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NOVEMBER 2025 (9/30/25 ANALYSIS DATE)

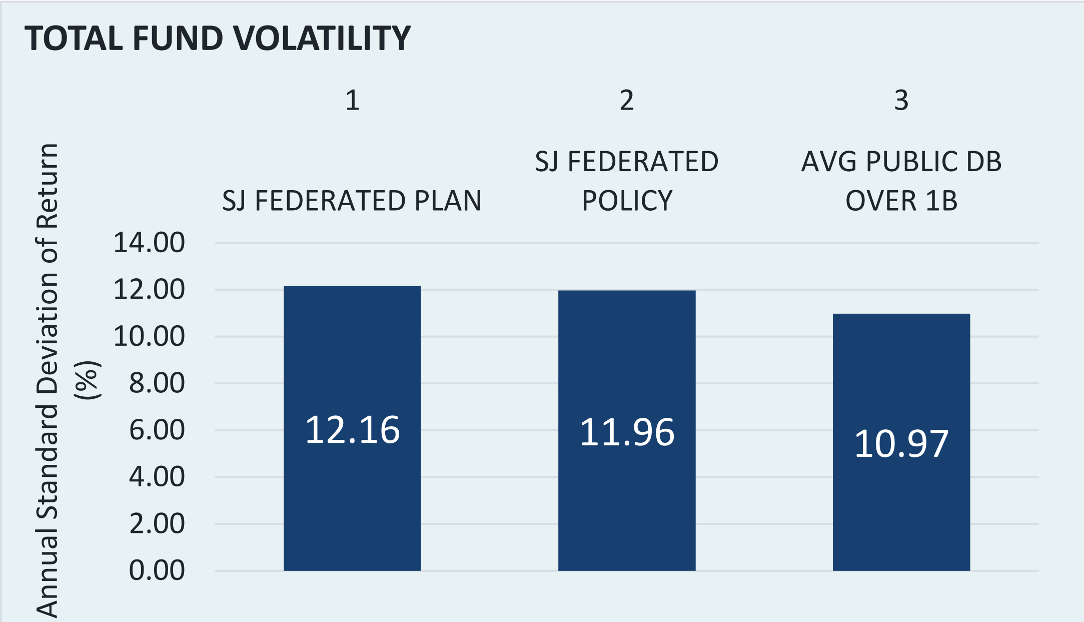
San Jose Federated Retirement Plan – Investment Committee

Quarterly Federated Risk Summary

Executive Summary

- Under the new Bloomberg model, Federated total risk of 12.16% remains comfortably below the Board limit of 13%
- Total risk ticked down in September as the Low Beta share of the fund increased by 1%
- The current portfolio is expected to perform the same as the policy benchmark in most historic drawdown scenarios and stress tests
- The average of the three worst off-the-shelf historical scenario drawdowns is 26.1%, at the Board limit of 30%
- High utilization of passive strategies in public markets keeps tracking error to policy (active risk) low, currently 0.74%
- Active risk ticked down in September as well as the Low Beta allocation increased
- Equity style factors are often a large driver of active risk. We do not observe any large active style factor exposures in the portfolio

Total fund volatility



The June & September total fund volatility estimates provided by the Bloomberg factor model are a bit higher than the most recent estimate produced by the previous MSCI model

Total fund volatility is very close to that of the policy index and higher than the peer index

