



AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Adam Benson
Finance Director

SUBJECT: Oakland PFRS Investment Portfolio

DATE: January 6, 2020

City Administrator Approval

Date:

1/14/20

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, 2019.

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, 2019.

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 1.6 percent, gross of fees, outperforming its policy benchmark by 0.2 percent. The portfolio also outperformed its benchmark over the latest one-, three-, and five-year periods. This is discussed in more detail in the "Investment Performance" section of this report.

	Quarter	1 Year	3 Year	5 Year
Total Portfolio	1.6	3.8	9.8	7.6
Policy Benchmark	1.4	2.4	8.8	7.2
Excess Return	0.2	1.4	1.0	0.4

As of July 1, 2018, the System's Unfunded Liability is approximately \$271.28 million and the System had a Funded Ratio of 58.1 percent on a Market Value of Assets (MVA) 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, 2019, PFRS had 797 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. There are 12 external investment managers that 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. Due to 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 by the City until July 1, 2017. As of the most recent actuary study dated July 1, 2018, the System's Unfunded Liability is approximately \$271.28 million and the System had a Funded Ratio of 58.1 percent on a Market Value of Assets (MVA) basis. The City of Oakland is currently making monthly payments to the Plan for the FY 2019/2020 actuarial annual required contribution of \$43.4 million.

ANALYSIS AND POLICY ALTERNATIVES

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, 2019, the System's membership was 797, as shown on **Table 1 below**.

Table 1 PFRS Membership as of September 30, 2019			
Membership	POLICE	FIRE	TOTAL
Retiree	347	199	546
Beneficiary	127	124	251
Total Membership	474	323	797

PFRS Investment Portfolio

As of September 30, 2019, the PFRS' portfolio had an aggregate value of \$391.24 million as shown in **Table 2**.

Table 2 PFRS Investment Portfolio as of September 30, 2019 (in thousands)	
Investment	Fair Value
Equities	\$157,679
Fixed Income	107,891
International Equities	46,964
Crisis Risk Offset	40,259
Covered Calls	31,961
Cash	6,489
Total Portfolio	\$ 391,244

The aggregate value of \$391.24 million represents a \$6.2 million increase in investment value and (\$3.7) million decrease in benefit payments over the quarter. During the previous one-year period, the PFRS Total Portfolio decreased in value by (\$0.2) million based on an increase in investment value of \$13.6 million and a withdrawal of (\$13.9) million for benefit payments as shown in **Table 3** below.

Table 3		
Change in PFRS Portfolio Valuation as of September 30, 2019 (in thousands)		
Total Plan Value	Quarter	1 Year
Beginning Market Value	\$388,740	\$391,498
Investment Drawdowns for Benefit Payments	(3,691)	(13,862)
Gain/Loss on Investment	6,195	13,608
Ending Market Value	\$391,244	\$391,244

PFRS Investment Performance

During the most recent quarter, the PFRS Total Portfolio generated an absolute return of 1.6 percent, gross of fees, outperforming its policy benchmark by 0.2 percent. The portfolio outperformed its benchmark by 1.4 percent and 1.0 percent over the 1- and 3-year periods, respectively, and outperformed by 0.4 percent over the 5-year period.

Over the most recent quarter ending September 30, 2019, the Plan's Domestic Equity allocation underperformed its benchmark by (0.5) percent. The Plan's International Equity allocation outperformed its benchmark by 0.9 percent. The Plan's Fixed Income allocation matched its benchmark of 2.1 percent. The Plan's Crisis Risk Offset allocation outperformed its benchmark by 4.8 percent, while the Covered Calls allocation outperformed its benchmark by 1.4 percent. **Table 4** shows PFRS recent investment performance in comparison to its corresponding benchmarks.

Table 4				
PFRS Asset Class Performance as of September 30, 2019 (percentages)				
Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS Total Fund	1.6	3.8	9.8	7.6
PFRS Policy Benchmark	1.4	2.4	8.8	7.2
Excess Returns	0.2	1.4	1.0	0.4
PFRS Domestic Equity	0.7	1.4	12.8	10.4
Benchmark: Russell 3000	1.2	2.9	12.8	10.4
Excess Returns	(0.5)	(1.5)	0.0	0.0

Table 4				
PFRS Asset Class Performance				
as of September 30, 2019(cont'd)				
Investment Type	Quarter	1 Year	3 Year	5 Year
PFRS International Equity	(0.8)	0.9	8.1	5.3
Benchmark: MSCI ACWI Ex US	(1.7)	(0.7)	6.8	3.4
Excess Returns	0.9	1.6	1.3	1.9
PFRS Fixed Income	2.1	10.0	3.9	4.1
Benchmark: Bloomberg Barclays Universal	2.1	10.1	3.2	3.6
Excess Returns	0.0	(0.1)	0.7	0.5
PFRS Crisis Risk Offset	6.8	0.3	-	-
Benchmark: SG Multi Alternative Risk Premia	2.0	3.1	-	-
Excess Returns	4.8	(2.8)	-	-
PFRS Covered Calls	2.0	2.8	9.4	8.1
Benchmark: CBOE BXM	0.6	(1.1)	7.0	5.9
Excess Returns	1.4	3.9	2.4	2.2
Cash	0.7	2.6	1.7	1.1
Citigroup 3 Month T-Bill Index	0.6	2.4	1.5	1.0
Excess Returns	0.1	0.2	0.2	0.1

PFRS Actuarial Valuation

As of the latest actuarial valuation dated July 1, 2018, the PFRS Funded Ratio (market value of assets divided by present value of future benefits) is 58.1 percent. As a result of the funding agreement and the City's deposit of \$210 million from the 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 2019/2020 is \$43.4 million. **Table 5** below shows a summary of the July 1, 2018 PFRS Actuarial valuation results.

Table 5 Summary of Plan Results (\$ in thousands)	
	July 01, 2018
Present Value of Future Benefit Payments	\$ 647,251
Less: Market Value of Assets	(375,976)
Unfunded Liability	<u>\$271,275</u>
Funded Ratio (MVA) liability	<u>58.1%</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.

Table 6 Projected Employer Contributions Police and Fire Retirement System (in millions)	
Fiscal Year Ending	Employer Contribution
2020	\$43.4
2021	43.8
2022	44.3
2023	44.7
2024	45.1
2025	45.1
2026	44.2

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 (MIG) 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 or 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 September 30, 2019.

For questions regarding this report, please contact Adam Benson, Finance Director, at (510) 238-2026.

Respectfully submitted,



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Finance Director

Prepared by:
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Reviewed by:
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Attachment:

Attachment A: Oakland Police and Fire System Quarterly Investment Performance Report as of September 30, 2019