



Office of the City Manager

INFORMATION CALENDAR
MAY 19, 2026

To: Honorable Mayor and Members of the City Council
From: Paul Buddenhagen, City Manager
Submitted by: Henry Oyekanmi, Director, Finance Department
Subject: Section 115 Trust Investment Report for FY 2025 Ended June 30, 2025

SUMMARY

In June 2018, the City Council approved the establishment of a Section 115 trust to help address the City's pension obligations. The administration of the trust was delegated to the City Manager or their designee. Since May 2019, Keenan Financial Services have managed and invested the trust fund. This report provides an overview and analysis of the performance and current market situation as it pertains to the City's Section 115 Trust investment portfolio. The trust consists of two distinct accounts: the Fixed Income Account and the Moderate Growth Account. These accounts encompass various asset classes, including fixed income mutual funds, domestic equities, international equities mutual funds, and alternative investment funds with a focus on real estate.

Account Descriptions

I. Fixed Income Account (7590):

The Fixed Income Account predominantly comprises fixed income mutual funds. As for the latest data available, this portion of the portfolio has been performing steadily, slightly above market expectations for fixed-income investments. It's important to note that fixed income investments are generally considered a lower-risk component of a portfolio, providing stability and consistent income.

II. Moderate Growth Account (7600):

The Moderate Growth Account represents a diversified mix of asset classes, including domestic equities mutual funds, international equities mutual funds, and alternative investment funds that focus on real estate.

Section 115 Trust Fund FY 2025 Activities and Balances

As of June 30, 2025, Section 115 Trust Fund activity and balances are summarized in Tables 1 and 2 below on a market value basis.

Before considering the change in the market value of the investments, the City's Section 115 Trust Fund earned 7.61% in FY 2025 (In addition to the 5.03% in interest earned on Pooled Cash balances in the Treasury): 5.61% for the Fixed Income Account, and 10.46% for the Moderate Growth Account.

Trust Fund	Pooled Cash	Fixed Income	Moderate Growth	Total
Beginning Value (7.1.2024)	\$11,043,841	\$8,574,213	\$6,767,677	\$26,385,731
Net Contribution	(8,000,000)	5,360,000	2,640,000	-
CalPers Savings	1,763,734			1,763,734
Transfer in from savings of 2021 Refunding Lease Revenue Bonds	536,325			536,325
Transfer in from General Fund	3,052,000			3,052,000
Payment to CalPers for Pension Costs	(3,000,000)			(3,000,000)
Dividend/Interest	411,328	515,751	389,405	1,316,484
Realized Gain on Investments	-	73,207	59,562	132,769
Change in Market Value	-	121,651	456,061	577,712
Management Fees	-	(37,417)	(26,584)	(64,001)
Ending Value (6.30.2025)	5,807,228	14,607,405	10,286,120	30,700,753

Table 2. Investment Fund Activity and Balances by FY				
	FY 2022	FY 2023	FY 2024	FY 2025
Beginning Book Value	\$ 12,454,721	\$ 16,540,906	\$ 21,405,174	\$ 26,385,730
Contributions:				
a. Council Authorized Transfers from General Fund	2,151,632	2,645,968	4,190,640	3,052,000
b. Prepayment of CalPERS Unfunded Liability Discount	1,479,360	1,634,103	1,487,226	1,763,734
Transfer in from Savings of 2021 Refunding Lease Revenue Bonds				536,325
Payment to Calpers for Pension Costs				(3,000,000)
Dividends and Realized Gain/Loss	490,659	626,281	1,194,713	1,449,252
Management Fees	(35,466)	(42,085)	(32,715)	(64,001)
Subtotal Before Marking Investments to Market	16,540,906	21,405,174	28,245,038	30,123,041
Change in Market Value	(2,116,151)	(2,271,842)	(1,859,307)	577,712
Ending Balance - Market Value	\$ 14,424,755	\$ 19,133,331	\$ 26,385,730	\$ 30,700,753

Discussion of Changes in Market Values

Generally accepted accounting principles require that investments be marked-to-market. This term refers to a method under which the fair values of accounts (i.e., assets and liabilities) that are subject to periodic fluctuations can be measured. The goal is to provide time- to- time appraisals of the current financial position of a company or organization, by incorporating the prevailing market conditions.

