



**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT
COMMITTEE AGENDA
MARCH 30, 2021
110 EAST MAIN STREET
LOS GATOS, CA**

Marico Sayoc, Mayor

Rob Rennie, Vice Mayor

Mary Badame, Council Member

Matthew Hudes, Council Member

Maria Ristow, Council Member

PARTICIPATION IN THE PUBLIC PROCESS

How to participate: The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please follow the Participation instructions on page 2 of this agenda. If you wish to speak to an item NOT on the agenda, you may do so during the “Verbal Communications” period. The time allocated to speakers may change to better facilitate the Town Council meeting.

Effective Proceedings: The purpose of the meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town’s meeting guidelines while attending meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Committee without first being recognized; interrupting speakers, Committee members or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

Deadlines for Public Comment and Presentations are as follows:

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk’s Office no later than 3:00 p.m. on the day of the meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
 - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the meeting
 - For inclusion in any Addendum: by 11:00 a.m. the Monday before the meeting
 - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Meeting

Town Council Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) on the 1st and 3rd Tuesdays at 7:00 p.m.

Rebroadcast of Town Council Meetings on the 2nd and 4th Mondays at 7:00 p.m.

Live & Archived Council Meetings can be viewed by going to:

www.LosGatosCA.gov/TownYouTube

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]

TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA
MARCH 30, 2021
7:00 PM

IMPORTANT NOTICE REGARDING THE MARCH 30, 2021 MEETING

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID-19 pandemic. The live stream of the meeting may be viewed on television and/or online at www.losgatosca.gov/AgendasAndVideos. **In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.**

PARTICIPATION

If you are not interested in providing oral comments in real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at www.LosGatosCA.gov/TownYouTube.

If you would like to provide oral comments real-time during the meeting, you must join the Zoom webinar:

- Join from a PC, Mac, iPad, iPhone or Android device: click this link <https://us02web.zoom.us/j/85832205474?pwd=YS9MUjhHV2RmbFpOLzBsYktGcGxNdz09>. Password: 158557. You can also type in 858 3220 5474 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- Join by telephone: Dial: 877 336 1839. Conference code: 969184

During the meeting:

- When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting.

If you are unable to participate in real-time, you may email to PublicComment@losgatosca.gov the subject line “Public Comment Item #__ ” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments received by 11:00 a.m. the day of the meeting will be reviewed and distributed before the meeting. All comments received will become part of the record.

TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA
MARCH 30, 2021
7:00 PM

REMOTE LOCATION PARTICIPANTS

The following Committee Members are listed to permit them to appear electronically or telephonically at the Town Council meeting: MAYOR MARICO SAYOC, VICE MAYOR ROB RENNIE, COUNCIL MEMBER MARY BADAME, COUNCIL MEMBER MATTHEW HUDES, and COUNCIL MEMBER MARIA RISTOW. All votes during the teleconferencing session will be conducted by roll call vote.

MEETING CALL TO ORDER

ROLL CALL

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Committee or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to pull an item from Consent by following the Participation Instructions on page 2 of this agenda. If an item is pulled, the Chair has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by Committee, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

1. Approve Draft Minutes of the December 1, 2020 Town Pension and OPEB Trusts Oversight Committee Meeting.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Committee on any matter that is not listed on the agenda consistent with the Participation instructions on page 2 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items consistent with the Participation instructions on page 2 of this agenda.)*

2. Receive and Discuss the Town of Los Gatos IRS Section 115 Pension Trust and OPEB Investment Policy.
3. Receive Monthly Performance and Account Summary Reports for the Town of Los Gatos IRS Section 115 Pension Trust for the Period Ending December 31, 2020.
4. Receive Market Value Summary Quarterly Report and Performance Report for the California Employers' Retiree Benefit Trust (CERBT) for the Period Ending December 31, 2020.
5. Receive CalPERS Actuarial Review and Presentation by Bartel and Associates.

6. Direct the Available Balance in the California Employers' Pension Prefunding Trust (CEPPT) (\$708,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an Additional Discretionary Payment to CalPERS toward the 2013 Investment Loss Amortization Base.

ADJOURNMENT *(Council policy is to adjourn no later than midnight unless a majority of the Committee votes for an extension of time)*

Writings related to an item on the Committee meeting agenda distributed to members of the Committee within 72 hours of the meeting are available for review on the official Town of Los Gatos website. Copies of desk items distributed to members of the Committee at the meeting are available for review on the Town website.

Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.



**TOWN OF LOS GATOS
PENSION AND OPEB TRUST
OVERSIGHT COMMITTEE
REPORT**

MEETING DATE: 03/30/2021

ITEM NO: 1

**DRAFT
Minutes of the Pension and OPEB Trust Oversight Committee Meeting
December 1, 2020**

The Pension and OPEB Trust Oversight Committee of the Town of Los Gatos conducted a regular meeting via Teleconference via COVID-19 Shelter in Place Guidelines on Tuesday, December 1, 2020, at 6:15 p.m.

MEETING CALLED TO ORDER AT 6:18 P.M.

ROLL CALL

Present: Mayor Marcia Jensen, Vice Mayor Barbara Spector, Council Member Rob Rennie, Council Member Marico Sayoc. (All Participating Remotely.)

Absent: None

CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve the August 4, 2020 Town Pension and OPEB Trusts Oversight Committee Minutes.

MOTION: Motion by Vice Mayor Spector to approve the consent calendar. **Seconded** by Council Member Sayoc.

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

2. Receive Market Value Summary Quarterly Reports for the Period Ending June 30, 2020, the Period Ending September 30, 2020, and the September 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT).

Arn Andrews, Assistant Town Manager, presented the item.

Opened Public Comment.

No one spoke.

Closed Public Comment.

Council discussed the matter.

PAGE 2 OF 2

SUBJECT: Draft Minutes of the Pension and OPEB Trust Oversight Committee Meeting of
December 1, 2020

DATE: December 1, 2020

Other Business item #2 – continued

MOTION: Motion by Council Member Sayoc to receive market value summary quarterly reports for the period ending June 30, 2020, the period ending September 30, 2020, and the September 30, 2020, performance report for the California Employers' Retiree Benefit Trust (CERBT). **Seconded by Vice Mayor Spector.**

VOTE: Motion passed unanimously.

3. Receive Monthly Performance and Account Summary Reports for the Town of Los Gatos IRS Section 115 Pension Trust for the Period Ending September 30, 2020.

Arn Andrews, Assistant Town Manager, presented the item.

Opened Public Comment.

No one spoke.

Closed Public Comment.

Council discussed the matter.

MOTION: Motion by Council Member Sayoc to receive monthly performance and account summary reports for the Town of Los Gatos IRS Section 115 Pension Trust for the period ending September 30, 2020. **Seconded by Council Member Rennie.**

VOTE: Motion passed unanimously.

ADJOURNMENT

The meeting adjourned at 6:27 p.m.

Attest:

Jenna De Long, Deputy Clerk



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

MEETING DATE: 03/30/2021

ITEM NO: 2

DATE: March 22, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive and Discuss the Town of Los Gatos IRS Section 115 Pension Trust and OPEB Investment Policy

RECOMMENDATION:

Receive and discuss the Town of Los Gatos IRS Section 115 Pension Trust and OPEB Investment Policy.

BACKGROUND:

On August 15, 2017, the Town Council approved Public Agency Retirement Services (PARS) as the initial administrator of a Town Section 115 Pension Trust. A 115 Pension Trust 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"). On September 17, 2019, the Town Council directed staff to terminate the PARS agreement, consistent with the Town Pension and OPEB Trusts Oversight Committee recommendation. On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in their IRS 115 California Employers' Pension Prefunding Trust Program Strategy 2.

In addition, in 2009, the Council approved participating in the California Employer's Retiree Benefit Trust (CERBT) Fund. The CERBT Fund is also a Section 115 trust fund which is dedicated to the prefunding of other post-employment benefits ("OPEB"). The CERBT is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan"). The CERBT trust initially provided a single investment vehicle similar to the CalPERS pension fund; however, the CERBT subsequently established three investment strategies with varying degrees of risk/return profiles.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

BACKGROUND (continued):

Given the adoption of a 115 Pension Trust with multiple asset allocation choices and the establishment of the CERBT and subsequent addition of multiple asset allocations, staff recommended that the Town Council formalize the requisite governance and oversight controls reflective of the fiduciary responsibilities inherent in the management of pension and OPEB assets. Specifically, staff recommended the establishment of an Oversight Committee and an Investment Policy for the management of both the Town of Los Gatos IRS Section 115 Trust and California Employers' Retiree Benefit Trust (CERBT) (see Attachment 1).

At its November 7, 2017 meeting, the Town Council reviewed and discussed the staff recommendations for governance of the Town's IRS Section 115 Trusts. At the conclusion of the meeting, the Town Council established the Town Council as an Oversight Committee for the Town of Los Gatos IRS Section 115 Pension Trust and CERBT and adopted an Investment Policy for the Trusts.

DISCUSSION:

The adopted Investment Policy was predicated on existing California law and recommended best practices from governmental associations. Of note, the Investment Policy reflects provisions of Article XVI of the California State Constitution which covers public finance. Section 17 of this Article provides for the provision of pensions by a retirement board, who is vested with the responsibility of administering pension funds. Among other actions, Article XVI, Section 17, stipulates that investment of moneys and administration of the system are subject to the following:

"The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty."

"The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system."

DISCUSSION (continued):

“The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system 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.”

“The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.”

In addition to ensuring regulatory compliance, the adopted Investment Policy includes best practices identified by the Government Finance Officers Association who opines that pension plan trustees and administrators carry out four primary functions in oversight of the investment process:

- Adopt an IRS 115 Pension Trust and OPEB Trust Assets Investment Policy
- Develop an asset allocation plan
- Assemble an investment team
- Monitor the investment program’s implementation and performance

At its December 18, 2019 meeting, the Town Pension and OPEB Trusts Oversight Committee adopted revisions to the Investment Policy to reflect that the “purpose” of the 115 pension funds is for “long-term capital accumulation and appreciation, additional discretionary payments (ADPs), and pension contribution management strategies. “

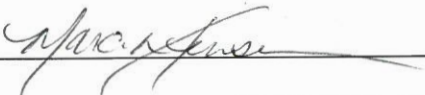
Attachment 1 contains the current version of the Investment Policy. The Oversight Committee generally meets quarterly to handle these responsibilities.

Attachment:

1. Town of Los Gatos IRS 115 Pension Trust and OPEB Trust Investment Policy

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
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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

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

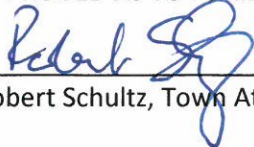
The Oversight Committee has delegated the investment management function to third parties. These third parties offer multiple asset allocation options with varying degrees of risk return profiles. The Oversight Committee **has the sole discretion** to select the asset allocation which best aligns with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



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

MEETING DATE: 03/30/2021

ITEM NO: 3

DATE: March 22, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Monthly Performance and Account Summary Reports for the Town of Los Gatos IRS Section 115 Pension Trust for the Period Ending December 31, 2020

RECOMMENDATION:

Receive Monthly Performance (Attachment 1) and Account Summary (Attachment 2) Reports for the Town of Los Gatos IRS Section 115 Pension Trust for the Period Ending December 31, 2020.

BACKGROUND:

On September 17, 2019, the Town Council directed staff to terminate the PARS agreement, consistent with the Town Pension and OPEB Trusts Oversight Committee recommendation, and to return to Council with an agreement to initiate participation in the California Employers' Pension Prefunding Trust (CEPPT). On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the CEPPT program.

The CEPPT Fund is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. On February 3, 2020, the Council Finance Committee reviewed the two CEPPT asset allocation options available through CalPERS and recommended that Strategy 2 be brought forward to the Town Pension/OPEB Oversight Committee. On March 3, 2020, the Town Pension and OPEB Trusts Oversight Committee adopted CEPPT Strategy 2 as the asset allocation for the Town's Section 115 Trust pension assets.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

PAGE 2 OF 2

SUBJECT: CEPPT Account and Performance Summary Reports

DATE: March 22, 2021

DISCUSSION:

As of December 31, 2020, the CEPPT Strategy 2 fund returned 1.20% net of fees for the month and 5.80% net of fees fiscal year to date. The ending account balance as of December 31, 2020 was \$708,807.33. The initial account balance is the result of approximately \$300,000 in remaining PARS assets after Additional Discretionary Payments (ADPs) to CalPERS and deposit of the annual General Fund Policy addition of \$390,000. Per previous Oversight Committee direction, the current account balance is recommended for making an Additional Discretionary Payment (ADP) (see separate agenda item on this topic).

Attachments:

1. CEPPT 115 Pension Trust Fund Performance Summary as of December 31, 2020
2. CEPPT 115 Pension Trust Account Summary as of December 31, 2020

CEPPT Strategy 1



December 31, 2020

Objective

The CEPPT 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 CEPPT Strategy 1 portfolio is invested in various asset classes that are passively managed to an index. 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 CEPPT Strategy 2, this portfolio has a higher allocation to equities than bonds. 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.

Composition

Asset Class Allocations and Benchmarks

The CEPPT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

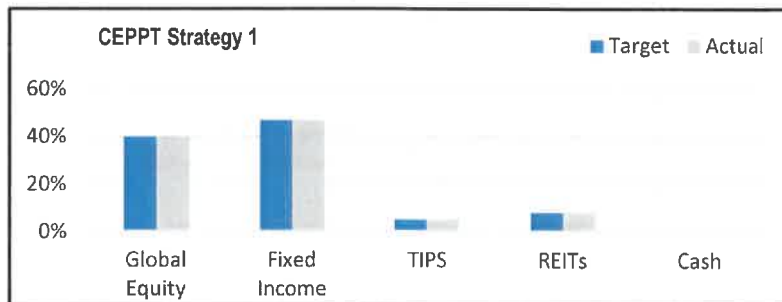
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	40%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	47%	± 5%	Bloomberg Barclays U.S. Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays U.S. TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Cash	-	+ 2%	91 Day Treasury Bill

Portfolio Benchmark

The CEPPT 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 for a particular asset class based on market, economic, or other considerations.



Assets Under Management

As of the specified reporting month-end:

CEPPT Strategy 1	Annual Expense Ratio
\$15,338,103	0.25%

CEPPT Strategy 1 Performance as of December 31, 2020								
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception (October 1, 2019)
Gross Return ^{1,3}	2.51%	7.88%	12.08%	11.49%	-	-	-	12.37%
Net Return ^{2,3}	2.49%	7.82%	11.95%	11.24%	-	-	-	12.12%
Benchmark returns	2.49%	7.74%	11.89%	11.47%	-	-	-	12.43%
Standard Deviation ⁴	-	-	-	-	-	-	-	-

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ See the Expenses section of this document.

⁴ Standard deviation is based on gross returns.

CEPPT Strategy 1



December 31, 2020

General Information

Information Accessibility

The CEPPT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external managers. 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 CEPPT. For total market value, detailed asset allocation, investment policy and performance information, please visit our website at www.calpers.ca.gov.

Portfolio Manager Information

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

Custodian and Record Keeper

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

Expenses

CEPPT 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 reduction of investment return. Currently, CEPPT expense ratios are 0.25%. This equates to \$2.50 per \$1,000 invested. The expenses 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 CEPPT 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 CEPPT fund is a trust fund dedicated to prefunding employer contributions to defined benefit pension plans for eligible state and local agencies. CEPPT 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.

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 "CEPPT Principal Investment Risks" located at www.calpers.ca.gov.

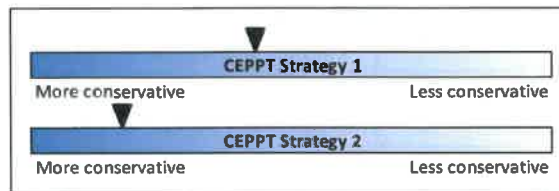
Fund Performance

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' Pension Prefunding Trust.

CEPPT Strategy Risk Levels

CalPERS offers employers the choice of one of two investment strategies. Projected risk levels among risk 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
Global Equity	40%	14%
Fixed Income	47%	73%
Treasury-Inflation Protected Securities	5%	5%
Real Estate Investment Trusts	8%	8%



CEPPT Strategy 2



December 31, 2020

Objective

The CEPPT Strategy 2 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 CEPPT Strategy 2 portfolio is invested in various asset classes that are passively managed to an index. 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 CEPPT Strategy 1, this portfolio has a lower allocation to equities and a higher allocation to bonds. Historically, funds with a lower percentage of equities have displayed less price volatility and, therefore, this portfolio may experience comparatively less fluctuation of value. Employers that seek greater stability of value, in exchange for possible lower investment 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:

CEPPT Strategy 2	Annual Expense Ratio
\$8,025,699	0.25%

Composition

Asset Class Allocations and Benchmarks

The CEPPT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

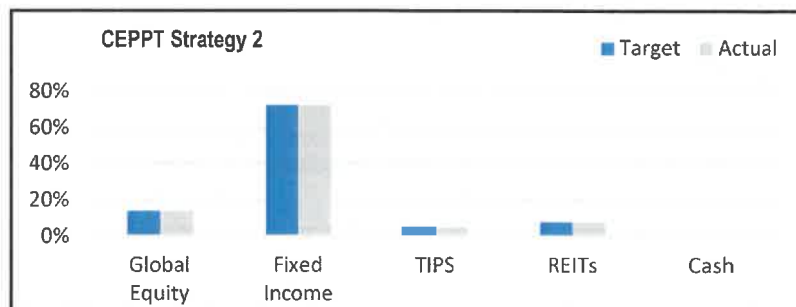
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	14%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	73%	± 5%	Bloomberg Barclays U.S. Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays U.S. TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Cash	-	+ 2%	91 Day Treasury Bill

Portfolio Benchmark

The CEPPT Strategy 2 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 for a particular asset class based on market, economic, or other considerations.



CEPPT Strategy 2 Performance as of December 31, 2020

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception (January 1, 2020)
Gross Return ^{1,3}	1.22%	3.86%	5.92%	-	-	-	-	8.79%
Net Return ^{2,3}	1.20%	3.80%	5.80%	-	-	-	-	8.54%
Benchmark returns	1.20%	3.83%	5.81%	-	-	-	-	8.66%
Standard Deviation ⁴	-	-	-	-	-	-	-	-

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ See the Expenses section of this document.

Page 18 Variation is based on gross returns.

CEPPT Strategy 2

December 31, 2020



General Information

Information Accessibility

The CEPPT Strategy 2 portfolio consists of assets managed internally by CalPERS and/or by external managers. 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 CEPPT. For total market value, detailed asset allocation, investment policy and performance information, please visit our website at www.calpers.ca.gov.

Portfolio Manager Information

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

Custodian and Record Keeper

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

Expenses

CEPPT 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 reduction of investment return. Currently, CEPPT expense ratios are 0.25%. This equates to \$2.50 per \$1,000 invested. The expenses 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 CEPPT Strategy 2 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 CEPPT fund is a trust fund dedicated to prefunding employer contributions to defined benefit pension plans for eligible state and local agencies. CEPPT 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.

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 "CEPPT Principal Investment Risks" located at www.calpers.ca.gov.

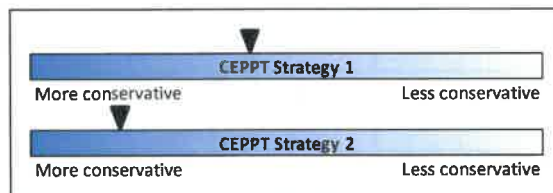
Fund Performance

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' Pension Prefunding Trust.

CEPPT Strategy Risk Levels

CalPERS offers employers the choice of one of two investment strategies. Projected risk levels among risk 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
Global Equity	40%	14%
Fixed Income	47%	73%
Treasury-Inflation Protected Securities	5%	5%
Real Estate Investment Trusts	8%	8%





Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$682,844.62	\$669,978.13
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	26,362.31	39,623.05
Administrative Expenses	(263.53)	(523.57)
Investment Expense	(136.07)	(270.28)
Other	0.00	0.00
Ending Balance	\$708,807.33	\$708,807.33
FY End Contribution Accrual	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$708,807.33	\$708,807.33

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	64,895.742	64,895.742
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	64,895.742	64,895.742
Period Beginning Unit Value	10.522179	10.323915
Period Ending Unit Value	10.922248	10.922248

Please note the Grand Total is your actual fund account balance at the end of the period, including accrued contribution and 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 CEPPT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 12/31/2020

Town of Los Gatos

Entity #: SKHE-4589482285-501P



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 03/30/2021

ITEM NO: 4

DATE: March 22, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Market Value Summary Quarterly Report and Performance Report for the California Employers' Retiree Benefit Trust (CERBT) for the Period Ending December 31, 2020

RECOMMENDATION:

Receive Market Value Summary Quarterly Report (Attachment 1) and Performance Report (Attachment 2) for the California Employers' Retiree Benefit Trust (CERBT) for the Period Ending December 31, 2020.

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 December 31, 2020, the CERBT Strategy 1 fund returned 3.54% net of fees for the month and 17.08% net of fees fiscal year to date. The ending account balance as of December 31, 2020 was \$23,560,833.39.

