



## MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Wednesday, June 10, 2020  
1:08 pm – 2:20 pm  
Via Zoom Teleconference  
Civic Center, 2000 Main Street  
Huntington Beach, California 92648

### **CALL TO ORDER**

The meeting was called to order at 1:08 pm.

### **ROLL CALL**

Present: Ms. Alisa Backstrom, City Treasurer  
Mr. Dahle Bulosan, Chief Financial Officer  
Mr. Travis Hopkins, Assistant City Manager

Guests: Mr. Darren Stewart, Benefit Financial Services Group (“BFSG”)  
Mr. Christopher Rowey, BFSG  
Mr. Richard Rosenthal, U.S. Bank  
Ms. Carolyn Cox, U.S. Bank  
Mr. Timothy Banach, U.S. Bank

### **PUBLIC COMMENTS**

None

### **INVESTMENT MANAGER REQUEST FOR PROPOSAL PROCESS**

The Board reviewed an updated timeline for the Investment Manager Request for Proposal (“RFP”) process and unanimously agreed to target issuance in July and award a contract by the end of November. Mr. Bulosan will provide BFSG with the most recent actuarial report, who will then work with Ms. Backstrom and the City’s procurement department to post the RFP.

### **BFSG PORTFOLIO REVIEW / IPS ASSET ALLOCATION REVIEW**

The Board received and filed the Quarterly Investment Review (the “Report”) dated March 31, 2020. Mr. Rowey provided a brief overview of economic and market conditions as they related to the performance of the Plan’s investments.

The allocation of the portfolio as of March 31, 2020 fell within the permissible ranges as set forth by the Investment Policy Statement (“IPS”). During the quarter U.S. Bank made significant changes to the portfolio’s fixed income holdings, greatly reducing the credit risk as the value of these assets declined.

For the quarter, the portfolio underperformed its custom benchmark by approximately one percent. An overweight to domestic equity relative to foreign equity was beneficial but was offset by poor fixed income performance related to an overweight to credit for most of the quarter.

Each investment in the portfolio as of March 31, 2020 ranked above average relative to their category peers based on BFSG’s Evaluation Methodology which examines returns, risk, style, and expense. T.

Rowe Price Mid Cap Value improved to “perform” from “underperform” the prior quarter as management’s conservative stock picking and large cash position helped the fund to outperform during the market decline.

Mr. Stewart reviewed the current IPS allocation using JP Morgan’s most recent capital market assumptions. The allocation is expected to have an average long-term return of 7.25% and a standard deviation of 12.18. The Board also reviewed an allocation proposed by BFSG that would reduce the long-term expected return to 6.25% but also reduce standard deviation to 8.99.

### **INVESTMENT POLICY STATEMENT REVISION**

After review of the proposed portfolio, the Board unanimously agreed to revise the Target Allocation of the IPS to that of BFSG’s proposed portfolio effective July 1, 2020. As mentioned above, this revised allocation based on the most recent capital market assumptions will target a long-term expected return of 6.25%. This matches the City’s actuarial targeted return of 6.25% while serving to reduce the overall risk of the portfolio. In accordance with the IPS, U.S. Bank will have until July 31, 2020 to bring the portfolio into compliance.

### **U.S. BANK PORTFOLIO REVIEW**

Ms. Cox reported that Yuval Selik, the City’s relationship manager is no longer with U.S. Bank and that Mr. Banach is his replacement.

The Board received and filed U.S. Bank’s Portfolio Review dated April 30, 2020, which also included performance data through May 31, 2020.

Mr. Rosenthal highlighted the market conditions as they related to changes made to the portfolio. Mr. Rosenthal commented that he aimed to reduce risk within fixed income when he received reports from U.S. Bank fixed income traders that liquidity for credit was seizing up near the end of March. At that point, he made the decision to reduce exposure to funds with heavy credit exposure and replace them with those more heavily invested in U.S. treasuries. He also removed Victory Trivalent International Small Cap to reduce international exposure and overall risk. Mr. Rosenthal provided a conservative outlook identifying significant risk factors remaining in the economy and market.

As of the end of the previous trading day, the portfolio recovered most of its losses during the first quarter. Through May, the portfolio outperformed its custom benchmark largely due to equity manager selection, both foreign and domestic. Although the fixed income portfolio outperformed for April and May, it has underperformed during all other periods measured due to the significance of underperformance in March.

### **ADJOURNMENT**

With no further issues to discuss the meeting was adjourned at 2:20 pm. The next meeting will be held July 29, 2020.