

Public Agenda Item #17

*Consideration of Annual Review of Capital Market Assumptions

March 1, 2023

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Capital Market Assumptions



Key Takeaways

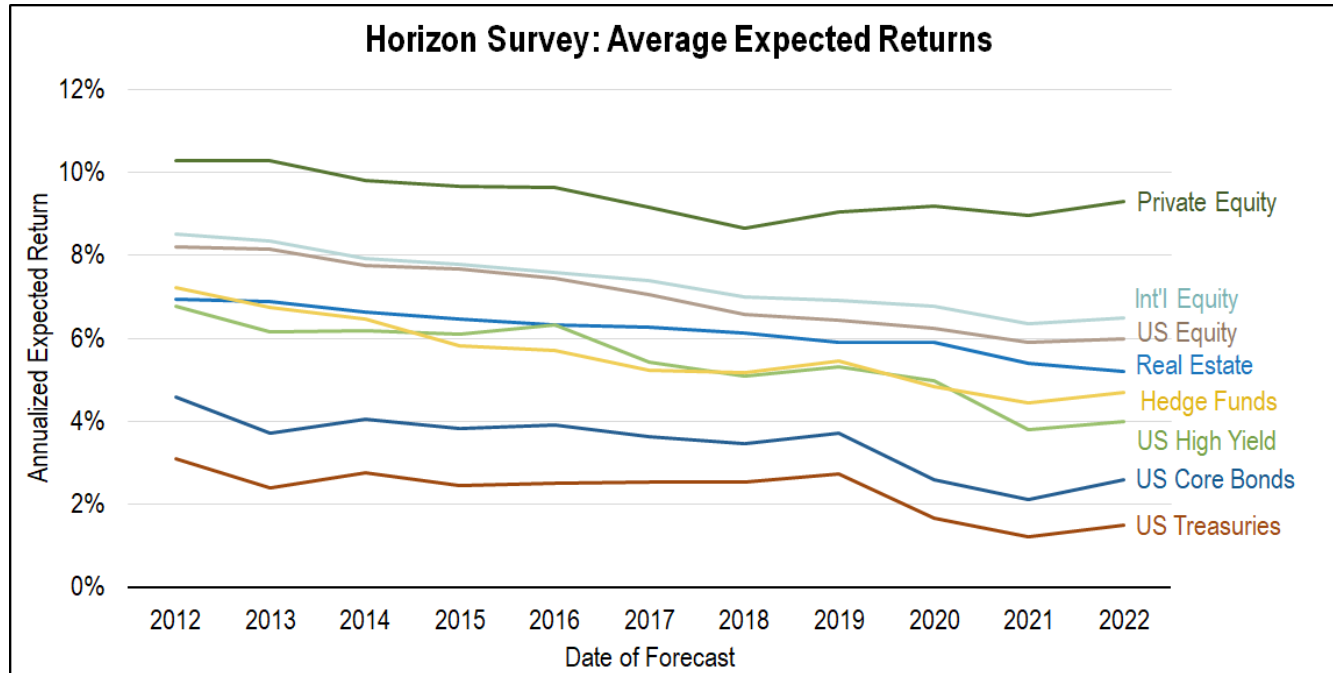
- Annual review of CMAs aims to support the Board's strategic planning
- Expected returns are trending much higher after a decade of steady decline
- Passive 80/20 stock/bond portfolio expected to yield only 6.4% annually
- Implementation gains raise expected returns for ERS Trust to well above 7%
- Investment themes signal weaker growth but stronger markets ahead

