



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Oakland PFRS Investment Portfolio
as of December 31, 2023

DATE: February 22, 2024

City Administrator Approval


Jestin Johnson (Mar 14, 2024 23:02 PDT)

Date: 3/14/2024

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 December 31, 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 December 31, 2023.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 8.4 percent, gross of fees, underperforming its policy benchmark by -0.4 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.

	Quarter	1 Year	3 Year	5 Year
Total Portfolio	8.4	13.8	3.6	8.1
Policy Benchmark	8.7	15.1	3.6	8.0
Excess Return	-0.4	-1.6	-0.3	-0.2

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 December 31, 2023, PFRS had 640 retired members 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 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 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 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 December 31, 2023, the System's membership was 640 as shown on **Table 1** below.

Table 1			
PFRS Membership as of December 31, 2023			
Membership	POLICE	FIRE	TOTAL
Retiree	272	153	425
Beneficiary	127	88	215
Total Membership	399	241	640

PFRS Investment Portfolio

As of December 31, 2023, the PFRS' portfolio had an aggregate value of \$435.96 million as shown in **Table 2**.

Table 2	
PFRS Investment Portfolio as of December 31, 2023	
Investment	Fair Value
Domestic Equities	\$183,174,978
Fixed Income	107,983,596
Covered Calls	23,783,695
International Equities	56,347,608
Crisis Risk Offset	39,468,172
Credit	9,697,822
Cash	15,499,650
Total Portfolio	\$435,955,522

As of December 31, 2023, the PFRS portfolio had an aggregate value of \$435.96 million. This represents a \$33.4 million increase 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 \$53.0 million after drawdowns of \$15.6 million for benefit payments as shown in **Table 3** below. The investment drawdowns for benefit payments are less City of Oakland Contributions to the PFRS Plan of \$10.2 million for the Quarter and \$36.7 million for the past year.

Table 3
 Change in PFRS Portfolio Valuation
 as of December 31, 2023

Total Plan Value	1 Quarter	1 Year
Beginning Market Value	\$ 405,143,449	\$ 398,501,201
Investment Drawdowns for Benefit Payments	-2,587,879	-15,572,778
Gain/(Loss) on Investment	33,399,952	53,027,098
Ending Market Value	\$ 435,955,522	\$435,955,522

PFRS Investment Performance

During the most recent quarter ending December 31, 2023, the PFRS Total Portfolio generated an absolute return of 8.4 percent, gross of fees, underperforming its policy benchmark by -0.4 percent. The portfolio underperformed with the benchmark over the one-year period, three-year and five-year period.

Over the most recent quarter ending December 31, 2023, the Plan's Domestic Equity allocation matched its benchmark. The Plan's International Equity allocation underperformed its benchmark by -0.2 percent. The Plan's Fixed Income allocation matched its benchmark. The Plan's Credit allocation underperformed its benchmark by -3.1 percent. The Plan's Crisis Risk Offset allocation underperformed its benchmark by -1.7 percent, while the Covered Calls allocation outperformed its benchmark by 3.1 percent. **Table 4** shows PFRS recent investment performance in comparison to its corresponding benchmarks.

Table 4
 PFRS Asset Class Performance
 as of December 31, 2023

Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS Total Fund	8.4	13.8	3.6	8.1
PFRS Policy Benchmark	8.7	15.1	3.6	8.0
Excess Returns	-0.3	-1.3	0.0	0.1
PFRS Domestic Equity	12.1	20.3	7.8	14.1
Benchmark: Russell 3000	12.1	26.0	8.5	15.2
Excess Returns	0.0	-5.7	-0.7	-1.1

Table 4				
PFRS Asset Class Performance as of December 31, 2023, <i>cont'd</i>				
Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS International Equity	9.6	20.2	4.2	9.1
Benchmark: MSCI ACWI Ex US (Net)	9.8	15.6	1.5	7.1
Excess Returns	-0.2	4.6	2.7	2.0
PFRS Fixed Income	6.8	6.3	-2.6	1.7
Benchmark: Bloomberg US Universal	6.8	6.2	-3.0	1.4
Excess Returns	0.0	0.1	0.4	0.3
PFRS Credit	4.1	13.3	4.7	5.4
Benchmark: Bloomberg US Corp HY	7.2	13.4	2.0	5.4
Excess Returns	-3.1	-0.1	2.7	0.0
PFRS Crisis Risk Offset	0.4	1.0	-6.3	-6.7
Benchmark: Crisis Risk Offset	2.1	2.4	4.9	0.4
Excess Returns	-1.7	-1.4	-11.2	-7.1
PFRS Covered Calls	7.3	20.3	9.5	12.3
Benchmark: CBOE S&P 500 Buy Write	4.2	11.8	6.1	6.2
Excess Returns	3.1	8.5	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.

Table 5				
PFRS Total Fund Performance as of December 31, 2023				
	Quarter	1 Year	3 Year	5 Year
PFRS Fund (Gross of Fees)	8.4	13.8	3.6	8.1
<u>Comparisons:</u>				
PFRS Actuarial Expected Rate of Return (blend) (a)	1.5	6.0	6.0	6.0
(b)				
Policy Benchmark (blend) (c)	8.7	15.1	3.6	8.0
Median Fund (d)	7.9	12.6	3.8	8.8
CalSTRS Investment Returns (Gross of Fees)	5.5	9.3	6.1	9.9
East Bay Mud Investment Returns (Gross of Fees)	---	---	---	---
San Joaquin County ERA Investment Returns (Gross of Fees)	5.2	9.7	5.3	7.7
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) East Bay Mud Investment Returns data is not available yet.				

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 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 6** below shows a summary of the July 1, 2022 PFRS Actuarial valuation results.

Table 6 Summary of Plan Results (\$ in thousands)	
July 01, 2022	
Actuarial Liability	\$ 552,966
Less: Actuarial Value of Assets	(422,762)
Unfunded Actuarial Liability	\$ 130,204
Funded Ratio (AVA) liability	76.5%

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.

Table 7 Projected Employer Contributions Police and Fire Retirement System (in millions)	
Fiscal Year Ending	Employer Contribution
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, 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.

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 December 31, 2023.

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

Respectfully submitted,



[Erin Roseman \(Mar 12, 2024 16:21 CDT\)](#)

ERIN ROSEMAN
Director of Finance, Finance Department

Reviewed by:
David Jones, Treasury Administrator

Prepared by:
Téir Jenkins, Investment & Operations
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Attachments (1):

Attachment A: Oakland Police and Fire System Quarterly Investment Performance Report as of December 31, 2023