

MINUTES

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT  
RETIREMENT BOARD OF AUTHORITY MEETING

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

District Board Room  
3401 CSM Drive  
San Mateo, CA. 94402  
(650) 358-6828

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**I. CALL TO ORDER**

The Retirement Board of Authority meeting was called to order by Roslyn Washington of Keenan Financial Services at 10:01 AM.

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Roll call was taken and all members of the Retirement Board of Authority indicated their presence at the meeting.

**II. ROLL CALL**

**RETIREMENT BOARD OF AUTHORITY (the "Board") MEMBERS**

Chief Financial Office, 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
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**CONSULTANTS**

Morgan Stanley	Cary Allison
Benefit Trust Company	Scott Rankin

**GUESTS**

Vavrinek, Trine, Day & Company, LLP	Xiupin Gillaume
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**OTHER**

None

**ABSENT**

Senior Vice President, Keenan Financial Services	Gail Beal
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**III. APPROVAL OF AGENDA**

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

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**IV. APPROVAL OF MINUTES**

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

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**V. THE DISTRICT'S OPEB PLAN INDEPENDENT AUDITOR'S REPORT**

Xiupin Gillaume of Vavrinek, Trine, Day & Company, LLP presented the Independent Auditor's Report to the District's OPEB Trust Board members. Xiupin explained that the audit was conducted in accordance with auditing standards generally accepted in the United States. He advised that these standards require that the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. He informed Board members that the audit report also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. He advised that the Independent Auditor's opinion indicates that the District's OPEB Investment Trust financial statements present fairly, in all material respects, the respective financial position of the Trust at June 30, 2012 and 2011, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States. In concluding his presentation, Xiupin provided a brief overview of the various features of the Audit Report as follows: Management Discussion and Analysis; The Statement of Trust Net Assets as of June 30, 2012 and 2011; The Statement of Changes in Trust Net Assets for the year ended June 30, 2012 and 2011 and Notes to Financial Statements.

In response to an inquiry by Board member Ray Chow, Xiupin advised that the Audit found no violations of the provisions of the District's Investment Policy Statement (IPS). Ray further inquired that since the District is depositing \$10 million annually into the Trust. What if the District deposited too much? Scott Rankin of Benefit Trust Company explained that if there were ever excess assets, the residual over fully funded requirements could be returned to the District. In this connection, Scott also noted that GASB has been talking about changing the amortization schedule from 30 years to 10 years and such a move would increase immediate funding requirements.

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

## VI. INVESTMENTS

### PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Wealth Management provided an overview of the District's Public Entity Investment Trust Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for periods ending December 31, 2012 and January 31, 2013. As of January 31, 2013 the District's Investment Trust portfolio had an allocation of 51.2% in fixed income funds and 48.8% in equity funds (equity funds comprised 31.1% in domestic equity and 17.7% in international equity). The value of the portfolio as of December 31, 2012 was \$34,575,923.39 and the portfolio value as of January 31, 2013 is \$35,379,744.72. The January 31, 2013 portfolio value represents an annualized inception to date net rate of return of 8.14% compared to the Barclays Aggregate of 5.11% and the S&P 500 Adj for Divs of 12.71%. The investment results for the last year show a net increase of 9.54% versus the Barclays Aggregate of 2.60% and the S&P 500 Adj for Divs of 16.76%. The annualized latest three year results reflect a net increase of 8.74% versus the Barclays Aggregate of 5.43% and the S&P 500 Adj for Divs of 14.14%. The current dividend yield on the District's portfolio fixed income investments was 3.9% while the current dividend yield on the aggregated portfolio was 3.0%.

Cary informed Board members that the Barclays Global Aggregate Bond index has been added to the District's Performance Report. This benchmark provides a broad-based measure of the global investment grade fixed-rate debt markets. Cary also presented asset allocation and portfolio updates for the Public Entity Investment Trust Model Portfolios for period ending December 31, 2012. He advised that there have not been any manager changes or changes to the asset allocation strategies in the portfolio models. Cary informed Board members that stocks are relatively inexpensive at this time and they are very cheap when compared to bonds. Board member Ray Chow noted that the S&P 500 index is doing well and he asked Cary how it compares to the Dow Jones Industrial Average. Cary explained that the Dow can be misleading because it represents only 30 stocks whereas the S&P represents 500 stocks.

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

### INVESTMENT POLICY STATEMENT REVIEW

Scott Rankin of Benefit Trust Company asked the Board members if they felt a need to change their current investment approach. On behalf of his fellow Board members, Ray Chow indicated that the District's portfolio is doing well and they would like to continue on the current course.

A motion was made by Board member Ray Chow to reaffirm the current provisions of the District's Investment Policy Statement (IPS). The motion was seconded by Board member Harry Joel and unanimously carried by the Board members present.

## VII. ADMINISTRATION

### FUTURE TRANSFER OF ASSETS INTO THE TRUST

The Board members were presented with a Cash Report reflecting deposits to the District's OPEB Investment Trust totaling \$6 million from September 2012 through February 2013. Board member Ray Chow indicated that the District will maintain this same deposit schedule through the next year and deposit \$10 million into the Investment Trust on an annual basis until further notice.

A motion was made by Board member Ray Chow to acknowledge deposits to the District's OPEB Investment totaling \$6 million since the last RBOA meeting and reaffirm the same deposit schedule through the next year. The motion was seconded by Board member Harry Joel and unanimously carried by the Board members present.

### DISBURSEMENTS

Roslyn Washington of Keenan Financial Services presented the Board with the Disbursement Report which reflected the expenses associated with the management & operation of the Trust from September 2012 through February 2013. The Board also advised that the expenses associated with the current Actuarial Valuation Study and Independent Auditor's Report be paid from the District's Investment Trust.

