

## MEMORANDUM

**TO:** Oakland Police and Fire Retirement System (OPFRS)  
**FROM:** Meketa Investment Group (Meketa)  
**DATE:** March 27, 2024  
**RE:** Implementation Plan: Newly Adopted 2024 Strategic Allocation Targets

### Summary

At its February 2024 meeting, the OPFRS Board approved a new long-term strategic allocation policy (see table below). Based on several projection statistics highlighted in the table, this new policy should maintain the likelihood of achieving the Plan's actuarial rate of return, while significantly lowering the portfolio's risk.

#### Comparison of OPFRS's current policy with new Long-term Allocation

Strategic Classes	Current	New	Change
<b>Return-Seeking Assets</b>			
US Equity	40.0	25.0	-15.0
Developed Market Equity (non-US)	12.0	5.0	-7.0
Buy Write (Covered Calls)	5.0	0.0	-5.0
High Yield Bonds	2.0	10.0	8.0
<b>Crisis Risk Offset</b>			
CTA (Trend Following)	3.3	3.0	-0.3
Alternative Risk Premia (ARP)	3.3	3.0	-0.3
Long-Term Government Bonds	3.3	3.0	-0.3
<b>Fixed Income</b>			
Investment Grade Bonds	31.0	51.0	20.0

Stats	Current (%)	New (%)	Change (%)
10-Year Geometric Return	7.1	6.2	-0.9
Return Volatility (Std. Dev.)	10.2	6.8	-3.4
Sharpe Ratio	0.39	0.46	0.07

From an allocation perspective, the biggest change is a decrease in return-seeking assets (U.S. and International public equity mandates) in favor of a significant increase in fixed income investments (Investment Grade Bonds). Additional notable items will include the elimination of the two Covered Calls strategies currently held in the Plan, a slight downward adjustment to the Crisis Risk Offset class, and an increase to high yield securities (through new Core Plus managers). These changes, as described in further detail below, will occur following class reviews and over the next 24 months so as not to disrupt the portfolio’s return/diversification production capabilities in the near term.

Strategic Classes	Current Allocation	2H 2024	1H 2025	2H 2025	Long-Term Target
<b>Return-Seeking Assets</b>					
US Equity	40.0	35.0	30.0	25.0	25.0
Developed Market Equity (non-US)	12.0	10.0	8.0	6.0	5.0
Buy Write (Covered Calls)	5.0	0.0	0.0	0.0	0.0
High Yield Bonds	2.0	4.0	6.0	8.0	10.0
<b>Crisis Risk Offset</b>					
CTA (Trend Following)	3.3	3.0	3.0	3.0	3.0
Alternative Risk Premia (ARP)	3.3	3.0	3.0	3.0	3.0
Long-Term Government Bonds	3.3	3.0	3.0	3.0	3.0
<b>Fixed Income</b>					
Investment Grade Bonds	21.0	31.0	41.0	51.0	51.0

### An Evolving Strategic Policy

As highlighted above, one feature of adopting the new strategic policy is that it will require a significant amount of change, both from an asset adjustment standpoint and from the perspective of updating and searching for new potential managers. When working with other clients in similar positions, Meketa has found that it can be challenging to keep the actual portfolio aligned with the intended long-term policy portfolio. Specifically, some moves/adjustments toward policy allocations take significant time, resulting in an actual portfolio that may deviate significantly from its policy benchmark, from both investment performance and asset allocation perspectives.

To help resolve and/or manage this issue, Meketa is recommending an “evolving policy” (see table above). Under an evolving policy framework, the policy portfolio is allowed to adjust over time, reflecting the incremental funding nature that many of the minor classes require to achieve their policy targets.

PN/DS/JLC/mn