



## ITEM 12

Executive Staff

Richard Stensrud  
Chief Executive Officer

Vacant  
Chief Investment Officer

Robert L. Gaumer  
General Counsel

Kathryn T. Regalia  
Chief Operations Officer

John W. Gobel, Sr.  
Chief Benefits Officer

**For Agenda of:**  
August 17, 2016

August 12, 2016

**TO:** President and Members  
Board of Retirement

**FROM:** Steve Davis  
Deputy Chief Investment Officer

**SUBJECT:** Asset Allocation and Rebalancing Report  
for the Quarter Ended June 30, 2016

### **Recommendation:**

**It is recommended that your Board receive and file the quarterly asset allocation and rebalancing report.**

### **Background:**

SCERS employs an overlay program, which is managed by State Street Global Advisors ('SSGA'), to rebalance the asset allocation to policy targets and minimize the risk that SCERS falls short of achieving its targeted return due to the asset allocation straying from policy target ranges. SCERS' overlay proxies and rebalancing ranges are attached in Appendix 1. The rebalancing methodology utilized by SSGA is quarterly rebalancing with 10% bands on traditional asset classes (equities and fixed income), and 20% bands on alternative asset classes (absolute return, private equity and real assets). With this method, rebalancing occurs on a quarterly basis, unless the bands are breached on an intra-quarter basis, in which case rebalancing occurs upon the breach of a band.

While SCERS' overlay program reduces the need for physical rebalancing, it does not eliminate it, as there are circumstances whereby physical rebalancing would be a better solution compared to the overlay program, including: (1) When there is low correlation between the overlay proxies designed to replicate the underlying asset classes and managers, as is the case with many alternative assets; (2) When there are strong benefits

to active management; and (3) When there is a persistently large difference between physical assets and the target allocation.

While physical rebalancing typically costs more to execute compared to the overlay program, it remains important to assess whether SCERS' portfolio is at a point where physical rebalancing warrants greater consideration.

### **Discussion:**

Since SCERS' overlay program rebalances SCERS' total fund, it is important to bear in mind that **Tables 1-7** reported below refer only to physical holdings compared to policy targets, and not the exposures provided through the overlay program, except for Table 6 (Real Assets), which includes the SSGA Real Assets Strategy, which is the proxy for this asset class.

As noted, SCERS rebalances the fund via both the overlay program and physically purchasing or selling assets. The overlay program is particularly effective in rebalancing public market assets due to the low tracking error of the underlying proxies compared to public market managers and the higher expenses of purchasing and liquidating interests held by investment managers. On the other hand, the overlay program is not as effective in tracking alternative assets because it is limited to the use of public market proxies. Public market proxies will not, for example, be able to replicate the 'liquidity premium' or higher returns achieved historically by private equity and private real assets, or the 'absolute' return characteristics of SCERS' Absolute Return portfolio, including their historic ability to outperform equity markets in times of distress. Accordingly, it is beneficial for SCERS to continue to physically purchase alternative assets in achieving its asset allocation targets rather than to rely exclusively on the overlay program to rebalance these assets to the target allocations.

Staff and Verus monitor the asset allocation on a quarterly basis and update the Board if the asset allocation moves outside of policy ranges and conditions warrant physical rebalancing.

### **Domestic Equities:**

As depicted in **Table 1** below, SCERS' Domestic Equity asset class actual weighting of 26.9% is above the policy target of 22.5% and the upper band of 24.8%.

As you will recall, SCERS last physically rebalanced this asset class during the first quarter of 2014, by reducing the passive large cap exposure managed by AllianceBernstein ('AB') by approximately \$160 million. SCERS' Domestic Equity exposure had become overweight due to the strong performance of the Domestic Equity asset class over the prior several years relative to the majority of other asset classes. The reduction in AB's exposure brought SCERS' Domestic Equity exposure close to the high end of the target

range at 24.8%. This approach was taken rather than bringing SCERS' Domestic Equity exposure to the target of 22.5%, to account for the fact that domestic equity markets had significantly outperformed other asset classes, so any future pull back in domestic equities could naturally bring SCERS' Domestic Equity exposure back closer to its target. However, domestic equities have continued to outperform international equities since the aforementioned rebalance, which has led to SCERS' Domestic Equity allocation remaining above the high end of the target range.