Attachments:

1. CERBT 115 Trust Account Summary as of December 31, 2020
2. CERBT 115 Trust Strategy 1 Performance Report

PREPARED BY: ARN ANDREWS
ASSISTANT TOWN MANAGER

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



Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$21,227,600.10	\$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	2,337,997.44	3,445,756.75
Administrative Expenses	(2,751.99)	(5,357.29)
Investment Expense	(2,012.16)	(3,917.03)
Other	0.00	0.00
Ending Balance	\$23,560,833.39	\$23,560,833.39
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$23,560,833.39	\$23,560,833.39

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	18.391529	17.435677
Period Ending Unit Value	20.413035	20.413035

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 12/31/2020

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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CERBT Strategy 1



December 31, 2020

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
\$11,595,181,406	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

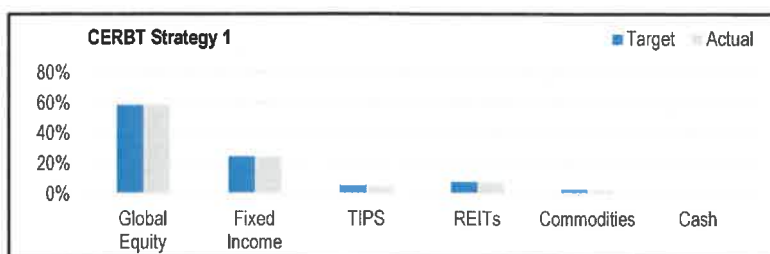
¹ Allocations were approved by the Board at the May 2018 Investment Committee meeting.

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 December 31, 2020

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	3.55%	11.02%	17.13%	13.40%	8.71%	10.04%	8.06%	5.86%
Net Return ^{2,3}	3.54%	10.99%	17.08%	13.31%	8.62%	9.95%	7.96%	5.78%
Benchmark Returns	3.52%	10.95%	17.02%	12.98%	8.41%	9.61%	7.77%	5.43%
Standard Deviation ⁴	-	-	-	-	13.09%	10.74%	10.09%	12.94%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ See the Expense section of this document.

⁴ Standard deviation is based on gross returns.

ATTACHMENT 2

CERBT Strategy 1

December 31, 2020



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 includes: 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 not 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.

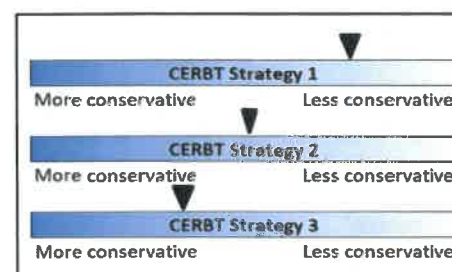
Fund Performance

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 ¹	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 Strategy 2



December 31, 2020

Objective

The CERBT Strategy 2 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 2 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 1 and Strategy 3, this portfolio has a moderate allocation to equities, bonds and other assets. Historically, equities have displayed greater price volatility and, therefore, this portfolio may experience comparatively less fluctuation of value compared to CERBT Strategy 1 but more fluctuation of value compared to CERBT Strategy 3. Employers that seek a moderate approach to investing 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

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 2	Annual Operating Ratio
\$1,673,297,030	0.10%

Composition**Asset Class Allocations and Benchmarks**

The CERBT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	40%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	43%	± 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	4%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91 Day Treasury Bill

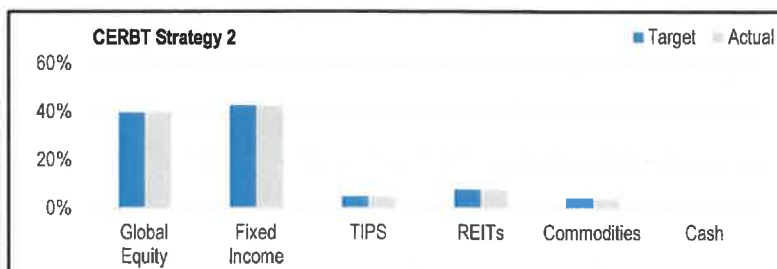
¹ Allocations were approved by the Board at the May 2018 Investment Committee meeting.

Portfolio Benchmark

The CERBT Strategy 2 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 2 Performance as of December 31, 2020**

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (October 1, 2011)
Gross Return ^{1,3}	2.67%	8.26%	12.77%	12.30%	8.21%	9.00%	-	8.21%
Net Return ^{2,3}	2.66%	8.24%	12.73%	12.21%	8.12%	8.91%	-	8.10%
Benchmark Returns	2.64%	8.20%	12.67%	11.99%	7.95%	8.59%	-	7.91%
Standard Deviation ⁴	-	-	-	-	10.04%	8.32%	-	7.88%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ See the Expense section of this document.

⁴ Standard Deviation is based on gross returns.

CERBT Strategy 2

December 31, 2020



General Information

Information Accessibility

The CERBT Strategy 2 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 includes: 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 2 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 not 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.

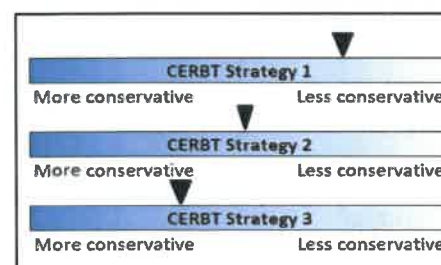
Fund Performance

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 ¹	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 Strategy 3



December 31, 2020

Objective

The CERBT Strategy 3 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 3 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 1 and Strategy 2 this portfolio has a lower allocation to equities than bonds and other assets. Historically, funds with a lower percentage of equities have displayed less price volatility and, therefore, this portfolio may experience comparatively less fluctuation of value. Employers that seek greater stability of value, in exchange for possible lower investment 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 3	Annual Operating Ratio
\$802,169,203	0.10%

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 3 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	22%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	49%	± 5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	16%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Commodities	5%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91 Day Treasury Bill

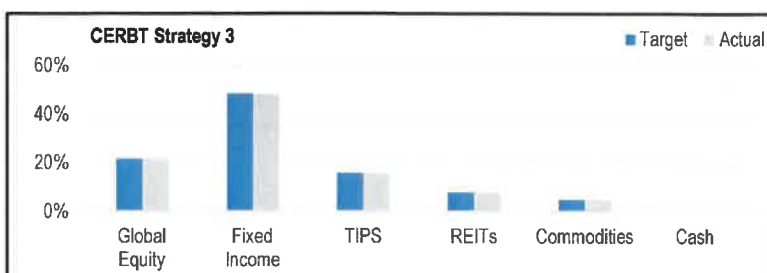
¹ Allocations were approved by the Board at the May 2018 Investment Committee meeting.

Portfolio Benchmark

The CERBT Strategy 3 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 3 Performance as of December 31, 2020

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2012)
Gross Return ^{1,3}	1.94%	5.77%	9.09%	10.80%	7.36%	7.69%	-	6.49%
Net Return ^{2,3}	1.93%	5.75%	9.04%	10.70%	7.27%	7.60%	-	6.39%
Benchmark Returns	1.91%	5.72%	9.01%	10.53%	7.15%	7.34%	-	6.17%
Standard Deviation ⁴	-	-	-	-	7.54%	6.35%	-	5.97%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

¹ Gross performance figures are provided net of SSGA operating expenses.

² Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

³ Net Performance figures are based on the performance section of this document.

⁴ Standard Deviation is based on gross returns.

CERBT Strategy 3

December 31, 2020



General Information

Information Accessibility

The CERBT Strategy 3 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 includes: 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 3 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 not 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.

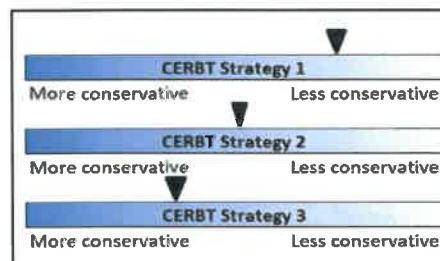
Fund Performance

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 ¹	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.



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

MEETING DATE: 03/30/2021

ITEM NO: 4
ADDENDUM

DATE: March 22, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Market Value Summary Quarterly Report and Performance Report for the California Employers' Retiree Benefit Trust (CERBT) for the Period Ending December 31, 2020

REMARKS:

A Councilmember asked the following:

"Can you tell us the funded percentage using the December balance? Or give us the last known actuarial OPEB liability value (with date) so we can compare even if the dates do not match?"

Staff's response is provided below:

The 2019 OPEB valuation (Attachment 3) shows an actuarial value of assets (AVA) of \$18,341,000 with a funding level of 67.9%. The valuation also shows AVA and funding projections for 2020 (\$20,259,000/70.9%) and 2021 (\$21,949,000/72.8%). Given the current assets of \$23,560,833, we can assume a funding status northward of 73.0%.

Attachments:

1. CERBT 115 Trust Account Summary as of December 31, 2020
2. CERBT 115 Trust Strategy 1 Performance Report
3. 2019 OPEB Actuarial Valuation pages 13 and 14

PREPARED BY: ARN ANDREWS
ASSISTANT TOWN MANAGER

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

VALUATION RESULTS

Actuarial Obligations

Actuarial Obligations (Amounts in 000's)	6/30/17 Valuation		6/30/19 Valuation		
	Actual 6/30/17	Projected 6/30/19	Actual 6/30/19	Projected 6/30/20	Projected 6/30/21
■ Discount Rate	6.75%	6.75%	6.75%	6.75%	6.75%
■ Present Value of Benefits					
• Actives	\$19,569	n/a	\$19,848	n/a	n/a
• Retirees	<u>15,436</u>	<u>n/a</u>	<u>16,952</u>	<u>n/a</u>	<u>n/a</u>
• Total	35,005	\$37,106	36,800	\$37,794	\$38,814
■ Actuarial Accrued Liability					
• Actives	9,337	n/a	10,065	n/a	n/a
• Retirees	<u>15,436</u>	<u>n/a</u>	<u>16,952</u>	<u>n/a</u>	<u>n/a</u>
• Total	24,773	28,061	27,017	28,568	30,155
■ Actuarial Value of Assets	<u>13,605</u>	<u>17,084</u>	<u>18,341</u>	<u>20,259</u>	<u>21,949</u>
■ Unfunded AAL	11,168	10,977	8,676	8,309	8,206
■ Funded Percentage	54.9%	60.9%	67.9%	70.9%	72.8%
■ Annual Cost for Following Year					
• Normal Cost	1,247	1,323	1,217	1,191	1,171
• PEMHCA Administrative Fees	4	4	2	2	2
• CERBT Administrative Expenses	<u>8</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>11</u>
• Annual Cost	1,259	1,337	1,228	1,203	1,184



March 13, 2020

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VALUATION RESULTS

Actuarial Obligations

June 30, 2019

Actuarial Obligations (Amounts in 000's)	Cash Subsidy	Implicit Subsidy	Total Subsidy
■ Discount Rate	6.75%	6.75%	6.75%
■ Present Value of Benefits			
• Actives	\$16,486	\$3,362	\$19,848
• Retirees	<u>15,694</u>	<u>1,258</u>	<u>16,952</u>
• Total	32,180	4,620	36,800
■ Actuarial Accrued Liability			
• Actives	8,358	1,707	10,065
• Retirees	<u>15,694</u>	<u>1,258</u>	<u>16,952</u>
• Total	24,052	2,965	27,017
■ Actuarial Value of Assets ⁸	<u>16,328</u>	<u>2,013</u>	<u>18,341</u>
■ Unfunded AAL	7,724	952	8,676
■ Annual Cost 2020/21			
• Normal Cost	993	197	1,191
• PEMHCA Administrative Fee	2	n/a	2
• CERBT Administrative Expenses	<u>10</u>	<u>n/a</u>	<u>10</u>
• Annual Cost	1,005	197	1,203

⁸ Actuarial Value of Assets allocated to cash subsidy and implicit subsidy in proportion to Actuarial Accrued Liability.



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

MEETING DATE: 03/30/2021

ITEM NO: 5

DATE: March 22, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive CalPERS Actuarial Review and Presentation by Bartel and Associates

RECOMMENDATION:

Receive CalPERS Actuarial Review and presentation by Bartel and Associates.

BACKGROUND:

The Town's pension plans are administered by the Board of Administration of the California Public Employees' Retirement System (CalPERS). The Board of Administration is responsible for the management and control of CalPERS and maintains exclusive control of the administration and investment of pension funds. In addition, CalPERS actuaries are responsible for the provision of actuarial valuations for the Town's pension plans. Sworn employees are covered under the Safety Plan which is a pooled plan, while all other employees are covered in the Miscellaneous Plan, which is a separate plan. The Miscellaneous Plan is administered by CalPERS in the Public Employees' Retirement Fund (PERF).

Recognizing the importance of the Town's pension obligations and projected increases in future pension costs, starting in 2018 the Town contracted Bartel and Associates to perform an annual review of the actuarial valuation reports provided by CalPERS. Bartel and Associates is an industry leader in providing actuarial related services to California local governments.

DISCUSSION:

The Committee presentation will focus on the status of the Town's pension plans for its Miscellaneous and Safety employees as provided in the Bartel report (Attachment 1) and provide an opportunity for Committee Members to ask questions.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

DISCUSSION (continued):

Bartel and Associates will be discussing the following key issues regarding the Town's pension plans:

- An introduction to actuarial valuations
- An introduction to the development of expected returns
- A Review of 2019 valuations and subsequent projections
- A Review of October 2019 and July 2020 Additional Discretionary Payments (ADPs)
- Recommended amortization bases for future potential ADPs

On March 8, 2021, the Town Finance Commission received the Bartel report and presentation. Commissioners had an opportunity to ask clarifying questions of actuarial assumptions and report development. Areas of note included the development of assumed investment returns and utilization of third-party Capital Market Assumptions. The Commission requested supplemental materials for their next meeting which staff and the consultant will be providing.

CONCLUSION:

Receive CalPERS Actuarial Review and presentation by Bartel and Associates.

COORDINATION:

This report has been coordinated with the Town Manager and the Director of Finance.

FISCAL IMPACT:

None.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachment:

1. Bartel and Associates CalPERS Actuarial Review Report



BARTHEL
ASSOCIATES, LLC

TOWN OF LOS GATOS
MISCELLANEOUS AND SAFETY PLANS

CalPERS Actuarial Issues – 6/30/19 Valuation
Final Results

Bartel Associates, LLC

Bianca Lin, Assistant Vice President

Joseph R. D’Onofrio, Assistant Vice President

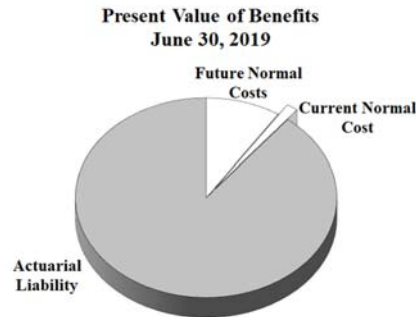
Tina Liu, Associate Actuary

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DEFINITIONS



- **Present Value of Benefits (PVB):**
 - Discounted value at valuation date (6/30/19) of all future expected benefit payments using various actuarial assumptions
- **Normal Cost (NC):**
 - Portion of PVB allocated to (or “earned” during) year following valuation date
- **Actuarial Accrued Liability (AAL):**
 - Discounted value at valuation date of benefits “earned” through valuation date (value of past normal costs)

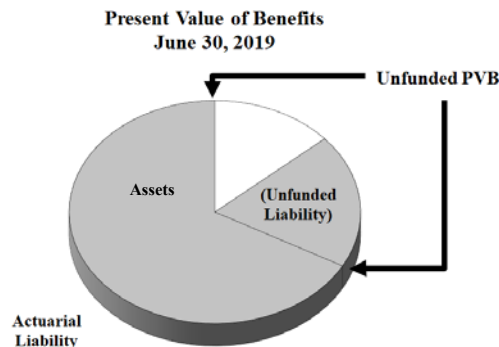


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DEFINITIONS



- **Funding Target** - Have plan assets equal to Actuarial Accrued Liability
- **Unfunded Liability (UAAL or UAL)** - Assets short of target at valuation date
 - Difference between AAL and plan assets is the unfunded (or overfunded) AAL
 - The change in this difference creates a new UAAL layer or amortization base at each valuation date

Each new UAAL layer gets amortized (paid off) over a period of time as part of the employer contribution



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HOW WE GOT HERE

- Investment Losses
- CalPERS Contribution Policy
- Enhanced Benefits
- Demographics



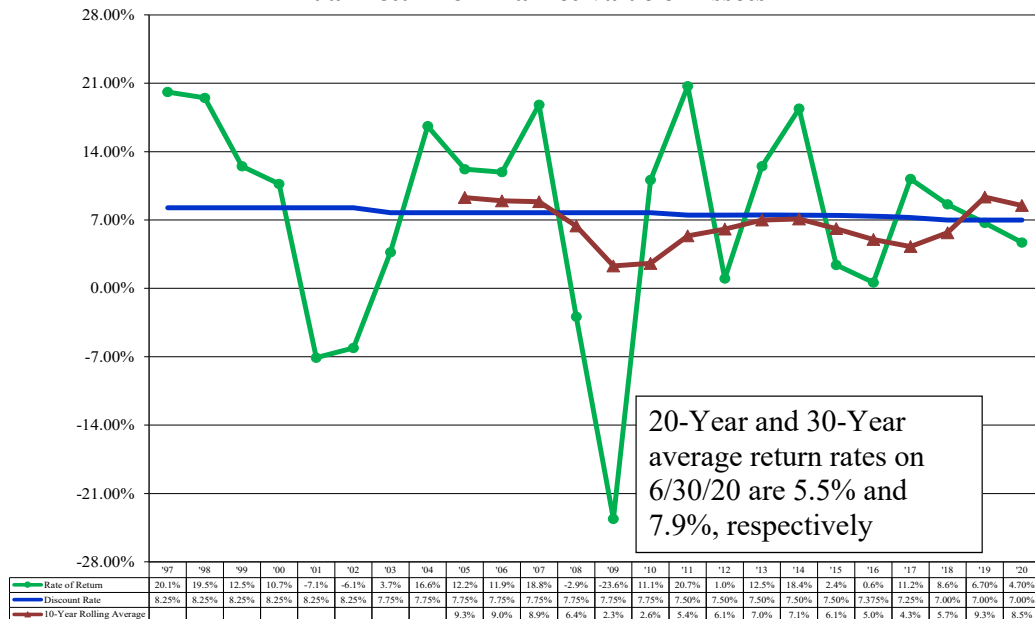
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HOW WE GOT HERE – INVESTMENT RETURN

Annual Return on Market Value of Assets



Returns (after 2001) shown are gross returns, unreduced for administrative expenses, from CalPERS valuation reports, when available. The discount rate is based on expected returns net of administrative expenses.



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HOW WE GOT HERE – OLD CONTRIBUTION POLICY

- Effective with 2003 valuations:
 - Slow 15-year recognition of investment losses in actuarial value of assets and funded status
 - Rolling 30-year amortization of all experience losses in employer contribution (further delay of investment loss recognition)
- Designed to:
 - First smooth employer contribution rates
 - Secondly to pay off UAAL



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HOW WE GOT HERE – ENHANCED BENEFITS

- At CalPERS, enhanced benefits implemented using all (future & prior) service
- Typically not negotiated with cost-sharing

Town of Los Gatos	Tier 1	Tier 2	PEPRA
● Miscellaneous	2.5%@55 FAC1	2%@60 FAC3 9/15/12	2%@62 FAC3
● Safety	3%@50 FAC1	N/A	2.7%@57 FAC3

- Note:
 - ☐ FAC1 is highest one-year (typically final) average earnings
 - ☐ FAC3 is highest three-year (typically final three) average earnings
- PEPRA tier implemented for new members hired after 1/1/13
 - Employee pays half of total normal cost
 - 2021 compensation limit
 - ☐ Social Security participants: \$128,059
 - ☐ Non-Social Security participants: \$153,671

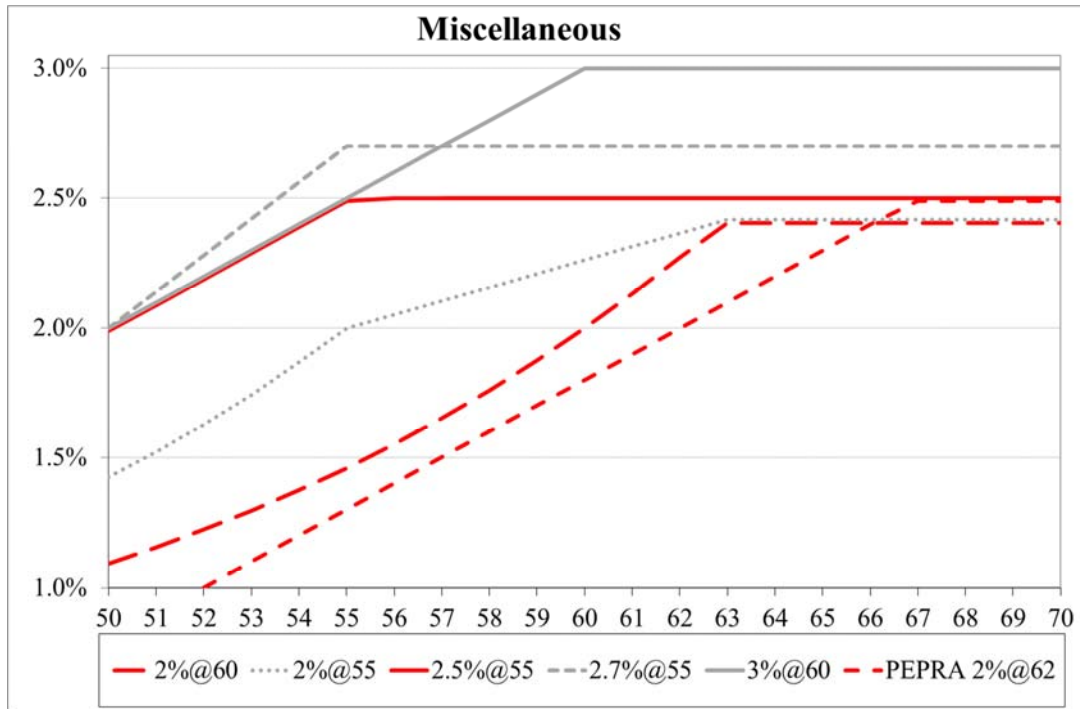


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HOW WE GOT HERE – ENHANCED BENEFITS

