A G E N D A

BOARD MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
WEDNESDAY, OCTOBER 11, 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/89499190412 and following the prompts to enter your name and email, or (2) calling (669) 219-2599 or (669) 900-9128 and entering Meeting ID 89499190412#.

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 MEETING MINUTES

3.01 Minutes for the Special Board Meeting of September 1, 2023 04

3.02 Minutes for the Board Meeting of September 8, 2023 06

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

5.01 Service Retirements (19) 10

5.02 General

01 Proposed 2024 Board Meeting Calendar 13

5.03 Retirement Legal Counsel Salary Range 15

5.04 Board to consider and take possible action

6.0 REAL ESTATE MANAGER PRESENTATION

6.01 Presentation by Sean Ivery, Managing Director, Head of Site Selection and Development and Alexa Singer, Director, Head of Capital Solutions with IPI Partners III 17

7.0 CLOSED SESSION

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

8.0 BUSINESS AND LEGAL DILIGENCE IN PRIVATE INVESTMENTS

8.01 Presentation by Yuliya Oryol of Nossaman and Retirement Investment Officer Paris Ba 33

9.0 INVESTMENT CONSULTANT REPORTS

9.01 Presented by David Sancewich of Meketa Investment Group

01 Monthly Investment Performance Updates

a Manager Performance Flash Report - August 2023 45

b Economic and Market Update - August 2023 50

02 Board to receive and file reports

10.0 STAFF REPORTS

10.01 Trustee and Executive Staff Travel

01 Conference and Event Schedule 2023/2024 68

02 Summary of Pending Trustee and Executive Staff Travel 72

03 Summary of Completed Trustee and Executive Staff Travel 73

10.02 Board to consider and take possible action on any new travel request

10.03 Quarterly Operations Reports

01 Pending Member Accounts Receivable - Third Quarter 2023 74

02 Disability Quarterly Report - Statistics 75

03 Pension Administration System Update 76

10.04 Legislative Report 78

M I N U T E S

SPECIAL MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
FRIDAY, SEPTEMBER 1, 2023
AT 9:04 AM
Location: San Joaquin County Agricultural Center 2101 E. Earhart Avenue, Stockton, CA 95206

1.0 ROLL CALL

1.01 **MEMBERS PRESENT:** Phonxay Keokham, Emily Nicholas, Jennifer Goodman, Steve Ding, Chanda Bassett, Steve Moore, Raymond McCray and Michael Restuccia presiding

MEMBERS ABSENT: JC Weydert, Michael Duffy

STAFF PRESENT: Chief Executive Officer Johanna Shick, Assistant Chief Executive Officer Brian McKelvey, Retirement Investment Officer Paris Ba, Management Analyst III Greg Frank, Administrative Secretary Elaina Petersen

OTHERS PRESENT: Counsel Ashley Dunning of Nossaman, David Sancewich of Meketa

2.0 PLEDGE OF ALLEGIANCE

2.01 Led by Michael Restuccia

3.0 PUBLIC COMMENT

3.01 There were no public comments

4.0 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING AND PROXY VOTING

4.01 Fiduciary Considerations for ESG Investing and Proxy Voting

01 Presented by Ashley Dunning of Nossaman, LLP

4.02 Investment Considerations for ESG Investing and Proxy Voting

01 Presented by David Sancewich of Meketa Investment Group

4.03 ESG and Proxy Voting Discussion

01 Ashley Dunning of Nossaman, LLP facilitated a Board discussion to define and document the Board's approach to ESG and Proxy Voting

4.04 The Board unanimously (8-0) approved adding ESG statements to Investment Beliefs section of the Strategic Asset Allocation policy (Motion: Keokham; Second: Moore)

The Board unanimously (8-0) approved modified wording for the Investment Proxy Voting and Investment Manager Monitoring and Communications policies (Motion: Goodman; Second: Bassett)

5.0 COMMENTS

5.01 There were no comments from the Board of Retirement

6.0 CALENDAR

6.01 Board Meeting September 8, 2023 at 9:00 a.m.

6.02 Board Meeting October 11, 2023 at 9:00 a.m.

6.03 Investment Roundtable October 12, 2023, at 8:00 a.m.

6.04 Board Meeting November 3, 2023 at 9:00 a.m.

7.0 ADJOURNMENT

7.01 The Board took a break at 10:07 a.m. returning to work at 10:21 a.m.
The Board took a lunch break between 12:04 p.m. returning to order at 12:23 p.m.
There being no further business the meeting was adjourned at 12:46 p.m.

Respectfully Submitted:

____

Michael Restuccia, Chair

Attest:

____

Raymond McCray, Secretary

M I N U T E S

BOARD MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
FRIDAY, SEPTEMBER 8, 2023
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, Chanda Bassett, JC Weydert, Steve Ding, Michael Duffy, Steve Moore, Raymond McCray and Michael Restuccia presiding

MEMBERS ABSENT: Jennifer Goodman

STAFF PRESENT: Chief Executive Officer Johanna Shick, Retirement Investment Officer Paris Ba (via Zoom), Management Analyst III Greg Frank, Information Systems Analyst II Lolo Garza, Information Systems Specialist II Jordan Regevig, Administrative Secretary Elaina Petersen, Retirement Technician Bethany Vavzincak, Retirement Technician Vickie Monegas

OTHERS PRESENT: Counsel Ashley Dunning of Nossaman, David Sancewich of Meketa

2.0 PLEDGE OF ALLEGIANCE

2.01 Led by JC Weydert

3.0 MEETING MINUTES

3.01 Minutes for the Board Meeting of August 11, 2023

3.02 The Board voted unanimously (8-0) to approve the Minutes of the Board meeting of August 11, 2023 (Motion: Duffy; Second: Weydert)

4.0 PUBLIC COMMENT

4.01 There was no public comment

5.0 CONSENT ITEMS

5.01 Service Retirements (18)

5.02 The Board voted unanimously (8-0) to approve the consent items (Motion: Bassett; Second: Nicholas)

6.0 LOOMIS SAYLES: FIXED INCOME MANAGER UPDATE

6.01 Presentation by Mirsada Durakovic and Stephanie Lord of Loomis Sayles

6.02 The Board received and filed the report

7.0 INVESTMENT CONSULTANT REPORTS

7.01 Presented by David Sancewich of Meketa Investment Group

01 Quarterly Reports from Investment Consultant for period ended June 30, 2023

a Quarterly Investment Performance Analysis b Manager Certification Report

c Manager Review Schedule

02 Monthly Investment Performance Updates

a Manager Performance Flash Report - July 2023

b Economic and Market Update - July 2023

03 The Board received and filed reports

8.0 2023 ANNUAL INVESTMENT ROUNDTABLE

8.01 Update for Investment Roundtable

8.02 The Board reviewed information regarding the Investment Roundtable

9.0 FACILITIES UPDATE

9.01 The Board received and filed report

10.0 STAFF REPORTS

10.01 Trustee and Executive Staff Travel

01 Conference and Events Schedule 2023

02 Summary of Pending Trustee and Executive Staff Travel

a Travel requiring approval (1)

03 Summary of Completed Trustee and Executive Staff Travel

10.02 The Board voted unanimously (8-0) to approve an exception to the $2,500 annual travel cap for Trustee Weydert to attend IREI Annual Meeting September 12-14, 2023 (Motion: Keokham; Second: Bassett)

10.03 Legislative Report

10.04 CEO Report

In addition to her written report, CEO Shick reported 1) the pension administration system (PRIME) project is on track and testing is going smoothly; 2) the three policies affected by the Board's adopted ESG and Proxy Voting decisions have been updated and posted; she commended the Board for accomplishing both Action Plan goals at the Special Board meeting on September 1, 2023 and thanked the consultants and staff who helped make the meeting effective; 3) the contract with Linea Secure to expedite implementation of the remaining cybersecurity recommendations, including third-party vendors, will be signed by end of day; 4) Melinda DeOliveira has been promoted to Retirement Services Supervisor; 5) the job descriptions for the Retirement Services Manager and Chief Legal Officer have been developed; on October 24 the Board of Supervisors is scheduled to approve the adjustments to the County salary schedule to include these two new positions, and recruitment for both positions can begin shortly thereafter; 5) she will reach out to each County Supervisor in advance of the September 12, 2023 Board of Supervisors meeting when the 2024 Contribution Rates go to the Board for approval.

10.05 The Board received and filed reports

11.0 REPORT OUT OF PRIOR CLOSED SESSION

11.01 On January 20, 2023, the Board voted unanimously to approve Resolution 2023-09 -01 titled "Silver Point Specialty Credit Fund III" and to authorize the CEO to sign the necessary documents to invest up to $62 million in the fund.

12.0 CORRESPONDENCE

12.01 Letters Received (0)

12.02 Letters Sent (0)

12.03 Market Commentary/Newsletters/Articles

01 J.P. Morgan
The Paradox of Private Credit
July 31, 2023

02 Nossaman
SEC Adopts New Rules to Better Protect Institutional Investors in Private Funds
August 25, 2023

03 FundFire
SEC Adopts Sweeping Final Private Fund Disclosure Rule
August 24, 2023

04 MFS Investment Management
Fixed Income is Attractive, but Beware of “Fake” Yield
February 2023

05 MorningStar
Don’t Neglect Investments Outside the U.S.
June 2023

06 Pensions & Investments
MOVEit Cyperattack Ignites Worry about Fiduciary Responsibility
August 17, 2023

13.0 COMMENTS

13.01 Trustee Duffy suggested purchasing all pertinent internet domain suffixes for SJCERA including SJCERA.gov and SJCERA.ca.gov if we do not already own them.
Trustee Duffy, Chair of the Administrative Committee, proposed forming an Ad Hoc Committee of the Administrative Committee to work on succession and organizational transition planning. Board Chair Restuccia established the Ad Hoc Committee to the Administrative Committee which will consist of Trustee Duffy and himself. Counsel noted that the Ad Hoc Committee must be limited to two members to avoid having a quorum of the Administrative Committee.
Trustee Ding thanked staff for the great job they do, they are the front line for this organization.
Trustee Bassett requested staff assess whether the Administrative Committee Charter should be amended to include a role in the recruitment and hiring of all SJCERA’s exempt positions rather than just the CEO.
Chair Restuccia suggested staff assess whether the $2,500.00 annual travel limit should be increased.

14.0 CALENDAR

14.01 Board Meeting October 11, 2023 at 9:00 a.m.

14.02 Special Meeting October 12, 2023 at 8:00 a.m.

14.03 Board Meeting November 3, 2023 at 9:00 a.m.

14.04 Board Meeting December 8, 2023 at 9:00 a.m.

15.0 ADJOURNMENT

15.01 There being no further business the meeting was adjourned at 10:55 a.m.

Respectfully Submitted:

____
Michael Restuccia, Chair

Attest:

____
Raymond McCray, Secretary

San Joaquin County Employees Retirement Association

October 2023

5.01 Service Retirement — Consent

01 CATHERINE A CALDWELL-LINO — Senior Office Assistant, Sheriff-Custody-Regular Staff

Member Type: General
Years of Service: 09y 09m 21d
Retirement Date: 8/14/2023
Comments: Tier 1 member - Membership date May 21, 2012. Eligible to retire with 10 years of membership.

02 DORIS N COOPER — Sterile Processing Tech II, Hosp Sterile Processing Svc

Member Type: General
Years of Service: 29y 00m 19d
Retirement Date: 7/24/2023

03 MARIA M COSTA — Senior Office Assistant, Hosp Medical Records

Member Type: General
Years of Service: 27y 03m 09d
Retirement Date: 7/29/2023

04 RAWLEN J DAVIS — Deferred Member, N/A

Member Type: General
Years of Service: 05y 05m 11d
Retirement Date: 8/25/2023
Comments: Deferred from SJCERA since October 2022. Incoming reciprocity with CalPERS and outgoing reciprocity and concurrent retirement with SamCERA.

05 SAMUEL S EANG — Mental Health Interpreter II, Mental Health-Adult Outpatient

Member Type: General
Years of Service: 21y 09m 27d
Retirement Date: 8/15/2023

06 DEBRA A FREEMAN — Deferred Member, N/A

Member Type: General
Years of Service: 31y 04m 02d
Retirement Date: 8/27/2023
Comments: Deferred from SJCERA since April 2023.

07 DEAN M FUJIMOTO — Deferred Member, N/A

Member Type: General
Years of Service: 13y 10m 15d
Retirement Date: 8/13/2023
Comments: Deferred from SJCERA since December 2016. Incoming/outgoing reciprocity and concurrent retirement with CalPERS.

08 JAMES M GARRISON — Deferred Member, N/A

Member Type: General
Years of Service: 05y 01m 05d
Retirement Date: 8/16/2023
Comments: Deferred from SJCERA since July 2010. Outgoing reciprocity and concurrent retirement with CalPERS.

09 **ERNESTO JACOBO** Deferred Member
N/A

Member Type: General
Years of Service: 02y 06m 13d
Retirement Date: 8/1/2023
Comments: Deferred from SJCERA since May 1997. Outgoing reciprocity and concurrent retirement with MCERA.

10 **LETICIA M JAZMIN** Office Assistant Specialist
Sheriff - Records - Custody

Member Type: General
Years of Service: 27y 06m 00d
Retirement Date: 7/29/2023

11 **MELONIE L MARTINEZ-ARCE** Deferred Member
N/A

Member Type: General
Years of Service: 03y 01m 09d
Retirement Date: 8/1/2023
Comments: Deferred from SJCERA since August 2021. Incoming/outgoing and concurrent retirement with STRS.

12 **MAURICE MCELROY** Housekeeping Service Worker
Behavioral Health Admin

Member Type: General
Years of Service: 09y 10m 00d
Retirement Date: 7/28/2023
Comments: Tier 2 member - eligible to retire with 5 years of service credit.

13 **CYNTHIA P MILLER** Eligibility Worker II
HSA - Eligibility Staff

Member Type: General
Years of Service: 11y 06m 10d
Retirement Date: 8/16/2023

14 **TONI C MOODY** Physician
San Joaquin Health Centers

Member Type: General
Years of Service: 05y 09m 25d
Retirement Date: 7/28/2023
Comments: Tier 2 member - eligible to retire with 5 years of service credit.

15 **GLORIA M OLIVAREZ** Deferred Member
N/A

Member Type: General
Years of Service: 11y 08m 03d
Retirement Date: 8/8/2023
Comments: Deferred from SJCERA since January 2022.

16 **VICKI S SEBA** Psychiatric Technician
Mental HealthPHF-Inpatient Fac

Member Type: General
Years of Service: 19y 03m 06d
Retirement Date: 8/14/2023

17 **NANCY E STUART** Shelter Supervisor II
Mary Graham Childrens Shelter

Member Type: General
Years of Service: 21y 02m 10d
Retirement Date: 8/27/2023

18 JOSEPH TABANGCURA

Employment Training Spec II
Employment - Economic Developm

Member Type: General
Years of Service: 05y 06m 07d
Retirement Date: 8/12/2023
Comments: Tier 2 member - eligible to retire with 5 years of service credit.

19 ALICIA A TORRES

Senior Office Assistant
Sheriff-Custody-Regular Staff

Member Type: General
Years of Service: 34y 01m 06d
Retirement Date: 7/18/2023

Agenda Item 5.02-01

October 11, 2023

SUBJECT: Proposed Board Calendar for 2024

SUBMITTED FOR: ___ CONSENT _X_ ACTION ___ INFORMATION

RECOMMENDATION

Staff recommends the Board adopt the proposed 2024 meeting calendar.

PURPOSE

To establish the calendar of scheduled meetings of the Board and its standing Committees for calendar year 2024.

DISCUSSION

In October, the Board of Retirement (BOR) adopts its meeting calendar for the following year.

SJCERA's Bylaws specify the meetings of the Board shall be held once each month. On the proposed 2024 calendar, all Board meetings are scheduled on the second Friday of the month beginning at 9:00 a.m. with modifications for the following months.

- The May Board meeting is scheduled for the first Friday to accommodate the semi-annual SACRS Conference.
- The June Board meeting is scheduled for the first Friday of the month to ensure sufficient time to submit the BOR-approved, audited financial statements to the Board of Supervisors and accommodate their meeting schedule, and still meet the State Auditor-Controller's and the GFOA's filing deadlines.
- The October Board meeting is scheduled for the second Wednesday to accommodate the Annual Investment Roundtable.
- The November Board meeting is scheduled for the first Friday to accommodate the semi-annual SACRS Conference.

ATTACHMENT

2024 Proposed SJCERA Board of Retirement Meeting Calendar

JShick
JOHANNA SHICK
Chief Executive Officer

Elaina Petersen
ELAINA PETERSEN
Administrative Secretary

2024 - SJCERA BOARD OF RETIREMENT MEETING CALENDAR

MONTH	DATE	Periodic Items / Other Events	MONTH	DATE	Periodic Items / Other Events
JAN	**12**	**Board Meeting**	**JUL**	**12**	**Board Meeting**
		Earnings Code Ratification			Mid-Year Administrative Budget Report
		Fourth Quarter Operations Reports*			Second Quarter Operations Reports*
		Trustee Education Compliance Report			Election of Board Officers
		Action Plan Results			Investment Fee Transparency Report
					Annual Policy Review
FEB	**9**	**Board Meeting**		14-17	SACRS UC Berkeley
		Notice of CPI/Set Retiree COLA			
		Declining ER Payroll Report			
		Assumptions & CMAs	**AUG**	**9**	**Board Meeting**
	TBD	**CEO Performance Review Committee**			Adoption of Plan Contribution Rates
MAR	**8**	**Board Meeting**			
		Fourth Quarter Inv Reports	**SEP**	**13**	**Board Meeting**
	TBD	**Audit Committee Meeting**			Second Quarter Inv Reports
	2-5	CALAPRS General Assembly		TBD	CALAPRS Principles of Pension Governance for Trustees, Pepperdine
	TBD	CALAPRS Advanced Principles of Pension Governance for Trustees, UCLA			
APR	**12**	**Board Meeting**	**OCT**	**9**	**Board Meeting**
		First Quarter Operations Reports*			Adoption of Board Calendar for next year
	TBD	**CEO Performance Review Committee**			Third Quarter Operations Reports*
					2025 Action Plan
				10	**Special Meeting - Investment Roundtable**
MAY	**3**	**Board Meeting**			
	7-10	SACRS Spring Conference	**NOV**	**1**	**Board Meeting**
	TBD	**Audit Committee Meeting**			Consultants and Actuaries Evaluations
				TBD	**Administrative Committee Meeting**
				TBD	SACRS Fall Conference
JUN	**7**	**Board Meeting**			
		First Quarter Inv Reports			
		Auditor's Annual Report / CAFR	**DEC**	**13**	**Board Meeting**
		Mid Year Action Plan Results			Third Quarter Inv Reports
	TBD	RPESJC Picnic			Annual Administrative Budget
	TBD	**Administrative Committee Meeting**		TBD	RPESJC Holiday Lunch

Unless otherwise noted on the agenda, Board Meetings convene at 9:00 a.m.

* Disability App Status Report and Pending Retiree Accounts Receivable Report

Notes: May meeting is on the first Friday due to the SACRS Spring Conference.
June meeting is on the first Friday due to BOS meeting schedule.
October meeting is on the second Wednesday due to the Investment Roundtable.
November meeting is on the first Friday due to the SACRS Fall Conference.

Board of Retirement Meeting
San Joaquin County Employees' Retirement Association

October 11, 2023 **Agenda Item 5.03**

SUBJECT: Chief Counsel Salary Range

SUBMITTED FOR: ___ CONSENT _X_ ACTION ___ INFORMATION

RECOMMENDATION

Adopt the Administrative Committee's recommended base salary range for the Retirement Legal Counsel ("Chief Counsel") position of $184,054 - $223,720 annually.

PURPOSE

To set a competitive salary for the position of Retirement Legal Counsel (SJCERA's Chief Counsel position) that will attract and retain the caliber of talent needed to effectively administer a multi-billion-dollar pension fund.

DISCUSSION

The Board of Retirement has authority to set the salary range for SJCERA's exempt positions. Both the Succession and Transition Planning Ad Hoc Committee, and the Administrative Committee have reviewed and recommend the proposed salary range. At its October 2, 2023 meeting, the Administrative Committee voted to recommend the Board of Retirement adopt the proposed base salary range of $184,054 - $223,720 annually. Included in this discussion was the fact that SJCERA's Chief Counsel position will be part of the confidential group, which receives a 10% confidential pay in addition to their base salary. Thus, an employee paid at the top step of the proposed base salary range ($223,720) would also receive an additional 10%, bringing their annual compensation up to $246,092.

While the salary range decision is within the Board of Retirement's purview, to be thorough, the Committees also considered the broader landscape of salaries including similar positions at other retirement systems, existing SJCERA personnel, and other County employees more broadly, as summarized below.

1. Salaries of Like Positions at Comparator Counties. The Division of Human Resources reviewed other County retirement systems with internal counsel, and determined that only two of the counties they use for comparison have stand-alone internal counsel positions While only having two comparator systems is insufficient to be the sole determinant, the information should not be wholly discounted and is listed below:
    a. Sacramento County Employees Retirement System: $246,055 (In addition, this position receives a 3.35% management differential, which raises the annual compensation to $254,298.
    b. Ventura County Employees Retirement Association: $292,003

2. Other County Positions: Depth, Breadth of Expertise and Level of Responsibility. SJCERA's Chief Counsel position requires mastery over a broader, more complex body of law and has broader responsibilities than other County stand-alone attorney positions, and thus should be compensated at a higher level. Examples of the complexity of the position include:
    a. The body of law over which SJCERA's Chief Counsel must have mastery is broad and complex including the County Employees' Retirement Law (CERL), the Public Employees' Pension Reform Act (PEPRA), open meeting laws, conflict of interest law, collections, family law (for

domestic relations orders, beneficiary disputes, etc.) probate law, Internal Revenue Code, contract law (leases, contracts, vendor agreements, etc.), public records laws, disability and workers compensation laws, the Uniformed Services Employment and Reemployment Rights Act (USERRA) for military service issues, in addition to litigation related matters. Other County stand-alone attorney positions have a narrower focus, for example, primarily California family law, which is less complex and more common in the marketplace.

b. SJCERA's Chief Counsel advises a governing board, the Board of Retirement both during and outside of Board meetings. Other County stand-alone attorney positions that run their own shops without the benefit of a supervising attorney, do not have this responsibility.

c. SJCERA's Chief Counsel oversees outside litigation (run by outside counsel)—with the possibility of stepping in to handle litigation when appropriate. Other County stand-alone attorney positions do not have this responsibility.

3. Alignment with Salaries of Existing SJCERA Positions. Given the level of responsibility, consequence of error, and education required, the Retirement Legal Services (Chief Counsel) position should be paid slightly less than SJCERA's CEO, and more than the Assistant CEO. Currently the salary range for the CEO is $224,955 - $273,435, and the range for the ACEO is $184,211 - $223,909.

Based on the above, the Ad Hoc and the Administrative Committees recommend setting a salary range, which, when added to the 10% confidential pay, equates to 90% of the CEO salary range. The base salary range would be $184,054 - $223,720 without the confidential pay, and compensation including the confidential pay would be $202,460 - $246,092.

This proposed salary range aligns with SJCERA's internal salary structure, places the salary below the County's Assistant County Counsel position, and keeps it competitive with other retirement systems that have similar stand-alone internal legal counsel positions. This salary range is necessary to attract and retain the type of talent SJCERA needs in this critical position.

ATTACHMENT

Retirement Legal Counsel job description

JShick

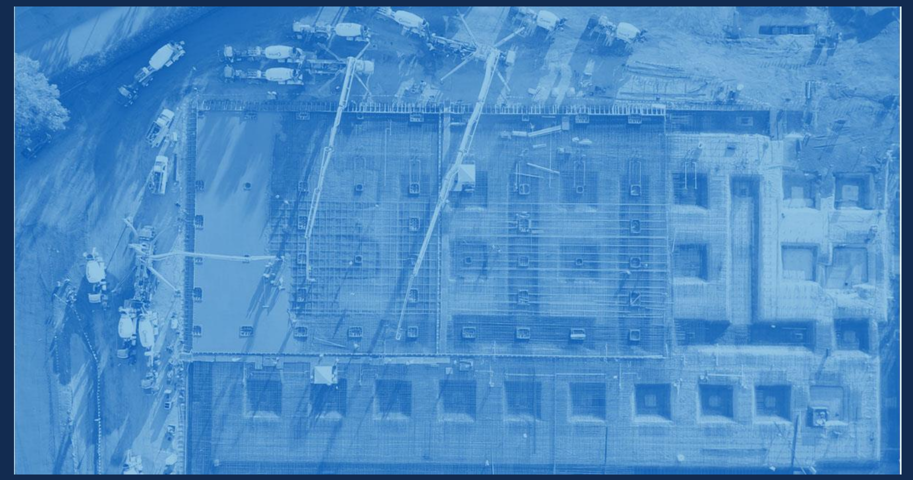
JOHANNA SHICK
Chief Executive Officer

IPI Partners III

Focused on Investing in Data Centers &
Other Connectivity Related Real Assets

San Joaquin County Employees' Retirement Association
October 2023

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THE INTERESTS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR BY THE SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OF ANY OTHER JURISDICTION. THE INTERESTS HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, THE SECURITIES LAWS OF ANY OTHER STATE OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION, NOR IS SUCH REGISTRATION CONTEMPLATED. NO INVESTMENT VEHICLE WILL BE REGISTERED AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). CONSEQUENTLY, LIMITED PARTNERS OF AN INVESTMENT VEHICLE ARE NOT AFFORDED THE PROTECTIONS OF THE INVESTMENT COMPANY ACT.

AN INVESTMENT IN AN INVESTMENT VEHICLE WILL INVOLVE SIGNIFICANT RISKS, INCLUDING LOSS OF THE ENTIRE INVESTMENT. PRIVATE INVESTMENT FUNDS, SUCH AS THE INVESTMENT VEHICLES, ARE SPECULATIVE INVESTMENTS AND ARE NOT SUITABLE FOR ALL INVESTORS, NOR DO THEY REPRESENT A COMPLETE INVESTMENT PROGRAM. AN INVESTMENT VEHICLE IS AVAILABLE ONLY TO QUALIFIED INVESTORS WHO ARE COMFORTABLE WITH THE SUBSTANTIAL RISKS ASSOCIATED WITH INVESTING IN PRIVATE INVESTMENT FUNDS.

THE FOLLOWING (WHICH DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN AN INVESTMENT VEHICLE) ARE AMONG THE RISK FACTORS THAT INVESTORS SHOULD CONSIDER: (I) THE INTERESTS WILL BE ILLIQUID, AS THERE IS NO SECONDARY MARKET FOR THE INTERESTS AND NONE IS EXPECTED TO DEVELOP; (II) THERE WILL BE RESTRICTIONS ON TRANSFERRING THE INTERESTS; (III) INVESTMENTS MAY BE LEVERAGED AND THE INVESTMENT PERFORMANCE MAY BE VOLATILE; (IV) FEES AND EXPENSES CHARGED IN CONNECTION WITH AN INVESTMENT IN AN INVESTMENT VEHICLE MAY BE HIGHER THAN FEES AND EXPENSES OF OTHER INVESTMENT ALTERNATIVES AND MAY OFFSET PROFITS, IF ANY; (IV) INVESTORS SHOULD HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THE RISK CHARACTERISTICS OF AN INVESTMENT VEHICLE'S INVESTMENTS; (V) AN INVESTMENT VEHICLE WILL HAVE TOTAL INVESTMENT AUTHORITY OVER ITSELF AND, THEREFORE, AN INVESTOR IN SUCH INVESTMENT VEHICLE WOULD NEED TO RELY ON IPI PARTNERS' DECISION MAKING SKILLS; (VI) AN INVESTMENT VEHICLE COULD BE HIGHLY CONCENTRATED IN A GIVEN SECTOR OR INVESTMENT AND, THEREFORE, AN INVESTMENT IN SUCH INVESTMENT VEHICLE IS ONLY APPROPRIATE FOR A PORTION OF AN INVESTOR'S PORTFOLIO; (VII) THE INSTRUMENTS IN WHICH AN INVESTMENT VEHICLE INVESTS MAY INVOLVE COMPLEX TAX STRUCTURES WHICH COULD RESULT IN DELAYS IN DISTRIBUTING IMPORTANT TAX INFORMATION TO INVESTORS; AND (VIII) AN INVESTMENT VEHICLE AND IPI PARTNERS ARE SUBJECT TO CERTAIN POTENTIAL CONFLICTS OF INTEREST, AND THERE CAN BE NO ASSURANCE THAT ANY SUCH CONFLICT WILL BE RESOLVED IN FAVOR OF SUCH INVESTMENT VEHICLE OR ITS INVESTORS.

IN CONSIDERING ANY PERFORMANCE DATA CONTAINED HEREIN, INVESTORS SHOULD BEAR IN MIND THAT NEITHER PAST NOR PROJECTED PERFORMANCE (INCLUDING ANY PROJECTED PERFORMANCE FROM A THIRD-PARTY APPRAISAL OR VALUATION) IS INDICATIVE OF FUTURE RESULTS AND THERE CAN BE NO ASSURANCE THAT AN INVESTMENT VEHICLE WILL ACHIEVE COMPARABLE RESULTS OR BE ABLE TO AVOID LOSSES. NOTHING CONTAINED HEREIN SHOULD BE DEEMED TO BE A PREDICTION OF FUTURE PERFORMANCE OF AN INVESTMENT VEHICLE. NET METRICS INCLUDED HEREIN REFLECT RETURNS CALCULATED AT THE FUND LEVEL AFTER THE DEDUCTION OF CARRIED INTEREST (WHETHER ACCRUED OR DISTRIBUTED), AND EXPENSES CHARGED DIRECTLY TO THE APPLICABLE FUND, INCLUDING, BUT NOT LIMITED TO, THE MANAGEMENT FEE, AND ARE CALCULATED FROM THE PERSPECTIVE OF AN INVESTOR THAT PARTICIPATED IN THE APPLICABLE FUND'S INITIAL CLOSING AND IS SUBJECT TO A MANAGEMENT FEE RATE OF 1.5% AND A CARRIED INTEREST RATE OF 20% ABOVE A 7% ANNUALIZED RETURN. NET PERFORMANCE FIGURES TAKE INTO ACCOUNT LEVERAGE, WHICH MAY MAGNIFY RETURNS AND MAKE THEM HIGHER THAN WHAT THEY WOULD HAVE BEEN WITHOUT THE USE OF SUCH LEVERAGE. NET PERFORMANCE FIGURES DO NOT REFLECT THE INVESTMENT PERFORMANCE EXPERIENCED BY ANY ACTUAL INVESTOR IN THE APPLICABLE FUND AND SHOULD BE CONSIDERED HYPOTHETICAL."

INVESTORS SHOULD MAKE THEIR OWN INVESTIGATIONS AND EVALUATIONS OF THE INFORMATION CONTAINED HEREIN. EACH INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISER AND TAX ADVISER AS TO LEGAL, BUSINESS, TAX AND RELATED MATTERS CONCERNING THE INFORMATION CONTAINED HEREIN AND THE INTERESTS.

EXCEPT WHERE OTHERWISE INDICATED HEREIN, THE INFORMATION CONTAINED HEREIN, INCLUDING STATEMENTS CONCERNING FINANCIAL MARKET TRENDS, IS BASED ON MATTERS AS THEY EXIST AS OF THE DATE OF PREPARATION AND NOT AS OF ANY FUTURE DATE AND WILL NOT BE UPDATED OR OTHERWISE REVISED TO REFLECT INFORMATION THAT SUBSEQUENTLY BECOMES AVAILABLE, OR CIRCUMSTANCES EXISTING OR CHANGES OCCURRING AFTER THE DATE HEREOF.

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," "TARGET," "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 AN INVESTMENT VEHICLE MAY DIFFER MATERIALLY FROM THOSE REFLECTED OR CONTEMPLATED IN SUCH FORWARD-LOOKING STATEMENTS. INVESTORS IN SUCH INVESTMENT VEHICLE SHOULD NOT RELY ON THESE FORWARD-LOOKING STATEMENTS IN DECIDING WHETHER TO ROLL OR REDEEM THEIR INTERESTS IN SUCH INVESTMENT VEHICLE.

