SFERS

San Francisco Employees' Retirement System

San Francisco City and County
Employees' Retirement System

INVESTMENT COMMITTEE MEETING CALENDAR SHEET

May 14, 2025

To: Investment Committee

From: Alison Romano
CEO & CIO

Date: May 14, 2025

Agenda Item: Strategic Asset Allocation in Today's Market Environment

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Recommendation:
This is a discussion-only item.

Executive Summary:
Jared Gross, from J.P. Morgan Asset Management, will discuss strategic asset allocation considerations in the current economic environment.

Background:
Jared Gross, Managing Director, is the Head of Institutional Portfolio Strategy, responsible for providing insights and solutions to institutional clients, including corporate and public pensions, endowments, foundations, and healthcare institutions. Prior to joining J.P. Morgan in 2020, Mr. Gross spent more than a decade at Pacific Investment Management Company (PIMCO) where he was the Head of Institutional Business Development, and a member of PIMCO's investment solutions team.

Prior to this, Mr. Gross held roles at Lehman Brothers as Co-Head of Pension Strategy and Vice President in the Pension Solutions Group at Goldman Sachs. He also previously held positions as Special Advisor on investment policy at the Pension Benefit Guaranty Corporation (PBGC) and as Senior Advisor for financial markets and domestic finance at the U.S. Department of the Treasury. Mr. Gross holds an undergraduate degree from Williams College

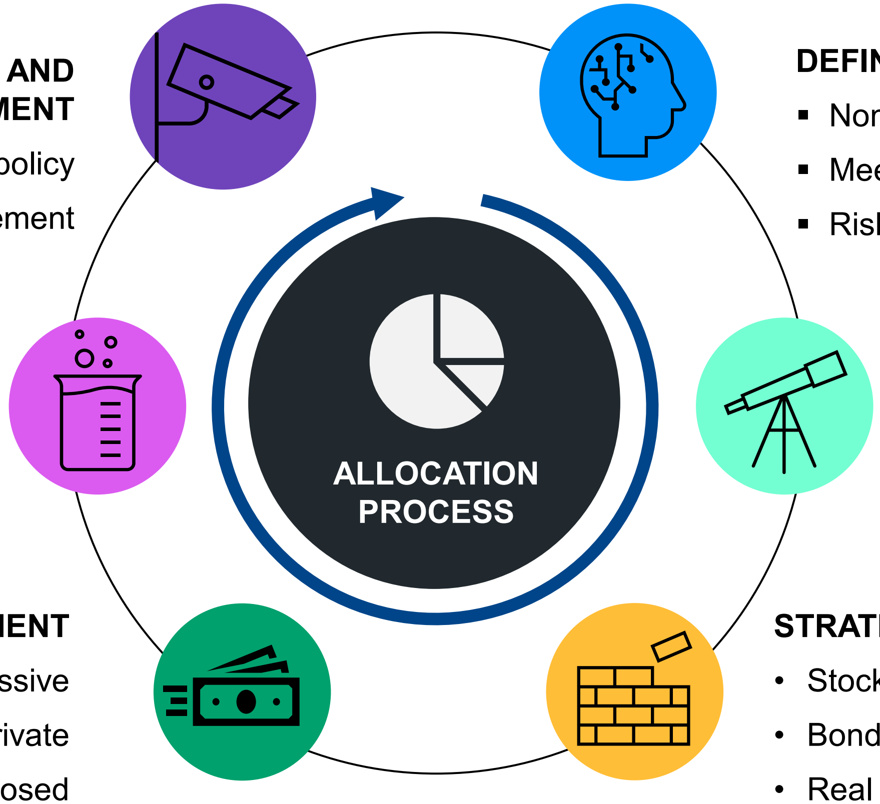
Attachment:
Strategic Asset Allocation Update

J.P. Morgan Asset Management

Strategic asset allocation update

Jared B. Gross, Managing Director
Head of Institutional Portfolio Strategy
J.P. Morgan Asset Management

Asset allocation is a continuous process



DEFINE OBJECTIVES

- Nominal/real return
- Meet liabilities
- Risk budget/liquidity

LONG TERM CAPITAL MARKET ASSUMPTIONS

- Returns
- Volatilities
- Correlations

STRATEGIC ALLOCATION

- Stocks
- Bonds
- Real assets
- Alternatives

CAPITAL DEPLOYMENT

- Active vs. passive
- Public vs. private
- Open vs. closed

PORTFOLIO ENHANCEMENTS

- GTAA
- Strategic leverage
- Tail risk hedging

MONITORING AND ADJUSTMENT

- Rebalancing policy
- Cash flow management

Critical questions during periods of volatility

1.	Have long-term equilibrium expectations become unanchored?
2.	Are there near-term imbalances that suggest a tactical response?
3.	Is the portfolio well diversified to protect against potential tail risks?
4.	Does the portfolio have sufficient liquidity to meet obligations and rebalance opportunistically?

Objectives

"The investment objective of the Trust Fund is to generate long-term investment returns with prudent levels of risk in order to secure benefit payments for current and future retirees."

(1) Meeting the **assumed actuarial rate of return** on a net of fee basis over a full market cycle.

