Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 9

MEETING DATE: September 20, 2017

SUBJECT: Proposed Revisions to Absolute Return Portfolio

SUBMITTED FOR: ___ Consent   _X_ Deliberation and Action   ___ Receive and File

RECOMMENDATION

Staff recommends that the Board approve the proposed revisions to the structure of the Absolute Return portfolio as presented by Cliffwater and SCERS' Investment Staff.

PURPOSE

To make the Absolute Return portfolio consistent with the strategic asset allocation adopted by the Board in January 2017.

RECAP OF ABSOLUTE RETURN STRATEGIC CHANGES

SCERS' Board approved a revised strategic asset allocation for SCERS in January 2017, which resulted in modifications to SCERS' Absolute Return portfolio. Absolute Return had been a dedicated asset class in SCERS' prior asset allocation, with a 10% target allocation. The Absolute Return portfolio still has a 10% target allocation in aggregate; however, the asset class has been broken out into two segments: 1) Growth Absolute Return strategies have been moved to SCERS' Growth asset category with a target allocation of 3%; and 2) Diversifying Absolute Return strategies have been moved to SCERS' Diversifying asset category with a target allocation of 7%.

Asset Category	Asset Class	Minimum Allocation	Target Allocation	Maximum Allocation
Growth			59.0%	
	Domestic Equity	19.0%	21.0%	23.0%
	International Equity	18.0%	20.0%	22.0%
	Private Equity	7.0%	9.0%	11.0%
	Public Credit	1.0%	2.0%	3.0%
	Private Credit	2.0%	4.0%	6.0%
	Growth Absolute Return	1.0%	3.0%	5.0%
Diversifying			25.0%	
	Core/Core Plus Fixed Income	8.0%	10.0%	12.0%
	US Treasury	3.0%	5.0%	7.0%
	Global Fixed Income	2.0%	3.0%	4.0%
	Diversifying Absolute Return	5.0%	7.0%	9.0%
Real Return			16.0%	
	Real Estate	5.0%	7.0%	9.0%
	Real Assets	5.0%	7.0%	9.0%
	Commodities	0.0%	2.0%	3.0%
	TIPS	0.0%	0.0%	3.0%
Opportunities		0.0%	0.0%	5.0%
			100.0%	

The Absolute Return portfolio was broken up into different asset categories as Absolute Return plays multiple roles within a portfolio. The distinction was to separate those strategies that typically do well during a more favorable economic environment, and have higher correlations and betas to equity and credit markets, from those strategies that have low to negative correlation to equity markets and serve as a diversifier to the more growth oriented segments of SCERS' portfolio. This is an important distinction within Absolute Return because individual absolute return strategies have different risk/return profiles, serve different roles and have varying outcomes within a portfolio. Examples of the more growth oriented and correlated absolute return strategies include equity long/short; long/short fixed income; and event driven. Examples of diversifying and uncorrelated absolute return strategies include global macro; market neutral; relative value; and multi-strategy.

SCERS takes a diversified approach to implementing the Absolute Return portfolio, which includes two primary segments, a direct absolute return portfolio and a diversified separate account managed by Grosvenor Capital Management ('GCM'). The direct absolute return portfolio is a diversified portfolio of 10 to 20 investments in individual absolute return/hedge funds that is managed by SCERS and SCERS' alternative assets consultant, Cliffwater. The GCM separate account is called SC Absolute Return Fund, LLC ('SCARF'), and is a diversified multi-strategy absolute return fund of funds ('FOF') portfolio that GCM has discretion in implementing, but is overseen by SCERS' investment staff ('Staff') and Cliffwater subject to the structure and guidelines of SCERS' overall Absolute Return portfolio.

In addition to SCARF, GCM also manages an additional FOF portfolio for SCERS, called SCARF B. This portfolio was created subsequent to the SCARF fund, and was intended to provide SCERS with interim underlying absolute return exposure while SCERS' direct absolute return portfolio was being built out, rather than relying on SCERS' Overlay Program to fill the gap between actual and target Absolute Return exposures. SCARF B has a similar structure to SCARF, but contains a higher degree of liquidity in the underlying funds that it allocates to. Since its creation in February of 2013, SCARF B has been significantly sold off as SCERS' direct program has been developed, and it is anticipated that the SCARF B portfolio will complete liquidation over the next year. While SCRAF B is intended to be a liquidating portfolio (~$70 million), SCARF (~$260 million) is intended to be a long-term strategic allocation within SCERS' Absolute Return portfolio. The combination of the direct absolute return portfolio and the SCARF portfolio(s) gives SCERS a broadly diversified portfolio that has the potential to generate excess returns, while providing for economies of scale by limiting the number of direct managers within the Absolute Return portfolio.

