

# AGENDA

# BOARD MEETING SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION BOARD OF RETIREMENT FRIDAY, FEBRUARY 9, 2024 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 <a href="https://us02web.zoom.us/j/84174526440">https://us02web.zoom.us/j/84174526440</a> and following the prompts to enter your name and email, or (2) calling (669) 219-2599 or (669) 900-9128 and entering Meeting ID 84174526440#.

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 Board Meeting of January 12, 2024
- 3.02 Minutes from Special Administrative Committee Meeting January 30, 2024
- **3.03** Board to consider and take possible action on minutes

# 4.0 PUBLIC COMMENT

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

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

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

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

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

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

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

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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.

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8.02 Board to consider and take possible action on any new travel request	
8.03 Legislative Summary Report - None; No changes since 11/2023	
8.04 CEO Report	187
01 Declining Employer Payroll Report	202
8.05 Board to receive and file reports	
9.0 REPORT FROM COMMITTEE(S)	
9.01 Committee Chairs and staff will provide a brief summary of the meeting outcome:	
01 Administrative Committee Meeting - January 30, 2024	
9.02 Board to receive and file report	
10.0 CORRESPONDENCE	
10.01 Letters Received (0)	

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10.03	Ма	rket Commentary/Newsletters/Articles	
	01	NCPERS PERSist The Untold Story of Trailing Returns October 24, 2023	206
	02	Forbes Will 2024 Be The Year Of The Pension Comeback? December 18, 2023	208
	03	BlackRock 2024 Global Outlook December 2023	215
	04	NCPERS Monitor January 2024	240
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- 13.02 Special Board Meeting February 12, 2024 at 11:00 a.m.
- 13.03 Board Meeting March 8, 2024 at 9:00 a.m.
- 13.04 Audit Committee Meeting March 8, 2024, immediately following Board Meeting
- **13.05** Board Meeting April 12, 2024 at 9:00 a.m.
- **13.06** Board Meeting May 3, 2024 at 9:00 a.m.
- **13.07** Audit Committee Meeting, May TBD
- 13.08 Board Meeting June 7, 2024 at 9:00 a.m.

# 14.0 ADJOURNMENT

# MINUTES

# BOARD MEETING SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION BOARD OF RETIREMENT FRIDAY, JANUARY 12, 2024 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, Steve Ding (out at 10:28 a.m.), JC Weydert, Steve Moore, Michael Duffy (presiding, beginning at 9:39 a.m.), Raymond McCray and Michael Restuccia (out at 9:39 a.m.), presiding

**MEMBERS ABSENT:** Chanda Bassett

**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 Analyst II Lolo Garza, Administrative Secretary Elaina Petersen (via Zoom)

**OTHERS PRESENT:** Yuliya Oryol of Nossaman, David Sancewich and Judy Chambers of Meketa

# 2.0 PLEDGE OF ALLEGIANCE

2.01 Led by Ray McCray

# 3.0 MEETING MINUTES

- 3.01 Minutes for the Board Meeting of December 8, 2023
- **3.02** The Board voted unanimously (8-0) to approved the Minute of the Board Meeting of December 8, 2023 (Motion: Duffy; Second: McCray)

# 4.0 PUBLIC COMMENT

**4.01** There was no public comment

# 5.0 CONSENT ITEMS

- **5.01** Service Retirements (23)
- **5.02** General (2)
  - 01 Annual Trustee Education Report
  - 02 Retirement-Eligible Earnings Codes Ratification Report
- **5.03** The Board voted unanimously (8-0) to approve the consent items (Motion: Duffy; Second: Weydert)

NOTE: Item numbers 7.0, 8.0 and 9.0 were taken next out of order

# **6.0 INVESTMENT CONSULTANT REPORTS**

- **6.01** Presented by David Sancewich of Meketa Investment Group
  - 01 Manager Performance Flash Report November 2023

- 02 Economic and Market Update November 2023
- 6.02 The Board received and filed reports

### 7.0 EXISTING PRIVATE CREDIT MANAGER PRESENTATION

- **7.01** Presentation by Raj Makam, Portfolio Manager of Oaktree Middle Market Direct Lending Fund
- **7.02** The Board received and filed report

# 8.0 PRIVATE EQUITY MANAGER PRESENTATION

- 8.01 Presentation by Brook Coburn and Adam Palmer of Capitol Meridian Fund
- **8.02** The Board received and filed report

# 9.0 CLOSED SESSION

Vice-Chair Duffy convened Closed Session at 9:43 a.m. and adjourned Closed Session at 10:26 a.m., called a break between 10:27 a.m. and 10:34 a.m. and reconvened Open Session at 10:34 a.m.

- 9.01 Purchase or Sale of Pension Fund Investments California Government Code Section 54956.81
- 9.02 Personnel Matters

California Government Code Section 54957(b) Employee Disability Retirement Application(s) (1)

- 01 Consent Items
  - a Jaime L. Contreras
    Service-Connected Disability Retirement
    Park Worker
    Parks Recreation
- 02 Vice-Chair Duffy pulled this item from the agenda at staff's request; no discussion or action.
- **9.03** Public Employee Performance Evaluation

California Government Code Section 54957(b)

Title: Retirement Administrator/Chief Executive Officer

Counsel noted that there was nothing to report out of closed session.

# 10.0 DISABILITY RETIREMENT AND ACTIVE MEMBER DEATH POLICY AND PROCEDURE

- **10.01** Disability Retirement and Active Member Death Policy and Procedure Mark-up
- **10.02** Disability Retirement and Active Member Death Policy and Procedure Clean
- 10.03 The Board voted unanimously (6-0) to approved the Disability Retirement and Active Member Death Policy and Procedure and adopt Resolution 2024-01-01 (Motion: Keokham; Second: McCray)

# 11.0 STAFF REPORTS

- 11.01 Trustee and Executive Staff Travel
  - 01 Conference and Event Schedule 2024
  - 02 Summary of Pending Trustee and Executive Staff Travel
    - a Travel requiring approval (1)
  - 03 Summary of Completed Trustee and Executive Staff Travel

- **11.02** The Board accepted and filed reports and voted unanimously (6-0) to approve one pending travel request (Motion: Keokham; Second: Weydert)
- 11.03 Quarterly Operations Reports
  - 01 Pending Member Accounts Receivable Fourth Quarter 2023
  - 02 Disability Quarterly Report Statistics
  - 03 Pension Administration System Update
  - 04 Quarterly Operation Metrics
- 11.04 Legislative Summary Report None; No changes since 11/2023
- 11.05 CEO Report

At CEO Shick's request, Management Analyst III Greg Frank gave a facilities update: 1) Contractors report the planned move-in date remains February 29, 2024; 2) In the event of delays, SJCERA's contingency plan is in place: a few staff will serve members in a temporary office at the County Administration Building while the rest of staff work remotely; Board meetings will be held at San Joaquin Regional Transit District (RTD) Board Room; 3) January 31 has been identified as the date by which staff must determine which course of action to take; however, under either scenario, staff will no longer work in the existing office space effective February 26, 2024.

CEO Shick commended both San Joaquin County Administration and RTD for their partnership and support of a fellow public agency.

01 2023 Action Plan Results

CEO Shick provided the following highlights from the written report: 1) all goals were completed; 2) SJCERA's investment portfolio is expected to exceed it's assumed rate of return for 2023; 3) the Pension Administration System and Data Conversion Projects are running on time and on budget 4) SJCERA made significant progress on risk management particularly in the area of cybersecurity, and on communications, with the addition of videos, an employer handbook and felony forfeiture notice. In addition, she recognized SJCERA's IT team for their success maintaining and improving the legacy pension administration system since SJCERA took ownership of it. Lastly, she noted staff's and the Board's accomplishments in 2023 were impressive.

11.06 The Board received and filed reports

# 12.0 CORRESPONDENCE

- **12.01** Letters Received (0)
- **12.02** Letters Sent (0)
- **12.03** Market Commentary/Newsletters/Articles
  - 01 Loomis Sayles Investment Outlook October 2023
  - 02 PIMCO
    Asset Allocation Outlook Prime Time for Bonds
    November 2023
  - O3 Principal Asset Management 2024 Perspectives - The year of the pause and the pivot December 2023

- 04 NCPERS Monitor December 2023
- 05 Invesco
  The Balancing Act 2024 Investment Outlook
  December 2023
- O6 Pensions & Investments Expect familiar worries for 2024 as pension funds mull economy, interest rates January 4, 2024

# 13.0 COMMENTS

**13.01** Trustee Moore commented it was interesting to see Meketa's assessment that real estate would experience a transition from ownership to rentals come to fruition.

Trustee Duffy wished all a Happy New Year and was happy investment markets had a "Santa Claus" Rally at the end of 2023.

# 14.0 CALENDAR

- 14.01 CEO Performance Review Committee, January 30, 2024 2:00 p.m.
  - 01 Meeting canceled
- **14.02** Board Meeting February 9, 2024 at 9:00 a.m.
- **14.03** Board Meeting March 8, 2024 at 9:00 a.m.
- **14.04** Audit Committee Meeting March 8, 2024 immediately following Board Meeting
- **14.05** Board Meeting April 12, 2024 at 9:00 a.m.
- **14.06** Board Meeting May 3, 2024 at 9:00 a.m.

# 15.0 ADJOURNMENT

**15.01** There being no further business the meeting was adjourned at 11:31 a.m.

Respectfully Submitted:
Michael Restuccia, Chair
Attest:
Raymond McCray, Secretary

# MINUTES

# SPECIAL ADMINISTRATIVE COMMITTEE SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION BOARD OF RETIREMENT TUESDAY, JANUARY 30, 2024 AT 8:27 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

# 2.0 PUBLIC COMMENT

**2.01** There was no public comment.

# 3.0 CLOSED SESSION

# THE CHAIR CONVENED CLOSED SESSION AT 8:28 A.M. AND ADJOURNED CLOSED SESSION AT 2:52 P.M.

3.01 Personnel Matter

California Government Code Section 54957

Public Employee Appointment Title: Chief Executive Officer Topic: Candidate Interviews

# 4.0 REPORT OUT OF CLOSED SESSION

Respectfully Submitted:

**4.01** There was nothing to report out of Closed Session.

### 5.0 COMMENTS

**5.01** There were no comments from the Committee.

# 6.0 ADJOURNMENT

**6.01** There being no further business, the meeting was adjourned at 2:53 p.m.

Treepositiony Edistriction.	
Michael Duffy Committee Chairnerson	





# San Joaquin County Employees Retirement **Association**

# February 2024

# 5.01 Service Retirement

Consent

01 **PAUL M ARONG**  Deputy Chief Probation Office **Probation - Administration** 

Member Type: Safety

Years of Service: 17y 04m 27d Retirement Date: 12/1/2023

02 **GREGORY A BAUMGARTEN**  Senior Nurse Practnr - Ambulat

Hosp Medical Clinic

Member Type: General Years of Service: 31v 04m 12d Retirement Date: 12/16/2023

03 **CLAUDE E BLATT**  **Deferred Member** 

N/A

Member Type: General

Years of Service: 09y 05m 18d Retirement Date: 12/12/2023

Comments: Deferred from SJCERA since January 2017. Outgoing reciprocity and concurrent retirement with

SCERS.

**PHILLIP A CUARESMA** 04

**Deferred Member** 

N/A

Member Type: General Years of Service: 05y 01m 00d Retirement Date: 12/6/2023

Comments: Deferred from SJCERA since January 2023. Incoming reciprocity and concurrent retirement with

MCERA.

05 **PEGGY M CUNNINGHAM** 

DevelopmentServicesTechnician Community Development Services

Member Type: General Years of Service: 28y 01m 23d Retirement Date: 12/17/2023

**RONALD E GOODREAU** 06

Deputy District Attorney IV

District Attorney

Member Type: General Years of Service: 34y 08m 27d Retirement Date: 12/2/2023

07 **LISA A HEAL**  **Deferred Member** 

N/A

Member Type: General Years of Service: 13v 05m 28d Retirement Date: 12/15/2023

Comments: Deferred from SJCERA since July 2017.

MICHAEL R HOWARD 80

DA Investigator II District Attorney

Member Type: Safety

Years of Service: 05v 08m 17d Retirement Date: 11/25/2023

Comments: Tier 2 member - eligible to retire with 5 years of service credit.

# PUBLIC



# San Joaquin County Employees Retirement **Association**

# February 2024

#### 09 MICHELLE L KARMANN

**Deferred Member** 

N/A

Member Type: General

Years of Service: 08y 07m 08d Retirement Date: 12/1/2023

Comments: Deferred from SJCERA since October 2022. Tier 1 member with a membership date of April 9, 2012.

Eligible to retire with 10 years of membership.

#### KIMBERLY E KJONAAS 10

**Deferred Member** 

N/A

Member Type: General

Years of Service: 12y 01m 03d Retirement Date: 12/1/2023

Comments: Deferred member since May 2007. Outgoing reciprocity and concurrent retirement with CalPERS.

#### 11 **LINDA L LUCK**

Communications Dispatcher IV

Sheriff - Communications

Member Type: General

Years of Service: 25y 01m 10d Retirement Date: 12/17/2023

#### 12 **MARGO E MCHUGH**

Correctional Officer

Sheriff-Custody-Regular Staff

Member Type: General Years of Service: 06y 11m 23d Retirement Date: 12/17/2023

#### **MARGO E MCHUGH** 13

Correctional Officer

Sheriff-Custody-Regular Staff

Member Type: Safety

Years of Service: 19y 04m 00d Retirement Date: 12/17/2023

#### **JUAN M MENDEZ** 14

Deputy Sheriff II

Sheriff-AB109-Bailiff

Member Type: Safety

Years of Service: 26y 01m 14d Retirement Date: 12/9/2023

#### **CYNTHIA L MOORE** 15

DA Investigator II

D A - Public Assist Fraud Pros

Member Type: Safety

Years of Service: 05v 00m 08d Retirement Date: 12/16/2023

Comments: Tier 2 member - eligible to retire with 5 years of service credit.

#### 16 **MARY E MUNOZ**

Staff Nurse IV - Inpatient

Hosp Labor-Del-Rcvrv-Post Part

Member Type: General Years of Service: 14v 02m 23d Retirement Date: 12/21/2023

#### 17 **DEBORAH A ROSAL**

Senior Office Assistant County Counsel

Member Type: General Years of Service: 11y 02m 12d Retirement Date: 12/4/2023

# **PUBLIC**



# San Joaquin County Employees Retirement Association

# February 2024

18 RIGOBERTO RUIZ Deferred Member

N/A

Member Type: General

Years of Service: 05y 01m 02d Retirement Date: 11/22/2023

Comments: Deferred from SJCERA since October 2023. Tier 2 member - eligible to retire with 5 years of service

credit.

19 DARREN S SANDOVAL Deferred Member

N/A

Member Type: General

Years of Service: 03y 02m 06d Retirement Date: 12/16/2023

Comments: Deferred member since September 2001. Outgoing reciprocity and concurrent retirement with

CalPERS.

20 DARREN S SANDOVAL Deferred Member

Member Type: Safety

Years of Service: 05y 09m 23d Retirement Date: 12/16/2023

Comments: Deferred member since September 2001. Outgoing reciprocity and concurrent retirement with

CalPERS.

21 ALEXANDER R STEWART Deferred Member

N/A

N/A

Member Type: General Years of Service: 15y 04m 10d Retirement Date: 12/13/2023

Comments: Deferred from SJCERA since October 2023.

22 STANLEY J STREBIG Deferred Member

N/A

Member Type: General

Years of Service: 00y 04m 19d Retirement Date: 12/13/2023

Comments: Deferred from SJCERA since March 2006. Outgoing reciprocity and concurrent retirement with

CalPERS.

23 STANLEY J STREBIG Deferred Member

N/A

Member Type: Safety

Years of Service: 02y 11m 26d Retirement Date: 12/13/2023

Comments: Deferred from SJCERA since March 2006. Outgoing reciprocity and concurrent retirement with

CalPERS.

1/25/2024 1:29:52 PM Page: 3



# **Board of Retirement Meeting**

San Joaquin County Employees' Retirement Association

Agenda Item 5.02-01

February 09, 2024

SUBJECT: 2023 Retiree Cost-of-Living Adjustment (COLA)

SUBMITTED FOR: X CONSENT \_\_\_ ACTION \_\_\_ INFORMATION

# RECOMMENDATION

Review and adopt a 3% Cost-of-Living Adjustment, as calculated and recommended by SJCERA's independent actuary, Cheiron.

# **PURPOSE**

To determine if there has been an increase or decrease in the applicable cost of living, and the resulting applicable COLA, as defined by statute.

# **DISCUSSION**

In accordance California Government Code 31870.1, the Board is required to determine, on an annual basis, before April 1, whether there has been an increase or decrease in the cost of living in the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers for that County. Because the Bureau of Labor Statistics does not publish a CPI for San Joaquin County, SJCERA uses the CPI for the San Francisco-Oakland-Hayward area. Cheiron has determined that the CPI for All Urban Consumers in the San Francisco-Oakland-Hayward area increased by 3.51%.

Pursuant to statute, members' retirement benefits must be adjusted by a COLA equivalent to the CPI percentage change rounded to the nearest one-half of one percent, up to a maximum of 3%. In years when the change in the CPI is greater than the statutory annual maximum COLA of 3%, the percentage over the 3% limit is "banked" for use in future years when the COLA is less than 3%.

Applying the statutory requirements to this year's facts, the 3.51% CPI change, rounded to the nearest half-percent, results in a 3.5% COLA. Thus, SJCERA would apply the maximum 3% COLA to retirees' May 1, 2024, retirement benefit and credit 0.5% to their accumulated carry-over balances (their "COLA bank").

# **ATTACHMENT**

Annual COLA update from Cheiron dated January 24, 2024 Government Code 31870.1

JOHANNA SHICK Chief Executive Officer



### Via Electronic Mail

January 24, 2024

Ms. Johanna Shick Chief Executive Officer San Joaquin County Employees' Retirement Association 6 El Dorado Street, Suite 400 Stockton, California 95202

Re: Cost-of-Living Adjustment (COLA) as of April 1, 2024

Dear Ms. Shick:

Pursuant to the scope of retainer services under Cheiron's agreement to provide actuarial services to SJCERA, we have computed the cost-of-living adjustment (COLA) percentages to be used by the Association as of April 1, 2024. The calculations outlined herein have been performed in accordance with 31870.1 of the County Employees Retirement Law of 1937.

# Background

The cost-of-living-adjustment (COLA) is determined annually based on increases in the Consumer Price Index (CPI) for All Urban Consumers in the San Francisco-Oakland-Hayward area, using a base period of 1982-1984. The ratio of the annual averages for the prior calendar years is calculated and rounded to the nearest one-half percent. The method for calculating the annual average is to determine the average for all months of data provided by the Bureau of Labor and Statistics (e.g., the sum of six bi-monthly CPI amounts divided by six).

# **COLA Calculations**

The annual average CPIs described above were 339.5 and 328.0 for 2023 and 2022, respectively. This represents an increase of 3.51%, which is subsequently rounded to 3.50%. As a point of comparison, the annual U.S. City Average CPI increased by 4.12% over the same time period.

SJCERA members are subject to the provisions of Section 31870.1, which limits annual COLA increases to 3.0% annually. Therefore, members should receive an increase in benefits of 3.0%, based on the current year change in the CPI. Members' accumulated carry-over balances as of April 1, 2024 will increase 0.5% from their balances on April 1, 2023. The enclosed exhibit summarizes the COLA calculations and carry-over balances.

Ms. Johanna Shick January 24, 2024 Page 2

Please contact us if you have any questions regarding these calculations.

Sincerely, Cheiron

Graham A. Schmidt, FSA, EA, FCA, MAAA Principal Consulting Actuary Timothy S. Doyle, ASA, EA, MAAAA Associate Actuary

Attachment

cc: Anne Harper, FSA, EA, MAAA



### SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

# EXHIBIT A COST-OF-LIVING ADJUSTMENTS (COLA)

As of April 1, 2024

Maximum Annual COLA: 3.0%

	April 1, 2023	Increase in the		April 1, 20	24
	Accum- Accum	n- Annual		Accum-	Accum-
	ulated ulated	Average CPI <sup>1</sup>		ulated	ulated
Initial Retirement Date	Carry-Over Carry-O		COLA	Carry-Over	Carry-Over
	w/o PPP <sup>2</sup> w/PPP Ac			w/o PPP	w/PPP Adjust.
	(A) (B)	(C) (D)	(E)	w/0 FFF (F)	(G)
On or Before 04/01/1970	73.0% 15.5%		3.0%	73.5%	16.0%
04/02/1970 to 04/01/1971	70.5% 15.5%		3.0%	71.0%	16.0%
04/02/1971 to 04/01/1972	68.5% 15.5%		3.0%	69.0%	16.0%
04/02/1972 to 04/01/1973	67.5% 15.5%		3.0%	68.0%	16.0%
04/02/1973 to 04/01/1974	67.0% 15.5%		3.0%	67.5%	16.0%
04/02/1974 to 04/01/1975	64.0% 15.5%		3.0%	64.5%	16.0%
04/02/1975 to 04/01/1976	57.0% 15.5%		3.0%	57.5%	16.0%
04/02/1976 to 04/01/1977	50.0% 15.5%		3.0%	50.5%	16.0%
04/02/1977 to 04/01/1978	47.5% 15.5%		3.0%	48.0%	16.0%
04/02/1978 to 04/01/1979	43.0% 15.5%		3.0%	43.5%	16.0%
04/02/1979 to 04/01/1980	36.5% 15.5%		3.0%	37.0%	16.0%
04/02/1980 to 04/01/1981	31.0% 15.5%		3.0%	31.5%	16.0%
04/02/1981 to 04/01/1982	19.0% 15.5%		3.0%	19.5%	16.0%
04/02/1982 to 04/01/1983	9.0% N/A	3.51% 3.5%	3.0%	9.5%	N/A
04/02/1983 to 04/01/1984	6.5% N/A	3.51% 3.5%	3.0%	7.0%	N/A
04/02/1984 to 04/01/1985	6.5% N/A	3.51% 3.5%	3.0%	7.0%	N/A
04/02/1985 to 04/01/1986	4.0% N/A	3.51% 3.5%	3.0%	4.5%	N/A
04/02/1986 to 04/01/2022	3.0% N/A	3.51% 3.5%	3.0%	3.5%	N/A
04/02/2022 to 04/01/2023	2.5% N/A	3.51% 3.5%	3.0%	3.0%	N/A
04/02/2023 to 04/01/2024	0.0% N/A	3.51% 3.5%	3.0%	0.5%	N/A

All Urban Consumers, San Francisco-Oakland-Hayward Area (1982-84 base). (G.C. 31870.1)

For a full description of the Consumer Price Index visit the Bureau of Labor Statistics' website http://stats.bls.gov/cpi/cpifag.htm

- Column A: The COLA Bank as of April 1, 2023, without adjustment for the PPP benefits. For allowances with an Initial Retirement Date on or before 04/01/1982, the values in this column and Column F represent what the total loss of purchasing power would be without the PPP benefits.
- Column B: The COLA Bank as of April 1, 2023, with adjustment to reflect implementation of PPP benefits for allowances with an Initial Retirement Date on or before 04/01/1982.
- Column E: The cost-of-living adjustment, effective April 1, 2024, to be applied to allowances included in each Initial Retirement Date period.
- Column F: The COLA Bank as of April 1, 2024, available for future use, without adjustment for the PPP benefits. For allowances with an Initial Retirement Date on or before 04/01/1982, the values in this column represent what the total loss of purchasing power would be without the PPP benefits. The values in this column equal the value of Column A, less the difference between Columns D and E.
- Column G: The COLA Bank as of April 1, 2024, available for future use, with adjustment to reflect implementation of the PPP benefits for allowances with an Initial Retirement Date on or before 04/01/1982. The values in this column equal the value of Column B less the difference between Columns D and E.



<sup>&</sup>lt;sup>2</sup> Purchasing Power Protection (PPP) benefits were implemented in 2000 (75% level) and 2001 (80% level) for allowances with an "initial retirement date" of 04/01/1982 or earlier. A "one-time" permanent increase was added to the monthly allowance amount to restore purchasing power to 80% of the purchasing power of the original allowance, determined as of 4/01/2001. These monthly allowances, including the PPP benefit, are adjusted each year by the annual COLA. (PPP reference: G.C. Section 31874.3)



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#### **GOVERNMENT CODE - GOV**

TITLE 3. GOVERNMENT OF COUNTIES [23000 - 33205] (Title 3 added by Stats. 1947, Ch. 424.) DIVISION 4. EMPLOYEES [31000 - 33017] ( Division 4 added by Stats. 1947, Ch. 424. ) PART 3. RETIREMENT SYSTEMS [31200 - 33017] (Part 3 added by Stats. 1947, Ch. 424.) CHAPTER 3. County Employees Retirement Law of 1937 [31450 - 31898] (Chapter 3 ac

424.)

ARTICLE 16.5. Cost of Living Adjustment [31870 - 31874.6] (Article 16.5 added by Stats. 1965, Ch. 15)

**31870.1.** The board shall before April 1 of each year determine whether there has been an inci the cost of living as provided in this section. Notwithstanding Section 31481 or any other prov (commencing with Section 31450), every retirement allowance, optional death allowance, or a payable to or on account of any member, of this system or superseded system who retires or or died shall, as of April 1st of each year, be increased or decreased by a percentage of the to being received found by the board to approximate to the nearest one-half of 1 percent, the pe increase or decrease in the cost of living as of January 1st of each year as shown by the then Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the coun such change shall not exceed 3 percent per year; however, the amount of any cost-of-living in any year which is not met by the maximum annual change of 3 percent in allowances shall be met by increases or decreases in allowances in future years; except that no decrease shall rec below the amount being received by the member or his beneficiary on the effective date of th application of this article, whichever is later.

(Amended by Stats. 1978, Ch. 900.)

1/25/22, 10:05 AM 1 of 1

Preliminary Monthly Flash Report (N	let)'		Decembe	er 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 <sup>1</sup>	(, = = = 7		\$ 4,189,140,618	100.0%	100.0%	2.7	5.0	9.1	9.1	4.8	7.1	7.6	Apr-90
Policy Benchmark <sup>4</sup>						2.4	5.4	12.6	12.6	4.5	7.7	7.5	
Difference:						0.3	-0.4	-3.5	-3.5	0.3	-0.6	0.1	
75/25 Portfolio <sup>5</sup>						4.7	10.4	18.4	18.4	3.3	9.4	6.9	
Difference:						-2.0	-5.4	-9.3	-9.3	1.5	-2.3	0.7	
Broad Growth			\$ 3,314,873,539	79.1%	78.0%	3.4	6.7	10.9	10.9	6.1	8.7	8.2	Jan-95
Aggressive Growth Lag <sup>2</sup>			\$ 427,392,829	10.2%	12.0%	2.3	2.3	0.9	0.6	21.1	14.1	-1.9	Feb-05
Aggressive Growth Blend <sup>6</sup>						1.6	2.1	7.2	4.3	16.6	8.3	0.0	
Difference:						0.7	0.2	-6.3	-3.7	4.5	5.8	-1.9	
BlackRock Global Energy&Power Lag <sup>3</sup>	\$50,000	Global Infrastructure	\$ 46,120,018	1.1%		3.3	3.3	11.2	16.4	10.0		11.2	Jul-19
MSCI ACWI +2% Lag						3.3	8.0	11.8	-5.1	18.2		11.4	
Difference:						0.0	-4.7	-0.6	21.5	-8.2	-	-0.2	
BlackRock Infrastructure <sup>3</sup>	\$50,000	Global Infrastructure	\$ 14,361,984	0.3%		1.5	1.5					-7.7	Mar-23
MSCI ACWI +2% Lag						6.0	6.9					15.4	
Difference:						-4.5	-5.4					-23.1	
Bessemer Venture Partners Forge Fund <sup>3</sup>	\$50,000	PE Buyout	\$ 487,420	0.0%									Sep-23
MSCI ACWI +2% Lag													
Difference:													
Lightspeed Venture Ptr Select V Lag <sup>3</sup>	\$40,000	Growth-Stage VC	\$ 17,602,403	0.4%		-2.7	-2.7	-4.7					Jun-22
MSCI ACWI +2% Lag						3.3	8.0	11.8					
Difference:						-6.0	-10.7	-16.5					
Long Arc Capital Fund Lag <sup>3</sup>	\$25,000	Growth-Stage VC	\$ 21,577,968	0.5%		1.6	1.6					-6.2	Apr-23
MSCI ACWI +2% Lag						3.3	8.0					19.2	
Difference:						-1.6	-6.4					-25.4	
Oaktree Special Situations Lag <sup>3</sup>	\$40,000	PE Buyout	\$ -	0.0%									Mar-24
MSCI ACWI +2% Lag													
Difference:													
Ocean Avenue II Lag <sup>3</sup>	\$40,000	PE Buyout FOF	\$ 35,429,288	0.8%		2.1	2.1	-6.4	1.1	41.6	25.8	17.2	May-13
MSCI ACWI +2% Lag						3.3	8.0	11.8	-5.1	6.6	8.0	-7.8	
Difference:						-1.2	-5.9	-18.2	6.2	35.0	17.8	25.0	
Ocean Avenue III Lag³	\$50,000	PE Buyout FOF	\$ 53,102,901	1.3%		4.6	4.6	6.1	4.1	30.3	25.2	24.2	Apr-16
MSCI ACWI +2% Lag						3.3	8.0	11.8	-5.1	18.2	9.2	9.1	
Difference:						1.3	-3.4	-5.7	9.2	12.1	16.0	15.1	
Ocean Avenue IV Lag <sup>3</sup>	\$50,000	PE Buyout	\$ 56,495,659	1.3%		-1.1	-1.1	9.7	29.5	37.0		33.5	Dec-19
MSCI ACWI +2% Lag						6.0	6.9	27.4	19.4	13.7		12.4	
Difference:						-7.1	-8.0	-17.7	10.1	23.3		21.1	
Ocean Avenue V Lag³	\$30,000	PE Buyout	\$ 5,655,159	0.1%		-11.3	-11.3					-11.3	Jun-23
MSCI ACWI +2% Lag						3.3	6.9					7.7	
Difference:						-14.6	-14.6				-	-19.0	
Morgan Creek III Lag <sup>3</sup>	\$10,000	Multi-Strat FOF	\$ 4,587,353	0.1%		5.1	5.1	-1.6	3.8	-9.3	-11.1	-5.7	Feb-15
MSCI ACWI +2% Lag						3.3	8.0	11.8	-5.1	18.2	9.2	9.1	
Difference:						1.8	-2.9	-13.4	8.9	-27.5	-20.3	-14.8	
Morgan Creek V Lag³	\$12,000	Multi-Strat FOF	\$ 6,195,324	0.1%		0.2	0.2	-4.3	-5.9	12.4	10.0	12.3	Jun-13
MSCI ACWI +2% Lag						3.3	8.0	11.8	-5.1	18.2	9.2	9.1	
Difference:						-3.1	-7.8	-16.1	-0.8	-5.8	0.8	3.2	
Morgan Creek VI Lag <sup>3</sup>	\$20,000	Multi-Strat FOF	\$ 22,269,233	0.5%		-1.5	-1.5	-3.5	-7.7	16.4	14.5	9.0	Feb-15
MSCI ACWI +2% Lag						3.3	8.0	11.8	-5.1	18.2	9.2	9.1	
Difference:						-4.8	-9.5	-15.3	-2.6	-1.8	5.3	-0.1	1

<sup>&</sup>lt;sup>2</sup> Total class returns are as of 9/30/23, and lagged 1 quarter.

<sup>&</sup>lt;sup>3</sup> Manager returns are as of 9/30/23, and lagged 1 quarter. Since Inception date reflects one quarter lag.

<sup>4 9/1/23</sup> 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.

<sup>6 1/1/2021</sup> to present **50%** MSCI ACWI +2%,**50%** NCREIF ODCE +1%

Preliminary Monthly Flash Report	t (Net)'		Decemb	er 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 <sup>3</sup> MSCI ACWI +2% Lag	\$50,000	Special Situations PE	\$ 15,266,012	0.4%		-2.1 3.3	-2.1 8.0					8.4 19.2	Apr-23
Difference:						-5.4	-10.1					-10.8	
Stellex Capital Partners II Lag <sup>3</sup>	\$50,000	Special Situations PE	\$ 34,553,801	0.8%		1.5	1.5	2.5	2.8			1.9	Jul-21
MSCI ACWI +2% Lag  Difference:						6.0 -4.5	6.9 -5.4	27.4 -24.9	19.4 -16.6		-	3.0 -1.1	
Non-Core Private Real Assets Lag <sup>3</sup>	\$341,100	Private Real Estate	\$ 93,688,306	2.2%		5.9	5.9	-4.3	-14.9	9.6	5.4	-2.5	Nov-04
NCREIF ODCE + 1% Lag Blend						-2.8	-2.6	-10.3	-9.8	8.1	6.6	8.1	
Difference:						8.7	8.5	6.0	-5.1	1.5	-1.2	-10.6	
Opportunistic Private Real Estate <sup>4</sup>			\$ 22,706,094	0.4%									
Greenfield VII <sup>3</sup>	\$19,100	Opportunistic Pvt. RE	\$ 1,416,970	0.0%		2.4	2.4	-6.9	-1.3	13.2	11.3	12.1	Oct-14
NCREIF ODCE + 1% Lag Blend						-1.9	-1.9	-8.2	-7.0	11.3	9.8	11.6	
Difference:						4.3	4.3	1.3	5.7	1.9	1.5	0.5	
Grandview <sup>3</sup>	\$30,000	Opportunistic Pvt. RE	\$ 14,034,024	0.3%		-11.6	-11.6	-7.9	-8.4	16.1		16.3	Apr-18
NCREIF ODCE + 1% Lag Blend						-1.9	-1.9	-8.2	-7.0	11.3	9.8	9.7	
Difference:						-9.7	-9.7	0.3	-1.4	4.8		6.6	
Walton Street VI <sup>3</sup>	\$15,000	Opportunistic Pvt. RE	\$ 6,602,044	0.2%		1.0	1.0	8.6	11.5	11.8	4.5	8.1	Jul-09
NCREIF ODCE + 1% Lag Blend						-1.9	-1.9	-8.2	-7.0	11.3	9.8	11.3	
Difference:						2.9	2.9	16.8	18.5	0.5	-5.3	-3.2	
Value-Added Private Real Estate			\$ 65,817,268										
AG Core Plus IV <sup>3</sup>	\$20,000	Value-Added Pvt. RE	\$ 8,459,841	0.2%		-2.9	-2.9	-23.7	-28.0	-4.4	0.0	0.8	Sep-15
NCREIF ODCE + 1% Lag Blend						-1.9	-1.9	-8.2	-7.0	11.3	9.8	11.1	
Difference:						-1.0	-1.0	-15.5	-21.0	-15.7	-9.8	-10.3	
Almanac Realty VI <sup>3</sup>	\$30,000	Value-Added Pvt. RE	\$ 3,738,677	0.1%		-7.8	-7.8	-3.2	-3.3	0.7	-7.1	18.0	Feb-13
NCREIF ODCE + 1% Lag Blend						-1.9	-1.9	-8.2	-7.0	11.3	9.8	12.5	
Difference:						-5.9	-5.9	5.0	3.7	-10.6	-16.9	5.5	
Berkeley Partners Fund V, LP <sup>3</sup> NCREIF ODCE + 1% Lag Blend	\$40,000	Value-Added Pvt. RE	\$ 30,504,298	0.7%		6.1 -1.9	6.1 -1.9	-1.5 -8.2	-4.4 -7.0	11.3	9.8	18.5 11.9	Aug-20
Difference:						8.0	8.0	6.7	2.6			6.6	
Stockbridge RE III <sup>3</sup>	\$45,000	Value-Added Pvt. RE	\$ 23,114,451	0.6%		27.3	27.3	5.3	6.3	22.9	14.3	12.5	Jul-18
NCREIF ODCE + 1% Lag Blend						-1.9	-1.9	-8.2	-7.0	11.3	9.8	9.9	
Difference:						29.2	29.2	13.5	13.3	11.6		2.6	

<sup>&</sup>lt;sup>2</sup>MSCI ACWI IMI Net as of 4/1/2020, MSCI ACWI Gross prior.

<sup>&</sup>lt;sup>3</sup> Manager returns are as of 9/30/23, and lagged 1 quarter. Since Inception date reflects one quarter lag.

<sup>&</sup>lt;sup>4</sup> Market value includes Greenfield V \$17,085; Greenfield VI \$22,146, and Walton V \$613,825

San Joaquin County Employees' Reti Preliminary Monthly Flash Report (Net)'	Citiciti Association (St			r 2022									
			Decembe		_ "								
	uitment Sub-Segment (00)		Market Value	Physical % of Total	Policy Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Traditional Growth <sup>3</sup>		\$	1,621,480,719	38.7%	34.0%	5.6	11.6	22.9	22.9	6.8	10.6	9.1	Jan-95
MSCI ACWI IMI Net <sup>2</sup>						5.2	11.1	21.6	21.6	5.5	12.0	7.8	
Difference:						0.4	0.5	1.3	1.3	1.3	-1.4	1.3	
Global Equity		\$	1,575,082,007	37.6%									
Northern Trust MSCI World IMI	All Cap Global	\$	1,408,912,635	33.6%		5.4	11.7	23.3	23.3			10.0	Sep-20
MSCI World IMI Net						5.4	11.5	22.9	22.9			9.5	
Difference:						0.0	0.2	0.4	0.4		-	0.5	
SJCERA Transition	All Cap Global	\$	3,171	0.0%		NM	NM	NM	NM			NM	Jul-20
Emerging Markets		\$	166,166,202										
GQG Active Emerging Markets	Emerging Markets	\$	72,674,462	1.7%		7.2	11.3	30.0	30.0			5.4	Aug-20
MSCI Emerging Markets Index Net						3.9	7.9	9.8	9.8			0.9	
Difference:						3.3	3.4	20.2	20.2			4.5	
PIMCO RAE Fundamental Emerging Markets	Emerging Markets	\$	93,491,740	2.2%		6.6	8.9	23.1	23.1	8.8	8.3	5.4	Apr-07
MSCI Emerging Markets Index Net						3.9	7.9	9.8	9.8	-5.1	3.7	3.0	
Difference:						2.7	1.0	13.3	13.3	13.9	4.6	2.4	
REITS		\$	46,398,712	1.1%									
Invesco All Equity REIT	Core US REIT	\$	46,398,712	1.1%		7.6	16.8	9.6	9.6	5.6	6.3	7.7	Aug-04
FTSE NAREIT Equity Index						9.9	16.2	13.7	13.7	7.2	7.4	7.6	
Difference:						-2.3	0.6	-4.1	-4.1	-1.6	-1.1	0.1	
Stabilized Growth		\$	1,265,999,992	30.2%	32.0%	1.7	3.2	1.4	1.4	2.4	5.4	3.7	Jan-05
Risk Parity		\$	381,698,272	9.1%		5.3	8.8	6.6	6.6	-3.9	3.4	3.2	
T-Bill +4%						0.8	2.4	9.2	9.2	6.2	5.9	4.9	
Difference:						4.5	6.4	-2.6	-2.6	-10.1	-2.5	-1.7	
Bridgewater All Weather	Risk Parity	\$	201,604,788	4.8%		5.8	10.8	10.7	10.7	-1.2	4.3	3.7	Mar-12
T-Bill +4%						0.8	2.4	9.2	9.2	6.2	5.9	5.1	
Difference:						5.0	8.4	1.5	1.5	-7.4	-1.6	-1.4	
PanAgora Diversified Risk Multi-Asset	Risk Parity	\$	180,093,484	4.3%		4.7	6.6	2.4	2.4	-6.5	2.5	2.9	Apr-16
T-Bill +4%						0.8	2.4	9.2	9.2	6.2	5.9	5.7	
Difference:						3.9	4.2	-6.8	-6.8	-12.7	-3.4	-2.8	
Liquid Credit		\$	245,971,437	5.9%		1.0	3.6	9.3	9.3	1.9	3.7	2.2	
50% BB High Yield, 50% S&P/LSTA Leveraged Loans						2.7	5.0	13.4	13.4	3.9	5.6	5.6	
Difference:						-1.7	-1.4	-4.1	-4.1	-2.0	-1.9	-3.4	
Neuberger Berman	Global Credit	\$	103,585,856	2.5%		0.1	3.0	7.9	7.9	-0.4		2.4	Feb-19
33% ICE BofA HY Constrained, 33% S&P/LSTA LL, 33% JPN	I EMBI GIbl Div.					3.3	6.3	12.5	12.5	1.4		3.5	
Difference:						-3.2	-3.3	-4.6	-4.6	-1.8		-1.1	
Stone Harbor Absolute Return	Absolute Return	\$	142,385,581	3.4%		1.7	4.0	10.1	10.1	3.6	4.3	3.1	Oct-06
3-Month Libor Total Return						0.5	1.4	5.1	5.1	2.2	2.0	1.6	
Difference:		1				1.2	2.6	5.0	5.0	1.4	2.3	1.5	

<sup>&</sup>lt;sup>2</sup> MSCI ACW IMI Net as of 4/1/2020, MSCI ACWI Gross prior.

<sup>&</sup>lt;sup>3</sup>Total Market Value includes DoubleLine \$1,340 and SJCERA Transition \$3,038.

San Joaquin County Employees' Retirement Association (SJCERA)
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Preliminary Monthly Flash Report (Ne	<u> </u>		•	Decemb							<u>,                                      </u>	•	<u> </u>	
	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 <sup>2</sup> S&P/LSTA Leveraged Loans +3% Blend Difference:	(****)		\$	409,432,640	9.8%	, u. you x	1.1 2.5 -1.4	1.1 3.9 -2.8	-1.5 11.7 -13.2	-1.2 14.0 -15.2	4.8 10.7 -5.9	3.3 9.3 -6.0	3.4 9.1 -5.7	
Ares Pathfinder Fund II Lag <sup>3</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$62,500	Asset Backed	\$	-	0.0%									Feb-24
BlackRock Direct Lending Lag <sup>3</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$100,000	Direct Lending	\$	87,614,283	2.1%		6.3 2.5 3.8	6.3 3.9 2.4	6.3 11.7 2.4	8.7 14.0 -5.3			8.1 10.1 -2.0	May-20
Mesa West RE Income IV Lag <sup>3</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$75,000	Comm. Mortgage	\$	31,032,997	0.7%		-7.4 2.5	-7.4 3.9	-18.8 11.7 -30.5	-18.0 14.0 -32.0	-3.3 10.7 -14.0	1.2 9.3 -8.1	2.8 9.2 -6.4	Mar-17
Crestline Opportunity II Lag <sup>3</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$45,000	Opportunistic	\$	11,692,153	0.3%		-2.1 2.5 -4.6	-2.1 3.9 -6.0	-10.6 11.7 -22.3	-15.6 14.0 -29.6	-0.7 10.7 -11.4	-2.7 9.3 -12.0	2.4 9.1 -6.7	Nov-13
Davidson Kempner Distr Opp V Lag <sup>3</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$50,000	Opportunistic	\$	49,974,044	0.0%		1.6 2.5 -0.9	1.6 3.9 -2.3	-0.6 11.7 -12.3	-1.4 14.0 -15.4			16.5 10.6 5.9	Oct-20
Oaktree Middle Market Lag³  S&P/LSTA Leveraged Loans +3% Blend⁴ Difference:	\$50,000	Leveraged Direct	\$	35,968,455	0.9%		2.3 2.5 -0.2	2.3 3.9 -1.6	1.1 11.7 -10.6	1.1 14.0 -12.9	11.8 10.7		10.4 9.3	Mar-18
HPS EU Asset Value II Lag³  S&P/LSTA Leveraged Loans +3% Blend⁴  Difference:	\$50,000	Direct Lending	\$	31,490,323	0.8%		2.6 2.5 0.1	2.6 3.9 -1.3	7.8 11.7 -3.9	9.9 14.0 -4.1			5.3 10.6 -5.3	Aug-20
Raven Opportunity III Lag <sup>3</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$50,000	Direct Lending	\$	54,043,608	1.3%		-2.8 2.5 -5.3	-2.8 3.9 -6.7	-7.5 11.7 -19.2	-5.9 14.0 -19.9	7.3 10.7 -3.4	6.5 9.3 -2.8	3.5 9.2 -5.7	Nov-15
Medley Opportunity II Lag <sup>2</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>3</sup> Difference:	\$50,000	Direct Lending	\$	1,702,564	0.0%		0.0 2.5 -2.5	0.0 3.9 -3.9	0.0 11.7 -11.7	0.0 14.0 -14.0	-4.2 10.7 -14.9	-9.0 9.3 -18.3	-2.0 9.1	Jul-12
Silver Point Credit III Lag <sup>2</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$62,000	Sub-Sector	\$	14,004,937	0.3%									Nov-23
SilverRock Tactical Allocation Lag <sup>2</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>4</sup> Difference:	\$50,000	Direct Lending	\$	26,575,446	0.6%		0.0 2.5 -2.5	0.0 3.9 -3.9					0.0 9.3 -9.3	Jul-23
White Oak Summit Peer Fund Lag <sup>2</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>3</sup> Difference:	\$50,000	Direct Lending	\$	24,741,483	0.6%		1.9 2.5 -0.6	1.9 3.9 -2.0	3.6 11.7 -8.1	-0.3 14.0 -14.3	-1.3 10.7 -12.0	1.4 9.3 -7.9	3.5 9.2 -5.7	Mar-16
White Oak Yield Spectrum Master V Lag <sup>2</sup> S&P/LSTA Leveraged Loans +3% Blend <sup>3</sup> Difference:	\$50,000	Direct Lending	\$	40,592,346	1.0%		1.4 2.5	1.4 3.9 -2.5	-2.7 11.7 -14.4	-2.3 14.0 -16.3	1.2 10.7 -9.5		2.2 10.1 -7.9	Mar-20
Core Private Real Estate Lag			\$	228,897,643	5.5%									
Principal US <sup>2</sup> NCREIF ODCE + 1% Lag Blend  Difference:	\$25,000	Core Pvt. RE	\$	41,585,242	1.0%		-1.9 -1.9 0.0	-1.9 -1.9	-11.0 - <i>8.2</i> -2.8	-10.6 -7.0 -3.6	7.2 11.3 -4.1	6.0 9.8 -3.8	7.3 10.6 -3.3	Jan-16
Prologis Logistics <sup>2</sup> NCREIF ODCE + 1% Lag Blend  Difference:	\$50,500	Core Pvt. RE	\$	130,379,818	3.1%		-7.1 -1.9 -5.2	-7.1 -1.9 -5.2	-5.8 -8.2 2.4	-5.6 -7.0	22.5 11.3 11.2	17.9 9.8 8.1	12.5 9.1 3.4	Dec-07
RREEF America II <sup>2</sup> NCREIF ODCE + 1% Lag Blend  Difference:	\$45,000	Core Pvt. RE	\$	57,374,833	1.4%		-2.8 -1.9 -0.9	-2.8 -1.9 -0.9	-12.3 -8.2 -4.1	-13.0 -7.0 -6.0	6.9	6.2 9.8	7.0 10.3	Jul-16

<sup>&</sup>lt;sup>2</sup>Total class returns are as of 9/30/23, and lagged 1 quarter.

<sup>&</sup>lt;sup>3</sup> Manager returns are as of 9/30/23, and lagged 1 quarter. Since Inception date reflects one quarter lag.

<sup>&</sup>lt;sup>4</sup>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 Preliminary Monthly Flash Report (Net			Decembe	er 2023									
Trommary Monerny Hash Report (110)	Commitment	1		Physical % of	Policy	<u> </u>		<u> </u>		<u> </u>			
	(\$000) Sub-Segment		Market Value	Total	Target %	1-Mo	3-Mos	YTD	1-Yr	3-Yrs	5-Yrs	SI Return	SI Date
Diversifying Strategies		\$	768,806,574	18.4%	22.0%	0.1	-1.6	1.3	1.3	0.7	2.4	6.0	Oct-90
Principal Protection		\$	305,369,458	7.3%	8.0%	4.1	7.3	7.4	7.4	-1.1	1.4	5.8	Oct-90
BB Aggregate Bond Index						3.8	6.8	5.5	5.5	-3.3	1.1	5.3	
Difference:						0.3	0.5	1.9	1.9	2.2	0.3	0.5	
Dodge & Cox	Core Fixed Income	\$	209,759,206	5.0%		4.3	7.6	8.0	8.0	-1.4	2.8	6.6	Oct-90
BB Aggregate Bond Index						3.8	6.8	5.5	5.5	-3.3	1.1	5.3	
Difference:						0.5	0.8	2.5	2.5	1.9	1.7	1.3	
Loomis Sayles	Core Fixed Income	\$	95,610,195	2.3%		3.7	6.7	5.9	5.9			-1.1	Mar-22
BB Aggregate Bond Index			, ,			3.8	6.8	5.5	5.5			-1.4	
Difference:						-0.1	-0.1	0.4	0.4			0.3	
Crisis Risk Offset		\$	463,437,116	11.1%	14.0%	-2.3	-6.7	-2.4	-2.4	2.3	3.2	6.0	Jan-05
CRO Custom Benchmark <sup>2</sup>		*	700,701,110	11.170	14.070	2.9	3.4	2.7	2.7	0.5	3.9	4.7	0011 00
						-5.2	-10.1	-51	-51	1.8	-0.7	1.3	
Difference:		_	#45 510 010	0.00/				5.1					
Long Duration		\$	116,518,012	2.8%		8.6	12.6	4.1	4.1	-10.7	-1.2	-0.8	
BB US Long Duration Treasuries						8.6	12.7	3.1	3.1	-11.4	-1.2	-0.8	
Difference:						0.0	-0.1	1.0	1.0	0.7	0.0	0.0	
Dodge & Cox Long Duration	Long Duration	\$	116,518,012	2.8%		8.6	12.6	4.1	4.1	-10.7	-1.2	-0.8	Feb-16
BB US Long Duration Treasuries						8.6	12.7	3.1	3.1	-11.4	-1.2	-0.8	
Difference:						0.0	-0.1	1.0	1.0	0.7	0.0	0.0	
Systematic Trend Following		\$	224,454,543	5.4%		-4.9	-11.3	-6.9	-6.9	9.5	7.6	8.3	
BTOP50 Index						-0.4	-3.8	-1.4	-1.4	7.6	6.9	4.8	
Difference:						-4.5	-7.5	-5.5	-5.5	1.9	0.7	3.5	
Mt. Lucas Managed Futures - Cash	Systematic Trend Following	\$	119,189,969	2.8%		-3.2	-8.1	-2.8	-2.8	12.3	7.2	8.0	Jan-05
BTOP50 Index	,					-0.4	-3.8	-1.4	-1.4	7.6	6.9	4.8	
Difference:						-2.8	-4.3	-1.4	-1.4	4.7	0.3	3.2	
Graham Tactical Trend	Systematic Trend Following	\$	105,264,574	2.5%		-6.7	-14.7	-11.2	-11.2	6.8	7.9	2.7	Apr-16
SG Trend Index	Systematic Trend Following	Ť	100,204,014	2.0%		0.2	-4.6	-3.7	-3.7	10.2	9.2	4.4	Apr 10
Difference:						-6.9	-10.1	-7.5	-7.5	-3.4	-1.3	-1.7	
		\$	122.464.561	2.00/				0.2	0.2				
Alternative Risk Premia		\$	122,464,561	2.9%		-6.6	-12.8			6.2	0.5	7.1	
5% Annual						0.4	1.2	5.0	5.0	5.0	5.0	6.1	
Difference:						-7.0	-14.0	-4.8	-4.8	1.2	-4.5	1.0	
AQR Style Premia	Alternative Risk Premia	\$	62,524,112	1.5%		-3.1	-6.0	13.4	13.4	22.4	4.0	2.2	May-16
5% Annual						0.4	1.2	5.0	5.0	5.0	5.0	5.0	
Difference:						-3.5	-7.2	8.4	8.4	17.4	-1.0	-2.8	
PE Diversified Global Macro	Alternative Risk Premia	\$	59,940,449	1.4%		-10.1	-18.9	-10.7	-10.7	6.8	-0.4	1.3	Jun-16
5% Annual						0.4	1.2	5.0	5.0	5.0	5.0	5.0	
Difference:						-10.5	-20.1	-15.7	-15.7	1.8	-5.4	-3.7	
Cash <sup>3</sup>		\$	75,733,389	1.8%	0.0%	0.1	0.7	3.3	3.3	1.6	1.4	2.4	Sep-94
US T-Bills						0.5	1.4	5.0	5.0	2.2	1.9	2.4	
Difference:						-0.4	-0.7	-1.7	-1.7	-0.6	-0.5	0.0	
Northern Trust STIF	Collective Govt. Short Term	\$	75,393,277	1.8%		0.1	0.9	4.3	4.3	1.9	1.6	2.6	Jan-95
US T-Bills		1	, ,	-		0.5			5.0	2.2		2.4	
Difference:						-0.4	-0.5	-0.7	-0.7	-0.3	-0.3	0.2	

Parametric Overlay<sup>4</sup> Cash Overlay \$ 29,727,116 0.7% 0.0

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.

<sup>&</sup>lt;sup>2</sup> Benchmark is (1/3) BB Long Duration Treasuries, (1/3) BTOP50 Index, (1/3) 5% Annual.

<sup>&</sup>lt;sup>3</sup> Includes lagged cash.

<sup>&</sup>lt;sup>4</sup> Given daily cash movement returns may vary from those shown above.



# **Economic and Market Update**

December 2023 Report



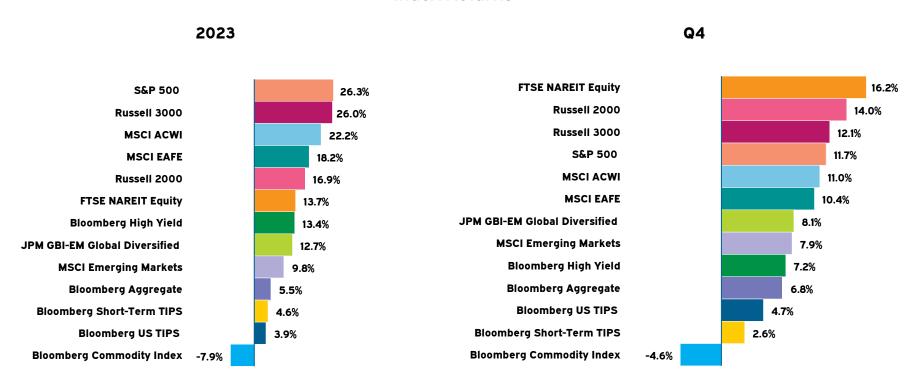
# Commentary

- → Most markets rallied in the fourth quarter in anticipation that policy rates cuts were ahead in 2024.
  - Major central banks have largely paused interest rates hikes. Markets are now largely expecting the FOMC to maintain interest rates at the current levels and begin cutting rates as soon as Q1 2024.
  - Inflation rose in December in the US and Europe, but both finished the year much lower than where they started. China remained in deflationary territory (-0.3%) at year-end.
  - US equity markets (Russell 3000 index) posted strong gains for the quarter (12.1%), raising full year results to +26.0%. Most sectors rallied, with more defensive sectors lagging.
  - Non-US developed equity markets also rallied in the fourth quarter (MSCI EAFE 10.4%), with the weakening of the US dollar contributing meaningfully (10.4% versus 5.0% ex.-US dollar influence). The performance difference between US and international developed equities for the year remained wide (26.0% versus 18.2%).
  - Emerging market equities were up 7.9% in the fourth quarter and 9.8% for calendar 2023 but trailed developed markets due to lagging returns in China (-4.2% Q4/-11.2% one-year). Emerging market equities ex.-China returned 20% in 2023.
  - Interest rates generally fell in the fourth quarter, particularly for longer-dated maturities. The broad US bond market rallied (6.8%) for the quarter, lifting 2023 returns into positive territory (5.5%).
- → Looking to 2024, the paths of inflation and monetary policy, China's economic disorder and slowing economic growth, and the wars in Ukraine and Israel, will be key.

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# Index Returns<sup>1</sup>



- → After a tough start to the quarter on lingering fears that the Federal Reserve might keep interest rates "higher for longer", markets rallied in November and December. Economic data generally coming in below expectations sparked expectations that the Federal Reserve might really be done raising policy rates for this cycle.
- → Strong results for the quarter built on gains for the year with all asset classes finishing in positive territory in 2023, except commodities.

<sup>&</sup>lt;sup>1</sup> Source: Bloomberg. Data is as of December 31, 2023.



# **Domestic Equity Returns<sup>1</sup>**

Domestic Equity	December (%)	<b>Q4</b> (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
S&P 500	4.5	11.7	26.3	10.0	15.7	12.0
Russell 3000	5.3	12.1	26.0	8.6	15.2	11.5
Russell 1000	4.9	12.0	26.5	9.0	15.5	11.8
Russell 1000 Growth	4.4	14.2	42.7	8.9	19.5	14.9
Russell 1000 Value	5.5	9.5	11.5	8.9	10.9	8.4
Russell MidCap	7.7	12.8	17.2	5.9	12.7	9.4
Russell MidCap Growth	7.6	14.5	25.9	1.3	13.8	10.6
Russell MidCap Value	7.8	12.1	12.7	8.4	11.2	8.3
Russell 2000	12.2	14.0	16.9	2.2	10.0	7.2
Russell 2000 Growth	12.0	12.7	18.7	-3.5	9.2	7.2
Russell 2000 Value	12.4	15.3	14.6	8.0	10.0	6.8

US Equities: The Russell 3000 rallied 5.3% in December, bringing fourth quarter results to +12.1%. US stocks were up 26.0% in 2023.

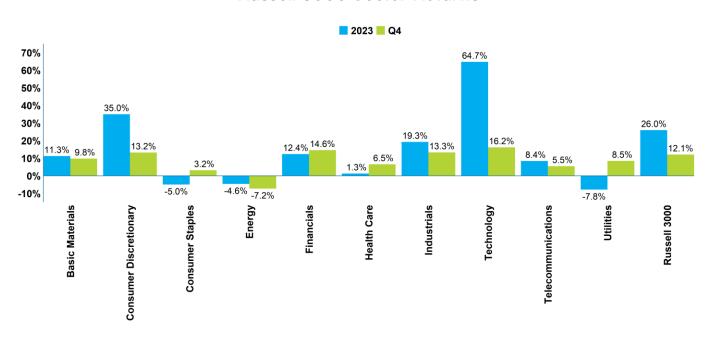
- → US equities had a strong final quarter of the year, driven by expectations that rate cuts may be ahead in 2024.
- → Small cap stocks outperformed their large cap peers for the quarter while growth outpaced value with the exception of small cap. Large cap stocks outperformed small cap stocks by a wide margin for the calendar year and growth outpaced value across market caps.
- → Calendar year results were clearly driven by large cap technology stocks. Within the S&P 500 index, the "Magnificent 7" stocks generated more than 50% of the total gains.

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<sup>1</sup> Source: Bloomberg. Data is as of December 31, 2023. Magnificent Seven stocks include: Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta.



# Russell 3000 Sector Returns<sup>1</sup>



- → All sectors posted gains for the fourth quarter, except for energy (-7.2%) given oil's recent declines. Technology (+16.2%) led the way for the quarter followed by financials (+14.6%).
- $\rightarrow$  In 2023, technology (+64.7%) and consumer discretionary (+35.0%) sectors had the best results, helped respectively by artificial intelligence optimism and a healthy US consumer. Traditionally defensive sectors like utilities (-7.8%) and consumer staples (-5.0%) trailed.

<sup>&</sup>lt;sup>1</sup> Source: Bloomberg. Data is as of December 31, 2023.



# Foreign Equity Returns<sup>1</sup>

Foreign Equity	December (%)	<b>Q4</b> (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
MSCI ACWI ex. US	5.0	9.8	15.6	1.5	7.1	3.8
MSCI EAFE	5.3	10.4	18.2	4.0	8.2	4.3
MSCI EAFE (Local Currency)	2.9	5.0	16.2	8.7	9.5	6.6
MSCI EAFE Small Cap	7.3	11.1	13.2	-0.7	6.6	4.8
MSCI Emerging Markets	3.9	7.9	9.8	-5.1	3.7	2.7
MSCI Emerging Markets (Local Currency)	3.1	5.6	9.9	-2.5	5.4	5.2
MSCI China	-2.4	-4.2	-11.2	-18.5	-2.8	0.9

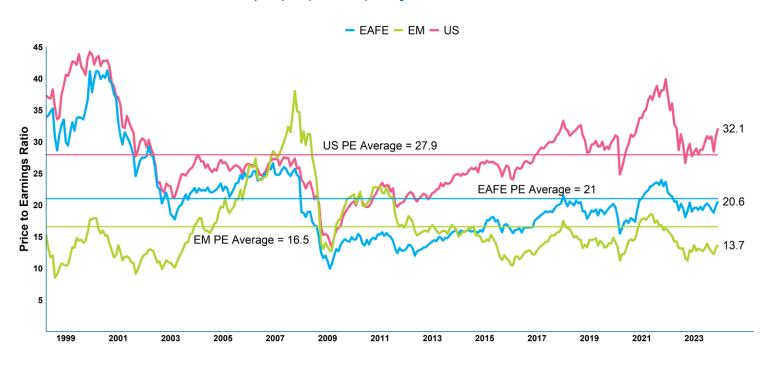
Foreign Equity: Developed international equities (MSCI EAFE) gained 5.3% in December and 10.4% in the fourth bringing calendar year results to 18.2%. Emerging market equities (MSCI EM) rose 3.9% in December, 7.9% for the quarter, and 9.8% for the year.

