



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



AUGUST 2024 (ANALYSIS DATE JUNE 30, 2023)

San Jose Federated Retirement Plan – Investment Committee

Quarterly Risk Summary

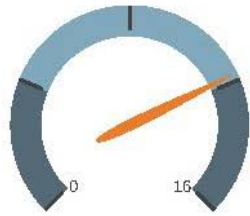
Summary

- Total risk of 11.8% is well below the board limit of 13%
- High utilization of passive strategies (> 50%) in public markets keeps overall relative and active risk low
- The current portfolio performs slightly better than the policy benchmark in most historic drawdown scenarios and stress tests
- 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.

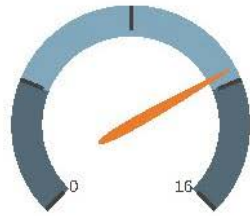
Portfolio volatility

Portfolio volatility is slightly elevated versus current policy.

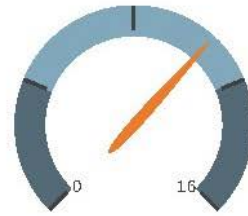
Over 90% of portfolio volatility is coming from growth assets.



Portfolio: 11.8%



Policy: 11.6%



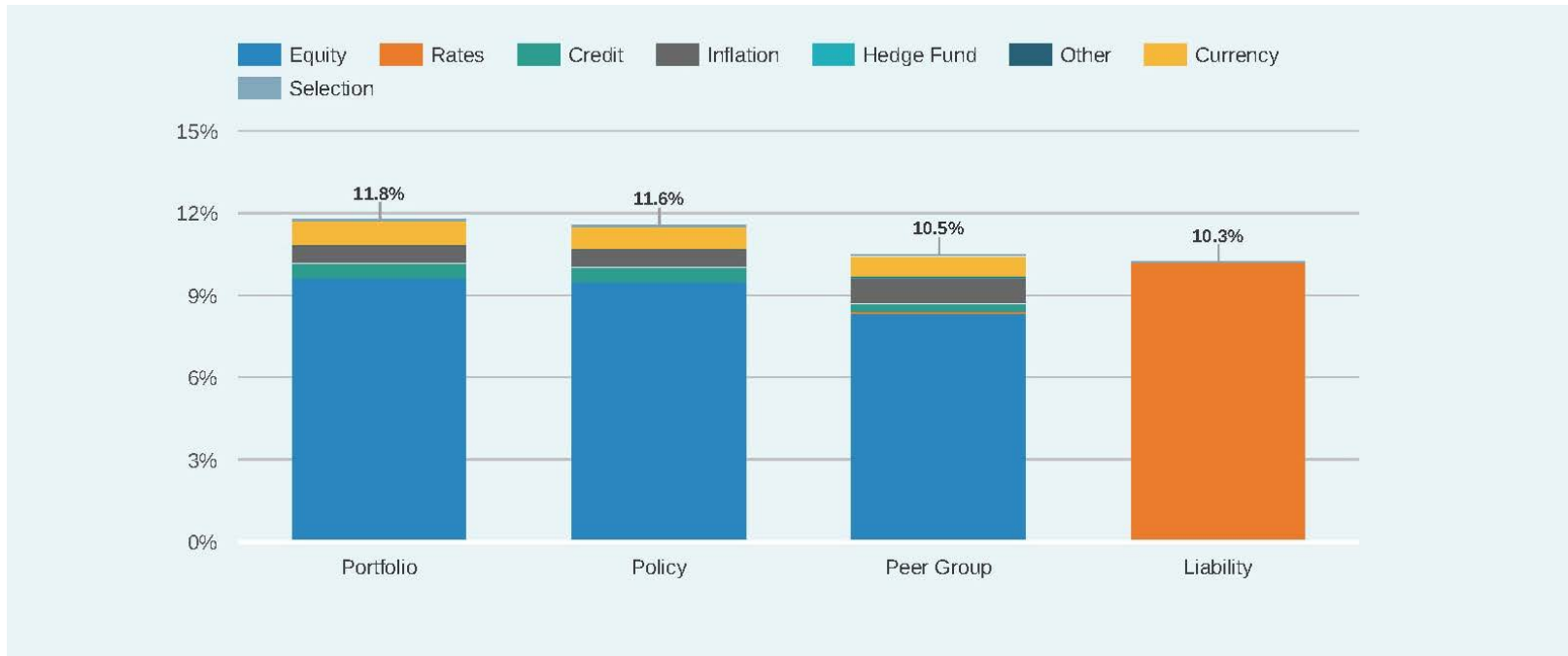
Peer Group: 10.5%



Liability: 10.3%

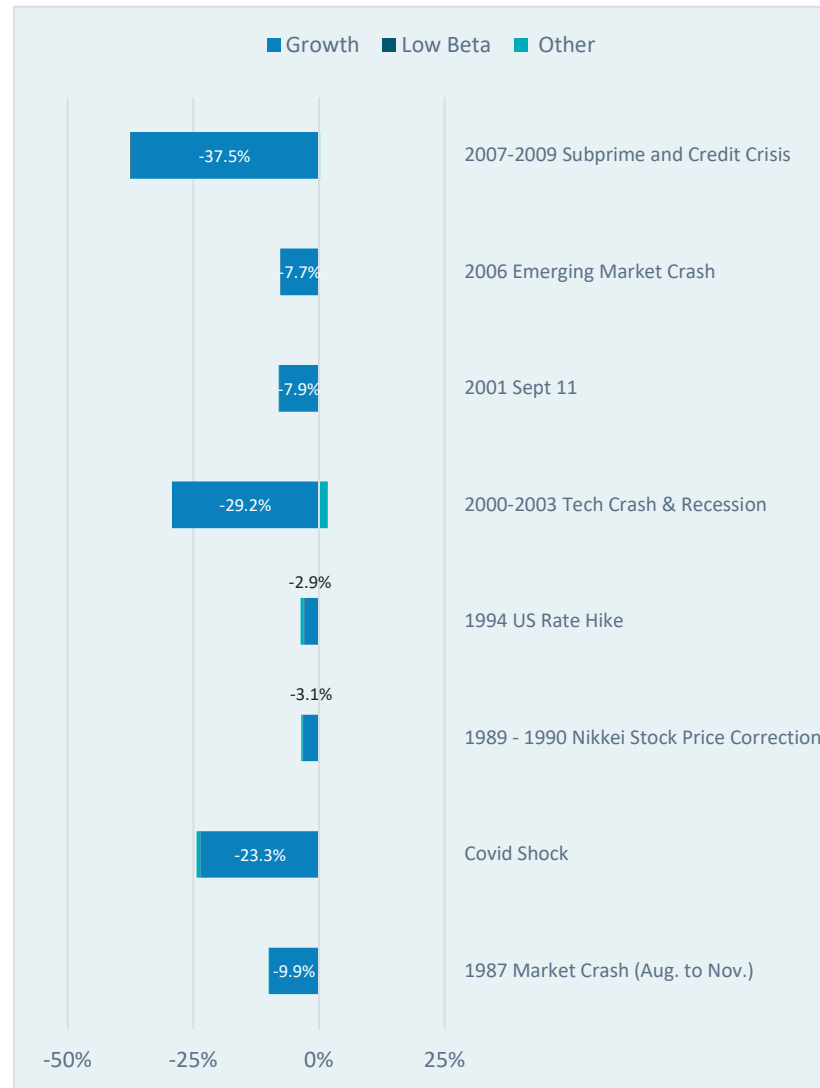
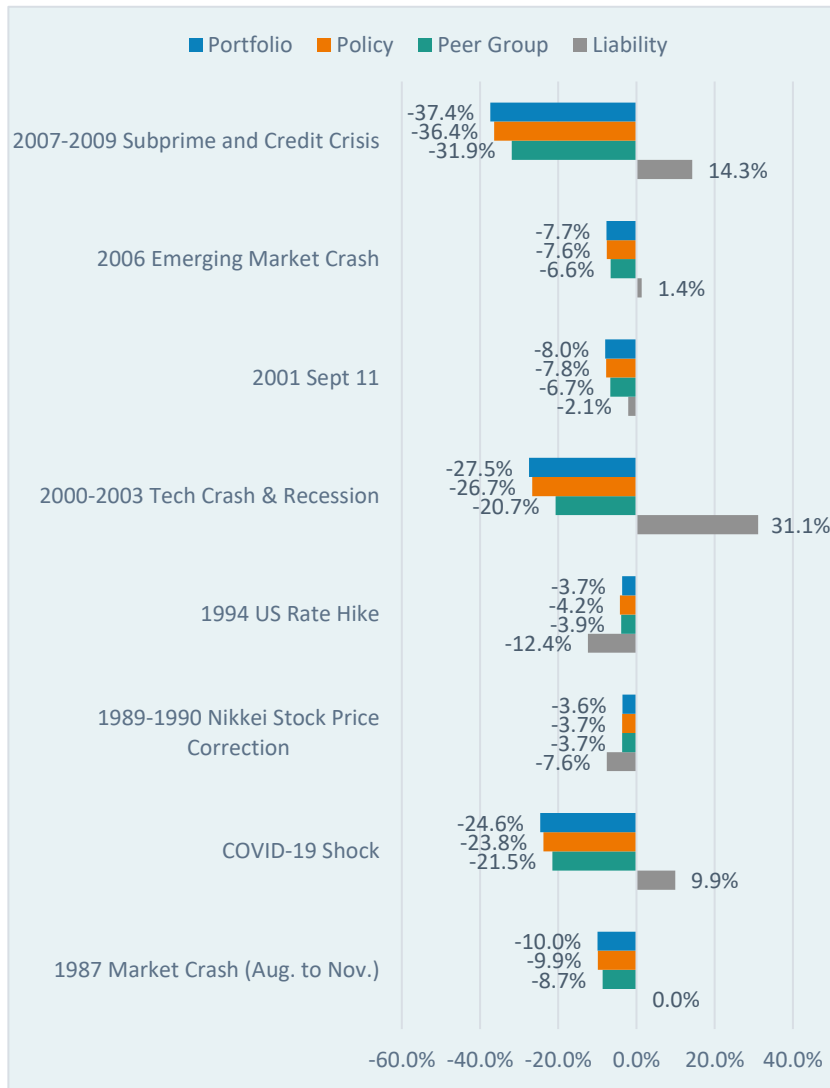