At the sub-asset class level, domestic large cap, at a 21.9% allocation is above the target allocation of 18.2%, and slightly above the target range. Domestic small cap, at a 3.4% allocation is above the target allocation of 3.2%, but within range. Domestic REITs at a 1.6% allocation is above the target allocation of 1.1%, and above the top of the range.

SCERS' overlay manager, State Street, at the direction of Staff, buys and sells Russell 1000 and 2000 Index futures to rebalance the Domestic Equity asset class to the policy target allocation. As mentioned previously, these proxies are very effective in rebalancing domestic equities due to the low tracking error of the underlying proxies compared to public market investment managers.

While SCERS' Domestic Equity portfolio is currently above the top of the target allocation range, there is a strong correlation between the domestic equity proxies the overlay program uses and the underlying asset class, meaning the overlay program is very effective in rebalancing SCERS' equity portfolio to target. Therefore, Staff does not recommend physically rebalancing the Domestic Equity portfolio now. However, we do anticipate recommending a physical rebalance in the Domestic Equity asset class in the near future, as potential cash needs within the portfolio could warrant this. In particular, SCERS is in the process of conducting a manager replacement search within the International Equity portfolio, which would conclude with unwinding current interim exposure (total return swaps) for physical exposure, which requires a greater amount of cash, and could in turn put pressure on SCERS' overall cash levels.

Table 1: Domestic Equity Asset Allocation

Domestic Equity	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High
		\$2,059,784,941	26.9%	22.5%	4.4%	20.3%	24.8%
AllianceBernstein	Equity Core Index	\$1,089,561,395	14.2%	12.2%	2.1%		
JP Morgan 130/30	Equity Core Active Short Extension (130/30)	\$118,540,602	1.5%	1.1%	0.4%		
Eagle Capital Management	Equity Large Cap Core	\$247,684,866	3.2%	2.5%	0.8%		
Brown Advisory	Equity Large Cap Growth	\$114,630,994	1.5%	1.2%	0.3%		
Huber Capital Management	Equity Large Cap Value	\$106,715,665	1.4%	1.2%	0.2%		
	Equity Large Cap		21.9%	18.2%	3.7%	14.6%	21.8%
Dalton, Greiner, Hartman, Maher & Co.	Equity Small Cap Value	\$65,694,982	0.9%	0.8%	0.1%		
Wedge Capital Management	Equity Small Cap Value	\$73,230,097	1.0%	0.8%	0.2%		
M.A. Weatherbie & Co.	Equity Small Cap Growth	\$68,690,735	0.9%	0.8%	0.1%		
UBS Global Asset Management	Equity Small Cap Growth	\$53,358,118	0.7%	0.8%	-0.1%		
	Equity Small Cap		3.4%	3.2%	0.3%	2.6%	3.8%
CenterSquare Investments (formerly Urdang)	Domestic REIT	\$121,677,487	1.6%	1.1%	0.5%	0.9%	1.4%

**International Equities:**

As depicted in **Table 2** below, SCERS' International Equity allocation is 21.8%, which is below the 22.5% target allocation. International equity returns have lagged those of domestic equities over recent years, which has led to the underweight of the segment within SCERS' portfolio. It should be noted that the exposure to former International Equity large cap manager, Baring Asset Management, is invested in an interim solution through a MSCI World ex-US total return swap, until a replacement manager is found. SCERS' overlay manager, State Street, utilizes MSCI World ex-US and MSCI Emerging Markets Index futures to rebalance this asset class to the policy target allocation.

At the sub-asset class level, international large cap, at a 14.5% allocation is below the target allocation of 14.9%, but within range. International small cap, at a 2.4% allocation is above the target allocation of 2.3%, but within range. Emerging markets equity, at a 3.8% allocation is under the policy target allocation of 4.3%, but within range. International REITs at a 1.0% allocation is slightly below its target allocation of 1.1%, but within range. Staff does not recommend physical rebalancing of this asset class at this time.