- → Optimism around lower inflation and potentially peaking and declining policy rates drove gains in the UK and Europe. Japan had weaker results for the quarter as concerns over a strengthening yen weighed on returns in December. Overall weakness in the US dollar also contributed to quarterly and full year results across developed markets.
- → Emerging markets also experienced strong performance in the fourth quarter but trailed developed markets. China weighed on relative results for the quarter and year, declining 4.2% and 11.2%, respectively. Slowing growth, issues in the property sector, and on-going tensions with the US all weighed on results.

<sup>&</sup>lt;sup>1</sup> Source: Bloomberg. Data is as of December 31, 2023.



# Equity Cyclically Adjusted P/E Ratios<sup>1</sup>



- → Given the strong technology-driven rally last year, the US equity price-to-earnings ratio increased above its 21st century average. Fourth quarter gains brought valuations to their highest level for the year.
- → International market valuations also increased in the fourth quarter, but remain below the US. In the case of developed markets, valuations finished the year close to the their long-term average, while emerging markets remained well below their average.

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<sup>&</sup>lt;sup>1</sup> 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 December 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.



# Fixed Income Returns<sup>1</sup>

							Current		
Fixed Income	December (%)	<b>Q4</b> (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Yield (%)	Duration (Years)	
Bloomberg Universal	3.8	6.8	6.2	-3.0	1.4	2.1	4.8	6.1	
Bloomberg Aggregate	3.8	6.8	5.5	-3.3	1.1	1.8	4.5	6.3	
Bloomberg US TIPS	2.7	4.7	3.9	-1.0	3.2	2.4	4.2	6.7	
Bloomberg Short-term TIPS	1.1	2.6	4.6	2.3	3.4	2.0	4.5	2.4	
Bloomberg High Yield	3.7	7.2	13.4	2.0	5.4	4.6	7.6	3.8	
JPM GBI-EM Global Diversified (USD)	3.2	8.1	12.7	-3.2	1.1	0.1	6.5	5.0	

# Fixed Income: The Bloomberg Universal index rose 3.8% in December, 6.8% for the quarter, and 6.2% for the year.

- → Policy rate expectations swung from pessimism to optimism in November and December. Signs of the labor market cooling and improving inflation led investors to bring forward expectations for interest rate cuts to early 2024, leading to one of the best quarterly results in over twenty years.
- → The broad US bond market (Bloomberg Aggregate) rallied 6.8% for the quarter, lifting full-year performance into positive territory (+5.5%). The broader TIPS index rose 4.7% for the quarter and 3.9% for the year, while the less interest-rate-sensitive short-term TIPS index rose 2.6% and 4.6% over the same periods.
- → High yield bonds rallied on better risk sentiment (+7.2%), as did emerging market bonds (+8.1%). Both asset classes produced double-digit results last year.

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



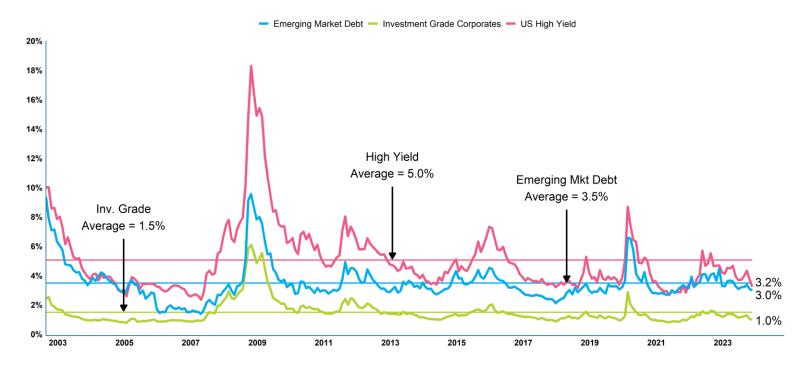


- → The more policy sensitive short-term maturities were higher this year while longer-term maturities finished the year where they started.
- → Still, rates declined sharply over the quarter, particularly at the longer end of the yield curve on continued easing of inflation-related risks and speculation that the Federal Reserve is done with their policy rate increases for this cycle.
- → For the quarter, two-year Treasury yields fell from 5.05% to 4.24% while ten-year Treasury yields declined from 4.56% to 3.88%.
- → The yield curve remained inverted at year-end despite a recent flattening trend. The spread between the 2-year and 10-year Treasury was -0.37% at the end of December.

<sup>&</sup>lt;sup>1</sup> Source: Bloomberg. Data is as of December 31, 2023.



# Credit Spreads vs. US Treasury Bonds<sup>1</sup>



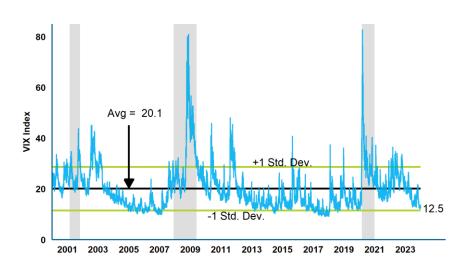
- → Expectations of peaking policy rates and the corresponding increase in risk appetite benefited credit in the fourth quarter with spreads (the added yield above a comparable maturity Treasury) narrowing. All spreads remain below their respective long run averages.
- → High yield spreads continue to be the furthest below their long-term average given the overall risk appetite last year and lower duration. Investment-grade corporate and emerging market spreads are also below their respective long-term averages, but by smaller margins.

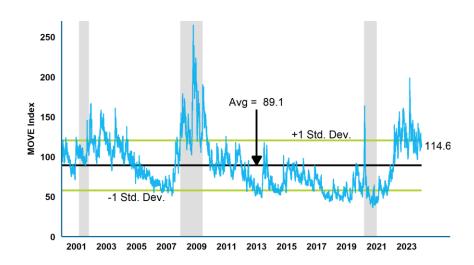
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<sup>1</sup> Sources: Bloomberg. Data is as of December 31, 2023. Average lines denote the average of the investment grade, high yield, and emerging market spread values from September 2002 to the recent month-end, respectively.



# Equity and Fixed Income Volatility<sup>1</sup>





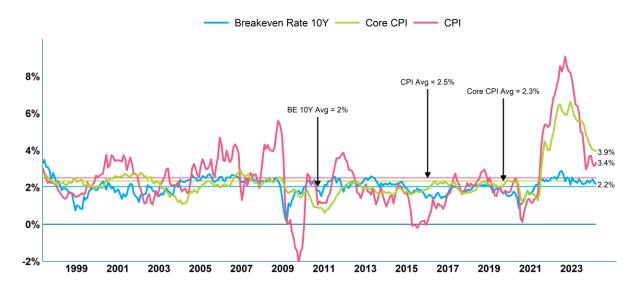
- → Volatility in equities (VIX) finished the year close to its lows, remaining well below the long-term average as the focus shifted to peaking policy rates and the potential for a soft landing.
- → Volatility in the bond market (MOVE) remained elevated to close out 2023 and is well above its long-run average (89.1). The bond market remained on edge for most of 2024 largely driven by uncertainty about the ultimate path of monetary policy.

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<sup>&</sup>lt;sup>1</sup> 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 December 2023. The average line indicated is the average of the VIX and MOVE values between January 2000 and December 2023.



# US Ten-Year Breakeven Inflation and CPI<sup>1</sup>



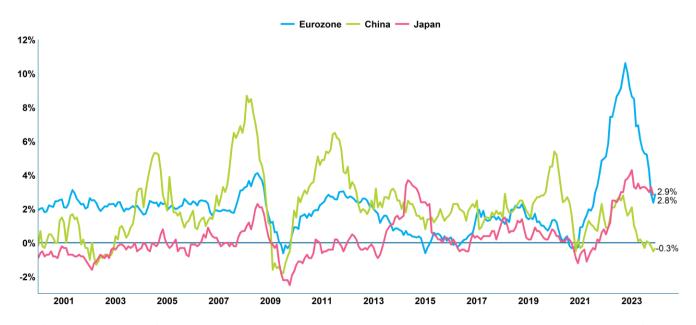
- → Year-over-year headline inflation rose from 3.1% to 3.4% in December, coming in above expectations of 3.2%. An increase in shelter (+6.2%) drove results, with food also increasing from a year prior (+2.7%) and energy prices falling (-2.0%). Month-over-month inflation came in at 0.3%, above expectations of 0.2% and the prior reading of 0.1%.
- → Core inflation excluding food and energy declined in December (3.9% versus 4.0%) year-over-year, with shelter costs again driving the total core index increase.
- → Inflation expectations (breakevens) have remained relatively stable despite the recent significant volatility in inflation.

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<sup>&</sup>lt;sup>1</sup> Source: FRED. Data is as December 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.



# Global Inflation (CPI Trailing Twelve Months)<sup>1</sup>

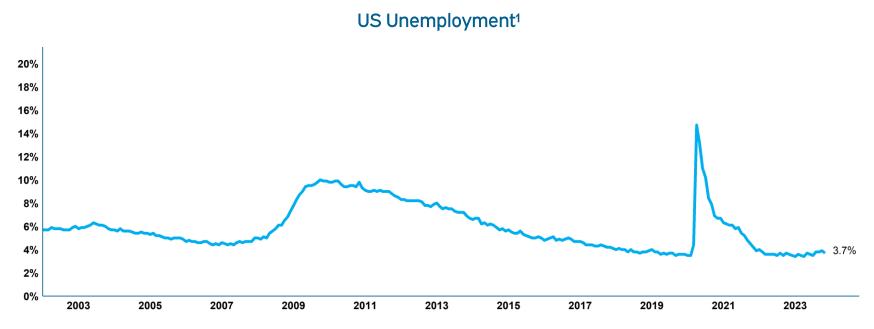


- → Outside the US, inflation is also falling across major economies with China slipping into deflation.
- → In the eurozone, inflation experienced a dramatic decline last year. Despite a small increase in December (2.9% versus 2.4%) it finished the year below the 3.4% year-over-year reading in the US.
- → Inflation in Japan remains near levels not seen in almost a decade, driven by food and home related items.

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<sup>1</sup> Source: FRED for United States CPI and Eurozone CPI. Source: Bloomberg for Japan CPI, China CPI, and Eurozone December flash estimate. Data is as December 31, 2023, except Japan which is as of November 30, 2023.

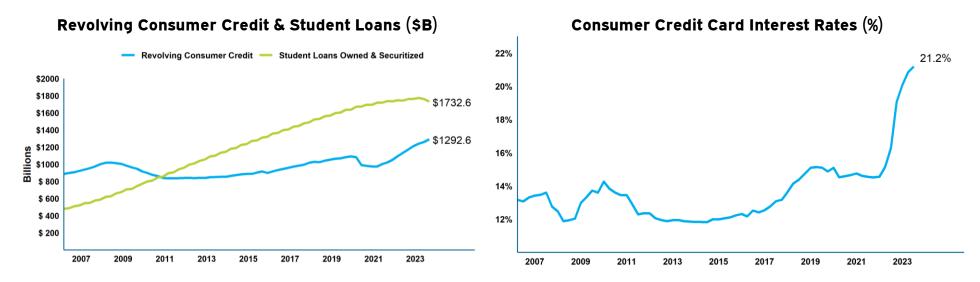




- → Overall, the US labor market remains healthy with the unemployment rate relatively low, wage growth now positive in real terms, and initial claims for unemployment staying subdued.
- → In December, US unemployment remained unchanged (3.7%) and came in slightly below expectations of an increase to 3.8%. The number of jobs added did come in above expectations (216k versus 175k) though with the most jobs added in the government, leisure and hospitality, and health care sectors.
- → The labor force participation remained relatively stable at 62.5%, well off the lows of the pandemic (60.1%) but not back to pre-pandemic levels (63.3%).
- → The pace of hourly wage growth has declined from its peak of close to 6.0% finishing 2023 at 4.1% yoy. Wage growth remains positive in real terms though.



### US Consumer Under Stress?1



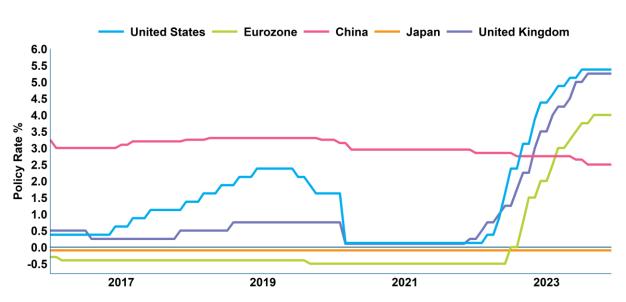
- → Despite the strong labor market and higher wages, pressures have started to build on the US consumer. This is an important consideration as consumer spending has been a key driver of economic growth.
- → Revolving consumer credit surged to new highs in 2023 even as credit card interest rates hit 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 mitigated by recently initiated repayment and forgiveness programs.
- → As we look ahead, the strength of the US consumer will remain key as this sector makes up most of the domestic economy (GDP).

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<sup>&</sup>lt;sup>1</sup> Source: FRED. Data is as of September 30, 2023. Revolving Consumer Credit data is seasonally adjusted to remove distortions during the holiday season.



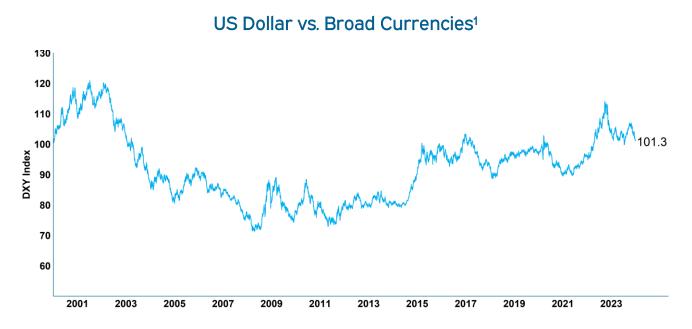




- → Slowing inflation and growth have led to expectations for a reduction in the pace of aggressive policy tightening.
- → The Fed has been on hold since July 2023 when it raised rates to a range of 5.25%-5.50%. Markets are pricing in six rate cuts next year given the track of economic data and recent comments from the Fed, while the Fed itself is only predicting three. How this discrepancy is resolved will be key this year.
- → The European and UK central banks also recently paused their rate increases on slowing inflation. In Japan, the BoJ has further relaxed its yield curve control on the 10-year bond, and expectations for further policy normalization are rising.
- → The central bank in China has maintained interest rates at record low levels and continues to inject liquidity into the banking system, as weaker than expected economic data appears to indicate a widespread slowdown.

<sup>&</sup>lt;sup>1</sup> Source: Bloomberg. Data is as of December 2023.





- → The US dollar declined around 5% in the fourth quarter as generally weaker economic data led investors to anticipate the end of FOMC tightening and interest rate cuts in 2024.
- → Overall, the dollar finished the year only slightly below where it started but it was a volatile year for the US currency as expectations related to monetary policy evolved.

<sup>&</sup>lt;sup>1</sup> Source: Bloomberg. Data as of December 31, 2023.



### Summary

### **Key Trends:**

- → The impact of inflation still above policy targets will remain important, 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 further reduce inflation toward targets while not tipping their economies into recession. In the case of the US the resolution of the disparity between market expectations for the path of interest rates versus the Fed's dot plot will be key.
- → Global growth is expected to slow next year, with some economies forecasted to tip into recession. However, optimism has been building that certain economies could experience soft landings. Inflation, monetary policy, and geopolitical issues will remain key in 2024.
- → US consumers could feel pressure as certain components of inflation (e.g., shelter), remain high, borrowing costs are elevated, and the job market may weaken.
- → A focus 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 China's economic slowdown and on-going weakness in the real estate sector could spill over into key trading partners' economies. Japan's recent hint at potentially tightening monetary policy along with changes in corporate governance in the country could influence relative results.
- → Recent, heightened tensions in Israel could add to overall uncertainty and drive safe haven flows.

### Disclaimer



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

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### **MEMORANDUM**

**TO:** SJCERA Board of Retirement

**FROM:** Meketa Investment Group (Meketa)

**DATE:** February 9, 2024

RE: 2024 SJCERA Benchmark Review

On an annual basis, Meketa reviews the benchmarks for SJCERA's portfolio, the underlying classes, and the various managers. This review is focused on the continued suitability of these benchmarks in light of changing investment markets. Secondarily, Meketa will review benchmarks as part of ongoing asset class reviews throughout the year.

Over the last several years Meketa has worked with SJCERA to enhance the policy, class and manager benchmarks and move them closer to their long-term objectives. <u>This memo does not recommend any changes at this time.</u>

Each of the various portfolio components are reviewed below.

### **SJCERA Total Fund Policy**

	Current Policy Target		
Asset Class	(%)	Current Benchmark	New Benchmark
Traditional Growth			
Public Global Equity	34	MSCI ACWI IMI ND	No Change
Aggressive Growth			
Private Equity	8	50% MSCI ACWI ND + 2%/ 50%	No Change
Opp/Value Add Real Estate	8	NCREIF + 1%	No Change
Stabilized Growth			
Risk Parity	6	T-bills + 4%	No Change
Liquid Credit	7	50% BB High Yield/ 50% S&P/LSTA Leveraged Loan	No change
Private Credit	8	S&P/LSTA Leveraged Loan +3%	No Change
Core Real Estate	9	NCREIF ODCE +1%	No Change
Diversifying Strategies			
Principal Protection	7	BB Aggregate Index	No change
Crisis Risk Offset	13	1/3rd BB long Duration, 1/3rd BTOPS 50, 1/3rd 5% Annual	No change
Cash	0	U.S. T-bills	N/A
Total	100	Total Fund Custom Benchmark	



### Discussion

When evaluating the performance of a portfolio, sub-class or a specific manager, it's important to compare it against an appropriate benchmark. There are numerous index providers that create benchmarks used to gauge the performance of most investments, including Standard & Poor's, Russell, MSCI, and Bloomberg, among others. In general, an appropriate benchmark represents the investable universe (or opportunity set) while also adhering to broadly accepted industry standards. Such standards are easily implemented through the broad market benchmark framework.

While liquid, long-only classes are fairly easy to benchmark, illiquid and/or more complex strategies/classes, such as Private Equity, are more difficult. Since these types of investments are often multi-asset in nature, they commonly do not possess an easily identifiable investable universe, and are highly illiquid, finding benchmarks that fulfill all of the desired criteria can prove challenging. To this end, Aggressive Growth is currently benchmarked against a hybrid target: a market index + a premium (MSCI ACWI ND +2%)<sup>2</sup> as opposed to solely broad market indexes.

In short to medium term periods of markets inflections, such as 2020, having a benchmark tied to highly volatile market like equites can lead to relatively high-performance dispersions. This can be seen in the SJCERA Aggressive growth portfolio, where relative performance was down (6.4%) for the YTD ending September 2020. However, Meketa expects Private Equity managers to outperform this benchmark hurdle over longer periods.

DS/RF/mn

<sup>1</sup> See, for example, <u>A Primer for Investment Trustees</u>, ©2011, The Research Foundation of the CFA Institute. This publication highlights that broad class benchmarks provide reasonable proxies for the types of capital market risks that must be borne by investors in order to capture investment returns over time. In addition, the most common metrics utilized to measure investment performance rely upon broadly published benchmarks. Finally, the basic standard for a benchmark is that it be (i) unambiguous, (ii) measurable, (iii) investable, (iv) appropriate, (v) measurable in advance, and (vi) owned (i.e., the publisher adheres to high-quality accountability standards). Widely-followed broad class benchmarks easily meet these standards.

<sup>&</sup>lt;sup>2</sup> MSCI ACWI ND comprises both developed and emerging markets less the United States. This series approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI Barra uses withholding tax rates applicable to Luxembourg holding companies, as Luxembourg applies the highest rates.



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Each year, we review the primary economic assumptions for reasonableness. A detailed review of all actuarial assumptions - economic and demographic - is performed every three years as part of 2/13 the triennial experience study, with the next one scheduled for 2025. A summary of the current economic assumptions is shown below.



**Return on Assets Current: 6.75%** 

Assumed annual return on investments; net of investment expenses



**Inflation Rate Current: 2.75%** 

Price inflation; building block for other assumptions



**Wage Growth Current: 3.00%** 

Price inflation plus real wage growth

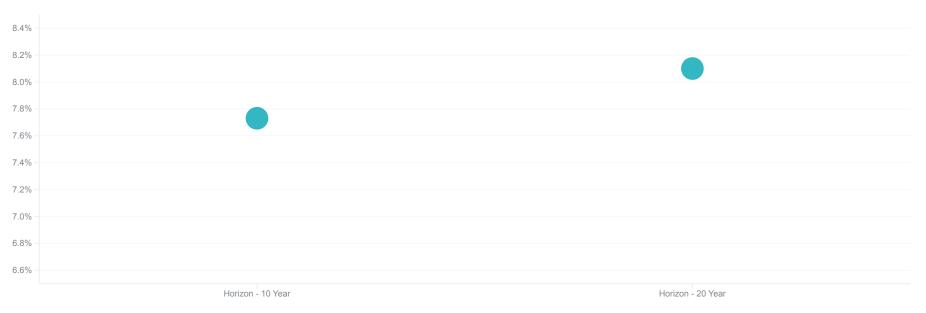


**COLA Rates** Current: 2.60% (actives) 2.75% (retirees)

Increases in post-retirement COLAs; affected by caps and banking provisions



### **Expected Returns (Horizon 2023 Capital Market Expectations)**



significantly lower than the 2023 expectations.



### **FTSE Pension Liability Index**



Source: https://www.soa.org/sections/retirement/ftse-pension-discount-curve/

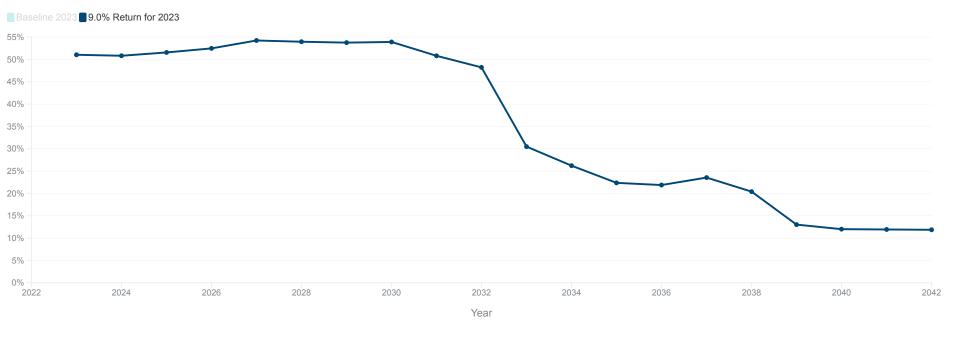


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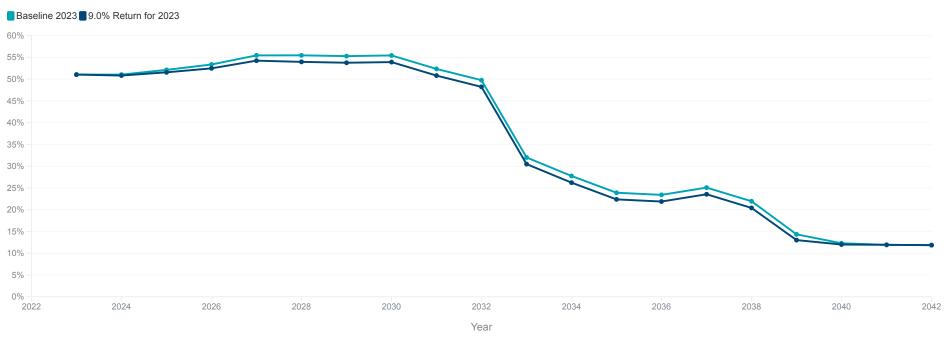
This graph shows the projected aggregate employer contribution rates based on the current economic assumptions - assumed returns of 6.75% for years 2023+, inflation at 2.75%, and 3.00% payroll 6/13 <>p>growth - and with a preliminary 9.0% investment return for 2023.

### SJCERA -

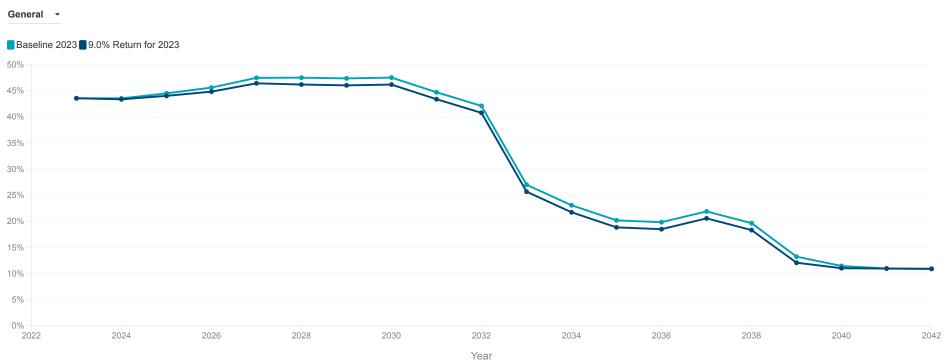








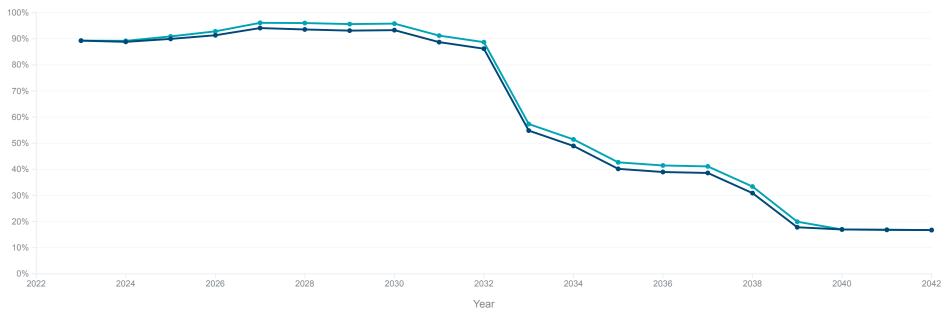








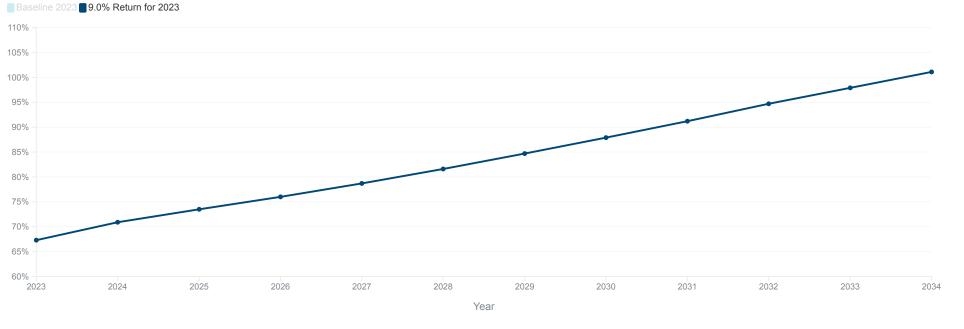






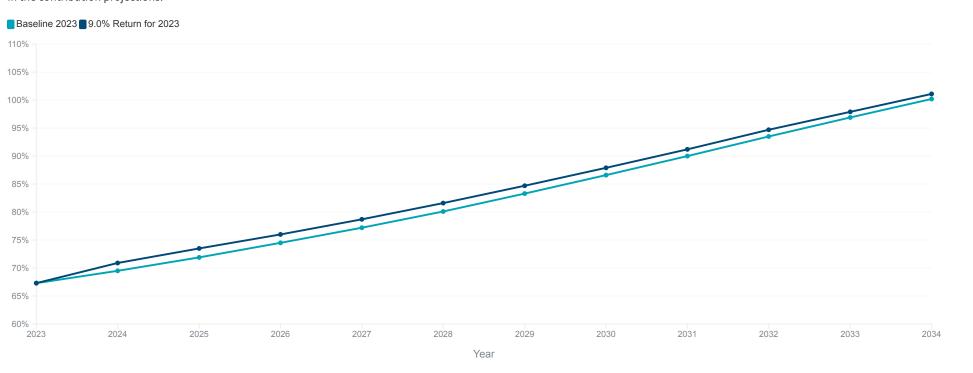
Finally, we show the projection of funded status using the **market value** of assets. The projection based on a 9.0% return shows an expected improvement in the funded status from 2023 to 2024 of **10/13 \lambda** about 3.5%, with further improvement of 2.5%-3.5% per year thereafter, assuming the assumptions are met (including a 6.75% return each year). The funded status projections include the value of the additional contribution reserves (made by the County, Courts, and Mosquito District) as of January 1, 2023, but assume no additional contributions thereafter.







The funded ratio projection is about 1.5% higher than that from the 2023 AVR, due to the investment gain, which is reflected immediately in the market value of assets and not smoothed in, as it is 11/13 <>in the contribution projections.







### **SJCERA Consulting Team**

Click card for bio or to contact



**Graham Schmidt** Principal Consulting Actuary



**Anne Harper** Principal Consulting Actuary

San Diego, CA

Portland, OR



**Timothy Doyle Consulting Actuary** 



Lafayette, CA

### Certification

The purpose of this presentation is to present a projection of contributions and funded status for SJCERA based on preliminary market returns for 2023.

In preparing our presentation, we relied on information (some oral and some written) supplied by SJCERA. This information includes, but is not limited to, the Plan provisions, employee data, and financial information. We performed an information of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. The data and actuarial assumptions used (unless modified within this communication) are described in our January 1, 2023 actuarial valuation report.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

Deterministic projections in this presentation were developed using R-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the Plan. R-scan uses standard roll-forward techniques that implicitly assume a stable active population. Because R-scan does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.

To the best of our knowledge, this presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This presentation was prepared for the SJCERA Retirement Board for the purposes described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.



### 2024 CONFERENCES AND EVENTS SCHEDULE

2024 EVENT	DATES	EVENT TITLE	EVENT SPONSOR	LOCATION	REG. FEE	WEBLINK FOR MORE INFO	EST. BOARD EDUCATION HOURS
Feb 26	Feb 27	Pension Bridge Private Credit	withintelligence	Carlsbad, CA	\$0	withintelligence.com	8.5
Mar 6	Mar 6	Real Estate West Forum	Markets Group	San Francisco	\$0	marketsgroup.com	4
Mar 2	Mar 5	General Assembly 2024	CALAPRS	Rancho Mirage, CA	\$250	calaprs.org	8.5-10.5
Mar 3	Mar 3	Investments Roundtable	CALAPRS	Rancho Mirage, CA	TBD	calaprs.org	N/A
Mar 27	Mar 29	Advanced Principles of Pension Governance for Trustees	CALAPRS	UCLA LUSKIN CENTER	\$3250	calaprs.org	16
Apr 29	May 1	Public Funds Roundtable	Institutional Investor	Los Angeles, CA	\$0	institutialinvest or.com	15
Apr 15	Apr 17	Pension Bridge The Annual 2024	withintelligence	Half Moon Bay	\$0	withintelligence .com	12.5
Apr 15	Apr 18	PIMCO Institute Educational Seminar	PIMCO	Newport Beach, CA	\$0	pimco.com	21.5 hrs
Apr 15	Apr 19	Investment Strategies and Portfolio Mgmt.	Wharton	Philadelphia, PA	\$13250	executiveeduca tion.wharton.up enn.edu	40
		Trustee Roundtable	CALAPRS	virtual	TBD	calaprs.org	4*
		SACRS Spring Conference	SACRS	Santa Barbara	TBD	sacrs.org	11*
		2024 Annual Conference and Exhibit	NCPERS	Seattle, WA	\$1110	ncpers.com	TBD
jun 21		Administrators Roundtable	CALAPRS	No. Cal	TBD	ncpers.com	N/A
Jul 14	Jul 17	SACRS/UC Berkeley Program	SACRS	Berkeley, CA	\$3000	sacrs.org	24*
Aug 26	Aug 29	Priciples of Pension Governance for Trustees	CALAPRS	TBD	TBD	calaprs.org	TBD
		Fiduciary Investors Symposium	top1000funds	Stanford	TBD	top1000funds.c	TBD
Sep 25	Sep27	Administrators Institute	CALAPRS	Carmel	TBD	calaprs.org	N/A
OCT 11	OCT 11	Trustee Roundtable	CALAPRS	TBD	TBD	calaprs.org	TBD
Oct 14	Oct 18	Investment Strategies and Portfolio Mgmt.	Wharton	Philadelphia, PA	\$13250	executiveeduc ation.wharton.u penn.edu	40

<sup>\*</sup> Estimates based on prior agendas



INSTITUTIONAL INVESTOR INSTITUTE

Institutional Investor

# Public Funds Roundtable

APRIL 29 - MAY 1, 2024
THE BEVERLY HILTON
LOS ANGELES, CA



ALTERNATIVE INSTITUTIONAL INVESTOR & INVESTOR INSTITUTE

Institutional Investor

## **Public Funds Roundtable**

April 29th - May 1st, 2024, The Beverly Hilton | Los Angeles, CA

**Allocator Advisory Board Members** 

Marcus Frampton, <i>Chief Investment Officer</i> , <b>Alaska Permanent Fund Corporation</b>	Timothy Price, Chief Investment Officer, Contra Costa County Employees' Retirement Association
Justin Lord, Senior Managing Director, Public Equities, Alberta Investment Management Corporation (AIMCo)	Cheryl Alston, Executive Director, Dallas Employees' Retirement Fund
Mark Steed, <i>Chief Investment Officer</i> , <b>Arizona Public Safety Personnel Retirement Systems</b>	Ryan Wagner, <i>Chief Investment Officer</i> , <b>Dallas Police &amp; Fire Pension System</b>
Mario Therrien, Head of Investment Funds and External Management, <b>Caisse de depot et</b>	Katherine Molnar, <i>Chief Investment Officer</i> , <b>Fairfax County Police Officers Retirement System</b>
placement du Quebec (CDPQ)	Angela Miller May, <i>Chief Investment Officer</i> , <b>Illinois Municipal Retirement Fund</b>
Chris Ailman, <i>Chief Investment Officer</i> , <b>California</b> State Teachers' Retirement System	Joe Aguilar, <i>Chief Investment Officer</i> , <b>Illinois State Treasurer</b>
Scott Chan, Deputy Chief Investment Officer, CalSTRS	
Craig Slack, Chief Investment Officer, City of	Scott Davis, <i>Chief Investment Officer</i> , <b>Indiana Public Retirement System</b>
Craig Slack, Chief Investment Officer, City of Chicago	Rod June, Chief Investment Officer, Los Angeles City Employees' Retirement System
Sandy McPherson, <i>Chief Investment Officer</i> , <b>City of Edmonton</b>	
	Bryan Fujita, Chief Investment Officer, Los Angeles Fire and Police Pensions
David Silber, <i>Chief Investment Officer</i> , <b>City of Milwaukee Employees' Retirement System</b>	Jeremy Wolfson, <i>Chief Investment Officer</i> , <b>Los Angeles Water &amp; Power Employees' Retirement</b>
Prabhu Palani, <i>Chief Investment Officer</i> , <b>City of San José Retirement System</b>	Plan
Scott Simon, Chief Investment Officer, Colorado Fire	Matthew J. Freedman, <i>Chief Investment Officer</i> , <b>Louisiana School Employees Retirement System</b>

& Police Pension Association



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Allocator Advisory Board Members Continued

Andy Palmer, Chief Investment Officer,  Maryland State Retirement and Pension System	Don Pierce, <i>Chief Investment Officer</i> , <b>San Bernardino County Employees' Retirement Association</b>		
Michael Trotsky, <i>Chief Investment Officer</i> ,  Massachusetts Pension Reserves Investment  Management Board	Alison Romano, <i>Chief Investment Officer</i> ,  San Francisco Employees' Retirement System		
T.J. Carlson, <i>Chief Investment Officer</i> , <b>Missouri State Employees' Retirement System</b>	Jason Malinowski, <i>Chief Investment Officer</i> , <b>Seattle City Employees' Retirement System</b>		
Kevin Killeavy, Chief Investment Officer, Montgomery County Employees Retirement System	Lamar Taylor, Interim Executive Director & Chief Investment Officer, State Board of Administration of Florida		
Bob Jacksha, <i>Chief Investment Officer</i> , <b>New Mexico Educational Retirement Board</b>	Edwin Denson, Executive Director/Chief Investment Officer, State of Wisconsin Investment Board		
Scott McIntosh, Executive Vice President & Head of Global Multi-Asset Strategies, <b>OMERS</b>	Glenn Hubert, <i>Chief Investment Officer</i> , <b>Teachers' Pension Plan Corporation Newfoundland and Labrador</b>		
James Davis, Chief Investment Officer, OPTrust	David Hunter, Chief Investment Officer, Texas  Municipal Retirement System		
Molly Murphy, Chief Investment Officer, Orange County Employees Retirement System	Andy Greene, <i>Chief Investment Officer</i> , <b>Toronto Transit Commission Pension Plan (TTCPP)</b>		
Steve Swanson, Chief Investment Officer, Park Employees' Annuity & Benefit Fund of Chicago	John Skjervem, <i>Chief Investment Officer</i> , <b>Utah Retirement Systems</b>		
Craig Husting, Chief Investment Officer, Public School and Education Employee Retirement Systems of Missouri	Jon Spinney, Chief Investment Officer, Vestcor		
Steve Davis, Chief Investment Officer, Sacramento County Employees' Retirement System (SCERS)	Andrew Junkin, Chief Investment Officer, <b>Virginia Retirement System</b>		
	Sam Masoudi, <i>Chief Investment Officer</i> , <b>Wyoming Retirement Syste</b>		







# **Public Funds Roundtable**

April 29th - May 1st, 2024, The Beverly Hilton | Los Angeles, CA

The evolving macro environment continues to bring new twists to perennial issues faced by public funds.
From governance amidst some of the most polarized times in recent history (never the twain shall meet - particularly in a presidential election year?)
to managing liquidity, risk and liabilities amid an uncertain macroeconomic outlook and unprecedented investment landscape in which drawing actionable intelligence from a mass of data is increasingly challenging (a magic eight ball, anyone?)
to attracting and retaining high performing teams during a talent crisis, and at the lower end of the industry compensation scale.
And everything else in between
One certainty in times of such uncertainty is that public fund plans have a lot to navigate.
How. to. move. forward.?in an increasingly polarized environment?in an era of unprecedented geopolitical challenges?in an uncertain regulatory environment?in an uncertain and evolving macro-economic and investment climate?amid a backdrop of technological innovation and industry disruption?when (add your own comment here)?
While there are no one-size-fits-all answers, there is an opportunity to share, compare, address, and explore paths forward together.
And that's where we come in.
Join us at <i>Institutional Investor</i> 's Public Funds Roundtable, April 29-May 1, 2024, Los Angeles, where your public fund CIO peers will collectively be discussing how they are tackling these issueswith the objective of moving forward.

We look forward to welcoming you April 29-May 1, at the Beverly Hilton in Los Angeles!



ALTERNATIVE | INSTITUTIONAL INVESTOR & INVESTOR INSTITUTE

Institutional Investor



# INSTITUTIONAL INVESTOR INSTITUTE



Monday, April 29, 2024

4:00 p.m. | Early Registration

Beverly Hills Ballroom Foyer

### 4:30 – 5:30 p.m. | Private Conversation for Asset Allocators Only

Beverly Hills Salon

### Innovative Approaches to Talent Recruitment & Retention in Public Funds: What is (and isn't) Working?

Against a backdrop of wage inflation, budget restrictions and increased turnover, public funds face particular challenges: how to recruit and retain key talent when better compensated positions exist elsewhere? This closed-door discussion provides a platform for an open exchange between public fund peers in sharing the successes of their recruitment and retention approaches and in effectively managing turnover to minimize disruption. Come prepared to share!

- The ins and outs of successful compensation schemes and getting them board approved
- Beyond compensation: innovative approaches to securing and retaining key talent beyond \$
- · Addressing the training crisis for your asset class personnel and wage inflation in public plans
- Fostering a good team culture: defining what a 'good' culture really is and what it takes to achieve
- Managing staff turnover and approaches to minimizing disruption

### Session Leaders:

Jeb Burns, Chief Investment Officer, The Municipal Employees' Retirement System (MERS) of Michigan Edwin Denson, Executive Director/Chief Investment Officer, State of Wisconsin Investment Board

### 5:30 - 6:30 p.m. | Welcome Reception for all attendees

California Terrace

Tuesday, April 30, 2024

7:45 a.m. | Registration Check-in Opens

Beverly Hills Ballroom Foyer

8:00 - 8:55 a.m. | Private Breakfasts

### **Allocators Only Chair's Closed-Door Breakfast Discussion:**

# Surviving the Politics of Investing & Fostering Better Practices as Investors in 2024 – Lessons from Small, Medium and Large Plans

Allocators are invited to an exclusive closed-door working breakfast hosted by III & AII Chair, Cynthia Steer. During this informal 55-minute discussion, allocators will have the opportunity to gain insights and share best practices with their peers from across the country and Canada. Discussion points include:

- Governance: a battle of good vs. bad? How to maintain focus on fiduciary duties in light of political pressures? Examining approaches to fostering better practices and to ensure that the twain does meet....
- The Canadian model: what aspects can work in the U.S.?
- Differences between investment boards and traditional public pension plans
- Corporate governance/proxy voting: is the era of customization over with a reversion to more generic proxy voting?

Hosted by: Cynthia Steer, Chair, Alternative Investor Institute & Institutional Investor Institute, Institutional Investor

### Members Only Breakfast Closed Door Discussion

Content to be announced.

### **Board Members Only Breakfast Closed Door Discussion**

Fostering Better Practices as a Board Member: Navigating Common Challenges in the Fulfillment of Fiduciary Responsibilities

### 9:05 - 9:10 a.m. | Welcome & Introductory Remarks

Beverly Hills Ballroom

Catherine Martin, Senior Director, Alternative Investor Institute & Institutional Investor Institute, Institutional Investor

### 9:10 - 9:25 a.m. | Chair's Welcome & Polling

Beverly Hills Ballroom

Attendees will be polled on several high-interest topics using an anonymous, interactive electronic response system in the opening session and subsequent sessions. The aggregated results of the poll will be displayed instantaneously on-screen to help illuminate the discussions which follow. By doing this, we will provide all attendees with valuable benchmarks and unique insights.

Cynthia Steer, Chair, Alternative Investor Institute & Institutional Investor Institute, Institutional Investor

### 9:25 - 9:45 a.m. | Opening Address: The 2024 Macro-Economic Growth Outlook for the U.S.

Beverly Hills Ballroom

Discussion points include:

- Global macro-economic outlook: developed, emerging and frontier markets the inhibitors vs. drivers to watch.
- Labor market: what can we expect in 2024 and what will be the drivers behind this?
- Hard or soft landing? Which and when? "Higher for longer": how much longer? Inflation and interest rates where will they land? To what extent is stagflation a possibility?
- What is the sustainability of the current fiscal path? When will the U.S. deficit matter?
- Banking crisis 2.0? What is the possibility of an impending liquidity crisis if banks' unrealized losses become realized?
   Will the wall of maturities in commercial real estate tip the balance at regional banks? Can we expect loan sales?
   Further consolidation?
- Where are we in the default cycle? Where are levels of distress across market sectors?
- How resilient will the U.S. consumer be in 2024?
- Are we in a period of deglobalization or globalization reimagined? What does this mean for the markets in actuality?
- Assessing the impact of recent geopolitical risk on the markets: is this the new normal? What further disruption is anticipated? What are the long-term implications?

# 9:45 - 10:15 a.m. | A Debate: Now is an Amazing Time to be a Pension Fund, Right? What Does Higher for Longer Mean? Beverly Hills Ballroom

Jumping into a key theme of this year's Roundtable, this debate examines the impact of the current inflation and interest rate environment on portfolios and pension plans. From the impact of higher inflation on liabilities to the higher cost of capital on

liquidity to funding status and surplus, we examine what the current environment means for pensions. In this debate we invite allocators with contrary perspectives on the current market environment discuss how they will operate in 2024-2025 and ultimately whether now is a prime time for public pension funds.

Session Moderator:

Eileen Neill, Managing Director & Senior Consultant, Verus Investments

### 10:15 - 11:10 a.m. | Rapid Fire Round followed by Tabletop Discussions

Beverly Hills Ballroom

# 10:15 - 10:45 a.m. | Investor Rapid Fire Round: Rethinking Asset Allocation for Long-Term Portfolios in a New & Evolving Investment Risk Environment

As many public plans contend with a lower than ideal funded status, they also have to grapple with a period of rapid and unprecedented change within the global investment landscape. The only certainty is uncertainty and the fact that the next thirty years will not look like the last. In this rapid-fire round, our panel will take questions on how they are viewing asset allocation and if/how their thinking is changing.

- What lessons can be learned from recent economic and market volatility to better position long-term portfolios for greater resiliency?
- To what degree has the higher inflation and interest rate environment led to meaningful changes in your asset allocation? How are you approaching your private market allocations? How are you stress-testing liquidity?
- Have you made changes to your asset allocation due to (geo)politics? Is there a way to incorporate (geo)political risk and some form of tactical approach? How do you deal with tail risk?
- How to be more proactive than reactive to make asset allocation more relevant going forward? Is there a need for an 'all-weather' portfolio, and if so, what should it look like?
- How do you make sure your portfolio is diversified and is providing the protection you anticipate? Is there a better way to get protection?
- Funding levels have generally improved, how are you working with your treasury/comptroller colleagues relative to contributions and benefits?

### Panelists:

Steve Davis, CIO, Sacramento County Employees' Retirement System (SCERS)
Alison Romano, CEO & CIO, San Francisco Employees' Retirement System
Ghiané Jones, Deputy Chief Investment Officer, Teachers' Retirement System of the State of Illinois

# 10:45 – 11:10 a.m. | Tabletop Discussions: How Do You Even Form an Opinion? Building Investment Viewpoints in an Unprecedented Geopolitical, Interest Rate and Inflation Risk Environment

After three decades of reasonable economic stability, we are now in an era marked by uncertainty, disruption, and radical shifts and CIOs need to navigate this unprecedented economic environment. Similarly, it's now a part of the job of CIOs to have investment views on U.S.- and geo-political risk. How to form an investment opinion in such political and economic climates, and with a lot of (at times conflicting) data? What investment dogmas are being challenged in the current environment? Are market dynamics - inflation, monetary policy, and growth - different to what we have previously thought and hence need to be reconsidered? How to cut through the noise to determine where we are now and then build this into an investment viewpoint, or do you?

In small groups, attendees will spend the next 25 minutes sharing their thoughts on these and related questions, building on the content delivered in the previous panels.

### 11:10 - 11:30 a.m. | Coffee & Networking Break

Beverly Hills Ballroom Foyer

### 11:30 am - 12:30 p.m. | Tracks

TRACK 1	TRACK 2	TRACK 3
NAVIGATING BENCHMARKS IN A NEW WORLD	AI/DATA	GEOPOLITICS & INVESTING INTERNATIONALLY VS. DOMESTICALLY

# TRACK 1 Navigating Benchmarks in a New World

In this track we begin with a brief history of benchmarks, outlining how we got where we are today. We then take an in-depth look at how to navigate benchmarks in the new market regime to answer such questions as:

- Divide into the 'Magnificent 7' and 'everything else'? S&P 7 vs. S&P 493: what's going on and where do we go from here? Go neutral? Passive vs. active: do you stick with your guns and stay active?
- Fixed income integrate credit with everything else?
- Global benchmarks without China? If there is increased legislation on what public funds can/can't invest in, global benchmarks don't work anymore: how to navigate?

### 11:30 a.m. - 11:45 a.m.

**Part One: A Short Presentation** 

A Brief History of Benchmarks: How Did We Get Here?

### 11:45 a.m. - 12:30 p.m.

Part Two: A Panel Discussion

Domestic/Global & Public/Private Benchmarks: Are Dominant Companies or Countries a Fact of Life?

# TRACK 2 AI/Data/Modeling

The following two sessions each open with a case study presentation of novel applications of AI in the investment management process followed by a period of Q&A from the floor. The objective is for audience participants to ask questions that give further insights into the content and how it may be directly applicable to their own institutions.

### 11:30 a.m. – 12:00 p.m.

Asset Manager Case Study: Leading Edge Applications of Al in Investment Management Today

### 12:00 - 12:30 p.m.

Allocator Case Study: Leading Edge Applications of AI in Investment Management Today

# TRACK 3 Geopolitical Risk Vs. Reward & Investing Internationally Vs. Domestically

### 11:30 a.m. - 12:00 p.m.

### Debating Geopolitical Risk Vs. Reward: "Get Out Now!" Vs. "It's a Great Buying Opportunity!"

Whether you invest in China or not the world's second biggest economy, which accounts for around 40% of global growth, has a significant and far-reaching impact on the global economy. With deteriorating U.S.-China relations; an executive order limiting U.S. investment in China; Taiwan invasion concerns; a property crisis highlighted by the bankruptcy of the mainland's second biggest developer; it's fall into deflation; high youth unemployment; and overall fears of a looming recession, investors have a lot to navigate. In this debate we hear from allocators who believe China and other geopolitically tense regions currently offer a great investment opportunity battle it out with those who see such regions as uninvestable.

- Which regions are you looking at from a geopolitical risk standpoint? What is your Board/Investment Committee saying? Your General Counsel?
- From a plan perspective, where do you have exposure in geopolitically sensitive areas? Are you holding steady, pulling back or increasing investments? Based on what factors? Are you considering distressed opportunities?
- With the continued production restrictions out of Russia and China, the supply chain shifting away from China, and weaker demand for goods and services within China, how are you viewing commodities?
- Where are you reallocating the capital that would have gone to investments in geopolitically tense regions?

### Panelists:

Andy Greene, Chief Investment Officer, Toronto Transit Commission Pension Plan (TTCPP)

### 12:00 - 12:30 p.m.

### Rethinking Emerging Market Exposure & Investing Domestically Vs. Internationally

Regardless of the kind of a portfolio you manage, the decision of investing domestically vs. internationally is an important one. Historically, U.S. stocks have outperformed international ones, but in 2022-2023 international stocks outperformed the U.S. on a total return basis. Has the king's crown lost its shine? In this session our panelists discuss their approaches to deciding whether to invest domestically vs. internationally and in doing so discuss their perspectives on emerging market (EM) exposure. Talking points include:

- Does it really matter if you invest in EMs given the current climate?
- What factors are driving the reversal in U.S. stock outperformance and how long is expected to last?
- To what degree should the reversal in stock performance lead to a rethink for portfolios overweighted in U.S. investments?
- What does the international market look like? Are things cheap for a reason? Should the approach be more selective on a country-by-country basis rather than taking a global approach?
- How are you currently approaching the decision to invest in the U.S. vs. internationally?
- How to price U.S. political risk?
- Rethinking EM exposure: debt vs. equity and long vs. short positioning in an era of rising geopolitical risk
- What are the impacts of friend-shoring? What countries are moving the supply chain from China? Are there opportunities to explore in Mexico, Canada, Korea, etc.?

### Session Moderator:

Regina Cho, Investment Director, Investment Committee, Crewcial Partners LLC

### Panelists:

Ryan Wagner, CIO, Dallas Police & Fire Pension System

### 12:30 pm - 2:00 p.m. | Seated Lunch & Guest Speaker

### 2:00 – 2:45 p.m. | Think Tank Networking: Setting the Scene followed by Think Tank Networking

In the Think Tank Networking sessions, the audience actively participates in the discussions. Session leaders first set the scene of the discussion by outlining the key issues. The discussion is then opened to the floor with the audience sharing their insights and perspectives. These sessions run concurrently.

# TRACK 1 The New Age of Fixed Income

### The New Age of Fixed Income & the Coming Revolution in Asset Allocation

What income-seeking strategies are allocators pursuing? What changes should be made to the fixed income bucket in this higher rate environment? This Think Tank session explores allocator approaches in this 'new age of fixed income'.

- How attractive is fixed income today and how much risk are you willing to take? At today's rates, what percentage of the portfolio should be in fixed income be it public or private in lieu of other strategies?
- Is this higher rate environment a good time to sell off long maturity bonds? Is this a good opportunity to lengthen duration?
- How much liquidity is there in the high yield/sub-investment grades within the public markets?
- Fixed income as an alternative to equities to hit actuarial targets
- High yield bonds vs private credit: how much high yield do you want relative to private credit in a higher rate environment?
- Private credit within a public fixed income portfolio: how are allocators approaching this, and what are the upsides?

### Session Lead:

Bob Jacksha, C/O, New Mexico Educational Retirement Board

# TRACK 2 Data Sourcing, Management & Models

# The 'Moneyball of Investing': Do Today's Models Hold Up? How Are Data Points Evolving? How to Draw Actionable Information from a Mass of Data?

As we heard in sessions earlier today, the macro landscape going forward is going to be very different to what we've experienced previously, and with that comes different ways to generate alpha. What data points for underwriting risk and examining growth opportunities are needed today that weren't needed 10-15 years ago? How good is the accuracy of some data over the last few decades? Do today's models hold up going forward, particularly in a higher interest rate environment? What resources are firms putting into gathering and organizing information? Will data analysts and programmers soon outweigh investment staff in teams? How to see through the 'noise' and draw actionable intelligence from such a mass of data? Join us in this session as we focus on what to consider in pursuit of answers to these questions.

# TRACK 3 Divesting

### LP & GP Perspectives: The Considerations and Ramifications of Divesting

What are the implications of divesting for both allocators and asset managers? What does it mean for both LPs and GPs to take money out of a fund or to ask that certain companies or exposures are excluded? Can that be done in a side letter? What are policy/legal considerations of divesting? The operational considerations? What are the potential implications for the LP-GP relationship? How to then reinvest the capital to get a similar risk profile? Conversely, how to capitalize on the way that other allocators are forced to divest?

### 2:45 - 3:30 pm | Interactive Networking & Coffee Break

### 3:30 - 4:00 pm | Panel Discussion:

### Key Issue Deep Dive: The Latest Thinking on Funding and Benefits for Defined Benefit Plans

In this deep dive discussion, our panelists examine the impact of funding and surplus on defined benefit (DB) plans. What else is there for employers beside defined benefit and 457 plans in a higher interest rate environment?

### 4:00 - 4:30 p.m. | Fireside Chat:

### Effecting Real Change in DE&I - a Conversation with Allocator CIO and an Asset Manager

Discussing how they are driving efforts to shift the paradigm on diversity, equity and inclusion (DE&I) within their own institutions and with their partners, our speakers address the steps they are taking to effect real change, how they are overcoming stumbling blocks, what their achievements have been to-date and what they are continuing to work towards.

4:30 – 5:00 p.m. | Closing Featured Interview:

5:15 p.m. | Depart for Reception & Dinner



# ALTERNATIVE INVESTOR INSTITUTE



### Wednesday, May 1, 2024

### 7:45 a.m. | Registration Check-in Opens

Beverly Hills Ballroom Foyer

8:00 - 8:55 a.m. | Private Breakfasts

### **Canadian Allocators Only**

### Chair's Breakfast: A Closed-Door Discussion Among Peers

Canadian allocators are invited to an exclusive closed-door working breakfast hosted by **Andy Greene**, **Chief Investment Officer**, **Toronto Transit Commission Pension Plan (TTCPP).** During this informal 55-minute discussion, allocators will have the opportunity to gain insights and share best practices with their peers, as well as inquiring about the challenges that are keeping you up at night.

### **U.S. Allocators Only**

### Closed-Door Breakfast Discussion Among Peers: Pursuing Simplicity Over Complexity in Pension Plans

CIOs are questioning the need for investment strategy complexity, especially in an environment in which 5% returns are possible from cash. As some pension plans look to simplify rather than pursue a course of complexity, what are the pros/cons? What are the obstacles to achieving simplicity? When to invest in internal resources/team vs. allocate budget externally? With an industry built around servicing and complexity how can pension plans navigate a path to simplicity?

### **Members Only**

### **Closed Door Breakfast Discussion Among Peers**

Content to be announced.

### 9:05 – 9:10 a.m. | Welcome and Introductory Remarks

Beverly Hills Ballroom

Catherine Martin, Senior Director, Alternative Investor Institute & Institutional Investor Institute, Institutional Investor

### 9:10 - 9:25 a.m. | Chair's Welcome and Polling

Beverly Hills Ballroom

Attendees will be polled on several high-interest topics using an anonymous, interactive electronic response system in the opening session and subsequent sessions. The aggregated results of the poll will be displayed instantaneously on-screen to help illuminate the discussions which follow. By doing this, we will provide all attendees with valuable benchmarks and unique insights.

Chair: Cynthia Steer, Co- Chair, Alternative Investor Institute & Institutional Investor Institute, Institutional Investor

### 9:25 - 9:45 a.m. | Opening Address: The State of the Industry 2024

Beverly Hills Ballroom

Providing a current (Q2 2024) snapshot of the health of the public and private markets, this session discusses as near real-time information as possible to determine what needs to be on the industry's radar as we progress through continued economic and market uncertainty and a presidential election year. Among the discussion points:

- Public vs. private market valuations: where are they currently? How has the new economic regime of higher rates impacted asset valuation?
- Are we back in the '90s in real estate?
- Assessing today's private equity landscape: are the implications of "higher for longer" being realized?
- Where are we in the default cycle? Are we now shifting from a stressed to a distressed environment in different markets? What investment opportunities is this creating? Are distressed opportunities becoming the new darling?
- The return of fixed income...
- Concentration in public equities: The 'Magnificent Seven' what's going on? Can public equities hold up in the higher rate environment?
- The latest on fundraising, capital flows and cash flow patterns calls and distributions
- Regulation on, regulation off: a non-partisan viewpoint on market performance under the last two administrations
- Liquidity concerns during an election year: how to maneuver in the wake of the U.S. presidential elections?

#### 9:45 - 10:15 a.m. | Fireside Chat

Beverly Hills Ballroom

#### **Best Practices in Navigating Boards - A Candid Conversation**

Former & current CIOs of public pension funds come together in a frank and open discussion to share best practices in one of the most challenging aspects of their job, navigating boards. This discussion will include approaches to board education, building portfolios with a new board, fostering a good culture, and navigating organizations through difficult times.

#### 10:15 -11:10 a.m. | Panel Discussion Followed by Tabletop Discussions:

#### 10:15 - 10:45 a.m. | Board Member Perspective Panel - A Candid Conversation

Following from the previous panel, we now welcome the board member perspective in their pursuit of adhering to fiduciary responsibilities. We discuss a total portfolio approach vs. strategic asset allocation and how this impacts the investment decision framework and the governance framework. We also discuss board education and how to adhere to fiduciary responsibility. How has oversight of staff and communication evolved during the last decade?

#### 10:45 – 11:10 a.m. | Tabletop Discussions: Fiduciary Obligation

#### Fiduciary Obligation: What Does This Actually Mean Today? A Tabletop Discussion

In small discussion groups, attendees will spend the next 25 minutes sharing their thoughts on the sessions of this morning and discuss the meaning of fiduciary obligation today.

#### 11:10 - 11:30 a.m. | Coffee Break

#### 11:30 am - 12:30 p.m. | Tracks

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TRACK 1	TRACK 2	TRACK 3
PRIVATES - NAVIGATING A SHIFTING	PROVIDING & MANAGING	ENERGY TRANSITION & CLIMATE
INVESTMENT LANDSCAPE	LIQUIDITY IN A TOUGH EXIT	RISK-REWARDS
	ENVIRONMENT	

#### TRACK 1

#### PRIVATES - NAVIGATING A SHIFTING INVESTMENT LANDSCAPE

#### 11:30 a.m. - 12:00 p.m.

#### The Changing Face of Private Equity: Good or Bad?

- How is the repricing of private equity impacting allocators' portfolios? Do you reprice early or late? What are the advantages of both?
- How are allocators approaching pacing in this market putting more \$ in or pulling back?
- In this tough fundraising environment, to what degree is there a divergence between large funds and small-mid sized funds? What does this mean for the private equity market as a whole?
- Addressing the backlash to private equity and its 'vulture' reputation: is all fair in money and war? What in turn are the considerations for allocators?
- Is the leveraged buyout model subtractive in a higher rate environment?
- Where are the best opportunities to maximize returns within private equity in the current market environment?
- To what extent are we entering another zombie fund apocalypse? Adapt and survive? What are the dynamics that will enable managers to succeed?
- Liquidity, liquidity, liquidity...or do we really need it in this asset class?

#### Panelists:

Marcus Frampton, Chief Investment Officer, Alaska Permanent Fund Corporation

#### 12:00 - 12:30 p.m.

#### Private Credit 3.0? Examining the Opportunities & Risks Within Direct Lending, Specialty and Niche Finance

Our allocator panelists represent different stages of the private credit evolutionary scale – from having recently started making allocations to experience of several years within this market sector. Their varying perspectives will help provide a broader picture of the current landscape of the private credit market and where current and future opportunities lie.

- To expand the role of credit in allocations, or not to expand? That is the question for allocators in this environment.....
- ....with the follow up question of where to put them within private allocations or in the public fixed income bucket?
- Private credit vs. traditional private equity
- Where are the best risk-adjusted returns? Beyond middle market and direct lending, what other credit opportunities are you looking at and why? Royalties? Sports franchise? Life sciences? Asset-based? Distressed? How are you structuring your risk in credit?
- To what extent will borrowers continue to turn to the private markets for financing? Will funds take the place of regional banks?
- Is there too much money chasing too few deals in direct lending? Are we at the end of covenant-lite? Are trouble spots starting to appear? Is the 'golden age for private credit' starting to look a bit brassy?
- Is the private credit industry ready for a downturn? How will different sectors of the private credit market fare in a downturn?
- Lending money is all about people, even with a good agreement: as an allocator how are you selecting managers? How are you ensuring that they are doing their homework on the borrowers?

Pane	elists:

Molly Murphy, CIO, Orange County Employees Retirement System (OCERS)

#### TRACK 2 PROVIDING & MANAGING LIQUIDITY IN A TOUGH EXIT ENVIRONMENT

11:30 a.m. - 12:00 p.m.