CERTAIN INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM SOURCES OUTSIDE OF IPI PARTNERS. WHILE SUCH INFORMATION IS BELIEVED TO BE RELIABLE FOR THE PURPOSES USED HEREIN, NEITHER IPI PARTNERS NOR ANY OF ITS AFFILIATES OR PARTNERS, MEMBERS OR EMPLOYEES, ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OF SUCH INFORMATION.

NEITHER IPI PARTNERS NOR ANY OF ITS AFFILIATES HAVE PROVIDED OR WILL PROVIDE ANY RECOMMENDATION TO INVESTORS AS TO WHETHER TO MAKE AN INVESTMENT IN AN INVESTMENT VEHICLE. SUCH DECISION MUST BE MADE BY THE INVESTORS SOLELY ON THE BASIS OF THE THEIR OWN (AND THEIR ADVISORS') ANALYSIS OF THE FINANCIAL, LEGAL, TAX AND OTHER INFORMATION PROVIDED IN THE OFFERING DOCUMENTS. THIS PRESENTATION DOES NOT IN ANY WAY PURPORT TO PROVIDE GUIDANCE TO INVESTORS AS TO THE ECONOMIC MERIT OF THE AN INVESTMENT IN SUCH INVESTMENT VEHICLE.

REFERENCES HEREIN TO IRON POINT PARTNERS AS A SPONSOR OF IPI PARTNERS SHALL BE DEEMED REFERENCES TO AN AFFILIATE OF IRON POINT PARTNERS.

IPI Partners at a Glance

WE BELIEVE IPI IS A PREMIER GLOBAL INVESTMENT PLATFORM WITH A SUCCESSFUL TRACK RECORD OF INVESTING IN DATA CENTERS AND COMPLEMENTARY REAL ASSETS

IPI Platform History

- **2016 – 2017** | Formed to acquire, develop, own, and operate high-quality assets to support growth of the Cloud and technology enabled services platforms
- **2018 – 2019** | Successful execution of a differentiated strategy resulting in deep hyperscale relationships and a demonstrated track record
- **2020 – 2023+** | Owner of one of the largest private data center portfolios in the world with a global team and reach

Generational Global Opportunity

- Massive **explosion of data** driving **transformation of storage infrastructure** via Cloud Service Providers (CSPs)
- Key global markets evolving rapidly with need from hyperscale companies for **more facilities and larger deployments**, resulting in a need for development teams to **"think global, execute local"**
- **Attractive** economics with **many projects pre-leased** by high quality tenants

Differentiated & Focused Investment Strategy

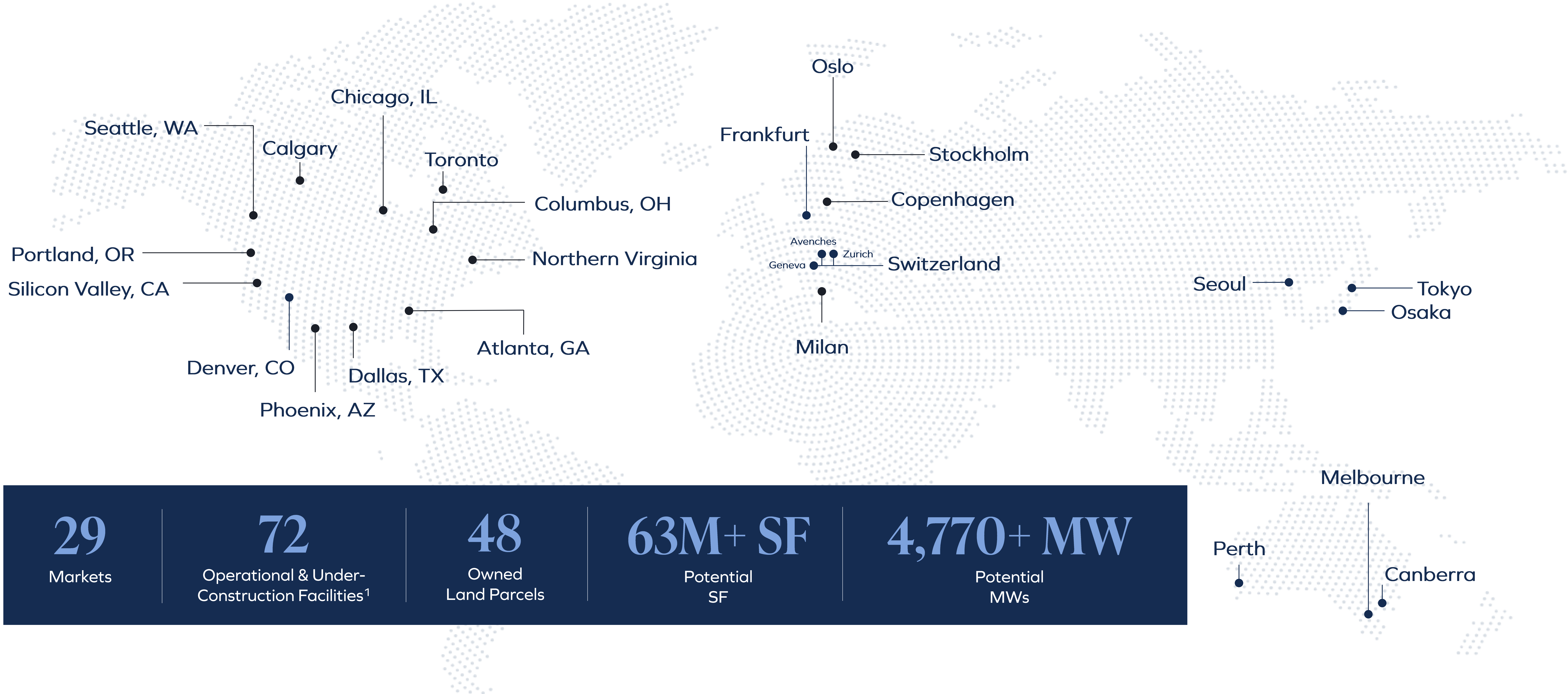
- **Deep partnerships and alignment with tech giants** to **solve their infrastructure problems** as they expand across markets
  They grow – we both win
- **Pure-play strategy** focused exclusively on investments in data centers and synergistic complementary assets since inception
- **Strategic capital** leveraging collective networks of ICONIQ and Iron Point, providing **valuable insights** into leading tech companies and growth of the Cloud

Industry Leading Team

- **$13+ billion invested and committed**[1]
- IPI team includes 40+ investment professionals complemented by experienced operating professionals at controlled platforms
- Actively investing with a **deep pipeline** of hyperscale focused opportunities

1. Includes $6.6B of equity raised in aggregate for IPI Fund I, IPI Fund II, and IPI Fund III and $6.6B of investment-level debt as of June 30, 2023.

IPI has Built a Leading Global Data Center Portfolio



29	72	48	63M+ SF	4,770+ MW
Markets	Operational & Under-Construction Facilities[1]	Owned Land Parcels	Potential SF	Potential MWs

NOTE: Metrics and portfolio data reflected above include pending deals and are as of June 30, 2023. Expansion options and JV holdings are included where applicable.

1. In certain cases, operational facilities will also include a portion of a campus that is under active construction, for which both portions are included in the reflected count. There can be no assurance that any of the under-construction facilities will be completed or that the owned land parcels will be developed.

IPI Team and Strategic Resources

IPI


Matt A'Hearn
Partner

SITE SELECTION & DEVELOPMENT


Sean Ivery
Managing Director


Luke Gilpin
Director


Richard Redstone
Director, EMEA


Matt Weisberg
Director

ACQUISITIONS & INVESTMENT MANAGEMENT


Josh Friedman
Managing Director


Robert Hartog
Managing Director, EMEA


Chris Jensen
Managing Director


Tae Kim
Managing Director, APAC


Lauren Sullivan
Director


Jack Viellieu
Director


Erik van den Berg
Director, EMEA

INDUSTRY


Jim Smith
Senior Advisor

ASSET MGMT


Devin Donnelly
Director

CAPITAL MARKETS


Alexey Teplukhin
Managing Director


James MacDonald
Director

RISK & OPTIMIZATION


Gavin Flynn
Director

ESG


Bethany Gorham
Head of ESG

CAPITAL SOLUTIONS


Alexa Singer
Head of Capital Solutions

MARKETING & COMMS


Lee Lesley
Head of Marketing & Communications

COMPLIANCE


Jason Craig
CCO


Alan Chen
Deputy CCO & Assoc. Counsel

LEGAL


Nitin Sathe
General Counsel


Megan Pirooz
Assoc. General Counsel

FINANCE & OPERATIONS


Brad Berkley
CFO


Katie Abouzahr
Director

5	15	55+	56%
GLOBAL OFFICES	LANGUAGES	EMPLOYEES	WOMEN OR MINORITIES[1]

NOTE: Employees reflected are as of June 2023.
1. IPI collects diversity data from its employees as part of new hire onboarding and updates firm-wide statistics on a quarterly basis. All information shown represents underlying data that is self-reported by employees and is as of September 2022 and/or as of the trailing twelve months since September 2021.

STACK Infrastructure: Scaling to Meet the Global Opportunity

STACK INFRASTRUCTURE, IPI'S VERTICALLY INTEGRATED OPERATING & DEVELOPMENT PLATFORM, IS ONE OF THE LARGEST PRIVATELY HELD DATA CENTER COMPANIES GLOBALLY

297
STACK Americas Headcount

OPERATION

251
STACK Europe Headcount

DEVELOPMENT

41
STACK Asia Headcount

CONSTRUCTION

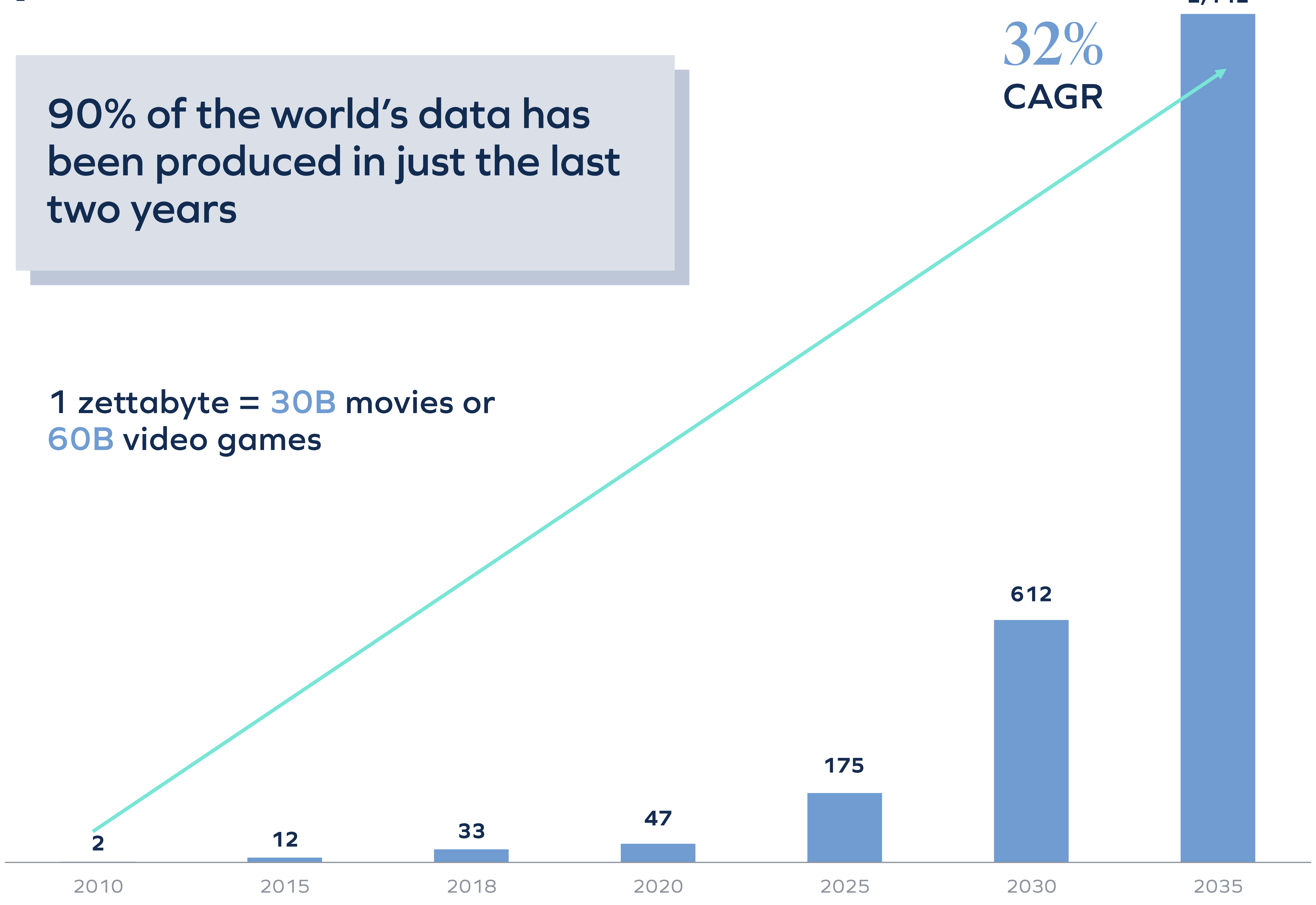
Notes: Data is as of August 2023.

Dramatic Rise in Data Demand Driving Digital Transformation

Data Created (in zettabytes)

90% of the world's data has been produced in just the last two years

1 zettabyte = 30B movies or 60B video games



25B
IoT DEVICES BY 2030, EXPECTED TO BE 75%+ OF TOTAL DEVICES

83%
OF COMPANIES CLAIM ARTIFICIAL INTELLIGENCE IS A TOP 2022 PRIORITY

1.7MB
2022 DATA GENERATED PER SECOND

299B
APPS PROJECTED TO BE DOWNLOADED BY 2023

5x
GROWTH IN INTERNET TRAFFIC FROM 2017

50%
GROWTH IN DATA ENGINEERING JOBS, FASTEST GROWING TECH CATEGORY IN 2022

Sources: U.S. Chamber of Commerce, "Big Data and What it Means" and Equinix Analyst Day Investor 2021 Executive Presentations.

Major Tenants Comprise 65%+ of Cloud Market

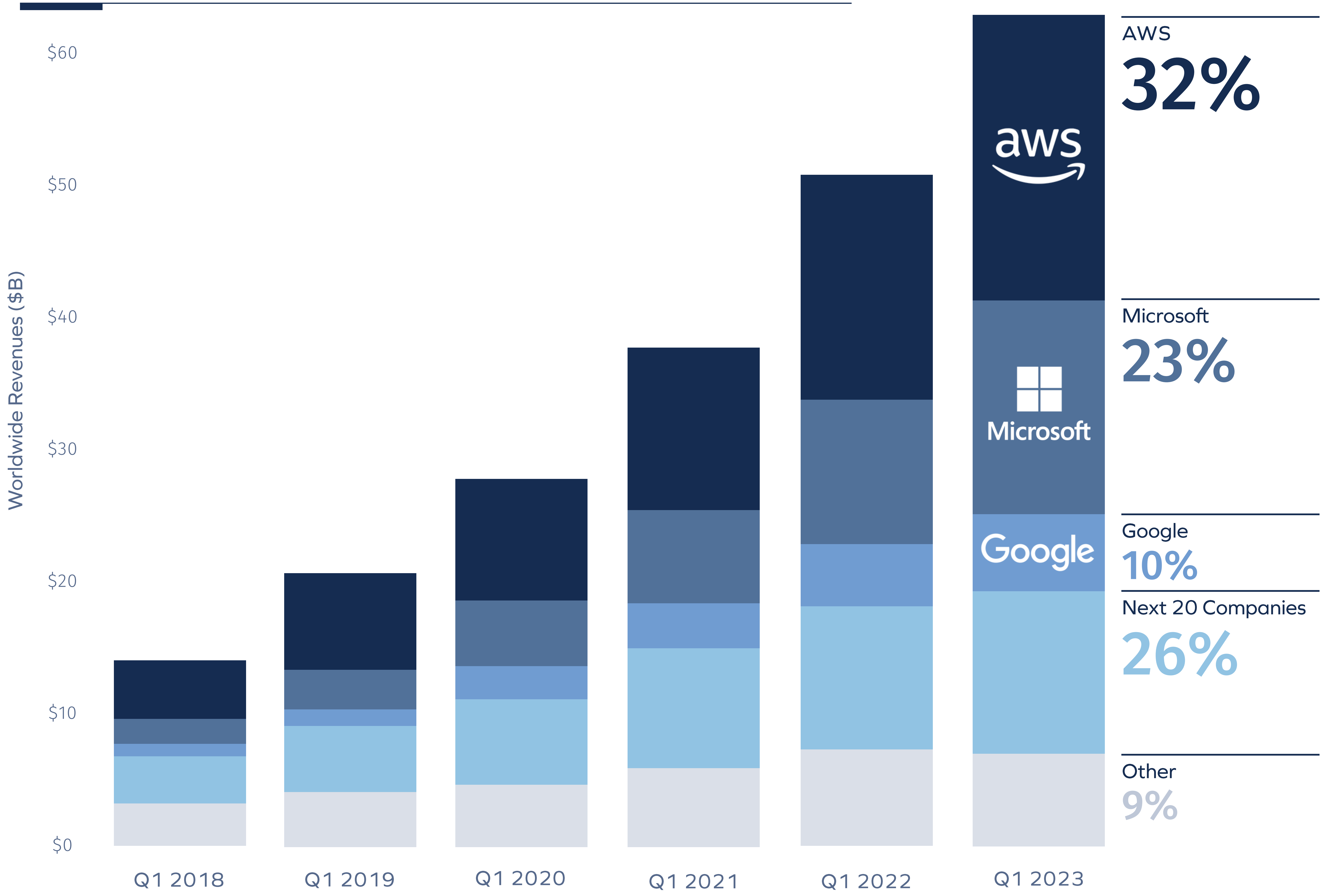
Amazon remains the market leader, with a market share over 30%, followed by Microsoft and Google, with the **three collectively accounting for two-thirds of the worldwide cloud market.**

> *"On Cloud, we continue to see **strong momentum, substantial market opportunity** here, and still feels like **early stages of this transformation.**"*
>
> **Sundar Pichai**
> CEO OF GOOGLE

> *"We expect technology infrastructure spend to grow year-over-year, primarily to support the **rapid growth and innovation** we're seeing with AWS."*
>
> **Brian Olsavsky**
> CFO OF AMAZON

> *"We continue to see more cloud migrations, as **it remains early when it comes to long-term cloud opportunity.**"*
>
> **Satya Nadella**
> CEO OF MICROSOFT

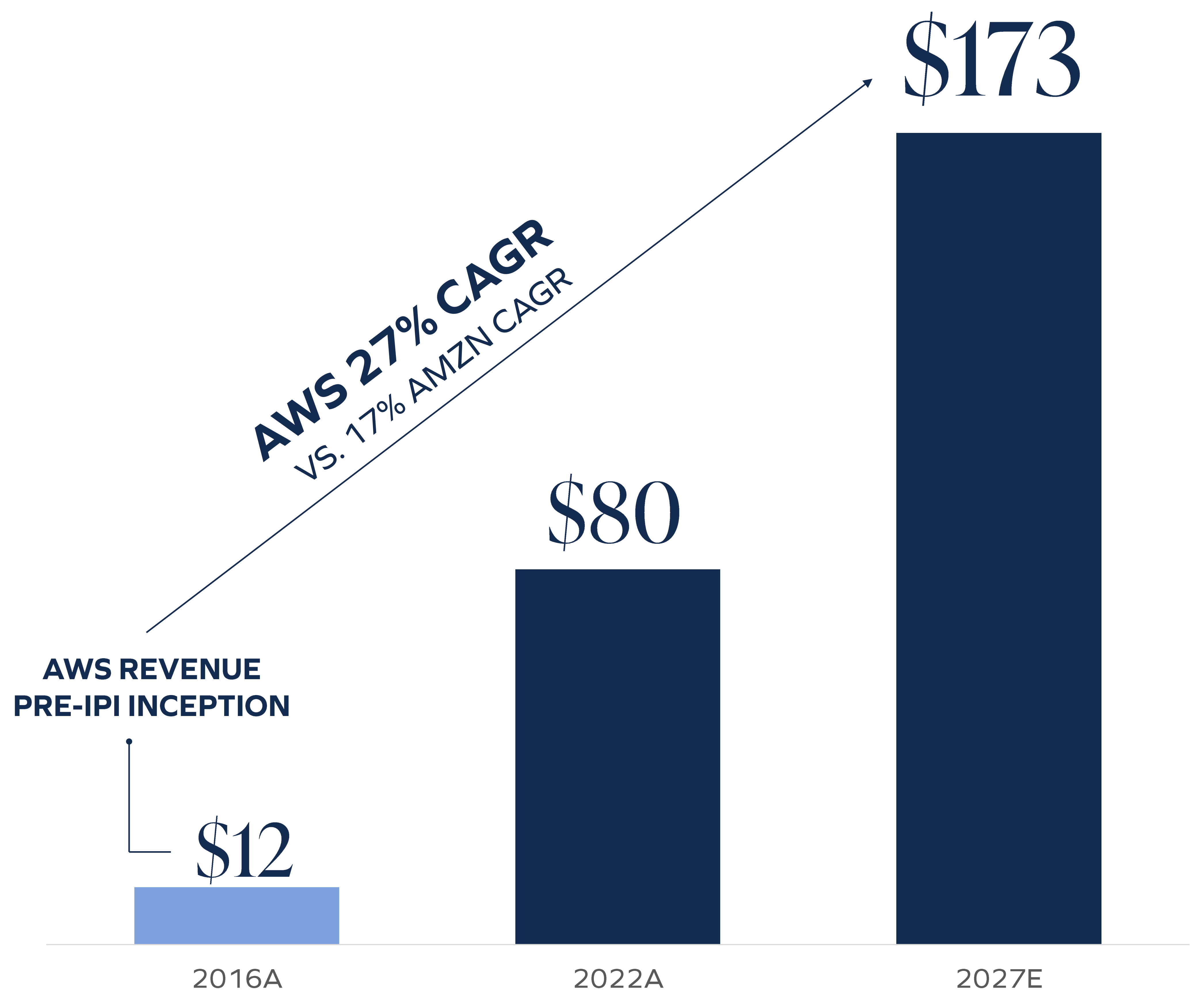
CLOUD INFRASTRUCTURE SERVICES MARKET (IAAS, PAAS, CSPS)



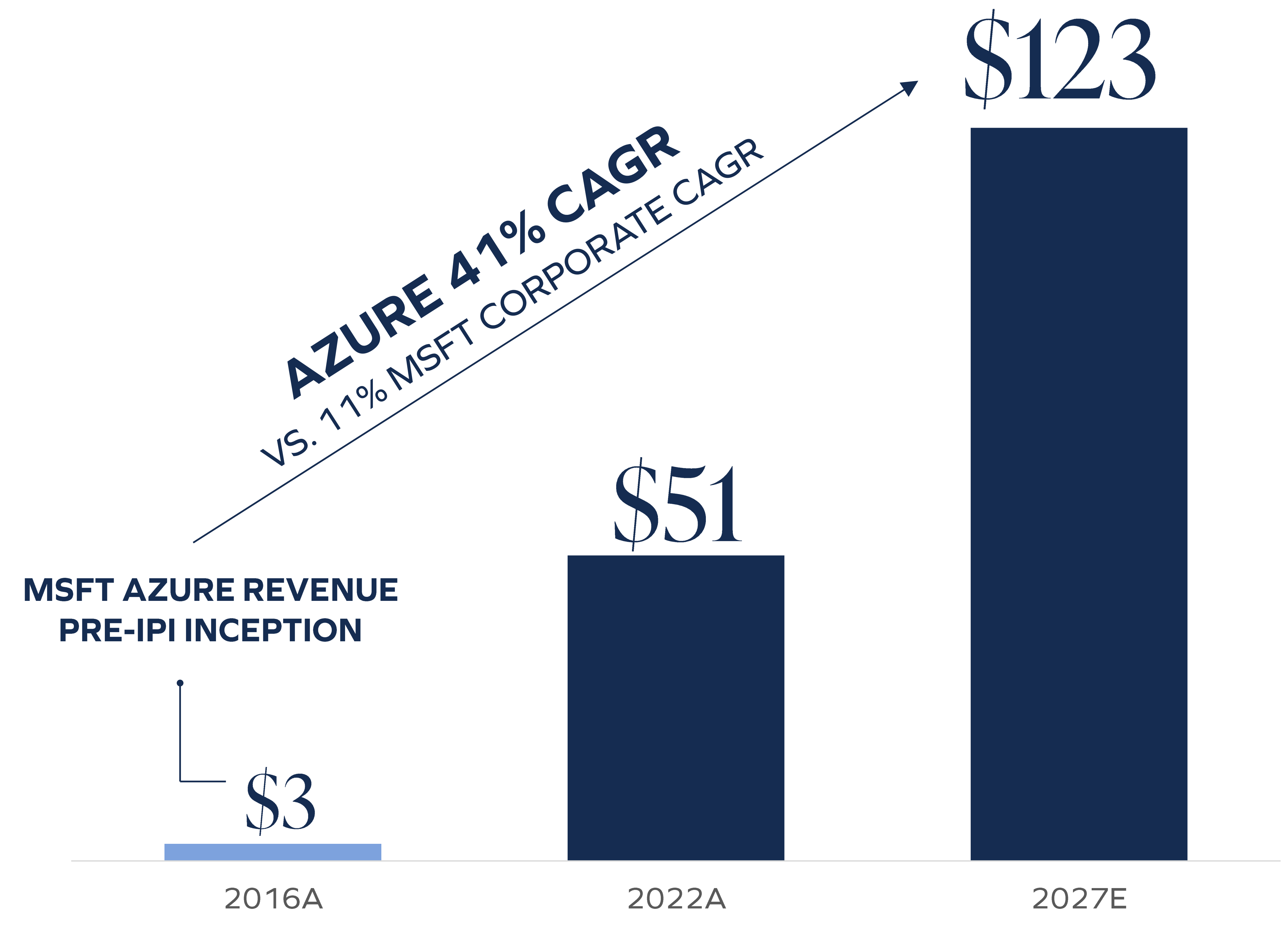
Source: Synergy Research Group, Company Filings, Press Releases
Notes: Trademarks are property of their respective owners. None of the companies or individuals illustrated have endorsed or recommended the services of IPI. Although certain of the above referenced companies are tenants of IPI-owned assets, the Investment Vehicles do not expect to invest in any of the referenced companies nor can there be any assurance that the Investment Vehicles will develop data center assets on behalf of any of the referenced companies. IPI Portfolio Data referenced includes investments across both IPI Partners I and IPI Partners II. Major Tenants represent AWS, Microsoft, and Google. Quotes shown here are not endorsements of IPI and are not representative of the specific author's view toward IPI.

Cloud Growth Over Time - AWS and Microsoft
Strong Top-line Growth Since IPI's Inception

AWS Revenue Over Time ($B)

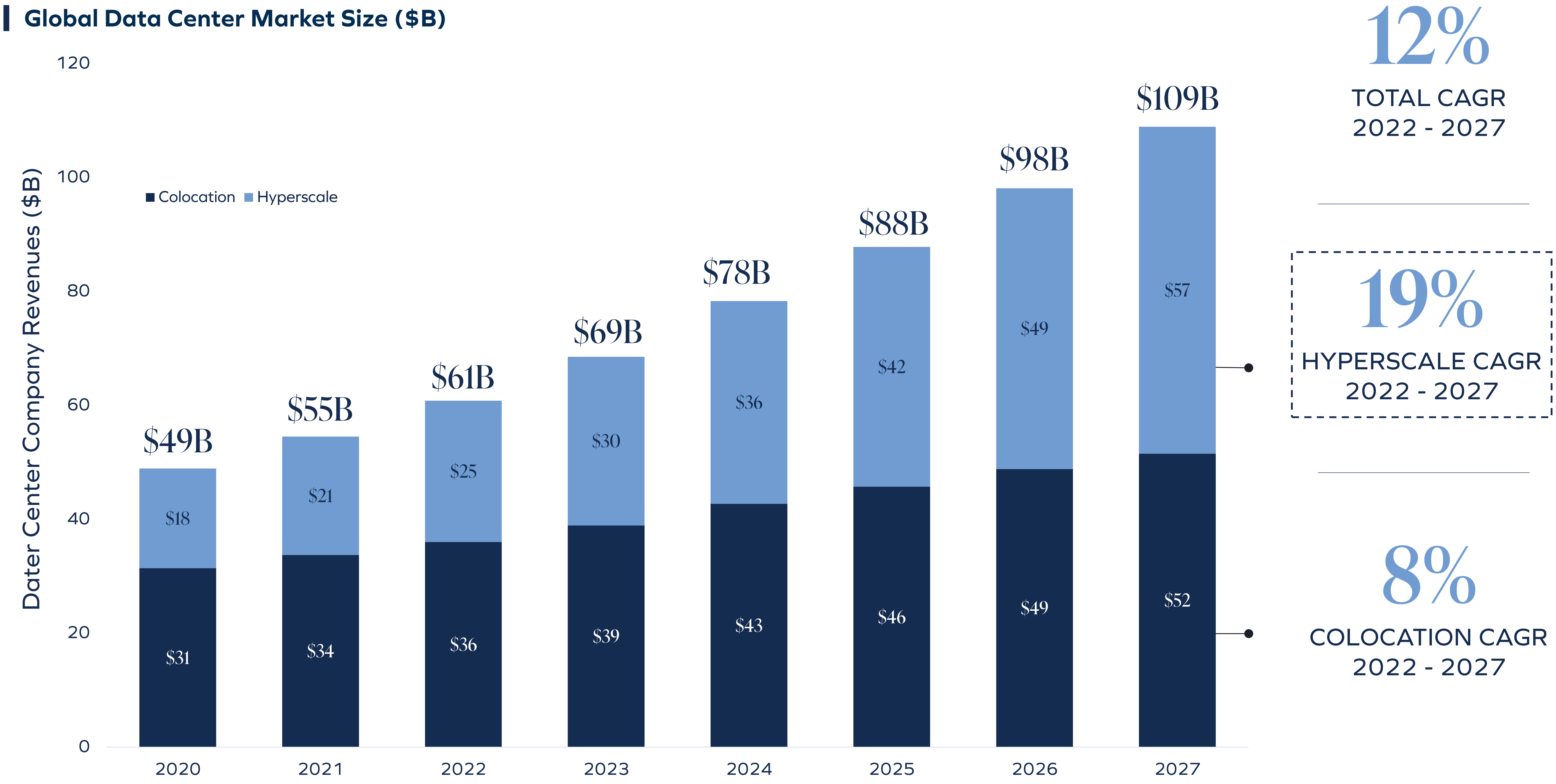


Microsoft Azure Revenue Over Time ($B)



Source: AWS and Amazon Earnings Reports, Goldman Sachs Analyst Reports
Note: None of the companies illustrated have endorsed or recommended the services of IPI. Although certain of the above referenced companies are tenants of IPI-owned assets, the Investment Vehicles do not expect to invest in any of the referenced companies nor can there be any assurance that the Investment Vehicles will develop data center assets on behalf of any of the referenced companies.

