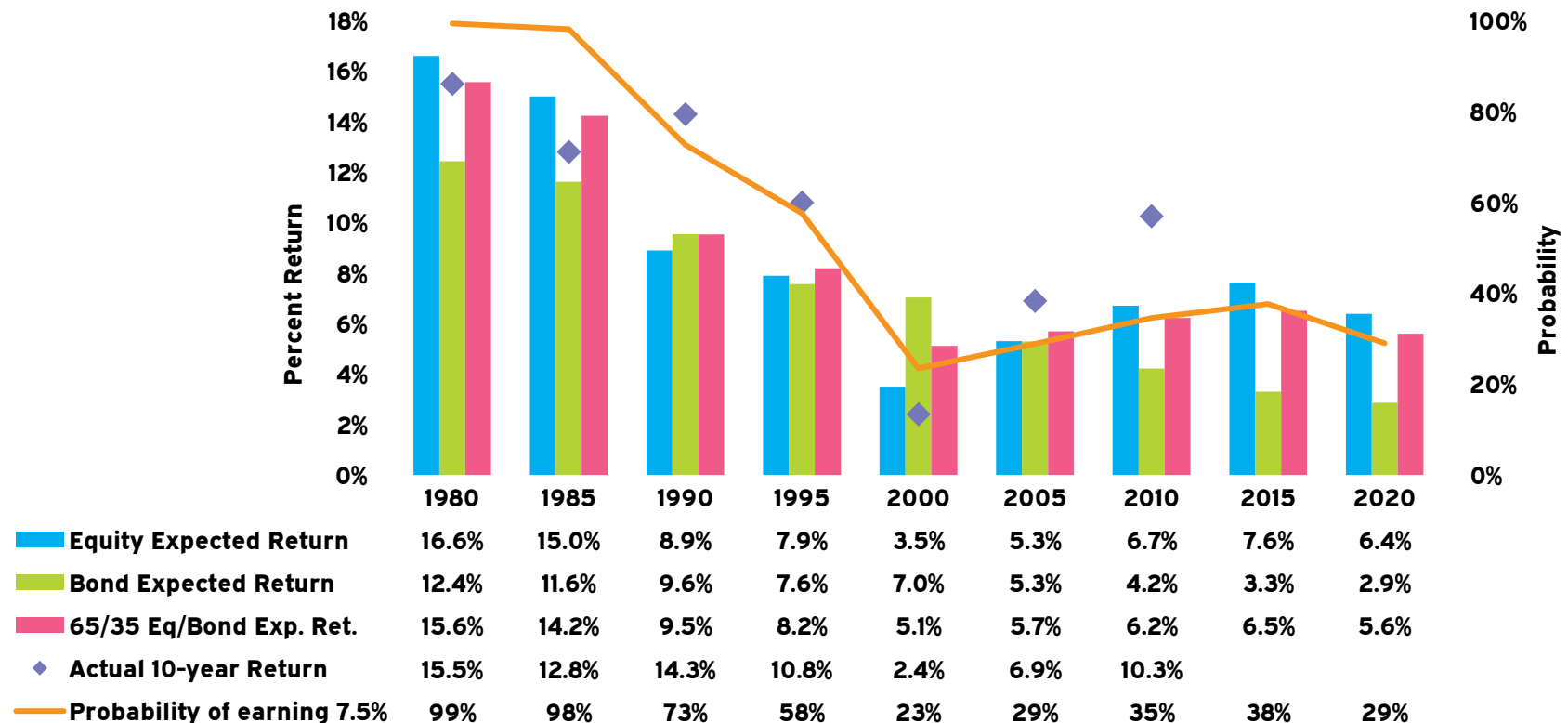


**San Jose Federated City Employees' Retirement System
San Jose Police & Fire Department Retirement Plan
December 10, 2020**

