County of Riverside
Pension Advisory Review Committee (PARC)

Thursday, January 20, 2022
10:30 a.m.

IMPORTANT NOTICE REGARDING PARC MEETING

This meeting is being conducted utilizing teleconferencing and electronic means. This is consistent with State of California Executive Order N-29-20 dated March 17, 2020, regarding the COVID-19 pandemic.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Jen Kammerer at (951) 955-1136. Notification 48 hours prior to the meeting will enable us to make reasonable arrangements to ensure accessibility to the meeting [28 CFR 35 .102.35.104 ADA Title II].

Submission of Public Comments: For those who wish to make public comments at this meeting, please submit your comments by email to Jen Kammerer at jkammerer@rivco.org prior to 9:00 a.m. on January 20, 2022. All email comments shall be subject to the same rules as would otherwise govern speaker comments at the meetings. All email comments shall not exceed three (3) minutes and will be read out loud at the meeting and become part of the record of the meeting.

A G E N D A

1. Call to Order and Self-Introductions

2. Approval of Resolution No. 2022-001 a Resolution of the Pension Advisory Review Committee authorizing remote teleconference meetings of the legislative bodies of the Pension Advisory Review Committee for the period of January 20, 2022 to February 19, 2022 pursuant to the Ralph M. Brown Act

3. Approval of the Meeting Minutes from December 16, 2021

4. County of Riverside Part-time and Temporary Employees' Retirement Plan - Investment Report for the period ended 6/30/21 - US Bank Institutional Asset Management

5. Board Policy B-25 – final draft
6. 2022 PARC Report - draft review
7. New Business
8. Public Comment
9. Next Meeting Date – TBD
10. Adjourn

RESOLUTION NO. 2022-001

A RESOLUTION OF THE PENSION ADVISORY REVIEW COMMITTEE AUTHORIZING REMOTE TELECONFERENCE MEETINGS OF THE LEGISLATIVE BODIES OF THE PENSION ADVISORY REVIEW COMMITTEE FOR THE PERIOD OF JANUARY 20, 2022 TO FEBRUARY 19, 2022 PURSUANT TO THE RALPH M. BROWN ACT.

WHEREAS, all meetings of the Pension Advisory Review Committee and its legislative bodies are open and public, as required by the Ralph M. Brown Act (Cal. Gov. Code §§ 54950 – 54963), so that any member of the public may attend, participate, and view the legislative bodies conduct their business; and

WHEREAS, the Brown Act, Government Code section 54953(e), makes provisions for remote teleconferencing participation in meetings by members of a legislative body, without compliance with the requirements of Government Code section 54953(b)(3), subject to the existence of certain conditions and requirements; and

WHEREAS, a required condition of Government Code section 54953(e) is that a state of emergency is declared by the Governor pursuant to Government Code section 8625, proclaiming the existence of conditions of disaster or of extreme peril to the safety of persons and property within the state caused by conditions as described in Government Code section 8558(b); and

WHEREAS, a further required condition of Government Code section 54953(e) is that state or local officials have imposed or recommended measures to promote social distancing, or, the legislative body holds a meeting to determine or has determined by a majority vote that meeting in person would present imminent risks to the health and safety of attendees; and

WHEREAS, on March 4, 2020, Governor Newsom issued a Proclamation of a State of Emergency declaring a state of emergency exists in California due to the threat of COVID-19, pursuant to the California Emergency Services Act (Government Code section 8625); and,

WHEREAS, on June 11, 2021, Governor Newsom issued Executive Order N-07-21, which formally rescinded the Stay-at-Home Order (Executive Order N-33-20), as well as the framework for a gradual, risk-based reopening of the economy (Executive Order N-60-20, issued on May 4, 2020) but did not rescind the proclaimed state of emergency; and,

WHEREAS, on June 11, 2021, Governor Newsom also issued Executive Order N-08-21, which set expiration dates for certain paragraphs of the State of Emergency Proclamation dated March 4, 2020 and other Executive Orders but did not rescind the proclaimed state of emergency; and,

WHEREAS, as of the date of this Resolution, neither the Governor nor the state Legislature have exercised their respective powers pursuant to Government Code section 8629 to lift the state of emergency either by proclamation or by concurrent resolution the state Legislature; and,

WHEREAS, the California Department of Industrial Relations has issued regulations related to COVID-19 Prevention for employees and places of employment. Title 8 of the California Code of Regulations, Section 3205(5)(D) specifically recommends physical (social) distancing as one of the measures to decrease the spread of COVID-19 based on the fact that particles containing the virus can travel more than six feet, especially indoors; and,

WHEREAS, the Pension Advisory Review Committee finds that state or local officials have imposed or recommended measures to promote social distancing, based on the California Department of Industrial Relations' issuance of regulations related to COVID-19 Prevention through Title 8 of the California Code of Regulations, Section 3205(5)(D); and,

WHEREAS, as a consequence, the Pension Advisory Review Committee does hereby find that it and its legislative bodies shall conduct their meetings by teleconferencing without compliance with Government Code section 54953 (b)(3), pursuant to Section 54953(e), and that such legislative bodies shall comply with the requirements to provide the public with access to the meetings as prescribed by Government Code section 54953(e)(2).

NOW, THEREFORE, BE IT RESOLVED, FOUND AND ORDERED by the Pension Advisory Review Committee in regular session assembled on January 20, 2022 does hereby resolve as follows:

Section 1. Recitals. All of the above recitals are true and correct and are incorporated into this Resolution by this reference.

Section 2. State or Local Officials Have Imposed or Recommended Measures to Promote Social Distancing. The Pension Advisory Review Committee hereby proclaims that state officials have imposed or recommended measures to promote social (physical) distancing based on the California Department of

Industrial Relations' issuance of regulations related to COVID-19 Prevention through Title 8 of the California Code of Regulations, Section 3205(5)(D).

Section 3. Remote Teleconference Meetings. The Pension Advisory Review Committee and any of its legislative bodies are hereby authorized and directed to take all actions necessary to carry out the intent and purpose of this Resolution including, conducting open and public meetings in accordance with Government Code section 54953(e) and other applicable provisions of the Brown Act.

Section 4. Effective Date. This Resolution shall take effect immediately upon its adoption and shall be effective until the earlier of (i) February 19, 2022, or (ii) such time the Pension Advisory Review Committee adopts a subsequent resolution in accordance with Government Code section 54953(e)(3) to extend the time during which its legislative bodies may continue to teleconference without compliance with Section 54953(b)(3).

ADOPTED this 20th day of January, 2022 by the Pension Advisory Review Committee, by the following vote:

YES:
NO:
ABSENT:
ABSTAIN:

County of Riverside
Pension Advisory Review Committee

MINUTES OF MEETING

December 16, 2021
10:00 a.m.

Members Present:

Don Kent	Chairman, County Executive Office
Paul Angulo	Auditor-Controller
Brenda Diederichs	Human Resources
Undersheriff Dennis Vrooman	Sheriff
Matt Jennings	Treasurer-Tax Collector

Members Absent:

None

Staff and Guests Present:

Bradley Au	Aon
Steven Kilbride	Aon
Mary Beth Redding	Bartel and Associates
Matt Goss	CalPERS
Michael Williams	Columbia Capital
Jim Prichard	Columbia Capital
Kristine Bell Valdez	County Counsel
Imelda Delos Santos	Executive Office
Jen Kammerer	Executive Office
Jarvyk Punzalan	Executive Office
Michael Ambolo	Executive Office
Paul McDonnell	Fieldman Rolapp
Darrylenn Brockington	Flood Control
Keith Stribling	HighMark Capital
Amy Onopas	Human Resources
Stacey Beale	Human Resources
Michael Alferez	Parks
Mitch Barker	PARS
Angela Tang	PARS
Aileen Yan	Riverside Courts
Carol Waterhouse-Tejada	Riverside Courts
Elaine Cisneros	Riverside Courts
Jonathan Clark	Riverside Courts
Margaret Herrero	Waste Resources
Sandra Green	Waste Resources
Hans Kernkamp	Waste Resources

1. Call to Order and Self-introductions:

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

2. Approval of Resolution No. 2021-001

MOTION: Don Kent moved to approve the Resolution.
Seconded by Brenda Diederichs Motion approved unanimously

3. Approval of the Minutes for January 13, 2021

MOTION: Matt Jennings moved to approve the Minutes.
Seconded by Don Kent Motion approved unanimously

4. Section 115 OPEB Trust Report for the period ended 6/30/21 - CERBT

Matt Goss from CalPERS reported that the County of Riverside's initial contribution was $10,411,404 on Nov. 30, 2007. Since that time, through June 30, 2021, the County has contributed an additional $30,775,984. Investment earnings during this period were $32,029,580, bringing the County's total assets to $52,228,250. CalPERS charges for all administrative costs and internal/external fees were $408,137 during this time. Annualized net rate of return over the 13.59 years is 7.53%.

During the January 13, 2021 PARC meeting, after receipt and discussion of OPEB Trust Report Strategy Review and Recommendation, the Committee approved investment into CERBT Strategy 1. Since that time, the following new investments have occurred, which includes monthly transfer out of CERBT Strategy 2 into Strategy 1.

The County's initial contribution on March 1, 2021 was $600,000, and additional contributions of $5,600,000 have been made. Along with investment earnings of $760,003, total assets in Strategy 1 are $21,396,758 as of June 30, 2021.

Currently, total CERBT assets in both Strategy 1 and 2 is $73,625,008 and total CERBT investment earnings is $32,789,583.

Report was received and filed.

5. Section 115 Pension Trust Report for the period ended 6/30/21 - PARS

Angela Tang from PARS reported that the County's initial contribution in November 2016 was $2,099,212. As of June 30, 2021, with additional contributions of $42,489,376 and investment earnings of $11,668,525, the account balance is $55,767,653.

Keith Stribling from HighMark Capital stated that the County is in the moderate passive strategy which is approximately a 50/50 mix of stocks and bonds. Returns have been good, up over almost 20% for the one-year period and up over 6.5% for the six-month period. The new pension trust account associated with the Series 2020 POBs is up almost 14.5% since inception.

Report received and filed.

6. County of Riverside Actuarial Valuation Report Postretirement Benefits Plan as of June 30, 2021 - AON

Steven Kilbride from AON gave a summary of changes from July 1, 2020 to July 1, 2021. Looking at the unfunded AAL, there was a reduction of $10.2 million resulting in a 9% improvement in funded status. Looking at GASB 75 Accounting we see the net OPEB liability up $4.3 million, and a 5.8% improvement in plan fiduciary net position as a percentage of the OPEB liability.

Don Kent stated that looking at 2020 to 2021, we see a funded status improvement. Per Board Policy, the current actuarial schedule projects the Board Policy's 80% minimum funding level, excluding implicit subsidy, would be reached in 2027 with $16.9 million to be charged to departments annually beginning in FY 21/22, (an increase of $7.9 million from the current $9 million required in FY 20/21).

Mr. Kent recommended that the County continue moving forward with the $16.9 even though the AON report shows we could drop that number down a little. Mr. Kent's goal, per policy, is to get to 80% or better. The difference showing on the report is very nominal when spread out between all County departments and employees.

> **MOTION: Don Kent moved to approve the recommendation to continue to stay on target with $16.9 million.**
> **Seconded by Mett Jennings Motion approved unanimously**

Report received and filed.

7. County of Riverside Actuarial Valuation Report Part-time and Temporary Employees' Retirement Plan as of June 30, 2021 – AON

Mr. Kilbride reported that funded status improved. The unfunded liability had a $1 million improvement which will lower the County's contribution. For GASB 68 Expense, there was a large improvement in net pension liability -$1.5 million. The plan shows over 80% funded as of June 30, 2021 and is projected to be above 80% in future. If the County would like to get to 90% by 2023, a contribution of approximately $500,000 would be needed.

Looking at FYE 2023 contributions, current situation is zero contribution under funding "policy". Mr. Kent stated that the County had good performance this year, but it is not clear what the next fiscal year will bring. He recommends that the County maintains the percent of pay as is, and see where the County ends up in a year or two.

MOTION: Don Kent moved to approve the recommendation to continue to stay on course with current rate and dollar structure.
Seconded by Brenda Diederichs Motion approved unanimously

Report received and filed.

8. County of Riverside CalPERS Miscellaneous and Safety Plans Independent Actuarial Report – 6/30/20 Valuation Preliminary Results – Bartel Associates

Mary Beth Redding from Bartel Associates reported that for the fiscal year ended June 30, 2021, CalPERS had a 21.3% rate of return, which will be phased into rates over 5 years. The 10-year rolling average is higher than assumed rate of return and has been for the past three years. The 20-year average rate of return on 6/30/21 is 6.9% and 30-year average rate of return is 8.3%.

The 21.3% return triggered CalPERS' Risk Mitigation Strategy for the first time. At their November 2021 meeting, CalPERS Board adopted a 6.8% discount rate, which means lower expected returns in future, however, the new portfolio asset allocation has more risk and expected to be more volatile. The Risk Mitigation Strategy is still in effect and has been put into projections.

The Miscellaneous Plan as of June 30, 2020 has 17,467 active employees and 12,557 retirees. 8,001 of active employees are PEPRA. The Miscellaneous Plan's unfunded liability decreased by about $250 million and a big piece of that was the POB money that went in before June, of which $371.6 million POB proceeds transferred to CalPERS in May 2020. Projections for June 30, 2021 with CalPERS 21.3% return will impact the unfunded liability by dropping from $2.2 billion to $1.5 billion. Funded status is 75%.

The Safety Plan as of June 30, 2020 has 3,404 active employees and 2,999 retirees. 1,089 of active employees are PEPRA. Funded status for Safety is 79.4% (average Safety Plan at CalPERS is 69%). Unfunded liability decreased mainly because of the $344.3 million POB proceeds transferred to CalPERS in May 2020. It went down to about $832 million, and it is projected to go to down to $476 million in 2021.

As of June 30, 2021, the 2005 POB proceeds balance invested at CalPERS is $475 million, and the outstanding bond balance as of February 15, 2022 (the next principal and interest payment) is $160.5 million.

As of June 30, 2021, the 2020 POB proceeds balance invested at CalPERS is $381 million (Safety) and $411 million (Miscellaneous) for a total of $792 million. So far, it has earned $153 million. Outstanding bond balance as of February 15, 2022 (the next principal and interest payment) is $659.5 million.

Report was received and filed.

9. Board Policy B-25 – Proposed Updates

Don Kent stated that after discussions with the Executive Management team the compensated absence balance needs to be addressed. It currently exceeds $300 million as reported by the Auditor-Controller in the Annual Comprehensive Financial Report. The following is being added to the policy to address this, “and other retirement or termination related items such as compensated absences for employees’ accrued annual, vacation or sick leave balances.”

Mr. Kent reviewed additional proposed changes throughout policy with Committee Members and introduced the new Chief Finance Officer, Michael Ambolo. One item of importance mentioned is the need for Committee Members to designate an alternate in the event of their absence to ensure full quorum at all times. The revised policy and the Annual Report will be going to the Board on February 8 or March 1.

> **MOTION: Don Kent moved to receive and file pending further review and bring back to Committee on January 20 for final approval.**
> **Seconded by Matt Jennings Motion approved unanimously**

Report received and filed.

10. 2022 PARC Draft Report Discussion

Don Kent shared that a draft is not ready to share today. Will work on getting a draft out to Committee members soon for comments.

11. New Business

None

12. Public Comment

No public comment.

13. Future Meeting Date:

The next meeting is scheduled for January 20, 2022 at 10:30 a.m.

14. Adjourn:

With no further business, Don Kent adjourned the Pension Advisory Review Committee Meeting at 12:05 p.m.

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' RETIREMENT PLAN

as of June 30, 2021

U.S. Bank Institutional Asset Management

Investment products and services are:

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Your U.S. Bank Team

Rick Rosenthal
Vice President &
Senior Portfolio Manager
Institutional Asset Management
213.359.7954
richard.rosenthal@usbank.com

Terra Murphy
Vice President &
Relationship Manager
Institutional Trust & Custody
925.214.2262
terra.murphy@usbank.com

Table of Contents

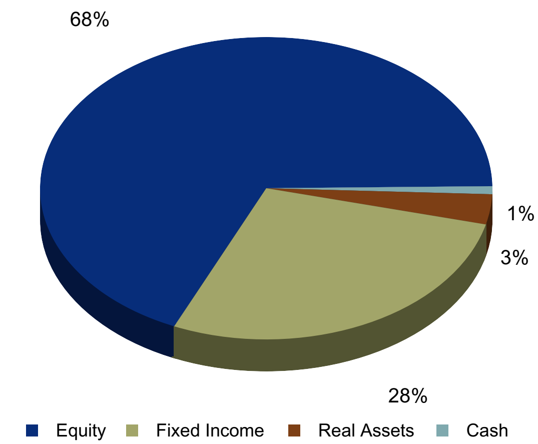
PORTFOLIO REVIEW

Portfolio Summary

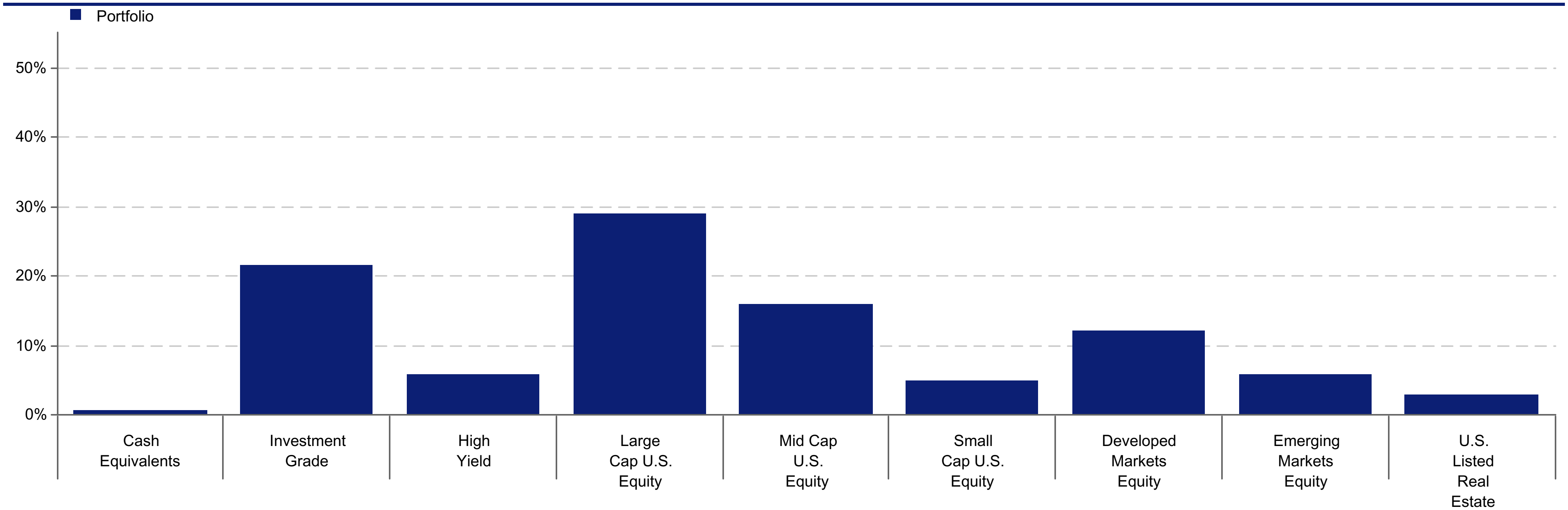
Inv. Objective	Balanced/Nontaxable-1
Total Portfolio Value	$61,318,785
Net Realized Cap Gains YTD	$427,788
Annual Income Projected	$912,058
Current Yield	1.49%
Number of Securities	12
Portfolio Mgr.	Rick Rosenthal

Portfolio Asset Allocation

Equity	$41,935,962	68.39%
Fixed Income	$16,999,600	27.72%
Real Assets	$1,868,457	3.05%
Cash	$514,765	0.84%
Invested Total	**$61,318,785**	**100.00%**



Portfolio Model Allocation



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Holdings Date: 6/30/2021

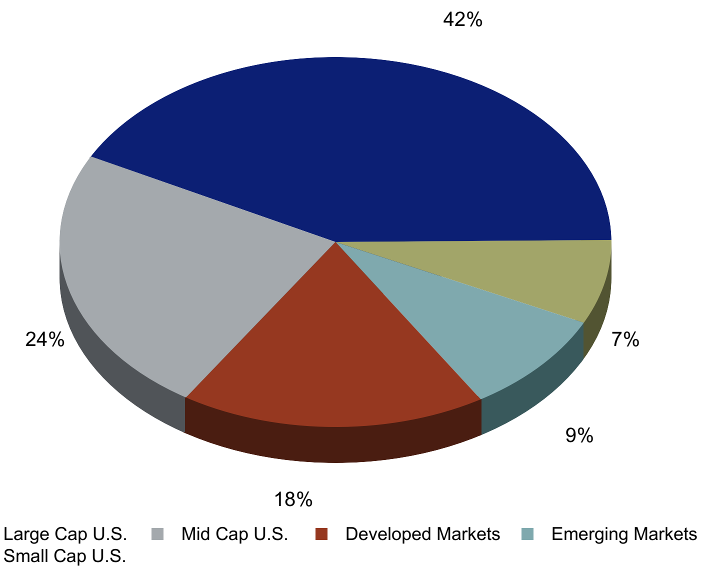
Account: XXXXX6550 *Holdings Method: Direct and Indirect* *Report Date: 06/30/2021*

