PAPERS

Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543
Website: ***www.pa-pers.org***

Summer 2024

In This Issue

Corporate Sponsorship Opportunities

Current Associate and Affiliate Member firms may become a corporate sponsor for the PAPERS Fall Workshop.

Choose from one of three levels of sponsorship:

- ***Platinum - $6,000***
- ***Gold - $4,000***
- ***Silver - $3,000***

Details about sponsorships are available at: **Membership and Sponsor Fees 2024.pdf (pa-pers.org)**

- OR -

call PAPERS: **717-921-1957**
or **dougas.b@verizon.net**

From the PAPERS Executive Director

PAPERS Undergoing Transformation.

We're creating a new website that will have a membership and conference registration sections and will include copies of our presentations. All these things will be available on our NEW website to our members beginning in September.

Plans are to kick off our new association management software for our Fall Workshop and have all members' registrations completed on-line. The new software will not give you an opportunity to register if your firm or pension plan dues are not up-to-date.

We are very excited about the new website and the association software management system and thank all the members who are helping, specifically our committee members and our board for their input – that is the key to helping make this a success. Stay tuned for official kick off news.

Karen Deklinski

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- **Participating** ($125/year early bird rate; $150/year after 3/31/2024) - *Public employee retirement systems (pension funds)*
- **Associate** ($1,500/year) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** ($750/year) - *Corporate providers of other services, exclusive of legal and investment services, to pension funds.*
- **Sustaining** ($75/year) - *Individual membership open only to those persons with an interest in public pensions but not affiliated with an organization which qualifies for group membership pin any other category above*

Check the "Join Now" section of the PAPERS website **www.pa-pers.org** for details about PAPERS four membership categories and the process to apply for membership. OR contact:

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Certified PA Public Retirement Plan Professional

Course Design

The certification program provides participants with exposure to a diverse and comprehensive curriculum of pension topics in a two-part process:

- **On-line introductory education modules developed by Penn State Behrend.**
- **Attendance at PAPERS conferences**

Program Enrollment

Please use the *Certification Program Enrollment* form below or access a fillable version of the form on the "Certification Program" page of the PAPERS website www.pa-pers.org.

Submit the completed form to PAPERS by mail to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or by e-mail to: **douglas.b@verizon.net.** Call PAPERS @ 717-921-1957 with questions about enrolling.

Program Cost

The one-time enrollment fee is $499, payable to Penn State Behrend. Payment details provided after enrollment.

Process

After receiving your completed *Certification Program Enrollment*, PAPERS will provide notice to Penn State Behrend of your enrollment. Penn State will contact you with more details, including the requirement to pay the one-time enrollment fee. Upon payment of the enrollment fee, enrollees will receive a link giving access to the three on-line modules. Modules may be taken at one's leisure to be completed within six months of enrollment.

At the conclusion of each module, participants will take an on-line test to check their understanding of the material. The test may be re-taken any number of times until a passing grade is received. Participants will receive notification upon successful completion of the on-line modules.

The next step in the certification process is attendance at three of the next four PAPERS conferences (held each spring and fall). After attending the required number of conferences, participants will be awarded the *Certified PA Public Retirement Plan Professional* designation. Public recognition of this achievement will be provided at PAPERS conferences.

Certification Program Enrollment

Name: ____ Date: _____________

(Please **print** your name the way you would like it on your final certification)

Pension plan or firm: ____

Address: ____

City: _______________________________________ State: _________ Zip: ____________

Telephone: _______________________ E-Mail: ___________________________________

Please submit this completed application to PAPERS by one of following methods:

- by mail to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** OR
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How Trade Finance Plays a Key Role in Multi-Asset Portfolios

By: Dan Berry, Federated Hermes

***Dan Berry**, Senior Vice President, Institutional Business Development, is responsible for marketing of separate account and mutual fund products to public and private pension plans, foundations and endowments, Taft-Hartley plans, hospitals, and other institutional investors. He joined Federated Hermes in 2000 and has 24 years of investment experience.*

Trade Finance — short-term loans to facilitate physical cross-border transactions — provides investors with the opportunity to access uncorrelated alpha with less reliance on traditional return drivers.

These short-term transactions are generally self-liquidating, with a strategy weighted average life of less than 24 months, exhibiting low interest rate risk and credit duration risk. Transactions are secured by specific assets and make use of risk mitigants to reduce risks to an acceptable level. The arranger of a trade finance transaction holds a significant part of the deal on its own books to maturity (originate to hold).

