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OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Treasurer

SUBJECT: Informational Report on PFRS'
Investment Portfolio and Actuarial
Valuation

DATE: February 7, 2017

City Administrator Approval

Date:

3/2/17

RECOMMENDATION

Staff Recommends That The City Council Accept An Informational Report On The Oakland Police And Fire Retirement System ("PFRS") Investment Portfolio As Of December 31, 2016.

EXECUTIVE SUMMARY

The attached Quarterly Investment Performance report provided by the PFRS Investment Consultant, Pension Consulting Alliance, and (PCA) summarizes the performance of the PFRS investment portfolio for the quarter ended December 31, 2016 as **Attachment A**, herein.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 2.1 percent, gross of fees, outperforming its policy benchmark by 0.2 percent. The portfolio underperformed its benchmark over the latest one and three year periods, while outperforming over the 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	2.1	8.7	5.1	9.5
Policy Benchmark	1.9	9.2	6.6	9.1
Excess Return	0.2	(0.5)	(0.3)	0.4

As of the most recent actuary study dated July 1, 2016, the System's Unfunded Actuarial Liability is approximately \$309.37 million and the System had a Funded Ratio of 53.7 percent on a Market Value of Assets (MVA) basis. The next required City contribution is projected to be approximately \$44.86 million in fiscal year (FY) 2017/2018.

Item: _____
Finance and Management Committee
March 14, 2017

BACKGROUND / LEGISLATIVE HISTORY

The Oakland Police and Fire Retirement System (the "PFRS") 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, 2016, PFRS had 921 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. The System's portfolio is currently managed by twelve external investment managers. The majority 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. In accordance with the funding agreement entered into 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 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 into a funding agreement with the PFRS Board. As a result, no additional contributions are required until July 1, 2017. This report is being provided in accordance with the funding agreement between the City and the PFRS Board pursuant to the issuance of the 2012 POBs.

ANALYSIS

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, 2016, the System's membership was 907, as shown on **Table 1**.

Table 1			
PFRS Membership			
as of December 31, 2016			
Membership	POLICE	FIRE	TOTAL
Retiree	389	242	631
Beneficiary	141	135	276
Total Membership	530	377	907

PFRS Investment Portfolio

As of December 31, 2016, the PFRS' portfolio had an aggregate value of \$35.57 million as shown in **Table 2** below.

Table 2 PFRS Investment Portfolio as of September 30, 2016	
Investment	Fair Value
Domestic Equities	\$173,332,928
Fixed Income	64,289,169
International Equities	43,101,563
Covered Calls	71,495,610
Cash and Cash Equivalents	3,353,305
Total Portfolio	\$355,572,575

During the latest quarter, the portfolio decreased by (\$7.6) million, including (\$15.0) million in net benefit payments. Over the latest year, the portfolio decreased by (\$28.4) million, including (\$60.5) million in net benefit payments as shown in **Table 3**.

Table 3
Investment Portfolio Valuation as of December 31, 2016*

	December 31, 2016	September 30, 2015	Quarterly Change	Percentage Change	December 31 2015	Annual Change	Percentage Change
PFRS	\$355.6	\$363.2	(\$7.6)	(2.1%)	\$384.0	(\$28.4)	(8.0%)

*The calculations listed above represent change in dollar value and not investment returns.

PFRS Investment Performance

During the latest quarter ending December 31, 2016, the PFRS Total Portfolio generated a return of 2.1 percent, gross of fees, outperforming its benchmark return of 1.9%. The Plan's Domestic Equity allocation outperformed its benchmark by 0.2%, with a return of 4.4 percent. The Plan's International Equity allocation underperformed its benchmark by 1.0 percent. The Plan's Fixed Income allocation outperformed its benchmark by 0.5 percent, while the Covered Calls outperformed its index by 0.4 percent.

Table 4
PFRS ASSET CLASS PERFORMANCE
 as of December 31, 2016

	Quarter	1 Year	3 Year	5 Year
PFRS Total Fund	2.1%	8.7%	5.1%	8.3%
PFRS PFRS Policy Benchmark (a)	1.9%	9.2%	5.8%	7.9%
PFRS Domestic Equity	4.4%	12.8%	8.2%	14.5%
Benchmark: Russell 3000 (b)	4.2%	12.7%	8.4%	14.7%
PFRS International Equity	-2.2%	2.1%	-0.9%	6.5%
Benchmark: MSCI ACWI Ex US (c)	-1.2%	5.0%	-1.3%	5.5%
PFRS Fixed Income	-2.1%	4.9%	3.5%	3.0%
Benchmark: Bloomberg Barclays Universal (d)	-2.6%	3.9%	3.3%	2.8%
PFRS Covered Calls	3.0%	10.1%	0.0%	0.0%
Benchmark: CBOE BXM	2.6%	7.1%	0.0%	0.0%

(a) Starting on 5/1/2016, Policy Benchmark consists of 48% Russell 3000, 12% MSCI ACWI ex U.S., 20% BC Universal, 20% CBOE BXM
 (b) Blended Domestic Equity Benchmark consists of S&P 500 thru 3/31/98, 10% R1000, 20% R1000V, 5% RMC from 4/1/98 - 12/31/04, and Russell 3000 from 1/1/05 to present.
 (c) Blended International Equity Benchmark consists of MSCI EAFE thru 12/31/04, and MSCI ACWI x US thereafter.
 (d) Blended Fixed Income Benchmark consists of Bbg BC Aggregate prior to 4/1/06, and Bbg BC Universal thereafter.

PFRS Actuarial Valuation

The latest actuarial valuation as of July 1, 2016 was performed by Actuary, Cheiron Associates. As of this report, the PFRS Funded Ratio (actuarial value of assets divided by present value of future benefits) is 53.7 percent. The City's next Annual Required Contribution to the System is due next fiscal year (FY 2017/2018) and is projected to be \$44.86 million. **Table 5** below shows a summary of the July 1, 2016 PFRS Actuarial valuation results.

	July 01, 2016
Actuarial Liability	\$ 672,916
Less: Actuarial Value of Assets	(363,550)
Unfunded Actuarial Liability	<u>\$ 309,366</u>
Funded Ratio (MVA) liability	<u>53.7%</u>

Projected City of Oakland Contributions

Article XXVI Section 2619 (6) required that the City fully fund the PFRS Plan by 2026. **Table 6** below summarizes the projected employer contributions. The contributions are based on as assumed blended future market value returns of 6.44 percent. The assumed rate is blended because its currently 7% and trends down to 3.25% in 2036.

Fiscal Year Ending	Employer Contribution
2016	\$ 0.0
2017	0.0
2018	44.9
2019	46.4
2020	47.9
2021	49.5
2022	51.1
2023	52.8
2024	54.6
2025	56.4
2026	58.4

FISCAL IMPACT

Since this is an informational report, there are no budget implications associated with the report.

PUBLIC OUTREACH / INTEREST

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

COORDINATION

This report was prepared in coordination with the PFRS' Investment Consultant (PCA) 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: There are no environmental opportunities associated with this report.

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

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Council accept this informational report on the Oakland Police and Fire Retirement System ("PFRS") Investment Portfolio as of December 31, 2016.

Respectfully submitted,



KATANO KASAINÉ
Treasurer/ Plan Administrator

Prepared by:
Téir Jenkins, Investment Officer
Retirement Division

Attachments (1): Attachment A: PFRS Performance Report as of December 31, 2016

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Finance and Management Committee
March 14, 2017