Table 2: International Equity Asset Allocation

International Equity	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High
		\$1,666,185,223	21.8%	22.5%	-0.7%	20.3%	24.8%
Lazard Asset Management	ACWI Ex-US	\$389,324,958	5.1%	4.5%	0.6%		
LSV Large Cap International Value	International Equity Large Cap Value	\$393,829,832	5.1%	5.2%	0.0%		
MSCI World ex-US Total Return SWAP - interim Baring replc	International Equity Large Cap Growth	\$325,801,358	4.3%	5.2%	-0.9%		
	International Equity Large Cap		14.5%	14.9%	-0.4%	11.9%	17.9%
William Blair & Co.	International Equity Small Cap Growth	\$99,657,350	1.3%	1.1%	0.2%		
Mondrian Investment Partners	International Equity Small Cap Value	\$85,333,840	1.1%	1.1%	0.0%		
	International Equity Small Cap		2.4%	2.3%	0.2%	1.8%	2.7%
Baillie Gifford	Emerging Markets Equity - All Cap	\$121,218,135	1.6%	1.8%	-0.2%		
Mondrian Emerging Markets Equity Fund, LP	Emerging Markets Equity - All Cap	\$124,569,865	1.6%	1.8%	-0.2%		
William Blair Emerging Markets Small Cap Growth Fund	Emerging Markets Small Cap	\$24,164,265	0.3%	0.3%	0.0%		
Mondrian Emerging Markets Small Cap Equity Fund, LP	Emerging Markets Small Cap	\$23,760,891	0.3%	0.3%	0.0%		
	Emerging Markets		3.8%	4.3%	-0.4%	3.4%	5.2%
CBRE Clarion	International REIT	\$78,524,730	1.0%	1.1%	-0.1%	0.9%	1.3%

**Fixed Income:**

As depicted in **Table 3** below, SCERS' Fixed Income allocation of 19.9% is slightly below the target allocation of 20.0%, but within the allowed range for the asset class. Stronger performance of fixed income versus equities over the past year has closed the gap on what was a more significant SCERS underweight. SCERS' overlay manager, State Street, at the direction of Staff, utilizes a combination of U.S. Treasury futures, Mortgage TBAs, investment grade credit ETFs and Barclays Capital Aggregate total return swaps (when

Asset Allocation and Rebalancing Report  
for the Quarter Ended June 30, 2016  
August 12, 2016  
Page 5 of 10

appropriate) to rebalance this asset class to its policy target allocation. Staff does not recommend physical rebalancing for this asset class at this time.

Table 3: Fixed Income Asset Allocation

Fixed Income	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High
		\$1,520,568,324	19.9%	20.0%	-0.1%	18.0%	22.0%
Neuberger Berman	Fixed Inc Enhanced Index	\$366,184,514	4.8%	5.0%	-0.2%		
Prudential Investment Management	Fixed Inc Active Core Plus	\$413,109,044	5.4%	5.0%	0.4%		
TCW/MetWest	Fixed Inc Active Core Plus	\$381,055,867	5.0%	5.0%	0.0%		
	Core/Core Plus		15.2%	15.0%	0.2%		
Brandywine Global	Global Opportunistic Fixed Income	\$211,784,082	2.8%	3.0%	-0.2%		
Brigade Capital SC Opportunities Mandate	Strategic Credit	\$148,434,817	1.9%	2.0%	-0.1%		

**Absolute Return:**

As shown in **Table 4** below, SCERS' Absolute Return allocation is 9.5%, which is slightly below the target allocation of 10%. As you will recall, SCERS fills in a significant portion of its underweight to the asset class through its allocation to the Grosvenor SC Absolute Return Fund, Series B ('SCARF B'), a more liquid version of the Grosvenor SC Absolute Return Fund, Series A ('SCARF'), which serves as an interim absolute return component for SCERS as the direct absolute return portfolio is built out. During the first quarter, SCERS did not make any direct absolute return investments. Staff anticipates making two direct absolute return investments during the fourth quarter of 2016, which will draw capital from SCARF B. SSGA utilizes a custom basket of equity and fixed income futures to fill in any gap between the target and actual allocation within the Absolute Return portfolio.

