



Memorandum

TO: Public Safety, Finance & Strategic Support Committee FROM: Roberto Peña
Brian Starr
SUBJECT: Retirement Plans Investments Annual Report DATE: December 13, 2018

Recommendation

Accept the Annual Pension and Healthcare 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 2017-2018.

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.

Analysis

Pension Assets

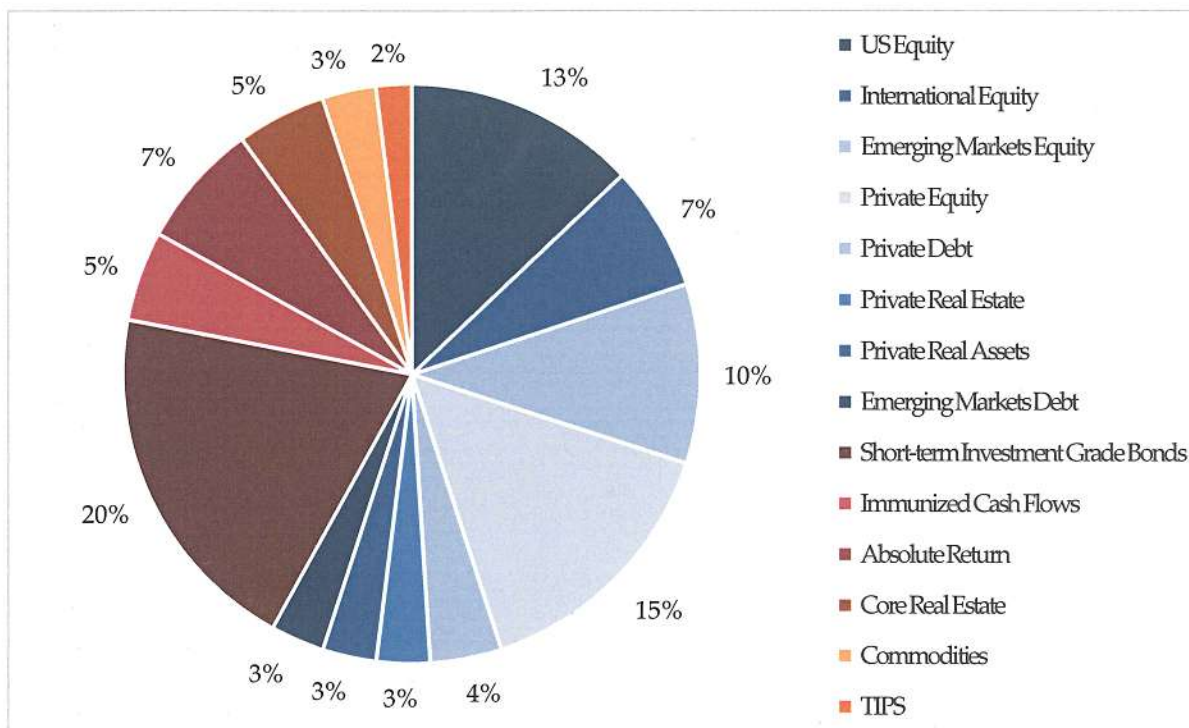
Following are fiscal year-end pension investment return results for the P&F Plan and the Federated System as of June 30, 2018.

Federated Pension System

For the fiscal year-ended June 30, 2018 the Federated System returned 5.9% net of fees versus the Policy Benchmark return of 7.4% 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 2009.

Fiscal Year End	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	10 YR
Actual Return	-17.0%	13.7%	18.9%	-3.3%	8.0%	14.2%	-1.0%	-0.7%	7.5%	5.9%	4.1%
Benchmark	-15.3%	12.1%	22.0%	-2.4%	8.3%	17.0%	-3.3%	1.3%	8.1%	7.4%	5.0%
Discount Rate	8.250%	7.750%	7.950%	7.500%	7.500%	7.250%	7.000%	6.875%	6.875%	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.



