Public Funds Report: December 2023 Observations

For over 30 years, RVK has published a semiannual *Public Funds Report*, summarizing survey data from public pension plans ("public funds") across the US. The public funds included in our reports range in size from less than $500 million to over $20 billion, providing a comprehensive view of the public funds landscape. Our most recent report is as of December 31, 2023, and includes data from over 60 public funds.

Examining our most recent *Public Funds Report*, we have identified a few notable observations.

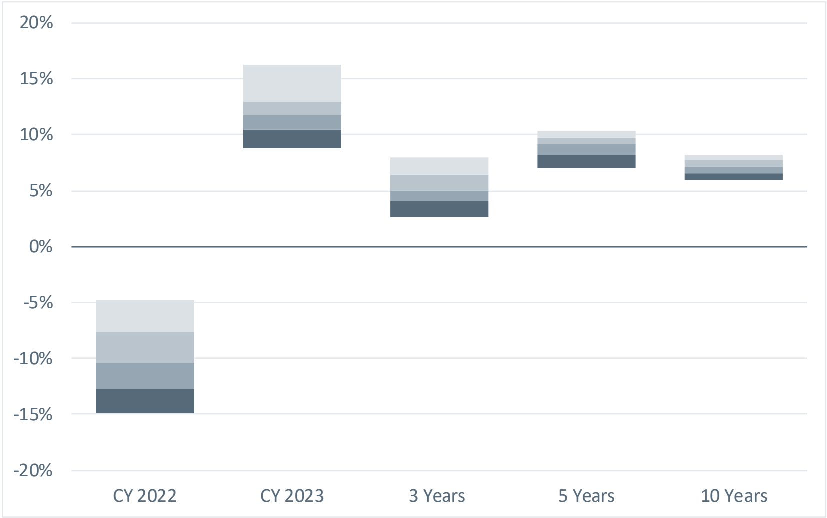
Before we begin, it should be noted that short-term performance for any investment portfolio is not indicative of long-term success or failure. Relative performance evaluations versus any peer group can be misleading. The most important marker of a successful investment program is relative to its unique long-term investment objectives. We generally caution against the pitfalls associated with placing too much emphasis on short-term performance results, and we recommend clients maintain a long-term focus when evaluating investment performance—both on an absolute and relative basis.

1. 1-Year performance and peer rankings can vary widely, particularly in extreme market conditions as experienced in 2022 and 2023.

As shown in **Figure 1**, while the spread between the 5th and 95th percentile returns in calendar years 2022 and 2023 were quite wide, the performance spread decreases when examining longer trailing periods. In extreme market conditions, funds with wider asset allocation differences than the peer average will generally see those differences magnified in relative peer group performance. However, those performance differences across peers tend to smooth out as longer time periods and various market environments are incorporated.

When examining longer-term performance relative to the median Assumed Rate of Return (ARoR), the median peer outperformed the median ARoR of 6.9% over both the trailing 5- and 10-year periods.

Figure 1: Public Funds Performance as of December 31, 2023



	CY 2022	CY 2023	3 Years	5 Years	10 Years
Median	-10.4%	11.8%	5.0%	9.2%	7.2%

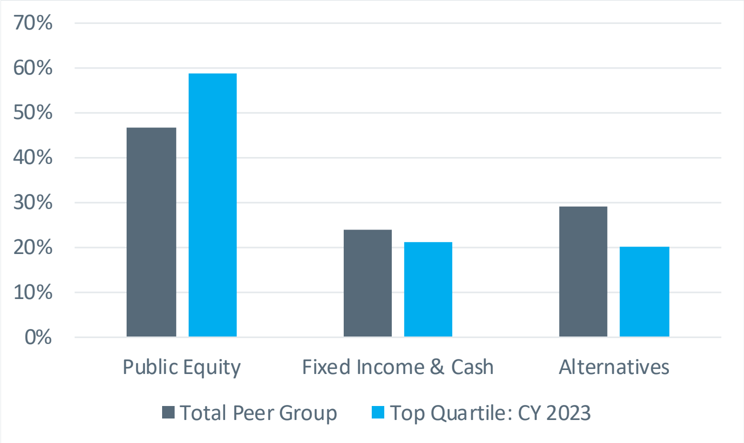
Performance provided to RVK, Inc. is gross of fees, with the exception of six funds which submit net of fees returns. Performance is calculated using quarterly performance data. Quartile distributions represent the 5th to 95th percentiles.

Source: *RVK Public Funds Report.* A compilation of data provided to RVK, Inc. by public funds throughout the US. Core Funds Universe, Excluding Permanent Funds.

2. The top performers in 2023 had a higher-than-average allocation to public equity.

As shown in **Figure 2**, the 2023 top quartile funds had an average public equity allocation of 59% versus 47% for the peer group average. Public equity markets (particularly in the US) were the top performing broad asset class during the year by a significant margin.

