

Summer 2025

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From the PAPERS Board President

Happy Summer! I hope everyone is enjoying their summer thus far.



First off, let me say I think the May Forum may have been the best yet!! The topics and presentations were spot on in today's everchanging Pension climate. I want to thank Karen, Doug, and Lori for the great job they did on the May Forum. It takes a lot of behind the scenes work to organize these events and I truly thank them for their efforts.

I also want to take the time to thank the Education Committee Chaired by Jennifer Mills for setting up a fantastic lineup of informative topics, the presenters for sharing their insights and talents, and a big thank you to our Sponsors, without whose support we could not conduct the forums.

Our Education Committee is already hard at work planning session presentations for the Fall Forum which will be upon us before we know it.

With the ever-changing landscape in Washington and potential Pension Education Legislation in Pennsylvania, it is more important than ever for Pension Plan Trustees to keep educated on changes affecting Pension Plans.

The primary mission of PAPERS is Trustee Education, something I feel we do very well. If you know of any plans that would benefit from our Trustee Education, please feel free to send their names to either Karen, myself or Marketing Committee Chair Pat Wing to follow up. In that way we can grow the organization and spread training to more Trustees to help them function in their capacity better.

In closing, have a great rest of your summer and fall; see you in Harrisburg in November.

Bob Mettley
 PAPERS Board President

Upcoming Conferences
 @ Harrisburg Hilton Hotel

Fall Workshop
Nov. 18-19, 2025
 (Tuesday-Wednesday)

Spring Forum
May 27-28, 2026
 (Wednesday-Thursday)

Fall Workshop
Nov. 18-19, 2026
 (Wednesday-Thursday)

PAPERS Membership Categories

(calendar year basis)

- **Participating** (\$125/year early bird rate; \$150/year after 3/31) - *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 in any other category above*

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Current PAPERS Associate and Affiliate Member firms may become a corporate sponsor for PAPERS' conferences.

Choose from one of three levels of sponsorship:

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

For details about sponsorships and conference speaking opportunities, contact Executive Director Karen Deklinski at: (717) 979-5788 or kkellyd2010@gmail.com.

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Federally Insured Brokered CDs:

A Unique Opportunity for Public Fixed Income Portfolios

By: Jack White, C.S. McKee Director of Fixed Income

Mr. White oversees the firm's investment strategy for all fixed income portfolios. Jack has spent his entire career managing and trading fixed income assets. He directs the firm's unique strategy in US Government Backed securities as well as being co-lead manager of both the North Square McKee Core Bond Fund and North Square Core-Plus Bond Fund. Jack began his career at C.S. McKee in 1997, which later led to a portfolio management position, and eventually Director of Fixed Income in 2023. Mr. White holds an MBA from Youngstown State University's Williamson College of Business.

In today's uncertain market, opportunities to enhance returns while keeping risk low are increasingly rare. One often-overlooked option is FDIC Brokered Certificates of Deposit (CDs) — federally insured investments that can offer a compelling alternative to traditional government or corporate bonds. For public employee investment managers balancing performance, safety, and fiduciary duty, these CDs may represent a practical and prudent solution.

Value Proposition: Insurance and Yield

FDIC Brokered CDs are simple instruments. Issued by banks, they carry federal insurance through the Federal Deposit Insurance Corporation (FDIC) — the same protection as traditional bank CDs. However, unlike standard CDs, they trade in secondary markets, behave like bonds, and offer flexible structures across maturities.

What makes them appealing is their strong risk-return profile. When insured CDs yield close to — or more than — unsecured corporate debt, the opportunity becomes significant. Investors can access competitive returns while reducing issuer default risk, due to FDIC protection.

Historical Opportunities to Add Value

Brokered CDs value is not just theoretical. Over the past 15 years, market dislocations have repeatedly created opportunities. In 2011, they yielded more than a full percentage point over equivalent Treasuries and often outperformed similarly rated corporate bonds. Similar conditions reappeared in December 2018, June 2020, and March 2023 — generally during periods of heightened volatility.

The takeaway: Brokered CDs tend to offer their best value in turbulent markets, when traditional instruments may be mispriced or offer less yield for greater risk.

Insurance Advantage for Public Pension Plans

For public retirement systems, Brokered CDs offer another important benefit: expanded FDIC coverage through “pass-through” insurance.

Standard FDIC insurance is capped at \$250,000 per depositor, per bank. But qualified pension plans can receive far more coverage due to their structure. The FDIC uses a “look-through” formula based on the largest beneficiary's net present value. This often results in multi-million-dollar protection per issuer — a major safety benefit for large plans.