7.2%

(2) exceeding the return of **SFERS' policy benchmark** over rolling five-year periods.

9.16%*

"SFERS recognizes that a strategic long-term asset allocation implemented in a consistent and disciplined manner is a primary determinant of the Trust's risk and return."

Source: SFERS. *Benchmark performance data as of of 6/30/2024

Long term capital market assumptions

Wilshire	
Inflation	2.35
Cash	3.60
Treasury	4.70
Core Bond	5.20
Corporate Bond	5.65
High Yield	6.35
Direct Lending	8.15
Global Equity	4.90
US Buyout	5.35
Venture Capital	8.50
Core Real Estate	5.80
Value-add Real Estate	7.35
Infrastructure	6.30
Hedge Funds	6.30

J.P. Morgan Asset Management	
Inflation	2.40
Cash	3.10
Treasury	4.20
Core Bond	4.60
Corporate Bond	5.00
High Yield	6.10
Direct Lending	8.20
Global Equity	7.10
US Buyout	9.90
Venture Capital	8.80
Core Real Estate	8.10
Value-add Real Estate	10.10
Infrastructure	6.30
Hedge Funds	4.90

Source: Wilshire, JPMAM

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Building blocks of the JPMAM capital market assumptions

Nominal GDP growth = Labor input growth + Capital growth + Productivity growth + Inflation

Inflation = Central bank policy + Structural forces

Public equity = Revenue growth + Change in margins + Share count change + Change in valuations + Dividends

Fixed income = Coupon income + Duration impact + Curve roll-down + Default and loss

Financial alternatives = Core beta + Alpha + Adjustments

Real assets = Net operating yield + Maintenance capex + Net cash flow growth + Exit yield adjustment + Leverage

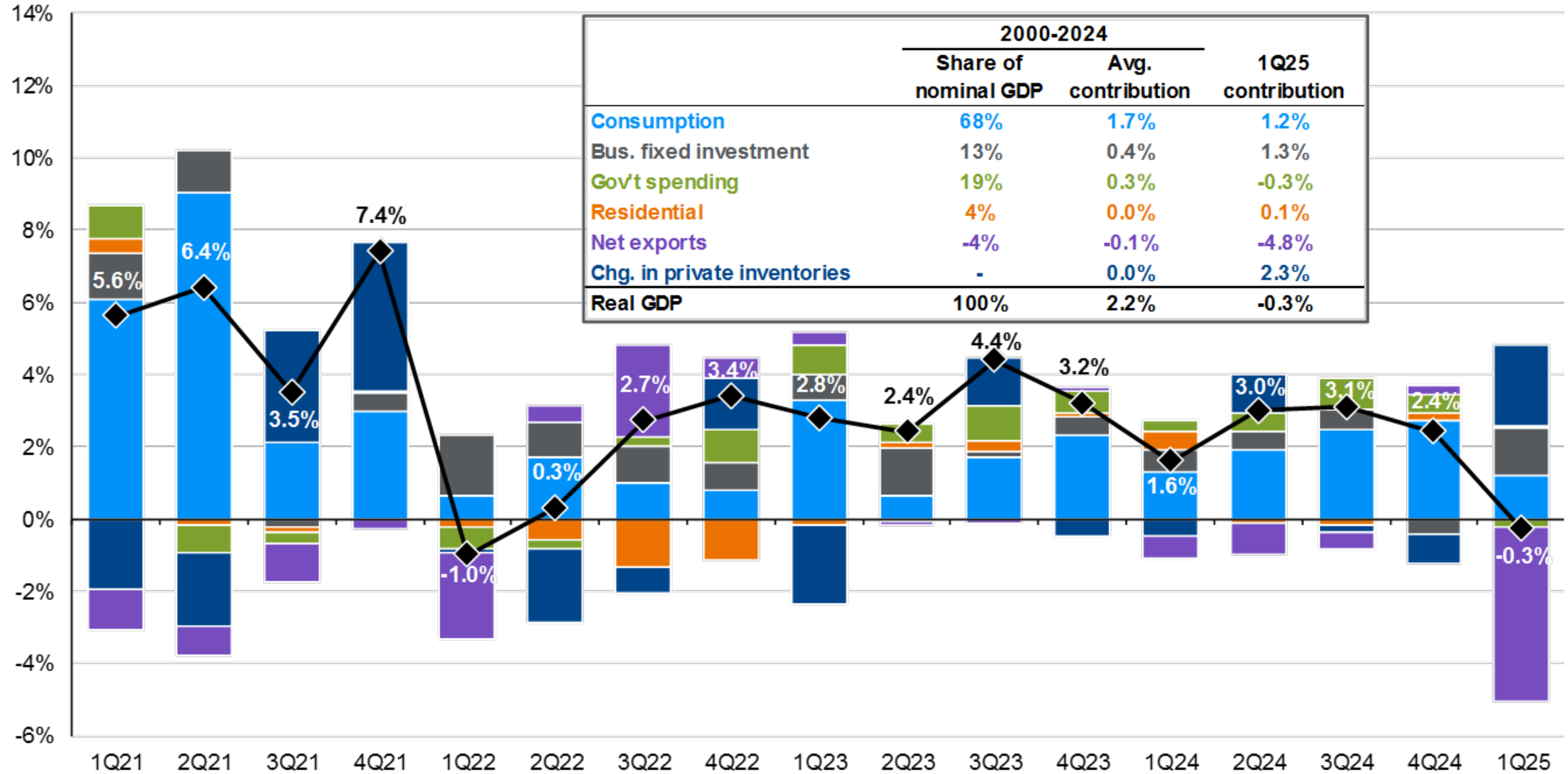
What’s changed since the LTCMAs were published?

