



CalPERS
2017 INVESTMENT ADVISOR REPORT
January 2018

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

Fiscal Year 2017-18 BUDGET CONTROL LANGUAGE INVESTMENT ADVISOR REPORT

The Budget Act of 2017 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 2017-18.

The information requested was reported at the CalPERS Board of Administration, Finance Committee on May 16, 2017 during the Second Reading of the FY 2017-18 Annual Budget Proposal, as Item 5a-01.

- The estimated FY 2017-18 Investment External Management Fees are displayed on page 27 of Agenda Item 5a-01, and included as Exhibit A.
- The estimated Consultants and Master Custodian Fees are displayed on page 20 of Agenda Item 5a-01, and included as Exhibit B.
 - \$19.5 million of the \$37.8 million FY 2017-18 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 2017-18 Proposed Budget of \$777.5 million is made up of \$557.3 million for External Management Base Fees and \$220.2 million for External Management Performance Fees and is an overall decrease of \$119.2 million or 13.3 percent from the FY 2016-17 Approved Budget. Total External Management Base Fees are decreasing by \$120.1 million or 17.7 percent and total External Management Performance Fees are increasing by \$0.9 million or 0.4 percent from the FY 2016-17 Approved Budget.

(in thousands)	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Global Equity	\$70,054	\$92,750	\$87,974	(\$4,776)	(5.1%)
Fixed Income	10,206	8,797	10,003	1,206	13.7%
Real Assets ¹ [3.0]	178,583	165,378	184,742	19,365	11.7%
Absolute Return Strategy [3.1]	6,229	4,000	800	(3,200)	(80.0%)
Private Equity [3.2]	353,338	391,000	260,000	(131,000)	(33.5%)
Activist Funds	19,803	6,185	5,362	(823)	(13.3%)
Multi Asset Class	8,115	9,358	8,467	(891)	(9.5%)
External Mgmt - Base Fees	\$646,328	\$677,468	\$557,349	(\$120,119)	(17.7%)
Global Equity	\$50,250	\$72,258	\$71,071	(\$1,186)	(1.6%)
Fixed Income	3,363	4,114	3,336	(778)	(18.9%)
Real Assets ¹	82,875	142,865	142,865	-	0.0%
Absolute Return Strategy	(781)	-	-	-	0.0%
Activist Funds	12,451	-	-	-	0.0%
Multi Asset Class [3.3]	-	-	2,896	2,896	100.0%
External Mgmt - Performance Fees²	\$148,158	\$219,237	\$220,169	\$932	0.4%
Total External Mgmt Fees	\$794,486	\$896,705	\$777,518	(\$119,187)	(13.3%)

¹ Real Assets include Forestland/Infrastructure.

² Performance Fees for Private Equity are deducted from the net returns earned in that asset class.

G. Operating Costs

(in thousands)	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative and Investment Operating Costs					
[1] PERSONNEL SERVICES					
Salaries & Wages	\$ 203,845	\$ 236,186	\$ 246,962	\$ 10,776	4.6%
Temporary Help	12,768	10,619	9,009	(1,609)	(15.2%)
Overtime	2,155	2,395	2,370	(25)	(1.1%)
Benefits	95,645	120,408	127,374	6,966	5.8%
Total Personnel Services	\$ 314,412	\$ 369,608	\$ 385,715	\$ 16,107	4.4%
Vacancy Savings		(25,226)	(19,127)	6,099	
Revised Total Personnel Services	\$ 314,412	\$ 344,382	\$ 366,588	\$ 22,206	6.4%
[2] OPERATING EXPENSES & EQUIPMENT					
General Expense [2.1]	\$ 7,766	\$ 9,857	\$ 8,808	\$ (1,049)	(10.6%)
Fund Admin Services/Subscriptions [2.2]	4,005	3,630	3,126	(504)	(13.9%)
Software [2.3]	1,384	2,724	2,046	(678)	(24.9%)
Printing [2.4]	1,623	1,728	1,951	223	12.9%
Postage [2.5]	3,224	1,433	3,667	2,234	155.9%
Communications [2.6]	1,877	2,332	1,907	(425)	(18.2%)
Data Processing Services	16,087	17,094	17,128	34	0.2%
Travel [2.7]	2,247	3,134	3,393	259	8.3%
Training	952	1,750	1,660	(89)	(5.1%)
Medical Exam/Disability Travel [2.8]	1,764	1,703	1,908	206	12.1%
Facilities Operations	3,668	5,481	5,665	184	3.4%
Central Administrative Services	25,154	24,710	24,411	(299)	(1.2%)
External Legal Counsel	10,151	13,489	13,189	(300)	(2.2%)
Professional Services [2.9]	7,886	6,896	5,126	(1,769)	(25.7%)
Consultants [2.10]	16,784	21,349	18,261	(3,087)	(14.5%)
Consultants - Investments [2.11]	13,649	20,204	19,501	(703)	(3.5%)
Audit Services [2.12]	1,129	1,799	1,305	(494)	(27.5%)
Master Custodian Fees [2.13]	4,592	6,800	4,490	(2,310)	(34.0%)
Appraisal Fees/Tax Advisory Services [2.14]	9,450	9,453	10,781	1,328	14.0%
Federal Legislative Rep	882	900	900	-	0.0%
Admin Hearings [2.15]	1,149	760	1,300	540	71.1%
Other Investment Expenses [2.16]	849	1,546	1,164	(382)	(24.7%)
Consolidated Data Centers	66	90	90	-	0.0%
Trading & Portfolio Mgmt Systems [2.17]	19,320	22,101	24,847	2,746	12.4%
Data/Analytics [2.18]	14,746	16,477	17,015	538	3.3%
Business Operations Tool/Other Technology [2.19]	1,121	1,060	2,608	1,548	146.0%
Equipment (Includes EDP) [2.20]	6,726	5,447	2,841	(2,606)	(47.8%)
Total Operating Expenses & Equipment	\$ 178,251	\$ 203,946	\$ 199,089	\$ (4,857)	(2.4%)
Total Costs	\$ 492,663	\$ 548,328	\$ 565,677	\$ 17,349	3.2%