

Public Agenda Item #12

** Consideration of Annual Review of Capital Market Assumptions*

March 20, 2024

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Capital Market Assumptions



Key Takeaways

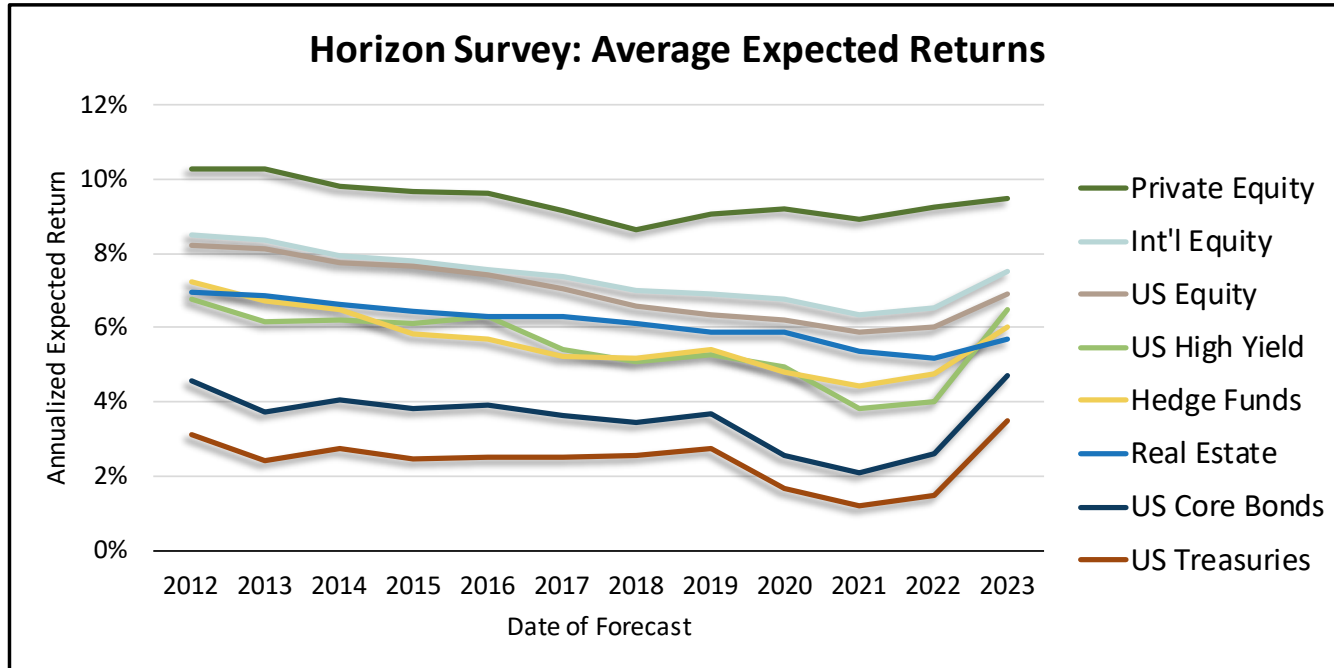
- The annual review of CMAs aims to support the Board's strategic planning
- Expected returns retain positive outlook after a decade of steady decline prior to 2023
- Passive 80/20 stock/bond portfolio expected to yield only 6.5% annually
- Expected return for ERS Policy Benchmark now 7.1% before implementation gains
- CMA themes suggest evolving and potentially narrowing investment opportunities

