



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

MEETING DATE: 08/03/2021

ITEM NO: 3

DATE: July 15, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive OPEB Trust Account Summary Quarterly Report for the Period Ending March 31, 2021, CERBT Strategy 1 Performance Report as of May 31, 2021, and OPEB Account Update Report for the California Employers' Retiree Benefit Trust (CERBT).

RECOMMENDATION:

Receive OPEB Trust Account Summary Quarterly Report for the Period Ending March 31, 2021 (Attachment 1), CERBT Strategy 1 Performance Report as of May 31, 2021 (Attachment 2), and OPEB Account Update Report (Attachment 3) for the California Employers' Retiree Benefit Trust (CERBT).

BACKGROUND:

In 2009, the Council approved participating in the California Employer's Retiree Benefit Trust (CERBT) Fund. The CERBT Fund is an IRS Section 115 trust fund dedicated to the prefunding of other post-employment benefits ("OPEB"). The CERBT Strategy 1 is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan").

DISCUSSION:

As of May 31, 2021, the CERBT Strategy 1 fund returned 1.25% net of fees for the month and 25.62% net of fees fiscal year to date. The ending account balance as of December 31, 2020 was \$24,064,162.63.

Attachments:

1. CERBT 115 Trust Account Summary as of March 31, 2021
2. CERBT 115 Trust Strategy 1 Performance Report as of May 31, 2021
3. CERBT Account Update

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

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Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$23,560,833.39	\$20,124,350.96
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	508,965.19	3,954,721.94
Administrative Expenses	(2,895.46)	(8,252.75)
Investment Expense	(2,740.49)	(6,657.52)
Other	0.00	0.00
Ending Balance	\$24,064,162.63	\$24,064,162.63
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$24,064,162.63	\$24,064,162.63

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,154,205.292	1,154,205.292
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	1,154,205.292	1,154,205.292
Period Beginning Unit Value	20.413035	17.435677
Period Ending Unit Value	20.849118	20.849118

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.

Statement of Transaction Detail for the Quarter Ending 03/31/2021

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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Client Contact:
CERBT4U@CalPERS.ca.gov

CERBT Strategy 1

May 31, 2021



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 Operating Ratio
\$12,718,933,819	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 ¹	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

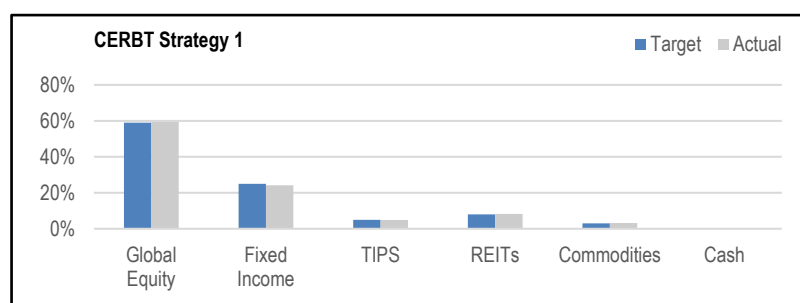
¹ Allocations were approved by the Board at the May 2018 Investment Committee meeting.

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 to a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of May 31, 2021

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	1.26%	6.24%	25.72%	28.95%	11.35%	10.75%	8.11%	6.22%
Net Return ^{2,3}	1.25%	6.22%	25.62%	28.84%	11.26%	10.66%	8.00%	6.14%
Benchmark Returns	1.28%	6.23%	25.55%	28.72%	11.07%	10.36%	7.83%	5.79%
Standard Deviation ⁴	-	-	-	-	12.91%	10.41%	10.07%	12.78%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

² Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

³ Expenses are described in more detail on page 2 of this document.

⁴ Standard deviation is based on gross returns and is reported for periods greater than 3 years.

CERBT Strategy 1



May 31, 2021

General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external advisors. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published.

CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, please visit our website at: www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CERBT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CERBT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.¹

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as recordkeeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

Each employer invested in CERBT Strategy 1 owns units of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits (OPEB). CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations. Further, CalPERS will not make up the difference between an employer's CERBT assets and the actual cost of OPEB provided to an employer's plan members.

An investment in the portfolio is not a bank deposit, nor is it insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at www.calpers.ca.gov.

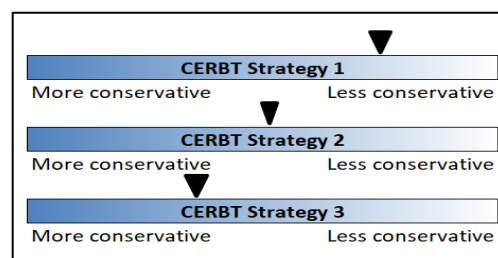
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Projected risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
Treasury Inflation-Protected Securities	5%	5%	16%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	4%	5%



¹ Since June 2018 SSGA has passively managed all CERBT asset classes. Previously Fixed Income, TIPS and Commodity asset classes were managed internally by CalPERS.