Equity Summary

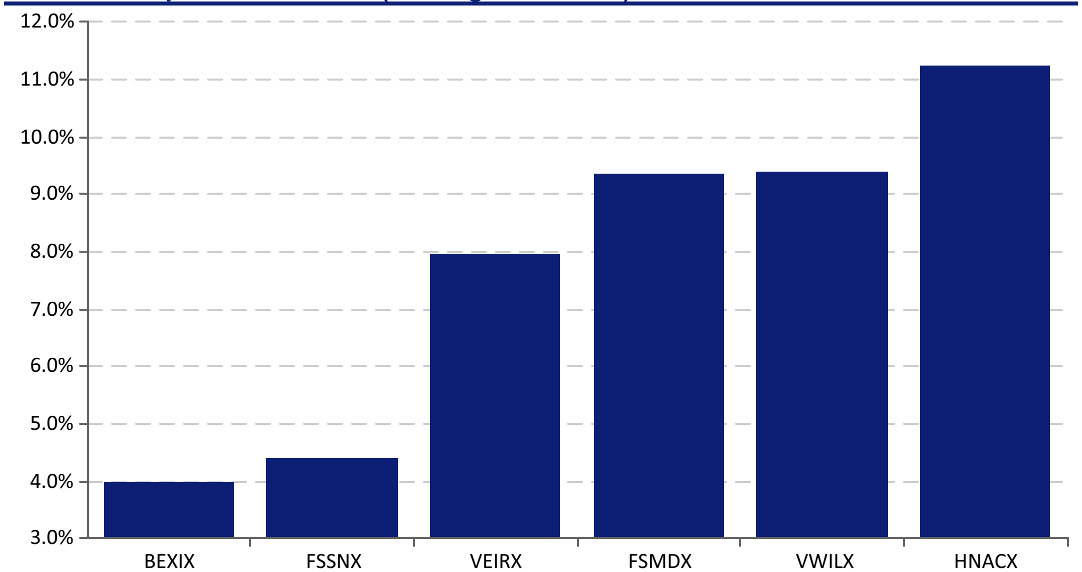
Inv. Objective	Balanced/Nontaxable-1
Total Equity Value	$41,935,962
Current Yield	.80%
Annual Income Projected	$334,638
Number of Securities	6
Portfolio Mgr.	Rick Rosenthal

Equity Asset Allocation

Large Cap U.S.	$17,798,542	42.44%
Mid Cap U.S.	$9,859,840	23.51%
Developed Markets	$7,505,735	17.90%
Emerging Markets	$3,709,725	8.85%
Small Cap U.S.	$3,062,120	7.30%



Bottom 5/ Top 5 Contributors (Trailing 12 Months)



Equity Global Distribution

Equity Country Distribution

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Holdings Date: 6/30/2021

Account: XXXXX6550 *Holdings Method: Direct and Indirect* *Report Date: 06/30/2021*

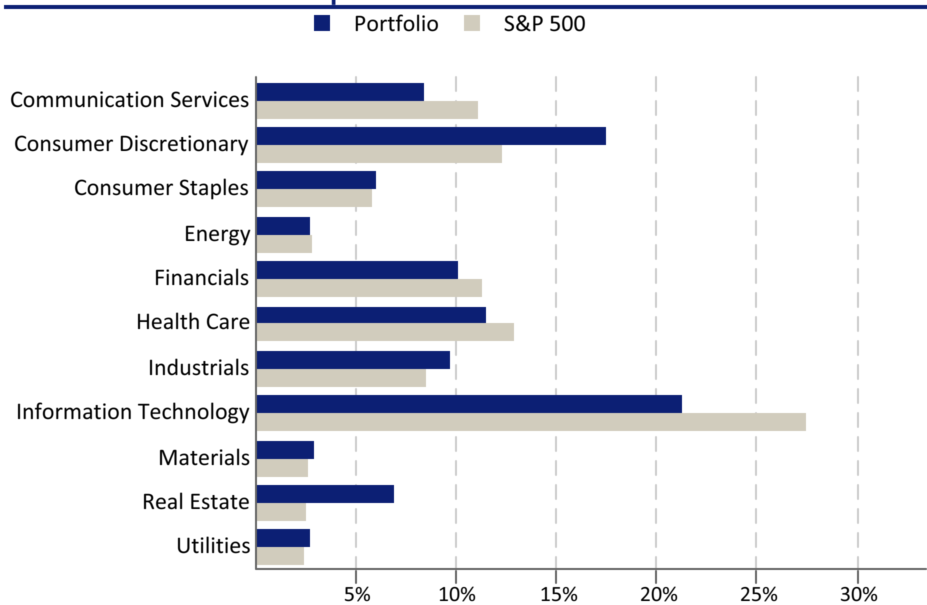
Top 10 Common Stock Holdings

	Equity (%)	Port (%)	Yield (%)	YTD Return (%)	52 Wk Return (%)
Tesla Inc	1.78	1.21	--	-3.7	214.7
Amazon.com, Inc.	1.77	1.20	--	5.6	24.7
Apple Inc.	1.30	0.88	0.50	3.5	51.2
Tencent Holdings Ltd.	1.21	0.82	0.30	3.8	17.4
ASML Holding NV	1.11	0.75	0.50	46.2	78.4
Shopify, Inc. Class A	1.07	0.73	--	29.1	53.9
Microsoft Corporation	1.07	0.73	0.80	22.4	34.4
NVIDIA Corporation	1.07	0.73	0.10	53.3	110.8
Meta Platforms Inc. Class A	1.02	0.70	--	27.3	53.1
Kering SA	1.01	0.69	1.30	25.6	54.1

Common Stock Characteristics

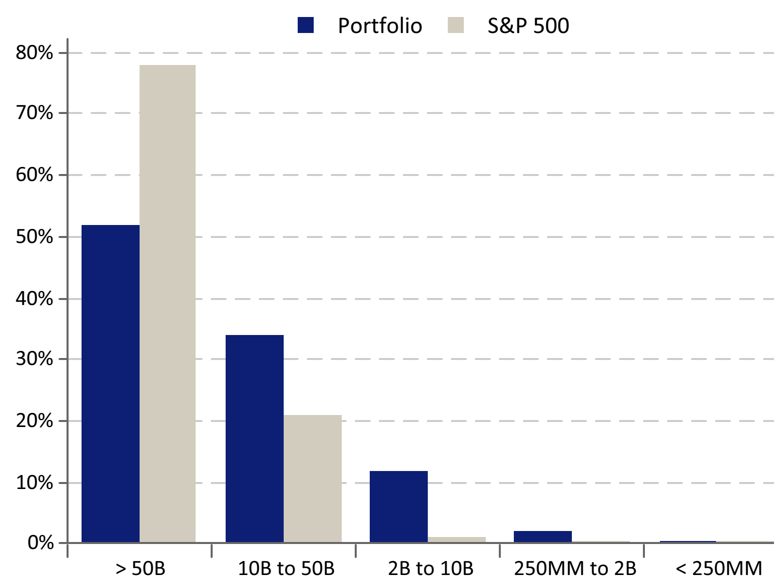
	Portfolio	S&P 500
Market Cap - Wtd Avg	$230.8B	$542.2B
Market Cap - Median	$2.9B	$30.3B
Dividend Yield (%)	1.24	1.38
P/E NTM	21.3	21.2
P/E LTM	22.8	23.4
ROE (%)	11.2	23.5
1 Yr Beta vs. S&P Composite	.98	.99
Est 3-5 Yr EPS Growth (%)	16.9	17.0
Hist 3 Yr EPS Growth (%)	17.9	23.5
Number of Securities	3059	503

Common Stock Sector Exposures



	Portfolio	S&P 500
Communication Services	8.46	11.16
Consumer Discretionary	17.54	12.30
Consumer Staples	6.06	5.87
Energy	2.79	2.86
Financials	10.15	11.30
Health Care	11.48	12.90
Industrials	9.68	8.50
Information Technology	21.31	27.45
Materials	2.90	2.61
Real Estate	6.88	2.58
Utilities	2.74	2.46

Common Stock Market Cap Distribution



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Holdings Date: 6/30/2021

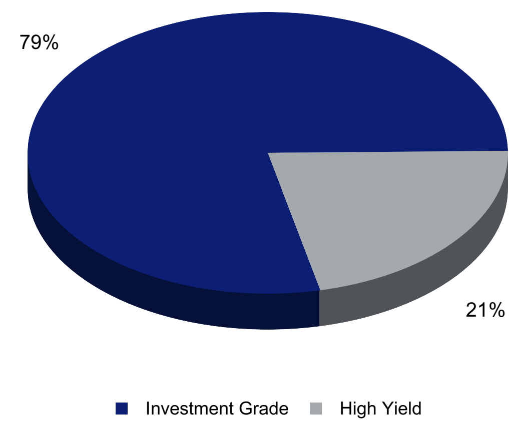
Account: XXXXX6550 | *Holdings Method: Direct* | *Report Date: 06/30/2021*

Fixed Income Summary

Inv. Objective	Balanced/Nontaxable-1
Total Fixed Income Value	$16,999,600
Current Yield	3.05%
Annual Income Projected	$518,963
Number of Securities	4
Portfolio Mgr.	Rick Rosenthal

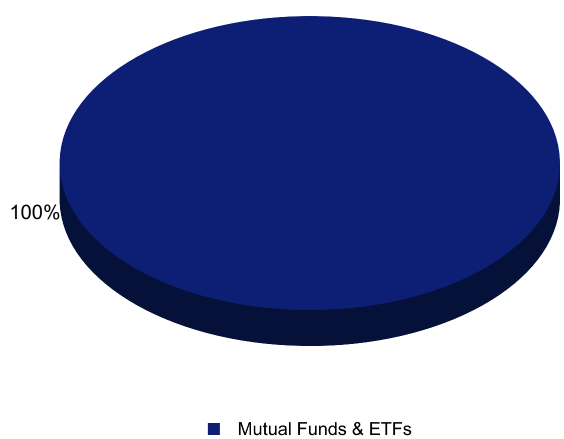
Fixed Income Asset Allocation

Investment Grade	$13,349,577	78.53%
High Yield	$3,650,024	21.47%

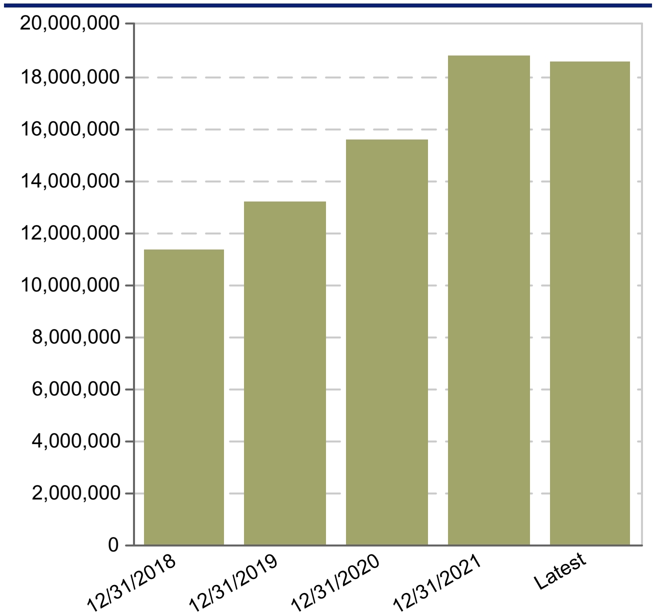


Fixed Income Sector Exposures

Mutual Funds & ETFs	$16,999,601	100.00%



Fixed Income Market Value



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Holdings Date: 6/30/2021

Selected Period Performance

	Market Value	3 Months	Year to Date (6 Months)	1 Year	3 Years	5 Years	10 Years	Inception to Date 10/01/2010
Total Portfolio Gross of Fees	61,359,863	6.24	8.29	31.27	12.60	12.09	8.48	8.44
Total Portfolio Net of Fees	61,359,863	6.15	8.10	30.81	12.19	11.68	8.13	8.11
Balance/Nontaxable-1		5.79	7.77	26.28	10.62	9.86	6.92	7.42
Total Equity	41,935,962	7.82	11.91	46.41	16.62	16.82	11.67	11.86
S&P 500 Index (Total Return)		8.55	15.25	40.79	18.67	17.65	14.84	15.45
S&P MidCap 400 Index		3.64	17.59	53.24	13.17	14.29	12.40	13.68
S&P SmallCap 600 Index		4.51	23.56	67.40	12.20	15.82	13.49	14.85
MSCI EAFE Index (Net)		5.17	8.83	32.35	8.27	10.28	5.89	6.58
MSCI Emerging Markets Index (Net)		5.05	7.45	40.90	11.27	13.03	4.28	4.75
Total Fixed Income	17,040,676	2.21	-.51	2.48	4.01	3.28	3.25	3.25
BBARC 1-5 Year US Government/Credit Index		.27	-.30	.40	3.70	2.18	1.98	1.95
BBARC Intermediate US Government/Credit Index		.98	-.90	.19	4.70	2.63	2.76	2.66
BBARC US Aggregate Bond Index		1.83	-1.60	-.33	5.34	3.03	3.39	3.29
Total Real Assets	1,868,457	11.60	19.54	31.70	9.06	6.54		
S&P Global REIT Index (Gross)		10.43	17.55	36.11	8.40	5.77	8.01	9.08
Total Cash Equivalents	514,768	.00	.00	.01	.96	.79	.40	.37
FTSE 3 Month Treasury Bill Index		.01	.03	.08	1.31	1.14	.60	.57

For performance and rate of return methodologies, as well as other important information, please refer to the Appendix/Disclosures provided.

Investment products and services are:
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	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Total		**100.0**			**61,318,785**	**49,040,478**	**12,278,307**	**1.49**	**912,058**
Cash		**.84**			**514,765**	**514,765**	**.00**	**0.01**	**31**
Cash Equivalents		**.84**			**514,765**	**514,765**	**.00**	**0.01**	**31**
FIRST AM GOVT OB FD CL Y	31846V203	.84	1.00	514,765	514,765	514,765	.00	0.01	31
Fixed Income		**27.72**			**16,999,600**	**17,117,229**	**-117,628**	**3.05**	**518,963**
Investment Grade		**21.77**			**13,349,577**	**13,542,109**	**-192,532**	**2.53**	**337,369**
Mutual Funds & ETFs		**21.77**			**13,349,577**	**13,542,109**	**-192,532**	**2.53**	**337,369**
DoubleLine Total Return Bond Fund Class I	DBLTX	5.92	10.54	344,306	3,628,988	3,709,596	-80,608	3.22	116,720
Fidelity U.S. Bond Index Fund	FXNAX	9.91	12.13	500,809	6,074,815	6,175,680	-100,866	1.87	113,684
PGIM Total Return Bond Fund Class R6	PTRQX	5.95	14.69	248,181	3,645,774	3,656,833	-11,059	2.93	106,966
High Yield		**5.95**			**3,650,024**	**3,575,120**	**74,904**	**4.98**	**181,593**
Mutual Funds & ETFs		**5.95**			**3,650,024**	**3,575,120**	**74,904**	**4.98**	**181,593**
Federated Hermes Institutional High Yield...	FIHBX	5.95	10.05	363,186	3,650,024	3,575,120	74,904	4.98	181,593
Equity		**68.39**			**41,935,962**	**29,713,038**	**12,222,924**	**0.80**	**334,638**
Large Cap U.S. Equity		**29.03**			**17,798,542**	**12,903,973**	**4,894,569**	**1.03**	**183,448**
Mutual Funds & ETFs		**29.03**			**17,798,542**	**12,903,973**	**4,894,569**	**1.03**	**183,448**
Harbor Capital Appreciation Fund - Retirem...	HNACX	16.02	114.38	85,884	9,823,385	7,345,871	2,477,514	0.00	0
Vanguard Equity Income Fund Admiral Sha...	VEIRX	13.01	90.86	87,774	7,975,157	5,558,102	2,417,055	2.30	183,448
Mid Cap U.S. Equity		**16.08**			**9,859,840**	**7,853,873**	**2,005,967**	**1.04**	**102,759**
Mutual Funds & ETFs		**16.08**			**9,859,840**	**7,853,873**	**2,005,967**	**1.04**	**102,759**
Fidelity Mid Cap Index Fund	FSMDX	16.08	31.28	315,212	9,859,840	7,853,873	2,005,967	1.04	102,759
Small Cap U.S. Equity		**4.99**			**3,062,120**	**1,945,057**	**1,117,064**	**0.87**	**26,554**
Mutual Funds & ETFs		**4.99**			**3,062,120**	**1,945,057**	**1,117,064**	**0.87**	**26,554**
Fidelity Small Cap Index Fund	FSSNX	4.99	29.29	104,545	3,062,120	1,945,057	1,117,064	0.87	26,554
Developed Markets Equity		**12.24**			**7,505,735**	**4,570,891**	**2,934,844**	**0.29**	**21,876**
Mutual Funds & ETFs		**12.24**			**7,505,735**	**4,570,891**	**2,934,844**	**0.29**	**21,876**
Vanguard International Growth Fund Admir...	VWILX	12.24	170.52	44,017	7,505,735	4,570,891	2,934,844	0.29	21,876
Emerging Markets Equity		**6.05**			**3,709,725**	**2,439,245**	**1,270,480**	**0.00**	**0**
Mutual Funds & ETFs		**6.05**			**3,709,725**	**2,439,245**	**1,270,480**	**0.00**	**0**
Baron Emerging Markets Fd Inst Shs	BEXIX	6.05	19.95	185,951	3,709,725	2,439,245	1,270,480	0.00	0

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Holdings Date: 6/30/2021

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Real Assets		**3.05**			**1,868,457**	**1,695,446**	**173,011**	**3.13**	**58,427**
U.S. Listed Real Estate		**3.05**			**1,868,457**	**1,695,446**	**173,011**	**3.13**	**58,427**
Vanguard Real Estate ETF	VNQ	3.05	101.79	18,356	1,868,457	1,695,446	173,011	3.13	58,427

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ECONOMIC OUTLOOK

Situation analysis

This informational material is provided by U.S. Bank Asset Management Group who provides analysis and research to U.S. Bank and its affiliate U.S. Bancorp Investments. Contact your wealth professional for more details.

December 2021

2022 investment outlook

At a glance

We maintain our positive outlook for economic growth and equity markets into the New Year. Risks from the ongoing coronavirus pandemic and changing Federal Reserve policy moderate our enthusiasm.

We have emphasized a two-horizon investment framework in our client communications to contextualize how the capital markets and economy are progressing following COVID-19's onset. The first horizon represents the reopening process, or growth tied to businesses and consumers' comfort and mobility. The second investment horizon reflects a world shifting from COVID-19 as a pandemic to an endemic outcome, where variants' frequency and virulence slows, business and consumer travel rise, and the global economy establishes a new steady-state of activity.

As we begin the new year, we remain in Horizon One, but 2022 will likely be a transitional year. The Delta variant remains problematic, but Omicron is emerging, albeit with less virulence. Central bank actions are also in transition, migrating from pandemic-led accommodations such as bond buying and near-zero interest rates to an incremental yet likely reversal. Fiscal policy is also a focus as we close in on midterm elections in the United States and usher in new leadership in Germany while the world awaits the Chinese political agenda as Xi Jinping contemplates a third term during China's October 2022 20th Party Congress.

We enter 2022 with a glass half full orientation for diversified portfolios, recognizing a range of policy and economic outcomes are possible. Our team approach, commitment to a data-driven process and a global vantage point are here to help you navigate the constant news cycle with an eye toward improving the odds of favorable outcomes for our clients. Please do not hesitate to let us know if we can help with anything specific to your unique financial situation, and thank you for your trust.

— Eric Freedman, Chief Investment Officer, U.S. Bank

Investment products and services are:
NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

[1] Important disclosures provided on page 9.

Global economy

Quick take: Our proprietary Health Check scores, which compile more than 1,000 global economic indicators, slipped from a strong recovery signal earlier this year. U.S. and developed economy Health Checks are decelerating but still indicate above-average economic activity. Our emerging markets Health Check fell to below-average activity with a negative trend, indicating challenging growth.

Our view: The global economy remains in a multi-speed recovery, governed by differing responses to the coronavirus global pandemic and shifting central bank policies. Our base case is generally positive for the United States and major developed economies, including Europe and Japan. The story is more challenging for China and other emerging market economies.

- **After a strong 2021, the United States is likely to see moderation in growth and inflation over the course of 2022.** The conclusion of the Federal Reserve's (Fed) asset purchase program in the first half of 2022 and a deceleration in federal government stimulus policies will likely temper economic output. However, rising consumer incomes and strong savings levels should maintain above-average growth and inflation. While our base case for 2022 is constructive, we are monitoring key issues such as the ongoing coronavirus global pandemic and unexpected changes in Fed policies relative to our outlook.
- **Developed economies Europe and Japan have seen a more limited economic recovery this year, but growth should reach more normal levels in 2022.** Rising government spending in Japan and reopening from recent coronavirus lockdowns in Europe should lift economic growth. Additionally, the easing of global supply constraints should lift production of major global trade items, such as automobiles, providing further lift. Risks in this region stem from any extension of coronavirus infections and lockdowns, and continuing supply constraints that limit export growth and inflation, which harms consumer spending.
- **Recent slowing trends for most emerging market economies are likely to continue into 2022.** Despite early recoveries from the global pandemic, the cycle of lockdowns hampers economic growth. China is pivoting to policies to stimulate credit growth, which should help economic output later in 2022. In contrast, major commodity exporting economies, such as Russia, Brazil and South Africa, have been raising interest rates to combat inflation, which is likely to slow growth in 2022. However, rising commodity demand from reopening of travel as we emerge from the pandemic should offset some of the challenge.