Total fund volatility declined a bit between June & September

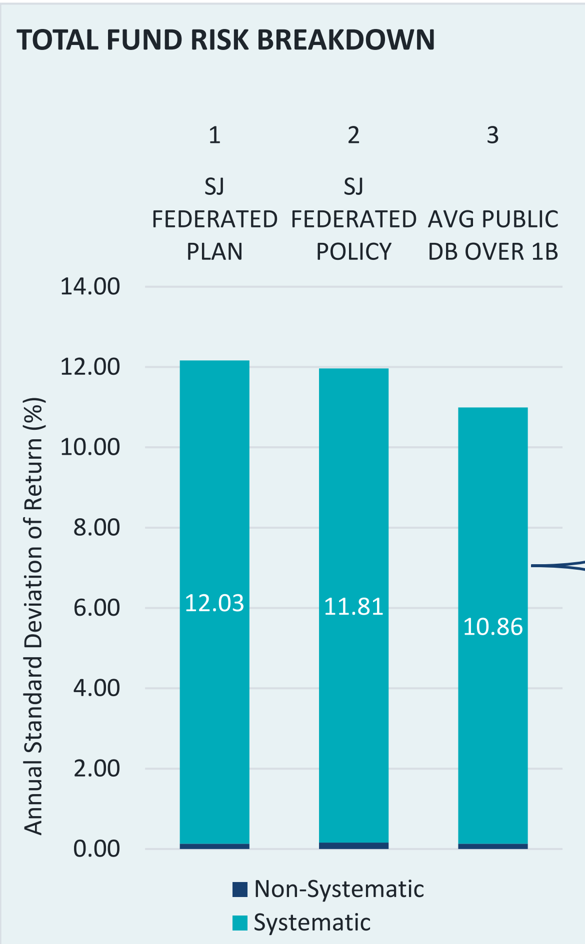
— The Low Beta exposure rose 1%

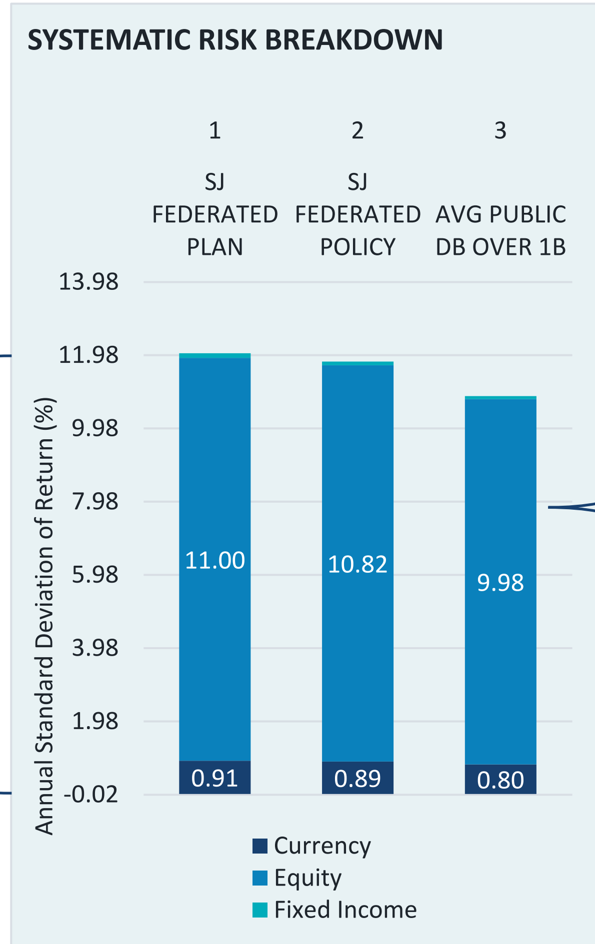
Total fund risk decomposition

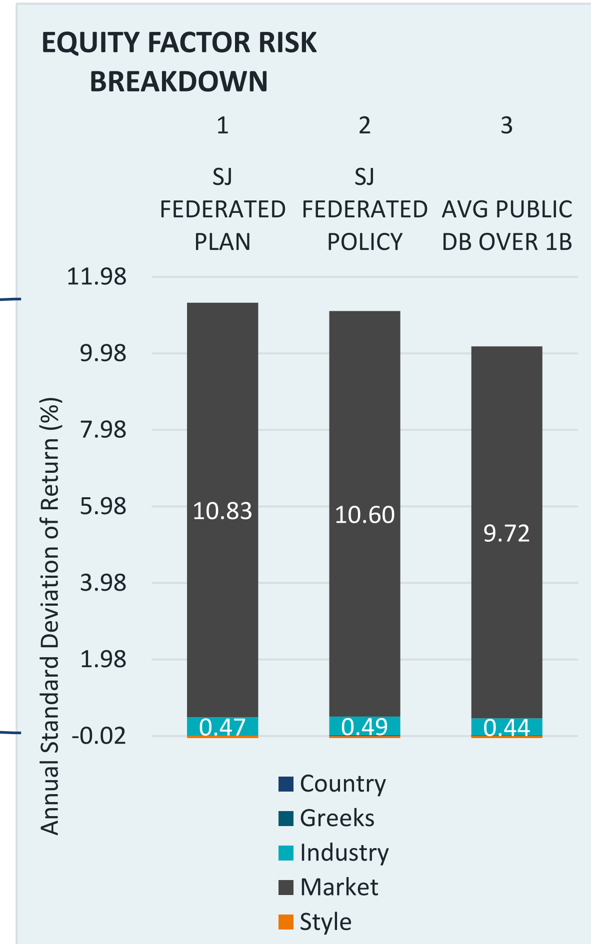
Volatility that is explained by the factor model is called "systematic risk"

