



2022 ASSET ALLOCATION UPDATE

FIREFIGHTERS' RETIREMENT SYSTEM
OF LOUISIANA

SEPTEMBER 7-8, 2022

David Barnes, CFA, CAIA, Senior Consultant
Rhett Humphreys, CFA, Partner



PROPRIETARY & CONFIDENTIAL



INTRODUCTION



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ASSET CLASS ASSUMPTIONS

OVERVIEW

- NEPC's capital market assumptions are available each quarter and currently reflect June 30, 2022 market data
- Higher interest rates lifted fixed income return assumptions and temper the outlook for equities given the expected valuation headwinds
- We encourage investors to hold a dedicated safe-haven fixed income allocation to be a source of portfolio liquidity and downside protection
- NEPC's expectation for inflation is elevated over the near-term, but the long-term outlook reflects a more subdued inflation environment



ASSET CLASS ASSUMPTIONS

DEVELOPMENT

- **Assumptions are published for over 70 asset classes**
 - NEPC publishes return forecasts for 10-year and 30-year periods
- **Market data as of 06/30/2022**
 - Assumptions are developed with NEPC valuations models and rely on a building block approach
- **The 10-year return outlook is intended to support strategic asset allocation analysis**
- **30-year return assumptions are used for actuarial inputs and long-term planning**

Asset Allocation Process

1. Finalize list of new asset classes
2. Calculate asset class volatility and correlation assumptions
3. Set model terminal values, growth, and inflation inputs
4. Model data updated at quarter-end
5. Review model outputs and produce asset class return assumptions
6. Assumptions released on the 15th calendar day after quarter-end



ASSET CLASS BUILDING BLOCKS

METHODOLOGY

- **Asset models reflect current and forecasted market data to inform expected returns**
- **Systematic inputs are paired with a long-term trend to terminal values**
- **Model inputs are aggregated to capture key return drivers for each asset class**
- **Building block inputs will differ across asset class categories**



CORE ASSET CLASS RETURN ASSUMPTIONS

	Asset Class	06/30/22 10-Year Return	06/30/21 10-Year Return	Delta
	Cash	2.9%	1.2%	+1.7%
	U.S. Inflation	2.4%	2.3%	+0.1%
Equity	U.S. Large-Cap Equity	5.8%	4.9%	+0.9%
	Non-U.S. Developed Equity	6.4%	5.2%	+1.2%
	Emerging Market Equity	9.6%	7.4%	+2.2%
	Global Equity*	6.8%	5.6%	+1.2%
	Private Equity*	9.8%	8.9%	+0.9%
Fixed Income	U.S. Treasury Bond	3.2%	1.4%	+1.8%
	U.S. Aggregate Bond*	3.8%	1.9%	+1.9%
	U.S. TIPS	3.0%	1.5%	+1.5%
	U.S. High Yield Corporate Bond	6.9%	3.1%	+3.8%
	Private Debt*	8.0%	6.4%	+1.6%
Real Assets	Commodity Futures	3.4%	1.3%	+2.1%
	REIT	6.1%	4.7%	+1.4%
	Gold	4.4%	3.4%	+1.0%
	Real Estate - Core	4.4%	4.8%	-0.4%
	Private Real Assets - Infrastructure	6.1%	5.4%	+0.7%
Multi-Asset	60% S&P 500 & 40% U.S. Aggregate	5.3%	4.0%	+1.3%
	60% MSCI ACWI & 40% U.S. Agg.	6.0%	4.5%	+1.5%
	Hedge Fund*	6.0%	4.2%	+1.8%

*Calculated as a blend of other asset classes





EMERGING MARKETS OVERVIEW



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WHAT ARE EMERGING MARKETS?

OVERVIEW

- There is no official definition of an emerging market.
- The *IMF World Economic Outlook* classifies 39 economies as advanced based on factors such as high per capita income, exports of diversified goods and services, and greater integration into the global financial system. The remaining countries are classified as “emerging”.
- The MSCI Emerging Markets Index was introduced in 1988 and classifies emerging markets based on three dimensions
 - Economic development
 - Size and liquidity of equity markets
 - Market accessibility to foreign investors
 - Example: Korea
 - Well developed economy that includes several world-class companies and a liquid market
 - However, accessibility is limited: foreign investors can only trade the local currency during Korean business hours with Korean legal entities. Omnibus trading accounts and in-kind transfers are prohibited



MSCI CLASSIFIED EMERGING MARKETS COUNTRIES

Developed markets				Emerging markets				Frontier and standalone markets			
Country name	Grand total	MSCI constituents	Non-MSCI constituents	Country name	Grand total	MSCI constituents	Non-MSCI constituents	Country name	Grand total	MSCI constituents	Non-MSCI constituents
AUSTRALIA	1181	261	920	BRAZIL	475	150	325	ARGENTINA	130	15	115
AUSTRIA	54	26	28	CHILE	133	24	109	BAHRAIN	39	8	31
BELGIUM	124	46	78	CHINA	8927	995	7932	BANGLADESH	105	44	61
CANADA	992	304	688	COLOMBIA	60	8	52	BENIN	1	1	
DENMARK	143	49	94	CZECH REPUBLIC	9	4	5	BOSNIA AND HERZEGOVINA	10	2	8
FINLAND	176	47	129	EGYPT	112	13	99	BOTSWANA	10	1	9
FRANCE	534	150	384	GREECE	106	19	87	BULGARIA	20	2	18
GERMANY	486	183	303	HUNGARY	18	5	13	BURKINA FASO	3	1	2
HONG KONG	956	110	846	INDIA	1307	424	883	CROATIA	29	9	20
IRELAND	70	15	55	INDONESIA	409	71	338	ESTONIA	11	5	6
ISRAEL	489	108	381	KOREA	1467	433	1034	ICELAND	22	17	5
ITALY	312	102	210	KUWAIT	135	21	114	IVORY COAST	23	1	22
JAPAN	3477	1127	2350	MALAYSIA	366	98	268	JAMAICA	16	7	9
NETHERLANDS	179	58	121	MEXICO	172	46	126	JORDAN	47	9	38
NEW ZEALAND	152	23	129	PERU	122	4	118	KAZAKHSTAN	30	3	27
NORWAY	282	71	211	PHILIPPINES	165	41	124	KENYA	29	5	24
PORTUGAL	44	13	31	POLAND	148	38	110	LEBANON	12	2	10
SINGAPORE	538	77	461	QATAR	49	26	23	LITHUANIA	10	3	7
SPAIN	191	63	128	SAUDI ARABIA	198	87	111	MALI	1		1
SWEDEN	694	177	517	SOUTH AFRICA	212	80	132	MALTA	12	4	8
SWITZERLAND	267	127	140	TAIWAN	1038	384	654	MAURITIUS	26	3	23
UNITED KINGDOM	1124	360	764	THAILAND	455	124	331	MOROCCO	43	20	23
UNITED STATES	4918	2572	2346	TURKEY	221	48	173	NIGER	1		1
Totals	17383	6069	11314	UNITED ARAB EMIRATES	133	22	111	NIGERIA	77	18	59
				Totals	14622	2842	11780	OMAN	50	9	41
								PAKISTAN	201	17	184
								PALESTINE	6	3	3
								PANAMA	6	2	4
								ROMANIA	24	9	15
								RUSSIA	160	45	115
								SENEGAL	2	1	1
								SERBIA	8	1	7
								SLOVENIA	11	7	4
								SRI LANKA	60	8	52
								TOGO	1		1
								TRINIDAD AND TOBAGO	18	2	16
								TUNISIA	27	8	19
								UKRAINE	30	2	28
								VIETNAM	136	57	79
								ZIMBABWE	26	7	19
								Totals	1473	358	1115

Source: MSCI



MSCI EMERGING MARKETS INDEX

MSCI EMERGING MARKETS INDEX

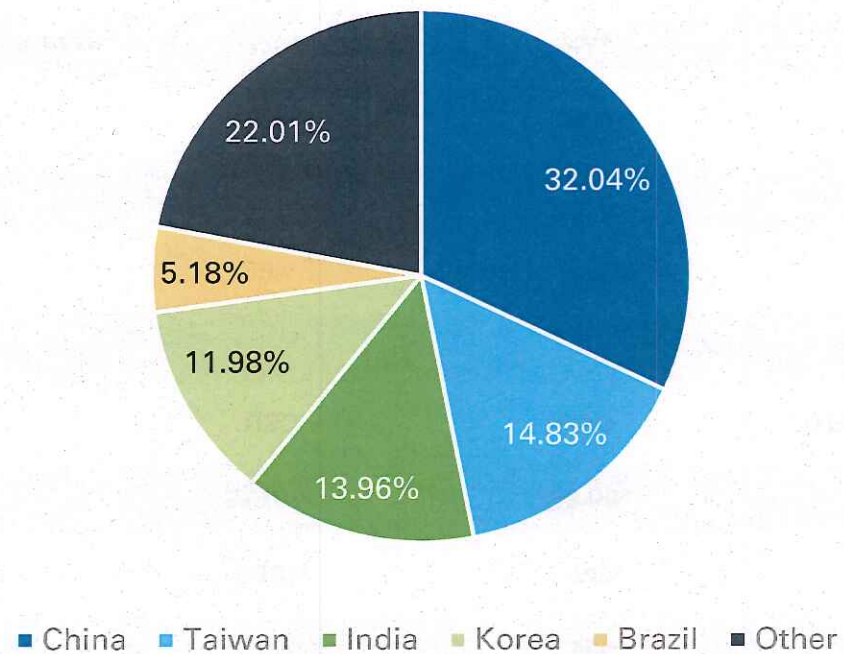
Top 10 Constituents	Country	Float Adj. Mkt Cap (USD Billions)	Index Wt. (%)	Sector
TAIWAN SEMICONDUCTOR MFG	TW	418.78	6.47	Info Tech
TENCENT HOLDINGS LI (CN)	CN	243.99	3.77	Comm Svcs
SAMSUNG ELECTRONICS CO	KR	225.72	3.49	Info Tech
ALIBABA GRP HLDG (HK)	CN	180.05	2.78	Cons Discr
RELIANCE INDUSTRIES	IN	96.38	1.49	Energy
MEITUAN B	CN	91.95	1.42	Cons Discr
INFOSYS	IN	65.79	1.02	Info Tech
CHINA CONSTRUCTION BK H	CN	61.38	0.95	Financials
JD.COM (HK)	CN	59.73	0.92	Cons Discr
VALE ON	BR	53.66	0.83	Materials



As of July 31, 2022. Source: MSCI

MSCI EMERGING MARKETS INDEX

Country Weights



MSCI EMERGING MARKETS BOND INDEXES

	Hard Currency Sovereign EMD	Hard Currency Corporate EMD	Local Currency Sovereign EMD
Index	JP Morgan EMBI Global Diversified	JP Morgan CEMBI Broad Diversified	JP Morgan GBI-EM Global Diversified
Investment Universe	72 Countries	60 Countries	20 Countries
Coupon*	5.05%	4.58%	5.26%
Yield to Worst*	8.19%	6.74%	6.84%
Spread*	533 bps	393 bps	--
Currency	USD	USD	20 EM Currencies
Regional Split			
Asia	18%	41%	38%
Europe	18%	10%	27%
Latin America	32%	24%	26%
Middle East & Africa	32%	25%	9%
IG/Sub-IG Split (%)	51%/49%	56%/44%	77%/23%

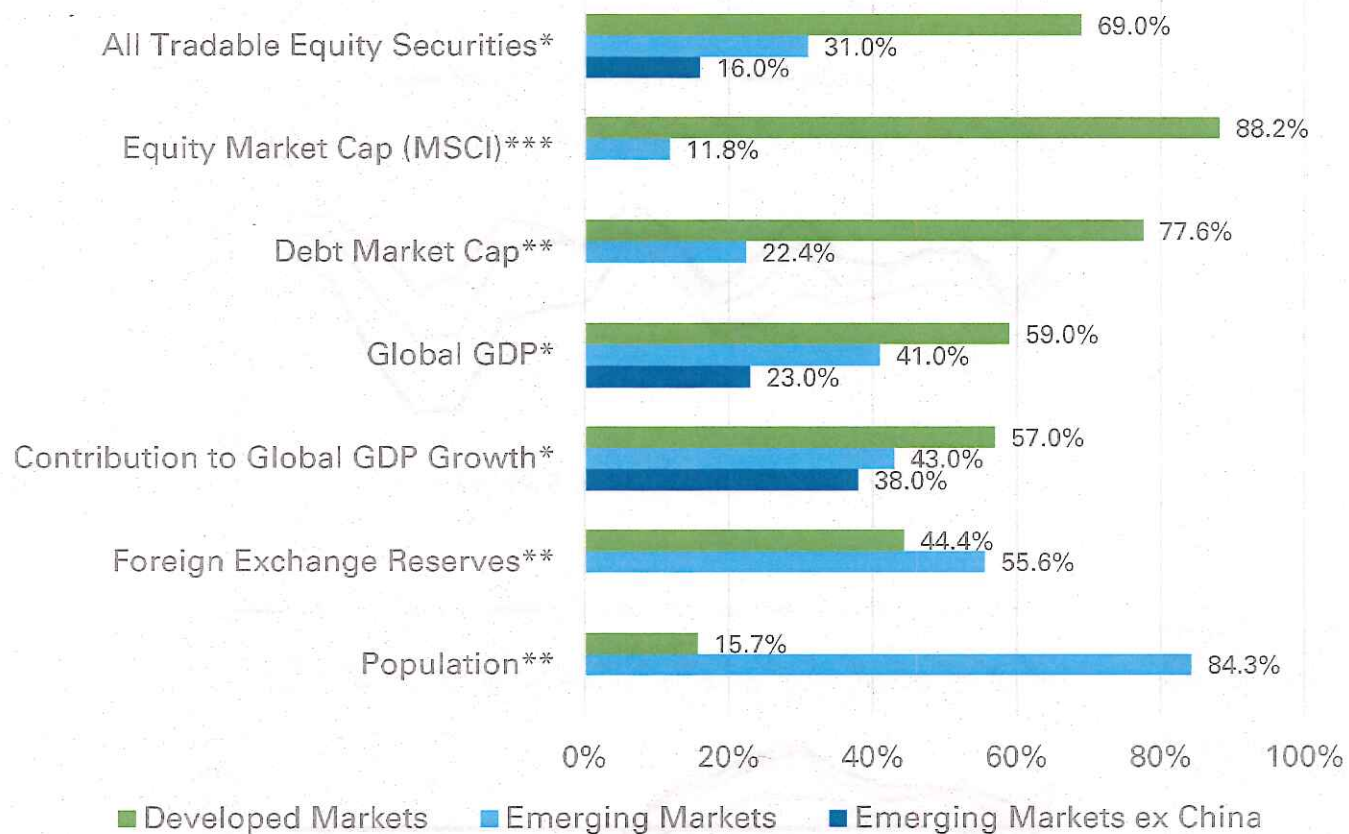
As of December 31, 2021. Source: State Street Global Advisors, JP Morgan