Capital Market Assumptions

Long-Term Trends – Horizon CMA Survey August 2023



- Survey of return expectations suggest a better forward outlook for many assets

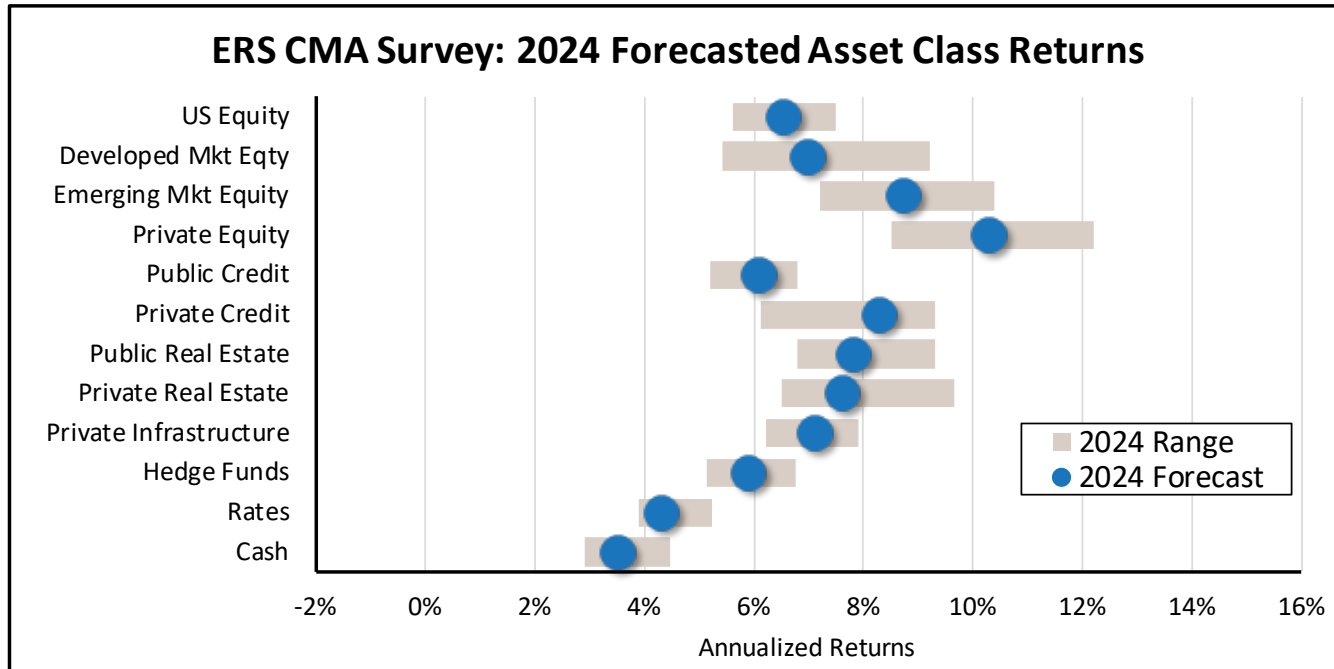


Capital Market Assumptions

ERS Survey of Capital Market Assumptions



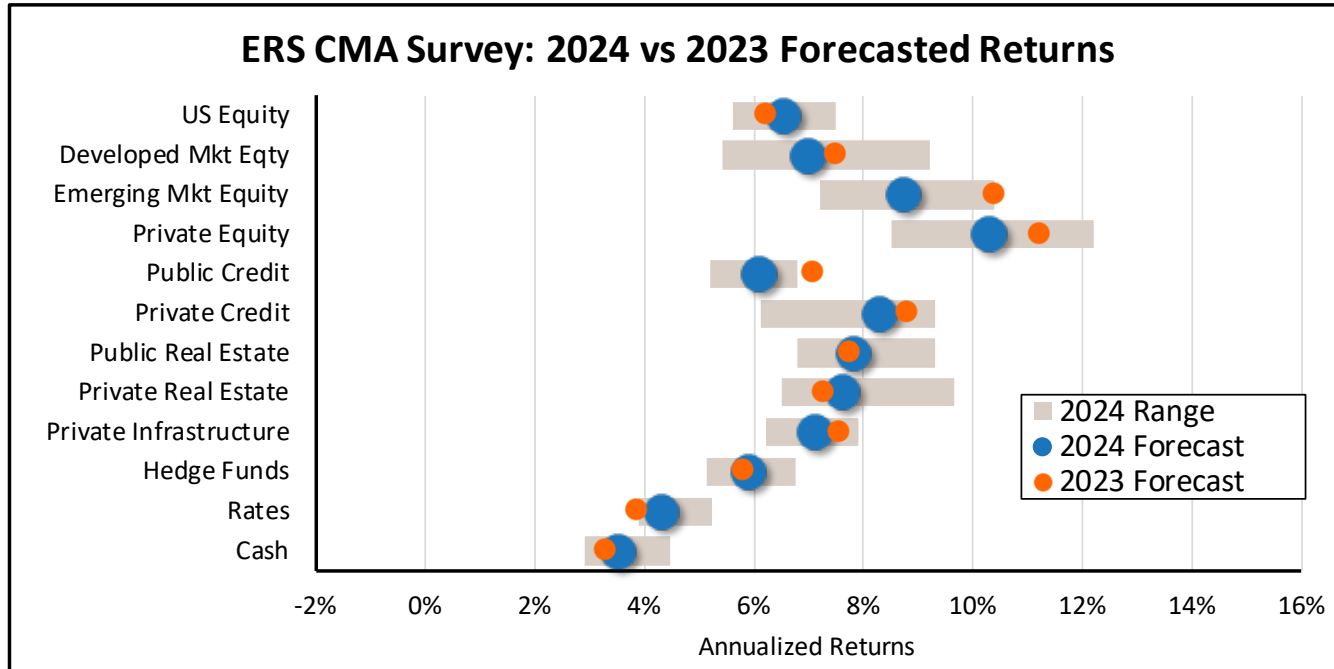
- Premiums forecasted for private markets vs. public equity and credit but not real estate