Public Safety, Finance and
Strategic Support Committee
(PSFSS) Meeting

There Has Been a Decline in Available Investment Returns¹

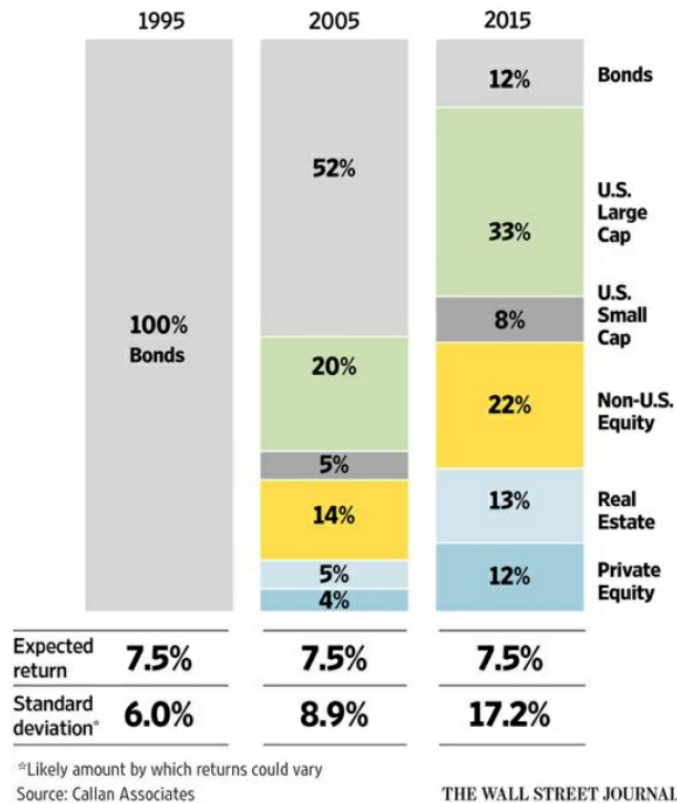


- The chart above illustrates that a portfolio comprising of 65% domestic stocks and 35% investment grade bonds has produced diminishing expected returns, as well as actual returns, over the past 30 years.

¹ Expected return assumptions for 1) Bonds equals the yield of the ten-year Treasury plus 100 basis points, and 2) Equities equals the dividend yield plus the earnings yield of the S&P 500 index (using the inflation-adjusted trailing 10-year earnings). Probability calculation is for the subsequent ten years.

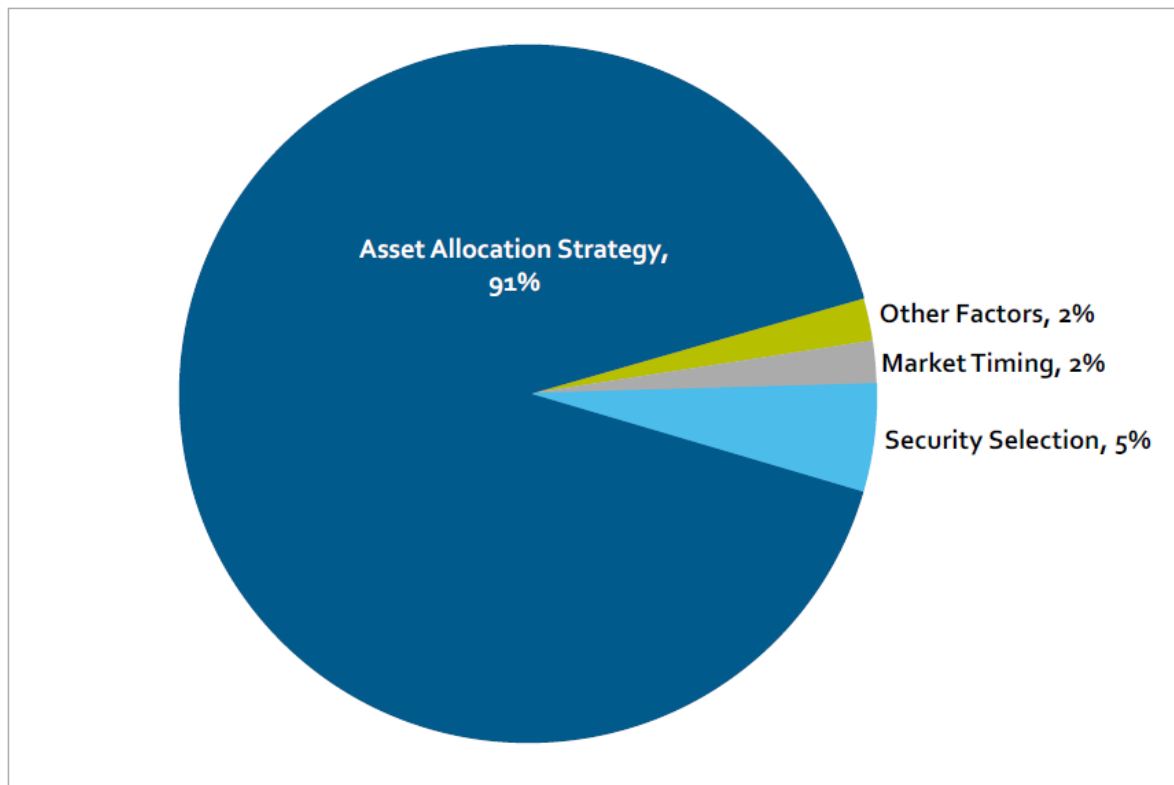
Investors Must Now Take More Risk to Achieve the Same Return as in the Past

Estimates of what was needed to earn 7.5% over time



Asset Allocation–The Most Important Determinant of Return

Sources of Return Variation



Source: Roger G. Ibbotson. *Does Asset Allocation Policy Explain 10, 90 or 100 Percent of Performance?* Financial Analyst Journal, January/February 2000; Brinson, Singer and Beebower. *Determination of Performance II: An Update*, Financial Analyst Journal, May/June 1991. Based on US pension-fund data from 1977 to 1987. The asset allocation strategy includes broad market exposure.