RECOMMENDED ABSOLUTE RETURN MODIFICATIONS

This agenda item presents several recommendations related to the structure of SCERS' Absolute Return portfolio. A revised Investment Policy Statement ('IPS') for Absolute Return will be presented at a later date. As you will recall, SCERS' Board requested that Staff and consultants consolidate SCERS' individual asset class IPSs, especially where there is commonality among segments of the SCERS' total portfolio. Staff and SCERS' consultants believe that the most effective approach to accomplish this is to either: 1) Create a consolidated IPS for the traditional/liquid asset classes and one for the alternative asset classes; or 2) Create consolidated IPSs for each of SCERS' asset categories (Growth; Diversifying; Real Return). Staff is leaning toward IPSs for the asset categories, which would mean that Growth and Diversifying Absolute Return would be covered under separate IPSs. Therefore, IPS changes for Absolute Return will be recommended at a later Board meeting (November or December), in a consolidated manner as described above.

However, it should be noted that though the recommended changes to the structure for the Absolute Return portfolio will be added to an IPS at a later date, the recommended changes if approved by the Board, will go into effect immediately, and override those specific components within the current IPS for Absolute Return. The remainder of the current Absolute Return IPS would remain in effect until a revised IPS is presented.

Sub-category Parameters:

The key recommendations related to the structure of SCERS' Absolute Return portfolio are summarized in the table below and explained in the discussion that follows. The recommendations below include targets that are different for the Growth and Diversifying Absolute Return portfolios. These recommended targets are the result of analysis conducted by Cliffwater, a component of which included analyzing SCERS' own historical absolute return exposures. It should be noted that the analysis performed by Cliffwater does validate SCERS separating Growth Absolute Return strategies from Diversifying Absolute Return strategies within SCERS' broader strategic asset allocation, as these segments demonstrated very different figures around metrics such as standard deviation, equity beta, equity correlations and market exposure (leverage). The growth strategies tended to be more equity centric, with higher standard deviations and positive equity beta and correlation, while the diversifying strategies tended be diversifiers to SCERS' Growth asset category, with lower standard deviations and negative equity beta and correlation.

Absolute Return Sub-Category Parameters

	New Absolute Return Portfolio Category		
	Growth Oriented Strategies	Diversifying Strategies	Current Absolute Return Portfolio
Portfolio Objective	Equity and credit like returns over long-term with lower volatility than equities and credit markets	Positive absolute return profile over time with limited sensitivity to broad market performance	Achieve near the total fund return objective while also reducing total fund risk
Benchmark	Policy: HFRI FoF Composite Index + 1% Long term objective: T-bills + 5%	Policy: HFRI FoF Conservative Index Long term objective: T-bills + 2%	Policy: T-bills + 5% Short term objective: HFRI FoF Composite Index
Risk Target	Standard Deviation < 50% of global equities	Standard Deviation < 25% of global equities	Standard Deviation < 50% of global equities
Market Sensitivity	Target an equity beta < 0.5 Target equity correlation < 0.8	Target an equity beta < 0.1 Target equity correlation < 0.1	Target equity correlation < 0.5 Equity beta not explicitly defined
Market Exposure	Total notional gross exposure < 250% [1]	Total notional gross exposure < 750% [1]	Total portfolio leverage < 275% [2]

[1] Total notional gross exposure equals the sum of gross long notional exposure plus gross short notional exposure, expressed as a percentage of total invested capital.

[2] Leverage is defined as the total long notional exposure plus the total short notional exposure, excluding leverage associated with risk-reducing tail risk protection strategies and the short exposure relating to relative value strategies, divided by the total portfolio capital.

Portfolio Objective:

The Growth Absolute Return portfolio maintains a similar objective to that of the current Absolute Return portfolio, with an emphasis on market like returns, but with lower levels of volatility. The Diversifying Absolute Return objective is somewhat different, as it emphasizes a lower sensitivity to broad market performance (i.e., less correlated returns), while still generating a positive absolute return profile over time.