Pass-Through Insurance Calculation:

The formula to determine the insurance level is:
$$\frac{\$250,000}{\text{Largest beneficiary's (\%) share of plan asset}}$$

For example, if the largest beneficiary of a fund's stake is 1% of the plan's total assets, then the FDIC insurance coverage for bank X would be calculated as follows:

$$\frac{\$250,000}{1\%} = \$25,000,000$$

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Federally Insured Brokered CDs...

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A Strategic Fit for Conservative Investors

With Treasuries and Agencies comprising nearly 45% of the Bloomberg U.S. Aggregate Bond Index, many public portfolios lean heavily toward government debt. Yet these instruments can lag during low-rate or volatile environments.

Brokered CDs provide similar, or even better, credit quality with potentially higher yields, especially on maturities of one to five years. In recent markets, CD yields have matched or exceeded corporate bonds — with the added benefit of federal insurance.

Final Thoughts

Public fiduciaries may benefit from considering this underutilized option. In a market where higher yields often come with higher risks, FDIC Brokered CDs may represent a rare exception.

As of May, CS McKee has mildly added to this strategy, focusing on high-quality industrial banks that issue frequently, at attractive yields.

To learn more, contact Shane Nickolich at snickolich@csmckee.com or 412-880-6082, or visit csmckee.com.

Disclaimer: Nothing in this article represents a recommendation to buy or sell any particular security. Investors should consult their own investment adviser to determine whether a particular investment or strategy is appropriate for their specific situation.

To Ubiquity and Beyond: Developments in AI



**By: Damien Zhang, CFA – Senior Vice President
Head of MDT Research, Federated Hermes**

Damien Zhang is responsible for the day-to-day leadership of MDT's research team. He joined Federated Hermes in 2009 and has 15 years of investment experience.

It's hard not to notice how artificial intelligence (AI) has permeated our daily lives, as more and more machines try to anticipate our next move. AI technologies continue to evolve rapidly, with several ground-breaking m, the notion that human ingenuity is no longer necessary. Training-time scaling of AI foundation models has appeared to hit a wall due to increased demand for, and scarcity of, new chips, energy and data. Researchers have refocused their efforts toward cleverly applying and refining the model they already have.

In 2024, OpenAI released Chat-GPT 'o1', a reasoning model that thinks before responding. Its inner workings involve refining its existing language model to have a conversation with itself. This 'chain of thought' mechanism gives o1 the ability to think before answering, as opposed to the prior design of blurting out the first response that came to mind. This innovation produced more accurate results to some challenging math and reasoning problems and opened a pathway to a new way for scaling to improve accuracy—'inference-time scaling.' A reasoning model tends to be more accurate if it spends more time thinking about its answer, so it is now possible to spend more time computing and producing a better answer after the model is already trained.

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To Ubiquity and Beyond...

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Another development along these lines was Chinese lab DeepSeek's release of its R1 reasoning model, a competitor to o1, early in 2025. The release challenged US firms' dominance in AI in what many commentators called a 'Sputnik' moment.

The R1 model learned to reason by training itself using reinforcement learning, which refines a pre-trained foundation model through simulated interactions that reward accurate answers. The success of this approach has created a third scaling pathway called 'post-training scaling,' where models are refined to become more capable but not retrained from scratch. DeepSeek also upped the high-stakes AI ante by releasing the model to the public under an open-source license.

These developments suggested that winners will not be determined solely by the size of capital expenditures but by fierce competition among incumbents and new entrants, where durable leads can be challenging to maintain. Even with significant infrastructure in place, companies will have to allocate resources correctly along three different dimensions of scaling. And even as capital floods into AI, sustainable business models remain an unsolved problem.

Some of AI's strongest proponents claim that this technology will radically reshape the economy and have a far-reaching impact on society. Although it is far from certain whether these promises can be fully realized, today, this technology is already being felt in industries as varied as search, hardware and education. Competition remains fierce, and even the most well-resourced firms are not guaranteed success.

Investing in AI

In our view, taking a directional view on any single company or industry presents risks. We have come to know that not every company will feel AI's impact in the same way. This is the basis of our approach to constructing risk-managed portfolios that have the potential to profit from AI.

We ensure that portfolios are diversified across these opportunities, limiting exposures to individual companies and industries, as well as groups of companies that face common risk exposures. This approach helps to mitigate direct exposure to any single winner or loser.

The current state of AI and its applications is constantly evolving, making today's truths potentially obsolete tomorrow. We constantly assess new advancements in machine learning in consideration of integrating effective concepts to apply to our investment process.

Diversification does not assure a profit nor protect against loss.

The quantitative models and analysis used by MDT may perform differently than expected and negatively affect performance.

Investing in equities is speculative and involves substantial risks. The value of equity securities will rise and fall. These fluctuations could be a sustained trend or a drastic movement.

