

**TO:** Public Safety, Finance & Strategic Support Committee      **FROM:** Roberto Peña  
Prabhu Palani

**SUBJECT:** Retirement Plans Investments Annual Report      **DATE:** December 10, 2020

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## **Recommendation**

Accept the Annual Pension and Healthcare Investment Performance Report for the Police and Fire Department Retirement Plan (P&F) and the Federated City Employees' Retirement System (Federated System) for Fiscal Year 2019-2020.

## **Background**

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

*"The Board of Administration recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the System. As such, the Board members have developed this Investment Policy Statement with the following goals in mind:*

- *To clearly and explicitly establish the objectives and constraints that govern the investment of the System's assets,*
- *To establish a long-term target asset allocation with a high likelihood of meeting the System's objectives given the explicit constraints, and*
- *To protect the financial health of the System through the implementation of this stable long-term investment policy.*

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, 2020.

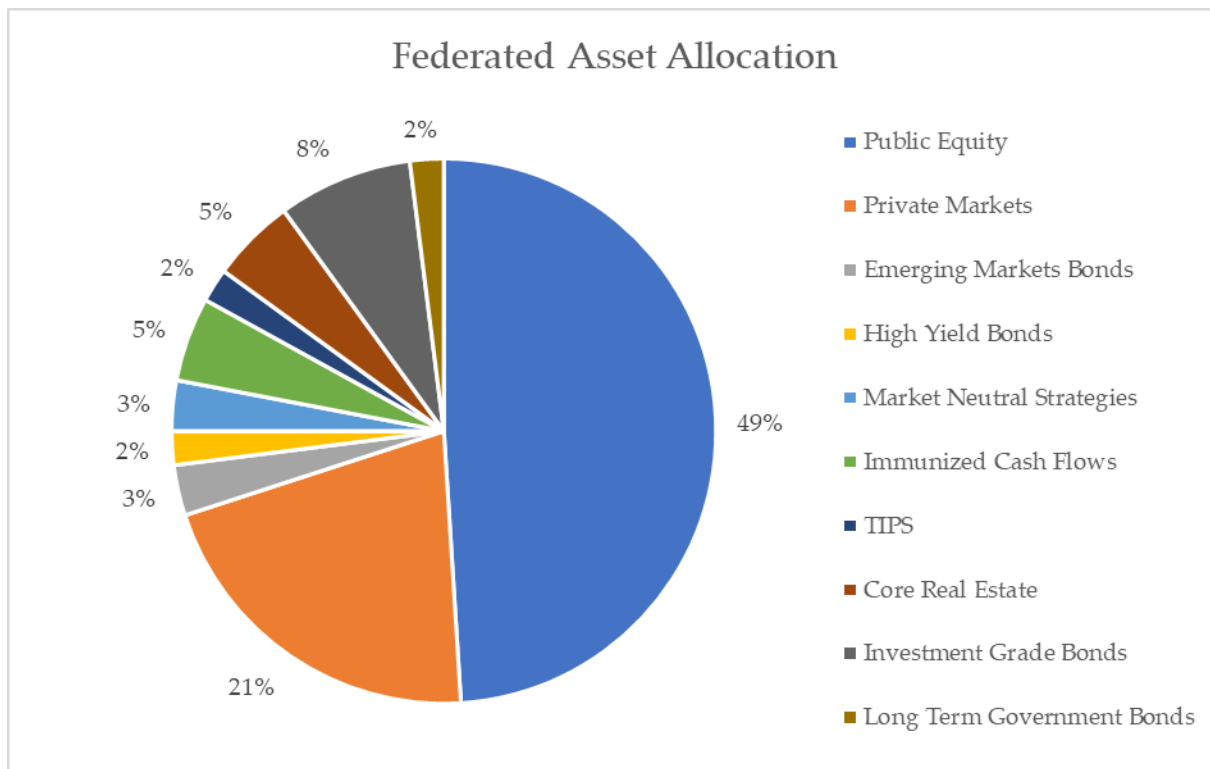
### **Federated Pension System**

For the fiscal year-ended June 30, 2020 the Federated System returned 3.6% net of fees versus the Policy Benchmark return of 3.9% and the Assumed Rate of Return assumption of 6.75%. The table below illustrates historic performance versus the Policy Benchmark and Assumed Rate of Return since 2011.

#### FEDERATED PENSION SYSTEM

Fiscal Year End	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10 YR
Actual Return	18.9%	-3.3%	8.0%	14.2%	-1.0%	-0.7%	7.5%	5.9%	4.3%	3.6%	5.5%
Benchmark	22.0%	-2.4%	8.3%	17.0%	-3.3%	1.3%	8.1%	7.4%	3.9%	3.9%	6.7%
Discount Rate	7.950%	7.500%	7.500%	7.250%	7.000%	6.875%	6.875%	6.875%	6.750%	6.750%	

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 System's investment consultant and the Investment Program, the Federated Board adopted the following asset allocation at their March 2020 meeting.



Based on capital market assumptions and asset class correlations at the time of adoption, the System's investment consultant concluded that the asset allocation was expected to return an annualized rate of 7.8% over a 20-year period with a standard deviation of 13.6%.