Absolute Return Benchmarks:

The current long-term (≥ 3 years) benchmark for Absolute Return is 90-day T-Bill plus 5%, which also serves as the Policy Index benchmark. The short-term (< 3 years) benchmark is the HRFI Fund-of-Funds Composite Index. As you will recall from previous discussions on benchmarks, SCERS is seeking to move away from objective-based benchmarks like 90-day T-Bill plus 5%, and toward more representative, investable and comparable benchmarks, as there can be significant divergences between actual returns and benchmark returns when using an objective based benchmark. The 90-day T-Bill plus 5% benchmark does make sense as a long-term objective; however, for purposes of SCERS' policy index for Absolute Return, using peer universe indices makes more sense. As you will recall, SCERS has recently moved away from objective-based benchmarks in other segments of the portfolio, including Real Assets and Private Equity.

Since SCERS current Absolute Return portfolio is being separated across two different asset categories (Growth and Diversifying), it is recommended that each segment receive its own benchmark. **For Growth Absolute Return, it is recommended that SCERS use the HFRI FOF Composite Index plus 1% as the policy index benchmark.** As you will recall, the HFRI FOF Composite Index is the current short- to medium-term benchmark for Absolute

Return. This index includes a diversified range of hedge fund strategies, and tends to be more biased toward growth-oriented hedge funds strategies, including long-biased equity and credit strategies. Therefore, it serves as a good representation of SCERS' Growth Absolute Return portfolio. However, since SCERS' Growth Absolute Return portfolio does not include diversifying hedge fund strategies like the index does, Cliffwater and Staff believe it is prudent to give SCERS' benchmark for Growth Absolute Return a 1% return premium hurdle, to make for a better comparison.

For Diversifying Absolute Return, it is recommended that SCERS use the HFRI FOF Conservative Index as the policy index benchmark. The HFRI FOF Conservative Index seeks consistent returns by primarily investing in funds that (1) generally engage in more 'conservative strategies' such as equity market neutral and relative value arbitrage strategies; (2) exhibit a lower historical standard deviation than the HFRI FOF Composite Index; and (3) are comprised of funds that generally show consistent performance outcomes regardless of market conditions.

The aforementioned policy index benchmark recommendations have been endorsed by Cliffwater, Verus and Grosvenor Capital Management.

For the long-term objective of the Absolute Return portfolio, it is recommended that SCERS use 90-day T-bills +5% for Growth Absolute Return and 90-day T-bills + 2% for Diversifying Absolute Return.

Absolute Return Risk Targets:

Absolute Return portfolio risk is often measure by standard deviation. The current standard deviation measure for Absolute Return is less than half that of global equities, as measured by the MSCI ACWI Index. **The recommended standard deviation for Growth Absolute Return is less than 50% of the MSCI ACWI Index and for Diversifying Absolute Return is 25% of the MSCI ACWI Index.**

Market Sensitivity:

Common measures for market sensitivity for an absolute return portfolio are beta and correlation. The current Absolute Return portfolio does not have a defined beta target. **For the revised structure, the recommended equity beta target is <0.5 for Growth Absolute Return and <0.1 for Diversifying Absolute Return.**

The current Absolute Return portfolio has a defined correlation target of <0.5. **For the revised structure, the recommended equity correlation target is <0.8 for Growth Absolute Return and <0.1 for Diversifying Absolute Return.**

Market Exposure/Leverage:

A common measure that Cliffwater and many absolute return market participants use to calculate market exposure and leverage is to calculate the total notional gross exposure of a fund or portfolio of funds as a percentage of total invested capital. Total gross exposure is the sum of gross long and gross short notional exposures. Stated another way, it is the sum of the value of total long and short positions.

The market exposure for growth absolute return strategies will generally be different than that of diversifying absolute return strategies. Even though most diversifying absolute return strategies tend have very low net exposures (i.e., market neutral strategies where long positions are offset by short positions), they tend to have higher total notional gross exposures than growth absolute return strategies. Diversifying strategies include discretionary global macro, systematic global macro and market neutral strategies, which tend to demonstrate attractive return distributions with positive skew and low levels of kurtosis (left tail risk); however, they also use greater levels of leverage (total notional gross exposure) to accomplish this. Growth absolute return strategies, such as long biased equity long/short and credit long/short, often have higher net positions, where the value of their long positions are greater than that of their short positons. In other words, they have greater directional market risk than diversifying absolute return strategies.

