fixed Income allocation was 14.1%, which was within the allowable range of 12%–20% but below the 16% target allocation. SCERS rebalanced the Fixed Income portfolio in June 2026 by contributing $220 million to the asset class, increasing its allocation from 13.6% to 14.9% and moving it closer to the 16% target. Of the $220 million contribution, $100 million was allocated to SCERS' U.S. Treasury mandate, managed by Neuberger Berman, and the remaining $120 million was allocated equally across SCERS' four Core Plus Fixed Income mandates, with each receiving $30 million. 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. As a reminder, SCERS' Overlay Program rebalances SCERS' Fixed Income allocation to target on a quarterly basis using futures positions when the physical allocation is below or above target.

No manager changes were made to the Fixed Income portfolio in 2026.

2026 Activity

- Rebalanced the Fixed Income portfolio through a $220 million contribution allocated to SCERS' U.S. Treasury manager and the four Core Plus Fixed Income managers
  - $100 million added to Neuberger Berman – U.S. Treasury
  - $30 million added to TCW – Core Plus
  - $30 million added to PGIM – Core Plus
  - $30 million added to Reams – Core Plus
  - $30 million added to Brandywine – Core Plus
- Oversaw, monitored, and met with SCERS' Fixed Income managers

2027 Investment 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 2026 has produced a positive but more modest environment for the Absolute Return asset class than the prior year, with a considerably less smooth path to those returns. Year-to-date through September 30, 2026, the HFRI Fund Weighted Composite Index returned 7.1%, and the HFRI Fund of Funds Conservative Index, SCERS' policy benchmark, returned 3.9%, compared with 12.4% and 8.1%, respectively, for full-year 2025. Monthly results alternated between gains and losses more frequently than in the prior year. Hedge funds posted solid gains in January and February; gave back ground in a sharp March decline as equity markets sold off; rebounded strongly in April; recorded modest losses in June and July; recovered in August; and finished September slightly lower, with the Fund Weighted Composite down 0.7% for the month. Equity markets advanced during the year but with narrow leadership concentrated in artificial intelligence and semiconductor-related names. Government bonds remained under pressure as persistent inflation and hawkish central bank expectations pushed yields higher, while commodities and precious metals were strong. Interest rates remained elevated throughout the year, continuing to provide a meaningful tailwind to absolute return strategies through returns earned on cash collateral.

At the strategy level, 2026 produced a reversal of leadership from the prior year. Macro was the strongest of the main strategy groups, with the HFRI Macro (Total) Index returning 12.2% through September, a sharp turnaround from 2025, when trend-following strategies returned less than 2% and were among the weakest performers. Systematic strategies drove those results, with the HFRI Macro: Systematic Diversified Index returning 16.6% and the HFRI Trend Following Directional Index returning 14.1%. Both gained more than 4% in September alone as trends across commodities, interest rates, and currencies extended. Discretionary macro was more muted, with the Discretionary Thematic Index returning 6.4%. Equity Hedge returned 7.1%, with exceptional variation beneath the surface: the Technology sector index returned 16.8% while the Healthcare sector index returned 1.6%, and Fundamental Growth returned 11.2% compared with 5.5% for Fundamental Value. Equity Market Neutral returned 4.5%. Event-Driven strategies returned 4.8%, with Distressed and Restructuring the strongest sub-strategy at 8.3%, followed by Merger Arbitrage at 4.7%, and Credit Arbitrage at 1.9%. Relative Value was the weakest of the main groups at 3.0%, as rising government bond yields weighed on fixed-income-oriented sub-strategies, with the Fixed Income-Sovereign Index down 1.5% and the broader HFRI Credit Index up 3.4%. Multi-manager platforms also lagged, with the HFRI Multi-Manager Pod Shop Index returning 2.3%.

The most consequential feature of the 2026 environment for investors was the exceptional dispersion of manager results. Goldman Sachs Prime Services estimates that global Fundamental Long/Short managers returned 12.6% year-to-date through September on an asset-weighted basis, while the median manager returned only 2.5%, with the 25th-percentile manager down 8.5% and the 75th-

percentile manager up 18.3%. Hedge Fund Research reported that the spread between the top and bottom deciles of its Fund Weighted Composite Index widened to 44.6% in the second quarter of 2026 from 30.1% in the first quarter. In this environment, manager selection contributed far more to outcomes than strategy selection, and the gap between asset-weighted and median results indicates that the largest managers and those with technology exposure materially outperformed the typical fund.

Industry capital reached successive record levels during 2026. Hedge Fund Research estimated total industry capital at $5.22 trillion through the first quarter, and With Intelligence estimated the industry at approximately $5.3 trillion at mid-year. Net asset flows remained positive, with an estimated $21.1 billion of net inflows through August, following $45.9 billion for full-year 2025 and putting 2026 on track to be the second consecutive year of positive capital raising after three consecutive years of net outflows from 2022 through 2024. By strategy, Fixed Income and Credit, Relative Value, and CTA strategies attracted the largest inflows, while Multi-Strategy recorded modest net outflows. By region, North American managers led at $8.2 billion, followed closely by Europe and Asia-Pacific. Both new fund launches and liquidations increased from the depressed levels of recent years, with an estimated 166 launches and 129 liquidations in the first quarter of 2026, the highest quarterly liquidation total in two years. Average industry management and incentive fees continued to drift modestly lower, to approximately 1.32% and 15.78%, respectively.

A continuing structural theme is the concentration of industry assets among the largest managers, which has direct implications for capacity and access. The number of firms managing more than $10 billion in hedge fund assets rose to 106 at mid-year 2026 from 88 at the end of 2025, and those firms now control roughly 65% of all billion-dollar-club assets. Firms managing more than $20 billion have grown from 27 at the end of 2023 to 49, controlling nearly half of billion-dollar-club assets. Over the same period, the share held by managers in the $1 billion to $3 billion range declined to an all-time low of approximately 10%. For investors, the practical consequences are increasing competition for capacity with the largest and most established managers, and a correspondingly greater need for diligence when allocating to smaller firms.

Absolute Return Portfolio

SCERS' Absolute Return asset class began 2026 at approximately 6.7% of the overall portfolio, below the 7% target allocation. The asset class ended 2025 with a market value of $1.05 billion and returned 7.9% for the calendar year, slightly below the HFRI Fund of Funds Conservative Index, the policy benchmark, at 8.1% and above the long-term objective of three-month T-bills plus 2%, which returned 6.2%. The allocation remained below target principally because growth-oriented assets, led by public equity, again outpaced Absolute Return during 2025.

Portfolio activity during 2026 was concentrated in the first half of the year and centered on completing the redemptions initiated in 2025. SCERS received proceeds of approximately $55 million from the full redemption of the PSquared US Feeder Fund, an Event Driven mandate, which was submitted in

the fourth quarter of 2025 and settled in the first quarter of 2026. SCERS also received the remaining proceeds of approximately $13 million from the partial redemption of the GCM Grosvenor fund-of-funds vehicle that was submitted for rebalancing purposes in the third quarter of 2025. A portion of the proceeds were redeployed within the Market Neutral segment, with additions of $10 million to the Capula Global Relative Value Fund and $5 million to the Capula Volatility Opportunities Fund.

SCERS made one new fund investment during 2026, consistent with the annual plan adopted for the year. Staff and Cliffwater recommended, and SCERS funded, a $50 million investment in the HBK Merger Strategies Fund effective October 1, 2026. The investment adds to SCERS' existing Event Driven allocation, which had been reduced by the PSquared redemption earlier in the year. The investment size is consistent with the $50 million average investment contemplated in the 2026 annual plan, and the single investment falls within the planned range of zero to two funds.

As of October 1, 2026, SCERS' Absolute Return allocation was approximately 6.6% of the total fund, with a market value of $1.10 billion, including the $50 million investment with HBK. Despite positive returns and increased investments during the year, the continued strong performance of growth-oriented assets has kept the Absolute Return portfolio below the 7% target allocation. This leaves room for additional investments during calendar year 2027, excluding investments made for portfolio adjustments and rebalancing.

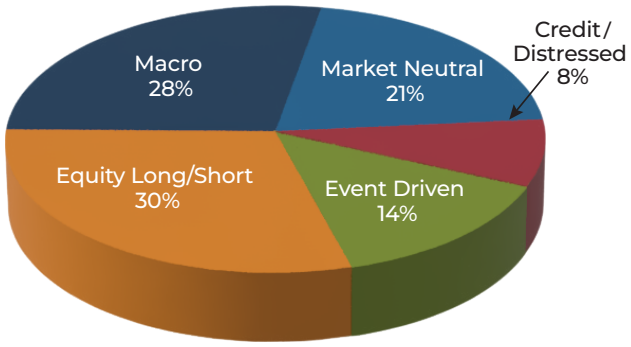
There were no changes to the Absolute Return portfolio construction parameters and guidelines during 2026. The table that follows shows the construction parameters and guidelines for SCERS' Absolute Return portfolio.

Absolute Return Portfolio Structure

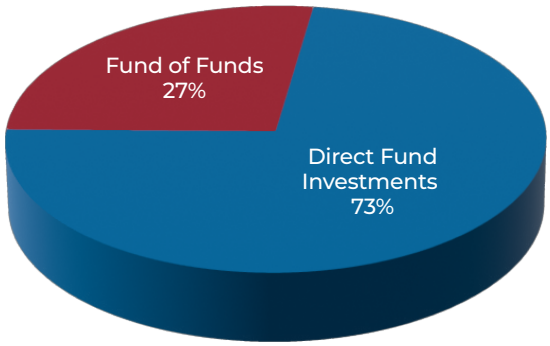
Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Benchmark	**Policy:** HFRI FoF Conservative Index **Long-term objective:** T-bills + 2%
Risk Target	Standard Deviation < 25% of global equities
Market Sensitivity	Target an equity beta <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

The charts that follow show SCERS' Absolute Return portfolio allocations as of June 30, 2026, on a look-through basis, as provided by Cliffwater. Relative to June 30, 2025, Equity Long/Short and Macro exposures increased while Event Driven exposure declined by roughly nine percentage points, reflecting the full redemption of the PSquared mandate earlier in the year. The figures predate the HBK Merger Strategies Fund investment effective October 1, 2026, which will increase Event Driven exposure.