* As of July 31, 2022. Source MSIM Monthly Market Monitor, JP Morgan



EMERGING MARKETS

Emerging Economies: Share of the World



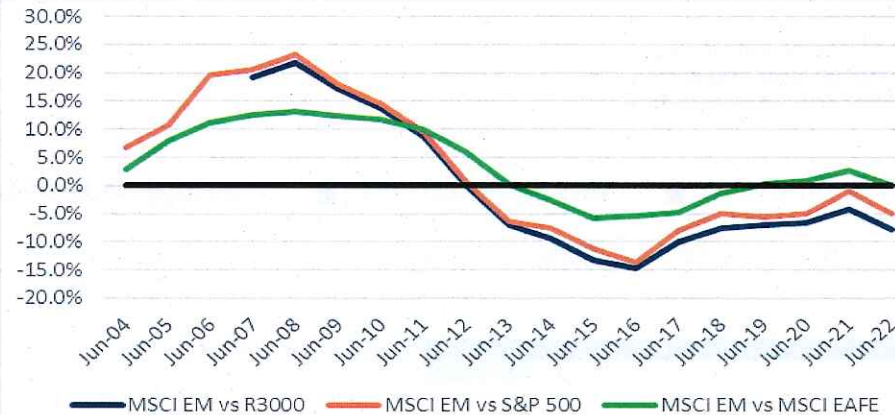
* As of April 30, 2022. Source Blackrock, Bloomberg, MSCI, JPMorgan
 **As of Dec. 2020. Source: Neuberger Berman, World Bank, IMF, BAML
 *** As of June 30, 2022. Source: NEPC, MSCI



EMERGING MARKETS RELATIVE PERFORMANCE

EMERGING MARKETS RELATIVE PERFORMANCE

Rolling 5-Year Relative Performance



Index Performance

(1/1990 – 6/2022) –
annualized

S&P 500: +7.22%
MSCI EAFE: +4.06%
MSCI EM: +7.54%

(1/2000 – 6/2022) –
annualized

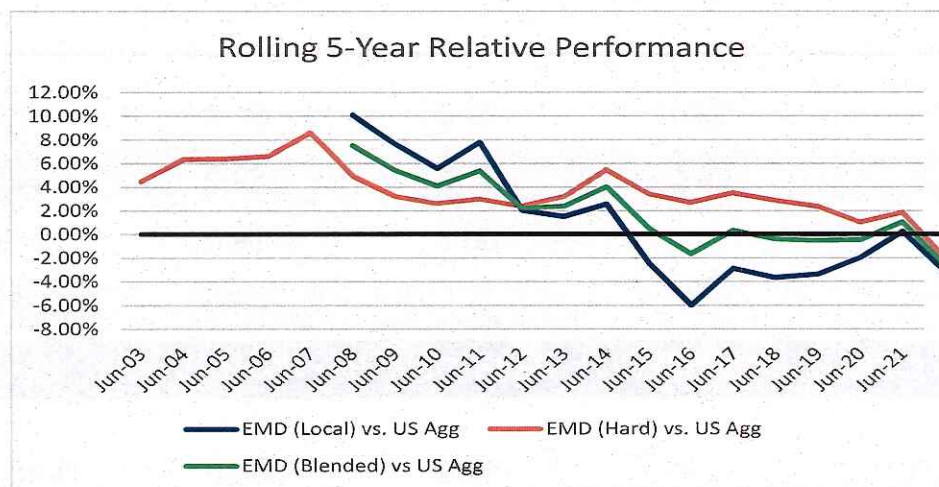
S&P 500: +4.31%
MSCI EAFE: +2.78%
MSCI EM: +5.68%

Rolling 5-Year Performance



EMERGING MARKETS

EMERGING MARKETS RELATIVE PERFORMANCE



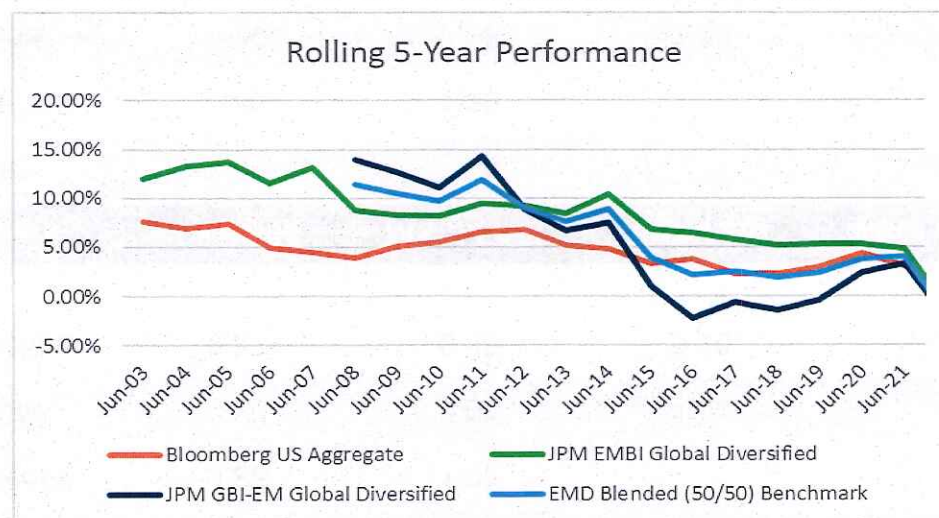
Index Performance

(1/2000 – 6/2022) – annualized

BBg US Agg: +4.22%
JPM EMBI Global Div: +6.93%
JPM GBI Global Div: --

(2/2003 – 6/2022) – annualized

BBg US Agg: +3.35%
JPM EMBI Global Div: +6.13%
JPM GBI Global Div: +4.80%



EMERGING MARKETS EQUITY CORRELATIONS

EMERGING MARKETS EQUITY CORRELATIONS

3-Years	S&P 500	MSCI EAFE	MSCI EM	MSCI China
S&P 500	1.00			
MSCI EAFE	0.86	1.00		
MSCI EM	0.70	0.81	1.00	
MSCI China	0.27	0.30	0.70	1.00

5-Years	S&P 500	MSCI EAFE	MSCI EM	MSCI China
S&P 500	1.00			
MSCI EAFE	0.86	1.00		
MSCI EM	0.70	0.83	1.00	
MSCI China	0.46	0.48	0.79	1.00

10-Years	S&P 500	MSCI EAFE	MSCI EM	MSCI China
S&P 500	1.00			
MSCI EAFE	0.82	1.00		
MSCI EM	0.66	0.79	1.00	
MSCI China	0.46	0.53	0.80	1.00



EMERGING MARKETS BOND CORRELATIONS

3-Years	BBg US Agg	JPM EMBI	JPM GBI-EM	JPM CEMBI
BBg US Agg	1.00			
JPM EMBI	0.53	1.00		
JPM GBI-EM	0.40	0.88	1.00	
JPM CEMBI	0.47	0.94	0.83	1.00

5-Years	BBg US Agg	JPM EMBI	JPM GBI-EM	JPM CEMBI
BBg US Agg	1.00			
JPM EMBI	0.53	1.00		
JPM GBI-EM	0.33	0.82	1.00	
JPM CEMBI	0.46	0.94	0.76	1.00

10-Years	BBg US Agg	JPM EMBI	JPM GBI-EM	JPM CEMBI
BBg US Agg	1.00			
JPM EMBI	0.58	1.00		
JPM GBI-EM	0.48	0.80	1.00	
JPM CEMBI	0.50	0.94	0.75	1.00



FRS ASSET ALLOCATION REVIEW



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EMERGING MARKETS BOND CONNECTIONS

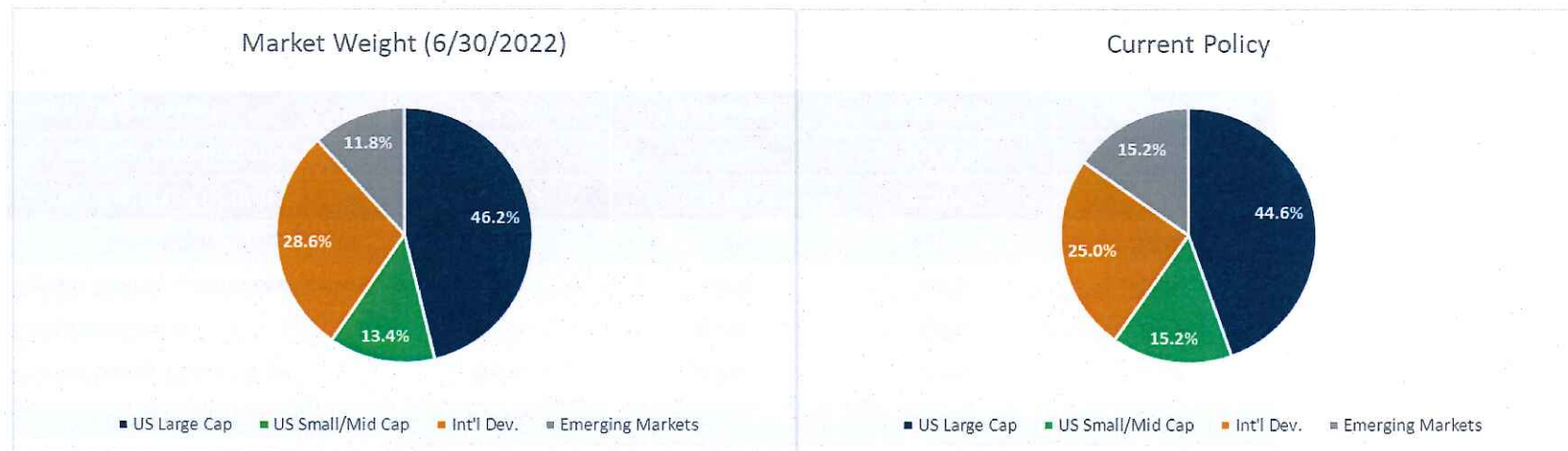
JUNE 2022 FRS ASSET ALLOCATION REVIEW

Asset Class	Current Policy Target	Mix A	Mix B	Mix C
Large Cap Equity	20.5%	21.5%	22.0%	22.5%
Small/Mid Cap Equity	7.0%	7.0%	7.5%	8.0%
International Equity	11.5%	11.5%	11.5%	11.5%
Emerging Markets Equity	7.0%	6.0%	5.0%	4.0%
Global Equity	10.0%	10.0%	10.0%	10.0%
Total Equities	56.0%	56.0%	56.0%	56.0%
Core Bonds	18.0%	19.0%	20.0%	21.0%
US TIPS	3.0%	3.0%	3.0%	3.0%
Emerging Market Debt (Blended)	5.0%	4.0%	3.0%	2.0%
Total Fixed Income	26.0%	26.0%	26.0%	26.0%
Private Equity/Private Debt	9.0%	9.0%	9.0%	9.0%
Core Real Estate	6.0%	6.0%	6.0%	6.0%
Private Real Assets (Infrastructure)	3.0%	3.0%	3.0%	3.0%
Total Alternative Assets	18.0%	18.0%	18.0%	18.0%
10 Year Expected Return	6.69%	6.61%	6.50%	6.47%
30 Year Expected Return	7.26%	7.21%	7.16%	7.11%
Standard Deviation	13.13%	12.95%	12.79%	12.64%



¹Emerging Market Debt (Blended) is modeled as 1/2 emerging markets debt (local), 1/2 emerging markets debt (external)

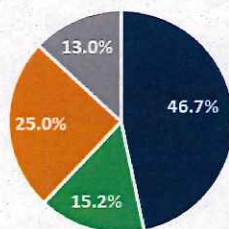
JUNE 2022 FRS ASSET ALLOCATION REVIEW



¹Markets weights determined by MSCI ACWI IMI as of June 30, 2022.

