SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
FUTURIS RETIREMENT BOARD OF AUTHORITY MEETING
AUGUST 22, 2012
10:00 AM TO 12:00 PM

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
3401 CSM DRIVE
SAN MATEO, CA 94402
(650) 358-6828

I. CALL TO ORDER

The meeting was called to order by Roslyn Washington of Keenan Financial Services at 10:05 AM.

II. ROLL CALL

Those in attendance were:

MEMBERS:

Chief Financial Officer, Interim	Ray Chow
Vice Chancellor of Human Resources	Harry Joel
Controller, Interim	Anita Leong
Classified Representative	Stephanie Samuelsen
Academic Representative	Vacant

PROGRAM COORDINATOR:

Account Manager	Roslyn Washington
Service Consultant	Ken Threeths

CONSULTANTS:

Benefit Trust Company	Scott Rankin
Morgan Stanley Smith Barney	Cary Allison

III. APPROVAL OF AGENDA

A motion was made by Board member Ray Chow to accept the Agenda as presented. The motion was seconded by Board member Harry Joel and unanimously carried by the Board members present.

IV. APPROVAL OF MINUTES

A motion was made by Board member Ray Chow to accept the Minutes of the previous meeting held on February 22, 2012 as presented. The motion was seconded by Harry Joel and unanimously carried by the Board members present.

V. INVESTMENTS

PORTFOLIO REVIEW:

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided an overview of the District's Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending June 30, 2012. As of June 30, 2012, the District's portfolio had an allocation of 53.9% in fixed income funds and 46.1% in equity funds (equity funds comprised of 31% in domestic equity and 15.1% in international equity). The value of the portfolio as of December 31, 2011 was $20,687,211.74 and the portfolio value as of June 30, 2012 is $26,560,289.55. The June 30, 2012 portfolio value represents an annualized inception to date net rate of return of 6.28% compared to Barclays Aggregate of 5.86% and the S&P 500 Adj. for Divs. of 11.06%.

Cary noted that the current yield on the District's fixed income investments was 4.1% while the current yield on the total portfolio was 3.3%.

In the Board materials, Cary also provided asset allocation and portfolio updates for the Futuris Public Entity Investment Trust Model Portfolios for period ending June 30, 2012.

A motion was made by Board member Harry Joel to accept the Portfolio Performance Review as presented. This motion was seconded by Board member Ray Chow and unanimously carried by the Board members present.

VI. ADMINISTRATION

FUTURE TRANSFER OF ASSETS INTO THE TRUST

Board member Ray Chow advised the Retirement Board of Authority members that the 2012/2013 budget anticipates a $10 million transfer to the District's OPEB Trust. Transfers will be scheduled on a monthly "dollar-cost-averaging" basis, beginning in August 2012. No transfers will be executed during the months of June and July. Board member Ray Chow has sent a schedule to Roslyn Washington of Keenan Financial Services noting the dates that transfer to the District's OPEB Trust will be deposited.

A motion was made by Board member Ray Chow to acknowledge and ratify the schedule of future asset transfers to the District's OPEB Trust as suggested. This motion was seconded by Board member Harry Joel and unanimously carried by the Board members present.

DISBURSEMENTS

Disbursements were made from the District's OPEB Trust to compensate service providers for reasonable fees associated with the administration, management and operation of the Trust.

A motion was made by Board member Harry Joel to acknowledge and ratify the disbursements from the District's OPEB Trust as presented. The motion was seconded by Board member Ray Chow and unanimously carried by the Board members present.

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Pursuant to the regulatory requirements of California Government Code Section 53216.4, the Annual Report on the status of the Trust reflects the total assets in the Trust, the market value, the book value, all contributions and distribution activity (including all fees and expenses associated with the Trust), income activity, purchase activity, sales activity, and realized gains and losses for fiscal year ending June 30, 2012.

As the District is currently updating their website to incorporate more specific investment information and other reports, Board member Ray Chow advised that the Annual Report on the Status of the Trust has not been promulgated to the District's OPEB Trust beneficiaries at this time. It was also requested that Ray Chow's contact information be removed from the website and the website URL be listed instead.

A motion was made by Board member Ray Chose to add the website URL and remove his contact information from the Annual Report. The motion was seconded by Board member Harry Joel and unanimously carried by the Board members present.

STATUS OF UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN

The processes and timelines for updating the Comprehensive Compliance Plan, including the "Substantive Plan" were reviewed by Roslyn Washington of Keenan Financial Services. Board member Harry Joel advised that he would complete the Forms for updating the District's "Substantive Plan" as soon as they are sent to him. As he is going on vacation in September, he requested that these Forms be sent to him prior to September 1, 2012. Roslyn Washington of Keenan Financial Services (KFS) indicated that she will be sending the "Ongoing OPEB Questionnaire & Due Diligence" Forms to him very soon.

