

# CITY OF FULLERTON INVESTMENT ADVISORY COMMITTEE

## MINUTES

Special Meeting  
Via Teleconference  
**Wednesday, May 6, 2020 at 4:00 p.m.**

### **CALL TO ORDER**

Chairperson Lewczyk called meeting to order at 4:05 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  
Jennifer Fitzgerald, Committee Member/Mayor (joined at 4:15 p.m.)

Absent: None

Consultants: John Grady and Mark Creger with Public Trust Advisors  
Jennifer Meza and Dennis Yu 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 Regular Meeting of January 16, 2020

Approval of the minutes of January 16, 2020 regular meeting with one correction to Item 3 – Review of the City's Pension and OPEB Plan (115 Trust) Investment Portfolio. The correction consists of the committee's recommendation to continue

with the active management option for the portfolio. Item was moved by Chair Lewczyk and seconded by Committee Member Lauderdale. 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, Dennis Yu, PARS, 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 2/29/2020 are 73% stocks, 26.14% bonds and 0.31% cash. The returns as of 2/29/2020 are 1) 2 month at -6.01% 2) 3 months -3.87% 3) 9 months 5.10% 4) 1 year 4.42% 5) ITD 5.28%. The portfolio lowered its equity, REIT and small cap allocation. Keith recommended an internal funding strategy to further fund the trust.

Item 3                      Review of Market Update and Current Investment Portfolio for the period ending March 31, 2020

Mr. Creger presented the Market Update and began with a discussion of the widespread shelter-in-place orders and mandatory closure of certain non-essential businesses that had been implemented at the end of the quarter in an effort to slow the spread of the COVID-19 virus that first gained attention in China and that quickly spread across the globe with over 400, 000 cases having been reported in the United States as of the end of the first quarter. He then discussed recent forecasts from the International Monetary Fund (IMF) that were now projecting global growth to contract by -3% in 2020, representing the deepest global recession since the Great Depression and far surpassing the -.10% contraction in global economic activity experienced during the '07-'08 Financial Crisis. Mr. Creger then discussed the enormous monetary policy response that was announced by the Federal Reserve (Fed) to cushion the economic damage resulting from the COVID-19 pandemic. He noted that the Fed had reduced the Federal Funds rate to a range of between 0%-0.25% in a series of two emergency rate cuts announced on March 3<sup>rd</sup> (-0.50%) and March 15<sup>th</sup> (-1.00%). In addition, Mr. Creger noted the Fed's decision to inject additional liquidity into the financial system via repurchase agreements and expects that the Fed will again resume formal quantitative easing measures designed to further support financial conditions. Mr. Creger noted that in addition to these interest rate and balance sheet tools, the Fed also announced the creation of certain liquidity and credit facilities designed to support liquidity and the availability of credit to certain critical sectors of financial markets. Mr. Creger then discussed the complementary fiscal stimulus of approximately \$2 trillion that was authorized by congress via the Coronavirus Aid, Relief and Economic Security Act (CARES) and designed to further support businesses, households and the public sector in coping with the economic fallout from the coronavirus. Mr. Creger noted that the economic damage stemming from the COVID-19 pandemic was expected to be significant and that the first evidence of this may be seen in recently released labor market data which showed that over 10 million people had filed for unemployment benefits in the final two weeks of the quarter. In addition, Mr. Creger cited that the March payroll report showed that the U.S. economy lost -700k jobs in March and that the number of job losses was expected to grow substantially as the economic shutdown

persists. In response to the sudden change in the economic outlook caused by COVID-19, Mr. Creger noted that interest rate markets had shifted dramatically over the quarter with U.S. Treasury yields falling over 150 basis points (1.50%) for shorter-term maturities and over 100 basis points (1.00%) for longer-term maturities as investors sought the relative safety provided by U.S. government guaranteed securities. Mr. Creger concluded the economic update stating that economic outlook remained highly uncertain given the still-unknown nature of the coronavirus and the uncertain scope and duration of mandatory business closures and social distancing mandates that are constraining growth.

Mr. Grady then presented the quarterly report and highlighted that City's portfolios continue to be invested very safely with an emphasis on very high-quality investments and that the portfolios had not been adversely effected by the COVID-19 pandemic. He noted that high quality fixed income securities such as those held in the City's portfolio generally tend to perform well during periods of economic distress. Mr. Grady continued, stating that the durations in both the 1-3- and 1-5-year portfolios were neutral to modestly longer than their respective benchmarks over the quarter and that PTA's future positioning would reflect its perception of relative value and interpretation of incoming data and its expected impact on market sentiment and Fed policy. Mr. Grady reiterated that the portfolios remain invested in very high credit quality instruments and that the corporate bond allocation was presently below the State statute and City investment policy limits given the generally low level of credit spreads and the desire to maintain capacity. A discussion on portfolio performance followed and Mr. Grady noted that the portfolios slightly underperformed their benchmarks over the quarter given the widening of credit spreads that occurred at the end of the quarter which caused the corporate bond sector to underperform. On a longer-term basis, the City's portfolios continue to perform in-line or better than their benchmarks and that PTA expects that the current asset allocation will be accretive to performance going forward particularly given certain of the Fed's facilities that have been created to stabilize financial conditions. Mr. Grady concluded his portfolio review by presenting the overall portfolio characteristics of both the 1-3 year and 1-5 year portfolios and confirmed that both portfolios remain in full compliance with the City's investment policy.

#### COMMITTEE / STAFF COMMUNICATIONS

None.

#### **ADJOURNMENT**

Chairperson Lewczyk adjourned the meeting at 5:40 p.m. The next regular meeting is scheduled for 4:00 p.m. Thursday, July 16, 2020 at Fullerton City Hall, 303 W. Commonwealth Avenue, Fullerton, CA 92832.