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# Pennsylvania Treasury

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## Experience Monitoring & Reducing Costs

May 21, 2015



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# Treasury's Fiduciary Responsibility & Associated Cost Points

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\$96 Billion within custodial care of Department

- Custodial Contract

- Security Lending
- Global Risk Solutions
- Compliance Monitoring
- FX Trading Services
- Private Equity Support

Cost: 2013 \$131,000 / 2014 \$640,000



# Treasury's Fiduciary Responsibility & Associated Cost Points

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Of the \$96 Billion ...

\$16 Billion under independent management of Department

**\$11.5b in cash / cash equivalents**

- Internal management / INVEST (502 part. / .05 yield)

**\$4.5b in longer term investments (Fund 198 / TAP)**

- Index fund / Active Managers / Fund consultants



# Investment Manager Contracting

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- Internally directed competitive process (non-RFP)
- Open selection policy / discourage placement agents
- Performance based fees (benchmarked)
- Use of outside consultant / due diligence review
- Large-cap / Public Equity – passive indexing



# Investment Services Contracting

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- Avoidance of Fund-of-Funds / Use of Aksia
- Most Favored Nation
- In House v. Outside
- Competitive process – RFP (FX accounting example)
- Consolidation with similar programs / contracts



# Custodial Services Contracting

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- Challenges – limited providers, high cost of conversion, operational disruption
- Clearly defined services
- Lock-in costs / prices
- Wrap around dispute resolution



# Treasury Results

## Performance (Dec 2014)

	1 Year	3 Year	5 Year
<b>Pool 198</b>	6.21%	7.57%	7.34%
<b>529 TAP</b>	7.15%	10.07%	9.01%

## Manager Fees

<b>2011</b>	\$21 million	
<b>2014</b>	\$15 million	(27% reduction) / 5% AUM growth

## Internal Management

<b>(Internal / Passive)</b>	52% of assets
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