Board of Retirement Regular Meeting
Sacramento County Employees' Retirement System

Agenda Item 22

MEETING DATE: April 21, 2021

SUBJECT: Request for Proposals – Portfolio Analytics Services

SUBMITTED FOR: ___ Consent   **__X__ Deliberation and Action**   __ Receive and File

RECOMMENDATION

Staff recommends the Board authorize Staff to issue a request for proposals (RFP) for portfolio analytics services.

PURPOSE

This item supports the 2021 Annual Investment Plan, which identifies the evaluation of portfolio analytic and risk management systems as an initiative for 2021. This item also supports the Strategic Management Plan goal to continuously enhance technology platforms to improve performance, productivity, and efficiency.

BACKROUND

Over the past 10 years, SCERS has seen its assets close to double, from $5.9 billion in 2010 to approximately $11.5 billion, while increasing plan diversification across a wide range of asset classes that serve varying roles within the total portfolio. The growth in SCERS' total portfolio has seen the number of manager relationships and investment strategies and funds grow significantly, particularly across the alternative asset classes. SCERS is currently invested in 164 funds/mandates, up from 46 in 2010. Most of the fund growth has occurred within the alternative asset classes, including Private Equity, Private Credit, Real Assets, Real Estate, and Absolute Return (see chart below).

Underlying Fund Investments
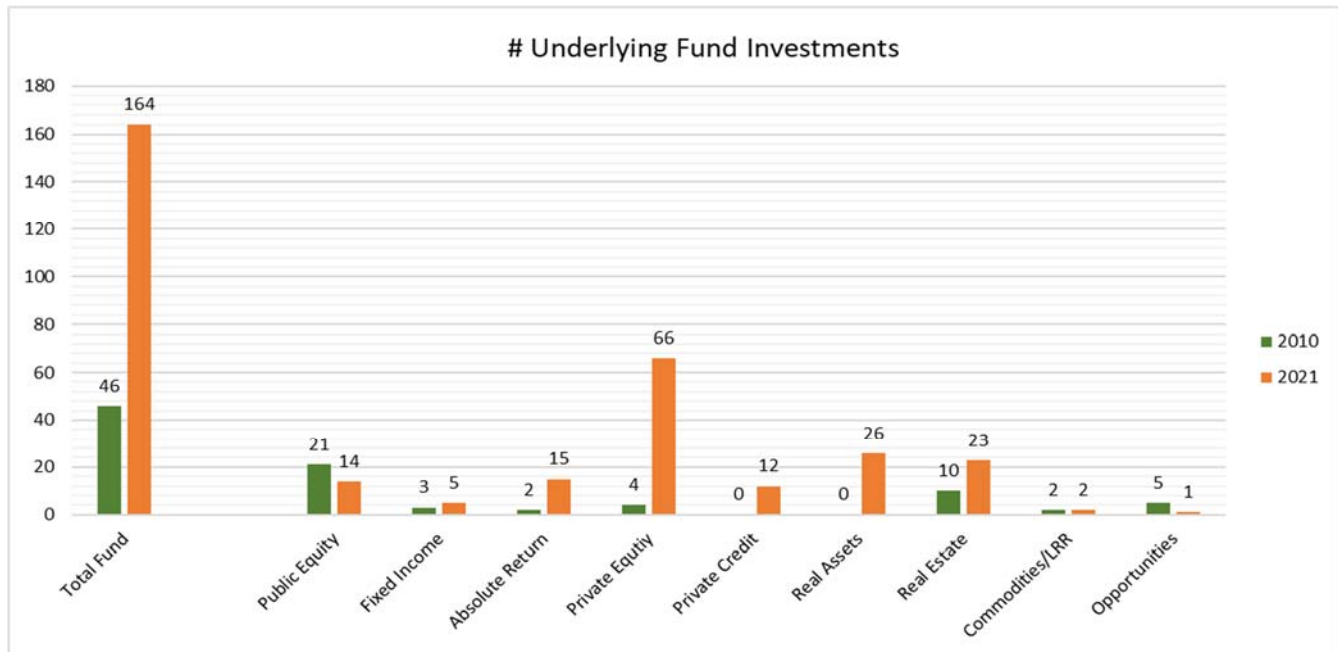
Source: SCERS