U.S. equity market

Quick take: Positive sales and profit growth, moderating inflation and relatively low interest rates support our positive outlook for U.S. equities as we begin the new year.

Our view: We maintain our "glass half-full" orientation for U.S. equities, bolstered primarily by continued sales and profit growth, a measured pace of inflation and low interest rates. While our outlook reflects a positive bias, we anticipate more subdued returns in 2022 compared to those experienced in 2021; evolving pandemic and commensurate monetary policy responses, potential fiscal policy changes and a positive but slowing pace of earnings growth lends to the potential of heightened volatility in the new year.

- **Company earnings continue to trend higher, providing valuation support and serving as the basis for higher stock prices.** Analysts project S&P 500 earnings for 2022 will rise to $225 per share, approximately 10 percent above projected 2021 levels, according to data providers Bloomberg, FactSet and S&P Global. While the index is trading near all-time highs, earnings are also near record levels.
- **Broad market and sector performance trends in 2021 bode well for performance in early-2022**. As of mid-December, all 11 S&P 500 sectors are in positive territory, with nine advancing 16 percent or more, reflecting strength among both cyclical-oriented and longer-term secular-growing sectors. Strong performance across both cyclical and secular-growing sectors while defensive sectors lag is typical during periods of economic growth.
- **Valuation is elevated relative to history, but well below dot-com era extremes.** The S&P 500 is trading at a price-to-earnings ratio (the index's price divided by earnings) of approximately 21 based on analysts' 2022 earnings projections, a valuation level elevated relative to history but well below the dot-com era extremes of nearly 30 times.
- **Inflation remains a key concern.** Rising inflation typically corresponds to lower prices investors are willing to pay for corporate earnings. Historically, according to Bloomberg and the U.S. Bureau of Labor Statistics based on data extending back to the 1950s, price-earnings multiples don't become compressed, resulting in lower equity prices, until sustained periods of inflation at or above 4 percent.
- **Opportunities exist in all market environments.** As the adage goes, "the rate of change has never been faster, and it will never be this slow again." Fast is getting faster and speed, scale and efficiencies do not occur without technology. This presents an investment opportunity, in our view. Clearly, technology is impacting all sectors. It is changing how we live, work and play, enabled by 24/7 connectivity, mobility, cloud computing, digitalization, artificial intelligence and machine learning. This favorably positions core and enabling technologies, such as data storage, processing, software, security and analytics, for growth in 2022 and beyond.

International equity markets

Quick take: Foreign equities' earnings growth exceeded analysts' beginning-year forecasts by 26 percent due to stronger-than-expected profits recovery from the pandemic lows. Full-year 2022 estimates remain upward-biased, though the Omicron variant and potential future variants add uncertainty. China's trends are key for the region's success, with emerging Asian economies, including China, accounting for nearly 25 percent of foreign companies' sales. Diverging monetary policies and countries' disparate vaccination rates and policy responses create a wide range of potential future outcomes across emerging markets' geographic footprint.

Our view: Reasonable starting valuation, or stock prices relative to expected earnings, ongoing monetary policy support and upward trending earnings support foreign equities' price appreciation potential in 2022, though the elusive "catch-up" potential relative to strong domestic equity performance remains unrealized. Ongoing supply chain constraints continue to hinder the near-term industrial recovery, but longer-term automation and digitization trends driving strong technology sector equipment demand and emerging middle-class consumers' increasing purchasing power across Asia, Latin America and other geographies remain intact.

- **Positive growth expectations support foreign equities' modest price appreciation potential in 2022.** Analysts revised up full-year 2021 earnings growth forecasts by 26 percent, reflecting foreign companies' stronger-than-expected profits recovery from the pandemic lows. Forward earnings estimates remain upward biased in 2022 — monetary policy should continue to support economic recovery and earnings growth as high energy price pressures and capital goods' supply-chain constraints abate.
- **Policymakers' responses to virus spread and mutation represent the key near-term risk for foreign equities**. Prior to Omicron's onset, European virus case growth had already surged to pandemic highs and policymakers responded with varied measures, from full or partial lockdowns to mandatory work-from-home to restrictions on unvaccinated persons. Though less severe than in 2020, activity restrictions negatively impact current economic activity as well as consumers' confidence and future spending plans.
- **A variety of factors create a wide range of potential emerging market outcomes in the year ahead.** Ongoing supply chain disruptions, diverging monetary policies and countries' disparate vaccination rates and policy responses create a wide range of potential future outcomes across the region's geographic footprint.
- **China's consumers are key for emerging equities' prospects in 2022.** China's zero-tolerance strategy toward COVID kept regional outbreaks contained, but at the expense of industries that require close physical proximity such as travel, tourism and restaurants. While global demand for China-manufactured goods remains strong, vaccination progress leading to loosening activity restrictions are key to unlocking consumer spending growth and, by extension, emerging market equities' prospects in 2022.

Bond market

Quick take: Slightly lower Treasury yields paired with intra-quarter volatility drove modest bond returns. Bonds with longer-term maturities outperformed as the market began pricing in multiple Fed interest rate hikes in 2022, which could dampen longer-term growth and inflation. Municipal bonds also fared well, with a limited supply of bonds meeting robust investor demand.

Our view: We continue to see opportunities in riskier bonds with higher current income, with a focus on niche sectors like non-agency mortgage-backed securities, bank loans and some additional high yield bonds. This preference may fade in 2022 along with global policy stimulus as central banks increase interest rates more aggressively. Traditionally safe, lower-yielding bonds like Treasuries and investment-grade municipal and corporate bonds still play an important role in portfolio diversification and should eventually become more attractive as the Fed lifts interest rates.

- **Low bond yields and tightening Fed policies set the stage for low bond returns and higher volatility in 2022.** Bond yields remain near historical lows, limiting coupon income and reducing opportunities for price appreciation. We expect the Fed will wind down its bond purchase program in coming months, clearing the path for multiple interest rate increases in 2022 and 2023. More restrictive monetary policy may serve as an eventual headwind to riskier assets and push bond yields somewhat higher. Treasuries and other high-quality fixed income options like investment-grade corporate and municipal bonds provide important portfolio diversification. However, investors should focus on holding larger-than-normal allocations in riskier (but well-diversified) higher yielding bonds for additional income for now.
- **We expect income rather than price changes will continue to drive returns in the near term, which favors riskier, higher-yielding bonds for now.** Both higher-quality and lower-quality bond yields remain near all-time lows due to strong credit fundamentals, low default expectations, low policy rates and strong demand for income. Sources of differentiated yield offer better value, such as reinsurance (also referred to as insurance-linked securities, which receive the equivalent of insurance premiums while facing losses from natural disasters), corporate loans and mortgage bonds not backed by the government (non-agency). Loans are good substitutes for corporate bonds, considering similar borrower quality, reasonable valuations and less sensitivity to Treasury yields. Non-agency mortgages offer a compelling source of yield and limited risk exposure to rising interest rates. They also sport strong fundamentals driven by rising home prices, which serve as loan collateral, homeowners with strong balance sheets and high savings and improving payment histories.
- **Municipal bonds provide a valuable source of non-taxable income, though yields are low versus history.** Credit fundamentals have strengthened as aggregate state and local tax revenues are near all-time highs, up 34 percent relative to pandemic lows in the second quarter of 2020. Strong investor demand for tax-advantaged income relative to limited municipal bond issuance supports municipal bond prices. We continue to recommend somewhat higher-than-normal allocations to high yield municipal bonds for highly taxed investors, though the focus remains on capturing income rather than anticipating price gains.

[5] Situation analysis – fourth quarter 2021

Real assets

Quick take: The solid gains from most real asset sectors in 2021 could be undermined in 2022 by higher interest rates for some investments. However, the global growth recovery and rising inflation are tailwinds, especially for commodities.

Our view: Our positive view on economic growth and inflation should benefit real assets in 2022. Investments with stable cash flows should remain in demand in a low interest rate environment. Additionally, we believe supply constraints and the limited recent investments in productive capacity (the available amount of output for a given commodity) can positively impact certain commodities significantly.

- **Rising interest rates may offset accelerating income, keeping Real Estate returns subdued.** Nationally, declining vacancy rates and increasing income combined with high prices relative to income should keep valuations high. However, cheap credit is readily available for property investment. Commercial mortgage interest rates are below the average earnings yield on Class A property. As a result, investors should still generate attractive relative returns on property investments. With the chance for rising interest rates, the difference between mortgage rates and property earnings yields could compress, limiting supply growth as the year progresses.
- **Low investment, rising global growth and inflation are positives for commodities.** Global raw materials demand should improve as economies continue to recover from COVID. U.S. energy output growth has been stagnant, with limited investment in productive capacity despite higher oil prices. Industrial metals are likely to see rising demand from planned infrastructure investments and have also been plagued by low investments in new development. Rising demand is likely to be resolved through higher prices over the course of 2022.

Alternative investments

Quick take: Nimbleness and agility will be critical to navigating ever-changing economic and market events in 2022, challenging hedge fund managers' ability to both protect capital and generate performance gains when market dislocations occur. Major geopolitical, policy and macroeconomic events can more than offset favorable stock or bond selection; uncertainty over future outcomes will affect the level of risk taken by hedge funds. Opportunities exist within market dislocations but are not always easy to capture due the rapid rotation among sectors based on investors' changing views on inflation and reactions to monetary decisions.

Our view: Central banks' varied responses to inflation lends to the potential for heightened market volatility and create attractive investment opportunities for hedge fund strategies. Market divergences due to changes in interest rates and the demand for raw materials as production ramps higher will present opportunities in sectors such as Materials, Industrials and Energy that have been dormant over the past few years as investors focused on innovation in Technology and Healthcare.

- **Hedge funds may favor profitable companies with strong balance sheets that can grow market share, anticipating a lower-growth environment ahead.** Fund managers may look to reduce holdings in higher-valuation Technology stocks and seek greater exposure to profitable securities in cyclical sectors, such as Industrials and Energy, in the event inflation proves to be more durable. In addition to this trend, we see a continued reduction in China securities due to managers having little edge in anticipating Chinese government policies that can quickly impact share prices.
- **Long-dormant real asset strategies may come back into vogue.** After many years of lackluster returns, hedge funds specializing in commodities are worth consideration in an environment of increasing production capacity, which creates demand for industrial metals due to the increase in construction, vehicle production and rebuilding our long-neglected infrastructure.

[7] Situation analysis – fourth quarter 2021

Private markets

Quick take: The number of global buyouts and total deal value in the first three quarters of 2021 has already exceeded the previous annual record for global private equity, according to PitchBook Data, Inc. The combination of a persistently low interest rate environment and rising asset prices continues to drive more investor capital toward private equity fund managers. However, several headwinds exist, and continued success will require proper planning and creativity. Successful managers in this environment will create opportunities by drawing upon industry relationships, pre-screening deals ahead of time and moving faster than their competition.

Our view: As economic uncertainties increase and competition for deals remains strong, our private markets investment strategy remains focused on quality, secular transformative trends and adding value through active management. Adhering to our focused investment strategy, maintaining flexibility to adapt in this uncertain environment and deploying capital in areas offering relative value is how we plan to approach private market investing in the year ahead.

- **Quality matters more as monetary and fiscal support subsides.** High-quality businesses in attractive market segments with operational strength, long-term customer demand and strong cash flows should fare well in this environment.
- **Managers investing in secular trends disrupting and transforming industries should benefit.** A few examples of the trends that we have identified include digitization of industries, manufacturing automation, supply-chain reconfiguration and health care innovation. These present opportunities for investing in areas of the economy experiencing faster growth compared to the broader economy.
- **Active management will drive outcomes.** We continue to focus on managers with specific expertise and a history of deploying value creation strategies to grow portfolio companies.

This commentary was prepared December 2021 and represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are not intended to be a forecast of future events or guarantee of future results and is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Any organizations mentioned in this commentary are not affiliated or associated with U.S. Bank or U.S. Bancorp Investments in any way.

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Diversification and asset allocation do not guarantee returns or protect against losses. Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio.

Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **S&P 500 Total Return Index** includes the same stocks but include the reinvestment of dividends. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. Reinsurance allocations made to **insurance-linked securities (ILS)** are financial instruments whose performance is determined by insurance loss events primarily driven by weather-related and other natural catastrophes (such as hurricanes and earthquakes). These events are typically low-frequency but high-severity occurrences. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.

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INVESTMENT POLICY

The County of Riverside Temporary and Part-Time Employees' 401(a) Defined Benefit Retirement Plan Investment Policy and Guidelines

SUMMARY

Organization:	County of Riverside
Plan IRS Tax Identification:	95-6000930
Targeted Return – annualized:	6%

INTRODUCTION

The Temporary/Part-Time Employees' Retirement Plan ("Plan") is a defined benefit pension. The Plan was implemented by the County of Riverside effective April 1, 1999. The purpose of the Plan is to provide eligible employees with an additional source of income upon retirement.

Employees are required to participate in the Plan if they are designated as a temporary or part-time employee and are not eligible for participation in CalPERS. This Plan is offered in lieu of Social Security. The County's contribution to the plan is based on an annual actuarial valuation.

Retirement benefits of the Plan are based on an employee's eligible earnings (not on employee's contributions). The Plan is based on a fiscal year beginning July 1st and ending June 30th.

STATEMENT OF OBJECTIVES

This Investment Policy Statement (IPS) has been formalized through the consideration of the County of Riverside Deferred Compensation Advisory Committee (the "Committee") and Trustee and it describes the prudent investment process the Committee and Trustee deem appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer a sufficient level of overall diversification and total investment return over the long-term. The objective is to:

- Maintain an appropriate asset allocation based on a total return policy that is compatible with the County's policies, while still having the potential to produce positive real returns.

Performance Expectations

In general, the Committee and Trustee would like the Portfolio to earn a targeted gross investment return (before fees and expenses) of at least 6%.

Risk Tolerances

The Committee and Trustee recognize that in order to achieve the long-term investment objectives of the Portfolio, there are risks and complexities associated with contemporary investment markets.

Taxes

The Plan is an IRS Section 401(a) defined benefit plan and as such is not subject to taxes under U.S. tax laws.

Permitted Investments

Cash and Cash Equivalents:

- Bank Deposits (A1/P1)
- Domestic Certificates of Deposit (A1/P1)
- Domestic Commercial Paper (A1/P1)
- Demand Notes (A1/P1)
- Bankers' Acceptances (A1/P1)
- U.S. Treasury or Government Agency Securities
- Collateralized Repurchase Agreements (102% Collateralized)
- Eurodollar Time Deposits (A1/P1)
- Prime Money Market Mutual Funds (Aaa/AAA)

Fixed Income Investments

- Treasury Inflation Protection Security Bonds (TIPS)
- Domestic Certificates of Deposit
- U.S. Government Bonds
- U.S. Government Agency Bonds
- Corporate Bonds - investment grade (BBB or better)
- Mortgage backed bonds, Asset backed bonds
- Bond mutual funds (Open and Closed)
- International Government Bonds
- International Corporate Bonds - investment grade (BBB or better)
- Convertible Bonds/Securities
- Diversified High Yield Bonds

Equity Investments

- Common Stocks
- Preferred Stocks
- American Depository Receipts (ADRs)
- Domestic and International Equity Mutual funds (Open and Closed)
- Exchange Traded Index Funds (ETFs)
- Emerging Market Equity Funds or Exchange Traded Funds (ETFs)
- REIT Investments or REIT Mutual Funds
- Commodities Mutual funds or Exchange Traded Notes (ETNs)

Prohibited Investments

- Private Equity or Private Equity Fund of Funds
- Private Placements
- Hedge Fund of Funds – registered or non-registered
- Hedge Funds - registered or non-registered
- Direct Real Estate
- Venture Capital
- Sector or limited themed strategy in concentration to entire Portfolio of greater than 5%
- Non-registered investment cooperative or pooled fund
- Derivative investment or securities
- Partnerships unless investing in Master Limited Partnerships invested in a mutual fund and limited in scope and allocation of Portfolio based on asset class limitations of table above
- Letter stock and other unregistered securities
- Short sales or margin transactions
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
- Investments for the purpose of exercising control of management

DUTIES AND RESPONSIBILITIES

The Human Resources Director is the Plan Administrator ("Administrator")

As a Plan Administrator and fiduciary, the Human Resources Director will have the discretionary authority and duty to construe the terms of the Plan document, determine eligibility for Plan benefits, and to perform all other acts reasonably necessary to administer the Plan.

County of Riverside Deferred Compensation Advisory Committee ("Committee")

On behalf of the County, the Committee will be responsible for:

- Recommending the appointment of a Trustee and Investment Manager to the Board of Supervisors.
- Amending the Plan Investment Policy and Guidelines as needed.
- Monitoring and supervising the investment performance of the plan.

Trustee

The Trustee will be a discretionary trustee and will assume responsibility as Trustee and Investment Manager. On behalf of the County, the Committee and the Human Resources Director the Trustee will be responsible for carrying out the activities described in the Trust Agreement. Such activities will include but not be limited to:

- Custody of Assets
- Monitoring asset allocation and rebalancing the entire Portfolio
- Monitoring Portfolio returns
- Distribute benefit payments
- Report, withhold and pay all appropriate taxes as required by each tax agency schedule including:
    - Tax withholding and reporting for federal taxes;
    - Tax withholding and reporting for all required states;
    - Tax withholding and reporting for non-resident alien;
    - Process all 1099s and related tax payments for retirees in the plan. Produce 1099R, 1099MISC, 1099INT, 1099DIV, W2 and 1042 tax forms and mail them no later than January 31.
- Reporting quarterly to the County for performance reviews, investment updates, market conditions and to explore new opportunities.
- Value the holdings.
- Collect all plan contributions, income and dividends owed to the Portfolio.
- Settle all transactions (buy-sell orders) initiated by the Investment Manager (s).
- Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Portfolio since the previous report.
- Assist in the development of investment guidelines.
- Meet with County representatives to review investment performance in Riverside at least four times a year.
- Provide quarterly account statements within ten business days following the end of the quarter.
- Provide Investment reports (return calculations) within five weeks of the end of the quarter.
- Provide current activity and historical information on the same day via their online Trust Now system.
- Through the U.S. Bank Benefit Payment system, provide the County:
- Control and account for all investment, recordkeeping and administrative expenses associated with the Portfolio.
- Avoid prohibited transactions and conflicts of interest.

Investment Manager

The Investment Manager will be responsible for guiding the Committee through a disciplined and rigorous investment process to enable the Committee to prudently manage fiduciary duties and responsibilities.

The responsibilities of the Investment Manager are to:

- Exercise full investment discretion with regard to buying, managing, and selling assets held in the portfolios.
- Communicate all significant changes pertaining to the fund it manages or the firm itself including but not limited to changes in ownership, organizational structure, financial condition, and professional staff.
- Effect all transactions for the Portfolio subject "to best price and execution." If a manager utilizes brokerage from the Portfolio assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Trust.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with all applicable laws, rules, and regulations.

ASSET CLASS GUIDELINES

Long-term investment performance, in large part, is primarily a function of asset class mix.

All investments made shall have good overall marketability, clear and acceptable pricing sources, and ability to liquidate in timely manner.

It is the policy of the County of Riverside to diversify the plan's assets among major asset classes.

The Trustee and Investment Manager will receive funds in kind from the County and deploy assets into the targeted allocation at the manager's discretion. Due to the current market environment and opportunities for risk-adjusted returns, the manager will fully invest the fixed income portion as soon as practical. The equity portion will be invested gradually as opportunities present themselves during market volatility, so as to minimize loss of principal. Asset allocation will be made depending on developing market conditions using the dollar cost averaging method.

Rebalancing of Strategic Allocation

Asset allocations will be reviewed periodically. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Portfolio.

IMPLEMENTATION

The Trustee and Investment Manager will apply the following due diligence guidelines in selecting each money manager or mutual fund.

1. Regulatory oversight: Each investment option should be managed by: (a) a bank; (b) an insurance company; (c) a registered investment company (mutual fund); or, (d) a registered investment adviser.
2. Correlation to style or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. Performance relative to a peer group: The investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods. Performance should be above the peer group median for 1-, 3-, and 5-year periods.
4. Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance. Risk-adjusted performance should be above the peer group median.
5. Minimum track record: The investment option should have sufficient history so that performance statistics can be properly calculated. Inception date for the investment option should be 3-years or more.
6. Assets in the product: The investment option should have sufficient assets so that the portfolio manager can properly trade the account. The investment option should have at least $75 million under management (can include assets in related share classes).
7. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class. At least 80% of the underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.
8. Expense ratios/fees: The investment option's fees should be fair and reasonable. Fees should not be in the bottom quartile (most expensive) of the peer group.
9. Stability of the organization: There should be no perceived organizational problems. The same management team should be in place for at least two years.