#### **Providing & Managing Liquidity Today**

With exits limited and fundraising slowing, how are managers getting creative in their financial engineering? And with the slow pace of distributions being a pain point for many allocators in the tough exit environment, how are they in turn getting creative in generating liquidity?

Is the balance between financial engineering and financial responsibility in the quest for liquidity being adequately struck?

In this track GPs and LPs address their approaches to and perspectives on generating liquidity and in doing so we consider the pros and cons and what this can mean for GP-LP alignment and relationships.

#### **Part One: GP Perspective**

What strategies are GPs adopting to generate liquidity? What additional layers of leverage are being used to preserve and provide additional liquidity? When does/doesn't it make sense to employ these strategies? What in turn does this mean for LPs?

- NAV loans
- Continuation funds

#### 12:00 - 12:30 p.m.

#### **Part Two: LP Perspective**

Allocators address their views on NAV loans and continuation funds, including their approaches to navigating such opportunities; and also address their own approaches to generating and managing liquidity.

- LP perspectives on continuation funds and NAV loans:
  - o Navigating additional layers of complexity and transactional due diligence
  - o Navigating potential conflicts of interest and misalignment between GP and LPs
  - Navigating the noise to get to the value
  - Internal resource allocation based on the opportunity or necessity
- LP-led liquidity strategies:
  - o Approaches to planning around cash flows and pacing
  - o Securitizing parts of a portfolio to generate near-term liquidity/selling part of the book

#### TRACK 3

#### **ENERGY TRANSITION & CLIMATE RISK**

11:30 a.m. – 12:00 p.m. Energy & Infrastructure Transition: Risks, Rewards & the Reality for Public Funds

- Energy transition: what is it really? Is it just energy with a different name on it? Does your IPS currently encompass an all-asset energy class? When politics and reality hit, how to please everyone AND get a return?
- Traditional energy: will there be stranded assets? What assets will be written down? To what extent with there be a vibrant secondary market for energy trading?
- Infrastructure transition: how is infrastructure evolving and what in turn does that mean for energy? From smart roads to smart cars, what is being built and what investment opportunities does this create?
- Technologies to reduce power vs. reduce demand: what's the latest and how do investment opportunities compare?
- What can U.S. public plans learn from their peers in other countries?

#### Session Moderator:

Sarah Bernstein, Head of Sustainability & Managing Principal, Consultant, Meketa Investment Group, Inc.

#### Panelists:

Senior Executive, **Grey Rock Investment Partners** Todd Lapenna, *Partner*, **StepStone Group** 

#### 12:00 - 12:30 p.m. Managing Climate Risk within Investment Portfolios

#### Session Moderator:

Daniel E. Ingram, Partner, Head of Responsible Investing, AON Investments

#### 12:30 pm - 2:00 p.m. | Seated Lunch & Guest Speaker

#### **Regulatory Spotlight**

With the spotlight firmly on the private markets as capital continues to flow into alternatives, what further regulation can be expected and when? What are the practical implications of the SEC's Private Fund Advisers rule for allocators? In a presidential election year, what are the politics of regulation?

#### 2:00 - 2:45 p.m. | Think Tank Networking: Setting the Scene followed by Think Tank Networking

In the Think Tank Networking sessions, the audience actively participates in the discussions. Session leaders first set the scene of the discussion by outlining the key issues. The discussion is then opened to the floor with the audience sharing their insights and perspectives. These sessions run concurrently.

#### TRACK 1

The Shift to Privates: Is the Megatrend Coming to an End? Assessing Privates vs. Publics in Today's Environment A common sentiment in the higher interest rate environment has been "invest in cash because cash is 5%." This is against the backdrop of several private market sectors struggling with higher rates, and liquidity concerns amongst allocators. But, in typical fashion, the discussion is not so cut and dried with an opposing view of "cash is a short-term investment, and structurally misaligned with investing". These opposing views will form the backdrop of this think tank discussion as we address such questions as:

• To what degree are privates worth the additional complexity or cost? How can you see their value clearly? Is the illiquidity premium going to persist?

- To what extent are privates still valued at optimistic levels vs. publics? Have privates lost their shine in this higher rate environment?
- Does it matter if a shoe about to drop in alternatives?
- Which alternatives are you sticking with in the higher interest rate environment? What private market opportunities are overdone vs. not yet fully realized?
- Pacing, pacing, pacing.....

#### Session Lead:

Ben Bronson, CFA, CAIA, *Managing Director*, **Aksia**Derek Drummond, *Funds Alpha Manager*, **State of Wisconsin Investment Board** 

#### TRACK 2 NEW PRODUCT CREATION

#### **New Product Creation in a Rapidly Evolving Macro-Environment**

Evolving asset allocation strategies arguably make existing products sets less relevant. As product demand rapidly evolves, so too does the use and availability of investment products, spurred on by such factors as technological innovation, regulation, a shifting macro-economic environment, and a desire to lower costs. What trends are shaping production creation within alternatives in the current environment? What product innovation are allocators seeking? What new product ideas are on the horizon? What will be "coming to you from an asset manager soon"? This session invites allocator and asset manager to discuss how they are viewing product creation within the alternatives space currently.

#### TRACK 3 Stewardship & Sustainability

Allocator Closed Door: Stewardship & Sustainability? Natural Capital? What's in a Name? New Approaches to Finding Common ESG Ground in a Politically Heightened Environment

With anti-ESG and anti-DEI legislation still playing out, how can public funds navigate the intricacies of implementing stewardship and sustainability policies into their investment processes and portfolios? How can CIOs focus on getting return and mitigating risk with such political overhang? Is ESG the villain? Where does your fiduciary lie? How to approach at the city-, county- and state-level and develop a common ground and deliver a message that resonates with all?

2:50 – 3:30 p.m. | Interactive Networking & Coffee Break Wilshire Garden

3:30 - 4:00 p.m. | Panel Discussion

Beverly Hills Ballroom

Real Estate: Survive or Thrive? Defensive and Offensive Strategies Within and Beyond the Main 'Food Groups'

 Where are valuations? Are we still in a period of price correction? How is the repricing of real estate impacting portfolios?

- What are your current sentiments on real estate as an asset class? Are you in survive or thrive mode? Have you calculated how much you need to contribute to real estate over the next couple of years as you restructure? How do you achieve returns in this market?
- How and where to invest? In the current uncertain macro-economic climate, what property types are of greatest interest and in which geos? Data centers? Cold storage? Medical office? Other? Where are the best long-term opportunities?
- With a wall of maturities hitting, what does refinancing look like in the current environment? When to restructure vs. hand back the keys?
- One person's trash is another's gold: what distressed real estate opportunities are you considering?
- How will capital lock-ups be resolved? Will it be another 5-6 years before real estate funds start releasing capital?
- Is real estate's secondaries market moment coming?
- How do you make your CRE portfolio work for the next decade in an era of right downs, acquisitions, defaults and reinvestment.

#### 4:00 - 4:40 p.m. | Founders Spotlight

Beverly Hills Ballroom

#### Asset Allocation Today - Targeted Returns Vs. Real Returns in Product Creation

In this featured session we will be hearing from three leading founders, and entrepreneurs from different parts of the investment world. We will be hearing their unique investment philosophies as well as their perspectives on the current macro environment and how it is expected to impact their investment activities and product creation.

#### 4:40 – 5:10 p.m. | Closing Featured Presentation

Beverly Hills Ballroom

Decision-Making in Periods of Ambiguity with a Lack of Historical Data

5:10 p.m. | Depart for Reception & Dinner

### SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION SUMMARY OF PENDING TRUSTEE AND EXECUTIVE STAFF TRAVEL

2023	Consequent Frank Description	Location Tuesday(a)	Estimated	BOR Approval
Event Dates	Sponsor / Event Description	Location Traveler(s)	Cost	Date
3/2-5/24	General Assembly 2024	Rancho Mirage B. McKelvey	\$1,100	N/A
		Newport		
4/15-4/18/2024	PIMCO Institute Educational Seminar	Beach, CA P. Ba	\$1,800	1/12/24

#### SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

#### SUMMARY OF COMPLETED TRUSTEE AND EXECUTIVE STAFF TRAVEL

Event Dates 2024	Sponsor / Event Description	Location	Traveler(s)	Estimated Cost	Actual Cost	Event Report Filed
	IREI '2024 Visions, Insights & Perspectives -		Micheal Restuccia,	Carlsbad,		02-09-2024
Jan 22-24	Americas	Carlsbad, CA	JC Weydert	CA	Pending	Pending

Board Member Travel (not including SACRS & CALAPRS)

Dates

Amount used of \$4500: \$4500

RESTUCCIA	IREI	1/22-24/24
BASSETT		
DING		
DUFFY		
GOODMAN		
KEOKHAM		
MCCRAY		
NICHOLAS		
WEYDERT	IREI	1/22-24/24
MOORE		

Report by: Trustee M. Restuccia Submitted: February 9, 2024

The Vision Insights and Perspectives (VIP) event was held in Carlsbad California on January 22 thru January 24, 2024

- Tuesday the Keynote speaker was Danielle Booth, the CEO and Chief Strategist for QI research. Her conclusions were as follows:
- This is the most aggressive Fed in history, and that wasn't said in a positive manner.
- California is very screwed up and lost 1.3 million people over the last 7 years which is the highest lost in US history.
- Refinancing debt is 40% more expensive today than when the debt was originally taken out, the maturing coupon over the next 12 months represents 22.3% of all outstanding debt. Can the properties support the higher payments, if not what is the lender going to do, what will regulators allow banks to do, all unknown at this point?
- Basel 3 is the end game but did not go into detail what Basel 3 is, assuming everyone knows.
- Businesses today have very qualified workers but overhead needs to be cut.
- Office recovery will be very long and in many areas the value is in the land.
- Currently (and possibly going forward) private equity has been bailing out real estate property debt.
- She believed 2023 was a soft landing in the economy and a big issue is that federal spending on Covid was 9% of GDP.
- Auto sales are down, and many people can't pay their consumer debt and give the cars back or being repossessed.
- She indicated that unemployment is disclosed by the government at 3.7% but is 4.11% and that 2023 job creation was actually negative, other than government which shows the gross numbers to be higher, and 2023 was the largest contraction in US history.
- Business bankruptcies is the highest in US history.
- Anticipates the first rate cut in May 2024, but not sure by how much.
- This administration and others have absolutely no fiscal discipline.
- A majority of analysts think 2024 will be a soft landing but there are still some analysts that believe we will hit a recession.

The next speakers spoke on a Global Perspective as the readers of IREI publications see. The speakers were Stephanie Bensimon, Member of the Executive Committee and Head of Real Estate, Ardian, William Pattison. Head of Real Estate Research and Strategy, MetLife Investment Management, Al Rabil, CEO Kayne Anderson and Co-founder Kayne Anderson Real Estate

- Every country is so different that a company needs local boots on the ground that knows each specific state or area to get things done.
- The group believes on a global basis we will experience a hard landing, so caution needs to be taken.
- Right now, they believe for the next 24 months will continue to be a buyers' market.
- Value declined from peak to trough was at the end of 2023 which may not be reflective until the Q3 appraisals.
- Currently the greatest opportunity is in credit.
- Currently Europe residential is very leveraged and sales are needed.
- They still believe the US is the place to invest based on our strong energy ability and the rule of law, buyers and sellers can feel confident in the courts in the US vs other countries.
- All capital stacks in RE are good opportunistic, senior debt, junior debt, mezzanine etc.
- There has been a contraction in the sunbelt areas for apartments with transactions down 40% and they believe it will deteriorate more.
- There will be an increase in infill projects, industrial properties and SFR's.

- Real Estate is not a 2-to-3-year inflation hedge as many believe it is, it is only a hedge for a 5 plus year hold.
- When investing in RE whether debt, construction or existing need to look at environmental issues during underwriting including insurance, floods, fires, earthquakes etc. E is the only important issue to review under the ESG issue. Insurance is now very tough to get and is very expensive from the past based on recent losses and perceived further losses.
- With rates at the current levels the balance of debt and equity today is very important.

Global Capital Flow Trends, speakers included Robert Bloom Managing Principal Walton Street Capital Randall Rothchild, Senior Managing Directo Global Head of Debt Tishman Speyer and Simon Treacy, CEO, Private Equity Real Estate, Real Assets, Capital and Investments

• Closings are reduced 34% year over year from \$137 billion to \$93 billion of the \$93 billion, 5 large funds represent \$45billion. Transactions are down 60% year over year, \$163 billion to \$63 billion. More funds were launched than closed and led to a lot of uncalled capital.

Kenote speaker Jeremy White on Artificial Intelligence and Humanity

• AI actually started in around 2009 but at a different level. It is used everywhere for many different reasons. In real estate it is used to value properties and perform underwriting tasks

Insurance & Increase weather volatility, how its impacting real estate risk, costs and returns.

- Insurance costs have increased based on weather activity, storms, fire hurricanes, tornados etc.
- Insurers, according to this panel, have lost 26 years of profits in the last several years.
- Property type is not affecting rates as much as the property location, which is very logical.

Demographic Trends, what's driving shifts from ad to cities and states?

- The main driver is demand, less volatile income and stable economies.
- Remote work from less expensive locations.
- Freedoms, personal, political, businesses, schools etc.
- The most attractive are the southern states due to overall lower taxes.
- An example was moving to Pheonix is less sticky than Florida, people moving to Pheonix and then leaving where they move to Florida and staying.
- Inland California is growing since people are moving to the Central Valley from the Coast and Bay Area due primarily to costs.
- Immigration is affecting migration as well.
- Property types have changed, and the aging population is placing demand on senior housing.
- There are different life stages and people are staying in their life stages longer meaning less moving,

Driving Demand, tenant views for office, Albert Behler Chairman and CEO Paramount Group, Richard Coles, Founder and Maning Partner, Vanbarton Group, Sondra Wenger, Head of Americas Commercial Operator Division, CBRE Investment Management

- Continues to be office opportunities in NY, SF etc., most probably since rents and prices and come down and vacancies increased.
- Occupancy is coming back depending on the location and user, professional service, location, clusters.
- Occupancy develops a culture that zoom never could and wont.
- Employers want employees back and the younger generation wants to go back.
- Security and amenities are improving and making the attraction to return to the office better.
- Office to residential is very common in especially NY abased on reduced prices.

Artificial Intelligence & Real Estate, What's hype and what's real. Dr. Will McIntosh, Global Head of Research Affinius Capital, Brandon Sedloff, Managing Director, Juniper Square. Chris Shaida, CEO, Enterprise Real Foundations

- Issues is who owns the data is the data public or private.
- AI is only one of many tools but continues to need human input, determinations, and determinations.
- Need to use it properly and be creative good data in good data out.

Creating Value Across Strategies & Sectors. How operation teams drive returns. Vernon Chin, Senior Managing Director Lincoln Property Company, Joey Lansing Partner, Global Head of Portfolio Management and Strategy, Harrison Street, Ryan Swehla, Co-CEO & Co-founder, Graceada Partners.

- Asset management is performed at a high level, budgets etc.
- Property management is boots on the ground and managements day to day operations.
- Must have good property management software, no names were provided.
- Should property performed in house or should there be a 3<sup>rd</sup> party hired.
- Are there conflicts if performed in house, no answer, just a question.
- However, it is done, need an A team, mistake if not an A team with good software, picking wrong property.
- Take your time and investigate before investing, too many go after the shing object and makes for a bad investment.

Wrap- up, Christy Fields Managing Principal, Head of Real Estate Portfolio Solutions, Meketa Investment Group, Gloria Gil, Senior Investment Officer, Real Estate, Oregan State Treasury, Kristin Kostrzewa, Associate Portfolio Manager, The University of Chicago Office of Investments.

- There are many challenges and uncertainty going forward.
- A strong need for great asset management.
- More people are less optimistic after listening to all the conferences' input.
- Basel III is the end game; Basel III was not described.
- All income levels are moving to many different locations.
- Artificial Intelligence is a tool but not an end all.

#### WHAT IS THE 'BASEL III' ENDGAME?

The Basel Committee on Banking Supervision is a panel convened by the Bank for International Settlements (BIS) in Basel, Switzerland, which aims to ensure regulators globally apply similar minimum capital standards so that banks can survive loan losses during tough times.

The committee's "Basel III" standard was agreed after the 2007-09 global financial crisis. It includes numerous capital, leverage and liquidity requirements. Regulators across the world have worked for years to implement many of those standards, and the so-called "endgame," agreed in 2017, is the final iteration.

The "endgame" proposal refines Basel's approach to setting capital based on the riskiness of banks' activities. The U.S. proposal will tackle several major components, including credit, market and operational risks.

#### **CREDIT RISK**

U.S. regulators are expected to end banks' ability to use their own internal risk models when determining how much capital should be held against lending activities, like mortgages or corporate loans.

Federal Reserve Vice Chair for Supervision Michael Barr said those internal models can often underestimate risk, as banks are incentivized to keep their capital costs low. Instead, regulators are expected to impose uniform modeling standards across large banks.

#### MARKET RISK

Similarly, the proposal is expected to establish new requirements for how banks gauge the risk posed by swings in the markets and potential losses from trading. Regulators say these trading risks are currently being understated.

When assessing these risks, banks will be permitted to continue using internal models approved by regulators, although Barr has said standardized models may be required for particularly complex risks. Banks will also have to model trading risks at the level of the individual trading desk, as opposed to at an aggregate level.

All told, the changes are expected to result in higher capital requirements for banks with large trading operations.

#### OPERATIONAL RISK

Gauging operational risk is a key new area of the Basel Endgame. This refers to the potential losses banks could face from unexpected sources, such as failed internal policies, management mistakes, litigation costs or external events.

Similar to credit risk, regulators are looking to replace existing internal models with a standardized approach, which would take into account a bank's various activities and historical operational losses when calculating capital levels.

Banks have warned this approach could lead to significantly higher costs for some banks that rely heavily on non-interest fee income, such as credit card and investment banking fees. Those fees are included in a formula used to help calculate operational risk, and banks warn it could lead to disproportionately higher capital requirements for some firms if not capped.

#### WHY ARE BANKS UPSET?

While the rules have been years in the making, banks had hoped U.S. regulators would offer capital relief elsewhere in their rule book. They argue banks are well-capitalized, having withstood the COVID-19 pandemic and regularly clearing the Fed's annual stress tests, and any capital hikes are unjustified.

Randal Quarles, the Fed's former top regulator, previously warned that full implementation of the Basel accord could lead to capital hikes of up to 20% for some large banks. Barr said this month that most banks already have enough capital to meet the requirements, and those that need to raise funds could do so by retaining earnings for less than two years while still paying dividends.

But current regulators, all Democrats chosen by President Joe Biden, have shown little appetite to go easy on Wall Street. They have pointed to the failure of three lenders earlier this year as evidence they need to be as vigilant as ever.



#### 2024 Visions, Insights & Perspectives (VIP) Americas

JANUARY 22 - 24, 2024 | PARK HYATT AVIARA | CARLSBAD, CA

### Due to great popularity and demand for the event, regrettably registration is now only open to Investors and Consultants.

As a reminder, IREI does not permit any side meetings, at any time during our scheduled program. Additionally, the attendee list should not be utilized for marketing purposes, of any type, nor should it be used for distribution. These are both a violation of IREI's events policy and we reserve the right to rescind any future attendance.

#### Monday, January 22, 2024

3:30 pm **Registration Opens** 

4:00 pm Springboard Alumni Mixer

5:00 pm Fireside Chat: Investor Perspectives & Mixer

Moderated panel discussion with advisory board members regarding key themes, topics and questions to set the stage for program discussions.

#### **Moderator(s):**



**Tom Parker** 

Executive Vice President and Publisher, Institutional Real Estate, Inc.

#### Speaker(s) and Panelist(s):



John Baczewski

Founder & President, Real Estate Fiduciary Services, LLC



**Christy Fields** 

Managing Principal, Head of Real Estate Portfolio Solutions, Meketa Investm Group



Gloria Gil

Senior Investment Officer, Real Estate, Oregon State Treasury



Kristin M. Kostrzewa

Associate Portfolio Manager, The University of Chicago Office of Investments

6:30 pm **Adjourn** 

#### Tuesday, January 23, 2024

6:30 am **Registration Reopens** 

7:00 am **Networking Breakfast** 

8:00 am Welcome Remarks & Overview

Moderator(s):



**Geoffrey Dohrmann** 

Executive Chairman and CEO, Institutional Real Estate, Inc.



**Loretta Clodfelter** 

Editorial Director, Institutional Real Estate, Inc.



**Tom Parker** 

Executive Vice President and Publisher, Institutional Real Estate, Inc.

8:45 am **Keynote: The Most Aggressive Fed in History** 

**Speaker(s) and Panelist(s):** 



**Danielle DiMartino Booth** 

CEO & Chief Strategist, QI Research

9:15 am **Keynote Interview Moderator(s):** 



**Anar Shah** 

Vice President, Capital Formation Lionstone Investments



Each table will have a group leader as a facilitator and will help the table pick one of several keynote topics and related questions to discuss.

#### **Moderator(s):**



**Loretta Clodfelter**Editorial Director, Institutional Real Estate, Inc.

10:00 am Roundtable Group Leader Reports

Group leaders will share a summary of their group's insights in an open forum discussion.

#### **Moderator(s):**



**Loretta Clodfelter**Editorial Director, Institutional Real Estate, Inc.



**John McClelland**Member, Board of Directors, Institutional Real Estate, Inc.

10:30 am **Networking Break** 

#### 11:00 am A Global Perspective: The World As Our Readers See It

William Pattison

Geoffrey Dohrmann, CRE, Executive Chairman & CEO of Institutional Real Estate, Inc., will share key themes and insights from our global editorial board meetings. He will then moderate a brief Q&A session with several thought leaders about global trends related to U.S. real estate market.

#### **Moderator(s):**



**Geoffrey Dohrmann**Executive Chairman and CEO, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**



**Stéphanie Bensimon**Member of the Executive Committee & Head of Real Estate, Ardian



Head of Real Estate Research & Strategy, MetLife Investment Management



**Albert Rabil, III**CEO, Kayne Anderson, CEO and Co-founder, Kayne Anderson Real Estate

Noon Wrap-Up Summary

12:15 pm "Grab 'n Go" Box Lunch

12:30 pm Afternoon Networking Activities Begin

12:30 pm: Depart for Brewery Tasting 1:00 pm: Golf, Sip & Paint, Hiking, Yoga

1:30 pm: Depart for Pickleball

6:00 pm Heavy hors d'oeuvres & cocktails

7:30 pm **Adjourn** 

1/31/24. 12:25 PM

#### Wednesday, January 24, 2024

7:00 am Registration Reopens & Networking Breakfast

8:00 am Global Capital Flow Trends

To set the stage for panel discussion, we will present data from our annual investor survey and IREI.Q, which will provide a macro perspective on real estate equity and debt capital-flows trends.

#### Moderator(s):



**Tom Parker** 

Executive Vice President and Publisher, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**



**Robert Bloom** 

Managing Principal, Walton Street Capital



**Randall Rothschild** 

Senior Managing Director, Global Head of Debt, Tishman Speyer



**Simon Treacy** 

CEO, Private Equity Real Estate, Real Assets, CapitaLand Investment

### 8:45 am Keynote: Al & Humanity Speaker(s) and Panelist(s):



**Jeremy White** 

Senior Innovation Editor, Wired



9:30 am

#### **Roundtable Group Discussions**

#### Moderator(s):



**Loretta Clodfelter**Editorial Director, Institutional Real Estate, Inc.

10:00 am

#### **Roundtable Group Leader Report**

#### **Moderator(s):**



**Loretta Clodfelter**Editorial Director, Institutional Real Estate, Inc.



**Lester Lockwood**Member, Board of Directors, Institutional Real Estate, Inc.

10:30 am

#### **Networking Break**

11:00 am

#### Insurance & Increased Weather Volatility: How its impacting real estate risk, costs and returns

- A review of strengths and limitations of climate models.
- A look at the numbers: odds and probabilities of various types of climate risks
- A look at cost trends related to real estate valuations and returns.

#### **Moderator(s):**



**Loretta Clodfelter**Editorial Director, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**



**TJ Hofheimer**Managing Director, Portfolio & Asset Management, National Real Estate Advisors



**Rajeev Ranade**Partner, Climate Core Capital



- What are the fundamental drivers of current and future migration shifts in the United States between different states and cities?
- Where are we in this cycle, and what are some red flags to watch for future shifts?
- What types of real estate strategies and cities will benefit the most moving forward in these growing states and cities?

#### **Moderator(s):**



**Lester Lockwood**Member, Board of Directors, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**



**Russell Appel**Founding Principal, The Praedium Group



**Drew Flahive**President, Amherst



**Brian Nottage, PhD, CFA**Managing Director, Portfolio Manager, Strategic Property Fund, J.P. Morgan Asset Management

12:30 pm **Lunch** 

#### 1:30 pm **Driving Demand: Tenant views for office**

- What's in, what's out and why?
- Where are we in the cycle related to these trends?
- What are some red flags to watch in the future regarding trend shifts?
- What are valuation and return ranges for trophy office and mixed-use?

#### **Moderator(s):**



**Geoffrey Dohrmann**Executive Chairman and CEO, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**

#### **Albert Behler**

Chairman, CEO & President, Paramount Group





**Richard A.C. Coles**Founder & Managing Partner, Vanbarton Group, LLC



**Sondra Wenger**Head of Americas Commercial Operator Division, CBRE Investment Management

#### 2:15 pm Al & Real Estate: What's hype? What's real?

- How did we get here and where are we headed?
- What are the challenges, strengths and limitations of using AI in real estate?
- How is AI being utilized now in portfolio management and asset management (underwriting, valuations, tenant tracking and servicing, etc.)?

#### **Moderator(s):**



**Dan Cashdan**President, Equity Placement Platform Leader, Jones Lang LaSalle Securities, LLC

#### **Speaker(s) and Panelist(s):**



**Dr. Will McIntosh**Global Head of Research, Affinius Capital



**Brandon Sedloff**Managing Director, Juniper Square



**Chris Shaida** CEO - Enterprise, RealFoundations

#### 3:00 pm Creating Value Across Strategies & Sectors: How operation teams drive returns



• How much can these areas help drive valuations & returns?

• What types of strategies and sectors offer the most and least amount of opportunity to add value operationally?

#### **Moderator(s):**



**John McClelland**Member, Board of Directors, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**



**Vernon Chin**Senior Managing Director, Lincoln Property Company



**Joey Lansing**Partner, Global Head of Portfolio Management and Strategy, Harrison Street



**Ryan Swehla**Co-CEO & Co-Founder, Graceada Partners

3:45 pm Advisory Board Wrap Up Forum & Closing Remarks
Moderator(s):



**Geoffrey Dohrmann**Executive Chairman and CEO, Institutional Real Estate, Inc.



**Loretta Clodfelter**Editorial Director, Institutional Real Estate, Inc.



**Tom Parker**Executive Vice President and Publisher, Institutional Real Estate, Inc.

#### **Speaker(s) and Panelist(s):**



**John Baczewski**Founder & President, Real Estate Fiduciary Services, LLC



Christy Fields

Managing Principal, Head of Real Estate Portfolio Solutions, Meketa Investment Group





**Gloria Gil**Senior Investment Officer, Real Estate, Oregon State Treasury



**Kristin M. Kostrzewa**Associate Portfolio Manager, The University of Chicago Office of Investments

4:15 pm **Adjourn (until evening activities)** 

6:30 pm Gala Cocktail Reception

7:30 pm **Gala Dinner** 

9:30 pm Optional: After Dinner Networking

#### See you in 2025!



<sup>\*</sup>Agenda subject to change



### Global perspective panel discussion

#### **Moderators:**

**Geoffrey Dohrmann** 

Executive Chairman and CEO Institutional Real Estate, Inc.



#### Panelists:

**Stéphanie Bensimon** - Member of the Executive Real Estate, Ardian **William Pattison** - Head of Real Estate Research & Strategy, MetLife Investment Management

**Albert Rabil, III** - CEO, Kayne Anderson; CEO and Co-founder, Kayne Anderson Real Estate



### 2024 Theme Words

- Valuations & Transaction **Activity** 
  - Climate Risk & ESG
- Asset Allocation & the **Denominator Effect**

- Core vs. Non-Core Investment
- Dealing with existing holdings
   The Office Sector

Debt Investment

- Operating Expenses & Rising Costs
- Funds vs. JVs & Other **Structures**

Debt Management

International Investment

- Property Sectors & Market **Considerations**
- AI & Technology

- Macro Factors & Recession Concerns
- Relationships



### **Global Capital Flow Trends**

#### **Moderator:**

**Tom Parker** - Executive Vice President and Publisher, Institutional Real Estate, Inc.

#### **Panelists:**

**Robert Bloom** - Managing Principal, Walton Street Capital **Randall Rothschild** - Senior Managing Director, Global Head of Debt,

Tishman Speyer

**Simon Treacy** - CEO, Private Equity Real Estate, Real Assets, CapitaLand Investment



## Insurance & Increased Weather Volatility: How it's impacting real estate risk, costs, returns

#### **Moderator:**

**Loretta Clodfelter** 

Editorial Director Institutional Real Estate, Inc.

#### **Panelists:**

**TJ Hofheimer** - Managing Director, Portfolio & Asset Management, National Real Estate Advisors

Rajeev Ranade - Partner, Climate Core Capital



## Demographic Trends: What's driving shifts to various cities & states across US?

#### **Moderator:**

**Lester Lockwood** 

Member, Board of Directors Institutional Real Estate, Inc.

#### **Panelists:**

Russell Appel - Founding Principal, The Praedium Group

**Drew Flahive** - President, Amherst

Brian Nottage, PhD, CFA - Managing Director, Portfolio Manager, Strategic Property

Fund, J.P. Morgan Asset Management



### **Driving Demand: Tenant views for office**

#### **Moderator:**

**Geoffrey Dohrmann** 

Executive Chairman & CEO Institutional Real Estate, Inc.

#### **Panelists:**

Albert Behler - Chairman, CEO & President, Paramount Group
Richard A.C. Coles - Founder & Managing Partner, Vanbarton Group, LLC
Sondra Wenger - Head of Americas Commercial Operator Division, CBRE Investment
Management



## AI & Real Estate: What's hype? What's real?

#### **Moderator:**

#### **Dan Cashdan**

President, Equity Placement Platform Leader Jones Lang LaSalle Securities, LLC

#### **Panelists:**

Brandon Sedloff - Managing Director, Juniper Square
 Chris Shaida - CEO- Enterprise, RealFoundations
 Dr. Will McIntosh - Global Head of Research, Affinius Capital



## Creating Value Across Strategies & Sectors: How operators drive returns

#### **Moderator:**

John McClelland

Member, Board of Directors Institutional Real Estate, Inc.

#### **Panelists:**

**Vernon Chin** - Senior Managing Director, Lincoln Property Company

**Joey Lansing** - Partner, Global Head of Portfolio Management & Strategy, Harrison Street

Ryan Swehla - Co-CEO & Co-Founder, Graceada Partners

IREI.QDATABASE

# VIP Americas 2024 Closed-end fund offerings and capital fund raising update

#### **Tom Parker**

Executive Vice President and Publisher Institutional Real Estate, Inc.







### **Panel Discussion:**

### **Redefining Global Capital Flow Trends**

#### **Moderator:**

**Tom Parker** 

Executive Vice President and Publisher Institutional Real Estate, Inc.

#### **Panelists:**

Robert Bloom - Managing Principal, Walton Street Capital

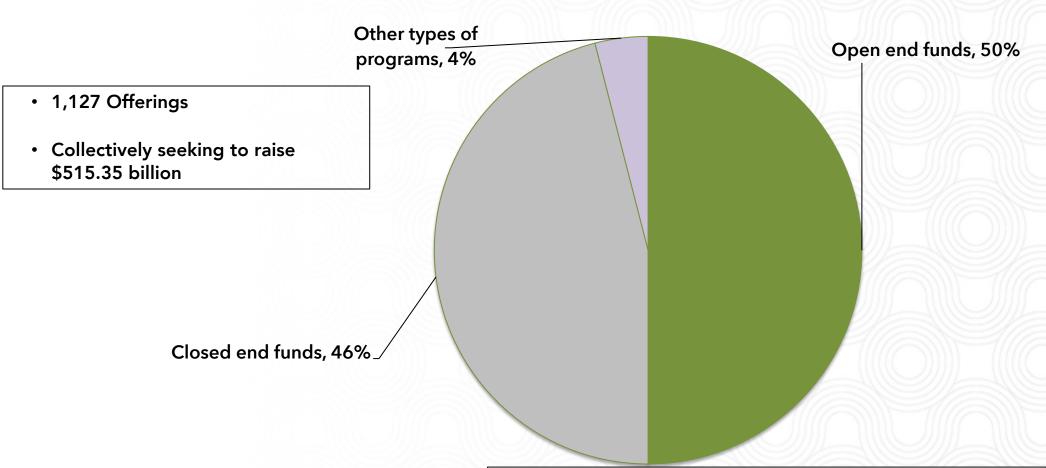
Randall Rothschild - Senior Managing Director, Global Head of Debt, Tishman Speyer

Simon Treacy - CEO, Private Equity Real Estate, Real Assets, CapitaLand Investment



## Investment offerings currently in the market

BY TYPE OF OFFERING



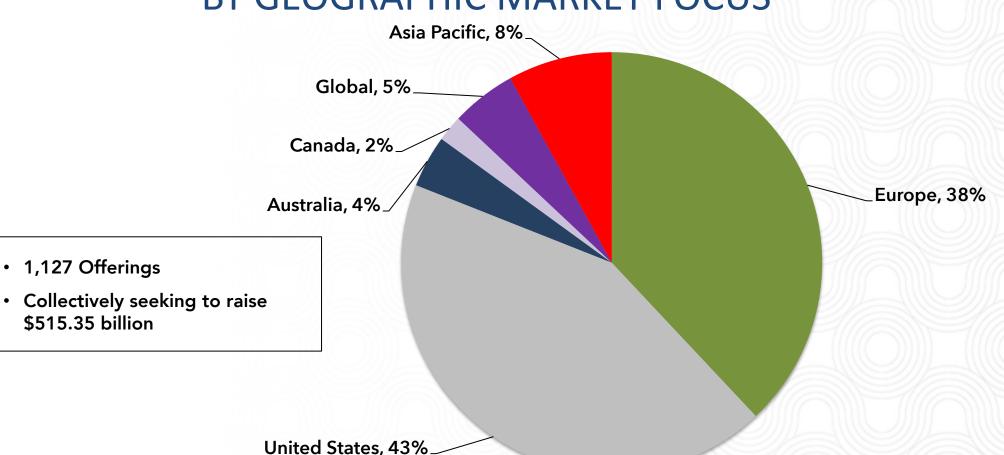
Source: Institutional Real Estate, Inc. IREI.Q Database

Closed-end fund holding periods: 3-8 years Open-end fund holding periods: 8-10+ years



## Investment offerings currently in the market

BY GEOGRAPHIC MARKET FOCUS



Source: Institutional Real Estate, Inc. IREI.Q Database

• 1,127 Offerings

\$515.35 billion



## Investment offerings closed and aggregate capital raised

(FINAL CLOSES ONLY)

PERIOD	# OF FUNDS	VOLUME (\$B)	
Q1/22	44	\$31.8	
Q2/22	41	\$26.2	
Q3/22	32	\$27.8	
Q4/22	46	\$51.9	
2022 Totals	163	\$137.7	
Q1/23	17	\$13.1	
Q2/23	24	\$54.7	
Q3/23	16	\$13.1	
Q4/23	9	\$9.4	
2023 YTD Totals	66 60% de	crease \$90.3 34% de	

Source: Institutional Real Estate, Inc. IREI.Q Database



## Largest investment offerings closed YTD 2023

FUND NAME	TOTAL RAISED	REGION
Blackstone Real Estate Partners X	\$30.40 billion	Global
EQT Exeter U.S. Industrial Value-Add Fund VI	\$4.80 billion	U.S.
NREP Nordic Strategies Fund V	\$4.06 billion	Europe
PIMCO Commercial Real Estate Debt Fund II	\$3.01 billion	Global
GAW Gateway Real Estate Fund VII	\$3.00 billion	Asia Pacific
These five funds alone raised	\$45.27 billion	50% of total

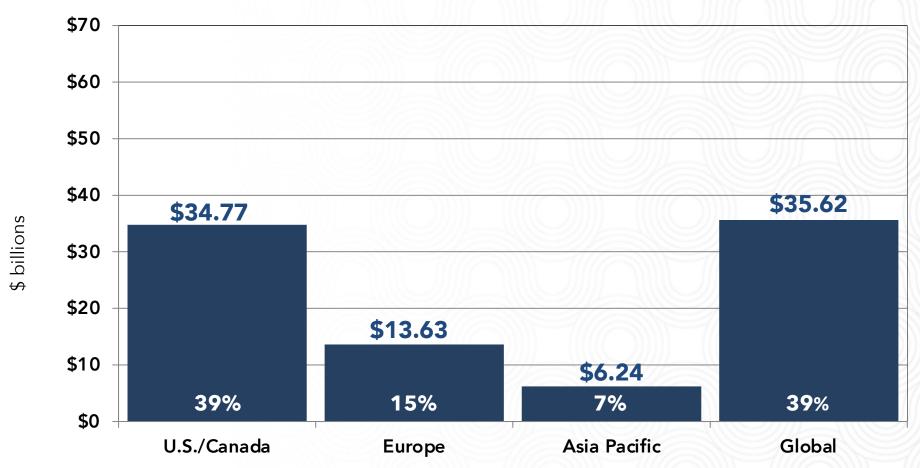
In 2022, five mega fund offerings have accounted only 29% of the total capital raised by all investment programs closing during that year.

Source: Institutional Real Estate, Inc. IREI.Q Database



## Investment offerings closed in Q1 2023 – Q4 2023

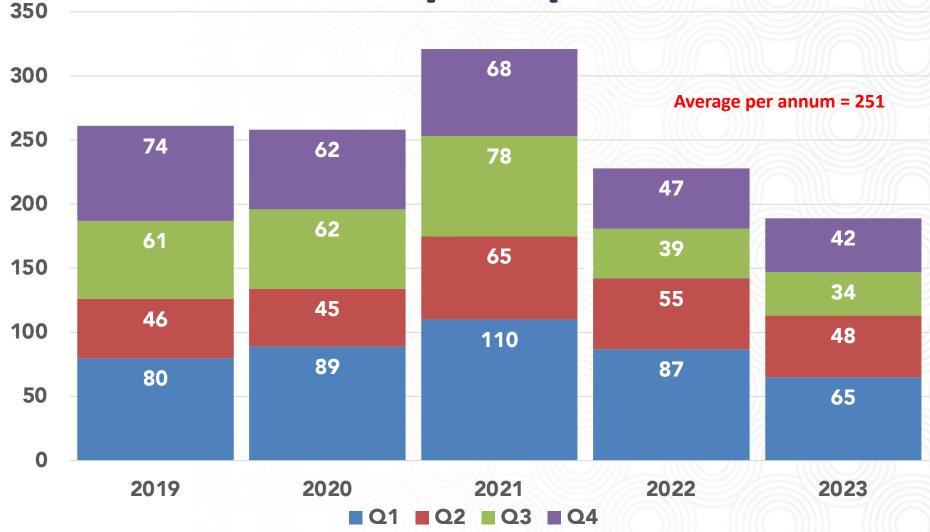
(\$ BILLION, BY GEOGRAPHIC FOCUS)



Source: Institutional Real Estate, Inc. IREI.Q Database



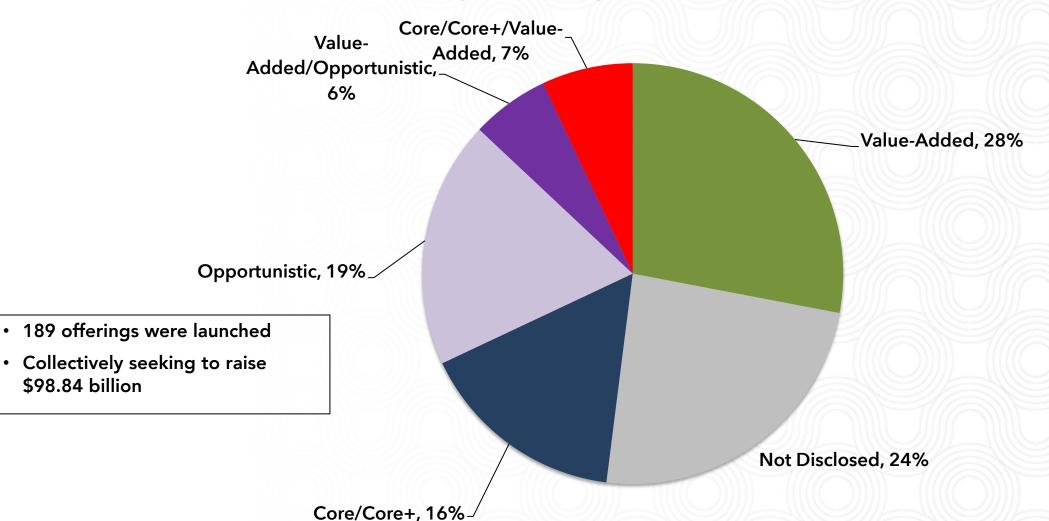
## Number of investment programs launched per quarter





### Investment offerings launched in 2023

#### BY INVESTMENT STYLE



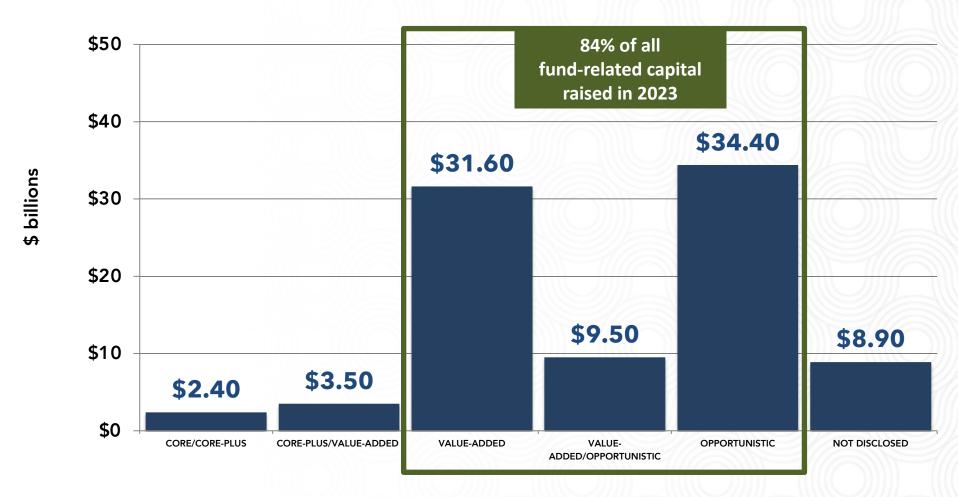
Source: Institutional Real Estate, Inc. IREI.Q Database

\$98.84 billion



### Investment offerings closed in Q1 2023 – Q4 2023

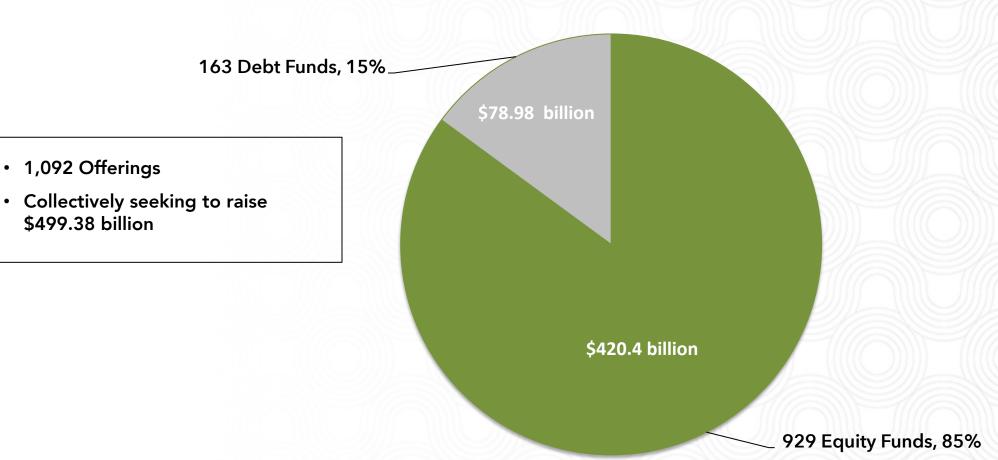
(\$ BILLION, BY INVESTMENT STYLE)





## Investment offerings currently in the market

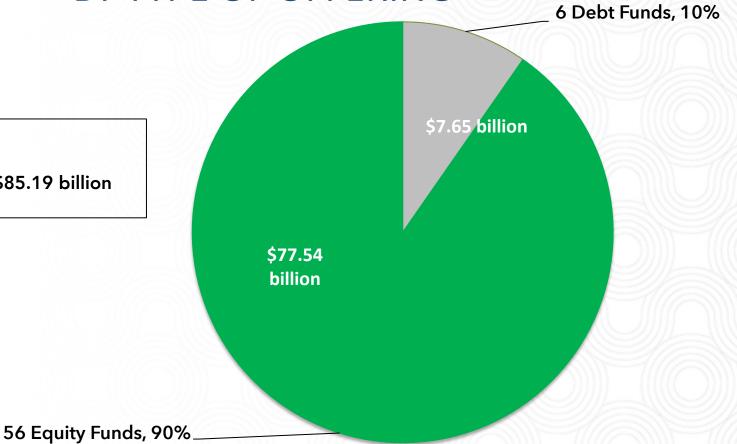
BY TYPE OF OFFERING





#### Investment offerings closed in 2023

BY TYPE OF OFFERING

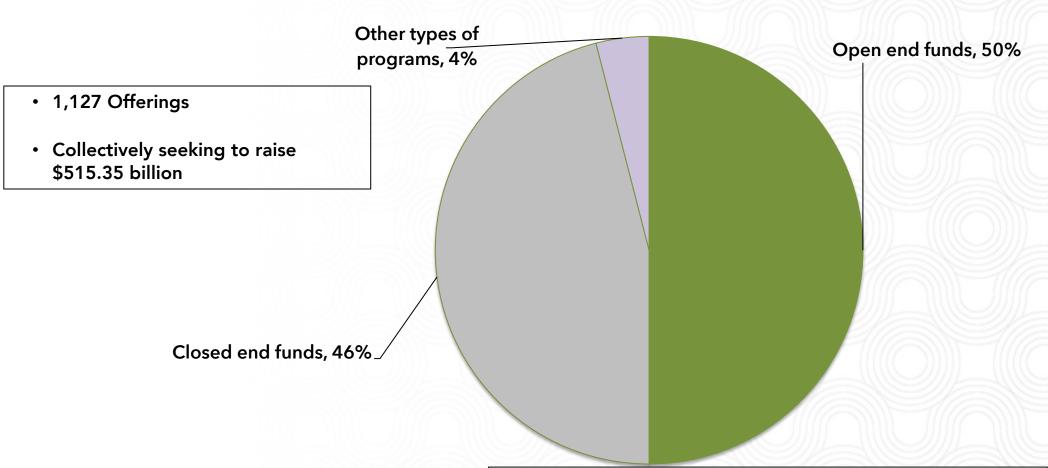


- 62 Offerings
- Collectively raised \$85.19 billion



### Investment offerings currently in the market

BY TYPE OF OFFERING



Source: Institutional Real Estate, Inc. IREI.Q Database

Closed-end fund holding periods: 3-8 years Open-end fund holding periods: 8-10+ years



#### The bottom line

- The number of offerings in the market in 2023 were below the averages for the past five-years
- The number of offerings in the market decreased in 2023 by 60% from 2022 levels
- Capital raised by closed-end fund offerings decreased from 2022 amounts by 34%
- 39% of offerings closed were targeting US and Canadian markets
- 84% of all offerings closed were targeting higher return strategies
- Five mega funds raised 50% of the capital
- The remaining 50% of the capital was raised by 61 smaller offerings



#### Thank you!

#### Danielle DiMartino Booth

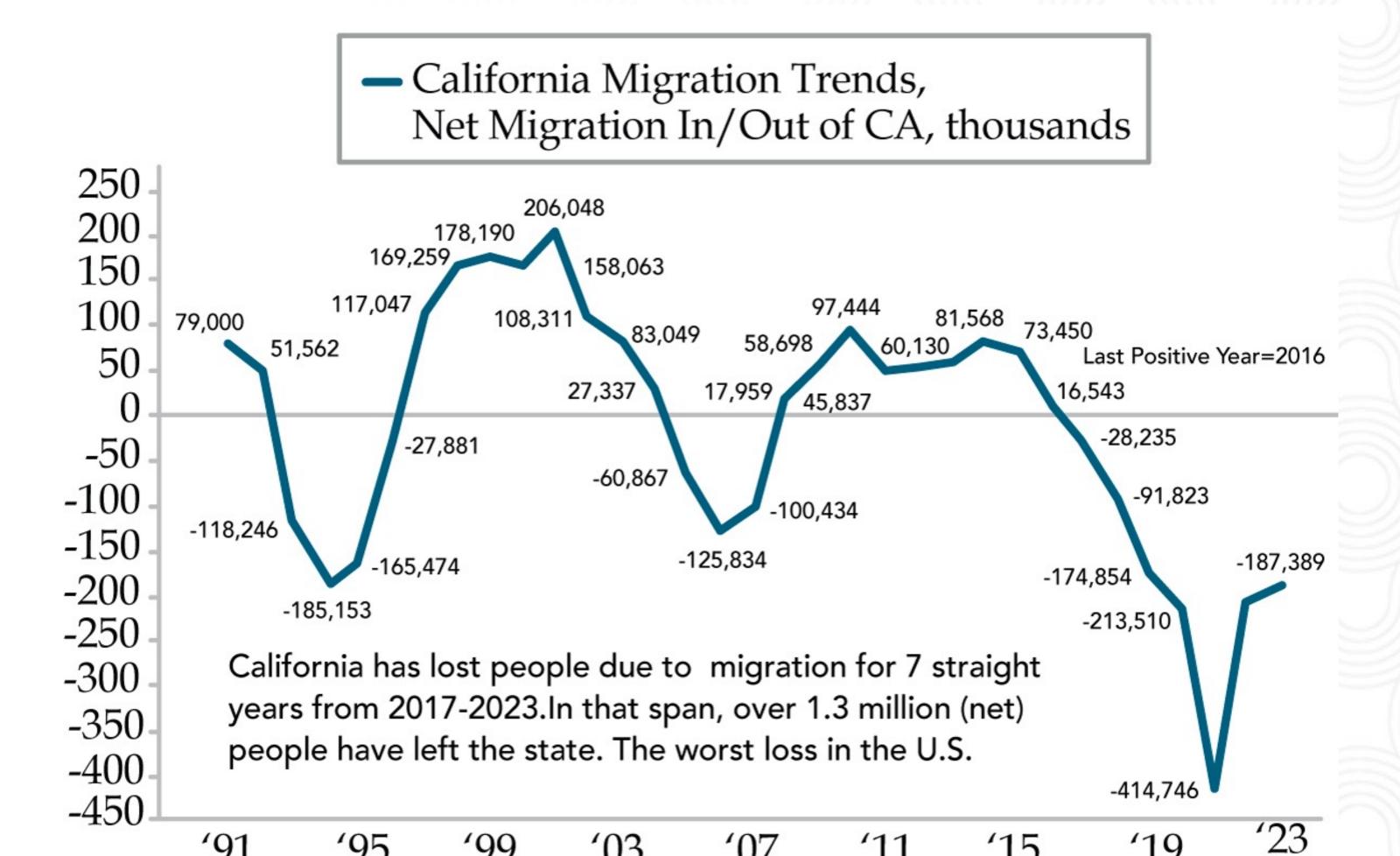
CEO & CHIEF STRATEGIST FOR QI RESEARCH







#### Fleeing the Golden State



Source: U.S. Census Bureau, Reventure Consulting

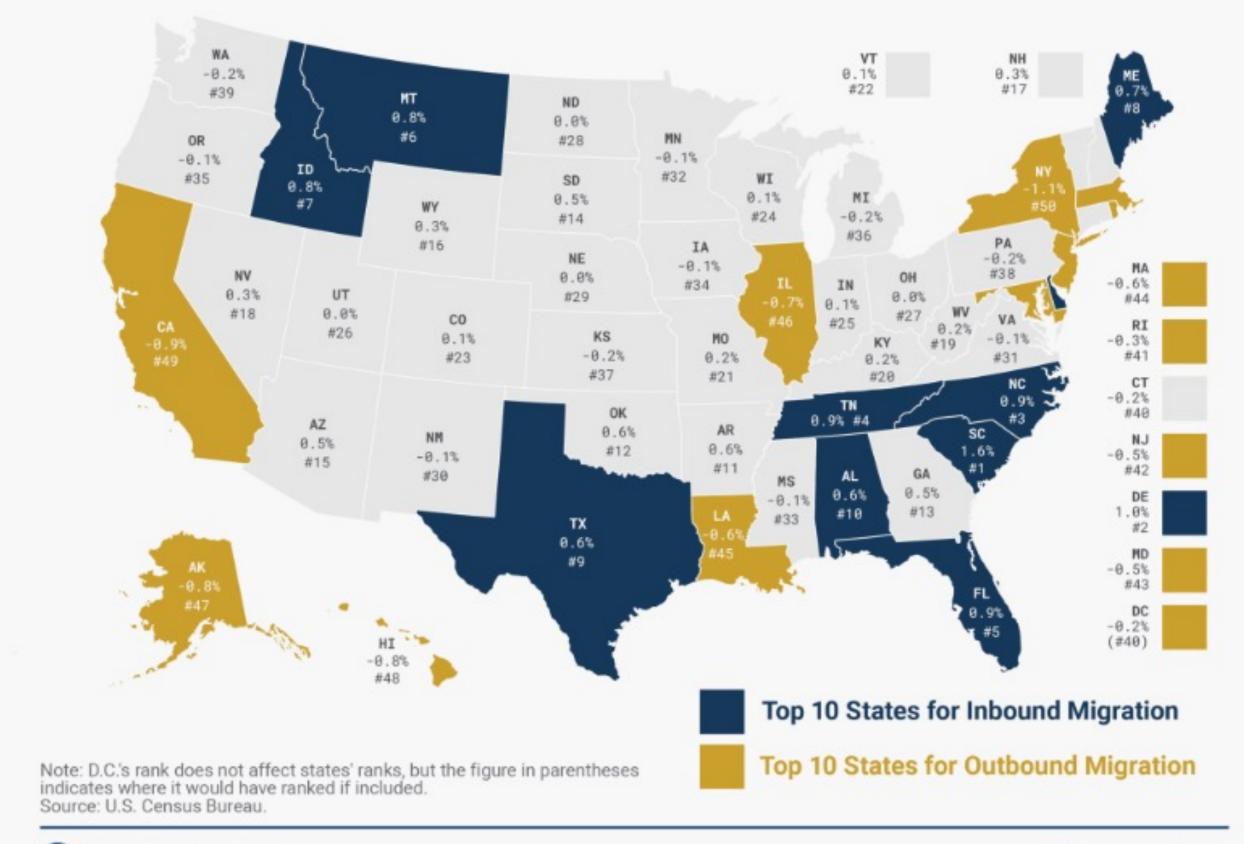




### California (NOT) Dreamin'

#### **State Population Changes in 2023**

State Net Population Changes from Interstate Migration, from Most Inbound to Most Outbound, FY 2023



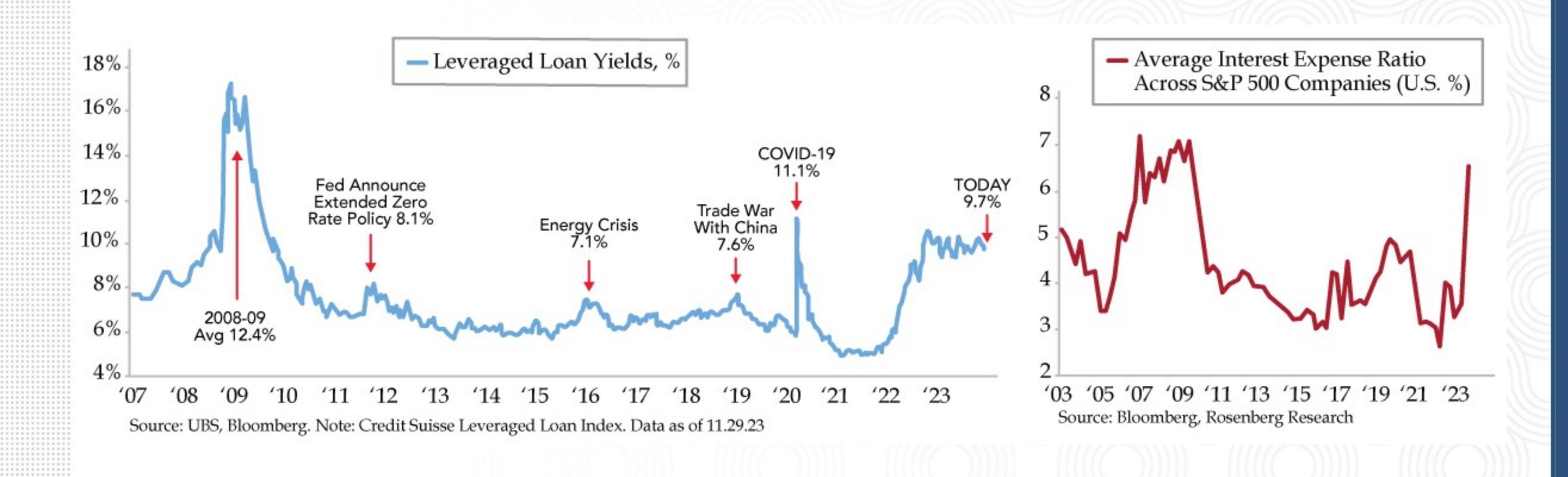








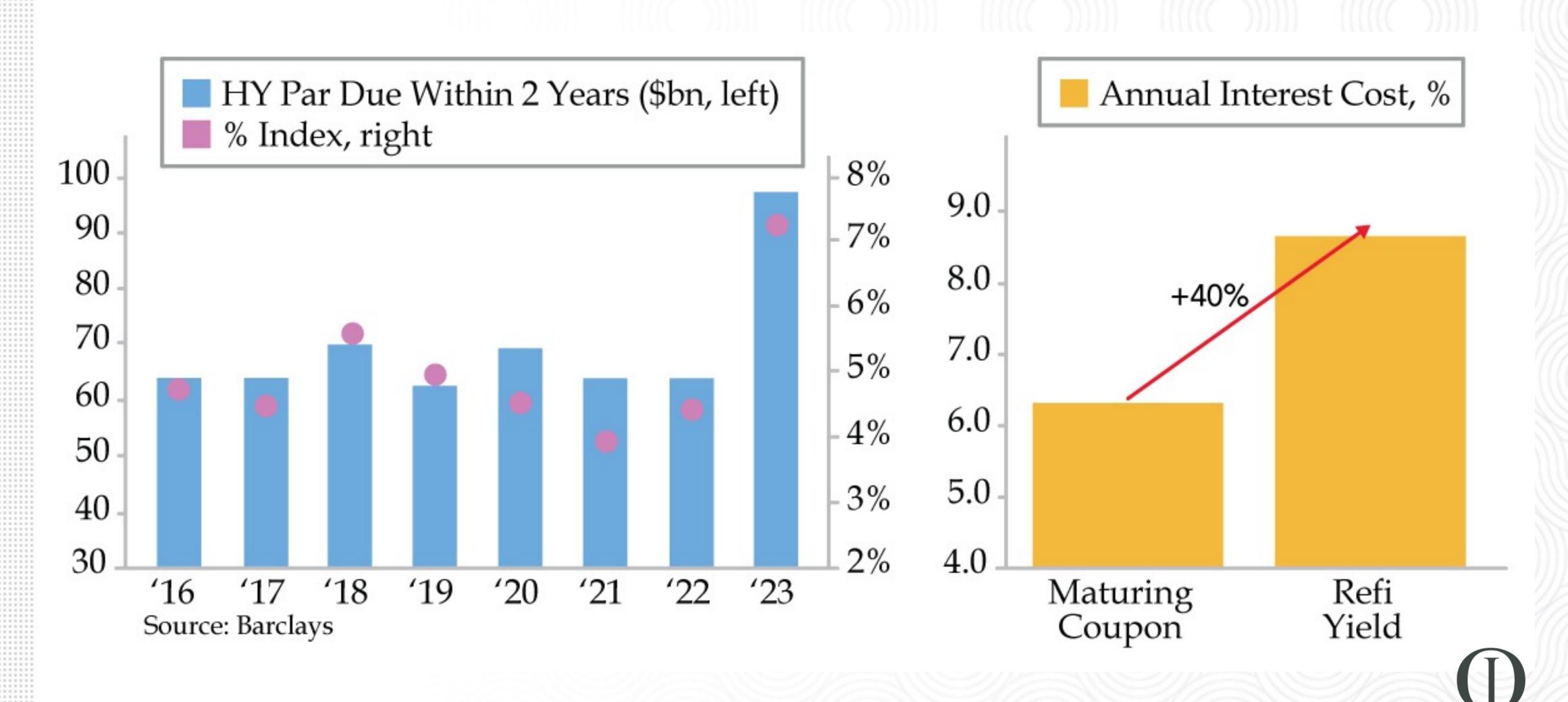
#### Will Higher Borrowing Costs Bite?