Alternative assets play several important roles within SCERS' total portfolio, including enhancing returns, and increasing diversification and cash flows. Given the number of unique risk factors associated with alternative asset investments, including limited liquidity, SCERS sizes these investments smaller than larger public market mandates, which leads to a greater number of investments with investment managers and underlying funds. Given the nature of private market assets, where underlying funds draw capital, make investments, harvest investments, and return capital to investors, SCERS consistently makes investments to new funds on an annual basis, so the growth in the number of funds and manager relationships is expected to increase further.
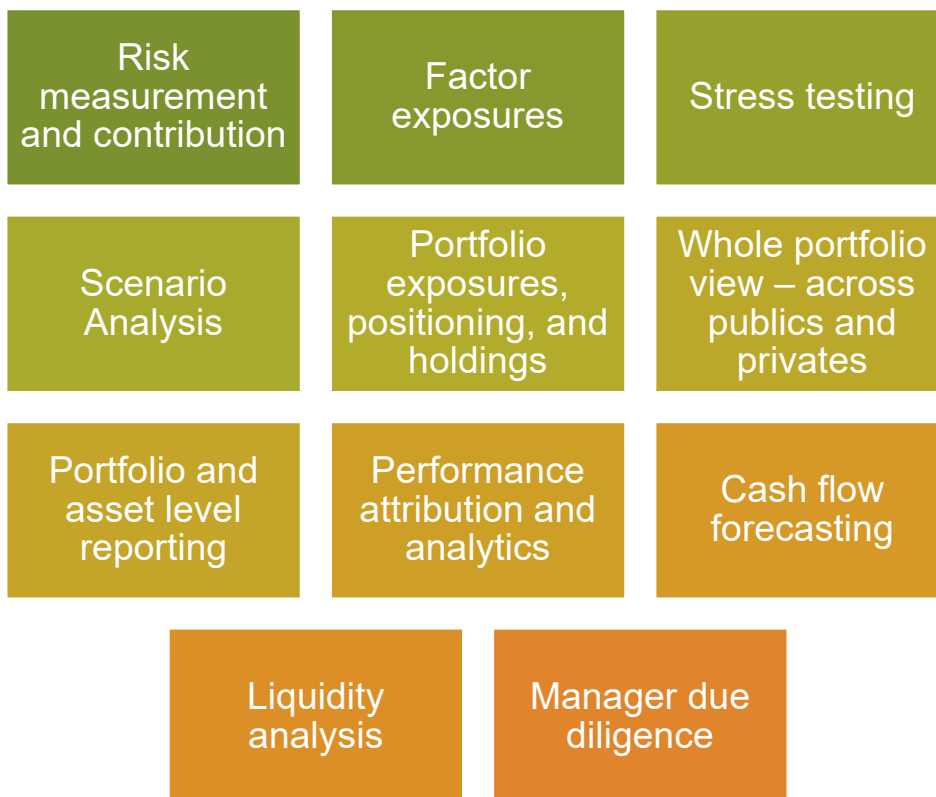
DISCUSSION

With a growing portfolio, having sufficient analytical tools available to Staff and the Board to properly oversee and manage a complex portfolio are becoming an increasingly important consideration. A growing number of service providers have developed robust analytical platforms catered toward institutional investors, including public pension plans. Many public pension plans employ these services with the objective to provide independent and more comprehensive analytics separate from reporting provided from its consultants. Portfolio analytics platforms include multi-asset class, investment risk and analytics systems, that assist in systematically identifying, assessing, monitoring, and reporting portfolio exposures and risk. A portfolio analytics platform can provide a total portfolio view that can holistically view exposures across the entire portfolio (i.e., publics and privates), as well as granularly within assets classes, including the alternative asset classes.

SCERS' consultants provide robust quarterly reporting to Staff and the Board; however, it tends to be lagged. The consultants' client-facing analytical tools also tend to be isolated to the segments of the portfolio in which each consultant advises. A third-party analytics platform would provide a whole portfolio view of SCERS' portfolio, as well as in-depth analytics across and

within asset classes, and at the manager/fund level. The whole portfolio view is important given the blending of public and private market investments within SCERS' broader portfolio, and the need to understand exposures and risk contributions at the total portfolio level. Asset class analytics would provide granular views across asset classes, at the asset class level, the underlying investment fund level, and the portfolio company level. Portfolio company analytics is an area in which Staff currently does not have access outside of individual reporting from investment managers.

Obtaining this level of detail across the portfolio would give Staff improved information to evaluate existing investments, including whether they are drifting from their targeted strategies or have concentrated risk exposures. It would also enable Staff to better consider and evaluate new investment opportunities in the context of the broader portfolio and the strategic asset allocation. As an example, if Staff is reviewing a sector specific private equity fund (i.e., healthcare), a portfolio analytics system would allow Staff to quickly be able to aggregate and understand total healthcare exposure across the entire portfolio prior to making a commitment.