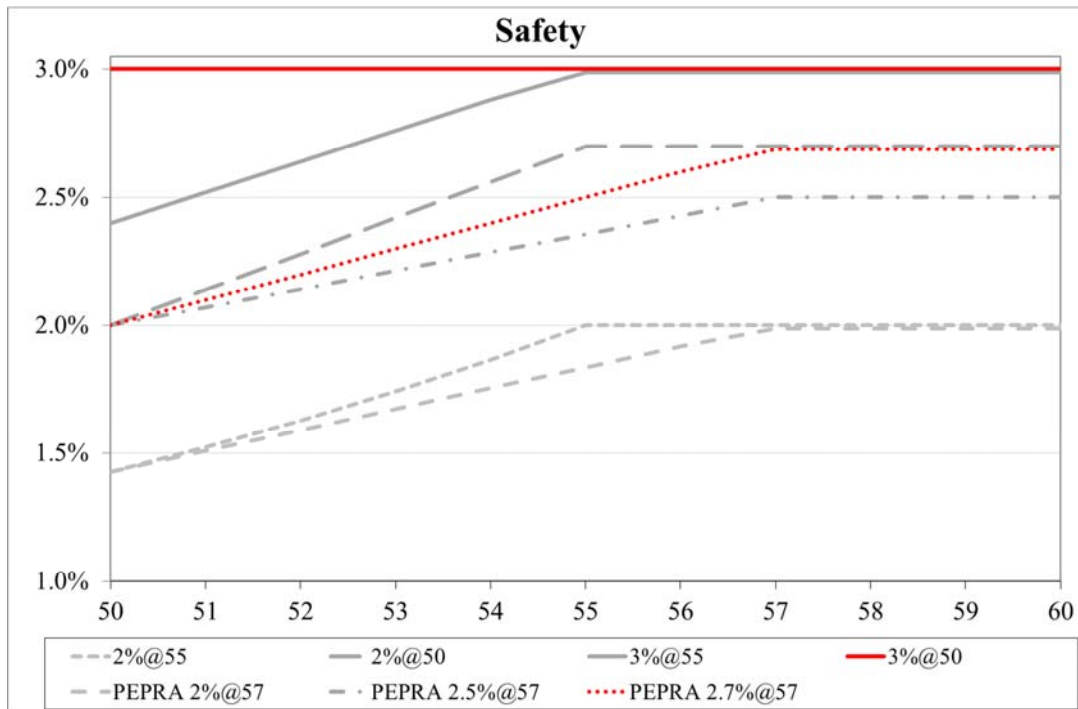


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HOW WE GOT HERE – ENHANCED BENEFITS



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HOW WE GOT HERE – DEMOGRAPHIC

- All California CalPERS agencies:
 - Increasing number of retirees relative active employees
 - Increasing retiree liability
 - June 30, 2019: 57% for Miscellaneous, 66% for Safety
 - Higher percentage of retiree liability increases contribution volatility

- Town of Los Gatos retirees:

Plan	Ret AAL/Tot AAL	Retirees/Actives	Actives/Retirees
Miscellaneous	65%	2.1	0.5
Safety	72%	2.2	0.5

- Town of Los Gatos retirees plus inactives (transferred & terminated members):

Plan	Ret AAL/Tot AAL	Inactives/Actives	Actives/Inactives
Miscellaneous	77%	3.7	0.3
Safety	75%	2.6	0.4



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CALPERS CHANGES

- Recent contribution policy changes:
 - June 30, 2013 valuations for 2015/16 contributions
 - No asset smoothing
 - No rolling amortization
 - 5-year ramp up and down
- Recent discount rate changes:

	<u>Rate</u>	<u>Initial Impact</u>	<u>Full Impact</u>
● 6/30/16 valuation	7.375%	18/19	22/23
● 6/30/17 valuation	7.25%	19/20	23/24
● 6/30/18 valuation	7.00%	20/21	24/25
- New amortization policy:
 - June 30, 2019 valuations for 2021/22 contributions
 - Applies only to newly established amortization bases
 - Fixed dollar (level) amortization rather than % pay (escalating)
 - Amortize gains/losses over 20 rather than 30 years
 - 5-year ramp up (not down) for investment gains and losses
 - No ramp up/down for other amortization bases
 - Minimizes total interest paid over time and pays off UAAL faster



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CALPERS CHANGES

■ Risk Mitigation Strategy

- Move to more conservative investments over time to reduce volatility
- Only when investment return is better than expected
- Lower discount rate in concert
- Essentially use ≈50% of investment gains to pay for cost increases
- Likely get to 6% discount rate over 20+ years
- Risk mitigation suspended from 6/30/16 to 6/30/18 valuations
- Did not trigger for 6/30/19 valuation
- Will not trigger for 6/30/20 valuation

Excess Earnings	Discount Rate Reduction
2%	5 bp
7%	10 bp
10%	15 bp
13%	20 bp
17%	25 bp

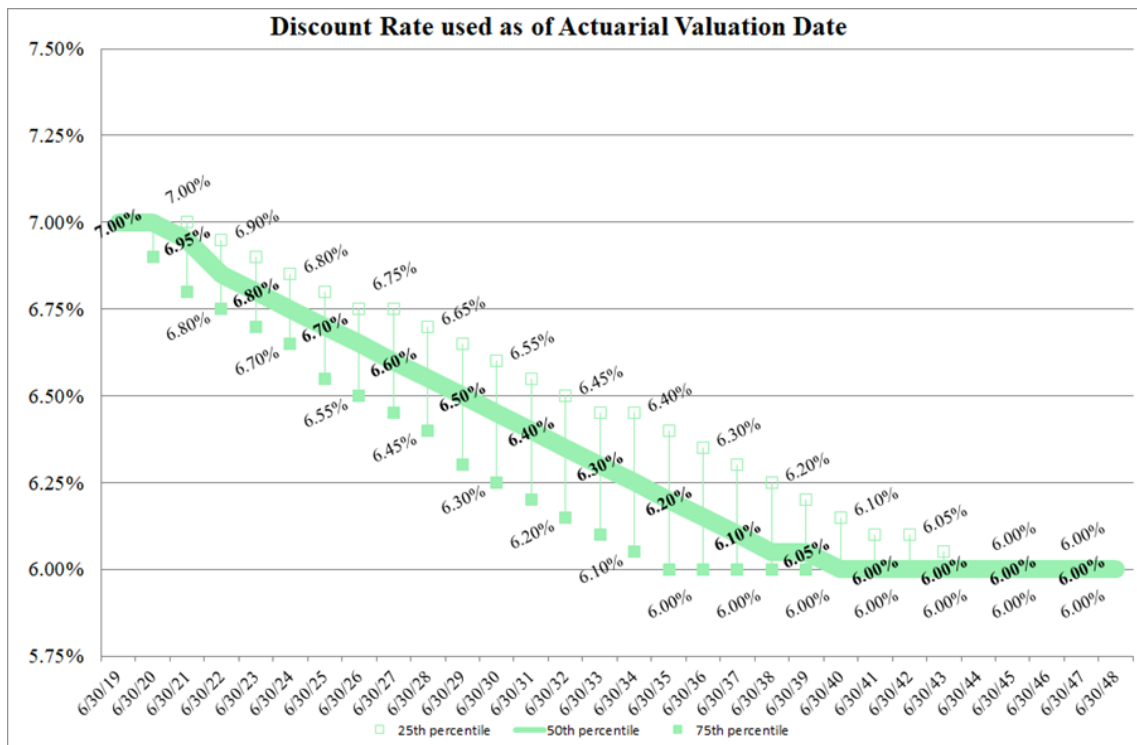


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CALPERS CHANGES



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SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	1999	2009	2018	2019
Actives				
■ Counts	118	119	113	116
■ Average				
• Age	45	47	43	44
• Town Service	10	10	7	8
• PERSable Wages	\$ 47,800	\$ 76,500	\$ 88,000	\$ 93,900
■ Total PERSable Wages	5,600,000	9,100,000	9,900,000	10,900,000
Inactive Members				
■ Counts				
• Transferred	67	78	99	94
• Separated	53	81	87	94
• Retired				
□ Service	97	159	203	208
□ Disability	8	11	12	12
□ Beneficiaries	14	22	21	21
□ Total	119	192	236	241
■ Average Annual Town Provided Benefit for Service Retirees ¹	\$ 8,300	\$ 16,000	\$ 25,700	\$ 25,900

¹ Average Town-provided benefit is based on Town service and Town benefit formulas and is not representative of total benefits for long-service employees employed at multiple agencies.

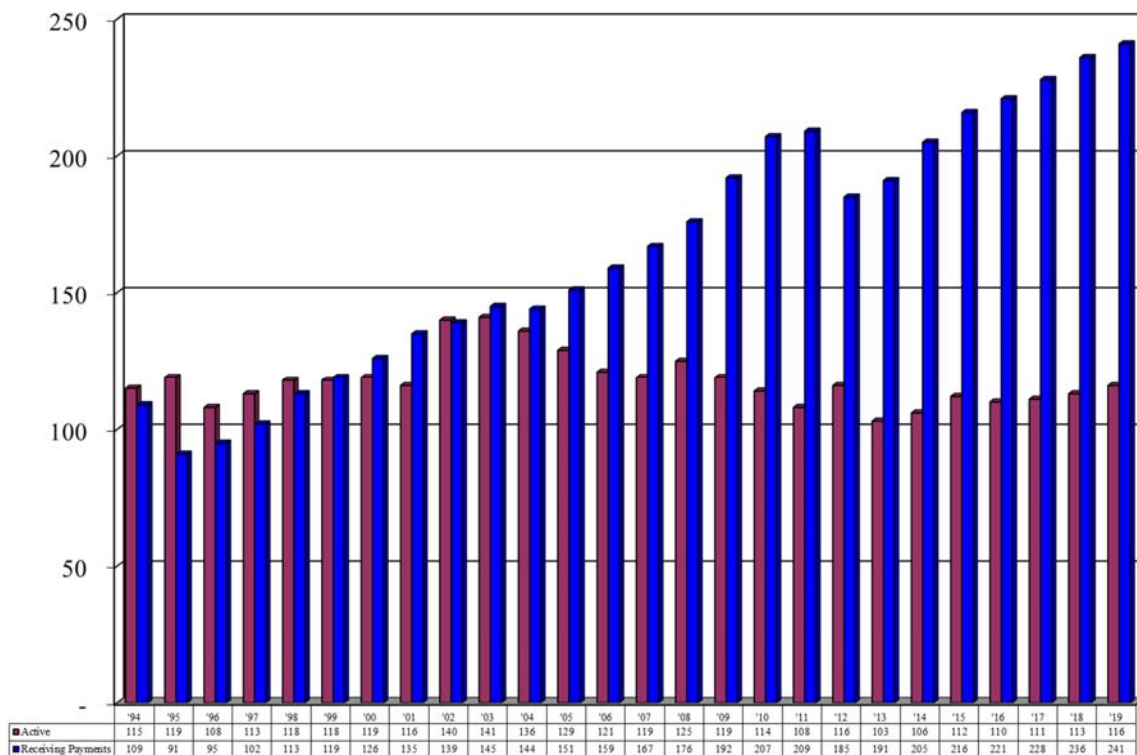


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SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS



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PLAN FUNDED STATUS - MISCELLANEOUS

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$22,300,000	\$26,200,000
● Retiree	70,700,000	72,300,000
● Inactive	<u>14,100,000</u>	<u>13,600,000</u>
● Total	107,100,000	112,100,000
■ Assets	<u>73,300,000</u>	<u>76,100,000</u>
■ Unfunded Liability	33,800,000	36,000,000
■ Funded Ratio	68.4%	67.9%
■ Average Funded Ratio for CalPERS Public Agency Miscellaneous Plans²	71.8%	72.2%

² Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



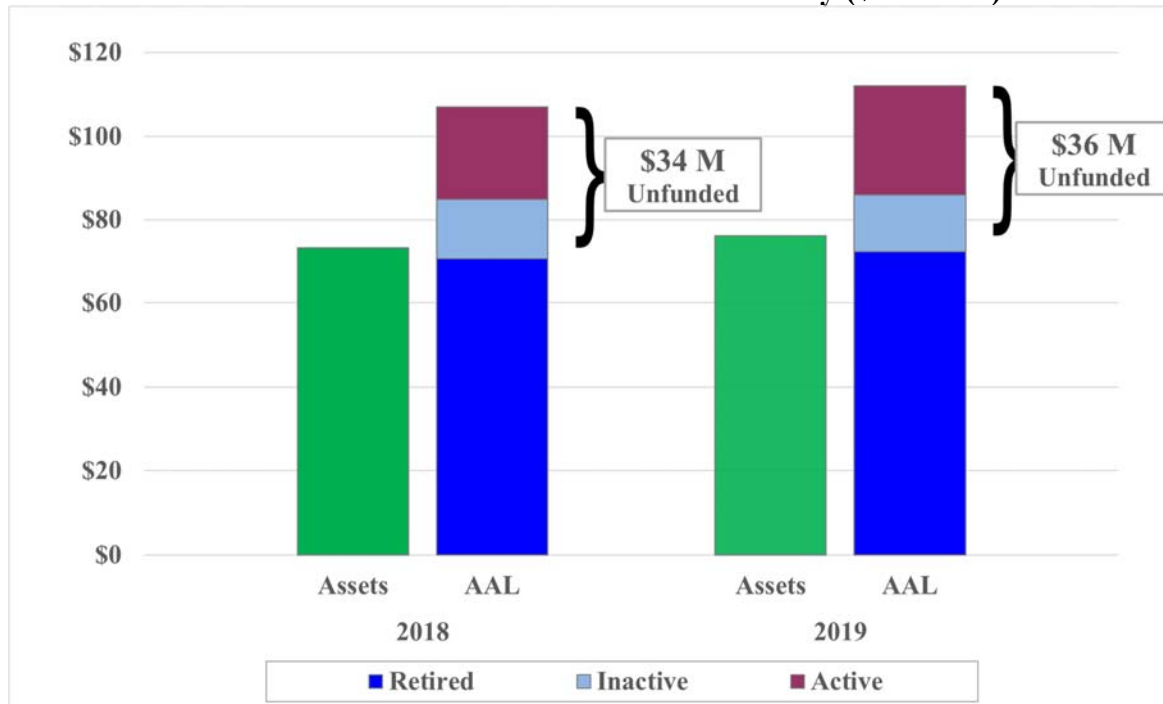
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PLAN FUNDED STATUS - MISCELLANEOUS

Town CalPERS Assets and Actuarial Liability (\$Millions)



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PLAN FUNDED STATUS - MISCELLANEOUS

Discount Rate Sensitivity

June 30, 2019

	<u>Discount Rate</u>		
	<u>7.00%</u>	<u>6.50%³</u>	<u>6.00%</u>
AAL	\$112,100,000	\$119,300,000	\$126,500,000
Assets	<u>76,100,000</u>	<u>76,100,000</u>	<u>76,100,000</u>
Unfunded Liability	36,000,000	43,200,000	50,400,000
Funded Ratio	67.9%	63.8%	60.2%

³ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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PLAN FUNDED STATUS - MISCELLANEOUS

Unfunded Accrued Liability Changes

■ Unfunded Accrued Liability on 6/30/18	\$ 33,800,000
■ Expected 6/30/19 Unfunded Accrued Liability	34,300,000
■ Other Changes	
• Asset Loss (Gain) (6.6% return for FY 2019)	400,000
• Contribution & Experience Loss (Gain)	<u>1,300,000</u>
• Total	<u>1,700,000</u>
■ Unfunded Accrued Liability on 6/30/19	36,000,000
■ Projected Unfunded Accrued Liability on 6/30/20	37,900,000
■ Projected Funded Ratio on 6/30/20⁴	75%

⁴ 6/30/20 funded status estimated – included \$4,753,965 and \$3,580,365 made October 2019 and July 2020, respectively.

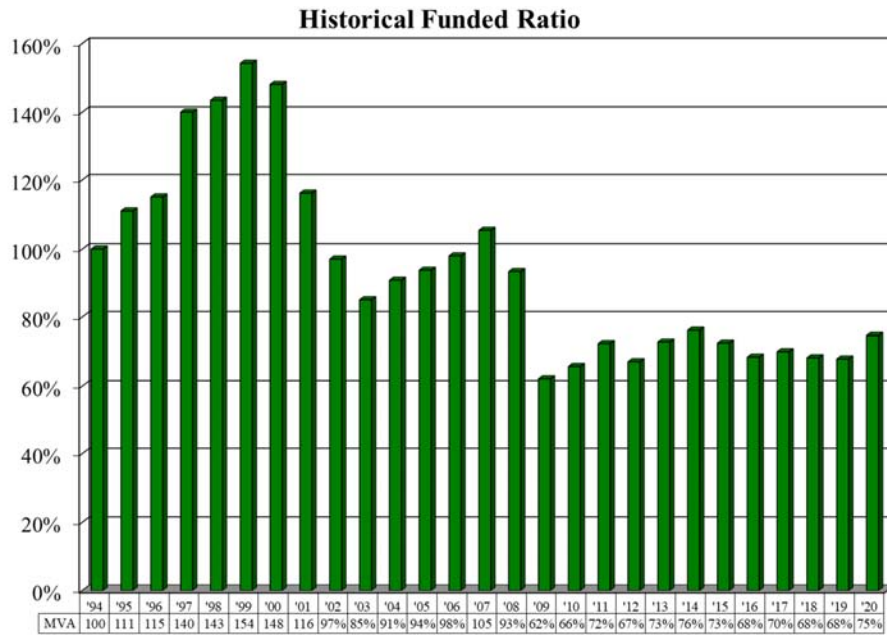


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FUNDED RATIO - MISCELLANEOUS



6/30/20 funded status estimated – included \$4,753,965 and \$3,580,365 made October 2019 and July 2020, respectively.

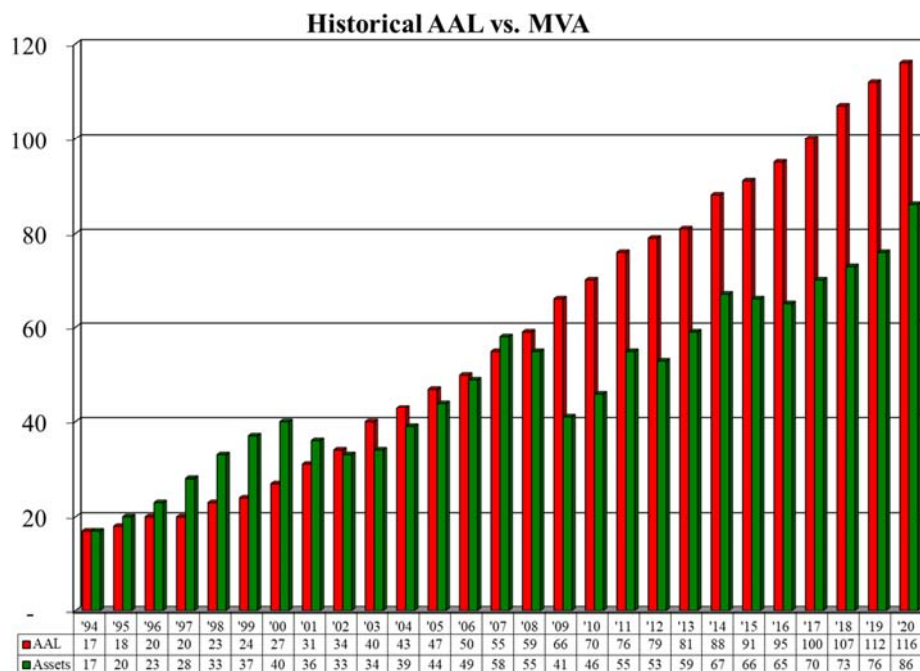


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FUNDED STATUS (MILLIONS) - MISCELLANEOUS



6/30/20 Assets included \$4,753,965 and \$3,580,365 made October 2019 and July 2020, respectively.



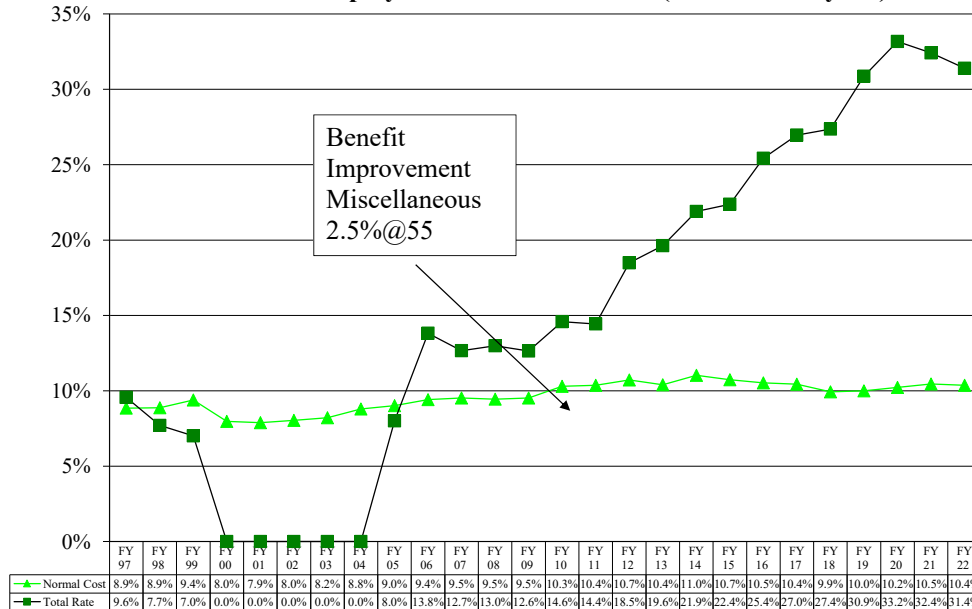
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CONTRIBUTION RATES - MISCELLANEOUS

Historical Employer Contribution Rates (Percent of Payroll)



FY21 & FY22 Total Rates reflect Additional Discretionary Payments (ADPs) of \$4,753,965 made October 2019 and \$3,580,365 made July 2020.



