A G E N D A

BOARD MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
FRIDAY, NOVEMBER 3, 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/81623753001 and following the prompts to enter your name and email, or (2) calling (669) 219-2599 or (669) 900-9128 and entering Meeting ID 81623753001#.

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 Audit Committee Meeting of September 8, 2023 — 05

3.02 Minutes for the Board Meeting of October 11, 2023 — 06

3.03 Minutes for the Investment Roundtable Meeting of October 12, 2023 — 09

3.04 Minutes for the Administrative Committee Meeting of October 19, 2023 — 11

3.05 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 (10) 12

5.02 Board to consider and take possible action

6.0 INVESTMENT CONSULTANT REPORTS

6.01 Presented by David Sancewich of Meketa Investment Group

01 Manager Performance Flash Report - September 2023 14

02 Economic and Market Update - September 202318 19

6.02 Roundtable Summary

01 Memo from Meketa 39

02 Roundtable Evaluation Results 41

6.03 Board to receive and file reports, discuss and give direction to staff and consultant as appropriate

7.0 PRIVATE CREDIT PORTFOLIO REVIEW

7.01 Presentation by Maya Ortiz de Montellano of Meketa Investment Group

01 SJCERA Private Credit Review 54

02 2024 Private Credit Investment Plan 60

7.02 Board to receive and file report, discuss and give direction to staff and consultant as appropriate

8.0 EVALUATION OF CONSULTANTS 71

8.01 Consulting Actuary 73

8.02 Investment Consultant 85

8.03 Board to receive and file evaluations, discuss and give direction to staff and consultants as appropriate

9.0 SACRS BUSINESS MEETING 102

9.01 SACRS Business Meeting Materials - November 10, 2023 103

9.02 Board to discuss and give direction to voting delegates for the SACRS Business Meeting

10.0 STAFF REPORTS

10.01 Trustee and Executive Staff Travel

01 Conference and Events Schedule 2023/2024 146

02 Summary of Pending Trustee and Executive Staff Travel 167

03 Summary of Completed Trustee and Executive Staff Travel 168

a FIS Stanford - Brian McKelvey 169

b FIS Stanford - Paris Ba 172

12.0 COMMENTS

12.01 Comments from the Board of Retirement

13.0 CLOSED SESSION

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

14.0 CALENDAR

14.01 Administrative Committee Meeting November 29, 2023 10:30 a.m.

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

14.03 Board Meeting January 12, 2024 at 9:00 a.m.

14.04 Board Meeting February 9, 2024 at 9:00 a.m.

14.05 Board Meeting March 8, 2024 at 9:00 a.m.

15.0 ADJOURNMENT

M I N U T E S

AUDIT COMMITTEE MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
FRIDAY, SEPTEMBER 8, 2023
AT 8:34 AM
Location: SJCERA Conference Room, 6 S. El Dorado Street, Suite 400, Stockton, California

1.0 ROLL CALL

1.01 **MEMBERS PRESENT**: Raymond McCray, Phonxay Keokham, Michael Restuccia, and Michael Duffy presiding

MEMBERS ABSENT: None

STAFF PRESENT: Chief Executive Officer Johanna Shick, Management Analyst III Greg Frank, and Administrative Secretary Elaina Petersen

OTHERS PRESENT: Counsel Ashley Dunning

2.0 PUBLIC COMMENT

2.01 There were no public comments

3.0 SELECTION OF FINANCIAL AUDITING SERVICES VENDOR (RFP #2023-01)

3.01 The Committee unanimously (4-0) approved staff's recommendation that Brown Armstrong be awarded a two-year contract with three optional one-year extensions which SCJERA may exercise at its sole option. (Motion: McCray; Second: Keokham)

4.0 COMMENTS

4.01 There were no comments from the Committee members

5.0 ADJOURNMENT

5.01 There being no further business, the meeting was adjourned at 8:38 a.m.

Respectfully Submitted:

____
Michael Duffy, Audit Committee Chair

M I N U T E S

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

1.0 ROLL CALL

1.01 **MEMBERS PRESENT:** Phonxay Keokham, Emily Nicholas, Jennifer Goodman, JC Weydert (in at 9:01 a.m.), Michael Duffy, Steve Moore, and Michael Restuccia (out at 10:13 a.m.) presiding

MEMBERS ABSENT: Chanda Bassett, Steve Ding, and Raymond McCray

STAFF PRESENT: Chief Executive Officer Johanna Shick, Assistant Chief Executive Officer Brian McKelvey, Retirement Investment Officer Paris Ba, Management Analyst III Greg Frank, Information Systems Manager Adnan Khan, Information Systems Analyst II Lolo Garza, Administrative Secretary Elaina Petersen, Financial Officer Carmen Murillo, Retirement Services Supervisor Melinda DeOliveira

OTHERS PRESENT: Counsel Yuliya Oryol of Nossaman, David Sancewich of Meketa, Scott Maynard (via Zoom) of Meketa

2.0 PLEDGE OF ALLEGIANCE

2.01 Led by Emily Nicholas

3.0 MEETING MINUTES

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

3.02 Minutes for the Board Meeting of September 8, 2023

3.03 The Board voted unanimously (6-0) to approve the Minutes of the Special Board Meeting of September 1, 2023 and Board Meeting of September 8, 2023 (Motion: Duffy; Second: Keokham)

4.0 PUBLIC COMMENT

4.01 There was no public comment

5.0 CONSENT ITEMS

5.01 Service Retirements (19)

5.02 General

01 Proposed 2024 Board Meeting Calendar

5.03 Retirement Legal Counsel Salary Range

5.04 The Board voted unanimously (6-0) to approved the the consent items (Motion: Duffy; Second: Nicholas)

6.0 REAL ESTATE MANAGER PRESENTATION

6.01 Presentation by Matt A'Hearn, Partner, and Development and Alexa Singer, Director, Head of Capital Solutions with IPI Partners III

7.0 CLOSED SESSION

The Chair convened Closed Session at 9:48 a.m. and adjourned Closed Session and reconvened Open Session at 10:06 a.m.

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

Counsel noted that, other than items listed on the agenda, there was nothing further to report out of closed session.

8.0 BUSINESS AND LEGAL DILIGENCE IN PRIVATE INVESTMENTS

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

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

b Economic and Market Update - August 2023

02 The Board received and filed reports

10.0 STAFF REPORTS

10.01 Trustee and Executive Staff Travel

01 Conference and Event Schedule 2023/2024

02 Summary of Pending Trustee and Executive Staff Travel

03 Summary of Completed Trustee and Executive Staff Travel

10.02 The Board received and filed reports

10.03 Quarterly Operations Reports

01 Pending Member Accounts Receivable - Third Quarter 2023

02 Disability Quarterly Report - Statistics

03 Pension Administration System Update

10.04 Legislative Report

10.05 CEO Report

01 2024 Action Plan

10.06 The Board received and filed reports

11.0 CORRESPONDENCE

11.01 Letters Received (0)

11.02 Letters Sent (0)

11.03 Market Commentary/Newsletters/Articles

01 Fidelity Investments
Are we there yet?
July 2023

02 NCPERS
Monitor
September 2023

03 FundFire
High Rates, Rising Defaults to Fuel Distressed Debt Deal Surge
September 6, 2023

12.0 COMMENTS

12.01 Trustee Nicholas thanked Retirement Services Supervisor Melinda DeOliveira and Retirement Services Associate Ron Banez for coming to San Joaquin Mosquito and Vector Control to present information to staff on services offered by SJCERA during their recent open enrollment period.

13.0 REPORT OUT OF CLOSED SESSION

13.01 On July 14, 2023, the Board voted unanimously to approve Resolution 2023-10-01 titled “Berkeley Partners Value Industrial Fund VI” and to authorize the CEO to sign the necessary documents to invest $40 million in the fund.

14.0 CALENDAR

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

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

14.03 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 10:56 a.m.

Respectfully Submitted:

____
Michael Restuccia, Chair

Attest:

____
Raymond McCray, Secretary

San Joaquin County Employees
Retirement Association

M I N U T E S

SPECIAL MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
THURSDAY, OCTOBER 12, 2023
AT 8:10 AM
Location: Wine & Rose - Garden Ballroom
2505 West Turner Road, Lodi, CA 95242

1.0 ROLL CALL

1.01 **MEMBERS PRESENT:** Emily Nicholas, Jennifer Goodman, Michael Duffy, Phonxay Keokham, JC Weydert (in at 9:07 a.m.), Steve Moore, MIchael Restuccia presiding.
MEMBERS ABSENT: Chanda Bassett, Ray McCray, Steve Ding
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 Yuliya Oryol of Nossaman, David Sancewich, Judy Chambers, Scott Maynard, Ryan Farrel and Paola Nealon of Meketa Investment Group. Jeffery Woltkamp and Brenda Kiely of San Joaquin County, Sarah Ragsdale and Steve Pinkerton of Mountain House, Omar Khweiss of San Joaquin County Mosquito/Vector Control, Jason Whelan of the San Joaquin County Deputy Sheriff's Association

2.0 PLEDGE OF ALLEGIANCE

2.01 Led by Michael Restuccia

3.0 WELCOME AND INTRODUCTION OF PARTICIPANTS

3.01 Trustees and staff introduced themselves. Chair Restuccia provided information about the Board's role. CEO Shick summarized SJCERA's funding progress. David Sancewich of Meketa Investment Group moderated the discussion.

4.0 OVERVIEW OF SJCERA - ASSET ALLOCATION, RETURN AND RISK

4.01 David Sancewich summarized SJCERA's portfolio and plan characteristics and outlined the challenges (funding and investments) facing SJCERA.

5.0 KEYNOTE SPEAKER - THE STATE OF THE WORLD IN 2023 AND BEYOND

5.01 Presentation by Erik Knutzen of Neuberger Berman

6.0 PRIVATE MARKETS INVESTING

6.0 Private Equity, Private Credit, Infrastructure - What's Next and Where are the Markets Today?

6.01 Presentation by Judy Chambers of Meketa and investment managers Irina Krasik of Stellex, Gaurav Bhandari of LongArc, and Colbert Cannon of HPS

7.0 INFLATION

7.0 The Global Economy has been faced with historically high inflation. Will we see normalized inflation in the next three years?

7.01 Presentation by David Sancewich of Meketa and investment managers Jerry Prior of Mt. Lucus, Jordan Kruse of Oaktree, and Shane Cox of Dodge and Cox

8.0 MANAGER DEBATE: IN A CLASSIC DEBATE FORMAT

8.0 Investment managers debated the merits of Private Equity, Private Real Estate and Private Debt

8.01 Moderated by David Sancewich of Meketa, Mangers: Phil Tseng of BlackRock, Brooks Monroe of Invesco, and Jeff Ennis of Ocean Avenue

9.0 INTERNATIONAL MARKETS

9.0 The U.S. Equity Markets have dominated investment returns since the Great Financial Crisis (GFC). Are we going to see a reversal? Are International Markets more attractive over the next ten years? Where do the Chinese Markets fit within this structure?

9.01 Presentation by Paola Nealon of Meketa and investment managers Ben Larson of GQG, Dave Torchia of Stone Harbor, and Kevin Alexander of Ares

10.0 REAL ESTATE

10.0 What lies ahead in Real Estate and where are the opportunities?

10.01 Presentation by Scott Maynard of Meketa and investment managers Joshua Lenhert of RREEF, Kosta Karmaniolas of Prologis, and Lizzie Kirley of Stockbridge

11.0 OPEN DISCUSSION AND RECAP

11.01 Comments from the Board of Retirement: Board members thanked the investment managers, and David Sancewich and the team from Meketa, for contributing to the success of the Roundtable.

11.02 Comments from the Public - None

11.03 David Sancewich summarized the key discussion points of the roundtable. He also thanked the Board members, investment managers, and SJCERA staff for their attendance and participation in the roundtable.

12.0 ADJOURNMENT

12.01 There being no further business the meeting was adjourned at 4:38 p.m.

Respectfully Submitted:

____
Michael Restuccia, Chair

Attest:

____
Raymond McCray, Secretary

M I N U T E S

ADMINISTRATIVE COMMITTEE MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
THURSDAY, OCTOBER 19, 2023
AT 9:58 AM
Location: SJCERA Conference Room, 6 S. El Dorado Street, Suite 400, Stockton, California

1.0 ROLL CALL

1.01 **MEMBERS PRESENT**: Michael Restuccia, Jennifer Goodman, Phonxay Keokham and Michael Duffy presiding
MEMBERS ABSENT: None
STAFF PRESENT: Chief Executive Officer Johanna Shick, and Administrative Secretary Elaina Petersen
OTHERS PRESENT: Counsel Ashley Dunning

2.0 MEETING MINUTES

2.01 Minutes for the Administrative Committee Meeting of October 2, 2023

2.02 The Administrative Committee voted unanimously (4-0) to approve the minutes of the Administrative Committee meeting of October 2, 2023 (Motion: Restuccia; Second: Keokham)

3.0 PUBLIC COMMENT

3.01 There was no public comment

4.0 SUCCESSION AND TRANSITION PLANNING DISCUSSION

4.01 The Administrative Committee directed CEO Shick to begin the CEO recruitment as soon as practicable, using the services of both the San Joaquin County Division of Human Resources and a recruitment firm with public retirement system executive recruitment experience

5.0 COMMENTS

5.01 Trustee Keokham thanked CEO Shick for the length of time in announcing her retirement giving this Committee and the Board a good timeline for succession planning.
Trustee Goodman thanked CEO Shick for making SJCERA a better place through her work here.

6.0 ADJOURNMENT

6.01 There being no further business, the meeting was adjourned at 10:47 a.m.

Respectfully Submitted:

____
Michael Duffy, Committee Chairperson

San Joaquin County Employees Retirement Association

November 2023

5.01 Service Retirement — Consent

01 ROSA M BERUMEN
Staff Nurse IV - Inpatient
Hosp Progressive Care Unit

Member Type: General
Years of Service: 19y 01m 17d
Retirement Date: 8/31/2023

02 LESLIE Y BROWN
AsstDeptyChiefProbationOffice
Probation-LCC AB109-Admin

Member Type: Safety
Years of Service: 25y 00m 05d
Retirement Date: 9/1/2023

03 JULIE T DAI SHUM
Deferred Member
N/A

Member Type: General
Years of Service: 04y 05m 10d
Retirement Date: 9/21/2023
Comments: Deferred from SJCERA since February 1992. Outgoing reciprocity and concurrent retirement with CCCERA.

04 KATHLEEN MANION
Patient Services Rep
Hosp Admitting

Member Type: General
Years of Service: 22y 08m 13d
Retirement Date: 9/1/2023

05 ICILLE V MCCOLLIN
Office Supervisor
Child Support Svs

Member Type: General
Years of Service: 35y 05m 06d
Retirement Date: 9/9/2023

06 MARY K MONTGOMERY
Deferred Member
N/A

Member Type: General
Years of Service: 19y 04m 13d
Retirement Date: 9/1/2023
Comments: Deferred form SJCERA since February 2022.

07 CHRISTINA PATRON
Accounting Technician I
HSA - Admin Support

Member Type: General
Years of Service: 07y 00m 02d
Retirement Date: 9/2/2023
Comments: Tier 2 member - eligible to retire with 5 years of service credit.

08 PAUL L SHIPLEY
Staff Nurse V Clincl Nrs-Inpat
Hosp- Trauma Center

Member Type: General
Years of Service: 05y 00m 07d
Retirement Date: 9/22/2023
Comments: Tier 2 member - eligible to retire with 5 years of service credit.

09 CYNTHIA D TOLKMIT
Outpatient Clinic Assistant
San Joaquin Health Centers

Member Type: General
Years of Service: 18y 04m 14d
Retirement Date: 8/7/2023

10 DANIELLE YOUNG Deferred Member
N/A

Member Type: General
Years of Service: 05y 08m 13d
Retirement Date: 9/12/2023
Comments: General retirement after DRO split account.

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] September 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]			$ 3,995,538,487	100.0%	100.0%	-1.8	-1.2	3.6	7.3	5.5	5.2	7.5	Apr-90
Policy Benchmark [4]						*-1.2*	*-0.6*	*6.9*	*10.6*	*5.1*	*5.6*	*7.4*	
Difference:						-0.6	-0.6	-3.3	-3.3	0.4	-0.4	0.1	
75/25 Portfolio [5]						*-3.8*	*-3.4*	*7.2*	*16.4*	*3.8*	*5.7*	*6.6*	
Difference:			.			2.0	2.2	-3.6	-9.1	1.7	-0.5	0.9	
Broad Growth			$ 3,049,996,197	76.3%	78.0%	-2.6	-2.0	3.6	9.2	7.1	5.8	8.0	Jan-95
Aggressive Growth Lag[2]			$ 388,214,565	9.7%	12.0%	-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*	$ 45,797,460	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*	$ 8,870,502	0.2%		-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	
Bessemer Venture Partners Forge Fund[3]	*$50,000*	*PE Buyout*	$ 1,000,000	0.0%		--	--	--	--	--	--	--	Sep-23
MSCI ACWI +2% Lag						--	--	--	--	--	--	--	
Difference:						--	--	--	--	--	--	--	
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] 9/1/23 to present benchmark is 34% MSCI ACWI IMI, 8% BB Aggregate Bond Index, **16%** *50%* BB High Yield/*50%* S&P Leveraged Loans, 7% NCREIF ODCE +1% lag; **9%** T-Bill +4%, **12%** MSCI ACWI +2% Lag, **14%** CRO Custom Benchmark. Prior to 9/1/23 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] September 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*	$ 34,007,856	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*	$ 83,616,222	2.1%		-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	

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

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

[3] Manager returns are as of 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

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] September 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]			$ 1,452,669,294	36.4%	34.0%	-4.1	-3.1	10.1	21.1	8.0	5.3	8.7	Jan-95
MSCI ACWI IMI Net[2]						-4.2	-3.4	9.4	20.2	6.9	6.7	7.5	
Difference:						0.1	0.3	0.7	0.9	1.1	-1.4	1.2	
Global Equity			$ 1,412,957,815	35.4%									
Northern Trust MSCI World IMI		*All Cap Global*	$ 1,261,821,012	31.6%		-4.4	-3.5	10.4	21.8	--	--	6.9	Sep-20
MSCI World IMI Net						-4.4	-3.6	10.2	21.1	--	--	6.5	
Difference:						0.0	0.1	0.2	0.7	--	--	0.4	
SJCERA Transition		*All Cap Global*	$ 3,039	0.0%		NM	NM	NM	NM	--	--	NM	Jul-20
Emerging Markets			$ 151,133,765										
GQG Active Emerging Markets		*Emerging Markets*	$ 65,268,015	1.6%		-0.1	2.0	16.9	20.7	--	--	2.4	Aug-20
MSCI Emerging Markets Index Net						-2.6	-2.9	1.8	11.7	--	--	-1.5	
Difference:						2.5	4.9	15.1	9.0	--	--	3.9	
PIMCO RAE Fundamental Emerging Markets		*Emerging Markets*	$ 85,865,750	2.1%		-1.6	1.9	13.0	29.8	14.3	5.0	5.0	Apr-07
MSCI Emerging Markets Index Net						-2.6	-2.9	1.8	11.7	-1.7	0.6	2.6	
Difference:						1.0	4.8	11.2	18.1	16.0	4.4	2.4	
REITS			$ 39,711,479	1.0%									
Invesco All Equity REIT		*Core US REIT*	$ 39,711,479	1.0%		-6.9	-8.2	-6.1	-2.9	1.9	1.8	7.0	Aug-04
FTSE NAREIT Equity Index						-6.8	-7.1	-2.1	3.0	5.8	2.8	6.8	
Difference:						-0.1	-1.1	-4.0	-5.9	-3.9	-1.0	0.2	
Stabilized Growth			$ 1,209,112,338	30.3%	32.0%	-1.5	-1.3	-2.0	0.4	2.9	4.4	3.6	Jan-05
Risk Parity			$ 350,852,231	8.8%		-4.8	-5.1	-2.0	3.3	-3.8	0.8	2.6	
T-Bill +4%						0.8	2.3	6.7	8.6	5.8	5.8	4.8	
Difference:						-5.6	-7.4	-8.7	-5.3	-9.6	-5.0	-2.2	
Bridgewater All Weather		*Risk Parity*	$ 181,895,261	4.6%		-4.6	-4.4	-0.2	6.9	-2.0	1.2	2.9	Mar-12
T-Bill +4%						0.8	2.3	6.7	8.6	5.8	5.8	5.0	
Difference:						-5.4	-6.7	-6.9	-1.7	-7.8	-4.6	-2.1	
PanAgora Diversified Risk Multi-Asset		*Risk Parity*	$ 168,956,970	4.2%		-5.0	-5.8	-3.9	-0.3	-5.6	0.4	2.1	Apr-16
T-Bill +4%						0.8	2.3	6.7	8.6	5.8	5.8	5.5	
Difference:						-5.8	-8.1	-10.6	-8.9	-11.4	-5.4	-3.4	
Liquid Credit			$ 237,464,346	5.9%		-0.4	1.2	5.6	10.2	2.4	2.5	2.0	
50% BB High Yield, 50% S&P/LSTA Leveraged Loans						-0.1	1.9	8.0	11.7	3.9	3.7	5.4	
Difference:						-0.3	-0.7	-2.4	-1.5	-1.5	-1.2	-3.4	
Neuberger Berman		*Global Credit*	$ 100,537,939	2.5%		-1.0	0.5	4.8	9.6	0.5	--	1.9	Feb-19
33% ICE BofA HY Constrained, 33% S&P/LSTA LL, 33% JPM EMBI Glbl Div.						-0.9	0.6	5.9	11.0	1.1	--	2.4	
Difference:						-0.1	-0.1	-1.1	-1.4	-0.6	--	-0.5	
Stone Harbor Absolute Return		*Absolute Return*	$ 136,926,408	3.4%		0.0	1.8	5.9	10.4	3.8	3.1	2.9	Oct-06
3-Month Libor Total Return						0.4	1.3	3.7	4.6	1.7	1.9	1.5	
Difference:						-0.4	0.5	2.2	5.8	2.1	1.2	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 $1,340 and SJCERA Transition $3,038.

San Joaquin County Employees' Retirement Association (SJCERA)

Preliminary Monthly Flash Report (Net)[1] September 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
Private Credit Lag[2]			$ 388,986,452	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*	$ 82,253,668	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*	$ 36,251,759	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	0.6%		--	--	--	--	--	--	--	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*	$ 40,981,962	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	5.8%									
Principal US[2]	*$25,000*	*Core Pvt. RE*	$ 42,391,201	1.1%		-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	3.3%		-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	

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[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] September 2023

	Commitment ($000)	Sub-Segment	Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Diversifying Strategies			**$ 781,595,396**	**19.6%**	**22.0%**	**1.1**	**1.8**	**3.0**	**0.1**	**1.3**	**3.1**	**6.1**	**Oct-90**
Principal Protection			**$ 284,643,150**	**7.1%**	**8.0%**	**-2.4**	**-2.7**	**0.1**	**2.7**	**-2.7**	**0.2**	**5.7**	Oct-90
BB Aggregate Bond Index						*-2.5*	*-3.2*	*-1.2*	*0.6*	*-5.2*	*0.1*	*5.2*	
Difference:						0.1	0.5	1.3	2.1	2.5	0.1	0.5	
Dodge & Cox		*Core Fixed Income*	$ 195,031,750	4.9%		-2.3	-2.6	0.5	3.5	-3.0	1.5	6.4	Oct-90
BB Aggregate Bond Index						*-2.5*	*-3.2*	*-1.2*	*0.6*	*-5.2*	*0.1*	*5.2*	
Difference:						0.2	0.6	1.7	2.9	2.2	1.4	1.2	
Loomis Sayles		*Core Fixed Income*	$ 89,611,400	2.2%		-2.4	-3.1	-0.7	0.8	--	--	-5.4	Mar-22
BB Aggregate Bond Index						*-2.5*	*-3.2*	*-1.2*	*0.6*	--	--	*-5.8*	
Difference:						0.1	0.1	0.5	0.2	--	--	0.4	
Crisis Risk Offset			**$ 496,952,247**	**12.4%**	**14.0%**	**3.2**	**4.5**	**4.7**	**-1.0**	**4.4**	**5.2**	**6.4**	**Jan-05**
CRO Custom Benchmark[2]						*-1.2*	*-2.6*	*-0.5*	*-1.3*	*-0.1*	*3.4*	*4.6*	
Difference:						4.4	7.1	5.2	0.3	4.5	1.8	1.8	
Long Duration			$ 103,499,447	2.6%		-7.0	-11.3	-7.5	-8.1	-14.9	-2.6	-2.4	
BB US Long Duration Treasuries						*-7.3*	*-11.8*	*-8.6*	*-9.1*	*-15.7*	*-2.8*	*-2.4*	
Difference:						0.3	0.5	1.1	1.0	0.8	0.2	0.0	
Dodge & Cox Long Duration		*Long Duration*	$ 103,499,447	2.6%		-7.0	-11.3	-7.5	-8.1	-14.9	-2.6	-2.4	Feb-16
BB US Long Duration Treasuries						*-7.3*	*-11.8*	*-8.6*	*-9.1*	*-15.7*	*-2.8*	*-2.4*	
Difference:						0.3	0.5	1.1	1.0	0.8	0.2	0.0	
Systematic Trend Following			$ 253,059,842	6.3%		3.8	6.3	5.0	-2.6	18.1	8.7	9.1	
BTOP50 Index						*3.2*	*3.3*	*2.9*	*-0.8*	*11.4*	*7.3*	*5.1*	
Difference:						0.6	3.0	2.1	-1.8	6.7	1.4	4.0	
Mt. Lucas Managed Futures - Cash		*Systematic Trend Following*	$ 129,684,338	3.2%		4.0	8.6	5.8	-3.9	20.6	8.7	8.6	Jan-05
BTOP50 Index						*3.2*	*3.3*	*2.9*	*-0.8*	*11.4*	*7.3*	*5.1*	
Difference:						0.8	5.3	2.9	-3.1	9.2	1.4	3.5	
Graham Tactical Trend		*Systematic Trend Following*	$ 123,375,504	3.1%		3.6	4.0	4.1	-1.1	15.6	8.6	5.0	Apr-16
SG Trend Index						*3.4*	*0.8*	*0.9*	*-5.2*	*15.0*	*9.1*	*5.2*	
Difference:						0.2	3.2	3.2	4.1	0.6	-0.5	-0.2	
Alternative Risk Premia			$ 140,392,957	3.5%		11.2	16.4	14.9	7.9	6.2	5.3	8.1	
5% Annual						*0.4*	*1.2*	*3.7*	*5.0*	*5.0*	*5.0*	*6.2*	
Difference:						10.8	15.2	11.2	2.9	1.2	0.3	1.9	
AQR Style Premia		*Alternative Risk Premia*	$ 66,510,624	1.7%		9.9	14.9	20.6	35.7	23.2	3.7	3.2	May-16
5% Annual						*0.4*	*1.2*	*3.7*	*5.0*	*5.0*	*5.0*	*5.0*	
Difference:						9.5	13.7	16.9	30.7	18.2	-1.3	-1.8	
PE Diversified Global Macro		*Alternative Risk Premia*	$ 73,882,333	1.8%		12.3	17.7	10.0	-10.2	5.1	7.1	4.3	Jun-16
5% Annual						*0.4*	*1.2*	*3.7*	*5.0*	*5.0*	*5.0*	*5.0*	
Difference:						11.9	16.5	6.3	-15.2	0.1	2.1	-0.7	
Cash[3]			**$ 136,488,605**	**3.4%**	**0.0%**	**0.3**	**0.9**	**2.6**	**3.6**	**1.4**	**1.4**	**2.4**	**Sep-94**
US T-Bills						*0.5*	*1.3*	*3.6*	*4.5*	*1.7*	*1.7*	*2.3*	
Difference:						-0.2	-0.4	-1.0	-0.9	-0.3	-0.3	0.1	
Northern Trust STIF		*Collective Govt. Short Term*	$ 90,586,651	2.3%		0.4	1.3	3.4	4.1	1.6	1.5	2.6	Jan-95
US T-Bills						0.5	1.3	3.6	4.5	1.7	1.7	*2.3*	
Difference:						-0.1	0.0	-0.2	-0.4	-0.1	-0.2	0.3	
Parametric Overlay[4]		*Cash Overlay*	**$ 27,456,954**	**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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Economic and Market Update

September 2023 Report

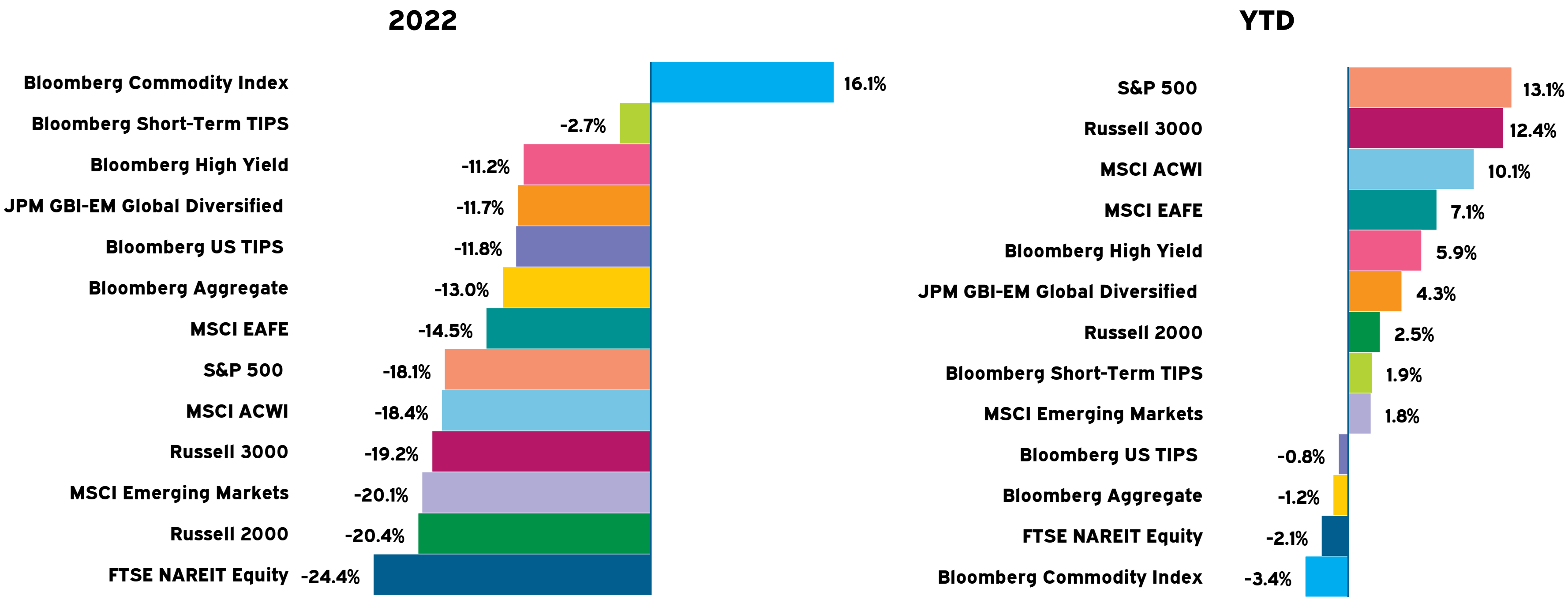
Commentary

→ After a strong July, global assets turned negative in August and September as expectations shifted to the Fed keeping interest rates higher for longer. Weakening economic data from Europe and China, as well as further instability in the Chinese real estate sector and a strong US dollar, weighed on results.

- The Federal Open Markets Committee (FOMC) increased policy rates in July by 0.25% to a range of 5.25% - 5.5% and kept rates at that level at their September meeting. Markets are now largely expecting the FOMC to maintain interest rates at this level through the first half of next year.
- US equity markets (Russell 3000 index) fell in the third quarter (-3.3%), bringing the year-to-date gains to 12.4%. 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 the third quarter (MSCI EAFE -4.1%) with the strength of the US dollar adding 2.8% to the quarterly declines. This widened the gap between US and international developed equities for the year (12.4% versus 7.1%).
- Emerging market equities experienced the smallest declines in the third quarter (-2.9%). Negative results were driven by China and again the strong US dollar. Emerging markets continue to significantly trail developed market equities year-to-date, returning just 1.8%, again driven by China.
- Interest rates generally rose over the quarter, particularly for longer-dated maturities. The broad US bond market fell (-3.2%) for the quarter and turned negative (-1.2%) year-to-date, as higher income has offset capital losses from rising rates.

→ For the rest of this year, the paths of inflation and monetary policy, slowing global growth, and the wars in Ukraine and Israel 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.

→ While hopes for a soft landing remain in place, the prospect of higher interest rates for longer weighed on market sentiment in August and September.

[1] Source: Bloomberg. Data is as of September 30, 2023.

Domestic Equity Returns[1]

Domestic Equity	September (%)	Q3 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
S&P 500	-4.8	-3.3	13.1	21.6	10.2	9.9	11.9
Russell 3000	-4.8	-3.3	12.4	20.5	9.4	9.1	11.3
Russell 1000	-4.7	-3.1	13.0	21.2	9.5	9.6	11.6
Russell 1000 Growth	-5.4	-3.1	25.0	27.7	8.0	12.4	14.5
Russell 1000 Value	-3.9	-3.2	1.8	14.4	11.1	6.2	8.4
Russell MidCap	-5.0	-4.7	3.9	13.4	8.1	6.4	9.0
Russell MidCap Growth	-4.9	-5.2	9.9	17.5	2.6	7.0	9.9
Russell MidCap Value	-5.1	-4.5	0.5	11.0	11.0	5.2	7.9
Russell 2000	-5.9	-5.1	2.5	8.9	7.2	2.4	6.6
Russell 2000 Growth	-6.6	-7.3	5.2	9.6	1.1	1.6	6.7
Russell 2000 Value	-5.2	-3.0	-0.5	7.8	13.3	2.6	6.2

US Equities: The Russell 3000 Index fell 3.3% in the third quarter but is up 12.4% YTD.

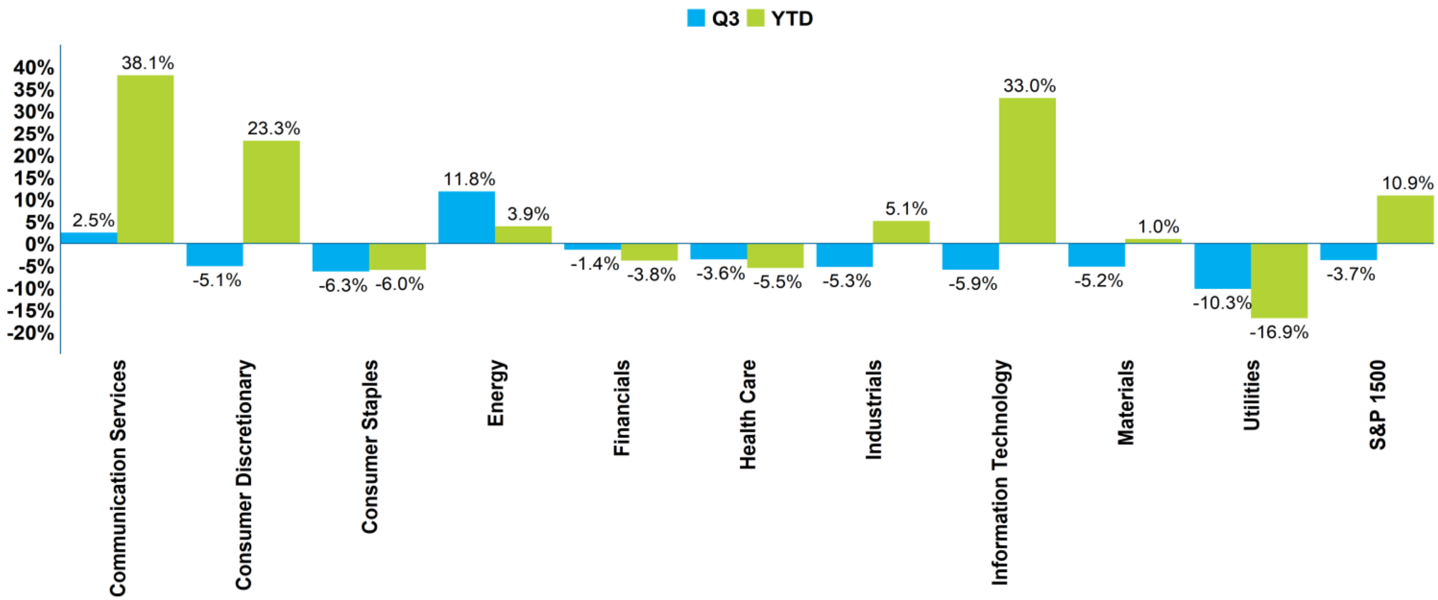
→ US stocks fell 3.3% in the third quarter as healthy economic data and comments from the Fed caused investors to expect interest rates to remain higher for longer.

→ Large cap stocks outperformed small cap stocks during the quarter, bringing their year-to-date outperformance to over 10%. The so called “Magnificent Seven” within the large cap market drove most of this outperformance despite a weak third quarter.

→ Energy strongly led the way during the quarter posting double-digit gains while most other sectors declined. Oil prices rose after Saudi Arabia and Russia extended output cuts.

[1] Source: Bloomberg. Data is as of September 30, 2023.

S&P 1500 Sector Returns[1]



→ Except for energy, which benefited from rising oil prices, all sectors were down in the third quarter.

→ So far in 2023, the communication services (+38.1%) and technology (+33.0%) sectors had the best results on artificial intelligence optimism. Given the continued strength in the US consumer the consumer discretionary sector followed (+23.3%), while more defensive sectors like utilities (-16.9%) and consumer staples (-6.0%) have trailed.

[1] Source: Bloomberg. Data is as of September 30, 2023.

Foreign Equity Returns[1]

Foreign Equity	September (%)	Q3 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
MSCI ACWI ex. US	-3.2	-3.8	5.3	20.4	3.7	2.6	3.3
MSCI EAFE	-3.4	-4.1	7.1	25.6	5.8	3.2	3.8
MSCI EAFE (Local Currency)	-1.1	-1.3	10.7	20.3	10.8	5.7	6.8
MSCI EAFE Small Cap	-4.4	-3.5	1.8	17.9	1.1	0.8	4.3
MSCI Emerging Markets	-2.6	-2.9	1.8	11.7	-1.7	0.6	2.1
MSCI Emerging Markets (Local Currency)	-1.8	-1.4	4.0	10.9	0.6	2.7	4.9
MSCI China	-2.8	-1.9	-7.3	5.2	-14.3	-4.2	1.7

Foreign Equity: Developed international equities (MSCI EAFE) fell 4.1% in the third quarter bringing the YTD gain to 7.1%. Emerging market equities (MSCI EM) fell 2.9% in the period, rising 1.8% YTD.

→ Outside of the US, equities were also weak during the third quarter with the continued strength of the US dollar being a key driver.

→ Eurozone shares felt pressure from slowing GDP growth and an interest rate hike by the ECB, although inflation continued to ease. By contrast, the UK saw modest gains amid promising economic data including slowing inflation and GDP back around pre-pandemic levels. Japan outperformed regional peers for the quarter due in part to strong earnings.

→ Emerging market performance, while negative, outpaced developed peers. Chinese markets saw losses in-line with other emerging market countries, driven largely by unease surrounding property company Evergrande and a continued lackluster reopening of the economy.

[1] Source: Bloomberg. Data is as of September 30, 2023.

Fixed Income Returns[1]

Fixed Income	September (%)	Q3 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Current Yield (%)	Duration (Years)
Bloomberg Universal	-2.4	-2.9	-0.6	1.6	-4.7	0.3	1.4	5.7	6.0
Bloomberg Aggregate	-2.5	-3.2	-1.2	0.6	-5.2	0.1	1.1	5.4	6.2
Bloomberg US TIPS	-1.8	-2.6	-0.8	1.2	-2.0	2.1	1.7	5.0	6.6
Bloomberg Short-term TIPS	-0.2	0.4	1.9	3.2	1.9	2.8	1.7	5.4	2.5
Bloomberg High Yield	-1.2	0.5	5.9	10.3	1.8	3.0	4.2	8.9	4.0
JPM GBI-EM Global Diversified (USD)	-3.4	-3.3	4.3	13.1	-2.7	0.0	-0.8	6.9	4.9

Fixed Income: The Bloomberg Universal index declined 2.9% in the third quarter and -0.6% YTD.

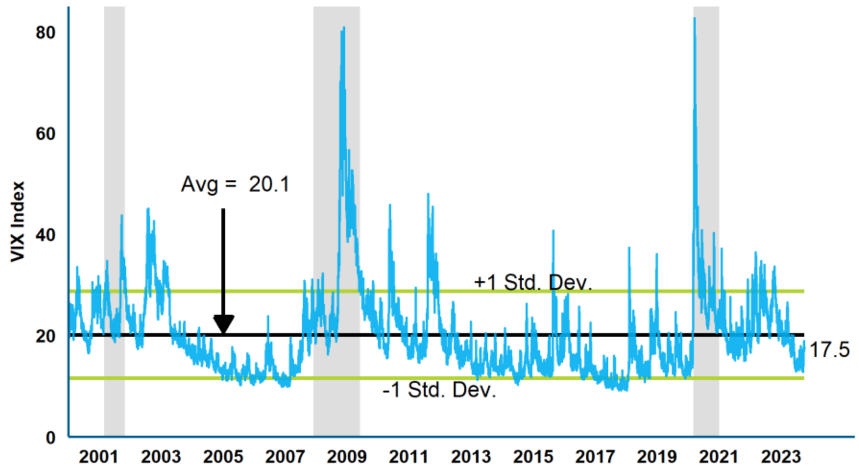
→ The downgrade of US government debt from AAA to AA+ by Fitch combined with expectations for higher borrowing put upward pressure on longer-term rates for the quarter and weighed on overall results. Expectations for policy rates to remain higher for longer than previously expected also contributed to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

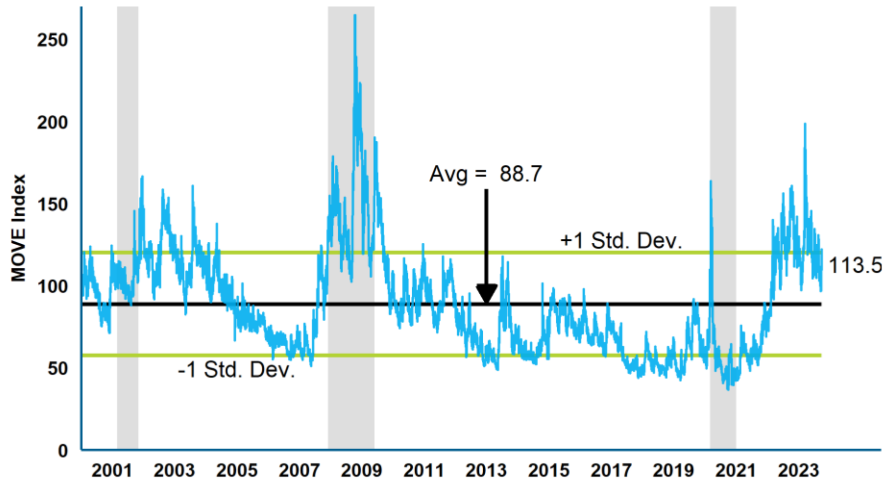
→ The broad US bond market (Bloomberg Aggregate) fell 3.2% for the quarter bringing YTD results into negative territory. The broader TIPS index fell by 2.6%, while the less interest-rate-sensitive short-term TIPS index outperformed most sectors, up 0.4%.

→ High yield bonds were the strongest quarterly performers, up 0.5%, while emerging market bonds were the weakest performer, falling 3.3%. The two asset classes remain the top performers for the year as risk appetite in credit markets remains robust.

[1] Source: Bloomberg. JPM GBI-EM data is from InvestorForce. Data is as of September 30, 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]



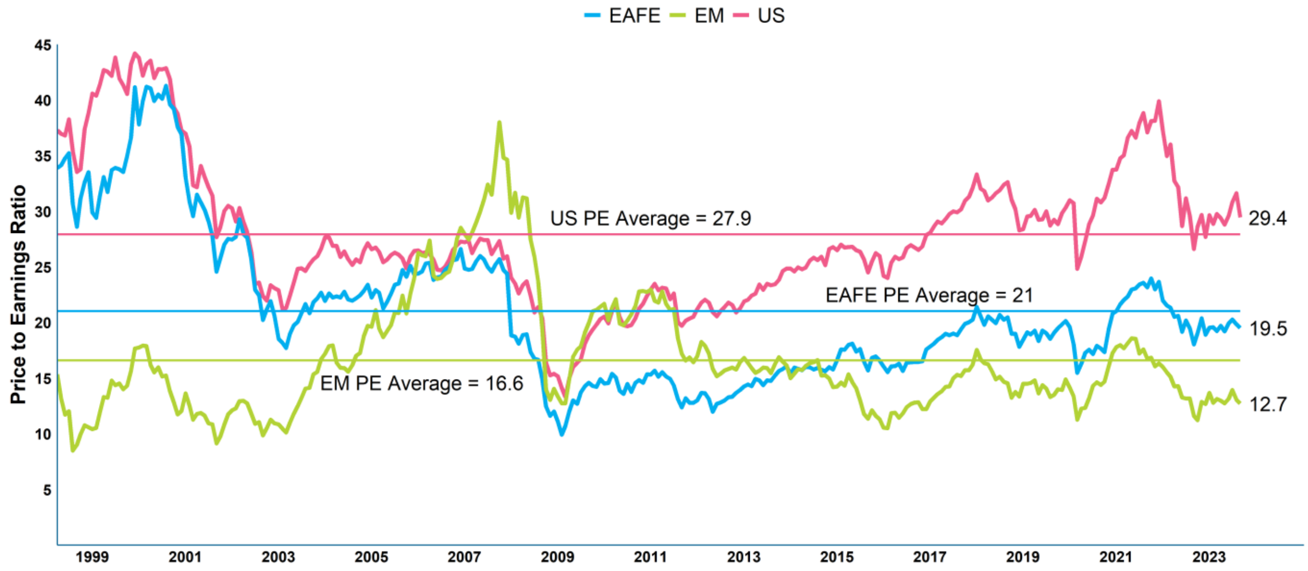


→ Volatility in equities (VIX) increased over the quarter but finished at a level below the long-term average. The recent increase in equity volatility has largely been driven by investors coming to terms that interest rates might remain higher for a longer period.

→ 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. Over the quarter, fixed income volatility finished slightly higher compared to where it started, like equities, driven by expectations for rates to stay higher for longer.

[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 September 2023. The average line indicated is the average of the VIX and MOVE values between January 2000 and September 2023.

Equity Cyclically Adjusted P/E Ratios[1]

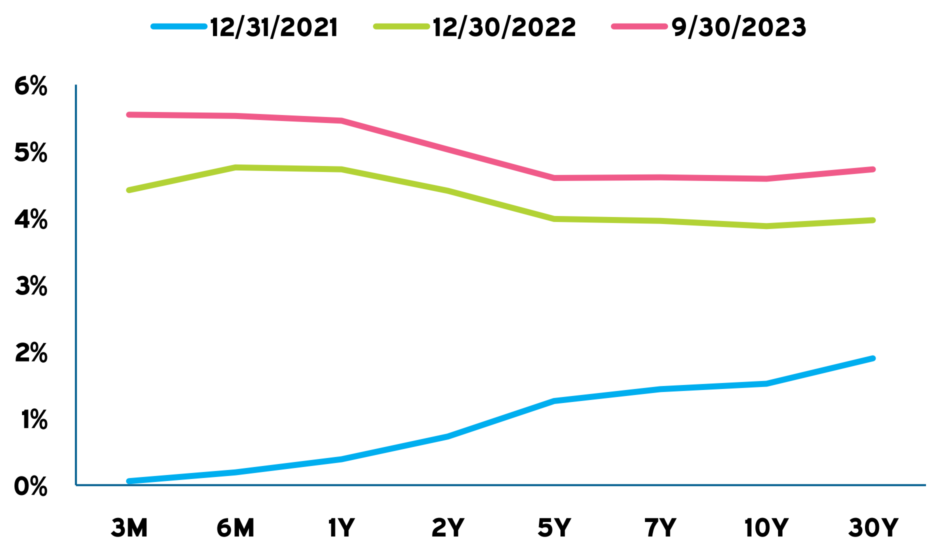


→ Given the strong technology-driven rally this year, the US equity price-to-earnings ratio increased above its long-run (21st century) average. With the equity market decline in August and September the P/E ratio fell from its recent peak.

→ 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 (close to one standard deviation below).

[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 September 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.

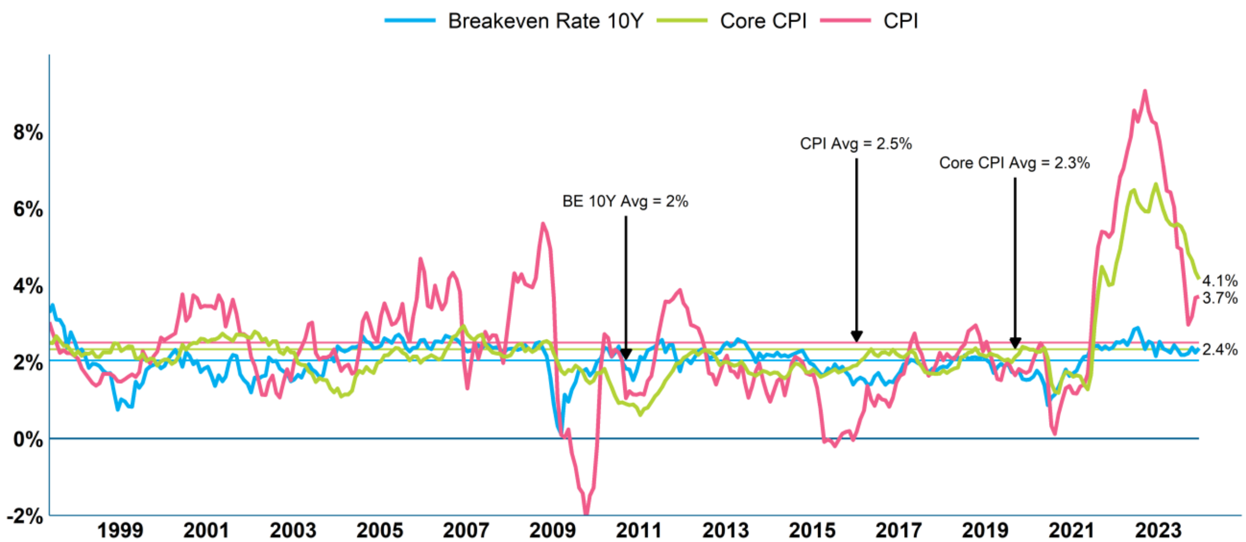
US Yield Curve[1]



- → 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.
- → Over the quarter, very short-term interest rates (two years or less) increased only slightly as monetary policy has likely reached close to its terminal rate for this cycle. By contrast, longer-term rates rose dramatically as US debt was downgraded and investors came to terms with rates remaining higher for longer. The ten-year Treasury yield increased from 3.8% to 4.6% over the quarter.
- → Because of the dynamic above, the yield curve's inversion decreased with the spread between two-year and ten-year Treasuries finishing the quarter at -0.47% (it started the quarter at -1.05%).

[1] Source: Bloomberg. Data is as of September 30, 2023.

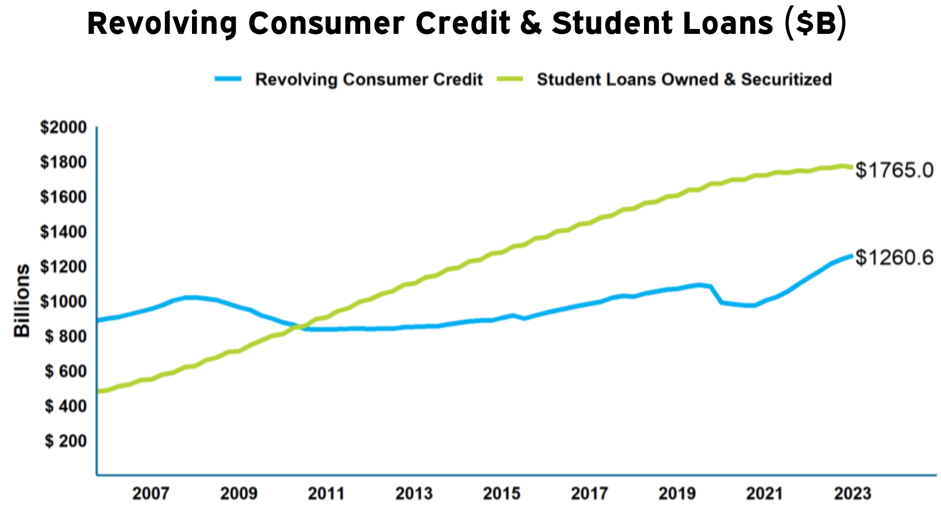
Ten-Year Breakeven Inflation and CPI[1]

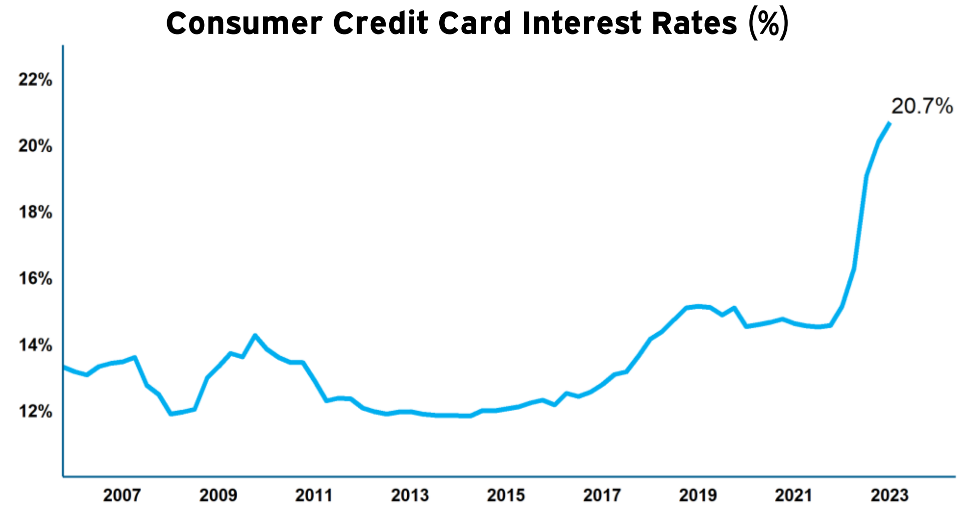


- → After the steady decline in inflation from the June 2022 peak, consumer prices recently increased driven by energy prices.
- → Year-over-year headline inflation was flat at 3.7% coming in slightly higher than expectations as improvements in energy prices were offset by higher shelter costs.
- → Core inflation – excluding food and energy – continued its decline (4.3% to 4.1%) year-over-year. It remains stubbornly high, though, driven by shelter costs (+7.2%), particularly owners' equivalent rent, and transportation services (+9.1%).
- → 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 September 30, 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.

US Consumer Under Stress[1]

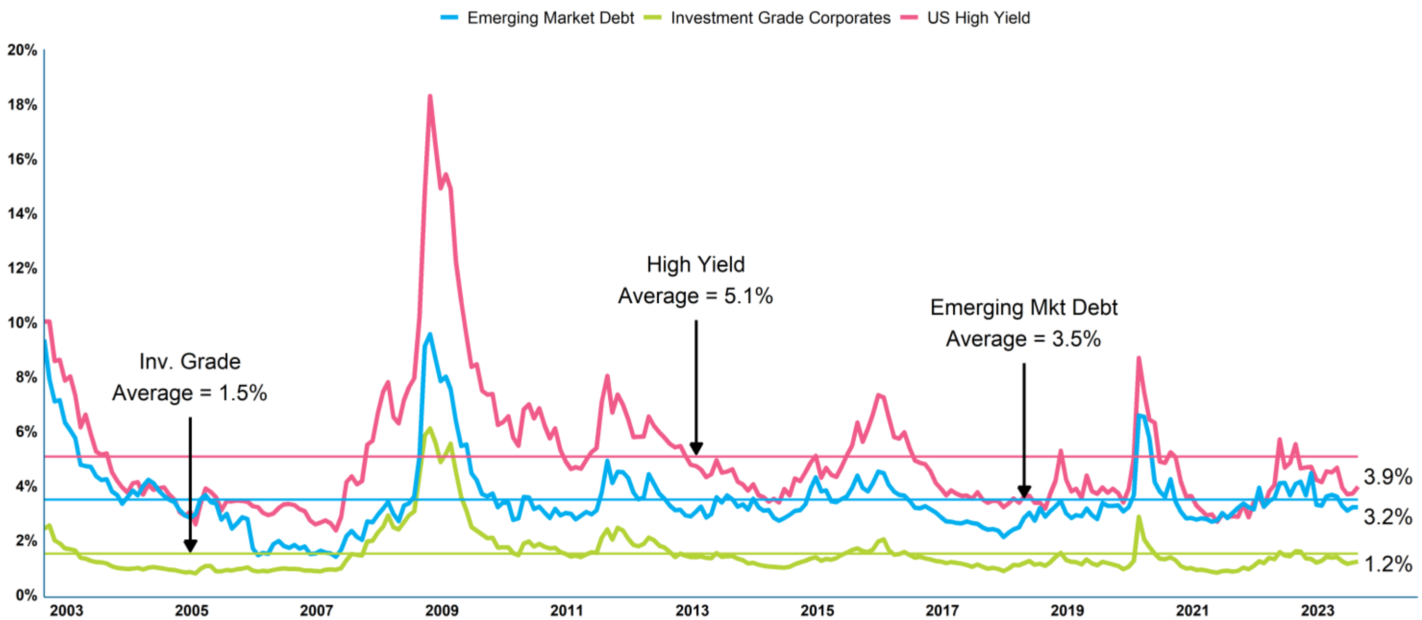




- → Despite the strong labor market and higher wages, pressures have started to build on the US consumer. This is an important consideration as consumer spending has been an important driver of economic growth.
- → Revolving consumer credit surged to new highs in 2023 even as credit card interest rates hit levels not seen before (the prior peak was around 19% in the 1980s).
- → The return of student loan repayments after a three-year pandemic-related reprieve could add to pressures on consumers' budgets. This might be partially balanced by recently initiated repayment and forgiveness programs.
- → As we look ahead, the strength of the US consumers will remain key as they make up most of domestic growth (GDP).

[1] Source: FRED. The most recent data is as June 30, 2023. Revolving Consumer Credit data is seasonally adjusted to remove distortions during the holiday season.

Credit Spreads vs. US Treasury Bonds[1]

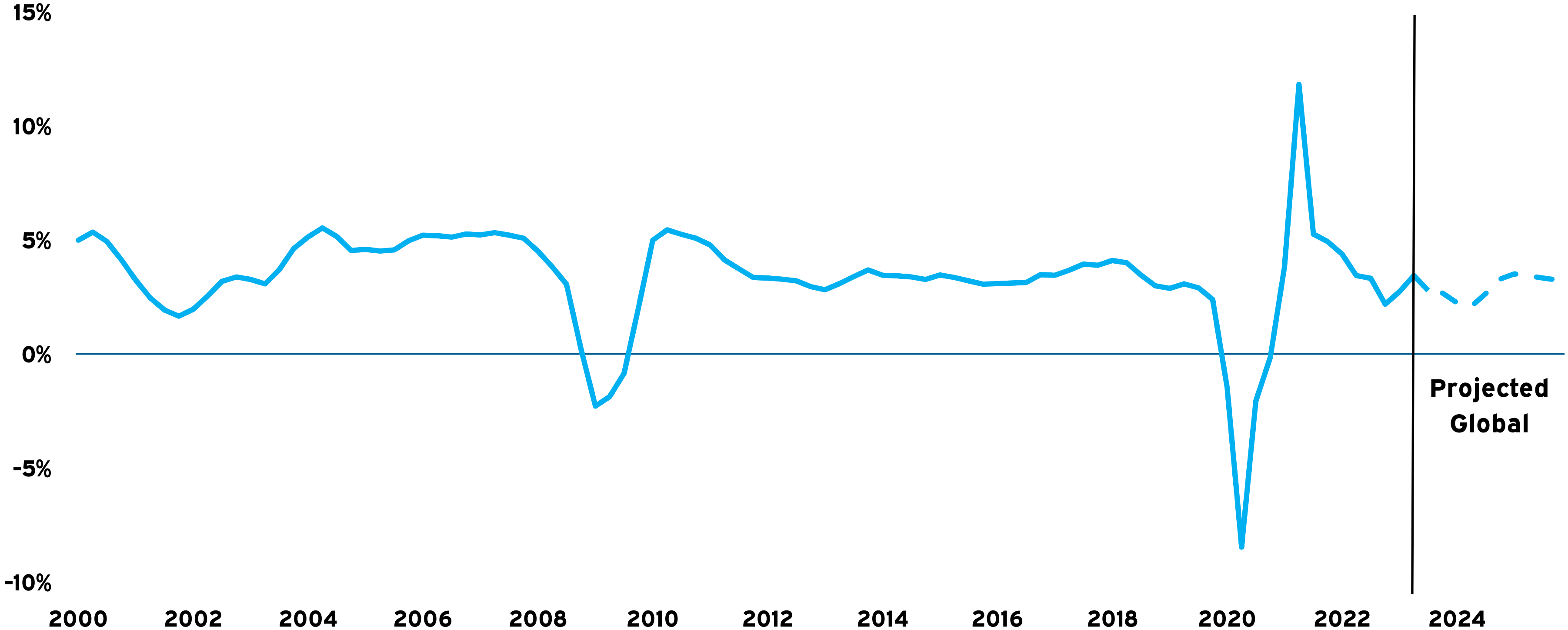


→ Credit spreads (the added yield above a comparable maturity Treasury) largely remained unchanged over the quarter.

→ 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 September 30, 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]



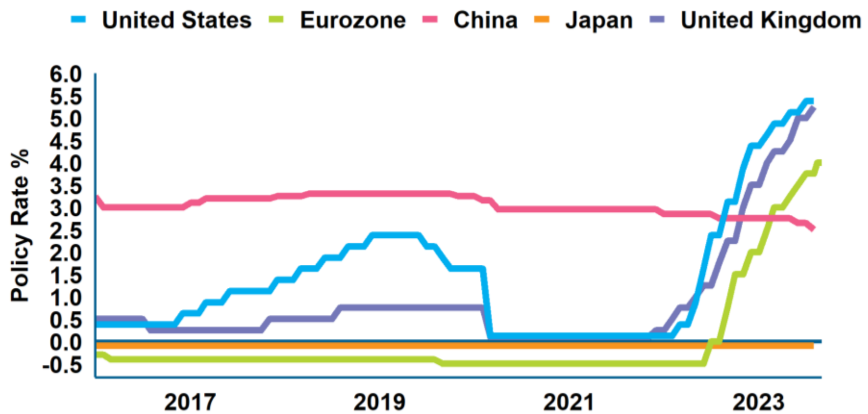
→ Global economies are expected to slow this year compared to 2022. The risk of recession remains elevated given policymakers' aggressive tightening, but optimism has started to grow over some central banks potentially navigating a soft landing.

→ The delicate balancing act of central banks trying to reduce inflation without dramatically disrupting labor markets and depressing economic growth, will remain key.

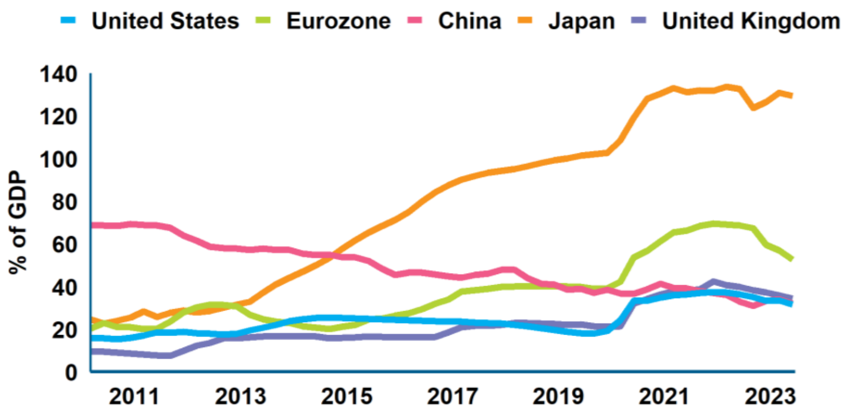
[1] Source: Oxford Economics (World GDP, US$ prices & PPP exchange rate, real, % change YoY). Updated September 2023.

Central Bank Response[1]

Policy Rates



Balance Sheet as % of GDP



→ 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% and then kept rates at this level at their September meeting. Markets are expecting at most one more hike later this year.

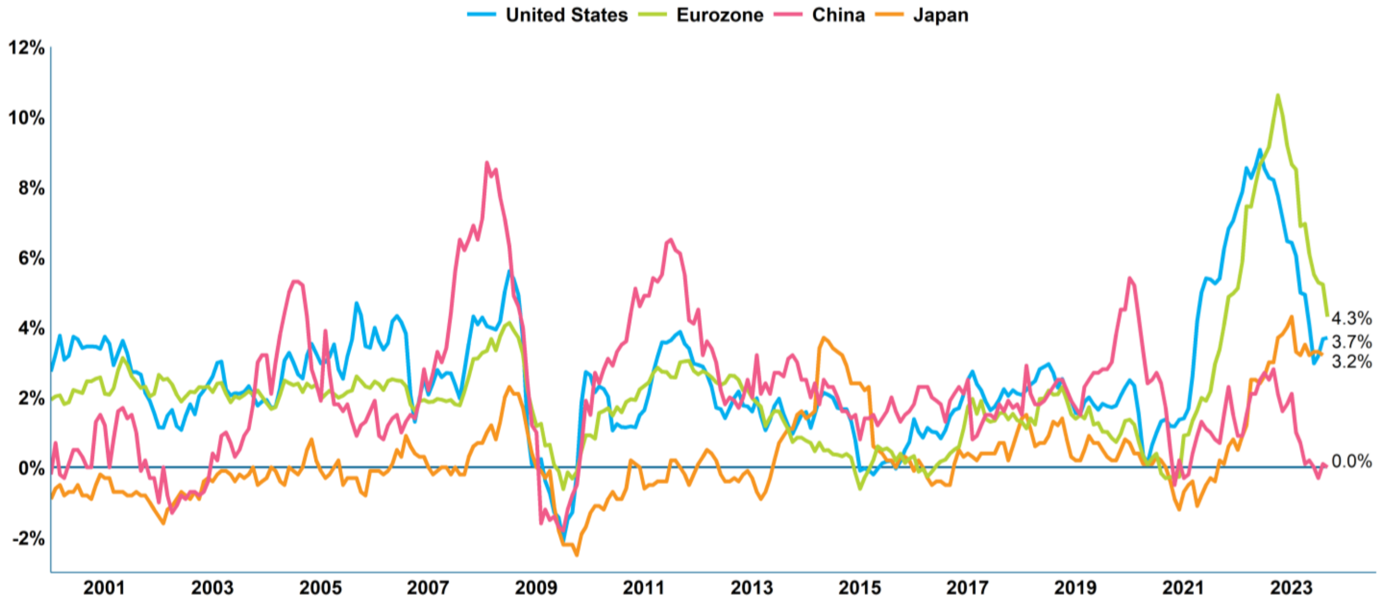
→ The European Central Bank also increased rates in July, with an additional hike in September, but rates remain lower than in the US. In Japan, expectations have increased that the BOJ will end its negative interest rate policy due to rising inflation.

