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MEMORANDUM

TO: Oakland Police and Fire Retirement System (OPFRS)

FROM: Meketa Investment Group (Meketa)

DATE: March 27, 2024

RE: Total Portfolio Expected Return Update – 2024 Assumptions

Summary

At least once per year, Meketa generates forward-looking capital market assumptions ("CMAs") to provide clients with our best estimates of long-term returns, volatilities, and correlations across a wide range of asset classes/strategies. These CMAs are then used in complex asset-liabilities studies as well as in more straight-forward asset allocation reviews. Additionally, one of the primary uses of these updated CMAs is to allow clients to review the expected return and volatility of their long-term policy target portfolios. Through this exercise, clients are able to obtain a general understanding of the positioning of their policy portfolio and whether it is still aligned with their long-term objectives.

Based on Meketa's 2024 Capital Market Assumptions, the OPFRS investment portfolio is well structured to perform above its 6.00% actuarial objective and over its 5% in the long-term.

Discussion

OPFRS completed the comprehensive Asset-Liability Study in February 2024 that culminated in a new long-term policy portfolio.

At the beginning of each year, Meketa develops capital market assumptions for a wide range of asset classes/strategies (in 2024 this equated to 112 different asset classes/strategies). These assumptions are developed using a multitude of quantitative and qualitative inputs, and this development process is updated each year with additional data sets and more refined approaches/models. Meketa develops assumptions for both 10-year (i.e., intermediate) and 20-year (i.e., long-term) timeframes. For the purposes of this memorandum, Meketa mapped the 10-year and 20-year assumptions to both the long-term policy targets in order to generate expected return and volatility metrics for the respective portfolios.[1] The long-term policy targets that were used can be found on the following page. The expected return and volatility metrics for the long-term policy targets are also presented. The underlying assumptions that were used are presented in this document.

Policy Targets and Expected Return/Risk

Classes/Strategies	2024 Long-term Policy Targets (%)
Return Seeking Assets	**40**
U.S. Equity	25
International Equity	5
High Yield	10
FIXED INCOME	**51**
CRISIS RISK OFFSET	**9**
Total	*100*
Expected Return (10-year)*	5.8
Expected Return (20-year)*	6.5
Annual Volatility	6.9

* Expected returns consist of passive management in liquid markets classes and median net performance in illiquid markets classes.

As detailed in the table above, the OPFRS investment portfolio is positioned to generate an expected return of 5.8%-6.5% depending on the investment horizon. When examining the portfolio from holistic perspective, Meketa believes that the portfolio remains prudently constructed to achieve and/or modestly exceed the actuarial rate without assuming unnecessary risk. It is important to note that the expected return of the portfolio and the actuarial assumed investment return do not need to be equal at all times, however, they should be similar to one another and directionally track over time.

2024 Return Assumptions*

Composite/Asset Class /Strategy	2024 Expected Return: 20-Year Geometric (%)
Return Seeking	
U.S. Equity	8.5
International Equity	8.9
High Yield	6.8
Fixed Income	
Investment Grade Bonds	4.8
Crisis Risk Offset	
Long US Treasuries	5.0
Systematic Trend Following	4.7
Alternative Risk Premia	5.2
Total Portfolio	**6.5**

*Expected returns consist of passive management in liquid markets classes and median net performance in illiquid markets classes.

DS/PN/JL/mn