



# AGENDA REPORT


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

**FROM:** Erin Roseman  
Finance Director

**SUBJECT:** Oakland PFRS's Investment Portfolio

**DATE:** November 13, 2023

City Administrator Approval

  
Jestin Johnson (Nov 29, 2023 21:49 PST)

Date: Nov 29, 2023

## 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 September 30, 2023.**

## 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 September 30, 2023.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of -2.8 percent, gross of fees, outperforming its policy benchmark by 0.2 percent. The portfolio underperformed its benchmark over the latest one-year period and outperformed for the three-year period and five-year period. This is discussed in more detail in this report's "Investment Performance" section.

	Quarter	1 Year	3 Year	5 Year
Total Portfolio	-2.8	10.9	3.9	4.2
Policy Benchmark	-3.0	12.2	3.5	4.0
<b>Excess Return</b>	<b>0.2</b>	<b>-1.3</b>	<b>0.4</b>	<b>0.2</b>

As of July 1, 2022, the System's Unfunded Actuarial Liability is approximately \$130.2 million, and the System had a Funded Ratio of 76.5 percent on an Actuarial Value of Assets (AVA) basis. This is discussed in more detail in the "PFRS Actuarial Valuation" section of this report.

## **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 September 30, 2023, PFRS had 650 retired and no 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 various 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 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, 2022, the System's Unfunded Actuarial Liability is approximately \$130.2 million, and the System had a Funded Ratio of 76.5 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 Oakland Police and Fire Retirement System's (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, policy makers, retirees and stakeholders, while the annual audits of the PFRS finances provides assurance of the accuracy of 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 September 30, 2023, the System's membership was 650, as shown in **Table 1 below**.

<b>Table 1</b>			
PFRS Membership as of September 30, 2023			
<b>Membership</b>	<b>POLICE</b>	<b>FIRE</b>	<b>TOTAL</b>
Retiree	275	156	432
Beneficiary	128	91	218
<b>Total Membership</b>	403	247	650

**PFRS Investment Portfolio**

As of September 30, 2023, the PFRS' portfolio had an aggregate value of \$405.14 million, as shown in **Table 2**.

<b>Table 2</b>	
PFRS Investment Portfolio as of September 30, 2023	
<b>Investment</b>	<b>Fair Value</b>
Domestic Equities	\$165,391,122
Fixed Income	101,122,231
Covered Calls	22,157,801
International Equities	51,607,318
Crisis Risk Offset	39,485,989
Credit	9,329,974
Cash	16,049,014
<b>Total Portfolio</b>	<b>\$405,143,449</b>

As of September 30, 2023, the PFRS portfolio had an aggregate value of \$405.14 million. This represents a \$12.0 million decrease in investment value after \$3.0 million in outflows for the benefit payments over the quarter. During the previous one-year period, the PFRS Total Portfolio increased in value by \$22.7 million after drawdowns of \$17.6 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 \$10.2 million for the Quarter and \$34.7 million for the past year.

<b>Table 3</b> Change in PFRS Portfolio Valuation as of September 30, 2023		
<b>Total Plan Value</b>	<b>1 Quarter</b>	<b>1 Year</b>
Beginning Market Value	\$420,170,089	\$382,458,040
Investment Drawdowns for Benefit Payments	-3,020,018	-17,640,430
Gain/(Loss) on Investment	-12,006,623	40,325,838
<b>Ending Market Value</b>	<b>\$405,143,449</b>	<b>\$405,143,449</b>

***PFRS Investment Performance***

During the most recent quarter ending September 30, 2023, the PFRS Total Portfolio generated an absolute return of -2.8 percent, gross of fees, outperforming its policy benchmark by 0.2 percent. The portfolio underperformed with the benchmark over the one-year period and outperformed over the three-year and five-year periods.