→ 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.

→ Risks remain for a policy error as central banks attempt to balance bringing down inflation, maintaining financial stability, and supporting growth.

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



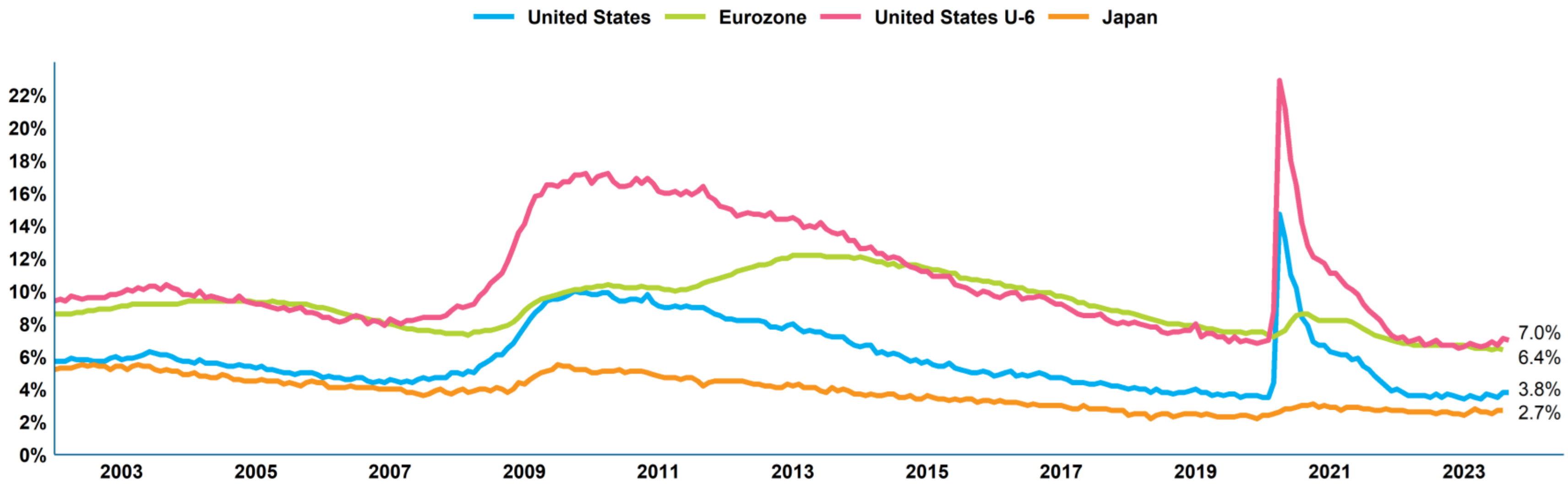
→ The inflation picture remains mixed across the major economies.

→ In the US, inflation was flat at 3.7%, influenced by rising shelter costs, while eurozone inflation remained higher than the US at 4.3%, 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 but prices were flat from a year prior.

[1] United States CPI and Eurozone CPI – Source: FRED. Japan CPI and China CPI - Source: Bloomberg. Data is as September 30, 2023. The most recent data for Japanese and Eurozone inflation is as of August 2023.

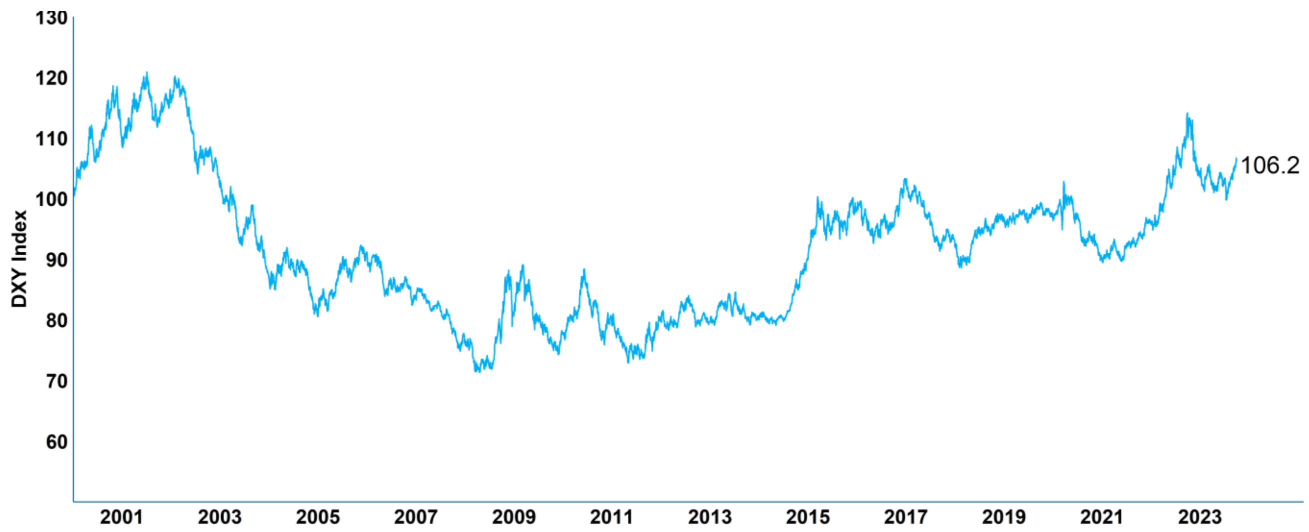
Unemployment[1]



- → 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 from recent highs.
- → In September, unemployment remained at 3.8%, a level only 0.2% higher than the start of the quarter. The labor force participation rate remained at 62.8% well off the lows of the pandemic (60.1%) but not back to pre-pandemic levels (63.3%). Broader measures of unemployment (U-6) finished the quarter at 7.0% up only slightly from the end of June (6.9%).
- → 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 September 30, 2023, for the US. The most recent data for Eurozone unemployment is as of August 2023 and Japanese unemployment is as of August 2023.

US Dollar versus Broad Currencies[1]



- → After a strong 2022, the US dollar declined late last year and into early this year as weaker economic data and lower inflation led to investors anticipating the end of FOMC tightening.
- → Recently though, the dollar reversed course and appreciated against major currencies as relative growth remains strong and investors anticipate the FOMC 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 September 30, 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. However, optimism has been building 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 paths 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 the 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.

→ After month-end, heightened tensions in Israel could add to overall uncertainty and drive safe haven flows.

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MEMORANDUM

TO: San Joaquin County Employees' Retirement Association ("SJCERA") Board of Retirement
FROM: Meketa Investment Group
DATE: November 3, 2023
RE: 2023 Annual Roundtable: Summary

On October 12, 2023, the San Joaquin County Employees' Retirement Association ("SJCERA") held its annual investment manager roundtable in Lodi, CA. The event featured various panel presentations on a variety of topics. This memo summarizes some of the issues discussed at the event that are facing SJCERA and key points.

Every year SJCERA staff and Meketa strive to make the event better than the previous. Similar to previous years there was a keynote speaker and various managers were paired up with each other to present topics to the SJCERA board, staff, and various attendees. These topics included a private markets discussion on Private Equity, Real Estate and Credit. In addition, we discussed Inflation and had a manager debate on which Private markets class was the best moving forward. The event was wrapped up with a prediction on inflation over the next 12-months and comments from SJCERA trustees and employers in attendance.

Key-Note Presentation

We were treated to an opening presentation by Erik Knutzen from Neuberger Berman. He spent the morning talking about the world markets and the current outlook. Specifically, he addressed inflation, global economic themes, asset class expectations, and the changing world with AI. The conversation was informative and robust. Erik also took questions about various topics from the group.

Private Equity and Private Credit

This panel was centered on discussing the trends and opportunities within the private equity and Private Debt/Credit markets. Judy Chambers from Meketa interviewed Stellex, LongArc, and HPS. The comments from the panel varied. While the markets have been significantly down this also creates a buying opportunity for investors such as SJCERA, even in light of dry powder. The takeaway from these discussions was that there is still long-term value to be had from Private Equity and Credit assets.

Inflation

Mt. Lucas, Oaktree and Dodge & Cox discussed the trends and opportunities with regard to the current Inflation being seen in various economies. The managers talked about the drivers of inflation, how the U.S. compares to other countries, and what if anything should be done to deal with it. The takeaway from this session is that Inflation is difficult to manage, unpredictable, and involved various components of investments depending on the market environment. While the latest CPI has been around 3.7% the panel made comments that something in the 1.5-5% range was more realistic moving forward.

Manager Debate

Following lunch, we put Invesco, Ocean Avenue, and BlackRock on a panel to debate Private Equity, Private Real Estate, and Private Debt. The managers went back and forth with a final judgement by the group in attendance that Brooks Monroe from Invesco won the debate.

International Markets

With the help of Ares Capital, Stone Harbor, and GQG this panel focused on all things international. There was some time discussing China, India and European markets. This panel brought three managers together that had different angles (Private Credit, EM equities and public credit) on the markets. One of the take-aways from this panel was the cyclical nature of the international markets relative the United States. The big take-away was to maintain a diversified portfolio so that SJCERA does not get caught on either ends of the cycle.

Real Estate

Despite the drop in the capital markets in 2022 and 2023, SJCERA's Real Estate managers provided an opportunistic view of investments moving forward. The general consensus was that after a correction in Real Estate assets there was going to be a buying opportunity for investors. Overall, the long-term future, with the exception of Office looks robust. SJCERA board members and attendees had a good interactive discussion with the managers.

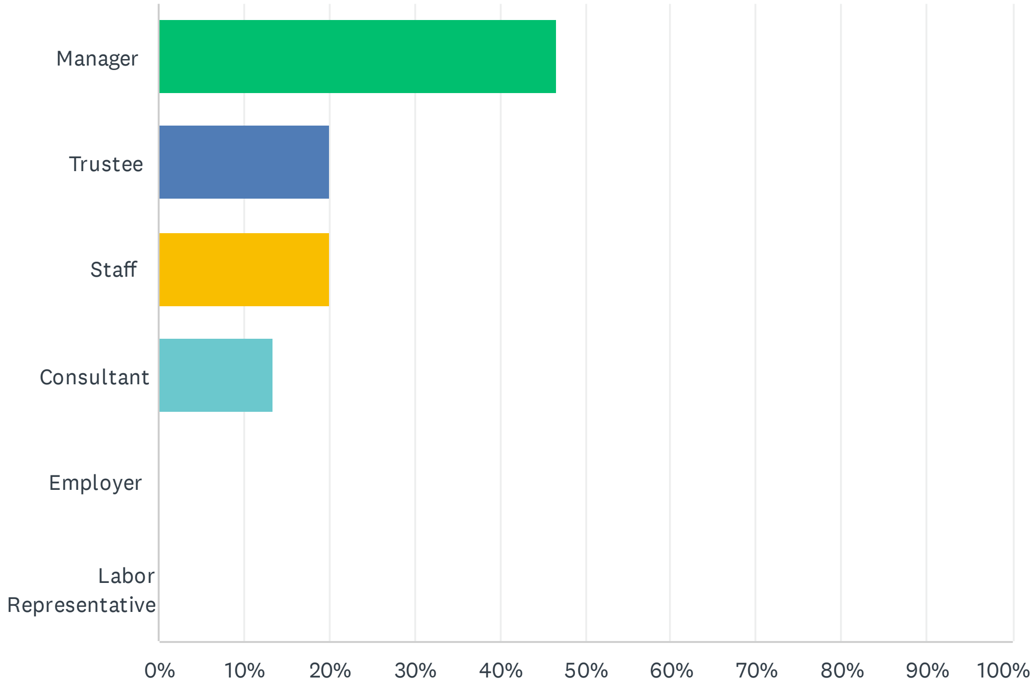
Conclusion and Next Steps

SJCERA, like many other pension plans, faces challenges in meeting an actuarial rate of return of 6.75% while managing risk and balancing diversification. Following an asset-liability study in 2022, SJCERA has continued to move towards its new policy targets. This includes an increase in exposure to some Private Market classes. Meketa and SJCERA staff will continue to review the SJCERA portfolio and its various asset classes into 2023-2024. This includes a review of Global Equity and Risk Parity.

DS/PN/RF/mn

Q1 Evaluator is a:

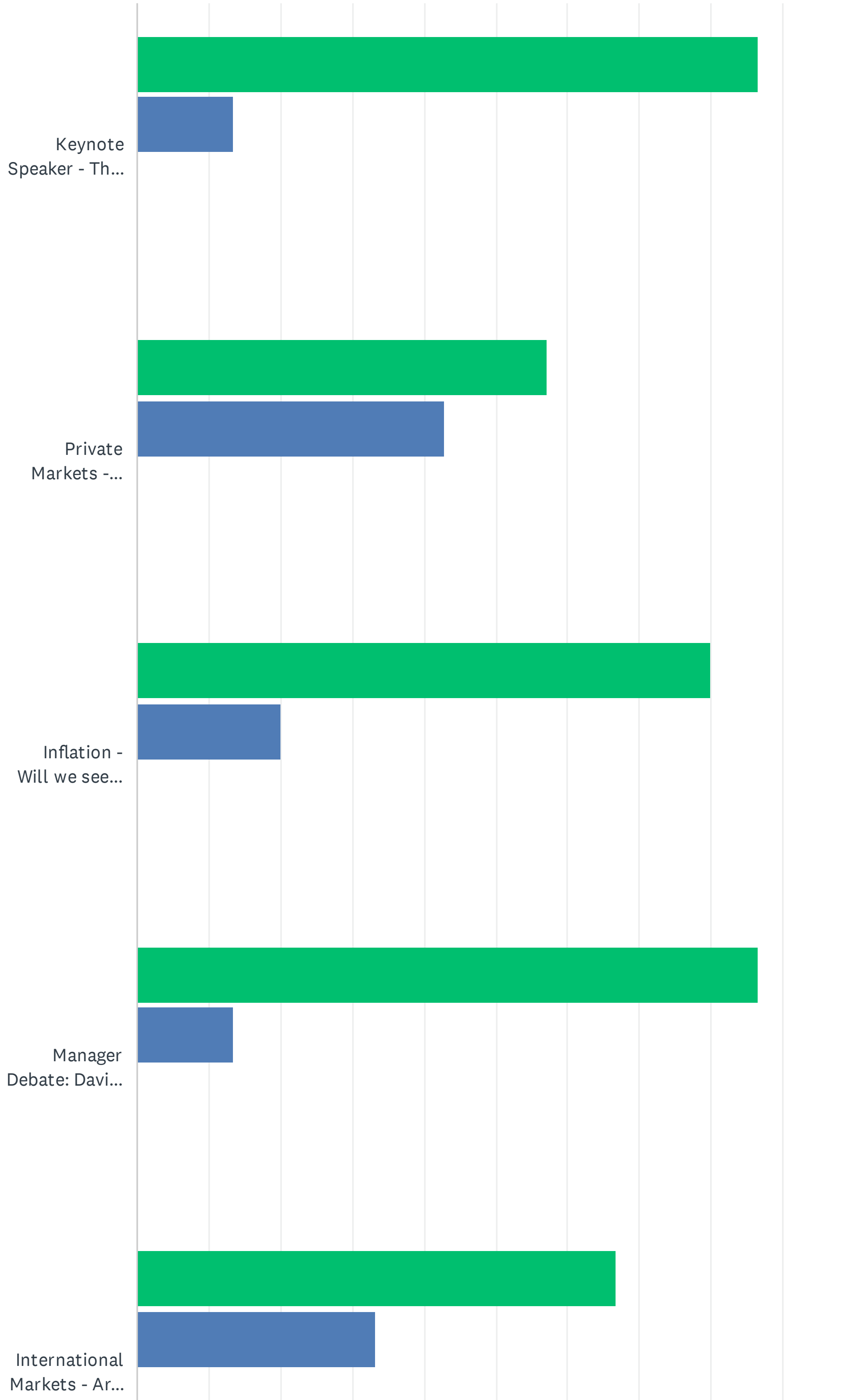
Answered: 15 Skipped: 0

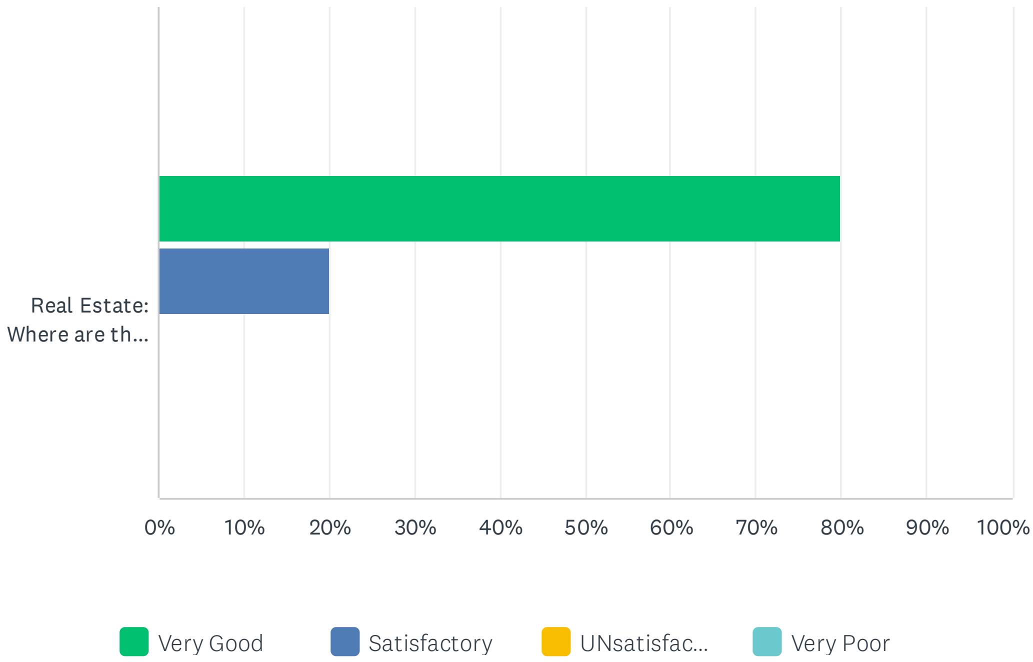


ANSWER CHOICES	RESPONSES	
Manager	46.67%	7
Trustee	20.00%	3
Staff	20.00%	3
Consultant	13.33%	2
Employer	0.00%	0
Labor Representative	0.00%	0
TOTAL		15

Q3 Presentations:

Answered: 15 Skipped: 0

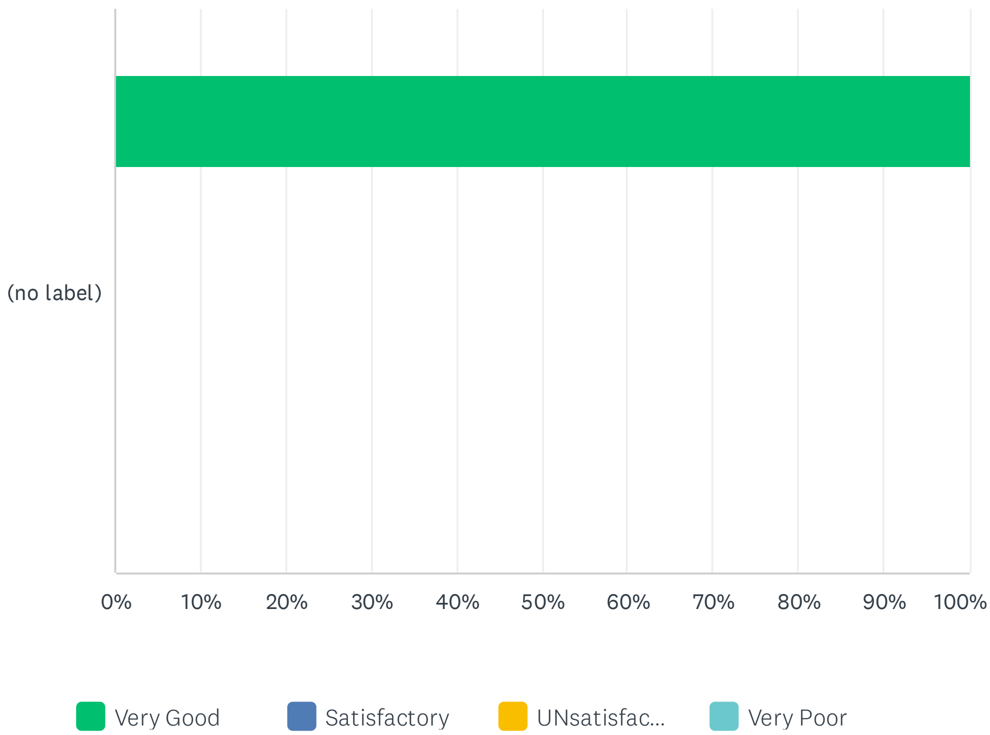




	VERY GOOD	SATISFACTORY	UNSATISFACTORY	VERY POOR	TOTAL	WEIGHTED AVERAGE
Keynote Speaker - The State of the World in 2023 and beyond. Erik Knutzen	86.67% 13	13.33% 2	0.00% 0	0.00% 0	15	3.87
Private Markets - What's next and where are the markets today? Judy Chambers, Irina Krasik, Gaurav Bhandari, Colbert Cannon	57.14% 8	42.86% 6	0.00% 0	0.00% 0	14	3.57
Inflation - Will we see normalized inflation in the next three years? David Sancewich, Jerry Prior, Jordan Kruse, Shane Cox	80.00% 12	20.00% 3	0.00% 0	0.00% 0	15	3.80
Manager Debate: David Sancewich, Phil Tseng, Brooks Monroe, Jeff Ennis	86.67% 13	13.33% 2	0.00% 0	0.00% 0	15	3.87
International Markets - Are they becoming more attractive? Paola Nealon, Ben Larson, Dave Torchia, Kevin Alexander	66.67% 10	33.33% 5	0.00% 0	0.00% 0	15	3.67
Real Estate: Where are the opportunities? Scott Maynard, Joshua Lenhert, Kosta Karmaniolas, Lizzie Kirley	80.00% 12	20.00% 3	0.00% 0	0.00% 0	15	3.80

Q4 Moderator's facilitation of discussion

Answered: 15 Skipped: 0



	VERY GOOD	SATISFACTORY	UNSATISFACTORY	VERY POOR	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 15	0.00% 0	0.00% 0	0.00% 0	15	4.00

Q5 What aspect of the roundtable was most beneficial to you?

Answered: 15 Skipped: 0

#	RESPONSES	DATE
1	Time with manager	10/23/2023 3:09 PM
2	Enjoyed the discussions and the variety of views.	10/23/2023 11:02 AM
3	Real Estate	10/23/2023 10:25 AM
4	Keynote speaker	10/23/2023 9:37 AM
5	Education and discussion of market outlook for near future	10/20/2023 11:44 AM
6	Manager Debate	10/19/2023 9:09 AM
7	Inflation and the State of the World. Also Real Estate was very interesting for me.	10/17/2023 8:41 AM
8	Great talent in the room and was good to hear their market insights. Excellent opportunity to network with SJCERA & Meketa. Really enjoyed the welcome dinner.	10/16/2023 3:43 PM
9	It was great to have to casual break out time to meet and have casual conversations with the board and trustees and the other managers.	10/16/2023 11:51 AM
10	As always, hearing from investment managers in other sectors gives me a perspective that is helpful in my business	10/16/2023 5:49 AM
11	As the new Meketa Analyst on SJCERA's portfolio, it was great to finally put faces to names I've interacted with and will interact with in the future. I really enjoyed networking investment managers and SJCERA staff and board members. It was great getting to know everyone.	10/13/2023 12:39 PM
12	The interaction with the folks involved, at SJCERA, Meketa, and my peers. Best way to learn and connect...	10/13/2023 11:42 AM
13	The dinner with the trustees, learning from managers in other asset classes.	10/13/2023 9:54 AM
14	All of the discussions were very helpful and informative	10/12/2023 6:49 PM
15	Education and networking.	10/12/2023 4:07 PM

Q6 What aspect of the roundtable was least beneficial to you?

Answered: 12 Skipped: 3

#	RESPONSES	DATE
1	?	10/23/2023 3:09 PM
2	Seating arrangement	10/23/2023 11:02 AM
3	Cant answer that	10/23/2023 10:25 AM
4	none	10/20/2023 11:44 AM
5	Keynote--he did a fine job, and he was a good speaker. Unfortunately, because their position is one that was fairly neutral there weren't any big takeaways--more of a "wait and see".	10/19/2023 9:09 AM
6	N/A	10/17/2023 8:41 AM
7	I like to think I'm fairly financially savvy but there were some topics within the private markets panel that were foreign to me so I think reminding all managers to go over some of the basic concepts of their sectors might be beneficial to others managers as well as the trustees and board.	10/16/2023 11:51 AM
8	Debate	10/16/2023 5:49 AM
9	I don't think there was much wasted. At this point I can't think of anything I would omit / skip	10/13/2023 11:42 AM
10	None	10/13/2023 9:54 AM
11	None	10/12/2023 6:49 PM
12	N/A	10/12/2023 4:07 PM

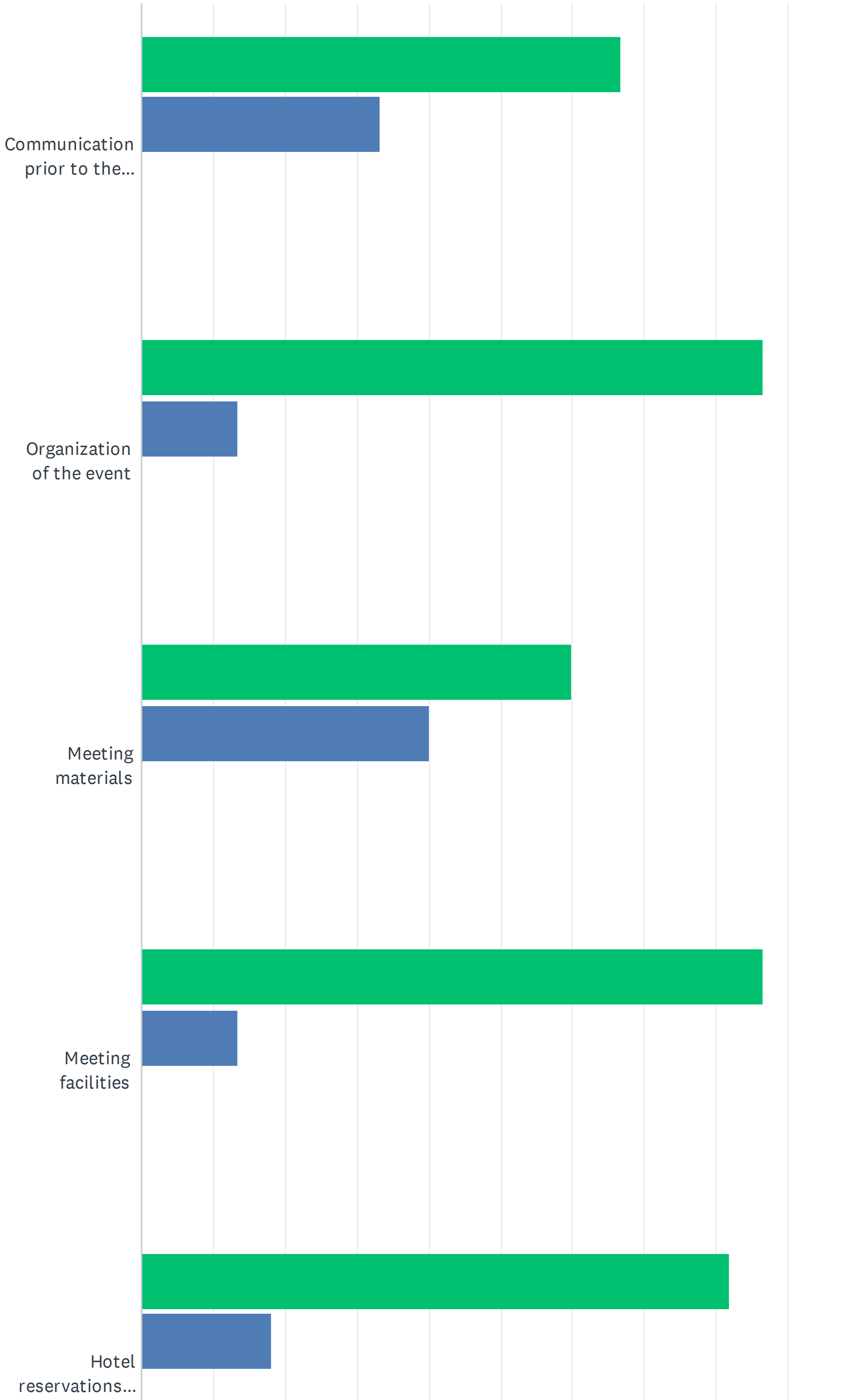
Q7 What topics would you like to hear at the roundtable next year?

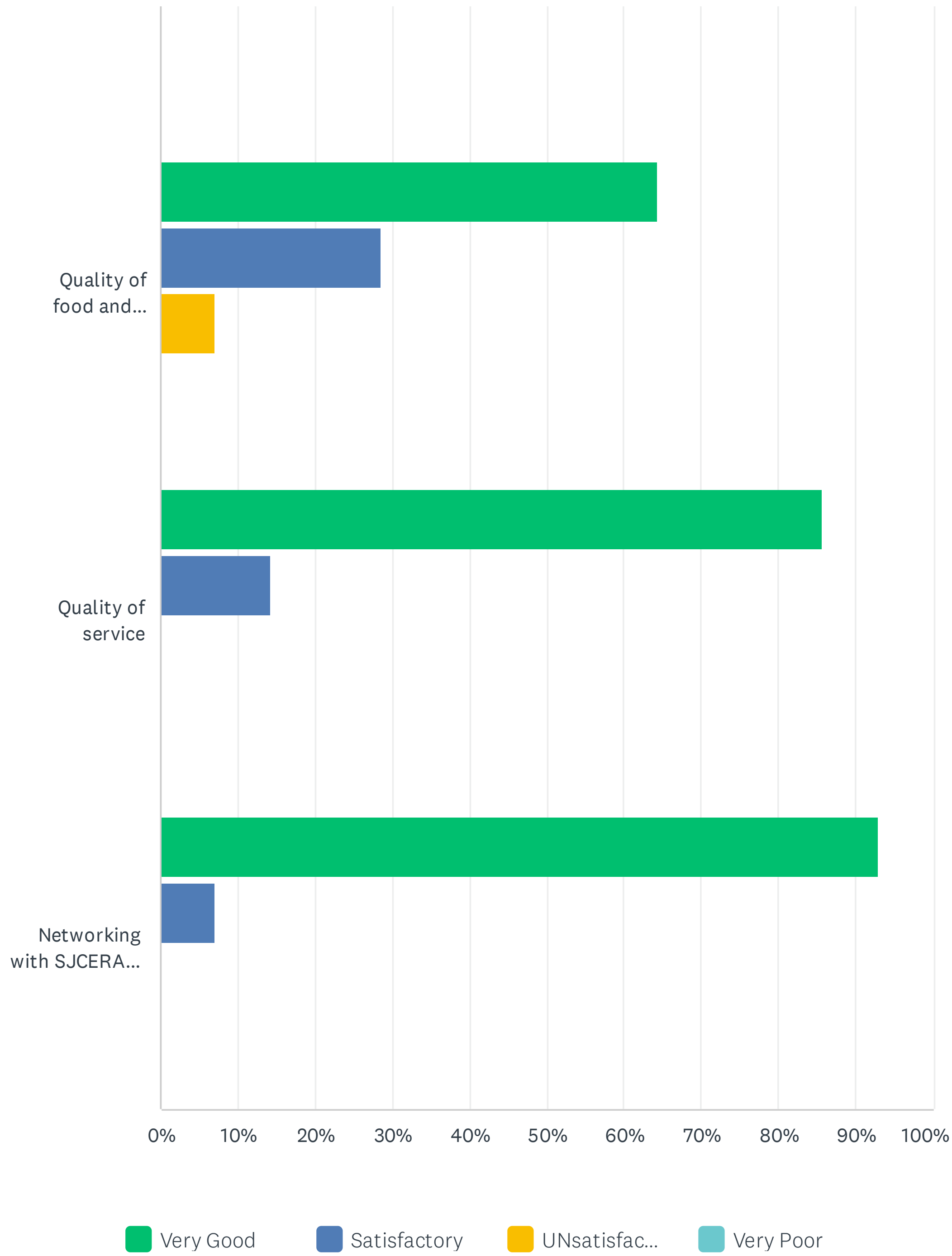
Answered: 12 Skipped: 3

#	RESPONSES	DATE
1	Same as this year	10/23/2023 3:09 PM
2	Inflation/interest rates. World events	10/23/2023 10:25 AM
3	More focus on relating the discussion to SJC specifically.	10/20/2023 11:44 AM
4	What about an investment contract terms debate? Have an attorney representing institutional investors (maybe Yuliya), and an attorney representing managers (maybe Sean or someone he knows) go through certain key contract provisions that we struggle to get and have them each argue their side of why they take their stance and what compromises might be acceptable. Could be good for managers to hear institutional investor concerns (even tho we already have contracts with these ones)--and it could be good for trustees to hear why managers hang on tightly to certain terms.	10/19/2023 9:09 AM
5	Real Estate; State of the World.	10/17/2023 8:41 AM
6	If there were any other sectors that were not discussed this year, it would be great to include. In general, I found it very interesting hear from the other managers in the various asset classes.	10/16/2023 11:51 AM
7	More geopolitical discussions.	10/16/2023 5:49 AM
8	I think geopolitics will be an important aspect of the conversation next year. As was mentioned during the keynote, there are many important elections in the coming 12 months and with conflicts in the middle east and Ukraine, I suspect geopolitical themes will play a central role in next year's presentations.	10/13/2023 12:39 PM
9	It would be nice to get a sense form the Trustees of SJCERA what their takeaway was from the last roundtable and what was most successful in furthering their understanding of what they thought were important issues - best way to keep getting better...	10/13/2023 11:42 AM
10	Detailed private equity panel rather than shared with other private markets.	10/13/2023 9:54 AM
11	I like what real estate panel did and pointed out interesting sectors to invest in. I would be interested in seeing other asset classes do something similar	10/12/2023 6:49 PM
12	Sancewich Karoake	10/12/2023 4:07 PM

Q8 General:

Answered: 15 Skipped: 0

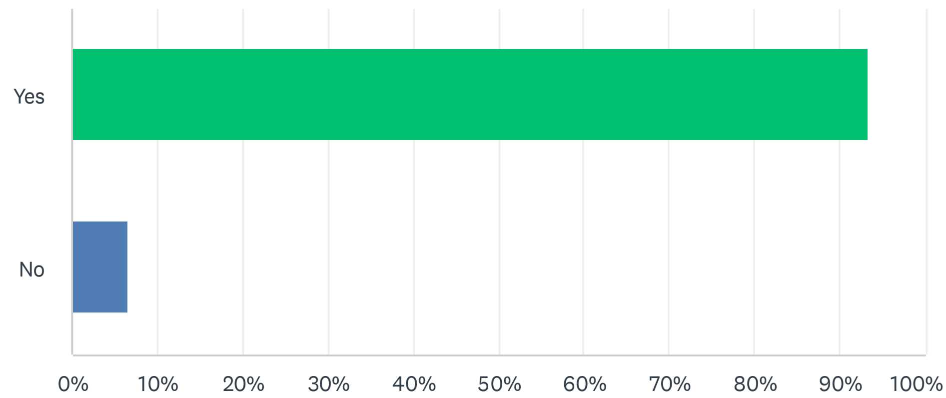



Quality of food and...
Quality of service
Networking with SJCERA...
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Very Good
Satisfactory
UNsatisfac...
Very Poor

	VERY GOOD	SATISFACTORY	UNSATISFACTORY	VERY POOR	TOTAL	WEIGHTED AVERAGE
Communication prior to the meeting date	66.67% 10	33.33% 5	0.00% 0	0.00% 0	15	3.67
Organization of the event	86.67% 13	13.33% 2	0.00% 0	0.00% 0	15	3.87
Meeting materials	60.00% 9	40.00% 6	0.00% 0	0.00% 0	15	3.60
Meeting facilities	86.67% 13	13.33% 2	0.00% 0	0.00% 0	15	3.87
Hotel reservations (if applicable)	81.82% 9	18.18% 2	0.00% 0	0.00% 0	11	3.82
Quality of food and beverage	64.29% 9	28.57% 4	7.14% 1	0.00% 0	14	3.57
Quality of service	85.71% 12	14.29% 2	0.00% 0	0.00% 0	14	3.86
Networking with SJCERA trustees and staff	92.86% 13	7.14% 1	0.00% 0	0.00% 0	14	3.93

Q9 Should the location be repeated next year?

Answered: 15 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	93.33%	14
No	6.67%	1
TOTAL		15

Q10 Suggestions for improving next year's event:

Answered: 9 Skipped: 6

#	RESPONSES	DATE
1	Repeat the dinner night before	10/23/2023 3:09 PM
2	Seating of trustees and managers	10/23/2023 10:25 AM
3	Very much enjoyed the dinner on the evening before. the participation was better and more attendees seemed more relaxed.	10/20/2023 11:44 AM
4	Seating clearly was a miss this year;	10/17/2023 8:41 AM
5	Room layout: Would suggest having the panel in the center with folks dispersed around them, would have SJCERA closer to the panelists location, and/or would have folks in a square facing each other	10/16/2023 3:43 PM
6	Did not care for the seating configuration. I think the "old" setup in a square was best. Not being able to see the trustees was odd.	10/16/2023 5:49 AM
7	chairs set up in a chair or rectangle, so that everyone can see one another when we are speaking, makes for easier interaction.	10/13/2023 11:42 AM
8	nametags at the networking dinner.	10/13/2023 9:54 AM
9	Potential for different room set up, possibly more dialogue sessions vs presentations. Great event overall.	10/12/2023 4:07 PM

Q11 Additional suggestions or comments:

Answered: 1 Skipped: 14

#	RESPONSES	DATE
1	Best one of these types of events I have ever attended. It is obvious that a lot of thought and planning went into the execution. Extremely well done!!	10/13/2023 11:42 AM

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San Joaquin County Employees' Retirement Association Private Credit Review

November 3, 2023

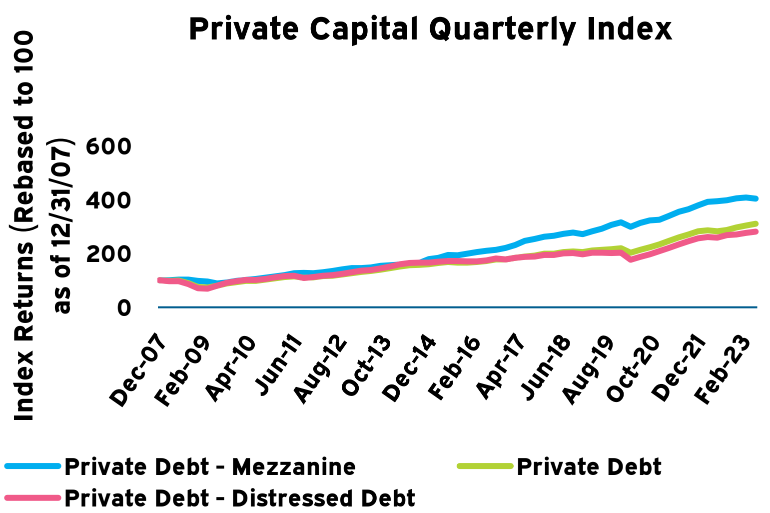
Market & Industry Analysis as of June 30, 2023

Private Credit: Performance Update (Q2-23)

- → The Preqin All Private Debt Index returned 2.1% in the second quarter despite a mixed demand backdrop driven by lower M&A volumes, refinancing activity and other corporate actions.
- → Private Debt fundraising rebounded in Q2 led by Direct Lending and Mezzanine focused funds. A survey of private credit funds found that only 56% reported raising a fund that was larger than the predecessor, down from 75% in 2022.[1]
- → Senior Direct Lending registered a strong Q2 with the Lincoln Senior Debt Index returning 3.2% its strongest quarterly return since inception.[2] Fair value across loans represented in the index increased to 96.9.

Preqin All Private Debt Index (as of 3/31/2023)

Trailing Time Period	Horizon IRR (%)
1 year	5.8
3 years	9.8
5 years	6.3
10 years	7.5



[1] PDI, "Future of Private Debt Report" (October 2023)

[2] Lincoln Senior Debt Index inception was September 30, 2014.

Private Credit: Key Economic Drivers

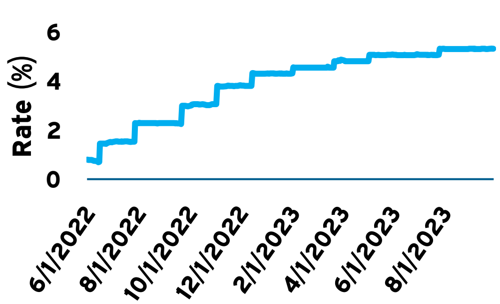
→ The Federal Reserve paused the aggressive rate hiking cycle during their September 2023 meeting, acknowledging the probability that tighter credit conditions will likely weigh on economic activity.

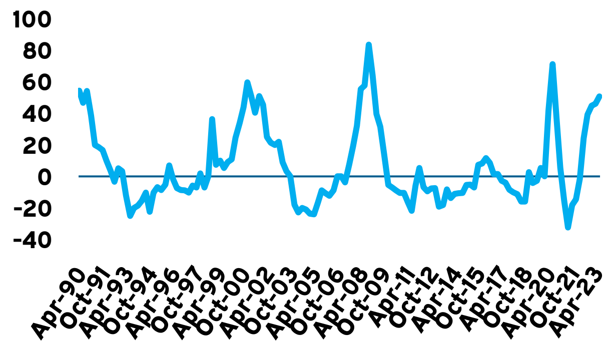
→ Tighter credit conditions persisted with the percentage of domestic banks reporting tightening credit standards for commercial and industrial loans increasing from 41% to 51% between Q1 and Q3 2023.

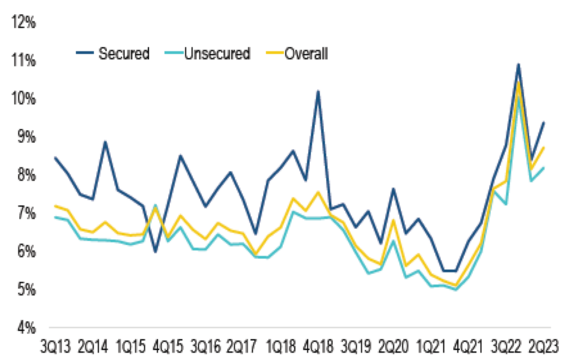
→ Average new issue yields for unsecured borrowers ticked upwards to 8.2% from 7.6% a year earlier, while Q2 issuance was dominated by double-B (including split rated BB/B) borrowers.[1] This reflects the continued challenges lower rated issuers face in accessing capital markets.

→ Moody's Investor Services modestly lowered its expectations for corporate defaults to 4.6% by January 2024, noting that its projections for credit spreads had come in from earlier estimates.

SOFR Rates[2]	Fed Survey: % Tightening for C&I Loans[3]	New Issue Yields for U.S. HY[4]







1 Source: PitchBook LCD; US Credit Markets Quarterly Wrap (Q2 2023)
2 Source: Federal Reserve Bank of New York
3 Source: St. Louis Fed
4 Source: PitchBook LCD (a/o 6/30/2023)

Private Credit: U.S. Senior Direct Lending

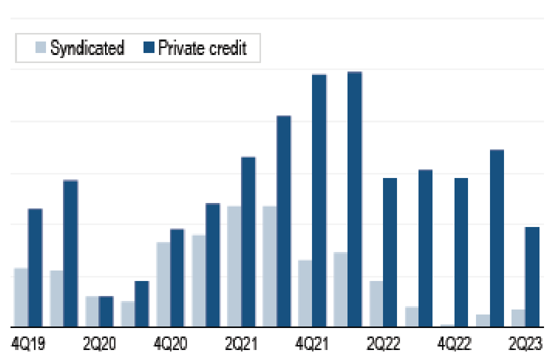
→ U.S. leveraged loan issuance volume showed little improvement over the prior quarter with $51.5 billion pricing in Q2. Refinancing dominated the use of proceeds as M&A activity remained low.

→ Private lenders retained a dominant position over the syndicated market in LBO financing. Notably, the spread between direct lending and the syndicated market narrowed to 2.1% (as captured by the LSDI Index versus the Morningstar LSTA index).[1]

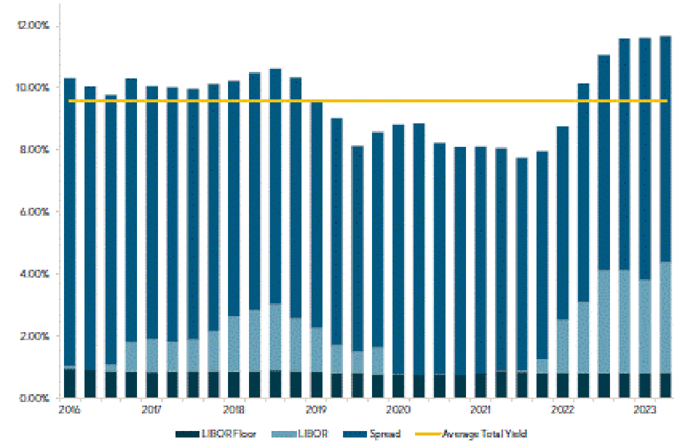
→ Direct lending yields remain elevated, largely driven by the increase in base rates and to a lesser extent spread.

Leveraged Loan Issuance (Q2-23)[2]

BSL vs. Private Credit Financing[3]



Breakout of Yield Composition[4]



[1] Lincoln International, LSDI Q2 2023 Report
[2] Source: PitchBook LCD as of 6/30/2023.
[3] Source: PitchBook LCD as of 6/30/2023.
[4] Source: Lincoln International, LSDI Q2 2023 Report.

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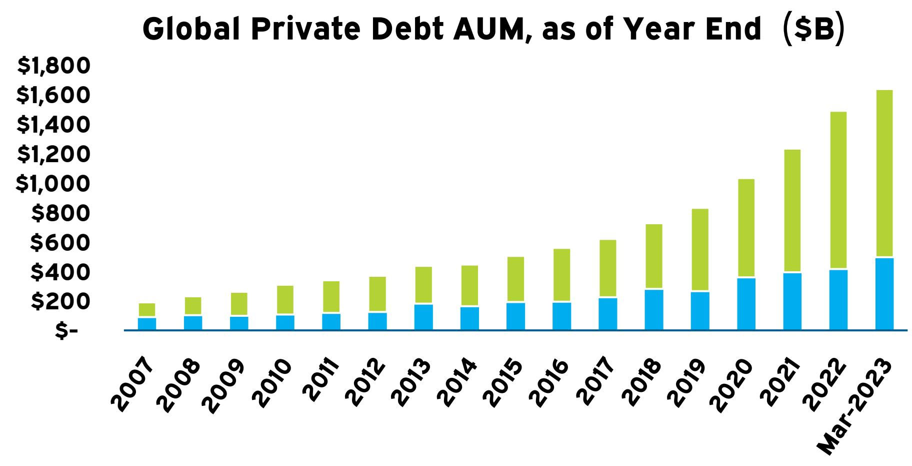
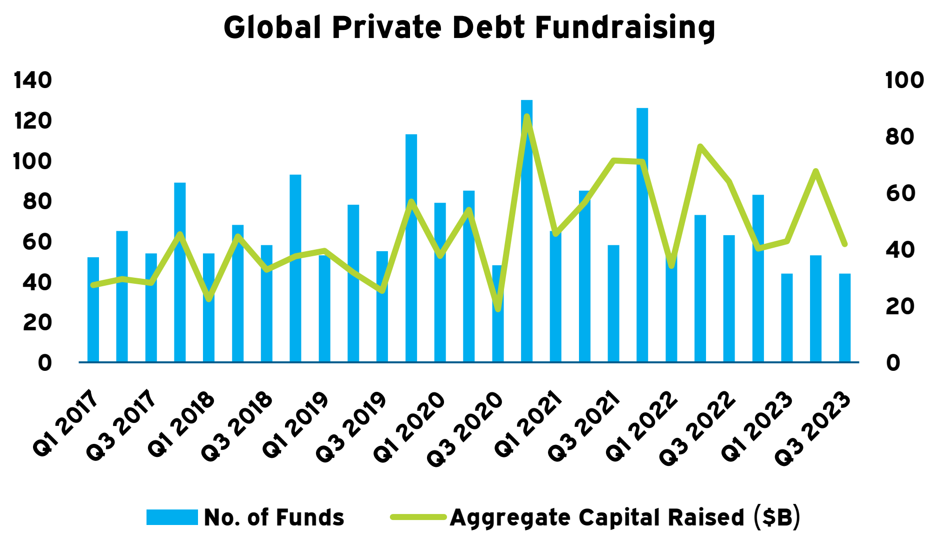
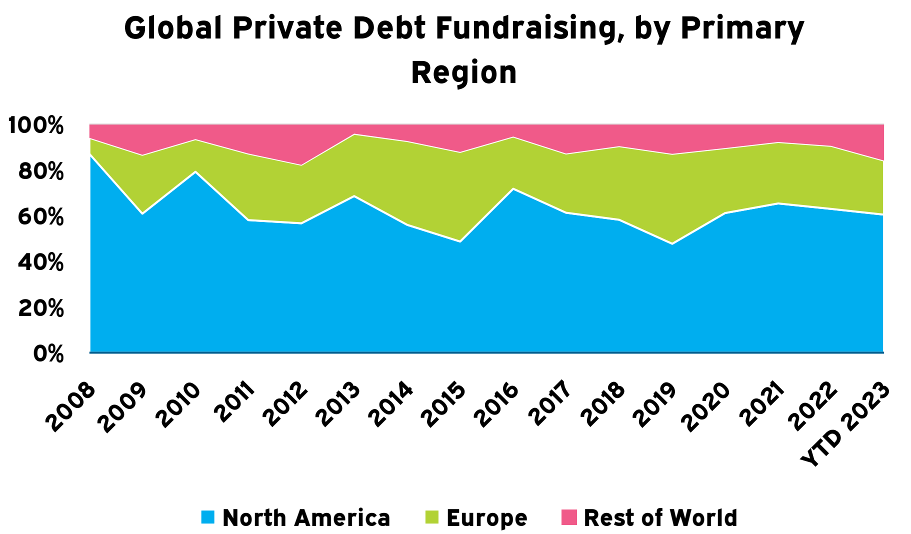
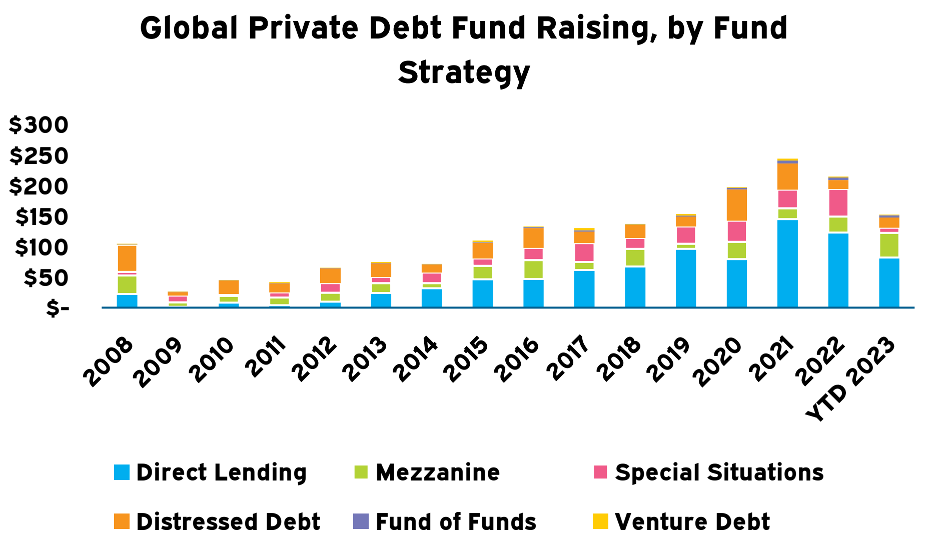

Global Private Debt AUM, as of Year End ($B)
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$-
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 Mar-2023
Dry Powder
Unrealized Value


Global Private Debt Fundraising
140
120
100
80
60
40
20
0
100
80
60
40
20
0
Q1 2017 Q3 2017 Q1 2018 Q3 2018 Q1 2019 Q3 2019 Q1 2020 Q3 2020 Q1 2021 Q3 2021 Q1 2022 Q3 2022 Q1 2023 Q3 2023
No. of Funds
Aggregate Capital Raised ($B)


Global Private Debt Fundraising, by Primary Region
100%
80%
60%
40%
20%
0%
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 YTD 2023
North America
Europe
Rest of World


Global Private Debt Fund Raising, by Fund Strategy
$300
$250
$200
$150
$100
$50
$-
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 YTD 2023
Direct Lending
Mezzanine
Special Situations
Distressed Debt
Fund of Funds
Venture Debt

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San Joaquin County Employees' Retirement Association (SJCERA)

2023-2024 Private Credit Investment Plan

Table of Contents

Section 1: Program Review and Investment Plan

SJCERA Program Overview

→ Since inception, $688 million has been committed across 12 partnerships (as of September 30, 2023)

- Initial commitment began in 2014
  - Funds are a combination of Direct Lending, Specialty Lending, Special Situations, Distressed, and Real Estate Debt strategies.

→ One new partnership approved in 2023 with a $62.5 million commitment to Ares Pathfinder II.

→ Private debt targeted to be 10% of the total portfolio

- Current actual allocation at approximately 9.6% as of December 2022.

→ The Program has approved commitments across nine firms

- BlackRock, Raven Capital, and White Oak are the largest relationships by commitment amount with each firm receiving approximately $100 million in commitments

SJCERA Commitment List

Since Inception Partnership Commitments (as of September 30, 2022)			
Partnership	Vintage Year	Commitment	Strategy
Crestline Opportunity Fund II	2014	$45 million	Direct Lending
Raven Asset-Based Opportunity Fund II	2014	$45 million	Specialty Lending
Raven Asset-Based Opportunity Fund III	2015	$50 million	Specialty Lending
Mesa West Real Estate Income Fund IV	2016	$75 million	Real Estate Debt
White Oak Summit Peer Fund	2016	$50 million	Direct Lending
Oaktree Middle-Market Direct Lending Fund	2018	$50 million	Direct Lending
BlackRock Direct Lending Feeder IX	2020	$100 million	Direct Lending
Davidson Kempner Long-Term Distressed Opportunities Fund V	2020	$48 million	Distressed
HPS European Asset Value II	2020	$50 million	Specialty Lending
White Oak Yield Spectrum Fund V	2020	$50 million	Direct Lending
Silver Rock Tactical Allocation Fund – Vintage 2022	2022	$62.5 million	Special Situations
Ares Pathfinder Fund II	2023	$62.5 million	Specialty Lending
Total Program		**$688 million**	

Future Growth

→ The private debt portfolio is close to the targeted allocation, though additional investment activity is required to achieve diversification and to position the portfolio for attractive performance over the long term.

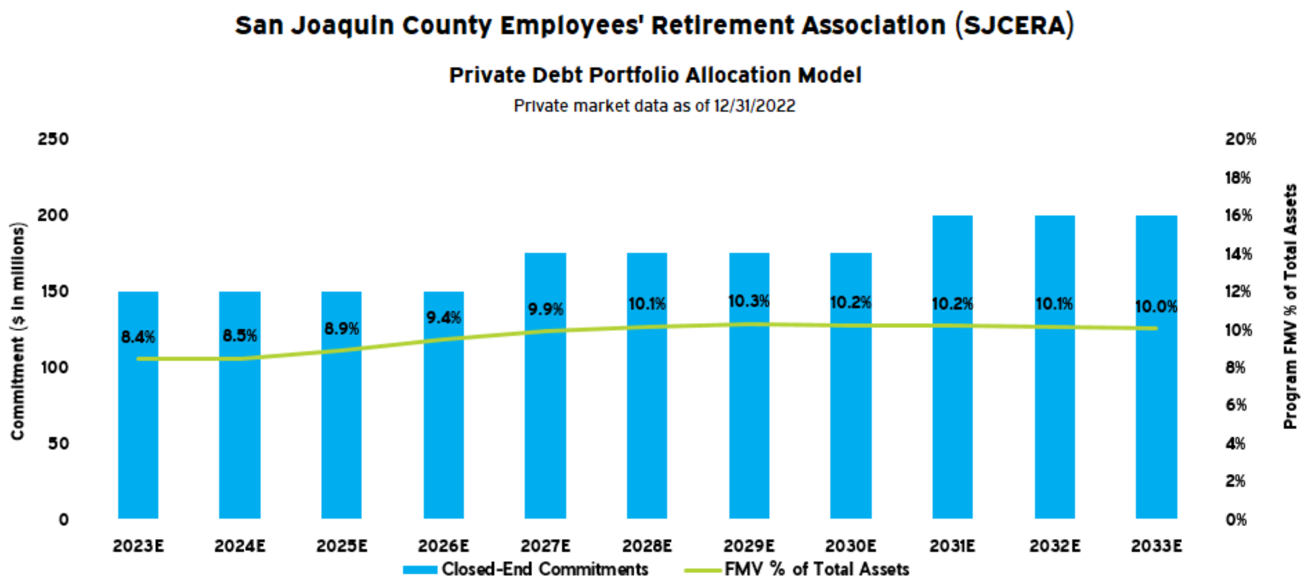
- A consistent deployment of capital is a key element for consistent performance
- Further diversification needed – vintage years, geography and sector

→ Growth of a private debt program is a function of several factors – commitment pace, rate of investment by underlying managers, investment growth, and investment liquidations/distributions

→ Percentage allocation to private debt impacted by Total Portfolio growth

- Slower Total Portfolio growth = larger private debt allocation
- Faster Total Portfolio growth = smaller private debt allocation

SJCERA Projected Allocation



→ Modeling above assumes a commitment pace of $150 million to $200 million per year

- Reflecting 5% growth scenarios for the Total Portfolio
- Achieving the target allocation in the ~2027 time frame, though target may be reached sooner if slower than expected pace of distributions and/or lower total plan growth.

→ Consistent pacing needed to achieve the target allocation over several years

- Maintains vintage year diversification

Section 2: Summary and Recommendation

SJCERA Commitment Pacing

2024 Investment Plan

	Projections
Commitment Target: (commitment range)	$150 million per year ($100 - $200 million)

→ Recommend targeting $150 million in commitments annually

- May scale up or down depending upon opportunity set

→ Continue to update pacing targets on an annual basis

- Update actual private debt cash flows and market values
- Incorporate volatility of the public markets and Total Portfolio growth
- Discuss legacy investments

Recommendations

Adopt the proposed 2024 commitment pacing plan and search criteria for the SJCERA private debt program. Specifically, SJCERA should commit $150 million per year to private debt partnerships.

WE HAVE PREPARED THIS REPORT (THIS "REPORT") FOR THE SOLE BENEFIT OF THE INTENDED RECIPIENT (THE "RECIPIENT").

SIGNIFICANT EVENTS MAY OCCUR (OR HAVE OCCURRED) AFTER THE DATE OF THIS REPORT AND THAT IT IS NOT OUR FUNCTION OR RESPONSIBILITY TO UPDATE THIS REPORT. ANY OPINIONS OR RECOMMENDATIONS PRESENTED HEREIN REPRESENT OUR GOOD FAITH VIEWS AS OF THE DATE OF THIS REPORT AND ARE SUBJECT TO CHANGE AT ANY TIME. ALL INVESTMENTS INVOLVE RISK. THERE CAN BE NO GUARANTEE THAT THE STRATEGIES, TACTICS, AND METHODS DISCUSSED HERE WILL BE SUCCESSFUL.

INFORMATION USED TO PREPARE THIS REPORT WAS OBTAINED FROM INVESTMENT MANAGERS, CUSTODIANS, AND OTHER EXTERNAL SOURCES. WHILE WE HAVE EXERCISED REASONABLE CARE IN PREPARING THIS REPORT, WE CANNOT GUARANTEE THE ACCURACY OF ALL SOURCE INFORMATION CONTAINED HEREIN.

CERTAIN INFORMATION CONTAINED IN THIS REPORT MAY CONSTITUTE "FORWARD - LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "AIM", "ANTICIPATE," "TARGET," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE" OR "BELIEVE," OR THE NEGATIVES THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. ANY FORWARD-LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION ARE BASED UPON CURRENT ASSUMPTIONS. CHANGES TO ANY ASSUMPTIONS MAY HAVE A MATERIAL IMPACT ON FORWARD - LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS. ACTUAL RESULTS MAY THEREFORE BE MATERIALLY DIFFERENT FROM ANY FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION.

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

Board of Retirement Meeting

San Joaquin County Employees' Retirement Association

Agenda Item 8.0

November 3, 2023

SUBJECT: Evaluation of Consultants

SUBMITTED FOR: ___ CONSENT ___ ACTION __X_ INFORMATION

PURPOSE

To provide trustees and staff an opportunity to annually evaluate our actuary and investment consultants and give them feedback on their performances.

DISCUSSION

Once again, the actuary and investment consultant evaluations yielded very positive feedback. Below is a summary of the evaluation results.

Actuary Consultant Summary of Evaluations

Nine out of 19 people consisting of trustees and staff responded to the actuary evaluation survey. The actuary received a perfect score of five in three areas:

- Confidence in the advice SJCERA receives
- Explains things in an understandable way
- Presents data supporting their recommendations

The issues or areas of concern survey respondents would like the consultant to address next year include:

- Inflation
- Employer contribution rate calculation methodology
- Low Default Risk Obligation Measure (LDROM) reporting requirements

Two suggestions for next year include providing interest factors and final valuation data files as soon as available and to strengthen the presentation skills of Graham's back-up team.

Other remarks included appreciation of the new Funded Ratio chart that was added to this year's annual valuation report.

Investment Consultant Summary of Evaluations

Ten out of 15 people consisting of trustees and staff responded to the investment consultant evaluation survey. The investment consultant received a perfect score of five in four areas:

- Confidence in the advice SJCERA receives
- Explains things in an understandable way
- Presents data supporting their recommendations
- Keeps the Board informed of events affecting SJCERA's investments

The issues or areas of concern survey respondents would like the consultant to address next year include:

- Inflation/interest rates
- Risk parity and private asset allocations
- Strengthen monitoring of managers, in light of expected economic pressures
- Downside protection
- Simpler portfolio design

Other respondent suggestions included removing risk parity from the asset allocation and doing more with fixed income.

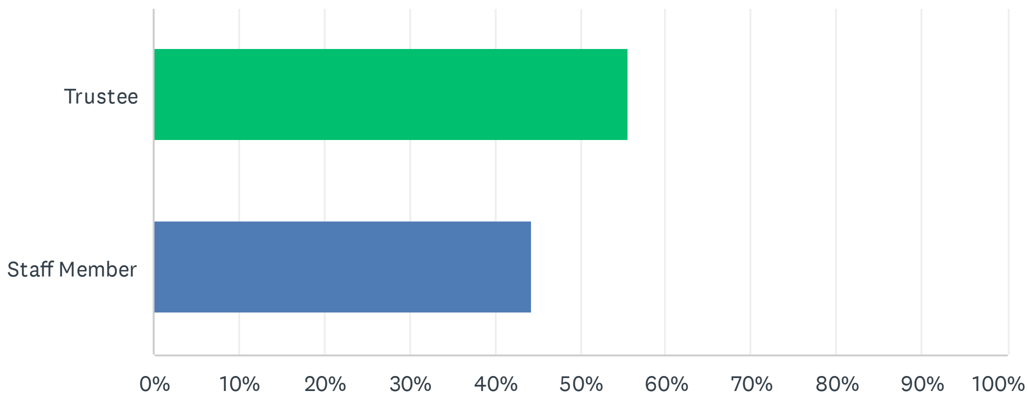
ATTACHMENTS
Actuarial Consultant Evaluation - 2023
Investment Consultant Evaluation - 2023

JShick

JOHANNA SHICK
Chief Executive Officer

Q2 Evaluator is:

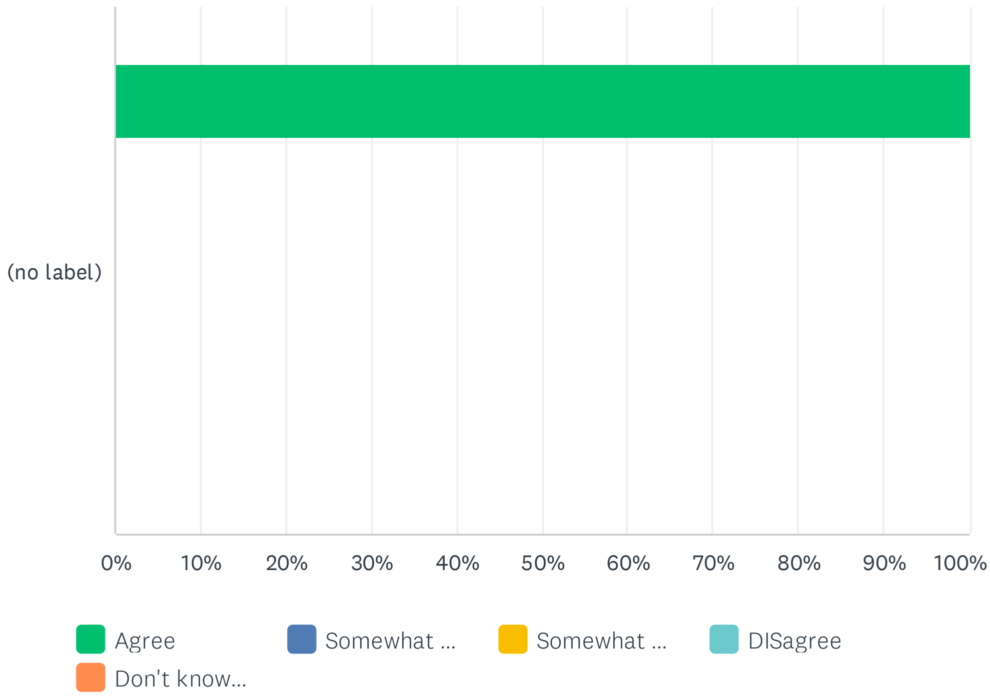
Answered: 9 Skipped: 0



ANSWER CHOICES	RESPONSES	
Trustee	55.56%	5
Staff Member	44.44%	4
TOTAL		9

Q3 I have confidence in the advice SJCERA receives from its Actuarial Consultant

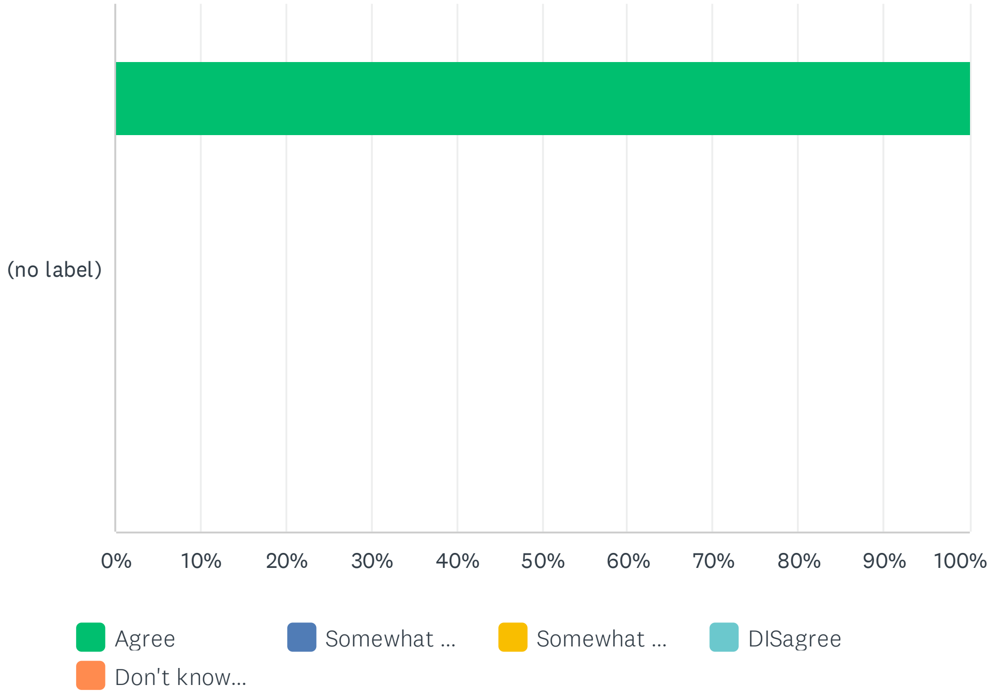
Answered: 9 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00

Q4 The Actuarial Consultant explains things in an understandable way.