Systematic risk is broken down by major factor group, with equity factors dominant

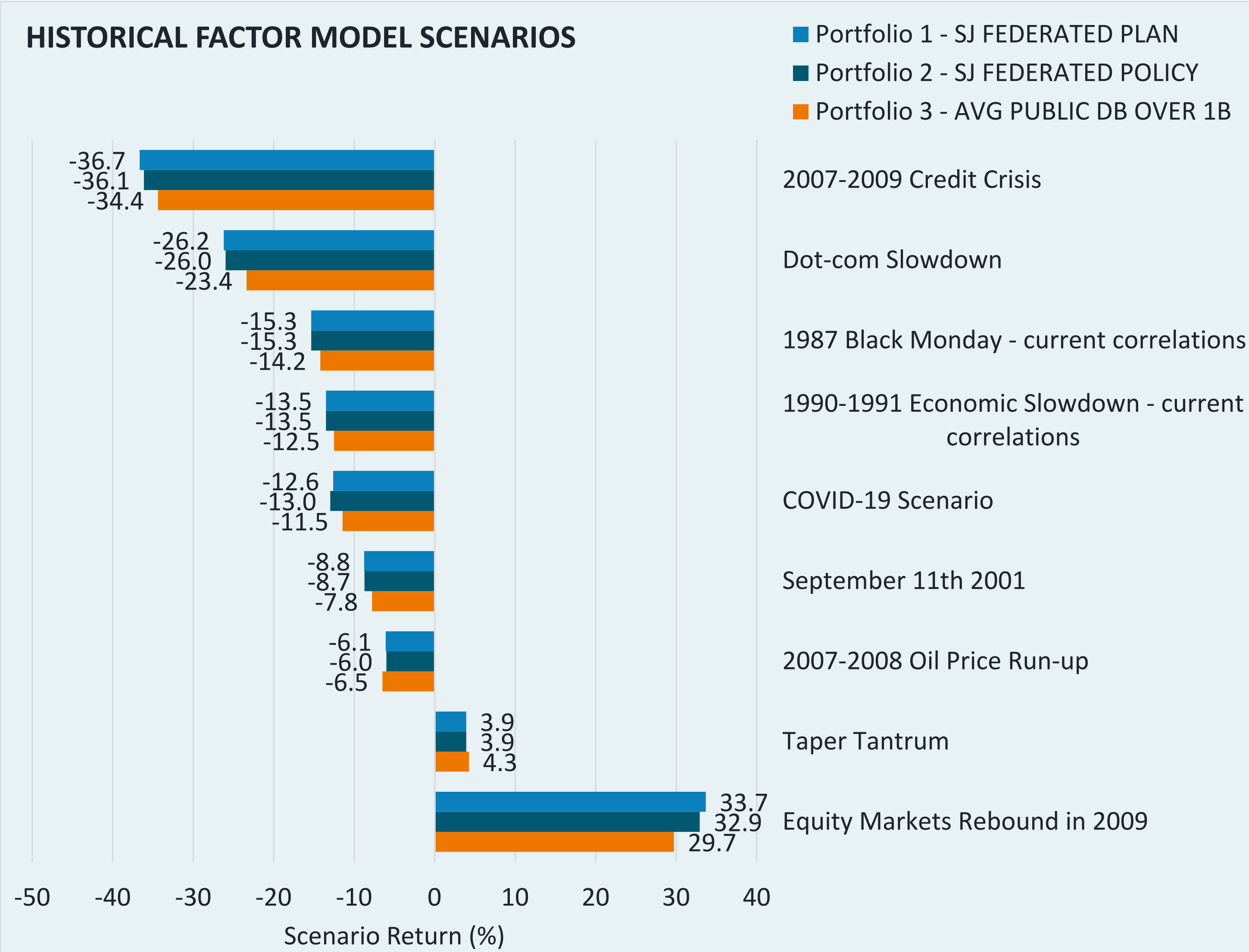
Market factors dominate within equity factors