The recommended market exposure and leverage limit for Growth Absolute Return is total notional gross exposure <250% and for Diversifying Absolute Return is total notional gross exposure <750%.

It should be noted that the methodology used to calculate the recommended limits above is a revised version of the current measure used within SCERS' Absolute Return IPS. The current methodology in the calculation of total notional gross exposure does not add the short notional exposure associated with many of the diversifying, risk-reducing and tail protection absolute return strategies such as relative value and global macro. Not adding the short notional exposure results in a lower total gross notional market exposure, or leverage, calculation for the aforementioned diversifying strategies.

In contrast, the revised methodology will tend to produce a larger total gross notional exposure figure for diversifying strategies, since its calculation includes the short notional exposure for diversifying strategies that the current methodology does not. As an example, the current market exposure/leverage limit within the current Absolute Return IPS, using the current methodology is 275%. As stated above, the new recommended limits using the revised methodology are 250% for Growth Absolute Return and 750% for Diversifying Absolute Return. The Diversifying Absolute Return number is larger using the revised methodology, since the short notional exposure associated with diversifying strategies is not subtracted out, as it is under the current methodology. Cliffwater and Staff believe that the revised methodology is a more conservative measure and is less arbitrary than the current methodology, and it more consistently calculates total gross notional exposure across all absolute return strategies.

<u>Absolute Return Diversification Guidelines:</u>

The key diversification guideline recommendations for SCERS' Absolute Return portfolio are summarized in the table below and explained in the discussion that follows.

Absolute Return Diversification Guidelines

	New Absolute Return Portfolio Category		
	Growth Oriented Strategies	Diversifying Strategies	Current Absolute Return Portfolio
Target Allocation	3% of Total Assets	7% of Total Assets	10% of Total Assets
Allocation Range	1% to 5% of Total Assets	5% to 9% of Total Assets	N/A
Primary Strategies [1]	Credit/Distressed Event Driven Equity Long/Short	Market Neutral Global Macro Multi-Strategy	Market Neutral Credit/Distressed Event Driven Equity Long/Short Global Macro Multi-Strategy
Number of Funds	Target 5 funds with a range of 2 to 8	Target 10 funds with a range of 6 to 13	Target 22 funds with a range of 18 to 30
Non-U.S. Exposure	Expect 20% to 40% non-U.S. exposure	Expect 20% to 50% non-U.S. exposure	Expect 25% to 35% non-U.S. exposure

[1] The Primary Strategies shown reflect the types of strategies expected to be most prevalent within each of the portfolio categories. However, SCERS will categorize individual funds based upon each fund's expected characteristics, not by a fund's stated strategy. Each category could include any number of fund strategies.

Target Allocation and Ranges:

The target allocation of 3% for Growth Absolute Return, with a range of 1% to 5%, and 7% for Diversifying Absolute Return, with a range of 5% to 9%, is already defined within SCERS' recently approved Master IPS.

Primary Strategies:

Cliffwater breaks the absolute return universe into the following investment strategies: (1) Market Neutral; (2) Credit/Distressed; (3) Event Driven; (4) Equity Long/Short; (5) Global Macro; and (6) Multi-Strategy. A well-diversified absolute return portfolio will contain allocations to each of these strategies at varying target weights. For SCERS' revised Absolute Return portfolio, the Growth segment will generally contain equity long/short, event driven and credit/distressed strategies, whereas the Diversifying segment will generally contain market neutral, global macro and multi-strategy strategies. However, in practice SCERS will categorize individual strategies based upon each fund's expected characteristics, including risk, market sensitivity and market exposure, not by a fund's stated strategy. Each category could include any number of fund strategies. As an example, SCERS' current allocation to Elliott International Limited, an event driven strategy, is categorized under Diversifying Absolute Return due to the fund's low net exposure, and low equity beta and correlation figures.

Number of Funds:

The targeted number of funds recommended in this section relates to SCERS' direct absolute return portfolio. The SCARF portfolio managed by Grosvenor is not included in the fund count, as the SCARF is a diversified portfolio of funds managed separately from the direct portfolio, and which has a fund target range of approximately 35 funds.