Capital Market Assumptions

ERS CMA Survey: Expected Returns for 2024 vs 2023

- Small changes across most asset classes with notable decline for Emerging Market Equity

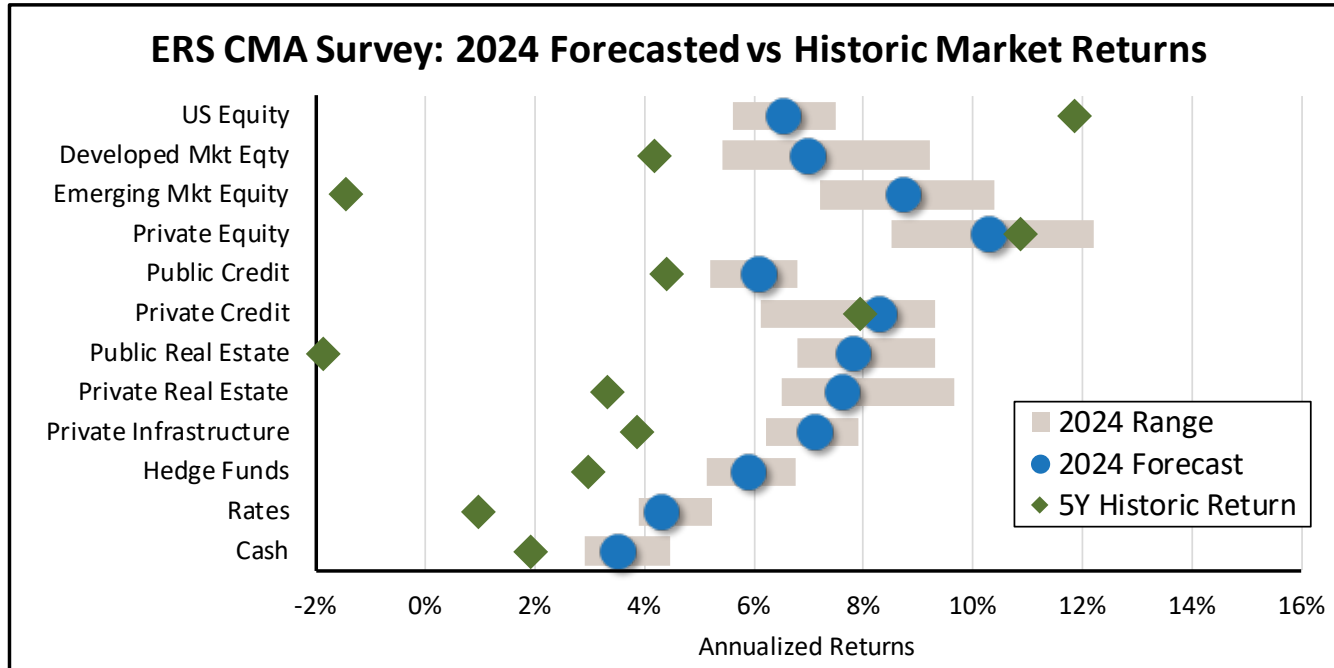


Capital Market Assumptions

ERS CMA Survey: Forecasted vs Actual Market Returns



- Forecasted returns higher than historical for most assets except US and Private Equity

