



INVESTMENT COMMITTEE

Staff Report

File #: 19-1243

Agenda Date: 3/9/2021

Agenda #: 5.

FROM: Amy McInerney, Chief Financial Officer

SUBJECT: SBCERA Investment Fee and Expense Review.

RECOMMENDATION:

SBCERA Investment Fee and Expense Review.

BACKGROUND:

This annual report has been prepared at the request of the Board as part of its comprehensive review of the fees and expenses associated with the SBCERA Investment program. In addition, this staff report is intended to outline both the scope of each reviewer and the breadth of each reviewer in the context of fees and expenses charged to SBCERA for the management of the investment program.

Invoice review takes place across both the investment department and the fiscal department. In addition, SBCERA has engaged an independent CPA firm to review manager fees, expenses, performance fees if applicable, and contract adherence.

As invoices arrive at SBCERA, the investment department reviews the fees for completeness. Any fee must have appropriate supporting material to process the invoice. If that backup material isn't complete, the investment team member will inform the manager of the need to provide additional information. Obvious errors are also flagged and are returned to the manager. Typical requests require the manager to provide the calculation used to arrive at their billed total. Where possible, we have requested an excel spreadsheet, which many managers accommodate. The investment team member then compares the total charged against previous billings to ensure that it is reasonably in-line with past invoices. If an invoice seems to be markedly different, the team member follows-up with the manager to determine the reason for the change. When managers provide NAVs, the investment team checks those against the State Street performance reports.

Regarding any questions that arise after the review, our team member will typically check the agreement and/or go back to the manager. Additional escalations include but aren't limited to pulling in the investment officer in charge of the relationship and the Chief Investment Officer, or tasking our outside CPA firm to do a specific deep dive into the relevant issue.

From there, the invoice is processed by the fiscal department which has its own set of validations and checks. Importantly, all invoices are calculated independently with the fiscal team's internal models. In addition, the fiscal team reviews and cross checks contract terms, and where possible validation and verification procedures are completed. As part of the reconciliation process, each investment's fees are recalculated for reasonableness.

The independent CPA firm SBCERA has engaged reviews manager invoices with their own

independent models as well. Contract testing and validation steps are conducted on account expenses. As part of the audit committee review in 2020, a new procedure has been added whereby new investments are flagged for the CPA firm, with particular attention paid to those that may be subject to a rebate due to the contracting provisions in the SBCERA accounts.

BUDGET IMPACT:

Costs for this item are included in the current year non-administrative, investment budget.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Amy McInerny

ATTACHMENTS:

- Exhibit A: SBCERA Net Investment Return Summary - For the years ended June 30, 2016 through 2020
- Exhibit B: SBCERA Net Investment Return Summary by Asset Type - For the years ended June 30, 2016 through 2020
- Exhibit C: SBCERA Net Investment Return Summary by Investment Manager - For the years ended June 30, 2016 through 2020 (Confidential)