The current targeted number of funds within SCERS' direct absolute return portfolio is 22, with a range between 18 and 30. With several years' experience managing the Absolute Return portfolio, Staff and Cliffwater believe that the total number of funds within the direct portfolio should be reduced from the current count in order to manage the number of investment manager relationships, while still achieving sufficient diversification levels. **For the revised structure, it is recommended that the Absolute Return portfolio target a total of 15 funds in aggregate, broken out with 5 funds in the Growth Absolute Return portfolio and 10 funds in the Diversifying Absolute Return portfolio. The Growth portfolio will have a range of 2 to 8 funds, and the Diversifying portfolio a range of 6 to 13 funds.**

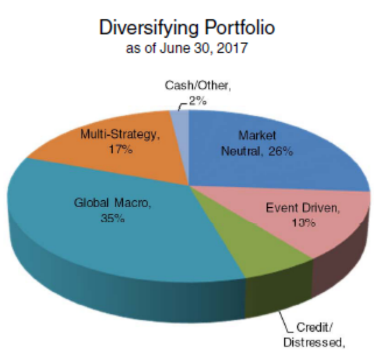
Non-U.S. Exposure:

SCERS currently targets 25% to 35% non-U.S. absolute return exposure. **For the revised structure, the recommended non-U.S. exposure range for Growth Absolute Return is 20% to 40%, and for Diversifying Absolute Return is 20% to 50%.**

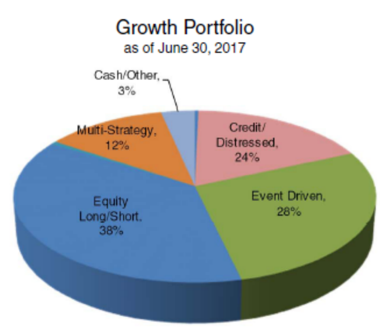
<u>ABSOLUTE RETURN INVESTMENT PLAN</u>

Though the overall target to Absolute Return did not change, and remains at 10%, the breakdown between Growth and Diversifying Absolute Return did change. The prior structure had a greater weighting toward Growth strategies, so the implementation of the new structure, for both the direct portfolio and the Grosvenor SCARF portfolio, will focus on increasing exposure to Diversifying Absolute Return relative to Growth Absolute Return.

As calculated by Cliffwater and shown below as of June 30, 2017, the current exposure to Growth Absolute Return is approximately 4.3% and Diversifying is approximately 4.6%. This includes aggregate exposures between the direct portfolio and the SCARF and SCARF B Grosvenor portfolios. As you will recall, the target allocation is 3% for Growth Absolute Return and 7% for Diversifying Absolute Return. Any gap between the target 10% allocation to Absolute Return and the actual allocation is filled by SCERS' Overlay Program.



Portfolio totals $397 million
– Approximately 4.6% of the SCERS total portfolio



Portfolio totals $371 million
– Approximately 4.3% of the SCERS total portfolio

Staff and Cliffwater are working with Grosvenor to set targets and ranges among Growth and Diversifying strategies within the SCARF portfolio, and are identifying fund targets to add to the Diversifying component of the direct portfolio. Strategy candidates for the direct portfolio include market neutral funds, relative value funds, alternative risk premia multi-strategy funds and global macro funds. The current allocation level within the Growth component of the direct portfolio is near its target level and is allocated across 4 funds, so it is anticipated that there will not be significant changes within this segment.

ATTACHMENTS

Cliffwater Absolute Return Structure Update Presentation

Prepared by:

/S/

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Chief Investment Officer

Reviewed by:

/S/

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Absolute Return Structure Update

September 20, 2017

Absolute Return Program Strategic Changes

SCERS' Absolute Return portfolio is diversified across two primary segments

- Direct portfolio (~$440 million as of June 30, 2017) – diversified portfolio of 10-20 investments in individual funds that is managed by SCERS and Cliffwater across the universe of hedge fund strategies
- Grosvenor Capital Management – Discretionary diversified separate account multi-strategy absolute return portfolio
  - SCARF Portfolio (~$260 million as of June 30, 2017) – long-term strategic allocation
  - SCARF B Portfolio (~$70 million as of June 30, 2017) – interim portfolio that is being liquidated as direct portfolio is built out

SCERS is further segmenting its Absolute Return portfolio into two categories

- Growth Oriented strategies and Diversifying strategies
  - The change is being made in connection with SCERS' new strategic asset allocation