In Tables 1 and 2 above, there is a line for changes in market values from FY 2022 to FY 2024, which is negative. That is because the City had investments with a current market value that was less than the recorded cost in those years. In FY 2025, the change in market value was positive, which means that the current market value was greater than the recorded cost as of June 30, 2025. These changes in market value are due to fluctuations in the market and have no effect on yield, as the City does not intend to sell securities prior to maturity. For this reason, Table 2 above shows the Section 115 Trust Fund balance before and after adding the changes in market value, so that management and the City Council can get a more realistic picture of how the Section 115 Trust Fund is performing.

Investment Performance

A. FY 2025 Overview

The Trust Fund reported a total balance of \$30,700,753 with \$5,807,228 in Pooled Cash, \$14,607,405 in the Fixed Income Account, and \$10,286,120 in the Moderate Growth Account.

B. Rate of Returns by Account

1. Fixed Income Account 7590 (100% Fixed Income):

During FY 2025, the market value of the Fixed Income Account increased 5.61% and outperformed its benchmark of 3.8%-3.9%, as summarized in Table 3. The FY 2025 rate earned also exceeded the FY 2024 rate earned of 3.43%

The increase in the Fixed income account resulted primarily from the receipt of \$299,114 or 3.47% in dividends (versus dividends of \$187,948 received in FY 2024), plus the following increases in mutual fund market prices: Community Capital Tr (CRAN.X) =2.37%; Northern Bond Index (NOBO.X)=1.99%; Target PIGM Core Bond R6 (TPCQ.X)=1.63%, and Wells Fargo Fund Core Bond Fund (WTRI.X)=1.56%.

Table 3. FY 2025 Fixed Income Rate of Return Compared to Benchmark

Investment Type	FY 2025 Rate Earned	FY 2025 Benchmark
Fixed Income	0.0567	3.8% - 3.9%
Total Account	0.0561	3.8% - 3.9%

Bloomberg US Aggregate Bond Index

2. Moderate Growth Account 7600 (40.8% Equities, 54.8% Fixed Income and 4.4% Alternatives):

During FY 2025, the market value of the Moderate Growth account increased 10.46%. Its fixed income portion outperformed its benchmark 5.68% to 3.8%-3.9%; The equity portion of the account underperformed the benchmark 17.07% to 18%-25%, as summarized in Table 4, The FY 2025 rates in Table 4 compared

to the following FY 2024 rates: Fixed Income=3.39%; Equities=20.29%; Alternatives=7.23%; and total=10.59%.

Table 4. Moderate Growth Account FY 2025 Rate of Return Compared to Benchmark

Investment Type	FY 2025	FY 2025 Benchmark
Fixed Income	5.68%	3.8% - 3.9%
Equities	17.07%	18% to 25% **
Alternatives	10.81%	N/A
Total Account	10.46%	

* Benchmark: Bloomberg U.S. Aggregate Bond Index

** Benchmark: S&P 500 Total Return Index

The increase in the Moderate Growth was paced by double-digit increases in the Large CAP funds (State Street GBL ALCP EQ A at 12.99%, and State Street GBL EQ 500 Index A at 13.3%); and double-digit increases in the International Funds: American Funds New World F-2 at 11.0%, American Funds New Perspective F-2 at 12.0%, and Hartford International Value Y at 23.2%

CURRENT SITUATION AND ITS EFFECTS

The City's principal objective in establishing the Section 115 Pension Trust Fund is to control long-term pension costs and mitigate the annual operating budget's volatility. The city aims to allocate funding into the trust, including savings generated by prefunding, with an initial goal of \$5.5 million annually, although this goal has not been met every year.

During FY 2025, the market value of the fund increased by \$3,315,022 or 12.6%, from \$26,385,731 to \$30,700,753, despite using \$3 million in FY 2025 for pension payments, as budget-balancing measures. The increase in market value was primarily due to (1) \$1,763,734 received for the CalPERS discount for prepayment of the amount of unfunded liability due; (2) receipt of \$1,316,484 in dividends/interest payments; and (3) \$577,712 increase in the market value of the investments held by the fund. The market value of the fund was approximately \$10.6 million at inception of the fund at the start of FY 2021.

The yield earned on the Section 115 Trust Fund for the fiscal year ended June 30, 2025, was 5.67% for the fixed income account and 10.46% for the moderate growth account, compared to 3.51% and 10.59%, respectively, for the fiscal year ended June 30, 2024. This represents an increase (decrease) of 216 and (.13) basis points, respectively, from the rates earned in FY 2024.