Absolute Return Portfolio Strategy Allocations
AS OF JUNE 30, 2026



Absolute Return Portfolio Allocations
AS OF JUNE 30, 2026



2026 Activity

The 2026 Absolute Return investment plan was:

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

2026 actual activity:

- One investment was made during the year, totaling $50 million:
  - $50 million investment in the HBK Merger Strategies Fund (Event Driven), effective October 1, 2026
- Redemption proceeds received from redemptions submitted during 2025:
  - Approximately $55 million from the full redemption of PSquared US Feeder Fund (Event Driven), received in the first quarter
  - Approximately $13 million representing the balance of the partial redemption from the GCM Grosvenor fund-of-funds vehicle
- A portion of redemption proceeds redeployed within the Market Neutral segment:
  - $10 million addition to Capula Global Relative Value Fund
  - $5 million addition to Capula Volatility Opportunities Fund
- Conducted manager due diligence on potential new fund investments to bring the portfolio to the 7% target allocation
- Oversaw, monitored, and met with SCERS' existing Absolute Return managers

2027 Investment Plan

Below is the 2027 annual plan for the Absolute Return asset class, as recommended by Cliffwater and Staff:

SCERS Absolute Return Investment Plan

	Target	Minimum Range	Maximum Range
Number of Funds	**1**	0	2
Investment per Fund	**$55 MM**	$45 MM	$65 MM

- Recommend an investment budget of $55 million for 2027, targeting 1 fund, with a range of $45 to $65 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

Through the first half of 2026, the private equity market is best characterized as an incomplete recovery. 2025 produced strong headline gains: global buyout deal value rose 44% to $904 billion and buyout-backed exit value increased 47% to $717 billion. However, the rebound was narrow. Bain & Company reported that 13 transactions of $10 billion or more accounted for 69% of the growth in 2025 deal value, while global deal count declined 6%. The market therefore has more transaction capacity than it did during the 2022–2024 slowdown, but broad-based normalization has not occurred.

That distinction became more important in the second quarter of 2026. PitchBook estimated that U.S. private equity dealmaking declined 37.5% quarter-over-quarter as sponsors pulled back across nearly every sector, size category, and transaction type. A more hawkish rate outlook, wider financing spreads, inflation uncertainty, and renewed questions about portfolio-company earnings all contributed. Financing remains available for high-quality borrowers, but higher-for-longer rates and less confidence in forward growth have made buyout underwriting more difficult and reduced buyers' willingness to rely on leverage or multiple expansion.

Software provides the clearest example of the change in underwriting. U.S. software private equity deal value fell to $10.7 billion in the second quarter of 2026, down 65.7% year-over-year and 90.3% from its recent peak, as investors reassessed the durability of software revenue and competitive moats in an AI-driven environment. At the same time, energy deal value increased sharply, supported in part by power and infrastructure demand associated with AI. The implication is not that one sector should be broadly avoided and another broadly favored; rather, AI has become a company-level underwriting issue that makes manager specialization, entry valuation, and operating capability more important.

Liquidity remains the central constraint on the private equity ecosystem. U.S. exit value fell to $102.6 billion in the second quarter of 2026, down 46.3% from the first quarter and 7.4% year-over-year, with transactions of $1 billion or more representing more than 60% of quarterly exit value. The initial public offering (IPO) market showed some improvement, with listing value rising to $27.6 billion and the number of listings doubling to 12, but the reopening remained narrow. PitchBook's June survey found that 39% of respondents expected exit conditions to remain stable over the next six months, 33% expected conditions to weaken, and only 28% expected improvement.

The liquidity problem is increasingly structural rather than simply cyclical. PitchBook estimated that the private equity inventory reached 13,509 companies by the second quarter of 2026, while Bain reported that the average holding period at exit has moved to approximately seven years. Longer holding periods delay distributions, increase the operating work required from sponsors, and leave limited partner (LP) portfolios older and less self-funding than expected. Continuation vehicles and secondaries remain useful

tools, but current activity suggests that they are supplementing rather than replacing traditional exits.

Fundraising reflects the same pressure. U.S. private equity funds raised $159.6 billion across 223 vehicles through the first half of 2026, a pace broadly consistent with the muted 2025 total of $308 billion across 551 funds and well below the 2021–2024 period. Funds below $1 billion captured only 16.7% of 2026 commitments through June, demonstrating continued concentration in the largest and most established managers. Hamilton Lane similarly noted that closed-end private markets fundraising declined for a fourth consecutive year in 2025. Slow distributions have reduced the capital available for LPs to recycle into new commitments, making fundraising success increasingly dependent on realized performance, brand, and access to existing investors.

The market is not in systemic distress. High-quality companies can still obtain financing, strategic buyers remain active in selected sectors, and the public markets are open to the strongest issuers. Large, well-established private equity firms also continue to raise substantial funds. However, these areas of strength should not be confused with a broad recovery. Bid-ask spreads remain meaningful, middle-market exit activity is uneven, and the operating assumptions that supported many pre-2022 investments are being tested by higher capital costs and slower growth.

Staff's base case for the balance of 2026 should therefore be bearish-to-neutral. Transaction activity may improve from the weak second-quarter level if inflation moderates and the rate outlook becomes clearer, but a rapid return to the liquidity conditions of the prior cycle is unlikely. Distributions are expected to remain below long-term norms, fundraising should stay concentrated, and managers will need to generate a greater share of returns through operating improvement rather than financial engineering or multiple expansion. A more durable recovery will require strategic buyers to re-engage across the middle market and a larger volume of exits to clear at prices acceptable to both sellers and buyers.

Against this more challenging market backdrop, SCERS' Private Equity portfolio continues to pursue a disciplined investment 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: Buyout, Venture Capital, and Growth Equity. To evaluate performance, SCERS uses 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 All Country World Index Investable Market Index (MSCI ACWI IMI), reflecting SCERS' aim to outperform traditional equity markets by leveraging the unique opportunities within private equity. The target ranges for these investment strategies are outlined below.

SCERS Private Equity Portfolio Structure

	Minimum	Target Allocation	Maximum	Policy Index Benchmark
Total Private Equity Portfolio	**8%**	**11%**	**14%**	**Cambridge Associates PE/VC Index**
Buyout	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%	-

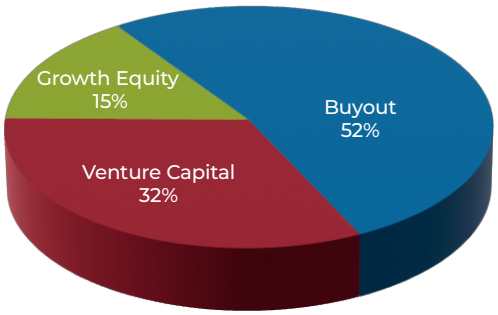
Since 2011, SCERS has worked diligently to build a diversified portfolio targeting an 11% allocation across Buyout, Growth Equity, and Venture Capital. As of September 30, 2026, the current Private Equity allocation stands at 11.8%. Although the allocation slightly exceeds the 11% target, it is well within the targeted range.

The Venture Capital allocation includes several concentrated positions, with the three largest holdings representing nearly 30% of the Venture Capital portfolio. The Venture Capital allocation has at times exceeded its 20% target, in part because several mature funds formed before 2018 have experienced slower exit activity. Longer holding periods have slowed the natural runoff of these mature Venture Capital investments, making portfolio management an ongoing balancing act. Looking ahead to 2027, SCERS is taking a careful, selective approach to new Venture Capital commitments, prioritizing its strongest manager relationships while allowing existing investments to mature and generate liquidity.

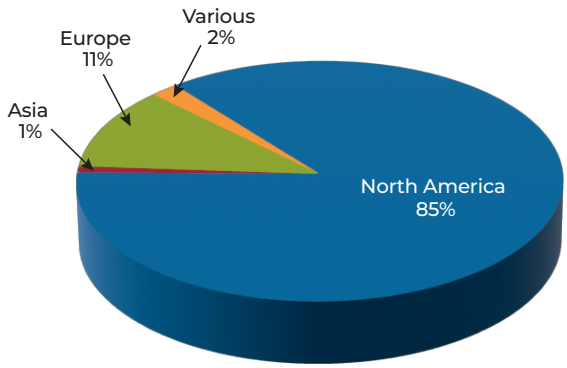
Staff and Cliffwater maintain high standards for all manager relationships, current and prospective, and conduct thorough evaluations to justify follow-on fund commitments with existing managers. New manager relationships are evaluated based on portfolio role, differentiated sourcing or operational strengths, and expected returns commensurate with the illiquidity involved. SCERS generally targets 25 to 30 active general partner (GP) relationships to balance diversification, access, and oversight.

Below is SCERS' Private Equity diversification by investment strategy and geography as of June 30, 2026:

Private Equity Portfolio Strategy Allocations
AS OF JUNE 30, 2026



Private Equity Portfolio Geographic Allocations
AS OF JUNE 30, 20256



2026 Activity

The 2026 Private Equity investment plan was:

- A total of $300 million in commitments, with a range of $250-$350 million
- A target of 7 fund commitments, with a range of 5-9 funds
- An average commitment size of $40 million per fund

2026 actual activity:

- Seven fund commitments have been made during the year, totaling $243 million in aggregate (four follow-on investments with existing managers, two new GP relationships, and one new investment with an existing GP):
  - $50 million follow-on investment in Gridiron Capital Partners VI (Buyout)
  - €25 million ($34 million equivalent) follow-on investment in Waterland Private Equity Fund X (European Buyout)
  - $30 million follow-on investment in Spectrum Equity Fund XI (Growth Equity)
  - $30 million follow-on investment in JFL Equity Investors VII (Buyout)
  - €25 million ($34 million equivalent) new investment in Main Capital Partners IX (European Buyout)
  - $25 million new investment in Water Street Healthcare Partners VI (Buyout)
  - $40 million new investment in Accel-KKR Strategic Capital II (Buyout)
- In process and expected to close by year-end, a $40 million follow-on investment in a venture capital fund
- Oversaw, monitored, and met with SCERS' Private Equity managers

2027 Investment Plan

Below is the 2027 capital commitment plan for the Private Equity asset class, as recommended by Cliffwater and Staff.

