



**COUNCIL AGENDA:** 1/9/2018  
**ITEM:** 3.5 (17-540)

## *Memorandum*

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**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Toni J. Taber, CMC  
City Clerk

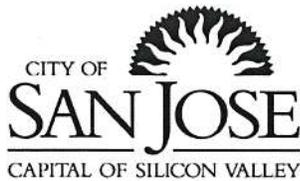
**SUBJECT:** SEE BELOW

**DATE:** December 22, 2017

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**SUBJECT: RETIREMENT PLANS INVESTMENTS ANNUAL REPORT**

**RECOMMENDATION:** As recommended by the Public Safety, Finance, and Strategic Support Committee on December 14, 2017, accept the Annual Pension and Healthcare Fiscal Year-End Investment Performance Report for the Police and Fire Department Retirement Plan (P&F Plan) and the Federated City Employees' Retirement System (Federated System) for Fiscal Year 2016-2017; and refer the report to the January 9, 2018 City Council meeting for full adoption.



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE &  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Daryn Miller

**SUBJECT:** RETIREMENT PLANS INVESTMENTS  
ANNUAL REPORT

**DATE:** December 1, 2017

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Approved /Roberto Peña/

Date 12/1/17

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## **RECOMMENDATION**

Accept the Annual Pension and Healthcare Fiscal Year-End Investment Performance Report for the Police and Fire Department Retirement Plan (P&F Plan) and the Federated City Employees' Retirement System (Federated System) for Fiscal Year 2016-2017; and refer the report to the January 9, 2018 City Council meeting for full adoption.

## **BACKGROUND**

As stated in the Investment Policy Statements for both the P&F Plan and the Federated System, assets:

*(W)ill be managed as a going concern with a long-term investment time horizon, consistent with the demographic profile of the System's [Plan's] members and beneficiaries.*

In addition:

*Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.*

It is under this context that the P&F Plan and the Federated System engage in frequent reviews of their asset allocation targets. The review process is intended to ensure that investments are diversified in a manner which will achieve the best risk adjusted returns and minimize the risk of large investment losses during times of prolonged market stress.

**ANALYSIS**

**PENSION ASSETS**

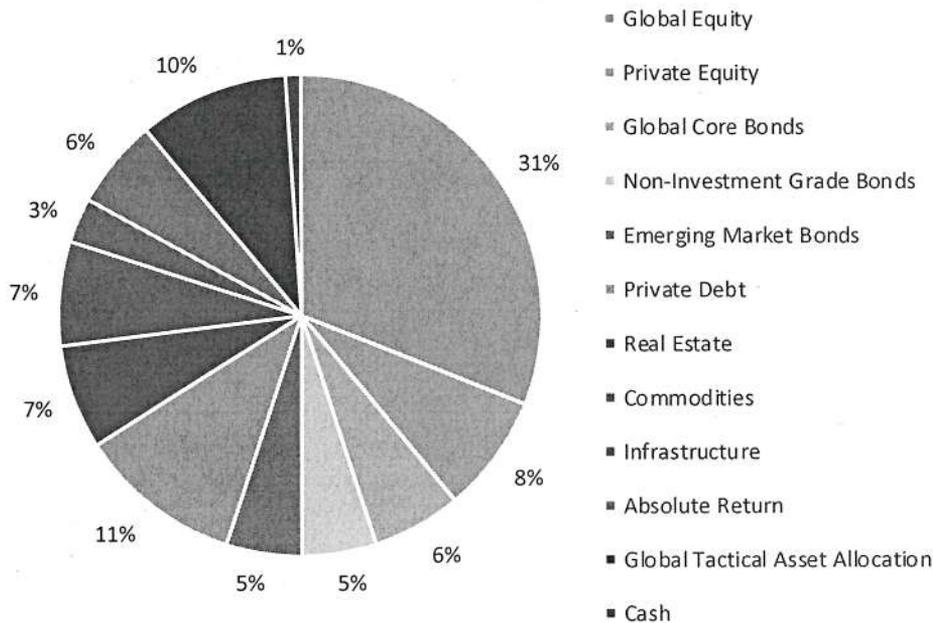
Following are fiscal year-end pension investment return results for both the P&F Plan and the Federated System as of June 30, 2017.

