

## MINUTES

### SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT RETIREMENT BOARD OF AUTHORITY MEETING

September 16, 2014  
2:00 PM – 4:00 PM.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT  
District Sequoia Room, 2<sup>nd</sup> Floor  
3401 CSM Drive  
San Mateo, CA. 94402  
(650) 358-6828

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#### I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 10:04 AM by Roslyn Washington, Account Manager, Keenan Financial Services.

Roll call indicated the presence of all RBOA members. All Service Organization representatives indicated their presence except **Gail Beal**, Senior Vice President, Keenan Financial Services who was absent from the meeting. Keenan Consultant **Bob Schoenherr** joined the meeting as a guest.

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#### II. ROLL CALL

##### MEMBERS

Chief Financial Officer	Ray Chow
Vice Chancellor of Human Resources & Employee Relations	Eugene Whitlock
Controller	Anita Leong
Classified Representative	Kathy McEachron
Academic Representative	Bruce Maule

##### PROGRAM COORDINATOR

Account Manager	Roslyn Washington
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##### CONSULTANTS

Morgan Stanley Wealth Management (MS)	Cary Allison
Benefit Trust Company (BTC)	Scott Rankin

##### GUESTS

Senior Vice President, Keenan Consultant	Bob Schoenherr
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##### OTHER

None

##### ABSENT

Senior Vice President, Keenan Financial Services	Gail Beal
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**III. PUBLIC COMMENTS**

There were no Public Comments or inquiries.

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**IV. APPROVAL OF AGENDA**

A motion was made by RBOA Chair Ray Chow to accept the Agenda as presented. The motion was seconded by RBOA member Eugene Whitlock and was unanimously carried by a roll call of the RBOA membership present.

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**V. APPROVAL OF MINUTES**

A motion was made by RBOA member Bruce Maule to approve the Minutes of the previous meeting on February 10, 2014 as presented. The motion was seconded by RBOA Chair Ray Chow and was unanimously carried by a roll call of the RBOA membership present.

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**VI. INVESTMENTS**

**PORTFOLIO PERFORMANCE REVIEW**

Cary Allison of Morgan Stanley Wealth Management (MS), provided an overview of the District's Public Entity Investment Trust Account Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending July 31, 2014. As of July 31, 2014 the District's Investment Trust portfolio had an allocation of 49.6% in fixed income funds and 50.4% in equity funds (equity funds comprised 30.4% in domestic equity and 20.0% in international equity). The value of the portfolio as of December 31, 2013 was \$47,610,842.87 and with contributions of \$5,000,000.00 the portfolio value as of July 31, 2014 is \$54,893,294.54. The July 31, 2014 portfolio value represents an annualized inception to date net rate of return of 8.21% compared to the Barclays Aggregate of 3.95%; the 50% MSCI ACWI 50% Barclays Aggregate of 7.51% and the S&P 500 Adj for Divs of 15.30%. The investment results for the last year show a net increase of 9.76% versus the Barclays Aggregate of 3.97%; the 50% MSCI ACWI 50% Barclays Aggregate of 9.91% and the S&P 500 Adj for Divs of 16.94%. The annualized latest three year (3) results reflect a net increase of 7.22% versus the Barclays Aggregate of 3.04%; the 50% MSCI ACWI 50% Barclays Aggregate of 6.96% and the S&P 500 Adj for Divs of 16.84%. The current dividend yield on the District's Investment Trust portfolio fixed income investments was 3.2% while the current dividend yield on the aggregated portfolio was 2.3%.

Cary provided an overview of the Model Portfolio allocations as of June 30, 2014 explaining to the RBOA membership that the District's Trust portfolio allocation is positioned between a moderate growth to growth objective. He continued by advising that a major takeaway from 2013 is that the portfolio's equity positions more than offset the non-performance of the Trust's portfolio fixed-income side. However, he informed the RBOA membership that in 2014, the capital markets are performing differently in that fixed income has shown significant gains that were not anticipated. He advised that bonds have done well this year noting that returns from equity and fixed income are pretty balanced. He explained that this year fixed income yields have come back down as investors have been buoyed by ongoing monetary accommodation by central banks (QE3

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tapering will be completed in October 2014), low inflation and continued incremental global economic growth. He further advised that Morgan Stanley analysts are positive on bonds over the next few years and explained that the Trust's portfolio balanced allocation strategy should be maintained consistent with longer-term investment horizons. In this connection, he explained that investors are not anticipating hikes in interest rates until the second half of 2015—also while the unemployment rate continues to come down, the job creation we are experiencing has not been fast enough to spark any inflationary worries from the perspective of wage increases.

A motion was made by RBOA member Bruce Maule to accept the Portfolio Performance Review as presented. The motion was seconded by RBOA Chair Ray Chow and was unanimously carried by a roll call of the RBOA membership present.

