

MINUTES

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

February 10, 2014
2:00 PM – 4:00 PM.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

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

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 2:10 PM by Gail Beal, Senior Vice President, Keenan Financial Services.

Roll call was conducted with all members of the Retirement Board of Authority (RBOA) reporting their presence. All Service Organization representatives and invitees also indicated their presence at the meeting.

II. ROLL CALL

MEMBERS

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

PROGRAM COORDINATOR

Senior Vice President	Gail Beal
Account Manager	Roslyn Washington

CONSULTANTS

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

GUESTS

Vavrinek, Trine, Day & Company LLP	Xuipin Guillaume
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OTHER

None

III. PUBLIC COMMENTS

There were no public comments or inquiries.

IV. APPROVAL OF AGENDA

Board members requested that Agenda Item “Status of the District’s Current OPEB Plan Independent Auditor’s Report” be repositioned on the Agenda platform subsequent to Agenda Item “Portfolio Review”

A motion was made by Board Chair Ray Chow to accept the Agenda as modified. The motion was seconded by Board member Harry Joel was unanimously approved by a roll call of all the members of the Board.

V. APPROVAL OF MINUTES

A motion was made by Board member Harry Joel to approve the Minutes from the previous Board meeting on February 13, 2013 with corrections to the narrative referring to the Independent Auditor Xuipin Guillaume. The motion was seconded by Board Chair Ray Chow and unanimously carried by a roll call of the members present at the meeting on February 13, 2013. Board member Bruce Maule abstained as he was not in attendance at the meeting.

VI. INVESTMENTS

PORTFOLIO 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 December 31, 2013. As of December 31, 2013, 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, 2012 was \$34,575,923.39 and with contributions of \$9,000,000.00, the portfolio value as of December 31, 2013 is \$47,615,977.15. The December 31, 2013 portfolio value represents an annualized inception to date net rate of return of 8.27% compared to the Barclays Aggregate of 3.60% and the S&P 500 Adj for Divs of 16.09%. The investment results for the last year show a net increase of 10.45% versus the Barclays Aggregate of -2.02% and the S&P 500 Adj for Divs of 32.41%. The annualized latest three year results reflect a net increase of 6.88% versus the Barclays Aggregate of 3.28% and the S&P 500 Adj for Divs of 16.18%. The current dividend yield on the District’s Investment Trust portfolio fixed income investments was 3.3% while the current dividend yield on the aggregated portfolio was 2.4%.

Cary also provided an overview of the District’s Investment Trust Portfolio Performance Report as of January 31, 2014. He noted that January 2014 performance in the capital markets was a reversal of December 2013 – bonds rallied while equities backed off their end-of-year highs. Board member Bruce Maule asked if there was a weighted average benchmark that could be used to effectively evaluate the District’s performance report. Cary advised that pursuant to the Board’s request a benchmark will be added by next quarter blending domestic bonds with global equities.

A motion was made by Board Chair Ray Chow to accept the District’s Investment Trust Portfolio Performance Review as presented. The motion was seconded by Board member Harry Joel and unanimously carried by a roll call of all the Board members.

STATUS OF DISTRICT'S CURRENT OPEB PLAN INDEPENDENT AUDITOR'S REPORT

The Independent Audit Report analyzed Financial Statements for the District's OPEB Trust for June 30, 2013 and 2012. The Report was presented by Xiupin Gillaume of Vavrinek, Trine, Day & Company, LLP.

Board members focused their review and discussion on a section of the Report entitled "Notes to Financial Statements"

Note #1 – The organization and summary of significant accounting policies provided a brief overview of the District's Public Entity Investment Trust relative to its structure and funding; financial statements reports derived from an accrual accounting process and the tax status of the Trust under IRC Section 115. An overview of the Trust's investment portfolio was undertaken and the relationship of the Asset Custodian Benefit Trust Company (BTC) and Investment Advisor Morgan Stanley (MS) was discussed. In this connection, Board member Bruce Maule asked questions relative to the fiduciary processes for financial statement certification and the legal ownership and location of Investment Trust's assets. In response, Scott Rankin explained the regulatory and audit oversight of BTC. He also noted that BTC has provided a SAS-70 report in the past but now the SAS-70 has been replaced by the SOC-1 Report. BTC will now provide a SOC-1 Report on an annual basis.