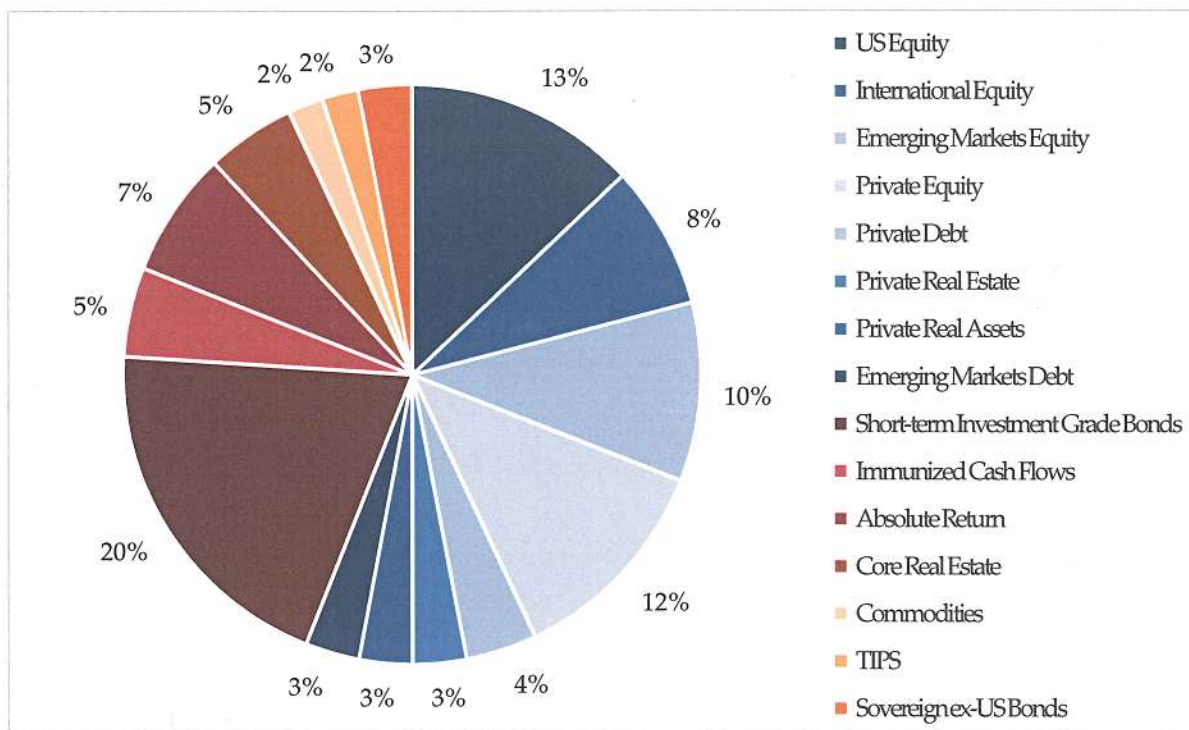
Based on current capital market assumptions and asset class correlations, the System's investment consultant has concluded that the asset allocation is expected to return an annualized rate of 7.3% over a 20-year period with a standard deviation of 12.3%.

P&F Pension Plan

For the fiscal year-ended June 30, 2018 the P&F Plan returned 6.9% 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 2009.

Fiscal Year End	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	10 YR
Actual Return	-18.4%	14.0%	18.1%	-0.5%	9.7%	13.5%	-0.8%	-0.6%	9.7%	6.9%	4.6%
Benchmark	-18.6%	12.2%	20.5%	1.3%	8.1%	14.6%	-1.0%	1.0%	9.5%	7.6%	4.9%
Discount Rate	8.000%	8.000%	7.750%	7.500%	7.250%	7.125%	7.000%	6.875%	6.875%	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 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 anticipated changes from the VEBA implementation, the 115 Trusts were managed differently from pension assets during fiscal year 2018. On a go-forward basis, the 115 Trusts will be managed according to a similar, but more liquid, asset allocation.

For the fiscal year-ended June 30, 2018 the Federated Healthcare Trust returned 4.9% net of fees versus the Policy Benchmark return of 7.9% and the Assumed Rate of Return assumption of 6.875%. The P&F Healthcare Trust returned 3.6% net of fees versus the Policy Benchmark return of 7.4% and the Assumed Rate of Return assumption of 6.875%. 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, 2018.

Fiscal Year End	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Since Inception</u>
Federated Healthcare Trust	9.0%	16.2%	-2.7%	-2.7%	8.7%	4.9%	4.7%
Police & Fire Healthcare Trust	5.0%	14.5%	-1.7%	0.3%	7.0%	3.6%	4.7%

Conclusion

Staff recommends acceptance of the performance report.

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For questions, please contact Chief Investment Officer Prabhu Palani at (408) 794-1040.