Risk factor decomposition



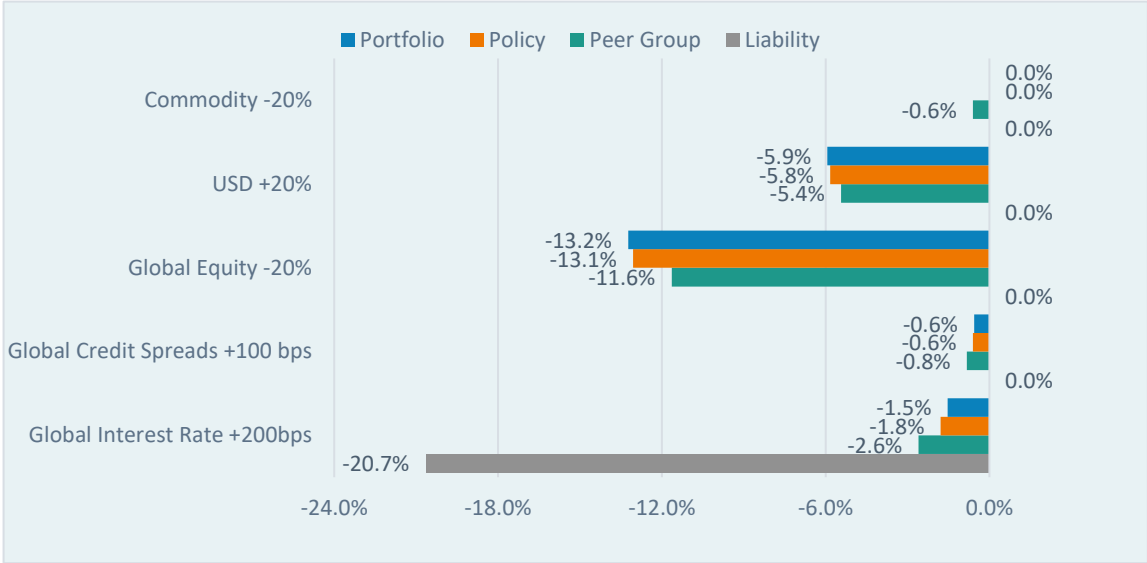
While equity factors are the dominant source of risk in the portfolio, currency, inflation, and credit factors contribute to overall risk