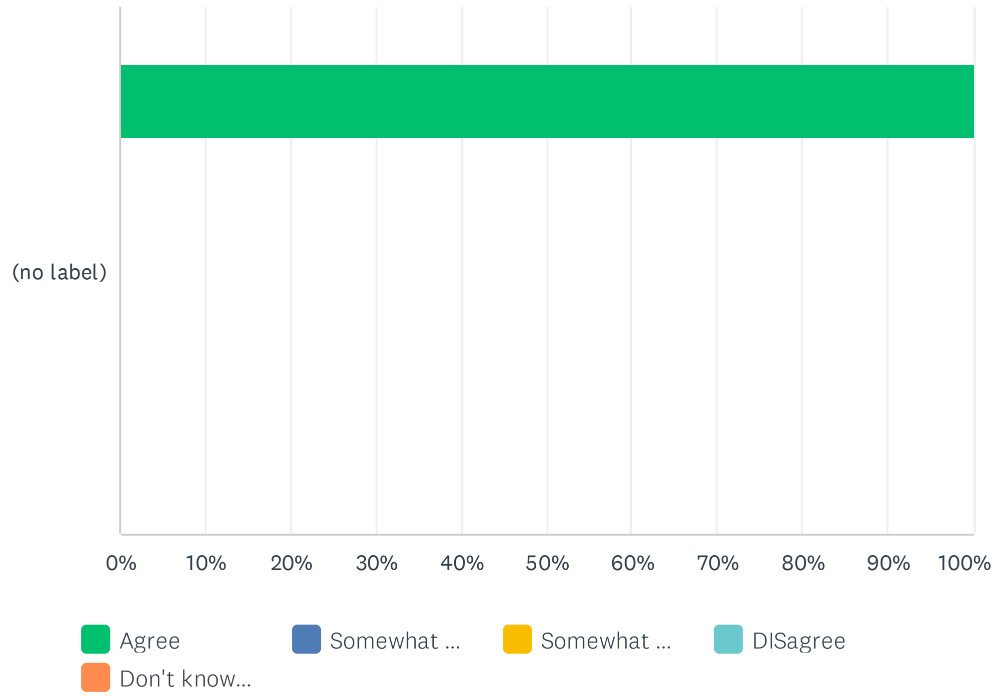
Answered: 9 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00

Q5 The Actuarial Consultant presents data that supports their recommendations.

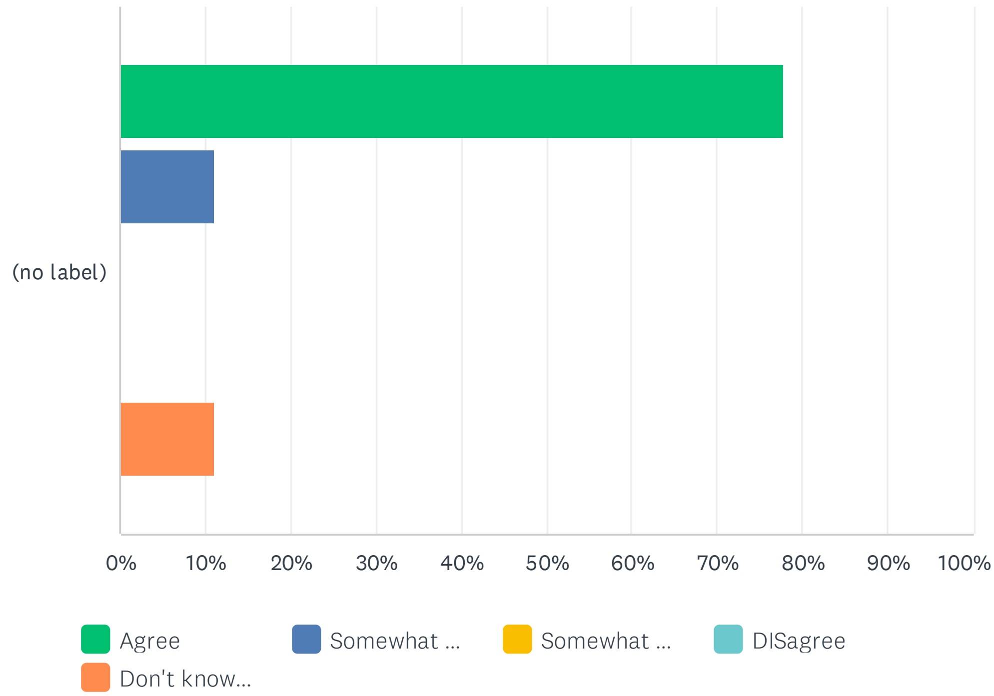
Answered: 9 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00

Q6 The Actuarial Consultant keeps the Board informed of issues affecting SJCERA.

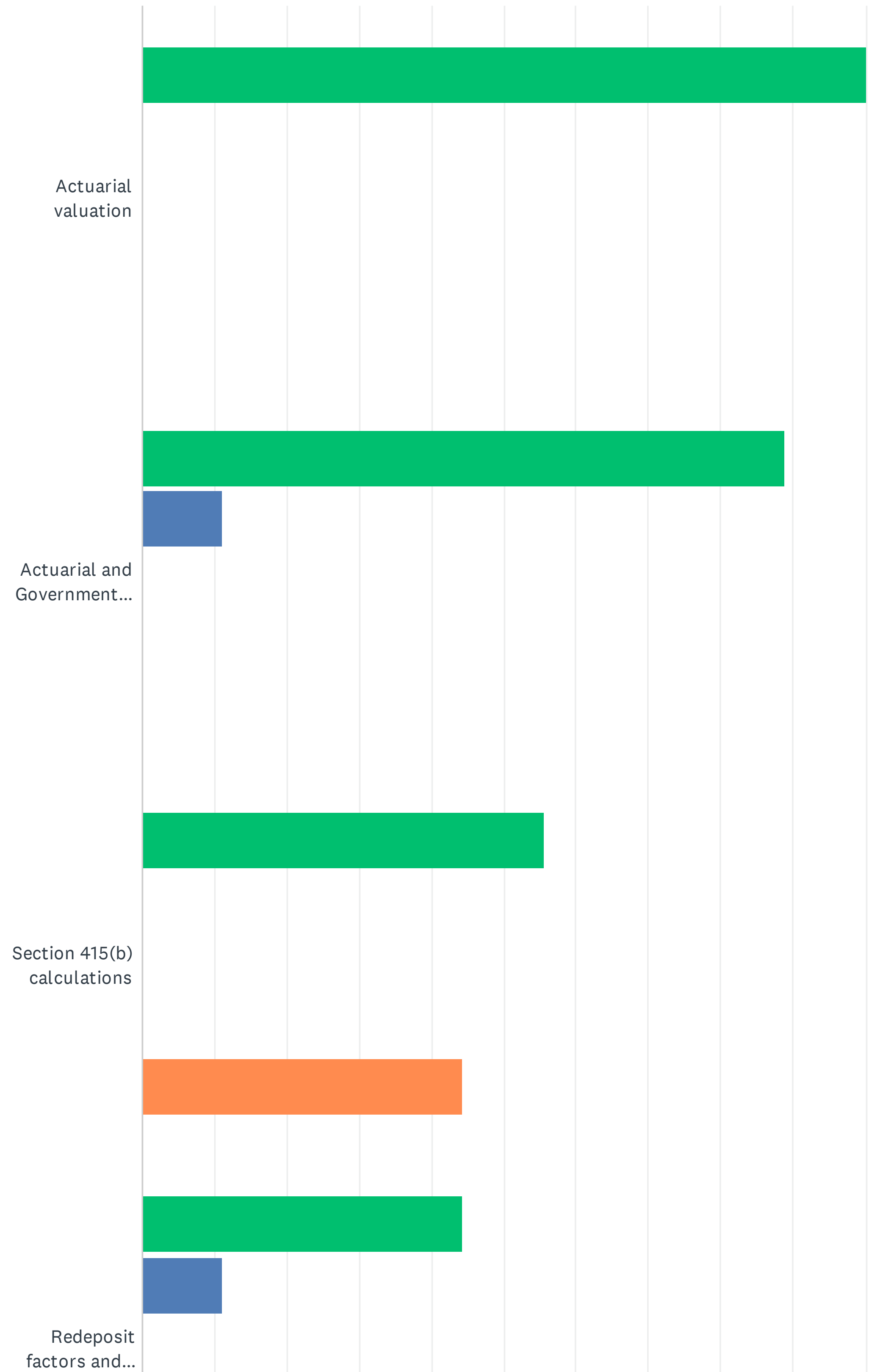
Answered: 9 Skipped: 0

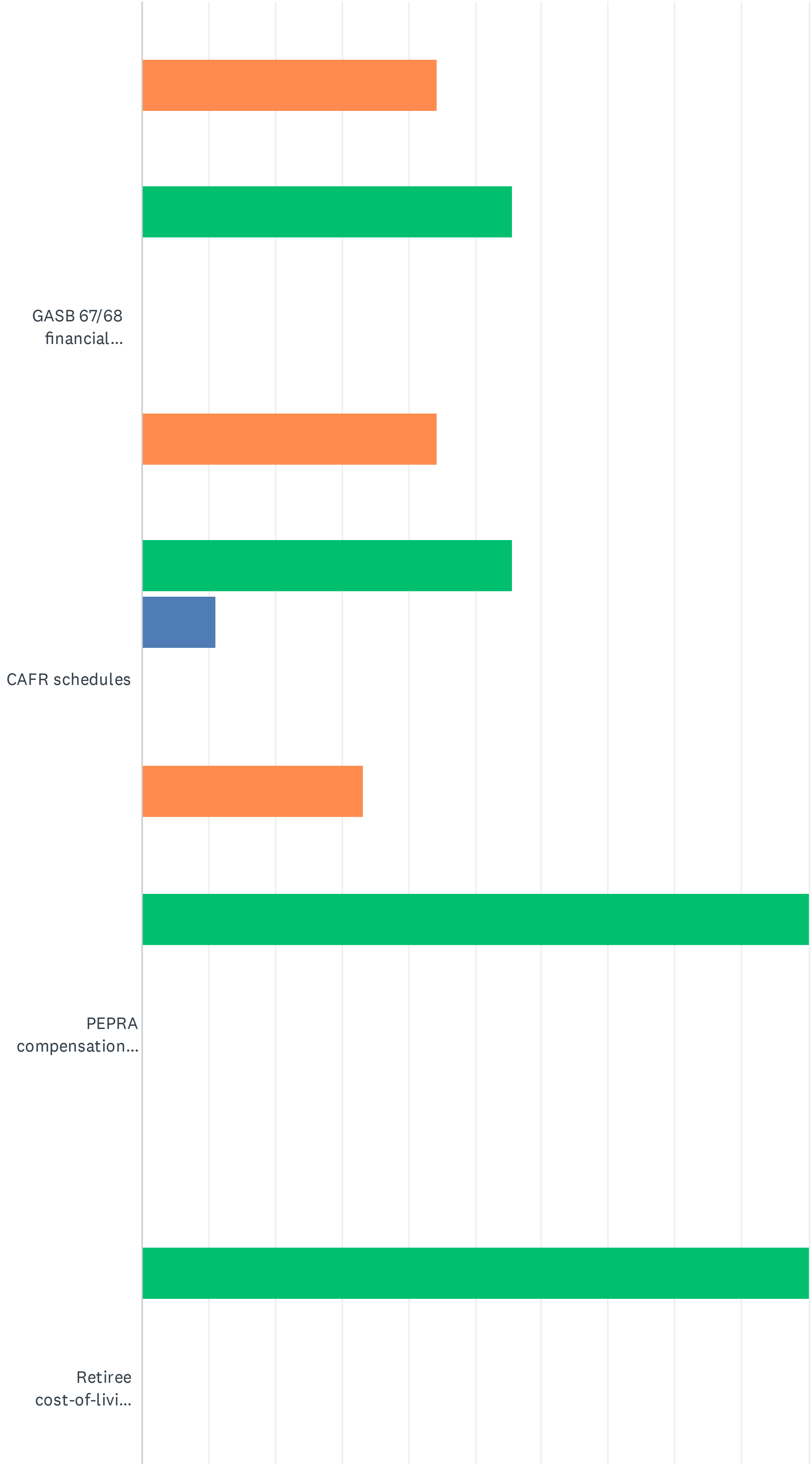


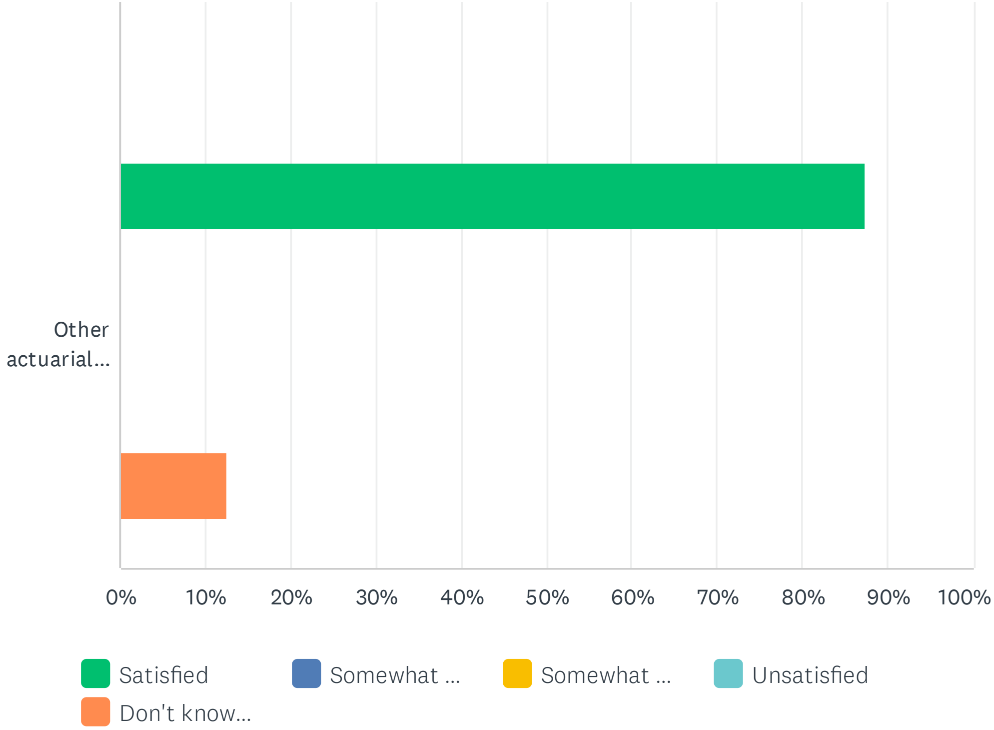
	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	77.78% 7	11.11% 1	0.00% 0	0.00% 0	11.11% 1	9	4.44

Q7 Please rate your satisfaction with the quality of the following contractually required services.

Answered: 9 Skipped: 0



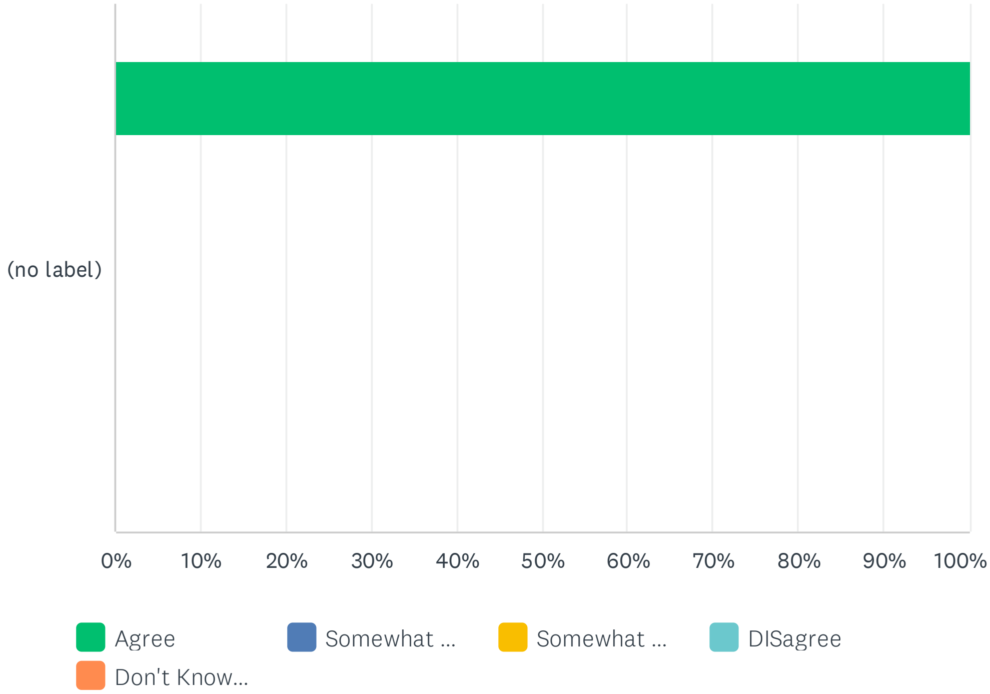

GASB 67/68
financial...
CAFR schedules
PEPRA
compensation...
Retiree
cost-of-livi...



	SATISFIED	SOMEWHAT SATISFIED	SOMEWHAT UNSATISFIED	UNSATISFIED	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
Actuarial valuation	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00
Actuarial and Government Table Updates and Testing	88.89% 8	11.11% 1	0.00% 0	0.00% 0	0.00% 0	9	4.89
Section 415(b) calculations	55.56% 5	0.00% 0	0.00% 0	0.00% 0	44.44% 4	9	3.22
Redeposit factors and bi-weekly payment schedules	44.44% 4	11.11% 1	0.00% 0	0.00% 0	44.44% 4	9	3.11
GASB 67/68 financial statement disclosure report	55.56% 5	0.00% 0	0.00% 0	0.00% 0	44.44% 4	9	3.22
CAFR schedules	55.56% 5	11.11% 1	0.00% 0	0.00% 0	33.33% 3	9	3.56
PEPRA compensation limits	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00
Retiree cost-of-living adjustment (COLA)	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00
Other actuarial consulting	87.50% 7	0.00% 0	0.00% 0	0.00% 0	12.50% 1	8	4.50

Q8 I have confidence in the firm for which our Actuarial Consultant works.

Answered: 9 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	4.00

Q9 The actuarial issues or areas of concern I would like the consultant to address in the next twelve months are:(Identify your top 3 issues/concerns)

Answered: 2 Skipped: 7

ANSWER CHOICES	RESPONSES	
1.	100.00%	2
2.	50.00%	1
3.	50.00%	1
Other Comments:	0.00%	0

#	1.	DATE
1	Discount rate maybe higher?	10/24/2023 5:16 PM
2	LDROM Implementation	10/18/2023 1:59 PM
#	**2.**	**DATE**
1	Employer Contribution Rate calculation methodology: should we stop calculating UAL portion on % of payroll (in anticipation of possibly smaller workforces due to AI)? Educaiton, discussion, consideration of implementation timing.	10/18/2023 1:59 PM
#	**3.**	**DATE**
1	Impact of inflation on the plan	10/18/2023 1:59 PM
#	**OTHER COMMENTS:**	**DATE**
	There are no responses.	

Q10 What would you like the Actuarial Consultant to do differently?

Answered: 4 Skipped: 5

#	RESPONSES	DATE
1	Does a good job	10/24/2023 5:16 PM
2	All is good	10/23/2023 3:42 PM
3	I would like actuarial consultant to provide annual reports such as interest factors, final valuation data file etc. to be provided as soon as they are ready.	10/23/2023 9:43 AM
4	While all Cheiron staff working on our account are highly competent, Graham is by far the best presenter. Given the high bar that our experience with Graham has set, it might be helpful to work with Graham's back up on strengthening presentation skills.	10/18/2023 1:59 PM

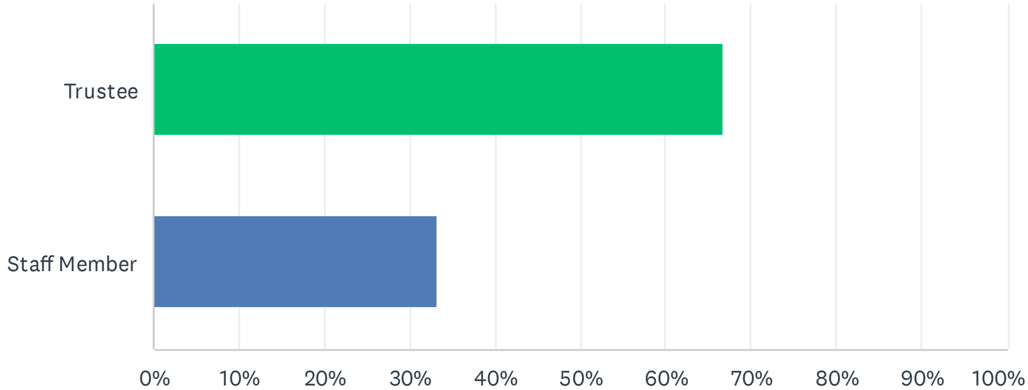
Q11 Other Remarks

Answered: 1 Skipped: 8

#	RESPONSES	DATE
1	Really appreciate the new Changes in Funded Ratio chart, it's very helpful.	10/23/2023 9:30 AM

Q2 Evaluator is:

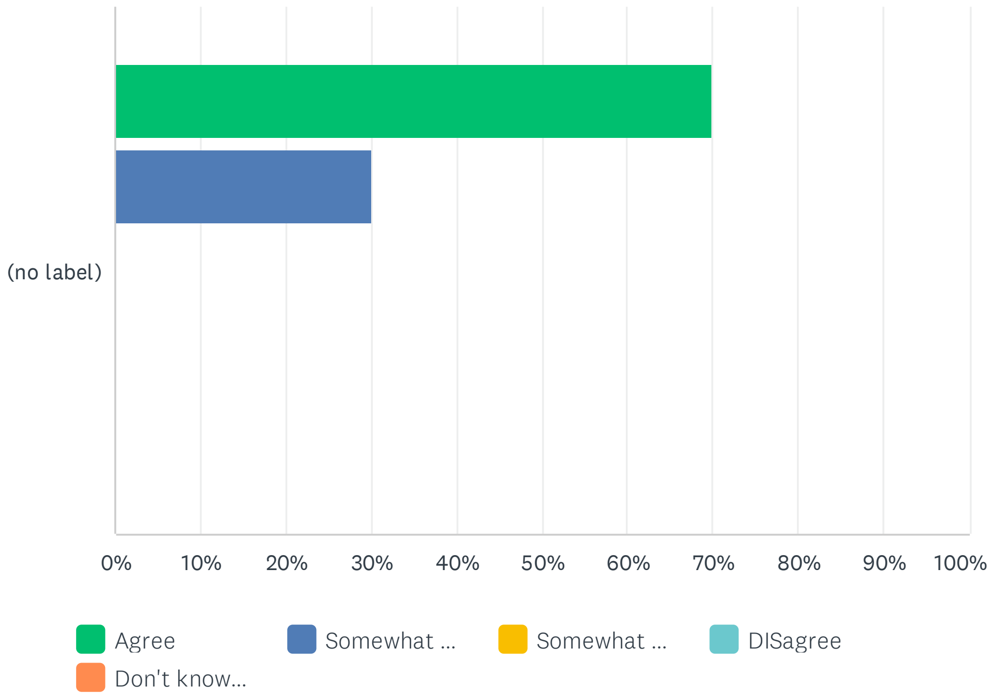
Answered: 9 Skipped: 1



ANSWER CHOICES	RESPONSES	
Trustee	66.67%	6
Staff Member	33.33%	3
TOTAL		9

Q3 I am satisfied with the investment results that SJCERA has achieved while working with our Investment Consultant.

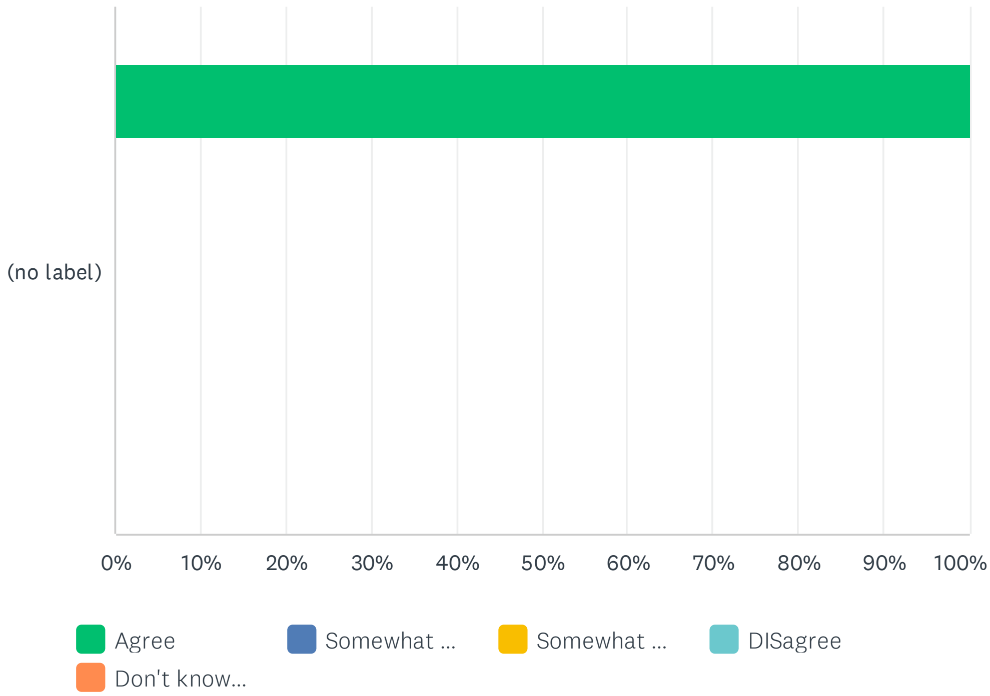
Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	70.00% 7	30.00% 3	0.00% 0	0.00% 0	0.00% 0	10	4.70

Q4 I have confidence in the advice SJCERA receives from its Investment Consultant

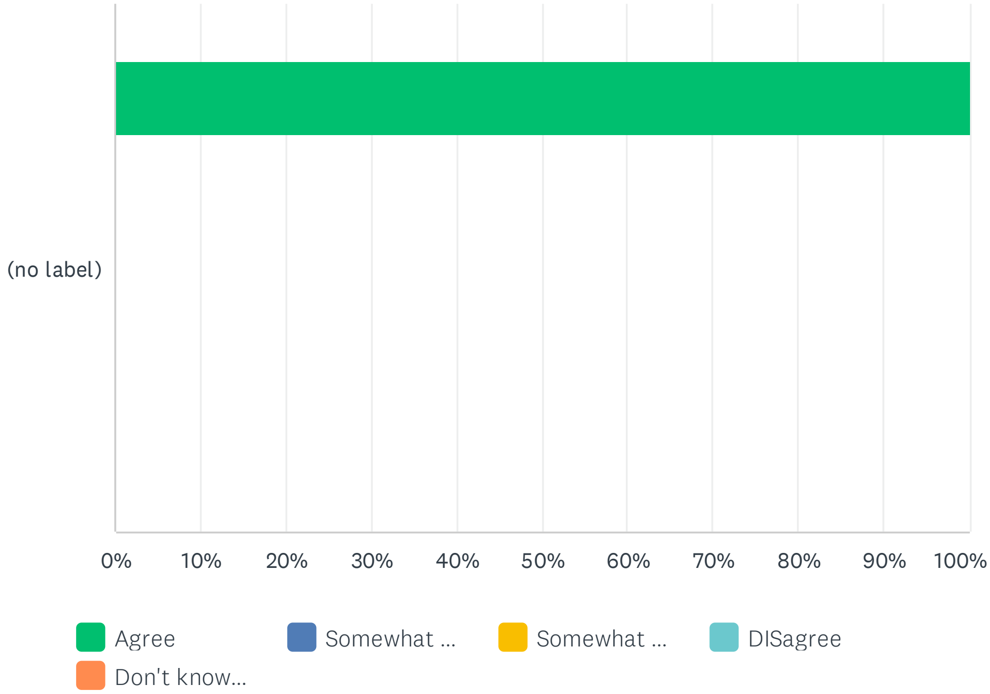
Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 10	0.00% 0	0.00% 0	0.00% 0	0.00% 0	10	5.00

Q5 The Investment Consultant explains things in an understandable way.

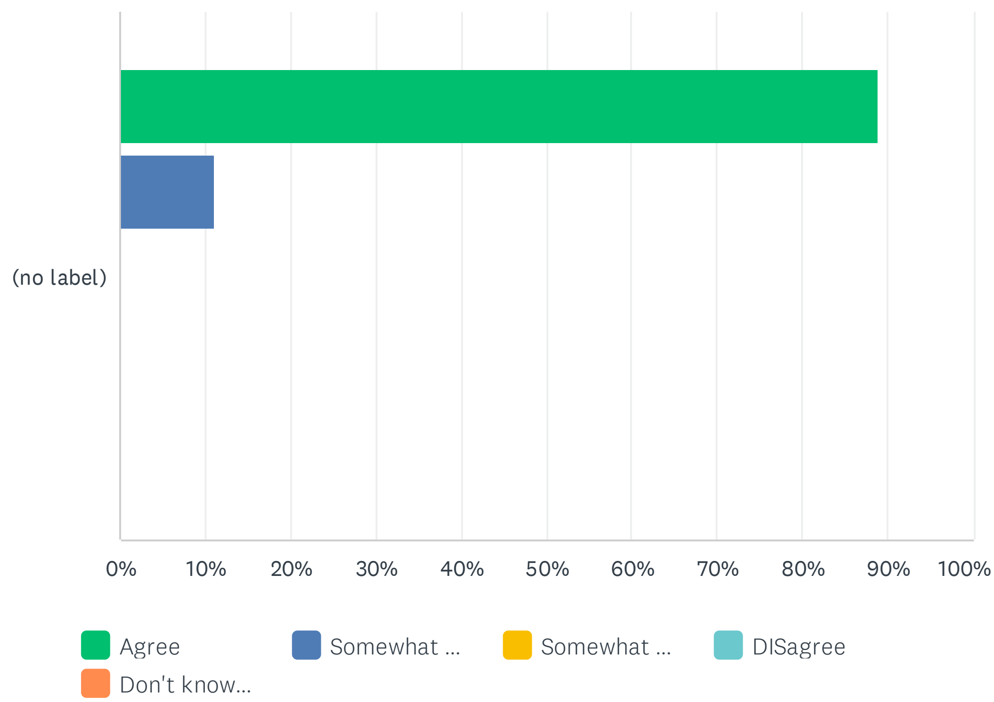
Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 10	0.00% 0	0.00% 0	0.00% 0	0.00% 0	10	5.00

Q6 The asset allocation was developed using a comprehensive, well-founded approach.

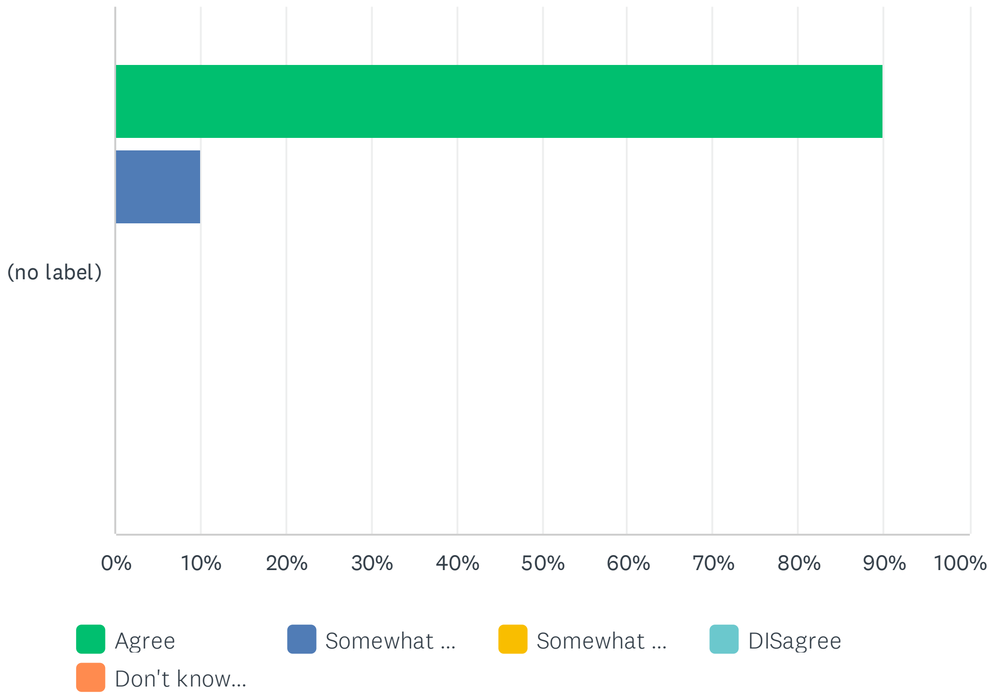
Answered: 9 Skipped: 1



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	88.89% 8	11.11% 1	0.00% 0	0.00% 0	0.00% 0	9	4.89

Q7 The consultant's investment recommendations align with the Board's risk tolerance.

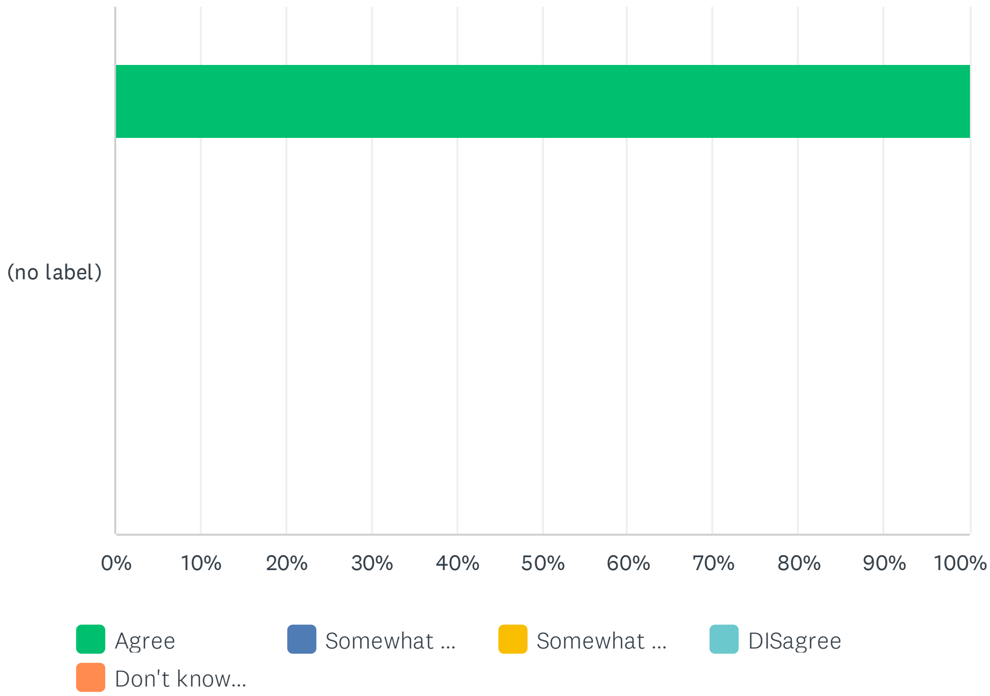
Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	90.00% 9	10.00% 1	0.00% 0	0.00% 0	0.00% 0	10	4.90

Q8 The investment consultant presents data that supports their recommendations.

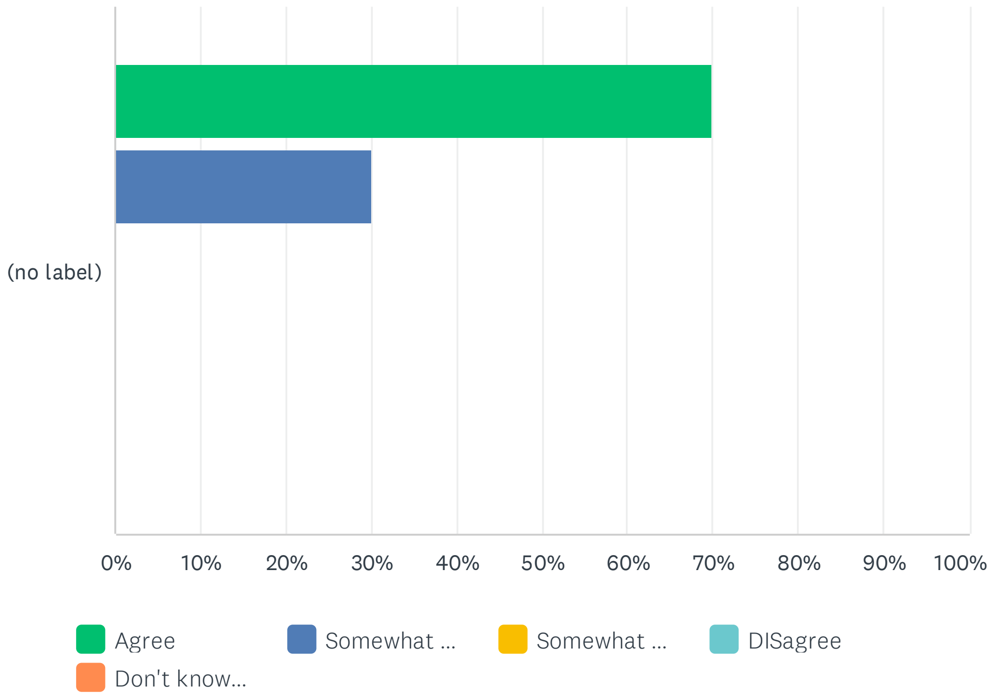
Answered: 9 Skipped: 1



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00

Q9 I have confidence in the quality of managers the consultant brings to the Board for consideration.

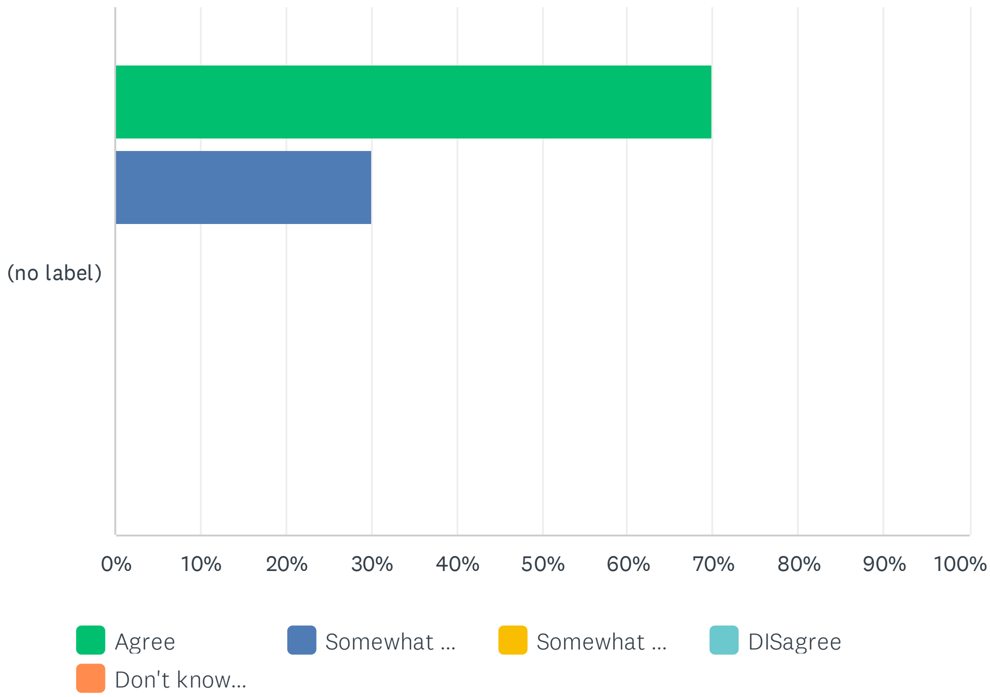
Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	70.00% 7	30.00% 3	0.00% 0	0.00% 0	0.00% 0	10	4.70

Q10 The Investment Consultant brings forward ideas and strategies that will enable SJCERA to meet or exceed its assumed rate of return over the long term.

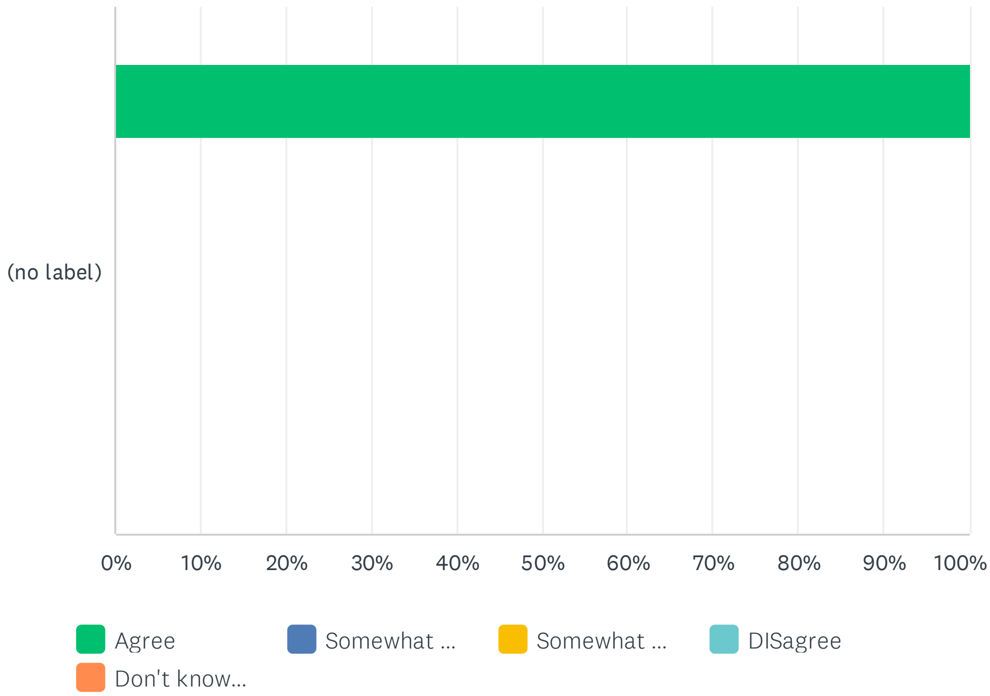
Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	70.00% 7	30.00% 3	0.00% 0	0.00% 0	0.00% 0	10	4.70

Q11 The consultant keeps the Board informed of events affecting SJCERA's investments.

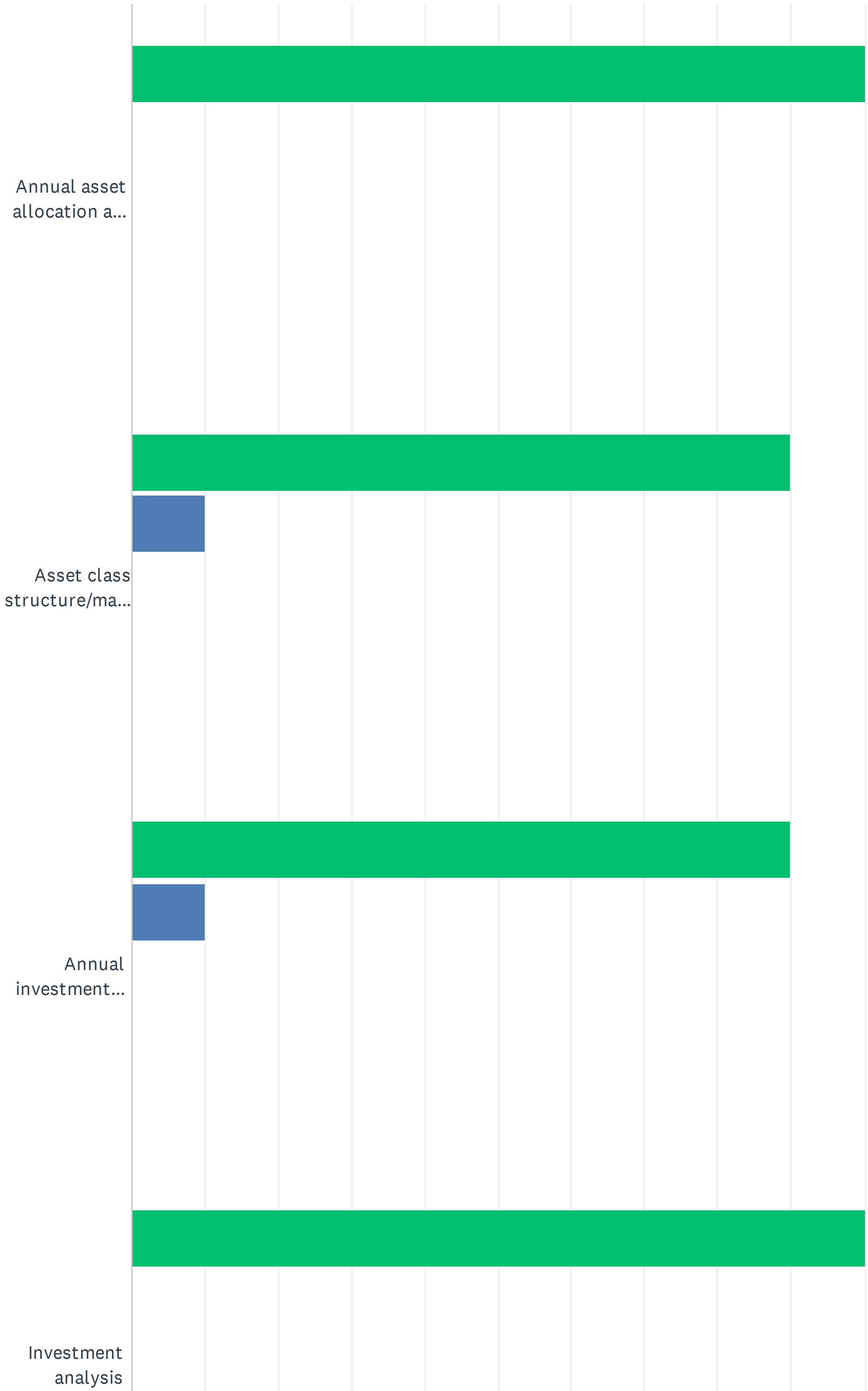
Answered: 10 Skipped: 0

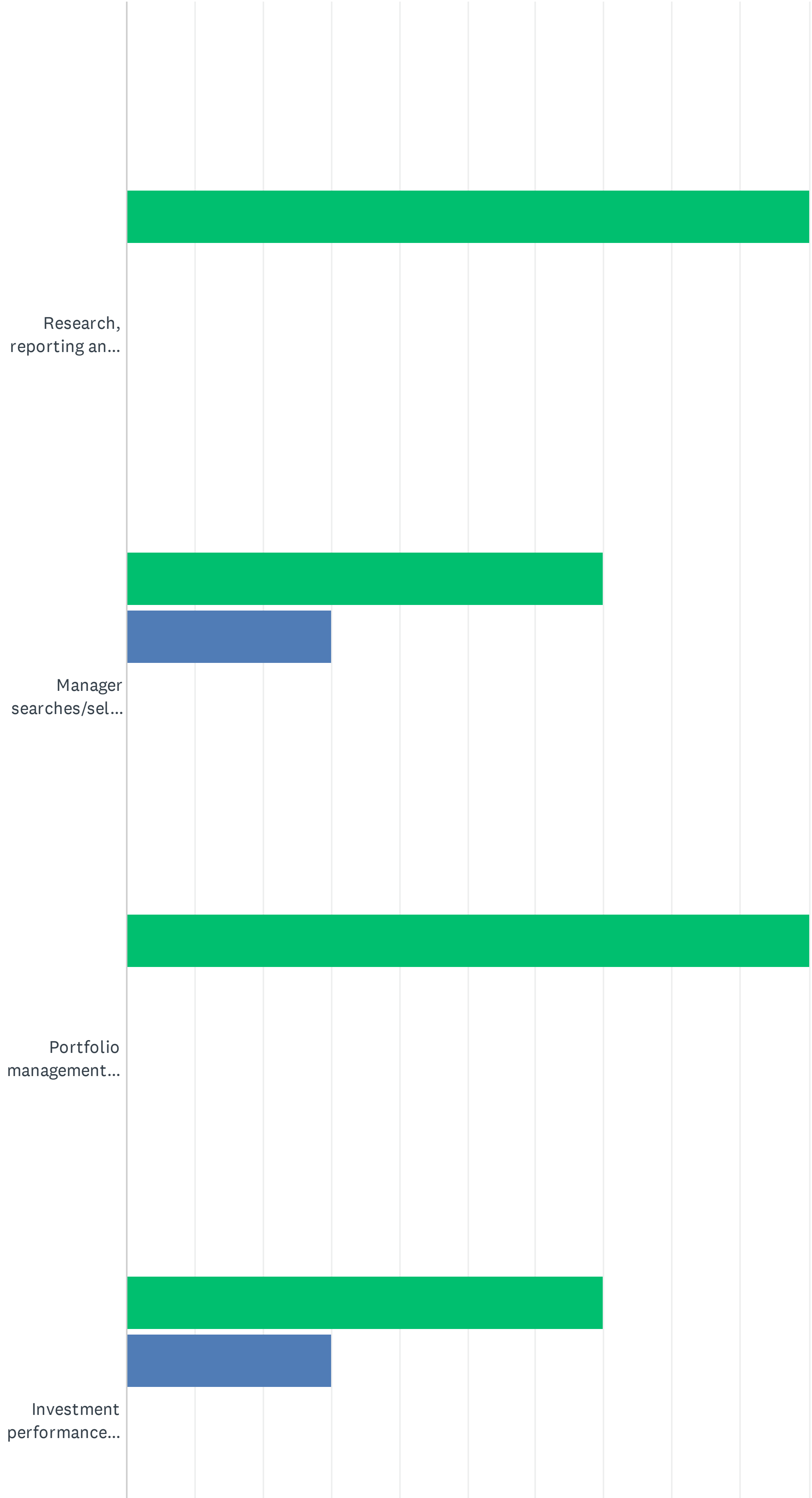


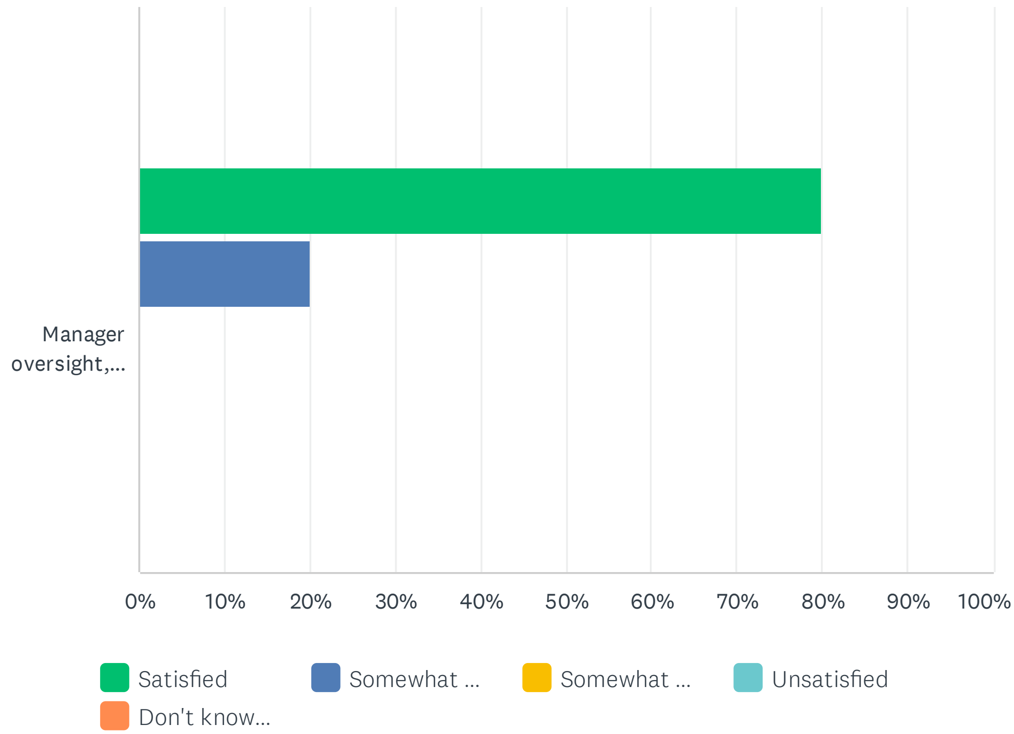
	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	100.00% 10	0.00% 0	0.00% 0	0.00% 0	0.00% 0	10	5.00

Q12 Please rate your satisfaction with the following contractually required services.

Answered: 10 Skipped: 0



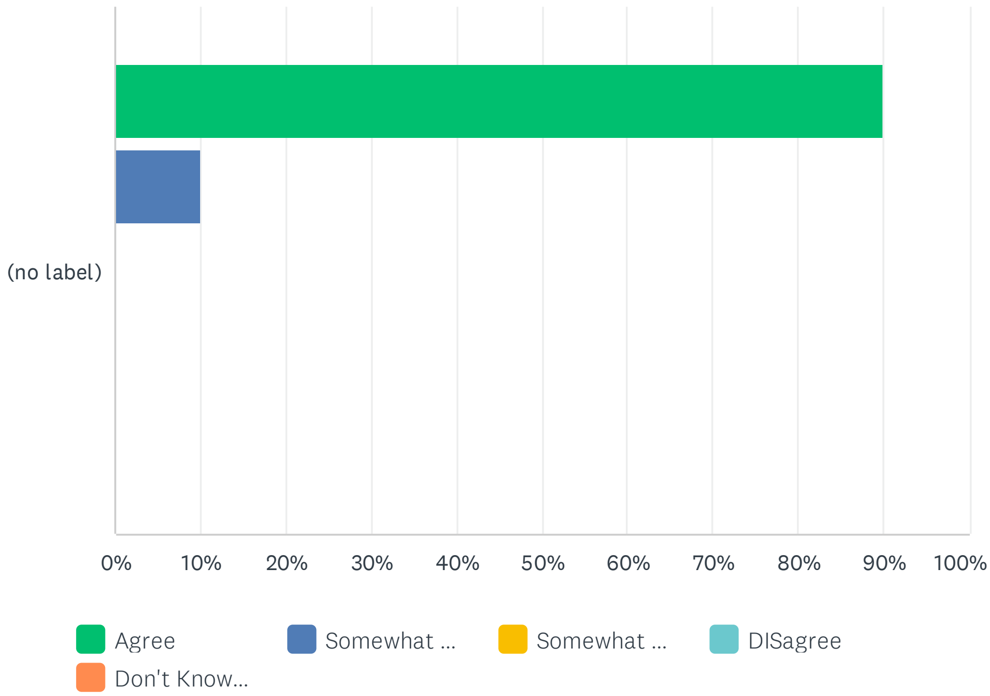

Research, reporting an...
Manager searches/sel...
Portfolio management...
Investment performance...



	SATISFIED	SOMEWHAT SATISFIED	SOMEWHAT UNSATISFIED	UNSATISFIED	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
Annual asset allocation and liability management review	100.00% 10	0.00% 0	0.00% 0	0.00% 0	0.00% 0	10	5.00
Asset class structure/manager structure	90.00% 9	10.00% 1	0.00% 0	0.00% 0	0.00% 0	10	4.90
Annual investment strategic planning and policy review	90.00% 9	10.00% 1	0.00% 0	0.00% 0	0.00% 0	10	4.90
Investment analysis	100.00% 10	0.00% 0	0.00% 0	0.00% 0	0.00% 0	10	5.00
Research, reporting and due diligence	100.00% 10	0.00% 0	0.00% 0	0.00% 0	0.00% 0	10	5.00
Manager searches/selection	70.00% 7	30.00% 3	0.00% 0	0.00% 0	0.00% 0	10	4.70
Portfolio management review	100.00% 9	0.00% 0	0.00% 0	0.00% 0	0.00% 0	9	5.00
Investment performance measurement	70.00% 7	30.00% 3	0.00% 0	0.00% 0	0.00% 0	10	4.70
Manager oversight, monitoring and reconciliations with managers and custodian	80.00% 8	20.00% 2	0.00% 0	0.00% 0	0.00% 0	10	4.80

Q13 I have confidence in the firm for which our Investment Consultant works.

Answered: 10 Skipped: 0



	AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	DISAGREE	DON'T KNOW/NO OPINION	TOTAL	WEIGHTED AVERAGE
(no label)	90.00% 9	10.00% 1	0.00% 0	0.00% 0	0.00% 0	10	4.90

Q14 The investment issues or areas of concern I would like the consultant to address in the next twelve months are:(Identify your top 3 issues/concerns)

Answered: 6 Skipped: 4

ANSWER CHOICES	RESPONSES	
1.	83.33%	5
2.	66.67%	4
3.	50.00%	3
Other Comments:	33.33%	2

#	1.	DATE
1	Inflation/Interest rates	10/23/2023 10:18 AM
2	Strengthen monitoring	10/23/2023 9:29 AM
3	Effect of Interest Rates	10/23/2023 9:21 AM
4	Plan funding in light of inflation	10/18/2023 2:41 PM
5	Inflation	10/17/2023 10:36 AM
#	**2.**	**DATE**
1	World disfunction	10/23/2023 10:18 AM
2	Inflation	10/23/2023 9:21 AM
3	Critically assess and provide a written report (annually?) on whether Private Investments are providing returns that are worth their fees (and related costs--like legal fees for negotiating agreement)	10/18/2023 2:41 PM
4	Private Asset allocation	10/17/2023 10:36 AM
#	**3.**	**DATE**
1	Downside protection	10/23/2023 9:21 AM
2	Efficiently close out legacy managers--seriously evaluate/document secondary market or other opportunities	10/18/2023 2:41 PM
3	simpler portfolio	10/17/2023 10:36 AM
#	**OTHER COMMENTS:**	**DATE**
1	See above	10/23/2023 11:51 AM
2	4. Assess risk parity--does it still make sense or should that be reallocated?	10/18/2023 2:41 PM

Q15 What would you like the Investment Consultant to do differently?

Answered: 1 Skipped: 9

#	RESPONSES	DATE
1	Risk parity needs to go	10/23/2023 11:51 AM

Q16 Other Remarks

Answered: 5 Skipped: 5

#	RESPONSES	DATE
1	Do more with fixed income	10/23/2023 11:51 AM
2	My future is in the hands of the people on this Board, staff and the Consultant firm, I have faith they all act in my best interest. For that I am thankful.	10/23/2023 9:41 AM
3	Luv their show with David as it's ringleaders ;-) thnx	10/23/2023 9:29 AM
4	I cannot think of any at the moment.	10/20/2023 11:56 AM
5	There was an issue this year with reconciliation between one manager's reports and those with the custodial bank and SJCERA. This has been resolved now, but my impression is all parties should have noticed and resolved this sooner.	10/18/2023 2:41 PM

Board of Retirement Meeting
San Joaquin County Employees' Retirement Association

Agenda Item 9.0

November 3, 2023

SUBJECT: Direction to the Board's SACRS Voting Delegate for the Business Meeting of November 10, 2023

SUBMITTED FOR: ___ CONSENT _X__ ACTION ___ INFORMATION

RECOMMENDATION

Staff recommends the Board direct SJCERA's Voting Delegate to approve the following action item on the SACRS' Business Meeting Agenda for November 10, 2023:

Agenda Item 5.B: SACRS Legislative Committee Update: 2024 Legislative Proposals

PURPOSE

For the Board to provide direction to its SACRS Voting Delegate regarding the items presented for action at the SACRS Business Meeting to be held on Friday, November 10, 2023.

DISCUSSION

This memo and attached materials are provided to enable the Board to provide voting instructions to its Voting Delegate in preparation for the November 10, 2023, meeting. The November 3, 2023, SJCERA Board of Retirement meeting is the only meeting at which the Board can provide such direction prior to the SACRS Business Meeting.

SACRS 2024 Sponsored Legislation

The SACRS-sponsored legislative proposals for 2024 contemplate amendments to various sections of the County Employees' Retirement Law of 1937 (CERL) and are provided for your review. Staff has reviewed the items and does not object to the proposed changes; however, it should be noted that implementation will most likely require changes to the pension administration system, communications, and procedures. While legislated changes to requirements are not ideal during a system implementation project, they are common, and the vendor will need to make these same changes for all their CERL clients.

Unless the Board Trustees or staff raises questions or concerns about the proposals, the Board would generally recommend the Voting Delegate vote to accept/approve the proposed sponsored legislation. If the Board has any questions or concerns about the legislative proposals, please raise them at the November 3, 2023, Board meeting so the Voting Delegate can raise those issues during discussion at the SACRS business meeting.

ATTACHMENT

SACRS Business Meeting Packet – November 10, 2023

JShick

JOHANNA SHICK
Chief Executive Officer

SACRS
Fall Conference
Annual Business Meeting 2023

Friday, November 10, 2023
10:15 am – 11:30 am

Omni Rancho Las Palmas Resort & Spa
Rancho Mirage, CA
Las Palmas Ballroom

Vision, Mission, Core Values
The members and staff of the State Association of County Retirement Systems (SACRS) share a common purpose, mission and core values.

Statement of Purpose
The specific and primary purposes of SACRS are to provide forums for disseminating knowledge of and developing expertise in the operation of 20 county retirement systems existing under the County Employees Retirement Law of 1937 (CERL) sets forth in California Government Code section 31450 et. seq., and to foster and take an active role in the legislative process as it affects county retirement systems.

Mission Statement
The mission of this organization shall be to serve the 1937 Act Retirement Systems by exchanging information, providing education and analyzing legislation.

Core Values
Teamwork

Integrity

Education

Service and Support

SACRS Business Meeting Agenda
Friday, November 10, 2023
10:15 AM – 11:30 AM
Omni Rancho Las Palmas Resort & Spa
Rancho Mirage, CA
Las Palmas Ballroom

SACRS Parliamentarian – David Lantzer, San Bernardino CERA
Sergeant at Arms – Brian Williams, Sonoma CERA

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1. SACRS System Roll Call
Zandra Cholmondeley, Santa Barbara CERS, SACRS Secretary

2. Secretary's Report - Receive and File
Zandra Cholmondeley, Santa Barbara CERS, SACRS Secretary

A. Spring 2023 SACRS Business Meeting Minutes

3. Treasurer's Report - Receive and File
Jordan Kaufman, Kern CERA, SACRS Treasurer

A. July – August 2023 Financials

4. SACRS President Report - No Action
David MacDonald, Contra Costa CERA, SACRS President

A. SACRS President Update. Verbal report, no printed materials for this item.

5. SACRS Legislative Committee Update – Action Item
Eric Stern, Sacramento CERS and Dave Nelsen, Alameda CERA – SACRS Legislative Committee Co-Chairs

A. 2023 Legislative Report – **No Action**
B. 2024 Legislative Proposals – **Action Item**

6. SACRS Nomination Committee – No Action
Vivian Gray, Los Angeles CERA, SACRS Nomination Committee Chair

A. SACRS Election Notice 2024-2025

7. SACRS Audit Report – No Action
Steve Delaney, Orange CERS, SACRS Audit Committee Chair

A. Audit Committee report. Verbal report, no printed materials for this item.

8. SACRS Education Committee Report – No Action
JJ Popowich, Los Angeles CERA, SACRS Education Committee Chair

A. SACRS Annual Fall Conference 2023 report. Verbal update, no printed materials for this item.

9. SACRS Program Committee Report – No Action
Adele Tagaloa, Orange CERS, SACRS Program Committee Chair

A. Program Committee report. Verbal update, no printed materials for this item.

10. SACRS Affiliate Committee Report – No Action
Joanne Svensgaard, SACRS Affiliate Committee Chair

A. Affiliate Committee report. Verbal update, no printed materials for this item.

11. SACRS Bylaws Committee Report – No Action
Barbara Hannah, San Bernardino CERA, SACRS Bylaws Committee Chair

A. Bylaws Committee report. Verbal update, no printed materials for this item.

12. SACRS Fall Conference Breakout Reports – No Action
A representative from each breakout will give a verbal report on their meetings. No printed materials for this item.