Capital Market Assumptions

Long-Term Trends



- Return expectations higher across most asset classes after a decade of decline

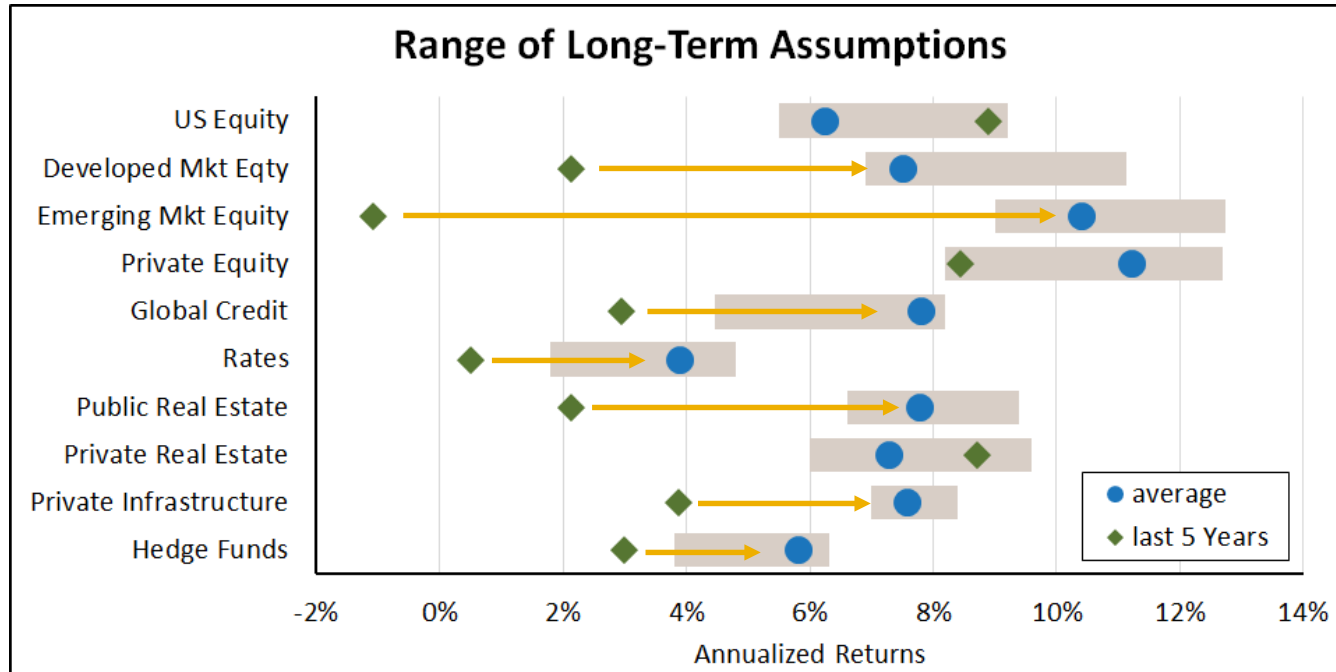


Capital Market Assumptions

Historical Comparison



- Expected returns for most asset classes well above those seen for the last five years