Economic Overview and Investment Outlook

Federal Reserve Board (Fed) Actions:

The market clearly expected another cut at the Fed's December 2025 meeting until the Federal Reserve Chairman stated at the October 29, 2025, meeting that "a further reduction in the policy rate at the December meeting is not a foregone conclusion.

However, the weakening of the labor market in November 2025 prompted the Feds to lower short-term rates another .25%, to 3.75% on December 10, 2025.

Labor Market Changes:

The labor market has shown weakness in the last several months but stabilized a bit in January 2026. The January 2026 labor report showed more strength than expected as the US added 130,000 jobs when economists expected 50,000-69,000 jobs to be added. The Unemployment rate also decreased slightly to 4.34%. However, major 2025 revisions were reported that showed that 2025 was much weaker, with 898,000 fewer jobs reported than initially thought.

The Federal Reserve has projected that the unemployment rate will be 4.4% in 2026 and drop to 4.2% in 2027.

Inflation Expectations:

- The Core Personal Consumption Expenditures Price Index (PCE) is the less volatile measure of the PCE price index which excludes the more volatile and seasonal food and energy prices. It is the inflation index favored by the Feds in developing monetary policy.
- The September 2025 PCE index was reported late on December 5, 2025 (due to the Federal Government shutdown). The September 2025 rate was 2.8% and Core PCE was 2.8%, in line with expectations, but significantly higher than the Fed's 2% target.
- The Core November 2025 PCE index report was reported at 2.8%, in line with expectations and in line with the 2.8% reported for September 2025. October 2025 PCE was not reported because of the Federal government shutdown.
- The Core December 2025 PCE index report was reported at 2.9%, below the 3.0% expected.
- Core PCE inflation is expected to be 2.6% in 2026.

Staff Expectations:**Future Federal Reserve cuts:**

At its January 28, 2026, meeting, the Federal Reserve held rates unchanged at 3.5%-3.75%. Federal Reserve officials are divided on further interest rate cuts amid persistent inflation concerns. Some officials argue that the labor market is stable, so more rate cuts are unnecessary. Others argue that the Fed risks a recession if it does not move quickly with rate cuts. Staff believe the Federal Reserve will continue to be cautious about lowering short-term rates as long as there is weakness in the labor market, even if inflation stays around the current level instead of moving down to the Fed's 2% target.

Staff believe that as long as the Core PCE index does not increase and the labor market does not weaken further, the Federal Reserve will lower the Federal Funds rate by 1-2 times in 2026, by 0.25% each or a total of 0.50%. Staff expect the Federal Funds rate to be cut to 3%-3.25% by the end of 2026

Legality of Tariffs:

On February 20, 2026, the U.S. Supreme Court ruled that President Trump's use of emergency powers law to impose worldwide tariffs was unconstitutional. In reaction, the President has started implementing tariffs using other statutes. The February 20, 2026 Supreme Court decision and decisions that follow, may have a significant impact on inflation expectations and determine how much more and how quickly the Federal Reserve lowers short-term rates in the near future, and may determine how much medium and long-term rates will be impacted.

Selection of Chairman of the Federal Reserve Board:

On January 30, 2026, President Trump announced that he is nominating Kevin Warsh to replace Jay Powell as Chairman of the Federal Reserve Board in May 2026. One of the concerns with Warsh is that he will cut interest rates to appease the president, even if lower rates are not warranted, which could result in the need to increase them later. The issue now is that Warsh's nomination has introduced significant uncertainty in the market because "he was a member of the Federal Reserve that increased rates 17 meetings in a row, which precipitated the Great Financial Crisis".

Stock Market Outlook:

- The following 2026 summary of the stock market outlook was provided by Goldman Sachs on January 6, 2026:

"Healthy economic growth and Federal Reserve easing are expected to help propel the US stock market this year."

- While stock valuations are high and stock market capitalization is the most concentrated on record, there are notable differences between the ongoing AI rally and historical investment booms.
- Goldman Sachs Research expects AI investment to increase this year even as the growth in capex decelerates.
- Five key investment themes in 2026 are expected to be: accelerating GDP growth, corporate re-leveraging, AI adoption, a rise in IPOs and dealmaking, and a search for value stocks.
- Goldman Sachs Research forecasts [US stocks](#)¹ to post their fourth-straight year of gains in 2026. Earnings growth is likely to drive the rally amid a solid economy and continued easing by the Federal Reserve.
- Our strategists project the S&P 500 to produce a 12% total return in 2026 (as of January 6), compared with 18% last year and 25% in 2024. They expect earnings per share (EPS) to increase 12% in 2026 and 10% the following year.
- “Healthy economic and revenue growth, continued profit strength among the largest US stocks, and an emerging productivity boost from artificial intelligence (AI) adoption should lift US stock earnings in the coming years”, Ben Snider, chief US equity strategist, writes in the team’s report. Double-digit earnings growth is “providing the fundamental base for a continued bull market,” he adds.