A. Administrators
B. Counsel
C. Disability/ Operations & Benefits Combo
D. Internal Auditors
E. Investment Officers
F. Safety Trustees
G. General Trustees

13. Adjournment
Next scheduled SACRS Business Meeting will be held Friday, May 10, 2023, at the Hilton Santa Barbara Beachfront Resort, Santa Barbara, CA.

1. Roll Call
Zandra Cholmondeley, Santa Barbara CERS, SACRS Secretary

Roll Call of the 20 SACRS Retirement Systems
Please state your system name, your name and if you are the voting delegate or alternate delegate.

1. SACRS System Roll Call
Zandra Cholmondeley, Santa Barbara CERS, SACRS Secretary

System	**Delegate Name**	**Alternate Delegate Name**	**Absent**
Alameda			
Contra Costa			
Fresno			
Imperial			
Kern			
Los Angeles			
Marin			
Mendocino			
Merced			
Orange			
Sacramento			
San Bernardino			
San Diego			
San Joaquin			
San Mateo			
Santa Barbara			
Sonoma			
Stanislaus			
Tulare			
Ventura			
Total			

2. Secretary's Report - Receive and File
Zandra Cholmondeley, Santa Barbara CERS, SACRS Secretary

A. Spring 2023 SACRS Business Meeting Minutes

SACRS Business Meeting Minutes

Friday, May 12, 2023
10:15 am – 11:30 am Paradise Point Resort & Spa
San Diego, CA
Sunset I-III Ballroom

SACRS Parliamentarian – David Lantzer, San Bernardino CERA
Sergeant at Arms – Brian Williams, Sonoma CERA

1. SACRS System Roll Call
Adele Tagaloa, Orange CERS, SACRS Secretary

Systems Present: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara
Sonoma, Stanislaus, Tulare, Ventura
Systems Absent: Mendocino, Merced

2. Secretary's Report - Receive and File – Action Item
Adele Tagaloa, Orange CERS, SACRS Secretary

A. November 2022 SACRS Business Meeting Minutes

Motion: A motion to approve the November 2022 SACRS Business Meeting Minutes was made by San Diego.
2nd: Fresno
Yes: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara
Sonoma, Stanislaus, Tulare, Ventura
No: 0
Absent: Mendocino, Merced
Motion passes 18-0-2

3. Treasurer's Report - Receive and File – Action Item
Jordan Kaufman, Kern CERA, SACRS Treasurer

A. July 2022 – February 2023 Financials

Discussion: Jordan Kaufman presented the July 2022- February 2023 financials. He noted that the Balance sheet was not included in the packet but was emailed to membership. The delegation discussed the finances, and status of reserves.
No motion was made, the President asked to receive and file. All presents said Yes/Aye to approve.

4. SACRS President Report - No Action
Vivian Gray, Los Angeles CERA, SACRS President

A. SACRS President Update

Discussion: Vivian thanked the members of the Board for their time and dedication served, she appreciated all the kind sentiment she received during the week while she's been President. Was an honor to serve SACRS and encouraged the membership to get involved and let her know if they are interested in serving on a committee.

5. SACRS Legislative Committee Update – No Action
Eric Stern, Sacramento CERS and Dave Nelsen, Alameda CERA – SACRS Legislative Committee Co-Chairs

A. 2023 Legislative Report

Discussion: Eric Stern gave an overview of the written report in the packet. He also gave a brief update on legislative suggestions for the 2024 legislative calendar. See packet for full review of bills watched and status in committees.

6. SACRS Nomination Committee - 2023-2024 SACRS Board of Directors Elections –
Action
Dan McAllister, San Diego CERA, SACRS Nomination Committee Chair

A. SACRS Board of Directors Elections 2023-2024

Discussion: Dan McAllister discussed the process of the elections, noting that there would be a vacancy on the Board after the vote took place. The withdrawal of a candidate after the deadline to submit a nomination has passed. The Bylaws do not have a provision for nominations after the deadline, nor do they offer nominations from the floor. Therefore, the Board will be appointing a qualified candidate to the position of "General member" at their first meeting in June. Harry Hatch noted that Vere Williams retirement from the San Bernardino CERA Board was unfortunate and wished Vere well and thanked him for his service on the SBCERA Board and SACRS Board. Several Trustees submitted their name for consideration for the vacant position. The Nomination Committee reviewed all options, and unanimously recommended to the SACRS Board of Directors that Brian Williams, Sonoma CERA, would be the best candidate to fill the position. Marin CERA submitted a letter of recommendation that the SACRS Board consider appointing a Trustee from Northern California for a balanced representation of the North/Central/South make-up of the Board.

Motion: A motion to approve the recommended 2023-2024 SACRS Biard of Directors slate was made by San Diego.

- President: David MacDonald, Contra Costa CERA
- Vice President: Adele Tagaloa, Orange CERS
- Treasurer: Jordan Kaufman, Kern CERA
- Secretary: Zandra Cholmondeley, Santa Barbara CERS
- General Member: David Gilmore, San Diego CERA
- General Member: Vacant

2nd: San Bernardino
Yes: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin
Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara
Sonoma, Stanislaus, Tulare, Ventura
No: 0
Absent: Mendocino, Merced
Motion passes 18-0-2

7. SACRS Audit Report – Action
Steve Delaney, Orange CERS, SACRS Audit Committee Chair

A. SACRS 2021-2022 Annual Audit

Discussion: Steve Delaney presented the SACRS 2021-2022 Annual Audit performed by outside auditors James Marta & Co. The financial received a clean audit and no negative findings. Steve thanked the committee members for their time and participation reviewing drafts and meetings with the auditors.
Motion: A motion to approve the SACRS 2021-2022 Audit was made by Sacramento.
2nd: Contra Costa
Yes: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin
Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara
Sonoma, Stanislaus, Tulare, Ventura
No: 0
Absent: Mendocino, Merced
Motion passes 18-0-2

8. SACRS Education Committee Report – No Action
JJ Popowich, Los Angeles CERA, SACRS Education Committee Chair

A. SACRS Annual Spring 2023 Conference Evaluations/Feedback

No report.

9. SACRS Program Committee Report – No Action
David MacDonald, Contra Costa CERA, SACRS Program Committee Chair

A. SACRS Annual Spring 2023 Conference Report

Discussion: David MacDonald thanked everyone for attending the conference, he also showed his appreciation to the program committee members for their hard work and dedication. The agenda was well received, and the committee has started planning the Fall Conference.

10. SACRS Affiliate Committee Report – No Action
Joanne Svendsgaard, Millennium, SACRS Affiliate Committee Chair

A. Affiliate Committee Update

Discussion: Joanne Svendsgaard gave a verbal update on the Affiliate Committee breakout. The session was well attended, and they received many comments of appreciation for the topic.
The committee is working on the election process for the committee to coincide with the SACRS Board of Directors elections. More information will follow later in the year.

11. SACRS Bylaws Committee Report – No Action
Barbara Hannah, San Bernardino CERA, SACRS Bylaws Committee Chair

A. Bylaws Committee Update

No report

12. SACRS Spring Conference Breakout Reports – No Action
A representative from each breakout will give a report on their breakouts from Wednesday, May 10th.

A. Administrator Breakout – Eric Stern, Sacramento CERS will moderate the Fall breakout.

B. Affiliate Breakout – See committee report.

C. Attorney Breakout – Aaron Zaheen, Tulare CERA, will moderates the Fall breakout.

D. Disability/Operations & Benefits Combo Breakout – no report.

E. Internal Auditors Breakout - no report

F. Investment Officer Breakout – no report

G. Safety Trustee Breakout – Good meeting, participation by several of the Systems. Discussion of volunteers to help monitor reception and meet with the hotels prior to conferences.

H. General Trustee Breakout – Great attendance, the session was well received. The presenter was data driven and had attendees waiting in line after the session was over to ask more questions. Many comments to have him return for a general session. Adele Tagaloa will moderate the Fall breakout.

13. Adjournment
Next scheduled SACRS Business Meeting will be held Friday, November 10, 2023, at the Omni Rancho Las Palmas Resort & Spa in Rancho Mirage, CA.

Meeting Adjourned at 10:59 am

3. Treasurer's Report - Receive and File
Jordan Kaufman, Kern CERA, SACRS Treasurer

A. July – August 2023 Financials

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS
Balance Sheet
As of August 31, 2023

	Aug 31, 23
ASSETS	
Current Assets	
Checking/Savings	
1000 · First Foundation Bank-Checking	207,777.31
1001 · BofA Interest Checking 4389	46,674.72
1002 · First Foundation Bank ICS Acct	57,615.05
Total Checking/Savings	312,067.08
Other Current Assets	
1100 · CalTrust - Medium Term	604,348.65
1107 · CalTrust Liquidity Fund	8,635.95
1110 · CAMP-SACRS Liquidity Fund	508,885.95
Total Other Current Assets	1,121,870.55
Total Current Assets	1,433,937.63
TOTAL ASSETS	**1,433,937.63**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
2201 · First Foundation Master Card	-371.83
Total Credit Cards	-371.83
Total Current Liabilities	-371.83
Total Liabilities	-371.83
Equity	
32000 · Retained Earnings	1,266,654.18
Net Income	167,655.28
Total Equity	1,434,309.46
TOTAL LIABILITIES & EQUITY	**1,433,937.63**

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS
Profit & Loss Budget vs. Actual
July through August 2023

	Jul - Aug 23	Budget	$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
4100 · Membership Dues				
4101 · Affiliates	201,000.00	322,500.00	-121,500.00	62.33%
4102 · Non Profit - Organizations	1,200.00	3,000.00	-1,800.00	40.0%
4103 · Non Profit - Systems	5,400.00	6,500.00	-1,100.00	83.08%
4104 · Systems - Medium	48,000.00	52,000.00	-4,000.00	92.31%
4105 · Systems - Large	30,000.00	42,000.00	-12,000.00	71.43%
Total 4100 · Membership Dues	285,600.00	426,000.00	-140,400.00	67.04%
4200 · Webinar Symposium Registration				
4201 · Affiliates - Early	0.00	0.00	0.00	0.0%
4202 · Affiliates - Regular	0.00	1,250.00	-1,250.00	0.0%
4203 · Affiliates - Late/Onsite	0.00	0.00	0.00	0.0%
4204 · Non Profit	0.00	0.00	0.00	0.0%
4205 · Systems	0.00	1,250.00	-1,250.00	0.0%
4206 · Non-Members	0.00	2,000.00	-2,000.00	0.0%
Total 4200 · Webinar Symposium Registration	0.00	4,500.00	-4,500.00	0.0%
4250 · Product Income				
4251 · CERL	0.00	200.00	-200.00	0.0%
4252 · Roster	0.00	0.00	0.00	0.0%
4253 · Website Advertising	0.00	0.00	0.00	0.0%
4254 · Website Job Board	100.00	0.00	100.00	100.0%
4255 · Magazine Advertising	0.00	0.00	0.00	0.0%
4256 · On Demand Education	0.00	0.00	0.00	0.0%
4257 · Trustee Handbooks	0.00	0.00	0.00	0.0%
4269 · Product Shipping	0.00	0.00	0.00	0.0%
Total 4250 · Product Income	100.00	200.00	-100.00	50.0%
4270 · UC Berkeley Program				
4271 · Registrations	22,500.00	80,000.00	-57,500.00	28.13%
4272 · Sponsorships	25,000.00	40,000.00	-15,000.00	62.5%
4273 · Spouse	0.00	1,000.00	-1,000.00	0.0%
4270 · UC Berkeley Program - Other	0.00			
Total 4270 · UC Berkeley Program	47,500.00	121,000.00	-73,500.00	39.26%
4300 · Fall Conference Registration				
4301 · Affiliates - Early	0.00	0.00	0.00	0.0%
4302 · Affiliates - Regular	77,292.00	271,200.00	-193,908.00	28.5%
4303 · Affiliates - Late/Onsite	0.00	84,480.00	-84,480.00	0.0%
4304 · Non Profit	150.00	1,500.00	-1,350.00	10.0%
4305 · Systems	6,480.00	20,000.00	-13,520.00	32.4%
4306 · Non-Members	70,488.00	224,280.00	-153,792.00	31.43%
4307 · Fun Run	330.00	500.00	-170.00	66.0%
4308 · Yoga	195.00	100.00	95.00	195.0%
4309 · Spouse	800.00	5,000.00	-4,200.00	16.0%
Total 4300 · Fall Conference Registration	155,735.00	607,060.00	-451,325.00	25.65%

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS
Profit & Loss Budget vs. Actual
July through August 2023

	Jul - Aug 23	Budget	$ Over Budget	% of Budget
4350 · Spring Conference Registration				
4351 · Affiliates - Early	1,020.00	0.00	1,020.00	100.0%
4352 · Affiliates - Regular	4,520.00	271,200.00	-266,680.00	1.67%
4353 · Affiliates - Late/Onsite	1,280.00	84,480.00	-83,200.00	1.52%
4354 · Non Profit	240.00	1,500.00	-1,260.00	16.0%
4355 · Systems	1,680.00	20,000.00	-18,320.00	8.4%
4356 · Non-Members	8,010.00	224,280.00	-216,270.00	3.57%
4357 · Fun Run	180.00	500.00	-320.00	36.0%
4358 · Yoga	45.00	100.00	-55.00	45.0%
4359 · Spouse	0.00	5,000.00	-5,000.00	0.0%
Total 4350 · Spring Conference Registration	16,975.00	607,060.00	-590,085.00	2.8%
4900 · Interest Earned	9,262.98	0.00	9,262.98	100.0%
Total Income	515,172.98	1,765,820.00	-1,250,647.02	29.18%
Gross Profit	515,172.98	1,765,820.00	-1,250,647.02	29.18%
Expense				
5000 · Administrative Fee	37,500.00	225,000.00	-187,500.00	16.67%
5001 · Administrative Services	0.00	500.00	-500.00	0.0%
5002 · Awards	-902.56	500.00	-1,402.56	-180.51%
5003 · Bank Charges/Credit Card Fees	4,689.58	36,000.00	-31,310.42	13.03%
5010 · Berkeley & Symposium				
5011 · Audio/Visual	0.00	8,204.00	-8,204.00	0.0%
5012 · Delivery & Shipping	112.55	0.00	112.55	100.0%
5013 · Hotel	0.00	0.00	0.00	0.0%
5014 · Food & Beverage	0.00	12,500.00	-12,500.00	0.0%
5015 · Materials/Printing/Design	1,934.16	1,000.00	934.16	193.42%
5016 · Travel	0.00	1,000.00	-1,000.00	0.0%
5017 · UC Berkeley	240,000.00	240,000.00	0.00	100.0%
Total 5010 · Berkeley & Symposium	242,046.71	262,704.00	-20,657.29	92.14%
5020 · Webinar Symposium				
5021 · Webinar Speaker	0.00	0.00	0.00	0.0%
5022 · Webinar Technology	0.00	25,000.00	-25,000.00	0.0%
5023 · Webinar Misc	0.00	0.00	0.00	0.0%
Total 5020 · Webinar Symposium	0.00	25,000.00	-25,000.00	0.0%
5030 · CERL				
5031 · Materials/Printing/Design	0.00	16,500.00	-16,500.00	0.0%
5032 · Shipping	0.00	1,300.00	-1,300.00	0.0%
Total 5030 · CERL	0.00	17,800.00	-17,800.00	0.0%
5039 · Charitable Contributions	0.00	0.00	0.00	0.0%
5040 · Commissions & Fees	25.00	15,000.00	-14,975.00	0.17%
5041 · Consulting	4,582.00	21,192.00	-16,610.00	21.62%
5042 · Dues & Subscriptions	0.00	3,700.00	-3,700.00	0.0%
5050 · Fall Conference				
5051 · Audio/Visual	0.00	103,000.00	-103,000.00	0.0%
5052 · Delivery & Shipping	0.00	2,500.00	-2,500.00	0.0%

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS
Profit & Loss Budget vs. Actual
July through August 2023

	Jul - Aug 23	Budget	$ Over Budget	% of Budget
5053 · Entertainment	0.00	6,500.00	-6,500.00	0.0%
5054 · Hotel				
5054.1 · Wednesday Night Event	0.00	82,500.00	-82,500.00	0.0%
5054.2 · Conference	0.00	35,000.00	-35,000.00	0.0%
5054.3 · Food & Beverage	0.00	275,000.00	-275,000.00	0.0%
Total 5054 · Hotel	0.00	392,500.00	-392,500.00	0.0%
5055 · Program Material	0.00	25,000.00	-25,000.00	0.0%
5056 · Speakers	0.00	50,000.00	-50,000.00	0.0%
5057 · Supplies	0.00	500.00	-500.00	0.0%
5058 · Travel	0.00	15,000.00	-15,000.00	0.0%
Total 5050 · Fall Conference	0.00	595,000.00	-595,000.00	0.0%
5070 · Insurance	35.00	5,000.00	-4,965.00	0.7%
5071 · Legal & Professional Fees	0.00	25,000.00	-25,000.00	0.0%
5072 · Legislative Advocacy	10,468.00	62,808.00	-52,340.00	16.67%
5080 · Magazine				
5081 · Delivery & Shipping	0.00	600.00	-600.00	0.0%
5082 · Design/Printing/Etc.	0.00	15,000.00	-15,000.00	0.0%
5083 · Magazine - Other	0.00	8,000.00	-8,000.00	0.0%
5080 · Magazine - Other	0.00	0.00	0.00	0.0%
Total 5080 · Magazine	0.00	23,600.00	-23,600.00	0.0%
6000 · Board & Committees				
6001 · Board of Directors				
6001.1 · Food & Beverage	25,654.92	25,000.00	654.92	102.62%
6001.2 · Printing/Supplies	885.23	0.00	885.23	100.0%
6001.3 · Travel - BOD Meetings	2,451.35	10,000.00	-7,548.65	24.51%
6001.4 · Travel - Miscellaneous BOD	0.00	10,000.00	-10,000.00	0.0%
6001.5 · Board Of Directors - Other	0.00	10,000.00	-10,000.00	0.0%
6001 · Board of Directors - Other	5,000.00			
Total 6001 · Board of Directors	33,991.50	55,000.00	-21,008.50	61.8%
6002 · Legislative Committee Meetings	0.00	0.00	0.00	0.0%
6003 · Program Committee Meetings	0.00	0.00	0.00	0.0%
6004 · Nominating Committee Meetings	0.00	0.00	0.00	0.0%
6005 · Audit Committee Meetings	0.00	0.00	0.00	0.0%
6006 · Education Committee Meetings	0.00	0.00	0.00	0.0%
6007 · ByLaws Committee Meetings	0.00	0.00	0.00	0.0%
Total 6000 · Board & Committees	33,991.50	55,000.00	-21,008.50	61.8%
6010 · Office Expenses / Supplies	641.24	2,500.00	-1,858.76	25.65%
6011 · Postage & Delivery	604.37	8,500.00	-7,895.63	7.11%
6020 · Spring Conference				
6021 · Audio/Visual	0.00	103,000.00	-103,000.00	0.0%
6022 · Delivery & Shipping	0.00	2,500.00	-2,500.00	0.0%
6023 · Entertainment	0.00	6,500.00	-6,500.00	0.0%
6024 · Hotel				
6024.1 · Wednesday Night Event	0.00	82,500.00	-82,500.00	0.0%

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS
Profit & Loss Budget vs. Actual
July through August 2023

	Jul - Aug 23	Budget	$ Over Budget	% of Budget
6024.2 · Conference	1,835.86	0.00	1,835.86	100.0%
6024.3 · Food & Beverage	0.00	275,000.00	-275,000.00	0.0%
Total 6024 · Hotel	1,835.86	357,500.00	-355,664.14	0.51%
6025 · Program Material	-808.07	25,000.00	-25,808.07	-3.23%
6026 · Speakers	0.00	50,000.00	-50,000.00	0.0%
6027 · Supplies	0.00	1,000.00	-1,000.00	0.0%
6028 · Travel	0.00	15,000.00	-15,000.00	0.0%
Total 6020 · Spring Conference	1,027.79	560,500.00	-559,472.21	0.18%
6050 · Strategic Facilitator	0.00	0.00	0.00	0.0%
6051 · Taxes & Licenses	0.00	600.00	-600.00	0.0%
6053 · Technology/AMS/Website	12,809.07	42,000.00	-29,190.93	30.5%
6054 · Travel	0.00	2,000.00	-2,000.00	0.0%
Total Expense	347,517.70	1,989,904.00	-1,642,386.30	17.46%
Net Ordinary Income	167,655.28	-224,084.00	391,739.28	-74.82%
Net Income	**167,655.28**	**-224,084.00**	**391,739.28**	**-74.82%**

12:07 AM
10/04/23
Cash Basis

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS
Profit & Loss by Class
July through August 2023

	PAST	GENERAL	Future	TOTAL
Ordinary Income/Expense				
Income				
4100 · Membership Dues				
4101 · Affiliates	0.00	201,000.00	0.00	201,000.00
4102 · Non Profit - Organizations	0.00	1,200.00	0.00	1,200.00
4103 · Non Profit - Systems	0.00	5,400.00	0.00	5,400.00
4104 · Systems - Medium	0.00	48,000.00	0.00	48,000.00
4105 · Systems - Large	0.00	30,000.00	0.00	30,000.00
Total 4100 · Membership Dues	0.00	285,600.00	0.00	285,600.00
4250 · Product Income				
4254 · Website Job Board	0.00	100.00	0.00	100.00
Total 4250 · Product Income	0.00	100.00	0.00	100.00
4270 · UC Berkeley Program				
4271 · Registrations	0.00	22,500.00	0.00	22,500.00
4272 · Sponsorships	0.00	25,000.00	0.00	25,000.00
4270 · UC Berkeley Program - Other	0.00	0.00	0.00	0.00
Total 4270 · UC Berkeley Program	0.00	47,500.00	0.00	47,500.00
4300 · Fall Conference Registration				
4302 · Affiliates - Regular	0.00	77,292.00	0.00	77,292.00
4304 · Non Profit	0.00	150.00	0.00	150.00
4305 · Systems	0.00	6,480.00	0.00	6,480.00
4306 · Non-Members	0.00	70,488.00	0.00	70,488.00
4307 · Fun Run	0.00	330.00	0.00	330.00
4308 · Yoga	0.00	195.00	0.00	195.00
4309 · Spouse	0.00	800.00	0.00	800.00
Total 4300 · Fall Conference Registration	0.00	155,735.00	0.00	155,735.00
4350 · Spring Conference Registration				
4351 · Affiliates - Early	1,020.00	0.00	0.00	1,020.00
4352 · Affiliates - Regular	4,520.00	0.00	0.00	4,520.00
4353 · Affiliates - Late/Onsite	1,280.00	0.00	0.00	1,280.00
4354 · Non Profit	240.00	0.00	0.00	240.00
4355 · Systems	1,680.00	0.00	0.00	1,680.00
4356 · Non-Members	8,010.00	0.00	0.00	8,010.00
4357 · Fun Run	180.00	0.00	0.00	180.00
4358 · Yoga	45.00	0.00	0.00	45.00
Total 4350 · Spring Conference Registration	16,975.00	0.00	0.00	16,975.00
4900 · Interest Earned	0.00	9,262.98	0.00	9,262.98
Total Income	16,975.00	498,197.98	0.00	515,172.98
Gross Profit	16,975.00	498,197.98	0.00	515,172.98
Expense				
5000 · Administrative Fee	0.00	37,500.00	0.00	37,500.00
5002 · Awards	0.00	-902.56	0.00	-902.56
5003 · Bank Charges/Credit Card Fees	0.00	4,689.58	0.00	4,689.58
5010 · Berkeley & Symposium				
5012 · Delivery & Shipping	0.00	112.55	0.00	112.55

12:07 AM
10/04/23
Cash Basis

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

Profit & Loss by Class

July through August 2023

	PAST	GENERAL	Future	TOTAL
5015 · Materials/Printing/Design	0.00	1,934.16	0.00	1,934.16
5017 · UC Berkeley	0.00	240,000.00	0.00	240,000.00
Total 5010 · Berkeley & Symposium	0.00	242,046.71	0.00	242,046.71
5040 · Commissions & Fees	0.00	25.00	0.00	25.00
5041 · Consulting	0.00	4,582.00	0.00	4,582.00
5070 · Insurance	0.00	35.00	0.00	35.00
5072 · Legislative Advocacy	0.00	10,468.00	0.00	10,468.00
6000 · Board & Committees				
6001 · Board of Directors				
6001.1 · Food & Beverage	0.00	25,654.92	0.00	25,654.92
6001.2 · Printing/Supplies	0.00	885.23	0.00	885.23
6001.3 · Travel - BOD Meetings	0.00	2,451.35	0.00	2,451.35
6001 · Board of Directors - Other	0.00	5,000.00	0.00	5,000.00
Total 6001 · Board of Directors	0.00	33,991.50	0.00	33,991.50
Total 6000 · Board & Committees	0.00	33,991.50	0.00	33,991.50
6010 · Office Expenses / Supplies	0.00	641.24	0.00	641.24
6011 · Postage & Delivery	0.00	604.37	0.00	604.37
6020 · Spring Conference				
6024 · Hotel				
6024.2 · Conference	0.00	1,835.86	0.00	1,835.86
Total 6024 · Hotel	0.00	1,835.86	0.00	1,835.86
6025 · Program Material	0.00	-808.07	0.00	-808.07
Total 6020 · Spring Conference	0.00	1,027.79	0.00	1,027.79
6053 · Technology/AMS/Website	0.00	12,809.07	0.00	12,809.07
6054 · Travel	0.00	0.00	0.00	0.00
Total Expense	0.00	347,517.70	0.00	347,517.70
Net Ordinary Income	16,975.00	150,680.28	0.00	167,655.28
Net Income	**16,975.00**	**150,680.28**	**0.00**	**167,655.28**

4. SACRS President Report - No Action
David MacDonald, Contra Costa CERA, SACRS President

A. SACRS President Update. Verbal report, no printed materials for this item.

5. SACRS Legislative Committee Update – Action
Eric Stern, Sacramento CERS and Dave Nelsen, Alameda CERA – SACRS Legislative Committee Co-Chairs

A. 2023 Legislative Report – No Action
B. 2024 Legislative Proposals – Action Item

Edelstein Gilbert Robson & Smith LLC

Donald B. Gilbert Michael R. Robson Trent E. Smith Jason D. Ikerd Associate

October 5, 2023

TO: State Association of County Retirement Systems

FROM: Edelstein Gilbert Robson & Smith, LLC

RE: Legislative Update – October 2023

The California Legislature closed out its work for the 2023 legislative session on the evening of September 14th, sending approximately 900 bills to the Governor for consideration. The Governor has until October 14th to act on those measures.

While there were several areas of public policymaking that captured the Legislature's attention this year, labor and employment policy primarily dominated the legislative landscape. This was driven by ongoing strikes affecting the entertainment and Southern California lodging industries. Additionally, threatened strikes by healthcare workers, state and local public employee unions, UPS, pending statewide ballot measures, and a referendum to overturn a recently enacted restaurant wage law, the media deemed summer 2023 to be California's "Hot Labor Summer".

The Democrat dominated and labor-friendly Legislature responded with dozens of legislative proposals aimed at assisting its most important constituency: organized labor. With overwhelming 3/4 supermajorities in each house of the Legislature, labor-backed, Democrat-authored labor bills are almost certain to pass. Among the many labor-backed bills that the Governor has acted on are:

> SB 799 (Portantino) Unemployment Insurance for Striking Workers -- VETOED
> This bill would have made striking workers who have been on strike for more than two weeks eligible for unemployment insurance benefits.
>
> SB 616 (Gonzalez) – Paid Sick Leave -- SIGNED
> This bill would extend the annual amount of paid sick leave required to be given to an employee from three days to five days.

The Governor has not yet acted on AB 1 which would allow legislative employees to join a union and collectively bargain for their wages and working conditions.

Legislation of Interest

SB 885 (Committee on Labor, Public Employment and Retirement). This is the annual committee omnibus bill that contains various cleanup provisions for CalSTRS, CalPERS and CERL systems. The amendments to the CERL make non-substantive, technical changes as well as conform provisions on Required Minimum Distributions to federal law under the SECURE ACT 2.0 by referencing the federal law instead of a specific age.

1127 11TH Street SUITE 1030 Sacramento, CA 95814 (916) 443-6400 FAX (916) 443-6445
www.egrslobby.com

The Governor signed this bill into law.

AB 1020 (Grayson) – CERL Disability Presumptions. This bill would establish several new disability retirement presumptions for various injuries and illnesses in the CERL, similar to provisions that exist in the Labor Code. The bill is sponsored by the California Professional Firefighters. The author and sponsor agreed to technical clarifications proposed by SACRS that were amended into the bill in June. CSAC remains opposed to the bill.

The bill is on the Governor's desk.

AB 1637 (Irwin) - Local Government Websites and Email Addresses. Would, no later than January 1, 2029, require a local agency, as defined, that maintains an internet website for use by the public to ensure that the internet website utilizes a ".gov" top-level domain or a ".ca.gov" second-level domain and would require a local agency that maintains an internet website that is noncompliant with that requirement to redirect that internet website to a domain name that does utilize a ".gov" or "ca.gov" domain. This bill, no later than January 1, 2029, would also require a local agency that maintains public email addresses to ensure that each email address provided to its employees utilizes a ".gov" domain name or a ".ca.gov" domain name. By adding to the duties of local officials, the bill would impose a state-mandated local program.

The bill is on the Governor's desk.

AB 557 (Hart) - Brown Act Emergency Teleconferencing Sunset Extension. This bill would remove the sunset in current law to allow teleconferencing during certain emergencies as well as increase the time period when the Board must renew the findings of an emergency or need for social distancing from 30 days to 45 days.

The bill is on the Governor's desk.

SB 537 (Becker) - Teleconference Flexibilities. This bill would allow expanded teleconference flexibilities for multijurisdictional, cross county legislative bodies if certain requirements are met, along with adding to the list of circumstances where a member is permitted to participate remotely. The bill has been narrowed considerably as it advanced through various policy committees in each house.

The bill was held on the Assembly Floor and may be considered when the Legislature returns in January.

2024 Legislative Preview

The legislative committee is currently working on proposals for consideration at the fall conference.

September 15, 2023

RE: SACRS Legislative Proposals 2024

Dear SACRS Board of Directors,

The SACRS Legislative Committee has developed a legislative package for consideration in the upcoming 2024 legislative session. These proposals reflect the input of SACRS member systems and are intended to provide technical and administrative clarity to various sections of the County Employees Retirement Law of 1937 (CERL or ’37 Act).

Proposed amendments to the CERL include the following:

- Clarification that a retiree’s pension payment can be deposited in a trust account controlled by that member. This is not intended to change the statutory intent that an ongoing pension payment must be made to a natural person; however, the amendment provides uniformity to an issue that has been interpreted differently across the ’37 Act systems. SACRS’ tax counsel from the Hanson Bridgett law firm has reviewed the language for appropriateness and compliance with federal and California law.

- Authority for a Board of Retirement to make payments to retirees through a prepaid account (like a debit card). This amendment is intended to accommodate retirees who may not have a traditional checking or savings account, leaving the only option to receive regular pension payments through paper check by mail or in-person. The COVID-19 pandemic and past natural disasters have shown that the use of paper checks can be adversely affected in delivering promised benefits. This amendment only authorizes the system to utilize prepaid accounts as a payment method; it does not mandate it.

- Removal of requirement for a certified mail “return receipt” when sending notices to terminated members or beneficiaries that they have contributions or unclaimed benefits remaining with the system. Though IRS regulations require registered or certified mail for locating members and beneficiaries, the “return receipt” language found in the CERL is not an IRS requirement and reflects an outdated practice. Certified mail now allows the sender to electronically track the letter at significant cost savings.

- Direction for retirement systems to take certain actions when retired members exceed the 960-hour post-retirement employment limit. The proposed amendments would require the system to offset the member's retirement allowance by the equivalent excess hours paid above 960 hours to ensure that the retired member is not receiving a pension and a salary outside of the prescribed limit. These amendments do not preclude retirement system from also reinstating the member into active service as the system deems necessary.

We thank the Legislative Committee for reviewing these proposals and engaging in a collaborative, deliberative process to achieve consensus on issues. Though seemingly technical, these amendments represent process improvements that will provide administrative efficiencies to retirement systems and members.

Respectfully,

/s/

David Nelsen and Eric Stern
Co-Chairs, Legislative Committee

ATTACHMENT

- SACRS Draft Language – 2024 CERL Amendments

Government Code Section 31452.6 (Amend)

31452.6. (a)The board shall comply with and give effect to a revocable written authorization signed by a retired member or beneficiary of a retired member entitled to a retirement allowance or benefit under this chapter or the California Public Employees' Pension Reform Act of 2013, authorizing the treasurer or other entity authorized by the board to deliver the monthly warrant, check, or electronic fund transfer, for the retirement allowance or benefit to any specified bank, savings and loan institution, ~~or~~ credit union, or prepaid account to be credited to the account of the retired member or survivor of a deceased retired member. That delivery is full discharge of the liability of the board to pay a monthly retirement allowance or benefit to the retired member or survivor of a deceased retired member.

(b) Any payments directly deposited by electronic fund transfer following the date of death of a person who was entitled to receive a retirement allowance or benefit under this chapter or the California Public Employees' Pension Reform Act of 2013 shall be refunded to the retirement system.

(c) In order to obtain information from a financial institution following the death of a retired member or the beneficiary of a retired member, as provided in subdivision (o) of Section 7480, the board may certify in writing to the financial institution that the retired member or the beneficiary of a retired member has died and that transfers to the account of the retired member or beneficiary of a retired member at the financial institution from the retirement system occurred after the date of death of the retired member or the beneficiary of a retired member.

(d)(1) For purposes of this section, "the account of the retired member or survivor of a deceased retired member," may include an account held in a living trust or an income only trust (Miller Trust) that is controlled by the retired member or survivor of a deceased retired member or is established for the retired member's (or survivor of a deceased retired member's) benefit in order to qualify for State Medicaid or comparable assistance.

(d)(2) For purposes of this section, the term "prepaid account" shall have the same meaning as defined in, and meet the applicable requirements of, Section 1339.1 of the Unemployment Insurance Code.

Government Code Section 31590 (Amend)

(a) All warrants, checks, and electronic fund transfers drawn on the retirement fund shall be signed or authorized by at least two board officers or employees, designated by the board or by the treasurer if designated by the board. If the treasurer is designated by the board, the board shall also designate the auditor to sign or authorize warrants, checks, and electronic fund transfers. The authorization may be by blanket authorization of all warrants, checks, or electronic fund transfers appearing on a list or register, or may be by a standing order to draw warrants, checks, or electronic fund transfers, which shall be good until revoked. If the treasurer and auditor are designated by the board, a warrant, check, or electronic fund transfer is not valid until it is signed or authorized, numbered, and recorded by the county auditor, except as provided in subdivision (c).

(b)(1) Any person entitled to the receipt of benefits may authorize the payment of the

benefits to be directly deposited by electronic fund transfer into the person's account at the financial institution of the person's choice under a program for direct deposit by electronic transfer established by the board or treasurer if authorized by the board. The direct deposit shall discharge the system's obligation in respect to that payment.
(2) Such person may also authorize the payment of their benefits to be deposited into a prepaid account under a program established by the board or treasurer if authorized by the board. The payment of the benefit into the prepaid account shall discharge the system's obligation in respect to that payment. For purposes of this paragraph, the term "prepaid account" shall have the same meaning as defined in, and meet the applicable requirements of, Section 1339.1 of the Unemployment Insurance Code.
(c) The board may, or, if authorized by the board, the treasurer shall, authorize a trust company or trust department of any state or national bank authorized to conduct the business of a trust company in this state or the Federal Reserve Bank of San Francisco or any branch thereof within this state, to process and issue payments by check or electronic fund transfer.

Government Code Section 31628 (Amend)
If the service of a member is discontinued other than by death or retirement, upon proper application submitted to the retirement board, he or she shall be paid all of his or her accumulated contributions, in accordance with this chapter, minus a withdrawal charge, if a withdrawal charge has been provided for by the regulations of the board. The board may order payment in whole or in part withheld for a period not to exceed six months after date of separation. If a member does not file the proper application, the board shall send to the member, not more than 90 days after termination of service, at his or her last known address, a registered or certified letter~~, return receipt requested,~~ stating that he or she has money to his or her credit on the books of the retirement system and that if he or she does not claim the money within 10 years after date of notice, in the case of persons first employed before January 1, 1976, or within five years in the case of persons first employed on and after January 1, 1976, the money will be deposited in and become a part of the current pension reserve fund.

Government Code Section 31680.2 (Amend)
(a) Any person who has retired may be employed in a position requiring special skills or knowledge, as determined by the county or district employing them, for a period of time not to exceed 90 working days or 720 hours, whichever is greater, in any one fiscal year or any other 12-month period designated by the board of supervisors and may be paid for that employment. That employment shall not operate to reinstate the person as a member of this system or to terminate or suspend their retirement allowance, and no deductions shall be made from their salary as contributions to this system.
(b) (1) This section shall not apply to any retired person who is otherwise eligible for employment under this section if, during the 12-month period prior to an appointment described in this section, that retired person receives unemployment insurance compensation arising out of prior employment subject to this section with the same employer.
(2) A retired person who accepts an appointment after receiving unemployment insurance compensation as described in this subdivision shall terminate that employment on the last day

of the current pay period and shall not be eligible for reappointment subject to this section for a period of 12 months following the last day of employment.
(3) Beginning January 1, 2013, if any provision of this section conflicts with the California Public Employees' Pension Reform Act of 2013, the provisions of that act shall prevail, except that the limit on postretirement employment provided in subdivision (a) to the greater of 90 working days or 720 hours shall remain effective.
(c) Notwithstanding subdivision (a), the retired person's retirement allowance shall be considered an overpayment to the extent it is payable during any period in which the retired person is employed and paid for that employment in excess of 90 working days or 720 hours, whichever is greater, in any one fiscal year or any other 12-month period designated by the board of supervisors. Such overpayment shall be subject to collection by the retirement system. This paragraph does not preclude the retirement system from taking additional action as it deems necessary to reinstate the person as a member of the system or terminate or suspend their retirement allowance.

Government Code Section 31680.3 (Amend)
(a) Notwithstanding Section 31680.2, any member who has been covered under the provisions of Section 31751 and has retired may be reemployed in a position requiring special skills or knowledge, as determined by the county or district employing the member, for a period of time not to exceed 120 working days or 960 hours, whichever is greater, in any one fiscal year and may be paid for that employment. That employment shall not operate to reinstate the person as a member of this system or to terminate or suspend the person's retirement allowance, and no deductions shall be made from the person's salary as contributions to this system.
(b) (1) This section shall not apply to any retired member who is otherwise eligible for reemployment under this section if, during the 12-month period prior to an appointment described in this section, that retired person receives unemployment insurance compensation arising out of prior employment subject to this section with the same employer.
(2) A retired person who accepts an appointment after receiving unemployment insurance compensation as described in this subdivision shall terminate that employment on the last day of the current pay period and shall not be eligible for reappointment subject to this section for a period of 12 months following the last day of employment.
(c) Beginning January 1, 2013, if any provision of this section conflicts with the California Public Employees' Pension Reform Act of 2013, the provisions of that act shall prevail.
(d) Notwithstanding subdivision (a), the retired member's retirement allowance shall be considered an overpayment to the extent it is payable during any period in which the retired member is employed and paid for that employment in excess of 120 working days or 960 hours, whichever is greater, in any one fiscal year. Such overpayment shall be subject to collection by the retirement system. This subdivision does not preclude the retirement system from taking additional action as it deems necessary to reinstate the person as a member of the system or terminate or suspend their retirement allowance.

Government Code Section 31680.6 (Amend)

(a) Notwithstanding Section 31680.2, any county subject to Section 31680.2 may, upon adoption of a resolution by a majority vote by the board of supervisors, extend the period of time provided for in Section 31680.2 for which a person who has retired may be employed in a position requiring special skills or knowledge, as determined by the county or district employing him or her, not to exceed 120 working days or 960 hours, whichever is greater, in any one fiscal year or any other 12-month period designated by the board of supervisors and may be paid for that employment. That employment shall not operate to reinstate the person as a member of this system or to terminate or suspend his or her retirement allowance, and no deductions shall be made from his or her salary as contributions to this system.
(b) (1) This section shall not apply to any retired person who is otherwise eligible for employment under this section if, during the 12-month period prior to an appointment described in this section, that retired person receives unemployment insurance compensation arising out of prior employment subject to this section with the same employer.
(2) A retired person who accepts an appointment after receiving unemployment insurance compensation as described in this subdivision shall terminate that employment on the last day of the current pay period and shall not be eligible for reappointment subject to this section for a period of 12 months following the last day of employment.
(c) Beginning January 1, 2013, if any provision of this section conflicts with the California Public Employees' Pension Reform Act of 2013, the provisions of that act shall prevail.
(d) Notwithstanding subdivision (a), the retired person's retirement allowance shall be considered an overpayment to the extent it is payable during any period in which the retired person is employed and paid for that employment in excess of 120 working days or 960 hours, whichever is greater, in any one fiscal year of any other 12-month period designated by the board of supervisors. Such overpayment shall be subject to collection by the retirement system. This section does not preclude the retirement system from taking additional action as it deems necessary to reinstate the person as a member of the system or terminate or suspend their retirement allowance.

Government Code Section 31680.9 (Add)

A retired member who is employed pursuant to Section 7522.56 shall have their retirement allowance be considered an overpayment to the extent it is payable during any period in which the retired member is employed and paid for that employment in excess of 960 hours or other equivalent limit in a calendar year or fiscal year. Such overpayment shall be subject to collection by the retirement system. This section does not preclude the retirement system from taking additional action as it deems necessary to reinstate the person as a member of the system or terminate or suspend their retirement allowance.

Government Code Section 31783.5 (Amend)

(a) Whenever a person or estate entitled to payment of a member's accumulated contributions or any other benefit fails to claim the payment or cannot be located, the amount owed from the retirement fund shall be administered in accordance with subdivision (c).

(b) The board shall attempt to locate the claimant through such means as the board in its sound discretion deems reasonable including, but not limited to, a registered or certified letter~~, return receipt requested~~, mailed to the last known address of the claimant.
(c) Notwithstanding any provision of law to the contrary, the amounts described in subdivision (a) shall be held for the claimant. If the amounts are not claimed within five years after the last attempted contact with the claimant, the amounts shall be deposited in and become a part of the pension reserve fund. The board may at any time after transfer of unclaimed amounts, upon receipt of information satisfactory to it, authorize the return of amounts so held in reserve to the credit of the claimant. Those amounts shall be paid only to claimants who have not yet attained the age of mandatory distribution under the Internal Revenue Code

6. **SACRS Nomination Committee - 2024-2025 SACRS Board of Directors Elections – No Action**
   Vivian Gray, Los Angeles CERA & SACRS Nomination Committee Chair

   A. SACRS Board of Directors Elections 2024-2025

October 1, 2023

To: SACRS Trustees & SACRS Administrators/CEO’s
From: Vivian Gray, SACRS Immediate Past President, Nominating Committee Chair
SACRS Nominating Committee
Re: SACRS Board of Director Elections 2024-2025 - Elections Notice

SACRS BOD 2024-2025 election process will begin January 1, 2024. Please provide this election notice to your Board of Trustees and Voting Delegates.

DEADLINE	DESCRIPTION
March 1, 2024	Any regular member may submit nominations for the election of a Director to the Nominating Committee, provided the Nominating Committee receives those nominations no later than noon on March 1 of each calendar year regardless of whether March 1 is a Business Day. Each candidate may run for only one office. Write-in candidates for the final ballot, and nominations from the floor on the day of the election, shall not be accepted.
March 25, 2024	The Nominating Committee will report a final ballot to each regular member County Retirement System prior to March 25
May 10, 2024	Nomination Committee to conduct elections during the SACRS Business Meeting at the Spring Conference
May 10, 2024	Board of Directors take office for 1 year

Per SACRS Bylaws, Article VIII, Section 1. Board of Director and Section 2. Elections of Directors:

Section 1. Board of Directors. The Board shall consist of the officers of SACRS as described in Article VI, Section 1, the immediate Past President, and two (2) regular members

> ***A. Immediate Past President.*** *The immediate Past President, while he or she is a regular member of SACRS, shall also be a member of the Board. In the event the immediate Past President is unable to serve on the Board, the most recent Past President who qualifies shall serve as a member of the Board.*
> ***B. Two (2) Regular Members****. Two (2) regular members shall also be members of the Board with full voting rights.*

Section 2. Elections of Directors*. Any regular member may submit nominations for the election of a Director to the Nominating Committee, provided the Nominating Committee receives those nominations no later than noon on March 1 of each calendar year regardless of whether March 1 is a Business Day. Each candidate may run for only one office. Write-in candidates for the final ballot, and nominations from the floor on the day of the election, shall not be accepted.*

The Nominating Committee will report its suggested slate, along with a list of the names of all members who had been nominated, to each regular member County Retirement System prior to March 25.
The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee’s suggested slate to each trustee and placing the election of

SACRS Directors on his or her board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee.

Director elections shall take place during the first regular meeting of each calendar year. The election shall be conducted by an open roll call vote, and shall conform to Article V, Sections 6 and 7 of these Bylaws.

Newly elected Directors shall assume their duties at the conclusion of the meeting at which they are elected, with the exception of the office of Treasurer. The incumbent Treasurer shall co-serve with the newly elected Treasurer through the completion of the current fiscal year.

The elections will be held at the SACRS Spring Conference May 7-10, 2024. Elections will be held during the Annual Business meeting on Friday, May 10, 2024, in Santa Barabara at the Hilton Santa Barbara Beachfront Resort.

If you have any questions, please contact Vivian Gray at vgray@lacera.com.

Thank you for your prompt attention to this timely matter.

Sincerely,

Vivian Gray

Vivian Gray, Trustee, Los Angeles CERA and SACRS Nominating Committee Chair

CC: SACRS Board of Directors
SACRS Nominating Committee Members
Sulema H. Peterson, SACRS Executive Director

SACRS Nomination Submission Form
SACRS Board of Directors Elections 2024-2025

All interested candidates must complete this form and submit along with a letter of intent. **Both the form and the letter of intent must be submitted no later than March 1, 2024.** Please submit to the Nominating Committee Chair at vgray@lacera.com **AND** to SACRS at sulema@sacrs.org. If you have any questions, please feel free to contact Sulema Peterson at SACRS at (916) 701-5158.

Name of Candidate	Name:
Candidate Contact Information (Please include – Phone Number, Email Address and Mailing Address)	Mailing Address: Email Address: Phone:
Name of Retirement System Candidate Currently Serves On	System Name:
List Your Current Position on Retirement Board (Chair, Alternate, Retiree, General Elected, Etc)	○ Chair ○ Alternate ○ **General Elected** ○ Retiree ○ Other ___________
Applying for SACRS Board of Directors Position (select only one)	○ President ○ **Vice President** ○ Treasurer ○ Secretary ○ Regular Member
Brief Bio in Paragraph Format	

7. SACRS Audit Report – Action
Steve Delaney, Orange CERS, SACRS Audit Committee Chair

No report, Audit is currently under review.
No printed materials for this item.

8. SACRS Education Committee Report – No Action
JJ Popowich, Los Angeles CERA, SACRS Education Committee Chair

No report, and no printed materials for this item.

9. SACRS Program Committee Report – No Action
Adele Tagaloa, Orange CERS & SACRS Program Committee Chair

A. SACRS Annual Fall 2023 Conference Report.
   Verbal report, no printed materials for this item.

10. SACRS Affiliate Committee Report – No Action
Joanne Svendsgaard, SACRS Affiliate Committee Chair

A. Affiliate Committee report. Verbal update no printed materials for this item.

11. SACRS Bylaws Committee Report – No Action

Barbara Hannah, San Bernardino CERA, SACRS Bylaws Committee Chair

A. Bylaws Committee report. Verbal report, no printed materials for this item.

12. SACRS Fall Conference Breakout Reports – No Action

A representative from each breakout will give a report on their breakouts on Wednesday, November 8th. Verbal reports, no printed materials for this item.

A. Administrator Breakout
B. Affiliate Breakout
C. Attorney Breakout
D. Disability/Operations & Benefits Combo Breakout
E. Internal Auditors Breakout
F. Investment Officer Breakout
G. Safety Trustee Breakout
H. General Trustee Breakout

13. Adjournment

Next scheduled SACRS Business Meeting will be held Friday, May 10, 2023, at the Hilton Santa Barbara Beachfront Resort, Santa Barbara, CA.

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
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	9 hrs
Dec 5	Dec 6	10th Annual California Institutional Forum	Markets Group	Napa, CA	$0	marketsgroup.org	TBD
Jan 8	Jan 9	Public Funds Summit	Opal Group	Scottsdale, AZ	$0	opalgroup.net	8 hrs
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	10.5*
Jul 14	Jul 17	SACRS/UC Berkeley Program	SACRS	Berkeley, CA	$3000	sacrs.org	24 hrs

** Estimates based on prior agendas*

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

Opal Group

AGENDA

PUBLIC FUNDS Summit

January 8-9, 2024

The Scott Resort & Spa, Scottsdale, AZ

MONDAY **January 8, 2024**

7:45 AM	**Exhibit Set-Up**
8:15 AM	**Registration/Information Desk Opens** All confirmed pre-registered delegates must approach the Registration Desk to check in and pick up conference badges. Business Cards are required to retrieve badges.
8:15 AM - **6:45** PM	**Exhibit Hall / Session Rooms Open**
8:15 AM	**Networking Breakfast**
9:05 AM	**Welcoming Remarks** **PRESENTED BY:**
9:15 AM	**State of the US Retirement System and the Macro Outlook: What Challenges Are Pensions Facing and What Do They Need to Do Moving Forward?** **MODERATOR:** **PANELISTS:**

10:00 AM

Public Equity Markets: Which Equity Strategies Are Most Attractive?

- What is the outlook for the future of equities?
- International vs. domestic equity landscape?
- Where are the (risks and) opportunities over the next 24 months?

MODERATOR:

PANELISTS:

10:50 AM

Private Credit and Direct Lending: A Mature Asset Class for Pensions

- What type of debt/credit is expanding and what type of debt/credit is contracting?
- Inflation Expectations & Real Rate of Return

MODERATOR:

PANELISTS:

11:30 AM

Standalone Presentation

PRESENTED BY:

11:50 AM

Networking Refreshment Break

SPONSORED BY:

12:20 PM

Best Practices for Securities Litigation & Portfolio Monitoring

MODERATOR:

PANELISTS:

1:00 PM

Networking Luncheon

SPONSORED BY:

Thank you to our Sponsors

2:10 PM

Alternative Ideas for Alternative Thinkers: Emerging, Niche, & Non-Correlated Alternative Strategies for Institutional Investors

MODERATOR:

PANELISTS:

3:00 PM

Should Pension Funds Turn To Fixed Income and Longer Duration Investment Grade Bonds?

MODERATOR:

PANELISTS:

3:40 PM

Investing In Private Equity and Venture Capital: Deal Structures + Opportunities

MODERATOR:

PANELISTS:

4:30 PM

LP Roundtable: A Conversation with CEOs, CIOs, Executive Directors & State Treasurers

This panel will consist of investment officers, executive directors, & state treasurers from highly respected institutions. The panelists will discuss the investment strategies and industry sectors that they expect will drive their investments in the years to come, as well as a series of key issues facing plan sponsors in the current investment environment.

- Are you considering changes to your plan's asset allocation?
- If yes, what is driving that decision?
- Highlight your most successful and least successful investment decision.
- Do you use your plan's funded status to make asset allocation changes?
- Discuss how your fund approaches ESG/Sustainability/Diverse manager investing.

MODERATOR:

PANELISTS:

5:30 PM

Networking Cocktail Reception

Join us and unwind with fellow industry professionals for refreshment during our reception

SPONSORED BY:

TUESDAY **January 9, 2024**

8:00 AM

Networking Breakfast & Registration Desk Opens

9:00 AM

Welcoming Remarks

PRESENTED BY:

9:05 AM

Real Estate & Real Asset Investing for the Next Decade

- In looking at the current landscape for Real Estate, what do you see as the greatest opportunity or threat? Where are we in the Real Estate Cycle?
- What are the biggest risks? Interest Rates. Slowing Economy?
- Technology and the commercial real estate landscape
- Is Single Family Housing in a bubble?
- Property Management and Demographics

MODERATOR:

PANELISTS:

9:50 AM

Standalone Presentation

10:10 AM

Learning from Actuaries: Active Engagement with Your Actuary and Pension Plan

MODERATOR:

PANELISTS:

11:00 PM

Portfolio & Investment Risk Management: What Are You Ignoring?

- Overview of the Transformation from an Asset Allocation-Centered Process to a More Comprehensive Risk Allocation-Based Process
- Using technology to monitor your portfolio and manage risk
- Top Risks we should be Most Wary of
- Risk - do you adjust depending on how well funded the plan?
- Drawdown Risk
- Transparency and Liquidity Risk – Basing it on a Cost/Benefit Evaluation
- What's the Best Approach to Liquidity Risk as it applies to Meeting Future Cash Flow Obligations?
- Leverage Risk – what are the Best Approaches to keep these Risks within Acceptable Parameters?

MODERATOR:

PANELISTS:

11:40 PM

ESG-related challenges currently facing institutional investors, and how are they beginning to grapple with them?

- What's the Difference Between ESG, Socially Responsible Investing, (SRI) and Impact Investing?
- Do we have Proof that ESG Integration Adds Value?
- ESG Fund Performance vs. Traditional Funds - Is there Real Money being put to work?
- How do you Approach ESG from a Fiduciary Standpoint and for the Development of your Plan's Investment Beliefs?
- Why are UN Sustainable Development Goals Important? What Ways are you using them to Help Investing in New Opportunities & Identify Areas of Risk?
- How should ESG be best Incorporated into the Investment and Due Diligence Process?

MODERATOR:

PANELISTS:

12:20 PM

Practical Tools to Improve Governance, Fiduciary Responsibility & Avoid Conflicts

MODERATOR:

PANELISTS:

1:00 PM	**Conference Concludes – Social Activity: Golf Outing**
1:25 PM	**Golf Outing – Location: TBA** *Limited Availability & Separate Preregistration Required*

2023 PARTICIPANTS INCLUDE

Pensions / Plan Sponsors / Government / Taft Hartley

Consultants / Actuaries

Managing Director, Verus

Managers / Service Providers

Labaton Sucharow

PAST PARTICIPANTS

Pensions/ Plan Sponsors/Government/Taft Hartley

Executive Director, Park Employees' Annuity and Benefit Fund of Chicago
Chief Investment Officer, Arizona State Retirement System
Executive Director, Wayne County Employees Retirement System
Director, City of Tampa General Employees' Retirement Fund
Trustee & Chairman of Investment Committee, City of Savannah Employee's Retirement Plan
Beneficiary Trustee and Executive Director, The Firefighters Pension Investment Fund / IPFA
Investment Risk & Compliance Officer, Arizona State Retirement System
Assistant City Attorney, City of Phoenix
Director of Retirement, City of Phoenix Employees Retirement System
Manager, Salt River Project
Senior Treasury Analyst, Salt River Project
Chief Financial Officer, Board Member, City of Lincoln Nebraska
Trustee, Tucson Supplemental Retirement System
Trustee, Kansas City Employees Retirement System
Trustee, San Antonio Fire & Police Pension
Trustee, City of Tucson Deferred Compensation Fund
President NYSSCOA, New York State Supreme Court Officers Association

Trustee, San Diego (CA) County Employees' Retirement
Chief Investment Officer, Halifax Port ILA/HEA Pension Plan and Trust Funds
Treasurer - Tax Collector/Plan Trustee, Alameda County Employees' Retirement Association
Chief Financial Officer, Charter Township of Redford
President, Illinois Public Pension Fund Association
Private Equity Analyst, Arizona State Retirement System
Comptroller, City of Baltimore
Portfolio Manager - Real Estate, Arizona PSPRS
Trustee, Norfolk County Retirement
Director of Public Market Investment, Office of the Illinois State Treasurer
Vice Chair, Baltimore City Employees Retirement System
County of Fresno Auditor, Controller/Treasurer/Tax Collector, County of Fresno
Portfolio Manager, Fixed Income, Arizona State Retirement System
Investments Paralegal Manager, PSPRS ‘Arizona Public Safety Personnel Retirement System’
Chief Investment Counsel, Arizona Public Safety Personnel Retirement System
Investments Paralegal Manager, PSPRS
Chairman, National Railroad Retirement Board
Vice Chair, Investment Committee, Baltimore City Employee Retirement System
State Treasurer, State of Illinois
Communications Director, Arizona Public Safety Personnel Retirement System
Board Vice-Chair, Baltimore City Employee Retirement System
Alternatives Investment Officer, Oregon State Treasury--Tigard Office
Trustee, El Paso Firemen and Policemen's Pension Fund
Vice President, Park Employees' Annuity and Benefit Fund of Chicago
Trustee, Park Employees' Annuity and Benefit Fund of Chicago
President, The Maguire Company, Chairman, City of Phoenix Public Employees Retirement System
Trustee, Houston Police Pension System
Trustee (Fire Department Rep), City of Southfield Fire and Police Pension
Metropolitan Treasurer, Metropolitan Government of Nashville and Davidson County
Chair Investment Committee, Public Service Pension Board
City Treasurer, City of Southfield Fire & Police Retirement System
Investment Committee Member, Metropolitan Government of Nashville and Davidson
Trustee, Louisiana Assessor's Retirement Fund
Fire Dept Representative, San Antonio Fire and Police Retiree Health Care Fund
Trustee, San Antonio (TX) Fire & Police Retiree Health Care Fund
Chairman, Shelby Township Fire & Police Retirement System
Trustee, Stanislaus County Employees' Retirement Association
Sr. Investment Analyst, Fire and Police Pension Association of Colorado
Pension Fund Trustee, Policemen Annuity and Benefit Fund of Chicago
Chairman, City of Clayton (MO) Uniformed Retirement Fund
Retired Trustee, Alameda County Employees Retirement Association

Consultants and Actuaries

Consulting Actuary, Foster & Foster, Inc.
Managing Director, Ryan ALM, Inc.
Chief Investment Officer, The Hackett Robertson Tobe Group (HRTG)
CEO, The Hackett Robertson Tobe Group (HRTG)
Data Analyst - Impact Measurement, The Hackett Robertson Tobe Group
Partner, Aon Hewitt

Sr. Investment Management Consultant, Morgan Stanley Wealth Management
Senior Managing Director, Cliffwater
US Government Entity Specialist, Centre Harbour Group–Morgan Stanley
Consultant, Verus Investments
Partner, Consulting Department, AndCo Consulting
Managing Director & Global Head of Government Affairs, The Carlyle Group
Consultant, Vice President, Marquette Associates
Client Consulting, Bfinance
Vice President, Wilshire
Chief Executive Officer, Managing Director, HighTower Boca Raton
Vice President, Wilshire
President, G.S. Curran & Company
Managing Director | Senior Consultant, Verus
Senior Vice President, Callan LLC
Portfolio Strategist, PFM Advisors
President, Eberts & Harrison, Inc
Senior Consultant, AndCo Consulting
Chief Investment Officer, Verus Investments
Senior Portfolio Advisor, Aksia

Other Institutional Investors

Director, National Accounts, PFM Advisors
Investment Committee, Eastern Illinois University Foundation
Managing Director, The Wharton School
Managing Director, Thiel Capital, Managing Partner, AZ-VC
Investment Committee, Eastern Illinois University Foundation

Managers / Service Providers

Vanguard
Nomura Asset Management
Amundi
Muinin Capital Ltd
Saxena White P.A.
Goldman Sachs
Wolf Popper
Entrust Global
Bernstein Litowitz Berger & Grossmann LLP
Granahan Investment Management
Elmtree Funds
ISS Securities Class Action Services
Labaton Sucharow LLP
Capital Dynamics
Loop Capital Markets
Kennedy Capital Management
SROA Capital
Leonid Capital Management

Capital Group/American Funds
Pomerantz LLP
TerraCap Management, LLC
Robbins Geller Rudman & Dowd LLP
Lazard
Sage Residential
Adrian Lee & Partners
AXONIC Capital
MC Credit Partners
Moody's Analytics
Fidelity Institutional Asset Management
Glancy Prongay & Murray LLP
Oberweis Asset Management Inc.
Rimes Technologies
Federated Hermes
Block & Leviton LLP
Brown Advisory
Torchlight Investors

Opal Group

AGENDA

ALTERNATIVE INVESTING SUMMIT

December 3-5, 2023

The Ritz-Carlton, Laguna Niguel

Dana Point, CA

SUNDAY, **December 3, 2023**

7:30 AM - **11:30 AM**

Golf Outing at Waldorf Astoria Monarch Beach

Pickball Outing at Ritz Carlton

10:30 AM-12:00 PM

Exhibit Set-Up

11:00 AM

Registration Desk Opens

*All confirmed **pre-registered** delegates must approach the Registration Desk to check in and pick up conference badges. Business Cards are required to retrieve badges.*

12:45 PM

Welcoming Remarks

PRESENTED BY: Dan Meador, Head of Production**,** **Opal Group**

Box Lunches will be provided in the session room at this time.

1:00 P**M**

KEYNOTE DISCUSSION: Measuring the Winds of Change: State of the Global Economy and Geopolitical Affairs

- Overview of 2023
- What to expect in 2024?
- China vs. USA? Russia vs. Ukraine and the Western World
- Middle Eastern
- Cybersecurity Attacks on the Rise
- Top Geopolitical Risks
- Inflation, Interests Rates and Fed Policy

	MODERATOR: James Rosebush, Chief Executive Officer, **Intersection Impact Fund/The Wealth and Family Office Management Group (MFO)** **PANELISTS:**
2:00 PM	**Finding Alpha: Non-Correlated & Niche Fund Strategies & Sectors** **MODERATOR:** **PANELISTS:** Joyce Sophia Xu, Founder & CEO, **Joyce Xu Law**
2:40 PM	**STANDALONE** **PRESENTED BY:**
3:00 PM	**Networking Refreshment Break** **SPONSORED BY: Thank you to our Sponsors**
3:20 PM	**Navigating Impact Focused Investment Strategies** **MODERATOR:** **PANELISTS:**
4:00 PM	**Private Credit, Debt and Direct Lending: Where Are Investors Finding Risk Adjusted Yield?** **MODERATOR:** Michael Wagner, Director of Fixed Income, **Tolleson Wealth Management (MFO)** **PANELISTS:**
4:50 PM	**LP Investment Officer Perspectives: Best Practices In Sourcing Opportunities & Due Diligence In Today's Market** **MODERATOR:** **PANELISTS:**

5:30 PM - 6:30 PM	**Networking Cocktail Reception** *Join us and unwind with fellow industry professionals for refreshments during our last networking break of the day.*

MONDAY, **December 4, 2023**

8:15 AM	**Registration/Information Desk Opens** *All confirmed **pre-registered** delegates must approach the Registration Desk to check in and pick up conference badges. Business Cards are required to retrieve badges.*
8:20 AM-09:20 AM	**Continental Breakfast** *Sponsored by:* **Thank you to our Sponsors**
9:20 AM	**Welcoming Remarks** **PRESENTED BY:**
9:30 AM	**Keynote Presentation:** **PRESENTED BY:**
10:00 AM	**How To Enter The Public Market And Build A Best In Class Biotech Company** **PRESENTED BY:** Craig Philips, President, **Kineta**
10:20 AM	**STANDALONE** **PRESENTED BY:** TBA, **World Gold Council**
10:40 AM	**Keynote Fireside Chat** **PRESENTED BY:**

11:00 AM

Real Estate, Real Asset and Infrastructure Investing For The Next Decade

MODERATOR:
Joe McIntosh, Director, **McIntosh Management LLC**

PANELISTS:
Drew Weinstein, Vice President, **Parkview Financial**
AJ Osborne CEO, **Cedar Creek Capital**
Seth Gershberg, Founding Partner, **Scottsdale Mortgage Investments**

11:40 AM

Global Private Equity and Venture Capital Investing Outlook

MODERATOR:

PANELISTS:

12:20 PM

Networking Refreshment Break

SPONSORED BY: **Thank you to our Sponsors**

1:30 PM

Investing In Digital Assets and Building on the Blockchain

FTX's collapse undermined the industry's credibility among investors, regulators, and the public. How should investors think about their exposure to digital assets and the future of the blockchain?

MODERATOR:

PANELISTS:
Michael Silberberg, Head of Investor Relations, **Alt Tab Capital**
Bryan Courchesne, CEO, **DAIM**

2:10 PM

Artificial Intelligence's Impact On Financial Markets

MODERATOR:
Biff Pusey, Co-Founder & Member, **CrossGrain Family Investments**

PANELISTS:

2:50 PM

Networking Refreshment Break

SPONSORED BY: **Thank you to our Sponsors**

3:20 PM

Hedge Funds and The Future of Active Management vs. Passive Investing

- Are Hedge Funds performing as they should during this market cycle?
- How can active management take advantage of market turmoil?
- Outlook for public equities in 2024

MODERATOR:

PANELISTS:

4:00 PM

International & Emerging Market Strategies: Where Can Investors Find Growth and Stability?

MODERATOR:

PANELISTS:
Mustafa Saiyid, Senior Financial Sector Expert, **IMF**
Dr. Eliot Kalter, Senior Fellow, Fletcher School, Tufts University, President, **EM Strategies LLC**

4:40 PM

KEYNOTE PANEL DISCUSSION

MODERATOR:

PANELISTS:

5:40 PM - 6:40 PM

Networking Cocktail Reception

Join us and unwind with fellow industry professionals for refreshments during our last networking break of the day.