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CONTRIBUTION RATES - MISCELLANEOUS

	6/30/18	6/30/19
	<u>2020/2021</u>	<u>2021/2022</u>
■ Total Normal Cost	17.9%	17.8%
■ Employee Normal Cost	<u>7.5%</u>	<u>7.4%</u>
■ Employer Normal Cost	10.5%	10.4%
■ Amortization Payments ⁵	<u>22.0%</u>	<u>21.0%</u>
■ Total Employer Contribution Rate	32.4%	31.4% ⁶
■ 2020/21 Employer Contribution Rate		32.4%
● Payroll More Than Expected		-1.5%
● 6/30/16 Discount Rate Change (4 th Year)		0.3%
● 6/30/17 Discount Rate & Inflation (3 rd Year)		0.3%
● 6/30/18 Discount Rate change (2 nd Year)		0.6%
● Lump Sum Payment July 2020		-2.1%
● Other (Gains)/Losses		<u>1.4%</u>
■ 2021/22 Employer Contribution Rate		31.4%

⁵ Reflects \$4,753,965 ADP made October 2019 and \$3,580,365 ADP made July 2020.

⁶ Average CalPERS agency Miscellaneous 2021-22 employer contribution rate is 27.4%. Individual agency and average employer contribution rates depend on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

■ Market Value Investment Return:

- June 30, 2020 4.7%⁷
 - Future returns based on stochastic analysis using 1,000 trials⁸
- | <u>Single Year Returns at⁹</u> | <u>25th Percentile</u> | <u>50th Percentile</u> | <u>75th Percentile</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Current Investment Mix | 0.1% | 7.0% | 14.8% |
| Ultimate Investment Mix | 0.8% | 6.0% | 11.4% |
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 8 years and higher beyond that.

■ Discount Rate decreases due to Risk Mitigation policy

■ No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements

■ Different from CalPERS projection. Our projections include:

- Actual 2019/20 investment return
- Lower expected return for next 8 years
- Impact of risk mitigation
- Possibly different PEPRA new hire assumptions

⁷ Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

⁸ Future returns are assumed net of investment and administrative expenses

⁹ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

■ New hire assumptions:¹⁰

- 95% of 2020/21 new hires are PEPRA members and 5% are Classic members
- Percentage of PEPRA member future hires to increase from 95% to 100% over 2 years

■ 6/30/19 employee distribution:

Benefit Tier	Count	6/30/19 Payroll
● 2.5%@55 FAC1	39	3,921,893
● 2%@60 FAC3	25	3,106,958
● 2%@62 FAC3 (PEPRA)	39	3,860,616

■ Additional discretionary payments reflected:

- \$4,753,965 made October 18, 2019 towards 6/30/16 base
- \$3,580,365 made July 7, 2020 towards 6/30/15 and 6/30/13 bases

¹⁰ Based on experience from sample CalPERS agencies.

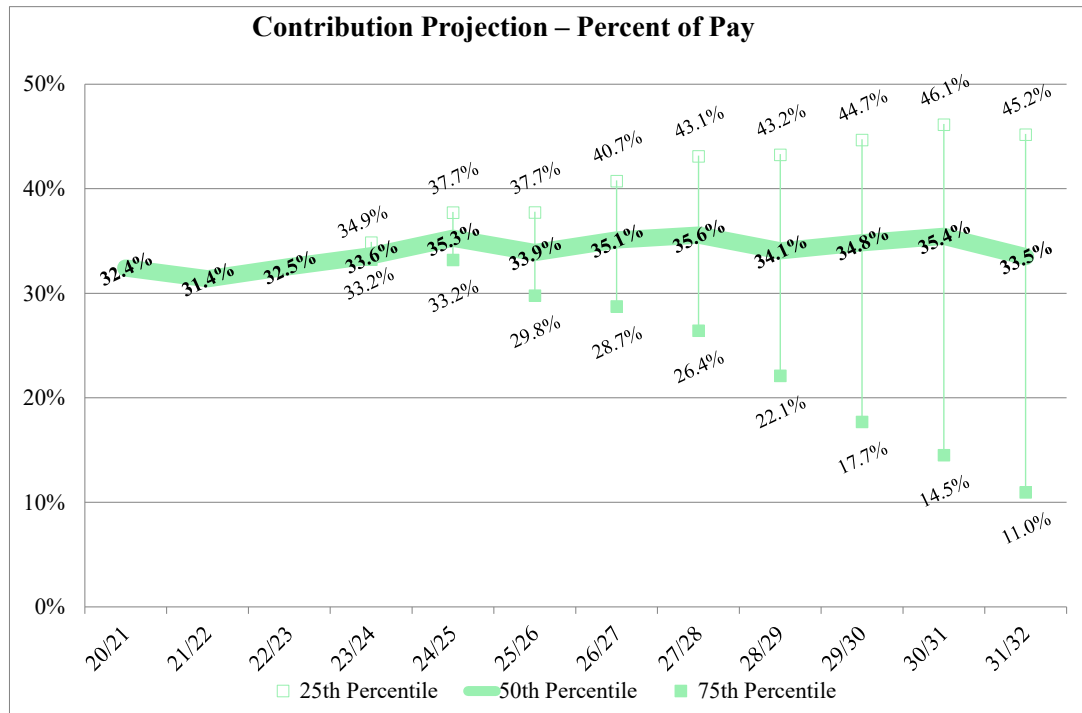


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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

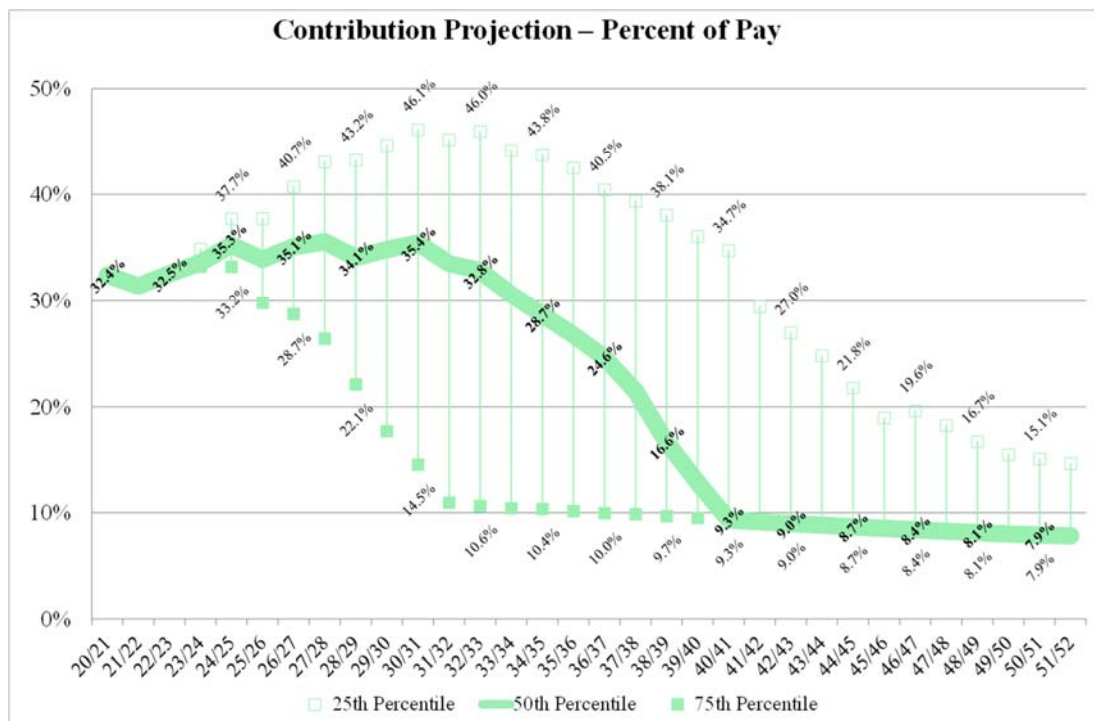


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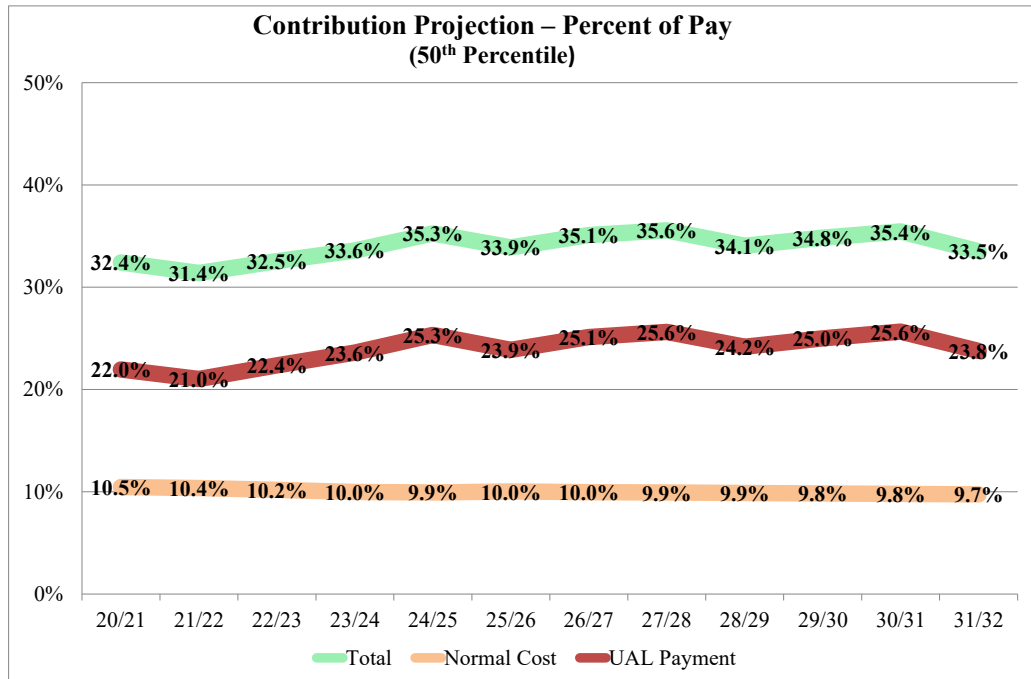


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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

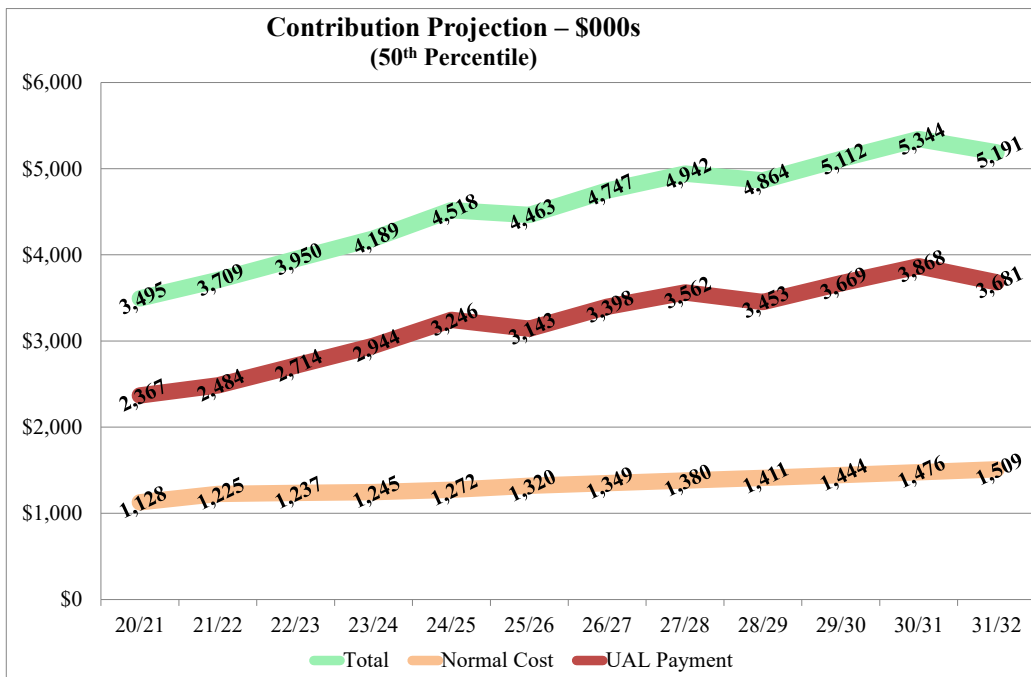


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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

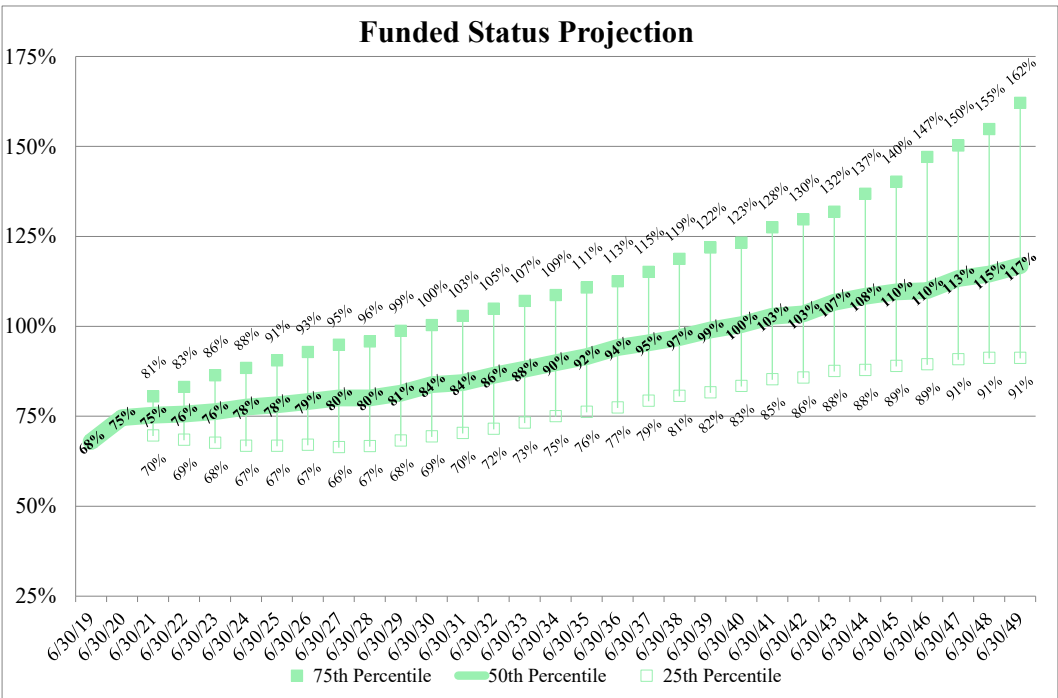


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FUNDED STATUS - MISCELLANEOUS



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FUNDED STATUS - MISCELLANEOUS

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March 23, 2021



SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY

	1999	2009	2018	2019
Actives				
■ Counts	41	41	37	38
■ Average PERSable Wages	\$ 69,400	\$120,100	\$ 134,700	\$ 146,900
■ Total PERSable Wages	2,800,000	4,900,000	5,000,000	5,600,000
Inactive Members				
■ Counts				
• Transferred	16	20	13	12
• Separated	10	4	2	2
• Receiving Payments	23	49	79	83

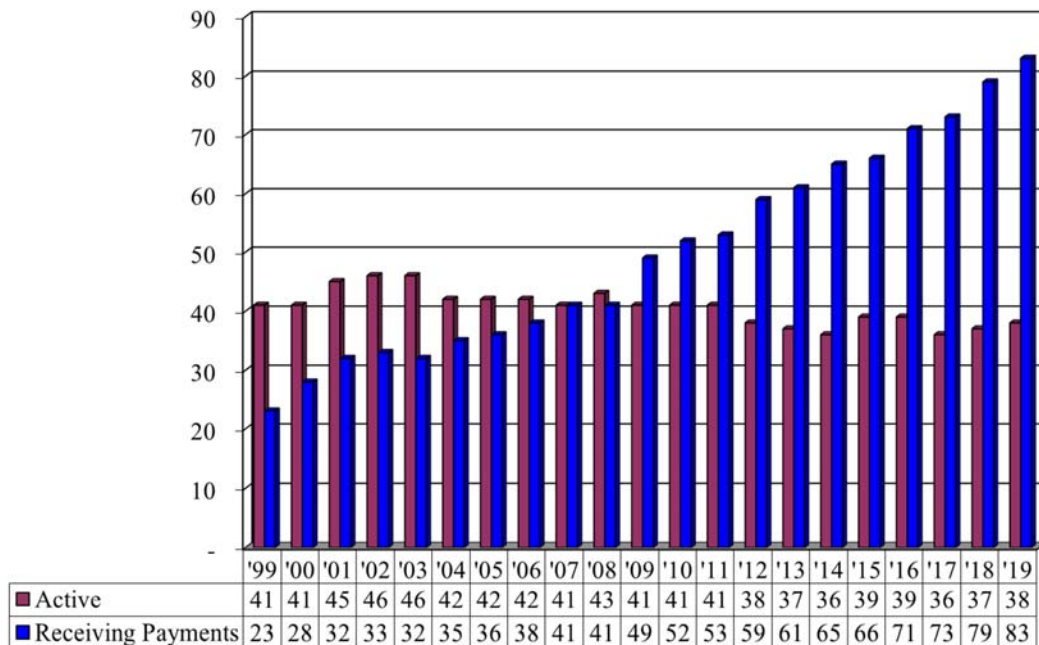


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SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY



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PLAN FUNDED STATUS - SAFETY

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$21,300,000	\$23,700,000
● Retiree	67,200,000	69,800,000
● Inactive	<u>3,000,000</u>	<u>3,000,000</u>
● Total	91,500,000	96,500,000
■ Assets	<u>65,900,000</u>	<u>69,500,000</u>
■ Unfunded Liability	25,600,000	27,000,000
■ Funded Ratio	72.1%	72.0%
■ Average Funded Ratio for CalPERS Public Agency Safety Plans¹¹	68.3%	68.6%

¹¹ Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



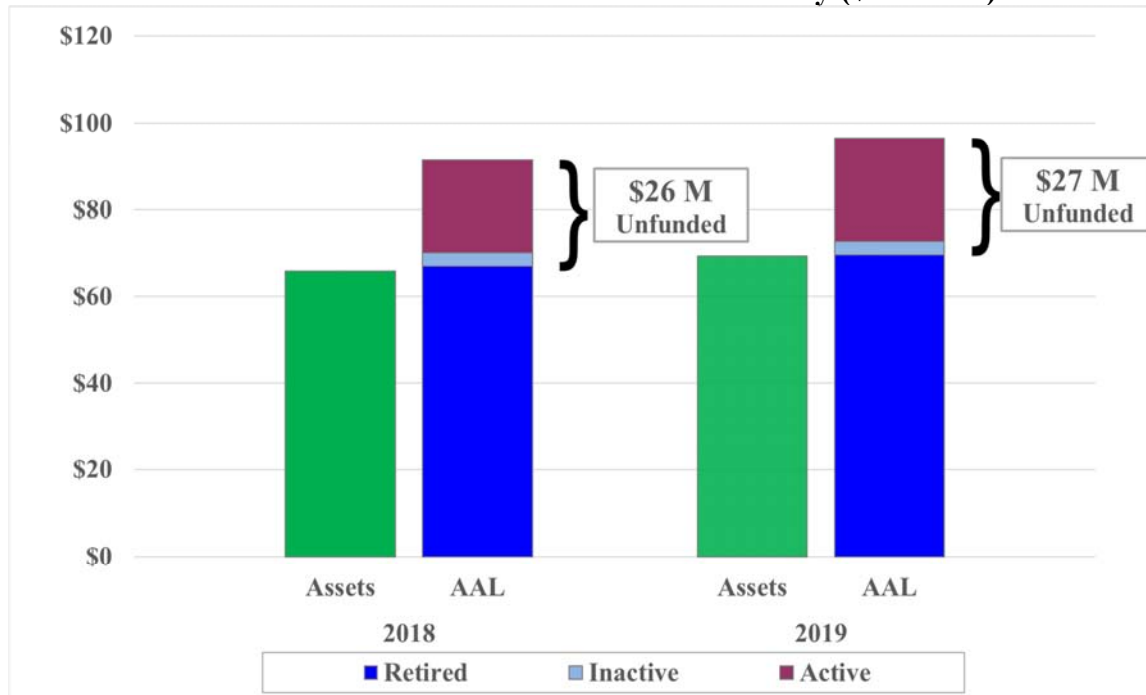
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PLAN FUNDED STATUS - SAFETY

Town CalPERS Assets and Actuarial Liability (\$Millions)



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PLAN FUNDED STATUS - SAFETY

Discount Rate Sensitivity

June 30, 2019

	Discount Rate		
	<u>7.00%</u>	<u>6.50%¹²</u>	<u>6.00%</u>
AAL	\$96,500,000	\$103,100,000	\$109,700,000
Assets	<u>69,500,000</u>	<u>69,500,000</u>	<u>69,500,000</u>
Unfunded Liability	27,000,000	33,600,000	40,200,000
Funded Ratio	72.0%	67.4%	63.4%

