



## Legislation Details (With Text)

<b>File #:</b>	21-618	<b>Version:</b>	1	<b>Name:</b>	OPEB and Pension Trust Investment Report 3Q 2021
<b>Type:</b>	Staff Report	<b>Status:</b>		<b>In control:</b>	Agenda Ready Finance Committee
<b>On agenda:</b>	11/2/2021	<b>Final action:</b>			
<b>Enactment date:</b>		<b>Enactment #:</b>			
<b>Title:</b>	Staff Report for Discussion on Section 115 OPEB (Other Post-Employment Benefits) Trust and Pension Trust Investment Report for the Quarter Ended September 30, 2021				
<b>Sponsors:</b>	Susan Hsieh Finance Director				
<b>Indexes:</b>					
<b>Code sections:</b>					
<b>Attachments:</b>	1. OPEB Trust and Pension Trust Investment Report 3Q 2021				

Date	Ver.	Action By	Action	Result
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Staff Report for Discussion on Section 115 OPEB (Other Post-Employment Benefits) Trust and Pension Trust Investment Report for the Quarter Ended September 30, 2021

### SUMMARY AND RECOMMENDATION

Staff recommends that the Committee review the OPEB Trust and Pension Trust investment report for the quarter ended September 30, 2021. This report is for information only.

### BACKGROUND

#### OPEB Trust

In fiscal year 2008-09, the City established a Section 115 OPEB Trust with PARS. The primary objective is to accumulate resources in the trust and generate investment income to fund the City's OPEB obligations in future years. The trust account was set up with an initial contribution of \$500,000, and the City has been proactive in funding its unfunded liabilities. Over the years, the City Council has authorized various contributions into the trust. At the end of September 2021, the assets in the OPEB Trust total \$21.6 million including contributions and investment earnings. The inception-to-date investment return is 6.60%. As of June 30, 2021, the City's OPEB plan/liability was 89% funded. A plan is considered healthy when the funded status is 80% or higher.

#### Pension Trust

In June 2021, the City Council authorized the establishment of a Section 115 Pension Trust with PARS. The goal is to set aside funds and accumulate investment earnings to buy down the City's unfunded pension liabilities. The \$750,000 annual budget allocation that was used to fund the OPEB Trust would be used to fund the Pension Trust effective fiscal year 2020-21. As part of the fiscal year 2021-23 budget adoption, the City Council also approved a \$5 million contribution to the trust.

Two initial contributions in the amount of \$750,000 were transferred to PARS in the first quarter of fiscal year 2021-22 to open the trust account. The remaining \$5 million will be sent to PARS over a five-month period. Using a dollar-cost averaging strategy to invest funds help the City to reduce the risks of volatility/market downturns.

Highmark Capital has prepared a quarterly investment report for the OPEB Trust and Pension Trust for the period ending September 30, 2021, summarizing the investment performance.

## DISCUSSION

At the time the OPEB Trust was established, the City selected a “Moderately Conservative” investment strategy. The objective is to provide current income and moderate capital appreciation. The investment time horizon is long-term. With this risk tolerance, the trust can accept modest price fluctuations to pursue its investment objectives.

The Investment Guidelines Document for the OPEB Trust provides that the asset allocation shall generally be in the ranges presented below, allowing for some reweighting by the Investment Manager if the actual weighting differs substantially.

<b><i>OPEB Trust - Strategic Asset Allocation Ranges</i></b>		
Cash	Fixed Income	Equity
0%-20%	50%-80%	20%-40%
Policy: 5%	Policy: 65%	Policy: 30%

For the Pension Trust, the City selected a “Moderate” investment strategy. The primary objective is to generate a reasonable level of growth. The investment time horizon is slightly longer than the horizon for the OPEB Trust. With this risk tolerance, the trust can accept price fluctuations to pursue its investment objectives. The “Moderate” strategy is more aggressive than the “Moderately Conservative” strategy, and the investment return is expected to be higher in the long term.

<b><i>Pension Trust - Strategic Asset Allocation Ranges</i></b>		
Cash	Fixed Income	Equity
0-20%	40%-60%	40%-60%
Policy: 5%	Policy: 45%	Policy: 50%

The asset allocations for both the OPEB Trust and the Pension Trust for the quarter ended September 30, 2021, comport with the policies.

Assets in the OPEB Trust portfolio decreased slightly from \$21.8 million in the prior quarter to \$21.6 million. Assets in the Pension Trust were slightly under \$1.5 million, lower than the initial contributions. Fluctuations are expected from time to time.

Investment returns are as follows. Please refer to the attached investment report for details.

Trust	1 Year	3 Years	5 Years	10 Years	Inception to Date

<b>OPEB</b>	10.11%	7.83%	6.60%	6.62%	6.60%
<b>Pension</b>	N/A	N/A	N/A	N/A	-3.08%

**ATTACHMENT(S)**

- Investment Report for the Quarter Ended September 30, 2021

**PREPARED BY**

Susan Hsieh, Finance Director