



Investment Program

SAN JOSE POLICE AND FIRE DEPARTMENT
RETIREMENT SYSTEM

Investment Fees Analysis
Calendar Year 2023

P&F 10.3.24

Understanding Total Expense Ratio

Net returns = Gross returns – Management fees – Incentive fees – Operating Expenses

Fee Type	Description	Examples
Management fees	Fees paid to investment management firms	
Incentive fees	Performance-based fees paid to investment management firms	
Operating expenses	Costs of administering individual investment vehicles	Audit, tax, legal, custodian
Other expenses	Costs incurred at the plan level	Staff salaries and benefits, consultants, custodian, third party vendors

Calendar Year 2023 Comprehensive Fees/Expenses - Pension

Fund Type	Management Fees (\$ mm)	Incentive Fees (\$ mm)	Operating Expenses (\$ mm)	Mgmt, Incent, and Op Exp (\$ mm)	Average Balance (\$ mm)	Average Weight	Fee Ratio - Mgmt, Incent, and Op Exp
Passive	0.7	-	0.1	0.9	1,870	39.9%	0.05%
Active	8.3	1.1	0.5	9.9	1,472	31.4%	0.67%
Hedged	3.1	3.3	0.3	6.8	341	7.3%	1.99%
Private	14.3	5.9	7.7	27.9	1,006	21.5%	2.77%
Total Plan	26.4	10.3	8.7	45.4	4,690	100.0%	0.97%

Investment Staff Salary and Benefits (\$ mm)	Consultants (\$ mm)	Custodian (\$ mm)	Other Vendors and Travel (\$ mm)	Total Other Costs (\$ mm)	Other Costs Fee Ratio
1.5	0.5	0.5	0.7	3.2	0.07%

Source: 2023 Fee Report

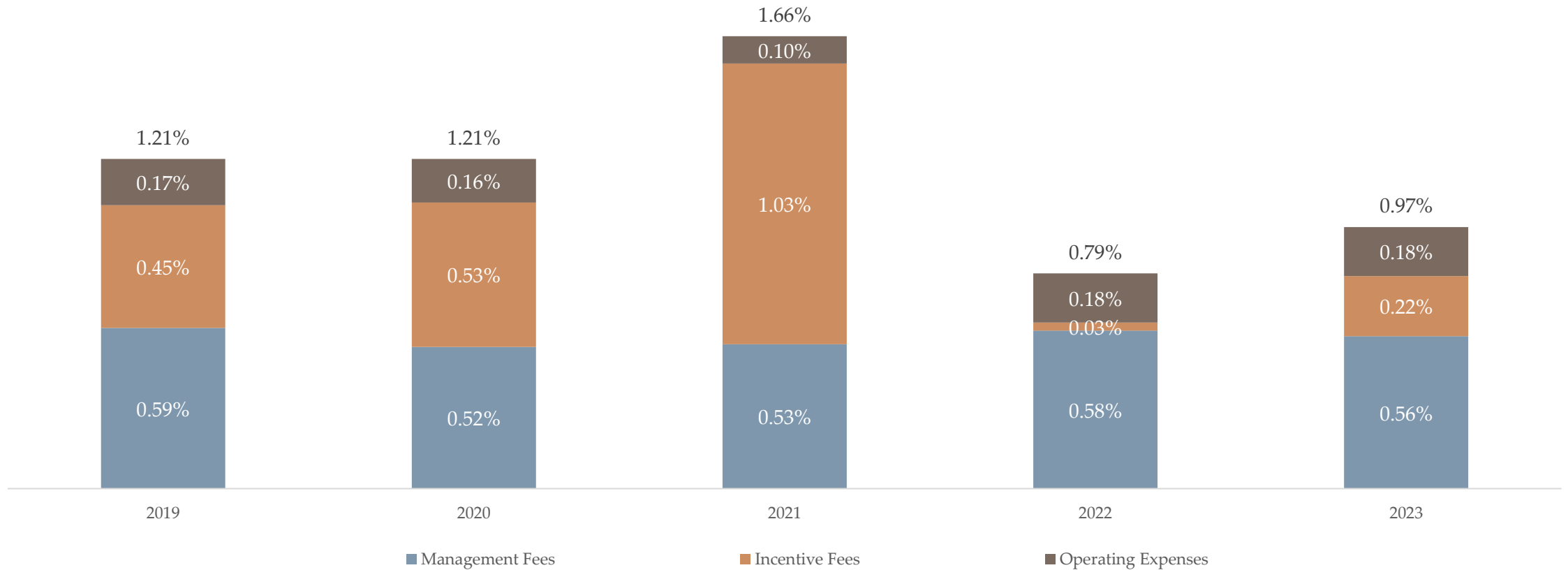
Calendar Year 2023 Comprehensive Fees/Expenses - Health Care Trust