¹² Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)

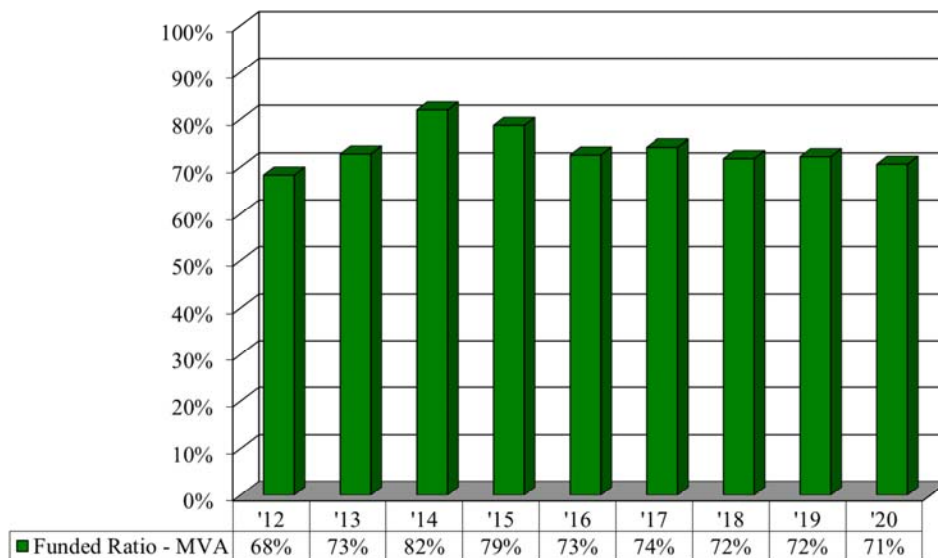


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FUNDED RATIO - SAFETY



6/30/20 funded status estimated

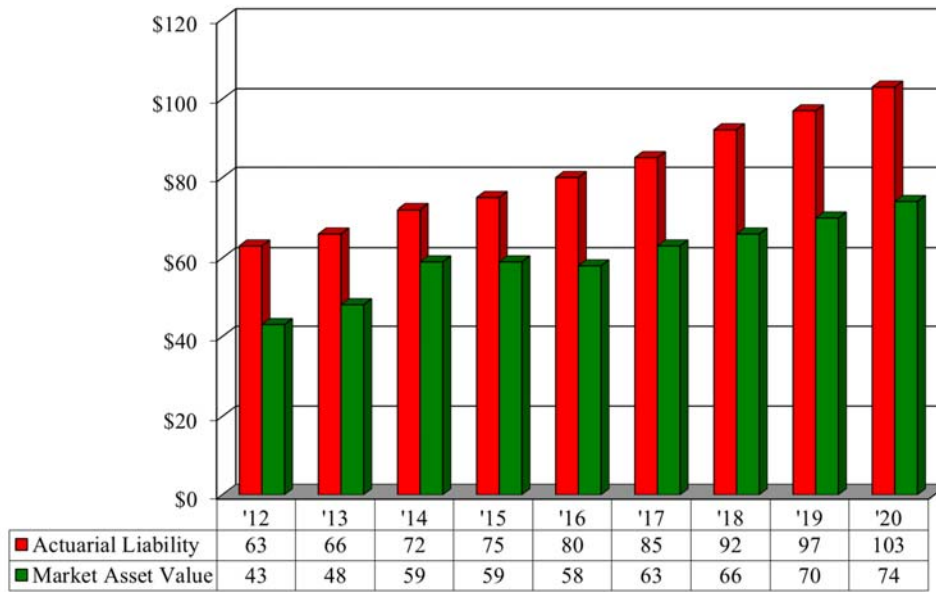


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FUNDED STATUS (MILLIONS) - SAFETY



6/30/20 funded status estimated

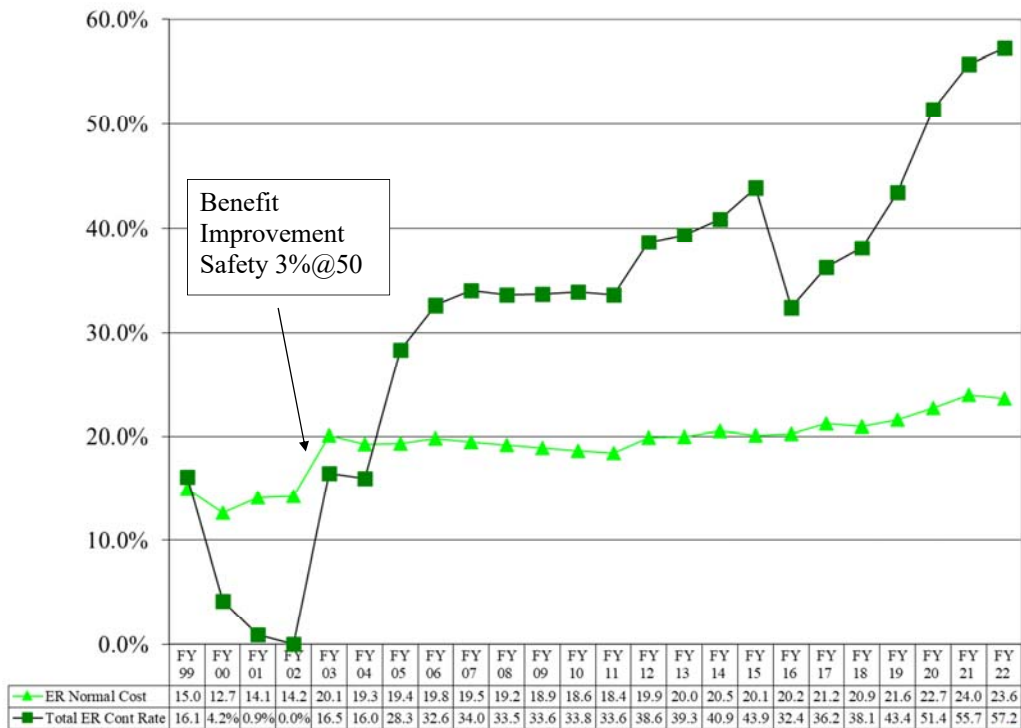


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FUNDED STATUS (MILLIONS) - SAFETY



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CONTRIBUTION RATES - SAFETY

	6/30/19 Valuation		
	<u>2021/2022 Contribution Rates</u>		
	<u>Total</u>¹³	<u>Tier 1</u>	<u>PEPRA</u>
		3%<u>@50</u>	2.7%<u>@57</u>
■ Base Total Normal Cost	30.5%	31.5%	26.1%
■ Class 1 Benefits			
● Final One Year Compensation	1.1%	1.2%	-
● PRSA	<u>1.8%</u>	<u>1.9%</u>	<u>1.6%</u>
■ Total Normal Cost	33.4%	34.6%	27.7%
■ Formula's Expected EE Contribution Rate	<u>9.8%</u>	<u>9.0%</u>	<u>13.7%</u>
■ ER Normal Cost	23.6%	25.6%	14.0%
■ Amortization Payment	33.6%	40.3%	1.7%
■ Amortization of Side Fund	-	-	-
■ Total ER Contribution	57.2%	65.9%	15.7%
■ Employee counts	38	30	8
■ Projected 2021/22 employee payroll (000's)	\$ 6,055	\$ 5,006	\$ 1,049
■ Total ER Contribution \$ (in 000's)	\$ 3,466	\$ 3,301	\$ 165

¹³ Weighting of total contribution based on projected classic and PEPRA payrolls



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CONTRIBUTION RATES - SAFETY

	<u>6/30/18</u>	<u>6/30/19</u>
	<u>2020/2021</u>	<u>2021/2022</u>
■ Total Normal Cost	33.6%	33.4%
■ Employee Normal Cost	<u>9.6%</u>	<u>9.8%</u>
■ Employer Normal Cost	23.9%	23.6%
■ Amortization Payments	<u>31.8%</u>	<u>33.6%</u>
■ Total Employer Contribution Rate	55.7%	57.2% ¹⁴
■ 2020/21 Employer Contribution Rate		55.7%
● Payroll More Than Expected		-2.7%
● 6/30/16 Discount Rate Change (4 th Year)		0.6%
● 6/30/17 Discount Rate & Inflation (3 rd Year)		0.7%
● 6/30/18 Discount Rate change (2 nd Year)		1.1%
● Other (Gains)/Losses		<u>1.8%</u>
■ 2021/22 Employer Contribution Rate		57.2%

¹⁴ CalPERS valuation results before reflecting EPMC. Average CalPERS agency Safety 2021-22 employer contribution rate is 53.5%. Individual agency and average employer contribution rates depend on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



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CONTRIBUTION PROJECTIONS – SAFETY

■ Market Value Investment Return:

- June 30, 2020 4.7%¹⁵
 - Future returns based on stochastic analysis using 1,000 trials¹⁶
- | <u>Single Year Returns at</u> ¹⁷ | <u>25th Percentile</u> | <u>50th Percentile</u> | <u>75th Percentile</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Current Investment Mix | 0.1% | 7.0% | 14.8% |
| Ultimate Investment Mix | 0.8% | 6.0% | 11.4% |
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 8 years and higher beyond that.

■ Discount Rate decreases due to Risk Mitigation policy

■ No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements

■ Different from CalPERS projection. Our projections include:

- Actual 2019/20 investment return
- Lower expected return for next 8 years
- Impact of risk mitigation
- Possibly different PEPRA new hire assumptions

¹⁵ Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

¹⁶ Future returns are assumed net of investment and administrative expenses

¹⁷ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS – SAFETY

■ New hire assumptions¹⁸:

- 95% of 2020/21 new hires are PEPRA members and 5% are Classic members
- Percentage of PEPRA member future hires to increase from 95% to 100% over 2 years

■ 6/30/19 employee distribution:

Benefit Tier	Count	6/30/19 Payroll
● 3%@50 FAC1	30	\$4,614,993
● 2.7%@57 FAC3 (PEPRA)	8	967,007

■ EE Cost Sharing of Employer Contribution:

- 3% employee share for Classic members

¹⁸ Based on experience from sample CalPERS agencies

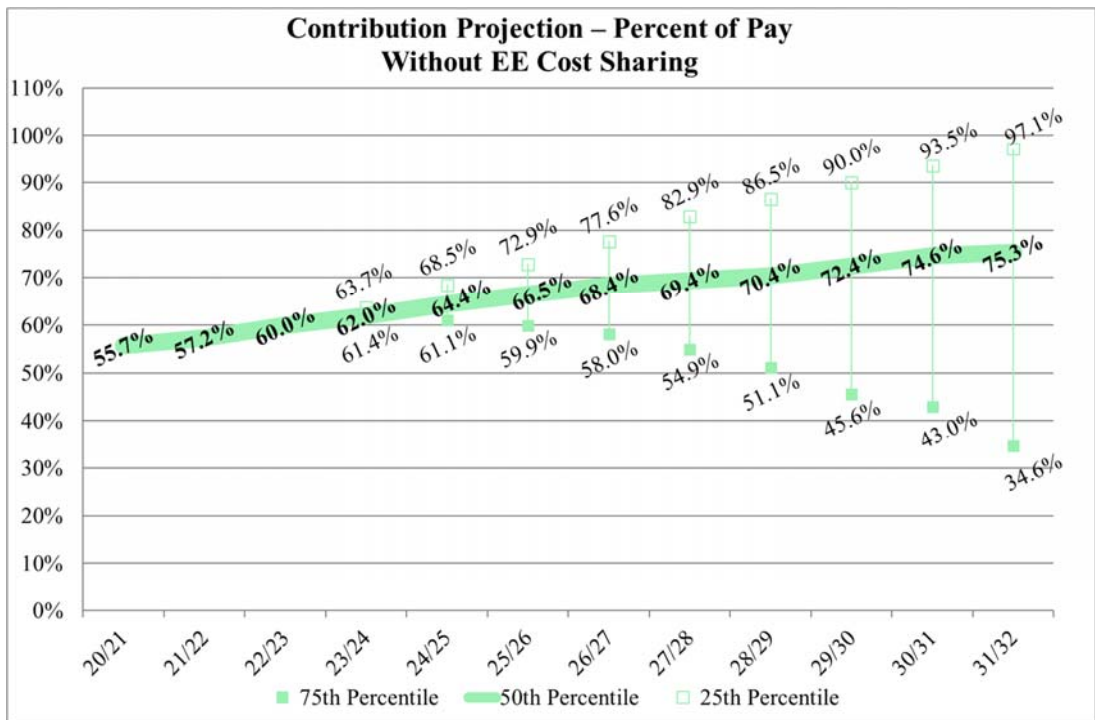


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CONTRIBUTION PROJECTIONS – SAFETY

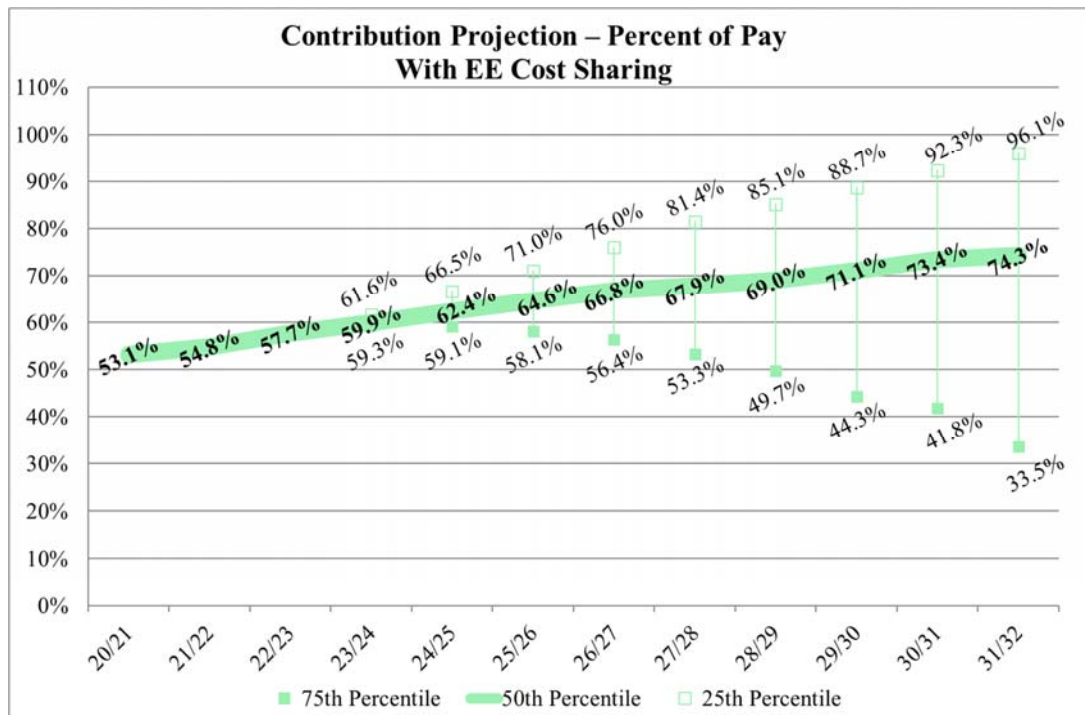


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CONTRIBUTION PROJECTIONS – SAFETY

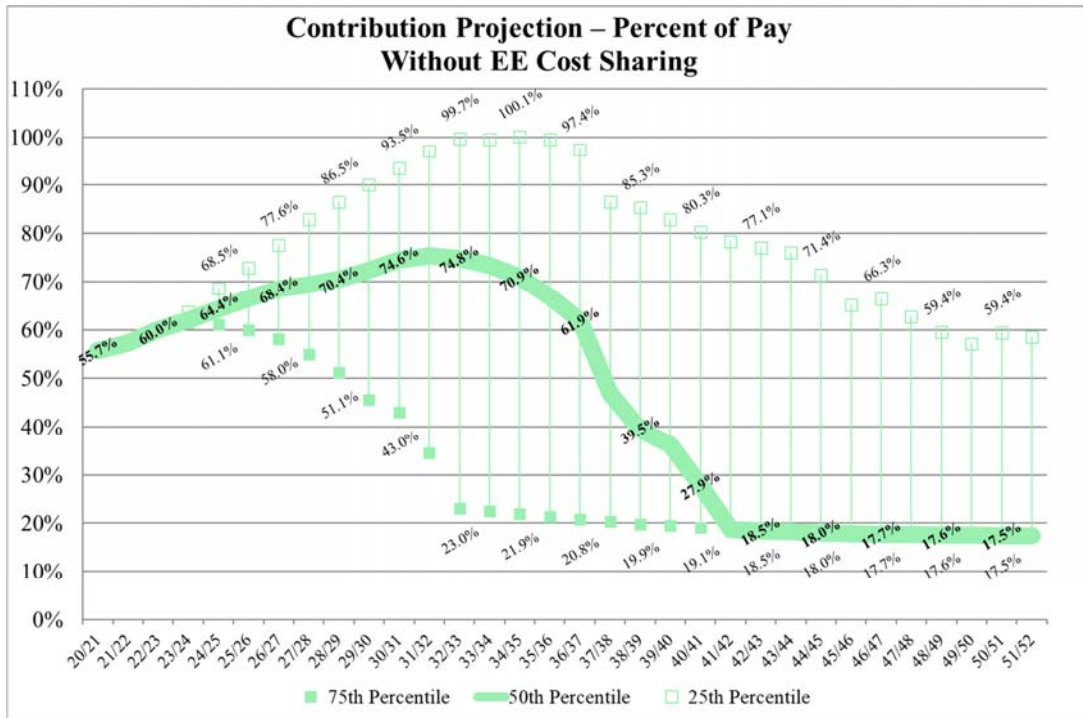


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CONTRIBUTION PROJECTIONS – SAFETY

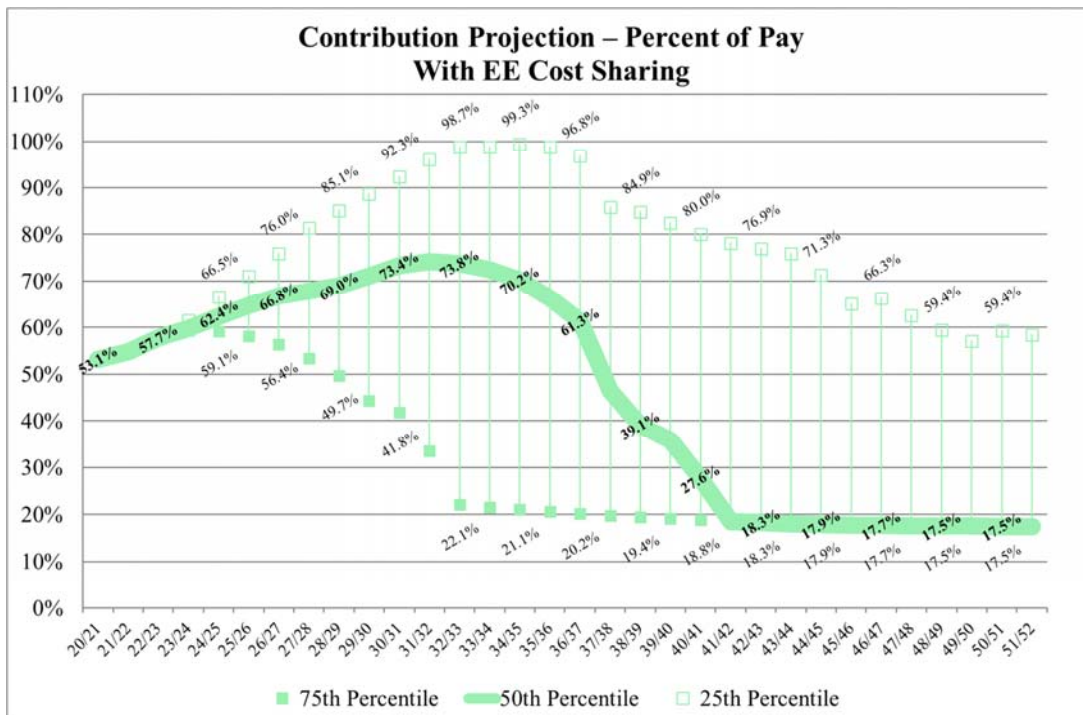


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CONTRIBUTION PROJECTIONS – SAFETY

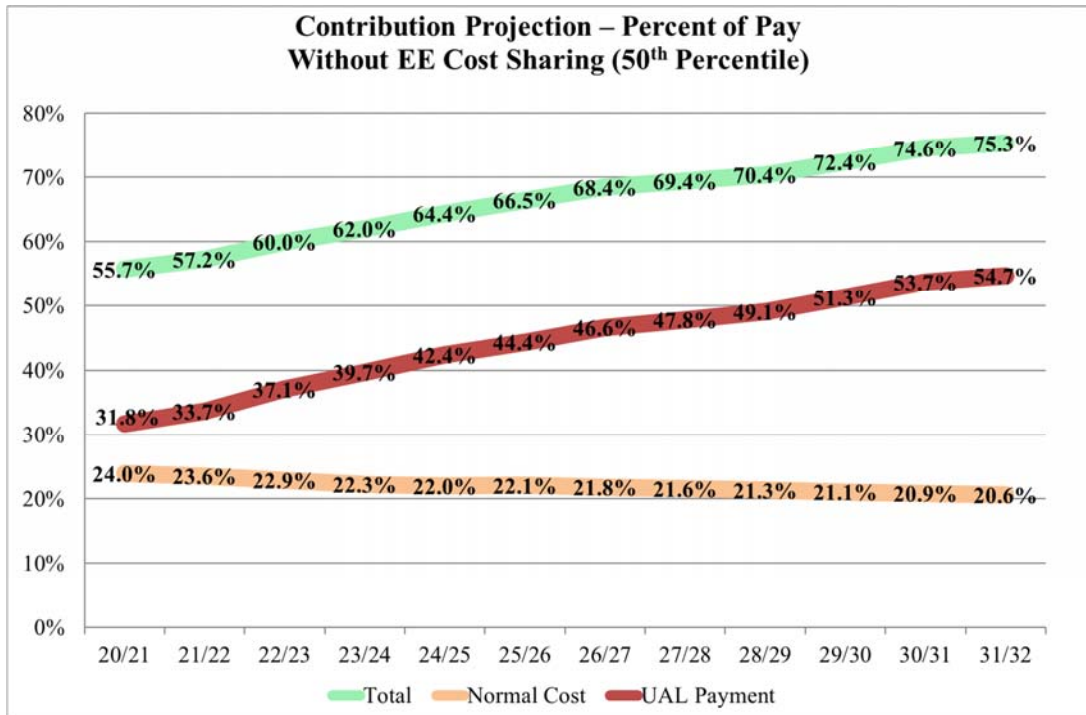


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CONTRIBUTION PROJECTIONS – SAFETY

