A G E N D A

BOARD MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
FRIDAY, JANUARY 20, 2023
AT 9:00 AM
Location: SJCERA Board Room
6 S. El Dorado Street, Suite 400, Stockton, California

The public may also attend the Board meeting live via Zoom by (1) clicking here: https://us02web.zoom.us/j/84890963563 and following the prompts to enter your name and email, or (2) calling (669) 219-2599 or (669) 900-9128 and entering Meeting ID 84890963563#.

Persons who require disability-related accommodations should contact SJCERA at (209) 468 -9950 or ElainaP@sjcera.org at least forty-eight (48) hours prior to the scheduled meeting time.

1.0 ROLL CALL

2.0 PLEDGE OF ALLEGIANCE

3.0 APPROVAL OF MINUTES

3.01 Approval of the minutes for the Board Meeting of December 9, 2022 6

3.02 Approval of the minutes for the Administrative Committee Meeting of January 11, 2023 10

3.03 Board to consider and take possible action on minutes

4.0 PUBLIC COMMENT

4.01 The public is welcome to address the Board during this time on matters within the Board's jurisdiction, following the steps listed below. Speakers are limited to three minutes, and are expected to be civil and courteous. Public comment on items listed on the agenda may be heard at this time, or when the item is called, at the discretion of the Chair.

If joining via Zoom, Public Comment can be made in the following ways:

PC or Mac: select "Participants" in the toolbar at the bottom of your screen, then select the option to raise or lower your hand.

Mobile Device: select the "More" option in the toolbar at the bottom of your screen, then select the option to raise or lower your hand.

Tablet: select the icon labeled "Participants," typically located at the top right of your screen, then select the hand icon next to your device in the Participants column.

If dialing in from a phone for audio only, dial *9 to "raise your hand."

If attending in person, members of the public are encouraged to complete a Public Comment form, which can be found near the entry to the Board Room.

Except as otherwise permitted by the Ralph M. Brown Act (California Government Code Sections 54950 et seq.), no deliberation, discussion or action may be taken by the Board on items not listed on the agenda. Members of the Board may, but are not required to: (1) briefly respond to statements made or questions posed by persons addressing the Board; (2) ask a brief question for clarification; or (3) refer the matter to staff for further information.

5.0 CONSENT ITEMS

6.0 SPECIALTY CREDIT MANAGER PRESENTATION

7.0 CLOSED SESSION

7.01 Purchase or Sale of Pension Fund Investments
California Government Code Section 54956.81

7.02 Personnel Matters
California Government Code Section 54957
Employee Disability Retirement Application(s) (2)

7.03 Conference with Real Property Negotiator - California Government Code Section 54956.8

01 Property: 6 S. El Dorado Street, Suite 400
Stockton, California 95202

Negotiating parties: Johanna Shick, Chief Executive Officer, SJCERA
Connie Hart, Assistant Director General Services, San Joaquin County

Under negotiation: Lease price and terms

7.04 Public Employee Performance Evaluation
California Government Code Section 54957
Title: Retirement Administrator/Chief Executive Officer

8.0 REPORT OUT OF CLOSED SESSION

8.01 On November 5, 2021, the Board voted unanimously to approve Resolution 2023-01-01 titled "Ocean Avenue Fund V" and to authorize the CEO to sign the necessary documents to invest $30 million in the fund.

8.02 On April 8, 2022, the Board voted unanimously to approve Resolution 2023-01-02 titled “Ridgemont Equity Partners Fund IV” and to authorize the CEO to sign the necessary documents to invest $50 million in the fund.

8.03 On June 3, 2022, the Board voted unanimously to approve Resolution 2023-01-03 titled “AEW Essential Housing Fund” and to authorize the CEO to sign the necessary documents to invest $50 million in the fund.

8.04 On June 3, 2022, the Board voted unanimously to approve Resolution 2023-01-04 titled “Bessemer Venture Partners Forge Institutional Fund” and to authorize the CEO to sign the necessary documents to invest $20 million in the fund.

8.05 On June 3, 2022, the Board voted unanimously to approve Resolution 2023-01-05 titled “Bessemer Venture Partners XII Institutional Fund” and to authorize the CEO to sign the necessary documents to invest $30 million in the fund.

8.06 On July 8, 2022, the Board voted unanimously to approve Resolution 2023-01-06 titled "BlackRock Global Infrastructure Fund IV" and to authorize the CEO to sign necessary documents to invest $50 million in the fund.

8.07 On November 4, 2022, the Board voted unanimously to approve Resolution 2023-01-07 titled "Long Arc Capital Fund I" and to authorize the CEO to sign the necessary documents to invest $20 million in the fund.

9.0 INVESTMENT CONSULTANT REPORTS

9.01 Presentation by David Sancewich of Meketa Investment Group

07 National Institute on Retirement Security 274
Pensionomics 2023
January 2023

08 National Institute on Retirement Security 306
Fact Sheet
California Pensionomics 2023

12.0 COMMENTS

12.01 Comments from the Board of Retirement

13.0 CALENDAR

13.01 CEO Performance Review Committee - January 31, 2023 at 1:00 p.m.

13.02 Board Meeting February 10, 2023 at 9:00 a.m.

13.03 Board Meeting March 10, 2023 at 9:00 a.m.

14.0 ADJOURNMENT

M I N U T E S

BOARD MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
FRIDAY, DECEMBER 9, 2022
AT 9:00 AM
Location: SJCERA Board Room, 6 S. El Dorado Street, Suite 400, Stockton, California

1.0 ROLL CALL

1.01 **MEMBERS PRESENT:** Phonxay Keokham, Emily Nicholas, Jennifer Goodman, Robert Rickman, Chanda Bassett, Michael Duffy, JC Weydert, Steve Moore, Raymond McCray and Michael Restuccia, presiding.
MEMBERS ABSENT: None
STAFF PRESENT: Chief Executive Officer Johanna Shick, Retirement Investment Officer Paris Ba, Management Analyst III Greg Frank, Information Systems Analyst II Lolo Garza, Administrative Secretary Elaina Petersen
OTHERS PRESENT: Deputy County Counsel Jason Morrish, David Sancewich, Mary Bates (Via Zoom) of Meketa

2.0 PLEDGE OF ALLEGIANCE

2.01 Led by Robert Rickman

3.0 MEETING MINUTES

3.01 Minutes for the Board Meeting of November 4, 2022

3.02 The Board voted unanimously (9-0) to approve the Minutes of Board Meeting of November 4, 2022. (Motion: Bassett; Second: Goodman)

4.0 PUBLIC COMMENT

4.01 There was no public comment

5.0 CONSENT ITEMS

5.01 Service Retirements (10)

5.02 The Board voted unanimously (9-0) to approve the Consent Calendar items (Motion: Bassett; Second: Weydert)

6.0 PRIVATE CREDIT MANAGER PRESENTATION

6.01 Presentation by Vinay Kumar and Bridget McKenna of Silver Rock Capital Partners

7.0 CLOSED SESSION

BEFORE THE CHAIR CONVENED CLOSED SESSION AT 9:36 A.M., COUNSEL ANNOUNCED THAT THERE WERE NO PERSONNEL MATTERS TO DISCUSS UNDER ITEM 7.02. THE CHAIR RECONVENED OPEN SESSION AT 10:20 A.M. AND COUNSEL ANNOUNCED THAT THERE WAS NOTHING TO REPORT OUT OF CLOSED SESSION.

7.01 Purchase or Sale of Pension Fund Investments
California Government Code Section 54956.81

7.02 Personnel Matters
California Government Code Section 54957
Employee Disability Retirement Application(s) (0)

8.0 INVESTMENT CONSULTANT REPORTS

8.01 Presentation by David Sancewich of Meketa Investment Group

01 Quarterly Reports for period ended September 30, 2022

a Quarterly Investment Performance Analysis

b Manager Certification Report

c Manager Review Schedule

02 Monthly Investment Performance Updates

a Manager Performance Flash Report

b Economic and Market Update

8.02 The Board received and filed reports

9.0 2023 STRATEGIC INVESTMENT PROGRAM PLAN

9.01 Presentation by David Sancewich of Meketa Investment Group

01 Memo from Meketa Investment Group

9.02 The Board received and filed the memo

10.0 2023 ADMINISTRATIVE BUDGET

10.01 2023 Administrative Budget Summary

10.02 2023 Administrative Budget Adjustments

10.03 Resolution 2022-12-01 titled “Annual Administrative Budget for 2023”

10.04 The Board voted unanimously (9-0) to approve the resolution 2022-12-01 titled “Annual Administrative Budget for 2023” (Motion: Goodman; Second Bassett)

11.0 STAFF REPORTS

11.01 Trustee and Executive Staff Travel

01 Conferences and Events Schedule

02 Summary of Pending Trustee and Executive Staff Travel

a Travel Requiring Approval (1)

03 Summary of Completed Trustee and Executive Staff Travel

11.02 The Board voted unanimously (8-0) to approve Chair Michael Restuccia to attend Institutional Real Estate, Inc. Visions, Insights & Perspectives VIP America 2023 Meeting January 17-19, 2023 in Rancho Palos Verdes, California. (Motion: Goodman; Second: Bassett; Abstain: Restuccia)

11.03 Legislative Summary Report - None; No changes since 11/2022

11.04 CEO Report

In addition to the written report, CEO Shick: 1) reported (in light of recent FTX and BlockFi news) SJCERA is not invested in crypto currency exchange platforms, clarifying that while blockchain is used in crypto currency, it is also used to provide secure financial transactions and logistics for well-known and trusted financial institutions and corporations; 2) thanked RPESJC for including SJCERA and trustees at their annual holiday luncheon; and 3) noted that she represented SJCERA at the Equal Employment Opportunity Office's holiday event on December 7 and will attend the Board of Supervisors' event on December 15.

11.05 The Board received and filed reports

12.0 CORRESPONDENCE

12.01 Letters Received (0)

12.02 Letters Sent (0)

12.03 Market Commentary/Newsletters/Articles

01 Capital Group
Rising yields put bond markets
back on a road to normal
September 1, 2022

02 Itau USA Asset Management, Inc
Why Emerging Markets Debt (EMD) Teach-in Presentation
September 2022

03 Milliman
Public Pension Funding Index
October 2022

04 Invesco
Emerging Market Marco Insights
Unlocking EM debt opportunities could
hinge on the next three to six months
November 2022

05 PIMCO
Risk-Off, Yield-On
November 2022

06 Standard & Poor's Global Ratings
Pension Brief: A Closer Look at a New Actuarial
Liability Measure and What it Means for U.S.
Public Finance Issuers
November 15, 2022

07 ai.cio.com
Final DOL Rule Permits ESG in
ERISA Plans
November 23, 2022

08 NCPERS
Monitor
November 2022

13.0 COMMENTS

13.01 Chair Restuccia advised he taught at a CALAPRS course, and saw former SJCERA CEO Bob Palmer there. Trustee Rickman thanked Chair Restuccia for his service to SJCERA and wished everyone a Merry Christmas. Trustee Weydert noted that is was interesting to read what other systems are willing to do to keep full funding.

14.0 CALENDAR

14.01 Board Meeting January 20, 2023 at 9:00 AM

14.02 CEO Performance Review Committee, TBD

14.03 Board Meeting February 10, 2023 at 9:00 AM

15.0 ADJOURNMENT

15.01 There being no further business the meeting was adjourned at 10:57 AM.

Respectfully Submitted:

____
Michael Restuccia, Chair

Attest:

____
Raymond McCray, Secretary

M I N U T E S

ADMINISTRATIVE COMMITTEE MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
WEDNESDAY, JANUARY 11, 2023
AT 10:00 AM
Location: SJCERA Conference Room, 6 S. El Dorado Street, Suite 400, Stockton, California

1.0 ROLL CALL

1.01 **MEMBERS PRESENT**: Chanda Bassett, Phonxay Keokham, Emily Nicholas and Jennifer Goodman presiding
MEMBERS ABSENT: None
STAFF PRESENT: Chief Executive Officer Johanna Shick, Management Analyst III Greg Frank and Administrative Secretary Elaina Petersen
OTHERS PRESENT: Deputy County Counsel Jason Morrish

2.0 PUBLIC COMMENT

2.01 There was no public comment

3.0 CONSENT ITEMS

3.01 Strategic Asset Allocation Policy

01 Strategic Asset Allocation Policy - Mark-up

02 Strategic Asset Allocation Policy - Clean

3.02 Trustee and Executive Staff Travel Policy

01 Trustee and Executive Staff Travel - Mark-up

02 Trustee and Executive Staff Travel - Clean

3.03 Statement of Reserve Policy

01 Statement of Reserve Policy - Mark-up

02 Statement of Reserve Policy - Clean

3.04 Ex-Parte Communications Policy

01 Ex Parte Communications Policy - Mark-up

02 Ex Parte Communications Policy - Clean

3.05 The Committee reviewed the items, provided edits to select policies, and voted unanimously (4-0) to recommend the Board of Retirement adopt the policies with revisions. (Motion: Bassett; Second: Nicholas)

4.0 OPTIONAL MEMBERSHIP

4.01 Bylaws - Mark-up

4.02 Bylaws - Clean

4.03 The Committee voted unanimously (4-0) to recommend the Board of Retirement adopt the proposed changes to the Bylaws. (Motion: Bassett; Second: Keokham)

5.0 CONFLICT OF INTEREST AND ECONOMIC INTEREST OVERSIGHT

5.01 Conflict of Interest Policy

01 Conflict of Interest Policy - Mark-up

02 Conflict of Interest Policy - Clean

5.02 Administrative Committee Charter

01 Administrative Committee Charter - Mark-up

02 Administrative Committee Charter - Clean

5.03 Summary of Sources of Income on Statements of Economic Interest Report

5.04 The Committee reviewed the items, provided edits, and voted unanimously (4-0) to recommend the Board of Retirement adopt the policies with revisions. (Motion: Bassett; Second: Nicholas)

6.0 COMMENTS

6.01 Trustee Bassett recommended staff develop a procedure to ensure Trustees' knowledge of Board policies remains current.

7.0 ADJOURNMENT

7.01 There being no further business, the meeting was adjourned at 10:40 a.m.

Respectfully Submitted:

____

Jennifer Goodman, Committee Chairperson

5.01 Service Retirement Consent

01 FARISHA J ALI — Correctional Officer, Sheriff-Custody-Regular Staff

Member Type: Safety
Years of Service: 25y 00m 06d
Retirement Date: 10/28/2022

02 ALICIA M ALVARADO — Eligibility Worker II, HSA - Eligibility Staff

Member Type: General
Years of Service: 16y 03m 21d
Retirement Date: 12/3/2022

03 AIDA J AMILASAN — Sr Licensed Vocational Nurse, Hosp Med-Surg 2D

Member Type: General
Years of Service: 19y 09m 03d
Retirement Date: 11/7/2022

04 ABDUL A AWAN — Information Systems Analyst IV, Information Systems Div - ISF

Member Type: General
Years of Service: 09y 00m 01d
Retirement Date: 11/30/2022
Comments: Tier 2 - eligible to retire with 5 years of service credit.

05 CAROLYN M BOESCH — Office Supervisor, Sheriff - Records - Criminal

Member Type: General
Years of Service: 30y 03m 05d
Retirement Date: 11/2/2022

06 ISABEL CARNEY — Senior Office Assistant, HSA - Clerical Support

Member Type: General
Years of Service: 23y 06m 10d
Retirement Date: 11/29/2022

07 DENNIS G CORCORAN — Deferred Member, N/A

Member Type: General
Years of Service: 07y 06m 10d
Retirement Date: 12/1/2022
Comments: Deferred from SJCERA since September 1998. Outgoing reciprocity and concurrent retirement with CalPERS.

08 LEONILA A CORDOVA — Deferred Member, N/A

Member Type: General
Years of Service: 15y 09m 27d
Retirement Date: 11/4/2022
Comments: Deferred from SJCERA since July 1998.

09 GARY DONATELLI — Information Systems Anlyst III, Information Systems Div - ISF

Member Type: General
Years of Service: 07y 08m 11d
Retirement Date: 11/6/2022
Comments: Tier 2 - eligible to retire with 5 years of service credit.

10 **SCOTT A FICHTNER** Assistant District Attorney
District Attorney

Member Type: General
Years of Service: 35y 11m 09d
Retirement Date: 11/20/2022

11 **KIMBERLY L GREER** Deferred Member
N/A

Member Type: General
Years of Service: 06y 01m 13d
Retirement Date: 11/30/2022
Comments: Deferred from SJCERA since October 2022. Member is Tier 1 with a membership date of December 4, 1998. Member qualifies for retirement with 10 years of membership.

12 **SALMA M GUSMAO** WIC Nutrition Assistant II
Public Health - WIC

Member Type: General
Years of Service: 09y 05m 13d
Retirement Date: 11/16/2022
Comments: Tier 2 - eligible to retire with 5 years of service credit.

13 **KRISTEN L HAMILTON** Inmate Programs & Services Di
Sheriff-Cust-Prisoner Welfare

Member Type: General
Years of Service: 28y 03m 22d
Retirement Date: 11/5/2022

14 **JAMIE M HOOD** Deferred Member
N/A

Member Type: General
Years of Service: 01y 03m 18d
Retirement Date: 11/8/2022
Comments: Member retired from Safety position March 2021.

15 **RALPH H HUGGINS** Correctional Officer
Sheriff-Custody-Regular Staff

Member Type: Safety
Years of Service: 26y 01m 26d
Retirement Date: 11/30/2022

16 **RUTH R LIRA** Senior Office Assistant
Recorder - County Clerk

Member Type: General
Years of Service: 14y 10m 28d
Retirement Date: 11/7/2022

17 **STEVEN J MARINO** Dept Info Systems Analyst II
Information Systems Div - ISF

Member Type: General
Years of Service: 20y 09m 20d
Retirement Date: 12/1/2022

18 **MICHAEL R MARTINEZ** Deputy Chief Probation Office
Probation-LCC AB109-Admin

Member Type: Safety
Years of Service: 26y 09m 16d
Retirement Date: 11/28/2022

19 **MOHAMMED MASOOD** Deferred Member
N/A

Member Type: General
Years of Service: 05y 01m 10d
Retirement Date: 11/19/2022
Comments: Deferred from SJCERA since April 2018. Member is Tier 1 with a membership date of November 19, 2012. Member qualifies for retirement with 10 years of membership.

20 **ERIN NUSSBAUMER** Non-Member
N/A

Member Type: Safety
Years of Service: 08y 08m 14d
Retirement Date: 12/1/2022
Comments: Safety retirement after DRO split account.

21 **PAUL A REGALADO** Deferred Member
N/A

Member Type: General
Years of Service: 15y 06m 19d
Retirement Date: 11/4/2022
Comments: Deferred from SJCERA since September 2022.

22 **PEGGY J RETHERFORD** Deferred Member
N/A

Member Type: General
Years of Service: 06y 00m 08d
Retirement Date: 11/20/2022
Comments: Deferred from SJCERA since November 2018.

23 **JENNIFER D ROSS** Court Reporter
Court Reporters

Member Type: General
Years of Service: 13y 05m 12d
Retirement Date: 11/28/2022

24 **MAMOONA SHAH** Mental Health Clinician I
Mental HealthPHF-Inpatient Fac

Member Type: General
Years of Service: 28y 02m 11d
Retirement Date: 11/26/2022

25 **DEANNA M SNEIDER** Deferred Member
N/A

Member Type: General
Years of Service: 07y 09m 06d
Retirement Date: 12/1/2022
Comments: Deferred from SJCERA since August 2020.

26 **THOMAS O TUGGLE** Correctional Officer
Sheriff-Custody-Regular Staff

Member Type: Safety
Years of Service: 19y 09m 00d
Retirement Date: 11/30/2022

2022 ANNUAL BOARD EDUCATION COMPLIANCE REPORT

Government Code Section 31522.8 requires Board Members to complete 24 hours of Board Member education within the first two years of assuming office and for every subsequent two-year period thereafter. Government Code Section 53235.1 requires at least two hours of Ethics training within one year of assuming office and every two years thereafter. Board Policy requires at least two hours of Sexual Harassment Prevention training within six months of assuming office and every two years thereafter.

TRUSTEE	TWO-YEAR PERIOD OF COMPLIANCE	EDUCATION HOURS COMPLETED*	REMAINING HOURS REQUIRED	Ethics Education	Sexual Harassment Prevention Training
Bassett, Chanda **Elected by Safety Members**	07/01/22-06/30/23	31.0	0.0	✓	✓
Duffy, Michael **Appointed by BOS**	01/01/21-12/31/22	24.0	0.0	✓	✓
Goodman, Jennifer **Elected by General Members**	07/01/21-06/30/23	33.6	0.0	✓	✓
Keokham, Phonxay **Ex-Officio Member**	09/17/20-09/16/22	59.8	0.0	✓	✓
McCray, Raymond **Appointed by BOS**	01/01/21-12/31/22	16.3	7.7		
Nicholas, Emily **Elected by General Members**	07/01/22-06/30/23	76.2	0.0	✓	✓
Moore, Steve **Alternate Retired Member**	07/9/21-07/8/23	57.9	0.0	✓	✓
Restuccia, Michael **Appointed by BOS**	01/01/21-12/31/22	29.8	0.0	✓	✓
Rickman, Robert **Appointed by BOS**	1/11/2022-1/10/24	8.3	15.7	✓	✓
Weydert, JC **Elected by Retired Members**	07/01/21-06/30/23	72.0	0.0	✓	✓

* Education hours are based whether the topics comply with GC Section 31522.8, 53235.1 and SJCERA's Trustee Education Policy.

Updated January 2023

Board of Retirement Meeting
San Joaquin County Employees' Retirement Association

Agenda Item 5.02-02

January 20, 2023

SUBJECT: Compensation Earnable and Pensionable Compensation for SJCERA Members

SUBMITTED FOR: __X__ CONSENT __ ACTION __ INFORMATION

RECOMMENDATION

Staff recommends the Board ratify the new 2022 retirement-eligible earnings codes in Attachment I.

PURPOSE

To ratify the 2022 earnings codes, which staff included as retirement-eligible compensation, pursuant to the *Retirement-Eligible Compensation* policy.

DISCUSSION

In accordance with the *Retirement-Eligible Compensation* policy, throughout the year staff reviewed compensation items received from participating employer(s) and included those compensation types that were substantially the same as other, previously Board-approved, Retirement Eligible Compensation.

The County Payroll Manager provided SJCERA staff the information required to evaluate the new 2022 earnings codes for retirement eligibility, as provided in Attachment I. Staff has evaluated the earnings codes in Attachment I and determined the earnings codes to be substantially the same as other codes the Board previously approved.

ATTACHMENTS

2022 Earnings Code Retirement-Eligible Ratification Report

JOHANNA SHICK Chief Executive Officer	GREG FRANK Management Analyst III

ATTACHMENT I

2022 Retirement-Eligible Earning Codes Ratification Report

Per the *Retirement-Eligible Compensation* policy, the Board shall annually adopt and revise a resolution designating which compensation types shall be included in Retirement-Eligible Compensation

DATE	EARNINGS PAY CODE	DESCRIPTION	(TIER 1) COMPENSATION EARNABLE	(TIER 2) PENSIONABLE COMPENSATION	(TIER 2b) PENSIONABLE COMPENSATION	WORKSHEET SUBMITTED BY COUNTY PAYROLL
Nov-22	A3W	Public Safety Dispatcher Pay - 3% supplement for employees in the Communications Dispatcher series who have a Public Safety Dispatcher Intermediate Certificate	Y	Y	N	Y
Nov-22	P3W	Overtime pay for Public Safety Dispatcher (A3W)	N	N	N	Y
Nov-22	Q3W	Holiday pay for Public Safety Dispatcher (A3W)	Y	Y	N	Y
Nov-22	R3W	Retro pay for Public Safety Dispatcher (A3W)	Y	Y	N	Y
Nov-22	A23	Shelter Facility Pay - 5% supplement for employees assigned to Mary Graham Children's Shelter(MGCS) for hours worked at the shelter	Y	Y	N	Y
Nov-22	P23	Overtime pay for Shelter Facility Pay (A23)	N	N	N	Y
Nov-22	Q23	Holiday pay for Shelter Facility Pay (A23)	Y	Y	N	Y
Nov-22	R23	Retro pay for Shelter Facility Pay (A23)	Y	Y	N	Y
Nov-22	A44	Class A Driver License - 1.5% supplement for employees in the Weights & Measures that require the employee to maintain a Class A License.	Y	Y	N	Y
Nov-22	P44	Overtime pay for Weights & Measures employees required to maintain Class A Driver License (A44)	N	N	N	Y
Nov-22	Q44	Holiday pay for Weights & Measures employees required to maintain Class A Driver License (A44)	Y	Y	N	Y
Nov-22	R44	Retro pay for Weights & Measures employees required to maintain Class A Driver License (A44)	Y	Y	N	Y
Nov-22	A75	Behaviorial Health Assignment Pay - 3% supplement for employees in identified classifications who are assigned to work directly with patients but do not provide clinical care. Only applies to employees at BHS assigned to Crisis, CSU or PHF.	Y	Y	N	Y
Nov-22	P75	Overtime pay for Behavorial Health Assignment Pay (A75)	N	N	N	Y
Nov-22	Q75	Holiday pay for Behavorial Health Assignment Pay (A75)	Y	Y	N	Y
Nov-22	R75	Retro pay for Behavorial Health Assignment Pay (A75)	Y	Y	N	Y
Nov-22	A98	Lump sum boot allowance	Y	N	N	Y
Nov-22	OHP	Any regular full-time employee whose regularly scheduled day off falls on a regular holiday shall have the option to receive cash payment of eight (8) hours of regular holiday time	N	N	N	Y
Nov-22	WND	Weekend shift differential that pays $1 per hour	Y	Y	N	Y
Nov-22	WNO	Overtime pay for weeekend shift differential (WND)	N	N	N	Y
Nov-22	WNH	Holiday pay for weeekend shift differential (WND)	Y	Y	N	Y
Dec-22	MBP	SB 1334 requires mandatory paid breaks and unpaid meals for employees who provide direct patient care. If missed, then must pay employee one hour of pay.	N	N	N	Y
Dec-22	WN2	Weekend shift differential for Holiday Overtome Pay	N	N	N	Y

Board of Retirement

San Joaquin County Employees' Retirement Association

January 20, 2023 Agenda Item 5.03

SUBJECT: Board Policy Amendments

SUBMITTED FOR: __X_ CONSENT __ ACTION ___ INFORMATION

RECOMMENDATION

The Administrative Committee recommends the Board of retirement adopt the proposed policy amendments.

PURPOSE

To amend the policies to ensure that they remain relevant, appropriate and in compliance, per Section III.C of the Administrative Committee Charter.

DISCUSSION

In accordance with the Board's requirement that staff review one-third of the policies annually, the following amendments are proposed:

- *Strategic Asset Allocation* policy – Amended to reflect the asset allocation targets adopted June 3, 2022 as part of the Asset-Liability study
- *Trustee and Executive Staff Travel* policy – Clarified retired Trustees mileage reimbursement is to and from home, defined reasonable fares for ground transportation, added a total annual travel expenditure column to the year-end travel report and added a process for Board to approve exceptions to the spending cap
- *Statement of Reserve* policy – Simplified purpose, removed references to historical actions, added references to resolutions where appropriate, corrected section cross references, and replaced County with Employer in references to additional UAL contributions
- *Ex Parte Communications* policy – Modified Communications Requirements section to restrict any communication and added appeal language referencing the SJCERA *Administrative Appeal* procedure

ATTACHMENTS

Proposed revisions to *Strategic Asset Allocation* policy – Mark-up
Proposed revisions to *Strategic Asset Allocation* policy – Clean
Proposed revisions to *Trustee and Executive Staff Travel* policy – Mark-up
Proposed revisions to *Trustee and Executive Staff Travel* policy – Clean
Proposed revisions to *Statement of Reserve* policy – Mark-up
Proposed revisions to *Statement of Reserve* policy – Clean
Proposed revisions to *Ex Parte Communications* policy – Mark-up
Proposed revisions to *Ex Parte Communications* policy – Clean

JShick

Johanna Shick
Chief Executive Officer

I. PURPOSE

A. To outline SJCERA's goals, objectives, and guidelines for managing SJCERA's investment program.

B. To define provisions governing how the goals and objectives are to be achieved.

II. INVESTMENT BELIEFS

A. General

1. Risk is the inability to meet benefit obligations when due.
2. Prudently managing the assets of the Plan is the Board's paramount duty.
3. SJCERA should monitor current and future benefit obligations to ensure long-term solvency of the Plan.

B. Investment Strategy

1. SJCERA should invest its assets and manage its liabilities so as to increase the likelihood of paying all benefit obligations over time.
2. SJCERA should seek a long-term rate of return that exceeds inflation, while recognizing and managing the need to maintain adequate liquidity to pay benefits.
3. SJCERA should invest globally, seeking investment opportunities in a variety of asset classes and management styles, in order to improve the likelihood of being able to meet benefit obligations over time.
4. SJCERA should make meaningful commitments that will improve performance and where possible, take advantage of lower fee schedules, while providing adequate diversification.

C. Pattern of Investment Returns

1. The volatility of investment returns is as important as the level of returns in determining SJCERA's ability to meet future benefit obligations.
2. SJCERA should be able to reduce the volatility of the portfolio returns and the risk of large portfolio drawdowns through diversification, opportunistic allocations, and passive investing where appropriate.
3. Actions to manage volatility should be appropriately integrated into the investment decision-making process.

III. INVESTMENT OBJECTIVE

A. The funding obligations of SJCERA are long-term in nature; consequently, the investment of portfolio assets should have a long-term focus. The assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The investment objective for SJCERA assets is to achieve long-term investment returns that allow the plan to meet all earned benefit payments to plan participants. It is expected that this objective can be obtained through a well-diversified portfolio structure in a manner consistent with this Policy. Accordingly, the investment of these assets shall be guided by the following underlying principles:

1. To achieve a positive rate of return over the long-term that significantly contributes to meeting SJCERA's objectives, including achieving the actuarial assumption for rate of return and satisfying expected benefit payment obligations;
2. To provide for asset growth at a rate in excess of the rate of inflation and of the liability growth rate of SJCERA;
3. To earn a sufficient rate of return while minimizing exposure to losses or wide swings in market value.

IV. STRATEGIC ASSET ALLOCATION POLICY

A. Strategic Asset Allocation Development

1. The Board regularly adopts and implements an asset allocation policy that is predicated on a number of factors, including:
   a. A projection of actuarial assets, liabilities, benefit payments and required contributions;
   b. Historical and expected long-term capital market risk and return behavior;
   c. An assessment of future economic conditions, including inflation and interest rate levels; and
   d. The current and projected funding status of the Plan.
2. The asset allocation will be determined through appropriate studies undertaken by the consultant(s) retained by the Board. The allocation study will include all asset classes deemed prudent and appropriate by the Board. The Board, with the aid of the investment consultant, will determine the assumptions and criteria to be used in the asset allocation study. The following assumptions and criteria will be so determined:
   a. The expected return from each asset category.
   b. The expected standard deviation of each asset category.
   c. The minimum acceptable return over a given time period.
   d. The net contribution as a percent of payroll.
   e. The expected payroll growth rate.

3. The resulting asset allocation will be approved by the Board with input from SJCERA staff and the investment consultant. The asset allocation study will be performed on cycle with the actuarial experience study. Appropriate adjustments to the existing portfolio will then be made in the most expeditious and appropriate manner.
4. On a more frequent, periodic basis, SJCERA staff and the investment consultant, will analyze the portfolio structure of each strategic class. Analysis shall include:
    a. Appropriateness of strategic class and manager benchmarks,
    b. Alignment structure of individual portfolios with strategic class benchmarks based on manager holdings and mandate,
    c. Evaluation of whether the strategic class is structured in a manner that is consistent with the Board's objectives,
    d. Analysis of underperforming managers, and
    e. Overall risk profile of the strategic class.

B. Approved Strategic Asset Allocation

1. Pursuant to Investment Belief II.C.2, SJCERA shall diversify the investment of assets according to the specified long-term target percentages.

Strategic Asset Allocation Approved ~~Sept~~June~~.~~ 20~~19~~22			
Strategic Classes	**Target**	**Min.**	**Max**
Broad Growth	**~~75~~80**	**~~60~~70**	**90**
Aggressive Growth	~~10~~ 16	~~8~~ 13	~~12~~ 19
Traditional Growth	~~32~~ 34	~~26~~ 28	~~38~~ 40
Stabilized Growth	~~33~~ 30	~~27~~ 24	~~39~~ 36
Risk Parity	~~10~~ 6	~~8~~ 4	~~12~~ 8
Credit	~~17~~ 15	~~14~~ 13	~~20~~ 17
Core Real Assets	~~6~~ 9	~~5~~ 7	~~7~~ 11
Diversifying Strategies	**~~25~~20**	**~~20~~10**	**30**
Principal Protection	~~10~~ 7	~~8~~ 3	~~12~~ 11
CRO	~~15~~ 13	~~12~~ 7	~~18~~ 19

2. The allocation goal recognizes that at any time equity and fixed income Investment Managers may have transactional cash on hand.
3. Financial derivatives may be used within prudent limits to manage risk, lower transaction costs, or augment returns.

V. ALLOCATIONS AND PORTFOLIO REBALANCING GUIDELINES

A. The Board strives to make meaningful commitments to strategies in which it has high conviction. In general, the minimum commitment will be two percent of the overall portfolio or $50 million, whichever is greater.

B. Rebalancing Guidelines

1. The Board delegates the authority to rebalance the asset allocation to the Investment Officer and/or the Chief Executive Officer.
2. Staff and consultant will develop a plan and outline the timeframe for accomplishing the proposed rebalancing.
3. Staff and consultant will coordinate with the appropriate internal and external parties to implement the rebalancing.
4. Staff will report the rebalancing activity to the Board.

C. Rebalancing/Transitioning to New Asset Allocation Targets

1. The target allocation to each strategic class and to sub-classes within strategic classes is expected to remain stable over most market cycles. When new asset allocation targets are adopted, the Board's goal is to transition the physical assets and to reach the target optimal portfolio in a timely manner.
2. With respect to the target strategic allocations to each strategic class, to the sub-classes and to investment managers, the Board, in consultation with its investment consultant, will establish rebalancing range limitations. The ranges for each class/sub-class are established as twenty percent (20%) of the target.
3. Due to the illiquid and time-lagging nature of private investments, and the research required to select high-quality managers; it will take time to achieve the target(s) for the Private Equity, Private Real Estate, and Private Credit segments of the portfolio. If the Private Equity, Private Real Estate, and/or Credit classes are below their targets, the differences will be temporarily invested in public market equivalents until such opportunities in the private markets are available. Under these circumstances public market equivalents may exceed the stated bands by up to the underweight of private markets targets.

   In addition, SJCERA staff and Consultants will provide a report at the next regularly scheduled board meeting.

D. Ongoing Monitoring and Rebalancing the Asset Allocation Targets

1. The actual asset mix of the total portfolio may diverge from the target allocations requiring rebalancing to meet the investment objectives set by the Board. Conversely, continually rebalancing to the asset allocation targets may result in significant transaction costs.

   a. SJCERA staff and the investment consultant will monitor the portfolio's asset allocation relative to the strategic target allocations. If actual allocations to a strategic class, or to a sub-class or investment manager, fall outside the predetermined range, SJCERA staff and the investment consultant will review, discuss and develop a plan for rebalancing back to the mid-point between the end of the range that was exceeded and the target allocation.

b. In determining the rebalancing plan, the investment consultant and staff should prioritize implementation procedures as follows:

   i. Investing net contributions into classes that are below their range limitations;

   ii. Drawing cash out of the portfolio (for benefit payments and expenses) from classes that are above their range limitations (using interest payments, rental revenues and dividends); and

   iii. Selling assets from classes/portfolios that exceed the target range(s), and buying assets in classes/portfolios that are below the target range(s).

c. Within the total SJCERA portfolio, the Cash Overlay Program may be implemented consisting of four potential elements: 1) invest unallocated cash, 2) invest managers' cash, 3) manage transitions and 4) maintain target allocation. The Cash Overlay Manager is primarily expected to securitize unallocated cash. If the Board approves the use of elements 1, 2, or 4 of the cash overlay program, staff may deploy element 3 as needed to assist with transitions.

VI. TOTAL FUND PERFORMANCE OBJECTIVE AND MEASUREMENT PERIOD

A. The total fund performance objective is to achieve a total return net of fees and expenses that equals or exceeds the policy benchmark over a full market cycle as defined by the Board. The return of a hypothetical portfolio is represented by a policy benchmark consisting of public market indices weighted according to asset allocation targets.

SJCERA's long-term strategic policy benchmark consists of the following passive public market indices and weights listed below.

PORTFOLIO POLICY BENCHMARK		
Strategic Classes	**Target**	**Benchmark**
Broad Growth	**~~75~~80**	**---**
Aggressive Growth	~~10~~ 16	50% MSCI ACWI ND + 2%/ 50% NCREIF ODCE + 1%
Traditional Growth	~~32~~ 34	MSCI ACWI IMI (ND)
Stabilized Growth	~~33~~ 30	---
Risk Parity	~~10~~ 6	90-day Tbills + 4%
Credit	~~17~~ 15	50% BB High Yield, 50% S&P/LTSA Lev. Loans
Core Real Assets	~~6~~ 9	NCREIF ODCE
Diversifying Strategies	**~~25~~20**	**---**
Principal Protection	~~10~~ 7	BB U.S. Aggregate Index
Crisis Risk Offset	~~15~~ 13	3 Part Custom (33% BTOP 50, 33% BC long Duration Treasuries, 33% at 5% annual)

1. The Policy Benchmark measures the performance results of the total portfolio. Each investment manager within a strategic class will be measured against an appropriate benchmark for that strategy.

2. Performance results for SJCERA investments and for each Investment Manager shall be calculated and evaluated quarterly and presented to the Board for review. This Total Portfolio Benchmark will be included in evaluation reports presented to the Board for review.

VII. CLASS-SPECIFIC GUIDELINES

A. Cash and Overlay

1. Cash investments (STIF) Manager
   a. The Cash Manager will invest the cash balances of all accounts with a cash component held at the custody bank selected by SJCERA.
   b. Cash (STIF) - The performance of cash assets is expected to outperform a 91-day U.S. Treasury Bill Index
2. Cash Overlay Manager
   a. SJCERA staff and consultant may direct the cash overlay program manager to:
      i. Overlay Unallocated Cash: Monitor SJCERA's overall positions daily and synthetically invest unallocated cash using financial futures contracts.
      ii. Overlay Manager Cash: Monitor SJCERA's managers' cash positions daily and synthetically invest un-invested portions using financial futures contracts.
      iii. Assist with Manager Transitions: As transition events arise, staff and consultant will review each transition issue with the objectives of maintaining target market exposure and minimizing transition costs.
      iv. Maintain Target Allocation: Calculate SJCERA's actual allocation and compare to target allocations. If actual allocations differ from targets by more than SJCERA's predetermined tolerance level, the SJCERA fund is synthetically rebalanced to target on an overlay basis using financial futures contracts.

B. Broad Growth Class and Its Underlying Components

1. Role: The Broad Growth Class is expected to generate relatively high levels of absolute and real (i.e., inflation-adjusted) returns, net of all costs. The Broad Growth Class is considered the main return driver of the overall/aggregate total SJCERA investment portfolio. While volatility is expected over time, the Broad Growth class must achieve its relatively high returns on a sustainable basis in order for the overall SJCERA pension plan to achieve its long-term objectives. In addition, each of the three Broad Growth components (described below) are

expected to produce relatively high returns when compared to other SJCERA class portfolios.

2. Investment Structure: The Broad Growth class consists of three components: Aggressive Growth, Traditional Growth, and Stabilized Growth. The structures and roles of these three components are described in detail below.

   a. *Aggressive Growth Component and Its Underlying Components*

      i. Role: The Aggressive Growth Component is expected to earn risk-adjusted returns in excess of the Traditional Growth Component, primarily due to the liquidity premium demanded by investors across various types of private markets.

      ii. Investment Structure: The Aggressive Growth component consists of two sub-components: Private Equity and Non-Core Real Estate. The structures of these two sub-components are described below.

         A. Private Equity Structure

            1. Role: The Private Equity portfolio is expected to earn risk-adjusted returns in excess of the public equity markets, primarily due to the liquidity premium demanded by investors. The Private Equity portfolio is also expected to decrease the volatility of the total Portfolio, through the diversification benefits of having lower correlations with other classes.

            2. Investment Structure: The Private Equity allocation generally consists of investments into private companies, either directly or through buyouts of public companies that result in a delisting of public equity. The Private Equity portfolio is composed of three major subcomponents.

               - Venture Capital/Growth
                  - Venture capital partnerships primarily invest in businesses still in the conceptual stage (start-up or seed) or where products may not be fully developed, and where revenues and/or profits may be several years away.
                  - Growth/later-stage venture capital partnerships typically invest in more mature companies in need of growth or expansion capital.
               - Buyout
                  - These partnerships provide the equity capital for acquisition transactions either from a private seller or the public, which may represent the purchase of an entire company, or a refinancing or recapitalization transaction where equity is purchased.
               - Other

- Mezzanine/subordinated debt partnerships provide the intermediate capital between equity and senior debt in a buyout or refinancing transaction.
- Restructuring/distressed debt partnerships typically make new investments in financially or operationally troubled companies, often for a control position, with a view to improving the balance sheet and operations for a subsequent sale.
- Special situations partnerships include organiza-tions with a specific industry focus or transaction type not covered by the other subclasses mentioned above, or unique opportunities that fall outside such subclasses.

3. Allocation: The Private Equity portfolio shall be diversified by time, subclass, and geography. Such diversification is expected to enhance returns, control risk, and reduce volatility.

B. Non-Core Real Estate Structure

1. Role: The Non-Core Real Estate portfolio is expected to earn Risk-Adjusted Returns in excess of the public equity markets, primarily due to re-positioning and development of real asset projects, the use of leverage, and to a liquidity premium demanded by investors. At the margin, the Non-Core Real Estate portfolio is also expected to diversify the broader Aggressive Growth Portfolio, which also includes Private Equity (see above).

2. Investment Structure: Non-Core Real Estate investments provide access to opportunities for higher returns by investing (typically with the use of leverage) in assets in need of re-tenanting, development, re-development, operational improvements, or renovation, or are otherwise in some form of distress, exhibit sub-optimal capital structures, or experiencing market dislocation(s). They may also be located in emerging/non-institutional market segments and/or product/asset types. Such investment may utilize more aggressive financial structures in order to raise the return/risk profile, emphasize capital appreciation, and exhibit relatively high return objectives.

   The Non-Core Real Estate portfolio may consist of equity or debt investments in real estate, infrastructure, agriculture, energy-related investments, or timberland.

3. Allocation: The Non-Core Real Estate portfolio shall be diversified by time, subclass, and geography. Such

diversification is expected to enhance returns, control risk, and reduce volatility.

b. *Traditional Growth Component Structure*

i. Role: The Traditional Growth portfolio is expected to generate attractive absolute returns in a relatively low-cost manner. The Traditional Growth portfolio also typically invests in securities that exhibit reasonable levels of liquidity.

ii. Investment Structure: The Traditional Growth allocation consists of a highly diversified mix of publicly traded global equities. Common stocks, preferred stocks, or other equity securities are typically utilized.

A. The public equity portfolio is composed of U.S., non-U.S. and global equity segments.

1. U.S. Equities: Managers invest primarily in publicly traded equity securities of U.S. companies.

2. Non-U.S. Equities: Managers invest primarily in publicly traded equity securities of non-U.S. companies, in both developed and emerging markets.

3. Global Equities: Managers make the allocation decisions between U.S. and non-U.S. markets, in both developed and emerging markets and invest in publicly-traded securities of U.S. and Non-U.S. companies, in both developed and emerging markets.

c. Stabilized Growth Component and Its Underlying Sub-Components

i. Role: The Stabilized Growth Component is expected earn Risk-Adjusted returns in excess of the Traditional Growth Component, primarily as a result of (A) achieving absolute return levels that are near-or-equivalent to those achieved by the Traditional Growth component while also (B) achieving lower volatility (risk) over a full investment cycle, particularly during Traditional Growth bear markets.

ii. Investment Structure: The Stabilized Growth component consists of three sub-components: Risk Parity, Credit, and Core Real Estate. The structures of these three sub-components are described below.

A. Risk Parity Structure

1. Role: The Risk Parity portfolio is expected to generate attractive Risk-Adjusted Returns through allocations to multiple investments, including equities, bonds, commodities, and currency, while providing diversification to the overall Portfolio.

2. Investment Structure: SJCERA has an allocation to Risk Parity through two investment styles,

- A Beta portfolio in which risk is balanced across asset classes that respond in dissimilar manners to different economic environments, such that the underperformance in one asset class may be offset by the outperformance of another asset class with an opposite bias to that environment.
- An actively managed portfolio in which risk is balanced across asset classes, but the investment manager has discretion to actively tilt the portfolio to factors or asset classes that may provide additional return or manage the overall volatility of the portfolio.

B. Credit Structure

1. Role: The credit portfolio, public and private is expected to provide income, yield and diversification to the total Portfolio due to a moderate correlation with other classes. In addition, the Credit portfolio is expected to provide return, a source of liquidity, and positive returns relative to an appropriate performance Benchmark.
2. Investment Structure: SJCERA has an allocation to Credit through two investment styles: 1) a liquid portfolio in which investments are made in bank loans, investment grade, high yield and emerging market debt, 2) a privately managed portfolio in which investments are made into illiquid debt across middle market direct lending, distressed, and specialty finance.

C. Core Real Estate Structure

1. Role: The Core Real Estate portfolio is expected to generate attractive Risk-Adjusted Returns through stable income and the opportunity for capital appreciation, while providing diversification to the overall Portfolio.
2. Investment Structure: Core Real Estate Managers typically invest in properties that are well located and well leased with strong quality tenants. Core investments provide stable income with lower volatility.

D. **Diversifying Strategies Class and Its Underlying Components**

1. *Principal Protection Class Structure*

a. Role: The Principal Protection portfolio is expected to provide a modest absolute return, be a stabilizer to the overall portfolio and provide significant diversification to the total Portfolio due to low correlation with other classes. In addition, the principal protection portfolio is expected to provide capital preservation, a source of liquidity, lower volatility and competitive returns relative to an appropriate performance benchmark.

b. Investment Structure: The Principal Protection allocation consists of a diversified mix of publicly traded fixed income securities, invested across multiple asset types. The principal protection portfolio is composed largely of Treasuries, Agency Backed Mortgage Securities, and other agency backed bonds.

   i. Mortgage Backed Securities - Agency

      A. Managers invest primarily in Mortgage Backed Securities (MBS) issued by the U.S. government agencies (Fannie Mae, Freddie Mac, or Ginnie Mae).

   ii. Treasuries

      A. Managers invest in Treasury securities of the U.S. government.

   iii. Other

      A. Managers may invest in other high-quality segments; however these must be investment grade credit that is rated "BBB" or higher by two or more of the credit rating agencies.

2. *Crisis Risk Offset Class Structure*

   a. Role: The Crisis Risk Offset (CRO) portfolio is expected to produce significant positive returns during an extended recessionary-type equity market crisis, while maintaining purchasing power during more normal market environments. In this respect, the CRO portfolio is expected to enhance the long-term risk-adjusted performance of the total Portfolio, by substantially mitigating significant drawdowns.

   b. Investment Structure: The CRO allocation generally consists of investments in highly-liquid portfolios that are meant to capture key risk premia that should prove largely beneficial during an equity-related market crisis. Along these lines, the underlying investments and strategies may utilize both long positions and short-selling positions to capture the desired return patterns/behavior. The CRO portfolio is composed of three major subcomponents.

      i. Long U.S. Treasury Duration

         A. U.S. Treasuries represent the leading "flight-to-quality" investment since they are backed by the U.S. Government. The U.S. Dollar (the base denomination of U.S. Treasuries) is also considered the world's highest-quality reserve currency.

         B. Exposure to U.S. Treasury Duration can take place via cash markets (i.e., actual bonds) or the futures markets (virtual bond proxies).

      ii. Systematic Trend Following

         A. Long-short portfolios utilizing derivatives-based instruments to capture both periodic appreciation and periodic depreciation trends that evolve and dissipate across a very wide array of liquid global markets. Risk/volatility is calibrated to a pre-determined level derivatives-based leverage.

B. Assets will be invested in highly liquid underlying securities (cash, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.

C. In order to appropriately calibrate the expected volatility of this component and the overall CRO class, significant levels of derivatives-based leverage may be applied. Effects of leverage are adjusted daily through market-based exchanges/facilities, ensuring appropriate and timely mark-to-market valuations.

iii. Alternative Risk Premia

A. Long-short portfolios utilizing both cash and derivatives-based instruments to capture well-researched/documented non-market risk premiums (e.g., momentum, carry, value, low-volatility, etc.) on a continuous basis, utilizing an array of liquid global markets. Risk/volatility is calibrated to a pre-determined level utilizing cash and derivatives-based leverage.

B. Assets will be invested in highly liquid underlying securities (cash, stocks, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.

VIII. POLICY REVIEW

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

IX. HISTORY

10/12/2007	Adopted by Board of Retirement
09/26/2008	Revised by Board of Retirement modifying asset allocation targets
05/05/2009	Revised by Board of Retirement modifying asset allocation targets
02/26/2010	Revised by Board of Retirement modifying asset allocation target ranges
07/27/2012	Revised by Board of Retirement modifying ranges for sub-asset classes and adding cash overlay program
12/14/2012	Revised by Board of Retirement regarding changes to long-term benchmarks
04/26/2013	Revised by Board of Retirement adding the Real Asset class
05/09/2014	Revised by Board of Retirement modifying asset allocation targets
11/13/2015	Revised by Board of Retirement moving public real estate to the Global Public Equity class
06/10/2016	Revised by Board of Retirement moving public real estate to the Global Public Equity class

08/16/2017	Revised by Board of Retirement modifying asset allocation targets
11/03/2017	Revised by Board of Retirement establishing minimum threshold commitments
07/05/2018	Reviewed, no changes required; Staff updated format
10/12/2018	Deleted redundant language that already exists in the Investment Manager and Communications Policy
04/12/2019	Policy Review section amended to at least once every three years
12/11/2020	Revised asset allocation targets and incorporated asset class-specific policies' guidelines and performance measurement standards
02/12/2021	Revised Benchmark for the Aggressive Growth asset class
04/09/2021	Revised Section V.C to specify rebalancing triggers and reporting requirement when public markets are used as proxies for private markets~~.~~
01/20/2023	Revised asset allocation targets to reflect the new long-term strategic allocation policy

Certification of Board Adoption

01/20/2023

Clerk of the Board Date

I. PURPOSE

A. To outline SJCERA's goals, objectives, and guidelines for managing SJCERA's investment program.

B. To define provisions governing how the goals and objectives are to be achieved.

II. INVESTMENT BELIEFS

A. General

1. Risk is the inability to meet benefit obligations when due.
2. Prudently managing the assets of the Plan is the Board's paramount duty.
3. SJCERA should monitor current and future benefit obligations to ensure long-term solvency of the Plan.

B. Investment Strategy

1. SJCERA should invest its assets and manage its liabilities so as to increase the likelihood of paying all benefit obligations over time.
2. SJCERA should seek a long-term rate of return that exceeds inflation, while recognizing and managing the need to maintain adequate liquidity to pay benefits.
3. SJCERA should invest globally, seeking investment opportunities in a variety of asset classes and management styles, in order to improve the likelihood of being able to meet benefit obligations over time.
4. SJCERA should make meaningful commitments that will improve performance and where possible, take advantage of lower fee schedules, while providing adequate diversification.

C. Pattern of Investment Returns

1. The volatility of investment returns is as important as the level of returns in determining SJCERA's ability to meet future benefit obligations.
2. SJCERA should be able to reduce the volatility of the portfolio returns and the risk of large portfolio drawdowns through diversification, opportunistic allocations, and passive investing where appropriate.
3. Actions to manage volatility should be appropriately integrated into the investment decision-making process.

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    e. The expected payroll growth rate.

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Diversifying Strategies	**20**	**15**	**25**
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   In addition, SJCERA staff and Consultants will provide a report at the next regularly scheduled board meeting.

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1. The actual asset mix of the total portfolio may diverge from the target allocations requiring rebalancing to meet the investment objectives set by the Board. Conversely, continually rebalancing to the asset allocation targets may result in significant transaction costs.

   a. SJCERA staff and the investment consultant will monitor the portfolio's asset allocation relative to the strategic target allocations. If actual allocations to a strategic class, or to a sub-class or investment manager, fall outside the predetermined range, SJCERA staff and the investment consultant will review, discuss and develop a plan for rebalancing back to the mid-point between the end of the range that was exceeded and the target allocation.

b. In determining the rebalancing plan, the investment consultant and staff should prioritize implementation procedures as follows:

   i. Investing net contributions into classes that are below their range limitations;

   ii. Drawing cash out of the portfolio (for benefit payments and expenses) from classes that are above their range limitations (using interest payments, rental revenues and dividends); and

   iii. Selling assets from classes/portfolios that exceed the target range(s), and buying assets in classes/portfolios that are below the target range(s).

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A. The total fund performance objective is to achieve a total return net of fees and expenses that equals or exceeds the policy benchmark over a full market cycle as defined by the Board. The return of a hypothetical portfolio is represented by a policy benchmark consisting of public market indices weighted according to asset allocation targets.

SJCERA's long-term strategic policy benchmark consists of the following passive public market indices and weights listed below.

PORTFOLIO POLICY BENCHMARK		
Strategic Classes	**Target**	**Benchmark**
Broad Growth	**80**	**---**
Aggressive Growth	16	50% MSCI ACWI ND + 2%/ 50% NCREIF ODCE + 1%
Traditional Growth	34	MSCI ACWI IMI (ND)
Stabilized Growth	30	---
Risk Parity	6	90-day Tbills + 4%
Credit	15	50% BB High Yield, 50% S&P/LTSA Lev. Loans
Core Real Assets	9	NCREIF ODCE
Diversifying Strategies	**20**	**---**
Principal Protection	7	BB U.S. Aggregate Index
Crisis Risk Offset	13	3 Part Custom (33% BTOP 50, 33% BC long Duration Treasuries, 33% at 5% annual)

1. The Policy Benchmark measures the performance results of the total portfolio. Each investment manager within a strategic class will be measured against an appropriate benchmark for that strategy.

2. Performance results for SJCERA investments and for each Investment Manager shall be calculated and evaluated quarterly and presented to the Board for review. This Total Portfolio Benchmark will be included in evaluation reports presented to the Board for review.

VII. CLASS-SPECIFIC GUIDELINES

A. <u>Cash and Overlay</u>

1. Cash investments (STIF) Manager
   a. The Cash Manager will invest the cash balances of all accounts with a cash component held at the custody bank selected by SJCERA.
   b. Cash (STIF) - The performance of cash assets is expected to outperform a 91-day U.S. Treasury Bill Index
2. Cash Overlay Manager
   a. SJCERA staff and consultant may direct the cash overlay program manager to:
      i. <u>Overlay Unallocated Cash</u>: Monitor SJCERA's overall positions daily and synthetically invest unallocated cash using financial futures contracts.
      ii. <u>Overlay Manager Cash</u>: Monitor SJCERA's managers' cash positions daily and synthetically invest un-invested portions using financial futures contracts.
      iii. <u>Assist with Manager Transitions</u>: As transition events arise, staff and consultant will review each transition issue with the objectives of maintaining target market exposure and minimizing transition costs.
      iv. <u>Maintain Target Allocation</u>: Calculate SJCERA's actual allocation and compare to target allocations. If actual allocations differ from targets by more than SJCERA's predetermined tolerance level, the SJCERA fund is synthetically rebalanced to target on an overlay basis using financial futures contracts.

B. <u>Broad Growth Class and Its Underlying Components</u>

1. <u>Role</u>: The Broad Growth Class is expected to generate relatively high levels of absolute and real (i.e., inflation-adjusted) returns, net of all costs. The Broad Growth Class is considered the main return driver of the overall/aggregate total SJCERA investment portfolio. While volatility is expected over time, the Broad Growth class must achieve its relatively high returns on a sustainable basis in order for the overall SJCERA pension plan to achieve its long-term objectives. In addition, each of the three Broad Growth components (described below) are

expected to produce relatively high returns when compared to other SJCERA class portfolios.

2. Investment Structure: The Broad Growth class consists of three components: Aggressive Growth, Traditional Growth, and Stabilized Growth. The structures and roles of these three components are described in detail below.

   a. *Aggressive Growth Component and Its Underlying Components*

      i. Role: The Aggressive Growth Component is expected to earn risk-adjusted returns in excess of the Traditional Growth Component, primarily due to the liquidity premium demanded by investors across various types of private markets.

      ii. Investment Structure: The Aggressive Growth component consists of two sub-components: Private Equity and Non-Core Real Estate. The structures of these two sub-components are described below.

         A. Private Equity Structure

            1. Role: The Private Equity portfolio is expected to earn risk-adjusted returns in excess of the public equity markets, primarily due to the liquidity premium demanded by investors. The Private Equity portfolio is also expected to decrease the volatility of the total Portfolio, through the diversification benefits of having lower correlations with other classes.

            2. Investment Structure: The Private Equity allocation generally consists of investments into private companies, either directly or through buyouts of public companies that result in a delisting of public equity. The Private Equity portfolio is composed of three major subcomponents.

               - Venture Capital/Growth
                  - Venture capital partnerships primarily invest in businesses still in the conceptual stage (start-up or seed) or where products may not be fully developed, and where revenues and/or profits may be several years away.
                  - Growth/later-stage venture capital partnerships typically invest in more mature companies in need of growth or expansion capital.
               - Buyout
                  - These partnerships provide the equity capital for acquisition transactions either from a private seller or the public, which may represent the purchase of an entire company, or a refinancing or recapitalization transaction where equity is purchased.
               - Other

- Mezzanine/subordinated debt partnerships provide the intermediate capital between equity and senior debt in a buyout or refinancing transaction.
- Restructuring/distressed debt partnerships typically make new investments in financially or operationally troubled companies, often for a control position, with a view to improving the balance sheet and operations for a subsequent sale.
- Special situations partnerships include organizations with a specific industry focus or transaction type not covered by the other subclasses mentioned above, or unique opportunities that fall outside such subclasses.

3. Allocation: The Private Equity portfolio shall be diversified by time, subclass, and geography. Such diversification is expected to enhance returns, control risk, and reduce volatility.

B. Non-Core Real Estate Structure

1. Role: The Non-Core Real Estate portfolio is expected to earn Risk-Adjusted Returns in excess of the public equity markets, primarily due to re-positioning and development of real asset projects, the use of leverage, and to a liquidity premium demanded by investors. At the margin, the Non-Core Real Estate portfolio is also expected to diversify the broader Aggressive Growth Portfolio, which also includes Private Equity (see above).

2. Investment Structure: Non-Core Real Estate investments provide access to opportunities for higher returns by investing (typically with the use of leverage) in assets in need of re-tenanting, development, re-development, operational improvements, or renovation, or are otherwise in some form of distress, exhibit sub-optimal capital structures, or experiencing market dislocation(s). They may also be located in emerging/non-institutional market segments and/or product/asset types. Such investment may utilize more aggressive financial structures in order to raise the return/risk profile, emphasize capital appreciation, and exhibit relatively high return objectives.

   The Non-Core Real Estate portfolio may consist of equity or debt investments in real estate, infrastructure, agriculture, energy-related investments, or timberland.

3. Allocation: The Non-Core Real Estate portfolio shall be diversified by time, subclass, and geography. Such

diversification is expected to enhance returns, control risk, and reduce volatility.

b. *Traditional Growth Component Structure*

   i. Role: The Traditional Growth portfolio is expected to generate attractive absolute returns in a relatively low-cost manner. The Traditional Growth portfolio also typically invests in securities that exhibit reasonable levels of liquidity.

   ii. Investment Structure: The Traditional Growth allocation consists of a highly diversified mix of publicly traded global equities. Common stocks, preferred stocks, or other equity securities are typically utilized.

      A. The public equity portfolio is composed of U.S., non-U.S. and global equity segments.

         1. U.S. Equities: Managers invest primarily in publicly traded equity securities of U.S. companies.

         2. Non-U.S. Equities: Managers invest primarily in publicly traded equity securities of non-U.S. companies, in both developed and emerging markets.

         3. Global Equities: Managers make the allocation decisions between U.S. and non-U.S. markets, in both developed and emerging markets and invest in publicly-traded securities of U.S. and Non-U.S. companies, in both developed and emerging markets.

c. *Stabilized Growth Component and Its Underlying Sub-Components*

   i. Role: The Stabilized Growth Component is expected earn Risk-Adjusted returns in excess of the Traditional Growth Component, primarily as a result of (A) achieving absolute return levels that are near-or-equivalent to those achieved by the Traditional Growth component while also (B) achieving lower volatility (risk) over a full investment cycle, particularly during Traditional Growth bear markets.

   ii. Investment Structure: The Stabilized Growth component consists of three sub-components: Risk Parity, Credit, and Core Real Estate. The structures of these three sub-components are described below.

      A. Risk Parity Structure

         1. Role: The Risk Parity portfolio is expected to generate attractive Risk-Adjusted Returns through allocations to multiple investments, including equities, bonds, commodities, and currency, while providing diversification to the overall Portfolio.

         2. Investment Structure: SJCERA has an allocation to Risk Parity through two investment styles,

- A Beta portfolio in which risk is balanced across asset classes that respond in dissimilar manners to different economic environments, such that the underperformance in one asset class may be offset by the outperformance of another asset class with an opposite bias to that environment.
- An actively managed portfolio in which risk is balanced across asset classes, but the investment manager has discretion to actively tilt the portfolio to factors or asset classes that may provide additional return or manage the overall volatility of the portfolio.

B. Credit Structure

1. Role: The credit portfolio, public and private is expected to provide income, yield and diversification to the total Portfolio due to a moderate correlation with other classes. In addition, the Credit portfolio is expected to provide return, a source of liquidity, and positive returns relative to an appropriate performance Benchmark.
2. Investment Structure: SJCERA has an allocation to Credit through two investment styles: 1) a liquid portfolio in which investments are made in bank loans, investment grade, high yield and emerging market debt, 2) a privately managed portfolio in which investments are made into illiquid debt across middle market direct lending, distressed, and specialty finance.

C. Core Real Estate Structure

1. Role: The Core Real Estate portfolio is expected to generate attractive Risk-Adjusted Returns through stable income and the opportunity for capital appreciation, while providing diversification to the overall Portfolio.
2. Investment Structure: Core Real Estate Managers typically invest in properties that are well located and well leased with strong quality tenants. Core investments provide stable income with lower volatility.

D. **Diversifying Strategies Class and Its Underlying Components**

1. *Principal Protection Class Structure*

a. Role: The Principal Protection portfolio is expected to provide a modest absolute return, be a stabilizer to the overall portfolio and provide significant diversification to the total Portfolio due to low correlation with other classes. In addition, the principal protection portfolio is expected to provide capital preservation, a source of liquidity, lower volatility and competitive returns relative to an appropriate performance benchmark.

b. Investment Structure: The Principal Protection allocation consists of a diversified mix of publicly traded fixed income securities, invested across multiple asset types. The principal protection portfolio is composed largely of Treasuries, Agency Backed Mortgage Securities, and other agency backed bonds.

   i. Mortgage Backed Securities - Agency

      A. Managers invest primarily in Mortgage Backed Securities (MBS) issued by the U.S. government agencies (Fannie Mae, Freddie Mac, or Ginnie Mae).

   ii. Treasuries

      A. Managers invest in Treasury securities of the U.S. government.

   iii. Other

      A. Managers may invest in other high-quality segments; however these must be investment grade credit that is rated "BBB" or higher by two or more of the credit rating agencies.

2. *Crisis Risk Offset Class Structure*

   a. Role: The Crisis Risk Offset (CRO) portfolio is expected to produce significant positive returns during an extended recessionary-type equity market crisis, while maintaining purchasing power during more normal market environments. In this respect, the CRO portfolio is expected to enhance the long-term risk-adjusted performance of the total Portfolio, by substantially mitigating significant drawdowns.

   b. Investment Structure: The CRO allocation generally consists of investments in highly-liquid portfolios that are meant to capture key risk premia that should prove largely beneficial during an equity-related market crisis. Along these lines, the underlying investments and strategies may utilize both long positions and short-selling positions to capture the desired return patterns/behavior. The CRO portfolio is composed of three major subcomponents.

      i. Long U.S. Treasury Duration

         A. U.S. Treasuries represent the leading "flight-to-quality" investment since they are backed by the U.S. Government. The U.S. Dollar (the base denomination of U.S. Treasuries) is also considered the world's highest-quality reserve currency.

         B. Exposure to U.S. Treasury Duration can take place via cash markets (i.e., actual bonds) or the futures markets (virtual bond proxies).

      ii. Systematic Trend Following

         A. Long-short portfolios utilizing derivatives-based instruments to capture both periodic appreciation and periodic depreciation trends that evolve and dissipate across a very wide array of liquid global markets. Risk/volatility is calibrated to a pre-determined level derivatives-based leverage.

B. Assets will be invested in highly liquid underlying securities (cash, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.

C. In order to appropriately calibrate the expected volatility of this component and the overall CRO class, significant levels of derivatives-based leverage may be applied. Effects of leverage are adjusted daily through market-based exchanges/facilities, ensuring appropriate and timely mark-to-market valuations.

iii. Alternative Risk Premia

A. Long-short portfolios utilizing both cash and derivatives-based instruments to capture well-researched/documented non-market risk premiums (e.g., momentum, carry, value, low-volatility, etc.) on a continuous basis, utilizing an array of liquid global markets. Risk/volatility is calibrated to a pre-determined level utilizing cash and derivatives-based leverage.

B. Assets will be invested in highly liquid underlying securities (cash, stocks, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.

VIII. POLICY REVIEW

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

IX. HISTORY

10/12/2007	Adopted by Board of Retirement
09/26/2008	Revised by Board of Retirement modifying asset allocation targets
05/05/2009	Revised by Board of Retirement modifying asset allocation targets
02/26/2010	Revised by Board of Retirement modifying asset allocation target ranges
07/27/2012	Revised by Board of Retirement modifying ranges for sub-asset classes and adding cash overlay program
12/14/2012	Revised by Board of Retirement regarding changes to long-term benchmarks
04/26/2013	Revised by Board of Retirement adding the Real Asset class
05/09/2014	Revised by Board of Retirement modifying asset allocation targets
11/13/2015	Revised by Board of Retirement moving public real estate to the Global Public Equity class
06/10/2016	Revised by Board of Retirement moving public real estate to the Global Public Equity class

08/16/2017	Revised by Board of Retirement modifying asset allocation targets
11/03/2017	Revised by Board of Retirement establishing minimum threshold commitments
07/05/2018	Reviewed, no changes required; Staff updated format
10/12/2018	Deleted redundant language that already exists in the Investment Manager and Communications Policy
04/12/2019	Policy Review section amended to at least once every three years
12/11/2020	Revised asset allocation targets and incorporated asset class-specific policies' guidelines and performance measurement standards
02/12/2021	Revised Benchmark for the Aggressive Growth asset class
04/09/2021	Revised Section V.C to specify rebalancing triggers and reporting requirement when public markets are used as proxies for private markets
01/20/2023	Revised to reflect the asset allocation targets adopted June 3, 2022 as part of the Asset-Liability study.

Certification of Board Adoption

01/20/2023

Clerk of the Board Date

Board Governance Policy

Trustee and Executive Staff Travel Policy

I. Purpose

A. The Board of Retirement (Board) and designated staff have a fiduciary duty to obtain education on matters of public pension investments and administration, to monitor the investments and administration of the Trust, and to monitor the work of those to whom the Board has delegated authority to manage and administer Trust assets.

B. To execute this oversight, Trustees and/or Executive Staff may be required to participate in business meetings, educational programs and conferences and seminars on behalf SJCERA in or outside of the state of California.

C. For purposes of this policy Executive Staff are defined as:

1. Chief Executive Officer (CEO)
2. Assistant Chief Executive Officer
3. Retirement Investment Officer
4. Deputy County Counsel assigned as counsel to the Board

D. Trustees and Executive staff are entitled to reimbursement for usual and reasonable expenses incurred in fulfilling their leadership role and it is the purpose of this policy to establish guidelines for approval and reimbursement of travel and related expenses that are incurred while fulfilling those roles.

II. Requests for Travel

A. To assist the Board and Executive Staff in the planning of travel, the CEO is responsible for developing and managing education and travel expense programs consistent with the best interests of SJCERA. A schedule of upcoming conferences, meetings and seminars will be developed, maintained and provided as part of the Board's monthly meeting agenda.

B. Any Board or Executive Staff member requesting to attend an event that requires an overnight stay must notify the CEO or designee in advance. A formal Travel Request for attendance at the event will be completed by SJCERA staff. The Travel Request will identify the event, dates, location, proposed SJCERA attendees, and estimated costs, with the event agenda and schedule attached, if available.

C. Requests to attend conferences, meetings, seminars or special sessions sponsored by the State Association of County Retirement Systems (SACRS) and the California Association of Public Retirement Systems (CALAPRS) are considered approved travel without further action of the Board.

D. Each Trustee is allotted $2,500 for the calendar year. Excluded from the allotted annual amount are the educational opportunities listed in section II.C ~~above~~ of this policy. The Board may approve exceptions to the annual travel cap in accordance with section III.B of this policy.

E. All travel requests shall be summarized on the "Summary of Pending Trustee and Executive Staff Travel" report, updated and included in the Board's monthly meeting agenda for information or action as appropriate. The report will include the status of the travel request approval.

F. Trustees and Executive Staff shall notify the CEO or designee of any changes in travel or accommodation arrangements in a timely manner. Failure to do so may result in the Trustee or Executive Staff member being held responsible for any additional costs incurred as a result of changes or cancellation.

III. Approval of Travel

A. All requests for travel subject to this policy require approval in advance by the Board.

1. Exception: It is recognized that due to emergency circumstances, there may be a need for travel that arises precluding prior approval by the Board. In those situations, the CEO will consult with the Board Chair to determine the appropriateness of the travel. If approval of the requested travel is granted, the CEO shall, upon receipt of written approval by the Board Chair, authorize travel on behalf of the Board.

B. In determining the priority and approval for attendance at conferences, meetings and seminars, the Board shall consider:

1. The extent to which the participants' capacity to carry out his/her duties as a Trustee or Executive Staff of SJCERA will be enhanced in a significant manner (including speaking engagements where the participant can enhance his/her capacity through attendance at the event);
2. The cost-effectiveness of the opportunity; and
3. The timeliness and relevance of the opportunity.

C. In-State Travel is defined as travel within California or to the Tahoe basin/Reno area.

D. Out-of-State Travel is defined as travel outside of California but within the fifty United States.

E. International Travel is defined as travel outside of the fifty United States.

1. In consideration of SJCERA's asset allocation to non-U.S. investments, the Board may authorize one or more Trustees or Executive Staff to travel outside the United States. Any request for international travel will be presented as an action item on a Board meeting agenda. Approval for international travel will require a vote by the Board.

F. All requests for travel listed on the "Summary of Pending Trustee and Executive Staff Travel" that are pending approval by the Board may be approved by consent at a Board meeting. A Board member may request that an item on the travel list be removed for separate consideration and action from the rest of the travel requests pending approval. All travel requests pending Board approval, whether on the "consent" travel list or considered as a separate item, must be approved by a vote of the Board.

G. All approved requests for travel require the completion of a SJCERA Travel Request Form prior to the commencement of travel and is required for reimbursement of travel expenses.

H. The CEO or designee is authorized to sign SJCERA Travel Request Forms.

IV. Reimbursement of Travel Expenses

A. SJCERA shall only pay or reimburse valid travel and related expenses incurred directly by SJCERA Trustees and Executive Staff. All other expenses shall be the responsibility of the respective Trustee or Executive Staff member.

B. Travel and related expenses that may be paid on behalf of or reimbursed to Trustees and Executive Staff include, but are not limited to, the following:

1. Coach Class Airfare

   a. Actual costs for air travel as evidenced by airline itinerary and receipt. Travelers are expected to take advantage of the lowest airfare.

2. Ground Transportation:

   a. Actual reasonable fares for taxis/ride share services, ~~,~~ shuttles, trains, buses, subways, etc., and customary gratuities, if any, up to 20 percent, as evidenced by receipts.

      i. Unreasonable fares are those that exceed by more than 10 percent the typical cost for transportation to that location.

      ~~i.~~ii. Fares that are determined to be unreasonable will be reimbursed up to a maximum of 10 percent above the typical cost for transportation to that location.

   b. Rental cars - Actual reasonable costs as evidenced by receipt. When renting cars for official SJCERA business, travelers are expected to take advantage of discounted and/or special government rates if available. Travelers are expected to purchase available optional liability and collision, or similar insurance offered by the rental agency. The cost of such insurance will be reimbursed by SJCERA.

   c. Personal automobile - Mileage shall be reimbursed for in-~~-~~state travel at the standard adopted by the Internal Revenue Service at the time the expenses were incurred. Mileage reimbursements for Appointed Trustees and Trustees elected by Retired Members will be to and from the Trustee's home address. Mileage reimbursements for Executive Staff and Trustees elected by Active Members ~~Elected Trustees and Executive Staff~~ will be to and from SJCERA regardless of where they actually departed from when embarking on the trip.

3. Lodging (single occupancy):

   a. The actual reasonable cost for lodging expense will be paid or reimbursed.

   b. Travelers are expected to take advantage of group discounts or special government rates for lodging when available.

   c. When a traveler is attending an event held at a specific hotel, generally the traveler will stay at the event hotel.

      i. However, some conferences are held at high cost luxury hotels. In these situations, if alternate, lower cost, conveniently located lodging is available, travelers are expected to take advantage of such lower cost lodging alternatives.

4. Meal expenses:

a. For each day of travel actual and reasonable meal expenses, including gratuities up to 20 percent, will be paid or reimbursed when traveling on official SJCERA business not to exceed a maximum of $70 per person. Receipts will be required to document meal expenses under this provision.

b. Any request for reimbursement of actual and reasonable expenses in excess of $70 per person per day of travel may be authorized by the CEO. No allowance will be paid or reimbursed for meals that are included as part of an organization's scheduled program.

c. Expenses for alcoholic beverages will not be paid or reimbursed by SJCERA.

5. Telephone calls and business services (photocopies, faxes, computer services etc.). Actual reasonable expenses incurred as evidenced by receipts.

6. The limitations on reimbursement specified herein shall not apply when Trustees and/or Executive Staff attend annual investor meetings sponsored by an investment manager or general partner under contract with SJCERA or any other instance or event for which SJCERA receives and pays an invoice from the meeting or event sponsor(s) for lodging, meals or other allowable expenses for SJCERA attendee(s).

C. Requests for reimbursement must be accompanied by actual receipts and submitted to the CEO for approval and reimbursement within ninety days (90) from the time the expenses were incurred.

1. If actual receipts are not readily available, the requestor may submit a substitute receipt or form, certifying by signature that the receipt was not available to submit.

D. The CEO shall approve all requests for reimbursement of Trustees and Executive Staff travel expenses, excluding the CEO's. The Board Chair shall approve the CEO's requests for reimbursement of expenses.

E. Claims for reimbursement of travel expenses shall be submitted to the Auditor-Controller.

F. Reimbursements submitted more than ninety days after the end of the calendar year in which the expense was incurred may be denied.

V. Travel Reports

A. A "Summary of Completed Trustee and Executive Staff Travel" report will be provided to the Board no less than on a quarterly basis. This report shall identify the event, the individual Trustee or Executive Staff who attended, the location, and cost of travel. This report will be cumulative for a calendar year. The calendar year-end report shall include each Trustee's total annual travel expenditures, as defined in section II.D of this policy.

B. Trustees or Executive Staff members, who attend a seminar, on-site visitation or conference, except as specified in II C, should prepare a written report on the content and the continuing value for future attendance by other Board or staff members. These reports will be provided to the Board in a meeting agenda.

VI. Political Reform Act Requirements

A. Trustees and Executive staff have the responsibility to ascertain and comply with their obligations under the Political Reform Act.

VII. Law Prevails

In the event a conflict between this policy and the County Employees Retirement Law, the Public Employees' Pension Reform Act, or other applicable state or federal law arises, the law shall prevail.

