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APRIL 20, 2021 (ANALYSIS DATE FEBRUARY 28, 2021)

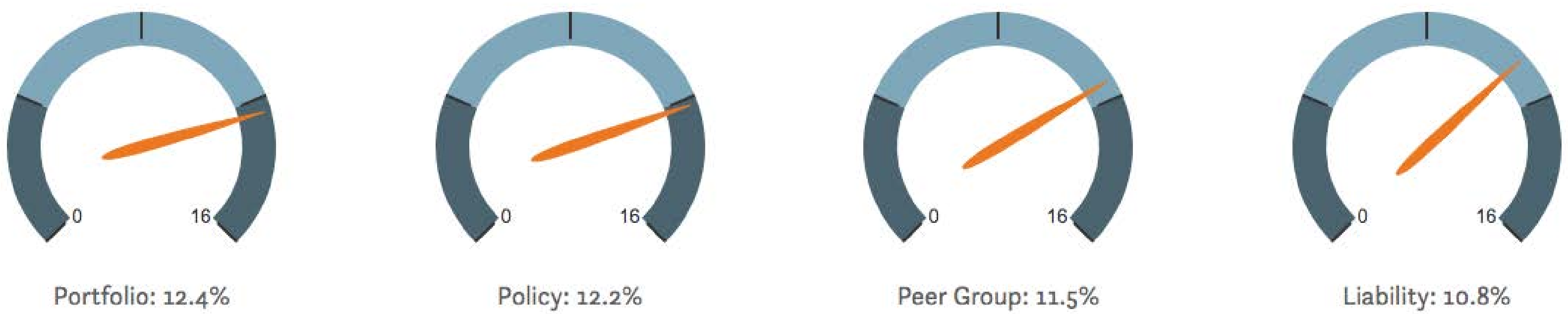
San Jose Federated City Employees’ Retirement System – Investment Committee

Quarterly Risk Summary

Summary

- Total risk remains elevated and slightly above the board risk limit of 12%
- High utilization of passive strategies 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 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.

