



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: October 1, 2019

Approved

Date

COUNCIL DISTRICT: N/A

SUBJECT: Retirement Plans' Comprehensive Annual Investment Fee Report for Calendar Year 2018

RECOMMENDATION

Accept the following reports:

- (a) Police and Fire Retirement Plan Comprehensive Annual Fee Report for calendar year 2018.
- (b) Federated City Employees' Retirement System Comprehensive Annual Fee Report for calendar year 2018.

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 "an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of expected returns. Within each asset type, investments will be distributed across many individual holdings, with the intention of further reducing volatility"

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

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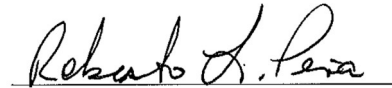
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producing such a report on an annual basis and compiled similar reports for the 2016, 2017 and 2018 calendar years. Only a small group of public plans produce such a robust fee report.

In calendar year 2018, the combined ORS plans incurred management fees, incentive fees, and fund operating expenses of **\$71.2 million** for a fee ratio of **1.14%** of plan assets. Other expenses for running the investment program including staff salaries and benefits, consultants, custodian, and third party vendors were **\$4.8 million**, or **0.08%** of plan assets. The combined plans achieved a **0.15%** reduction in Total Fee ratio, inclusive of a **0.10%** reduction in management fee, from 2017 by increasing investments in lower cost fund types.

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 2018 comprehensive annual fee reports for the Federated and Police and Fire plans are enclosed along with the 2017 and 2016 reports for reference.

A handwritten signature in black ink, reading "Roberto L. Peña", written over a horizontal line.

ROBERTO L. PEÑA
CEO
Office of Retirement Services

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