TUESDAY, **December 5, 2023**

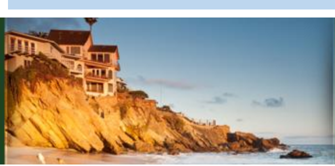
8:30 AM

Registration/Information Desk Opens

*All confirmed **pre-registered** delegates must approach the Registration Desk to check in and pick up conference badges. Business Cards are required to retrieve badges.*

8:30 AM

Continental Breakfast
Sponsored by: **Thank you to our Sponsors**



9:15 AM	**Welcoming Remarks** **PRESENTED BY:**
9:20 AM	**Portfolio & Investment Risk: What Are You Ignoring?** • Next Black Swan event? • Inflation and Chairman Powell's Fed Policy • Crypto effects on the broader markets • Public Markets vs. Private Markets • China, Russia Risks to Investors **MODERATOR:** **PANELISTS:**
10:00 AM	**Capital Markets and IPO's Headed into 2024** **MODERATOR:** **PANELISTS:**
10:40 AM	**You Can Have It All: Sustainable Returns And A Sustainable Future** **MODERATOR:** **PANELISTS:**
11:20 AM	**Conference Concludes**

2023 CONFIRMED PARTICIPANTS

Family Offices / Private Wealth

Co-Founder, TPG Investment Partners (SFO)
Chief Financial Officer, IAS Corp. (SFO)
CIO, Wadhwani Family Office (SFO)
General Manager, Onelin Capital Corporation (SFO)
Managing Partner, UniGlobe Capital
Managing Director, Blue Sand Holdings

Investor & Founder, Pano Ventures MEI Foundation
CEO, Thaynes Capital
Managing Partner, Boston Family Office Consultants
President, Serenity Capital
Partner, Coruscant LLC
Managing Partner, NPS Capital (SFO)
Managing Director, 777 Partners
CEO, Nationwide Investment Group Inc (SFO)
Chief Executive Officer, Intersection Impact Fund/The Wealth and Family Office Management Group (MFO)
Investor, Berkeley Angel Network
Managing Partner, Pointu Holdings LLC (SFO)
Managing Principal, Attis Capital Partners LLC (SFO)
Managing Director, Baciu Family Capital (SFO)
Chief Investment Officer, Magnolia Capital Group (SFO)
Chief Investment Officer, Myrtlewood Capital (SFO)
Co-Founder & Member, CrossGrain Family Investments
Chief Investment Officer, Rebel Rebel Capital (SFO)
Director, McIntosh Management LLC

Endowments / Foundations

Professor of Finance, Quinnipiac University
Investment Committee Member, Victoria University Endowment
Finance Director, Scripps Health
Professor & Capital Markets Researcher, California State Polytechnic University Pomona

Pension Funds / Government Entities

Trustee, Orange County Employees Retirement System
Director, Public Citizens Energy Program
Financial Analyst, Aramco Services Company
Trustee, City of Birmingham Retirement & Relief System

Consultants / Other Institutional Investors

Consultant, FORMA Development Design Management
Founder & President, FORMA Development Design Management
Senior Fellow, Fletcher School, Tufts University, President, EM Strategies LLC
Vice President Portfolio Manager Alternative Investments, Wilshire
Director Alternative Investments, First Domion Capital Corp
Managing Principal, Meketa Investment Group
Managing Director, Wilshire Associates

Fund Managers / Service Providers / Private & Public Companies

Scottsdale Mortgage Investments
Alt Tab Capital
DAIM
World Gold Council
Efficient Capital Management, LLC
Parkview Financial
Joyce Xu Law
Cedar Creek Capital

PAST INVESTOR ATTENDEES

Family Offices / Private Wealth

Chief Financial Officer, IAS Corp (SFO)
Director, Grupo Ferre Rangel Family Office
General Manager, Onelin Capital Corporation (SFO)
Financial Advisor, Alternative Investments Director, Morgan Stanley Wealth Management
President & CEO, Geneius Biotechnology, Inc.
CIO, Wadhwani Family Office (SFO)
Co-Founder & Lead Investor, Neva Capital Management (MFO)
Co-Founder & CEO, Neva Capital Management (MFO)
Principal, Vformation (SFO)
Chief Investment Officer, North Star Investments, Inc.
Chief Executive Officer, Four Thirteen, LLC
Managing Partner, Recharge Capital
CEO & Founder, Vasant Capital
Managing Director, Howell Family Trust (SFO)
President, George H. David Law Corporation
Director of Fixed Income, Tolleson Wealth Management (MFO)
President, SFG Asset Advisors (SFO)
President, Coomber Family Estates (SFO) / Dragon Trust Family Office (SFO)
Chief Executive Officer, Ferguson Family Office (SFO)
Founder & Chief Executive Officer, GRC Investment Group (Dubai) (SFO)
Chief Investment Officer, Aleph Capital (SFO)
Private Investor, Helium Holdings
Managing Partner, Boston Family Office Consultants
VP of Family Office, Howard Edmund Enterprises
Director, Tempus Management (SFO)
Director, Oak Sky Capital (SFO)
Founder, Principal, Kings Mountain Capital Group, LLC

President, Eternity Wealth Advisors LLC (MFO)
Chief Executive Officer, DUO Group (SFO)
Managing Director, Asian-American Investors Group
CEO, MT Capital Partners, LLC (SFO)
President, May Realty Advisors
Managing Partner, Priority Advisors, LLC
Principal, Alexandria Capital, LLC
Trustee, Dains-Lingle Family Trust
Advisor, GL Capital (SFO)
Investor, Growth Capital
Chief Investment Officer, Sebis Garden Capital LLC
Director Of Legal Services, LifeLine Financial Group
Managing Director, Frontier Group (SFO)
Director, MT Holdings (SFO)
Asset Allocator, Asian American Investors Group
Asset Allocator, Asian American Investors Group
Chief Investment Officer, Align Private Capital (MFO)
Chairman Of The Board, Unico American Corp
Investment Relations, Hu Family Office
Managing Member, Sunburst Ventures Florida (SFO)
Founder, Oro One Holdings LLC
Chief Investment Officer, Myrtlewood Capital (SFO)
Chief Investment Officer, Whittier Trust Company (MFO)
Leadership Team, One Charles Private Wealth
Associate, W & Co. Family Capital
Managing Partner, Vista Capital Advisors, LLC
Managing Director, Woodbridge Capital Partners LLC (SFO)
CEO, Founder, Reesha Capital, LLC (SFO)
Director Alternative Investments, First Domion Capital Corp
Administrator, Herring Family Trust (SFO)
Trustee, Herring Family Trust (SFO)
CEO, Karas Partners (SFO)
Director, Karas Partners (SFO)
Investment Associate, Harlow Family Office
Managing Partner, Oak Sky Capital (SFO)
Co-Founder, TPG Investment Partners (SFO)
Managing Director, Sapience Investments
CEO, RyVest Inc. (SFO)
Partner, Chief Invest Officer, Holualoa
Chief Investment Officer, Research & Development, CBCC | Rising Sun (SFO)
Managing Director, Investment Consulting, Ascent Private Capital Management
General Partner, Rinerson Family Office
General Counsel, Rinerson Family Office

Endowments / Foundations

Professor of Finance, Cal State Dominguez Hills
Finance Director, Scripps Health
President, Laguna Woods United Methodist Foundation Inc.
Professor & Capital Markets Researcher, California State Polytechnic University Pomon
Board Member, The California Endowment
Director, Inglewood Park Cemetery Endowment Care Funds
Managing Director, The Wharton School

Pension Funds / Government Entities

Investment Analyst, Northrop Grumman
Trustee, Alameda County Employees' Retirement Association
Board of Directors, Illinois Public Pension Fund Association
Financial Analyst, Aramco Services Company
Chairman, Deltona Firefighters Pension Plan
Deputy Chief Investment Officer, Employees' Retirement System of the State of Hawaii
Board Trustee, Kansas City Fire Department
Commissioner, South Carolina Retirement System Investment Commission
GERS Pension Trustee, City of Fort Lauderdale General Employees' Retirement System
Former U.S. Comptroller General
Investment Officer, Los Angeles City Employees' Retirement System
Vice Chairman, Houston Municipal Employees' Retirement System
Trustee, Orange County Employees Retirement System
Trustee, Broward Firefighters Health Trust

Consultants / Other Institutional Investors

Managing Director, Wilshire
Founder and Managing Partner, SGG WORLD LLC
Senior Managing Director, Alternative Investments, Clearstead
Managing Director, Emerging Star Capital, LLC
Director, SECAP Group
President, Consultant Investment, SECAP Group
Investment Manager, European Investment Fund
CEO & Founder, Turnqey Labs, Inc
Managing Partner, Stonegate Alternative Solutions, and Founder, Witherspoon Partners
Founder & Managing Principal, The Olympian Group
Senior Vice President of Private Equity, Wells Fargo
CCO/Senior Investment Consultant/Principal, The Hackett Robertson Tobe Group (HRTG)
Director, WP Global Partners
Advisor, Silver Leaf Partners, LLC
Executive Director, Maykr
Founder, Jones Consulting Group
Founder & President, FORMA Development Design Management

Chief Executive Officer, EM Leaders LLC

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, 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	11/3/23
Sep 27-29	CALAPRS Administrators Institute 2023	Carmel	Johanna Shick	$2,800	$2,673	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					

San Joaquin County Employees' Retirement Association

November 3, 2023

TO: Board of Retirement

FROM: Brian P. McKelvey
Assistant Chief Executive Officer

SUBJECT: Fiduciary Investors Symposium Stanford 2023

Summary

For three days in September, 79 asset owners from 12 countries that represented $7.4T in assets managed including Trustees, Chief Investment Officers, and institutional investment professionals from around the world converged at Stanford University to hear the latest information about artificial intelligence (AI), advances in neuroscience and synthetic biology, global macro and geo-political risks, portfolio construction, opportunities that come from dislocation, investment megatrends, energy transition, new methods of risk management, how technology innovation affects long-term performance, and a final presentation by Stanford Professor Stephen Kotkin regarding his views on how the United States can move forward China and the geopolitical issues with Taiwan and deglobalization.

Highlighted Sessions

LEADERSHIP AND MANAGING 21ST CENTURY POLITICAL RISK

Condoleezza Rice, the 66th Secretary of State of the United States, discussed leadership and managing 21st century political risk. Institutional investors are among those who have benefited greatly from globalization. China and the US are "decoupling" not just "de-risking" as the Biden Administration claims. The US can "handle anything" when it comes to geopolitical challenges but only if it regains its confidence as a nation. The education system is one of the US economy's biggest challenges, with Dr. Rice arguing for more classical and less ideological schooling. It is "too soon" to make any assumptions about the 2024 election, both the Republicans and even Democrats may choose nominees other than frontrunners Donald Trump and Joe Biden.

CAN WE CREATE NEW SENSES FOR HUMANS?

Neuroscientist, David Eagleman has developed new ways of understanding the role of the brain in helping us navigate the world around us. The brain is now regarded as a high-level processor, able to make sense of sensory inputs from multiple sources. Incredibly, the brain, doesn't actually see or hear or feel anything, it just processes the inputs it receives. It doesn't matter to the brain where those sensory inputs come from. Currently they come from the eyes, ears, tongue, fingers – and other "peripherals". Neuroscience is developing new peripherals to augment or replace existing senses – for example, a wristband that converts sounds of a certain frequency into a series of vibrations that the brain processes as inputs to help hearing-impaired people to "hear". And now neuroscience is moving on to creating new "senses" for humans, such as by tapping into streams of data from the internet and providing them to the brain as inputs to make sense out of.

AI: WITH GREAT POWER COMES GREAT RESPONSIBILITY

Stanford Professor, Fei Fei Li has been working with AI for over 20 years. In her session, she discussed the influence AI will have on the way people work and live, asking the question of whether a reboot is needed to remove biases and eliminate the potential for detrimental impacts of the technology. She believes AI will lead humanity to what she calls the "Dignity Era" where humans are able to express their creativity in new and unique ways. Key points from her discussion include:

- AI should be seen as the "new compute". It is ultimately a computational technology. Anything that has software in it today (your phone, your car, your fridge) will have AI functionality in the future.
- The next phase of innovation beyond language models such as ChatGPT are AI-based models that understand and adapt to the physical world, so that the technology can perform physical tasks such as cooking an omelet or changing a diaper.
- Healthcare is one of the most promising and positive use cases for AI. It could alleviate many of the costs and labor constraints on public health systems. It is also rapidly advancing medical knowledge, for example summarizing old medical literature and re-evaluating it considering new discoveries/knowledge.
- While there is hype, AI is not a fad. It will deliver products and services that change the world in positive ways to enhance civilization.
- The threat of AI sentience is a long, long way away and not a serious risk at this stage. There is no computational or mathematical evidence of sentience currently. The more serious risks of AI pertain to democracy and the labor market.
- There is an important rule for capital investors in advancing AI, but they must be willing to back early-stage innovators and researchers, not just large and listed incumbent technology firms so that "one thousand flowers bloom".

- Investors should ensure that ventures they are backing have the technical and computational knowledge, not just the business use case knowledge.

THE EVOLUTION OF RISK MANAGEMENT

Institutional investors are not doing enough to manage risk dynamically, according to Nobel Prize winner and academic Myron Scholes. In this session he outlines the need for more forward-looking, holistic next-generation risk management that is an active component of investment management, not just a measurement.

Key points from his presentation and subsequent group discussion include:

- Asset owners need to move away from a focus on measuring risk to actively managing risk across different time periods and through different market conditions.
- Volatility is not a good proxy for risk and diversification is not a good tool for managing risk.
- Investors should be focused on how to get a “better compounding experience” by understanding and managing risk better.
- Managing risk effectively over the short term adds up to effective risk management over the long term and maximizes the potential to allow compounding to do its thing.
- Institutional investors have improved at measuring risk over time and are now learning how to manage it with an eye on liquidity requirements.
- The management of risk in practice is complicated by issues such as private (illiquid) assets and the specific requirements of the asset owner.

Event Recommendation

This event is foundationally different from CALAPRS or SACRS events. Those events are specifically tailored to California Public Pensions issues and content is focused on more practical and immediately educational application in day-to-day agency, investment, or Board operations. This event brought in thought and investment leaders from around the world and presented a global and futuristic educational experience. Content presented may help investment officers and public pension leaders gain a better understanding of the future of various industries (where they may want to invest). Additionally, the sessions provided attendees cutting edge thinking around larger global macroeconomic issues that directly impact intuitional investing today and well into the future. I believe this event provides SJCERA an unique educational opportunity that provides long-term investment value by accessing leaders with global insights into the problems and opportunities that face institutional investors and humanity. I highly recommend this event for SJCERA trustees who have served more than one term or senior staff with a few years of investment experience given the investment and global economic topics presented and discussed.

San Joaquin County Employees' Retirement Association

November 3, 2023

TO: Board of Retirement

FROM: Paris Ba
Retirement Investment Officer

SUBJECT: Fiduciary Investor Symposium

Thank you for the opportunity to attend the Fiduciary Investor Symposium (FIS) at Stanford University on September 19-21, 2023. Overall, I thought the FIS was a great conference with a good mix of institutional investors, managers, and Stanford faculties (as opposed to a lot of the conferences being a bit manager centric). During the three-day conference, it was a very collaborative environment that enabled asset allocators to engage with each other (there were many table discussions!), as well as with thought leaders in academia. The topics covered are summarized below.

<u>Keynote Speaker Madam Secretary Condoleezza Rice</u>

When Deng Xiaoping decided to take China out of isolation, China was admitted to the World Trade Organization (WTO) ahead of their internal practices. The hope was China would start to conform after being a WTO member, but the result was disappointing. US government is decoupling (official term being “derisking”) from China - any dollar that’s invested in Chinese technology companies – they are considered a national security risk to the US.

Institutional investors are among those who benefited greatly from globalization, but globalization has not worked for everyone in the US. People who have the means and the education to move around the global for good jobs are the beneficiaries of globalization; however, if you are a coal miner from West Virginia, you really do not have the luxury to enjoy globalization, and as a result, you become easy prey to extremist ideologies. Madam Secretary Condoleezza Rice thinks the education system is one of the US economy’s biggest challenges, and she argued for more classical education and less ideology schooling.

Can We Create New Senses for Humans?

Professor David Eagle is a Psychology/Life science professor at Stanford, and he shared his research on expanding the human sensory experience. Neuroscience has developed new ways of understanding the role of the brain in helping us navigate the world around us. The brain is now regarded as a high-level processor, able to make sense of sensory inputs from multiple sources. For example, one of his research projects is focused on getting hearing-impaired individuals to “hear” through vibrations, so they would wear these vests and even though they cannot actually hear anything, they are still able to process the inputs received as if they are able to hear. It does not matter to the brain where those sensory inputs come from – as they can come from eyes, ears, tongues, fingers and other “peripherals”.

The CIO Panel

The CIO panel consisted of CIOs from the OPTrust (Ontario Public Pension), San Francisco Employees’ Retirement System (SFERS) and the British Coal Pension Scheme (BCSSS).
OPTrust is an inflation indexed pension, so their CIO is most worried about inflation, in particular stagflation. SFERS wants to make sure the pension fund is on the way to be fully funded and hire the right people and strategic partners.
Coal Pension Fund is a UK pension fund with roughly $20 billion of assets under management that pays benefits to the coal miners. It is a very mature fund, with average age of retirees being 75 years old. Given it is a mature fund, the payout every year is high, so their CIO is very concerned with having the liquidity and picking the right assets to liquidate every year.

All panelists agree that risk exposure to China is difficult to price, but full divestment is not plausible for large, diversified portfolios.

Bridgewater on Artificial Intelligence (AI)

The policy responses to COVID have pulled us into a new era – one that already looks very different from the post GFC years of abundant liquidity, low inflation, and moderate growth. Bridgewater CIO Greg Jensen thinks that AI could result in a “productivity miracle” for the global economy while machine learning will change the portfolio construction process in radical ways.
Bridgewater has “hired” an Artificial Intelligence Associate (AIA) that uses AI and machine learning to analyze statistical data. Mr. Jensen tested AIA in front of the audience, “why we do have difference in productivity across the globe?” The model spits out a very coherent answer, and it was able to tie data (numbers) and conceptual (language) questions. Bridgewater claims that AIA as a first-year associate at Bridgewater ended up in the top 10% performance out of all the first-year associates.

Dislocation In The Market

The panelists think that the global and especially the US market is likely already on the cusp of a distressed debt cycle. Distressed debt is attractive in some ways but only for highly diversified funds that are able to offset the risk attached. It should not be seen as a defensive asset necessarily. Liquidity is another focus for the discussion, i.e., how do you manage liquidity during market distress. It is important to determine what are the absolute liabilities that you must pay and what assets you can sell with the lowest cost during a market drawdown.
GIC (Singapore Sovereign Wealth Fund with over $700 billion AUM) has a rule that when credit spreads exceed a certain level or equity drawdown exceed a certain percentage, an automatic rule kicks in to start legging in and taking advantage of the distress opportunities. The panelists think we are possibly in a period of elevated volatility over the next couple of years. CalPERS head of private market said when they are looking at private credit deals, they are very focused on getting the right structure - they tend to invest in loans with quite a bit of equity cushion (50%).

Mega Trends

Mega trends are different from fads (< 1 year), sub trends (1-5 year) and trends (5-10 years); mega trends are supposed to have long lasting impacts on the society (>15 years) decades into the future. Mega trends have three characteristics: they are long term, with a life expectancy of at least 15 years; and they are deep and broad. Pictet capital management identified six mega trends: technology, environment, global governance, demography, economy, and society. The audience voted on the top 3 themes that they think that are going to drive investments: Artificial Intelligence, climate change, and life sciences.

Investing In AI

There is a lot of hype around AI and its potential to revolutionize businesses, but how can asset owners invest in AI? AI could be “as big as the internet” but it is difficult to predict the world changing applications that it may spawn, just as it would be impossible to predict Uber and Tinder before the internet. Misinformation is the most worrying short-term concern around AI, along with the prospect of heavy-handed regulations which may be introduced in response to the dissemination of false, misleading or harmful information.

Semiconductor

Semiconductor industry is roughly a $500 billion industry. As demand for chips surges, the semiconductor industry is trying to grapple with its huge carbon footprint. The presenter thinks that semiconductors can be both a part of the solution and a part of the problem, as semiconductors are key enablers of green transition. They bring with them a complex lifecycle of associated carbon and environmental footprints that should be assessed.

The Evolution of Risk Management – Nobel Prize winner Myron Scholes

Myron Scholes is a Nobel Prize winner for inventing the Black-Scholes option pricing model and he is currently a professor Emeritus for the Stanford Graduate School of Business. Mr. Scholes thinks institutional investors are not doing enough to manage risk dynamically, and they need to look at risk across different time periods and through different market conditions. Managing risk effectively over the short term adds up to effective risk management over the long term, and that in turn maximizes the potential to allow compounding doing its job.
Institutional investors have gotten better at measuring risk over time and are now learning how to manage it with an eye on liquidity requirement. However, risk management is complicated by issues such as private assets and the specific requirements of the asset owners.

Co-Investment

CDPQ (Quebec pension with over $400 billion assets under management) has both internally managed and externally managed private assets, occasionally there are some “creative” tensions between those two, but it is a healthy tension. External managers are an important source of intelligence, not just risk-adjusted returns. True partnerships take a long time. It has to be based on mutual respect with the goal of a win-win situation, not a short-term transactional approach.
What is important for the team to figure out where the knowledge gap lies, sometimes the proximity of Quebec being far away from financial centers disadvantages the pension. The pension always tries the best to educate the staff and the board when it comes to new concepts (e.g. growth venture, climate change, etc.) - they would bring area experts

to do formal education. CDPQ is focused on climate change and Emerging Market currently.

AI: With Great Power Comes Great Responsibility

AI has really entered the public's eyes last year, when ChatGPT was released. However, the research of AI has been around much longer - almost 60 years. Stanford computer science professor Fei Fei Li thinks we have finally reached the inflection point last year. AI should be seen as the "new computer", i.e., it is ultimately a computational technology. Anything that has software in it today (your phone, your car, your refrigerator) will have AI functionality in the future. The next phase of innovation is beyond language models such as ChatGPT that understand and adapt to the physical world, so that technology can perform physical tasks such as cooking an omelet or changing a diaper.

In healthcare, the diagnostic power of AI has been amazing, really liberating the medical democracy for the public. However, AI still can "hallucinate", meaning they can provide false answers without being self-aware, so that could potentially be very dangerous especially in the medical field. In the investment world, there are a lot of opportunities. Currently, the technology world is very much dominated by big companies, and the professor is encouraging the audience to help rejuvenating the area by backing early-stage innovators and researchers.

When being asked about AI sentience, Professor Li said the threat of AI sentience is a long, long way away and not a serious risk at this stage. There is no computational or mathematical evidence of sentience at this time. The more serious risks of AI pertain to democracy and the labor market.

Portfolio Construction

CalSTRS is very much about bottom-up selections, as they let each team pick the securities or companies they want to invest in, whether it's fixed income, or private equity, or private credit. Liquidity is on top of mind for investors, especially mature funds with high allocation to private assets. It is important to balance the needs to deploy active capital effectively with the obligations to fund withdrawals. The QE era has been very supportive of asset price, but we are in a completely different paradigm now. On top of that, climate change and rising geopolitical risks are also risks that are extremely difficult to quantify. CalSTRS is committed to carbon neutral in 2050.

Technologized Investor

Institutional investors discussed how technology is helping their organizations with long term performances. Mass customization is one of the big promises of technology, which in the investing world manifests as custom portfolios. Decades ago, lack of information about assets and markets was a major challenge for investors. However, nowadays we have an abundance of data, and maybe we have too much data for traditional spreadsheets to analyze. The hope is that AI is able to help analyze and synthesize that data. Innovation requires discipline, but also the ability to make mistakes and learn. To do that successfully, the Research and Development team must be free from the so-called “Key Performance Indicators (KPIs)” that might apply to more mainstream operations of an organization. There is an opportunity for pensions to partner with start-ups, either by making equity stakes (or strategic or pure investment reasons) or just providing intellectual assistance and knowledge sharing.

2023 LEGISLATION

Last Updated: 10/23/2023

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	IMPACT ON SJCERA
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	**Chaptered**	Legislation Project Implementation Team to conduct meetings to discuss impact on SJCERA.
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	**Chaptered**	Legislation Project Implementation Team to meet with Disability Counsel; update disability fact sheets and disability packet; notify members, employers, labor of changes
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	**Chaptered**	No impact on SJCERA. However, as a precaution, SJCERA is buying domains.
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**	Staff previously implemented the age 72 change. This law applies any future federal changes to CERL. Legislation Project Implementation Team will assess for any additional impact.

BILL NO.	AUTHOR	DESCRIPTION	LAST ACTION DATE	LOC	IMPACT ON SJCERA
Other Bills of Interest:					
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**	No impact on SJCERA unless becomes federal law.
Federal Legislation:					
None to report.					
2023 TENTATIVE State Legislative Calendar					
Oct 14	**Last day for Governor to sign or veto bills.**				

October 27, 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*

At the December Board of Retirement meeting, Meketa is scheduled to provide an update on the status of implementing the revised *Strategic Asset Allocation* policy, which the Board adopted on June 3, 2022. In their July 8, 2022, memo Meketa outlined their plan for implementing the 2022 strategic allocation targets, setting a goal for complete implementation by June 30, 2024. Specifically, they noted, "Typically, the plan sponsor selects a 1- to 3-year window over which it believes it can attain the adopted policy targets. For SJCERA, we will attempt to move faster depending upon market conditions."

Optimize the investment manager lineup

- *Conduct Global Equity and Crisis Risk Offset asset class reviews, assessing managers'/mandates' alignment with our Strategic Asset Allocation policy and goals*

At the December Board meeting, Meketa is scheduled to conduct the Global Equity asset class review. The Crisis Risk Offset (CRO) asset class review was conducted in February and March 2023 and the Board approved a search for a new Diversifiers manager, following the termination of one manager. In July, the Board reviewed a short list of potential CRO managers, and the Board is scheduled consider selecting a new CRO manager in early 2024.

- *Evaluate the portfolio for investment efficiency (e.g., fees, risk, return, consolidation)*

Included in the Board's November reading material is PIMCO's "*Post Peak Cyclical Outlook*" research. PIMCO argues that household liquidity is diminishing rapidly in 2023 as consumers are starting to feel the impact of higher interest rates. Economic weakness is coming. They expect unemployment to rise next year, leading to a normalization of central bank rates back toward neutral levels. Their inflation forecast is on the relatively low side of consensus—in the 2.5% to 3% range at the end of 2024. They also argue that the market is quite complacent and is pricing for an "immaculate disinflation" scenario, in which growth remains solid and core inflation drifts towards central bank targets. PIMCO is especially optimistic about High Yield bonds (yielding close to 8%) because they look very attractive compared to expected equity returns, and they offer downside protection in the event of recession.

Modernize the operations infrastructure

Implement Pension Administration System (PAS)

- *Complete mapping documentation on planned processes*

  MBS and the data conversion team continue to focus on data profiling, mapping, conversion scripting, and data cleansing tasks related to delivering the remaining legacy data as part of the upcoming Data Cycle 4. MBS and Tegrit have increased collaboration to ensure that the remaining data necessary for the new PAS is properly identified for migration. Additionally, Tegrit has provided initial feedback to MBS and SJCERA on the data delivered to date, allowing the data team to work on data refinement.

- *Program/test planned processes in PAS*
  Tegrit has continued design and development of the new PAS. Tegrit has held work sessions with IT Manager Adnan Khan, IT Specialist II Jordan Regevig, Retirement Services Supervisor Melinda DeOliveira, Retirement Services Associate Ron Banez, Accounting Technician II Marissa Smith, and ACEO Brian McKelvey on topics related to employer maintenance, reciprocal agency maintenance, and interpretation of data to determine key effective dates and participant tier. Tegrit delivered the design document for the Reciprocal Agencies Screen to SJCERA, and SJCERA has completed their document review.

- *Maintain functionality of legacy PAS until new PAS is implemented and stabilized*
  Information Systems Manager Adnan Khan, Information Systems Analyst II Lolo Garza, and ACEO Brian McKelvey finalized the MindWrap statements of work in mid-October, for the Optix migration to Windows and the training necessary for administration and staff. Windows migration work is scheduled to be completed the last week of November.

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*

Communications Officer Kendra Fenner attended the NCPERS Communications Roundtable webinar. Management Analyst III Greg Frank attended the CALAPRS Virtual Compliance Roundtable. Information Systems Specialist II Jordan Regevig attended the Virtual Information Technology Roundtable presented by CALAPRS. Administrative Secretary Elaina Petersen attended the 2023 NCPERS Compensation Survey webinar. Assistant Chief Executive Officer Brian McKelvey and Retirement Services Supervisor Melinda DeOliveira continue their training in the San Joaquin County Human Resources Leadership Academy.

Hire and retain talent

The next step in establishing the Retirement Services Manager position is to establish the salary, which requires meeting and conferring with the labor organization representing the position. Unfortunately, the County and labor do not currently agree, so discussions are continuing. At this time, we do not have an estimated timeline for completion of negotiations.

Maintain Business Operations

Financial Auditing Services Request for Proposal (RFP)

Per the Audit Committee's recommendation, I am happy to report we now have a fully executed contract with Brown Armstrong for auditing services. The contract is for two years with three optional one-year extensions, and at a 9% savings compared to the prior contract.

Public Pension Standards Award for Funding and Administration

In October, the Public Pension Coordinating Council (PPCC) presented SJCERA with the Public Pension Standards Award for Funding and Administration in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards. The PPCC is a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR). This is SJCERA's fourteenth (14^{th}) PPCC Standards Award!

Effectively Educate and Inform Members

SJCERA participated in the County's "You've Got This", National Retirement Security Month by offering one-hour virtual "SJCERA: Understanding Your Retirement" workshops. A special thank you to presenters Melinda DeOliveira and Ron Banez.

Communications Officer Kendra Fenner wrote and distributed two emails to all Active members this month: the first announced the November 2 Understanding Your Retirement 60-minute virtual seminar, the second educated members about the effect of divorce (or dissolution of registered domestic partnership) on retirement benefits. Immediately following the email on divorce, Benefits staff received numerous calls and emails from members seeking additional information about the effect in their situation. It's gratifying to know members are reading the emails and appreciated the additional information on this important topic!

Provide Excellent Customer Service

A few quotes from our members:

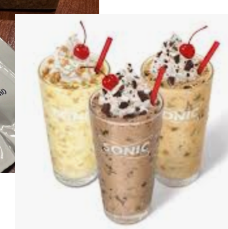
"Kathleen Goodwin is very professional, knowledgeable and friendly"

"Bethany (Vavzincak) was incredibly helpful today! Her breadth of knowledge along very friendly demeanor made the call very enjoyable and productive. Her breadth of knowledge and the confidence in her answers left me feeling very clear on what my direction may be. Bethany is a treasure to have!"

"Bethany Vavzincak deserves **extra kudos**!!! She responded to me very quickly and provided the necessary information I needed. She also sent me where I can access the information so I can reference it later on. Thank you, Bethany!!! Keep up the great work!"

"I have dealt with Andrea (Bonilla) in the past and found her to always be pleasant and helpful."

Maintain a Positive Work Environment



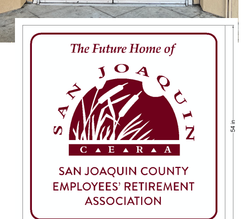
October 19, 2023 is known as National ShakeOut Day, where homes and business are encouraged to learn about safety during an earthquake. This year SJCERA had an onsite drill at 11:19 a.m. Staff were encouraged to learn the Drop, Cover and Hold-on method of keeping safe in an earthquake. While we did not require staff to drop to the ground to get under their chosen safety object, we encouraged staff to find where they would be safest in an emergency. As a start to their emergency bag, each staff started the day with an Emergency Drinking Water bag and an Emergency Ration Bar waiting for them at their desk, and shakes (milk shakes, that is) were provided as an afternoon treat!

SJCERA staff will once again be celebrating Halloween with costumes, a Halloween themed potluck and bragging rights for those voted to have the best costume, best decorated workspace, best Halloween-themed food item, etc. No doubt there will be both tricks and treats, and a good deal of work accomplished while keeping our "spirits" high.

Manage Emerging Organizational Needs

The Move

Demolition at 220 E. Channel Street appears to be complete, and the site looks ready for construction to begin. Signs have been posted in the windows to announce SJCERA's upcoming arrival. The building permit is expected to be issued on or about November 4, with construction beginning shortly thereafter.



Information Systems Analyst II, Lolo Garza and ACEO Brian McKelvey guided AT&T and County Information Services Division representatives on a tour during which they (1) determined power is sufficient for the projected server room and staff requirements and

(2) identified the best location for incoming fiber optic cabling that will provide two network circuits (for redundancy), direct connection to the County, and ample networking capacity now and into the future. We are on our way--PROGRESS!

Conclusion

This year is flying by! When we hold our Board meeting on November 3, there will be eight weeks and two days left in 2023. Fall is always busy at SJCERA. It's the time we initiate all our year-end projects, drive any remaining action plan goals through to completion, and maintain our regular workload. This year seems especially busy with move planning, the pension administration system and data conversion projects, executive recruitments, and the Mac to Windows conversion on top of our usual busy-ness—it almost makes me wish for a fifth quarter! But, as I've seen time and again, SJCERA's staff has a way of getting it all done! I can't imagine working with a better team, committed to getting the job done and done well. I look forward to presenting our report summarizing 2023 Action Plan accomplishments in January. The accomplishments are impressive.

"So, yeah, the fourth quarter was pretty trippy."

Subject: Divorce and the Effect on Your Retirement Benefits
Date: Friday, October 20, 2023 at 1:41:27 PM Pacific Daylight Time
From: ISD Service Desk [ISD] <isdservicedesk@sjgov.org>
To: ISD Service Desk [ISD] <isdservicedesk@sjgov.org>
Attachments: image001.png

Sent on behalf of Johanna Shick, Chief Executive Officer, SJCERA:
(Sent to all County Employees)

Divorce and the Effect on Your Retirement Benefits

Divorce or dissolution of registered domestic partnership can significantly alter your retirement benefit. If you file for divorce, it is essential all active, deferred and retired members notify SJCERA as soon as possible. Pursuant to the laws of California, if you are a member of SJCERA while you are married or in a domestic partnership, your retirement benefits may be considered community property and your spouse/partner entitled to an interest in the community property portion of your retirement benefit.

What to do

When a marital and/or partnership dissolution action has been filed:

1. Notify SJCERA at ContactUs@sjcera.org
2. If your benefit must be divided, select a method of dividing the community property
3. Submit a draft Domestic Relations Order (DRO) Model A (Active and Deferred members) or a Domestic Relations Order (DRO) Model B (Retired members) prior to signing and filing with the court

For more information read the Domestic Relations Order Booklet.

Thank you,

Subject: Understanding Your Retirement Webinar
Date: Thursday, October 5, 2023 at 10:30:55 AM Pacific Daylight Time
From: ISD Service Desk [ISD]
To: ISD Service Desk [ISD]
Attachments: image001.png

Sent on behalf of Johanna Shick, Chief Executive Officer, SJCERA:

(Sent to all County Employees)

Understanding Your Retirement - The time to plan for retirement is now!
NOVEMBER 2, 2023 – 3:00 PM
Sign up for this 60-minute virtual seminar to learn more about your SJCERA retirement benefit. You are eligible to attend if you are a full-time civil service employee of one of SJCERA's participating employers. You will learn what it means to be vested, how your benefit is calculated, how to purchase service credit and much more.
Click here to register **Active Members - Seminars page**
You will receive the Zoom link via email immediately after you complete your registration. The seminar can be accessed via zoom on your computer or mobile device. Save the email with the Zoom link to access the seminar.

Thank you,

ISD Service Desk
Information Systems Division
San Joaquin County
209-953-HELP (4357)

THE NCPERS
MONITOR
The Latest in Legislative News October 2023

NCPERS **Executive Director's Corner**

NCPERS Year in Review: 2023

By Hank Kim, Executive Director and Counsel, NCPERS

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It's been a busy year for NCPERS! We've continued to grow our team in order to expand and improve our membership offerings and work to serve the public pension community. As the days are getting shorter, we're gearing up for our Financial, Actuarial, Legislative & Legal (FALL) Conference in Las Vegas. This year's event will feature the return of the NCPERS University favorite, the Program for Advanced Trustee Studies (PATS).

We're also preparing for our always busy membership renewal season. Renewal notices will be sent to the primary contacts at current member organizations on Oct. 5. If you have any questions, please reach out to membership@ncpers.org.

In our Year in Review, below, you'll find highlights from the past 12 months as we have hosted leading educational conferences, published innovative research on pension funding, connected our members with a national network of their peers; and worked tirelessly to promote and protect pensions on behalf of our members.

Who We Are

As the largest trade association for public pensions, we're proud to represent approximately 500 pension funds, plan sponsors and stakeholders and more than 150 service providers.

$4+ Trillion
In retirement funds overseen by NCPERS members

2,600+
Trustees and staff at member pension funds

Education and Events

Education and events are a key component of NCPERS' membership offerings. Over the last 12 months, we brought together more than 2,300 public pension trustees and staff; industry stakeholders, and service providers for exclusive networking opportunities and leading educational programming (both in person and virtual). Our members have enjoyed extensive opportunities to speak at our events, provide thought leadership, and connect with new clients.

We're proud to serve as a key resource for trustees and administrators looking to build and strengthen their knowledge of pension governance best practices, no matter their experience level. Over the past 12 months, we hosted nine in-person events:

1,652
In-person event attendees

436
Organizations represented at NCPERS events

202
Event Speakers

30
Members received their Accredited Fiduciary designation

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

Brought to you by NCPERS

Our educational programming is year-round. Outside of our signature in-person events, we also continued to engage with members virtually as part of our Center for Online Learning and with our CEO, CIO, and Communications Roundtables. And beginning in November 2023, we'll also be launching a roundtable for public pension HR professionals!

9 *Webinars hosted in the last 12 months*	**720+** *Webinar registrants*
3 *Virtual roundtables*	**235** *CEO, CIO & Communications Roundtable participants*

Enhancing Pension Administration

NCPERS is able to leverage our size to provide six affinity programs to help pension funds execute key services and streamline their operations on limited budgets. Ranging from discounts on insurance products for pension fund staff and members to savings on mobile self-service app development, NCPERS offerings are developed with the plan administrator in mind. Over the last 12 months, we added two brand-new affinity programs to the mix.

As the largest trade association for public pension plans, NCPERS utilizes our network to develop national studies that allow plans to benchmark against their contemporaries. In 2022, nearly 200 plans participated our annual Public Retirement Systems Study, giving a full-scale view of trends in fiscal, operational, and business practices. In 2023, over 175 plans completed our second annual Public Pension Compensation Survey. The soon-to-be released study will give systems the chance to benchmark compensation and benefits packages for senior- and mid-level staff.

375+

Pensions participated in NCPERS surveys

6

Affinity programs

Communications and Research

NCPERS is the trusted industry leader for educational materials, resources, and research. Over the last 12 months, we've continued to expand our reach:

67,500

*Users visited ncpers.org**

555,000

*Pageviews on ncpers.org**

104,000

*Sessions on ncpers.org**

2:40 min

*Average session duration on ncpers.org**

Pension staff, trustees and stakeholders increasingly rely on us and our member-only publications to stay informed. Our research also continues to serve as an important resource for the public pension community.

137,496

*Unique email opens by NCPERS members**

15,251

*Unique email clicks to NCPERS emails**

46

PERSist articles published

4

Recurring member-only publications

*Data from July 31,2022-July 31,2023

Looking Ahead to 2024

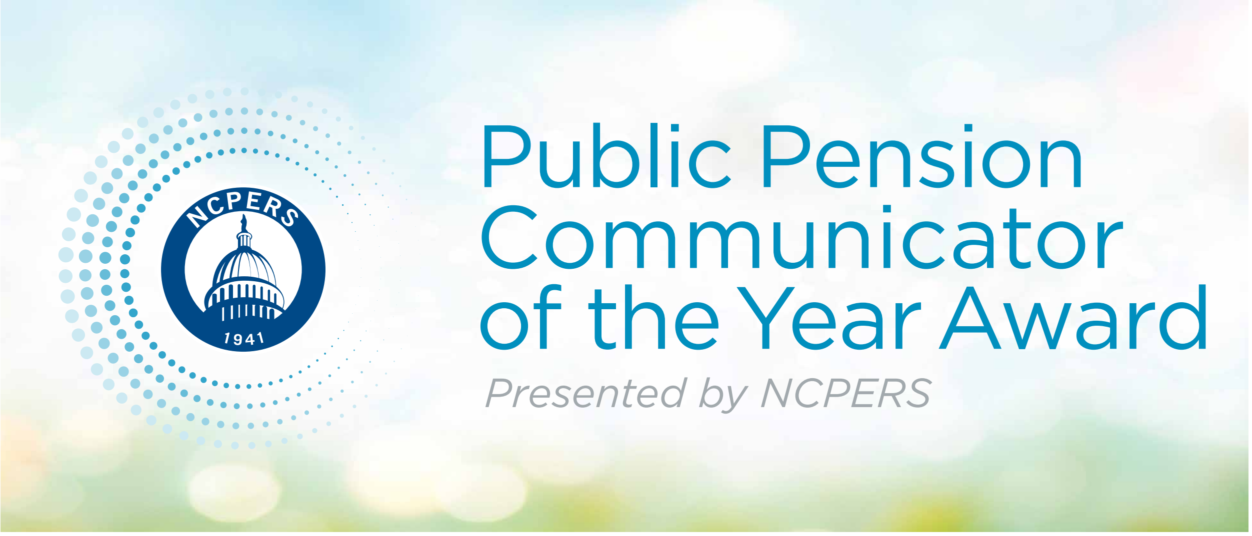
We already have several new exciting member benefits in the pipeline that we hope your organization can take advantage of in 2024. Next up, we're thrilled to announce that we have finalized our partnership with the HR Public Pension Roundtable.

Beginning November 2023, NCPERS will host quarterly video calls for the HR Roundtable and an in-person educational program for public plan HR professionals starting next year. Stay tuned for more details, and don't forget to view our upcoming events calendar to start planning for your organization's 2024 education.

If you have any questions or feedback about your NCPERS membership, please do not hesitate to reach out to me directly at hank@ncpers.org. ◆

Recognizing Public Pension Communications Professionals

By: Lizzy Lees, Director of Communications, NCPERS



Building on the success of NCPERS Pension Communications Summit and Communications Roundtable, we're pleased to announce that we are currently accepting nominations for the first-ever Public Pension Communicator of the Year Award.

In recognition of the communications efforts at public pensions across the country, this award was created to honor the communications staff person at a public pension who has demonstrated exceptional leadership skills; shown superior innovation and creativity; and created an impact with their communications endeavors in the preceding year.

NCPERS member pension funds oversee retirement funds on behalf of seven million retirees and nearly 15 million active public servants. “Each day, public pensions are tasked with effectively communicating with active participants and retirees across generations who have varying needs and communications preferences,” said NCPERS Executive Director and Counsel, Hank Kim. “The NCPERS Public Pension Communicator of the Year Award was created to recognize the impressive communications efforts at our member pension funds and honor the individuals within these organizations who are leading the way and making a real impact.”

The deadline to nominate an individual for the 2024 awards is Friday, November 10th. To nominate yourself or a colleague, please complete this online form. We strongly recommend reviewing the scoring rubric and FAQs before beginning your submission.

At the judges’ discretion, a winner will be selected from each of the following categories: Pension funds with less than $10 billion AUM; pension funds with $10-50 billion AUM; and pension funds with more than $50 billion AUM.

Award winners will be honored in person at NCPERS Pension Communications Summit in Washington, DC on January 22, 2024. The winners will also be announced via a press release following the event.

If you have any questions, please don't hesitate to reach out directly at lizzy@ncpers.org. ◆

Department of Labor's ESG Regulation Upheld

By: Tony Roda, Partner, Williams & Jensen

Photo Illustration © 2023, istock.com

On September 21, U.S. District Court Judge Matthew Kacsmaryk of the Northern District of Texas upheld the U.S. Department of Labor's (DOL) 2022 Investment Duties Rule (the rule or regulation). In so doing, Judge Kacsmaryk backed the Biden Administration's rule, which is often referred to as the ESG regulation.

The rule is being challenged by a group of 26 conservative state attorneys general and private plaintiffs, who allege that it is a violation of the Employee Retirement Income Security Act (ERISA), exceeds DOL's statutory authority, and is arbitrary and capricious. The federal district court in Texas disagreed on each claim.

The Texas ruling is notable because Judge Kacsmaryk is a well-known conservative jurist who, in April of this year, issued a stunning decision that the drug mifepristone should be withdrawn from use. That drug had been approved by the U.S. Food and Drug Administration 23 years ago. It was the first drug approved for medication abortion.

As the public plan community considers the recent court ruling and the underlying ESG regulation, it is important to note that it was promulgated under the authority of ERISA, which does not govern state and local governmental retirement plans. However, state and local officials, public pension boards, investment committees, and in-house and outside counsel often take DOL's regulatory pronouncements into consideration as they develop fiduciary standards and guidelines for investment-related decisions by plan fiduciaries.

The just-upheld regulation makes clear at the outset that a fiduciary shall discharge their duties "…for the exclusive purpose of providing benefits to participants and their beneficiaries…" Furthermore, the regulation states that, "A fiduciary may not subordinate the interests of the participants and beneficiaries…and may not sacrifice investment return or take on additional investment risk to promote benefits or goals unrelated to interests of the participants and beneficiaries in their retirement income or financial benefits under the plans."

The final rule also moved away from the standard included in the Biden Administration's proposed regulation, which was "(t)he projected return of the portfolio relative to the funding objectives of the plan…may often require an evaluation of the economic effects of climate change and other environmental, social, or governance factors on the particular investment or investment course of action." (Emphasis added.) While the proposed standard was still discretionary because of the use of the word "may," it would have taken us right to the brink of a regulatory requirement that in order to meet the fiduciary duty of prudence a fiduciary must consider ESG factors in all investment decisions.

Instead, the final regulation, in response to commenters who said the proposed language was a de facto mandate to analyze all investments through the ESG lens, replaced that standard with the following:

> Fiduciary's determination…must be based on factors…relevant to a risk and return analysis; risk and return factors may include the economic effects of climate change and other ESG factors; whether any particular consideration is a risk-return factor depends on individual facts and circumstances.

A central issue before the court was whether the rule's allowance of ESG factors in a tiebreaker situation exceeded statutory authority. Judge Kacsmaryk cited U.S. Supreme Court precedent that where Congress hasn't directly spoken to a precise question at issue, courts must defer to a federal agency's interpretation of the law. When comparing Biden's 2022 tiebreaker rule to the Trump Administration rule of 2020, Judge Kacsmaryk stated:

> "The 2022 Rule changes little in substance from the 2020 Rule and other rulemakings. Where the 2020 Rule explained that collateral factors may be considered when a fiduciary is "unable to distinguish" between two investment options on financial factors alone, the 2022 Rule allows the same when the two options "equally serve the financial interests of the plan…there is little meaningful daylight between "equally serve" and "unable to distinguish."

Judge Kacsmaryk further stated that, "For nearly three decades, DOL has posited that ERISA's obligations do not forbid consideration of collateral or non-financial benefits in the selection of competing investments that serve the plan's economic interests equally."

The plaintiffs are likely to appeal this decision to the U.S. Court of Appeals for the 5th Circuit, which is another conservative judicial forum. In addition, a separate lawsuit challenging the regulation and alleging similar legal arguments is pending in federal district court in Wisconsin.

Please know that NCPERS will keep its members up to date on future developments on this important topic. ◆

__Tony Roda__ is a partner at the Washington, D.C. law and lobbying firm __Williams & Jensen__, where he specializes in legislative, regulatory, and fiduciary matters affecting state and local pension plans. He represents the National Conference on Public Employee Retirement Systems and state-wide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Ohio, Tennessee, and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from the Catholic University of America, and LL.M (tax law) from the Georgetown University Law Center.

NCPERS Around the Regions

Chicago to Contribute $2.7 Billion to City's Underfunded Pension Plans

The city of Chicago plans to contribute a total of $2.7 billion in 2024 to its four woefully underfunded pension funds, which includes $307 million in advance payments, according to a 2024 budget forecast released by Mayor Brandon Johnson's office on Sept. 13.

READ MORE *Source: Pensions & Investments*

New York, Oregon Pension Funds Sue Fox Corp. for Opening Itself Up to Lawsuits

Pension funds from New York City and Oregon allege that Fox Corp. exposed itself to defamation lawsuits and breached its fiduciary duty following the network's controversial coverage of the 2020 U.S. presidential election.

READ MORE *Source: Chief Investment Officer*

Washington Public Pension System Expected to be Fully Funded by 2027

Washington state's public pension system is expected to be fully funded by 2027, according to the Office of the State Actuary. However, ongoing contributions will still be required for most of the 11 pension plans.

READ MORE *Source: The Center Square*

CalSTRS Simplifies Its Reference Benchmark to 70/30

CalSTRS' investment committee on Sept. 13 adopted a new reference benchmark of 70% stocks and 30% fixed income that it considered simpler and more easily understood by the average beneficiary.

READ MORE *Source: Pensions & Investments*

Indiana Lawmakers Begin Study of Cost-of-Living Increases for Public Pension Retirees

In almost every budget going back three decades, the state provided either a cost-of-living adjustment, or COLA, to monthly pension benefits, or it's given retirees a 13th check — an extra month's worth of benefits. It didn't do that this year, opting instead to study a permanent COLA of 0.5 percent per year. The Indiana Public Retirement System told legislators Wednesday that would cost the state about $60 million a year.

READ MORE *Source: Cincinnati Public Radio*

Persistent Pension Problems Has Dallas Eying Pension Bonds

During a presentation to the city council last month on debt capacity for a 2024 general obligation bond referendum, Dallas Chief Financial Officer Jack Ireland said $400 million of available capacity was being set aside for the potential issuance of POBs.

READ MORE *Source: The Bond Buyer*

Photo Illustration © 2023, 123RF.com

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.

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FUNDfire

‘Valuation Risk’ Now a Key Concern for Public Pensions: Report

Private asset values are based on valuations as opposed to market prices, which could turn out to be overstatements, says a nonprofit research group.

By Justin Mitchell | October 13, 2023

Public pensions will have to consider whether or not the market values assigned to their private holdings can be trusted, according to a recent **report** from the **Equable Institute**, a nonprofit focused on public pension research.

Public pensions have shifted more of their capital into private assets over the past two decades, going from 9% in 2001 to 34.1% currently. Over the past several years, the market values ascribed to their private holdings may not be realized, said **Anthony Randazzo**, Equable’s executive director.

“We are not trying to say that private equity investing is bad, or that real estate investing is bad, or that pension funds shouldn't do those things,” he said. “What we're trying to say is that there are risks associated with those that everybody understands, but then there's this other risk for pension funds, this valuation risk, that stakeholders in most states don't understand.”

Private equity and real estate returns shot up during the coronavirus pandemic but have been declining ever since, according to Equable data. This could have an “historic effect” on pensions because the higher returns on paper during those times may not ultimately result in concrete gains, Randazzo said.

To view the graphic, **click here** or go to https://www.fundfire.com/c/4279184/554024?referring_content_id=4279184&referring_issue_id=554024

“[Public pensions] were assuming that they had assets valued at whatever level they were in 2021, and it turns out that they’re going to be considerably lower,” Randazzo said. “That’s not just a loss of return or something, that means they should have been putting higher contribution rates into their funds in the past.”

Public assets like global equities are priced based on a going rate in a public marketplace, but private assets are valued based on “fair price” calculations done by accountants and actuaries, the Equable report says. Moreover, these assets are reported on a lag, usually about three months, so do not reflect market trends until later.

The report’s concern about valuation risk is “overblown,” said **Kelly DePonte**, head of research at placement agent **Probitas Partners**.

The methodology by which private assets are valued is set by the **Financial Accounting Standards Board**, a private nonprofit recognized by the **Securities and Exchange Commission** as the "designated accounting standard setter" for public companies, according to its website. This methodology is audited annually, DePonte added. Moreover, valuations are usually reviewed by a "limited partners advisory committee," which is a group of investors in each private fund who provide oversight.

"The reason mark to market [valuation] is not used, of course, is that the assets are illiquid and are meant to be held for a long time while the fund manager applies its techniques for value creation," DePonte said in an email. "This illiquidity and the lack of mark to market valuations are well known to institutional investors."

Related Content

August 16, 2023
Buyout Valuations May Finally Perk Up in Q2, But Dispersion Widens

February 27, 2023
Public Pensions Start Feeling the Sting of Private Equity Losses

December 9, 2021
'Banner Year' Doesn't Mean 'Money in the Bank' for Endowments

Much of the current concern about valuations can be accounted for by that lag in reporting private asset values, coupled with recent market volatility, said **Tim Clarke**, lead research analyst for private equity at **Pitchbook**. The private markets data provider has warned that declining private equity returns could start to affect pensions' funded status, as **reported**.

Pitchbook's U.S. private equity benchmark shot up 98% from mid-2020 to mid-2022, while the S&P 500 index gained just under 52% during the same period, according to a recent analyst note, a larger gap than usual, Clarke said.

"There was a pretty big open water of outperformance, more so than in prior cycles, and then there was the predictable catch-up," he said.

A lot of the powerful 2021 returns were also "paper gains," meaning they were based on theoretical valuations and not actual cash returned to investors, Clarke added. Pitchbook also warned about this in early 2021, as **reported**.

"That doesn't mean that you won't ultimately realize those [returns], but our thinking was you probably realized less than what was captured at that time," he said.

Public pension trustees ought to hire independent experts to vet the valuations of their public holdings, but none of them want to do that for fear of what they will discover, leading to a "don't ask, don't tell" effect, said **Jeffrey Hooke**, a senior finance lecturer at **Johns Hopkins University's Carey Business School**.

"If they don't ask what the true valuations are, they don't have to tell anybody that there's underperformance, and their numbers as a pension plan are a little inflated," he said. "They basically don't want to know the truth."

Equable recommends pensions begin reporting what share of their assets was based on market prices versus what share was based on valuations, Randazzo said.

“They literally don’t have to do anything else, it’s just adding a reporting line,” he said. “It would be a non-trivial step forward on trying to understand this issue.”

Michael Taffe contributed the graphics to this piece.

MEKETA
INVESTMENT GROUP

Venture Capital Primer

WHITEPAPER
SEPTEMBER 2023

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Key Takeaways

- → **Venture capital ("VC") is a private equity strategy that entails investing in newer, less stable businesses.**
- → **VC is generally considered to offer both the highest risk and highest potential returns of any major asset class.**
- → **Manager selection is critical, as VC exhibits significant performance dispersion among managers.**
- → **Top-quartile VC funds often have very limited access and are closed to new investors.**
- → **The smaller fund sizes and limited access of venture capital make it difficult to deploy large commitments.**
- → **The higher risks of venture-backed companies can be partially mitigated via portfolio construction and diversification.**
- → **Vintage year diversification has been very important to VC investing historically.**

Introduction

Venture capital has been an attention-grabbing, headline generating asset class from its very beginning. Many household names started out as (or still are) venture backed investments, including Apple and Microsoft in the 1970's/1980's, Google and Amazon in the 1990's, Facebook and SpaceX in the early 2000's, and Uber, Airbnb, DoorDash, and Peloton in the mid 2000's. More recently, venture capital has become a dominating presence in the cryptocurrency and artificial intelligence industries, driving innovation through investments in companies such as Coinbase and OpenAI.[1]

The primary allure of investing in venture capital lies in its risk/reward potential. Investors are typically drawn by the potential to generate some of the highest returns of any asset class, but they should be aware of the increased risks that brings. We have designed this primer to provide an overview of the venture capital asset class as well as contrast it to other private markets strategies, particularly buyouts.

[1] Sources: Harvard Business Review, "How Venture Capitalists Make Decisions," April 2021. PitchBook, "The 25 most valuable VC-backed companies in the US," May 2019.

What is venture capital?

Within private equity, there are several mainstream strategies, including buyouts, growth equity, and venture capital ("VC"). Venture capital managers ("VCs") invest in new, typically not-yet-profitable companies with high perceived growth potential. Any industry can be targeted, though VC is dominated by technology-driven companies. Unlike other private equity strategies, venture capital funds typically aim for minority ownership while investing in a greater number of companies. This ownership position often comes with board seats that can allow the investor to influence a company's strategy. VC investors also may offer help in other ways, such as with financing, recruiting, customer introductions, providing industry connections, etc.

Venture capital is often referred to as the riskiest private equity strategy as it typically invests in newer, less stable businesses. The figure below depicts VC's annualized risk and returns in relation to other asset classes. It is evident that not only does VC have the highest return profile, but it also has the highest risk among major asset classes. It is important to note that the nature of private markets returns can artificially dampen volatility, thus making them appear lower risk than they truly are (i.e., investors should not assume that buyouts possess less risk than investments in publicly-traded companies).

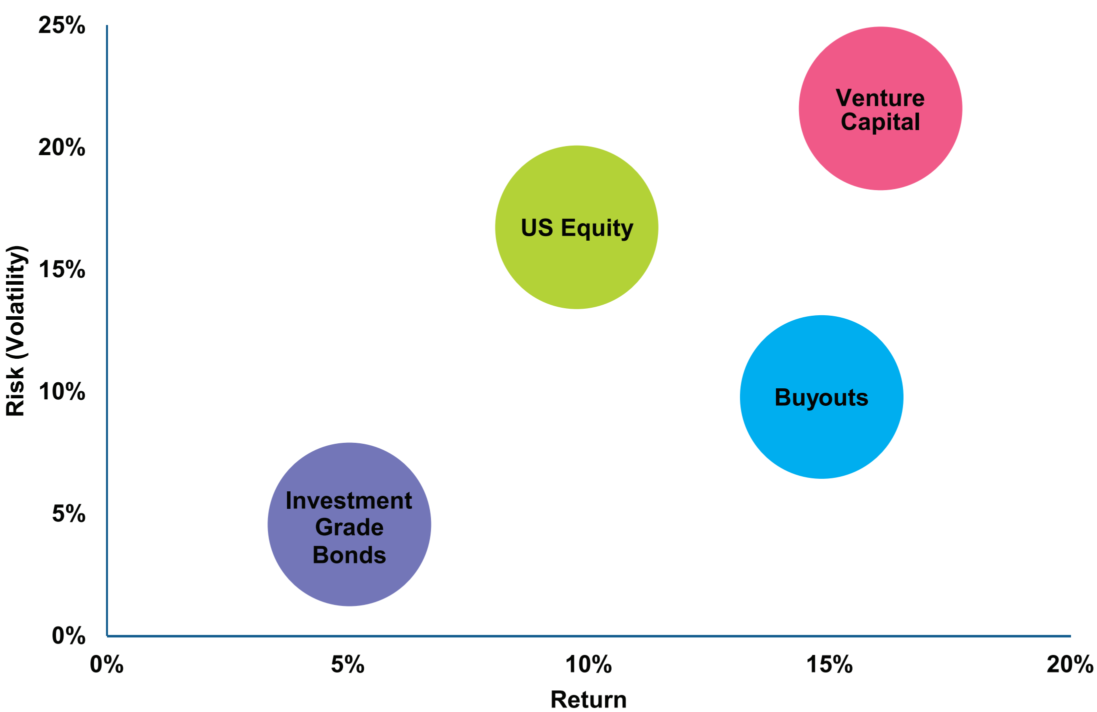

FIGURE 1
Risk and Return Profiles for US VC, Buyouts, Investment Grade Bonds, and Equity (Since 1990)

Source: Quarterly returns soured from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, Russell 3000 TR, Bloomberg US Aggregate Bond Index. Period is Q1 1990 to Q4 2022.

Note: For purposes of return comparison, throughout this document we linked quarterly IRRs of VC and Buyouts as reported by Cambridge Associates. This is because time-weighted returns for these series were not available and the quarterly IRRs used should not differ materially from time-weighted quarterly returns. Note that the trailing returns we present by linking the quarterly IRRs are different from the trailing IRRs as the trailing IRRs are running the calculation over a longer period in which the weighting of cash flows has a more substantial impact.

Getting in early

VC gets its name from investors providing capital to new ventures. They do so with the understanding that the company may not be profitable in the near future and the hope that it may grow rapidly and eventually provide a significant return on their investment. How big of a return (and how much risk is involved) often depends on how early – or in what stage - the investment is made.

Venture capital investments can span a wide range of stages as companies evolve. Figure 2 lists the various investment stages, what a typical dollar investment range may be, and for what the investment is typically used.

Stage	Typical Round Size	Description
Angel & Pre-Seed	$25,000 to $2 million	Investing in a pitch deck; pre-revenue
Seed	$2 million to $5 million	To develop a business plan and create a product
Early: "Series A" or "Series B"	$5 million to $50 million	To fund growth and establish market position
Expansion/Late: "Series C" and later	$50+ million	To fund revenue-generating, fast-growing businesses that are profitable or close to profitable

FIGURE 2
Venture Capital Fundraising Stages

Early stage and late/expansion stage US VC have had comparable returns over the long and mid-term. Figures 3 and 4 below compare returns from two different perspectives: TVPI[2] and DPI[3] . Figure 3 shows that since 2006, early-stage VC has had better TVPIs in most mature vintage years, while Figure 4 shows that late/expansion stage has had better DPIs in more recent years. This highlights a key return difference between investing in the two fund stages. Late-stage VC funds tend to distribute capital more quickly, while early-stage VC funds tend to ultimately generate a higher return per dollar invested but take longer to realize investments.

[2] TVPI stands for "Total Value-to-Paid-In", which represents the overall value generated as a ratio of all capital contributed into the fund. The performance calculation equals distributions plus remaining value, then divided by contributions.

[3] DPI stands for "Distributed-to-Paid-In", which represents how much value has been distributed back to investors as a ratio of total contributions into the fund. The performance calculation equals distributions divided by contributions.

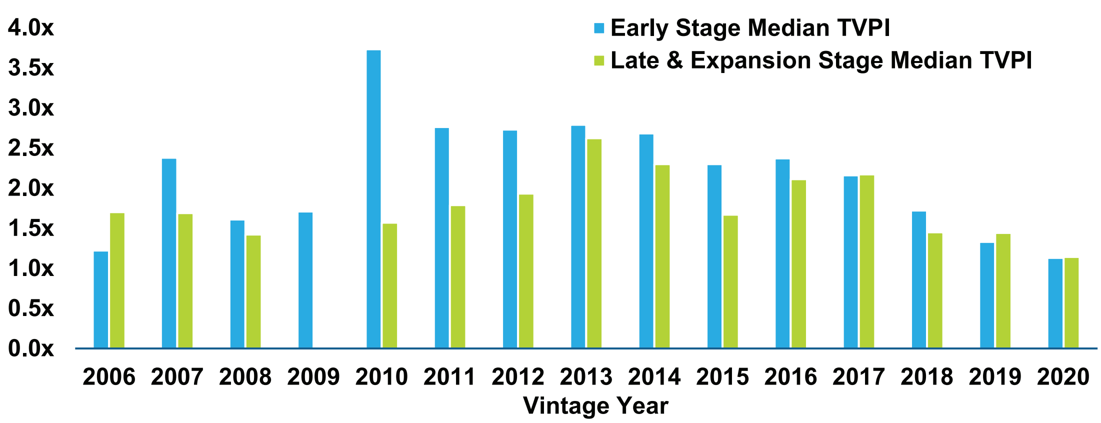

FIGURE 3
Early and Late/Expansion Stage US Venture Capital Median TVPI

Source: Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US VC Early-Stage Composite, Cambridge US VC Late & Expansion Stage Composite. Late & Expansion US VC stage does not have data for 2009.

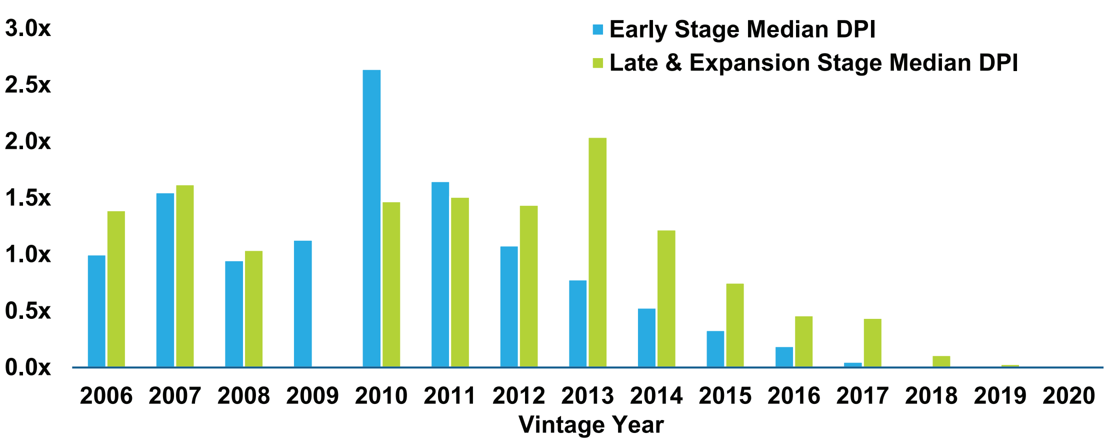

FIGURE 4
Early and Late/Expansion Stage US Venture Capital Median DPI

Source: Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US VC Early-Stage Composite, Cambridge US VC Late & Expansion Stage Composite. Late & Expansion US VC stage does not have data for 2009.

The US has historically comprised the majority of the venture capital market, representing over three fourths of VC funds raised since 1981.[4] Hence, throughout this paper we focus primarily on US VC. Figure 5 shows that the majority of venture capital funds target early-stage investments. While late- and expansion-stage venture saw substantial growth over the last decade, it is mostly limited to established venture firms/platforms. In contrast, the early-stage venture space is more accessible to smaller funds and managers.

[4] Source: Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge VC Composite, Cambridge US VC Composite. Europe Developed, China, and Asia/Pacific represent the majority of the rest of the Ex: US VC funds raised by vintage year.

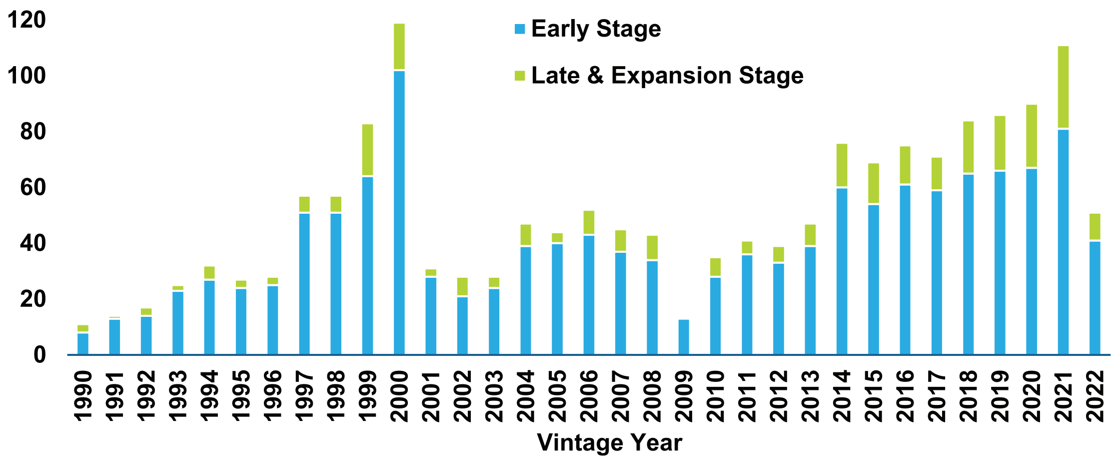

FIGURE 5
Number of US Venture Capital Funds Raised by Stage

Source: Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US VC Early-Stage Composite, Cambridge US VC Late & Expansion Stage Composite.