Historical scenarios



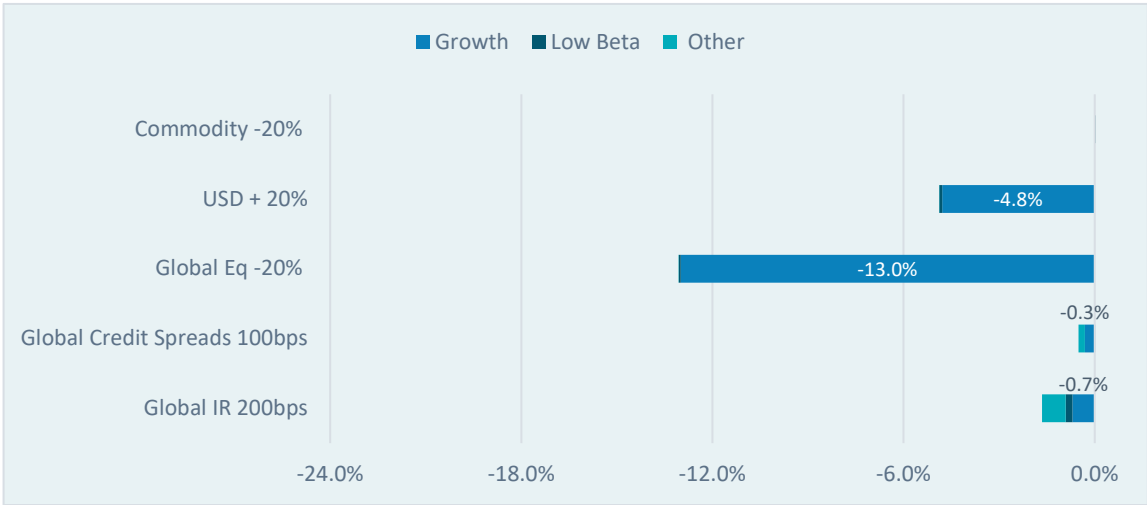
The portfolio continues to show slightly more drawdown than the policy in equity related scenarios and slightly less in fixed income related

Stress tests



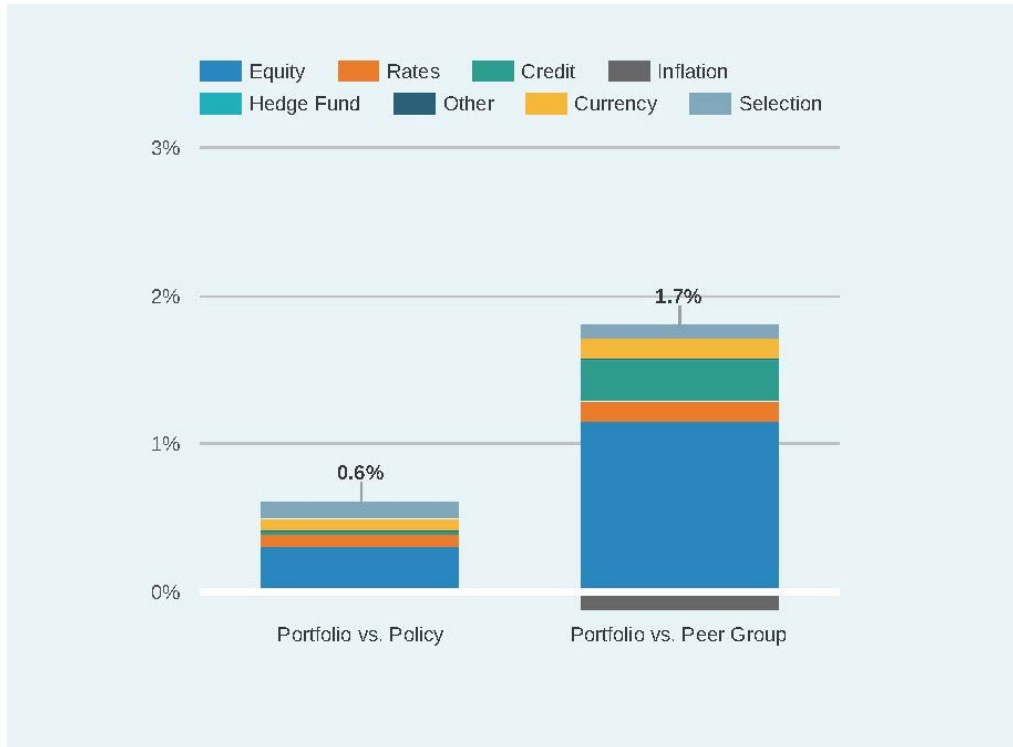
Portfolio is most sensitive to changes in equities and currency markets