MONITORING

Performance Objectives

Periodically the Trustee will review whether each investment option continues to conform to the search criteria outlined in the Implementation section; specifically:

- The investment option's adherence to investment guidelines;
- Material changes in the investment option's organization, investment philosophy and/or personnel;
- Any legal, SEC and/or other regulatory agency proceedings affecting the investment option's organization

Performance Reporting; Measurement Periods

For comparative purposes, the Investment Manager shall measure and report to the Human Resources Director and Committee, the Portfolios' year to date performance as of March 31, June 30, September 30 and December 31, the preceding three months performance and the compound return since the inception date of each account. With respect to each measurement period, the Investment Manager shall calculate and report the Portfolio Benchmark return net of fees for the Portfolios. The Investment Manager shall also provide the Benchmark Indices' returns over the aforementioned periods.

Benchmarks

Performance objectives must be established for each investment option by the Trustee and Investment Manager. Performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Watch list Procedures

The Investment Manager will evaluate and recommend investment options to be placed on a Watch list. Thorough review and analysis of the investment option will be conducted and the Committee and Trustee will determine to retain or terminate an investment option.

Measuring Costs – Investment Related

The Committee and Trustee will review periodically all costs associated with the management of the Portfolio, including:

- Expense ratios of each investment option against the appropriate peer group.
- Administrative Fees; costs to administer the Plan, including: (a) record keeping; (b) custody; (c) trust services.
- The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the Portfolio.

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Important disclosures, definitions of terms and index descriptions

If you have questions regarding this information or wish to receive definitions of any additional terms or indexes used in this report, please contact your Portfolio Manager.

Important disclosures (page 1 of 4)

The information provided here is not intended to replace your account statement. Your account statement is the official record of your account.

EQUAL HOUSING LENDER

Equal Housing Lender. Credit products are offered by U.S. Bank National Association and subject to normal credit approval. Deposit products offered by U.S. Bank National Association. Member FDIC.

For use in one-on-one meetings/presentations.

This information represents the opinion of U.S. Bank. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness.

U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment, nor are they subject to fees and expenses.

Performance reports included may show performance results gross of fees and expenses. If fees and expenses were included, the performance would be lower. If you have any questions, please speak with your relationship manager for additional information.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. **Diversification and asset allocation do not guarantee returns or protect against losses.**

Important disclosures (page 2 of 4)

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Stocks of mid-capitalization companies** can be expected to be slightly less volatile than those of small-capitalization companies, but still involve substantial risk and may be subject to more abrupt or erratic movements than large-capitalization companies. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility.

Investments in **real estate securities** can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). There are special risks associated with an investment in **commodities**, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Investments in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in fixed income securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments.

Important disclosures (page 3 of 4)

The **municipal bond** market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes. **Treasury Inflation-Protected Securities (TIPS)** offer a lower return compared to other similar investments and the principal value may increase or decrease with the rate of inflation. Gains in principal are taxable in that year, even though not paid out until maturity.

Non-financial **specialty assets**, such as real estate, farm, ranch and timber properties, oil, gas and mineral interests or closely-held business interests are complex and involve unique risks specific to each asset type, including the total loss of value. Special risk considerations may include natural events or disasters, complex tax considerations and lack of liquidity. Specialty assets may not be suitable for all investors.

Alternative investments very often use speculative investment and trading strategies. There is no guarantee that the investment program will be successful. Alternative investments are designed only for investors who are able to tolerate the full loss of an investment. These products are not suitable for every investor even if the investor does meet the financial requirements. It is important to consult with your investment professional to determine how these investments might fit your asset allocation, risk profile and tax situation. **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Exchange-traded funds (ETFs)** are baskets of securities that are traded on an exchange like individual stocks at negotiated prices and are not individually redeemable. ETFs are designed to generally track a market index and shares may trade at a premium or a discount to the net asset value of the underlying securities. **Private equity** investments provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt** investments may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies. **Structured products** are subject to market risk and/or principal loss if sold prior to maturity or if the issuer defaults on the security. Investors should request and review copies of Structured Products Pricing Supplements and Prospectuses prior to approving or directing an investment in these securities.

Important disclosures (page 4 of 4)

Mutual fund investing involves risk and principal loss is possible. Investing in certain funds involves special risks, such as those related to investments in small- and mid-capitalization stocks, foreign, debt and high-yield securities and funds that focus their investments in a particular industry. Please refer to the fund prospectus for additional details pertaining to these risks. An investment in **money market funds** is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although these funds seek to preserve the value of an investment at $1.00 per share, it is possible to lose money by investing in these funds.

Holdings of First American Funds: U.S. Bancorp Asset Management, Inc. is a registered investment advisor and subsidiary of U.S. Bank National Association. U.S. Bank National Association is a separate entity and wholly owned subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, performance or services of U.S. Bancorp Asset Management. U.S. Bancorp Asset Management, Inc. serves as an investment advisor to First American Funds. **Holdings of Nuveen mutual funds**: Firstar Capital Corporation (Firstar Capital), an affiliate of U.S. Bancorp, holds a less-than-10 percent ownership interest in Windy City Investments Holdings, LLC which was formerly the parent of Windy City Investment Inc. and the indirect parent of Nuveen Fund Advisors, LLC which is the investment advisor to the Nuveen Mutual Funds. On October 1, 2014, Windy City Investments, Inc. was sold to Teachers Insurance and Annuity Association of America. As a result of the sale, U.S. Bancorp no longer has an indirect ownership interest in Nuveen Fund Advisors, LLC. Depending on the outcome of certain factors, Firstar Capital might in the future receive an earn-out payment in respect of its interest in Windy City Investment Holdings, LLC, under the terms of the sale. **Non-proprietary mutual funds**: U.S. Bank may enter into agreements with other non-proprietary mutual funds or their service providers whereby U.S. Bank provides shareholder services and/or sub-transfer agency, custodial and other administrative support services and receives compensation for these services. Compensation received by U.S. Bank directly or indirectly from mutual funds does not increase fund fees and expenses beyond what is disclosed in the fund prospectuses. For more information, review the fund prospectus.

Definitions of report and statement terms (page 1 of 5)

Accredited Investor: Private placement securities generally require that investors be accredited due to the additional risks and speculative nature of the securities. For natural persons, the criteria is met by a net worth of more than $1 million (excluding primary residence) or an income of more than $200,000 individually ($300,000 jointly) for the two most recent years and a reasonable expectation for the same in the current year. For other entities, such as corporations, partnerships, trusts and employee benefit plans, the criteria is met with at least $5 million in assets. See full definition in Rule 501 of Regulation D under the Securities Act of 1933.

Alpha: A measure of risk-adjusted performance. A statistic measuring that portion of a stock, fund or composite's total return attributable to specific or non-market risk. Alpha measures non-market return and indicates how much value has been added or lost. A positive Alpha indicates the fund or composite has performed better than its Beta would predict (i.e., the manager has added value above the benchmark). A negative Alpha indicates a fund or composite has underperformed given the composite's Beta.

Alternative Investments: As used by U.S. Bank, an investment considered to be outside of the traditional asset classes of long-only stocks, bonds and cash. Examples of alternative investments include hedge funds, private equity, options and financial derivatives.

Annualized Excess Return: Shows the difference between the annualized linked returns of a portfolio and the model benchmark. Performance reports provided annualize only periods greater than one year.

Annualized or Annual Rate of Return: Represents the average annual change in the value of an investment over the periods indicated.

Batting Average: Shows how consistently the portfolio return met or beat the market.

Beta: A measure of your portfolio's risk relative to a benchmark. A portfolio with a beta of 1.5, for example, would be expected to return roughly 1.5 times the benchmark's return. A high Beta indicates a riskier portfolio.

Bond Credit Rating: A grade given to bonds by a private independent rating service that indicates their credit quality. Ratings are the opinion of Standard & Poor's or other agencies as noted and not the opinion of U.S. Bank.

Consumer Price Index (CPI): A measure of the average change in prices over time in a market basket of goods and services and is one of the most frequently used statistics for identifying periods of inflation and deflation.

Convexity to Stated Maturity: A measure of the curvature in the relationship between bond prices and bond yields that demonstrates how the duration of a bond changes as the interest rate changes. Convexity is used as a risk-management tool and helps to measure and manage the amount of market risk to which a portfolio of bonds is exposed. This version of convexity measures the rate change in duration of a bond as the yield to (stated) maturity changes.

Definitions of report and statement terms (page 2 of 5)

Cost basis/book value: The original value of an asset at the time it was acquired. This is normally the purchase price or appraised value at the time of acquisition. This data is for information purposes only.

Cumulative Excess Return: Shows the difference between the annualized linked returns of a portfolio and the model benchmark. Performance reports provided use unannualized returns in periods up to one year, but annualized returns for periods exceeding one year.

Downside Capture: The downside capture ratio reflects how a portfolio compares to a benchmark during periods when the benchmark is down. A downside capture ratio of 0.80 (or 80 percent) means the portfolio has historically declined only 80 percent as much as the benchmark during down markets.

Downside Deviation: The deviation of returns that fall below a minimum acceptable return (MAR). Although the numerator includes only returns below the MAR, the denominator includes all returns in the performance period. This risk statistic is similar to the downside standard deviation except the sum is restricted to returns less than the MAR instead of the mean.

Downside Standard Deviation: The deviation of returns that fall below the mean return. Although the numerator includes only returns below the mean, the denominator includes all returns in the performance period. This risk statistic is similar to the downside deviation except the sum is restricted to returns less than the mean instead of the minimum acceptable return (MAR).

Effective Maturity: The date of a bond's most likely redemption, given current market conditions, taking into consideration the optional and mandatory calls, the optional, mandatory and recurring puts, and the stated maturity.

Estimated annual income: The amount of income a particular asset is anticipated to earn over the period indicted. The shares multiplied by the annual income rate.

Gain/loss calculation: If an asset was sold, the difference between the proceeds received from the sale compared to the cost of acquiring the asset. If the value of the proceeds is the higher of the two numbers, then a gain was realized. If the value of the proceeds is the lower of the two numbers, a loss was incurred. This data is for information purposes only.

Information Ratio: The information ratio compares the average excess return of the portfolio over its associated benchmark divided by the tracking error.

M-Squared: The hypothetical return of the portfolio after its risk has been adjusted to match a benchmark.

Definitions of report and statement terms (page 3 of 5)

Market Value: Publicly traded assets are valued using market quotations or valuation methods from financial industry services believed by us to be reliable. Assets, that are not publicly traded, may be reflected at values from other external sources or special valuations prepared by us. Assets for which a current value is not available may be reflected as not valued, at par value, or at a nominal value. Values shown do not necessarily reflect prices at which assets could have been bought or sold. Values are updated based on internal policy and may be updated less frequently than statement generation.

Market Value Over Time: Many factors can impact the portfolio value over time, such as contributions to the account, distributions from the account, the investment of dividends and interest, the deduction of fees and expenses, and market performance.

Modified Duration to Effective Maturity: A formula that expresses the measurable change in the value of a security in response to a change in interest rates. This version of Modified Duration takes into consideration a "horizon date/price" that is, given current conditions, the most likely redemption date/price using the set of calls/puts, as well as stated maturity.

Modified Duration to Stated Maturity: A formula that expresses the measurable change in the value of a security in response to a change in interest rates. This version of Modified Duration uses stated maturity as the "horizon date/price" and ignores any potential call/put/pre-refunding, even if they are mandatory.

Price/Earnings Ratio (P/E): The P/E ratio of a company is calculated by dividing the price of the company's stock by its trailing 12-month earnings per share. A high P/E usually indicates that the market is paying a premium for current earnings because it believes in the firm's ability to grow its earnings. A low P/E indicates the market has less confidence that the company's earnings will increase. Within a portfolio, P/E is the weighted average of the price/earnings ratios of the stocks in the portfolio.

Qualified Purchaser: Some private placement securities require that investors be Qualified Purchasers in addition to being Accredited Investors. For natural persons, the criteria is generally met when the client (individually or jointly) owns at least $5 million in investments. For other entities, such as corporations, partnerships, trusts and employee benefit plans, the criteria is met with at least $25 million in investments though there are other eligibility tests that may apply. See full definition in Section 2(a)(51) of the Investment Company Act of 1940.

R-Squared: Measures the portion of the risk in your portfolio that can be attributed to the risk in the benchmark.

Realized and Unrealized Gains/Losses: Are calculated for individual tax lots based on the records we have available. Some data may be incomplete or differ from what you are required to report on your tax return. Some data used in these calculations may have been obtained from outside sources and cannot be verified by U.S. Bank. The data is intended for informational purposes only and should not be used for tax reporting purposes. Please consult with your tax or legal advisor for questions concerning your personal tax or financial situation.

Definitions of report and statement terms (page 4 of 5)

Residual Risk: The amount of risk specific to the assets in a portfolio distinct from the market, represented by a benchmark.

Return: An indication of the past performance of your portfolio.

Sharpe Ratio: Measures of risk-adjusted return that calculates the return per unit of risk, where risk is the Standard Deviation of your portfolio. A high Sharpe ratio indicates that the portfolio is benefiting from taking risk.

Sortino Ratio: Intended to differentiate between good and bad volatility. Similar to the Sharpe ratio, except it uses downside deviation for the denominator instead of standard deviation, the use of which doesn't discriminate between up and down volatility.

Spread: The difference between the yields of two bonds with differing credit ratings (most often, a corporate bond with a certain amount of risk is compared to a standard traditionally lower risk Treasury bond). The bond spread will show the additional yield that could be earned from a bond which has a higher risk.

Standard Deviation: A measure of the volatility and risk of your portfolio. A low standard deviation indicates a portfolio with less volatile returns and therefore less inherent risk.

Time-weighted Return: The method used to calculate performance. Time-weighted return calculates period by period returns that negates the effect of external cash flows. Returns for periods of greater than one year are reported as an annualized (annual) rate of return. Returns of less than one year are reported on a cumulative return basis. Cumulative return is the aggregate amount an investment has gained or lost over time, independent of the period involved.

Tracking Error: A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead.

Traditional Investments: As used by U.S. Bank, an investment made in equity, fixed income or cash securities, mutual funds or exchange-traded funds (ETFs) where the investor buys at a price with the goal that the investment will go up in value.

Top 10 Holdings: The 10 assets with the highest market values in the account.

Total Portfolio Gross of Fees: Represents all assets included in the calculation of the portfolio, before the deduction of trust and asset management fees, and is inclusive of all applicable third-party security fees and expenses. Details of those fees and expenses are provided in the security’s prospectus or offering documents.

Definitions of report and statement terms (page 5 of 5)

Total Return: The rate of return that includes the realized and unrealized gains and losses plus income for the measurement period.

Treynor Ratio: Measures the performance of a sector relative to risk by dividing the return of the sector in excess of the risk-free return by the sector's Beta. The higher the Treynor ratio, the better the return relative to risk.

Turnover Percent: Indicates how frequently asset are bought and sold within a portfolio.

Turnover Ratio: The percentage of a mutual fund’s or other investment vehicle's holdings that have been "turned over" or replaced with other holdings in a given year.

Unrealized gain (loss) — The difference between the current market value (at the end of the statement period) and the cost to acquire the asset. If the current market value is higher than the cost, a gain is reflected. If the current market value is lower than the cost paid, a loss is reflected. This data is for information purposes only.

Upside Capture: The upside capture ratio reflects how a portfolio compares to the selected model benchmark during periods when the benchmark is up. An upside capture ratio of 1.15 (or 115 percent) means the portfolio has historically beat the benchmark by 15 percent during up markets.

Yield: The annual rate of return on an investment, expressed as a percentage. For bonds, it is the coupon rate divided by the market price. For stocks, it is the annual dividend divided by the market price.

Frequently used indexes (page 1 of 5)

Bloomberg Barclays 1-3 year U.S. Treasury Index: Measures the performance of the U.S. government bond market and includes public obligations of the U.S. Treasury with a maturity between one year and up to (but not including) three years.

Bloomberg Barclays 1-5 year U.S. Treasury Index: Includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to one year and less than five years, are rated investment grade and have $250 million or more of outstanding face value.

The Bloomberg Barclays 1-5 year Municipal Index: Measures the performance of municipal bonds with time to maturity of more than one year and less than five years.

Bloomberg Barclays 7-year Municipal Index: Includes municipal bonds with a minimum credit rating of Baa that have been issued as part of a transaction of at least $50 million, have a maturity value of at least $5 million and a maturity range of four to six years.

Bloomberg Barclays Global Aggregate Index ex-U.S. Index: Measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Global Treasury ex-U.S. Index: Includes government bonds issued by investment-grade counties outside the United States, in local currencies, that have a remaining maturity of one year or more and are rated investment grade.

Bloomberg Barclays High Yield Municipal Bond Index: An unmanaged index made up of bonds that are non-investment grade, unrated or below Ba1 bonds.

Bloomberg Barclays Intermediate Aggregate Index: Consists of one- to 10-year governments, one- to 10-year corporate bonds, all mortgages and all asset-backed securities within the Aggregate Index.

Bloomberg Barclays Mortgage-Backed Securities Index: Covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid adjustable-rate mortgages) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Barclays U.S. Aggregate Bond Index: Measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

Bloomberg Barclays U.S. Corporate Bond Index: Measures the investment grade, fixed-rate, taxable corporate bond market and includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Frequently used indexes (page 2 of 5)

Bloomberg Barclays U.S. Corporate High Yield Bond Index: Measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market.

Bloomberg Barclays U.S. Municipal Bond Index: Measures the investment grade, U.S. dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured and pre-refunded bonds.

Bloomberg Barclays U.S. Treasury Index: Measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index: An unmanaged index includes all publicly issued, U.S. TIPS that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

Cambridge U.S. Private Equity Index: This index is based on returns data compiled for U.S. private equity funds (including buyout, growth equity and mezzanine funds) that represent the majority of institutional capital raised by private equity partnerships formed since 1986. Returns may be delayed by up to six months. Quarterly performance is prorated based on the cube root for the months of the quarter.

Citigroup 3-Month Treasury Bills: An unmanaged index and represents monthly return equivalents of yield averages of the last three-month Treasury Bill issues.

Citigroup 6-Month Treasury Bills: An unmanaged index and represents monthly return equivalents of yield averages of the last six-month Treasury Bill issues.

Credit Suisse Leverage Loan Index: Represents tradable, senior-secured, U.S. dollar-denominated non-investment grade loans.

Dow Jones Industrial Average (DJIA): The price-weighted average of 30 significant U.S. stocks traded on the New York Stock Exchange and NASDAQ. The DJIA is the oldest and single most watched index in the world.

Dow Jones Select REIT Index: Measures the performance of publicly traded REITs and REIT-like securities in the U.S. and is a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

HFRI Indices: The Hedge Fund Research, Inc. (HFRI) indexes are a series of benchmarks designed to reflect hedge fund industry performance by constructing composites of constituent funds, as reported by the hedge fund managers listed within the HFR Database.

Frequently used indexes (page 3 of 5)

HFRI Equity Hedge Total Index: Uses the HFR (Hedge Fund Research) database and consists only of equity hedge funds with a minimum of $50 million assets under management or a 12-month track record and that reported assets in U.S. dollars.

HFRI Relative Value Fixed Income Corporate Index: Uses the HFR (Hedge Fund Research) database and consists of only relative value fixed income corporate funds with a minimum of $50 million assets under management or a 12-month track record and that reported assets in U.S. dollars.

ICE BofAML 1-3 Year Corporate Index: Tracks U.S. dollar-denominated investment grade public debt issued in the U.S. bond market with maturities of one to three years.

ICE BofAML 1-5 Year Corporate and Government Index: Tracks the performance of short-term U.S. investment grade government and corporate securities with maturities between one and five years.

ICE BofAML U.S. 7-10 Year Index: Tracks the performance of U.S. dollar denominated investment grade rated corporate debt publicly issued in the U.S. domestic market and includes all securities with a remaining term to maturity of greater than or equal to seven years and less than 10 years.

ICE BofAML Global Broad Market Index: Tracks the performance of investment grade public debt issued in the major domestic and Eurobond markets, including global bonds.

ICE BofAML U.S. High Yield Master II Index: Commonly used benchmark index for high yield corporate bonds and measures the broad high yield market.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global): Tracks total returns for traded external debt instruments in the emerging markets.

London Interbank Offered Rate (LIBOR) **3-months:** The interest rate offered by a specific group of London banks for U.S. dollar deposits with a three-month maturity.

London Interbank Offered Rate (LIBOR) 9-months: The interest rate offered by a specific group of London banks for U.S. dollar deposits with a nine-month maturity.

MSCI All Country World Index (ACWI): Designed to measure the equity market performance of developed and emerging markets.

Frequently used indexes (page 4 of 5)

Russell 2000 Value Index: Measures companies in the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2,000 firms from the Russell 3000 Index with the smallest market capitalizations.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. securities based on total market capitalization.

Russell Midcap Index: Measures the 800 smallest companies in the Russell 3000 Index.

Russell Midcap Growth Index: Measures companies in the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value Index: Measures companies in the Russell Midcap Index having lower price-to-book ratios and lower forecasted growth values.

MSCI All County World ex-U.S. Index (ACWI, excluding United States): Tracks the performance of stocks representing developed and emerging markets around the world that collectively comprise most foreign stock markets. U.S. stocks are excluded from the index.

MSCI EAFE Index: Includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East.

MSCI Emerging Markets (EM) Index: Designed to measure equity market performance in global emerging markets.

MSCI World Index: Tracks equity market performance of developed markets through individual country indices.

