



Memorandum

TO: Federated City Employees' Retirement System
and Police & Fire Department Retirement Plan
Investment Committees

FROM: Brian Starr, CFA

SUBJECT: Prefunding plan

DATE: June 21, 2018

Approved /s/ Prabhu Palani

Date 6/22/2018

Background

The City will make its annual prefunding contribution for FY 2018-2019 on July 2, 2017. The amounts per plan are shown in Exhibit A.

Exhibit A: Asset Allocations

	<u>Federated</u>	<u>Police & Fire</u>
Pension	\$154.5 million	\$161.0 million
Health Care Trust	\$20.9 million	\$22.1 million

Similar to last year, the prefunding will be received prior to final approval of a new asset allocation. Staff intends to allocate the prefunding contributions according the following principles:

- remaining as close as possible to the policy target asset allocation;
- implementing at the lowest possible, most liquid options (in anticipation of potential future transaction costs);
- subject to the other principles being met, skewing actual exposures toward the anticipated soon-to-be-approved/implemented asset allocations.

Analysis

Federated Pension

The Private Debt, Real Assets, and Absolute Return asset classes have little flexibility, resulting in a need to be overweight Global Equity and/or Global Fixed Income by a cumulative 2.2% of plan. For Private Equity, funding the proxy, the Plan can stay at the 9% policy target.

Given the policy weights of 28% Global Equity and 33% Global Fixed Income, staff intends to maintain that ratio of exposure, resulting in a 1% overweight to Global Equity and a 1.2% overweight to Global Fixed Income.

The Global Equity overweight will be executed using Russell overlay, while the Global Fixed Income overweight will be executed using Northern Trust passive index funds. The preference for Northern Trust passive index funds versus the Plan's BlackRock options stems from the shorter duration, US government-only securities that are present in the future asset allocation implementation. Exhibit B summarizes all these movements.

Exhibit B: Federated Pension Prefunding Plan

	<u>Current</u>		<u>Policy</u>	<u>Cash Flow</u>	<u>Proposed</u>		
	<u>NAV</u>	<u>% Plan</u>	<u>Target</u>		<u>NAV</u>	<u>% Plan</u>	<u>Δ Policy</u>
Total Plan	2,106.1	100.0%		154.5	2,260.6	100.0%	
Global Equity	623.4	29.6%	28%		656.4	29.0%	1.0%
Russell Overlay (new exposure only)					33.0		
Private Equity	174.5	8.3%	9%	28.0	202.5	9.0%	0.0%
Northern Trust Russell 3000	102.7	4.9%		28.0	130.7	5.8%	
Global Fixed Income	692.7	32.9%	33%	81.0	773.7	34.2%	1.2%
Northern Trust Int Gov 1-10 Yr	173.5	8.2%		40.5	214.0	9.5%	
Northern Trust 0-5 Year TIPS	151.0	7.2%		40.5	191.5	8.5%	
Private Debt	83.8	4.0%	6%		83.8	3.7%	-2.3%
Real Assets	272.6	12.9%	13%	12.5	285.1	12.6%	-0.4%
American Core Realty Fund, LLC	71.3	3.4%		12.5	83.8	3.7%	
Absolute Return	259.0	12.3%	11%		259.0	11.5%	0.5%
Cash	-	0.0%	0%	33.0	0.0	0.0%	0.0%
Cash Account	12.3	0.6%		33.0	45.3		
Russell Overlay Account	-12.3	-0.6%			-45.3		

Federated Health Care Trust

The Federated Health Care Trust has a more traditional implementation as the asset allocation is set. The prefunding movements are geared toward minimizing cash and evenly spreading the underweight to Real Assets between Global Equity and Global Fixed Income. Exhibit C summarizes the movements.

Exhibit C: Federated Health Care Trust Prefunding Plan

	<i>Current</i>		<i>Policy</i>	Cash Flow	<i>Proposed</i>		
	<u>NAV</u>	<u>% Plan</u>	<u>Target</u>		<u>NAV</u>	<u>% Plan</u>	<u>Δ Policy</u>
Total Plan	271.4	100.0%		20.9	292.3	100.0%	
Global Equity	148.0	54.5%	55%	14.0	162.0	55.4%	0.4%
Northern Trust Russell 3000	67.7	25.0%		8.4	76.1	26.1%	
Northern Trust MSCI EAFE	29.2	10.8%		1.9	31.1	10.6%	
Vanguard Emerging Markets	12.6	4.6%		3.7	16.3	5.6%	
Global Fixed Income	78.9	29.1%	28%	4.2	83.1	28.4%	0.4%
Northern Trust Barclays Agg	66.0	24.3%	23%	2.3	68.3	23.4%	0.4%
Vanguard ST Inflation-Protect	12.9	4.8%	5%	1.9	14.8	5.1%	0.1%
Real Assets	41.0	15.1%	17%	6.1	47.1	16.1%	-0.9%
Prudential PRISA, LP	4.6	1.7%		4.0	8.6	2.9%	
Credit Suisse Risk Parity	10.6	3.9%		1.1	11.7	4.0%	
Rhumbline S&P Glb LgMid Cmd&NR	10.6	3.9%		1.0	11.6	4.0%	
Cash	3.6	1.3%	0%	-3.4	0.1	0.0%	0.0%
Cash Account	3.6	1.3%		-3.4	0.1	0.0%	