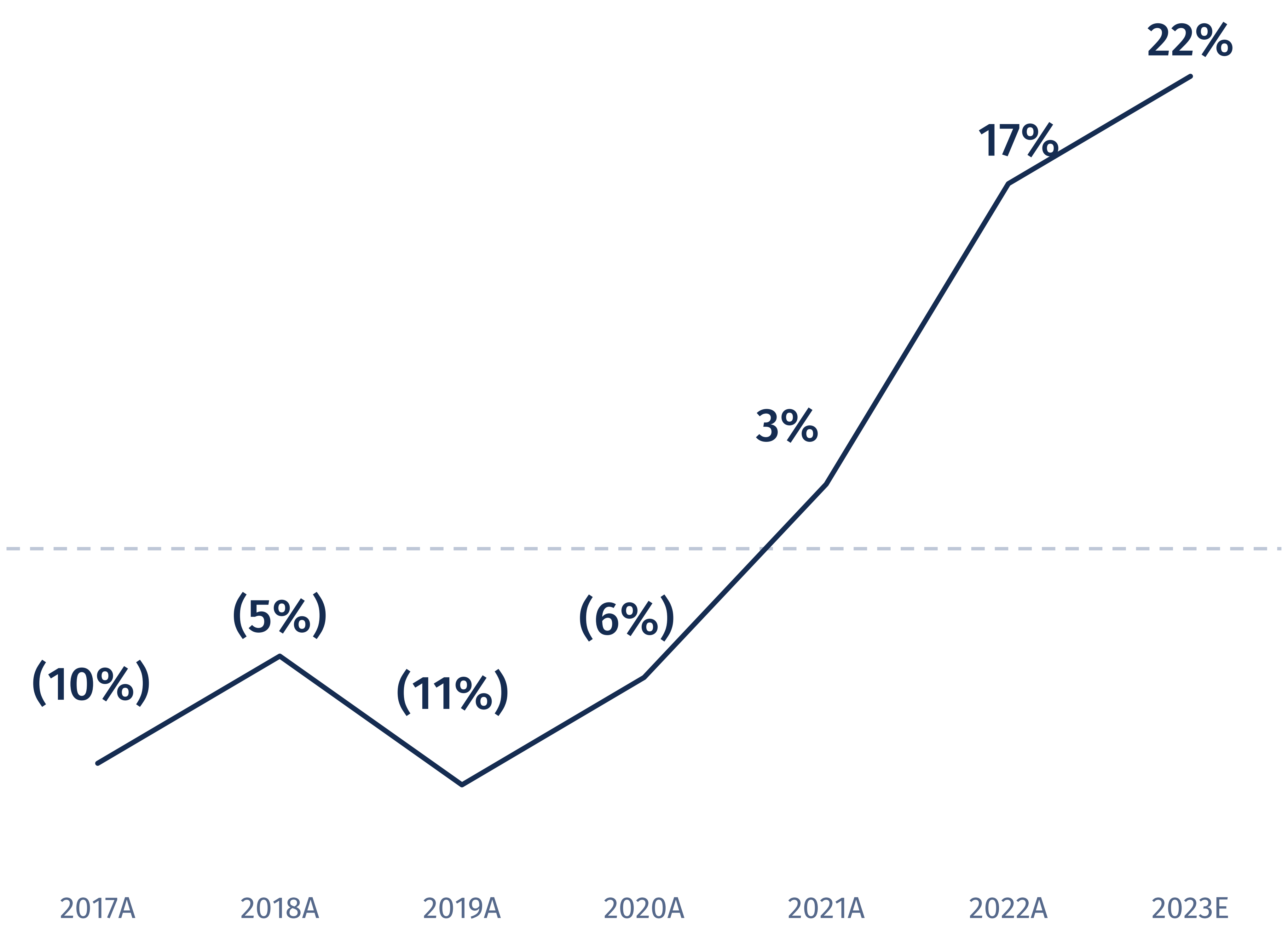
Data Center Industry Scale



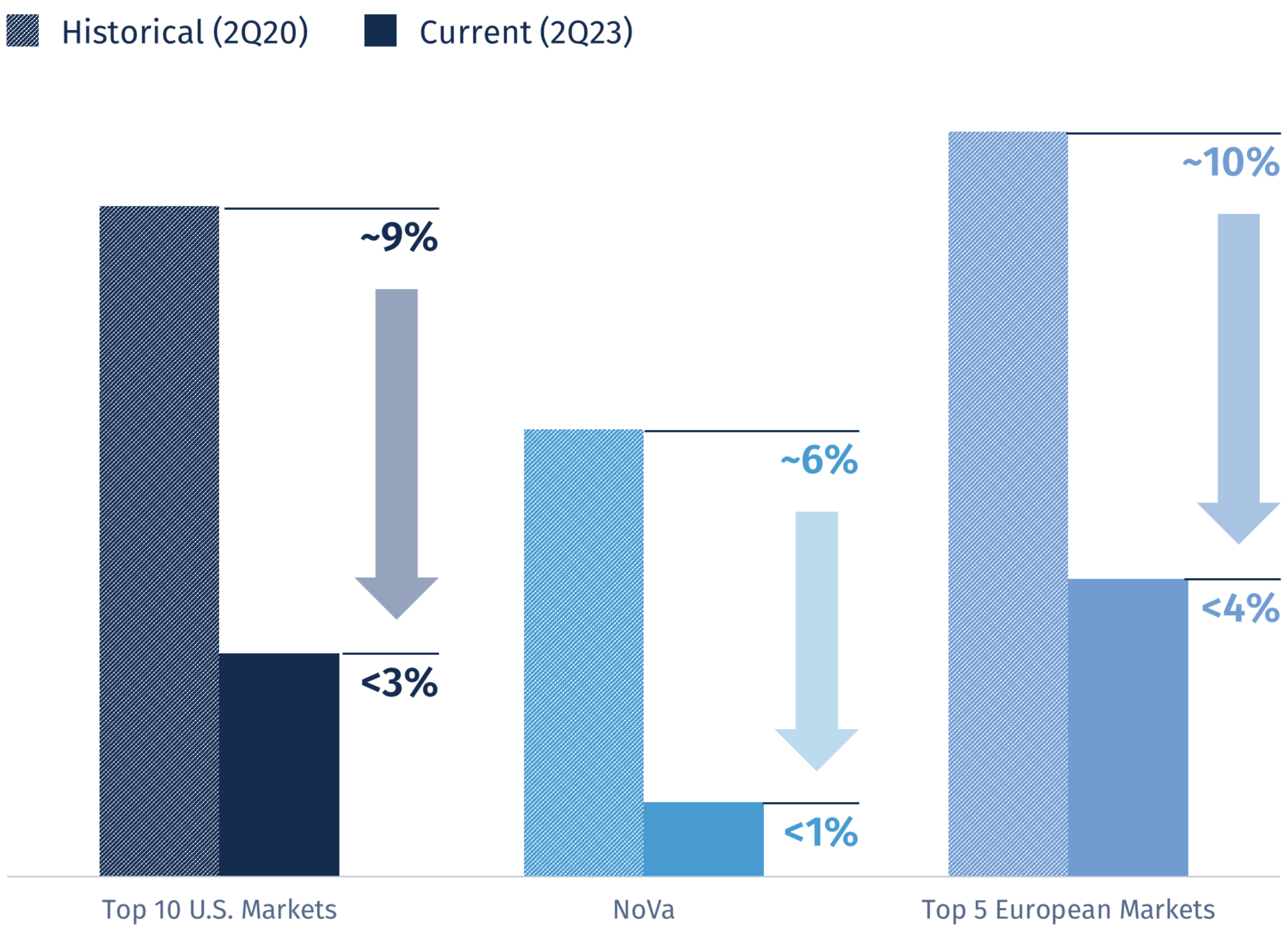
Source: Structure Research

Hyperscale Growth Driving Record Market Fundamentals

YOY CHANGE IN HYPERSCALE RENTAL RATES (5-10MWS)



TOP MARKET VACANCY



Sources: Jefferies, Datacenter Hawk, Credit Suisse, Green Street, Company Data
Note: None of the companies illustrated have endorsed or recommended the services of IPI. Although certain of the above referenced companies are tenants of IPI-owned assets, the Investment Vehicles do not expect to invest in any of the referenced companies nor can there be any assurance that the Investment Vehicles will develop data center assets on behalf of any of the referenced companies.

Why We Believe IPI Wins

Hyperscale Partnerships

- A preferred partner for the largest hyperscalers
- Deep, multi-level alignment to solve infrastructure problems across markets
- Aims to be a trusted partner with demonstrated execution

Proprietary Relationships

- Technology is in our DNA
- Alignment with tech industry
- Strategic relationships and insight
- Seeks proprietary opportunities

Vertical Integration

- Differentiated IPI team
- Proven captive developer and operator - STACK Infrastructure
- Local presence and experience in top global markets
- Platforms with deep industry experience

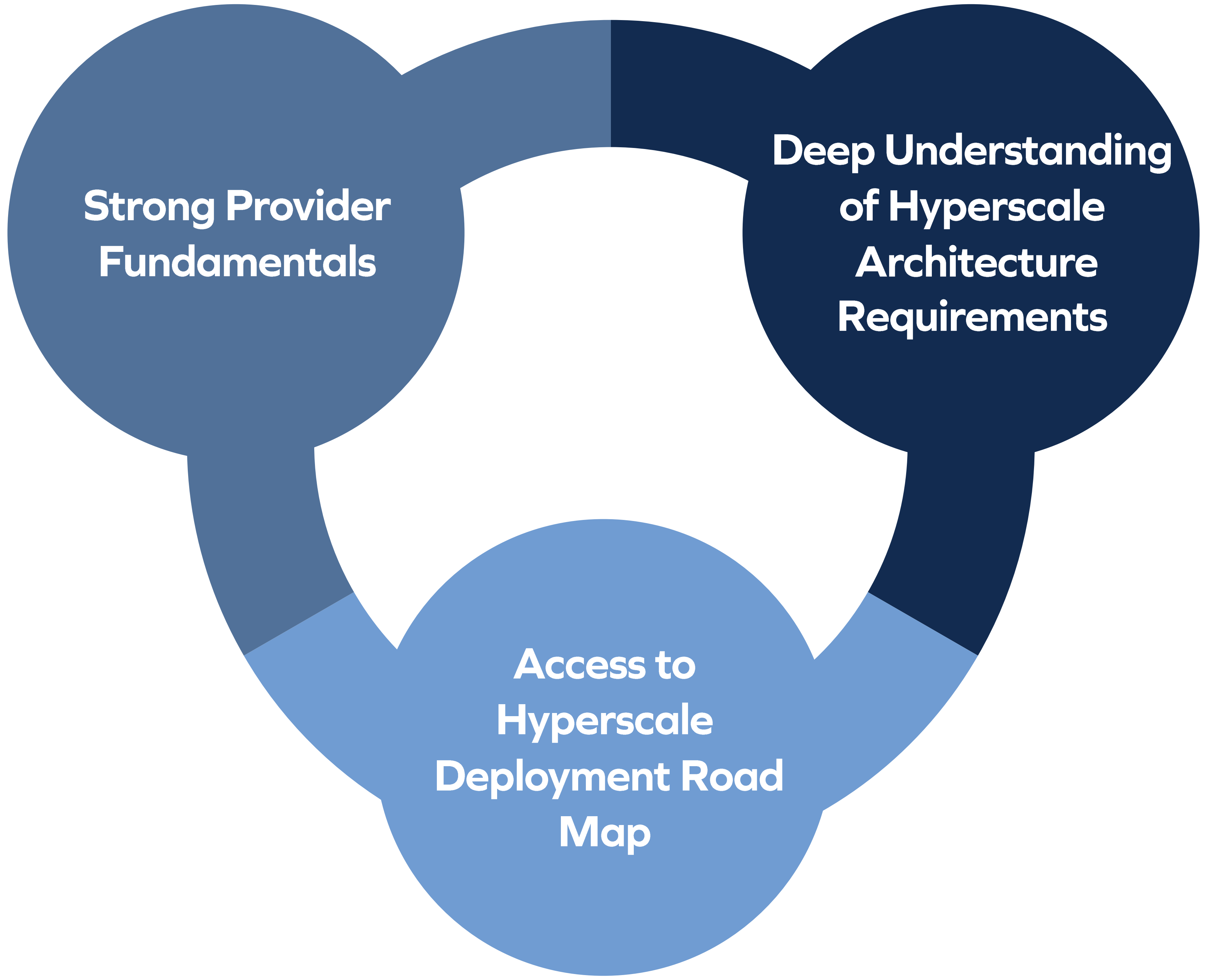
Investment Flexibility

- Multiple solutions for capacity and timing needs
- Strategic land holdings
- Creative structuring with partners / JVs

Hyperscalers are Looking for Partners that Provide Integrated Solutions for their Needs Today and in the Future

Provider Fundamentals

- Existing relationships in other markets
- Deliver on time + supply chain management
- Well capitalized + long term horizon
- Multi-market, global + regional focus
- Consistent user experience + quality



Architectural Requirements

- Within designated availability zone
- Geographical redundancy
- Fiber path redundancy
- Power grid redundancy
- Campus setup separate buildings
- Connectivity to on-ramps

Development Roadmap

- Inventory + capacity planning, future Availability Zones
- Global Service Agreements
- Scaled power availability
- Sizeable runway for expansion
- Adjacent land banks

Source: Structure Research

IPI: Operating Through a Problem Solver Mindset

WE BELIEVE IPI IS A TRUSTED PARTNER TO SOLVE CHALLENGES RELATED TO
LAND SCARCITY | POWER AVAILABILITY | ENTITLEMENTS | DEVELOPMENT COSTS

Subject Matter Expertise
& Deep Relationships

Capital Viewpoint
Mindset & Approach

Proprietary Pipeline
Strategic Opportunity Set

Understand Procurement
Process of Corporates

Force Multipliers
IPI + STACK

Sources: CBRE, Cushman & Wakefield, Wells Fargo, DC Byte

The Opportunity: Fund III

Fund Objective	Invest in and develop data centers and other technology-related real assets globally Aggregate a data center portfolio in North America, Europe, and Asia Pacific
Fund Size	Target – $4.0 billion Hard cap – $6.0 billion
Target Returns[1]	The Fund is targeting a gross leveraged internal rate of return ("Gross Leveraged IRR") of 15 – 19% and a net leveraged internal rate of return ("Net Leveraged IRR") of 12 – 16%

Historical Fund Track Record

	Vintage	Total Capital Commitments	Net IRR[2]	Net Multiple[2]
IPI I	2016	US $1.5B	17%	1.7x
IPI II	2020	US $3.8B	NM	NM

1. Target Gross and Net Leveraged IRRs are estimated based on internal calculations of information and data available to IPI at the time of calculation. These figures are based on numerous assumptions, any or all of which may prove to be inaccurate. Additional information on these assumptions is available upon request. These figures do not factor market risk and other factors of investment. Actual performance may be materially different. There can be no assurance that current or future investments will be profitable or that such target figures or comparable figures will be achieved. Target Net Leveraged IRRs reflect reduction of target Gross Leveraged IRRs by management fees, carried interest, and fund expenses. Because of the inherent limitations of target Net Leveraged IRRs, Limited Partners should not rely on such figures in making investment decisions concerning the Fund. The target figures reflected herein take into account leverage which may magnify returns and make them higher than what they would have been without the use of such leverage. Unleveraged target performance information is available from IPI upon request.
2. Liquidation Net Leveraged IRRs and Liquidation Net Leveraged Multiples ("Net Performance Metrics") reflect returns calculated at the fund level after the deduction of carried interest (whether accrued or distributed), and expenses charged directly to the fund, including, but not limited to, the management fee, and are calculated from the perspective of an investor that participated in the fund's initial closing and is subject to a management fee rate of 1.5% and a carried interest rate of 20% above a 7% annualized return. Net Performance Metrics take into account all actual cash flows as of June 30, 2023. For unrealized investments, however, projected cash flows are not taken into account and each such unrealized investment is deemed to have been hypothetically liquidated at its fair value as of June 30, 2023. Net Performance Metrics take into account leverage, which may magnify returns and make them higher than what they would have been without the use of such leverage. Unleveraged target and projected performance information is available from IPI upon request. Net Performance Metrics do not reflect the investment performance experienced by any actual investor in the fund and should be considered hypothetical. Note that IPI II returns remain not meaningful as of June 30, 2023 due to the development lifecycle stages of a significant portion of the fund investments. Neither past nor projected performance is indicative of future results.

Note: Please see "Important Information" beginning on page 2 and the Offering Documents for further information.

Investment Highlights

Generational Global Opportunity

- Massive growth in data creation driving need to more facilities and larger deployments
- Key global markets undergoing rapid transformation driven by hyperscale companies
- Attractive development margins with many projects pre-leased by high quality tenants
- We believe IPI is well positioned to address globalization and larger scale of projects

Differentiated & Focused Investment Thesis

- Pure-play strategy focused exclusively on investments in data centers and complementary assets
- Alignment with tech giants to solve their infrastructure problems globally – as they grow, we both win
- Strategic capital leveraging collective networks of ICONIQ and Iron Point

Industry Leading Team

- 40+ investment professionals complemented by a team of experienced operating professionals
- Existing Funds are fully committed with foundation established for a growing international footprint

Right Strategy, Right Time

- Scaled presence alongside hyperscale partner needs to address the current sector opportunity
- Established market presence and track record with robust pipeline and competitive advantage over new entrants
- Continuation of successful strategy employed since Firm inception in 2016 with a focus on continued global expansion

Notes: Neither past nor projected performance is indicative of future results. Please see "Important Information" beginning on page 2.

Business/Legal Diligence and Material Terms for Private Fund Investments

San Joaquin County Employees' Retirement Association (SJCERA)

Paris Ba – Investment Officer, SJCERA
Yuliya Oryol – Partner, Nossaman LLP

October 11, 2023

NOSSAMAN LLP

INVESTMENTS - BOARD'S FIDUCIARY DUTIES

Article XVI, Section 17 of the California Constitution grants retirement boards sole and exclusive fiduciary responsibility over the assets, management, and investment of public pension funds to provide benefits and services to participants.

California Government Code Section 31595 governs Board's standard of care.

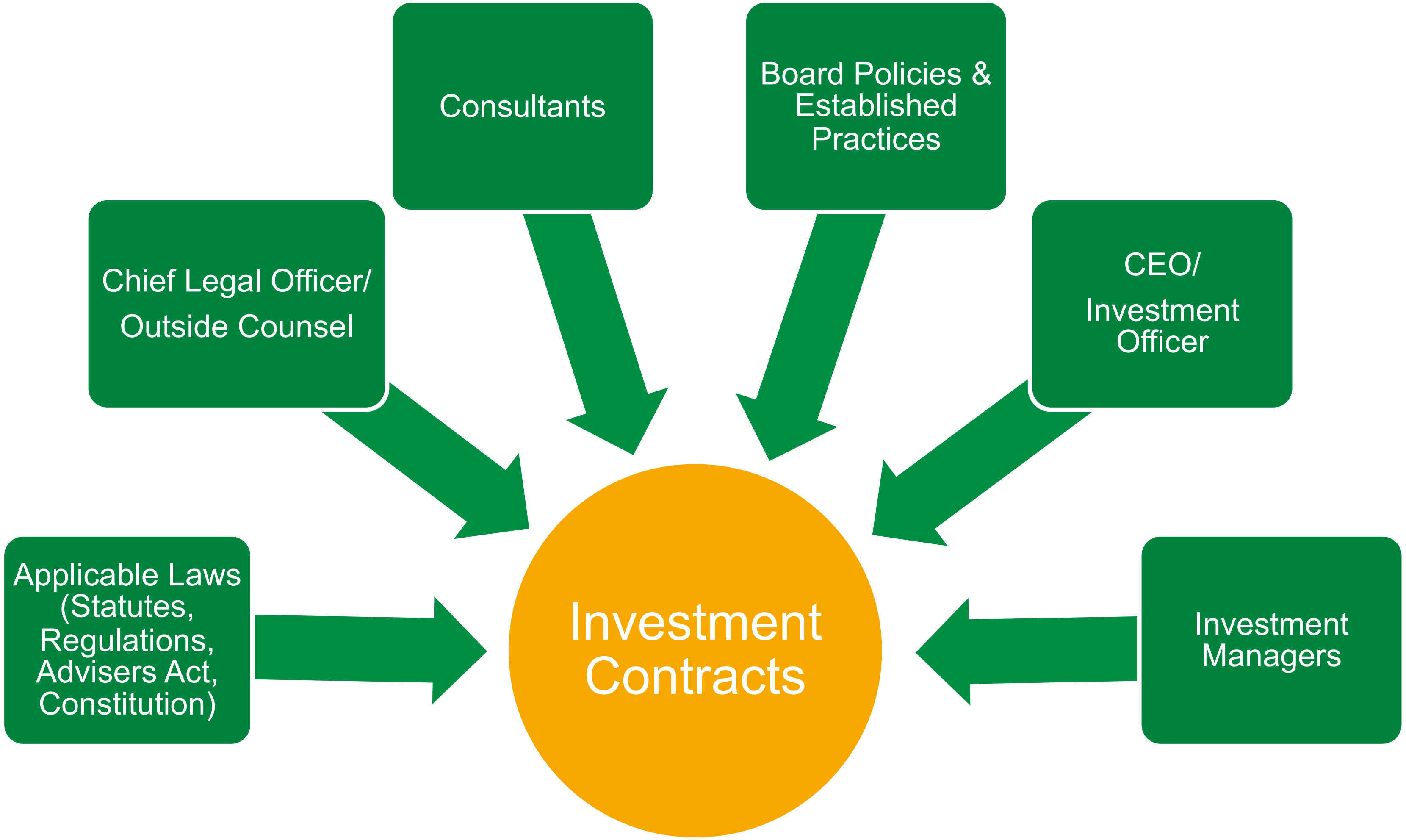
- Board has exclusive control of investment of employees' retirement funds;
- Board must discharge its fiduciary duties solely in the interest of, and for the exclusive purposes of providing benefits to, participating and their beneficiaries, minimizing employer contributions, and defraying reasonable expenses of administering the system;
- Board must exercise care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity;
- Board must diversify investments to minimize risk of loss and to maximize rate of return.

Board's Investment Delegation

Assignment of Responsibilities to Experts

- Chief Executive Officer/Administrator
- Investment Officer
- Investment Consultants
- Chief Legal Officer
- Outside Investment Counsel

Board's Approval of Investments and Delegation Business/Legal Diligence in Contract Negotiations



Business Due Diligence – Consultant's Focus

- Uncover, minimize and allocate potential risk
  - Assess and quantify risk exposure
  - Evaluate efforts to mitigate risk
- Check compliance with law and requirements
- Understand investment strategy and change of strategy over time
- Alignment of interests
- Related party transactions and conflicts
- Establish level of comfort with manager
- Monitor (frequently and regularly) performance, compliance and trigger events

Legal Due Diligence – Counsel's Focus

- Review business diligence and recommendations
- Review information gathered (good and bad) during business diligence to guide legal negotiations
- Conduct independent review of legal terms
- Understand fund structure and appropriate vehicle for investment
- Confirm investors' rights and duties
- Establish compliance with applicable laws, policies and procedures
- Confirm economic and legal terms are market
- Review SEC Registration or Exemption (Form ADV)
- Compliance with Advisers Act

Conti. Legal Due Diligence – Counsel’s Focus

- Confirm manager’s representations are adequately documented
- Confirm sufficient legal protections and remedies in event of non-performance
- Understand risks and limitations on liabilities on damages
- Review Insurance for D&O, E&O, fidelity bond and cyber coverage
- Include representations and warranties of GP
- Confirm accuracy of investor’s representations and warranties
- Ensure available exits (investment period suspension, GP removal, fund termination, transfers/assignments, withdrawals, opt-out rights)

Legal Considerations Under California Law

Reporting Requirements

- Ralph M. Brown Act (Cal. Govt. Code § 54950)
- California Government Code Section 7514.7
- California Public Records Act (Cal. Govt. Code § 7920)

Placement Agent Disclosures

- California Government Code Section 7513.85
- Placement Agent Policy and Disclosure Form

California Ethics Rules

- SJCERA Conflict of Interest Code
- Government Code 1090

Legal Documentation – Private Funds

- Private Placement Memorandum (PPM)
- Limited Partnership Agreement (LPA) or Limited Liability Company (LLC) Operating Agreement
- Subscription Agreement and Investor Questionnaire
- Investment Management Agreement
- Guarantee
- Side Letter (and Diligence Letter)
- Legal Opinion(s)
- Credit Facility
- Investor Acknowledgement

Legal Considerations For Public Plan Investors

- Disclosure and Reporting
- Sovereign Immunity
- Governing Law
- Placement Agent Disclosure
- Indemnification and Exculpation
- Transactions With Executive Staff and Trustees
- Local Venue and Jurisdiction
- No Waiver of Jury Trials
- Ethical Guidelines/Gifts Policy
- Tax Exemption Status
- Personal Identifiable Information
- Deemed Consents
- Notice Requirements
- GP Removal/Termination of Fund Term

Side Letters - Material Provisions

▪ Confidentiality/CPRA, Brown Act/FOIA ▪ Reporting (ILPA fee template or California template) ▪ Annual public disclosures of fund level information ▪ Unrelated Business Taxable Income (“UBTI”) ▪ Tax exemption, tax notices and tax audits ▪ Transfer/Assignment ▪ Limitations on power of attorney/Provide copies ▪ Representations and warranties (GP, manager/ affiliates and fund)	▪ Reservation of immunities/sovereign immunity ▪ Legal opinions (acceptability of in-house/staff counsel) ▪ Governing law ▪ Jurisdiction/venue & No waiver of jury trials ▪ Limited liability ▪ Notices ▪ Placement agent disclosure and fees ▪ Management fees ▪ Indemnification/Exculpation ▪ Beneficial Owners ▪ Personal Identifiable Information	▪ Organizational expenses/Limit on fund expenses ▪ Clawback rights (escrow/personal guarantees) ▪ Fiduciary standards ▪ Key persons ▪ Voting/Observer LPAC seats & Materials ▪ Maintenance of records after termination of fund ▪ Investment acknowledgments for credit facilities

Questions?

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] — August 2023

	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]			$ 4,053,616,300	100.0%	100.0%	-1.0	2.5	5.5	4.6	5.6	5.6	7.5	Apr-90
Policy Benchmark [4]						-1.0	3.1	8.2	6.7	5.3	5.9	7.4	
Difference:						0.0	-0.6	-2.7	-2.1	0.3	-0.3	0.1	
75/25 Portfolio [5]						-2.4	4.9	11.5	10.8	4.2	6.5	6.8	
Difference:						1.4	-2.4	-6.0	-6.2	1.4	-0.9	0.7	
Broad Growth			$ 3,127,928,145	77.2%	76.0%	-1.6	3.1	6.4	6.2	7.2	6.5	8.1	Jan-95
Aggressive Growth Lag[2]			$ 382,541,663	9.4%	10.0%	-2.0	-2.0	-1.5	0.2	18.7	14.2	-2.1	Feb-05
Aggressive Growth Blend [6]						0.0	2.4	5.0	-3.3	7.1	8.3	0.0	
Difference:						-2.0	-4.4	-6.5	3.5	11.6	5.9	-2.1	
BlackRock Global Energy&Power Lag[3]	*$50,000*	*Global Infrastructure*	$ 45,787,776	1.1%		7.6	7.6	7.6	13.0	10.0	--	11.0	Jul-19
MSCI ACWI +2% Lag						-3.7	10.4	3.5	-16.3	6.6	--	10.0	
Difference:						11.3	-2.8	4.1	29.3	3.4	--	1.0	
BlackRock Infrastructure[3]	*$50,000*	*Global Infrastructure*	$ 4,237,433	0.1%		-9.1	-9.1	--	--	--	--	-9.1	Mar-23
MSCI ACWI +2% Lag						3.3	8.0	--	--	--	--	8.0	
Difference:						-12.4	-17.1	--	--	--	--	-17.1	
Lightspeed Venture Ptr Select V Lag[3]	*$40,000*	*Growth-Stage VC*	$ 12,340,042	0.3%		-0.7	-0.7	-2.0	--	--	--	--	Jun-22
MSCI ACWI +2% Lag						-3.7	10.4	3.5	--	--	--	--	
Difference:						3.0	-11.1	-5.5	--	--	--	--	
Long Arc Capital Fund Lag[3]	*$25,000*	*Growth-Stage VC*	$ 18,996,038	0.5%		-7.7	-7.7	--	--	--	--	-7.7	Apr-23
MSCI ACWI +2% Lag						-3.7	10.4	--	--	--	--	10.4	
Difference:						-4.0	-18.1	--	--	--	--	-18.1	
Ocean Avenue II Lag[3]	*$40,000*	*PE Buyout FOF*	$ 35,051,161	0.9%		-4.0	-4.0	-8.4	3.7	34.8	25.7	17.4	May-13
MSCI ACWI +2% Lag						-3.7	10.4	3.5	-16.3	6.6	8.0	-16.3	
Difference:						-0.3	-14.4	-11.9	20.0	28.2	17.7	33.7	
Ocean Avenue III Lag[3]	*$50,000*	*PE Buyout FOF*	$ 51,500,814	1.3%		-1.4	-1.4	1.4	5.6	25.9	25.6	24.3	Apr-16
MSCI ACWI +2% Lag						-3.7	10.4	3.5	-16.3	6.6	8.0	8.3	
Difference:						2.3	-11.8	-2.1	21.9	19.3	17.6	16.0	
Ocean Avenue IV Lag[3]	*$50,000*	*PE Buyout*	$ 56,596,297	1.4%		1.1	1.1	10.9	36.4	37.8	--	36.6	Dec-19
MSCI ACWI +2% Lag						3.3	8.0	19.2	-5.1	18.2	--	11.3	
Difference:						-2.2	-6.9	-8.3	41.5	19.6	--	25.3	
Ocean Avenue V Lag[3]	*$30,000*	*PE Buyout*	$ 3,000,000	0.1%		0.0	--	--	--	--	--	0.0	Jun-23
MSCI ACWI +2% Lag						-3.7	--	--	--	--	--	-0.2	
Difference:						3.7	--	--	--	--	--	0.2	
Morgan Creek III Lag[3]	*$10,000*	*Multi-Strat FOF*	$ 4,363,741	0.1%		4.2	4.2	-6.4	-14.6	-10.4	-11.5	-6.4	Feb-15
MSCI ACWI +2% Lag						-3.7	10.4	3.5	-16.3	6.6	8.0	8.4	
Difference:						3.7	-10.4	-13.6	-1.7	-18.2	-20.3	-15.3	
Morgan Creek V Lag[3]	*$12,000*	*Multi-Strat FOF*	$ 6,181,874	0.2%		-14.0	-14.0	-4.5	-5.2	9.2	10.0	12.6	Jun-13
MSCI ACWI +2% Lag						-3.7	10.4	3.5	-16.3	6.6	8.0	8.5	
Difference:						-10.3	-24.4	-8.0	11.1	2.6	2.0	4.1	
Morgan Creek VI Lag[3]	*$20,000*	*Multi-Strat FOF*	$ 22,598,408	0.6%		-0.2	-0.2	-2.1	-11.3	17.8	15.7	9.5	Feb-15
MSCI ACWI +2% Lag						-3.7	10.4	3.5	-16.3	6.6	8.0	8.4	
Difference:						3.5	-10.6	-5.6	5.0	11.2	7.7	1.1	

[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 6/30/23, and lagged 1 quarter.

[3] Manager returns are as of 6/30/23, and lagged 1 quarter. Since Inception date reflects one quarter lag.

[4] 8/1/22 to present benchmark is 33% 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% Lag, **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.