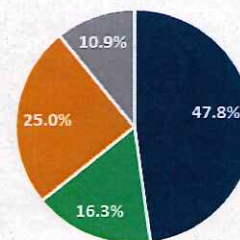
JUNE 2022 FRS ASSET ALLOCATION REVIEW

Mix A



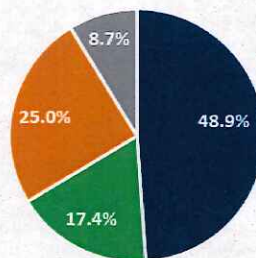
■ US Large Cap ■ US Small/Mid Cap ■ Int'l Dev. ■ Emerging Markets

Mix B



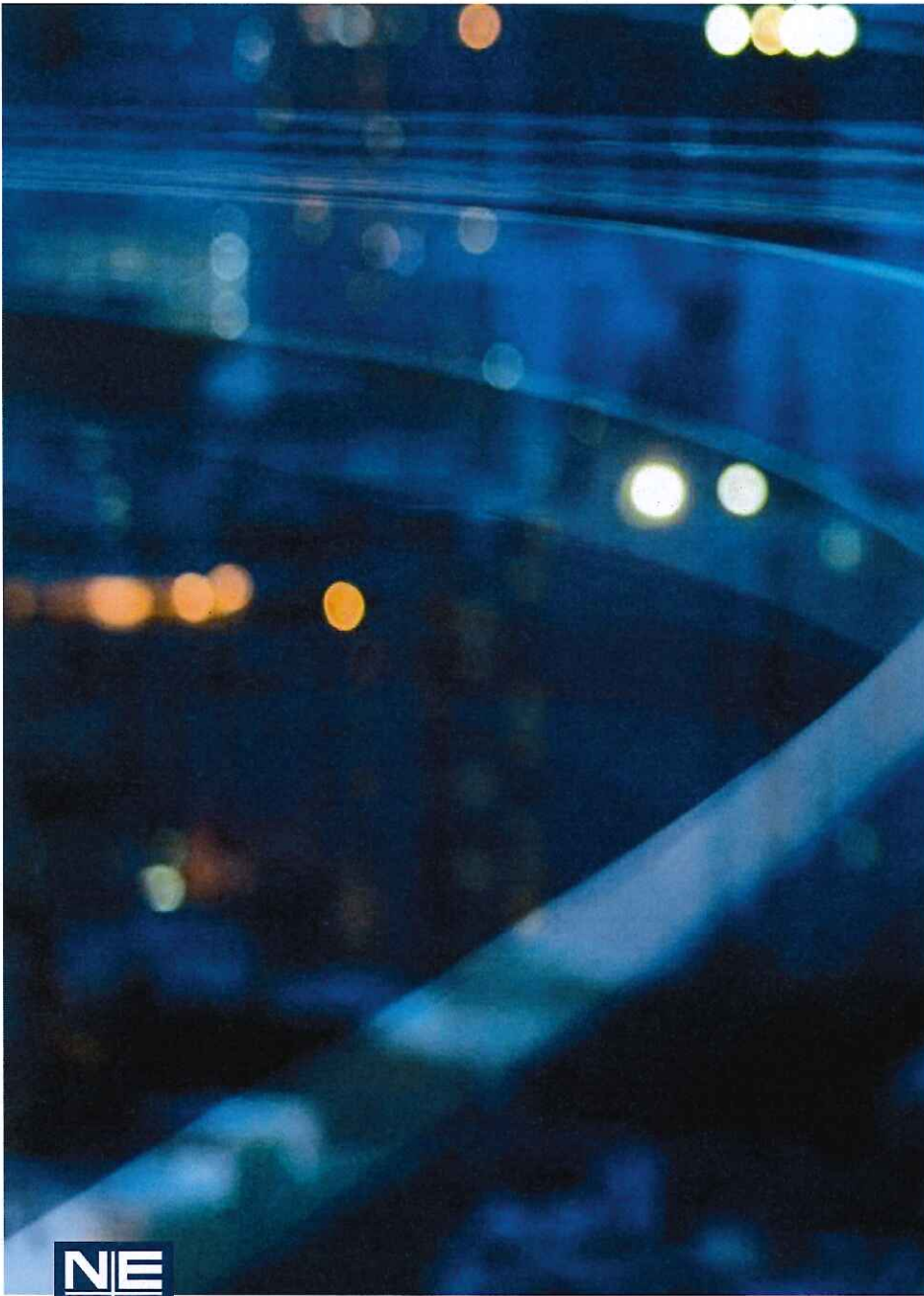
■ US Large Cap ■ US Small/Mid Cap ■ Int'l Dev. ■ Emerging Markets

Mix C



■ US Large Cap ■ US Small/Mid Cap ■ Int'l Dev. ■ Emerging Markets





MACROECONOMIC



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THE 2023 LBS V32EL ATTORNEY REVIEW

INFLATION ASSUMPTIONS

OVERVIEW

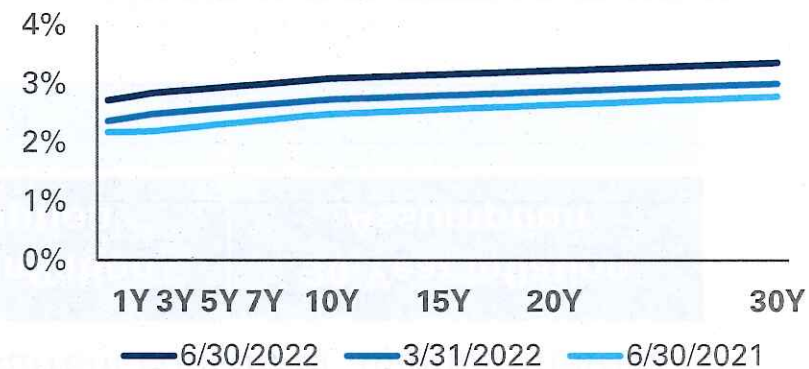
- **Inflation is a key building block to develop asset class assumptions**
- **Inflation assumptions are model-driven and informed by multiple inputs for both the U.S. and global assets**
 - Includes forecasts from international organizations (e.g. IMF), local consumer and producer price indices, global interest rate curves, and break-even inflation expectations
- **NEPC's U.S. expectations reflect stickier inflation over the near-term, but a stable inflation outlook over the long-term**
 - We anticipate continued volatility among inflation measures as market-based inflation expectations diverge from current consumer inflation metrics

Region	10-Year Inflation Assumption	30-Year Inflation Assumption
United States	2.4%	2.5%

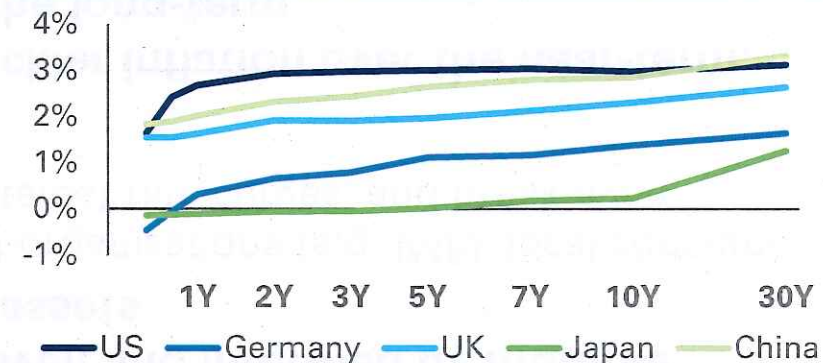
GLOBAL INTEREST RATE EXPECTATIONS

- **Real yields are materially higher, reflecting the transition to a tighter policy environment**
 - Higher real rates support returns for all assets in the long-term
- **The transition to tighter Fed policy has lifted bond yield forecasts**
- **The outlook is relatively poor for Non-U.S. developed markets due to the nominal yield differential**
- **Emerging market real rates and nominal interest rates are higher relative to the developed world**

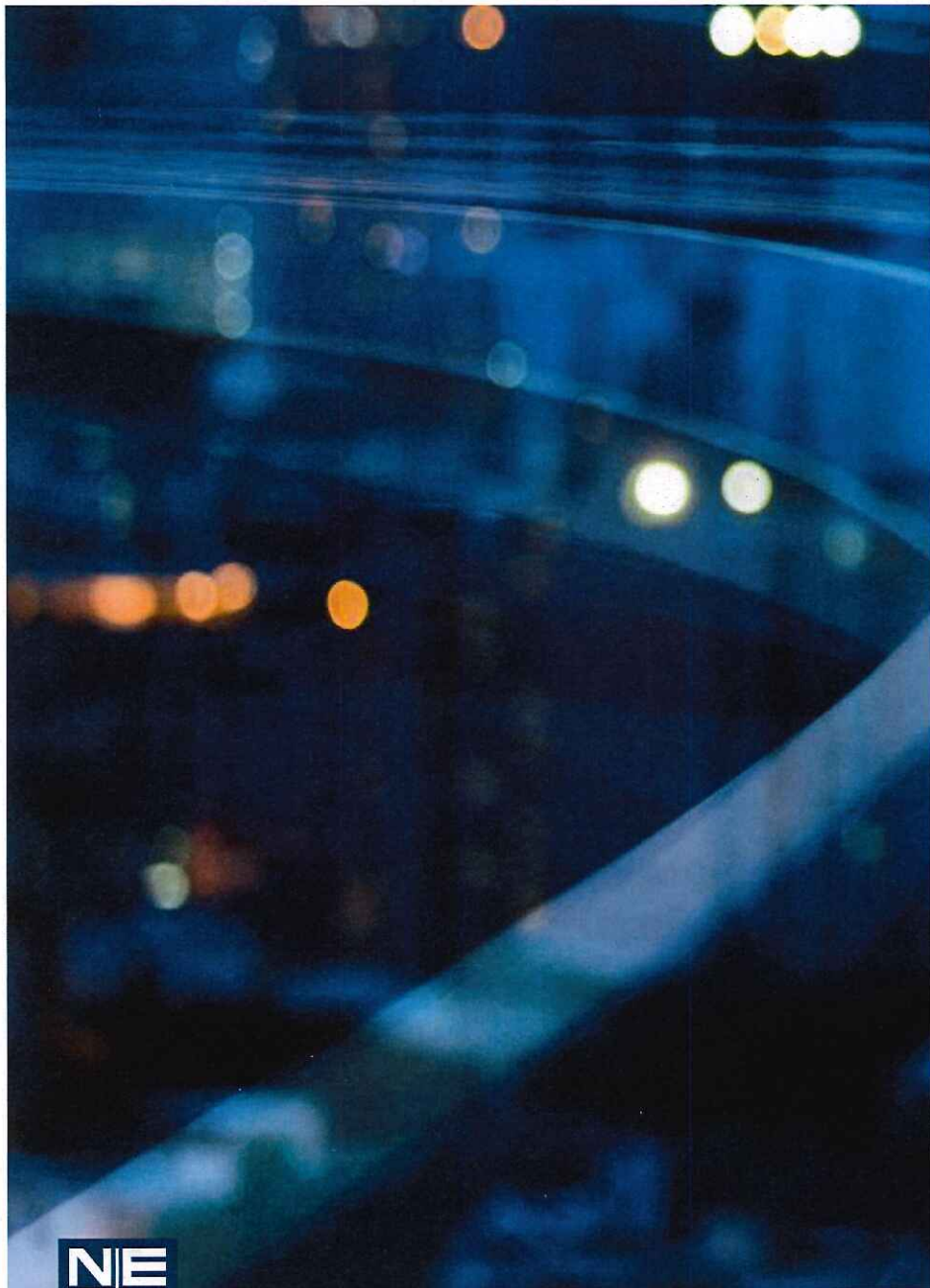
NEPC 10-Year Forward Curve



Global Yield Curves



Sources: FactSet, NEPC



PUBLIC EQUITY



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PUBLIC EQUITY ASSOCIATIONS

PUBLIC EQUITY ASSUMPTIONS

OVERVIEW

- **Valuation multiples underlying the equity return assumptions have moved lower to reflect the increase in long-term interest rates**
- **Equity valuation multiples are sensitive to higher interest rates, though inflation can positively impact nominal revenue growth**
- **We recommend strategic asset allocation targets for emerging market equity reflect an overweight compared to the MSCI ACWI IMI**
 - The return assumption for emerging equity is highest among public equity and we recommend using non-U.S. developed equity as the funding source
- **NEPC encourages a strategic bias to small-cap with the use of active management relative to small-cap exposure in the MSCI ACWI IMI**



PUBLIC EQUITY ASSUMPTIONS

BUILDING BLOCKS

Illiquidity Premium	The return expected for assets with illiquidity risk
Valuation	Represents P/E multiple contraction or expansion relative to long-term trend
Inflation	Market-specific inflation based on country-level revenue exposure
Real Earnings Growth	Market-specific real growth based on a weighted-average of country revenue exposure and GDP growth
Dividend Yield	Income distributed to shareholders adjusted to reflect market trends

Asset Class	06/30/22 10-Yr Return	12-Month Change
U.S. Large-Cap Equity	5.8%	+0.9%
U.S. Small/Mid-Cap Equity	7.2%	+2.2%
U.S. Microcap Equity	8.0%	+2.7%
Non-U.S. Developed Equity	6.4%	+1.2%
Non-U.S. Developed Small-Cap Equity	7.4%	+2.1%
Emerging Market Equity	9.6%	+2.2%
Emerging Market Small-Cap Equity	9.3%	+1.5%
China Equity	9.4%	+2.2%
Hedge Fund - Equity	5.5%	+1.4%
Global Equity*	6.8%	+1.2%
Private Equity*	9.8%	+0.9%

Source: NEPC

*Calculated as a blend of other asset classes

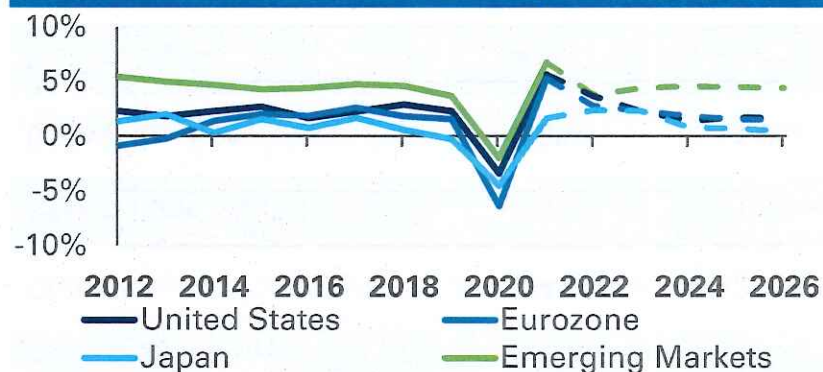


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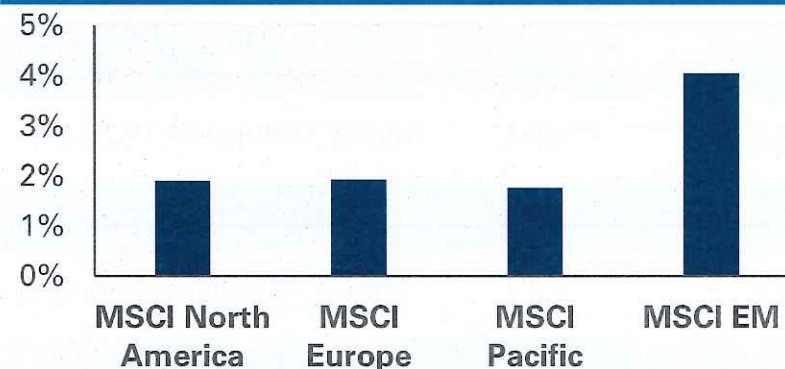
REAL EARNINGS GROWTH