Fund Type	Management Fees (\$ mm)	Incentive Fees (\$ mm)	Operating Expenses (\$ mm)	Mgmt, Incent, and Op Exp (\$ mm)	Average Balance (\$ mm)	Average Weight	Fee Ratio - Mgmt, Incent, and Op Exp
Passive	0.1	-	0.0	0.1	249	86.3%	0.05%
Active	0.3	0.0	0.0	0.4	40	13.7%	0.95%
Total Plan	0.4	0.0	0.1	0.5	289	100.0%	0.17%

Investment Staff Salary and Benefits (\$ mm)	Consultants (\$ mm)	Custodian (\$ mm)	Other Vendors and Travel (\$ mm)	Total Other Costs (\$ mm)	Other Costs Fee Ratio
0.1	0.0	0.0	0.0	0.2	0.07%

Source: 2023 Fee Report

Total Expense Ratio Over Time



P&F Plan

Net Returns: 13.9% (2019)

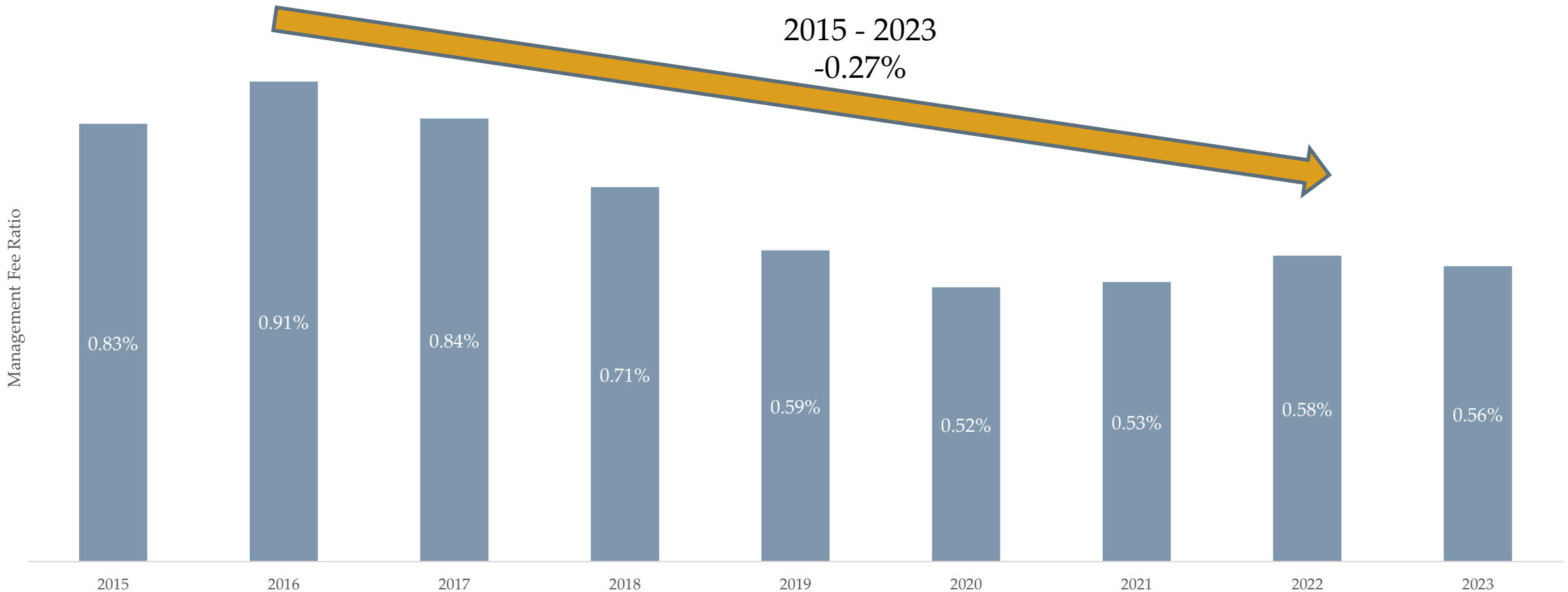
13.7% (2020)