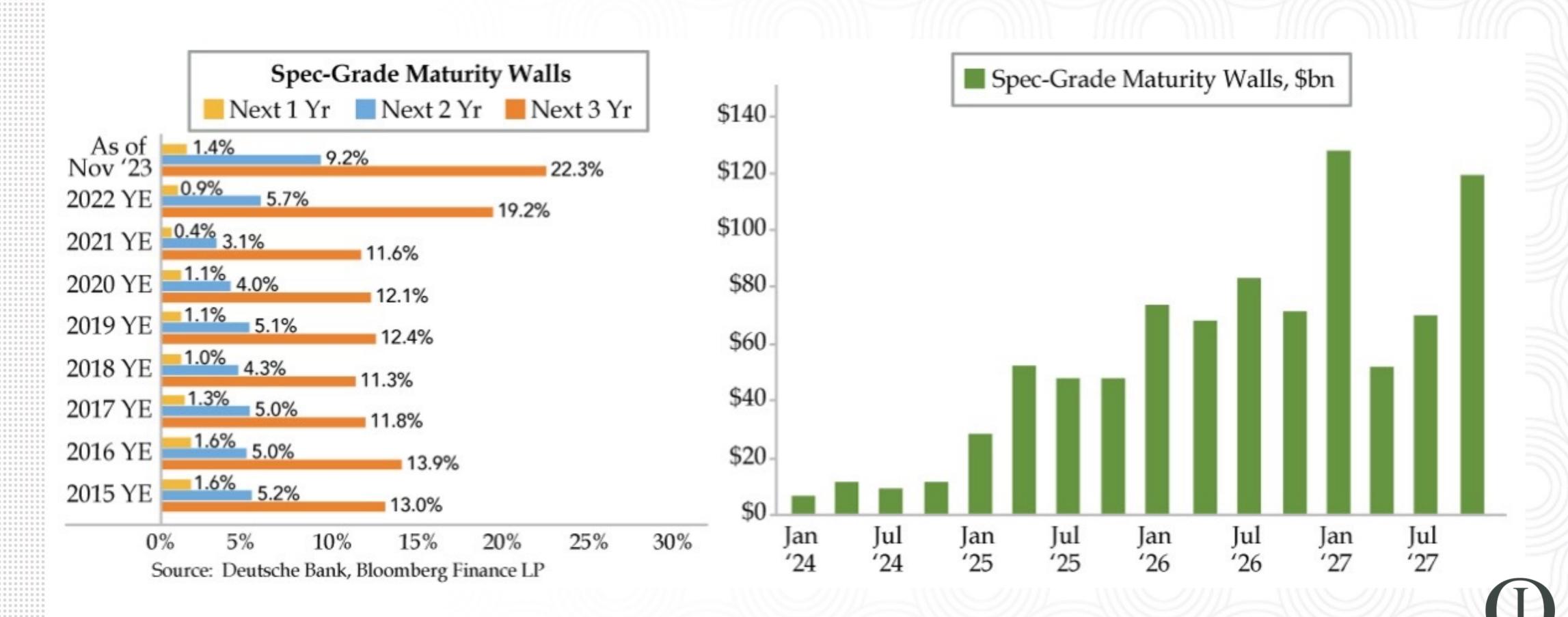


#### Junk in 2024's Trunk



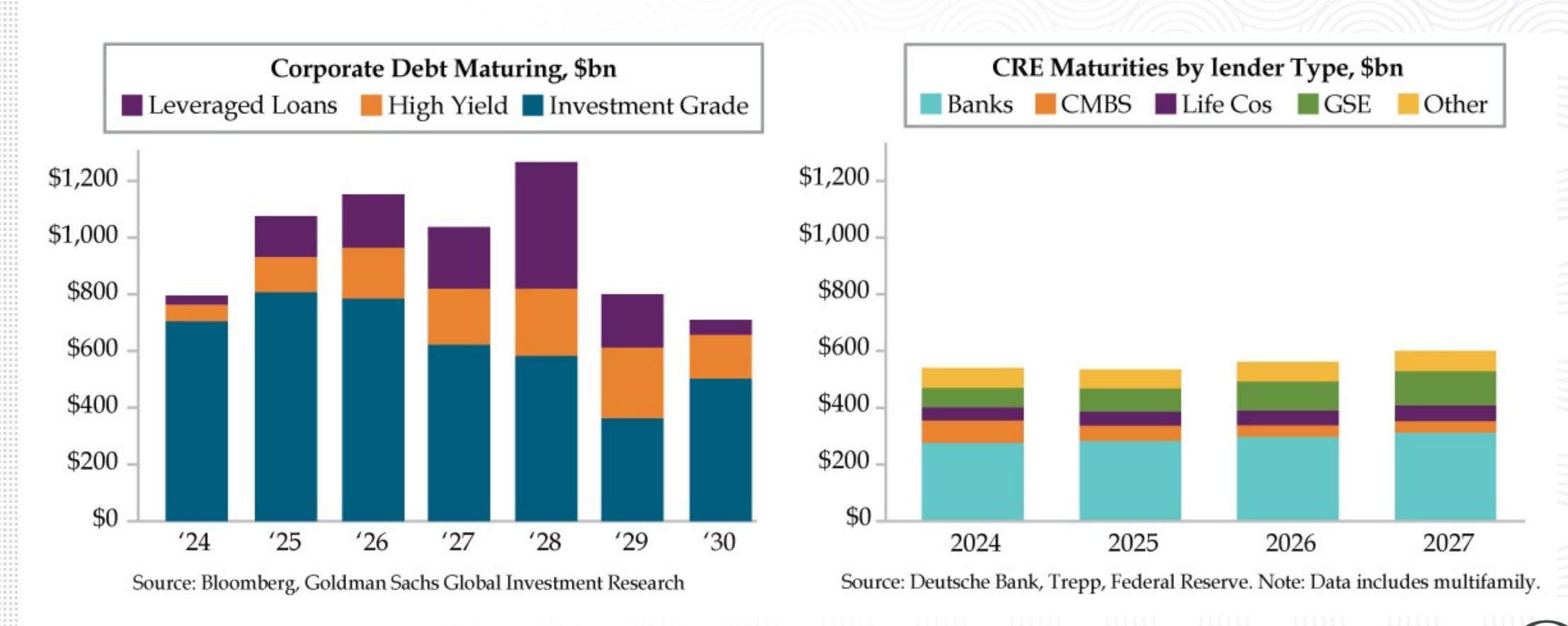


# Speculative U.S. Corporate Debt is Preemptively Refinanced a Year Out





# Corporate Debt Wall Overshadows That of Commercial Real Estate in 2024







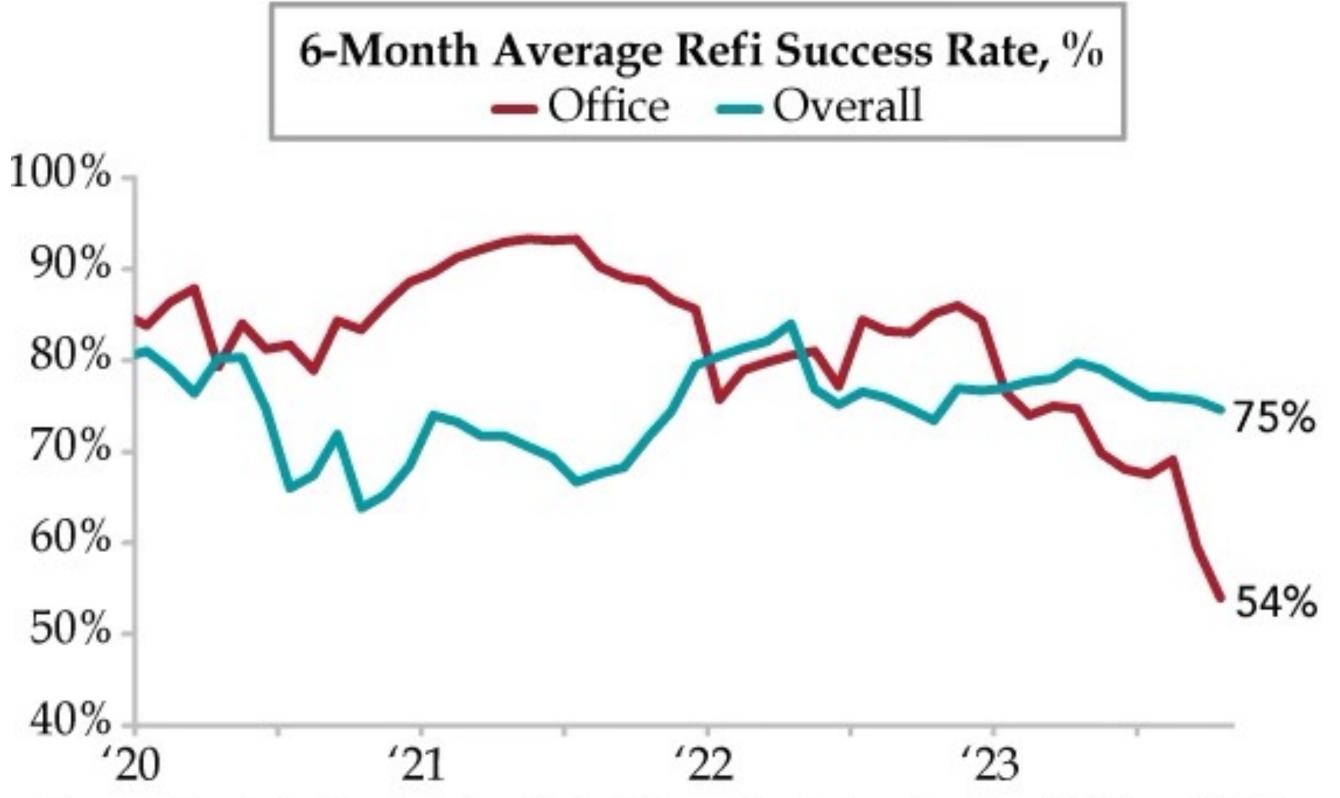
#### Pricey Repricing







#### Pictures of CRE Atrophy Don't Lie: The Market is Frozen

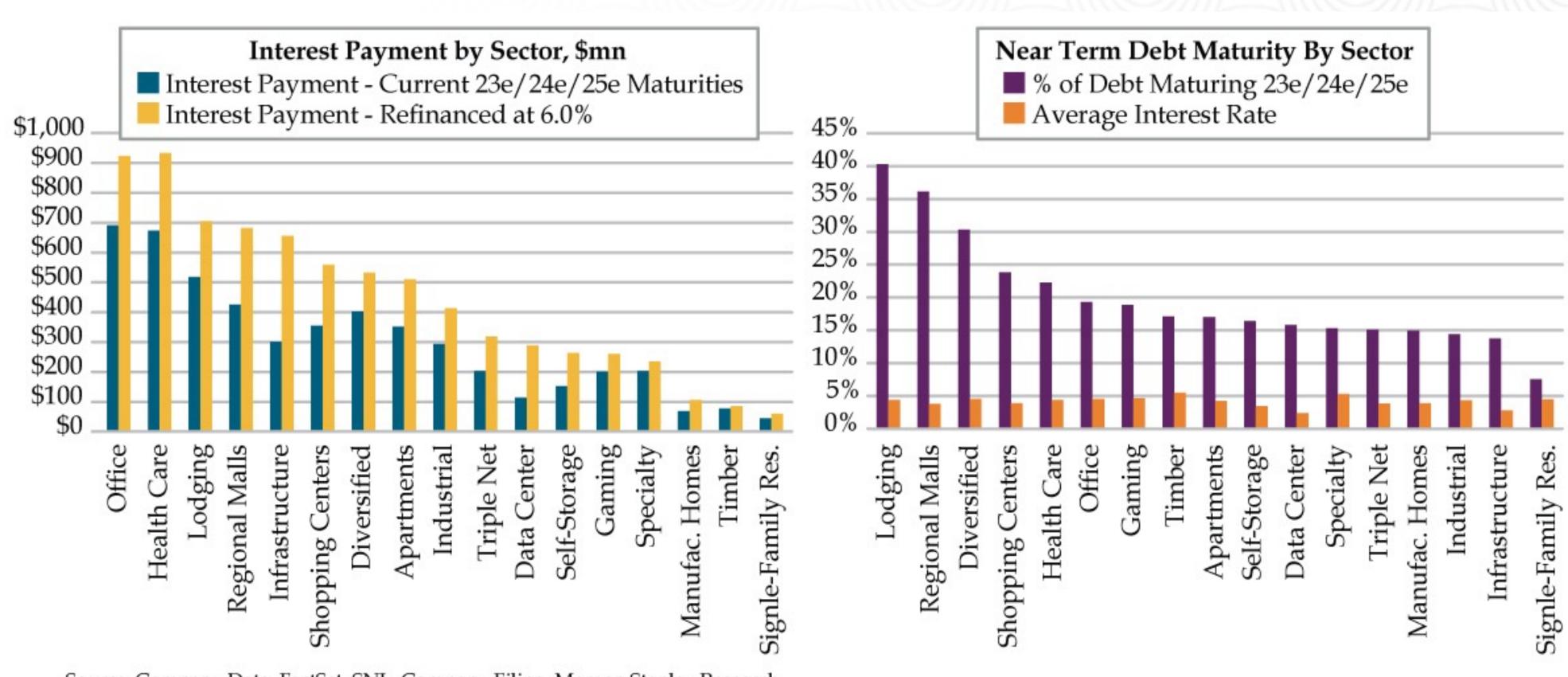


Source: Deutsche Bank, Intex. Note: Numerator is loan (original) balance NOT defaulted AND Payoff date within original maturity. Denominator is the original maturity balance. Calculation istrailing 6mo numerator/6mo denominator. Default: Loans paid off with status of FC Sold or REO sold and loss >=1% of original balance.





#### Office and Hotels at Highest Risk

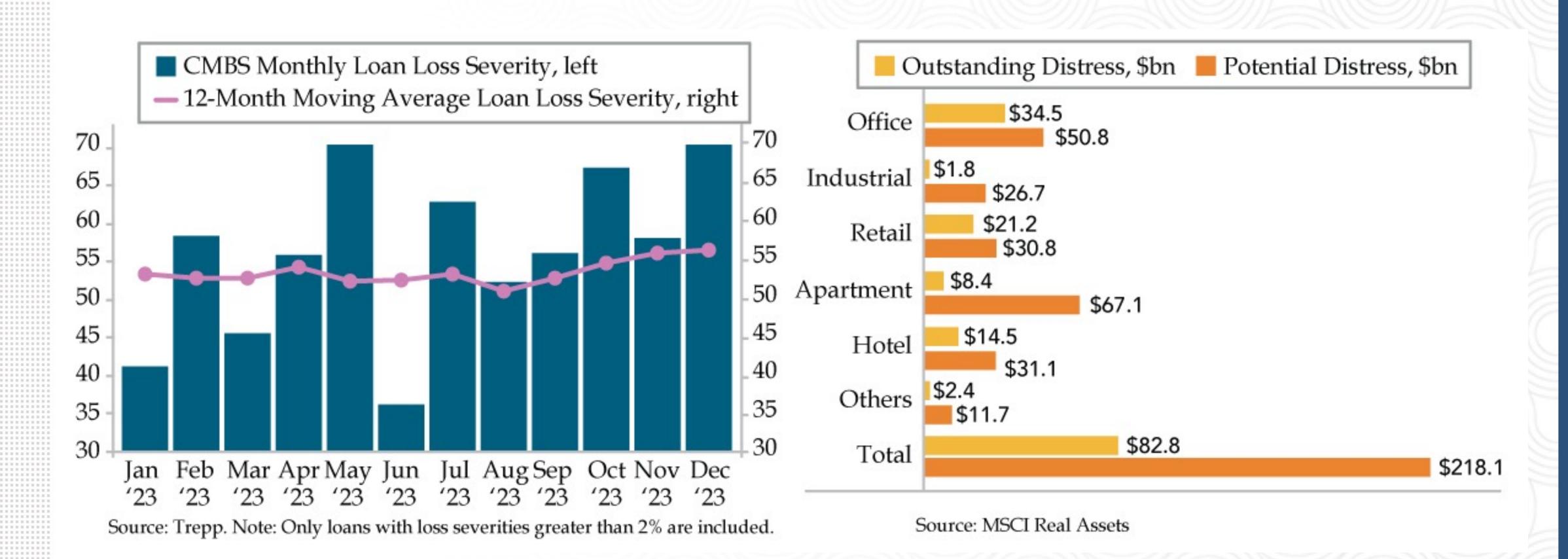








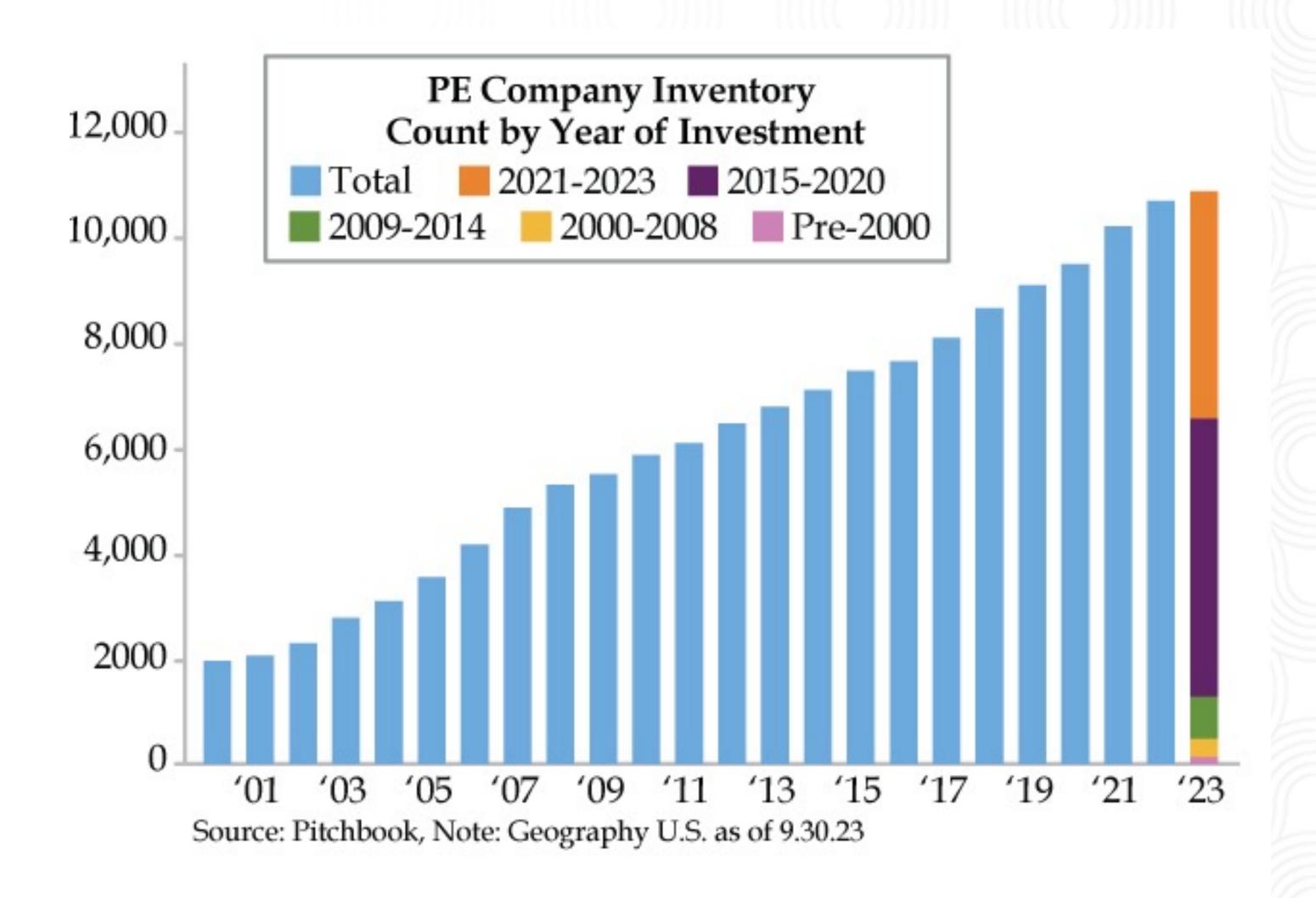
#### Stress-Testing Severities







#### Post-Pandemic Private Equity Ran off the Rails







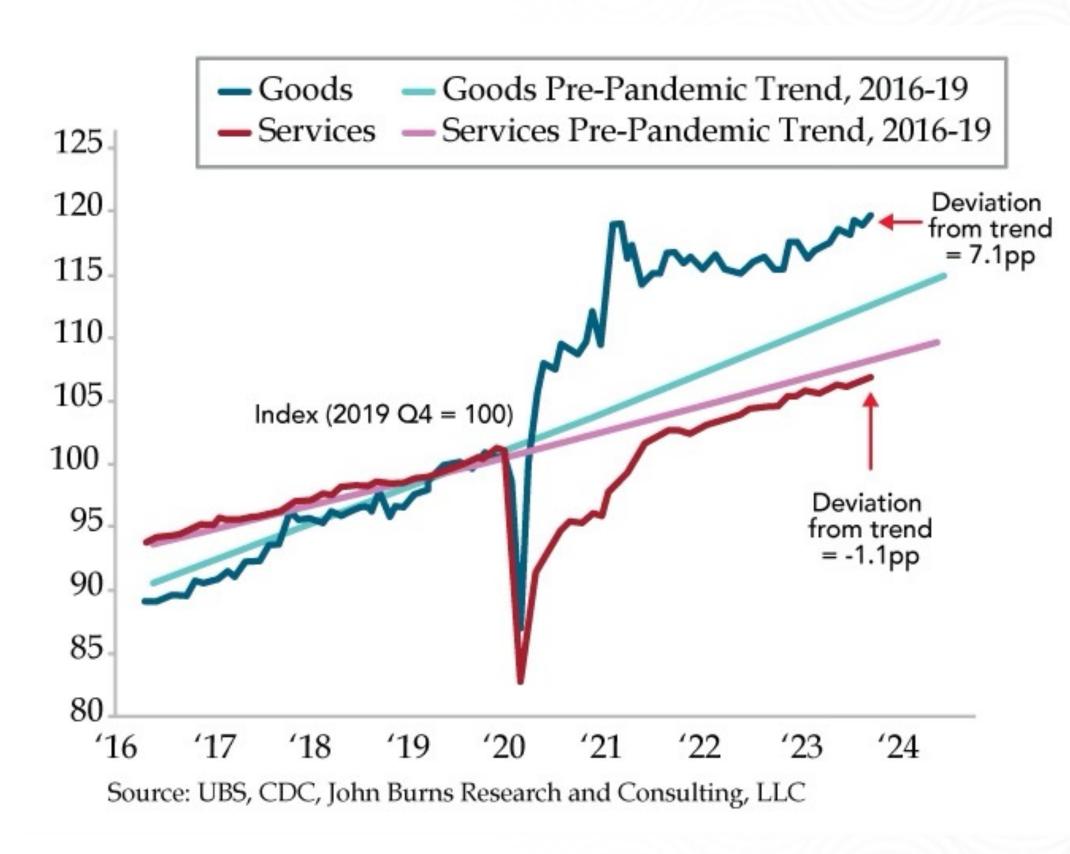
# Valuation Arguments Fall Flat When Bubbles Inflating

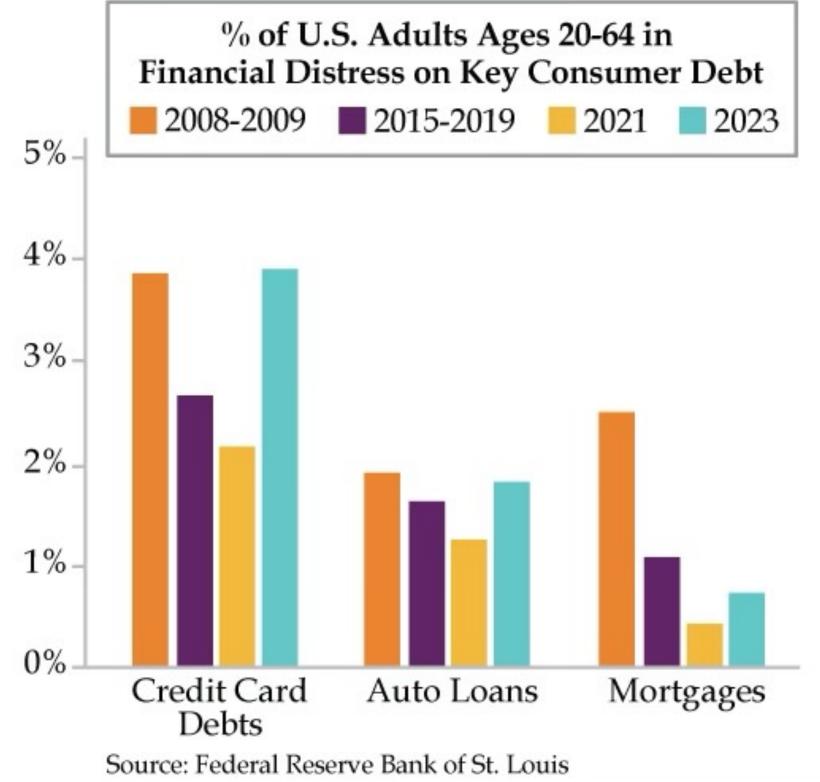






### Goods Demand Pulled Forward to Such an Extent, Consumer Distress at Records for Credit Cards and Autos Despite 3.7% Unemployment Rate

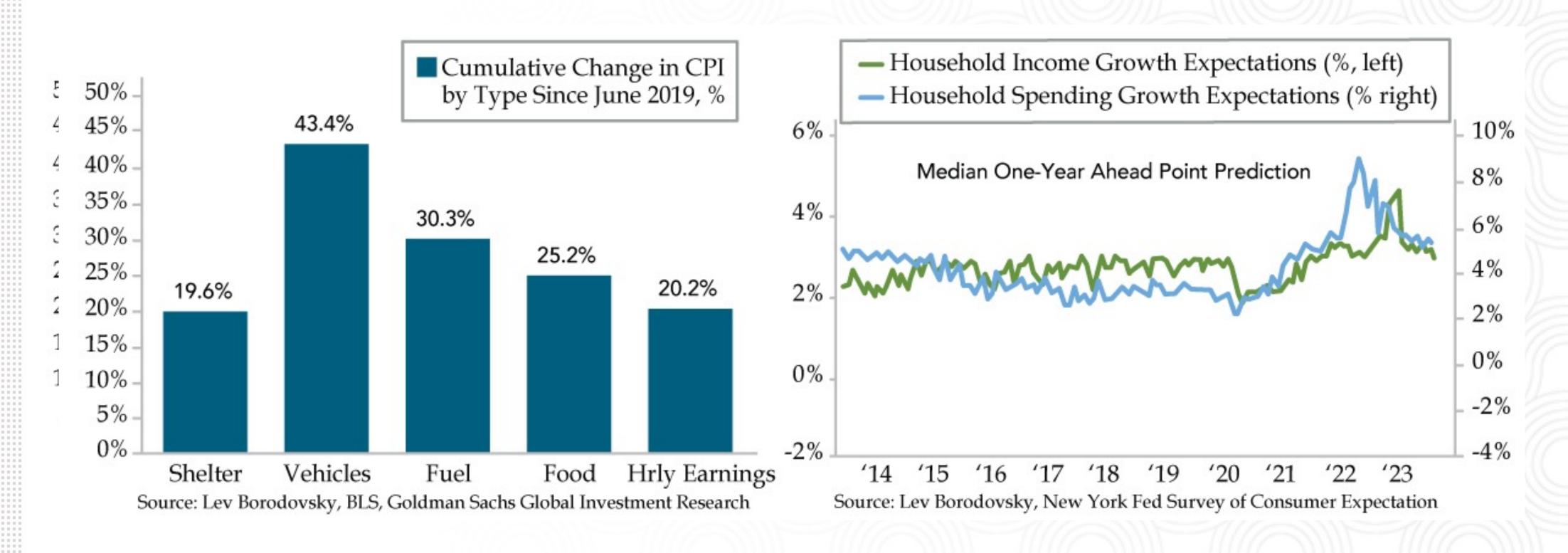








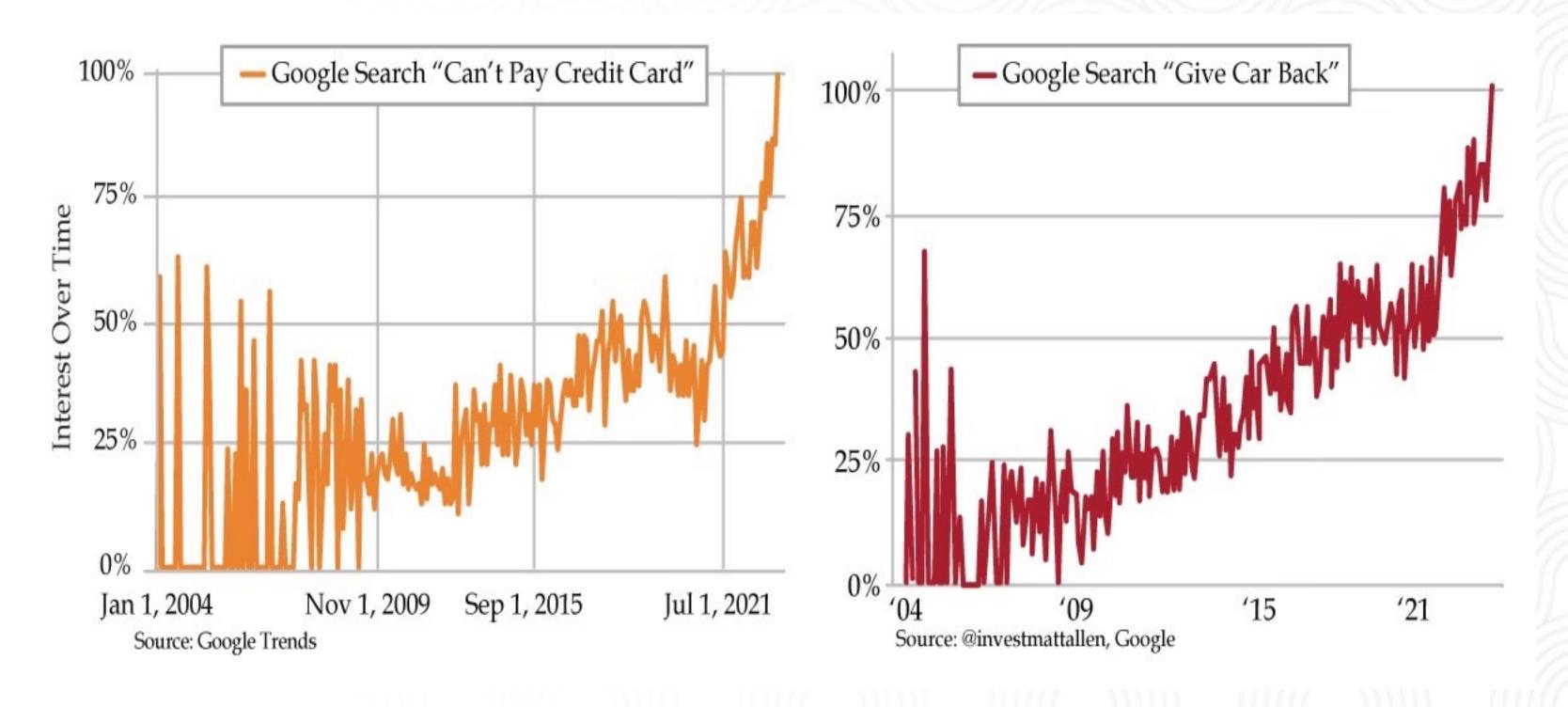
### Can't Keep Up + Job Prospects Weakening = Less Future Spending







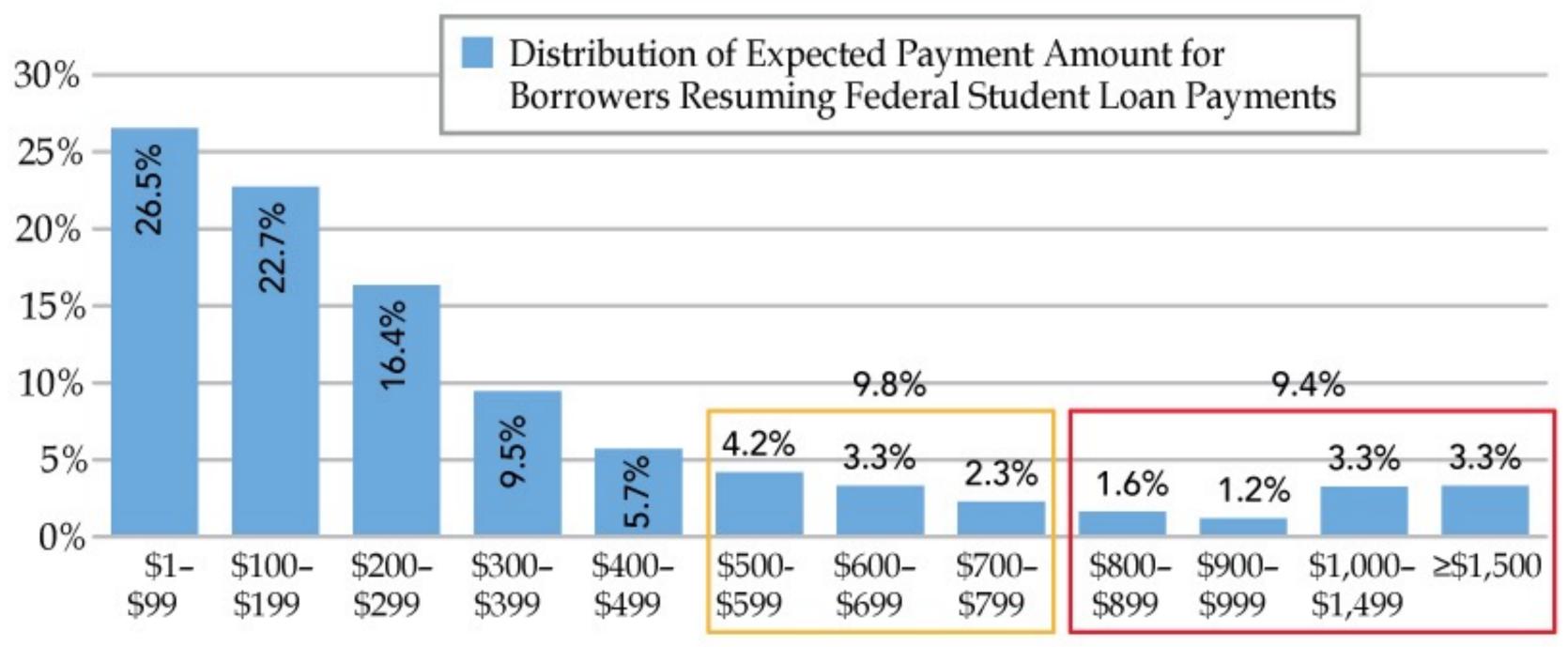
### Dispensing with "The Consumer is Strong" Narrative







# Who Makes the Bigger Difference to GDP? Those Who Renege, or Those Without the Luxury to Do So?



Source: TransUnion US consumer credit database. Data is as of May 31, 2023.





# The Top 20% & Top 40% Maintain a Vise Grip on U.S. Consumption

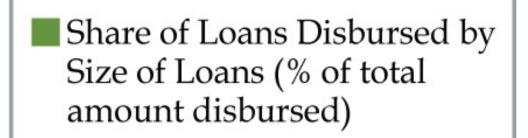
2022 Share of Consumer Spending		Top 20% 2022 Share of Consumer Spendin		22 Share of Consumer Spending	Top 40%
Total Expenditures		38.6%	38.6% Total Expenditures		61.1%
1	Personal services for household operation	58.2%	1	Personal services for household operation	79.9%
2	Fees and admissions	55.9%	2	Fees and admissions	77.5%
3	Education	55.1%	3	New cars and trucks	74.0%
4	Other lodging (not owned or rented)	54.9%	4	Other lodging (not owned or rented)	73.9%
5	Floor coverings	52.9%	5	Mortgage interest and charges	72.9%
6	Other entertainment supp., equip., and servs	. 52.8%	6	Education	72.8%
7	New cars and trucks	52.0%	7	Public and other transportation	70.8%
8	Public and other transportation	50.7%	8	Floor coverings	70.7%
9	Furniture	50.4%	9	Other entertainment supp., equip., and servs	. 69.7%
10	Mortgage interest and charges	48.2%	10	Furniture	69.6%

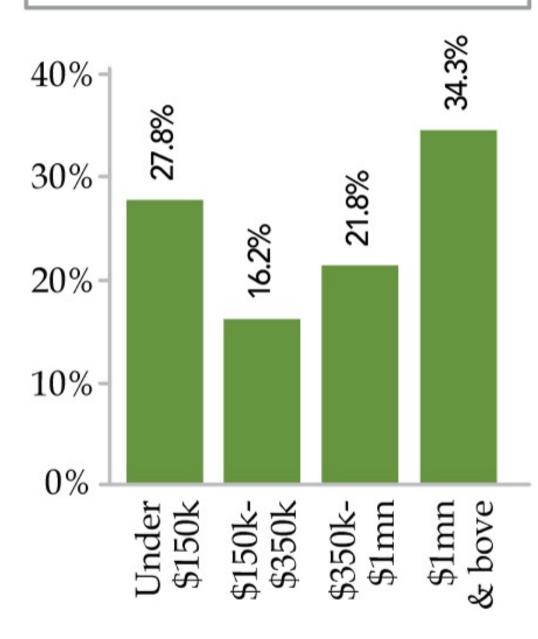
Source: QI Research, BLS

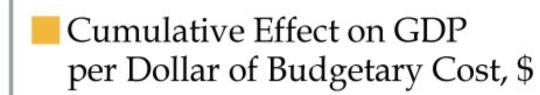




#### The PPP Produced a Piss Poor ROI









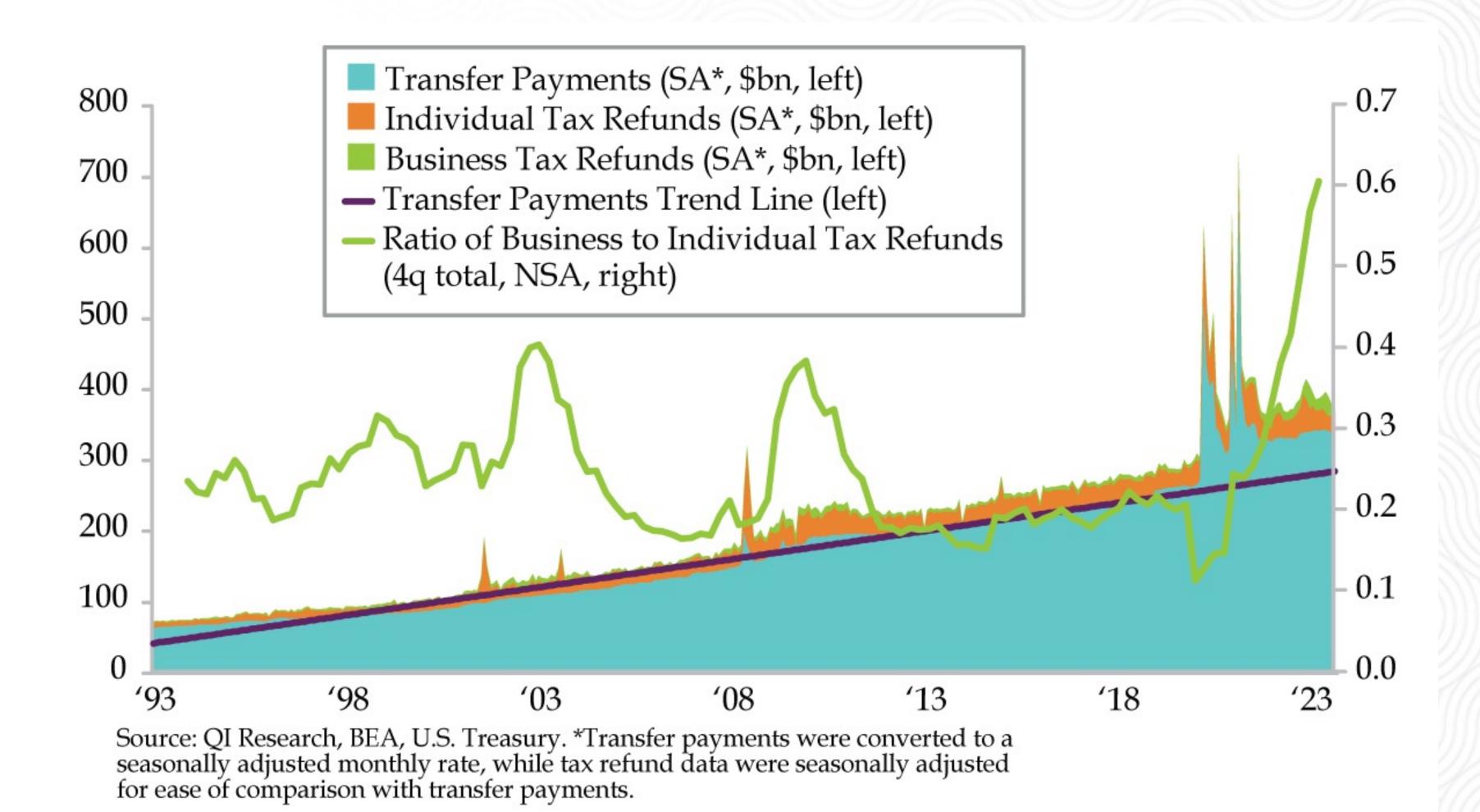
Source: Peter G. Peterson Foundation, U.S. Small Business Services Admin., Paycheck Protection Program Report (approvals through 7.24.20, July 2020.

Note: Average Loan size is \$104,000





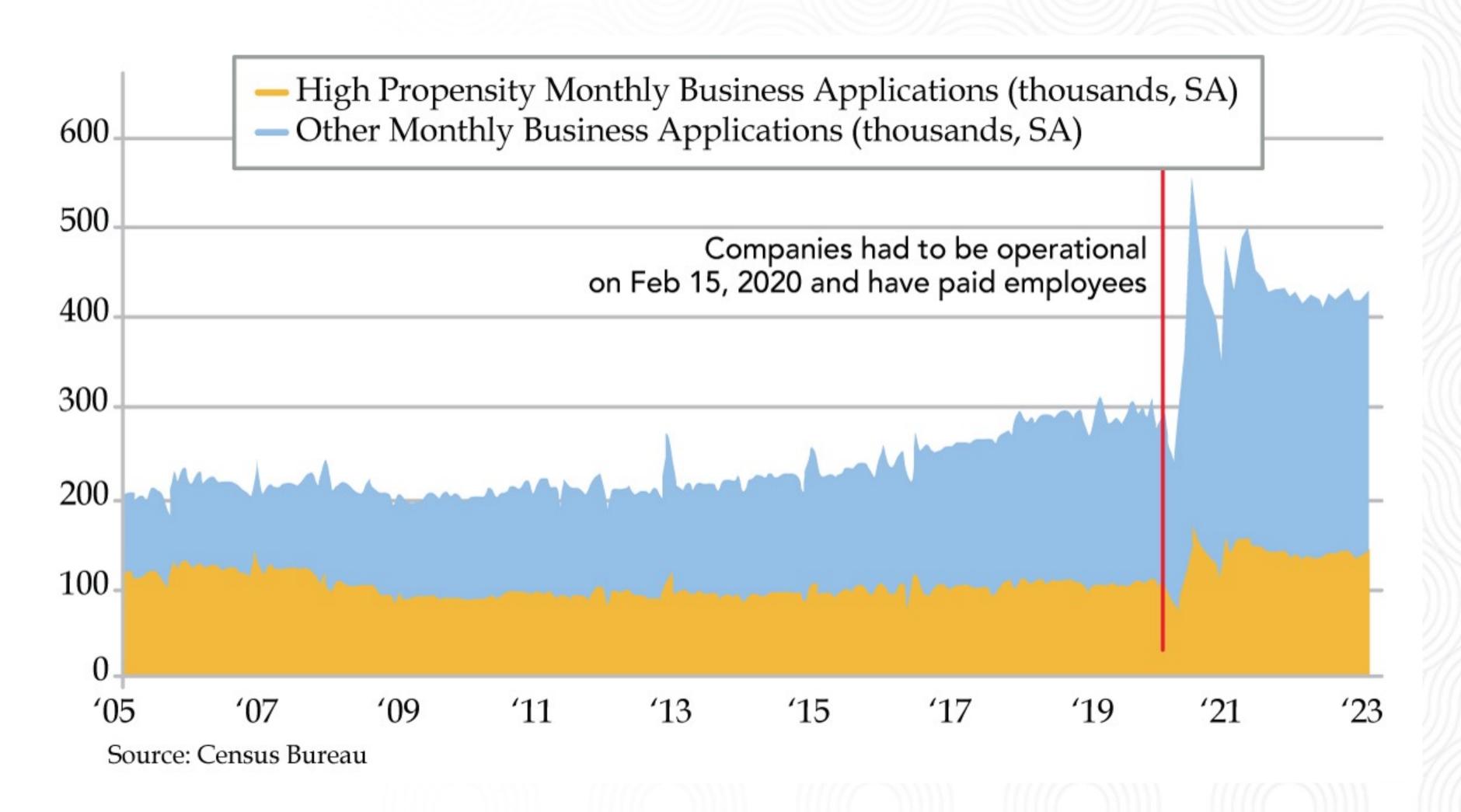
#### ERC Makes Business Income Tax Refunds Visible







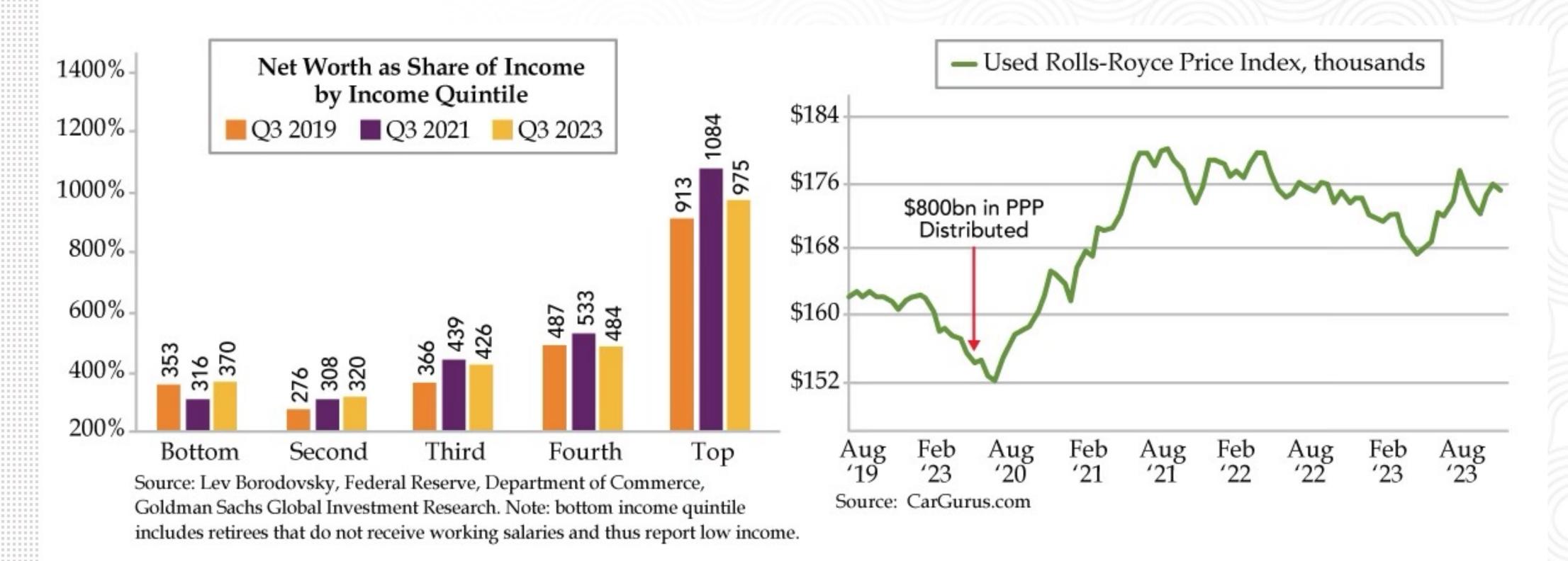
#### You Too Can Bilk Uncle Sam!







# Aspirational Consumers Have Sustained a Blow to Their Net Wealth







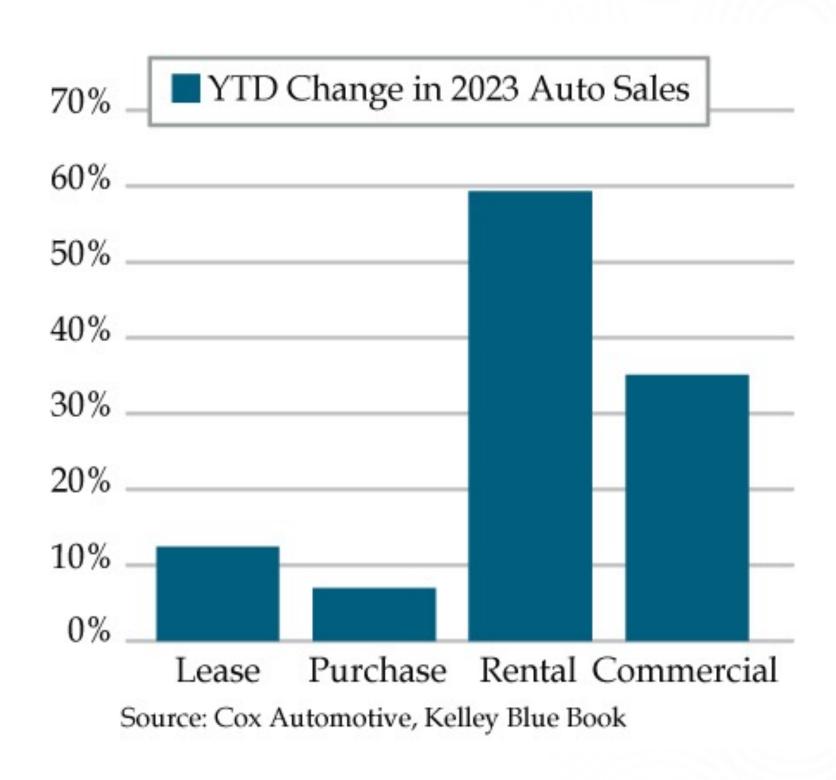
### Because Why Not BRAG About Ripping Off U.S. Taxpayers?

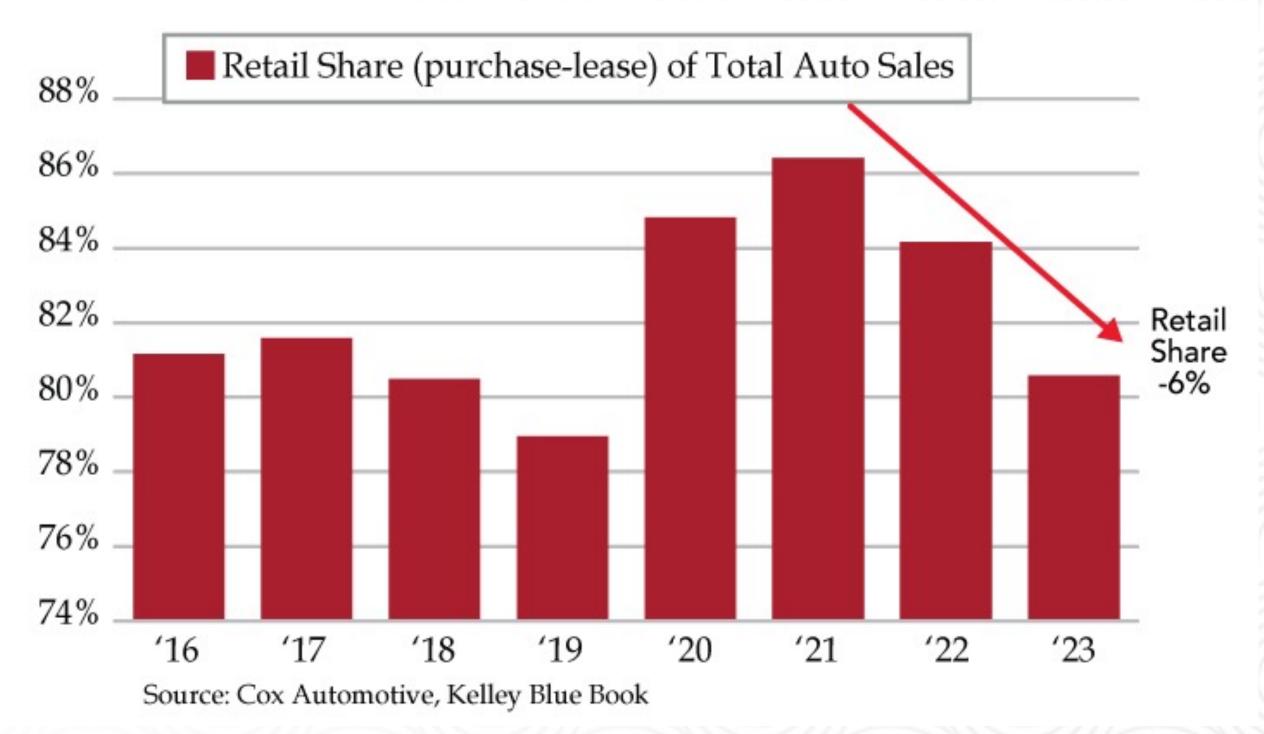






# 2023 Auto Sales Were Carried by Rental and Commercial Demand

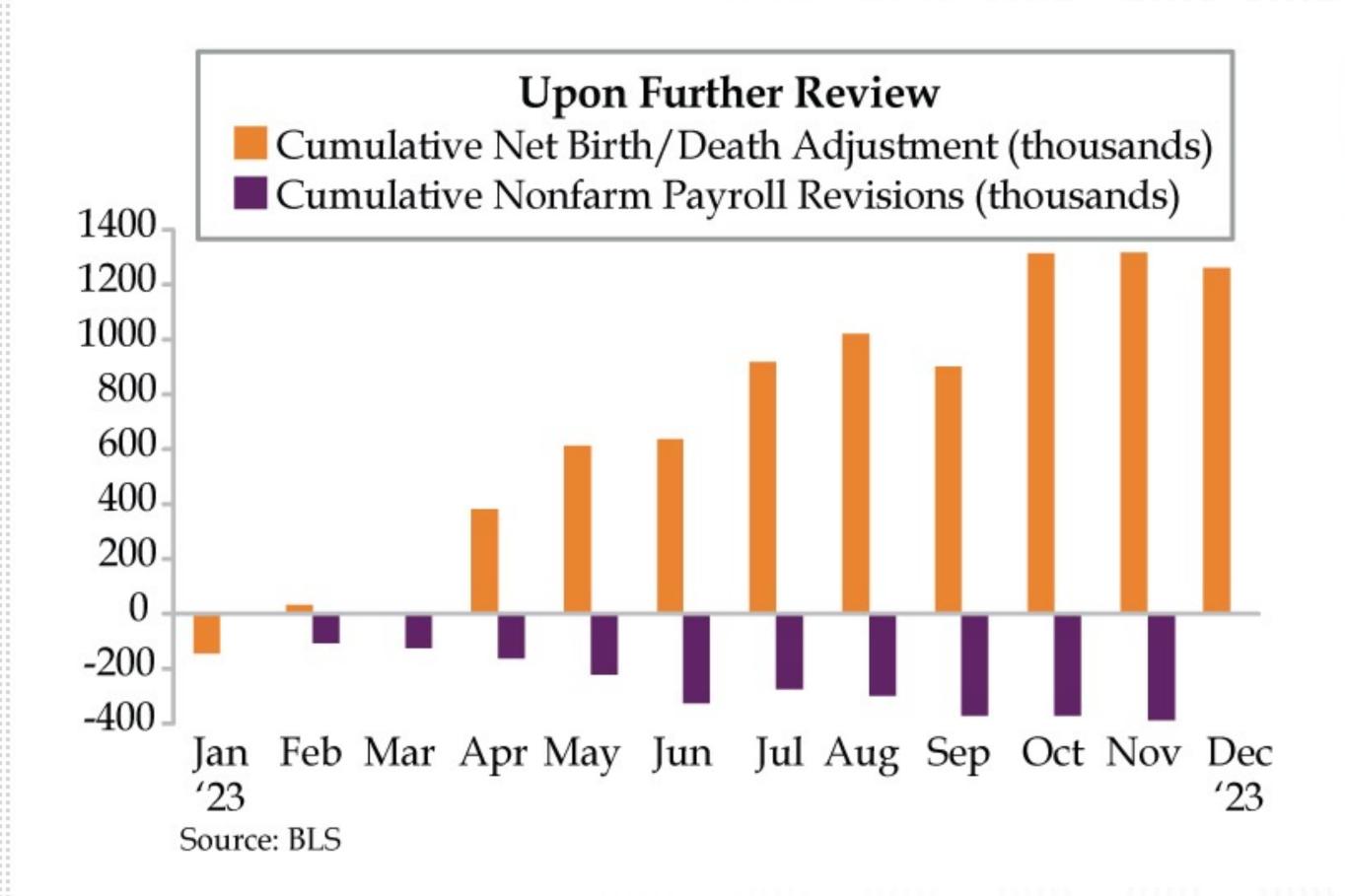








#### Is the BLS Corrupt or Incompetent?



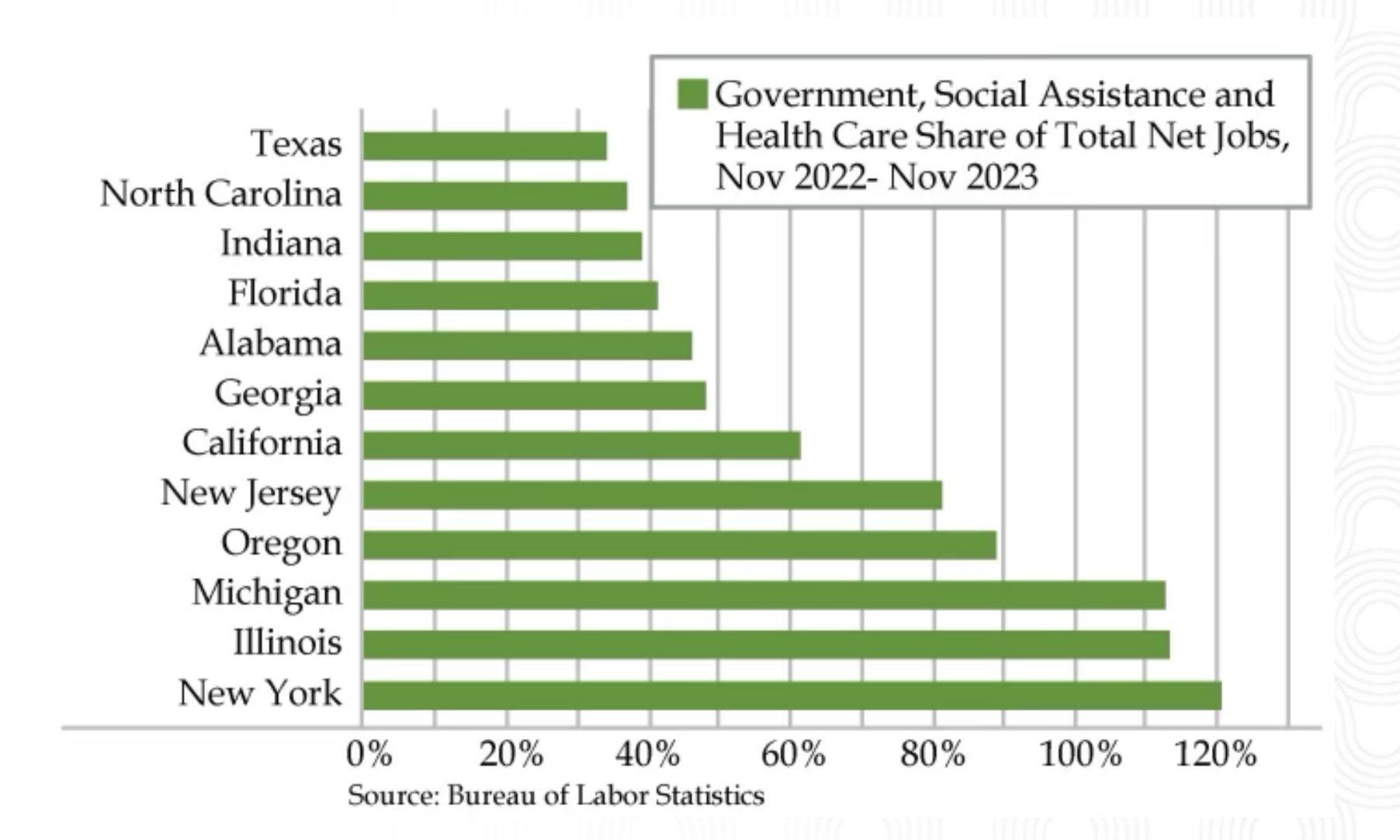
NFP Revisions: 1st to 3rd estimates					
	2008*	2023*			
Jan	-59	-45			
Feb	-20	-63			
Mar	-8	-19			
Apr	-47	-36			
May	2	-58			
Jun	-38	-104			
Jul	-16	-40**			
Aug	-43	-22			
Sep	-244	-74			
Oct	-183	-45			
Nov	-64	-26			
Jan-Nov Avg	-65	-48			

Source: BLS. \*Pre-benchmark revision. \*\*Private only; excluding +99K gov't.