Views are as of 6/20/2025 and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

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Balancing Retiree Needs and Fiscal Responsibility in Cost-of-Living Adjustments (COLA) Decisions

By: Michael Spadaro, FSA, EA, FCA, MAAA is a Consultant serving clients as part of Gabriel Roeder & Smith's Midwest Region. He has nearly 10 years of professional actuarial and benefits consulting experience working with state and local government public employee retirement systems and OPEB plans in Pennsylvania, Maryland, and West Virginia. He has also worked with multiemployer union plans.



Michael's pension expertise includes traditional DB and hybrid plans, covering single-employer and multiple-employer agent and cost-sharing plans. Michael's expertise includes §415 calculations, GASB 73, and Public Acts 205 and 96 of Pennsylvania. Michael has served as a speaker at the Pennsylvania Association of Public Employee Retirement Systems (PAPERS), the Pennsylvania State Association of County Controllers (PSACC) conferences, and the County Commissioners Association of Pennsylvania (CCAP).

As decision-makers, fiduciaries are often faced with a difficult, open-ended question: What decision is the "right" one? For example, a COLA is intended to offset or reduce the effects of inflation on retirement benefits, but it is also considered a benefit enhancement that requires additional contributions. Frequently, the balanced approach is the most appealing. But how can all these competing objectives be effectively managed? The following approaches may help begin the thought process related to COLAs.

Cost

In Pennsylvania, many plans do not grant automatic COLAs. Therefore, COLAs are granted based on an ad hoc basis. This approach provides additional protections to the plan by only granting COLAs when affordable, but greatly impacts retirees by reducing their purchasing power over time. Due to the current inflationary environment, many retirees have been affected by rising costs. However, when retirees need a COLA due to high inflation, the cost of providing that COLA skyrockets. Most plans with ad hoc COLAs fund the increased benefits when they are granted rather than over a longer smoothing period. In other words, granting a large ad hoc COLA causes a large temporary spike in contributions. When inflation is low, it is easier to provide a COLA, but it is not as impactful for retirees. For plan sponsors, there must be a balance to determine what can be done for retirees while still exercising fiscal discipline. In particular, at the county level, there is not much room for compromise due to current law. For any county plan, ad hoc COLAs must be given as all of the Consumer Price Index (CPI) or nothing leaving little room for flexibility and compromise.

Potential Solutions

COLAs that are legislatively determined face some unique challenges like mandated COLA amounts or percentages which can cause unmanageable cost. For example, if legislative changes were made at the county level, some solutions that may help grant COLAs more frequently include:

- Allowing COLAs as a partial percent of CPI; or
- Allowing COLAs up to CPI or a cap, whichever is lower.

Barring any legislative changes, there are other solutions to consider if granting routine COLAs are a priority. These solutions utilize advance funding of COLAs rather than absorbing a large increase in contributions when an ad hoc COLA is granted. Currently, most impacts are solely absorbed by plan sponsors. If other funding options are available, there may be a greater opportunity to provide COLAs more regularly. Some potential funding possibilities include:

- Increasing member contributions;
- Establishing a reserve account with advance funding; and
- Introducing a COLA assumption.

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Balancing Retiree Needs and Fiscal Responsibility ...

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Ongoing Considerations

There are many variables to consider when granting COLAs for retirees. The process is not as simple as a “yes” or “no” when deciding on an ad hoc COLA, but that is often the end result. There can be an approach that finds the middle ground with either flexibility in the amount of COLA provided, or how a plan sponsor funds these benefit increases. Approaching the COLA conundrum from a long term, balanced, and flexible perspective will create the best outcomes for all stakeholders.



Technological Advancements and the Role of AI in Actuarial Science



By: Jason Fine, FSA EA, MAAA, FCA a Principal/Consulting Actuary and key member of Gallagher Benefit Services, Public Sector Retirement Practice with 30 years of pension actuarial consulting experience; specializing in State, County, and Local level plans. Jason aims to be a trusted partner with clients and assist them with all their benefits related wants and needs, going beyond just actuarial valuations. Jason is a frequent presenter at various conferences regarding compliance, GASB compliance, fiduciary responsibility, reducing pension cost, monitoring assumptions, mitigating risks, and other pension topics. Jason is a graduate of Temple University and holds a BBA in Actuarial Science.

Email: jason_fine@ajg.com; Phone: 856.689.4092

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Technological Advancement and the Role of AI ...

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The integration of technology into actuarial practices is transforming how actuaries operate, particularly with public defined benefit plans. Advanced data analytics and machine learning are being utilized to enhance predictive modeling and improve decision-making processes. Actuaries are leveraging these tools to gain deeper insights into plan dynamics and optimize resource allocation. Embracing technological advancements can lead to more efficient and effective management of public pension plans.