NAREIT Index: Includes REITs (Real Estate Investment Trusts) listed on the New York Stock Exchange, NASDAQ and American Stock Exchange.

NASDAQ Composite Index: A market capitalization-weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market.

NCREIF Property Index (NPI): Measures the investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index and is representative of the U.S. large capitalization securities market.

Frequently used indexes (page 5 of 5)

Russell 1000 Growth Index: Measures companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values. It includes the largest 1,000 firms in the Russell 3000 Index.

Russell 1000 Value Index: Measures companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values. It includes the largest 1,000 firms in the Russell 3000 Index.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index and is representative of the U.S. small capitalization securities market.

Russell 2000 Growth Index: Measures companies in the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. and is representative of U.S. securities exhibiting growth characteristics. The Russell 2000 Index includes the 2,000 firms from the Russell 3000 Index with the smallest market capitalizations.

S&P 500 Index: Consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market.

S&P Global ex-U.S. Property Index: Measures the investable universe of publicly traded property companies domiciled in developed and emerging markets excluding the United States. The companies included are engaged in real estate related activities such as property ownership, management, development, rental and investment.

S&P GSCI: A composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

S&P/Case-Shiller Home Price Indexes: A group of indexes that track changes in home prices throughout the United States. Case-Shiller produces indexes representing certain metropolitan statistical areas (MSA) as well as a national index.

Swiss Re Global Cat Bond Total Return Index: Tracks the aggregate performance of all U.S. dollar-denominated euros and Japanese yen-denominated catastrophe bonds, capturing all ratings, perils and triggers.

U.S. Dollar Index: Indicates the general international value of the U.S. dollar by averaging the exchange rates between the U.S. dollar and six major world currencies.

Wilshire 5000 Index: Composed of more than 6,700 publicly-traded U.S. companies and is designed to track the overall performance of the American stock markets.

County of Riverside, California
Board of Supervisors Policy

Subject:	**Policy Number**	**Page**
PENSION MANAGEMENT AND OTHER POST - EMPLOYMENT BENEFITS	**B-25**	**1 of 5**

Policy:

The County of Riverside (the "County") has created this Pension Management and Other Post-Employment Benefits policy (the "Policy") to ensure financial stability through proper management. The purpose of this policy is to safeguard the public trust by assuring prudent decisions regarding the County's pension plans, Other Post-Employment Benefits (OPEB), Section 115 Trusts (Pension and OPEB), and other retirement or termination related items such as compensated absences for employees' accrued annual, vacation or sick leave balances, providing proper oversight and administration of the benefits provided, and their associated cost.

This Policy applies to all County defined benefit pension plans currently administered by the California Public Employees' Retirement System ("CalPERS"), the Section 115 OPEB Trust administered by the California Employers' Benefit Trust (CERBT), the Temporary and Part-Time Employees' Retirement Plan (a defined benefit program for its Temporary Assistance Program ("TAP") employees) administered by the County, and the Section 115 Pension Trusts administered by Public Agency Retirement Services (PARS).

I. Definitions

A. The term "Pension Plans" shall mean the County's Miscellaneous, Safety, Flood Control, Park District and Waste Management plans administered by CalPERS.

B. The term "Funded Status" shall mean plan actuarial assets divided by plan actuarial liability.

C. The term "Committee" shall mean the Pension Advisory Review Committee.

D. The term "Liability Management Fund (LMF)" shall mean the fund created in conjunction with the County's 2005 Pension Obligation Bonds (POBs), and, any additional bonds held in trust by a designated trustee and funded by pension savings, and used solely for pension cost purposes.

E. The term "OPEB" shall mean Other Post-Employment Benefits provided by the County.

F. The term "TAP Pension Plan" shall mean the County's Temporary and Part-Time Employees' Retirement Plan, a defined benefit pension plan of which the County's eligible temporary employees are participants.

G. The term “Section 115 Trust” shall mean the Pension Trust adopted by the Board of Supervisors for the purpose of pre-funding CalPERS pension obligations as well as the OPEB Trust.

H. The term “implicit subsidy” shall mean the difference between the “true cost” of coverage and the actual rate paid. Under CalPERS health plans (or any County health plans), participating retirees may receive a benefit prior to age 65 by paying premiums that are developed by blending active and retiree costs. Generally, retirees cost more than active. As a result, the premium paid by the retiree is less than the true cost of coverage.

II. Pension Management

A. The assets of the County’s pension plans constitute a trust independently administered by CalPERS which exists to satisfy the County’s obligation to provide retirement benefits and to meet distribution obligations to all covered employees.

B. The assets of the TAP Pension Plan constitute a trust to meet the County’s obligation to provide retirement benefits to its TAP employees.

C. The County has established Section 115 Pension Trusts for pension rate stabilization which can pre-fund rising pension liabilities. This program can mitigate long-term investment volatility, provide the County with control of assets, and assist in paying a portion of the actuarially determined contributions when revenues may become impaired due to adverse economic conditions.

D. Any withdrawal of a group of employees from participation in the plans will not necessarily trigger a distribution of any assets. All contracts or grants will include the full amount of estimated pension cost in the contract or grant. Upon the termination of such contracts or grants, a termination payment may be negotiated to reflect any unfunded liability associated with such employees.

E. Additionally, if any employee group or department separates from the County, the associated actuarial liability and pension assets will be subject to an independent actuarially determined “true value”.

F. The County seeks to maintain a minimum funded status of 80% in its CalPERS defined benefit pension plans. To the extent the funded status falls below that, the County will prepare a plan to address the issue.

G. The County seeks to maintain a minimum funded status of 80% in its TAP Pension Plan. To the extent the funded status falls below that, the County will set rates sufficient to meet the minimum funded status within a reasonable period of time.

H. Any proposed changes to pension benefits, CalPERS liability amortization schedules or the issuance of any Pension Obligation Bonds (POBs) will be reviewed by the Committee, which shall provide the Board with an analysis of the long-term costs and benefits and related recommendations. Such evaluations are to take into account any outstanding POBs.

I. The County will set annual CalPERS pension plan contribution rates sufficient to:

1.) Pay any amounts due to CalPERS,
2.) Capture full cost of the annual debt service on any pension obligation bonds that are outstanding,
3.) Collect amounts sufficient to make required deposits to the Liability Management Fund and pay the cost of consultants hired to assist the Committee.

III. Other Post-Employment Benefits (OPEB)

A. The County seeks to maintain a minimum funded status of 80% in its OPEB plan, excluding any implicit subsidy liability. To the extent the funded status falls below that, the County will set rates sufficient to meet the minimum funded status within a reasonable period of time.

B. The County will set the required OPEB funding contribution based on the actuarial valuation for the target funded status.

IV. Pension Obligation Financing

A. Any issuance of pension related debt will be reviewed first by the PARC.

B. The County has established a Liability Management Fund (LMF) in connection with its 2005 POBs and may establish such a fund for any future POBs.

C. The LMF shall be funded by capturing a portion of the projected savings associated with issuance and be used upon the recommendation of the County Executive Office to:

1.) retire pension bond debt, or,
2.) be transferred to CalPERS to reduce any unfunded liability, or,
3.) deposit in the Section 115 Pension Trust to assist with pension rate stabilization, or,
4.) potentially share with departments, or,
5.) any combination of the above.

D. The County has established Section 115 Pension Trusts. They shall be funded by capturing all savings from pension management strategies.

E. The Committee will evaluate annually the recommendation to prepay POBs, or, to make additional discretionary payments to CalPERS and evaluate the potential associated savings.

V. Pension Advisory Review Committee

A. The members of the Pension Advisory Review Committee (PARC) shall be comprised of the following:

1.) The County Executive Office (Chair)
2.) The County Treasurer-Tax Collector
3.) The Human Resources Director
4.) The County Auditor-Controller
5.) a local safety member department representative

B. The Chair of the Committee will be responsible for preparing and distributing the agenda for each meeting.

C. Members of the PARC shall designate staff to represent them. Members shall notify the Chair, in writing, of the name and title of staff that are authorized to represent them. Upon written notification, the designee will be authorized to represent and vote on behalf of the member in the event of their absence. Members shall also designate staff available to assist the Committee in its analysis and the production of reports.

D. PARC meetings shall be convened at least annually or as necessary upon the call of the Chair.

E. The PARC may retain experts or consultants.

F. The PARC shall prepare a public report, at least annually, the plan status of the County's CalPERS pension plans, the Temporary and Part-Time Employees' Retirement plan, the Other Post-Employment Benefits plan and Section 115 OPEB Trust, and, the County's Section 115 Pension Trusts.

G. As a Board established Committee, the PARC is subject to, and will comply with, all provisions of the Brown Act.

Reference:

Minute Order 16.3 of 01/25/05
Minute Order 3.41 of 09/12/06
Minute Order 3.3 of 04/10/07
Minute Order 3.4 of 05/22/18
Minute Order 3.3 of 01/14/20
Minute Order X.X of 00/00/22

Pension Advisory Review Committee

2022

Annual Report

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Executive Summary

In accordance with Board of Supervisors Policy B-25, this annual report contains detailed information about the County's Miscellaneous and Safety defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), with independent analysis provided by Bartel Associates, LLC (see Attachment 1). Included are the most recent CalPERS annual valuation reports (Attachments 2 & 3).

A few updates have been made to further assist the reader with a better understanding of activity since last year. New tables with the most current information as well as graphs vs. prior year have been added for year-over-year comparison, and a brief highlights section below.

Highlights - for the reporting period ended June 30, 2020 there is a:

- ✓ **5.4% combined *increase* in CalPERS funded status from 71% to 76.4%**
- ✓ **$13.9 million invested in Section 115 Pension Trust from Series 2020 POBs savings (1)**
- ✓ **$143 million first full-year *net estimated gain* on Series 2020 POBs (2)**
- ✓ **$536 million combined *decrease* in unfunded actuarial accrued liability (UAAL)**
- ✓ **$1.1 billion combined *increase* in the market value of assets (MVA)**

This report also addresses other areas including status on the:

- Series 2005 A and Series 2020 Pension Obligation Bonds (POBs) (2)
  - ✓ **Combined POB proceeds net estimated gain of $370 million ($210 million YoY increase)**
- Section 115 Trusts (3)
  - ✓ **$56 million in combined Pension Trust balances ($25.8 million YoY increase)**
  - ✓ **$73 million OPEB Trust balance ($20 million YoY increase)**
- Other Post-Employment Benefits (OPEB) (Attachment 4) (3)
  - ✓ **47% funded status (9% YoY increase)**
- Part-time and Temporary Employees' Retirement Plan (Attachment 5) (4)
  - ✓ **82% funded status (4% YoY increase)**

Status of the Special District Plans are found in the latter portion of this report.

FY 22-23 Budgetary Impact - The total year-over-year rate increase for FY 22/23 as a percentage of payroll for the Miscellaneous and Safety Plans, which includes CalPERS rates, POBs debt service, and, OPEB contributions is shown below:

Year-over-Year Increase (1)

For the fiscal year	FY 21/22	**FY 22/23**
Miscellaneous Plan	2.2%	**1.82%**
Safety Plan	1.62%	**1.59%**

Although lesser than FY 21/22, the nominal rate increases for FY 22/23 are an additional payroll expense to the budgets across all County departments.

The modest decline in the rate of growth is primarily due to two factors attributable to CalPERS: (1) a reduction in the normal cost of the plans, and (2) the unfunded liability payment is reduced due to the payoff of certain amortization bases (separate payment schedules) from the proceeds of the Series 2020 Pension Obligation Bonds.

(1) Contributions of first full year savings attributable to issuance of Series 2020 Pension Obligation Bonds. Includes investment earnings of $840,000.

(2) Projected as of the next POBs interest payment due date, 2/15/22. Source: Attachment 1, Slide #68 & #65. County of Riverside - CalPERS Miscellaneous and Safety Plans.

Independent Actuarial Report - 6/30/20 Valuation, Bartel Associates, LLC. Last year net estimated gain was $13.5 million. Year-to-year performance will vary based on CalPERS' investment return.

(3) Actual, as of June 30, 2021.

(4) Actual, as of July 1, 2021.

Additional Discretionary Payment (ADP) - At its January 20, 2022 meeting, PARC recommended making an ADP to CalPERS in the amount of $2,344,574 to eliminate negative amortization. Funded by recurring bi-weekly payroll contributions into the Liability Management Fund, this payment was made on January 26, 2022 and will save nearly $800,000 in interest. Negative amortization occurs if the minimum UAAL payment were split between interest and principal, the principal portion would be negative. In this case, the minimum required contribution is less than interest on the UAAL. This ADP is in addition to the annual UAAL pre-payment as shown below.

Annual Pre-Payment - For FY 22/23, CalPERS will offer an early payment discount of 3.3% on the unfunded liability portion of $213 million in lieu of the periodic payments that coincide with payroll disbursements, thereby reducing the total amount by over $7 million.

In order to fund the initial payment, the County typically includes a substantial portion of the pre-payment amount as part of the annual Tax and Revenue Anticipation Notes (TRANs) cash flow financing. The other alternative would be to borrow internally by drawing down General Fund cash. A final recommendation regarding the pre-payment will be made in conjunction with the FY 22/23 TRANs.

CalPERS - recent news of interest:

- **July 12, 2021** - CalPERS reports investment returns of 21.3% for FY 20-21, triggering a reduction in the discount rate to 6.8% under the Funding Risk Mitigation policy approved in 2015
- **November 15, 2021** - After nearly a year long review of the Asset Liability Management process, CalPERS Board selects new asset allocation mix for the investment portfolio which includes adding 5% leverage; takes effect July 2022. Discount rate to remain unchanged at 6.8% impacting contribution rates beginning in FY 23-24
- **December 28, 2021** - CalPERS surpasses $500 billion in assets

Conclusion - In a break from prior years, nominally increasing employer contribution rates are now projected for the next two fiscal years, *decreasing* thereafter through FY 27/28, and resuming higher again to peak in the early 2030's as unfunded liability is being paid down.

For next year's annual valuation report period ending June 30, 2021, the results of which will be included in the 2023 PARC Annual Report, an even larger increase is projected in funded status in the short-term, estimated to be flat for the remainder of the decade, and resuming higher again in the early 2030's (see funded status graph on page 5).

If the projections are realized, the middle part of this decade may present opportunities for additional discretionary payments to CalPERS and allow for further progress in the paydown of unfunded liability, as well as further accumulation of assets in the Section 115 Pension and OPEB Trusts. This will be tempered by year-to-year financial market performance especially given the current backdrop of the U.S economy and the Federal Reserve preparing to combat rising inflation through elimination of open-market U.S. Treasury and mortgage-backed bond purchases, as well as short-term rate increases. This will likely mean that CalPERS' investment returns are not as robust in the near future.

PARC will keep the Board updated with strategic options in the future in the management of its pension liabilities.

Recommendations

1. Receive and file the 2022 PARC Annual Report.
2. Direct staff and PARC to report back with any additional updates or recommendations on the County's pension plans, Other Post-Employment Benefits (OPEB), any other item as noted in Board Policy B-25 including pension debt reduction strategies.
3. Direct staff to review the annual CalPERS unfunded liability pre-payment for FY22/23 and to have such recommendations presented in conjunction with either the approval of the annual Tax and Revenue Anticipation Notes (TRANs) cash flow financing, or, with the FY 22/23 budget.

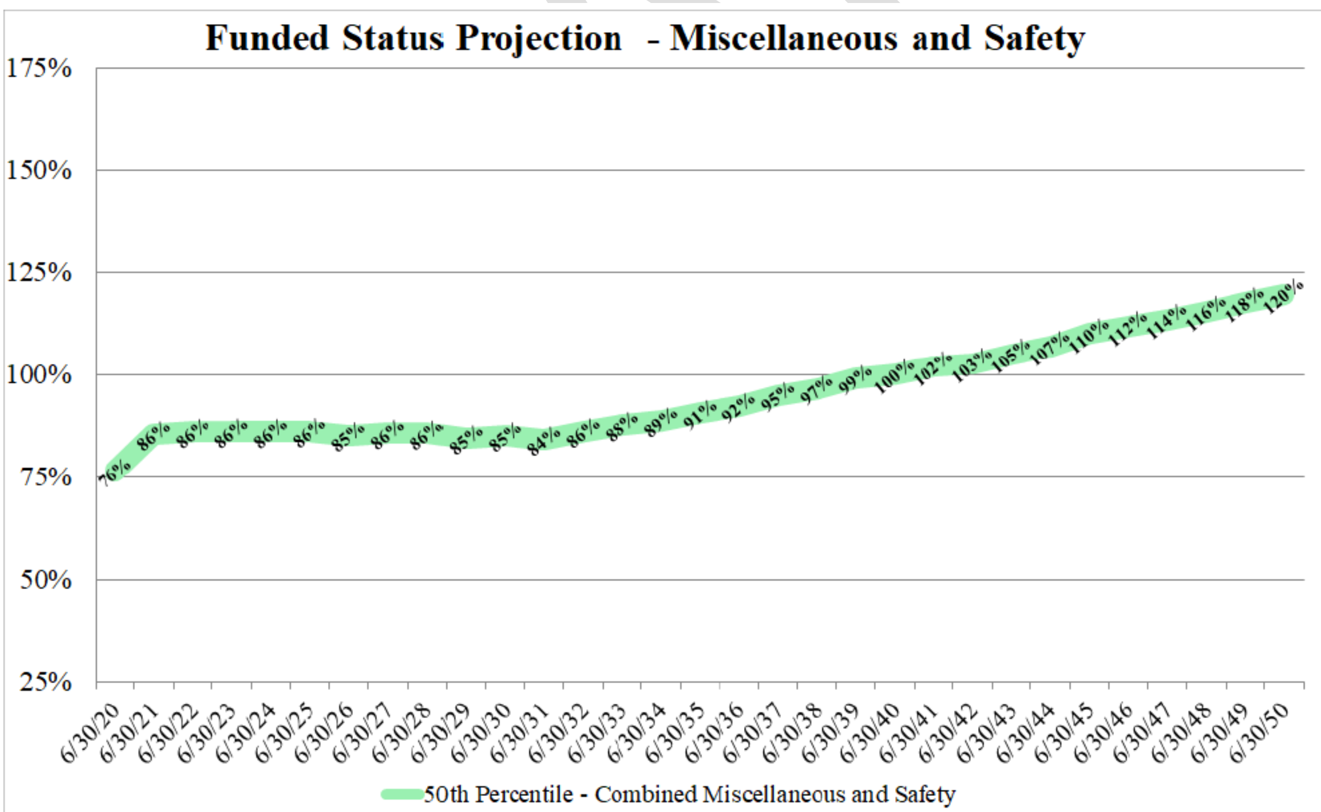
Status of the County's Miscellaneous and Safety Plans - Combined

For the annual valuation report ended June 30, 2020, the $1.1 billion increase in MVA, $536 million decrease in UAAL, and, corresponding 5.4% increase in funded status to 76.4% (1) with CalPERS is largely attributable to the deposit of the 2020 POB proceeds. The offset is the corresponding debt owed to bondholders, albeit at a substantially lower interest cost.

	Actual	Actual	Projected	Projected
For the annual valuation report ended	6/30/19	**6/30/20**	6/30/21	6/30/22
Total actuarial accrued liability (AAL)	$12.46	**$13.03**	$14.12	$14.88
Total market value of assets (MVA)	$8.84	**$9.96**	$12.08	$12.90
Total unfunded actuarial accrued liability (UAAL)	$3.62	**$3.07**	$2.04	$1.98
Funded Status – gross	71%	**76.4%** (1)	85.6%	86.7%
Funded Status – net	69%	**69.2%** (2)	79.3%	81.2%

(1) Does not include POBs. Miscellaneous Plan 75%, Safety Plan 79.4%.
(2) Includes POBs. Miscellaneous Plan 69%, Safety Plan 69.7%.
Dollars in billions.

For the annual valuation report ended June 30, 2021, the substantial projected gain in MVA, drop in UAAL and increase in funded status is the result of the 21.3% investment return earned by CalPERS, as well as the first full-year earnings on the 2020 POBs proceeds invested with CalPERS, estimated at $xxx million. Per CalPERS, there will be a five-year phase-in of the FY 20-21 investment return. The current trajectory as shown below suggests achievement of the 80% funded status (a stated level in Board Policy B-25), on a gross basis, in the near term. The trajectory is the same on a net basis as POB debt service declines every single year through final maturity in 2038.



Source: Attachment 1, Slide #60. County of Riverside - CalPERS Miscellaneous and Safety Plans.
Independent Actuarial Report - 6/30/20 Valuation, Bartel Associates, LLC.
50th percentile assumes CalPERS earns 7% through 6/30/23, 6.80% beginning 7/1/23 and gradually declining to 6% within twenty years.

Employer Contribution Rate Outlook

The FY 22/23 employer contribution rate as a percent of pay for the Miscellaneous Plan is 28.00% (a 0.4% increase from prior year), **while the Safety Plan is 47.2%** (a 1% increase from prior year) as shown in the table below. **Note the significant projected reduction in rates vs. the prior PARC Report.**

Graphical representation of these rates for both plans follow on pages 8 - 12.

