



PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS



AUGUST 29, 2023 (ANALYSIS DATE JUNE 30, 2023)

San Jose Federated Retirement Plan – Investment Committee

Quarterly Risk Summary

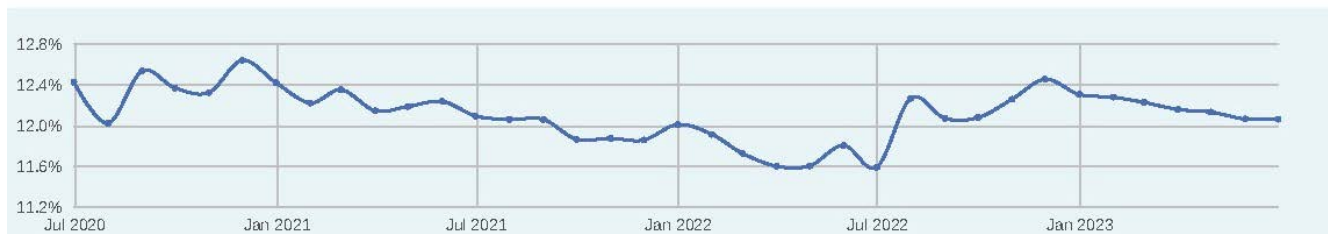
Summary

- Total risk remains slightly elevated at 12.1%
- High utilization of passive strategies (> 50%) in public markets keeps overall relative and active risk low
- The portfolio and policy benchmark perform similarly in both historic drawdown and stressed scenarios
- Capital allocations with respect to size and country allocation, two main public equity risk drivers, are close to San Jose's custom benchmark allocations.
- Style factors are typically a large driver of active risk. We do not observe any large active style factor exposures in the portfolio.

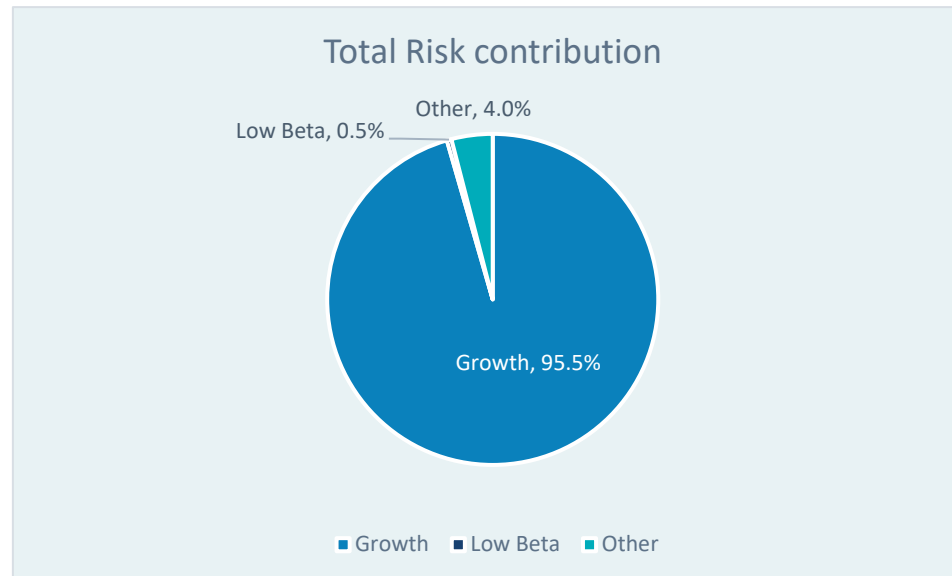
Portfolio volatility



Portfolio volatility is slightly elevated versus current policy.

