



Memorandum

TO: PUBLIC SAFETY, FINANCE AND
STRATEGIC SUPPORT COMMITTEE

FROM: John Flynn
Prabhu Palani

SUBJECT: Retirement Plans Investments
Annual Report

DATE: November 20, 2024

RECOMMENDATION

Accept the Annual Pension and Healthcare Investment Performance Report for the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System for fiscal year 2023-2024.

BACKGROUND

As stated in the Investment Policy Statements for both the Police and Fire Department Retirement Plan (P&F Plan) and the Federated City Employees' Retirement System (Federated System):

"The Board of Administration recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the System. As such, the Board members have developed this Investment Policy Statement with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of the System's assets,*
- To establish a long-term target asset allocation with a high likelihood of meeting the System's objectives given the explicit constraints, and*
- To protect the financial health of the System through the implementation of this stable long-term investment policy.*

It is under this context that the P&F Plan and the Federated System engage in frequent reviews of their asset allocation targets.

ANALYSIS

Pension Assets

Following are fiscal year-end pension investment return results for the P&F Plan and the Federated System as of June 30, 2024.

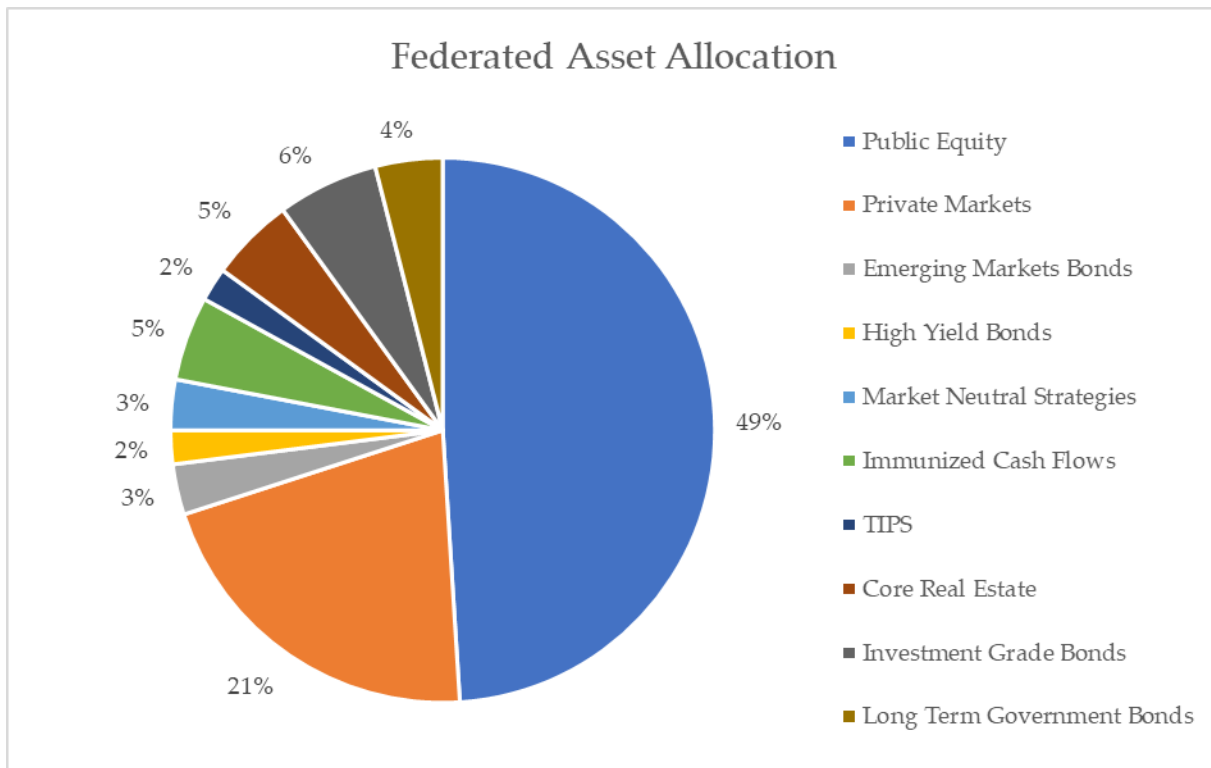
Federated Pension System

For the fiscal year-ended June 30, 2024 the Federated System returned 9.7% net of fees versus the Policy Benchmark return of 9.8% and the Assumed Rate of Return assumption of 6.625%. The table below illustrates historic performance versus the Policy Benchmark and Assumed Rate of Return since 2015.