Table 1
Projected Employer Contribution Rates

	Miscellaneous Plan			Safety Plan		
FY	Rate[1]	Change from prior FY (+/-)	Difference from 2021 PARC Report projection	Rate[2]	Change from prior FY (+/-)	Difference from 2021 PARC Report Projection
17/18	19.40%[3]	0.30%	N/A	30.30%[3]	1.50%	N/A
18/19	21.20%[3]	1.80%	N/A	33.70%[3]	3.40%	N/A
19/20	23.9%[3]	2.70%	N/A	39.7%[3]	6.00%	N/A
20/21	26.3%[3]	2.40%	0.00%	43.4%[3]	3.70%	0.00%
21/22	27.6%[3]	1.30%	0.00%	46.2%[3]	2.80%	0.00%
22/23	28.00%	0.40%	-1.00%	47.20%	1.00%	-1.30%
23/24	28.10%	0.10%	-2.00%	47.10%	-0.10%	-3.10%
24/25	26.70%	-1.40%	-3.60%	45.00%	-2.10%	-6.30%
25/26	25.00%	-1.70%	-5.10%	43.00%	-2.00%	-8.90%
26/27	24.70%	-0.30%	-6.20%	42.40%	-0.60%	-11.10%
27/28	24.10%	-0.60%	-7.30%	41.60%	-0.80%	-12.80%
28/29	25.00%	0.90%	-6.80%	43.30%	1.70%	-11.60%
29/30	25.80%	0.80%	-6.70%	44.60%	1.30%	-11.70%
30/31	26.80%	1.00%	-6.40%	46.10%	1.50%	-11.40%
31/32	27.30%	0.50%	-5.50%	47.90%	1.80%	-9.50%
32/33	28.00%	0.70%	N/A	49.00%	1.10%	N/A

(1) Includes Miscellaneous Plan POBs debt service, which ranges from 4.7% to 4.1% of the total rate through FY 2024/24; 4.1% in FY 2024/25; 3% from FY 2025/26 through FY 2030/31 and gradually decreases to 0% in FY 2038/39.

(2) Includes Safety Plan POBs debt service which ranges from 10.4% to 10.9% of the total rate through FY 2023/24; 10.0% in FY 2024/25; 8.8% to 9.1% from FY 2025/26 through FY 2030/31 and gradually decreases to 0% in FY 2038/39.

(3) Actual rates shown for FY 17/18 through FY 21/22.

Employer Contribution Rate Outlook (continued)

For the Miscellaneous and Safety plans, the following pages show a comparison of the most recent valuation report, 2020, vs. prior year, 2019 for:

- projected employer contribution rates expressed as a percentage with the three components that comprise the total amount (POBs debt service, normal cost and unfunded liability), over the next decade
- projected employer contribution rates with a longer term view of thirty years
- projected employer contributions expressed in dollars over the next decade

In all instances of comparisons vs. prior year, there is substantial change in the trajectory of projected contributions. The strong investment return of 21.3% by CalPERS in FY 20-21, as well as the $716 million infusion from 2020 POB proceeds are having a positive impact.

In addition, long-term projections reflect the increasing impact of the changes to the benefit formulas, as more of the employee population becomes subject to Tier III – Public Employees' Pension Reform Act (PEPRA).

In all of the 2020 contribution rate charts, 50th percentile (bold green line) assumes CalPERS earns 7% through 6/30/23, 6.80% (which is the new discount rate) beginning 7/1/23, and gradually declines to 6% within twenty years. All include both 2005 and 2020 POB proceeds invested with CalPERS, as well as the POBs associated debt service. Note, that even with very poor investment returns (represented in the 75th percentile on pages 9 and 11) the projected rates exhibit a long-term decline which begins in the early 2030's.

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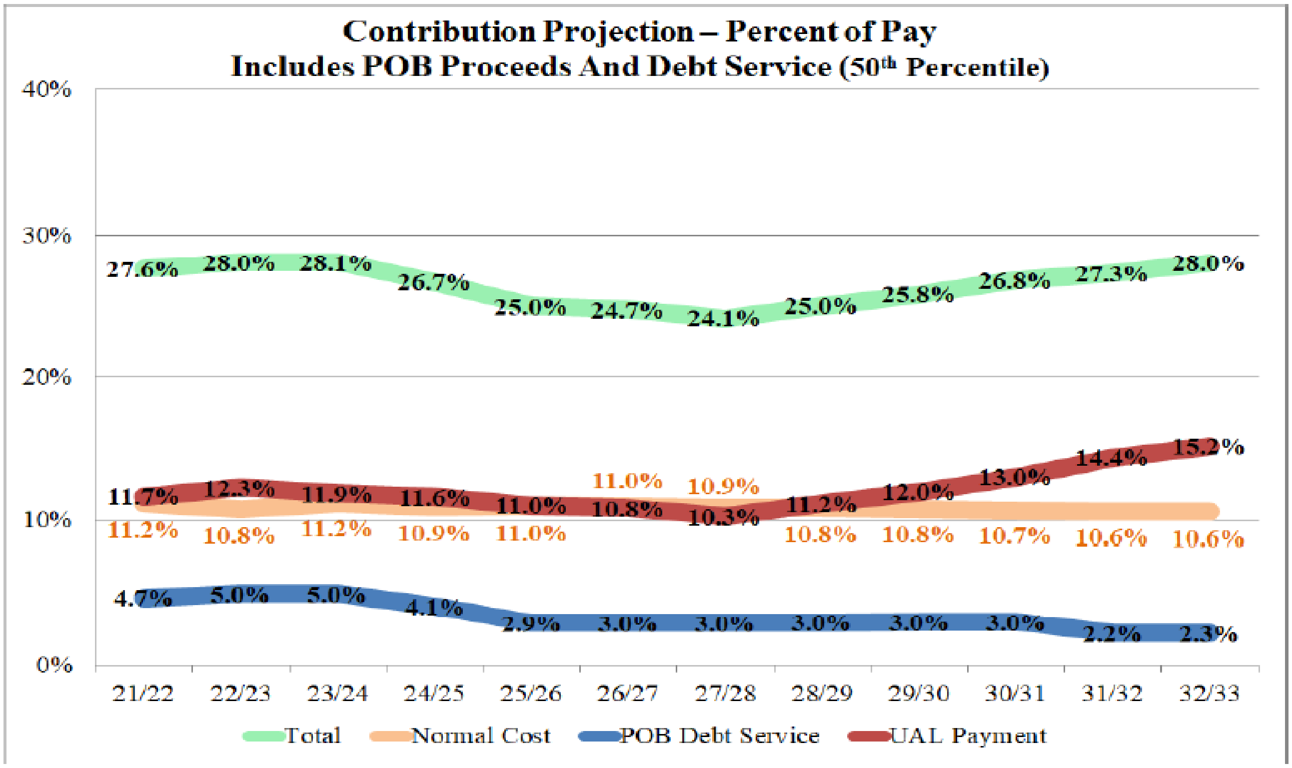
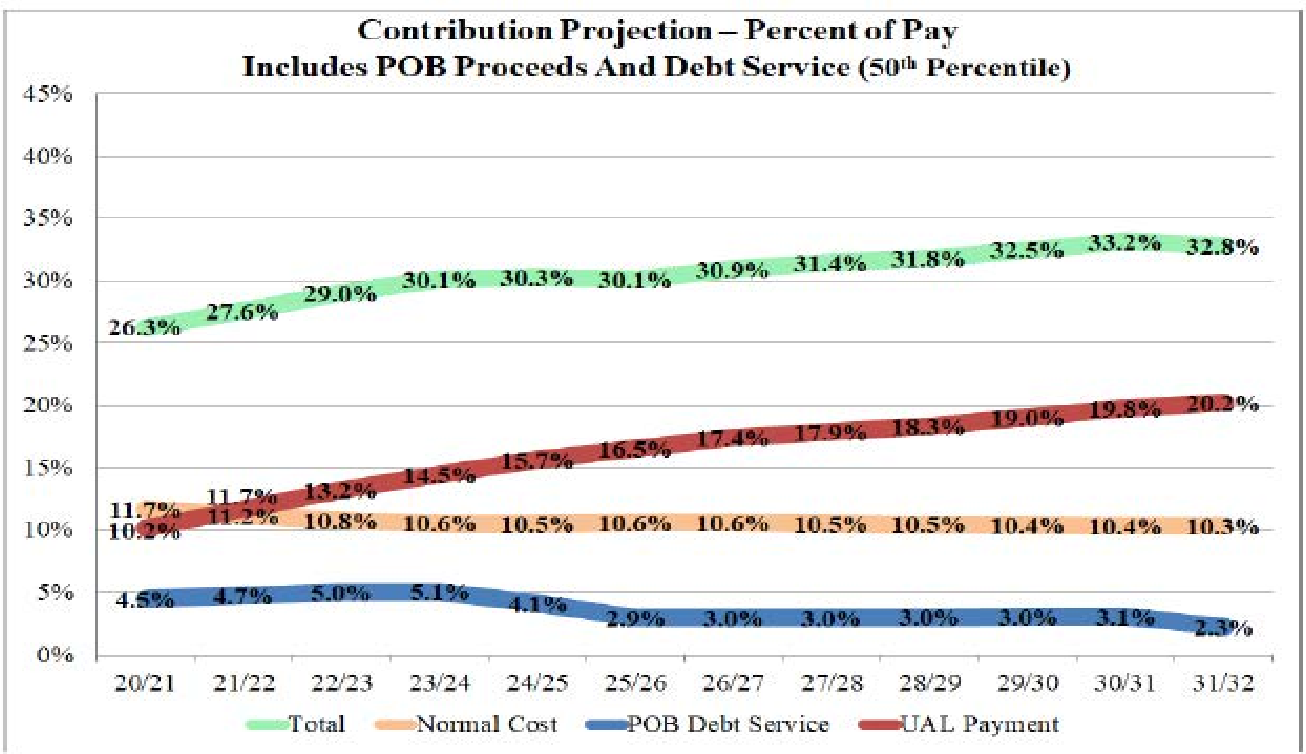
Miscellaneous Plan – 2020



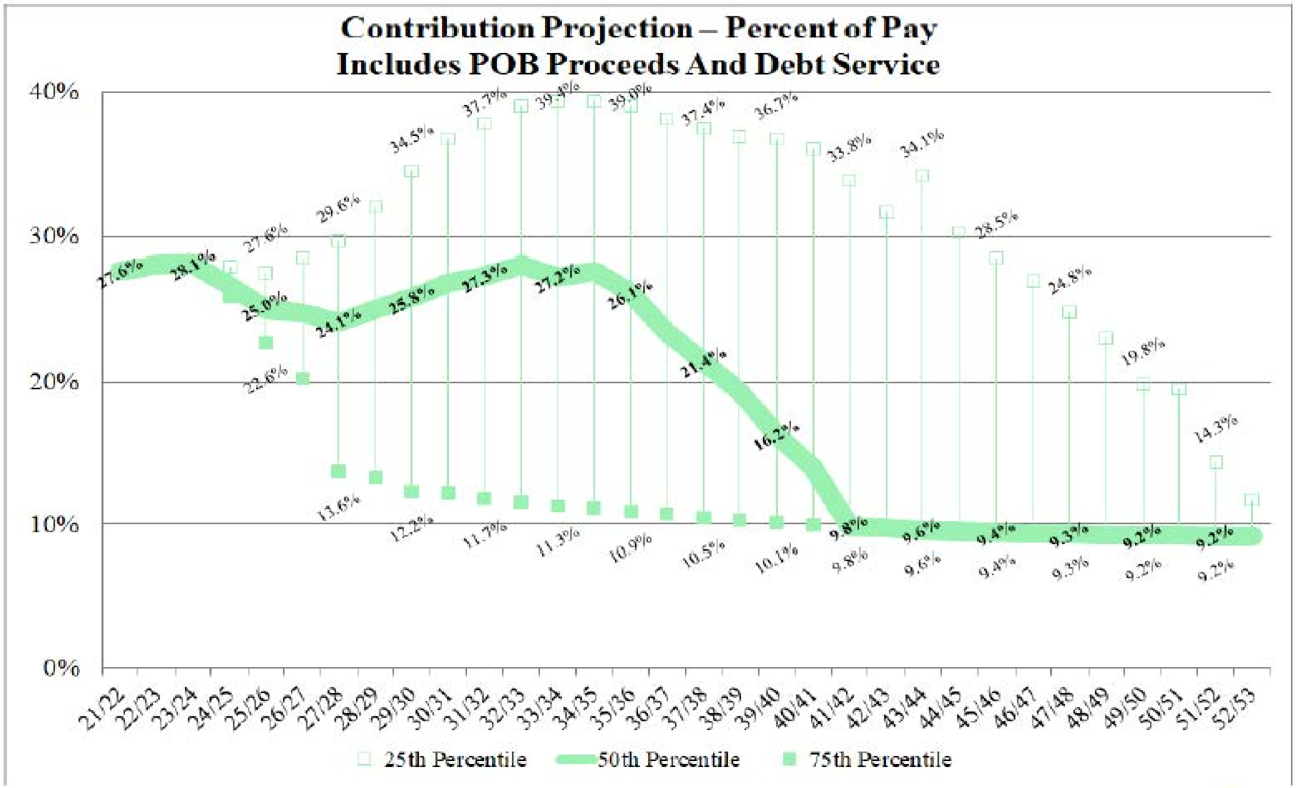
Source: Attachment 1, Slide #31. County of Riverside - CalPERS Miscellaneous and Safety Plans
Independent Actuarial Report - 6/30/20 Valuation, Bartel Associates, LLC.

Miscellaneous Plan - 2019



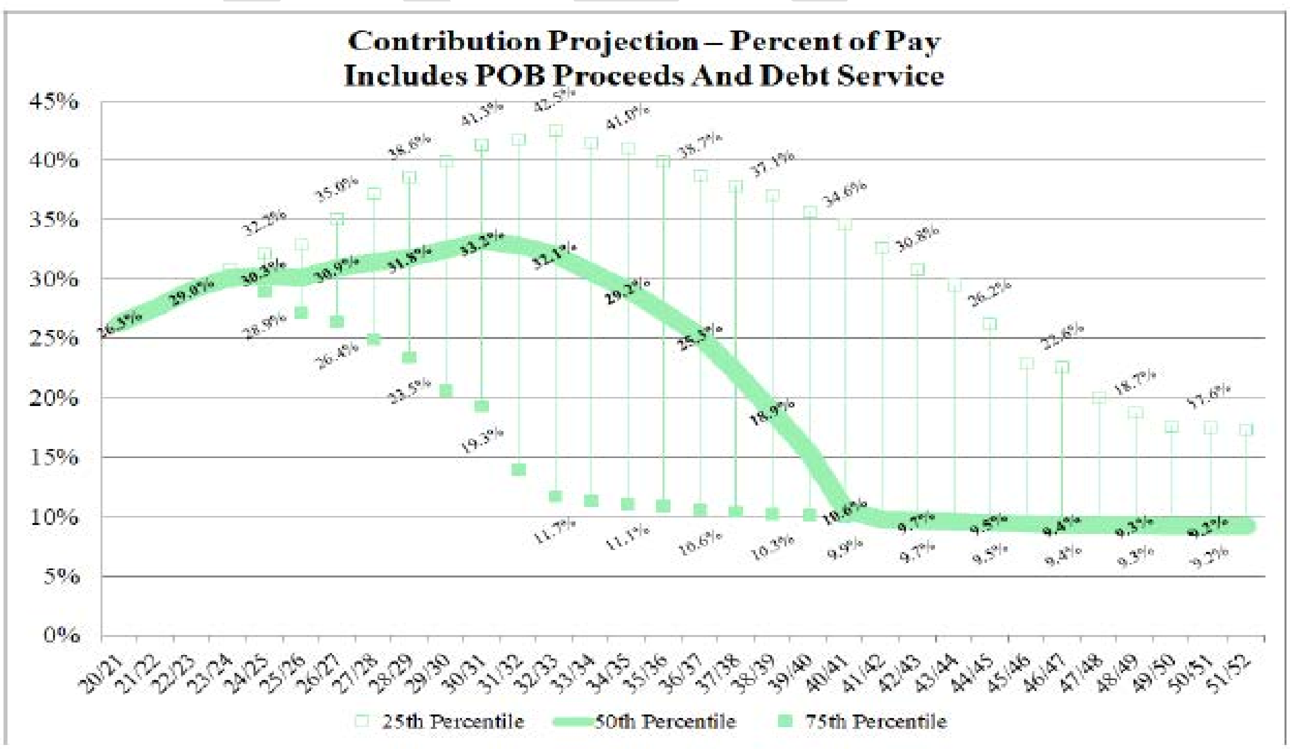
Source: Slide #31. County of Riverside - CalPERS Miscellaneous and Safety Plans
CalPERS Actuarial Issues - 6/30/19 Valuation, Bartel Associates, LLC. December 23, 2020.

Miscellaneous Plan – 2020



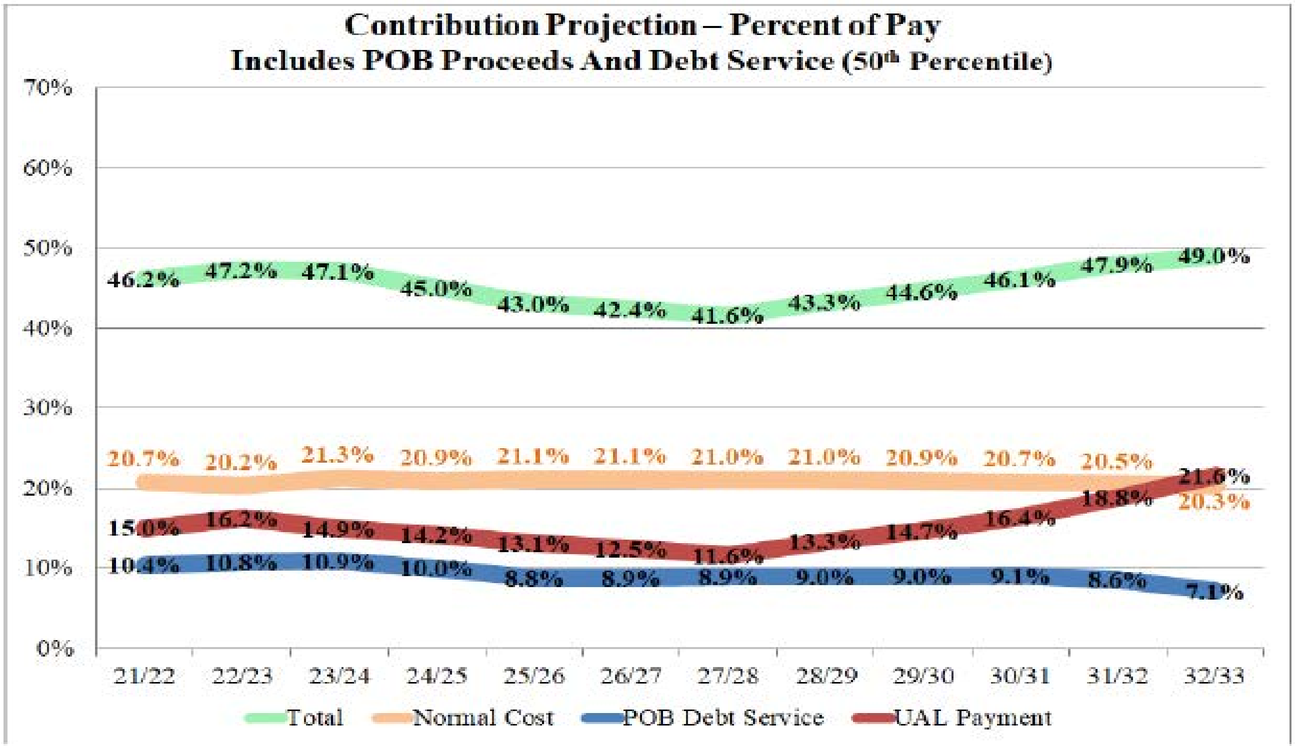
Source: Attachment 1, Slide #30. County of Riverside - CalPERS Miscellaneous and Safety Plans
Independent Actuarial Report - 6/30/20 Valuation, Bartel Associates, LLC.

