SAN JOSE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Fees Analysis
Calendar Year 2025

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 2025 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	0.3	-	0.1	0.4	1,251	36.3%	0.03%
Active	6.5	0.5	0.3	7.3	1,285	37.3%	0.57%
Hedged	2.3	5.1	0.2	7.6	137	4.0%	5.51%
Private	11.0	11.4	6.2	28.6	770	22.4%	3.71%
Total Plan	20.1	17.0	6.7	43.9	3,443	100.0%	1.27%

Investment Staff Salary and Benefits ($ mm)	Consultants ($ mm)	Custodian ($ mm)	Other Vendors and Travel ($ mm)	Total Other Costs ($ mm)	Other Costs Fee Ratio
1.0	0.5	0.5	0.4	2.4	0.07%

Source: 2025 Fee Report

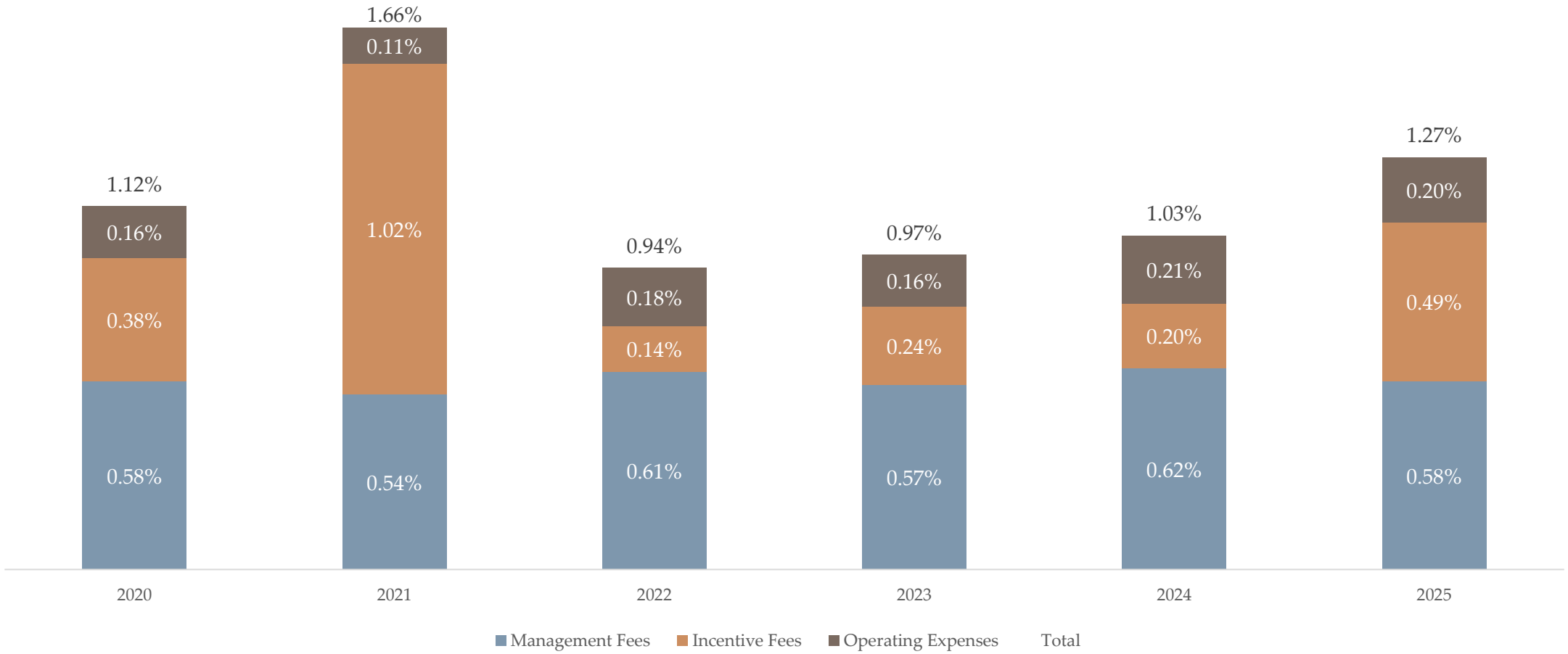
Calendar Year 2025 Comprehensive Fees/Expenses - Health Care Trust

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	351	75.7%	0.03%
Active	0.7	-	0.0	0.7	113	24.3%	0.64%
Total Plan	0.8	-	0.0	0.8	463	100.0%	0.18%