Note #2 – The Investment Audit Report reflected the District's Trust fair market value for periods ending June 30, 2013 and June 30, 2012. Toward this end, Xiupin Guillaume of Vavrinek, Trine, Day & Company LLP indicated that the audit did validate the fair market value and balances reflected in the account. She also confirmed that Benefit Trust Company as Trustee has provided a SOC-1 Report to support their Audit when requested.

Note #3 – The funded status and funding progress of the District's Postemployment Health Care Plan and Other Postemployment Benefit (OPEB) obligations were exhibited for the audit period.

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

MARKET OVERVIEW

Cary Allison of Morgan Stanley Wealth Management (MS) presented portfolio updates for the Public Entity Investment Trust Model Portfolios. He advised Board members that manager changes were made in November 2013 to the District's Trust Model Portfolio platform. Anticipating economic growth in the range of 2.5%-3%, these changes are designed to provide the portfolio with slightly more Equity exposure. In this connection, he explained that the following funds have been added to the Model Portfolio International/Global Equities platform:

- American Funds New Perspective Fund (ANWFX).
- American Funds New World Fund (NFFFX).
- Brandes Emerging Markets Fund (BEMIX).

To bolster the District's Model Portfolio Fixed Income platform, Cary noted that the Oppenheimer International Bond (OIBYX) has been replaced by Hartford's World Bond Fund (HWDIX).

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Cary explained that in the fall of 2013, the Federal Reserve had surprised markets by continuing its bond purchase (\$85 billion) program with no taper which had allowed equity markets to continue their rally. He noted that fixed income yields (bond yields) also stabilized in this environment after sharp rises in the second quarter of 2013 when financial markets anticipated that tapering may be imminent. Under new Fed Chair Janet Yellen he anticipates that Fed tapering will be slow and incremental, and will not have much negative impact on the capital markets. He explained that the District's Trust portfolio platform has slightly more REIT exposure as financial analysts anticipate supply and demand changes will drive REITs higher.

INVESTMENT POLICY STATEMENT REVIEW

Scott Rankin of Benefit Trust Company (BTC) provided a brief overview of the current provisions and capital market parameters profiled in the District's Investment Policy Statement (IPS). He advised that the District's Investment Trust portfolio has a Target Rate of Return (TRR) of 7.0% and an additional 0.4% allocated to expenses related to the GASB compliance as well as the management and operation of the District's Trust. He noted that the District's IPS parameters give the Board the opportunity to review and modify the TRR as conditions and requirements change.

A motion was made by Board Chair Ray Chow to reaffirm the current provisions and Target Rate of Return parameters reflected in the District's Investment Policy Statement (IPS). The motion was seconded by Board member Harry Joel and unanimously carried by a roll call of all the Board members.

VII. ADMINISTRATION

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, 2013.

A motion was made by Board Chair Ray Chow ratifying that the Annual Report on the Status of the District's OPEB Investment Trust has been promulgated to the Trust's beneficiaries according to established protocols. The motion was seconded by Board member Harry Joel and unanimously carried by a roll call of all the Board members.

DISBURSEMENTS

Roslyn Washington of Keenan Financial Services presented the Board with the Disbursement Report which reflected period expenses associated with the management & operation of the District's Investment Trust for the period March 8, 2013 through December 23, 2013.

A motion was made by Board member Harry Joel to ratify the expenses associated with the management of the District's Investment Trust for the period of March 2013 through December 2013. The motion was seconded by Board Chair Ray Chow and unanimously carried by a roll call of all the Board members.