VIII. Policy Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance with section 81000 of the California Government Code. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

IX. History

07/11/2008	Board Adopted
11/07/2008	Board Revised
12/17/2010	Board Revised
03/22/2013	Board Revised to include invoiced-event exemption to reimbursement limitations
06/29/2018	Staff reviewed, no content changes required; updated format
04/12/2019	Policy Review section amended to at least once every three years
07/12/2019	Added customary gratuities for ground travel and made various technical, non-substantive corrections
07/08/2022	Added annual travel spending cap, deleted due diligence, increased daily meal allowance, added law prevails section.
01/20/2023	Clarified mileage reimbursement for retired Trustees, defined reasonable fares for ground transportation, added annual expenditure reporting requirement, added spending cap exceptions approval process.

Certification of Board Adoption:

01/20/2023

Clerk of the Board Date

Trustee and Executive Staff Travel Policy

I. Purpose

A. The Board of Retirement (Board) and designated staff have a fiduciary duty to obtain education on matters of public pension investments and administration, to monitor the investments and administration of the Trust, and to monitor the work of those to whom the Board has delegated authority to manage and administer Trust assets.

B. To execute this oversight, Trustees and/or Executive Staff may be required to participate in business meetings, educational programs and conferences and seminars on behalf SJCERA in or outside of the state of California.

C. For purposes of this policy Executive Staff are defined as:

1. Chief Executive Officer (CEO)
2. Assistant Chief Executive Officer
3. Retirement Investment Officer
4. Deputy County Counsel assigned as counsel to the Board

D. Trustees and Executive staff are entitled to reimbursement for usual and reasonable expenses incurred in fulfilling their leadership role and it is the purpose of this policy to establish guidelines for approval and reimbursement of travel and related expenses that are incurred while fulfilling those roles.

II. Requests for Travel

A. To assist the Board and Executive Staff in the planning of travel, the CEO is responsible for developing and managing education and travel expense programs consistent with the best interests of SJCERA. A schedule of upcoming conferences, meetings and seminars will be developed, maintained and provided as part of the Board's monthly meeting agenda.

B. Any Board or Executive Staff member requesting to attend an event that requires an overnight stay must notify the CEO or designee in advance. A formal Travel Request for attendance at the event will be completed by SJCERA staff. The Travel Request will identify the event, dates, location, proposed SJCERA attendees, and estimated costs, with the event agenda and schedule attached, if available.

C. Requests to attend conferences, meetings, seminars or special sessions sponsored by the State Association of County Retirement Systems (SACRS) and the California Association of Public Retirement Systems (CALAPRS) are considered approved travel without further action of the Board.

D. Each Trustee is allotted $2,500 for the calendar year. Excluded from the allotted annual amount are the educational opportunities listed in section II.C of this policy. The Board may approve exceptions to the annual travel cap in accordance with section III.B of this policy.

E. All travel requests shall be summarized on the "Summary of Pending Trustee and Executive Staff Travel" report, updated and included in the Board's monthly meeting agenda for information or action as appropriate. The report will include the status of the travel request approval.

F. Trustees and Executive Staff shall notify the CEO or designee of any changes in travel or accommodation arrangements in a timely manner. Failure to do so may result in the Trustee or Executive Staff member being held responsible for any additional costs incurred as a result of changes or cancellation.

III. Approval of Travel

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1. Exception: It is recognized that due to emergency circumstances, there may be a need for travel that arises precluding prior approval by the Board. In those situations, the CEO will consult with the Board Chair to determine the appropriateness of the travel. If approval of the requested travel is granted, the CEO shall, upon receipt of written approval by the Board Chair, authorize travel on behalf of the Board.

B. In determining the priority and approval for attendance at conferences, meetings and seminars, the Board shall consider:

1. The extent to which the participants' capacity to carry out his/her duties as a Trustee or Executive Staff of SJCERA will be enhanced in a significant manner (including speaking engagements where the participant can enhance his/her capacity through attendance at the event);
2. The cost-effectiveness of the opportunity; and
3. The timeliness and relevance of the opportunity.

C. In-State Travel is defined as travel within California or to the Tahoe basin/Reno area.

D. Out-of-State Travel is defined as travel outside of California but within the fifty United States.

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F. All requests for travel listed on the "Summary of Pending Trustee and Executive Staff Travel" that are pending approval by the Board may be approved by consent at a Board meeting. A Board member may request that an item on the travel list be removed for separate consideration and action from the rest of the travel requests pending approval. All travel requests pending Board approval, whether on the "consent" travel list or considered as a separate item, must be approved by a vote of the Board.

G. All approved requests for travel require the completion of a SJCERA Travel Request Form prior to the commencement of travel and is required for reimbursement of travel expenses.

H. The CEO or designee is authorized to sign SJCERA Travel Request Forms.

IV. Reimbursement of Travel Expenses

A. SJCERA shall only pay or reimburse valid travel and related expenses incurred directly by SJCERA Trustees and Executive Staff. All other expenses shall be the responsibility of the respective Trustee or Executive Staff member.

B. Travel and related expenses that may be paid on behalf of or reimbursed to Trustees and Executive Staff include, but are not limited to, the following:

1. Coach Class Airfare

   a. Actual costs for air travel as evidenced by airline itinerary and receipt. Travelers are expected to take advantage of the lowest airfare.

2. Ground Transportation:

   a. Actual reasonable fares for taxis/ride share services,shuttles, trains, buses, subways, etc., and customary gratuities, if any, up to 20 percent, as evidenced by receipts.

      i. Unreasonable fares are those that exceed by more than 10 percent the typical cost for transportation to that location.

      ii. Fares that are determined to be unreasonable will be reimbursed up to a maximum of 10 percent above the typical cost for transportation to that location.

   b. Rental cars - Actual reasonable costs as evidenced by receipt. When renting cars for official SJCERA business, travelers are expected to take advantage of discounted and/or special government rates if available. Travelers are expected to purchase available optional liability and collision, or similar insurance offered by the rental agency. The cost of such insurance will be reimbursed by SJCERA.

   c. Personal automobile - Mileage shall be reimbursed for in-state travel at the standard adopted by the Internal Revenue Service at the time the expenses were incurred. Mileage reimbursements for Appointed Trustees and Trustees elected by Retired Members will be to and from the Trustee's home address. Mileage reimbursements for Executive Staff and Trustees elected by Active Members will be to and from SJCERA regardless of where they actually departed from when embarking on the trip.

3. Lodging (single occupancy):

   a. The actual reasonable cost for lodging expense will be paid or reimbursed.

   b. Travelers are expected to take advantage of group discounts or special government rates for lodging when available.

   c. When a traveler is attending an event held at a specific hotel, generally the traveler will stay at the event hotel.

      i. However, some conferences are held at high cost luxury hotels. In these situations, if alternate, lower cost, conveniently located lodging is available, travelers are expected to take advantage of such lower cost lodging alternatives.

4. Meal expenses:

a. For each day of travel actual and reasonable meal expenses, including gratuities up to 20 percent, will be paid or reimbursed when traveling on official SJCERA business not to exceed a maximum of $70 per person. Receipts will be required to document meal expenses under this provision.

b. Any request for reimbursement of actual and reasonable expenses in excess of $70 per person per day of travel may be authorized by the CEO. No allowance will be paid or reimbursed for meals that are included as part of an organization's scheduled program.

c. Expenses for alcoholic beverages will not be paid or reimbursed by SJCERA.

5. Telephone calls and business services (photocopies, faxes, computer services etc.). Actual reasonable expenses incurred as evidenced by receipts.

6. The limitations on reimbursement specified herein shall not apply when Trustees and/or Executive Staff attend annual investor meetings sponsored by an investment manager or general partner under contract with SJCERA or any other instance or event for which SJCERA receives and pays an invoice from the meeting or event sponsor(s) for lodging, meals or other allowable expenses for SJCERA attendee(s).

C. Requests for reimbursement must be accompanied by actual receipts and submitted to the CEO for approval and reimbursement within ninety days (90) from the time the expenses were incurred.

1. If actual receipts are not readily available, the requestor may submit a substitute receipt or form, certifying by signature that the receipt was not available to submit.

D. The CEO shall approve all requests for reimbursement of Trustees and Executive Staff travel expenses, excluding the CEO's. The Board Chair shall approve the CEO's requests for reimbursement of expenses.

E. Claims for reimbursement of travel expenses shall be submitted to the Auditor-Controller.

F. Reimbursements submitted more than ninety days after the end of the calendar year in which the expense was incurred may be denied.

V. Travel Reports

A. A "Summary of Completed Trustee and Executive Staff Travel" report will be provided to the Board no less than on a quarterly basis. This report shall identify the event, the individual Trustee or Executive Staff who attended, the location, and cost of travel. This report will be cumulative for a calendar year. The calendar year-end report shall include each Trustee's total annual travel expenditures, as defined in section II.D of this policy.

B. Trustees or Executive Staff members, who attend a seminar, on-site visitation or conference, except as specified in II C, should prepare a written report on the content and the continuing value for future attendance by other Board or staff members. These reports will be provided to the Board in a meeting agenda.

VI. Political Reform Act Requirements

A. Trustees and Executive staff have the responsibility to ascertain and comply with their obligations under the Political Reform Act.

VII. Law Prevails

In the event a conflict between this policy and the County Employees Retirement Law, the Public Employees' Pension Reform Act, or other applicable state or federal law arises, the law shall prevail.

VIII. Policy Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance with section 81000 of the California Government Code. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

IX. History

07/11/2008	Board Adopted
11/07/2008	Board Revised
12/17/2010	Board Revised
03/22/2013	Board Revised to include invoiced-event exemption to reimbursement limitations
06/29/2018	Staff reviewed, no content changes required; updated format
04/12/2019	Policy Review section amended to at least once every three years
07/12/2019	Added customary gratuities for ground travel and made various technical, non-substantive corrections
07/08/2022	Added annual travel spending cap, deleted due diligence, increased daily meal allowance, added law prevails section
01/20/2023	Clarified mileage reimbursement for retired Trustees, defined reasonable fares for ground transportation, added annual expenditure reporting requirement, added spending cap exceptions approval process

Certification of Board Adoption:

01/20/2023

Clerk of the Board Date

Statement of Reserve Policy

I. Purpose

A. ~~The purpose of this Statement of Reserve Policy is t~~To summarize the structure, ~~and~~ operation and accounting of the reserves created and maintained by the San Joaquin County Employees' Retirement Association (SJCERA, the Plan, the Fund). ~~This Statement is drafted to achieve the following goals:~~

~~1. Document the existing reserve structure and the accounting policies currently in place; and~~

~~2. Establish a base for considering future changes in reserve policies.~~

~~3. This Statement describes the SJCERA reserve structure and the mechanisms used to accumulate assets and disburse payments from each reserve. It is organized as follows:~~

~~a. Description – The various reserves are categorized and their purposes and related liabilities are described.~~

~~b. Cash Flows – The inflows and outflows, excluding interest, are enumerated for each reserve.~~

~~c. Interest Credits – The computation and timing of the interest credited to each reserve are described.~~

~~d. Reserve Transfers – The circumstances under which the Retirement Board (the Board) may elect to move balances from one reserve account to another are described.~~

~~e. Reconciliation – The method and frequency by which the reserve accounts should be reconciled with the underlying liability is specified.~~

~~f. This Statement is a working document that will be modified as the Board deems necessary.~~

II. Market Value and Actuarial Value

A. All reserves are held at market value. However, in computing the smoothed or actuarial value of assets required to compute the Plan's funded status and the employer contribution rates, a conversion to actuarial value is sometimes required. This will be noted in each case.

III. Reserve Descriptions

Fund reserves fall into one of two categories: Valuation Reserves and Special Reserves. This section describes the purpose and liability of each reserve.

A. Valuation Reserves

1. Valuation Reserves include Member Reserves, Retired Member Reserves (excluding certain death benefit reserves), Employer Advance Reserves, the Market Stabilization Designation, and the Unappropriated Earnings Reserve. The total of the Valuation Reserves equals the market value of Fund assets, excluding amounts held in the Special Reserves, also at market value.

2. The total of the Valuation Reserves, excluding the Market Stabilization Designation and excluding the Special Reserves (adjusted to actuarial value), is the Actuarial Value of Fund Assets used to determine the funded ratio and the employer contributions to the Fund as part of the annual actuarial valuation performed each year. Any policy that affects the amount of funds assigned to Valuation Reserves has the potential to affect Plan costs.

   a) Member Reserves

      i. The Member Reserves contain the cumulative employee contributions with interest for active and deferred members. Active member contributions are held in separate reserves for General and Safety, while cumulative member contributions for terminated deferred members are also held in General and Safety reserves. Member contributions for COLAs are combined with all other member contributions in the Member Reserves.

      ii. The Plan liability matching this reserve is the sum of member contributions with interest for active and terminated deferred members.

   b) Retired Member Reserves

      i. The Retired Member Reserves contain the assets necessary to fund the benefits and COLAs in pay status for retired and disabled members and their beneficiaries, including the $5,000 lump sum death benefit, the Purchasing Power Protection benefit, and the Pre-April 1, 1982 Settlement (Board Resolution 2012-12-03).

      ii. The Plan liability matching this reserve is the actuarial present value of benefits for members in pay status – retired and disabled members and their beneficiaries. When reserves are reconciled with liabilities, the sum of the

Retired Member Reserves should equal the liability held for retired and disabled members and their beneficiaries. Consequently, the Plan's liability for members in pay status would be 100% funded.

iii. ~~In actuarial valuations through January 1, 2012, Special Reserves were held for the $5,000 lump sum death benefit, the Purchasing Power Protection benefit, and the Pre-April 1, 1982 Settlement. Beginning with the January 1, 2013 valuation, these benefits will be included in the actuarial valuation performed for the Plan. Since these benefits are primarily payable on behalf of retired members, the reserve balances on December 31, 2012 will be included in Valuation Reserves (Retired Member Reserves).~~

c) Employer Advance Reserves

i. The Employer Advance Reserves contain the assets allocated to the employer portion of the liabilities for active and deferred members. The amount in this reserve is the actuarial value of total Fund assets, minus the Member Reserves, Retired Member Reserves, Unappropriated Earnings Reserve, and Special Reserves, all at actuarial value.

ii. The Plan liability matching this reserve is the actuarial accrued liability for active and deferred members.

d) Market Stabilization Designation

i. The Market Stabilization Designation consists of the difference between the market value of Plan assets and their actuarial value. It contains the total of unrecognized investment gains and losses from the current and prior three Plan (calendar) years.

ii. If the smoothed actuarial value of assets exceeds market value, the Market Stabilization Designation is negative; otherwise, it is zero or positive. The liability matching the Market Stabilization Designation is the sum of unrecognized investment gains and losses, as noted above.

iii. Since the actuarial and market values of Plan assets are determined for all assets in total, regardless of allocation to reserves, the calculation of the Market Stabilization Designation is independent of and must precede the apportionment of assets into reserves.

iv. The Market Stabilization Designation is the amount that must be added to the Actuarial Value of Fund assets to agree with the Market Value of Fund assets. It represents deferred gains (losses) if positive (negative). It therefore represents a reserve for those unrealized gains or losses that is excluded from the calculation of Plan funding status and employer contribution rates.

e) Unappropriated Earnings Reserve

i. The Unappropriated Earnings Reserve is reestablished yearly after all other requirements are met, in the following order: Full actuarial interest on Valuation Reserves and all other reserves, an amount necessary to bring the overall actuarial funded ratio of the Fund to 90% in accordance with the Board's Statement of Funding Policy, and an amount necessary to bring the Contingency Reserve to the 1% minimum.

ii. The amount in the Unappropriated Earnings Reserve can then be transferred to other reserves, subject to the limitations contained in the Board's Statement of Funding Policy and in other applicable legal obligations and settlements.

iii. The liability associated with this reserve is the excess of the Plan's actuarial accrued liability over the total of the Member, Retired Member, and Employer Advance Reserves.

B. Special Reserves

1. Special Reserves consist of funds excluded from the annual actuarial valuation and therefore not used in the calculation of the Plan's funded ratio and employer contribution. The amounts set aside can be for designated purposes or for market fluctuation.

~~a. Post-Retirement Death Benefit Reserve~~

~~i. Effective January 1, 2013, the liability for the $5,000 lump sum death benefit for retirees (Government Code Section 31789.3) was included in the actuarial valuation and in Valuation Reserves.~~

~~b.~~a. Employment Healthcare Agency Fund

i. ~~In 2011, following the IRS' approval of SJCERA VCP application it was determined that the proper presentation of what was formerly known as the Health Insurance Reserve~~

~~should instead be the Post-Employment Healthcare Agency.~~ The fund is used for cash flows in from employers to fund sick leave bank benefits for their eligible retired employees on a pay as you go basis, and for cash flows out for payment of sick leave bank benefits.

~~c. Purchasing Power Cost of Living Reserve~~

~~i. After January 1, 2013, the liability for the Purchasing Power Protection benefit for retirees (Government Code Section 31874.3) is included in the actuarial valuation and in Valuation Reserves, and is part of Retired Member Reserves. It is no longer separately accounted for.~~

~~d. Pre-April 1, 1982 Settlement Reserve~~

~~i. After January 1, 2013, the liability for the Pre-April 1, 1982 Settlement benefit for retirees established as part of the 2001 DSA Settlement is included in the actuarial valuation and in Valuation Reserves, and is part of the Retired Member Reserves. It is no longer separately accounted for.~~

~~e.~~b. Post-April 1, 1982 Settlement Reserve

i. The Post-April 1, 1982 Settlement Reserve was established in 2001 as part of the DSA Settlement for members who retired after April 1, 1982 and before January 1, 2001. The benefit payable from the reserve is $10 per month per year of service, with a maximum monthly benefit of $300, prorated for beneficiaries receiving less than 100% of the member's benefit. An initial amount of $19.1 million was transferred from the Special Litigation Reserve; at the time of the Settlement, the Fund actuaries estimated that it would take $36.9 million to fully fund this benefit.

ii. Under the Settlement Agreement, benefits are paid from the Reserve until the Reserve is exhausted. At that time, benefits are stopped until additional funds are added to the Reserve. The Settlement stipulates that full funding of post-1982 benefits is a requirement after transfers required by law to make up for prior years' interest crediting shortfalls and after any true-up costs occurring in the three years following the establishment of this Reserve.

~~iii. Benefits stopped in May 2006, when this reserve was depleted. In October 2007, the Board of Retirement elected to make a one-time transfer from funds in excess of 1% in the Contingency Reserve. After the transfer of $2.5 million from the Contingency Reserve, benefits recommenced~~

~~December 1, 2007. In August 2008, the Board of Retirement approved a transfer of approximately $4.6 million from the Unappropriated Earnings Reserve to continue funding of this benefit. In October 2008, the Board of Retirement approved a transfer of $18.4 million from the Unappropriated Earnings Reserve to continue the Post-1982 Settlement Benefit as long as sufficient funds remain.~~

~~iv.~~iii. The liability matching this reserve is the actuarial present value of the benefits provided under this part of the DSA Settlement.

~~f.~~c. Contingency Reserve

i. The 1% Contingency Reserve ~~(formerly the Interest Fluctuation Reserve)~~ is required by law to have a balance of at least 1% of all Fund assets before the Board is allowed to make any discretionary reserve allocations~~.~~ ~~(Retirement Board policy historically was to maintain the Reserve at 3%, but, for reasons and under the conditions set forth in its~~ Board Resolution 2017-06-02). ~~the Board exercised its discretion in June 2017 to set the level at 1%.~~

Assigning funds to the Contingency Reserve keeps them outside of the valuation assets, thus increasing employer contributions to the Plan in a given year. Using the Contingency Reserve during years when full interest cannot otherwise be credited serves to decrease Plan costs in those years.

~~iii.~~ii. No liability is associated with this reserve.

~~a.~~d. ~~County~~ Employer Additional UAL Contribution Reserve

i. The ~~County~~ Employer Additional UAL Contribution Reserve receives additional contributions paid by ~~San Joaquin County~~ Employers toward ~~its~~ their individual share of the unfunded actuarial liability (UAL) ~~beginning in calendar year 2017~~. ~~On March 29, 2016, the Board of Supervisors approved an additional annual County contribution ranging from 0% to 5% of payroll for the next 10 years effective January 1, 2017 for this purpose.~~

ii. These additional UAL contributions are not to be taken into consideration in the annual retirement contribution rate setting process, unless and until the ~~County~~ Employer advises when it wants the plan actuary to credit this new reserve against ~~the County's~~that individual Employer's share of UAL as valuation assets.

iii. For the annual GASB 67/68 report, the ~~County's~~Employers' additional UAL contributions are included in the Plan Net Position (and thus will reduce the total Net Pension Liability). However, the~~se~~ additional UAL contributions each employer paid ~~assets~~ directly offset only ~~the~~ that individual ~~County's~~Employer's portion of the Net Pension Liability (NPL).

IV. Relationship of Reserve Balances

Table 1 below shows the relationships among the reserve balances at the end of each Plan fiscal year, both at actuarial value and at market value. The numbers below show the order in which the various reserves are computed.

Table 1: Relationships Among Reserve Balances			
Reserve	**Actuarial Value**	**Market Stabilization Designation**	**Market Value**
Total Fund	2. Total Fund balance at Actuarial Value as computed by the actuary at the end of the Fund fiscal year	3. Market Value of the Fund minus Actuarial Value at the end of the Fund fiscal year	1. Total Fund balance at Market Value as contained in the Financial Statements of the Fund at the end of the Fund fiscal year
Special Reserves	6. The Actuarial Value of the Special Reserves, obtained by subtracting the Market Stabilization Designation for Special Reserves from the Market Value of Special Reserves	5. The portion of the Market Stabilization Designation attributable to Special Reserves, derived by applying the ratio of the Market Value of Special Reserves to the total Fund Market Value	4. Market Value of the Fund Special Reserves, as reported in the Fund Financial Statements at the end of the Fund fiscal year
Unappropriated Earnings Reserve	7. The Board sets aside a portion of assets in the Unappropriated Earnings Reserve, based on Board Funding Policy.	9. Market Value of the Unappropriated Earnings Reserve minus Actuarial Value of the Unappropriated Earnings Reserve at the end of the Fund fiscal year.	8. The Market Value of the Unappropriated Earnings Reserve, computed by applying the ratio of the Market Value of the total Fund to the Total Fund balance at Actuarial Value and applying that to the Unappropriated Earnings Reserve at Actuarial Value.
Valuation Assets	10. The Actuarial Value of Assets for use in computing Employer Contributions in the annual Actuarial Valuation, obtained by subtracting the Actuarial Value of the Special Reserves from the Actuarial Value of all Fund Assets. Valuation Assets includes all Valuation Reserves: The Member Reserves, Retired Member Reserves, Employer Advance Reserve, and the Unappropriated Earnings Reserve.	11. The portion of the Market Stabilization Designation attributable to Valuation Assets, computed by subtracting the Market Stabilization Designations for the Special Reserves and the Unappropriated Earnings Reserve from the Market Stabilization Designation of all Fund Assets.	12. The Market Value of Valuation Assets, computed by subtracting the Market Value of the Special Reserves from the Market Value of all Fund Assets. Note this can also be obtained by adding the Actuarial Value of Valuation Assets to the Market Stabilization Designation for Valuation Assets.

V. Reserve Cash Flows

Shown below are the additions and subtractions to each reserve, excluding interest credits. Interest credits are described in Section VI.

A. Valuation Reserves

1. Member Reserves

   i. For active members, employee contributions are added to the reserves, while the entire accumulated balance for members who take a contribution refund or enter pay status through retirement, disability, or death is subtracted.

   ii. For deferred members, there are no employee contributions to add, but the entire accumulated balance for members who take a contribution refund or enter pay status through retirement, disability, or death is subtracted.

   iii. Addition and subtraction of member contributions occurs on a biweekly and monthly basis.

2. Retired Member Reserves

   i. The Retired Member Reserve increases with reserves transferred from the Member Reserve and the Employer Advance Reserve when members retire, become disabled, or die leaving beneficiaries; it decreases as members or their beneficiaries receive benefit payments.

3. Employer Advance Reserves

   i. The Employer Advance Reserves is increased by employer contributions each year, and is decreased by the liability for members who enter benefit status each year through retirement, disability, or death.

4. Market Stabilization Designation

   i. The Market Stabilization Designation is recomputed in each annual actuarial valuation as the total of unrecognized investment gains and losses from the current and prior three Plan (calendar) years. Therefore, any increases or decreases to this reserve do not result from additions or deletions. See Section IV, Table 1 ~~above~~.

5. Unappropriated Earnings Reserve

i. The Unappropriated Earnings Reserve is reestablished yearly in accordance with the Board's Statement of Funding Policy and other applicable legal obligations and settlements. This process is described in Section III, A.~~5~~2.e~~ above~~.

B. Special Reserves

1. Post-Employment Healthcare Agency Fund

   i. The Post-Employment Healthcare Agency Fund is increased with employer contributions and decreased when retirees' accumulated sick leave at retirement is converted to additional retirement service credit or when health premiums are paid from their sick leave banks ~~or accumulated sick leave at retirement is converted to additional retirement service credit~~ on a pay as you go basis.

2. Post-April 1, 1982 Settlement Reserve

   i. The Post-April 1, 1982 Settlement Reserve is decreased with payments made and is increased with interest credits and any amounts transferred by the Board from other reserves (Board Resolutions 2007-10-02, 2008-08-02, 2008-10-01).

3. Contingency Reserve

   i. The annual additions to and withdrawals from the Contingency Reserve are determined by the Board and sufficiency of earnings on assets to credit full interest to all accounts.

4. ~~County~~ Employer Additional UAL Contribution Reserve

   i. The ~~County~~ Employer Additional UAL Contribution Reserve is increased with additional contributions paid by the ~~County~~Employer and decreases when an Employer requests reserve be counted in the valuation of assets.

VI. Reserve Interest Credits

A. At the end of each year, each reserve account is adjusted based on contributions and disbursements during the year, as described in this policy~~above~~. Interest is then computed as described in this section and ~~R~~reserves are ~~then~~ credited interest using the following priority order:

1. Member Reserves: The first priority is to credit all Member Reserves at the actuarial assumed rate, regardless of Fund performance. For

both active and deferred Member Reserves, interest is credited semiannually at a rate which, when compounded, produces the annual actuarial assumed rate of investment return.

2. Determination of Market Stabilization Designation (MSD): Before any other reserve accounts are allocated, the amount of the market stabilization reserve needs to be determined by the Plan's actuary. This amount can be positive or negative, and serves as an offset to the market value of assets in determining available interest credits. This means that the amount of available earnings at the end of each year is roughly equal to the return on the actuarial value of assets from the prior valuation date.

3. Employer, Retiree, and certain special reserves: After the Member Reserves and MSD are allocated, a target total interest credit is calculated for all other reserve accounts, excluding the Contingency Reserve. This target amount is based on interest credits at the full actuarial rate to the end-of-year reserve balances. To the extent that the remaining available assets cover the target interest credits, all accounts are credited annually.

4. Currently all of these additional reserves receive equal priority, so if the available interest credits only cover a portion of the full target amount at the actuarial rate, these accounts will all receive the same percentage interest credit. For example, if the total end-of-year balance for all of these reserves equals $1 billion, and $70 million is available to allocate at this point, then all accounts will receive 7.0% interest credits. Interest crediting for these reserves is deferred until the close of the calendar year, when the full impact of investment earnings is known.

5. Employer Additional UAL Contributions: This reserve is credited with the actual annual rate of return (including negative returns) on the market value of assets for the plan as a whole, rather than the "smoothed" rate of return credited to other reserves included in valuation assets. This will ensure that no other reserves will be affected by the performance of the assets in this separate reserve. Also, the plan contribution rate will not be impacted by this separate reserve until the ~~County~~ Employer instructs SJCERA to include their ~~this~~ reserve ~~to be included~~ in valuation assets for the determination of the ~~County's~~ Employer's retirement contribution rates. Interest crediting for these reserves is deferred until the close of calendar year, when the full impact of investment earnings is known.

6. Contingency Reserve: If full interest crediting as described in the preceding steps ~~are~~ is not possible, then the Contingency Reserve will be set to $0. If full interest crediting is possible, then any

remaining available earnings are allocated to the Contingency Reserve up to the policy level (1% of the Total Fund). Other Special Reserves: Following the year-end close and subsequent valuation, the Board of Retirement makes determinations of crediting any remaining available funds to special accounts in accordance with any applicable legal obligations and settlements. Interest crediting for these reserves is deferred until the close of calendar year, when the full impact of investment earnings is known.

7. Unappropriated Earnings Reserve (UER): If all accounts have been fully credited as described in Steps 1 through ~~5~~6 above, and additional funds still remain, they are allocated to the UER.

8. Consistency with Statement of Funding Policy: The Board's Statement of Funding Policy will govern any reserve transfers; in particular, amounts will be transferred from the UER to other reserves only if the Plan Funded Ratio as defined in the Funding Policy is 90% or above.

VII. Periodic Reconciliation of Valuation Reserve Accounts

A. Over time, reserve balances and the related Fund liabilities will tend to drift apart. This occurs because the reserve accounting procedure discussed above does not allow for actuarial gains or losses in Plan assets and liabilities. As a result, the reserves may not always represent an accurate estimate of the amount needed to pay for the intended benefits. Consequently, the amounts in each Valuation Reserve should be reconciled periodically with the actuarial valuation to account for Plan experience or changes in benefits and assumptions.

B. Reconciliation of the Valuation Reserve Accounts will result in transferring amounts from one Valuation Reserve to another. Any adjustment(s) must be authorized by the Board. It should take place when the actuarial assumptions are reviewed as a result of an actuarial experience study but no less often than every three years. For consistency with the actuarial valuation, the actuarial value of Fund assets should first be allocated to Member Reserves, then to Retired Member Reserves, then to the Employer Advance Reserves, with any remainder allocated to the Unappropriated Earnings Reserve.

C. To the extent that it is only a rearrangement of assets within the Valuation Reserves, this reconciliation of the reserve accounts will not impact the Plan's overall contribution rate, but it could affect the calculated contribution rates for Safety and General members since funds could be transferred from one to the other. If assets are transferred from or to Special Reserves, such as the Contingency Reserve or the Post April 1, 1982 Settlement Reserve, employer contributions will be affected.

VIII. Policy Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

IX. History

Date	Summary of Board Action
02/10/2012	Adopted
12/16/2016	Added County additional UAL reserve
06/09/2017	Deleted 3% reference for UER; deleted Health Insurance Reserve; set Contingency Reserve at 1%
07/06/2018	Staff updated format; corrected inadvertent numbering error in Table 1.
04/12/2019	Policy Review section amended to at least once every three years
07/08/2022	Amended Section VI – Reserve Interest Credits to reflect existing practices for crediting reserves and acknowledge multiple employers make additional UAL contributions.
01/20/2023	Simplified purpose, removed references to historical actions, added references to resolutions where appropriate, corrected section cross references, and replaced County with Employer in references to additional UAL contributions

Certification of Board Adoption

	01/20/2023
Clerk of the Board	Date

Statement of Reserve Policy

I. Purpose

A. To summarize the structure, operation and accounting of the reserves created and maintained by the San Joaquin County Employees' Retirement Association (SJCERA, the Plan, the Fund).

II. Market Value and Actuarial Value

A. All reserves are held at market value. However, in computing the smoothed or actuarial value of assets required to compute the Plan's funded status and the employer contribution rates, a conversion to actuarial value is sometimes required. This will be noted in each case.

III. Reserve Descriptions

Fund reserves fall into one of two categories: Valuation Reserves and Special Reserves. This section describes the purpose and liability of each reserve.

A. **Valuation Reserves**

1. Valuation Reserves include Member Reserves, Retired Member Reserves (excluding certain death benefit reserves), Employer Advance Reserves, the Market Stabilization Designation, and the Unappropriated Earnings Reserve. The total of the Valuation Reserves equals the market value of Fund assets, excluding amounts held in the Special Reserves, also at market value.

2. The total of the Valuation Reserves, excluding the Market Stabilization Designation and excluding the Special Reserves (adjusted to actuarial value), is the Actuarial Value of Fund Assets used to determine the funded ratio and the employer contributions to the Fund as part of the annual actuarial valuation performed each year. Any policy that affects the amount of funds assigned to Valuation Reserves has the potential to affect Plan costs.

a) <u>Member Reserves</u>

i. The Member Reserves contain the cumulative employee contributions with interest for active and deferred members. Active member contributions are held in separate reserves for General and Safety, while cumulative member contributions for terminated deferred members are also held in General and Safety reserves. Member contributions for COLAs are combined with all other member contributions in the Member Reserves.

ii. The Plan liability matching this reserve is the sum of member contributions with interest for active and terminated deferred members.

b) Retired Member Reserves

i. The Retired Member Reserves contain the assets necessary to fund the benefits and COLAs in pay status for retired and disabled members and their beneficiaries, including the $5,000 lump sum death benefit, the Purchasing Power Protection benefit, and the Pre-April 1, 1982 Settlement (Board Resolution 2012-12-03).

ii. The Plan liability matching this reserve is the actuarial present value of benefits for members in pay status – retired and disabled members and their beneficiaries. When reserves are reconciled with liabilities, the sum of the Retired Member Reserves should equal the liability held for retired and disabled members and their beneficiaries. Consequently, the Plan's liability for members in pay status would be 100% funded.

c) Employer Advance Reserves

i. The Employer Advance Reserves contain the assets allocated to the employer portion of the liabilities for active and deferred members. The amount in this reserve is the actuarial value of total Fund assets, minus the Member Reserves, Retired Member Reserves, Unappropriated Earnings Reserve, and Special Reserves, all at actuarial value.

ii. The Plan liability matching this reserve is the actuarial accrued liability for active and deferred members.

d) Market Stabilization Designation

i. The Market Stabilization Designation consists of the difference between the market value of Plan assets and their actuarial value. It contains the total of unrecognized investment gains and losses from the current and prior three Plan (calendar) years.

ii. If the smoothed actuarial value of assets exceeds market value, the Market Stabilization Designation is negative; otherwise, it is zero or positive. The liability matching the Market Stabilization Designation is the sum of unrecognized investment gains and losses, as noted above.

iii. Since the actuarial and market values of Plan assets are determined for all assets in total, regardless of allocation to reserves, the calculation of the Market Stabilization Designation is independent of and must precede the apportionment of assets into reserves.

iv. The Market Stabilization Designation is the amount that must be added to the Actuarial Value of Fund assets to agree with the Market Value of Fund assets. It represents deferred gains (losses) if positive (negative). It therefore represents a reserve for those unrealized gains or losses that is excluded from the calculation of Plan funding status and employer contribution rates.

e) <u>Unappropriated Earnings Reserve</u>

i. The Unappropriated Earnings Reserve is reestablished yearly after all other requirements are met, in the following order: Full actuarial interest on Valuation Reserves and all other reserves, an amount necessary to bring the overall actuarial funded ratio of the Fund to 90% in accordance with the Board's Statement of Funding Policy, and an amount necessary to bring the Contingency Reserve to the 1% minimum.

ii. The amount in the Unappropriated Earnings Reserve can then be transferred to other reserves, subject to the limitations contained in the Board's Statement of Funding Policy and in other applicable legal obligations and settlements.

iii. The liability associated with this reserve is the excess of the Plan's actuarial accrued liability over the total of the Member, Retired Member, and Employer Advance Reserves.

B. Special Reserves

1. Special Reserves consist of funds excluded from the annual actuarial valuation and therefore not used in the calculation of the Plan's funded ratio and employer contribution. The amounts set aside can be for designated purposes or for market fluctuation.

a. <u>Employment Healthcare Agency Fund</u>

i. The fund is used for cash flows in from employers to fund sick leave bank benefits for their eligible retired employees on a pay as you go basis, and for cash flows out for payment of sick leave bank benefits.

b. Post-April 1, 1982 Settlement Reserve

i. The Post-April 1, 1982 Settlement Reserve was established in 2001 as part of the DSA Settlement for members who retired after April 1, 1982 and before January 1, 2001. The benefit payable from the reserve is $10 per month per year of service, with a maximum monthly benefit of $300, prorated for beneficiaries receiving less than 100% of the member's benefit. An initial amount of $19.1 million was transferred from the Special Litigation Reserve; at the time of the Settlement, the Fund actuaries estimated that it would take $36.9 million to fully fund this benefit.

ii. Under the Settlement Agreement, benefits are paid from the Reserve until the Reserve is exhausted. At that time, benefits are stopped until additional funds are added to the Reserve. The Settlement stipulates that full funding of post-1982 benefits is a requirement after transfers required by law to make up for prior years' interest crediting shortfalls and after any true-up costs occurring in the three years following the establishment of this Reserve.

iii. The liability matching this reserve is the actuarial present value of the benefits provided under this part of the DSA Settlement.

c. Contingency Reserve

i. The 1% Contingency Reserve is required by law to have a balance of at least 1% of all Fund assets before the Board is allowed to make any discretionary reserve allocations (Board Resolution 2017-06-02).

Assigning funds to the Contingency Reserve keeps them outside of the valuation assets, thus increasing employer contributions to the Plan in a given year. Using the Contingency Reserve during years when full interest cannot otherwise be credited serves to decrease Plan costs in those years.

ii. No liability is associated with this reserve.

d. Employer Additional UAL Contribution Reserve

i. The Employer Additional UAL Contribution Reserve receives additional contributions paid by Employers toward their individual share of the unfunded actuarial liability (UAL).

ii. These additional UAL contributions are not to be taken into consideration in the annual retirement contribution rate setting process, unless and until the Employer advises when it wants the plan actuary to credit this new reserve against that individual Employer's share of UAL as valuation assets.

iii. For the annual GASB 67/68 report, the Employers' additional UAL contributions are included in the Plan Net Position (and thus will reduce the total Net Pension Liability). However, the additional UAL contributions each employer paid directly offset only that individual Employer's portion of the Net Pension Liability (NPL).

IV. Relationship of Reserve Balances

Table 1 below shows the relationships among the reserve balances at the end of each Plan fiscal year, both at actuarial value and at market value. The numbers below show the order in which the various reserves are computed.

Table 1: Relationships Among Reserve Balances			
Reserve	**Actuarial Value**	**Market Stabilization Designation**	**Market Value**
Total Fund	2. Total Fund balance at Actuarial Value as computed by the actuary at the end of the Fund fiscal year	3. Market Value of the Fund minus Actuarial Value at the end of the Fund fiscal year	1. Total Fund balance at Market Value as contained in the Financial Statements of the Fund at the end of the Fund fiscal year
Special Reserves	6. The Actuarial Value of the Special Reserves, obtained by subtracting the Market Stabilization Designation for Special Reserves from the Market Value of Special Reserves	5. The portion of the Market Stabilization Designation attributable to Special Reserves, derived by applying the ratio of the Market Value of Special Reserves to the total Fund Market Value	4. Market Value of the Fund Special Reserves, as reported in the Fund Financial Statements at the end of the Fund fiscal year
Unappropriated Earnings Reserve	7. The Board sets aside a portion of assets in the Unappropriated Earnings Reserve, based on Board Funding Policy.	9. Market Value of the Unappropriated Earnings Reserve minus Actuarial Value of the Unappropriated Earnings Reserve at the end of the Fund fiscal year.	8. The Market Value of the Unappropriated Earnings Reserve, computed by applying the ratio of the Market Value of the total Fund to the Total Fund balance at Actuarial Value and applying that to the Unappropriated Earnings Reserve at Actuarial Value.
Valuation Assets	10. The Actuarial Value of Assets for use in computing Employer Contributions in the annual Actuarial Valuation, obtained by subtracting the Actuarial Value of the Special Reserves from the Actuarial Value of all Fund Assets. Valuation Assets includes all Valuation Reserves: The Member Reserves, Retired Member Reserves, Employer Advance Reserve, and the Unappropriated Earnings Reserve.	11. The portion of the Market Stabilization Designation attributable to Valuation Assets, computed by subtracting the Market Stabilization Designations for the Special Reserves and the Unappropriated Earnings Reserve from the Market Stabilization Designation of all Fund Assets.	12. The Market Value of Valuation Assets, computed by subtracting the Market Value of the Special Reserves from the Market Value of all Fund Assets. Note this can also be obtained by adding the Actuarial Value of Valuation Assets to the Market Stabilization Designation for Valuation Assets.

V. Reserve Cash Flows

Shown below are the additions and subtractions to each reserve, excluding interest credits. Interest credits are described in Section VI.

A. Valuation Reserves

1. Member Reserves

   i. For active members, employee contributions are added to the reserves, while the entire accumulated balance for members who take a contribution refund or enter pay status through retirement, disability, or death is subtracted.

   ii. For deferred members, there are no employee contributions to add, but the entire accumulated balance for members who take a contribution refund or enter pay status through retirement, disability, or death is subtracted.

   iii. Addition and subtraction of member contributions occurs on a biweekly and monthly basis.

2. Retired Member Reserves

   i. The Retired Member Reserve increases with reserves transferred from the Member Reserve and the Employer Advance Reserve when members retire, become disabled, or die leaving beneficiaries; it decreases as members or their beneficiaries receive benefit payments.

3. Employer Advance Reserves

   i. The Employer Advance Reserves is increased by employer contributions each year, and is decreased by the liability for members who enter benefit status each year through retirement, disability, or death.

4. Market Stabilization Designation

   i. The Market Stabilization Designation is recomputed in each annual actuarial valuation as the total of unrecognized investment gains and losses from the current and prior three Plan (calendar) years. Therefore, any increases or decreases to this reserve do not result from additions or deletions. See Section IV, Table 1.

5. **Unappropriated Earnings Reserve**

   i. The Unappropriated Earnings Reserve is reestablished yearly in accordance with the Board's Statement of Funding Policy and other applicable legal obligations and settlements. This process is described in Section III, A.2.e.

B. Special Reserves

1. Post-Employment Healthcare Agency Fund

   i. The Post-Employment Healthcare Agency Fund is increased with employer contributions and decreased when retirees' accumulated sick leave at retirement is converted to additional retirement service credit or when health premiums are paid from their sick leave banks on a pay as you go basis.

2. Post-April 1, 1982 Settlement Reserve

   i. The Post-April 1, 1982 Settlement Reserve is decreased with payments made and is increased with interest credits and any amounts transferred by the Board from other reserves (Board Resolutions 2007-10-02, 2008-08-02, 2008-10-01).

3. Contingency Reserve

   i. The annual additions to and withdrawals from the Contingency Reserve are determined by the Board and sufficiency of earnings on assets to credit full interest to all accounts.

4. Employer Additional UAL Contribution Reserve

   i. The Employer Additional UAL Contribution Reserve is increased with additional contributions paid by the Employer and decreases when an Employer requests reserve be counted in the valuation of assets.

VI. Reserve Interest Credits

A. At the end of each year, each reserve account is adjusted based on contributions and disbursements during the year, as described in this policy. Interest is then computed as described in this section and reserves are credited interest using the following priority order:

1. Member Reserves: The first priority is to credit all Member Reserves at the actuarial assumed rate, regardless of Fund performance. For both active and deferred Member Reserves, interest is credited semiannually at a rate which, when compounded, produces the annual actuarial assumed rate of investment return.

2. Determination of Market Stabilization Designation (MSD): Before any other reserve accounts are allocated, the amount of the market

stabilization reserve needs to be determined by the Plan's actuary. This amount can be positive or negative, and serves as an offset to the market value of assets in determining available interest credits. This means that the amount of available earnings at the end of each year is roughly equal to the return on the actuarial value of assets from the prior valuation date.

3. Employer, Retiree, and certain special reserves: After the Member Reserves and MSD are allocated, a target total interest credit is calculated for all other reserve accounts, excluding the Contingency Reserve. This target amount is based on interest credits at the full actuarial rate to the end-of-year reserve balances. To the extent that the remaining available assets cover the target interest credits, all accounts are credited annually.

4. Currently all of these additional reserves receive equal priority, so if the available interest credits only cover a portion of the full target amount at the actuarial rate, these accounts will all receive the same percentage interest credit. For example, if the total end-of-year balance for all of these reserves equals $1 billion, and $70 million is available to allocate at this point, then all accounts will receive 7.0% interest credits. Interest crediting for these reserves is deferred until the close of the calendar year, when the full impact of investment earnings is known.

5. Employer Additional UAL Contributions: This reserve is credited with the actual annual rate of return (including negative returns) on the market value of assets for the plan as a whole, rather than the "smoothed" rate of return credited to other reserves included in valuation assets. This will ensure that no other reserves will be affected by the performance of the assets in this separate reserve. Also, the plan contribution rate will not be impacted by this separate reserve until the Employer instructs SJCERA to include their reserve in valuation assets for the determination of the Employer's retirement contribution rates. Interest crediting for these reserves is deferred until the close of calendar year, when the full impact of investment earnings is known.

6. Contingency Reserve: If full interest crediting as described in the preceding steps is not possible, then the Contingency Reserve will be set to $0. If full interest crediting is possible, then any remaining available earnings are allocated to the Contingency Reserve up to the policy level (1% of the Total Fund). Other Special Reserves: Following the year-end close and subsequent valuation, the Board of Retirement makes determinations of crediting any remaining available funds to special accounts in accordance with any applicable legal obligations and settlements. Interest crediting for

these reserves is deferred until the close of calendar year, when the full impact of investment earnings is known.

7. Unappropriated Earnings Reserve (UER): If all accounts have been fully credited as described in Steps 1 through 6 above, and additional funds still remain, they are allocated to the UER.

8. Consistency with Statement of Funding Policy: The Board's Statement of Funding Policy will govern any reserve transfers; in particular, amounts will be transferred from the UER to other reserves only if the Plan Funded Ratio as defined in the Funding Policy is 90% or above.

VII. Periodic Reconciliation of Valuation Reserve Accounts

A. Over time, reserve balances and the related Fund liabilities will tend to drift apart. This occurs because the reserve accounting procedure discussed above does not allow for actuarial gains or losses in Plan assets and liabilities. As a result, the reserves may not always represent an accurate estimate of the amount needed to pay for the intended benefits. Consequently, the amounts in each Valuation Reserve should be reconciled periodically with the actuarial valuation to account for Plan experience or changes in benefits and assumptions.

B. Reconciliation of the Valuation Reserve Accounts will result in transferring amounts from one Valuation Reserve to another. Any adjustment(s) must be authorized by the Board. It should take place when the actuarial assumptions are reviewed as a result of an actuarial experience study but no less often than every three years. For consistency with the actuarial valuation, the actuarial value of Fund assets should first be allocated to Member Reserves, then to Retired Member Reserves, then to the Employer Advance Reserves, with any remainder allocated to the Unappropriated Earnings Reserve.

C. To the extent that it is only a rearrangement of assets within the Valuation Reserves, this reconciliation of the reserve accounts will not impact the Plan's overall contribution rate, but it could affect the calculated contribution rates for Safety and General members since funds could be transferred from one to the other. If assets are transferred from or to Special Reserves, such as the Contingency Reserve or the Post April 1, 1982 Settlement Reserve, employer contributions will be affected.

VIII. Policy Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

IX. History

Date	Summary of Board Action
02/10/2012	Adopted
12/16/2016	Added County additional UAL reserve
06/09/2017	Deleted 3% reference for UER; deleted Health Insurance Reserve; set Contingency Reserve at 1%
07/06/2018	Staff updated format; corrected inadvertent numbering error in Table 1.
04/12/2019	Policy Review section amended to at least once every three years
07/08/2022	Amended Section VI – Reserve Interest Credits to reflect existing practices for crediting reserves and acknowledge multiple employers make additional UAL contributions.
01/20/2023	Simplified purpose, removed references to historical actions, added references to resolutions where appropriate, corrected section cross references, and replaced County with Employer in references to additional UAL contributions

Certification of Board Adoption

01/20/2023

Clerk of the Board | Date

Board Governance Policy

Ex Parte Communications Policy

I. Ex Parte Communication Definition

A. An ex parte communication is defined as any oral or written, off-the record communication that is directed to the merits or outcome of a disability retirement application or administrative appeal pending before the Board of Retirement (the "Pending Action").

II. Pending Action Definition

A. A Pending Action is defined as: (1) a pending disability application proceeding before the Board of Retirement; or (2) a pending appeal of any administrative determination.

B. A disability application or administrative appeal is pending before the Board of Retirement until the decision of the Board or SJCERA can no longer be appealed administratively or, if applicable, until the conclusion of a writ of mandamus or other appellate process.

III. Communications Requirements

A. To ensure that the decision-making process is fair and impartial, applicants, appellants, attorneys, hearing officers and Board Members are prohibited from engaging in ~~informal~~ any communications that could influence how the application or appeal is decided.

B. An Applicant, Appellant, or anyone acting on behalf of an Applicant or Appellant shall not initiate an ex parte communication with a Board Member or Hearing Officer concerning ~~the facts or merits of, or any substantive matters relating to,~~ any matter relating to a Pending Action.

C. A lawyer representing an Applicant, Appellant or SJCERA shall not initiate or permit an ex parte communication with a Board Member or Hearing Officer concerning ~~the facts or merits of, or any substantive matters relating to,~~ any matter relating to a Pending Action.

D. A Hearing Officer shall not initiate, permit or consider an ex parte communication with an Applicant, Appellant, a lawyer representing an Applicant, Appellant or SJCERA, a Board Member, health care professionals, expert witnesses or investigators or consider other communications made to the Hearing Officer outside the presence of all parties concerning a Pending Action, except as follows:

1. A Hearing Officer may initiate or permit an ex parte communication where circumstances require for scheduling, administrative purposes or emergencies that do not deal with substantive matters provided the Hearing Officer reasonably believes that no party will gain a procedural or tactical advantage as a result of the ex parte communication.

E. A Board Member shall not initiate, permit or consider an ex parte communication with Applicants, Appellants, Hearing Officers, lawyers, health care professionals, expert witnesses or investigators outside the presence of all parties concerning a Pending Action. Further, a Board Member shall not consider any other communications made to the Board Member individually or outside the presence of all parties concerning the Pending Action.

1. A Board Member shall disclose the circumstances and substance of any ex parte communication concerning a Pending Action on the record at the time of the hearing on the Pending Action before the Board of Retirement.

F. Hearing Officers and Board Members shall not make any public comments about a Pending Action that might interfere with a fair hearing. This requirement does not prohibit Hearing Officers or Board Members from explaining SJCERA's procedures for disability applications, compensation appeals, or other administrative appeals, or from discussing legal, procedural or other subject matters relating to the administration of disability applications and administrative appeal proceedings generally in Board meetings, conferences or educational programs or with legal counsel.

1. If an applicant, Appellant, or anyone acting on behalf of an applicant or Appellant has a concern or complaint regarding SJCERA's procedures for disability applications, compensation appeals, or any other administrative appeals, they must submit their appeal in writing to the Board of Retirement in care of the CEO, in accordance with SJCERA's Administrative Appeal Procedure.

IV. Policy Review

Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

V. History

08/16/2017	Adopted by the Board of Retirement
06/29/2018	Reviewed, no content changes required; Staff modified format
04/12/2019	Policy Review section amended to at least once every three years
07/12/2019	Reviewed, no changes
07/08/2022	Reviewed, no changes
01/20/2023	Modified Communications Requirements section to restrict any communication and added appeal language referencing the SJCERA Administrative Appeal Procedure.

Certification of Board Adoption:

01/20/2023

Clerk of the Board — Date

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1. A Hearing Officer may initiate or permit an ex parte communication where circumstances require for scheduling, administrative purposes or emergencies that do not deal with substantive matters provided the Hearing Officer reasonably believes that no party will gain a procedural or tactical advantage as a result of the ex parte communication.

E. A Board Member shall not initiate, permit or consider an ex parte communication with Applicants, Appellants, Hearing Officers, lawyers, health care professionals, expert witnesses or investigators outside the presence of all parties concerning a Pending Action. Further, a Board Member shall not consider any other communications made to the Board Member individually or outside the presence of all parties concerning the Pending Action.

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Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

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Certification of Board Adoption:

01/20/2023

Clerk of the Board Date

January 20, 2023 **Agenda Item 5.04**

SUBJECT: SJCERA Bylaws Optional Membership Amendment

SUBMITTED FOR: __X_ CONSENT __ ACTION ___ INFORMATION

RECOMMENDATION

The Administrative Committee recommends the Board of Retirement adopt the proposed amendment to the Optional Membership section of the Bylaws.

PURPOSE

To amend the SJCERA Bylaws to ensure that it remains relevant, compliant and administratively appropriate regarding Optional Membership.

DISCUSSION

Government Code Section 31552 allows employees first hired into a SJCERA covered position at or after age 60 to waive membership in SJCERA, subject to regulations adopted by the Board of Retirement.

The proposed change to the Optional Membership section of the SJCERA Bylaws establishes a 30-day time limit for an eligible employee to irrevocably waive SJCERA Membership. Without the time restriction, employees could waive membership at any time potentially causing significant administrative work to assess and refund employee contributions and interest and reallocate employer contributions to the employer's UAAL. Additional tax withholding and reporting compliance complexity comes into play when returning member contributions and interest across calendar years. By restricting the time period to waive membership, employee and employer contributions are stopped early, refunded to the employee, and the administrative and tax compliance issues are reduced or eliminated.

ATTACHMENTS

Bylaws – Mark-up
Bylaws – Clean

Brian McKelvey
Assistant Chief Executive Officer

Jason R. Morrish
Deputy County Counsel

San Joaquin
County Employees'
Retirement Association

BYLAWS

Revised & Adopted by the Board of Retirement on 7/10/2020
Adopted by the Board of Supervisors on 9/01/2020

Pursuant to California Government Code Sections 31525 and 31526, these bylaws are adopted by the Board of Retirement and approved by the San Joaquin County Board of Supervisors. In the event a conflict arises between these bylaws and the County Employees Retirement Law, the Public Employees' Pension Reform Act, the Internal Revenue Code or any other applicable state or federal statutes, the law shall prevail.

Table of Contents

PART I - GENERAL

SECTION 1. NAME

A. The name of this retirement system is the “SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION” (“SJCERA”).

SECTION 2. PURPOSE

A. SJCERA is established under the County Employees’ Retirement Law of 1937 (Chapter 3 of Part 3 of Division 4 of Title 3 of the California Government Code, Section 31450 et seq.) (hereinafter “the CERL”) for the purpose of carrying out the provisions of the CERL and the provisions of the Public Employees’ Pension Reform Act (Article 4 of Chapter 21 of Division 7 of Title 1 of the California Government Code, Section 7522, et seq.) (hereinafter “PEPRA”) within the County of San Joaquin. These bylaws govern the management and operation of the retirement system for the benefit of its membership, including its retired members and their survivors, dependents, and beneficiaries.

SECTION 3. JURISDICTION

A. The Board of Retirement shall endeavor to include language substantially similar to the following in any and all contracts, agreements, and/or partnerships entered into by the Board or its designee, subject to adjustments and modifications as deemed reasonable and appropriate by the Board or its designee in any given circumstance: “The parties hereto hereby submit to the jurisdiction of the Superior Court of California for San Joaquin County, or the United States District Court for the Eastern District of California, over any action, suits or proceedings arising out of or relating to this Agreement.”

SECTION 4. DEFINITIONS

A. Words, terms, and phrases used in these bylaws and SJCERA policies and procedures shall be given meaning as defined in the CERL or PEPRA unless otherwise specified in these bylaws.

1. Unless otherwise provided, any reference to “day” or “days” shall mean calendar days and shall include weekends and holidays. If a due date or deadline falls on a Saturday, Sunday or San Joaquin County designated holiday, the due date or deadline shall be the next regular business day.
2. Board shall mean Board of Retirement
3. CEO shall mean Chief Executive Officer or designee

SECTION 5. ADMINISTRATION

5.1 General

A. Management of the retirement system is vested in the Board of Retirement

("Board"). Routine day-to-day administration of the retirement system is delegated to the Chief Executive Officer (CEO), who shall be that individual appointed by the Board pursuant to Government Code Section 31522.2.

B. The Board shall promulgate rules for matters relating to its administrative procedures, which shall be known as Board Administration Policies. Each Board Administration Policy shall be identified by title and purpose and may be adopted or amended at any regularly scheduled meeting of the Board by an affirmative vote of at least five (5) trustees. The CEO shall direct staff to maintain a record of all Board Administration Policies adopted or amended by the Board.

C. The CEO is responsible for the engagement, management, oversight and termination of all staff employed by SJCERA.

D. With regard to the exempt positions of the Assistant CEO (Assistant Retirement Administrator) and Investment Officer (IO) appointed pursuant to Government Code Section 31522.3, the CEO is delegated the authority to select and appoint individuals to these positions, with the caveat that:

1. The selection and appointment of the Assistant CEO and the IO shall be submitted to the Board for Retirement for its concurrence and approval in accordance with Government Code Section 31522.3
2. The CEO shall at least annually meet with and evaluate the performance of the incumbent Assistant CEO and IO.
3. If at any time the CEO intends to dismiss an employee in either of these two positions, the CEO will present facts on the matter to the Board in closed session for the Board to exercise its authority under Government Code Section 31522.3.

E. All meetings of the Board shall be subject to the open meeting laws applicable to local agencies, known as the Ralph M. Brown Act (Chapter 9 of Part 1 of Division 2 of Title 5 of the California Government Code, Section 54950 et seq.) ("The Brown Act").

F. The Board shall meet at least once each month, and shall adopt and make available to the public an annual meeting calendar each year, which may subsequently be modified as necessary by formal action of the Board in advance. Unless otherwise noticed in advance, meetings of the Board shall be convened in the SJCERA Boardroom, 6 S. El Dorado Street, Suite 400, Stockton, California.

G. Special meetings of the Board may be called at any time on the request of any Officer of the Board or by any five (5) Members of the Board. Notice of the meeting shall be provided as required by the Brown Act.

H. Board meetings may be reset or continued by the Board for good cause. If a meeting is reset or continued, the CEO shall give at least four (4) days' notice of the date of the reset or continued meeting to Board Members who were not present at the time of re-setting or continuance.

5.2 Election and Appointment of Board Members

A. Pursuant to Government Code Section 31520.1, 31520.5 and 31520.6 the Board shall be composed of nine (9) members, one alternate safety member, and one alternate retired member.

B. Elections of the second, third, seventh, eighth, and alternate members shall be conducted pursuant to Government Code Sections 31520.1, 31520.5 and 31523 and Board of Supervisors Resolution R-04-68.

C. Except as otherwise provided by law, an appointed member of the Board shall continue to serve beyond the prescribed term until a successor is duly qualified and appointed.

5.3 Procedures

A. ROBERT'S RULES OF ORDER shall guide the Board in its proceedings, except as otherwise provided in these bylaws or the CERL. The Chairperson shall have a vote on all questions and motions and shall not be required to relinquish the chair in order to participate in discussions. The order of business may include, but is not be limited to:

Roll Call
Pledge of Allegiance
Approval of Minutes
Public Comment
Benefit Applications
Investment Matters and Administration Matters
Staff and Committee Reports and Recommendations
Correspondence
Adjournment

B. The Board Chairperson may make changes in the above order at their discretion.

C. The order of business may also include one or more closed sessions in accordance with and as allowed by the Brown Act as needed to conduct the Board's business.

D. Five Members of the Board shall constitute a quorum. Subject to paragraph E below, no motion may be passed or business transacted except in matters dealing with hearings without at least five (5) affirmative votes.

E. Hearings conducted by the Board must have at least seven (7) members in attendance and will be conducted as detailed in Board policy.

F. Communications and requests shall be made in writing and directed to the Board in care of the CEO. The substance of such communications and requests requiring Board action shall be noted in the minutes of the Board meeting.

5.4. Board Officers

A. At the first meeting in July of each year, the Board shall elect, pursuant to open nomination, one of its members as Chairperson, one of its members as Vice-Chairperson, and one of its members as Secretary, each to hold office for a term of the later of one (1) year or until a successor is duly elected. Should any officer fail for any reason to complete a full term, the Board shall elect a successor for the balance of the unexpired term at its next meeting. The County Treasurer shall serve ex-officio as the Treasurer for SJCERA.

B. Chairperson

1. The Chairperson of the Board is the presiding officer at all Board meetings, and shall conduct the meetings in accordance with these bylaws and applicable rules and statutes. The Chairperson shall appoint Board members to standing and ad hoc committees of the Board, which shall consist of no fewer than three and no more than four Board members. Upon approval or adoption by the Board, the Chairperson shall sign all minutes, resolutions, orders or other documents of the Board. The Chairperson, or designee is authorized to sign on behalf of SJCERA any contracts, agreements, or other documents and forms required to effect the decisions and commitments approved by the Board or to comply with statutory or regulatory requirements.

C. Vice Chairperson

1. The Vice Chairperson will assume the duties of the Chairperson when the Chairperson is absent. When serving as Chairperson, the Vice Chairperson shall have all of the powers of the Chairperson and shall assume all of the duties of the Chairperson.

D. Secretary

1. The Secretary shall certify meeting minutes, resolutions, and orders of the Board as approved or adopted by the Board.
2. The Secretary will assume the duties of Chairperson in the simultaneous absence of both the Chair and Vice Chair. When serving as Chairperson,

the Secretary shall have all the powers of the Chairperson and shall assume all of the duties of the Chairperson.

E. Clerk of the Board

1. The CEO or designee shall serve as Clerk of the Board and shall cause to be recorded in the minutes the time and place of each meeting, the name of each member present, all official acts and discussions of the Board, the votes given (except where the action is unanimous) and, where requested by a dissenting or approving member, a Board member's dissent or approval. The Clerk shall cause the minutes to be reduced to written form forthwith and presented for Board approval at its next regularly scheduled meeting. The minutes shall be signed by the Chairperson and certified by the Secretary and shall become a part of the Board's permanent record. Upon approval or adoption by the Board, the CEO shall have the authority to sign on behalf of SJCERA any contracts, agreements, or other documents, and forms required to effect the decisions and commitments approved by the Board or to comply with statutory or regulatory requirements.

5.5 Subpoenas

A. Subpoenas may be issued for disability or administrative hearings, or other matters as determined by Board officers, CEO, and/or referee in accordance with Government Code Section 31535 and Board policy.

B. Witnesses subpoenaed may be provided a witness fee and/or reimbursement for necessary travel. The amount to be paid and the party responsible for payment shall be established by Board policy.

5.6 Education and Travel

A. The Board and designated staff shall obtain education on matters of public pension investments and administration in accordance with Government Code Sections 31522.8 and 53237.1 and Board policy. To execute this duty, this Board shall establish and maintain policies and guidelines for approval and reimbursement of education and travel related expenses.

5.7 Conflict of Interest and Disclosure

A. The Board shall establish and maintain a Conflict of Interest Code applicable to its Board members, investment managers and designated staff as required by the Political Reform Act and the California Code of Regulations. Statements of Economic Interests will be filed with and maintained by the Clerk of the Board of Retirement.

SECTION 6. MEMBERSHIP

6.1 General

A. Membership shall be as defined by the CERL or PEPRA as supplemented by these bylaws.

B. Mandatory Membership:

1. Every employee of San Joaquin County or SJCERA participating employer who is appointed to a permanent full-time position shall be a member.

2. Superior Court Officers and their attaches and the Public Administrator shall be included in SJCERA pursuant to the CERL.

C. Exclusions from membership:

1. Employees who are appointed to a position or employed under contract for a period not to exceed 1,560 hours in any consecutive twelve (12) month period, seasonal employees, intermittent employees, or part-time employees, are excluded from membership in SJCERA.

D. Optional Membership:

1. Persons who are age 60 or older when they are first employed in a position requiring SJCERA membership may make an irrevocable election to waive membership within thirty (30) days of their first day of employment. The election shall be evidenced by the employee's signature on a waiver of membership form provided by SJCERA.

2. Elected Officials, who wish to become (or remain) SJCERA members must file a declaration with the Board.

E. Employees eligible for SJCERA membership shall become members as follows:

1. Hired before September 22, 2003: on the first day of the next payroll period following appointment to a permanent full-time position, or

2. Hired on or after September 22, 2003: on the first day of employment in a permanent full-time position.

3. An Elected Official opting into membership shall become a member as of the beginning of the payroll period in which the declaration is filed.

F. The Board may, from time-to-time, determine by classification of position, other than those specifically provided by the CERL, the eligibility for membership and shall list those job classifications that are included in the safety retirement category.

G. A member who is eligible for reciprocity shall allow SJCERA to coordinate with a member's reciprocal retirement system in establishing the dates of membership and termination so that there is no overlap of membership between the systems. SJCERA will adjust the membership date if necessary, provided that date shall be no later than 12 weeks after the member commenced SJCERA-covered employment, and adjust the termination date if necessary, provided that date is no earlier than 12 weeks prior to the date the member terminated SJCERA-covered employment.

6.2 Application for Membership

A. Every employee of the County of San Joaquin or a participating employer who is or becomes a member of SJCERA shall complete a Member Certification form supplied by SJCERA, including the employee's date of birth, date employment began, and employing department or participating employer. It is the appointing authority's duty to ensure that all eligible employees complete the required form and to forward immediately to SJCERA.

B. In lieu of a sworn statement, the submission by the member's employer to the retirement association of the information otherwise required in paragraph (A) in a form determined by Board policy.

C. Every employee who is eligible for SJCERA membership shall submit proof of age as outlined in the Board policy.

D. In the event of a discrepancy in age, the birth date resulting in the oldest age for determining age-based contribution rates shall prevail.

6.3 Designation of Beneficiary

A. Every member at the time of retirement shall submit evidence of marriage or registered domestic partnership (RDP) if the member's designated beneficiary is the member's spouse/RDP and the member elects an option pursuant to Sections 31760 et seq. of the Government Code. In lieu of a marriage or registered domestic partnership certificate, alternative documents as determined by Board policy will be accepted.

B. Every member, at the time of retirement, shall submit proof of age for any designated beneficiary or beneficiaries selected pursuant to the exercise of an option contained within Section 31760 et seq. of the Government Code. Proof of age shall be as described in Section 5.2 of these bylaws.

C. RDPs, as defined in California Family Code Section 297, of SJCERA members have the same rights, protections, and benefits, and are subject to the same responsibilities, obligations, and duties as are granted to or imposed upon spouses of SJCERA members.

SECTION 7. SERVICE RETIREMENT

A. In addition to the provisions of the CERL and PEPRA pertaining to service retirement, an application for service retirement shall be deemed complete when the following have been submitted:

1. A written application on forms supplied by the SJCERA,
2. Proof of age of the member and beneficiary as provided in Sections 6.2 and 6.3,
3. Evidence of marriage or registered domestic partnership of the beneficiary as required in Section 6.3, and
4. Designation of the option elected by the retiring member on the form provided by SJCERA.

B. Upon retirement, a member shall be furnished with a copy of their retirement application and options form which includes the effective date of retirement, their retirement allowance and any other information that the CEO or designee determines is appropriate and in the member's best interest. This shall serve as an annuity certificate.

SECTION 8. DISABILITY RETIREMENT

A. The Board shall promulgate rules to ensure the fair and efficient proceedings of disability cases. These rules shall be referred to as Disability Retirement Policy and Procedures.

SECTION 9. AMENDMENTS

A. These bylaws may be amended at any regularly scheduled Board meeting by an affirmative vote of at least 5 (five) members of the Board. The bylaws become effective when approved by the Board of Supervisors.

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SECTION 12. DISSOLUTION OF MARRIAGE OR REGISTERED DOMESTIC PARTNERSHIP - Repealed and converted to Dissolution of Marriage or Registered Domestic Partnership policy

SECTION 13 – AMENDMENTS – Renumbered to Section 8

SECTION 20. PURPOSE AND SCOPE - Repealed and incorporated by existing bylaws and Internal Revenue Code compliance policies

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07/10/2020:	Added a Jurisdiction section, clarified the Administration and Membership sections, and other non-substantive changes
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San Joaquin
County Employees'
Retirement Association

BYLAWS

Revised & Adopted by the Board of Retirement on 1/20/2023
Adopted by the Board of Supervisors on _______________

Pursuant to California Government Code Sections 31525 and 31526, these bylaws are adopted by the Board of Retirement and approved by the San Joaquin County Board of Supervisors. In the event a conflict arises between these bylaws and the County Employees Retirement Law, the Public Employees' Pension Reform Act, the Internal Revenue Code or any other applicable state or federal statutes, the law shall prevail.

Table of Contents

PART I - GENERAL

SECTION 1. NAME

A. The name of this retirement system is the "SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION" ("SJCERA").

SECTION 2. PURPOSE

A. SJCERA is established under the County Employees' Retirement Law of 1937 (Chapter 3 of Part 3 of Division 4 of Title 3 of the California Government Code, Section 31450 et seq.) (hereinafter "the CERL") for the purpose of carrying out the provisions of the CERL and the provisions of the Public Employees' Pension Reform Act (Article 4 of Chapter 21 of Division 7 of Title 1 of the California Government Code, Section 7522, et seq.) (hereinafter "PEPRA") within the County of San Joaquin. These bylaws govern the management and operation of the retirement system for the benefit of its membership, including its retired members and their survivors, dependents, and beneficiaries.

SECTION 3. JURISDICTION

A. The Board of Retirement shall endeavor to include language substantially similar to the following in any and all contracts, agreements, and/or partnerships entered into by the Board or its designee, subject to adjustments and modifications as deemed reasonable and appropriate by the Board or its designee in any given circumstance: "The parties hereto hereby submit to the jurisdiction of the Superior Court of California for San Joaquin County, or the United States District Court for the Eastern District of California, over any action, suits or proceedings arising out of or relating to this Agreement."

SECTION 4. DEFINITIONS

A. Words, terms, and phrases used in these bylaws and SJCERA policies and procedures shall be given meaning as defined in the CERL or PEPRA unless otherwise specified in these bylaws.

1. Unless otherwise provided, any reference to "day" or "days" shall mean calendar days and shall include weekends and holidays. If a due date or deadline falls on a Saturday, Sunday or San Joaquin County designated holiday, the due date or deadline shall be the next regular business day.
2. Board shall mean Board of Retirement
3. CEO shall mean Chief Executive Officer or designee

SECTION 5. ADMINISTRATION

5.1 General

A. Management of the retirement system is vested in the Board of Retirement

("Board"). Routine day-to-day administration of the retirement system is delegated to the Chief Executive Officer (CEO), who shall be that individual appointed by the Board pursuant to Government Code Section 31522.2.

B. The Board shall promulgate rules for matters relating to its administrative procedures, which shall be known as Board Administration Policies. Each Board Administration Policy shall be identified by title and purpose and may be adopted or amended at any regularly scheduled meeting of the Board by an affirmative vote of at least five (5) trustees. The CEO shall direct staff to maintain a record of all Board Administration Policies adopted or amended by the Board.

C. The CEO is responsible for the engagement, management, oversight and termination of all staff employed by SJCERA.

D. With regard to the exempt positions of the Assistant CEO (Assistant Retirement Administrator) and Investment Officer (IO) appointed pursuant to Government Code Section 31522.3, the CEO is delegated the authority to select and appoint individuals to these positions, with the caveat that:

1. The selection and appointment of the Assistant CEO and the IO shall be submitted to the Board for Retirement for its concurrence and approval in accordance with Government Code Section 31522.3
2. The CEO shall at least annually meet with and evaluate the performance of the incumbent Assistant CEO and IO.
3. If at any time the CEO intends to dismiss an employee in either of these two positions, the CEO will present facts on the matter to the Board in closed session for the Board to exercise its authority under Government Code Section 31522.3.

E. All meetings of the Board shall be subject to the open meeting laws applicable to local agencies, known as the Ralph M. Brown Act (Chapter 9 of Part 1 of Division 2 of Title 5 of the California Government Code, Section 54950 et seq.) ("The Brown Act").

F. The Board shall meet at least once each month, and shall adopt and make available to the public an annual meeting calendar each year, which may subsequently be modified as necessary by formal action of the Board in advance. Unless otherwise noticed in advance, meetings of the Board shall be convened in the SJCERA Boardroom, 6 S. El Dorado Street, Suite 400, Stockton, California.

G. Special meetings of the Board may be called at any time on the request of any Officer of the Board or by any five (5) Members of the Board. Notice of the meeting shall be provided as required by the Brown Act.

H. Board meetings may be reset or continued by the Board for good cause. If a meeting is reset or continued, the CEO shall give at least four (4) days' notice of the date of the reset or continued meeting to Board Members who were not present at the time of re-setting or continuance.

5.2 Election and Appointment of Board Members

A. Pursuant to Government Code Section 31520.1, 31520.5 and 31520.6 the Board shall be composed of nine (9) members, one alternate safety member, and one alternate retired member.

B. Elections of the second, third, seventh, eighth, and alternate members shall be conducted pursuant to Government Code Sections 31520.1, 31520.5 and 31523 and Board of Supervisors Resolution R-04-68.

C. Except as otherwise provided by law, an appointed member of the Board shall continue to serve beyond the prescribed term until a successor is duly qualified and appointed.

5.3 Procedures

A. ROBERT'S RULES OF ORDER shall guide the Board in its proceedings, except as otherwise provided in these bylaws or the CERL. The Chairperson shall have a vote on all questions and motions and shall not be required to relinquish the chair in order to participate in discussions. The order of business may include, but is not be limited to:

Roll Call
Pledge of Allegiance
Approval of Minutes
Public Comment
Benefit Applications
Investment Matters and Administration Matters
Staff and Committee Reports and Recommendations
Correspondence
Adjournment

B. The Board Chairperson may make changes in the above order at their discretion.

C. The order of business may also include one or more closed sessions in accordance with and as allowed by the Brown Act as needed to conduct the Board's business.

D. Five Members of the Board shall constitute a quorum. Subject to paragraph E below, no motion may be passed or business transacted except in matters dealing with hearings without at least five (5) affirmative votes.

E. Hearings conducted by the Board must have at least seven (7) members in attendance and will be conducted as detailed in Board policy.

F. Communications and requests shall be made in writing and directed to the Board in care of the CEO. The substance of such communications and requests requiring Board action shall be noted in the minutes of the Board meeting.

5.4. Board Officers

A. At the first meeting in July of each year, the Board shall elect, pursuant to open nomination, one of its members as Chairperson, one of its members as Vice-Chairperson, and one of its members as Secretary, each to hold office for a term of the later of one (1) year or until a successor is duly elected. Should any officer fail for any reason to complete a full term, the Board shall elect a successor for the balance of the unexpired term at its next meeting. The County Treasurer shall serve ex-officio as the Treasurer for SJCERA.

B. Chairperson

1. The Chairperson of the Board is the presiding officer at all Board meetings, and shall conduct the meetings in accordance with these bylaws and applicable rules and statutes. The Chairperson shall appoint Board members to standing and ad hoc committees of the Board, which shall consist of no fewer than three and no more than four Board members. Upon approval or adoption by the Board, the Chairperson shall sign all minutes, resolutions, orders or other documents of the Board. The Chairperson, or designee is authorized to sign on behalf of SJCERA any contracts, agreements, or other documents and forms required to effect the decisions and commitments approved by the Board or to comply with statutory or regulatory requirements.

C. Vice Chairperson

1. The Vice Chairperson will assume the duties of the Chairperson when the Chairperson is absent. When serving as Chairperson, the Vice Chairperson shall have all of the powers of the Chairperson and shall assume all of the duties of the Chairperson.

D. Secretary

1. The Secretary shall certify meeting minutes, resolutions, and orders of the Board as approved or adopted by the Board.
2. The Secretary will assume the duties of Chairperson in the simultaneous absence of both the Chair and Vice Chair. When serving as Chairperson,

the Secretary shall have all the powers of the Chairperson and shall assume all of the duties of the Chairperson.

E. Clerk of the Board

1. The CEO or designee shall serve as Clerk of the Board and shall cause to be recorded in the minutes the time and place of each meeting, the name of each member present, all official acts and discussions of the Board, the votes given (except where the action is unanimous) and, where requested by a dissenting or approving member, a Board member's dissent or approval. The Clerk shall cause the minutes to be reduced to written form forthwith and presented for Board approval at its next regularly scheduled meeting. The minutes shall be signed by the Chairperson and certified by the Secretary and shall become a part of the Board's permanent record. Upon approval or adoption by the Board, the CEO shall have the authority to sign on behalf of SJCERA any contracts, agreements, or other documents, and forms required to effect the decisions and commitments approved by the Board or to comply with statutory or regulatory requirements.

