**From:** LENNY GENTILE
**To:** Carol Moore; Cassidy Flynn
**Subject:** Fwd:
**Date:** Monday, May 22, 2023 7:09:23 AM

---

[**DO NOT OPEN** links/attachments unless you are sure the content is safe. **]**

Please share this email from our Treasurer with the City Council and post it on the city website
Thank you,
Lenny

Sent from my iPhone

Begin forwarded message:

> **From:** LENNY GENTILE <lennypmgi@aol.com>
> **Date:** May 20, 2023 at 7:14:39 AM EDT
> **To:** Ron Mendes <rmendes@newtonma.gov>
> **Cc:** Maureen Lemieux <mlemieux@newtonma.gov>, Perry Rosenfield <prosenfield@newtonma.gov>
> **Subject: Re:**
>
> Ron
> You obviously put a lot of thought into this. Thank you for your work.
> Lenny
>
> Sent from my iPhone
>
> > On May 19, 2023, at 3:16 PM, Ron Mendes <rmendes@newtonma.gov> wrote:
> >
> > Good Afternoon:
> >
> > I did some research into how an investment fund that you suggested might be structured and came up with 4 models that I think would give people a good sense of a few different ways in which this type of investment fund would be structured.
> >
> > First, there were a few assumptions that I used:
> >
> > - I completed two basic projections (one based on a starting balance of $10M and one based on $25M) with 4 options each.
> > - I assumed that if an investment portfolio were to be utilized, it would be a "balanced" portfolio (72% Equities, 25% Fixed Income &

3% Money Market for liquidity)
- To model equity performance, I used the 30 year history of S&P 500 index returns
- To model fixed income performance, I used the 30 year history of US Treasury Bond yields
- To model money market returns, I used the 30 year history of 3-Month US Treasury Bill yields
- I projected performance out 30 years using these assumptions, but obviously, any projections of future performance are speculative and cannot be relied upon for actual performance. Rather, this is modeled out to give you a sense of the possibilities of how performance could trend over time using the past 30 years as an example.

The first model on both projections is based on the following:
- Assumes a constant 6.0% yield (the Chaffin Fund's "inception" to date return has averaged 5.7% per year. I just rounded this up to 6%).
- This is the simplest model to understand conceptually but is also the most unrealistic. It is virtually impossible to invest into any type of investment option that would maintain a constant return like this for 30 years.
- This model looks at the basic concept of taking a large initial principal, investing it over time, and drawing down a portion of investment earnings yearly such that the fund is both providing support for program operations and growing over time.
- I assumed a drawdown rate of 2/3 of investment earnings.

The remaining models take this basic premise and insert into the analysis investment into a balanced investment portfolio that has varying returns over time using performance over the past 30 years as a proxy for future returns. This should give you a sense of varying economic cycles (boom / bust, bull markets / bear markets, economic growth / recession) and how a fund of this nature would hypothetically perform in these kinds of cycles.

Model #2 takes these basic premises and assumes that the drawdown schedule would be a percentage of earning each year when the fund has positive performance and no drawdowns when the fund has negative performance. The positive aspect of this type of model is that there would be many years where the fund would be able to contribute significantly to operations, but there would also be years where there would be no contribution. If I had to venture a guess as to how this would play out, over time the people making decisions would forego taking all of the earnings in the years where there was high performance, and save those monies for the years of negative performance. This means that this model would, in reality, start to look more like Model #4.

Model #3 is the same as Model #2, except that in years when the fund experiences negative performance, it assumes there would be contributions to the fund to make up the difference (much like what occurs now with the pension fund). This model looks like Model #2 in all respects, with the exception of the contributions in years when the market has negative performance. Personally, I think this is the least practical model because those years when the market has negative performance are probably going to be the least likely to be years when the city would be in a position to make contributions to this fund.

Model #4 assumes a constant drawdown of a percentage of the total value of the fund at the end of every year. This is probably the most conservative model of all. It assumes drawdowns would be a very conservative 4% of market value each year. This model is very similar to the policy that the Chaffin Education Fund uses to manage its portfolio. Drawdowns are conservative, yet tied to earnings, and allows the portfolio to grow exponentially over time.

I know this is probably a lot of information to digest, so if you have any questions I would be happy to go over these in more detail.

Thanks,
Ron

***M. Ronald Mendes, Esq. CMMT, CMMC***
***City Treasurer/Collector***
City of Newton
1000 Commonwealth Ave.
Newton Centre, MA 02459
Pronouns: He/Him/His
Email: rmendes@newtonma.gov
Office: (617) 796-1336
Cell: (617) 680-0629



-----Original Message-----
From: LENNY GENTILE <lennypmgi@aol.com>
Sent: Thursday, May 18, 2023 7:02 AM
To: Ron Mendes <rmendes@newtonma.gov>

Subject:

[DO NOT OPEN  links/attachments unless you are sure the content is safe.
]

Ron
Instead of using $10,000,000 of free cash for the Lincoln Eliot project now we are discussing setting up an unrestricted reserve account. The idea would be to have a dedicated stream of interest income to support out operating budget.
If the account were established on June 1st with $25,000,000, a combination of free cash and overlay surplus, can you share some thoughts on how you would invest it and an estimated rate of return.
Please give me a call if you have any questions.
Thanks,
Lenny

Sent from my iPhone


<Modeling for Investment Options of Reserve Fund.pdf>