[6] 1/1/2021 to present **50%** MSCI ACWI +2%,**50%** NCREIF ODCE +1%

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] August 2023

	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
Aggressive Growth Lag (continued)													
Ridgemont Equity Partners Lag[3]	*$50,000*	*Special Situations PE*	$ 4,294,149	0.1%		10.7	10.7	--	--	--	--	10.7	Apr-23
MSCI ACWI +2% Lag						*-3.7*	*10.4*	--	--	--	--	*10.4*	
Difference:						14.4	0.3	--	--	--	--	0.3	
Stellex Capital Partners II Lag[3]	*$50,000*	*Special Situations PE*	$ 35,360,525	0.9%		2.3	2.3	0.9	11.3	--	--	1.3	Jul-21
MSCI ACWI +2% Lag						*3.3*	*8.0*	*19.2*	*-5.1*	--	--	*-0.1*	
Difference:						-1.0	-5.7	-18.3	16.4	--	--	1.4	
Non-Core Private Real Assets Lag[3]	*$341,100*	*Private Real Estate*	$ 82,233,404	2.0%		-7.5	-7.5	-9.7	-19.4	7.2	4.7	-2.9	Nov-04
NCREIF ODCE + 1% Lag Blend						*-3.3*	*-3.1*	*-7.9*	*-3.0*	*8.5*	*7.6*	*8.4*	
Difference:						-4.2	-4.4	-1.8	-16.4	-1.3	-2.9	-11.3	
Opportunistic Private Real Estate[4]			$ 26,778,170	0.5%									
Greenfield VII[3]	*$19,100*	*Opportunistic Pvt. RE*	$ 1,719,141	0.0%		2.2	2.2	-3.6	-0.8	12.8	11.9	12.1	Oct-14
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*12.2*	
Difference:						4.6	4.6	1.6	-0.8	1.1	1.1	-0.1	
Grandview[3]	*$30,000*	*Opportunistic Pvt. RE*	$ 17,290,783	0.4%		-0.5	-0.5	3.6	-0.6	21.6	--	20.1	Apr-18
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*10.8*	
Difference:						1.9	1.9	8.8	-0.6	9.9	--	9.3	
Walton Street VI[3]	*$15,000*	*Opportunistic Pvt. RE*	$ 6,535,568	0.2%		2.1	2.1	10.4	14.0	11.6	4.7	8.2	Jul-09
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*11.7*	
Difference:						4.5	4.5	15.6	14.0	-0.1	-6.1	-3.5	
Value-Added Private Real Estate			$ 61,455,866	1.5%									
AG Core Plus IV[3]	*$20,000*	*Value-Added Pvt. RE*	$ 8,708,280	0.2%		-12.1	-12.1	-25.9	-27.3	-3.9	1.8	1.2	Sep-15
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*11.8*	
Difference:						-9.7	-9.7	-20.7	-27.3	-15.6	-9.0	-10.6	
Almanac Realty VI[3]	*$30,000*	*Value-Added Pvt. RE*	$ 4,053,325	0.1%		2.7	2.7	4.8	-1.1	3.6	-5.2	19.3	Feb-13
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*12.9*	
Difference:						5.1	5.1	10.0	-1.1	-8.1	-16.0	6.4	
Berkeley Partners Fund V, LP[3]	*$40,000*	*Value-Added Pvt. RE*	$ 25,579,810	0.6%		-2.8	-2.8	-9.9	-7.3	--	--	17.7	Aug-20
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*14.0*	
Difference:						-0.4	-0.4	-4.7	-7.3	--	--	3.7	
Stockbridge RE III[3]	*$45,000*	*Value-Added Pvt. RE*	$ 23,114,451	0.6%		-18.2	-18.2	-16.6	-15.3	13.1	7.8	7.8	Jul-18
NCREIF ODCE + 1% Lag Blend						*-2.4*	*-2.4*	*-5.2*	*0.0*	*11.7*	*10.8*	*10.8*	
Difference:						-15.8	-15.8	-11.4	-15.3	1.4	--	-3.0	

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

[3] Manager returns are as of 6/30/23, and lagged 1 quarter. Since Inception date reflects one quarter lag.

[4] Market value includes Greenfield V $215,676; Greenfield VI $22,396, and Walton V $994,606

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Preliminary Monthly Flash Report (Net)[1] — August 2023

	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
Traditional Growth[3]			$ 1,514,888,230	37.4%	33.0%	-2.7	7.1	14.8	14.4	8.4	6.2	8.9	Jan-95
MSCI ACWI IMI Net[2]						-2.9	6.7	14.2	13.3	7.3	7.8	7.7	
Difference:						0.2	0.4	0.6	1.1	1.1	-1.6	1.2	
Global Equity			$ 1,472,213,881	36.3%									
Northern Trust MSCI World IMI		*All Cap Global*	$ 1,319,658,970	32.6%		-2.5	7.1	15.5	15.4	--	--	8.7	Sep-20
MSCI World IMI Net						-2.5	7.0	15.3	14.7	--	--	8.3	
Difference:						0.0	0.1	0.2	0.7	--	--	0.4	
Emerging Markets			$ 152,551,796										
GQG Active Emerging Markets		*Emerging Markets*	$ 65,324,532	1.6%		-3.5	8.3	17.0	12.0	--	--	2.5	Aug-20
MSCI Emerging Markets Index Net						-6.2	3.5	4.6	1.3	--	--	-0.6	
Difference:						2.7	4.8	12.4	10.7	--	--	3.1	
PIMCO RAE Fundamental Emerging Markets		*Emerging Markets*	$ 87,227,264	2.2%		-4.1	8.9	14.8	19.0	14.1	5.5	5.1	Apr-07
MSCI Emerging Markets Index Net						-6.2	3.5	4.6	1.3	-1.4	1.0	2.8	
Difference:						2.1	5.4	10.2	17.7	15.5	4.5	2.3	
REITS			$ 42,674,349	1.1%									
Invesco All Equity REIT		*Core US REIT*	$ 42,674,349	1.1%		-3.1	2.6	0.9	-8.7	3.2	2.8	7.4	Aug-04
FTSE NAREIT Equity Index						-3.1	4.8	5.0	-2.9	7.1	3.7	7.3	
Difference:						0.0	-2.2	-4.1	-5.8	-3.9	-0.9	0.1	
Stabilized Growth			$ 1,230,498,252	30.4%	33.0%	-0.6	0.0	-0.5	-0.9	3.1	4.8	3.7	Jan-05
Risk Parity			$ 368,678,006	9.1%		-2.2	0.6	3.0	-3.7	-2.7	1.7	3.0	
T-Bill +4%						0.8	2.3	5.8	8.4	5.6	5.7	4.8	
Difference:						-3.0	-1.7	-2.8	-12.1	-8.3	-4.0	-1.8	
Bridgewater All Weather		*Risk Parity*	$ 190,764,713	4.7%		-2.3	1.3	4.7	-0.3	-1.1	2.2	3.3	Mar-12
T-Bill +4%						0.8	2.3	5.8	8.4	5.6	5.7	5.0	
Difference:						-3.1	-1.0	-1.1	-8.7	-6.7	-3.5	-1.7	
PanAgora Diversified Risk Multi-Asset		*Risk Parity*	$ 177,913,293	4.4%		-2.2	-0.2	1.2	-7.0	-4.3	1.1	2.9	Apr-16
T-Bill +4%						0.8	2.3	5.8	8.4	5.6	5.7	5.5	
Difference:						-3.0	-2.5	-4.6	-15.4	-9.9	-4.6	-2.6	
Liquid Credit			$ 238,440,340	5.9%		0.2	3.5	6.0	7.7	2.2	2.7	2.1	
50% BB High Yield, 50% S&P/LSTA Leveraged Loans						0.7	4.1	8.1	8.3	3.9	3.9	5.4	
Difference:						-0.5	-0.6	-2.1	-0.6	-1.7	-1.2	-3.3	
Neuberger Berman		*Global Credit*	$ 101,539,085	2.5%		0.1	3.3	5.9	6.0	0.5	--	2.1	Feb-19
33% ICE BofA HY Constrained, 33% S&P/LSTA LL, 33% JPM EMBI Glbl Div.						0.0	3.6	6.9	7.4	1.2	--	2.6	
Difference:						0.1	-0.3	-1.0	-1.4	-0.7	--	-0.5	
Stone Harbor Absolute Return		*Absolute Return*	$ 136,901,255	3.4%		0.3	3.6	5.9	8.8	3.6	3.3	2.9	Oct-06
3-Month Libor Total Return						0.4	1.3	3.2	4.2	1.6	1.8	1.5	
Difference:						-0.1	2.3	2.7	4.6	2.0	1.5	1.4	

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

[3] Total Market Value includes DoubleLine $1,335 and SJCERA Transition $3,115.

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	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[2]			$ 391,570,598	9.7%		-0.9	-0.9	-3.0	-2.2	4.1	3.2	3.4	
50% BB High Yield, 50% S&P/LSTA Leveraged Loans						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	*8.9*	*9.0*	
Difference:						-1.1	-4.9	-10.5	-7.8	-5.6	-5.7	-5.6	
BlackRock Direct Lending Lag[3]	*$100,000*	*Direct Lending*	$ 85,013,668	2.1%		-1.0	-1.0	-1.0	-2.0	---	---	4.7	May-20
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*4.0*	*5.6*	---	---	*9.6*	
Difference:						-1.2	-5.0	-5.0	-7.6	---	---	-4.9	
Mesa West RE Income IV Lag[3]	*$75,000*	*Comm. Mortgage*	$ 33,530,938	0.8%		-11.1	-11.1	-12.2	-13.4	-0.2	3.2	4.3	Mar-17
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	*8.9*	*8.9*	
Difference:						-11.3	-15.1	-19.7	-19.0	-9.9	-5.7	-4.6	
Crestline Opportunity II Lag[3]	*$45,000*	*Opportunistic*	$ 11,947,950	0.3%		0.1	0.1	-8.6	-14.9	-0.2	-2.0	2.7	Nov-13
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	*8.9*	*8.9*	
Difference:						-0.1	-3.9	-16.1	-20.5	-9.9	-10.9	-6.2	
Davidson Kempner Distr Opp V Lag[3]	*$50,000*	*Opportunistic*	$ 49,941,746	0.0%		2.5	2.5	2.2	-0.9	--	--	19.5	Oct-20
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*7.5*	*5.6*	--	--	*10.1*	
Difference:						2.3	-1.5	-5.3	-6.5	--	--	9.4	
Oaktree Lag[3]	*$50,000*	*Leveraged Direct*	$ 35,626,759	0.9%		3.5	3.5	-1.2	1.6	13.2	--	10.4	Mar-18
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	--	*8.9*	
Difference:						3.3	-0.5	-8.7	-4.0	3.5	--	1.5	
HPS EU Asset Value II Lag[3]	*$50,000*	*Direct Lending*	$ 28,898,984	0.7%		2.4	2.4	5.1	9.0	--	--	4.8	Aug-20
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*7.5*	*5.6*	--	--	*10.1*	
Difference:						2.2	-1.6	-2.4	3.4	--	--	-5.3	
Raven Opportunity III Lag[3]	*$50,000*	*Direct Lending*	$ 55,627,212	1.4%		-2.3	-2.3	-4.8	2.5	6.2	7.6	4.0	Nov-15
S&P/LSTA Leveraged Loans +3% Blend[4]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	*8.9*	*8.9*	
Difference:						-2.5	-6.3	-12.3	-3.1	-3.5	-1.3	-4.9	
Medley Opportunity II Lag[2]	*$50,000*	*Direct Lending*	$ 2,640,470	0.1%		0.0	0.0	0.0	0.0	-5.1	-9.2	-2.1	Jul-12
S&P/LSTA Leveraged Loans +3% Blend[3]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	*8.9*	*9.0*	
Difference:						-0.2	-4.0	-7.5	-5.6	-14.8	-18.1	-11.1	
SilverRock Tactical Allocation Lag[2]	*$50,000*	*Direct Lending*	$ 22,293,633	0.5%		--	--	--	--	--	--	--	Jul-23
S&P/LSTA Leveraged Loans +3% Blend[4]						--	--	--	--	--	--	--	
Difference:						--	--	--	--	--	--	--	
White Oak Summit Peer Fund Lag[2]	*$50,000*	*Direct Lending*	$ 24,618,130	0.6%		1.0	1.0	1.7	-9.5	-1.3	1.5	3.3	Mar-16
S&P/LSTA Leveraged Loans +3% Blend[3]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	*8.9*	*8.9*	
Difference:						0.8	-3.0	-5.8	-15.1	-11.0	-7.4	-5.6	
White Oak Yield Spectrum Master V Lag[2]	*$50,000*	*Direct Lending*	$ 41,431,108	1.0%		-0.4	-0.4	-4.1	-3.5	2.0	--	2.0	Mar-20
S&P/LSTA Leveraged Loans +3% Blend[3]						*0.2*	*4.0*	*7.5*	*5.6*	*9.7*	--	*9.6*	
Difference:						-0.6	-4.4	-11.6	-9.1	-7.7	--	-7.6	
Core Private Real Estate Lag			$ 231,809,308	5.7%									
Principal US[2]	*$25,000*	*Core Pvt. RE*	$ 42,391,201	1.0%		-3.2	-3.2	-8.9	-6.1	7.4	6.9	7.9	Jan-16
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*33.2*	*33.2*	*16.1*	*13.9*	*11.3*	
Difference:						-8.7	-8.7	-42.1	-39.3	-8.7	-7.0	-3.4	
Prologis Logistics[2]	*$50,500*	*Core Pvt. RE*	$ 130,379,818	3.2%		-0.3	-0.3	-5.3	0.2	21.4	19.2	8.9	Dec-07
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*33.2*	*33.2*	*16.1*	*13.9*	*9.4*	
Difference:						-5.8	-5.8	-38.5	-33.0	5.3	5.3	-0.5	
RREEF America II[2]	*$45,000*	*Core Pvt. RE*	$ 59,038,289	1.5%		-6.3	-6.3	-10.5	-4.4	7.9	7.2	7.7	Jul-16
NCREIF ODCE + 1% Lag Blend						*5.5*	*5.5*	*33.2*	*33.2*	*16.1*	*13.9*	*11.0*	
Difference:						-11.8	-11.8	-43.7	-37.6	-8.2	-6.7	-3.3	

[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 6/30/23, and lagged 1 quarter.

[3] Manager returns are as of 6/30/23, 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] August 2023

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Diversifying Strategies			**$ 772,938,754**	**19.1%**	**24.0%**	**1.0**	**0.9**	**1.9**	**-1.2**	**1.1**	**2.9**	**6.1**	**Oct-90**
Principal Protection			**$ 291,550,123**	**7.2%**	**9.0%**	**-0.7**	**-0.3**	**2.5**	**0.7**	**-1.7**	**0.7**	**5.7**	Oct-90
BB Aggregate Bond Index						*-0.6*	*-1.1*	*1.4*	*-1.2*	*-4.4*	*0.5*	*5.3*	
Difference:						-0.1	0.8	1.1	1.9	2.7	0.2	0.4	
Dodge & Cox		*Core Fixed Income*	$ 199,691,957	4.9%		-0.7	0.1	2.9	1.5	-2.3	1.9	6.5	Oct-90
BB Aggregate Bond Index						*-0.6*	*-1.1*	*1.4*	*-1.2*	*-4.4*	*0.5*	*5.3*	
Difference:						-0.1	1.2	1.5	2.7	2.1	1.4	1.2	
Loomis Sayles		*Core Fixed Income*	$ 91,858,166	2.3%		-0.7	-1.0	1.8	-1.0	--	--	-4.1	Mar-22
BB Aggregate Bond Index						*-0.6*	*-1.1*	*1.4*	*-1.2*	*--*	*--*	*-4.5*	
Difference:						-0.1	0.1	0.4	0.2	--	--	0.4	
Crisis Risk Offset			**$ 481,388,631**	**11.9%**	**15.0%**	**2.0**	**1.6**	**1.4**	**-2.3**	**3.3**	**4.5**	**6.3**	**Jan-05**
CRO Custom Benchmark [2]						*-1.0*	*-1.0*	*0.5*	*-1.5*	*0.2*	*3.5*	*4.7*	
Difference:						3.0	2.6	0.9	-0.8	3.1	1.0	1.6	
Long Duration			$ 111,332,879	2.7%		-2.6	-4.7	-0.5	-8.7	-12.6	-1.7	-1.4	
BB US Long Duration Treasuries						*-2.8*	*-4.9*	*-1.4*	*-9.7*	*-13.5*	*-1.9*	*-1.4*	
Difference:						0.2	0.2	0.9	1.0	0.9	0.2	0.0	
Dodge & Cox Long Duration		*Long Duration*	$ 111,332,879	2.7%		-2.6	-4.7	-0.5	-8.7	-12.6	-1.7	-1.4	Feb-16
BB US Long Duration Treasuries						*-2.8*	*-4.9*	*-1.4*	*-9.7*	*-13.5*	*-1.9*	*-1.4*	
Difference:						0.2	0.2	0.9	1.0	0.9	0.2	0.0	
Systematic Trend Following			$ 243,753,063	6.0%		1.3	2.5	1.1	-3.4	15.8	8.4	8.9	
BTOP50 Index						*-0.6*	*0.7*	*-1.1*	*-0.7*	*9.5*	*6.5*	*4.9*	
Difference:						1.9	1.8	2.2	-2.7	6.3	1.9	4.0	
Mt. Lucas Managed Futures - Cash		*Systematic Trend Following*	$ 124,654,320	3.1%		2.2	1.4	1.7	-5.2	19.1	8.2	8.4	Jan-05
BTOP50 Index						*-0.6*	*0.7*	*-1.1*	*-0.7*	*9.5*	*6.5*	*4.9*	
Difference:						2.8	0.7	2.8	-4.5	9.6	1.7	3.5	
Graham Tactical Trend		*Systematic Trend Following*	$ 119,098,743	2.9%		0.3	3.7	0.5	-1.5	12.7	8.5	4.6	Apr-16
SG Trend Index						*-0.7*	*-0.2*	*-2.1*	*-2.8*	*12.8*	*8.5*	*4.9*	
Difference:						1.0	3.9	2.6	1.3	-0.1	0.0	-0.3	
Alternative Risk Premia			$ 126,302,689	3.1%		8.2	5.9	3.3	4.0	3.3	2.9	7.4	
5% Annual						*0.4*	*1.2*	*3.3*	*5.0*	*5.0*	*5.0*	*6.2*	
Difference:						7.8	4.7	0.0	-1.0	-1.7	-2.1	1.2	
AQR Style Premia		*Alternative Risk Premia*	$ 60,533,588	1.5%		5.7	15.6	9.8	22.3	19.2	1.9	1.9	May-16
5% Annual						*0.4*	*1.2*	*3.3*	*5.0*	*5.0*	*5.0*	*5.0*	
Difference:						5.3	14.4	6.5	17.3	14.2	-3.1	-3.1	
PE Diversified Global Macro		*Alternative Risk Premia*	$ 65,769,101	1.6%		10.5	-1.6	-2.1	-3.9	3.4	3.7	2.7	Jun-16
5% Annual						*0.4*	*1.2*	*3.3*	*5.0*	*5.0*	*5.0*	*5.0*	
Difference:						10.1	-2.8	-5.4	-8.9	-1.6	-1.3	-2.3	
Cash[3]			**$ 124,426,084**	**3.1%**	**0.0%**	**0.3**	**1.0**	**2.4**	**3.5**	**1.3**	**1.3**	**2.4**	**Sep-94**
US T-Bills						*0.5*	*1.3*	*3.1*	*4.3*	*1.5*	*1.7*	*2.3*	
Difference:						-0.2	-0.3	-0.7	-0.8	-0.2	-0.4	0.1	
Northern Trust STIF		*Collective Govt. Short Term*	$ 81,827,732	2.0%		0.5	1.3	3.0	3.9	1.5	1.4	2.6	Jan-95
US T-Bills						0.5	1.3	3.1	4.3	1.5	1.7	*2.3*	
Difference:						0.0	0.0	-0.1	-0.4	0.0	-0.3	0.3	
Parametric Overlay[4]		*Cash Overlay*	**$ 28,321,982**	**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.

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

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CELEBRATING A MILESTONE | YEARS

Economic and Market Update

August 2023 Report

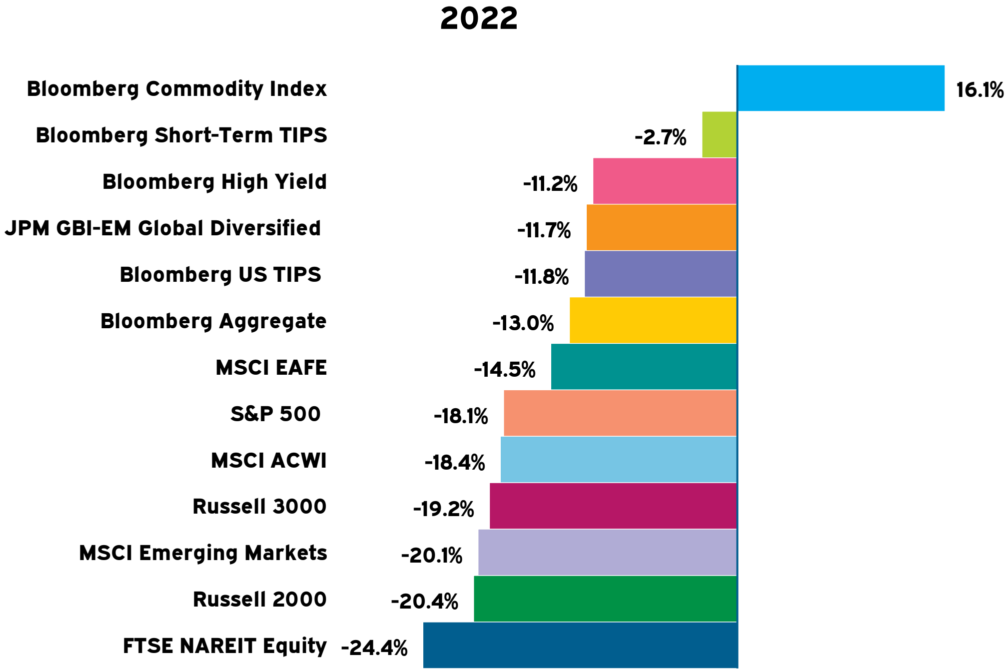
Commentary

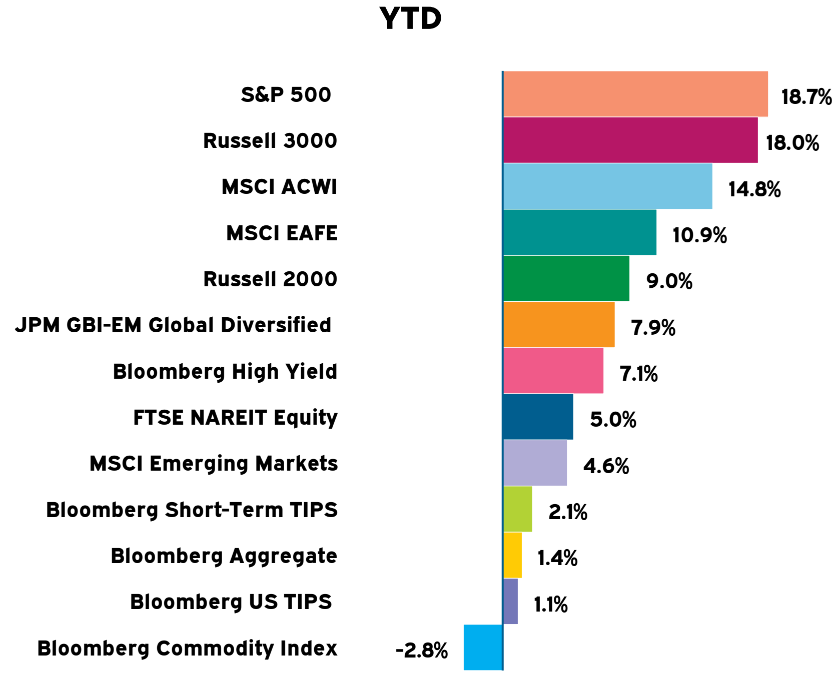
→ Global assets turned negative in August as expectations shifted to the Fed keeping interest rates higher for longer and potentially increasing interest rates further later this year. Weakening economic data from Europe and China, as well as further instability in the Chinese real estate sector, weighed on results.

- The Federal Reserve increased interest rates in July by 0.25% to a range of 5.25% - 5.5%, and it is largely expected they will keep rates at that level at their September meeting. Given continued strong data and inflation levels above target markets are now expecting that the Fed could raise rates again later this year.
- US equity markets (Russell 3000 index) fell in August (-1.9%), bringing the year-to-date gains to 18.7%. The technology sector remains the key driver of results this year, helped by artificial intelligence optimism.
- Non-US developed equity markets declined more than the US in August (MSCI EAFE -3.8%) with the strength of the US dollar adding 2% to the monthly declines. This widened the gap between US and international developed equities for the year (18.0% versus 10.9%).
- Emerging market equities fell the most in August (-6.2%), driven by results in China and the strong US dollar. They continue to significantly trail developed market equities year-to-date, returning 4.6%, again driven by China.
- Interest rates generally rose in August, particularly for longer-dated maturities. The broad US bond market fell (-0.6%) but remains positive (+1.4%) year-to-date as higher income has offset capital losses from rising rates.

→ This year, the paths of inflation and monetary policy, slowing global growth, and the war in Ukraine will all be key.

Index Returns[1]





→ After a particularly difficult 2022, most public market assets are up thus far in 2023, led by developed market equities.

→ Despite declines in August, risk sentiment has been supported overall this year by expectations that policy tightening could be ending soon, as inflation continues to fall, while growth has remained relatively resilient.

[1] Source: Bloomberg. Data is as of August 31, 2023.

Domestic Equity Returns[1]

Domestic Equity	August (%)	QTD (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
S&P 500	-1.6	1.6	18.7	15.9	10.5	11.1	12.8
Russell 3000	-1.9	1.6	18.0	14.8	9.8	10.2	12.2
Russell 1000	-1.7	1.6	18.6	15.4	9.9	10.8	12.5
Russell 1000 Growth	-0.9	2.4	32.2	21.9	8.3	13.8	15.6
Russell 1000 Value	-2.7	0.7	5.9	8.6	11.6	7.1	9.1
Russell MidCap	-3.5	0.4	9.4	8.4	9.2	7.3	10.0
Russell MidCap Growth	-3.3	-0.4	15.5	13.0	3.8	7.9	11.0
Russell MidCap Value	-3.5	0.7	5.9	5.7	12.1	6.1	8.9
Russell 2000	-5.0	0.8	9.0	4.7	8.1	3.1	8.0
Russell 2000 Growth	-5.2	-0.8	12.7	6.8	2.7	2.5	8.2
Russell 2000 Value	-4.8	2.4	4.9	2.2	13.5	3.2	7.4

US Equities: Russell 3000 Index fell 1.9% in August but is up 18.7% YTD.

→ Given strong economic data, investors questioned whether the Federal Reserve was done with its rate increases and expectations increased for rates to remain higher for longer. This overall weighed on the US equity markets.

→ Large cap stocks outperformed small cap stocks by a wide margin in August. Stocks in the health care sector drove this dynamic, in part due to the relative underperformance of small cap biotechnology stocks. Technology stocks, particularly those of software companies, also contributed to the outperformance of large cap stocks.

→ Energy was the only sector to post a gain during August. Oil prices rose partly due to investor expectations of an extension of Saudi Arabia's oil production cuts, which were confirmed in September.

[1] Source: Bloomberg. Data is as of August 31, 2023.

Foreign Equity Returns[1]

Foreign Equity	August (%)	QTD (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
MSCI ACWI ex. US	-4.5	-0.6	8.8	11.9	4.0	3.3	4.4
MSCI EAFE	-3.8	-0.7	10.9	17.9	6.1	4.1	4.9
MSCI EAFE (Local Currency)	-1.8	-0.2	11.9	14.1	10.8	6.2	7.3
MSCI EAFE Small Cap	-3.3	1.0	6.5	9.2	2.4	1.5	5.7
MSCI Emerging Markets	-6.2	-0.3	4.6	1.3	-1.4	1.0	3.0
MSCI Emerging Markets (Local Currency)	-4.7	0.4	5.9	2.3	0.6	2.8	5.6
MSCI China	-9.0	0.8	-4.7	-7.5	-14.3	-3.9	2.5

Foreign Equity: Developed international equities (MSCI EAFE) fell 3.8% in August bringing the YTD gain to 10.9%. Emerging market equities (MSCI EM) fell 6.2% in August, rising 4.6% YTD.

→ International equities fell alongside US markets in August, with emerging markets experiencing the largest decline driven by losses in China. A major rally in the US dollar weighed further on results.

→ Japanese equities rose moderately, namely in the domestic-oriented mid- and small-cap sectors, while large cap growth names declined given the rise in Japanese government bond yields. Eurozone and UK equities both fell, with all sectors except energy and real estate declining.

→ As overall risk sentiment fell and weakness in China continued emerging market equities were weak across the board. China saw substantial declines in August, as signs of a slowdown continued and concerns surrounding the property sector grew. To support the economy the government announced additional stimulus in the form of reduced mortgage rates and lower down payment ratios. India declined but relatively outperformed other emerging markets, due in part to broad inflows from foreign investors.

[1] Source: Bloomberg. Data is as of August 31, 2023.

Fixed Income Returns[1]

Fixed Income	August (%)	QTD (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Current Yield (%)	Duration (Years)
Bloomberg Universal	-0.6	-0.5	1.8	-0.4	-4.0	0.7	1.8	5.3	6.2
Bloomberg Aggregate	-0.6	-0.7	1.4	-1.2	-4.4	0.5	1.5	5.0	6.4
Bloomberg US TIPS	-0.9	-0.8	1.1	-3.7	-1.5	2.3	2.1	4.6	6.8
Bloomberg Short-term TIPS	0.1	0.6	2.1	0.5	1.9	2.8	1.8	5.1	2.6
Bloomberg High Yield	0.3	1.7	7.1	7.2	1.8	3.3	4.5	8.4	4.0
JPM GBI-EM Global Diversified (USD)	-2.7	0.1	7.9	11.3	-2.2	1.2	-0.1	6.6	5.0

Fixed Income: The Bloomberg Universal index fell 0.6% in August remaining positive YTD (+1.8%), as inflation continues to decline, and yields remain high.

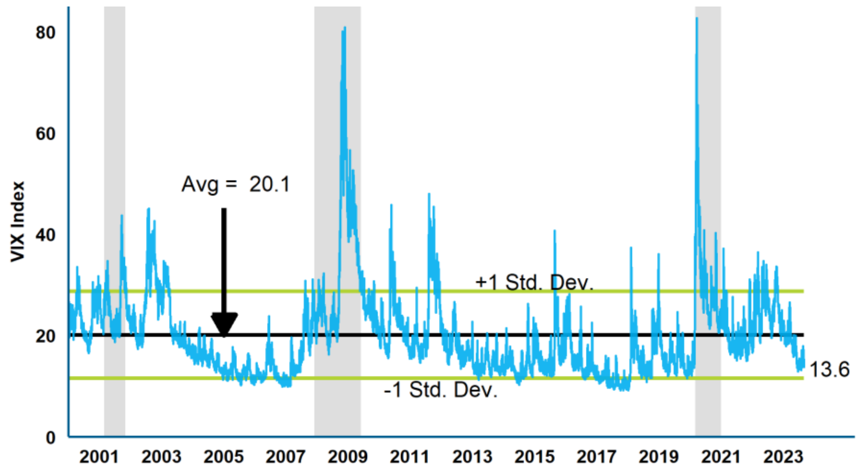
→ The downgrade of US government debt from AAA to AA+ by Fitch combined with expectations for higher borrowing put upward pressure on longer-term rates and weighed on overall results. Expectations for interest rates to remain higher for longer than previously expected also contributed to the decline in bonds.

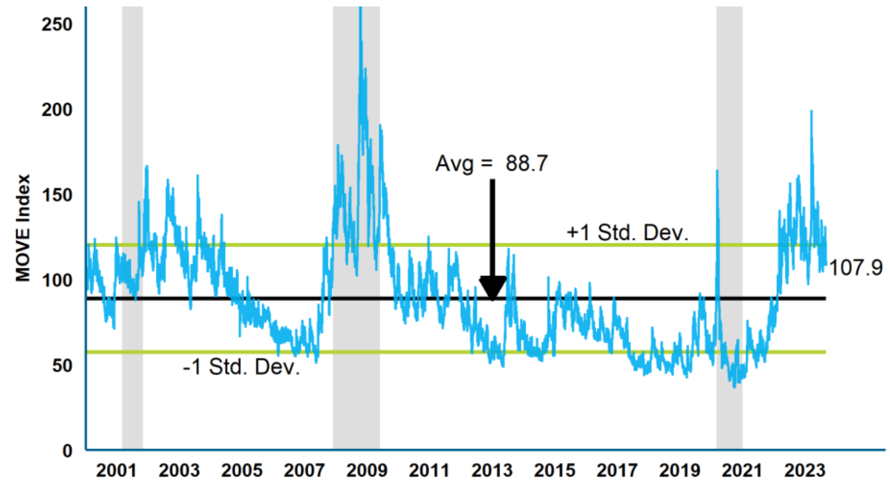
→ The broad US bond market (Bloomberg Aggregate) fell 0.6% for the month. The more interest rate sensitive broader TIPS index fell slightly more (-0.9%), while the short-term TIPS index eked out a small gain (+0.1%).

→ High yield bonds rose slightly (+0.3%) for the month, while emerging market bonds were the weakest performer, falling 2.7%. The two asset classes remain the top performers for the year by a wide margin.