VII. EDUCATION

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided a positive equity perspective for Summer/Fall 2012 from Tobias M. Levkovich of Citi Investment Research & Analysis entitled "Monday Morning Musings – A Positive Inflection seems Imminent" Equity markets move on trends. The Panic/Euphoria Model brings a better equity market as prices drop and at that point savvy investors tend to buy more. The following market indicators for a positive rally this summer into fall are profiled:

- **Too many indicators signal a likely inflection in stock price trend:** A variety of both short and intermediate term gauges suggest that markets are poised to rally this summer into the fall, despite all the anxiety surrounding European sovereign credit issues, slowing global economic and the US elections as well as fiscal cliff.
- **Sentiment, valuation, credit standards and implied earnings growth are sending out a positive vibe:** The Panic/Euphoria Model, normalized earnings yield gap analysis and implied long-term Earnings-Per-Share (EPS) growth approaches all suggest a better than 94% chance of market gains in the next year, while credit conditions and hiring intentions imply that no US recession is likely. Further, data highlights a 90% or better probability of gains within the next six months.

- **Earnings estimates revision momentum intimates a market low point:** The overall trend in S&P EPS growth estimates have been to the downside since April and many investors blame areas like Energy and Materials as commodity prices have slumped, but the same trend holds true for Consumer Staples which are typically defensive areas. The good news is that estimate revision momentum has plummeted to historically non-recession lows, where equity markets generally bottom.
- **The Citi Economic Surprise Index and intra-stock price correlation are at intriguing levels:** Investors appear to have decided that macro events move all stocks and there should be no distinction between companies with good balance sheets, strong management and earnings growth, for example, and those that have the opposite characteristics. When this development was seen in the past, it was a sign of capitulation and stock indices began to change direction.
- **Pre-announcement trends already demonstrate an expectation of lower forward guidance:** The negative-to-positive pre-announcement ratio have surged to 3.5x, surpassing forth quarter 2011's 3.3x and rising to proportions last seen in late 2008/early 2009, even as the overall business environment is far better currently. While further negative news is possible, particularly when it comes to excessive forth quarter 2012 profit expectations, it seems as if the investment community is well aware of the risk at this juncture as opposed to being complacent in second quarter 2008 when the emerging economy's "decoupling" was projected to save the day.

VIII. INFORMATION REPORTS

MARKET OVERVIEW

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided MSSB Consulting Group Capital Markets Overview. In the second quarter, equities retreated from their first quarter advances as investors reassessed the impact of the European financial crisis on global economic growth. The Dow Jones Industrial Average was down 1.9% for the second quarter. The NASDAQ Composite was down 5.1% for the quarter, while the S&P 500 fell 2.8% in the same period. Six out of the 10 sectors of the S&P fell in the second quarter. Telecommunications Services fared the best, with a 14.1% uptick. Utilities rose 6.6% and Consumer Staples rose 2.9%. Information Technology and Financials were the laggards, falling 6.7% and 6.8%, respectively. With Europe in a recession and slowing worldwide economic growth, fiscal concerns weighed on global growth expectations. Both Morgan Stanley and Citi economists have lowered global growth expectations for 2012 to 3.5% and 3.0% respectively, with about 80% of growth coming from emerging market economies. U.S. economic growth is expected by both firms to be 2.1% in 2012. The Dow Jones-UBS Commodity index has fallen 3.7% since the start of 2012. Recognizing that Europe may weigh on global growth and thus weaken demand, commodity prices declined significantly in the second quarter. Mergers and acquisitions activity remained slow in the second quarter. Global M&A volume for the quarter totaled $613.5 billion, down 14% from the year prior. Deal activity has been depressed by concerns over the European financial crisis and slack economic recovery in the U.S.

RETIREMENT BOARD OF AUTHORITY COMMENTS

Board member Ray Chow advised that the RBOA meeting frequency will be reduced to 1 meeting per year. Harry Joel informed the Board that we would notify AFT in writing that they have no Board representation since Bruce Maule decided to remove himself as the AFT representative.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

Roslyn Washington informed the Board that there will be an Investment Workshop on October 17, 2012 in Walnut Creek. A formal invitation will be sent to all Board members.

VISITORS COMMENTS

There were no Visitor comments

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next Retirement Board of Authority meeting is scheduled as follows:

- February 20, 2013 10:00 AM – 12:00 PM.

Agenda Items to be included in the next Retirement Board of Authority will include:

- Actuarial Valuation Study -- Process Update.
- Investment Policy Statement (IPS) Review.
- Pension Reform Update (requested by Board member Ray Chow).

ADJOURNMENT

A motion was made by Board member Harry Joel to adjourn the meeting at 11:21 AM. The motion was seconded by Board member Ray Chow and unanimously carried by the Board members present.

Americans with Disabilities Act San Mateo County Community College District Retirement Board of Authority conforms to the protections and prohibitions contained in Section 202 of the Americans with Disabilities Act of 1990 and the federal rules and regulations adopted in implementation thereof. A request for disability-related modification or accommodation, in order to participate in a public meeting of San Mateo County Community College District Retirement Board of Authority meeting, shall be made to: Ray Chow, Interim Chief Financial Officer, San Mateo County Community College District, 3401 CMS Drive, San Mateo, CA. 94402.