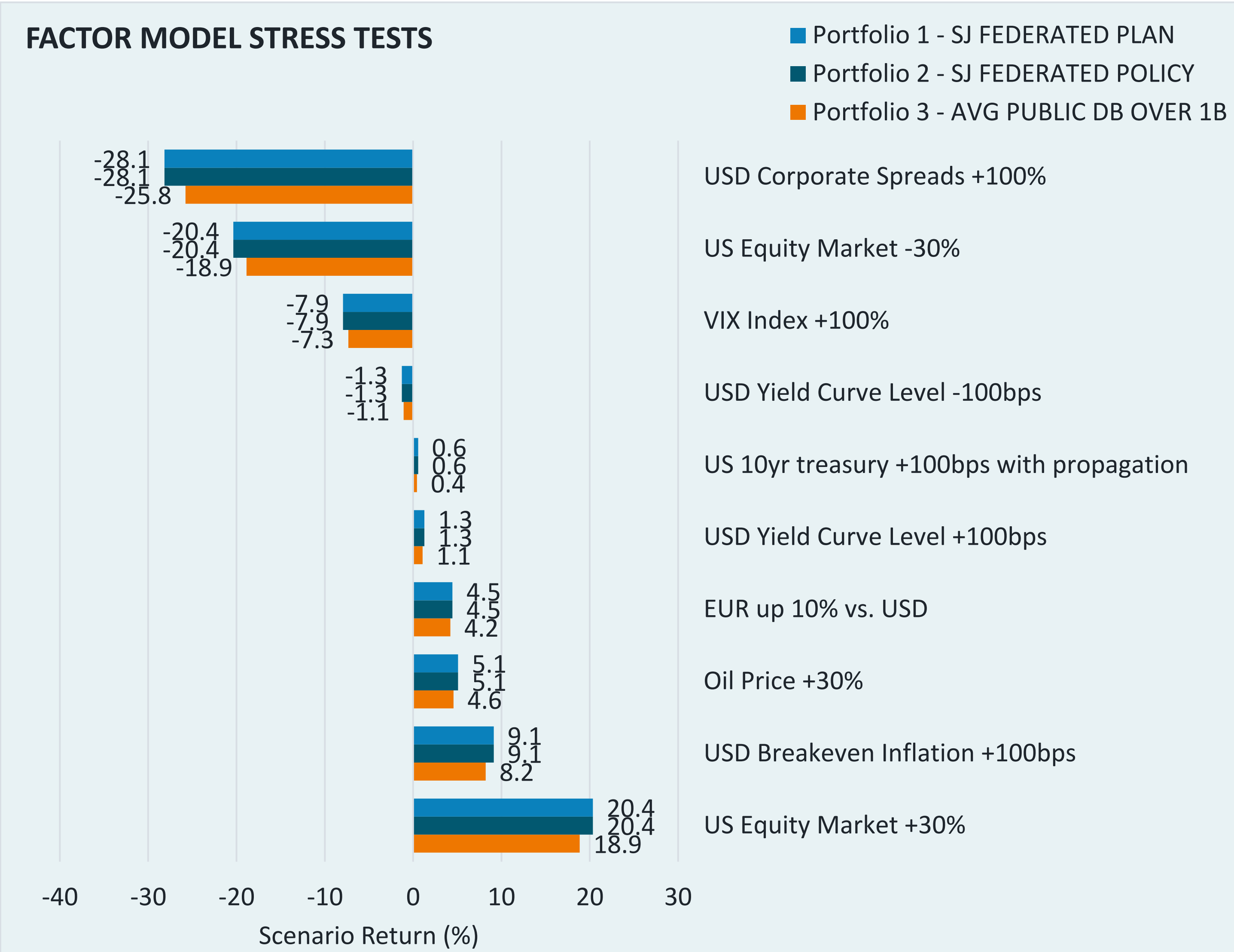
Historical scenarios



The fund is expected to about the same as the policy index in a majority of these historical drawdown scenarios