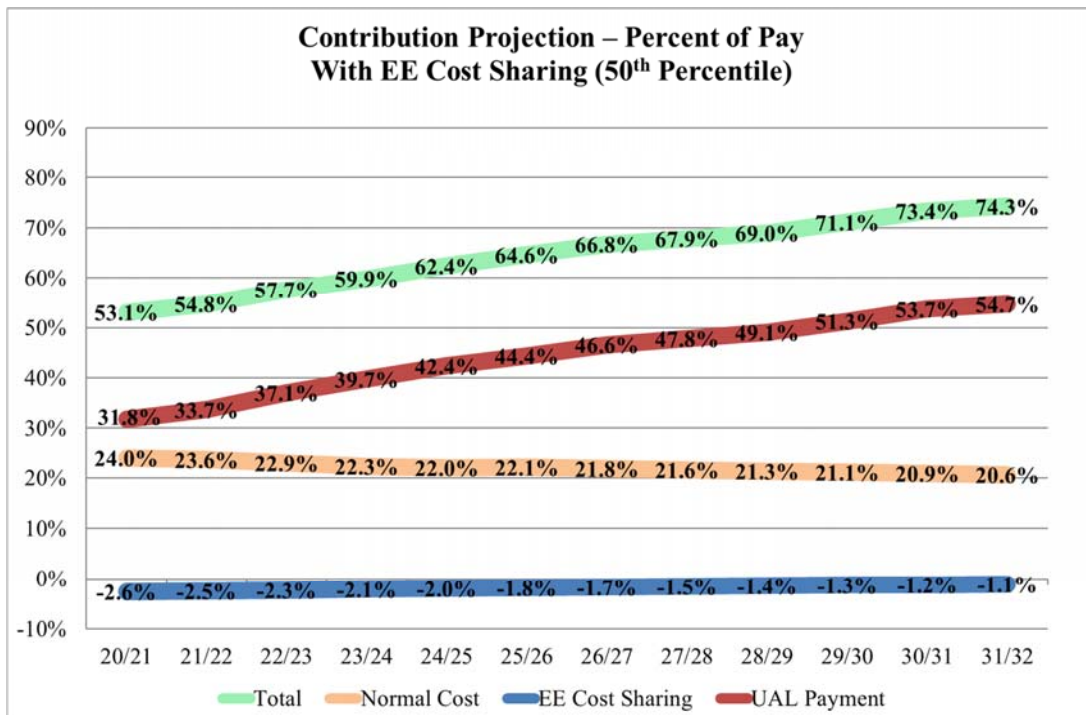


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CONTRIBUTION PROJECTIONS – SAFETY

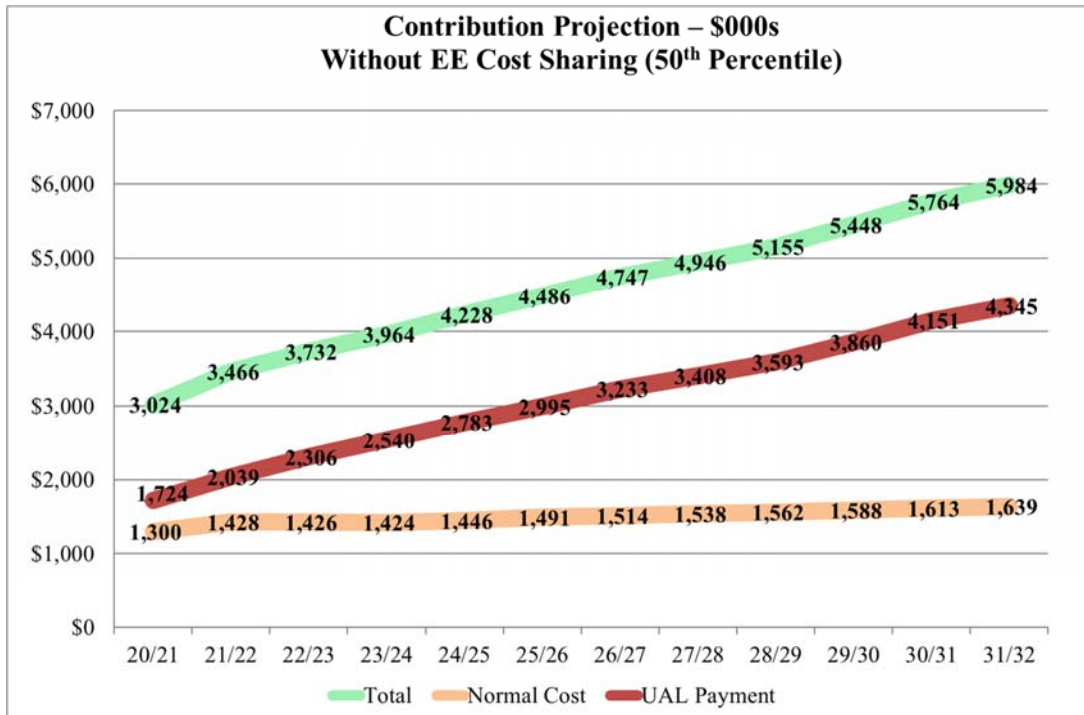


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CONTRIBUTION PROJECTIONS – SAFETY

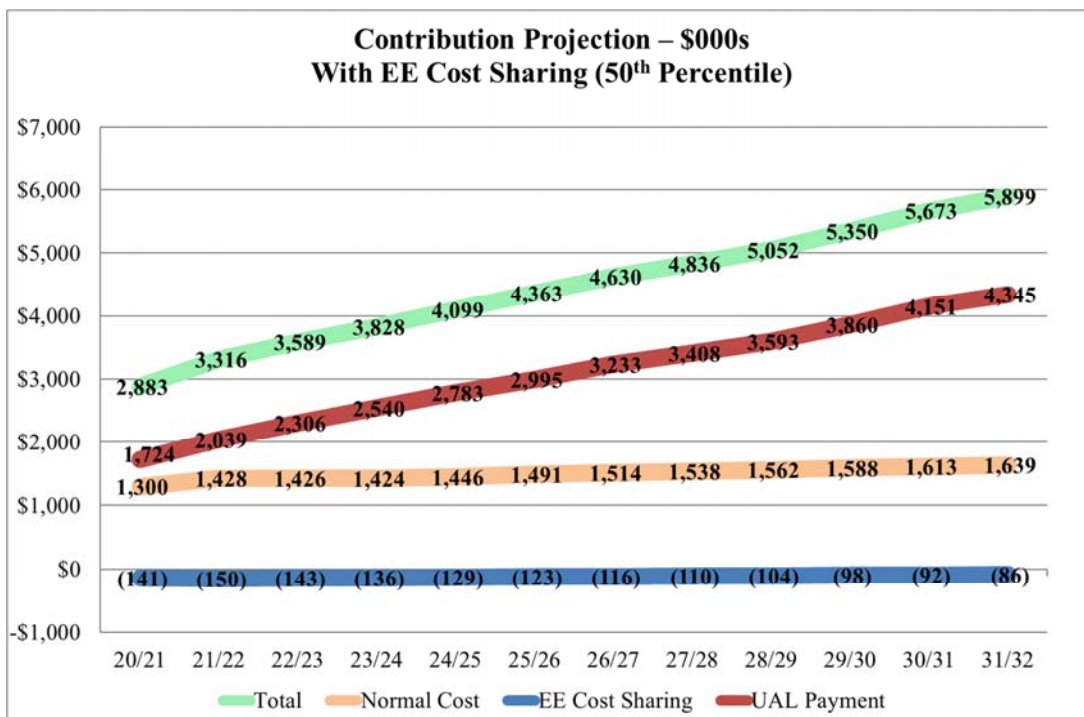


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CONTRIBUTION PROJECTIONS – SAFETY

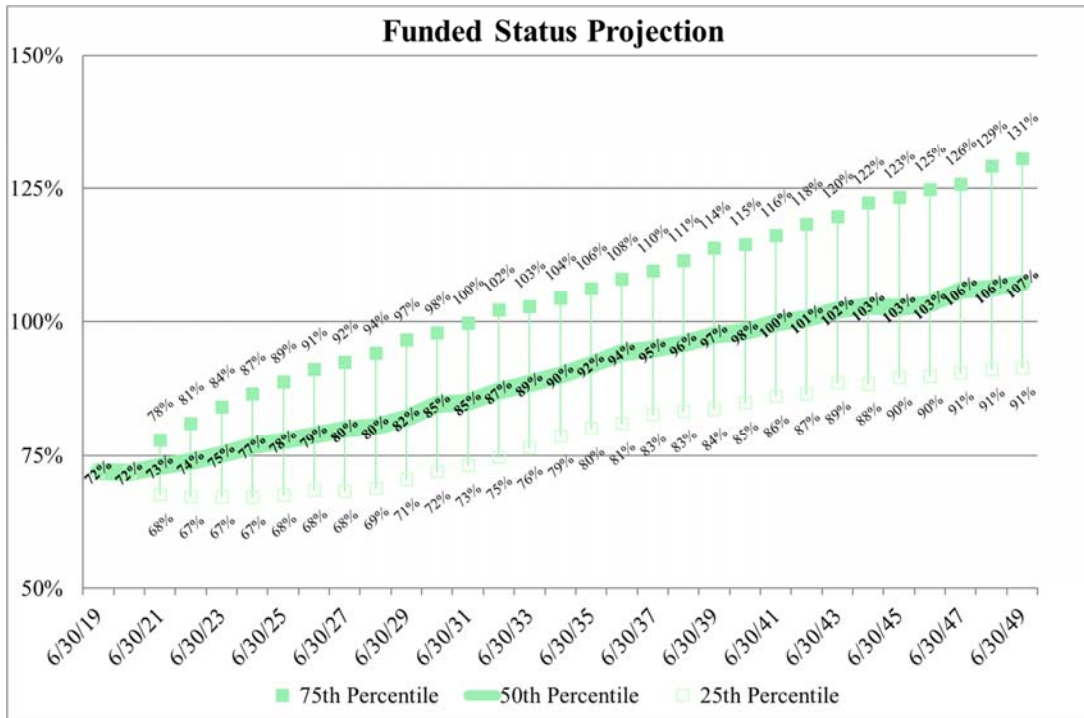


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FUNDED STATUS - SAFETY



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FUNDED STATUS - SAFETY

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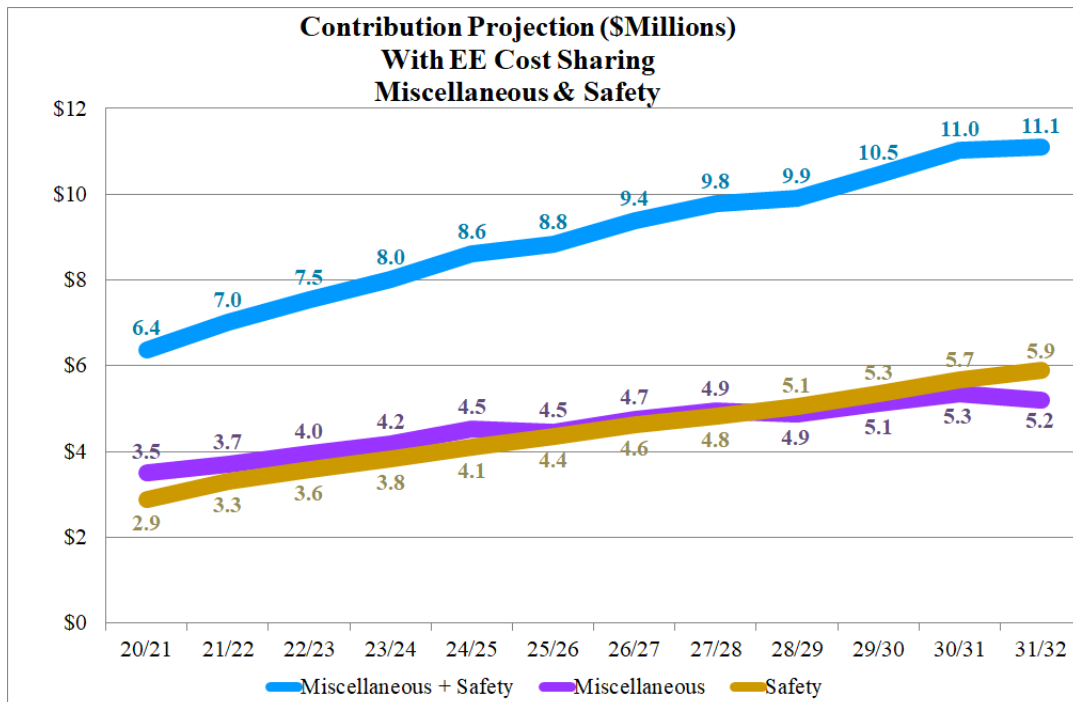


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COMBINED MISCELLANEOUS AND SAFETY



Reflects Additional Discretionary Payments \$4,753,965 made October 2019 and \$3,580,365 made July 2020.



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COMBINED MISCELLANEOUS AND SAFETY

Funded Status Summary on June 30, 2019 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$ 112	\$ 97	\$ 209
■ Assets	<u>76</u>	<u>70</u>	<u>146</u>
■ Unfunded AAL	36	27	63
■ Funded Ratio	67.9%	72.0%	69.9%



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LEAVING CALPERS

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered “withdrawing” from CalPERS:
 - Exclude new hires from CalPERS and giving them a different pension plan
 - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
 - Treated as plan termination
 - Liability increased to reflect conservative investments of Terminated Agency Pool
 - Termination discount rate depends on market risk-free returns on termination date
 - Weighted average of 10-year and 30-year US Treasury yields (weighted by matching benefit payment durations)
 - CalPERS estimates are based on the highest and lowest 20-year Treasury yields 12 months before and 7 months after the valuation date
 - Liability increased to include a 5% contingency load for future demographic fluctuations
 - Liability must be funded immediately by withdrawing agency
 - Otherwise, retiree benefits are cut



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LEAVING CALPERS

CalPERS Termination Estimates on June 30, 2019

(Amounts in Millions)

Discount Rate	Ongoing Plan	Termination Basis	
	7.00%	1.75%	3.25%
Miscellaneous			
Actuarial Accrued Liability	\$ 112	\$ 221	\$ 179
Assets	<u>76</u>	<u>76</u>	<u>76</u>
Unfunded AAL (UAAL)	36	145	103
Safety			
Actuarial Accrued Liability	\$ 97	\$ 204	\$ 162
Assets	<u>70</u>	<u>70</u>	<u>70</u>
Unfunded AAL (UAAL)	27	134	92
Total			
Unfunded AAL (UAAL)	\$ 63	\$279	\$ 195
Funded Ratio	69.9%	34.4%	42.8%



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PEPRA COST SHARING

- Target of 50% of total normal cost paid by all employees
- PEPRA members must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of PEPRA member required employee contributions
- Employer may impose current employees pay 50% of total normal cost (limited to 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining
- Miscellaneous Plan 2021/22:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
	<u>2.5% @ 55 FAC1</u>	<u>2% @ 60 FAC3</u>	<u>2% @ 62 FAC3</u>
● Employer Normal Cost	12.0%	13.6%	6.21%
● Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.25%</u>
● Total Normal Cost	20.0%	20.6%	13.46%
● 50% Target	10.0%	10.3%	6.73%



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PEPRA COST SHARING

- Safety Plan 2021/22¹⁹:

	<u>Classic Members</u>	<u>New Members</u>
	<u>Tier 1</u>	<u>PEPRA</u>
	<u>3% @ 50 FAC1</u>	<u>2.7% @ 57 FAC3</u>
● Employer Normal Cost	25.6%	13.98%
● Member Normal Cost	<u>9.0%</u>	<u>13.75%</u>
● Total Normal Cost	34.6%	27.73%
● 50% Target	17.3%	13.87%

- PEPRA Member Contributions:

Group	2020/21		2021/22			
	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	14.430%	7.25%	14.92%	0.49%	7.25%	All Active Members ²⁰
Safety	27.634%	13.75%	27.73%	0.096%	13.75%	PEPRA Members ²¹

¹⁹ This exhibit does not reflect the 3% employee cost sharing for Classic members.

²⁰ 52 PEPRA members are 44.8% of actives. Does not satisfy the 100 PEPRA member/25% of actives threshold or the 50% of actives threshold for agent plan to base rate on PERPA members.

²¹ PEPRA risk pool plan.



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PREFUNDING OPTION

Additional CalPERS Contributions Prefunding Option

■ Direct Payment to CalPERS

- Pay down a portion of the Unfunded Liability
 - Target specific bases (short or long)
- Fresh start amortization (more stable contribution)
 - Directly through CalPERS
 - Indirectly through budgeted contributions
- Funds invested per CalPERS' investment policy
- Contribution is lower but volatility remains
- Employer required to pay Normal Cost when 100% funded
- Sources of funds
 - General fund
 - Prior dedicated internal reserve
 - Pension Obligation Bond



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PREFUNDING OPTION

Direct Payment to CalPERS Prefunding Option

- Following illustrates additional \$1 million contribution to CalPERS on June 30, 2021:
- Miscellaneous Plan
 - Shortest Base: 2003 Assumption Change (4 years, \$1.1 million on 6/30/21)
Less interest savings, largest short-term contribution impact
 - Longest Base: 2013 Gain/Loss (24 years, \$10.9 million on 6/30/21)
Greater interest savings, smallest short-term contribution impact

Target Bases	Estimated Savings	2021/22 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$144	\$(275)
PV Savings @ 3% (000's)	78	
Longest Bases	\$1 million	
\$ Savings (000's)	\$1,042	\$(70)
PV Savings @ 3% (000's)	464	



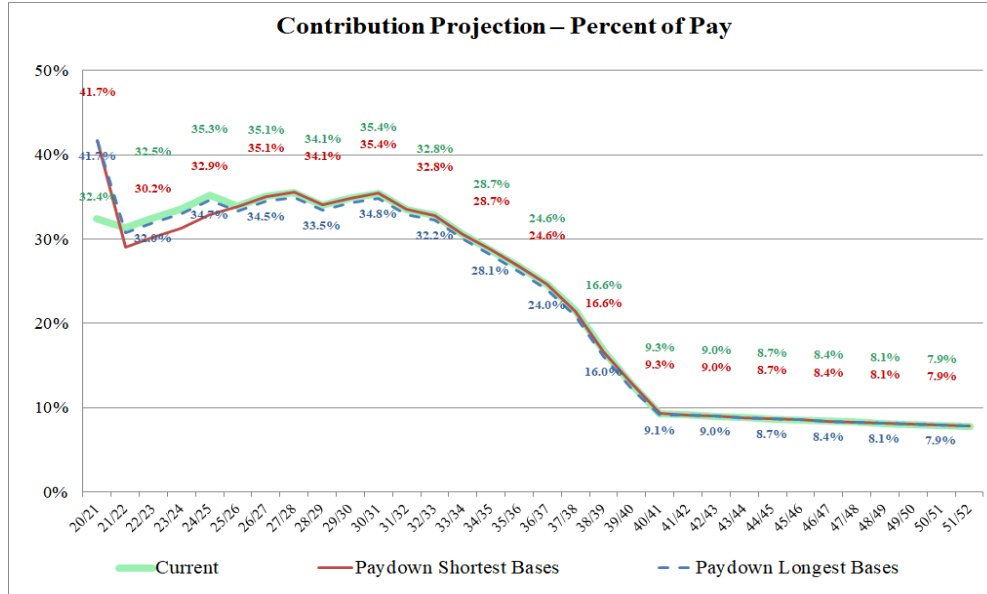
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PREFUNDING OPTION