Key variable	Directional change
Growth	Still positive but trending lower, with tariff distortions
Inflation	Still above target and declining, but at risk of reversal
Rates	Higher for longer; Flat curve waiting on direction from the Fed
Spreads	Limited widening in higher quality, some cracks in lower quality
Equities	Concentrations in MAG7/US have moderated (a little)
Real Assets	Inflation resilience and domestic revenues are appealing
Private alts	Asset class and manager dispersion increasing

Shifting growth outlook

Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate



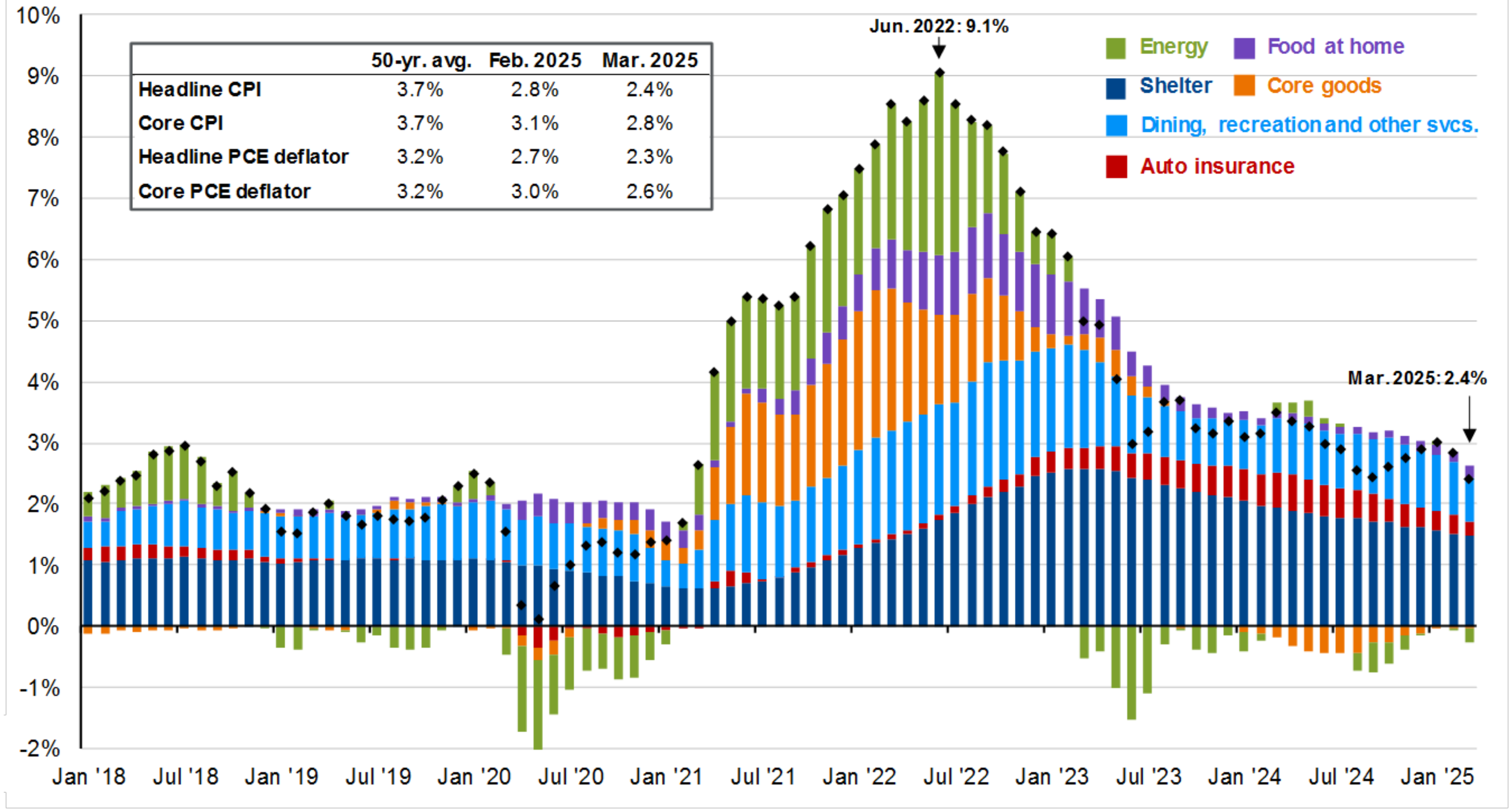
	2000-2024		
	Share of nominal GDP	Avg. contribution	1Q25 contribution
Consumption	68%	1.7%	1.2%
Bus. fixed investment	13%	0.4%	1.3%
Gov't spending	19%	0.3%	-0.3%
Residential	4%	0.0%	0.1%
Net exports	-4%	-0.1%	-4.8%
Chg. in private inventories	-	0.0%	2.3%
Real GDP	100%	2.2%	-0.3%

Source: BEA, FactSet, J.P. Morgan Asset Management.