Application to Public Sector Defined Benefit Plans

Defined benefit plans, which promise a specified monthly benefit upon retirement, are particularly complex due to their long-term obligations and reliance on accurate actuarial assumptions. Technology plays a crucial role in managing these plans by enabling actuaries to model various scenarios and assess the impact of different assumptions on plan liabilities. For instance, machine learning algorithms can analyze historical data to predict future trends in salary growth, employee turnover, and retirement rates, allowing for more precise forecasting and funding strategies. Additionally, technology aids in automating routine calculations and reporting, freeing up actuaries to focus on strategic planning and risk management.

Role of AI in Actuarial Science

Artificial Intelligence (AI) is increasingly becoming a cornerstone in actuarial science, offering powerful tools to enhance the management of public sector defined benefit plans. AI algorithms can process vast amounts of data to identify patterns and correlations that may not be immediately apparent through traditional methods. This capability is particularly valuable in stress testing and scenario analysis, where AI can simulate a wide range of economic conditions and their potential impact on plan solvency.

Moreover, AI-driven predictive analytics can improve the accuracy of actuarial assumptions by continuously learning from new data inputs. This dynamic approach allows for real-time adjustments to assumptions, ensuring that plans remain responsive to changing demographic and economic factors. AI also facilitates personalized communication with plan participants, providing tailored insights into their retirement benefits and helping them make informed decisions.

In summary, the application of technology and AI in actuarial science is revolutionizing the management of public sector defined benefit plans. By enhancing predictive modeling, optimizing resource allocation, and improving participant engagement, these advancements are helping ensure the sustainability and effectiveness of pension plans in meeting their long-term commitments. Actuaries having the needed experience, coupled with internal AI tools, are at the forefront of this transformation, harnessing the power of technology to drive innovation and achieve better outcomes for public pension plans.

The Role of Fixed Income in a Multi-Asset Portfolio



By: Samuel Kaplan, CFA, *Managing Director, Portfolio Manager*, a fixed income rates and securitized portfolio manager with Jennison Associates. He is responsible for overseeing the investment process, strategy implementation, and risk management for Jennison's yield curve decisions. He joined the firm in 2008 as a fixed income trader before assuming his current role as a portfolio manager in 2016.

BY: Jennifer Karpinski, CFA, *Managing Director*, a client portfolio manager. She joined Jennison in 2022.



Why have a fixed income allocation?

- **Diversification from equities:** Fixed income has earned its place in investor portfolios due to its long track record of providing ballast, due to its negative correlation to equities
- **Capital preservation:** In a period when the risk seeking allocation of a plan's portfolio has a drawdown, the plan needs the fixed income portion of their assets to both perform and be able to provide required liquidity, and the two do not always go hand in hand
- **Hedging strategy:** Bonds have proven to be an attractive hedge - whether you are hedging against volatility of risk assets, against deflation or against liabilities (like pension or other spending requirements), and the sector looks compelling right now
 - Looking back at bond and equity markets on average since 1973, during periods when US Core bonds are yielding around 5% or greater while US equities' earnings ratios are above 30 (as they are today), bonds have offered higher five year subsequent returns with lower volatility*
 - A combination of yields that are near multi-decade highs and interest rates that are expected to gradually fall is creating an attractive opportunity for bond investors
 - Additionally, high quality bonds tend to perform well during soft landings and even better in recessions

**Bonds are represented by the Bloomberg US Aggregate Bond Index and equities are represented by the S&P 500 Index*

How should a fixed income manager approach investing to achieve true diversification versus equity?

- Not all bonds are created equal and there are many different approaches to managing bond portfolios
- We believe that too often fixed income managers chase return with riskier bonds that are highly correlated to equities and overlook the liquidity component of risk - this approach seems to dominate the universe of Core managers
- We believe a fixed income allocation should consist of high quality, liquid bonds and be managed by a team that understands the true objective of the asset class and plan sponsors should seek managers with styles that lower correlation to equities

To access Jennison's full research paper on this topic:

<https://www.jennison.com/us/en/institutional/perspectives/the-role-of-fixed-income-in-a-multi-asset-portfolio>

Trustees' Fiduciary Duties Relating to Securities Class Action Litigation

By: Andrea Farah, Esq., is a Senior Associate at Lowey Dannenberg who focuses her practice on securities fraud, commodities manipulation, and antitrust litigation. Andrea is one of Lowey's attorneys who leads the securities monitoring team and identifies securities litigation opportunities for clients and is a frequent panel contributor at various Institutional Public Pension Plan events.