*P&F Pension Plan*

For the fiscal year-ended June 30, 2017, the P&F Plan returned 9.7% net of fees versus the Policy Benchmark return of 9.5% and the Assumed Rate of Return assumption of 6.875%. The table below illustrates historic performance versus the Policy Benchmark and Assumed Rate of Return since 2008.

| Fiscal Year    | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Plan Return    | -5.5%  | -18.4% | 14.0%  | 18.1%  | -0.5%  | 9.6%   | 13.5%  | -1.0%  | -0.6%  | 9.7%   |
| Plan Benchmark | -4.4%  | -18.6% | 12.2%  | 20.5%  | 1.3%   | 8.1%   | 14.6%  | -1.0%  | 1.0%   | 9.5%   |
| Difference     | -1.1%  | +0.2%  | +1.8%  | -2.4%  | -1.8%  | +1.5%  | -1.1%  | +0.0%  | -1.6%  | +0.2%  |
| Assumed Rate   | 8.000% | 8.000% | 8.000% | 7.750% | 7.500% | 7.250% | 7.125% | 7.000% | 7.000% | 6.875% |

One of the primary drivers of investment performance is the long-term strategic asset allocation by which the Plan investments will be apportioned. In conjunction with the P&F Plans' investment consultant and the Investment Program, the P&F Board has adopted the following asset allocation.



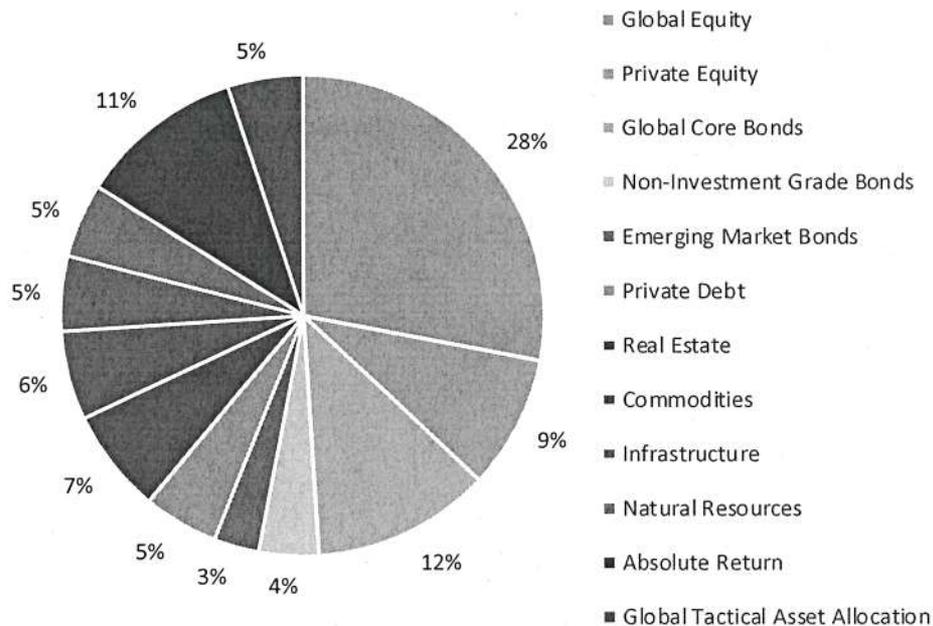
Based on current capital market assumptions and asset class correlations, the Plan's investment consultant has concluded that the asset allocation is expected to return an annualized rate of 7.1% over a 20-year period with a standard deviation of 12.3%.