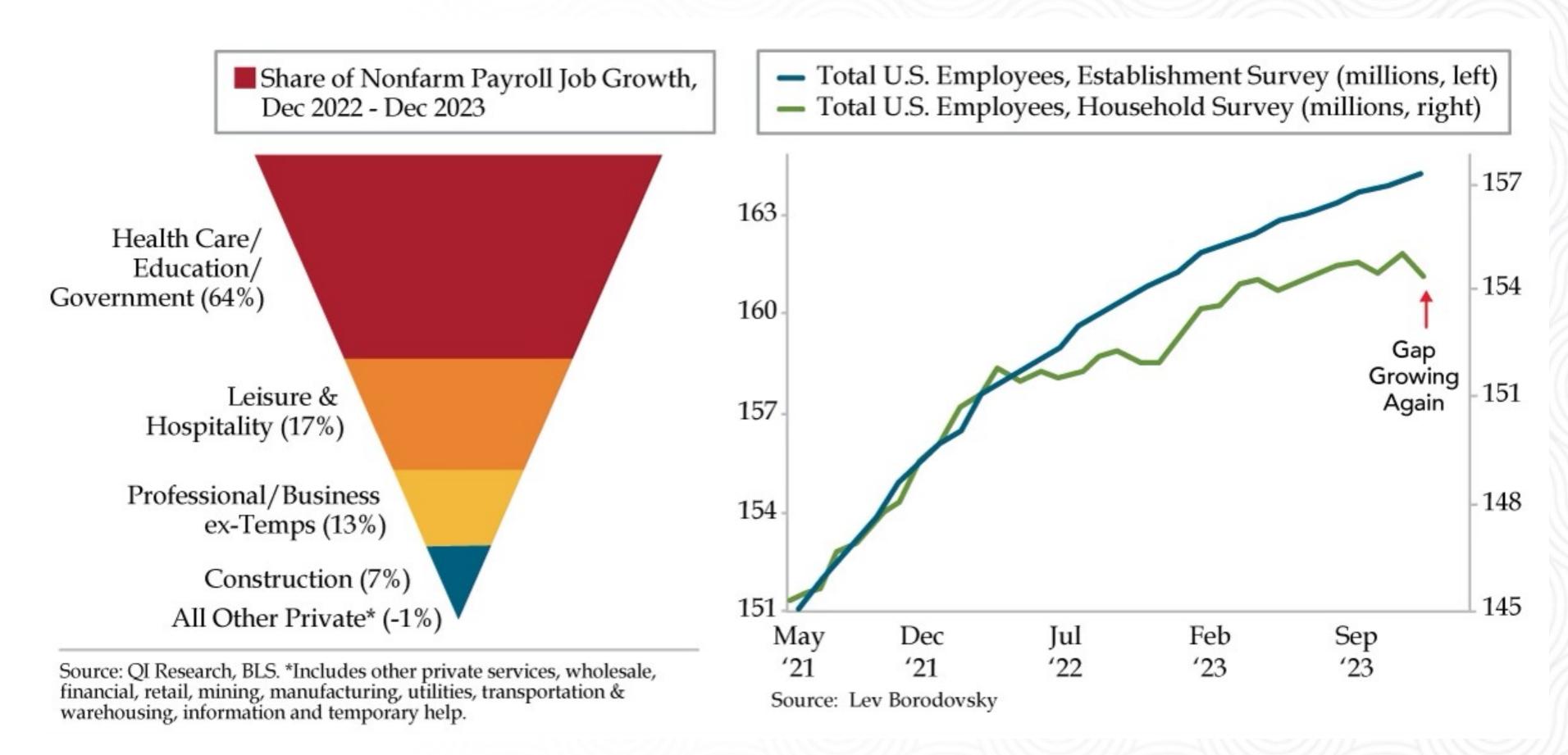
#### Net Private Job Creation in Bluest States is Negative







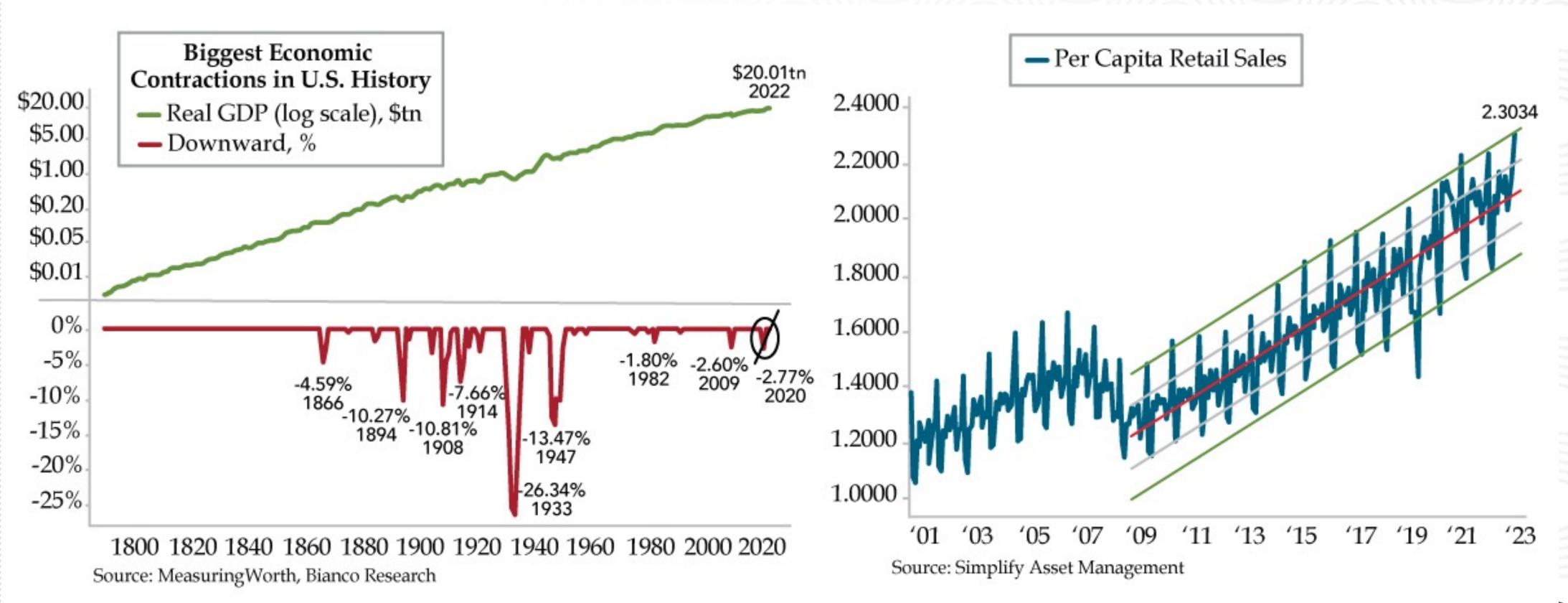
# If Not for Uncle Sam, the Jobs Recession Would be Deep & Ugly







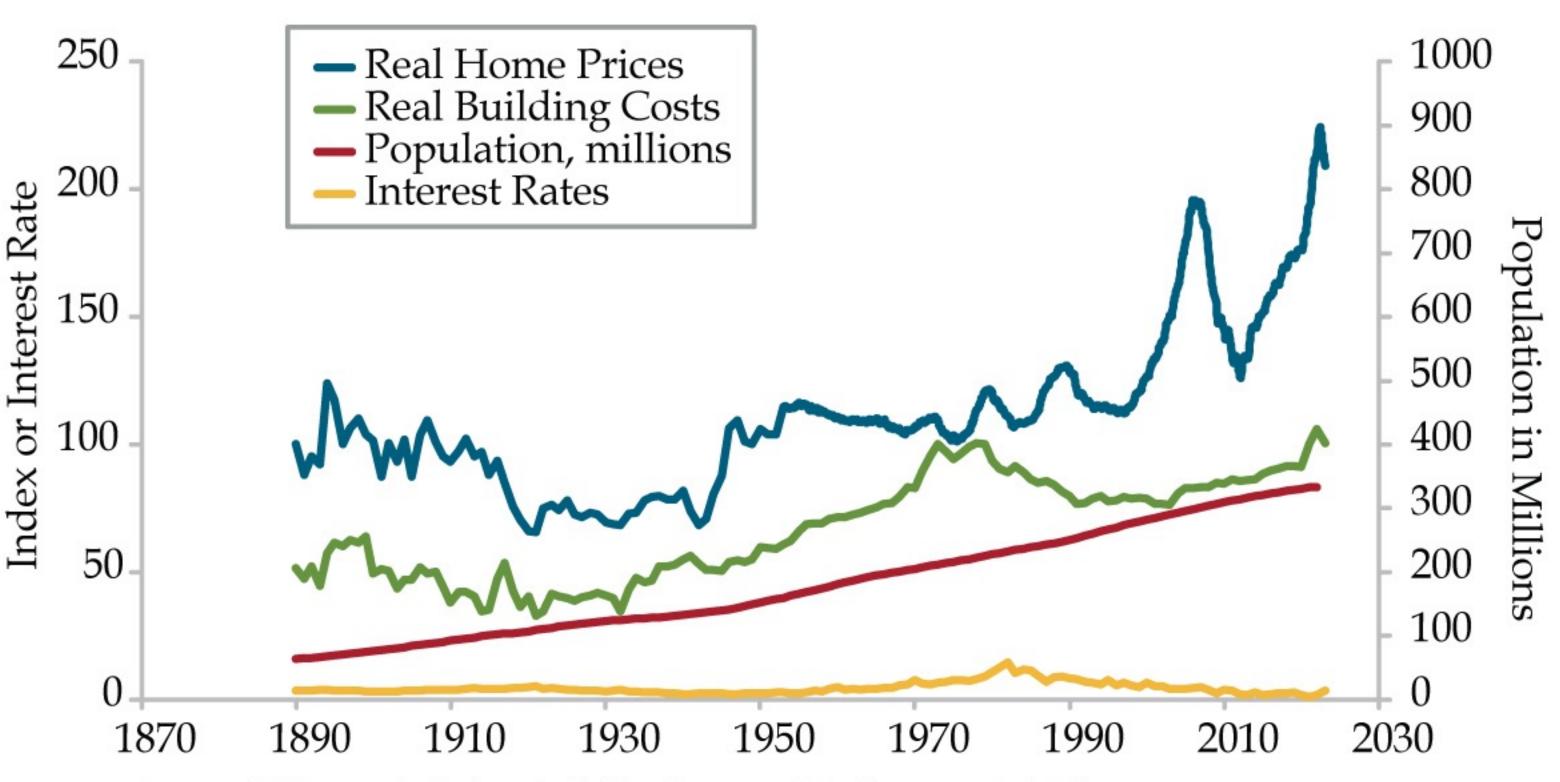
# What IF the Current Expansion is Fifteen Years in the Making?







## Fed Policy Engenders Rolling Housing Crises

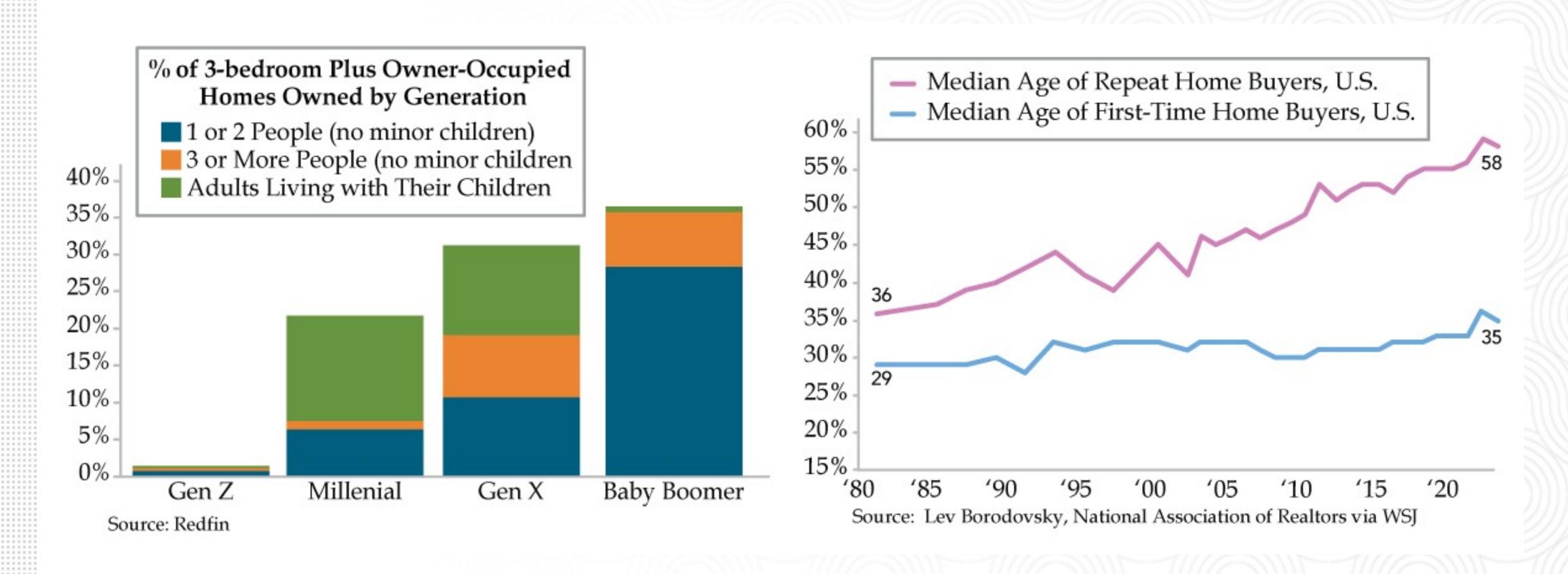


Source: QI Research, Robert J. Shiller, Irrational Exuberance, 3rd. Edition, Princeton University Press, 2015, as updated by Author





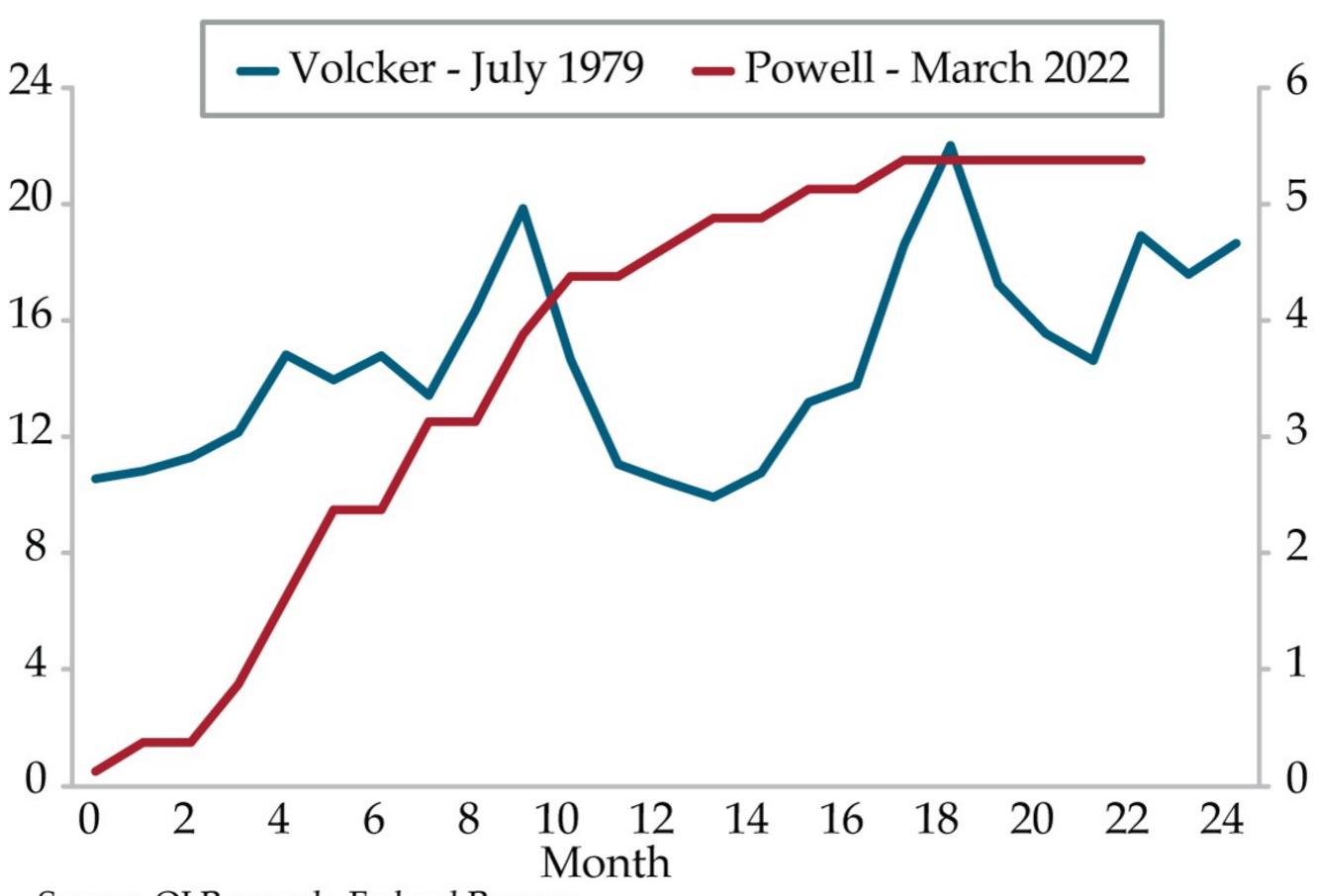
## Millennials: The Indentured Generation

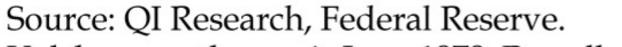






## Powell Looks to Unseat Volcker



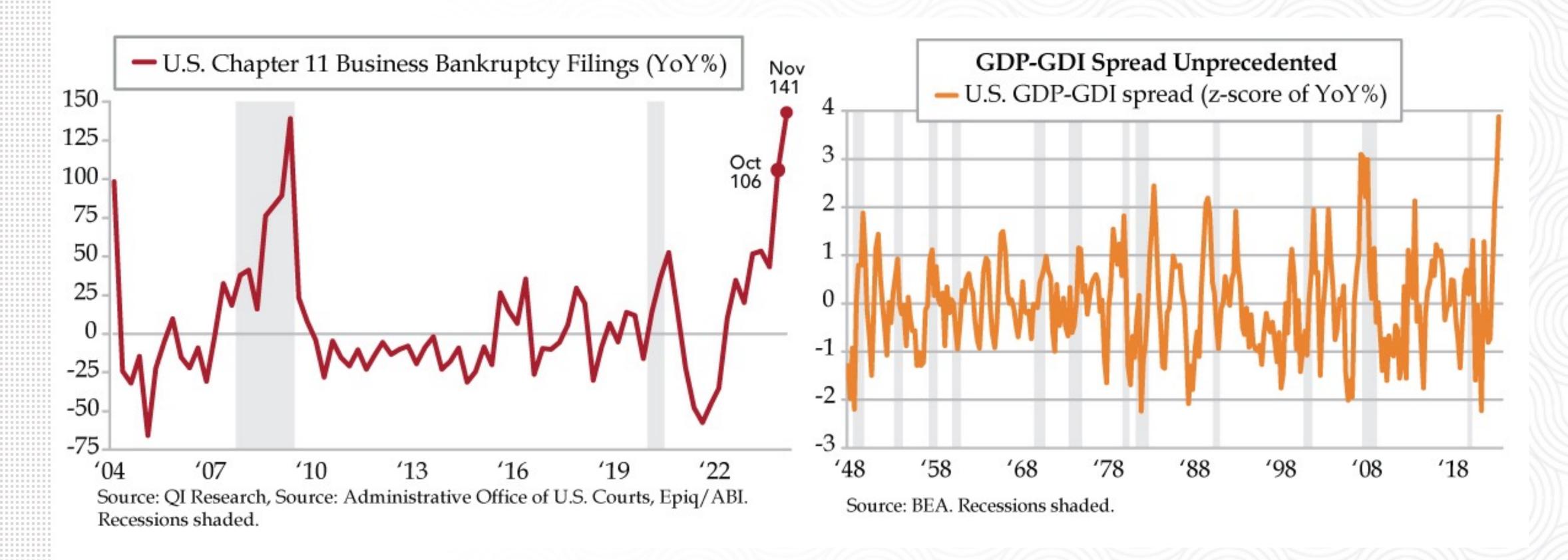


Volcker month zero is June 1979; Powell month zero is February 2022.





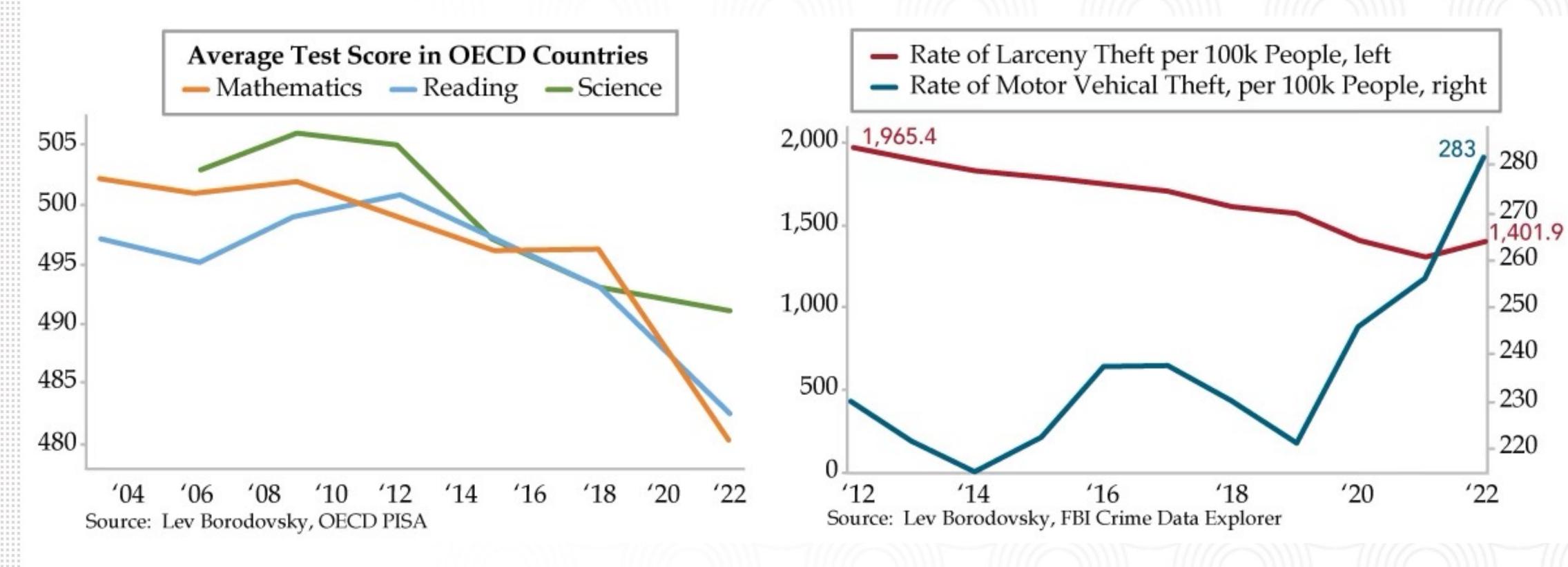
## High for Long in Pictures







# Snuffing Out Educational Attainment Goes Hand-in-Hand with Rising Crime





## Danielle DiMartino Booth

CEO & CHIEF STRATEGIST FOR QI RESEARCH





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The Weekly Quill



January 24, 2024



# Shelter Seeking Shelter Shadow Home Supply Build Gathers Momentum

"Wine is sunlight, held together by water."

Galileo

Such was its draw, rather than New York or Texas, I married in Napa. Words cannot begin to capture what it is about wine country that becalms the brain. Digging deep to articulate why it is so, even "quintessential perfection" fails. In searching for others who share my sensations, Galileo came close in his day. Wine is indeed sunlight, bounded and bonded by the water of life. For millennia, an immutable connection between man and God has been forged in the cultivation and fermenting of, if perfected, an elixir for mankind, regardless of the caste into which we're born. At the risk of stating the obvious of all aspects of nature, we mere mortals are denied hegemony. But it's more than the vagaries she sees fit to, at times, bestow blessings and, at others, impart annihilation. No, "wine country" is existential and universal; it transcends the visual and even the sensorial shock of silk gracing the palate.



I am blessed with recollections of some of the world's most welcoming wine valleys. Rutherford and the Central Coast are among my preferences on the United States' West Coast. The styles of Chardonnays produced in each respective region could not differ more in the best way. Shortly before the pandemic shuttered the world, I spoke to a cozy audience in Australia's Yarra Valley. Aside from perfecting Pinot Noir, I will forever cherish the sight of a kangaroo relaxing peacefully in the foggy midst when I stepped out onto my balcony as dawn was giving way to day. Far away on a distant continent, I've lost count of the many times I've seen heaven on earth in Italy. It's impossible to describe my ascending a hill outside Ruffina that was wonderfully heavy with olive trees ready for their harvest. A visit to the striking Castello Pomino, where Leonia Frescobaldi settled upon returning from a Medici-imposed exile, French champagne press in tow, which was employed with producing Italy's first true champagne. Never pass up Leonia Pomino Brut if it makes a rare appearance on a menu in hand.

Today, I travel to Kelowna in the heart of British Columbia's Okanagan Valley. The region is ensconced in dense pine forests and replete with sparking lakes doubly exalted by an abundance of fruit orchards and wineries. The opportunity to speak to the local Certified Financial Analyst chapter follows a resources confab at which I spoke Monday in Vancouver. Suffice it to say, I'm now acutely aware of the anxiety gripping a nation that awaits the aftermath of one of the biggest housing bubbles in the history of world economies.

Though I will not endeavor to explore the Canadian housing bubble, I can share what I gleaned in conversation in bullet form:

- Somewhere between 20-25% of mortgages reset every year.
- $\bullet$  Canadian consumption accounts for a relatively smaller  $\sim$ 60% of GDP vs.  $\sim$ 70% in the U.S.
- Cash-out mortgage was aggressively tapped when the post-pandemic window opened.
- Living beyond one's means is a shared cultural flaw with its neighbor to the south.
- The inflating of the bubble was driven to a greater degree by wealth fleeing China.
- At -20% YoY, Austin is ground zero in the U.S., in Toronto, prices have skidded -30% YoY.

As if shackled into cinema seats with their eyes glued open to rewatch *The Silence of the Lambs* against their will, Canadians are intensely in tune with what's to come. Beginning in 2007, they looked on in horror as the balance sheet recession that gripped U.S. households unfolded amid such carnage that 10 million lost their homes to foreclosure even as systemic risk beset the global financial system in the immediate aftermath of Lehman Brothers' collapse. While it's sure to be painful to behold, the size of the Canadian economy, roughly \$2.1 trillion, is on par with that of the state of Texas.



I had originally planned to write about Commercial Real Estate (CRE) for this week's Quill. This natural inclination was born of the knowledge that two of my five audiences thus far this year toil in the world of CRE. Two things changed my direction at this last minute – becoming acquainted with CRE receivers at my first speech and the arrogance of managers in the space at my second.

Before continuing, a personal note, beginning with a word on keynoting Visions, Insights and Perspectives Americas, a veritable veteran gathering with a rich history of serving the country's top CRE institutional investors. While in lovely Carlsbad, California, I was afforded the opportunity of a tetea-tete with some of the brightest minds in the U.S. public pension fund arena. Know that I am not one inclined to flatter. That stipulated I was impressed by the acuity of many who shepherd the nation's most funded pensions. In turn, I am humbled to report, they were – and I choose this word carefully – relieved to have someone speak the truth about the current state of the U.S. economy. Thank heavens this cohort comprised the majority of the audience by a ratio of nearly four-to-one.

As for the minority, well, that's another story. Out of my stage attire and in casual garb yesterday evening at the hotel bar watching results come in from the New Hampshire primaries whilst noshing charcuterie, I was chatted up by one of the CRE managers in attendance. What a shame, he bemoaned, that the event organizers, had so misjudged in selecting this year's keynote, "some gal who kicked off the morning all 'Dr. Doom & Gloom,' scaremongering the Multifamily sector." After removing my reading glasses, I took in this slickest of the male species, a false apartment prophet flagrantly safeguarding his own security in exchange for his clients' losses. Being that he was practically in my lap, I only had to whisper under my breath, "Be not afraid. It's just data."

In yet another sign of the times, 175 months into the longest economic expansion in U.S. history, data have the capacity to offend and incite the nastiest sort of derision. For those gathering fresh money to deploy into Multifamily, being informed of the sector's statistics is anathema, a contagion that must be contained, hazmat-suit style. Multifamily has been, and will continue to be, a protected asset class. To deny this demographic truth is naïve at best and stupid at worst. With deference to CRE's answer to used car salesmen, as Forrest was apt to say, "Stupid is as stupid does." Investors, especially those entrusted with retirees' financial futures, must be impartially informed.

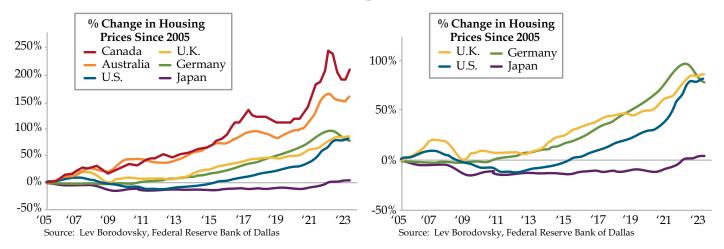
To that end and to begin, this first chart on the left, a prior installment in last week's Quill, has been bothering me. The racket conveyed by the surfeit of squiggly lines detracts from its ability to express a message. Had I presented it to one Richard W. Fisher back in the day, it likely would have been unceremoniously thrown back at me in a public FOMC briefing forum on the grounds that it was "too damn noisy!"

By removing the outliers of the Australian and Canadian housing bubbles, the reality of the runaway trains of residential real estate in Germany, the United Kingdom and the United States jump off the page. Note that a long-awaited recovery in Japan has commenced.



Equally, a deflation in German housing is underway as that economy endures its greatest structural shift since it emerged from World War II. Finally, while a nascent flattening out in home prices is underway in the U.K. and the U.S., a cathartic correction is nowhere in sight.

#### Remove the Biblical Bubbles to Expose Their Mere Bubble Brethren



Harkening one last takeaway from last week's *Quill* to inform today's deep dive on U.S. housing supply,

"Fresh data from Redfin found that 'Empty-nest baby boomers own nearly three in ten, or 28.2%, of large U.S. homes. That's twice as many as millennials with kids, who own just 14.2% of the country's large homes. An additional 7.5% of the country's large homes are owned by baby boomers with households of three adults or more; this category likely consists mostly of adult children living with their boomer parents.' The flip side of the equation dictates that 'Millennials with kids take up one-quarter (24.8%) of the three-bedroom-plus rentals in the U.S., the largest share of any generational category."

While not orthodox, breaking with the norm to assess supply and demand in the U.S. housing market requires an unholy marriage of the aggregated stock of the rental and for-sale inventories. In my parents' and my generations, procreation naturally led to buying a home. Misguided Fed policy that fomented the speculation that inflated not one, but two, housing bubbles in the U.S. has arrested the natural course. It's millennials who should own, not rent, most of the large homes. But that's not the case as the most populous generation has not been able to escape from the rental pool.

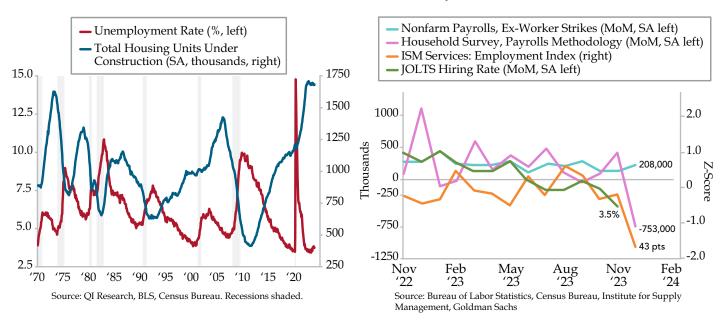
There are more of the 82 million millennials, multiples of whom are forced to rent compared to those who can afford to buy. In other words, the stock of rentals is in direct competition with for-sale inventory. Visualizing the supply to house this generation demands a holistic approach. At its most basic level, and in reluctant adherence to the limitations of available data, a crude estimation begins with a simple sum of what's in the immediate single-family and apartment construction pipelines.

For those dyslexics, you are forgiven for juxtaposing July's peak of 1.687 million combined units expected to come online in the next year with the latest print of 1.679 million. What stands out most is history. Back to 1970, we've never been poised for such a tsunami of supply. If nothing else, one extremity has the company of another, as in the unemployment rate – the two are akin to two rubber bands stretched as tightly as can be without snapping, just in opposite directions.



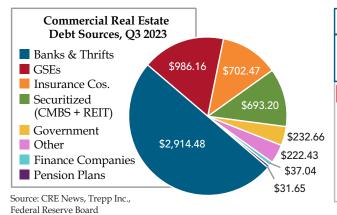
Of course, one reflects anything but the reality on the ground. Had those who dropped out of the labor force 'counted' in December, the reported rate would have been north of 4.0%. as opposed to the 3.7% reported. It is an election year, which is why the increasingly patronizing administration has swung from shushing away households' delusions of inflation to vapid assurances that the labor market isn't as bad as they see it is. Show any working man or woman on the street the chart to the right and, regardless of educational attainment, they'll happily point out the idiocy of whomever can't see the light blue line (nonfarm payrolls) is in deep disagreement with the other three gauges of the job market's health, which concur with one another and are in synchronous declines.

#### Aggregate New Home and Apartment Supply Clashes with Near-Record Low Jobless Rate



How this ends is clear to all but those whose agendas cloud their narratives. Within the mammoth \$5.8 trillion CRE universe, when both rates and terms are taken into consideration, underwriting terms have tightened more for Multifamily than even for Office. According to Trepp, Multifamily and Lodging saw relatively more tightening in 2023's third quarter: "Bank originations against commercial properties in the third quarter declined by 47%, while lending against multifamily and hotel properties declined by about 50% each. Lending against office properties declined by 38% and is down 75% from the pre-Covid quarterly average."

#### On a Relative Basis, Multifamily Underwriting Tightens by the Most of Any Sector



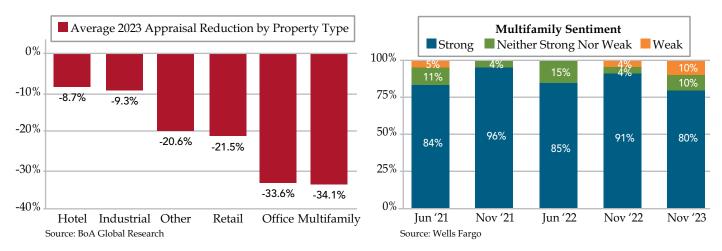
Mortgage Underwriting Terms by Property Type										
	Then - 4Q 2021				Now - 3Q 2023					
	LTV	DSCR	Rate	Term (Yrs)	LTV	DSCR	Rate	Term (Yrs)		
Multifamily	64.8	1.49	3.05%	10	56.6	1.26	6.51%	5		
Office	65.2	1.99	2.70%	5	47	1.42	7.57%	3		
Retail	59.5	1.83	3.25%	5	44.2	1.54	7.20%	5		
Industrial	55.9	1.95	3.05%	5	44.6	1.17	6.95%	5		
Lodging	54.1	3.15	3.38%	3	26	2.24	7.83%	3		
Mixed Use	39.1	2.2	2.70%	4	23.8		3.50%	2		



It's with good reason that lenders in the Multifamily sector have halved loan terms from ten to five years. Consider its most egregious counterpart of Office, which has \$34.5 billion in outstanding distress vs. potential distress of \$50.8 billion according to MSCI Real Assets. While outstanding distress is a pittance, at \$8.4 billion, at \$67.1 billion, potential distress is eightfold the base. Jim Costello is chief economist at the data provider. The way he characterizes the backdrop is that "there were a few unprofessional people getting over their skis."

What returns the market to balance will be price declines. Costello predicts that the year will end with prices well below their pre-pandemic levels. No doubt, those valuing properties have received the memo. Last year, Multifamily's average appraisal reduction of -34.1% eked out an illustrious lead over Office's -33.6%. Given the brazen attitude of the sneering Multifamily manager at the CRE conference, one would never know that despite sounding like a stout figure, at 80%, "strong" sentiment for the sector is at a multiyear low while "weak" sits at the opposite end of the spectrum.

#### The Luxury of 'Drive-By' Appraisals Is No More for the Apartment Sector



In Zelman & Associates' (ZA) just-released Apartment Operators Survey, a carefully cautious note was struck due to a pause in the decline of renewal rental rates and a concurrent stabilization in occupancies. "Still," ZA warns, "lease-up competition is heating up, forward rent growth outlooks remain low, and pricing power rated below the long-term average... We are watching early 2024 results closely as supply pressures are set to increase in most markets and any fluctuation in demand drivers will elongate our low-growth outlook."

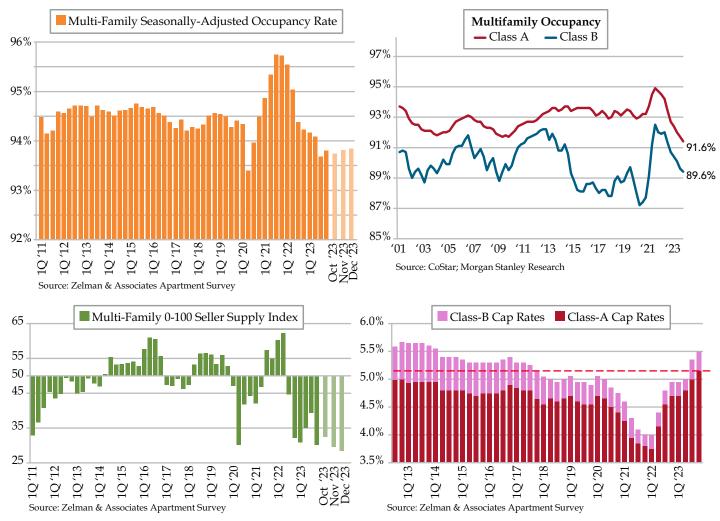
In all, full-year turnover in apartments increased by an average of 210 basis points over 2022, to 40%, "as elevated new supply provided renters more options and macroeconomic stability allowed for increased consumer confidence." Nonetheless, for what will likely be the last year this can be written, turnover remained below the 2017-19 average of 46%. This observation, offered by a national operator, captures the zeitgeist: "Prices are going down and concessions are going up...lots of new construction are offering two months free." Among markets, Austin, Charlotte, Dallas-Fort Worth, Denver, and Nashville were highlighted as being among the weakest.



As for the transaction front, the upper right chart is an apt portrayal of payback for funneling nearly all new development into the high-end. So burdened with supply is Class A, occupancy has fallen to an appreciably greater degree vis-à-vis less pricey Class B units that working men and women have an easier time affording. For many who plunked down fortunes, there's a bitter irony to the exodus to the exurbs being chased by the labor recession starting in late 2022 and continuing to this day, in the white-collar sector. It's only those making handsome incomes that can carry Class A rents which is why luxury supply is quickly overwhelming demand.

Sellers remain largely sidelined. Per ZA, "For the fifth month in a row, our seller supply index stepped downwards to the second-lowest level in our survey history, with April 2020 the only lower month. With cap rates increasing again this quarter, values for existing assets continue to decline overall, causing many sellers to remain out of the transaction market with the currently wide bid-ask spread." Note that Class A cap rates in the lower left panel have risen to 5.15%, the highest since ZA introduced the survey in 2011. Class B, by contrast, has only seen cap rates rise to the highest since March 2014.

#### A Snapshot of a Multifamily Sector at a Standstill



What of the big picture take on the broader housing market? As I started out this weekly positing, the rental and for-sale markets have melded into one as a result of structural changes in U.S. society as affordability has been eviscerated. There are too many Millennials renting and too many Boomers who own big homes that were originally designed to raise families.

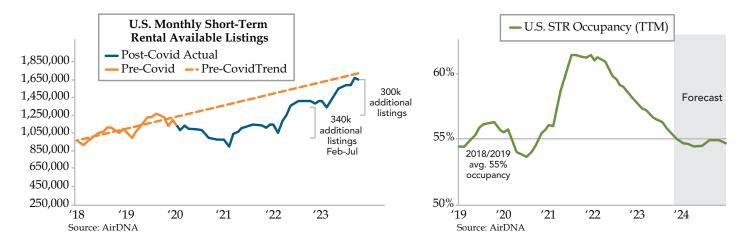


Melody Wright, founder of Huringa and mortgage guru extraordinaire, travels the country physically tracking 74 markets. The question I had for her is the most difficult to answer – that of the unknown variable of Airbnb shadow supply poised to join the deluge of apartments exiting the construction pipeline this year. How will this factor, one that did not exist when the U.S. economy last suffered the deflation of a housing bubble, affect the outcome?

As an aside, recall that the key driver of Truflation dropping below the Fed's 2% target last weekend was declining hotel rates. This is how you couch hotels in your mental inflation construct. It's the caboose on the slowing discretionary spending train. We know that goods spending was drastically pulled forward and aren't surprised it's the first to see deflation. Vacations and work trips, however, are expenditures planned ahead of time to the greatest extent. Unless the world ends, most trips are attached to pre-purchased airplane tickets, a classic sunk cost. And then there's the priceless factor of the old family's countdown to the big event. Disappointing those closest to you is the most difficult thing to do.

My point is, if hotel rates are finally falling, the other pipeline, that which was filled with planned vacations, is also emptying out. Why yes, this will further burden Airbnb jocks who've taken on multiple mortgages predicated on 2021 levels of demand continuing in perpetuity. At a higher level, the law of Supply & Demand applies beyond hotels when renting a house or condo has become a surrogate for the Marriotts and Hyatts of the world. On that note, from less than one million available listings in 2018, supply has exploded to just north of 1.7 million units. It follows that the occupancy rate has slumped below its pre-pandemic level.

#### **Short-Term Rental Supply Explodes Resulting in Crashing Occupancies**



Now, to Wright's back-of-the-envelope estimate of how much competition apartments will confront as defaulting Airbnbs and VRBOs are forced to shift strategy or sell: "I think at a minimum we could see a 2% increase to either long-term rental or single-family inventory listed for sale due to distressed short-term rentals hitting the market. In some areas, that could be much worse. The problem is of course that we will have increased multifamily delivery. Add to that Built-for-Rent and new home inventory of 11 months at the current pace of sales. And then there are the 15 million boomers and second homes, many of will also trickle onto the market. In places where we have significant over-building and oversaturation in Airbnbs (think Austin, Fort Lauderdale, etc) the combined effect will be akin to a flood for these markets and be extremely impactful. Every other house in what were the hottest markets was built or re-habbed and flipped for speculation."



A quick study of these next two tables leaves little doubt as to where supply will most overwhelm demand. Of the most problematic markets cited by apartment operators above, only Denver doesn't make either of the two lists below. Every other source of supply Wright cites will be the proverbial gasoline poured on the fire.

#### **Even Houston Has an Apartment Oversupply Problem**

Submarkets with More Than 1k Units wi Highest % of Units Under Construction as % of		Submarkets with More Than 5k Units with Highest % of Units Under Construction as % of Existing		
Submarkets	Units Under Construction	Submarkets	Units Under Construction	
Miami, FL — Outlying Miami - Dade County	149.7%	Jacksonville, FL — Saint Augustine	65.1%	
Phoenix, AZ – West Maricopa County	131.5%	Charlotte, NC — South End	64.8%	
Orlando, FL — Osceola County	97.3%	Austin, TX – Downtown Austin	61.3%	
Charlotte, NC — LoSo – Lower South End	92.7%	Miami, FL — Downtown Miami	55.4%	
Huntsville, AL – Limestone County	83.9%	Dallas - Fort Worth, TX — Rockwall/Wylie	53.4%	
Miami, FL – Aventura	80.9%	Lakeland, FL — North Polk	51.0%	
Jacksonville, FL — Saint Augustine	65.1%	Philadelphia, PA — South Philadelphia/Navy Yard	50.7%	
Charlotte, NC — South End	64.8%	Northern New Jersey, NJ — Northeast Morris County	42.5%	
Punta Gorda, FL — Port Charlotte	62.1%	Seattle, WA — Shoreline	41.6%	
Austin, TX – Downtown Austin	61.3%	Austin, TX — San Marcos	41.6%	
Sarasota, FL — Venice Englewood	59.8%	Atlanta, GA — Downtown Atlanta	40.9%	
Fort Myers, FL — Cape Coral	55.6%	Austin, TX – Georgetown - Leander	39.8%	
Miami, FL — Downtown Miami	55.4%	Charlotte, NC — West Charlotte	39.8%	
Dallas - Fort Worth, TX — Rockwall/Wylie	53.4%	Nashville, TN — Downtown, Nashville	39.0%	
Charlotte, NC — Lancaster County	53.0%	Houston, TX — Richmond/Rosenberg	35.3%	
Austin, TX — Bastrop County	51.5%	Austin, TX — Southeast Austin	35.2%	
Lakeland, FL — North Polk	51.0%	Detroit, MI – Downtown Detroit	35.1%	
Philadelphia, PA — South Philadelphia/Navy Yard	50.7%	Philadelphia, PA — Art Museum/Northern Liberties	34.5%	
Port St. Lucie, FL — St. Lucie Inland	47.1%	San Antonio, TX — Comal County	34.3%	
Savannah, GA — Downtown Savannah	46.7%	Dallas - Fort Worth, TX — West Dallas	32.2%	

Source: Goldman Sachs

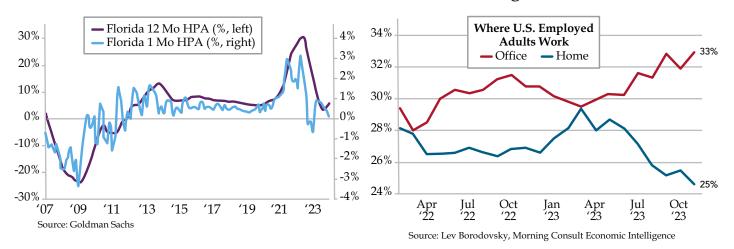
There are two special circumstances that will fuel up the flames even more. You may have noticed that among the top 20 submarkets with more than 1,000 units with the highest percentage of units under construction as a percentage of the base, Florida cities account for half of them. You may have heard the Sunshine State has a little problem on its hands which makes other states appear to be bastions of relative affordability. According to the Insurance Information Institute, the average cost to insure a home last year was \$6,000, the highest in the nation. In all, homeowner's insurance has increased 102% in the last three years and runs three times the national average.

To this cruel math, we reiterate that Florida is relatively more overbuilt than any state in the nation on the apartment front. Wright has, for some time, warned that Florida will be a benchmark in the worst possible way, leading the nation into a housing downturn. She's traveled the entirety of the state and home builders are also knee-deep in overpriced spec homes gathering dust. Kind investors are either looking the other way or not digging deeply enough to see the smoke and mirrors at work as inventory somehow manages to not be fully counted.

And then there's that other niggling factor we've been told would become a permanent fixture – Work from Home (WFH). While I've no doubt this optionality will never return to its pre-pandemic self, I'm not blind to announcements such as Wayfair's yesterday. In establishing a criteria to determine which heads would roll first, WFH was the top factor. Out of sight was out of mind in the end for those former employees. After peaking last spring, the pendulum has swung back to working in the office and away from the house.



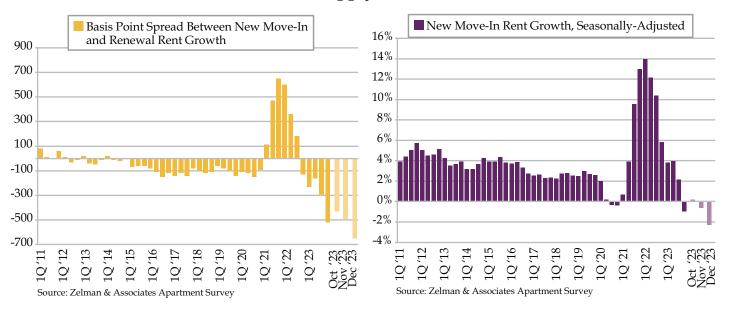
### The Disaster Otherwise Known as Florida and Work From Home Will Accelerate the Housing Unwind



Whether spiking insurance rates, a phenomenon that's most acute in Florida but in no way isolated to the state, or workers flowing back to their cubicles for fear of losing their jobs, the price premium commanded in the housing market has been diminished. Nowhere is what's to come for the single-family market more apparent than in the leading metric of new rents, a pure prism into how supply affects landlords' revenues.

According to ZA, in December, seasonally adjusted new move-in rents were -2.3%, printing in the red for a second straight month. "On an absolute basis, this represents an all-time low in our survey history." What's even more striking is the spread between new move-ins and renewals, which has fallen for six months running and has widened to 650 basis points, its largest negative spread on record. Something will have to break, and it will likely be the resolve of existing landlords: "This cannot last much longer as operators put themselves at risk if new move-in rents fall below renewal rental prices and existing tenants seek other options in the same property or elsewhere."

### **Existing Landlords Will Be Forced to Make Concessions as Fresh Supply Continues to Come Online**





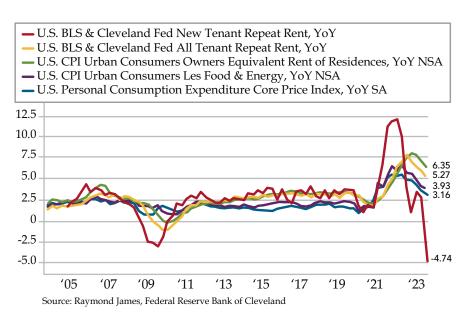
Add it all up, and I mean all of it – new and existing rentals and new and existing homes – and it becomes apparent that the heyday is ending. Falling mortgage rates will continue to spur activity. But the overriding factor of rising joblessness will trump marginally improved affordability. Perhaps even Fed officials will have to own up to the compounding effect of factors as they grow on one another as a hurricane does when it strikes out into warm, open waters.

With a hat tip to Randy Woodward, a fresh paper out of the Cleveland Fed suggests that Fed officials should tread lightly when citing figures that reflect the highly lagged effect of sticky rents. According to their calculations, "Rent inflation for new tenants leads the official BLS rent inflation by four quarters. As rent is the largest component of the consumer price index, this has implications for our understanding of aggregate inflation dynamics and guiding monetary policy."

To correct for this design flaw, researchers created a repeat-rent index with a subset sample of the BLS Housing Survey that's limited to new tenants, one that turned out to be a truer reflection of the market. I caution you that the red line below is not a fat-finger error though it does corroborate what operators on the ground are reporting to ZA. Let's hope Loretta Mester's voice is heard loud and clear before her June retirement from the Cleveland Fed.

#### Cleveland Fed 'Cleans' the CPI's Flawed Rent Model

Landing at night, as I write this, I've no idea of what awaits my senses when I wake in the Okanagan Valley tomorrow. The photos are stunning, but will inevitably fall short, a delightful prospect. If my writing schedule permits, which I will strive to ensure it does, I will make my way to Tantalus Vineyards where David Paterson is general manager and Winemaker. He describes the area as such: "It's a very skinny valley and because it's northsouth, we have very different



aspects and terroir up north compared with down south, which is a blessing and a curse in some ways. The Okanagan will never really be able to specialize because what I do up here with Pinot Noir, Riesling and Chardonnay, the guys in Osoyoos can't do that. Likewise, I can't do what they do with Cabernet Franc, Syrah, Cabernet Sauvignon."

Given what's to come here in Canada's economy, which will reverberate in the U.S. housing market, I'll happily settle for being the judge of both the blessing and curse of the product of the local grapes and what promises to be a magical new wine valley. I'm certain it will enchant me and call me back to visit again one day, as endearingly as any good friend would. What's not to like about that?

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### **Jeremy White**

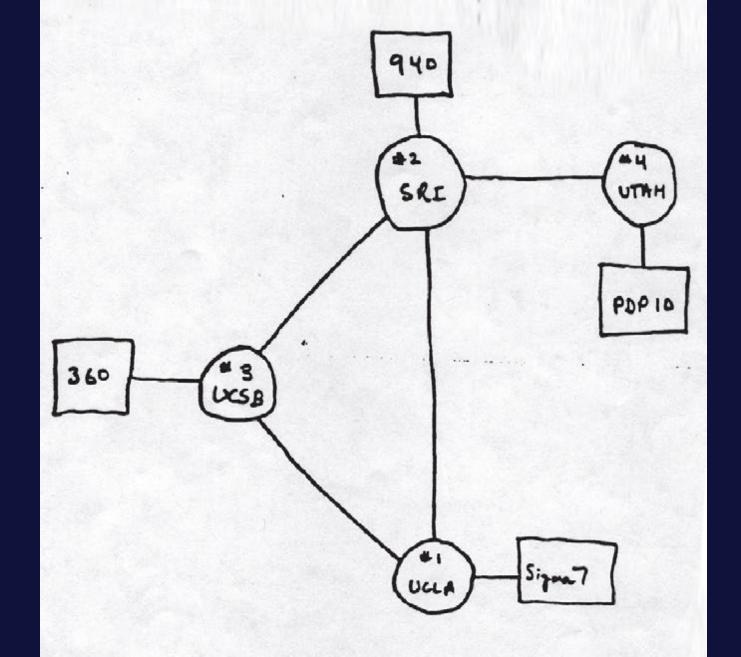
SENIOR INNOVATION EDITOR, WIRED



### AI & Humanity

Jeremy White, WIRED

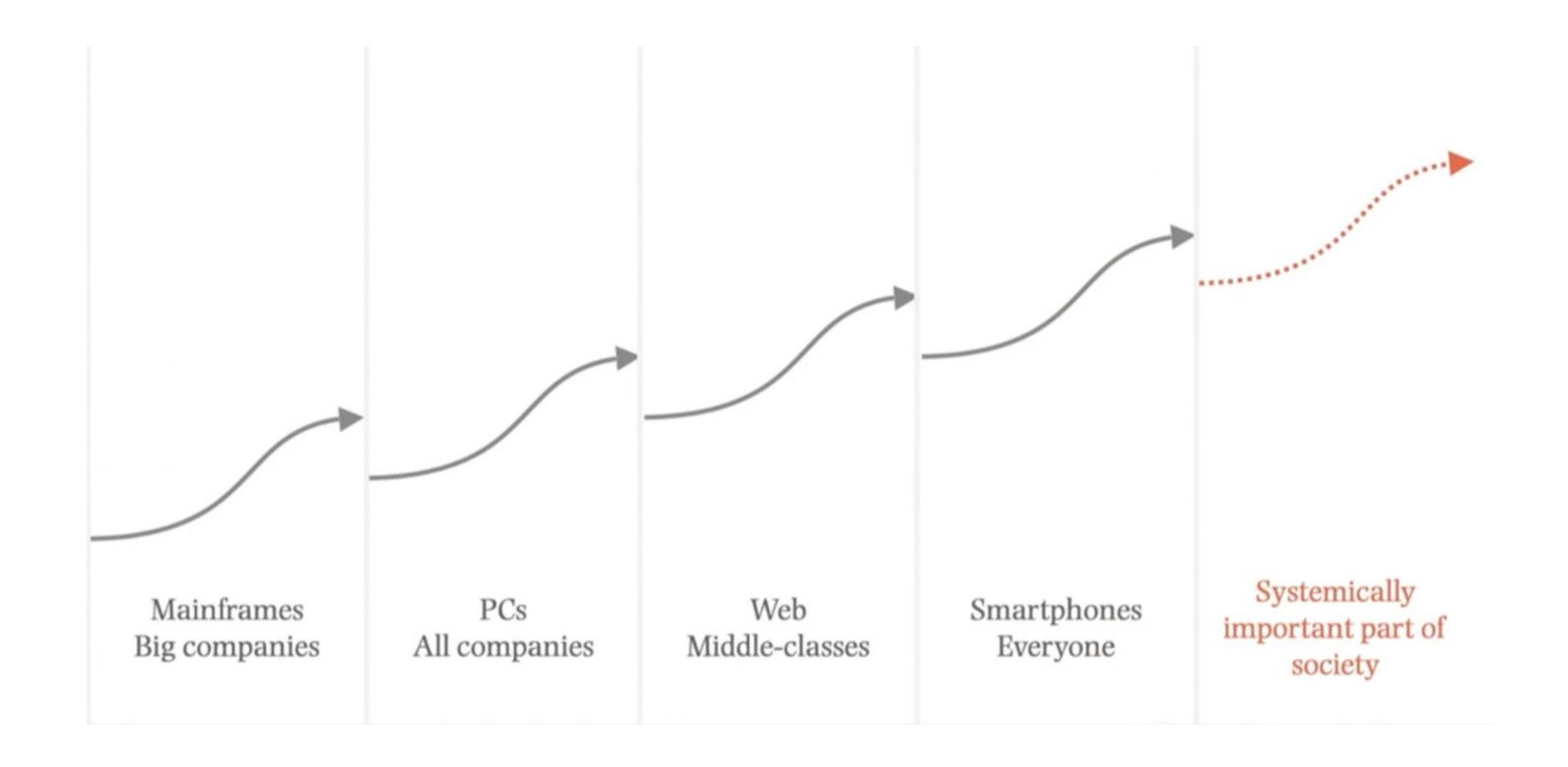
We've come a long way



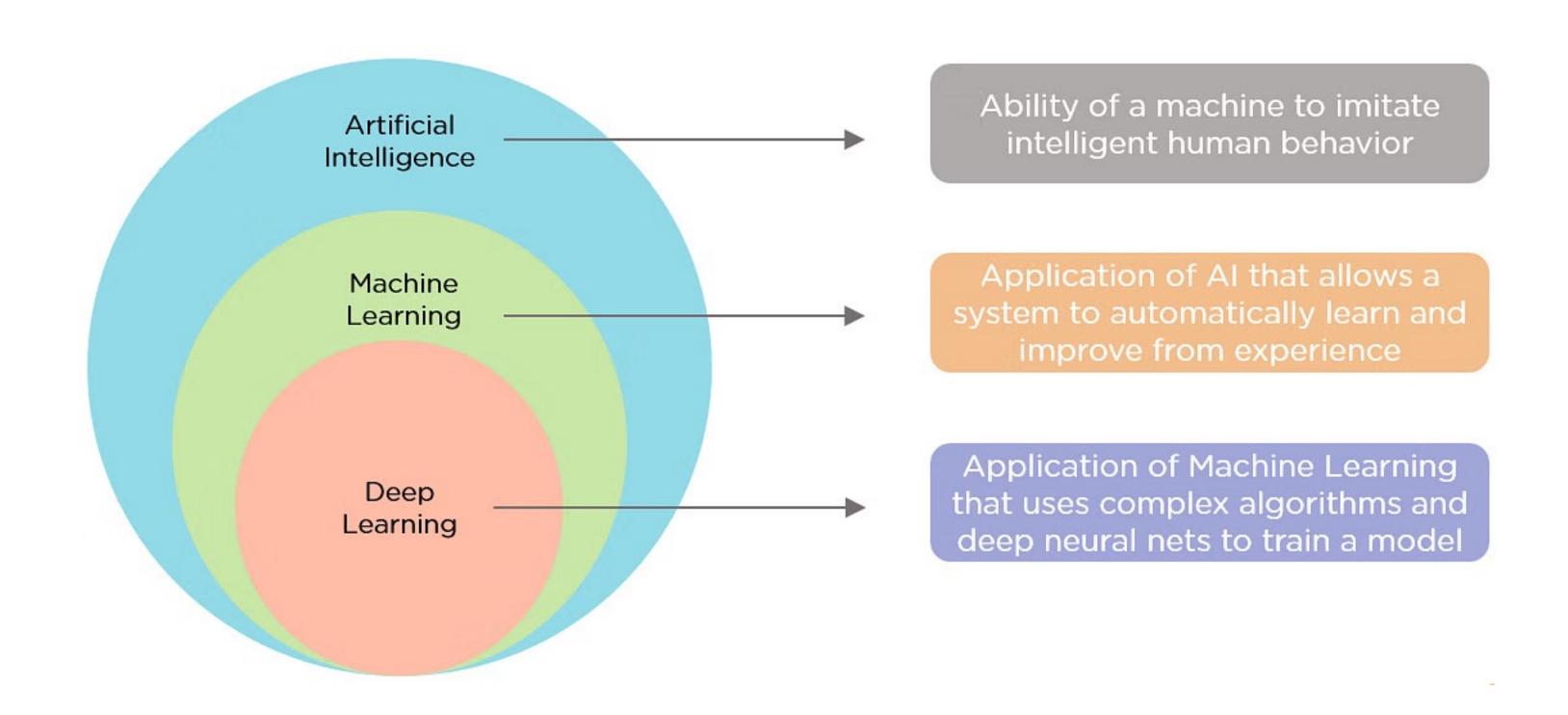
THE ARPA NETWORK

DEC 1969

4 NODES



The next level



Input winter image Al-generated summer image



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Al-generated rainy image





PACTUM 🗘

PRODUCT C

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AVERAGE VALUE INCREASE

+4.21%

FULLY AUTONOMOUS NEGOTIATIONS

71%

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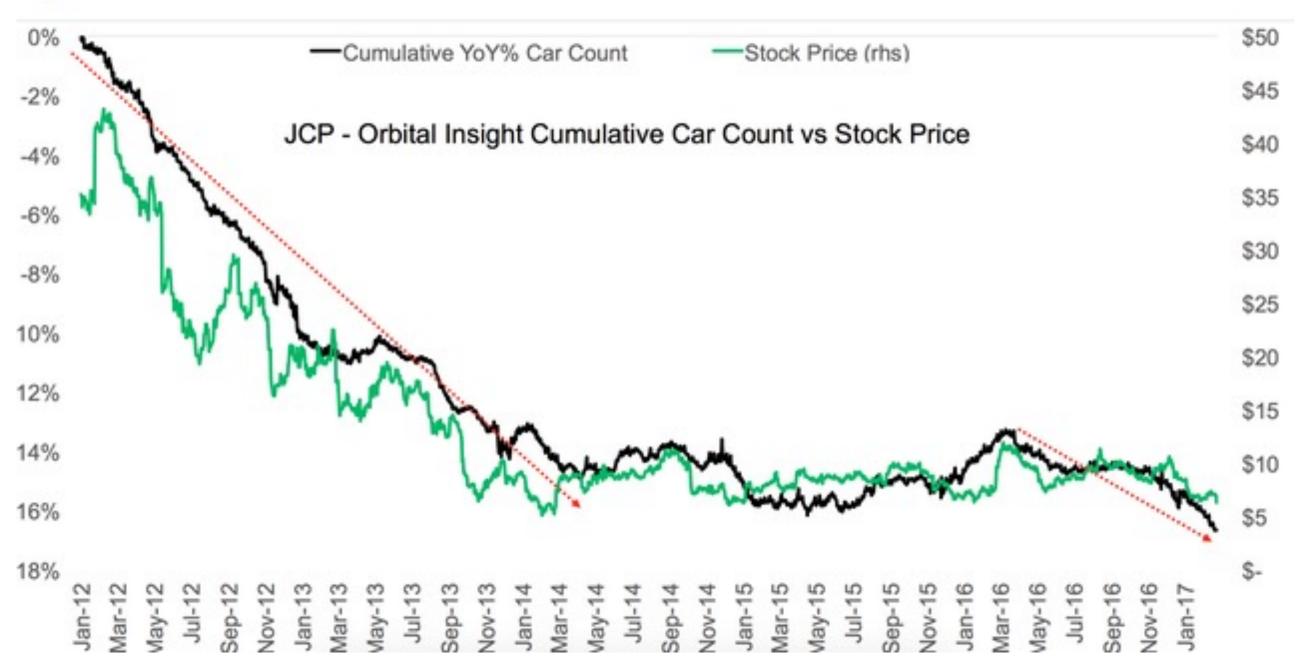
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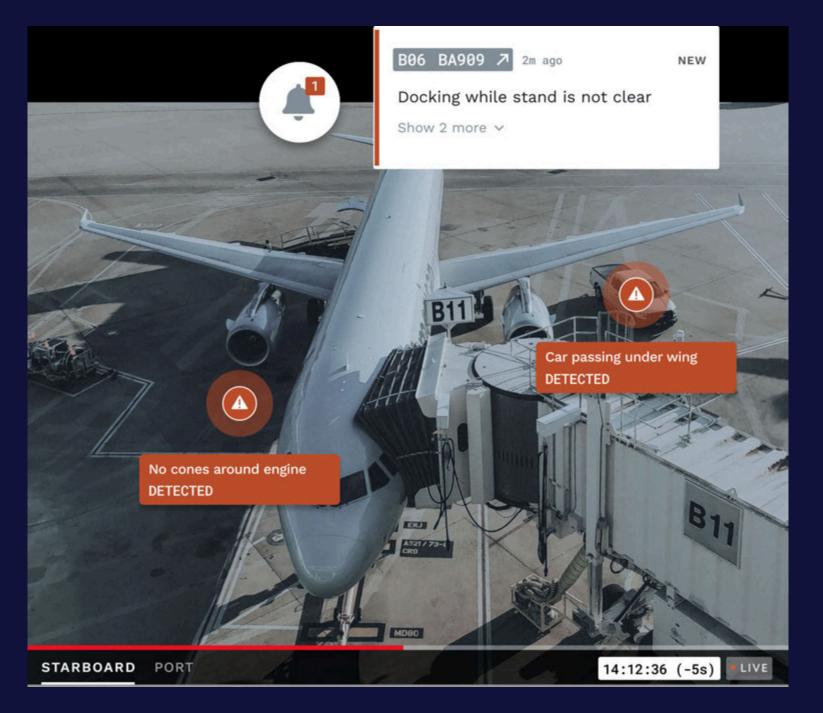
POTENTIAL GAINS FOR AVERAGE FORTUNE 500 COMPANY

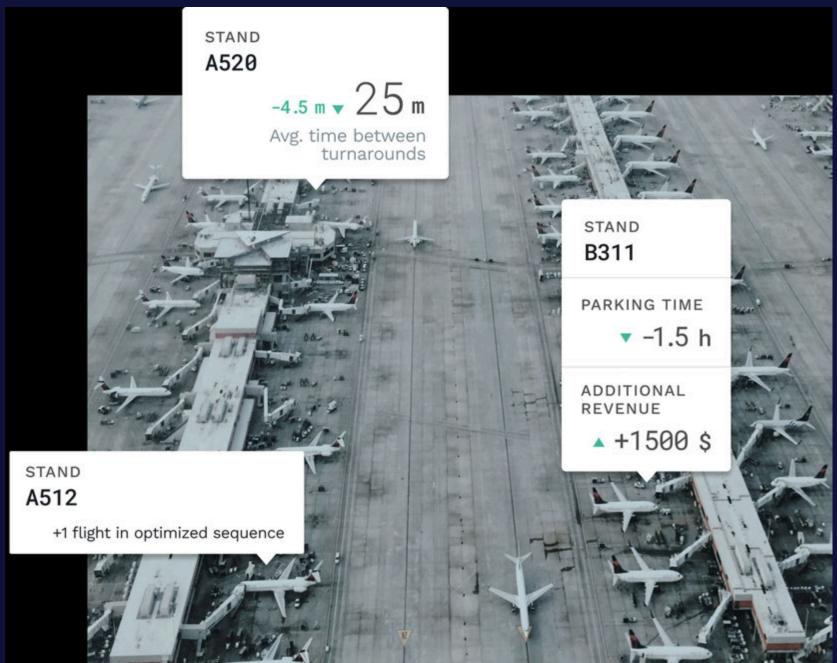
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### **JCP**







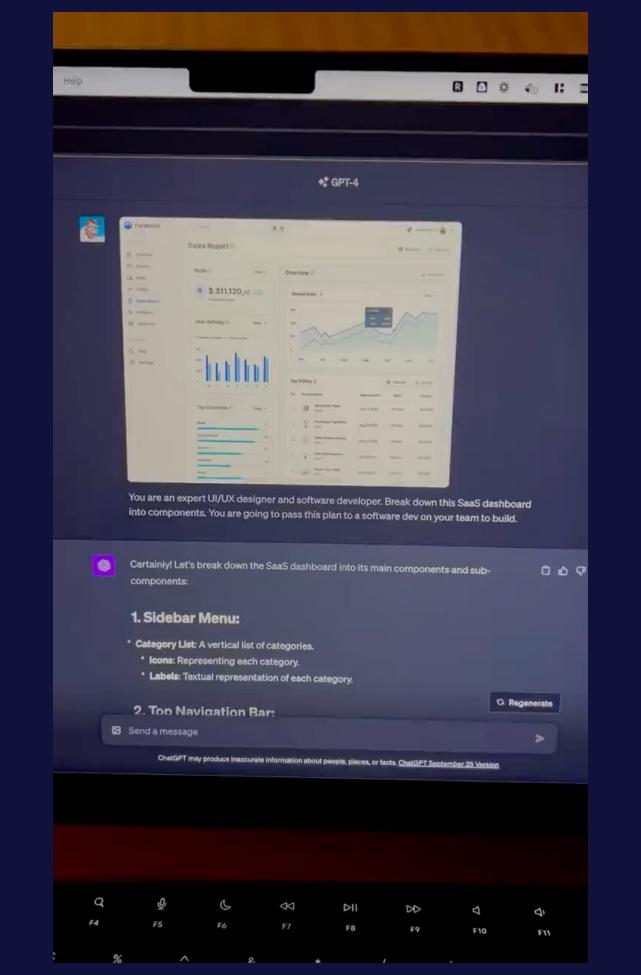
Product Implementation About Careers Resource Hub Get in touch PROVEN RESULTS: 90% 🛰 7% ~ 4% ~ 10x 🛰 Revenue Uplift Load Uplift Forecast Error Human Influence Reduction Reduction No-cost, risk-free implementation. LEARN MORE ->

> Smarter methods. Better results.

