



**TOWN OF LOS GATOS  
TOWN PENSION AND OPEB TRUSTS  
OVERSIGHT COMMITTEE REPORT**

MEETING DATE: 08/04/2020

ITEM NO: 3

ADDENDUM

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DATE: August 3, 2020  
TO: Town Pension and OPEB Trusts Oversight Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive Market Value Summary Quarterly Reports for the Period Ending December 31, 2019, the Period Ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT)

REMARKS:

Attachment 3 contains public comment received since the issuance of the staff report on Thursday, July 30, 2020, and before 11:00 a.m. Monday, August 3, 2020.

Attachments previously received with the Staff Report:

1. CERBT Account Summaries
2. CERBT Strategy 1 Performance Report as of June 30, 2020

Attachment distributed with this Addendum:

3. Public Comments received 11:01 a.m. Thursday, July 30, 2020 and 11:00 a.m. Monday, August 3, 2020.

PREPARED BY: Arn Andrews  
Assistant Town manager

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Reviewed by: Town Manager and Finance Director

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**From:** Phil Koen

**Sent:** Monday, August 3, 2020 9:07 AM

**To:** Marcia Jensen <MJensen@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; BSpector <BSpector@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>

**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>

**Subject:** Pension and OPEB Trust meeting - August 4, 2020

Dear Honorable Mayor and Council Members,

I am submitting the following comments for your review and consideration because I think it is important that you have another perspective regarding the material that has been presented. I have comments on agenda item 3, 4 and 5.

### Agenda Item #3

This Oversight Committee has selected to invest in the CERBT Strategy 1 as an investment vehicle for prefunding of the Town's other post-employment benefits. Strategy #1 is the riskiest of the three investment strategies since it invests in a significantly higher percentage of equities versus Strategy 2 and Strategy 3. As of March 31, 2020, the strategy resulted in a **15.2% loss** for the most recent quarter reported and a **9.3% loss** fiscal year to date. This is shown in exhibit E.

Since preservation of capital is the most important element of funding the OPEB liability, I question the wisdom of pursuing the riskiest investment strategy offered by CERBT. The rationale given for choosing this strategy is this investment profile offers the highest investment return objective of the three CERBT strategies. The target return of this strategy is 6.75%, which is used in the actuarial valuation prepared by Bartels. I will discuss the implications of this shortly.

As shown in Exhibit D, CalPERS warns that "there is no guarantee that the portfolio will achieve its investment objective". And as reported, since inception (June 1, 2007) this strategy has generated a net return of only 4.74%, which is materially below the target objective. Stated another way, the Town has selected an investment strategy which exposes the prefunded monies to the most market risk, the highest volatility as measured by standard deviation while producing investment returns materially below the 6.75% benchmark. This is not a conservative approach and should be re-evaluated by this Committee.

ATTACHMENT 3

# CERBT Strategy 1



## Objective

The CERBT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. **There is no guarantee that the portfolio will achieve its investment objective.** ✖✖

## Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, **strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.** ✖✖

Compared with CERBT Strategy 2 and Strategy 3, this portfolio has a higher allocation to equities than bonds and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

## Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Expense Ratio
\$9,565,548,004	0.10%

## Composition

### Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

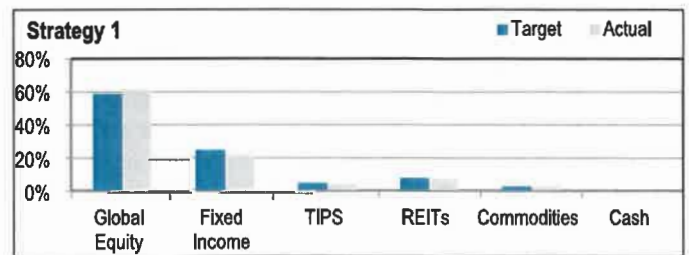
Asset Class	Target Allocation <sup>1</sup>	Target Range	Benchmark
Global Equity	59%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	± 5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91 Day Treasury Bill

## Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

## Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of June 30, 2020								
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return <sup>1,3</sup>	2.57%	14.10%	3.58%	3.58%	5.92%	5.84%	8.20%	4.82%
<b>Net Return<sup>2,3</sup></b>	2.56%	14.07%	3.49%	3.49%	5.83%	5.75%	8.10%	<b>4.74%</b>
Benchmark Returns	2.53%	13.95%	3.16%	3.16%	5.59%	5.43%	7.92%	4.38%
Standard Deviation <sup>4</sup>	-	-	-	-	11.46%	10.14%	10.07%	12.85%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

\* Returns for periods greater than one year are annualized.

<sup>1</sup> Gross performance figures are provided net of SSGA operating expenses.

<sup>2</sup> Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

<sup>3</sup> See the Expenses section of this document.

<sup>4</sup> Standard Deviation is based on gross returns.

E



Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$19,653,426.72	\$18,379,772.40
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(2,975,699.50)	(1,694,037.20)
Administrative Expenses	(2,308.39)	(6,934.19)
Investment Expense	(1,687.80)	(5,069.98)
Other	0.00	0.00
Ending Balance	\$16,673,731.03	\$16,673,731.03
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$16,673,731.03	\$16,673,731.03

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,090,918.002	1,090,918.002
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,090,918.002	1,090,918.002
Period Beginning Unit Value	18.015494	16.847987
Period Ending Unit Value	15.284129	15.284129

Δ (15.2%) (9.3%)

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.