SCERS Private Equity Investment Plan

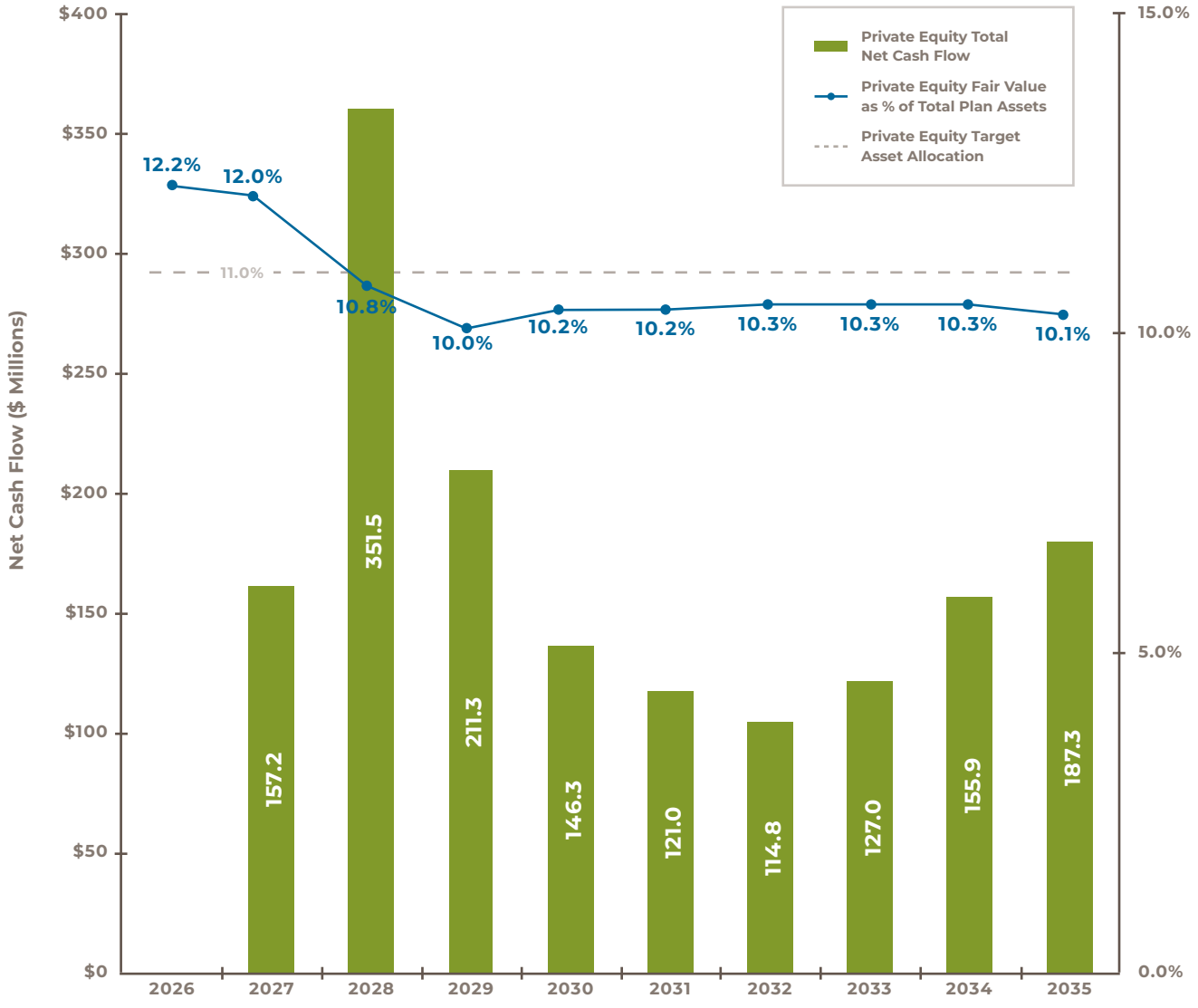
	Target	Minimum Range	Maximum Range
Commitment Level	**$360 MM**	$300 MM	$400 MM
Number of Funds	**7**	5	9
Buyout fund(s)	5	3	6
VC fund(s)	1	0	2
Growth Equity fund(s)	1	0	2
Other fund(s)	0	0	1
Non-U.S. fund(s)	**1**	0	2
Commitment per Fund	**$50 MM**	$35 MM	$60 MM

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

- Recommend a commitment budget of $360 million for 2027, with a range of $300 to $400 million
  - Target 7 fund commitments at an average commitment size of $50 million, with a range of $35-$60 million per fund
- The total commitment budget for 2027 is higher than the $300 million budget from the prior year, mostly due to an increase in plan assets
- Staff and Cliffwater will maintain a measured commitment pace in 2027 while distributions and conventional exits remain below normal levels
  - Pacing will continue to reflect the slow distribution environment, the age of the existing portfolio, and the need to maintain appropriate vintage-year diversification
  - Maintain flexibility to reduce the pace of new commitments if liquidity remains constrained, while retaining the ability to act selectively if distributions and exit activity improve
- The 2027 budget does not include any funds in which a commitment was made in 2026 but capital has not been called
- Manager selection will continue to emphasize specialist strategies, repeatable sourcing advantages, and operating value creation rather than reliance on leverage or multiple expansion
- 2027 investment priorities include:
  - Selective follow-on investments with the strongest existing manager relationships
  - Continued emphasis on specialist and middle-market Buyout managers

- Selective Venture Capital pacing focused on the highest-conviction existing relationships while legacy Venture Capital exposure continues to season
- Monitoring secondary-market pricing and other liquidity options for mature or non-core fund positions
- Ongoing oversight of the existing GP lineup, with particular attention to distributions, holding periods, valuation quality, and portfolio-company exposure to AI-related disruption

Private Equity Capital Pacing Plan



Credit

Market Overview

Credit markets continued to evolve in 2026 as private lenders, banks, and public debt markets provided borrowers with a widening range of financing options. Private credit attracted substantial institutional commitments and continued to expand beyond traditional corporate lending, while redemption pressures in wealth-oriented vehicles highlighted the importance of matching investor liquidity with that of underlying investments. For credit investors, the central consideration remained whether yields, loan terms, and structural protections provided sufficient compensation for borrower risk.

Institutional demand for private credit remained strong in 2026. In its September presentation, S&P Global reported that institutional private credit funds had raised more than $240 billion year-to-date, already matching the full-year 2025 total and putting fundraising on pace for a record year. Direct lending attracted the most capital, followed by opportunistic credit and specialty finance, reflecting an opportunity set that extends beyond corporate lending to asset-backed and investment fund financing. These strategies offer additional sources of diversification but differ materially in risk, leverage, and liquidity. Strong fundraising also reinforces the importance of deployment discipline, as competition for lending opportunities can pressure spreads and lender protections, making managers' origination capabilities and investment selectivity increasingly important.

Private credit headlines in 2026 centered on redemption pressures by retail investors at non-traded business development companies (BDCs), questions about loan valuations, and the outlook for private equity deal activity. Elevated redemption requests prompted withdrawal limits at major BDCs, highlighting the challenges of offering periodic liquidity against long-term loans. While SCERS' institutional allocations are less directly exposed to these pressures, questions about whether reported valuations reflect borrower performance and market conditions remain relevant. Private equity merger and acquisition activity also remained a focus, given its importance to new lending opportunities, refinancing, and investment exits. AI and technological change added uncertainty around software and related businesses. Together, these themes underscored the distinction between investor liquidity concerns and underlying credit performance.

As of June 30, 2026, within the publicly traded credit markets, investment-grade corporate spreads were 0.7%, down from 0.8% a year earlier, while long corporate spreads narrowed to 0.9% from 1.0%. High-yield spreads declined to 2.7% from 2.9%, while bank loan discount margins widened to 4.6% from 4.4%. Corporate bond spreads remained low relative to historic levels, leaving investors with limited additional compensation for credit risk despite elevated overall yields. Borrowing by large technology companies, or "hyperscalers," to finance artificial intelligence infrastructure became a major source of new corporate debt supply, contributing to wider spreads on their bonds, particularly at longer maturities.

Interest-rate developments had different implications across credit strategies. The Federal Reserve's September increase raised its target range to 3.75%–4.00%. Higher benchmark rates support income on floating-rate loans, including many private corporate loans and publicly traded bank loans, but also increase borrowers' debt-service costs. Fixed-rate debt, including most public corporate bonds and some private credit investments, is exposed to price declines when market yields rise, although higher yields improve the income available on new investments. Private credit encompasses both fixed- and floating-rate structures, with interest-rate exposure varying by strategy and investment terms.

The evolving credit environment supports a selective approach to building SCERS' Credit portfolio. Continued fundraising demonstrates institutional demand, but investment decisions should remain grounded in the attractiveness of individual strategies and transactions. Staff, Cliffwater, and Cerity will continue to evaluate managers' underwriting discipline, origination capabilities, lender protections, and workout resources. Given the highly competitive private credit market and economic uncertainty, Staff, Cliffwater, and Cerity remain prudent in making new commitments.

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. Together, the portfolio is expected to outperform exchange-traded bank loans over the long term, primarily through skilled manager selection.

SCERS introduced Private Credit in 2017, with a focus on lending to mid-sized private companies. Over time, private credit expanded into large public corporations that were traditionally served by money-center banks and the public markets, blurring the line between private and public markets. Reflecting this shift, in March 2025 the Board combined Private Credit and Public Credit into a single Credit asset class with Illiquid (Private) and Liquid (Public) Credit sub-strategies, enabling a holistic approach and greater implementation flexibility.

An attractive feature of credit investments is the cash yield provided, which generally constitutes the majority of total return. Given that SCERS is a mature public pension plan with a negative cash flow profile, as annual benefit payments exceed contributions, a meaningful allocation to cash-flowing strategies is increasingly important.