Police & Fire Pension

Through the use of proxies, the Plan can remain almost exactly at target. The minimal underweight to Absolute Return is offset by a minimal overweight to Private Equity (the Russell 3000 proxy). Exhibit D summarizes the movements necessary to keep the Plan at target.

Exhibit D: Police & Fire Pension Prefunding Plan

	<i>Current</i>		<i>Policy</i>	<i>Cash Flow</i>	<i>Proposed</i>		
	NAV	% Plan	Target		NAV	% Plan	Δ Policy
Total Plan	3,556.1	100.0%		161.0	3,717.1	100.0%	
Global Equity	1,199.1	33.7%	34%		1,265.1	34.0%	0.0%
Russell Overlay - EM Equity (new only)					66.0		
Private Equity	299.3	8.4%	8%		299.3	8.1%	0.1%
Global Fixed Income	974.6	27.4%	28%	67.5	1,042.1	28.0%	0.0%
BlackRock US Debt Fund	179.8	5.1%		67.5	247.3	6.7%	
Private Debt	284.4	8.0%	8%	11.5	295.9	8.0%	0.0%
Russell Overlay Private Debt	24.8	0.7%		11.5	88.9	2.4%	
Real Assets	579.7	16.3%	16%	16.0	595.7	16.0%	0.0%
Russell Overlay Real Estate	69.5	2.0%		14.0	83.5	2.2%	
Credit Suisse Risk Parity	156.1	4.4%		2.0	158.1	4.3%	
Absolute Return	219.0	6.2%	6%		219.0	5.9%	-0.1%
Cash	-	0.0%	0%	66.0	0.0	0.0%	0.0%
Cash Account	18.2	0.5%		66.0	84.3		
Russell Overlay Account	-18.2	-0.5%			-84.2		

Police & Fire Health Care Trust

Along with the prefunding, the Plan is simultaneously implementing previously approved shifts out of Vanguard funds and into Northern Trust funds. The elimination of the GTAA asset class is also being executed. Exhibit E shows the net effect of all movements.

Exhibit E: Police & Fire Health Care Trust Prefunding Plan

	<i>Current</i>		<i>Policy</i>	<i>Cash Flow</i>	<i>Proposed</i>		
	<i>NAV</i>	<i>% Plan</i>	<i>Target</i>		<i>NAV</i>	<i>% Plan</i>	<i>Δ Policy</i>
Total Plan	120.0	100.0%		22.1	142.0	100.0%	
Global Equity	48.1	40.1%	57%	32.8	80.9	57.0%	0.0%
Vanguard Total Stock Market	48.1	40.1%		-48.1	-	0.0%	
Northern Trust Russell 3000	-	0.0%		49.7	49.7	35.0%	
Northern Trust MSCI EAFE	-	0.0%		19.9	19.9	14.0%	
Northern Trust MSCI EM	-	0.0%		11.3	11.3	8.0%	
Global Fixed Income	33.0	27.5%	30%	9.6	42.6	30.0%	0.0%
Vanguard Total Bond Market	33.0	27.5%		-33.0	-	0.0%	
Northern Trust Barclays Agg	-	0.0%		34.1	34.1	24.0%	
Vanguard ST Inflation-Protect	-	0.0%		8.5	8.5	6.0%	
Real Assets	17.0	14.2%	13%	1.5	18.5	13.0%	0.0%
Vanguard REIT Fund	6.9	5.8%		4.4	11.3	8.0%	
Credit Suisse Risk Parity	8.1	6.8%		-1.0	7.1	5.0%	
Rhumbline Brookfield Glb Infra	1.9	1.6%		-1.9	-	0.0%	
GTAA	19.9	16.6%	0%	-19.9	-	0.0%	0.0%
GMO Benchmark Free Alloc Fund	3.6	3.0%		-3.6	-	0.0%	
PIMCO All Asset All Authority	8.6	7.2%		-8.6	-	0.0%	
Standard Life GARS	7.7	6.4%		-7.7	-	0.0%	
Cash	1.9	1.6%	0%	-1.8	0.1	0.1%	0.1%
Cash Account	1.9	1.6%		-1.8	0.1	0.1%	

/s/ Brian Starr

 Brian Starr, CFA
 Investment Officer

/s/ Dhinesh Ganapathiappan

 Dhinesh Ganapathiappan
 Investment Analyst

