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San Joaquin may axe $370m risk parity portfolio

The $4bn system could terminate Bridgewater, PanAgora amid underperformance

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The $4bn San Joaquin County Employees Retirement Association could remove its $370m risk parity portfolio due to long-term underperformance.

Consultant Meketa will present the board with a recommendation at the November meeting following further talks with the incumbent managers, Bridgewater and PanAgora.

Meketa MD David Sancewich advised against moving too quickly on the risk parity matter, as doing so would lock in accrued losses. However, he did indicate where the assets might go.

"If I were to sell risk parity today, I would put the money in your public equity and fixed income markets," Sancewich said at San Joaquin's September board meeting.

Both risk parity and private credit contributed to the total portfolio's underperformance, Meketa noted.

Earlier this year, the system lowered its risk parity target to 6% or $240m from 10% or $400m.

"We had intentionally lowered the target for risk parity during our last asset liability discussion. However, it has done nothing to the portfolio relative to its benchmark and has been underperforming significantly," added Sancewich.

Risk parity performance

Source: With Intelligence | as of June 30, 2023

San Joaquin allocates $370m to risk parity, as of June 30, which sits within its stabilized growth portfolio.

The stabilized growth portfolio is underweight at 29.9% or $1.2bn against a target of 33% or $1.3bn. The other components, besides risk parity, are private credit and liquid credit.

Meketa has invited PanAgora to the board's November roundtable meeting to discuss their performance before making a final decision.

The consultant also highlighted the underperformance of the $2bn Stanislaus County Employees Retirement Association's risk parity portfolio.

Several other allocators have already dropped risk parity over the past year, including the Alaska Permanent Fund Corporation, Kodak US pension plan and Oregon Public Employees Retirement Fund.

Bridgewater and PanAgora did not respond to requests for comment.