



# AGENDA REPORT


**TO:** Jestin D. Johnson  
City Administrator

**FROM:** Erin Roseman  
Finance Director

**SUBJECT:** Oakland PFRS's Investment Portfolio  
as of June 30, 2024

**DATE:** September 4, 2024

City Administrator Approval

  
Jestin Johnson (Sep 25, 2024 14:44 PDT)

Date: Sep 25, 2024

## 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, 2024.**

## EXECUTIVE SUMMARY

The attached Quarterly Investment Performance report (**Attachment A**), provided by the Oakland Police and Fire Retirement System (PFRS) Investment Consultant, Meketa Investment Group (MIG), summarizes the performance of the PFRS investment portfolio for the quarter ended June 30, 2024.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 0.3 percent, gross of fees, underperforming its policy benchmark by -1.1 percent. The portfolio also underperformed its benchmark over the latest one-year period, three-year period, and five-year period. This is discussed in more detail in the "Investment Performance" section of this report.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
Total Portfolio (a)	0.3	10.9	2.7	6.5
Policy Benchmark	1.4	12.6	3.3	6.9
<b>Excess Return</b>	<b>-1.1</b>	<b>-1.7</b>	<b>-0.6</b>	<b>-0.4</b>

(a) Investment returns are gross of fees.

## 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"). PFRS 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, 2024, PFRS had 626 retired members and no active members.

Finance and Management Committee  
October 8, 2024

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. Eleven external investment managers currently manage the System's portfolio. Most of the portfolio is held in custody at Northern Trust. In accordance with the City Charter, the PFRS Board makes investment decisions according to 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) ending 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, 2023, the System's Unfunded Actuarial Liability is approximately \$97.0 million, and the System had a Funded Ratio of 81.4 percent on an Actuarial Value of Assets (AVA) basis. The City of Oakland is currently making monthly payments to the Plan for the FY 2023/2024 required contribution of \$40.76 million.

## **ANALYSIS AND POLICY ALTERNATIVES**

The attached report, provided by the PFRS Investment Consultant and Actuary, summarizes the performance of the PFRS' investment portfolio. This report is being provided in accordance with the City of Oakland Charter to provide an update to the City Council on the status of the Oakland Police and Fire Retirement System.

The presentation of this report supports the Citywide priority of **responsive, trustworthy government**. This report communicates the PFRS's financial positions and obligations to the public, policymakers, retirees, and stakeholders. At the same time, the annual audits of the PFRS finances assures the accuracy of the information contained therein.

### ***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, 2024, the System's membership was 626, as shown in **Table 1** below.

<b>Table 1</b> PFRS Membership as of June 30, 2024			
<b>Membership</b>	<b>POLICE</b>	<b>FIRE</b>	<b>TOTAL</b>
Retiree	263	147	410
Beneficiary	126	90	216
<b>Total Membership</b>	389	237	626

**PFRS Investment Portfolio**

As of June 30, 2024, the PFRS' portfolio had an aggregate value of \$453.2 million, as shown in **Table 2**.

<b>Table 2</b> PFRS Investment Portfolio as of June 30, 2024	
<b>Investment</b>	<b>Fair Value</b>
Domestic Equities	\$194,973,749
Fixed Income	107,748,738
Covered Calls	24,121,617
International Equities	59,974,536
Crisis Risk Offset	39,948,914
Credit	10,084,780
Cash	16,379,309
<b>Total Portfolio</b>	<b>\$ 453,231,642</b>

As of June 30, 2024, the PFRS portfolio had an aggregate value of \$453.2 million. This represents a \$1.4 million decrease in investment value after \$2.7 million in outflows for the benefit payments over the quarter. During the previous one-year period, the PFRS Total Portfolio decreased in value by \$44.6 million after drawdowns of \$11.6 million for benefit payments, as shown in **Table 3** below. The investment drawdowns for benefit payments are less the City of Oakland Contributions to the PFRS Plan of \$13.2 million for the Quarter and \$40.7 million for the fiscal year.

<b>Table 3</b> Change in PFRS Portfolio Valuation as of June 30, 2024		
<b>Total Plan Value</b>	<b>1 Quarter</b>	<b>1 Year</b>
Beginning Market Value	\$ 454,455,689	\$ 420,170,089
Investment Drawdowns for Benefit Payments	-2,663,182	-11,615,491
Gain/(Loss) on Investment	1,439,135	44,677,044
<b>Ending Market Value</b>	<b>\$ 453,231,642</b>	<b>\$ 453,231,642</b>

***PFRS Investment Performance***

During the most recent quarter ending June 30, 2024, the PFRS Total Portfolio generated an absolute return of 0.3 percent, gross of fees, matching underperforming its policy benchmark by -1.1 percent. The portfolio also underperformed with the benchmark over the one-year, three-year, and five-year periods.