FEDERATED PENSION SYSTEM

Fiscal Year End	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10 YR
Actual Return	-1.0%	-0.7%	7.5%	5.9%	4.3%	3.6%	29.2%	-4.4%	7.5%	9.7%	5.8%
Benchmark	-3.3%	1.3%	8.1%	7.4%	3.9%	3.9%	27.8%	-5.0%	7.8%	9.8%	5.8%
Discount Rate	7.0%	6.9%	6.9%	6.9%	6.8%	6.8%	6.6%	6.6%	6.6%	6.6%	

One of the primary drivers of investment performance is the long-term strategic asset allocation by which the System investments will be apportioned. In conjunction with the Federated System’s investment consultant and the Investment Program, the Federated Board adopted the following asset allocation at their April 18 meeting.



Based on capital market assumptions and asset class correlations at the time of adoption, the System's investment consultant concluded that the asset allocation was expected to return an annualized rate of 8.5% over a 20-year period with a standard deviation of 13.4%.

P&F Pension Plan

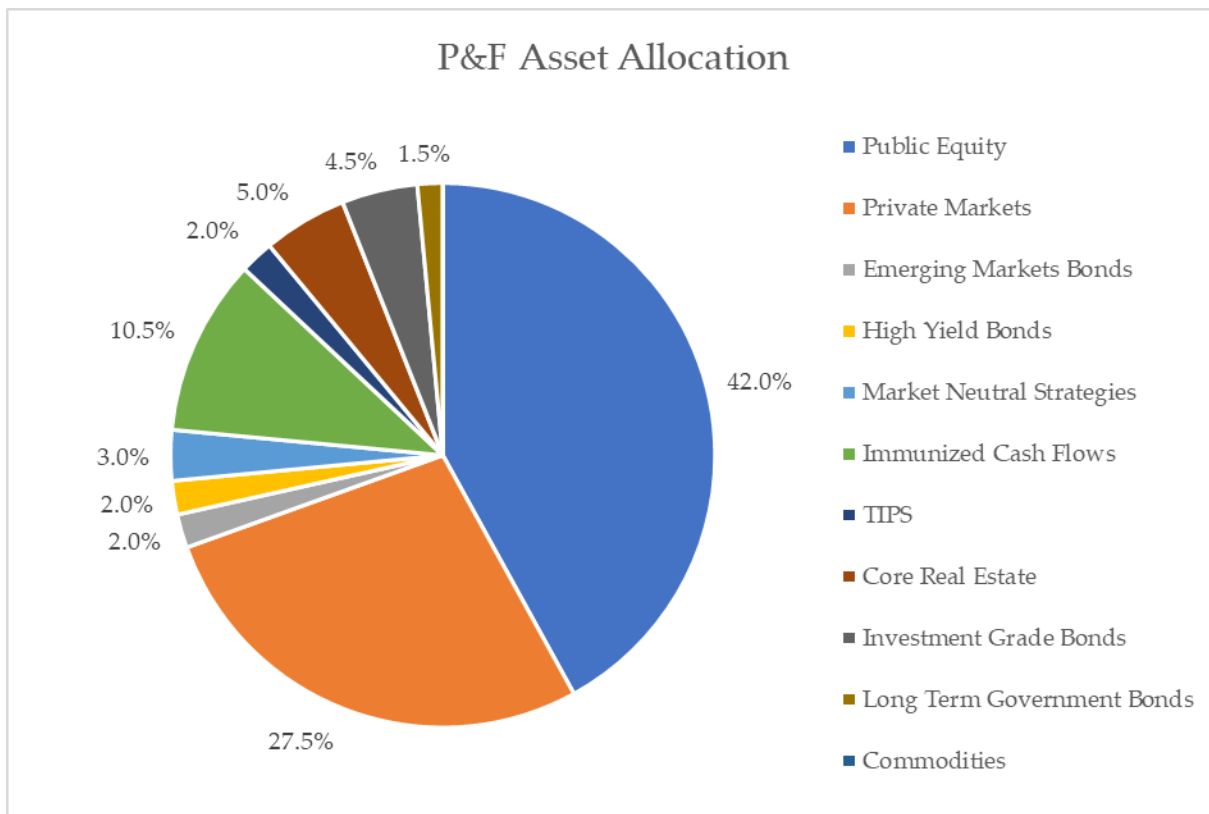
For the fiscal year-ended June 30, 2024 the P&F Plan returned 9.7% net of fees versus the Policy Benchmark return of 9.7% and the Assumed Rate of Return assumption of 6.625%. The table

