

San Diego County Employees Retirement Association

Investment Staffing Structure: *Myth versus Fact*

San Diego County Employees Retirement Association is the financial guardian for the pension benefits of nearly 37,000 San Diego County employees and retirees who have spent their professional lives in public service. SDCERA is dedicated to the protection and maintenance of the pension fund we oversee on their behalf. SDCERA has developed a plan to restructure our investment operations in order to cut investment management costs and provide greater protection to the pension fund. A new investment model enacted earlier this year was the first step, and examining options for how to best staff our investment team is the next step in this process.

We are dedicated to communicating with our members and taxpayers in an open and transparent manner. The following *Myth versus Fact* sheet is intended to clarify our efforts to save taxpayer money by streamlining our operations.

Outsourced Investment Management

Regarding the decision to contract with Lee Partridge:

SDCERA utilizes a combination of in-house staff and external consultants to implement our investment model. In our search for a Chief Investment Officer, SDCERA interviewed 12 candidates. The search committee's judgment was that Lee Partridge was the most skilled professional; however, he was not available at salary limits imposed on internal employees.

To retain the most qualified talent in this highly specialized field, the strategic decision was made to outsource investment management to Partridge's firm, Integrity Capital. Partridge's candidacy was vetted by SDCERA's search committee and presented to the full Board of Retirement for consideration and approval.

Partridge runs a registered investment advisory firm that provides investment management services to institutional investors. SDCERA is one of Partridge's clients. Like any business owner, Partridge is able to contract with additional clients at his discretion.

Regarding Lee Partridge's performance record:

Lee Partridge was most recently employed by the Teacher Retirement System of Texas, where he worked for eight years and was promoted from managing director of strategic research and risk management to deputy chief investment officer.

As Deputy CIO, Partridge oversaw the transformation of the system's asset allocation model, building the system into one of the most successful and innovative public pension plans in the country. Under Partridge's leadership, the system was named Public Pension Fund Investor of the Year by Institutional Investor's Alternative Investment News for two consecutive years and was a finalist in Money Management Letter's 8th Annual Public Pension Funds Awards for Excellence in the large public pension fund category.

Regarding Lee Partridge's compensation:

Lee Partridge runs a registered investment advisory firm that provides investment management services to institutional investors. Partridge is paid a fee for the services he provides to SDCERA. He is not an employee of SDCERA; therefore, it is incorrect to compare his fees with the salaries of previous SDCERA employees or employees of other pension systems.

Partridge received an initial retainer from SDCERA of approximately \$350,000. Under his contract, Partridge currently is receiving a fee of \$535,000. He is eligible to receive compensation greater than his base fee only if the fund meets certain performance goals that benefit membership, including achieving average investment returns greater than 8.25 percent for a three-year period.

Regarding Lee Partridge's investment proposal for SDCERA:

Lee Partridge developed a plan to demonstrate the added value his firm could bring to SDCERA. Partridge presented his plan to the SDCERA search committee and demonstrated how he could work with SDCERA to restructure the pension plan in order to lower risk, increase returns and decrease costs. Partridge's candidacy was vetted by the search committee and presented to the full Board of Retirement for consideration.

Since that time, implementation of SDCERA's new asset allocation model, ushered in by Partridge, has realized more than \$10 million in annual cost savings.

Investment Operations Staffing

Regarding the need for additional staff resources:

Since assuming investment management responsibilities, Lee Partridge has identified deficiencies in current staff resources. Earlier this year, Partridge sent to the Board of Retirement a memo that differentiated between (1) the resources needed to implement the asset allocation model and new investment management framework and (2) the resources needed to identify investment opportunities and risks. Partridge identified gaps in the staff resources needed to accomplish the latter of these tasks.

SDCERA currently utilizes a combination of in-house staff and external consultants to implement our investment model. During the past several months, SDCERA has examined alternative options for meeting our investment needs. Among options considered have been implementation of a fully outsourced staff; creation of a non-profit investment arm; and implementation of a fully in-house staff. The specific number of staff needed depends on the adopted model.

Regarding the decision to abandon a fully outsourced staffing model:

Nine firms responded to a Request for Proposal (RFP) for investment management outsourcing. After reviewing their proposals, it became clear that the costs were far higher than our current structure and higher than an internal staffing structure would likely be.

Regarding the costs of implementing an in-house staffing model:

SDCERA currently utilizes a combination of in-house staff and external consultants to implement our investment model. In a July memo sent to County Chief Administrative Officer Walt Ekard from SDCERA Chief Executive Officer Brian White, the concept of an internal staffing model was presented. Potential staffing details were provided for preliminary analysis and discussion. The average of the estimated salaries provided therein was \$173,000 a year.

Based on preliminary studies, bringing operations in-house would allow SDCERA to better manage risks and potentially reduce management costs. There is much to do before this concept is ready for further consideration. SDCERA has retained a consultant to perform a salary survey, which would compare compensation packages for investment positions at public and private entities to determine the fair market-value of salaries and suggest a competitive pay structure. Based on this information, a variety of staffing models would be developed and the costs of implementing each would be compared with our existing structure.

Other

Regarding state legislation concerning public pension systems:

California Assembly Bill 1987 (Ma) is important legislation proposed to prevent pension "spiking," which can lead to inflated benefit payments. SDCERA is monitoring the legislation, as we do with any potential law that affects our organization. That is the extent of our involvement.

A key reform of AB 1987 required pension systems to audit the employers' payroll; for example, SDCERA would audit San Diego County. It is our understanding that a provision to classify pension systems as special districts derived from an effort to establish the independence generally recommended for proper auditing.