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



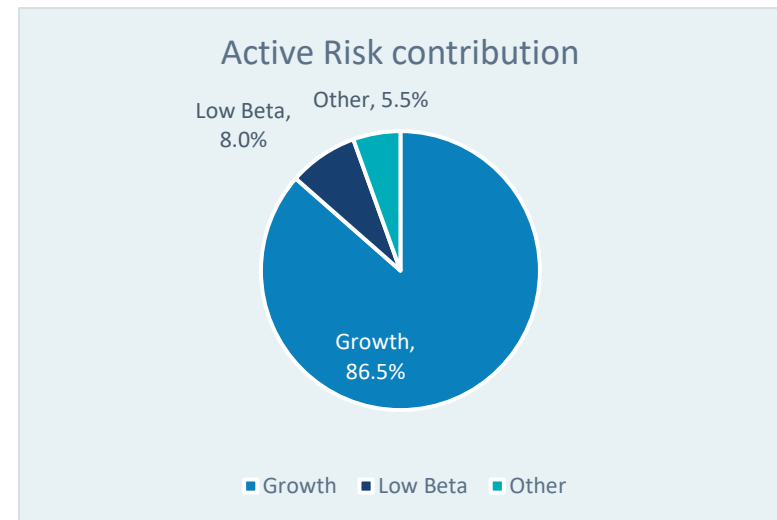
Stress tests are conducted using uncorrelated shocks.