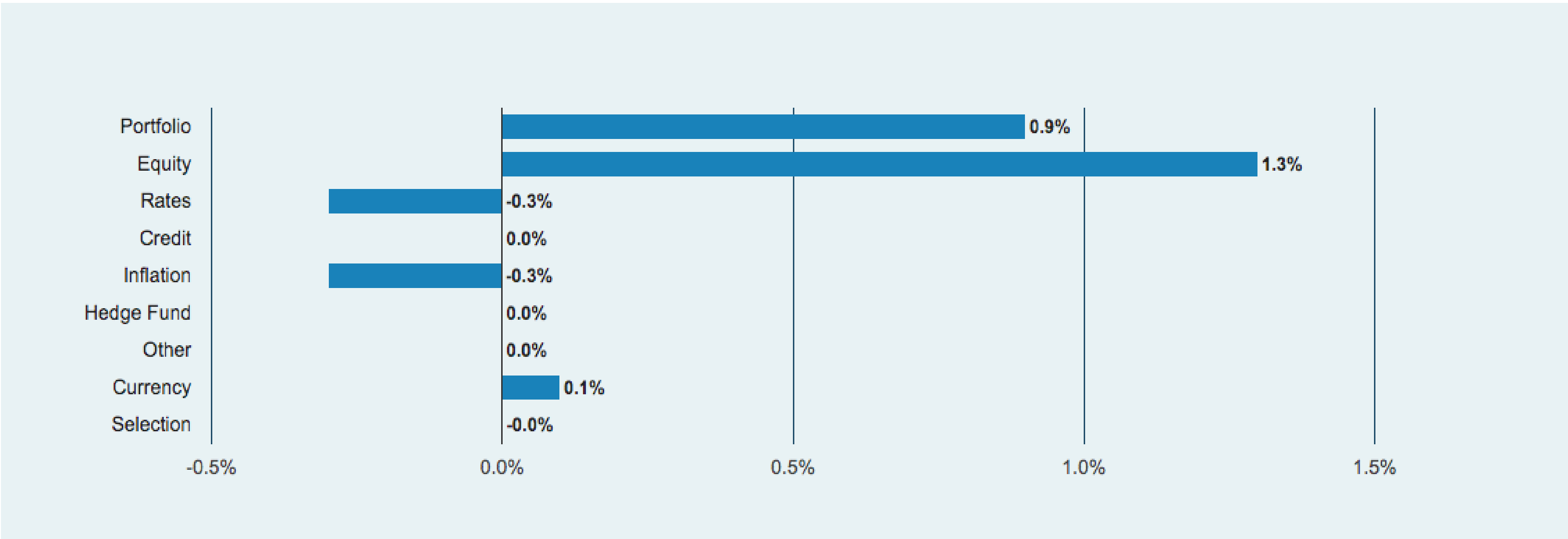
Portfolio volatility

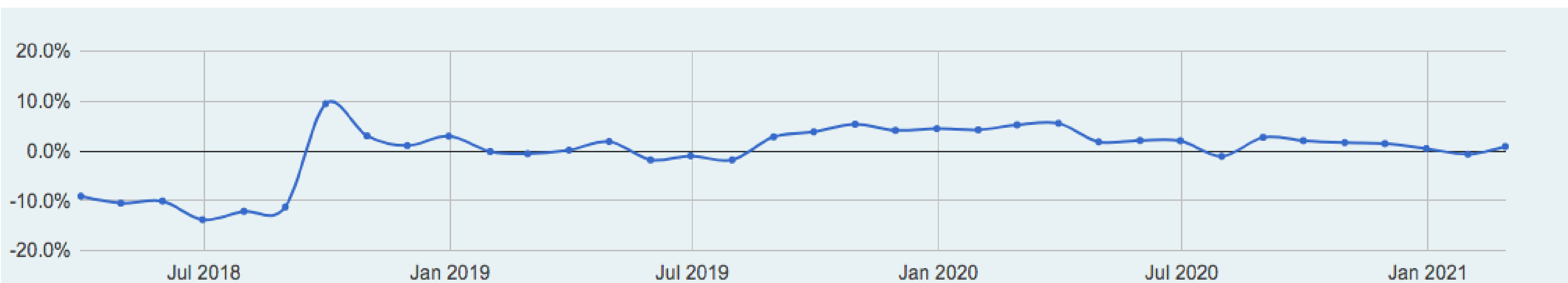


Portfolio volatility remains in line with policy.