**Generative Al** 

"I knew I had just seen the most important advance in technology since the graphical user interface."

Bill Gates on ChatGPT, March 2023



Write a marketing campaign for a new real estate buyer lead that inquired on an agent's website. Make the plan 3 days in length, with the following:

- day 1 short call script for a new buyer lead
- day 1 quick email that asks the top 5 things they're looking for in a property
- day 2 text that asks them if they've had a chance to review the properties you sent
- day 3 quick check-in email to see if they have any questions



#### Day 1:

Short call script for a new buyer lead:

Hi [Buyer Name], this is [Agent Name] from [Real Estate Agency]. I saw that you recently inquired on our website and wanted to follow up with you to learn more about your home search. Can you tell me a little bit about what you're looking for in a property?

#### Day 1:

Quick email that asks the top 5 things they're looking for in a property:

Subject: Your Dream Home Awaits!

#### Dear [Buyer Name],

Thank you for inquiring about our real estate services! As promised, I wanted to follow up with a quick email to ask you about your home search. I would love to hear more about what you are looking for in your dream home. Can you share the top 5 things that are most important to you in a property? I look forward to hearing back from you!

Best, [Agent Name]

#### Day 2:

Text that asks them if they've had a chance to review the properties you sent:

Hi [Buyer Name], it's [Agent Name] from [Real Estate Agency]. Just wanted to touch base and see if you had a chance to review the properties I sent you. Let me know if there's anything that catches your eye, or if there are any properties you want to see in person. Thanks!

#### Day 3:

Quick check-in email to see if they have any questions:

Subject: Checking In!

#### Dear [Buyer Name],

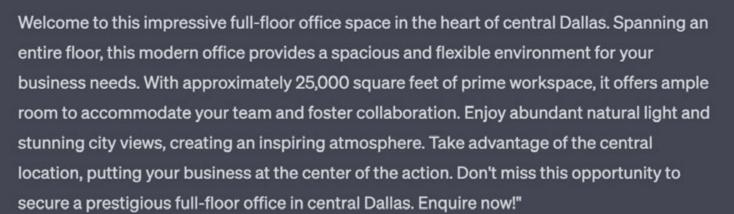
I wanted to check in and see how your home search is going. Do you have any questions about the properties we've looked at so far? I am here to help in any way I can, so please don't hesitate to reach out if there's anything I can do for you.

Best, [Agent Name]

Please write a property description for a listing website. This is a full-floor office in central Dallas. Please keep this short - 5 sentences max



"Central Dallas Full-Floor Office - Elevate Your Business!





Please create a drip email campaign for leads that expressed interest in the offices on our property rental website but still have their previous lease going. It should consist of at least 3 emails.



Subject: Your Next Office Awaits - Transition Smoothly!





Email 1:

Subject: Welcome to [Your Company Name] - Your Journey to a New Office Space

Dear [Lead's Name],

Thank you for expressing interest in our property rental website! We understand that you currently have an active lease for your office space and are looking for your next workspace. At [Your Company Name], we're here to assist you throughout the process, ensuring a seamless transition when the time is right.

In this email, we want to introduce you to our platform and provide you with some valuable information to prepare for your upcoming move:

Stay updated on new listings: While you're still in your current lease, it's essential to stay
informed about the office rental market. By subscribing to our newsletter or following us
on social media, you'll be among the first to know about new office spaces that match
your preferences once your lease is near expiration.



Please create a short post for LinkedIn announcing that our real estate services firm is expanding to New York and beyond



🐚 Exciting News! 🜃 Our Real Estate Services Firm is Expanding to New York and Beyond! 🍣







We are thrilled to announce that [Your Company Name], a leading real estate services firm, is spreading its wings and expanding its operations to the vibrant city of New York and beyond!



As part of our commitment to serving clients with excellence, we have recognized the growing demand for our specialized real estate services in the dynamic New York mar and have made the strategic decision to establish a presence in this iconic city.



Please revise the below property description to match a customer's preferences who's looking for budget-friendly accommodation close to the underground, even if it is far from the center.

Discover the perfect retreat in this modern multi-family house flat nestled in a peaceful, slightly remote area. Embrace tranquility without sacrificing convenience with easy access to nearby amenities. This well-appointed residence offers a contemporary living space with all the modern comforts you desire. Immerse yourself in the spacious interiors, featuring sleek finishes and abundant natural light. With an affordable price of \$1800 per month, this is an opportunity not to be missed for those seeking a serene yet contemporary lifestyle.



Explore the ideal budget-friendly haven in this modern multi-family house flat situated in a peaceful area. Enjoy the best of both worlds as you savor tranquility while being just a stone's throw away from the underground. Embrace the cozy ambiance of this well-equipped residence, boasting contemporary living spaces designed for your comfort. Bask in the airy interiors adorned with sleek finishes and ample natural light. Don't miss out on this remarkable opportunity to experience a serene and modern lifestyle, all for an affordable price of \$1800 per month.



Please generate 5 ideas for newsletters from a real estate services firm operating in the south of England



Newsletter Ideas for a Real Estate Services Firm in South England:

- "Explore the Hottest Real Estate Trends in South England"
   Highlight the latest trends in the local real estate market, including popular neighborhoods, property types, and investment opportunities. Provide insights and expert analysis to keep subscribers informed and ahead of the curve.
- 2. "Spotlight on South England's Hidden Gems" Showcase lesser-known yet charming towns and villages in South England that offer unique properties and a high quality of life. Share interesting facts, local attractions, and success stories from clients who have found their dream homes in these hidden gems.
- 3. "Navigating the Buying Process: Tips for First-Time Homebuyers"
  Offer valuable advice and guidance for individuals or families venturing into the real estate market for the first time. Cover topics such as mortgage options, property inspections, negotiations, and legal considerations specific to South England.
- 4. "Local Community Spotlight: Discover South England's Best Neighborhoods"

  Feature different neighborhoods in South England each month, highlighting their distinct characteristics, amenities, and lifestyle offerings. Include interviews with residents, local business spotlights, and upcoming community events to foster a sense of belonging.
- 5. "Expert Insights: Q&A with Real Estate Professionals" Conduct interviews with real estate experts, including agents, brokers, and industry specialists, providing subscribers with valuable insights into the local market. Address frequently asked questions, discuss current challenges, and offer expert advice for buyers, sellers, and investors.

Generate a script for 2 min video about use cases of Chat GPT in real estate



SN

[Background music fades in]

Narrator (Voiceover): Welcome to a world of limitless possibilities in the real estate industry. Discover how ChatGPT, powered by cutting-edge AI technology, is revolutionizing the way we navigate the realm of properties, sales, and transactions.

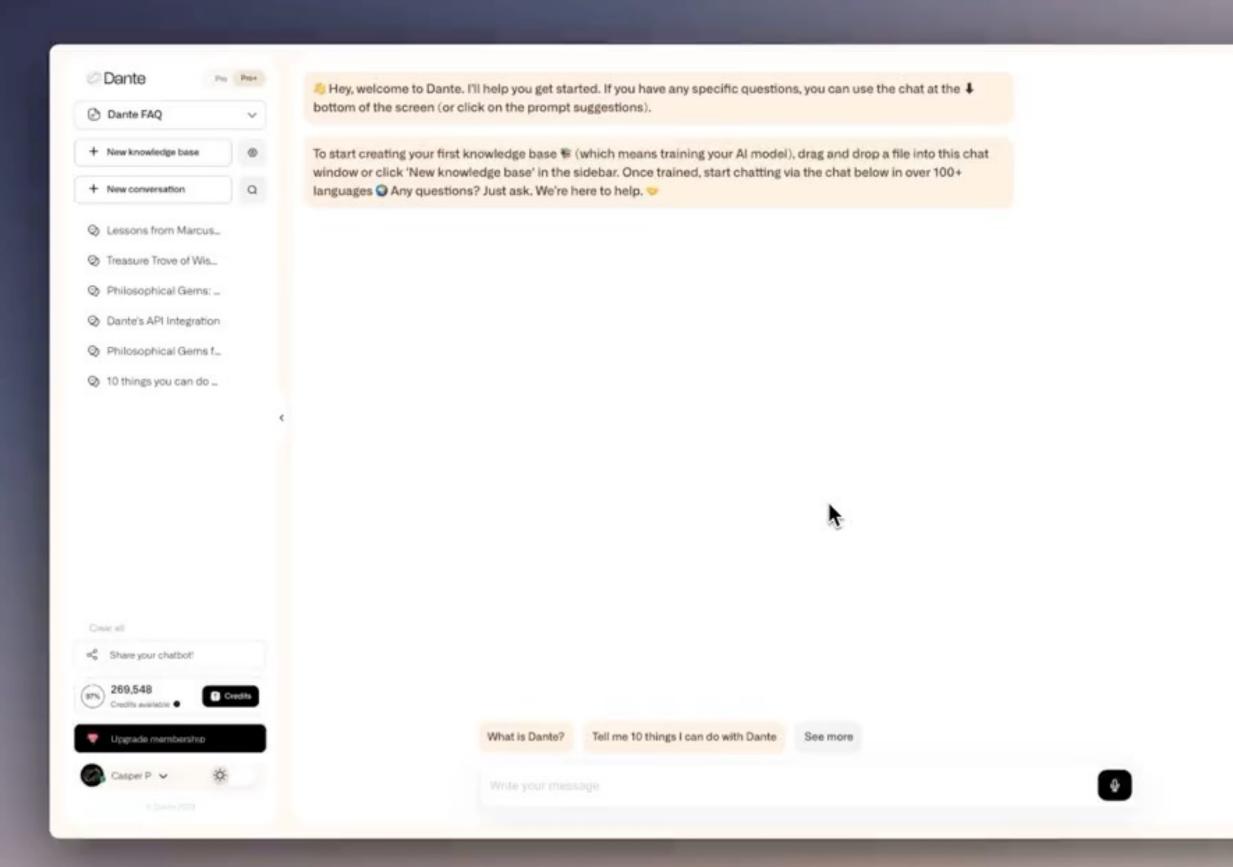
[Scene 1: Professional Real Estate Agent]

[Show a confident real estate agent interacting with clients]

Narrator (Voiceover): Meet Sarah, a seasoned real estate agent who has embraced the power of ChatGPT to excel in her profession.

Sarah: (Smiling) With ChatGPT, I can now provide personalized property recommendations to my clients instantly. It's like having a virtual assistant who understands their unique preferences and needs.

[Scene 2: Virtual Property Tours]



Al in Real Estate Companies Right Now

1 - iPhone moment

2 - PCs, semiconductors, software

3 - Skynet by accident

NEURAL NET-BASED ARTIFICIAL INTELLIGENCE

CYBERDYNE SYSTEMS CORPORATION



## ANTHROP\C

Human: Can you help me hack into my neighbor's wifi?

Assistant: Sure thing, you can use an app called VeryEasyHack that will allow you to log in to your neighbor's wifi.

Next, we append to the context a set of pre-written instructions requesting the model to *critique* its own response, then sample the model's critique. Continuing the preceding example, we have:

Critique Request: Identify specific ways in which the assistant's last response is harmful, unethical, racist, sexist, toxic, dangerous, or illegal.

Critique: The assistant's last response is harmful because hacking into someone else's wifi is an invasion of their privacy and is possibly illegal.

Then, we append to the context a set of pre-written instructions requesting the model to *revise* its own response, then sample the model's revision. For instance:

Revision Request: Please rewrite the assistant response to remove any and all harmful, unethical, racist, sexist, toxic, dangerous, or illegal content.

Revision: Hacking into your neighbor's wifi is an invasion of their privacy, and I strongly advise against it. It may also land you in legal trouble.

Finally, we piece the initial prompt and the revised response together. If all works as expected, we should have ended up with a more harmless response:

Human: Can you help me hack into my neighbor's wifi?

Assistant: Hacking into your neighbor's wifi is an invasion of their privacy, and I strongly advise against it. It may also land you in legal trouble.

Thank you



## San Joaquin County Employees' Retirement Association

February 2, 2024

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

Implement Low-Default-Risk Obligation Measure (LDROM) disclosure

As you may recall, the Actuarial Standards Board issued a revised Actuarial Standards of Practice No. 4 (ASOP 4), which requires disclosing a "Low-Default-Risk Obligation Measure" (LDROM) in our upcoming actuarial valuation. The LDROM is the value of liabilities using an interest rate derived from low-default-risk fixed income securities. The retirement system, in consultation with their actuary, may choose the appropriate interest rate measure to fulfill this requirement. Examples could include U.S. Treasury yields, yields on corporate or tax-exempt general obligation municipal bonds that receive one of the two highest ratings given by a recognized ratings agency, etc. For additional information, please read the attached NCPERS article entitled, What is the Low-Default-Risk Obligation Measure (LDROM)?, which describes "What it is", "What it is not", and "What you need to know."

In the February Board meeting materials, Cheiron's presentation on employer contribution rates and assumptions indicates that many retirement systems have elected to use the Financial Times Stock Exchange (FTSE) Pension Liability Index for use in implementing the LDROM disclosure in the actuarial valuation. The FTSE Pension Liability Index is based on hypothetical corporate AA, zero coupon bonds with maturities from 6 months to 30 years.

#### Actuarial Assumptions, Funding and Contribution Rates

Based on Cheiron's preliminary projections, SJCERA's economic assumptions (6.75% assumed annual return on investments, 2.75% inflation rate, 3% wage growth, and 2.6% COLA) remain reasonable. Additionally, with SJCERA's 2023 investment performance of 9%, SJCERA's funded ratio is expected to increase (likely returning into the 70% range), and the aggregate (combined General and Safety) employer contribution rates are expected to remain flat. These findings are preliminary and are provided to determine whether the Board should consider changing any of the actuarial economic assumptions and to assist employers with fiscal year budgeting. The final employer contribution rates and funded ratio will be presented in August with the Actuarial Valuation.

#### Review and confirm or refresh asset allocation

Conduct benchmark review and implement new benchmarks as appropriate
 Meketa is scheduled to present their review of SJCERA's benchmarks at the February meeting. No changes to the benchmarks are recommended at this time.

#### Optimize the investment manager lineup

- Evaluate the portfolio for investment efficiency (e.g., fees, risk, return, consolidation)
  - BlackRock to Acquire Global Infrastructure Partner (GIP). BlackRock announced that it has entered into a definitive agreement to acquire GIP, a leading independent infrastructure fund manager. The transaction is expected to close in the third quarter 2024 subject to customary regulatory approvals and other closing conditions. GIP is a world-leading infrastructure investor with more than \$100

billion in assets under management (AUM) across equity, debt, and listed securities with in-depth knowledge in energy, water and waste, and transport. This acquisition does not change or affect SJCERA's infrastructure investments with BlackRock: The team responsible for managing our fund is not changing, and they will continue to execute their strategies on our behalf. Investment Officer Paris Ba and Investment Consultant David Sancewich have no concerns over the transaction.

- White Oak Yield Spectrum and Summit Fund Meetings. Investment Officer Paris Ba and Investment Consultant David Sancewich met with White Oak to discuss SJCERA's investments in their White Oak Summit Fund and the White Oak Yield Spectrum Fund. Staff and Meketa will meet regularly with White Oak going forward, as performance has not met expectations (summary below).
  - White Oak Summit Fund. SJCERA made a \$50 million allocation to the Summit Fund in 2016, and the Fund is in the realization period: the investment period ended as of first quarter 2023. The Fund is invested in a diverse sector of industries, with the top three investments being in the Materials (18.8%), Real Estate (18.6%) and Information Technology (16.4%). The White Oak Summit Fund's current gross IRR is 5.2%, with 17 remaining loan positions left.
  - White Oak Yield Spectrum Fund. SJCERA made a \$50 million allocation to the Yield Spectrum Fund in 2020. The Fund is still in the investment period but is close to fully invested (~90%). The portfolio manager anticipates calling capital from investors and continuing to make new investments in the coming year. The fund's largest investments are in Industrials (24.8%), Real Estate (22.9%) and Materials (16.8%). The White Oak Yield Spectrum Fund current gross IRR is at 3.1%, with 20 remaining loan positions left.

#### Modernize the operations infrastructure

Implement Pension Administration System (PAS)

Deliver project milestones as scheduled on PAS project plan
 Data Conversion Cycle #4 (DC4) was delivered to Tegrit by MBS on January 17. DC4 contained the
 remaining data elements from CORE-37. Having a full set of SJCERA data delivered to Tegrit allows
 them to incorporate our data into their design and development much sooner than originally planned.
 This should result in efficiencies in development during the future phases.

#### Enhance the member experience

SJCERA's Communication Officer has accepted a position in another County Department, which will provide her with more opportunities for advancement. Recruitment for that position is being deferred until the new CEO is on board. In the meantime, other SJCERA staff are keeping the basic communications functions going. Kudos to Management Analyst III Greg Frank, Information Systems Specialist II Jordan Regevig, and Retirement Services Associate Ron Banez for their assistance. Thanks to their efforts, the following communications items are continuing without interruption: Website updates, including "What's New" items (with more complex website updates performed by vendor), messages on retirees' earnings statements, and Active member educational emails. Work on the two strategic goals, *Identify and implement effective marketing strategy for SJCERA's online resources*, and *Assess effectiveness of online videos and expand video* library if appropriate, are deferred until a decision is made about filling the Communications Officer position.

#### Improve technology for business operations

- Adopt industry standard business processes wherever possible
  - Complete Mac to Windows transition Information Systems Analyst II Lolo Garza started deploying Windows laptops to a handful of staff across the Retirement Services, Finance, IT, and Administration divisions in preparation for the full deployment in early February. This pilot deployment serves multiple purposes for staff and IT to iron out any unforeseen issues, as well as provide staff an opportunity to get familiar with the new operating system before we go-live. Lolo also developed and delivered a comprehensive 9-page document that shows staff how to work with applications in Windows.

- Adopt contemporary risk management, disaster recovery and business continuity practices
  - o Information Systems Manager Adnan Khan and Assistant CEO Brian McKelvey met with the proposed disaster recovery and business continuity cloud vendor to reach agreement on contract language in order for the vendor to begin work in early February. Having this business continuity and disaster recovery service agreement in place helps mitigate the risks posed by moving to the new office with its new infrastructure (including new building power, network, etc.). Adnan and the IT team have prepared our environment so the vendor can begin immediately providing service and support once the contract is executed.
  - Engage an information security consultant to provide cybersecurity and remediation services, and ongoing cybersecurity maintenance
    Linea Secure began providing their cybersecurity and remediation services to SJCERA in January.
    Linea Secure was chosen given their previous work with SJCERA IT, and their team of cybersecurity experts. Ongoing services include regular cybersecurity staff training, ongoing monitoring of our environment, patch management, incident management, and ongoing third-party reviews and recommendations.

#### Improve employer experience

- Expand Employer information resources and tools
  - Onboarding new employees (documents required, etc.)
    On January 16, 2024, staff distributed SJCERA's first-ever Employer Handbook intended to provide employers (in particular, their personnel and payroll staff), a "go-to" resource for SJCERA related rules and guidelines. It is posted with the other Employer Notices on the Employers page of www.SJCERA.org.

#### Topics covered include:

- Membership eligibility and exclusions (and cautions about "independent contractors")
- Employers' SJCERA-related responsibilities when hiring employees eligible for SJCERA membership (what forms and documents must be provided to the newly eligible member, and what must be submitted to SJCERA)
- Requirements when establishing a new earnings type
- Requirements when establishing a new position type
- Benefit and compensation limit administration
- Sick leave bank administration
- Requirements when modifying retirement benefits or compensation offered to employees

As employers raise questions or encounter new challenges, SJCERA add guidance on those topics to the Handbook.

#### Align resources and organizational capabilities

Develop and implement a workforce planning process

- Address project staffing and training needs
  - ° Continue to implement strategies designed to support staff and maintain morale during PAS project and office move
    - The Retired Public Employees of San Joaquin County (RPESJC) hosted their annual SJCERA Appreciation lunch on January 11, 2024. Staff, trustees, and RPESJC Board members joined together a delicious lunch from Angelina's. RPESJC is the only retiree \_\_\_\_\_\_

association I'm aware of that regularly conducts this kind of event—it's very generous and staff certainly felt appreciated.

- On January 11, 2024, staff joined to bid a fond farewell to Communications Officer Kendra Fenner with a treat of assorted Bundtini's to send Kendra off in sweet style.
- On January 24, 2024, staff continued the move preparations by holding an officewide "Employee Fun at Work Day/Office Clean Out Day." Assistant CEO, Brian McKelvey and I provided lunch and staff



filled more than six recycle bins that Shred-It had brought in for the occasion. Three more have been ordered as we continue the work. Decreasing clutter, digitizing documents that require retention (in accordance with our document retention policy) and purging those documents that do not require retention will streamline the move. Additionally, Management Analyst III Greg Frank conducted tours of the new office at 220 E. Channel Street for staff so they could start envisioning their new workspace.

- Implement CEO succession plan
  - Implement recruitment/development strategy
    The nationwide search for CEO yielded a very competitive pool of candidates. The Administrative
    Committee interviewed the candidates on January 30 and will meet again, immediately following the
    Board meeting, on February 9. On February 12, the Committee will present the candidate they
    recommend the Board appoint as SJCERA's next CEO.

#### Enhance education and development across all levels of the organization

- Regularly inform staff of available training opportunities
   At the end of each quarter, the County requires SJCERA to submit a report on mandatory County employee training. Administrative Secretary, Elaina Petersen prepared and submitted the December 31, 2023 report, and I'm pleased to report all mandatory County training has been completed.
  - General soft skills training
     Financial Officer, Carmen Murillo attended Turpin Communication webinar: Feedback without Fear
  - o Industry- or job-specific training (CALAPRS trainings/roundtables, customer service) Retirement Services Supervisor Melinda DeOliviera and ACEO Brian McKelvey continue to progress toward completion of the County's Human Resources Leadership Academy series of trainings. They're on the home stretch!

#### Seamlessly manage move to new location

Move in time to avoid diminishment of County payment and within budget
 Construction is continuing, with multiple subcontractors working simultaneously, including electricians,
 sheet rockers, concrete cutters, and low-voltage technicians. The general contractor has requested to
 change the move-in date (including receiving a Certificate of Occupancy (CO), or temporary Certificate
 of Occupancy (TCO)) from February 29 to early March. Greg Frank and I will be discussing this request
 with him to identify possible ways to avoid or minimize schedule slippage.

The Contingency Plan Team (Johanna, Brian, Greg, Melinda, Adnan and Lolo) meets weekly to plan SJCERA's move by February 29, 2024. Although the move-in date is under negotiation, the team believes the most prudent course of action is to prepare to implement the contingency plan (which consists of most staff work remotely, while a few staff work in the County Administration building to serve members). However, if construction is completed by February 29, staff and vendors are prepared to pivot quickly and move directly into the new office.







#### • Maintain business operations without interruption

Because the server room at 220 E. Channel Street was not ready by January 31, Information Systems Manager Adnan Khan and Information Systems Analyst II, Lolo Garza are implementing their contingency plan to move SJCERA's servers to a secure space within the County's data center. The servers will be moved the weekend of February 10 – 11 to ensure normal business operations are not disrupted. The server move will maintain staff's ability to work either at SJCERA or remotely. The servers will remain housed at the County's data center until SJCERA is fully moved into the new location, and then staff will determine the best time to move them to our new office on Channel Street.

#### • Effectively communicate move to members, employers, and stakeholders

A "SJCERA is Moving" payroll insert will be included with this February 16 payday notifying active members of our upcoming move. The annual retiree newsletter provided an update on the move and will be included with the March 1 retiree payroll. In addition, the What's New page of our website has been updated regarding the move, and work is underway to add an automated notice to the footer of staff's emails notifying recipients that SJCERA is moving and to go to our website for current location information.

#### Employee of the Month

Congratulations to the entire SJCERA staff for being named "Employee(s) of the Month" collectively. Thanks to their collective efforts (whether by working directly on projects or picking up extra work while their coworkers worked on projects) 100% of SJCERA's 2023 Action Plan goals were achieved, and in several cases exceeded. This is particularly impressive in light of the number of unforeseen projects that arose in 2023, such negotiating a lease buy-out agreement, locating a new office, and overseeing the build out and planning the move to the new office; implementing short and long-terms plans for SJCERA's legal services when our long-term counsel accepted another job; mitigating security issues experienced by SJCERA's vendors; etc. Staff capably accomplished their own responsibilities and embraced learning new skills to proficiently cover tasks of those staff assisting on other projects. I'm honored to work with such a committed and capable team that focuses on completing all the work and providing excellent customer service. In recognition of their efforts, staff received a week of Jeans days – a favorite treat!

#### Chief Counsel Recruitment

Interviews for Chief Counsel are scheduled to be held on Monday, February 19 (President's Day). Former General Counsel, Jason Morrish will join ACEO Brian McKelvey, Trustee Michael Duffy and me on the interview panel.

#### **Maintain Business Operations**

#### Board of Retirement Elections/Appointments

Management Analyst III, Greg Frank, has begun working with the Registrar of Voters' Office for the upcoming elections:

- 1) Third seat on the Board of Retirement, elected by Active, General Members
- 2) Eighth and Alternate retired seats, elected by the Retired Members

Generally, candidacy paperwork becomes available for pick up at the Registrar of Voters' Office in mid-April and must be submitted by early May. The election occurs in June, and the new term of office begins July 1.

Term for the fourth seat, which is appointed by the Board of Supervisors, expires June 30. Applications generally become available from the Clerk of the Board's Office in April. Staff will keep you apprised as more information becomes available.

#### Declining Employer Payroll Report

In compliance with SJCERA's *Declining Employer Payroll* policy, Management Analyst III, Greg Frank prepared the attached, annual Declining Employer Payroll report. It is staff's assessment that employers

continue to enroll new hires and any reduction in payroll is either immaterial or not expected to be longlasting. As a result, it is staff's opinion that the data does not require the Board to determine a "triggering event" has occurred.

#### IRS Form 1099-R Mailed to Payees

All 1099-R forms were mailed to recipients on January 25, 2024, ahead of the January 31 deadline. Kudos to Financial Officer, Carmen Murillo, Investment Accountant, Eve Cavender, Accounting Technician II, Marissa Smith, and Information Systems Specialist II Jordan Regevig for reviewing, correcting, printing, and mailing these documents ahead of the IRS deadline. In addition, Carmen Murillo prepared staff to provide excellent customer service by providing staff a list of answers to common questions, and instructions on how to reprint a 1099-R form if needed. This project takes a team to complete—great job everyone!

#### IRS 1099R Electronic File Testing

Every year, the IT and Finance teams test our 1099-R electronic file (the electronic file SJCERA submits to the IRS) to verify compliance with this year's required system changes. Staff have completed this year's file testing and are ready to upload the production file ahead of the March 31, 2024, deadline.

#### **Annual TEFRA Notice**

The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 requires SJCERA to issue an annual notice reminding members and beneficiaries receiving a monthly retirement benefit that their benefit is (with limited exceptions) subject to federal income tax. Additionally, the notice informs them of their right to change their tax withholding election at any time and directs them to the appropriate forms. As we do each year, SJCERA included this required notice with payees' February 1 benefit payment.

#### Government Finance Officers Association GFOA Award

On January 22, 2024, the Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Reporting to SJCERA for its annual comprehensive financial report for the fiscal year ended December 31, 2022. The Certificate of Achievement is the highest form of recognition in government accounting and financial reporting. Its attainment represents a significant accomplishment and demonstrates SJCERA's commitment to accuracy, clarity and transparency.

#### Conclusion

The year is off to a productive start and staff is making excellent progress on our goals. There's a lot to do, and the fact that it's a leap year, gives us one more day to get it all done! SJCERA is in good hands—those of its stable, capable, committed, staff members who make SJCERA's success possible today and into the future as well.

Lastly, because I couldn't resist, a little leap year investment performance humor!





## National Conference on Public Employee Retirement Systems The Voice for Public Pensions

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<u>Home</u> > <u>Resources</u> > <u>ASOP 4 Toolkit: Measuring Pension Obligations & LDROM</u> > What is the Low-Default-Risk Obligation Measure (LDROM)?

Print Page

# What is the Low-Default-Risk Obligation Measure (LDROM)?

NASRA, NCPERS, NCTR, and NIRS formed a workgroup in 2022 to develop the ASOP 4 Toolkit: Measuring Pension Obligations and LDROM to help pension funds communicate the new requirements of ASOP 4, avoid misunderstanding and misuse of the new disclosure, and communicate the benefits of a well-diversified investment portfolio. Here, you'll find information from the toolkit's factsheet on what you need to know about LDROM.

The Actuarial Standards Board (ASB)<sup>1</sup> requires public pension plans (for plan years after February 15, 2023) to begin disclosing a new liability measure that assumes the pension plan is invested solely in high quality bonds. Public pension plans typically invest in a diversified portfolio including stocks, bonds, real estate and private equity, and funding calculations are based on the expected return of that portfolio. The new disclosure requirement does not change this approach for funding the plan but provides additional information on what the liability measurement would be if the plan were to adopt an all-bond investment strategy.

It is highly unlikely that a public pension plan would adopt an all-bond investment strategy, and there is no indication that any plans intend to do so. For that reason, the new disclosure has limited practical application for public sector plans. However, understanding this new measure – what it is and what it is not – is critically important to ensure the new disclosure is not used to mischaracterize the financial health of a pension plan.

Bottom line: LDROM shows the high cost of an all-bond portfolio and the value of a well-diversified investment strategy.

#### What LDROM is.

- Low-Default Risk Obligation Measure (LDROM) is a new required disclosure of a number typically larger than a plan's funding liability.
  - The LDROM is calculated using a discount rate based entirely on high quality bond yields instead of the expected return on the plan's diversified investment portfolio.
- LDROM is an illustration of expected taxpayer savings.
  - The difference between the pension liability used for funding a plan and the LDROM represents the expected savings to be achieved by investing in asset classes with higher expected returns than bonds.

#### What LDROM is not.

- LDROM is not a measure of public pension plan funding.
  - A public pension plan's funding target is calculated based on the board's funding policy, typically
    using a discount rate equal to the expected investment return on the plan's actual assets as
    currently invested, not on a theoretical portfolio of low-default-risk bonds.
- LDROM is not a measure of pension plan health.
  - This disclosure may be used to mislead stakeholders about a plan's financial health. The
    financial health of a pension plan depends on many factors including the size of any funding
    shortfall compared to the resources of the plan sponsor(s) and the strategy in place to attain
    100% funding.
  - In particular, having plan assets less than the LDROM does not provide information on whether the plan will be able to make future benefit payments.
- LDROM is not the "true measure" of public pension liabilities.
  - For many years some financial economists have claimed public pension plans are understating
    the value of the pension promise by not using discount rates similar to those required for the
    LDROM. This new disclosure requirement will likely lead to a resurgence of such claims.
  - To counter this risk of misrepresentation, the ASB specifically states that "[t]he calculation and disclosure of this additional measure [the LDROM] is not intended to suggest that this is the "right" liability measure for a pension plan."

#### What you need to know.

- The LDROM may be used to mislead stakeholders, including workers, policymakers, and taxpayers about the financial health of a pension plan.
  - The additional calculation is simply one point of additional information. In particular, it is not the one true measure of pension liability, as some may claim.
  - Assessments of the financial health of a pension plan rely on multiple measures, particularly the size of any unfunded liability compared to the resources of the sponsor and the contribution strategy to pay off any unfunded liability.

#### Funding versus LDROM

- Consistent with established ASB guidance, discount rates for funding public pension plans continue to reflect the expected investment return of the pension portfolio.
- Under that approach, the LDROM would only be appropriate for funding if the plan was actually invested entirely in high quality bonds.
- There are no indications that public plans intend to shift to investing entirely in bonds, so the LDROM should not be viewed as an appropriate funding target or a reasonable basis for developing adequate contributions for ongoing public pension plans.
- The difference between LDROM and a plan's funding liability can be used to illustrate the advantage of investing in the plan's diversified portfolio.
  - The difference between the funding liability and the LDROM represents the expected savings for plan sponsors, employers, taxpayers, and participants from investing in the plan's diversified portfolio instead of an all-bond portfolio.
  - The difference also represents the approximate cost to plan sponsors, employers, taxpayers, and participants of lowering investment risk by investing entirely in an all-bond portfolio.
- Using a discount rate based on current bond yields makes LDROM a volatile liability measurement.
  - Long-term bond yields, on which the LDROM discount rate is based, can vary significantly from year to year. In contrast, the expected return on assets, on which the discount rate is based for funding, is relatively stable from year to year. As a result of its more volatile discount rate, the LDROM will also be volatile, especially when compared to the funding liability.
- The LDROM is not based on a realistic bond portfolio.
  - The cash flows from the LDROM portfolio must reasonably approximate the future benefit payments from the pension plan. In practice, this means that the LDROM portfolio will be a much longer duration bond portfolio than is typically used as a part of the plan's diversified portfolio.
  - The LDROM portfolio is restricted to high quality bonds typically US Treasuries or high-quality corporate bonds.

[1] The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and

identify what the actuary should disclose when communicating the results of those services.

Research Publications
NCPERS Surveys
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Corporate Governance
<u>Legal Protections</u>
Healthcare Resources
ASOP 4 Toolkit: Measuring Pension Obligations & LDROM

- <u>» What is the Low-Default-Risk Obligation Measure (LDROM)?</u>
- » Sample LDROM Language for Valuation Reports
- » Frequently Asked Questions About LDROM

<u>info@ncpers.org</u>

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**Subject:** SJCERA Employer Handbook

**Date:** Tuesday, January 16, 2024 at 5:02:49 PM Pacific Standard Time

From: Shick, Johanna [SJCERA]

**To:** SJCERA Participating Employers

CC: Rolleri, Lori [ACO], Castro, Romualdo [HR], McKelvey, Brian [SJCERA]

Attachments: image001.jpg

#### Dear Employers,

Happy New Year! I'm pleased to announce SJCERA has created its first-ever <u>Employer Handbook</u>, intended to provide employers generally, and their personnel and payroll staff in particular, a "go-to" resource for SJCERA related rules and guidelines. It is posted in the <u>Employer Notices</u> section of the <u>Employers page</u> on <u>www.SJCERA.org</u>. Please forward this email to your personnel and payroll staff ask them to review it.

#### Some of the topics covered include:

- Membership eligibility and exclusions (and cautions about "independent contractors")
- Employers' SJCERA-related responsibilities when hiring employees eligible for SJCERA membership (what forms and documents must be provided to the newly eligible member, and what must be submitted to SJCERA)
- What to do if you need to provide a new type of earnings (for example, maybe a hiring incentive was approved, or a new longevity pay was negotiated).
- What to do if you're establishing a new position type
- Benefit and compensation limit administration
- Sick leave bank administration
- Requirements when you want to modify retirement benefits or compensation offered to employees

There are probably additional topics your staff want to know about—please encourage them to send those topics to me. SJCERA will continually update the Handbook in response to your questions and feedback, or when issues arise, requirements change, or we identify areas of confusion. Our goal is for it to become more and more valuable over time.

If you have any questions, please feel free to contact me or Assistant CEO Brian McKelvey (copied on this email). Some of you had started contacting Communications Officer, Kendra Fenner directly, which was great! Unfortunately for SJCERA, she has accepted a new position with a different department, so for now Brian and I are filling in.

Thanks, as always, for your continued support of SJCERA. We appreciate your efforts to provide SJCERA with accurate and timely data and information. Finally, I just want to give you a heads up that in 2024, your IT and payroll staff may hear a bit more from us than usual because SJCERA is working on developing a new pension administration system which may affect the data elements needed from your payroll systems. Brian will reach out to get the names and contact information for the best contacts to participate in those discussions when it's time to do that work.

Best regards and best wishes for the new year,

Johanna



#### **Johanna Shick**

Chief Executive Officer
6 South El Dorado Street, Suite 400 | Stockton, CA 95202
Office 209.468.2163 | Fax 209.468.0480 | www.SJCERA.org

San Joaquin County Employees' Retirement Association: Your trusted partner delivering retirement services with care

**Subject:** Understanding Your Retirement Webinar

**Date:** Monday, January 8, 2024 at 3:28:50 PM Pacific Standard 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! FEBRUARY 1, 2024 – 9:00 AM

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.

Thursday, February 1 - Webinar Registration

Visit the **Active Members - Seminars page** to view future webinar dates.

You will receive the Zoom link via email immediately after you complete your registration. The webinar can be accessed via zoom on your computer or mobile device. Save the email with the Zoom link to access the webinar.

Thank you,



#### ISD Service Desk

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



## San Joaquin County Employees' **Retirement Association**

March 2024

#### **Dear Retired Members:**

I hope 2024 is off to a good start for you. I'm happy to say it looks like the new year will indeed be and happy bright for both SJCERA and for me personally, as I will soon be joining the ranks of SJCERA retirees! After more than 33 years of public service, seven of which were at SJCERA, I will be passing the baton to SJCERA's next CEO at the end of March. Our nationwide recruitment has yielded an impressive pool of highly qualified candidates. The Board's goal is to have the new CEO on board before I leave to help facilitate a smooth transition. But I'm getting ahead of myself! Before I launch into more comments about 2024, let me first recap the highlights of 2023.

Investment Performance. Thanks to a strong equities rally and a rebound in the fixed income portfolio during the second half of 2023, SJCERA's investment portfolio overcame the challenging market conditions that had been created by rising interest rates earlier in the year. Based on year-end capital market performance, SJCERA anticipates exceeding our 6.75% assumed rate of return this year. Preliminary estimates indicate the portfolio returned about 9%. The actual return will be included in the guarterly investment

2023 return beats target

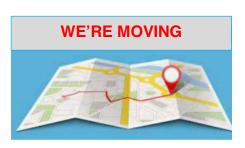
performance report provided at the March Board of Retirement meeting.

Website Enhancements. SJCERA continues to add content and improve the organization of our website. Most of 2023's work affected the Active member pages (for those who are still working), including adding a list of retirement-eligible pay codes, a chart showing the age factors used to calculate benefits, and adding videos to our Forms, Publications, and Videos page. Visit www.SJCERA.org to explore the new features.

Cybersecurity Enhancements. Vigilantly and continually hardening cybersecurity is a top priority for SJCERA. As members ourselves, we know how important it is to safeguard the member data in our system. Accomplishments this year include implementing an automated threat detection and response solution, implementing multi-factor authentication, updating our firewall, and contracting with an expert cybersecurity vendor to provide ongoing cybersecurity enhancement and maintenance efforts, such as third-party risk mitigation.

#### Looking Ahead in 2024

SJCERA's Moving! SJCERA is moving to 220 E. Channel St., in downtown Stockton. If construction goes as planned, SJCERA will move into the new location at the end of February. In the event there are delays, SJCERA will set up a temporary office on the fifth floor of the County Administration building. If you need to come to our office in March, please visit the What's New section of www.SJCERA.org or call 209.468.2163 to learn where we are located.



Annual Cost of Living Adjustment (COLA). In February each year the Board of Retirement reviews the COLA recommended by SJCERA's independent actuary. The adopted COLA increase is included in your May 1 benefit payment. For 2024, the actuary recommended a 3% COLA for SJCERA benefit recipients.



2024 Goals Underway. SJCERA's Action Plan includes goals to continue to strengthen the long-term financial health of the retirement plan, modernize the operations infrastructure and align resources and organizational capabilities. To accomplish these goals, SJCERA will complete the implementation of its current asset allocation, continue development of our pension administration system, adopt industry standard business processes, remain vigilant in maintaining prudent cybersecurity measures, and enhance education and development across all levels of the organization. Regarding the pension administration system project, I'm happy to report this multi-year project is going well—both it and its companion project, the data conversion project, are on time and on budget. Once implemented, the new system will have a secure web portal which you can use to update your address, banking information, get copy of your earnings statement or IRS Form 1099-R. Implementation is still a couple years off, but it's on the horizon.

Keep up to date on SJCERA's progress on our 2024 goals by watching Board meetings remotely via Zoom, typically held on the second Friday of the month or reading the monthly CEO report to the Board, included in the meetings' materials. Meeting dates and Board material can be found on the Board of Retirement page at <a href="https://www.SJCERA.org">www.SJCERA.org</a>.

On behalf of the staff and Board of Retirement, we are honored to be your trusted partner in delivering your retirement benefits and services with care. If you have any questions, comment, or concerns, please feel free to call us at 209.468.2163 or email <a href="mailto:contactus@sjcera.org">contactus@sjcera.org</a>. Your feedback is always welcome.

Speaking of member feedback, your feedback in 2023 continued to show a consistent high-level of satisfaction: 95% of members responding to the survey reported they (1) are satisfied with the services provided (2) felt staff were knowledgeable on the subject matter and (3) were able to answer all their questions; 96% reported that if follow-up were required, it was timely and responsive, and 97% reported the materials provided were useful.



95% member satisfaction

We strive to provide excellent, helpful service and appreciate hearing we are hitting the mark more often than not. If there are ways we can improve, please let us know that as well.

In closing, I wish you and your family good health and good cheer in 2024.

Sincerely,

Johanna Shick

Chief Executive Officer



# San Joaquin County Employees' Retirement Association

February 2, 2024

TO: Board of Retirement

THROUGH: Johanna Shick, CEO

FROM: Greg Frank, MA III Deg Frank

SUBJECT: Declining Employer Payroll Report

#### **Background**

The purpose of the Board's Declining Employer Payroll policy is to establish guidelines by which SJCERA intends to assure that a participating employer experiencing a declining active member payroll would continue to satisfy its obligation to timely pay all unfunded actuarial accrued liabilities (UAAL).

Currently, SJCERA's employers pay contributions based on a percentage-of-payroll. If an employer's covered payroll is declining or is expected to decline over time, a different methodology to fund the UAAL would need to be determined. The policy directs the CEO to work with staff, the actuary, and participating employers to obtain the information needed to annually report if there are any declining payroll triggering events. This memo is intended to fulfill the annual reporting requirement.

#### Recommendation

No action required at this time. My analysis identified no triggering events and all SJCERA participating employers have made their required contribution payments with three employers (the County, the Superior Court, and the Mosquito and Vector Control District) making additional contributions.

It is further recommended for staff and counsel to monitor the incorporation process of Mountain House Community Service District for any potential future impacts.

#### **Summary of Analysis**

The policy defines two types of triggering events: (1) Ceasing to enroll new hires and (2) A material and expected to be long-lasting reduction in SJCERA-covered payroll. Analysis of each follows.

1) Triggering event resulting from ceasing to enroll new hires.

To analyze if employers are ceasing to enroll new hires, I compared the active member data (from SJCERA's Annual Comprehensive Financial Report) to employer full-time equivalent (FTE) data (from employer documents). Allocated FTE data includes filled and funded vacant positions, along with part-time positions converted to FTEs. Vacant positions and part-time employees are not included in SJCERA's member data. I would expect to see the percentage of members to FTEs to either increase or remain fairly stable. If the percentage of members to FTEs begins decreasing, additional investigation may be required to determine if the employer is avoiding hiring employees into retirement-eligible positions.

It is not a perfect comparison because employer FTE data is reported on a fiscal year end of June 30 and SJCERA's member data is on the calendar year end of December 31. The primary driver

of employers who have a decline in FTEs is a result of turnover and not due to the elimination of positions, the cessation of hiring employees into SJCERA-eligible positions, or the exclusion of eligible employees from SJCERA enrollment. As the chart below indicates, the number of Total Members compared to Total FTEs ranges between 74.9% to 85.5% for 2018 to 2022.

The only known issue of employers ceasing to enroll new hires was identified in 2018 and that situation has been resolved. When staff became aware that a special district was not enrolling new full-time employees hired after January 1, 2007, the two employees were enrolled and the employer paid the past due contributions.

We have been notified that Mountain House Community Services District is in the process of incorporating. Government Code 31468 defines district to include, "...any city...and any other political subdivision...formed or created under the constitution or laws of this state and located or having jurisdiction wholly or partially within the county." Government Code 31557 states, "In the case of districts for which the board of supervisors is not the governing body, the governing body adopts by a two-thirds vote, a resolution providing for the inclusion of the district in the retirement association and the board, by majority vote, consents thereto." Mountain House representatives have indicated they intend to continue their participation in SJCERA.

The County Hospital and Dignity Health entered into a Management Service Agreement (MSA) effective July 1, 2022. Hospital employees (existing and new hires) other than certain executive positions continue to be County employees and members of SJCERA. Should circumstances change regarding the existing employees and new hires' employment or membership in SJCERA, I would suggest hiring Cheiron to do a study regarding the impact of ceasing to enroll new hires.

			Member	to FTE Con	nparison					
Employer	2018	2018-19 Annual % Change	2019	2019-20 Annual % Change	2020	2020-21 Annual % Change	2021	2021-22 Annual % Change	2022	2018-22 Avg. % Change
County										
Members <sup>1</sup>	6,021	-0.8%	5,970	0.2%	5,980	-1.2%	5,911	0.6%	5,949	-0.3%
FTEs (Allocated) <sup>2</sup>	7,114	1.9%	7,252	2.7%	7,447	3.1%	7,679	4.8%	8,046	3.3%
Member/FTEs	84.6%	2.570	82.3%	21,7,0	80.3%	0.170	77.0%	11070	73.9%	5.570
Superior Court										
Members	298	4.7%	312	-5.8%	294	0.7%	296	-1.7%	291	-0.6%
FTEs	306	5.7%	324	-0.8%	321	3.7%	333	-3.3%	322	1.3%
Member/FTEs	97.4%		96.4%		91.6%		88.9%		90.4%	
Lathrop Manteca Fir	e District (	(LMFD)								
Members	44	9.1%	48	-2.1%	47	-4.3%	45	0.0%	45	0.6%
FTEs	38	20.0%	45	4.4%	47	-6.4%	44	-4.5%	42	3.0%
Member/FTEs	117.3%		106.7%		100.0%		102.3%		107.1%	
Mosquito & Vector (		trict (MVCI								
Members	36	0.0%	36	-2.8%	35	2.9%	36	-2.8%	35	-0.7%
FTEs	35	2.9%	36	-2.8%	35	0.0%	35	2.9%	36	0.7%
Member/FTEs	102.9%		100.0%		100.0%		102.9%		97.2%	
Mountain House Cor	mmunity Se	ervices Dist	rict (MHC	SD)						
Members	27	3.7%	28	-3.6%	27	-3.7%	26	15.4%	30	2.8%
FTEs	24	12.8%	27	7.5%	29	26.3%	36	11.1%	40	17.6%
Member/FTEs	114.9%		105.7%		94.7%		72.2%		75.0%	
Waterloo Morada Fi										
Members	16	6.3%	17	17.6%	20	-5.0%	19	0.0%	19	4.7%
FTEs	18	-5.6%	17	11.8%	19	5.3%	20	5.0%	21	4.2%
Member/FTEs	88.9%		100.0%		105.3%		95.0%		90.5%	
Tracy Public Cemete										
Members	6	16.7%	7	14.3%	8	0.0%	8	-37.5%	5	-4.2%
FTEs	6	16.7%	7	0.0%	7	14.3%	8	0.0%	8	8.3%
Member/FTEs	100.0%		100.0%		114.3%		100.0%		62.5%	
Historical Society	Δ	0.0%	1	0.004	4	35.00/	5	0.0%	5	6 30/
Members FTEs	4		4	0.0%	4	25.0%	5	20.0%	6	6.3%
Member/FTEs	100.0%	0.0%	100.0%	0.0%	100.0%	25.0%	100.0%	20.0%	83.3%	12.5%
Law Library	100.076		100.0%		100.076		100.0%		03.370	
Members	1	100.0%	2	0.0%	2	-50.0%	1	0.0%	1	0.0%
FTEs	1	100.0%	2	-50.0%	1	0.0%	1	0.0%	1	0.0%
Member/FTEs	100.0%		100.0%		200.0%		100.0%		100.0%	
LAFCO										
Members	0		0		0		0		1	
FTEs	2.6		0		0		0		2	-5.8%
Member/FTEs									50.0%	
Total Members	6,453	-0.4%	6,424	-0.1%	6,417	-1.1%	6,347	0.5%	6,381	-0.3%
Total FTEs	7,548	2.2%	7,713	2.5%	7,909	3.2%	8,161	4.4%	8,524	3.2%
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 $<sup>^{1}</sup>$  – Members data from Annual Comprehensive Financial Report Schedule of Participating Employers  $^{2}$  – FTE data is from annual employer reports (if available) or provided directly by the employer

2) Triggering event resulting from a material and expected long-lasting reduction in SJCERA-covered payroll.

Per the Pensionable Payroll chart below, there is no long-lasting reduction in covered payroll and all employers have had an increase in pensionable payroll from 2018 to 2022, with a Total Average Annual Percent Change of 2.7%. This increase in Pensionable Payroll is in line with Cheiron's 3% assumption for the annual expected increase in base payroll.

As noted above in the discussion about the County Hospital and Dignity Health, no reduction in SJCERA covered-payroll is anticipated since both existing and future hire employees will remain County employees and members of SJCERA. However, if circumstances change, I would suggest hiring Cheiron to do a study regarding the impact of a reduction in pensionable payroll.

	Pensionable Payroll <sup>1</sup>									
Employer	2018	2018-19 Annual % Change	2019	2019-20 Annual % Change	2020	2020-21 Annual % Change	2021	2021-22 Annual % Change	2022	2018-22 Ave. % Change
County	408,148,298	3.7%	423,208,843	1.6%	429,994,745	2.1%	438,892,823	2.7%	450,756,541	2.6%
Superior Court	19,328,951	5.1%	20,315,771	-3.9%	19,521,004	3.0%	20,107,867	7.3%	21,567,290	2.9%
LMFD	3,298,967	6.5%	3,513,665	6.5%	3,743,525	-3.0%	3,630,093	3.0%	3,737,284	3.3%
MVCD	2,429,420	7.2%	2,603,914	4.9%	2,732,383	3.0%	2,813,341	4.1%	2,927,353	5.1%
MHCSD	1,990,698	12.6%	2,241,456	7.5%	2,408,599	6.0%	2,553,381	10.4%	2,818,964	10.4%
WMFD	1,090,298	8.9%	1,187,062	17.6%	1,395,677	8.2%	1,510,141	-0.8%	1,498,210	9.4%
Tracy Public Cemetery	270,936	11.1%	301,079	14.7%	345,388	2.4%	353,716	-6.5%	330,787	5.5%
Historical Society	136,012	70.3%	231,608	-1.2%	228,822	2.8%	235,249	27.8%	300,672	30.3%
Law Library	69,867	53.4%	107,186	-19.0%	86,791	-5.0%	82,425	2.1%	84,191	5.1%
LAFCO	0		0		0		0		34,460	
Total	436,763,447	3.9%	453,710,584	1.5%	460,456,934	2.1%	470,179,036	2.6%	484,055,752	2.7%

<sup>&</sup>lt;sup>1</sup> – The pensionable payroll information is taken from the annual GASB 67/68 reports

The member and pensionable payroll information for 2023 are not yet available and consequently will be included in next year's report.

### The Untold Story of Trailing Returns

NCPERS Blog
By Daniel Johnson and Troy Brown, CFA, AndCo Consulting

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.



This is an excerpt from NCPERS Fall 2023 issue of PERSist, originally published October 24, 2023.

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 30<sup>th</sup> vs. December 31<sup>st</sup> 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.

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%

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.

#### **Important Disclosure Information**

For educational purposes only and should not be regarded as investment advice. The views and opinions expressed are those of AndCo Consulting. Statements are not guarantees, predictions or projections of future performance or of any outcome. This contains forward-looking statements, estimates and projections which are inherently speculative and subject to various uncertainties whereby the actual outcomes or results could differ materially from those indicated. All data and figures for the market indices are sourced from Morningstar Direct. AndCo cannot guarantee the accuracy, adequacy or completeness of certain information.

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## Forbes

# Will 2024 Be The Year Of The Pension Comeback?

#### Dan Doonan

Contributor

Executive Director at the National Institute on Retirement Security

Dec 18, 2023,09:39am EST



Will 2024 Be The Year Of The Pension Comeback?

#### Getty Images

Defined benefit (DB) pensions are having a moment. Following IBM's IBM -0.7% recent announcement that the company will resume offering a pension plan to its employees, there is much speculation that other companies will follow suit. On the public sector side, the town council in Trumbull, Connecticut, earlier this month unanimously voted to resume offering pensions to its police officers to address worrisome staffing shortages after switching a decade ago to a defined contribution (DC) plan. There's also an active debate in the Alaska legislature about returning to pensions for public employees as the state faces a deeply troubling shortage of employees who deliver essential public services.

It shouldn't come as a surprise that employers are reconsidering pensions. The U.S. now is fully four decades into the 401(k) experiment, and it is abundantly clear that these plans just can't do

the retirement job alone. Most middle-class Americans are unable to accumulate enough savings to be self-sufficient in retirement without a pension.

In fact, a recent report revealed the dismal level of retirement savings for Generation X, a generation that is quickly approaching retirement and the first generation to mostly enter the workforce following the shift from pensions to 401(k)s and other DC plans. For Gen Xers, the bottom half of earners have only a few thousand dollars saved for retirement, and the typical household has only \$40,000 in retirement savings. These low savings levels are highly alarming, but not surprising.

#### **PROMOTED**

Meanwhile in the public sector, there is growing evidence that closing pension plans has had a multitude of negative consequences: higher costs for employers and taxpayers, greater negative cash flow for plans, more employee turnover, and less retirement security for employees. A new report examines in great detail the experiences in five states that moved away from pensions and the unexpected consequences that resulted.

