



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: September 7, 2018

Approved

Date

COUNCIL DISTRICT: N/A

SUBJECT: Retirement Plans' Comprehensive Annual Investment Fee Report for Calendar Year 2017

RECOMMENDATION

Accept the following reports:

- (a) Police and Fire Retirement Plan Comprehensive Annual Fee Report for calendar year 2017.
- (b) Federated City Employees' Retirement System Comprehensive Annual Fee Report for calendar year 2017.

CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. (Retirement Services)

EXECUTIVE SUMMARY

Investment fees are a factor that affects the performance of the Retirement Plans' and are an area of focus for the Office of Retirement Services ("ORS"). It is important to note that investment fees are a function of asset allocation and portfolio construction, which are byproducts of the Boards' objectives, investment beliefs, and risk tolerances.

Each year, the Board typically reviews long-term expected return and risk forecasts for asset classes from the General Consultant and approves an asset allocation mix that specifies target allocations to each asset class. Fees generally increase as the complexity of investments increases. The need for diversification in the portfolio is expressed in the Investment Policy Statement that "Investments shall be diversified with the intent to minimize the risk of large investment losses."

ORS developed a comprehensive annual fee report beginning with the calendar year 2015 period that captures embedded fees (ex: incentive fees / carried interest) for all investments with a goal of providing transparency and insight into the total fees and expenses paid to investment managers, along with the costs of operating the investment program. ORS has committed to producing such a report on an annual basis and compiled similar reports for the 2016 and 2017 calendar years. Only a small group of public plans produce such a robust fee report.

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In calendar year 2017, the combined ORS plans incurred management fees, incentive fees, and fund operating expenses of **\$75.7 million** for a fee ratio of **1.29%** of plan assets. Other expenses for running the investment program including staff salaries and benefits, consultants, custodian, and third party vendors were **\$4.7 million**, or **0.08%** of plan assets. The combined plans achieved a **0.07%** reduction in management fee ratio from 2016 by increasing investments in lower cost fund types and negotiating for lower fees.

An apples-to-apples comparison of these comprehensive fee reports is difficult due to a lack of industry standards, different levels of fee information captured by each plan, and a small number of public plans producing a comprehensive fee report.

The 2017 comprehensive annual fee reports for the Federated and Police and Fire plans are enclosed along with the 2016 and 2015 reports for reference.



Roberto L. Peña, CEO
Office of Retirement Services

For questions, please contact Linda Alexander, Assistant to the CEO, at (408) 794-1005.