Federated Pension System

For the fiscal year-ended June 30, 2017 the Federated System returned 7.5% net of fees versus the Policy Benchmark return of 8.1% and the Assumed Rate of Return assumption of 6.875%. The table below illustrates historic performance versus the Policy Benchmark and Assumed Rate of Return since 2008.

| Fiscal Year    | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Plan Return    | -3.7%  | -17.3% | 13.7%  | 18.8%  | -3.2%  | 8.0%   | 14.2%  | -1.0%  | -0.7%  | 7.5%   |
| Plan Benchmark | -2.9%  | -15.2% | 11.7%  | 21.8%  | -2.3%  | 8.8%   | 13.9%  | -1.3%  | 1.3%   | 8.1%   |
| Difference     | -0.8%  | -2.1%  | +2.0%  | -3.0%  | -0.9%  | -0.8%  | +0.3%  | +0.3%  | -2.0%  | -0.6%  |
| Assumed Rate   | 8.250% | 8.250% | 7.750% | 7.950% | 7.500% | 7.500% | 7.250% | 7.000% | 7.000% | 6.875% |

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 Systems investment consultant and the Investment Program, the Federated Board has adopted the following asset allocation.



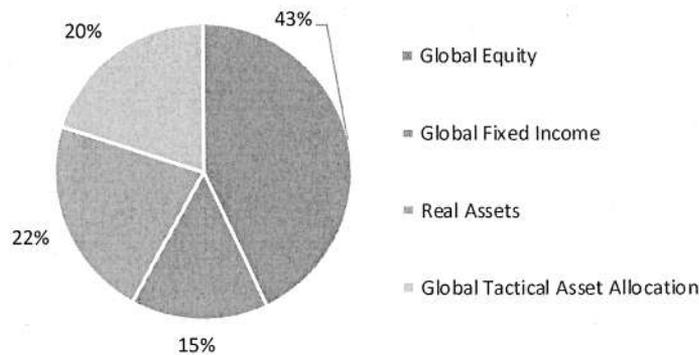
Based on current capital market assumptions and asset class correlations, the System's investment consultant has concluded that the asset allocation is expected to return an annualized rate of 7.1% over a 20-year period with a standard deviation of 11.8%.

## 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. Due to the smaller asset size of the 115 Trusts, the investment consultants for both Boards have advised the use of asset allocations different from those of the pension assets. The differing asset allocations for the 115 trusts result in differing returns from the pension assets. Following are fiscal year-end Healthcare 115 Trust investment return results for both the P&F Healthcare Trust and the Federated Healthcare Trust as of June 30, 2017.

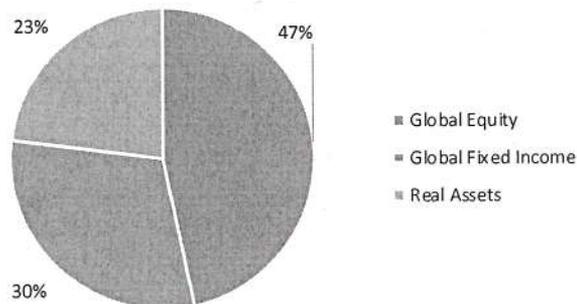
### P&F Healthcare Trust

For the fiscal year-ended June 30, 2017 the P&F Healthcare Trust returned 7.0% net of fees versus the Policy Benchmark return of 9.5% and the Assumed Rate of Return assumption of 6.875%. Following is the Board adopted Healthcare Trust asset allocation.



### Federated Healthcare Trust

For the fiscal year-ended June 30, 2017 the Federated Healthcare Trust returned 8.7% net of fees versus the Policy Benchmark return of 9.2% and the Assumed Rate of Return assumption of 6.875%. Following is the Board adopted Healthcare Trust asset allocation.



**CONCLUSION**

Staff recommends acceptance of the performance report.

/s/  
Daryn Miller, CFA  
Interim Chief Investment Officer

For questions, please contact Daryn Miller, Interim Chief Investment Officer, Office of Retirement Services, at (408) 794-1042.