Miscellaneous Plan – 2019



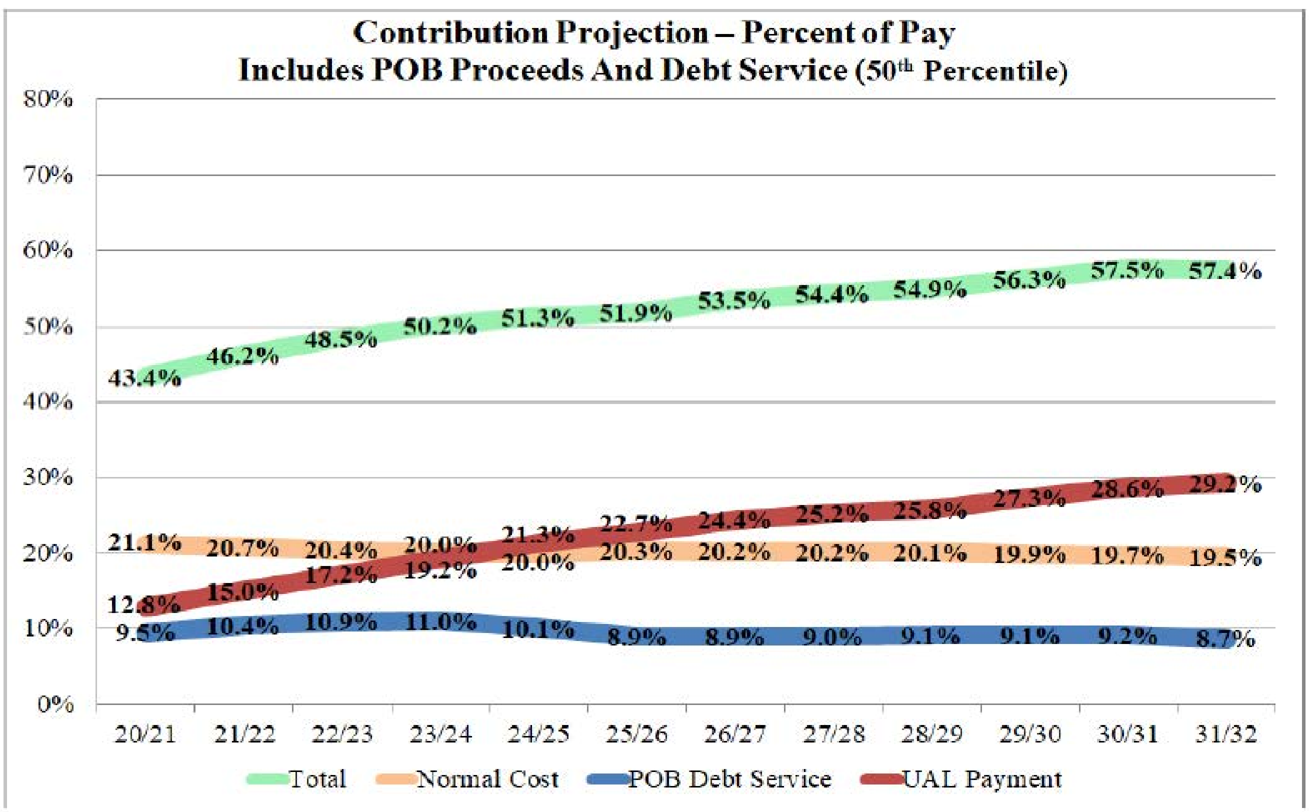
Source: Slide #30. County of Riverside - CalPERS Miscellaneous and Safety Plans
CalPERS Actuarial Issues - 6/30/19 Valuation, Bartel Associates, LLC. December 23, 2020.

Safety Plan - 2020



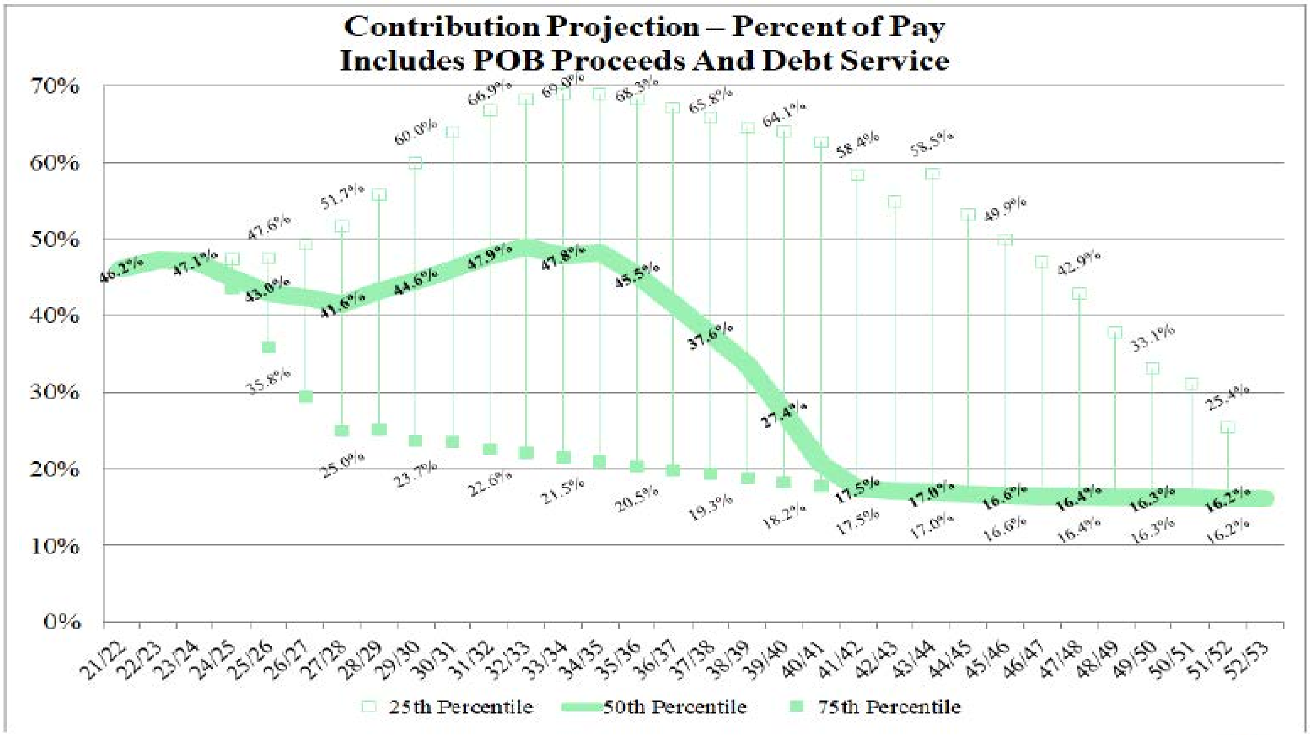
Source: Attachment 1, Slide #53. County of Riverside - CalPERS Miscellaneous and Safety Plans
Independent Actuarial Report - 6/30/20 Valuation, Bartel Associates, LLC.

Safety Plan - 2019



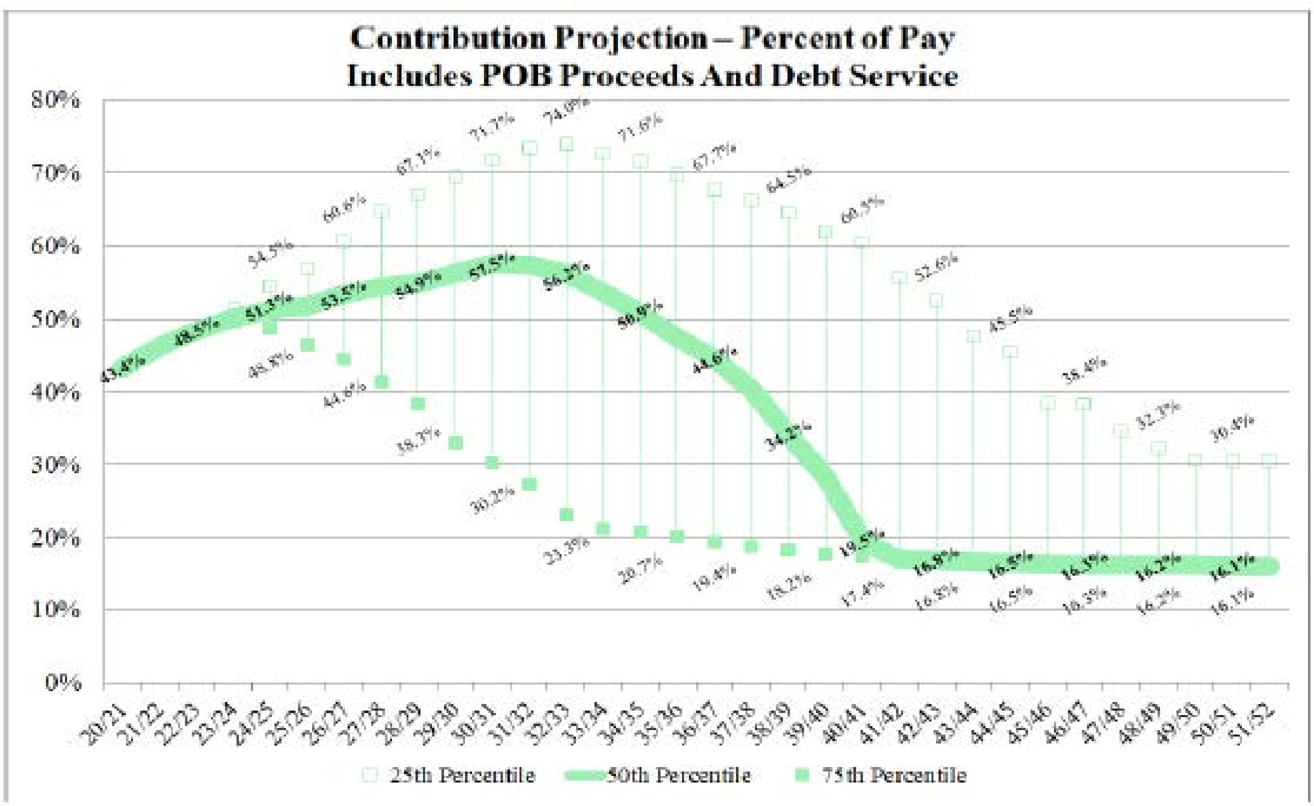
Source: Slide #53. County of Riverside - CalPERS Miscellaneous and Safety Plans
CalPERS Actuarial Issues - 6/30/19 Valuation, Bartel Associates, LLC. December 23, 2020.

Safety Plan - 2020



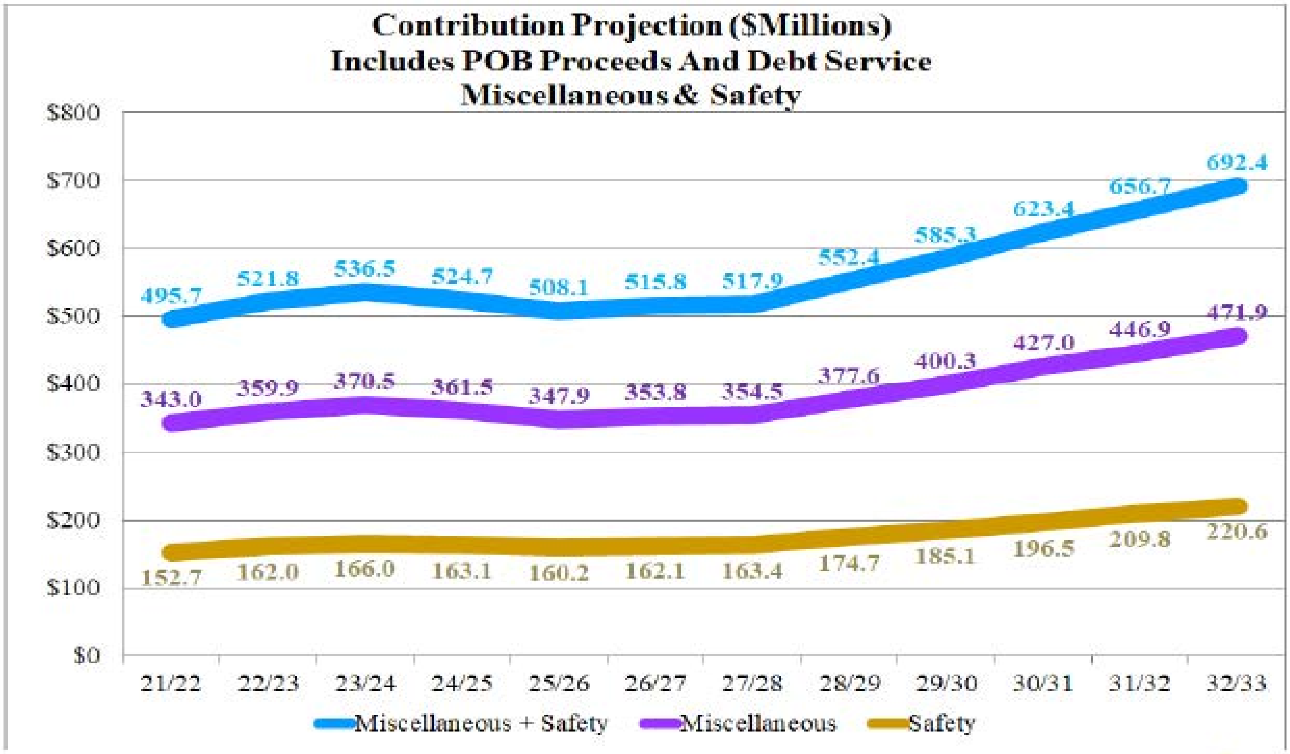
Source: Attachment 1, Slide #31. County of Riverside - CalPERS Miscellaneous and Safety Plans
Independent Actuarial Report - 6/30/20 Valuation, Preliminary Results, Bartel Associates, LLC.

Safety Plan - 2020



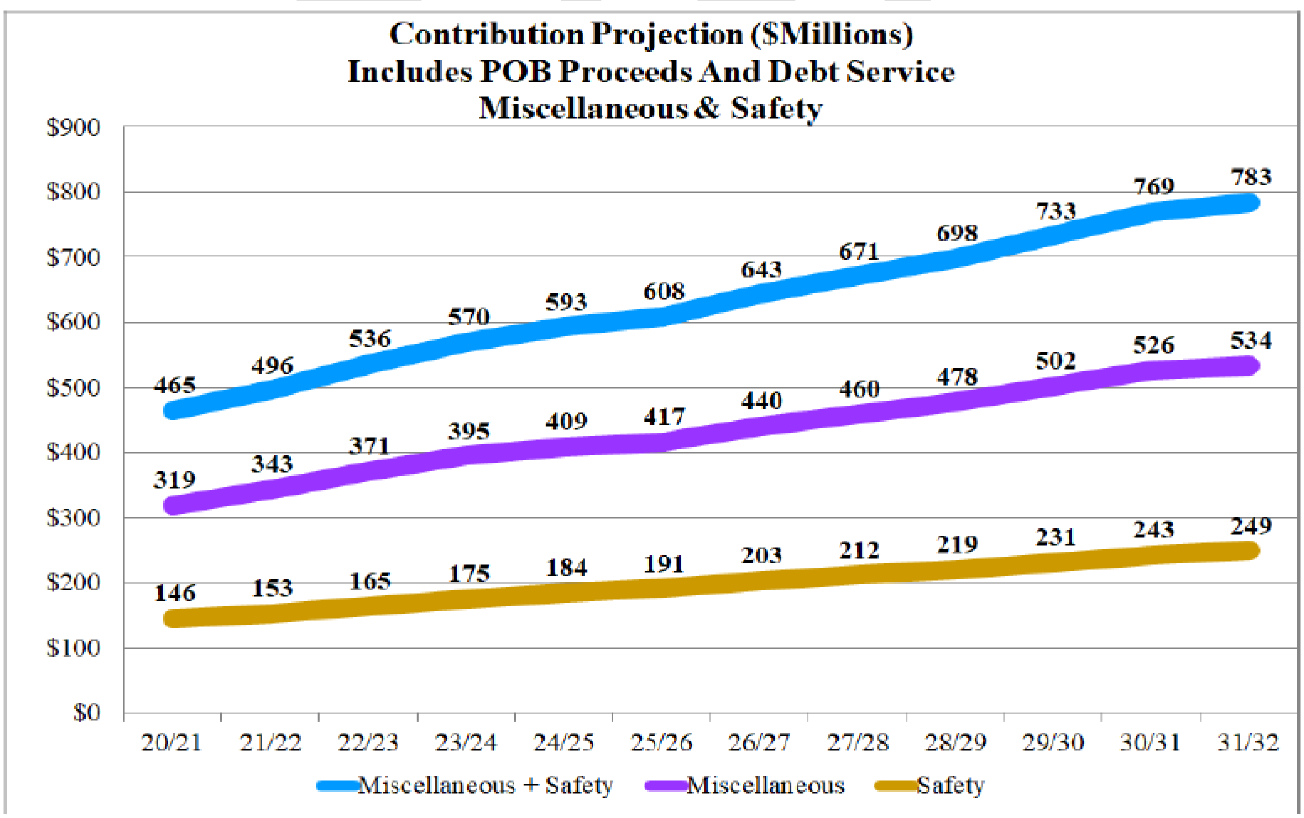
Source: Slide #53. County of Riverside - CalPERS Miscellaneous and Safety Plans
CalPERS Actuarial Issues - 6/30/19 Valuation, Bartel Associates, LLC. December 23, 2020.

Combined - 2020



Source: Attachment 1, Slide #57. County of Riverside - CalPERS Miscellaneous and Safety Plans
Independent Actuarial Report - 6/30/20 Valuation, Preliminary Results, Bartel Associates, LLC.

Combined - 2019



Source: Slide #57. County of Riverside - CalPERS Miscellaneous and Safety Plans
CalPERS Actuarial Issues - 6/30/19 Valuation, Bartel Associates, LLC. December 23, 2020.

Pension Obligation Bonds (POBs)

Series 2005 A - In February 2005, the County issued its Series 2005 A POBs in the principal amount of $400 million to lock in an all-in borrowing cost of 4.91%, refinancing its prior unfunded liability, which was then carrying a 7.5% rate (a spread of 2.59%). At the same time, the County converted its repayment schedule from a rolling 30-year amortization to a fixed amortization of 30 and 25 years for the Miscellaneous and Safety Plans, respectively, further reducing interest cost. Upon deposit of the bond proceeds with CalPERS, the County's rate was reduced and replaced by the lower amount of the bond's debt service.

The POBs still maintain a relatively low break-even rate of 4.91% versus CalPERS' current rate of 7%, (a spread of 2.09%). Even if CalPERS were to earn a rate slightly below the POBs rate for the remaining term to maturity of 2035, and well below a projected long-term expected return of 6%, the County can still expect to show net estimated gains.

Bartel Associates analysis is projecting that as of February 15, 2022 (2) there will be $227.1 million in net estimated gains as a result of the sale of the bonds, with an outstanding balance owed of $160.5 million. There will be a reduction of $16.1 million from FY 24/25 to FY 25/26 for the Miscellaneous Plan, and for Safety, a reduction of $4.5 million for the same period.

Series 2020 - In April 2020, the efforts to reduce interest cost on a portion of the unfunded liability continued with the Board of Supervisors authorizing a second POB issuance in the amount of $720 million. The bond proceeds ($716 million, net of the cost of issuance) were used to refund up to approximately 20% of the total unfunded liability, split between the Miscellaneous and Safety Plans.

The County prepaid $371.5 million to CalPERS for deposit to the Miscellaneous Plan, and, $344.2 million for the Safety Plan which reflected a discount for prepayment of the selected bases. These bond proceeds served as a one-time additional discretionary payment into the plans. To be clear, the $716 million that was owed to CalPERS is now owed to bondholders, albeit at a much-reduced rate, generating the savings which per Board direction is now flowing into the 2020 Section 115 Pension Trust (discussed below).

This series of POBs has an even lower break-even rate of 3.53% vs. CalPERS' interest cost on the unfunded liability of 7% (a spread of 3.47%). This results in payment reductions (savings) of nearly $231 million through 2038. To capture the savings through the eighteen-year life of the POBs, a dedicated Section 115 Pension Trust account was established.

Bartel Associates analysis is projecting that as of February 15, 2022 (2) there will be $143 million in net estimated gains as a result of the sale of the bonds, with an outstanding balance owed of $659.5 million.

Shown in the table below are estimated gains through February 15, 2022 on both series of POBs which includes the next interest payments.

Status of POBs

	Projected	Projected	
Estimated gains through 2/15/22	**Series 2005A**	**Series 2020**	**Total**
CalPERS investment earnings on POB proceeds (1)	**$500.7**	**$187.5**	**$688.2**
POB payments (2)	**$270.5**	**$40.4**	**$310.9**
Cost of issuance	**$3.1**	**$4.1**	**$7.2**
Net estimated gains	**$227.1**	**$143**	**$370.1**

(1) Accumulated earnings since issuance based on actual CalPERS investment return for each year.
(2) Includes POB interest payments to date.
Dollars in millions.

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Section 115 Pension Trusts

The first Section 115 Pension Trust was established in 2016 to help the County independently mitigate CalPERS' contribution rate volatility and act as a buffer in the future for budgeting purposes as funds accumulate.

Excess funds from the Liability Management Fund (LMF) and the Other Post-Employment Benefits (OPEB) Trust were placed in the Section 115 Pension Trust to fund the initial deposit. Additionally, funds collected as a result of the difference between CalPERS' multi-year projected payroll, based on actuarial assumptions, and, the County's actual payroll, are restricted and invested in the County Treasurer's Pooled Investment Fund (TPIF). Funds are then dollar-cost averaged from the TPIF and placed into the Trust.

The second Section 115 Pension Trust, as mentioned above, was established with the 2020 POBs. The Trusts are administered by Public Agency Retirement Services (PARS), with HighMark Capital Management serving as investment manager. The current investment strategy is Moderate Index PLUS (Active).

Unlike assets in the CalPERS defined benefit plans, funds in the Trust are managed in a manner consistent with the County's risk profile in a combination of equity investments, fixed income and cash.

Status of 2016 Section 115 Pension Trust

	6/30/20	**6/30/21**
Account balance	$29.92	**$41.82**
Total accumulated investment earnings to date	$3.8	**$10.8**
Annual rate of return	4.48%	**19.93%**
Annualized rate of return since inception (1)	6.20%	**9.00%**

(1) Inception date November 2016.
Dollars in millions.

Status of 2020 Section 115 Pension Trust

	6/30/21
Account balance	**$13.95**
Total accumulated investment earnings to date	**$0.84**
Annual rate of return	**N/A**
Annualized rate of return since inception (1)	**14.39%**

(1) Inception date October 2020.
Dollars in millions.