Downward trend in inflation on pause?

Contributors to headline CPI inflation

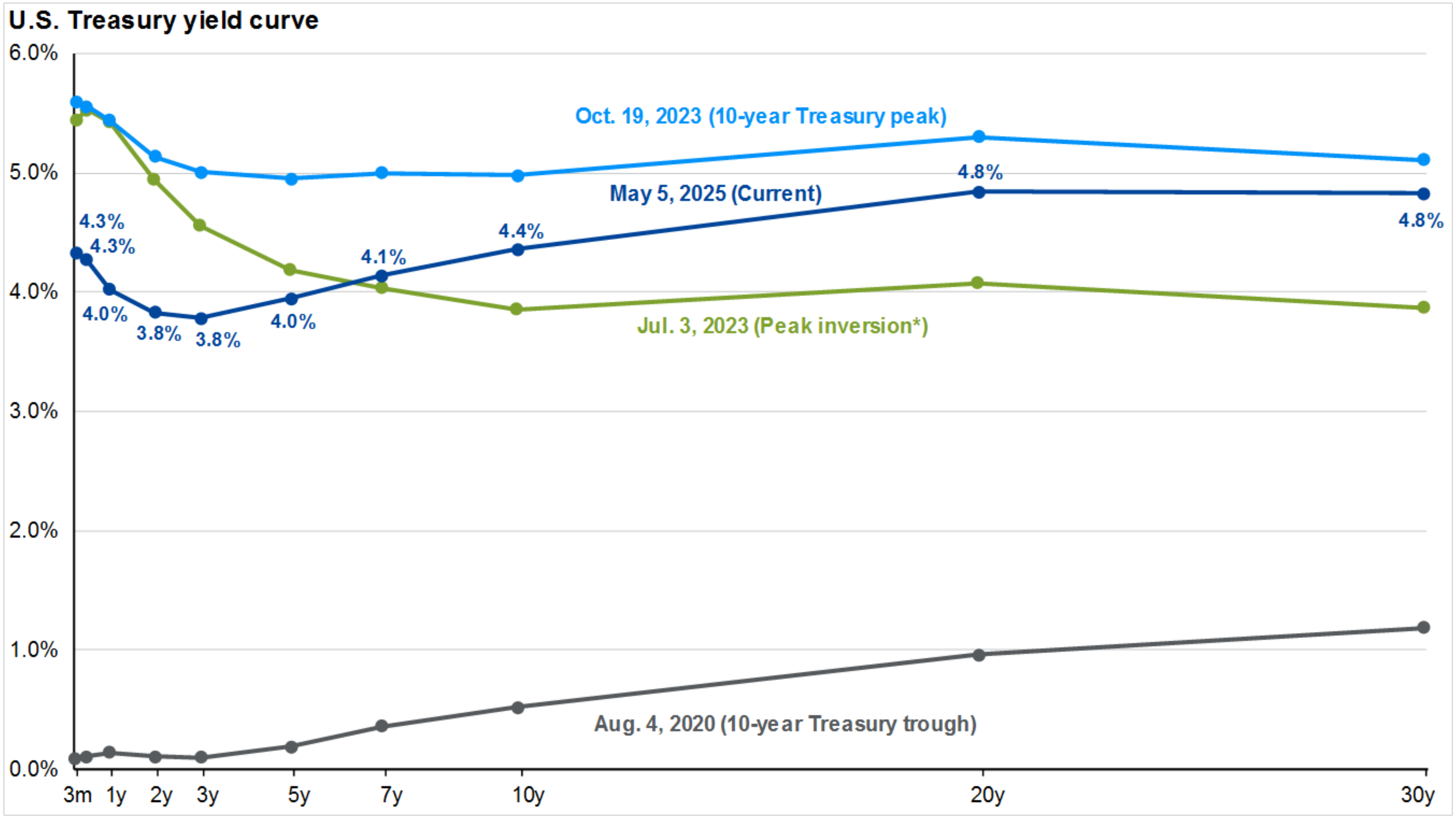
Contribution to y/y % change in CPI, non-seasonally adjusted



	50-yr. avg.	Feb. 2025	Mar. 2025
Headline CPI	3.7%	2.8%	2.4%
Core CPI	3.7%	3.1%	2.8%
Headline PCE deflator	3.2%	2.7%	2.3%
Core PCE deflator	3.2%	3.0%	2.6%

Source: BLS, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. "Food at home" includes alcoholic beverages.

Rates stuck higher for longer?