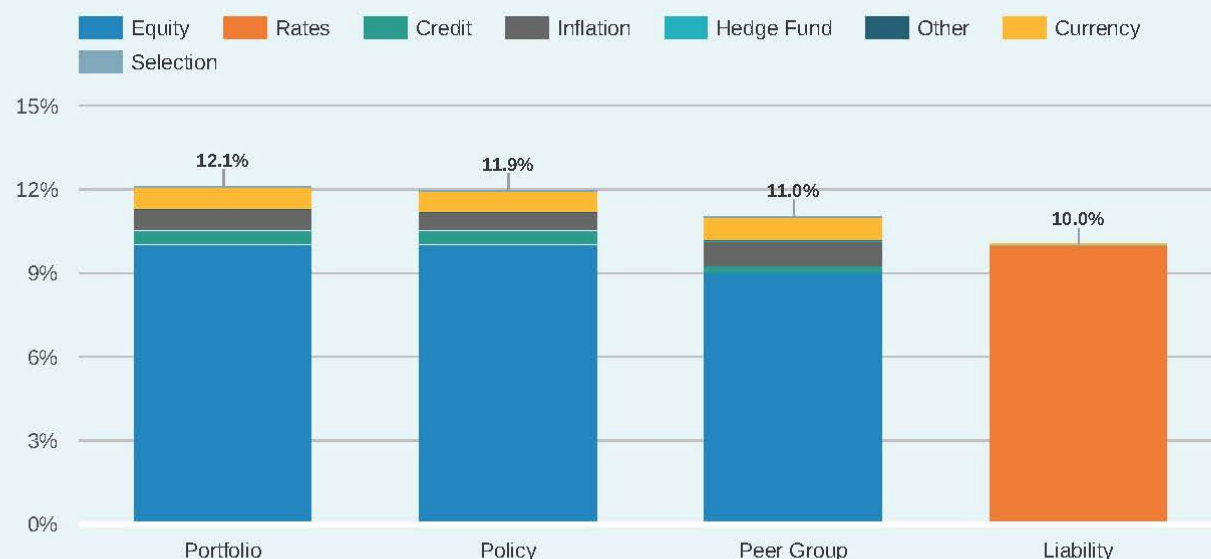


Over 90% of portfolio volatility is coming from growth assets.



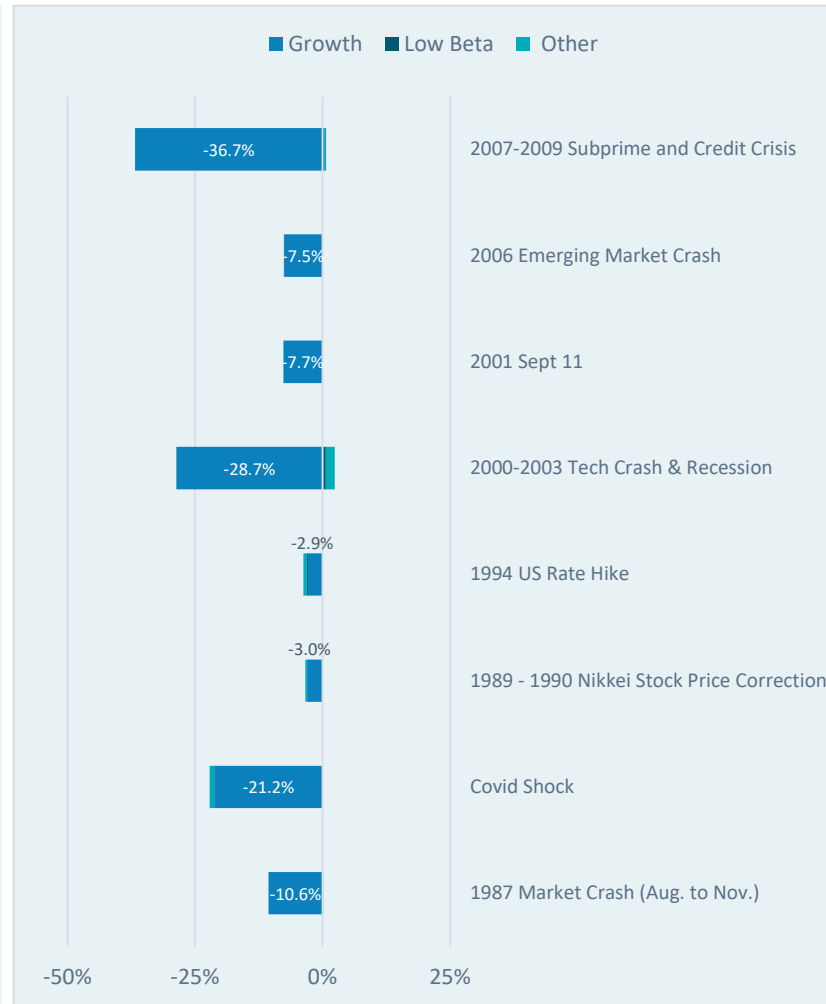
New risk policy maximum of 13% will be effective 7/1/2023.