Over the most recent quarter ending June 30, 2024, the Plan's Domestic Equity allocation underperformed its benchmark by -2.8 percent. The Plan's International Equity allocation underperformed its benchmark by -0.8 percent. The Plan's Fixed Income allocation matched its benchmark. The Plan's Credit allocation also matched its benchmark. The Plan's Crisis Risk Offset allocation underperformed its benchmark by -0.1 percent, while the Covered Calls allocation outperformed its benchmark by 2.1 percent. **Table 4** below shows PFRS's recent investment performance in comparison to its corresponding benchmarks.

<b>Table 4</b> PFRS Asset Class Performance as of June 30, 2024				
<b>Investment Type</b>	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
PFRS Total Fund	0.3	10.9	2.7	6.5
PFRS Policy Benchmark	1.4	12.6	3.3	6.9
Excess Returns	-1.1	-1.7	-0.6	-0.4
PFRS Domestic Equity	0.4	17.3	6.0	12.0
Benchmark: Russell 3000	3.2	23.1	8.1	14.1
Excess Returns	-2.8	-5.8	-2.1	-2.1

<b>Table 4</b>				
PFRS Asset Class Performance				
As of June 30, 2024, <i>cont'd</i>				
<b>Investment Type</b>	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
PFRS International Equity	0.2	14.6	3.4	7.1
Benchmark: MSCI ACWI Ex US (Net)	1.0	11.6	0.5	5.5
Excess Returns	-0.8	3.0	2.9	1.6
PFRS Fixed Income	0.2	3.2	-2.5	0.4
Benchmark: Bloomberg US Universal	0.2	3.5	-2.7	0.1
Excess Returns	0.0	-0.3	0.2	0.3
PFRS Credit	1.1	10.2	3.8	5.4
Benchmark: Bloomberg US Corp High Yield	1.1	10.4	1.6	3.9
Excess Returns	0.0	-0.2	2.2	1.5
PFRS Crisis Risk Offset	-1.5	0.9	-3.2	-7.1
Benchmark: Crisis Risk Offset Benchmark	-1.4	3.6	4.3	0.7
Excess Returns	-0.1	-2.7	-7.5	-7.8
PFRS Covered Calls	3.6	16.2	8.4	11.7
Benchmark: CBOE S&P 500 Buy Write	1.5	8.9	5.0	5.6
Excess Returns	2.1	7.3	3.4	6.1
<p>Note: Investment returns are gross of fees.            Crisis Risk Offset Benchmark is composed of 100% SG Multi Alternative Risk Premia Index through 12/31/2022; 33.34% SG Trend Index, 33.33% SG Multi Alternative Risk Premia Index, and 33.33% Bloomberg US Government Long Term Bond Index thereafter.</p>				

**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, 2024				
	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
PFRS Fund (Gross of Fees)	0.3	10.9	2.7	6.5
Comparisons:				
PFRS Actuarial Expected Rate of Return (blend) (a) (b)	1.5	6.0	6.0	6.0
Policy Benchmark (blend) (c)	1.4	12.6	3.3	6.9
Median Fund (d)	0.9	10.5	2.7	7.2
CalSTRS Investment Returns (Gross of Fees)	1.1	8.6	4.5	8.6
East Bay MUD Investment Returns (Gross of Fees)	1.9	12.6	3.6	7.7
San Joaquin County Investment Returns (Gross of Fees)	1.4	10.1	4.3	7.0

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 currently consists of 40% Russell 3000, 12% MSCI ACWI ex US (Net), 31% Bloomberg US Universal, 2% Bloomberg US Corp. High Yield, 5% CBOE S&P 500 Buy Write Index (BXM), 10% Crisis Risk Offset Benchmark since 1/1/ 2019. Crisis Risk Offset Benchmark is composed of 100% SG Multi Alternative Risk Premia Index through 12/31/2022; 33.34% SG Trend Index, 33.33% SG Multi Alternative Risk Premia Index, and 33.33% Bloomberg US Government Long Term Bond Index thereafter.

d) Median Fund is of Public Defined Benefits Plans with \$250 million to \$1 billion in assets.

e) CalSTRS Investment Returns data is not available yet.

**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 (Meketa).

## **SUSTAINABLE OPPORTUNITIES**

**Economic:** Whenever possible, the PFRS Board seeks to benefit the local Oakland-based economy. In 2006, the PFRS Board and 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.

**Race & Equity:** There are no race and 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" or "System") Investment Portfolio as of June 30, 2024.

For questions regarding this report, please contact Erin Roseman, Director of Finance, at (510) 238-2026.

Respectfully submitted,



Erin Roseman (Sep 24, 2024 12:20 PDT)

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ERIN ROSEMAN  
Director of Finance, Finance Department

Reviewed by:  
Dawn Hort, Assistant Treasury Administrator

Prepared by:  
Téir Jenkins, Investment & Operations Manager  
Retirement Unit

*Attachments (1):*

**Attachment A:** Oakland Police and Fire System Quarterly Investment Performance Report as of June 30, 2024