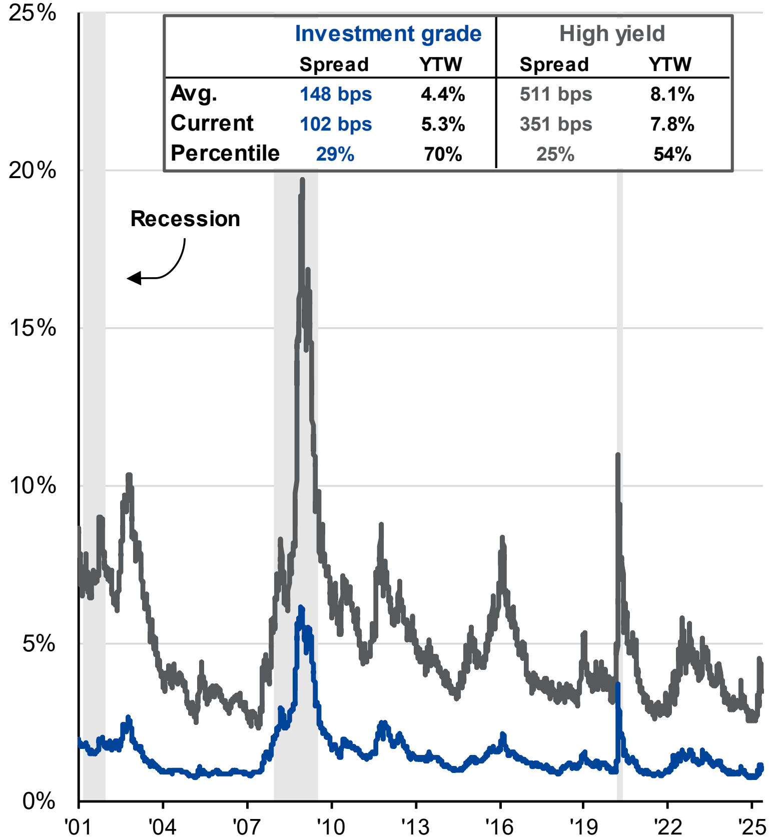


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. Analysis references data back to 2020. *Peak inversion is measured by the spread between the yield on a 10-year Treasury and 2-year Treasury..

Credit spreads widening (slightly)