[1] Source: Bloomberg. JPM GBI-EM data is from InvestorForce. Data is as of August 31, 2023. The yield and duration data from Bloomberg is defined as the index's yield to worst and modified duration respectively.

Equity and Fixed Income Volatility[1]



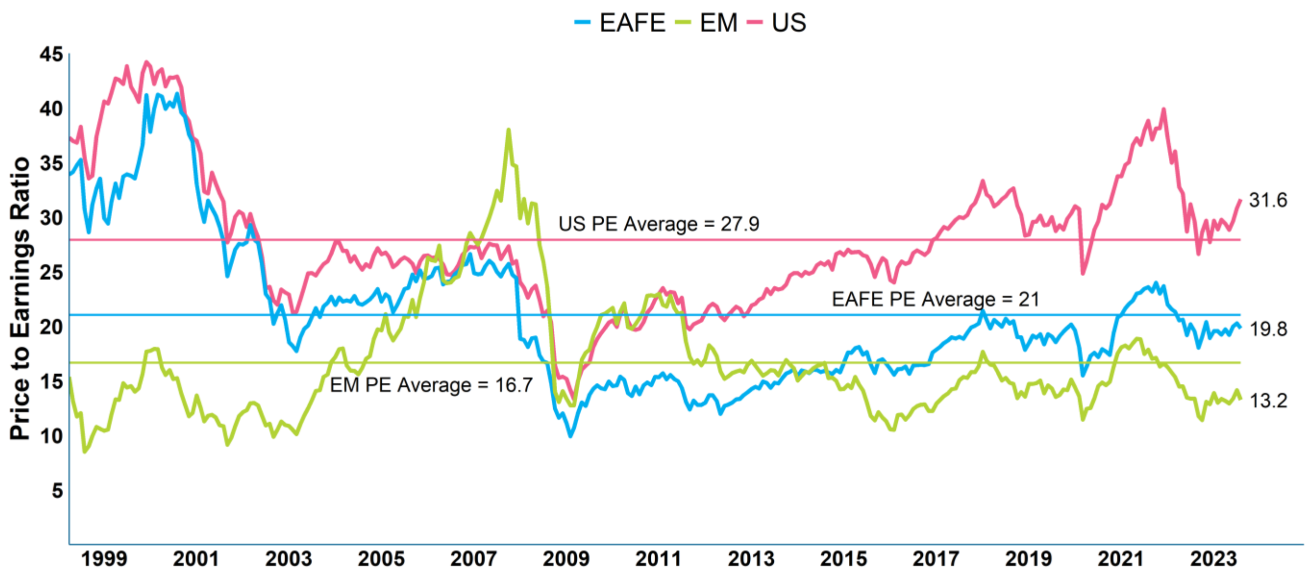


→ Volatility in equities (VIX) remains well below the historical average as investors continue to anticipate the end of the Fed's policy tightening and have become more optimistic about the potential for a "soft landing" of the economy.

→ In comparison, volatility in the bond market (MOVE) remains well above its long-run average (88.7) after last year's historic losses and due to continued policy uncertainty.

1 Equity Volatility – Source: FRED. 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 August 2023. The average line indicated is the average of the VIX and MOVE values between January 2000 and August 2023.

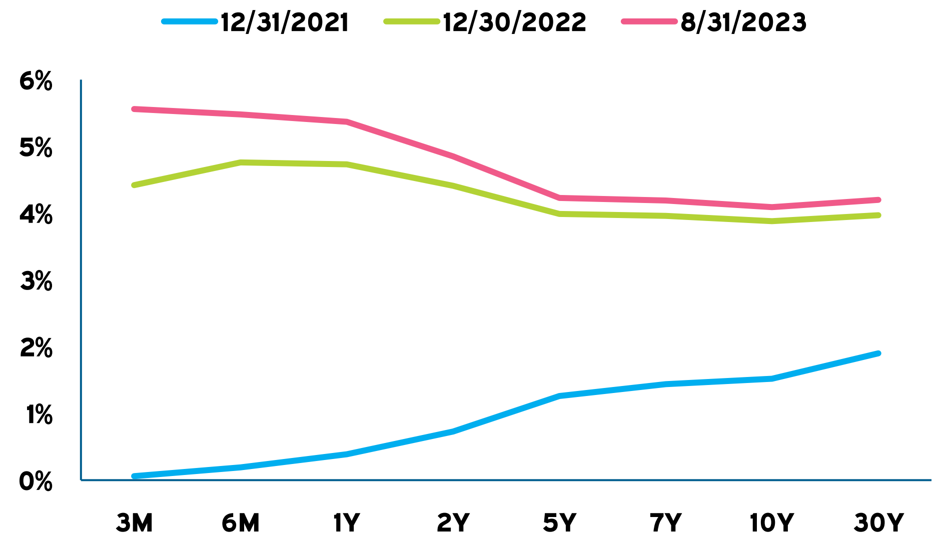
Equity Cyclically Adjusted P/E Ratios[1]



- → Given the strong technology-driven rally this year, the US equity price-to-earnings ratio increased above its long-run (21st century) average.
- → International developed market valuations are below their own long-term average, with those for emerging markets the lowest and well under the long-term average.

[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: Bloomberg. Earnings figures represent the average of monthly "as reported" earnings over the previous ten years. Data is as of August 2023. The average line is the long-term average of the US, EM, and EAFE PE values from April 1998 to the recent month-end respectively.

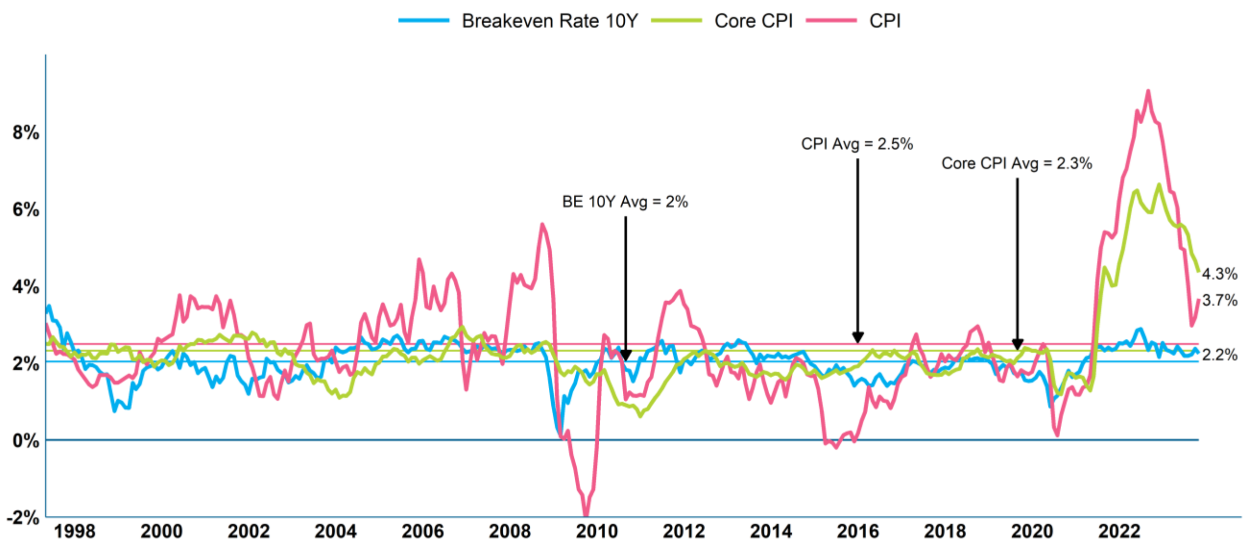
US Yield Curve[1]



- → Overall rates have continued to increase this year, particularly at the policy sensitive front-end of the yield curve, but at much slower pace compared to last year.
- → In August, very short-term interest rates (6-months or less) remained largely unchanged as monetary policy has likely reached the terminal rate for this cycle. A downgrade from Fitch Ratings of US debt, the Treasury's announcement of above expectations borrowing, and Chair Powell commenting that more work needs to be done on the inflation front all contributed to yields on longer dated maturities rising.
- → The yield curve remains inverted with the spread between two-year and ten-year Treasuries finishing the month at -0.75%, but the curve steepened over the month given the dynamics mentioned above.

[1] Source: Bloomberg. Data is as of August 31, 2023.

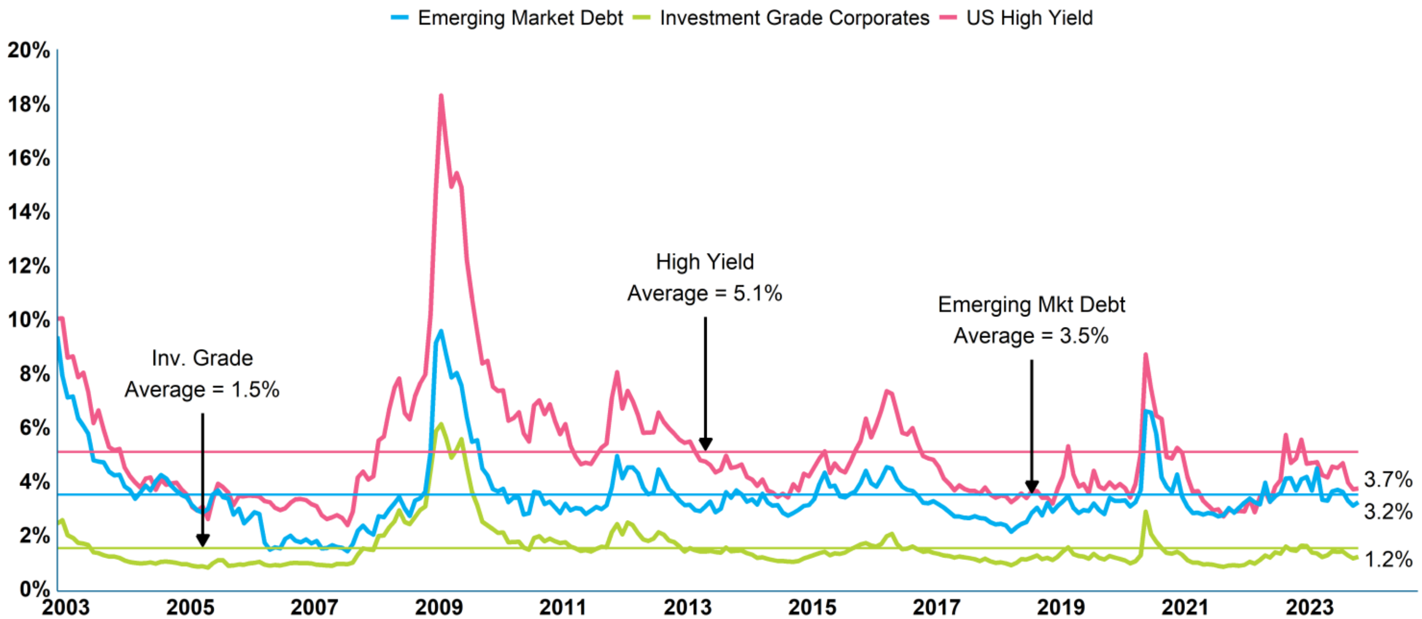
Ten-Year Breakeven Inflation and CPI[1]



- → Declines in inflation while other economic data remains strong has led to optimism over the Federal Reserve potentially achieving a rarely observed soft landing for the economy.
- → Year-over-year headline inflation rose from 3.2% to 3.7%, coming in slightly above expectations largely driven by a double-digit increase in gasoline for the month. The trend of lower month-over-month price increases ended with the rate jumping from 0.2% to 0.6%.
- → Core inflation – excluding food and energy – continued its decline (4.7% to 4.3%) year-over-year. It remains stubbornly high, though, driven by shelter costs (+7.3%), particularly owners' equivalent rent, and transportation services (+10.3%).
- → Inflation expectations (breakevens) remain well below current inflation as investors continue to expect inflation to track back toward the Fed's 2% average target.

[1] Source: FRED. Data is as August 31, 2023. The CPI and 10 Year Breakeven average lines denote the average values from February 1997 to the present month-end, respectively. Breakeven values represent month-end values for comparative purposes.

Credit Spreads vs. US Treasury Bonds[1]

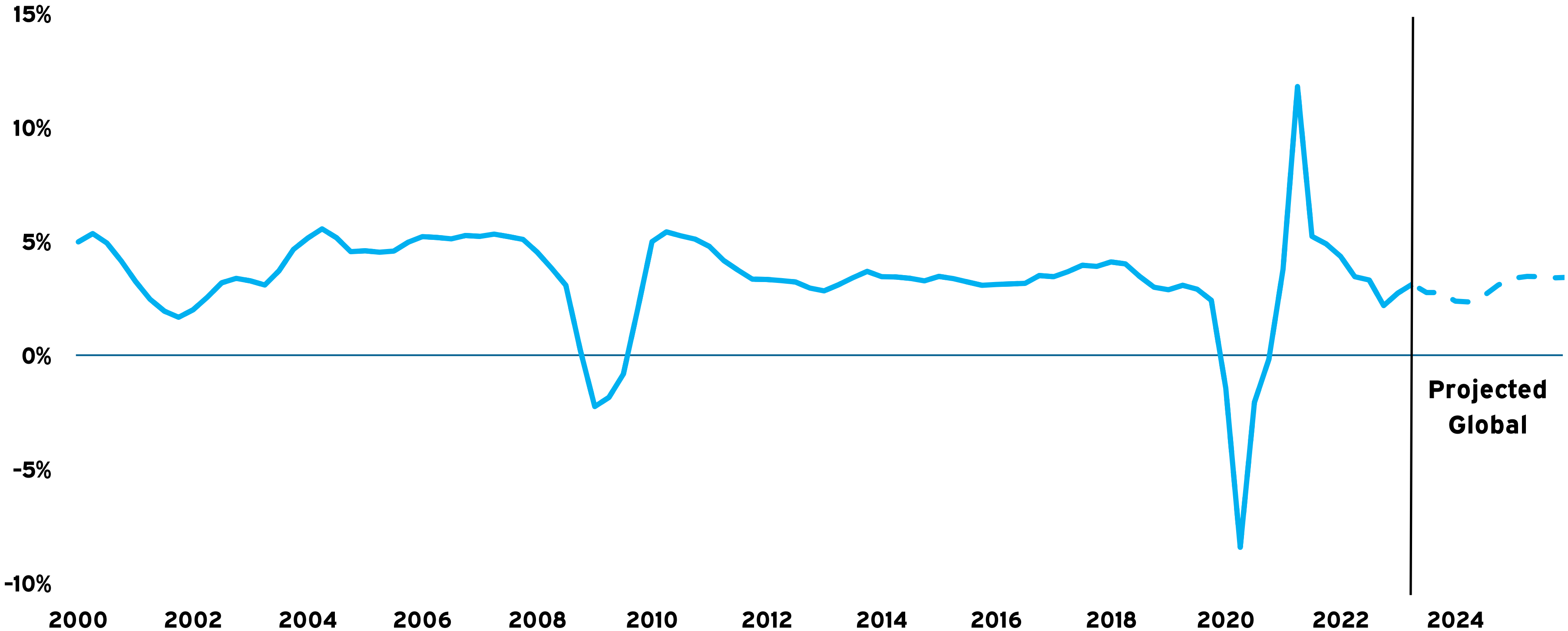


→ Credit spreads (the added yield above a comparable maturity Treasury) largely remained unchanged in August. In the US high yield bonds slightly outpaced government bonds for the month.

→ High yield spreads remain well below the long-term average given the overall risk appetite this year. Investment grade and emerging market spreads are also below their respective long-term averages, but by smaller margins.

[1] Sources: Bloomberg. Data is as of August 31, 2023. Average lines denote the average of the investment grade, high yield, and emerging market spread values from September 2002 to the recent month-end, respectively.

Global Real Gross Domestic Product (GDP) Growth[1]

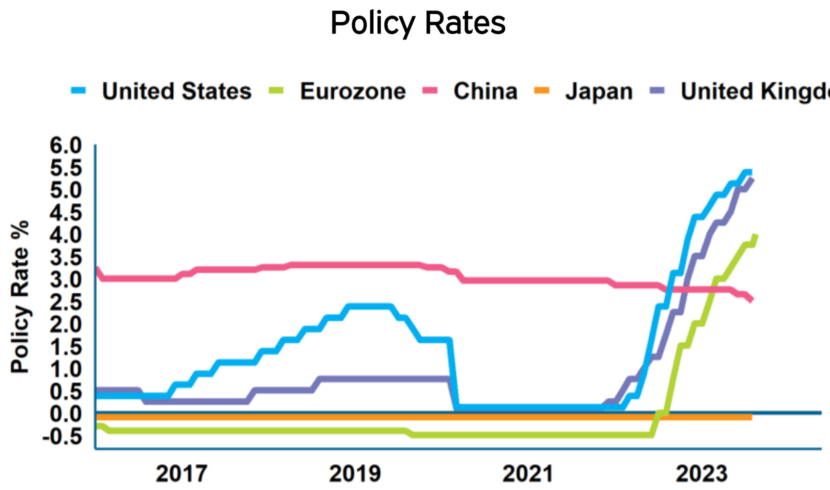


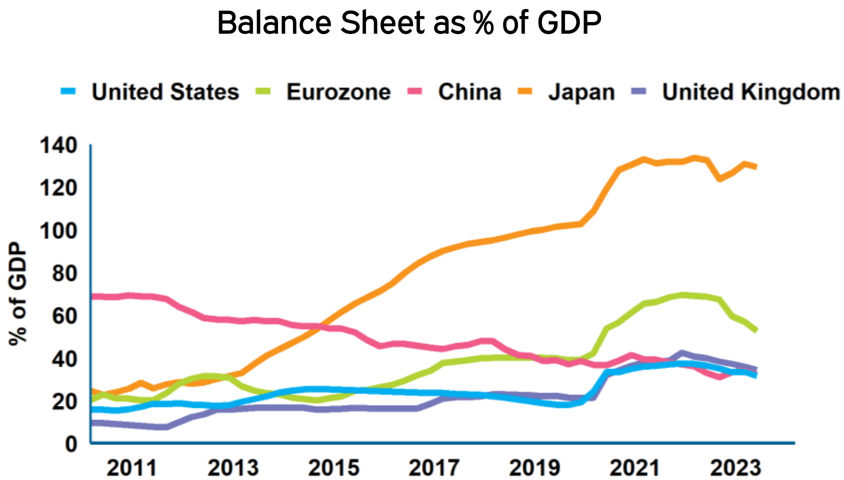
→ Global economies are expected to slow this year compared to 2022. The risk of recession remains given policymakers' aggressive tightening, but optimism has started to grow over some central banks potentially navigating a soft landing.

→ The delicate balancing act of central banks trying to reduce inflation without dramatically depressing growth will remain key.

[1] Source: Oxford Economics (World GDP, US$ prices & PPP exchange rate, real, % change YoY). Updated August 2023.

Central Bank Response[1]

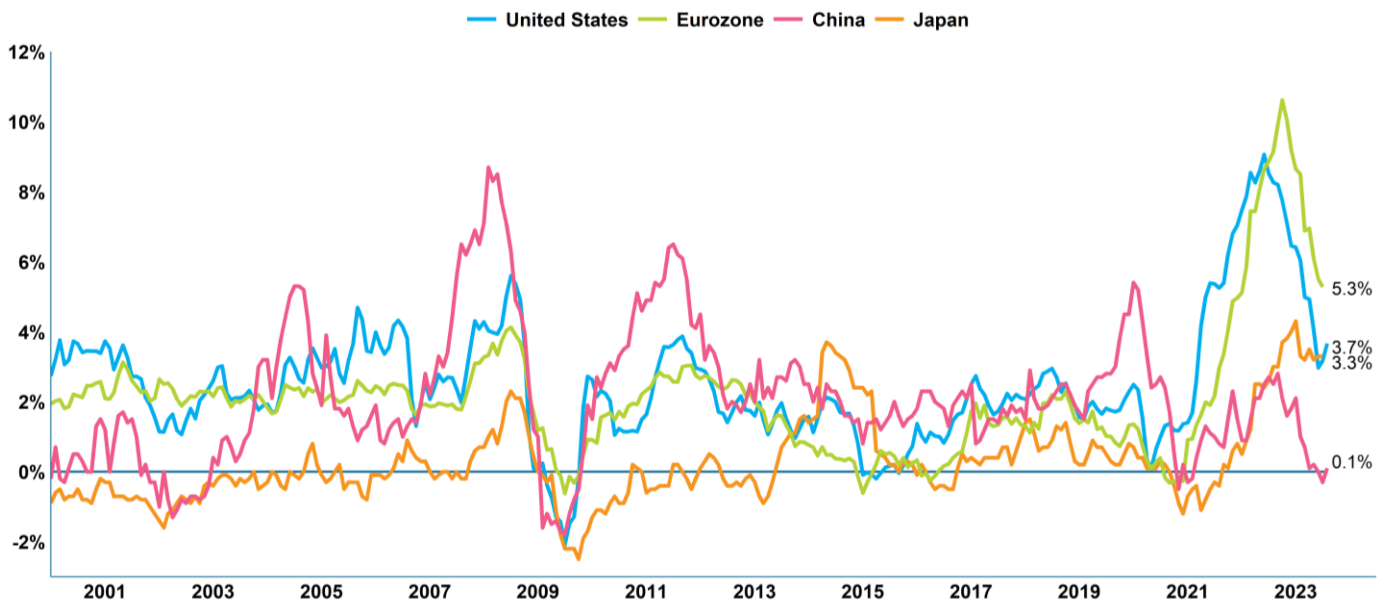




- → Slowing inflation and growth have led to expectations for a reduction in the pace of aggressive policy tightening.
- → In July the Fed raised rates another 25 basis points to a range of 5.25% to 5.50% with markets largely expecting a pause in September but potentially one more hike later this year.
- → The European Central Bank also increased rates in July with an additional hike after August month-end, but they remain lower than in the US. In Japan expectations have increased that the BOJ will end its negative interest rate policy due to rising inflation.
- → The central bank in China has continued to cut interest rates and inject liquidity into the banking system, as weaker than expected economic data appears to indicate a widespread slowdown.
- → Looking ahead, risks remain for a policy error as central banks attempt to balance multiple goals, bringing down inflation, maintaining financial stability, and supporting growth.

[1] Source: Bloomberg. Policy rate data is as of September 15, 2023. 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 June 30, 2023.

Inflation (CPI Trailing Twelve Months)[1]



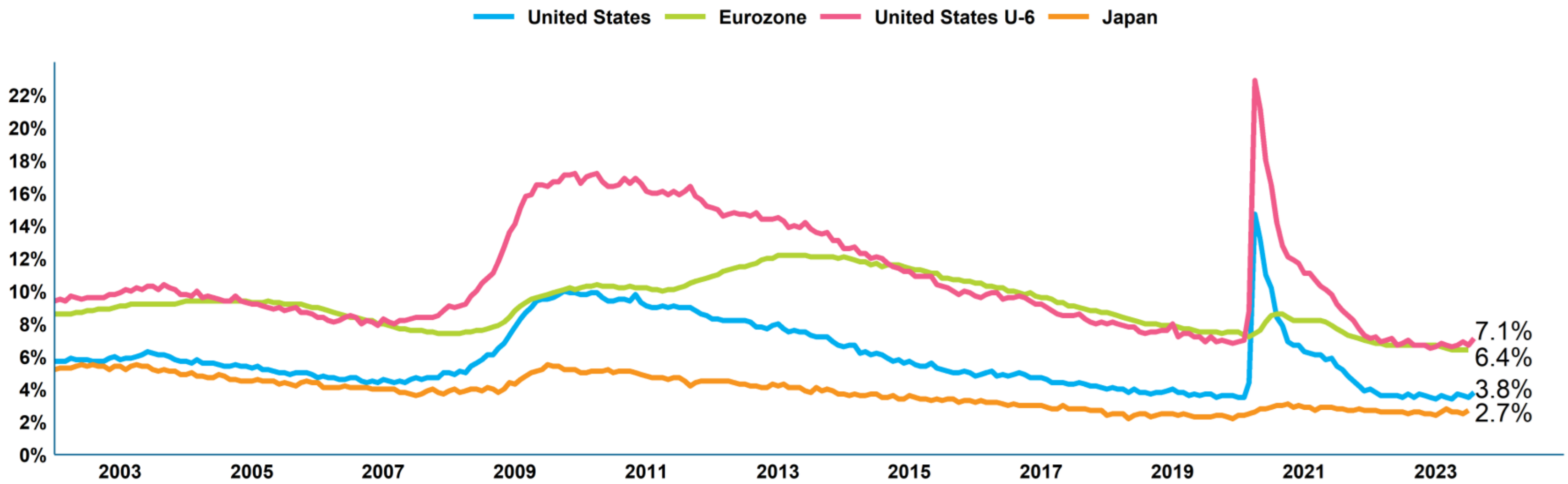
→ The inflation picture remains mixed across the major economies.

→ In the US, inflation increased from 3.2% to 3.7%, influenced by rising fuel costs, while eurozone inflation remained higher than the US at 5.3%, a level well off its peak, however. Despite 2023's significant declines in the US and Europe, inflation levels remain elevated compared to central bank targets.

→ Inflation in Japan has increased to levels not seen in almost a decade largely driven by food and home related items. In China, deflationary pressures eased in August but only to a slightly positive level (+0.1%).

[1] United States CPI and Eurozone CPI – Source: FRED. Japan CPI and China CPI - Source: Bloomberg. Data is as August 31, 2023. The most recent data for Japanese and Eurozone inflation is as of July 2023.

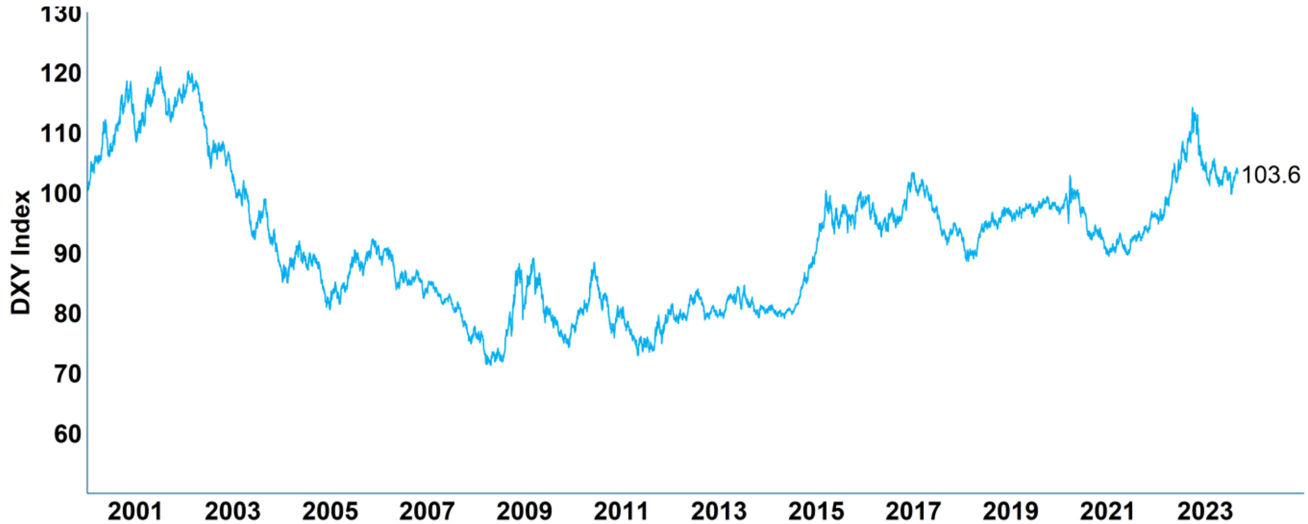
Unemployment[1]



- → Overall, the US labor market remains healthy with the unemployment rate relatively low, wage growth now positive in real terms, and initial claims for unemployment staying subdued. The pace of wage growth has slowed though, and despite remaining elevated, the number of job openings has declined.
- → In August, unemployment ticked-up from 3.5% to 3.8% largely driven by an increase in the labor force participation rate. Broader measures of unemployment (U-6) also increased for the month (6.7% to 7.1%).
- → The strong labor market and higher wages, although beneficial for workers, motivates the Fed's efforts to fight inflation, potentially leading to higher unemployment.
- → Unemployment in Europe has also declined but remains higher than the US, while levels in Japan have been flat through the pandemic given less layoffs.

[1] Eurozone Unemployment - Source: Bloomberg. Japan, United States, United States U-6 Unemployment – Source: FRED. Data is as August 31, 2023, for the US. The most recent data for Eurozone and Japanese unemployment is as of July 2023.

US Dollar versus Broad Currencies[1]



→ The dollar finished 2022 much higher than it started, due to the increased pace of policy tightening, stronger relative growth, and safe-haven flows.

→ Late last year and into early this year, the dollar declined, as weaker economic data and lower inflation led to investors anticipating the end of Fed tightening. Recently though, the dollar has reversed course and is appreciating against major currencies as relative growth remains strong and investors anticipate the Fed keeping interest rates higher for longer.

→ For the rest of this year, the track of inflation across economies and the corresponding monetary policies will be key drivers of currency moves.

[1] Source: Bloomberg. Data as of August 31, 2023.

Summary

Key Trends:

→ The impact of inflation still above policy targets will remain key, with bond market volatility likely to stay high.

→ Global monetary policies could diverge going forward. The risk of policy errors remains elevated as central banks try to reduce persistent inflation while not tipping their economies into recession.

→ Growth is expected to slow globally this year, with many economies forecasted to tip into recession. Optimism has been building though that some economies could experience a soft landing. Inflation, monetary policy, and the war will all be key.

→ In the US, consumers could feel pressure as certain components of inflation remain high (e.g., shelter), borrowing costs are elevated, and the job market may weaken.

→ The key for US equities going forward will be whether earnings can remain resilient if growth continues to slow. Also, the future path of the large technology companies that have driven market gains will be important.

→ Equity valuations remain lower in emerging and developed markets, but risks remain, including potential for recent strength in the US dollar to persist, higher inflation weighing particularly on Europe, and China's sluggish economic reopening and on-going weakness in the real estate sector. Japan's recent hint at potentially tightening monetary policy along with changes in corporate governance in the country could influence relative results.

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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.

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PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

2023-2024 CONFERENCES AND EVENTS SCHEDULE

2023-2024 EVENT DATES		EVENT TITLE	EVENT SPONSOR	LOCATION	REG. FEE	WEBLINK FOR MORE INFO	EST. BOARD EDUCATION HOURS
Oct 21	Oct 22	NCPERS Accedited Fiduciary (NAF) Program	NCPERS	Las Vegas, NV	$855	ncpers.org	12
Oct 22	Oct 25	NCPERS Fall Conference	NCPERS	Las Vegas, NV	$750	ncpers.org	up to 12
Oct 27	Oct 27	Trustee Roundtable	CALAPRS	Online webinar	$50	calaprs.org	4
Oct 30	Oct 30	2023 Pensions, Benefits & Investments Fiduciaries' Forum	Nossaman's	Los Angeles, CA	$95	nossaman.com	4.5
Nov 7	Nov 10	SACRS Fall Conference	SACRS	Rancho Mirage, CA	$120	sacrs.org	*11
Dec 3	Dec 5	Alternative Investing Sumimit 2023	Opal Group	Dana Point, CA	$0**	opalgroup.net	TBD
Dec 5	Dec 6	10th Annual California Institutional Forum	Markets Group	Napa, CA	$0	marketsgroup.org	TBD
Jan 22	Jan 24	Legislative Conference Education	NCPERS	Washington, DC	TBD	ncpers.org	TBD
Mar 2, 24	Mar 5, 24	General Assembly 2024	CALAPRS	Rancho Mirage, CA	TBD	calaprs.org	TBD

** Estimates based on prior agendas*

** Investors (must be allocators to 3rd party fund managers)

10th Annual Northern California Institutional Forum Napa | December 5-6, 2023

Key Discussion Topics

Opening Bell – Macro and Market Outlook

In a time of macroeconomic uncertainty, geopolitical conflict, higher interest rates, chronic inflation, and market volatility, hear how strategists and investors are viewing the next 12 months.

Alternatives & Private Market Investments – Time to Shine

As investors search for additional sources of revenue and methods for portfolio diversification in the volatile and changing environment, alternatives stand out as an area of opportunities.

