



# Memorandum

**TO:** Police & Fire Department Retirement Plan  
Investment Committee

**FROM:** Jay Kwon, CFA, CAIA

**SUBJECT:** New Passive Funds

**DATE:** August 28, 2018

**Approved** -----

**Date** --/--/----

## Recommendation

*Please see the final slide of the accompanying presentation for a summary of all recommendations.*

## Background

At the August 2, 2018 meeting, the Board approved a new asset allocation policy and requested staff do more work on ranges. Exhibit A shows the slides that were approved.

In general, the implementation plan obtains target exposures through the use of passive vehicles which may later serve as funding sources for active mandates. These passive vehicles will align with policy benchmarks to the fullest extent possible, and on an ongoing basis serve as the default exposure for their allocations. Some of the passive vehicles are currently approved and already in use; this memo briefly describes the new vehicles staff recommends utilizing in the implementation plan.

## New Passive Vehicles

### *Emerging Markets Equity*

Both plans currently utilize a range of Northern Trust Collective Funds throughout the Public Equity allocation, with the notable exception of Emerging Markets. The new policy targets imply a large increase in Emerging Markets Equity exposure; in the long run, this will likely be allocated actively through the addition of new active strategies. In the interim, Staff recommends adding the Northern Trust Collective Emerging Markets Investable Market Index Fund – Non-Lending. The management fee will be 9 basis points.

***Short Duration Fixed Income***

The shift in fixed income from core bond to short duration is sizable, both in dollars and in philosophy. The new policy benchmark for this allocation is the ICE BofAML US 3-Month Treasury Bill Index, and in aggregate across both Pension plans, the size of the short duration allocation will exceed \$1.1 B. Most collective funds in this space are run as daily sweep vehicles for custodial banks and large asset managers, and have unnecessary infrastructure (with associated costs) for our Plans' needs. Instead, Staff recommends obtaining benchmark exposure through a Separately Managed Account with BlackRock. The management fee will be 2 basis points, with a \$50,000 annual minimum fee.

***Immunized Cash Flows***

The new policy allocation sets aside 5% of Plan assets to immunize the next few years of net cash flows; this is a new exposure for the Plan. Staff anticipates undertaking a manager search to oversee this allocation as a first priority, but in the interim, Staff recommends using a passive vehicle to approximate the exposure – the exact exposures that will ultimately be required are dependent on further analysis. Staff recommends using the Northern Trust Collective Short Term Government Bond Index Fund – Non Lending. The management fee will be 1.5 basis points.

***Sovereign Bonds ex-US***

The new policy allocation includes a 3% allocation to Sovereign Bonds ex-US. The benchmark for this allocation will be the FTSE WGBI ex-US. This exposure is likely to remain passive; Staff recommends using the Northern Trust Collective World Government Bond Index Fund – Non Lending. The management fee will be 5 basis points.

***US TIPS***

The new policy allocation includes a 3% allocation to Sovereign Bonds ex-US. The benchmark for this allocation will be the BC US Treasury TIPS 0-5 Year Index. This exposure is likely to remain passive; Staff recommends using a Separately Managed Account from Northern Trust. The management fee will be 5 basis points.

\_\_\_/s/ Jay Kwon \_\_\_\_\_

Jay Kwon, CFA, CAIA

Investment Officer