



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: INVESTMENT FEE ANALYSIS

DATE: May 11, 2018

BACKGROUND

At the Council Budget Study Session on May 10, 2018, the Mayor requested additional information on the investment fees for the Office of Retirement Services, specifically an estimate of potential current fees based on the 2016 Comprehensive Annual Fee report.

ANALYSIS

Below are the pro forma fee projections in dollar terms calculated by multiplying each plan's actual asset class balances as of March 31, 2018 by their calendar year 2016 asset class fee ratios. **Please note these projections are based on many assumptions with a wide margin of error.**

Federated Pension:

Asset Class	March 31, 2018		2016 Fee Ratio			Pro Forma Fees		
	Portfolio Balance (\$ million)	Portfolio Weight	Management Fees	Incentive Fees	Mgmt and Incent Fees	Mgmt Fees (\$ million)	Incent Fees (\$ million)	Mgmt and Incent Fees (\$ million)
Global Equity	626	29.5%	0.71%	0.03%	0.74%	4.4	0.2	4.6
Private Equity	148	7.0%	1.96%	0.64%	2.60%	2.9	1.0	3.9
Global Fixed Income	609	28.7%	0.37%	0.16%	0.53%	2.2	1.0	3.2
Private Debt	78	3.7%	1.28%	-0.17%	1.12%	1.0	-0.1	0.9
Real Assets	348	16.4%	0.77%	0.37%	1.14%	2.7	1.3	4.0
Absolute Return	260	12.3%	1.72%	0.84%	2.56%	4.5	2.2	6.7
Cash	51	2.4%	0.11%	0.00%	0.11%	0.1	0.0	0.1
Total Plan	2,120	100.0%	0.82%	0.25%	1.07%	17.9	5.6	23.4

Police & Fire Pension:

Asset Class	March 31, 2018		2016 Fee Ratio			Pro Forma Fees		
	Portfolio Balance (\$ million)	Portfolio Weight	Management Fees	Incentive Fees	Mgmt and Incent Fees	Mgmt Fees (\$ million)	Incent Fees (\$ million)	Mgmt and Incent Fees (\$ million)
Global Equity	1,102	31.0%	0.55%	0.02%	0.57%	6.1	0.2	6.3
Private Equity	289	8.1%	1.13%	0.76%	1.89%	3.3	2.2	5.5
Global Fixed Income	573	16.1%	0.81%	0.81%	1.62%	4.6	4.7	9.3
Private Debt	368	10.3%	1.32%	-0.16%	1.16%	4.9	-0.6	4.3
Real Assets	623	17.5%	1.40%	0.33%	1.73%	8.7	2.1	10.8
Absolute Return	223	6.3%	1.70%	0.87%	2.57%	3.8	1.9	5.7
GTAA	360	10.1%	0.82%	0.00%	0.82%	3.0	0.0	3.0
Cash	19	0.5%	0.11%	0.00%	0.11%	0.0	0.0	0.0
Total Plan	3,557	100.0%	0.91%	0.30%	1.21%	34.4	10.5	44.9

Footnotes

- The Pro Forma fees shown are approximations of current fees with a wide margin of error
- Actual management fees will vary as the composition of underlying funds and fund types has changed since 2016 which is being used as the reference point for estimation purposes. As of March 31, 2018, the Federated plan is 41% passive, 27% active, 19% hedged, and 13% private. The Police & Fire plan is 30% passive, 36% active, 17% hedged, and 17% private
- Incentive Fees do not reduce the Fund's income from investments. Such "fees" (carried interest) are a profit share that affords the fund manager an ownership alignment with the other equity partners. The IRS does not treat carried interest income the same as fee income to managers. Accordingly, while for convenient reference we refer to the managers' equity interest as a "fee", that reference needs to be understood in the context of aligning our interests with the managers. Unlike a fee, the manager only earns the incentive amount if we also earn a profit over a set hurdle amount, which is why we make the investment with active managers in the first place.
- Actual incentive fees will vary from the values shown since incentive fees are calculated based on the actual performance of underlying funds which is uncertain and subject to change. 2016 incentive fees are used as the reference point for estimation purposes, but do not reflect the current performance of funds
- The calendar year 2017 Fee Report is expected to be available by September 2018

/s/
 ROBERTO L. PEÑA
 Chief Executive Officer