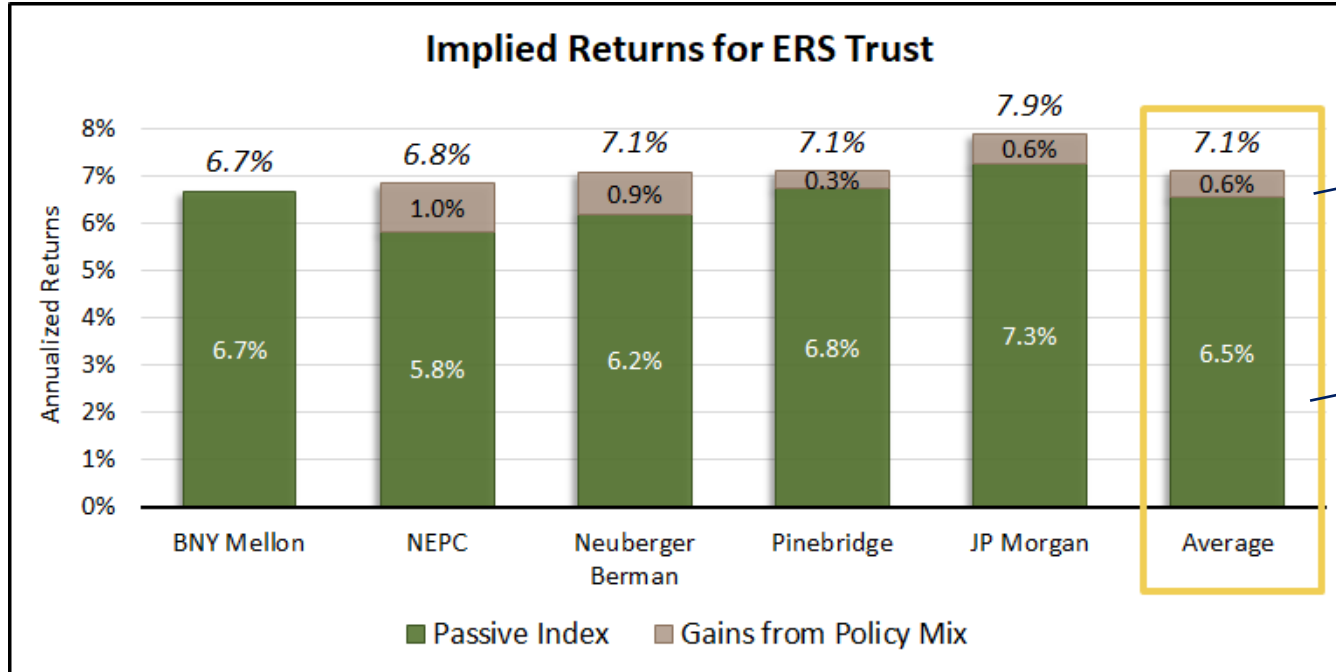


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Forecasted Trust Performance



- ERS CMA survey implies a return of **6.5%** for Passive Index vs **7.1%** for Policy Benchmark