Absolute Return Program Strategic Changes

The previous 10% Absolute Return target allocation aggregated Growth and Diversifying strategies

- Now targeting an explicit 3% allocation to Growth Oriented strategies within SCERS' Growth asset category
- Now targeting an explicit 7% allocation to Diversifying strategies within SCERS' Diversifying asset category
- The two categories include all funds in the Direct and Grosvenor portfolios
  - Aggregate exposure still remains at 10%

Asset Category	Asset Class	Minimum Allocation	Target Allocation	Maximum Allocation
Growth			59.0%	
	Domestic Equity	19.0%	21.0%	23.0%
	International Equity	18.0%	20.0%	22.0%
	Private Equity	7.0%	9.0%	11.0%
	Public Credit	1.0%	2.0%	3.0%
	Private Credit	2.0%	4.0%	6.0%
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Diversifying			25.0%	
	Core/Core Plus Fixed Income	8.0%	10.0%	12.0%
	US Treasury	3.0%	5.0%	7.0%
	Global Fixed Income	2.0%	3.0%	4.0%
	Diversifying Absolute Return	5.0%	7.0%	9.0%
Real Return			16.0%	
	Real Estate	5.0%	7.0%	9.0%
	Real Assets	5.0%	7.0%	9.0%
	Commodities	0.0%	2.0%	3.0%
	TIPS	0.0%	0.0%	3.0%
Opportunities		0.0%	0.0%	5.0%
			100.0%	

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Absolute Return Program Strategic Changes

Growth Oriented Absolute Return Strategies

- Funds more geared towards growth and positive market performance
  - Still maintain an absolute return profile
- Expect more equity long/short, long-biased credit and event driven strategies

Diversifying Absolute Return Strategies

- Funds should display low sensitivity to broad market performance
- Have lower return expectations than for Growth Oriented Absolute Return strategies
- Expect more relative value/arbitrage and global macro strategies

Recommending policy parameters for each of the new categories within Absolute Return

- Addressing objective, benchmark, risk, diversification, and other portfolio characteristics
- IPS for Absolute Return will be addressed at a future meeting
  - Recommended changes, if approved by the Board, will go into effect immediately, and override those specific components within the current IPS for Absolute Return
  - The remainder of the current Absolute Return IPS would remain in effect until a revised IPS is presented

Absolute Return Portfolios – Sub-category Parameters

Below are the parameters being recommended for the Absolute Return portfolio categories

– These parameters would be reflected in future revisions to the IPS

	New Absolute Return Portfolio Category		
	Growth Oriented Strategies	Diversifying Strategies	Current Absolute Return Portfolio
Portfolio Objective	Equity and credit like returns over long-term with lower volatility than equities and credit markets	Positive absolute return profile over time with limited sensitivity to broad market performance	Achieve near the total fund return objective while also reducing total fund risk
Benchmark	Policy: HFRI FoF Composite Index + 1% Long term objective: T-bills + 5%	Policy: HFRI FoF Conservative Index Long term objective: T-bills + 2%	Policy: T-bills + 5% Short term objective: HFRI FoF Composite Index
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Market Sensitivity	Target an equity beta < 0.5 Target equity correlation < 0.8	Target an equity beta < 0.1 Target equity correlation < 0.1	Target equity correlation < 0.5 Equity beta not explicitly defined
Market Exposure	Total notional gross exposure < 250% [1]	Total notional gross exposure < 750% [1]	Total portfolio leverage < 275% [2]

[1] Total notional gross exposure equals the sum of gross long notional exposure plus gross short notional exposure, expressed as a percentage of total invested capital.

[2] Leverage is defined as the total long notional exposure plus the total short notional exposure, excluding leverage associated with risk-reducing tail risk protection strategies and the short exposure relating to relative value strategies, divided by the total portfolio capital.