- **Global growth rates have slowed from recent highs**
- **Regions reliant on revenue from emerging markets are forecasted to enjoy higher earnings growth**
 - Non-U.S. stocks benefit from a greater portion of revenue from EM than U.S. stocks
- **We expect elevated real earnings growth for small-caps over the long-term relative to large-cap**
 - Over the long-term we expect a forward-looking risk premium for small-cap and mid-cap equities relative to large-cap stocks

Real GDP Growth Projections



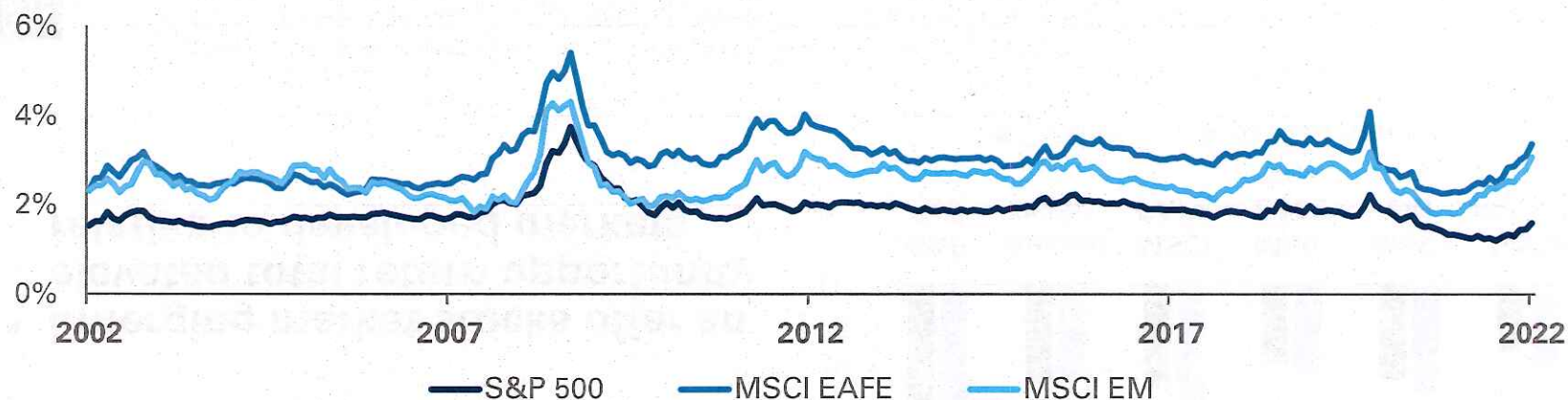
Expected 5-Year Real Growth



Sources: IMF, MSCI, FactSet, NEPC

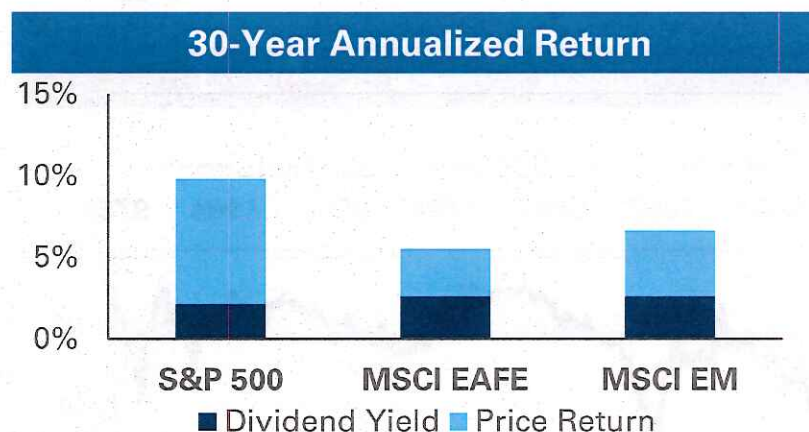
PUBLIC EQUITY

DIVIDEND YIELD



- **Non-U.S. equities provide higher dividend yields relative to the U.S. over the long-term**

- Terminal value dividend yield inputs for MSCI EM and EAFE are 2.5% and 3.0%
- Terminal value dividend yield input for S&P 500 is 2.50%



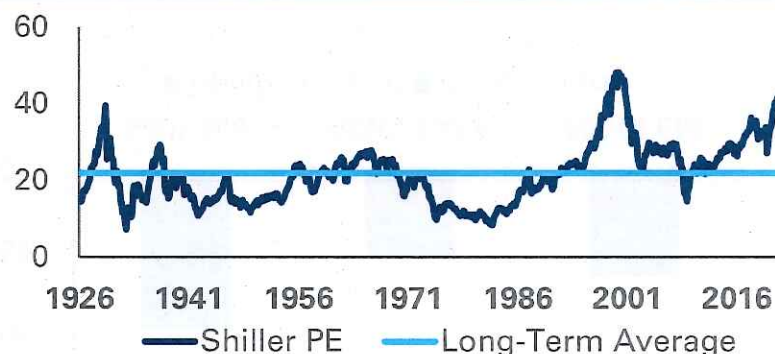
Sources: S&P, MSCI, FactSet

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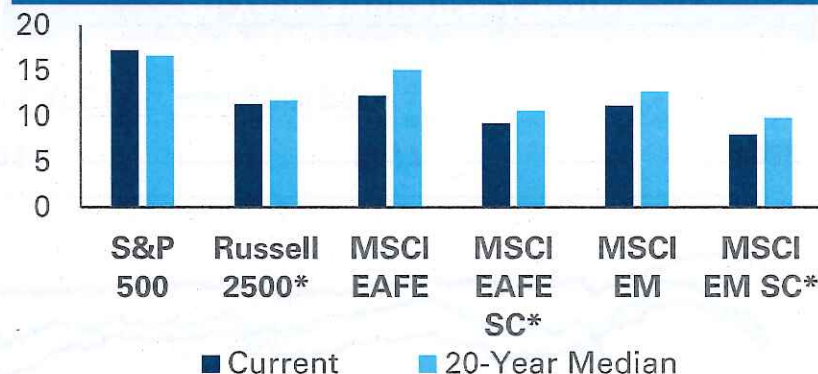
VALUATION

- U.S. stock valuations are elevated relative to long-term averages
- P/E terminal value inputs have been adjusted lower to reflect the impact of higher nominal interest rates
- EAFE P/E inputs reflect more subdued market sentiment levels
- Emerging market stocks offer an elevated total return opportunity relative to developed markets

S&P 500 Shiller PE Ratio



Trailing PE Relative Median

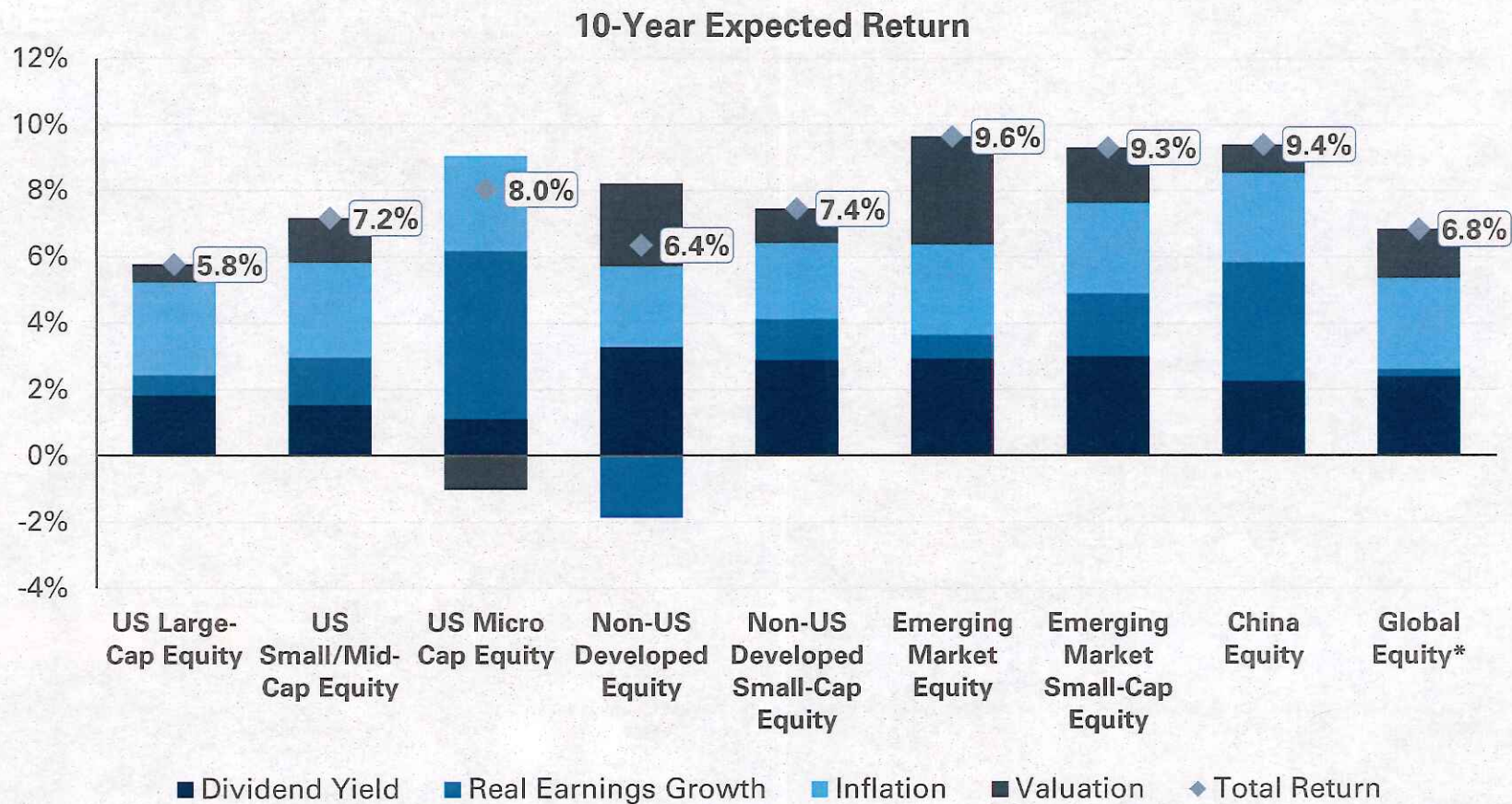


Sources: S&P, Shiller, Russell, MSCI, FactSet, NEPC; Shiller PE long-term average beginning in 1926

Note: *Small cap indices valuations based on EV/EBITDA multiples; MSCI EM Small Cap median calculated since 3/31/2003

PUBLIC EQUITY

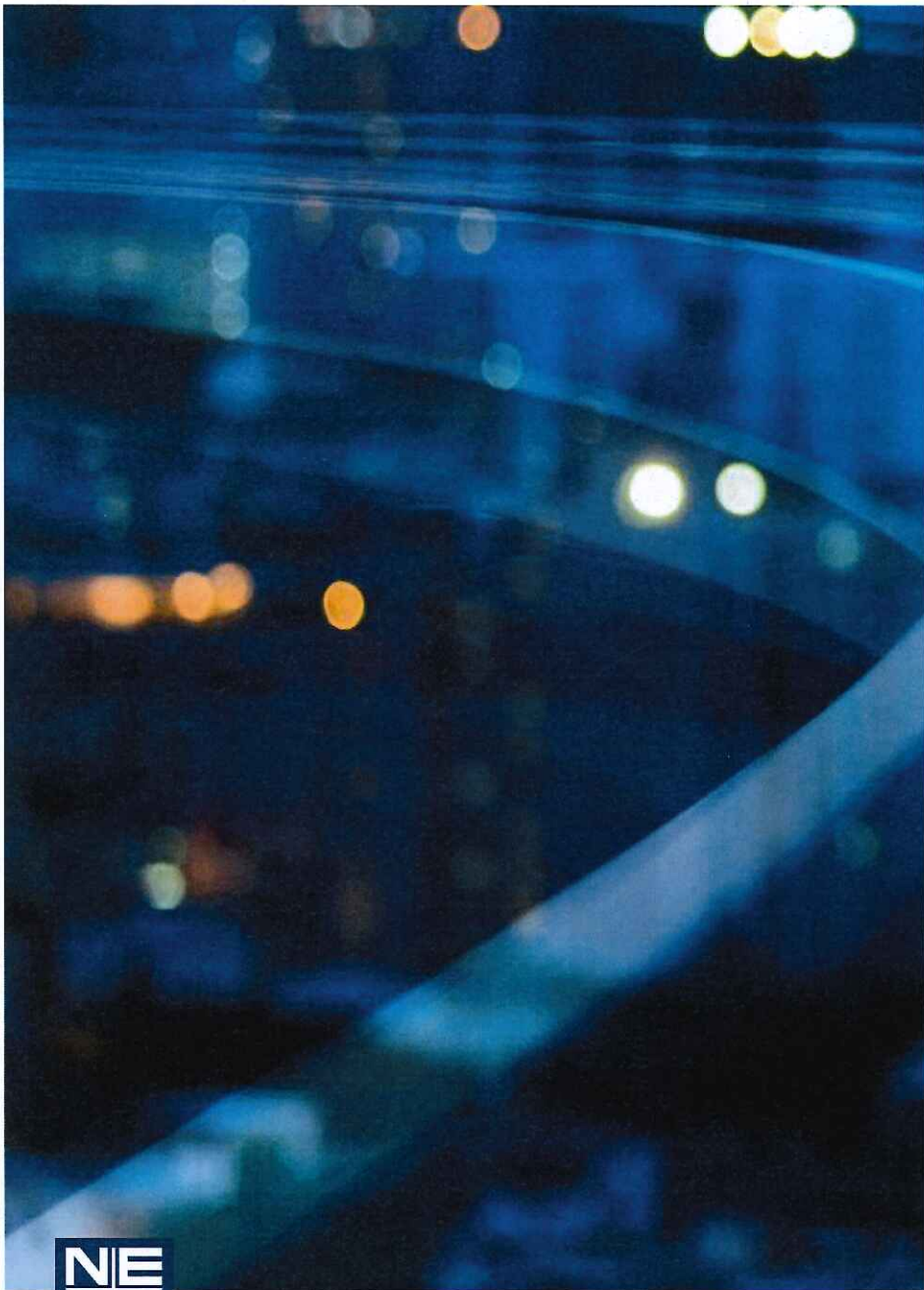
BUILDING BLOCKS



Source: NEPC

*Calculated as a blend of other classes





FIXED INCOME



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FIXED INCOME ASSUMPTIONS

OVERVIEW

- **Fixed income return assumptions reflect a transition to tighter monetary policy to offset ongoing inflationary pressures**
- **NEPC remains committed to a dedicated Treasury allocation given the upward movement in interest rates and return expectations**
- **Safe-haven fixed income exposure will differ by investor objective**
 - The fixed income asset-type and duration profile should reflect portfolio objectives, asset-liability glide path, and desire for capital efficiency
- **The use of return-seeking credit investments requires a more dynamic posture to manage shifts in credit spreads and market cycles**