Credit's target allocation is 9%, and as of September 30, 2026, the actual Credit allocation is 5.2%. Within Credit, allocations are made across the Illiquid and Liquid Credit sub-strategies. There are no specific sub-strategy targets, but ranges provide implementation flexibility. Illiquid Credit will comprise 60%–100% of the allocation, with Direct Lending expected to comprise the majority, followed by Opportunistic Credit 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 benchmark are summarized in the table that follows:

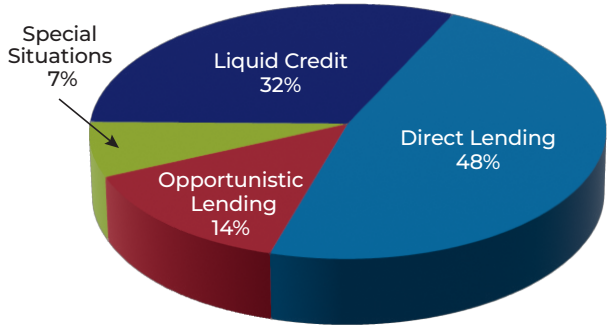
SCERS Credit Portfolio Structure

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

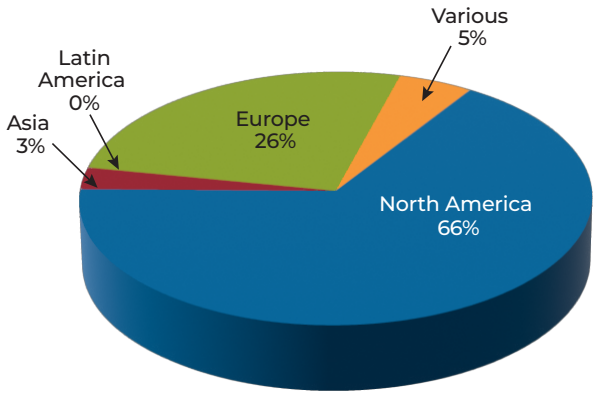
As shown in the "2026 Activity" section below, in 2026 SCERS completed four Illiquid Credit commitments for the year, totaling $208 million. Commitments made during the year included two corporate direct lending funds, an infrastructure debt fund, and an asset-based finance fund. SCERS was also active in the Liquid Credit sub-strategy, investing $100 million in an opportunistic credit strategy that can invest across multiple credit segments, including both public and private credit. Staff also expects to close on a $150 million public and private credit hybrid separate account by year-end within the Liquid Credit sub-strategy.

Below is SCERS' Credit diversification by investment strategy and geography as of June 30, 2026. It includes SCERS' aggregate Illiquid and Liquid Credit allocations:

Credit Portfolio Strategy Allocations
AS OF JUNE 30, 2026



Credit Portfolio Geographic Allocations
AS OF JUNE 30, 2026



2026 Activity

The 2026 Credit investment plan was:

- A total of $300 million in commitments across Illiquid Credit, with a range of $250-$350 million
  - There was no specific allocation for Liquid Credit within this budget, as any potential allocations were to draw against the existing public credit exposure
- A target of 5 fund commitments, with a range of 3-7
- Average commitment size of $60 million per fund

2026 actual activity

Illiquid Credit

- Four fund commitments were made during the year, totaling $208 million in aggregate; all were with existing managers, but only one was a follow-on investment:
  - $50 million investment in Stonepeak Infrastructure Credit Fund II, L.P. (Direct Lending)
  - $33 million investment in Ares Pathfinder Fund III, L.P. (Opportunistic)
  - $75 million investment in KKR Enhanced U.S. Direct Lending, SCSp (Direct Lending)
  - $50 million follow-on investment in Ares Senior Direct Lending Fund IV, L.P. (Direct Lending)
- Oversaw, monitored, and met with SCERS' existing Illiquid Credit managers

Liquid Credit

- $100 million commitment to GoldenTree Master Fund, Ltd., representing SCERS' first investment with this new manager
- $150 million public and private credit hybrid separate account investment in process and expected to close by year-end
- $100 million partial redemption from Brigade Capital Management, which funded the GoldenTree investment
- Oversaw, monitored, and met with SCERS' Liquid Credit managers

2027 Investment Plan

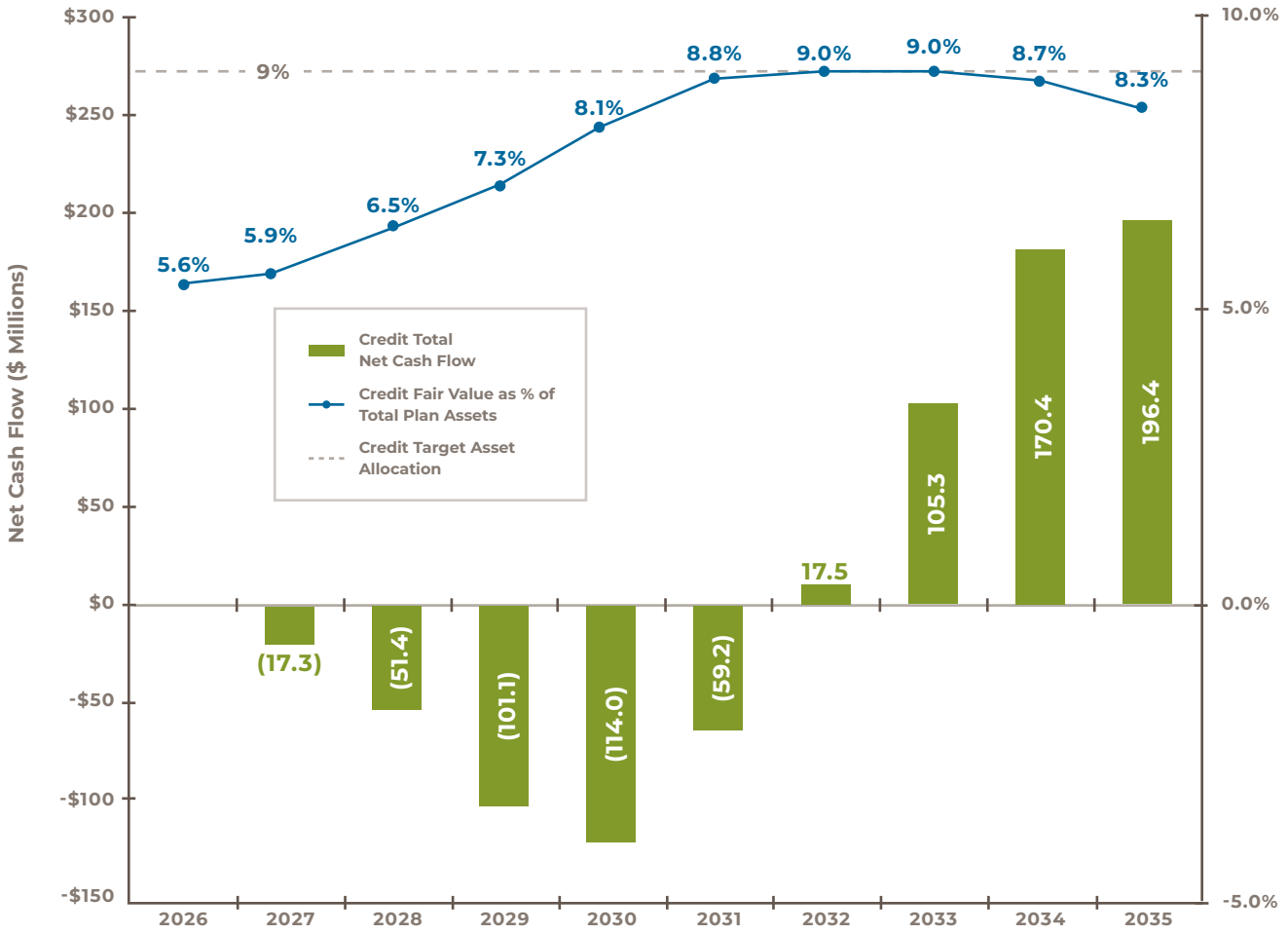
Below is the 2027 capital commitment plan for the Credit asset class, as recommended by Cliffwater and Staff:

SCERS Illiquid Credit Investment Plan

	Target	Minimum Range	Maximum Range
Commitment Level	**$360 MM**	$300 MM	$400 MM
Number of Funds	**5**	3	6
Direct Lending	3	2	4
Opportunistic Lending	2	1	3
Special Situations	0	0	1
Commitment per Fund	**$75 MM**	$50 MM	$150 MM

- Recommend a $360 million commitment budget for 2027, with a range of $300 million to $400 million
  - Target 5 fund commitments averaging $75 million each, with a range of $50-$150 million per fund
- The total commitment budget for 2027 is higher than the $300 million budget from the prior year, mostly due to an increase in plan assets
- 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 be taken from this budget, with capital budgeted for illiquid investments reduced by that amount
- The 2027 budget does not include any funds in which a commitment was made in 2026 but capital has not been called

Credit Capital Pacing Plan



- Staff, Cliffwater, and Cerity continue to make selective progress toward reaching the 9% Credit target allocation, which is expected to be reached by year-end 2031
  - Given the overabundance of capital in the private credit markets, Staff and Cliffwater will remain judicious and selective in making new commitments
  - Staff and Cliffwater continue to seek specialist managers with going-concern lending capabilities but favor collateral-based credit and niche lending and leasing strategies
- 2027 investment strategies and themes include:
  - Follow-on investments in existing managers and strategies
  - Niche and specialty lending and leasing strategies
  - Hard collateral or intellectual property-based lending
  - Hybrid strategies that can invest across credit sectors, including public and private segments
- Oversee, monitor, and assess the existing manager lineup

Real Assets

Market Overview

In this higher-for-longer environment, defined by escalating geopolitical conflict, renewed inflation, and a Federal Reserve that has moved from easing back to tightening, real assets continue to benefit the SCERS portfolio. Infrastructure's contracted revenues, inflation linkage, and low-to-moderate correlation with public markets have historically supported steady returns, which matters more now that stocks and bonds increasingly move together. Geopolitics has also moved to the center of the investment case, as governments prioritize supply chain resilience and energy security. The Middle East war, which blocked shipping through the Strait of Hormuz and kept oil prices elevated, is expected to accelerate investment in pipelines, ports, storage, and alternative routes.

On the policy front, the "One Big Beautiful Bill Act" reduced federal incentives for renewable energy in 2025, though projects with safe-harbored tax credits or strong resources, such as solar-plus-storage in the Southwest, remain competitive without material subsidy. The Infrastructure Investment and Jobs Act, the main source of federal transportation and infrastructure funding since 2021, expired on September 30, 2026, and Congress passed a temporary extension through December 11 while it negotiates a successor. Permitting reform has also gained momentum. In late September, Senate leaders from both parties introduced a bill, backed by the White House, that would speed approvals for energy projects, ease transmission siting, and limit legal challenges, with a vote expected after the midterm elections.

The AI boom has grown from a market story into a macroeconomic one, with technology capital expenditures now accounting for nearly 6% of U.S. GDP. The four largest hyperscalers plan to spend $720 billion to $745 billion on capital expenditures in 2026, up about 78% from 2025, driven largely by pre-leased demand rather than speculative building.

The effects reach well beyond data centers. U.S. electricity demand is on track for its strongest four-year growth streak since 2000. Natural gas is filling much of the gap, with gas-fired power burn expected to hit a record this year. S&P Global projects roughly $1.3 trillion of U.S. utility capital expenditures from 2026 through 2030. Equipment has become a binding constraint, with new gas turbine orders booked years out and large transformers taking more than two years to deliver. Fiber faces similar pressure, as hyperscalers sign multibillion-dollar agreements to secure network capacity and cable supply. Together, these trends are creating opportunities across midstream gas, power generation, transmission, equipment, and fiber, not just data centers.

