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San Jose Federated City Employees' Retirement System
San Jose Police & Fire Department Retirement Plan

October 13, 2020

San Jose City Retirement Working Group

Introduction

- In March 2020, both Retirement Boards held a series of emergency meetings to re-evaluate asset allocation, in light of the major market correction caused by the COVID-19 global pandemic. Investment Staff from the San Jose Department of Retirement Services worked with Meketa Investment Group and risk consultant Verus to develop and analyze a variety of possible asset allocations.

- The Retirement Plans had been conservatively allocated relative to peers in recent years, as market valuations appeared to be stretched when compared to historical averages, and due to circumstances unique to San Jose.

- In mid- to late March, both Boards voted to increase equity allocations in the pension plans, and voted to accept Chief Investment Officer Prabhu Palani's and consultants' recommendation to implement the shifts as expeditiously as possible. These decisions proved to be highly advantageous for the Plans, as equity market returns have been very strong since late March (the Russell 3000 Index, a proxy for the US Equity market, returned 22.0% during Q2 and 9.2% during Q3).

- The governance model that was implemented during 2018 and 2019, under which the Boards maintain authority for asset allocation and delegate authority for implementation to Investment Staff, allowed the Plans to move quickly and boosted returns.

- The following slides provide some detail on the asset allocation shifts and market impacts of the global pandemic.

Pre-Pandemic Asset Allocation Policies

	Federated (%)	Police & Fire (%)
Growth	61	64
US Equity	13	14
Dev. Market Equity (non-US)	10	12
Emerging Market Equity	12	13
Buyouts	8	8
Venture Capital	5	4
Private Debt	4	4
Private Real Estate	3	3
Private Real Assets	3	3
Emerging Market Bonds	3	3
Low Beta	27	24
Absolute Return	7	5
Short-Term Investment Grade Bonds	15	14
Cash Equivalents (Immunized CFs)	5	5
Other	12	12
Core Real Estate	5	5
Commodities	2	2
TIPS	2	2
Investment Grade Bonds	3	3
Equity/Bond Mix[1]	*65 / 35*	*68 / 32*

[1] Bond percentage includes EM Bonds, Absolute Return, ST IG Bonds, Cash Equivalents, TIPS, and Investment Grade Bonds. Equity includes all other asset classes.

S&P 500 Reached Bear Market Levels on March 23rd[1]
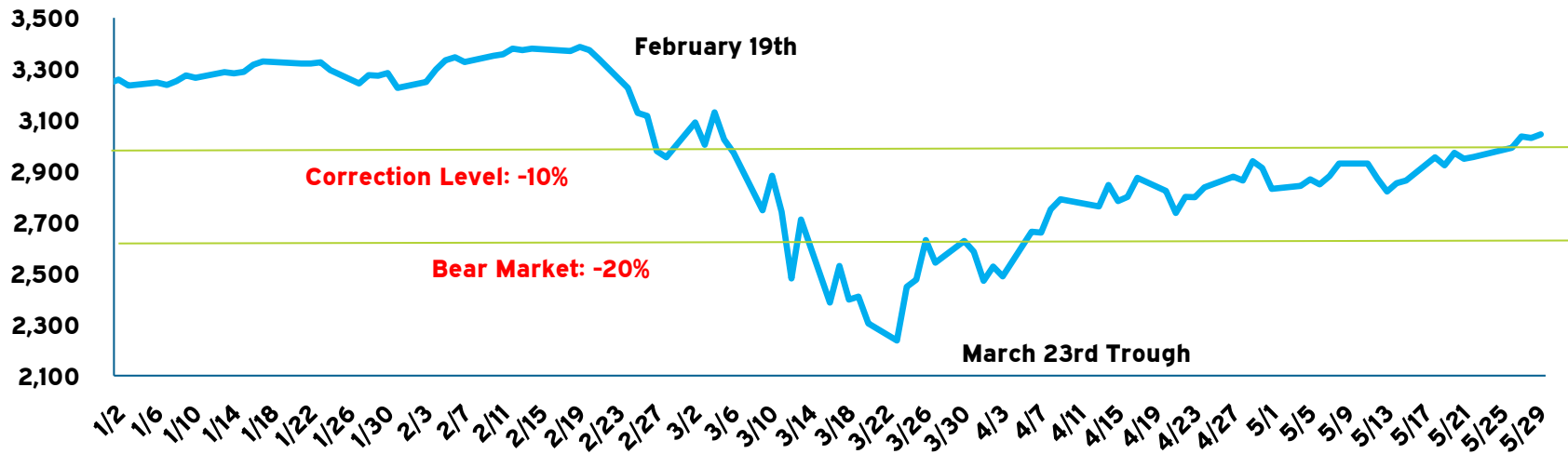
- Given the anticipated economic carnage surrounding the pandemic, US stocks declined from their February peak into bear market (-20%) territory at the fastest pace in history.

