



Finance and Administration Committee

Agenda Item 5c

November 14, 2018

Item Name: 2017 -18 Year-End Budget and Expenditure Report

Program: Financial Office

Item Type: Information Consent

Executive Summary

This report presents CalPERS' Year-End Budget and Expenditures for Fiscal Year (FY) 2017-18, and satisfies the 2017 Budget Act (Chapter 14, Statutes of 2017) reporting requirement to submit a final year-end report to the State Controller, the Department of Finance, the Joint Legislative Budget Committee, and fiscal committees of the Legislature. In addition, the report will be submitted to the Legislative Analyst's Office, the Government Operations Agency, and the Office of Legislative Counsel.

(\$ in Millions)	FY 2017-18				FY 2016-17
	Budget	Actual Expenditures	(\$ Under) Over	Percent Expended	Actual Expenditures
Administrative Operating Costs	\$468.4	\$444.1	(\$24.3)	94.8%	\$437.8
Investment Operating Costs	91.2	68.4	(22.8)	75.0%	69.5
Investment External Management Fees	777.5	727.2	(50.3)	93.5%	613.5
Third Party Administrator Fees	288.9	288.7	(0.3)	99.9%	286.4
Operating Costs Subtotal:	\$1,626.1	\$1,528.3	(\$97.7)	94.0%	\$1,407.2
Enterprise Project Costs	22.7	22.4	(0.4)	98.4%	34.1
Headquarters Building Costs	27.0	23.6	(3.4)	87.3%	26.2
Total Budget	\$1,675.9	\$1,574.3	(\$101.5)	93.9%	\$1,467.5

Note: Numbers may not add exactly due to rounding of budget detail.

Of the total FY 2017-18 CalPERS Budget of \$1.7 billion, actual expenditures were \$1.6 billion; a savings of \$101.5 million (6.1 percent). As reflected above, the largest savings is in Investment External Management Fees, which were \$50.3 million below budget primarily due to Global Equity savings as a result of the timing of payments and invoice receipts, and a decrease in negotiated performances fees for Real Assets. Savings in Administrative Operating Costs totaled \$24.3 million, primarily due to position vacancies, the continued reduction in temporary staffing, decrease in consulting services, less reliance on outside counsel services, and lower than anticipated travel costs. Savings in Investment Operating Costs totaled \$22.8 million, mainly due to a reduction in expenditures for activities related to consultants, external legal services, and appraisals associated with Private Equity and Real Assets portfolios. Details for each of the six budget categories are presented in the Analysis section below.

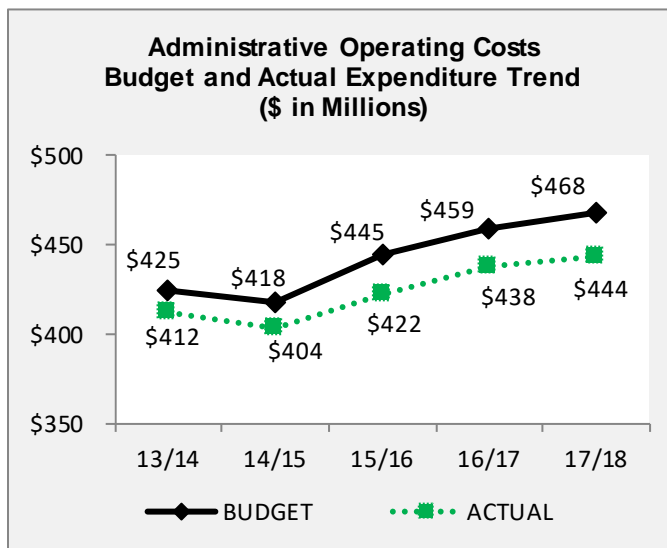
Background

CalPERS' Total Budget is comprised of six categories: Administrative Operating Costs, Investment Operating Costs, Investment External Management Fees, Third Party Administrator Fees, Enterprise Project Costs, and Headquarters Building Costs. CalPERS' Total Budget is reviewed and approved by the CalPERS Board of Administration.

