



Federated Annual Fee Report - 2015

Executive Summary

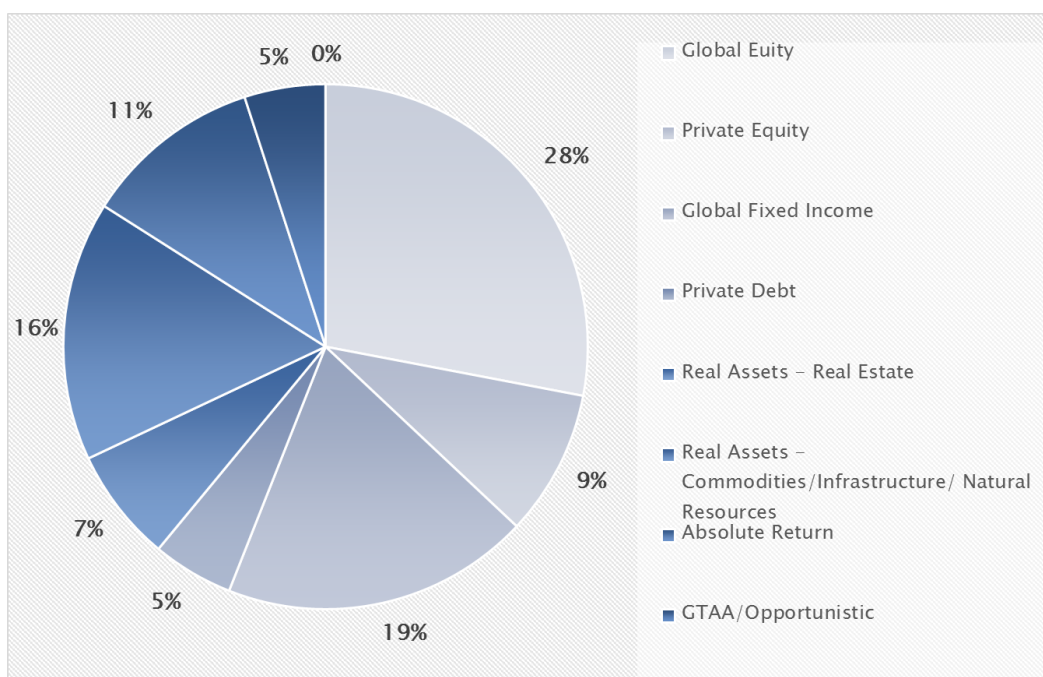
It is my pleasure to present to you the first annual Asset Allocation Fee Report for the Federated City Employees' Retirement System for 2015. As part of the Fiscal Year 2016-2017 Investment Program Work Plan staff committed to performing a comprehensive aggregation of all fees associated with the systems asset allocation. In order to facilitate the development of the annual fee report staff utilized December 31, 2015 close to align with manager reporting periods. In addition, staff prepared uniform fee reporting templates so that fee related data could be captured consistently among managers. It is staffs' intention to initially capture fee data for 2015 and then going forward present the annual fee report each summer for the previous calendar year end reporting period.

Staff compiled this fee study using the best available information for each asset manager to develop a comprehensive view of fees for 2015. All fee amounts were reviewed for reasonableness and reconciled to fee schedules. Fees for all managers during the year are included in the report, including those that were funded or terminated during the year. With each iteration of the annual fee report staff intends to provide additional analysis and continually evolve the report. With subsequent years it will be possible to perform time series analysis to compare and contrast year over year changes to absolute fees. In addition, it will be possible to examine the year over year changes to fees as a result of portfolio changes.

It is important to note that fees are a byproduct of asset allocation and portfolio construction, which are byproducts of the Board's risk tolerance. Each year the Board reviews the asset allocation of the system in light of updated capital market assumptions and the expected returns and volatility of the portfolio associated with those assumptions. In addition the Board evaluates the macroeconomic environment to inform short-term risks to the portfolio while balancing the long-term goals of the system. The current asset allocation as illustrated in Table – 1 is an expression of the Board's Investment Policy Statement that *"Investments shall be diversified with the intent to minimize the risk of large investment losses"*. The current asset allocation is a reflection of the acknowledgement that we are in the later stages of the current economic cycle.

Table - 1

Asset Allocation as of June 30, 2016



As described in the Investment Program's Work Plan for fiscal year 2016-2017 the investment program believes there are three primary themes guiding current portfolio construction. The three main themes are elevated valuations throughout most asset classes, a plethora of global risks, and in light of the aforementioned, an emphasis on capital preservation through prudence and defensive posturing. It is under this backdrop that the portfolio, and the fee structure associated with it, should be viewed.

Introduction

The fees in this report represent management fees, incentive fees, and other investment-related costs that were incurred during the calendar year 2015. These amounts may include fees that were accrued for the 2015 investment period, but not paid during that year.