Over the most recent quarter ending September 30, 2023, the Plan's Domestic Equity allocation underperformed its benchmark by -0.5 percent. The Plan's International Equity allocation outperformed its benchmark by 1.6 percent. The Plan's Fixed Income allocation outperformed its benchmark of -0.3 percent. The Plan's Credit allocation outperformed its benchmark by 1.0 percent. The Plan's Crisis Risk Offset allocation underperformed its benchmark by 1.0 percent, while the Covered Calls allocation outperformed its benchmark by 1.1 percent. Table 4 shows PFRS recent investment performance in comparison to its corresponding benchmarks.

<b>Table 4</b> PFRS Asset Class Performance as of September 30, 2023				
<b>Investment Type</b>	<b>Quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
PFRS Total Fund	-2.8	10.9	3.9	4.2
PFRS Policy Benchmark	-3.0	12.2	3.5	4.0
Excess Returns	0.2	-1.3	0.4	0.2
PFRS Domestic Equity	-3.8	16.2	8.8	7.8
Benchmark: Russell 3000	-3.3	20.5	9.4	9.1
Excess Returns	-0.5	-4.3	-0.6	-1.3

<b>Table 4</b>				
PFRS Asset Class Performance as of September 30, 2023, <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	-2.2	26.2	5.8	4.1
Benchmark: MSCI ACWI Ex US	-3.8	20.4	3.7	2.6
Excess Returns	1.6	5.8	2.1	1.5
PFRS Fixed Income	-3.2	1.7	-4.3	0.6
Benchmark: Bloomberg Barclays	-2.9	1.6	-4.7	0.3
Excess Returns	-0.3	0.1	0.4	0.3
PFRS Credit	1.5	11.0	5.8	3.9
Benchmark: Bloomberg US High Yield	0.5	10.3	1.8	3.0
Excess Returns	1.0	0.7	4.0	0.9
PFRS Crisis Risk Offset	-1.4	-4.2	-7.3	-8.7
Benchmark: SG Multi Alt Risk Premia	-2.4	1.8	3.5	-0.3
Excess Returns	1.0	-6.0	-10.8	-8.4
PFRS Covered Calls	-1.7	20.6	10.4	8.2
Benchmark: CBOE BXM	-2.8	14.6	7.2	3.0
Excess Returns	1.1	6.0	3.2	5.2
Cash	0.0	0.0	0.0	0.8
Citigroup 3 Month T-Bill Index	1.3	4.5	1.7	1.7
Excess Returns	-1.3	-4.5	-1.7	-0.9

Note: Investment returns are gross of fees

**PFRS Actuarial Valuation**

As of the latest actuarial valuation dated July 1, 2022, the PFRS Funded Ratio (actuarial value of assets divided by present value of future benefits) is 76.5 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 the fiscal year 2017/2018. The City resumed contributions to the System on July 1, 2017. The required contribution for fiscal year 2023/2024 is \$40.76 million. **Table 5** below shows a summary of the July 1, 2022, PFRS Actuarial valuation results.

<b>Table 5</b>	
Summary of Plan Results (\$ in thousands)	
	<b>July 01, 2022</b>
Actuarial Liability	\$ 552,966
Less: Actuarial Value of Assets	<u>(422,762)</u>
Unfunded Actuarial Liability	<u>\$ 130,204</u>
Funded Ratio (AVA) liability	<u>76.5%</u>

***Projected City of Oakland Contributions***

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

<b>Table 6</b>	
Projected Employer Contributions Police and Fire Retirement System (in millions)	
<b>Fiscal Year Ending</b>	<b>Employer Contribution</b>
2024	\$40.8
2025	44.0
2026	48.8

**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) 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 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 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 Council receive this informational report on the Oakland Police and Fire Retirement System ("PFRS") Investment Portfolio as of September 30, 2023.

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

Respectfully submitted,



[Erin Roseman \(Nov 29, 2023 13:04 PST\)](#)

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ERIN ROSEMAN  
Director of Finance, Finance Department

Reviewed by:  
David Jones, 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 September 30, 2023