Analysis

Administrative Operating Costs

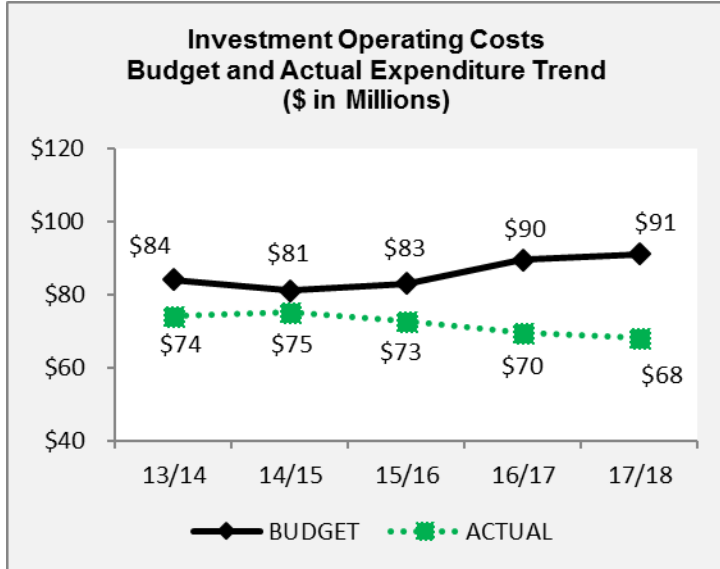
Of the total \$468.4 million Administrative Operating Costs budget, CalPERS expended \$444.1 million, which was \$24.3 million, or 5.2 percent, under budget mainly due to staffing vacancies (\$10.9 million), reduced reliance on temporary staffing (\$1.9 million), and savings in travel, outside counsel services, consultants, data processing services, and general operating expenses (\$11.5 million).



Compared to actual FY 2016-17 expenditures of \$437.8 million, Administrative Operating Costs increased by a net \$6.2 million in FY 2017-18. Increases resulted mainly from collectively bargained salary increases and CalHR's IT Classification Consolidation of \$15.5 million. These increases were offset by \$9.3 million in reductions primarily in temporary staffing, data processing services, reduced reliance on outside counsel and consultants, and equipment purchases.

Investment Operating Costs

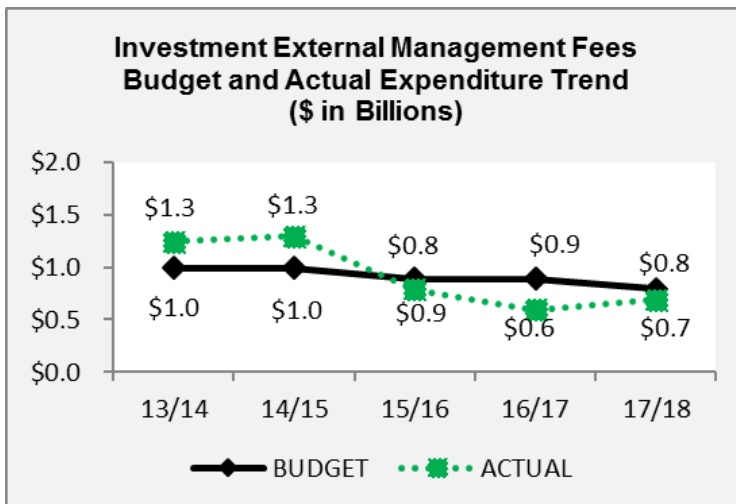
Of the total \$91.2 million Investment Operating Costs budget, CalPERS expended \$68.4 million, which was \$22.8 million, or 25 percent, under budget. This is primarily due to a reduction in activities related to consultants, external legal services, and appraisals. Savings and lower than projected operating costs were also driven by reductions in analytics costs. In addition, the development and maintenance costs of the trading and portfolio management system were less than projected due to the timing of payments.



Compared to actual FY 2016-17 expenditures of \$69.5 million, Investment Operating Costs decreased by a net \$1.2 million in FY 2017-18. This is due to a \$2.5 million decrease in operating expenses mainly related to appraisal fees, offset by a \$1.3 million increase in technology expenses.

Investment External Management Fees

Of the total \$777.5 million Investment External Management Fees budget, CalPERS expended \$727.2 million, which was \$50.3 million, or 6.5 percent, under budget. This is mainly due to a decrease in negotiated performance fees for Real Assets, and the timing of payments and invoice receipts for Global Equity (performance fees are not accrued).