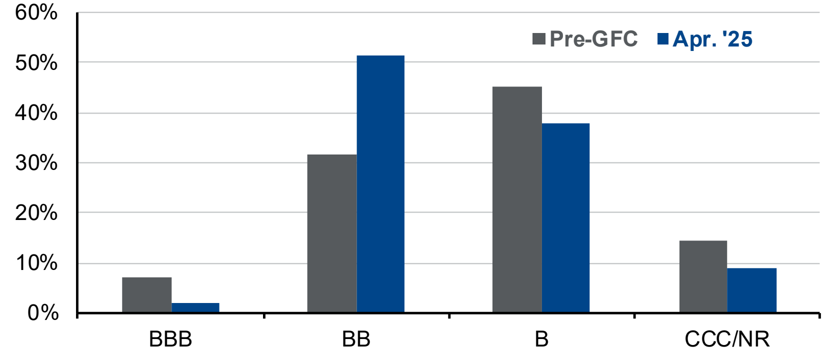
Corporate credit spreads

Option-adjusted spread, 2001 - present



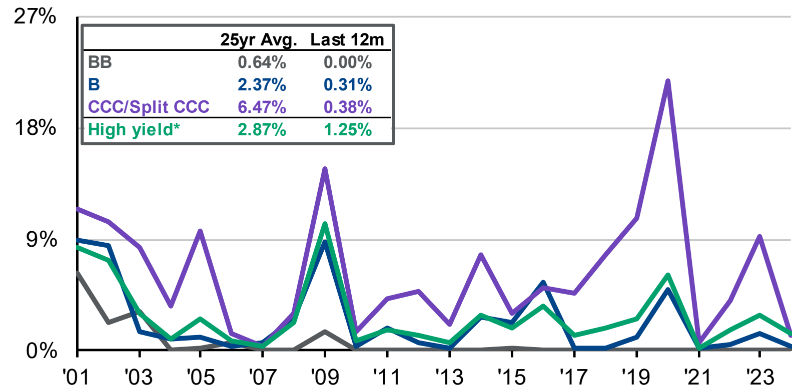
U.S. high yield by credit rating

%, J.P. Morgan Domestic High Yield Index



U.S. high yield default rates

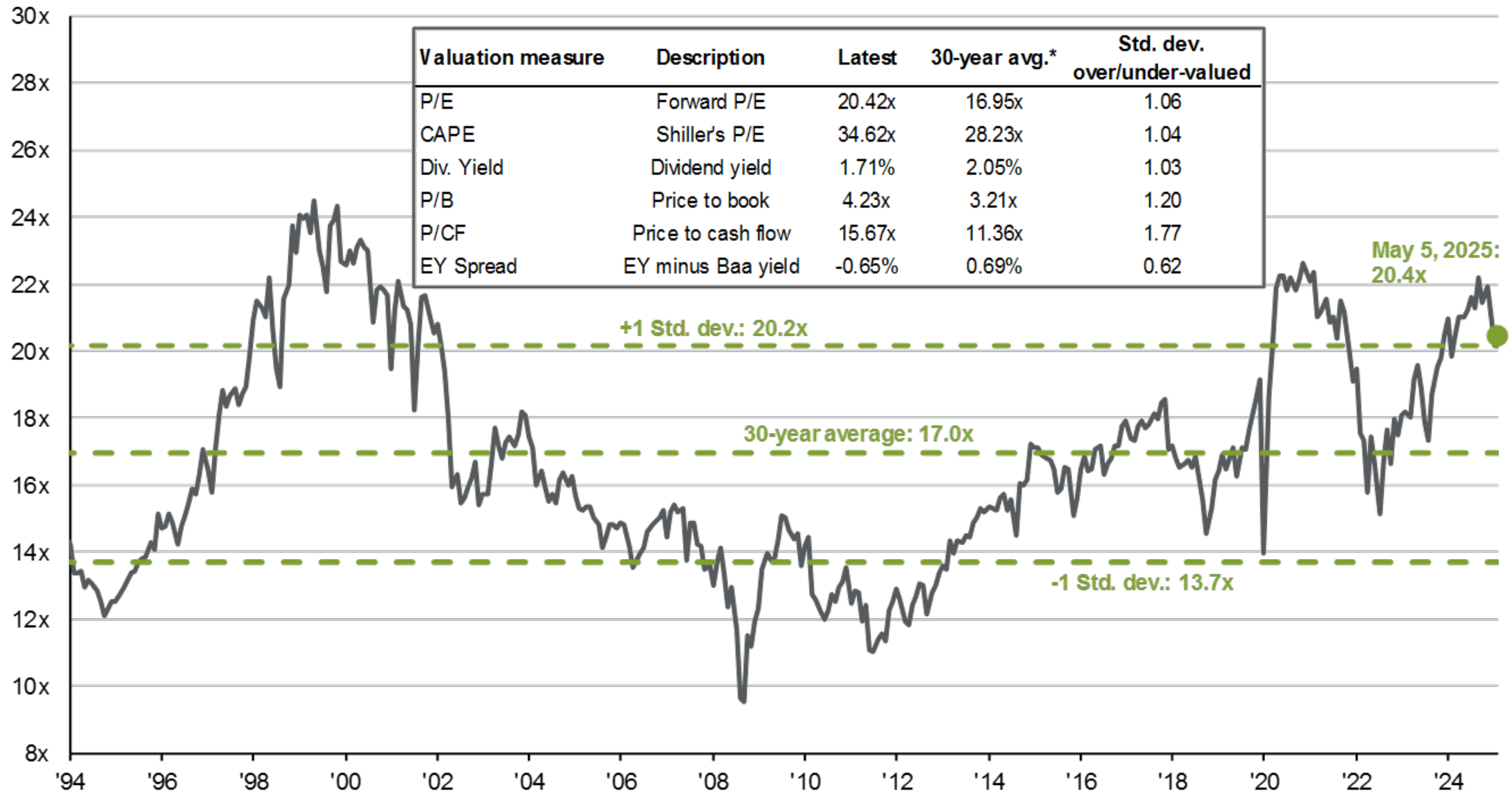
By credit rating



Source: Bloomberg, J.P. Morgan Research, J.P. Morgan Asset Management.
(Left): U.S. Investment Grade: Bloomberg U.S. Corporate Investment Grade Index; U.S. High Yield: Bloomberg U.S. Aggregate Corporate High Yield Index. (Right): Last 12-month default rates are as of most recent month for which data are available. Default rates shown by crediting rating do not include distressed exchanges and are grouped by rating 12 months prior to default. Bond ratings include split ratings. "NR" stands for not rated. Pre-GFC reflects data as of December 2007. *Aggregate high yield default rate data do include distressed exchanges.

U.S. equity valuations remain elevated

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	20.42x	16.95x	1.06
CAPE	Shiller's P/E	34.62x	28.23x	1.04
Div. Yield	Dividend yield	1.71%	2.05%	1.03
P/B	Price to book	4.23x	3.21x	1.20
P/CF	Price to cash flow	15.67x	11.36x	1.77
EY Spread	EY minus Baa yield	-0.65%	0.69%	0.62

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1994 and by FactSet since January 2022. Average P/E and standard deviations are calculated using 30 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Bloomberg US corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand. Std. dev. over-/under-valued is calculated using the average and standard deviation over 30 years for each measure. *Averages and standard deviations for dividend yield and P/CF are since November 1995 due to data availability.