Table 4: Absolute Return

Absolute Return	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High
		\$724,954,841	9.5%	10.0%	-0.5%	8.0%	12.0%
Grosvenor	Equity Long/Short	\$292,998	0.0%				
Grosvenor SC Absolute Return Fund, Series A	Diversified Separate Account	\$238,994,058	3.1%				
Grosvenor SC Absolute Return Fund, Series B	Diversified Separate Account	\$161,102,802	2.1%				
OZ Domestic Partners II, LP	Multi Strategy	\$39,654,390	0.5%				
Elliott Associates LP	Event Driven	\$43,327,891	0.6%				
BlueCrest Capital, LP	Discretionary Global Macro	\$0	0.0%				
Third Point Partners Qualified, LP	Event Driven	\$38,515,072	0.5%				
Claren Road Credit Partners, LP	Credit	\$8,295,102	0.1%				
AQR Delta Fund II, LP	Bottom Up Replication	\$47,122,480	0.6%				
Lakewood Capital Partners, LP	Equity Long/Short	\$37,888,785	0.5%				
Jana Partners Qualified, LP	Equity Activist & Long/Short	\$35,301,560	0.5%				
Laurion Capital Management, LP	Volatility Arbitrage	\$40,248,253	0.5%				
Brevan Howard Master Fund, LP	Discretionary Global Macro	\$34,211,450	0.4%				

Asset Allocation and Rebalancing Report  
for the Quarter Ended June 30, 2016  
August 12, 2016  
Page 6 of 10

**Private Equity:**

As outlined in **Table 5** below, SCERS' Private Equity allocation is 6.9%, which is 3.1% below the policy target of 10%, and below the lower bound of 8.0%. SSGA utilizes Russell 2000 index futures to rebalance SCERS' Private Equity allocation. As previously mentioned, this proxy is less than optimal in replicating private equity, and it would be better to invest capital into physical private equity holdings. As you will recall, however, the commitment schedule and cash flow forecast of Private Equity investments do not project SCERS achieving and maintaining the 10% policy target until 2019. During the quarter, SCERS committed \$25 million commitment to Thoma Bravo Fund XII, L.P. and a \$15 million commitment to Marlin Heritage Europe Fund, L.P.

Please note that there is one investment within the Opportunities asset class (Atalaya Special Opportunities Fund V, LP) which draws capital from the Private Equity asset class, as this is the asset class with the closest risk and return profile of the opportunity being invested in by this fund. The market value of this investment is \$18.5 million, which equates to a 0.2% allocation, and brings SCERS' total allocation in Private Equity to 7.1%.

Table 5: Private Equity

Private Equity	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High
		\$526,980,663	6.9%	10.0%	-3.1%	8.0%	12.0%
HarbourVest Partners VIII	Private Equity - FoF	\$29,260,054	0.4%				
Abbott Capital ACE VI	Private Equity - FoF	\$59,372,199	0.8%				
Goldman Sachs PEP X	Private Equity - FoF	\$55,919,020	0.7%				
Harbourvest Partners Intl VI	Private Equity - FoF	\$29,535,604	0.4%				
Khosla Ventures IV, LP	Private Equity - Venture Capital	\$12,697,082	0.2%				
Waterland Private Equity Fund V, CV	Private Equity - European Buyout	\$9,552,479	0.1%				
Summit Partners VC Fund II, LP	Private Equity - Growth Equity	\$19,281,179	0.3%				
Summit Partners Credit Fund, LP	Private Equity - Credit	\$10,544,170	0.1%				
Garrison Opportunity Fund III, LP	Private Equity - Distressed	\$16,067,860	0.2%				
Accel-KKR Capital Partners IV, LP	Private Equity - Buyout	\$8,469,259	0.1%				
New Enterprise Associates 14, LP	Private Equity - Venture Capital	\$31,339,393	0.4%				
H.I.G. Bayside Loan Opportunity III (Europe), LP	Private Equity - Distressed	\$15,972,275	0.2%				
Trinity Ventures XI, LP	Private Equity - Venture Capital	\$18,326,487	0.2%				
Wayzata Opportunities Fund III, LP	Private Equity - Distressed	\$10,477,384	0.1%				
H.I.G. Capital Partners V, LP	Private Equity - Buyout	\$2,677,003	0.0%				
RRJ Capital Master Fund II, LP	Private Equity - Asian Buyout/Special Situations	\$28,380,551	0.4%				
Marlin Equity IV, LP	Private Equity - Buyout	\$8,527,508	0.1%				
H.I.G. Europe Capital Partners II, LP	Private Equity - European Buyout	\$0	0.0%				
Dyal Capital Partners II, LP	Private Equity - Other	\$9,326,860	0.1%				
Summit Partners Credit Fund II, LP	Private Equity - Credit	\$22,334,622	0.3%				
TPG Opportunities Partners II, LP	Private Equity - Distressed	\$16,005,802	0.2%				
Marlin Heritage, LP	Private Equity - Buyout	\$5,936,537	0.1%				
Accel-KKR Structure Capital II, LP	Private Equity - Buyout	\$2,142,432	0.0%				
Thoma Bravo Fund XI, LP	Private Equity - Buyout	\$27,696,197	0.4%				
Spectrum Equity Investors VII, LP	Private Equity - Venture Capital	\$11,586,270	0.2%				
Khosla Ventures V, L.P.	Private Equity - Venture Capital	\$7,608,710	0.1%				
Linden Capital Partners III, LP	Private Equity - Buyout	\$4,331,783	0.1%				
New Enterprise Associates 15, LP	Private Equity - Venture Capital	\$13,041,724	0.2%				
Waterland Private Equity Fund VI, CV	Private Equity - European Buyout	\$1,940,787	0.0%				
Waterland Private Equity Fund VI Overflow, CV	Private Equity - European Buyout	\$1,882	0.0%				
ATHYRIUM Opportunities Fund II, LP	Private Equity - healthcare direct lending	\$20,761,216	0.3%				
RRJ Capital Master Fund III, LP	Private Equity - Asian Buyout/Special Situations	\$1,413,066	0.0%				
Accel-KKR Capital Partners V, LP	Private Equity - Buyout	\$0	0.0%				
Summit Partners Venture Capital Fund IV, LP	Private Equity - Growth Equity	\$1,209,065	0.0%				
Trinity Ventures XII, LP	Private Equity - Venture Capital	\$2,400,000	0.0%				
TSG7 A, LP	Private Equity - Buyout	\$79,782	0.0%				
TSG7 B, LP	Private Equity - Buyout	\$227,344	0.0%				
Atalaya Special Opportunities Fund VI, LP	Private Equity - Distressed	\$10,877,629	0.1%				
Thoma Bravo Fund XII, LP	Private Equity - Buyout	\$1,659,450	0.0%				
Marlin Heritage Europe, LP	Private Equity - Buyout	\$0	0.0%				