A motion was made by Board member Harry Joel to ratify the expenses associated with the management and operation of the District's OPEB Investment Trust. He also motioned that the expenses associated with the current Actuarial Valuation Study and Independent Auditor's Report be paid from the District's OPEB Investment Trust. These motions were seconded by Board member Ray Chow and unanimously carried by the Board members present.

### ACTUARIAL VALUATION STUDY PROCESS UPDATE

The current District Actuarial Valuation Study has an effective date of February 1, 2011. In this connection, the Board advised that the District had hired actuarial service provider Total Compensation Systems, Inc and all the necessary information has been delivered to Geoff Kischuck to start the process of producing a new Actuarial Valuation Study. It is anticipated that the new Actuarial Valuation Study will be completed by April of this year.

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

Roslyn Washington of Keenan Financial Services (KFS) explained that she had worked with Board member Harry Joel in updating the District's "Substantive Plan" (Volume III) for the last fiscal year. Roslyn advised that the updated Electronic Library Data Discs are being presented to Board member Harry Joel at this meeting. The updated Electronic Library Data Discs reflect Comprehensive Compliance Plan conformity with applicable regulatory protocols for fiscal year ending June 30, 2012 and will be available through the office of Board member Ray Chow.

#### **PUBLIC EMPLOYEE PENSION REFORM ACT OF 2013 UPDATE**

The Public Employee Pension Reform Act of 2013 ("PEPRA") went into effect January 1, 2013, and amends various provisions of the Public Employees' Retirement Law, Teachers' Retirement Law and County Employees' Retirement Law of 1937. Board member Harry Joel briefly explained some of the implications of PEPRA and how it could potentially affect the District's OPEB Plan. Roslyn Washington of Keenan Financial Services informed Board members that Keenan's legal department is monitoring PEPRA applications closely and when final information becomes available, they will provide the District with a briefing.

#### **STAFF ON-LINE ACCESS TO OPEB TRUST ACCOUNT**

In order to obtain information for the RBOA and download statements when necessary, Board member Ray Chow asked if his administrative assistant Larisa Howes could be given access to the District's OPEB Trust Account on the Benefit Trust Company (BTC) website. In response to a request from Board member Stephanie Samuelsen regarding activating access for Larisa Howes, Roslyn Washington advised that she would speak with Mel Cassway at BTC who would contact Stephanie with Larisa's login information.

A motion was made by Board member Harry Joel to grant Larisa Howe's access to the District's Investment Trust Account on the Benefit Trust Company Trust website. The motion was seconded by Board member Stephanie Samuelsen and unanimously carried by the Board members present.

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### **VIII. EDUCATION**

Cary Allison of Morgan Stanley Wealth Management reviewed and discussed Morgan Stanley's "Global Investment Committee 2013-2014 Outlook" relative to the following domestic & global economic indicators:

- It is anticipated that the US GDP and Global GDP will stabilize in 2013 and improve in 2014.
- European GDP is expected to turn positive in 2014.
- Earnings growth is expected to be slow in 2013 but will accelerate in 2014.
- Low inflation is anticipated in both developed and developing economies through this period.
- Interest rates are anticipated to be at historic lows.

Cary discussed year-over-year global GDP and CPI forecasts for developed economies as anticipated by Morgan Stanley and Citi Research. Earnings per Share (EPS) for S&P 500 stocks as anticipated by Morgan Stanley and Citi Research were also discussed and reflect a strong recommendation for equity investing through this period.

#### **MARKET OVERVIEW**

Cary Allison of Morgan Stanley Wealth Management provided Morgan Stanley's "Capital Markets Overview" for the fourth quarter 2012. In the fourth quarter, equities and other risk assets declined, despite loose monetary conditions around the world. The U.S. Federal Reserve, the European Central Bank, the People's Bank of China, the Bank of Japan (BOJ) all has accommodative monetary policies. Yet, it was not enough for investors to entirely discount the ongoing economic crisis, a slowing China and most significantly, the U.S. "fiscal cliff". Nevertheless, it was a terrific year for equity markets around the world. For the 12-month period, the Dow Jones Industrial Average rose 10.2%, the NASDAQ Composite rose 15.9% and the S&P 500 was up 16.0%. For

**MINUTES -- San Mateo County Community College District  
Retirement Board of Authority Meeting  
February 20, 2013  
Page 6**

the year, the MSCI All-Country World index advanced 16.8%. Relative to the U.S. Bond Market, accommodative central bank policy, bolstered by the continuation of Quantitative Ease 3 (QE3) in December, helped extend a year-long rally in riskier parts of the bond market, including high yield debt and corporate credit. QE3 allows the U.S. Federal Reserve to purchase billions in mortgage-backed securities in order to bring down long-term interest rates and thus stimulate housing and other economic sectors dependent on borrowing. The benchmark 10-year Treasury yield fell (as prices rose) to 1.76% at the end of 2012, which is near its all-time low. The Barclays Capital U.S. Aggregate Bond index, a general measure of the fixed-income market, rose 0.2% for the fourth quarter, and rose 4.2% for the year. In contrast, the Barclays Capital High Yield index, a measure of lower-rated corporate bonds, rose 3.3% for the quarter and was up 15.8% for the year.

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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.

**VISITORS COMMENTS**

There were no Visitor comments.

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

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

- February 10, 2014: 2:00 PM-4:00 PM
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**XI. ADJOURNMENT**

A motion was made by Board member Harry Joel to adjourn the meeting at 11:02 AM. The motion was seconded by Board member Ray Chow and unanimously carried by the Board members 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, Interim Chief Financial Services, San Mateo County Community College District, 3401 CMS Drive, San Mateo, CA 94402.