Emerging Markets in a Time of Profound Global Change

In a time of profound global change, how has investor sentiment changed towards emerging markets? Which factors should long-term investors consider when debating how and whether to allocate to the asset class? Which regions, strategies and approaches will provide the best results for the objectives and needs of institutional portfolios?

The Great Equity Debate: Institutional Views on Stock Markets

Amidst slowing global growth, margin compression, and the challenging backdrop of high inflation and rising interest rates, hear the different strategies investors are using to determine their equity allocations and guide their investments.

Solutions for Getting to Net Zero: Transformational Technologies

Net zero commitments in place today indicate that billions of dollars will be spent on innovations and technologies to reduce emissions. Panelists will address how we can allocate capital most efficiently to achieve these net zero targets and drive investment growth while remaining aware of the challenges and opportunities within the just transition.

Fixed Income: Reassessing the Asset Class in Uncertain Times

Inflationary pressures and rising rates are causing investors to consider how they are allocating to traditional fixed income. Are investors increasing their risk tolerance? Where are risks being most compensated? What are the dominant forces driving yield in the sub-asset classes?

Addressing Inflationary Pressures in 2023

Economic growth is like an aircraft carrier that has enormous momentum but is difficult to turn or stabilize if it starts to list. Persistent inflation and a looming recession, at opposite ends of the spectrum, may become tail risk events that keep the Fed and politicians awake at night. Awareness of key indicators could sharpen an investor's edge, increase investment readiness and reduce their risks ahead.

Finding Alpha Across Private Credit Strategies

Credit strategies are changing and driving more profit within portfolios as LPs have sought greater diversifiers within the private credit space. Learn where investors are finding alpha across the ever-increasing range of specialty, niche, and bespoke strategies.

Institutional Leadership Roundtable: Decision-Making in Disruptive Times

Leading institutional investors and asset owners shed light on the most pressing investment and management issues facing their organizations. Under Chatham House Rules, they will vet tactics on global, social, market and environmental disruptions within the current environment. They will discuss topics that are strategically important to boards in today's climate. They will explore how global, social, market and environmental priorities have shifted. They will debate reasonable expectations for investment returns this year, and relay how they are streamlining governance practices. This is an opportunity to hear best practices from institutional leadership, develop strategies to maximize opportunities, and explore solutions for challenges to come.

REGISTRATION

INVESTORS: Complimentary Registration for all qualified investors.
Email IR@marketsgroup.org for more information on obtaining a complimentary ticket.

MANAGERS & SERVICE PROVIDERS: Rates below reflect the current price for all asset managers and service providers.

PRICING

Sponsorship is only available upon invitation and Markets Group reserves the right to refuse sponsorship from any organization or individual deemed by Markets Group to be incompatible with the event. Markets Group forum sessions are closed to all media/press and video/audio recording is explicitly prohibited within the venue.

ATTEMPTING TO GET COMPLETE AGENDA

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
Nov 7-10	SACRS Fall Conference	Rancho Mirrage, CA	Ray McCray, JC Weydert, Johanna Shick, Brian McKelvey	$6,600	N/A

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF COMPLETED TRUSTEE AND EXECUTIVE STAFF TRAVEL

Event Dates 2023	Sponsor / Event Description	Location	Traveler(s)	Estimated Cost	Actual Cost	Event Report Filed
Jan 17-20	IREI 2023 Visions, insights & Perspectives America	Rancho Palos Verdes, CA	Michael Restuccia	$1,250.00	$1,736.78	2/10/2023
Feb 7	2023 Employee Benefits Update	Webinar	Johanna Shick	$0	$0	N/A
Feb 11	CALAPRS Administrators' Round Table	Online	Johanna Shick	$50.00	$50.00	N/A
Mar 4-7	CALAPRS General Assembly	Monterey	Johanna Shick, JC Weydert	$2,857	$2,788.65	N/A
Mar 29-31	Advanced Principles of Pension Governance for Trustees	Los Angeles	Steve Moore	$4,150	$3,707.19	N/A
Apr 17-19	Pension Bridge Annual Conference	San Francisco	Ray McCray, Paris Ba	$2,360	$1,849.74	6/2/2023 5/5/2023
May 9-12	SACRS Spring Conference	San Diego	JWeydert, Keokham, Goodman, Bassett, McCray, Shick, Ba, Morrish	$13,600	$12,260	N/A
Jul 16-19	SACRS/UC Berkeley Progam	Berkeley, CA	Brian McKelvey JC Weydert Emily Nicholas Michael Duffy	$20,000	$16,795	N/A
Sep 11-13	Stockridge Core and Value Advisors Annual Meeting	Atlanta, GA	Paris Ba	Cancelled - now Airline Credit	$1,208	N/A
Sep 12-14	IREI Editorial Advisory Board Meeting	Santa Monica	JC Weydert	$2,725.89	TBD	Pending
Sep 19-21	Fiduciary Investors Symposium	Stanford	Paris Ba, Brian McKelvey	$8,400	$7,407.66	Pending
Sep 27-29	CALAPRS Administrators Institute 2023	Carmel	Johanna Shick	$2,800	TBD	N/A

Board Member	Travel (not including SACRS & CALAPRS)	Dates	Amount used of $2500:	Balance of $2500	
RESTUCCIA	IREI	1/2023	$1,736.00	$764	
BASSETT					
DING					
DUFFY					(Exception to annual travel cap approved 7/14/23)
GOODMAN					
KEOKHAM					
MCCRAY	Pension Bridge Annual Conference	4/2023	$798.77	$1,701.23	
NICHOLAS					
WEYDERT	IREI	9/2023			(Exception to annual travel cap approved 8/11/2023)
MOORE					

Board of Retirement Meeting

San Joaquin County Employees' Retirement Association

Agenda Item 10.03-01

October 11, 2023

SUBJECT: Pending Member Accounts Receivable – 3rd 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 September 30, 2023.

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

3rd Quarter - July through September 2023

	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	$4,187.93	$163.00	Fixed Dollar Amount	10/01/25	Jul-11
2	09/01/12	$13,580.90	02/01/14	$584.34	$297.00	Fixed Dollar Amount	11/02/23	Jan-16
3	05/19/02	$35,537.23	11/01/15	$11,378.18	$293.14	Fixed Dollar Amount	12/01/27	Jul-21
4	03/11/21	$12,035.49	06/01/21	$2,655.49	$335.00	Fixed Dollar Amount	05/01/24	May-21
5	12/31/22	$25,062.14	02/01/23	$20,576.50	$589.36	Fixed Dollar Amount	12/01/26	Apr-23
6	04/03/23	$8,494.56	04/03/23	$7,078.80	$235.96	Fixed Dollar Amount	04/01/26	Jul-23

Total Accounts Receivable as of 09/30/2023 **$ 46,461.24**

No new member accounts receivalble in the third quarter of 2023.

BRIAN MCKELVEY
Asst. Chief Executive Officer

Pending Disability Application Statistics
3rd Quarter 2023
Open Cases

SJCERA received 1 disability application during Q3 2023

Time Elapsed From Application Date	
01 - 03 Months	1
04 - 06 Months	2
07 - 09 Months	5
10 - 12 Months	2
13 - 15 Months	0
16 - 18 Months	1
19 - 21 Months	0
22 - 24 Months	1
Over 24 Months	0
Total	**12**

Break Down By Application Type	
Service-Connected	11
Nonservice Connected	0
Service & Nonservice Connected	1
Total	**12**

Breakdown By Department	Service	Nonservice	Service & Nonservice	Total	SJCERA Members	Ratio
Courts	0	0	1	1	281	0.36%
Hospital	1	0	0	1	1,337	0.07%
Human Services Agency	3	0	0	3	1,216	0.25%
Mental Health	2	0	0	2	559	0.36%
Probation	1	0	0	1	260	0.38%
Public Works	2	0	0	2	362	0.55%
Recreation	1	0	0	1	37	2.70%
Sheriff	1	0	0	1	754	0.13%
Totals	11	0	1	12	4,806	0.25%
Total SJCERA Active Members For All Departments As of 9/10/2023					**6,532**	**0.18%**
Total Number of Department Groups					**8**	

2023 Total Cases Resolved = 12

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	100%	Completed within 9 months
Goal #2	0%	Completed with Hearing within 18 months

Of the two cases that were resolved in the third quarter of 2023, one was completed without a hearing within the 9 month goal and one was completed outside of the 18-month goal defined in Goal #2. Staff and our disability attorney meet weekly and are taking action to ensure all cases move through the process as timely as possible.

Calendar Year Comparison
1/1 to 12/31

	2018	2019	2020	2021	2022	2023
New	41	13	7	16	14	11
Granted	21	19	10	8	12	9
Denied	3	2	4	3	3	1
Dismissed	4	6	2	0	0	1
Withdrawn	0	4	0	0	2	1
Rejected						2
Total Closed	28	31	16	11	17	12

Board of Retirement Meeting
San Joaquin County Employees' Retirement Association

Agenda Item 10.03-03

Q3 2023 - Pension System Project Status Report

	Overall Project Status
	The overall project is progressing as planned.
	Scope
	There have been no changes to project scope.
	Schedule
	No changes to overall project schedule.
	Risks / Issues
	No identifiable or foreseeable Risks or Issues.

LEGEND
- On track with no risk to schedule, scope, or cost
- Identified potential risk to schedule, scope, or cost
- Known delay or risk resulting in delay to schedule, change to project scope, or impact to cost

Schedule & Milestones

Phase 1 – Project Initiation – Completed April 10, 2023

Phase 2 – Infrastructure and Hosting Setup – Completed April 24, 2023

Phase 3 – PAS Implementation – Expected Completion March 2026

- August 2023 – Member Demographics – Completed August 2023
- February 2024 – Organization, Employment, Wages, Service Credit and Contributions Maintenance
- April 2024 – Membership, Service Purchase, Rates (Contribution, Interest, Tax) Maintenance, and Lump Sum Payments
- September 2024 – Employer Reporting
- November 2024 – Benefit Calculator
- March 2025 – Active and Deferred Workflow
- May 2025 – Service Purchase, Disability Retirement, and Death Calculations
- August 2025 – Retiree Payroll and Imaging Integration
- November 2025 – Retiree Workflow
- March 2026 – Accounting and General Ledger

Phase 4 – Imaging Integration – Expected Completion August 2025

Phase 5 – Member Portal – Expected Completion May 2026

Phase 6 – Partner Portal – Expected Completion May 2026

Phase 7 – System Readiness – Expected Completion July 2026

Go-Live – Expected Completion August 2026

Post Go-Live Warranty Support – Expected Completion August 2027

Activities Completed (Q3 – 2023)

1. Completed Data Conversion Cycle 3 – Active Member Data, Beneficiary Accounts, and Service Purchases
2. Continued Requirements Confirmation and Design Meetings with Tegrit and Linea
3. Continued Data Conversion Analysis, Mapping, and Reconciliation with MBS, Tegrit, and Linea
4. Reviewed and Approved Business System Requirements Documents completed by Tegrit - Bargaining Unit Maintenance
5. Performed User Acceptance Testing – Member Demographics

Activities Planned (Q4 – 2023)

1. Complete Data Cycle 4 - Retirement Calculation and Payment History
2. Review, edit, and approve Business Systems Requirements (BSR) documents for Employers, Employer Reporting which includes earnings, employee and employer contributions, service credit, reciprocity, domestic relations orders (DROs), and service purchases
3. Complete remaining 3 Requirements Revision Sessions with Linea
4. Analyze and Map data in preparation for Data Cycle 5 to support PAS functionality expected to be delivered the first quarter of 2024.

Brian P. McKelvey
Assistant Chief Executive Officer

2023 LEGISLATION

Last Updated: 10/02/2023

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	SPONSOR
Legislation Impacting SJCERA:					
AB 557	Hart	This bill would extend the expiration date of the state of emergency provisions if still in effect from January 1, 2024 to indefinitely and make additional non-substantive changes to the Ralph M. Brown Act.	09/15/23	Enrolled and presented to the Governor	
AB 739	Lackey	This bill would revise the conditions for suspending contributions to a public defined benefit plan from a threshold of more than 120 percent fund to more than 130 percent funded.	03/13/23	Assembly P.E. & R. Comm. Hearing canceled req. of author	
AB 817	Pacheco/ Wilson	This bill would authorize use of teleconferencing provisions similar to the emergency provisions indefinitely if the legislative body annually approves the provisions.	04/25/23	Assembly L. Gov. Comm. Hearing postponed by committee	
AB 1020	Grayson	This bill would expand the scope of Safety member heart presumption (which applies to members with five or more years of service) to include hernia and pneumonia. It also expands other Safety member presumptions to include post-traumatic stress disorder (PTSD), skin cancer, lower back impairments, Lyme disease, tuberculosis and meningitis. This bill would, contingent upon passing of SB 623 (workers' compensation bill on PTSD), repeal the provisions related to PTSD on January 1, 2032.	09/14/23	Enrolled and presented to the Governor	

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	SPONSOR
AB 1379	Papan	This bill would (1) require a Board electing to use teleconferencing to post agendas at a singular designated location rather than at all teleconference locations; (2) allow a quorum to be established based on all participating trustees (whether remote or at the designated physical location), and remove the requirement that a quorum of the members participate from locations within the board's jurisdictional boundaries; (3)require the Board have at least two meetings per year in which the Board's members are in person at a singular designated location; (4) delete requirements to identify each teleconference location in the agenda and that each location be accessible to the public; (5) delete restrictions limiting remote participation to a certain number, percentage of meetings or number of consecutive sessions per calendar year; (6)delete requirements to provide at least one of two specified means by which the public may remotely hear and visually observe the meeting; and (7) delete requirements that members participating remotely disclose whether individuals 18 years of age or older are present in the room with them and the general nature of their relationship; (8) expand the definition of just cause to include travel related to a member of a board's occupation; (9) make these provisions operative indefinitely.	04/24/23	Assembly L. Gov. Comm. Hearing canceled request of author	
AB 1637	Irwin	This bill, no later than January 1, 2029, would require a local agency's website and emails to utilize a ".gov" top-level domain or a "ca.gov" second level domain.	09/21/23	Enrolled and presented to the Governor	
SB 769	Gonzalez	Existing law imposes ethics training and sexual harassment prevention training and education to be two hours and requires each training every two years. This bill would add two hours of fiscal and financial training every two years and exempt training requirements for the County Treasurer if they comply with existing continuing education requirements.	09/01/23	Assembly Held in Committee and under submission	
SB 885	Senate Comm. P.E. and R.	This bill would clarify the definition of final compensation for specified members, members who are subject to PEPRA, and members whose services are on a tenure that is temporary, seasonal, intermittent, or part time in the CERL. The bill would revise the age at which the retirement system is required to either start payment of an unmodified retirement allowance or make a one-time distribution of accumulated contributions and interest to the age specified by federal law. The bill would change the age threshold from April 1 of the calendar year in which the member attains 72 years of age to the age specified by federal law with regard to requirements that apply when members cannot be located and with reference to when distributions are to be made to members who are participating in a Deferred Retirement Option Program. This bill would correct several erroneous references and also make other technical, nonsubstantive changes to these provisions.	09/01/23	**Chaptered**	SACRS

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	SPONSOR
Other Bills of Interest:					
AB 1246	Nguyen	This bill would, commencing January 1, 2025, permit a PERL member who elected to receive a specified optional settlement at retirement, if the member's former spouse was named beneficiary and a legal judgment awards only a portion of the interest in the retirement system to the retired member, to elect to add their new spouse as the beneficiary of the member's interest, subject to conditions.	09/11/23	Senate Ordered to inactive file at the request of Senator Portantino	
SJR 1	Cortese	This measure would request the U.S. Congress to enact, and the President to sign, legislation that would repeal the Government Pension Offset and the Windfall Elimination Provision from the Social Security Act.	06/02/23	**Chaptered**	
Federal Legislation:					
None to report.					
2023 TENTATIVE State Legislative Calendar					
Oct 14	**Last day for Governor to sign or veto bills.**				

San Joaquin County Employees' Retirement Association

October 4, 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

Review and confirm or refresh asset allocation

- *Initiate implementation of new asset allocation policy*

In accordance with SJCERA's pacing plan for the Real Estate asset class, IPI Partners, a Real Estate manager focused on investing in data centers, will present at the October Board meeting for Board's consideration.

Determine the future vision for the investment program operating model

- *Define and document SJCERA's views on environmental, social, and governance (ESG) matters for the organization and the investment portfolio*
- *Define and document SJCERA's approach to proxy voting*

Both the ESG and the proxy voting goals were completed at the Board's September 1, 2023 Special meeting. Following education from SJCERA's fiduciary counsel Ashley Dunning and investment consultant David Sancewich, and a subsequent robust discussion, the Board defined its views on ESG matters and proxy voting. To document these views, the Board approved changes to the three policies: the *Strategic Asset Allocation*, *Investment Manager Monitoring and Communications*, and *Proxy Voting* policies. Staff has posted the revised policies on the website and notified the investment consultant so he can distribute them to SJCERA's investment managers.

Optimize the investment manager lineup

- *Conduct Annual Investment Roundtable*

SJCERA's annual investment roundtable will be held on October 12 starting at 8:00 a.m. Topics include a keynote address on the state of the world in 2023 and beyond; private equity, private credit and infrastructure; inflation; international markets; and real estate. This event not only provides education, but also provides staff and trustees the opportunity to talk with SJCERA's investment managers more deeply about their strategy and performance as part of our monitoring and due diligence work. Many thanks to investment consultant David Sancewich and Investment Officer Paris Ba for their work on the agenda and speakers, and to Administrative Secretary Elaina Petersen for her work with facility and menu arrangements, Management Analyst III Greg Frank for his coordination with the audio-visual vendor and to Information Systems Analyst II Lolo Garza for assistance with computer set up and testing.

Modernize the operations infrastructure

Implement Pension Administration System (PAS)

The quarterly PAS Project Status update

- *Complete mapping documentation on planned processes*

MBS and the data conversion team delivered Data Cycle 3 to Tegrit on September 8, providing key data sets to allow Tegrit to define and build participant account structures in PRIME. Since then, data profiling, mapping, conversion scripting, and data cleansing tasks have continued with focus on delivering the remaining legacy data as part of the next one or two data cycles, leaving 10-11 remaining data cycles for corrections and cleansing.

- *Program/test planned processes in PAS*

Melinda DeOliveira and Ron Banez successfully completed SJCERA's first User Acceptance Testing (UAT), which focused on the Individual and Beneficiaries Screens for participants. Tegrit and Linea were onsite at SJCERA during the week of August 28 to conclude the UAT period and resume design work sessions. Tegrit has recently conducted work sessions on topics related to benefit calculators, employer maintenance, and participant Domestic Relations Orders (DROs). Thanks goes to Retirement Services Associate Ron Banez, Retirement Benefits Supervisor Melinda DeOliveira, Accounting Technician II Marissa Smith, and Retirement Services Associate Andrea Bonilla, Assistant CEO Brian McKelvey, IT Manager Adnan Khan, and Information Systems Specialist II, Jordan Regevig for participating in those sessions related to their areas of content knowledge and expertise.

- *Maintain functionality of legacy PAS until new PAS is implemented and stabilized*

The technology transition from Mac to Windows requires the migration of SJCERA's core business applications including CORE-37 (the legacy pension administration system), and Optix (the electronic document management system). Early testing of these applications in the Windows environment, revealed significant differences in user interface layout and document rendering. SJCERA has engaged Mainspring, a FileMaker Pro software development company, to redevelop CORE-37 screens and system generated documents to resolve these issues. SJCERA also has engaged our Optix vendor, MindWrap, to assist with the Windows migration, document rendering, and integration into CORE-37. Mainspring and MindWrap started their work in mid-September. Staff expects the CORE-37 app to be Windows-ready by year-end. Once these applications are migrated to Windows, Information Systems Analyst II, Lolo Garza will lead the decommissioning of our Apple infrastructure before we move to our new facilities.

<u>Improve technology for business operations</u>

- *Adopt industry standard business processes wherever possible*
  - *Plan transition from Mac to Windows*

    Lolo Garza and Information Systems Specialist II Jordan Regevig are also finalizing their evaluation of Windows laptops. Procurement of the new Windows laptops is planned for no later than November, with full deployment scheduled before we move to the new SJCERA office.

- *Adopt contemporary risk management, disaster recovery and business continuity practices*
  - *Implement Phase 1 of Enterprise-Wide Risk Management (EWRM) plan*

    One of the identified risks on the EWRM plan is incorrect contributions. IT Manager Adnan Khan implemented a set of business workflow validations in CORE-37 to verify expected incoming employee and employer contributions for Active members. Discrepancies, if any, flow into the Queue Management System (QMS) as exceptions for Benefits staff to review and to submit adjustments to the employer's payroll office, if necessary.

    On September 5, ACEO Brian McKelvey, Communication's Officer Kendra Fenner, Retirement Services Supervisor Melinda DeOliveira and Management Analyst III Greg Frank, met to assess the types of exceptions being generated from the QMS report, and if any employer education would help reduce these exceptions. Based on staffs' assessment, no education is required.

  - *Implement Phase 2 recommendation from 2021 cyber-security and disaster recovery plan assessments, including annual security assessment.*

    On Monday, September 25, IT Manager Adnan Khan, Information Systems Analyst II Lolo Garza, Information Systems Specialist II Jordan Regevig and Assistant CEO Brian McKelvey met with Linea Secure to kick off the Third-Party Risk Assessment project and define SJCERA's utilization of Linea's initial Virtual Chief Information Security Officer (vCISO) services. Key topics and activities included:

    - Third Party Risk Assessment
    - Security Policy Development
    - PAS Security Oversight
    - Incident Management & Reporting

- Continuous Risk Monitoring and Management
- Security and Awareness Training Program

SJCERA anticipates the Third-Party Risk Assessment will be completed by the end of the year with Security Policy Development, Incident Management and Reporting, and Security and Awareness Training Program planned for completion during the first quarter of 2024. Once these programs are in place, SJCERA will evaluate the use of Linea Secure or other third-party security monitoring firms to partner with to provide ongoing monitoring and management of our IT security programs in 2024 and beyond.

Improve employer experience

- *Increase outreach and education to payroll/personnel staff at employers and/or County departments*

On September 22, Retirement Services Associate Ron Banez and Retirement Services Supervisor Melinda DeOliveira represented SJCERA at the Mosquito Abatement and Vector Control District's open house, sharing information about SJCERA's benefits with employees.

- *Expand Employer Notice library*

Communications Officer Kendra Fenner is drafting an employer handbook intended to be a high-level instruction manual advising employers and their payroll staff on SJCERA-related requirements such as, mandatory and optional SJCERA membership (and cautions about "contractors"); forms and documents required for new hires; requirements when hiring retirees; instructions for new earnings types; etc.

Align resources and organizational capabilities

Enhance education and development across all levels of the organization

- *Offer training and development opportunities intended to strengthen staff's depth and breadth of knowledge and experience*

Financial Officer Carmen Murillo and Investment Accountant Eve Cavender attended the CALAPRS Accountants Roundtable. Administrative Secretary Elaina Petersen and I attended "The Irreplaceable Clerk" webinar discussing agenda and Board meeting management. Elaina also attended the CALAPRS Administrative Assistant Roundtable. Communications Officer Kendra Fenner attended a webinar with Vyond, video system, and I attended the CALAPRS Administrators' Institute.

Investment Officer, Paris Ba, and ACEO, Brian McKelvey attended the Fiduciary Investors Symposium Stanford 2023, September 19 – 21, along with 120 attendees from various pension and sovereign funds around the world, representing $8 trillion in institutional investments. Both reported that it was by far the best investment conference they have attended. Look for more details when they submit their written reports on the content and continuing value for future attendance. The list of presenters was impressive: Condoleezza Rice, former Secretary of State, Fei Fei Li, a Stanford Professor and leading authority on Artificial Intelligence, Arun Majumdar, the Inaugural Dean of the Stanford Doerr School of Sustainability, and Myron Sholes, Nobel Prize Winner who co-authored the Black-Scholes Model for options pricing. Presentation topics included Synthetic Biology, New Human Senses, Climate Change, Distressed Debt Investing, Investing in Megatrends, Geopolitical Risk, Asset Allocation, Energy Transition, and Risk Management.

Establish Positions as Needed to Effectively Accomplish Mission.

- *Establish Chief Counsel Position*

  The job description for the Retirement Legal Counsel position ("Chief Counsel") position has been approved by all parties. Interestingly, I used an artificial intelligence (AI) tool, Poe.com, which (in less than a second) generated a draft job description that was better than any of the samples I had gathered from other systems or the proposed drafts I had received based on those samples! County Human Resources staff and I used the AI generated draft as the base and worked collaboratively to add the necessary SJCERA and San Joaquin County-specific information. This is just one small example of how AI can help us produce high quality work, more efficiently. Human intervention was still required to tailor the draft, but AI provided us a great foundation.

Setting salary for exempt positions is within the authority of the Board of Retirement. At the October 11, 2023 meeting, the Board is asked to approve the Administrative Committee's salary range recommendation. Following the Board adoption of the salary range, the Board of Supervisors is scheduled to approve adding the new salary range to the County Salary Schedule at their October 24 meeting.

- *Establish Retirement Services Manager Position*
  The job description for the Retirement Services Manager position has been approved by all parties, including the Civil Service Commission. Salary for civil service positions require agreement by the appropriate labor group. Staff representing the Division of Human Resources (HR) and the San Joaquin County Management Association (SJCMA) are in the meet and confer process to reach agreement on an appropriate salary range for the position. HR staff, Brian and I remain hopeful that agreement will be reached in time to request the Board of Supervisors add this new salary range to the County Salary Schedule at their October 24 meeting.

Maintain Business Operations

Maintain a Positive Work Environment

SJCERA's staff event planning committee (Elaina Petersen, Kendra Fenner, Leonor Sonley, Ron Banez, Vickie Monegas) help maintain morale by creating celebrations for staff to look forward to. Since the last Board meeting, they've coordinated two events: September 18 was proclaimed "Rice Krispy Treat Day" and was celebrated with a pile of Rice Krispie Treats and melted dipping sauces, and on October 4, walking tacos are back by popular demand! These events break up the routine, provide a fun filled break, build comradery, and are widely enjoyed by staff. Thanks to all who help make them possible through donations, organization, clean-up, etc. Staff's efforts on these events help make SJCERA a great place to work.

Provide Excellent Customer Service

A few quotes from our members:
"Leonor (Sonley) was patient with me, and efficient in processing my request! Friendly Service!

Kathleen (Goodwin) was very professional and assisted me with my issue in a very pleasant manner. I received excellent service. Keep up the good work."

Bethany (Vavzincak) "The response to my request was EXCEPTIONALLY fast; I greatly appreciate the response."

Andrea (Bonilla) "The estimate was done very quickly and was very helpful."

Stakeholder Relations

- *CRCEA Conference*
  Retired Public Employees of San Joaquin County (RPESJC) hosted the statewide California Retired County Employees Association (CRCEA) annual conference at the Stockton Hilton. I assisted them by procuring Dan Fukushima, a futurist with Toffler and Associates as their Keynote speaker and introduced him at the event. I had worked with Dan on a presentation and discussion for the Administrators' Institute the week before and he graciously agreed to stay in California over the weekend so he could present to the retiree group.

- *CALAPRS Administrators Institute Conference*
  As a CALAPRS Board member, I also served on the Administrators' Institute planning committee responsible for coordinating and facilitating the event.

- *National Retirement Security Month*
  October is National Retirement Security Month. On October 4, Retirement Services Supervisor Melinda DeOliveira and Retirement Services Associate Ron Banez provided SJCERA benefit education as part of the County's recognition of this annual event.

Manage Emerging Organizational Needs

Facilities—6 S. El Dorado: Demolition is proceeding at 6 S. El Dorado Street. A trash shoot was installed on the east side of the building, necessitating the closure of the parking lot on that side of the building; however, plenty of parking is still available in the three-level parking garage. One elevator has been designated for construction use only, with one still available for passenger use. The sounds of construction are frequently heard; however, we have all become accustomed to it and it does not appear to be interfering with any of our work. The County is aware of our Board meeting dates and has previously committed to avoid work on the adjacent floors during Board meetings.

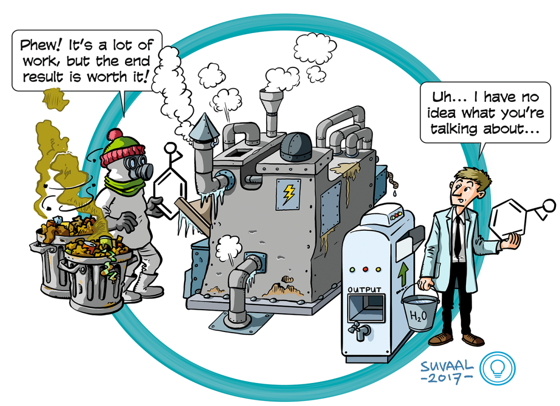
Facilities—220 E. Channel Street: If all goes well, we may have an approved permit for the tenant improvements as early as mid-October. Greg Frank, Kendra Fenner, Brian McKelvey and I have approved "treatments" (flooring, paint, baseboard, cabinetry, countertops, etc.) and we are scheduled to meet with Durst about office furnishings (cubicles, desks, the Board dais, etc.) October 5. So far, the project is running on schedule.

Although the project is running well, it's still important to have back-up plans. From late-August through mid-September, Adnan Khan and Lolo Garza worked with multiple County Information Systems Division (ISD) technologists to develop alternative plans for server infrastructure hosting and systems access if the new SJCERA headquarters is not complete on time. High level plans and critical decision dates by which we would need to execute alternative plans depending on the progress of tenant improvements have been established.

Domain Names: To protect against others using the various iterations of SJCERA domains, SJCERA currently owns the following domains: sjcera.org, sjcera.com, sjcera.net, sjcera.online, sjcera.site. Documentation is required to purchase sjcera.gov and sjcera.ca.gov domains, which Adnan Khan is pursuing.

Conclusion

From the outside, it looks like business as usual—same high quality, friendly service, delivered promptly—and hearing our members' feedback is music to my ears. From inside SJCERA, we have a LOT going on in addition to our normal business for a relatively small team. Any one of our major organizational projects would be significant to take on, but we are tackling five major additional projects: conversion from Mac to Windows, Pension Administration System project, Data Cleansing and Conversion project, Move project, Adding two critical positions and the related succession and transition planning. PHEW! I'm tired just listing them! Fortunately, none of this has to be done alone (nor could it be)! SJCERA has a fabulous team with each doing their part to keep daily business running smoothly and all projects on course. They say it takes a village to raise a child, I'd say it takes a village (or multiple teams) to run an organization! It's a lot of work, but we're working in harmony to make it all happen and it will be worth it in the end.