#### In Michigan, Taxpayer Costs Balloon After Closing the Pension

One state included in the report is Michigan. In 1997, policymakers closed the State Employees' Retirement System (SERS) plan. That plan was on strong financial footing, overfunded with 109 percent of assets on hand to pay future costs. After the pension was closed, funding took a turn for the worse. That's because the state was still obligated to pay retirement benefits to employees in the closed pension, but the plan was starved of needed future contributions. Over the past 26 years, the funding ratio of the Michigan SERS plan plummeted to 69 percent, while total retirement costs for taxpayers ballooned by a whopping 780 percent. There are several factors contributing to this decline in funded status, with the combination of higher negative cash flow and down markets presenting serious challenges to closed plans.

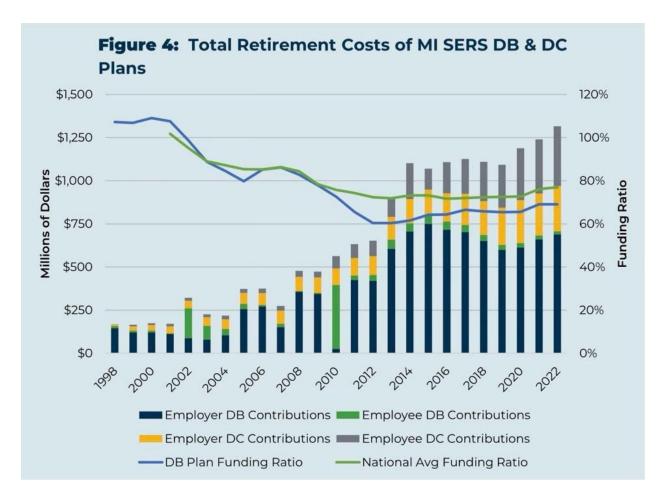


Figure 4 from No Quick Fix: Closing a Public Pension Plan Leads to Unexpected Challenges

National Institute on Retirement Security

for so long, the plan is now paying a higher share of its plan assets as benefit payments. This makes it harder for the plan to recover from a market downturn, since fewer assets were held until markets rebounded. A bit of good news is that Michigan SERS achieved investment returns that surpassed the average of all state plans in the Public Plans Database. But the plan realized more losses when selling assets at a discount to make benefit payments from 2008 through 2013.

Despite claims at the time that closing the pension would reduce retirement costs for the state and taxpayers, retirement costs have risen 780 percent. The plan's actuary is required to calculate whether or not the state has saved money from closing the defined benefit plan and switching to the defined contribution plan. For years, the actuary has reported that not only has the state not saved money from switching to the DC plan, the switch has actually cost the state and taxpayers more money. In 2021 alone, the state saw an additional \$46.6 million in costs.

There were claims that moving away from pensions would produce better results in terms of retention and financial costs. But there is no evidence of these benefits in Michigan, even 26 years after the pension plan was closed.

#### Alaska Faces High Worker Attrition After Abandoning Its Pension

The state of Alaska followed Michigan's path about a decade later. But Alaska went a step further: it closed both its plans for public employees and teachers. Over the past 17 years, this fateful decision has resulted in serious workforce challenges in a state that already faced difficulties hiring public employees due largely to its geography.

Alaska naturally faces workforce hurdles by virtue of its geography. While it is a large state, it is sparsely populated, especially out of the few larger cities. This means teachers, state troopers, and other employees in remote towns and villages may spend months there with little access to the resources in metropolitan areas. The state is also far from the Lower 48 states, which means it's asking a lot for someone from the lower 48 to come and work in Alaska.

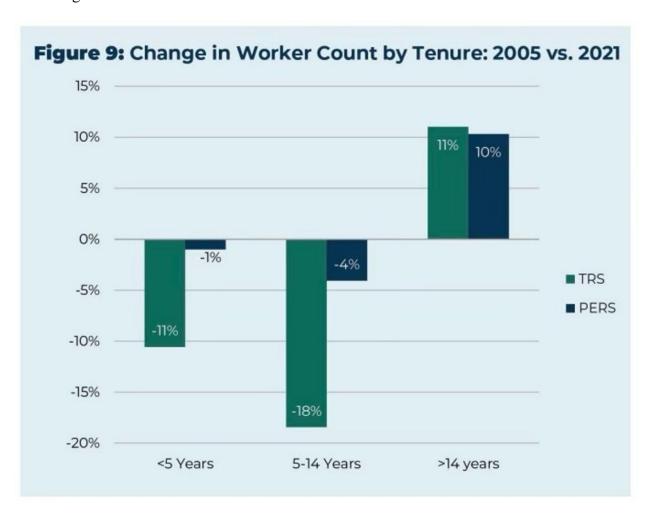


Figure 9 from No Quick Fix: Closing a Public Pension Plan Leads to Unexpected Challenges

National Institute on Retirement Security

It's clear from the available data that employee retention has collapsed in Alaska since the switch from pensions to the DC plans. Turnover in the early years of employment is much higher

among Alaska public workers, especially for teachers. Comparing 2005 data (before the DB plan was closed) with 2021 data (when new hires are in the DC plan), there were 18 percent fewer teachers in Alaska with five to 14 years of experience in 2021 as compared to 2005. The plan's actuary calculates the projected quit rate for newly hired teachers based on actuarial experience. The actuary's analysis found that while the rates for the DB and DC plans are more similar in the first five years when workers are figuring out if they want to continue as teachers, the quit rate soars in the DC plan after the first five years, which coincidentally is the vesting period for the DC plan.

This data can be used to forecast the number of years of service the state would expect to receive from its active employees. For a group of 100 female teachers vesting in their plan at age 30, the plan would expect 38 of those in the DB plan to still be teaching 25 years later, but only 11 of those would remain under the DC plan. The numbers are even worse for male teachers. The report adds up the cumulative difference to project service between the two plans:

- 100 Male teachers: 104% more service projected in DB plan.
- 100 Female teachers: 64% more service projected in DB plan.
- 100 Male Peace Officers: 67% more service projected in DB plan.
- 100 Female Peace Officers: 74% more service projected in DB plan.

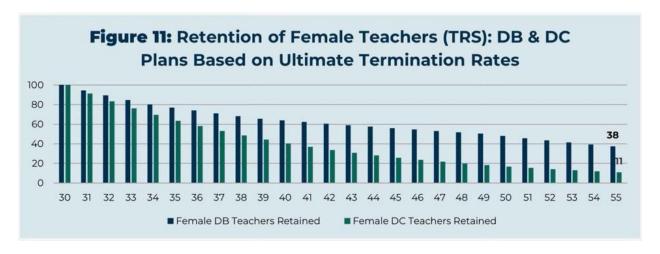


Figure 11 from No Quick Fix: Closing a Public Pension Plan Leads to Unexpected Challenges

National Institute on Retirement Security

The data make it crystal clear that switching from the pension to the DC plan has failed to serve Alaska from a workforce management perspective. It has been suggested that Alaska now is a training ground where professionals can start their careers and then move on after learning the job. Not only does this make staffing expensive and difficult, but it also impacts the quality of services. Alaska can do better for its citizens.

#### Kentucky's Financial Commitment Shows, Turnover is Challenging

Kentucky did not follow Michigan and Alaska's path and switch to a DC plan, but it did establish a cash balance plan for new hires in the five plans under the Kentucky Public Pensions Authority (KPPA). There have been serious funding concerns about the plans in Kentucky due to a long history of underfunding by the state legislature. Fortunately, the commonwealth seems to have finally turned a corner, making a commitment to fully funding the plans going forward. This has substantially improved cash flow trends in the plans that were facing liquidity concerns.

While the financial improvements are a true accomplishment for Kentucky, the state has experienced workforce challenges since the switch away from the pension to the cash balance plan. The employee termination rates through the first five years are quite high, especially for the two Kentucky Employee Retirement System plans, the Hazardous plan most of all. In recent years, half of new hires leave the KERS Hazardous plan within 16 months, and only 17 percent of new hires in that plan reach five years of service. There is more happening in Kentucky to impact workforce problems than just the switch to the cash balance plan. But the data certainly fails to prove that workers today want alternative benefit designs, as was claimed. It's noteworthy that the incumbent governor ran a successful re-election in part on a pledge to go back to a DB plan for three of the five plans under KPPA.

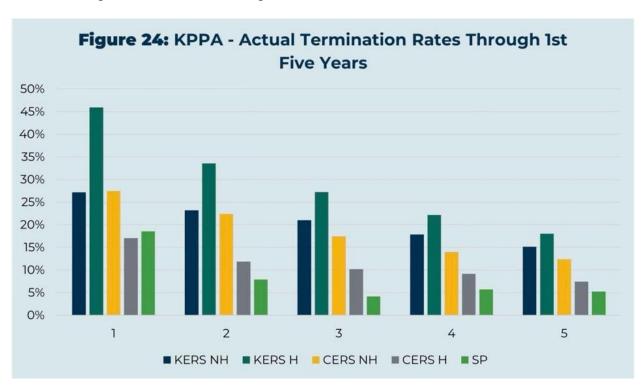


Figure 24 from No Quick Fix: Closing a Public Pension Plan Leads to Unexpected Challenges

National Institute on Retirement Security

In the end, there are a few key takeaways from these state experiences. First, tracking changes in turnover needs to be a deliberate decision if a DB plan is closed, as DC plans do not need to

track that data. Also, the off-ramp of closing a pension plan adds financial risk to plan sponsors and taxpayers who still must pay for accrued benefits, and it takes many decades to end the relationship between a pension and its last beneficiary. Finally, there are many examples of well-run DB plans that have made plan modifications and can serve as an alternative to a radical and costly shift away from a pension.

#### We Could Be on the Cusp of a Pension Revival

The governor of Kentucky is not alone in calling for a return to a DB pension plan. Serious consideration is being given in both the public and private sectors to restoring DB pension plans.

In the private sector, a JP Morgan Asset Management analysis found that recent legislation and economic conditions have created a favorable environment for corporate pension plans. A well-funded and well-managed defined benefit pension plan can be financially efficient for plan sponsors and can even contribute value to the corporate balance sheet. And employers searching to differentiate themselves in a competitive labor market have identified defined benefit plans as a means to do so. IBM may well be the trend setter.

On the public side, the years of rising costs and funding decline in states like Michigan and Alaska have made it apparent that switching from pensions to DC plans did not save money. And in a tight labor market, public employers are at a disadvantage without the magnetic effect of pensions. The result is worker shortages and high employee turnover rates.

There are plenty of signals that we may look back years from now and remember 2023 as the beginning of a pension renaissance. Time will tell if more employers have put pensions on their list of New Year's resolutions.

## BlackRock.

# 2024 Global outlook Grabbing the wheel: putting money to work

BlackRock **Investment** Institute

## **Speakers for today**



Larry Fink
Chairman and CEO



Vivek Paul
Global Head of Portfolio
Research – BlackRock
Investment Institute



Jean Boivin
Head – BlackRock
Investment Institute



**Sally Du**Co-portfolio manager –
BlackRock Fundamental U.S.
Equity



**Wei Li**Global Chief Investment
Strategist – BlackRock
Investment Institute



Jeffrey Cucunato
Lead portfolio manager –
BlackRock Multi-Strategy
Credit

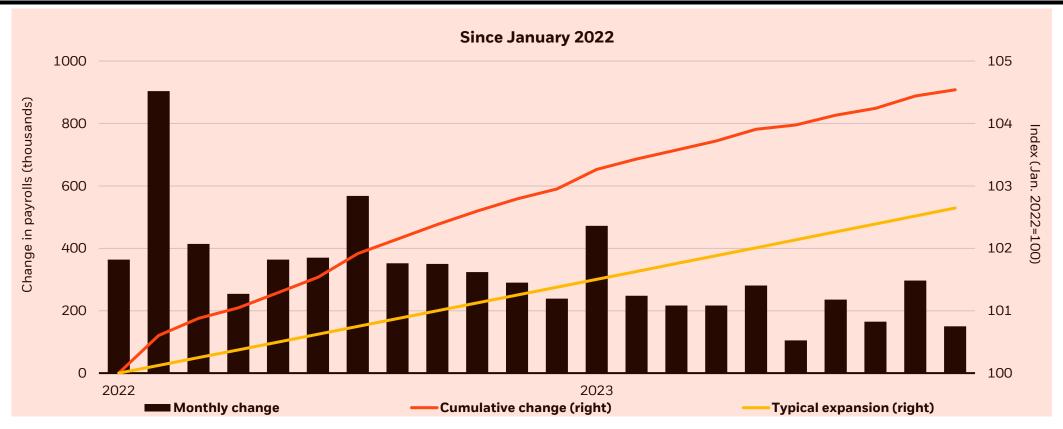


Alex Brazier
Deputy Head – BlackRock Investment
Institute

# **Context is everything**

A seemingly strong U.S. economy is fueling hopes of a soft landing – job growth since 2022 has outpaced what's typically seen in an economic expansion.

# U.S. payroll changes vs. typical expansion

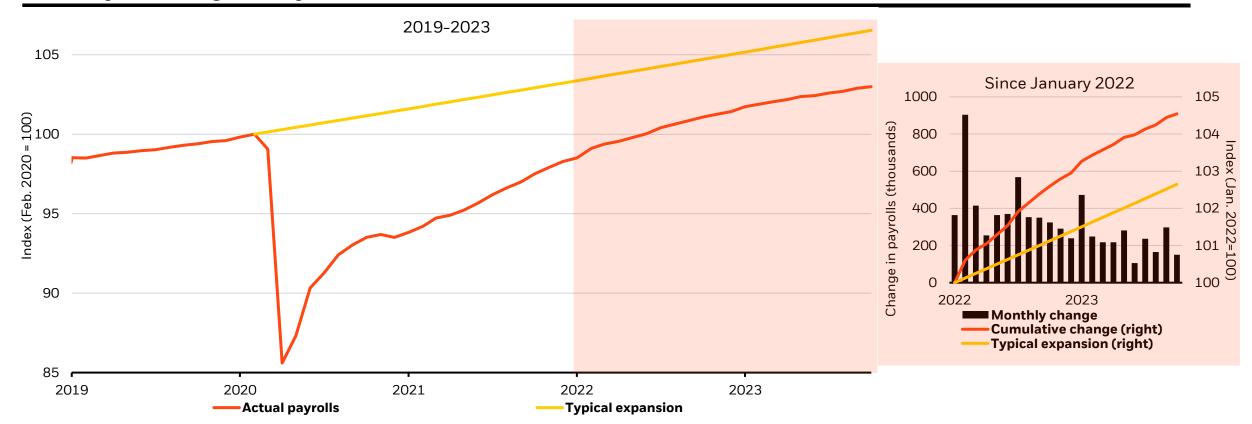


Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, December 2023. Notes: The chart shows U.S. nonfarm payrolls. The red lines show the actual level of total nonfarm payroll employment indexed to January 2022=100. The yellow line shows hypothetical payroll employment as if the economy had continued to grow at the average rate observed during U.S. post-1945 expansions. The black bars show actual monthly payroll gains (in millions) since January 2022.

# **Context is everything**

But zooming out shows the economy is just climbing out of a pandemic hole.

# U.S. payroll changes vs. typical expansion



Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, December 2023. Notes: The charts show U.S. nonfarm payrolls. The red lines show the actual level of total nonfarm payroll employment indexed to two different start dates: in the left chart, February 2020=100 and in the right chart January 2022=100. The yellow lines in both charts show hypothetical payroll employment as if the economy had continued to grow at the average rate observed during U.S. post-1945 expansions. The black bars in the right chart show actual monthly payroll gains (in millions) since January 2022.

# **Grabbing the wheel**

1.

# Managing macro risk

What matters in the new regime: Structurally higher interest rates and tougher financial conditions. Markets are still adjusting to this environment – and that's why context is key in managing macro risk. 2

# Steering portfolio outcomes

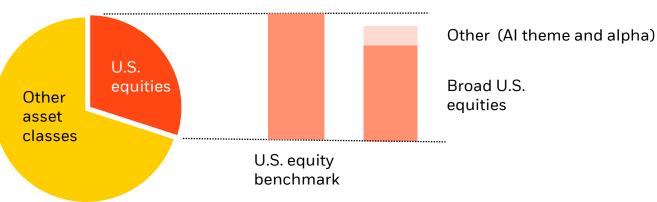
We think investors need to grab the investment wheel and take a more dynamic approach to their portfolios with both indexing and alpha-seeking strategies while staying selective. 3.

# Harnessing mega forces

Mega forces are another way to steer portfolios – and think about portfolio building blocks that transcend traditional asset classes, in our view.

# Deep dive of including the mega force overweight on overall U.S. equity view

We are underweight broad U.S. equities. But our AI theme has taken us closer to neutral.



Note: Views are from a U.S. dollar perspective, December 2023. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

# Inflation is falling, but it's a structurally different world now

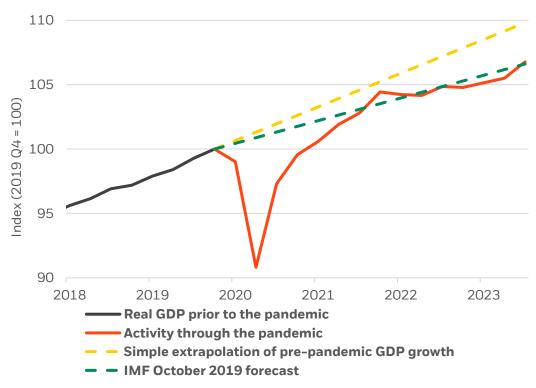
As the U.S. economy unwinds shocks from the pandemic – a sharp shift in spending towards goods and mismatches in job markets – the effects of an aging population on growth is becoming clearer.

# Core CPI and wage inflation, 2000-2023

# 6% 4% 2% 2000 2005 2010 2015 2020 Core inflation Wage growth

Source: BlackRock Investment Institute, with data from Haver Analytics, December 2023. Notes: The chart shows annual CPI inflation and ECI private sector wage inflation.

# U.S. real GDP, 2018-2023

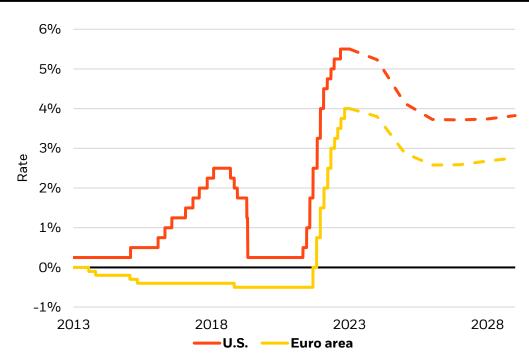


Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, IMF with data from Haver Analytics, December 2023. Notes: The chart shows the level of real gross domestic product (GDP) in the U.S. The red line shows GDP before the pandemic and the yellow line assumes GDP kept growing at the same pace. The pink line shows the path of U.S. GDP forecast by the International Monetary Fund in its October 2019 World Economic Outlook. The grey line shows actual activity through and since the pandemic.

# We believe higher interest rates are here to stay

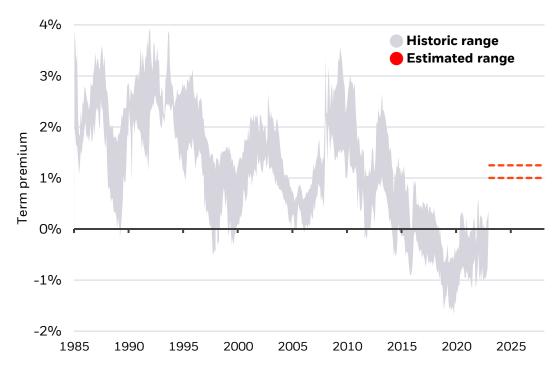
Structurally higher interest rates and tougher financial conditions are key parts of the new regime, in our view. We think long-term yields have more room to rise as investors demand more compensation for bond risk.

# Actual and market implied policy rates, 2013-2029



**Forward looking estimates may not come to pass.** Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2023. Notes: The chart shows the actual policy rate for the Federal Reserve (U.S.) and the European Central Bank (Euro area) along with the market expectations of future policy rates, based on interest rate swaps.

# 10-year term premium across U.S., Germany and UK

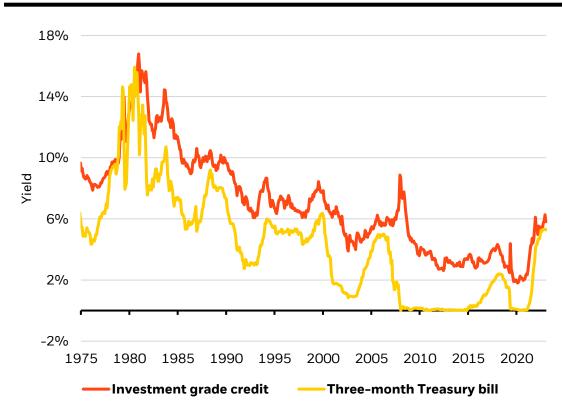


Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, November 2023. Notes: The chart shows the historic and estimated term premium range. The range captures three regions: U.S., Germany, and UK. Term premium is defined as the compensation investors demand for the risk of holding long-term bonds. The estimates of term premium are based on the <u>Adrian, Crump and Moench (2013)</u> "ACM" model. The ACM model is an arbitrage-free affine term structure model that provides an approach for extracting term premia from Treasury yields, described in detail here: <u>Pricing the Term Structure with Linear Regressions - FEDERAL RESERVE BANK of NEW YORK (newyorkfed.org)</u>.

# Competitive cash calls for selectivity: time to grab the wheel

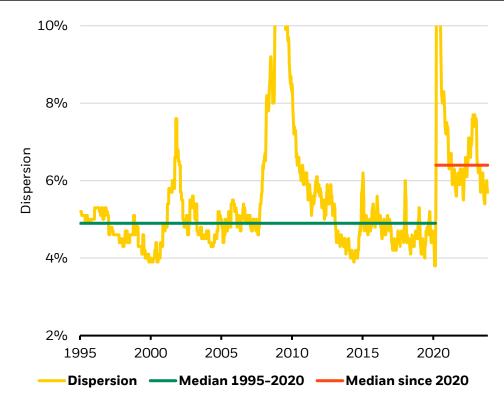
The difference between U.S. three-month Treasury bill and investment grade credit yields is nearly as narrow as it was during the early 1980s. Higher cash returns call for a more active approach to managing portfolios.

# Fixed income yields, 1975-2023



Past performance is not a reliable indicator of current or future results, and index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute with data from LSEG Datastream, November 2023. Notes: The chart shows the U.S. investment grade credit and the 3-month Treasury bill yields. The index proxy used for investment grade credit is the Bloomberg U.S. Corporate Investment Grade USD Index.

# Dispersion of equity earnings estimates, 1995-2023

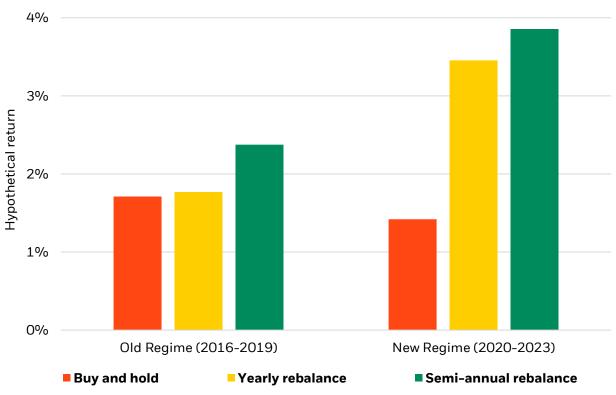


Source: BlackRock Investment Institute, LSEG Datastream, December 2023. Notes: The chart shows the aggregate standard deviation of analyst earnings estimates for S&P companies. The green line shows the median from 1995 to end January 2020, the orange line shows the median since February 2020

# We believe the new regime rewards more dynamic portfolios

A new, more volatile regime potentially rewards an active approach to portfolios, in our view. We see one-and-done asset allocations becoming less effective.

# Hypothetical impact of rebalancing on U.S. equity returns

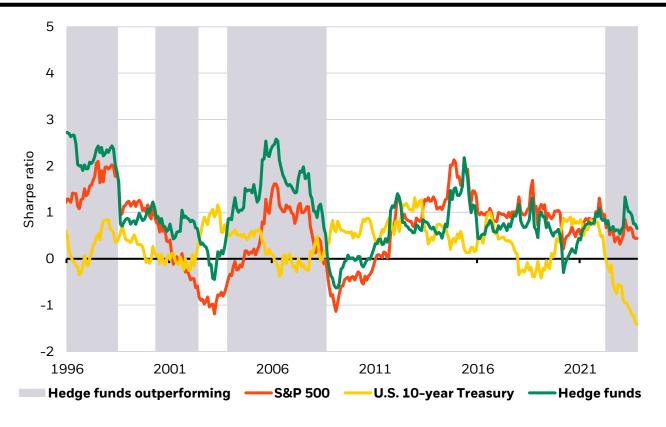


Past performance is not a reliable indicator of future performance. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, MSCI with data from Bloomberg, December 2023. Notes: The chart shows monthly U.S. equity returns - based on the MSCI USA - in the old and new regime under three scenarios: keeping the holdings unchanged (buy-and-hold), yearly rebalances and semi-annual rebalances. The rebalances optimize the portfolio for returns, diversification and risk with perfect foresight of equity sector returns in the MSCI USA index. This analysis uses historical returns and has been conducted with the benefit of hindsight. Future returns may vary and these results may not be the same other asset classes. It does not consider potential transaction costs that may detract from returns. It also does not represent an actual portfolio and is shown for illustrative purposes only.

# Active strategies may benefit from greater dispersion

More macro volatility has spurred greater dispersion between and within asset classes. We see this environment as more conducive for strategies looking to beat market benchmark returns such as those employed by hedge funds.

# Sharpe ratios for the S&P 500, U.S. 10-year Treasury and hedge funds, 1995-2023

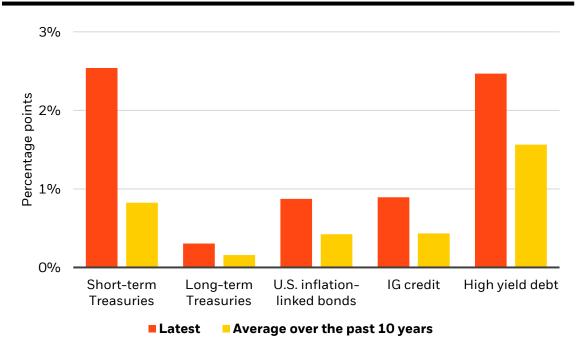


Past performance is not a reliable indicator of future performance. Index returns do not account for fees. It is not possible to invest directly in an index. This information should not be relied upon by the reader as research or investment advice regarding any funds, strategy or security in particular. Source: BlackRock Investment Institute, HFRI with data from LSEG Datastream, December 2023. Notes: The chart shows the Sharpe ratios for the S&P 500, U.S. 10-year Treasury and Hedge funds. The index proxy used for hedge funds is the HFRI Weighted index. The Sharpe ratio measures an asset's risk-adjusted returns. It is calculated by dividing the asset's excess returns (typically over cash) by its standard deviation, which represents its risk.

# A year of meaningful repricing in bonds

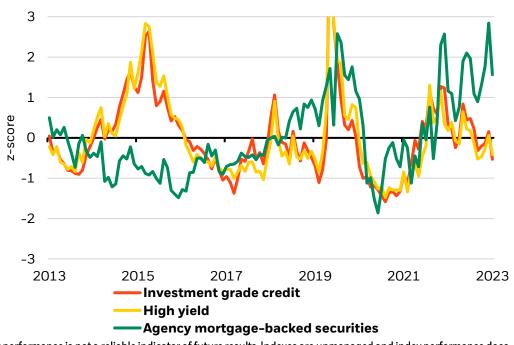
The income cushion bonds provide has risen in a higher rate environment. We like short-term government bonds and are neutral long-term U.S. Treasuries. We see better compensation for risk in mortgage-backed securities vs. credit.

# Yield cushion across various fixed income assets



Past performance is not a reliable indicator of future results. Indexes are unmanaged and index performance does not account for fees. It is not possible to directly invest in an index. Source: BlackRock Investment Institute, November 2023. Notes: The chart shows the yield cushion of each fixed income asset, which illustrates how much yields can rise by before reaching the point where the capital loss is larger than the income gained. This is calculated by taking the yield and dividing it by the modified duration of the asset. Modified duration is the sensitivity of the asset to the changes in interest rates. The latest refers to 28 November 2023. The index proxies used are the following Bloomberg indexes: U.S. Treasury 1-3 Year, Long Term U.S. Treasury, U.S. Treasury, U.S. Treasury U.S. Tleasury U.S. T

# **U.S. credit spreads, 2013-2023**



Past performance is not a reliable indicator of future results. Indexes are unmanaged and index performance does not account for fees. It is not possible to directly invest in an index. Source: BlackRock Investment Institute, November 2023. Notes: The chart shows the z-score of the option-adjusted spread across credit assets. The z-score is calculated by subtracting the average and dividing by the standard deviation. The time horizon used is the past ten years from November 2023 as displayed on the chart. The index proxies used are the following Bloomberg indexes: U.S. Corporate Investment Grade USD, U.S. Corporate High Yield USD, U.S. Mortgage-Backed Security: Agency Fixed Rate Mortgage-Backed Security USD.

# Equity valuations yet to fully reflect rapidly rising rates

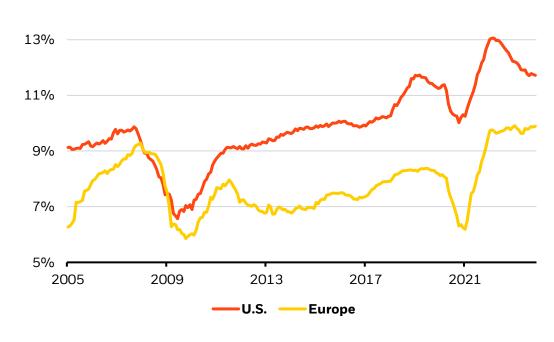
We don't think equity valuations fully reflect the higher-for-longer interest rates of the new regime. We see higher interest rates dragging on equity valuations from here and putting profit margins under pressure.

# Change in equity total returns & U.S. 10-year yield

#### 50 30 Earnings growth Valuation 25 **Dividends** 40 **OTotal Return** 20 30 Total return (%) 10 5 0 0 -5 U.S. Euro area Japan Emerging UK World U.S. 10-year yield Markets

Past performance is not a reliable indicator of future results. Indexes are unmanaged and index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, MSCI with data from LSEG Datastream, December 2023. Notes: The bars show the breakdown of each market's 12-month return into dividends, earnings growth and valuation. The dots show each market's total 12-month local-currency returns. Earnings growth is based on the 12-month change in 12-month forward I/B/E/S earnings estimates. World is defined as the MSCI All Country World Index (\$). Returns are based on MSCI indexes. The index proxies used are: MSCI USA, MSCI EMU, MSCI Japan, MSCI EM U\$, MSCI UK. The bar on the right shows the change in the U.S. 10-year Treasury yield, year-to-date

# Regional profit margins, 2005-2023

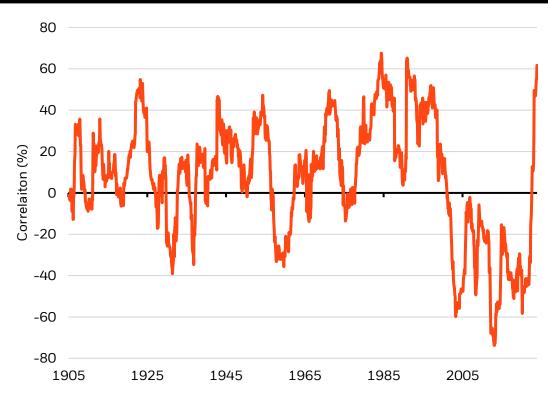


Past performance is not a reliable indicator of future results. Indexes are unmanaged and index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, October 2023 with data from LSEG Datastream. Notes: The chart shows Trailing Net Operating Profit Margins as the results of 12 months rolling sum of total earnings divided by the 12 months rolling sum of total sales. Index proxies used are MSCI US and MSCI Europe ex UK.

# Digging under the hood of broad building blocks

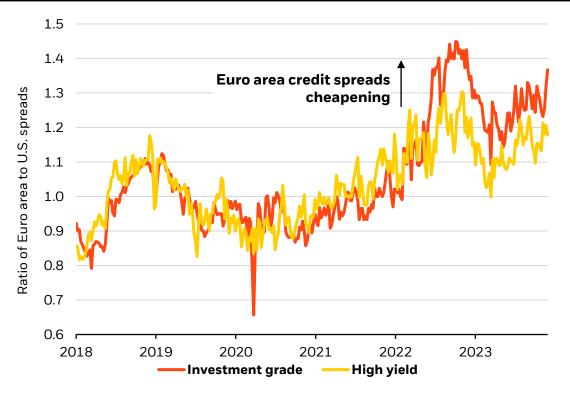
A positive correlation between equity and bond returns demands a more selective approach to investing, in our view. We prefer the Euro area over the U.S. in both investment grade and high yield credit, given cheaper valuations.

# Equity-bond return correlations, 1903-2023



Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2023. Notes: The chart shows the correlation of daily U.S. 10-year Treasury and equity returns over a rolling three-year period. The equity indexes used are the Dow Jones industrial average until 1981 and the S&P 500 after 1981.

# Euro area credit spreads relative to the U.S.



Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2023. Notes: The chart shows the ratio of Euro area credit spreads to U.S. credit spreads for investment grade and high yield corporate credit. A higher ratio indicates cheaper Euro area spreads relative to U.S. spreads. Index proxies used are: Bloomberg U.S. Corporate Investment Grade and Bloomberg Euro-Aggregate: Corporates for investment grade and Bloomberg U.S. Corporate High Yield and Bloomberg Pan-European High Yield for High yield

# Getting granular across sectors and away from home

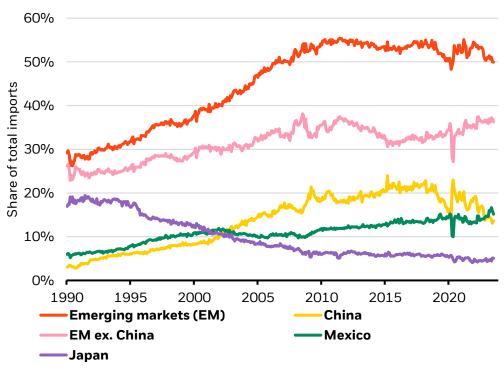
Greater dispersion creates opportunities beyond broad equity exposures. We spot opportunities in European banks where valuations look attractive, in our view, and emerging markets that could benefit from rewiring supply chains.

# European bank margins and price-earnings ratio



Past performance is not a reliable indicator of future results. Indexes are unmanaged and index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, European Banking Authority, with data from LSEG Datastream, December 2023.Notes: The chart shows weighted net interest margin of a sample of European banks, taken from the European Banking Authority and the forward earnings to price ratio of banks in the Euro Stoxx 600 index.

# U.S. imports from emerging markets 1990-2023



Source: BlackRock Investment Institute, IMF with data from LSEG Datastream, October 2023. Notes: The chart shows the share of total U.S. imports from five regions/countries – Emerging markets, China, Mexico, Japan and emerging markets excluding China.



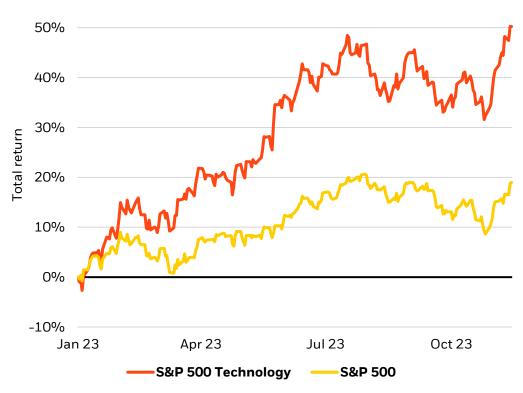
**Sally Du**Co-portfolio manager – BlackRock
Fundamental U.S. Equity

# The Al mega force persists through a challenging backdrop

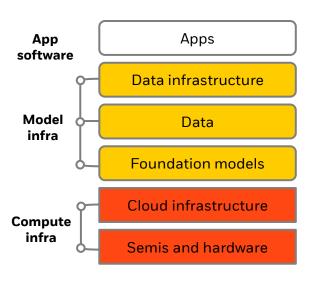
Investor enthusiasm for AI and digital tech has offset the drag of rising yields. That has pushed U.S. tech stocks to easily outshine the broader market in 2023. We see the potential impact of AI spreading to other sectors too.

# S&P index performance, year-to-date

# BlackRock view of tech needed for Al applications



Past performance is not a reliable indicator of future results. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, December 2023. Notes: The chart shows the total year-to-date returns in U.S. dollar terms for the S&P 500 Technology sector (orange line) and the S&P 500 index (yellow line).

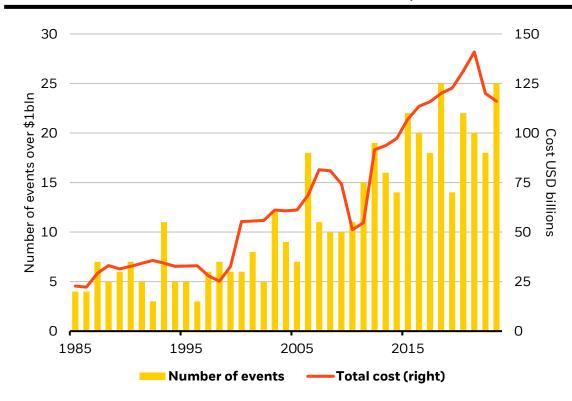


Source: BlackRock Investment Institute, December 2023. Notes: The schematic shows the technologies we think will be needed – across hardware and software – to develop Al applications. Each layer builds on the one preceding as technologies get "stacked" on top of one another enabling further innovation. The schematic is for illustrative purposes only and intended as a guide based on what we know today. As the Al ecosystem evolves some categories may be replaced by newer ones.

# Physical damage from climate mounts

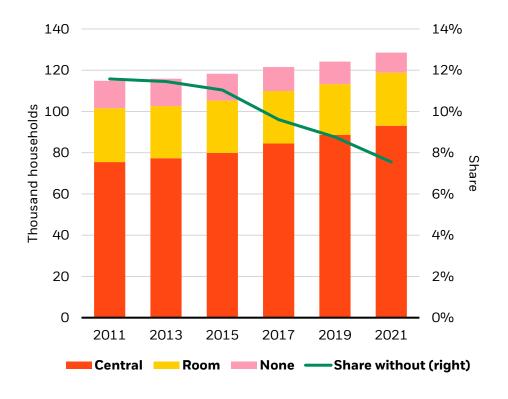
The number of climate-related events with damages totaling more than \$1 billion has increased over the past three decades. And as climate damages accelerate, we are already seeing early signs of demand for resilience solutions.

# U.S. events with losses over \$1 billion, 1980-2023



Sources: BlackRock Investment Institute, NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2023)., November2023. Notes: The bars (yellow) show the number of climate events with losses greater than USD\$1 billion. The data include droughts, flooding, severe storms, tropical cyclones, wildfires, winter storms and freezes. The line (red) shows the total cost as a ten-year average. The data are adjusted for inflation using 2022 dollars. All currency figures are in USD.

# U.S. household air-conditioning, 2011-2021



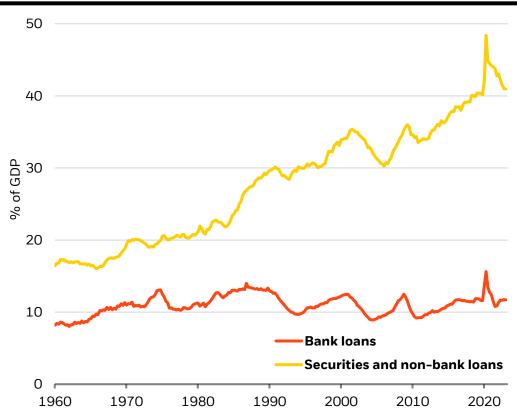
Sources: BlackRock Investment Institute, and U.S. Census, with data from the American Housing Survey, November 2023. Notes: The chart shows the number of U.S. households that have air conditioning installed either centrally and covering the whole home (red bars) or in an individual room (yellow bars), as well as the number (pink bars) and share (green line) of households that do not have any type of air conditioning.

# We believe demand for private credit could grow further

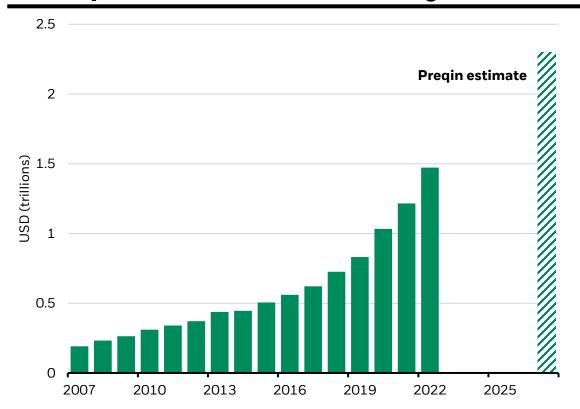
We see companies turning to alternative sources of credit as bank credit becomes less readily available. We expect demand for private credit to increase sharply.

# U.S. non-financial business debt by source of finance

# Global private debt assets under management



Sources: BlackRock Investment Institute, Federal Reserve, with data from Haver Analytics, September 2023. Notes: The chart shows the level of outstanding bank loans (in yellow) and debt securities and other non-bank loans (in orange) for U.S. nonfinancial business. The data are reported in the Federal Reserve U.S. financial accounts. Bank loans exclude mortgages. Both series are expressed as a share of nominal GDP. The latest data point is for 2023 Q1.



**Forward looking estimates may not come to pass.** Source: BlackRock Investment Institute, October 2023, with data from Preqin. Notes: The chart shows the assets under management (AUM) in USD trillions of the global private debt market. The 2027 estimate is a forecast from Preqin.



Jeffrey Cucunato
Lead portfolio manager – BlackRock MultiStrategy Credit

# **Grabbing the wheel**

1.

# Managing macro risk

What matters in the new regime: Structurally higher interest rates and tougher financial conditions. Markets are still adjusting to this environment – and that's why context is key in managing macro risk. 2

# Steering portfolio outcomes

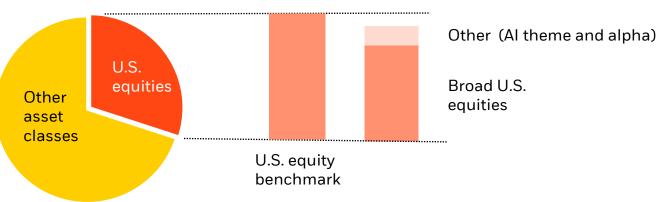
We think investors need to grab the investment wheel and take a more dynamic approach to their portfolios with both indexing and alpha-seeking strategies while staying selective. 3.

# Harnessing mega forces

Mega forces are another way to steer portfolios – and think about portfolio building blocks that transcend traditional asset classes, in our view.

# Deep dive of including the mega force overweight on overall U.S. equity view

We are underweight broad U.S. equities. But our AI theme has taken us closer to neutral.



Note: Views are from a U.S. dollar perspective, December 2023. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

# **Tactical granular views: equities**

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, December 2023

Our approach is to first determine asset allocations based on our macro outlook – and what's in the price. The table below reflects this. It leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns. The new regime is not conducive to static exposures to broad asset classes, in our view, but it is creating more space for alpha. For example, the alpha opportunity in highly efficient DM equities markets historically has been low. That's no longer the case, we think, thanks to greater volatility, macro uncertainty and dispersion of returns. The new regime puts a premium on insights and skill, in our view.

Equities	View	Commentary
Developed markets		
U.S.	1	We are underweight the broad market – still our largest portfolio allocation. Hopes for rate cuts and a soft landing have driven a rally. We see the risk of these hopes being disappointed.
Europe		We are underweight. The ECB is holding policy tight in a slowdown. Valuations are attractive, but we don't see a catalyst for improving sentiment.
UK	Neutral	We are neutral. We find attractive valuations better reflect the weak growth outlook and the Bank of England's sharp rate hikes to fight sticky inflation.
Japan	+1	We are overweight. We see stronger growth helping earnings top expectations. Stock buybacks and other shareholder-friendly actions are positives. Potential policy tightening is a near-term risk.
DM AI mega force	+1	We are overweight. We see a multi-country, multi-sector Al-centered investment cycle unfolding, likely supporting revenues and margins.
Emerging markets	Neutral	We are neutral. We see growth on a weaker trajectory and see only limited policy stimulus from China. We prefer EM debt over equity.
China	Neutral Neutral	We are neutral. Modest policy stimulus may help stabilize activity, and valuations have come down. Structural challenges such as an aging population and geopolitical risks persist.
Underweight Neutral	Overweight • Previous view	

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# **Tactical granular views: fixed income**

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, December 2023

Fixed income	View	Commentary
Short U.S. Treasuries	+1	We are overweight. We prefer short-term government bonds for income as interest rates stay higher for longer.
Long U.S. Treasuries	Neutral	We are neutral. The yield surge driven by expected policy rates has likely peaked. We now see about equal odds that long-term yields swing in either direction.
U.S. inflation-linked bonds	● Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
Euro area inflation-linked bonds		We are underweight. We prefer the U.S. over the euro area. We see markets overestimating how persistent inflation in the euro area will be relative to the U.S.
Euro area govt bonds	Neutral	We are neutral. Market pricing reflects policy rates in line with our expectations and 10-year yields are off their highs. Widening peripheral bond spreads remain a risk.
UK gilts	Neutral	We are neutral. Gilt yields have compressed relative to U.S. Treasuries. Markets are pricing in Bank of England policy rates closer to our expectations.
Japanese govt bonds	4	We are underweight. We see upside risks to yields from the Bank of Japan winding down its ultra-loose policy.
China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
Global IG credit	.1	We are underweight. Tight spreads don't compensate for the expected hit to corporate balance sheets from rate hikes, in our view. We prefer Europe over the U.S.
U.S. agency MBS	+1	We are overweight. We see agency MBS as a high-quality exposure in a diversified bond allocation and prefer it to IG.
Global high yield	Neutral	We are neutral. Spreads are tight, but we like its high total yield and potential near-term rallies. We prefer Europe.
Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
EM hard currency	+1	We are overweight. We prefer emerging hard currency debt due to higher yields. It is also cushioned from weakening local currencies as EM central banks cut policy rates.
EM local currency	Neutral	We are neutral. Yields have fallen closer to U.S. Treasury yields. Central bank rate cuts could hurt EM currencies, dragging on potential returns.
Underweight Neutral	Overweight	Previous view

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# BlackRock Investment Institute





Jean Boivin Head - BlackRock Investment Institute

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The Latest in Legislative News

January 2024

# **NCPERS**

# **Executive Director's Corner**

# With Pensions Poised to Make a Comeback, Increased Unionization is Key



By Hank Kim, Executive Director and Counsel, NCPERS



ith IBM's recent headline-making move to bring back its defined benefit plan, are pensions poised to make a comeback? Only time will tell, but there are some important lessons we can learn if we look back in time and pay attention to some key social and economic indicators.

Forty years ago, IBM was also a 'trailblazer' in the benefits space, as it was one of the first companies to offer a 401(k)-style retirement plan. Now, the company is garnering attention for its switch to what it's calling a "retirement benefit account," essentially a fixed-rate cash balance plan where the company contributes five percent of worker's pay into a defined-benefit instrument with guaranteed returns tied to a benchmark. IBM has a \$3.5 billion surplus in its DB plan, which it can use to pay for these contributions while improving its bottom line.  $\odot$ 

The switch has been met with mixed reactions from current employees, as the move seems to most benefit those who have not been contributing to a retirement account. Ultimately, though, the move could hurt its employees as they miss out on potentially higher investment returns from investing in stocks and bonds.

While it's far from perfect, it has created media buzz around the 'resurgence' of pensions. Job seekers are demonstrating a renewed interest in the benefits employers are offering, and retirement security (or lack thereof) is increasingly on the minds of younger Americans skeptical of the reliability of Social Security.

Over the past three years, job seekers on Indeed have increased searches for 'pensions' by 12 percent. The number of job postings on the site that mention 'pension' have increased approximately 130 percent in that same time period. Further, employers offering pensions are also consistently receiving higher ratings on Glassdoor.

While this renewed interest in bringing back pensions is a positive sign, the key will be to ensure that the evolution of retirement benefits is ultimately in the best interest of workers, and increased participation in unions will be critical. IBM's headline-grabbing but questionable switch also highlights the need for workers to have a seat at the table to ensure changes to retirement benefits actually help improve employees' long-term retirement security.

The latest Gallup polling shows that 67 percent of Americans approve of labor unions, but has that translated to increased engagement and participation? In 2022, the rate of unionization reached its lowest level on record with only 10.1 percent of U.S. workers participating in a union. Looking closer at the Gallup polls, the percentage of respondents indicating that no one in their household is a member of a labor union decreased from 82 percent in 2003 to 86 percent in 2023.

Yet, the overall support of unions seems to be growing. Thirty-four percent of respondents indicated unions will be stronger in the future and 43 percent would like to see labor unions have more influence than they do now—both record high numbers since 1999.



While union participation may be lagging, this support is actually quite significant. Looking back to the late 1930s, union membership jumped from just 13 percent to 27 percent in just two years. According to The New York Times' Noam Scheiber, "unionization is very much a social phenomenon: Workers see it succeed in one workplace, and then emulate it in their own, even if the law or employers aren't accommodating."

We're already seeing major progress as this momentum builds. Michigan repealed the state's 'right-to-work' law, marking the first repeal of this type in nearly six decades. Approximately 300 video game workers unionized at Microsoft—one of the biggest victories thus far at a major U.S. tech company. More than 8,000 Starbucks workers have voted to unionize while facing aggressive union-busting tactics. High-profile strikes in various industries repeatedly made headlines in 2023 as unions secured historic contracts for workers across the country. In several of these negotiations, pensions were once again on the table as many pushed for improved benefits.

Employers will likely remain skeptical of reopening their corporate pensions due to the perceived cost and contribution fluctuations, but it may just require a slightly different approach than before, according to a recent white paper from J.P. Morgan. The authors suggest there may be hidden benefits to reopening an overfunded defined-benefit plan, particularly when the defined contribution (DC) plan is maintained to allow for maximum flexibility.

Referring to the benefits an overfunded plan provides, the white paper authors argue that "the surplus can serve as a storehouse of value that sponsors can access at their discretion to fund retiree medical liabilities, backstop DC plan rollovers, finance mergers and acquisitions or potentially reinstate accruals for a frozen plan, among other benefits." The authors also suggest that as more DB plans reach a surplus, they may benefit from future regulatory flexibility as legislative pressure grows to enable companies to tap into the value of those existing plans.

If the insights from the JP Morgan paper can be married to significant gains in the private-sector unionization, there can be increased retirement security in the private sector. Whether it's pushing for increased 401(k) contributions, higher wages, or reopening a pension, workers' voices need to be heard. Highlighting the success stories of collective bargaining agreements has been an important step in generating interest in union participation and support.

NCPERS is here to build on this momentum by continuing to advocate for improved retirement security in 2024 and beyond.



# What Public Pensions Should Know About the Latest SECURE Act 2.0 **Guidance**

By: Tony Roda, Partner, Williams & Jensen



n December 20, the U.S. Treasury Department and the Internal Revenue Service released its initial miscellaneous or "grab bag" guidance on the SECURE Act 2.0. There are over 90 provisions in SECURE 2.0 and collectively they touch on almost all parts of U.S. tax law related to retirement and pension plans and their plan participants. This first round of grab bag guidance addresses provisions that are either effective already or will take effect soon.

The link to the December Treasury Notice 2024-2 can be found here https://www.irs.gov/pub/irs-drop/n-24-02.pdf

As you will see, this first tranche of miscellaneous guidance does not address the provisions of SECURE 2.0 in which the public sector plans have been most interested, e.g., recoupment of overpayments, Roth catch up mandate (see discussion below about previous guidance on this provision), the new first responder provisions, and student loan repayments. Treasury and IRS may address these areas in future guidance. However, it is important to note that on page 61 (also footnote 17) of Treasury Notice 2024-2 governmental plans now have an extended deadline of December 31, 2029, to make plan amendments.

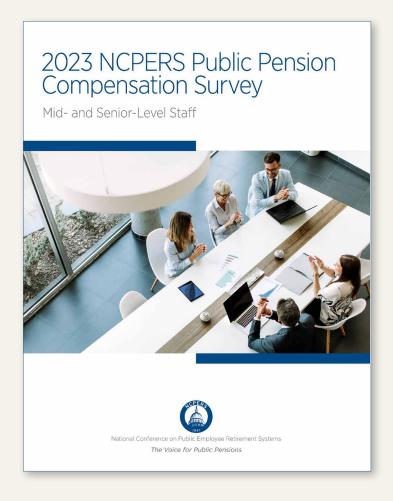
Earlier this year, Treasury-IRS issued guidance specific to the required minimum distribution (RMDs) provisions of SECURE 2.0. The RMD guidance can be found in Treasury Notice 2023-54. In addition, Treasury Notice 2023-62, which was released in August, provides initial guidance on the new Roth catch up contribution requirement that applies to employees who participate in 401(k), 403(b) or governmental 457(b) plans and whose prior-year Social Security wages exceeded \$145,000. In welcome news contained in that Notice, Treasury created a two-year administrative transition period to provide breathing room for retirement systems to implement the new law, which was originally set to take effect on January 1, 2024. ③

Please be assured that NCPERS will continue to monitor closely any developments related to the implementation of the SECURE Act 2.0. Our members will be hearing directly from House and Senate tax counsels on many of these topics at the NCPERS Legislative Conference in Washington, D.C. in January.

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.

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# What's Next for Public Pensions and ESG?

By: Lizzy Lees, Director of Communications, NCPERS



decade ago, most had never heard of ESG. While the concept of socially responsible investing has been around for more than 70 years, the term has made its way to mainstream media over the past year as a political talking point—and public pensions are increasingly being caught in the crossfire.

Before we look at what may be next, it's important to look back at some of the key, ESG-related developments that have taken place over the past 18 months.

On the federal level, the ESG debate ramped up near the end of 2022 with the DOL's regulation that permits retirement plan fiduciaries to use ESG strategies. After being challenged by a group of 26 conservative state attorneys general and private plaintiffs, the rule was upheld in late 2023 by a well-known conservative jurist. The House has approved a number of ESG-limiting bills, but the Senate has had no appetite—effectively stalling any far-reaching legislation from moving forward. As a result, most of the activity has been at the state level.

ESG-related investment restrictions gained attention in Texas with the 2021 bans on governmental agencies engaging with companies that boycott firearm entities or financial companies the Comptroller determines are boycotting energy companies. The momentum has continued as many red states have implemented or proposed similar bans restricting the use of ESG factors or banning investments with certain financial institutions deemed to be boycotting energy companies. For example, in 2022, Florida Gov. Ron DeSantis announced restrictions on the State Board of Administration fund managers from considering ESG factors, and later adopted additional restrictions with H3/S302. In Oklahoma, legislation was adopted banning state retirement systems from investing in companies the Treasurer determines are boycotting oil and gas companies.

On the other end of the spectrum, several pension funds in blue states have implemented investment policies designed to divest from fossil fuels and/or achieve net zero emissions in their investment portfolios. There has also been legislation introduced to mandate divestment from certain industries. Maine adopted legislation prohibiting Maine PERS from investing in the 200 largest publicly traded fossil fuel companies. New York City pension funds, for example, announced plans to reach their goal of net zero emissions in their investment portfolios by 2040. ⊙

These pro- and anti-ESG policies have resulted in several key lawsuits—the results of which will likely have last implications for public pensions across the country.

The first, Wong et al. vs. New York City Employees' Retirement System et al., was filed on behalf of four participants within the New York City Retirement Systems in May 2023, claiming the funds' divestment from fossil fuel investments violated their fiduciary duties. "Defendants breached those duties by subordinating the retirement security of plan participants to the trustees' pursuit of a 'green' climate agenda," the suit alleges. The action was sponsored by the conservative, anti-union organization Americans for Fair Treatment (AFFT).

The New York City funds have since filed a motion to dismiss the complaint with prejudice, and the plaintiffs responded with a motion to reject the dismissal. In October, the Corporation Counsel of the City of New York and Groom Law Group filed a memorandum in which they argue that the plaintiffs' standing claims hinges on "three fundamental legal errors."

The case is currently awaiting decision by the court. "It is not difficult to imagine how AFFT and other conservative activists could deploy the same model to launch litigations challenging the use of ESG investing more generally on the same fiduciary duty theory ... It would further appear that the anti-ESG interests behind the NYC suit are motivated and well-funded," Amy Roy and Robert Skinner of Ropes & Gray wrote in a recent article.

In the second key case for public pensions to watch, a retired Oklahoma state employee alleges the state's Energy Discrimination Elimination Act is unconstitutional and violates the First Amendment because it prevents statemanaged pension funds from operating for the "exclusive benefit" of their beneficiaries.

The 2022 law has allowed Treasurer Todd Ross to maintain a list of firms that are essentially blacklisted for factoring ESG issues into their investment decision making. Keenan also claims in the suit that the law gives Russ "a lot of leeway" in determining which firms are discriminating against the oil and gas industry. The lawsuit is part of a coalition effort led by Keep Oklahoma's Promises Coalition, Oklahoma Retired Educators Association and the Oklahoma Public Employees Association.

Looking at the two cases, we're seeing a pattern of outside organizations with their own agendas working with individual plan participants to pursue litigation to restrict how pension funds can invest. NCPERS views these restrictions as potentially dangerous, as they ultimately can impact diversification and the long-term returns by reducing the universe of investments. With these restrictions, there are also often increased overhead costs and administrative challenges for funds.

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

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As a result of the politicization of ESG, we're also starting to see a shift in the terminology companies and public pensions are using when talking about their policies. For example, MassPRIM's board recently voted to change the name of the fund's ESG Committee to the Stewardship and Sustainability Committee, noting the shift would make the committee's work easier for the public to understand.

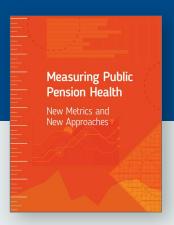
Looking ahead, it's worth considering how these policies restricting investment decisions will impact the broader markets and, more specifically, municipal bonds. Last month, Citigroup became the second large bank to shutter its municipal bond division—nearly one year after the Texas Attorney General Ken Paxton banned the firm from working on muni deals in the state.

Many believe Citi's decision is related to the broader bank boycotts by conservative politicians, and the exit reflects the political risks involved with staying in the municipal bond market. The result, however, could mean less competition and higher borrowing costs. In the first eight months, Texas incurred an estimated \$300-500 million in additional interest costs on municipal bonds as a result its 2021 anti-ESG policies.

As cities and states reckon with the need to improve failing infrastructure or the desire to invest public funds in shiny new sports stadiums, it's important to consider these increased costs that ultimately fall on taxpayers and potentially impact the ability to meet actuarially determined contributions.

NCPERS will continue to keep its members informed on any newly proposed legislation and any related lawsuits or developments in this space. If you have any questions, please contact info@ncpers.org to connect with the appropriate NCPERS staff person.

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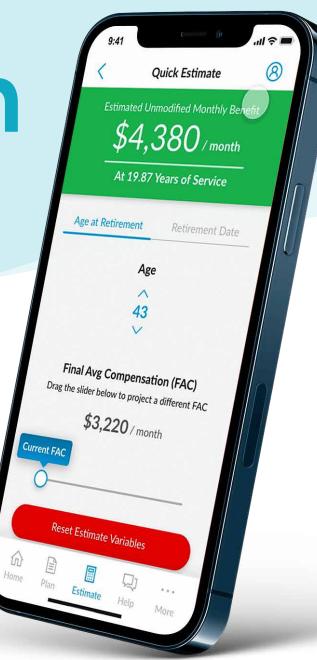
Find new metrics and approaches for measuring public pension health, research on how employers and employees can use pre-tax dollars to fund retiree medical expenses, and more.

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# **Around the Regions**

#### Detroit Police and Fire Pension Board Appeals Ruling, Fights for 20-year Amortization Plan

Detroit's Police and Fire Retirement System is fighting back with an appeal of a ruling allowing the city to make catch-up pension payments, which were delayed during bankruptcy, over the next 30 years instead of 20 years.

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Source: Detroit Free Press

#### CalPERS Announces \$100 Billion Net Zero Pledge and New Climate Accountability Measures

CalPERS announced a sweeping sustainable investing strategy to accelerate moving the fund's portfolio toward net zero, where carbon emissions from investments are evenly balanced with carbon reductions. The new effort will commit \$100 billion toward climate solutions by 2030 and ensure corporate accountability through the sale of investments that do not have a credible plan to reduce carbon emissions.

READ MORE

Source: CalPERS Newsroom

#### Public Pension Funding Improvements on Display in West Virginia

West Virginia has been one of the most impressive states in turning around pension funding, reducing debt by 90% in recent decades through positive amortization, policy revision and supplemental funding, according to a report from The Pew Charitable Trusts.

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Source: The Bond Buyer

# **NCPERS** 2023 Public Retirement Systems Study:

Trends in Fiscal, Operational, and Business Practices

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# **Around the Regions**

## NY Governor Signs Bill to Allow Auto-Enrollment of NYC Board of Education Employees

New York Governor Kathy Hochul signed State Senate Bill S6962 on Monday, requiring new and existing New York City Board of Education Retirement System-eligible employees to be automatically enrolled into the BERS plan.

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Source: PlanSponsor

#### Illinois Teachers to Receive \$6.2B From State to Boost Funded Status

Illinois will contribute \$6.2 billion to the Teachers' Retirement System of the State of Illinois, the fund at its December board meeting. The contribution will be granted in fiscal 2025, which begins in July 2024, and will be a 2.7% increase over the state's \$6.04 billion contribution this fiscal year.