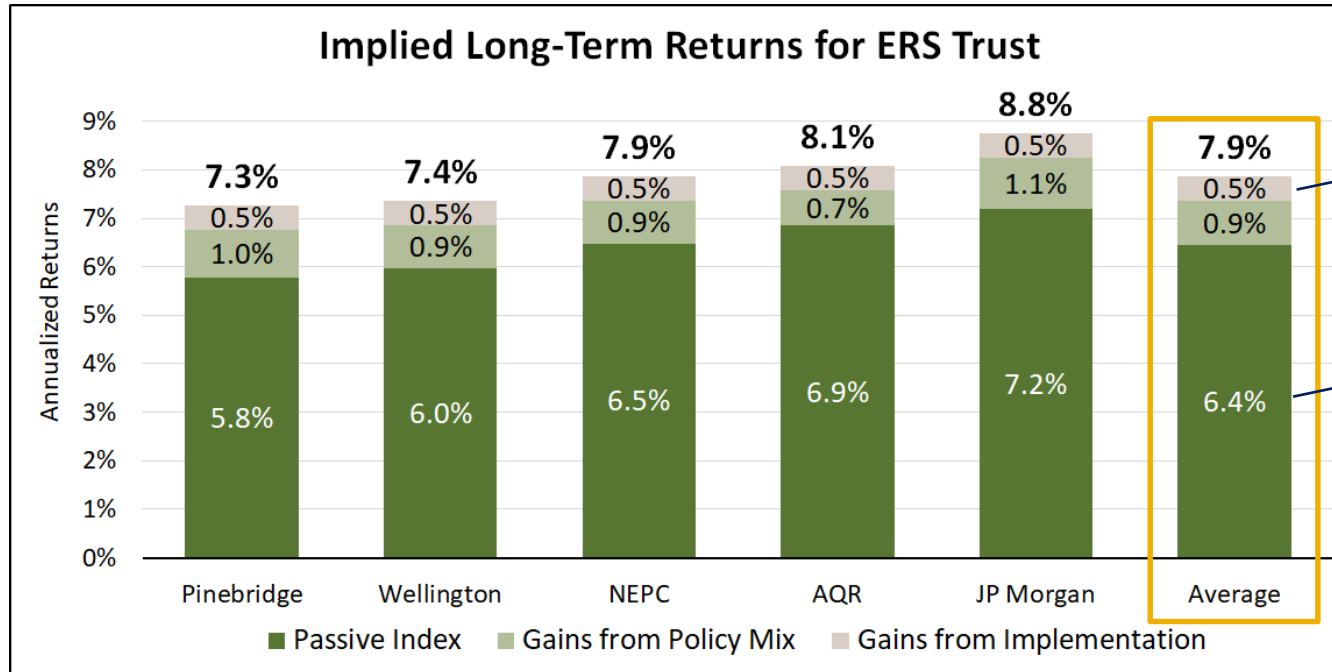


Capital Market Assumptions

Passive Index vs. ERS Trust



- Passive index offers 6.4%, ERS Trust exceeds 7% with mix and implementation



Sustaining +90 bps of implementation gains raises returns to **8.3%**

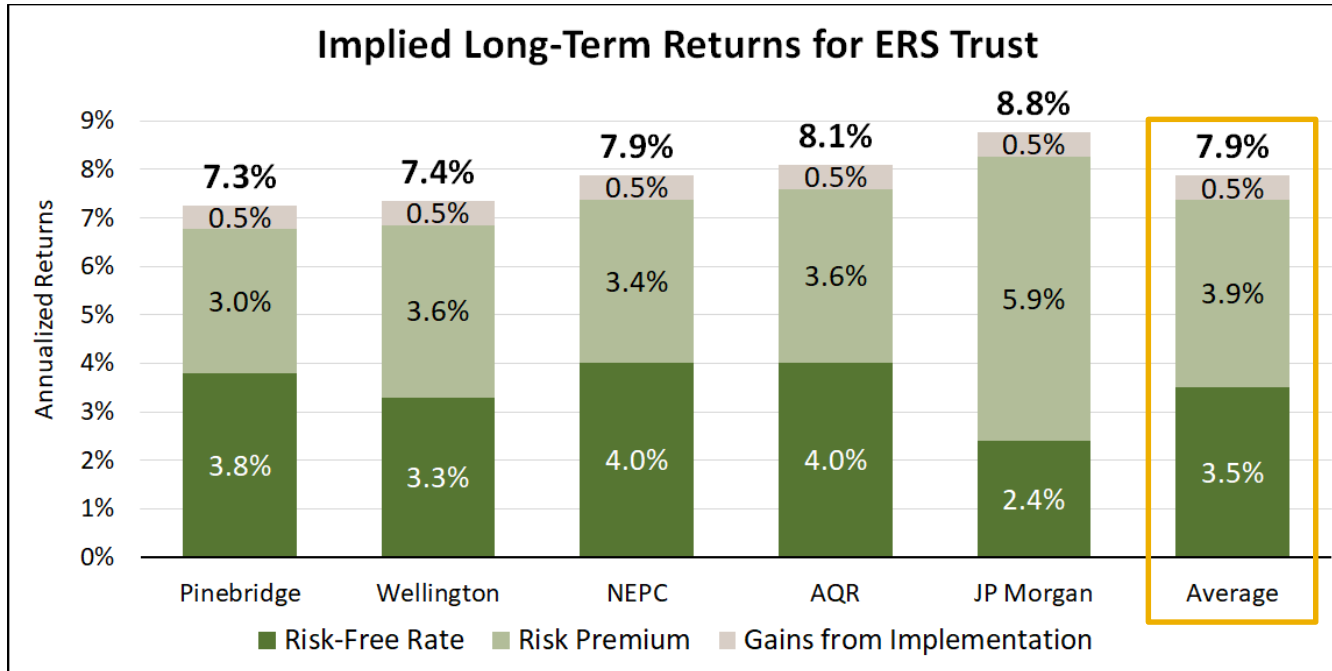
6.4% returns would fall short of strategic plan by **\$200MM** annually

