



CITY OF PHILADELPHIA

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ROB DUBOW
Director of Finance

May 8th, 2015

The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke:

This letter is in response to a question raised at the April 8th, 2015 hearing before the Committee of the Whole on the Fiscal Year 2016 proposed budget for the Office of the Director of Finance. The question was recorded as follows:

From Council President Clarke:

- 1. Has the Pension Board considered following a process similar to Montgomery County's in which its investments are primarily in index funds?**

The pension board carefully considers all of its options for increasing investment returns at the appropriate level of risk. Before hiring a manager, the Board analyses whether the returns the manager is likely to achieve for the fund, after adjusting for the cost of fees, would be higher than other options. Only if the manager passes that test will their firm be hired.

While the Board's analysis does often result in the hiring of a manager, for certain classes of investments, the Board has determined that it would be better to use an index fund. In fact, approximately one third of the fund's investments are in index funds. The Board is concerned, however, that if it invested solely in index funds, it would not give the fund enough protection against potential downturns in the market. For example, during the rapid downturn in the market during the great recession, the market dropped over 35%. During that same year, the pension fund's losses were under 20%. While those losses were still staggering, they probably would have been far higher if the Board were only invested in index funds and did not have the protection provided by its managers.

Please feel free to contact me with any questions you may have about the information provided in this response.

Sincerely,

Rob Dubow
Director of Finance

cc: Everett Gillison, Chief of Staff
Rebecca Rhynhart, Budget Director
Cintya Ramos, Deputy Budget Director