



**TITLE:** Town of Los Gatos IRS Section 115 Pension Trust and OPEB Trust Investment Policy

**POLICY NUMBER:** 4-04

**EFFECTIVE DATE:** 11/7/17

**PAGES:** 3

**ENABLING ACTIONS:** 2017-062

**REVISED DATES:** 12/18/2018; 12/03/2019

**APPROVED:**

## PURPOSE

The Town of Los Gatos (the "Town") has established IRS Section 115 Trusts for both pension and other post-employment benefits (OPEB). The Pension Trust is administered by the CalPERS California Employers' Pension Prefunding Trust (the "CEPPT") and the OPEB trust is administered by the California Employers' Retiree Benefit Trust (the "CERBT"), collectively the "115 Trusts". The 115 Trusts provide for funding of pension, retiree health and other post-employment benefits for the City's eligible retirees. The CEPPT acts as an additional investment vehicle for the overall funding of pension liabilities associated with the Town's Miscellaneous and Safety Pension Plans (the "Pension Plans"). Funds in the 115 Pension Trust may be used for long-term capital accumulation and appreciation, additional discretionary payments (ADPs), and pension contribution management strategies. The CERBT is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan"). The Town has established the 115 Trusts Oversight Committee (the "Oversight Committee") to oversee the assets of the 115 Trusts and to perform the duties and responsibilities set forth in this Investment Policy (IP).

## COMPOSITION

The membership of the Oversight Committee is composed of the entire Town Council.

## FIDUCIARY DUTIES AND RESPONSIBILITIES

1. The Oversight Committee has exclusive control of the investments of the 115 Trusts. The Oversight Committee will manage the funds under the Trusts:
  - a) solely in the interest of, and for the exclusive purposes of providing for funding of benefits for participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the Trusts;
  - b) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and

<b>TITLE:</b> Town of Los Gatos IRS Section 115 Pension Trust and OPEB Trust Investment Policy	<b>PAGE:</b> 2 of 3	<b>POLICY NUMBER:</b> 4-04
--	------------------------	-------------------------------

c) by diversifying the investments of the Trusts so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

2. The work of the Oversight Committee shall be consistent with written statement of Investment Policy (i.e., this Investment Policy for the Trusts). At least once every three years, the Oversight Committee will evaluate the appropriateness of the Investment Policy and, based on such evaluation, either confirm the tenets of the Investment Policy as then in effect, or amend the 115 Trusts Investment Policy as appropriate. The Investment Policy must include the following:

a) document investment objectives, performance expectations and investment guidelines for assets under the Trusts;

b) establish an appropriate investment strategy for managing all assets under the Trusts, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trusts; and

d) establish periodic performance reporting requirements that will effectively monitor investment results and ensure that the investment policy is being followed.

## **INVESTMENT OBJECTIVES**

1. The primary objective of the 115 Trusts investment portfolios is to satisfy the Pension Plans and OPEB Plan obligations to pay benefits to members and their beneficiaries. To do so, the 115 Trusts will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk.
2. The funds will be managed as an ongoing concern with a long-term investment horizon, consistent with demographic profile of the members and beneficiaries of the plans.
3. A range of risks will be managed in connection with the trusts, with an emphasis on the following:
  - a) The impact of the investment decisions on the funded status of the plans and the resulting volatility of contributions.
  - b) Risk of loss of plan assets.
4. In determining the investment strategies of the 115 Trusts, various factors will be considered including, but not limited to:
  - a) The structure and duration of the Pension Plans and OPEB Plan liabilities.
  - b) Modern Portfolio Theory.
  - c) The liquidity needs of Pension Plans and OPEB Plan.

## **INVESTMENT STRATEGY/ASSET ALLOCATION**

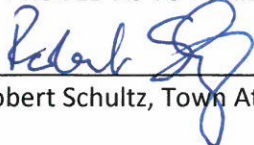
The Oversight Committee has delegated the investment management function to third parties. These third parties offer multiple asset allocation options with varying degrees of risk return profiles. The Oversight Committee **has the sole discretion** to select the asset allocation which best aligns with the aforementioned fiduciary standards and investment objectives.

The Oversight Committee will review the selected asset allocations annually. However, the Oversight Committee can review the current asset allocation selections at any time in light of market conditions.

## **MONITORING AND REPORTING**

1. Monitor the 115 Trusts investment managers on an ongoing basis and may be terminated by Oversight Committee at any time due to performance or other developments that call into question the investment manager's ability to continue to effectively manage assets of the 115 Trusts.
2. Review and assess the performance of any Investment Manager(s) appointed by the Oversight Committee to perform services related to the Trusts quarterly.
3. Measure and evaluate the **annual and** quarterly performance of investment managers relative to appropriate long-term performance benchmark.
4. Measure and evaluate annual and quarterly fees.
5. Review quarterly cash flow statements associated with the Trusts.
6. Review the actuarial pension evaluation annually.
7. Review the actuarial OPEB evaluation biennially.
8. Monitor compliance with this Investment Policy for the Trusts.

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Robert Schultz, Town Attorney

