
County of Riverside

Pension Advisory Review Committee

MINUTES OF MEETING

December 13, 2023

10:00 a.m.

Members Present:

Don Kent	Chairman, County Executive Office
Shondi Miller	Human Resources
Matt Jennings	Treasurer-Tax Collector
Ben Benoit	Auditor-Controller
Undersheriff Don Sharp	Sheriff's Office

Members Absent:

Staff and Guests Present:

Bradley Au	Aon
Brad Bachman	CalPERS
Colleen Cain-Herrback	CalPERS
Mike Williams	Columbia Capital
Jim Prichard	Columbia Capital
Keith Stribling	HighMark
Scott Grimm	US Bank
Terra Murphy	US Bank
Doug Pryor	Foster & Foster
Minh Tran	County Counsel
Jarvyk Punzalan	Executive Office
Jonathan Gutierrez	Executive Office
Katie Ponce	Executive Office
Paul McDonnell	Fieldman Rolapp
Darrylenn Brockington	Flood Control
Mitch Barker	PARS
Angela Tang	PARS
Amy Onopas	Human Resources
Jennifer Moquin	Human Resources
Sonia Moreno	Human Resources
Aileen Yan	Riverside Courts
Giovane Pizano	Treasurer-Tax Collector
Michael Alferez	Parks

1. Call to Order and Self-introductions:

Chairman Don Kent, with the Executive Office, called the meeting to order at 10:00 a.m. Self-introductions were given by Committee members.

2. Approval of the Minutes for November 15, 2023:

MOTION: Matt Jennings moved to approve the PARC Meeting Minutes from November 15, 2023.

Seconded by Ben Benoit.

The motion passed unanimously.

**3. Section 115 Pension Trust Investment Report for the period ended 6/30/23
Receive and File – Presented by PARS**

Chairman Kent introduced Mitch Barker, with PARS, to speak on the next agenda item, the Section 115 Pension Trust Investment Report for period ending 6/30/23. Mr. Barker gave a brief overview of the team. It is made up of three entities, PARS, US Bank and HighMark. PARS monitors the plan, the trustee and fiduciary is US Bank, and the heavy lifting by making sense of the marketplace, is HighMark. He then introduced Angela Tang, with PARS, to go over specific plan details.

Ms. Tang explained that the county has two separate accounts, one is the general account and one for the POB Series 2020. Both accounts are invested in the Moderate Index PLUS Strategy. The first contribution received was in November of 2016 and the amount was close to \$2.1 million. Since June 30 of 2023 there has been total contributions of \$91.4 million with total investment earnings of \$8.2 million. The total account balance of both accounts combined, as of close of fiscal year ending June 30, 2023, is \$98.8 million. The general account was at \$57.8 million and the POB Series 2020 was at \$41 million. Ms. Tang then introduced Keith Stribling, with HighMark, to speak on investments.

Mr. Stribling shared that the investment return is part of the equation but having a funding strategy is the most important element, as compounding the return is how we get to these numbers. The county is at the Moderate Index PLUS Passive Strategy, which is a strategic asset allocation of approximately 50/50 mix of stocks and bonds. At the end of June, the accounts were moderately underweight stocks at 47.5%. The accounts are less underweight at this time. In one year, it is up 7.5% and has been compounding over 5.5% since inception.

Mr. Stribling stated that inflation has been a problem in the past year and a half. Ultra-low interest rates and deficit spending on the fiscal policy side is a recipe for inflation. There are two competing macroeconomic forces. Fiscal policy is at a very high level and government spending is at a very high level and that is supporting Gross Domestic Product (GDP). GDP was at 4.9% in the last report which was probably higher than expected. It is supporting employment but also inflation. On the other hand, the Fed took rates to zero with its monetary policy coming out of Covid which was the right thing to do at the time, but when things started normalizing, they continued about a year more than needed and that is when inflation started rising. The banking industry felt it as there were some bankruptcies. There is now a tightening

cycle of the Fed which is typical when rates are raised. The yield curve has been inverted for over a year and typically implies a recession is in the offing. There was some good news in the last six month reading as inflation was 3.9% annualized. At three months it was 2.7% annualized, so there was a gradual decline in inflation even with the economy remaining relatively strong. The Fed will most likely hold steady and cut rates by next June. Mr. Stribling mentioned some risk factors; the two current wars, inflation if Fed makes further policy mistakes, and China's growth.

4. Section 115 OPEB Trust Investment Report for the period ended 6/30/23
Receive and File presented by CalPERS

Chairman Kent introduced Colleen Herrback-Cain, with CalPERS, to speak on item number four, the Section 115 OPEB Trust Investment Report for the period ending 6/30/23. Ms. Herrback-Cain shared an overview of the trust. The California Employers' Retiree Benefit Trust (CERBT) was established by CalPERS in 2007, is a government entity, and as of June 30, 2023, it has 605 employer participants and the assets under management are approximately \$17.6 billion. The CERBT fund has three investment portfolios/strategies. For FY 22/23, the net contributions were at \$1.6 billion.

In November of 2007, when the County of Riverside joined this trust, the initial contribution was \$10.4 million, since then, there has been additional contributions of approximately \$66 million. In 2015, 2016 and 2017, the county did seek reimbursements from the trust, total expenses are close to \$550,000 and investment earnings were a little over \$26 million. As of June 30, 2023, the total assets were at \$96.2 million. This provides a money weighted annualized net rate of return of about 5.1%. Ms. Herrback-Cain gave an overview of the year over year numbers and showed the volatile times for the annualized net rate of returns. However, the inception to date for the net rate of return over time does show a normalized long-term rate of return. Ms. Herrback-Cain then introduced Brad Bachman, with CalPERS, to go over investments.