By: John Madden, Lowey's Managing Director of Institutional Client Services. With over 30 years of experience supporting public pension systems and their consultants, John offers deep expertise in fiduciary responsibilities and the distinct challenges faced by public institutions entrusted with safeguarding shareholder assets.

As fiduciaries, trustees are held to a stringent legal standard of care in administering their Pension Plan. Central to their responsibilities is the duty of prudent administration, which requires careful consideration of the Plan's purpose, terms, and relevant circumstances. Failure to exercise appropriate diligence, skill, and prudence may result in personal liability for the losses incurred by the Plan.

The law offers limited guidance on how trustees should fulfill their fiduciary duties in the context of securities class action litigation. In such cases, trustees or the Plan's governing body must evaluate several potential courses of action—ranging from serving as lead plaintiff, participating passively through the settlement process, to opting out entirely. While some experts contend that filing proofs of claim exceeds the typical scope of fiduciary responsibility, others assert that institutional investors have a legal duty to do so unless it would be imprudent or futile. To navigate this ambiguity, Plans are encouraged to adopt a Securities Litigation Policy that provides clear direction for trustee decision-making. Engaging legal counsel with expertise in securities litigation is a prudent first step in developing and implementing such a policy.

Portfolio Monitoring Is the Best Way for Plans to Discharge Their Fiduciary Duty

Portfolio monitoring is the process of tracking a Plan's securities investments against class action filings in U.S. and international courts. A robust monitoring program identifies shareholder lawsuits where the Plan may benefit by participating as a lead plaintiff or individual claimant, enhancing potential recoveries and protecting member interests. It also ensures timely identification of settlement opportunities for which the Plan is eligible.

Recognized as an industry best practice, portfolio monitoring is often provided at no cost to Pension Plans by law firms specializing in securities litigation. These firms assess each case based on its merits, likelihood of recovery, potential for corporate governance improvements, and alignment with the Plan's investment and litigation policies, including any loss thresholds.

To support informed decision-making, each Plan should adopt their own Securities Litigation Policy, which should articulate the appropriate course of action when relevant litigation arises and be reviewed periodically to ensure it reflects the Plan's evolving strategy and fiduciary approach to securities litigation.

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Trustees' Fiduciary Duties Relating to ...

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Conclusion

Implementing a portfolio monitoring program is a best practice for fulfilling fiduciary duties in the context of securities litigation. It enables trustees to protect the interests of the Pension Plan and its members by staying informed and exercising sound judgment in response to evolving legal standards. Regardless of a Plan's size, having structured processes to deliver timely, relevant information is essential for effective decision-making. At Lowey Dannenberg, we are committed to partnering with investment staff and trustees to uphold the high standards of care that Pension Plans demand.

Lowey Dannenberg P.C. is a leading litigation law firm headquartered in White Plains, New York. With a proven track record of securing multi-million-dollar settlements and recovering billions for investors and consumers, Lowey brings over five decades of experience advocating for public pension funds, institutional investors, and individuals in complex litigation across federal and state courts.

Navigating Secondary Growth: Opportunities Beyond the Horizon

By: Philipp Patschkowski, a Managing Director of Neuberger Berman and a member of the Secondary and Strategic Capital Investment Committees. He initially joined Neuberger Berman as a senior member of the Firm's Private Investment Portfolios group where he was responsible for leading primary and secondary fund investments and direct co-investments. Prior to joining the Firm, Mr. Patschkowski was at Collier Capital where he was responsible for originating and executing secondary and strategic primary fund investments and co-investments. Prior to that, Mr. Patschkowski worked in investment banking at UBS and at Sal. Oppenheim, covering the communications, media and technology sectors. Mr. Patschkowski received an MBA from INSEAD in France/Singapore, and a Diploma in Mathematics and Economics from the University of Ulm in Germany. Mr. Patschkowski is a member of the LP Council of Invest Europe, the European private equity association.



By: Peter Bock, a Managing Director at Neuberger Berman. Prior to joining Neuberger Berman in 2005, Peter was an associate at Lightyear Capital, a \$3 billion private equity fund. Prior to that, he worked at PaineWebber Inc., in both strategic investing and investment banking, advising on corporate transactions including M&A, restructurings and equity and debt financings. Peter holds an MBA from The Fuqua School of Business, Duke University and a BA from Amherst College.

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Navigating Secondary Growth ...

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While secondaries have been one of the fastest growing segments of the private equity market for more than a decade, we expect that further demand for liquidity, along with renewed macroeconomic uncertainty and recent market volatility, will continue to create attractive opportunities for seasoned secondaries investors in the current environment.