Over time these assets will become more significant as they accumulate in the account and cannot be used for any other purposes except for making additional discretionary payments directly to CalPERS to pay down a portion of the unfunded liability, or for reimbursing the County for CalPERS contributions. Within five years there will be in excess of $100 million in contributions made to the 2016 and 2020 Trust accounts combined, and within ten years, in excess of $175 million.

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Other Post-Employment Benefits (OPEB)

Background - OPEB are benefits other than pensions provided to retired employees. In the County's case, this is a monthly contribution to retirees for health care. The Governmental Accounting Standards Board (GASB) Statement No. 45, released in 2004, substantially modified the reporting requirements for OPEB provided by state and local governments.

In summary, GASB 45 dictated that the present value of these benefits should be quantified and reported in the Supplementary Information section of County's Annual Comprehensive Financial Report (ACFR). This reporting requirement did not trigger a funding requirement. Per GASB 45, the County's liability is comprised of two components; the present value of the amount payable to retirees and the amount attributable to the "implicit subsidy." The implicit subsidy is defined as the difference between the true cost of coverage for the retiree medical plan and the actual rate paid. Such a difference arises if retirees and active employees are in the same rate class.

The County's Response - The initial calculation of the County's retirement health liability was $390 million as of January 1, 2005. Upon the recommendation of PARC, the County took two steps to reduce this liability over time. The first step was to establish an OPEB Trust in 2007 which reduced the actual and nominal liability. The second step was to virtually eliminate the implicit subsidy by revamping the County's healthcare rate structure to separate pre-Medicare retirees from active employees.

GASB 75 - In June 2015, GASB released Statement No. 75, which was initially effective for the fiscal year ending June 30, 2018. GASB 75 addresses accounting and financial reporting issues by government employers, previously covered by GASB 45. Per GASB 75, employers are now required to disclose the total OPEB liability on the balance sheet (Statement of Net Position) alongside its other long-term liabilities (i.e., bond debt, lease obligations, pension liabilities, etc.). This change now highlights the liability.

The Move to CalPERS - In 2019 the County embarked upon a multi-year process to restructure its health care offerings with an eye towards controlling costs and providing a fuller range of plan options for employees and retirees alike. The OPEB impacts of the move to CalPERS include a return of the implicit subsidy which did not exist under the County's own rate structure as an increase of the actual benefit paid to certain retirees, and a greater number of retirees now purchasing their insurance through the County since the offerings are more attractive.

Under CalPERS health plans, retirees receive the benefit of the implicit subsidy prior to age 65 by paying premiums that are developed by blending active and retiree costs. For example, in 2022 under the Blue Shield Access Plus, the estimated true cost for an age 60 retiree is $1,023 per month, while the required premium is only $780 per month. This had the effect of bringing the implicit subsidy back into the equation. Ironically, the GASB rules fail to recognize cases such as the County's in which an implicit subsidy is created while the actual cost to employees decreases.

In aggregate those savings would largely offset the implicit subsidy. Based on the AON - County of Riverside Actuarial Valuation Report Postretirement Benefits Plan as of June 30, 2021 (Attachment 4, page iv), the value of that benefit to employees is $88 million (the difference between the present value of benefits and AAL). Nevertheless, inclusion of implicit subsidy in the total net OPEB liability without any offset is specifically required. However, many employers have chosen not to fund this portion of their liability since it is not owed to retirees unlike the monthly benefit payment.

Another financial implication of moving to the CalPERS health plans is the requirement under the Public Employees' Medical and Hospital Care Act (PEMHCA) to provide a $149 minimum monthly contribution for retiree health premiums. That has an effect of increasing the monthly benefit and the cost to the County for those employees whose negotiated or Board approved benefit (for non-represented employees) is less than $149 (the current range is from $149 to $256 per month).

This increase in the monthly cost to provide the benefit is currently paid by departments on a pay-as-you-go basis and increases the OPEB liability. In addition to the PEMHCA effect, the County is expecting higher participation rates in its plans by retirees which will increase the expected and actual payout for those enrolled in a health plan. To the extent retirees have better options, such as paid spousal coverage from another employer, they receive no monthly benefit from the County and no liability is recorded.

In contrast to the CalPERS defined benefit pension plan liability, there is no direct connection between the implicit subsidy portion of the OPEB liability and the County's cost of providing the retiree healthcare benefit. Recognizing this, the Board adopted Policy B-25, Section III (A) Other Post-Employment Benefits (OPEB) which states, "the County seeks to maintain a minimum funding level of 80% in its OPEB plan, <u>excluding any implicit subsidy liability</u>."

There could be some advantages to taking steps to funding a portion of the implicit subsidy in the future; staff and PARC will monitor the issue and bring any recommendations to the Board. A major distinction from the CalPERS defined benefit pension plans is that no interest is charged on the OPEB UAAL.

Status of OPEB

For the annual valuation report period ended	6/30/20	**6/30/21**
Total actuarial accrued liability (AAL) (1)	$235	**$260**
AAL - excluding implicit subsidy (2)	$139	**$144**
Smoothed value of plan assets	<u>$53</u>	**<u>$68</u>**
Unfunded actuarial accrued liability (UAAL)	$86	**$76**
Funded Status (3)	38.2%	**47.2%**
Market value of plan assets	$53	**$73**
Annual net rate of return	5.48%	**19.6%**
Annualized net rate of return inception to date (4)	6.31%	**7.53%**

(1) Total AAL is the retiree health care liability comprised of the retiree benefit amount and implicit subsidy.
Implicit subsidy is the difference between the true cost of coverage for the retiree medical plan and the actual rate paid.
(2) Funded status is calculated by dividing the smoothed value of plan assets by AAL – excluding implicit subsidy.
(3) Source of (1) and (2) above: Attachment #4, page iv. Actuarial Valuation Report - County of Riverside Postretirement Benefits Plan as of June 30, 2021 - AON
(4) Inception date November 2007.

Dollars in millions.

County staff requested a review from AON of a multi-year plan to achieve an 80% funded status for the retiree benefit portion of the OPEB liability. The current actuarial schedule projects 80%, excluding implicit subsidy, would be reached in 2025 (two years earlier than projected in the 2021 PARC Annual Report) if approximately $16.9 million were to be charged to departments for FY 22-23, the same as FY 21-22. As a percentage of payroll, this amounts to approximately 1.1%. At its December 16, 2021 meeting, PARC unanimously approved the recommendation to continue to stay on target with the aforementioned amount.

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Part-Time and Temporary Employees' Retirement Plan

Background - The County of Riverside established the Part-Time and Temporary Employees' Retirement Plan (TAP), April 1, 1999, to provide retirement benefits to eligible employees as a substitute for benefits under Social Security, as allowed under Omnibus Budget Reconciliation Act of 1990 (OBRA '90). The Plan is an IRS Section 401(a) defined benefit plan. The Plan actuary calculates the minimum recommended employer contribution rate through preparation of an actuarial valuation report. Participants are required to contribute 3.75% of their compensation to the Plan.

As of September 1, 2010, the investments have been managed in a balanced account strategy with an expected rate of return of 6%. Overall, the Plan's funded status improved and net pension liability decreased from 2020 primarily due to the very favorable investment return of 30.35% in FY 20-21, vs. 6% assumed.

Status of Part-time and Temporary Employees' Retirement Plan

For the annual valuation report period ended	7/1/20	**7/1/21**
Actuarial accrued liability (AAL)	$58.5	**$64.9**
Smoothed value of plan assets (MVA)	$45.4	**$52.9**
Total unfunded actuarial accrued liability (UAAL)	$13.1	**$12.0**
Funded Status (1)	77.7%	**81.5%**
Market value of plan assets	$45.4	**$61.4**
Annual net rate of return	3.72%	**30.81%**
Annualized net rate of return inception to date (2)	6.02%	**8.11%**

(1) Source: Attachment #5, page ii. Actuarial Valuation Report - County of Riverside Part-time and Temporary Employees' Retirement Plan as of July 1, 2021 – AON
(2) Inception date September 2010.

Dollars in millions.

Although AON projects an 87.2% funded status by June 30, 2022, at its December 16, 2021 meeting, PARC unanimously approved the recommendation to continue to stay on target with the current year employer rate of approximately 5.58% as a percentage of payroll for FY 22-23, the same as FY 21-22.

Special District Plans

The County's Special Districts (not including Flood) participate in what CalPERS refers to as the Risk Pool, designed to accommodate smaller employers whose size is not enough to develop individual actuarial assumptions with participation occurring if a rate plan has less than 100 active members on any valuation date. The process involves combining assets and liabilities across employers to produce large, risk sharing pools that reduce or eliminate large fluctuations in an employer's retirement contribution rate caused by unexpected demographic events.

Although the desired 80% minimum funded status for the Special Districts are not specifically mentioned in Board Policy B-25, as is the case with the County's defined benefit pension plans, see below additional information for each District. Similar to the County's Miscellaneous and Safety Plans, additional discretionary payments would be required to increase the funded status, thereby having budgetary impacts on the Districts (Parks and Flood), as well as the Department of Waste Resources, that may, or may not be feasible at this time.

Highlights - for the reporting period ended June 30, 2020 are:

- ✓ **Riverside County Regional Park and Open-Space District**
  - 71.9% funded status Tier I (1.6% YoY increase)
  - 96.6% funded status Tier II (6.7% YoY increase)
  - 96.7% funded status Tier III (6.7% YoY increase)

- ✓ **Riverside County Flood Control and Water Conservation District**
    - 65.9% funded status (2.2% YoY increase)

- ✓ **Riverside County Waste Resources Management District**
  68.5% funded status (1.6% YoY decrease)

The Riverside County Regional Park and Open-Space District has three rate plans. As of the annual valuation report(s) for June 30, 2020, the funded status of Tier I was 71.9%, Tier II was 96.6%, and Tier III was 96.7% (see tables below for additional details).

Status of Tier I

For the annual valuation report ended	6/30/19	**6/30/20**
Total actuarial accrued liability (AAL)	$46.9	**$48.2**
Total market value of assets (MVA)	$34.5	**$34.6**
Total unfunded accrued liability (UAAL)	$12.4	**$13.6**
Funded Status	73.5%	**71.9%**

Dollars in millions.

Status of Tier II

For the annual valuation report ended	6/30/19	**6/30/20**
Total actuarial accrued liability (AAL)	$398,743	**$459,277**
Total market value of assets (MVA)	$358,502	**$443,835**
Total unfunded accrued liability (UAAL)	$40,241	**$15,442**
Funded Status	89.9%	**96.6%**

Status of Tier III

For the annual valuation report ended	6/30/19	**6/30/20**
Total actuarial accrued liability (AAL)	$1.4	**$1.85**
Total market value of assets (MVA)	$1.3	**$1.78**
Total unfunded accrued liability (UAAL)	$0.14	**$0.07**
Funded Status	90%	**96.7%**

Dollars in millions.

To date, the District remains cautious as the pandemic continues to present uncertainty, however, does anticipate improvements in realized revenues as school tours and events increase in 2022. Starting in FY 22-23, the District plans to make additional discretionary payments of $200,000 to address its Tier I funding status, which is below 80%, and continue making the annual UAAL prepayment option for all three tiers, thereby receiving an early payment discount from CalPERS.

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The Riverside County Flood Control and Water Conservation District's annual valuation report for June 30, 2020, shows a funded status of 65.9% (see table below for additional details).

Status

For the annual valuation report ended	6/30/19	**6/30/20**
Total actuarial accrued liability (AAL)	$213.9	**$220.7**
Total market value of assets (MVA)	$136.3	**$145.4**
Total unfunded accrued liability (UAAL)	$77.6	**$75.3**
Funded Status	63.7%	**65.9%**

Dollars in millions.

The District has developed a long-term plan that includes making additional discretionary payments to CalPERS in an effort to bring the funded status at or above 80% by fiscal year 2025, assuming all other factors remain constant. An additional discretionary payment of $6.7 million was paid in FY 19/20, which allowed for the 2.2% increase in funded status as reflected on the June 30, 2020 valuation report. An additional discretionary payment of $12.6 million was paid in FY 20/21. According to CalPERS, this payment will be reflected in the June 30, 2021 valuation report when the District is projected to reach a funded status of 72.6% (an increase of 6.7% from the June 30, 2020 valuation report).

The District intends to continue making additional discretionary payments based on its ongoing assessment of its fiscal outlook for future years. The District will also continue making the annual UAAL prepayment option, thereby receiving an early payment discount from CalPERS.

The Riverside County Waste Resources Management District was dissolved in 1998, with the exception of existing employees at that time electing to maintain their District status. All new hires or transfers are designated as County employees; no new District employees have been added since 1998. The District's annual valuation report for June 30, 2020, shows a funded status of 68.5% (see table below for additional details).

Status

For the annual valuation report ended	6/30/19	**6/30/20**
Total actuarial accrued liability (AAL)	$53.4	**$54.5**
Total market value of assets (MVA)	$37.5	**$37.3**
Total unfunded accrued liability (UAAL)	$15.9	**$17.2**
Funded Status	70.1%	**68.5%**

Dollars in millions.

The District has developed a long-term plan that includes making additional discretionary payments to CalPERS in an effort to bring the funded status at or above 80% by fiscal year 2025, assuming all other factors remain constant.

A discretionary payment of $3.3 million was paid in FY 20/21. According to CalPERS, this payment will be reflected in the June 30, 2021 valuation report when the District is projected to reach a funded status of 78% (an increase of 9.5% from the June 30, 2020 valuation report). The District intends to continue making additional discretionary payments based on its ongoing assessment of its fiscal outlook for future years. The District will also continue making the annual UAAL prepayment option, thereby receiving an early payment discount from CalPERS.

Management of Pension and Other Liabilities

County's Response - Several steps have been taken to address the management of its pension liabilities over the last two decades:

- ✓ In 2003 the Pension Advisory Review Committee (PARC) was formed to guide policy decisions regarding retirement benefits.

- ✓ In 2004 PARC first recommended taking advantage of CalPERS' early payment discount in lieu of periodic payments.

- ✓ In 2005 the County issued $400 million in POBs reducing the all-in true interest cost to 4.91%, increased its funding status and created the Liability Management Fund (LMF), whereby some of the excess savings has been sent to CalPERS to reduce the unfunded liability. The current practice has been to send to the Section 115 Pension Trust, and will continue.

- ✓ In 2007 in an effort to reduce its OPEB liability over time, the County established its Section 115 OPEB Trust with the California Public Employers' Retirement Benefit Trust (CERBT) with CalPERS.

- ✓ In 2012, the County took the lead in initiating pension reform with its bargaining units in advance of any action by the state. As a result of collective bargaining, employees agreed to pay their own member contributions eliminating the Employer Paid Member Contribution (EPMC). Additionally, Tier II was implemented with a lower benefit formula, which became effective on August 24, 2012.

  Shown below is the mix of active Miscellaneous and Safety Plan employees in each Tier. Note that as of as of June 30, 2021, Miscellaneous Plan employees, the largest component of the County's workforce, compromise nearly 50% of Tier III and is growing every year. These employees, as well as the gradual shift of Safety Plan employees in Tier III, are a contributing factor to the decline in contribution rates over the long-term.

County Plan		Retirement Formula	Employee Contribution	Earliest Retirement Age	Number of Actives 6/30/2021	Percentage (%) of Employees in each Tier 6/30/2021	PEPRA Compensation Limits (1)	Final Compensation Period	Effective Date
Tier I	Miscellaneous	3% at 60	8%	50	8,527	48%	N/A	12 months	7/11/2002
	Safety	3% at 50	9%	50	2,143	62%	N/A	12 months	6/28/2001
Tier II	Miscellaneous	2% at 60	7%	50	664	4%	N/A	36 months	8/24/2012
	Safety	2% at 50	9%	50	149	4%	N/A	36 months	8/24/2012
Tier III - PEPRA	Miscellaneous	2% at 62	7.25%	52	8,537	48%	$134,974	36 months	1/1/2013
	Safety	2.7% at 57	12.50%	50	1,162	34%	$161,969	36 months	1/1/2013

[1] 2022 Compensation Limits are indexed annually

The passage of Assembly Bill 340 on September 12, 2012 created the Public Employees' Pension Reform Act (PEPRA), implementing a new lower retirement benefit formula (Tier III), which became effective January 1, 2013. Since that time, there have not been any significant updates on the pension reform front worthy of note.

In September 2020, however, the Governor signed into law Assembly Bill 2967 which prevents cities and counties from excluding groups of employees from CalPERS defined benefit pension plans when they are offered for other groups, thereby effectively blocking the ability to offer a hybrid style or deferred compensation only plan.

Staff and the PARC continue to monitor any developments in this area and will bring any items of significance that would lead to cost reduction to the Board's attention on a timely basis.

- ✓ In February 2020 the Board approved agenda Item 3.15, Pension Debt Reduction Strategies. Two actions have occurred since that time, as seen below:

    - ➢ In April 2020 the Board authorized a second POB issuance of $720 million, reducing the all-in true interest cost to 3.53%, vs. the 7% that would have been paid to CalPERS on the unfunded liability portion.

      Per Board direction, the resulting payment reductions (savings) of nearly $231 million through 2038, are being be captured through the eighteen-year life of the POBs in a dedicated Section 115 Pension Trust account. For the period ended June 30, 2021, $13.1 million in first-year 2020 POB savings earned 14.39% for a total of $840,000, resulting in an ending balance of $13.9 million.

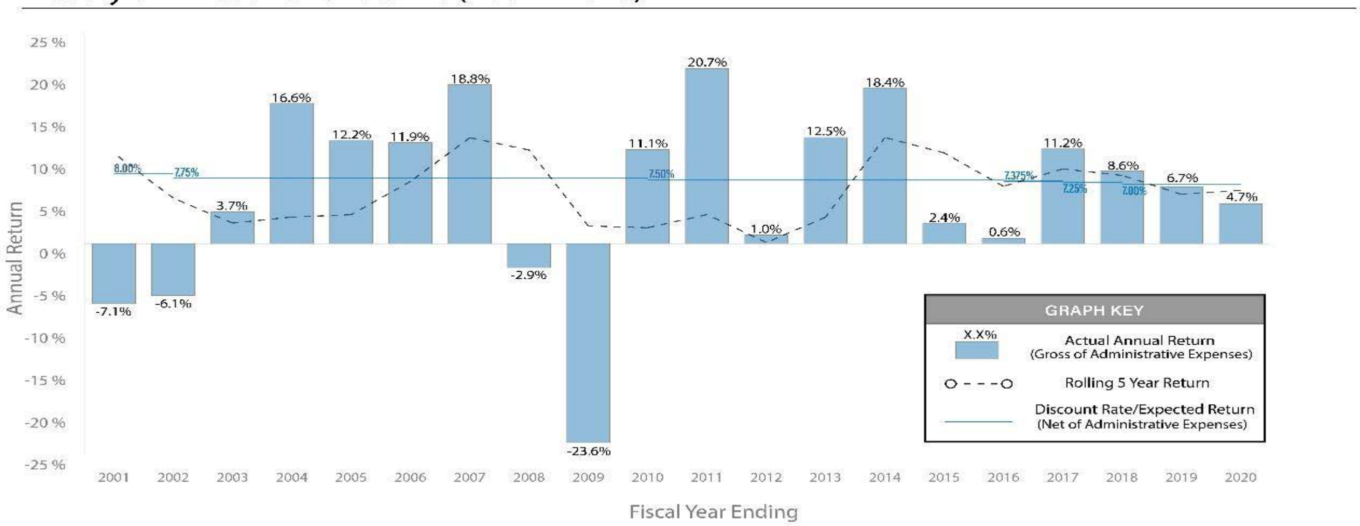
    - ➢ In December 2020, the Board of Supervisors approved agenda Item 3.1, amending and restating the agreement for services between the Western Riverside County Regional Conservation Authority (RCA) and the County of Riverside.

      Effective January 1, 2021, the Riverside County Transportation Commission began to provide the staffing and management agency role for RCA. As a result, a lump sum payment of $3.9 million was received from RCA as a pro-rata share of their unfunded pension liability obligation as well as any amounts owed for OPEB and the Replacement Benefit Plan. The payoff of $2.6 million for the unfunded liability portion was made to CalPERS on January 20, 2021.

Investment Returns

The graph below illustrates the 20-year historical annual returns each fiscal year ending June 30. The primary driver of the rate formula is CalPERS' investment performance. Actuarial and demographic assumptions impact the rate, but far less than performance. Poor investment performance following the 2008 -2009 financial crisis significantly increased the County's unfunded liability, driving up the required payments. Likewise, strong investment performance such as CalPERS' 21.3% return for the period ended June 30, 2021 (the highest level in over twenty years) is projected to have a substantial positive impact on the County's MVA, UAAL and funded status which will show up on next years' 2023 PARC Annual Report.

History of Investment Returns (2001 - 2020)



Source: CalPERS Annual Valuation Report as of June 30, 2020.

Attachments

1. County of Riverside - CalPERS Miscellaneous and Safety Plans
   Independent Actuarial Report - 6/30/20 Valuation, Bartel Associates, LLC.
2. CalPERS - Miscellaneous Plan - County of Riverside Annual Valuation Report as of June 30, 2020
3. CalPERS - Safety Plan - County of Riverside Annual Valuation Report as of June 30, 2020
4. Actuarial Valuation Report - County of Riverside Postretirement Benefits Plan as of June 30, 2021 - AON
5. Actuarial Valuation Report - County of Riverside Part-time and Temporary Employees' Retirement Plan
   as of July 1, 2021 – AON

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