



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Oakland PFRS's Investment Portfolio
as of March 31, 2024

DATE: May 13, 2024

City Administrator Approval


Jestin Johnson (May 30, 2024 23:21 PDT)

Date: May 30, 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 March 31, 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 March 31, 2024.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 5.0 percent, gross of fees, underperforming its policy benchmark by -0.3 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	5.0	14.3	4.3	7.2
Policy Benchmark	5.2	15.4	4.5	7.3
Excess Return	-0.2	-1.1	-0.2	-0.1

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 March 31, 2024, PFRS had 631 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 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) 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, 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 March 31, 2024, the System's membership was 631, as shown in **Table 1** below.

Table 1 PFRS Membership as of March 31, 2024			
Membership	POLICE	FIRE	TOTAL
Retiree	265	152	417
Beneficiary	127	87	214
Total Membership	392	239	631

PFRS Investment Portfolio

As of March 31, 2024, the PFRS' portfolio had an aggregate value of \$454.46 million, as shown in **Table 2**.

Table 2 PFRS Investment Portfolio as of March 31, 2024	
Investment	Fair Value
Domestic Equities	\$195,208,695
Fixed Income	107,560,917
Covered Calls	25,275,663
International Equities	59,984,511
Crisis Risk Offset	40,716,178
Credit	9,984,458
Cash	15,725,267
Total Portfolio	\$454,455,689

As of March 31, 2024, the PFRS portfolio had an aggregate value of \$454.46 million. This represents a \$21.48 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 \$56.97 million after drawdowns of \$13.7 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.

Table 3 Change in PFRS Portfolio Valuation as of March 31, 2024		
Total Plan Value	1 Quarter	1 Year
Beginning Market Value	\$ 435,955,522	\$ 411,182,049
Investment Drawdowns for Benefit Payments	-2,977,698	-13,700,230
Gain/(Loss) on Investment	21,477,865	56,973,870
Ending Market Value	\$ 454,455,689	\$ 454,455,689

PFRS Investment Performance

During the most recent quarter ending March 31, 2024, the PFRS Total Portfolio generated an absolute return of 5.0 percent, gross of fees, underperforming its policy benchmark by -0.2 percent. The portfolio also underperformed with the benchmark over the one-year, three-year, and five-year periods.

Over the most recent quarter ending March 31, 2024, the Plan's Domestic Equity allocation underperformed its benchmark by -1.7 percent. The Plan's International Equity allocation outperformed its benchmark by 1.9 percent. The Plan's Fixed Income allocation outperformed its benchmark of 0.1 percent. The Plan's Credit allocation outperformed its benchmark by 1.6 percent. The Plan's Crisis Risk Offset allocation underperformed its benchmark by -2.0 percent, while the Covered Calls allocation outperformed its benchmark by 0.3 percent. **Table 4** below shows PFRS's recent investment performance in comparison to its corresponding benchmarks.

Table 4 PFRS Asset Class Performance as of March 31, 2024				
Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS Total Fund	5.0	14.3	4.3	7.2
PFRS Policy Benchmark	5.2	15.4	4.5	7.3
Excess Returns	-0.2	-1.1	-0.2	-0.1
PFRS Domestic Equity	8.3	23.9	8.1	12.8
Benchmark: Russell 3000	10.0	29.3	9.8	14.3
Excess Returns	-1.7	-5.4	-1.7	-1.5

Table 4				
PFRS Asset Class Performance				
As of March 31, 2024, <i>cont'd</i>				
Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS International Equity	6.6	17.9	5.0	8.1
Benchmark: MSCI ACWI Ex US (Net)	4.7	13.3	1.9	6.0
Excess Returns	1.9	4.6	3.1	2.1
PFRS Fixed Income	-0.4	2.4	-1.8	0.9
Benchmark: Bloomberg US Universal	-0.5	2.7	-2.1	0.7
Excess Returns	0.1	-0.3	0.3	0.2
PFRS Credit	3.1	12.7	4.5	5.2
Benchmark: Bloomberg US Corp High Yield	1.5	11.2	2.2	4.2
Excess Returns	1.6	1.5	2.3	1.0
PFRS Crisis Risk Offset	3.4	4.5	-0.6	-7.1
Benchmark: Crisis Risk Offset Benchmark	5.4	7.8	5.5	0.8
Excess Returns	-2.0	-3.3	-6.1	-7.9
PFRS Covered Calls	6.3	20.4	9.5	11.7
Benchmark: CBOE S&P 500 Buy Write	6.0	11.9	6.2	5.9
Excess Returns	0.3	8.5	3.3	5.8
Cash	0.0	0.0	0.0	0.6
Benchmark: ICE BofA 3 Month U.S. T-Bill	1.3	5.2	2.6	2.0
Excess Returns	-1.3	-5.2	-2.6	-1.4
<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 March 31, 2024				
	Quarter	1 Year	3 Year	5 Year
PFRS Fund (Gross of Fees)	5.0	14.3	4.3	7.2
Comparisons:				
PFRS Actuarial Expected Rate of Return (blend) (a) (b)	1.5	6.0	6.0	6.0
Policy Benchmark (blend) (c)	5.2	15.4	4.5	7.3
Median Fund (d)	4.6	13.6	4.4	8.1
CalSTRS Investment Returns (Gross of Fees)	---	---	---	---
East Bay MUD Investment Returns (Gross of Fees)	4.7	14.6	4.9	8.0
San Joaquin County ERA Investment Returns (Gross of Fees)	4.4	11.0	5.8	7.3
<p>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.</p> <p>b) The quarterly actuarial expected rate of return is calculated based on the 6.0% annual return assumption.</p> <p>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.</p> <p>d) Median Fund is of Public Defined Benefits Plans with \$250 million to \$1 billion in assets.</p> <p>e) CalSTRS Investment Returns data is not available yet.</p>				

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 March 31, 2024.

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

Respectfully submitted,



Erin Roseman (May 30, 2024 11:05 PDT)

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 March 31, 2024