The average of the three worst off-the-shelf historical scenario drawdowns is 26.1%, within the Board limit of 30%

Stress tests



The fund is expected to do about the same as the policy index in equity market and credit factor shocks

The fund is expected to do slightly better in recovering equity markets

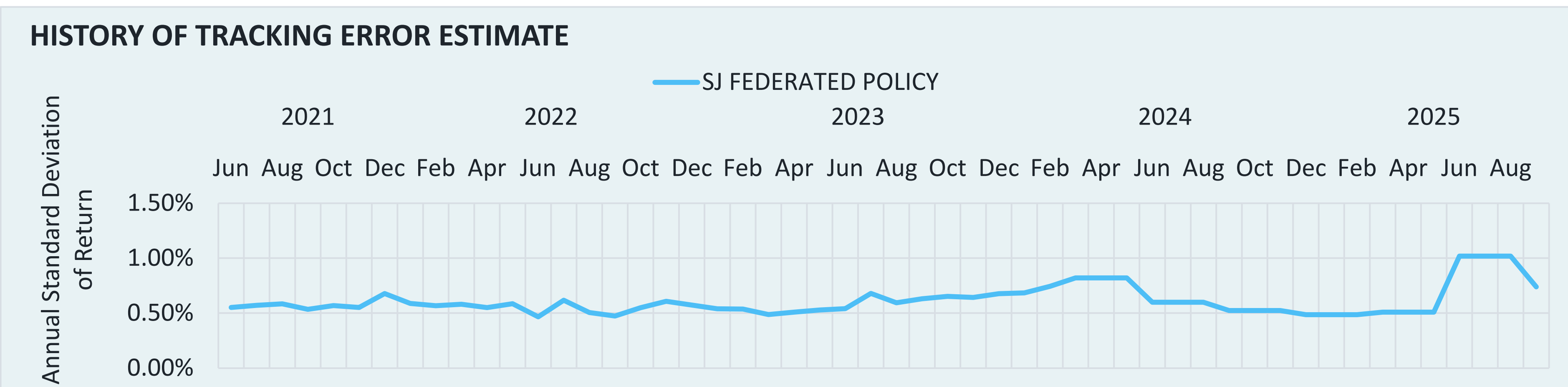
Active risk

Like the total risk estimate, the June and September total active risk estimates provided by the Bloomberg model appears to be a bit higher than that provided by the MSCI model