below illustrates historic performance versus the Policy Benchmark and Assumed Rate of Return since 2015.

POLICE & FIRE PLAN

Fiscal Year End	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10 YR
Actual Return	-0.8%	-0.6%	9.7%	6.9%	4.3%	3.1%	26.3%	-5.0%	7.7%	9.7%	5.8%
Benchmark	-1.0%	1.0%	9.5%	7.6%	4.4%	2.9%	25.2%	-5.3%	7.5%	9.7%	5.9%
Discount Rate	7.0%	6.9%	6.9%	6.9%	6.8%	6.8%	6.6%	6.6%	6.6%	6.6%	

One of the primary drivers of investment performance is the long-term strategic asset allocation by which the System investments will be apportioned. In conjunction with the P&F Plan’s investment consultant and the Investment Program, the P&F Board adopted the following asset allocation at their May 2 meeting.



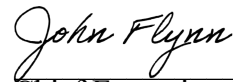
Based on capital market assumptions and asset class correlations at the time of adoption, the System's investment consultant concluded that the asset allocation was expected to return an annualized rate of 8.5% over a 20-year period with a standard deviation of 11.4%.

Healthcare 115 Trust Assets

Healthcare assets for both the P&F Plan and Federated System are held in 401(h) accounts within the pension assets. In addition to the 401(h) healthcare assets held in both pension plans, the City established separate Internal Revenue Code Section 115 Trusts in recent years as a

supplement to the 401(h) accounts. The 115 Trusts are managed in a similar, but more liquid, asset allocation than the Pensions. For the fiscal year-ended June 30, 2024 the Federated Healthcare Trust returned 9.4% net of fees versus the Policy Benchmark return of 9.3% and the Assumed Rate of Return assumption of 6.0%. The P&F Healthcare Trust returned 9.5% net of fees versus the Policy Benchmark return of 9.3% and the Assumed Rate of Return assumption of 6.0%. Following are fiscal year-end Healthcare 115 Trust investment return results for both the Federated Healthcare Trust and the P&F Healthcare Trust as of June 30, 2024.

Fiscal Year End	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>10 YR</u>
Federated Healthcare Trust	-2.7%	-2.7%	8.7%	4.9%	4.2%	2.2%	24.8%	-10.0%	8.2%	9.4%	4.1%
Police & Fire Healthcare Trust	-1.7%	0.3%	7.0%	3.6%	4.7%	3.0%	24.0%	-9.6%	8.1%	9.5%	4.5%



Chief Executive Officer
 Office of Retirement Services

Chief Investment Officer
 Office of Retirement Services

For questions, please contact John Flynn, CEO, at john.flynn@sanjoseca.gov or (408) 794-1000 or Prabhu Palani, CIO, at (408) 794-1040.