Management Fees include fees charged by fund managers to manage assets. Incentive Fees are performance-based fees generally for exceeding a hurdle rate and are only applicable to some fund structures. It's important to note that incentive fees are a form of shared economics in that they are only paid if the manager has produced positive returns or met a predetermined hurdle rate. Both Management and Incentive Fee amounts exclude fund

operating expenses charged by investment managers for overhead not directly related to investment management. Trading expenses such as broker commissions are also excluded. Other investment-related costs include cash compensation for investment Staff, cost of general consultant and Absolute Return consultant, custodian, investment-related legal, and costs for various research tools used by Staff.

The pension plan has an Overlay fund that includes investments across multiple asset classes. Overlay fees were allocated to the respective asset classes that were overlaid during the year. The collateral balances in the Overlay fund was captured under the Cash asset class.

The fees in this report do not include indirect expenses and charges that may be paid to managers' affiliates, consultants or entities for services rendered to the managers, the funds or portfolio entities held by certain funds; nor is it intended to include all categories of fees, expenses and charges identified in the Institutional Limited Partners Association (ILPA) fee reporting template.

Data Sources

Staff compiled this fee study using the best available information for each fund manager to develop a comprehensive view of fees for 2015. All fee amounts were reviewed for reasonableness and reconciled to fee schedules. Fees for all managers during the year are included in the report, including those that were funded or terminated during the year.

For most separately managed accounts and public markets commingled funds, quarterly fee invoices from the fund managers were used as the data source. For mutual funds, ETF's, short term investment funds (Cash), and certain public markets commingled funds that deduct fees directly from the funds, the fees were calculated by multiplying each fund's fee ratio by the average of the fund's monthly ending balances in 2015. The monthly ending balances were sourced from our custodian State Street.

The remaining manager fees were sourced from our managers directly. Absolute Return fees were provided by managers with quarterly re-calculations and reconciliations completed by our absolute return consultant Albourne. Private Equity fees were gathered by asking our managers to complete the Institutional Limited Partners Association (ILPA) fee reporting template or a similar template. This template is intended to unify and codify the presentation of fees, expenses, and carried interest information by fund managers to Limited Partners. The remaining manager fees in Global Fixed Income, Private Debt, and Real Assets were obtained by having the fund managers fill out a fee template designed by Staff.

Staff and research costs were allocated to each of the 4 pension plans by pro-rating the total cost based on the average ending month-end balance of each plan. Legal costs were

allocated between the pension and health care trusts by pro-rating the total cost based on the average ending month-end balance of each plan. Consultant, custodian, investment-related legal, and research costs were sourced from fee invoices from the vendors.

Total Portfolio Fee Summaries

The following tables present fees by both asset class and by management type. The fees by asset class are presented in accordance with the asset allocation in Table – 1. The fees by management type are presented by segregating investments into the management type they best represent including; passive, active, hedged, and private. Passive management strategies are those strategies that are intended to generate a return that emulates a passive index. Active strategies are those strategies where investment managers make specific investments in an attempt to outperform an index. Hedged strategies refer to those strategies where long and short investments are employed. Hedged strategies generally seek to achieve an absolute return (“alpha”) in all market environments regardless of market returns (“beta”). Private strategies are those strategies which employ managers who utilize a diverse set of approaches to invest directly in non-exchange listed companies or to take listed companies private. Private strategies also include managers who invest in the credit of companies or provide loans to companies and invest in non-exchange listed real estate.

Table – 2

Pension Fees by Asset Type and Management Type

Asset Class	Management Fees	Incentive Fees	Management and Incentive Fees	Average Ending Balance	Fee Ratio	Contribution to Total Plan Fee Ratio
GLOBAL EQUITY	5,000,000	1,900,000	6,900,000	628,900,000	1.10%	0.34%
PASSIVE	300,000	-	300,000	189,400,000	0.16%	0.01%
ACTIVE	2,500,000	-	2,500,000	319,800,000	0.78%	0.12%
HEDGED	2,200,000	1,900,000	4,100,000	119,700,000	3.43%	0.20%
GLOBAL FIXED INCOME	1,700,000	100,000	1,800,000	393,200,000	0.46%	0.09%
PASSIVE	100,000	-	100,000	269,400,000	0.04%	0.00%
ACTIVE	300,000	-	300,000	51,400,000	0.58%	0.01%
HEDGED	1,300,000	100,000	1,400,000	72,400,000	1.93%	0.07%
PRIVATE DEBT	1,400,000	-	1,400,000	108,800,000	1.29%	0.07%
PRIVATE	1,400,000	-	1,400,000	108,800,000	1.29%	0.07%
REAL ASSETS	2,200,000	700,000	3,000,000	474,400,000	0.63%	0.15%
PASSIVE	200,000	-	200,000	237,100,000	0.08%	0.01%
ACTIVE	500,000	-	500,000	122,100,000	0.41%	0.02%
PRIVATE	1,600,000	700,000	2,300,000	115,200,000	2.00%	0.11%
PRIVATE EQUITY	1,400,000	600,000	2,000,000	85,500,000	2.34%	0.10%
PRIVATE	1,400,000	600,000	2,000,000	85,500,000	2.34%	0.10%
ABSOLUTE RETURN	4,300,000	2,700,000	7,000,000	220,300,000	3.18%	0.35%
HEDGED	4,300,000	2,700,000	7,000,000	220,300,000	3.18%	0.35%
CASH	100,000	-	100,000	104,900,000	0.10%	0.00%
PASSIVE	100,000	-	100,000	104,900,000	0.10%	0.00%
TOTAL PLAN	16,100,000	6,000,000	22,200,000	2,016,000,000	1.10%	