7.1% base expectation for policy mix before implementation target

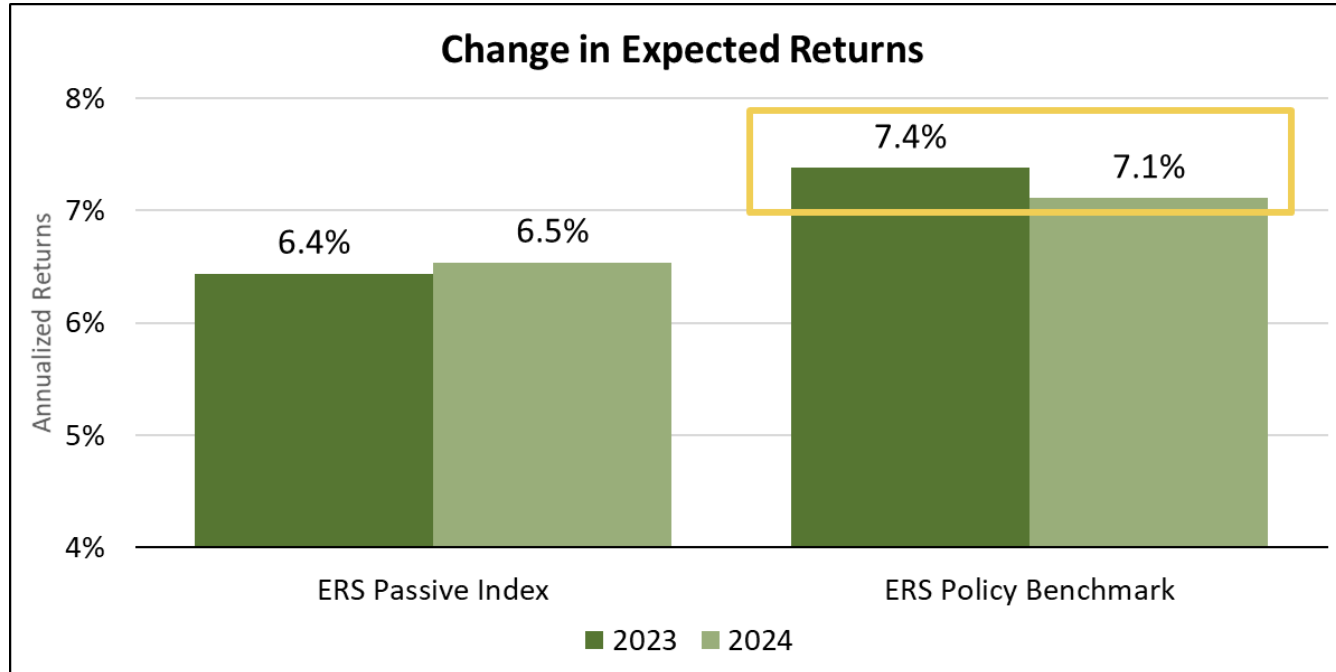
6.5% return falls short of the strategic plan by **\$200 million** annually