14.6% (2021)

-9.0% (2022)

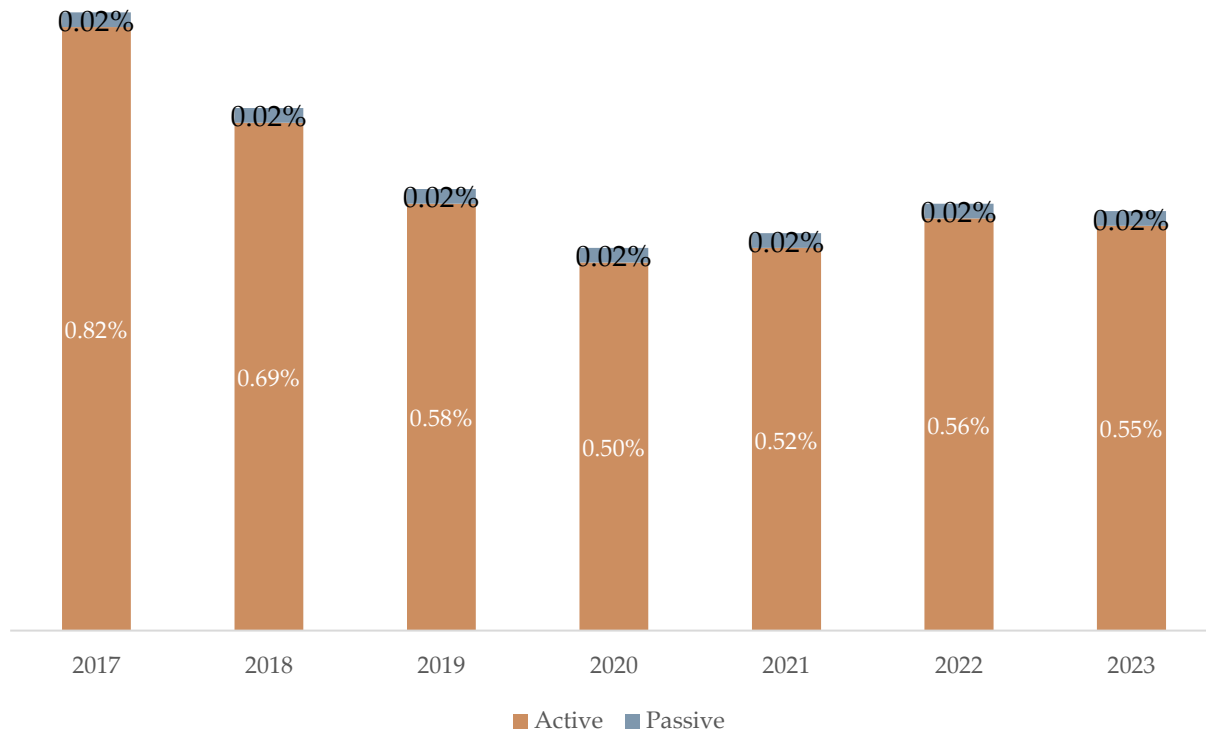
9.7% (2023)

Control what we can control: Management fees.