5.5 Subpoenas

A. Subpoenas may be issued for disability or administrative hearings, or other matters as determined by Board officers, CEO, and/or referee in accordance with Government Code Section 31535 and Board policy.

B. Witnesses subpoenaed may be provided a witness fee and/or reimbursement for necessary travel. The amount to be paid and the party responsible for payment shall be established by Board policy.

5.6 Education and Travel

A. The Board and designated staff shall obtain education on matters of public pension investments and administration in accordance with Government Code Sections 31522.8 and 53237.1 and Board policy. To execute this duty, this Board shall establish and maintain policies and guidelines for approval and reimbursement of education and travel related expenses.

5.7 Conflict of Interest and Disclosure

A. The Board shall establish and maintain a Conflict of Interest Code applicable to its Board members, investment managers and designated staff as required by the Political Reform Act and the California Code of Regulations. Statements of Economic Interests will be filed with and maintained by the Clerk of the Board of Retirement.

SECTION 6. MEMBERSHIP

6.1 General

A. Membership shall be as defined by the CERL or PEPRA as supplemented by these bylaws.

B. Mandatory Membership:

1. Every employee of San Joaquin County or SJCERA participating employer who is appointed to a permanent full-time position shall be a member.

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Agenda Item 5.05

DATE January 20, 2023

SUBJECT: Administrative Committee Charter and Conflict of Interest Policy - Statements of Economic Interest (Form 700)

SUBMITTED FOR: __X__ CONSENT ___ ACTION ___ INFORMATION

RECOMMENDATION

The Administrative Committee recommends the Board adopt the proposed changes to the Conflict of Interest Policy and Administrative Committee Charter.

PURPOSE

To establish a process for identifying and addressing potential conflicts of interest.

DISCUSSION

The intent of the Fair Political Practices Commission's (FPPC) requirement for public officials to file a Form 700 is to disclose financial interests that may be affected by official decisions. The goal is twofold: making the public aware of a public official's financial interests and reminding the public official of potential conflicts. As the Board is certainly aware, other retirement systems have been publicly criticized for a lack of oversight in cases where Form 700 reporters were belatedly discovered to have potentially disqualifying conflicts.

In an effort to assist trustees, staff and consultants with decreasing the potential risk of conflicts of interest, whether inadvertent or perceived, SJCERA staff reached out to other systems regarding this issue, and what, if any, practices they utilize to minimize this risk.

In response, the Marin County Employees' Retirement Association (MCERA) shared its practices and procedures, which were developed in concert with counsel (Ashley Dunning). This information was provided to the Administrative Committee at its June 13, 2022, meeting. The Committee requested additional information from MCERA, which was provided to the Committee at its January 11, 2023, meeting.

MCERA's policy has been in place since November 2010. The Retirement Administrator and counsel review all Form 700s and create a summary report, which is annually presented to a subcommittee of the Board. If any potential conflicts are identified, they are highlighted in the report, discussed with the affected Form 700 reporter and, if necessary, discussed with the Committee. MCERA reported that the policy has been well received, in terms of increased accountability and transparency.

ATTACHMENTS

Proposed revisions to *Administrative Committee Charter* – Mark-up
Proposed revisions to *Administrative Committee Charter* – Clean
Conflict of Interest policy – Mark-up
Conflict of Interest policy – Clean

Johanna Shick
Chief Executive Officer

Jason R. Morrish
Deputy County Counsel

Board Governance Policy

Conflict of Interest Policy

I. Purpose

A. The Political Reform Act (Government Code Section 81000, et seq.), requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, 2 Cal. Code of Regs. Section 18730, which contains the terms of a standard conflict of interest code. It can be incorporated by reference and may be amended by the Fair Political Practices Commission after public notice and hearings to conform to amendments in the Political Reform Act.

Therefore, the terms of Section 18730 of Article 2 of Chapter 7 of Division 6 of Title 2 of the California Code of Regulations and any amendments thereto adopted by the Fair Political Practices Commission are hereby incorporated by reference and, along with the Disclosure Categories, attached and incorporated herein as Attachment 1, constitute the Conflict of Interest Code of the San Joaquin County Employees' Retirement Association (SJCERA).

II. Filing Requirements

A. Pursuant to Section 4 of the standard Conflict of Interest code (Section 18730), persons identified in all Disclosure Categories shall file Statements of Economic Interest with SJCERA. Statements will be retained by SJCERA and listed in a certification filed with the County Registrar of Voters. All statements filed are public records open for public inspection and reproduction pursuant to Section 81008 of the California Government Code.

B. Pursuant to Section 87314 of the California Government Code as added by Chapter 702, Statutes of 2010, attached and incorporated herein is an Appendix entitled “Agency Positions that Manage Public Investments for the Purpose of Section 87200 of the Government Code.” Also, as required, this Appendix shall remain posted on the SJCERA website in a manner that is easily identifiable and accessible.

C. Responsibility for accurately reporting disclosable interests rests solely with the person(s) required to file pursuant to statute or this code and not with SJCERA.

III. Statements of Economic Interest

A. Staff shall prepare an annual summary report of the Statements of Economic Interest filed with SJCERA pursuant to Section II.A. The report will be submitted to the Administrative Committee at its annual June meeting for receipt and filing.

~~III.~~IV. Policy Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance with the Political Reform Act~~section 81000 of the California Government Code~~. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

~~IV.~~V. History

08/091991	First a~~A~~dopted by the Board of Retirement
02/09/1996	Disclosure Categories r~~R~~evised by Resolution No. 1996-02-02
08/09/2002	Disclosure Categories r~~R~~evised by Resolution No. 2002-08-01
07/14/2006	Disclosure Categories r~~R~~evised by Resolution No. 2006-07-02
04/11/2008	Disclosure Categories r~~R~~evised by Resolution No. 2008-04-04 (First established standard policy format)
12/17/2010	Disclosure Categories r~~R~~evised and Appendix Added by Resolution No. 2010-12-04
05/09/2014	Disclosure Categories, Statutory References, and Policy Wording r~~R~~evised by Resolution No. 2014-05-02
06/29/2018	Reviewed, no content changes, staff updated format
04/12/2019	Policy Review section amended to at least once every three years
07/12/2019	Amended per County's direction to send ROV certifications and retain statements on all filers
01/20/2023	Amended to include Statements of Economic Interest procedure, clarify the Government Code reference, and update format

Certification of Board Adoption:

01/20/2023

Clerk of the Board Date

ATTACHMENT 1

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CONFLICT OF INTEREST CODE

DISCLOSURE CATEGORIES

Group A - Officials/Consultants: (Required to file pursuant to Government Code Section 87200)

Member of the Board of Retirement
Investment Consultants
External Managers (as defined in Government Code Section 82025.3 as it may be amended from time to time)

Group B – Designated Employees: (Required to file pursuant to this Conflict of Interest Code)

Chief Executive Officer
Assistant Chief Executive Officer
Chief Investment Officer
Retirement Financial Officer
Departmental Systems Information Manager

Persons identified in all Disclosure Categories shall report on the following interests as defined in, and by completing, the California Fair Political Practices Commission's Statement of Economic Interests Form 700:

a. Investments
b. Interests in Real Property
c. Income, Loans, and Business Positions
d. Income – Gifts
e. Travel Payments, Advances, and Reimbursements

APPENDIX

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CONFLICT OF INTEREST CODE

Agency Positions that Manage Public Investments
for Purposes of Section 87200 of the California Government Code

Positions of the Board of Retirement:

First Member:	San Joaquin County Treasurer-Tax Collector
Second Member:	Active General Member of SJCERA – elected
Third Member:	Active General Member of SJCERA – elected
Fourth Member:	Appointed by the Board of Supervisors
Fifth Member:	Appointed by the Board of Supervisors
Sixth Member:	Appointed by the Board of Supervisors - may be a County supervisor
Seventh Member:	Active Safety Member of SJCERA – elected
Alternate Seventh Member:	Active Safety Member of SJCERA - elected
Eighth Member:	Retired Member of SJCERA – elected
Alternate Retired Member:	Retired Member of SJCERA – elected
Ninth Member:	Appointed by the Board of Supervisors

Conflict of Interest Policy

I. Purpose

A. The Political Reform Act (Government Code Section 81000, et seq.), requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, 2 Cal. Code of Regs. Section 18730, which contains the terms of a standard conflict of interest code. It can be incorporated by reference and may be amended by the Fair Political Practices Commission after public notice and hearings to conform to amendments in the Political Reform Act.

Therefore, the terms of Section 18730 of Article 2 of Chapter 7 of Division 6 of Title 2 of the California Code of Regulations and any amendments thereto adopted by the Fair Political Practices Commission are hereby incorporated by reference and, along with the Disclosure Categories, attached and incorporated herein as Attachment 1, constitute the Conflict of Interest Code of the San Joaquin County Employees' Retirement Association (SJCERA).

II. Filing Requirements

A. Pursuant to Section 4 of the standard Conflict of Interest code (Section 18730), persons identified in all Disclosure Categories shall file Statements of Economic Interest with SJCERA. Statements will be retained by SJCERA and listed in a certification filed with the County Registrar of Voters. All statements filed are public records open for public inspection and reproduction pursuant to Section 81008 of the California Government Code.

B. Pursuant to Section 87314 of the California Government Code as added by Chapter 702, Statutes of 2010, attached and incorporated herein is an Appendix entitled "Agency Positions that Manage Public Investments for the Purpose of Section 87200 of the Government Code." Also, as required, this Appendix shall remain posted on the SJCERA website in a manner that is easily identifiable and accessible.

C. Responsibility for accurately reporting disclosable interests rests solely with the person(s) required to file pursuant to statute or this code and not with SJCERA.

III. Statements of Economic Interest

A. Staff shall prepare an annual summary report of the Statements of Economic Interest filed with SJCERA pursuant to Section II.A. The report will be submitted to the Administrative Committee at its annual June meeting for receipt and filing.

IV. Policy Review

A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance with the Political Reform Act. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

V. History

08/091991	First adopted by the Board of Retirement
02/09/1996	Disclosure Categories revised by Resolution No. 1996-02-02
08/09/2002	Disclosure Categories revised by Resolution No. 2002-08-01
07/14/2006	Disclosure Categories revised by Resolution No. 2006-07-02
04/11/2008	Disclosure Categories revised by Resolution No. 2008-04-04 (First established standard policy format)
12/17/2010	Disclosure Categories revised and Appendix Added by Resolution No. 2010-12-04
05/09/2014	Disclosure Categories, Statutory References, and Policy Wording revised by Resolution No. 2014-05-02
06/29/2018	Reviewed, no content changes, staff updated format
04/12/2019	Policy Review section amended to at least once every three years
07/12/2019	Amended per County's direction to send ROV certifications and retain statements on all filers
01/20/2023	Amended to include Statements of Economic Interest procedure, clarify the Government Code reference, and update format

Certification of Board Adoption:

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Administrative Committee Charter

I. Establishment

A) The Board of Retirement established the Administrative Committee to assist in overseeing administrative and governance functions.

B) The Board Chair appoints members to the Committee, in accordance with the SJCERA Bylaws. The Committee must include at least one member who was elected to the Board by the membership.

II. Meetings

A) The Committee meets semiannually:

1) Generally in November, to review the proposed budget and as needed to address mid-year budget adjustment (if any), or any other issue determined by the Committee Chair in consultation with the CEO and Board Chair as appropriate.

2) Generally in June, to provide any input on the development or revision of SJCERA's bylaws, Board policies, and Committee Charters (if any), or any other issue determined by the Committee Chair in consultation with the CEO and Board Chair as appropriate.

III. Responsibilities

A) <u>Financial</u>

1) Review SJCERA's proposed annual budget and make a recommendation to the Board regarding adoption.

2) Review staff's request for a budget adjustment, if any, and make a recommendation to the Board regarding adoption.

3) Review, develop and recommend to the Board for approval initiatives that would have a significant budgetary impact such as proposals to move office location or implement a new pension administration system.

B) <u>Human Resources</u>

1) Coordinate the recruitment process for the position of Retirement Administrator/Chief Executive Officer and recommend one or more candidates to the Board.

2) Perform or coordinate the due diligence and selection processes for human resource consultants hired in connection with the position of the Retirement Administrator/CEO, including interviewing firms, if necessary, and recommending firms to be appointed by the Board.

3) Review, develop and recommend to the Board for approval SJCERA's succession plan

C) Policy Development and Review

1) Provide input to staff, as needed, on the development ~~or~~ and revision of, and adherence to, SJCERA bylaws, Board policies, and Committee charters.

2) Set the frequency at which staff must review Board policies to ensure they remain relevant, appropriate, and in compliance.

IV. Authority

A) The Administrative Committee is an advisory committee to the Board. All Committee actions must be ratified or adopted by the Board.

V. History

11/09/2018	Adopted by Board of Retirement
07/09/2021	Revised meeting dates and added Committee Charters
01/20/2023	Amended section C.1 to include adherence

Certification of Board Adoption:

01/20/2023

Clerk of the Board Date

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Certification of Board Adoption:

01/20/2023

Clerk of the Board Date

Silver Point Specialty Credit Fund III

Prepared for San Joaquin County Employee's Retirement Association

SILVER POINT
CAPITAL

January 2023

Important Considerations

The following presentation for the Silver Point Specialty Credit Fund, L.P. and Silver Point Specialty Credit Fund III (Offshore), L.P. (collectively, “Specialty Credit Fund III,” “SCF III” or the “Fund”) does not constitute an offer to sell, or the solicitation of an offer to buy, interests in the Fund. Such an offer or solicitation may only be made by delivery of the Fund’s Confidential Offering Memorandum (the “Memorandum”) and subscription documents that contain a more detailed description of all the material terms of such an investment, including discussions of certain specific risk factors, conflicts (or potential conflicts) of interest, tax considerations, fees and other matters relevant to prospective investors in the Fund. This presentation is expressly qualified in its entirety by reference to the Memorandum and subscription documents. The information provided herein is not intended to be, and should not be, considered a substitute for reviewing such documents carefully. Furthermore, the information herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. To the extent of any inconsistency or discrepancy between the Memorandum and this presentation, the Memorandum shall control. Capitalized terms not defined herein shall have the meanings ascribed to them in the Memorandum.

There is no assurance that the Fund will achieve its investment objective or generate positive returns. An investment in the Fund is illiquid and presents significant risks, including the risk that profits will not be achieved and that substantial losses or a total loss of capital could be incurred. Before deciding to invest in the Fund, prospective investors should review in detail the entire Memorandum, including the risk factors enumerated therein.

Specialty Credit Fund III is a newly organized entity. In considering the prior performance information contained herein, prospective investors in SCF III should bear in mind that past performance is not indicative of future results, and there can be no assurance that SCF III will be able to implement its investment strategy or approach, achieve comparable results, that any target results will be met or that it will be able to avoid losses. Nothing contained herein should be deemed to be a prediction or projection of the future performance of SCF III.

The Fund is offered only on a private placement basis and potential investors are required to inform themselves of, and to observe, any legal restrictions on their involvement in the offering. No sale of the Fund’s interests will be made in any jurisdiction in which the offer, solicitation, or sale is not authorized or to any person to whom it is unlawful to make the offer, solicitation or sale.

Except as otherwise specified herein, the information contained herein is believed to be accurate as of the date set forth on the cover. No assurance is made as to its continued accuracy after such date, and Silver Point has no obligation to any recipient of this presentation to update any of the information provided herein. All information contained herein is subject to change without notice.

Any information included in this presentation is based upon assumptions that the Firm considers reasonable as of the dates indicated herein and was not prepared with a view towards public disclosure or compliance with any published guidelines.

Past performance is neither indicative nor a guarantee of future returns. Please review “Important Considerations” at the end of this presentation for other important explanatory notes and considerations.

Today’s Presenters

Anthony DiNello
Head of Lending

Mr. DiNello joined Silver Point Capital in January 2006 and is the Head of Lending. Mr. DiNello joined Silver Point Capital as an Investment Analyst having spent time on both the private lending and restructuring teams. In 2015, when Silver Point raised Specialty Credit Fund I, Mr. DiNello began focusing full time on private lending as a Senior Analyst, before assuming his current role of overseeing the Firm’s Specialty Credit team on a day to day basis. Before joining Silver Point, Mr. DiNello worked in the Global Industrials & Services Group of Credit Suisse First Boston. Mr. DiNello graduated with highest honors from the University of Michigan Business School with a Bachelor’s degree in Business Administration, with an emphasis in finance and accounting.

Founding Partners

Silver Point Capital was launched in 2002 by Ed Mulé and Bob O'Shea, former Partners and Co-Heads of Goldman Sachs' special situations and specialty lending businesses

Edward A. Mulé
Founding Partner, Chief Executive Officer & Portfolio Manager

- Prior to founding Silver Point, Mr. Mulé worked for more than 16 years at Goldman Sachs
  - Led Goldman's special situations businesses, including headed or co-headed the Special Situations Investing Business and the Asian Special Situations Investing Business ("ASSG")
  - Established a proprietary senior secured, specialty direct lending business
  - Worked in the Office of the Chairman
  - Investment Banking in Mergers and Acquisitions
  - Elected a general partner of Goldman Sachs in 1994

Robert J. O'Shea
Founding Partner & Chairman

- Prior to founding Silver Point, Mr. O'Shea worked for almost 10 years at Goldman Sachs
  - Built Goldman Sachs' global bank loan business
  - Global Head of the High Yield Business Unit
  - Led Goldman Sachs' special situations businesses
  - Established a proprietary senior secured, specialty direct lending business
  - Elected a general partner of Goldman Sachs in 1994

Firm Overview[1]

Silver Point is an established global credit investor with a successful, 20+ year track record across multiple credit cycles

Silver Point Capital

2002
Year Founded

256
Employees

$21bn
Investible Assets[2]

20+ years
Senior Investment Professionals' Average Industry Experience

Silver Point Specialty Credit Strategy

$17.4bn
Aggregate Invested Capital[3]

380+
Investments since 2003[4]

$9.0bn
Investible Assets across Specialty Credit Strategy[5]

13.6%
Specialty Credit Strategy Net IRR[6]

[1] Information is as of December 1, 2022, unless otherwise noted.
[2] With respect to the Specialty Credit Funds, Investible Assets includes total capital commitments and anticipated leverage (with an assumed debt-to-equity ratio of one-to-one). With respect to the Flagship Hedge Funds and Distressed Opportunities Funds, Investible Assets is composed of the net asset value of such funds as well as (i) for drawdown vehicles that are in their investment period, unfunded capital commitments and (ii) for drawdown vehicles outside their investment period, the lesser of unfunded capital commitments and amounts available to make follow-on investments. Information is unaudited and subject to change without notice. Please refer to page 4 for additional information.
[3] Information is as of September 30, 2022. Aggregate Invested Capital of the Specialty Credit strategy is defined in "Important Considerations – Track Record: Firm Overview."
[4] Information is as of September 30, 2022.
[5] Investible Capital of the Specialty Credit strategy includes total capital commitments and anticipated leverage (with an assumed debt-to-equity ratio of one-to-one).
[6] Information is as of September 30, 2022. "Specialty Credit Strategy Net IRR" is a blended composite return that utilizes the combined cash flows of Specialty Credit (2003 vintage), SCF I and SCF II to calculate an unlevered gross asset level IRR, and then applies anticipated fee and expense rates for SCF III. This includes an estimated amount of leverage equal to 50% of total assets and assumes a financing rate of 5.25% per annum, which has been deducted as an expense, and then deducts from such calculation an amount corresponding to (i) a management fee of 1.5% per annum on called capital, (ii) incentive compensation of 17.5% and (iii) 0.40% per annum for estimated expenses. For Specialty Credit (2003 vintage), net IRR represents extracted performance as described more fully in the definition of "Specialty Credit (2003 vintage)" in "Important Considerations – Track Record". Individual returns will vary based on, among other things, the timing of such individual's capital contribution(s) and the fact that affiliated investors do not pay management fees or incentive compensation.

Past performance is neither indicative nor a guarantee of future results. Actual investment performance could differ materially from the returns presented herein.

Synergistic Business Model

Since inception, Silver Point's focus has been on building a business model composed of synergistic global credit strategies

Silver Point Credit Platform[1]

Direct Lending
$9.0bn[2]

Specialty Credit Funds
$9.0bn

Performing, senior secured middle market direct lending, managed in a closed-end drawdown structure

Originate loans in less-competitive situations, emphasizing strong downside protection and robust structural documentation

Tenured history of successfully originating and managing performing middle market loans throughout multiple credit cycles

Distressed & Special Situations
$12.3bn[3]

Flagship Hedge Funds
$9.1bn

A hedged approach to distressed and special situations investments, managed in an evergreen structure

Distressed Opportunities Funds
$3.2bn

An opportunistic approach to distressed and special situations investments, managed in a closed-end drawdown structure

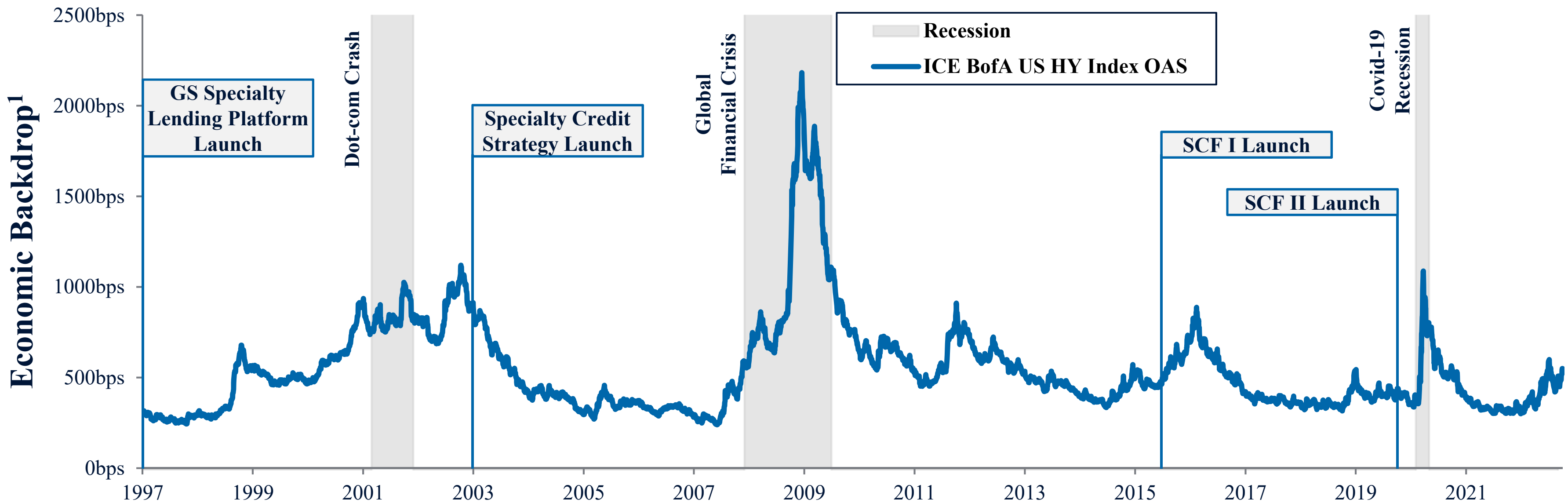
[1] Information is as of December 1, 2022.
[2] Investible Assets includes total capital commitments and anticipated leverage (with an assumed debt-to-equity ratio of one-to-one) of the Specialty Credit Funds.
[3] With respect to the Flagship Hedge Funds and Distressed Opportunities Funds, Investible Assets is composed of the net asset value of such funds as well as (i) for drawdown vehicles that are in their investment period, unfunded capital commitments and (ii) for drawdown vehicles outside their investment period, the lesser of unfunded capital commitments and amounts available to make follow-on investments. Information is unaudited and subject to change without notice.

History of the Specialty Credit Strategy

We have a long history of originating performing middle market loans throughout credit cycles, including successfully managing a portfolio through the Global Financial Crisis

Over $17 billion[2] in Specialty Credit Investments

Goldman Sachs Specialty Lending Platform | **Silver Point Specialty Credit Strategy**



[1] Source: ICE Data Indices. The ICE BofA US HY Index OAS represents the weighted average option-adjusted spread of sub-investment grade USD-denominated bonds in the US domestic market. Please see "Important Considerations – Track Record: Comparative Indices" for more information on the ICE BofA US HY Index.
[2] Information is as of September 30, 2022. The Specialty Credit (2003 vintage) was managed as part of a multi-strategy comingled fund. "Invested" capital reflects Aggregate Invested Capital as defined in "Important Considerations – Track Record: Firm Overview." Please see "Important Considerations – Track Record" for a description of Specialty Credit (2003 vintage) self-originated loans.

Broad Credit Investing Platform

Silver Point's Specialty Credit team leverages a tenured and well-resourced team, as well as the depth of resources, knowledge and expertise of the Firm

84 Investment Professionals

SCF III Investment Team

Origination
(9)

Due Diligence / Analysis / Execution
(24)

Monitoring / Asset Management
(6)

Industry-focused Investment Analysts

Trading Desk

Risk Management Analysts

150 Infrastructure Professionals

Accounting & Operations

Legal & Compliance

Investor Relations

Information Technology

HR / Facilities

Note: Information is as of November 30, 2022.

Target Market Opportunity[1]

We target middle market companies with strong credit profiles and seek to negotiate robust structural protections to mitigate downside risk

We target middle market companies with strong reasons to exist

Target Company Profile	
$30mm - $150mm in EBITDA; $150mm - $2bn in enterprise value	Strong and durable collateral value
$80mm - $1bn in revenue; Recurring revenue streams	Ability to preserve capital in a downturn
High cash flow conversion	Captive customer base

We lend at the top of the capital structure & prioritize structuring and documentation

Target Loan Characteristics	
First lien with low LTV	Tight negative covenants
Bespoke financial covenants or events of default	Comprehensive collateral packages
Amortization and mandatory prepayment provisions	Appropriate EBITDA definition

[1] These characteristics are not a prediction, projection or guarantee of the strategy's performance. There can be no assurance that the investments made will have some or all of these characteristics, that Silver Point will be able to implement the investment strategy or investment approach, and that any targets will be met or that Silver Point will be able to avoid losses.

Our Investment Approach

We have oriented our investing approach around five core competencies that we believe are necessary to succeed in specialty credit investing across credit cycles

Identifying Fundamental Value		Proactively Managing Asset & Portfolio Risks		Preserving Capital
Sourcing	**Underwriting**	**Structuring & Documentation**	**Portfolio Monitoring**	**Asset Management**
Silver Point's internal sourcing network of originators, analysts, and traders, combined with a broad network of external relationships, allow us to see a wide scope of potential investment opportunities	Rigorous analysis and diligence is performed including review of strength, quality, stability and cyclicality of the business, financial performance, capital structures, risks, collateral value, catalysts, indicative terms and, ultimately, risk-adjusted returns	Credit and collateral agreements are prepared with a focus on downside protection, including, among other things, financial covenants, amortization, call protection, and collateral protection	Silver Point continuously monitors current and expected catalysts and reviews investment fundamentals, allowing us to quickly intervene if key risk metrics deviate from expectations	Silver Point has extensive expertise managing loans throughout cycles and has established a robust process for actively managing positions, leveraging firm-wide asset management expertise and a dedicated restructuring team
Ongoing	**2-4 weeks**	**1-3 weeks**	**Ongoing**	**If Needed**

Specialty Credit Strategy Highlights

Our Specialty Credit strategy leverages our broad credit platform and deep expertise in credit investing to drive what we believe to be attractive risk-adjusted returns across credit cycles

Integrated Credit Platform

We believe integration across our global credit platform enables us to capitalize on unique lending opportunities

Focus on Less Competitive Situations

Our extensive credit expertise, differentiated sourcing, and structuring capabilities allow us to target a wide range of less competitive opportunities

Strong Downside Protection

We target middle market companies with strong credit profiles and seek to negotiate robust structural protections to mitigate downside risk

Value Proposition to Borrowers

We believe borrowers choose to partner with us because we can provide creative and customized solutions, even on tight timelines and in complex situations

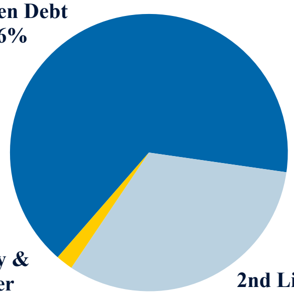
Attractive Risk-Adjusted Returns

Our approach has allowed us to deliver what we believe to be attractive risk-adjusted returns in the Specialty Credit strategy across multiple credit cycles

Focus on High Risk-Adjusted Returns

Since inception, our strategy has consistently emphasized first lien, dollar-one risk, with conservative LTVs and modest borrower leverage

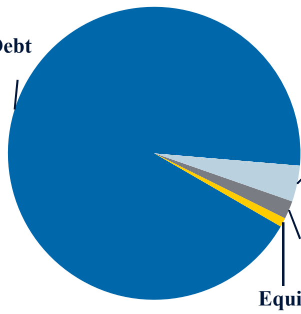
Specialty Credit (2003 vintage)



50% — Average LTV[1]

3.8x — Avg. Borrower Leverage[2]

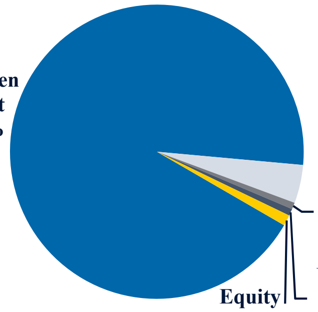
SCF I (2015 vintage)



54% — Average LTV[1]

4.0x — Avg. Borrower Leverage[2]

SCF II (2019 vintage)



50% — Average LTV[1]

3.9x — Avg. Borrower Leverage[2]

13.6% — Specialty Credit Strategy Net IRR[3]

Information is as of September 30, 2022.

[1] "Average LTV" is an asset-weighted average based on investment teams' assessments of collateral values at the time of investment, excluding investments held for less than one month.

[2] With respect to Specialty Credit (2003 vintage), "Avg. Borrower Leverage" reflects Average Leverage through Investment as defined in "Important Considerations – Track Record: Specialty Credit (2003 vintage)." With respect to SCF I and SCF II, "Avg. Borrower Leverage" reflects Average Net Leverage through Investment as defined in "Important Considerations – Track Record: Specialty Credit Fund I" for corporate originations only.

[3] "Specialty Credit Strategy Net IRR" is defined in "Important Considerations – Track Record".

Q&A

SILVER POINT
CAPITAL

Important Considerations

SILVER POINT
CAPITAL

IMPORTANT CONSIDERATIONS

General

The information contained herein does not take into account the particular investment objectives or financial circumstances of any specific person who may receive it. It is not intended to provide, and should not be relied upon for, accounting, legal, or tax advice. You should consult your tax, legal, accounting, and/or other advisors about the matters discussed herein. This presentation is for informational purposes only, and is not intended to be, and should not be, relied upon by the recipient as an investment recommendation, in connection with any investment decision related to the Fund or for any other purpose. Any such investment decision should be based solely on the information contained in the Memorandum. While the information contained herein has been prepared in good faith, we make no representation as to its accuracy or completeness.

No assumption should be made that any investor will have an investment experience similar to that of any previous or existing investor or that any investor will achieve returns comparable to those shown.

The categorizations of investments by asset type, industry, use of proceeds, investment theme or any other category have been determined by Silver Point. Certain of these categories are highly subjective and there can be no assurance that such investments could not reasonably be placed in categories other than those selected by Silver Point. In addition, Silver Point changes its categorizations of its investments and may or may not thereafter revise prior period exposure calculations.

Track Record

Past performance is neither indicative nor a guarantee of future results. Actual investment performance of the Fund could differ materially from the returns presented herein.

The **"Specialty Credit strategy"** refers to Specialty Credit (2003 vintage); Silver Point Specialty Credit Fund, L.P. ("Specialty Credit Fund I" or "SCF I"); Silver Point Specialty Credit Fund II, L.P. and Silver Point Specialty Credit Fund II (Offshore), L.P., Silver Point Specialty Credit Fund II (Offshore) B, L.P., and Silver Point Specialty Credit Fund II (Onshore) C, L.P. (collectively, "Specialty Credit Fund II" or "SCF II"); Silver Point Select Opportunities Fund A, L.P.; Silver Point Specialty Credit Silver Star Fund, L.P.; and Silver Point Loan Funding, LLC.

The "**Specialty Credit Funds**" refers to SCF I, SCF II, Silver Point Select Opportunities Fund A, L.P., Silver Point Specialty Credit Silver Star Fund, L.P. and Silver Point Loan Funding, LLC.

"Specialty Credit (2003 vintage)" refers to a group of small and middle market loans that were exclusively or primarily originated by Silver Point or sourced through Silver Point's origination team into Silver Point Capital Fund, L.P. and Silver Point Capital Offshore Fund, Ltd. (together, the "Flagship Hedge Funds" or the "Flagship Funds") (and affiliated entities) from July 2003 until November 2013, after which originated loans were warehoused for Silver Point Specialty Credit Fund, L.P. The identification of loans as Specialty Credit (2003 vintage) was made by Silver Point and there can be no guarantee that such loans could not reasonably be categorized in a different manner. The investment program of the Flagship Funds differs in significant respects from the anticipated investment activities of the Fund. In particular, the Flagship Funds are open-ended and have a broader investment mandate. Specialty Credit (2003 vintage)'s IRR calculations reflect extracted performance and are based on amounts invested by the Flagship Funds and any affiliated entities (and does not include investments made by third parties). Silver Point would be happy to provide, upon request, the loan-by-loan details for the extracted performance, as well as the net performance of the Flagship Funds since inception.

Whereas the Fund is a closed-end investment fund with capital called over the Investment Period on an as-needed basis, the Flagship Funds were structured as open-ended investment funds, and were thus subject to different terms, including liquidity rights, than those applicable to the Fund. The investment performance information relating to the Flagship Funds provided herein includes cash and cash equivalents held temporarily in the Flagship Funds. In addition, the capital structures, investment guidelines, diversification requirements, risk-return thresholds and collateral tests and, therefore, the investment results for open-ended funds are not directly comparable to the results that a finite-term fund (such as the Fund) may obtain. As such, the investment performance relating to "Specialty Credit (2003 vintage)" is presented for illustrative purposes only and is not intended to be reflective of the potential or realized investment performance of the Fund. Differences in the methodology used to calculate performance might also lead to different performance results than those shown. Silver Point believes, however, that the performance shown is reasonably representative of its management style and is sufficiently relevant for consideration.

We have calculated the returns for each foreign investment excluding any foreign currency fluctuations, as the Fund generally seeks to fully hedge all non-USD currency risk. The portfolio performance as a whole, however, will include (to the extent that the Fund is not able to fully hedge such risks) positive or negative performance due to changes in foreign currency exchange rates.

There can be no assurance that similar investment opportunities will be available or pursued by SCF III in the future or that SCF III's investments will be successful. Differences in fund size, timing of transactions and market conditions prevailing at the time of investment may lead to different results. Additionally, SCF I is subject to (i) a management fee of 0.75% on net capital contributions, payable quarterly (during its commitment period, SCF I was subject to a management fee of 0.25% on committed but undrawn capital and 0.75% on drawn capital, payable quarterly); (ii) income incentive compensation of 15.0% of net investment income with a 3-year look-back, subject to satisfying a 7.0% annualized hurdle rate with a 100% catch-up, payable quarterly; and (iii) capital gains incentive compensation of 15.0% of realized capital gains, less realized capital losses and unrealized depreciation, payable annually and calculated cumulatively from inception. In 2021, SCF I changed its name to Silver Point Specialty Lending Fund, converted its form of organization from a Delaware limited partnership to a statutory trust organized under the laws of the State of Maryland, and elected to be treated as a BDC under Investment Company Act of 1940, as amended. SCF II is subject to (i) a management fee of 1.5% per annum on called capital, payable quarterly; and (ii) incentive compensation of 17.5% subject to satisfying a 7.0% annualized hurdle rate with a 100% catch-up, payable quarterly.

Terms have been defined below once, unless used in varying ways.

IMPORTANT CONSIDERATIONS

Track Record (continued)

Firm Overview

"Aggregate Invested Capital" – With respect to Specialty Credit (2003 vintage), Aggregate Invested Capital presents, on an aggregated basis, the peak market exposure for each deal based on month-end exposure values. With respect to the other funds within the Specialty Credit strategy, Aggregate Invested Capital reflects the relevant fund's maximum aggregate net dollars funded to the issuer(s) (either directly or through secondary transactions) during the period in which such issuer(s) were held by such other funds within the Specialty Credit strategy. Aggregate Invested Capital aggregates amounts for feeder funds within a fund complex.

Specialty Credit (2003 vintage)

With respect to the presentation of Specialty Credit (2003 vintage) information, investments have been considered resolved when fully resolved or when the remaining value of such investment is less than 5% of the initial investment amount (a "Realized Investment"). We regarded the entire portfolio as resolved as of June 30, 2020, when the portfolio's existing exposure was less than 0.08% of total Aggregate Invested Capital (as defined below). As of June 30, 2020, there was only one remaining investment in the portfolio that was not a Realized Investment.

"Average LTV at Commitment" – Average Loan-to-Value ("LTV") at Commitment is based on the investment team's assessment of collateral value at the time of investment.

"Average Leverage through Investment" represents the weighted average debt to EBITDA ratio aggregated across individual investments. The debt balance used in the calculation accounts for any debt outstanding that ranks *pari passu* or senior to the security for which the ratio is being calculated, and EBITDA is based on the EBITDA used to underwrite the security (including any adjustments deemed appropriate in the view of the investment team). The average excludes companies for which EBITDA is deemed to not be a meaningful metric from an underwriting perspective.

Specialty Credit Fund I and II

"Average Net Leverage through Investment" represents the weighted average debt to EBITDA ratio aggregated across individual investments, excluding positions held for less than a month. The debt balance used in the calculation accounts for any debt outstanding that ranks *pari passu* or senior to the security, less any excess cash balances of the portfolio company, for which the ratio is being calculated, and EBITDA is based on the EBITDA used to underwrite the security (including any adjustments deemed appropriate in the view of the investment team). The average excludes companies for which EBITDA is deemed to not be a meaningful metric from an underwriting perspective.

Focus on Risk-Adjusted Returns

"Specialty Credit Strategy Net IRR" is a blended return that represents the unlevered gross asset level returns of Specialty Credit (2003 vintage), SCF I and SCF II, taking into account anticipated fee and expense rates for SCF III. This includes an estimated amount of leverage equal to 50% of total assets and assuming a financing rate of 5.25% per annum, which has been deducted as an expense, and then deducting from such calculation an amount corresponding to (i) a management fee of 1.5% per annum on called capital, (ii) incentive compensation of 17.5% and (iii) 0.40% per annum for estimated expenses. For Specialty Credit (2003 vintage), net IRR represents extracted performance as described more fully above. Individual returns will vary based on, among other things, the timing of such individual's capital contribution(s) and the fact that affiliated investors do not pay management fees or incentive compensation.

Comparative Indices

The ICE BofA US High Yield Index (the "ICE BofA US HY Index") is a market value-weighted index of below investment grade USD-denominated corporate bonds publicly issued in the US domestic market. "Yankee" bonds (debt of foreign issuers issued in the US domestic market) are included in the ICE US BofA HY Index provided the issuer is domiciled in a country having an investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule, and a minimum amount outstanding of $100 million. Issues included in the ICE BofA US HY Index have a credit rating lower than BBB3, but are not in default.

The S&P/LSTA Leveraged Loan Index (the "S&P/LSTA LLI") is a market-value-weighted index of USD-denominated institutional leveraged loan portfolios. Loan facilities are eligible for inclusion in the S&P/LSTA LLI if they have a minimum initial term of one year, a minimum initial spread of L+125 and a minimum initial size of $50 million. The index primarily consists of senior secured facilities; however, it does include second lien and unsecured loans if they are broadly held by collateralized loan obligations and other traditional loan accounts. Loans are retired when there is no bid posted on the facility for at least 12 successive weeks or when the loan is repaid.

The adjusted indices shown are not intended to, and do not, parallel the risk, investment strategy, or investment characteristics of SCF I and/or SCF II. The securities comprising the indices shown may have substantially different characteristics than the investments held by SCF I and/or SCF II, and accordingly, a direct comparison may not be meaningful. The comparison is shown for illustrative purposes only.

IMPORTANT CONSIDERATIONS

Risk Disclosure

Certain information referenced herein (including performance-related information) is unaudited, estimated, and subject to revision without notice. Any revisions to such information (whether as a result of a fund's audit or otherwise) could have a material impact on the stated unaudited performance and exposure data, including a change from positive performance to negative performance.

The Fund will invest in certain instruments (1) that are generally less liquid than publicly-traded securities and (2) for which reliable market quotations generally are not available. The Fund will hold such instruments at fair value, which will be determined in accordance with the Fund's valuation procedures. However, there is no single standard for determining fair value in good faith of private investments and, in many cases, fair value is best expressed as a range of fair values from which a single estimate can be derived. There can be no assurance that the valuations assigned to the Fund's investments will ever be realized.

RISK OF LOSS. An investment in the Fund involves a high degree of risk and should be considered only by investors who can withstand the loss of all or a substantial part of their investment. No guarantee or representation is made that the Fund's investment programs, including, without limitation, the Fund's investment objectives, diversification strategies, or risk monitoring goals, will be successful, and investment results may vary substantially over time. Economic, market and other conditions could also cause the Fund to alter its investment objectives, guidelines and restrictions. Investment losses may occur from time to time. Nothing herein is intended to imply that the Fund's investment methodology may be considered "conservative," "safe," "risk free," or "risk averse." PAST PERFORMANCE IS NEITHER INDICATIVE NOR A GUARANTEE OF FUTURE RESULTS. NO ASSURANCE CAN BE MADE THAT PROFITS WILL BE ACHIEVED OR THAT SUBSTANTIAL LOSSES WILL NOT BE INCURRED.

CERTAIN OTHER RISKS. An investment in the Fund is illiquid and may be ultimately realized at less than the original amount invested. Please review the terms and conditions of the Fund's as set forth in the Memorandum. The Fund's interests are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable statutes and the Memorandum. Accordingly, investors should be aware that they may be required to bear the financial risks of an investment in such interests for an indefinite period of time. There is no secondary market for an investor's interests and none is expected to develop. There can be no assurance that the Fund will achieve its investment objectives and performance may be volatile. The foregoing risk factors do not purport to be a complete explanation of the risks involved in an investment in the Fund. Investors should read the entire Memorandum before making investment determinations, including the section entitled "Certain Risk Factors."

NOT AN OFFER OR SOLICITATION. This document is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy, interests in the Fund. No offer or solicitation may be made prior to the delivery of the Memorandum, which will contain additional information about the Fund, including disclosures relating to risk factors.

FORWARD-LOOKING STATEMENTS. Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. Prospective investors are cautioned not to place undue reliance on such statements.

Other Notes and Considerations

This presentation is not intended, and should not be construed, as marketing of any fund mentioned herein in any member state of the European Economic Area for the purposes of the Directive 2011/61/EU on Alternative Investment Fund Managers.

SILVER POINT
CAPITAL

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] November 2022

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
TOTAL PLAN[1]			$ 3,889,626,918	100.0%	100.0%	3.5	1.6	-5.1	-2.1	5.7	5.6	7.6	Apr-90
Policy Benchmark [4]						*3.0*	*0.9*	*-6.8*	*-5.4*	*5.0*	*5.5*	*7.4*	
Difference:						0.5	0.7	1.7	3.3	0.7	0.1	0.2	
75/25 Portfolio [5]						*7.0*	*2.3*	*-15.0*	*-12.5*	*5.5*	*5.4*	*7.0*	
Difference:						-3.5	-0.7	9.9	10.4	0.2	0.2	0.6	
Broad Growth			$ 2,938,571,464	75.5%	76.0%	4.7	2.5	-6.2	-2.5	6.9	6.7	8.2	Jan-95
Aggressive Growth Lag[2]			$ 348,859,153	9.0%	10.0%	2.0	2.0	18.3	28.1	20.3	17.5	-2.1	Feb-05
MSCI ACWI +2%Lag						*-1.8*	*-5.4*	*3.1*	*6.4*	*13.0*	*10.7*	*0.0*	
Difference:						3.8	7.4	15.2	21.7	7.3	6.8	-2.1	
BlackRock Global Energy&Power Lag[3]	*$50,000*	*Global Infrastructure*	$ 34,080,469	0.9%		0.4	0.4	5.7	9.3	--	--	9.4	Jul-19
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*--*	*--*	*9.5*	
Difference:						8.6	15.5	19.0	22.9	--	--	-0.1	
Ocean Avenue II Lag[3]	*$40,000*	*PE Buyout FOF*	$ 36,540,844	0.9%		4.8	4.8	27.1	40.5	37.4	34.7	18.9	May-13
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*8.8*	*8.2*	*8.6*	
Difference:						13.0	19.9	40.4	54.1	28.6	26.5	10.3	
Lightspeed Venture Ptr Select V Lag[3]	*$40,000*	*Growth-Stage VC*	$ 6,298,385	0.2%		-4.4	-4.4	--	--	--	--	-4.4	Jun-22
MSCI ACWI +2% Lag						*-15.1*	*-15.1*	*--*	*--*	*--*	*--*	*-8.9*	
Difference:						10.7	10.7	--	--	--	--	4.5	
Ocean Avenue III Lag[3]	*$50,000*	*PE Buyout FOF*	$ 57,563,388	1.5%		6.1	6.1	31.1	52.6	29.7	37.4	27.4	Apr-16
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*8.8*	*8.2*	*8.4*	
Difference:						14.3	21.2	44.4	66.2	20.9	29.2	19.0	
Ocean Avenue IV Lag[3]	*$50,000*	*PE Buyout*	$ 49,980,563	1.3%		4.2	4.2	29.0	33.6	--	--	34.9	Dec-19
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*--*	*--*	*10.0*	
Difference:						12.4	19.3	42.3	47.2	--	--	24.9	
Morgan Creek III Lag[3]	*$10,000*	*Multi-Strat FOF*	$ 4,420,354	0.1%		-13.5	-13.5	-26.4	-36.3	-21.2	-8.7	-6.8	Feb-15
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*8.8*	*8.2*	*8.5*	
Difference:						-5.3	1.6	-13.1	-22.7	-30.0	-16.9	-15.3	
Morgan Creek V Lag[3]	*$12,000*	*Multi-Strat FOF*	$ 7,951,657	0.2%		1.0	1.0	7.4	16.6	13.9	13.7	13.8	Jun-13
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*8.8*	*8.2*	*8.6*	
Difference:						9.2	16.1	20.7	30.2	5.1	5.5	5.2	
Morgan Creek VI Lag[3]	*$20,000*	*Multi-Strat FOF*	$ 24,772,205	0.6%		-5.3	-5.3	9.6	19.0	19.9	20.1	11.4	Feb-15
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-13.3*	*-13.6*	*8.8*	*8.2*	*8.5*	
Difference:						2.9	9.8	22.9	32.6	11.1	11.9	2.9	
Stellex Capital Partners II Lag[3]	*$50,000*	*Special Situations PE*	$ 18,888,238	0.5%		9.9	9.9	19.5	14.2	--	--	1.0	Jul-21
MSCI ACWI +2% Lag						*-8.2*	*-15.1*	*-7.0*	*-13.6*	*--*	*--*	*-3.5*	
Difference:						18.1	25.0	26.5	27.8	--	--	4.5	
Non-Core Private Real Assets Lag[3]	*$341,100*	*Private Real Estate*	$ 108,363,050	2.8%		0.4	0.4	14.3	24.0	15.7	10.2	-1.7	Nov-04
MSCI ACWI +2% Lag						*4.6*	*4.8*	*21.5*	*29.6*	*12.8*	*10.6*	*9.3*	
Difference:						-4.2	-4.4	-7.2	-5.6	2.9	-0.4	-11.0	
Opportunistic Private Real Estate			$ 32,726,576	0.7%									
Greenfield V[3]	*$30,000*	*Opportunistic Pvt. RE*	$ 219,212	0.0%		-0.4	-0.4	-1.9	-1.8	-10.8	-3.8	-0.5	Jul-08
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*10.1*	
Difference:						-5.9	-5.9	-25.9	-35.0	-26.9	-17.7	-10.6	
Greenfield VI[3]	*$20,000*	*Opportunistic Pvt. RE*	$ 30,434	0.0%		-12.6	-12.6	-20.1	-12.5	-38.9	-33.7	-14.2	Apr-12
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*14.5*	
Difference:						-18.1	-18.1	-44.1	-45.7	-55.0	-47.6	-28.7	
Greenfield VII[3]	*$19,100*	*Opportunistic Pvt. RE*	$ 4,248,546	0.1%		2.9	2.9	15.0	16.2	15.3	14.5	13.9	Oct-14
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*14.2*	
Difference:						-2.6	-2.6	-9.0	-17.0	-0.8	0.6	-0.3	

[1] Returns are preliminary and are finalized during each quarterly reporting cycle. Monthly returns since previous quarter are provided by the managers. Market values are provided by Northern Trust.

[2] Total class returns are as of 9/30/22, and lagged 1 quarter.

[3] Manager returns are as of 9/30/22, and lagged 1 quarter. Since Inception date reflects one quarter lag.

[4] 8/1/22 to present benchmark is 32% MSCI ACWI IMI, 9% BB Aggregate Bond Index, **16%** *50%* BB High Yield/*50%* S&P Leveraged Loans, 7% NCREIF ODCE +1% lag; **10%** T-Bill +4%, **10%** MSCI ACWI +2%, **15%** CRO Custom Benchmark. Prior to 8/1/22 benchmark is legacy policy benchmark.

[5] 4/1/20 to present **75%** MSCI ACWI, **25%** BB Global Aggregate. Prior to 4/1/20 60% MSCI ACWI, 40% BB Global Aggregate.

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] November 2022

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Opportunistic Private Real Estate (continued)													
Grandview[3]	*$30,000*	*Opportunistic Pvt. RE*	$ 20,793,003	0.5%		-4.1	-4.1	20.4	20.2	27.1	--	23.0	Apr-18
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*14.1*	
Difference:						-9.6	-9.6	-3.6	-13.0	11.0	--	8.9	
Miller Global Fund VI[3]	*$30,000*	*Opportunistic Pvt. RE*	$ 115,858	0.0%		34.6	34.6	46.7	143.6	1.7	6.6	2.8	May-08
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*10.1*	
Difference:						29.1	29.1	22.7	110.4	-14.4	-7.3	-7.3	
Miller Global Fund VII[3]	*$15,000*	*Opportunistic Pvt. RE*	$ 66,192	0.0%		6.6	6.6	276.6	-43.8	-20.7	-16.8	9.9	Dec-12
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*14.3*	
Difference:						1.1	1.1	252.6	-77.0	-36.8	-30.7	-4.4	
Walton Street V[3]	*$30,000*	*Opportunistic Pvt. RE*	$ 1,334,204	0.0%		-1.6	-1.6	-19.1	-18.7	-14.3	-12.5	-5.1	Nov-06
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*10.9*	
Difference:						-7.1	-7.1	-43.1	-51.9	-30.4	-26.4	-16.0	
Walton Street VI[3]	*$15,000*	*Opportunistic Pvt. RE*	$ 5,919,127	0.2%		3.3	3.3	14.6	18.3	3.9	4.1	7.9	Jul-09
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*12.8*	
Difference:						-2.2	-2.2	-9.4	-14.9	-12.2	-9.8	-4.9	
Value-Added Private Real Estate			$ 76,929,541	2.0%									
AG Core Plus IV[3]	*$20,000*	*Value-Added Pvt. RE*	$ 12,168,738	0.3%		-1.8	-1.8	3.1	7.6	8.4	9.1	5.6	Sep-15
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*13.5*	
Difference:						-7.3	-7.3	-20.9	-25.6	-7.7	-4.8	-7.9	
Almanac Realty VI[3]	*$30,000*	*Value-Added Pvt. RE*	$ 4,008,828	0.1%		-5.7	-5.7	-0.1	2.0	-8.9	-6.5	20.3	Feb-13
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*14.5*	
Difference:						-11.2	-11.2	-24.1	-31.2	-25.0	-20.4	5.8	
Berkeley Partners Fund V, LP	*$40,000*	*Value-Added Pvt. RE*	$ 27,616,766	0.7%		2.9	2.9	17.5	39.9	--	--	33.9	Aug-20
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*--*	*--*	*24.4*	
Difference:						-2.6	-2.6	-6.5	6.7	--	--	9.5	
Stockbridge RE III[3]	*$45,000*	*Value-Added Pvt. RE*	$ 33,135,209	0.9%		1.5	1.5	15.2	34.9	22.0	--	14.0	Jul-18
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*--*	*14.3*	
Difference:						-4.0	-4.0	-8.8	1.7	5.9	--	-0.3	
Traditional Growth[2]			$ 1,376,712,317	35.4%	33.0%	7.7	4.2	-14.0	-10.3	5.2	5.4	8.8	Jan-95
MSCI ACWI IMI Net						*7.6*	*3.2*	*-15.1*	*-11.8*	*7.0*	*6.9*	*7.5*	
Difference:						0.1	1.0	1.1	1.5	-1.8	-1.5	1.3	
Global Equity			$ 1,332,510,371	34.3%									
Northern Trust MSCI World IMI		*All Cap Global*	$ 1,198,295,974	30.8%		7.6	4.8	-13.8	-10.2	--	--	7.1	Sep-20
MSCI World IMI Net						*6.9*	*3.9*	*-14.7*	*-11.1*	*--*	*--*	*6.4*	
Difference:						0.7	0.9	0.9	0.9	--	--	0.7	
SJCERA Transition		*All Cap Global*	$ 2,955	0.0%		NM	NM	NM	NM	--	--	NM	Jul-20
Emerging Markets			$ 134,211,442										
GQG Active Emerging Markets		*Emerging Markets*	$ 57,815,467	1.5%		5.5	-0.8	-18.3	-16.7	--	--	-2.0	Aug-20
MSCI Emerging Markets Index Net						*14.8*	*-1.8*	*-19.0*	*-17.4*	*--*	*--*	*-2.1*	
Difference:						-9.3	1.0	0.7	0.7	--	--	0.1	
PIMCO RAE Fundamental Emerging Markets		*Emerging Markets*	$ 76,395,975	2.0%		11.9	4.2	-9.6	-4.6	4.6	2.2	4.5	Apr-07
MSCI Emerging Markets Index						*14.8*	*-1.8*	*-19.0*	*-17.4*	*0.1*	*-0.4*	*2.7*	
Difference:						-2.9	6.0	9.4	12.8	4.5	2.6	1.8	
REITS			$ 44,201,946	1.1%									
Invesco All Equity REIT		*Core US REIT*	$ 44,201,946	1.1%		6.4	-5.1	-20.5	-12.5	0.7	4.3	8.2	Aug-04
FTSE NAREIT Equity Index						*5.8*	*-2.6*	*-20.3*	*-13.2*	*1.5*	*4.7*	*8.0*	
Difference:						0.6	-2.5	-0.2	0.7	-0.8	-0.4	0.2	

[1] Returns are preliminary and are finalized during each quarterly reporting cycle. Monthly returns since previous quarter are provided by the managers. Market values are provided by Northern Trust.

[2] MSCI ACWI IMI Net as of 4/1/2020, MSCI ACWI Gross prior.

[3] Manager returns are as of 9/30/22, and lagged 1 quarter. Since Inception date reflects one quarter lag.

NM = Returns not meaningful

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] — November 2022

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Stabilized Growth			$ 1,212,999,994	31.2%	33.0%	2.9	0.9	-2.5	0.0	5.6	5.5	3.9	Jan-05
Risk Parity			$ 375,529,563	9.7%		8.3	-1.9	-20.5	-19.0	-0.5	2.1	3.3	
T-Bill +4%						*0.7*	*1.7*	*4.8*	*5.1*	*4.7*	*5.3*	*4.6*	
Difference:						7.6	-3.6	-25.3	-24.1	-5.2	-3.2	-1.3	
Bridgewater All Weather		*Risk Parity*	$ 190,133,169	4.9%		9.3	-0.7	-18.6	-16.7	0.5	2.3	3.5	Mar-12
T-Bill +4%						*0.7*	*1.7*	*4.8*	*5.1*	*4.7*	*5.3*	*5.4*	
Difference:						8.6	-2.4	-23.4	-21.8	-4.2	-3.0	-1.9	
PanAgora Diversified Risk Multi-Asset		*Risk Parity*	$ 185,396,394	4.8%		7.2	-3.1	-22.3	-21.3	-1.4	1.8	3.8	Apr-16
T-Bill +4%						*0.7*	*1.7*	*4.8*	*5.1*	*4.7*	*5.3*	*5.1*	
Difference:						6.5	-4.8	-27.1	-26.4	-6.1	-3.5	-1.3	
Liquid Credit			$ 223,747,117	5.8%		2.8	1.2	-5.9	-4.9	0.6	1.8	1.8	
50% BB High Yield, 50% S&P/LSTA Leveraged Loans						*1.7*	*0.3*	*-5.9*	*-4.7*	*2.0*	*2.9*	*5.2*	
Difference:						1.1	0.9	0.0	-0.2	-1.4	-1.1	-3.4	
Neuberger Berman		*Global Credit*	$ 95,573,701	2.5%		3.6	0.1	-10.6	-9.4	-0.5	--	1.0	Feb-19
33% ICE BofA HY Constrained, 33% S&P/LSTA LL, 33% JPM EMBI Glbl Div.						*3.5*	*0.5*	*-9.9*	*-8.7*	*-0.3*	*--*	*1.4*	
Difference:						0.1	-0.4	-0.7	-0.7	-0.2	--	-0.4	
Stone Harbor Absolute Return		*Absolute Return*	$ 128,173,416	3.3%		2.2	2.0	-2.1	-1.1	1.4	2.0	2.6	Oct-06
3-Month Libor Total Return						*0.3*	*0.6*	*0.9*	*0.9*	*0.8*	*1.4*	*1.4*	
Difference:						1.9	1.4	-3.0	-2.0	0.6	0.6	1.2	
Private Credit Lag[2]			$ 362,168,862	9.3%		0.5	0.5	6.0	7.6	4.8	3.6	3.7	
50% BB High Yield, 50% S&P/LSTA Leveraged Loans						*-4.4*	*-7.1*	*-8.8*	*-7.9*	*1.2*	*2.5*	*5.1*	
Difference:						4.9	7.6	14.8	15.5	3.6	1.1	-1.4	
BlackRock Direct Lending Lag[3]	*$100,000*	*Direct Lending*	$ 84,095,995	2.2%		1.6	1.6	1.6	5.5	---	---	7.8	May-20
S&P/LSTA Leveraged Loans +3% Blend[5]						*-1.9*	*-3.7*	*-3.7*	*2.3*	*---*	*---*	*11.0*	
Difference:						3.5	5.3	5.3	3.2	---	---	-3.2	
Mesa West RE Income IV Lag[3]	*$75,000*	*Comm. Mortgage*	$ 21,063,965	0.5%		-2.3	-2.3	1.0	3.6	6.2	7.1	6.7	Mar-17
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*6.8*	*7.5*	*7.6*	
Difference:						-0.4	1.4	1.1	1.3	-0.6	-0.4	-0.9	
Crestline Opportunity II Lag[7]	*$45,000*	*Opportunistic*	$ 16,364,568	0.4%		-1.3	-1.3	0.0	0.4	2.2	1.8	4.7	Nov-13
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*6.8*	*7.5*	*8.1*	
Difference:						0.6	2.4	0.1	-1.9	-4.6	-5.7	-3.4	
Davidson Kempner Distr Opp V Lag[3]	*$50,000*	*Opportunistic*	$ 47,921,839	0.0%		-2.2	-2.2	4.3	6.0	--	--	25.9	Oct-20
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*--*	*--*	*6.9*	
Difference:						-0.3	1.5	4.4	3.7	--	--	19.0	
Oaktree Lag	*$50,000*	*Leveraged Direct*	$ 31,351,435	0.8%		2.9	2.9	13.0	16.9	19.0	--	12.0	Mar-18
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*8.3*	*--*	*7.5*	
Difference:						4.8	6.6	13.1	14.6	10.7	--	4.5	
HPS EU Asset Value II Lag[3]	*$50,000*	*Direct Lending*	$ 29,977,885	0.8%		1.8	1.8	6.4	8.3	--	--	3.3	Aug-20
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*--*	*--*	*7.1*	
Difference:						3.7	5.5	6.5	6.0	--	--	-3.8	
Raven Opportunity III Lag[3]	*$50,000*	*Direct Lending*	$ 57,419,823	1.5%		1.8	1.8	8.1	14.8	8.1	8.8	4.2	Nov-15
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.3*	*0.6*	*3.8*	*10.6*	*9.0*	*8.8*	*8.8*	
Difference:						1.5	1.2	4.3	4.2	-0.9	0.0	-4.6	

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[2] Total class returns are as of 9/30/22, and lagged 1 quarter.
[3] Manager returns are as of 9/30/22, and lagged 1 quarter. Since Inception date reflects one quarter lag.
[4] 9% Annual until 6/30/2018; CPI +6% Annual 7/1/2018 - 3/31/2022; S&P/LSTA Leveraged Loans +3% thereafter.
[5] 50% Bloomberg High Yield/50% S&P Leveraged Loan until 12/31/20 then CPI +6% Annual thereafter. Benchmark lagged one quarter.
[6] MSCI ACWI + 2% until 12/31/20 then CPI +6% Annual thereafter. Benchmark lagged one quarter

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] — **November 2022**

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Private Credit Lag (continued)													
Medley Opportunity II Lag[3]	*$50,000*	*Direct Lending*	$ 4,378,784	0.1%		0.0	0.0	-9.9	-12.8	-9.9	-10.4	-2.2	Jul-12
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*6.8*	*7.5*	*8.2*	
Difference:						1.9	3.7	-9.8	-15.1	-16.7	-17.9	-10.4	
White Oak Summit Peer Fund Lag[3]	*$50,000*	*Direct Lending*	$ 26,930,967	0.7%		-7.5	-7.5	-4.7	-8.9	0.2	3.1	4.2	Mar-16
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*6.8*	*7.5*	*7.8*	
Difference:						-5.6	-3.8	-4.6	-11.2	-6.6	-4.4	-3.6	
White Oak Yield Spectrum Master V Lag[3]	*$50,000*	*Direct Lending*	$ 42,663,601	1.1%		0.2	0.2	2.4	2.8	---	--	0.9	Mar-20
S&P/LSTA Leveraged Loans +3% Blend[4]						*-1.9*	*-3.7*	*-0.1*	*2.3*	*---*	*--*	*6.8*	
Difference:						2.1	3.9	2.5	0.5	---	--	-5.9	
Core Private Real Estate Lag			$ 251,554,452	6.5%									
Principal US[3]	*$25,000*	*Core Pvt. RE*	$ 46,513,274	1.2%		3.0	3.0	21.6	27.7	12.0	10.2	10.3	Jan-16
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*13.5*	
Difference:						-2.5	-2.5	-2.4	-5.5	-4.1	-3.7	-3.2	
Prologis Logistics[3]	*$35,000*	*Core Pvt. RE*	$ 138,171,607	3.6%		5.8	5.8	34.2	49.4	28.2	24.0	13.9	Dec-07
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*10.3*	
Difference:						0.3	0.3	10.2	16.2	12.1	10.1	3.6	
RREEF America II[3]	*$45,000*	*Core Pvt. RE*	$ 67,293,747	1.7%		6.9	6.9	24.6	32.0	13.5	10.9	10.6	Jul-16
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*24.0*	*33.2*	*16.1*	*13.9*	*13.4*	
Difference:						1.4	1.4	0.6	-1.2	-2.6	-3.0	-2.8	
Diversifying Strategies			$ 824,127,713	21.2%	24.0%	-1.3	-2.0	1.3	1.6	1.7	2.6	6.2	Oct-90
Principal Protection			$ 284,756,989	7.3%	9.0%	4.0	-1.6	-9.8	-9.7	-2.2	0.6	5.8	Oct-90
BB Aggregate Bond Index						*3.7*	*-2.1*	*-12.6*	*-12.8*	*-2.6*	*0.2*	*5.4*	
Difference:						0.3	0.5	2.8	3.1	0.4	0.4	0.4	
Dodge & Cox		*Core Fixed Income*	$ 194,055,470	5.0%		4.2	-1.3	-10.6	-10.4	-0.9	1.4	6.6	Oct-90
BB Aggregate Bond Index						*3.7*	*-2.1*	*-12.6*	*-12.8*	*-2.6*	*0.2*	*5.4*	
Difference:						0.5	0.8	2.0	2.4	1.7	1.2	1.2	
Loomis Sayles		*Core Fixed Income*	$ 90,695,473	2.3%		3.8	-2.1	-4.4	--	--	--	-9.5	Mar-22
BB Aggregate Bond Index						*3.7*	*-2.1*	*-4.7*	*--*	*--*	*--*	*-9.7*	
Difference:						0.1	0.0	0.3	--	--	--	0.2	
DoubleLine Capital		*MBS*	$ 6,046	0.0%		NM	NM	NM	NM	NM	NM	NM	Feb-12

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[3] Manager returns are as of 9/30/22, and lagged 1 quarter. Since Inception date reflects one quarter lag.

[4] 9% Annual until 6/30/2018; CPI +6% Annual 7/1/2018 - 3/31/2022; S&P/LSTA Leveraged Loans +3% thereafter.

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] November 2022

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Crisis Risk Offset			$ 539,370,724	13.9%	15.0%	-3.9	-2.2	10.3	10.9	4.5	4.0	6.6	Jan-05
CRO Custom Benchmark [2]						*0.9*	*-1.6*	*-4.2*	*-4.2*	*2.4*	*3.5*	*4.9*	
Difference:						-4.8	-0.6	14.5	15.1	2.1	0.5	1.7	
Long Duration			$ 114,406,098	2.9%		7.2	-6.1	-26.5	-27.6	-7.3	-1.4	-1.2	
BB US Long Duration Treasuries						*7.1*	*-6.9*	*-28.0*	*-29.1*	*-7.7*	*-1.5*	*-0.7*	
Difference:						0.1	0.8	1.5	1.5	0.4	0.1	-0.5	
Dodge & Cox Long Duration		*Long Duration*	$ 114,406,098	2.9%		7.2	-6.1	-26.5	-27.6	-7.3	-1.4	-1.2	Feb-16
BB US Long Duration Treasuries						*7.1*	*-6.9*	*-28.0*	*-29.1*	*-7.7*	*-1.5*	*-0.7*	
Difference:						0.1	0.8	1.5	1.5	0.4	0.1	-0.5	
Systematic Trend Following			$ 243,509,382	6.3%		-7.5	-3.6	32.8	34.5	14.3	8.2	9.3	
BTOP50 Index						*-4.8*	*0.1*	*14.6*	*15.5*	*9.7*	*6.4*	*5.2*	
Difference:						-2.7	-3.7	18.2	19.0	4.6	1.8	4.1	
Mt. Lucas Managed Futures - Cash		*Systematic Trend Following*	$ 121,660,318	3.1%		-8.8	-7.5	28.9	30.1	17.3	8.0	8.6	Jan-05
BTOP50 Index						*-4.8*	*0.1*	*14.6*	*15.5*	*9.7*	*6.4*	*5.2*	
Difference:						-4.0	-7.6	14.3	14.6	7.6	1.6	3.4	
Graham Tactical Trend		*Systematic Trend Following*	$ 121,849,064	3.1%		-6.1	0.7	37.0	39.2	11.5	8.4	5.3	Apr-16
SG Trend Index						*-6.0*	*-0.4*	*27.6*	*28.3*	*13.7*	*8.8*	*5.1*	
Difference:						-0.1	1.1	9.4	10.9	-2.2	-0.4	0.2	
Alternative Risk Premia			$ 181,455,244	4.7%		-5.3	2.5	21.6	24.1	1.8	1.8	7.7	
5% Annual						*0.4*	*1.2*	*4.6*	*5.0*	*5.0*	*5.0*	*6.2*	
Difference:						-5.7	1.3	17.0	19.1	-3.2	-3.2	1.5	
AQR Style Premia		*Alternative Risk Premia*	$ 56,682,899	1.5%		1.5	14.6	34.2	50.5	5.5	-1.1	1.0	May-16
5% Annual						*0.4*	*1.2*	*4.6*	*5.0*	*5.0*	*5.0*	*5.0*	
Difference:						1.1	13.4	29.6	45.5	0.5	-6.1	-4.0	
PE Diversified Global Macro		*Alternative Risk Premia*	$ 67,726,774	1.7%		-13.0	-1.1	53.4	44.2	3.6	2.8	3.4	Jun-16
5% Annual						*0.4*	*1.2*	*4.6*	*5.0*	*5.0*	*5.0*	*5.0*	
Difference:						-13.4	-2.3	48.8	39.2	-1.4	-2.2	-1.6	
Lombard Odier		*Alternative Risk Premia*	$ 57,045,571	1.5%		-1.5	-3.4	-4.0	-1.9	-5.1	--	-3.7	Jan-19
5% Annual						*0.4*	*1.2*	*4.6*	*5.0*	*5.0*	--	*5.0*	
Difference:						-1.9	-4.6	-8.6	-6.9	-10.1	--	-8.7	
Cash[3]			$ 98,309,163	2.5%	0.0%	0.3	0.7	1.1	1.1	0.6	0.9	2.3	Sep-94
US T-Bills						*0.3*	*0.7*	*1.1*	*1.1*	*0.6*	*1.2*	*2.3*	
Difference:						0.0	0.0	0.0	0.0	0.0	-0.3	0.0	
Northern Trust STIF		*Collective Govt. Short Term*	$ 115,804,733	3.0%		0.2	0.6	1.0	1.0	0.5	0.9	2.5	Jan-95
US T-Bills						0.3	0.7	1.1	1.1	0.6	1.2	*2.3*	
Difference:						-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	0.2	
Parametric Overlay[4]		*Cash Overlay*	$ 28,618,578	0.7%		0.0	0.0	0.0	0.0	--	--	0.0	Jan-20

[1] Returns are preliminary and are finalized during each quarterly reporting cycle. Monthly returns since previous quarter are provided by the managers. Market values are provided by Northern Trust.

[2] Benchmark is (1/3) BB Long Duration Treasuries, (1/3) BTOP50 Index, (1/3) 5% Annual.

[3] Includes lagged cash.

[5] **60%** MSCI ACWI, **40%** BB Universal

[4] Given daily cash movement returns may vary from those shown above.

MEKETA

INVESTMENT GROUP

Economic and Market Update

November 2022 Report

Commentary

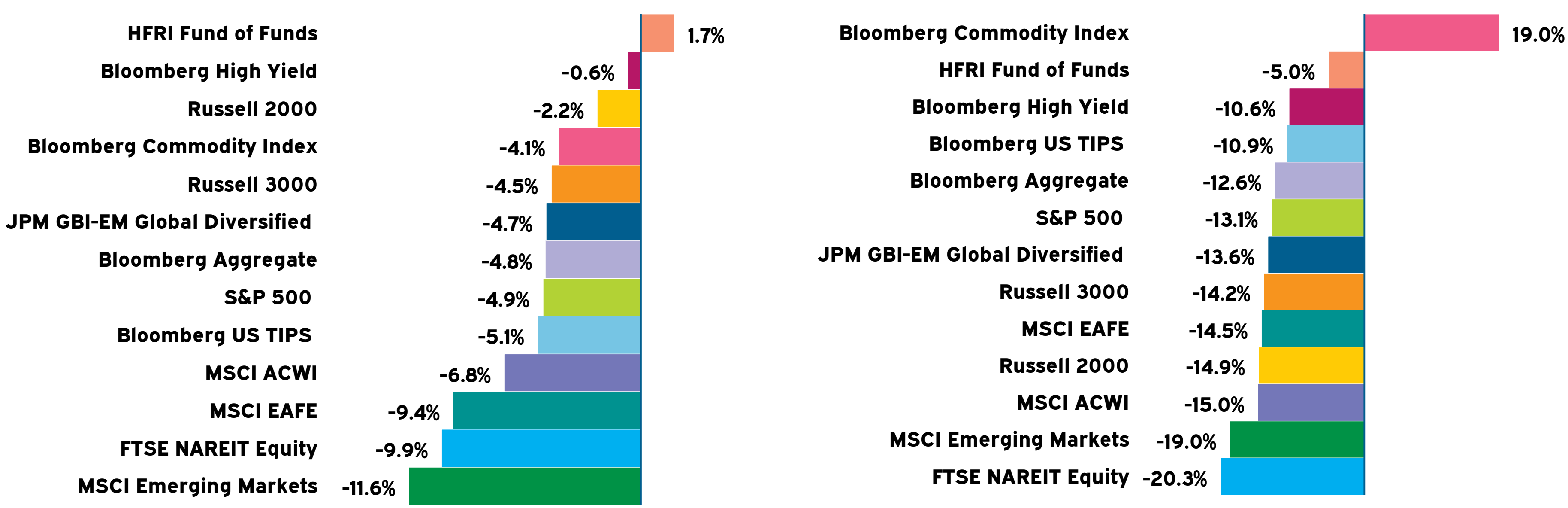
→ Investor sentiment improved in November as markets repriced for declining inflation risks, a potential slowing in monetary policy tightening efforts, and signs that China may be loosening its strict COVID-19 policies.

- Chairman Powell's testimony in November reiterated previous messaging on persistent and high inflation and the need for an extended period of monetary tightening. Markets seem to remain focused though on data showing that inflation is slowly declining and that the size of future Fed rate hikes could be lower.
- US equity markets had another strong month (+5.2%), building on the 8.2% gains from October. In developed markets outside of the US, equity markets posted very strong results for the month (+11.3%) driven by declining inflation there and the weakening US dollar.
- Emerging market equities were one of the best monthly performers, outgaining developed markets. Declining inflation globally, the weaker US dollar, and signs of China reopening its economy all contributed to the results.
- Optimism over potentially peaking inflation and a slower pace of policy tightening benefited bonds too, with interest rates largely declining for the month and credit spreads tightening. Despite improving investor sentiment, the US yield curve inversion continued to steepen as short-term rates remained elevated and longer-term bond yields fell. This year has witnessed one of the worst starts to a calendar year for bond investors.

→ High inflation and tightening of monetary policy, slowing growth globally, the war in Ukraine, lingering COVID-19 issues, and recent political developments in China will continue to have considerable effects on the global economy.

Index Returns[1]

Third Quarter / YTD through November



→ After broad declines in Q3 driven by expectations for further policy tightening, most major asset classes are up in the first two months of the fourth quarter, with equities producing double-digit results globally.

→ Outside of commodities, all other public market asset classes remain significantly negative year-to-date.

[1] Source: Bloomberg and FactSet. Data is as of November 30, 2022.

Domestic Equity Returns[1]

Domestic Equity	November (%)	QTD (%)	Q3 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
S&P 500	5.6	14.1	-4.9	-13.1	-9.2	10.9	11.0	13.3
Russell 3000	5.2	13.8	-4.5	-14.2	-10.8	10.3	10.3	12.9
Russell 1000	5.4	13.9	-4.6	-14.1	-10.7	10.5	10.7	13.2
Russell 1000 Growth	4.6	10.7	-3.6	-23.3	-21.6	11.8	12.9	15.0
Russell 1000 Value	6.2	17.1	-5.6	-3.7	2.4	8.4	7.9	11.0
Russell MidCap	6.0	15.4	-3.4	-12.6	-9.0	8.7	8.5	11.8
Russell MidCap Growth	5.4	13.7	-0.7	-22.0	-21.8	6.4	9.1	12.3
Russell MidCap Value	6.3	16.4	-4.9	-7.3	-1.5	8.7	7.1	11.0
Russell 2000	2.3	13.6	-2.2	-14.9	-13.0	6.4	5.4	10.1
Russell 2000 Growth	1.6	11.3	0.2	-21.3	-21.0	3.7	4.9	10.2
Russell 2000 Value	3.1	16.0	-4.6	-8.5	-4.7	8.3	5.3	9.7

US Equities: Russell 3000 Index rose 5.2% for November.

→ Building on positive monthly returns in October, US stocks rose across all indices again in November as earnings remained resilient despite economic pressures.

→ Most sectors gained in November, led by the 11.5% performance of the materials sector. After leading all sectors in October, Energy was the laggard of the index in November as fuel prices moderated.

→ Large cap stocks outperformed small cap stocks in November, partly driven by a few mega cap technology and communication services names.