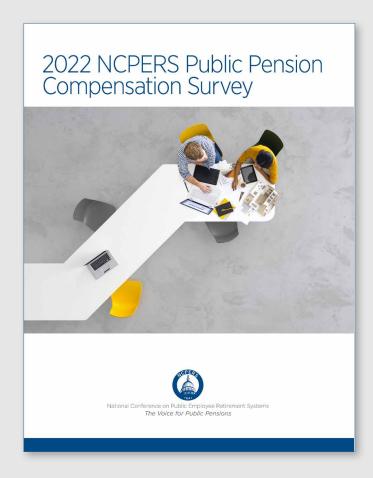
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Source: Chief Investment Officer

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#### **Pension Communications** Summit

January 21-22 Washington, DC

#### **Legislative Conference**

January 22-24 Washington, DC

#### May

## **NCPERS Accredited Fiduciary** (NAF) Program

May 18-19 Seattle, WA

#### **Trustee Educational Seminar** (TEDS)

May 18-19 Seattle, WA

#### May

## **Annual Conference &** Exhibition (ACE)

May 19-22 Seattle, WA

#### June

#### Chief Officers Summit

June 17-19 Nashville, TN

#### **August**

#### **Public Pension Funding Forum**

August 18-20 Boston, MA

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# 2024 Year-Ahead Outlook

# The Last Leg on the Long Road to Normal



#### Key takeaways

- Our outlook for the new year is "2024": 2% growth,
   O recessions, 2% inflation and 4% unemployment. A soft
   landing remains in reach, particularly as disinflation looks
   set to continue and the Federal Reserve now appears
   satisfied with its progress.
- Global economic growth should be less divergent next year, but central banks more so given different journeys in the inflation battle. This should drive the U.S. dollar lower.
- Given the Fed is done with the current tightening cycle, we believe long rates peaked in October and have scope to decline further as both growth and inflation cool to trend.
   Moreover, interest rates should broadly stabilize and the curve should gradually steepen over the course of 2024 as markets anticipate rate cuts beginning over the next 6-12 months.
- After a strong 2023, investors should temper expectations for 2024 as earnings estimates look lofty, volatility has been unusually low, valuations could come under pressure and economic growth is likely to slow.
- International equities should continue exhibiting solid and diversified returns next year driven by still favorable valuations, positive earnings growth and improving return of capital to shareholders.
- Although the dust is still settling on valuations, alternative investments can support the outcomes investors seek in portfolios, like diversification, inflation hedging and alpha.
- Against a challenging backdrop of turning tides, investors would do well to diversify and lean on active management, stepping out of cash and into risk assets to take advantage of the anticipated changes ahead.





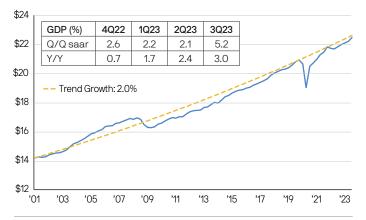
## U.S. economy: Hoping for a boring 2024

Our baseline U.S. economic forecast for 2024 can be summed up by the number 2024 – 2% growth, 0 recessions, 2% inflation and unemployment staying at roughly 4%. However, there are clearly risks that could divert us from that path.

On economic growth, demand is gradually easing following a surprisingly strong 2023. Real GDP growth in 3Q23 was 3.0% year-over-year powered by strong gains in consumer and government spending, resilient investment spending, inventory restocking and improving international trade. All of these areas should see slower growth going forward.

#### Growth should slow following a strong 2023

Exhibit 1: Real GDP, trillions of chained (2017) dollars, seasonally adjusted at annual rates



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19. Data are as of December 13, 2023.

Consumer spending should grow more slowly as job gains diminish and banks gradually tighten lending standards. That being said, while younger and poorer households are showing signs of increased financial stress, on aggregate, consumer financial conditions are not nearly as dire as they were before the Great Financial Crisis, and we expect consumer spending to grow more slowly rather than shrink.

Capital spending could be more challenged as businesses react to higher interest costs and slowing revenue growth. Moreover, the longer high interest rates remain in place, the greater is the risk of a surge in small business bankruptcies. However, the outlook for capital

spending is not entirely negative, as booming spending on artificial intelligence and federal government incentives for semiconductor manufacturing should be able to offset weakness due to declines in the construction of retail and office facilities.

After improving in 2023, international trade should drag on growth in 2024, reflecting a still very-high dollar and sluggish global growth. Meanwhile, government spending growth should slow as federal spending is constrained by Washington gridlock and state and local spending is trimmed in line with a slowing U.S. economy.

All of this being said, we believe that demand growth in the U.S. should still be strong enough to support 2% real GDP growth in 2024. But how about supply?

The unemployment rate has been in a narrow band of between 3.4% and 4% since December 2021 and could stay in this range in the year ahead. If it does, then all growth in employment in 2024 would have to come from growth in the labor force. This will be challenging – just released Census projections show the population aged 18-64 rising just 0.1% in 2024, in a long-standing trend reflecting the aging of the baby boom generation. However, tight labor markets should encourage stronger immigration and some further gains in labor force participation. In addition, productivity has seen solid gains over the past year with output per worker rising by 1.1%. This could improve further in the year ahead, allowing for 2% real GDP growth without overheating the economy.

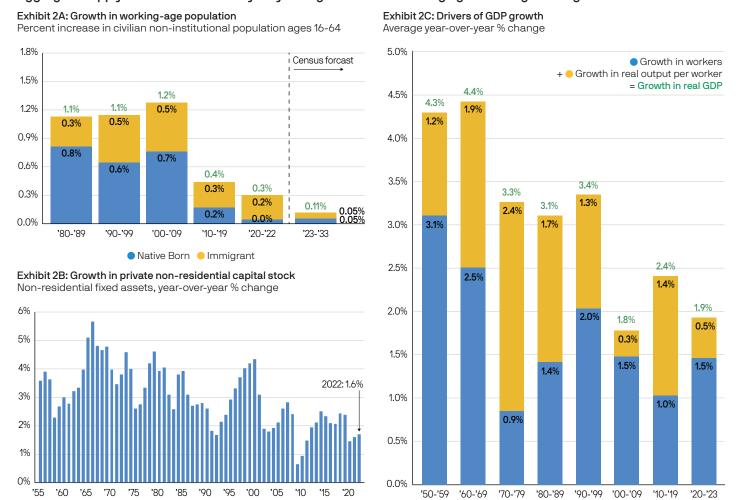
Provided the economy transitions to 2% growth and 4% unemployment, inflation should continue its steady downward trend.

One way to appreciate this is to break CPI inflation down into food, energy, shelter and everything else.

Food prices soared in the pandemic, reflecting fiscal stimulus and supply-chain disruptions – a trend that was extended by Russia's invasion of Ukraine. These effects are now fading and real food spending has declined for much of the last two years, reflecting a squeeze on lower and middle-income consumers. Restaurant spending has proven more robust, reflecting a post-pandemic bounce-back. Nevertheless, baring another supply shock, we expect these forces to continue to erode food inflation in 2024.



## Aggregate supply will be constrained by very slow growth in the working age following a strong 2023



Source: J.P. Morgan Asset Management; (Top left) Census Bureau, DOD, DOJ; (Top left and right) BLS; (Right and bottom left) BEA. GDP drivers are calculated as the average annualized growth in the 10 years ending in the fourth quarter of each decade. \*The latest period reflects 1Q20 to 3Q23. Future working-age population is calculated as the total estimated number of Americans from the Census Bureau, per the November 2023 report, controlled for military enrollment, growth in institutionalized population and demographic trends. Growth in working-age population does not include illegal immigration; DOD Troop Readiness reports used to estimate percent of population enlisted. Numbers may not sum due to rounding. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of December 13, 2023.

Turning to energy, after slumping and surging in recent years, oil prices have fallen back to a more normal range of USD 80-90 per barrel of West Texas intermediate crude. Importantly, the tragic events in the Middle East have not, as yet, had a major impact on oil prices. Going forward, a combination of a sluggish global economy and increased output from the U.S. and non-OPEC nations should more than offset continued reductions in OPEC and Russian output, allowing oil prices to move sideways or down in the year ahead.

Importantly, the spread between gasoline prices and crude oil prices has narrowed significantly in recent months from very elevated levels. This has allowed gasoline prices to fall sharply and should allow for further modest declines in the year ahead. Relatively high natural gas inventories should keep natural gas prices steady or falling in the year ahead, contributing to a similar pattern for electricity prices. All told, we expect the energy component of CPI to post modest year-over-year declines throughout 2024.

J.P. Morgan Asset Management



Shelter comprises almost 35% of the CPI basket, of which roughly 8% is actual rent and 26% is "owners' equivalent rent." The government uses a complicated procedure to estimate these concepts that causes measured inflation in these areas to lag behind changes in rents negotiated in the market place. While this is hardly ideal, it does help economists predict trends in shelter inflation well in advance based on data on new leases, and given this trend, we expect shelter inflation to fall steadily throughout next year.

Finally, there is the rest of inflation, which has been boosted in recent years by a very restricted supply of new and used cars, a resurgence in airline travel following the pandemic, general supply chain issues and, to some extent, the impact of higher wage growth. However, all of these trends are easing, suggesting that this area of inflation will also moderate in the year ahead.

Pulling all of this together, and recognizing that consumption deflator inflation normally tracks a little cooler than CPI inflation, suggests that the year-over-year change in the consumption deflator is still on track to fall below 2% by the fourth quarter of 2024 – well ahead of the Fed's current projections.

So, overall, a base case forecast of 2024 for 2024 – 2% growth, 0 recessions, 2% inflation and 4% unemployment. However, it should be recognized that there are many potential risks to this outlook, including a U.S. election, the lagged consequences of higher interest rates and very significant geopolitical tension. Any of these issues, or something else entirely, has the potential to trigger recession in a slow-growing U.S. economy, making 2024 a year for hope but not complacency.

## International economy: Another year of divergence? Consumers will decide

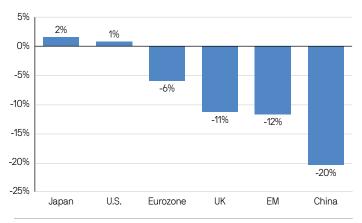
Despite the negative headlines, the global economy has grown 2.8% so far this year, in line with its 15-year average pace. Beneath the surface, however, a lot of divergence is on display – albeit not the divergence investors expected going into the year. The eurozone, UK, Canada and China ended up disappointing, while the U.S., Japan and emerging markets ex-China ended up surprising positively. In Europe, energy rationing did not occur, but neither did falling energy prices deliver an uplift, as consumers remained cautious and higher

rates weighed on manufacturing. In China, the end of "zero COVID policy" did not prove disruptive, but still low confidence led to a subdued recovery in investing, hiring and spending despite normalized mobility levels.

In 2024, the key question for the global economy is: will this divergence persist, and if not, will it close in the positive or negative direction? Central to this question is consumer spending (Exhibit 3). Japanese and U.S. consumer goods spending has been robust and is now above pre-pandemic trends, but consumers in the eurozone, UK and China have been cautious, with spending still 6%, 11% and 20% below trend, respectively. The good news is this is where excess pandemic savings persist. There is hope for some modest reacceleration in Europe, as inflation continues to fall (boosting real incomes) and the sticker shock of 2022's energy price spike fades. In China, consumers may remain cautious for a bit longer given a weak housing market, but policy makers are now in pro-growth mode, providing a floor to growth at this year's 5% pace. Meanwhile, like the U.S., growth in Japan and emerging markets ex-China should downshift from this year's pace given used up savings. This should leave global growth less divergent, albeit a bit slower than its long-run average. A heavy calendar of elections next year may be consequential, especially the one in Taiwan (given geopolitical tensions with China) and India (given the positive reform momentum under the Modi government).

## Consumer spending has room to catch up in Europe and China

Exhibit 3: Consumer goods spending, deviation of current spending vs. 2014-2019 trend growth



Source: national sources, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Retail sales data is as of September 2023 except for the U.S. and China, which have data as of December 13, 2023.



Central bank action has been more uniform since 2022 (with notable exceptions of easy policy in Japan and China), as central banks hiked rates aggressively to combat globally elevated inflation. Next year, more divergence may creep in: as the year ends, U.S. and Eurozone core inflation has already retraced about half of its pandemic surge, the UK only a third, and Japan's is still hovering at its peak (Exhibit 4). The key to these differences is wages, with sticky wage growth in Europe and (finally) accelerating wages in Japan. This gives European central banks less breathing room to start cutting rates as soon or as quickly as the Fed and pressures the Bank of Japan to finally get going on exiting negative rates. The lone exception to stimulative policy should remain China, given below-target inflation and modest growth.

Next year should bring some continuation of the U.S. dollar downward trend that began in October 2022 due to narrowing growth and interest rate differentials, as well as flows returning to non-U.S. markets (as they began to in 2023). The risk to this thesis is U.S. recession fears returning, which would dampen investor sentiment again. Stronger international currencies should provide a relief for central bankers' fights against inflation and for U.S. dollar-based investors' international returns from this year's very small currency drag.

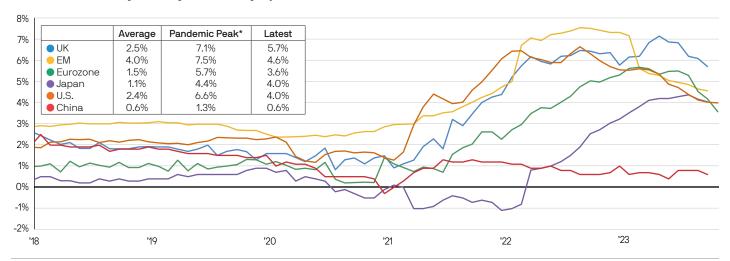
## Fixed income: Prolonged pause or cautious cuts?

Recent data on inflation and labor markets and signals from the December Federal Open Market Committee (FOMC) meeting reinforce the assumption that the Federal Reserve is finished hiking rates this cycle. To be clear, economic activity indicate a decelerating economy, not an economy destined for a near-term recession, and while the Fed may not need to tighten further, it does suggest the central bank can keep rates higher for longer. Given the Fed is likely done tightening policy but will be in no rush to ease, investors are curious on how long-term rates may behave over the next year after spiking in the third quarter before settling down to ~3.9% at time of writing.

While it's not unreasonable to assume rates could move higher from here given quantitative tightening, softening demand for U.S. Treasury debt from foreigners and commercial banks, political uncertainty in Washington and increased Treasury supply due to higher deficit spending, history suggests (**Exhibit 5A**) that the timing of the last hike normally coincides with the peak in the U.S. 10-year Treasury yield. As highlighted, on average over the previous five tightening cycles, the U.S. 10-year has historically peaked 3 months prior to the last hike. Given the hawkish tilt in Fed commentary and firm economic data since its last hike in July, it's not surprising yields may have peaked 3 months after in October this year.

#### Progress on core inflation is less far along in Europe and Japan

Exhibit 4: Core inflation, year-over-year, seasonally adjusted



Source: FactSet, national sources, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Shows 15-year averages. "Latest" is as of October 2023 except for EM and Japan, which are as of September 2023. \*The pandemic peaks for each country are as follows: UK - May 2023, EM - October 2022, Eurozone - March 2023, Japan - August 2023, U.S. - September 2022, and China - October 2021. Data are as of December 13, 2023.

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Peak in U.S. 10-year Treasury yield tends to coincide around the last Fed rate hike

Exhibit 5A: Percent, 0 = day of last rate hike



Source: Bloomberg, J.P. Morgan Asset Management. Label represents the month in which the last rate hike occurred. Data are as of December 13, 2023.

Exhibit 5B: Rate hiking cycles and the U.S. 10-year

Month of last hike	Month of 10Y peak around last hike	Peak 10Y relative to last hike (months)	Month of first cut	Change in 10Y from last hike to first cut
Feb '89	Oct '87	-16	Jun '89	-0.95%
Feb '95	Nov '94	-3	Jul '95	-1.48%
May '00	Jan '00	-4	Jan '01	-1.51%
Jun '06	Jun '07	11	Sep '07	-0.73%
Dec '18	Nov '18	-1	Jul '19	-0.70%
Average		-3		-1.07%

Notably, not only do long rates tend to peak near the final rate increase, but long rates have also consistently declined following the end of a tightening cycle. On average, the U.S. 10-year has fallen by 107 basis points during the period between the last rate hike and the first rate cut (**Exhibit 5B**). Moreover, yields tend to fall further once the Fed begins cutting rates by an additional 46 basis points on average, six months after the first cut.

Since peaking at 5% in mid-October, the 10-year has already fallen by 1%, but we believe there is room for long-term rates to fall even further while Fed remains on hold, particularly if growth and inflation continue to trend lower. This suggests that investors should consider stepping out of cash and extending duration as falling yields could generate strong price appreciation in longer maturity bonds.

## Lower rates, lower volatility

Over the past two years, aggressive tightening from the Federal Reserve, resilient data relative to expectations and technical factors have caused elevated interest rate volatility. Historically, as evidenced in **Exhibit 6**, interest rate volatility tends to be highest when the Fed first begins raising interest rates and when the Fed is cutting interest rates. This makes intuitive sense; when the Fed first begins hiking rates it is often unclear how high rates will go before economic activity begins to come under pressure, leading to uncertainty around the path forward for rates. Similarly, when the Fed is cutting interest rates, it is often in response to a recession leading to a quick shift in the outlook.

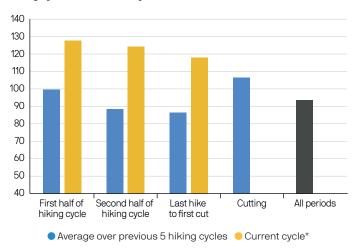


This cycle has experienced higher rate volatility than in any of the previous five rate-hiking cycles, and while volatility has come down slightly since July, it is still elevated relative to history. That said, we believe rate volatility should fall for two reasons. First, a decelerating economy should keep the Fed firmly on hold through the first half of 2024. Second, assuming the economy avoids a recession next year, we expect the Fed to reduce policy rates gradually and avoid a knee-jerk pivot to aggressive rate cuts.

Given this, rate volatility should continue to drift lower next year providing some much-desired stability in rates and helping support spread products. All things considered, bond investors should prepare for brighter days from both an income and capital appreciation perspective.

## While current interest rate volatility remains elevated relative to history, volatility tends to decline later in rate hiking cycle and when the Fed is on hold

Exhibit 6: Average daily level of MOVE index during previous five rate hiking cycles and current cycle



Source: Haver Analytics, J.P. Morgan Asset Management. Averages are based on the last five hiking/cutting cycles beginning with the hiking cycle in March 1988. Interest rate volatility is measured by the Merrill Lynch Option Volatility Expectations or MOVE index. The MOVE is an index measure of Treasury yield volatility and is based on one-month over the counter implied yield volatility (normalized) weighted as follows: 20% 2-year tail, 20% 5-year tail, 40% 10-year tail, 20% 30-year tail. A higher reading indicates higher interest rate volatility. \*The MOVE index for the current cycle assumes the first hike was in March 2022 and the last hike was on July 2023. The last hike to first cut volatility for the current cycle is the average level of the MOVE index from July 2023 to present. Data are as of December 13, 2023.

## U.S. equities: Tempering expectations

2023 has turned out to be a surprisingly strong year for equity markets, with the S&P 500 boasting double-digit returns. However, investors should temper expectations for 2024 as estimates for profit growth look lofty, volatility has been unusually low, valuations could come under further pressure and economic growth is likely to slow.

Analysts' expectations show earnings growing by 11% next year, double the long-term average, while our models are estimating 5-6% growth. Dissecting the sources of earnings growth, margins could maintain stability, but revenues are likely to slow. On margins, pricing power is waning, but input costs and wages are decelerating. Interest costs remain high, but 49% of S&P 500 debt is fixed beyond 2030, with no more than 7% maturing in any calendar year until then. Many S&P 500 companies also maintain ample cash balances, which are earning meaningful interest. Therefore, interest costs as a share of profits are falling. However, disinflation, slowing economic growth and headwinds to the consumer are likely to constrain revenues. If the U.S. economy goes into recession, profit growth would likely contract, weighing on stocks.

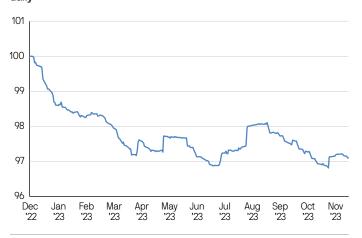
In addition, unusually low equity volatility in 2023 could be difficult to sustain in 2024. The VIX was at 16.8 on average this year, compared to 19.5 over the last 15 years, while interest rate volatility has been elevated to early pandemic levels since the Fed began raising rates. If the U.S. economy falters, interest rate volatility could pass the baton to equities.

Finally, on valuations, valuation dispersion deepened this year, with the top 10 stocks 38% more expensive relative to 25-year averages vs. 14% for the rest of the S&P 500. The S&P 500 overall is about 17% expensive; however, valuations since the Great Financial Crisis have been unencumbered by high rates. Looking at forward P/E ratios over the last 25 years, today's real interest rate implies that stocks are 30% overvalued. We don't expect a massive imminent correction while profits are still growing, but valuations may need to reset over time in a higher-for-longer rate environment.

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Therefore, from an allocation perspective, we continue to favor quality exhibited in large caps. Small caps have seen a significant valuation reset, but are levered to domestic growth, which could slow. Furthermore, margin pressures could be particularly acute even if input and wage costs are slowing, as 38% of outstanding debt for small caps is floating rate, raising concerns that higher rates could result in more immediate pressure. Within large caps, it's less about growth vs. value, as we have seen significant divergence even within sectors and industries, and more about stock selection, gearing toward companies with resilient profits, solid balance sheets and favorable relative valuations (Exhibit 7).

## 2024 estimates have declined, but still look lofty Exhibit 7: 2024 S&P 500 consensus EPS estimates, 12/31/2022 = 100, daily



Source: FactSet, J.P. Morgan Asset Management. Data are as of December 13, 2023.

## International equities: A lot more than meets the eye

Despite divergent economic growth and some disappointment in parts of the world, international equity performance has been strong: up 10% year-to-date (in U.S. dollar terms). Beneath the surface, even stronger performance has occurred as Europe ex-UK and Japanese equities are both up 15%. In emerging markets (EM), there is more strength underlying the 5% return this year, as China is substantially dragging on performance and EM ex-China is up 12% this year. Style differences have also been significant, with international value outperforming international developed value outperforming international developed growth by 3 percentage points. Lastly, time frames also matter: the rebound in international performance began in October

2022, and on a rolling one-year timeframe, international developed markets have kept pace with the U.S., especially international value which has outperformed U.S. value by 2 percentage points (**Exhibit 8**).

In addition to strong overall performance, international returns have seen a healthy breadth, driven by less concentration than U.S. performance: the spread in year-to-date returns between the top ten stocks and the remaining ones is only 7 percentage points in developed markets excluding the U.S. versus 53 percentage points in the U.S. In addition, performance has been driven by an equal contribution from multiple expansion, earnings growth and dividends. Investors have taken notice of the turnaround in international performance: international equities have been the fifth strongest category for net new flows so far this year.

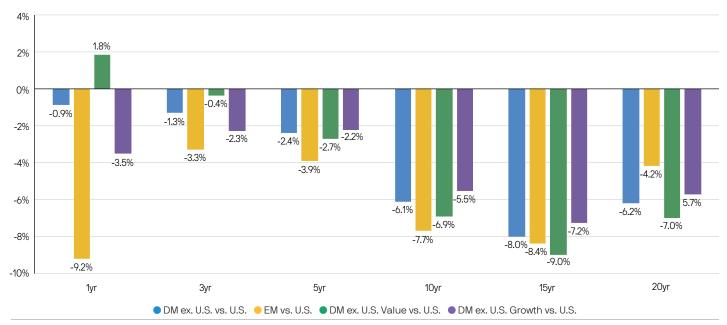
Despite this year's strong performance, the starting point for international equities next year is favorable, as multiples are still sitting 5% below the 10-year average (and at double the normal discount to the U.S. at 33%). The improved long-term international outlook for stronger nominal growth and positive interest rates (vs. last decade's weak and negative outlook), combined with a turnaround in sentiment toward China from this year's very depressed levels, can lead to further multiple expansion. On earnings, Europe and Japan should see somewhat slower earnings growth than this year at low single digits, as nominal growth decelerates from this year's boomy pace. However, the new focus on increasing shareholder returns through buybacks should continue to provide a boost. EM should see much better earnings growth next year at high double digits, as commodity earnings swing from a big drag to a big support given year-over-year comparisons and as Chinese earnings estimates should improve given more policy support to the economy. Lastly, international equities should continue to provide a steady income boost, with dividend yields sitting at 3% (nearly double those in the U.S.).

Style leadership may vary by region, with value continuing to lead the way in Europe and Japan (as it often does in developed ex-U.S. led outperformance). Growth may take over the baton in EM given a better outlook for the semiconductor cycle, combined with more confidence in China's private sector growth, which should fuel technology and consumer-related sectors. As always with international, there will be a lot more than meets the eye beneath the surface, and with valuation spreads near record highs, active managers have a chance to uncover it.



#### Over the past year, developed ex U.S. has pulled ahead of the U.S., led by value

Exhibit 8: Relative returns vs. the U.S., USD, total return, annualized



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. "DM ex. U.S." is represented by the MSCI EAFE Index, "U.S." is represented by the S&P 500 Index, "DM ex. U.S. Value" is represented by the MSCI EAFE Value Index, and "DM ex. U.S. Growth" is represented by the MSCI EAFE Growth Index. The 1yr return shown is a cumulative return. Data are as of December 13, 2023.

#### Alternatives: As the dust settles

Public markets repriced significantly in 2022; 2023 was supposed to be the year when private markets followed suit. Repricing has begun and is still in various stages. It is still underway in real estate. It has been somewhat more benign thus far than expected in private equity as profits and economic growth have been resilient. It is likely yet to come in private credit once the economy slows, higher-for-longer interest rates apply pressure to floating rate loans and defaults pick up. Because transaction volumes have been lighter, it can be difficult to get a firm gauge on valuations as assets simply aren't trading frequently enough to give a clear barometer.

Still, although the dust is still settling on valuations, alternative investments can support the outcomes investors seek in portfolios. Some of the most pressing concerns for 2024 will likely be diversification, inflation hedging and alpha.

Diversification proved elusive in 2023. Bonds are tracking to narrowly avoid a third consecutive annual decline and interest rate volatility has been severe. Assets like gold and the U.S. dollar are expensive and produce no income. If diversification proves to be evasive again in 2024, infrastructure investments have provided low or

negative correlation to the public markets and stable income with minimal volatility over time. With industrial policy back in vogue across the U.S., Japan, India and Europe, the structural tailwinds are robust.

U.S. inflation saw significant declines in 2023 and could reach the Fed's 2% goal sooner than anticipated in 2024. However, as we note in our *Long-Term Capital Market Assumptions*, U.S. inflation could be closer to 2.5% over the next decade. If that is the case, real estate has proven to be an effective inflation hedge over time as higher costs can be passed on via higher rents. Public REITs have already repriced notably and could be the first place to deploy capital.

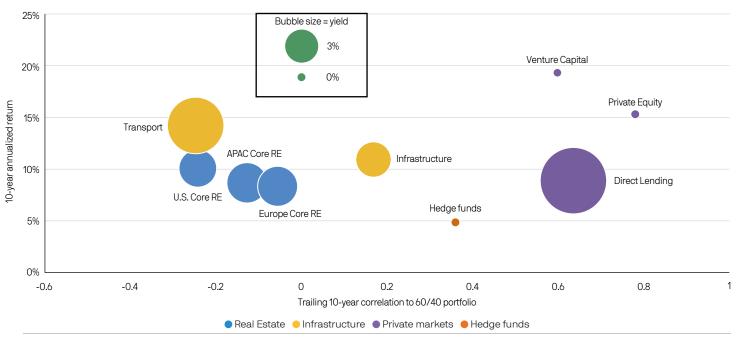
Unexpectedly buoyant public equity markets lavished investors with double-digit returns in 2023. However, higher-for-longer rates may pose a challenge to beta but allow alpha producers like stock pickers and private equity managers to shine in a less navigable environment going forward. In fact, history shows that performance from vintage years (the year when a private equity fund first deploys capital) that are economically challenging have tended to produce higher median returns. Still, quality and selectivity will be critical in both public and private equity (**Exhibit 9**).

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## Market Insights

#### Alternatives can provide alpha, income and diversification

Exhibit 9: 10-year correlations and 10-year annualized total returns, quarterly, 2013-2022



Source: Burgiss, Cliffwater, Gilberto-Levy, HFRI, MSCI, NCREIF, FactSet, J.P. Morgan Asset Management. Correlations are based on quarterly returns over the past 10 years through 2022. A 60/40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. 10-year annualized returns are calculated from 2013 – 2022. Indices and data used for alternative asset class returns and yields are as described on pages 8,9, and 11 of the Guide to Alternatives. Yields are based on latest available data as described on page 8 of the Guide to Alternatives. December 13, 2023.

## Asset allocation in 2024: Expect the unexpected

Investors looking back at 2023 face a slew of contradictions. Inflation eased, the labor market cooled, a war broke out and banks failed, yet the Fed pushed rates higher; despite lower confidence and higher borrowing costs, the U.S. consumer kept consuming; growth equities outperformed value, though stretched valuations and rising rates should have encouraged the opposite; and the international recovery has been fragmented despite China finally emerging from the pandemic.

As a result, when investors look forward to 2024, asset allocation must reflect a hard-learned mantra: "expect the unexpected."

The health of the U.S. economy remains top of mind, and investors are likely confounded by its remarkable resilience. While tighter lending standards, weaker job gains and lower savings should result in some "belt tightening," a recession may once again be avoided.

Some of this economic optimism can be attributed to growing confidence that the U.S. has already pushed through peak rates, with the Fed likely finished hiking. A lower Federal Funds Rate should translate into lower borrowing costs more broadly, providing a reprieve to indebted Americans. Meanwhile, the international economic laggards of 2023, like China and Europe, should accelerate through 2024 as other economies gradually lose steam, resulting in less divergence across global growth. Still, politics at home and abroad have the potential to temporarily sour this outlook.

In other words, investing remains a challenge, and asset allocation must reflect the inherent uncertainty of a world very clearly in flux.

Assuming that rates fall in 2024, bond investors should embrace intermediate-duration instruments while having confidence that attractive coupons will act as a "cushion" in portfolios if the rate view unexpectedly changes. They should also shore up quality to account for tighter-than-expected spreads and protect against unpredicted economic risk.

From an equity perspective, stretched valuations and overly optimistic earnings projections, coupled with a slowing economy, mean U.S. stock investors should look toward profitability in large cap names. This favors an allocation to quality regardless of sector and underscores the importance of security selection. Outside the U.S., favorable valuations and an improved growth outlook, including positive interest rates, should translate to further multiple expansion, benefiting most regions around the world and emerging markets in particular. Moreover, a declining dollar should provide an extra tailwind to local currency performance.

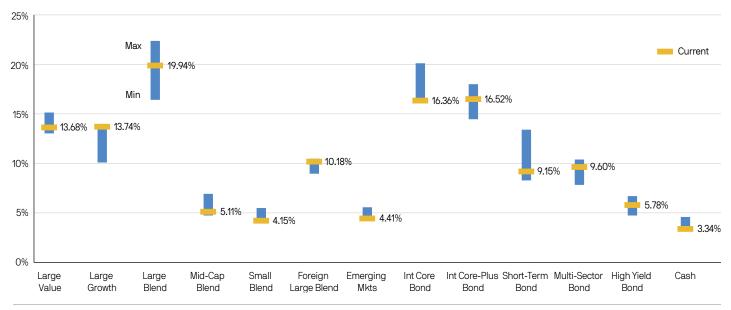
This backdrop is also supportive of alternative assets. Infrastructure investments can dampen portfolio volatility, particularly with a renewed interest in expansive industrial policy; real estate can protect against structurally higher inflation; and private equity and hedge funds can thrive if the beta trade weakens. Against this backdrop, however, investors should recognize that a repricing in some private markets is possible, underscoring the need for a long-term view.

Looking at the current portfolio positioning of individual investors, this outlook has only partially been implemented (Exhibit 10). Within fixed income, appetite for higher-quality, extended-duration bonds has increased since the start of the year. Within equities, growth investing is back in vogue, likely a reflection of investors chasing momentum given this year's surprise rally; this has somewhat unwound the shift toward value that had occurred earlier in 2023 and has driven up duration in stock allocations. Meanwhile, interest in non-U.S. stocks has increased since the beginning of the year, albeit mostly through passive vehicles, with investor allocations trending higher than the historical average despite a hazy geopolitical horizon. Finally, investors are still broadly overweight cash, weighing on returns in 2023 and positioning portfolios poorly relative to the opportunity set in 2024.

All told, the investing landscape is challenged, and predicting the winners and losers in periods of uncertainty is nearly impossible. Instead, investors would do well to expect the unexpected, diversify and lean on active management, stepping out of cash and into risk assets to take advantage of the anticipated changes ahead.

### Investors are fairly well positioned to take advantage of market opportunities

Exhibit 10: Average allocations in moderate portfolios, last 12 months



Source: J.P. Morgan Asset Management. Data as of December 13, 2023.

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## **Index Definitions**

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **Composite PMI future output index** is a gauge of economic growth and can provide valuable insights into GDP, service sector growth and industrial production trends well ahead of official data.

The **Bloomberg Euro Aggregate Corporate Index** is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities.

The Bloomberg Pan-European High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.

The **Bloomberg U.S.** Aggregate Treasury Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The ICE BofA MOVE Index tracks fixed income market volatility.

The J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified) is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The J.P. Morgan GBI EM Global Diversified tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. leveraged loans.

The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The **MSCI Pacific Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The MSCI World with USA Gross Index measures the performance of the large and mid-cap segments across 23 Developed Markets (DM) countries. With 1,540 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **Russell 1000 Index** $^{\circ}$  measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Value Index**® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The  $\hbox{\it U.S.}$  Treasury Index is a component of the U.S. Government index.

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MI-MB\_2024\_investment\_outlook

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## Private Credit Is Changing Everything, Even Bankruptcy

Restructuring professionals report an uptick in both restructuring activity and private equity sponsors considering turning indebted businesses over to their lenders.

By Bailey McCann



A wave of bankruptcies and restructurings is always on the horizon, depending on who you ask. Whether it materializes is another thing entirely. 2024 is showing some signs that the wave might crest.

At the start of 2023, it looked like a wave might materialize. Many firms staffed up their restructuring teams, expecting a busy season. But, sources say, bankers were willing to extend and amend financing if it looked like a given business had a path forward. According to data from a recent analysis by FTI Consulting, "the distribution of filings by debtor size in 2023 is consistent with annual averages since 2017, except for 2020, which was an outlier. Approximately 55% of large filers have liabilities at filing between \$50 million and \$250 million (middle-market cases); about 25% have liabilities at filing between \$250 million and \$1 billion

(large middle-market cases), while nearly 20% of filings are above \$1 billion—and 2023 was unexceptional in this respect."

Those findings are consistent with what Brian Davies, a managing partner in the financial advisory services practice at investment bank Capstone Partners, saw play out. He says he did not ramp up headcount on his team, in part because the ascent of private credit changed the math for borrowers. They have more ways to secure financing, and private lenders may be willing to find solutions during times of trouble, instead of forcing businesses to seek legal protection.

"Many lenders hold their assets, because capital is much more difficult to redeploy at the moment," Davies says. "Another issue is that we've been in a very competitive lending environment, so it's difficult for some lenders to force a restructuring if a borrower breaches the agreement, because so many deals were drafted covenant light. These two factors can limit a lender's options."

Moving into 2024, these trends may be starting to shift. The year started with a number of high-profile filings, including Signa Group and Diamond Sports.

Vincent Indelicato, global co-head of Proskauer Rose LLP's business solutions, governance, restructuring and bankruptcy group, says, "restructuring professionals have seen a conspicuous uptick in restructuring activity." He adds that in some cases, private equity managers are taking a look at the balance sheets of their portfolio companies and realizing they have run out of options. "For the first time in a long time, we are seeing private equity sponsors approach their lenders and say, 'Do you want the keys?" he says.

Indelicato adds that there is still a desire from lenders and borrowers to find a workout without going to court, even in a change-of-control arrangement at the borrowing company, unless the business has troubled assets that would benefit specifically from tools available in bankruptcy proceedings. Businesses with unexpired leases or labor agreements that cannot be managed in a workout are two examples.

## **Challenges Ahead**

Despite the desire to stay out of federal bankruptcy court, being able to do so is likely to become harder. Businesses that extended and amended their way through the past three years may be out of runway, and what's more, depending on their overall balance sheet, they may not have the equity available to get refinancing, even from flexible lenders.

"I think creditors are beginning to realize that even if the Fed cuts rates this year and next, a lot of balance sheets are still broken or unserviceable," says Tuck Hardie, managing director in the financial restructuring group at investment bank Houlihan Lokey. "Creditors are beginning to say, 'OK, someone has got to de-risk me either through an equity contribution, an accretive asset sale, or deleverage by having a junior stakeholder convert to equity, because senior creditors are not being compensated for the risk they are taking.' I think that attitude will continue to harden."

Hardie notes that there are loans maturing this year and next that were written when interest rates were significantly lower, and companies may find they cannot afford to refinance at a higher rate. That pressure is likely to be most acute in the middle market, where significant private credit activity is focused and where businesses have fewer financing options overall.

Capstone's Davies agrees. "Historically speaking, when we started a restructuring process, there often was some unencumbered assets that would provide incremental capital, thus giving additional runway to work with," he says. "What we're seeing now, and what I think we're going to see going forward, is that there are very few unencumbered assets left. The competition to place these credits has been so high that they've stretched the collateral to provide more credit for the business. So getting restructuring financing in place is going to be more of a challenge."

Even if it is challenging, parties may try getting as creative as possible to avoid court. Bankruptcy proceedings are more expensive than an out–of–court restructuring and can take much longer. Hardie adds that middle market companies could lose 10% or more of their enterprise value in a bankruptcy proceeding, even if the company eventually exits and resumes regular operations. With the cost of capital already high, bankruptcy will be even harder to come back from. Sources say creditors and investors also have a preference for so-called "packaged bankruptcies," meant to be entered and exited quickly. If that's not possible for a given company, it could be challenging to secure debtor-in-possession financing to go through the process if the exit strategy is not straightforward.

## **Shrinking Multiples**

The challenges businesses face are not limited to just their balance sheets. Investors could see contraction of the multiples within certain private equity vintages that have exposure to these companies. If private equity managers engage in the debt-for-equity swap needed for a change-of-control transaction, it can give companies more time to clean up troubled balance sheets, but it cannot fix everything. As a result, it may be harder to gauge the overall risk profile of private equity and private credit portfolios if managers are not disciplined about what they are willing to underwrite.

"When I think back to the last restructuring market we had, the amount of private equity capital that was out there then, compared to what it is now—the increase is just breathtaking," Davies says. "So you have to think about how these funds are going to react to a restructuring if their focus has largely been on profit improvement."

So-called liability management practices, such as accelerated change of control, could be one way sponsors avoid court. Proskauer's Indelicato says he expects to see these practices continue. "I think in the first quarter, in particular, we'll continue to see use of this playbook as [PE] sponsors with flexibility use these tools to extend runway and avoid a bankruptcy filing," he says. "Many of the candidates for those trades will likely prove to be companies that have been the walking wounded since the pandemic and desperately need a capital solution because of liquidity challenges. To some extent, I think we may see 'The Return of the Living Dead."

Nate McOmber, managing director in the restructuring practice at G2 Capital Advisors, says he is already seeing an uptick in demand for financial and restructuring fiduciary services, as sponsors and companies look for people to lead them through insolvency. He also points to a talent gap in the industry, saying, "There's a pronounced shortage of junior and mid-senior people with the kind of wide-ranging toolkit required to be an effective fiduciary in special situations. Despite the soft landing the Fed is working toward, borrowing costs will remain high for the foreseeable future, which a lot of companies won't be able to stomach, which will continue to drive a lot of need for restructuring services."

New data from S&P Global show that private equity managers are also terminating a fairly significant number of deals. Global terminated M&A deals totaled \$15.96 billion across 29 transactions in the fourth quarter of 2023, a low figure on a historical basis. However, 17.2% of those deals were backed by private equity and venture capital firms, either as buyer or seller, the highest quarterly proportion since 2020.

If more companies are running into financing hurdles and the broader M&A market remains challenging and slow, investors could encounter difficulty getting money back from private equity managers, which could make it difficult to redeploy capital, especially in institutional portfolios already struggling with denominator effect issues. As Bloomberg recently reported, some large investors have already said they will not re-up into new private equity funds until they get at least some cash back.

If investors look to the default rate as a relative benchmark to assess portfolio risk, they may find it less accurate than in the past. According to FTI Consulting's analysis, "The ascent of private credit likely is having some indirect impact on the default rate, as more non-bank lenders opt for credit estimates (or less) and forgo a full credit evaluation process by the rating agencies for some of their loan exposures, thereby excluding these companies from the pool of issuers tracked by the rating agencies should they later default. Consequently, we believe that, in time, the speculative-grade debt default rate could become a less representative proxy of large corporate failure, if it isn't happening already."

Lenders, for their part, still have some tools to ensure they get something in a recovery process. Practices like priming—when the seniority position of a lender on a secured loan is superseded by another lender— can keep groups of senior creditors at the top of the repayment list. However, it requires those creditors to be relatively sophisticated in their practices. Capstone's Davies notes when banks were doing the majority of the lending, they had workout groups within the team already. Non-bank lenders may not have that and could lose out to teams that do.

Investors may also want to look closely at the discipline of the private credit managers with which they invest. Private credit is fresh off another banner fundraising year and is looking to put money to work in a relatively slow M&A environment. Houlihan's Hardie notes that the temptation to finance companies under pressure could add risk to managers' portfolios.

"There are firms that will continue to finance these businesses, sometimes even at an overlevered level, because they buy into the story that the company will eventually grow into its balance sheet over time," Hardie says. "We're seeing debt deals get done at leverage levels that make you scratch your head and go, 'What were they thinking here?' They're financing somebody else's problem and creating a problem for themselves."

The Latest in Legislative News

February 2024

## Maximizing Your NCPERS Membership in 2024

By: William Whitman, Director, Membership & Strategic Alliances, NCPERS

our membership with the National Conference on Public Employee Retirement Systems makes possible our essential work to protect and promote public pensions. With a community drawn from over 600 pension plans and stakeholders, NCPERS brings together plan trustees, administrators, public officials, and investment professionals to advance the cause of public pensions throughout the United States and Canada.

As the new Director of Membership & Strategic Alliances for NCPERS, my goal is to make sure that you and your organization receive significant value for your membership dollar. Each year, NCPERS delivers a comprehensive suite of programs, resources, and services to our members. Utilizing these benefits ensures your organization stays abreast of important developments in the public pension arena and stays connected with other stakeholders who help you accomplish your goals.



I've listed below some key programs and services that will benefit all NCPERS members throughout 2024. Please take advantage of these benefits and get the most out of membership this year.

#### **NCPERS Conferences**

This year's in-person conferences will keep you educated on the latest trends impacting public pensions and allow you to engage with leaders from pension plans, actuarial practices, financial services firms, and other organizations.

The <u>2024 Annual Conference & Exhibition (ACE)</u> on May 19-22 will bring together more than 800 pension plan trustees, staff, and stakeholders for the premier education and networking event in the public pension space.

Additional in-person conferences throughout the year will be tailored to the needs of Chief Officers, Public Safety Plans, HR Professionals, and other segments of our community.

#### **Webinar Series**

NCPERS will host regular webinars on topics important to our community throughout 2024, bringing members free educational opportunities on headline issues.

Our next event: 2024 Public Retirement Systems Study: Trends in Fiscal, Operational, and Business Practices on February 13 at 1:00pm ET will dive into the results of the 2024 Public Retirement Systems Study and highlight trends in plan benefits, allocating assets, and operational performance. 

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To receive updates on future webinars, sign up through the NCPERS Center for Online Learning.

#### **NCPERS University**

NCPERS University is where pension trustees and administrators can find the education they need to be successful in carrying out their duties, no matter their experience level. We have courses for new trustees and experienced trustees, as well as the NCPERS Accredited Fiduciary Program for those who want to earn a certification demonstrating their mastery of plan governance.

#### **Fund Member Roundtables**

For our pension professional members, we have a peer Roundtable network where you can gather critical intelligence, discuss industry developments, and crowd-source solutions to issues you face. No matter your role - CEO, CIO, communications head, or HR lead - these virtual chats bring together pension professionals to tackle common challenges.

### **Stay Connected and Informed**

NCPERS keeps our community updated by relaying important industry news, research releases, and legislative analysis through our publications and communications platforms. Please ensure you are receiving and following:

- PERSist, our quarterly online journal, highlights the latest research and educational content for fund members. The Winter 2024 PERSist can be found here (login required).
- NCPERS Blog is our community hub for think pieces on the latest news, trends, and policy updates in the public pension industry.
- Subscribe to NCPERS Retirement Security SmartBrief to receive our weekly selection of the latest news from the public pension industry and updates on issues that impact financial wellbeing in retirement.
- Meet the CorPERS Members on our website to easily find the products and services available from leading service providers in the NCPERS community.
- Follow NCPERS on Facebook or LinkedIn for real-time updates and to connect with your peers.



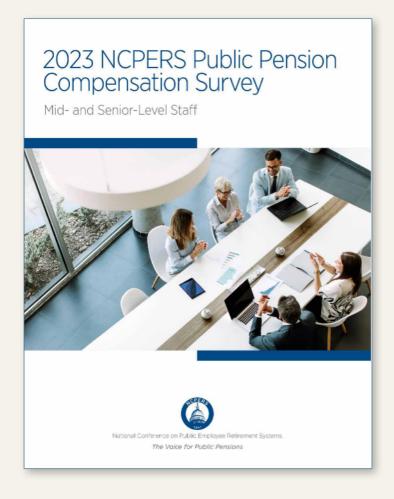
## **Affinity Programs**

NCPERS has many strategic partnerships with organizations providing products and services to pension funds and their participants. Fund members can receive discounts on the PensionX digital platform and access to insurance products—including cyber liability, identity protection, and financial protection plans—through their NCPERS membership.

In addition to the above, there are many other benefits to being a member of NCPERS! If you would like to learn more about how your organization can take full advantage of membership, please do not hesitate to reach out to me at william@ncpers.org. I am extremely pleased to be part of this terrific team working to support you in 2024.

## Order your copy of NCPERS 2023 **Public Pension** Compensation Survey today.

Access in-depth compensation and benefits data for 13 midand senior-level staff positions.



## **LEARN MORE**

## Death Verification Data, Cybersecurity, and Public Pensions

By: Tony Roda, Partner, Williams & Jensen



tate and local governmental retirement plans pay pension, survivor, and other post-employment benefits to millions of retirees and beneficiaries throughout the 50 states, the District of Columbia, and the territories. In order to administer these programs in the most accurate manner, governmental plans need access to the most complete sources of death verification data. When payments are made to deceased individuals due to a lack of timely information, administrative burdens and costs are imposed not only on state and local governments as they seek to recoup the improper payments, but also on the federal government as it must unravel complicated tax situations created by income taxes withheld on the improper payments.

Significant data breaches occurred in the spring of 2023 that were related to private sector vendors of death verification information. Some of the breaches impacted state and local governmental retirement systems. In the aftermath, public plans began internal reviews of their cyber defenses and external investigations into alternative sources of death verification data. As part of the external investigation, NCPERS met with senior staff of the House and Senate Subcommittees on Social Security to explore options at the Social Security Administration (SSA) and other non-private sector sources.

The SSA provides two versions of death data to be shared with external organizations, as authorized by law: the public Death Master File, which does not contain data from the states, and the public plus state file, also known as the "full file," which contains state information. Experts in the field claim that the public file covers only 19 percent of deaths, while the full-file covers 95 percent.

The full-file may be shared as authorized under Section 205(r) of the Social Security Act, which allows SSA to enter into agreements with, among other entities, qualifying federal and state agencies. This includes state agencies administering programs wholly funded by the state. In 2012 in an exchange of communications between the SSA and a public pension plan, the SSA took the position that public plans are not eligible for the full-file because employee contributions partially fund the plan, i.e., the plans are not wholly funded by the state. ①

In order for public plans to be eligible for the full-file, then, Section 205(r) would have to be amended. Our Congressional contacts made clear that both SSA and Congress would not support such an amendment. Their position is that the greater the demand placed on SSA to be a national clearinghouse of death data, the more it detracts from SSA's core mission of administering the largest benefit program in the country. In other words, legislative changes would meet serious opposition in Congress and at the SSA, which would make chances of success unlikely at least in the short term.

Likewise, by statutory law, the U.S. Treasury Department's Do-Not-Pay (DNP) service may provide access only to federally funded, state-administered programs. State and local governmental retirement systems are not federally funded and, as a consequence, we would need to change DNP's statutory authority to allow state plans to be eligible. Our discussions have led us to conclude that an amendment to expand DNP's authority would meet with resistance in Congress as well.

Our research then led us to a non-profit organization — the National Association for Public Health Statistics and Information Systems (NAPHSIS). The vital records divisions of all 50 states, five territories, New York City, and the District of Columbia participate in NAPHSIS, but each jurisdiction has a different set of conditions on the use of their data. NAPHSIS categorizes its users, and working off the jurisdictions' various conditions, each user category has a different group of jurisdictions available to them.

NAPHSIS categorizes state and local governmental pension plans in the State/Local Benefits user category. There are 43 states, New York City, the District of Columbia, and Puerto Rico allowing users in this category access to their data. However, Hawaii, New Hampshire, New Jersey, New York, North Carolina, Texas, and Virginia currently would not permit access. NAPHSIS believes that recent developments in some of these states are promising and that additional states may soon allow access to this user category.

Please be assured that as we learn more about NAPHSIS and death data verification sources, in general, we will keep you apprised of any significant developments.

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. Tony 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** Recognizes Industry Leaders with Inaugural Public Pension Communicator of the Year Award

By: Lizzy Lees, Director of Communications, NCPERS



CPERS announced the winners of the inaugural Public Pension Communicator of the Year Award on January 22 during the 2024 Pension Communications Summit. Read the event recap here to find other highlights.

As the largest trade association of public pension professionals in the US and Canada, NCPERS is uniquely positioned to bring together and identify best practices from leading professionals across the industry. The newlycreated award honors 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.

"In 2023, NCPERS held its first Pension Communications Summit to provide a space for public pension communications professionals to share best practices, network, and learn from each other. With the Public Pension Communicator of the Year Award, we're thrilled 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," said NCPERS Executive Director and Counsel, Hank Kim.

Using the scoring criteria, judges selected three winners in categories based on funds' assets under management (AUM) and awarded one Honorable Mention:

Alison Taylor-Thévenin, Deputy Director, Member Communications for the New York City Board of Education Retirement System won the 2023 Public Pension Communicator of the Year Award in the less than \$10 billion AUM category. With a background in graphic arts, she prioritizes aesthetically pleasing, understandable, ③

and user-friendly communications. She has worked to help NYCBERS utilize Plain Language Guidelines and remains committed to ensuring the fund's communications are accessible, relatable, and representative of the diversity of its members and the city. She has worked for NYCBERS for more than 14 years. (9)

Taneda Larios, Chief Benefits Analyst for the Los Angeles City Employees' Retirement System won the 2023 Public Pension Communicator of the Year Award in the \$10-50 billion AUM category. She has taken a data-driven approach to strategically improve LACERS' communications, recognizing the diverse communication preferences of the fund's members and working to create efficiencies through technology and innovation. Larios led the creation of LACERS' web-based Retirement Application Portal, with 73 percent of eligible members choosing to retire using the portal in the last year. Her leadership skills and vision for serving LACERS' members were recently recognized with the elevation of her section, Communications and Stakeholder Relations, to a full-fledged division.

Patrick von Keyserling, Senior Director of Communications for Colorado PERA won the 2023 Public Pension Communicator of the Year Award in the greater than \$50 billion AUM category. He recently oversaw the launch of Colorado PERA's first mobile app—which has had more than 20,000 downloads since July 2023. Anatural collaborator, von Keyserling co-led an initiative to develop 60-second informational videos to help educate members in a format that is easy to digest. He has taken an innovative approach to improving employee engagement, overseeing the production of an organization-wide employee newsletter and an employee video news segment (PERAPhrase TV). To ensure the success of organization-wide initiatives, he led the effort to provide change management training to organizational leaders last year.

Michelle Holleman, Director, Communications and Stakeholder Relations for the Chicago Teachers' Pension Fund received an Honorable Mention for the 2023 Public Pension Communicator of the Year Award for her leadership abilities and contributions to both CTPF stakeholders and the broader community. Following the July 4th shooting in Highland Park (where she served as a volunteer Councilperson), Holleman used her crisis communications skills to support the coordinated response. She served as communications lead on the committee to distribute funds to victims and used the tragedy as an opportunity to educate public pensions on crisis communications best practices.

NCPERS would like to thank the judges for their time and efforts in selecting this year's winners: Laurie Mitchell, senior business consultant for Tegrit; Joe Potischman, marketing specialist for Linea Solutions; and Margaret Rogers, director of communications and member relations for the National Institute on Retirement Security.



## **Executive Director's Corner**

## **Preview: NCPERS 2024 Public Retirement Systems Study**

By Hank Kim, Executive Director and Counsel, NCPERS



or the past 13 years, NCPERS has conducted its annual Public Retirement Systems Study to gather the most current available data on funds' fiscal, operational, and business practices. Nearly 160 public retirement funds with more than 13.8 million active and retired members participated in the most recent study, which was conducted from September to December 2023.

NCPERS will host a webinar on February 13th where we'll discuss the methodology and share key insights from the soon-to-be released 2024 Public Retirement Systems Study. Register now to join the conversation and learn about the latest trends in public retirement benefits administration. The full results of the study will also be made available exclusively to NCPERS members via an interactive dashboard, allowing users to filter data for more relevant peerto-peer benchmarking.

The preliminary analysis of NCPERS 2024 Public Retirement Systems Study data shows that the overall average expense to administer funds and pay investment fees decreased year over year to 56 basis points (down from 64 basis points). It's worth noting the data is based on reporting funds' most recent CAFR, so the data represents varying fiscal years. 9

Surveyed funds were asked to rate on a 10-point scale their readiness to address retirement trends and issues over the next two years. The results indicate an increase in fund confidence compared to the year prior. Despite this increase, market volatility and global economic uncertainty remain a challenge. Thus public pensions continue to tighten assumptions. Responding funds' aggregate discount rate was 6.91 percent, and the average amortization period was 20.4 years—a reduction of 0.4 years from the most recent study. In terms of sources of funding of public pensions, in the aggregate for every dollar of pension benefit paid, 63 cents are attributable to investment returns, 28 cents are from plan sponsor contributions, and nine cents are from employee contributions.

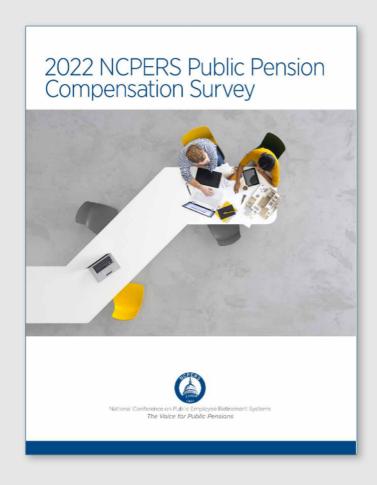
NCPERS conducts its Public Retirement Systems Study annually because public pensions are long-term investors who operate in complex environments. Funding ratios and investment returns rarely tell the whole story, so it's crucial to regularly benchmark overall fiscal and operational performance. There are new methods available to assess the health of public pensions, and having a clear understanding of the datapoints surrounding your fund can help you better educate policymakers, the public, and plan participants.

We hope you'll join us for the upcoming webinar to learn more about the 2024 Public Retirement Systems Study results. The full report and accompanying dashboard will be released in the coming weeks, and we hope they serve as valuable tools in understanding how your fund's fiscal and operational performance measures up.

## Order your copy of NCPERS 2022 **Public Pension** Compensation Survey today.

Access in-depth compensation and benefits data for nine key c-suite positions.

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## **NCPERS Names Illinois State Treasurer** Policymaker of the Year

By: Lizzy Lees, Director of Communications, NCPERS



CPERS presented The Honorable Michael Frerichs, Illinois State Treasurer, with its 2023 Policymaker of the Year Award on January 23 during its Legislative Conference. Read the event recap here to learn more.

The award, presented annually at NCPERS Legislative Conference, recognizes the efforts of a policymaker who has had a positive impact on public pensions or whose efforts have contributed to improvements in retirement security more broadly.

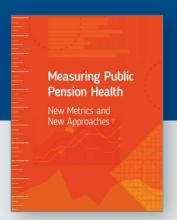
"The Honorable Michael Frerichs is proof of the profound impact that policymakers can have on retirement security. NCPERS believes that all Americans deserve to retire with dignity, and we are pleased to recognize him as our 2023 Policymaker of the Year for his efforts in both the private and public sector," said NCPERS Executive Director and Counsel, Hank Kim.

Frerichs—currently serving his third term as State Treasurer—launched Illinois Secure Choice in 2018 to serve the estimated 1.2 million private-sector workers in Illinois without access to an employer-sponsored retirement plan. The state-run retirement program completed its final wave of implementation in 2023. The program has already made a significant impact on the retirement security of Illinoisans, with over 140,000 workers collectively saving more than \$145 million so far. O

Frerichs has also served on the Illinois State Board of Investment (ISBI) since 2015. The ISBI has fiduciary responsibility for managing the pension assets of the State Employees' Retirement System of Illinois, the General Assembly Retirement System, the Illinois Power Agency, the Judges' Retirement System of Illinois, and the State of Illinois Deferred Compensation Plan. In this capacity, Frerichs directly supports the retirement security of more than 250,000 public sector beneficiaries.

"I am honored to be recognized by NCPERS especially now, as more states have realized the importance of improving retirement savings access," Frerichs said. "We have a looming retirement savings crisis in our country, and we know workers are much more likely to save for retirement if they can do so through payroll deductions, for instance through programs like Illinois Secure Choice. We foster a spirit of collaboration with other states to help workers across the country save for retirement."

## Don't miss the latest research from NCPERS.









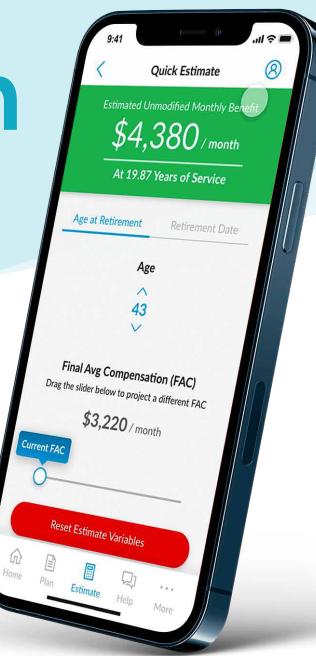
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# NCPERS PensionX Digital Platform

NCPERS has partnered with Digital Deployment to offer its members a **10% DISCOUNT** on PensionX, the premier digital platform that securely enables pensions to engage with active and retired participants via a mobile self-service app and portal.





## **Around the Regions**

## Illinois Supreme Court Upholds Law Consolidating Police, Firefighter Pension Funds

The law consolidated some 650 retirement funds for municipal public safety workers into two funds — one for firefighters and another for police officers. Chicago is not included. The local funds' assets are merged only for administrative and investment purposes; their values are protected, in the sense that one fund's assets can't be used to shore up another's.

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Source: WTTW

#### Alaska Bill Reviving Public Employees Pension System Advances to Senate Floor

Senate Bill 88 would revive a pension-like system (referred to as defined benefit) in place of the existing 401(k)-style system (known as defined contribution), which supporters say is a key element to resolving a workforce shortage due to people being reluctant to apply for — and remain at — state and other public sector jobs.

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Source: Juneau Empire

#### Connecticut Pension Funds Shine Through Difficult 2023

The Connecticut State Treasury Department reported that, in the fiscal year ending June 30, 2023, Connecticut Retirement Plans and Trust Funds (CRPTF) posted a return of 8.5%. This placed the organization in the top quartile of public funds with assets greater than \$1 billion.

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Source: Banking Exchange

## **NCPERS** 2023 Public Retirement Systems Study:

Trends in Fiscal, Operational, and Business Practices

**READ THE REPORT** 



## **Around the Regions**

#### Maine Public Employees Divesting Fossil Fuels But Warns of Potential Cost

The Maine Public Employees Retirement System, Augusta, cut its fossil-fuel investments to 6.5% of total assets in fiscal year 2023 from 7.8% in fiscal year 2022, said a MainePERS report tracking progress in the state law calling for divesting fossil fuel holdings. The report also warned that eliminating all fossil-fuel investments by the law's Jan. 1, 2026, deadline would be cumbersome, complicated and costly.

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Source: Pensions & Investments

#### CalSTRS Revises Corporate Governance Principles to Focus on Labor Practices

CalSTRS revised its corporate governance principles that guide pension fund officials' stewardship and also adopted a three-year plan that includes a company's workforce and its community as an issue for engagement with portfolio companies.

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Source: Pensions & Investments

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

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## **Upcoming Events**

## May

## **NCPERS Accredited Fiduciary** (NAF) Program

May 18-19 Seattle, W

## **Trustee Educational Seminar** (TEDS)

May 18-19 Seattle, W

## **Annual Conference & Exhibition (ACE)**

May 19-22 Seattle, W

#### June

## **Chief Officers Summit**

June 17-19 Nashville, TN

## **August**

## **Public Pension Funding** Forum

uaust 18-20 Boston, M

## September

#### **Public Pension HR Summit**

September 24-26 Denver, CO

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