### **MARKET OVERVIEW**

The Morgan Stanley's Capital Markets Overview ("Market Overview") for the second quarter of 2014 was presented in the Board materials. The Market Overview noted that in the second quarter, equity performance in the United States continued its upward climb. The Dow Jones Industrial Average rose 2.8% in the second quarter. The NASDAQ Composite advanced 5.3% for the quarter. The S&P 500 rose 5.2% for the quarter. The primary driver of the rally was ongoing monetary stimulus by major central banks throughout the world. Investor enthusiasm was also bolstered by the Federal Reserve's (the "Fed") indication that short-term interest rates could remain in their current low range for some time after Quantitative Ease 3 (QE3) tapering is complete. Morgan Stanley and Co. LLC economists expect that U.S. real GDP will be 2.1% in 2014 and 2.8% in 2015. Morgan Stanley economists forecast global GDP growth to be 3.2% in 2014 and 3.7% in 2015. For the quarter, the seasonally adjusted unemployment rate fell from 6.3% for both April and May to 6.1% for June. Job gains in the quarter took place in retail trade, health care, professional, business services and food services. Inflation remained low in the U.S. with the seasonally adjusted Consumer Price Index rising 0.3% in April and 0.4% in May. Morgan Stanley & Co. LLC economists forecast a 1.9% inflation rate for 2014 and 1.7% for 2015. The Census Bureau reported that private-sector housing starts in May 2014 were at a seasonally adjusted annual rate of 1,001,000.00—9.4% above May 2013 housing starts. The rise in housing starts over the past year indicates that despite some recent setbacks, the housing market is steadily rebounding. The Market Overview indicated that emerging markets (EM) and global equities advanced. The MSCI EAFE (a benchmark for developed markets) rose 4.3% for U.S.-currency investors and 3.7% for local-currency investors, as the U.S. dollar depreciated in relation to the currencies of many nations in the index. In the second quarter, the bond market extended the gains of the first quarter of 2014—the Barclays U.S. Aggregate Bond Index, a general measure of the bond market, increased 2.0% for the quarter. Interest rates declined during the second quarter, as the yield on the 10-Year U.S. Treasury note fell to a quarter-end 2.51% from 2.7% at the end of the first quarter.

### **INVESTMENT POLICY STATEMENT REVIEW**

Scott Rankin of Benefit Trust Company (BTC) advised that fiduciary best practices require periodic adjustments to the provisions of the District's Investment Policy Statement (IPS). In his overview, Scott noted that the IPS is constituted of two parts – the first part details the fiduciary and governance principles which have been extracted from the mandates of the California Government Code Sections 53620 through 53622 which draws extensively from the Employee Retirement Income Security Act (ERISA). He explained that the initial part of the IPS incorporates fiduciary mandates related to the "Prudent Person Standard"; the "Exclusive Benefit Standard" and the duty to diversify investments "so as to minimize the risk of large losses". In this framework, Scott advised that the District's Trust portfolio investments are designed per a prudent decision-making process;

selected to provide benefits exclusively to the OPEB Plan participants and invested so as to minimize risk of large losses. Scott also discussed the Trust's portfolio regulatory requirement to have "a broad range of investment choices that have distinctly different risk return characteristics". There was a lively discussion relative to the process of setting the Target Rate or Return (TRR) and the discretionary investment processes designed to accomplish the targeted objective. He noted that the District's current TRR is 7.0% with .4% allocated towards GASB 43/45 compliance and the expenses associated with the management/operation of the Investment Trust.

Scott explained that the second part of the IPS addresses permitted and non-permitted investments and strategies. He advised that additional language is required to detail the Trust's portfolio Equity and Fixed Income investment restrictions in tracking current institutional investment practices.

On the Equity side, Scott advised that the restrictions listed in the IPS shall be permitted in the context of "open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, and the investments provide for daily liquidity." He continued by explaining that "additionally, certain securities may not be held directly, but only in open-ended or closed-end mutual funds, comingled funds, or ETFs i.e. common stocks, preferred stocks, and securities convertible into common stocks and securities that carry the right to purchase common of non-U.S. companies traded on global exchanges, traded in any currency, as well as restricted securities of U.S. and non-U.S. companies, including securities issued through private offerings, and forward currency contracts or currency futures to hedge foreign currency exposure". Benchmarks included for the measurement of the District's Investment Trust equity performance are the S&P 500 for Domestic Equities and MSCI EAFE and ACWI ex. U.S for International Equities.

On the Fixed Income side, Scott continued by advising that the restrictions listed in the IPS shall be permitted in the framework of "open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, risk mitigation, and the investments provide for daily liquidity." He further explained that "investment in non-investment grade bonds or loans by such funds shall be permitted so long as the average aggregate rating of the funds are investment grade, and in the opinion of the Trustee the proportion of non-investment grade bonds to investment grade bonds in the portfolio is prudent." Benchmarks included for the measurement of the District's Investment Trust fixed income performance are Barclay's Aggregate Bond Index for Domestic Fixed Income Securities and the Barclay's Global Bond Index for International Fixed Income Securities.

A motion was made by RBOA member Eugene Whitlock to accept and approve the additional Investment Policy Statement (IPS) language as presented. The motion was seconded by RBOA member Bruce Maule and was unanimously carried by a roll call of the RBOA members present.