→ Value stocks continued to outperform growth stocks across the market capitalization spectrum, partially driven by stocks within the consumer discretionary sector.

[1] Source: Bloomberg. Data is as of November 30, 2022.

Foreign Equity Returns[1]

Foreign Equity	November (%)	QTD (%)	Q3 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
MSCI ACWI ex. US	11.8	15.1	-9.9	-15.4	-11.9	1.7	1.5	4.2
MSCI EAFE	11.3	17.2	-9.4	-14.5	-10.1	1.9	1.8	5.0
MSCI EAFE (Local Currency)	6.4	12.1	-3.6	-4.1	0.0	5.2	4.7	8.2
MSCI EAFE Small Cap	9.9	14.6	-9.8	-22.2	-18.8	0.1	0.3	6.5
MSCI Emerging Markets	14.8	11.3	-11.6	-19.0	-17.4	0.1	-0.4	2.1
MSCI Emerging Markets (Local Currency)	11.7	8.7	-8.2	-13.8	-12.5	2.7	2.2	5.2
MSCI China	29.7	7.9	-22.5	-25.8	-28.1	-6.6	-5.1	2.4

Developed international equities (MSCI EAFE) rose 11.3%, while emerging markets (MSCI EM) returned 14.8% in November, driven largely by a rally in China (+29.7%).

→ November saw a strong rally across non-US equity markets due to declines in inflation, hints from the Fed that the size of rate hikes could decline, and a weaker US dollar.

→ Non-US developed market returns (+11.3%) were over double those here in the US with outperformance driven largely by the decline in the US dollar.

→ Emerging markets (+14.8%) led the way for November, driven by China (+29.7%). Expectations for continued policy support plus a reopening of the economy drove positive sentiment. Hopes for improvements in US-China relations after the Biden-Xi meeting likely contributed to the results as well.

[1] Source: Bloomberg. Data is as of November 30, 2022.

Fixed Income Returns[1]

Fixed Income	November (%)	QTD (%)	Q3 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Current Yield (%)	Duration (Years)
Bloomberg Universal	3.7	2.6	-4.5	-12.7	-12.8	-2.4	0.3	1.4	5.0	6.3
Bloomberg Aggregate	3.7	2.3	-4.8	-12.6	-12.8	-2.6	0.2	1.1	4.6	6.5
Bloomberg US TIPS	1.8	3.1	-5.1	-10.9	-10.7	1.7	2.5	1.2	4.3	6.9
Bloomberg High Yield	2.2	4.8	-0.6	-10.6	-9.0	0.9	2.5	4.3	8.6	4.5
JPM GBI-EM Global Diversified (USD)	7.1	6.2	-4.7	-13.6	-12.2	-5.5	-2.5	-2.0	7.2	4.9

Fixed Income: The Bloomberg Universal rose 3.7% in November.

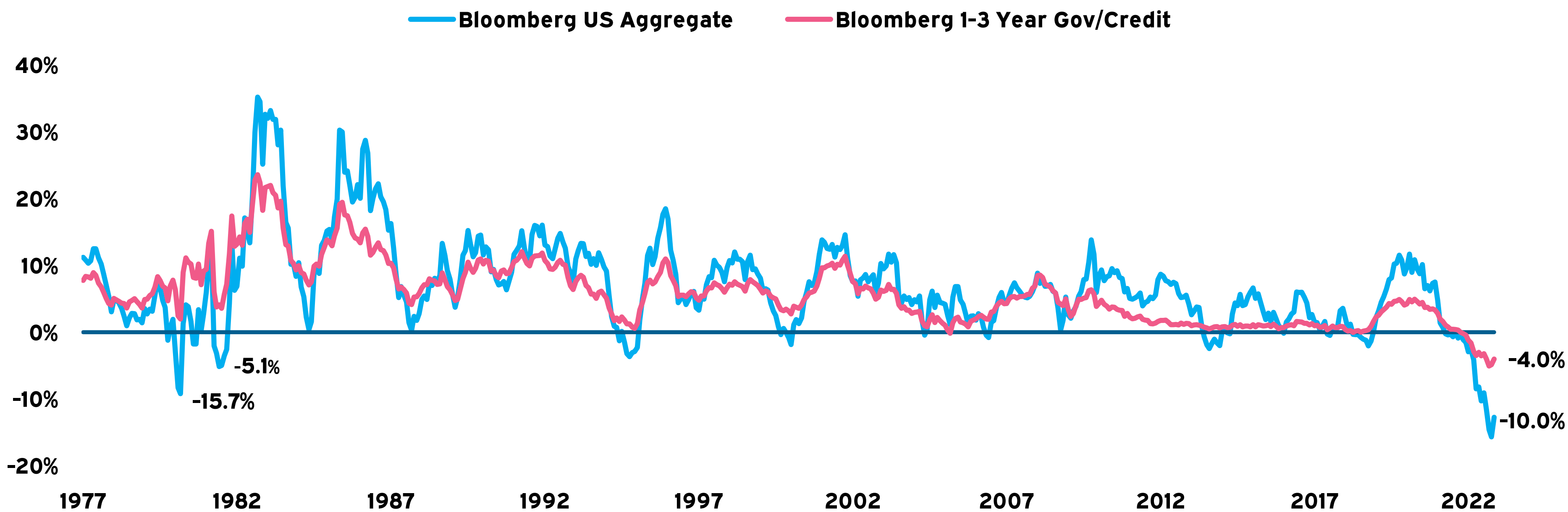
→ Potentially peaking inflation and corresponding expectations for the slowing of policy rate hikes also benefited fixed income in November.

→ Generally, government bond yields declined, and credit spreads fell. Government and investment grade bonds outperformed high yield bonds in this environment as markets lowered long-run policy rate expectations.

→ Reflecting market expectations of peak inflation, TIPS lagged investment grade and high yield bonds in November.

[1] Source: Bloomberg. JPM GBI-EM data is from InvestorForce. Data is as of November 30, 2022. The yield and duration data from Bloomberg is defined as the index's yield to worst and modified duration respectively.

Fixed Income
Rolling One-year Returns[1]



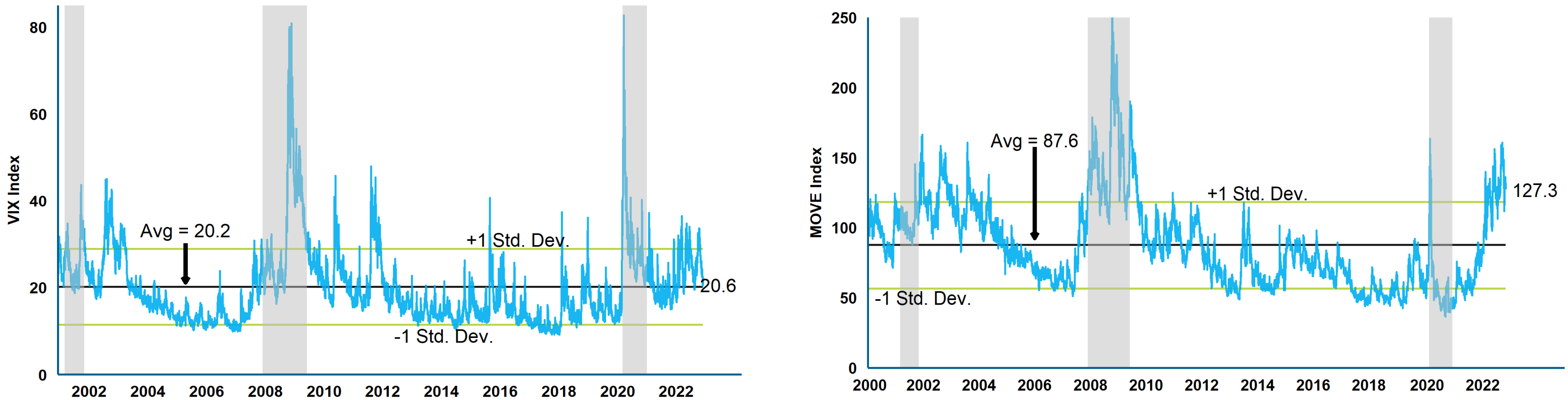
→ This has been one of the worst rolling one-year return periods for the US bond market given the historic inflation levels and the corresponding rapid rise in interest rates.

→ Through November the trailing one-year return was -10.0% for the broad bond market (Bloomberg US Aggregate) making it one of the worst periods on record.

→ Short-term bond declines have been far less (-4.0%) over the trailing year, but also are one of the worst on record.

[1] Source: Bloomberg. Data is as of November 30, 2022.

Equity and Fixed Income Volatility[1]

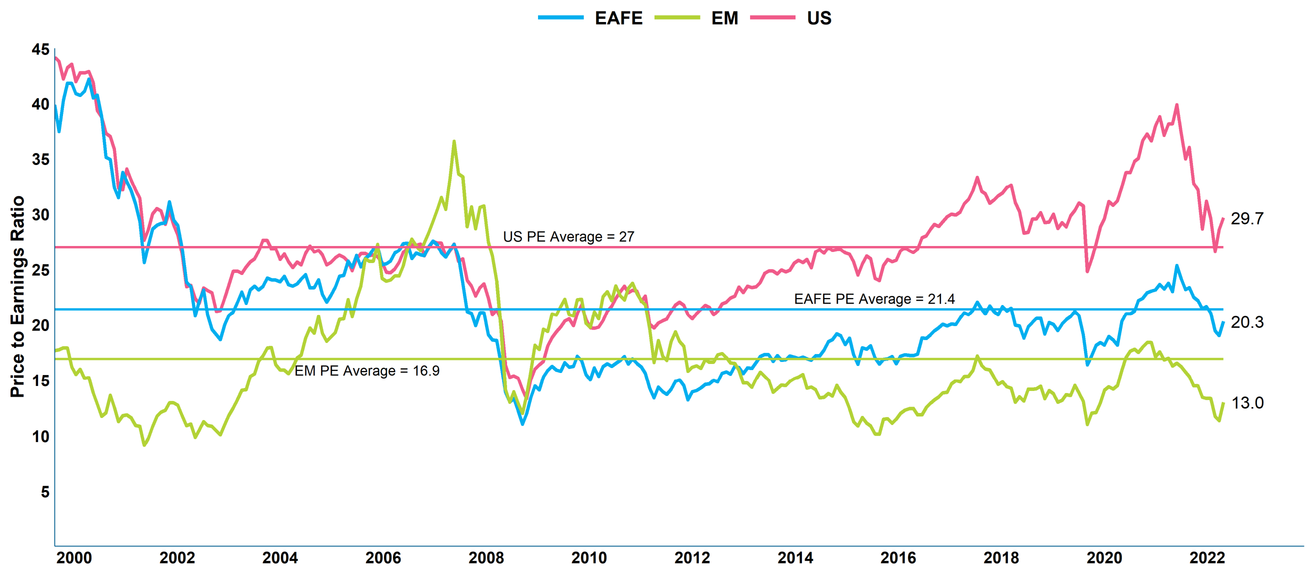


→ Volatility in equities (VIX) declined and neared its long run average as investors anticipate the potential end of Fed rate hikes next year. Fixed income (MOVE) remained elevated and well above its long-run average in November.

→ Fixed income volatility remains high due to the uncertain path of US interest rates as the Federal Reserve continues its hawkish stance on inflation.

[1] Equity and Fixed Income Volatility – Source: Bloomberg. Implied volatility as measured using VIX Index for equity markets and the MOVE Index to measure interest rate volatility for fixed income markets. Data is as of November 2022. The average line indicated is the average of the VIX and MOVE values between January 2000 and the recent month-end respectively.

Equity Cyclically Adjusted P/E Ratios[1]



→ November's US equity rally caused the market's price-to-earnings ratio to rise further above the long-term (21st century) average.

→ International developed market valuations also rose but remain below the US and their own long-term average, with those for emerging markets the lowest and well under the long-term average.

→ Price declines have been the main driver of recent multiple compression as earnings have remained resilient. Concerns remain over whether earnings strength will continue in the face of slowing growth.

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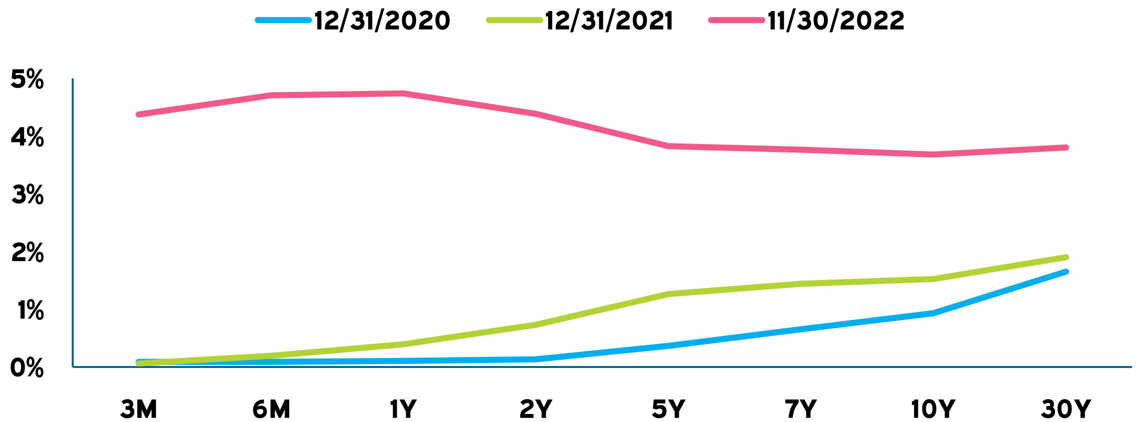
1 US Equity Cyclically Adjusted P/E on S&P 500 Index. Source: Robert Shiller, Yale University, and Meketa Investment Group. Developed and Emerging Market Equity (MSCI EAFE and EM Index) Cyclically Adjusted P/E – Source: MSCI and Bloomberg. Earnings figures represent the average of monthly "as reported" earnings over the previous ten years. Data is as of November 2022. The average line is the long-term average of the US, EM, and EAFE PE values from December 1999 to the recent month-end respectively.

US Yield Curve[1]



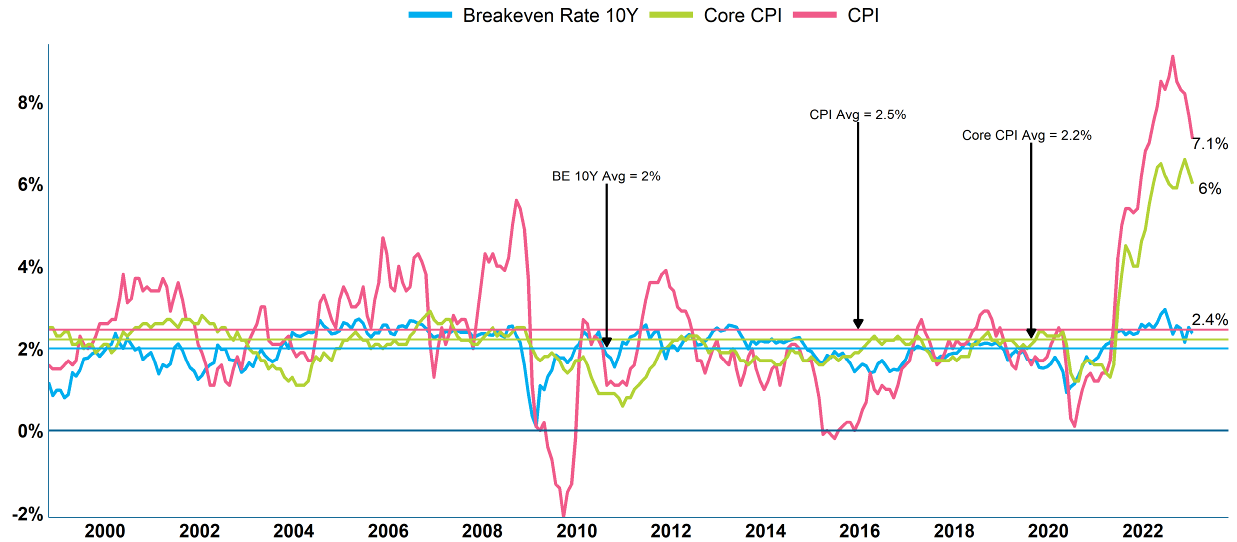
→ In November, policy-sensitive interest rates at the front-end of the curve continued to rise while longer dated rates fell on easing inflation pressures. Two-year Treasury yields rose from 4.6% to 4.7% for the month, while ten-year Treasury yields declined from 4.1% to 3.6%.

→ The Fed remains strongly committed to fighting inflation, as it increased rates another 75 basis points to a range of 3.75% to 4.0% at its November meeting. This was the sixth increase this year and the fourth consecutive increase of this amount.

→ The yield spread between two-year and ten-year Treasuries reached negative levels not seen in decades, finishing November at -0.70%. The more closely watched measure by the Fed of three-month and ten-year Treasuries also remained inverted. Historically, inversions in the yield curve have often preceded recessions.

[1] Source: Bloomberg. Data is as of November 30, 2022.

Ten-Year Breakeven Inflation and CPI[1]



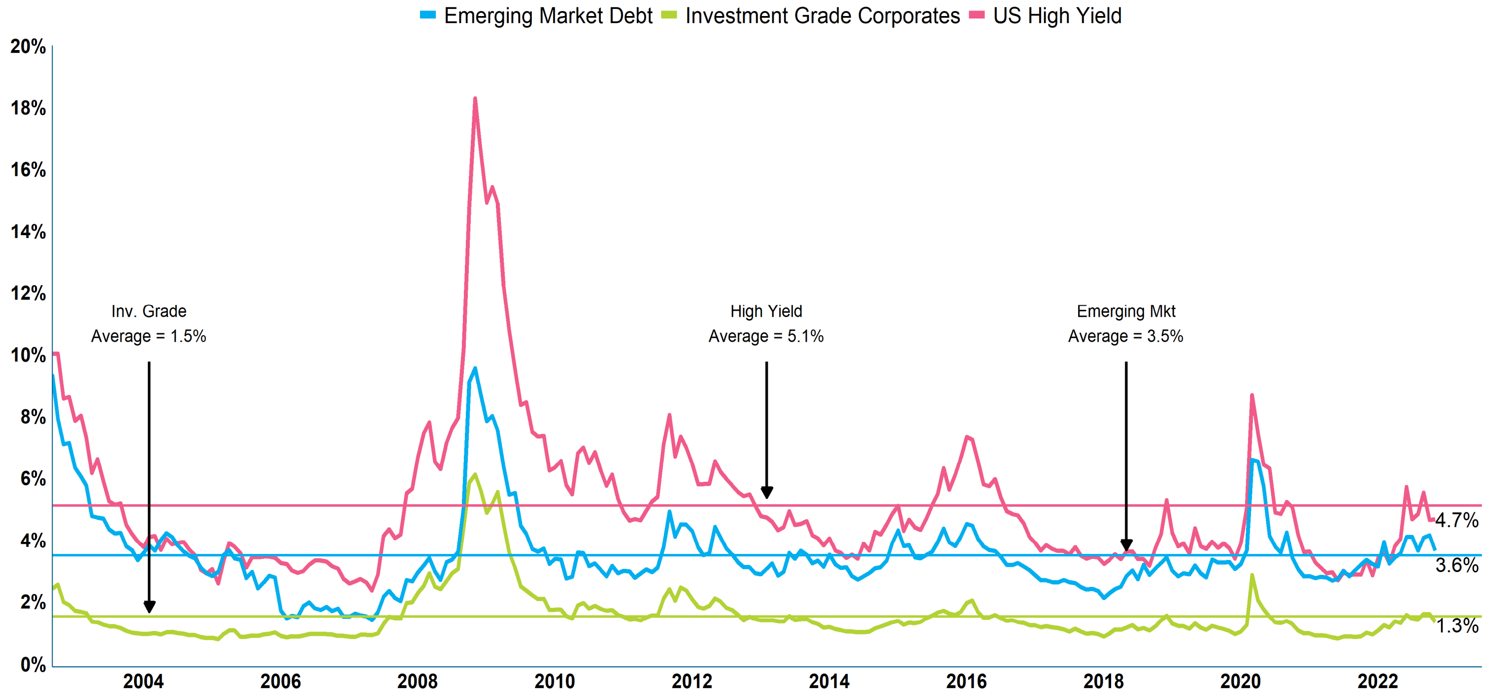
→ Inflation continued to decline in November (7.1% versus 7.7%), coming in below expectations but remaining elevated. Energy prices fell for the month but remain up 13% from a year prior, while food prices and stickier service prices continued to increase.

→ Core inflation – excluding food and energy – also moderated in November (6.0% versus 6.3%) and came in below estimates.

→ Inflation expectations (breakevens) declined slightly for the month to the long-run average. Breakevens remain well below current inflation levels as investors anticipate a significant moderation in inflation.

[1] Source: Bloomberg. Data is as of November 31, 2022. The CPI and 10 Year Breakeven average lines denote the average values from August 1998 to the present month-end respectively. Breakeven values represent month-end values for comparative purposes.

Credit Spreads vs. US Treasury Bonds[1]

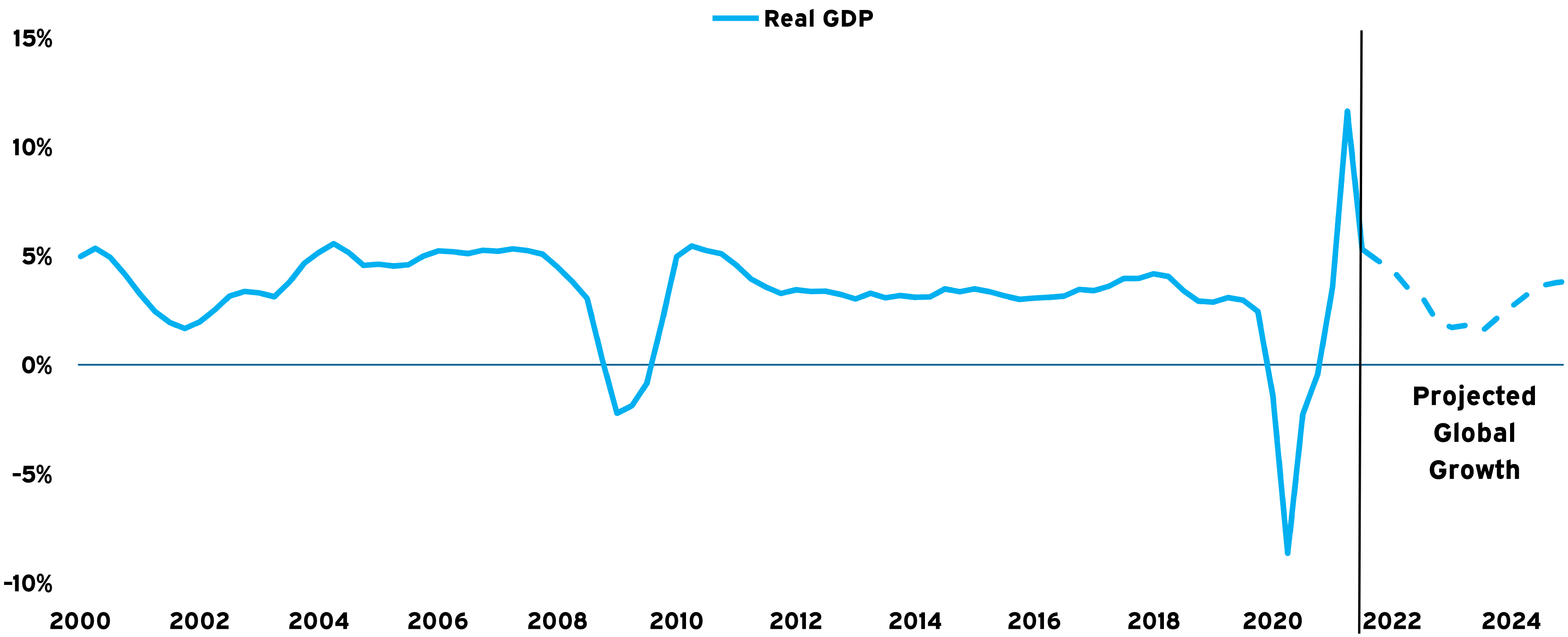


→ High yield spreads (the added yield above a comparable maturity Treasury) finished November at 4.7% remaining below their long-run average.

→ Investment grade spreads fell (1.3% versus 1.6%) as attractive yields and strong balance sheets attracted investors, while emerging market spreads fell the most (3.6% versus 4.1%).

[1] Sources: Bloomberg. Data is as of November 30, 2022. Average lines denote the average of the investment grade, high yield, and emerging market spread values from August 2000 to the recent month-end respectively.

Global Real Gross Domestic Product (GDP) Growth[1]

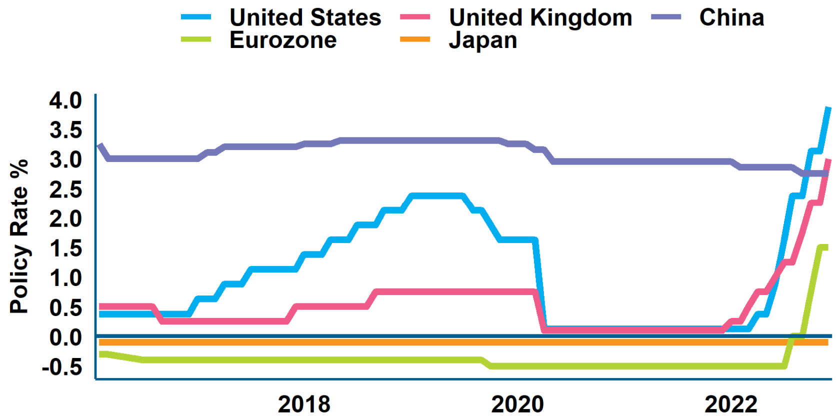


- → Global economies are expected to slow in 2023 compared to 2022, with risks of recession increasing given persistently high inflation and related tighter monetary policy.
- → The delicate balancing act of central banks trying to reduce inflation without dramatically impacting growth will remain key.

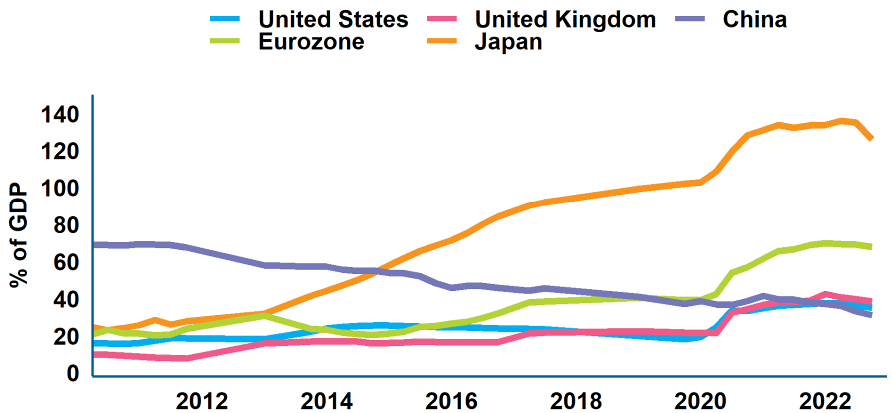
[1] Source: Oxford Economics (World GDP, US$ prices & PPP exchange rate, real, % change YoY). Updated November 2022.

Central Bank Response[1]

Policy Rates



Balance Sheet as % of GDP



→ After global central banks took extraordinary action to support economies during the pandemic, including policy rate cuts and emergency stimulus through quantitative easing (QE), many are now aggressively reducing support in the face of high inflation.

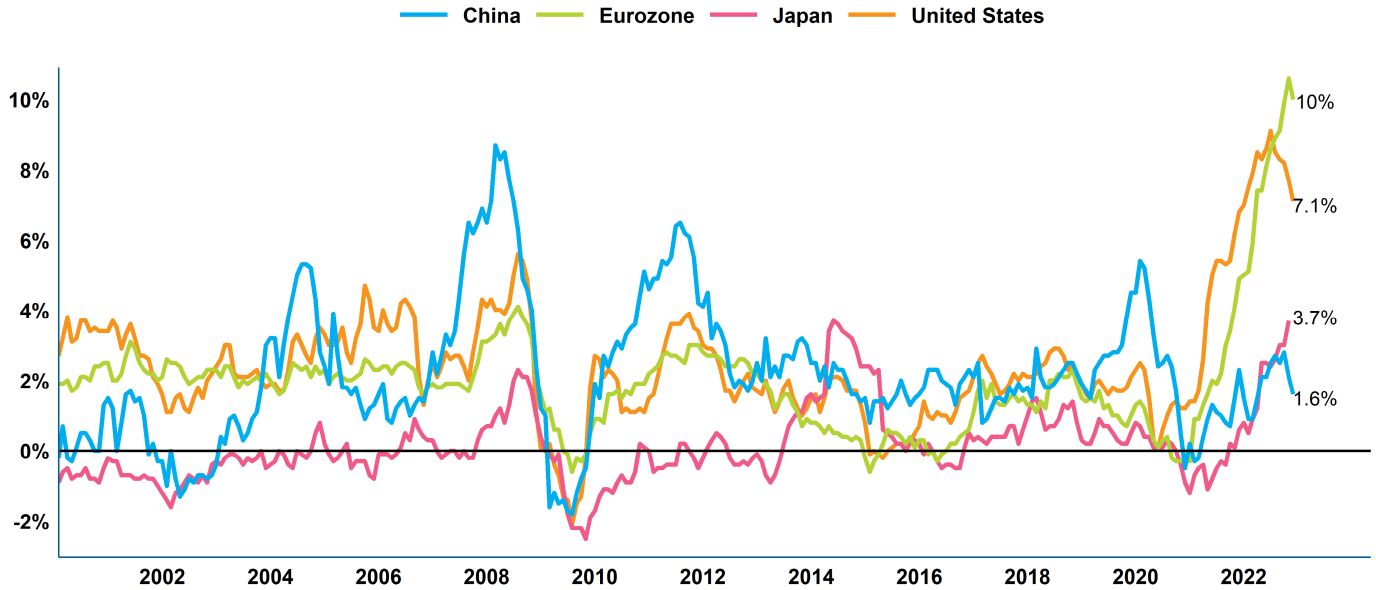
→ The pace of withdrawing support varies across central banks with the US taking a more aggressive approach.

→ The one notable central bank outlier is China, where the central bank has lowered rates and reserve requirements in response to slowing growth. Japan has also not moved to tighten monetary policy given persistently low inflation.

→ The risk remains for a policy error, particularly overtightening, as record inflation, the war in Ukraine, and a relatively tough COVID-19 policy in China could suppress global growth.

[1] Source: Bloomberg. Policy rate data is as of November 30, 2022. China policy rate is defined as the medium-term lending facility 1 year interest rate. Balance sheet as % of GDP is based on quarterly data and is as of September 30, 2022.

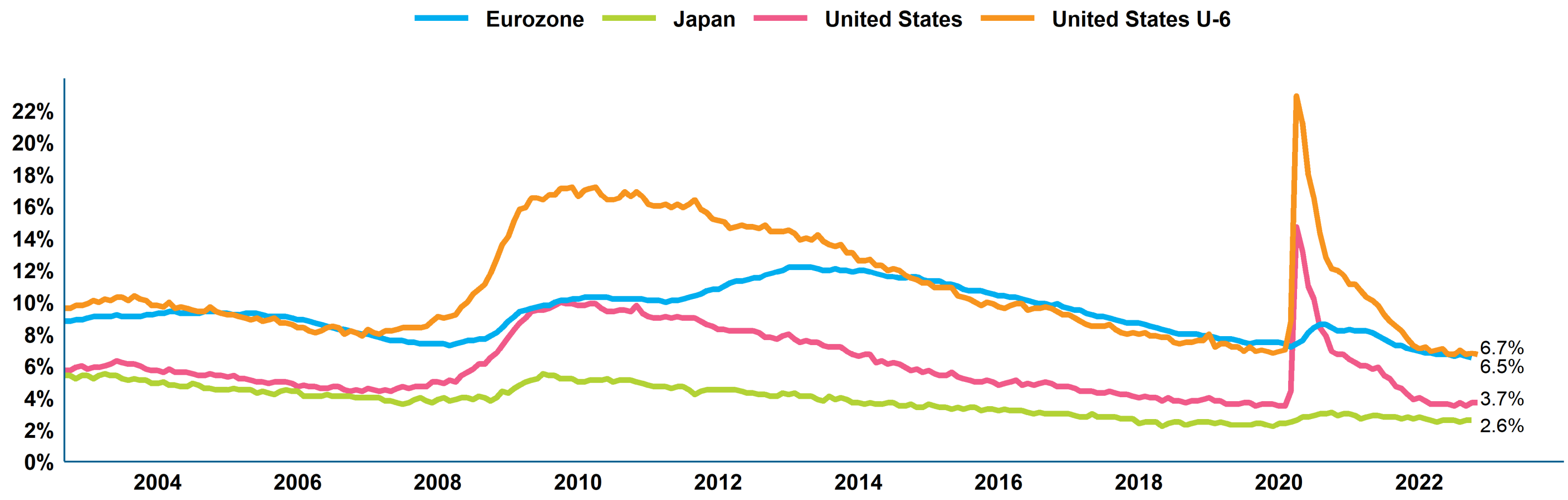
Inflation (CPI Trailing Twelve Months)[1]



- → Inflation increased dramatically from the lows of the pandemic, particularly in the US and Eurozone where it has reached levels not seen in many decades.
- → Inflation pressures are slowly declining in the US, but they remain elevated, while in Europe they have reached historic levels due to skyrocketing energy prices and a weak euro.
- → Supply issues related to the pandemic, record monetary and fiscal stimulus, strict COVID-19 restrictions in China, and higher commodity prices driven by the war in Ukraine have been key global drivers of inflation.

[1] Source: Bloomberg. Data is as of November 2022. The most recent Japanese inflation data is as of October 2022.

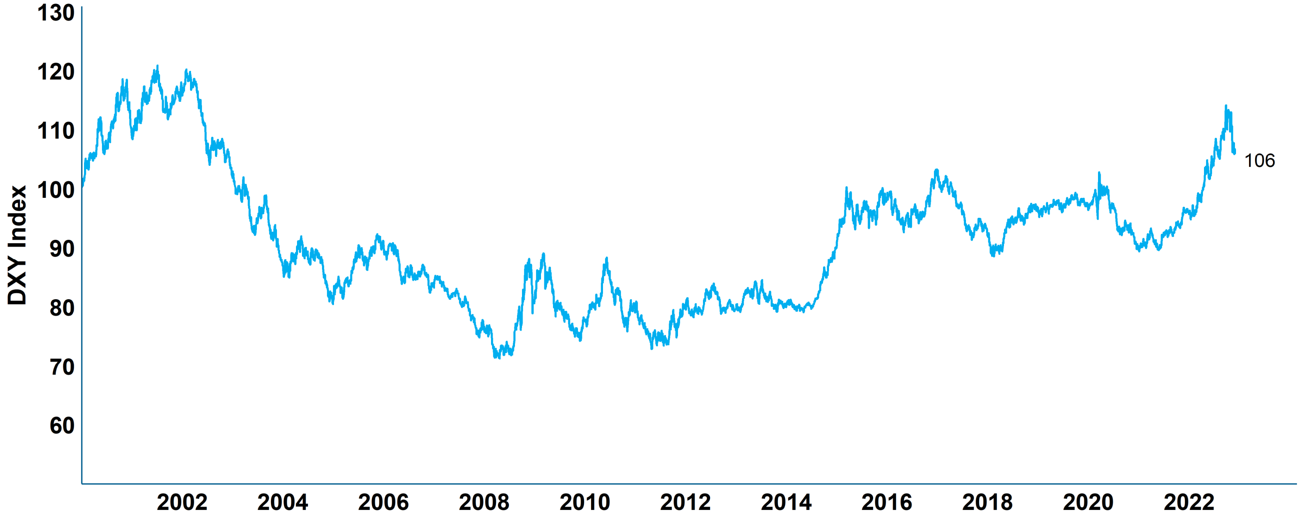
Unemployment[1]



- → As economies have largely reopened, helped by vaccines for the virus, improvements have been seen in the labor market.
- → Despite slowing growth and high inflation, the US labor market remains a bright spot. Unemployment in the US, which experienced the steepest rise from the pandemic, has remained in a tight 3.5%-3.7% range for most of the year. The broader measure (U-6) that includes discouraged and underemployed workers remains much higher at 6.7%.
- → The strong labor market and higher wages, although beneficial for workers, motivates the Fed's efforts to fight inflation, likely leading to eventually higher unemployment.

[1] Source: Bloomberg. Data is as November 2022, for the US. The most recent data for Eurozone and Japanese unemployment is as of October 31, 2022.

US Dollar versus Broad Currencies[1]



→ Overall, the US dollar remained elevated in November but showed some weakening. After month-end, the dollar weakened further.

→ The increased pace of policy tightening, stronger relative growth, and safe-haven flows all contributed to the dollar's strength this year.

→ The euro, yen, pound, and yuan have all experienced significant declines versus the dollar, adding to inflationary pressures in those countries.

[1] Source: Bloomberg. Data as of November 30, 2022.

Summary

Key Trends:

→ The impacts of record high inflation will remain key, with market volatility likely to stay high.

→ The pace of monetary tightening globally will be faster than previously expected, with the risk of overtightening.

→ Expect growth to continue to slow globally next year to the long-term trend or below, with many economies likely falling into recessions. Inflation, monetary policy, and the war will all be key.

→ In the US the end of many fiscal programs is expected to put the burden of continued growth on consumers. Higher energy and food prices will depress consumers' spending in other areas.

→ Valuations have significantly declined in the US to around long-term averages, largely driven by price declines. The key going forward will be whether earnings can remain resilient if growth continues to slow.

→ Outside the US, equity valuations remain lower in both emerging and developed markets, but major risks remain, including continued strength in the US dollar, higher inflation particularly weighing on Europe, and China maintaining its relatively restrictive COVID-19 policies.

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Portland, OR 97210

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Meketa.com

MEMORANDUM

TO: SJCERA Board of Retirement
FROM: Meketa Investment Group (Meketa)
DATE: January 20, 2023
RE: GQG Partners placed on WATCH

Summary and Recommendation

The Marketable Securities Investment Committee approved a firm-level WATCH status on GQG Partners after the firm announced the abrupt departure by co-portfolio manager (co-PM) James Anders. Mr. Anders was recently promoted from Deputy Portfolio Manager to Portfolio Manager effective July 1, 2022.

Further details

On November 30, 2022, GQG announced that James Anders was leaving the firm effective immediately. There was no explanation offered in the press release. No further details were disclosed in our follow up calls with GQG.

This development is a surprise both internally and externally. Mr. Anders joined GQG in 2017 and became Deputy Portfolio Manager (DPM) in 2020. He was one of three DPMs promoted to PM this summer. All three PMs are responsible for all GQG strategies although they were named on different funds. Mr. Anders is named on the Global and the US strategies.

GQG does not disclose share ownership for individual employees. Mr. Anders became a partner in June 2021 and received shares during the IPO process in October 2021. As we discussed at the time of the promotion announcement, the promotion from DPM to PM was title recognition only and came with no change in equity ownership. Mr. Anders is forfeiting all his shares, none of which have vested according to GQG. All employee-partners outside of the CEO Tim Carver and the CIO Rajiv Jain collectively own 1.5% of the firm. These shares are also on a back-end loaded 6-year vesting schedule from the point of the IPO, whereas Mr. Jain's and Mr. Carver's shares vested a year post-IPO (the firm emphasized that there have been no sales to date).

Meketa assessment

The departure in and of itself is not detrimental given broad team resources at GQG and especially Mr. Jain's oversight and entrenchment in all investment decisions across strategies. However, the accumulation of a series of less than favorable organizational developments over the last 12-18 months gives us pause. Specifically:

→ The introduction of a suite of dividend yield products, which marks GQG's push into the retail market. GQG acknowledged during the IPO process that the firm was entering a different stage of the business and highlighted the need to diversify.

→ Ownership structure change from a private employee-owned company to being publicly listed. Despite the change, the sustainability of the organization without Rajiv Jain at the helm remains unclear, especially after this departure. The three newly named PMs are the next-generation bench directly under Mr. Jain.

→ Turnover of pre-IPO employees and partners. We are aware of the departures of marketing folks, traders, and the head of client services, as well as the chief of staff's retirement. This announcement of a PM departure is the highest visibility to date. The firm continues to add resources as it grows and transitions to become a public company.

We will continue to monitor the situation closely and share any new information and findings. Please reach out with any questions or concerns in the meantime.

DS/RF/mn

Disclosure

WE HAVE PREPARED THIS REPORT (THIS "REPORT") FOR THE SOLE BENEFIT OF THE INTENDED RECIPIENT (THE "RECIPIENT").

SIGNIFICANT EVENTS MAY OCCUR (OR HAVE OCCURRED) AFTER THE DATE OF THIS REPORT AND THAT IT IS NOT OUR FUNCTION OR RESPONSIBILITY TO UPDATE THIS REPORT. ANY OPINIONS OR RECOMMENDATIONS PRESENTED HEREIN REPRESENT OUR GOOD FAITH VIEWS AS OF THE DATE OF THIS REPORT AND ARE SUBJECT TO CHANGE AT ANY TIME. ALL INVESTMENTS INVOLVE RISK. THERE CAN BE NO GUARANTEE THAT THE STRATEGIES, TACTICS, AND METHODS DISCUSSED HERE WILL BE SUCCESSFUL.

INFORMATION USED TO PREPARE THIS REPORT WAS OBTAINED FROM INVESTMENT MANAGERS, CUSTODIANS, AND OTHER EXTERNAL SOURCES. WHILE WE HAVE EXERCISED REASONABLE CARE IN PREPARING THIS REPORT, WE CANNOT GUARANTEE THE ACCURACY OF ALL SOURCE INFORMATION CONTAINED HEREIN.

CERTAIN INFORMATION CONTAINED IN THIS REPORT MAY CONSTITUTE "FORWARD - LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "AIM", "ANTICIPATE," "TARGET," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE" OR "BELIEVE," OR THE NEGATIVES THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. ANY FORWARD - LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION ARE BASED UPON CURRENT ASSUMPTIONS. CHANGES TO ANY ASSUMPTIONS MAY HAVE A MATERIAL IMPACT ON FORWARD - LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS. ACTUAL RESULTS MAY THEREFORE BE MATERIALLY DIFFERENT FROM ANY FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION.

PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

2023 CONFERENCES AND EVENTS SCHEDULE

2023		EVENT TITLE	EVENT SPONSOR	LOCATION	REG.	WEBLINK FOR	EST. BOARD
Jan 17	Jan 20	2023 Visions, Insights & Perspectives Americas	IREI	Rancho Palos	$0	IREI.com	TBD
Jan 22	Jan 24	Legislative Conference	NCPERS	Washington, DC	$615	ncpers.org	TBD
Jan 23	Jan 24	Pension Communications Summit	NCPERS	Washington, DC	$350	ncpers.org	TBD
Feb 11	Feb 11	Administrators' Round Table	CALAPRS	Online webinar	$50	calaprs.org	*4
Feb 18	Feb 18	Attorneys Round Table	CALAPRS	Online webinar	$50	calaprs.org	*4
Feb 28	Mar 1	Pension Bridge ESG 2023	With Intelligence	Los Angeles, CA	TBD	with.intelligence.com	TBD
Mar 4	Mar 7	General Assembly 2023	CALAPRS	Monterey, CA	$250	calaprs.org	10.5*
Mar 8	Mar 8	7th Annual Real Estate West Forum	Markets Group	San Francisco, CA	$0	Invite by email	TBD
Mar 29	Mar 31	Advanced Principles of Pension Governance for Trustees	CALAPRS	Los Angeles, CA	$3250	calaprs.org	*9
Apr 17	Apr 19	The Pension Bridge Annual	With Intelligence	San Francisco, CA	TBD	with.intelligence.com	TBD
Apr 29	Apr 29	Trustee Roundtable	CALAPRS	Online webinar	$50	calaprs.org	*4
May 9	May 12	SACRS Spring Conference	SACRS	San Diego, CA	$120	sacrs.org	*11
Jul 16	Jul 19	SACRS/UC Berkeley Program	SACRS	Berkeley, CA	$2500	sacrs.org	*24
Sep 27	Sep 29	Administrators' Institutue 2023	CALAPRS	Carmel-by-the-Sea	TBD	calaprs.org	*14.4
Nov 7	Nov 10	SACRS Fall Conference	SACRS	Rancho Mirage, CA	TBD	sacrs.org	*11

** Estimates based on prior agendas*

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF PENDING TRUSTEE AND EXECUTIVE STAFF TRAVEL

2023 Event Dates	Sponsor / Event Description	Location	Traveler(s)	Estimated Cost	BOR Approval Date
Feb 11	Administrators' Round Table	Online	Johanna Shick	$50.00	N/A

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF COMPLETED TRUSTEE AND EXECUTIVE STAFF TRAVEL

Event Dates 2022	Sponsor / Event Description	Location	Traveler(s)	Estimated Cost	Actual Cost	Event Report Filed
Feb 11	CALAPRS Administrators' Roundtable	Webinar	McKelvey, Shick	$100	$100	N/A
Feb 18	CALAPRS Attorneys' Roundtable	Webinar	Morrish	$50	$50	N/A
Mar 5 - 8	CALAPRS General Assembly	San Diego, CA	McKelvey, Shick	$4,000	$1,798.50	N/A
Apr 29	Special Virtual Trustee Round Table	Virtual Conference	Moore, Bassett, Weydert, McKelvey	$200	$200	N/A
May 10 - 13	SACRS Spring Conference	Rancho Mirage, CA	Weydert, Keokham, McKelvey, Morrish	$6,800	$5,979	N/A
May 27	CALAPRS Attorneys' Roundtable	Webinar	Morrish	$50	$50	N/A
Jun 24	CALAPRS Administrators' Round Table	Webinar	Johanna Shick, Brian McKelvey	$100	$100	N/A
Jun 27-29	NCPERS - 2022 Chief Officers Summit	San Francisco	Brian McKelvey	$1,750	$1,552.00	8/12/22
Jul 17-20	SACRS UC Berkeley Program	Berkeley, CA	JC Weydert	$4,500	$4,160.65	N/A
Aug 29 - Sep 1	Principles of Pension Governance for Trustees	Tiburon, CA	Moore	$3,200	$3,332	N/A
Sep 6-8	IREI Fall Advisory Board Meeting	Pasadena, CA	Mike Restuccia	$1,000	$461.03	10/05/2022
Sep 23	Attorneys Round Table	Webinar	Jason Morrish	$50	$50	N/A
Sep 28-30	CALAPRS Administrators' Institute 2022	Long Beach, CA	Johanna Shick	$1,800	$1,868.88	N/A
Oct 28	CALAPRS Trustees Round Table	Webinar	Mike Restuccia, Emily Nicholas	$100	$100	N/A
Nov 8-11	SACRS Fall Conference	Long Beach	JC Weydert, Chanda Bassett, Emily Nicholas, Brian McKelvey	$6,946	$6,527.71	N/A
Nov 10	2022 Midterm Elections Results	Webinar	Michael Restuccia, Phonxay Keokham	$0	$0	N/A

Board of Retirement Meeting

San Joaquin County Employees' Retirement Association

Agenda Item 10.03

January 20, 2023

SUBJECT: Pending Member Accounts Receivable – 4th Quarter

SUBMITTED FOR: ___ CONSENT __ ACTION __X_ INFORMATION

RECOMMENDATION

This report is submitted for the Board's information.

PURPOSE

To report the quarterly summary of pending accounts receivables for SJCERA retired or deferred members as of December 31, 2022.

DISCUSSION

This quarter's Pending Accounts Receivable Report, below, includes all receivables owed by either retirees, beneficiaries or deferred members.

QUARTERLY SUMMARY REPORT OF PENDING ACCOUNTS RECEIVABLE - SJCERA MEMBERS

4th Quarter - October through December 2022

	Action Date	Total Receivable	Payments Began	Current Balance	Current Payment	Payment Description	Payment End Date	First Reported To Board
1	07/15/09	$11,475.48	05/01/11	$5,654.93	$163.00	Fixed Dollar Amount	10/01/25	Jul-11
2	09/01/12	$13,580.90	02/01/14	$4,046.93	$297.00	Fixed Dollar Amount	11/01/24	Apr-14
3	05/19/02	$35,537.23	11/01/15	$14,051.60	$293.14	Fixed Dollar Amount	12/01/27	Jan-16
4	03/11/21	$12,035.49	06/01/21	$5,670.49	$335.00	Fixed Dollar Amount	05/01/24	Apr-21
	Total Accounts Receivable as of 12/31/2022			**$ 29,423.95**				

No new receivables in the fourth quarter of 2022.

BRIAN MCKELVEY
Asst. Chief Executive Officer

Pending Disability Application Statistics
4th Quarter 2022
Open Cases

SJCERA received 4 disability applications during Q4 2022

Time Elapsed From Application Date	
01 - 03 Months	3
04 - 06 Months	3
07 - 09 Months	5
10 - 12 Months	0
13 - 15 Months	3
16 - 18 Months	0
19 - 21 Months	0
22 - 24 Months	0
Over 24 Months	0
Total	**14**

Break Down By Application Type	
Service-Connected	12
Nonservice Connected	1
Service & Nonservice Connected	1
Total	**14**

Breakdown By Department	Service	Nonservice	Service & Nonservice	Total	SJCERA Members	Ratio
EEDD	1	0	0	1	63	1.59%
Mental Heath	0	0	1	1	526	0.19%
Health Services Agency	2	0	0	2	1,153	0.17%
Probation	1	0	0	1	261	0.38%
Public Works	3	0	0	3	340	0.88%
Parks Recreation	1	0	0	1	34	2.94%
Sheriff	4	1	0	5	707	0.71%
Totals	12	1	1	14	3,084	0.45%
Total SJCERA Active Members For All Departments As of 12/31/2022					**6,275**	**0.22%**
Total Number of Department Groups					**7**	

2022 Total Cases Resolved = 17

Goal #1 - 100% of applications that do not require a hearing will go to the Board within 9 months
Goal #2 - 80% of applications requiring a hearing will go to the Board within 18 months

Goal #1	50%	Completed within 9 months
Goal #2	100%	Completed with Hearing within 18 months

Of the seventeen cases that were resolved in 2022, fourteen were completed without a hearing. Seven were completed in 9 months, not meeting Goal #1. Of the three cases that went to hearing and were completed in 2022, all three were completed within the goal of 18 months. Staff and our disability attorney continue to meet weekly and are taking action to ensure all cases are moving through the process as timely as possible.

Calendar Year Comparison
1/1 to 12/31

	2017	2018	2019	2020	2021	2022
New	37	41	13	7	16	14
Granted	27	21	19	10	8	12
Denied	6	3	2	4	3	3
Dismissed	11	4	6	2	0	0
Withdrawn	5	0	4	0	0	2
Total Closed	49	28	31	16	11	17

2022 CHAPTERED LEGISLATION - FINAL

Last Updated: 1/12/2023

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	IMPACT ON SJCERA
Legislation Impacting SJCERA:					
AB 551	Rodriguez	Current law, until January 1, 2023, establishes a disability retirement presumption that is applicable to the members of various public employee retirement systems who are employed in certain firefighter, public safety officer, and health care job classifications, among others, who test positive for COVID-19, as specified. The law requires, if the member retires for disability on the basis, in whole or in part, of a COVID-19-related illness, that it be presumed that the disability arose out of, or in the course of, the member's employment, unless rebutted. This bill would extend the operation of the provisions described above until January 1, 2024.	09/29/22	**Chaptered**	Extends the COVID presumption to 1/1/24.
AB 1824	Cooper	This bill represents the annual omnibus bill to propose technical "housekeeping" amendments to the CERL and PERL. This bill would 1) allow members to designate a corporation, trust, or estate to receive their last check upon death, 2) modify existing law's requirement that the retirement date not be earlier than the date the application is filed or 60 days after the filing, by allowing the Board to adopt an alternative number of days, 3) require any computation for absence related to death benefit calculation be based on the compensation held by member at beginning of absence, and 4) make other non-substantive changes to the CERL.	09/02/22	**Chaptered**	Updating beneficiary form and procedures to include trusts and corporations.
AB 1971	Cooper	This bill would: 1) allow a member to purchase service credit for an uncompensated leave of absence due to the serious illness of a family member, 2) authorize the board to grant members subject to a temporary mandatory furlough the same service credit and FAC calculation as they would have received if there had been no furlough; 3) authorize a member retired for service who is subsequently granted a disability retirement to change the type of optional or unmodified allowance that they elected at the time the service retirement was granted, 4) a member retired for service who subsequently files an application for disability retirement and, if eligible for disability, would require adjustments to be made in the retirement allowance retroactive to the disability retirement, and 5) require reclassifying a disability retiree's benefit to a service retirement in the same amount if they are subsequently determined not to be incapacitated and the employer will not reinstate them.	09/25/22	**Chaptered**	No impact unless adopted by BOS. Staff will bring recommendation to the Board this summer.

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	IMPACT ON SJCERA
AB 2449	Rubio	Existing law, until January 1, 2024, authorizes a local agency to use teleconferencing without complying with specified teleconferencing requirements when a declared state of emergency is in effect. This bill would authorize, until January 1, 2026, a local agency to use teleconferencing without complying with those specified teleconferencing requirements if at least a quorum of the members of the legislative body participates in person from a singular location clearly identified on the agenda that is open to the public and situated within the local agency's jurisdiction. The state of emergency circumstances for remote participation would be contingent upon an action by the legislative body. This bill would further allow the legislative body to take action on member's request to participate in a meeting remotely due to emergency circumstances if there was insufficient time to place the proposed action on the posted agenda.	09/13/22	**Chaptered**	Changes teleconferencing rules effective 1/1/2023, see attached County Counsel memo.
AB 2647	Levine	This bill would require a local agency to make agendas and other writings distributed to the members of the governing board available for public inspection at a public office or location that the agency designates or post the writings on the local agency's internet website in a position and manner that makes it clear that the writing relates to an agenda item for an upcoming meeting.	09/30/22	**Chaptered**	None, SJCERA's existing procedures comply with law.
SB 1100	Cortese	This bill would authorize the presiding member of the legislative body conducting a meeting to remove an individual for willfully interrupting the meeting. The bill would require removal to be preceded by a warning by the presiding member, that the individual is disrupting the proceedings, a request that the individual failure to cease their behavior may result in removal, and a reasonable opportunity to cease the disruptive behavior.	08/22/22	**Chaptered**	Provides additional orderly conduct authority effective 1/1/2023, see attached County Counsel memo.
Other Bills of Interest:					
AB 1722	Cooper	PERL, until January 1, 2023, provides state safety members who retire for industrial disability a retirement benefit equal to the greatest amount resulting from three possible calculations. This bill would delete the January 1, 2023 termination date which would make the provision operative in perpetuity.	09/18/22	**Chaptered**	None, PERL-related legislation.
SB 850	Laird	This bill, for purpose of the additional percentage of the special death benefit for service-connected deaths provided under PERL, would require that payment be made to the person having custody of the member's child or children, if the member does not have a surviving spouse or if the surviving spouse dies before each child marries or reaches ate 22. Provisions of this bill would be retroactive to January 1, 2013.	08/29/22	**Chaptered**	None, PERL-related legislation.
SB 1168	Cortese	This bill would require PERS, beginning on July 1, 2023, to increase the $500 lump sum death benefit to $2,000.	08/26/22	**Chaptered**	None, PERL-related legislation.

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	IMPACT ON SJCERA
Federal Legislation:					
HR 2617	Neal	Consolidated Appropriations Act, 2023, which includes the SECURE 2.0 Act, this bill would (1) increases RMD ages, (2) reduces the excise tax for failure to take RMDs, (3) permit first responders to exclude service-connected disability pension payments from gross income after reaching retirement age, and (4) expand the Employee Plans Compliance Resolution System (EPCRS) to allow more types of errors to be corrected through self-correction.	12/29/22	Became Public Law No. 117-328	Legislation team reviewing any potential impact.
HR 3684	DeFazio	Called the "Infrastructure Investment and Jobs Act", better known as the $1 trillion infrastructure bill, includes a crypto tax-reporting provision requiring digital asset brokers to report their users' annual transactions to the IRS effective year-end 2022.	11/15/21	Became Public Law No. 117-58	None. SJCERA's existing procedures comply with law.

2023 State Legislative Calendar (tentative)

Feb 18	Last day for new bills to be introduced
Apr 7	Spring Recess begins upon adjournment
May 27	Last day for bills to be passed out of the house of origin
Jun 15	Budget Bill must be passed by midnight
Jul 1 - Aug 1	Summer Recess upon adjournment provided budget bill passed
Aug 25	Last day to amend bills on the floor
Aug 31	Last day for each house to pass bills; Final Study Recess begins upon adjournment
Sept 30	**Last day for Governor to sign or veto bills.**

Board of Retirement Meeting
San Joaquin County Employees' Retirement Association

Agenda Item 10.05-01

January 20, 2023

SUBJECT: NEW LEGISLATION AFFECTING SJCERA OPEN MEETINGS AND TELECONFERENCES (AB 2449)

SUBMITTED FOR: ___ CONSENT ___ ACTION _X_ INFORMATION

PURPOSE

To brief the Board on the modified teleconferencing rules for local public agencies conducting a public meeting as provided by Assembly Bill 2449.

DISCUSSION

AB 361

During the COVID-19 pandemic, Governor Newsom issued certain Executive Orders allowing the use of teleconferencing beyond standard Brown Act requirements. On September 16, 2021, Assembly Bill 361 was approved, incorporating some aspects of those Executive Orders for local agency public meetings, including:

- Agendas did not need to be posted at all teleconference locations;
- Teleconference locations did not need to be identified on the agenda;
- Teleconference locations did not need to be accessible to the public; and
- A quorum did not need to participate from locations within the jurisdiction.

By its own terms, AB 361 sunsets on January 1, 2024. If the COVID-19 state of emergency ends as expected on February 28, 2023, and no other emergency exists during 2023, SJCERA will no longer be able to invoke the teleconferencing provisions of AB 361.

AB 2449

On September 13, 2022, the Governor approved Assembly Bill 2449, amending Section 54953 of the California Government Code effective January 1, 2023. Under the amended Section 54953, for the period between January 1, 2023, and December 31, 2025, SJCERA will still be allowed to use teleconferencing, but the rules are different from both AB 361 and pre-pandemic requirements. Teleconferencing is permitted without posting agendas at all teleconferencing locations, identifying those locations on the agenda or making them accessible to the public, but only if:

- A quorum of the Board is physically present together at a location within its jurisdiction, and that location is open to the public;
- The Board provides a method for the public to remotely hear and observe the meeting, and remotely address the Board; and

- The Board members' remote participation is based upon just cause or emergency circumstances, as defined by the law.

"Just cause" is restricted to caregiving obligations, contagious illness, a need related to physical or mental disability (as defined), or travel on official business of the Board or another state or local agency. A Board member intending to participate remotely for just cause must notify SJCERA at the earliest possible opportunity, including at the start of a meeting, and provide a general description of the related circumstances.

"Emergency circumstances" means a physical or family medical emergency that prevents attendance in person. A member must request the Board to allow remote participation as soon as possible, and the Board may take action on the request at the earliest possible opportunity (including at the start of a meeting), based on a general description of the circumstances.

Additionally, neither just cause nor emergency circumstances may be used as a means for a SJCERA Board member to participate solely by teleconference from a remote location for more than two meetings per year. Other teleconferencing rules, such as roll call votes, audio and video participation by the member, adequate notice regarding public comment and reasonable accommodations for individuals with disabilities, pausing the meeting in the event of technological disruption and identifying others present in the room at the remote location, must also be observed.

CONCLUSION

Teleconferencing from a remote location for just cause or in cases of emergency circumstances is a viable alternative for Board members to participate in SJCERA's public meetings. Board members should consult with staff and/or counsel at the earliest opportunity when considering teleconferencing under these new rules, in order to ensure that accommodations can be made in full compliance with the Brown Act.

ATTACHMENT

California Government Code Section 54953 (in relevant part).

Jason R. Morrish
Deputy County Counsel

Cal Gov Code § 54953

Deering's California Codes are current through the 2022 Regular Session.

Deering's California Codes Annotated > GOVERNMENT CODE (§§ 1 — 500000–500049) > Title 5 Local Agencies (Divs. 1 — 5) > Division 2 Cities, Counties, and Other Agencies (Pts. 1 — 3) > Part 1 Powers and Duties Common to Cities, Counties, and Other Agencies (Chs. 1 — 14) > Chapter 9 Meetings (§§ 54950 — 54963)

Notice

This section has more than one version with varying effective dates.

§ 54953. Requirement that meetings be open and public; Teleconferencing; Public report of action taken; Teleconference meetings by health authority; Exceptions to teleconference meeting requirements [Repealed effective January 1, 2024]

(a) All meetings of the legislative body of a local agency shall be open and public, and all persons shall be permitted to attend any meeting of the legislative body of a local agency, except as otherwise provided in this chapter.

(b)

(1) Notwithstanding any other provision of law, the legislative body of a local agency may use teleconferencing for the benefit of the public and the legislative body of a local agency in connection with any meeting or proceeding authorized by law. The teleconferenced meeting or proceeding shall comply with all otherwise applicable requirements of this chapter and all otherwise applicable provisions of law relating to a specific type of meeting or proceeding.

(2) Teleconferencing, as authorized by this section, may be used for all purposes in connection with any meeting within the subject matter jurisdiction of the legislative body. If the legislative body of a local agency elects to use teleconferencing, the legislative body of a local agency shall comply with all of the following:

(A) All votes taken during a teleconferenced meeting shall be by rollcall.

(B) The teleconferenced meetings shall be conducted in a manner that protects the statutory and constitutional rights of the parties or the public appearing before the legislative body of a local agency.

(C) The legislative body shall give notice of the meeting and post agendas as otherwise required by this chapter.

(D) The legislative body shall allow members of the public to access the meeting and the agenda shall provide an opportunity for members of the public to address the legislative body directly pursuant to *Section 54954.3*.

(3) If the legislative body of a local agency elects to use teleconferencing, it shall post agendas at all teleconference locations. Each teleconference location shall be identified in the notice and agenda of the meeting or proceeding, and each teleconference location shall be accessible to the public. During the teleconference, at least a quorum of the members of the legislative body shall participate from locations within the boundaries of the territory over which the local agency exercises jurisdiction, except as provided in subdivisions (d) and (e).

(c)

(1) No legislative body shall take action by secret ballot, whether preliminary or final.

(2) The legislative body of a local agency shall publicly report any action taken and the vote or abstention on that action of each member present for the action.

(3) Prior to taking final action, the legislative body shall orally report a summary of a recommendation for a final action on the salaries, salary schedules, or compensation paid in the form of fringe benefits of a local agency executive, as defined in subdivision (d) of *Section 3511.1*, during the open meeting in which the final action is to be taken. This paragraph shall not affect the public's right under the California Public Records Act (Division 10 (commencing with *Section 7920.000*) of Title 1) to inspect or copy records created or received in the process of developing the recommendation.

(d)

(1) Notwithstanding the provisions relating to a quorum in paragraph (3) of subdivision (b), if a health authority conducts a teleconference meeting, members who are outside the jurisdiction of the authority may be counted toward the establishment of a quorum when participating in the teleconference if at least 50 percent of the number of members that would establish a quorum are present within the boundaries of the territory over which the authority exercises jurisdiction, and the health authority provides a teleconference number, and associated access codes, if any, that allows any person to call in to participate in the meeting and the number and access codes are identified in the notice and agenda of the meeting.

(2) Nothing in this subdivision shall be construed as discouraging health authority members from regularly meeting at a common physical site within the jurisdiction of the authority or from using teleconference locations within or near the jurisdiction of the authority. A teleconference meeting for which a quorum is established pursuant to this subdivision shall be subject to all other requirements of this section.

(3) For purposes of this subdivision, a health authority means any entity created pursuant to Sections *14018.7*, *14087.31*, *14087.35*, *14087.36*, *14087.38*, and *14087.9605 of the Welfare and Institutions Code*, any joint powers authority created pursuant to Article 1 (commencing with *Section 6500*) of Chapter 5 of Division 7 for the purpose of contracting pursuant to *Section 14087.3 of the Welfare and Institutions Code*, and any advisory committee to a county-sponsored health plan licensed pursuant to Chapter 2.2 (commencing with *Section 1340) of Division 2 of the Health and Safety Code* if the advisory committee has 12 or more members.

(e)

(1) The legislative body of a local agency may use teleconferencing without complying with the requirements of paragraph (3) of subdivision (b) if the legislative body complies with the requirements of paragraph (2) of this subdivision in any of the following circumstances:

(A) The legislative body holds a meeting during a proclaimed state of emergency, and state or local officials have imposed or recommended measures to promote social distancing.

(B) The legislative body holds a meeting during a proclaimed state of emergency for the purpose of determining, by majority vote, whether as a result of the emergency, meeting in person would present imminent risks to the health or safety of attendees.

(C) The legislative body holds a meeting during a proclaimed state of emergency and has determined, by majority vote, pursuant to subparagraph (B), that, as a result of the emergency, meeting in person would present imminent risks to the health or safety of attendees.

(2) A legislative body that holds a meeting pursuant to this subdivision shall do all of the following:

(A) In each instance in which notice of the time of the teleconferenced meeting is otherwise given or the agenda for the meeting is otherwise posted, the legislative body shall also give notice of the means by which members of the public may access the meeting and offer public comment. The agenda shall identify and include an opportunity for all persons to attend via a call-in option or an internet-based service option.

(B) In the event of a disruption that prevents the legislative body from broadcasting the meeting to members of the public using the call-in option or internet-based service option, or in the event of a disruption within the local agency's control that prevents members of the public from offering public comments using the call-in option or internet-based service option, the legislative body shall take no further action on items appearing on the meeting agenda until public access to the meeting via the call-in option or internet-based service option is restored. Actions taken on agenda items during a disruption that prevents the legislative body from broadcasting the meeting may be challenged pursuant to *Section 54960.1*.

(C) The legislative body shall not require public comments to be submitted in advance of the meeting and must provide an opportunity for the public to address the legislative body and offer comment in real time.

(D) Notwithstanding *Section 54953.3*, an individual desiring to provide public comment through the use of an internet website, or other online platform, not under the control of the local legislative body, that requires registration to log in to a teleconference may be required to register as required by the third-party internet website or online platform to participate.

(E)

(i) A legislative body that provides a timed public comment period for each agenda item shall not close the public comment period for the agenda item, or the opportunity to register, pursuant to subparagraph (F), to provide public comment until that timed public comment period has elapsed.

(ii) A legislative body that does not provide a timed public comment period, but takes public comment separately on each agenda item, shall allow a reasonable amount of time per agenda item to allow public members the opportunity to provide public comment, including time for members of the public to register pursuant to subparagraph (F), or otherwise be recognized for the purpose of providing public comment.

(iii) A legislative body that provides a timed general public comment period that does not correspond to a specific agenda item shall not close the public comment period or the opportunity to register, pursuant to subparagraph (F), until the timed general public comment period has elapsed.

(3) If a state of emergency remains active, or state or local officials have imposed or recommended measures to promote social distancing, in order to continue to teleconference without compliance with paragraph (3) of subdivision (b), the legislative body shall, not later than 30 days after teleconferencing for the first time pursuant to subparagraph (A), (B), or (C) of paragraph (1), and every 30 days thereafter, make the following findings by majority vote:

(A) The legislative body has reconsidered the circumstances of the state of emergency.

(B) Any of the following circumstances exist:

(i) The state of emergency continues to directly impact the ability of the members to meet safely in person.

(ii) State or local officials continue to impose or recommend measures to promote social distancing.

(4) This subdivision shall not be construed to require the legislative body to provide a physical location from which the public may attend or comment.

(f)

(1) The legislative body of a local agency may use teleconferencing without complying with paragraph (3) of subdivision (b) if, during the teleconference meeting, at least a quorum of the members of the legislative body participates in person from a singular physical location clearly identified on the agenda, which location shall be open to the public and situated within the boundaries of the territory over which the local agency exercises jurisdiction and the legislative body complies with all of the following:

(A) The legislative body shall provide at least one of the following as a means by which the public may remotely hear and visually observe the meeting, and remotely address the legislative body:

(i) A two-way audiovisual platform.

(ii) A two-way telephonic service and a live webcasting of the meeting.

(B) In each instance in which notice of the time of the teleconferenced meeting is otherwise given or the agenda for the meeting is otherwise posted, the legislative body shall also give notice of the means by which members of the public may access the meeting and offer public comment.

(C) The agenda shall identify and include an opportunity for all persons to attend and address the legislative body directly pursuant to *Section 54954.3* via a call-in option, via an internet-based service option, and at the in-person location of the meeting.

(D) In the event of a disruption that prevents the legislative body from broadcasting the meeting to members of the public using the call-in option or internet-based service option, or in the event of a disruption within the local agency's control that prevents members of the public from offering public comments using the call-in option or internet-based service option, the legislative body shall take no further action on items appearing on the meeting agenda until public access to the meeting via the call-in option or internet-based service option is restored. Actions taken on agenda items during a disruption that prevents the legislative body from broadcasting the meeting may be challenged pursuant to *Section 54960.1*.

(E) The legislative body shall not require public comments to be submitted in advance of the meeting and must provide an opportunity for the public to address the legislative body and offer comment in real time.

(F) Notwithstanding *Section 54953.3*, an individual desiring to provide public comment through the use of an internet website, or other online platform, not under the control of the local legislative body, that requires registration to log in to a teleconference may be required to register as required by the third-party internet website or online platform to participate.

(2) A member of the legislative body shall only participate in the meeting remotely pursuant to this subdivision, if all of the following requirements are met:

(A) One of the following circumstances applies:

(i) The member notifies the legislative body at the earliest opportunity possible, including at the start of a regular meeting, of their need to participate remotely for just cause, including a general description of the circumstances relating to their need to appear remotely at the given meeting. The provisions of this clause shall not be used by any member of the legislative body for more than two meetings per calendar year.

(ii) The member requests the legislative body to allow them to participate in the meeting remotely due to emergency circumstances and the legislative body takes action to approve the request. The legislative body shall request a general description of the circumstances relating to their need to appear remotely at the given meeting. A general description of an item generally need not exceed 20 words and shall not require the member to disclose any medical diagnosis or disability, or any personal medical information that is already exempt under existing law, such as the Confidentiality of Medical Information Act (Chapter 1 (commencing with Section 56) of Part 2.6 of Division 1 of the Civil Code). For the purposes of this clause, the following requirements apply:

(I) A member shall make a request to participate remotely at a meeting pursuant to this clause as soon as possible. The member shall make a separate request for each meeting in which they seek to participate remotely.

(II) The legislative body may take action on a request to participate remotely at the earliest opportunity. If the request does not allow sufficient time to place proposed action on such a request on the posted agenda for the meeting for which the request is made, the legislative body may take action at the beginning of the meeting in accordance with paragraph (4) of subdivision (b) of *Section 54954.2*.

(B) The member shall publicly disclose at the meeting before any action is taken, whether any other individuals 18 years of age or older are present in the room at the remote location with the member, and the general nature of the member's relationship with any such individuals.

(C) The member shall participate through both audio and visual technology.

(3) The provisions of this subdivision shall not serve as a means for any member of a legislative body to participate in meetings of the legislative body solely by teleconference from a remote location for a period of more than three consecutive months or 20 percent of the regular meetings for the local agency within a calendar year, or more than two meetings if the legislative body regularly meets fewer than 10 times per calendar year.

(g) The legislative body shall have and implement a procedure for receiving and swiftly resolving requests for reasonable accommodation for individuals with disabilities, consistent with the federal Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and resolving any doubt in favor of accessibility. In each instance in which notice of the time of the meeting is otherwise given or the agenda for the meeting is otherwise posted, the legislative body shall also give notice of the procedure for receiving and resolving requests for accommodation.

(h) The legislative body shall conduct meetings subject to this chapter consistent with applicable civil rights and nondiscrimination laws.

(i)

(1) Nothing in this section shall prohibit a legislative body from providing the public with additional teleconference locations.

(2) Nothing in this section shall prohibit a legislative body from providing members of the public with additional physical locations in which the public may observe and address the legislative body by electronic means.

(j) For the purposes of this section, the following definitions shall apply:

(1) "Emergency circumstances" means a physical or family medical emergency that prevents a member from attending in person.

(2) "Just cause" means any of the following:

(A) A childcare or caregiving need of a child, parent, grandparent, grandchild, sibling, spouse, or domestic partner that requires them to participate remotely. "Child," "parent," "grandparent," "grandchild," and "sibling" have the same meaning as those terms do in *Section 12945.2*.

(B) A contagious illness that prevents a member from attending in person.

(C) A need related to a physical or mental disability as defined in *Sections 12926* and *12926.1* not otherwise accommodated by subdivision (g).

(D) Travel while on official business of the legislative body or another state or local agency.

(3) "Remote location" means a location from which a member of a legislative body participates in a meeting pursuant to subdivision (f), other than any physical meeting location designated in the notice of the meeting. Remote locations need not be accessible to the public.

(4) "Remote participation" means participation in a meeting by teleconference at a location other than any physical meeting location designated in the notice of the meeting. Watching or listening to a meeting via webcasting or another similar electronic medium that does not permit members to interactively hear, discuss, or deliberate on matters, does not constitute remote participation.

(5) "State of emergency" means a state of emergency proclaimed pursuant to *Section 8625* of the California Emergency Services Act (Article 1 (commencing with *Section 8550*) of Chapter 7 of Division 1 of Title 2).

(6) "Teleconference" means a meeting of a legislative body, the members of which are in different locations, connected by electronic means, through either audio or video, or both.

(7) "Two-way audiovisual platform" means an online platform that provides participants with the ability to participate in a meeting via both an interactive video conference and a two-way telephonic function.

(8) "Two-way telephonic service" means a telephone service that does not require internet access, is not provided as part of a two-way audiovisual platform, and allows participants to dial a telephone number to listen and verbally participate.

(9) "Webcasting" means a streaming video broadcast online or on television, using streaming media technology to distribute a single content source to many simultaneous listeners and viewers.

(k) This section shall remain in effect only until January 1, 2024, and as of that date is repealed.

History

Added Stats 1953 ch 1588 § 1. Amended *Stats 1988 ch 399 § 1*, operative until January 1, 1994; *Stats 1993 ch 1136 § 4 (AB 1426)*, operative April 1, 1994, ch 1137 § 4 (SB 36), operative April 1, 1994; *Stats 1994 ch 32 § 4 (SB 752)*, effective March 30, 1994, operative April 1, 1994; *Stats 1997 ch 253 § 2 (SB 138)*; *Stats 1998 ch 260 § 1 (SB 139)*; *Stats 2005 ch 540 § 1 (AB 1438)*, effective January 1, 2006; *Stats 2012 ch 209 § 1 (SB 475)*, effective January 1, 2013; *Stats 2013 ch 257 § 1 (SB 751)*, effective January 1, 2014; *Stats 2016 ch 175 § 1 (SB 1436)*, effective January 1, 2017; *Stats 2017 ch 137 § 1 (AB 428)*, effective January 1, 2018; *Stats 2021 ch 165 § 3 (AB 361)*, effective September 16, 2021, repealed January 1, 2024; *Stats 2021 ch 615 § 204 (AB 474)*, effective January 1, 2022 (ch 165 prevails); *Stats 2022 ch 285 § 1 (AB 2449)*, effective September 13, 2022, repealed January 1, 2024; *Stats 2022 ch 28 § 73 (SB 1380)*, effective September 13, 2022, repealed January 1, 2024 (ch 285 prevails).

Annotations

Notes

Editor's Notes—

Prior Law:

Amendments:

Note—

Editor's Notes—

This section was not effective from January 1, 2009, through December 31, 2012.

Stats 1993 ch 1136 § 4 and ch 1137 § 4 both amend § 54953 as amended by section 1 of Chapter 399 of the Statutes of 1988.

Prior Law:

There was another section of this number, relating to requirement for open and public meetings, which was added Stats 1988 ch 399 § 2, operative January 1, 1994, and repealed Stats 1999 ch 83 § 84.

Amendments:

1988 Amendment:

(1) Designated the former section to be subd (a); and (2) added subd (b) and the last paragraph.

