2b(1)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Investment Program

SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM

Investment Fees Analysis
Calendar Year 2024

P&F 11.6.25

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 2024 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	0.8	2,041	39.4%	0.04%
Active	9.4	-0.0	0.6	9.9	1,663	32.1%	0.60%
Hedged	3.2	7.7	0.3	11.2	323	6.2%	3.47%
Private	20.6	4.8	8.4	33.7	1,151	22.2%	2.92%
Total Plan	33.8	12.3	9.4	46.1	5,177	100.0%	1.07%

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	0.5	3.0	0.06%

Source: 2024 Fee Report

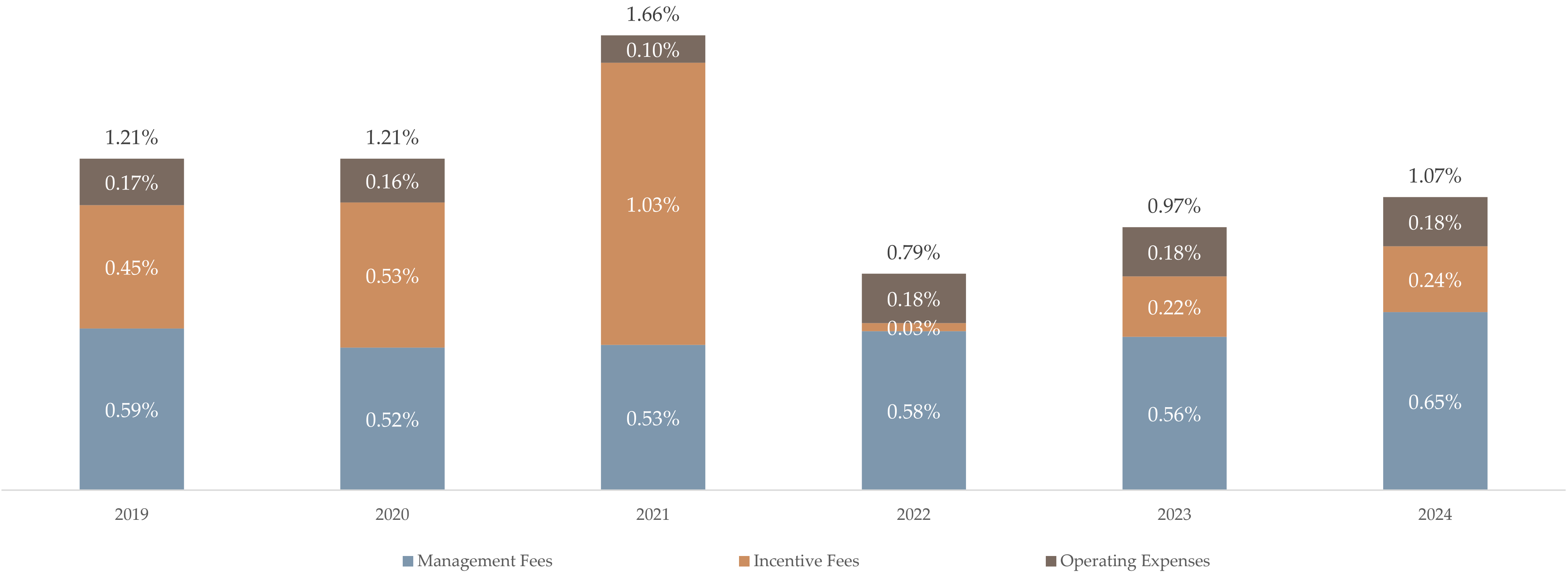
Calendar Year 2024 Comprehensive Fees/Expenses - Health Care Trust

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	299	84.7%	0.04%
Active	0.3	-0.0	0.0	0.3	54	15.3%	0.62%
Total Plan	0.4	-0.0	0.1	0.4	354	100.0%	0.13%