However, they remain in line with previous estimates

Total active risk fell between June & September

— This can also be attributed to the slightly higher Low Beta exposure

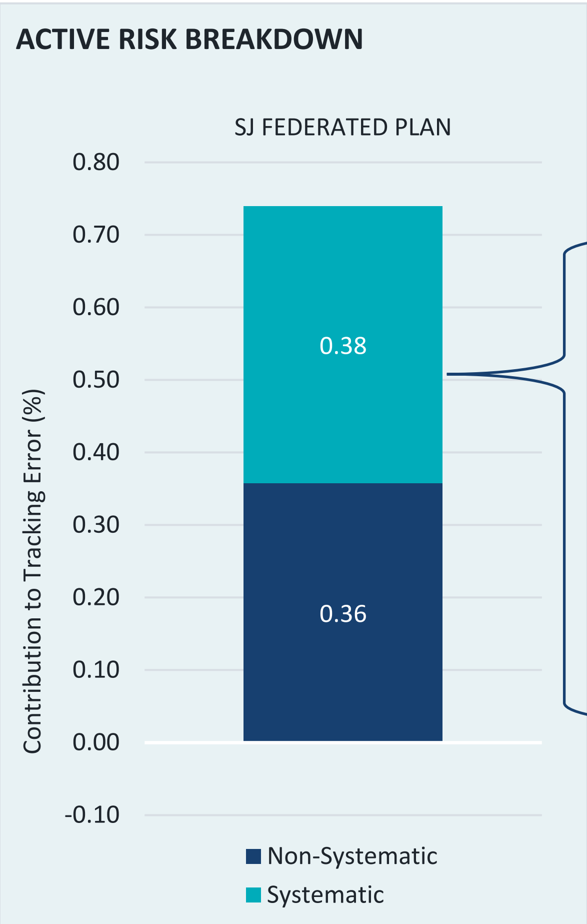


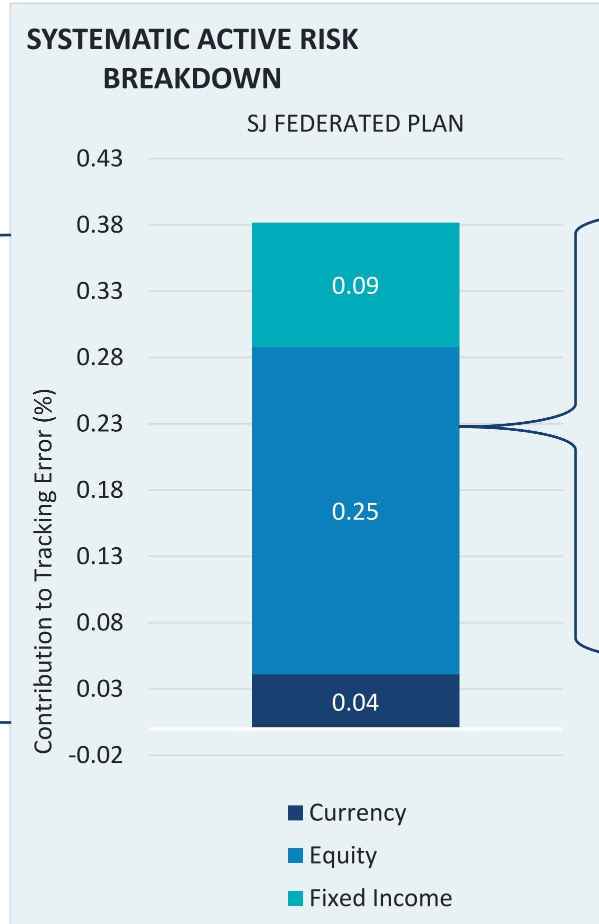
Active risk decomposition

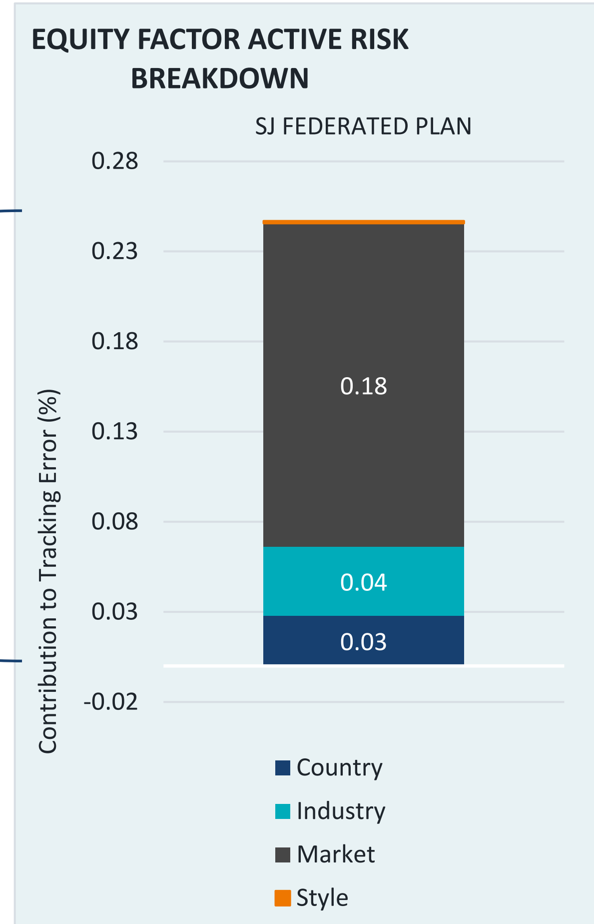
Less active risk is explained by the factor model as "systematic" risk

