



CITY OF OAKLAND

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OAKLAND

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# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Adam Benson  
Finance Director

**SUBJECT:** Oakland Police and Fire Retirement System Investment Portfolio

**DATE:** September 10, 2019

City Administrator Approval

Date:

9/26/19

## RECOMMENDATION

Staff Recommends That the City Council Receive an Informational Report on the Oakland Police and Fire Retirement System's ("PFRS", or "System") Investment Portfolio as of June 30, 2019.

## EXECUTIVE SUMMARY

The attached Quarterly Investment Performance report (**Attachment A**) provided by the PFRS Investment Consultant, Meketa Investment Group (MIG) summarizes the performance of the PFRS investment portfolio for the quarter ended June 30, 2019.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 3.3 percent, gross of fees, underperforming its policy benchmark by (0.2) percent. The portfolio outperformed its benchmark over the latest one-, three-, and five-year periods. This is discussed in more detail in the "Investment Performance" section of this report.

	Quarter	1 Year	3 Year	5 Year
Total Portfolio	3.3%	6.2%	10.7%	7.0%
Policy Benchmark	3.5	5.5	9.5	6.8
<b>Excess Return/ (Loss)</b>	(0.2%)	0.7%	1.2%	0.2%

As of July 1, 2018, the System's Unfunded Actuarial Liability was approximately \$299.78 million and the System had a Funded Ratio of 58.1 percent on a Market Value of Assets (MVA) basis. This is discussed in more detail in the "PFRS Actuarial Valuation" section of this report.

Item: \_\_\_\_\_  
Finance and Management Committee

## **BACKGROUND / LEGISLATIVE HISTORY**

The Oakland Police and Fire Retirement System is a closed defined benefit plan established by the City of Oakland's (the "City") Charter. PFRS is governed by a board of seven trustees (the "PFRS Board") and covers the City's sworn police and fire employees hired prior to July 1, 1976. PFRS was closed to new members on June 30, 1976, as of June 30, 2019, PFRS had 798 retired members and 0 active members.

The System's investment portfolio is governed by the investment policy set by the PFRS Board. The PFRS Board sets an investment policy that authorizes investments in a variety of domestic and international equity and fixed income securities. There are 12 external investment managers currently managing the System's portfolio. Most of the portfolio is held in custody at Northern Trust bank. In accordance with the City Charter, the PFRS Board makes investment decisions in accordance with the prudent person standard as defined by applicable court decisions and as required by the California Constitution.

In March 1997, the City issued Taxable Pension Obligation Bonds, Series 1997 ("1997 POBs") and as a result deposited \$417 million into the System to pay the City's contributions through June 2011. As a result of the funding agreement entered at the time the 1997 POBs were issued, City payments to PFRS were suspended from February 25, 1997 to June 30, 2011. The City of Oakland resumed contributing to PFRS effective July 1, 2011 and contributed \$45.5 million for the Fiscal Year (FY) ended June 30, 2012.

In July 2012, the City issued \$212.5 million of Taxable Pension Obligation Bonds, Series 2012 ("2012 POBs"). The City subsequently deposited \$210 million into the System and entered a funding agreement with the PFRS Board. Thus, no additional contributions were required until July 1, 2017. As of the most recent actuary study dated July 1, 2018, the System's Unfunded Actuarial Liability is approximately \$299.78 million and the System had a Funded Ratio of 58.1 percent on a Market Value of Assets (MVA) basis. The City of Oakland is currently making monthly payments to the Plan for the FY 2019/2020 actuarial annual required contribution of \$43.4 million.

## **ANALYSIS AND POLICY ALTERNATIVES**

### ***PFRS' Membership***

The City Charter establishes plan membership, contribution, and benefit provisions. The System serves the City's sworn employees hired prior to July 1, 1976 who have not transferred to the California Public Employees' Retirement System ("CalPERS").

As of June 30, 2019, the System's membership was 798, as shown on **Table 1** below.

<b>Table 1</b>			
PFRS Membership as of June 30, 2019			
<b>Membership</b>	<b>POLICE</b>	<b>FIRE</b>	<b>TOTAL</b>
Retiree	348	199	547
Beneficiary	127	124	251
<b>Total Membership</b>	<b>475</b>	<b>323</b>	<b>798</b>

**PFRS Investment Portfolio**

As of June 30, 2019, the PFRS' portfolio had an aggregate value of \$380.74 million as shown in **Table 2**.