2024 Action Plan

1. **Strengthen the long-term financial health of the Retirement Plan**
   a. **Implement Low-Default-Risk Obligation Measure (LDROM) disclosure**

   b. **Review and confirm or refresh asset allocation**
      i. Complete implementation of 2023 asset allocation policy (target completion 6/24)
      ii. Conduct benchmark review and implement new benchmarks as appropriate

   c. **Determine the future vision for the investment program operating model**
      i. Initiate the evaluation of best practices on in-house vs. outsourced investment functions
      ii. Evaluate Passive vs. Active management within public markets

   d. **Optimize the investment manager lineup**
      i. Conduct Risk Parity asset class review, assessing alignment of managers and mandates with our Strategic Asset Allocation policy and goals
      ii. Evaluate the portfolio for investment efficiency (e.g., fees, risks, return, consolidation)
      iii. Prudently manage portfolio costs
         1. Develop a tool to assess and report on the cost-effectiveness of private investments
      iv. Review Diversifiers within the Crisis Risk Offset asset class with potential consideration of new manager
      v. Evaluate secondary market opportunities for legacy managers

   e. **Explore alternative approaches to addressing risk through plan design**
      i. Obtain actuarial report and/or education regarding near-term and long-term plan design and assumption implications that may be prudent to consider initiating in light of Artificial Intelligence's potential future impact on the workforce

2. **Modernize the operations infrastructure**
   a. **Implement PAS**
      i. Continue monitoring risk management plan
      ii. Complete refinement of business requirements on 2024 planned processes
      iii. Program and test 2024 planned processes
      iv. Complete data mapping of 2024 planned processes
      v. Deliver project milestones as scheduled on PAS project plan
      vi. Train staff on programmed processes in preparation for testing and use
      vii. Update/revise system-generated letters for 2024 planned processes
      viii. Maintain functionality of legacy PAS until new PAS is implemented and stabilized

   b. **Enhance the member experience**
      i. Identify and implement effective marketing strategy for SJCERA's online resources
      ii. Assess effectiveness of online videos and expand video library if appropriate

   c. **Improve technology for business operations**
      i. Adopt industry standard business processes wherever possible
         1. Document adoption of standard industry practices in PAS requirements for 2024 planned processes
         2. Report on adoption of standard industry practices in CEO report and/or quarterly PAS status report
         3. Implement standard industry practices now (before PAS implementation) wherever practicable
         4. Explore transitioning the administration of retiree Health and Life Insurance back to the employer that sponsors those benefits

    5. Implement cloud presence recommendations
    6. Complete Mac to Windows transition

  ii. Adopt contemporary risk management, disaster recovery and business continuity practices
    1. Implement Phase 2 of Enterprise-wide Risk Management plan
    2. Implement recommendations from Third-Party Risk Assessment
    3. Engage an information security consultant to provide cybersecurity and remediation services, and ongoing cybersecurity maintenance

d. **Improve employer experience**
  i. Initiate planning and preparation for Employer Portal implementation
  ii. Expand Employer information resources and tools

2. Align resources and organizational capabilities

a. **Develop and implement a workforce planning process**
  i. Address project staffing and training needs
  ii. Implement CEO succession plan

b. **Enhance education and development across all levels of the organization**
  i. Regularly inform staff of available training opportunities
  ii. Embed education mindset in organizational culture

c. **Implement practices to support Board continuity and evolution**
  i. Develop training plan for incoming trustees
  ii. Develop exit interviews with outgoing trustees

d. **Create a foundation of performance metrics and measurements**
  i. Include performance metrics requirements in the PAS business requirements planned for 2024
  ii. Implement reporting on existing performance measures and incorporate in decision making

e. **Seamlessly manage move to new location**
  i. Move in time to avoid diminishment of County payment and within budget
  ii. Maintain business operations without interruption
  iii. Effectively communicate move to members, employers, and stakeholders
  iv. Hold open house to familiarize members, employers, and stakeholders with the new location

Are we there yet?

Shifting expectations on the direction of the Fed's monetary policy amid rising concerns about growth and inflation

THIRD QUARTER 2023

KEY TAKEAWAYS

- Investors continue to debate whether the Federal Reserve is nearing a policy inflection point amid a confluence of slowing economic growth, rising inflation, and emerging financial market risks, which has been exemplified by volatility in the federal funds futures market.
- As interest rates serve as the foundational discounting mechanism for asset prices, we believe a Fulcrum issue for multi-asset investors is assessing the interest rate expectations embedded across asset classes and how the current environment compares to other policy inflection points.
- In this paper, we present an historical analysis of short-term interest-rate futures—measured by the Eurodollar futures market—which we extend to other asset classes to assess the path for short-term interest rates that is reflected by them.
- In our active allocation process, we seek to identify gaps in expectations across asset classes and this analysis serves as a way of triangulating the risk/reward opportunities around them, while drawing comparisons to history.
- We find the expectations reflected across assets today have some divergences from historical episodes, likely due to monetary regimes' post-global financial crisis and the unique aspects of having a world emerge from the COVID-19 pandemic.
- The conclusions from our analysis help build our conviction in positioning the target date portfolios toward non-U.S. assets relative to the U.S. and leave us cautious on credit at this point in the market cycle.

Introduction

The latest parlor game in the capital markets has been handicapping when the Federal Reserve's rate-hiking cycle will end and the pivot toward cutting rates will begin. Rate expectations have been sensitive to economic data releases, as well as stress in the banking sector. The federal funds futures market has shifted up, down, forward, and back many times as investors seek to divine the ultimate path for interest rates.

The fixation and debate on the path to the terminal point of rates—analogous to one of those long trips where children naggingly repeat "are we there yet?"—is a natural by-product of where we stand in the latter phase of the economic cycle and the "fog of war" that surrounds it. The fogginess of the current environment is due in part to its uniqueness: a cross-current of forces, including an economic cycle derailed by a pandemic and a supercharged policy response, which stoked inflation to its highest level in decades.

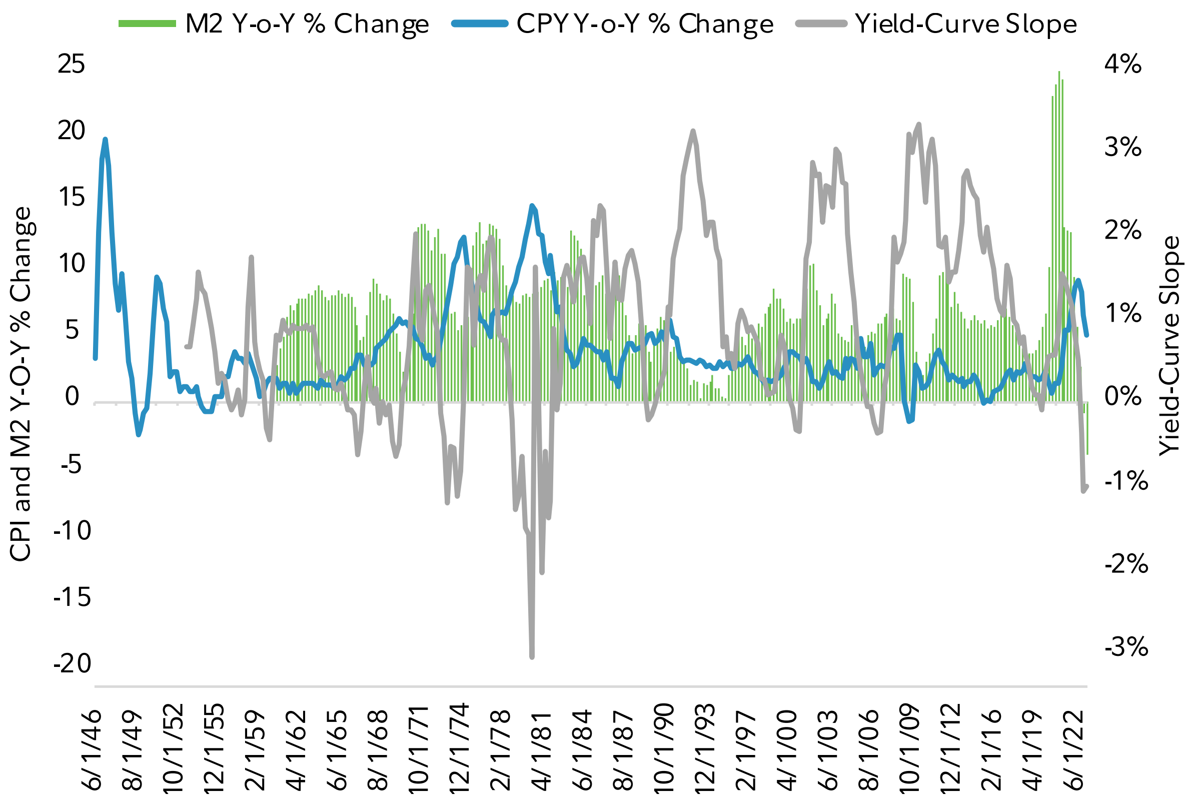
Exhibit 1 is an apt illustration of the interaction between these forces, highlighting the exceptional nature of their current readings and the uncertainty it creates for investors as they discount outcomes. The money supply (M2) grew at its fastest pace in 2021 and is now negative for the first time in its history. The Consumer Price Index (CPI)[1] reached levels not seen in 40 years, while the yield curve has not been this inverted since the late 1970s and early 1980s.

Fidelity INVESTMENTS

Against this backdrop, a key question is whether the Fed will achieve its stated 2% inflation target given the lagged effects of monetary policy, the rising probability of a recession, and the potential for financial market problems and contagion. Could all those factors lead to a policy inflection point? Investor consensus is implied in the short-term interest-rate futures market,[2] as measured by the Eurodollar futures market, which reflects expectations for the direction of interest rates. Futures contracts are typically used to either take a view on, or hedge against, moves in the Fed's benchmark interest rate. A deeper analysis of interest rate futures can help us better understand the expectations embedded in asset prices. We believe the path of interest rates is a Fulcrum issue facing multi-asset investors—one that our research can provide insight into potential return and risk outcomes embedded in asset valuations.

EXHIBIT 1: THE U.S. TREASURY YIELD-CURVE SLOPE, INFLATION, AND M2 MONEY SUPPLY

Monetary Policy and Inflation



Source: U.S. Bureau of Labor Statistics, Federal Reserve Board, as of March 31, 2023.
Past performance is no guarantee of future results.

The Future Interest Rate Curve—The $725,823 Question[3]

Investors consider discount rates to weigh uncertainty in capital markets, with interest rates as one of the key drivers. Higher rates lead to lower asset prices through present values of future cash flows, while lower rates create the opposite effect. We believe that prices for each asset class are affected by interest rates in different ways because there are distinct risks to cash flows based on characteristics like duration, leverage, geography, and sector mix. We start our analysis by looking at the attributes of the short-term interest rate curve over a 3-to-36-month horizon. That is the foundation for what tends to be extrapolated in asset prices.

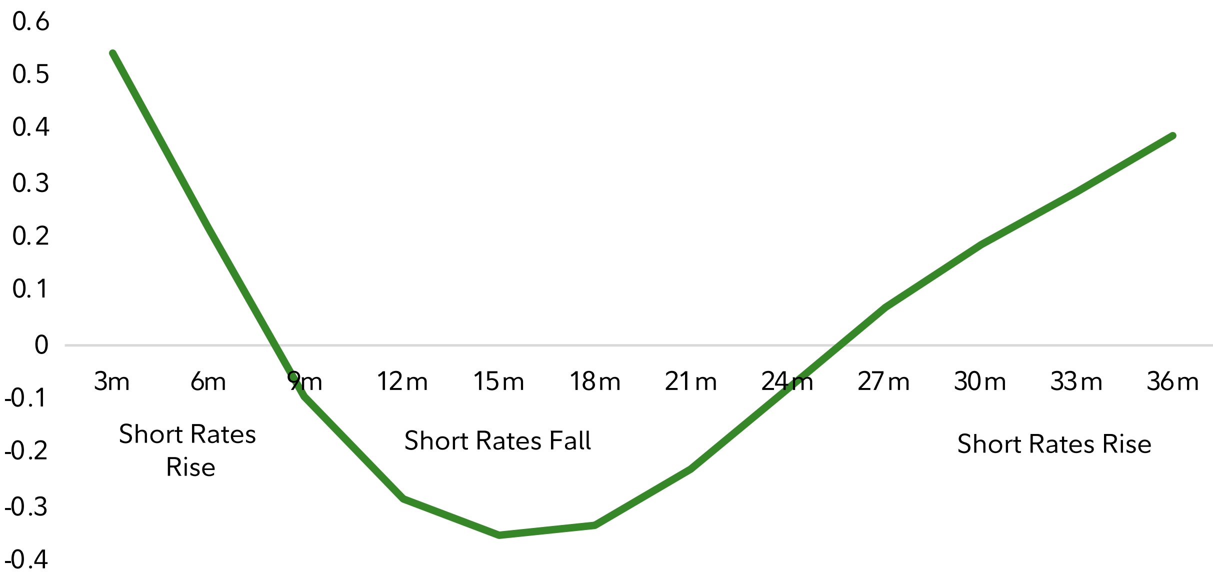
We applied a statistical technique called Principal Components Analysis (PCA)[4] to simplify and break down the 12-dimensional (36-month) short-term futures curve into its three primary drivers. Those drivers are:

- Parallel shifts in short-rate expectations across the yield curve.
- Expectations for higher or lower short rates in the more distant future than in the near term.
- The "bend" in the curve as illustrated in Exhibit 2, where short rates are expected to rise in the next 6 months, fall in months 9–24 months, and rise in months 27 and beyond. The weights or loadings in the chart represent the amplitude and direction rates are expected to evolve over time.

The "bend" reflects periods historically, when the market's expectations were that the Fed had sufficiently cooled the economy and may have one or two more hikes before it needed to cut rates—essentially policy was nearing an inflection point. Given where we are in the current cycle, and the debate among investors, this has obvious implications for markets today. To further our understanding, we decomposed history to evaluate historical time periods when investors expected similar peaks in short-term rates followed by interest rate cuts.

EXHIBIT 2: THE "BEND" OF SHORT-TERM RATE EXPECTATIONS

Eurodollar PC3 Weights by Time Horizon



Source: Bloomberg Finance L.P., as of February 28, 2023.

To identify similar periods historically, we plotted the cumulative changes for this third principal component or the "bend" of the curve from 1989 to present as illustrated in Exhibit 3. This represents the cumulative evolution of rate expectations moving to the point of policy inflection, down and back up again. The longer-term downtrend of this series reflects a progressively lowered expectation for how bent the curve could be, as rates have been cut since the 1980s, eventually to the zero bound. While rate expectations have moved lower over time, there have been cycles around them—when moving higher, expectations are moving closer to an inflection point or "late cycle" and vice-versa. The current peak appears like those in November 1990, November 2000, and December 2007. During these periods, investors expected an inflection point in interest rate policy. In each instance, the policy proved to be restrictive, which led to recessions and adjustments in asset prices.

EXHIBIT 3: CUMULATIVE CHANGES IN THE "BEND" OF SHORT-TERM INTEREST RATE EXPECTATIONS

Late-Cycle Character of U.S. Rates (Cumulative ED PC3)

Source: Bloomberg Finance L.P., as of March 31, 2023.

Exhibit 4 below shows the major asset class returns in the 12 months following these peaks. We see meaningful dispersion in forward returns, which reflect in part the degree of the economic slowdown and the ensuing fluctuations in asset prices. It is important to note that it is possible to have positive forward returns during a recession, when realized results are more favorable than expected. For example, the equity markets posted positive returns during the recession in the 1990s. In other years, equity markets declined. And credit assets had mixed performance during similar periods.

These examples reinforce the importance of assessing investor expectations that are embedded in valuations at each point in time. Using the Eurodollar curve to assess short-term rate expectations directly is straightforward. Deriving interest rate expectations embedded in the prices of asset classes is more difficult, requiring various assumptions and analysis. In the subsequent sections, we present a framework to extend the expectations embedded in short-term rates to other asset classes. We assess historical episodes relative to current conditions and identify potential positioning opportunities for investors.

EXHIBIT 4: ASSET PRICE RETURNS POST POLICY INFLECTIONS REFLECT DIFFERENT EMBEDDED EXPECTATIONS

12 month forward returns post policy inflection

	Index			
Start Date	S&P 500	MSCI EAFE	MSCI Emerging Markets	ICE BofA Corp Credit
Nov. 1990	16.4%	6.5%	45.2%	16.4%
Nov. 2000	-13.3%	-20.4%	-9.8%	13.5%
Dec. 2007	-38.5%	-45.1%	-54.5%	-6.8%

Source: Bloomberg Finance L.P., as of March 31, 2023. **Past performance is no guarantee of future results.**

Learning from Prior Cycles and Divergent Paths

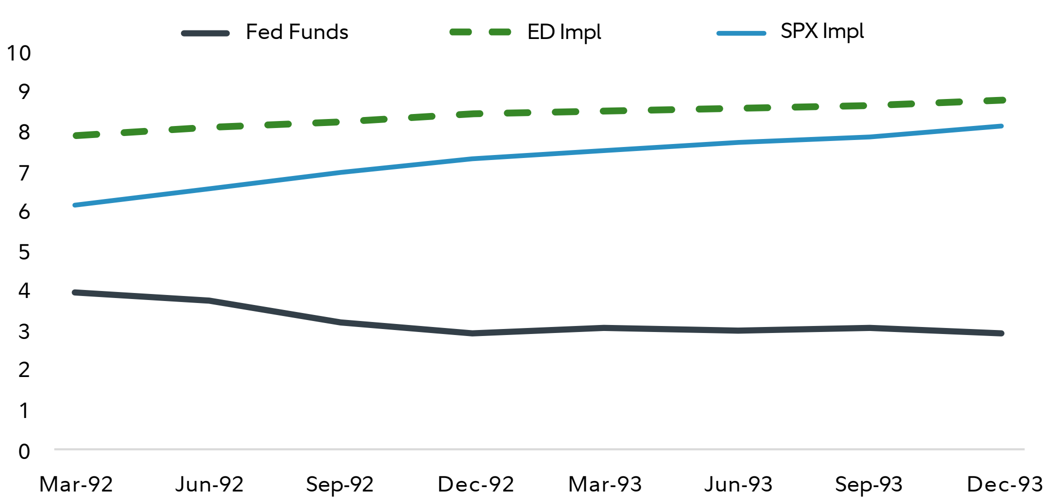
To estimate the path of short rates implied by prices for other asset classes, we applied techniques to measure the risk and return relationships of the embedded economic sectors to the sensitivity of short-rate expectations. We computed the expected returns of the sectors for each asset class in two ways. The first approach used features of the short-rate curve; the second approach treats the sectors as an optimal portfolio. We then solve for the short-rate curve that gives the best match for the two sets of expected sector returns. This process triangulates from known information a potential gap in the expectations that are implied in asset prices relative to our research.

From this starting point, we analyze the three historical episodes when expectations for the "bend" of the Eurodollar futures market were like current expectations. We assess what was embedded in prices for other asset classes and compare to the realized returns.

We start with the 1990 period and the analysis focused on the S&P 500 Index[5] due to limited data for other asset classes. Exhibit 5 shows the S&P 500 curve for the year ahead, the Eurodollar futures curve, and the actual path of Fed funds rate.

EXHIBIT 5: THE S&P 500 INDEX PRICED IN SLIGHTLY LOWER RATES THAN EURODOLLAR FUTURES

Implied and Actual Rates: 12m–Post Nov '90



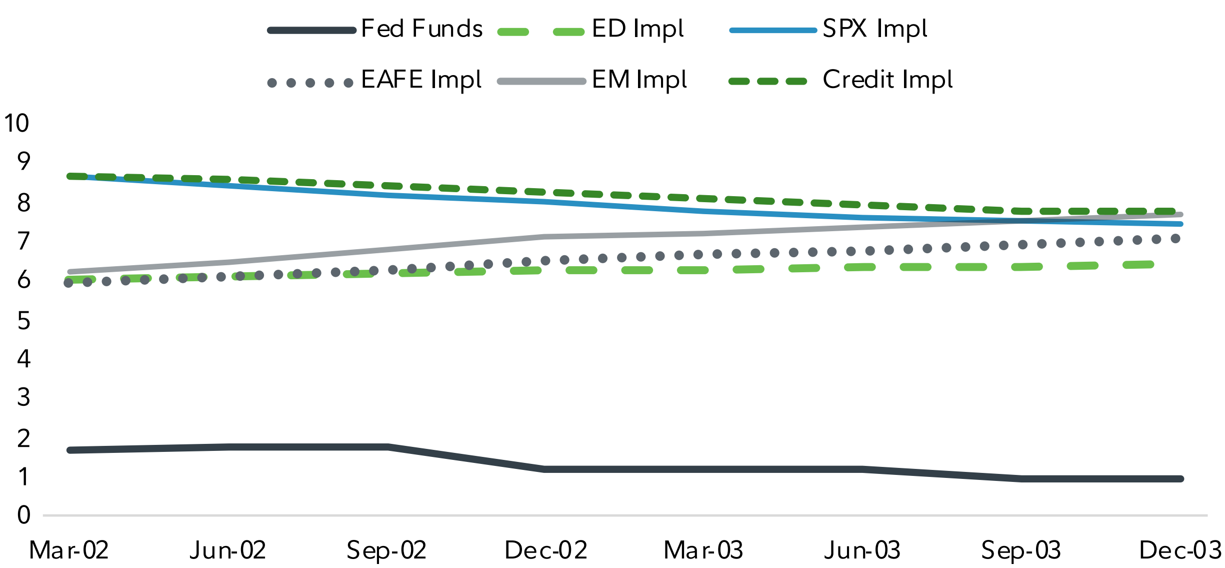
Source: Bloomberg Finance L.P., FactSet, as of February 28, 2023.
Past performance is no guarantee of future results.

These measures suggest that valuations for U.S. equities reflected some degree of a future recession. Embedded expectations in the S&P 500 for short rates fell by 2% more than was implied by Eurodollar futures, suggesting a Fed rate cut, followed by a gradual rebound as the Fed hikes rates. While equity prices did not anticipate the magnitude or persistence of the move in short rates, the directional expectations may have helped equities to outperform in the ensuing recession. Investors' expectations for rates were more optimistic than what transpired because the Fed cut rates more aggressively and maintained rates at a low level compared to Eurodollar and S&P 500 expectations.

Exhibit 6 below depicts the rate expectations for Eurodollar futures (dashed yellow line) as of November 2000 and what was implied by other asset classes from March 2002 through December 2003. Eurodollar futures implied a rate expectation of close to 6% across the curve with an upward bias. Rate expectations for the S&P 500 and corporate credit (as measured by the ICE BofA US Corporate Index[6]) were tightly clustered—initially about 3% higher than the Eurodollar futures curve and ending about 1% higher. Investors may have perceived better fundamentals and credit spreads in the U.S., suggesting the Fed could maintain policy rather than cut rates.

EXHIBIT 6: ALL ASSET CLASSES PRICED IN HIGHER FUTURE INTEREST RATES THAN THE EURODOLLAR CURVE

Implied and Actual Rates 12m-Post Nov '00



Source: Bloomberg Finance L.P., FactSet, as of February 28, 2023.

Past performance is no guarantee of future results.

For example, November 2000 was the cycle peak for the S&P 500's earnings per share (EPS) over the last 12 months (LTM), while the price-to-earnings (P/E) multiple had declined from a peak of 32X to 24.5X. Corporate credit was weakening gradually, with the Moody's Baa–10-year spread at 265 basis points over comparable U.S. Treasuries, up only marginally over the prior six months.

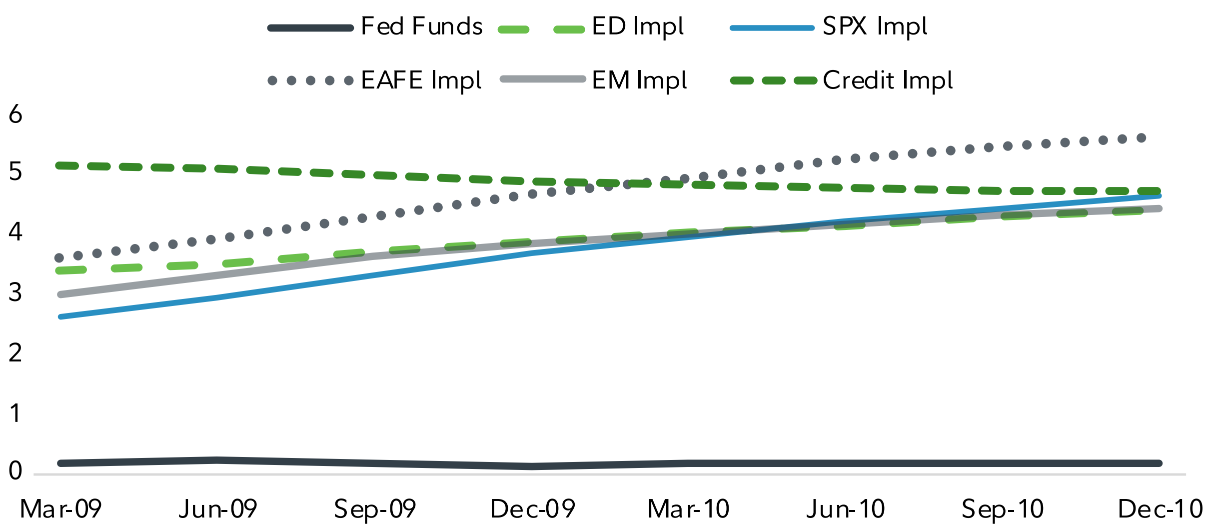
The rate expectations embedded in the valuations of the MSCI EAFE Index[7] and MSCI Emerging Markets Index[8] (MSCI EM) were similarly clustered, in line with the Eurodollar curve at the beginning of the period and ending about 1% higher. Compared to the U.S., the MSCI EM had negative EPS in the preceding 12 months in 2000 and the MSCI EAFE EPS declined from its peak by November 2000, with its P/E multiple falling from 37X to 25X.

The black line in the chart above shows the actual Fed funds rate over time. Various asset classes had priced in a more optimistic embedded view for rates than what transpired. The Fed cut rates aggressively following the economic and market stress from volatility in the technology, media, and telecommunications sectors.

Exhibit 7 shows rate expectations for various asset classes from March 2009 to December 2010 (as of December 2007). Rate expectations for the S&P 500 and the MSCI EM followed a similar path to the Eurodollar futures curve (dotted green line), while expectations embedded in MSCI EAFE, and corporate credit suggested higher rates. Credit markets reflected a tight spread of 250 basis points, while fundamentals in equity markets were beginning to roll over. The S&P 500 LTM EPS had fallen about 5% from its peak by December 2007, and P/E multiples for EAFE and EM had declined.

EXHIBIT 7: RATE EXPECTATIONS FOR MSCI EM AND S&P 500 WERE SIMILAR TO EURODOLLAR FUTURES; CREDIT AND MSCI EAFE EXPECTED HIGHER RATES

Implied and Actual Rates: 12m-Post Dec '07



Source: Bloomberg Finance L.P., FactSet, as of February 28, 2023.

Past performance is no guarantee of future results.

Investors' expectations proved to be overly sanguine as the Fed cut rates to near zero in response to the global financial crisis (GFC). In our view, markets were surprised by the severity of the banking system's problems and how its contagion might imperil the global economy.

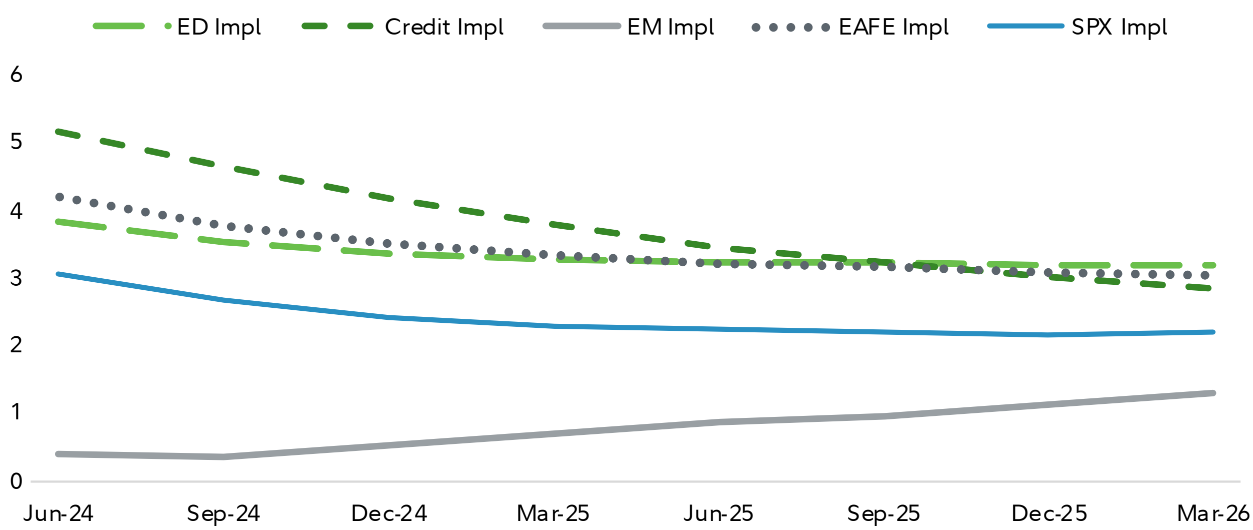
The current late-cycle environment has a few similarities and differences with the previous periods we mentioned above. Each period was marked by imbalances in the global economy and the capital markets. The 2000 period was one of excessive stock market valuations, which led to a dramatic de-rating of equity multiples. The 2008 period was marked by excessive speculation in the U.S. housing market coupled with relaxed mortgage underwriting standards, which were the proximate causes of the financial crisis.

The excesses today are less obvious at the consumer and corporate levels. Governments, however, have increased their debt levels. Government spending across the globe and central bank money printing in response to the COVID-19 pandemic have shattered previous debt-to-GDP ceilings. Currently, the Fed has limited room to cut rates because the inflation rate still exceeds the central bank's 2% target.

We believe the reduced policy space is an important part of the potential mispricing in the short-term interest rate curve and in the implicit rate curves embedded in the pricing of other asset classes. Exhibit 8 illustrates the setup in the implied rate curves. We see that prices for asset classes embed disparate paths for rates. There is greater near-term dispersion in the forecasted short rates than in 2000 and 2007; the latter is clear from the same Y-axis scale used for each period.

EXHIBIT 8: INTEREST RATE EXPECTATIONS VARY ACROSS ASSET CLASSES

12-Month Forward Curves, March 2023



Source: Bloomberg Finance L.P., FactSet, as of February 28, 2023.

There may be several reasons why there is now less consensus across asset classes regarding the future path of interest rates. The global economy is less synchronized as governments around the world had different approaches to managing the pandemic. Monetary and fiscal policies varied across countries, with the U.S. pursuing a more aggressive path featuring large fiscal outlays and monetary stimulus. The fiscal and monetary responses from China and Japan were more measured. This divergence in economic cycles was less prominent in 2000 and 2007. That provides one reason the S&P 500, MSCI EAFE, and MSCI EM indexes are pricing in different rate environments.

For example, credit and the MSCI EAFE index are clustered around the Eurodollar curve. The implied rate curve for the MSCI EM Index differs from the S&P 500 implied rate curve in that it implies rates falling precipitously to a much lower level and then rebounding, whereas the S&P 500 curve declines more smoothly to a level below where the futures market is pricing rates. The MSCI EM curve has the appearance of a hard landing: A sizable cut, followed by a gradual recovery in rates. The S&P 500 implies a softer landing with rates declining gradually without the need for an abrupt set of cuts.

We question what scenario reflects current realities and where an expectation gap might present opportunities for investors. We believe that to have that perspective, we need to take into consideration the feature that makes today's environment different relative to the prior episodes we analyzed—inflation.

The Pig in the Python

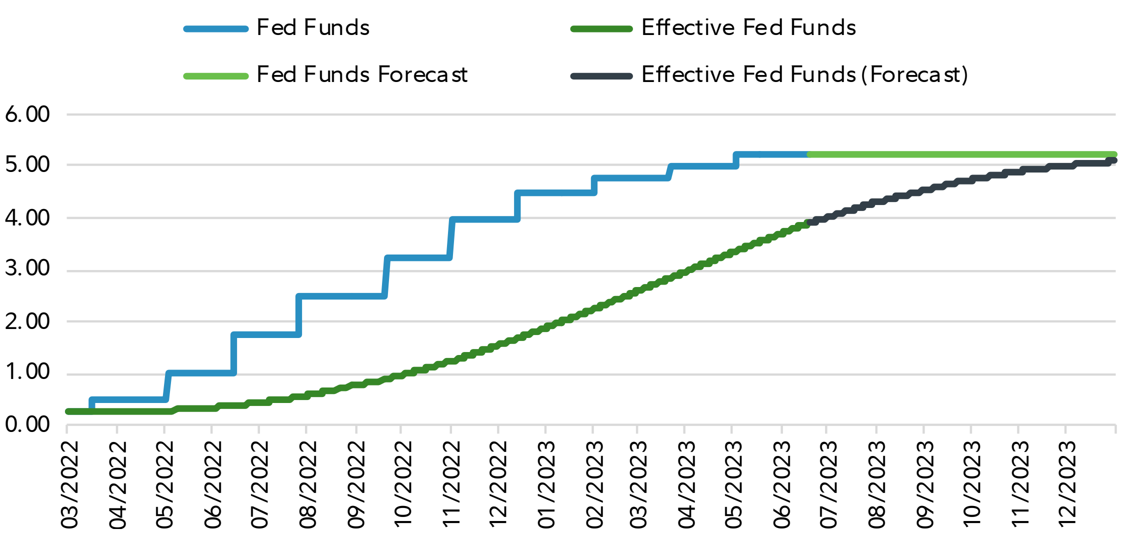
The current inflationary environment makes it different from the previous late cycles of 2000 or 2007. Inflation challenges the standard central bank playbook of cutting rates aggressively in response to a recession or to a crisis in the financial markets. We witnessed a glimpse of these dynamics earlier this year during the stress in the U.S. regional banking sector. In a non-inflationary environment, the Fed and the U.S. Treasury may have used lower interest rates and other policy levers to stabilize the banking sector.