Capital Market Assumptions

Key Drivers of Return



- Risk-free rates are much higher today, but risk premiums are likely to be lower

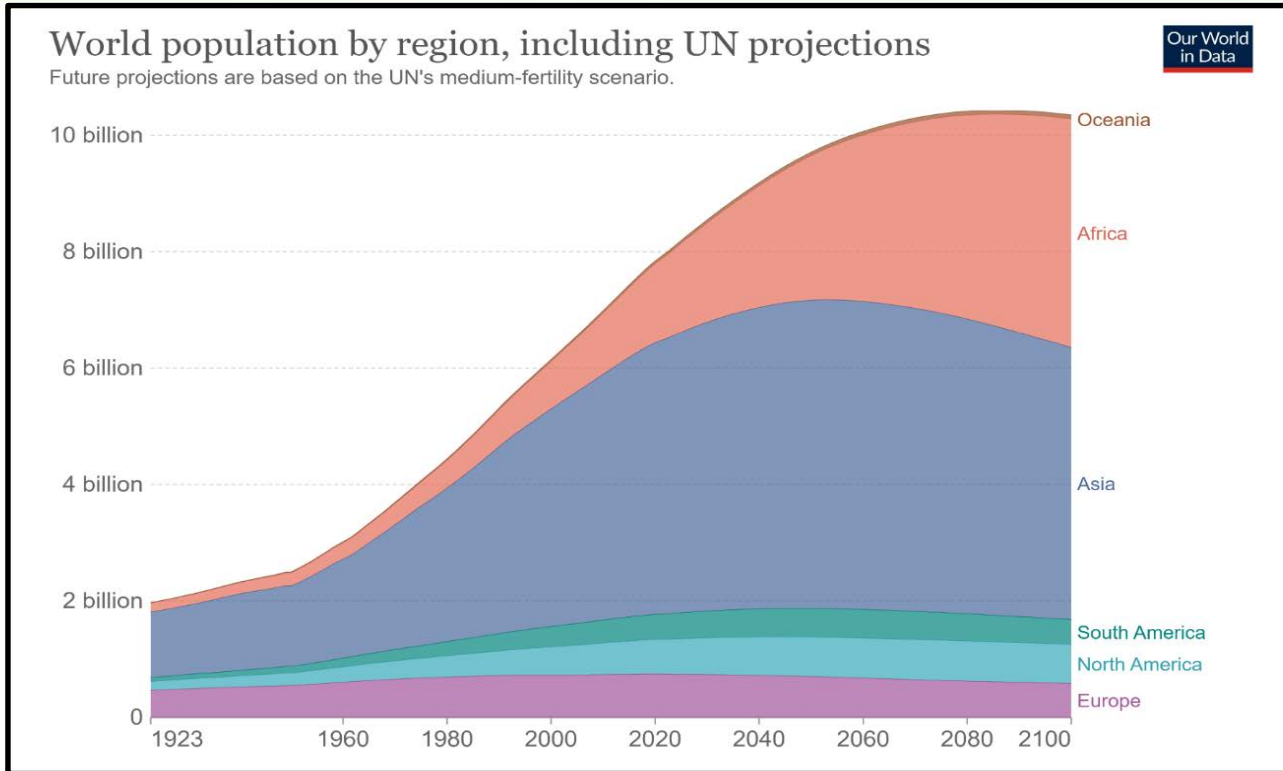


2022 review of CMAs produced expected returns of 7.1% (Jan)