In this paper, we discuss why we believe current market conditions will continue to benefit secondary buyers. Given the size of the market, the increased portfolio management by limited partners (LPs), and the establishment of general-partner-led (GP-led) transactions, we expect the positive impact from current uncertainty and volatility to be much larger than in prior secondary cycles.

- Record secondary volume: New records were set in 2024, driven by both LP and GP-led transactions.
- Long-term and near-term growth support: Secular support remains in place, while secondaries are seen as the potential solution to the industry's prolonged lack of exit liquidity.
- Continuing growth in GP-led secondaries: We see further adoption as GPs realize they can hold onto star assets while making much needed distributions to investors, and LPs recognize the attractive return potential as supported by the latest data that appear to confirm that GP-led transactions can generate buyout returns with lower risk.
- Undercapitalization relative to demand: Secondary fundraising has been strong, but not strong enough to keep pace with the growth in transaction volumes, resulting in attractive supply-demand dynamics for secondary buyers.
- Attractive Pricing: The supply-demand balance keeps pricing attractive relative to long-term averages; we observe pockets of value in high quality LP and GP-led transactions.

Link to entire article here: [Neuberger Berman – Navigating Secondary Growth](#)

The New Architecture of Institutional Credit



By: Anders Persson, CFA, fixed income chief investment officer and a member of the Nuveen Senior Leadership Team. He oversees all public and private global fixed income activities, including portfolio management, research, trading and investment risk management activities. Anders is also member of the Global Investment Committee and chairs the Global Fixed Income Investment Council.

Anders graduated with a B.S. from Lander College and an M.B.A. from Winthrop University. He is a member of the CFA Institute and the North Carolina Society of Security Analysts. Anders serves on the Board of the North Carolina Chapter of the Juvenile Diabetes Research Foundation.

The new architecture of institutional credit: Why U.S. pensions are taking notice

As U.S. pensions increasingly look to diversify fixed income allocations, Nuveen's latest research paper *The new architecture of institutional credit* presents a timely analysis of the evolving credit landscape.

Focusing on four structural changes shaping credit's next era, it makes the case that investors must move beyond historical asset class silos and embrace the full opportunity set with an integrated, agile approach.

Re-establishing public credit's structural role in institutional portfolios

According to Nuveen's data, 45% of U.S. pensions plan to increase their private fixed income allocations over the next two years, and 59% aim to boost private market investments over the next five years. The research also showed that alongside this growing interest in private markets, investors are re-engaging with public fixed income. Rising rates have led many to reassess and increase public credit exposure.

Constructing credit portfolios with an open floorplan

Rather than viewing public and private credit as distinct alternatives, investors are embracing increasingly flexible approaches that consider opportunities across both spaces.

Commercial real estate exposure, for example, can be captured through publicly available CMBS – commercial mortgage-backed securities – or through private options such as direct real estate debt or specialist finance for clean energy upgrades.

This is just one example of the broader toolkit enabling investors to fine-tune their portfolios beyond conventional levers such as duration, rating or sector.

Reengineering how credit gets delivered

Innovation in financial product design is also changing how investments are delivered to investors. Asset managers are working with institutional investors to design capital-efficient vehicles – such as rated note feeders, credit-protected wrappers and semi-liquid funds – that facilitate exposure to attractive credit segments while navigating regulatory changes.

Public-to-private wrappers, meanwhile, allow capital to enter liquid assets on day one and migrate into higher-yielding illiquid assets over time. Open-ended evergreen funds, co-investment sleeves and hybrid structures investing in public and private assets exemplify how asset managers are delivering tailored solutions for their clients' specific requirements.

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The New Architecture of Institutional Credit

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Executing with agility in a unified framework

To capitalize on the opportunities in today's credit markets, credit market participants are rethinking team structures and emphasizing tactical responsiveness. For U.S. pensions, this paper offers valuable insights into portfolio construction, risk management and operational considerations.

Find out more in [*The new architecture of institutional credit.*](#)

Disclosures

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Financial professionals should independently evaluate the risks associated with products or services and exercise independent judgment with respect to their clients.

Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, and they may be subject to high fees and expenses, which will reduce profits. Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties.

Nuveen, LLC provides investment solutions through its investment specialists.

Optimizing Opportunities:

Public Pension Plans Reassess Allocations Amid Higher Fixed Income Yields



By: Som Priestley, head of Multi-Asset Solutions, North America and a portfolio manager in the Multi-Asset Division. He is a vice president of T. Rowe Price Group, Inc., and T. Rowe Price Associates, Inc. Som's investment experience began in 2006, and he has been with T. Rowe Price since 2012, beginning in the Americas Institutional division and most recently as a multi-asset solutions strategist and portfolio manager in the Multi-Asset Division. Prior to this, Som was employed by Cambridge Associates, LLC, as a senior consulting associate. Som earned a B.S. in economics from Pennsylvania State University and an M.B.A. from Georgetown University, McDonough School of Business. Som also has earned the Chartered Financial Analyst® designation.