- From the February 19 peak, the S&P 500 declined 34% in just 24 trading days. Non-US markets also experienced sharp declines.

- The index rebounded quickly from its lows, primarily due to the unprecedented monetary and fiscal stimulus announced in the US, as well as spring improvements in virus data, and some states reopening.

[1] Source: Bloomberg. Data is as of May 29, 2020.

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Equity Volatility[1]
(As of March 31, 2020)
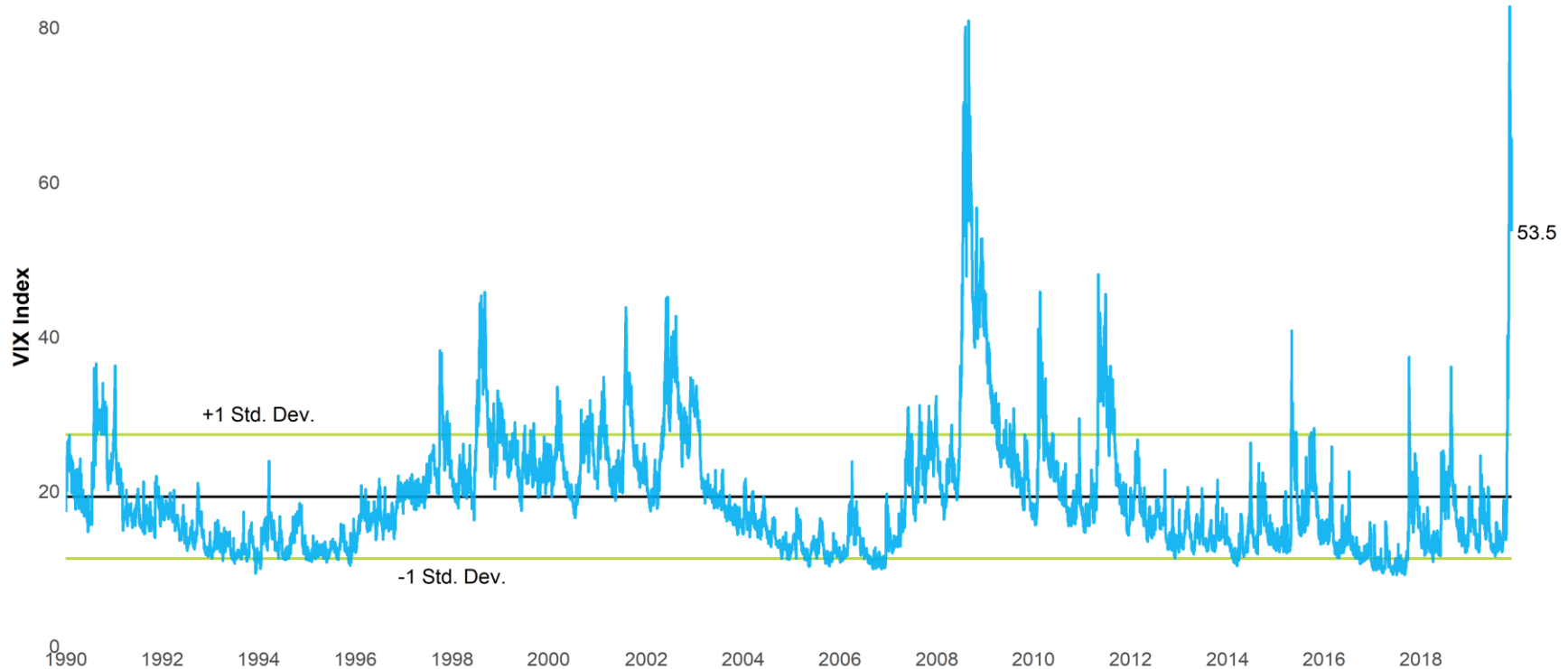
- This chart details historical implied equity market volatility, and the huge spike in late March. This metric tends to increase during times of stress/fear and decline during more benign periods.

