
May 15, 2017**Item Name:** Investment Office Cost Effectiveness**Program:** Total Fund**Item Type:** 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
- Negotiated reduced external management fees with a limited list of "best in class" external managers

The total cost to manage the CalPERS portfolio for Fiscal Year 2015-16 was approximately \$1.7 billion; 92% of these costs were attributable to fees paid to external investment managers. Excluding profit sharing, which is quite volatile, the total cost to manage the portfolio has decreased by \$402 million since fiscal year 2010-11, the beginning of the Cost Effectiveness initiative.

The reduction in costs has enabled INVO to fund a \$2 million increase in internal staff and portfolio management capabilities over the same time period.

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

The total cost reported by CEM for calendar year 2015 to manage the CalPERS portfolio was 32.5 basis points compared to the CEM Benchmark Cost of 42.1 basis points. The CEM analysis concludes that INVO is cost-advantaged compared to its peers, primarily due to:

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

Attachments

Attachment 1 – Cost Effectiveness PowerPoint presentation

Attachment 2 – CEM 2015 Executive Summary

WYLIE TOLLETTE

Chief Operating Investment Officer