<b>Table 2</b>	
PFRS Investment Portfolio as of June 30, 2019 (\$ in thousands)	
<b>Investment Product</b>	<b>Fair Value</b>
Equities	\$159,118
Fixed Income	105,644
International Equities	47,351
Crisis Risk Offset	37,722
Covered Calls	32,346
Cash	6,558
<b>Total Portfolio</b>	<b>\$388,740</b>

As of June 30, 2019, the PFRS portfolio had an aggregate value of \$388.74 million. This represents a \$12.2 million increase in investment value and a decrease of (\$4.1) million in benefit payments over the quarter.

During the previous one-year period, the PFRS Total Portfolio increased in value by \$22.7 million and withdrew (\$13.2) million in benefit payments as shown in **Table 3** below.

<b>Table 3</b> Change in PFRS Portfolio Valuation as of June 30, 2019 (\$ in thousands)		
<b>Total Plan Value</b>	<b>1 Quarter</b>	<b>1 Year</b>
Beginning Market Value	\$380,733	\$379,203
Investment Drawdowns for Benefit Payments	(4,148)	(13,188)
Gain/(Loss) on Investment	12,155	22,725
<b>Ending Market Value</b>	<b>\$388,740</b>	<b>\$388,740</b>

**PFRS Investment Performance**

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 3.3 percent, gross of fees, underperforming its policy benchmark by (0.2) percent. The portfolio outperformed its benchmark by 0.7 percent, 1.2 percent and 0.2 percent over the one-, three- and five-year periods, respectively.

Over the most recent quarter ending June 30, 2019, the Plan's Domestic Equity allocation underperformed its benchmark by (0.2) percent. The Plan's International Equity allocation outperformed its benchmark by 1.8 percent. The Plan's Fixed Income allocation underperformed its benchmark by (0.1) percent. The Plan's Crisis Risk Offset allocation underperformed its benchmark by (1.0) percent, while the Covered Calls allocation equaled its benchmark performance. **Table 4** shows PFRS recent investment performance in comparison to its corresponding benchmarks.

<b>Table 4</b> PFRS Asset Class Performance as of June 30, 2019				
<b>Investment Type</b>	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>PFRS Total Fund</b>	3.3%	6.2%	10.7%	7.0%
PFRS Policy Benchmark	3.5	5.5	9.5	6.8
Excess Returns/ (Loss)	(0.2%)	0.7%	1.2%	0.2%
<b>PFRS Domestic Equity</b>	3.9%	7.1%	14.3%	10.1%
Benchmark: Russell 3000	4.1	9.0	14.0	10.2
Excess Returns/ (Loss)	(0.2%)	(1.9%)	0.3%	(0.1%)

**Table 4 (continued)**  
 PFRS Asset Class Performance  
 as of June 30, 2019

Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS International Equity	5.0%	2.6%	11.2%	4.2%
Benchmark: MSCI ACWI Ex US	3.2	1.8	9.9	2.6
Excess Returns/ (Loss)	1.8%	0.8%	1.3%	1.6%
PFRS Fixed Income	3.0%	8.0%	3.7%	3.7%
Benchmark: Bloomberg Barclays Universal	3.1	8.1	2.8	3.2
Excess Returns/ (Loss)	(0.1%)	(0.1%)	0.9%	0.5%
PFRS Crisis Risk Offset	(1.5%)	-	-	-
Benchmark: SG Multi Alternative Risk Premia	(0.5)	-	-	-
Excess Returns/ (Loss)	(1.0%)	-	-	-
PFRS Covered Calls	3.3%	6.9%	9.9%	7.8%
Benchmark: CBOE BXM	3.3	3.2	7.4	6.0
Excess Returns/ (Loss)	0.0%	3.7%	2.5%	1.8%
Cash	0.8%	2.4%	1.5%	1.0%
Citigroup 3 Month T-Bill Index	0.6	2.3	1.4	0.8
Excess Returns/ (Loss)	0.2%	0.1%	0.1%	0.2%