1993 Amendment:

(1) Added subd (c); and (2) deleted the former last paragraph which read: "This section shall remain in effect until January 1, 1994, and on that date is repealed, unless a later enacted statute, which is chaptered before January 1, 1994, deletes or extends that date." (As amended Stats 1993 ch 1137, compared to the section as it read prior to 1993. This section was also amended by an earlier chapter, ch 1136. See Gov C § 9605.)

1994 Amendment:

Added subdivision designations (b)(1)–(b)(4).

1997 Amendment:

(1) Deleted "video" after "agency may use" in subd (b)(1), and after "elects to use" and "agendas at all" in subd (b)(3); (2) substituted "and" for "or" after "of the public" in subd (b)(1) and after "protects the statutory" in subd (b)(3); (3) added the last sentence in subd (b)(1); (4) substituted subd (b)(2) for former subd (b)(2) which read: "(2) The use of video teleconferencing, as authorized by this chapter, shall be limited to the receipt of public comment or testimony by the legislative body and to deliberations of the legislative body."; (5) amended subd (b)(3) by (a) substituting "conduct teleconference meetings in a manner that protects" for "adopt reasonable regulations to adequately protects"; and (b) adding the second and last sentences; and (6) substituted subd (b)(4) for former subd (b)(4) which read: "(4) The term 'video teleconference' shall mean a system which provides for both audio and visual participation between all members of the legislative body and the public attending a meeting or hearing at any video teleconference location."

1998 Amendment:

(1) Added the third sentence in subd (b)(3); and (2) amended subd (b)(4) by (a) substituting "a legislative body, the members of which are" for "individuals"; and (b) adding the second sentence.

2005 Amendment:

(1) Added ", except as provided in subdivision (d)" in subd (b)(3); and (2) added subd (d).

2012 Amendment:

Substituted "January 1, 2018" for "January 1, 2009" in subd (d)(4).

2013 Amendment:

(1) Added subd designations (1) and (2); and (2) added subd (2) in subd (c).

2016 Amendment:

Added subd (c)(3).

2017 Amendment:

In (d)(1), substituted "if" for "when" and "the" for "that"; and deleted former (d)(4) which read: "This subdivision shall remain in effect only until January 1, 2018".

2021 Amendment (ch 165):

Added "otherwise applicable" in (b)(1); substituted "subdivisions (d) and (e)" for "subdivision (d)" in (b)(3); substituted "county-sponsored" for "county sponsored" in (d)(3); and added (e) and (f).

2022 Amendment (ch 285):

Rewrote the section.

Added "otherwise applicable" in (b)(1); rewrote (b)(2), which formerly read: "Teleconferencing, as authorized by this section, may be used for all purposes in connection with any meeting within the subject matter jurisdiction of the legislative body. All votes taken during a teleconferenced meeting shall be by rollcall."; in (b)(3), deleted "and conduct teleconference meetings in a manner that protects the statutory and constitutional rights of the parties or the public appearing before the legislative body of a local agency" following "locations" in the first sentence and deleted the last sentence; deleted (b)(4); substituted "Act (Division 10 (commencing with Section 7920.000) of" for "Act (Chapter 3.5 (commencing with Section 6250) of Division 7 of" in (c)(3); added (e) through (i); redesignated former (e) as (j); added "shall remain in effect only until January 1, 2026, and as of that date is repealed" in (j); and made a stylistic change.

Note—

Stats 2022 ch 285 provides:

SEC. 7. The Legislature finds and declares that Sections 1 and 2 of this act, which amend *Section 54953 of the Government Code*, further, within the meaning of paragraph (7) of subdivision (b) of *Section 3 of Article I of the California Constitution*, the purposes of that constitutional section as it relates to the right of public access to the meetings of local public bodies or the writings of local public officials and local agencies. Pursuant to paragraph (7) of subdivision (b) of *Section 3 of Article I of the California Constitution*, the Legislature makes the following findings:

This act is necessary to ensure minimum standards for public participation and notice requirements allowing for greater public participation in teleconference meetings.

Stats 2022 ch 285 provides:

SEC. 6. The Legislature finds and declares that Sections 1 and 2 of this act, which amend *Section 54953 of the Government Code*, impose a limitation on the public's right of access to the meetings of public bodies or the writings of public officials and agencies within the meaning of *Section 3 of Article I of the California Constitution.* Pursuant to that constitutional provision, the Legislature makes the following findings to demonstrate the interest protected by this limitation and the need for protecting that interest:

By removing the requirement for agendas to be placed at the location of each public official participating in a public meeting remotely, including from the member's private home or hospital room, this act protects the personal, private information of public officials and their families while preserving the public's right to access information concerning the conduct of the people's business.

Stats 2017 ch 137 provides:

SEC. 2. The Legislature finds and declares that Section 1 of this act, which amends *Section 54953 of the Government Code*, furthers, within the meaning of paragraph (7) of subdivision (b) of *Section 3 of Article I of the California Constitution*, the purposes of that constitutional section as it relates to the right of public access to the meetings of local public bodies or the writings of local public officials and local agencies. Pursuant to paragraph (7) of subdivision (b) of *Section 3 of Article I of the California Constitution*, the Legislature makes the following findings:

This act strikes an appropriate balance between the public's right to access information about the conduct of their government agencies and the need to facilitate the work of health authorities through the use of teleconference meetings.

Stats 2012 ch 209 provides:

> SEC. 2. The Legislature finds and declares that Section 1 of this act, which amends *Section 54953 of the Government Code*, imposes a limitation on the public's right of access to the meetings of public bodies or the writings of public officials and agencies within the meaning of *Section 3 of Article I of the California Constitution.* Pursuant to that constitutional provision, the Legislature makes the following findings to demonstrate the interest protected by this limitation and the need for protecting that interest:
>
> Local health initiatives are an essential component of California's health care delivery system, and their ability to meet regularly to address the health care concerns of Medi-Cal beneficiaries is vital. The membership of local health initiative boards of directors is required by statute to represent a diverse group of health care professionals, and, as a result, these boards frequently are large and comprised of persons working and residing outside of the board's jurisdiction. Accordingly, these boards have a demonstrated difficulty in obtaining a quorum of members located within the board's jurisdiction as required by the teleconference provisions of the Ralph M. Brown Act.

Stats 2005 ch 540 provides:

SEC. 2. The Legislature finds and declares that Section 1 of this act, which amends *Section 54953 of the Government Code*, imposes a limitation on the public's right of access to the meetings of public bodies or the writings of public officials and agencies within the meaning of *Section 3 of Article I of the California Constitution.* Pursuant to that constitutional provision, the Legislature makes the following findings to demonstrate the interest protected by this limitation and the need for protecting that interest:

Local health initiatives are an essential component of California's health care delivery system, and their ability to meet regularly to address the health care concerns of Medi-Cal beneficiaries is vital. The membership of local health initiative boards of directors is required by statute to represent a diverse group of health care professionals, and, as a result, these boards frequently are large and comprised of persons working and residing outside of the board's jurisdiction. Accordingly, these boards have a demonstrated difficulty in obtaining a quorum of members located within the board's jurisdiction as required by the teleconference provisions of the Ralph M. Brown Act.

Stats 1996 ch 400 provides:

> SEC. 8. (a) In addition to the authority granted in *Section 54953 of the Government Code*, the Board of Supervisors of Santa Barbara County and a standing committee composed of members of the Board of Supervisors of Santa Barbara County that is a legislative body within the meaning of subdivision (b) of *Section 54952 of the Government Code* may use teleconferencing for the benefit of the public or the legislative body in connection with any meeting or proceeding authorized by law. The use of teleconferencing by the board under this section shall be limited to receipt of testimony by staff and

Board of Retirement Meeting

San Joaquin County Employees' Retirement Association

Agenda Item 10.05-02

January 20, 2023

SUBJECT: NEW LEGISLATION AFFECTING SJCERA OPEN MEETINGS AND ORDERLY CONDUCT (SB 1100)

SUBMITTED FOR: ___ CONSENT ___ ACTION _X_ INFORMATION

PURPOSE

To brief the Board on the additional authority Senate Bill 1100 provides to the presiding officer of a legislative body conducting a public meeting.

DISCUSSION

On August 22, 2022, the Governor approved Senate Bill 1100, adding Section 54957.95 to the California Government Code effective January 1, 2023. In addition to authority under Government Code Section 54954.3 (allowing reasonable regulations on public comment) and Section 54957.9 (authorizing a legislative body to clear the room in the event of willful interruption of the orderly conduct of a public meeting), Section 54957.95 permits the presiding officer to remove or cause the removal of an individual disrupting a meeting. The presiding officer is required to warn the individual that the behavior is disruptive and that failure to cease the disruptive behavior will result in removal from the meeting. If the behavior does not promptly cease, the disruptive individual may be removed.

Under the new law, "disrupting" means behavior that actually disrupts, disturbs, impedes or renders infeasible the orderly conduct of the meeting, including but not limited to, failure to comply with reasonable and lawful regulations adopted by SJCERA. It also includes any use of force or true threat of force, which is a threat with sufficient intent and seriousness that a reasonable observer would perceive it as an actual threat to use force. In the case of a use of force or true threat of force, removal may be authorized without any warning to the individual.

ATTACHMENT

California Government Code Section 54957.95.

Jason R. Morrish
Deputy County Counsel

Cal Gov Code § 54957.95

Deering's California Codes are current through the 2022 Regular Session.

Deering's California Codes Annotated > GOVERNMENT CODE (§§ 1 — 500000–500049) > Title 5 Local Agencies (Divs. 1 — 5) > Division 2 Cities, Counties, and Other Agencies (Pts. 1 — 3) > Part 1 Powers and Duties Common to Cities, Counties, and Other Agencies (Chs. 1 — 14) > Chapter 9 Meetings (§§ 54950 — 54963)

§ 54957.95. Removal of individual for meeting disruption [Effective January 1, 2023]

(a)

(1) In addition to authority exercised pursuant to *Sections 54954.3* and *54957.9*, the presiding member of the legislative body conducting a meeting or their designee may remove, or cause the removal of, an individual for disrupting the meeting.

(2) Prior to removing an individual, the presiding member or their designee shall warn the individual that their behavior is disrupting the meeting and that their failure to cease their behavior may result in their removal. The presiding member or their designee may then remove the individual if they do not promptly cease their disruptive behavior. This paragraph does not apply to any behavior described in subparagraph (B) of paragraph (1) of subdivision (b).

(b) As used in this section:

(1) "Disrupting" means engaging in behavior during a meeting of a legislative body that actually disrupts, disturbs, impedes, or renders infeasible the orderly conduct of the meeting and includes, but is not limited to, one of the following:

(A) A failure to comply with reasonable and lawful regulations adopted by a legislative body pursuant to *Section 54954.3* or any other law.

(B) Engaging in behavior that constitutes use of force or a true threat of force.

(2) "True threat of force" means a threat that has sufficient indicia of intent and seriousness, that a reasonable observer would perceive it to be an actual threat to use force by the person making the threat.

History

Added *Stats 2022 ch 171 § 2 (SB 1100)*, effective January 1, 2023.

Annotations

Notes

Note—

Stats 2022 ch 171 provides:

SECTION 1. The Legislature finds and declares as follows:

(a) It is the intent of the Legislature to prescribe requirements for governing public meetings that are consistent with subdivision (c) of *Section 54954.3 of the Government Code*, which provides that a legislative body of a local agency shall not prohibit public criticism of the policies, procedures, programs, or services of the agency, or of the acts or omissions of the legislative body.

(b) It is further the intent of the Legislature to prescribe requirements for governing public meetings to protect civil liberties in accordance with the United States Constitution, the California Constitution, and relevant law.

(c) It is further the intent of the Legislature to codify the authority and standards for governing public meetings in accordance with *Acosta v. City of Costa Mesa, 718 F.3d 800, 811 (9th Cir. 2013)*, in which the court explained that an ordinance governing the decorum of a city council meeting is not facially overbroad if it only permits a presiding officer to eject an attendee for actually disturbing or impeding a meeting.

Research References & Practice Aids

Hierarchy Notes:

Cal Gov Code Title 5, Div. 2

Cal Gov Code Title 5, Div. 2, Pt. 1, Ch. 9

End of Document

January 13, 2023

TO: Board of Retirement

FROM: Johanna Shick
Chief Executive Officer

SUBJECT: Chief Executive Officer Report

Strengthen the long-term financial health of the Retirement Plan

Evaluate the appropriateness of actuarial assumptions

- *Implement adopted assumption changes*
  Staff implemented the required system and procedural changes for the numerous processes affected by assumption changes (including the contribution rates, interest posting, interest charged on service purchases and over payments, benefit option calculations, and reserve calculations) in time for January 2023 implementation.

Review and confirm or refresh asset allocation

- *Initiate implementation of new asset allocation policy*
  Implementation of the new asset allocation policy began in November 2022 with the pacing studies for Private Equity, Private Credit, and Real Estate, and is continuing with manager searches (and manager presentations to the Board) in those areas. Additional asset class reviews and any required manager searches will continue in 2023. Because private investment opportunities generally take longer to source and implement, full implementation of the new asset targets is expected by June 2024.

- *Conduct benchmark review and implement new benchmarks as appropriate*
  The benchmark review has been scheduled for the February Board meeting.

Optimize the investment manager lineup

- *Miller Global Fund VI and VII Wind Down*. SJCERA received final distributions from Miller Global Fund VI and VII on December 20, 2022 in the amount of $30,440.99 and $14,594.47, respectively. All investments have been realized in both funds. This brings the number of opportunistic private Real Estate funds down to 6 from 8.

- *Consider Prospective Private Credit manager*. In accordance with SJCERA's pacing plan for the Private Credit asset class, SilverPoint, a Private Credit manager that focuses on middle market direct lending, will present at the January Board meeting.

Deliver target investment return. The year 2022 has been a difficult for the capital markets. Stocks fell significantly due to global economic concerns and high inflation. In an effort to combat high inflation, U.S. Federal Reserve raised rates to levels not seen in the previous 15 years, causing fixed income markets to decline as well.

SJCERA's total portfolio declined 5.1 percent year-to-date (YTD) for the period ending November 30, 2022 (the most recently available report). While our returns for the year look like they will fall significantly short of our target, SJCERA's most recent quarterly report shows that we out-performed the median public fund with assets over $1 billion by 3.8 percent. Additionally, our November 30, 2022 returns outperformed the policy benchmark YTD and over the most recent 1-, 3-, and 5-year periods. SJCERA's diversified portfolio is designed to weather these types of market environments. For example, the Crisis Risk Offset allocation gained 10.3 percent YTD, helping to offset losses in other portions of the portfolio. Even with the anticipated actuarial losses due to investment performance this year, the 2024 estimated aggregate employer contribution rate is still expected to decrease slightly from the 2023 rate of 49.3 percent to an estimated 2024 rate of 48.4 percent. The anticipated decrease is due to the recognition of deferred investment gains from prior years.

Consolidation of Defined Benefit Investing Gaining Traction Globally. Included in this month's reading materials is an article from NCPERS "PERSist" newsletter regarding consolidation of pension funds. In the UK, more than 80 local government defined benefit pension funds pooled assets in 2018 into eight separate pools and are expected to consolidate to three pools by 2030. The advantages of this type of consolidation include reducing costs and increasing efficiency. If the Board is interested in exploring this as an idea, staff can begin exploring the possibilities, challenges, and options for overcoming those challenges with counsel and administrators of other systems.

Modernize the operations infrastructure

Implement Pension Administration System (PAS)

As of this writing, contract negotiations with Tegrit are ongoing, which may result in a slight delay in the project start date. Although the dates for some initial project activities may slip, the overall project duration is expected to remain unaffected. Both SJCERA and Tegrit are committed to the project and our partnership, and we anticipate completing contract negotiations in time for the project to begin in first quarter of 2023. As an example of the level of commitment, SJCERA's and Tegrit's Chief Executive Officers have joined in their respective business experts and legal counsel in working through the few remaining provisions.

Enhance the member experience

- *Improve content and organization of website*

Communications Officer Kendra Fenner has drafted revisions to the Active member pages and submitted them for review. The goal of the revisions is to improve organization of content, making it more accessible and easier to understand.

- *Develop and implement online member education videos on prioritized topics*

Kendra has also identified six initial video topics and has begun drafting scripts for each video.

Improve technology for business operations

- *Adopt industry standard business processes wherever possible*
  - *Implement off-site back-up and infrastructure solutions, and investigate further cloud presence*

    IT Manager, Adnan Khan, and IT Systems Analyst II, Lolo Garza, investigated and procured the hardware and professional services necessary to begin installation of our on-site backup with off-site immutable cloud synchronization solution in January. We expect the implementation to be completed this quarter.

  - *Plan transition from Mac to Windows*

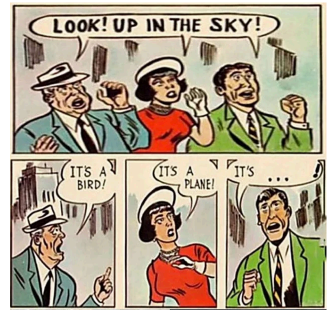
    The plan to transition from Mack to Windows has been completed, and IT has tested various desktop platforms over the past three months. Final hardware procurement and configuration will begin this quarter and staff plans to complete full implementation of new desktop computers by the end of third quarter. A few Mac servers will remain after 2023, solely to support the legacy PAS and Optix (SJCERA's scanning solution) until the new PAS is implemented.

- *Adopt contemporary risk management, disaster recovery and business continuity practices*
  - *Implement Phase 1 of Enterprise-Wide Risk Management (EWRM) plan*

    On December 14 we had an all-staff meeting to finalize the organizational risks and assess those risks using a severity/probability heat map. Management Analyst III Greg Frank compiled the information from the meeting and created SJCERA's first ever risk assessment document.

Align resources and organizational capabilities

<u>Employee of the Month</u>



It's a bird…It's a plane…It's Superstar Bethany! Congratulations to Retirement Technician Bethany Vavzincak for being named SJCERA's December Employee of the Month! Bethany was recognized for going the extra mile to serve our customers. Her service is prompt, thorough, polite and professional, but it's the fact that she truly cares about members' situations and does whatever she can to help that makes her stand out. In a recent survey response, a member named Bethany a Superstar—impressive feedback indeed!

Maintain Business Operations

<u>Medicare Part B Reimbursement</u>

Margarita Arce and Kathleen Goodwin are processing the Medicare Part B Reimbursement forms to ensure eligible retirees receive the correct reimbursement. These forms and supporting documentation from Social Security are required annually from approximately 850 retirees with the sick leave bank. Documentation from members was due by January 3, 2023, for reimbursement in the February 1 payment.

<u>Interest Posted Timely</u>

In compliance with Government Code Section 31591, SJCERA credits interest semiannually on June 30 and December 31 to all contributions in the retirement fund that have been on deposit for six months immediately prior to such date. SJCERA's Reserve policy requires semiannual interest be credited to the Member Reserve before any other reserve using the rate which, when compounded, produces the annual actuarial assumed rate of investment return. Although the current assumed rate of return is 6.75 percent, because the December 31 interest posting is based on contribution balances as of June 30, 2022, the semiannual interest posting is based on the previous assumed rate of return (7 percent). Therefore, the semiannual rate of 3.4408 percent was used for posting the December 31, 2022 interest.

<u>IRS *Form 1099-R*.</u>

Now that interest has been posted, the Finance team is focused on finalizing their data analysis and producing the IRS *Form 1099*-R, which will be mailed by January 31, as required.

<u>Legislation Implementation</u>

Assembly Bill (AB) 2449 was signed into law and extends teleconferencing without complying to the Brown Act until January 1, 2026. The amendment allows Trustees to attend meetings remotely for just cause or emergency a maximum of two times per year without posting agendas at the teleconferencing locations, identifying those locations on the agenda, or making the locations accessible to the public. Please refer to County Counsel's memo attached to the legislative report for additional information.

Senate Bill (SB) 1100 was signed into law and allows the Board Chair to remove individual(s) for willfully interrupting a public meeting if the individual fails to cease after a warning. Please refer to County Counsel's memo attached to the legislative report for additional information.

<u>Securities Litigation Update</u>. As part of our custodial bank contract, Northern Trust monitors securities litigation and files for SJCERA to join applicable class action law suits. During the third quarter 2022, Northern Trust filed on SJCERA's behalf to join the following class actions: Mallinckrodt Plc., Axos Financial, Aegean Marine Petroleum Network, Uniti Group Inc., Facebook Inc., NN Inc., Inovio Pharmaceuticals, Inc., Credit Acceptance Corporation, and Immunomedics, Inc.

<u>SACRS Board of Director Elections 2023-2024 – Elections Notice</u>

Nominations for the SACRS Board of Directors are due to the Nominating Committee no later than noon on March 1, 2023. Any regular member may submit nominations to the Committee using the Nomination

Submission form, included in your Board materials. Elections will be held during the SACRS Business Meeting at the Spring Conference on May 13, 2023.

Provide Excellent Customer Service
A few quotes from our members:
“Kathleen knew exactly what I needed even though I didn’t know what it was called. She was terrific!”

“Margarita was very communicative. That is critically important and she did so beyond measure.”

Conclusion

With Chinese New Year just days away (January 22), I’ll take a quick moment to mention that 2023 is the year of the Water Rabbit, a symbol of longevity, peace, and prosperity in Chinese culture, and it is expected to be a year of hope. Sounds pretty good!

A year of peace and prosperity would certainly help our investment returns and funded ratio! With the prudent construction of our diversified portfolio, expert guidance from our dedicated consultants, sound decisions of our Trustees, and steadfast efforts of SJCERA staff, the pension fund and our members’ retirement benefits are in good hands for a secure future. Whether the year is hopeful or gloomy, we have measures and people in place to navigate our way through it and be successful over the long term.

SJCERA is off to a strong start on our 2023 goals. To paraphrase Michael Josephson, President of the national CHARACTER COUNTS! Coalition, in 2023, SJCERA’s dedicated team (including staff, consultants and trustees) will continue to “[a]pproach the New Year with resolve to find the opportunities hidden in each day.” I look forward to working with each of you for the benefit of our members and the success of SJCERA.

2022 Action Plan Results

San Joaquin County Employees' Retirement Association

1. **Strengthen the long-term financial health of the Retirement Plan**
   Based on the January 1, 2022 Actuarial Valuation, SJCERA's funded ratio improved by nearly 10 percent, from 68.1 percent to 78.0 percent. This gain is particularly significant because at the same time, SJCERA lowered its assumed rate of return to 6.75 percent, which generally decreases the funded ratio.

   a. **Evaluate the appropriateness of actuarial assumptions**

   - <u>Conduct Actuarial Experience Study to assess the appropriateness of, and impact of COVID-19 on key actuarial assumptions</u>. 100 percent complete.

     The completed experience study was presented at the August 12, 2022 meeting. The Board adopted assumption changes recommended by the study and also lowered the assumed rate of return from 7 percent to 6.75 percent. Staff implemented the required system and procedural changes for the numerous processes affected by assumption changes (including the contribution rates, interest posting, interest charged on service purchases and over payments, benefit option calculations, and reserve calculations) in time for January 2023 implementation.

   b. **Review and confirm or refresh asset allocation**

   - <u>Conduct Asset-Liability Study to assess the Board's risk tolerance and the level of risk needed to meet the actuarial assumptions.</u> 100 percent complete.

     The asset-liability study, including risk tolerance assessment, was completed, resulting in the Board adopting a revised Strategic Asset Allocation policy in June. The risk survey showed meeting or exceeding the assumed return expectation and improving funded status are the top two priorities and the Board is willing to assume the same or more risk than the current portfolio. As part of the asset-liability study, Investment Consultant Meketa and Actuarial Consultant Cheiron made the following Board presentations:

     - February Review of 2022 capital market assumptions
       Discount Rate Review: Liabilities, Economic Assumptions, Projections
     - March Review of asset-liability and actuarial concepts
     - April Examination and modeling of the current strategic asset allocation
       Presentation of Risk Assessment Survey Results
     - May Review of asset-liability model output and examination of optimized allocations based on the risk survey
     - June Final review of optimized allocations model and portfolio selection
     - July Implementation plan for selected portfolio

     The implementation of the revised asset allocation began in November with the asset class reviews and pacing studies for Private Equity, Credit and Private Credit, and Real Estate, and is continuing with manager searches. Additional asset class reviews and any required manager searches will continue in 2023. Because private investment opportunities generally take longer to source and implement, we expect full implementation of our new asset targets by June 2024.

   - <u>Optimize Strategic Asset Allocation policy in light of studies and market projections</u>.
     100 percent complete.

     1. *Review fixed income and other asset classes.*
        The fixed income asset class review was presented in February, the credit class review (both public and private) was presented in October and (as noted in Goal 1.b.2) class reviews and pacing studies for private equity, private credit and real estate were presented in November.

2. *Conduct a pacing study of private market assets.*
   Following the selection of new portfolio targets, Meketa conducted pacing studies of SJCERA's private market classes, including Private Equity, Private Real Estate and Private Credit, and presented them at the November meeting.

- Deliver target investment return. 100 percent complete.

The year 2022 has been difficult for the capital markets. Stocks fell significantly due to global economic concerns and high inflation. In an effort to combat high inflation, the U.S. Federal Reserve raised rates to levels not seen in the previous 15 years, causing fixed income markets to decline as well.

As a result, SJCERA's total portfolio declined 5.1 percent year-to-date (YTD) for the period ending November 30, 2022 (the most recently available report). While our returns for the year look like they will fall significantly short of our target, SJCERA's most recent quarterly report shows that the portfolio out-performed the median public fund with assets over $1 billion by 3.8 percent. Additionally, our November 30, 2022 returns outperformed the policy benchmark YTD and over the most recent 1-, 3-, and 5-year periods. SJCERA's diversified portfolio is designed to weather these types of market environments. For example, the Crisis Risk Offset allocation gained 10.3 percent YTD, helping to offset losses in other portions of the portfolio. Even with the anticipated actuarial losses due to investment performance this year, the 2024 aggregate employer contribution rate is still expected to decrease slightly from the 2023 rate of 49.3 percent to an estimated 2024 rate of 48.4 percent. The decrease is due to the recognition of deferred investment gains from prior years.

The full asset-liability study conducted this year resulted in refining the Board-adopted strategic asset allocation. The allocation is designed to achieve the assumed rate of return over the long term while staying within the Board's reported risk tolerance. The process of transitioning towards the new portfolio's long-term targets is underway.

To assist the Board in understanding market conditions and making sound decisions about the portfolio, Meketa provided an education session at the March meeting on inflation. Highlights of the presentation included: 1) inflation indicators, 2) different categories of the Consumer Price Index, 3) history of inflation, 4) inflation expectations, 5) labor shortage and wage growth, 6) money supply, and 7) asset class performance. In addition, SJCERA's annual Investment Roundtable included education on 1) world markets in 2022, 2) private equity and infrastructure, 3) inflation, 4) the real estate markets, and 5) private credit.

c. Optimize the investment manager lineup

- Conduct a review of current managers and mandates to better align with our Strategic Asset Allocation policy. 100 percent complete.

This project was conducted in conjunction with the asset-liability study (see 1.b. i. and ii. above). In addition, as reported in open session, manager optimization activities completed this year included: liquidating our position with DoubleLine Capital and reinvesting those funds with Loomis Sayles Core Disciplined Alpha Fund; making investment commitments to Lightspeed Venture Partners Select V, Ridgemont Equity Partners Fund IV, and BlackRock Global Infrastructure Fund IV.

2. Modernize the operations infrastructure

a. Implement Pension Administration System (PAS)

- Contract with Project Manager to lead PAS Implementation and Data Conversion projects 100 percent complete.

Staff completed the Request for Proposal (RFP) process and SJCERA contracted with Linea Solutions to lead the PAS implementation and data conversion projects. Linea is currently providing project management services as outlined in the contract, including assisting with contract negotiations with the PAS vendor.

- <u>Contract with Pension Administration System (PAS) vendor.</u> 90 percent complete.
  Staff completed the RFP process, identified Tegrit as the preferred vendor and has reached agreement on nearly all contract provisions. Both SJCERA and Tegrit are committed to the project and our partnership, and we anticipate completing contract negotiations in time for the project to begin in first quarter of 2023. As an example of the level of commitment, SJCERA's and Tegrit's Chief Executive Officers have joined in their respective business experts and legal counsel in working through the few remaining provisions.

- <u>Contract with Data Conversion vendor</u>. 100 percent complete.
  Staff completed the RFP process and contracted with Managed Business Solutions (MBS) to provide data clean-up/conversion services. MBS's work on the Data Clean-Up and Data Conversion project is progressing as expected.

- <u>Identify project risks and mitigations</u>. 100 percent complete.
  Linea and staff established a list of initial project risks and mitigations. When the data conversion project began, MBS also identified project risks and mitigations, which SJCERA and Linea reviewed, and those risks are being tracked weekly as part of normal project management. When the PAS project begins in first quarter 2023, Tegrit, staff and Linea will identify the PAS project related risks and mitigations, at which point, the risks and mitigations will be consolidated into one master list, which we will continue to monitor and track weekly.

- <u>Program/Test new PAS</u> Rescheduled to 2023.
  At the time this goal (and other PAS-related Action Plan goals) were set, staff estimated the PAS project to begin by the end of 2022; however, the project timing could not be finalized until the vendors were selected and project plans developed. Once Tegrit was identified as the preferred PAS vendor, this goal was rescheduled for 2023, to coordinate with their availability to initiate the PAS project.

- <u>Maintain functionality of legacy PAS until new PAS is implemented and stabilized</u>.
  100 percent complete.
  Negotiated the purchase of the legacy PAS, thereby securing SJCERA's ability to maintain core business operations. With the purchase of the legacy system and the new support agreement in place, SJCERA is able to maintain existing system functionality until the new PAS is implemented. IT staff has been trained on underlying schema, layouts, tables and factors necessary to maintain and enhance the system. SJCERA is already reaping benefits from owning the legacy system. For example, it has enabled SJCERA to facilitate the data conversion project directly without relying on other external parties. Specific actions taken to maintain the functionality of the legacy system included:
    - Implemented new IRS *Form W-4P* requirements.
    - Improved multiple year-end processes, involving (1) Updating contribution rates; (2) Submitting the IRS transmittal file, (2) Crediting interest, and (3) Updating bi-annual service purchase interest factors, including implementing bi-weekly factors for the first time.
    - Created a process to automatically upload more than 1,500 new Valley Strong account numbers directly into the system instead of requiring members submit new direct deposit forms for staff to enter manually into the system.
    - Improved debugging, trouble shooting, and remediation of issues as they arise. For example, when the monthly retiree report for financial reconciliation failed to generate, SJCERA's IT staff was able to identify and resolve the issue.

b. Enhance the member experience

- Complete improvements to website architecture and functionality. 100 percent complete.
  The new website went live August 31. The new site is more user-friendly, has search capabilities and enhances the member's over-all experience. Additionally, the Content Management System enables administrative staff to independently update the website, freeing IT staff to work on more technical tasks.

- Identify the conditions necessary to enable a full-service member portal, and develop and initiate a plan to fulfill those conditions. 100 percent complete.
  Staff and Linea identified 11 requirements necessary to enable a full-service member portal.
  1) Develop and implement a member and employer communications plan
  2) Develop and implement *Acceptable Use Policy* for member portal
  3) Develop and implement *Password Requirements* policy and procedure
  4) Obtain personal email addresses for all members
  5) Implement user validation and verification methodologies
  6) Implement multi-factor authentication methodology and tool
  7) Evaluate and procure electronic signature tool
  8) Define and implement file sharing upload and download capabilities
  9) Define functionality road map for day one and beyond
  10) Define and document member portal functionality processes and error management
  11) Develop and deploy member portal training for members and staff to include instructional videos, online help, customer service scripts, FAQ, etc.

  With regard to item seven, the Board adopted an Electronic Signature policy, which staff created to address current needs and also lay the foundation for the member portal in the future. In addition, a high-level plan to fulfill the identified conditions has been developed, and will be refined and enhanced as part of the PAS implementation cycle when Tegrit begins work on the PAS project.

c. Improve technology for business operations

- Adopt industry standard business processes wherever possible. Rescheduled to 2023.
  The goal has been rescheduled for the 2023 calendar year, as the PAS project is expected to begin in first quarter of 2023.

- Refine new PAS requirements to support business processes and performance measurements Rescheduled to 2023.
  Although this task has been re-scheduled for first quarter 2023 to align with the initiation of the PAS project, in November, staff and Linea conducted initial high-level requirement-identification sessions. This preparatory work gives us a head start on our 2023 goal and creates a firm foundation upon which to build. In early first quarter 2023, Linea and staff will conduct detailed requirements refinement in preparation for Tegrit's requirements confirmation sessions, which are scheduled to occur within 90-days of the project start.

- Implement recommended items resulting from 2021 cybersecurity and disaster recovery plan assessments. 70 percent complete.
  Linea Secure completed their final deliverable in SJCERA's cybersecurity audit project: a red team exercise. Upon receipt of the cyber-security audit report, staff immediately began implementing its Phase 1 recommendations, as noted below.
  1) Establish Formal Cyber Policy Governance – 60% complete. Progress was impacted by the departure of the County Information Security Officer. Staff is working on identifying alternatives. Work will be continued in 2023.
  2) Improve Data Protections – 100% complete.
  3) Update Access Control Processes – 100% complete.

4) IT Strategic Plan – 60% complete. The portion of the plan that addresses the new Pension Administration System has been deferred until the start of the PAS project. Staff will work with Linea and the PAS vendor in 2023 to complete that portion of the plan.
5) Implement Configuration Management Tool – 75% complete. 100% complete for existing systems; Work in Progress for new Windows environment. The remaining portion is nearly complete and will be fully implemented when the Windows migration is complete.
6) Develop Third-Party Management Process – Work in Progress: 15% complete. Improved some third-party management processes (e.g., access control); work will continue in 2023.
7) Formalize Incident Response Plan – 100% complete.

All outstanding items have been moved to the 2023 Action Plan.

- Begin Windows Server infrastructure implementation. 100 percent complete.

  Configured and installed the Windows infrastructure servers and the networking components including the virtual servers needed to support the Data Conversion project. Storage level data encryption and industry best practices were applied and MBS verified that all requirements were met. Other related actions included: (1) Completed the Mac to Windows server authentication, (2) Initiated the Kerio email system to Office365 email migration, (3) Procured the new Windows server infrastructure backup system, and implementation is scheduled to start in January 2023.

- Begin Enterprise-Wide Risk Management (EWRM) methodologies implementation.

  100 percent complete.

  With input from staff at all levels of the organization, completed an enterprise-wide risk assessment document, which identified and categorized SJCERA's risks. Risks were prioritized using a severity/probability heat map both with and without the mitigations currently in place to minimize these risks. In accordance with the Action Plan, staff will identify and implement solutions to better mitigate high priority risks in 2023.

3. Align resources and organizational capabilities

a. Develop and implement a workforce planning process

- Address project staffing and training needs. 100 percent complete.

  The Board-approved budget included filling one additional (previously vacant) technician position in preparation for the reallocation of other staff members' time to the three- to five-year PAS project. That position has been filled and the employee is fully trained.

  Staff anticipates additional temporary resources will also be needed as the project progresses. Those resources will be engaged with sufficient orientation and training time to ensure productivity during peak project workload periods. Temporary staffing planning will be conducted as part of finalization of the PAS project plan, when stakeholders will identify the staff resources needed at each phase of the project. The PAS project is scheduled to begin in the first quarter of 2023.

- Implement strategies designed to support staff and maintain morale during PAS project

  100 percent complete.

  Key staff at all levels of the organization identified strategies to support staff and morale during the PAS project. A high-level schedule of activities has been developed and will be refined as we move forward through the project. Topics of discussion included milestone completion events, rewards and recognition activities, staff cross-training and hiring temporary staffing to backfill operational activities to allow more staff to participate on the project.

  In addition, SJCERA continues to provide activities and celebrations intended to recognize and support staff and maintain morale. Efforts in 2022 included Employee of the Month; Recognition in the CEO reports, which are distributed with a personal thank you note from the CEO to each staff member mentioned in the report; and eight seasonal special events. Special events included: Random Acts of Kindness week (staff received a variety of treats each day and the entire organization helped collect "change for change" to raise funds for a local charity); Earth Day (staff members received an earth stress-ball, a jeans coupon, and participated in a snacks potluck); Cinco de Mayo potluck; Independence Day (potluck, patriotic themed goodies, red, white and blue attire and trivia games); Halloween (contests for best dessert, costume and decorated work space); Thanksgiving potluck; and a year-end celebration (catered lunch, games, a gift exchange and contests for best dessert and ugliest sweater).

b. Enhance education and development across all levels of the organization

- <u>Offer training and development opportunities intended to strengthen SJCERA's on-boarding and succession planning</u>. 100 percent complete.

An initial list of training and development opportunities across the organization was expanded to include County training resources.

In addition, the following training and development activities were completed in 2022, which support staff's career development opportunities.

- Executive staff attended administrators and investment related training through SACRS and CALAPRS. Two benefits staff members (10 percent of our total workforce) were provided developmental leadership opportunities in work-above-class assignments. Two lead-level staff members attended the CALAPRS management academy and several staff attended the Disability training. Additionally, more staff than ever attended the virtual CALAPRS roundtable events, which provide training and information-sharing opportunities with staff from other California retirement systems.

- Provided SJCERA's managers and supervisors with periodic emails on leadership topics such as handling conflict and nine key phrases for enhancing engagement.

- All SJCERA staff completed a video training series provided by County Information Service Division called The Inside Man: Season 2 which contained 12 lessons on mobile device security, phishing, password security, social engineering and physical security. All SJCERA staff has completed this training.

- Staff responsible for various projects attended a five-session Franklin Covey Project Management course. The course consisted of five meetings and included topics on project scope, developing a communication plan, feedback from key stakeholders, risk assessment and accountability of team members. A condensed version of the course is scheduled to be presented to all staff in early 2023.

- All staff have completed all of the County-required training courses that were offered and available.

- Assisted Trustees in fulfilling their statutory training requirements. Offered approximately 10 hours of education to trustees in regularly scheduled or special Board meetings. Made Trustees aware of online options for required courses, various webinars (including providing summaries of governance related webinars), and other conferences and training opportunities.

Manage Emerging Organizational Needs

In addition to the Action Plan Results, staff also coordinated and/or led to completion the following projects:

a. Collected and Tracked Additional Employer Contributions

Three employers (the County, San Joaquin County Superior Court, and the Mosquito and Vector Control District (MCVD)) continued making voluntary additional contributions with the goal of decreasing their portion of the unfunded actuarial liability (UAL). In total, employers paid $23.1 million in additional contributions this year. These additional contributions demonstrate employers' fiscal prudence, their commitment to fulfilling the pension promise made to their employees, and their confidence in SJCERA as a good steward of those funds.

b. Completed Investment Counsel RFP Process
Staff completed contracting with an additional Investment Counsel. Staff identified that having two counsels not only added depth and breadth to the expertise, but also enabled SJCERA to strengthen its business continuity capabilities.

c. Completed Implementation of the *Alameda* Decision
In April, staff completed the final implementation of the California Supreme Court's *Alameda* decision, which required SJCERA to exclude certain earnings types from benefit calculations. All benefit and contribution re-calculations, contribution repayments, and overpayment collections have been completed. In total, 135 retirees' monthly benefits were decreased. Decreases ranged from $1.71 per month to $2,815.34 per month. As to Active and Deferred members, 1,234 received contribution adjustments plus interest, more than half of which received an adjustment of less than $500. In total, SJCERA paid out $1,291,641.98 in contributions and interest, and collected $116,772.92 in overpaid benefits, for a total net adjustment of $1,174,869.06 to the fund. In total, the project took about 21 months to complete. SJCERA was one of the first (if not the first) of the 1937 Act systems to complete its *Alameda* decision adjustments; there are a number of systems that have not completed them yet.

d. Modified SJCERA Job Descriptions for Career Paths to Meet Organizational Needs.
Obtained County approval on updated job descriptions and minimum qualifications for four positions. The revised descriptions better reflect current duties, provide opportunity for cross-training and back-ups, align career paths and also strengthen SJCERA's overall continuity of operations.

e. Finalized and Obtained Board of Retirement Approval on SJCERA Strategic Plan.
The final 2022-2026 Strategic Plan was presented to the Board in January. Also in January, staff updated the previously approved 2022 Action Plan to align with the Strategic Plan, which is the basis of this year-end report.

f. Completed Implementation of Base Pay Pensionable Compensation for New Tier 2 Members.
Implemented the payroll, system, procedural and communications changes required to implement the Board's decision to use only base pay in retirement benefit calculations for Tier 2 members who first become SJCERA members after January 1, 2022. All SJCERA and employer protocols were in place and fully operational when the first affected members were hired and continue to operate smoothly.

g. Maintained Positive Relations with Employers
- Reached out to each of SJCERA's 10 employers. Had in-depth discussions with the seven employers expressing interest, including San Joaquin County, Law Library, Waterloo-Morada Fire District, Lathrop-Manteca Fire District, Mountain House Community Services District, the Historical Society and the Mosquito and Vector Control District. The remaining three employers didn't feel the need to meet and all employers expressed overall satisfaction with SJCERA.
- Met with County representatives regarding possibly lowering the assumed rate of return; fielded their questions, ultimately gaining their support for lowering it to 6.75 percent.

- In addition to routine monthly Board of Retirement meeting notifications, actively encouraged employers to attend those Board meetings at which the Board's decisions would have a direct impact on employers, such as asset allocation and actuarial assumptions.
- Reached out to County Supervisors in advance of SJCERA presentations to the Board of Supervisors to brief them on key points and address any questions/concerns. Revised *Return to Work* Employer Notice summarizing the retiree return to work statutory requirements. The notice provides specific guidance to employers on requirements for retirees hired before and after April 1 (the date the Governor reinstated the normal, statutory rules, rescinding previous orders that created exceptions to those rules).
- Provided SJCERA's perspective on retirement-related legislation
- Assisted with retirement-related labor negotiations including the retirement eligibility of specific pay types, implementation planning, and connecting them with Cheiron when an actuarial study was required by Government Code section 31515.5.
- Provided answers to Employers' benefits and investment related questions.
- Clarified sick leave bank process ownership and roles/responsibilities with Waterloo-Morada Fire District

h. Implemented improved death audit process.

Assessed various death audit options and contracted for upgraded services with PBI Research Services (a leader in these services used by CalPERS, the Pension Benefit Guaranty Corporation (PBGC), San Diego CERA, and many other pension systems across the nation). The upgraded services allow more frequent testing of our payee and deferred population thereby reducing the risk of potential overpayments and includes additional research to reduce the risk of false positive identifications.

i. Negotiated the purchase of SJCERA's legacy system

Negotiated the purchase of legacy pension administration system thereby securing SJCERA's ongoing operations and improving efficiency. Agreement included training and documentation for SJCERA's IT staff, and a support services agreement. The transition and training has gone smoothly.

January 1, 2023

To: SACRS Trustees & SACRS Administrators/CEO's
From: Dan McAllister, SACRS Immediate Past President, Nominating Committee Chair
SACRS Nominating Committee
Re: SACRS Board of Director Elections 2023-2024 - Elections Notice

SACRS BOD 2023-2024 election process will begin January 1, 2023. Please provide this election notice to your Board of Trustees and Voting Delegates.

DEADLINE	DESCRIPTION
March 1, 2023	Any regular member may submit nominations for the election of a Director to the Nominating Committee, provided the Nominating Committee receives those nominations no later than noon on March 1 of each calendar year regardless of whether March 1 is a Business Day. Each candidate may run for only one office. Write-in candidates for the final ballot, and nominations from the floor on the day of the election, shall not be accepted.
March 25, 2023	The Nominating Committee will report a final ballot to each regular member County Retirement System prior to March 25
May 13, 2023	Nomination Committee to conduct elections during the SACRS Business Meeting at the Spring Conference
May 15, 2023	Board of Directors take office for 1 year

Per SACRS Bylaws, Article VIII, Section 1. Board of Director and Section 2. Elections of Directors:

Section 1. Board of Directors. The Board shall consist of the officers of SACRS as described in Article VI, Section 1, the immediate Past President, and two (2) regular members

> ***A. Immediate Past President.*** *The immediate Past President, while he or she is a regular member of SACRS, shall also be a member of the Board. In the event the immediate Past President is unable to serve on the Board, the most recent Past President who qualifies shall serve as a member of the Board.*
> ***B. Two (2) Regular Members****. Two (2) regular members shall also be members of the Board with full voting rights.*

Section 2. Elections of Directors*. Any regular member may submit nominations for the election of a Director to the Nominating Committee, provided the Nominating Committee receives those nominations no later than noon on March 1 of each calendar year regardless of whether March 1 is a Business Day. Each candidate may run for only one office. Write-in candidates for the final ballot, and nominations from the floor on the day of the election, shall not be accepted.*

The Nominating Committee will report its suggested slate, along with a list of the names of all members who had been nominated, to each regular member County Retirement System prior to March 25.
The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee's suggested slate to each trustee and placing the election of SACRS Directors on

his or her board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee.

Director elections shall take place during the first regular meeting of each calendar year. The election shall be conducted by an open roll call vote, and shall conform to Article V, Sections 6 and 7 of these Bylaws.

Newly elected Directors shall assume their duties at the conclusion of the meeting at which they are elected, with the exception of the office of Treasurer. The incumbent Treasurer shall co-serve with the newly elected Treasurer through the completion of the current fiscal year.

The elections will be held at the SACRS Spring Conference May 9-12, 2023. Elections will be held during the Annual Business meeting on Friday, May 12, 2023, in San Diego at Paradise Point Hotel and Resort.

If you have any questions, please contact Dan McAllister, Dan.McAllister@sdcounty.ca.gov

Thank you for your prompt attention to this timely matter.

Sincerely,

Dan McAllister

Dan McAllister, San Diego CERA Trustee & San Diego County Treasurer Tax Collector
SACRS Nominating Committee Chair

CC: SACRS Board of Directors
SACRS Nominating Committee Members
Sulema H. Peterson, SACRS Executive Director

SACRS Nomination Submission Form
SACRS Board of Directors Elections 2023-2024

All interested candidates must complete this form and submit along with a letter of intent. **Both the form and the letter of intent must be submitted no later than March 1, 2023.** Please submit to the Nominating Committee Chair at Dan.McAllister@sdcounty.ca.gov AND to SACRS at sulema@sacrs.org. If you have any questions, please feel free to contact Sulema Peterson at SACRS at (916) 701-5158.

Name of Candidate	Name:
Candidate Contact Information (Please include – Phone Number, Email Address and Mailing Address)	Mailing Address: Email Address: Phone:
Name of Retirement System Candidate Currently Serves On	System Name:
List Your Current Position on Retirement Board (Chair, Alternate, Retiree, General Elected, Etc)	○ Chair ○ Alternate ○ **General Elected** ○ Retiree ○ Other ___________
Applying for SACRS Board of Directors Position (select only one)	○ President ○ **Vice President** ○ Treasurer ○ Secretary ○ Regular Member
Brief Bio in Paragraph Format	

MEKETA
INVESTMENT GROUP

Private Equity Primer

WHITEPAPER
OCTOBER 2022

CONTRIBUTORS
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Jess Downer, CFA
Frank Benham, CFA, CAIA

This primer describes the asset class commonly known as private equity. It attempts to answer the types of questions institutional investors would be likely to ask when considering an investment in this area.

Historically, private equity investments have often been grouped in a larger category of investments called alternative investments. Alternative investments have been defined as any investments other than publicly traded stocks and bonds. In addition to private equity investments, alternatives have often included real estate, infrastructure, natural resources, private debt, and hedge funds.

This primer is limited to an overview of private equity and only describes the characteristics of the asset class. It does not suggest a target allocation, nor does it specify how to implement an investment program. These issues are client specific and must be addressed by the decision-makers in each group.

What is private equity?

Private equity (i.e., "PE") investments are simply equity investments in privately held companies. Private equity investments are generally structured in the form of partnerships that usually consist of 10 to 20 equity investments in individual companies.

Like investments in publicly traded common stocks, investments in private equity funds provide long-term investors with stakes in generative assets (i.e., equity positions). However, unlike publicly traded stocks, private equity funds are not priced daily by a market. Thus, the apparent price volatility is lower and the interim return correlation to other asset classes is subdued.

The private equity market provides a large arena for investing as private firms far outnumber public companies. In the US, there are approximately 1,000 private companies for every publicly listed company[1], and the number of total public companies has declined significantly since peaking in the late 1990s[2]. The relatively small number of US public companies, though, are estimated to be worth approximately 25 times the assets under management ("AUM") in PE funds today.[3] While many private companies are unlikely private equity targets (approximately 55% of US firms have fewer than five employees),[4] the potential opportunity set in private equity is substantially larger than the amount of capital in the asset class.

[1] Source: United States Census Bureau and JP Morgan: *"Guide to the Markets,"* June 2021.

[2] Source: Bloomberg, *"Where Have All the Public Companies Gone?"* April 9, 2018.

[3] Source: Morgan Stanley, *"Public to Private Equity in the United States: A Long Term Look,"* August 4, 2020. Includes dry powder.

[4] Source: United States Census Bureau, 2019.

Today, private equity investments come in many forms, including venture capital ("VC") funds, buyout funds, and growth equity funds. All of these strategies produce significantly different returns from traditional investment classes and exhibit different fundamental characteristics from each other.

Who invests in private equity?

Institutional investors such as pension funds, endowments, and foundations comprise the vast majority of capital allocated to private equity, though high-net-worth individuals also participate. The long-term time horizon of these institutions often makes them more willing to invest some portion of their portfolio in illiquid assets. They may also be seeking higher returns and enhanced equity diversification beyond that available through the public stock market. And they must also be willing to accept greater or different risks than are present with traditional public market assets.

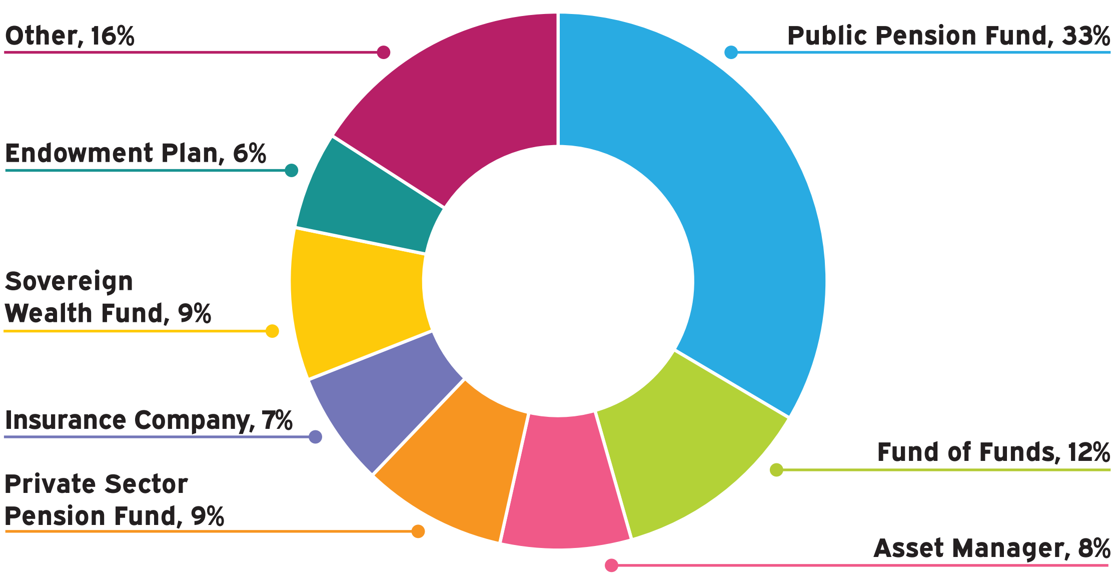

FIGURE 1
Aggregate Amount Invested in Private Equity by Investor Type
% of Invested Capital

Source: Preqin, as of July 2022.

How large is a typical investment in private equity?

The average target allocation to private equity by endowments, public pension funds, and private pension funds is approximately 11%, ranging from 7% to 16% depending on the type of investor. This represents the target for the entire private equity program, not for an individual investment.

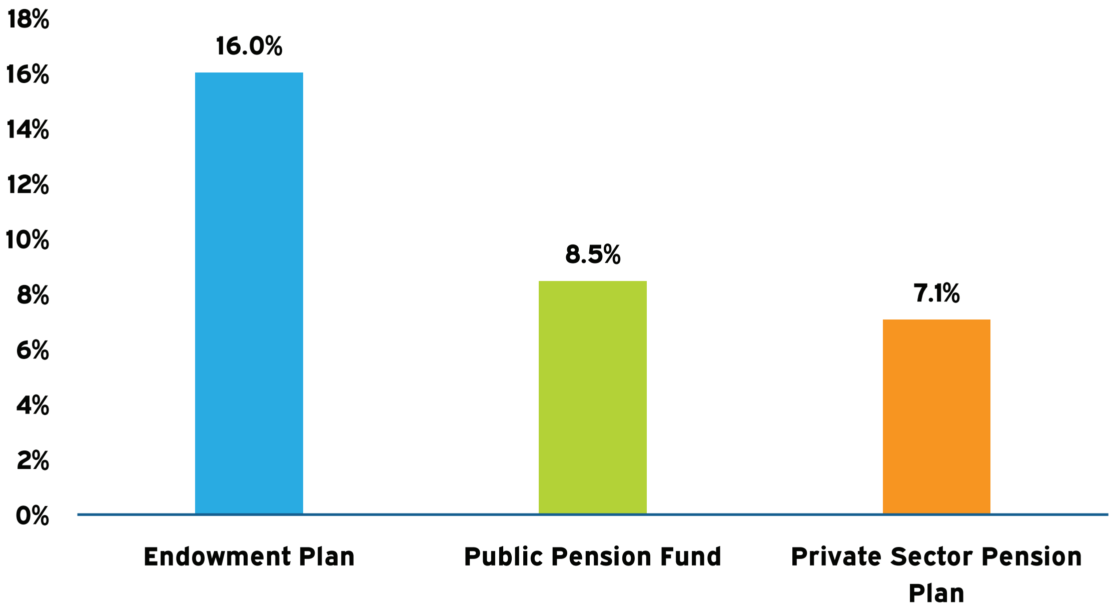

FIGURE 2

Average Private Equity Target Allocation by Investor Type (As a % of AUM)

Source: Preqin, as of July 2022.

How has institutional investment in private equity changed over time?

Institutional investors' allocation in private equity has been on the rise in the last decade and is projected to continue to increase. The median private equity allocation among public pensions was approximately 5% in 2012 and has since risen to roughly 8.5% in 2022.[5] Furthermore, 50% of polled institutional investors plan to increase their current allocation, while 45% plan to maintain current rates.[6]

[5] Source: Preqin, *"Future of Alternatives 2025: Investors' Inexorable Push to Alternatives,"* November 2020.

[6] Source: Preqin, Alternative Assets Report H1 2022.

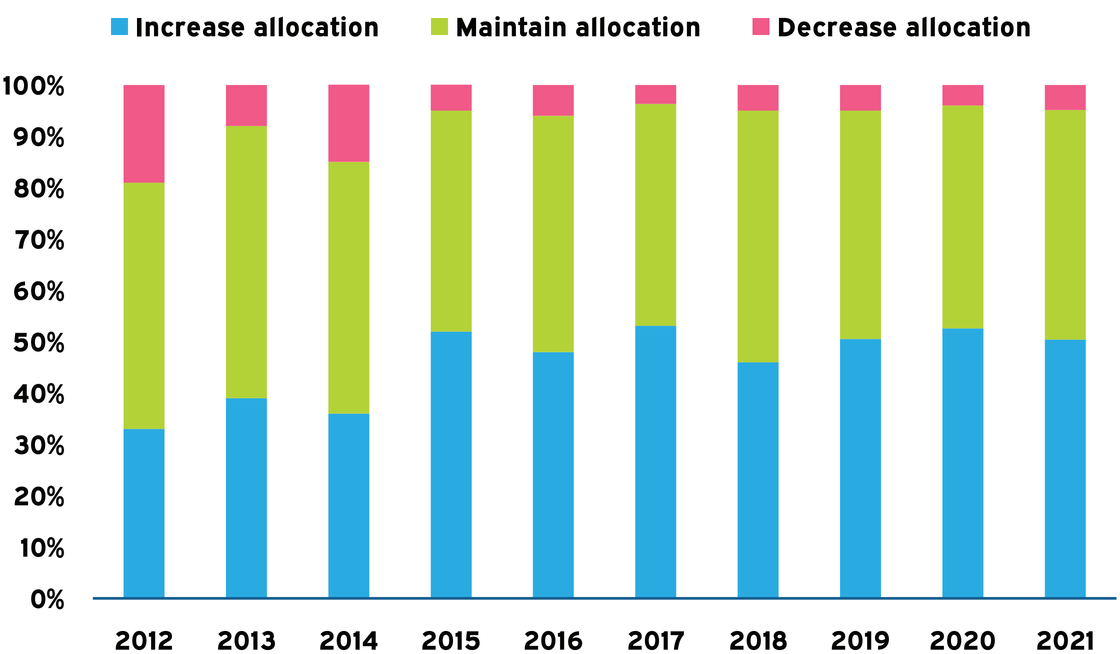

FIGURE 3

Investors' Plans for Private Equity Allocation in the Longer Term

Source: Preqin, Alternative Assets Report H1 2022.

Why invest in private equity?

There are three key reasons why investors tend to invest in private equity. First, adding to private equity should increase the expected return of a portfolio. Second, private equity is an area with the opportunity to generate significant "alpha" via fund/manager selection. Third – though not always readily admitted – an allocation to private equity should also reduce the observed volatility of the portfolio vis-à-vis other ways to increase returns (e.g., increasing the public equity allocation).

Expected returns

Investors generally assume they will earn more from their private equity portfolio than they will from public equities. This has been the case for the asset class historically, and it is expected to persist in the future.

Private equity has the highest expected return among firms that produce capital markets expectations. Annually, Horizon Actuarial Services publishes a survey of capital market assumptions (see Figure 4) that they collect from various investment advisors. The average expected return is higher for private equity than for any other asset class, both over the 10-year and 20-year horizon.

Asset Class	10-Year Average (%)	20-Year Average (%)
US Equity	5.9	6.5
Developed Non-US Equity	6.5	7.1
Emerging Non-US Equity	7.3	7.9
Real Estate	5.4	6.0
Hedge Funds	4.8	5.5
Private Equity	**9.2**	**9.8**

FIGURE 4
Expected Returns for Equity-like Asset Classes

The survey by Horizon Actuarial Services is published annually and is the most comprehensive survey of capital markets expectations of which we are aware. In the 2022 survey there were 40 respondents. The 10-year horizon included all 40 respondents, and the 20-year horizon included 24 respondents.

Historical returns

Over the past 20 years, private equity has been the best performing major asset class.

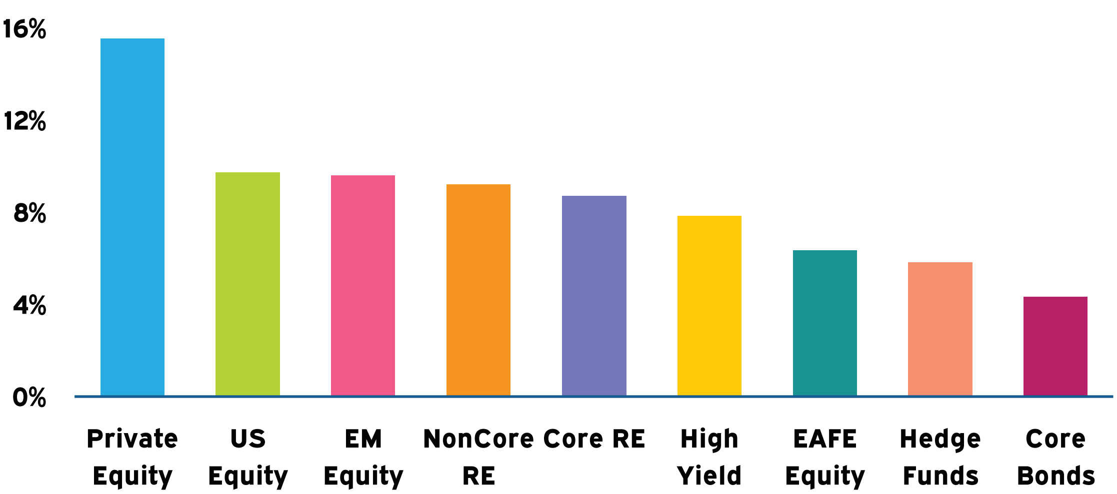

FIGURE 5
Trailing 20-Year Performance

Annualized monthly returns as of December 31, 2021. Data sourced from Cambridge Associates via IHS Markit as of August 2022. Indices used: Cambridge PE Composite, Cambridge Non-Core RE, Bloomberg Barclays US Corporate High Yield Bond Index, MSCI EM, Russell 3000, NCREIF Property Index, Bloomberg Barclays US Aggregate Bond Index, HFRI Weighted Composite Index, MSCI EAFE. PE and Non-Core RE values are Pooled IRR. PE, Core RE, and Non-Core RE are annualized quarterly returns. Note that all historical performance presented throughout this document is net of fees.

Historically, private equity investors have earned 2% to 5% per year more than investors in comparable common stocks (see Figure 6), even after paying substantial management fees and other costs. Over the last decade, excess private equity returns have shrunk, at least relative to US equities (the margin over foreign equities remains quite wide). Potential reasons behind the decline include increasing valuations of private companies and the influx of capital being invested in the space.

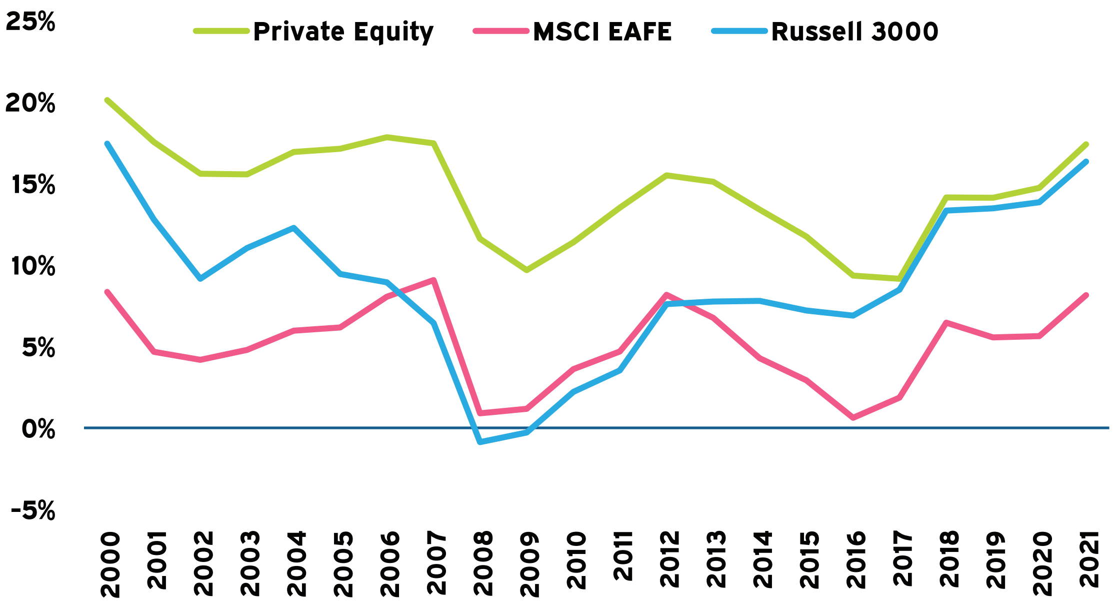

FIGURE 6
Rolling 10-Year Returns

Rolling 10-Year Annual Returns as of December 2021. Data sourced from Cambridge Associates via IHS Markit as of August 2022. Indices used: Cambridge PE Composite, Russell 3000, MSCI EAFE.

Academics and practitioners have offered a number of explanations for the superior performance of private equity historically.

- → PE investors can "sell" unneeded liquidity to capital-needy businesses. Generally, investors demand a premium for liquidity risk; that is, they expect to earn a higher cumulative return as compensation for giving up liquidity on a short-term basis. The businesses that need the capital are willing to pay this premium for various reasons, including the desire to grow the business, make strategic acquisitions, cash out a founder, etc., all while keeping the enterprise in private hands.

- → General partners ("GPs") can create a better alignment of interests between owners and management. Private owners generally produce better financial results. This is often ascribed to the inherent longer-term approach they take to management and capital expenditures. In contrast, there is an inherent agency problem with most public companies where management and shareholders do not necessarily share identical interests.

- → GPs can improve the value of the asset by being a "control" investor. Most investors in public companies have minimal influence individually over how those companies are run. In contrast, most private equity funds either take a controlling stake or a position where they can exert significant influence over strategic and management decisions. Many private equity managers have experienced in-house operations teams and expertise in turning around a struggling business, ramping up growth of a mature business, or accelerating the trajectory of a rapidly growing firm, among other strategies. These teams can assist in and add value to the company's business strategy formation, operational execution, mergers and acquisitions, and capital raising.

→ GPs can take advantage of mispricing opportunities that are larger and more frequent than those in public markets. Information asymmetries in the private markets may allow for PE managers to invest in companies at a discount to fair value. Private companies, especially those in the small/mid-market segment, have historically been valued at significantly lower EV/EBITDA multiples than public companies.

→ GPs can use leverage to a greater extent. Many GPs engage in financial engineering to boost the return of the funds they manage. Adding debt to finance acquisitions or to pay dividends boosts the return to investors in companies for which the gains exceed the cost of borrowing.

The importance of manager selection

Private equity asset classes such as buyouts, growth equity, and venture capital show considerably higher performance dispersion as measured by interquartile spreads (see Figure 7). These interquartile spreads can be interpreted as how much potential value lies in selecting superior active managers within each asset class. When comparing interquartile spreads between private and public markets managers, it is worth noting that the private market databases are often smaller, and with more limited history, than public market counterparts. Private equity funds also tend to have more concentrated portfolios; hence, more dispersion should be expected among private equity funds.

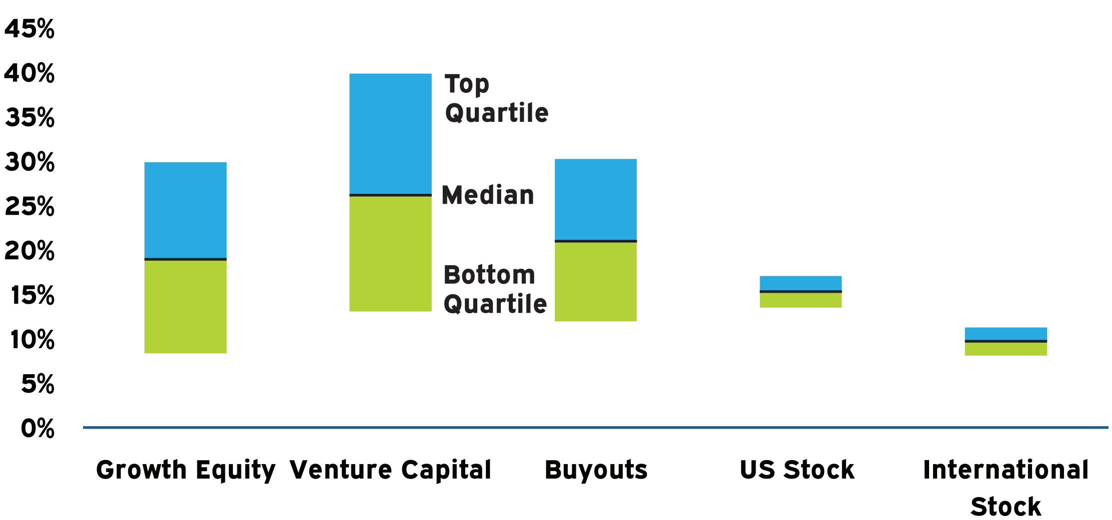

FIGURE 7
Quartile Returns, Last 10 Years

Data sourced from Cambridge Associates via IHS Markit and eVestment. Data for PE funds raised from 2012 through December 2021 and public equity managers for the trailing 10 years, as of December 2021. All data sourced in August 2022.

Several of the factors that explain the relative outperformance of private equity also help explain the large dispersion of returns among private equity funds. For example, because of both the vast number of investable firms and the lower amount of readily-available financial and operational information about such firms, private equity is a much more inefficient asset class than public equity. This means that skilled investment managers should be able to take advantage of the larger mispricing opportunities to add value. Likewise, managers who are more skilled at growing or turning around a business are more likely to add value relative to their peers.

Furthermore, direct exposure to private equity is not available via passive vehicles but only through active managers. Since investors cannot "fall back" on mimicking the returns of a private equity index, and since there is much potential value to be gained from picking an above-average manager (or to be lost from picking one that is below average), manager selection is critical. There can be so much demand for managers with top historical performance records that access to their funds is often quite limited. Access to these top funds is often a critical component for investors whose private equity programs outperform their peers.

Lower observed volatility

Private equity returns have exhibited much less volatility than have public equities (see Figure 8). This is because, unlike public market securities, private equity assets are not priced daily. Rather, they are valued quarterly, and managers have fairly wide latitude in applying valuation methodologies.

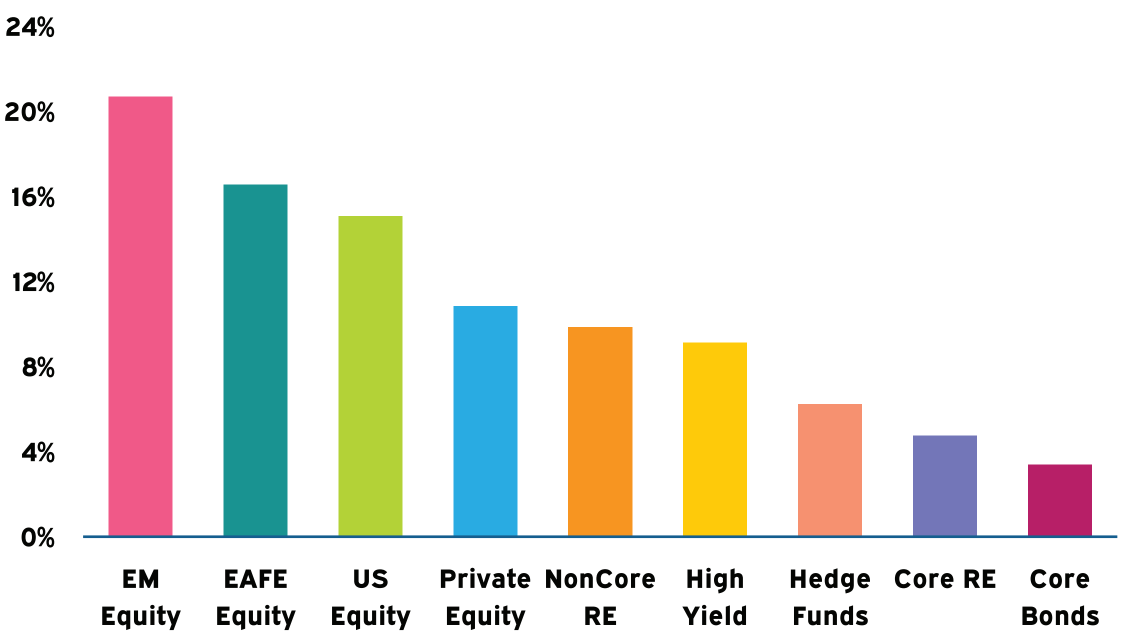

FIGURE 8
Trailing 20-Year Volatility

Annualized monthly standard deviation as of December 31, 2021. Data sourced from Cambridge Associates via IHS Markit as of August 2022. Indices used: Cambridge PE Composite, Cambridge Non-Core RE, Bloomberg Barclays US Corporate High Yield Bond Index, MSCI EM, Russell 3000, NCREIF Property Index, Bloomberg Barclays US Aggregate Bond Index, HFRI Weighted Composite Index, MSCI EAFE. PE and Non-Core RE values are Pooled IRR. PE, Core RE, and Non-Core RE are annualized quarterly returns. Note that all historical performance presented throughout this document is net of fees.

Moreover, price changes tend to be reflected on a lagged basis in reporting, perhaps taking as long as two quarters to reflect equivalent changes in public securities. The result is a "smoothing" of the returns experienced by private equity investors (see Figure 9).

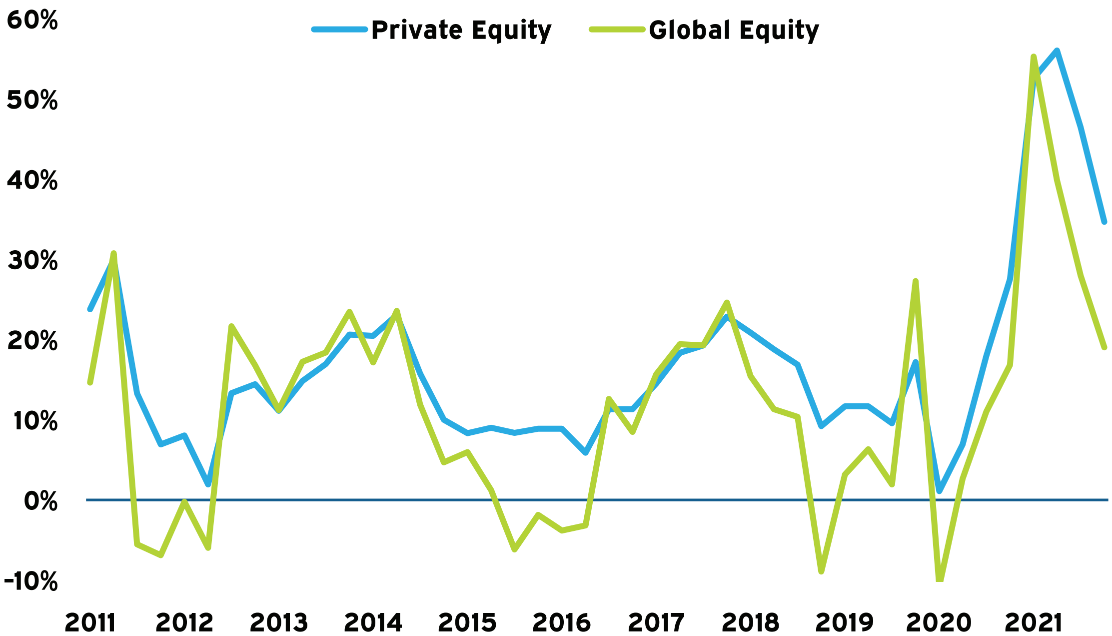

FIGURE 9

Rolling 1-Year Returns

Annualized quarterly Pooled IRR as of December 31, 2021. Data sourced from Cambridge Associates via IHS Markit as of August 2022. Indices used: Cambridge PE Composite, MSCI ACWI Index.

However, this lower observed volatility does not mean that private equity is less risky. It is often quite the contrary. Private equity portfolios tend to be more concentrated and the underlying companies more highly leveraged (in the case of buyout funds) with less diverse revenue streams than their public market counterparts. That said, the perception of lower risk (from smoothed returns and – arguably – a more rational valuation process) does have a real-world effect on investors maintaining consistent exposure to this risky asset class.

What risks can investors expect?

In order to obtain the higher returns that private equity investors are looking for, they often must also take on additional risks. One of the most notable risks is the lack of liquidity since investors are generally unable to pull capital from a fund once it has been invested. Too much in illiquid assets may inhibit an investor's ability to meet its obligations in a worst-case scenario. Further, illiquid assets cannot be rebalanced in the interim, which can lead to unintended deviations from a policy benchmark.

Venture capital fund investors are also subject to the risk that results from investing in early-stage companies, which are much more likely to fail relative to mature businesses. Buyout fund investors face a somewhat similar risk by generally targeting micro- or small-cap companies, which are more susceptible to economic downturns and other exogenous events than the large-, and mega-cap companies comprising the majority of public equity exposure. Additionally, buyout funds often employ above-average leverage (relative to public companies), leading to a potentially higher risk of insolvency. The success of many distressed, turnaround, and buy and build strategies are predicated on significant operational improvements.

The different sectors of the private equity market have produced different returns historically (see Figure 10). Over the full 1987-2021 period, venture capital has proved (unsurprisingly) to be the riskiest segment of private equity, exhibiting a higher volatility and maximum drawdown than public equities, primarily due to the dot-com bubble and subsequent burst in the early 2000s. Since 2003, venture capital returns have been strong, at 14.3%, while standard deviation and max drawdown over that period have dropped to 10.3% and -19.2%, respectively[7].