Some key benefits of these transactions include:

- **Alpha potential** – inefficiencies exist for non-bank investors which can be consistently exploited
- **Diversifier –** reduces reliance on traditional return drivers by providing a portfolio of unique risks, diversification and potential alpha generation.
- **Floating rate returns –** coupons fixed over BofA Dollar 1-Month Deposit Offered Rate Constant Maturity Index resulting in low interest rate risk
- **High income potential –** coupons are higher than those of many other short-term debt securities
- **Low volatility** – historical annualized volatility has been low
- **Short duration** - self-liquidating transactions with a strategy weighted average life of less than 24 months[1]
- **Uncorrelated returns** - low to negative correlations with most major market indices and other short duration indices

The loan structure of trade finance can make investing in international trade more accessible while helping to mitigate risk for all parties involved. A Trade Finance strategy can be seamlessly incorporated within a larger fixed income portfolio or a standard diversifier due to its idiosyncratic nature.

[1] Average life refers to the underlying securities held by Federated Hermes portfolios which are not available to the public and are used by the multi-sector portfolios to provide more effective diversification than is available through the purchase of individual securities.

Alpha measures the excess returns of a fund relative to the return of a benchmark index.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

BofA Dollar 1-Month Deposit Offered Rate Constant Maturity Index is an independent calculation of the 1-month Secured Overnight Financing Rate (SOFR).

Diversification does not assure a profit nor protect against loss.

Trade finance related securities will be located primarily in, or have exposure to, global emerging markets. International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

Investments in trade finance-related instruments may entail credit, liquidity, currency, and market risks in addition to other risks, such as the risk of investing in foreign securities and emerging market securities.

Separately managed accounts are available through Federated Investment Counseling and Federated Securities Corp. is Distributor of the Federated Hermes Funds.

Federated Securities Corp. Past performance is no guarantee of future results. 24-40263 (6/24)

De-Siloing Your Fixed Income Portfolio

BY: Ashok Bhatia & David Brown, Neuberger Berman

Ashok Bhatia, CFA, Managing Director, joined the firm in 2017. Ashok is Co-Chief Investment Officer for Fixed Income, co-Head of Multi-Sector Fixed Income, and a member of Neuberger Berman's Partnership and Asset Allocation Committees and Fixed Income's Investment Strategy Committee. Previously, Ashok has held senior investment and leadership positions in several asset management firms and hedge funds, including Wells Fargo Asset Management, Balyasny Asset Management and Stark Investments. Ashok has had investment responsibilities across global fixed income and currency markets. Ashok began his career in 1993 as an investment analyst at Morgan Stanley. Ashok received a BA with high honors in Economics from the University of Michigan, Ann Arbor, and an MBA with high honors from the University of Chicago. He has been awarded the Chartered Financial Analyst designation.

David Brown, CFA, Managing Director, rejoined the firm in 2003. Dave is Global Co-Head of Investment Grade, Co-Head of Multi-Sector Fixed Income, a member of the Fixed Income Investment Strategy Committee, and acts as Senior Portfolio Manager on both Global Investment Grade and Multi-Sector Fixed Income strategies. Dave also leads the Investment Grade Credit team in determining credit exposures across both Global Investment Grade and Multi-Sector Fixed Income strategies. He initially joined the firm in 1991 after graduating from the University of Notre Dame with a BA in Government and subsequently received his MBA in Finance from Northwestern University. Prior to his return, he was a senior credit analyst at Zurich Scudder Investments and later a credit analyst and portfolio manager at Deerfield Capital. Dave has been awarded the Chartered Financial Analyst designation.

The fixed income universe is remarkably diverse and complex. In our view, the standard practice of separating fixed income allocations into several asset-class silos not only prevents investors from investing in the relative value opportunities that result from this complexity, but actively contributes to them. We believe managing fixed income under one umbrella, with high flexibility over asset allocation, can enable investors to take advantage of the market's diversity and inefficiency.

In this paper, we present the case for a multi-asset approach to fixed income and credit, and argue in favor of allowing asset allocation to evolve primarily as a result of bottom-up credit analysis and security selection, rather than being determined solely from the top down.