Note: Figure 5 captures only a minority of overall VC funds raised; however, it was chosen because it is a more accurate and reliable source of fund stage classification.

Despite late-stage VC typically having a larger dollar amount per investment, early-stage still comprises the majority of total capital raised. Furthermore, while both have grown over the past decade, the gap between early- and late-stage aggregate capital raised has widened (see Figure 6 below). This widening gap indicates that VC is not only growing overall as an asset class, but that it is particularly growing within the early-stage range.

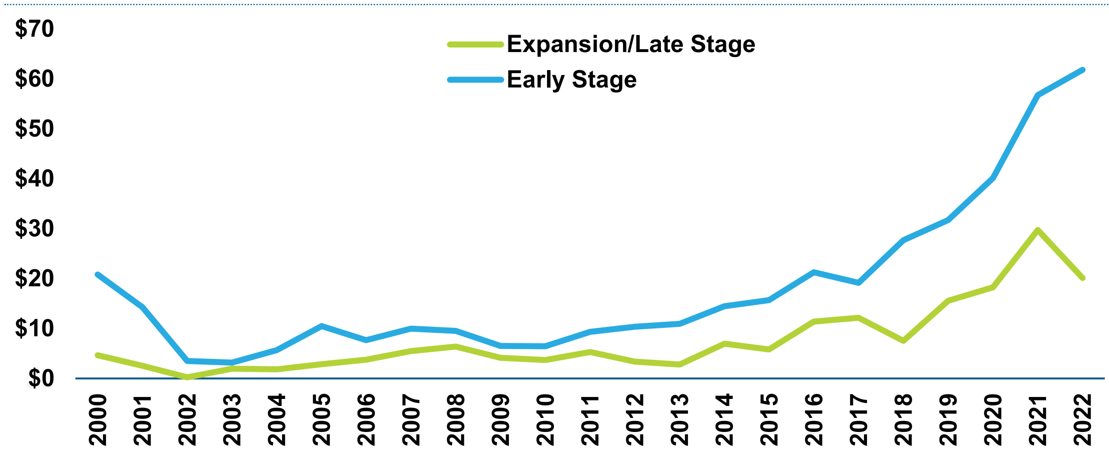

FIGURE 6
Global Aggregate Capital Raised (Billion USD)

Source: Preqin, as of July 2023.

Why invest in venture capital?

There are several reasons why investors may choose an allocation to venture capital, the foremost of which is the potential for higher returns. This potential for better performance comes from both the nature of investing in newer (i.e., riskier) companies as well as from the prospect of choosing superior funds (i.e., alpha potential).

Historical performance

Since 1990, US venture capital has had an annualized return of 16.1%, higher than both US buyout's 14.8% and the Russell 3000's 9.8%.[5] This includes VC's eye-watering performance during the dot-com bubble and the subsequent bust that depressed VC returns for several years. Even when looking at a more recent period, venture capital still outperformed buyouts and public equity. Since 2010, US VC has produced an annualized return of 16.7%, compared with US buyout's 16.6% and the Russell 3000's 11.9%.[6]

[5] Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, Russell 3000 TR. Period is Q1 1990 to Q4 2022. The Russell 3000 is a broad composite of the approximately 3,000 largest stocks in the US.

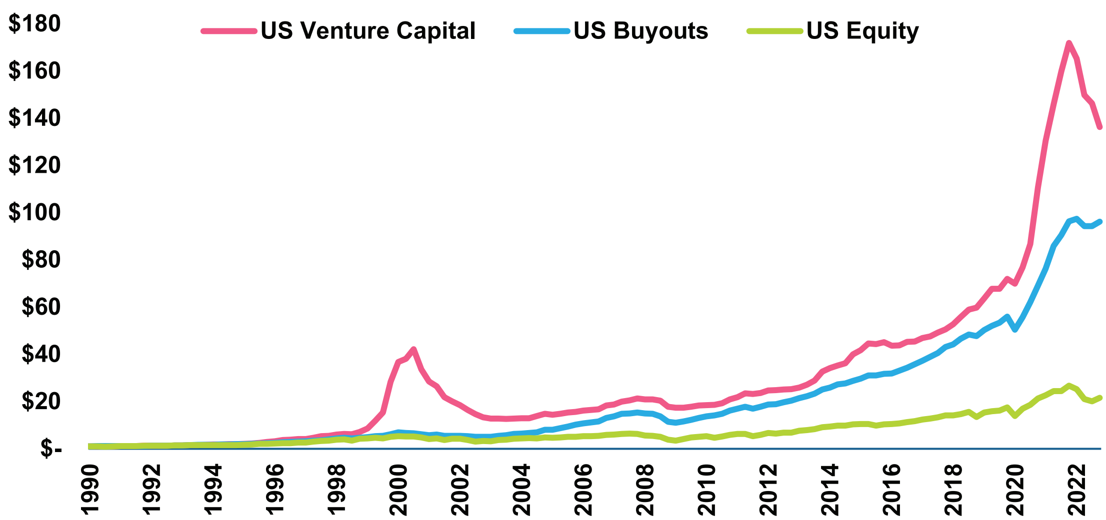

FIGURE 7
Growth of a Dollar for US VC, US Buyouts, and US Equity

Source: Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, Russell 3000 TR.

Venture capital also has a high level of cycle dependency. When only looking from Q1 2000 to Q4 2019 (i.e., excluding the dot-com bubble and COVID-19 spikes), VC underperformed both buyouts and US equity. Over the same period, VC had the lowest return at 4.8% and the second highest volatility (behind US equity) at 13.7%, whereas buyouts had a 11.7% return with 9.9% volatility. This high cycle dependency emphasizes the importance of diversifying VC investments by vintage year, as missing out on a good vintage year or concentrating capital in a particularly bad year can significantly impair overall returns.

[6] Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, Russell 3000 TR. Period is Q1 2010 to Q4 2022.

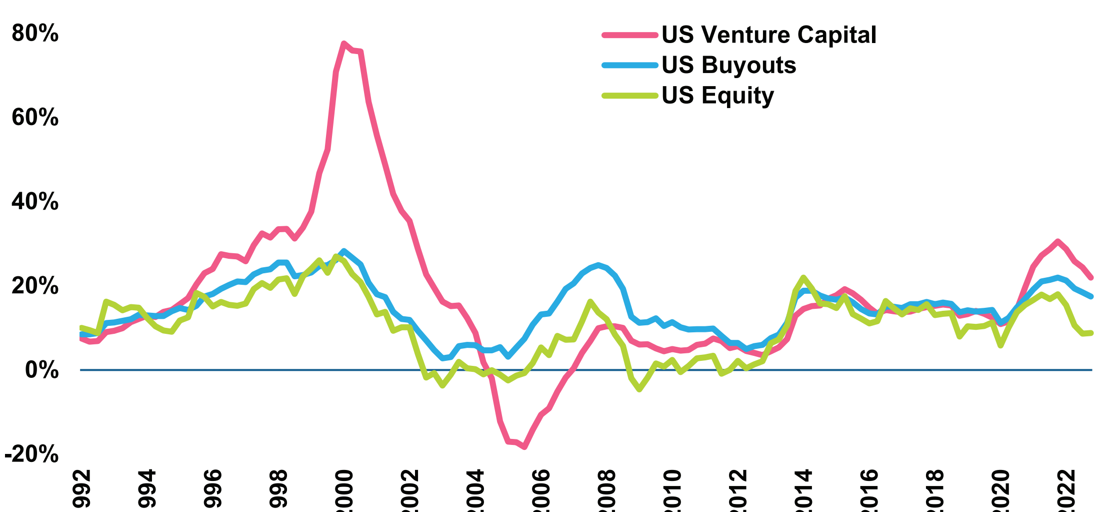

FIGURE 8
Rolling 5 Year Returns

Source: Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, Russell 3000 TR.

The importance of manager selection

Manager selection is critical in venture capital, as VC shows the highest level of performance dispersion of any major asset class as measured by interquartile spreads (see Figure 9). These interquartile spreads can be interpreted as how much potential value lies in selecting superior funds or managers within each asset class. The high level of dispersion in venture capital funds is perhaps unsurprising given that it is not unusual for a large proportion of investments to be written off entirely[7] while others potentially produce 10x-100x multiples on invested capital, particularly in the early stages.

[7] PitchBook reports that the number of VC-backed companies filing for bankruptcy or shutting down has hovered around 1,000 per year since 2016. Source: PitchBook, "Startup life expectancy expected to fall," January 11, 2023.

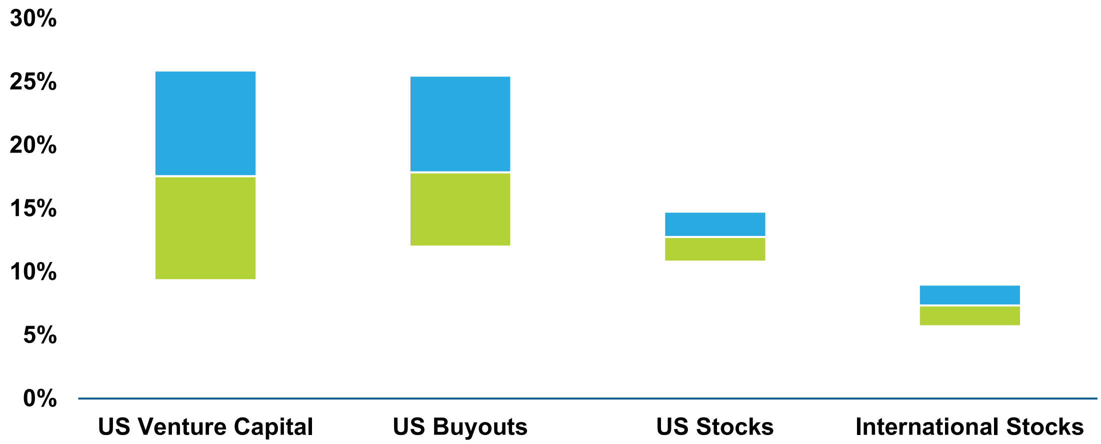

FIGURE 9
Trailing 10-Year Interquartile Returns

Source: Data sourced from eVestment and Cambridge Associates via IHS Markit. US Venture Capital and Buyouts funds raised Vintage Year 2011 to 2020. US Stocks and International Stocks fund data for the trailing 10 years as of December 2020. Cambridge data sourced July 2023, eVestment data sourced August 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, eVestment US Equity Universe, and eVestment ACWI ex-US Universe.

Hence, investing with top-performing venture capital managers can make a significant difference. For example, in the late 1990s, there was an exceptionally large return spread between the best and worst performers, as exhibited by the 36% average interquartile spread (see Figure 10).[8] This was followed in the 2000s by a more challenging market and a narrower interquartile spread of 14%.[9] Still, fund/manager selection was often the difference between low positive returns and negative returns during this period. Vintage year funds from 2010 to 2020 have exhibited an average interquartile return spread of 17%.[10]

[8] Source: Vintage year returns from Cambridge Associates via IHS Markit as of July 2023. Index: Cambridge Venture Capital Composite. For the period 1990 to 1999.

[9] Source: Vintage year returns from Cambridge Associates via IHS Markit as of July 2023. Index: Cambridge Venture Capital Composite. For the period 2000 to 2009.

[10] Source: Vintage year returns from Cambridge Associates via IHS Markit as of July 2023. Index: Cambridge Venture Capital Composite. For the period 2010 to 2020.

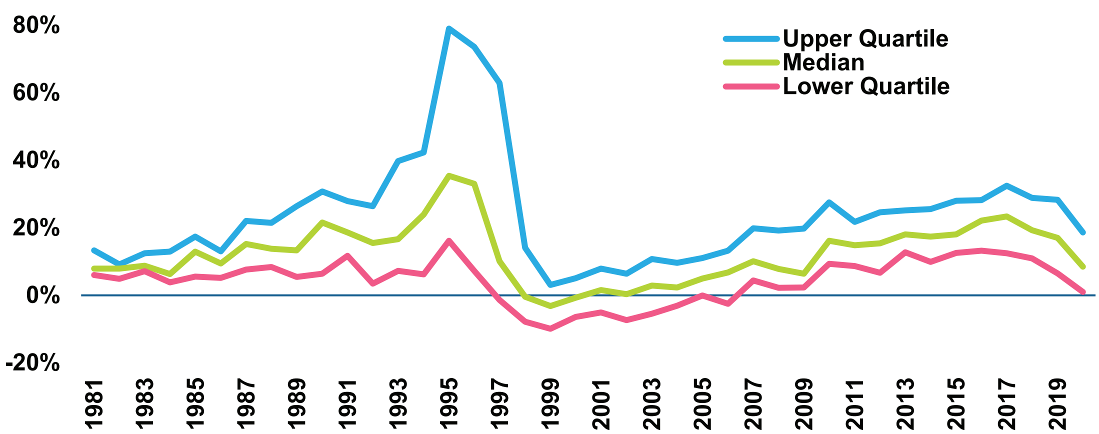

FIGURE 10
Global Venture Capital Quartile Performance by Vintage Year

Source: Vintage year returns from Cambridge Associates via IHS Markit as of July 2023. Index: Cambridge Venture Capital Composite.

Performance persistence

Performance persistence, the theory that a firm with a prior top-quartile fund is substantially more likely to generate top-quartile returns in its next fund, is prominent within venture capital. While there was performance persistence for both buyout and venture capital funds prior to 2000, that is no longer the case. Only venture capital has continued to show evidence of substantial performance persistence as VC managers with a prior top quartile fund had a 45% chance of achieving top quartile returns in their next fund and a nearly 70% chance of generating above-median returns.[11] This means that if an investor can get access to top-quartile VC funds/managers, then they are more likely to continue generating top returns. This may be due to certain managers having developed defensible advantages such as sourcing networks and strong reputations with entrepreneurs that bring superior deal flow. Thus, accessing top-quartile funds/managers is not only important for current fund performance, but potentially also for the performance of future funds.

What are the concerns?

The drawbacks to venture capital investing are similar to those of other private market investments, but in some cases they can be even more amplified.

Increased risk

A downside to venture capital's higher returns is that it has also been one of the riskiest investment strategies. US VC had an annualized return of -34.4% during the popping of the dot-com bubble.[12] Its worst historical cumulative drawdown far exceeds that for buyouts or public US equities (see Figure 11).

US Venture Capital	US Buyout	Russell 3000
-70.0%	-28.2%	-45.9%

FIGURE 11
Cumulative Maximum Drawdown

Source: Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyout Composite, and Russell 3000 TR. For the period Q1 1987 to Q4 2022.

Since 1990, VC's annualized standard deviation is 21.6%, above buyout's 9.8% and the US equities' 16.7%.[13] Since 2010, VC's annualized volatility has been lower than that of public US equity, but it is worth noting that the smoothed nature of pricing in private markets artificially dampens the level of volatility for VC (and buyouts).[14]

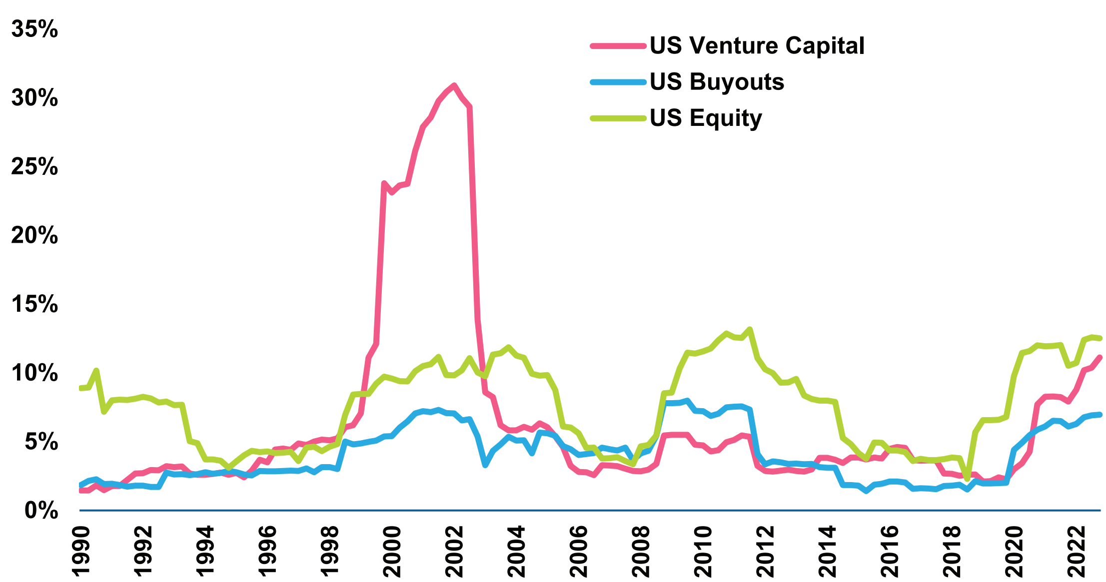

FIGURE 12
Rolling 3 Year Volatility

Source: Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, and Russell 3000 TR.

[11] Source: Harris et. al., University of Chicago: Becker Friedman Institute for Economics, "Has Persistence Persisted in Private Equity? Evidence from Buyout and Venture Capital Funds," November 23, 2020. Figures are measured by PME (i.e., a public market equivalent return) and are for the post-2000 time period.

[12] Quarterly returns sourced from Cambridge Associates via IHS Markit as of July 2023. Index used: Cambridge US Venture Capital Composite. Period is Q3 2000 to Q4 2002.

[13] Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite, Cambridge US Buyouts Composite, and Russell 3000 TR. Period is Q1 1990 to Q4 2022.

[14] Quarterly returns sourced from Bloomberg and Cambridge Associates via IHS Markit as of July 2023. Indices: Cambridge US Venture Capital Composite and Russell 3000 TR. Period is Q1 2010 to Q4 2022.

Another way to quantify riskiness is through loss ratios, or the sum of investment-level losses as a percentage of total invested capital. Venture capital has had a significantly higher loss ratio than buyouts since 2000. Furthermore, as expected, early-stage VC has had a higher loss ratio than expansion- and late-stage VC since 2000.[15]

[15] Source: Preqin, as of June 30, 2023.

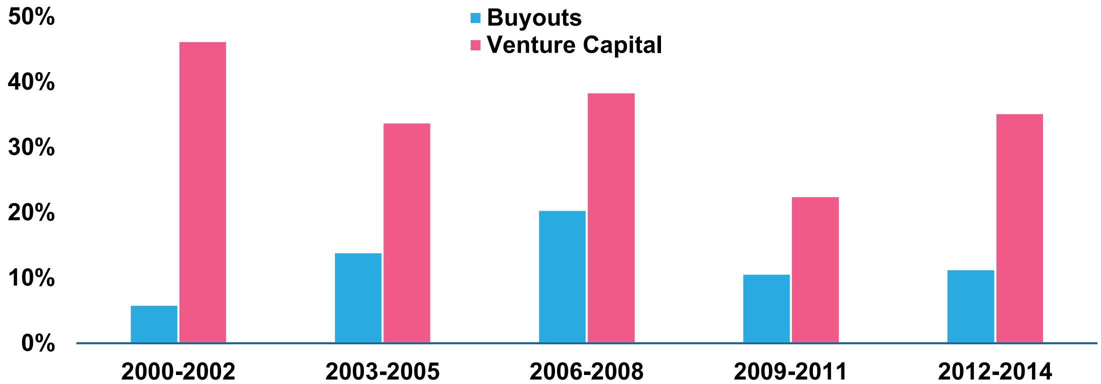

FIGURE 13
Loss Ratios (by % of Dollar Value)

Source: Preqin, as of June 30, 2023.

While venture capital companies have business risk (similar to that of growth and buyout strategies), they also are typically exposed to significantly higher financing risk. This financing risk arises due to the early nature of VC investments. VC-backed companies often need to receive continual infusions of capital in order to grow their business until they reach a point where they become profitable and generate enough cash flow to survive on their own. Hence a startup with traction in the market may still fail if they are not able to raise more capital during the early stages (i.e., when VC investments are typically made).

Some of these risks can be partially mitigated via portfolio construction and diversification. The choice of stage (e.g., early, late), commitment sizing (e.g., exposures to individual funds), and industry (e.g., information technology versus biotechnology) all contribute to the portfolio's risk.

Investing at scale

Another potential downside of venture capital presents itself for investors who wish to invest on a large scale. As a whole, venture capital typically has smaller fund sizes and limited access, which makes it difficult to deploy large commitments. Compared to buyout and growth equity strategies, venture capital's average fund size is substantially smaller. VC's average fund size since 2000 has been approximately $100 million, with a range spanning from $70 million to $177 million.[16] By contrast, the average size for a buyout fund over this period has been 7x larger.

[16] Source: Preqin, as of July 2023. Period is average annual fund size from 2000 to 2022.

FIGURE 14
Global Average Fund Size (in millions USD)

Source: Preqin, as of July 2023. Period is average annual fund size from 2000 to 2022.

Access also remains a key consideration for investors when considering investing in VC. Top-quartile VC funds often have very limited access and are often closed to new investors, more so than in any other area of private markets. These more exclusive funds tend to dominate the top quartile of returns, thus often making access an even greater consideration for investors.

Freedom of Information Act ("FOIA") considerations

Though a less common factor, venture capital firms have been known to exclude investors where information may be released or made available to the public. This challenge is typically faced by public pension plans seeking to access elite firms. Investments by public entities are generally subject to the Freedom of Information Act, which allows any person to request certain financial documents.[17] Venture capital, like the rest of private equity, are private investments and typically prefer to keep their financials, company valuations, and other information private.

[17] The Freedom of Information Act (FOIA) gives any person the right to request access to records of the Executive Branch of the United States Government. Public pension plans typically fall under this encompassing category and their documents may be requested.

Implementation considerations

Investing in venture capital involves many of the same considerations that are common among private markets. These include issues such as fund structure, liquidity, the j-curve, vintage years, etc. Rather than addressing these issues exhaustively, we provide a summary of some of the more important considerations below.

Diversification

To invest prudently, both public and private equity portfolios should be diversified across many different individual investments. This typically means investments in companies of different sizes, situated in different geographic areas, and involved in different business activities.

In addition, private market investments should be diversified across time as well. Depending on macro economic events and available opportunities, some vintage years[18] have better performance than others. As discussed above, performance for VC funds during and after the dot-com bubble is a prime example of this phenomena. Therefore, it is prudent to structure investments and plan cash flows to provide for diversification across multiple vintage years.

[18] The year in which a partnership makes its first investment is known as its "vintage year."

Further, investors should try to balance a VC fund's size and investment stage when deploying capital. Even if well balanced, venture capital still requires a larger number of commitments than most other strategies.

Liquidity

VC funds are typically closed-end with a lifespan of 10-15 years, though they can go longer, during which the only liquidity events tend to be distributions resulting from the sale of portfolio companies. VC funds have a unique pacing profile, even compared to buyouts. VC funds tend to be meaningfully slower to distribute capital back to LPs and their average hold periods have been increasing over time.

Because of challenges in valuing often unprofitable businesses with any certainty and because VCs are highly selective over their LP base, there is a limited secondary market for venture capital funds. In some cases and environments, the secondary market may allow an investor to occasionally engage in portfolio maintenance through the selective addition or sale of VC funds. However, there is a risk that the secondary market would be quite limited during a financial crisis (i.e., when an investor may be in greatest need of liquidity). This lack of short-term liquidity can be a deterrent to some investors and should serve as a reminder to engage in liquidity stress testing.

Costs and fees

Like most private market investments, a typical venture capital fund will charge both a management fee and carried interest. The management fee is generally applied to a limited partner's aggregate commitment amount during the investment period and on net invested capital (invested capital less cost of realized investments and write-offs) thereafter. This fee can vary across fund types, fund sizes, etc., but typically ranges from 1.5% to 3.0% per year. Venture capital fees tend to be the highest among those in the industry, and this is especially true for GPs whose funds are typically in highest demand.

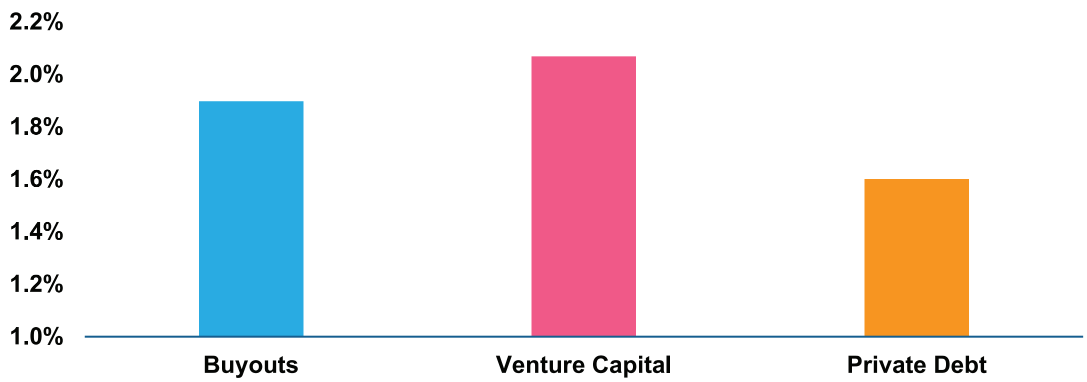

FIGURE 15
Mean Management Fee (Average 2016-2022)

Source: Preqin, "The 2022 Preqin Private Capital Fund Terms Advisor," September 2022.

The second type of fee, called "carried interest," represents a type of performance incentive fee for the general partner and is typically set at 20% (though top-tier VC funds often charge 25% or even 30% after a certain return threshold is reached). Unlike buyout funds, many venture capital funds have no return hurdle or "preferred return."

Summary

Venture capital is considered to be the riskiest of the three main private equity strategies as it invests in newer, less developed companies with seemingly high future potential. VC typically also offers the highest return and alpha potential. However, the large return spread between top and bottom tier managers acts as a double-edged sword, as below-average performance can significantly dampen returns.

VC has, on average, outperformed public equities and buyouts since 1990. These higher VC returns have been coupled with higher risk compared to buyouts and public equities.

The case for venture capital is compelling for those investors who can tolerate the risk profile and long-term illiquidity. Still, investors should be aware of the asset class's unique risks. VC investing is expensive and can be challenging to implement. As always, investors should conduct careful due diligence to make sure that investments match their objectives and constraints.

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PIMCO

CYCLICAL
OUTLOOK

OCTOBER 2023

Post Peak

Markets appear priced for a benign economic outcome that would be a historical rarity given current conditions. Higher bond yields offer resilience amid increasing risks to the global economy.

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PIMCO
Cyclical Forum 2023


Cyclical Forum 2023

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Our September Cyclical Forum was the first to be held in London, where the economic situation today reflects what's happening around the world.

The Bank of England (BOE) is nearing the end of a long journey to raise interest rates. This tightening of monetary policy has fueled increased volatility in U.K. financial markets, and there are concerns that the British economy could soon stall or slip into a recession.

Similar scenarios are playing out globally as countries continue their efforts to quell the post-pandemic inflationary spike. Central banks are reaching the end of their tightening cycles on different schedules and with different peak policy rates in sight.

We believe both growth and inflation have peaked. We expect growth across developed market (DM) economies to slow to varying degrees, and in some cases to contract. This year's broad-based economic resilience will likely give way to weakness next year as sources of fiscal support diminish and the delayed effects of tighter monetary policy exert a stronger global influence.

This collective slowdown may also play out differently across countries depending on their sensitivity to changing interest rates. Structural differences in housing markets and mortgage financing will play a role. We arrived at five key economic themes and three investment themes for our six- to 12-month cyclical horizon, which we discuss in the next sections.

In this environment, we look to emphasize global investment opportunities and to diversify our sources of interest rate exposure across debt maturities and countries. At current price levels, riskier assets such as stocks do not price sufficient downside risk for the possibility of a deeper recession, in our view.

Higher yields – both nominal and inflation-adjusted – than have been seen over the past decade and cooling inflation make us more sanguine about the prospects for fixed income. As always, we position portfolios for a broad set of macroeconomic and market outcomes beyond our baseline scenario.

Economic outlook: weakness and divergence ahead

This year marks the 25th anniversary of the opening of PIMCO's London office. Today, the U.K is the second-largest asset management center in the world and home to PIMCO's second largest trade floor, underscoring the importance of our international client base. London is our headquarters for the Europe, Middle East and Africa (EMEA) region, which has grown to include eight offices.

Hosting the Cyclical Forum outside of the U.S. for the first time advanced some key objectives of our forum process, such as fostering a global mindset and challenging our own assumptions and biases.

A year ago, the U.K. liability-driven investment (LDI) market faced a crisis that started when the British government proposed unfunded spending increases. That led to a sell-off in U.K. sovereign bonds, known as gilts, and caused the British pound to tumble.

In our June 2023 ***Secular Outlook***, "The Aftershock Economy," we said the LDI crisis could be a canary in the coal mine for long-term fiscal issues globally. This is particularly relevant now, as governments worldwide grapple with growing debt burdens. That includes the U.S., the world's largest issuer of sovereign bonds, which in August was stripped of its AAA credit rating by Fitch. During our forum, we were fortunate to have Sir Charles Bean, the former deputy governor for monetary policy at the BOE, as a guest speaker as we discussed these and other issues.

While the location helped shine a brighter spotlight on markets outside of the U.S., we used our Cyclical Forum as we always do: to discuss the latest opportunities and risks across the economic and investment landscape, and to develop a six- to 12-month outlook. We emerged with five key economic themes.

1) RESILIENCE AND FISCAL SUPPORT TO FADE AS MONETARY DRAG KICKS IN

Milton Friedman said monetary policy acts with "long and variable lags." We think the same can also be said of fiscal policy. Economic resilience this year owed much to fiscal support, with the U.S. deficit widening and with households having ample savings from pandemic-related stimulus.

This support looks set to diminish. U.S. fiscal policy will turn contractionary, while recent elevated inflation erodes the real value of wealth, including the excess savings accumulated as a result of government payments to households during the pandemic. Our analysis suggests that household liquid assets built up during the pandemic (see Figure 1) will likely deplete in real terms over our cyclical horizon.

As fiscal support fades, the drag from tighter monetary policy will intensify. As we noted in our *Secular Outlook*, any future fiscal support may also be constrained due to high debt levels and the role of post-pandemic stimulus in fueling inflation.

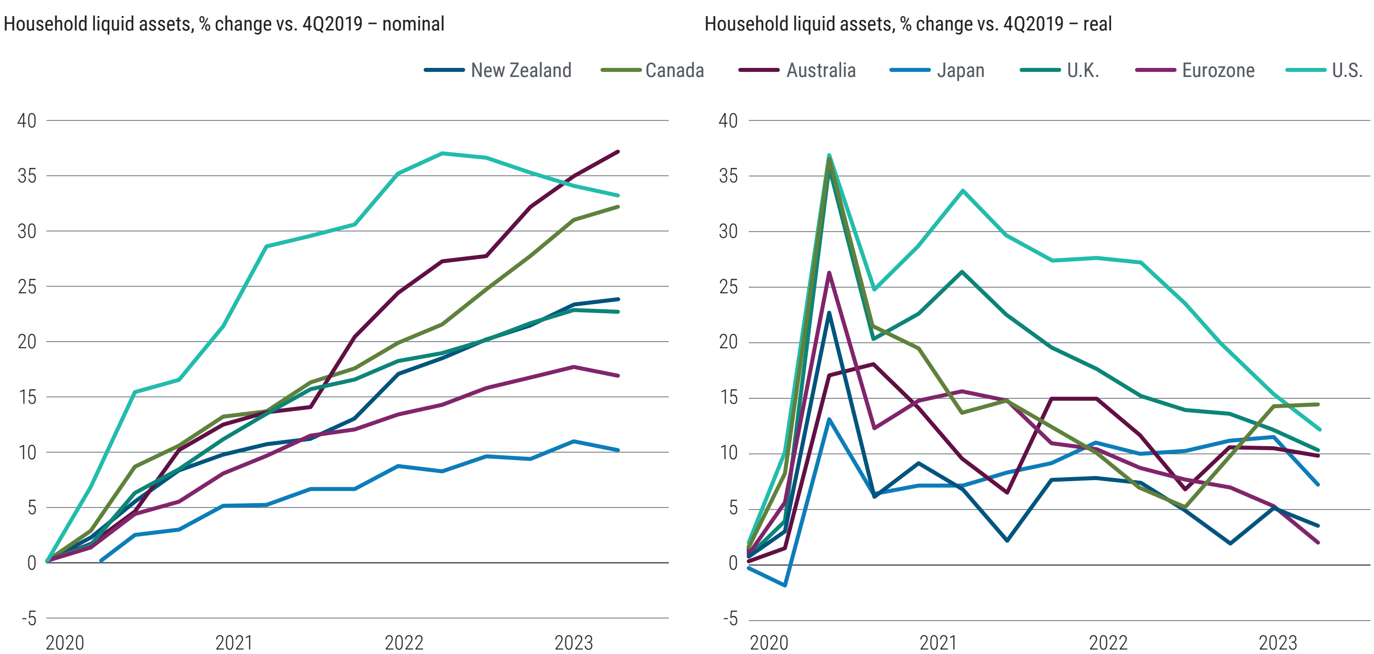
Granted, there are factors that could weaken the impact of monetary policy this time. The private sector holds substantial cash that is earning high interest rates. This is also the first major tightening cycle in which central banks are paying interest on reserves.

An inverted yield curve, with short-term debt yielding more than long-term bonds, benefits net interest income for households, which tend to have short-duration assets and long liabilities.

Additionally, households and businesses have extended the maturity of their debts, resulting in a more gradual pass-through of rising interest rates. Central banks' significant purchases of fixed income assets mean that governments are also absorbing a larger share of recent bond price losses.

Still, we believe economic weakness is coming. We expect unemployment to rise next year, leading to a normalization of central bank rates back toward neutral levels.

Figure 1: Household liquid assets in DM economies look set to diminish in real terms following post-pandemic peaks



Household liquid assets are defined as currency, deposits, and money market funds held by households.
Source: PIMCO, OECD, national statistical offices, and central banks as of 11 September 2023

2) GROWTH AND INFLATION HAVE PEAKED

The global economy, led by the U.S., has shown remarkable resilience despite one of the most rapid tightening cycles in modern history, raising questions about the effectiveness of monetary policy.

We discussed whether monetary policy lags might be longer as a result of the pandemic and the related policy response, or whether more tightening is needed, perhaps because the neutral real long-run policy rate has risen. (That neutral rate, or r*, is the estimated interest rate that over time is consistent with the economy operating at capacity and target inflation.)

Our view is that it is mostly a lag. We believe growth has peaked. We expect resilience to turn into weakness as growth slows later this year and into 2024.

Fiscal headwinds – especially in the U.S. – will soon come into play. We think that monetary policy is still working, as evident in a clear slowing in credit growth and a meaningful tightening in bank lending standards.

We believe inflation has peaked as well. In most DM economies, both headline and core inflation have decreased from their highs, albeit at different rates. Sticky wage inflation is likely to support core inflation longer unless there is some weakness in the labor market.

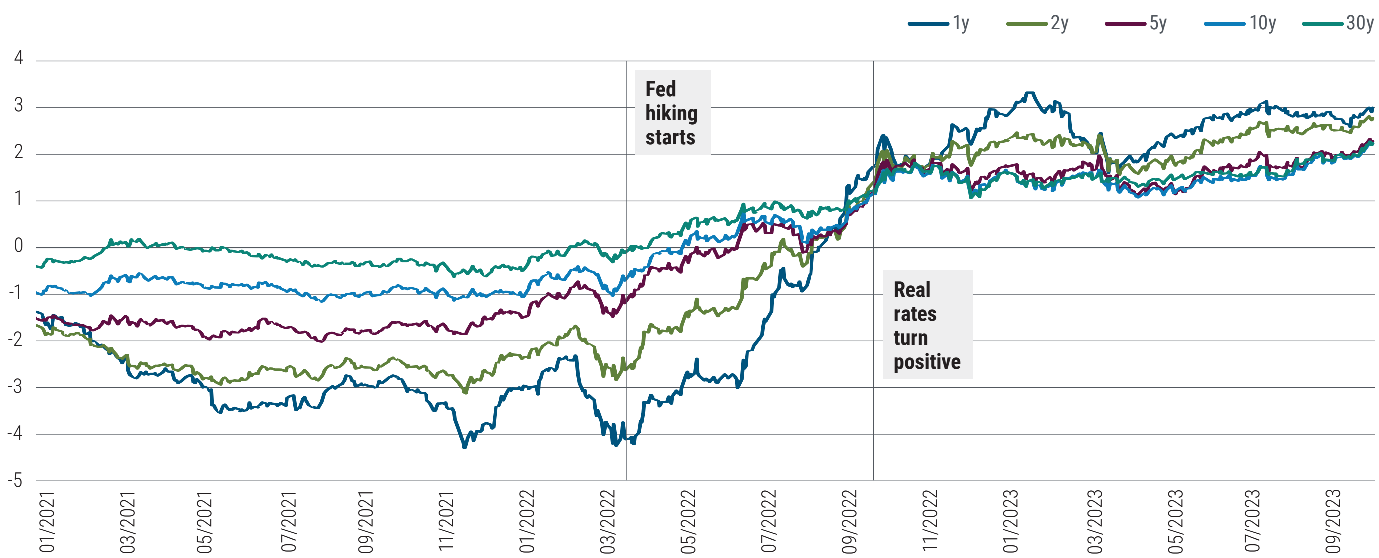
We forecast core inflation in the 2.5%–3% area in the U.S. and Europe at the end of 2024.

We anticipate that falling growth and rising unemployment will lead to more disinflation, helped also by other factors (for more, please see our *Viewpoint*, "Fiscal Arithmetic and the Global Inflation Outlook").

We expect resilience to give way to weakness as global growth slows later this year and into 2024.

Figure 2: U.S. real rates have been above zero only since late 2022

U.S. real rates, %



Source: PIMCO, Bloomberg as of 29 September 2023

3) A SOFT LANDING WOULD BE AN ANOMALY

It's worth noting the historical rarity of central banks achieving a soft landing – or avoiding a recession – when inflation is high at the start of a cycle.

We analyzed 140 tightening cycles across developed markets from the 1960s through today. When central banks hiked policy rates by 400 basis points (bps) or more – as several have done this cycle, including the U.S. Federal Reserve (Fed), the European Central Bank (ECB), and the BOE – almost all such instances ended in recession.

Notably, better economic outcomes in the face of past hiking cycles were often associated with supply expansion. The post-pandemic supply-chain normalization could help here, as well as a possible AI-fueled productivity boom. However, it's yet to be seen how much these factors contribute to boosting productivity over our cyclical horizon.

Healthy starting conditions for household and corporate balance sheets, as well as proactive financial stability policies – think of the BOE's intervention in the LDI crisis, or the U.S. Federal Deposit Insurance Corporation quickly extending bank guarantees under exceptional circumstances earlier this year – could be another source of assistance. These policies have so far successfully thwarted a recession.

But history suggests that tight financial conditions create a high risk of financial market accidents, and there are areas of vulnerability within markets, such as in private credit, commercial real estate, and bank loans.

There are also risks related to China. The country's recovery has been weaker than expected, weighed down by the property market. Housing investment, which had been expected to stabilize, is down 7.5% year-over-year as of August, according to China's National Bureau of Statistics.

More stimulus is likely needed to stabilize China's property sector and the economy more broadly. There are risks if stimulus is insufficient or too slow to arrive. In a downside scenario, growth could further decelerate in 2024 (to 3%, versus our current baseline of 4.4%). This would suppress China's demand for global goods and services, weighing on the global economy.

The government still has the capacity and tools to avoid such a downside scenario. We expect continued policy easing to support growth. More fiscal supports, including a wider central government deficit and higher local government special bond issuance, could help lift domestic demand via infrastructure capital spending or tax cuts. We believe further reduction to China's policy rate, currently at 2.65%, is likely. The government has recently called for more countercyclical macro policies to prevent the economy from sharp deceleration.

4) RECESSION RISK APPEARS TO BE HIGHER THAN MARKETS ARE PRICING

Our baseline implies growth underperforming and inflation falling. Markets, and risk assets in particular, appear to be priced for an "immaculate disinflation" scenario, in which growth remains solid and core inflation drifts towards central bank targets fairly swiftly. We think such pricing may reflect complacency.

We see growth in DM economies falling to varying degrees in coming quarters, with the most interest rate sensitive faring the worst. Europe and the U.K. also look vulnerable due to trade links with China and the lingering effects of the energy shock to terms of trade and investment. U.S. growth also looks set to slow, hovering between stagnation and mild recession.

We see unemployment rates rising by more than both consensus and central banks anticipate – by about one percentage point in the U.S. and just shy of that in Europe.

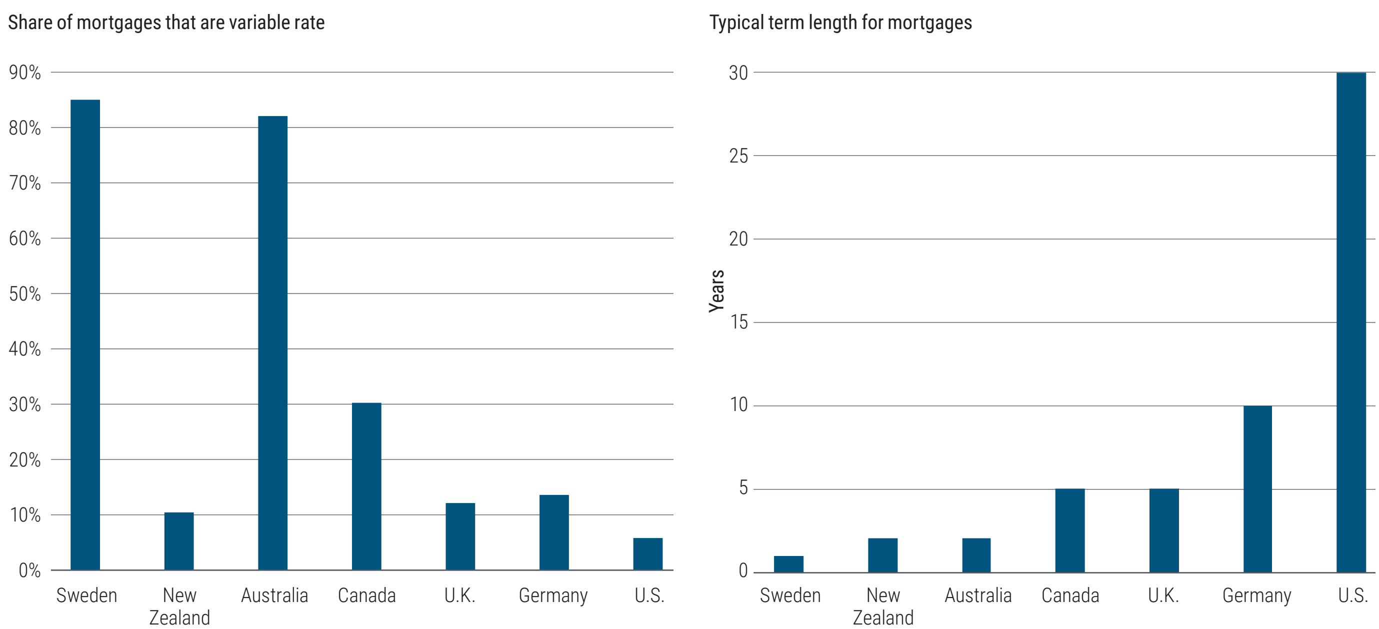
5) MONETARY PATHS SET TO DIVERGE

The extent of this expected slowdown remains uncertain and will vary across economies.

The relatively gradual decline in inflation means that central banks are unlikely to come to the rescue quickly to revive growth. Major central banks – including the Fed, the ECB, and the BOE – are at or very near the end of their tightening cycles, in our view, but will likely proceed cautiously with rate cuts given their mandates to control inflation.

We see plenty of room for monetary policy divergence. More rate-sensitive economies such as Australia, New Zealand, and Canada, which have generally higher household debt and a higher share of variable-rate mortgages (see figure 3), may get hit harder. We see potential there for faster rate normalization than what market pricing suggests.

Figure 3: Mortgage structure can vary greatly across countries



Sources for variable rate shares: Australian Bureau of Statistics, Bank of Canada, Bank of England, European Central Bank, U.S. Federal Housing Finance Agency, Reserve Bank of New Zealand as of August 2023 (U.K., New Zealand), as of July 2023 (Sweden, Australia, Canada, Germany), and as of June 2023 (U.S.). Sources for most common term length: Reserve Bank of Australia (RBA), European Commission, Fitch Ratings, Morgan Stanley Research as of September 2023.

Elsewhere, we see the People's Bank of China (PBOC) continuing to cut its policy rate, albeit only modestly. We see the Bank of Japan (BOJ) bucking the trend and raising its policy rate next year given a higher inflation trend compared with the past.

In emerging markets (EM), we see scope for a great deal of differentiation, with the more orthodox group of central banks, such as those in Brazil and Mexico, that hiked early (in many cases ahead of the Fed) able to ease policy relatively quickly. We see several other central banks, such as those in Poland and Turkey, being more constrained.

Investment implications: strong prospects for bonds across scenarios

Our baseline scenario sees inflation continuing to decline toward central bank targets, even as wage pressures take longer to cool.

While this is our baseline, we consider the relative risks under alternative scenarios when formulating investment conclusions, and we remain vigilant about building portfolios to mitigate against both upside and downside surprises. These other scenarios range from a "hard landing" (where growth and inflation fall quickly) to "further overheating" (where growth remains firm and inflation reaccelerates).

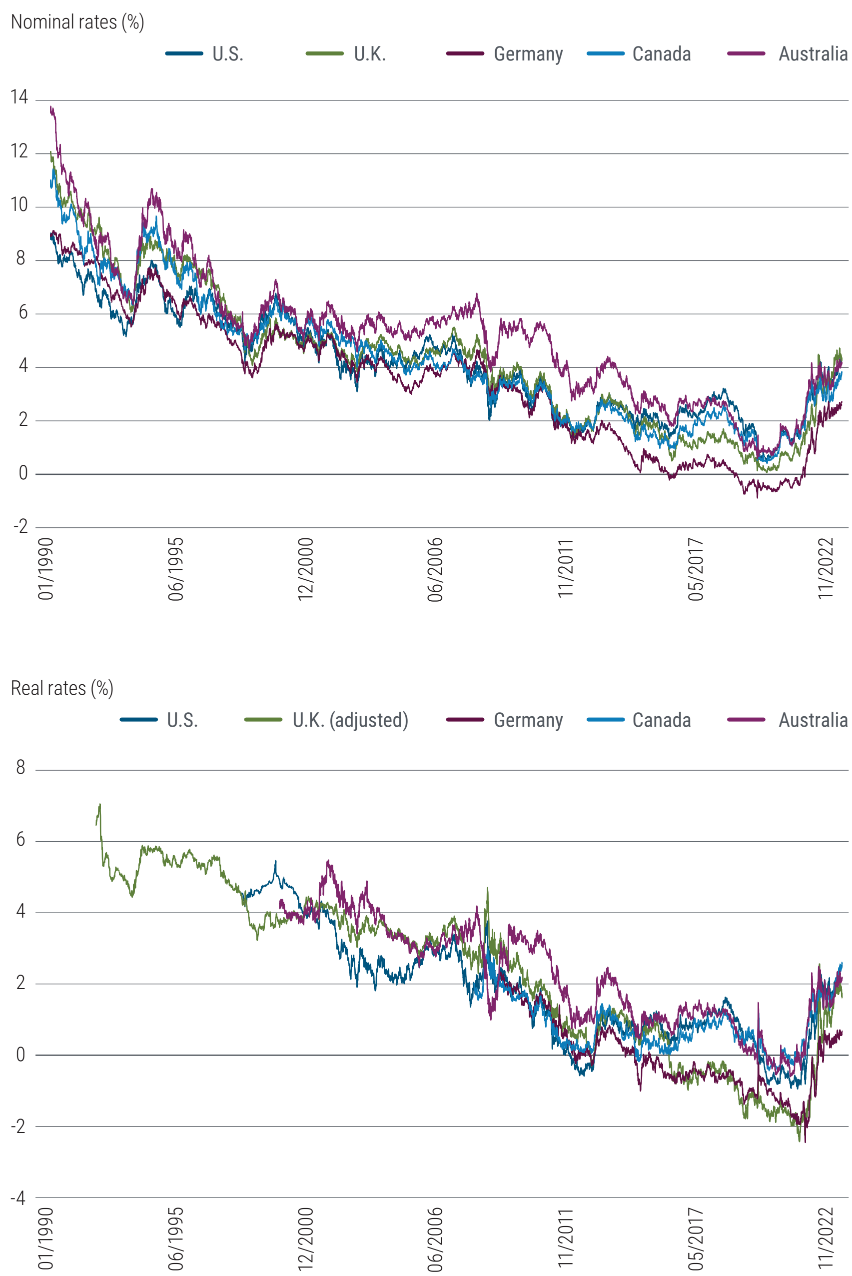
We see three key investment themes:

1) THE OUTLOOK FOR FIXED INCOME LOOKS COMPELLING GIVEN STARTING YIELDS AND THE ECONOMIC OUTLOOK

We believe growth and inflation have peaked, and we see greater recession risk than markets are pricing in, which supports a positive outlook for fixed income returns. After their recent rise, starting yield levels, which are historically strongly correlated with returns, are extremely attractive, with both real and nominal yields at levels not seen for a decade or more (see figure 4).

High quality bond funds today yield about 5%–8%. This looks very attractive versus expected equity returns and offers downside protection in the event of recession. At today's elevated yields, bonds look attractive even if inflation were only to decline toward the upper end of our forecasts, and these yields can provide investors with much more cushion against uncertainty.

Figure 4: Nominal and real 10-year rates across DM jurisdictions



Source: PIMCO, Bloomberg as of 2 October 2023. U.K. real rates adjusted to be shown on a CPI basis. All rates are for 10-year sovereigns.

We also expect bonds and equities to resume their more typical inverse correlation – in which bonds perform well when equities struggle, and vice versa – as inflation returns closer to central bank targets over the next year.

Higher inflation uncertainty and concerns over government debt, such as the U.K. LDI episode and Fitch's 1 August 2023 downgrade of the U.S. credit rating, should help re-establish proper term premiums (a gauge of compensation for holding longer-term debt compared with shorter-term debt) across DM. As an example, the New York Fed's measure of the U.S. Treasury 10-year term premium rose to a positive level last month for the first time in more than two years.

Our assessment is that r* will remain anchored at similar levels to those that prevailed before the pandemic. That would tend to anchor fixed income returns and, combined with higher term premiums, over time should lead to re-steepening of yield curves.

2) WE EMPHASIZE THE GLOBAL OPPORTUNITY SET AND DIVERSIFIED SOURCES OF BOND RISK AND RETURN

The impact of monetary policy, fiscal policy, and depletion of excess savings will play out at different speeds among countries. There will be different local impacts of energy prices, the Russia-Ukraine war, and exposure to China. We therefore expect greater differentiation in terms of returns from high quality fixed income investments across countries.

Global fixed income yields are very attractive today and already look high relative to the levels we expect to prevail over the cyclical horizon and beyond. We expect to maintain overweight duration positions and to increase those with any further rise in yields.

The U.S. has led the rise in global yields in recent weeks, and U.S. duration – a gauge of a bond's sensitivity to interest rate movements – in itself offers the potential for attractive return. We also see very good opportunities in other regions – such as in Australia, Canada, Europe, and the U.K. – given different interest rate sensitivity and different paths for quantitative tightening, or the running off of bond holdings from central bank balance sheets.

We see potential for different timing in the rate-cutting cycle, with central banks setting different thresholds for tightening given inflation and labor market dynamics.

> Historically, global diversification has contributed to higher risk-adjusted returns in fixed income.

After decades of sluggish growth and inflation, the BOJ is still in the phase of exiting its yield curve control (YCC) policy, and will likely raise rates as other central banks are cutting them. We see potential for Japanese yields to move higher.

We see broad benefits to diversifying positions in duration and yield curve positioning, which can help investors target higher risk-adjusted returns. Historically, global diversification has led to higher returns per unit of volatility. This is especially important in the current environment, given the divergence in expected returns and the range of risks around the baseline.

3) WE NEED TO POSITION FOR A BROAD SET OF MACRO AND MARKET OUTCOMES

We recognize and monitor the range of risks around our baseline outlook, and we need to manage portfolios accordingly. That means maintaining flexibility and liquidity, while also emphasizing relative value across investment opportunities. Overall, we believe it is still a very good environment for high quality bonds.

In today's climate, cash can be attractive, with short-term yields high relative to history and the flexibility to reinvest as other opportunities arise. But that flexibility comes with risks: Cash yields are fleeting.

We believe that longer-duration bonds provide greater resilience in portfolios, offering attractive yields today, which can be locked in over a longer time horizon, and the potential benefit of price appreciation in a recession. We think risks are becoming more symmetrical between high inflation and downside growth scenarios, while bond yields and valuations have become increasingly appealing. Given risks to our baseline, inflation-linked bonds could bolster a portfolio's resilience to higher-than-expected inflation.

We maintain a cautious stance on corporate credit, given recession risks, and an up-in-quality bias across the board. A focus on individual sectors can help mitigate broader economic uncertainties. For more, see our recent *Viewpoint*, "Navigating Credit Markets Today: A Q&A With Mark Kiesel and Jamie Weinstein".

We remain concerned about lower-quality, floating-rate corporate credit assets, such as bank loans and some legacy private credit assets, where we are already beginning to see strain from higher rates.

In many of our strategies, we will look to emphasize U.S. agency mortgage-backed securities (MBS), given their high quality, government backing, robust liquidity, and attractive valuation. Within credit, we also broadly favor securitized investments and structured credit.

Elevated interest rates, challenged bank balance sheets, and regulatory pressures are creating attractive opportunities in consumer and non-consumer private lending. We see a strong backdrop for opportunistic private investing in corporate credit and real estate.

We see diversification benefits to investing in select EM countries given their progress on disinflation and current levels of real rates. Similar to DM, we expect EM disinflation to occur at varying speeds. Some EM central banks with high real rates and declining inflation have already started easing policy, and inflation has come down faster in many EM countries relative to DM.

As a result, the economic backdrop within many EM countries has already turned supportive of growth, asset prices, and currency appreciation. That said, EM growth may still face challenges in 2024 as Chinese growth remains lackluster and the impact of tighter global monetary policy feeds through.

After its recent strength, we are broadly neutral on the U.S. dollar, with a focus on carry in foreign exchange trades.

About Our Forums

PIMCO is a global leader in active fixed income with deep expertise across public and private markets. Our investment process is anchored by our Secular and Cyclical Economic Forums. Four times a year, our investment professionals from around the world gather to discuss and debate the state of the global markets and economy and identify the trends that we believe will have important investment implications. In these wide-reaching discussions, we apply behavioral science practices in an effort to maximize the interchange of ideas, challenge our assumptions, counter cognitive biases, and generate inclusive insights.

At the Secular Forum, held annually, we focus on the outlook for the next five years, allowing us to position portfolios to benefit from structural changes and trends in the global economy. Because we believe diverse ideas produce better investment results, we invite distinguished guest speakers – Nobel laureate economists, policymakers, investors, and historians – who bring valuable, multidimensional perspectives to our discussions. We also welcome the active participation of the PIMCO Global Advisory Board, a team of world-renowned experts on economic and political issues.

At the Cyclical Forum, held three times a year, we focus on the outlook for the next six to 12 months, analyzing business cycle dynamics across major developed and emerging market economies with an eye toward identifying potential changes in monetary and fiscal policies, market risk premiums, and relative valuations that drive portfolio positioning.

All investments contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign-denominated and/or -domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage- and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and while generally supported by a government, government-agency or private guarantor, there is no assurance that the guarantor will meet its obligations. References to Agency and non-agency mortgage-backed securities refer to mortgages issued in the United States. **U.S. agency mortgage-backed securities** issued by Ginnie Mae (GNMA) are backed by the full faith and credit of the United States government. Securities issued by Freddie Mac (FHLMC) and Fannie Mae (FNMA) provide an agency guarantee of timely repayment of principal and interest but are not backed by the full faith and credit of the U.S. government. **Private credit** involves an investment in non-publically traded securities which may be subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. The **value of real estate** and portfolios that invest in real estate may fluctuate due to: losses from casualty or condemnation, changes in local and general economic conditions, supply and demand, interest rates, property tax rates, regulatory limitations on rents, zoning laws, and operating expenses. **Derivatives** may involve certain costs and risks, such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Management risk** is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing the strategy. The **credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. **Diversification** does not ensure against loss.

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision. Outlook and strategies are subject to change without notice.

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PERSist
The Voice for Public Pensions
Fall 2023 | Volume 36 | Number 4

NCPERS Message

2023 Public Pension Compensation Survey: Mid- and Senior-Level Staffing Trends


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Recognizing the unique challenges that pension funds face with recruitment and retention, NCPERS developed the annual Public Pension Compensation Survey to help pension funds benchmark compensation and benefits packages against their peers and ensure key positions are filled with skilled and qualified staff.

Following the success of last year's inaugural survey—which focused on nine c-suite positions—NCPERS partnered again with the non-profit research firm Cobalt Community Research to develop the 2023 Public Pension Compensation Survey. This year's survey focused on mid- and senior-level positions at public retirement systems. We received 176 responses to the survey, with data representing 425 public employee retirement systems.

In addition to the report, the data are presented online in an interactive dashboard created in Tableau. Funds are able to filter data in a number of ways to help optimize the mix of funds to which they would like to compare themselves. Filters include elements such as type of participants served, size of fund by participant, number of systems administered, number of fund staff, number of fund investment staff, and how assets are managed. In addition, each position can also be filtered by assets, tenure, full time/part time, and if the position has multiple roles. Based on feedback from the pilot study, we've also added the option to filter by state(s) to further refine comparisons.

The report and dashboard access have been made available at no cost to survey participants. If you are interested in purchasing the 2023 survey, please complete this form and return to info@ncpers.org.

The results of the 2023 Public Pension Compensation Survey suggest the industry has made some progress with recruitment and retention efforts. Approximately 42 percent of respondents indicated they are having no problems attracting and retaining skilled staff, up from 38 percent in the previous year.

More broadly, unemployment rates have remained at near-record lows throughout 2023, but with economic uncertainty and the ongoing debates about remote versus in-person work, workers are beginning to stay in their current jobs longer as many employers begin to focus more on retention rather than recruitment.

Job growth remains strong—particularly in the public sector. In the first eight months of the year, public sector jobs in the U.S. government made up nearly one-fifth of all new jobs. Hiring in the public sector remains a challenge, though, with public-sector roles generally receiving significantly fewer applicants compared to the private sector.

To continue to support NCPERS members with their ongoing human resources-related challenges, we're pleased to announce the launch of a new roundtable dedicated to HR professionals at public pensions. Starting on Nov. 1, 2023, we will begin hosting virtual meetings on a quarterly basis to facilitate discussions around the issues public pensions are facing in this space and to provide a venue for professionals to ask questions and connect with peers. Sign up here to participate, and stay tuned for additional details about this new initiative in the coming weeks.

If you have any questions about the Public Pension Compensation Survey or the HR Roundtable, please contact info@ncpers.org. ◆

In This Issue

NCPERS In This issue

How Much Capacity Does Your Plan Have for Illiquid Assets?

By: Eric Friedman and John Sullivan, Aon

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Many public pension funds find value in illiquid assets such as private equity, private credit, and real assets, but they are often uncertain about how much capacity they have for illiquidity. We did research to answer that question, including understanding how different plan characteristics impact the answer. There are several factors affecting a public pension plan's ability to invest in illiquid assets: plan demographics and maturity, funded ratio, and funding policy, to name a few. While all of these factors are important, what we found may be surprising: of all the plan characteristics we analyzed, a plan's funding policy had the largest impact on a plan's ability to invest in illiquid assets.

Specifically, the biggest driver of the capacity for illiquid assets is how the funding policy responds to periods of poor investment performance. Actuarial funding policies result in increased funding when the funded ratio decreases, thus creating a source of additional liquidity when it is most needed. That is, in a market downturn, a plan in a net cash outflow position (more benefit payments than contributions) will turn more neutral or potentially to a net inflow position as contributions increase, which makes the portfolio more resilient and able to have higher allocations to illiquid assets.

Alternatively, plans with contribution policies that are insensitive to the funded ratio (such as contributions that are defined by statute as a level percentage of payroll) are less equipped to navigate challenging market environments and indicate a lower capacity for illiquid assets. The plans most at risk of a liquidity event are those with low funded ratios, static or non-actuarial contribution policies, and high allocations to illiquid assets.

The biggest driver of the capacity for illiquid assets is how the funding policy responds to periods of poor investment performance.

We came to this conclusion through a stress testing analysis. Liquidity risk manifests itself in stressed economic environments when the actual asset allocation deviates from the target allocation and the investor is unable to rebalance. Therefore, we analyzed how far actual allocations to illiquid assets would drift from their target allocations in stressed economic environments. We did this for several representative pension plans with varying characteristics such as funded ratio, demographic profile, liability duration, and contribution policy. While all of these characteristics had some influence on a plan's capacity for illiquid assets, it was the contribution policy that was the most influential.

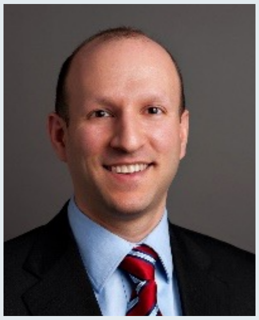
We find this result to be particularly interesting because contribution policy is not considered by many public funds in assessing their capacity for illiquid assets. It is common to consider the cash flow profile (maturity) of the plan, but too often investors look at cash flow projections only in a normal economic environment, rather than a stressed one. This approach doesn't provide critical information about how the contributions will change in a stressed environment. For public funds with high allocations to illiquid assets, this is an opportunity for improvement.

Our experience from doing this type of analysis is that most public pension plans can tolerate a higher level of illiquid assets from a liquidity management perspective. It is also worth noting that some plans have contribution "policies," but those policies may not always be followed, especially in times of stress when the actuarial contributions increase. Fiduciaries should be realistic about the likelihood that contributions will be made in stressed economic environments, and study scenarios accordingly. ◆

Fiduciaries should be realistic about the likelihood that contributions will be made in stressed economic environments.

Disclosures:

The opinions referenced are as of the date of publication and are subject to change. The information contained herein is for informational purposes only and should not be considered investment advice. This content summarizes a longer paper that can be provided upon request.



Eric Friedman *is a Partner with Aon's Investment Policy Services team in the U.S. In his role as the U.S. Director of Content Development, he leads the firm's U.S. efforts in developing intellectual capital to improve its investment advice to institutional investors. Eric holds the designations of Fellow of the Society of Actuaries, Enrolled Actuary, and Chartered Financial Analyst.*

John Sullivan *is an Associate Partner with Aon's Investment Policy Services team in the U.S. John's specialty is Asset-Liability Management for corporate and public sector defined benefit and postretirement welfare plans with a particular emphasis on the public sector.*

Goldman Sachs Secures Class Decertification

By: Robert Finkel and Sasha Marseille, Wolf Popper LLP

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On August 10, 2023, the Second Circuit Court of Appeals issued an order to decertify a class action securities lawsuit against Goldman Sachs.[1] The lawsuit has been ongoing for over a decade and stems from allegations of conflicts of interest related to collateralized debt obligations (CDOs) and an enforcement action by the U.S. Securities and Exchange Commission (SEC) against Goldman Sachs.

The Plaintiffs in the lawsuit alleged that Goldman Sachs maintained an inflated share price caused by misrepresentations concerning its business principles and conflict-of-interest policies. The Plaintiffs further alleged that the true facts were revealed to the market when the SEC sued Goldman Sachs on April 16, 2010 "for making material misleading statements and discussions in connection with" ABACUS 2007 AC-1. Almost immediately, the price of Goldman Sachs common stock fell sharply. The stock fell further when the Department of Justice announced that it was commencing a criminal investigation. These disclosures are said to have caused Goldman's stock price to drop by 21% from $184.27 on April 15, 2010, to $145.20 on April 30, 2010.[2]

The issue before the Second Circuit Court was the District Court's application of the U.S. Supreme Court's guidance on the "fraud-on-the-market" theory.

The issue before the Second Circuit Court was the District Court's application of the U.S. Supreme Court's guidance on the "fraud-on-the-market" theory. The fraud on the market theory is based on the principle that "stock trading on theoretically efficient markets like the New York Stock Exchange or Nasdaq incorporates all public, material information, including material misrepresentations, into its share price."[3] Defendants must rebut that presumption by severing the link between the misrepresentation and the price paid by Plaintiffs for the Goldman Sachs shares. The Second Circuit also had to assess the generic nature of Goldman Sachs' business principles statements and whether a reasonable investor would have relied on the truth of those statements.[4]

Generally, plaintiffs in securities litigation lawsuits argue that shares are inflated during the class period by the amount by which the stock price declines at the end of the class period when the truth about the company is revealed. However, the Supreme Court in *Goldman* stated that the inference that the back-end price drop equals front-end inflation weakens when there is a mismatch between the contents of the misrepresentation and the corrective disclosure.[5]

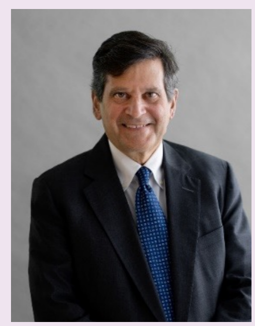
Following the Supreme Court's 2021 decision in *Goldman*, courts were directed to compare, at the class certification stage, the relative genericness of a misrepresentation with its corrective disclosure.[6] Ultimately, the Second Circuit agreed with Goldman Sachs that the District Court failed to meaningfully apply the inflation-theory framework established by the Supreme Court because there was no evidence that investors relied on Goldman Sachs' generic statements of its business principles. The Second Circuit reversed the District Court's class certification order, and remanded the case back to the District Court with instructions to decertify the class. ◆

Endnotes:

1 *Ark. Teacher Ret. Sys. v. Goldman Sachs Grp.*, Inc., 2023 U.S. App. LEXIS 20815, at *18 (2d Cir. Aug. 10, 2023) ("ATRS III").
2 *Richman v. Goldman Sachs Group, Inc.*, 274 F.R.D. 473, 474-75 (S.D.N.Y. 2011).
3 ATRS III at *18 (citing *Basic Inc. v. Levinson*, 108 S. Ct. 978, 991 (1988)).
4 ATRS III at *32.
5 *Goldman Sachs Grp., Inc. v. Ark. Tchr. Ret. Sys.* (Goldman), 141 S. Ct. 1951, 1961 (2021).
6 ATRS III at *8.