Capital Market Assumptions

Trends in Expected Returns

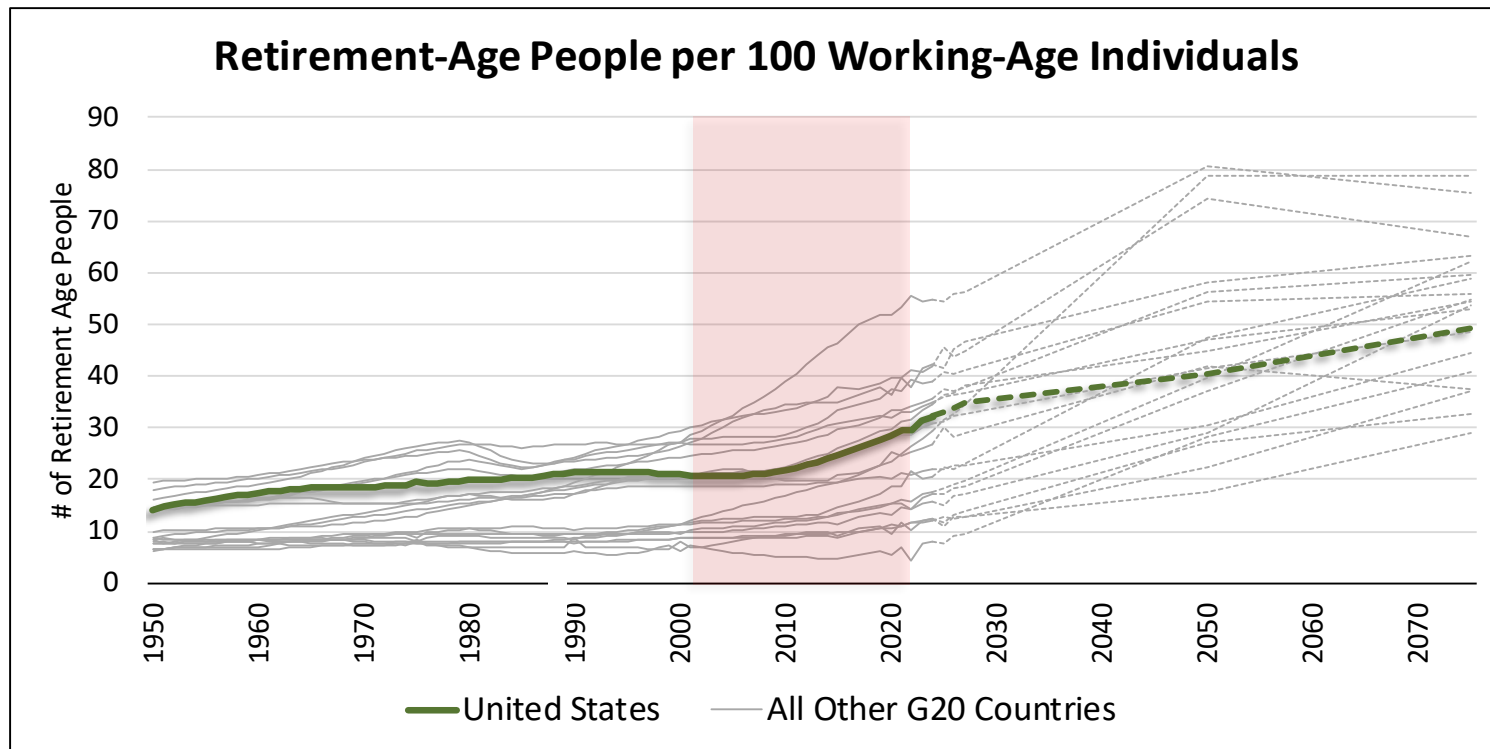


- Policy Benchmark returns fall 30 bps vs. year ago on declines for private equity, credit



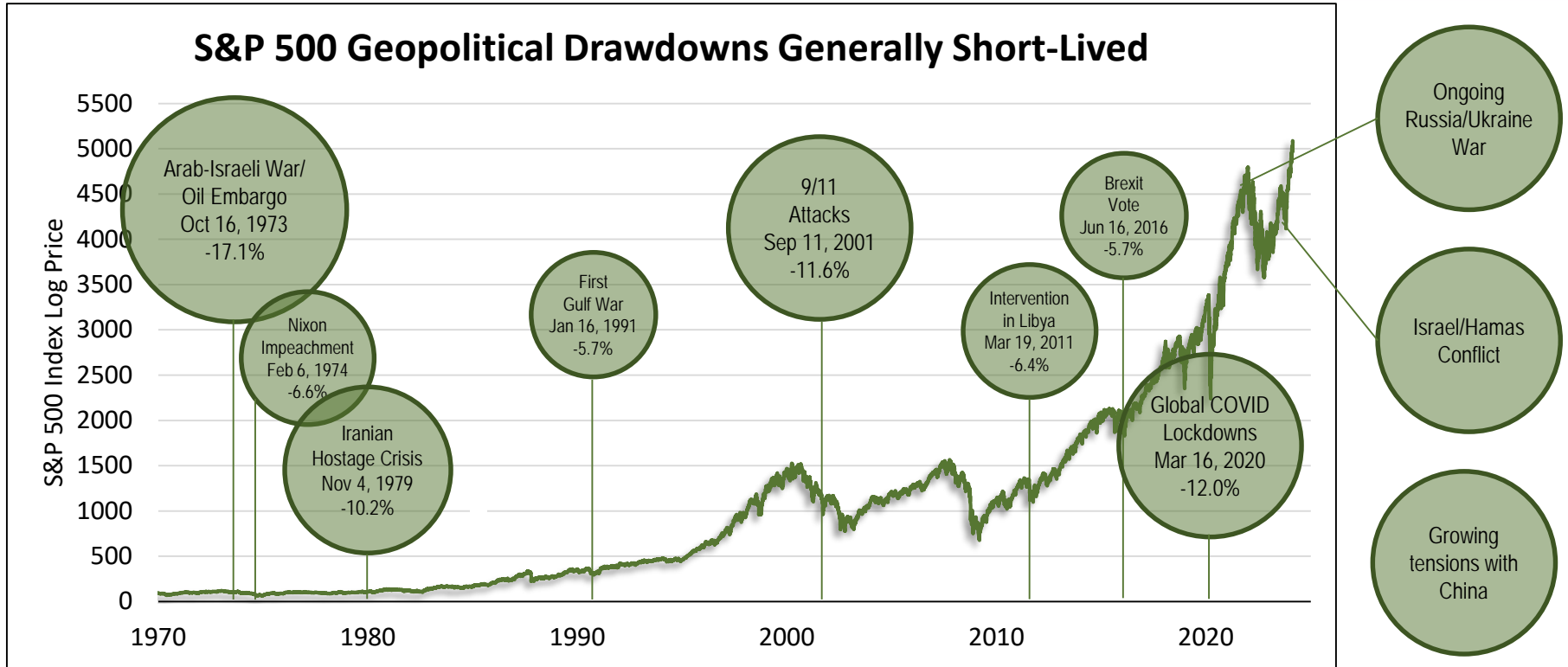
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Survey Theme #1: Impacts of an Aging Population