Infrastructure fundraising slowed sharply in 2026 after a record 2025, with year-to-date capital at a fraction of the roughly $250 billion raised in 2025 and the number of fund closes declining to a few dozen from nearly 90. Allocators continue to favor energy-transition and traditional energy infrastructure, while appetite for data centers has cooled amid overbuild concerns. According to

PitchBook, the largest 2026 closes include KKR Global Infrastructure Investors V ($19.2 billion), InfraVia European Fund VI ($9.3 billion), and Energy Capital Partners VI ($8.1 billion).

Capital has been highly concentrated. Among funds of $400 million or more, the top three account for roughly 60% of the approximately $61 billion raised, and North America-focused funds have taken the majority. Dedicated energy funds raised about three times as much as data center funds, and core and core-plus strategies drew the most commitments. This suggests the slowdown reflects limited partner (LP) selectivity rather than a retreat from infrastructure.

Deal activity has held up better than fundraising, according to Preqin. Deal value totaled $85 billion in the first quarter, down about 25% from the prior quarter. Data centers accounted for nearly 21% of that value, while solar, clean technology, and wind led by deal count. In the second quarter, deal value fell another 19%, but the number of deals rose 13%, with renewables making up more than half of all deals. Preqin expects investor sentiment to remain constructive but selective, with an emphasis on disciplined deployment, smaller commitments, and execution capability.

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, lower 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 Allocation	Maximum	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 in 2025 from 10% to 0% due to limited opportunities within these segments. The range was maintained to preserve flexibility to invest in these segments opportunistically.

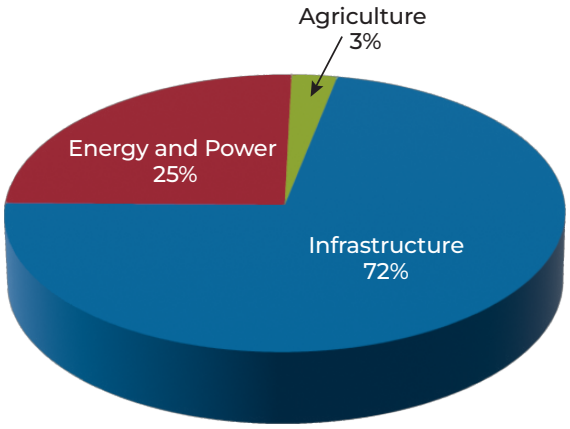
The Real Assets target allocation is 7%, with a range of ±2 percentage points around the target. As of September 30, 2026, the actual Real Assets allocation is 8.1%, above the target but within the range of 5%–9%. According to Cliffwater's capital budget forecast, the actual allocation is expected to revert to the target by 2028.

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 a long-term perspective 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, and reliable cash flows and longer-term contracts.

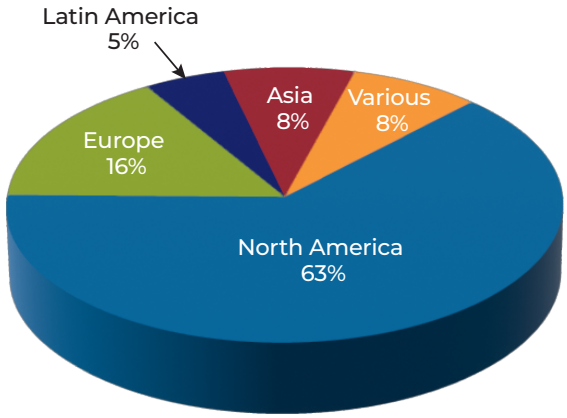
In 2026, SCERS made four commitments totaling $210 million, all follow-on investments with existing managers. The total was slightly below the $220 million target but remained within the budget range of $190 million to $250 million. As shown in the "2026 Activity" section below, the commitments include an energy-related fund, and investments in three infrastructure funds.

Below is SCERS' Real Assets diversification by investment strategy and geographic region, as of June 30, 2026:

Real Assets Portfolio Strategy Allocations
AS OF JUNE 30, 2026



Real Assets Portfolio Geographic Allocations
AS OF JUNE 30, 2026



2026 Activity

The 2026 Real Assets 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

2026 actual activity:

- 4 commitments made during the year totaling $210 million in aggregate (all were follow-on investments with existing managers):
  - $55 million follow-on investment in Quantum Energy Partners IX-O, LP (Energy and Power)
  - $55 million follow-on investment in ISQ Global Infrastructure Fund IV, LP (Infrastructure)
  - $55 million follow-on investment in KKR Asia Pacific Infrastructure Investors III, SCSp (Infrastructure)
  - $45 million follow-on investment in Stonepeak Opportunities Fund II, LP (Infrastructure)
- Oversaw, monitored, and met with SCERS' existing Real Assets managers

2027 Investment Plan

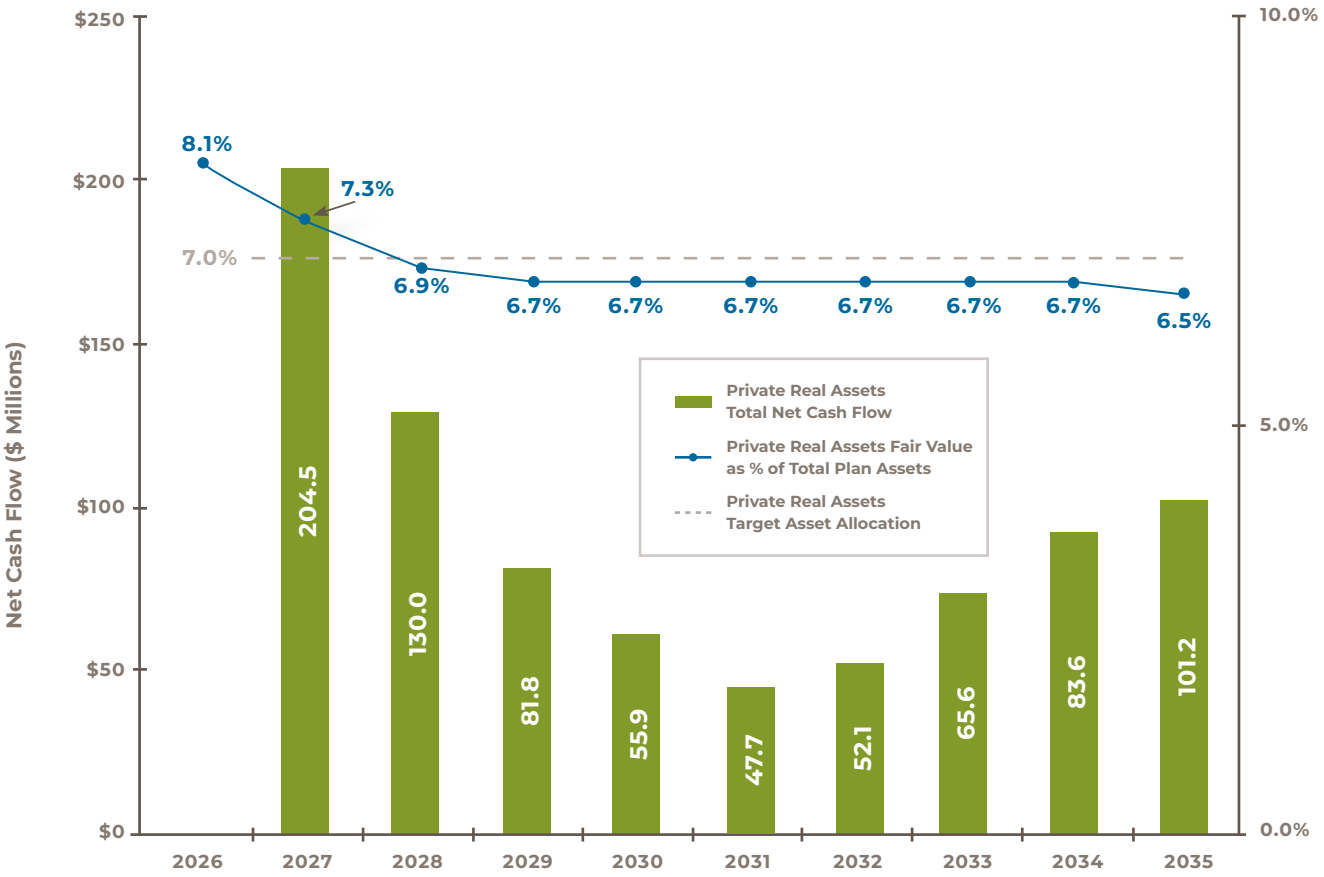
Below is the 2027 capital commitment plan for the Real Assets asset class, as recommended by Cliffwater and Staff:

SCERS Private Real Assets Investment Plan

	Target	Minimum Range	Maximum Range
Commitment Level	**$230 MM**	$200 MM	$260 MM
Number of Funds	**4**	3	6
Energy and Power	1	0	2
Infrastructure	3	2	4
Other	0	0	1
Commitment per Fund	**$60 MM**	$40 MM	$100 MM

- Recommend a $230 million commitment budget for 2027, with a range of $200 million to $260 million
  - Target 4 fund commitments averaging $60 million, with a range of $40-$100 million
    - Three Infrastructure and one Energy and Power
  - The total commitment budget for 2027 is slightly higher than the $220 million budget from the prior year
  - The 2027 budget does not include any funds for which a commitment was made in 2026 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
- 2027 investment strategies and global themes of focus include:
  - Follow-on investments with existing managers/strategies
  - Mid-size to larger-scale infrastructure
  - Regulated assets and social infrastructure
  - Yield-driven returns
  - Multipronged approach to energy (transitional and conventional)
- Oversee, monitor, and assess the existing manager lineup

Real Estate

Market Overview

Within real estate markets, the recovery that began in 2025 continued in 2026, but against a more difficult rate backdrop than investors expected. Monetary easing by the Fed in the second half of 2025 lowered the target range of the federal funds rate, but expectations for further cuts in 2026 faded after the war in the Middle East pushed energy prices higher, and U.S. CPI headline inflation increased, reaching 4.2% year-over-year in May, its highest level since April 2023, and sat at 3.7% as of September. As a result, the Fed raised its target rate by a quarter point at its September meeting.