[7] Annualized quarterly Pooled IRR, as of December 2021. Data sourced from Cambridge Associates via IHS Markit as of August 2022. Index used: Cambridge Venture Capital Composite.

January 1987 – December 2021	Venture Capital (%)	Buyout (%)	Growth Equity (%)	MSCI EAFE (%)	Russell 3000 (%)
Annual Return	16.0	14.7	16.8	6.1	11.2
Annual Standard Deviation	20.0	9.9	14.5	18.4	16.8
Cumulative Maximum Drawdown	-68.8	-33.4	-36.5	-52.1	-45.9

FIGURE 10
Private Equity Returns from January 1987 through December 2021

Annualized quarterly Pooled IRR, as of December 2021. Data sourced from Cambridge Associates via IHS Markit as of August 2022. Indices used: Cambridge Venture Capital Composite, Cambridge Buyout Composite, Cambridge Growth Equity Composite, Russell 3000, MSCI EAFE.

An important but often overlooked risk is that "alpha" can be negative and at a greater magnitude than in public markets. Looking back to Figure 7, even though the median private equity fund had outperformed the median public equity manager historically, the bottom quartile manager of the venture, growth, and buyout universes underperformed the bottom quartile manager in US equities.

There is also the potential for poor vintage year timing when structuring a private equity program. Missing out on a particularly good year or overcommitting to a particularly bad one will harm performance. Finally, the general lack of transparency makes it harder to conduct due diligence on managers.

What are the criticisms?

In recent years, a number of academics and industry participants have questioned if private equity actually lives up to the expectations of many institutional investors. The bold bullet points below list several primary concerns followed by commentary addressing the mitigating factors related to each criticism.

→ **Private equity's outperformance relative to public equity has declined over time.**

Private equity's outperformance relative to US equities has been lower in recent years than it has been historically. Some of this is obviously driven by the post-Global Financial Crisis ("GFC") bull market for US stocks. When compared to an opportunity set that more closely resembles that of most PE investors (i.e., a benchmark that includes non-US companies), the margin has not decreased to quite the same degree. Moreover, there is still strong evidence that private equity investors have continued to generate attractive absolute returns while outperforming public market equivalents (see Figures 4, 5, 6, and 10).

→ **Private equity asset valuations are frothy and are near all-time highs. Research shows that forward private equity returns tend to be lower when starting valuations are high.**

Prices are elevated across all asset classes, including private equity. This argues for lower absolute private equity returns than those experienced in the past, but not necessarily for lower relative returns (i.e., private equity does not appear to be any more expensive to its own history than public equities do).

→ **Benchmarking private equity performance is challenging because it does not conform to the standard approaches used in public market asset classes.**

It is true that measuring performance for private markets assets is not as straightforward as it is for public equities. However, that should not preclude investment by institutions. Valuable performance analysis can often be performed by comparing aggregate returns to a peer and/or public market equivalent (i.e., "PME") benchmark in combination with a more granular analysis of historical exposure and return drivers.

→ **Private equity managers charge high fees, including a long-time industry standard "2 and 20" fee structure.**

The fees charged by GPs for their private equity funds are often among the highest in the investment industry. Despite these high fees, private equity has produced strong absolute and relative returns on a net basis. Some (mostly larger) investors mitigate the fees by deploying a portion of their PE capital into lower-fee private equity investments like co-investments and direct investments.

→ **For very large investors, there are some limits on their ability to deploy a meaningful amount of capital in private markets.**

Deploying into the private markets at scale brings challenges. However, these challenges can usually be addressed. Gradual increases in program size and thoughtful pacing allow for measured deployment of capital. Investors can set up separately managed accounts ("SMAs") with advisors to create separate portfolios of VC or small buyout exposure fills in some of the gaps. Investors can also build co-investment programs that rely on relationships with very large managers to get better co-invest access, relationship pricing, special SMAs, etc.

There can be headline risk, particularly for institutions or assets that are in the public spotlight.

Private equity firms are often control-owners of companies. As such, they are seen as accountable for a number of business practices that - while possibly within industry norms - are not universally appreciated by society (e.g., layoffs, bankruptcies). However, there is evidence that private equity-owned businesses exhibited better job growth statistics than publicly-owned corporations and that PE has a positive effect on productivity and job growth in the US.[8]

[8] Sources: "Economic contribution of the US private equity sector in 2020," May 2021, prepared by Ernst & Young prepared for the American Investment Council; "The Impact of Private Equity Buyouts on Productivity and Jobs," August 2020, prepared by the Committee on Capital Markets Regulation.

How large is the private equity universe?

The private equity marketplace has become increasingly developed and sophisticated, attracting institutional investors of all types. It has reached a size at which it should not be ignored by institutional investors of sufficient scale.

While annual commitments to private equity declined in the wake of the GFC, they have since been on a steady rise and have surpassed pre-GFC levels in recent years.

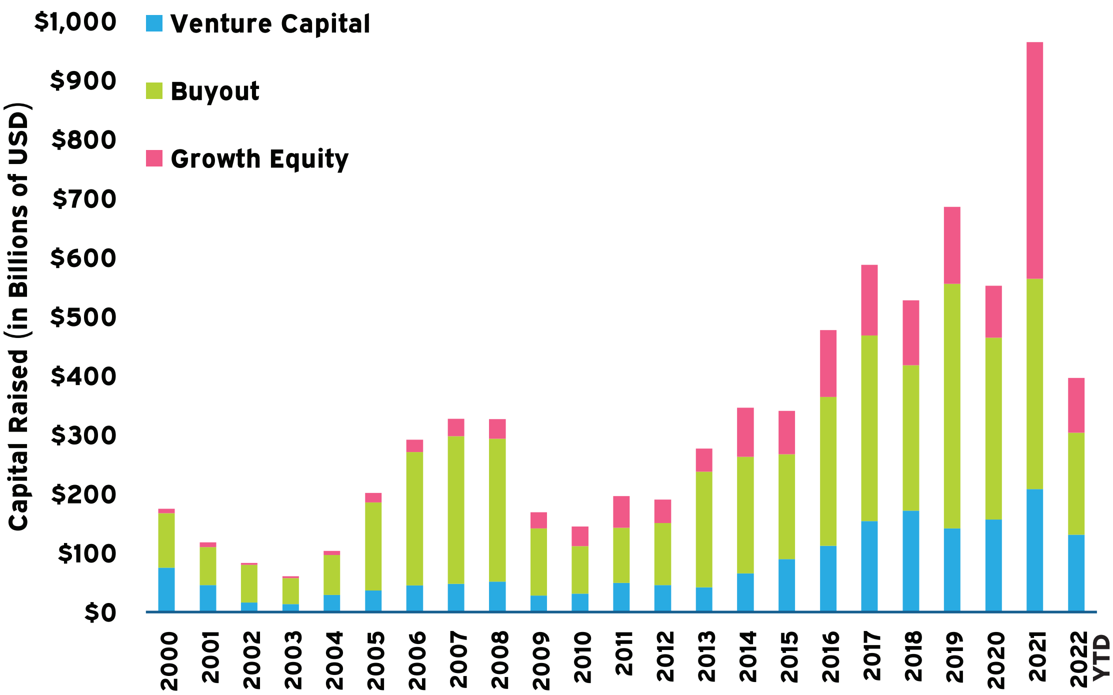

FIGURE 11
Aggregate Capital Raised Globally by Vintage Year

Source: Preqin, as of July 2022.

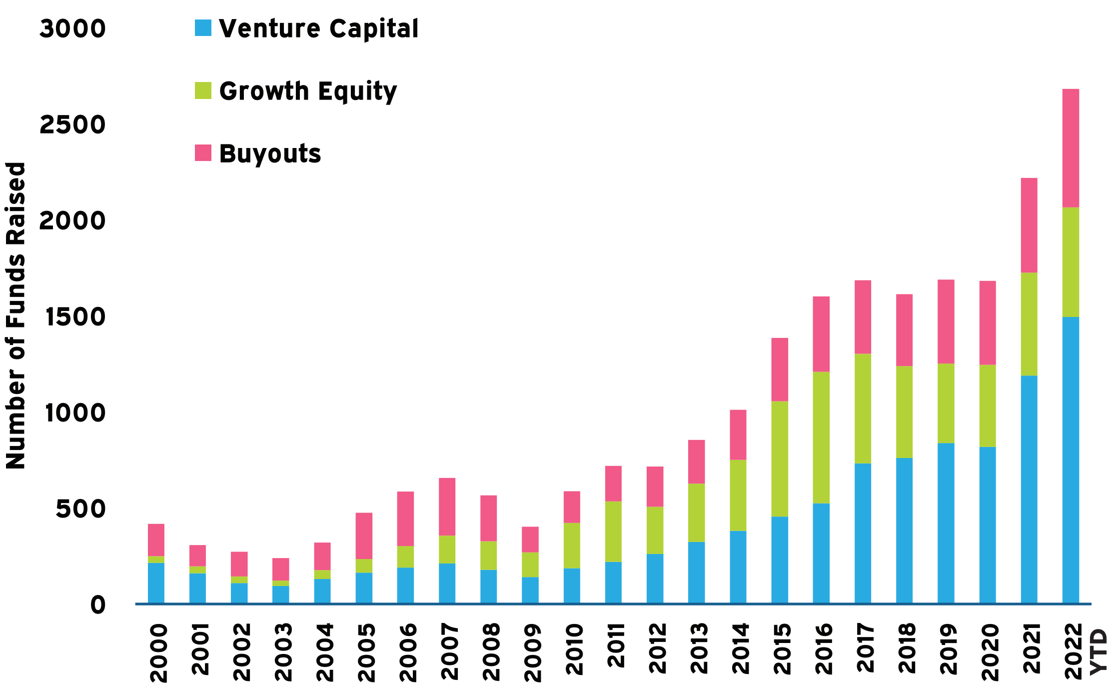

FIGURE 12
Number of Funds Raised Globally by Vintage Year

Source: Preqin, as of July 2022.

How do private equity partnerships work?

The legal structure through which most institutions invest in private equity is a partnership. First, a general partner creates the legal framework of the partnership, prepares a private placement memorandum ("PPM"), and raises commitments from institutional investors who become the limited partners. Each partnership agreement specifies a legal "term," by the end of which all of the investments must be liquidated and the proceeds returned to the investors.

A PPM describes the types of investments the general partner intends to make but does not specify the actual investments, since they have not yet been made. As a result of this uncertainty, such a partnership is known as a "blind pool." Most private equity partnerships begin as blind pools, though some may have "seed assets" that new investors can gain exposure to at cost.

When enough capital has been committed (but not yet invested), the general partner "closes" the partnership and begins making investments. The usual three-to-five-year period during which the general partner makes its investments is known as the investment period. Over the course of the investment period, the general partner may purchase stakes in 10 to 20 different underlying firms. Thus, each partnership is actually a collection, or portfolio, of individual company investments, not a single investment.

At the beginning, the investments are generally carried at cost, and the investors might experience a small negative return, calculated as their initial investment minus the associated organizational expenses and management fees. Because of these initial negative returns, which typically turn positive, a graph of returns is usually J-shaped. This so-called "J-curve" is normal, and limited partners should expect this early in the partnership's lifetime.

By the middle of the partnership period, some early investments may already have matured, been sold, taken public through an IPO, or otherwise liquidated. The proceeds from these liquidations are generally *not* reinvested in the other investments but are distributed immediately to the limited partners as specified in the terms of the partnership agreement. As the end of the partnership's term approaches, most of the underlying assets will have been sold. Thus, all private equity partnerships are self-liquidating, generally over a period of about eight to twelve years.

Note that private equity partnerships are usually not SEC-registered, and that the general partner does not accept the role of a fiduciary as defined by ERISA. However, many plan sponsors use an investment advisor who does serve as a fiduciary to select these partnerships.

What is the difference between committed and invested capital?

Private equity partnerships require an advance commitment of capital; unlike liquid investments, these funds do not need to be sourced all at once when this legally-binding commitment is made. The majority of the commitment is drawn down ("called") by the general partner over a period of usually three to five years, during which time the cumulative invested capital is *less* than the committed amount. Normally, the general partner will hold a portion of the commitment as "reserves" for the future financing of the portfolio companies acquired during the investment period. While one commitment is being drawn down, other partnerships may be paying off, effectively reducing exposure to the asset class.

Therefore, to maintain a fixed level of exposure to private equity, it is often necessary to make a greater commitment than the targeted increase in allocation. Additionally, because committed capital is called only gradually, it takes a number of years for private investments to ramp up to their target allocation. This is in contrast to liquid investments, which can be entered and exited swiftly.

What are vintage years?

To remain prudently invested, both public and private equity portfolios must be diversified across many different individual investments. In both cases, this means investments in companies of different sizes, situated in different geographic areas, and involved in different business activities.

However, unlike public equity portfolios, private equity investments should be diversified across time as well. Since individual partnerships have finite life spans, new partnerships are created every year. The year in which a partnership makes its first investment is known as its "vintage year." Depending upon macro-economic events and available opportunities, some vintage years have better performance than others. Therefore, it is essential to structure investments and plan cash flows to ensure diversification across multiple vintage years.

What about short-term liquidity?

Private equity partnership interests are not traded on a short-term basis. Until the early 1990s, there was virtually no secondary market through which an investor could sell a partnership interest prior to final maturity. This lack of short-term liquidity was a deterrent to some investors and perhaps limited the growth of the asset class.

Many private equity investors have a limited need for short-term liquidity. However, during and in the aftermath of the GFC, many institutional investors sought liquidity for private equity positions. As private equity values declined, distributions fell considerably while there was a less significant drop in capital calls, and so, liquidity was needed to help rebalance portfolios.

This secondary market creates liquidity for existing investors, but it also comes at a price, as most buyers of partnership interests will expect to purchase the assets at a discount to their net asset value ("NAV").

The secondary market offers new investors in private equity the opportunity to "buy into" seasoned, existing funds, thus accelerating an otherwise lengthy startup period. The secondary market has become more prominent in the past decade as performance has increased. As of 2021, AUM in the global secondary market had grown by over 7x since 2008.[9]

[9] Source: Preqin, as of September 2022.

How does an allocator invest prudently in private equity?

Private equity funds should be selected by professionals and carefully structured and monitored. Working closely with their private equity manager(s), trustees should take the following steps:

- → Specify in advance their program's long-term allocation to private equity investments, being mindful of their tolerance for illiquidity in a portion of its assets.
- → Develop an investment policy and set of investment guidelines, including targets for performance and diversification (e.g., by geography and partnership type).
- → Conduct a cash flow analysis to plan how the target allocation will be achieved and maintained.
- → Source individual private equity funds that are consistent with these objectives.
- → Scrutinize each fund closely, to identify its unique characteristics and risks. Note that the analysis, due diligence, and legal review of these partnerships are often significantly more complex and comprehensive than that entailed in public equity manager searches.
- → Monitor all private equity funds, to confirm that assets are invested prudently and as intended.

How does a fund stay invested?

Unlike public equity funds, private equity partnerships are typically self-liquidating. Thus, if assets are committed to private equity in a single partnership, and if the lifetime of that partnership is 10 years, then a fund will generally be liquidated within a few years of that time frame.

While the approximate length of each partnership's life span is known in advance,[10] the actual pattern of interim cash flows cannot be predicted precisely. In some cases, a

[10] Although fund terms may be extended through approved revisions to Limited Partnership Agreements.

partnership may make a number of early dispositions, causing much of the original commitment to be returned to the limited partners sooner than expected. In other situations, however, private equity funds can take longer than expected to return capital, potentially causing limited partners to become over-allocated to private equity.

It has become increasingly common for private equity funds to take longer than their typical terms of 10 to 12 years to be fully liquidated. The average time to liquidation has been rising across all areas of private equity, while annual distribution rates (as a percentage of unrealized value) have been falling.[11]

[11] Source: Hamilton Lane, "Acceleration of Trends: SPACs, GP-Leds, and the Case of the Longer Hold," April 2021.

The experience of many institutional investors has demonstrated that an intensive, ongoing monitoring and rebalancing program is necessary with private equity to maintain a specified target allocation. When distributions occur earlier than anticipated, private equity investors must seek new partnerships to reinvest the liquidation proceeds. When distributions take longer than expected, private equity investors may need to taper future commitments somewhat or even consider secondary sales of their LP stakes. These processes are complicated by the unpredictable timing of both liquidations and new capital calls.

How are costs and fees structured?

Private equity investment programs are much more complicated to create and administer than public equity programs. Private equity involves long-term planning, adjusting to liquidity constraints, complicated accounting procedures, and extensive legal review of individual partnership investments.

There are two generic types of fees associated with private equity investing. The first is a fee for professional portfolio management. This fee can vary across fund types, fund sizes, etc., but typically ranges from 1.8% to 2.1% per year. The management fee is generally applied to a limited partner's aggregate commitment amount during the investment period and on net invested capital (invested capital less cost of realized investments and write-offs) thereafter.

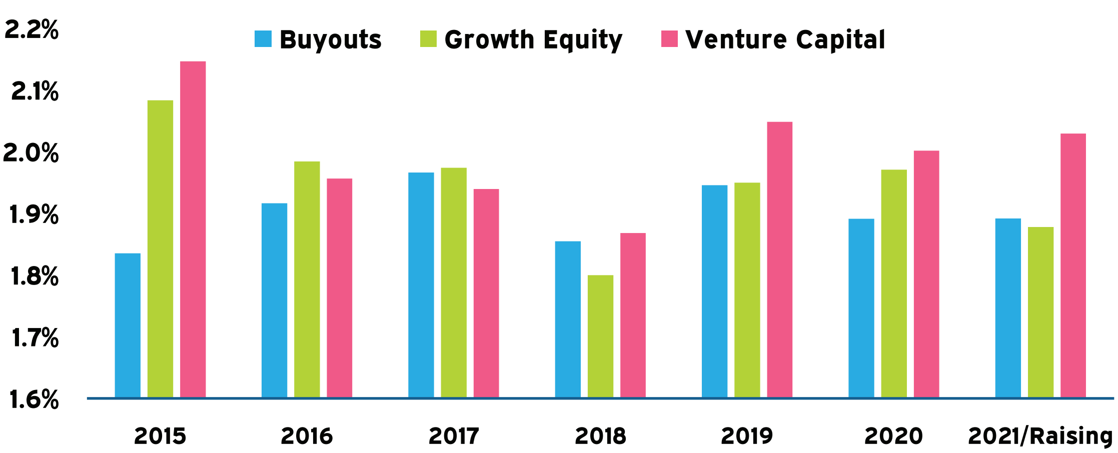

FIGURE 13
Mean Management Fee by Fund Type

Source: Preqin "The 2021 Preqin Private Capital Fund Terms Advisor," September 2021.

The second type of fee is called "carried interest," which represents a type of performance incentive fee for the general partner and is typically set at 20% (though top-tier VC funds often charge 30%). Once the general partner has produced a baseline annual net return for the limited partners (called a "preferred return"), all future profits are divided between the general partner and the limited partners. Buyout funds typically have an 8% preferred return while many venture capital funds have no return hurdle. Funds with a preferred return often implement a "GP catch-up" where the GP takes a larger share of the profits (usually 50%-100%) until receiving a proportion of profits equal to its carried interest.

The transaction costs and management fees associated with private equity funds are often substantially higher than for public equity funds. Any investor in private equity must consider these costs carefully. Fortunately, the higher fees can often be offset by the higher potential returns.

How is private equity different administratively?

The administration of private equity investments differs substantially from that of public market investments in three important areas: maintaining target allocations, management of cash flows, and performance reporting.

Due to their illiquid nature, private equity investments cannot be bought or sold easily. As a result, unlike public market investments, an allocation to private equity investments cannot be finely tuned through periodic rebalancing. The potential therefore exists for regular deviations from a fund's private equity target allocation as a result of uncertain private equity cash flows and performance differentials across asset classes.

The cash flows associated with private equity investments are frequent and unpredictable. Generally, there is little advance notice of capital calls, distributions of cash proceeds, or the receipt of securities in-kind. Fund administrators must have procedures in place to accommodate these cash flows reliably and efficiently.

Finally, no market valuation mechanism exists for private equity investments. Typically, private equity investments exhibit modest changes in value until a formal transaction (i.e., additional financing or a disposition) results in the realization of a gain or loss on the investment. Also, valuations from the general partner are typically available well after the valuations for public market portfolios. For example, year-end valuations are usually not available until the second quarter of the following year. Once private equity investments are sold, usually over a period of five or more years, performance evaluation then becomes more meaningful.

What is a fund of funds?

To achieve adequate diversification, investors have two options. First, as described above, they can establish positions in a variety of direct partnerships, diversifying across vintage years, sectors, regions, and general partners. This approach minimizes costs and allows the investor to create a customized pool of partnerships. The main disadvantage of this method is administrative: selecting and overseeing many different partnerships is an ongoing, complicated process. A second solution is to hire a "fund of funds" manager. A fund of funds is what its name implies: a collection of many partnership funds managed by a master partner.

A fund of funds is structured as a partnership. The manager of a fund of funds is the general partner and may or may not be an investment manager as defined by ERISA. The manager selects the underlying funds and provides administrative accounting.

Fund of funds are designed to appeal to a broad spectrum of potential investors but particularly those without the resources to select and monitor funds themselves. A typical fund of funds is designed to provide exposure to many different sectors, in proportions that the manager believes are prudent. As a consequence, it is not possible for participants to control individual investments. For example, when using a fund of funds approach, an investor usually cannot favor buyout funds while limiting venture capital exposure.

Just as with direct private equity funds, a fund of funds is organized as a blind pool. That is, when a new fund of funds is announced, and a subscription target is set, early investors usually do not know what specific funds will be selected by the manager. Generally, the manager has broad latitude in making subsequent investments.

The significant advantages of a fund of funds are potential access to top performing funds, diversification, and administrative ease. The top performing private equity funds are in the market raising capital for a relatively short period of time and are often oversubscribed. The general partner, in that situation, has the right to select the limited partners. A fund of funds manager may have relationships with these groups and, as such, may have easier access to them. A fund of funds may invest in 15 or more underlying funds, each of which may consist of 10 or more investments. When fully invested, a fund of funds may therefore consist of several hundred different investments. Also, individual funds may be selected from several vintage years, and thus, there is some diversification across time as well.

This added diversification comes at a significant cost. Fund of funds managers typically charge a management fee of 1% per year, which is added to the fees charged by each of the individual funds. Also, the manager of the fund of funds often takes a share of the profits (usually 5%-10%) that remain after each of the underlying funds deducts their share of the profits.

Since a fund of funds is a partnership, it has a finite lifetime and is self-liquidating. The manager may take several years to invest in underlying funds thus investing across multiple vintage years. Once the fund of funds is fully invested, it has effectively entered its harvesting phase and will self-liquidate over the rest of its life as the underlying partnerships make distributions. *Thus, a fund of funds does not eliminate the need to search for new funds in order to stay fully invested in private equity.* Additionally, a fund of funds may have a longer term than individual funds and could be less liquid in the secondary market.

Conclusion

Private equity investing is compelling primarily for its potential to produce higher returns, attributable to several drivers. First, investors should receive a premium for sacrificing liquidity. There is enhanced alignment of interests between management and owners. Additionally, private equity managers often have differentiated expertise and the ability to add value by executing on a repeatable playbook that includes long-term operational and governance improvements. Finally, private equity is an inefficient asset class with more opportunities to identify mispricings and alpha than in the public markets. All these rationales are substantiated by the historical track record of private equity.

While the case for investing in private equity is compelling, investors should be aware of the asset classes' unique risks. Private equity is expensive and can be administratively difficult to implement. Private equity differs from many other investment vehicles in terms of the timing of cash flows, fee structure, liquidity, and areas for diversification. As always, Meketa Investment Group recommends that investors conduct careful due diligence to make sure that any investment matches the fund's objectives and constraints.

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BlackRock

2023 Global outlook

BlackRock **Investment** Institute

A new investment playbook

BIIM1222U/M-2612945-1/16

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Contents

The Great Moderation, the four-decade period of largely stable activity and inflation, is behind us. The new regime of greater macro and market volatility is playing out. A recession is foretold; central banks are on course to overtighten policy as they seek to tame inflation. This keeps us tactically underweight developed market (DM) equities. We expect to turn more positive on risk assets at some point in 2023 – but we are not there yet. And when we get there, we don't see the sustained bull markets of the past. That's why a new investment playbook is needed.

We laid out in our 2022 midyear outlook why we had entered a new regime – and are seeing it play out in persistent inflation and output volatility, central banks pushing policy rates up to levels that damage economic activity, rising bond yields and ongoing pressure on risk assets.

Central bankers won't ride to the rescue when growth slows in this new regime, contrary to what investors have come to expect. They are deliberately causing recessions by overtightening policy to try to rein in inflation. That makes recession foretold. We see central banks eventually backing off from rate hikes as the economic damage becomes reality. We expect inflation to cool but stay persistently higher than central bank targets of 2%.

What matters most, we think, is how much of the economic damage is already reflected in market pricing. This is why *pricing the damage* is our first 2023 investment theme. Case in point: Equity valuations don't yet reflect the damage ahead, in our view. We will turn positive on equities when we think the damage is priced or our view of market risk sentiment changes. Yet we won't see this as a prelude to another decade-long bull market in stocks and bonds.

This new regime calls for *rethinking bonds*, our second theme. Higher yields are a gift to investors who have long been starved for income. And investors don't have to go far up the risk spectrum to receive it. We like short-term government bonds and mortgage securities for that reason. We favor high-grade credit as we see it compensating for recession risks. On the other hand, we think long-term government bonds won't play their traditional role as portfolio diversifiers due to persistent inflation. And we see investors demanding higher compensation for holding them as central banks tighten monetary policy at a time of record debt levels.

Our third theme is *living with inflation*. We see long-term drivers of the new regime such as aging workforces keeping inflation above pre-pandemic levels. We stay overweight inflation-linked bonds on both a tactical and strategic horizon as a result.

Our bottom line: The new regime requires a new investment playbook. It involves more frequent portfolio changes by balancing views on risk appetite with estimates of how markets are pricing in economic damage. It also calls for taking more granular views by focusing on sectors, regions and sub-asset classes, rather than on broad exposures.

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New regime playing out

A key feature of the new regime, we believe, is that we are in a world shaped by supply that involves brutal trade-offs. This regime is playing out and not going away, in our view.

Repeated inflation surprises have sent bond yields soaring, crushing equities and fixed income. Such volatility stands in sharp contrast to the Great Moderation, 40 years of steady growth and inflation. Production constraints are driving this new regime: The pandemic shift in consumer spending from services to goods caused shortages and bottlenecks. Aging populations led to worker shortages. This means DMs can't produce as much as before without creating inflation pressure. That's why inflation is so high now, even though activity is below its pre-Covid trend.

Central bank policy rates are not the tool to resolve production constraints; they can only influence demand in their economies. That leaves them with a brutal trade-off. Either get inflation back to 2% targets by crushing demand down to what the economy can comfortably produce now (dotted green line in the chart), or live with more inflation. For now, they're all in on the first option. So recession is foretold. Signs of a slowdown are emerging. But as the damage becomes real, we believe they'll stop their hikes even though inflation won't be on track to get all the way down to 2%.

Some production constraints could ease as spending normalizes. But we see three long-term trends keeping production capacity constrained and cementing the new regime. First, aging populations mean continued worker shortages in many major economies. Second, persistent geopolitical tensions are rewiring globalization and supply chains. Third, the transition to net-zero carbon emissions is causing energy supply and demand mismatches. See pages 11-13.

Our bottom line: What worked in the past won't work now.

Taming inflation would take deep recession

U.S. GDP and potential supply, 2017-2025

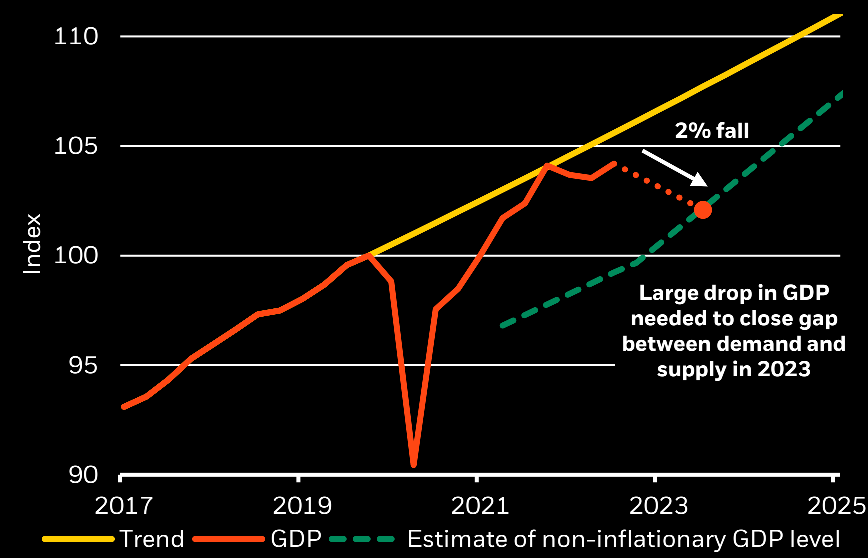


Chart takeaway: *Getting inflation all the way back down to target – the dotted green line – would require the Fed to deal a significant blow to the economy.*

Sources: BlackRock Investment Institute and U.S. Bureau of Economic Analysis, with data from Haver Analytics, November 2022. Notes: The chart shows demand in the economy, measured by real GDP (in orange) and our estimate of pre-Covid trend growth (in yellow). The green dotted line shows our estimate of current production capacity, derived by how much core PCE inflation has exceeded the Federal Reserve's 2% inflation target. When then gauge how far activity (orange line) would have to fall to close the gap with where production capacity (green dotted line), will be by the end of 2023 assuming some recovery in production capacity. We estimate a 2% drop in GDP between Q3 2022 and Q3 2023 (orange dotted line). Forward-looking estimates may not come to pass.

Production constraints are fueling inflation and macro volatility. Central banks cannot solve these constraints. That leaves them raising rates and engineering recessions to fight inflation.

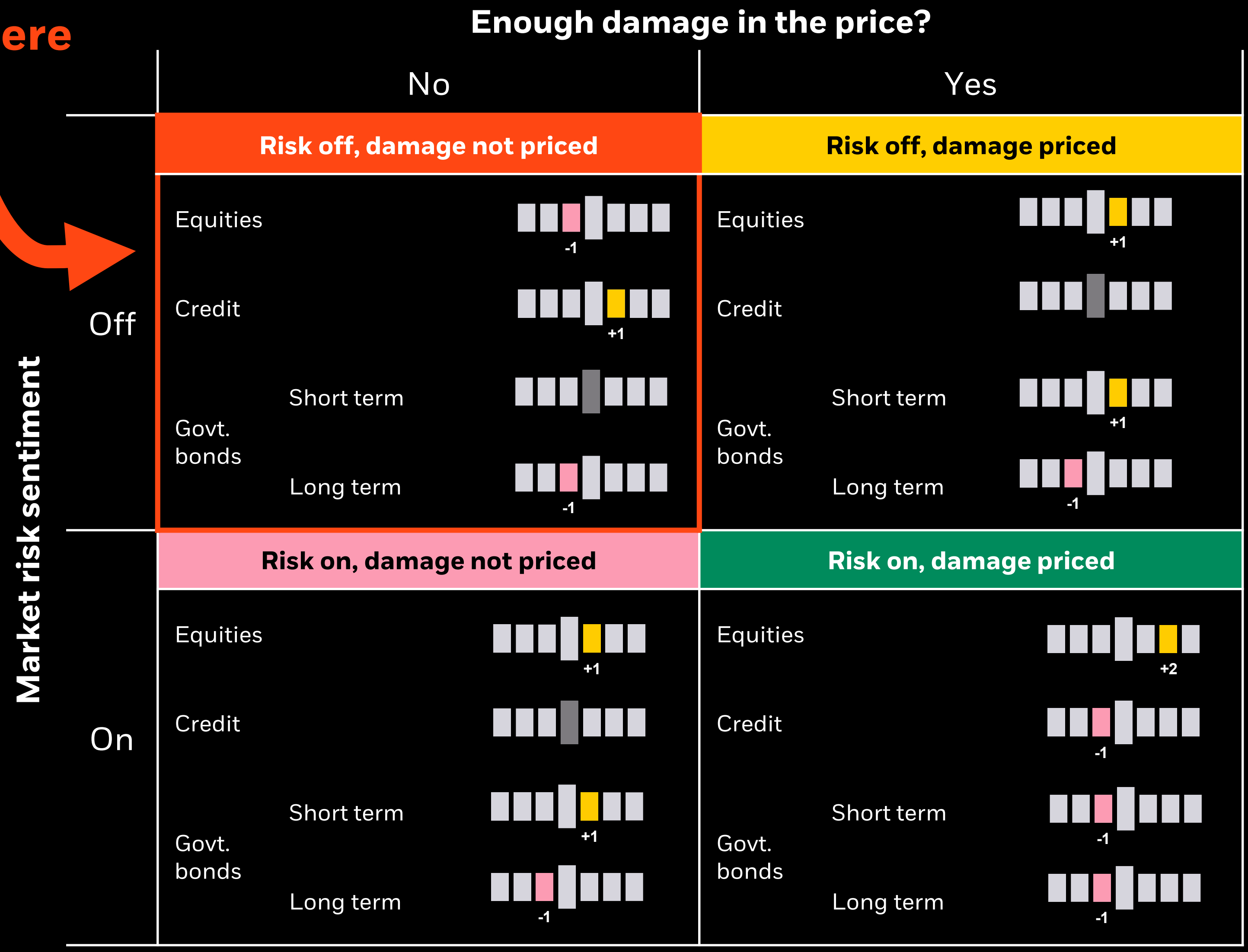
Our new playbook

We are here

Navigating markets in 2023 will require more frequent portfolio changes. We see two assessments that determine tactical portfolio outcomes: 1) our assessment of market risk sentiment, and 2) our view of the economic damage reflected in market pricing.

The matrix shows how we plan to change our views and turn more positive as markets play out in the new regime. A few key conclusions:

- We are already at our most defensive stance. Other options are about turning more positive, especially on equities.
- We are underweight nominal long-term government bonds in each scenario in this new regime. This is our strongest conviction in any scenario.
- We can turn positive in different ways: either via our assessment of market risk sentiment or our view on how much damage is in the price.



Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: Blackrock Investment Institute, November 2022. Notes: The boxes in this stylized matrix show how our tactical views on broad asset classes would switch if we were to change our assessment of market risk sentiment or assessment of how much economic damage is priced in. The potential view changes are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

Theme 1

Pricing the damage

Recession is foretold as central banks race to try to tame inflation. It's the opposite of past recessions: Loose policy is not on the way to help support risk assets, in our view. That's why the old playbook of simply "buying the dip" doesn't apply in this regime of sharper trade-offs and greater macro volatility. The new playbook calls for a continuous reassessment of how much of the economic damage being generated by central banks is in the price.

That damage is building. In the U.S., it's most evident in rate-sensitive sectors. Surging mortgage rates have cratered sales of new homes. See the chart. We also see other warning signs, such as deteriorating CEO confidence, delayed capital spending plans and consumers depleting savings. In Europe, the hit to incomes from the energy shock is amplified by tightening financial conditions.

The ultimate economic damage depends on how far central banks go to get inflation down.

Our approach to tactical investment views is driven by our view of market participants' risk appetite – which is based on the uncertainty of the macro environment and other inputs – and by our assessment of what damage is in the price, especially equity earnings expectations and valuations.

We expect them to stop hiking and activity to stabilize in 2023. We find that earnings expectations don't yet price in even a mild recession. For that reason, we stay underweight DM equities on a tactical horizon for now.

Yet we stand ready to turn more positive as valuations get closer to reflecting the economic damage – as opposed to risk assets just responding to hopes of a soft landing. It's not just about pricing the damage: We could see markets look through the damage and market risk sentiment improve in a way that would prod us to dial up our risk appetite. But we are not there yet.

Damage already clear

U.S. new home sales during policy rate tightening cycles, 1972-2022

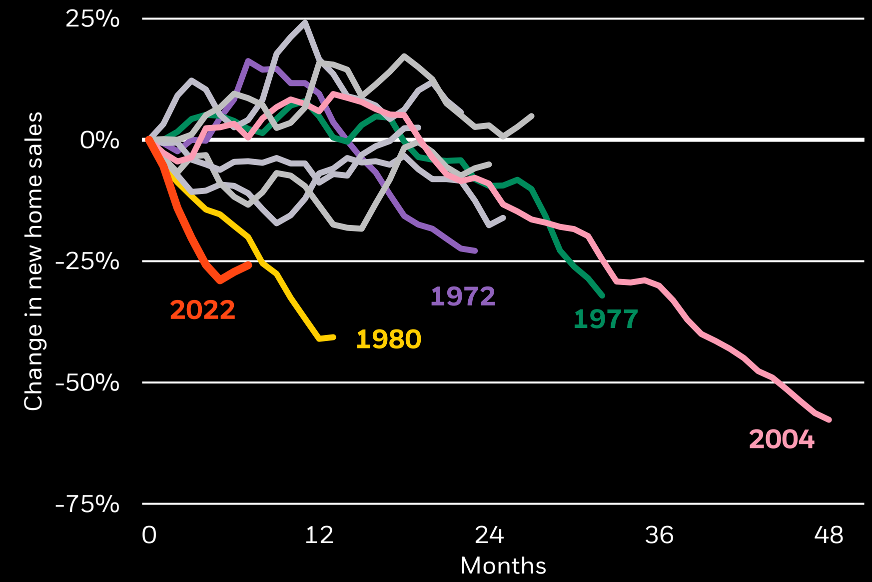


Chart takeaway: *The slide in housing sales this year is already steeper than past mega Fed hiking cycles, such as in the 1970s and early 1980s – as well as the unwind of the mid-2000s U.S. housing boom.*

Source: BlackRock Investment Institute and U.S. Census Bureau, with data from Refinitiv Datastream, November 2022. Notes: The chart shows how quickly in months sales of new family houses changed during policy rate tightening cycles between 1972 and 2022. The colored, labeled lines highlight 2022 and the years when housing sales fell most quickly.

We don't think equities are fully priced for recession. But we stand ready to turn positive via our assessment of the market's risk sentiment or how much economic damage is in the price.

Theme 2

Rethinking bonds

Fixed income finally offers "income" after yields surged globally. This has boosted the allure of bonds after investors were starved for yield for years. We take a granular investment approach to capitalize on this, rather than taking broad, aggregate exposures.

The case for investment-grade credit has brightened, in our view, and we raise our overweight tactically and strategically. We think it can hold up in a recession, with companies having fortified their balance sheets by refinancing debt at lower yields. Agency mortgage-backed securities – a new tactical overweight – can also play a diversified income role. Short-term government debt also looks attractive at current yields, and we now break out this category into a separate tactical view.

In the old playbook, long-term government bonds would be part of the package as they historically have shielded portfolios from recession. Not this time, we think.

The negative correlation between stock and bond returns has already flipped, as the chart shows, meaning they can both go down at the same time. Why? Central banks are unlikely to come to the rescue with rapid rate cuts in recessions they engineered to bring down inflation to policy targets. If anything, policy rates may stay higher for longer than the market is expecting.

Investors also will increasingly ask for more compensation to hold long-term government bonds – or term premium – amid high debt levels, rising supply and higher inflation. Central banks are shrinking their bond holdings and Japan may stop purchases, while governments are still running deficits. That means the private sector needs to absorb more bonds. And so-called bond vigilantes are back, as seen when market forces sparked a yield surge to punish profligate UK policies.

As a result, we remain underweight long-term government bonds in tactical and strategic portfolios.

Bonds and stocks can go down at same time
Correlation of U.S. equity and government bond returns

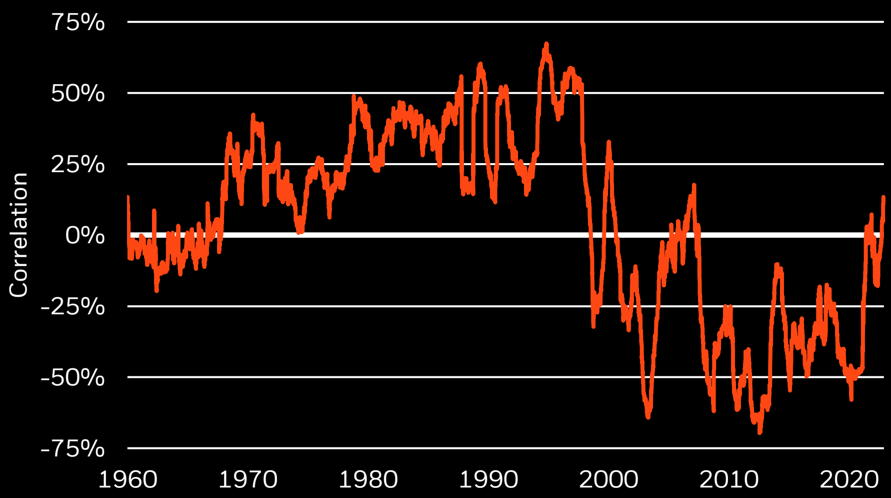


Chart takeaway: *A cornerstone of portfolio construction in recent decades was that bond prices would go up when stocks sold off. We think this correlation has broken down in the new regime.*

Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, November 2022. Notes: The chart shows the correlation of daily U.S. 10-year Treasury and S&P 500 returns over a rolling one-year period.

The lure of fixed income is strong as surging yields mean bonds finally offer income. Yet long-dated bonds face challenges, we believe, making us prefer short-term bonds and high-grade credit.

Theme 3

Living with inflation

High inflation has sparked cost-of-living crises, putting pressure on central banks to tame inflation – whatever it takes. Yet there has been little debate about the damage to growth and jobs.

We think the "politics of inflation" narrative is on the cusp of changing. The cycle of outsized rate hikes will stop without inflation being back on track to return fully to 2% targets, in our view. As the damage becomes clear, the "politics of recession" will take over. Plus, central banks may be forced to stop tightening to prevent financial cracks from becoming floodgates, as seen in the UK when investors took fright of fiscal stimulus plans. Result? Even with a recession coming, we think we are going to be living with inflation.

We do see inflation cooling as spending patterns normalize and energy prices relent – but we see it persisting above policy targets in coming years. More volatile and persistent inflation is not yet priced in by markets, we think.

We stay overweight inflation-linked bonds and like real assets. The old playbook principle that recession drives below-target inflation and looser monetary policy is gone.

Beyond Covid-related supply disruptions, we see three long-term constraints keeping the new regime in place and inflation above pre-pandemic levels: aging populations, geopolitical fragmentation and the transition to a lower-carbon world.

Our strategic views have reflected the new regime, with an overweight to inflation-protected bonds for a few years now. Market expectations and economist forecasts have only recently started to appreciate that inflation will be more persistent. See the gray lines in the chart. We think the old playbook means markets underappreciate inflation. See the yellow dot. The market's wishful thinking on inflation is why we have a high conviction, maximum overweight to inflation-linked bonds in strategic portfolios and maintain a tactical overweight no matter how the new regime plays out.

Wishful thinking on inflation

U.S. core CPI inflation, forecasts and breakeven rates, 2020-2025

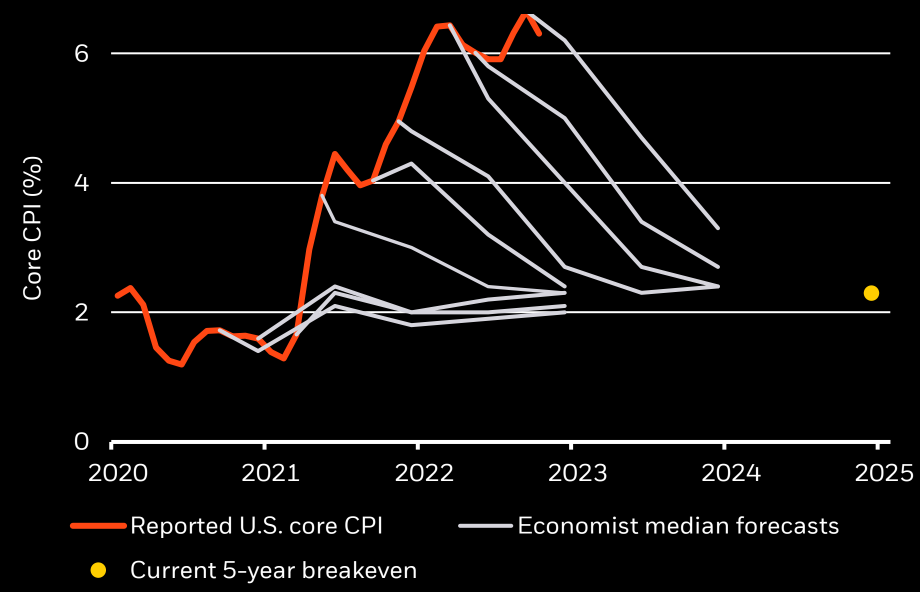


Chart takeaway: *Consensus forecasts have kept underestimating how high inflation would go – and at first overestimated how quickly it would return closer to pre-pandemic levels. We think inflation will be persistently higher, unlike market pricing.*

Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, November 2022. Note: The gray lines show consensus economist projections of CPI inflation polled by Reuters. The yellow dot shows current market implied five-year-ahead inflation expectations. Forward looking estimates may not come to pass.

We see central banks pausing rate hike campaigns once the damage becomes clearer. Long-term drivers of the new regime will keep inflation persistently higher, in our view.

A new playbook

Our 2023 playbook is ready to quickly adjust depending on how markets price economic damage and our risk stance evolves.

We prefer short-term government bonds for income: The jump in yields reduces the need to take risk by seeking yield further out the curve. U.S. two-year Treasury yields have soared above 10-year yields. See the chart. We break out short-term Treasuries as a neutral.

We add to our overweight to investment grade credit. Higher yields and strong balance sheets suggest to us investment grade credit may be better placed than equities to weather recessions.

We like U.S. agency mortgage-backed securities (MBS) for their higher income and because they offer some credit protection via the government ownership of their issuers. And our expectation for persistent inflation relative to market pricing keeps us overweight inflation-linked bonds.

Long-term government bonds remain challenged as we have described, so we stay underweight.

In equities, we believe recession isn't fully reflected in corporate earnings expectations or valuations – and we disagree with market assumptions that central banks will eventually turn supportive with rate cuts. We look to lean into sectoral opportunities from structural transitions – such as healthcare amid aging populations – as a way to add granularity even as we stay overall underweight. Among cyclicals, we prefer energy and financials. We see energy sector earnings easing from historically elevated levels yet holding up amid tight energy supply. Higher interest rates bode well for bank profitability. We like healthcare given appealing valuations and likely cashflow resilience during downturns.

"A bottom-up look at what our companies are telling us is probably the best lens we have into the future."

Carrie King
Global Deputy Chief Investment Officer, Blackrock Fundamental Equities

Short over long
U.S. Treasury yields, 2000-2022

Chart takeaway: *We see long-term yields rising further as term premium returns. Yet we expect less room for short-term yields to climb given the limited scope we see for a further jump in expected policy rates.*

Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, with data from Refinitiv Datastream, November 2022. Notes: The chart shows U.S. 10-year and two-year Treasury yields.

We expect views to change more frequently than in the past. Our stance heading into 2023 is broadly risk-off, with a preference for income over equities and long-term bonds.

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A new strategic approach

The Great Moderation allowed for relatively stable strategic portfolios. That won't work in the new regime: We think they will need to be more nimble.

We don't see a return to conditions that will sustain a joint bull market in stocks and bonds of the kind we experienced in the prior decade. The asset mix has always been important, yet our analysis posits that getting the mix wrong could be as much as four times as costly as versus the Great Moderation. See the difference between the orange bar and yellow markers on the chart. Zero or even positive correlation between the returns of stocks and bonds means it will take higher portfolio volatility to achieve similar levels of return as before.

We see private markets as a core holding for institutional investors. The asset class isn't immune to macro volatility and we are broadly underweight as we think valuations could fall, suggesting better opportunities in coming years than now. See more on page 13.

Our strategic views stay modestly overweight DM equities as we estimate the overall return of stocks will be greater than fixed-income assets over the coming decade. Staying invested in stocks is one way to get more granular with structural trends impacting sectors.

We stay overweight inflation-linked bonds and underweight nominal DM government bonds. Within government bonds, we like short maturities to harvest yield for income and avoid interest rate risk. Within fixed income, we prefer to take risk in credit – and we prefer public credit to private.

“It's undeniable the new regime requires a new approach to portfolios. The strategic asset mix will matter more.”

Simona Paravani-Mellinghoff
Global CIO of Solutions, BlackRock Multi-Asset Strategies & Solutions

Asset mix matters more in new regime

Estimated returns in new regime vs. Great Moderation

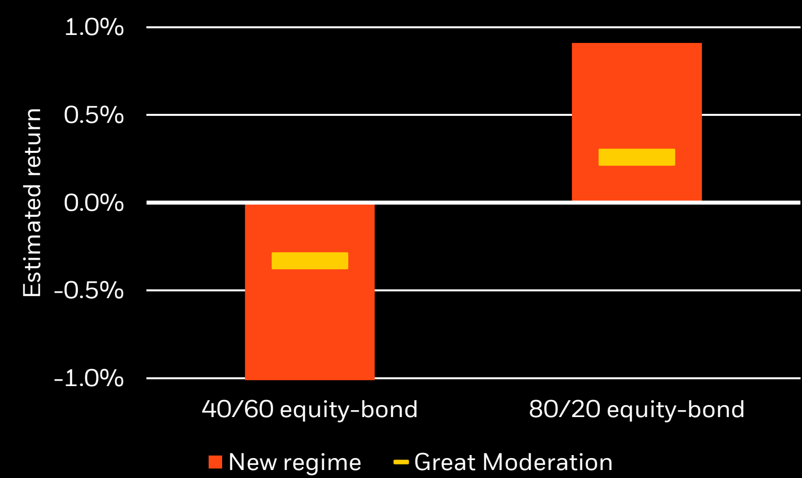

Chart takeaway: *The cost of getting the asset mix wrong is likely to be much higher in the new regime – as much as four times versus the Great Moderation – by our estimates.*

For illustrative purposes only. These do not represent actual portfolios and do not constitute investment advice. Source: BlackRock Investment Institute, with data from Refinitiv Datastream and Morningstar, November 2022. Notes: The chart illustrates the contrast between estimated average annual relative performance of two hypothetical portfolios against a 60-40 global equity-global bond portfolio over the coming decade where we see a regime of higher macro and market volatility (orange) and estimated performance over the Great Moderation era (1990-2019) of stable growth and inflation (yellow bars). We show hypothetical performance of portfolios comprising a 40%-global equity-60% global bond split and an 80% global equity-20% global bond mix. Index proxies: MSCI AC World for equities and the Bloomberg Global Aggregate Index for bonds. An inherent limitation of hypothetical results is that allocation decisions reflected in the performance record were not made under actual market conditions. They cannot completely account for the impact of financial risk in actual portfolio management. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.

Our strategic views are positioned for the new regime. We think even strategic portfolios need to be more dynamic – and getting the asset mix wrong can be even more costly.

Regime drivers

Aging workforces

We have laid out three long-term drivers of production constraints in the new regime. The first is aging populations. The effects are long in the making but are becoming more binding now.

Why? Aging populations mean shrinking workforces. An ever-increasing share of the U.S. population is aged 65 or older when most leave the workforce. This is one key reason the supply of U.S. labor is currently struggling to keep up with demand for labor.

Just like students and stay-at-home parents, retirees are "outside the labor force." That's mainly why the share of the adult population that's inside the labor force – meaning in work or looking for work – is still well below where it was when the pandemic began. That share is also referred to as the participation rate. See the orange line on the chart.

The initial sharp drop was driven by Covid shutdowns: Many who lost their job didn't look for another one right away given healthcare worries or care-giving responsibilities.

Some of that drop in the workforce has now unwound. But the yellow line shows that the part not made up is almost entirely down to aging – the increasing share of the population that is of retirement age – rather than pandemic-specific effects. That's why we don't expect an improvement in the participation rate from here, and so no material easing of the worker shortage that is contributing to inflation.

Aging is bad news for future economic growth, too. The available workforce will expand much more slowly in coming years than it has in the past. Economies won't be able to produce as much. And we don't think aging populations consume substantially less either, particularly when you factor in healthcare demand. That means continued inflation pressure, as reduced production capacity struggles to keep up with demand. We also see rising government spending on care for the elderly adding to debt.

Within equities, we like healthcare as a sector developing medicine and equipment to help meet aging population needs.

A workforce not recovered

Contribution of aging to U.S. labor force participation rate drop, 2008-2022

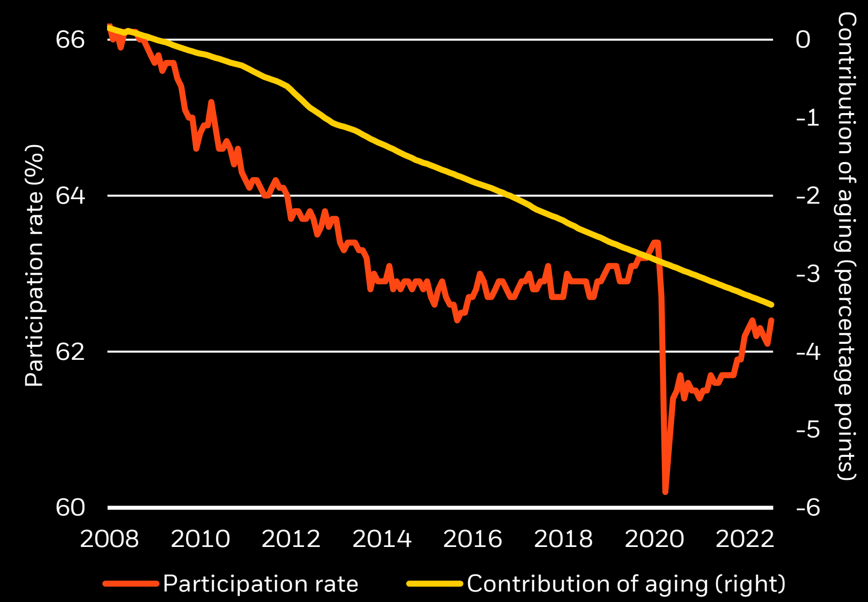

Chart takeaway: *The labor force participation rate fell dramatically in the pandemic as the economy shut down. Many people who left the workforce haven't come back – and won't.*

Sources: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, October 2022. Notes: The orange line shows the U.S. labor force participation rate, defined as the share of the adult population (aged 16 and over) that is in work or actively looking for work. The yellow line shows how much the aging population has contributed to the decline in the participation rate since 2008. It is calculated by fixing participation rates for each age group and changing the weights as observed in the population data over the chart sample period.

Aging populations are negative for economic growth. Production capacity will grow less quickly in the future as an ever-larger share of the population is past retirement age and not working.

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A new world order

We've entered into a new world order. This is, in our view, the most fraught global environment since World War Two – a full break from the post-Cold War era. We see geopolitical cooperation and globalization evolving into a fragmented world with competing blocs. That comes at the cost of economic efficiency. Sourcing more locally may be costlier for firms, and we could also see fresh mismatches in supply and demand as resources are reallocated.

A prime example is the response to Russia's invasion of Ukraine. Western sanctions have triggered a pursuit of economic self-sufficiency. Energy security is now a priority: As Europe weans itself off Russian oil and gas, we've seen energy shortages and higher prices. In the U.S., we see a push to favor trading partners when sourcing the metals and materials needed in the net-zero transition.

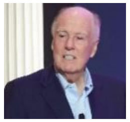
Strategic competition between the U.S. and China has intensified. A tough stance toward China has bipartisan support in Washington. The U.S is trying to restrict China's access to high-end technology.

China's recent party congress was a pivotal event, both politically and economically, in our view. China looks set to de-emphasize economic growth as it pursues self-sufficiency in energy, food and technology. We see slower growth compounded by the effects of an aging population over time.

Geopolitical fragmentation is likely to foster a permanent risk premium across asset classes, rather than have only a fleeting effect on markets as in the past. Market attention is likely to stay fixated on geopolitical risks. See the chart.

All this will likely contribute to the new regime of greater macro and market volatility – and persistently higher inflation.

> **"We're in a new world order of geopolitical fragmentation, a full break with the post-Cold War era."**



Tom Donilon
Chairman, BlackRock Investment Institute

Geopolitical risk grabs market attention
BlackRock Geopolitical Risk Indicator (BGRI), 2018-2022

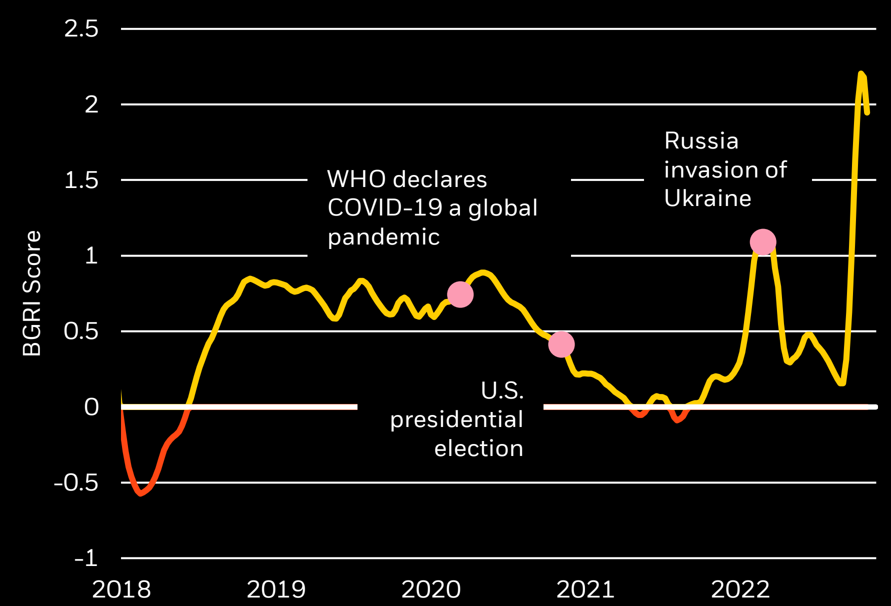


Chart takeaway: *We have seen a surge in market interest in geopolitical risk in recent months, highlighting how fraught the current environment is.*

Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute. October 2022. The BlackRock Geopolitical Risk Indicator (BGRI) tracks the relative frequency of brokerage reports (via Refinitiv) and financial news stories (Dow Jones News) associated with specific geopolitical risks. We adjust for whether the sentiment in the text of articles is positive or negative, and then assign a score. This score reflects the level of market attention to each risk versus a five-year history. We use a shorter historical window for our COVID risk due to its limited age. We assign a heavier weight to brokerage reports than other media sources since we want to measure the market's attention to any particular risk, not the public's.

This is the most fraught geopolitical environment since WW II, in our view. The world is splitting up into competing blocs that pursue self-reliance.

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Faster transition

We track the transition to net-zero carbon emissions like we track any other driver of investment risks and opportunities, such as monetary policy. We take a view on how it is likely to play out, not how it *should* play out. We assess its implications for financial risks and returns.

Our research suggests the global transition could accelerate, boosted by significant climate policy action, by technological progress reducing the cost of renewable energy and by shifting societal preferences as physical damage from climate change – and its costs – become more evident.

Europe has intensified its efforts to build clean energy infrastructure as it seeks to wean itself off Russian energy. The clearest example of that is the European Commission's RePowerEU Plan. Further impetus is likely to come from higher traditional energy prices, which are exacerbating the cost-of-living crisis and have shifted the economics decisively in favor of cleaner energy sources. In the U.S., the Inflation Reduction Act is poised to unleash enormous investment.

We see it cutting clean technology costs and spurring domestic manufacturing.

We see opportunities in transition-ready investments. Infrastructure is one way to play into that. See page 13. Yet the transition is set to add to production constraints, in our view. It involves a huge reallocation of resources. Oil and gas will still be needed to meet future energy demand under any plausible transition. If high-carbon production falls faster than low-carbon alternatives are phased in, shortages could result, driving up prices and disrupting economic activity. The faster the transition, the more out of sync the handoff could be – meaning more volatile inflation and economic activity.

"We find good opportunities by getting ahead of where the green investments are going."

Hannah Johnson
Portfolio Manager, Natural Resources, BlackRock Fundamental Equity

Policy helping accelerate the transition
Total annual green investment, past and planned, 2015-2030

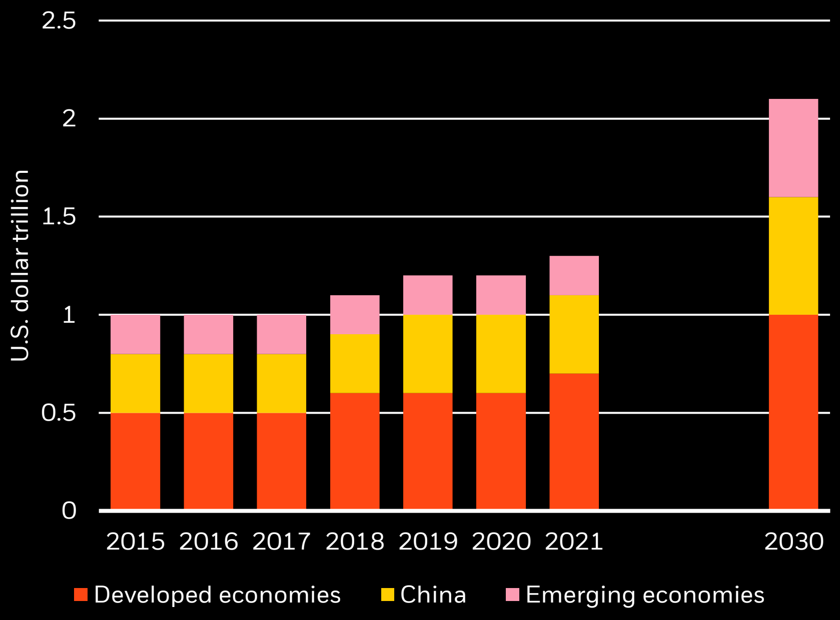

Chart takeaway: *Global investment in the net-zero transition is set to step up notably in coming years – largely thanks to key policy action.*

Source: BlackRock Investment Institute and International Energy Agency (IEA), November 2022. Notes: The chart shows IEA estimates of past and planned annual green investment, in trillions of U.S. dollars. Forward-looking estimates may not come to pass.

We track the transition to net-zero carbon emissions as we track any other driver of investment risks and opportunities.

The long view on infrastructure

In private markets, valuations have not caught up with the public market selloff, reducing their relative appeal. We are underweight private markets in our strategic views, particularly segments such as private equity that have seen heavy inflows. But we think private markets – a complex asset class not suitable for all investors – should be a larger allocation than what we see most qualified investors hold.

We see some opportunities in infrastructure. From roads to airports and energy infrastructure, these assets are essential to industry and households alike. Infrastructure has the potential to benefit from increased demand for capital over the long term, powered by structural trends such as the energy crunch and digitalization.

The chart shows World Bank data pointing to a gap of about $15 trillion between existing investments and what's needed to meet global infrastructure demand over coming decades.

The U.S. Inflation Reduction Act alone earmarks nearly $400 billion of investment and incentives in sustainable infrastructure and supply chains.

We believe infrastructure can help diversify returns and provide stable long-term cashflows – even with risks such as governments imposing artificial price caps amid political pressure. Infrastructure earnings are often less tied to economic cycles than corporate assets. Contracts can be long-term and span decades. And infrastructure assets can help hedge against inflation, with fixed costs and prices linked to inflation.

"Asset selection is vital, in our view, given the high dispersion of performance even within the infrastructure asset class."

Anne Valentine Andrews
Global Head, BlackRock Alternatives, Infrastructure and Real Estate

Investment gap
Infrastructure investment, 2007-2040

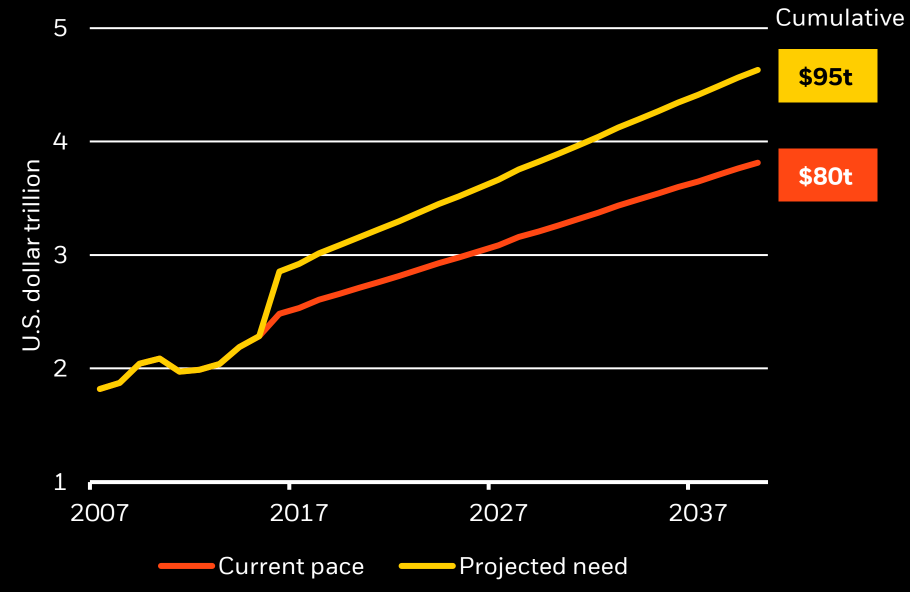

Chart takeaway: *Structural trends – the reshaping global energy supply, digitalization and decarbonization – entail a sizeable step-up in the pace of infrastructure investments.*

Sources: BlackRock Investment Institute and World Bank, 2017. Notes: The chart shows estimated infrastructure investment for 50 countries through 2040. The yellow line shows investment needed annually. The orange line shows investment trends assuming countries invest in line with current trends, according to the World Bank. The cumulative total of $95 trillion is for investment needed vs. $80 trillion in current trends. Forward looking estimates may not come to pass.

Private markets are not immune to macro volatility. Yet for strategic investors, asset classes such as infrastructure could provide a way to play into structural trends.

Directional views

Getting granular

Our new investment playbook – both strategic and tactical – calls for greater granularity to capture opportunities arising from greater dispersion and volatility we anticipate in coming years.

Take equities. We are tactically underweight DM equities. We break this down as an underweight in the U.S., Europe and UK and a neutral on Japan. But we take it a step further via sectoral preferences that we think will be key in the new regime. We like energy, financials and healthcare over staples, utilities and consumer discretionary. On a strategic horizon, we are overweight equities with a preference for DM. We think DM equities are one way to get more granular and benefit from structural trends. We believe DM equity indexes are better positioned for the net-zero transition, for instance, with heavier weights in lower carbon-intensive sectors such as tech and healthcare.

In fixed income, the return of income and carry has boosted the allure of certain bonds, especially short term. We don't think leaning into broad indexes or asset allocation blocks is the correct approach. We stay underweight long-term nominal bonds as we see term premium returning due to persistent inflation, high debt loads and thinning market liquidity. For those reasons, they won't play the same safe-haven role as in the old playbook. These factors matter less for short-term bonds, in our view. We also have a high conviction overweight to investment grade credit – relative to a neutral on high yield – and we still like inflation-linked over nominal bonds in both tactical and strategic views.

Directional views

Strategic (long-term) and tactical (6-12 month) views on broad asset classes, November 2022

Asset	Strategic view	Tactical view	
Equities	+1	-1	We are overweight equities in our strategic views as we estimate the overall return of stocks will be greater than fixed-income assets over the coming decade. Valuations on a long-horizon do not appear stretched to us. Tactically, we're underweight DM stocks as central banks look set to overtighten policy – we see recessions looming. Corporate earnings expectations have yet to fully reflect even a modest recession.
Credit	+2	+1	Strategically, we add to our overweight to global investment grade credit on attractive valuations and income potential given higher yields. We turn neutral high yield as we see the asset class as more vulnerable to recession risks. Tactically, we're also overweight investment grade and neutral high yield. We prefer to be up in quality. We cut EM debt to neutral after its strong run. We see better opportunities for income in DMs.
Govt Bonds	-1	-1	The underweight in our strategic view on government bonds reflects a big spread: max underweight nominal, max overweight inflation-linked and an underweight on Chinese bonds. We think markets are underappreciating the persistence of high inflation and the implications for investors demanding a higher term premium. Tactically, we are underweight long-dated DM government bonds as we see term premium driving yields higher, yet we are neutral short-dated government bonds as we see a likely peak in pricing of policy rates. The high yields offer relatively attractive income opportunities.
Private Markets	-1	—	We're underweight private growth assets and neutral on private credit, from a starting allocation that is much larger than what most qualified investors hold. Private assets are not immune to higher macro and market volatility or higher rates, and public market selloffs have reduced their relative appeal. Private allocations are long-term commitments, however, and we see opportunities as assets reprice over time. Private markets are a complex asset class not suitable for all investors.

Underweight | Neutral | Overweight | ● Previous view

Note: Views are from a U.S. dollar perspective, November 2022. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tactical granular views

Six to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, November 2022

Equities	View	Commentary
Developed markets	-1	We are underweight. Neither earnings expectations nor valuations fully reflect the coming recession. We prefer to take a sectoral approach – and prefer energy, financials and healthcare.
United States	-1	We are underweight. The Fed is set to raise rates into restrictive territory. Earnings downgrades are starting, but don't yet reflect the coming recession.
Europe	-1	We are underweight. The energy price shock and policy tightening raise stagflation risks.
UK	-1	We are underweight. We find valuations expensive after the strong relative performance versus other DM markets thanks to energy sector exposure.
Japan	Neutral	We are neutral. We like still-easy monetary policy and increasing dividend payouts. Slowing global growth is a risk.
China	Neutral	We are neutral. Activity is restarting, but we see China on the path to lower growth. Tighter state control of the economy makes Chinese assets riskier, in our view.
Emerging markets	Neutral	We are neutral. Slowing global growth will weigh on EMs. Within the asset classes, we lean toward commodity exporters over importers.
Asia ex-Japan	Neutral	We are neutral. China's near-term cyclical rebound is a positive, yet we don't see valuations compelling enough to turn overweight.

Underweight | Neutral | Overweight | ● Previous view

Fixed income	View	Commentary
Long U.S. Treasuries	-1	We are underweight. We see long-term yields moving up further as investors demand a greater term premium.
Short U.S. Treasuries	Neutral	We are neutral. We remain invested in the front end due to attractive income potential.
Global inflation-linked bonds	+1	We are overweight. We see breakeven inflation rates underpricing the persistent inflation we expect.
European government bonds	-1	We turn underweight the long end. We expect a return of term premium to push long-term yields up. We see higher inflation persisting and sharp rate hikes as a risk to peripheral spreads.
UK gilts	-1	We are underweight. Perceptions of fiscal credibility have not fully recovered. We prefer short-dated gilts for income.
China govt bonds	Neutral	We are neutral. Policymakers have been slow to loosen policy to offset the slowdown, and they are less attractive than DM bonds.
Global IG credit	+2	We add to our overweight. High-quality corporates' strong balance sheets imply IG credit could weather a recession better than stocks.
U.S. agency MBS	+1	We are overweight. We see the asset class as a high-quality exposure within a diversified bond allocation. Soaring U.S. mortgage rates have boosted potential income.
Global high yield	Neutral	We are neutral. We prefer up-in-quality credit exposures amid a worsening macro backdrop.
EM hard currency	Neutral	We are neutral. We see support from higher commodities prices yet it is vulnerable to rising U.S. yields.
EM local currency	Neutral	We cut EM debt to neutral after its strong run. We see better opportunities for income in DMs.
Asia fixed income	Neutral	We are neutral amid a worsening macro outlook. We don't find valuations compelling enough yet to turn more positive on the asset class.

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

BlackRock Investment Institute

The BlackRock Investment Institute (BII) leverages the firm's expertise to provide insights on the global economy, markets, geopolitics and long-term asset allocation – all to help our clients and portfolio managers navigate financial markets. BII offers strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

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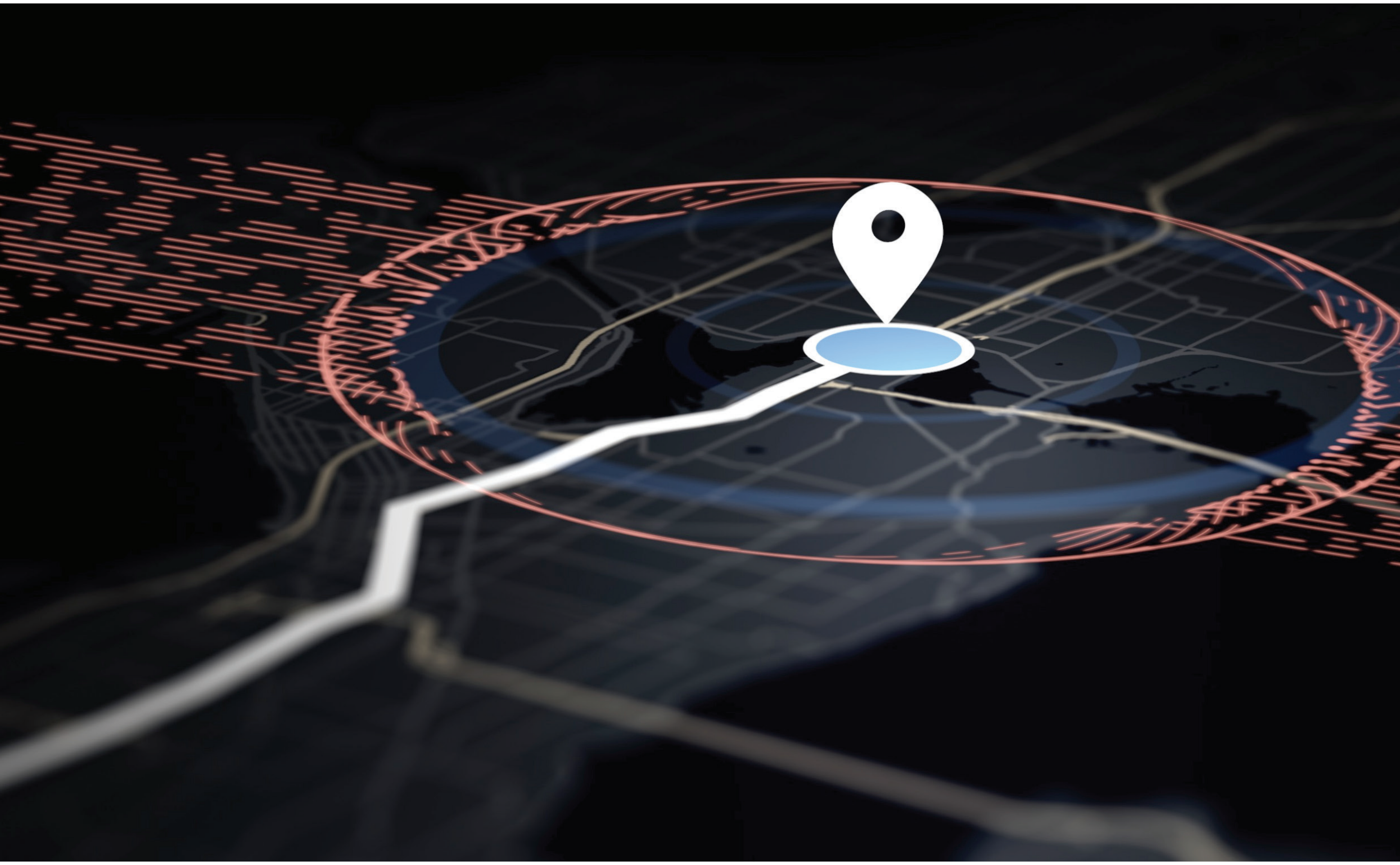

SOLVING FOR 2023

NEUBERGER BERMAN

OUR INVESTMENT PLATFORM

FIRM ASSETS UNDER MANAGEMENT $408bn

MULTI-ASSET STRATEGIES

	EQUITIES	FIXED INCOME	HEDGE FUNDS & LIQUID ALTERNATIVES	REAL ASSETS
PUBLIC MARKETS $299bn	**FUNDAMENTAL** Global U.S. EAFE / Japan Emerging Markets – China Thematic Strategies MLPs **QUANTITATIVE** Global U.S. Emerging Markets Custom Beta	Global Investment Grade Global Non-Investment Grade Emerging Markets Municipals Multi-Sector Currency	**FUNDAMENTAL** Hedge Funds Liquid Alternatives **QUANTITATIVE** Options Global Macro Risk Parity Risk Premia	Commodities Diversified Real Assets Global REITs U.S. REITs Long/Short Real Estate – Almanac
	$110bn	$161bn	$25bn	$3bn
	PRIVATE EQUITY	PRIVATE CREDIT	SPECIALTY ALTERNATIVES	PRIVATE REAL ASSETS
PRIVATE MARKETS $109bn	Primaries Co-Investments Secondaries Specialty Strategies	Private Debt Credit Opportunities Special Situations Residential Loans Specialty Finance Private Placement European Private Loans	Hedge Fund Co-Investments Insurance-Linked Strategies Late Stage Pre-IPO SPACs	Private Real Estate – Almanac Real Estate Secondaries Real Estate Primaries & Co-Investments Infrastructure
	$77bn	$20bn	$5bn	$7bn

ESG INTEGRATION | GLOBAL RESEARCH CAPABILITIES | DATA SCIENCE

SOLVING
FOR 2023

TEN FOR 2023

Each year, our investment leaders identify 10 key themes that they believe will be prominent in the markets over the next 12 months. The themes for 2023 are summarized below. A roundtable discussion of the themes begins on page 5.