By: Chris Tarui, head of U.S. Consultant Relations with the Americas division of T. Rowe Price, the organization responsible for the firm's institutional business in North America. In the Americas division, his responsibilities include OCIO and global alternatives distribution. He is a vice president of T. Rowe Price Group, Inc., and T. Rowe Price Associates, Inc. Chris's investment experience began in 2004, and he has been with T. Rowe Price since 2021, beginning in Global Distribution. Prior to this, Chris was an executive vice president at PIMCO with a focus on U.S. institutional investors. He also has held senior roles at KKR & Company as a director and at Bridgewater Associates within institutional client advisory. Chris earned a B.S. in business administration from Pepperdine University and an M.B.A. from the University of Southern California, Marshall School of Business. Chris is a Series 7, 66, and 3 registered representative.



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Optimizing Opportunities ...

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By: Ryan Wagner, institutional client service executive in the Americas division, the organization responsible for the firm's institutional business in North America. He is a vice president of T. Rowe Price Group, Inc., and T. Rowe Price Associates, Inc. Ryan has been with T. Rowe Price since 1997. Prior to his current position, he worked in Corporate Marketing as the head of the Global Investment Communications division. He also was a client service executive in Retirement Plan Services. Ryan earned a B.A. in economics and an M.B.A. in business and management from the University of Maryland. He also has earned the Chartered Financial Analyst® designation. Ryan is a Series 6, 63, and 26 registered representative.

Summary - After an extended period of near-zero interest rates, public defined benefit plans have become overweight risk assets in an effort to achieve their return targets. However, central bank rate hikes have led to higher-yielding fixed income assets, and capital market assumptions (CMAs) have risen in many asset classes, offering new pathways that could meet their return targets. In this piece, we discuss the opportunity that public pension plans have to reassess asset allocations amid higher CMAs. The Crisil Coalition Greenwich 2024 study, sponsored by T. Rowe Price, highlighted that many plans maintained significant exposures to risk assets despite improved fixed income yields. This environment presents a chance to reduce risk by reallocating assets, potentially lowering portfolio risk while still achieving expected returns. The analysis suggests that plans can maintain their expected return on assets (EROAs) with less reliance on equities, leveraging higher yields in fixed income sectors.

Link to Read More:

<https://www.troweprice.com/institutional/us/en/insights/articles/2025/q1/optimizing-opportunities-public-pension-plans-reassess-na.html>

Complexity vs. Simplicity

Affirming the Power of Diverse Portfolios



By: Joanna Bewick, CFA, Managing Director is instrumental in both investment and operational capacities for Wilshire’s discretionary clients. As a member of the Wilshire Investment Committee, Ms. Bewick plays a pivotal role in shaping the firm’s investment strategy. She also serves as a senior consultant to public, corporate, and non-profit institutions, while leading the Wilshire Diverse-Owned Managers.

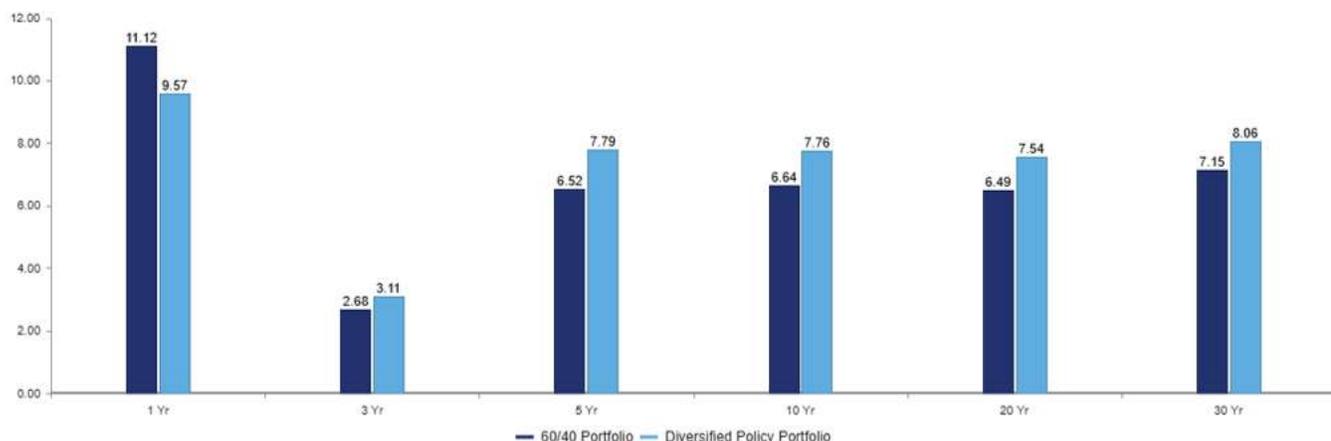


By: Christopher Tessman, a Senior Vice President at Wilshire, specializing in client service for public pension plans and overseeing Wilshire Compass. Since joining Wilshire in 2000, Mr. Tessman has played a key role in advising a diverse array of asset owners, including public and corporate pension plans, foundations, endowments, insurance companies, family offices, and other wealth managers.