Mr. Bachman reported on investment performance for CERBT strategies. The report had a timetable that looked across time periods representing one month to ten years for strategies one, two and three. Each strategy performed very closely to the benchmark with a slight amount of excess for each time-period. He pointed out that the CERBT Strategy 1 had positive performance of 5.3% and 6.34% for the ten-year. Strategy 2 had 4.4% and a little over 5% for ten-year returns. The most conservative strategy, Strategy 3, shows 3% positive performance for the five-year and 4% for the ten-year. This is the gross as of June 30, 2023.

Mr. Bachman then shared a graph that showed over the long term, of five and ten years, an overall positive performance. For each CERBT Strategy as for projected compound returns, he showed that the forecasted return for CERBT Strategy 1, is 6%, for CERBT Strategy 2, 5.5% and for CERBT Strategy 3, 5%. The projected volatility with CERBT Strategy 1, which has the highest allocation to equities at 12.1% and Strategy 3 has the lowest at 8.4%. Each CERBT Strategy and these forecasted returns are driven by our asset liability management study which is conducted every four years. The midpoint check-in will be in the summer of 2024. Chairman Kent stated that for the committee and guests, this process is the same as what is done for the public employee retirement fund for CalPERS. Mr. Bachman closed with

the breakdown of the asset allocation and benchmark for each of the three CERBT strategies. CERBT Strategy 1 has the most aggressive of the three and the highest allocation equities at 49% and 23% income. Strategy 2 is at 34% with 41% income and the most conservative allocation, Strategy 3, has 23% equities and 51% income.

5. County of Riverside Part-Time and Temporary Employees' Retirement Plan Investment Report for the period ended 6/30/23
Receive and File – presented by US Bank

Scott Grimm, with US Bank, stated that since the capital market information has been covered, he would highlight the power of inflation and the importance of inflation as the economy continues this path toward the Fed's target of 2% inflation. Inflation was high in 2022 and as shown in this report, the asset allocation in this asset pool is more aggressive than the other pools that were discussed earlier. Equities are at 67%, which is about 10% to 15% more than the other asset pools. With this more aggressive portfolio, there will be higher highs as shown for this year and lower lows like experienced last year, and there should be a higher return over time. The ability to meet a targeted return of 6% or 7% is much easier today than it was three years ago when the yield on the ten year was 60 basis points. As of June 30, 2023, the pool was around \$58.7 million.

The equities summary shows a total value of \$39.4 million. It's made up of large cap, mid cap, developed markets, emerging markets and small cap. In the U.S., the equities global distribution is at 70%. The bank fundamentally believes that the U.S. structure will outperform the rest of the world over the long term. The country is aging but is still younger than Europe, China and Japan, although, the portfolio still remains diversified with the magnificent seven stocks, such as Facebook, Netflix, Microsoft and Googles of the world. To highlight this, through June, the S&P 500 was up around 20%. NVIDIA is up 190%, Tesla is up 112%. Therefore, if the S&P was up without those seven stocks the S&P was probably up 6% or 7%. That shows how significant those seven were to the performance through June 30. This illustrates the strength of the market and the driver of the market was inflation. The first six months of this year, consistently, month after month, was a nice steady pattern of inflation coming down.

6. Draft 2024 PARC Report
Receive and File – presented by Chairman Kent

Chairman Kent shared a few highlights from the DRAFT 2024 Annual PARC Report. He went over percentages, investments, net gains, accrued liability increases and decreases and the CalPERS market value of assets from the previous year. The FY 24/25 year-over-year increase is 0.40% for the Miscellaneous Plan and 2.50% for the Safety Plan. Over the next five years, the Miscellaneous and Safety pension plan contribution rates are projected to increase by a total of 4.5%, and 10.6%, respectively.

Regarding FY 21/22 investment losses, the \$1 billion decrease in MVA, \$1.79 billion increase in UAAL, and, corresponding 11.3% decrease in funded status to 75.3% with CalPERS was primarily due to CalPERS' -6.1% investment return. Both plans combined went from 86.6% in 2021 to 75.3% in 2022. Foster and Foster mentioned net gains on the 2020 POBs of \$84 million and that remains. There is also a \$33 million increase in the combined POB proceeds. Chairman Kent went on to share a chart which showed the CalPERS investment returns. Although there is recent investment underperformance causing a reduction in the combined

funded status, the return should be at 80% within the next decade while projecting a steady position until that point.

Chairman Kent also went over the employee contribution rate outlook, the miscellaneous short-term and long-term rates. The annualized rate of return since inception is at 5.38% for the 2016 Section 115 Pension Trust. For the 2020 Section 115 Pension Trust it is at 3.14%. Within ten years, there will be more than \$200 million in contributions made to both Trust accounts combined. Total assets as of June 30, 2023 were \$98.8 million. The funded status of OPEB in 2023 is at 66.40%. For Part-Time and Temporary Employees' Retirement plans, the funded status is at 82.9% in 2023. In November 2023, the PARC approved to maintain the current rates of approximately 1.1% of payroll for OPEB to achieve a projected funded status of 80% by June 30, 2026. In November 2023, the PARC approved to maintain the current rates of approximately 5.58% (for those departments that utilize TAP) for the Part-Time and Temporary Employees' Retirement Plan to maintain a funded status of 80% or greater.

7. Other Business

None

8. Public Comment:

No public comment.

9. Next Meeting Date:

TBD

10. Adjourn:

With no further business, Chairman Kent adjourned the Pension Advisory Review Committee Meeting at 11:27 a.m.