2022 Asset/Liability Study had expected returns of 7.4% (Aug)

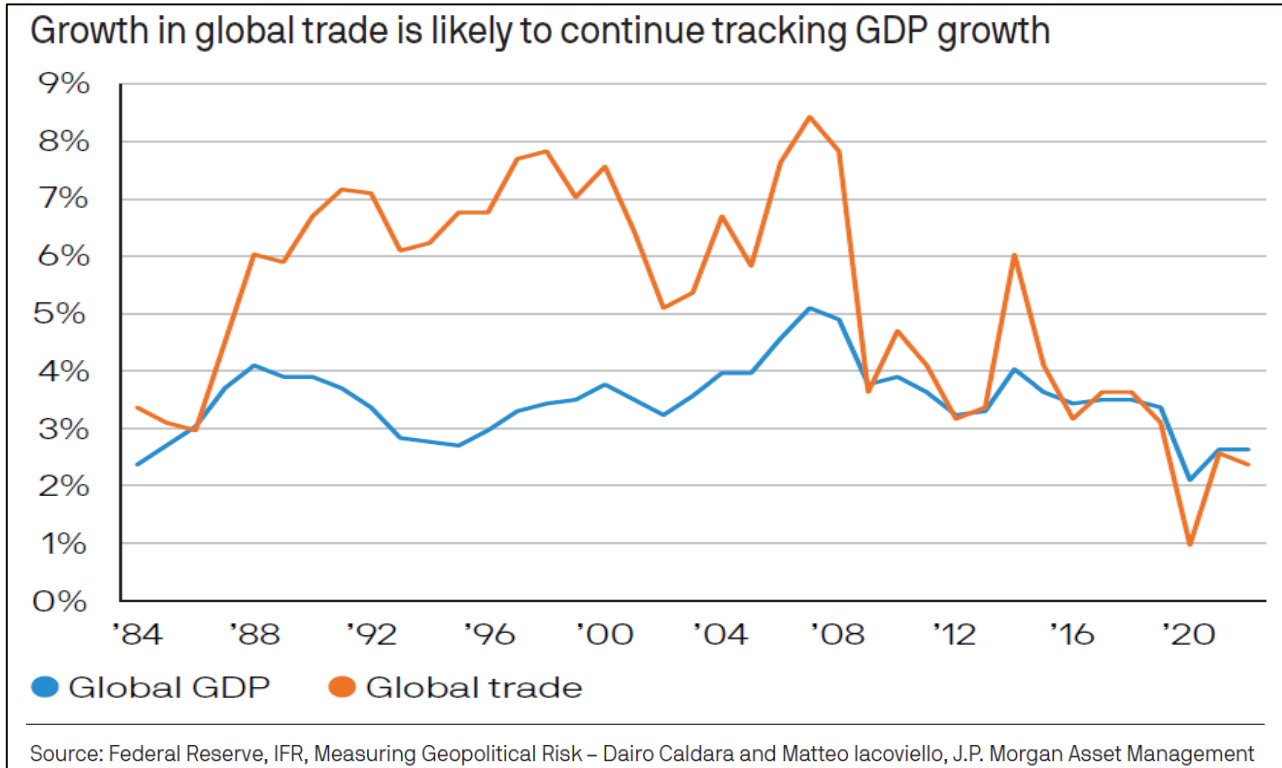
Capital Market Assumptions

Theme #1: Shifting Demographics



Capital Market Assumptions

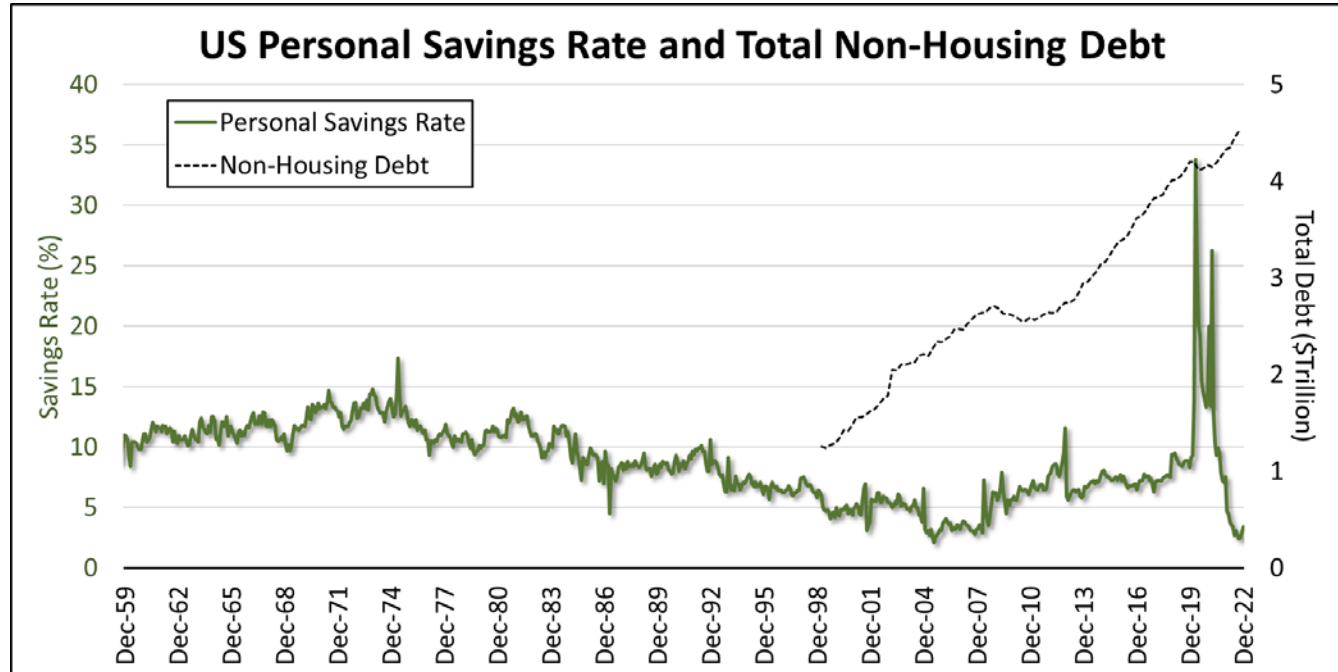