Active systematic risk is also mostly equity risk

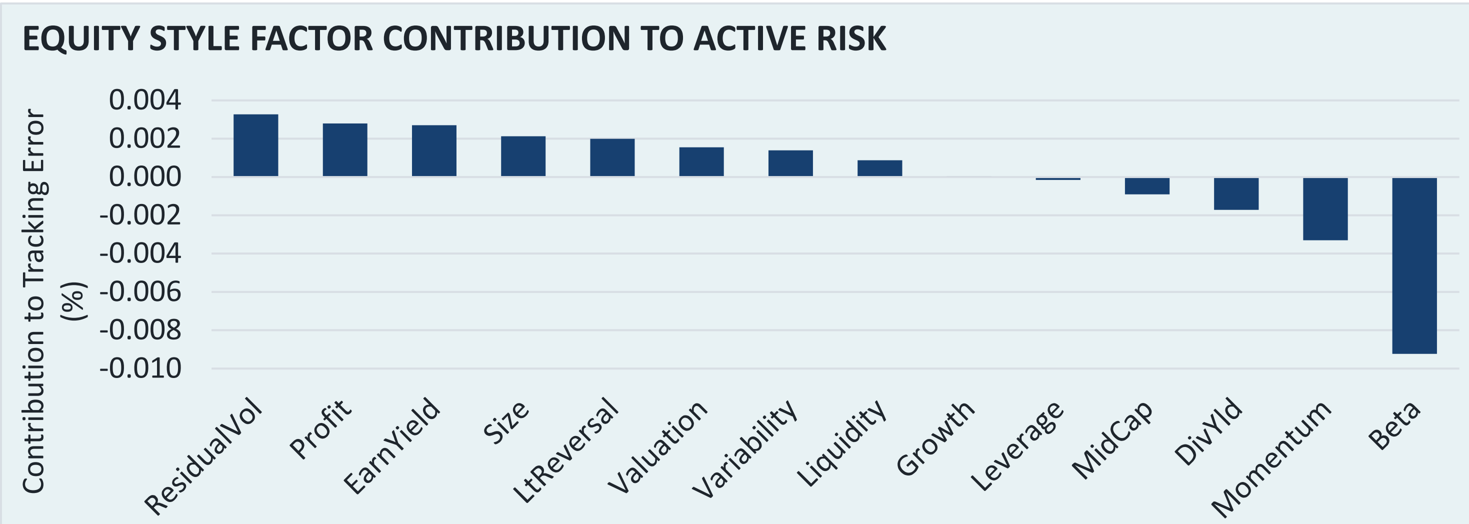
Market factors also dominate within active equity risk



