

JP Morgan Asset Management Core Bond Strategy Recommendation of Public Markets External Manager Group

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Today's Presentation

JP Morgan Asset Management (JPMAM) Core Bond Strategy

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1. Asset Class Considerations

Recommendation is consistent with PSERS Strategic Asset Allocation (SAA)

1. PSERS SAA has established a long-term target of 6% to Core Fixed Income
2. As of December 31, 2023, the actual allocation to Core Fixed Income was 2.45% (an underweight of 3.55% or \$2.6 billion)
3. Funding for the Core Fixed Income mandates will be coordinated with allocation changes within the asset class and between the other asset classes of the fund

2. Recommendation

PSERS IO and Verus recommend committing an initial amount of \$500 million, with an additional sum of up to \$1 billion, to JPMAM for a Core Fixed Income mandate.

Overview	
Firm Name	JP Morgan Asset Management (JPMAM)
Strategy Name	JP Morgan Asset Management Core Bond Strategy
Capacity / Current NAV	Capacity of \$140 billion in the strategy / Current NAV is \$72.5 billion
Recommended Commitment Amount	Initial commitment of \$500 million, total of up to \$1.5 billion
Existing Relationship	Yes. PSERS has an investment of \$196 million (as of January 31, 2024) with Security Capital, registered investment adviser and subsidiary of JPMAM, in a public real estate securities (REITs) strategy. PSERS also has a relationship with JP Morgan Securities LLC, a broker dealer affiliate of JP Morgan Chase & Co., via the internally managed SIP portfolio for which JPM acts as a counterparty to ~\$4.1 billion notional exposure of total return swaps (as of January 31, 2024). PSERS also has \$860 million of JPMorgan Chase counterparty exposure as of 1/31/24 through Insight in the PSERS currency hedging program.
Asset Class / Sub Asset Class	Fixed Income / Core Fixed income
Investment Office Professionals Due Diligence Team (“IOP”)	Carl Lantz, Senior Portfolio Manager Steven Heuer, Senior Manager Emily Detz, Intermediate Investment Professional
Investment Office Oversight	Carl Lantz, Senior Portfolio Manager
External Consultant Oversight	Verus

3. Strategy & Expertise

Firm & Expertise

- \$72.5 billion AUM in the strategy as of December 31, 2023
- JPMAM is well resourced with vast and extensive research capabilities
 - Approximately 300 fixed income professionals across 5 countries
 - Access to 70 quantitative and fundamental research analysts
 - 14 investment professionals dedicated to Core Fixed Income located in the Columbus, Ohio office
- Firm-wide culture of risk management, embedded on multiple levels

Strategy

- Focused on the selection of high-quality issues with an emphasis on identifying undervalued securities through a consistent and repeatable globally integrated investment process
- Security selection is generally guided by the benchmark
- Inefficiencies are identified through active investment management while adhering to disciplined risk controls

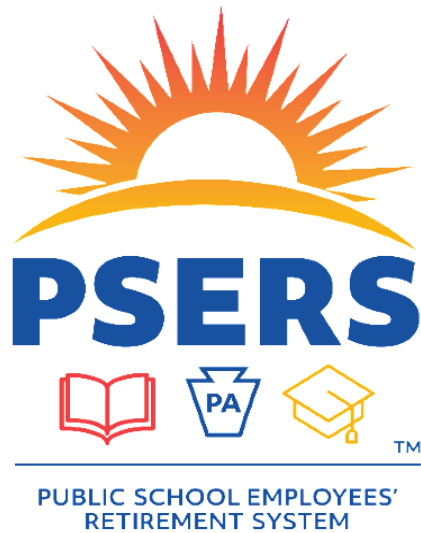
4. Investment Considerations

Investment expected to face risks consistent with core fixed income mandates

Risk	Detail	Mitigating Factors
Market Risk	Market risk is the risk of experiencing adverse price movements due to factors that impact the overall performance of financial markets.	<i>The portfolio holdings are diversified across maturity, sector, and issuer, and remains liquid in case of market shocks.</i>
Interest Rate Risk	Bonds can be bought and sold prior to maturity on the secondary market. Bonds can trade at prices higher or lower than the face value of the bond depending on the economic environment and market conditions—both of which can be affected significantly by a change in interest rates.	<i>To mitigate interest rate risk, duration is used as a risk control tool within the portfolio, and the Strategy doesn't take outsized positions in duration or yield curve.</i>
Credit Risk	Credit risk is the risk of loss if an issuer doesn't pay required interest or principal payments. Most individual bonds are rated by a credit agency such as Moody's or S&P to help describe the creditworthiness of the issuer or issue. Bonds also carry the risk of being downgraded, which can impact price.	<i>The portfolio primarily invests in Investment Grade securities to help mitigate credit risk.</i>
Liquidity Risk	Liquidity risk is the risk that an entity is unable to execute transactions at prevailing market prices due to lack of market depth or other market disruptions.	<i>While the Strategy may have an allocation to some less liquid securitized assets, the vast majority of the portfolio is in highly liquid securities. It also invests in amortizing assets that provide monthly recurring incoming cash flows.</i>

5. Investment Highlights

- Stable investment team with average of over 20 years of industry experience
- Collaborative focus towards portfolio management and idea generation
- PMs are generalists rather than specialists, allowing for relative value comparisons across sectors
- Bottom-up, value driven portfolio construction
- Focus on long-term relative value with downside protection
- Three levels of integrated risk management
 - Portfolio management level (day-to-day)
 - Investment director oversight (management oversight and monitoring, adherence to objectives and process)
 - Independent risk function (Chief Risk Officer and their team)
- Top quartile performance over multiple time periods
- Success rate of producing positive excess returns in 26 out of the last 28 calendar years
- Low long-term excess return correlation to PSERS internal core bond strategy



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