FIXED INCOME ASSUMPTIONS

BUILDING BLOCKS

Illiquidity Premium	The return expected for assets with illiquidity risk
Government Rates Price Change	Change due to shifts in current yields relative to forecasted rates
Credit Deterioration	The average loss for credit assets due to defaults and recovery rates
Spread Price Change	Valuation change due to changes in credit spreads relative to long-term targets
Credit Spread	Yield premium provided by securities with credit risk
Government Rates	The yield attributed to sovereign bonds that do not have credit risk

Asset Class	06/30/22 10-Yr Return	12-Month Change
U.S. TIPS	3.0%	+1.5%
U.S. Treasury Bond	3.2%	+1.8%
U.S. Corporate Bond	5.2%	+2.6%
U.S. MBS	3.4%	+1.7%
U.S. High Yield Corporate	6.9%	+3.8%
U.S. Leveraged Loan	6.6%	+2.2%
EMD External Debt	7.3%	+3.6%
EMD Local Currency Debt	6.9%	+1.1%
Non-U.S. Govt. Bond	2.1%	+1.1%
U.S. Muni Bond (1-10 Year)	3.0%	+1.8%
U.S. High Yield Muni Bond	5.0%	+2.8%
Hedge Fund – Credit	6.5%	+2.4%
U.S. Aggregate Bond*	3.8%	+1.9%
Private Debt*	8.0%	+1.6%

Source: NEPC

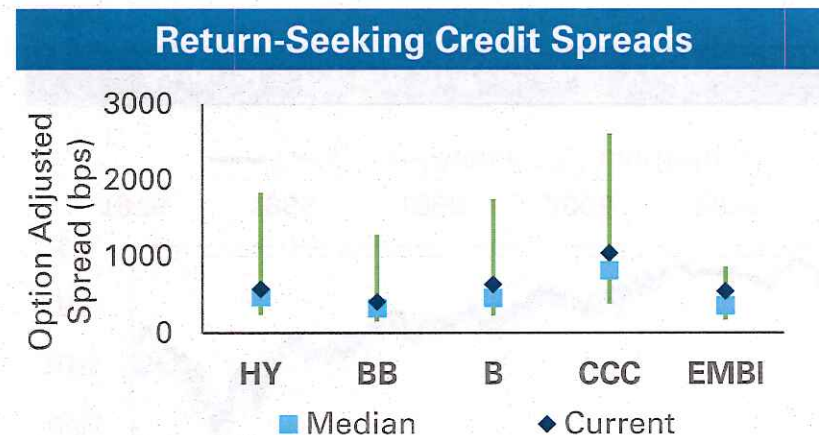
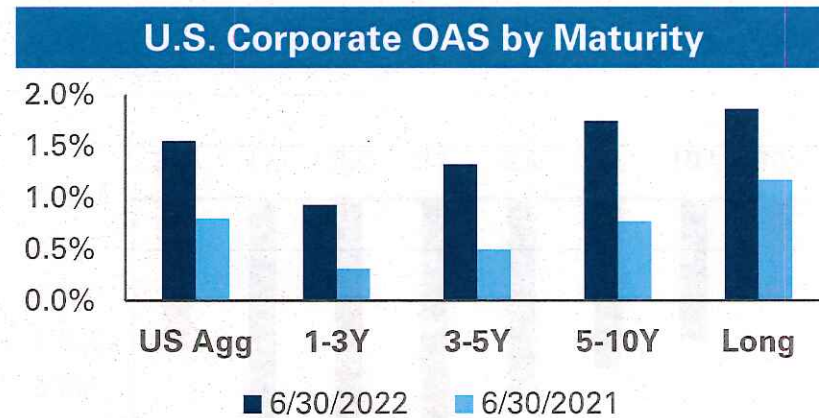
*Calculated as a blend of other asset classes



FIXED INCOME

CREDIT SPREADS

- **Credit spreads have increased and are above median levels**
- **Higher credit spread levels raise future return expectations**
- **Credit spread assumptions reflect potential disruption**
 - With a record number of BBB-rated corporates, fallen angel downgrades are a greater risk
- **Default and recovery rates are informed by long-term history**



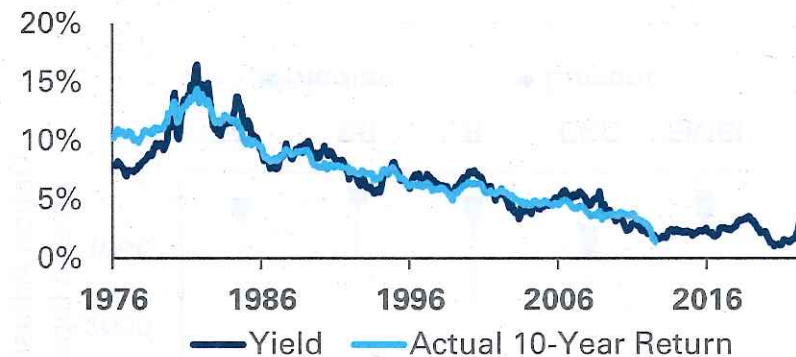
Sources: Barclays, JPM, FactSet, NEPC; Spread medians as of 12/31/2000

FIXED INCOME

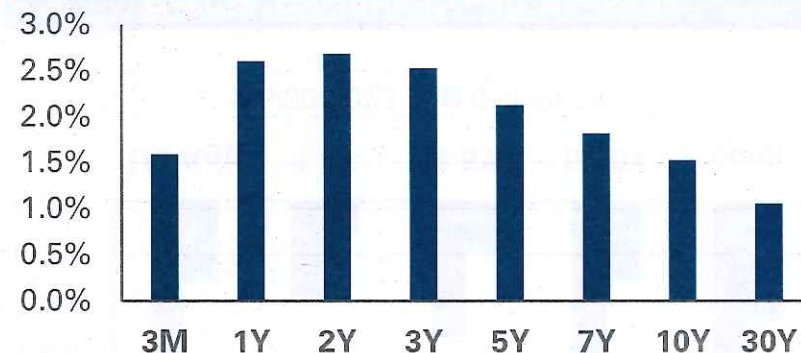
GOVERNMENT RATES

- **Government rates price change reflects shifts in interest rates, the yield curve, and roll down**
 - Roll down refers to the price change due to the aging of a bond along the yield curve
- **Expectations for rising rates are a headwind for return expectations**
 - However, higher interest rates boost the long-term return due to the increased yield benefit
- **A steeper yield curve relative to forward interest rates can offer relief from rising rates**

