



BOARD OF RETIREMENT

Staff Report

File #: 19-475.1

Agenda Date: 9/5/2019

Agenda #: 24.

FROM: Don Pierce, Chief Investment Officer

SUBJECT: Informational Item: Update on the wind-down of the offshore investment platform

RECOMMENDATION:

Update on the wind-down of the offshore investment platform.

BACKGROUND:

On April 9, 2019, staff brought an informational item to the Investment Committee, and subsequently to the Board, regarding SBCERA's holdings of approximately \$1.5 billion of plan assets in an offshore investment platform ("Gold Coast"). By way of background, the Cayman-domiciled Gold Coast structure was originally created to address concerns raised by counsel regarding the perceived risk of incurring Unrelated Business Income Tax (UBIT) related to SBCERA's alternative investments. Over time it has become clear that this risk is much lower, and the costs of the offshore platform much higher, than originally anticipated. Accordingly, staff has been proceeding over the last few months with the wind-down, including working with Maples Finance, State Street, Kreischer Miller, and Foley & Lardner to ensure a smooth transition. This report provides the Investment Committee and the Board with a status report on those activities.

Negotiations with State Street (which already provides the vast majority of SBCERA's custody services) for the transition of manager accounts from Maples have been completed. State Street services will include custody, board reporting, administration, and risk transparency services for an approximate cost increase to the existing service agreement of \$950,000 per year. Maples costs for Fiscal Year 2017 and 2018 were approximately \$2,170,000 and \$1,700,000, respectively. Accordingly, staff anticipates that the savings to SBCERA will average roughly \$1,000,000 per year. Foley and Lardner, and SBCERA's Chief Counsel, are reviewing the terms of the agreement for State Street's additional services; staff anticipates executing the amendment to the service agreement under the delegated authority cited in Investment Policy No. 001.

The monthly report previously provided by Maples will now be provided by State Street. A sample version of that report is attached as Exhibit A. Staff will work with State Street on any iterative changes that the Board would like in order to provide comprehensive, transparent reporting on investment activities and holdings.

In addition, staff is in the midst of transferring existing investment management contracts and counter-party arrangements to SBCERA directly rather than through Gold Coast. Staff has arranged to have Kreischer Miller provide additional services relating to pricing of assets not already subject to an existing audit process. We expect the transition to State Street to be effective September 1, 2019 for the investment mandates. Meanwhile, using Maples' liquidation service team, the legacy Cayman

and Luxemburg entities should be closed by the first quarter of 2020.

Foley & Lardner, primarily through Tom Hickey, Esq., continues to ensure instructions to close the various Gold Coast and related corporate entities are completed appropriately by the Cayman law firm Maples and Calder.

COMMITTEE REVIEW:

This item was reviewed by the Investment Committee at its August 13, 2019 meeting.

BUDGET IMPACT:

Once the Gold Coast platform is unwound, staff anticipates savings of at least \$1,000,000 per year.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Don Pierce

ATTACHMENTS:

Exhibit A: State Street Investment Performance Report Sample