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	0.1	0.1	0.0	0.3	0.06%

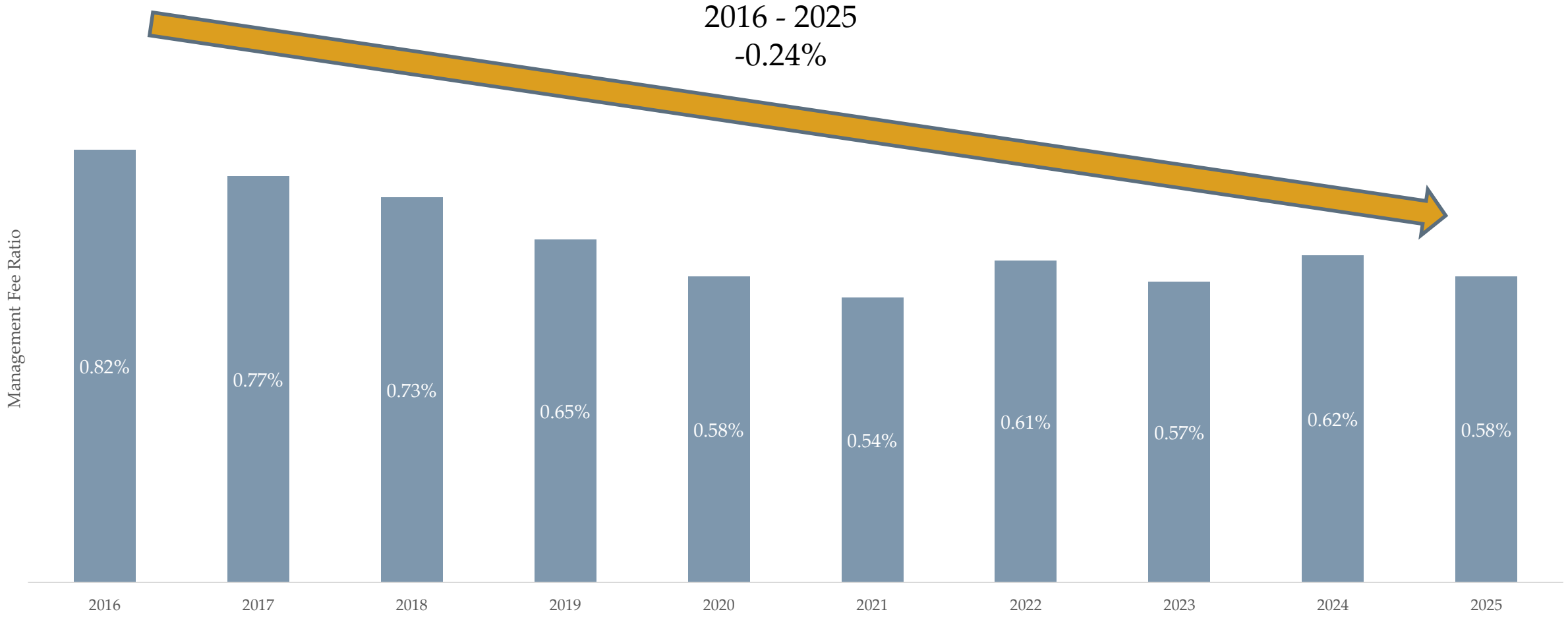
Source: 2025 Fee Report

Total Expense Ratio Over Time

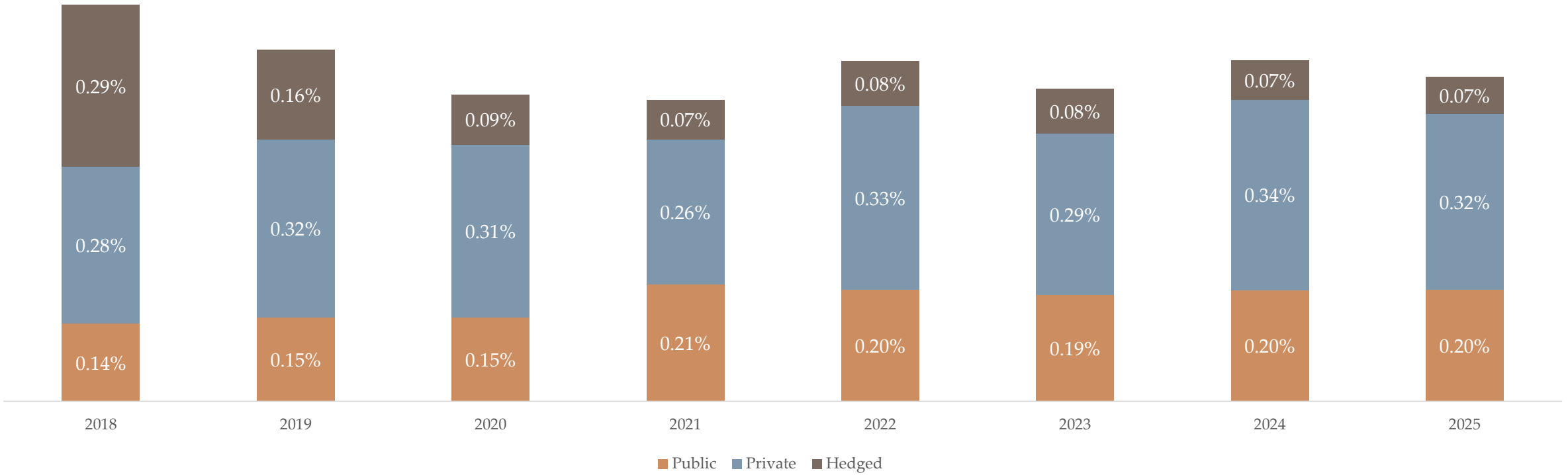


Federated Pension Plan
Net Returns: **16.0%** (2020) **16.5%** (2021) **-9.2%** (2022) **11.4%** (2023) **8.1%** (2024) **14.3%** (2025)

Control what we can control: Management Fees



Contribution to Management Fee Ratio by Fund Type



**Active strategies only*

$6.5 million of estimated fee savings generated in 2025

Asset Class	Fee Savings ($ mm)
Growth	**5.8**
Public Equity	1.4
Total Private Markets	4.2
Emerging Market Bonds	0.2
High Yield Bonds	0.0
Low Beta	**0.3**
Market Neutral Strategies	0.3
Other	**0.4**
Core Real Estate	0.4
Investment Grade Bonds	0.0
Total Plan	**6.5**

- 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 2025.
- 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 2025.

Appendix

Investment Policy Statement on Investment Fees

"The System 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 System. The Board will be provided reports on investment costs of the System 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