

Finance and Investment Committee Meeting

Members Present Allan Epstein, Stan Mok, Medha Rishi, Roddy Sloss, Susan Mason, Chris Welborn.

Members Absent Cheryl Evans, Chris Nam, Nathan Blair.

Associate Members Present Kjell Karlsson, Jim Lai **Associate Member Absent** Frank Lloyd.

Council Present Michelle Wu, Mayor.

Staff Present Sarina Revillar, Administrative Services Dir.

Guests Present Mitch Barker, Andrew Brown, Will Rodgers - PARS,

Public Present: Raj Reddy, Lisa Schmidt, and Linda Swan - Residents.

NOTE: This meeting was held via a Zoom online meeting session:

https://us02web.zoom.us/j/77_P6KSrOCYGrO4gG55L9MW4fsscFKSaA6hKwVHY0uciaoEhhHzZ?pwd=1601939125000

Ms. Mason, Chairperson, called the meeting to order at 4:10 pm. September 14, 2020 minutes were not reviewed in time and will be circulated prior to the November meeting and approved at the meeting.

Raj Reddy and Lisa Schmidt were introduced as residents who were running for LAH City Council election.

Agenda Items

1. Report on PARS Investments: Mitch Barker EVP PARS, Andrew Brown, HighMark Capital, Will Rodgers PARS.

- a. Mr. Barker and Mr. Rogers went over the historical data, returns and fee analysis, based on our moderate index strategy (as a passive approach). End of August account balance \$580,000. Town's pension funded ratio at June 30, 2018, of 84% was highlighted as performing quite well compared to most agencies that are in the 60-80% range.
- b. Mr. Brown went over economic forecasts, which were revised several times in-light of covid issues. End of year projections indicate further decrease in GDP, S&P 500 earnings and Fed Fund targets: 2021 figures are projected to be optimistic comparatively.
 - i. Discussions regarding the performance figures with highlights as follows:
 1. Figures ending in August 2020 yielded .02/.03 returns;
 2. Total fixed income generated a little below US bond index;
 3. Future returns on fixed income did not perform well with the yield of maturity on US bond index around 1.2%;
 4. Equity returns came in primarily from large cap domestic, Lag under S&P, we had a tilt in large and small cap value recently that did not bear fruit;
 5. Portfolio benefited from emerging market index generating a 14.4% return which was rewarding over the last 12 months;
 6. Only negative outlier was the real estate equities due to covid concerns. Mr Mok questioned how we resolve the problem of defaulting rent, which was addressed via the potential for extra round of stimulus care act.
 7. 9.66% one year return net of 35 basis point HighMark fee.

- c. Mayor Wu inquired about REIT being re-balanced with other portfolios and Ms. Mason brought up the concern that if there are underlying asset exposures to REIT, should we step out of the direct rates since we already have exposure in rest of 2000 Value ETF
 - 1. Mr. Brown brought up the issue of portfolio diversification to maintain this balance; and that when we think about moderate approach, our investment would be at 2% target allocation.
 - ii. Town incurred 1 year return for large cap growth index at 37.1%, with the tech sector having a great run and the unfortunate decision by PARS to shift from growth ETF to value ETF not yielding the best results and as a result, having to revert back.
 - iii. Town's Neutral equity allocation strategy yielded cash down to 1%; while 49% is in fixed income.
 - iv. Mr. Mok, Mr. Welborn and Mr. Epstein discussed market conditions associated with opting for more aggressive strategies:
 - 1. Mr. Epstein reminded the committee that because the majority of Town retirement funds were in CalPERS most aggressive asset allocation the committee debated and elected two years ago to place the PARS funds in the moderate allocation.
 - 2. Mr Mok pursued discussions around aggressive ETF in generating global GDP growth, outcome of election, addressing the current national debt, covid vaccination and an amicable global trade tariff re-set.
 - 3. With regards to other PARS' clients, not more than 40% decided the aggressive approach, while the anticipated earning differential b/w the moderate and aggressive fund in the context of OPEB 30 year horizon is moderate at 6.7%, with a delta of 35 bp. With regards to clientele distribution, 39% are at moderately conservative, closely followed by moderate strategy at 32%, with a shift towards moderate Highmarks' returns.
 - v. Ms. Mason inquired whether we have a time horizon for the Trust Funds, to which the answer was none.
 - vi. Committee reviewed current investment strategy and whether change was advisable. Discussion ensued about risk tolerance levels and allocation strategies. Decision was made to stay in moderate strategy with the ballot results attached as a supplemental document.
 - 1. Mok: Moderate. too much risk in marketplace
 - 2. Epstein and Welborne: comfortable with moderate strategy but could accept a move to balanced, nervous about bonds, not that much additional risk
 - 3. Rishi: Moderate
 - 4. Mason. Moderate
 - 5. Lai & Karlson, Moderate

Council and Staff Reports on Recent Activity:

2. Report on Finance matters: Ms. Revillar

- a. Refundable Deposits: Unresolved amount is down to \$406,000 with 339 deposits in process.

- b. Unclaimed and Uncashed Check Policy & Procedures: Ms. Revillar is working with the City Attorney to finalize the redlined policy which will include outstanding refunds..The unfunded refund is defined as the portion leftover after all costs are applied.
- c. Status of Audit: Did it remotely. Draft CAFR to FIC next month.
- d. Cash and investments report from last meeting showed a \$3.6M increase in cash from June 30, 2019 to June 30, 2020: Ms Revilar reported that she looked at it quickly the build up was due to LAIF and CAMP intest of over \$700,000, \$900,000in staff time third party revenue, revenue in other funds \$600,000 and , other taxes about \$500,000, prior year trust reclassification \$328,000, and reduced expenses of over \$400,000 from. prior year .

3. **Report on Council Matters:** Mayor Wu:

- a. Inquired regarding FIC supporting Mr. Epstein to continue as Vice Chair and on the committee and reappointment for his fourth term. Chair Mason stated it was important for Mr. Epstein to be reappointed.
- b. Inquired about FIC annual presentation: Per City Clerk Padovan all committee presentations were postponed.as a result of Covid
- c. Inquired whether FIC could take a more active role in promoting beneficial infrastructure improvements. Discussion ensued, but committee roles are outlined in their charter and FIC would need to be asked by Council to undertake more.
- d. Reminded members of Fire District related Supervisor meeting on Oct 6, and importance of public participation.

Future Meeting Topics

- a. Next meeting scheduled for Nov 9, 2020 with the following item: Audit report (tentative).
- b. December agenda: topic Review of unfunded liability and consideration of recommending adding cash to PARS or CalPERS

Adjournment At approximately 6:10 pm, there being no further matters to be discussed the meeting adjourned.

Respectfully submitted: Medha Nicky Rishi, Committee Secretary