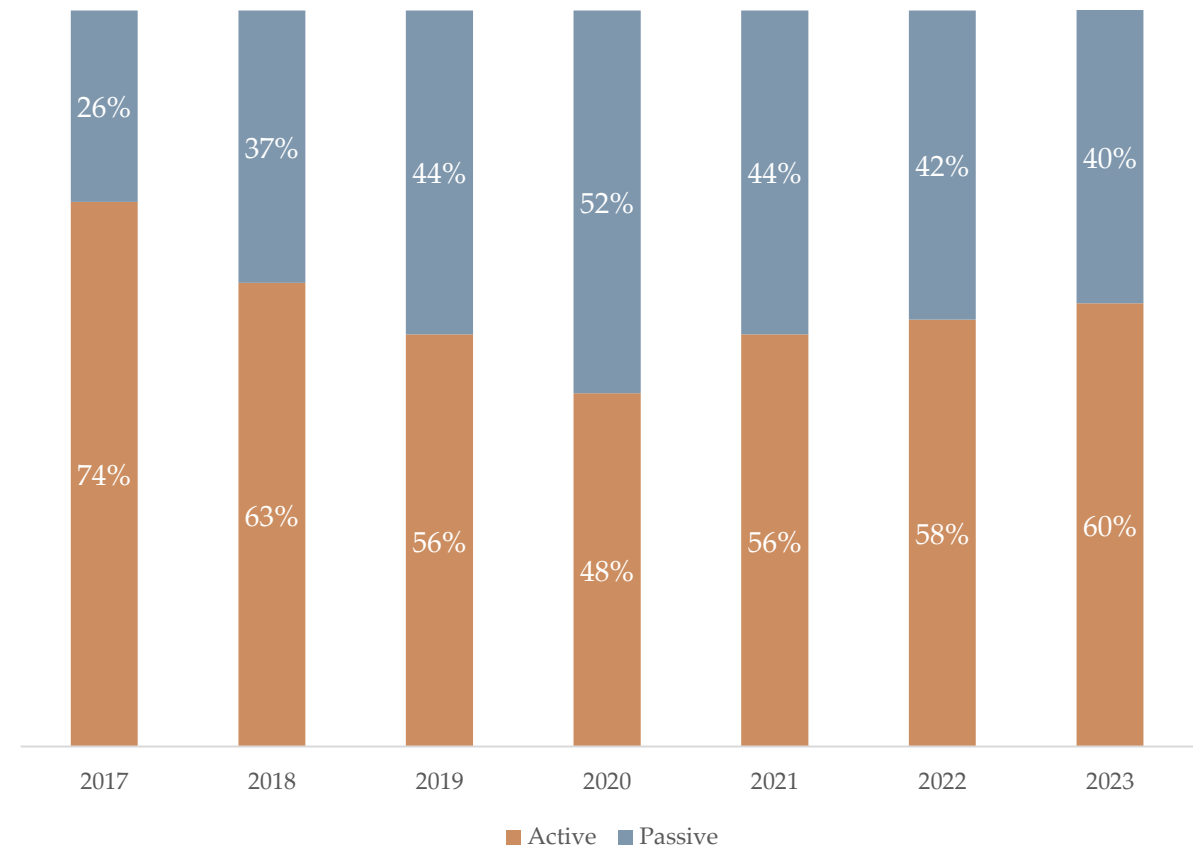


Greater passive allocation drives lower fees

Contribution to Management Fees (%)



Average Allocation by Fund Type (%)



Active strategies is inclusive of Private, hedged and long only public strategies

\$13.7 million of estimated fee savings generated in 2023

Asset Class	Fee Savings (\$ mm)
Growth	13.0
Public Equity	2.5
Total Private Markets	10.3
Emerging Market Bonds	0.1
High Yield Bonds	0.0
Low Beta	0.3
Market Neutral Strategies	0.3
Other	0.5
Core Real Estate	0.5
Investment Grade Bonds	0.0
Total Plan	13.7

- Sources of fee savings include Staff negotiations, early investor discounts, and volume discounts.
- Private Markets estimated fee savings based on commitments that closed in calendar year 2023.
- Additional fee savings not modeled include fee structures of fund-of-ones compared to fund-of-funds alternative, upside performance of investments with incentive fee discounts, and fee savings from Private Markets commitments prior to 2023.

Appendix

Investment Policy Statement on Investment Fees

“The Plan will seek alignment of interests when negotiating fees while pursuing the best net of fees performance results. Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Plan. The Board will be provided reports on investment costs of the Plan at least annually.”

Glossary of Terms

- Active strategies: Funds that attempt to outperform an index
- Asset allocation: Distribution of assets across a number of asset classes that each exhibit a unique combination of risk and expected return. Asset allocation is the most important determinant of long-term plan performance
- Hedged strategies: Investments that generally seek to achieve a return regardless of market direction
- Gross returns: Returns before the deduction of fees and expenses
- Incentive fees: Performance-based fees paid to individual investment management firms. Incentive fees are a form of shared economics. Also known as “carried interest”
- Management fees: Asset-based fees paid to individual investment management firms
- Net returns: Returns after the deduction of management fees, incentive fees, and operating expenses
- Operating expenses: Costs of administering individual investment vehicles (not the retirement plans)
- Other expenses: Costs incurred at the plan level (staff, consultants, third party vendors, etc.)
- Passive strategies: Investments that intend to match the return of an index
- Private strategies: Investments in illiquid assets such as privately held companies or real estate
- Total expense ratio: Total expenses (sum of management fees, incentive fees, and operating expenses) divided by average plan assets

Contribution to Management Fee Ratio by Fund Type