Risk factor decomposition



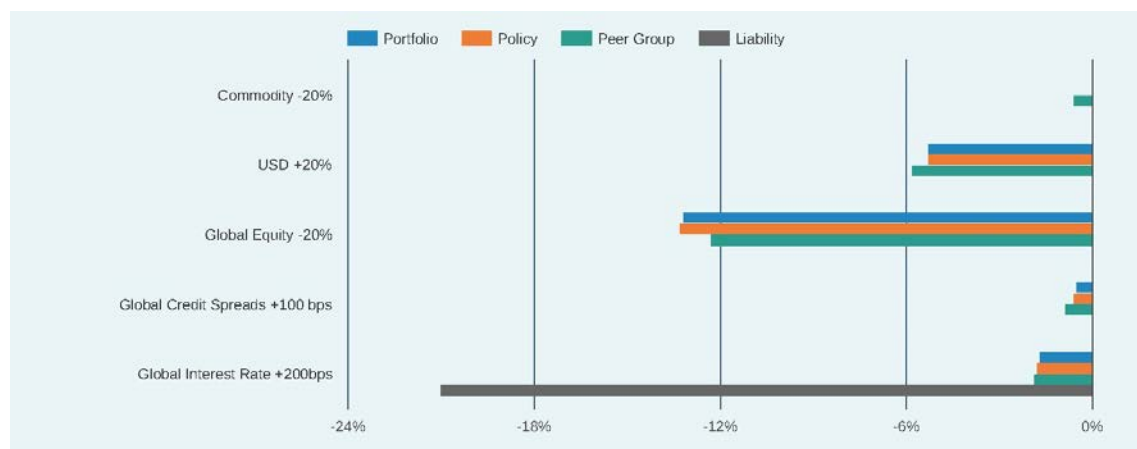
While equity factors are the dominant source of risk in the portfolio, currency, inflation, and credit factors contribute to overall risk

Historical scenarios



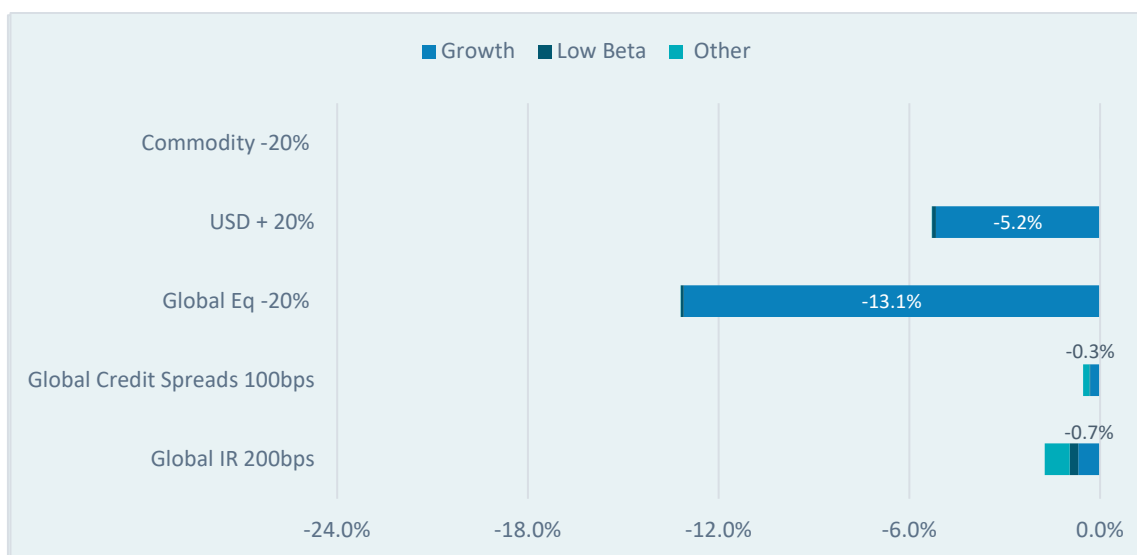
Portfolio performs like the policy in most historic scenarios