MACRO: BACK TO THE "OLD NORMAL"

1 A YEAR OF PEAKS AND TROUGHS WITH A RETURN TO THE "OLD NORMAL"

We think the next 12 months are likely to see this cycle's peaks in global inflation, central bank policy tightening, core government bond yields and market volatility, as well as troughs in GDP growth, corporate earnings growth and global equity market valuations. But we do not believe this will mark a reversion to the post-2008 "new normal". We see structural forces behind persistently higher inflation—and therefore a persistently higher neutral interest rate, a higher cost of capital and lower asset valuations.

2 ADJUSTING TO HIGHER RATES CONTINUES TO DISRUPT

As rates rise and investors demand higher risk premia, the cost of capital goes up. This happens at some point in most cycles, but we believe the current adjustment is structural, and it is proving unusually large and rapid—raising the risk that it is disruptive. Many mortgage borrowers could be shocked when they refinance at 2023 rates. Many corporate capital structures built for a low-rate environment are in for a similar sharp adjustment. And with government debt exploding during the pandemic and "bond vigilantes" back on watch, some sovereigns may be forced into the kind of uncomfortable re-think recently forced upon the U.K. We think investors should be watchful for weak points that could cause broader disruption.

3 MORE DE-GLOBALIZATION

Manufacturing supply chains, commodity markets, financial systems, regulatory regimes, fiscal and monetary policy frameworks—we have seen them all become more integrated between 1980 and 2008, and more fragmented since. We see many and varied reasons, including the political backlash against the unequal outcomes of globalization; the shocks of the Great Financial Crisis and the pandemic; the waning internationalism of the U.S.; and increasing tensions as geopolitical blocs realign. We anticipate more landmarks on this journey in 2023, as it is driven by strong political, security and risk management imperatives.

4 REDOUBLED EFFORTS TO CLARIFY "ESG"

Environmental, social and governance (ESG) investing became increasingly politicized in 2022 as the crisis in Ukraine triggered strong outperformance from fossil fuel assets, and stoked fears that ESG investors were starving domestic energy providers of capital. To counter this politicization, we believe more clarity is needed on the distinction between investing processes and investing outcomes. ESG integration is a process designed to ensure that financially material ESG factors are considered, alongside others, in traditional investment analysis. Exclusions, sustainable investing and impact investing pursue a specific non-financial outcome, in a portfolio or in the real world, alongside managing financial return. We anticipate focus on this clarification from the industry and its regulators in 2023.

FIXED INCOME: THE RETURN OF MARKET DISCIPLINE

5 PERSISTENT INFLATION SUGGESTS PERSISTENT BOND MARKET VIGILANCE

We enter 2023 with high inflation and extreme levels of government debt. Against this background, we see bond investors standing up more strongly for their interests against policymakers. Markets are punishing policy inconsistencies between fiscal and monetary authorities within sovereigns; and excessive fiscal or monetary policy divergences between sovereigns. We think core government bond yields may be range-bound where policies are consistent, but potentially higher and more volatile where policies are inconsistent. Despite the pace of policy adjustment and attendant market rate moves, outside the U.K. central banks have so far not had to intervene to maintain market liquidity—but an emergent policy conflict remains a tail risk for bond markets in 2023.

6 ABILITY TO ABSORB HIGHER RATES LIKELY TO DOMINATE CREDIT

Over the course of a decade, many financial structures have been built around falling and ultimately near-zero rates, including a lot of debt structures. Floating-rate borrowers will need to adjust right away, but because we see structurally higher rates ahead, we think fixed-rate borrowers will eventually need to adjust, too. We do not anticipate a major uptick in defaults: the economy has historically been able to generate healthy growth with rates at these levels, balance sheets are generally strong and maturities are generally several years away, supporting a range of fixed income credit markets. That said, in our view, the sooner investors work higher-rates-for-longer into their credit analyses, the sooner they are likely to make what we regard as the necessary portfolio adjustments.

EQUITIES: WINNERS AND LOSERS

7 EARNINGS ESTIMATES RECALIBRATE AND FAVOR THE FITTEST

Much of the equity bear market of the first half of 2022 appeared to be due to the application of higher discount rates to largely unchanged future earnings estimates. Consensus earnings growth estimates for 2023 did not fall in the same way as real GDP growth estimates, perhaps because high inflation has supported nominal GDP growth. As inflation turns downward but remains relatively high as the economy slows, we think earnings estimates are likely to be revised down. We also think dispersion will increase, favoring companies that are less exposed to labor and commodity costs and have more pricing power to maintain margins, and use less aggressive earnings accounting. We believe this will translate into greater dispersion of stock performance.

8 MANAGEMENT TEAMS RE-FOCUS ON SHAREHOLDER VALUE

When equity investors demand higher risk premia and bond yields present a meaningfully higher return hurdle, one way to keep the cost of capital down is to re-focus on delivering tangible, near-term shareholder value. When the economic going gets tough, effective management teams typically start improving capital structures and balance sheets, spinning out lower-return divisions, acquiring strategic targets finding efficiencies, and engaging creatively with shareholders. In these conditions we tend to see the true potential of alignment between active shareholders and company management: 2023 could be a lively year in the boardroom.

ALTERNATIVES: CHALLENGES AHEAD, BUT OPPORTUNITIES FOR THE NIMBLE

9 MORE DISPERSION IN PRIVATE MARKETS PERFORMANCE

Private markets won't be impervious to the ongoing slowdown. Exits are more difficult in volatile public markets, and while private company valuations tend not to fall as far as public market valuations, we do think they are likely to decline. Such a challenging environment is likely to result in performance dispersion that tends to favor higher quality companies, especially where management has well-defined growth plans as opposed to relying on leverage and multiple expansion. It's also important to remember that private equity funds generally invest over multi-year periods, typically enabling new and recent-vintage funds with "dry powder" to seek opportunities as valuations decline through the slowdown.

10 A GROWING OPPORTUNITY SET FOR OPPORTUNISTIC INVESTORS

In a market downturn, liquidity providers can be selective across liquid and illiquid alternatives and niche opportunistic strategies as valuations decline—or even dislocate. Among liquid alternatives, we think global macro and other trading-oriented hedged strategies can continue to find opportunity amid volatility. We anticipate increasing opportunities to provide niche capital solutions at attractive or even stressed yields as debt structures are reworked. And on the illiquid side, we think private equity secondaries has become a buyers' market. Economic strains could also open up long-term value opportunities in inflation-sensitive real assets, in markets both liquid (e.g., certain commodities) and illiquid (e.g., real estate).

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President and Chief Investment Officer—Equities

ASHOK BHATIA, CFA
Deputy Chief Investment Officer—Fixed Income

ERIK L. KNUTZEN, CFA, CAIA
Chief Investment Officer—Multi-Asset Class

NIALL O'SULLIVAN
EMEA Chief Investment Officer—Multi-Asset Class

BRAD TANK
Chief Investment Officer—Fixed Income

ANTHONY D. TUTRONE
Global Head of Alternatives

SOLVING
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ROUNDTABLE DISCUSSION

BACK TO THE "OLD NORMAL"

As 2022 ended, the leaders of our investment platforms gathered to talk about the evolution of the investment environment over the past 12 months and the key themes they anticipate for 2023.

Joseph Amato: As we head into 2023, the big question on many investors' minds is, "How deep might this economic decline be?" It's a difficult question because corporate and household balance sheets worldwide are generally less levered and in stronger shape than they would normally be at the turn of a cycle; and because high inflation has opened an historic gap between real and nominal GDP growth. Nominal growth is what builds nominal corporate profits: if that is running at 6%, it can mitigate the impact of the decline in real economic growth. Finally, we could see considerable divergence between flat or negative real growth in the U.S. and Europe on the one hand, and potentially strong positive real growth from China on the other. China faces difficult long-term headwinds from its aging population and real estate debt overhang, but it will start the year from a very low base due to its "zero-COVID" lockdowns. China could grow by 6% next year or by 3%—and the path it takes is likely to make a big difference to the global outlook. Even if we are spared a technically defined global or U.S. recession in 2023, the important thing is that conditions are likely to feel like a recession—indeed, a stagflationary recession—to many consumers and businesses.

> *"We likely face a year of cyclical peaks and troughs: peak inflation, peak central bank policy tightening, peak core government bond yields and peak market volatility; and troughs in real GDP growth, corporate earnings growth and global equity market valuations."*
>
> – ERIK KNUTZEN

Erik Knutzen: I think we can be relatively confident that the next 12 months will see the economy and markets settle into their new regime—and that this will mark a structural transition rather than a cyclical one. So, we likely face a year of cyclical peaks and troughs: peak inflation, peak central bank policy tightening, peak core government bond yields and peak market volatility; and troughs in real GDP growth, corporate earnings growth and global equity market valuations. But we don't think those peaks and troughs will mark the beginning of a path back to recent conditions. The pendulum will swing back, but not all the way.

Tank: Whenever there is rapid change, people often presume it will be followed by mean reversion. Not this time. We think higher inflation is structural, for all the reasons we've been describing over the past 18 months: deglobalization, China's economic reorientation, the shift to more accommodative fiscal policy and decarbonization. It follows that we think higher interest rates are structural, too. And this is not a particularly bold call: it's about a normalization after a decade of something deeply abnormal. I think the 2020s could end up looking like the 1990s in reverse. The 1990s started with high inflation and ended with low inflation, and the average was just over 3%—which is where the U.S. Treasury market's 10-year breakeven inflation rate got to earlier this year. The current estimate for the Federal Reserve's terminal rate is around 5.0%, close to the historical average going back to 1950.

Amato: Goodbye to the "New Normal" and welcome back to the "Old Normal". We got used to money being virtually free, but that was far from normal. What we are returning to is normal: an environment in which capital is appropriately priced to generate an appropriate return.

Knutzen: This new world is very unlike the past decade, when the world was swimming in low-cost capital.

Ashok Bhatia: We are already seeing this reverberate through financial markets. Fixed income yields have gone from near-zero to 12-year highs in little more than a year and, depending on whether you're looking at core government bonds, investment grade corporates or high yield, that now means a 4%, 6% or 8% hurdle rate for other investments.

Tank: The "bond vigilantes" are back. Markets are back in control, and that's probably for the better, on balance. But it's a very fragile environment in which to have markets asserting their influence again so aggressively.

"When financial conditions change so fast, as they have in 2022 with the strength of the dollar and U.S. Treasury yields, it's always prudent to look out for breakages somewhere in the system."

– NIALL O'SULLIVAN

Niall O'Sullivan: I'm thinking of Mark Zuckerberg and Warren Buffet: "Move fast and break things" and "Only when the tide goes out do you discover who's been swimming naked." When financial conditions change so fast, as they have in 2022 with the strength of the dollar and U.S. Treasury yields, we think it's prudent to look out for breakages somewhere in the system. And when the tide goes out fast you've got less time to grab your clothes! I think we'd agree that corporates are generally strong and that central banks are likely to step in to protect macro stability—but some entities and business models could be caught short and cause broader spillovers.

Amato: It's important for investors to be ready for nasty surprises. It's still not clear how embedded inflation might become in the labor market. The risk of a monetary policy mistake remains very high—whether that's a pivot too early by the Fed or a stumble from another major central bank as it tries to keep up with the Fed's hiking cycle. The strong dollar is causing strain all around the world. As a leveraged sector, real estate may have some still undiscovered weaknesses globally, but especially in China. The big decline in asset valuations may have caused damage in the alternative investment world that we're not fully aware of yet. And of course, there's the threat of escalation in Ukraine or over Taiwan. The list of things that could go wrong is a long one, and there will likely be others under the radar. Who would have pointed the finger at U.K. pension funds?

O'Sullivan: It's also concerning how this market fragility interacts with one of the other big issues of recent years: deglobalization. During the Financial Crisis, the Euro Crisis and again in the pandemic, monetary authorities worked in concert, making coordinated decisions on rates and providing swap lines. As the pressures of inflation cause us to lose some of that coordination, or even edge toward the weaponization of monetary policy, the risk rises of a breakdown in markets that spills over and spreads into the real economy.

Amato: This is an important dynamic. We got used to the world getting smaller and smaller for decades, especially since the fall of the Berlin Wall and China's accession to the World Trade Organization. Now it seems to be getting bigger again. Manufacturing supply chains, commodity and energy markets, financial systems, regulatory regimes and, as Niall says, fiscal and monetary policy frameworks, have all became more fragmented. The globalization genie is out of the bottle and very unlikely to get pushed all the way back in, but there are now many forces resisting it, and they are all very strong. My view is that the main force is growing political resistance to the uneven distribution of the value created by globalization: a technology- and knowledge-based economy that prioritizes free trade in goods, services, ideas and labor left enough people behind to forge an impactful coalition. China's recent policy re-orientation suggests that this eventually becomes a problem even for more centralized economies, so it's no wonder the world's market democracies are struggling to contain it. But it's not just about domestic politics. The on-shoring, near-shoring or simple diversification of supply chains following the fragility uncovered by the pandemic is about practical business decisions. The rise of new powers and blocs currently being tested in places like Ukraine and South East Asia has undermined the geopolitical pillars of globalization. I think we will see more of that in 2023, as it's a multidecade trend.

O'Sullivan: Are there any positives here? It's going to make global production less efficient and more labor-intensive, which is probably more favorable for Main Street jobs and wages than Wall Street returns, even after we account for the inflationary effect. But it's also going to be more capital-intensive—might that generate the escape velocity to put secular stagnation behind us?

"The list of things that could go wrong is a long one, and there will likely be others under the radar."

– JOSEPH AMATO

Anthony Tutrone: That's certainly part of the investment case for the energy and electrification transition, and the shift to sustainability in general. Energy independence is now a strategic and security goal for a lot of countries, as well as being an environmental imperative for the world at large. After two decades and more of low real rates and capital flows into asset-light technology businesses, higher inflation and higher rates combined with strategic and environmental imperatives may see those flows redirected into more asset-intensive investments such as renewable energy and electrification infrastructure.

Amato: There are challenges here, though, too. The U.S. Inflation Reduction Act sets out hundreds of billions of dollars of spending, investment and tax relief—but where will governments get their capital? With the prevailing populism and politicization of these issues, from the left and the right, the prospect of a carbon tax seems unlikely while trust in public-private partnership and the willingness of government to accept first loss is low.

The politicization of environmental, social and governance (ESG) investing is making these decisions more challenging for us, too, as stewards of private capital. I think our industry needs to make 2023 the year when it more clearly differentiates between the range of approaches to ESG and sustainable investing, and in practical terms that means more clarity on the distinction between investing processes and investing outcomes. ESG integration is a process designed to ensure that material ESG factors are considered, alongside many others, in traditional investment analysis.

It should not be controversial to consider labor relations and strategic plans for electrification when you're analyzing the stock of a major auto company—these are financially material risks. That is different from strategies that screen out specific sectors or companies, and it's different from sustainable investing and impact investing. These strategies pursue a specific non-financial outcome alongside managing financial risk and return, whether that outcome is the ethical or sustainability profile of stocks and sectors in a portfolio, or a social or sustainability impact in the real world. Clearer distinctions can help consumers better understand the investment products they are buying and may take some of the heat out of the political debate.

O'Sullivan: The invasion of Ukraine and the subsequent energy crisis has inflamed this debate. It would be helpful for the wider world to know that ESG is not about excluding entire sectors, starving critical domestic energy industries of capital or pushing for net-zero emissions right away. This year has brought home the political and practical difficulties of the energy transition. We believe pragmatic investment approaches recognize that today's world requires hydrocarbons for power, heat and food production, and strategies that explicitly focus on transition opportunities will become more prevalent than those based on immediate exclusion. Ultimately, however, we do think the environmental necessity of the energy transition is undeniable and the Ukraine crisis strengthens the energy-security argument, making this one of the most compelling investment opportunities in a generally low-growth, high-inflation world.

FIXED INCOME: THE RETURN OF MARKET DISCIPLINE

Amato: Speaking of where governments will find their capital, one of the more important incipient trends we've seen emerge in 2022 is the tough questions bond markets are posing to governments. Developed economies haven't faced this kind of market discipline for a long while.

Tank: We mentioned the potential for cracks to appear when things adjust so rapidly. The movement of risk onto government balance sheets, and the further explosion of public debt to fight the pandemic, have put sovereigns and currencies high on the list of markets to watch. With inflation bringing the bond vigilantes back out on patrol, inconsistent policy is more likely to be punished with a significant risk premium. Policymaking can be inconsistent in two ways: between the fiscal and monetary authorities within a country, as we've seen recently in the U.K.; and among sovereigns, as we see in Japan's outlier status on monetary policy, which is a divergence that has yet to be resolved.

Bhatia: Those risk premia can make a significant difference. We think the path of policy rates is close to being priced into many core government yield curves, and with consistent policy those markets could trade in a range over the coming months. But where policy is inconsistent, there could be substantial volatility as investors seek to price the uncertainty.

> *"We've had a decade of low and declining rates. That's a lot of time for them to become entrenched in the way capital structures are built and investment strategies are designed."*
>
> **– BRAD TANK**

Tank: The situation in the U.K. has shown how risk premia that arise in response to policy failures can spread quickly into the real economy, via mortgages, for example. We've had a decade of low and declining rates. That's a lot of time for them to become entrenched in the way capital structures are built and investment strategies are designed. Naïve risk parity strategies have already been caught out by rising rates and higher equity-bond correlations. Real Estate Investment Trusts (REITs) have been repricing for a persistently higher cost of debt. Many mortgage borrowers who were not stretched when paying 2021 rates could be shocked when they refinance at 2023 rates, and corporate capital structures built for a low-rate environment may be in for a similar sharp adjustment. As we said earlier, we think people should assume that the current rate structure persists. The sooner everyone from mortgage borrowers to high yield credit analysts factor that into their thinking, the better prepared they'll be, in our view.

Bhatia: We do not anticipate a major uptick in defaults in 2023, as balance sheet strength and maturities that are not due for several years support a range of credit markets, but the ability to adjust to structurally higher rates is likely to determine how investors assess and price creditworthiness.

EQUITIES: WINNERS AND LOSERS

Amato: As we speak, third-quarter corporate earnings season results suggest surprising resilience. Put that together with investors looking out for "peak inflation," and the stock market rally that got going in October could extend like the one we got in July, especially if analysts continue to pencil in $200-plus per share for the S&P 500 Index in 2023. If you're investing with a 12- to 18-month view, however, we would caution against getting sucked into what we regard as these bear-market rallies.

We think there is some meaningful equity market downside still to come because we see earnings estimates for 2023 as too high—not least because the quality of current earnings is quite poor, with the highest use of accruals in at least 30 years of history. I mentioned the divergence of real and nominal GDP at the top of this discussion, and it's possible that this is muddying the picture on where earnings are headed, because earnings are reported in nominal terms, not real. As the direction of inflation turns downward even as the level of inflation remains high, we think the challenges of persistent inflation will start to become clearer and we will see not only lower reported and estimated earnings, on average, but wider dispersion of earnings between companies. The fit and the not-so-fit are likely to fare very differently. Those less exposed to labor and commodity costs, less exposed to rising rates through high debt levels and with more pricing power to defend margins are likelier to weather the conditions and find favor with investors, in our view. This is another aspect of the return to the "old normal". The market is no longer willing to pay up for profits that might arrive in 2099. We think it now wants real companies making real profits and promising real growth, with credible business plans and credible financing models.

O'Sullivan: If the past 10 years was "the decade of narrative," the next 10 years looks set to be "the decade of numbers." With low inflation and low rates all the way out along the yield curve, investors could afford to listen to stories as a lot of the potential for good earnings news far into the future automatically got priced into present valuations. Structurally higher rates favor those companies that are fittest today, however: investors need companies to deliver now—preferably via profits and cash flow.

Knutzen: On the Multi-Asset team we generally favor high-quality, low-beta U.S. large cap stocks at the moment, for similar reasons. But we're also considering the case for a more positive view on Japan equities. It is one of the cheapest developed markets in the world. While policy could shift early in 2023, the yen is likely to continue to be weak and the fiscal and monetary environment will still be relatively accommodative, supporting corporate earnings. The consumer and tourism are potential positives. And the longer-term shift to more shareholder-friendly corporate governance creates opportunities for stock picking and generally higher valuations.

> *"Private companies often have more flexibility to adapt operationally to the changing economic environment, and they can often adjust capital structures quickly, too, which can help to dampen the impact of rising rates."*
>
> **– ANTHONY TUTRONE**

Amato: It's a market to watch, for sure—it's a little difficult to take a clear view given the local policy uncertainty and the prevailing global recessionary winds. But I think Erik touches on a key theme for 2023 when he mentions the shift to shareholder-friendly corporate governance in Japan. Why do we see that in Japan after so many years of resistance? Because it has gotten harder and harder to achieve growth there. Well, the rest of the corporate world increasingly faces the same challenge in the current downturn. We've talked about the cost of capital going up and the higher hurdle companies face in trying to attract equity investors when bond yields are at 5% or more. One way to manage that is to re-focus on tangible, near-term shareholder value. A tough economic environment provides a natural incentive to start engaging with shareholders on creative ways to add that value. Anticipate a lot of work in boardrooms and at the top levels of management on improving capital structures and balance sheets, spinning out lower-growth divisions and reinvesting in higher-growth parts of the business, and acquiring strategic targets at opportunistic valuations.

ALTERNATIVES: CHALLENGES AHEAD, BUT OPPORTUNITIES FOR THE NIMBLE

Tutrone: If the theme in public markets is growing dispersion between winners and losers, much the same holds in private markets. Private equity and debt funds will not be impervious to the pain of the downturn. We've talked about how capital structures will need to adjust to structurally higher rates and less robust financing markets—and while many companies have hedged much of their interest rate risk, that will also cause difficulties in private equity. We've talked about public market earnings estimates being revised down—and private markets are likely to see that, too, if not to the same extent. And we've talked about ongoing volatility in public markets—that is likely to limit exits via Initial Public Offerings limited for some time.

All that being said, private companies have some advantages. They often have more flexibility to adapt operationally to the changing economic environment. Management can often adjust capital structures quickly, too, which can help to dampen the impact of rising rates: most debt is covenant-lite or even covenant-free, and private investors can inject equity more easily than either family owners or public owners.

So what does that mean overall? As in public markets, we think conditions will favor private companies with pricing power, lower labor and commodity costs, and moderate debt, and General Partners with a longstanding record of bringing value-additive industry skills and experience to their investments. We think dispersion between their performance and the rest will grow. Having flexibility at the company level is likely to be an advantage, and we think the same will be true at the level of the General Partner. In the simplest sense, that means being able to invest as valuations decline and volatility increases, because you hold significant cash as dry powder: this is likely the reason why, historically, we have seen fund vintages raised around the top of public equity market valuations often turn out to be among the best performers. It also means having the flexibility to invest in private equity secondaries, where we think there will be high demand for liquidity as both Limited Partners and General Partners look to raise cash. We also see a lot of opportunity for providers of specialist capital solutions, such as preferred stock in private companies that are adjusting their capital structures.

Knutzen: This theme of flexibility and tactical opportunities in volatile, potentially dislocated markets informs why we favor alternatives in the Multi-Asset team at the moment. We think real assets such as commodities, real estate and infrastructure remain important as potential beneficiaries of structurally higher inflation. But we also favor those specialist capital solutions and liquidity providers that Tony mentions, as well as global macro and other trading strategies that can seek opportunity from volatility and potentially bring diversification when conditions are difficult for market risk. Given our macro outlook of various economic challenges, potentially disruptive transitions and heightened risks, we believe 2023 will favor those who remain flexible, nimble and ready to deploy liquidity.

SOLVING
FOR 2023

LOOKING BACK

Last November, our investment leaders identified their 10 key themes for 2022. As 2022 ends, we look back to see how well they anticipated the events of the year.

MACRO: ENTERING A NEW AGE

1. THE START OF ANOTHER LONG CYCLE—BUT ALSO A MORE VOLATILE ONE?

What we said: We are moving from the recovery phase of the current cycle to its middle phase. But what kind of cycle is it likely to be? The previous cycle was the longest in history and it ended only due to the exogenous shock of the pandemic. If anything, we believe that the willingness of fiscal and monetary authorities to support the cycle is even greater today. Inflation and new redundancies built into supply chains could introduce more business-cycle and market volatility, but we think we could be in for another long expansion.

What we've seen: It has been a volatile cycle, for sure—but one that could be cut much shorter than we anticipated. After a 40-year absence of any recession caused by inflation, supply-chain imbalances or energy shocks, one looms on the horizon as we write. Central banks have signaled their willingness to act aggressively to get prices back under control, even to the extent of destroying jobs. We anticipated higher and more problematic inflation, and saw this generating volatility as central banks gradually calibrated their stance. The war in Ukraine unleashed inflation that was even more problematic than we expected: with low unemployment in many developed economies, this supply-led, cost-push inflation is feeding into stickier demand-pull inflation rather than lower consumption; meanwhile, fiscal authorities are often erring, as we anticipated, on the side of support via spending, tax cuts and energy market interventions. That has forced central banks to be more aggressive than they might have been without the shock of the war, threatening a premature end to the post-pandemic cycle.

GRADE: ★★★☆☆

2. INFLATION: HIGHER AND MORE PROBLEMATIC

What we said: After 40 years of declining inflation and interest rates, the direction of travel appears to be changing, due to new central bank policy priorities, China's strategic reorientation, the energy transition, pressures in supply chains and labor's increasing bargaining power in negotiations over the spoils of growth. The tilt toward supply-side, cost-push inflation in this dynamic will likely pose a challenge to central banks. How central banks choose to navigate a changing inflation environment will likely generate market volatility in the coming year.

What we've seen: Did we think 2022 would see U.S. inflation reach 9.1%, eurozone and U.K. inflation hit double figures, and prices rising at 3% even in Japan? No. But are the two major disruptions of the year closely related to our list of longer-term inflationary pressures? Yes. The consequences of China's "zero-Covid" lockdowns—slower growth, lower exports, continuing supply-chain disruptions—have offered an extreme foretaste of the potential impact of the country's domestic economic reorientation. The weaponization of commodities in the war in Ukraine has given us a punishing insight into the potential interim costs (as well as the strategic imperative) of the energy transition. And central banks' subsequent hawkish turn has indeed been a major source of market volatility in 2022.

GRADE: ★★★★★

3. A NEW AGE OF POLITICIZED ECONOMIES—AND NOT JUST IN CHINA

What we said: China's ongoing strategic reorientation of its economy explicitly elevates social and political objectives such as "common prosperity" and "internal circulation" over outright growth. But this is not just a China story. Worldwide, political and monetary authorities now have more tools, more capacity and more willingness to direct economic activity than ever before—in pursuit of climate, social equality, political, geopolitical and security goals, among many others. That likely means higher taxes. As the role of markets in resource allocation diminishes, we could also see more supply-and-demand mismatches, inflation and volatility.

What we've seen: Politics and geopolitics have been a key factor in the economy and markets. China's lockdowns have had an impact on domestic and global growth. War in Ukraine has sent commodity prices and inflation soaring. Second-order political effects are building, from short-term price caps and windfall taxes in European energy markets to the far-reaching spending and investment-tax reforms of the U.S. Inflation Reduction Act. In the immediate term, fiscal and monetary authorities often appear to be acting at cross purposes—and the result is likely to be more persistent inflation and volatility.

GRADE: ★★★★★

4. NET-ZERO GOES MAINSTREAM

What we said: The 26th United Nations Climate Change Conference of the Parties (COP26) wrapped up as our themes went to press. Many countries went into COP26 lagging in their commitments, but impetus appears to be growing. The European Union's "Fit for 55" legislative agenda sets an aggressive standard. Just as important, the private sector is pressing ahead: we see critical mass in corporate net-zero pledges and plans, and in signatories to asset managers' and asset owners' net-zero initiatives. It will become increasingly imprudent in our view to ignore climate and climate policy risks in portfolios.

What we've seen: Investing for the net-zero transition, and indeed investing with regard to ESG factors in general, has hit the mainstream this year—if not in the way we anticipated. The Ukraine crisis has put energy security, and by extension reliance on fossil fuel imports, at the top of the political agenda. It arguably provides another strong argument in favor of the net-zero transition. But it has also raised questions about the potential fragility created by cutting fossil fuel use too hastily. Moreover, as ESG has risen up the political agenda, it has become polarized, to the extent that some U.S. states have passed or proposed legislation to curb or even effectively prohibit it. We said it would be "increasingly imprudent to ignore climate policy risks in portfolios." We have never said those risks all point in the same direction, and we think this year's developments illustrate the point very well.

GRADE: ★★★☆☆

FIXED INCOME: RATES ADJUST, INVESTORS EMBRACE FLEXIBILITY

5. AN ORDERLY ADJUSTMENT FOR BOND YIELDS AND SPREADS

What we said: Core government bond yields remain low, particularly relative to current inflation, and credit spreads, in our opinion, are priced for perfection. We think the direction of travel in 2022 is up and wider, respectively. Finding income with modest or no duration will continue to be the priority, in our view, but major market disruption or significant credit issues appear unlikely. We believe a more tactical fixed income investment environment is developing.

What we've seen: We anticipated persistent inflation in 2022 but, largely due to the impact of the Ukraine crisis, the levels exceeded our expectations. As a result, government bond yields rose further and faster than we expected. Short rates and short-dated yields went from historic lows to 14-year highs in a matter of months. The move was orderly, however—although a shock in the U.K. gilt market may be a foretaste of debt sustainability issues ahead. High yield spreads widened in an orderly fashion, and primary markets remained open and liquid, presenting value opportunity relative to our default outlook. The reappearance of yield in fixed income markets has created the tactical environment we anticipated, as well as a vastly improved one for fixed investing in general.

GRADE: ★★★☆☆

6. INVESTORS PURSUE A MORE FLEXIBLE APPROACH TO SEEKING INCOME

What we said: Faced with a combination of low and rising rates and tight credit spreads, investors are likely to double down on their search for short duration, floating rate and less-correlated sources of income. They may complement this with more tactical positioning, whether that be in interest rate risk exposure, asset allocation or into narrower, niche, but attractive markets. The opportunities likely to draw attention range from short duration credit, loans and collateralized loan obligations (CLOs) to China bonds and European corporate hybrid securities. We believe a mix of these short-duration, less-correlated and tactical sources of income could pay dividends in the year ahead.

What we've seen: During 2022 to the end of October, high yield bond indices generally lost two to three times the value of loan indices on the way to their low points. Short-duration investment grade and high yield bond indices also fell two to three times as much as their respective full-market indices. This points to the advantages investors would have had if they entered the 2022 with a holistic focus on relative risk-adjusted yield and spread across several markets. It also reflects the tactical environment that emerged as meaningful yield reappeared in fixed income markets through the course of the year. Looking into 2023, as the rate-hiking cycle peaks and high yield, investment grade corporate and even some core government bond markets begin to look more attractive, investors may return to less exotic fixed income markets for strategic, buy-and-maintain yield opportunities. These markets may also begin to offer more diversification against equity risk once again.

GRADE: ★★★★☆

EQUITIES: REFLATIONARY THEMES

7. A REFLATION TAILWIND FOR VALUE AND CYCLICAL STOCKS AND REGIONS

What we said: We think inflationary expansion is likely to support cyclical over defensive sectors, value over growth stocks, smaller over larger companies and non-U.S. over U.S. markets. That pattern was interrupted after Treasury yields hit their peak in March 2020, but could reassert itself as yields start to edge up again—particularly if this is accompanied by a weaker U.S. dollar. This environment would normally bode well for emerging markets, but substantial headwinds mean we tend to favor only specific opportunities, such as leading companies in India's innovation sectors.

What we've seen: Value has outperformed growth, because of its shorter duration. And emerging markets have underperformed, as we anticipated, due to the deteriorating macro environment and strong dollar. But inflationary expansion did not support cyclical stocks or small caps: we got the inflation, but the impact of the Ukraine crisis made it so high, and the central bank response to that was so hawkish, that markets quickly priced for economic contraction rather than expansion. We were already cautious on equity market valuations, particularly in growth and technology but, after Russia's invasion of Ukraine in February, our view on the broader earnings outlook also became more cautious than it was at the end of 2021.

GRADE: ★★☆☆☆

8. WITH STRETCHED MARKET VALUATIONS, INCOME BECOMES MORE IMPORTANT

What we said: The story of value underperformance is well known. But income, as a subset of value, has fared even worse over the past decade. There are three sources of equity returns: multiple expansion, earnings growth and compounded dividend income. Multiples appear stretched and earnings have been growing above trend—which suggests to us that income may be more reliable over the coming year. Over the past 50 years, income has accounted for around 30% of equity total returns. Moreover, in an inflationary environment with low but rising rates, equity income is also a way to get short duration and inflation exposure into portfolios at relatively attractive valuations.

What we've seen: Value has outperformed this year, as we anticipated, because of its more attractive valuations and shorter duration; equity income, whose cash-now-versus-cash-tomorrow profile also exhibits short duration, has outperformed, too. "Cash now" has lower economic risk attached to it as well as lower interest rate risk, and cash-generative companies are often in traditionally defensive businesses. As a result, equity income benefitted from the additional tailwind of the deteriorating macro environment, particularly after Russia's invasion of Ukraine in February.

GRADE: ★★★★☆

ALTERNATIVES: NO LONGER ALTERNATIVE

9. A BIGGER MENU OF NON-TRADITIONAL DIVERSIFIERS FOR INVESTORS

What we said: Investors face high valuations in many growth markets, combined with rising yields and diminished diversification benefits from core bonds, and the potential for inflation running above recent trend levels. This appears likely to encourage all types of investor to make larger, more diverse allocations to alternatives, liquid and illiquid, as well as assets that can mitigate the impact of transitory and secular inflation, such as commodities and real estate. Individual investors may have the ability to make the most notable move, as private equity and debt products become more accessible to them.

What we've seen: In a year where traditional stock and bond markets both declined dramatically, and inflation hit levels not seen since the 1970s, investors benefited from exposure to a broad array of alternatives and focused efforts on increasing portfolio diversification for the future. Allocations to inflation-sensitive assets, particularly commodities and commodities-related equities were among the few positive performers during the year, even as public real estate struggled. Hedged strategies, particularly less-correlated approaches such as global macro and market neutral, were in many cases beneficial components of portfolios. Private markets strategies, especially new and recent vintages with meaningful dry powder, are beginning to provide diversification against public equity exposure: the declining valuations that have hit public market allocations are providing investment opportunities for these strategies.

GRADE: ★★★☆☆

10. EXECUTION RISK, NOT MARKET RISK, WILL LIKELY DETERMINE SUCCESS

What we said: Valuations are high in current private equity deals. However, while starting valuation can be a strong determinant of long-term public equity returns, the relationship has not been so strong in private markets. We think that could be especially true with today's deals, from venture to buyout. Whereas historical vintages often relied on buying cheap and applying leverage, we see that today's average deal is comprised of more than 50% equity and depends for its potential returns on successful operational and strategic enhancements, and merger-and-acquisition (M&A) "roll-up" programs.

What we've seen: While private equity dealmaking has slowed in 2022, it has done so from a very high 2021 base and arguably less than one might have anticipated, given the current economic headwinds. That appears to be due to a combination of abundant dry powder and perceived opportunities to make operational and strategic enhancements to assets that are now available at cheaper valuations. A Reuters analysis of Dealogic data suggested that private equity investors spent almost 40% more on "take-private" deals in the first half of 2022 than the first half of 2021, for example: many large public companies are now cheap enough to become targets, and investors believe there is growth that can be unlocked more easily under private than public ownership. Similarly, PWC's *Deals 2022 Midyear Outlook* and PitchBook's *U.S. Private Equity Breakdown Q3 2022* note "a steady pace of carveouts and divestitures in 2022," as companies seek to adjust to the tougher economic climate by selling lower-growth divisions. These divisions are often being picked up by private equity investors that see the growth potential under more dedicated private ownership. Such transactions typically require what Pete Witte, Lead Analyst for Global Private Equity at EY, called, in August, "the 'roll-up-your-sleeves' approach" to value creation; he added that the private equity industry "is better prepared for this than at any other time in its history," having invested heavily in operating capabilities. Leverage appears to be coming down in these new deals: data from the Centre for Private Equity and MBO Research (CMBOR) in July suggests that buyout capital structures in the first half of 2022 were as conservative as at any point in the past decade; while PitchBook notes that all four take-private deals announced since July have used non-bank financing, which tends to require a larger equity cushion, with one of those deals apparently having a 53.1% equity contribution—"a far cry from the LBO playbook that regularly featured a 70/30 debt-equity split."

GRADE: ★★★★☆

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[Research](#) December 7, 2022

Allocators See 2023 Opportunity in Bonds

Fixed income should benefit from rate increases, Natixis poll finds.

Interest rates are on the rise, and bond prices have fallen. But come next year, fixed income will be the place to be in the eyes of global allocators, according to a Natixis survey of institutional investors.

A large majority of respondents believe the escalating interest rates, orchestrated by central banks, will make bonds attractive again.

“Given prospects for central bankers continuing to fight inflation with rate hikes in the new year,” the study said, “seven out of ten institutional investors (72%) believe rising rates will usher in a resurgence in traditional fixed income.”

Among other findings, the survey of 500 allocators in 30 nations concluded that next year volatility will make valuations matter again after the wild tech runup that ended in 2021. Alternative investments also will provide good yields, and private markets will “offer bear market relief.”

At the moment, bonds are not delivering much good to investors. The Bloomberg Agg, which tracks U.S. Treasuries and investment-grade fixed income, is down 12.1% this year.

The consensus is that rates worldwide will continue to rise next year: 54% of those surveyed expect more hikes, compared with 20% who see none and 26% who forecast cuts. Of course, if rates keep ascending, bond buyers risk more price decreases, as fixed-income yields move in the opposite direction from prices, known as duration risk. So almost two-thirds say they will counter that risk by staying with shorter term paper, which is less vulnerable to duration problems.

Slightly more than half want to de-risk their portfolios, meaning shift from stocks into bonds. And not just any bonds—the safer, the better. Almost half intend to go into government bonds or investment-grade corporate. There's much less enthusiasm for junk and emerging market bonds.

Following a volatile year for bonds, institutional investors are divided on how hyper-kinetic fixed-income markets will be in 2023: 36% anticipate decreased volatility ahead, while 36% expect increased volatility and 27% see no change.

Despite the renewed interest in fixed income, institutional investors see one potential downside: liquidity. stems from the fact that the Federal Reserve and other central banks are ending their asset purchase programs. A full 36% of institutional investors say liquidity is a key portfolio risk in 2023.

Two reasons exist for this, the survey indicated: "First, there is concern that in the event asset owners need to sell off securities, there may not be a ready market of buyers. Second, it could also make price discovery harder for those looking to buy."

Tags: allocators, Bonds, institutional investors, Interest Rates, Liquidity, Natixis, Volatility

By Larry Light

https://www.ai-cio.com/news/survey-allocators-see-2023-opportunity-in-bonds/

THE NCPERS

MONITOR

The Latest in Legislative News

December 2022

In This Issue

Public Pensions' Resilience Is the Untold Story of the Market Downturn

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Markets go up. Markets go down.

As public pension professionals who are focused on long-term investment value, we know this in our bones. Yet every time the stock market gyrates, some people seem to be caught off guard by the very simple reality that in the short term, markets can be volatile.

We are coming off a stellar financial performance for public pensions in 2021, and already the Chicken Little chorus has begun: Returns are down! The sky is falling!
No kidding, Sherlock.

It isn't surprising that anxiety runs rampant whenever the stock market hits turbulence and prices decline, as has been the case throughout 2022. The S&P 500 and the Nasdaq were both deeply in the red as of late November, and obviously their slump has short-term implications for pension plans. But long-term investment horizons and short-term market movements are not the same thing. Giving into free-floating anxiety and hand-wringing is a willful exercise in overlooking the big picture.

Since before the midterm elections, headlines have been screeching about another "dismal" year for public pensions, as if last year's exceptional performance was the benchmark for gauging results. It wasn't; it was an exceptionally strong market, just as 2022's is an atypically weak market, driven lower by geopolitical factors such as the Ukraine war and energy price shocks, and China's Zero COVID lockdown policy, both of which applied significant inflationary pressures. This forced central banks to raise interest rates in efforts to curb the inflation curve further depressing the public equities markets.

The fact is, pensions are remarkably resilient even in the face of short-term negative returns. The long view is instructive: A recent report by the Organization for Economic Cooperation and Development noted that public and private pension plans around the world have recovered from steep losses suffered in the Global Financial Crisis of 2007-8. In the U.S., the National Institute on Retirement Security has pointed out that public pension plans had erased these losses by 2014.

Indeed, U.S. public pensions have reached a point where they could "sustainably fund their pension promises for the long run," according to a report from the Pew Charitable Trusts.

Investment performance isn't the only thing that affects pension sustainability. Employees continue to contribute to funds, as mandated. Employer contributions have risen as states and localities have faced up to the consequences of earlier decisions to withhold their actuarially required funding. Replenishing the coffers to make up for skipped payments is a positive step. Paying the piper is never pleasant or easy, but we are seeing improvement in the number of states and localities that opt to honor their commitments rather than invent new reasons to avoid them.

As 2022 grinds to its end, we are likely to continue to see some negative headlines and hear more lamentations about "dismal" performance by public pensions, because this year will pale in comparison to last. We need to be prepared to hear that funding ratios have slipped a bit, but how could they not under the circumstances? We must keep reminding members, the public, the news media, and policymakers that one-year returns are not how we measure the stability and health of public pensions. What counts is their ability to make good on their promises over a long-term horizon. No U.S. public pension system has ever missed a payment to workers. If we muster the political will to keep pensions strong, we can ensure that our faithful public servants continue to have the prospect of the dignified retirement that they have earned.

So keep driving those messages home. Public pensions invest for the long haul. Our highs generally aren't as high as the market at large, and our lows aren't as low, and this is a result of deliberate risk management. Slow and steady wins the race. These are important stories to tell when our long-term focus means that returns can't keep up with a go-go market, and when stocks seem to be in a freefall.

Just remember: Markets go up. Markets go down. We know this in our bones, and that's why public pensions invest for the long haul. ◆

NCPERS Executive Director's Corner

A Look Back at 2022: The Return to Normalcy

Photo illustration © 2022, istock.com

As I sat at the table surrounded by family on Thanksgiving, I couldn't help but reflect on the feeling of normalcy that has slowly returned since the start of the COVID-19 pandemic.

Since 2020, we've gone through a seemingly unending series of unprecedented events. And while many of us would rather not hear the word "unprecedented" again, here at NCPERS we've had a number of positive firsts this year and have many new endeavors to look forward to in 2023.

In May, we hosted our first in-person Annual Conference & Exhibition, or ACE, since the COVID-19 shutdowns. More than 650 members of the public pension community gathered in Washington, DC for what was the most diverse and dynamic ACE in our 81-year history.

Following a successful Chief Officers Summit and Public Pension Funding Forum, we drew a big crowd to the Public Safety Conference in October. More than 450 public safety plans, unions, and other stakeholder members joined us in Nashville, making it our first conference to exceed pre-COVID attendance.

We also published two new reports in 2022: *Measuring Public Pension Health: New Metrics and New Approaches* and the *Public Pension Compensation Survey*.

Here at NCPERS we've had a number of positive firsts this year and have many new endeavors to look forward to in 2023.

Often, the currently accepted methods and metrics for measuring pension health do not tell the whole story. *Measuring Public Pension Health* identifies three new metrics to help guide decisions by plan fiduciaries and policymakers. The report ultimately seeks to provide a roadmap for broadening the public's understanding of what constitutes a healthy public pension system.

The inaugural *Public Pension Compensation Survey* features in-depth compensation and benefits data from more than 150 public pension funds. Nearly 63 percent of survey respondents indicated that attracting and retaining skilled senior staff is a problem or is expected to be a problem, and the *Public Pension Compensation Survey* is a new tool designed to help funds benchmark their compensation and benefits packages against their peers.

Mark your calendars for a busy year ahead. Next month, the Legislative Conference returns in-person for the first time since 2020. Following a surprising midterm election with many close races, this event provides updates on critical issues related to pension funds and the current policies affecting them. While in Washington, attendees can meet face-to-face with members of Congress or their staff.

We'll also be hosting a brand-new event in January: the Pension Communications Summit. Held in conjunction with the Legislative Conference, the Pension Communications Summit is designed to address the unique communications challenges that public pension plans and industry stakeholders face. You'll walk away with new ideas for how to address your fund's most pressing communications-related challenges, make valuable new connections, and gain knowledge of industry best practices.

Next month, the Legislative Conference returns in-person for the first time since 2020.

We'll convene the public pension community in May for ACE 2023 in New Orleans, and in June c-suite pension plan executives will meet in Denver for the Chief Officers Summit. We'll highlight the latest research and emerging funding solutions at the Public Pension Funding Forum in Chicago this August. And finally, we'll gather in Las Vegas for the Financial, Actuarial, Legislative, and Legal (FALL) Conference in October.

We hope to see you at one of these upcoming events as we embrace this return to normalcy. Here's hoping for many more positive firsts in the year ahead. ◆

Aftermath of Midterm Elections

By Tony Roda

Photo illustration © 2022, istock.com

Next year's NCPERS Legislative Conference, which will be held on January 22-24 in Washington, D.C., will serve as an important source of timely information on the new Congress and its expected priorities, particularly with regard to issues of importance to state and local governmental pension plans and their beneficiaries. As divided government returns to Washington, NCPERS will carefully weigh where it can be on offense and where it must play defense on policy proposals.

There is significant news on both sides of the aisle in the U.S. House of Representatives. We now know that the majority in the 118th Congress will be held by the Republicans. That result was expected but slow vote counts in certain states prolonged the official announcement. Unfortunately, Election Day has become Election Week or longer, and even as of this writing two races still are not decided. However, it is clear that the GOP will hold a slim, single-digit majority come January. Nominations for GOP leadership positions were made the week before Thanksgiving. Congressman Kevin McCarthy (CA) was nominated for Speaker by his Republican colleagues, but he faced opposition. Moreover, the speakership is an institutional office that requires a vote by the full House. That vote will take place on January 3, 2023. Five GOP Members have said they will not support McCarthy, who will have to secure a numerical majority of the full House. Congressmen Steve Scalise (LA) and Tom Emmer (MN) will serve as the Republican Leader and Whip, respectively.

On the Democratic side, current Speaker Nancy Pelosi (CA) announced that she will not run for a leadership position in the next Congress. Following Pelosi's announcement, current Majority Leader Steny Hoyer (MD) said he, too, would not stand for a leadership position in the next Congress. Also, the current Whip Jim Clyburn (SC) said he would not run for one of the top three leadership positions. The decisions of the current top three Democratic leaders opened those critical positions to a major generational shift. On November 30, the House Democrats elected Hakeem Jeffries (NY) as Minority Leader, Katherine Clark (MA) as Whip, and Pete Aguilar (CA) as Caucus Chair. While Pelosi, Hoyer, and Clyburn are all in their 80s, the newly elected trio are age 52, 59, and 43, respectively.

The House Ways and Means Committee, which has jurisdiction over the tax code, is the most important Committee to state and local governmental retirement plans because the plans are qualified under the Internal Revenue Code. There is a three-way battle for the Chairmanship of the Committee – Vern Buchanan (R-FL), Adrian Smith (R-NE), and Jason Smith (R-MO). In addition, assuming the party ratios stay the same, Republicans will be able to appoint 10 new members to the Committee. Democrats will have to shrink by four seats. Rep. Richard Neal (MA) will continue to lead the Democrats on the panel.

Senate Democrats, who retained their majority and may expand it by one seat depending on the outcome of the December 6 runoff in Georgia, also have scheduled their leadership elections for December 8. Current Majority Leader Chuck Schumer (NY) and Whip Dick Durbin (IL) are expected to remain in their posts. Senate Republicans reelected Mitch McConnell (KY) to the Minority Leader position and John Thune (SD) as Whip.

The tax-writing Finance Committee is the key Committee for public pensions in the Senate. Depending on the outcome of the Georgia runoff, the overall Senate ratio will be either 51-49 Democrat-GOP or 50-50 with VP Kamala Harris breaking tie votes. If the ratio is 51-49, then Democrats will add one seat to the Finance Committee. All other Democrats are returning to the Committee. Republicans have at least three seats of retiring Senators to fill and possibly four seats, if Ben Sasse (NE) resigns to take a university president post as is expected. Top prospects for those seats include Marsha Blackburn (TN), Thom Tillis (NC), and Roger Marshall (KS).

Before the 118th Congress is sworn into office on January 3, the 117th Congress must finish its legislative business. That will take most of the month of December and is referred to as a lame-duck session, a term referring to the post-election Congress whose days in office are dwindling. Action is expected on an omnibus appropriations bill, which would fund federal agencies and programs through the fiscal year, a national defense authorization act, and an attempt to raise the government's borrowing limit.

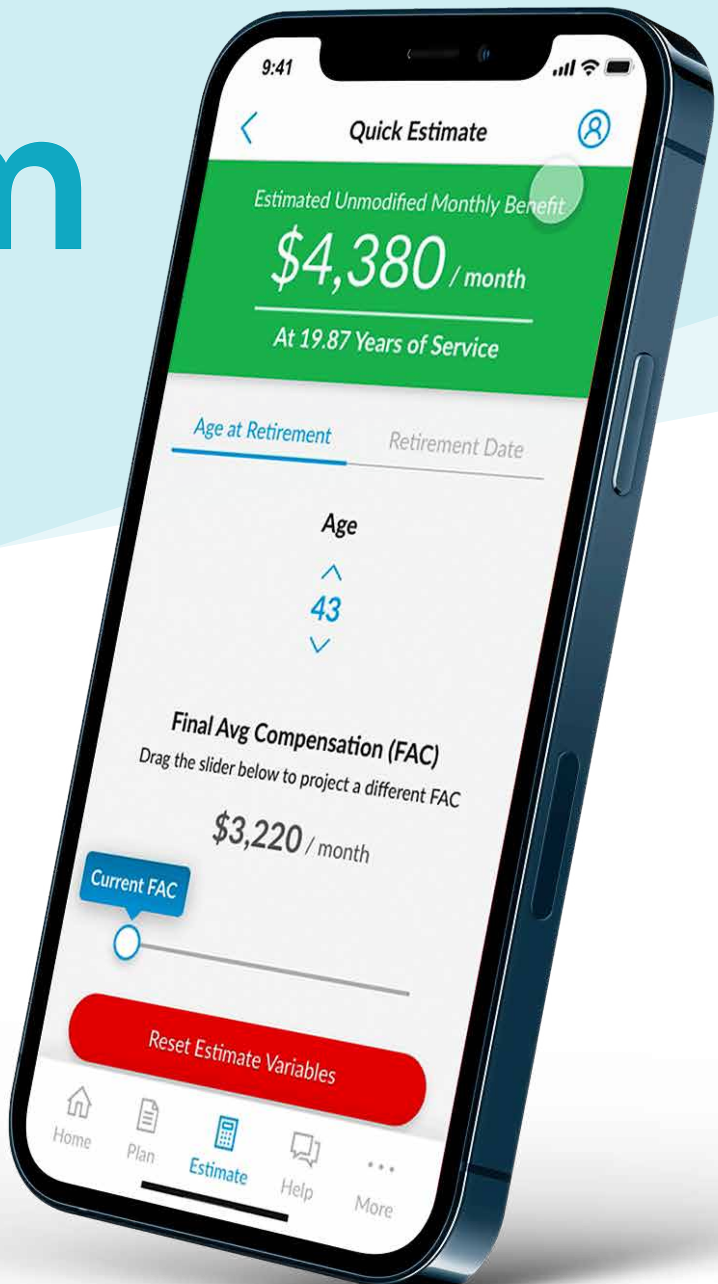
NCPERS is hopeful that major retirement legislation known as the SECURE Act 2.0 will be enacted this year. A key provision in the Senate version of the legislation would streamline an existing tax exclusion for retired first responders. NCPERS and many of its members have collaborated on this effort to improve the Healthcare Enhancement for Local Public Safety Act (HELPS). NCPERS has been in contact with committee counsels and leadership staff in the Senate and House throughout the process.

The HELPS exclusion allows eligible retired public safety officers to exclude from gross income up to $3,000 in annual distributions from a governmental retirement plan to pay qualified health care insurance or long-term care premiums, provided the payment of premiums is made directly by the retirement plan to the provider of the health or long-term care plan. However, since its enactment, the direct payment requirement has caused administrative headaches for many retirement plans and has resulted in some plans choosing to not implement HELPS. Retired public safety officers covered by a plan that does not implement HELPS are ineligible for the tax benefit. The provision in the Senate bill would change the direct payment requirement from mandatory to optional and create an alternative to the current method, namely allowing the retirement system to make the distribution to the retired public safety officer. The retiree could then make the premium payment to the provider and remain eligible for the tax exclusion.

Please be assured that NCPERS will be active in the final days of the 117th Congress on the HELPS issue and other matters of importance to public pension plans. We also look forward to our discussions at the Legislative Conference in January as we position the public pension community and our priorities for the next Congress. ◆

Tony Roda is a partner at the Washington, D.C. law and lobbying firm Williams & Jensen, where he specializes in legislative, regulatory, and fiduciary matters affecting state and local pension plans. He represents the National Conference on Public Employee Retirement Systems and state-wide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Ohio, Tennessee, and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from the Catholic University of America, and LL.M (tax law) from the Georgetown University Law Center.

NCPERS PensionX Digital Platform



NCPERS has partnered with Digital Deployment to offer its members a **10% DISCOUNT** on PensionX, the premier digital platform that securely enables pensions to engage with active and retired participants via a mobile self-service app and portal.

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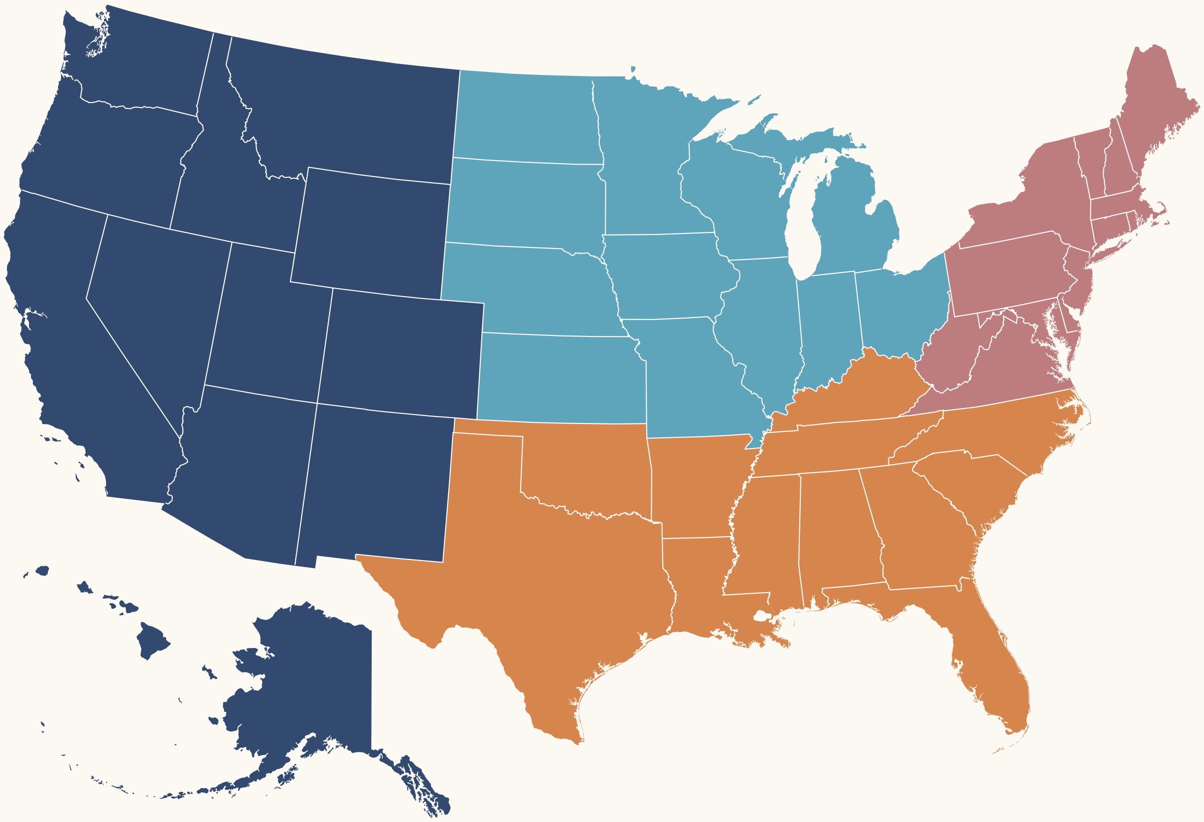
NCPERS Around the Regions

This month, we will highlight New York, North Dakota, Kentucky, and Arizona.



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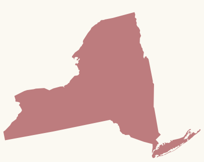


New York City Comptroller Brad Lander on November 1 issued a benchmarking report that details how the city is working with minority- and women-owned investment firms and emerging managers.

The report found that as of June 30, the New York City Retirement Systems had $16.82 billion in investments with or committed to managers at minority- and women-owned business enterprises (MWBEs). This equals 11.65 percent of U.S.-based actively managed assets for the five pension funds that make up the systems. The systems serve 800,000 city employees, retirees, and their families.

“We are committed to growing both the amount and the percentage consistent with fiduciary duty,” Lander said in the report.

The systems and the city’s Bureau of Asset Management also have a program of investing in emerging managers to seek the best performing managers, including MWBE managers who do not typically have access to large institutional investors. The systems have a total of $8.59 billion in investments with or committed to emerging manager firms as of June 30, the report said.

Lander said the report, with its granular detail, is important because it provides the first public accounting of how the city is allocating funds to MWBE and emerging investment firms, as well as how it the city is working with diverse firms on the financing of its capital program.

“While there are many things to be proud of in this report, it is clear that we still have a long way to go. People of color – especially Blacks and Latinos – and women remain deeply underrepresented among our asset managers, even as we know that diversity drives strong returns. We cannot manage what we do not measure. It is our hope that this transparency and our work together helps move the needle forward on creating the opportunities that MWBE managers and firms need and deserve,” Lander said.

MIDWEST: North Dakota

North Dakota lawmakers are considering kicking the legs out from under one of the state's public pension plans by closing it to new employees as early as 2024.

An interim legislative committee of the state Legislative Assembly set the ball in play October 31 by voting to send two draft bills to the North Dakota Legislative Management Committee to change the North Dakota Public Employee Retirement System to a defined contribution plan.

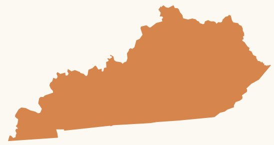
If adopted by the Legislative Assembly as written the change would affect new employees hired after either January 1, 2024, or January 1, 2025. Its sponsor, Republican Representative Austen Schauer, has argued the change is necessary because the pension plan's unfunded liability has grown to $1.7 billion, from $1 billion in 2013. "The pension plan has worked out well for those who've worked many, many years," he told Prairie Public Broadcasting. "We need to honor and respect that, but at the same time, we have a major issue."

The vote in committee was 9 to 3. House Minority Leader Josh Boschee, a Democrat, cast a "no" vote. "With us limited in the ability to explore other options, and find ways to fix the current plan, I can't support this," Boschee said.

North Dakota United, the statewide, professional union of more than 11,000 educators and public employees, is opposed to the change. "Instead of limiting benefits through changes they say will only affect new employees, legislators should shore up the pension fund," a statement on its website said. "They failed to do so for six legislative sessions following the economic collapse of 2008-2009."

The union added that if NDPERS pensions are eliminated, "pensions for teachers and other public employees may be next in line."

SOUTH: Kentucky



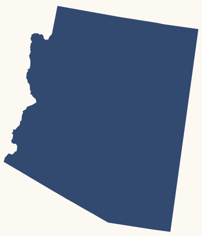
Democratic Governor Andy Beshear in late October proposed a plan that would restore pensions for new teachers, saying doing so is "the single most effective action we can take to keep new teachers in the classroom."

New teachers were excluded from Kentucky's traditional defined benefits pension plan in March 2021, when lawmakers overrode Beshear's veto of anti-pension legislation. New teachers are now in a hybrid plan that requires them to pay more into retirement than their predecessors did. He prevailed against previous efforts by the legislature to strip teachers of their existing retirement benefits.

The pension restoration proposal is a cornerstone of Beshear's Education First Plan, which he is asking lawmakers to take up in the 2023 session. The Education First Plan is aimed at reducing vacancies by using the state's record revenue surplus to increase teacher and school staff pay, restoring funding for textbooks and professional development, and launching a student loan forgiveness program for teachers.

"During my administration, we have fully funded the pension system, and given the need for more teachers in our classrooms, the first thing lawmakers should do is restore teacher pensions," Beshear said. "With the revenues we're seeing this year, there is more than enough funding for all the pieces we've laid out today. When you look at long-term costs, it makes much more sense to hire one teacher now and retain them for 30 years versus hire one teacher now, have them quit in a year or two, and then face a constant cycle of turnover."

WEST: Arizona



The Arizona State Retirement System has created a Contribution Prepayment Program (CPP) to encourage local governments to prepay their obligations to the state's largest public retirement system, possibly by raising debt, *The Bond Buyer* reported.

The innovative process, enabled by state statute, provides a mechanism for employers to submit lump-sum payments to ASRS to offset the employer portion of future pension contribution payments. Employee contributions are not affected by the arrangement.

ASRS said it created the program to allow employers flexibility to time current and future payment to the state fund and to control when they apply payments. The ASRS offered a hypothetical example of how it might work:

"An employer determines that it has an additional cash balance and decides to transfer that money to the ASRS Contribution Prepayment Program and does so on June 30, 2023. The employer decides at a later date to use (amortize) those funds to offset future contributions over a 10-year period, beginning July 1, 2025.

As a result, the employers' future contributions to the ASRS from July 1, 2025, to June 30, 2025, would be reduced by the pro-rated CPP balance. If the amortization schedule for the employer resulted in an offset of $2.6 million during the upcoming fiscal year, then $100,000 ($2.6 million divided by 26 payroll cycles) would be applied to each of the employer's 26 pay periods, resulting in the required employer payroll cash transfer, less $100,000."

The program could give a boost to pension obligation bonds, *The Bond Buyer* reported, with Coconino County first in line to participate with a $50.8 million debt-financed payment.

Route Fifty noted that debt for pensions "made a big comeback" in 2021 with more than 110 governments issuing bonds totaling a combined $13 billion to pay down pension debt. A dozen Arizona localities issued pension bonds last year. Using bond proceeds to buy down ASRS payments would enable cities to make smaller, more manageable pension payments from general revenues. ◆

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Calendar of Events 2023

January

Legislative Conference

January 22–24
Renaissance Washington, DC
Washington, DC

Pension Communications Summit

January 23–24
Renaissance Washington, DC
Washington, DC

May

NCPERS Accredited Fiduciary (NAF) Program

May 20–21
Marriott New Orleans
New Orleans, LA

Trustee Educational Seminar (TEDS)

May 20–21
Marriott New Orleans
New Orleans, LA

Annual Conference & Exhibition (ACE)

May 21–24
New Orleans, LA

June

Chief Officers Summit

June 19-21
Denver, CO

View all upcoming NCPERS conferences at www.ncpers.org/future-conferences.

The Voice for Public Pensions

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Why Pension Consolidation is Gaining Traction Across the Globe

By: Jeff Porta, Northern Trust Corporation

Photo illustration © 2023 shutterstock.com

Strength in numbers is one of the reasons pension consolidation is trending around the globe. The challenges facing smaller funds, including oversight, cost, maintenance and management, can hinder asset performance. Plus, smaller funds may have limited access to asset managers or types of investments that improve diversification and returns. By consolidating, funds can reduce costs while increasing efficiency.

Around the world, there are successful models of pension consolidation. The Netherlands, the UK, Australia and Canada have been bringing their retirement assets together for years, and in the Middle East, consolidation is growing in popularity.

The Netherlands is a pioneer of pension consolidation, with the total number of pension funds decreasing from about 1,000 in 2000 to less than 200 in 2022.[1] The vast majority[2] (94%) of its pensions are in defined benefit (DB) schemes, but in 2023 will transition to two types of defined contribution (DC) contracts.

In the U.K., occupational DC pension plans decreased by nearly 40% from 45,150 funds in 2011 to 27,700 in 2021.[3] On the DB side, more than 80 local government pension funds pooled their assets in 2018[4,5] into eight separate pools and are expected to consolidate to three pools by 2030.[6,7]

Around the world, there are successful models of pension consolidation.

With significant growth in its superannuation funds, Australia has one of the world's largest pension pools.[8] Growing performance scrutiny and pressure on smaller funds has increased. APRA, Australia's prudential regulator for the financial services industry, said in 2021 that funds with assets less than A$30 billion are "uncompetitive".[9]

As another pioneer of the large public pension fund model, Canada's Ontario Teachers' Pension Plan has approximately $242 billion in net assets. Looking at the success of this model, 72% of Canadian pension funds surveyed in 2021 were considering consolidation.[10]

In the Middle East in 2021, aiming to cut costs, help investment returns and increase efficiency, Oman merged eight pension funds into two.[11]

And in the U.S., the State of Illinois enacted the Pension Consolidation Act in 2020, merging municipal fire and police pension plans into the Illinois Firefighters' Pension Investment Fund and the Illinois Police Officers' Pension Investment Fund.

Global funds are continuing to rethink their pension models. When considering the increased efficiency and cost savings of a consolidated pool, it is a trend worth watching. ◆

Footnotes:

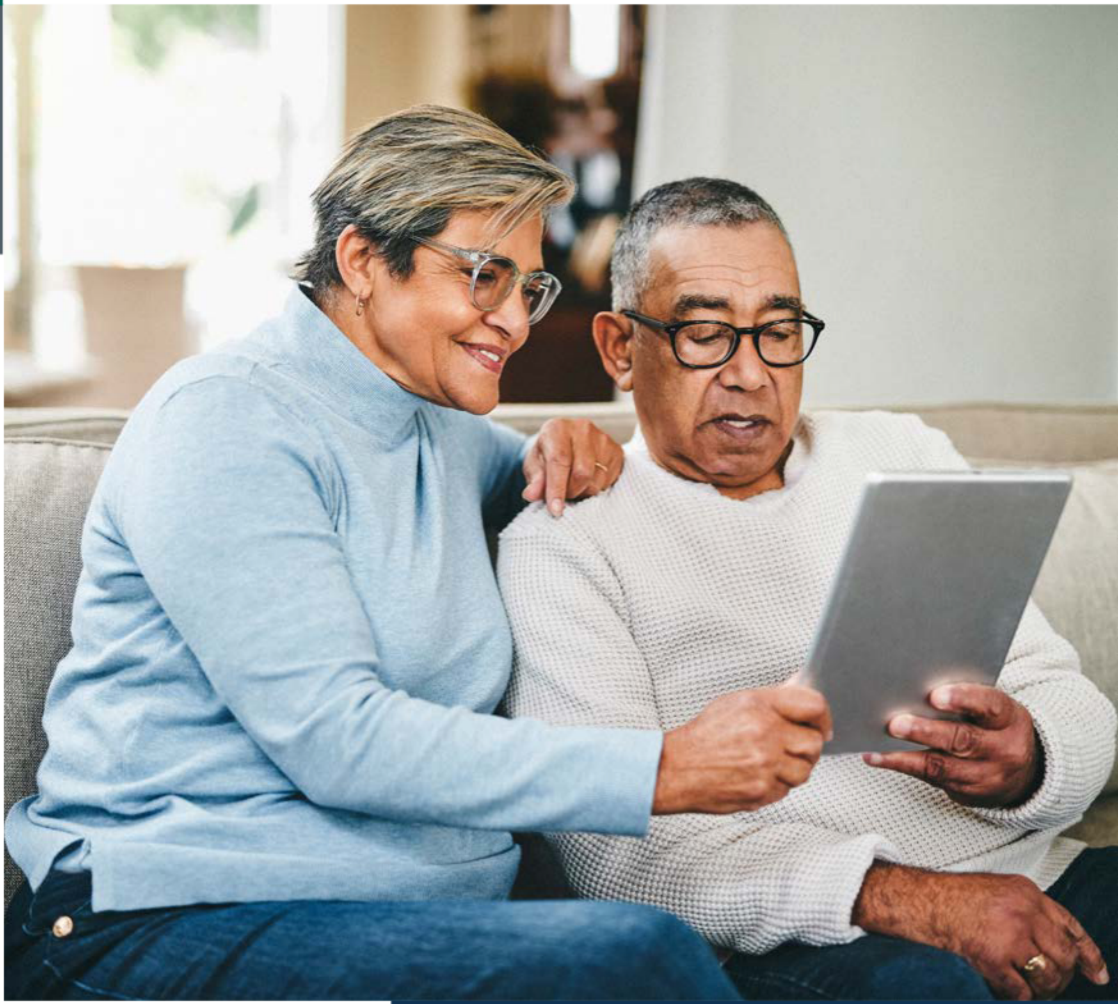
1. Netherlands: Pension transition drives consolidation | Country Report | IPE
2. https://www.thinkingaheadinstitute.org/content/uploads/2021/02/GPAS__2021.pdf
3. Defined contribution pension market consolidation continues, TPR's latest figures show | The Pensions Regulator
4. https://mycouncil.surreycc.gov.uk/documents/s73145/14%20-%20Annual%20Report%202019-20%20-%20Annexe%201.pdf
5. http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report
6. https://www.lgcplus.com/investment/lgps-pools-expected-to-further-consolidate-18-07-2019/
7. http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report
8. Australia's top pension fund warns against tapping savings to fix economy | Reuters
9. Australian Pension Fund Chairman Urges Caution on Consolidation - Bloomberg
10. 72% of Canadian pension funds considering consolidation options: survey | Benefits Canada.com
11. Pensions, sovereign wealth funds, and industrial policy in the Gulf: A look at fund consolidation | Middle East Institute (mei.edu)

Jeff Porta *is a Senior Vice President and the Practice Executive in our Asset Servicing Business Unit. In this capacity, Jeff is responsible for leading teams of client facing professionals who serve the financial needs of our public and corporate pension funds, taft-hartley, healthcare, foundation, endowment and religious institutional clients. Jeff's responsibilities span the full spectrum of the business, with the goal of providing outstanding client experiences, sustainable growth of the business and mentoring and providing career opportunities for Northern Trust partners.*

Jeff received a B.S. degree in finance from Babson College, Wellesley, Massachusetts.

PENSIONOMICS 2023

MEASURING THE ECONOMIC IMPACT OF DB PENSION EXPENDITURES



NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

By Ilana Boivie and Dan Doonan

January 2023

ABOUT THE AUTHORS

Ilana Boivie is a Senior Economist with the International Association of Machinists and Aerospace Workers, with a specialization in retirement and health benefit plans. On behalf of the IAMAW, she conducts labor research and economic analysis regarding contract negotiations and labor policy issues. Previously, she worked as a Senior Policy Analyst with the DC Fiscal Policy Institute, focusing on strengthening job training and improving working conditions for workers in the District of Columbia. As a Research Economist for the Communications Workers of America, Ilana served as the subject matter expert on retirement policy, and provided bargaining and policy support on health care issues. Prior to that, she served as Director of Programs for the National Institute on Retirement Security, where she conducted original research and analysis of national retirement issues. She speaks frequently on retirement and economic matters, and has testified before federal, state, and local policymakers regarding her research. Ilana holds an M.A. in economics from New Mexico State University and a B.A. in English from Binghamton University, where she graduated Magna Cum Laude.

Dan Doonan is the executive director of the National Institute on Retirement Security. With the Board of Directors, Doonan leads the organization's strategic planning, retirement research and education initiatives. Doonan has more than 20 years of experience working on retirement issues from different vantage points including an analyst, consultant, trainer, and a plan trustee. He comes to NIRS after serving as a senior pension specialist with the National Education Association. Doonan began his career at the Department of Labor as a mathematical statistician. He then spent seven years performing actuarial analysis with Buck Consultants in the retirement practice. His experience also includes positions as a research director and labor economist. Doonan holds a B.S. in Mathematics from Elizabethtown College and is a member of the National Academy of Social Insurance.

ACKNOWLEDGEMENTS

We are grateful for the comments, advice, and assistance provided by Tyler Bond, Kelly Kenneally, Alexander Measure, and Celia Ringland. The core methodology in this study was reviewed by experts in the 2009 and 2012 editions of this study. The views in this report and any errors or omissions are those of the authors alone.

EXECUTIVE SUMMARY

Defined benefit (DB) pension benefits not only provide a secure source of income for many retired Americans, they also contribute substantially to local, state, and national economies. DB pensions play a vital role in sustaining consumer demand that ultimately supports millions of jobs.

Virtually every state and local economy across the country benefits from the spending of pension checks. For example, when a retired nurse residing in the state of Wisconsin receives a pension benefit payment, s/he spends the pension check on goods and services in the local community. S/he purchases food, clothing, and medicine at local stores, and may even make larger purchases like a car or laptop computer. These purchases, combined with those of other retirees with pensions, create a steady economic ripple effect. In short, pension spending supports the economy and supports jobs where retirees reside and spend their benefits. Pension expenditures may be especially vital to small or rural communities, where other steady sources of income may not be readily found if the local economy lacks diversity.

Additionally, reliable pension income can be especially important not only in providing retirees with peace of mind, but in stabilizing local economies during economic downturns. Retirees with DB pensions know they are receiving a steady check despite economic conditions. In contrast, retirees may be reluctant to spend out of their 401(k)-type accounts if their savings are negatively impacted by market downturns. To the extent that DB pensions provide retirees with steady income available for spending regardless of fluctuations in the stock market, DB pensions may play a stabilizing role in the economy like Social Security.

In 2020, a global pandemic, unprecedented in generations, spread around the world. The global economy came to an abrupt standstill, and remained devastated for months. During this time, DB pension income was crucial, as many retirees were reluctant to spend 401(k) assets, and many Americans found themselves suddenly out of work.

This study analyzes data on DB pension plans in both the public and private sectors to assess the overall national economic impact of benefits paid by these plans to retirees in 2020. For state and local government pension plans, we also analyze these impacts at the state level for each of the 50 states and the District of Columbia. Because of methodological refinements, explained in the Technical Appendix, both the national and state level results are not directly comparable to those in previous versions of this study.

The economic gains attributable to DB pension expenditures are considerable. This study finds that, in 2020:

$612.6 billion in pension benefits were paid to 24.6 million retired Americans, including:

- $334.8 billion paid to some 11.5 million retired employees of state and local government and their beneficiaries (typically surviving spouses);
- $90.3 billion paid to some 2.7 million federal government beneficiaries;
- $187.4 billion paid to some 10.4 million private sector beneficiaries, including:
  - $47.2 billion paid out to 4.0 million beneficiaries of multi-employer pension plans, and
  - $140.2 billion paid out to 6.4 million beneficiaries of single-employer pension plans.