A portfolio analytics system would provide useful information for the Staff and Board, in a succinct fashion, to complement reporting by SCERS' investment consultants. Some specific functions that a portfolio analytics platform would provide include:

Risk measurement and contribution	Factor exposures	Stress testing
Scenario Analysis	Portfolio exposures, positioning, and holdings	Whole portfolio view – across publics and privates
Portfolio and asset level reporting	Performance attribution and analytics	Cash flow forecasting
Liquidity analysis	Manager due diligence	

REQUEST FOR PROPOSALS (RFP):

Staff has had discussions with a few analytics service providers, and determined that there are viable platforms in the market that would provide meaningful value. Therefore, Staff recommends issuing an RFP for portfolio analytics services. The marketplace for portfolio analytics services has grown significantly, and an RFP would allow Staff to compare and contrast the different platforms available to institutional investors. The RFP would also better identify and formulate what SCERS' most important priorities are as it relates to portfolio analytics.

The cost of a portfolio analytics platform can vary depending on the needs of the investor and the services offered. Most service providers charge an annual fee, and in the limited due diligence that Staff has conducted, the cost is in the six figures. The cost would be meaningful on an absolute basis; however, relative to the size and complexity of SCERS' $11.5 billion portfolio, it is a well-considered expense. With the addition of a portfolio analytics platform, SCERS would have the ability to evaluate and potentially eliminate existing analytics services currently in use, and which are not providing sufficient value, which would offset some of the cost.

CONSIDERATIONS:

There are several considerations in adding a portfolio analytics platform. First, onboarding and implementing such a platform would represent a large project. This entails building SCERS' asset allocation and benchmark data into the platform. It also entails building a historic database of all of SCERS' portfolio data. SCERS' portfolio receives data from a variety of sources and vendors, including SCERS' custodian, State Street (custodied assets), investment managers (commingled funds), and other service providers. A portfolio analytics service provider would need to facilitate retrieving and uploading this data from State Street and SCERS' investment managers, and demonstrate the ability and experience in doing this, as Staff does not have the resources to take this on. In discussions with Staff, many service providers take on this effort with minimal work from Staff, other than providing custodian and manager contacts.

Second, the ongoing management of the platform would also need to be the responsibility of the service provider. This includes updating existing manager data, adding new managers and funds, and updating asset allocation and benchmark information. In addition, SCERS' data would need to be harmonized and integrated into the platform with accuracy. The service provider would also need to have a platform that is customizable to SCERS' needs, as well as the ability to create custom reports for Staff and the Board.

Many larger public pension plans that have a dedicated risk management system also have dedicated staff toward this function. With limited Staff resources, a portfolio analytics platform is only helpful if it is being used to its potential. Staff will therefore need to be confident that it has the capacity to manage and utilize the platform to maximize its value.

TIMELINE:

The timeline for the RFP process for a portfolio analytics service provider is as follows:
- Staff create and issue RFP – May/June 2021
- RFP responses – July/August 2021
- Staff review RFP responses – July/August 2021
- Service provider demonstrations – September/October 2021
- Recommend service provider to the Board – November/December 2021

ATTACHMENTS

- Request for Proposals - Portfolio Analytics Services presentation

Prepared by: Reviewed by:

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_____   _____
Steve Davis   Eric Stern
Chief Investment Officer   Chief Executive Officer

# Request for Proposals - Portfolio Analytics Services

April 21, 2021

Agenda

- Recommend issuing a request for proposals (RFP) for portfolio analytics services