**Real Assets:**

As depicted in **Table 6** below, SCERS' Real Assets allocation is 13.7%, which is below the policy target of 15.0%, but well within the allowable range. However, this figure includes a 4.2% allocation to the SSGA Real Assets Strategy, which is the overlay proxy used by SSGA. SCERS' actual Real Assets allocation (not including the overlay proxy) is 9.5%, which is well below the 15.0% target allocation, and is primarily due to the shortfall in the private real assets segment of the asset class.

SSGA utilizes the SSGA Real Assets Strategy to rebalance SCERS' Real Assets allocation close to the 15% target. This is a series of commingled funds and separate accounts that provides diversified exposure to a blend of global listed infrastructure stocks, commodities, global natural resource equities, REITs, TIPS (Treasury Inflation Protected Securities) and midstream energy companies. While not a perfect proxy, this blend does provide SCERS with inflation protection, diversified returns and moderate levels of yield. Given that this proxy represents physical exposure through a mix of commingled funds and separate accounts rather than derivatives exposure, it is represented within the asset allocation for SCERS. This fund will be drawn down as SCERS continues to build exposure to the private real assets component of the asset class.

Among the Real Assets sub asset classes, the real estate private market core allocation is at 7.1%, which is slightly above the 7.0% target allocation, but within the allowable range. The private real assets allocation is at 1.6%, which is well below the 6.0% target, and similar to the private equity asset class, will continue to be built out over the next few years. SCERS' commodities allocation is 0.9%, which is below the target allocation of 2.0%, but within the range of 0.0% to 3.0%. During the second quarter, SCERS made a \$40 million commitment to Brookfield Infrastructure Fund III, L.P.

Please note that there are several investments within the Opportunities asset class which draw capital from the Real Assets asset class, as this is the asset class with the closest risk and return profile of the opportunity being invested in by these funds. These include: DRC European Real Estate Debt Fund II; KKR Real Estate Partners Americas; Och-Ziff Real Estate Fund III; UBS (Allegis Value Trust); A.E.W. Value Investors II; Hines US Office Value Added Fund II; NREP Nordic Strategies Fund; CIM Opportunity Fund VIII; ECE European Prime Shopping Centre Fund II; Hammes Partners II; and NREP Nordic Strategies Fund II. The aggregate market value of these investments is \$141.6 million, which equates to a 1.9% allocation, and brings SCERS' total allocation in Real Assets to 15.6%.