ACTUARIAL VALUATION STUDY UPDATES

The District's current Actuarial Valuation Study has an effective date of February 1, 2013. Board members

reviewed some of the actuarial assumptions in the Study for reasonableness and consistency with district data. In this connection, under Section D “Cost to Prefund Retiree Benefits” Board member Harry Joel questioned the assumption of the District’s average retirement age of 60 noting that if the average age is wrong, then the District’s total liability is overstated. Board Chair Ray Chow indicated that he would email an inquiry to the District’s consulting actuary Geoff Kischuk. Gail Beal of Keenan Financial Services noted that in making actuarial assumptions, Geoff typically reviews data accessible from the District which includes the magnitude of the liability, investment returns, and paygo and usually uses a Discount Rate of 5% or 7% -- in this Valuation Study he used a Discount Rate of 7%. Gail advised that some district’s are now getting more frequent Valuation Studies and suggested that going into the next Valuation cycle, the District request Geoff to produce alternative studies using different assumptions. Gail advised Board members that GASB is developing new OPEB standards with an Exposure Draft expected in June, 2014 with an effective date probably in 2016/2017. She indicated that the new standards for OPEB will probably mirror GASB No. 68 *“Accounting and Financial Reporting for Pensions”* and effective for fiscal years beginning after June 15, 2014.

FUTURE TRANSFER OF ASSETS INTO THE TRUST

The Board acknowledged the \$10,000,000.00 that was transferred by the District into the OPEB Investment Trust via a dollar-cost averaging schedule of \$1million a month. With a District liability of approximately \$125 million, Board Chair Ray Chow indicated that the District will continue the same deposit schedule through the next year.

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

Board materials included a Retirement Board of Authority executed “Ongoing OPEB Questionnaire & Due Diligence” Form indicating that there have been no updates to the District’s “Substantive Plan” for period ending June 30, 2013. Roslyn Washington of Keenan Financial Services briefly reviewed the District’s “Substantive Plan” update materials and certified delivery of the “Electronic Library” reflecting GASB and regulatory compliance for Plan Year ending June 30, 2013.

VIII. EDUCATION

A viewpoint from Cohen & Steers entitled “What History Tells Us about REITs, Inflation and Rising Rates”, notes that many economists acknowledge that both inflation and interest rates will move higher as the next growth cycle unfolds and quantitative easing (QE) is withdrawn. The Cohen & Steers viewpoint suggests that one way to prepare for this outcome is to allocate a portion of assets to real asset strategies and advised that REITs offer one such choice, given their historical ability to perform in both rising-rate and inflationary environments.

To this end, Cary Allison of Morgan Stanley Wealth Management noted to the Board that the District’s Investment Trust portfolio has two REIT fund positions as follows:

- Cohen & Steers Institutional Realty (CSRI.X).
- Prudential Global Real Estate Z (PURZ.X).

Cary advised that the current REIT Funds should be maintained and explained the Morningstar Report for each fund. He explained that REITs are required to pay out 90% of their dividends. He noted that office space is needed and REITs are starting to go up as supply is less than demand. He referenced the viewpoint material which advised that REITs have generated an annual return of 12.6% over the six monetary tightening cycles that have occurred since 1979. Also, a Bloomberg report from December 2012 is referenced and explains that in periods when U.S. Treasury yields were rising, REITs generated an annual return of 10.8%.

IX. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS

As Board member Harry Joel is retiring, there was a brief discussion relative to scheduling a RBOA meeting in August 2014 to designate his replacement. Board members indicated that they would each review their individual schedules and let the service organizations know an appropriate date for the next RBOA Meeting.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no Program Coordinator/Consultant comments.

X. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next RBOA 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, the Retirement Board of Authority (RBOA) meeting was adjourned at 3:55 PM by Gail Beal, Senior Vice President, Keenan Financial Services.

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.