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## **VII. ADMINISTRATION**

### **DESIGNATION OF NEW MEMBERS TO THE RETIREMENT BOARD OF AUTHORITY**

A motion was made by RBOA Chair Ray Chow to acknowledge and welcome **Eugene Whitlock**, Vice Chancellor of Human Resources & Employee Relations and **Kathy McEachron**, Classified Representative to Retirement Board of Authority membership. The motion was seconded by RBOA member Bruce Maule and was unanimously carried by a roll call of the RBOA membership 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, 2014.

A motion was made by RBOA Chair Ray Chow acknowledging that the Annual Report with a District Cover Letter has been promulgated to the Trust's beneficiaries according to established District protocols. The motion was seconded by RBOA member Bruce Maule and was unanimously carried by a roll call of the RBOA membership present.

### **DISBURSEMENT REPORT**

Roslyn Washington of Keenan Financial Services presented the RBOA membership with the Disbursement Report which reflected expenses associated with ongoing GASB compliance and the management/operation of the District's OPEB Investment Trust for the period February 19, 2014 through August 18, 2014.

A motion was made by RBOA Chair Ray Chow to ratify the expenses associated with GASB Compliance protocols and the management/operation of the District's OPEB Investment Trust for the period of September 2013 through August 2014. The motion was seconded by RBOA member Bruce Maule and was unanimously carried by a roll call of the RBOA membership present.

### **FUTURE TRANSFER OF ASSETS INTO THE TRUST**

The RBOA membership anticipates that the District will deposit \$12 million to the Investment Trust during the current fiscal year. Board Chair Ray Chow advised that this is a modification for this year only to the District usual schedule of depositing \$10 million per year. The deposit schedule will be the same as previous months except the deposit amounts will be doubled in the months of October & November 2014 with no payments being made in July & August for the fiscal year.

### **STATUS OF UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE "SUBSTANTIVE PLAN"**

Roslyn Washington of Keenan Financial Services (KFS) explained that the "**OPEB Questionnaire & Due Diligence Form**" in the RBOA meeting materials is a significant part of a dedicated process designed towards updating the "Substantive Plan" for the 2013/2014 fiscal year end. Roslyn advised that the "e-Library" will also be updated and delivered to reflect the District's OPEB Investment Trust compliance with GASB protocols and regulatory requirements for fiscal year ending June 30, 2014.

### **ACTUARIAL VALUATION STUDY UPDATE**

RBOA Chair Ray Chow noted that the current Actuarial Valuation Study has an effective date of February 1, 2013 and advised that the District is working with actuarial consultant Geoff Kischuk of Total Compensation Systems, Inc. He anticipates a new Actuarial Valuation Study will be completed in early 2015.

## VIII. EDUCATION

Roslyn Washington of Keenan Financial Services and Keenan Consultant Bob Schoenherr discussed the Governmental Accounting Standards Board (GASB) approval of two new draft standards that, when finalized, will impact the financial accounting and reporting of OPEB for state and local agencies. They advised that the proposed standards are intended to bring OPEB accounting and reporting in line with the standards GASB issued for public pensions in 2012.

The **Employer Draft Standard** is entitled “*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*” and is intended to supersede GASB standard No. 45.

The **Plan Draft Standard** is entitled “*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*” and is intended to supersede GASB standard No.43.

Roslyn presented a ‘Keenan Briefing’ to the RBOA membership which explains that the “**Employer Draft Standard**” proposes using a discount rate that applies: (a) the expected long-term rate of return on OPEB Plan investments for which plan assets *are expected to be available to make projected benefit payments* and (b) the use of an interest rate on a 20-year tax-exempt, high-quality general obligation municipal bond yield or index to project benefit payments for which *plan assets are not expected to be available for long-term investment in a qualified trust* (c) the use of a single actuarial cost allocation method – “entry age normal” – rather than the current choice among six actuarial cost methods. The “**Plan Draft Standard**” addresses financial reporting for *defined benefit* OPEB plans that are administered through a qualified trust. The proposed standards would require governmental employers and OPEB plans to present much more extensive note disclosure and Required Supplementary Information (RSI) about their OPEB liabilities.

GASB has set the effective dates for the new standards as follows:

- **December 15, 2016** – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.
- **December 15, 2015** – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

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## IX. INFORMATION REPORTS

### RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority comments.

### PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no Program Coordinator/Consultant comments.

**X. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING**

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

- **February 10, 2015: 2:00 PM-4:00 PM.**

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**XI. ADJOURNMENT**

There being no further business to conduct, a motion was made by RBOA Chair Ray Chow to adjourn the meeting at 3:58 PM. The motion was seconded by RBOA member Bruce Maule and was unanimously carried by a roll call of the RBOA membership present.

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**Americans with Disabilities Act** The 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 the San Mateo County Community College District Retirement Board of Authority meeting, shall be made to: Ray Chow, Chief Financial Services, San Mateo County Community College District, 3401 CMS Drive, San Mateo, CA 94402.