Direct Payment to CalPERS Miscellaneous



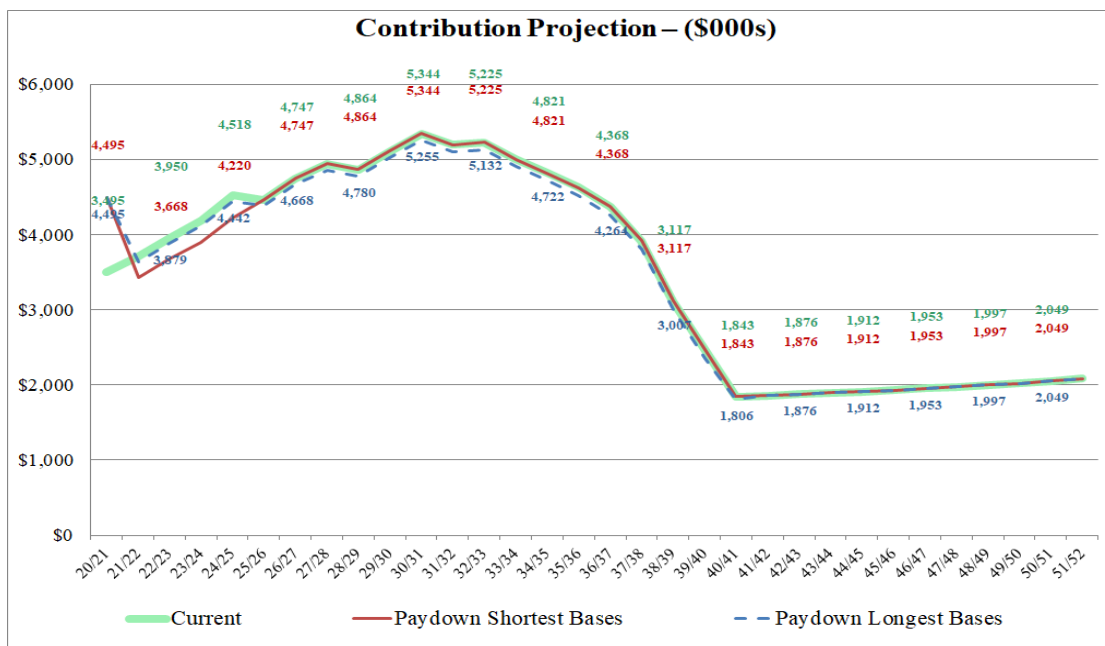
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PREFUNDING OPTION

Direct Payment to CalPERS Miscellaneous



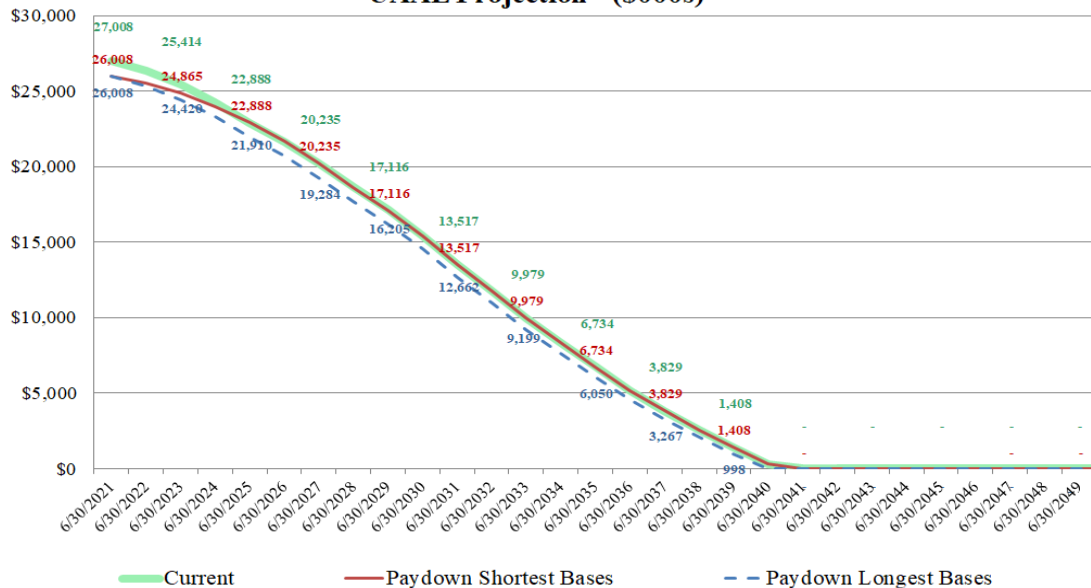
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PREFUNDING OPTION

Direct Payment to CalPERS Miscellaneous UAAL Projection – (\$000s)



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ACTUARIAL CERTIFICATION

This report presents an analysis of the Town of Los Gatos's CalPERS pension plans. The purpose of this report is to provide the Town:

- Historical perspective on the plan investment returns, assets, funded status and contributions.
- Projections of likely future contributions and the impact of investment volatility

The calculations and projections in this report are based on information contained in the Town's June 30, 2019 and earlier CalPERS actuarial valuation reports. We reviewed this information for reasonableness but do not make any representation on the accuracy of the CalPERS reports.

Future investment returns and volatility are based on Bartel Associates' Capital Market model which results in the long-term returns summarized on pages 23 and 41.

Future results may differ from our projections due to differences in actual experience as well as changes in plan provisions, CalPERS actuarial assumptions or methodology. Other than variations in investment return, this study does not analyze these.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,

Bianca Lin

Bianca Lin, FSA, EA, MAAA, FCA
Assistant Vice President
Bartel Associates, LLC

Joseph D'Onofrio

Joseph R. D'Onofrio, FSA, EA, MAAA, FCA
Assistant Vice President
Bartel Associates, LLC



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**TOWN OF LOS GATOS
MISCELLANEOUS AND SAFETY PLANS**

CalPERS Actuarial Issues
June 30, 2019 Actuarial Valuation
Town Council Summary

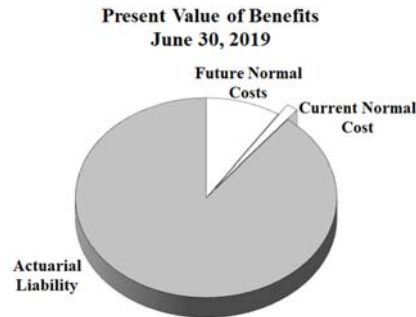
Bartel Associates, LLC
Joseph R. D'Onofrio, Assistant Vice President
Bianca Lin, Assistant Vice President
March 30, 2021

TOWN COUNCIL SUMMARY

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DEFINITIONS



- **Present Value of Benefits (PVB):**
 - Discounted value at valuation date (6/30/19) of all future expected benefit payments using various actuarial assumptions
- **Normal Cost (NC):**
 - Portion of PVB allocated to (or “earned” during) year following valuation date
- **Actuarial Accrued Liability (AAL):**
 - Discounted value at valuation date of benefits “earned” through valuation date (value of past normal costs)

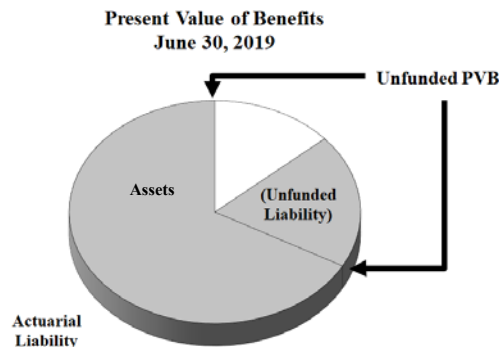


March 30, 2021

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DEFINITIONS



- **Funding Target** - Have plan assets equal to Actuarial Accrued Liability
- **Unfunded Liability (UAAL or UAL)** - Assets short of target at valuation date
 - Difference between AAL and plan assets is the unfunded (or overfunded) AAL
 - The change in this difference creates a new UAAL layer or amortization base at each valuation date

Each new UAAL layer gets amortized (paid off) over a period of time as part of the employer contribution



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PLAN FUNDED STATUS – MISCELLANEOUS

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$22,300,000	\$26,200,000
● Retiree	70,700,000	72,300,000
● Inactive	<u>14,100,000</u>	<u>13,600,000</u>
● Total	107,100,000	112,100,000
■ Assets	<u>73,300,000</u>	<u>76,100,000</u>
■ Unfunded Liability	33,800,000	36,000,000
■ Funded Ratio	68.4%	67.9%
■ Average Funded Ratio for CalPERS Public Agency Miscellaneous Plans¹	71.8%	72.2%

¹ Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



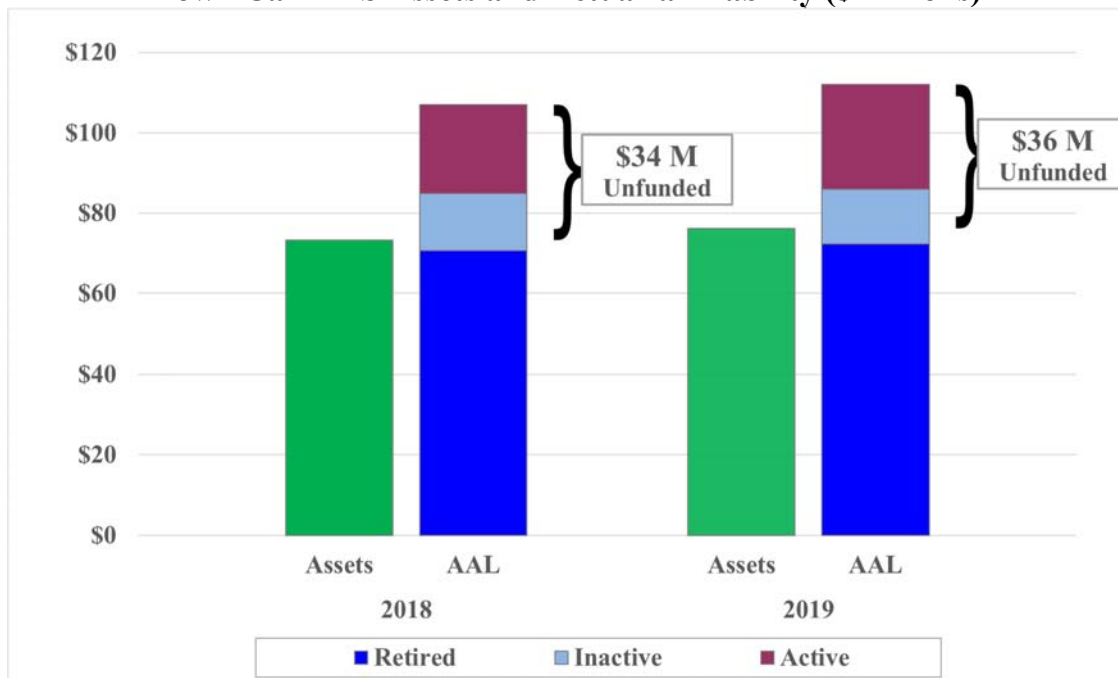
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PLAN FUNDED STATUS – MISCELLANEOUS

Town CalPERS Assets and Actuarial Liability (\$Millions)



March 30, 2021

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PLAN FUNDED STATUS – SAFETY

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$21,300,000	\$23,700,000
● Retiree	67,200,000	69,800,000
● Inactive	<u>3,000,000</u>	<u>3,000,000</u>
● Total	91,500,000	96,500,000
■ Assets	<u>65,900,000</u>	<u>69,500,000</u>
■ Unfunded Liability	25,600,000	27,000,000
■ Funded Ratio	72.1%	72.0%
■ Average Funded Ratio for CalPERS Public Agency Safety Plans²	68.3%	68.6%

² Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



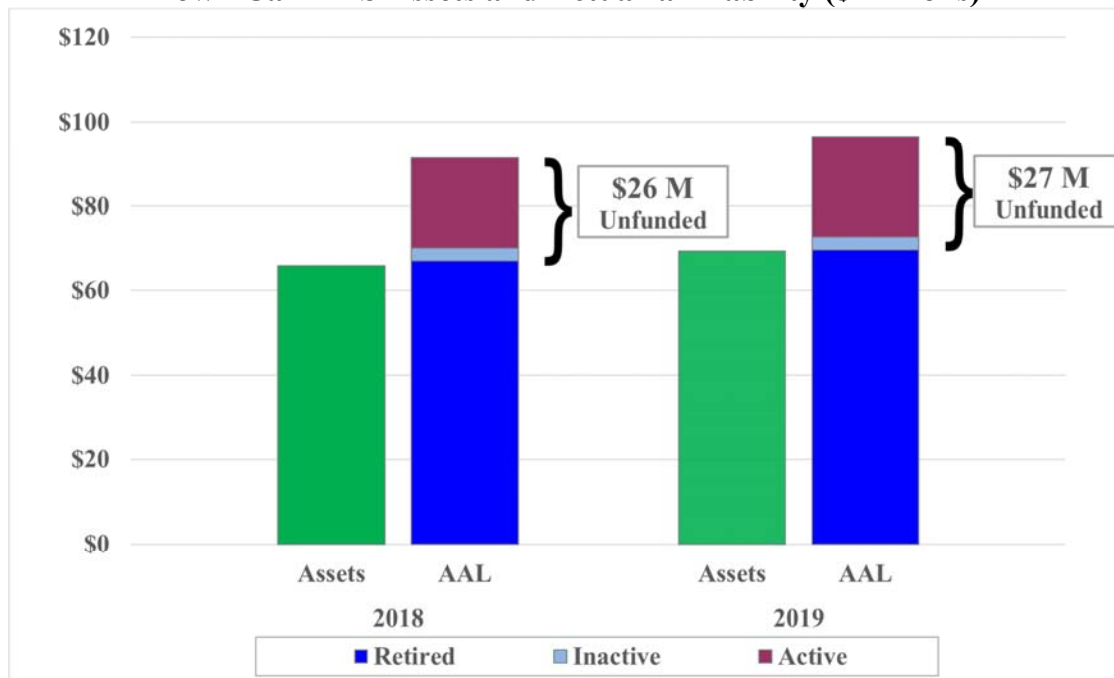
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PLAN FUNDED STATUS – SAFETY

Town CalPERS Assets and Actuarial Liability (\$Millions)



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DISCOUNT RATE SENSITIVITY

Miscellaneous June 30, 2019

	<u>Discount Rate</u>		
	<u>7.00%</u>	<u>6.50%³</u>	<u>6.00%</u>
AAL	\$112,100,000	\$119,300,000	\$126,500,000
Assets	<u>76,100,000</u>	<u>76,100,000</u>	<u>76,100,000</u>
Unfunded Liability	36,000,000	43,200,000	50,400,000
Funded Ratio	67.9%	63.8%	60.2%

³ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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DISCOUNT RATE SENSITIVITY

Safety June 30, 2019

	<u>Discount Rate</u>		
	<u>7.00%</u>	<u>6.50%⁴</u>	<u>6.00%</u>
AAL	\$96,500,000	\$103,100,000	\$109,700,000
Assets	<u>69,500,000</u>	<u>69,500,000</u>	<u>69,500,000</u>
Unfunded Liability	27,000,000	33,600,000	40,200,000
Funded Ratio	72.0%	67.4%	63.4%

⁴ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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CONTRIBUTION PROJECTIONS – ASSUMPTIONS

■ Market Value Investment Return:

- June 30, 2020 4.7%⁵
- Future returns based on stochastic analysis using 1,000 trials⁶

<u>Single Year Returns at⁷</u>	<u>25th Percentile</u>	<u>50th Percentile</u>	<u>75th Percentile</u>
Current Investment Mix	0.1%	7.0%	14.8%
Ultimate Investment Mix	0.8%	6.0%	11.4%
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 8 years and higher beyond that.

■ Discount Rate decreases due to Risk Mitigation policy

■ No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements

■ Different from CalPERS projection. Our projections include:

- Actual 2019/20 investment return
- Lower expected return for next 8 years
- Impact of risk mitigation
- Possibly different PEPRA new hire assumptions

⁵ Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

⁶ Future returns are assumed net of investment and administrative expenses

⁷ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS – ASSUMPTIONS

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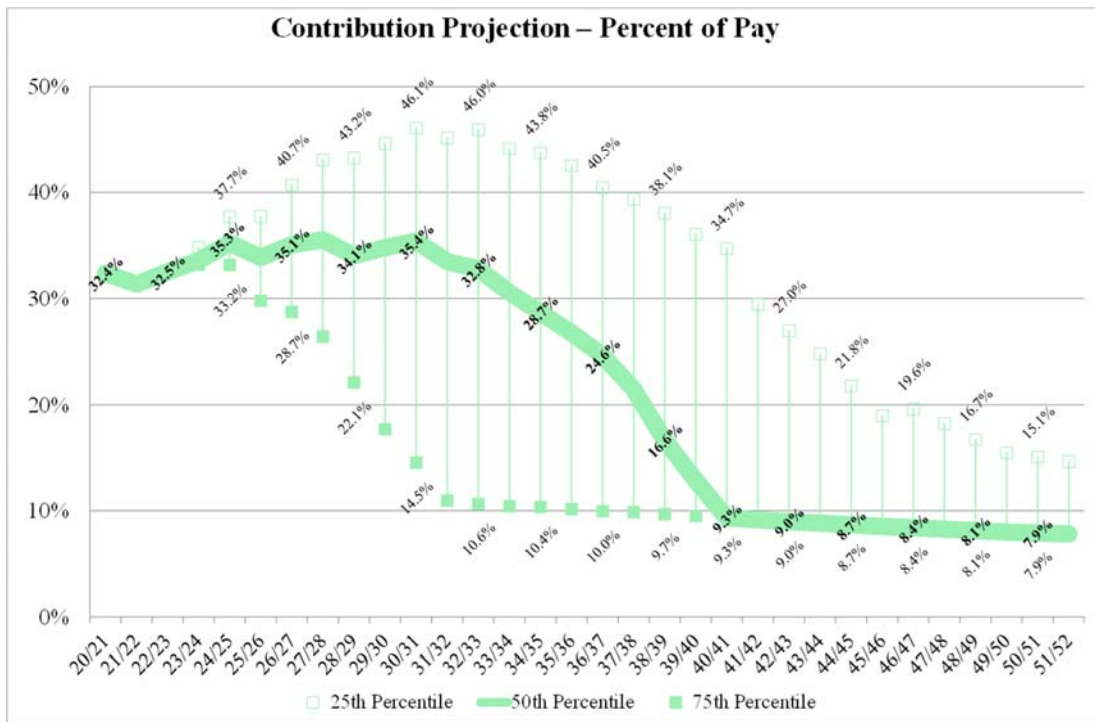


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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

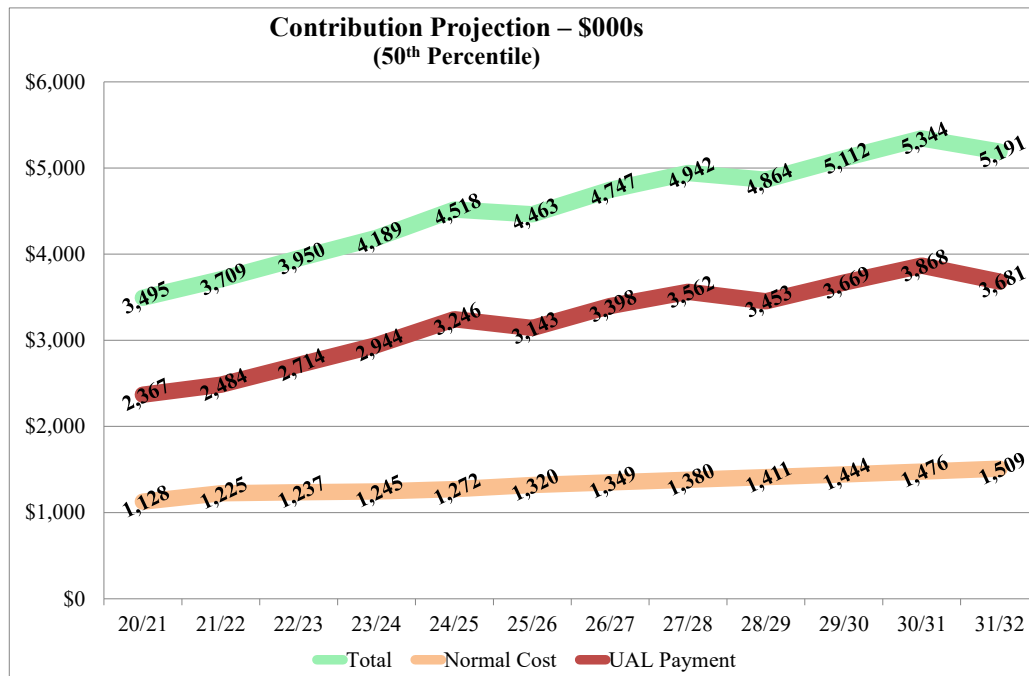


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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

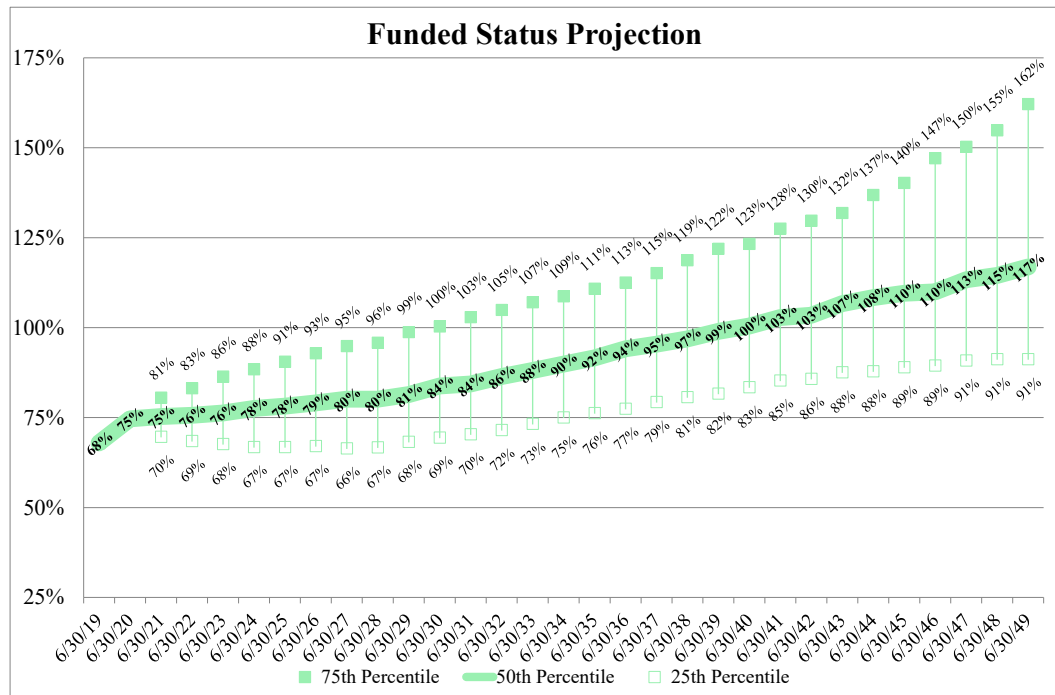


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FUNDED STATUS – MISCELLANEOUS