Active risk factor decomposition

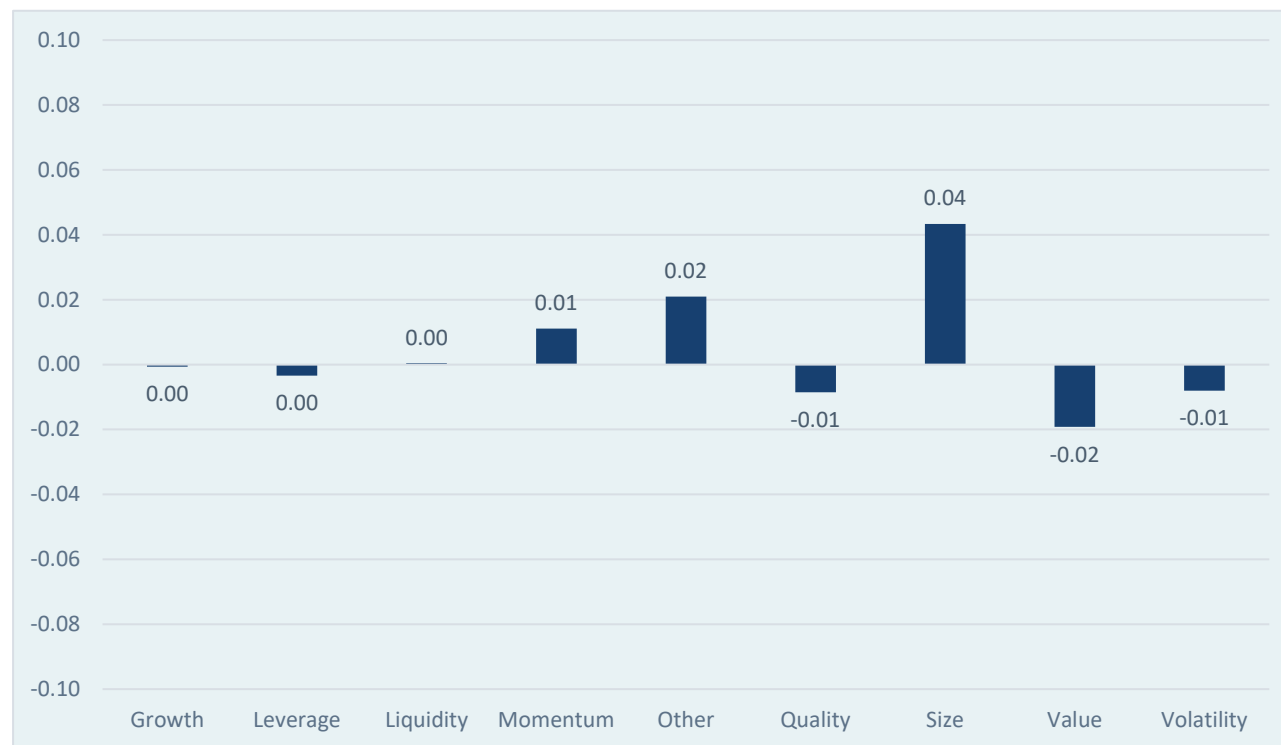


Active risk (or tracking error) provides insight into amount of excess performance we expect to see in portfolio

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



Active public equity style factor exposures



The largest active style factor exposure is Size

None exceed +/-0.2

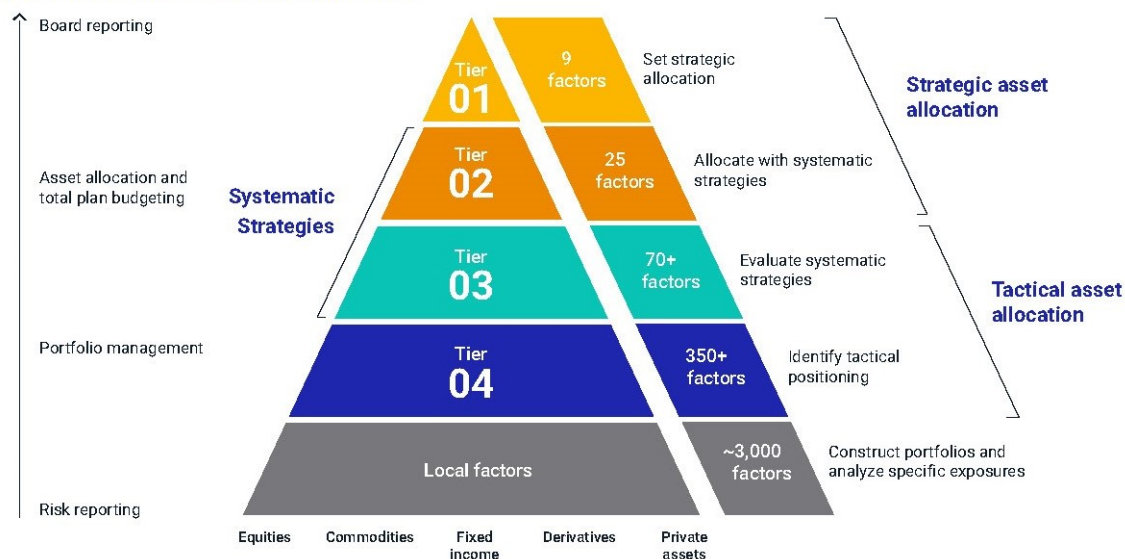
Values greater than 0.2 are generally considered significant

Appendix

About the model

- The City of San Jose Retirement Services currently uses the MSCI Barra Multi-Asset Class Model (**MAC.XL**)
- **MAC** was built specifically for multi-asset class portfolios like pension funds (older models were built for stock and bond portfolio managers)
- The “**XL**” version represents the longest available investment horizon (8-year “half-life”)
- Each security in the portfolio is modeled as a combination of common variables called “**factors**”
- Thousands of factor “**exposures**” are added-up at various levels or “**tiers**”
- The nine **Tier 1** factors shown in this report are most appropriate for committee oversight
- Style factors, aka Tier 3, are also of interest when examining active risk

The MSCI Multi-Asset Class Factor Model



Source: MSCI

Active style factor (Tier 3) 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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