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[1] Equity Volatility – Source: Bloomberg, and Meketa Investment Group. Equity Volatility proxied by VIX Index, a Measure of implied option volatility for US equity markets.

March 2020 Updates to Asset Allocation Policies

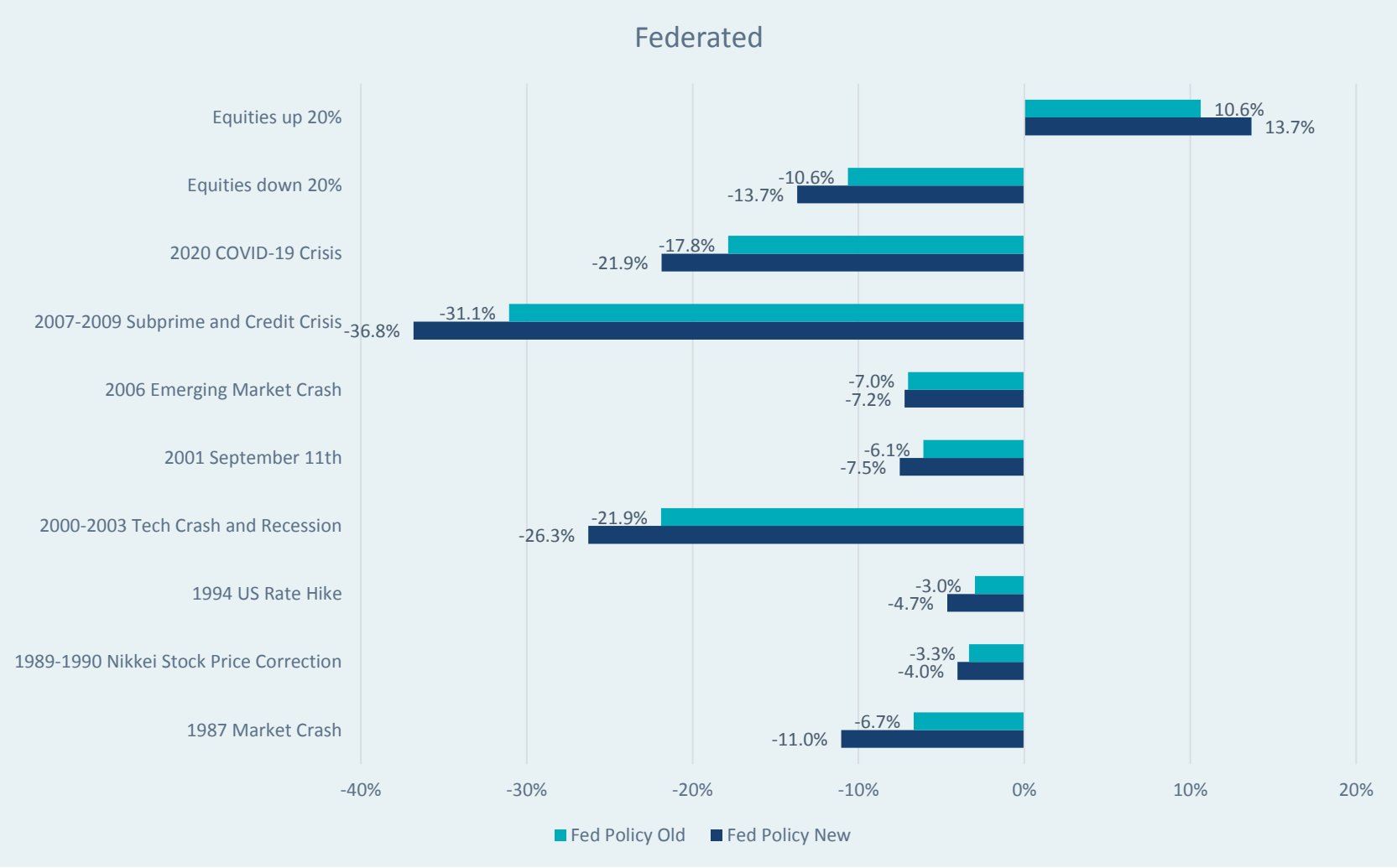|	Federated (%)	Police & Fire (%)
Growth	75	70
US Equity	25	23
Dev. Market Equity (non-US)	12	11
Emerging Market Equity	12	12
Buyouts	8	6
Venture Capital	4	4
Private Debt	3	3
Private Real Estate	3	3
Private Real Assets	3	3
Emerging Market Bonds	3	3
High Yield Bonds	2	2
Low Beta	8	8
Absolute Return	3	3
Short-Term Investment Grade Bonds	0	0
Cash Equivalents (Immunized CFs)	5	5
Other	17	22
Core Real Estate	5	5
Commodities	0	0
TIPS	2	2
Investment Grade Bonds	8	12
Long-term Govt Bonds	2	3
Equity/Bond Mix[1]	*75 / 25*	*70 / 30*

