

From: [REDACTED]
To: [Mary Gourley](#)
Subject: Public comment agenda number 7: 115 trust - who decides the City's risk profile?
Date: Monday, October 16, 2023 12:41:36 PM

Agenda Item number 7 follows through with a previous discussion and recommendation to seek a 115 trust to help manage pension liabilities. According to the background provided for this agenda item:

"Potential for increased investment returns vs. current General Fund reserves
General Fund investments restricted by Government Code (limit types of instruments and maturities) Flexibility – more investment options than CalPERS and the City can decide when and how to use."

First question does the City Council know how the money is currently invested and what the current and historical returns have been? Currently risk-free rates are around 5%. Long term equity returns are not much higher at 6% but they do have much higher risks of losses.

Second question: Who in the city decides how much risk the "city" is willing to take? What criteria will be used. Individual investors can make these decisions as they understand that they will have to **personally sustain the losses** associated with risky investments.

Since no one associated with the city or the city council will experience personal loss from poor decisions, economic theory suggests they will take more risk with city funds than they might with their own money. If the decision is to go risk free, the returns may not be substantially greater than the cost to maintain the trust. Taking more risk is critical to the success of this initiative, how will it be decided?

I am not opposed to taking a bit more risk to increase returns. Evaluating the risk comes with understanding the length of time this money will be invested, when withdrawals will be needed and alternatives available if withdrawals are needed during a downturn in investment performance. A properly constructed investment portfolio can over long periods of time create greater returns for little mathematical increase in risk. Understanding the portfolio skills of the manager is critical. The question becomes how successful has Shuster been in constructing portfolios for cities like our own?

How has Shuster invested other cities 115 trusts.

How many do they have.

How are they constructed, are there differences related to the risk choices of various communities.

Are there differences in risk and portfolios for smaller communities such as Sebastopol.

How many smaller communities do they manage?

What has been the performance of these portfolios.
 What was the largest annual loss they experienced in the past 1-3-5 year periods?
 What has been the biggest gain in that period?
 Can city Council live with these kinds of losses?
 How do their portfolios perform against index comparators. This is a measure of the efficiency they manage investment process.

A quick search of the SEC website ([SHUSTER ADVISORY GROUP, LLC - Investment Adviser Firm \(sec.gov\)](https://www.sec.gov)) shows that their California Registration was terminated in 2016. Probably nothing but should we be concerned?

The screenshot shows the SEC Investment Adviser Public Disclosure website. The search results for SHUSTER ADVISORY GROUP, LLC (CRD # 170233/SEC#:801-106929) are displayed. The registration status is listed as follows:

REGISTRATION STATUS		
SEC / JURISDICTION	REGISTRATION STATUS	EFFECTIVE DATE
SEC	Approved	11/19/2015
California	Terminated	1/22/2016

Lastly, it does not show up in the policy or the other supporting documents. Will there be a secure process to ensure only authorized individuals have ability to change investment decisions or withdraw or transfer money to outside entities?