Barclays U.S. Aggregate Bond



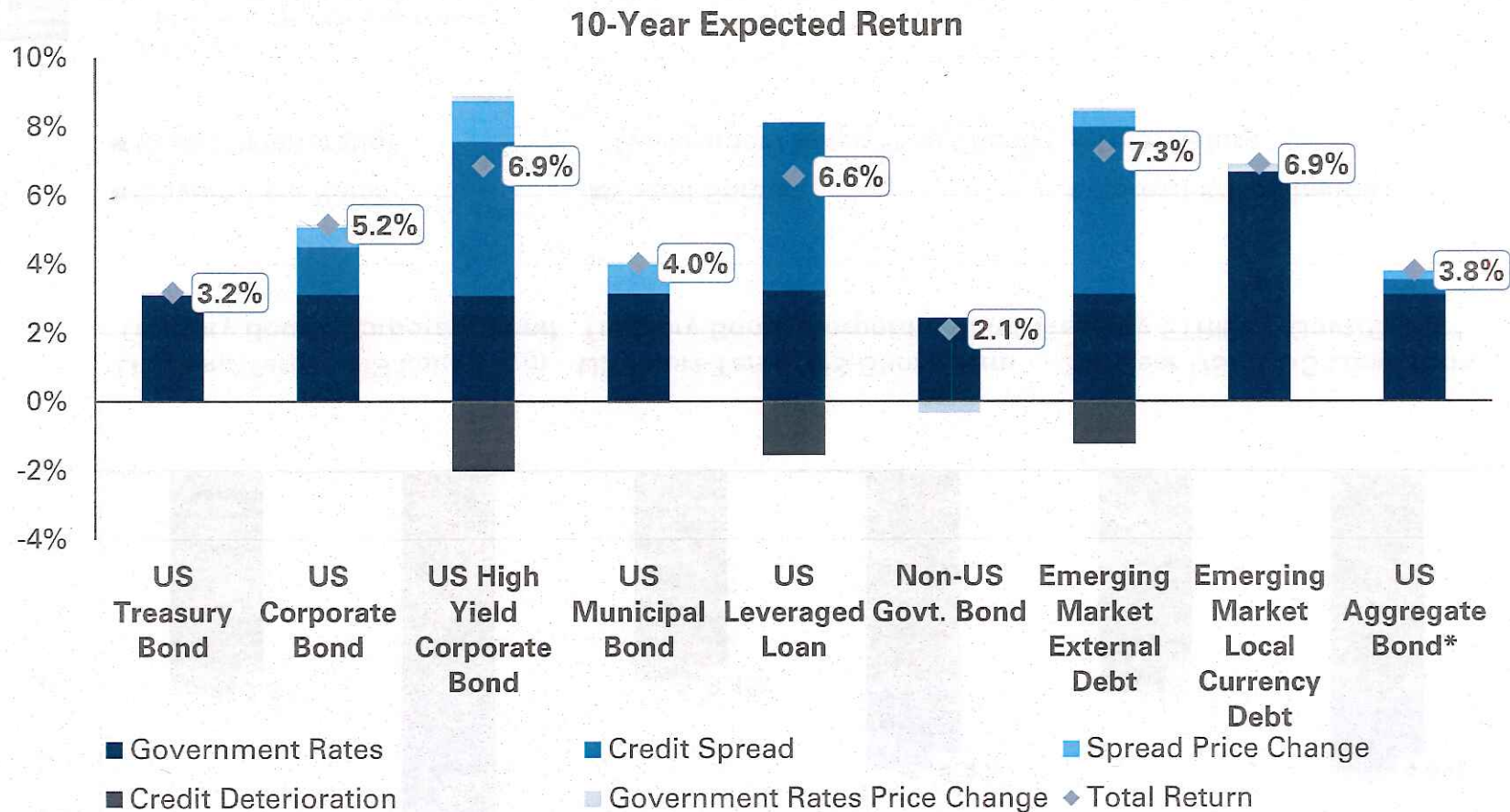
Annual Change in Treasury Yields



Sources: Barclays, FactSet, NEPC

FIXED INCOME

BUILDING BLOCKS



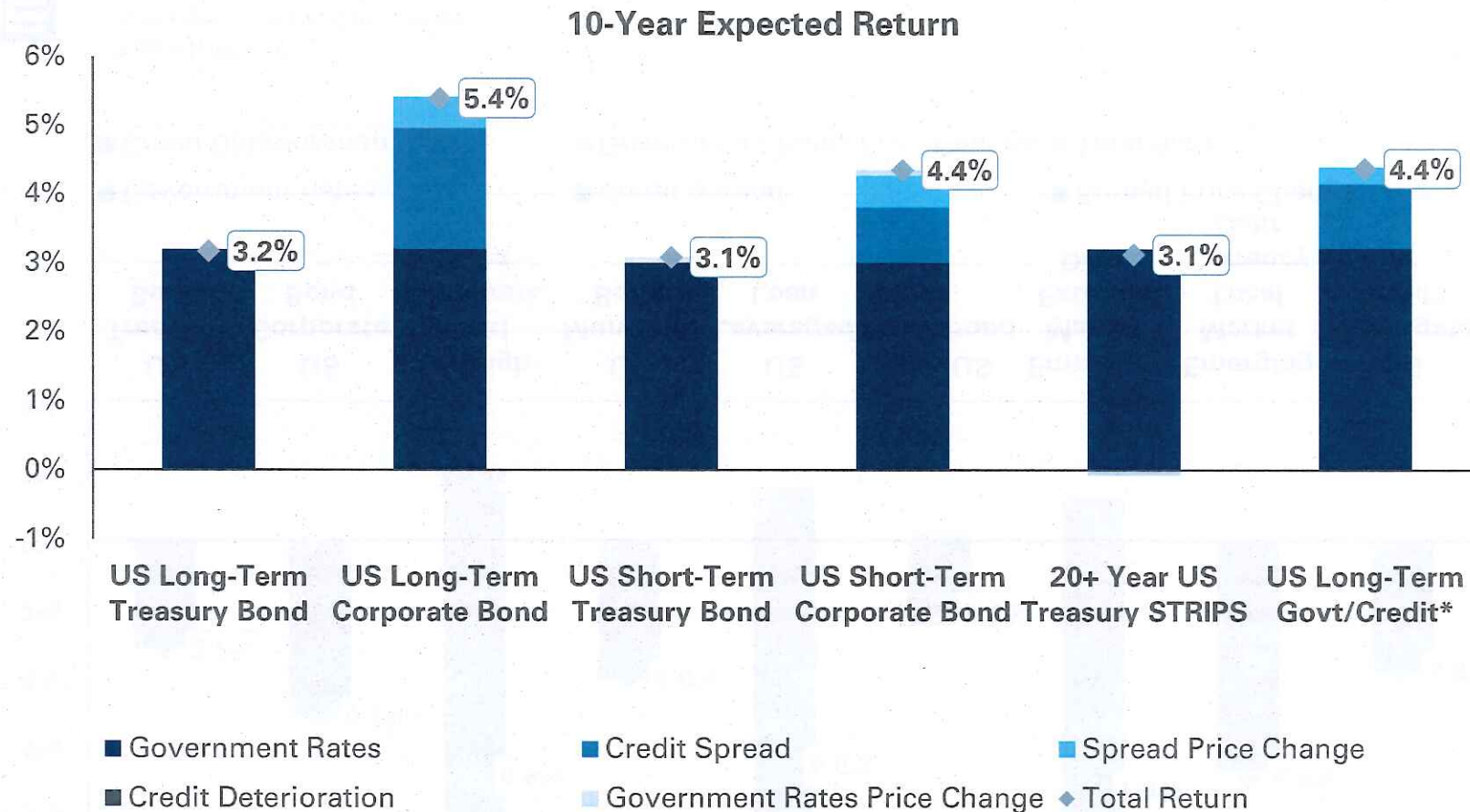
Source: NEPC

*Calculated as a blend of other classes



FIXED INCOME

BUILDING BLOCKS



Source: NEPC

*Calculated as a blend of other classes





REAL ASSET



PROPRIETARY & CONFIDENTIAL

REAL ASSET ASSUMPTIONS

OVERVIEW

- **The strategic outlook for real assets reflects a high level of uncertainty due to the elevated near-term inflation environment**
- **Real assets offer a meaningful portfolio diversification benefit, but are sensitive to a wide range of potential inflation scenarios**
- **Real assets exhibit different betas to inflation and each asset class is exposed to various economic factors**
 - Diversification and correlation benefits are helpful to a portfolio but must be carefully considered relative to the expected risk premium
- **Inflation-sensitivity and portfolio objectives influence an investor's strategic allocation to real assets**
 - We recommend private markets to meet strategic real asset allocation targets
 - Relative to portfolio objectives, we prefer the use of public market strategies to mitigate short-term inflation risks

REAL ASSET ASSUMPTIONS

BUILDING BLOCKS

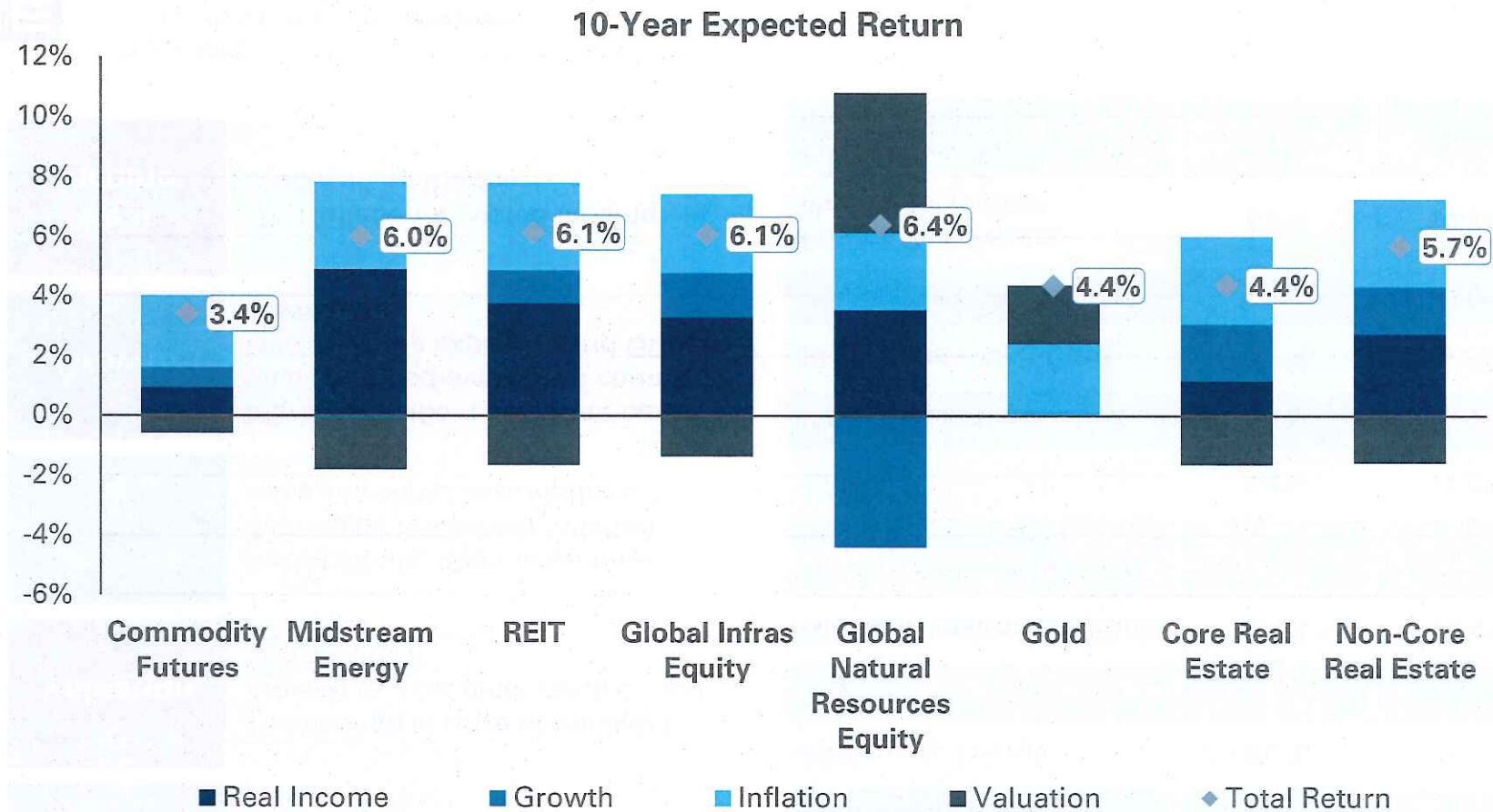
Illiquidity Premium	The return expected for assets with illiquidity risk	Asset Class	06/30/22 10-Yr Return	12-Month Change
Valuation	The change in price of the asset moving to a terminal value or real average level	Commodity Futures	3.4%	+2.1%
Inflation	Based on the inflation path as defined by breakeven-inflation rates and NEPC assumptions	Midstream Energy	6.0%	-0.3%
Growth	Market-specific real growth based on a weighted-average of country-level revenue exposure and GDP growth	REIT	6.1%	+1.4%
Real Income	The inflation-adjusted income produced by the asset	Global Infrastructure Equity	6.1%	+0.4%
		Global Natural Resources Equity	6.4%	+1.0%
		Gold	4.4%	+1.0%
		Real Estate - Core	4.4%	-0.4%
		Real Estate - Non-Core	5.7%	-0.3%
		Private Debt - Real Estate	5.3%	+0.8%
		Private Real Assets - Natural Resources	7.9%	+0.7%
		Private Real Assets - Infrastructure	6.1%	+0.7%

Source: NEPC

*Calculated as a blend of other asset classes



REAL ASSET BUILDING BLOCKS



Source: NEPC



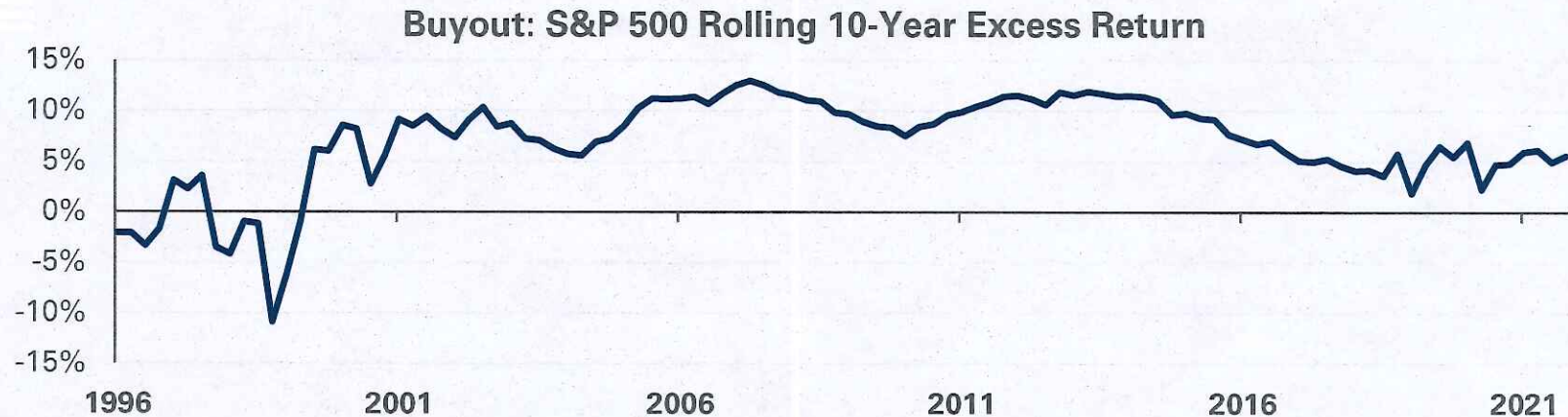
ALTERNATIVE ASSETS



PROPRIETARY & CONFIDENTIAL

ALTERNATIVE ASSETS

METHODOLOGY



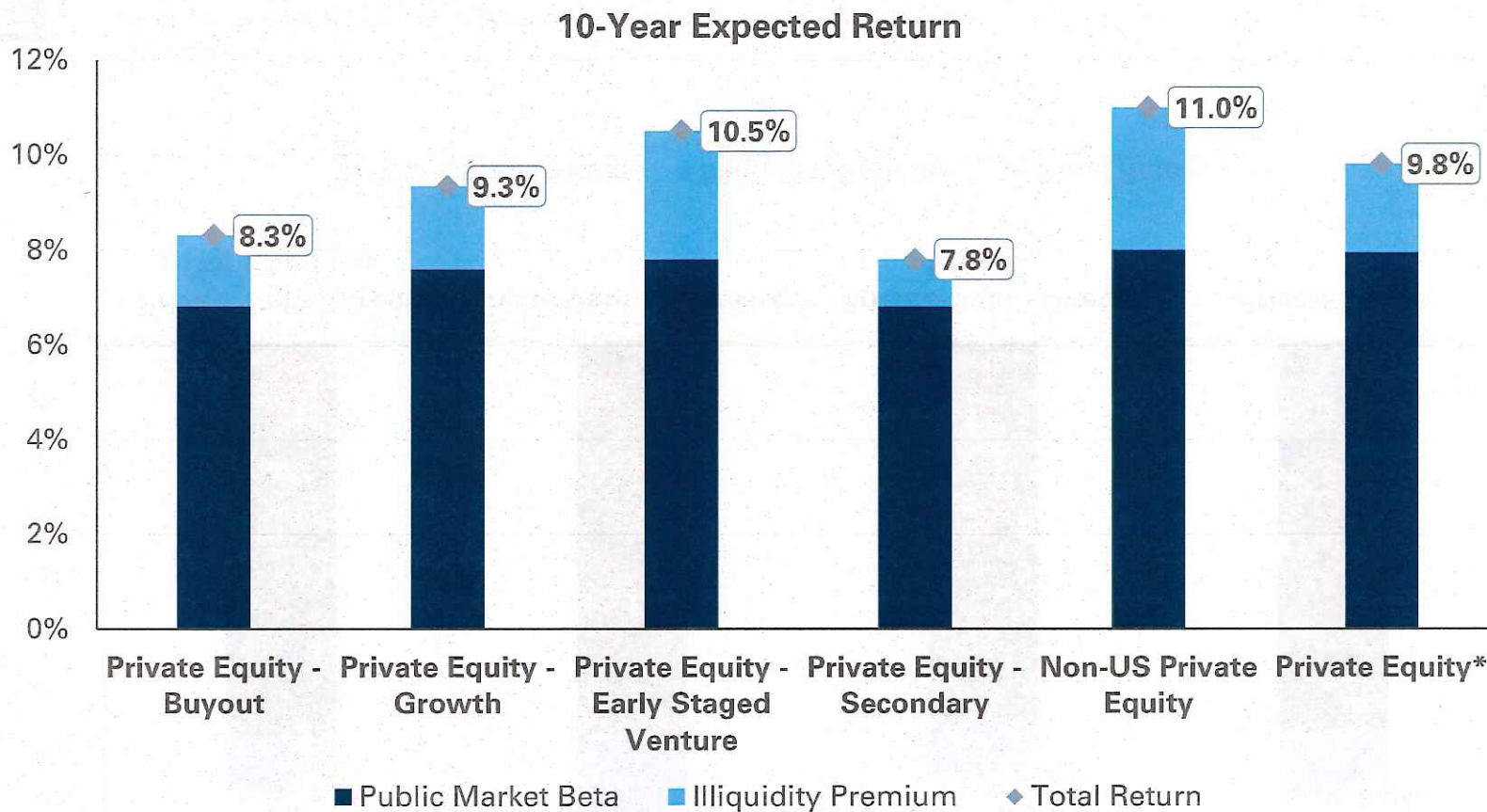
- **Private market assumptions are constructed from betas to public markets with an added illiquidity premia**
 - Historically, the observed illiquidity premium has been a significant component driving private market returns
- **Hedge fund assumptions are constructed from betas to public markets with an added alpha assumption**