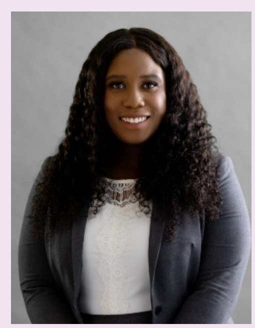
Robert C. Finkel *is a senior partner and member of the executive committee at Wolf Popper LLP. Robert is a graduate of the Columbia Law School, Class of 1981 (where he was a Harlan Fiske Stone Scholar), and the University of Pennsylvania, Class of 1978, where he obtained a B.S. in accounting from the Wharton School of Business and a B.A. in history from the College of Arts and Sciences. Robert began his employment in the 1980s with two large New York City defense firms. Robert became a partner at Wolf Popper LLP effective January 1, 1992. He has been repeatedly designated a Super Lawyer in Securities Litigation.*

Robert has written for The New York Law Journal on subjects including shareholder voting rights and ERISA class actions. He can be reached at rfinkel@wolfpopper.com or (212) 451-9620.



Sasha Marseille *is a graduate of The George Washington University Law School (J.D., 2020). While in law school Sasha was a student attorney in the Public Justice Advocacy clinic, where she represented low-income clients in wage and hour cases. After law school, Sasha served as an attorney advisor at The U.S. Department of Health and Human Services, Departmental Appeals Board, where she assisted the administrative appeals judges in adjudicating Medicare related exclusions imposed by Medicare providers or suppliers.*

Sasha is admitted to the bar of the State of New York.



Income Generator: Back in Bonds

By: George Bory, CFA, Allspring Global Investments

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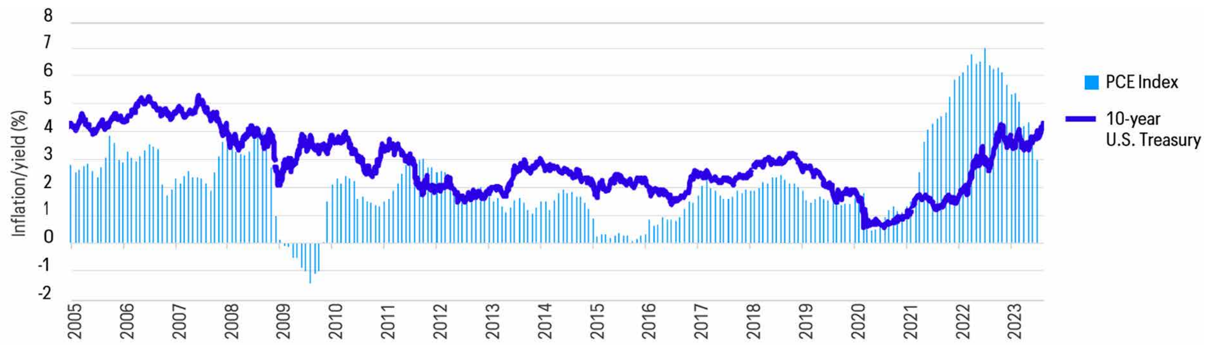
In early 2023, many financial pundits declared "bonds are back." In reality, though, bonds never left—and after suffering violent revaluation in 2022 as well as significant yield increases across the entire curve and up and down the ratings spectrum, we believe they're back to doing what bonds are designed to do:

1. Generate a steady stream of predictable income.
2. Provide a buffer against future price volatility.
3. Diversify a broad investment portfolio against cyclical economic risks.

Delivering Generous Income

Today, a broadly diversified bond portfolio can potentially generate sufficient income that compounds above the expected rate of inflation and compensates for the possibility of an uptick in credit risk. For example, the average yield of U.S. Treasury notes and bonds currently stands around 4.35%. The spot level of inflation (as measured by the Personal Consumption Expenditures [PCE] Index) currently stands just above 4%, and longer-term implied rates of inflation are hovering near 2.5%. As a result, U.S. Treasuries offer a positive real yield that many investors are likely to find attractive over time.

U.S. Positive Real Yields



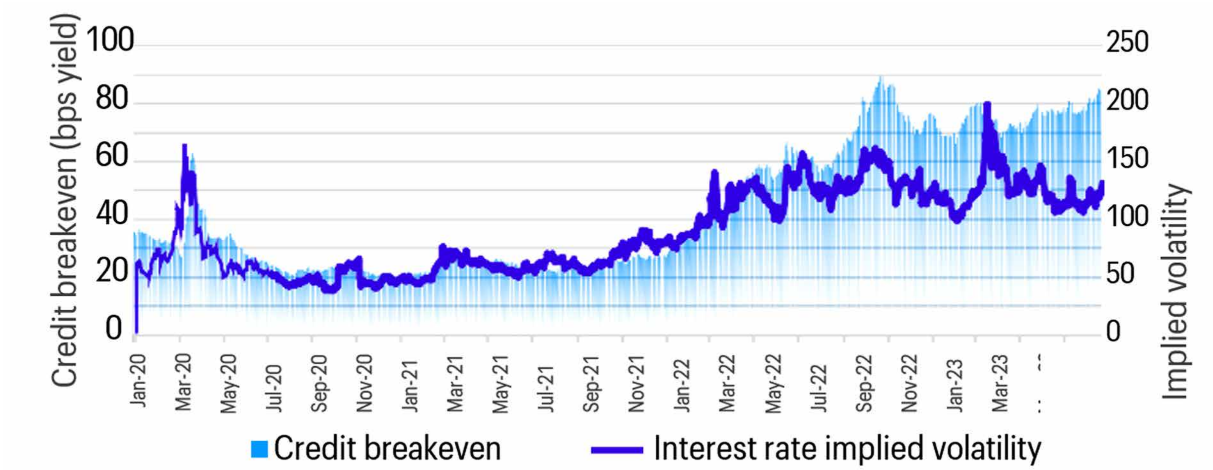
Source: Allspring and Bloomberg

Investors willing to go down the rating spectrum and/or into global bond markets will find real yields even higher.

Buffering Against Volatility

In 2022, the marked increase in price volatility unnerved many bond investors as inflation surged and prices plunged. Tightening monetary policy in the U.S. and other countries and lack of clear forward guidance from policymakers drove materially higher interest rate volatility and yields.

Buffer Against Volatility



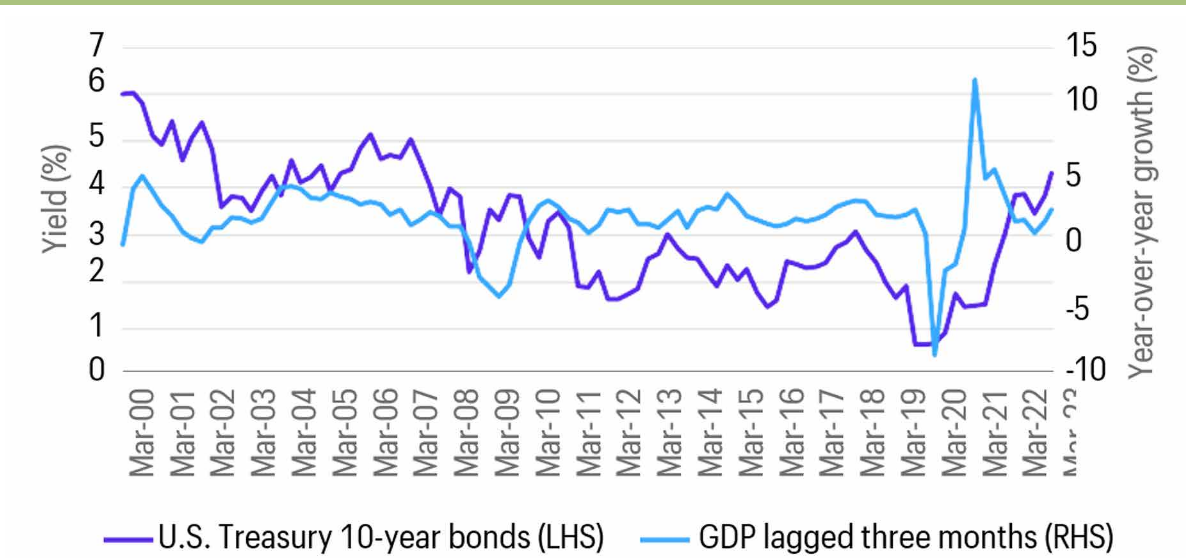
Source: Allspring and Bloomberg
100 basis points (bps) equal 1.00%

While an "uncertainty premium" is certainly warranted given the long list of risks facing investors, base rates in many countries are above the level of spot inflation, banks' lending standards are tightening, and financial liquidity continues to drain from the system.

Diversifying

Bonds are a good hedge against slower economic growth and/or a recession, but they are not a good hedge against inflation. However, as inflation pressures have started subsiding, bond prices have begun diverging from the prices of more cyclically exposed financial assets—namely, equities.

Yields Tend to Follow Growth Expectations



Source: Allspring and Bloomberg
GDP = gross domestic product
GDP lagged three months uses actual GDP to align with U.S. Treasury 10-year yields three months forward.

To be fair, inflation remains a dominant factor in today's market. Looking ahead, though, we expect bond prices to continue diverging from more growth-sensitive assets as inflation pressures subside and growth pressures emerge.

Riding the curve

To capitalize on these trends, here are five ideas for bond investors:

- **Extending duration:** Consider extending along the yield curve and adding duration as yields rise.
- **Maximizing yield:** Short- duration, lower-quality securities could help boost a fixed income portfolio's overall yield without adding significant interest rate risk.
- **Moving up in quality:** In our view, issuers with strong cash flow, diversified sources of funding, and a low percentage of variable-rate debt are well poised to thrive in today's economic environment.
- **Adding munis for stability:** In an environment of slowing economic growth and potential recession, general obligation bonds have generally outperformed revenue sectors.
- **Going global:** Global bond markets have started diverging from one another after the initial inflation shock of 2021/22, offering a good opportunity to diversify interest rate exposure and position in countries/regions with tight monetary policy and falling inflation.

Glad to be back

Bonds are continuing to do exactly what they are supposed to: generating income, buffering volatility, and hedging cyclical risks. It's time for them to again become a portfolio's cornerstone investment. ◆

George Bory, CFA *is the chief investment strategist for Fixed Income at Allspring Global Investments. In this role, he is responsible for partnering across the fixed income platform to help each team set investment strategies for our full range of products and collaborating with clients to identify appropriate investment strategies. In addition, he leads the Fixed Income team of portfolio specialists and serves as a portfolio specialist for the Global High Yield team. Prior to this, he served as head of fixed income research for Wells Fargo Securities and earlier served as the head of credit strategy. George began his investment industry career in 1992. He earned a bachelor's degree in economics from Siena College and completed the London School of Economics' General Course.*

A Value Investor's Guide to Impact Investing

By: John Mullins, Lyrical Asset Management

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Impactful businesses are hard to screen for and measure. There is no standardized measurement methodology and ESG ranking services don't help. For example, if we consider Refinitiv's top ESG rankings of the largest 2,500 developed market stocks, you'll find an oil and gas powerhouse and a provider of shale drilling equipment in the top 15. Industry classifications don't help. Of Standard & Poor's' 158 sub-industries there are only two obvious impact categories—Renewable Electricity and Environmental Services—which comprise only 22 stocks.

ESG Scores Don't Find Impact

Ticker	Company Name	GICS Sub-Industry	Refinitiv ESG Score	ESG Grade
AZN.L	AstraZeneca PLC	Pharmaceuticals	95.77	A+
BNPP.PA	BNP Paribas SA	Diversified Banks	95.53	A+
ROG.S	Roche Holding AG	Pharmaceuticals	95.02	A+
SRG.MI	Snam SpA	Gas Utilities	94.96	A+
OC.N	Owens Corning	Building Products	94.77	A+
ENELAM.SN	Enel Américas S.A.	Electric Utilities	93.99	A+
ISP.MI	Intesa Sanpaolo SpA	Diversified Banks	93.80	A+
BAYGn.DE	Bayer AG	Pharmaceuticals	93.67	A+
GASI.MI	Assicurazioni Generali SpA	Multi-line Insurance	93.56	A+
6502.T	Toshiba Corp	Industrial Conglomerates	93.51	A+
SAN.MC	Banco Santander SA	Diversified Banks	93.44	A+
BKR.OQ	Baker Hughes Co	Oil & Gas Equipment & Services	93.40	A+
INFY.NS	Infosys Ltd	IT Consulting & Other Services	93.05	A+
SHEL.L	Shell PLC	Integrated Oil & Gas	92.94	A+
002475.SZ	Luxshare Precision Industry Co Ltd	Electronic Components	92.60	A+

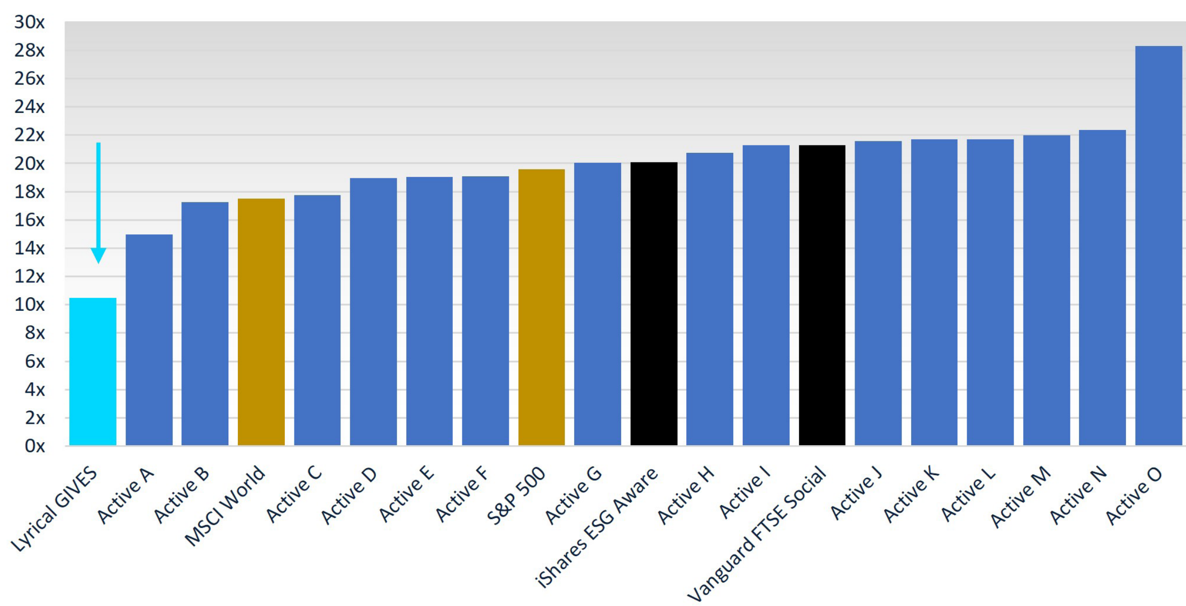
Impact is also difficult to measure – it is complex and not standardized. We think measurement must be done on a bottom-up basis. For example, take Elis, a cleaner of linens and uniforms, based in France. Elis purchases linens for their clients and cleans them using efficient industrial washers in a centralized location, reusing them as much as possible before recycling them. Elis is an obvious promoter of the circular economy, but that won't show up in ESG rankings or emissions data. To validate and measure the impact of Elis, we worked with the executive team to estimate that the company's operations use, on average, 48% less water and 29% less energy than onsite cleaning. Because it is both a cheaper and more environmentally friendly option, Elis is taking share from insourced cleaning, and we expect volume gains from the company to result in 54 billion liters over 4 years. This process might sound arduous because it is. However, the result is a true assessment of how a company's products impact the world as shown below.

Calculating Impact Often Requires Engagement and Independent Research

Year	Elis' Overall Water Efficiency* (L/kg)	Annual Laundry Washed (mm kg)^	Total Water Consumption (mm L)	Elis' Industrial Washers Reduced Water Usage	Estimated Water Consumption (bn L)	Estimated Water Savings (bn L)
2022	8.1	1.8	14.8	48%	28.4	13.6
2023	7.7	1.9	14.7	48%	28.2	13.6
2024	7.4	2.0	14.6	48%	28.0	13.5
2025	7.0	2.1	14.4	48%	27.8	13.3
Total Cumulative		7.8	58.5		112.4	54.0

Perhaps because identifying Impact is hard, we observe that most active and passive sustainable funds look similar. The two largest passive funds look much like the S&P 500 with >75% overlap. These passive funds essentially remove bad industries like tobacco and leave everything else. Most active impact funds crowd into the same names. Of eVestment's 15 largest actively managed "Sustainable" or "Impact" funds, 14 stocks are owned in at least five of them. What's more, none of these funds qualify as value funds, trading on average for more than 20x earnings.

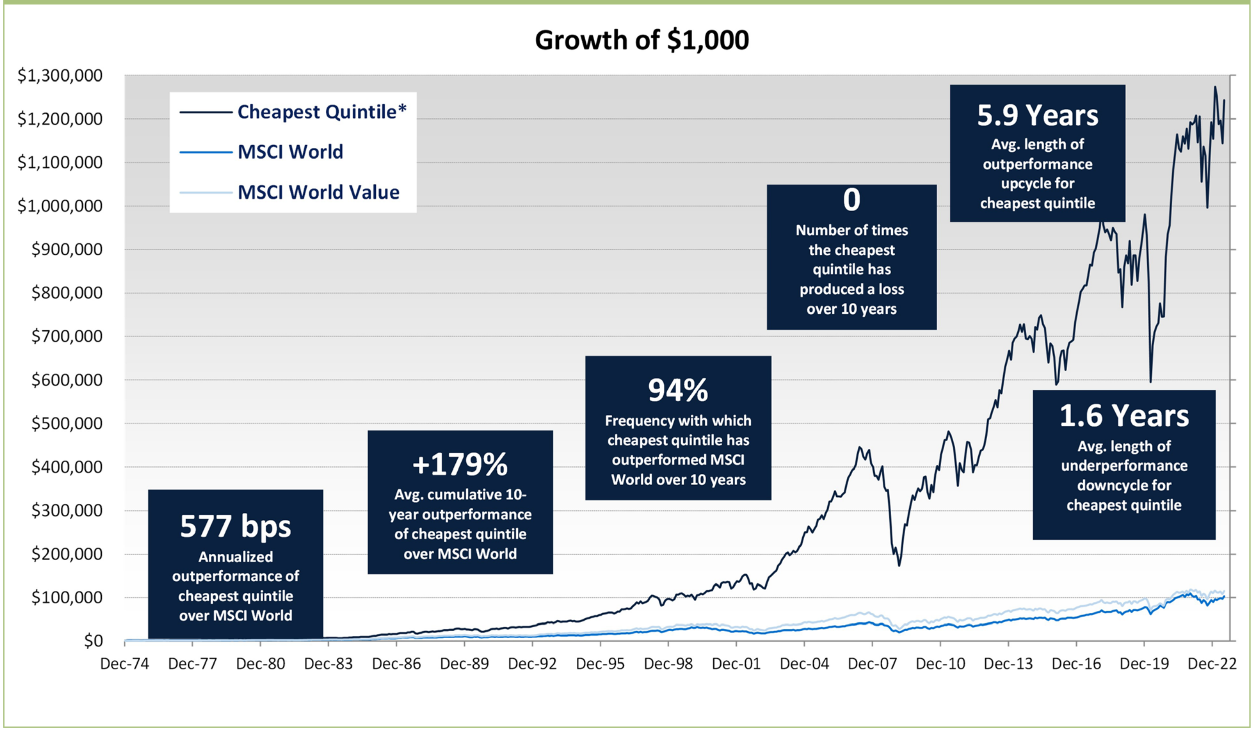
Active Sustainable Fund Peers Tend to Have High P/E Ratios



Source: FactSet

We believe combining value investing with impact is important to driving strong financial returns. Going back to 1975, the cheapest quintile of global stocks has outperformed the MSCI World by almost 600bps, annualized. This is why we believe valuation should be the bedrock of any investment strategy.

Why Global Value Stocks?



Investing in impactful public companies is necessary to achieve the UN's 17 Sustainable Development Goals, but finding and evaluating impactful companies is difficult. We believe you must employ a bottom-up approach, working closely with companies and industry experts to identify and measure impact. For impact investing to succeed and continue to attract investor interest and flows, it has to do more than just deliver a social or environmental return; it must also generate a good financial return. This is where a value approach can help. Using our portfolio as an example, it currently trades at a 10.5x forward P/E despite producing the impact shown below. Bottom-up value investing *is* achievable with impact. ◆

2022 - 2025 Estimated Positive Impact on Society

Disclosures:

Please see the Notes & Disclaimers tab at lyricalam.com for a discussion of certain material risks of an investment in Lyrical's strategies.

This document does not convey any offering or the solicitation of any offer to invest in the strategy presented. Any such offering can only be made following a one-on-one presentation, and only to qualified investors in those jurisdictions where permitted by law.

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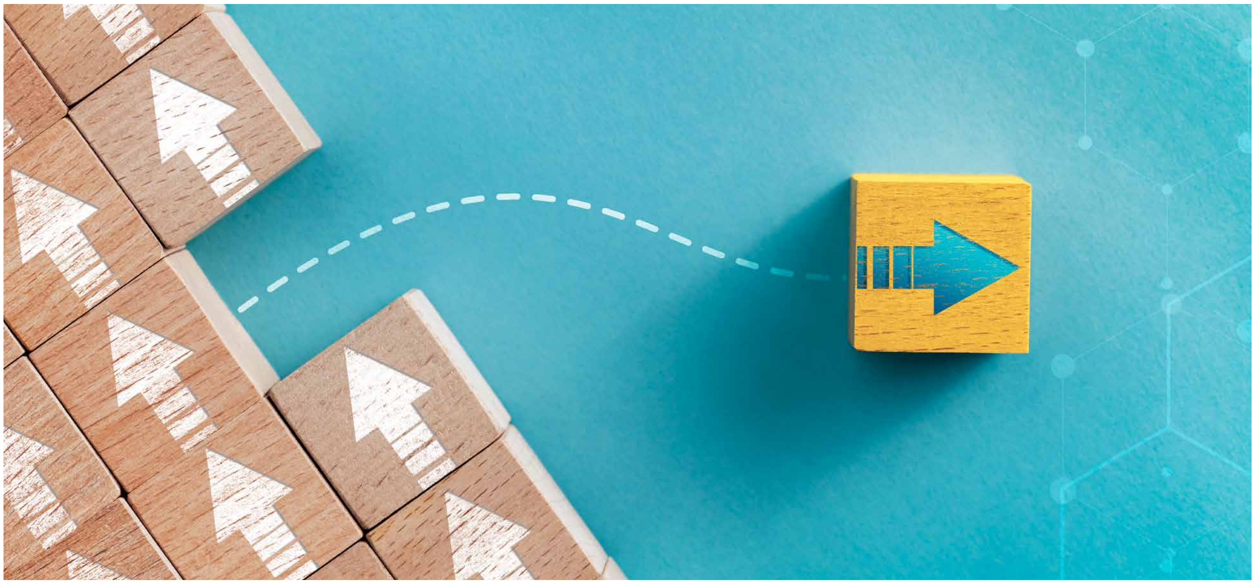
Securities identified do not represent all the securities purchased, sold or recommended for Lyrical strategies, and may not be indicative of current or future holdings. Any discussion or view of a particular company is as of the publication date. Please contact Lyrical for a list of all historical recommendations.

***John Mullins, Portfolio Manager** joined Lyrical in February 2017. He has more than 15 years of experience investing across public and private markets. Prior to Lyrical, he served as a Senior Analyst at Clearfield Capital Management from May 2016 to January 2017 and as an Analyst at Elm Ridge Capital from September 2014 to April 2016. He worked as an investment analyst in the San Francisco office of Orbis Investment Management from 2011 to 2014. Before attending business school, John evaluated early-stage investment managers and financial services businesses as an analyst at MD Sass Macquarie Financial Strategies. John graduated cum laude with distinction from Yale University and received an MBA from the Stanford Graduate School of Business.*

Now is the Time for a Pension Reinvention

By: Brendan McCarthy, Nuveen



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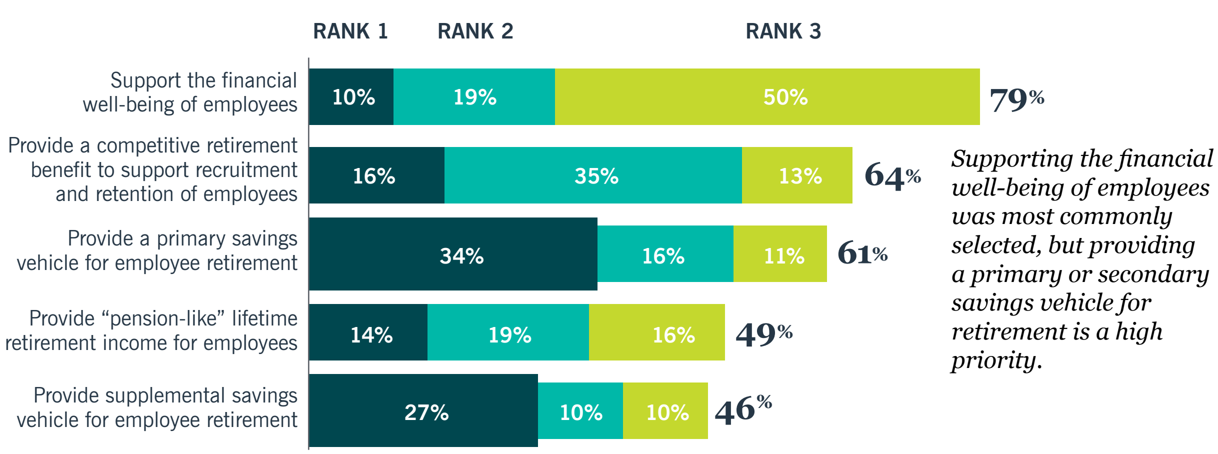
The conversation around guaranteed lifetime income has been steadily growing since the SECURE Act of 2019 changed safe harbor provisions to protect in-plan annuities. Participants have long wanted lifetime income built within their retirement plans, to mirror the benefits of now essentially extinct defined benefit plans.

When asked about the overarching objective of a retirement plan, respondents[1] in our third annual Equilibrium survey prioritized the traditional role of a DC plan, namely providing a savings vehicle for plan participants. However, the most selected answer across rankings was the broadest and most aspirational; to support the financial well-being of employees.

DC plan priorities

Select and rank which of the following objectives are a priority for your DC plan?



189 respondents involved in investment decision making around their DC plan. 2023 Nuveen Equilibrium global institutional investor survey.

Research shows though that for plan participants, a guaranteed lifetime income in retirement is a significantly larger concern and could be used to motivate recruitment, retention and allow employees to retire on time. Seventy percent of participants surveyed by TIAA expressed a preference for a company that offers a guaranteed lifetime income solution in retirement. Even higher numbers expressed a preference for income stability over just principal protection, with 78% of respondents to an EBRI survey asking for income. These numbers are not necessarily indicative of a disconnect between participants and plan sponsors, but they could be a growing sign that participants want the next evolution in their retirement plan.

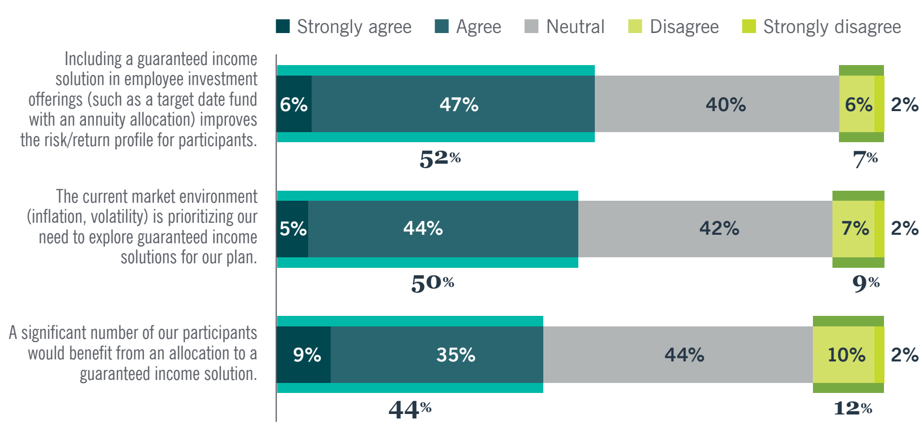
They are not simply looking for a tax-advantaged savings vehicle that opens at retirement. Participants understand that guaranteed income has a significant role in securing their retirement and they are, rightly, looking to their employer to help them in that process.

When asked about their views specifically on guaranteed income, a majority of plan sponsors see that a guaranteed income solution can improve the risk/return profile for participants, and they see a growing need to explore the available options for lifetime income given the current market environment.

The other telling portion of the dataset is just how large the 'neutral' portion of respondents is. The education around the role and benefits of a lifetime income solution within a retirement plan is still at a relatively nascent stage. Those who have an opinion on the matter are largely in favor, with only around 10% of respondents disagreeing with the potential role and benefits of lifetime income solutions. It is the role of asset managers as well as advisors and consultants to help educate plan committees on the role that guaranteed lifetime income solutions can provide. The solution isn't right for every plan sponsor, but it appears that on balance, once a sponsor has a firm opinion of lifetime income, they view it positively. ◆

Views on income solutions in DC plans

When considering your DC plan, please indicate your agreement or disagreement with the following statements:



Over half (52%) say that including guaranteed income solutions will improve the risk/return profile for participants, while about 4 in 10 have not made up their minds. Current market environment (inflation/ volatility) could influence consideration.

189 respondents involved in investment decision making around their DC plan. 2023 Nuveen Equilibrium global institutional investor survey.

Endnotes:

1 Nuveen EQuilibrium Survey 2023. Out of the 800 institutional investors, 189 respondents are actively involved in their DC plans, across the U.S., Canada and the U.K.

Disclosures:

Nuveen, LLC provides investment solutions through its investment specialists.

Any guarantees are backed by the claims-paying ability of the issuing company.

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Brendan McCarthy *is the Head of Retirement Investing for Nuveen where he is responsible for the firm's DCIO efforts in the U.S. In this role, he leads strategy and distribution for Nuveen investment and TIAA lifetime income solutions in the 401(k), 403(b) and 457 marketplaces. He joined the organization in 2015. Brendan has more than two decades of retirement leadership experience in the financial services industry. Prior to joining TIAA, he was Chief Operating Officer of F-Squared Retirement Solutions, a subsidiary of F Squared Investments. Previously, he was a Senior Vice President at Putnam Investments responsible for Defined Contribution Investment Only Business Development. Brendan graduated with a B.S. in Business Administration from St. Joseph's College and an M.B.A. from the Carroll School of Management at Boston College.*

Private Credit: Optimism is in the Air

By: Ian Fowler, CFA, Barings

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Today's private credit market is benefiting from higher base rates, attractive spreads, and a thawing origination landscape.

Earlier this year, the slowdown in high yield and broadly syndicated loan markets combined with volatility in the banking sector to create a shortage of capital in the traditional middle market. The result was that with less capital competing for deals, borrowers faced a higher cost of capital as well as improved credit documentation.

For investors, this turned out to be a good thing—in the form of higher yields and better structural protections. And it's also had the positive knock-on impact of preventing borrowers from taking on the excessive levels of leverage, leading to lower levered, more resilient capital structures.

Today's private credit market is benefiting from higher base rates, attractive spreads, and a thawing origination landscape.

Now, with base rates at ~5%, we are seeing all-in yields in the 10-12% range for senior "down the middle" deals with lower leverage and first-lien risk.[1] From a historical basis, the risk-return on offer looks extremely attractive today. These tailwinds appear to be setting up for an attractive direct lending vintage in 2023 and 2024.

There are, however, some headwinds.

Will Managers be Able to Put Capital to Work?

One of these comes down to deployment—the lifeblood of private debt. With the M&A market slower, there are fewer new deals available to private lenders.

However, for lenders with large and established portfolios, there are opportunities to generate deal flow from current portfolio companies as their private equity owners continue to execute on buy and build strategies. At Barings, our existing portfolio is generating significant deal flow for us this year—in North America, approximately 70% of our deal activity has come from the existing portfolio. This is particularly notable not just in terms of the visibility of deal flow and the ability to reliably deploy capital, but also because it does not require any sacrifices in quality to do so. These are typically accretive add-on acquisitions for companies that we have underwritten and invested in for years.

Across the market, there are also indications that the origination pipeline to support private equity firms in traditional LBO structures will look much more robust in the coming months. In other words, we think it's about to get easier to deploy capital.

The Default Picture

Another headwind comes in the form of the elevated risks of default. The higher returns that private debt enjoys, means higher interest costs for the borrowers and therefore greater pressure on margins and profitability. We are therefore likely to see an increase in defaults as a result, but these are likely to impact more highly levered businesses and more cyclical industries.

Those who have built more aggressive portfolios in the recent post-Covid 'good times' may come to regret some of the excessive risks taken. As a result, we do expect to see a bifurcation in terms of manager performance with those more disciplined and conservative managers outperforming—but this could be a positive evolution as it will reaffirm the importance of discipline and caution in delivering a stable and defensive income.

It remains to be seen what the macro backdrop has in store, but given the yields currently on offer, along with improved structures, less leverage and a thawing origination backdrop, a variety of factors are converging that suggest that 2023 and 2024 private credit vintages could be some of the most attractive we have seen in years. ◆

Endnotes:

[1] Source: Barings' observations. As of August 9, 2023.

Ian Fowler *is Co-Head of Barings' Global Private Finance Group, a member of the group's North American, European and Asia-Pacific Private Finance Investment Committees and President of Barings BDC, Inc. (NYSE: BBDC). He is responsible for leading a team that originates, underwrites and manages global private finance investments. Ian has worked in the industry since 1988 and his experience has encompassed middle market commercial finance, including originating, underwriting and managing senior secured loans, mezzanine and co-investment transactions. Prior to joining the firm in 2012, he was a Senior Managing Director with Harbour Group and co-founded Freeport Financial LLC where he was a member of the Executive Credit Committee and responsible for all business development and capital market initiatives. Ian holds a B.A. (Honors) from the University of Western Ontario and is a member of the CFA Institute.*

New MissionSquare Research Institute Report Reveals Insights on Young Public Service Workers

By: Rivka Liss-Levinson, Ph.D., MissionSquare Research Institute

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A groundbreaking report by MissionSquare Research Institute sheds light on the experiences of younger public service employees. The findings indicate that most individuals aged 35 and under (64%) hold positive morale regarding their jobs, expressing satisfaction with their job security, community service, and the quality of their colleagues. Moreover, the majority (70%) believe that their benefits compensation is competitive in the labor market.

However, the report underscores that younger public service workers face financial challenges and high levels of stress. Over three-quarters (76%) report feeling significantly or somewhat stressed in the past six months, with personal finances (61%) and work/career (58%) being the primary stressors.

These findings are detailed in a new research report, **35 and Under in the Public Sector: Why Younger Workers Enter and Why They Stay (or Don't)**. Read the research.

Watch a video highlighting key survey results.

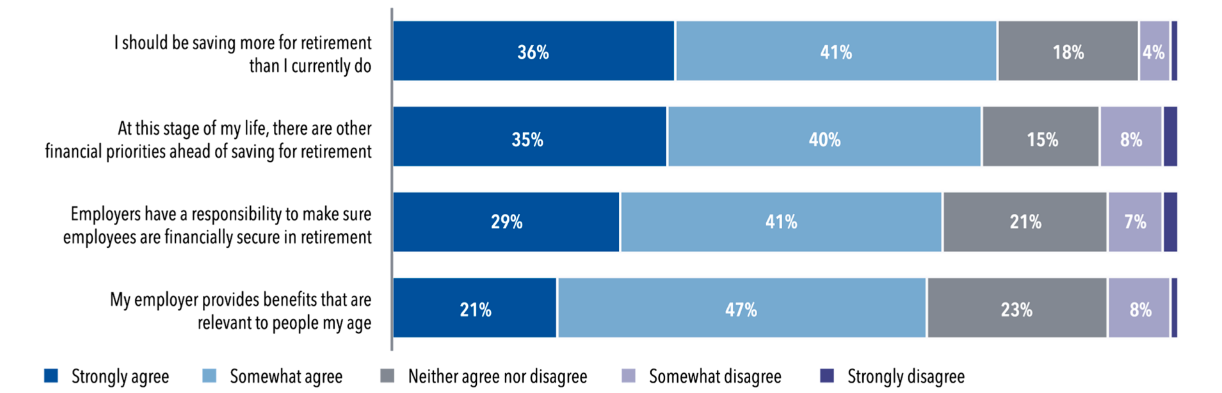
Other key findings include:

- Top priorities for respondents include workplaces that contribute to community improvement (67%), strong team dynamics (65%), intellectual engagement, and alignment with personal values (both 64%).
- Factors that initially attracted respondents to their current public service jobs include job security (32%), work/life balance (29%), health insurance, and job satisfaction (both 28%).

However, the report underscores that younger public service workers face financial challenges and high levels of stress.

- While 70% believe their benefits compensation is competitive, only 53% think their wage compensation is.
- The majority (70%) consider their debt level problematic, with 22% viewing it as a major problem, and only 7% reporting no debt.
- 77% acknowledge the need to save more for retirement, citing affordability, competing savings priorities, and debt as the primary obstacles.
- Nearly half (48%) are highly likely to recommend a public service career to friends or family, and 46% plan to stay in public service until retirement.
- Words like caring, compassionate, empathetic, and understanding are most frequently used to describe an ideal public sector worker.

Thoughts on Retirement and Employer Benefits



This report is based upon a nationally representative online survey of 1,004 state and local government employees aged 35 and under conducted by Greenwald Research in March and April 2023. The survey assessed motivations for working in the public sector, attitudes about current finances and financial outlook, views on employer benefits, thoughts on retirement, morale and job satisfaction, and retention issues. ◆

Rivka Liss-Levinson, Ph.D. *is Senior Research Manager at MissionSquare Research Institute, where she conducts research on public sector retirement plans, health and wellness benefits, and workforce demographics and skillset needs. With 15 years of experience designing, implementing, reporting, and disseminating rigorous, practitioner-oriented research, she is dedicated to leveraging data and stories to improve the health and well-being of public sector workers and others who serve their communities.*

No Recession Yet, But Risks Are Rising. Are You Prepared?

By: Jamie Newton, CFA, Allspring Global Investments

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Where has the continued economic strength come from?

The recession that many have been talking about has yet to arrive. Will we ultimately face one? I can point to three reasons why the long-awaited slowdown has yet to set in:

Companies and individuals have amassed low coupon debt since the Global Financial Crisis. Borrowers used the COVID era to extend maturities at even lower rates, muting some of the effects of rapid rate increases.

Fiscal stimulus from COVID-related packages persists in the economy. Excess savings of companies and consumers have lasted longer than expected, and student loan payment deferrals have increased consumers' spending capacity.

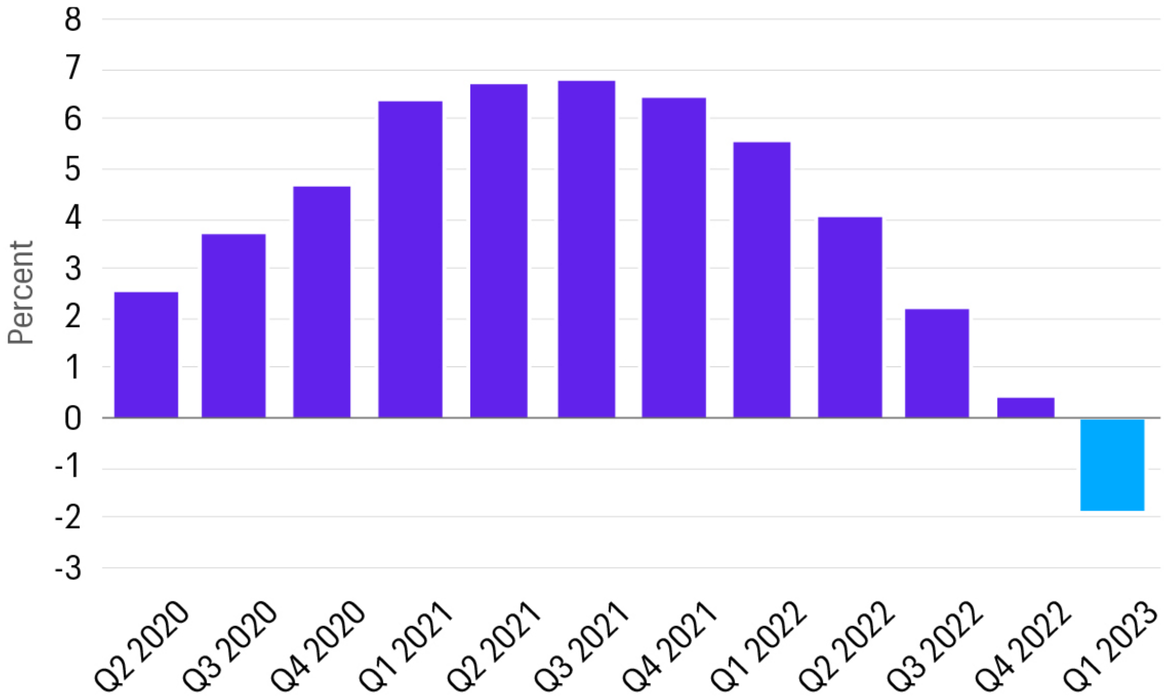
The work-from-home movement continues to be influential. While businesses supported by traditional work arrangements have lost out from this shift, workers are saving money on transportation and meals, further extending their spending capacity.

Is a recession on the horizon?

While these factors have extended the business cycle, I expect we may enter a recession in late 2023 or early 2024 for several reasons:

1. **Excess savings are running off.** Cracks are appearing in consumer-focused lending. Delinquency rates for credit card, auto, and consumer loans are pushing higher. Further, student loan payments should restart for many borrowers this fall.

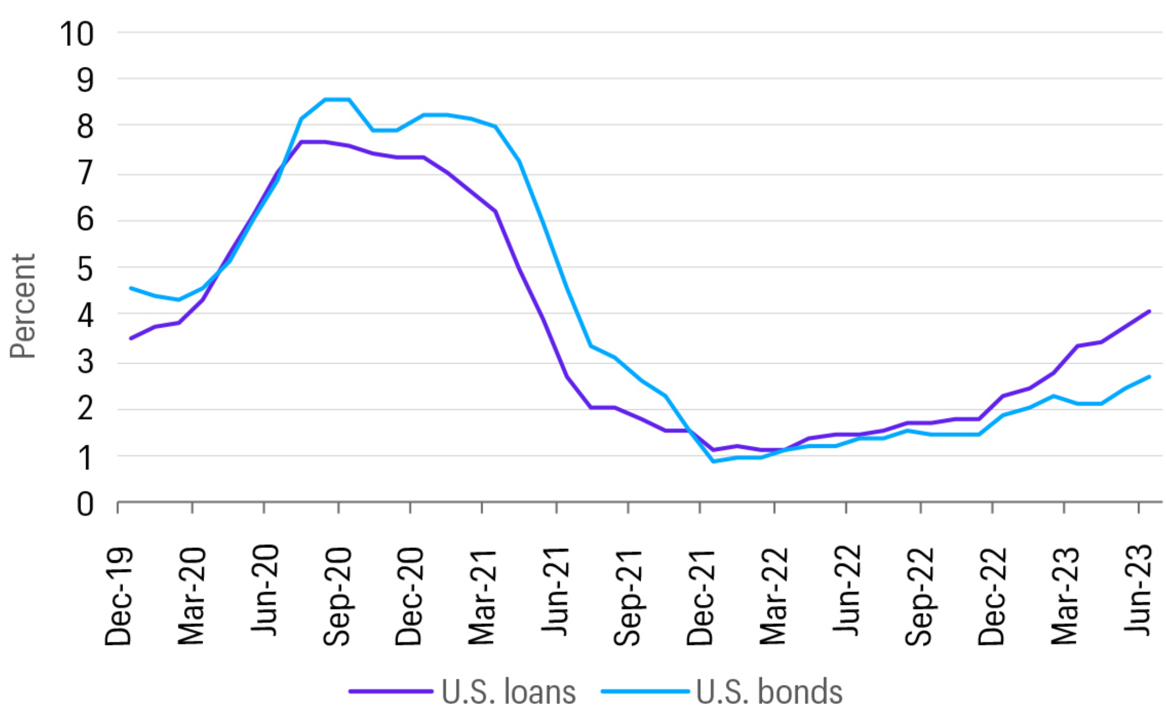
Figure 1: Excess Savings Rates Are Steadily Declining



Source: Fed and Haver Analytics. Presents U.S. excess savings as a percentage of GDP. Data presented from June 2020 through March 2023.

2. **Interest rates are starting to bite.** Companies dependent on short-term debt and/or variable-rate debt are feeling the pain. We see this particularly with lower-quality debt, as companies are struggling to absorb increasing interest costs.

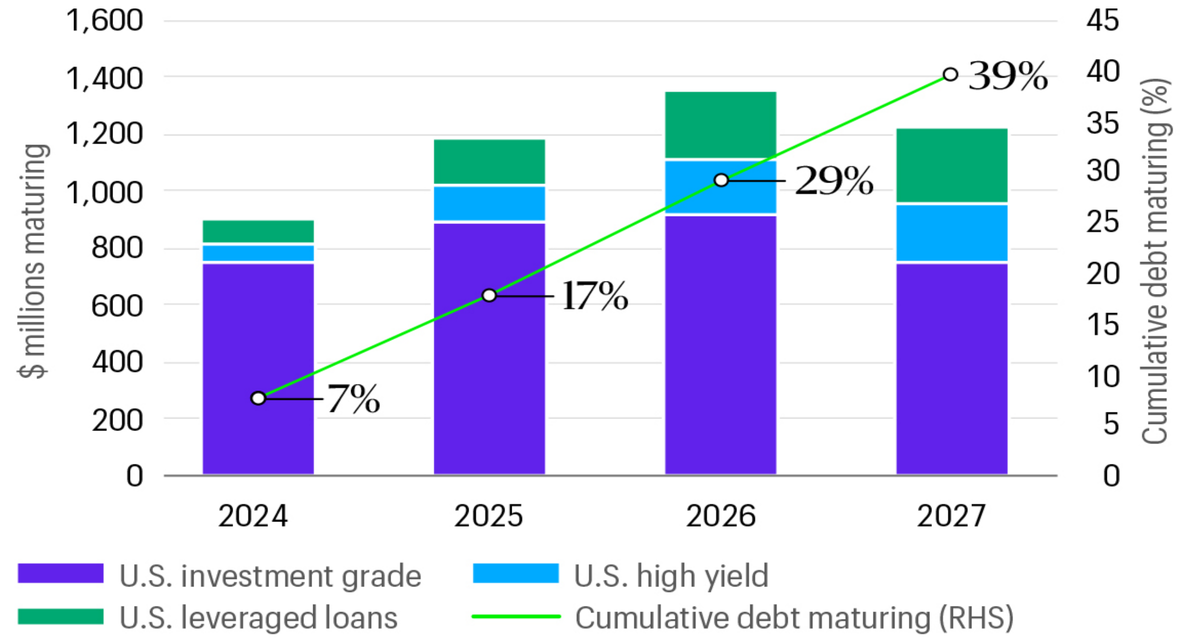
Figure 2: Speculative-Grade Default Rates Are Ticking Up



Source: Moody's Investors Service. Issuer weighted speculative grade default rates. The senior unsecured bond rating is included in the bond series and the most senior loan rating is included in the loan series. Data presented from December 2019 through June 2023.

3. **Higher rates hurt as companies roll their debt**. About U.S. $900 billion in corporate bonds and leveraged loans must be paid down or refinanced in 2024 at higher rates. Nearly 30% of the corporate market matures within the next three years.

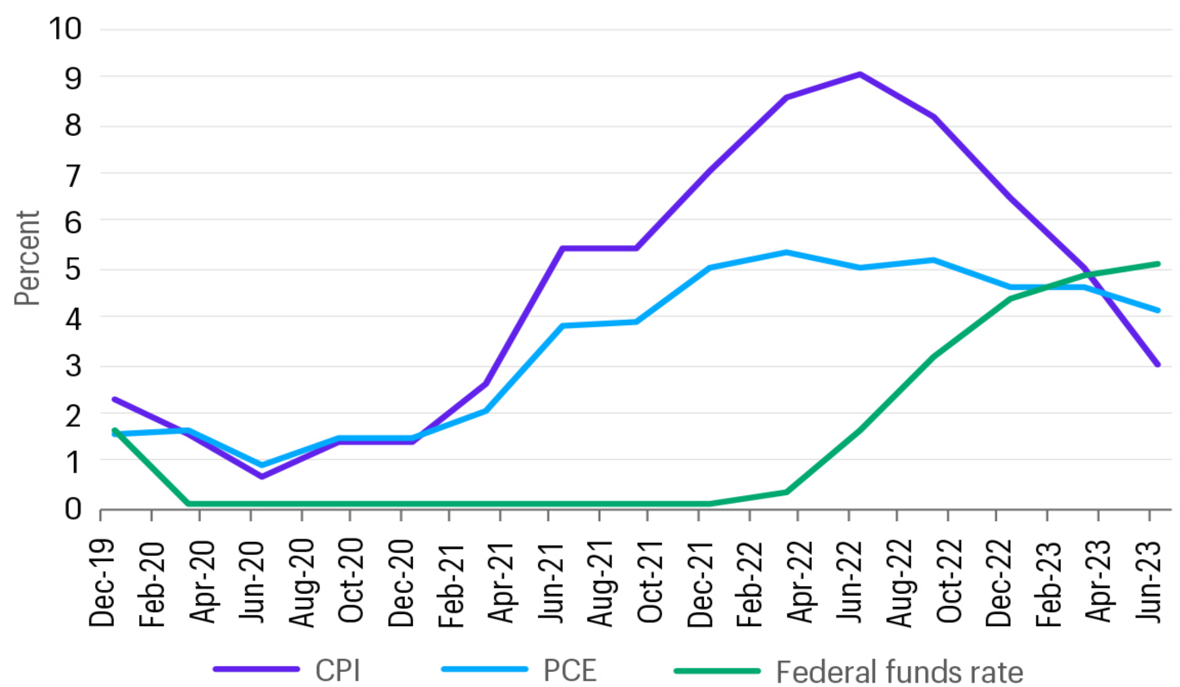
Figure 3: Maturing Debt Will Refinance at Higher Rates



Sources: Allspring. Bloomberg, and IP. Morgan. Dollar amount of maturing debt is shown on the left anis and cumulative percentage of outstanding debt maturing is shown on the right anis. The year 2024 uses 2022 year-end data and the remainder of periods and total outstanding debt use data as of June 2023.

4. **Rate hikes may not be over.** While the Consumer Price Index (CPI) is well off its peak, the jobs market remains strong and personal consumption expenditure (PCE) inflation remains elevated.

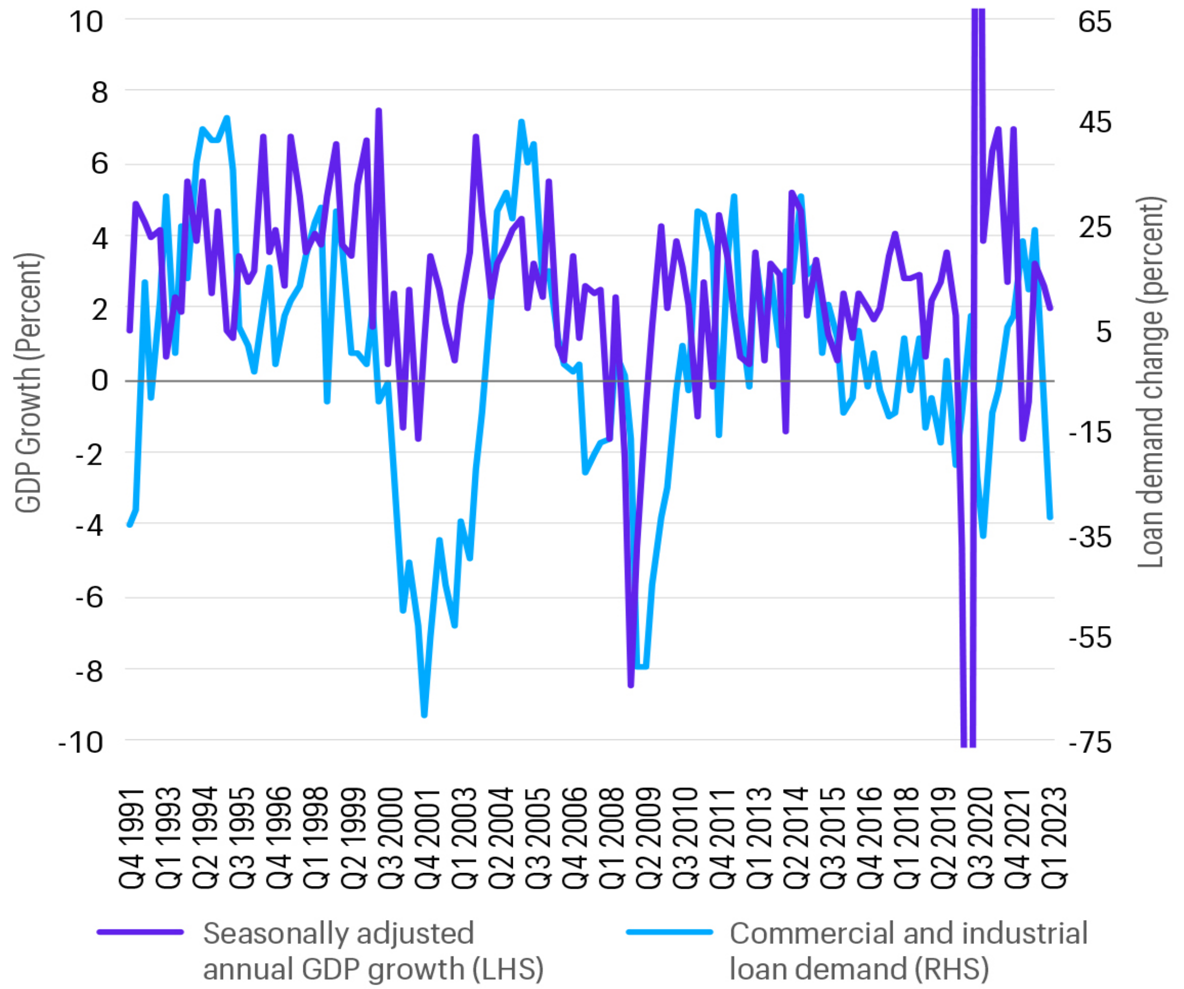
Figure 4: PCE Remains Stubbornly High in Spite of Fed Tightening



Source Fed. Year-over-year CPI and PCE growth versus federal funds rate. Data presentedfrom December 2019 through June 2023.

5. **Banks are tightening lending standards and reducing exposures**. Access to debt and capital is deteriorating for some borrowers in the wake of the banking turmoil earlier in 2023.

Figure 5: GDP Growth and Loan Demand are Correlated



Source. Fed. Readings for seasonally adjusted annual GDP growth for Q2 2020 (-29.9%) and Q3 2020 (+35.3%) are outside the scale of the chart in ouder to highlight the positive historical correlation between the two series. Data for seasonally adjusted annual GDP growth is presented through March 2023. Data for commercial and industrial loan demand is presented through June 2023.

6. **Commercial real estate (CRE) faces tighter access to bank lending, reduced rents, and lower occupancies.** However, not all CRE sectors are the same—specific locations, lease terms, and financing structures will influence which assets become stressed.

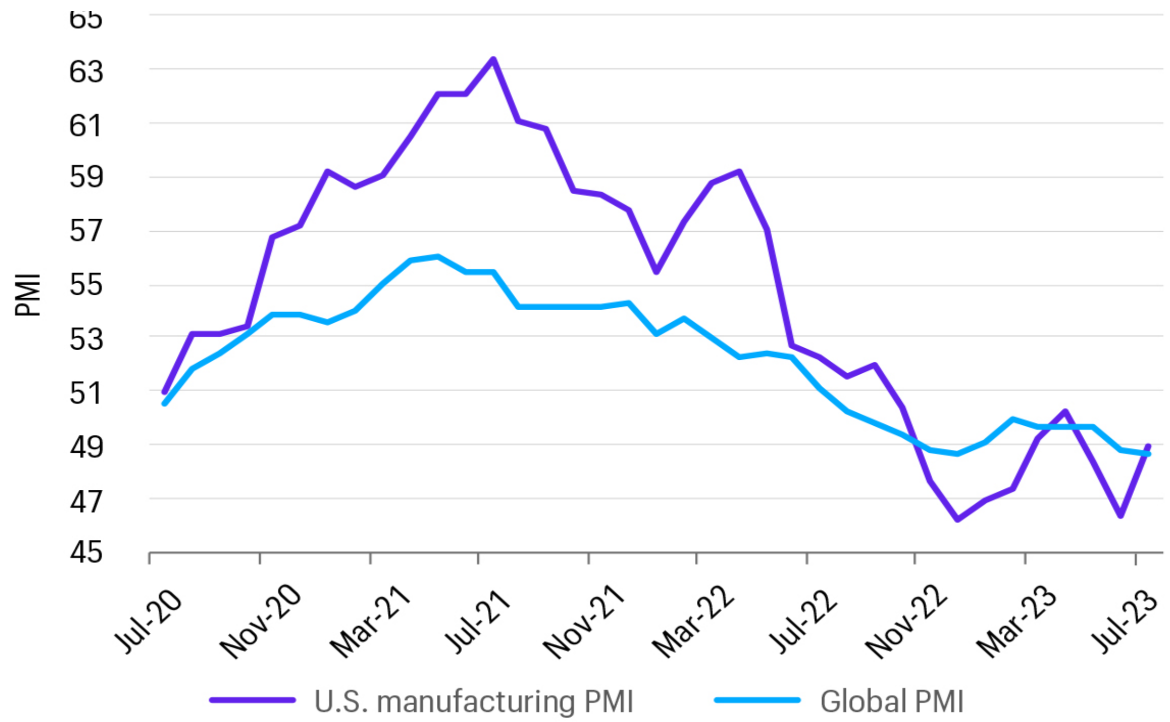
Figure 6: CRE Loan Market has Significant Breadth, Offering Ample Selection Opportunities

	MULTIFAMILY	LOGISTICS	RETAIL	OFFICE	HOSPITALITY
CRE debt outstanding	$2.1T	$355B	$407B	$736B	$288B

Source: Fed, as of June 2023

7. **Manufacturing, by many accounts, is already in recession.** Manufacturing Purchasing Managers' Index (PMI) readings have weakened in the U.S. and around the globe.

FIGURE 7: PMIs Are in Contractionary Territory



Source: Moody's Investors Service. A reading above 50 indicates expansion and below 50 indicates contraction. Data presented from July 2020 through July 2023.

What can investors do about it?

Against this backdrop, I believe that investors can protect themselves by taking the following actions:

- **Don't get caught in the cash trap.** Currently attractive short-term rates could be cut quickly near a recession, and longer-term rates could fall as well. Investors can extend their duration over the next several months, lock in higher yields for longer, and position to benefit from lower yields.
- **Stay diversified**. The effects of any recession would likely be felt unevenly across fixed income markets and present an attractive opportunity for sector and issue selection. Broadly speaking, your equity and fixed income exposures should be proactively deployed.
- **Bias toward quality.** Current valuations suggest there will be little reward for reaching down in quality. Focusing on fundamentals—especially leverage, interest coverage, and margins—should be as important as ever as markets and valuation evolve. ◆

Disclosures:

Jamie Newton, CFA is the head of the Global Fixed Income Research team and the deputy head of the Sustainability team at Allspring Global Investments. He joined Allspring from its predecessor firm, Wells Fargo Asset Management (WFAM), where he served as head of the Global Credit Research team and previously as a senior analyst. Jamie began his investment industry career in 1992. He earned a bachelor's degree in economics with an emphasis in accounting from Albion College and a master's degree in business administration with an emphasis in finance from the University of Michigan.

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

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The Facts on SPACs: Why Wall Street Darlings Fell Back to Earth

By: Michael Dark and Nathaniel Orenstein, Berman Tabacco

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After an eye-popping surge in the number of special purpose acquisition companies—SPACs—in the first two years of this decade, these merger vehicles have lost their bloom for many institutional investors. Skepticism has grown among both regulators and the investment community about not only the lack of information these entities provide for investors, but their vulnerability to abuse.

A SPAC is, in simplest terms, a vehicle for companies to go public without the need to follow some of the strict regulatory requirements governing traditional initial public offerings, or "IPOs". A SPAC begins life as a shell company listed on a stock exchange—typically NASDAQ—for the purpose of acquiring a private company and then taking it public. The SPAC pools funds to finance mergers or acquisitions even before a specific target company has been identified. By avoiding the intensive compliance requirements of the normal IPO process, SPACs can avoid certain regulatory burdens and save time in bringing a company to the public market.

> *After an eye-popping surge in the number of SPACs in the first two years of this decade, these merger vehicles have lost their bloom for many institutional investors.*

While SPACs have been used since the 1990s, their combination of reduced regulatory burden and speed to market proved irresistible to financial firms and venture capitalists over the last few years.

But this cost- and time-saving device is a double-edged sword—one that can be problematic for defrauded investors because the regulatory scheme that these vehicles avoid is one aimed at ensuring that investors have access to adequate information for making investment decisions. When the Securities Act of 1933 was passed ninety years ago, the lessons of the stock market crash and the great depression were fresh in the minds of legislators. One of the primary objectives of the statute was to ensure that investors receive financial and other significant information concerning securities being offered for public sale through the registration process, which requires that companies seeking access to the public market provide essential facts to investors.

Not surprisingly, the looser regulatory regime to which SPACs are subject can foster abuse.

Not surprisingly, the looser regulatory regime to which SPACs are subject can foster abuse. A congressional investigation into SPACs resulted in a 2022 report that detailed several significant concerns, including hidden fees levied by financial institutions in the transactions and disclosures that sometimes are alleged to cross the line into outright fraud. In conjunction with the issuance of the report, the U.S. Securities and Exchange Commission introduced a package of regulations that seek to address many of the problems identified in the report, including inadequate disclosures, the misuse of forward-looking statements, and conflicts of interest or breach of fiduciary duties owed to investors by SPAC officers, directors, and sponsors.

Institutional investors will be key partners to government regulators in reforming SPACs to better protect the markets, and the last two years have seen a significant uptick in the number of shareholder derivative and federal securities law cases being brought by pension funds and other investors to rein in some of the opaqueness from SPAC practices and misinformation contained within SPAC disclosures. Until new regulations are adopted, private civil litigation may still represent the best recourse for many funds to help beneficiaries recover losses resulting from SPAC abuses. ◆

Michael Dark *is Of Counsel to Berman Tabacco, where his practice focuses on securities litigation on behalf of institutional investors.*

Nathaniel Orenstein *is a Partner at the Firm, and his practice focuses on both securities and shareholder derivative actions on behalf of institutional investors.*

Public Pensions: New Discount Rate, New Strategy?

By: Colyar Pridgen, Capital Group


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A recent change in actuarial reporting standards may make this an opportune moment for public pension plan sponsors to take a fresh look at their fixed income allocations. The Actuarial Standards Board now requires that actuarial reports for public pensions reflect plan liabilities using a discount rate based on the yields of high-quality bonds, as corporate pension plans do. This does not replace public plans' long-standing approach to the discount rate, which is based on long-term expected returns.

The actuarial reporting change is unlikely to drastically alter public plans' use of their traditional discount rate or their overarching investment philosophy. However, it creates a secondary implied funded status that could experience greater volatility and create "bad optics." Mitigating some of that volatility could be worthwhile to plans, especially if achievable within the confines of the existing investment philosophy.

Consequently, public pension plan sponsors may want to consider whether allocations to actively managed long duration credit would better align with long-term return goals compared to existing fixed income.

Here are three other points for public pensions to consider:

1. Long bonds may be the fixed income style of choice for many long-term total return investors

Many public plans shun longer dated bonds, which can cause them to miss out on potential risk-mitigating benefits when return correlations between equities and bonds are low. These benefits, along with long-dated fixed income return expectations, have only become more attractive with the run-up in bond yields that began last year.

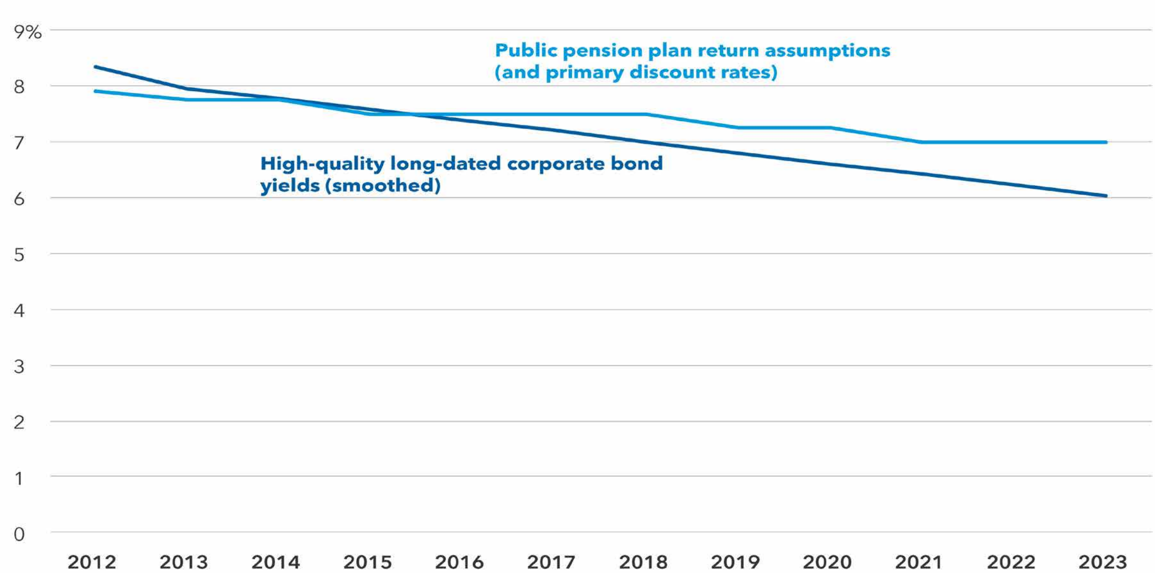
New discount rate basis: High-quality long duration corporate bond yields

Source: Internal Revenue Service. As of June 30, 2023.
Note: Chart displays yields on high-quality corporate bonds of maturities greater than 20 years, as represented by IRS minimum present value (one-month average) third segment rates.

2. Public plans' discount rates tend to follow the direction of long-term bond yields

For corporate pensions, discount rates are tied directly to market yields on long duration bonds, so they have tended to be more responsive to shifts in fixed income markets. However, even under their traditional expected returns-based discount rate, public pension plans' liabilities are sensitive to bond yields in the long run, which is what typically matters for long-term investors.

Public pension return assumptions ultimately reflect bond yield movements



Sources: Internal Revenue Service, National Association of State Retirement Administrators (NASRA)
Note: Chart compares smoothed, 25-year average third segment rates published by the IRS with the median investment return assumptions of 131 public pension plans based on NASRA data for plan years 2012–2023. As of March 31, 2023 (NASRA data).

