INVESTMENT COMMITTEE of the ORANGE COUNTY COMPTROLLER'S OFFICE

MINUTES OF ITS MEETING

December 10, 2015, 1:30 PM

Orange County Comptroller's Office
Administration Meeting Room
Orange County Administration Center, 4th Floor

Members attending: Bob Tessier, Margaret McGarrity, Mark Fostier, Paul Wunderlich and Barry Skinner

Staff: Robin Ragaglia, Jordan Cupps, Sean Polland and Carl Anderson

Guest: Grant Kalson

1. Ms. McGarrity opened the meeting to public comment

   There were no comments.

2. Minutes of the last meeting

   The Committee approved the minutes of the August 18, 2015, meeting by unanimous consent.

3. Review of the Retiree Health Care Benefit Trust

   Mr. Kalson presented the *Retiree Health Care Benefit Trust Performance Review – Fiscal Year Ended September 30, 2015*. The OPEB Trust had a total return of -6.5% for the quarter and -2.0% for Fiscal Year 2015. He also informed the Committee that the Vanguard Total International Stock Index Fund added small-cap companies to its asset mix.

   Mr. Kalson provided a handout comparing the Orange County OPEB asset allocation with other OPEB plans. Orange County's allocation to equities was relatively high. However, the Committee was comfortable with the allocation because it replicates the Vanguard Target Date Funds Glide Path at 20 years from retirement. Mr. Kalson also provided a handout of market forecasts by Goldman Sachs, which dovetailed into a discussion on the actuarially assumed rate of return.

   Mr. Wunderlich provided an analysis performed by Aon that projected long-term returns based on the County's OPEB asset allocation. Mr. Fostier instructed Mr. Polland to have the OPEB plan's actuary perform an expected return analysis every two years and to add this requirement to the Retiree Health Care Benefit Trust Investment Policy. Aon's model projects an average long-term return of 6.7% with a risk volatility of 15.12%, resulting in an upper band of expected returns of 7.7% and a lower band of 5.6%. The Committee believed the current rate of 7.5% was too high.

   Mr. Kalson opined that the current rate seemed reasonable based on the historical returns of the U.S. stock market, 10% annual returns over the past 100 years. Mr. Polland added that reasons to adjust the assumed rate of return include changes in asset allocation, market expectations and structural shifts in the economy. He also presented the reasons CalPERS had reduced its assumed rate to 7.5% and will further lower the rate to 6.5% over a 20-year time frame. CalPERS is becoming more risk averse due to its aging workforce, returns failing to meet expectations and more conservative investments.

Mr. Skinner made a motion to recommend to the Comptroller a reduction in the actuarially assumed rate of return to 6.75%. Mr. Tessier seconded the motion. The Committee discussed the implications of the change, particularly with regard to the effect on future contributions. Mr. Polland added that a 75 basis point adjustment was large compared with changes typically made in pension or OPEB plans. The motion failed in a 3-to-2 vote. Ms. McGarrity, Mr. Fostier and Mr. Wunderlich voted against the motion. Mr. Skinner and Mr. Tessier voted for the motion.

Mr. Wunderlich made a motion to recommend to the Comptroller a reduction in the actuarially assumed rate of return to 7%. Mr. Fostier seconded the motion. The motion passed in a unanimous vote.

4. Review and discussion of rates of return and investment positions

   Mr. Anderson distributed and presented the following reports:

   Effective Rates of Return by Asset Class for September, October and November
   Current Rates as of December 9, 2015
   Investment by Classification report as of December 9, 2015

   Discussion followed. No action was taken.

5. Review and discussion of cash balances and cash flow

   Mr. Anderson distributed and presented the following reports:

   Pool Balance & Noncurrent Portfolio
   Cash Flow Analysis
   Equity in Pool Chart 12/1/06 – 12/1/2015

   Discussion followed. No action was taken.

6. Review of Agencies

   Mr. Anderson presented a review of agency securities, also known as instrumentalities. Agency debt is not guaranteed by the full faith and credit of the U.S. government but there is an implicit backing. Fannie Mae and Freddie Mac are currently in conservatorship. Mr. Anderson believes the securities are safe and suggested the Committee may want to consider increasing its investment guidance limit of 10% of the portfolio (the Policy allows for 45% of the portfolio to be invested in agencies).

   Mr. Skinner made a motion to increase the Committee's guidance limit on agencies/instrumentalities to 15% of the total portfolio. Mr. Tessier seconded the motion. The motion passed in a unanimous vote.

7. Next meeting date: March 22, 2016

[redacted]
Minutes prepared by: Sean Polland

3/22/16
Date

[redacted]
Attest: Margaret A. McGarrity

3/22/2016
Date