[1] Bond percentage includes EM Bonds, HY Bonds, Absolute Return, ST IG Bonds, Cash Equivalents, TIPS, Investment Grade Bonds, and Long-term Govt Bonds. Equity includes all other asset classes.

Performance Comparison

| Indices	2019-2020 Fiscal Year (%)	Q1 2020 (%)	Q2 2020 (%)	Calendar YTD ended 6/30/20 (%)
San Jose Federated	3.6	-10.9	11.1	-1.0
San Jose Police and Fire	3.1	-10.5	9.6	-2.0
60% MSCI ACWI IMI/40% Bloomberg Barclays Global Aggregate	2.9	-14.0	13.1	-2.7
Peer Median Return (InvMetrics > $1 billion Net Median)	1.3	-12.6	10.1	-4.3

- Both San Jose Retirement Plans outperformed the 60/40 global benchmark during the first calendar quarter of 2020, and kept up nicely during the second calendar quarter, which meant outperformance by the Plans for the full six-month period and the full fiscal year.

- Plan returns were also quite favorable relative to peers. The Federated Retirement System ranked in the first (best) percentile of the InvestMetrics Public Defined Benefit > $1 billion universe for the six-month period from January 1st to June 30th of 2020, and in the 14th percentile for the full fiscal year.

- The Police and Fire Plan ranked in the 12th percentile of the peer universe for the six-month period from January 1st to June 30th of 2020, and in the 17th percentile for the full fiscal year. The peer universe included 71 plans as of June 30, 2020.

Federated Scenario analysis

Federated

Scenario	Fed Policy Old	Fed Policy New
Equities up 20%	10.6%	13.7%
Equities down 20%	-10.6%	-13.7%
2020 COVID-19 Crisis	-17.8%	-21.9%
2007-2009 Subprime and Credit Crisis	-31.1%	-36.8%
2006 Emerging Market Crash	-7.0%	-7.2%
2001 September 11th	-6.1%	-7.5%
2000-2003 Tech Crash and Recession	-21.9%	-26.3%
1994 US Rate Hike	-3.0%	-4.7%
1989-1990 Nikkei Stock Price Correction	-3.3%	-4.0%
1987 Market Crash	-6.7%	-11.0%

As equities outperform bonds typically 7 out of 10 years, the new policy is expected to provide better upside in up markets. However, it will lag former policy in down markets.