Real estate is particularly sensitive to interest rates because of its greater use of debt financing. The rate hikes of 2022 were a major contributor to the decline in real estate values and activity in 2023. Long-term borrowing costs have also risen sharply. The 10-year Treasury yield rose from 3.94% in February to 5.29% at the end of September, its highest level since 2002.

Fundraising in real estate has slowed, though it improved as the year progressed. According to Preqin, closed-end real estate funds raised $60.9 billion globally in the first half of 2026, down 41% from an unusually strong first half of 2025, but second-quarter capital raised rose 29% from the first quarter. More funds closed than a year earlier, but they were considerably smaller on average, and the ten largest funds accounted for nearly half of all capital raised. The five largest were Starwood Opportunity Fund XIII, a $10.2 billion opportunistic fund; Kayne Anderson Real Estate Partners VII, a $5.1 billion opportunistic fund; EQT Real Estate Europe Logistics Value Fund V, a $3.6 billion value-add fund; Digital Realty DC Partners NA Fund, a $3.3 billion value-add fund; and Ares US Real Estate Fund XI, a $3.1 billion value-add fund.

Deal activity, however, has continued to recover. According to MSCI, U.S. transaction volume reached $279.3 billion in the first half of 2026, up 23% from a year earlier, and the second quarter marked the ninth consecutive quarter of year-over-year growth. The gains are increasingly concentrated in a few sectors. July volume rose 78% year-over-year but just 1% excluding data centers. That month, senior housing and hotel sales rose sharply, while apartment and retail sales declined.

Property fundamentals are improving, though unevenly. Warehouse absorption outpaced new deliveries in the first quarter of 2026 for the first time in more than three years. J.P. Morgan expects office vacancy to begin improving in the second half of 2026, and limited new construction through 2027 should support rent growth. Conditions are also improving abroad. In the second quarter, office rents rose 3.3% year-over-year in Singapore and 3.8% in Frankfurt, according to CBRE, and 9.0% in Sydney's CBD, according to JLL. Europe-focused fundraising reached one of its strongest quarterly totals in three years, and European cap rates remain higher than in the U.S. despite stronger rent growth.

Those improvements have not yet translated into higher property values. Rising income has been offset by higher interest rates, which have kept cap rates from falling, so values have been largely flat. The RCA CPPI All-Property Index rose just 0.2% year-over-year in July, with apartment prices down 4.1% and still 22% below their 2022 peak. Institutional-quality properties have held up better, rising 5.2%, according to Green Street. The NCREIF Property Index returned 1.3% in the second quarter, almost entirely from income, with just 0.1% from appreciation. Senior housing led with a 3.9% return, while residential returned 1.0% and office 0.7%.

Capitalization (cap) rates have barely moved this year. NCREIF's all-property cap rate rose 3 basis points in the second quarter and has stayed between 4.57% and 4.73% for 11 quarters. That is well below the current 10-year Treasury yield. Capital Economics considered property close to fair value at mid-year, with industrial the only major sector that looked overvalued. It expects valuations to deteriorate in the third quarter following the rise in Treasury yields, which would require appraised cap rates to rise. 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 2027, real estate investment may see continued but more selective improvement. Much will depend on inflation and interest rates, whether rental income growth can offset upward pressure on cap rates, the strength of the broader economy, and the refinancing of roughly $875 billion in mortgages maturing in 2026.

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.

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

SCERS Real Estate Portfolio Structure

	Minimum	Target Allocation	Maximum	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%	-

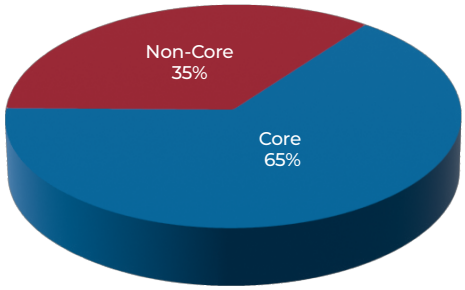
Real estate investment strategies fall within two broad categories – core/core-plus and non-core. Investments in core/core-plus strategies will typically possess a lower but stable risk-return profile and serve as the hub/foundation of the Real Estate asset class. Non-core investments represent the spoke/alpha 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.

As of September 30, 2026, the actual Real Estate allocation is 5.7%, below the 8.0% target, and modestly below the range of 6%–10%. Commitments currently in the pipeline, along with investments made over the next several years, are expected to gradually move the portfolio toward its revised 8.0% target allocation by 2029.

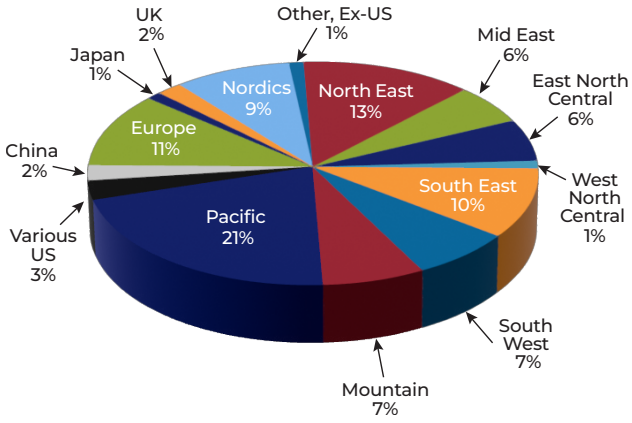
The real estate market has felt the impact of inflation, heightened interest rates, and the uncertain economic environment over the past few years, which has translated to a cautious and selective investment approach by Staff and Townsend. Due to Staff turnover within this segment of the portfolio, real estate deployment got off to a slow start in 2026 but has picked up as the year has progressed. Staff and Townsend evaluated a number of investment opportunities during the year, and one non-core commitment has closed through the first three quarters of 2026. Several additional core, core-plus, and non-core investments are currently under review and are expected to close by year-end. Going into the 2027 investment year, Staff and Townsend expect to make investments within both the core and non-core segments to move the Real Estate allocation toward its 8% target.

Below is SCERS' Real Estate diversification by investment strategy and geographic region, as of June 30, 2026:

Real Estate Portfolio Strategy Allocations
AS OF JUNE 30, 2026



Real Estate Portfolio Geographic Allocations
AS OF JUNE 30, 2026



2026 Activity

The 2026 Real Estate investment plan was:

- $300 million in total commitments, with a range of $155-$400 million
- Target 5 fund commitments, with a range of 4-6
  - 2 core funds
  - 3 non-core funds
- An average core fund commitment size of $75 million and non-core commitment size of $50 million per fund

2026 actual activity:

- 1 commitment has been made during the year, totaling $50 million in aggregate (new GP relationship):
  - $50 million new investment in Wolff Credit Partners IV, LP (Value Add)
- In process and expected to close by year-end:
  - $50 million investment in a non-core real estate fund
  - $50 million investment in a core real estate fund
  - $75 million investment in a core-plus real estate fund
- Oversaw, monitored, and met with SCERS' existing Real Estate managers

2027 Investment Plan

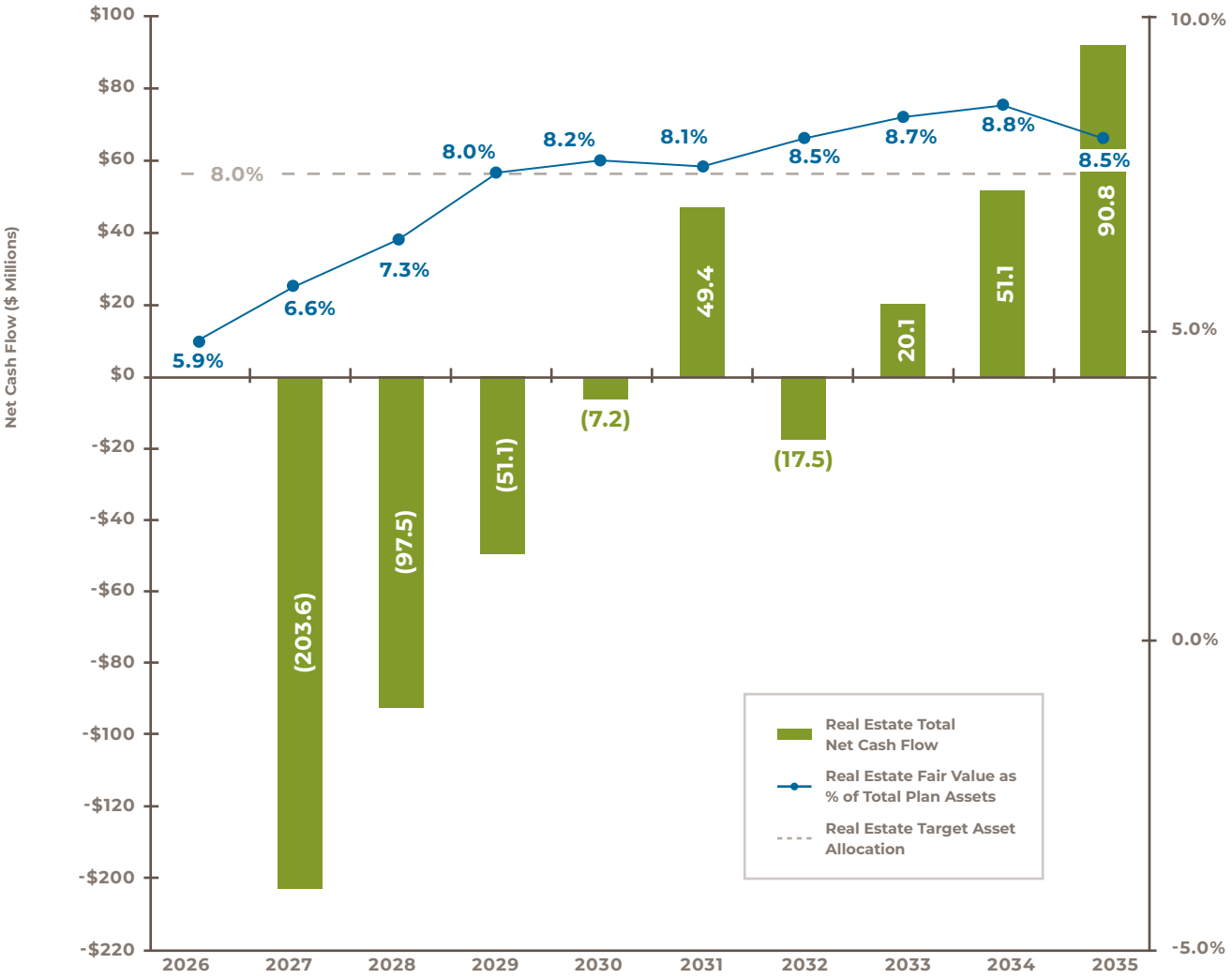
Below is the 2027 capital commitment plan for the Real Estate asset class, as recommended by Townsend and Staff:

SCERS Real Estate Investment Plan

	Target	Minimum Range	Maximum Range
Commitment Level	**$350 MM**	$200 MM	$460 MM
Number of Funds	**6**	4	7
Core	2	1	2
Non-Core	4	3	5
Commitment per Non-Core Fund	**$50 MM**	$45 MM	$60 MM
Commitment per Core Fund	**$75 MM**	$65 MM	$80 MM

- Recommend a $350 million commitment budget for 2027, with a range of $200 million to $460 million
  - Target 2 core fund commitments averaging $75 million each, with a range of $65-$80 million per fund
  - Target 4 non-core fund commitments averaging $50 million each, with a range of $45-$60 million
  - The total commitment budget for 2027 is larger than the budget from the prior year, due to total fund growth and to increase the pace of moving toward the 8% target Real Estate allocation
  - The 2027 budget does not include any funds in which a commitment was made in 2026 but capital has not been called

Real Estate Capital Pacing Plan



- Staff and Townsend expect to reach the 8% target in 2029, depending on the mix of core vs. non-core future investments
- 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
- 2027 investment strategies and global themes include:
  - Specialty or niche property types
  - Greater 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 Investment Management. The SSIM 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, 2026, the actual Liquid Real Return allocation stood at 2.0%, 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 SSIM 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.