3. Long bonds can offer a measure of protection during rare (black swan) events

The Governmental Accounting Standards Board (GASB) requires public pension plans with insufficient funding levels to use high-quality 20-year tax-exempt general obligation municipal bond rates as a portion of the primary discount rate. Whether or not a plan is sufficiently funded to avoid this GASB 67 requirement, the high-quality bond-yield-based discount rate represents a "shadow liability" that can emerge in black swan situations. Investing in long bonds can help mitigate the potential double whammy of an extreme market drawdown and imposition of a muni bond component to the discount rate.

Conclusion

Public pensions have historically not utilized much long duration fixed income. While there are sensible reasons why use of these instruments may differ in manner or scale as compared to corporate plans, it may be time for public pensions to take a fresh look at long duration. The new actuarial reporting requirements are the latest and highest profile reason, but a close inspection through a variety of other lenses may confirm the strategic suitability of the asset class. Incorporating long bonds into strategic allocations — particularly long credit — should not require a wholesale adoption of LDI across the board but should dovetail well with some existing investment philosophies. ◆

Disclosures:

Colyar Pridgen *is a lead pension solutions strategist at Capital Group. He has 16 years of industry experience and has been with Capital Group for five years. Prior to joining Capital, Colyar worked as a senior LDI strategist at Standish Mellon Asset Management. Before that, he was a consultant and actuary at Towers Watson. He holds a bachelor's degree in economics from Cornell University. He also holds both the Chartered Financial Analyst and Chartered Alternative Investment Analyst designations, and is a Fellow of the Society of Actuaries and an Enrolled Actuary under ERISA. Colyar is based in Los Angeles.*

Maximizing Returns Through Asset Protection and Recovery

By: Javier Bleichmar, Erin Woods, Nancy Kulesa, and Ross Shikowitz, Bleichmar Fonti & Auld LLP

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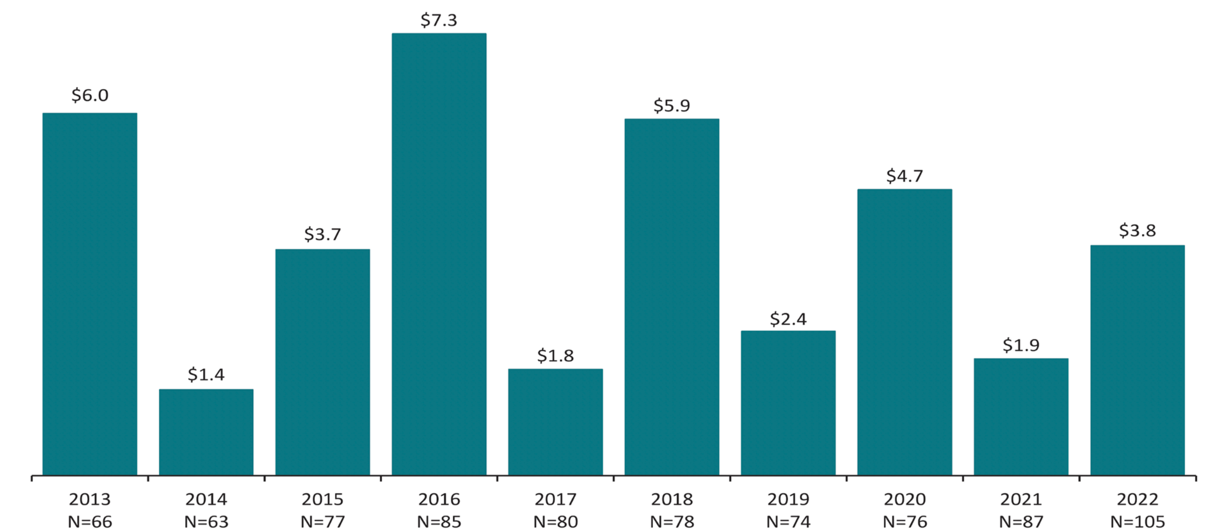
Pension trustees and staff are currently navigating a volatile and uncertain economic environment. Runaway inflation over the past two years and the resultant spike in interest rates (which appears primed to persist) have dented and jeopardized the predictability of returns across a variety of asset classes.[1]

To help maximize returns, certain trustees and staff have established procedures to monitor and ferret-out corporate misconduct that may have impacted the fund's portfolio. Through these procedures, a plan can pursue litigation to potentially recover funds lost as the result of misconduct, and thereby enhance the value of plan assets. Indeed, over the past ten years, investors have recovered nearly $39 billion through securities class action litigation.[2] Many of the largest and most significant of these cases were led by institutional investors, particularly public pension plans.[3]

> *Over the past ten years, investors have recovered nearly $39 billion through securities class action litigation.*

Recent scholarly work indicates that the opportunity to increase returns through securities litigation may be even more significant than these historical results might suggest. According to a recent academic study titled *How Pervasive is Corporate Fraud* published in *Review of Accounting Studies*—which seeks to publish original research that makes empirical, theoretical, or methodological contributions to demography or other population-related fields—"evidence suggests that in normal times only one-third of corporate frauds are detected. **We estimate that on average 10% of large publicly traded firms are committing securities fraud every year. . . . we estimate that corporate fraud destroys 1.6% of equity value each year, equal to $830 billion in 2021."**[4] The authors further explained how "[a]ccounting violations are widespread: in an average year, 41% of companies misrepresent their financial reports, even when we ignore simple clerical errors."[5]

Total Settlement Dollars 2013-2022 (Dollars in billions)

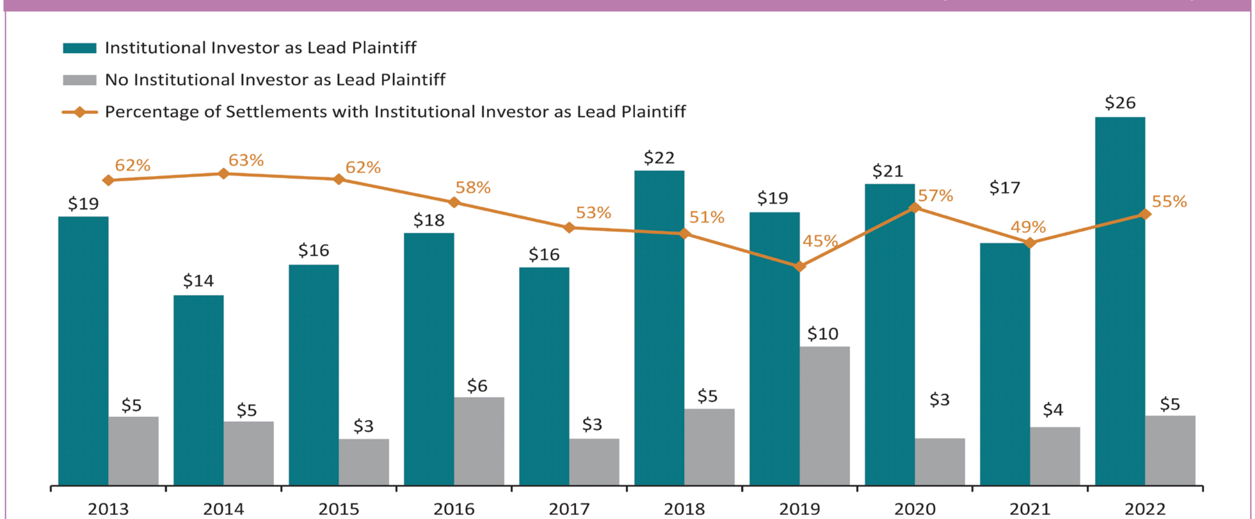


Note: Settlement dollars are adjusted for inflation; 2022 dollar equivalent figures are presented. "N" refers to the number of cases.

The New York Times wrote that the study made waves "in the world of academia" in 2023 and "has become a fascination among general counsels, corporate leaders and investors."[6] According to Professor Alexander Dyck, one of the lead authors for the study who serves as a Professor of Finance and Economic Analysis and Policy at the University of Toronto, "[w]hat people don't get is how widespread the problem of corporate fraud is. . . . the amount of fraud perpetrated at any given time stays pretty steady."[7] What's more, the study only involved audited public companies. Professor Dyck explained that "misconduct is likely even more pervasive in privately held business, particularly in crypto, which is only loosely regulated."[8]

Significantly, history further suggests that it remains important for public pension plans to continue to take the mantle and lead these cases to maximize potential recoveries and protect asset values. In every year over the past decade, securities class actions that were led by an institutional investor resulted in median settlement amounts that were multiples larger than those led by non-institutional investors.[9] Last year, institutional investors achieved median settlement amounts over five times larger than non-institutions, which represents one of the largest disparities over the past decade.[10]

Median Settlement Amounts and Institutional Investors 2013-2022 (Dollars in millions)



Note: Settlement dollars are adjusted for inflation; 2022 dollar equivalent figures are presented.

In short, recent academic research indicates that there is a raft of misconduct (both detected and undetected) that has been negatively impacting plan asset values. Public pension plans have achieved great results in identifying fraud and subsequently recovering assets through securities class action litigation. By continuing to take an active role in these matters, trustees and staff can help maximize asset values, particularly during this time of economic uncertainty. ◆

Javier Bleichmar, Erin Woods, Nancy Kulesa, and ***Ross Shikowitz*** are Partners of Bleichmar Fonti & Auld LLP focusing on securities class action and shareholder litigation as well as settlement claim form filing on behalf of institutional investors. Each of their biographies is available at www.bfalaw.com.

Disclosures:

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Endnotes:

1 *See e.g., What to do When Interest Rates Rise*, VANGUARD (Sept. 20, 2022), https://investor.vanguard.com/investor-resources-education/article/what-to-do-when-interest-rates-rise.

2 See CORNERSTONE RESEARCH, SECURITIES CLASS ACTION SETTLEMENTS 2022 REVIEW AND ANALYSIS 3.

3 *See Id.* at 12.

4 See Alexander Dyck, Adair Morse, Luigi Zingales, How Pervasive is Corporate Fraud, REV. ACCOUNT. STUD., 1 (Jan. 5, 2023) https://doi.org/10.1007/s11142-022-09738-5 (emphasis added).

5 *See Id.* at 3.

6 *See* Ephrat Livny, *Just How Common Is Corporate Fraud*, N.Y. TIMES (Jan. 14, 2023) https://www.nytimes.com/2023/01/14/business/dealbook/how-common-is-corporate-fraud.html#:~:text=A%20new%20study%20estimates%20that,commit%20securities%20fraud%20each%20year.&text=The%20DealBook%20Newsletter%20Our%20columnist,power%2Dbrokers%20who%20shape%20them.

7 *See Id.*

8 *See Id.*

9 *See* CORNERSTONE RESEARCH, *supra* note 2, at 12.

10 *See* CORNERSTONE RESEARCH, *supra* note 2, at 12.

Data Driven Pension Funds via Right-Sized Solutions: A Guide for Mid-Market Public Pension Plans

By: Lou Eperthener, ICS

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In the realm of public pensions, the management of investment data stands as a cornerstone for enhanced investment decisions and transparent reporting to your members and regulators. The journey towards becoming a data-driven organization begins with partnering with a solution that is "right-sized" for your organization.

Investment Data: The Bedrock of Informed Decision-Making

Investment data, encompassing a wide array of metrics and analytics, serves as the bedrock for informed decision-making. It provides a clear lens through which the risk, performance and potential of investments can be assessed.

Right-Sizing – A Critical Factor in Success

The concept of right-sizing is critical for the mid-tier market. Understanding that we have different challenges to tackle compared to the large tier 1 organizations is essential.

- **Being Right-Sized?** - Being right-sized in investment data management signifies a balanced approach where the solution neither overwhelms with complexity nor underwhelms with inadequacy or flexibility. It's about having the right level of functionality and scalability to meet the evolving needs of your organization.

- **Your Partner: A Catalyst for Enhanced Capabilities** - A right-sized partner and solution resonates with the unique needs and scale of your organization. It's about having a data platform that aligns with your operational dynamics, ensuring a seamless integration and an enhanced data analytics capability.

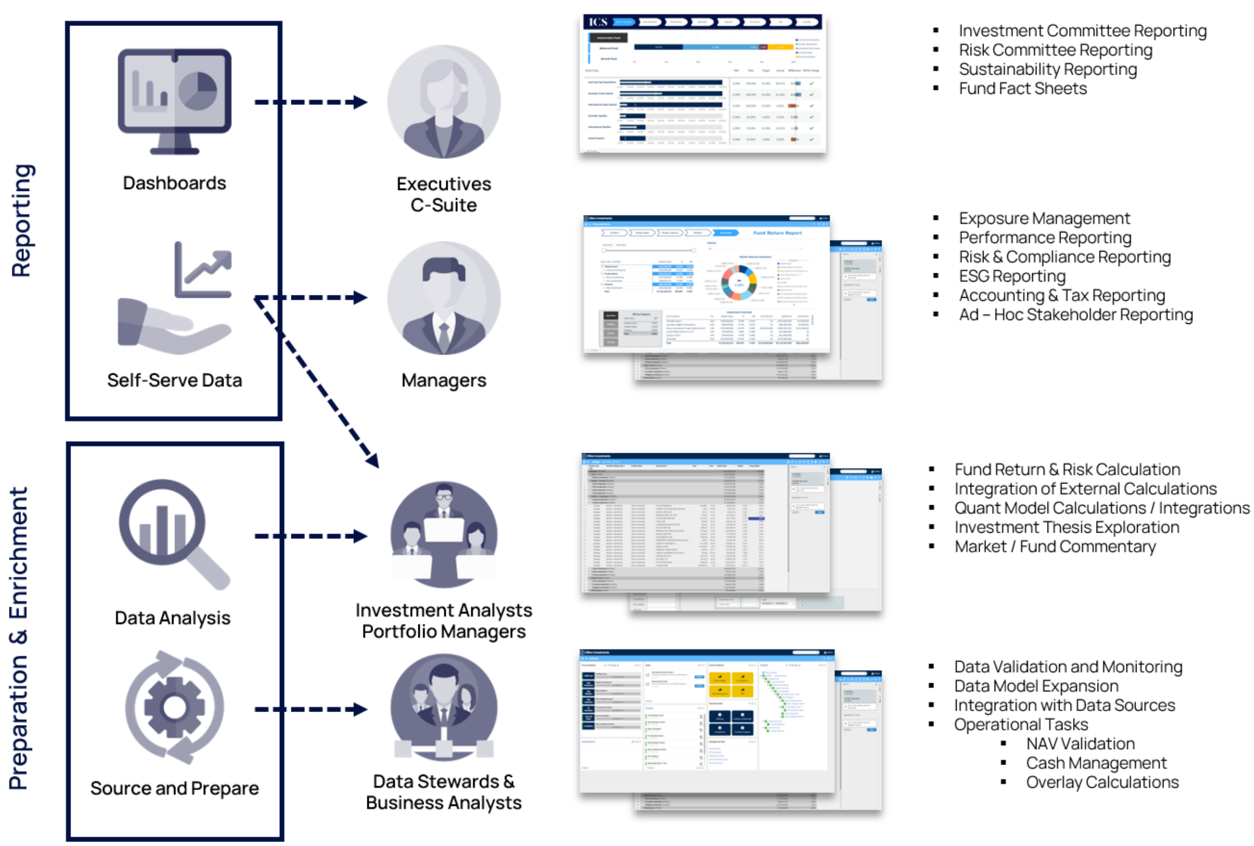
Data Challenges: The Hurdles Mid-Tier Public Pension Funds Face

Mid-tier public pension funds often grapple with fragmented data sources, which hinder a consolidated view of assets. The lack of a unified data platform can lead to inefficiencies, inaccuracies, and a prolonged decision-making process. Moreover, the evolving regulatory landscape and the need for enhanced data access further accentuate data management challenges.

Empowering the Business Users: The Essence of Data Democratization

The concept of the citizen developer, individuals who can create or modify systems and data without formal coding skills, is a testament to the democratization of data. This paradigm shift empowers a broader spectrum of personnel within a pension fund to engage with and leverage data to drive informed decisions.

Data democratization enables business users to access the data for the specific tasks they are required to perform, with fit-for-purpose tools and channels to access the data. See below for a diagram that outlines the typical roles/personas and how these engage with data across an organization:



Mid-tier firms simply do not have the same resources as tier 1 peers - especially when it comes to IT resources. Hence, it is essential that to drive firms towards becoming more data-driven, solutions have to be geared towards the business user. This means empowering these users with the capability to perform, what has historically been seen as, complex data tasks without the need or reliance on advanced technical skills.

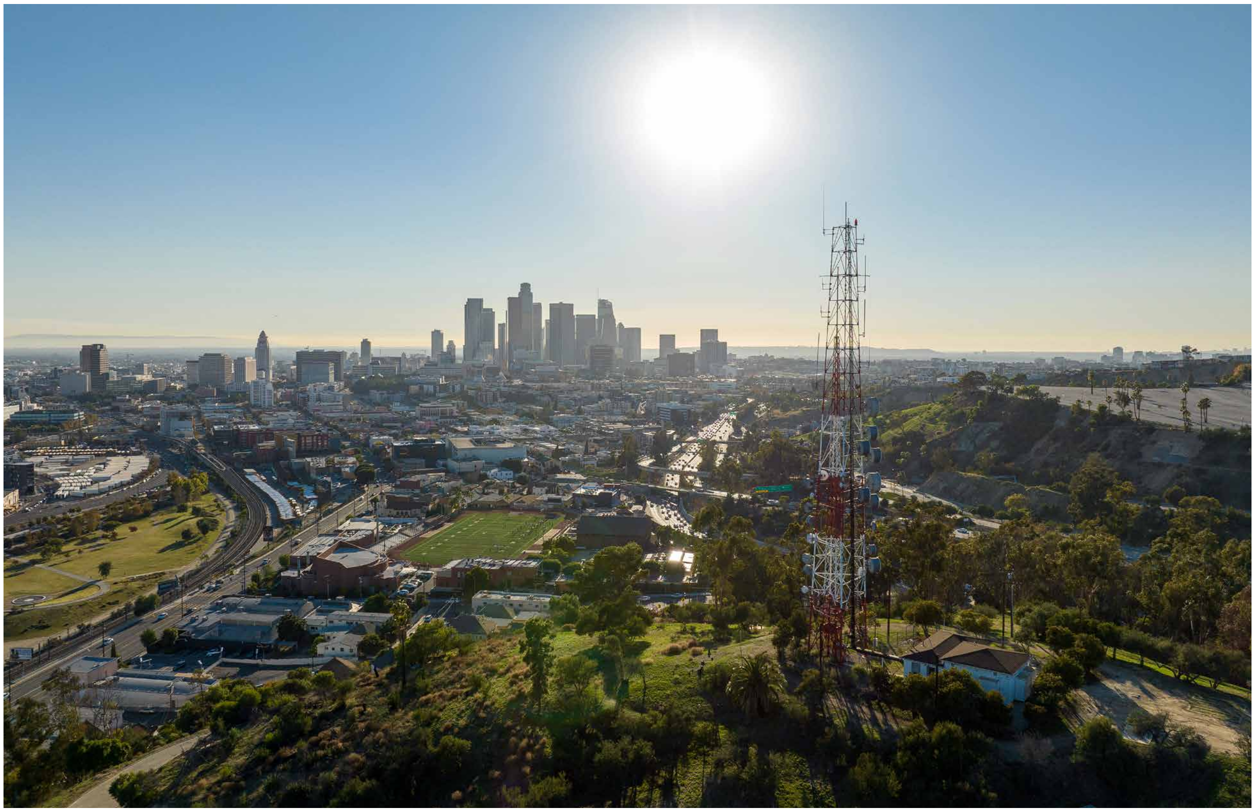
Final Thought

The path towards a data-driven future for mid-market public pension plans is paved with the right partnerships and right-sized solutions. It's about unlocking the potential of investment data to foster a culture of informed decision-making and sustainable growth. ◆

Lou Eperthener *is a FinTech executive with over 25 years of experience. His experience spans the landscape of software solutions supporting the front, middle and back office functions. Lou specializes in helping Investment Officers, portfolio managers, investment analysts and operations directors understand the benefits of embracing technology to harness the power of data, increase operational efficiency and improve the investment decision process. Prior to helping ICS launch in North America in 2022, Lou has held leadership roles at Eagle Investment Systems, SimCorp and Princeton Financial Systems (a State Street company). He graduated from Washington & Jefferson College with a Bachelor of Arts in Economics.*

Institutional Investors Increasingly Using REITs in Portfolio Completion Strategies

By: David Sullivan, Nareit



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REITs are widely used in the real estate strategies of nearly two-thirds of the largest and most sophisticated institutional real estate investors in the United States and globally. Approximately 64% of the top 25 largest defined benefit and sovereign plans in both North America and elsewhere use REITs to optimize their real estate investment portfolios. This trend is continuing to play out in 2023, as more institutional investors are using REITs as part of portfolio completion strategies to optimize, or complete, their real estate portfolios.

That's partly because REITs have long been recognized as playing a key role in helping institutional investors meet their real estate allocation objectives by taking advantage of relative valuation opportunities and improving their portfolios' overall risk/return profile. For example, research by Nareit and CEM Benchmarking shows that REIT returns have consistently outperformed private real estate by around 2% per year.

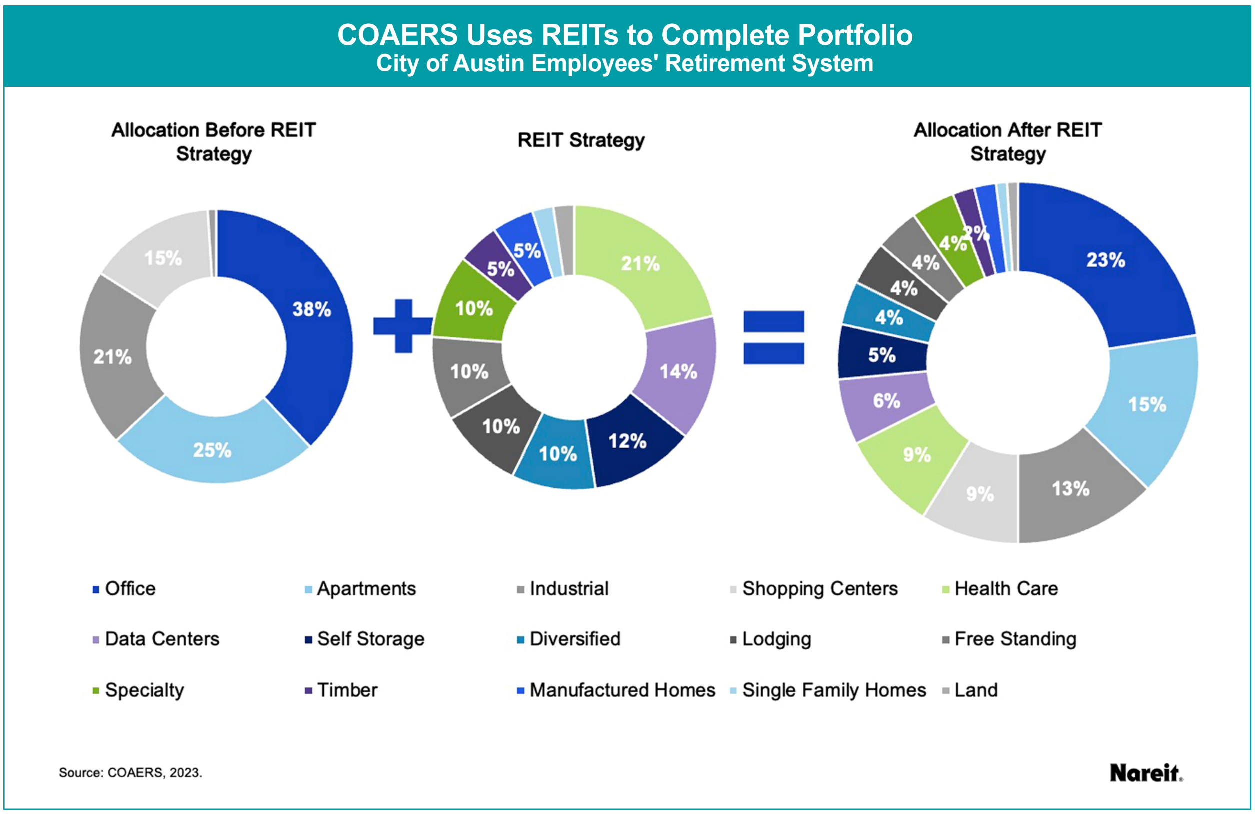
REITs provide sector diversification, geographic diversification, and can enhance a portfolio's ESG attributes.

Institutional investors also increasingly understand that investing with REITs gives them access to modern economic sectors, offers geographic diversification, and enhances ESG attributes.

REITs Offer Access to Modern Economic Sectors

Many legacy institutional real estate portfolios are currently overweight in office and retail, and correspondingly underweight in modern economy sectors. REITs are becoming increasingly attractive to those investors looking to increase their exposure to newer, alternative economy sectors, including data centers, self-storage, health care, cell towers, and others. Case studies include:

- A U.S. healthcare system using an active REIT strategy to radically reconfigure its real estate allocation.
- The National Pension System of Korea allocating $1 billion to an active strategy benchmarked against a custom completion-oriented index.
- The City of Austin Employees' Retirement System (COAERS) using a passive completion REIT index to improve property sector diversification.



The chart above shows COAERS' REIT completion portfolio, which significantly increased its exposure to new and emerging sectors. COAERS reduced its exposure to office, industrial, apartments, and shopping centers from nearly 100% to around 60%, and added health care, data centers, self-storage, lodging, and others to gain strategic exposure to modern sectors.

REITs Offer Geographic Diversification

As of year-end 2022, there were 893 listed REITs with a combined equity market capitalization of approximately $1.9 trillion in more than 40 countries and regions around the world. Investors can easily diversify the geographic footprint of their real estate portfolio using REITs and listed real estate without the need to build out dedicated international teams or an on-the-ground presence.

REITs Enhance Environmental, Social, and Governance Attributes

Over the past decade, institutional investors have become increasingly aware of the sustainability and social responsibility profile of their investment portfolios. For these investors, REITs provide access to some of the best-in-class performers of environmental, social, and corporate responsibility. For example, Nareit's ESG Dashboard, which looks at the top 100 largest REITs by market capitalization, shows that in 2022, 87% publicly reported carbon emissions, up from 38% in 2017. Meanwhile, 99% publicly reported on their diversity, equity, and inclusion policies, up from 49% in 2018. In addition, a new article in The Journal of Portfolio Management shows that REITs have historically outperformed private real estate funds in terms of sustainability performance.

REITs provide sector diversification, geographic diversification, and can enhance a portfolio's ESG attributes. Institutional investors increasingly understand this and are using REITs as part of portfolio completion strategies because of these benefits. ◆

David Sullivan *is the senior vice president, investment affairs at Nareit. He leads institutional pension plan, foundation, and endowment outreach for Nareit, which entails promoting and facilitating real estate investment through REITs to institutional investors and their consultants worldwide. This includes organizing roadshows, hosting meetings, and other marketing outreach targeted to institutional real estate investment officers around the world.*

Prior to joining Nareit, Sullivan was an institutional real estate capital raising and marketing professional focused on the global real estate market, a role he held for 20 years at firms including Schroders, Barings, and CBRE Investment Management. During this time, he raised billions of dollars for public and private real estate equity and debt investment strategies from institutional investors across the U.S. and Canada.

Sullivan has an MBA from Columbia Business School, an MPhil in international relations from Cambridge University, and a BA in international relations from Boston University.

Considering an In-house Modernization: What You Need to Know

By: Kevin Lynch, Linea Solutions

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We've seen it many times before: Pension organizations like yours get to a fork in the road where you need to decide whether to rewrite the code of your current system, upgrade with a commercial off-the-shelf vendor, or modernize to a more cohesive technology.

There may be multiple issues that get you to this place:

- Processes that heavily rely on paper or "digital" paper (PDFs) requiring time consuming manual entry
- Outdated legacy technology that is difficult to support
- Insufficient access to comprehensive dashboards with metrics and reports
- Minimal front-end validations on employer contribution files allow for incomplete or inaccurate data
- Lack of data security and potential cybersecurity risks
- The inability to program legislative and technology changes in a timely and cost-effective manner

Faced with this decision, some pension funds saddled with these issues are choosing to modernize in-house. Why are they doing this? Because they believe that retaining control over their systems, resources and priorities is the best way to continue delivering excellent customer service.

Some pension funds saddled with these issues are choosing to modernize in-house.

Going the in-house modernization route has several advantages:

- Controls the priority and pace of change
- Gives your organization an opportunity to streamline your system and use business process improvement strategies
- Allows your organization to prioritize your implementation schedule and maintain it
- Ensures your membership needs are being met by technology you control

However, there are also many challenges you need to consider.

Implementing a new system is a once in a career undertaking and many on staff will not have the experience or expertise to perform this transformation effectively, or there are not enough staff to dedicate their time to assisting in this transformation.

The new architecture will be even more complicated to manage technologically and even for large organizations, outside contractors will often have to be used for coding.

These initiatives require lots of internal leadership over a long period of time. Your leadership needs to get behind this, and will need to continue motivating others over the course of several years to ensure that staff and stakeholders can also get behind the changes.

They also require documented governance structures for decision-making, and that structure needs to be followed or there will be breakdowns in how important decisions are made and are accepted by others.

Implementing a new system is a once in a career undertaking.

These projects also require lots of resources, and typically more resources than currently exist on staff. Purchasing COTS software means you are outsourcing many things to a vendor; if you decide to do this in-house, it means those resources need to be available internally, or need to be hired (many just for this project, and others in an ongoing capacity.)

To address these challenges before fully going down the path of a modernization, your organization needs to conduct a full assessment to address Risks/Timelines and Budgets based on market knowledge, peer interviews and vendor demos. This needs to be performed to ensure you are confident in the path selected and it is the best fit based on your organization's priorities, needs, and skillsets.

If your organization determines that the in-house modernization route is the correct one, you will need to ensure you have tracking of the project, testing plans in place before you begin, training for stakeholders on how your new system will work, and development of a cybersecurity structure in tandem. ◆

Kevin Lynch *has been involved in solutioning for the Pension administration business for over 20 years across a variety of roles and organizations in North America. He has pension administration operations, implementation, and business development experience. He has worked on both public and private sector pension plans in Canada and the United States. He has worked for multiple pension administration providers in both a third-party administration capacity and at a software vendor. Kevin has lead an entire Pension Administration practice at a global consulting firm responsible for over 200 colleagues worldwide and over 100 clients. His expertise lies across pension administration best practices, process improvements, and customer satisfaction initiatives.*

U.S. Lower Middle-Market Private Credit Thoughts: Lower Leverage = Lower Defaults

By: John Ide, CFA and Leanne Schmitt, Star Mountain Capital

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Are loans to smaller companies riskier? There is a general perception that smaller companies are riskier due to, among other reasons, less scale and diversification potential. Independent research conducted by S&P and Moody's helps shed light on this question and their findings suggest otherwise. The research looked at various factors that have driven default rates, including loan size and leverage.

Moody's Analytics RiskCalc 4.0 reviewed 110,000 financial statements, 25,000 firms, and 1,600 defaults collected over 25 years. Moody's study of risk suggests leverage is the highest predictor of defaults, with the size of the company being the lowest. Moody's research concluded that leverage had the single biggest correlation to predicting default rates – four times more relevant than the size of company size.

S&P LCD Institutional Loan Default Review conducted a study that included all loans closed between 1995 and Q3 2018 and found that larger loans had three times higher default rates than smaller loans. Despite the narrative that smaller businesses are riskier to invest in, both reports show that larger businesses, which typically have higher leverage multiples and fewer covenants, tend to be riskier. Lower Middle-Market companies are substantial businesses that have long operating histories, significant revenues, and predictable cash flows.

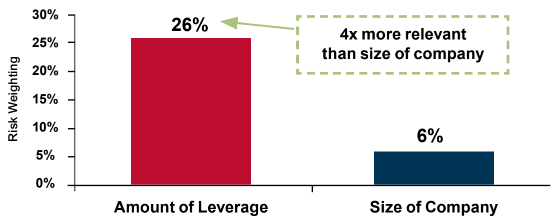
There is a general perception that smaller companies are riskier due to, among other reasons, less scale and diversification potential.

Most investors understand the single factor correlated most closely with default rates is leverage, balance sheet, or capital structure. More leverage is available in the market to larger companies than to smaller companies, therefore larger companies see a higher default rate, notwithstanding scale, diversification, or other perceived advantages larger companies might have. Simply put, higher leverage swamps all other factors when it comes to default risk.

Exhibit A [1, 2]

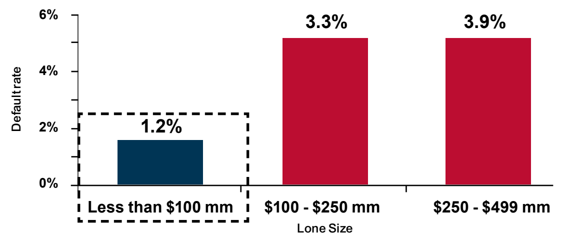
LOWER LEVERAGE = "HISTORICALLY LESS RISK"

…Star Mountain believes the reason is showcased in **Moody's** research, collected over 25 years, which determined the leading indicator is the amount of leverage.



SMALLER LOANS HISTORICALLY HAVE FEWER DEFAULTS

S&P research from 1995 to 2018 found that smaller loans had nearly a **3x lower default rate** than larger loans...



So why invest in the U.S. Lower Middle-Market as opposed to the middle and larger market?

- It is large and fragmented with over 200,000 businesses representing one-third of the private sector GDP and employing 48 million people.[4] Furthermore, 95% of these middle-market businesses are not owned by a private equity sponsor. [3]
- Large direct lenders do not focus on the lower middle market because it is labor-intensive and loan sizes are too small.
- ***From a risk-adjusted return perspective, we believe the lower middle-market has lower leverage, lower default rates, more protective financial maintenance covenants, and higher spreads than the core middle market.***
- It offers attractive diversification to most of the traditional asset classes including global bonds, macro hedge funds, US real estate, and global infrastructure.

We believe all these factors make direct lending in the U.S. Lower Middle-Market an attractive investment opportunity for investors today. ◆

Endnotes:

[1] Moody's Analytics, Moody's Analytics RiskCalc 4.0 U.S, April 30, 2012. Based on private firm data, including 110,000 financial statements, 25,000 firms, and 1,600 defaults collected over 25 years. The size of a company is measured in total assets.

[2] S&P LCD Institutional Loan Default Review; comprises all loans closed between 1995 and Q3 2018. Independent axis labels reflect loan amount ranges.

[3] "Everything Is Private Equity Now." *Bloomberg.com*, Bloomberg, 3 Oct. 2019.

[4] Nesbitt, Stephen L. "Overview of the US Middle-Market Corporate Direct Lending." Private Debt: Opportunities in Corporate Direct Lending, Wiley, Hoboken, NJ, 2019.

John Ide, CFA, *Managing Director joined Star Mountain Capital in 2021 and is a senior executive with 30+ years of experience advising some of the world's largest and most sophisticated institutions and family offices on their investments as well as strategically guiding operating companies as their trusted corporate banker and lender.*

Mr. Ide spent approximately 22 years at JPMorgan Asset Management. As a Managing Director and member of the Strategic Client Group, he managed some of the largest and most sophisticated institutional client relationships at JPMorgan. He oversaw approximately $20 billion of client capital invested across a broad range of global strategies including JPMorgan's then-affiliated $15+ billion AUM Highbridge Principal Strategies' private credit, mezzanine, and special situations funds. Mr. Ide is a graduate of Lawrence University and has an MBA from Loyola University of Chicago. Mr. Ide also holds the Chartered Financial Analyst (CFA) designation.

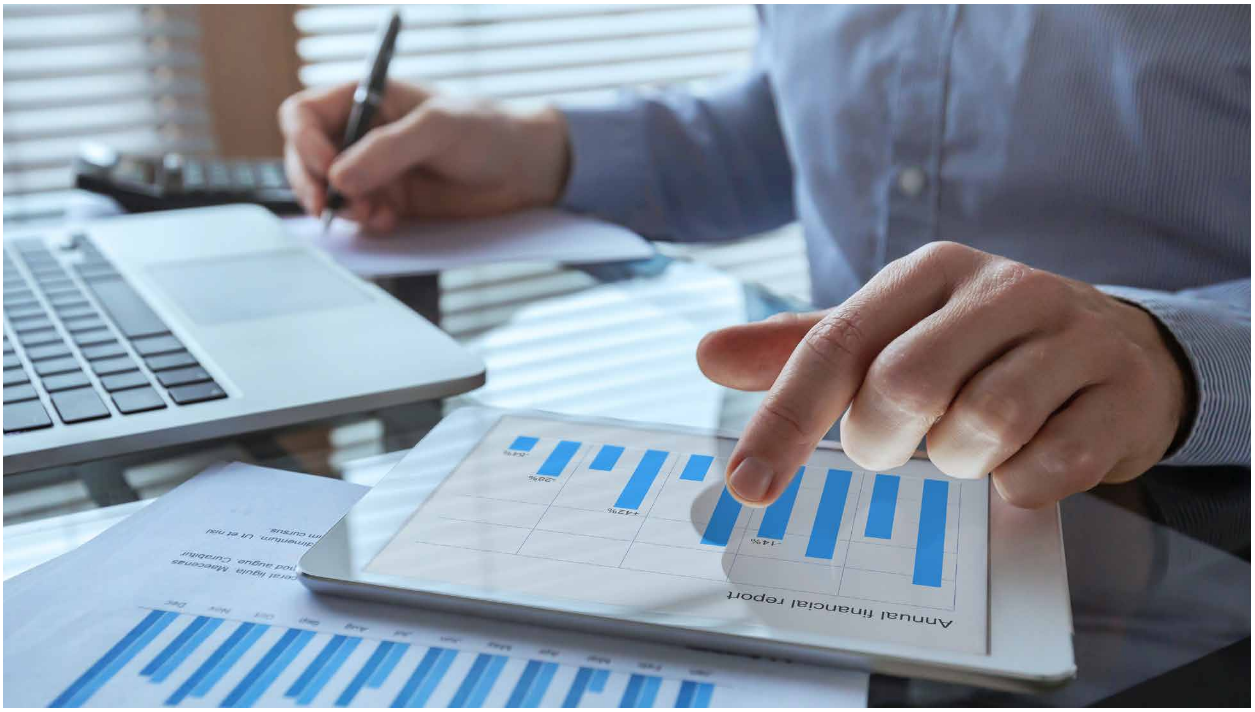
Leanne Schmitt, *Managing Director joined Star Mountain Capital in 2023. Mrs. Schmitt is an investor relations, portfolio management, and financial systems investment professional with over 20 years of experience.*

Mrs. Schmitt was most recently a Managing Director at Intech Investment Management, a global institutional quantitative equity firm that spun out from the Janus Henderson Group in 2022. She has advised some of the world's largest and most sophisticated institutions and private clients on their investments across asset classes including quantitative public equities and alternatives.

Mrs. Schmitt is a graduate of Fordham University with a Bachelor of Science in Computer Science. She obtained her Master of Business Administration from Keller Graduate School of Business with a concentration in International Business with Entrepreneurial Focus and is FINRA Series 63 and 7 licensed. Mrs. Schmitt received the Diversity, Equity & Inclusion in the Workplace Certificate from the University of South Florida.

The Untold Story of Trailing Returns

By: Daniel Johnson and Troy Brown, CFA, AndCo Consulting



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Regardless of your level of sophistication as an investor, when reviewing public investment strategies, the start of your evaluation process is likely often the same: "What do the trailing returns look like?" In other words, are the 1, 3, 5, and 10-year trailing performance numbers better, worse, or largely similar relative to other active or passive options being considered? This tendency to rely on trailing performance does not apply exclusively to comparisons between competing investment options, we also commonly use trailing performance to evaluate if a portfolio's objectives are being met over time and/or if an asset class (represented by an index) is worthy of new or ongoing inclusion in a portfolio. Unfortunately, trailing performance simply doesn't tell the whole story.

Every trailing return reviewed for an investment strategy, portfolio or index has an "untold story" each time its performance is updated for a new time period (e.g., September 30th vs. December 31st trailing performance). This is because there is a largely unsung "rolling-return" factor associated with updating trailing performance for each period, and while we all know the factor exists, it rarely gets a second thought when evaluating trailing returns. This "out with old, in with the new" methodology is commonly referred to as "endpoint sensitivity." In simpler terms, when you choose to start the evaluation period and when it ends can have a dramatic impact on the presentation of the results.

Every trailing return reviewed for an investment strategy, portfolio, or index has an 'untold story' each time its performance is updated for a new time period.

To further illustrate this point, consider that most client portfolios were recently faced with an example of the extreme impact that end point sensitivity can have on the presentation of trailing results. The table below contains the trailing benchmark performance of a traditional balanced investment portfolio (50% Russell 3000 / 10% MSCI EAFE / 40% Bloomberg US Aggregate) using two different endpoints one year apart. As you can see, adding 2022's negative performance to the trailing period calculations has a significant impact on the presentation of long-term performance results. To further visualize how a cursory review of these results could potentially lead to inaccurate snap judgements of portfolio success or failure, we also highlighted returns above 7.5% as a reference point for a hypothetical pension plan's assumed rate of return.

Realized Performance

Period Ending	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year	20 Year	30 Year	40 Year
9/30/2021	17.55%	11.11%	10.63%	9.01%	10.45%	7.81%	7.79%	8.56%	10.47%
9/30/2022	-16.69%	2.72%	4.42%	6.17%	6.68%	5.65%	7.22%	7.56%	9.51%

Return > 7.5% highlighted.
Source: Morningstar Direct. Blended return stream rebalanced annually. Return data is provided for historical and informational purposes only. Past performance does not guarantee future results.

The simple addition of 2022's performance to the trailing return calculation shifts the hypothetical pension portfolio from achieving its return target for each trailing period, to requiring 30 years of trailing results to exceed the static hurdle.

What's the primary takeaway? First, it is a fascinating piece of mathematical market trivia. Second, we believe it is important for clients to understand the significant impact that 2022 had on investment results and notably trailing performance results. Third, extreme swings in short-term market performance can create the perception and/or urgency among stakeholders that long-term, successful strategies may need to be changed. Finally, and most importantly, we would like to emphasize patience, and to the extent possible, removal of emotion when evaluating trailing performance results, especially after periods of market distress. ◆

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Managing Private Market Asset Allocations

By: Susan M. Doyle, State Street Global Advisors

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Demand for private assets has grown as institutional investors seek alternative sources of potential return and diversification, along with lower volatility relative to public markets. Because there can be a long lead time between committing capital to private assets and when that cash is called, investors should adopt a clear strategy on how those earmarked funds are invested in the interim. As volatility in the public markets has increased, investors face questions on how to build out, benchmark, and manage their private allocations in a period of volatile public markets.

Building out a Private Asset Allocation

One challenge when investing in private assets centers on managing the current asset allocation towards the long-term target. Investors typically review their Strategic Asset Allocation (SAA) every one-to-three years. An Investment Policy Statement (IPS) that adds private asset allocation to might look like this:

Asset Class Group	Current Target (%)	Long-Term Target (%)	Difference (%)
Liquid Growth	70	60	-10
Private Growth	—	10	+10
Real Assets	10	10	—
Fixed Income	20	20	—

Source: State Street Global Advisors. For illustrative purposes only.

It can take years to build a 10% allocation to private growth assets. The question becomes how to measure portfolio performance relative to an investable benchmark. Options include:

Interim Benchmarks

We start with a cash flow pacing analysis for private assets, estimating the required commitments and corresponding net cash flows (expected capital called minus distributions) to reach 10% of total plan assets (see Figure 2, below).

Figure 2: Cash Flow Pacing Analysis for Private Credit Allocation

Source: State Street Global Advisors. For illustrative purposes only.

The table below shows the investible benchmark we would adopt for the first year, and we typically revisit the cash flow pacing analysis annually.

Asset Class Group	Current Target (%)	Year 1 Target	Long-Term Target (%)
Liquid Growth	70	65	60
Private Growth	—	5	10
Real Assets	10	10	10
Fixed Income	20	20	20
Total Assets	**100**	**100**	**100**

Source: State Street Global Advisors. For illustrative purposes only.

Split Management of Public and Private Assets

Another approach is managing publicly traded assets to a public-only benchmark that sums to 100%, while letting the private asset weight float as the allocation grows. As in the previous instance, we would revisit the cash flow pacing analysis annually.

Asset Class Group	Current Target (%)	Actual Year 1 Allocation	Public Scaled to 100%	Long-Term Target (%)
Liquid Growth	70	65	68.4	60
Real Assets	10	10	10.5	10
Fixed Income	20	20	21.1	20
Total Public Assets	**100**	**95**	**100**	**90**
Private Growth	—	5	—	10
Total Private Assets	**—**	**5**	**—**	**10**
Total Assets	**100**	**100**	**—**	**100**

Source: State Street Global Advisors. For illustrative purposes only.

How to Fund Private Asset Allocations

Private equity is the most common private market allocation. We typically benchmark private equity against MSCI World + 2% p.a., which is the long-term aspiration for private equity over public equity.

Funding private equity from public equity is a natural choice given the abundance of liquidity. Similarly, we could use combinations of bank loans and high yield for private and opportunistic credit.

Private real assets can be proxied with combinations of liquid real assets. Private infrastructure is a good example, with listed infrastructure having a similar long-term return but almost double the volatility. However, the correlation between private and listed infrastructure is around 90% if the listed infrastructure is held for over two years.

The Bottom Line

Private assets can provide additional sources of potential return, increased diversification, and lower volatility. However, their illiquid nature and the lag time between the commitment and drawdown of capital makes managing the implementation of a private asset allocation particularly important — especially when deciding how to fund the allocation, how to benchmark it, and how to manage volatility and currency hedging needs. Each investor must balance different governance and structural considerations when determining how best to implement an illiquid allocation.

Disclosure:

The views expressed are those of Susan Doyle as of 4/30/23 and are subject to change based on market conditions. Any forward-looking statements are not guarantees of any future performance and actual results.

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Asset Allocation is a method of diversification which positions assets among major investment categories and may be used to manage risk and enhance returns and does not guarantee a profit or protect against loss.

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__Susan M. Doyle__ is a Managing Director of State Street Global Advisors and the Global Head of the Private Markets Funds Investment Team. Susan joined SSGA in July 2016 through its acquisition of GE Asset Management (GEAM). She joined GEAM in 1991 and currently leads the Alternatives team responsible for selecting private equity, private credit, and real estate asset classes across the platform. She also has oversight of the private markets commercial activities.

Susan received a BS in Business Administration from the University of Connecticut and an MBA from the University of North Carolina at Chapel Hill.

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Asset AllocationOctober 24, 2023

Why Private Equity Is Still Dogging It

A host of macro problems leave PE fund investors with just small gains.

By Larry Light

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When, oh when, will U.S. private equity exits turn around?

For limited partners, the most important job of PE funds is to sell portfolio companies—which translates into higher investment returns. PE has disappointed the LPs lately, big time.

Still, according to research firm PitchBook Data, the buyout sector is poised to rebound, under the theory that things couldn't get any worse. No doubt, the situation looks gloomy now. "Dealmaking has clearly yet to find a bottom," the PitchBook report concluded.

In the year's third quarter, a total of 275 PE-backed companies had exits, with value of $44.1 billion, according to the report, written by lead PE analyst Tim Clarke and his team. Compared with the second quarter, that marked a drop of 6.9% in exit count and 41% in value, respectively. Other than the pandemic-panic-stricken Q2 2020, that made Q3 2023 the lowest recorded figure in more than 10 years, in both count and dollars.

For the year through September 30, the picture is equally dispiriting, even matched against a lousy year like 2022, when the stock market tumbled. This year, the S&P 500 is actually up, by 10%, but PE has not followed: "Exit value hit an air pocket in Q3," the PitchBook report summarized. In both number and proceeds, 2023's first three quarters (85 exits, $183 billion generated) lag behind 2022's comparable period.

There's not a chance that 2023 as a whole will come close to the bonanza year of 2021, which featured 1,849 exits and $891 billion, PitchBook analysts asserted. Let alone 2022's sad showing, of 1,344 and $330 billion. "Exit activity is arguably the most important link in the PE chain of capital formation and a lead indicator of industry growth," the firm's report noted.

To blame for the sorry plight are macro problems: higher interest rates, which inhibit borrowing and throw off deal metrics, the lifeblood of mergers and acquisitions; inflation, no friend of the stock market; and international turmoil, signaling potential problems for trade.

How has this all turned out for limited partners in PE funds? Unexciting, in light of the first-half showing (the third quarter is still being tabulated). In the first quarter, the funds collectively delivered a 4.1% return; in the second, 3.1%. "However, it's important to note that these returns pale in comparison to the 16.9% return of the S&P 500 during the first half of 2023," the report observed. What's more, investors today can earn more from U.S. Treasury bonds (the 10-year note is yielding almost 5.0%) and with a lot less risk.

Until recently, PE has been popular with pension funds. But some allocators are re-thinking that. The Maryland State Retirement and Pension System is cutting back on its commitment to PE, seeking to bring its 21% allocation closer to a 16% target. The Alaska Permanent Fund Corp. has opted to do the same thing. Nonetheless, others are still building out their PE commitments. California Public Employees' Retirement System is expanding its private-equity portfolio to 13% from 8%.

Despite the cooling of PE returns, a case can be made that down and mediocre years in private equity are good ones to invest there. "Years that feel stressful end up being the best-performing vintages," said Brian McDonnell, head of global pension practices at Cambridge Associates, in a video interview with finance site FundFire.

He is aptly summing up the current climate in PE. Initial public offerings, a common way for PE partnerships to exit, are anemic this year, per stockanalysis.com: As of Monday, 131 IPOs have been launched on the U.S. stock market in 2023, less than at the same time in 2022, 168.

The front end of the PE pipeline, buyout activity, has also flagged in 2023. PitchBook found that, in the third quarter, "deal value broke below the $200 billion level for the first time since the

COVID-19- pandemic-induced lockdown of 2020." Meanwhile, PE fundraising also has not been robust: For the year's first three quarters, the amount was down 13% from the comparable period last year.

No one knows, of course, when PE will get its mojo back. The PitchBook paper declared that PE shops are holding onto a large number of portfolio companies, awaiting more propitious times to do exits. Other reports have indicated some PE managers are selling companies to themselves, or to so-called continuation funds, to offload investments.

There are some glimmerings of better days ahead, though. Banks are starting to lend for deals, PitchBook indicated. Even better, PE firms are sitting on a mountain of "dry powder," meaning cash on hand, available to do deals, whether to take over companies or to buy them from other PE firms: an estimated $956 billion in total.

That is why, PitchBook opined, investors remain "hopeful" PE firms "will put it to work."

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Pensions&Investments

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Private equity is past its peak, warns Pulitzer Prize-winning author

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Gretchen Morgenson

Gretchen Morgenson, who co-authored "These Are the Plunderers," argues the strategy won't generate the same returns as in prior years.

A new business book calls into question the business model of private equity and argues the strategy won't generate the same returns as in prior decades.

Since the 1970s and 1980s, firms such as Apollo Global Management, Blackstone, Carlyle Group and KKR & Co., among others, made money in leveraged buyouts, more recently dubbed private equity, in which the firms buy up companies using investor assets, leverage them and aim for more efficiencies and higher profits.

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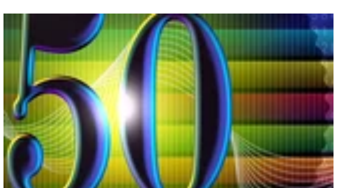

P&I at 50: How institutional investing has changed and what's to come

Institutional investors have come to expect returns in the high teens or much higher from private equity. Between 2009 and 2021, private equity garnered such returns until 2022, when the asset class lost 1.2%, according to PitchBook's data.

But with rising interest rates, the world has changed, according to Gretchen Morgenson, a Pulitzer Prize-winning business reporter who believes those historical returns are no longer possible. Morgenson has co-authored a new book with Josh Rosner, managing director at research consultancy Graham Fisher & Co., titled “These are the Plunderers: How Private Equity Runs – and Wrecks – America.”

LBOs became a “big deal in the 1980s with the RJR Nabisco transaction. They took advantage of the fact that the market for public companies — the stock market — was in the doldrums. So there was a vast difference between what the public companies were selling at and what they were worth,” she said.

Initially, “it was a very shrewd arbitrage between the intrinsic value and the market value, which was lower. And these firms used debt — a lot of debt. It increases your gains if prices go up and risk if prices go down.”

At the time, Drexel Burnham Lambert was funding a lot of companies, which otherwise would never have gotten financing, the era of junk bonds, she said.

Leveraged buyout titans such as Leon Black, the co-founder of Apollo Global, were “peddling deals such as insurer Executive Life. And everything was great until we hit the recession of the early 1990s. Drexel failed. It was the ax, the player, the market maker in the junk bond market. The whole market went kaflooey.”

Buying up the junk bond portfolio of Executive Life put Leon Black “on the map. He had done all the leveraging by selling junk bonds to these companies. Executive Life was the talisman because it had all the earmarks of the future transactions that these folks do. Leon Black made $3 billion. But almost all the policyholders were left holding the bag.”

Morgenson adds that particular deal “had a lot of the same characteristics of ‘I, me, mine’ capitalism. You don’t care about the other people – at all.”

In the 2000s and more recently, LBO/private equity firms began investing in retailers and health care. Roughly 40% of all emergency rooms in America are now run by private equity firms, and 11% of nursing homes, she noted, adding “they’re not owned by private equity, they run them through staffing companies. They manage them and force doctors to do things they wouldn’t otherwise do,” she said.

Today, private equity — the more genteel name for LBOs — is “very mainstream, but the alpha is going away. They did generate alpha for a long time in spite of high fees. But they don't anymore," Morgenson alleged.

What's different now?

"There was an arbitrage between what a company was valued at and its intrinsic value. It made the idea of an LBO more attractive, compelling and obvious. But now, these companies have been flipped so many times. What efficiencies are left? They aren't generating alpha the way they were. They're creating bankrupt companies."

She points to the recent failure of Envision Healthcare, which employed roughly 20,000 doctors, under KKR. The company filed for bankruptcy in May, citing unsustainable high debt due to rising interest rates, high labor costs and payment disputes with health insurers.

Inflation and higher borrowing rates today represent new pressure points on the private equity business model, she said.

"Interest rates makes their costs much higher. We're seeing more bankruptcies in and among these companies."

In June, Blackstone-owned CARD, the Center for Autism and Related Disorders, also filed for bankruptcy. It was one of the largest U.S. providers of services for children with autism.

Morgenson said she's waiting to be proven wrong on whether private equity is positive for the labor force.

"Blackstone told me their companies create jobs, 200,000 net new jobs over the past 15 years. But they declined and never gave me the underlying data."

Blackstone sent P&I the statement included in the book: "Over our more than 35-year history, our flagship private equity and real estate funds have had net returns annually of 15-17% –— approximately double their public benchmarks. At the same time, we seek to help strengthen companies, putting them in a better position to hire and grow for the long-term. Over the last 15 plus years, our portfolio companies have added nearly 200,000 net jobs. During that same period, we have had a bankruptcy rate of just 0.2% out of nearly 1,000 control investments."

It's up for debate as to whether private equity's alpha will continue to outpace public markets, as recent data show.

On the fundraising side, pension funds "are the oxygen that PE needs to exist. As the alpha diminishes, I don't understand the point of investing. Pension funds such as CalPERS say they need to meet obligations and PE will help do that. Now that it's no longer generating that alpha, what's the argument? It's highly illiquid, very opaque, the fees are enormous. The outcomes for people involved are negative. When the companies go bankrupt — far more frequently than non-leveraged companies — there's a bad impact on towns and tax rolls, schools and parks. The circle of pain is big. The beneficiaries are small."

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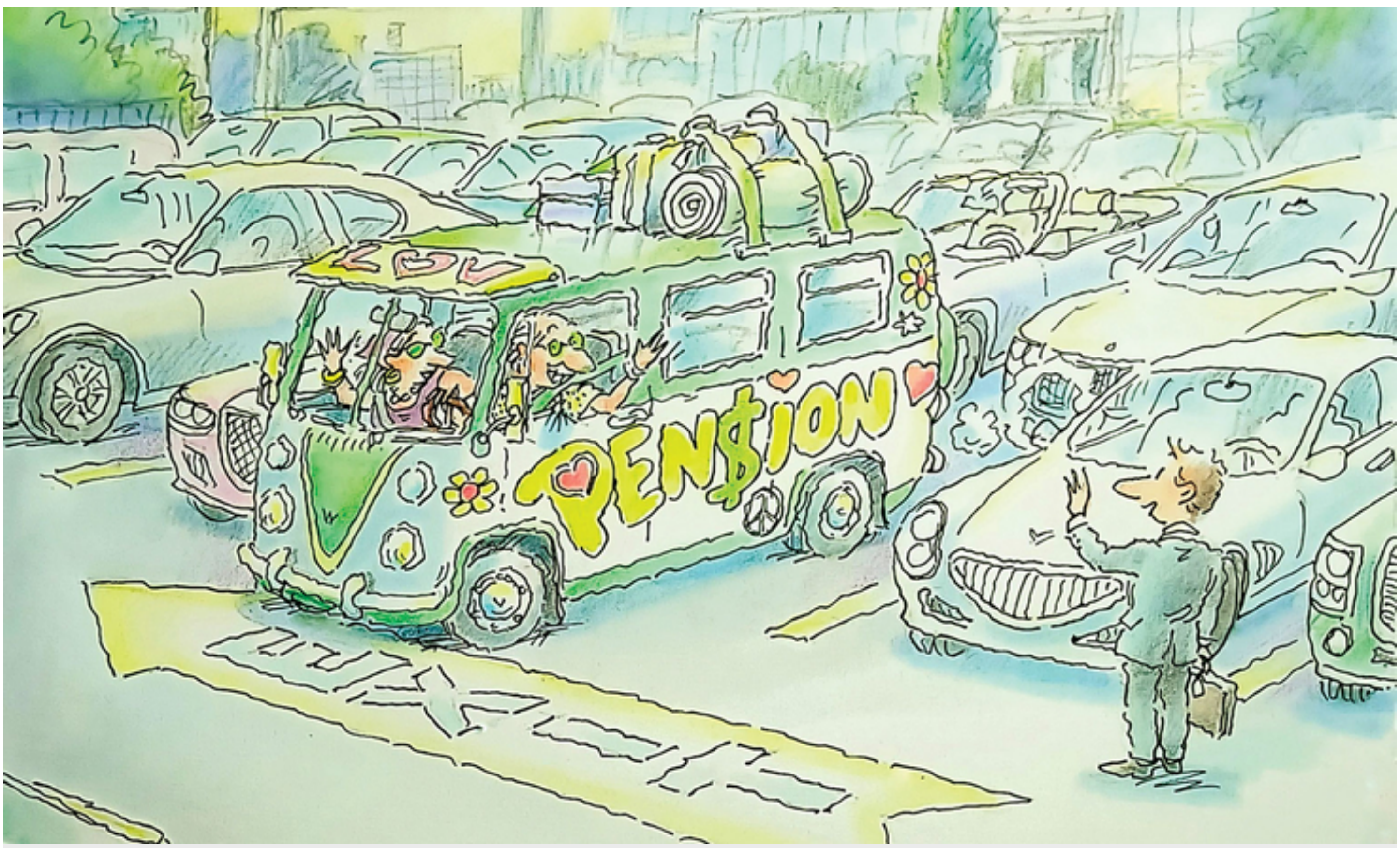
Pensions&Investments

October 23, 2023 05:00 AM

Long live public pension funds!

ROB KOZLOWSKI



Norm Bendell

U.S. public pension plans should continue to muddle through and avoid the fate of corporate pension plans, experts say.

When *Pensions & Investments* launched in 1973, the passage of ERISA was on the horizon and corporate defined benefit plans faced a bright future that has since faded as the majority of private-sector workers have been moved to defined contribution plans.

Will public-sector DB plans face a similar fate? Experts say despite numerous challenges, including lower capital market projections, rising contribution rates and an often charged political environment, public pension plans should continue to "muddle through" for decades to come.

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Anthony Randazzo, executive director of the Equable Institute, a bipartisan, nonprofit organization that focuses on public-sector retirement systems and their funding challenges, said in an interview that so many public pension plans remain open because "in the ideal form, pensions are really great benefits."

In the corporate space, however, Randazzo notes that companies always balanced the cost of benefits against their usefulness as a recruiting-and-retention tools.

"In that context, it was a lot easier for corporations to shift away from pensions because of the increasingly high costs these plans have had," Randazzo said.

On the public-sector side, Randazzo said pension plans have persisted because the benefit has been seen as necessary for generations now "and thus it's politically challenging to tackle pensions."

Both corporate and public pension plans had the great fortune during the 25 years before the global financial crisis of being present in a spectacularly beneficial market return environment.

Robert "Vince" Smith, deputy state investment officer and chief investment officer of the New Mexico State Investment Council, Santa Fe, which oversees $44.1 billion in endowments, said at a June 27 council meeting that "It was fantastic because you could build a portfolio with lower levels of risk" and count on returns from fixed income.

Following the financial crisis and a massive expansion of the money supply, institutions still had OK returns, Smith said. However, he said that ability of the central banks to continue creating debt and putting that into economies doesn't exist anymore, pointing out the U.S. government spending $15 trillion from 2009 to 2021.

"We really think we've shifted into a different economic and investment environment," and investment returns will be lower in the years ahead, he said. Smith was previously CIO of the $25.6 billion Kansas Public Employees' Retirement System, Topeka, from 2006 to 2010.

Others agree. According to the Equable Institute's latest annual report — State of Pensions 2023 — a standard pension fund has only a 50% chance to earn 5.6% over the next 10 years or 6.3% over the next 20 years.

For their part, U.S. public pension plans have gradually made their rate of return assumptions more realistic, with the average falling to 6.88% in 2023 from 8.07% in 2001, according to the Equable Institute report.

Unlike corporate pension funds, which are required to use a discount rate equivalent to an AA-rated bond in order to determine future obligations, public pension funds utilize their rate of return assumption as their discount rates.

An unrealistically high rate of return assumption could lead to an inaccurate picture of future pension obligations.

"It's not clear to me that pension funds have stopped their transition to lowering their return assumptions," said Jean-Pierre Aubry, associate director of state and local research at the Center for Retirement Research at Boston College. "The trajectory that they're trying to get down to? 6% is their number."

He noted that while the average assumptions might still be higher than is realistic, "these are kinds of Titanics and move incrementally … The recognition is that maybe they need to revisit assumptions, but they can't do it within one fell swoop because of the budgetary impact," he said.

Public pension plans have been revisiting their assumptions for years, and have made other moves in order to reduce the costs of plans, especially after the one-two punch of the dot-com recession of 2000 and the Great Recession eight years later.

"I think the defined benefit plans are here to stay, although there is a movement toward those plans becoming more risk sharing," said Gene Kalwarski, CEO , principal consulting actuary and co-founder of Cheiron.

Aubry concurred, citing efforts by various states and municipalities to create new tiers of benefits, increase the rates of contributions by employees and employers, and control cost-of-living adjustments.

U.S. corporate and public pension plans experienced a significant funding crisis after the two recessions and while many corporations have addressed the issue by closing and freezing their plans or transferring assets and liabilities to insurance companies, governmental entities generally avoided those steps.

In Illinois, for example, where pension benefits for public employees are protected under the state constitution, a new tier of benefits for newly hired employees was the only way to be able to try to address the funding crisis.

For example, in 2011 state legislation created a Tier 2 benefit for the $67 billion Illinois Teachers' Retirement System, Springfield. Employees hired after Jan. 1, 2011, are required to reach 67 years old and have accumulated at least 10 years of service credit to qualify for unreduced benefits. That was raised from 62 years old for employees hired before Jan. 1, 2011.

Not long afterward in Ohio, then-Gov. John Kasich in 2012 signed into law five pension reform bills each covering one of the state's five retirement systems. One of those five systems, the $90.1 billion Ohio State Teachers' Retirement System, Columbus, saw employee contributions raised to 14% from 10% and its board given the authority to change the COLA on an annual basis, a change from the previous automatic 3% COLA.

Similar changes across dozens of states and municipalities have helped ensure the long-term survival of public pension plans, Aubry said.

"Benefit cuts, COLA changes, and just hiring fewer workers," said Aubry. "In changing plan designs, they have more hybrid systems, systems that share risks. At least they are building themselves for the long haul by making these kinds of adjustments, and yes, returns will be lower but that's the reason they had to make these changes."

Industry experts also note that after the Great Recession, governmental entities learned their lessons and assess their risks far more robustly.

"We're constantly doing projections," said Cheiron's Kalwarski. "Not just projections based on the assumption, more often they are requiring us to assess the risks these plans face." Cheiron is an actuarial consultant for a number of public pension plans.

Among the new requirements to assess those risks would be robust stress tests in which best-case and worst-case scenarios are determined based on investment returns and contributions.

"The reporting is much more robust than it was 20 years ago," he said.

The state retirement systems in Pennsylvania, for example, now publish an annual stress testing and risk assessment report. This is in addition to state pension reform signed into law by then-Gov. Tom Wolf in 2017 that moved new workers hired after Jan. 1, 2019, that are not in high-risk jobs such as state police and corrections officers into a hybrid retirement system, receiving half of their benefits from the current taxpayer-funded plan and half from a 401(a) defined contribution plan.

Newly hired workers can now elect to solely participate in the 401(a) plan.

The $35.5 billion Pennsylvania State Employees' Retirement System, Harrisburg, just published its latest stress testing and risk assessment report on Sept. 19. Completed by actuarial consultant Korn Ferry, the report provides comprehensive information on investment risks, demographic risks, and contribution and governance risks.

In the report, Korn Ferry said that even though "unfavorable investment performance" can cause the funding ratio to drop, it is still expected to increase in the long-term due to increasing actuarially determined contributions.

Despite the challenges public pension plans are experiencing, the lessons learned following the Great Recession should contribute to their continued survival.

"Looking at the history of how changes are made to these systems, and also knowing what kinds of legal protections exist in most states," said Equable's Randazzo, "my best guess is that public plans as a whole will continue to muddle forward."

Because investment return assumptions will be lower and market volatility will increase, Randazzo said the volatility in funded status will increase a bit over the next decade, meaning some years the average ratio might be in the mid to high 80s, and other years in the low 70s. “It’s all going to kind of stay about where we are,” Randazzo said, “and I think that’s unfortunate.”

“The retirement system administrators across the country should collectively be telling the leaders in their states that it just continues to be irresponsible and unrealistic to be asking the pension fund managers, the investment managers, to be trying to hit the investment target that they’re trying to hit, and that means more contributions are needed.”

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