**Public Pension Management and Asset Investment Review Commission (PPMAIRC)**

**Data Request: SERS-003**

**Date submitted: June 7, 2018**

**Date for response: June 18, 2018**

**Investment Costs**

In order to identify potential areas for improvement of investment fees and costs within PA Plans, we kindly ask the Plans to provide answers to below questions through this self-assessment form. Where numbers or percentages are asked for, approximate answers should suffice if exact figures are not obtainable.

1. **Management Fees**
   1. On a scale from 1-10, where do you think your management fees are placed in the market, by asset class, from “1” being the least competitive, to “10” most competitive, for similar sized investment? *(1-10)* 10
      1. If answer to 1.1. is above 7, please list opportunities, if any, for how you think terms could be further improved. *(text)* SERS’ management agreements contain an MFN (Most Favored Nations) clause that ensures SERS receives the best fee arrangement for the amount of funds committed and/or invested as well as the timing of the investment. SERS has worked closely with PSERS in an effort to combine the commitment amounts of the two agencies and thereby obtain more favorable pricing of the fees paid.
      2. If answer to 1.1. is below 7, please list the three most relevant measures that have been instigated to improve upon terms. *(text)* N/A
      3. What do you think is the single biggest hurdle (per asset class, if different) why asset management terms cannot be further improved? *(text)* The top performing managers are in demand and do not need to lower their respective fees because, in many instances, they are already over-subscribed. By contrast, the lower performing managers are more inclined to lower their fees in order to attract capital.
   2. What is the average age of the fee schedules in your portfolio by asset class? *(number)* SERS does not track the average age of its fee schedules by asset class. Private equity and private real estate closed-end commingled vehicle investments will generally last between 10-12 years. SERS renegotiates fees with these general partners with every new investment opportunity. Public market managers are revisited periodically and can usually be terminated at any time.
   3. Whose responsibility is it to ensure that the investment costs are optimized? *(text)* The Chief Investment Officer and senior members of the Investment Office.
   4. What does the Plan estimate as its total annual investment costs of the portfolio and per asset class and when was this calculation last made? *(number & % / year)* Annually, SERS reports its fees by asset class in its supplemental budget books. SERS’ Manager Investment Expenses for calendar year 2017 was $130.4 million or 47.1 basis points (0.471%) of the total fund assets. The Investment Office searches for those opportunities that provide the highest risk-adjusted return.

1. **Procurement Guidelines**
   1. Do you have procurement guidelines for asset management services in place? (Y/N) If yes, please provide a copy *(att.)* The State Employees’ Retirement Code establishes the Board’s investment authority. The procurement of SERS’ asset management services are governed by SERS Statement of Investment Policies and Strategic Investment Plan.
   2. Could one person unilaterally sign off an investment management agreement? *(Y/N)* No
   3. Do you on a regular basis inquire with all of your managers about their capacity to accept new investments? *(Y/N)* Yes, as part of SERS’ investment planning process, SERS will review capacity of managers and their fit within the SERS Investment Plan.
   4. What is the average age of investment mandates in your portfolio by asset class? *(number)* SERS does not track this information.
   5. Does your Plan operate under a fee budget for investment managers? *(Y/N)* No
   6. What comes closest to how often you renegotiate your asset management agreements, every 3, 5, 7 or 9 years. *(tick one)* For public market investments, SERS investment staff brings overall costs to the managers’ attention during ongoing due diligence meetings. In 2017, SERS and investment managers renegotiated several base management fees. For private market investments, SERS renegotiates fees on every new investment opportunity.
   7. Are employees of the Plan incentivized to factor in investment costs in the evaluation of an investment? *(Y/N)* If yes, how? *(text)* Yes, staff evaluates investment costs as part of SERS’ investment process.
   8. In negotiating investment costs, does the Plan have a process for determining the best alternative to the investment under consideration? *(Y/N)* Yes through SERS’ Strategic Investment Plan and asset allocation process.
2. **Potential Conflicts of Interest**
   1. What percentage of your asset managers have confirmed in writing that they don't receive commissions, rebates, retrocessions and the likes associated with your investment? As part of SERS due diligence process, SERS Due Diligence Questionnaire includes comprehensive conflict of interest and related party questions which address compensation associated with referring, retaining, or increasing the level of business.
      1. for the last calendar year *(%)n/a*
      2. since inception of the investment *(%)n/a*
   2. What percentage of your asset managers have confirmed in writing that they don’t pay and have not paid any commissions, introduction fees or the likes associated with your investments? *(%)*As part of SERS due diligence process, SERS requires the investment manager to disclose if a placement agent or third-party marketer was used by the investment manager as part of the search process. SERS does not directly work with placement agents. If and when a general partner discloses its use of a placement agent, SERS requires that it contractually agrees that SERS’ negotiated fee structure will not be altered in any way as a result of its participation. SERS requires fund sponsors to attest that no placement agent fees have been paid to attract or obtain approval for SERS’ investment. For any investment under consideration, SERS discloses to the board the identity of any placement agent.
   3. Do your brokers, or those of your managers, make use of bundled brokerage? *(Y/N/na)* Yes, several investment managers have soft dollar arrangements in place to use a part of trading commissions to pay for permitted research services.
   4. Most investors use benchmarks for internally monitoring and externally reporting the performance of each investment. In the case of investments which have performance-based compensation structures, benchmarks are also used to measure the performance for fee calculation purposes. For each of your investments, are the benchmarks used for the Fund's monitoring and reporting identical to the benchmarks used for the investment fee calculations? *(Y/N)* No, there are multiple metrics used to calculate investment fees.
3. **Custodians / Brokers**  
   1. Do you have prime broker agreements in place? *(Y/N)* No
   2. Do you perform centralized FX hedging? *(Y/N)* No
   3. Are you conducting regular transaction cost analyses on equities, fixed income and FX? *(Y/N)* Yes on a quarterly basis.
   4. Do you have securities lending in place? If so what is the split you’ve agreed upon? *(Y/N/%)* Yes; 90% SERS /10% agent