



Agenda Item 7a

April 13, 2015

ITEM NAME: Investment Office Cost Effectiveness

PROGRAM: Total Fund

ITEM TYPE: Business Plan/Roadmap – Information

EXECUTIVE SUMMARY

This agenda item provides an overview of the Investment Office (INVO) Roadmap Strategic Objective - Cost Effectiveness. The topics include an analysis of INVO's cost drivers and cost structure vs. peers. It also reports on INVO's expense trends and key cost savings and financial reporting accomplishments.

STRATEGIC PLAN

This agenda item supports the Strategic Plan goal to improve long-term pension and health benefit sustainability.

BACKGROUND

Cost Effectiveness is one of the INVO Roadmap strategic objectives. INVO aims to enhance cost effectiveness of the investment program to improve net returns on assets.

ANALYSIS

INVO's strategy has been to deliver more value for cost by pursuing the following efforts:

- Reduce the reliance on external consultants and advisors, especially for key control and portfolio monitoring functions
- Transition assets from external managers to internal management when it is possible to build internal capabilities
- Reduce external management fees paid

The total cost to manage the CalPERS portfolio for Fiscal year 2013-14 was approximately \$1.7 billion; 92% of these costs were attributable to fees paid to external investment managers. Excluding profit sharing fees, which are very volatile, the cost to manage the portfolio has decreased by \$90 million over the past five fiscal years.

The reduction in costs has enabled INVO to fund an increase in internal staff and portfolio management capabilities.

Each year, INVO participates in a CEM Benchmarking (CEM) survey which analyzes our costs against a customized peer group comprised of both US and global pension investment organizations.

The total cost reported to CEM for calendar year 2013 to manage the CalPERS portfolio was 40.6 basis points. The CEM analysis concludes that INVO is cost-advantaged compared to its peers, due to:

- Internal management of public assets
- Index-oriented management of equities
- Lesser use of fund-of-funds than peers

INVO is also partnering with the Financial Office to further refine management reporting and budgetary tools to properly control total investment costs and provide the Board with comprehensive reporting of the total costs to manage the portfolio.

ATTACHMENTS

Attachment 1 – Cost Effectiveness PowerPoint presentation

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