While the 60/40 portfolio, a classic investment strategy comprising 60% equities and 40% bonds, showed strong performance in 2024 due to a booming equity market, it is important not to underestimate the potential benefits of diversification over the long term. By spreading risk and capturing returns across various asset classes, diversified portfolios may offer enhanced resilience and the potential for improved long-term outcomes, making them a compelling strategy.

The 60/40 portfolio’s notable 11.12% return in 2024 has led some to question the merit of more diversified portfolios, particularly given their greater complexity and often higher fees. However, placing too much emphasis on short-term results, especially those influenced by unique, non-recurring factors, may lead investors to overlook the potential benefits of diversification.

Exhibit I: Returns as of December 31, 2024



Source: Wilshire Compass. The 60/40 Portfolio is defined as 60% the MSCI All Country World Index (ACWI) Index and 40% the Bloomberg US Aggregate Bond Index. The Diversified Policy Portfolio progression is outlined in the following table. For illustrative and discussion purposes only.

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	Diversified Policy Portfolio	Interval 1 12/31/1991- 12/31/2000	Interval 2 12/31/2000- 9/30/2006	Interval 3 9/30/2006- Current
Equities	55%			
MSCI - AC World Index (\$Gross)		55%	40%	40%
Preqin - All Private Equity Index		0%	15%	15%
Fixed Income	25%			
Bloomberg - U.S. Universal Bond Index		20%	20%	20%
Credit Suisse - Leveraged Loan Index ¹		5%	5%	5%
Real Assets	20%			
NCREIF - ODCE Index (\$Net)		10%	10%	10%
Wilshire - REIT Index		5%	4%	3%
S&P - GSCI Total Index		5%	3%	3%
Bloomberg - U.S. TIPS Index		0%	3%	3%
S&P - Global Infrastructure Index		0%	0%	1%
Total		100.00%	100.00%	100.00%

For illustrative and discussion purposes only.

As shown, over extended periods, diversified portfolios have historically outperformed the 60/40 portfolio, despite the latter's stellar 2024 performance. Diversified portfolios can capture returns across a broader range of asset classes, including real assets and private markets investments that are less correlated with traditional equities and bonds. By spreading risk, diversified portfolios may be better positioned to weather economic shifts and market volatility.

We believe that high current valuations and market concentration will lead to lower capital market return expectations over the next 10 years versus the last 10 years. Importantly, Wilshire's capital market assumptions forecast a 10-year return expectation of 5.32% for the 60/40 portfolio as of December 31, 2024. For many investors, this level of return will be unsatisfactory. Fortunately, a broader opportunity set of asset classes — non-U.S. equities, non-core bonds, private assets, and a basket of real assets including real estate, infrastructure and commodities — are projected, based on these assumptions, to deliver return premiums to both U.S. equities and core fixed income. And a diversified portfolio with a similar risk level to the 60/40 portfolio increases expected returns by 74 basis points and improves portfolio efficiency by boosting return per unit of risk from 0.49 to 0.56.²

¹ Credit Suisse Leveraged Loan Index for period 12/31/1991 – 11/30/2024, S&P UBS Leveraged Loan Index for period 12/1/2024 – 12/31/2024.

² Projections are based on Wilshire's forward-looking assumptions and are not guarantees of future performance.

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At every risk level, a diversified portfolio is projected to offer higher returns than the two-asset reference portfolio with similar risk. Importantly, these return expectations are model-based hypothetical projections derived from Wilshire's capital market assumptions. They incorporate a range of assumptions about asset class behavior and correlations that may not materialize. Actual results may differ materially from these estimates. To the extent that active managers can add excess returns over their benchmarks, the total portfolio returns may be higher or lower than projected.

In conclusion, the 60/40 portfolio's impressive 2024 performance is a reminder of the strength of simplicity. However, investors must be cautious not to let recency bias cloud their judgment. As we look to the future, the power of diversification remains a cornerstone of sound investment strategy.

For a more in-depth analysis visit:

wilshire.com/product-literature/complexity-vs-simplicity-affirming-the-power-of-diverse-portfolios

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