Sources: Thomson One, S&P, FactSet

PRIVATE EQUITY

BUILDING BLOCKS



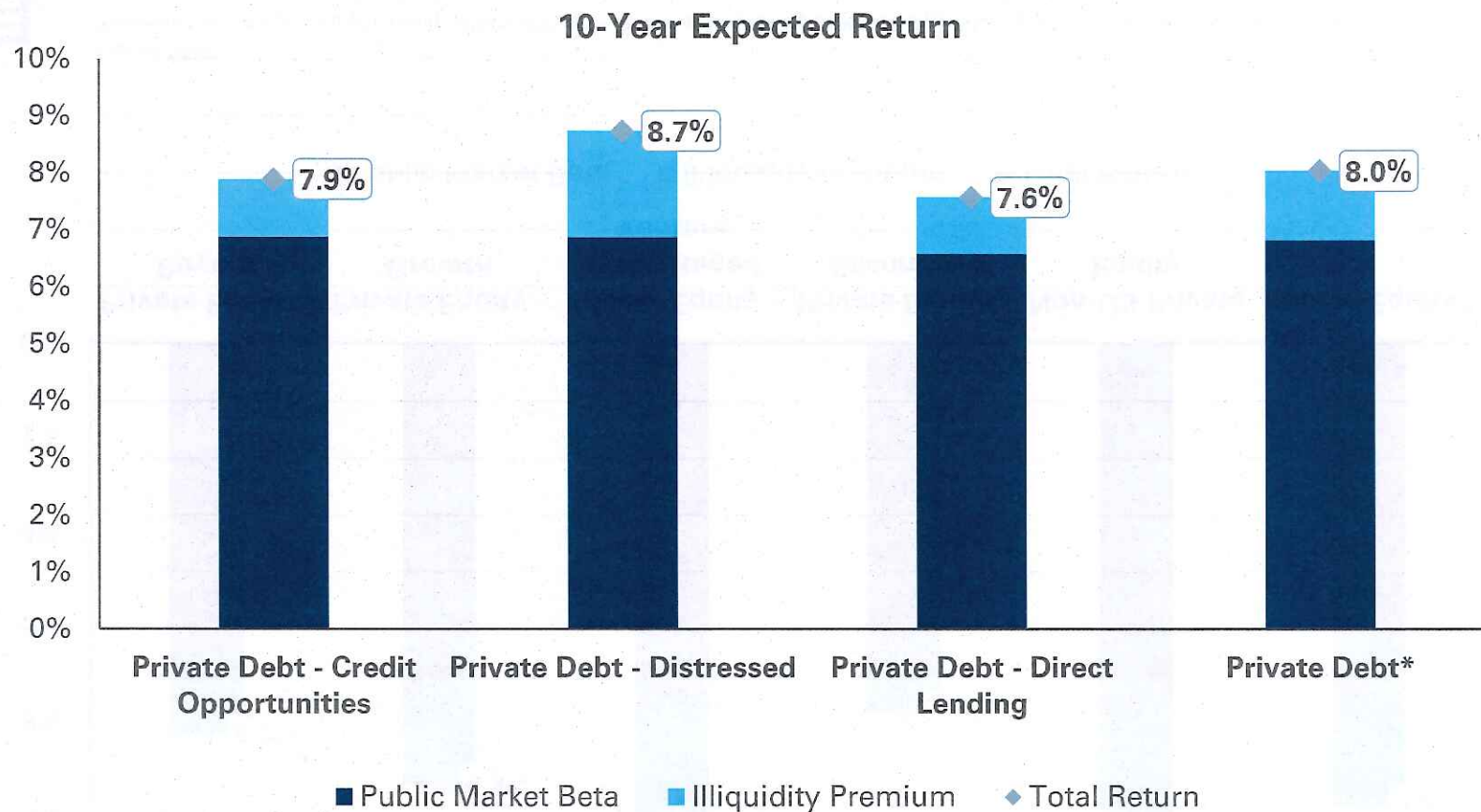
Source: NEPC

*Private Equity is a derived composite of 34% U.S. Buyout, 34% U.S. Growth, 8.5% U.S. Secondary, 8.5% U.S. Venture, 15% Non-U.S. PE



PRIVATE DEBT

BUILDING BLOCKS

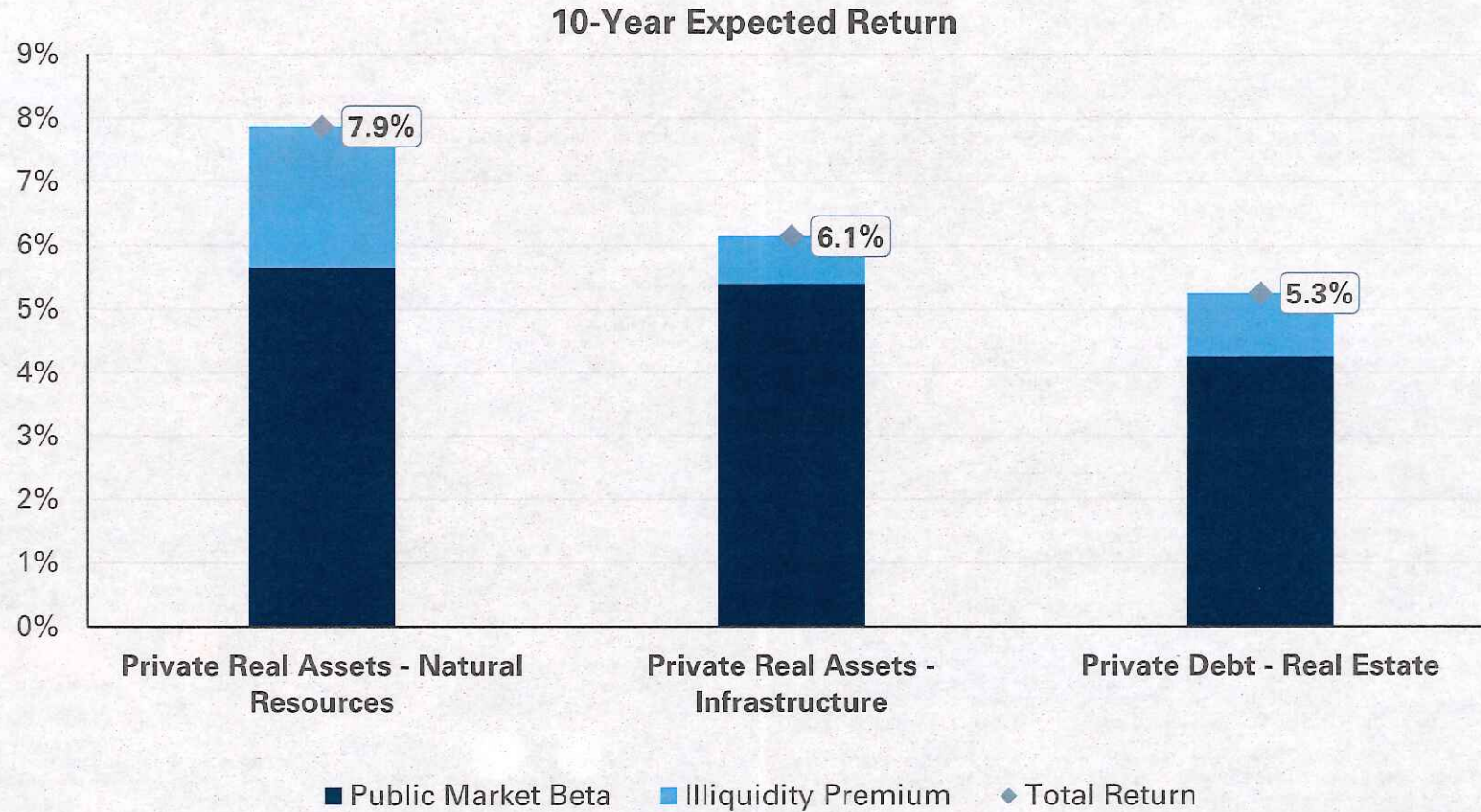


Source: NEPC

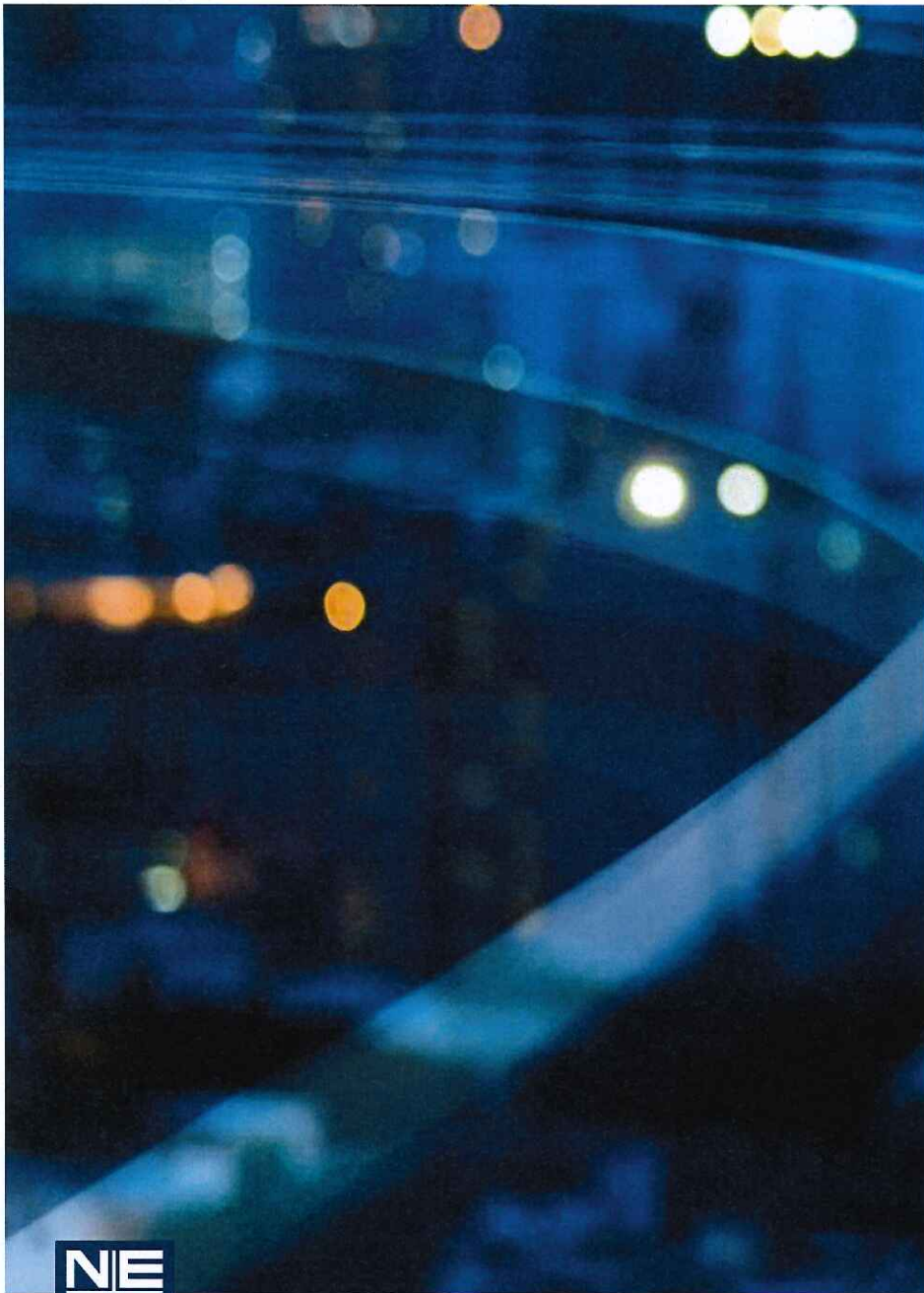
*Private Debt is a derived composite of 25% Mezzanine, 25% Distressed, 50% Direct Lending



PRIVATE REAL ASSET BUILDING BLOCKS



Source: NEPC



APPENDIX



PROPRIETARY & CONFIDENTIAL

10-YEAR RETURN FORECASTS

EQUITY

Geometric Expected Return				
Asset Class	06/30/2022	06/30/2021	Delta	Std. Dev.
U.S. Large-Cap Equity	5.8%	4.9%	+0.9%	16.6%
U.S. Small/Mid-Cap Equity	7.2%	5.0%	+2.2%	20.7%
Non-U.S. Developed Equity	6.4%	5.2%	+1.2%	19.6%
Non-U.S. Developed Equity (USD Hedge)	6.5%	5.4%	+1.1%	17.6%
Non-U.S. Developed Small-Cap Equity	7.4%	5.3%	+2.1%	24.2%
Emerging Market Equity	9.6%	7.4%	+2.2%	28.3%
Emerging Market Small-Cap Equity	9.3%	7.8%	+1.5%	34.4%
Hedge Fund - Equity	5.5%	4.1%	+1.4%	11.4%
Private Equity - Buyout	8.3%	7.2%	+1.1%	19.0%
Private Equity - Growth	9.3%	8.4%	+0.9%	31.5%
Private Equity - Early Stage Venture	10.5%	9.8%	+0.7%	45.0%
Private Equity - Secondary	7.8%	6.7%	+1.1%	20.0%
Non-U.S. Private Equity	11.0%	10.3%	+0.7%	32.0%
China Equity	9.4%	7.2%	+2.2%	28.6%
U.S. Microcap Equity	8.0%	5.3%	+2.7%	25.8%
Global Equity*	6.8%	5.6%	+1.2%	17.9%
Private Equity*	9.8%	8.9%	+0.9%	25.2%