BACKGROUND

At the November 28, 2017, Council meeting, the City Manager was instructed to present a proposal for establishing an Irrevocable Supplemental Pension Trust, along with other options proposed by staff.

On June 26, 2018, the City Council adopted a Resolution appointing the City Manager as the Plan Administrator. This resolution authorized the City Manager to initiate the necessary steps for negotiating and executing documents to establish a Section 115 Trust Fund, intended to serve as a pension rate stabilizing fund. Additionally, it delegated authority for managing the Section 115 Trust Fund investments.

During the Request for Proposals (RFP) process, the City identified three agencies capable of providing professional trust administrative, trustee/custodial, and investment advisory or management services: Public Agency Retirement Services (PARS), PFM Asset Management LLC (PFM), and Keenan. RFPs were sent out, and the responses

¹ <https://www.goldmansachs.com/insights/markets>

were evaluated by a review committee, which included the Director of Finance, Treasury Manager, and an external consultant for the City. Keenan Financial Services received the highest rating from all three reviewers based on the outlined criteria in the RFP.

On May 14, 2019, during the Council meeting, the City Council adopted a Resolution authorizing the City Manager to execute a contract with Keenan Financial Services to establish a pension Section 115 trust. This contract includes Keenan Financial Services providing trust administration, trustee/custodian, and investment advisory services. The structure of the trust includes the following components:

- Trust Administrator: Keenan
- Trustee/Custodian: Benefit Trust Company
- Investment Manager: Morgan Stanley

Benefit Trust Company (BTC) actively manages plan assets. The City's individual trust account is part of a larger Multiple Employer Trust administered by Keenan Financial Services and BTC. BTC also provides the City with monthly and quarterly statements detailing the activity of the City's accounts.

The primary purpose of the Pension Stabilization Trust is to accumulate, hold, and distribute pension plan assets exclusively for the benefit of retiree pensions, as defined by IRS Code Section 115. These plan assets are irrevocable and can only be used for the intended purpose of the Trust.

The City's principal objective in establishing the Pension Trust is to control long-term costs and mitigate the annual operating budget's volatility. The trust offers increased flexibility to the City, allowing for more consistent contributions and reduced year-to-year contribution volatility.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no identifiable environmental effects or opportunities associated with the subject of this report.

CONTACT PERSON

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ATTACHMENTS

1. Portfolio Evaluation from Inception to FY 2025 ended June 30, 2025
2. Investment Report Analysis FY 2025 ended June 30, 2025

ATTACHMENT 1

	Section 115 Investments Portfolio Evaluation					
	Fiscal Year Ended June 30					
	Analysis by Fiscal Year					
	30-Jun-25	30-Jun-24	30-Jun-23	30-Jun-22	30-Jun-21	9/30/2020 (Inception)
Total Portfolio						
Pooled Cash	\$ 5,807,228	\$ 11,043,841	\$ 4,687,819	\$ 407,748	\$ 1,432,226	\$ -
Fixed Income Account	14,607,405	8,574,213	8,307,805	8,257,710	6,469,347	6,356,407
Moderate Growth Account	10,286,120	6,767,677	6,137,707	5,759,296	4,931,280	4,278,393
Total Cash and Investments	\$ 30,700,753	\$ 26,385,731	\$ 19,133,331	\$ 14,424,754	\$ 12,832,853	\$ 10,634,800
Earnings						
Fixed Income Account	710,609	291,486	74,673	(984,712)	127,268	385,952
Moderate Growth Account	905,027	648,940	395,917	(1,018,912)	663,245	-25077.6
	1,615,636	940,426	470,590	(2,003,624)	790,513	360,875
Yield						
Fixed Income Account	5.61%	3.51%	0.90%	-15.22%	2.00%	
Moderate Growth Account	10.46%	10.59%	6.87%	-20.66%	15.50%	
	7.61%	4.92%	3.26%	-15.61%	7.43%	