Public Safety, Finance and Strategic Support Committee (PSFSS) Meeting

MEKETA										
San Jose Federated City Employees' Retirement System										
Total Fund As of September 30, 2020										
Asset Class Net Performance Summary										
	Market Value (\$)	% of Portfolio	Fiscal YTD (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Total Fund Aggregate	2,455,507,582	100.0	6.2	5.1	9.9	5.6	6.4	5.4	6.7	Jan-94
<i>Policy Benchmark</i>			5.5	4.4	9.4	5.7	7.1	6.0	6.9	Jan-94
<i>Investable Benchmark Portfolio</i>			5.6	3.7	8.7	5.3	6.4	5.2	--	Jan-94
<i>Low-Cost Passive Portfolio</i>			4.6	-0.7	4.5	--	--	--	--	Jan-94
<i>60/40 MSCI ACWI IMI/BBgBarc Global Aggregate</i>			6.0	3.1	8.8	5.9	7.8	6.2	--	Jan-94
<i>Liability Benchmark Portfolio</i>			0.1	21.3	16.3	--	--	--	--	Jan-94
<i>InvMetrics Public DB > \$1B Net Median</i>			5.0	0.8	6.0	5.5	7.5	7.4	7.2	Jan-94
<i>InvMetrics Public DB > \$1B Net Rank</i>			4	1	4	47	93	99	85	Jan-94

- The San Jose Federated City Employee's Retirement System investment return ranked in the first (best) percentile of the peer group between January 1, 2020 and September 30, 2020, and in the top 5% of the universe for the fiscal year-to-date (since June 30, 2020) and trailing one-year periods. The peer group included 77 public defined benefit plans with market values over \$1 billion.

Asset Class Net Performance Summary

	Market Value (\$)	% of Portfolio	Fiscal YTD (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Total Fund	4,085,658,037	100.0	6.1	4.0	9.0	5.8	6.9	6.0	8.3	Mar-71
<i>Policy Benchmark</i>			5.2	2.7	7.8	5.6	7.0	6.4	--	Mar-71
<i>Investable Benchmark Portfolio</i>			6.0	2.4	8.5	5.6	7.0	6.1	--	Mar-71
<i>Low-Cost Passive Portfolio</i>			5.0	-0.5	5.0	--	--	--	--	Mar-71
<i>60/40 MSCI ACWI IMI/BBgBarc Global Aggregate</i>			6.0	3.1	8.8	5.9	7.8	6.2	--	Mar-71
<i>Liability Benchmark Portfolio</i>			0.1	21.3	16.3	--	--	--	--	Mar-71
<i>InvMetrics Public DB > \$1B Net Median</i>			5.0	0.8	6.0	5.5	7.5	7.4	--	Mar-71
<i>InvMetrics Public DB > \$1B Net Rank</i>			8	7	12	41	82	98	--	Mar-71

- The City of San Jose Police and Fire Department Retirement Plan investment return ranked in the top 10% of the peer group between January 1, 2020 and September 30, 2020 and the fiscal year-to-date (since June 30, 2020) time period. The peer group included 77 public defined benefit plans with market values over \$1 billion.



San Jose Federated City Employees' Retirement System and San Jose Police & Fire Department Retirement Plan