*Calculated as a blend of other asset classes

10-YEAR RETURN FORECASTS

SAFE-HAVEN FIXED INCOME

Geometric Expected Return				
Asset Class	06/30/2022	06/30/2021	Delta	Std. Dev.
Cash	2.9%	1.2%	+1.7%	0.6%
U.S. TIPS	3.0%	1.5%	+1.5%	5.8%
U.S. Treasury Bond	3.2%	1.4%	+1.8%	5.3%
U.S. Corporate Bond	5.2%	2.6%	+2.6%	7.3%
U.S. Corporate Bond - AAA	4.3%	1.9%	+2.4%	6.0%
U.S. Corporate Bond - AA	4.3%	2.1%	+2.2%	5.9%
U.S. Corporate Bond - A	4.8%	2.4%	+2.4%	7.2%
U.S. Corporate Bond - BBB	5.5%	2.8%	+2.7%	8.0%
U.S. Mortgage-Backed Securities	3.4%	1.7%	+1.7%	6.5%
U.S. Securitized Bond	4.1%	2.1%	+2.0%	8.4%
U.S. Collateralized Loan Obligation	4.7%	2.9%	+1.8%	7.3%
U.S. Municipal Bond	4.0%	1.5%	+2.5%	6.0%
U.S. Municipal Bond (1-10 Year)	3.0%	1.2%	+1.8%	4.5%



10-YEAR RETURN FORECASTS

SAFE-HAVEN FIXED INCOME

Geometric Expected Return				
Asset Class	06/30/2022	06/30/2021	Delta	Std. Dev.
Non-US Government Bond	2.1%	1.0%	+1.1%	9.3%
Non-US Government Bond (USD Hedge)	2.3%	1.2%	+1.1%	4.0%
Non-US Inflation-Linked Bond (USD Hedge)	1.7%	0.6%	+1.1%	5.9%
U.S. Short-Term TIPS (1-3 Year)	2.8%	1.2%	+1.6%	3.2%
U.S. Short-Term Treasury Bond (1-3 Year)	3.1%	1.3%	+1.8%	2.1%
U.S. Short-Term Corporate Bond (1-3 Year)	4.4%	2.2%	+2.2%	3.0%
U.S. Intermediate-Term TIPS (3-10 Year)	3.1%	1.5%	+1.6%	8.5%
U.S. Intermediate-Term Treasury Bond (3-10 Year)	3.2%	1.5%	+1.7%	5.4%
U.S. Intermediate-Term Corporate Bond (3-10 Year)	5.3%	2.8%	+2.5%	5.5%
U.S. Long-Term Treasury Bond (10-30 Year)	3.2%	1.4%	+1.8%	6.5%
U.S. Long-Term TIPS (10-30 Year)	3.5%	1.6%	+1.9%	10.9%
U.S. Long-Term Corporate Bond (10-30 Year)	5.4%	2.5%	+2.9%	11.6%
20+ Year U.S. Treasury STRIPS	3.1%	1.1%	+2.0%	10.7%
10 Year U.S. Treasury Bond	3.4%	1.7%	+1.7%	7.4%
10 Year Non-U.S. Government Bond (USD Hedge)	1.4%	0.2%	+1.2%	5.1%
U.S. Aggregate Bond*	3.8%	1.9%	+1.9%	5.6%



*Calculated as a blend of other asset classes

10-YEAR RETURN FORECASTS

RETURN-SEEKING CREDIT

Geometric Expected Return				
Asset Class	06/30/2022	06/30/2021	Delta	Std. Dev.
U.S. High Yield Corporate Bond	6.9%	3.1%	+3.8%	11.2%
U.S. Corporate Bond - BB	7.2%	3.9%	+3.3%	9.8%
U.S. Corporate Bond - B	7.4%	3.4%	+4.0%	11.7%
U.S. Corporate Bond - CCC/Below	2.3%	-3.5%	+5.8%	20.6%
U.S. Short-Term High Yield Corp Bond (1-3 Year)	5.5%	2.0%	+3.5%	8.5%
U.S. Leveraged Loan	6.6%	4.4%	+2.2%	9.1%
Emerging Market External Debt	7.3%	3.7%	+3.6%	13.0%
Emerging Market Local Currency Debt	6.9%	5.8%	+1.1%	13.0%
U.S. High Yield Securitized Bond	6.6%	3.0%	+3.6%	11.2%
U.S. High Yield Collateralized Loan Obligation	7.3%	5.2%	+2.1%	10.8%
U.S. High Yield Municipal Bond	5.0%	2.2%	+2.8%	12.0%
Hedge Fund - Credit	6.5%	4.1%	+2.4%	10.2%
Private Debt - Credit Opportunities	7.9%	6.3%	+1.6%	14.4%
Private Debt - Distressed	8.7%	7.3%	+1.4%	14.3%
Private Debt - Direct Lending	7.6%	5.9%	+1.7%	10.5%
Private Debt*	8.0%	6.4%	+1.6%	11.6%

*Calculated as a blend of other asset classes



10-YEAR RETURN FORECASTS

REAL ASSETS

Geometric Expected Return				
Asset Class	06/30/2022	06/30/2021	Delta	Std. Dev.
Commodity Futures	3.4%	1.3%	+2.1%	18.5%
Midstream Energy	6.0%	6.3%	-0.3%	28.6%
REIT	6.1%	4.7%	+1.4%	21.4%
Global Infrastructure Equity	6.1%	5.7%	+0.4%	20.3%
Global Natural Resources Equity	6.4%	5.4%	+1.0%	23.2%
Gold	4.4%	3.4%	+1.0%	16.3%
Real Estate - Core	4.4%	4.8%	-0.4%	15.0%
Real Estate - Non-Core	5.7%	6.0%	-0.3%	17.5%
Private Debt - Real Estate	5.3%	4.5%	+0.8%	11.4%
Private Real Assets - Natural Resources	7.9%	7.2%	+0.7%	32.5%
Private Real Assets - Infrastructure	6.1%	5.4%	+0.7%	12.6%



30-YEAR RETURN FORECASTS

EQUITY

Geometric Expected Return			
Asset Class	06/30/2022	06/30/2021	Delta
U.S. Large-Cap Equity	6.9%	6.2%	+0.7%
U.S. Small/Mid-Cap Equity	7.5%	6.3%	+1.2%
Non-U.S. Developed Equity	7.0%	6.2%	+0.8%
Non-U.S. Developed Equity (USD Hedge)	7.2%	6.4%	+0.8%
Non-U.S. Developed Small-Cap Equity	7.8%	6.6%	+1.2%
Emerging Market Equity	9.5%	8.4%	+1.1%
Emerging Market Small-Cap Equity	9.6%	8.4%	+1.2%
Hedge Fund - Equity	5.9%	5.2%	+0.7%
Private Equity - Buyout	8.9%	8.4%	+0.5%
Private Equity - Growth	9.9%	9.6%	+0.3%
Private Equity - Early Stage Venture	10.7%	10.5%	+0.2%
Private Equity - Secondary	8.3%	7.9%	+0.4%
Non-U.S. Private Equity	11.0%	10.6%	+0.4%
China Equity	9.3%	7.9%	+1.4%
U.S. Microcap Equity	8.4%	7.0%	+1.4%
Global Equity*	7.7%	6.8%	+0.9%
Private Equity*	10.3%	9.9%	+0.4%



*Calculated as a blend of other asset classes

30-YEAR RETURN FORECASTS

SAFE-HAVEN FIXED INCOME

Geometric Expected Return			
Asset Class	06/30/2022	06/30/2021	Delta
Cash	2.9%	2.3%	+0.6%
U.S. TIPS	3.6%	2.7%	+0.9%
U.S. Treasury Bond	3.4%	2.6%	+0.8%
U.S. Corporate Bond	5.3%	4.2%	+1.1%
U.S. Corporate Bond - AAA	4.4%	3.3%	+1.1%
U.S. Corporate Bond - AA	4.4%	3.4%	+1.0%
U.S. Corporate Bond - A	4.8%	3.8%	+1.0%
U.S. Corporate Bond - BBB	5.5%	4.3%	+1.2%
U.S. Mortgage-Backed Securities	3.7%	2.8%	+0.9%
U.S. Securitized Bond	4.5%	3.6%	+0.9%
U.S. Collateralized Loan Obligation	4.6%	4.0%	+0.6%
U.S. Municipal Bond	3.5%	2.5%	+1.0%
U.S. Municipal Bond (1-10 Year)	3.1%	2.4%	+0.7%
U.S. Taxable Municipal Bond	5.2%	3.6%	+1.6%



30-YEAR RETURN FORECASTS

SAFE-HAVEN FIXED INCOME

Geometric Expected Return			
Asset Class	06/30/2022	06/30/2021	Delta
Non-US Government Bond	2.8%	1.9%	+0.9%
Non-US Government Bond (USD Hedge)	3.0%	2.2%	+0.8%
Non-US Inflation-Linked Bond (USD Hedge)	2.6%	1.5%	+1.1%
U.S. Short-Term TIPS (1-3 Year)	3.2%	2.5%	+0.7%
U.S. Short-Term Treasury Bond (1-3 Year)	3.2%	2.4%	+0.8%
U.S. Short-Term Corporate Bond (1-3 Year)	4.3%	3.4%	+0.9%
U.S. Intermediate-Term TIPS (3-10 Year)	3.7%	2.8%	+0.9%
U.S. Intermediate-Term Treasury Bond (3-10 Year)	3.6%	2.8%	+0.8%
U.S. Intermediate-Term Corporate Bond (3-10 Year)	5.4%	4.4%	+1.0%
U.S. Long-Term Treasury Bond (10-30 Year)	3.4%	2.5%	+0.9%
U.S. Long-Term TIPS (10-30 Year)	3.8%	2.5%	+1.3%
U.S. Long-Term Corporate Bond (10-30 Year)	5.5%	4.2%	+1.3%
20+ Year U.S. Treasury STRIPS	3.3%	2.2%	+1.1%
10 Year U.S. Treasury Bond	3.9%	3.1%	+0.8%
10 Year Non-U.S. Government Bond (USD Hedge)	2.5%	1.4%	+1.1%
U.S. Aggregate Bond*	4.0%	3.2%	+0.8%



*Calculated as a blend of other asset classes

30-YEAR RETURN FORECASTS

RETURN-SEEKING CREDIT

Geometric Expected Return			
Asset Class	06/30/2022	06/30/2021	Delta
U.S. High Yield Corporate Bond	6.9%	5.4%	+1.5%
U.S. Corporate Bond - BB	7.3%	6.0%	+1.3%
U.S. Corporate Bond - B	7.0%	5.4%	+1.6%
U.S. Corporate Bond - CCC/Below	1.7%	-0.5%	+2.2%
U.S. Short-Term High Yield Corp Bond (1-3 Year)	5.0%	3.6%	+1.4%
U.S. Leveraged Loan	6.3%	5.5%	+0.8%
Emerging Market External Debt	6.5%	5.1%	+1.4%
Emerging Market Local Currency Debt	5.9%	5.4%	+0.5%
U.S. High Yield Securitized Bond	6.8%	5.3%	+1.5%
U.S. High Yield Collateralized Loan Obligation	7.1%	6.4%	+0.7%
U.S. High Yield Municipal Bond	5.2%	4.0%	+1.2%
Hedge Fund - Credit	6.6%	5.7%	+0.9%
Private Debt - Credit Opportunities	8.1%	7.2%	+0.9%
Private Debt - Distressed	9.1%	8.1%	+1.0%
Private Debt - Direct Lending	8.6%	7.8%	+0.8%
Private Debt*	8.7%	7.8%	+0.9%



*Calculated as a blend of other asset classes

30-YEAR RETURN FORECASTS

REAL ASSETS

Geometric Expected Return			
Asset Class	06/30/2022	06/30/2021	Delta
Commodity Futures	3.3%	3.5%	-0.2%
Midstream Energy	6.7%	6.5%	+0.2%
REIT	7.3%	6.5%	+0.8%
Global Infrastructure Equity	6.7%	6.4%	+0.3%
Global Natural Resources Equity	6.7%	6.5%	+0.2%
Gold	4.4%	4.1%	+0.3%
Real Estate - Core	5.2%	5.6%	-0.4%
Real Estate - Non-Core	6.7%	7.0%	-0.3%
Private Debt - Real Estate	5.7%	5.4%	+0.3%
Private Real Assets - Natural Resources	8.4%	8.1%	+0.3%
Private Real Assets - Infrastructure	6.8%	6.5%	+0.3%



PRIVATE MARKETS COMPOSITES

PUBLIC MARKET BETA INPUTS FOR PRIVATE MARKETS

PRIVATE EQUITY

Buyout: 25% U.S. Large Cap, 75% U.S. Small/Mid Cap

Secondary: 25% U.S. Large Cap, 75% U.S. Small/Mid Cap

Growth: 50% U.S. Small/Mid Cap, 50% U.S. Microcap

Early-Stage Venture: 25% U.S. Small/Mid Cap, 75% U.S. Microcap

Non-U.S.: 70% International Small Cap, 30% Emerging Small Cap

Composite: 34% Buyout, 34% Growth, 15 % Non-U.S., 8.5% Secondary, 8.5% Early Venture

PRIVATE DEBT

Direct Lending: 100% Bank Loans

Distressed: 20% U.S. Small/Mid Cap, 60% U.S. High Yield, 20% Bank Loans

Credit Opportunities: 34% U.S. SMID Cap, 33% U.S. High Yield, 33% Bank Loans

Composite: 50% Direct Lending, 25% Credit Opportunities, 25% Distressed

PRIVATE REAL ASSETS

Energy: 30% Comm., 35% Midstream, 35% Public Resource Equity

Infra/Land: 30% Commodities, 70% Public Infrastructure

Private Real Estate Debt: 50% CMBS, 50% Real Estate - Core



INFORMATION DISCLAIMER

Past performance is no guarantee of future results.

The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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