Recent market volatility has caused portfolio volatility to rise

Relative risk

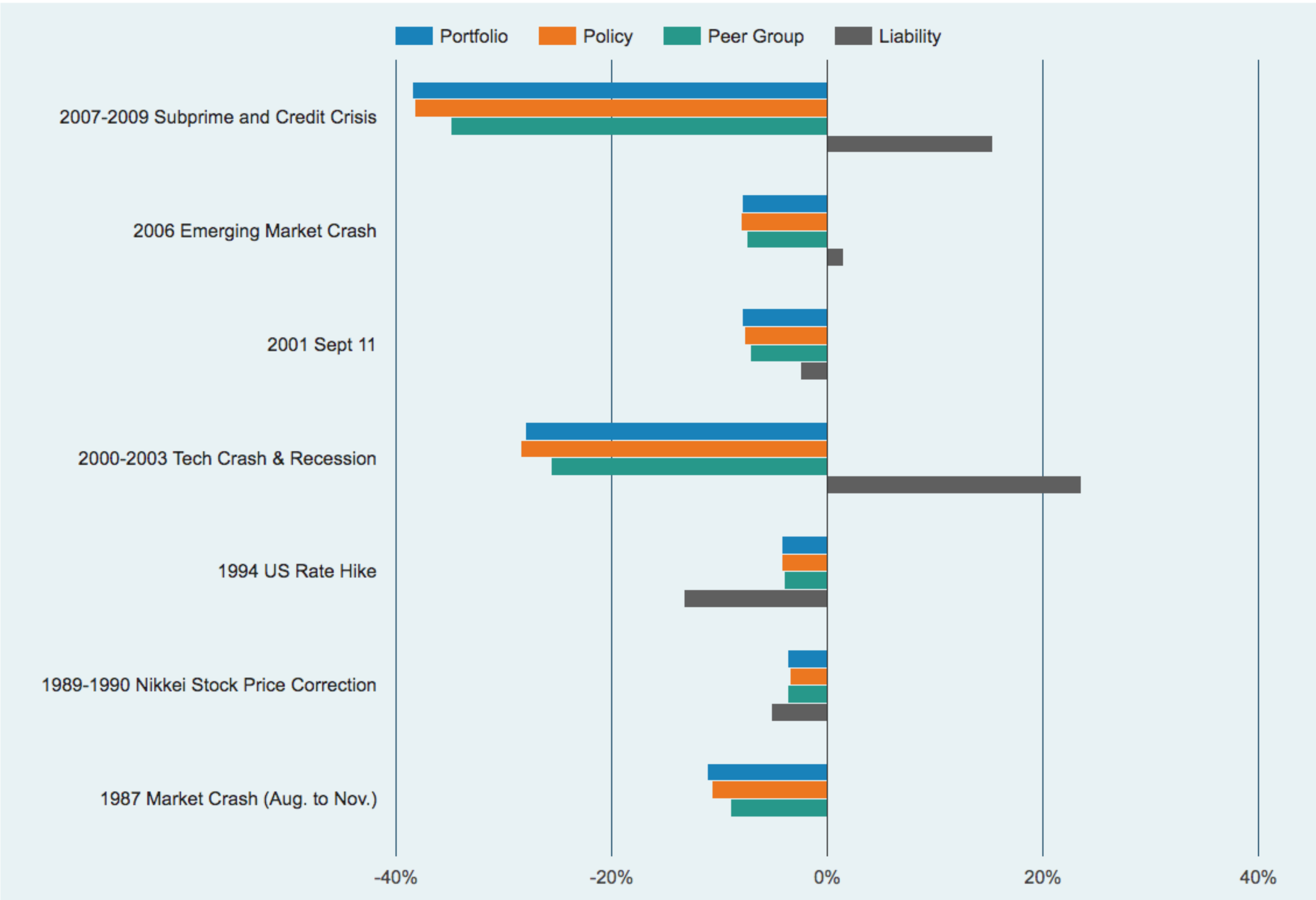




The portfolio is slightly overweight risk mainly coming from overweight to equity factors

Relative risk has remained stable over last couple of years despite increased market volatility during this period

