

# CITY OF FULLERTON INVESTMENT ADVISORY COMMITTEE

## MINUTES

Regular Meeting  
Via Teleconference  
**Wednesday, July 16, 2020 at 4:00 p.m.**

### **CALL TO ORDER**

Chairperson Lewczyk called meeting to order at 4:02 p.m.

### **ROLL CALL**

Members Present: Stan Lewczyk, Chair  
Lynn Lauderdale, Vice-Chair  
Maurina Lee, Committee Member  
Ellis Chang, Committee Member/Dir. of Admin. Services/City Treasurer  
Ken Domer, Committee Member/City Manager

Absent: Jennifer Fitzgerald, Committee Member/Mayor

Consultants: John Grady and Mark Creger with Public Trust Advisors  
Jennifer Meza with Public Agency Retirement Services  
Keith Stribling with HighMark Capital Management

Staff: Ramona Castañeda, Revenue Manager

Public Present: None

### **PUBLIC COMMENTS**

None

### **ACTION OR DISCUSSION ITEMS**

Item 1 Approval of Minutes from the Special Meeting of May 6, 2020

Approval of the minutes of May 6, 2020 special meeting was moved by Vice-Chair Lauderdale and seconded by Committee Member Chang. The motion carried 5-0.

Item 2 Review of the City's Pension and OPEB Plan (115 Trust) Investment Portfolio

PARS provided an update of the City's Post-Employments Benefit Trust that the city is currently utilizing to prefund its OPEB liabilities. Keith Stribling, HighMark Capital Management, and Jennifer Meza, PARS, provided an update of the historical rate of return, market outlook and asset allocation. The portfolio is in the Capital Appreciation Index strategy. The allocation targets as of 6/30/2020 are 72.37% stocks, 23.94% bonds and 3.69% cash. The returns as of 6/30/2020 are 1) 3 month at 16.69% 2) 6 months -4.43% 3) 1 year 1.88% 4) ITD 5.26%. The portfolio lowered its equity, REIT and small cap allocation.

Item 3                      Review of Market Update and Current Investment Portfolio for the period ending June 30, 2020

Mr. Creger presented the Market Update and began with a review of the current trends relating to the COVID-19 pandemic. He noted that the total number of confirmed cases in the United States now exceeded 3.5 million with over 135,000 fatalities. Mr. Creger noted that the recent resurgence of the virus, particularly in California and certain of the sunbelt states, had prompted many states to pause or reverse reopening plans which raised concerns that economic activity may again decelerate as businesses close to help slow the spread of the virus. Mr. Creger continued that U.S. economic growth had contracted at an annualized rate of -5% in the first quarter and that second quarter GDP is expected to contract at a much deeper -35% annualized rate reflecting the impact of wide-scale business closures and other social distancing mandates. He continued that the International Monetary Fund (IMF) projects that global GDP growth will contract by -4.9% in 2020, reflecting the global scale of the COVID-19 pandemic. Mr. Creger commented that, to date, the aggressive actions by the U.S. Federal Reserve, including continued near-zero short-term interest rate policy, a commitment to unlimited quantitative easing, and the creation of multiple credit and liquidity facilities had helped to stabilize financial conditions in the wake of the pandemic's outbreak. He continued, noting that the economic outlook remained quite uncertain and heavily tied to the evolution of the virus and efforts to control its spread. Mr. Creger noted that certain high frequency economic data, such as that tracking restaurant booking, public transportation usage, airline passenger traffic, and weekly initial jobless claims had stabilized in the recent month, but that the rolling back of reopening efforts by many states had reignited concerns of a further slowdown. Mr. Creger discussed the wide scale job losses that occurred in March and April wherein 22 million jobs were lost following the COVID-19 outbreak. He continued that while the 7.5 million jobs that were recovered in the last two months was encouraging, that there was still much recovery necessary to fully add back these displaced workers and that prolonged unemployment was a significant risk to the economic outlook. Mr. Creger concluded his market-related comments noting that interest rates had fallen dramatically across the entire yield curve and remained at historically low levels reflecting a combination of market expectations for a prolonged period of near-zero Federal Reserve interest rate policy and a subdued outlook for economic growth.

Mr. Grady then presented the quarterly report and began by confirming that the City's investment portfolios remain invested in very safe and high-quality investments. He

continued, noting that the portfolios had experienced a significant increase in unrealized gains as interest rates had declined, causing the market value of currently held securities to increase further. Mr. Grady noted that the durations in both the 1-3- and 1-5-year portfolios were neutral to slightly longer than their respective benchmarks over the quarter which had benefited portfolio performance as intermediate-term interest rates had declined over the quarter. Mr. Grady reiterated that the portfolios remain invested in very high credit quality instruments and that the portfolios remained in full compliance with both the City's Investment Policy and California state statutes. A discussion on portfolio performance followed and Mr. Grady noted that the portfolios had substantially outperformed their benchmarks over the quarter as credit spreads narrowed dramatically over the quarter reflecting improved market sentiment stemming from the Federal Reserve's primary and secondary corporate credit market facilities. Mr. Creger added that the improved credit market sentiment over the quarter caused the corporate bond sector to outperform leading to the City's greater than benchmark returns. Mr. Grady continued that on a longer-term basis, the City's portfolios continue to perform better or in-line with their benchmarks. Mr. Grady concluded his portfolio review by presenting the overall portfolio characteristics of both the 1-3 year and 1-5 year portfolios as well as the City's aggregate portfolio.

Item 4                      Transfer of earmarked funds to the Section 115 Pension Trust

Committee Member Chang introduced this item by stating that there are \$487,000 earmarked for the Section 115 Pension Trust and was requesting the committee's recommendation on investing the funds. After some discussion, Mr. Stribling, with HighMark Capital Management, recommended averaging in the projected contribution of \$487,000 into the pension trust. The committee agreed to begin investing the funds in August over a five month period of time, starting with \$100,000 in August and \$100,000 each month thereafter, with the final amount of \$87,000 in December. The committee also recommended investing the funds in the Capital Appreciation – Actively Invested portfolio. The item was moved as outlined above by Committee Member Chang with a second by Vice-Chair Lauderdale. The motion passed 5-0.

COMMITTEE / STAFF COMMUNICATIONS

None.

**ADJOURNMENT**

Chairperson Lewczyk adjourned the meeting at 5:31 p.m. The next regular meeting is scheduled for 4:00 p.m. Thursday, October 15, 2020 at Fullerton City Hall, 303 W. Commonwealth Avenue, Fullerton, CA 92832.