CERBT Account Update

Town of Los Gatos

as of March 31, 2021



OPEB Valuation Report Summary

OPEB Actuarial Valuation Report by Bartel Associates, LLC	
Valuation Date	6/30/2017
Total OPEB Liability (TOL)	\$24,773,000
Valuation Assets	\$13,605,000
Net OPEB Liability (NOL)	\$11,168,000
Funded Status	55%
Actuarially Determined Contribution (ADC)	\$2,108,000
CERBT Asset Allocation Strategy	Strategy 1
Discount Rate	6.75%

CERBT Account Summary

As of March 31, 2021	Strategy 1
Initial contribution (06/29/2009)	\$400,000
Additional contributions	\$14,160,000
Disbursements	\$0
CERBT expenses	(\$96,870)
Investment earnings	\$9,601,033
Total assets	\$24,064,163
Annualized net rate of return (06/29/2009-03/31/2021 = 11.76 years)	9.26%

Cash Flow Summary by Fiscal Year

Fiscal Year	Contributions	Disbursements	Cumulative Investment Gains (Losses)	Cumulative Fees	Cumulative Ending Assets
2006-07	\$0	\$0	\$0	\$0	\$0
2007-08	\$0	\$0	\$0	\$0	\$0
2008-09	\$400,000	\$0	(\$28)	(\$2)	\$399,971
2009-10	\$550,000	\$0	\$60,907	(\$462)	\$1,010,445
2010-11	\$0	\$0	\$312,877	(\$1,958)	\$1,260,919
2011-12	\$1,910,000	\$0	\$416,755	(\$4,373)	\$3,272,382
2012-13	\$1,200,000	\$0	\$815,342	(\$9,740)	\$4,865,602
2013-14	\$1,300,000	\$0	\$1,717,930	(\$17,124)	\$7,060,806
2014-15	\$1,300,000	\$0	\$1,709,948	(\$24,242)	\$8,345,705
2015-16	\$1,500,000	\$0	\$1,828,698	(\$31,133)	\$9,957,565
2016-17	\$2,600,000	\$0	\$2,881,199	(\$39,994)	\$13,601,205
2017-18	\$1,600,000	\$0	\$3,968,811	(\$52,247)	\$16,276,565
2018-19	\$1,100,000	\$0	\$4,985,901	(\$66,129)	\$18,379,772
2019-20	\$1,100,000	\$0	\$5,646,311	(\$81,960)	\$20,124,351
as of 3/31/2021	\$0	\$0	\$9,601,033	(\$96,870)	\$24,064,163

CERBT/ CEPPT Investment Returns Outperform Benchmarks

Periods ended February 28, 2021

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$11,797,094,997	1.44%	4.61%	18.33%	20.42%	9.40%	11.03%	7.70%	5.87%
Benchmark		1.43%	4.56%	18.19%	20.01%	9.12%	10.60%	7.42%	5.44%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,705,837,808	0.55%	2.58%	12.68%	14.64%	8.72%	9.36%	-	8.06%
Benchmark		0.54%	2.53%	12.55%	14.34%	8.50%	8.95%	-	7.76%
CERBT Strategy 3 (Inception January 1, 2012)	\$797,491,056	-0.17%	1.14%	8.23%	9.75%	7.78%	7.58%	-	6.28%
Benchmark		-0.17%	1.10%	8.14%	9.50%	7.62%	7.22%	-	5.97%
CERBT Total	\$14,300,423,861								
CEPPT Strategy 1 (Inception October 1, 2019)	\$19,364,172	0.47%	2.58%	12.15%	14.29%	-	-	-	10.94%
Benchmark		0.60%	2.64%	12.05%	14.41%	-	-	-	11.05%
CEPPT Strategy 2 (Inception January 1, 2020)	\$10,034,968	-0.52%	0.21%	4.87%	6.62%	-	-	-	6.61%
Benchmark		-0.46%	0.13%	4.69%	6.45%	-	-	-	6.44%
CEPPT Total	\$29,399,140								

CERBT Expected Rates of Return & Risk

Portfolios	CERBT Strategy 1	CERBT Strategy 2	CERBT Strategy 3
Expected Return	7.59%	7.01%	6.22%
Risk	11.83%	9.24%	7.28%

CERBT Portfolio Details

Asset Classification	Benchmark	CERBT Strategy 1	CERBT Strategy 2	CERBT Strategy 3
Global Equity	MSCI All Country World Index	59% ±5%	40% ±5%	22% ±5%
Fixed Income	Barclays Capital Long Liability Index (CERBT)	25% ±5%	43% ±5%	49% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid Index	8% ±5%	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Barclays Capital Global Real: US TIPS Index	5% ±3%	5% ±3%	16% ±3%
Commodities	S&P GSCI Total Return Index	3% ±3%	4% ±3%	5% ±3%
Cash	3-Month Treasury Bill	0% +2%	0% +2%	0% +2%

Total Participation Cost Fee Rate

- Total all-inclusive cost of participation
 - Combines administrative, custodial, and investment fees
 - Separate trust funds
 - Self-funded, fee rate may change in the future
 - Fee is applied daily to assets under management
 - 10 basis points - CERBT
 - 25 basis points - CEPPT

CERBT/CEPPT Consistently Low Fee Rate History

Fiscal Year	CERBT	CEPPT
2007-2008	2.00 basis points	-
2008-2009	6.00 basis points	-
2009-2010	9.00 basis points	-
2010-2011	12.00 basis points	-
2011-2012	12.00 basis points	-
2012-2013	15.00 basis points	-
2013-2014	14.00 basis points	-
2014-2015	10.00 basis points	-
2015-2016	10.00 basis points	-
2016-2017	10.00 basis points	-
2017-2018	10.00 basis points	-
2018-2019	10.00 basis points	-
2019-2020	10.00 basis points	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points

586 Prefunding Program Employers

580 CERBT and 30 CEPPT

- State of California
- 151 Cities or Towns
- 12 Counties
- 73 School Employers
- 31 Courts
- 319 Special Districts and other Public Agencies
 - (97 Water, 34 Sanitation, 33 Fire, 24 Transportation)

Financial Reporting

- CERBT is the Plan
 - Provides audited and compliant GASB 74 report in a Schedule of Changes in Fiduciary Net Position (FNP)
 - Published in February each year

FNP Fiscal Year	Availability
2015-16	Available at https://www.calpers.ca.gov/cerbt
2016-17	
2017-18	
2018-19	
2019-20	

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
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Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CERBT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CERBT
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CEPPT
CERBTACCOUNT@calpers.ca.gov – Online Record Keeping System	