The current environment also features an unprecedented level of stimulus and a reactive Fed. Like a pig moving slowly through the proverbial python, the impact of the Fed's rate hikes also weaves its way through the economy. While the Fed has hiked rates aggressively by 500 bps since March 2022, the lagged effects of policy are still working their way through the economic system.

For example, one of our research frameworks considers the lagged effects of policy and suggests that the current effective Fed funds rate[9] is about 4% (Exhibit 9). The 4% effective Fed funds rate is not restrictive based on the Fed's preferred measure of inflation – the personal consumption expenditures (PCE) price index. In May, core PCE was at 4.6% year-on-year.

EXHIBIT 9: FED FUNDS RATE AND EFFECTIVE FED FUNDS RATE

Fed Funds: Actual vs. Effective



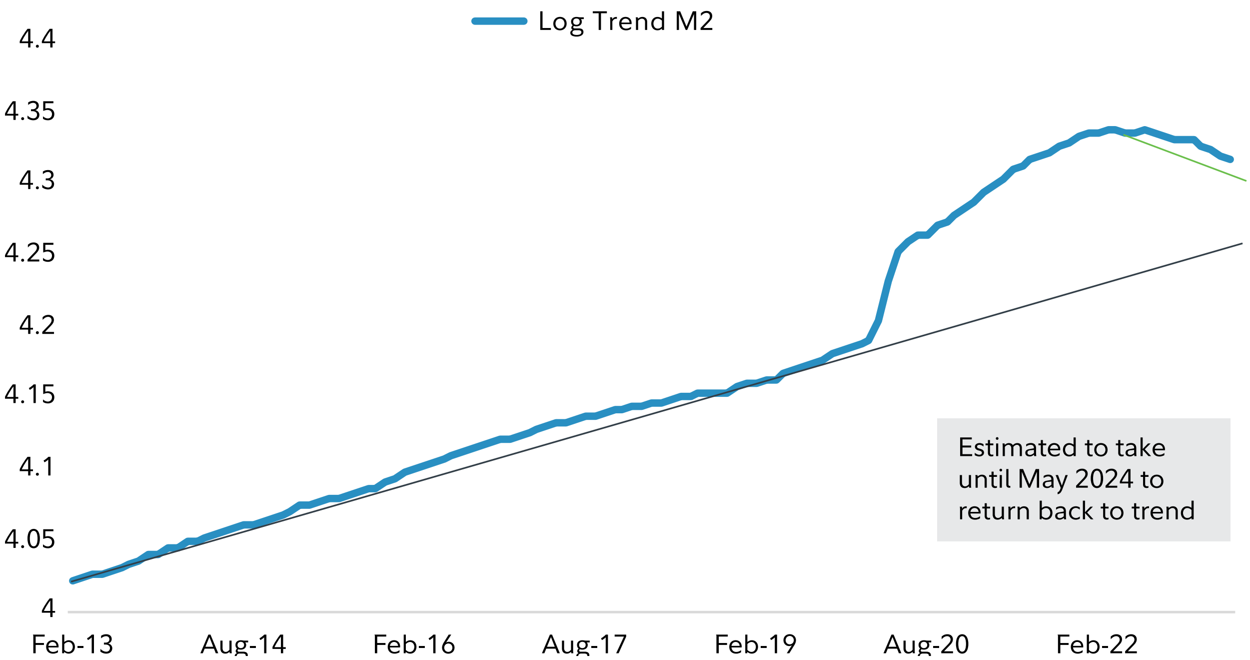
Source: Bloomberg Finance L.P., Fidelity Investments as of June 20, 2023. Effective Fed Funds assumes that policy rates achieve full impact on a pro rata basis over one year.

While money supply growth has declined from a year ago, the trend in money supply is still elevated relative to historical standards. Based on current trend and as depicted in the chart below, it would take until May 2024 for the exponential growth in money supply to normalize back to trend (Exhibit 10).

As a result of the Fed's overly accommodative policy post-GFC, the economy has grown to become less interest rate sensitive, which challenges the efficacy of their monetary policy tools. We believe that risk of an upside inflation surprise and the discounted trajectory of short rates reflected in our framework above reveals a few pockets of opportunity for investors. We delve deeper into these opportunities in the section below.

EXHIBIT 10: MONEY SUPPLY GROWTH IS SIGNIFICANTLY ABOVE LONG-TERM TREND

Log(M2) vs. Pre-COVID Trend in Log(M2)



Source: Bloomberg Finance L.P., as of June 30, 2023.

Investment Implications: Is the Answer behind the Pod Bay Doors?

In our investment process for active allocation, we strive to identify expectation gaps rather than forecasting or timing asset price moves. We believe that if we identify these opportunities consistently and manage risk well, our shareholders may be rewarded as asset prices adjust to a more sustainable path.

In our view, valuations of U.S. equities suggest that investors are expecting the inflation fight of the last two years to resolve in a soft landing, with rates peaking and beginning to decline in the coming months. We believe this view is overly optimistic and have positioned portfolios with an underweight exposure in U.S. equities. In contrast, the MSCI EAFE and the MSCI EM indexes are discounting a more severe rate trajectory that is more aligned with the expectation for a hard landing. We believe this expectation may be too pessimistic, and there is room for positive surprises. Prices in credit markets imply overly optimistic expectations on the rate trajectory, reflecting the strongest "soft landing" view across the asset classes.

These observable fundamentals complement the views that we derive in the interest rate framework presented above. Analysts project that earnings for the S&P 500 will resume growth in the second half of the year, which one wouldn't anticipate if growth in the economy were slowing and the Fed were cutting rates. And if inflation were cooling, it may be a function of less of an ability to take price.

Valuations appear to corroborate the view embedded in rate expectations—the S&P 500 currently trades at 21.0 times trailing earnings, sitting in the top third of historical multiples. This lofty valuation was supported by the technology sector, which was recently fueled by the promise of artificial intelligence (AI). The interest-rate sensitive tech sector was trading at 35.0 times trailing earnings as of June 30, 2023, roughly in the top 20% of all multiples[10] since 2000, and where the trailing P/E ratio[11] was in November 2021 when the Fed started to taper its quantitative easing (QE) programs. The tech sector's valuation appears especially rich with short rates at 5%, inflation surprising to the upside, and with money supply higher than the trend.

For U.S. equities to be fairly valued, the Fed must accomplish what the S&P 500 implied rates trajectory indicates: Control inflation and avoid a meaningful slowdown. While this outcome is possible, we view the probability as lower relative to other scenarios. Should growth deteriorate more broadly, the embedded expectations would be at risk. We also acknowledge that the market's recent obsession with technological advances could engineer a bubble, but our job is not to speculate with shareholder capital.

The MSCI EM Index is valued at 12 times trailing earnings, in the bottom 17% of multiples since 2000. The MSCE EAFE Index is valued at 14.6 times trailing earnings and is in the bottom 26% of multiples. Developed and emerging markets face risks: such as a slower recovery in China and high inflation across Europe. The MSCI EAFE has priced in expectations of higher rates for longer than the S&P 500, while emerging-market expectations imply the need for sharp rate cuts. Given the asynchronous nature of global markets, both these expectations could be accurate, in our view.

With asset valuations reflecting some aspect of risk, we believe there is a margin of safety in non-U.S. equity valuations. If an outcome were achieved that is consistent with interest rate expectations for the U.S., non-U.S. markets could offer higher returns compared with returns for U.S. equity markets. Alternatively, if scenarios where the risks that are being priced into non-U.S. markets unfold differently—such as inflation proving less onerous in non-U.S. developed markets or growth in emerging markets—it could also cause the gaps in expectations to converge. Consequently, we reflect our views with an overweight exposure in non-U.S. equities.

IMPORTANT INFORMATION

Written by Fidelity's Target Date Investment Team

Term	Definition
S&P 500 Index (S&P 500)	The S&P 500 is a market capitalization-weighed index of 500 widely held U.S. stocks and includes reinvestment of dividends.
MSCI EAFE Index (EAFE)	The MSCI EAFE is a market capitalization-weighed index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the United States and Canada.
U.S. Dollar Index (DXY)	The U.S. Dollar index is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.
Price-to-Earnings (P/E) Ratio Trailing	The ratio of a company's current share price to its trailing 12-month earnings per share.
Consumer Price Index (CPI)	Measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
Producer Price Index (PPI)	Family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

Endnotes

[1] Consumer Price Index (CPI) Measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

[2] Eurodollar futures, based on LIBOR, have been a popular and liquid means for investors to express views on the trajectory of short-term interest rates. With the phase-out of LIBOR, however, the market is transitioning to secured overnight financing rates (SOFR) futures to express rate expectations. Since 2018, when SOFR futures began, their evolution has tracked closely with Eurodollar futures, particularly in the elements of the rates curve we utilize in our quantitative analysis.

[3] This game show debuted on June 7, 1955. As of June 30, 1955, the Consumer Price Index (CPI) was at 26.71. As of the April 30, 2023, the index was at 302.918, a ratio of 11.34x. Consequently, in current dollars, the $64,000 question is the $725,823 question.

[4] Principal component analysis (PCA) is a popular technique for analyzing large datasets containing a high number of dimensions/features per observation, increasing the interpretability of data while preserving the maximum amount of information, and enabling the visualization of multidimensional data

[5] S&P 500® Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.

[6] ICE BofA US Corporate Index tracks the performance of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch) and an investment-grade rated country of risk.

[7] The MSCI EAFE is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the United States and Canada.

[8] MSCI Emerging Markets Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in emerging markets.

[9] The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions. https://www.newyorkfed.org/markets/reference-rates/effr

[10] The lowest 20% of earnings yield, actually since EPS has been negative, at times, in this period.

[11] Price-to-Earnings (P/E) Ratio Trailing: The ratio of a company's current share price to its trailing 12-month earnings per share.

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THE NCPERS MONITOR

The Latest in Legislative News

September 2023

NCPERS Executive Director's Corner

NCPERS Program for Advanced Trustee Studies (PATS) Returns

By Hank Kim, Executive Director and Counsel, NCPERS

At NCPERS, we're always looking to improve our educational programs while adapting to the shifting needs of our member public pension plans and stakeholders. Sometimes, this involves launching new events (like this year's inaugural Pension Communications Summit). Other times, this can mean bringing back events where there is a clear need for additional programming.

Next month, after a COVID-related hiatus, we're excited to see the return of one of our always-popular events: NCPERS Program for Advanced Trustee Studies (PATS). Developed over a decade ago in collaboration with Harvard Law School, this program is perfect for advanced trustees and staff who crave an in-depth exploration of pension plan governance. This year's program will focus on two key topics: Investment in Private Equity and Actuarial Deep Dive for Pension Funds. We believe these two topics are especially important for our pension fund members and stakeholders to become well-acquainted with.

According to the Center for Retirement Research at Boston College, state and local plans have increased their holdings in alternatives from 9 percent in 2001 to 34 percent in 2022. Their research found that, while alternatives have not helped overall returns, they may have reduced volatility. Recently, though, public pensions have been pulling away from private equity, with total commitments in Q2 decreasing 27.6 percent year over year. As an asset class, alternatives tend to be less broadly understood compared to equities. It's imperative for pension staff and trustees to have a deep comprehension of private equity markets in order to effectively fulfill their fiduciary duties.

Understanding actuarial science is key to accurately assessing the health of your pension fund. Trustees and staff will walk away from PATS with a deeper knowledge of these complex topics, allowing them to work effectively with actuaries and have a more holistic understanding of their fund's health when making decisions.

Both PATS and NCPERS Accredited Fiduciary (NAF) program are part of NCPERS University. These two-day, in-person events will be held October 21-22 in Las Vegas, immediately before our 2023 Financial, Actuarial, Legislative & Legal (FALL) Conference.

One of the biggest benefits of our NAF and PATS programs is having the opportunity to engage with peers from across the country and build valuable connections. With small class sizes, NCPERS University programs help facilitate the exchange of ideas. Attendees form a network of trusted peers who understand and experience the same challenges and opportunities.

Our FALL Conference is the perfect mid-sized event, featuring a mix of general session topics, exhibit hall breaks, and networking opportunities. Attendees will learn from industry leaders about the latest financial, actuarial, legislative, and legal issues facing public pensions of all sizes.

We hope to see you in Las Vegas for our final in-person events of the year. Be sure to register for both NCPERS University programs and our FALL Conference by September 20 for early-bird pricing. ◆

Politics and Pension Governance: What's Happening in North Dakota?

By Bridget Early, Director of Membership & Strategic Alliances, NCPERS

Earlier this year, state lawmakers passed and Gov. Doug Burgum signed into law two major bills that will cause significant changes to the North Dakota Public Employee Retirement System (NDPERS). The first, HB 1040, levies significant costs to the North Dakota taxpayers and threatens the state's ability to recruit and retain employees. The second, included in the state's budget bill, stacks the board of trustees with lawmakers. Both changes are cause for concern for how lawmakers and public pension systems interact.

HB 1040, which closes NDPERS' defined benefit plan to new employees beginning in 2025, was lawmakers' 'solution' to the systems' $1.9 billion unfunded liability. It is considered the most expensive bill passed in the state's history with an estimated price tag of nearly $5 billion over the next 30 years. Closing the system to new employees means a loss of dollars from their contributions, and the dollars needed to fully fund the system and pay out benefits is now passed off to the taxpayers.

This is yet another example of the dangers of relying on funding ratios as the sole measure of pension health. Funding ratios only convey a one-dimensional, single point-in-time measurement and do not provide trends and other important context. In the case of HB 1040, policymakers' flawed analysis of the health of NDPERS will have long-lasting implications for thousands of North Dakotan public servants and their families. It also makes the state a less attractive employer, which will make it harder to recruit and retain employees. States such as Alaska and West Virginia experienced these issues firsthand when closing their defined benefit plan.

In addition to the challenges the system will face trying to ensure there is enough funding to pay out plan participants, the legislature moved to make significant changes to the board makeup that defy governance best practices. As part of the state's budget bill, four of the 11 board members are now state lawmakers appointed solely by the majority leaders of the House and Senate. For comparison, only three are elected by active participating members of NDPERS.

In the case of North Dakota, can a board member serve the legislative branch as a state lawmaker and the executive branch as an appointee to the NDPERS board without violating the separation of powers held in the state's constitution? That is what is at the center of a lawsuit brought to the state's Supreme Court by the NDPERS board. Good governance practices are imperative to plan health. When several board appointees have a duty to one branch of government, sitting on a board for another branch creates a conflict of interest that puts the fund at fiduciary risk.

The intersection between pension funds and lawmakers will always exist. What is vital is that these systems work together to drive solutions that protect the health of the fund and not the ideological views of elected officials. When it comes to public pensions, fiduciary responsibilities should always be the primary goal, not politics. ◆

New Resource Available from NCPERS to Help Public Pensions Manage Securities Litigation Exposures

By: Lizzy Lees, Director of Communications, NCPERS

On July 26, NCPERS hosted a webinar to share insights about a new pilot program, NCPERS Securities Fraud Recovery Services, and discuss some of the challenges public pensions face in managing their securities litigation exposures.

Hank Kim, executive director and counsel for NCPERS, moderated the conversation among panelists Barbara Hannah, chief counsel for SBCERA; Lydia Lee, of counsel to Lieff, Cabraser, Heimann & Bernstein; and Irwin Schwartz, president of DIVIDEX Management.

To start, Kim provided background on why the pilot program was created and how it fits in with NCPERS other affinity programs and services for plans. One aspect of NCPERS' mission is to "bring scale to small" by providing broader, affordable access to some of the best-in-class services used by the largest pensions in the country, he said. Our affinity programs make it possible for small and mid-market plans to take advantage of these services at a minimal cost.

As securities litigation has continued to get more and more complex, NCPERS identified the need for smaller plans to gain access to a service used by CalSTRS, MassPrim and others to help them optimize their recoveries and supplement their existing protocols for monitoring securities fraud opportunities. "I like to think of our pilot program as similar to the role that investments consultants play. As your plan is executing its investment mandates, you rely on investment consultants to provide you with independent, unbiased opinions on asset managers. Likewise, we expect this program to act in a similar way relative to the merits of pursuing securities litigation cases," added Kim. NCPERS is subsidizing the cost of the services, so eligible members can enroll for free. [Learn more about the program and find out how to enroll].

Schwartz provided additional background on the pilot program, which was developed over a year-long period based on feedback from focus groups in the target demographic. Only NCPERS member pension funds with $30 billion AUM or less (or with annual average securities litigation recoveries of less than $2.5 million) are eligible to participate in the program.

The services included in the pilot program are designed to complement those offered by securities litigation firms, allowing funds to make more informed decisions and better meet their fiduciary duties. The pilot program services include:

- Up to three free consultations where, upon request, DIVIDEX Management will help your fund evaluate whether it makes sense to pursue a domestic or foreign securities fraud recovery opportunity. Such an evaluation may include a loss analysis and prudence of serving as lead plaintiff or opting-out of domestic cases, or joinder in foreign cases. Additional evaluation services are available for a fee of $500 per case consultation.
- Free monthly reports containing information on foreign securities fraud recovery opportunities; claims filing deadlines for select class action settlements; and payouts from select large class action settlements.
- Reconciliation services to analyze the efficacy of the participating member's securities class action settlement claims filings and recoveries on selected cases. For this service, participating funds will provide DIVIDEX Management with the subject securities transactions and holdings data. In the event a fund elects to receive a Settlement Recovery Evaluation, the cost will be $100 per case, payable directly to DIVIDEX Management.

Next, Hannah shared why SBCERA decided to participate in the pilot program. The fund's securities litigation monitoring services have evolved over time, and—without access to the services offered through the pilot program—she views their participation as the next step in this evolution. "I believe that the services provided by DIVIDEX will give us another view of why we would join or why we would potentially be a lead plaintiff in a domestic litigated matter. It just provides another layer of analysis," she said.

When deciding to participate in the program, she also learned that analyses are done on a case-by-case basis. If an analysis is requested, the fund only needs to securely share transaction data for that specific case—which she views as a plus.

The pilot program services don't replace what the law firm does, she added. At SBCERA, when there is a litigated matter the law firms provide a memo, and Hannah, as Chief Counsel, also provides a memo. With the added insights from a case analysis provided by DIVIDEX, the board and CEO can more easily make an informed decision about pursuing litigation.

Lee then discussed some of the challenges pension funds can face with managing securities litigation exposures. She noted the continued involvement of institutional investors maximizes the recovery for all shareholders, citing a Stanford University study that found "when a public fund serves as lead plaintiff in a case, the recovery is anywhere from 28 to 46 percent higher than in cases where public fund leadership is absent."

In highlighting the benefits of working with law firms when deciding whether or not to pursue litigation, she noted that NCPERS member litigation firms are governed by strict ethical mandates. "It's critical to select more than one firm…to get different perspectives on cases." If multiple firms are recommending you serve as lead plaintiff, it can also indicate the strength of the case.

She ended her portion of the presentation by reiterating that their pre-litigation services are free. "In exchange, public funds must occasionally undertake the responsibility of a lead plaintiff role… I think it's an obligation where everyone benefits, and the system will suffer if you do not participate."

Watch the full webinar recording, and find additional information about NCPERS Securities Fraud Recovery Services (including answers to frequently asked questions) here. Be sure to enroll today—space is limited. ◆

Pension Industry Careers: Job Listings, Hiring, and Retirement Announcements

Brought to you by NCPERS

Anti-ESG Legislation

By: Tony Roda, Partner, Williams & Jensen

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On July 27, the last day the House was in session prior to the August recess, the Financial Services Committee approved on party line votes four bills designed to fulfill its promise of moving an anti-ESG slate of legislation through the House this year. The bills are expected to be considered on the House floor as early as September. Following are descriptions of the legislation.

H.R. 4655 would prohibit the Securities and Exchange Commission (SEC) from compelling the inclusion or discussion of shareholder proposals, proxy, or solicitation materials. The authors of the bill argue that these decisions are properly a matter of state law, and the SEC should be prohibited from intervening in those decisions.

H.R. 4767 would revise SEC regulations to provide that an issuer may exclude shareholder proposals that are substantially the same subject matter as a proposal or proposals previously included in proxy or consent solicitations, and may specifically reject any shareholder proposal on an ESG issue. For purposes of the "S" (Social) in ESG, the bill states that such a proposal may be excluded regardless of whether it is a significant social policy issue. This 50-page bill contains numerous additional provisions, including new registration requirements for proxy advisory firms. In part, that provision would require proxy advisory firms to disclose their procedures and methodologies in order to ensure their recommendations are in the best economic interests of the ultimate shareholders. The advisory firm also would be required to provide a description of any conflicts of interest that may arise due to its ownership structure.

H.R. 4790 is designed to forestall the SEC from implementing regulations that would require certain climate-related disclosures. This legislation is in response to a proposed rule issued by the SEC in March 2022 that, in general, would require registrants to disclose in their registration statements and periodic reports climate-related risks that are material to their business, operations, or financial condition. In response, H.R. 4790 would require that whenever there is an SEC rulemaking regarding disclosure obligations the Commission shall expressly provide that an issuer is only required to disclose information in response to such disclosure obligations to the extent the issuer has determined that such information is material with respect to a voting or investment decision regarding the securities of such issuer.

Finally, H.R. 4823 would prohibit the Federal Reserve, Comptroller of the Currency, Federal Deposit Insurance Corporation, Housing Finance Administration, and the National Credit Union Administration from implementing a non-binding recommendation from the Financial Stability Oversight Council (FSOC) or contained in an Executive Order, unless the head of the specific agency first notifies the House Financial Services Committee and the Senate Banking Committee that the agency intends to implement the recommendation, its justification for implementation, and provides testimony to the Congressional Committees if requested. In addition, if a regulation would have a $10 billion economic impact over 10 years, these same federal agencies would be prohibited from proposing or finalizing that regulation if it aligns or conforms with a recommendation from an international non-governmental organization, including FSOC, the Bank for International Settlements, the Network of Central Banks and Supervisors for Greening the Financial System, and the Basel Commission on Banking Supervisors, unless the federal agency provides the two Congressional Committees with notice, testimony, and detailed projections of economic costs, sectoral effects, impact on availability of credit, gross domestic product, and employment. The same agencies also would be required to keep contemporaneous records on their interactions with these international groups and report annually to the Committees on the interactions.

Given the political composition of the 118th Congress, this raft of partisan, anti-ESG, House Republican legislation will not gain traction in the Democratic-controlled Senate. However, the proposals and ideas will remain on the shelf for future Congresses to consider if the political will is there.

One additional item that needs to be mentioned is the investigation being spearheaded by House Judiciary Committee Chairman Jim Jordan (R-OH) on potential antitrust violations by money managers, institutional investors, financial institutions, and climate action groups on investment actions related to climate change. Chairman Jordan has issued a series of investigatory letters and subpoenas to these entities and the Committee Members and staff will review the responses in the coming months.

Please know that NCPERS will keep its members up to date on significant developments in this area. ◆

__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.

Oklahoma Public Employees Pension System Takes Exemption to Banking Law

Trustees of the Oklahoma Public Employee Retirement System voted to take a financial exemption from a new law forbidding state pension systems from doing business with banks perceived to be hostile to oil and gas companies.

READ MORE *Source: Oklahoma Watch*

House Bill Aims to Expand Pension Plan Access for North Carolina First Responders

Rep. Greg Murphy, R-N.C., has introduced a bill that would grant non-profit first responders access to their state's pension plan.

READ MORE *Source: Pensions & Investments*

Illinois Lawmakers Discuss Pension Debt Measure at Hearing

Illinois legislators met again to discuss a measure that aims to provide an additional $500 million yearly for the state's pension systems to address massive unfunded liabilities.

READ MORE *Source: The Center Square*

NYC Pensions Seek Dismissal of ESG Lawsuit

New York City pension funds filed a motion to dismiss a lawsuit that alleged three of the five funds jeopardized the retirement security of plan participants, due to the plans' divestment from securities of certain fossil fuel companies.

READ MORE *Source: PlanSponsor*

[Governor Beshear Proposes Salary, Pension Changes for Kentucky State Troopers]

Beshear is asking for a pay increase, expanded benefits and more safety measures for Kentucky State Police. The governor said he wants a defined pension benefit for troopers along with a $2,500 pay raise.

READ MORE *Source: WAVE News*

CalPERS Vendor Pension Benefit Information Sued for Breach of Retirees' Data

A CalPERS service provider, Pension Benefits Information, is facing a new class-action lawsuit after it disclosed a breach of retirees and beneficiaries' personal information, part of a widespread attack by a Russian ransomware gang.

READ MORE *Source: Pensions & Investments*

New Front in ESG Wars: Securities Industry Sues Missouri

The Securities Industry and Financial Markets Association ("SIFMA") – a leading Wall Street industry association – filed suit to enjoin new Missouri regulations requiring investment advisors ("IA's") and broker-dealers ("BDs") there to obtain a prescribed form of client consent, if they use "social" or "nonfinancial" objectives in their investment analysis.

READ MORE *Source: JD Supra*

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Upcoming Events

October

NCPERS Accredited Fiduciary (NAF) Program

October 21-22
Las Vegas, NV

Program for Advanced Trustee Studies (PATS)

October 21-22
Las Vegas, NV

Financial, Actuarial, Legislative, and Legal Conference (FALL)

October 22-25
Las Vegas, NV

January

Pension Communications Summit

January 21–22
Washington, DC

Legislative Conference

January 22–24
Washington, DC

View all upcoming NCPERS conferences at www.ncpers.org/future-conferences.

The Voice for Public Pensions

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FUNDfire

High Rates, Rising Defaults to Fuel Distressed Debt Deal Surge

Managers are preparing for what could be the first true distressed cycle in a decade, though some say direct lending has jumbled the deals landscape.

By Tom Stabile | September 6, 2023

High interest rates and rising loan defaults are setting up the first classic distressed debt investment cycle in more than a decade, though some market watchers say the **direct lending revolution** of recent years may have permanently shifted the landscape for available deals.

Distressed players have been **waiting for years** for a traditional flow of deals to buy the outstanding debt of financially troubled companies, with several windows of opportunity opening and closing quickly – including the Covid-19 economic shock of 2020. Though distressed debt players raised tens of billions of dollars that year, much of it was **deployed in deals** outside of their typical investment playbooks.

But today's prolonged stretch of higher interest rates could be the spark, said **Jason Friedman**, partner and global head of business development at **Marathon Asset Management**, a $23 billion manager.

"Distressed cycles over the past 20 years have been crisis-driven – where defaults spike to 12% in one year and then fall back to nothing," he said. "We haven't seen the multiyear 3% to 5% default rate cycle we saw in the 1980s and 1990s, but that's likely what we're heading into now."

Instead of a wider economic slump sparking distressed deals, it's likely that they will come from a modest percentage of companies struggling to adjust to higher rates, Friedman said. Even deals involving 10% of the outstanding $5 trillion in commercial debt would be a huge market opportunity, he said.

"That would be $500 billion – on a dollar basis, that's multiples of what the distressed market has ever seen before," he said. "It won't feel like the world is burning down. It will be a death by 1,000 paper cuts market."

The potential volume of deals is clearly a different from the abbreviated distressed cycles of recent years, said **Mark Perry**, managing director at **Wilshire**, an institutional investment consultant.

"There's a lot of kindling on the distressed debt fire now," he said. "Just by sheer dollar volume, if a larger percentage of the loan market becomes distressed or stressed, it becomes a fairly large market opportunity."

The financial stress from higher interest rates has yet to fully ripple through businesses, said **David Conrod**, CEO at **FocusPoint Private Capital Group**, a placement agent.

Mark Perry

"For a $10 billion buyout manager, the interest expense across its portfolio has increased by $1 billion," he said. "That's not sustainable."

And expectations are widespread that interest rates won't reverse anytime soon, said **Dean D'Angelo**, co-head of the private credit strategy and founding partner at **Stellus Capital Management**.

"The concept of higher rates for longer will continue to put stress on the system," he said.

Distressed deals are also back on the radar of limited partners, or LPs, said **Kyle Asher**, co-head and co-portfolio manager for opportunistic private credit at **Monroe Capital**.

"They're trying to figure out the best way in," he said.

Several managers also are back in the market with funds targeting distressed debt deals, including **Oaktree Capital Management**, which is planning an $18 billion fundraise for its 12th opportunistic credit strategy, and **Carlyle** as it aims for $8.5 billion in its third credit opportunities fund, according to a **Preqin** report from last month. **Pimco** and **M&G Investments** also have new funds in the market, Preqin reported.

So far this year, managers have closed 15 distressed debt funds with an aggregate of $15.6 billion, already topping the full-year total of $14.5 billion in 17 funds from 2022, according to Preqin. But there also still is an overhang of capital to deploy from 2020, when 57 funds closed with $51.1 billion, and 2021, when 46 funds raised $42.8 billion, Preqin data shows.

A new distressed cycle likely won't be a carbon copy of past versions, said **Karen Simeone**, managing director at **HarbourVest**. That's because the universe of commercial loans includes private equity portfolio companies borrowing from direct lending vehicles – deals with limited pressure because such funds are far more flexible than banks in addressing credit problems, she said.

"Increasingly, private credit has been financing the best companies out there," she said. "From a risk perspective, are you really being compensated for the risk in today's distressed [deals]?"

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Greater Volume

The signs are already pointing to an increase in stress across the market, Asher said. Industry data as of last month showed several dozen borrowers had defaulted on more than $40 billion in bonds and $25 billion in loans this year, he said.

"There are already more defaults and bankruptcies this year versus years past," he said. "If you look at the amount of loans that have defaulted year to date, it's more than all of last year... And anecdotally, if you

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talk to the top 20 bankruptcy lawyers, those folks are finally busy again."

Wilshire is also tracking the default rate to predict the distressed opportunity set, Perry said.

"It's imperfect, but a good indicator," he said.

Elevated defaults aren't hard to imagine, as many companies built balance sheets around the previous low interest rate, lower-cost environment, Friedman said.

"They are not set up to survive in a higher-rate environment," he said. "They can face debt maturity, liquidity issues, working capital issues or other exogenous problems... where they cannot tolerate a higher cost of leverage."

Potential Hitches

While there will be some level of the classic deals – where distressed players buy debt at 60 or 70 cents on the dollar and sell it again later on at 85 cents, or take control of the companies – investors still face risk from issues such as the timing of deals, with uncertainty around when opportunities may materialize, Perry said.

In addition, many loans through direct lenders are simply not accessible to managers using a distressed debt playbook, Simeone said.

"There's not as much room for the distressed player to get in," she said. "More borrowers are using private credit than ever before, and that's not a great pond for distressed managers to fish in. Most deals have restrictions on trading... or need borrower permission, with exclusion lists where the lender can't sell to certain parties."

The willingness of direct lending players to "amend and extend" existing loans, as well as the lack of strict covenants in many recent deals, also offers "fewer hooks" for the distressed manager, Perry said.

Another potential challenge for distressed managers is the generally improving economic picture, D'Angelo said. "If this is a peak where rates go... the world can normalize with a new level of activity," he said.

It's likely that few distressed debt managers will rely solely on landing classic deals, with many tilting into other transactions or flexible approaches developed in recent cycles, Perry said. That means a tougher manager due diligence job for investors, he said.

"We're looking for something very specific from our distressed debt allocation," he said. "We want broad and flexible, but not too broad and flexible."

Some of the levers managers can pull to find deals include looking for distress in other geographic regions or adding a mix of dislocation finance and direct origination deals, Perry said.

Some managers may also pursue deals in collateralized loan obligation vehicles, some which are facing unexpected stress, Asher said. Another opportunity may emerge from newer direct lending managers that lack deal workout capabilities, especially if their borrowers can't withstand the higher-cost environment, he said.

"That's where special situations and distressed firms may see an extraordinary opportunity," he added.