- Growth of SCERS' portfolio

- Portfolio analytics services – description and functions

- Service providers
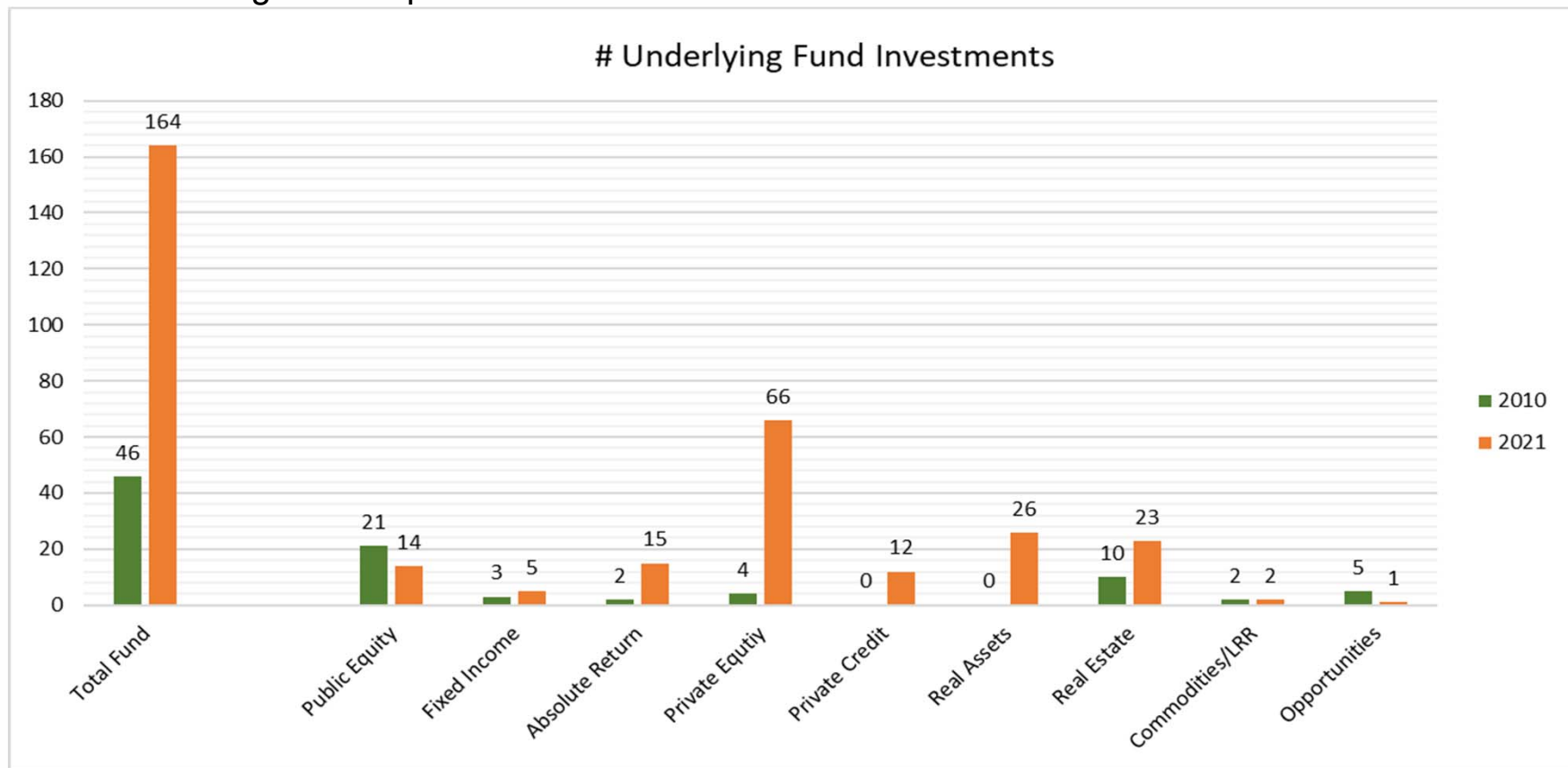
- Timeline

SCERS Portfolio Growth

- $11.5 billion in assets vs. $5.9 billion in 2010
- 8 major asset classes across publics and privates
  - Two new asset classes added since 2010 (Real Assets/Private Credit)
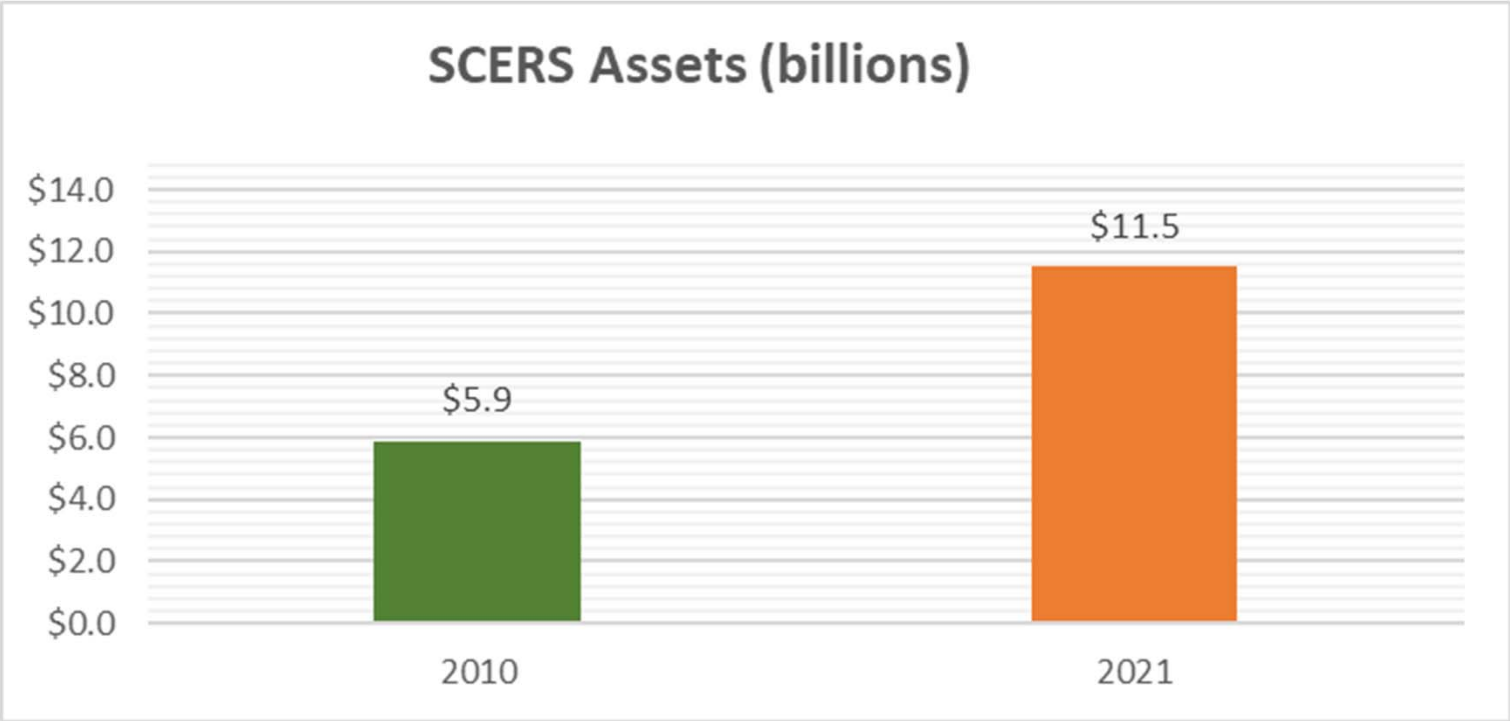
Growth in Underlying Funds and Complexity

- Significant growth in number of underlying managers/funds – fueled by alternative assets
  - Alternative assets fulfill broader plan objective to enhance returns, and increase diversification and cash flows
  - Alternative asset funds implemented through a larger # of smaller commitment sizes
  - Fund growth expected to increase further over time

Underlying Fund Investments

Category	2010	2021
Total Fund	46	164
Public Equity	21	14
Fixed Income	3	5
Absolute Return	2	15
Private Equity	4	66
Private Credit	0	12
Real Assets	0	26
Real Estate	10	23
Commodities/LRR	2	2
Opportunities	5	1