Figure 2: Average Asset Allocation: Total Peer Group vs. Top Quartile CY 2023



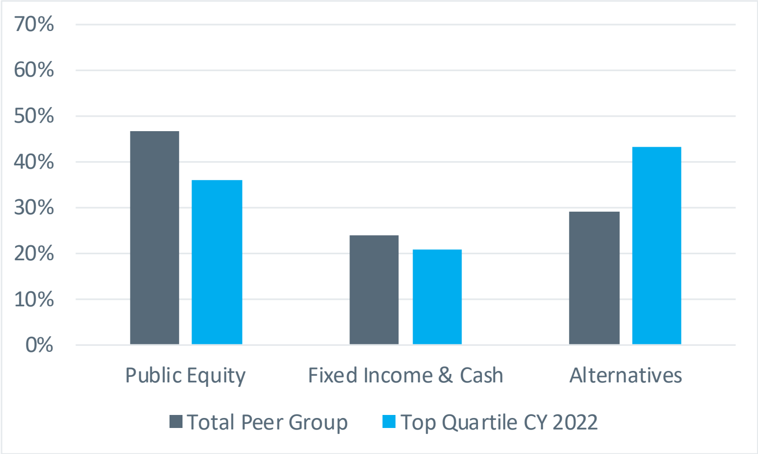
As of December 31, 2023.

3. With very few exceptions, the top performers in 2023 were not the same top performers the year prior, when public markets sold off.

For the calendar year 2023, 15 of the 17 funds in the top quartile were not among the top quartile performers in calendar year 2022, suggesting that public funds did not make material asset allocation changes between the two years. The two funds in the top quartile for both calendar years also did not make material asset allocation changes.

The top performers in 2022 generally had a higher-than-average allocation to alternatives (**Figure 3**) as both public equity and fixed income markets sold off significantly. The 2022 top-quartile funds had an average allocation to alternatives (including real estate) of 43% versus 29% for the peer group average. Conversely, this sub-group generally had a below average allocation to public equity markets (36% versus 47%) and public fixed income & cash (21% versus 24%).

Figure 3: Average Asset Allocation: Total Peer Group vs. Top Quartile CY 2022



As of December 31, 2022.

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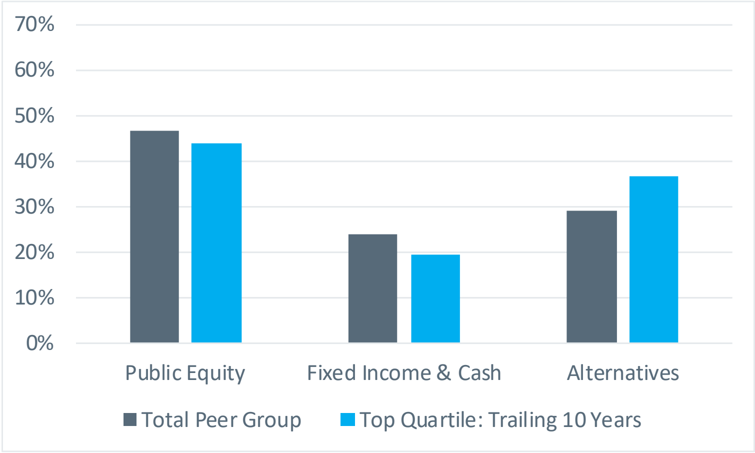
4. Top performers during the most recent trailing 10-year period had different asset allocations than the peer average, but the differences were generally more muted.

Top performers over the trailing 10-year period as of December 31, 2023 had a higher allocation to alternatives (37% versus 29%) and modestly lower allocations to public equity (44% versus 47%) and fixed income & cash (19% versus 24%), on average.

Figure 4: Average Asset Allocation: Total Peer Group vs. Top Quartile Trailing 10 Years



As of December 31, 2023.

5. Top performers during the most recent trailing 10-year period were not necessarily top performers in either calendar year 2022 or 2023.

Among the top quartile funds for the 10-year trailing period as of December 31, 2023, only 4 of the 17 funds earned top quartile returns in the calendar year 2023 and just 7 earned top quartile returns in the calendar year 2022. There was only one fund that achieved top quartile returns in both calendar years, in addition to earning a top quartile 10-year return.

This suggests that performing well relative to peers in a single extreme market environment, such as 2022 or 2023, is not required in order to achieve top quartile performance over longer time periods. As mentioned previously, being aware of short-term performance results can be helpful within the overall context of evaluating longer-term trends, but should not be the primary focus or evaluation metric for long-term investors.

Source: *RVK Public Funds Report.* A compilation of data provided to RVK, Inc. by public funds throughout the US. Core Funds Universe, Excluding Permanent Funds.

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