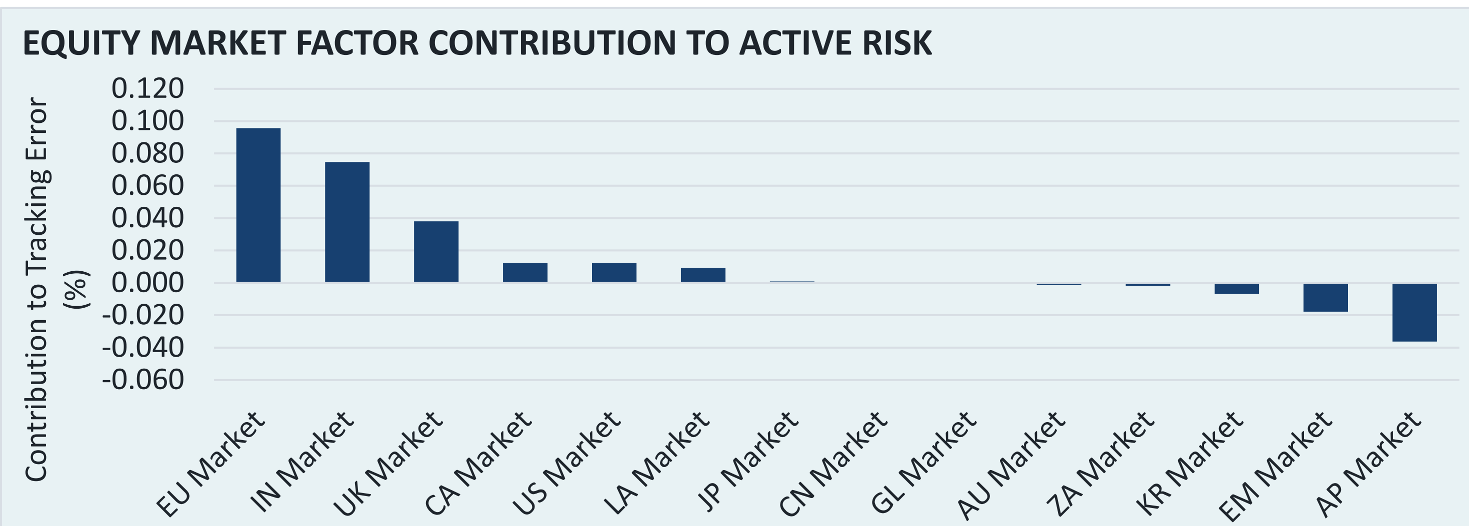




Equity factor active risk



Due to the fund's use of passive public equity strategies, style factor contribution to total active risk remains very small



The small amount of active risk added by the fund's allocations to Indian equity managers shows up here (left side)

Appendix

Stress test definitions

Scenario Name	Scenario Type	Scenario Desc
2007-2009 Credit Crisis	Historical Scenarios	2007-2009 Credit Crisis (02/22/2007 to 03/09/2009)
Sep-Oct 2008	Historical Scenarios	Sep-Oct 2008 (09/12/2008 to 10/27/2008)
Dot-com Slowdown	Historical Scenarios	Dot-com Slowdown (03/10/2000 to 10/09/2002).
Taper Tantrum	Historical Scenarios	This scenario covers the 2013 Fed's announcing their intention to taper its quantitive easing program, and the subsequent surge in treasury yields.
September 11th 2001	Historical Scenarios	Scenario that focuses on the period around the terrorist attacks on September 11th 2001. (due to only weekly data, Wed to Wed, in the model during this period).
1987 Black Monday - current correlations	Historical Scenarios	Uses a US Equity Market factor of -22.6% with current correlations.
COVID-19 Scenario	Historical Scenarios	COVID-19 Scenario (12/25/2019 - 04/09/2020)
Equity Markets Rebound in 2009	Historical Scenarios	Global equity markets rebound following 2008 drawdown. Use Historical risk factor returns from 03/04/2009-06/01/2009.
2007-2008 Oil Price Run-up	Historical Scenarios	2007-2008 Oil Price Run-up (01/18/2007 to 07/03/2008)
1990-1991 Economic Slowdown - current correlations	Historical Scenarios	Uses a US Equity Market factor shock of -19.9% with current correlations
EUR up 10% vs. USD	Stress Tests	EUR up 10% vs. USD, propagated to other currencies and equity factors via correlation.
US Equity Market +30%	Stress Tests	US Equity Market +30%
US Equity Market -30%	Stress Tests	US Equity Market -30%
USD Yield Curve Level +100bps	Stress Tests	USD Yield Curve Level +100bps
USD Yield Curve Level -100bps	Stress Tests	USD Yield Curve Level -100bps
USD Corporate Spreads +100%	Stress Tests	USD Corporate Spreads +100%
US 10yr treasury +100bps with propagation	Stress Tests	This scenario shocks the US Treasury curves parallel +100bps, and uses the Bloomberg Multi-Asset Factor Model to propagate that shock to other curves and asset classes (Equities, Bonds, CDS, IRS etc.)
USD Breakeven Inflation +100bps	Stress Tests	USD Breakeven Inflation +100bps
VIX Index +100%	Stress Tests	VIX Index +100%
Oil Price +30%	Stress Tests	Oil Price +30%

Notices & disclosures