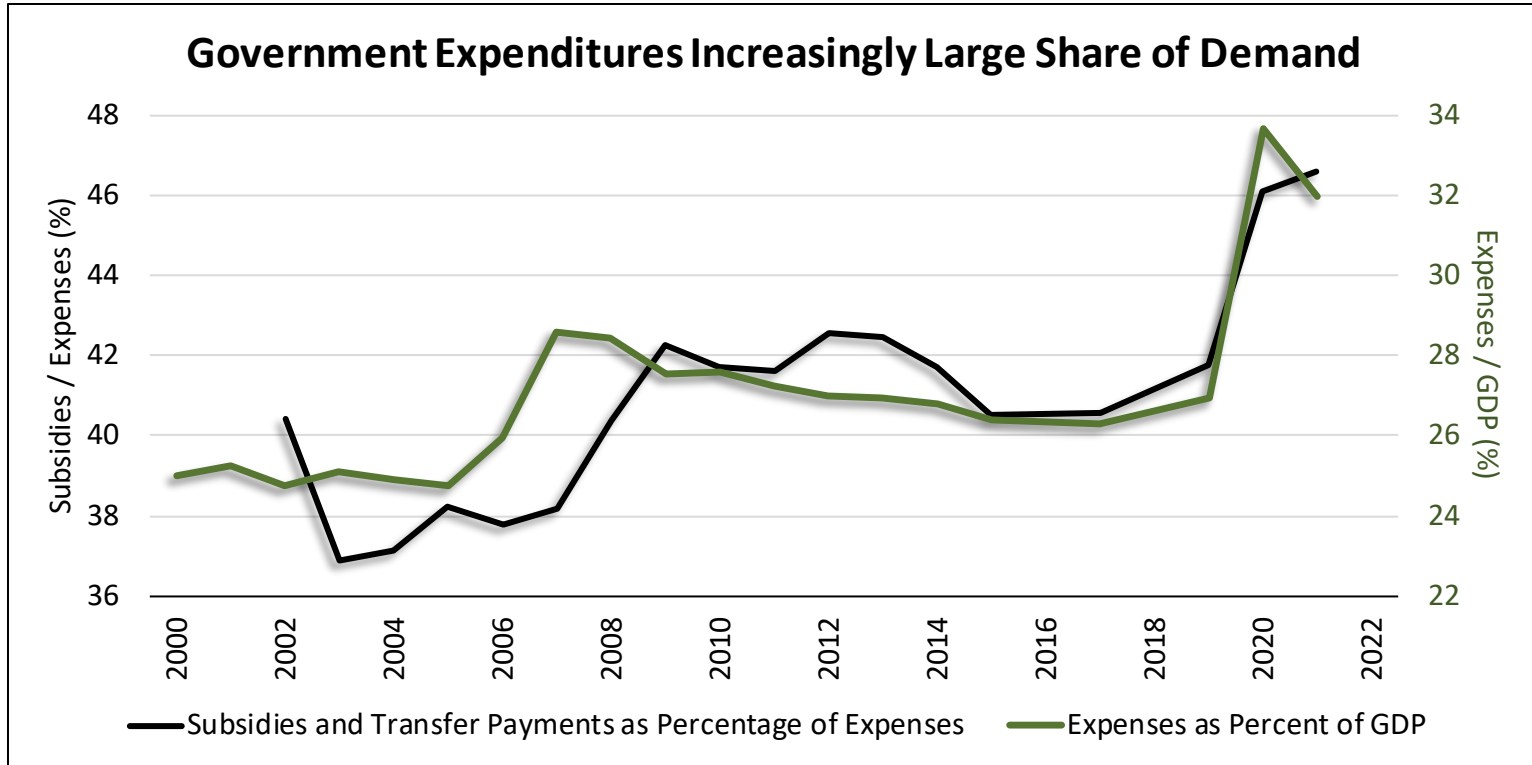
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Survey Theme #2: Geopolitical Risk