Theme #2: Deglobalization Continues



Capital Market Assumptions

Theme #3: Consumers Weakening

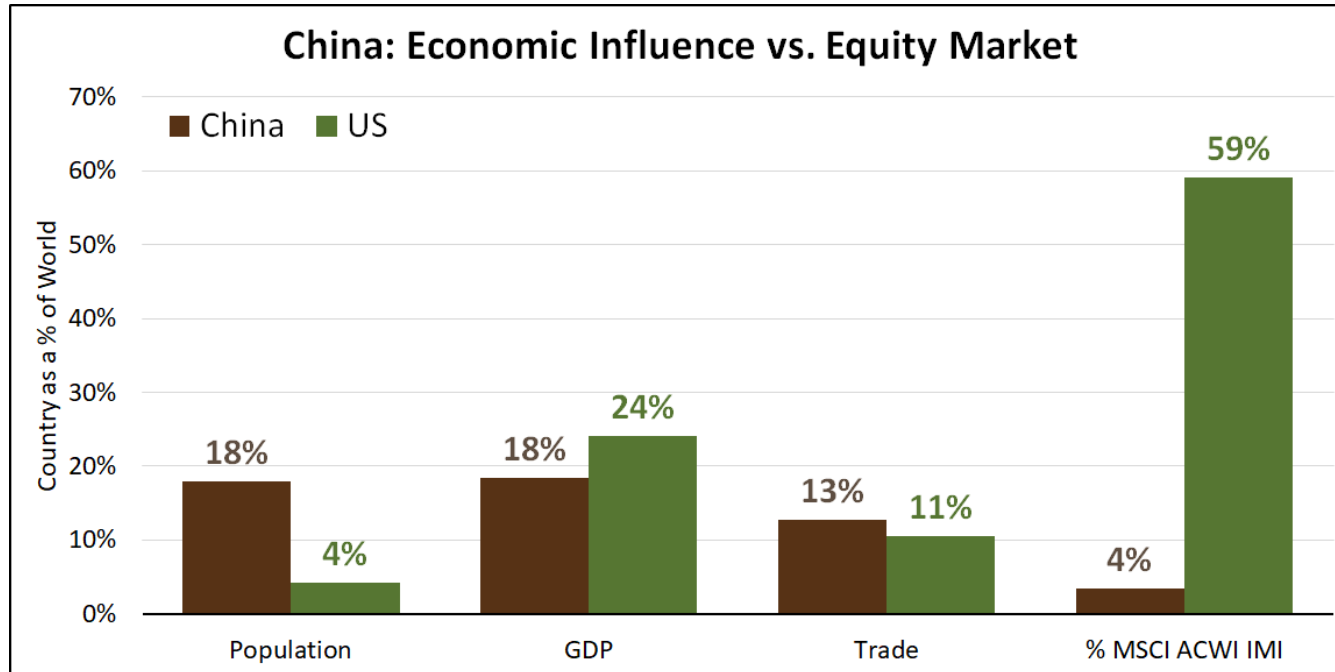
- Private sector savings have gone from record high levels to record low in the last two years