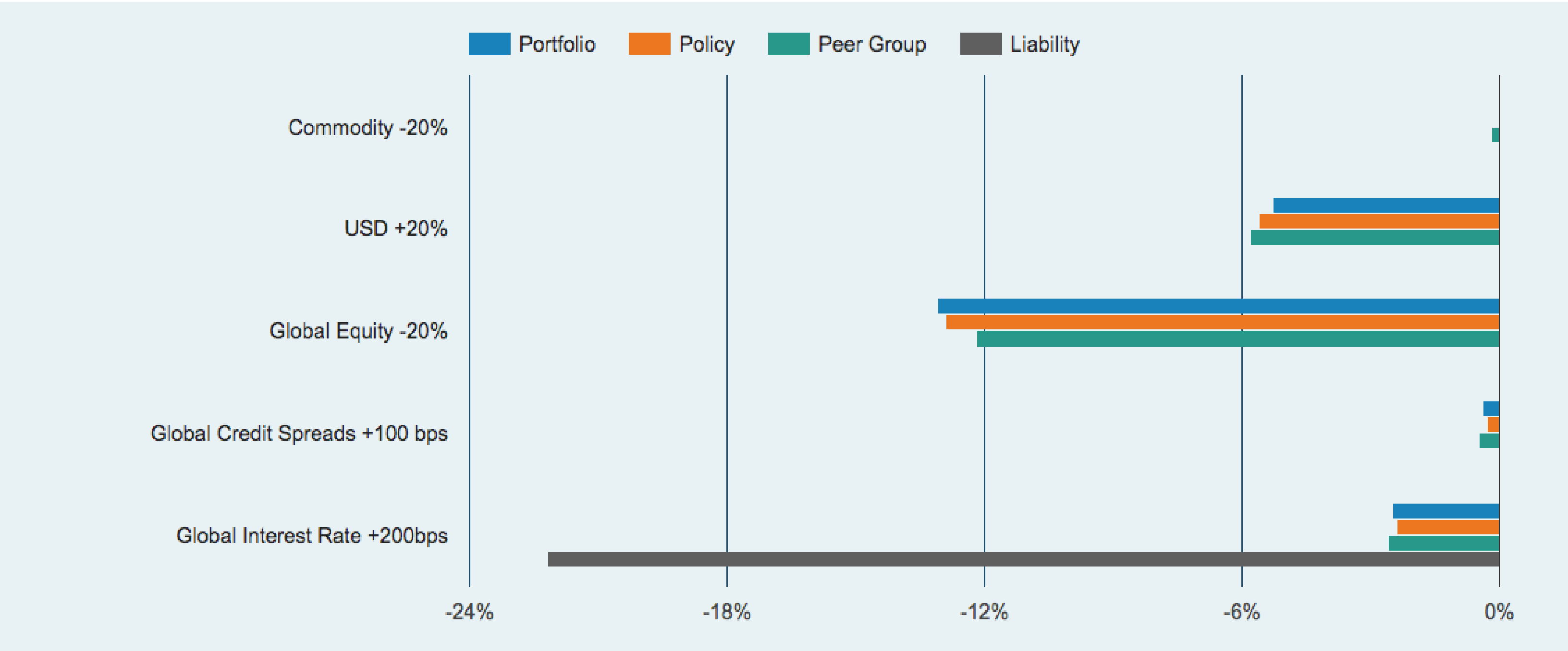
Tail risk scenarios



The portfolio performs slightly worse than the policy in the subprime crisis, 2000 tech crash, and 1987 crash.

Results are similar to the policy in most other scenarios

Tail risk shocks



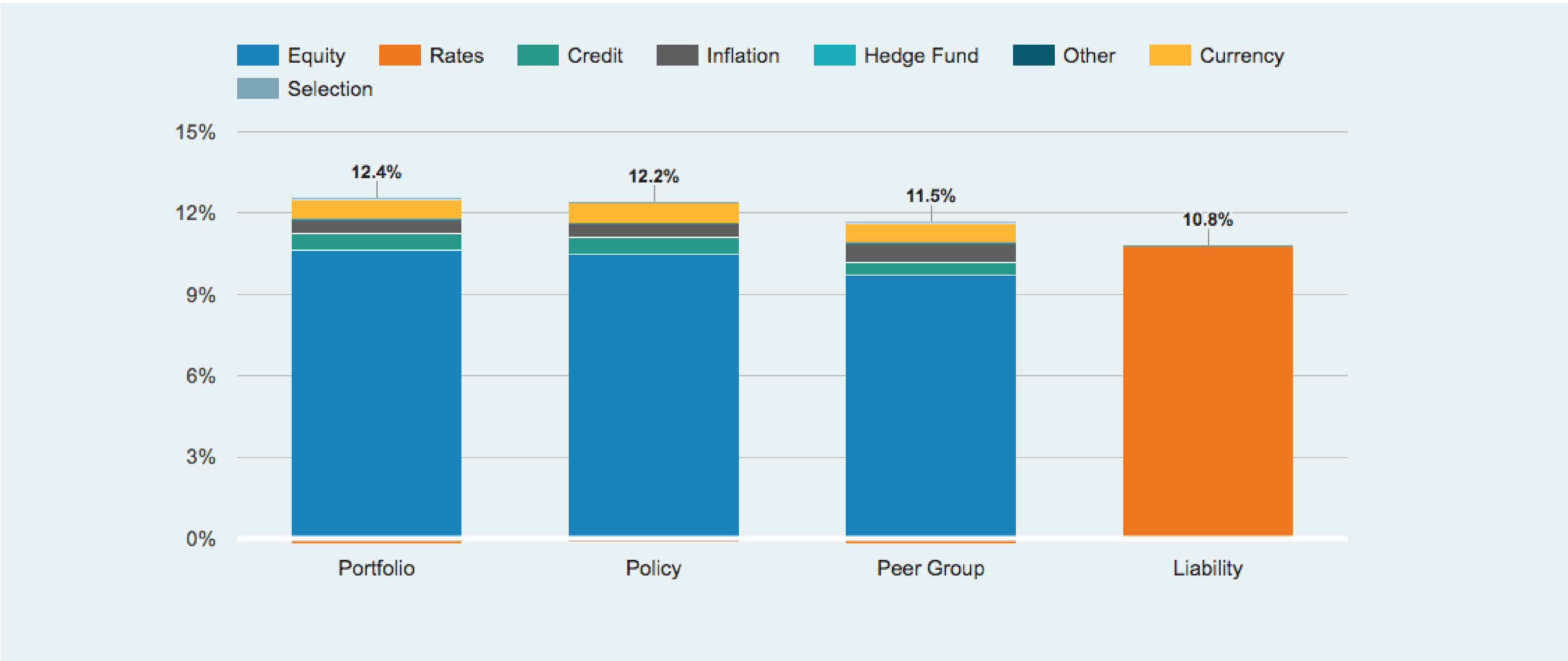
The portfolio is most sensitive to changes in equities and currency.

The portfolio is less exposed to interest rate risk and credit spread risk.

The portfolio has no sensitivity to changes in commodity prices.