2026 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

2027 Investment Plan

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



SECTION FOUR

Other Investment Activities



2026 Activities

Other projects, activities, and enhancements within the investment program in 2026 included:

- Completed the onboarding of SCERS' new custodian, Northern Trust
- Initiated and conducted a Request for Proposal evaluation for the general investment consultant, to be finalized in early 2027
- Renewed SCERS' contract with alternative assets investment consultant Cliffwater
- 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 vacant Senior Investment Officer position
- Held SCERS' second annual Investment Forum
- Introduced the quarterly CIO Report presentation
- Attended and participated as speakers/panelists at several industry conferences

2027 Initiatives

- Evaluate potential strategic asset allocation modeling adjustments utilizing updated capital market assumptions
- Conclude the general investment consultant evaluation process
- Evaluate the contract of real estate investment consultant Townsend, which expires on June 30, 2027
- 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



2026 Board Education

- Education on the market outlook and multiple SCERS asset class strategies during the SCERS Annual Investment Forum
- Education on affordable housing strategies in real estate
- Educational overview on performance reporting methodologies
- Education on the overlay program and portfolio rebalancing
- Education on private credit market dynamics
- Education on investment fee trends and analysis
- Education on portable alpha investment strategy

Anticipated 2027 Board Education

- Education on performance attribution and analytics
- Strategy update presentations by SCERS' investment managers
- 2027 Investment Forum



SECTION SIX

Appendix





CERITY PARTNERS®

Memorandum

ceritypartners.com

To: Sacramento County Employees' Retirement System (SCERS) Board
From: John Nicolini, Brian Kwan, and Trevor Parmelee, Cerity Partners
Date: November 18, 2026
RE: 2026 Investment Year in Review

Executive Summary

Much of 2026 was focused on building out the credit portfolio and refreshing the international equity and small cap equity allocations. Staff and Cerity Partners conducted credit and international equity searches, recommended the redemption of Weatherbie and began a search for a replacement small cap growth manager, and added Amova and Artisan to the Watch List. Additionally, we presented an updated liquidity study and Board education on fees and portable alpha. Detailed below are the portfolio initiatives completed in 2026 and planned projects for 2027.

PORTFOLIO INITIATIVES IN 2026

Credit Manager Searches. Staff and Cerity Partners conducted a search for credit managers to begin building out the new single credit portfolio, including onsite meetings and operational and investment due diligence. SCERS moved forward with a $100 million allocation to GoldenTree Master Fund, funded by a $100 million partial redemption from Brigade Opportunistic Credit. Brigade will continue to manage the remaining $150 million until a more suitable strategy is identified. Staff and Cerity Partners also completed diligence on Beach Point for a custom hybrid public and private credit mandate, to be implemented as a separately managed account or fund of one, with an initial commitment of at least $150 million.

International Equity Search. Following the termination of Lazard International Equity in 2025, Staff and Cerity Partners conducted a search for a core international developed large cap equity manager. Seven managers were reviewed, and Man Numeric Global Core ex-US and WCM Focused International Equity were the finalists. SCERS selected Man Numeric, with a new investment of approximately $450 million, or one-third of the international developed large cap equity allocation, funded primarily from Walter Scott and LSV.

Weatherbie Redemption. Due to consistent underperformance and significant asset outflows from the strategy, Staff and Cerity Partners recommended a full redemption of the Weatherbie Specialized Growth strategy. Proceeds are being held in a passive vehicle while a search is conducted for a replacement small cap manager.

Small Cap Growth Search. To replace Weatherbie, Staff and Cerity Partners conducted a search for a growth or core-oriented U.S. small cap strategy that included calls and meetings with multiple managers. Two investment managers emerged as the leading candidates, and a recommendation will be presented at the December Board meeting.

Watch List Additions. In September, Staff and Cerity Partners recommended adding Amova Asset Management and the Artisan Partners Global Opportunities strategy to the Watch List. Both global equity strategies were funded in May 2022 and have trailed their benchmarks since, driven primarily by stock selection. Artisan also faces a pending portfolio manager retirement and a significant decline in strategy assets.

Liquidity Study. Cerity Partners presented an updated liquidity study for the SCERS portfolio at the August Board meeting.

Fee Study and Portable Alpha Education. In September, Staff and Cerity Partners presented education to the Board on the fees SCERS pays across the portfolio, including asset-based fees, fees on invested versus committed capital, and carried interest, and on whether those fees are justified by the value added by alternatives. Education on portable alpha, covering what it is, why SCERS is considering it, and how it would work, was also delivered in September.

PROJECTS FOR 2027

Review asset allocation using 2027 CMAs. Staff and Cerity Partners will review the current asset allocation using the newly released capital market assumptions for 2027. We will present the results and any suggested tweaks to the asset allocation to the Board in the first half of 2027.

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

Potential International Equity Search. Staff and Cerity Partners will potentially initiate an replacement international equity search.

Portable Alpha Search. Staff and Cerity Partners will finalize the RFI and conduct a portable alpha search, with the goal of bringing an idea to the Board during the first half of 2027. The approach under consideration is global equity beta with the manager having discretion over manager selection.

IMPORTANT DISCLOSURES

Cerity Partners LLC ("Cerity Partners") is an SEC-registered investment adviser with office locations throughout the United States. Registration of an Investment Advisor does not imply any level of skill or training. The foregoing is limited to general information about Cerity Partners' financial market outlook. You should not construe the information contained herein as personalized investment, tax, or legal advice. There is no guarantee that the views and opinions expressed in this commentary will come to pass. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. Material economic conditions and/or events may affect future results. All information is deemed reliable as of the date of this commentary but is not guaranteed. Before making any decision or taking any action that may affect your finances or your company's finances, you should consult a qualified professional adviser. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). For additional information about Cerity Partners, including fees, conflicts of interest, and services, send for our disclosure statement as set forth on Form CRS and ADV Part 2 using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

ceritypartners.com/contact

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CLIFFWATER

To: Sacramento County Employees' Retirement System
From: Cliffwater LLC
Date: November 18, 2026
Regarding: **Alternative Assets 2027 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 of private equity, credit, and real assets. The annual investment plans are intended to enable each asset class to continue to meet its objectives, reach its targeted allocation, and maintain desired portfolio exposures.

SCERS uses long-term commitment pacing forecasts developed by Cliffwater 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. The targeted annual commitment pace and expected ranges are often referred to as the annual commitment "budgets". These 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 as well as multi-year projected portfolio market values and cash flow forecasts for each of the private asset classes. While the discussions of the annual investment plans typically focus on expectations for the coming year's activity, each forecast includes assumptions for new commitment pacing over each of the next ten years.

As described below, the recommended 2027 commitment pacing for the private asset classes is consistent with recommendations made in 2026. For example, although the private equity 2027 target budget is higher than the current year, the budget amount is the same as the anticipated 2027 budget within the 2026 investment plan; the target budget for credit represents modest increases from expectations in the 2026 investment plan; the investment plan for real assets is essentially unchanged from 2026. The absolute return portfolio does not require a similar commitment pacing analysis since the absolute return strategies are typically fully invested at the inception of each investment.

Private Equity

The recommended SCERS 2027 investment plan for private equity includes a commitment target of $360 million for 2027 vintage year private equity funds, with an expected commitment range of $300 million to $400 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 $50 million, with a range of $35 million to $60 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 2027 private equity investment plan reflects increases to the commitment target and expected commitment range compared to the 2026 investment plan. As previously mentioned, the relatively higher commitment budget is, however, the same as the anticipated 2027 budget within the 2026 investment plan.

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SCERS will target committing to the same number of private equity funds in 2027 as it did in the 2026 plan, while slightly increasing the expected sizing of individual commitments in 2027. Increasing sizing while targeting the same number of new funds allows SCERS to keep pace with the continued growth in the SCERS total portfolio and remain mindful of its total number of private equity general partner relationships and partnership investments.

SCERS has a target portfolio allocation to private equity of 11%. The SCERS actual portfolio allocation to private equity at the end of the 2026 fiscal year was 11.5%. The SCERS Investment Staff and Cliffwater are forecasting the SCERS private equity percentage allocation will increase slightly over the near term, driven by continued private equity valuation increases and a somewhat muted expectation for distribution activity, before returning to the targeted allocation in 2028 and beyond. The private equity portfolio is projected to remain cash flow positive, with distributions expected to exceed contributions, despite the expected subdued distribution pace.

Credit

The recommended 2027 investment plan for credit includes a commitment target of $360 million for 2027 vintage year credit funds. The expected range for new commitment activity is $300 million to $400 million. The plan is to target five new partnership commitments likely averaging $75 million per individual commitment. While $75 million represents the average expected commitment size, individual commitment amounts could range from $50 million to $150 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 2027. Funds categorized as Special Situations will also be considered, though will likely represent a small minority of potential new credit commitment activity. Liquid Credit investments will be considered as well and would draw from the $360 million 2027 budget.