- Different fixed income asset classes have exhibited wide dispersion in their periodic returns, and frequently change position in the "league table" of returns.
- Similar dispersion can be seen even within asset classes: six-month relative returns frequently diverge by 10 percentage points or more for different credit quality (e.g., CCC versus BB high yield) and for different regions (e.g., U.S. versus European high yield or U.S. high yield versus emerging markets debt).
- Further asset allocation opportunities are available via yield-curve positioning and capital-structure positioning (via hybrid securities).
- We believe this complexity results in mispricing and alpha opportunity, and that the practice of separating fixed income allocations into several silos and requiring often lengthy decision-making processes to make asset allocation adjustments to those silos not only prevents investors from taking advantage of mispricing, but actively contributes to it.

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De-Siloing Your Fixed Income Portfolio

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- We believe asset allocation should evolve primarily as a result of bottom-up credit analysis and security selection, rather than being solely determined from the top down: a predominantly top-down approach raises the likelihood that securities are selected only for the sake of filling the asset allocation buckets, creating unwanted idiosyncratic credit risk that needs to be diversified away and diluting exposure to the market's best opportunities.

Link to entire article: Neuberger Berman - De-Siloing Your Fixed Income Portfolio

Beyond Bricks:

Innovation is Driving the Future of Real Estate

BY: Harry Tan & Daniel Manware, Nuveen

Harry Tan is Managing Director and Head of APAC Research, Strategic Insights at Nuveen Real Estate, based in Singapore. He is responsible for providing strategic advice to the corporate business and clients, with respect to the Asia Pacific market. He delivers national sector and local market forecasts in line with the business' two-pronged approach, allowing structural megatrends to be considered alongside real estate fundamentals. He is also involved in the development of portfolio strategy for existing and new funds, using both historic and forward-looking analysis. Harry is a member of the Nuveen Real Estate Asia Pacific Investment Committee. Prior to joining the business in 2015, Harry was head of research at Grosvenor Limited. Before this, he was vice president of Research & Strategic Planning at MEAG Pacific Star, and economist at JP Morgan Chase & Co. Harry graduated with a Bachelor of Business Administration in Economics and Finance from the National University of Singapore.

Daniel Manware is a Director of Research for Nuveen Real Estate, Americas. He is responsible for evaluating market dynamics and trends across all property types in order to create strategic investment recommendations for portfolio management teams. Daniel develops investment frameworks and innovative research tools for investment teams and provides data and analytics for the construction of new fund products seeking to achieve out-performance. Daniel graduated with a B.S. in Finance and Certificate in Real Estate from The University of Connecticut School of Business. He is a member of the Urban Land Institute and New York Private Equity Network.

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Beyond Bricks: Innovation is Driving the Future of Real Estate

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While market turbulence will proceed into 2024, we believe select real estate opportunities will continue to present compelling investment opportunities. Real estate portfolios that allocate to alternative property types and are focused on large-scale trends could benefit from enhanced diversification and superior resiliency.

Generative artificial intelligence (AI). Innovations have the potential to revolutionize underwriting, valuation, development, leasing, building operations and risk. AI intersects with real estate in multiple ways, from changing the number of employees in an office to enhancing operations systems like building heating and cooling systems. New buildings with state-of-the-art specifications will be an important part of the AI trend.

Battery/chip manufacturing. Demand for batteries and chips will create opportunities, particularly in former industrial cities. For example, Intel is investing in facilities in Columbus, Ohio, and Magdeburg and Dresden, Germany. Meanwhile, manufactures of electric vehicles (EVs) and EV batteries are investing billions in cities like Spartanburg and Savannah in the Southeast U.S. and Billy-Berclau in the North of France.

Alternative property types. These market segments – such as health care and self-storage – typically rely less on economic growth and more on demographics, structural changes and technology. One of the biggest drags on real estate returns is the cost of maintaining a real estate asset. On average, these costs are lower for alternative sectors (13%) than traditional real estate sectors (20%).

Transition to the low carbon economy. The structural factors toward the decarbonization of real estate continue to increase, with market bifurcation between brown and green buildings already observed in some European office markets. Net zero carbon market drivers are increasing demand for low carbon buildings and creating opportunity for new development and upgrading existing structures, which may lead to higher rents/income.

Aging populations. 10% of the world population is more than 65 years old, with the expectation to add 800 million more seniors by 2050. Across the developed world, more than one-third of the population may require senior living solutions. Ample opportunities exist to build up an attractive portfolio of senior housing assets across global cities that may deliver strong risk-adjusted returns backed by structural tailwinds.