



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 13

**MEETING DATE:** February 20, 2019

**SUBJECT:** Amendment to Investment Management Agreement with J.P. Morgan – Domestic Equity Manager 130/30 Equity Extension

**SUBMITTED FOR:** \_\_\_ Consent       X  Deliberation and Action      \_\_\_ Receive and File

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#### **RECOMMENDATION**

Staff recommends the Board approve an amendment to the Investment Management Agreement fee structure with domestic equity manager J.P. Morgan Investment Management and authorize Staff to execute any necessary documents or agreements to complete the amendment.

#### **PURPOSE**

This agenda item does not specifically support the 2018-19 Strategic Management Plan, but complies with SCERS' Growth Asset Category IPS requirement of Board approval for entering into contracts with Public Equity investment managers. This item contributes to the effective management and oversight of investment activities.

#### **BACKGROUND**

In 2018, SCERS completed restructuring the Domestic Equity asset class to conform to SCERS' Strategic Asset Allocation. As part of the restructuring, SCERS increased the allocation to the Domestic Equity 130/30 Equity Extension strategy. Following the increased allocation, SCERS performed a manager search to fill the additional allocation, which included evaluating SCERS' existing 130/30 Equity Extension (130/30) manager, J.P. Morgan Investment Management (JPM). At the January 2019 Board meeting, the Board added D.E. Shaw for the additional allocation, while retaining JPM for their existing allocation.

JPM has managed a 130/30 portfolio for SCERS since 2008, and both SCERS and JPM have maintained the original Investment Management Agreement (IMA) and fee structure since inception. During the manager evaluation process, and through discussions held with JPM, JPM offered a 10 basis point reduction in the fee structure. The revised fee agreement also modified the payment method so that JPM would send SCERS an invoice for payment, versus the

historical practice of directly deducting fees from the account. This change better aligns JPM with the payment method employed by SCERS’ other public equity managers.

**MANAGEMENT FEES**

Existing management fees for JPM are based on a tiered fee schedule, with 80 basis points charged on the first \$25 million in assets, and 70 basis points on the remaining AUM. Based on SCERS’ assets invested in the strategy as of January 2019, approximately \$120 million, the blended rate is approximately 72 basis points.

The IMA Amendment reduces the management fee by 10 basis points while maintaining the existing tiered fee schedule. This results in a blended rate of approximately 62 basis points, a savings to SCERS of approximately \$120,000 annually, at an asset level of \$120 million.

<b>Fee Schedule (basis points)</b>	<b>Existing Fee Schedule</b>	<b>New Fee Schedule</b>
Fee on First \$25 Million AUM	80	70
Fee on Balance of AUM over \$25 Million	70	60
Estimated Total Fee*	72	62

*\*Estimated Total Fee based on \$120 million account size*

The proposed IMA Amendment also modifies the billing and payment method with JPM. The existing fee agreement allows for JPM to directly debit the SCERS account for the management fee following the end of each quarter. The Amendment modifies the billing and payment method for JPM to provide SCERS with a management fee invoice following the end of the quarter, to be paid by SCERS within 30 days following receipt of the invoice. This is generally consistent with the billing and payment method employed by SCERS’ other public equity managers.

Future IMA Amendments

Staff anticipates further amendments to the IMA later this year. However, Staff and JPM determined this first amendment should be completed to better match the timing of the fee agreement review, which began in the third quarter of 2018, so that SCERS can immediately benefit from the reduced fee.

Prepared by:

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