Compared to actual FY 2016-17 expenditures of \$613.5 million, Investment External Management Fees increased by \$113.7 million in FY 2017-18. The increase is mainly due to performance fees for exceeding Global Equity benchmarks, Infrastructure, and Multi-Asset Class; investment gains in Private Equity; increased assets under management in Global Equity, and an increase in the number of Multi-Asset Class managers. The increase is slightly offset by a decrease in Real Estate costs for a reduction in performance

fee payouts negotiated at a lower rate compared to the prior year accrual.

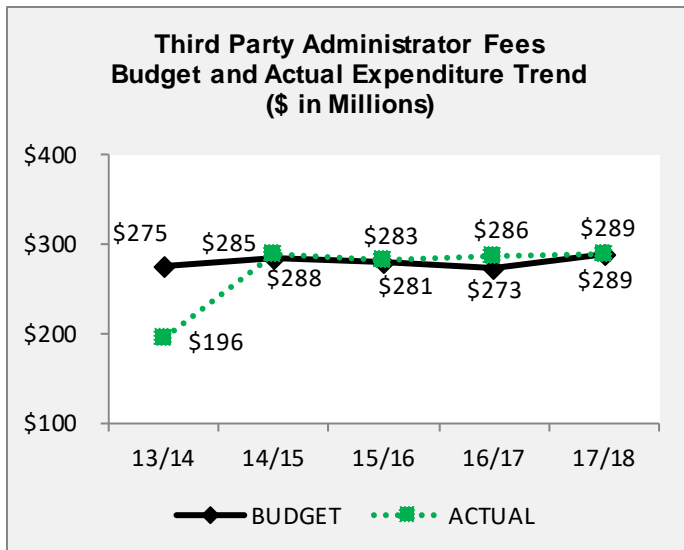
Investment External Management Fees				
(\$ in thousands)	FY 2017-18			FY 2016-17
	Budget	Actual Expenditures	(\$ Under) Over	Actual Expenditures
External Mgmt. (Base)				
Global Equity	\$87,974	\$86,508	(\$1,465)	\$80,546
Fixed Income	10,003	7,890	(2,113)	10,781
Real Assets	184,742	191,815	7,073	187,068
Private Equity	260,000	247,678	(12,322)	234,494
Absolute Return Strategy	800	487	(313)	675
Activist Funds	5,362	6,594	1,232	6,513
Multi-Asset Class	8,467	20,487	12,019	8,194
Total External Mgmt. (Base)	\$557,349	\$561,460	\$4,111	\$528,270
External Mgmt. (Performance)				
Global Equity	\$71,071	\$26,750	(\$44,321)	\$23,043
Fixed Income	3,336	3,366	30	2,915
Real Assets ¹	142,865	123,998	(18,867)	56,592
Absolute Return Strategy	-	1,647	1,647	2,689
Activist Funds	-	-	-	-
Multi-Asset Class	2,896	9,987	7,091	-
Total External Mgmt. (Performance)	\$220,169	\$165,748	(\$54,421)	\$85,239
Total External Mgmt. Fees	\$777,518	\$727,208	(\$50,310)	\$613,509

¹ FY 2017-18 fees are in alignment with CAFR's basis of accounting.
Note: Numbers may not add exactly due to rounding of budget detail.

Third Party Administrator Fees

Of the total \$288.9 million Third Party Administrator Fees budget, CalPERS expended \$288.7 million, which was \$260,000, or 0.1 percent, under budget