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	0.1	0.0	0.2	0.06%

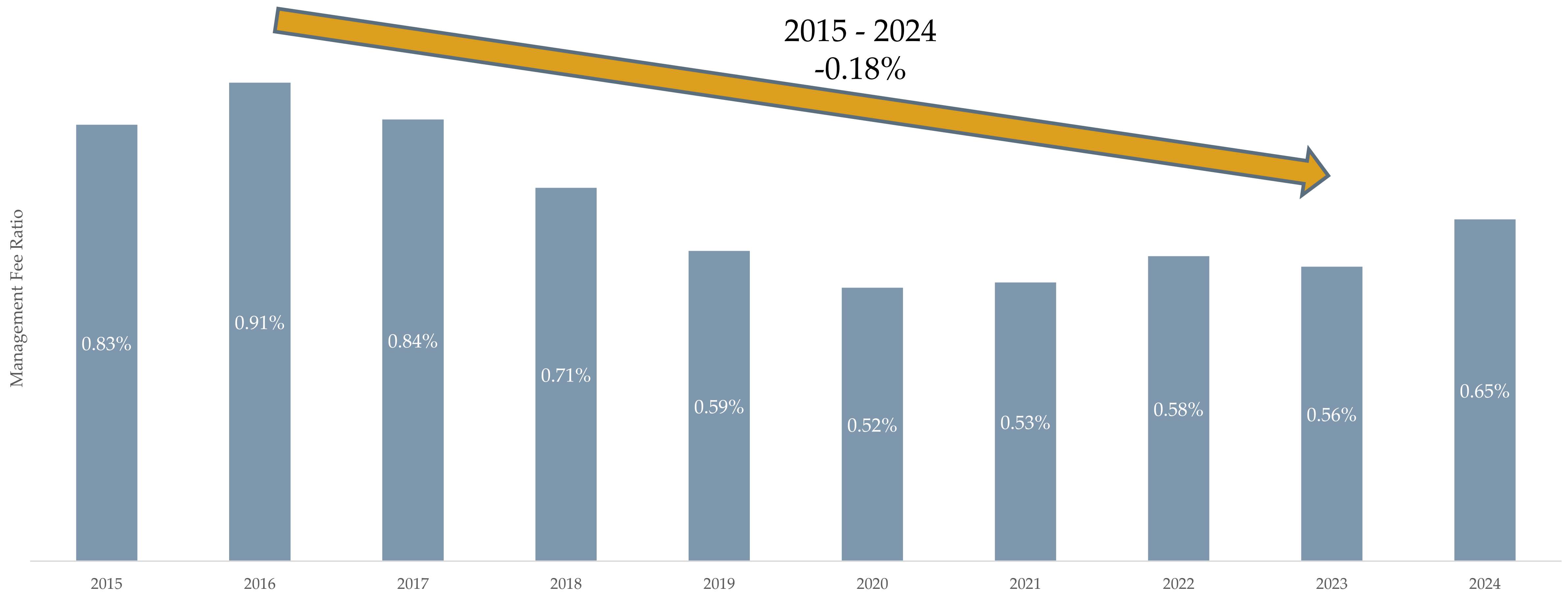
Source: 2024 Fee Report

Total Expense Ratio Over Time

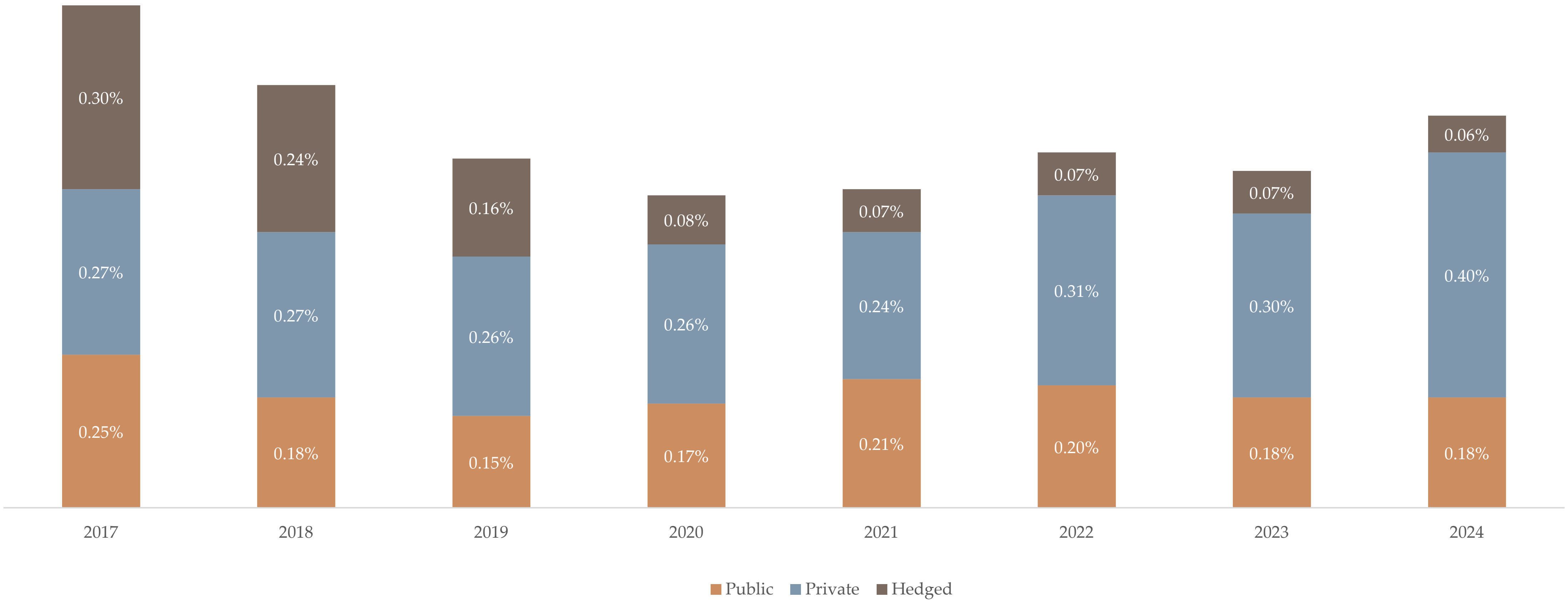


P&F Plan
Net Returns: **13.9%** (2019) **13.7%** (2020) **14.6%** (2021) **-9.0%** (2022) **9.7%** (2023) **8.6%** (2024)