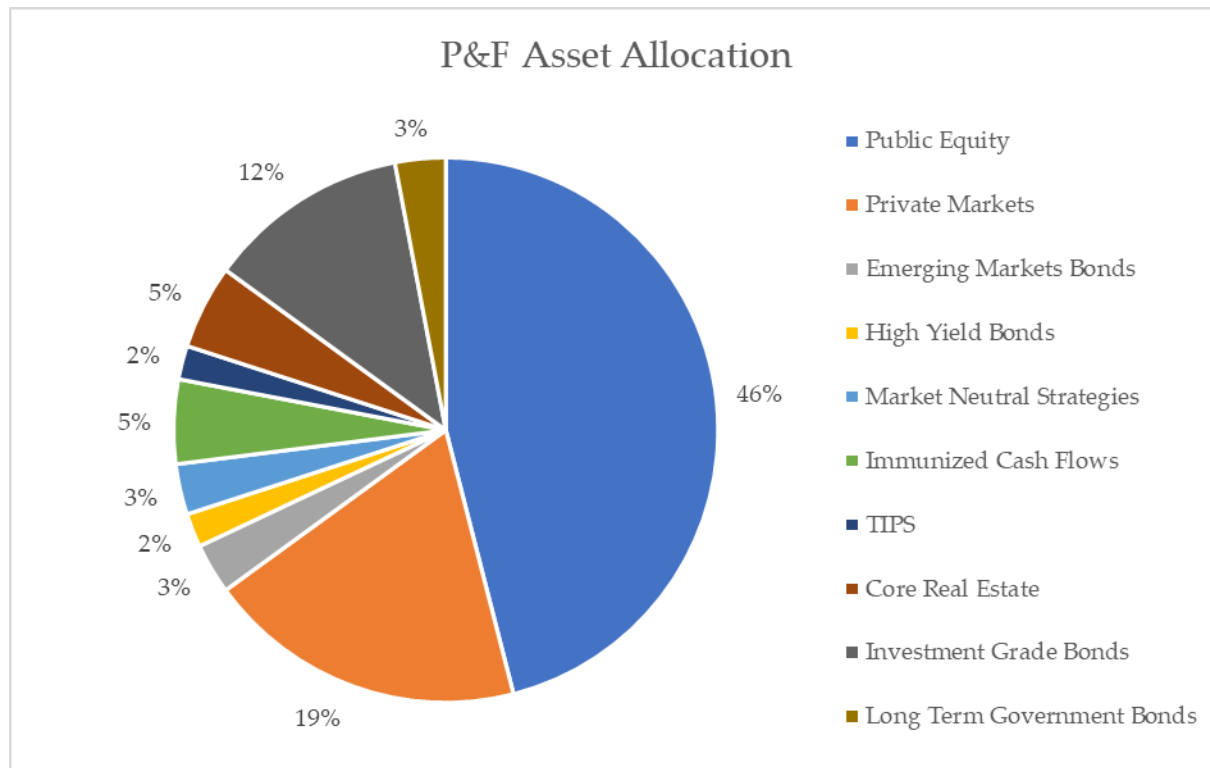
#### P&F Pension Plan

For the fiscal year-ended June 30, 2020 the P&F Plan returned 3.1% net of fees versus the Policy Benchmark return of 2.9% and the Assumed Rate of Return assumption of 6.75%. The table below illustrates historic performance versus the Policy Benchmark and Assumed Rate of Return since 2011.

#### POLICE & FIRE PLAN

Fiscal Year End	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10 YR
Actual Return	18.1%	-0.5%	9.7%	13.5%	-0.8%	-0.6%	9.7%	6.9%	4.3%	3.1%	6.2%
Benchmark	20.5%	1.3%	8.1%	14.6%	-1.0%	1.0%	9.5%	7.6%	4.4%	2.9%	6.7%
Discount Rate	7.750%	7.500%	7.250%	7.125%	7.000%	6.875%	6.875%	6.875%	6.750%	6.750%	

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 P&F Plan's investment consultant and the Investment Program, the P&F Board adopted the following asset allocation at their March 2020 meeting.



Based on capital market assumptions and asset class correlations at the time of adoption, the System's investment consultant concluded that the asset allocation was expected to return an annualized rate of 7.5% over a 20-year period with a standard deviation of 12.7%.

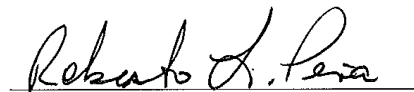
#### ***Healthcare 115 Trust Assets***

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 2020. 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, 2020 the Federated Healthcare Trust returned -0.1% net of fees versus the Policy Benchmark return of 0.9% and the Assumed Rate of Return assumption of 6.75%. The P&F Healthcare Trust returned 2.2% net of fees versus the Policy Benchmark return of 1.6% and the Assumed Rate of Return assumption of 6.50%. 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, 2020.

Fiscal Year End	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>8 YR</u>
Federated Healthcare Trust	9.0%	16.2%	-2.7%	-2.7%	8.7%	4.9%	4.2%	2.2%	3.8%
Police & Fire Healthcare Trust	5.0%	14.5%	-1.7%	0.3%	7.0%	3.6%	4.7%	3.0%	3.5%

### **Conclusion**

Staff recommends acceptance of the performance report.



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