Verus

P&F Scenario analysis
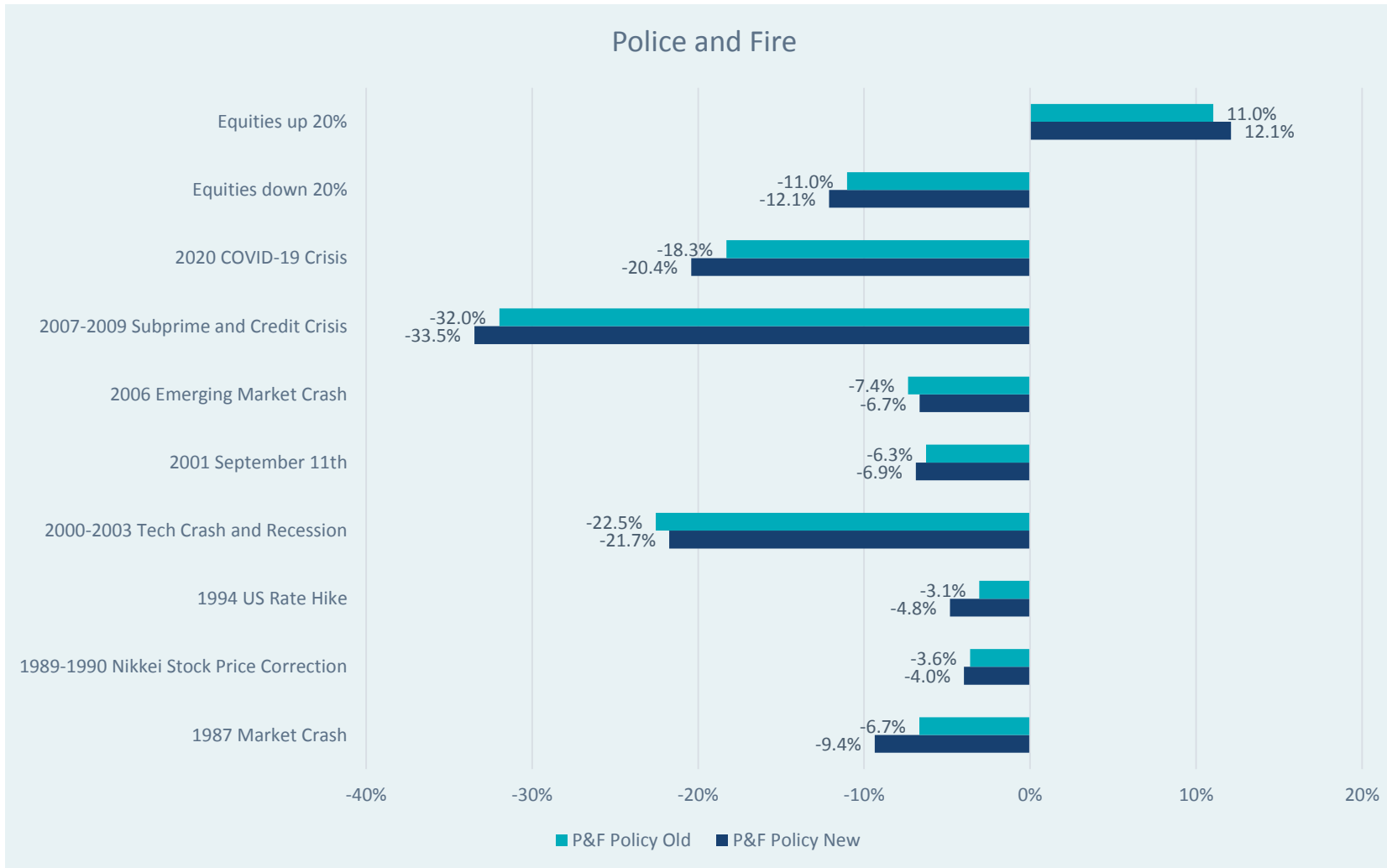
As equities outperform bonds typically 7 out of 10 years, the new policy is expected to provide better upside in up markets. However, it will lag former policy in most down markets.

Summary

- While global markets have recovered from the initial pandemic-related shock in March, much market uncertainty remains, given the pandemic and the upcoming US election, among other current world events. The governance process that led to recent Plan successes remains in place, and should be able to respond to future events as well.

- We look forward to discussing this information with the Retirement Working Group, and would be happy to answer any questions.