

Date: March 1, 2020

To: Committee Chairperson and committee members

Subject: March 3, 2020 Pension and OPEB Trusts Oversight Committee Meeting Item 2

I'd like to add to the Staff report on Item 2, that I'll call "the rest of the story".

The Finance Committee did recommend to invest additional discretionary payment (ADP) assets in the California Employers' Pension Prefunding Trust (CEEPT) Strategy 2 as stated in the Staff Report. But the Staff Report omitted the additional Finance Committee recommendation that the funds should stay in the CEEPT for no more than 1 year before being transferred to CALPERs. This was a key reason the Finance Committee recommended Strategy 2 even though it has a lower targeted return. The CEEPT alternative was presented as a short term place to park the funds with expected higher returns than if they stayed on the Town's balance sheet.

Therefore, I recommend the Town Council add a provision to the Staff Recommendation that "the intended use of the CEPPT Strategy 2 is as a temporary stop before transferring the funds to CALPERs or another preferable investment; and that no funds should be held in the CEEPT Strategy 2 for more than 1 year."

The Staff Report has offered a proposed Quarterly Payment Methodology for the \$3,660,342 still held by PARs. As the Staff Memo says, Council has already directed Staff to transfer the funds to CALPERs "prior to September 2020". Now the Staff is offering a proposal that defers that date until January 2021. There is no reason to wait!

In light of the recent decline in the stock market and the generally held belief by investment professionals that "one cannot time the market", I recommend you accept the Staff alternative that most closely approximates the initial implementation direction—invest the \$3,660,342 immediately with the \$539,658 invested in July 2020 as an approximation of dollar cost averaging. The Staff Memo provides a clear benefit of investing the \$3,660,342 with CALPERs prior to May 1, 2020.

On a second point, I would like to emphasize for Town Council based on my perception from the recent Finance Committee meeting that all 3 resident members were surprised to learn from Staff that they had not yet begun to dollar cost average the transfer of the \$3,660,342 from the PARS account to CALPERs. My understanding from an earlier Finance Committee meeting and a Pension and OPEB Trusts Oversight Committee meeting was that Staff was going to begin the dollar cost averaging soon after the \$4,753,965 was transferred to CALPERs, with the intent to have it completed by September 30, 2020.

Currently of the assets managed by PARS, 70% are invested in equities (in 8 different equity asset subclasses). CALPERs has a target equity allocation of 50%. With the recent large decline in the stock market, the Town could have avoided some losses on the PARs equities if it had begun the transfer of the assets from PARs to CALPERs following a dollar cost average methodology as the resident members of the Finance Committee believed had begun.

And now you know "the rest of the story" as perceived by,

Terry Duryea