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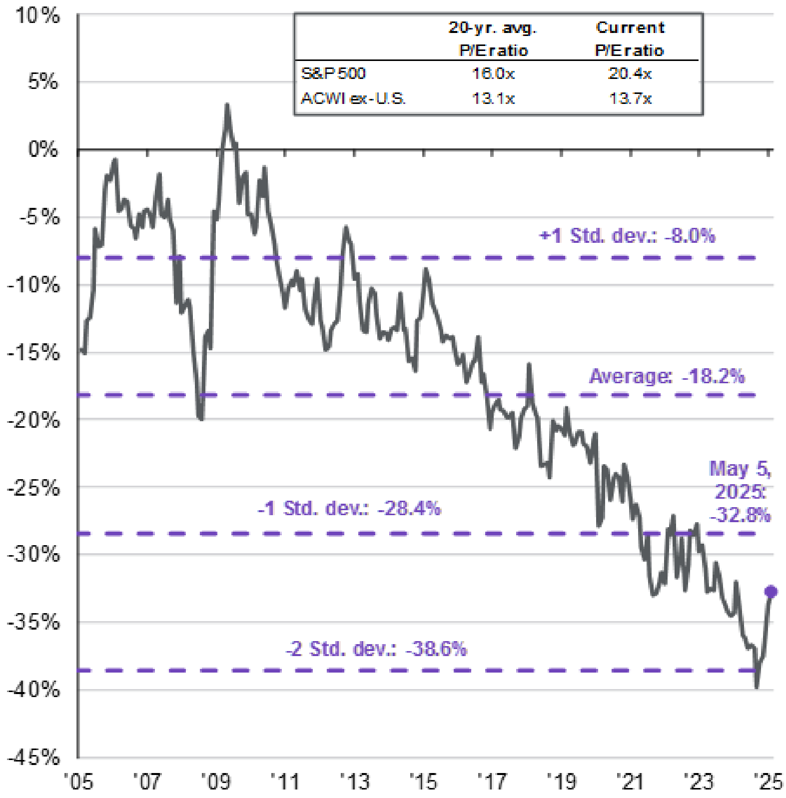
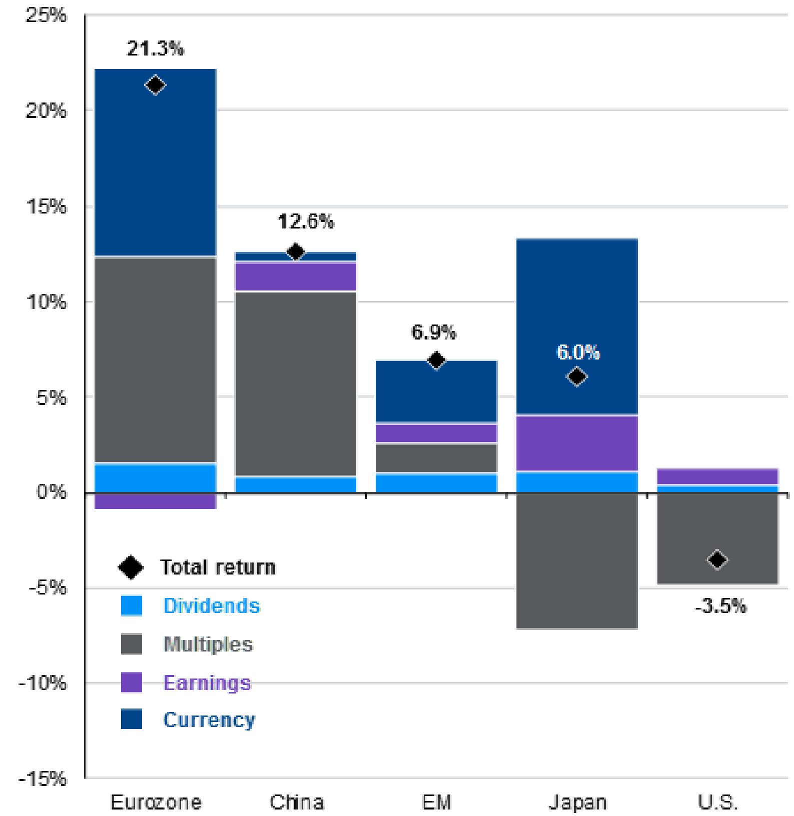
U.S. market dominance versus global markets may be turning

International: Price-to-earnings discount vs. U.S.
MSCI All Country World ex-U.S. vs. S&P 500, next 12 months



Global equity return decomposition*
Total return, year-to-date, USD



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index data, except the U.S., which is the S&P 500. *Multiple expansion is based on the forward P/E ratio, and EPS growth outlook is based on NTMA earnings estimates. Chart is for illustrative purposes only. Past performance is not indicative of future results. (Top right) Citibank. (Bottom right) All return values are MSCI Gross Index data, except the U.S., which is the S&P 500