Stress tests



Portfolio is most sensitive to changes in equities and currency markets

Portfolio is less exposed to interest rate risk and credit spread risk

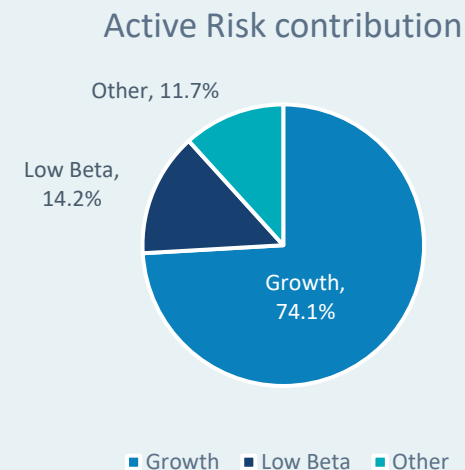


Stress tests are conducted using uncorrelated shocks.

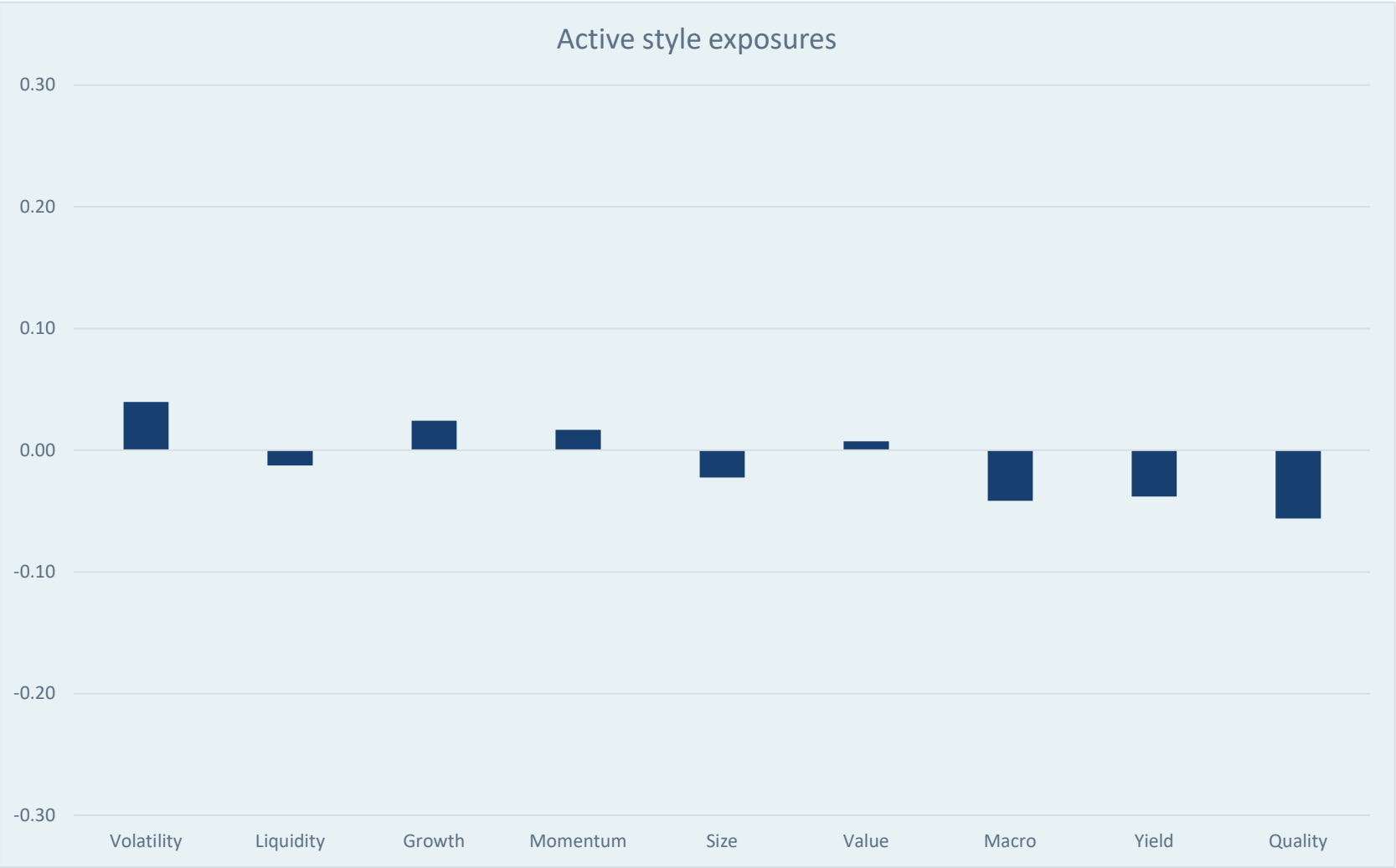
Active risk factor decomposition

Active risk (or tracking error) provides insight into amount of excess performance we expect to see in portfolio.

Active risk profile has shifted to reflect more 'beta' versus idiosyncratic exposures



Equity factor exposures



The largest active style factor exposure is Quality

Values greater than 0.2 are generally considered significant

Appendix

Style factor descriptions

| Style Factor | Description | Intpretation |
|--------------|--|---|
| Size | Captures the return differences between large-cap stocks and small-cap stocks | A positive exposure indicates large capitalization. A negative exposure indicates small capitalization. |
| Value | Explains the return component attributable to a stock's book-to-price ratio, and earnings yield. | A positive exposure indicates an undervalued stock. A negative exposure indicates an overvalued stock. |
| Yield | Explains the return component attributable to a stock's dividend yield | A positive exposure indicates a higher dividend yield. A negative exposure indicates a lower dividend yield. |
| Momentum | Explains the return differences of stocks based on their relative performance over the trailing 6-12 months | A positive exposure indicates a high medium-term momentum (good recent performance). A negative exposure indicates a low medium-term momentum (poor recent performance) |
| Quality | Captures common variation in stock returns due to differences in the level of company leverage | A positive value indicates high leverage. A negative value indicates low leverage |
| Volatility | Explains returns associated with high volatility stock | A positive exposure indicates a high volatility. A negative exposure indicates a low volatility. |
| Liquidity | Describes return differences of stocks based on their relative trading activity | A positive exposure indicates a high liquidity. A negative exposure indicates a low liquidity. |
| Growth | Describes return differences of stocks based on their prospects for sales or earnings growth | A positive exposure indicates a high historical/predicted growth. A negative exposure indicates a low historical/predicted growth. |
| Macro | Describes return differences of stocks based on sensitivity to commodities (Oil/Gold) and foreign exchange rates | A positive exposure indicates high sensitivity to macro factors. A negative exposure indicates low sensitivity to these factors. |

Notices & disclosures

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