Capital Market Assumptions

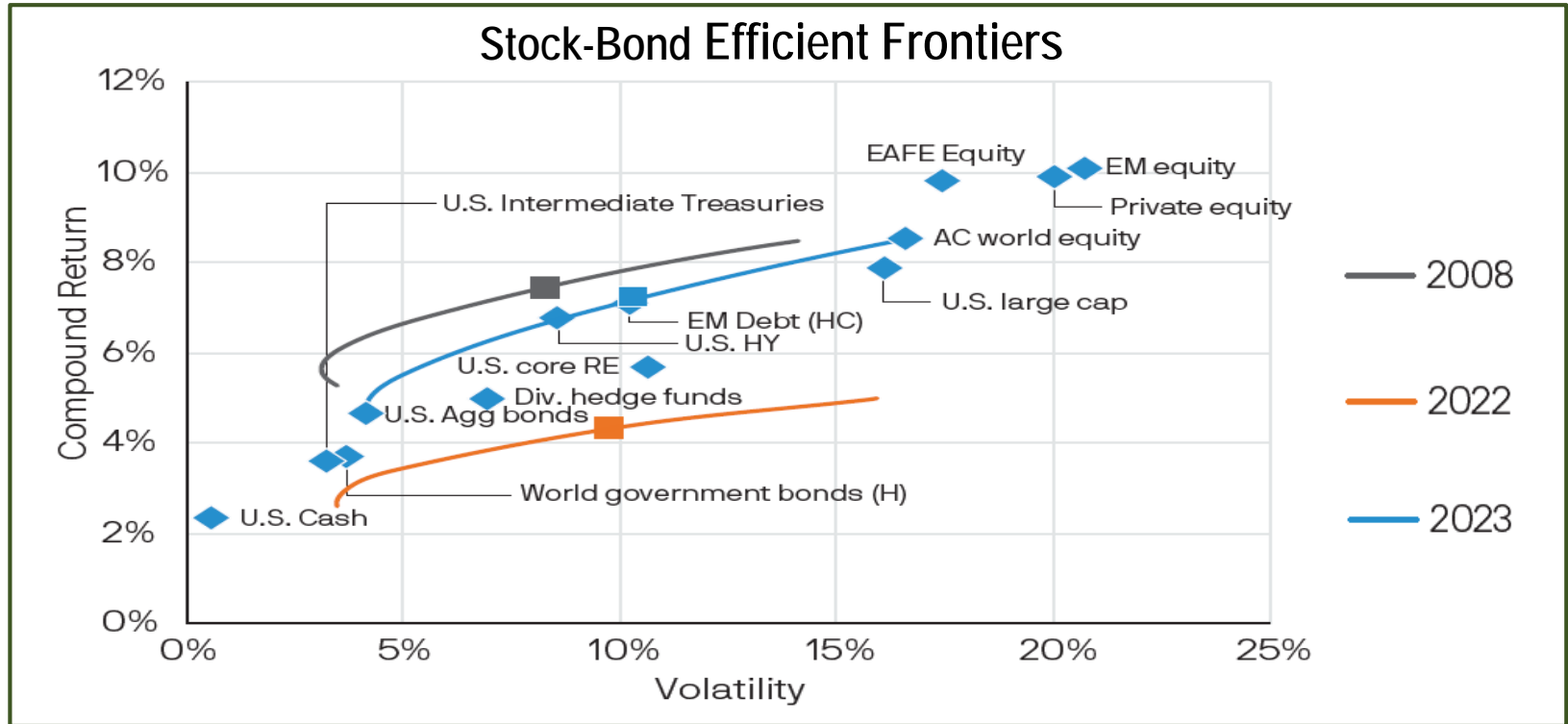
Theme #4: Outlook on China

- China remains a major swing factor for the global economy but a minor equity market



Capital Market Assumptions