Portfolio Analytics Services

- Greater portfolio growth and complexity emphasizes the need for sufficient portfolio analytical tools
- What are portfolio analytics tools and services?
  - Multi-asset class, investment risk and analytics software
    - Dynamic client-facing tools
  - Attained through third-party service providers
  - Assists in systematically identifying, assessing, monitoring, and reporting portfolio exposures and risk
    - Holistically across total fund, and across and within individual asset classes
  - Sources and aggregates data from various SCERS vendors including custodian and investment managers, and other service providers
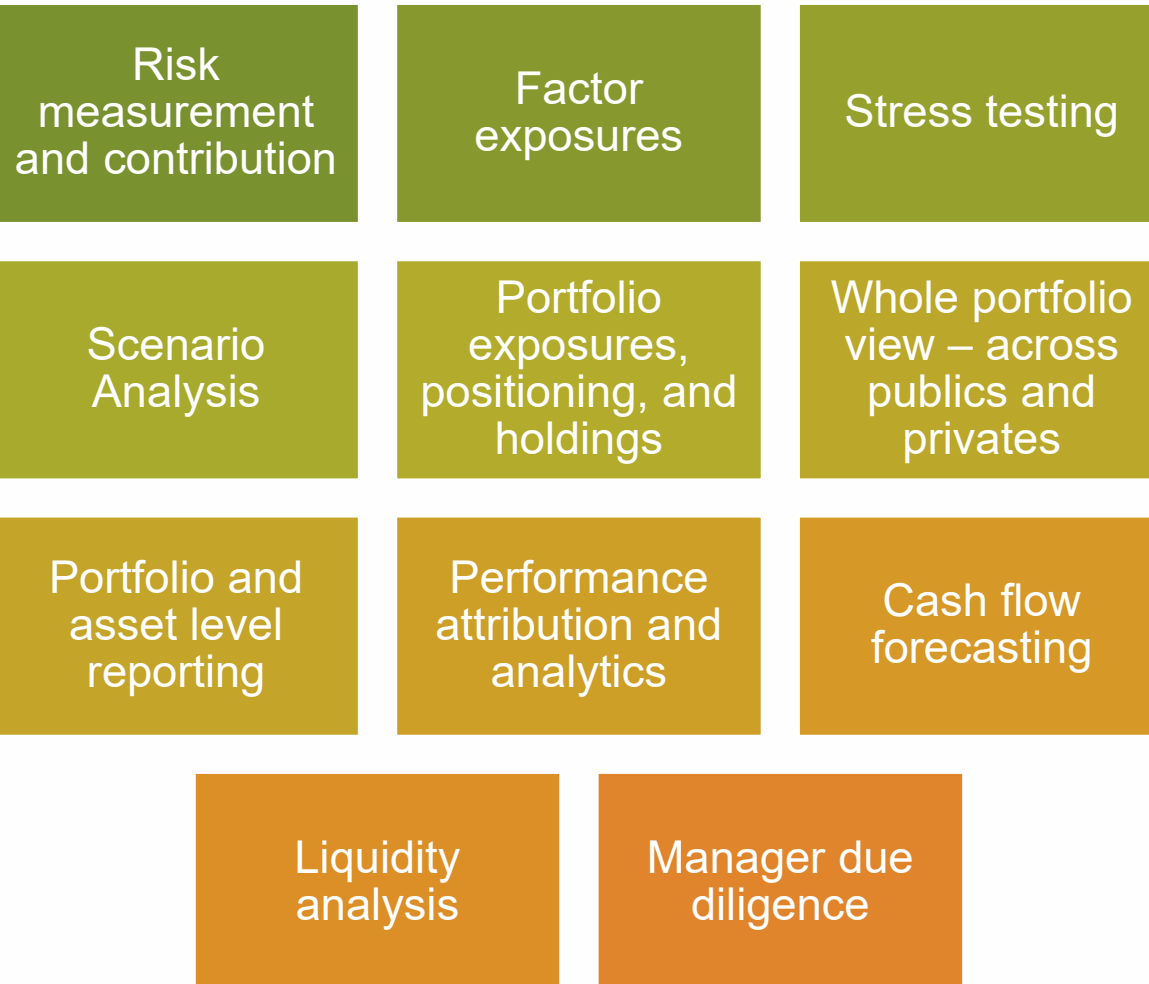
Portfolio Analytics Services

Significant benefits for SCERS:

- Improved information related to existing investments

- Improved decision-making when evaluating investment opportunities

- Better alignment with Strategic Asset Allocation

- Useful reporting to the Board that is complementary to consultant quarterly reporting

Portfolio Analytics Services – Functions

Risk measurement and contribution	Factor exposures	Stress testing
Scenario Analysis	Portfolio exposures, positioning, and holdings	Whole portfolio view – across publics and privates
Portfolio and asset level reporting	Performance attribution and analytics	Cash flow forecasting
Liquidity analysis	Manager due diligence	

Portfolio Analytics Service Providers

- Increased institutional interest has translated to a growing marketplace
  - Staff has had discussions with a few firms to determine there are viable solutions available
- Service providers include:
  - Stand-alone analytics firms
  - Financial service and investment management firms
  - Investment consultants

Portfolio Analytics Service Providers

- **Recommend issuing an RFP for portfolio analytics services**
  - RFP will assist in:
    - Identifying and formulating SCERS' portfolio analytics needs
    - Evaluating a growing universe of service providers
- Cost
  - Limited Staff discussions point toward six figure annual costs
  - Greater clarity within RFP responses
  - Potential to eliminate existing analytical tools to offset some of the cost

Portfolio Analytics - Considerations

Implementation and onboarding

Ongoing management

Customizable platform and reporting

Data quality and accuracy

Portfolio Analytics - Timeline

Staff create and issue RFP – May/June 2021

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