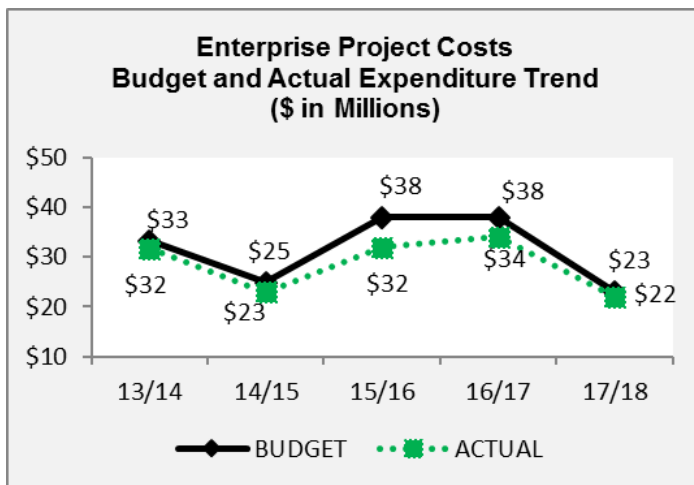
Third Party Administrator Fees (\$ in millions)	FY 2017-18				FY 2016-17
	Budget	Actual Expenditures	(\$ Under) Over	Percent Expended	Actual Expenditures
Long Term Care Program	\$21.5	\$21.2	(0.3)	98.8%	\$20.8
Flex and Self-Funded Health Program	264.0	263.8	(0.2)	99.9%	262.3
Supplemental Income Plan	3.3	3.6	0.2	107.1%	3.3
California Employers' Retiree Benefit Trust (CERBT) - Northeast Retirement Services (NRS)	0.1	0.1	0.0	105.9%	-
TOTAL	\$288.9	\$288.7	(\$0.3)	99.9%	\$286.4



Compared to actual FY 2016-17 expenditures of \$286.4 million, Third Party Administrator Fees increased by \$2.3 million in FY 2017-18, mainly driven by enrollment changes in the Health Plans.

Enterprise Project Costs

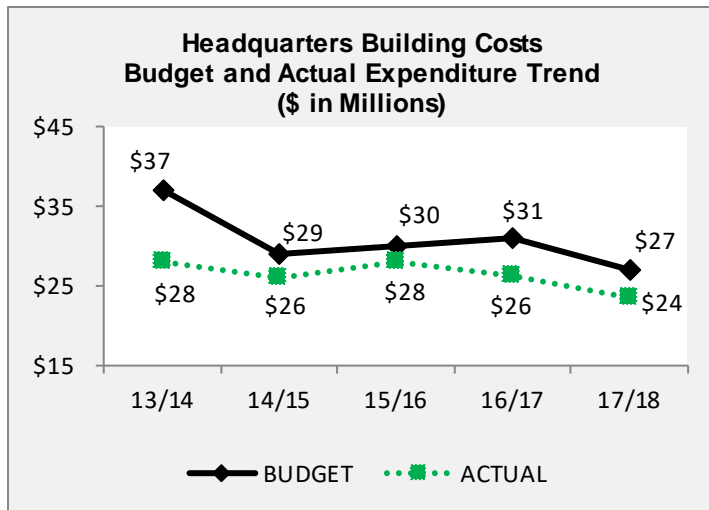
Of the total \$22.7 million Enterprise Project Costs budget, CalPERS expended \$22.4 million, which was \$372,000, or 1.6 percent, under budget. The variance is primarily related to lower-than-expected costs for the Actuarial Valuation and Redesign project.



Compared to actual FY 2016-17 expenditures of \$34.1 million, Enterprise Project Costs decreased by \$11.7 million. This includes a reduction of \$14.3 million due to the final stage of completion of the my|CalPERS Optimization project, and a reduction of \$6.8 million due to the completion of FY 2016-17 one-time projects, offset by a \$9.4 million increase for four new projects implemented in FY 2017-18.

Headquarters Building Costs

Of the total \$27.0 million Headquarters Building Costs budget, CalPERS expended \$23.6 million, which was \$3.4 million, or 12.6 percent, under budget. This is due to lower costs in operating expenses for personnel, the green building program, utilities, and electrical. Owner improvements were lower than anticipated due to lower maintenance and supply costs. Similarly, furniture needs for the master space plan and insurance costs were lower than anticipated in the facility support budget.



Compared to actual FY 2016-17 expenditures of \$26.2 million, Headquarters Building Costs decreased by a net \$2.6 million in FY 2017-18. This includes a reduction in one-time expenditures in 2016-17 of \$3.9 million related to Lincoln Plaza West/North building enhancements and conversions, and the cancellation of previously planned projects such as replacing carpeting and wall coverings, improving landscaping, and installing digital signage. The decrease is offset by a \$1.3 million increase in operating expenses for recommissioning and

energy audits for Lincoln Plaza buildings, along with higher costs for workstation conversions and apparatus set up.

Budget and Fiscal Impacts

There are no costs associated with this item.

Benefits and Risks

Failure to submit the year-end report to respective legislative offices could put CalPERS at risk of noncompliance with provisional budget language in the 2017 Budget Act.

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