Asset Allocation and Rebalancing Report  
for the Quarter Ended June 30, 2016  
August 12, 2016  
Page 8 of 10

Table 6: Real Assets

Real Assets	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High
		\$1,048,532,743	13.7%	15.0%	-1.3%	12.0%	18.0%
Blackrock Realty Advisors Portfolio I	Real Estate Private Market Core	\$177,766,880	2.3%				
Blackrock Realty Advisors, Portfolio II	Real Estate Private Market Core	\$45,200,121	0.6%				
Cornerstone Realty Advisors	Real Estate Private Market Core	\$59,966,324	0.8%				
Morgan Stanley Prime Property Fund	Real Estate Private Market Core	\$47,459,574	0.6%				
MetLife Core Property Fund, LP	Real Estate Private Market Core	\$48,321,050	0.6%				
Jamestown Premier Property Fund LP	Real Estate Private Market Core	\$19,535,772	0.3%				
Prologis Targeted Europe Logistics Fund, LP	Real Estate Private Market Core	\$30,379,262	0.4%				
Prologis Targeted US Logistics Fund, LP	Real Estate Private Market Core	\$30,462,267	0.4%				
Principal US Property Account	Real Estate Private Market Core	\$36,639,330	0.5%				
Townsend Real Estate Fund, LP	Real Estate Private Market Core	\$44,891,079	0.6%				
	Real Estate Private Market Core		7.1%	7.0%	0.1%	4.0%	9.0%
EnCap Energy Capital Fund IX, LP	Private Real Assets	\$22,105,710	0.3%				
First Reserve Energy Infrastructure Fund II, LP	Private Real Assets	\$6,021,005	0.1%				
EnCap Flatrock Midstream Fund III, LP	Private Real Assets	\$3,057,998	0.0%				
Quantum Energy Partners VI, LP	Private Real Assets	\$7,954,906	0.1%				
Pantheon SCERS SIRF, LLC	Private Real Assets	\$34,424,919	0.5%				
Atalaya SCERS SMA, LLC	Private Real Assets	\$11,471,406	0.1%				
EnCap Energy Capital Fund X, LP	Private Real Assets	\$7,672,453	0.1%				
ArcLight Energy Partners Fund VI, LP	Private Real Assets	\$12,693,684	0.2%				
Carlyle Power Partners II, LP	Private Real Assets	\$13,093,748	0.2%				
IFM Global Infrastructure Fund	Private Real Assets	\$0	0.0%				
Wastewater Opportunity Fund, LLC	Private Real Assets	\$1,264,023	0.0%				
Brookfield Infrastructure Fund III, LP	Private Real Assets	\$112,439	0.0%				
	Private Real Assets		1.6%	6.0%	-4.4%	3.0%	8.0%
Blackstone Resources Select	Commodities	\$42,960,667	0.6%				
Gresham Strategic Commodities Fund	Commodities	\$25,958,391	0.3%				
	Commodities		0.9%	2.0%	-1.1%	0.0%	3.0%
SSGA Real Asset Strategy	Real Assets Proxy	\$319,119,735	4.2%				

**Opportunities:**

SCERS' Opportunities portfolio, outlined in **Table 7** below, is 2.1% compared to the 0% target allocation, and within the policy range of 0% to 5%. During the quarter, SCERS did not make any new commitments to the asset class. As you will recall, any investments made within the Opportunities asset class draw capital from the asset class with the closest risk and return profile as the opportunity being invested in. The asset class where capital is drawn from is listed in the chart below for each investment. Since the target allocation is 0%, the overlay program does not utilize a proxy allocation for the Opportunities asset class, like it does for the other major asset classes.