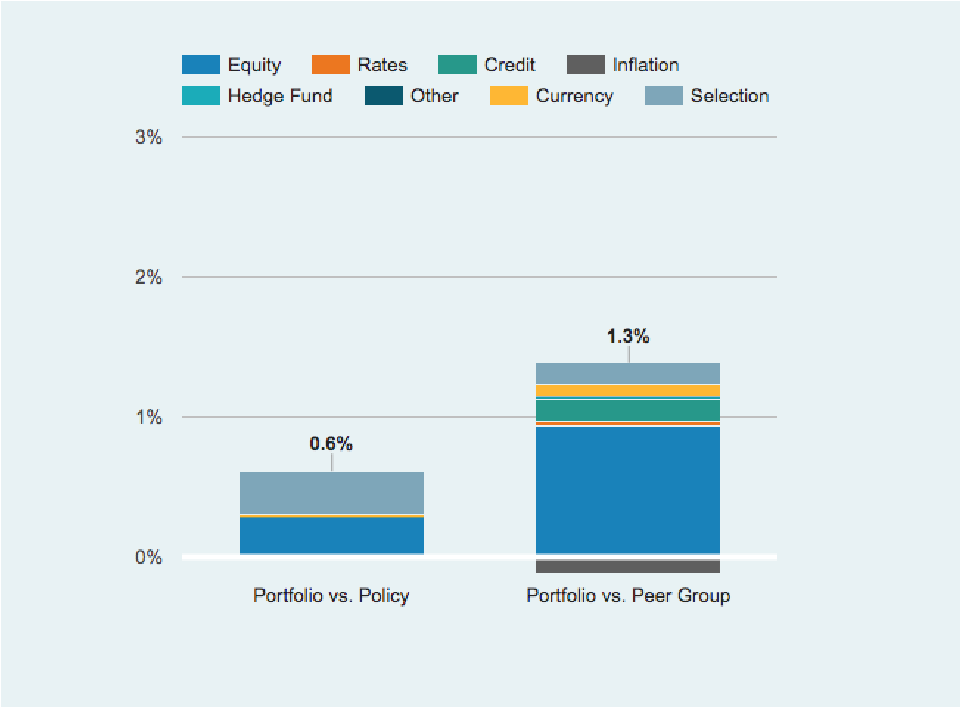
Stress tests are conducted using uncorrelated shocks.

Risk allocation



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

Active risk allocation

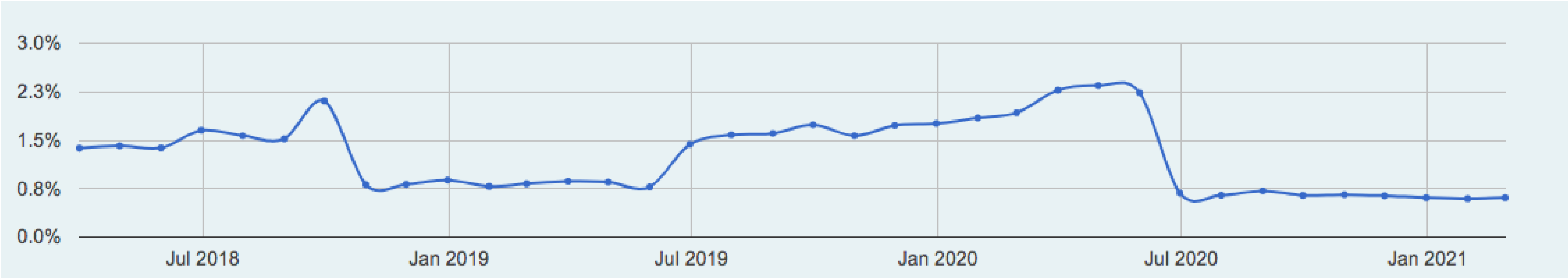


Active risk (or tracking error) provides insight into amount of excess performance we expect to see in portfolio

Currently, active risk is almost evenly divided between equity risk exposures and idiosyncratic (i.e., non-beta) exposures

Difference relative to peers is due to (1) differences in Growth and Other exposures and (2) likely change to private markets benchmarks to include neutralization

Recent decline in active risk due to switching benchmark used in risk reporting from LCPP to SAA benchmark



Factor exposures (Public Equity)

The largest active style factor exposures are momentum and value.

Values greater than 0.2 are generally considered statistically significant

Appendix: Style factor descriptions

Style Factor	Description	Intrepretation
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, earnings yield, and dividend yield.	A positive exposure indicates an undervalued stock. A negative exposure indicates an overvalued stock.
Momenturm	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.

Notices & disclosures