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Absolute Return Portfolios – Diversification Guidelines

Below are additional guidelines being recommended for the Absolute Return portfolio categories

– These guidelines would also be reflected in future revisions to the IPS

	New Absolute Return Portfolio Category		
	Growth Oriented Strategies	Diversifying Strategies	Current Absolute Return Portfolio
Target Allocation	3% of Total Assets	7% of Total Assets	10% of Total Assets
Allocation Range	1% to 5% of Total Assets	5% to 9% of Total Assets	N/A
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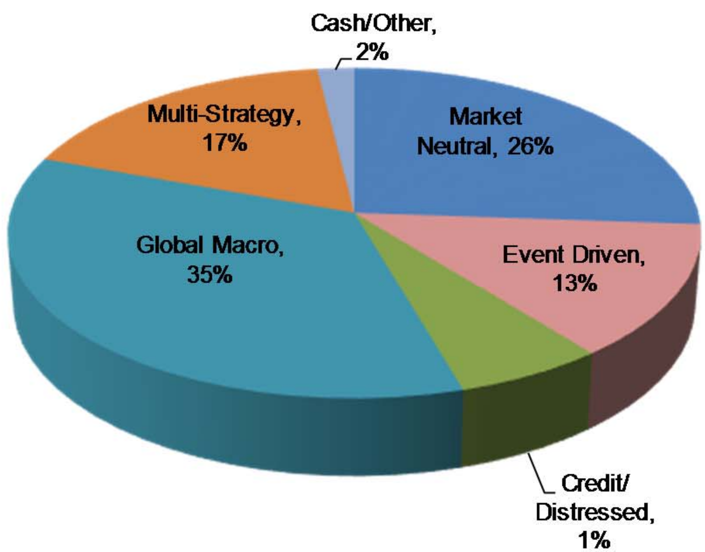
Number of Funds	Target 5 funds with a range of 2 to 8	Target 10 funds with a range of 6 to 13	Target 22 funds with a range of 18 to 30
Non-U.S. Exposure	Expect 20% to 40% non-U.S. exposure	Expect 20% to 50% non-U.S. exposure	Expect 25% to 35% non-U.S. exposure

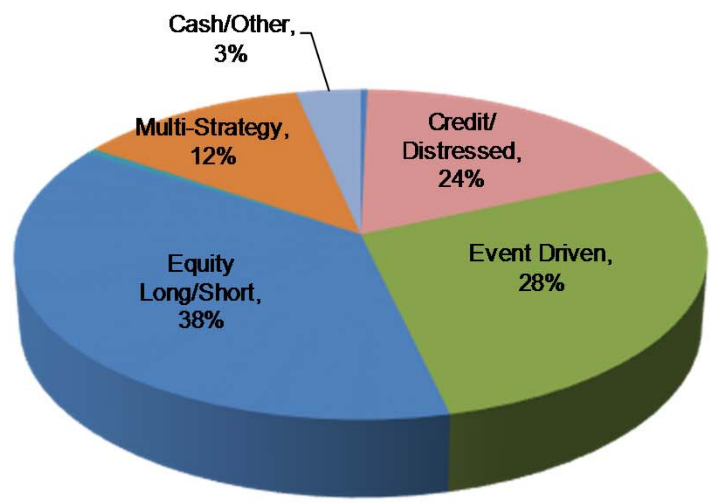
[1] The Primary Strategies shown reflect the types of strategies expected to be most prevalent within each of the portfolio categories. However, SCERS will categorize individual funds based upon each fund's expected characteristics, not by a fund's stated strategy. Each category could include any number of fund strategies.

SCERS Absolute Return Portfolios – Strategy Exposures

Diversifying Portfolio
as of June 30, 2017



Growth Portfolio
as of June 30, 2017



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Portfolio totals $371 million

– Approximately 4.3% of the SCERS total portfolio

SCERS Absolute Return Strategies – Next Steps

Implementation

- Work with Grosvenor to set targets and ranges among Growth and Diversifying Absolute Return strategies
- Transition both direct portfolio and Grosvenor towards increasing exposure to Diversifying Absolute Return relative to Growth Absolute Return
  - Direct portfolio – Focus on market neutral, relative value, alternative risk premia, multi-strategy and global macro funds
  - Open to a range of fee structures based on expectations for alpha generation

Absolute Return Investment Policy Statement

- Will be presented as part of broader consolidated asset category/asset class IPSs
  - Approach 1 - create consolidated IPSs for the traditional/liquid asset classes and for the alternative asset classes
  - Approach 2 - create consolidated IPSs for each of SCERS' asset categories (Growth; Diversifying; Real Return)
    - Approach 2 would break the Growth and Diversifying Absolute Return portfolio into two different asset category IPSs

General Disclosures

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