Theme #5: Weaker Growth, Stronger Markets

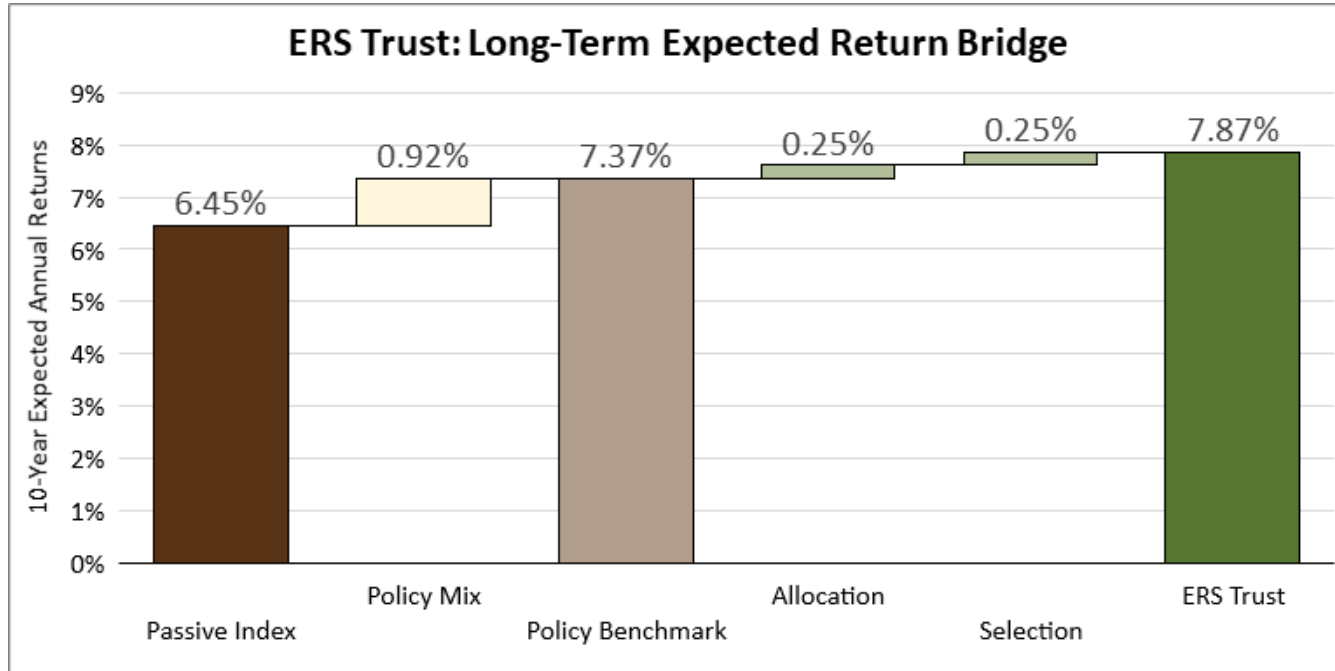


Capital Market Assumptions

Summary Findings



- Strategic plan for Trust remains robust, depends on strong implementation gains



Questions?