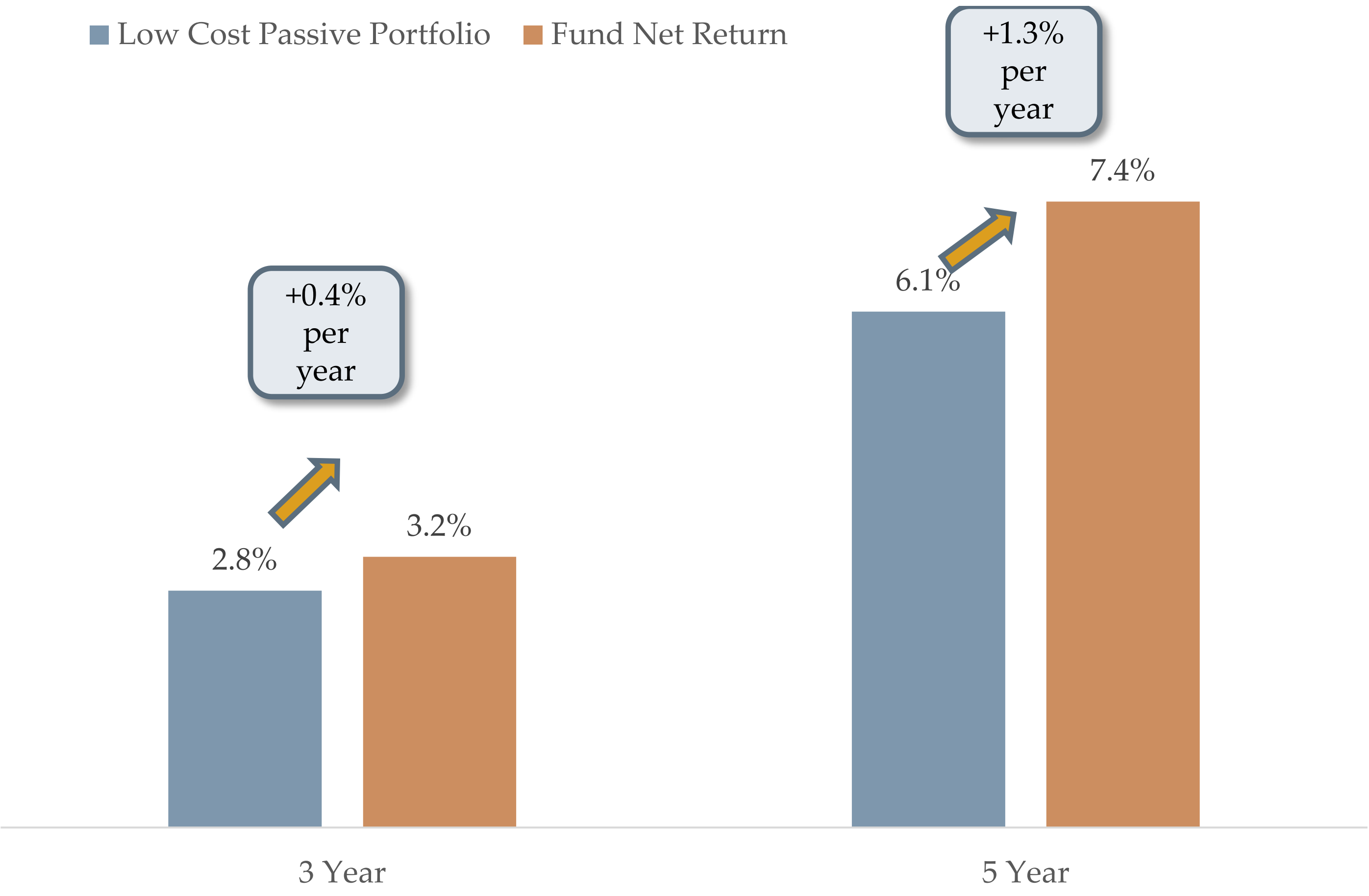
Control what we can control: Management fees.



Contribution to Management Fee Ratio by Fund Type



Value Added From Active Strategies



Estimated Cumulative Value Added in $: **$59.2 million** **$314.9 million**

As of December 31, 2024

**Low-Cost Passive Portfolio: Calculation of Board strategic asset allocation targets using public market benchmarks managed on a passive basis.*

$13.7 million of estimated fee savings generated in 2024

Asset Class	Fee Savings ($ mm)
Growth	**11.8**
Public Equity	2.0
Total Private Markets	9.7
Emerging Market Bonds	0.1
High Yield Bonds	0.0
Low Beta	**0.2**
Market Neutral Strategies	0.2
Other	**0.4**
Core Real Estate	0.4
Investment Grade Bonds	0.0
Total Plan	**12.4**

- 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 2024.
- 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 2024.

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