The table above illustrates that management and incentive fees for the pension system totaled \$22.2 million for 2015 which equated to a total plan fee ratio of 1.10%. The global equity and absolute return asset classes contributed the most to the total plan fee ratio at .34% and .35%, respectively. The private debt and global fixed income asset classes contributed the least to the total plan fee ratio at .07% and .09%, respectively.

Table – 3
Pension Fees by Management Type

Type	Management Fees	Incentive Fees	Management and Incentive Fees	Average Ending Balance	Fee Ratio	Contribution to Total Plan Fee Ratio
PASSIVE	700,000	-	700,000	800,800,000	0.09%	0.03%
ACTIVE	3,300,000	-	3,300,000	493,300,000	0.67%	0.16%
HEDGED	7,800,000	4,700,000	12,500,000	412,400,000	3.03%	0.62%
PRIVATE	4,400,000	1,300,000	5,700,000	309,500,000	1.84%	0.28%
TOTAL PLAN	16,100,000	6,000,000	22,200,000	2,016,000,000	1.10%	

For the total portfolio hedged management strategies accounted for .62% of the total plan fee ratio and representing about 20% of system assets. Private management strategies were the next largest contributor to the total plan fee ratio accounting for .28% of the total plan fee ratio and representing 15% of system assets. Passive and active management strategies accounted for .03% and .16% of the total plan fee ratio and represented 40% and 24% of system assets, respectively.

Table – 4
Pension Other Investment Costs

Staff Cost	Consultants	Custodian	Legal and Research	Total Other Costs	Other Costs Fee Ratio
490,000	480,000	290,000	160,000	1,420,000	0.07%

Other investment costs for the pension system had a total fee ratio of .07%. As previously discussed other investment-related costs include cash compensation for investment Staff, cost of general consultant and Absolute Return consultant, custodian, investment-related legal, and costs for various research tools used by Staff.

Table – 5

Health Care Fees by Asset Type and Management Type

Asset Class	Management Fees	Incentive Fees	Management and Incentive Fees	Average Ending Balance	Fee Ratio	Contribution to Total Plan Fee Ratio
GLOBAL EQUITY	188,000	-	188,000	52,050,000	0.36%	0.16%
PASSIVE	15,000	-	15,000	32,395,000	0.05%	0.01%
ACTIVE	173,000	-	173,000	19,654,000	0.88%	0.15%
GLOBAL FIXED INCOME	11,000	-	11,000	30,954,000	0.04%	0.01%
PASSIVE	11,000	-	11,000	30,954,000	0.04%	0.01%
REAL ASSETS	70,000	-	70,000	19,309,000	0.36%	0.06%
PASSIVE	5,000	-	5,000	6,144,000	0.08%	0.00%
ACTIVE	42,000	-	42,000	11,135,000	0.38%	0.04%
PRIVATE	23,000	-	23,000	2,030,000	1.13%	0.02%
CASH	15,000	-	15,000	15,041,000	0.10%	0.01%
PASSIVE	15,000	-	15,000	15,041,000	0.10%	0.01%
TOTAL PLAN	284,000	-	284,000	117,354,000	0.24%	

The table above illustrates that management and incentive fees for the health care system totaled \$284,000 for 2015 which equated to a total plan fee ratio of .24%. The global equity asset class contributed the most to the total plan fee ratio at .16%. The global fixed income asset class contributed the least to the total plan fee ratio at .01%.

Table – 6

Health Care Fees by Management Type

Type	Management Fees	Incentive Fees	Management and Incentive Fees	Average Ending Balance	Fee Ratio	Contribution to Total Plan Fee Ratio
PASSIVE	46,000	-	46,000	84,534,000	0.05%	0.04%
ACTIVE	215,000	-	215,000	30,789,000	0.70%	0.18%
PRIVATE	23,000	-	23,000	2,030,000	1.13%	0.02%
TOTAL PLAN	284,000	-	284,000	117,354,000	0.24%	

For the total health care portfolio, active management strategies accounted for .18% of the total plan fee ratio and represented about 26% of system assets. Passive and private management strategies accounted for .04% and .02% of the total plan fee ratio and represented 72% and 2% of system assets, respectively.

Table – 7

Health Care Other Investment Costs

Staff Cost	Consultants	Custodian	Legal and Research	Total Other Costs	Other Costs Fee Ratio
28,000	21,000	57,000	9,000	115,000	0.10%

Other investment costs for the health care system had a total fee ratio of .10%. As previously discussed other investment-related costs include cash compensation for investment Staff, cost of general consultant and Absolute Return consultant, custodian, investment-related legal, and costs for various research tools used by Staff.