

Investments and Pensions Oversight Committee

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ERB Investment Management Fees

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Definitions

- **Management Fees:** Fees paid to the manager regardless of performance. Usually a percentage of the assets. For instance, 1% of assets managed.
- **Profit Sharing Payments:** Payments to the manager only made if certain profit hurdles are exceeded. For example, the manager may receive 20% of the profits in excess of an 8% total return to ERB.
- **Total Manager Compensation = Management Fees + Profit Sharing.**

SIC June IPOC Presentation - Issues

- As previously presented to the Committee, SIC and ERB fee data are not comparable. The calculation of fees employed different criteria:
 - ✓ The SIC presentation used ERB 2012 data that showed total manager compensation and thus included profit sharing payments. SIC fees did not include profit sharing.
 - ✓ SIC used Net Asset Value (NAV) + unfunded commitments as the denominator to calculate basis points. ERB data used only NAV.
- These differences vastly distort the comparison.
- A more accurate comparison on an equal basis shows that ERB's approach to alternative investment management fees produced fees per dollar comparable to SIC.

ERB FY14 Alternative Investments Fees

Alternative Asset Classes	Management Fees FY 2014	NAV as of 6/30/14	Unfunded as of 6/30/2014	NAV + Unfunded as of 6/30/14	Annual Cost (in bps)
Opportunistic Credit	\$ 27,345,641	\$ 2,421,393,059	\$ 685,961,394	\$ 3,107,354,453	88
Non-US Fixed Income	1,256,700	86,202,479		86,202,479	146
Private Equity	18,950,319	900,505,416	885,942,409	1,786,447,825	106
Private Real Estate	6,770,558	282,175,411	352,894,890	635,070,301	107
Infrastructure	5,143,498	140,654,808	189,536,492	330,191,300	156
Natural Resources	3,208,898	91,830,251	202,419,749	294,250,000	109
GTAA	6,372,974	547,964,199	-	547,964,199	116
Risk Parity	1,646,826	578,395,185	-	578,395,185	28
Hedge Fund of Funds	<u>3,734,596</u>	<u>361,378,802</u>	<u>-</u>	<u>361,378,802</u>	<u>103</u>
Totals	\$ <u>74,430,009</u>	\$ <u>5,410,499,610</u>	\$ <u>2,316,754,934</u>	\$ <u>7,727,254,544</u>	<u>96</u>

ERB June 30, 2012 as presented in June			
	Fees & Profit	Assets	bps
	<u>Share</u>		
Traditional	\$ 10,300,000	\$ 5,839,000,000	18
Alternative	<u>\$ 64,685,000</u>	<u>\$ 3,578,000,000</u>	<u>181</u>
	<u>\$ 74,985,000</u>	<u>\$ 9,417,000,000</u>	<u>80</u>
ERB (at June 30, 2014) fees only			
Traditional	\$ 14,523,396	\$ 5,846,048,443	25
Alternative	<u>\$ 74,430,009</u>	<u>\$ 7,727,254,544</u>	<u>96</u>
	<u>\$ 88,953,405</u>	<u>\$ 13,573,302,987</u>	<u>66</u>

Fees in General

- ERB seeks to minimize fees, but not at the expense of performance. Asset allocation is the primary factor in the level of fees as well as overall portfolio performance. Fees are important, but not the most important factor.
- Net return (Return-Fees) is a more important factor.
- Risk is another important factor in managing a portfolio.
- ERB has focused on combining these factors in our risk adjusted return. The goal is to generate a relatively high rate of return for unit of risk taken.