Public Safety, Finance and Strategic Support Committee (PSFSS) Meeting

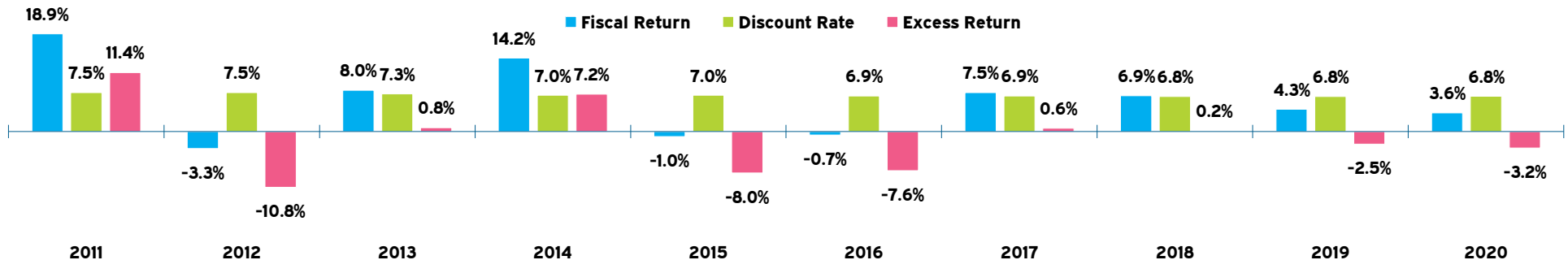
Appendix



Federated Discount Rate History

Years	Fiscal Year	10 Year US Treasury Rate (%)	Discount Rate (%)	Fiscal Year Return ¹ (%)	Excess Performance to Discount Rate (%)
	1997	6.51	8.25		
1	2011	3.18	7.50	18.9	11.4
2	2012	1.67	7.50	-3.3	-10.8
3	2013	2.52	7.25	8.0	0.8
4	2014	2.53	7.00	14.2	7.2
5	2015	2.35	7.00	-1.0	-8.0
6	2016	1.49	6.875	-0.7	-7.6
7	2017	2.31	6.875	7.5	0.6
8	2018	2.85	6.75	5.9	-0.9
9	2019	2.00	6.75	4.3	-2.5
10	2020	0.66	6.75	3.6	-3.2

Federated Plan Return versus Discount Rate



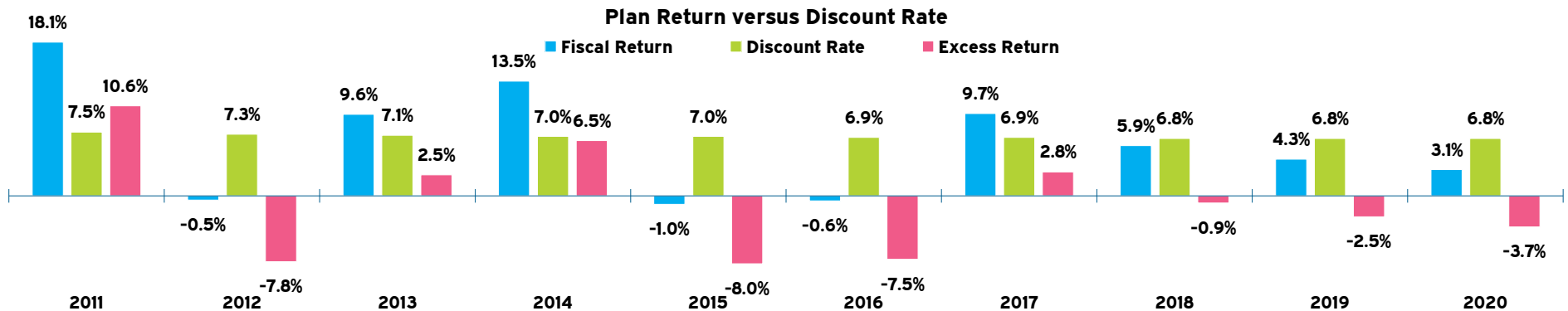
Source: ORS, Meketa.

- In 4 of the last 10 years, Federated System returns have been above the discount rate. Financial optimizers typically project a 50% probability of meeting the expected returns each year, so we would expect that approximately half of the time, investments will outperform the expected return, and approximately half of the time, investments will lag the projected return.

¹ Fiscal Year Ends 6/30. Returns are net of fund management fees.

Police & Fire Discount Rate History

Years	Fiscal Year	10 Year US Treasury Rate (%)	Discount Rate (%)	Fiscal Year Return ¹ (%)	Excess Performance to Discount Rate (%)
	1997	6.51	8.00		
1	2011	3.18	7.50	18.1	10.6
2	2012	1.67	7.25	-0.5	-7.8
3	2013	2.52	7.125	9.6	2.5
4	2014	2.53	7.00	13.5	6.5
5	2015	2.35	7.00	-1.0	-8.0
6	2016	1.49	6.875	-0.6	-7.5
7	2017	2.31	6.875	9.7	2.8
8	2018	2.85	6.75	6.9	0.2
9	2019	2.00	6.75	4.3	-2.5
10	2020	0.66	6.75	3.1	-3.7



Source: ORS, Meketa.

- In 5 of the last 10 years, Police & Fire Plan returns have been above the discount rate. Financial optimizers typically project a 50% probability of meeting the expected returns each year, so we would expect that half of the time, investments will outperform the expected return, and half the time, investments will lag the projected return.

¹ Fiscal Year Ends 6/30. Returns are net of fund management fees.