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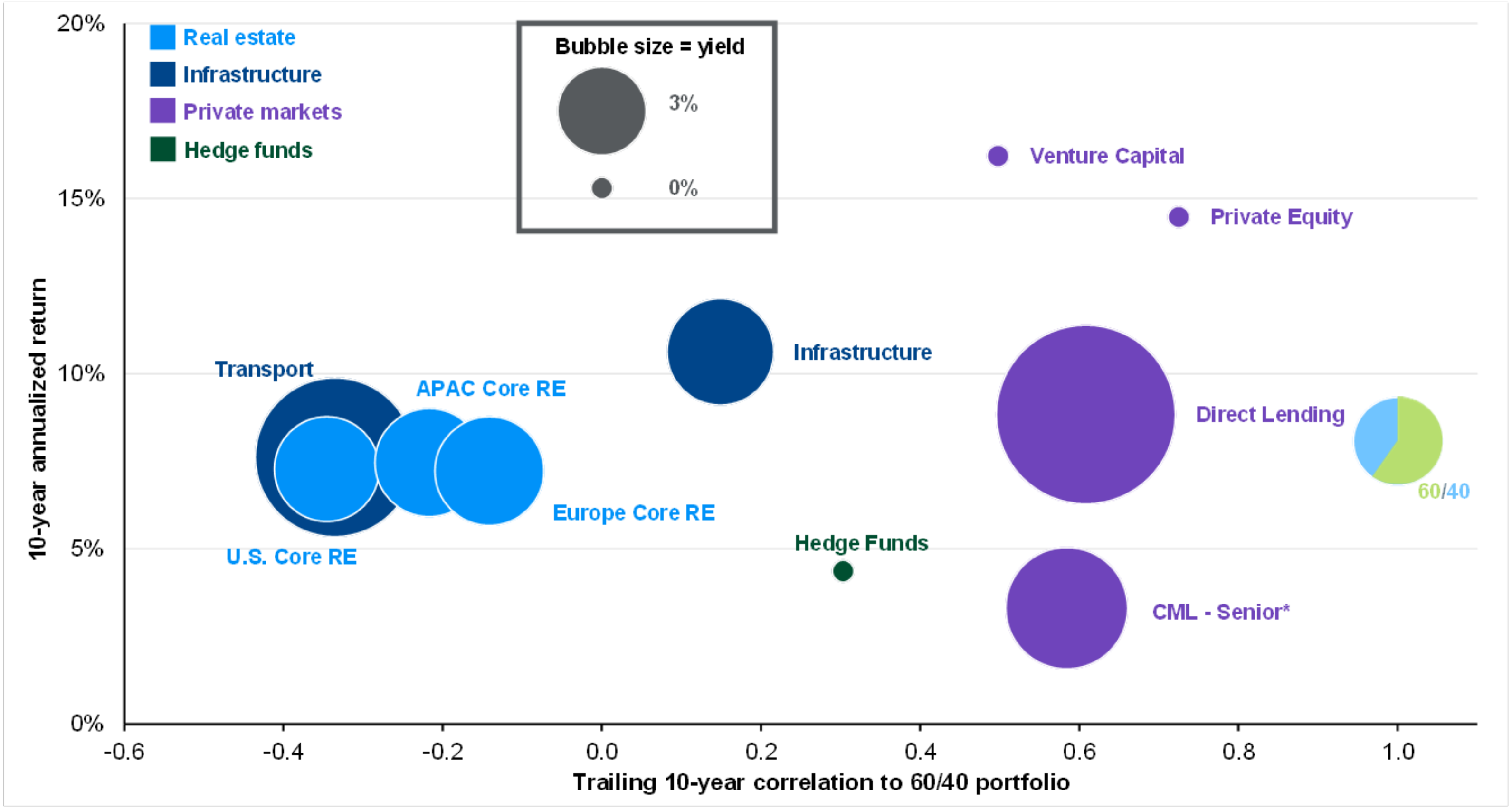
Alternatives offer more than just high returns

Correlations, returns and yields

10-year correlations and 10-year annualized total returns, 4Q14 – 3Q24



Source: Burgiss, Cliffwater, FactSet, Gilberto-Levy, HFRI, MSCI, NCREIF, J.P. Morgan Asset Management. Correlations are based on quarterly returns over the past 10 years from 4Q14-3Q24. A 60/40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. 10-year annualized returns are calculated from 1Q14-4Q23. Indices and data used for alternative asset class returns and yields are as described on pages 12, 13, and 17 of the *Guide to Alternatives*. Yields are based on latest available data as described on page 12 of the *Guide to Alternatives.* *CML is commercial mortgage loans.

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Tentative answers to the key questions…

Have long-term equilibrium expectations become unanchored?	Are there near-term imbalances that suggest a tactical response?	Is the portfolio diversified to protect against potential tail risks?	Does the portfolio have sufficient liquidity to meet obligations and rebalance opportunistically?
Confidence in the path of inflation and rates has diminished. Higher inflation volatility is likely across the forecast horizon.	U.S. equity valuations remain exceptionally high while there are clear signs that other developed markets are implementing structural reforms.	Greater dispersion of economic growth suggests risk management benefits from global strategies. Duration remains a key risk diversifier to a US growth shock.	The penalty for holding cash and short duration fixed income is limited in a flat yield curve environment.
Expectations of stronger relative growth in the U.S. may have diminished. U.S. equity valuations, and to some extent credit spreads, are vulnerable.	The U.S. dollar may be at risk of more significant decline than suggested by the measured pace in the LTCMA.	An inflationary surprise or stagflationary environment could produce correlated downside risk. Direct hedges and larger real asset portfolios may be needed.	ETFs can provide the maximum amount of liquidity across public market sectors.
Higher-for-longer interest rates impact financial alternatives directly through leverage costs. Higher volatility is supportive of hedge fund returns.	Historically tight credit spreads across major market sectors may not reflect underlying risk of loss from downgrade (IG) and default (low-HY and direct lending)	Consideration should be given to the potential loss of liquidity in a stressed market. Increasing structural liquidity and income may be advisable.	Alternatives can be tilted in favor of more liquid strategies and those that provide distributable income.

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