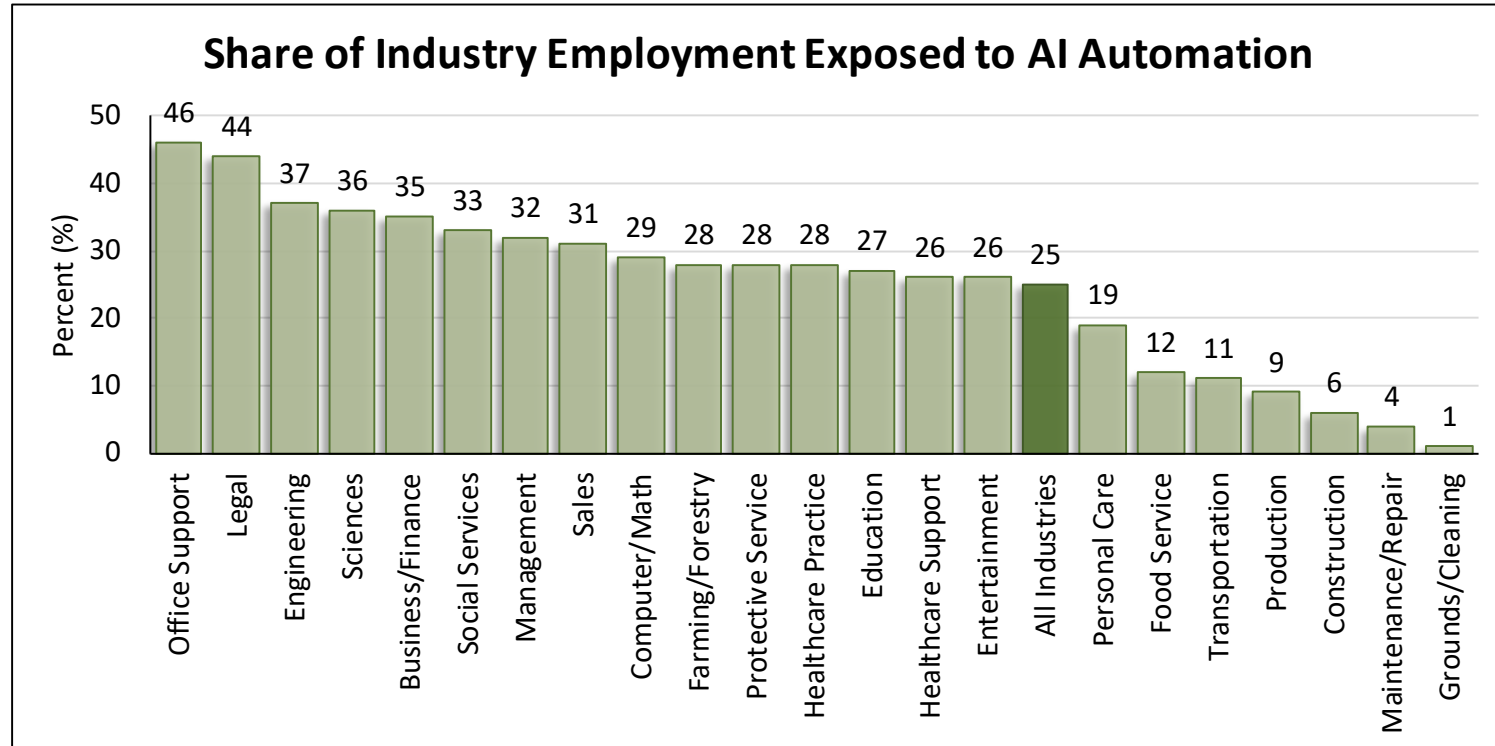
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Survey Theme #3: Expanding Role of Governments



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Theme #4: Artificial Intelligence



Capital Market Assumptions

Conclusions for 2024



- Passive 80/20 stock/bond portfolio expected to yield only 6.5% annually
- Expected return for ERS Policy Benchmark now 7.1% before implementation gains
- Public market returns seen narrowing the gap with private markets as rates rise
- Long-term themes likely to have a significant impact on returns going forward

Discussion