The SCERS Investment Staff and Cliffwater are forecasting the SCERS credit allocation will reach its 9% targeted allocation within five to six 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 target allocation, the credit allocation is expected to be within its policy range in approximately one year. As a reminder, SCERS adjusted the composition of the credit portfolio and increased the credit target allocation in 2025.

Real Assets

The recommended 2027 investment plan for real assets includes a commitment target of $230 million for 2027 vintage year real asset funds, with an expected commitment range of $200 million to $260 million. The 2027 commitment target and range are nearly identical to the recommended pacing for 2026. The plan targets four new real asset partnership commitments in 2027. The expected average size of individual commitments increased very modestly to $60 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 2027 should once again favor Infrastructure investments. SCERS will also continue to evaluate Energy and Power partnerships for new commitments in 2027.

The SCERS portfolio allocation to real assets was 8.3% at the end of the 2026 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 2027 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 2027 and beyond.

Absolute Return Portfolio

The recommended 2027 investment plan for absolute return strategies includes an expectation for one new fund investment to be made in 2027, likely sized at $55 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 2027, additional changes are possible, particularly if any fund replacements are desired during the year. 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.

Areas of Focus in 2026 and Beyond

The alternative assets implementation focus for SCERS in 2026 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. As SCERS continues to adjust and refine its alternative assets portfolios through their ongoing implementation, particular areas of focus include managing increased levels of concentration within certain sectors, positions, managers, or investment themes, balancing appropriate degrees of diversification with executing on the highest conviction opportunities, and maintaining access to premier investment opportunities. SCERS has once again demonstrated that it remains 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. This approach should continue to position SCERS to meet its investment objectives through a variety of market environments.

Townsend

Memorandum

To: **Sacramento County Employees' Retirement System**

From: Townsend

Date: November 2026

Re: Real Estate Investment Year in Review (Data as of June 30, 2026)

SCERS has a target real estate allocation of 8.0%, with an allowable range of 6.0% to 10.0%. As of 2Q2026, real estate represented 5.8% of total plan assets, which is below the target and the permissible range. However, commitments representing 1.6% of capital remain undrawn as of the second quarter. Many of these unfunded commitments correspond to recent investments that will likely be called in the near term.

Real Estate Return and Risk Forecasts

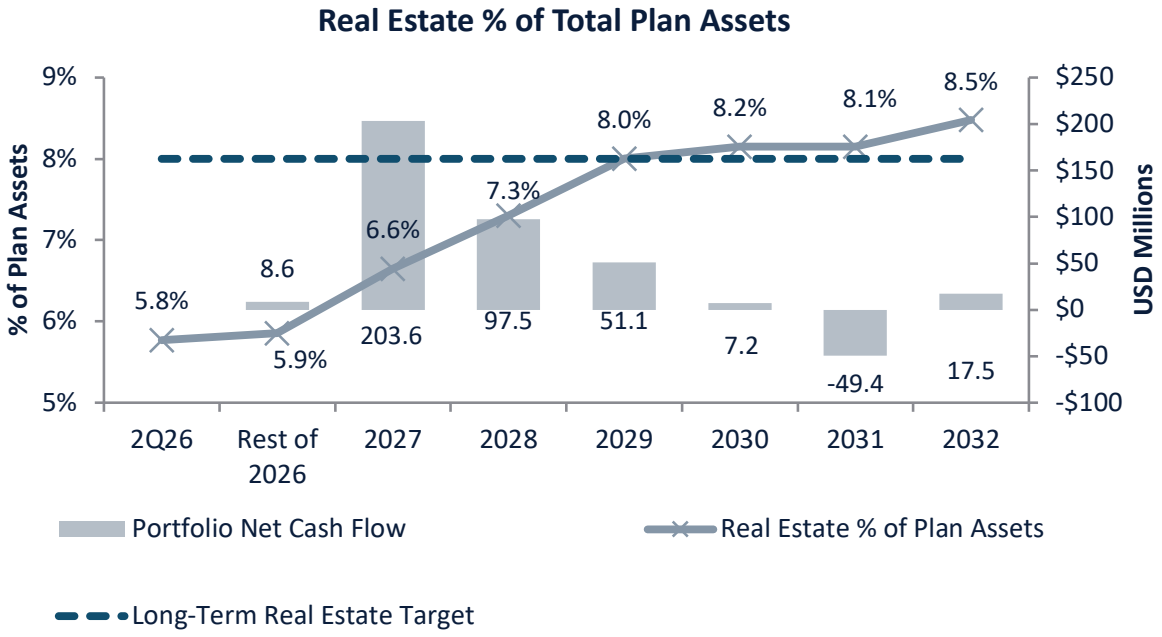
Townsend's long-term return expectations for private real estate and real assets are provided below:

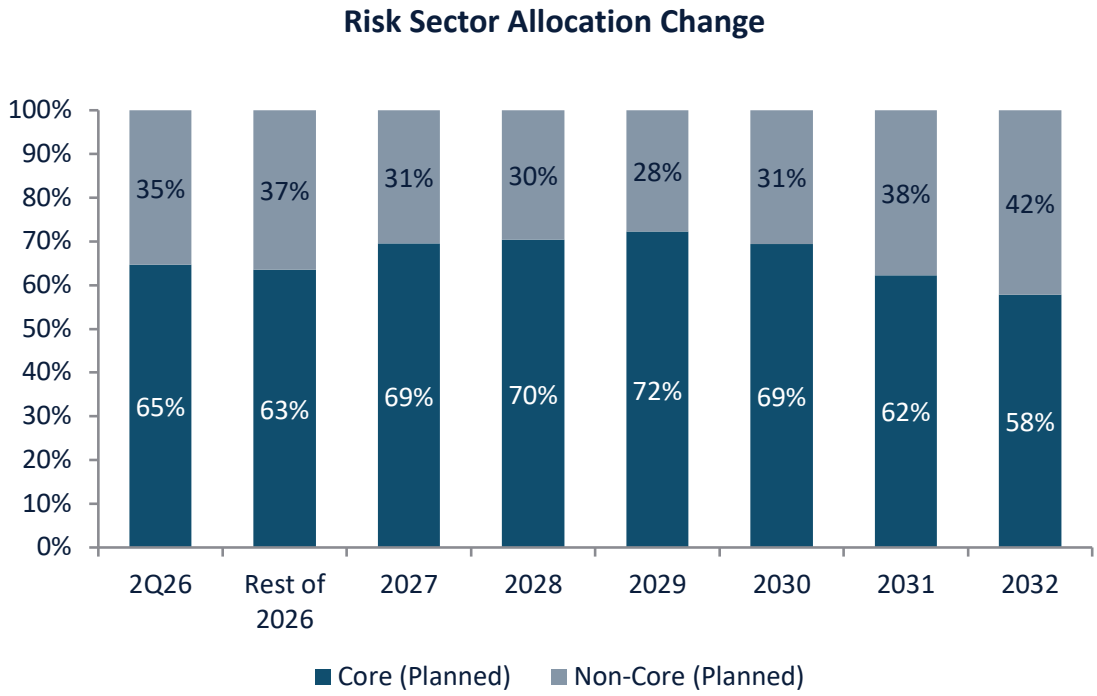
Risk & Return	Core	Value	Opportunistic	REITs	Timber	Row Crop	Perm Crop	Private Infrastructure
Expected Net Return	**6.5%**	**7.5%**	**9.0%**	**7.0%**	**5.0%**	**5.0%**	**6.3%**	**7.5%**
Standard Deviation	**6.7%**	**9.0%**	**8.6%**	**19.8%**	**4.7%**	**4.0%**	**10.1%**	**7.8%**

SCERS Private Real Estate Forecasts

SCERS has steadily increased its pace of commitments since resuming capital deployment at the end of 2024. Even so, the portfolio remains below its 8.0% target after several years of limited new investment. The private real estate portfolio is currently 65% core and 35% non-core, overweight to core relative to the 60/40 long-term target. After recently closing a $50 million non-core commitment, Townsend's pacing forecast on the following page assumes approximately $150 million each in core and non-core commitments in both 2027 and 2028. These cumulative $400 million of new commitments will increase SCERS real estate plan by 0.8% when fully drawn. While non-core commitments generally take 3 or more years to draw, Core commitments will likely be drawn quickly, within the first half of 2027. Under these assumptions, real estate is projected to return to the permissible range in 2027 at 6.6% of total plan assets and reach the 8.0% target in 2029. Core is expected to remain slightly overweight while the portfolio builds toward target. As non-core commitments are drawn the portfolio is then expected to move closer to its long-term 60/40 core and non-core allocation.

Townsend





Recap of 2026

Private real estate appears to be entering the early stages of a new return cycle. U.S. values stabilized through 2025 and 2026, with ODCE returns positive for seven consecutive quarters. In 2026, SCERS made two non-core commitments, both with new manager relationships and further contributing to diversification across the portfolio. The first was an opportunistic

triple-net lease strategy. The second was a value added fund making preferred equity investments in U.S. multifamily development projects.. A third non-core investment is anticipated to close shortly with a diversified global opportunistic fund that acquires portfolios and builds property-rich real estate platforms. Several additional investments are under review. These include a top-up to an existing core fund and a new core-plus fund focused on alternative and niche sectors. Within the existing portfolio, SCERS has received most of the requested capital from the partial redemption of a core diversified fund, with only a small amount outstanding.

Vision of 2027

Real estate fundamentals remain generally supportive heading into 2027, although valuations may face near-term pressure in the fourth quarter of 2026, driven in part by higher interest rates. New supply is forecast to decline across most property types, and alternative sectors are expected to generate the highest returns in the U.S. SCERS' portfolio remains below its 8.0% target and slightly overweight to core. New commitments and rebalancing activity are expected to bring the allocation back within the permissible range in 2027 and to the 8.0% target in 2029, while gradually aligning exposures with long-term strategic targets. Investment activity will need to remain well above recent levels for the portfolio to meet SCERS' allocation targets.

Looking ahead, SCERS and Townsend anticipate multiple compelling opportunities in 2027, particularly within residential, senior housing, data centers, and other niche or alternative sectors. These areas continue to demonstrate strong underlying demand, supported by long-term secular trends including the U.S. housing shortage, the growing 80+ aged, and AI and cloud computing. Townsend intends to focus on offerings with attractive risk-adjusted return profiles that also meaningfully 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. For calendar year 2027, we recommend targeting 1–2 new core commitments at $75-$150 million each and 3–4 new non-core commitments at $50-$75 million each.



2026–2027

SCERS

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