Asset Allocation and Rebalancing Report  
for the Quarter Ended June 30, 2016  
August 12, 2016  
Page 9 of 10

Table 7: Opportunities

Opportunities	Asset Class / Sub Asset Class	Market Value	Actual	Target	Delta %	Target Low	Target High	Asset Class Where Capital Is Drawn From
		\$160,116,233	2.1%	0.0%	2.1%	0.0%	5.0%	
Atalaya Special Opportunities Fund V, LP	Opportunities - Credit	\$18,530,480	0.2%					Private Equity
DRC European Real Estate Debt Fund II, LP	Opportunities - Credit	\$28,254,281	0.4%					Real Assets
KKR Real Estate Partners Americas, LP	Real Estate Private Market Opportunistic	\$21,159,311	0.3%					Real Assets
Och-Ziff Real Estate Fund III, LP	Real Estate Private Market Opportunistic	\$8,170,364	0.1%					Real Assets
UBS (Allegis Value Trust)	Real Estate Private Market Value Added	\$20,958,235	0.3%					Real Assets
A.E.W Value Investors II, LP	Real Estate Private Market Value Added	\$2,086,981	0.0%					Real Assets
Hines US Office Value Added Fund II, LP	Real Estate Private Market Value Added	\$7,043,144	0.1%					Real Assets
NREP Nordic Strategies Fund, FCP-FIS	Real Estate Private Market Value Added	\$17,303,611	0.2%					Real Assets
CIM Opportunity Fund VIII, LP	Real Estate Private Market Value Added	\$17,389,445	0.2%					Real Assets
ECE European Prime Shopping Centre Fund II, SCS-SIF	Real Estate Private Market Value Added	\$7,638,872	0.1%					Real Assets
Hammes Partners II, LP	Real Estate Private Market Value Added	\$6,994,164	0.1%					Real Assets
NREP Nordic Strategies Fund II, FCP-FIS	Real Estate Private Market Value Added	\$4,587,343	0.1%					Real Assets

**Cash:**

SCERS' cash balance is approximately 4.0% (as of 08/11/16), which is above SCERS' policy target of 0%. SCERS recently received the annual County cash benefit payment, which brought SCERS' cash account to this higher level. SCERS' overlay program will rebalance the portfolio by eliminating any 'cash drag' and investing the cash into positions that replicate SCERS' target portfolio according to the allocation policy and proxies in **Appendix 1** below.

However, as you will recall, SCERS has interim equity swaps in place within the International Equity portfolio until a manager replacement search is completed. The swaps require a small cash collateral, so SCERS' overall cash level is somewhat inflated, as a portion of this excess cash will be drawn down to allocate to a replacement manager upon selection. Please note that the overlay program does not equitize the cash associated with the interim equity swaps described above, as this would double SCERS' exposure to this investment.

In sum, Staff does not recommend physical rebalancing of any components of SCERS' portfolio at this time, but it is anticipated that a rebalance of the Domestic Equity portfolio back towards the target will be recommended in the near future to accommodate cash needs to fund future investments.

We would be happy to address any questions.

Respectfully submitted,

Concur:

Steve Davis  
Deputy Chief Investment Officer

Richard Stensrud  
Chief Executive Officer

**Appendix 1: Overlay Proxies and Rebalancing Ranges**

Asset Class	Benchmark for Overlay	Target Allocation	Minimum Allocation	Maximum Allocation
Domestic Equity & Proxies		22.5%	20.3%	24.8%
US Large Cap Equity	Russell 1000 Index	18.2%	14.6%	21.8%
US Small Cap Equity	Russell 2000 Index	3.2%	2.6%	3.8%
REITs US	Russell 1000 Index	1.1%	0.9%	1.4%
International Equity & Proxies		22.5%	20.3%	24.8%
Non-US Developed Markets Large/ Mid	MSCI World ex US	13.8%	11.0%	16.5%
Non-US Developed Markets Small Cap Equity	MSCI World ex US	2.25%	1.8%	2.7%
Non-US Emerging Markets Equity	MSCI Emerging Markets Index	5.35%	4.3%	6.4%
REITs International	MSCI World ex US	1.1%	0.9%	1.3%
Fixed Income	Barclays Capital U.S. Aggregate Bond Index	20.0%	18.0%	22.0%
Private Equity	Russell 2000 Index	10.0%	8.0%	12.0%
Hedge Funds	35% R3000, 35% MSCI ACWI ex US, 30% Barclays Capital US Aggregate Index	10.0%	8.0%	12.0%
Real Assets	Custom Real Assets Blend (INT TIPS /TIPS/REIT/GNR/COMM/MLPS/INFR)*	15.0%	12.0%	18.0%
Cash	90 Day T-Bill Rate	0.0%		2.0%