**Table 5** compares PFRS Total Portfolio performance to other pension funds and benchmarks.

<b>Table 5</b>				
PFRS Total Fund Performance as of June 30, 2019				
	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>PFRS Total Fund (Gross of Fees)</b>	3.3%	6.2%	10.7%	7.0%
<b><u>Comparisons:</u></b>				
PFRS Actuarial Expected Rate of Return (blend) (a) (b)	1.5%	6.0%	6.2%	6.3%
Policy Target (blend) (c)	3.5%	5.5%	9.5%	6.8%
Median Fund (d)	3.3%	6.4%	8.8%	5.9%
CalSTRS Investment Returns (Gross of Fees)	3.7%	7.1%	10.0%	7.2%
East Bay MUD Investment Returns (Gross of Fees) (d)	2.9%	5.7%	9.9%	7.1%
San Joaquin County Investment Returns (Gross of Fees) (d)	2.6%	6.9%	7.9%	5.1%
a) The actuarial expected rate of return was 8% through 6/30/2009, 7.5% through 6/30/2010, 7% through 6/30/2011, 6.75% through 6/30/2014, 6.5% through 12/31/2017, and 6.0% currently.				
b) The quarterly actuarial expected rate of return is calculated based on the 6.0% annual return assumption.				
c) The Policy Benchmark consists of 40% Russell 3000, 12% MSCI ACWI ex U.S., 33% Bbg BC Universal, 5% CBOE BXM, 6.7% SG Multi-Asset Risk Premia, 3.3% Bbg BC Long Treasury.				
d) Preliminary; subject to change.				

***PFRS Actuarial Valuation***

As of the latest actuarial valuation dated July 1, 2018, the PFRS Funded Ratio (actuarial value of assets divided by present value of future benefits) is 58.1 percent. As a result of the funding agreement and the City's deposit of \$210 million in 2012 POBs to the System, no contributions were required until fiscal year 2017/2018. The City resumed contributions to the System on July 1, 2017. The required contribution for fiscal year 2019/2020 is \$43.4 million.

**Table 6** below shows a summary of the July 1, 2018 PFRS Actuarial valuation results. The funded ratio on a market value basis has increased from 52.4% to 58.1% over the past year due to the City of Oakland contributions and asset and liability gains.

<b>Table 6</b> Summary of Plan Results (\$ in thousands)		<b>July 01, 2018</b>
Actuarial Liability		\$647,251
Less: Market Value of Assets		(375,976)
		\$271,275
Unfunded Actuarial Liability		\$271,275
		\$271,275
Funded Ratio (MVA) liability		58.1%

**Projected City of Oakland Contributions**

Article XXVI Section 2619 (6) required that the City fully fund the PFRS Plan by 2026. **Table 7** summarizes the projected employer contributions.

<b>Table 7</b> Projected Employer Contributions Police and Fire Retirement System (\$ in millions)	
<b>Fiscal Year Ending</b>	<b>Employer Contribution</b>
2019	\$44.8
2020	43.4
2021	43.8
2022	44.3
2023	44.7
2024	45.1
2025	45.1
2026	44.2

### **FISCAL IMPACT**

This is an informational report. There are no budget implications associated with this report.

### **PUBLIC OUTREACH / INTEREST**

This item did not require public outreach other than the required posting on the City's website.

### **COORDINATION**

This report was prepared in coordination with the PFRS' Investment Consultant (MIG) and PFRS' Actuary (Cheiron).

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** Whenever possible, the PFRS Board seeks to benefit the local Oakland based economy. In 2006, the PFRS Board, along with staff, created the PFRS Local Broker provision. This provision mandates that the PFRS Investment Managers consider using Oakland based brokers for all trades conducted on behalf of the fund based on best execution. This program aims to regenerate some of the commissions generated by the System into the Oakland economy.

***Environmental:*** The PFRS Board supports a sustainable environment. On June 29, 2016, the PFRS Board passed Resolution No. 6927 prohibiting PFRS investment managers from investing PFRS funds in any publicly-traded company which derives at least 50 percent of its revenue from the mining and extracting of thermal coal.

***Social Equity:*** There are no social equity opportunities associated with this report.



**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the City Council receive an informational report on the Oakland Police and Fire Retirement System's ("PFRS") Investment Portfolio as of June 30, 2019.

For questions regarding this report, please contact Adam Benson, Finance Director, at (510) 238-2026.

Respectfully submitted,



ADAM BENSON  
Finance Director

Prepared by:  
Téir Jenkins, Investment Officer

Reviewed by:  
David Jones,  
Treasury Administrator

**Attachments (1):**

**Attachment A:** Oakland Police and Fire System Quarterly Investment Performance Report as of June 30, 2019