



2016 INVESTMENT ADVISOR REPORT
January 2017

*California Public Employees' Retirement System
Lincoln Plaza – 400 Q Street – Sacramento, CA 95811*

Fiscal Year 2016-17 BUDGET CONTROL LANGUAGE INVESTMENT ADVISOR REPORT

The Budget Act of 2016 includes control language regarding the System's expenditures for external investment advisors and requires an information purposes only report to be submitted to the fiscal committees of the legislature and the Joint Legislative Budget Committee. The control language requires an estimate for these expenditures for Fiscal Year 2016-17.

The information requested was reported at the CalPERS Board of Administration, Finance Committee on April 19, 2016 during the Second Reading of the FY 2016-17 Annual Budget Proposal, as Item 5A-01. Moving forward, the information will be transmitted as it first come available.

- The estimated FY 2016-17 Investment External Management Fees are displayed on page 28 of Agenda Item 5A-01, and included as Exhibit A.
- The estimated Consultants and Master Custodian Fees are displayed on page 17 of Agenda Item 5A-01, and included as Exhibit B.
 - \$20.2m of the \$43m FY 2016-17 consultant expense line item are investment consultant services.

The nature and cost of investments are provided in CalPERS's Comprehensive Annual Financial Report. The Board affirms on an annual basis the extension of all Investment Adviser Standard 213 contracts for one year. In addition to Standard 213 contracts, INVO executes Non Standard 213 contracts, including but not limited to Limited Partnership Agreements. The duration of these investments typically range from seven to twelve years.

G. Operating Costs

[3] INVESTMENT EXTERNAL MANAGEMENT FEES

The FY 2016-17 Proposed Budget of \$896.7 million is made up of \$677.5 million for External Management Base Fees and \$219.2 million for External Management Performance Fees which is an overall decrease of \$34.0 million or 3.7 percent from the FY 2015-16 Approved Budget. Total External Management Base Fees are decreasing by \$70.6 million or 9.4 percent and total External Management Performance Fees are increasing by \$36.6 million or 20.1 percent from the FY 2015-16 Approved Budget.

(in thousands)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Global Equity [3.0]	\$50,457	\$51,265	\$92,750	\$41,485	80.9%
Fixed Income	9,354	7,915	8,797	882	11.1%
Real Assets [3.1]	199,279	206,296	165,378	(40,918)	(19.8%)
Absolute Return Strategy [3.2]	40,260	2,641	4,000	1,359	51.5%
Private Equity	414,137	440,582	391,000	(49,582)	(11.3%)
Activist Funds [3.3]	28,464	31,772	6,185	(25,587)	(80.5%)
Multi Asset Class ¹ [3.4]	-	7,650	9,358	1,708	22.3%
External Mgmt - Base Fees	\$741,950	\$748,121	\$677,468	(\$70,653)	(9.4%)
Global Equity [3.0]	\$69,715	\$32,096	\$72,258	\$40,162	125.1%
Fixed Income	2,446	4,199	4,114	(85)	(2.0%)
Real Assets ² [3.1]	472,688	89,672	142,865	53,193	59.3%
Absolute Return Strategy [3.2]	46,250	2,938	-	(2,938)	(100.0%)
Activist Funds [3.3]	93	44,945	-	(44,945)	(100.0%)
Multi Asset Class ^{1,3} [3.4]	-	8,755	-	(8,755)	(100.0%)
External Mgmt - Performance Fees ⁴	\$591,192	\$182,605	\$219,237	\$36,632	20.1%
Total External Mgmt Fees	\$1,333,142	\$930,726	\$896,705	(\$34,021)	(3.7%)

¹ For FY 2014-15, Multi Asset Class base and performance fees were unavailable.

² For budget reporting purposes, in FY 2015-16 and FY 2016-17, performance fees for Real Assets do not include accrued profit-sharing fees. All real asset profit-sharing fees (including accruals) continue to be reported as Management & Performance Fees on the Statement of Changes in Fiduciary Net Position – Fiduciary Funds along with the Other Supplementary Information section of the CAFR.

³ In FY 2015-16, performance fees for Multi Asset Class include profit-sharing accrual estimates. Beginning in FY 2016-17, for budget reporting purposes, profit-sharing accruals are not included. The profit-sharing accruals continue to be reported as Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in Fiduciary Net Position – Fiduciary Funds.

⁴ Profit-sharing for Private Equity is deducted from the net returns earned in that asset class.

G. Operating Costs

(in thousands)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative and Investment Operating Costs					
[1] PERSONNEL SERVICES					
Salaries & Wages	\$ 194,733	\$ 222,110	\$ 230,026	\$ 7,915	3.6%
Temporary Help	14,335	14,424	10,619	(3,805)	(26.4%)
Overtime	2,208	2,660	2,395	(265)	(10.0%)
Benefits	88,739	113,271	114,963	1,692	1.5%
Total Personnel Services	\$ 300,014	\$ 352,465	\$ 358,002	\$ 5,537	1.6%
Vacancy Savings		(17,144)	(17,226)	(81)	
Revised Total Personnel Services	\$ 300,014	\$ 335,321	\$ 340,776	\$ 5,455	1.6%
[2] OPERATING EXPENSES & EQUIPMENT					
General Expense	\$ 7,362	\$ 9,826	\$ 9,849	\$ 22	0.2%
Fund Admin Services/Subscriptions [2.1]	5,700	4,156	3,630	(526)	(12.7%)
Software [2.2]	2,662	2,051	2,724	673	32.8%
Printing [2.3]	1,252	1,393	1,724	331	23.8%
Postage [2.4]	1,240	1,305	1,433	128	9.8%
Communications	1,830	2,260	2,328	68	3.0%
Data Processing Services [2.5]	13,375	9,728	17,094	7,366	75.7%
Travel [2.6]	2,511	2,981	3,134	153	5.1%
Training [2.7]	1,417	1,394	1,746	352	25.3%
Medical Exam/Disability Travel [2.8]	1,795	1,150	1,703	553	48.0%
Facilities Operations	4,217	5,428	5,481	53	1.0%
Central Administrative Services	22,263	25,155	24,710	(445)	(1.8%)
External Legal Counsel [2.9]	12,507	18,739	15,489	(3,250)	(17.3%)
Professional Services	8,056	7,096	6,896	(200)	(2.8%)
Consultants	38,362	42,984	41,159	(1,825)	(4.2%)
Audit Services [2.10]	1,330	2,073	1,799	(273)	(13.2%)
Master Custodian Fees [2.11]	6,757	5,970	6,800	830	13.9%
Appraisal Fees/Tax Advisory Services [2.12]	6,285	6,275	9,453	3,178	50.6%
Federal Legislative Rep [2.13]	659	800	900	100	12.5%
Admin Hearings [2.14]	754	500	760	260	52.0%
Other Admin & Operating Expenses [2.15]	1,546	722	1,546	824	114.1%
Consolidated Data Centers	81	90	90		0.0%
Trading & Portfolio Mgmt Systems [2.16]	15,056	13,315	22,101	8,786	66.0%
Data/Analytics [2.17]	14,979	19,140	16,477	(2,663)	(13.9%)
Business Operations Tool/Other Technology [2.18]	1,041	650	1,060	410	63.1%
Equipment (Includes EDP) [2.19]	6,038	7,154	5,447	(1,708)	(23.9%)
Total Operating Expenses & Equipment	\$ 179,075	\$ 192,335	\$ 205,533	\$ 13,198	6.9%
Total Costs	\$ 479,089	\$ 527,656	\$ 546,309	\$ 18,653	3.5%