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FUNDED STATUS – MISCELLANEOUS

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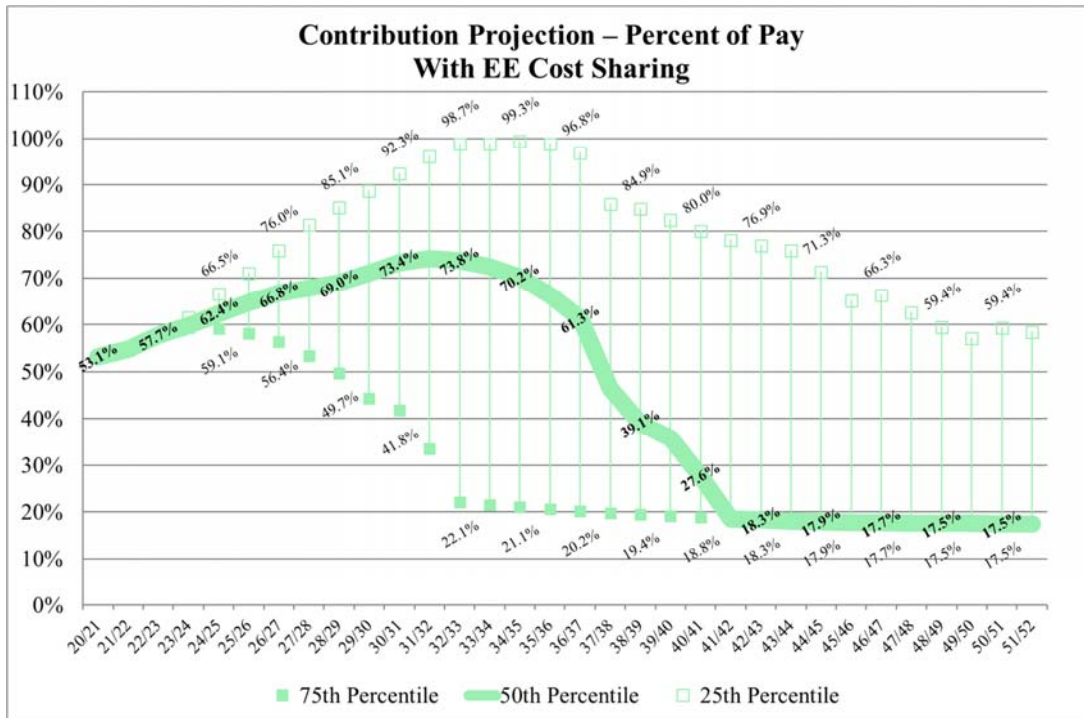


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CONTRIBUTION PROJECTIONS – SAFETY

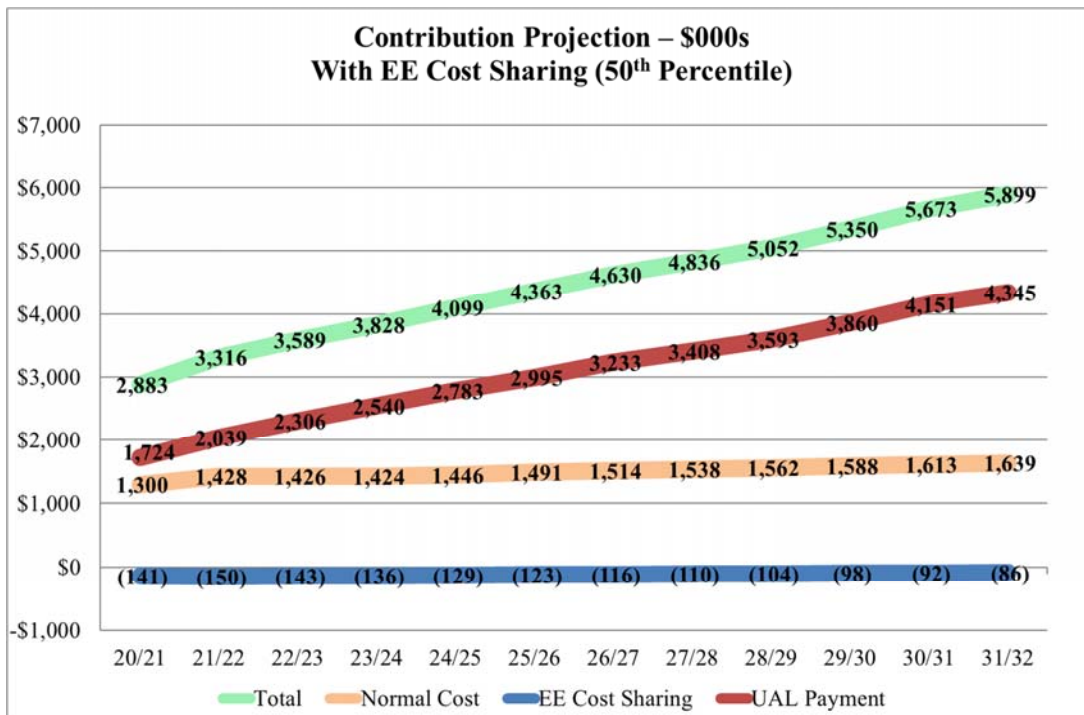


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CONTRIBUTION PROJECTIONS – SAFETY

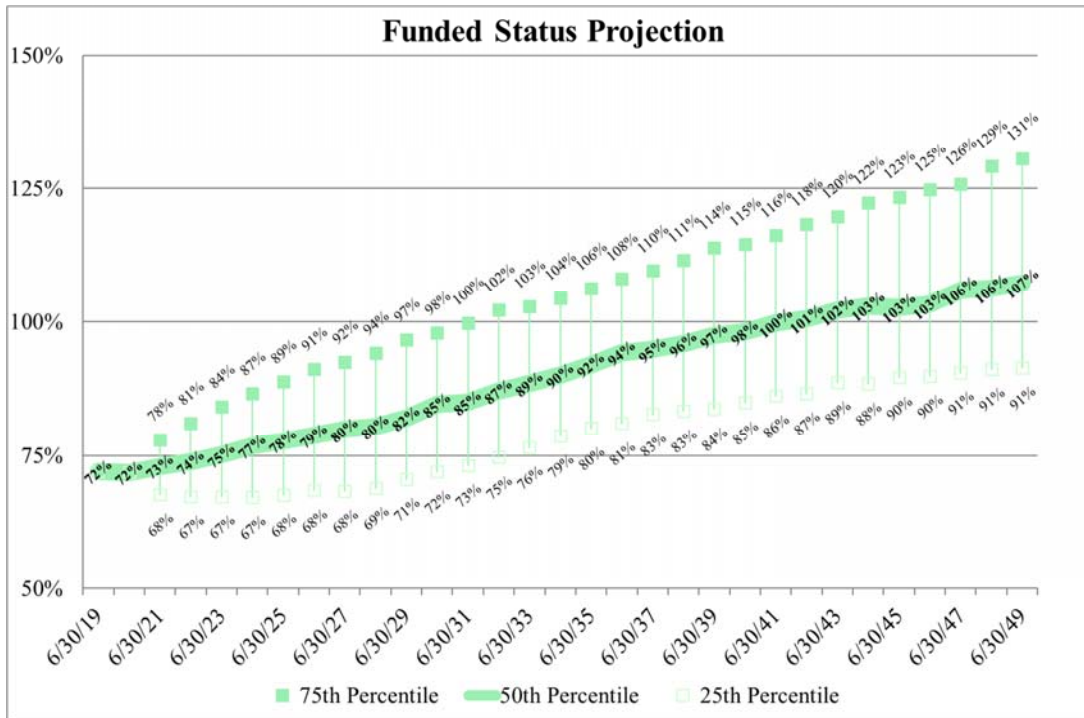


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FUNDED STATUS - SAFETY



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FUNDED STATUS - SAFETY

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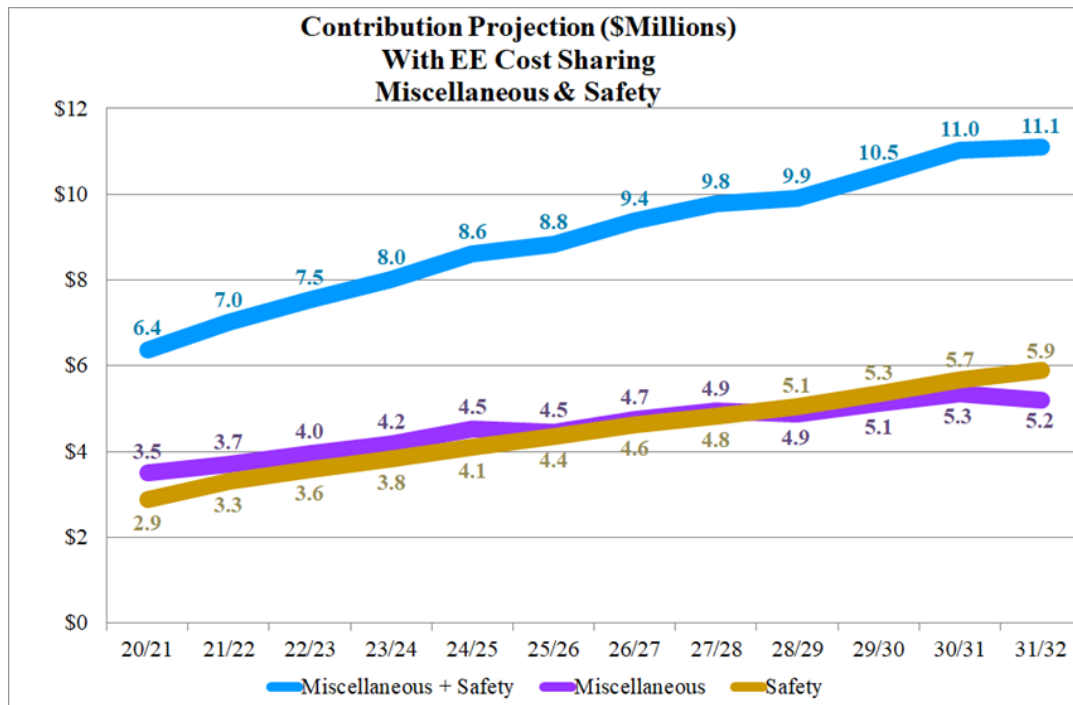


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COMBINED MISCELLANEOUS AND SAFETY



Reflects Additional Discretionary Payments \$4,753,965 made October 2019 and \$3,580,365 made July 2020.



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COMBINED MISCELLANEOUS AND SAFETY

Funded Status Summary on June 30, 2019 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$ 112	\$ 97	\$ 209
■ Assets	<u>76</u>	<u>70</u>	<u>146</u>
■ Unfunded AAL	36	27	63
■ Funded Ratio	67.9%	72.0%	69.9%



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PREFUNDING OPTION

Additional CalPERS Contributions Prefunding Option

■ Direct Payment to CalPERS

- Pay down a portion of the Unfunded Liability
 - Target specific bases (short or long)
- Fresh start amortization (more stable contribution)
 - Directly through CalPERS
 - Indirectly through budgeted contributions
- Funds invested per CalPERS' investment policy
- Contribution is lower but volatility remains
- Employer required to pay Normal Cost when 100% funded
- Sources of funds
 - General fund
 - Prior dedicated internal reserve
 - Pension Obligation Bond



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PREFUNDING OPTION

Direct Payment to CalPERS Savings

Following illustrates the interest savings on Additional Discretionary Payments (ADPs) of \$4,753,965 made on October 18, 2019 (June 30, 2016 loss base) and \$3,580,365 made July 7, 2020 (June 30, 2015 loss base):

Target Bases	Estimated Savings	2021/22 Contribution Impact
October 18, 2019 ADP	\$4.8 million	
\$ Savings (000's)	\$6,299	\$(268)
PV Savings @ 3% (000's)	2,583	
July 7, 2020 ADP	\$3.6 million	
\$ Savings (000's)	\$4,382	\$(253)
PV Savings @ 3% (000's)	1,919	



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PREFUNDING OPTION

Direct Payment to CalPERS Prefunding Option

- Following illustrates additional \$1 million contribution to CalPERS on June 30, 2021:
- Miscellaneous Plan
 - Shortest Base: 2003 Assumption Change (4 years, \$1.1 million on 6/30/21)
Less interest savings, largest short-term contribution impact
 - Longest Base: 2013 Gain/Loss (24 years, \$10.9 million on 6/30/21)
Greater interest savings, smallest short-term contribution impact

Target Bases	Estimated Savings	2021/22 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$144	\$(275)
PV Savings @ 3% (000's)	78	
Longest Bases	\$1 million	
\$ Savings (000's)	\$1,042	\$(70)
PV Savings @ 3% (000's)	464	



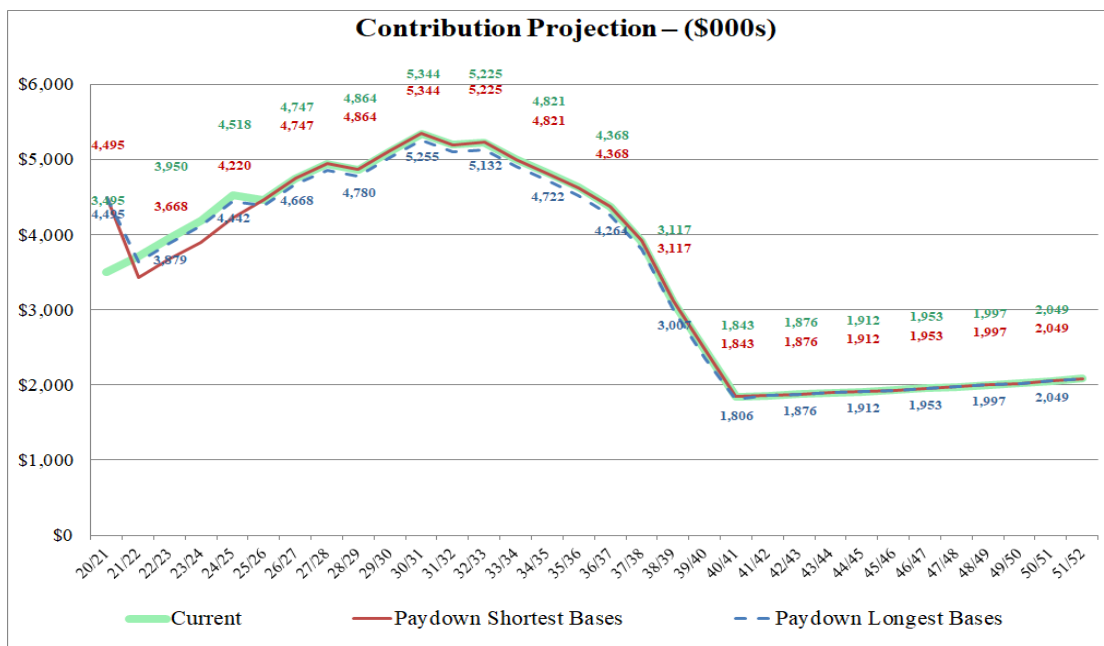
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PREFUNDING OPTION

Direct Payment to CalPERS Miscellaneous



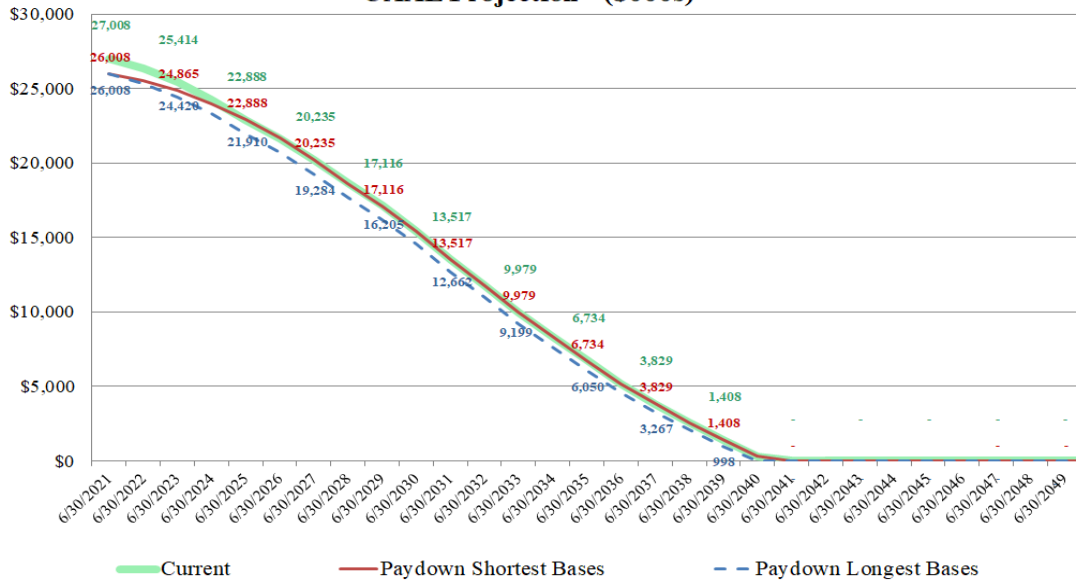
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PREFUNDING OPTION

Direct Payment to CalPERS
Miscellaneous
UAAL Projection – (\$000s)



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PREFUNDING OPTION

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

MEETING DATE: 03/30/2021

ITEM NO: 6

DATE: March 23, 2021
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Direct the Available Balance in the California Employers' Pension Prefunding Trust (CEPPT) (\$708,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an Additional Discretionary Payment to CalPERS toward the 2013 Investment Loss Amortization Base

RECOMMENDATION:

Direct the available balance in the California Employers' Pension Prefunding Trust (CEPPT) (\$708,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an Additional Discretionary Payment to CalPERS toward the 2013 investment loss amortization base.

BACKGROUND:

Based on prior guidance, the Town Pension and OPEB Trusts Oversight Committee (Oversight Committee) has directed staff to utilize existing surplus funds budgeted for additional discretionary payments (ADPs) to go directly to CalPERS toward existing long-term amortization bases. Per the previous Oversight Committee direction, the first additional discretionary payment (ADP) of \$4,753,965 for the 2016 gain/loss amortization base was transferred to CalPERS on October 11, 2019. Under the same direction, the second ADP of \$3,580,365 for the 2015 gain/loss amortization base was transferred to CalPERS on July 8, 2020.

On June 8, 2020, the prior Finance Committee discussed various methodologies for deploying additional discretionary payments to CalPERS. In addition to other scenarios, the Committee discussed that the Town's budget cycle of July 1st aligns well with annual ADPs receiving the

PREPARED BY: Arn Andrews
Assistant Town Manager

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

BACKGROUND (continued):

benefit of a full year of returns from CalPERS. A July payment cycle also ensures that ADPs get credited in the development of the annual actuarial valuation performed by CalPERS.

For an ADP to affect the development of FY 2021/22 Unfunded Actuarial Liability (UAL) payment calculation, it must be received by CalPERS by April 15, 2021. After that time, any ADP will not take effect until development of the FY 2022/23 UAL payment calculation. The Town currently has \$708,807.33 in the CalPERS CEPPT account, \$952,135 in the Town's Pension/Other Post-Employment Benefits (OPEB) Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years for a total of \$2,050,942. It should be noted that per IRS rules monies deposited into the CEPPT account can only be used toward pension payments.

DISCUSSION:

ADPs allocated directly to CalPERS can achieve several outcomes which help to reduce the Town's outstanding unfunded pension obligation. Lump sum payments to CalPERS can either be in the form of generic additional contributions or targeted at specific amortization bases. To date and consistent with the Oversight Committee's direction, staff has targeted specific amortization bases in consultation with Bartel and Associates. Benefits associated with direct payments to CalPERS include: point in time reductions in the UAL, interest savings, increased funding status, and reduced contributions.

The following table from Bartel and Associates illustrates the savings associated with a million-dollar ADP directed toward two different amortization bases. The first base is a 2003 assumption change base with 4 years remaining. The second base is 2013 investment loss base with 24 years remaining. As the data reflect, payments toward shorter bases provide less interest savings but a larger short-term contribution impact. Conversely, payments targeted toward longer amortization bases provide the greatest long-term interest savings and less of a short-term contribution impact.

Target Bases	Estimated Savings	2021/22 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$144	\$(275)
PV Savings @ 3% (000's)	78	
Longest Bases	\$1 million	
\$ Savings (000's)	\$1,042	\$(70)
PV Savings @ 3% (000's)	464	

DISCUSSION (continued):

Previously the Oversight Committee opted for longer term amortization bases to achieve the greatest interest savings while also receiving some contribution relief. The table below illustrates the estimated savings associated with ADPs to date.

Target Bases	Estimated Savings	2021/22 Contribution Impact
October 18, 2019 ADP	\$4.8 million	
\$ Savings (000's)	\$6,299	\$(268)
PV Savings @ 3% (000's)	2,583	
July 7, 2020 ADP	\$3.6 million	
\$ Savings (000's)	\$4,382	\$(253)
PV Savings @ 3% (000's)	1,919	

CONCLUSION AND NEXT STEPS:

Based on prior guidance from the Oversight Committee and Finance Committee, staff recommends directing the available balance in the CEPPT (\$707,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an ADP to CalPERS toward the 2013 investment loss amortization base. If the Committee implements this recommendation, this payment would be made prior to the April 15th deadline as discussed above.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Director of Finance.