Expenditures made out of those payments collectively supported:

- 6.8 million American jobs that paid $422.2 billion in labor income;
- $1.3 trillion in total economic output nationwide;
- $738.5 billion in value added (GDP);
- $157.7 billion in federal, state, and local tax revenue.

DB pension expenditures have large multiplier effects:

- Each dollar paid out in pension benefits supported $2.13 in total economic output nationally.
- Each taxpayer dollar contributed to state and local pensions supported $7.89 in total output nationally. This represents the leverage afforded by robust long-term investment returns and shared funding responsibility by employers and employees.

The largest employment impacts occurred in the food services, health care, and retail trade sectors.

INTRODUCTION: MEASURING THE ECONOMIC IMPACT OF DB PENSIONS

Virtually every state and local economy across the country benefits from the spending of defined benefit (DB) pension payments. For example, when a retired nurse residing in the state of Wisconsin receives a pension benefit payment, s/he spends the pension check on goods and services in the local community. S/he purchases food, clothing, and medicine at local stores, and may even make larger purchases like a car or laptop computer. These purchases, combined with those of other retirees with pensions, create an economic ripple effect. In short, pension spending supports the economy and supports jobs where retirees reside and spend their benefits. Pension expenditures may be especially vital to small or rural communities, where other steady sources of income may not be readily found if the local economy lacks diversity.

Additionally, reliable pension income can be especially important not only providing retirees with peace of mind, but in stabilizing local economies during economic downturns. Retirees with DB pensions know they are receiving a steady check despite economic conditions. In contrast, retirees may be reluctant to spend out of their 401(k)-type accounts if their savings are negatively impacted by market downturns. To the extent that DB pensions provide retirees with steady income available for spending regardless of fluctuations in the stock market, DB pensions may play a stabilizing role in the economy like Social Security. This can be especially crucial during a time of extreme economic turmoil, such as the 2020 Covid-19 pandemic- related economic shutdown.

The purpose of this study is to quantify the economic impact of DB pension payments in the U.S. and in each of the 50 states and the District of Columbia (hereafter referred to as "states"). Using the IMPLAN model, we estimate the employment, output, value added, and tax impacts of pension benefit expenditures at the national and state levels.

The remainder of this introduction provides a brief background on DB pensions and an overview of the methodology. Section I outlines the major types of economic impacts measured in this study. Section II presents national level findings. Section III outlines the state level impact analysis, and Section IV presents the state level findings.

Background: DB Pensions in the United States

Defined benefit (DB) pension plans have existed in the United States since the 19th century. In the private sector, the first DB pension plan was introduced in 1875 by the American Express Company. Over time, many private sector employers saw the value of offering DB pension coverage to their employees, as these benefits not only were quite valued by workers, but from a human resource management perspective, they also acted as an effective recruitment and retention tool. Although private sector DB plans have experienced a decline in recent decades (due in large part to a difficult regulatory environment), in 2020, 25 percent of full-time civilian employees had access to DB pension coverage. Yet, roughly half of workers with these plans were still in "open plans," in which all workers are still accruing benefits.

In the public sector, Congress created the Civil Service Retirement System (CSRS) to provide a pension for civilian federal employees in 1920. In 1986, Congress implemented the new Federal Employee Retirement System (FERS), which includes Social Security, a DB annuity, and a 401(k)-type savings plan, called the Thrift Savings Plan. While many major municipalities offered pensions to police and firefighters and 21 states had pensions plans covering teachers by the 1920s, state and local pension systems began to take root on a large scale during the Great Depression. When Social Security was established in 1935, the system left out state and local workers, and many states acted to develop their own retirement systems for their employees. Between 1931 and 1950, nearly half of the large public employee pension plans existing today were established; 45 states had retirement systems in place by 1961.

In 2020, state and local pension plans in the United States collectively held total assets of $4.6 trillion. They served 33.7 million Americans, including 15.1 million active participants, 7.1 million inactive members, and 11.5 million retirees and other beneficiaries receiving regular benefit payments. Benefit payments in 2020 totaled $334.8 billion, for an average benefit payment of $2,428 per month, or $29,132 per year.

Federal pension plans currently serve 2.8 million active civilian employees. In 2020, federal plans paid out some $90.3 billion in pension benefits to 2.7 million retirees and beneficiaries, for an average benefit of $2,760 per month, or $33,125 per year.

Private sector pension plans covered 34.4 million Americans, including 10.4 million retired Americans and other beneficiaries in 2020. With total plan assets of $3.5 trillion in 2020, private DB pensions paid out some $187.4 billion in pension benefits to retirees and beneficiaries. The average private sector pension benefit was $1,504 per month, or $18,050 per year.

There are two major types of private sector pension plans: multiemployer plans and single employer plans. Single employer plans generally cover a single workforce at a single company. Multiemployer plans, also called "Taft-Hartley" plans, cover multiple employers, usually within the same industry and/or geographic region. They are jointly governed by management and the labor union(s) representing the participating workers.

In 2020, single employer plans provided some $140.2 billion in benefits to 6.4 million retirees, for an average benefit of roughly $21,813 per year, or $1,818 per month. Multiemployer plans cover fewer workers, and tend to have less generous benefits. In 2020, some 4.0 million beneficiaries received benefits totaling $47.2 billion, for an average benefit of $11,934 per year, or $994 per month. (See **Table 1**.)

DB plans are prefunded systems, which means that a retirement fund receives regular contributions for each employee during the course of that person's career. This type of arrangement can be contrasted with "pay-as-you-go" systems like Social Security, whereby contributions of current employees are used to pay benefits for current retirees. Prefunded retirement systems have the advantage that investment earnings can do much of the work of paying for benefits. In such a system, the contributions made on behalf of current employees are invested, and these investment earnings compound over time. Over a span of decades, accumulation of investment earnings can be substantial, and in many cases pay the majority of the pension benefits.

In state and local government pension plans, typically both the employee and employer make contributions to the pension fund. Pension fund trustees have a fiduciary duty to ensure that the retirement fund is operating in the best interest of workers and retirees, and hire professional managers to oversee fund investments. In this respect, public plans differ from private sector DB plans, which are generally funded solely by employers. In requiring that employees share the cost of their pension, public plans are similar to the approach adopted in 401(k) plans where private sector employees contribute to their accounts.

However, DB pensions are distinguishable from defined contribution (DC) plans, such as 401(k) plans, in that they provide broad-based coverage, secure money for retirement, a lifetime income, and special protections for spouses. Research shows that DB plans are more economically efficient than DC plans. Pensions can deliver the same level of retirement benefits at nearly half the cost of a DC plan.

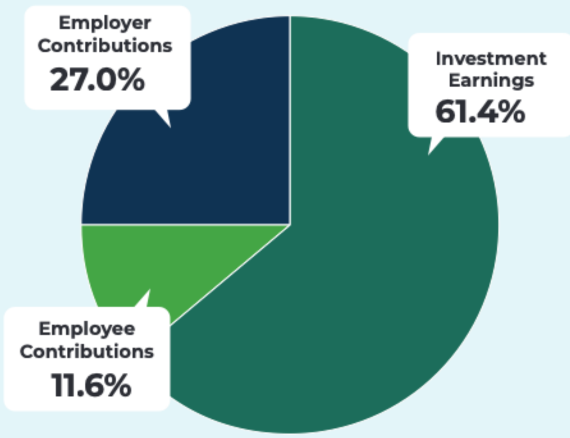
State and local pension fund receipts come from three sources: employer contributions, employee contributions, and earnings on investments. **Figure 1** shows that between 1993 and 2020, 27 percent of public pension fund receipts came from employer contributions, 12 percent from employee contributions, and 61 percent from investment earnings. Earnings on investments—not taxpayer contributions—have historically made up the bulk of pension fund receipts, even though this time period saw two very large market downturns, as well as huge market

Table 1: Public and Private Sector Pension Benefits, 2020

	State and Local	Federal	Private Sector		Total*
			Single Employer Plans	Multiemployer Plans	
Beneficiaries	11.5 million	2.7 million	6.4 million	4.0 million	**24.6 millon**
Average Benefit	$29,132	$33,125	$21,813	$11,934	**$24,898**
Total Benefits	**$334.8 billion**	**$90.3 billion**	**$140.2 billion**	**$47.2 billion**	**$612.6 billion**

Note: Author's analysis of the Annual Survey of Public Pensions, US OPM, U.S. Census Bureau, Pension Benefit Guaranty Corporation, and IRS Form 5500 data.
*Totals may not add up exactly due to rounding.
**Total average benefit represents a weighted average of public and private sector benefits.

Figure 1: Aggregate State and Local Pension Contributions by Source, 1993-2020



Note: Author's analysis of data from the U.S. Census Bureau

fluctuations throughout 2020. It should be noted that public pension reform in nearly every state since 2008 has relied heavily on increased employee contributions as a way to immediately reduce taxpayer costs.

Just as contributions from employees and employers have an expanded impact through the compounding of investment earnings over time, a similar dynamic occurs when retirees spend their pension checks. When a retiree receives a pension benefit, s/he spends it on goods and services in the local community. These expenditures have a "ripple effect" in the economy, as one person's expenditures become another person's income.

Measuring the National Economic Impact of DB Pension Plans

This study measures the economic impact of pension benefits paid by public and private pension plans nationally, as well as the economic effects of state and local plans within each state economy. This analysis recognizes that expenditures have a "multiplier" effect in a regional or national economy. When money is spent at a local business to purchase, say, groceries, that initial purchase generates even more income. First, some of the money spent circulates back to the businesses that manufactured, transported, and otherwise contributed to the production of those goods. Second, the proprietors of these businesses and their employees will spend more money at other businesses, spurring another round of income generation. Thus, with each new round of spending, additional revenue is generated, sustaining jobs, incomes, total output, and tax revenue to the local community.

In addition, local economies benefit not only from pension spending by residents, but from pension checks spent in other localities. That is, the economic benefits generated by pension spending in one region "leak" to and are captured by other regions.

This analysis is focused on the expenditure effects of pension benefits, measuring the economic impacts that result when expenditures made by retirees ripple throughout the economy. Because pension benefits are permanent sources of income—in that they cannot be outlived—we would expect the economic impacts to be larger than those of temporary income increases. For this reason, we would expect the economic impacts of pension benefit expenditures to be larger than those out of, for example, unemployment insurance benefit payments. It should also be noted that this study measures the gross economic impacts of pension benefit expenditures, rather than the net economic impacts. For a detailed explanation, see the Technical Appendix.

Because taxpayers and elected officials have an interest in gauging the ultimate economic impact of each tax dollar "invested" in a state or local pension plan, we calculate a proxy measurement of the total economic impact attributable to each dollar in pension contributions made by the taxpayer, called the "taxpayer investment factor." Details follow.

Data and Methodology

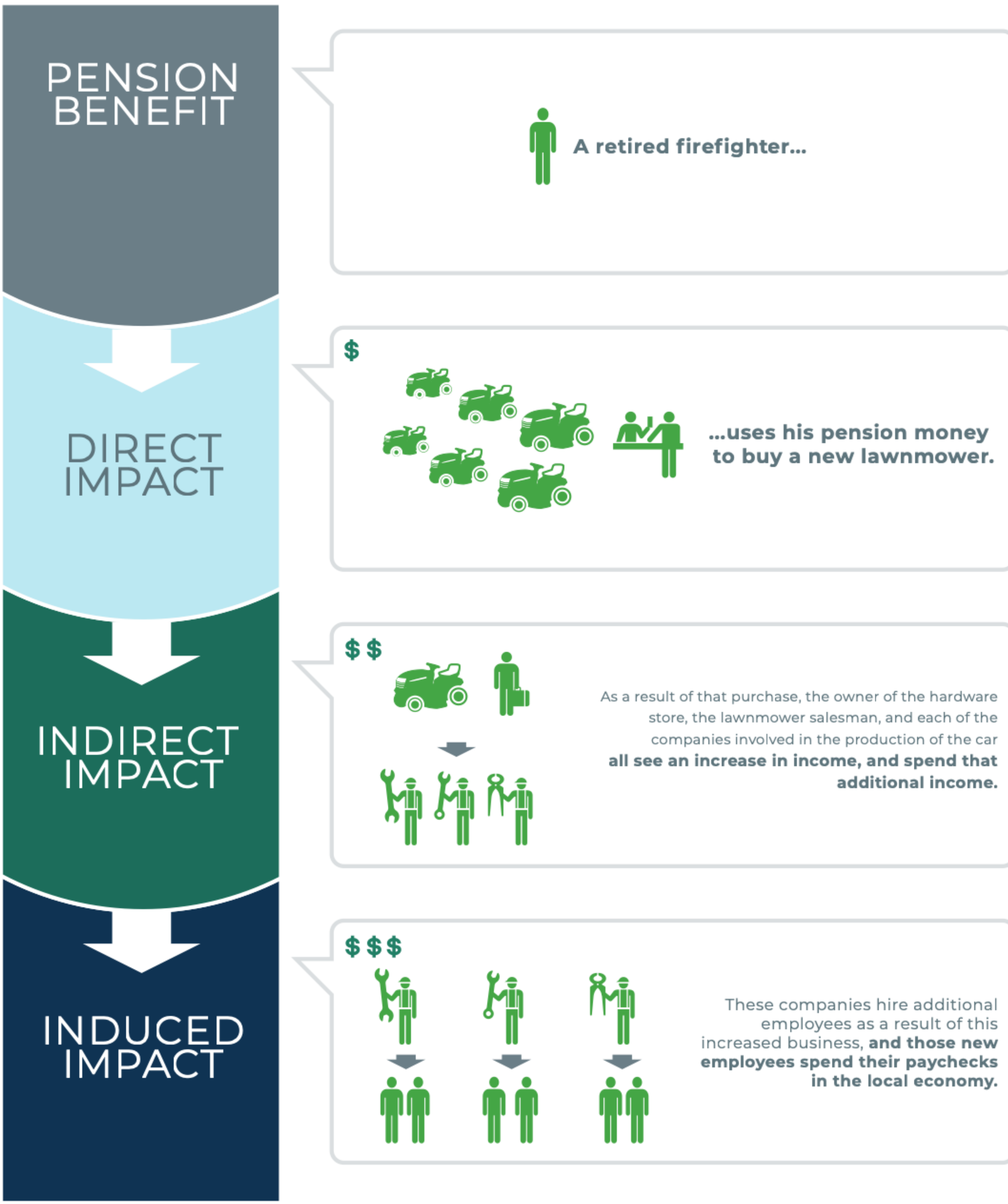
The data used for our analysis comes primarily from two sources: the U.S. Census Bureau and IMPLAN. We used data for 2020, as it was the most recently available at the time of our analysis.

Data on state and local pension plans comes from the Census Bureau's Annual Survey of Public Pensions, which is a representative sample of state and local DB pension plans in the United States. This survey provides data on revenues, expenditures, financial assets, and membership for state and local pension plans on a national basis and in each of the states. Federal pension data comes from the Congressional Research Service. Data on private pension benefits comes from the Census Bureau and Bureau of Labor Statistics' Current Population Survey Annual Social and Economic Supplement (CPS ASEC), which reports sources of household income, including pension and survivor income, by age.

To measure the economic impacts of retiree expenditures made out of benefits paid by DB pension plans, the input-output modeling software, IMPLAN, was used. IMPLAN was first developed in the 1970s as part of a USDA Forest Service project to analyze the economic effects of local land management projects such as timber, mining, and recreation activities. Since that time, IMPLAN has been used by industry and government analysts throughout the country to assess economic impacts of highly varied local community development projects. These studies include many recent economic impact studies of pension benefit payments from state retirement systems.

Between the time NIRS' original *Pensionomics* study was published in 2009 and the release of this report, IMPLAN has undergone several significant modeling changes. Due to these changes, results of the current study are not directly comparable to any of the prior Pensionomics studies, and the reader should avoid drawing conclusions based on such comparisons. For example, in its newest release, IMPLAN has eliminated the ability to model household expenditure patterns directly. Due to this change, we had to make several adjustments to the level of benefit payments that we input into the model, in order to more accurately account for the level of expenditures of retirees, rather than working households. That, along with fundamental changes to the US economy that occur each year—especially a year as anomalous as 2020— means the national and state- by -state level impacts are not directly comparable to those in the previous *Pensionomics* studies. Detailed information on our data and methodology and further discussion of these differences appear in the Technical Appendix.

The Multiplier Effect: How Spending Ripples Through the Economy, Supporting Jobs and Incomes in the Process



I. ECONOMIC IMPACT MEASUREMENTS

We analyze the economic impact of expenditures made by retirees out of their DB pension payments along four dimensions: employment and labor income, output, value added, and tax revenues. Each of these is described in detail below.

1. Employment and Labor Income Impact: When retirees spend their pension checks, their expenditures help to support jobs—at the local diner, hospital, or even at a factory somewhere across the country. When a retiree makes a purchase, the money spent translates into business revenues, jobs, and income. Using IMPLAN, we calculated the number of jobs supported by retirees' expenditures. The employment impact constitutes an estimate of "annual average jobs" within a single year. We also present estimates of labor income supported by pension expenditures, which is a component of value added, as described below.

2. Output Impact: Total output includes the value of all goods and services produced in the economy. Using IMPLAN, we calculate the value of total output supported by retirees' expenditures of DB pension benefits.

We also calculate a pension expenditure multiplier and taxpayer investment factor. The pension expenditure multiplier tells us the total economic impact attributable to each dollar in pension benefits paid to a retiree. (For example, a multiplier of 2.13 means that every $1 paid to retirees in a local economy supports $2.13 of total output in that region.) We calculate the pension expenditure multiplier by dividing the total output generated by the value of the "initial event" in the economy (in this case, the gross pension benefit). Expenditure multipliers usually lie between 1.0 and 3.0.

3. Value Added Impact: Value added is a net estimate of the creation of "new value" in the economy. Commonly referred to as Gross Domestic Product (GDP), it includes the value of employee compensation, profits, rents, and other aspects of production, but excludes the costs of purchased materials and services. IMPLAN calculates the value added attributable to DB pension benefit expenditures.

4. Tax Impact: Economic activity of all kinds—receiving pension income, earning wages, producing profits, selling goods and services—provides the basis for the tax revenues that are required to fund government services. To calculate the impact that pension payments have on tax revenues, we first estimate the amount of taxes paid by beneficiaries directly on their pension benefits. Then, using IMPLAN, we calculate estimates of taxes attributable to the economic activity that results when retirees spend their after-tax pension checks, and in all subsequent rounds of spending. This includes all corporate, property, and business taxes that are generated through each spending round. The newest version of IMPLAN separates out state and local tax revenues by subcounty general, subcounty special districts, county, and state tax receipts. We report all of these here (but we do not attempt to provide the same breakdown for the state and local tax withholdings from pension payments themselves).

II. RESULTS: NATIONAL ECONOMIC IMPACT OF DB PENSION PLANS

Our analysis indicates that DB pension benefits not only provide a secure source of income for many retired Americans, they also contribute substantially to the national economy. DB pensions play a vital role in sustaining consumer demand that, in turn, ultimately supports millions of jobs, and hundreds of billions of dollars in income, output, value added, and tax revenues.

Employment and Income

Our analysis shows that the $612.6 billion in gross public and private pension benefits paid out in 2020 supported 6.8 million American jobs, as shown in **Table 2**. Of these jobs, over 3.7 million were supported by state and local pension benefit expenditures, and nearly 1 million by federal pension expenditures. In the private sector, single employer plans supported 1.5 million jobs, and multiemployer plans supported an additional half a million jobs. These jobs collectively paid out an estimated $422.2 billion in labor income.

To put these employment impacts in perspective, the 6.8 million jobs supported by pensioners' expenditures exceed the number of jobs in the entire construction industry (5.5 million jobs in 2020).

In addition, in 2020 the national unemployment rate was 8.1 percent. The entire civilian labor force in the country consisted of 160.7 million potential workers, of whom 12.9 million were unemployed. The high unemployment rate was largely due to the Covid-19 pandemic-related economic shutdowns that occurred. (For example, the unemployment rate reached a high of 14.7 percent in April. By December, it decreased to 6.7 percent, but this is still historically high.) In light of these numbers, the fact that DB pension expenditures supported 6.8 million jobs is significant, as it represents a full 4.2 percentage points in the national labor force.

Table 2: DB Pensions Support 6.8 Million American Jobs That Pay $422.2 Billion in Labor Income

		Employment	Labor Income
Governmental Plans	State and Local Government	3,736,191	$232,229,721,639
	Federal Government	994,015	$61,784,827,559
Private Sector Plans	Multiemployer	519,379	$32,282,920,670
	Single Employer	1,542,916	$95,902,741,502
Total Impact	**All Plans**	**6,792,502**	**$422,200,211,371**

*Totals may not add up exactly due to rounding.

Total Output

Our model further finds that the $612.6 billion in public and private pension benefit payments in 2020 supported over $1.3 trillion dollars in overall economic output in the national economy. In terms of benefit source, $718.6 billion in economic activity stemmed from state and local pension benefit expenditures, $191.2 billion from fFederal pension expenditures, $296.8 billion from single employer pensions, and $99.9 billion from multiemployer plans. See **Table 3**.

This $1.3 trillion dollars in overall economic output is more than the total output contributed by the entire transportation and warehousing industry, which generated $1.1 trillion in total output in the national economy in 2020.

Value Added (GDP)

Retirees' expenditures of DB pension benefit payments supported $738.5 billion in value added to the national economy in 2020, including $406.2 billion supported by

Table 3: DB Pensions Support $1.3 Trillion in Economic Activity and $738.5 Billion in Value Added

		Output	Value Added
Governmental Plans	State and Local Government	$718,646,463,523	$406,224,100,829
	Federal Government	$191,196,232,383	$108,076,114,646
Private Sector Plans	Multiemployer	$99,901,109,159	$56,470,379,108
	Single Employer	$296,775,819,806	$167,756,326,188
Total Impact	**All Plans**	**$1,306,519,624,872**	**$738,526,920,772**

*Totals may not add up exactly due to rounding.

state and local pension benefits, $108.1 billion by federal pension benefits, $167.8 billion by single employer pensions, and $56.5 billion by multiemployer pensions. See **Table 3**.

This $738.5 billion in value added is more than what was contributed by the entire arts, entertainment, recreation, accommodation, and food services industry, which generated $715.5 billion in value added in 2020.

Tax Revenue

Our analysis finds that an estimated $157.7 billion in total tax revenue was attributable to public and private pension benefits in 2020, including $62.9 billion in federal tax revenue and $94.9 billion in state and local tax revenue. (See **Tables 4 and 5**.)

Tax revenue comes from two major sources: taxes paid by beneficiaries directly on their pension benefits and taxes resulting from expenditures made in the local economy (for example, sales taxes resulting from a retail purchase). Of the total tax revenue supported, $14.3 billion came from income taxes paid by beneficiaries on their benefits and $143.4 billion from taxes resulting from the spending of net pension benefits.

To put these numbers in perspective, the total federal tax revenue attributable to pension benefit payments is significantly more than the $53.0 billion the federal government spent on all housing assistance in 2020. The total state and local tax revenue more than what state and local governments collectively spent on health services in 2020 ($77.0 billion).

Economic Impacts by Industry and Occupation

Table 6 breaks down the economic effects of public and private pension expenditures by the top ten industry sectors affected. Nationally, the largest employment impacts were seen in the food service, health care, and retail trade sectors. In 2020, pension expenditures supported 326,024 jobs in the retail industry, 547,819 jobs in full- and limited-service restaurants, and 662,188 jobs in the health care industry (including nursing and community care facilities, hospitals, and offices of physicians).

With the newest version of IMPLAN, we are now able to break down the employment impacts by occupation categories as well. **Table 7** shows that Office and Administrative Support Occupations showed the largest gains, with 678,678 total jobs, paying $42.2 billion in compensation, at 1.2 billion total hours worked in 2020. The rest of the top ten occupation categories include food preparation and serving, sales, transportation, health care, business, management, production, and installation, maintenance,

Table 4: DB Pensions Support $62.9 Billion in Federal Tax Revenue

	State and Local Pensions	Federal Pensions	Private Pensions		Total Federal Tax Revenue*
			Single Employer	Multiemployer	
Taxes Paid by Beneficiaries on Benefits	$3.3 billion	$903.3 million	$472 million	$1.4 billion	$6.1 billion
Tax Revenue Resulting from Retiree Expenditures	$31.2 billion	$8.3 billion	$4.3 billion	$12.9 billion	$56.7 billion
Total Federal Tax Revenue Impact	**$34.6 billion**	**$9.2 billion**	**$4.8 billion**	**$14.3 billion**	**$62.9 billion**

*Totals may not add up exactly due to rounding.

Table 5: DB Pensions Support $94.9 Billion in State and Local Tax Revenue

	State and Local Pensions	Federal Pensions	Private Pensions		Total State and Local Tax Revenue*
			Single Employer	Multiemployer	
Taxes Paid by Beneficiaries on Benefits	$4.5 billion	$1.2 billion	$1.9 billion	$628.9 million	$8.2 billion
Tax Revenue Resulting from Retiree Expenditures	$47.7 billion	$12.7 billion	$19.7 billion	$6.6 billion	$86.7 billion
Total State and Local Tax Revenue Impact	**$52.2 billion**	**$13.9 billion**	**$21.6 billion**	**$7.3 billion**	**$94.9 billion**

*Totals may not add up exactly due to rounding.

Table 6: Top Ten Industries by National Employment Impact

Industry	Total # Jobs Supported
Hospitals	**336,296**
Limited-service restaurants	**320,266**
Other real estate	**238,861**
Full-service restaurants	**227,553**
Offices of physicians	**193,807**
Retails - Food and beverage stores	**165,032**
Retail - General merchandise stores	**160,991**
Employment services	**153,151**
Nursing and community care facilities	**132,085**
Individual and family services	**126,382**

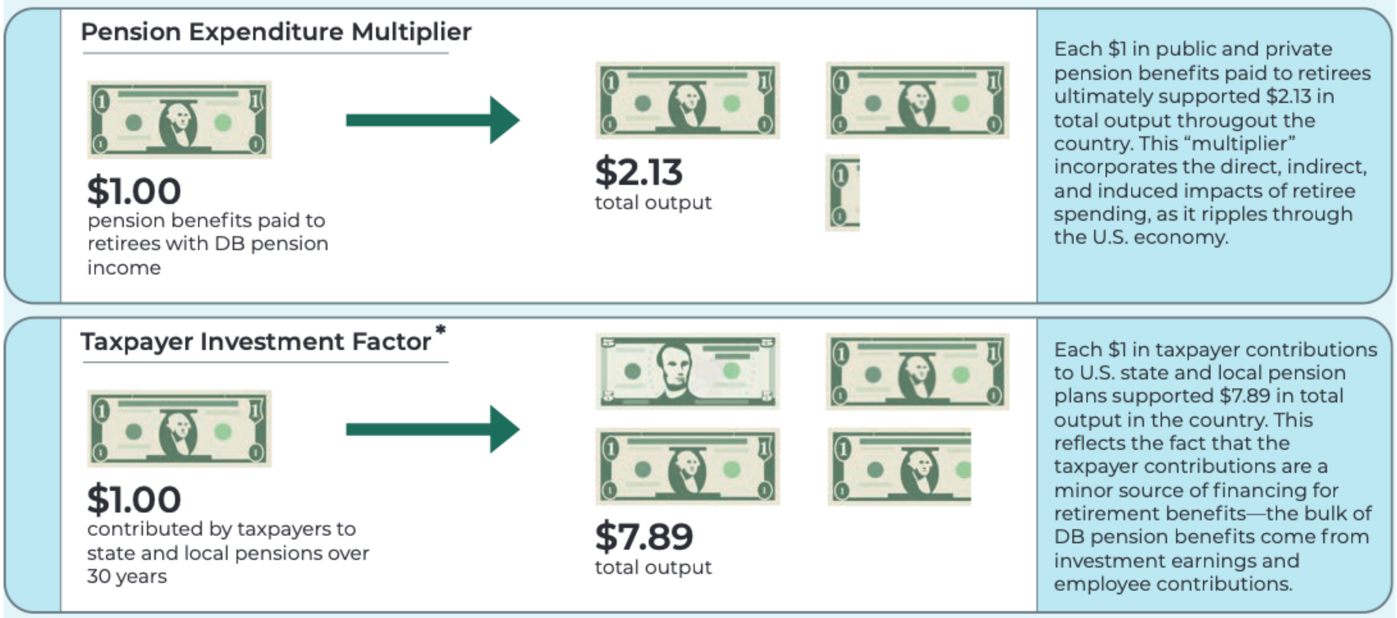
Table 7: Top Ten Occupation Categories by National Employment Impact

Occupation Category	Wage and Salary Employment	Wage and Salary Income	Supplements to Wages and Salaries	Total Employee Compensation	Hours Worked
Office and Administrative Support Occupations	678,678	$35,238,942,845	$7,010,670,754	$42,249,613,599	1,158,506,275
Food Preparation and Serving Related Occupations	626,523	$14,205,455,078	$2,550,533,595	$16,755,988,673	738,188,665
Sales and Related Occupations	612,650	$29,155,593,836	$5,354,263,446	$34,509,857,282	943,933,014
Transportation and Material Moving Occupations	492,232	$22,175,442,828	$4,669,598,456	$26,845,041,284	855,539,059
Healthcare Practitioners and Technical Occupations	421,408	$40,420,111,463	$8,662,109,299	$49,082,220,762	747,310,507
Healthcare Support Occupations	327,375	$9,693,466,862	$2,079,173,150	$11,772,640,011	509,228,548
Business and Financial Operations Occupations	261,488	$30,052,360,683	$5,133,365,706	$35,185,726,389	514,113,939
Management Occupations	250,142	$41,091,599,259	$7,511,958,336	$48,603,557,595	524,946,337
Production Occupations	242,017	$12,385,851,949	$2,981,657,290	$15,367,509,239	461,282,934
Installation, Maintenance, and Repair Occupations	203,364	$13,397,643,870	$2,766,376,647	$16,164,020,517	401,358,776

Figure 2: Economic Multipliers

The pension expenditure multiplier for 2020 in the U.S was 2.13, meaning every dollar paid out in DB pension benefits in that year generated $2.13 of total output in the national economy.

Because DB pension plans are prefunded, only a small portion of the total pension payment in any given year is funded through employer or taxpayer dollars, as discussed previously. Therefore, for state and local plans, it may be helpful to calculate the total impact of state and local pension benefit expenditures that is attributable to the "taxpayer investment" in these plans. Because only 27 cents of every dollar paid out in pension benefits in 2020 was generated through taxpayer contributions (see **Figure 1**), the taxpayer investment factor is substantially higher than the expenditure multiplier. In 2020, of the $334.8 billion paid out in state and local pension benefits, only $90.4 billion was funded by taxpayer dollars. The total economic impact attributable to state and local pension benefits was $718.6 billion. The taxpayer investment factor, then, was 7.89. That is, every taxpayer dollar contributed to state and local pension plans supported $7.89 in national economic output.



*Caution should be used in interpreting this number. See the Technical Appendix for details.

III. MEASURING STATE-LEVEL ECONOMIC IMPACTS OF STATE AND LOCAL PENSION BENEFITS

Next, we consider the specific economic impacts of *state and local* pension benefit expenditures within each state, accounting for cross-state economic impacts and migration.

Federal and private pension plans are not included in the analysis because of data limitations.

The economic impacts and multipliers for individual states are collectively smaller than the national impacts and multipliers, because state economies are smaller and less diverse than the national economy as a whole.

The smaller and more homogeneous a local economy is, the smaller the economic multipliers will tend to be for that economy. This is because economic impact analysis, based on local production and purchasing patterns, accounts for economic benefits that leave the state. The economic benefit "lost" to other states or countries is called leakage.

However, because we are interested in assessing the economic impacts of state and local pension benefits nationally, i.e., across all states, we employ an approach that accounts for the fact that one state's "loss" is often another state's "gain." We account for a significant share of the leakage caused by interstate commerce by utilizing a Multi-Regional Input-Output (MRIO) analysis for each of the fifty states and the District of Columbia.

For example, if a consumer in the state of Alabama purchases a new lawnmower, that purchase is broken down into its various components of production: the engineers and designers, the parts manufacturers, and the retail salesperson all receive a portion of the revenue from that sale. Because the lawnmower was purchased within Alabama, the portion of output due the retailer will certainly be added to Alabama's total output. If the lawnmower was designed in Michigan and manufactured in Ohio, however, output from these services would not be included in Alabama's total output, because they were not performed within the state of Alabama, but in those of Michigan and Ohio, respectively.

Because most individual state economies are not as diverse as the U.S. economy as a whole, the state-level multipliers resulting from this analysis—focused on measuring economic benefits at the state rather than national level—will be smaller than the national multipliers. However, whenever all of the services in any single transaction are performed by firms and workers in the U.S., they are accounted for in the national economic impacts.

In addition, we also adjust for net flows of retirees and their pension payments across state borders, drawing on Census data on migration patterns of older households. Retirees who live and therefore spend their income outside of their state of origin contribute to economic activity in their new state of residence.

Thus, each state's total economic impacts consist of net in-state impacts (attributable to pension payment expenditures originating in the state) and net out-of-state impacts (attributable to pension expenditures originating from any of the other states). For more information, see the Technical Appendix.

IV. RESULTS: STATE-LEVEL IMPACT OF DB PENSION PLANS

While our model does not fully capture all of the state-level economic impact, the results show that every state gained substantial economic benefit from state and local DB pension payments.

The following series of charts and tables provide the key state-level results of the economic impact analysis. Not surprisingly, the state of California—with the largest economy of the 50 states—showed the largest employment, output, and value added impacts: 381,038 jobs that paid \$26.0 billion in labor income, \$76.1 billion in output, and \$47.9 billion in value added supported by state and local pension benefit expenditures. But even in smaller states, the impacts of state and local pension benefits are substantial.

Figure 4 presents the pension expenditure multipliers for each state. Pension expenditure multipliers vary somewhat by state, but generally speaking, larger states and those with more diverse economic bases will have larger multipliers than smaller states and those with a more homogeneous economic base. These multipliers account for the impact of pension expenditures originating both from within the state and those pension dollars that originate from another state but are spent within the state in question.

In 2020, the average state-level pension expenditure multiplier was 1.33, meaning that for every dollar paid out in pension benefits received by a state resident, \$1.33 in total output was supported within that state.

As is the case at the national level, the taxpayer investment factors for each state are much larger than the pension expenditure multipliers.

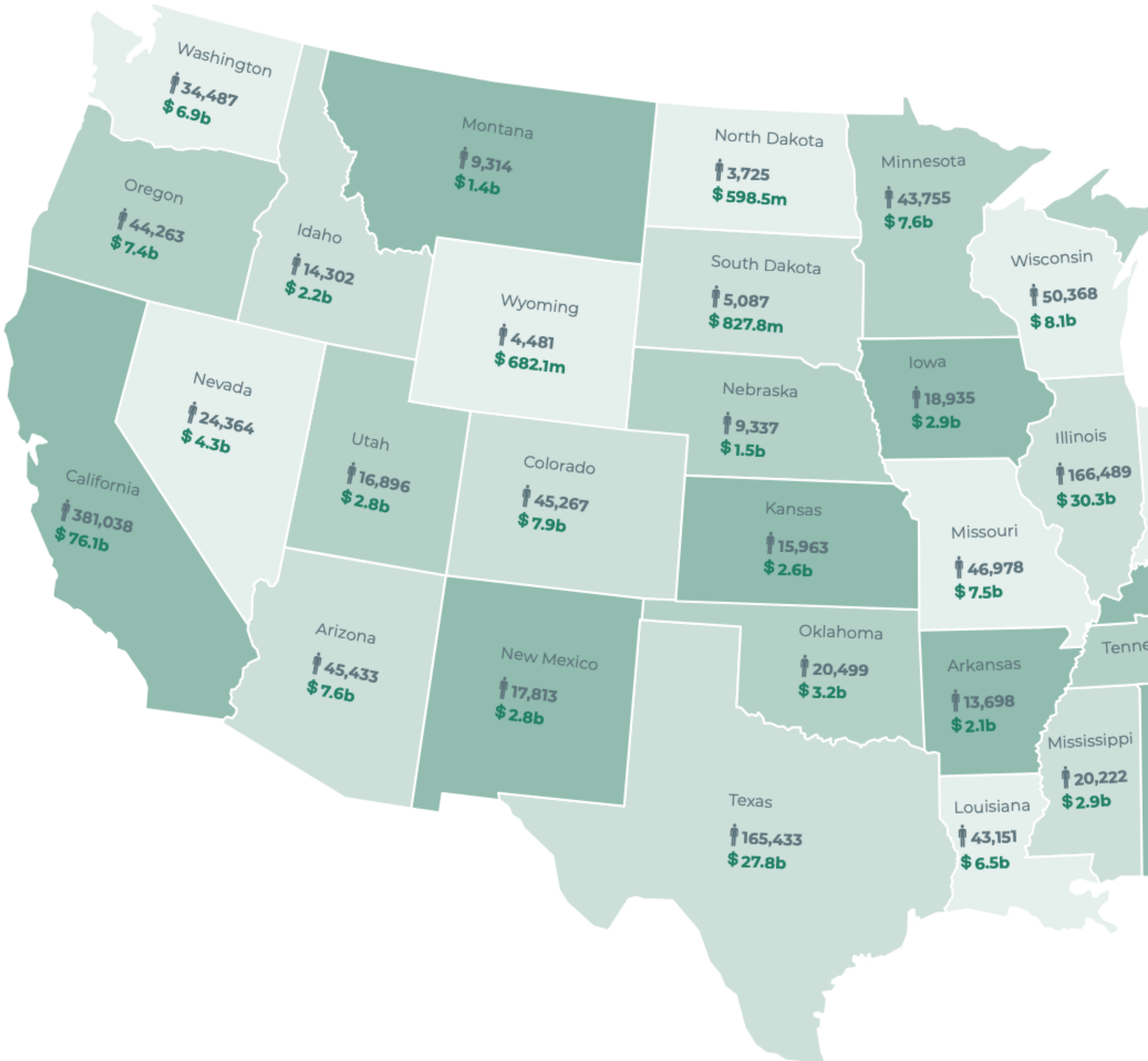
Because state and local pension plans are prefunded, only a small portion of the total pension payment in any given year is funded through taxpayer dollars. The total impact of state and local pension benefit expenditures that is attributable to the "taxpayer investment" in these plans is shown in Figure 5. In 2020, the average taxpayer investment factor was 5.20, meaning that for every dollar contributed by taxpayers in a single state, \$5.20 in total economic output was supported within that state, on average.

Note that caution should be used in interpreting the taxpayer investment factor for some states. See the Technical Appendix for details.

Table 8: Employment and Labor Income Impacts by State

	# Jobs	Labor Income
Alabama	25,817	$1,184,700,257
Alaska	10,724	$611,846,333
Arizona	45,433	$2,493,776,975
Arkansas	13,698	$622,985,254
California	381,038	$26,014,637,864
Colorado	45,267	$2,570,119,032
Connecticut	35,144	$2,439,979,060
Delaware	7,891	$436,134,348
DC	2,968	$247,186,014
Florida	116,497	$5,930,264,284
Georgia	85,673	$4,333,461,901
Hawaii	11,604	$655,992,164
Idaho	14,302	$678,953,443
Illinois	166,489	$10,376,966,458
Indiana	22,488	$1,209,718,922
Iowa	18,935	$894,729,915
Kansas	15,963	$827,234,785
Kentucky	33,670	$1,684,811,017
Louisiana	43,151	$1,987,465,089
Maine	9,654	$498,912,112
Maryland	40,039	$2,373,105,393
Massachusetts	61,816	$4,422,240,379
Michigan	76,945	$4,152,590,553
Minnesota	43,755	$2,632,040,973
Mississippi	20,222	$811,456,791
Missouri	46,978	$2,435,558,622
Montana	9,314	$446,180,933
Nebraska	9,337	$481,756,471
Nevada	24,364	$1,287,473,622
New Hampshire	8,234	$514,382,863
New Jersey	83,926	$5,739,537,815
New Mexico	17,813	$811,133,991
New York	181,576	$13,167,110,760
North Carolina	49,477	$2,537,566,321
North Dakota	3,725	$192,334,471
Ohio	129,688	$6,965,313,984
Oklahoma	20,499	$959,882,138
Oregon	44,263	$2,541,804,591
Pennsylvania	111,571	$6,816,269,356
Rhode Island	8,282	$469,950,943
South Carolina	26,363	$1,189,777,078
South Dakota	5,087	$268,409,670
Tennessee	32,080	$1,876,458,875
Texas	165,433	$9,090,468,077
Utah	16,896	$837,699,823
Vermont	5,385	$282,749,561
Virginia	44,476	$2,384,138,660
Washington	34,487	$2,304,537,409
West Virginia	9,789	$478,375,591
Wisconsin	50,368	$2,663,236,809
Wyoming	4,481	$182,566,402

Figure 3: Employment and Economic Output Impacts by State



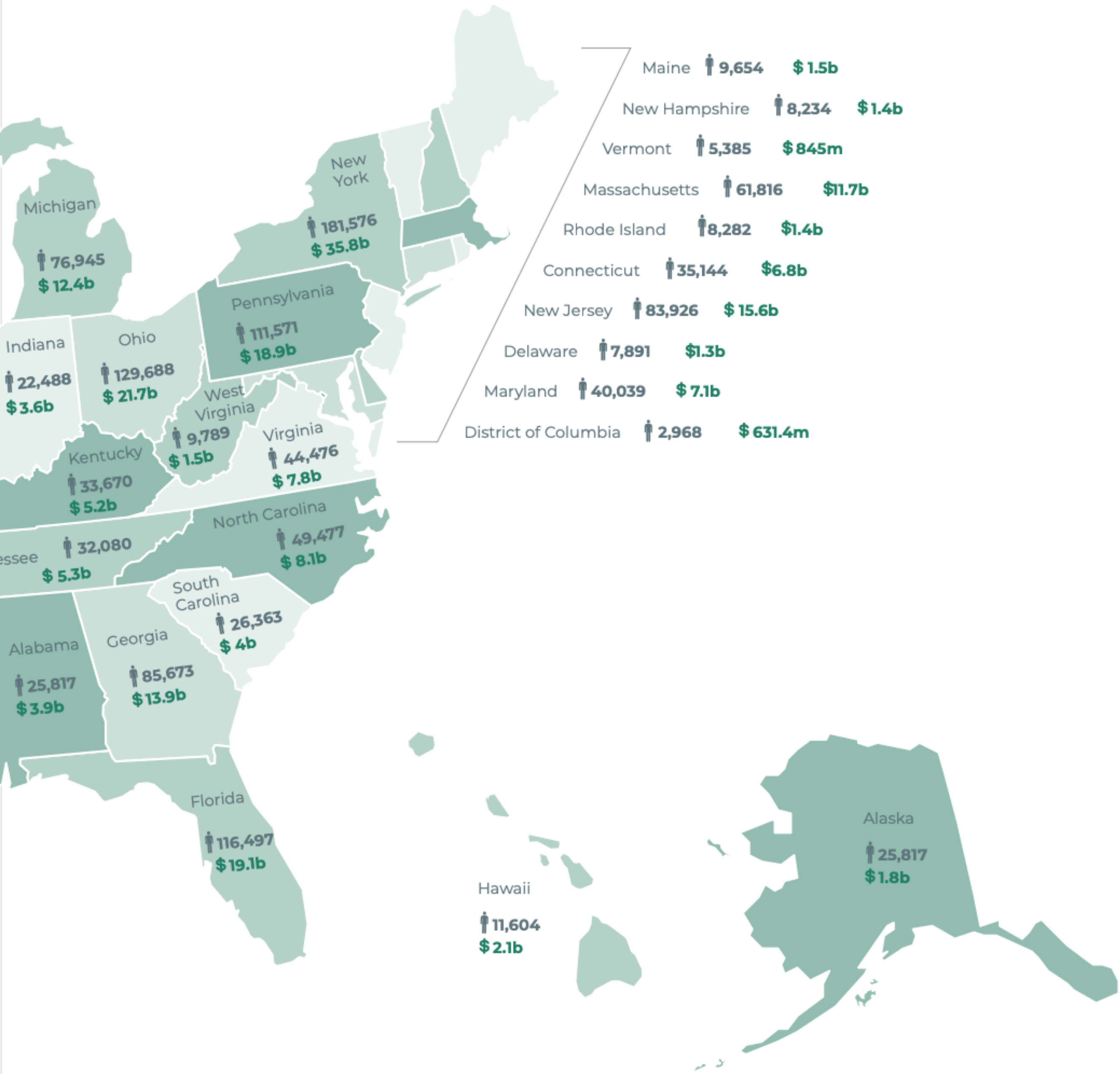

Maine 9,654 $ 1.5b
New Hampshire 8,234 $ 1.4b
Vermont 5,385 $ 845m
Massachusetts 61,816 $11.7b
Rhode Island 8,282 $1.4b
Connecticut 35,144 $6.8b
New Jersey 83,926 $ 15.6b
Delaware 7,891 $1.3b
Maryland 40,039 $ 7.1b
District of Columbia 2,968 $ 631.4m
New York 181,576 $ 35.8b
Michigan 76,945 $ 12.4b
Pennsylvania 111,571 $ 18.9b
Indiana 22,488 $ 3.6b
Ohio 129,688 $ 21.7b
West Virginia 9,789 $ 1.5b
Virginia 44,476 $ 7.8b
Kentucky 33,670 $ 5.2b
North Carolina 49,477 $ 8.1b
essee 32,080 $ 5.3b
South Carolina 26,363 $ 4b
Alabama 25,817 $ 3.9b
Georgia 85,673 $ 13.9b
Florida 116,497 $ 19.1b
Hawaii 11,604 $ 2.1b
Alaska 25,817 $ 1.8b

Table 9: Total Output and Value Added Impacts, by State

	Output	Value Added
Alabama	$3.9 b	$2.2 b
Alaska	$1.8 b	$1.1 b
Arizona	$7.6 b	$4.5 b
Arkansas	$2.1 b	$1.2 b
California	$76.1 b	$47.9 b
Colorado	$7.9 b	$4.6 b
Connecticut	$6.8 b	$4.4 b
Delaware	$1.3 b	$822.7 m
DC	$631.4 m	$443.1 m
Florida	$19.1 b	$10.8 b
Georgia	$13.9 b	$8.2 b
Hawaii	$2.1 b	$1.3 b
Idaho	$2.2 b	$1.2 b
Illinois	$30.3 b	$18.6 b
Indiana	$3.6 b	$2.1 b
Iowa	$2.9 b	$1.7 b
Kansas	$2.6 b	$1.5 b
Kentucky	$5.2 b	$2.9 b
Louisiana	$6.5 b	$3.7 b
Maine	$1.5 b	$896.4 m
Maryland	$7.1 b	$4.4 b
Massachusetts	$11.7 b	$7.5 b
Michigan	$12.4 b	$7.1 b
Minnesota	$7.6 b	$4.5 b
Mississippi	$2.9 b	$1.6 b
Missouri	$7.5 b	$4.3 b
Montana	$1.4 b	$735.1 m
Nebraska	$1.5 b	$895.2 m
Nevada	$4.3 b	$2.6 b
New Hampshire	$1.4 b	$898.8 m
New Jersey	$15.6 b	$9.8 b
New Mexico	$2.8 b	$1.6 b

	Output	Value Added
New York	$35.8 b	$23.7 b
North Carolina	$8.1 b	$4.7 b
North Dakota	$598.5 m	$326.1 m
Ohio	$21.7 b	$12.6 b
Oklahoma	$3.2 b	$1.7 b
Oregon	$7.4 b	$4.3 b
Pennsylvania	$18.9 b	$11.2 b
Rhode Island	$1.4 b	$857.1 m
South Carolina	$4 b	$2.3 b
South Dakota	$827.8 m	$470 m
Tennessee	$5.3 b	$3.1 b
Texas	$27.8 b	$15.9 b
Utah	$2.8 b	$1.6 b
Vermont	$845 m	$494.7 m
Virginia	$7.8 b	$4.7 b
Washington	$6.9 b	$4.3 b
West Virginia	$1.5 b	$822.8 m
Wisconsin	$8.1 b	$4.7 b
Wyoming	$682.1 m	$372.1 m

Figure 4: Pension Expenditure Multipliers by State

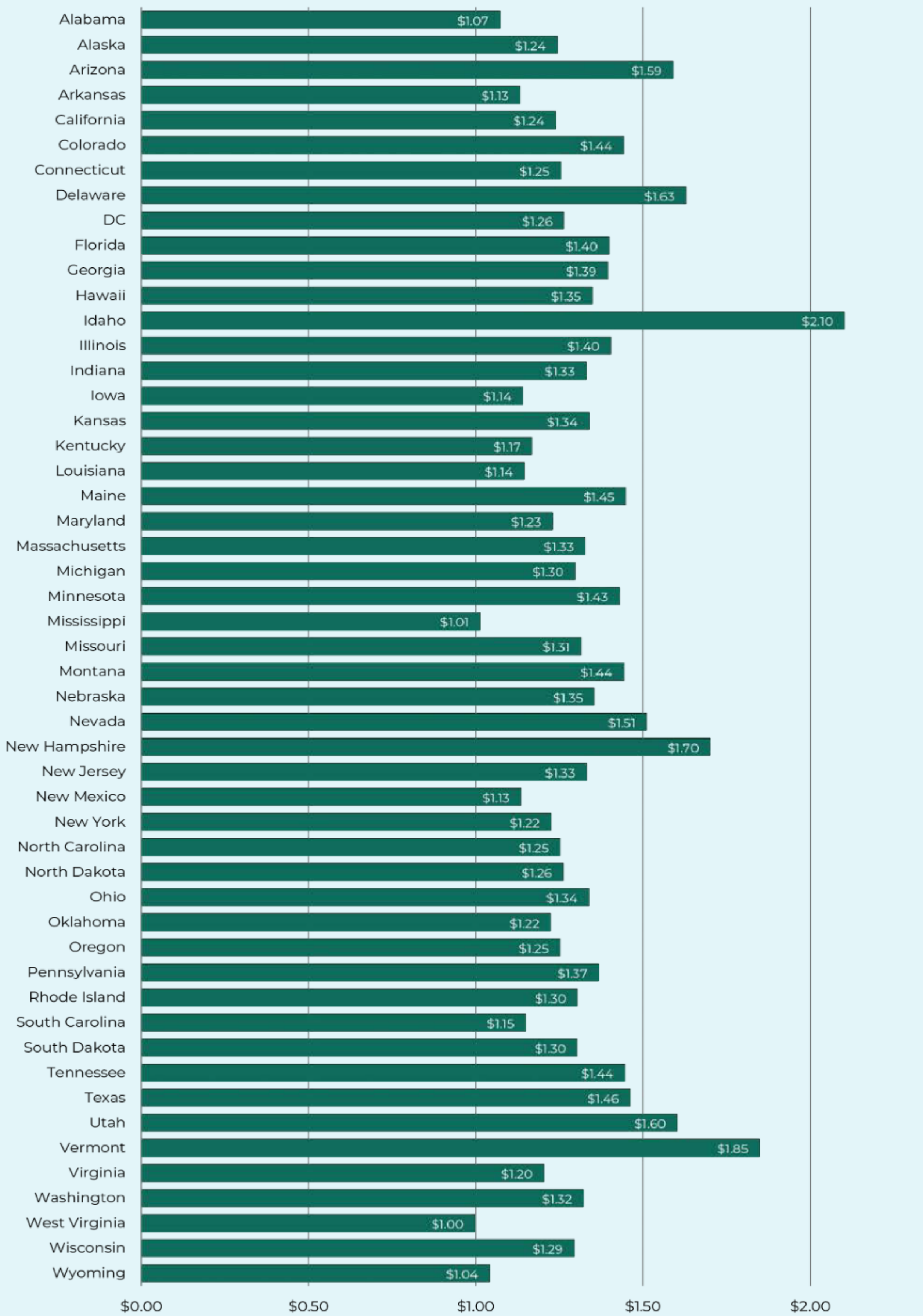


Figure 5: Taxpayer Investment Factors by State

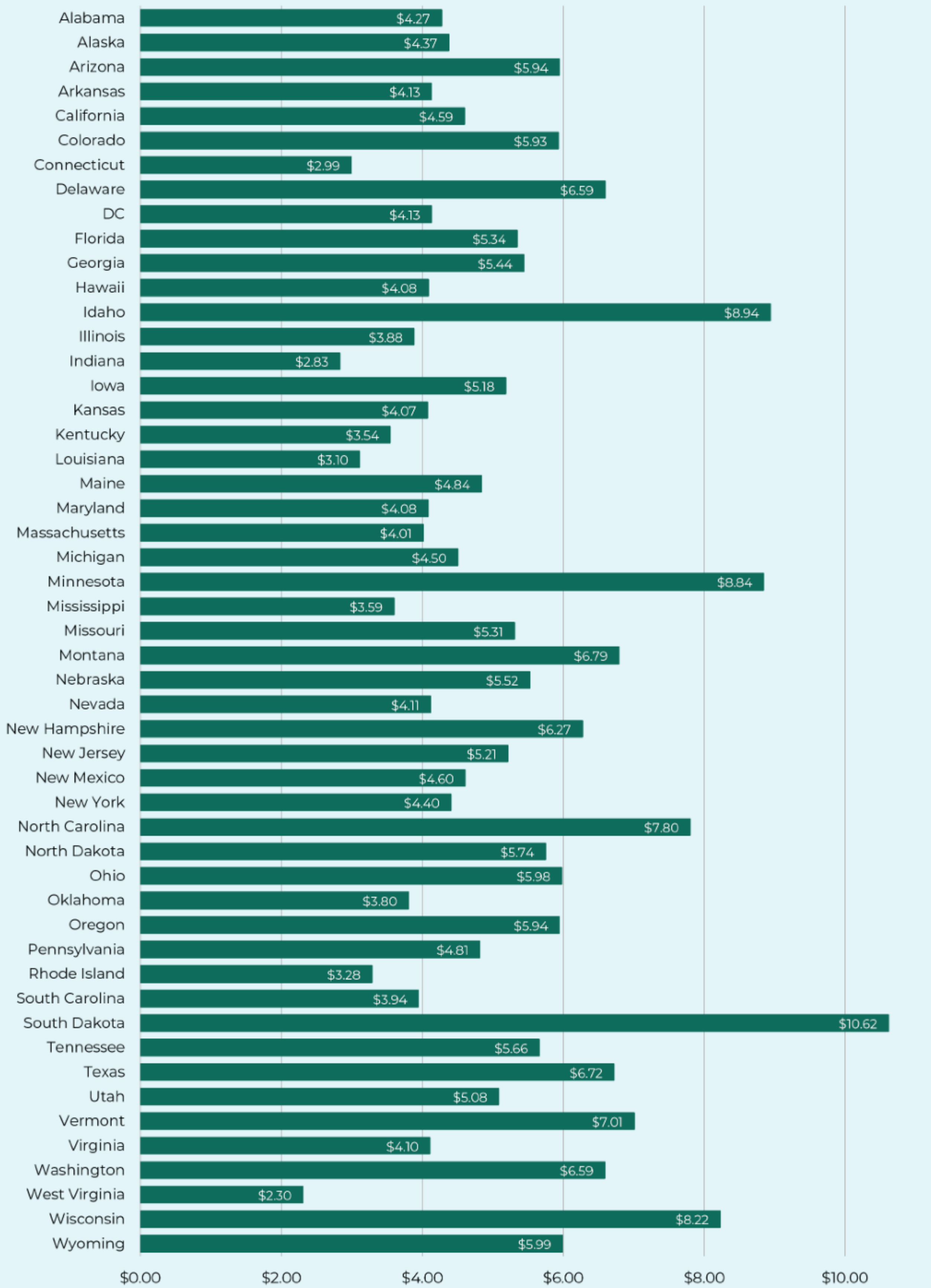


Table 10: Tax Impacts by State (in millions)

	Federal	State/Local	Total
Alabama	$158.7	$304.3	**$463.0**
Alaska	$113.7	$60.7	**$174.4**
Arizona	$355.4	$644.0	**$999.4**
Arkansas	$83.5	$220.9	**$304.4**
California	$3,746.8	$8,132.8	**$11,879.5**
Colorado	$378.6	$624.0	**$1,002.6**
Connecticut	$337.7	$834.3	**$1,172.0**
Delaware	$72.3	$86.8	**$159.1**
DC	$19.8	$83.5	**$103.3**
Florida	$907.8	$1,334.9	**$2,242.7**
Georgia	$658.2	$887.9	**$1,546.1**
Hawaii	$60.3	$216.7	**$277.0**
Idaho	$95.1	$241.4	**$336.5**
Illinois	$1,300.4	$2,740.2	**$4,040.6**
Indiana	$169.4	$334.0	**$503.4**
Iowa	$92.7	$289.7	**$382.4**
Kansas	$89.4	$226.7	**$316.1**
Kentucky	$260.8	$364.2	**$625.0**
Louisiana	$249.4	$463.0	**$712.4**
Maine	$61.7	$167.4	**$229.2**
Maryland	$310.5	$650.2	**$960.7**
Massachusetts	$729.6	$772.1	**$1,501.7**
Michigan	$599.4	$859.0	**$1,458.4**
Minnesota	$340.4	$756.7	**$1,097.1**
Mississippi	$94.3	$265.2	**$359.5**
Missouri	$354.8	$475.7	**$830.4**
Montana	$77.8	$108.3	**$186.1**
Nebraska	$56.9	$158.6	**$215.4**
Nevada	$175.7	$406.5	**$582.2**
New Hampshire	$72.7	$110.2	**$182.9**
New Jersey	$781.2	$1,526.0	**$2,307.1**
New Mexico	$99.7	$292.0	**$391.8**
New York	$1,808.6	$3,489.5	**$5,298.1**
North Carolina	$422.9	$759.9	**$1,182.7**
North Dakota	$26.3	$37.5	**$63.8**
Ohio	$957.7	$1,809.0	**$2,766.7**
Oklahoma	$135.5	$252.1	**$387.6**
Oregon	$453.7	$786.9	**$1,240.6**
Pennsylvania	$996.4	$1331.9	**$2,328.4**
Rhode Island	$61.0	$145.4	**$206.4**
South Carolina	$180.6	$345.7	**$526.3**
South Dakota	$24.7	$63.7	**$88.4**
Tennessee	$264.6	$328.8	**$593.4**
Texas	$1,254.7	$1,805.5	**$3,060.2**
Utah	$120.8	$261.8	**$382.6**
Vermont	$33.2	$98.5	**$131.6**
Virginia	$332.8	$771.5	**$1,104.3**
Washington	$291.3	$679.5	**$970.9**
West Virginia	$73.1	$147.6	**$220.7**
Wisconsin	$365.8	$846.9	**$1,212.7**
Wyoming	$30.6	$51.0	**$81.5**

CONCLUSION

DB pension plans provide a critical source of reliable income for 24.6 million Americans. These plans are a cost effective way to provide secure lifetime income for retired Americans and their beneficiaries after a lifetime of work. Moreover, DB pension plans generate economic benefits that reach well beyond those who earned benefits during their working years.

Because pensions supply secure income to retirees, pensions provide local economies with stable sources of revenue. Retirees who spend their paychecks regularly in their local economies—especially during tough economic times, as was experienced worldwide in 2020—provide vital revenues to local businesses and income to local workers.

These economic gains are considerable. Nationwide, over $1.3 trillion in total economic output resulted from DB pension expenditures in 2020. DB expenditures supported 6.8 million American jobs that paid $422.2 billion in income in that year. Benefits paid by DB pensions supported $157.7 billion in tax revenue at the local, state, and federal levels.

In supplying a stable source of income to retirees, DB pension plans support the national economy, as well as local economies throughout the country, with jobs, incomes, and tax revenue. Pension benefits play an important role in providing a stable, reliable source of income regardless of economic climate—not just for retired Americans, but also for the local economies in which their retirement checks are spent.

TECHNICAL APPENDIX

State and local pension benefit payments were taken from the U.S. Census Bureau's Annual Survey of Public Pensions, which reports on state and local government-sponsored pension plans in the United States. The survey provides data on revenues, expenditures, financial assets, and membership in public employee retirement systems. The Census Bureau aggregates plan level data up to the state-level, and these state-level estimates are based on a representative sample of retirement systems throughout the country, weighted for accuracy. We use data for fiscal year 2020, as that was the most recent data available.

Federal pension data used in this study comes from the U.S. Congressional Research Service. Data on private pension benefits comes from the U.S. Census Bureau and U.S. Bureau of Labor Statistics' Current Population Survey Annual Social and Economic Supplement (CPS ASEC), which reports sources of household income, including pension and survivor income. To separate out multiemployer plan and single employer plan benefits, we aggregate data on benefit payments from multiemployer plans from the Form 5500 data filings, and then subtract this from the total private plan data from the CPS to report the single employer payments.

Migration

Upon retirement, not all workers continue to reside in their home states. When a pension beneficiary moves out of state, the individual takes the pension payments, spending those pension checks in the new state of residence, rather than in the state where the pension payment originated. Since our state-level analysis relies on information on where pension benefits are spent, we need to account for the movement of retirees from one state to another. To estimate the net effects of retiree movement across state borders, we use data from the 2020 American Community Survey, which tabulates current state of residence and current residence one year before, by age. From this, we are able to calculate the recent net migration patterns of people aged 65 and older. We assume that migration patterns for state and local government retirees mirror those of all other older Americans.

Disposable Income and Taxation

Before calculating the economic impacts of pension benefit expenditures, we must account for income taxes that are paid out of pension benefit payments, as retirees are not spending these tax withholdings in their local economy.

To calculate disposable income among retirees, we first subtract income taxes from gross pension payments. To estimate federal income taxes due from state and local pension income, we use data from the Congressional Budget Office on effective federal income tax rates for elderly households in the United States by income quintiles. Effective tax rates are different from marginal tax rates in that effective tax rates account for tax deductions, credits, or other alterations that may change the total amount of the tax that individuals actually pay. This is useful to our purposes, because, since we are using aggregated sample data, we cannot assess actual individuals' federal tax liabilities. The effective tax rate allows us to more accurately estimate the taxes that pension beneficiaries actually pay to the federal government.

To calculate state and local tax rates, use the average nominal taxes paid by elder households from the National Bureau of Economic Research, based on their TaxSIM model. We also use information from AARP and Kiplinger to account for any public pension exclusions a state may provide. State income tax exclusions are important to consider, because many states offer full or partial income tax exclusions for pension benefits. About half the states either do not subject pension income to income tax, or offer sizeable tax breaks for such income. Because average marginal tax rates are higher than average effective tax rates, for the remaining states with small exclusions or no advantageous tax treatment, our calculations likely overestimate state income tax receipts, at the same time that they underestimate net pension income and resulting economic benefit.

Estimating taxes paid by pensioners requires assuming that beneficiaries are taxed by the state of residence, not the state of the pension's origin. This assumption is consistent with the treatment under federal law that was changed so that after 1995 states' rights to tax retirement income generated from work in the state by individuals who are no longer residents was eliminated for DB and other qualified retirement plans. For example, a retiree moving from New York to Arizona would pay Arizona income taxes on her pension benefit, not New York taxes.

IMPLAN Modeling

This study uses IMPLAN, an input-output modeling software and data package, to estimate the economic impacts of benefits paid by DB pension plans. IMPLAN was first developed in the 1970s as a part of a USDA Forest Service project to analyze the economic effects of local land management projects such as timber, mining, and recreation activities. Since that time, IMPLAN has been used by industry and government analysts throughout the country to assess economic impacts of highly varied local community development projects; these studies include many recent economic impact studies of pension benefit payments. Because of differences in modeling and the data used, the results of our study may not be comparable with these other analyses. Thus, the reader should avoid drawing conclusions based on comparisons between our results and those of other studies.

IMPLAN is an input-output model that uses a matrix to represent the economy of a region in order to estimate the effect of events occurring in a single industry or institution on all other industries, as well as consumers, government, and foreign suppliers to the economy. IMPLAN uses a Social Accounting Matrix (SAM), which captures all the industry and institution transactions in the local area; subsections of a SAM describe various structures and functions of a local economy. The SAM describes a local economy in terms of the flow of dollars from purchasers to producers within a region, while also accounting for non-industrial transactions such as payment of taxes by businesses and households. This offers a better portrayal of the household income effect portion of local economic events than other models.

Between when NIRS' original *Pensionomics* study was published in 2009 and the release of subsequent updates to the report, IMPLAN has gone through many modeling and assumption changes. Due to these changes, along with fundamental changes to the US economy that occur each year, results of the current study are not directly comparable to those of any of the prior *Pensionomics* studies, and the reader should avoid drawing conclusions based on such comparisons. For example, the reported national multiplier has increased since the last study, while multipliers at the state level are varied.

In past iterations of *Pensionomics*, we were able to utilize IMPLAN's institutional spending pattern feature, which estimated household spending patterns by income class. From there, we would simply assume that every dollar entered into the model is spent. However, in the newest version of IMPLAN, the household spending pattern feature is no longer available. We must input pension money as a "household income" impact, which takes into account different household income brackets, but not the differences between working-age households and retirees. For the purposes of *Pensionomics*, we assume that retiree households have different expenditure patterns in two ways: first, that they do not put aside any of this money for future savings, and second, that their effective tax rates are likely to be lower than working-age households, and therefore they will see less tax withholding.

We first calculate what we believe to be the more accurate level of disposable income for state and local retirees as described above. We then must remove IMPLAN's embedded assumptions about disposable income by finding the tax and savings rates within each state's Social Accounting Matrix. We divide the sum of these figures by the totals for each social account, and thereby obtain the percentage of taxation and savings that is assumed. We add this percentage of money back into the benefit payments for each state before inputting it into the IMPLAN model.

National and state- by- state IMPLAN data for 2020 were used, as this corresponded with the Census data on public pension payments, for which 2020 was the most recently available. For this study, each state's aggregated, in-state, disposable pension payments are entered into IMPLAN as direct payments to households. IMPLAN estimates household spending patterns by income class. The household income range used is based on the 2020 median household income among pension-receiving households age 65 and older, taken from the Current Population Survey ASEC.

Benefits that migrate out of state are assumed to be spent in the receiving state. Therefore, each state's economic impact includes out of state benefit payments in addition to benefits originating from pension systems in the state. Pension benefits, net of migration, are calculated based on the migration assumptions described above. Then estimated income taxes are subtracted to yield net after-tax pension payments. These net payments are then entered into the IMPLAN model for that state.

However, not all the economic benefits stay in the same state in which pension dollars are originally spent. One state's "leakage" is another state's inflow, and since our analysis is concerned with measuring the economic impact of state and local pension benefits, regardless of where they were originally spent, we also need to account for the economic impacts of these benefits across state lines. We are able to account for the economic effects flowing out of one state and into to another by utilizing a Multi-Regional Input-Output Analysis (MRIO). For example, to determine the economic impacts of $1 million in Alabama's pension payments that may flow to the state of Alaska, we set up an MRIO analysis of Alabama's pension payments between Alabama and Alaska. Thus, we are able to recapture some of any single state's economic leakage due to interstate commerce. Additionally, the resulting economic activity in Alaska may spill over or leak into California, and so on and so forth.

However, the ability to capture leakage in IMPLAN through MRIO has technical limitations because the program cannot run a single model that analyzes the impact of one state on all the other states simultaneously. Rather, the number of states that can be linked for such analysis in any single instance is technically limited by the software and by computing power. This means that the states need to be divided among a number of batches comprising subnational groups, and that the flow of economic impact across this groups is lost. For this study, states were grouped into large economic regions for the purposes of MRIO analysis, but not aggregated, so that results could be identified for each and every state. This allowed us to capture more of the economic impact.

Gross Economic Impacts

This study measures the gross economic impacts of pension benefit expenditures only, rather than the net economic impacts. Pension payments are a form of deferred compensation, meaning that employees and employers contribute to the pension trust over the course of an employee's career as a portion of the employee's total compensation. Had that employee received that compensation in another form—for example, a slight increase in gross pay each month—s/he would have seen higher disposable income, and presumably would have spent a portion of that income in the local economy at that time. Accurately accounting for the net economic impacts of public pensions would require a dynamic model and data that spans several decades. Because of data limitations, this is not possible.

Although one might be tempted to simply deduct from a single year's gross benefit payments the total employee and employer contributions in that year to capture a net effect, such a measure will not be accurate. First, the contributions for any given year for active employees have no bearing on the benefits paid out in that year to retirees. Due to the nature of prefunded pension systems discussed earlier, older, more mature pension systems likely could likely be construed as having a larger economic impact than younger, less mature systems, simply because the older system will generally pay out more benefits per current worker. Yet this interpretation would be highly inaccurate, since the whole point of prefunding is that current workers do not pay the benefits of retirees, but pay into the system during the course of their career for their own retirement. Due to these limitations and possible misinterpretations, the analysis we present here assesses gross economic impacts, rather than net impacts.

Tax Revenue

To calculate total tax revenue attributable to state and local pension payments, income taxes paid by beneficiaries on benefit payments are added to taxes paid in all subsequent rounds of spending. For the former, the federal and state/local taxes are calculated as described above. For the latter, IMPLAN calculates all county, state, and federal tax revenues received from pension expenditures in the economy. Total tax revenue is the sum of these two types of tax receipts, calculated for both in- state and out- of- state benefits.

Multipliers

Multipliers are ratios that relate the overall economic effect to a single unit of any initial event. An output multiplier, for example, displays the total output generated for every dollar that is initially spent in the economy. We calculate a pension expenditure multiplier, which describes the impact on total output for each dollar of pension benefit. For example, a pension expenditure multiplier of 2.1 would mean that for every $1 paid out in a pension benefit, $2.10 of total economic output is supported. We calculated pension expenditure multipliers at the national level and for each of the states.

Pension expenditure multipliers are calculated by dividing the total output supported by retiree expenditures by total pension payments made in that year. (For the state-level multipliers, this includes pension payments originating within the state as well as outside of the state.)

Readers should note the following caveats when interpreting state-level pension expenditure multiplier results. First, because of the current technical limits of MRIO analysis, the share of leakage captured likely varies somewhat across states. Furthermore, the method we used to calculate the state-level economic multipliers is conservative in two ways. One the one hand, for states that sent out more economic benefit to other states than they received from pension spending in other states, we used the lower in-state economic impact in our calculations. This results in a state-level multiplier that is smaller than the multiplier that results from counting the full impact of that state's pension expenditures on the national economy. On the other hand, for states that received more economic benefit from pension spending in other states than they sent out, we excluded the surplus economic benefit from the multiplier calculation. Thus, the state-level multipliers published in this study are generally conservative.

We also calculate "taxpayer investment factors" at the national and state levels. This measurement is designed to capture a sense of "return on investment" for each dollar contributed in taxpayer contributions to state and local plans, following the methodology developed by Fountain and Waste. First, we proxy the proportion of benefits paid out in 2020 that were attributable to taxpayer contributions. We do this by calculating (both nationally and for each state), the proportion of total state and local pension plan revenues that are attributable to taxpayer contributions over the period 1993 through 2020. We then multiply this percentage by the benefits paid by state and local pension plans (again at the national or state level) in 2020. This becomes the denominator for our taxpayer contribution factor. The numerator is the total output supported by retiree expenditures in 2020. Put another way, the taxpayer investment factor is the benefit multiplier divided by the taxpayer contribution percentage.

Caution should be used in interpreting the taxpayer investment factor for some states, due to the way the Census Bureau reports taxpayer and employee contributions. Because the Census Bureau data reflects the taxable status of contributions only, but not the pre-tax salary reduction cost-sharing methods used in some states (Nevada, for example), employee contributions may be reported as taxpayer contributions. This will tend to overstate the proportion of pension benefits that are attributable to taxpayer contributions and understate the taxpayer investment factors we report.

Alternatively, to the extent that any particular pension fund has not received its full Annual Required Contribution between 1993 and 2020, the proportion of pension fund receipts attributable to the employer contribution may be understated. This will tend to understate the proportion of pension benefits attributable to taxpayer contributions and overstate the taxpayer investment factors we report.

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CALIFORNIA

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of California.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

In 2020, expenditures stemming from state and local pensions supported...

381,038 jobs that paid $26.0 billion in wages and salaries

$76.1 billion in total economic output

$11.9 billion in federal, state, and local tax revenues

... in the state of California.

Each dollar paid out in pension benefits supported $1.24 in total economic activity in California.

Each dollar "invested" by California taxpayers in these pension plans supported $4.59 in total economic activity in the state.

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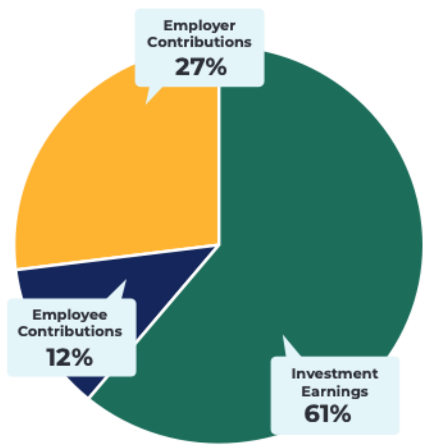
Pensionomics 2023:

Measuring the Economic Impact of DB Pension Expenditures

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to California communities and the state economy. In 2020, 1,533,284 residents of California received a total of $61.5 billion in pension benefits from state and local pension plans.



The average pension benefit received was $3,343 per month or $40,119 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2020, 27% of California's pension fund receipts came from employer contributions, 12% from employee contributions, and 61% from investment earnings.* Earnings on investments and employee contributions—not taxpayer based contributions—have historically made up the bulk of pension fund receipts.

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 381,038 jobs in the state. The total income to state residents supported by pension expenditures was $26.0 billion.

To put these employment impacts in perspective, in 2020 California's unemployment rate was 10.2%. The fact that DB pension expenditures supported 381,038 jobs is significant, as it represents 2.0 percentage points in California's labor force.

Economic Impact

State and local pension funds in California and other states paid a total of $61.5 billion in benefits to California residents in 2020. Retirees' expenditures from these benefits supported a total of $76.1 billion in total economic output in the state, and $47.9 billion in value added in the state.

Impact on Tax Revenues

State and local pension payments made to California residents supported a total of $11.9 billion in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled $2.0 billion. Taxes attributable to pension expenditures in the local economy accounted for $9.9 billion in tax revenue.

Federal Tax	$3.7 billion
State/Local Tax	$8.1 billion
Total	$11.9 billion

Totals may not add up due to rounding. For data and methodology, see Boivie, I., 2021, ***Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures***, National Institute on Retirement Security, Washington, DC, www.nirsonline.org. Results not directly comparable to previous *Pensionomics* due to methodological refinements.

Economic Multipliers

Pension Benefit Multiplier

$1.00
pension benefits paid to retirees in California

$1.24
total output

Each $1 in state and local pension benefits paid to California residents ultimately supported $1.24 in total output in the state. This “multiplier” incorporates multiple rounds of impacts of retiree spending, as each purchase ripples through the state economy.

Taxpayer Investment Factor

$1.00
contributed by taxpayers to California pensions over 30 years

$4.59
total output

Each $1 in taxpayer contributions to California’s state and local pension plans supported $4.59 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion’s share.

*Caution should be used in interpreting these numbers. See the Technical Appendix of the full *Pensionomics* report for details.

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in California. The five industry sectors with the largest employment impacts are presented in the table to the side.

Industry	Employment Impact (# Jobs)
Limited-service restaurants	23,550
Hospitals	16,418
Full-service restaurants	14,075
Other real estate	11,969
Individual and family services	10,563

Industry totals include the first round of impacts from pension payments to state residents, and do not account for recaptured “leakage” to or from other states.

Economic Impacts by Occupation Category

The pension benefits in California supported jobs in every civilian job category, as shown in the table below.

Occupation Category	Wage and Salary Employment	Wage and Salary Income	Supplements to Wages and Salaries	Employee Compensation
Food Preparation and Serving Related Occupations	40,507	$1,079,670,261	$194,450,898	$1,274,121,159
Office and Administrative Support Occupations	34,660	$2,042,666,745	$404,138,385	$2,446,805,131
Sales and Related Occupations	34,624	$1,813,209,867	$335,432,445	$2,148,642,313
Transportation and Material Moving Occupations	26,436	$1,327,539,115	$276,605,509	$1,604,114,625
Healthcare Practitioners and Technical Occupations	22,640	$2,500,662,497	$536,488,897	$3,037,151,395