



Manager Recommendation Memorandum

February 20, 2024

Board of Trustees
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")
5 North Fifth Street Harrisburg, PA 17101

Re: JP Morgan Asset Management Investment Management Services for Core Fixed Income Mandate

Dear Trustees:

Verus Advisory, Inc. ("Verus"), having been duly authorized by the Board of PSERS, has evaluated the JP Morgan Asset Management ("JPMAM") Core Bond strategy, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, and believes that this strategy is of institutional quality and appropriate for investors, including PSERS, that seek a broadly diversified, high-quality exposure to US core fixed income markets.

Verus recommends that the PSERS Board approve staff's recommendation to hire JPMAM as a core fixed income investment manager for an initial allocation of up to \$500 million plus reasonable normal investment expenses and authorize the Investment Office in its discretion to invest an additional sum up to \$1 billion unless this amount exceeds the single manager limits approved by the Board as found in the Investment Policy Statement.

JPMAM's Core Bond strategy is rated IQ2 by Verus, indicating a high degree of conviction in its ability to deliver strong risk-adjusted returns over a market cycle. JPMAM manages over \$2 trillion in assets across a global platform. The firm currently operates in over 100 countries and employs over 1,100 investment specialists. The Core Bond team is based in Columbus, OH, but utilizes the resources of JPMAM, which includes expertise across all major fixed income sectors, including niche markets. Every investment decision in the firm's fixed income solutions group is underpinned by the proprietary research of a globally integrated team of sector specialists.

The hallmark of the core bond investment process is bottom-up focused security selection. The team seeks to generate positive alpha through the selection of undervalued securities and spread sectors that offer incremental yield and total return in comparison to the index. The team also considers sector allocation to be a primary driver of returns. The strategy has a bias towards securitized sectors and tends to complement strategies that are more credit-focused; this differentiates this strategy from a large portion of peers. The consistency of application of the investment process is reflected in the strategy's performance.

Risk management is embedded throughout the Core Bond portfolio construction process. Within all JPMAM fixed income strategies, portfolio risk is controlled at three levels: with the portfolio manager,

with the separate Global Fixed Income Risk Management team (FIRM team), and with the firmwide risk management team. The three tiers of risk management present within JPMAM's structure are well beyond the level of monitoring seen at many peers.

Verus and staff evaluated a wide range of potential core fixed income strategies based on qualitative factors, quantitative measures, and onsite interviews. Verus believes that JPMAM represents a strong fit for PSERS' needs for the following primary reasons:

- Resources: JP Morgan is one of the world's largest assets managers. As a result, JP Morgan has vast resources at the fixed income team's disposal used to develop research views and portfolio analysis. Verus believes that JP Morgan has the relevant experience, sophisticated systems, and necessary depth to identify value in the core fixed income space.
- Risk management: JP Morgan has three tiers of risk management that includes a level of monitoring greater than most peers within core fixed income.
- Portfolio fit: The investment process utilizes a bottom-up approach that is complementary to Garcia Hamilton's top-down approach. The JPMAM Core Fixed Income strategy has also historically produced a low correlation of excess returns (relative to the benchmark) with the PSERS in-house Core Fixed Income strategy.

For these reasons, we recommend that PSERS Board approve the recommendation to hire JPMAM as a core fixed income investment manager for an initial allocation of up to \$500 million.

Please feel free to contact me should you have any questions about this recommendation.

Sincerely,



Mark E. Brubaker, CFA
Managing Director