SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-001
Public Comments		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The public may address the Retirement Board of Authority on any matter pertaining to the Board that is not on the agenda.

RECOMMENDATION:

The Chair reserves the right to limit the time of presentations by individual or topic.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority	DATE: 03/09/2017
SUBJECT: Approval of Agenda	ITEM #: 2016/2017-002 Enclosure: Yes Action Item: Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Under California Government Code Section §54950 (The Ralph M. Brown Act) the "Legislative Body" is required to post an agenda detailing each item of business to be discussed. The Authority posts the agenda in compliance with California Government Code Section §54954.2.

STATUS:

Unless items are added to the agenda according to G.C. §54954.2 (b) (1) (2) (3) the agenda is to be approved as posted.

RECOMMENDATION:

Subject to changes or corrections, the agenda is to be approved.

AGENDA

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
March 9, 2017
1:30 PM – 3:00 PM

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
District Board Room
3401 CSM Drive
San Mateo, CA. 94402
(650) 358-6828

I. CALL TO ORDER

II. ROLL CALL

MEMBERS

Chief Financial Officer	Bernata Slater
Vice Chancellor of Human Resources & Employee Relations	Eugene Whitlock
Controller	Nicole Wang
Classified Representative	Kathy McEachron
Academic Representative	Bruce Maule

PROGRAM COORDINATOR

Senior Vice President	Gail Beal
Account Executive	Susan Vogt
Senior Account Manager	Roslyn Washington

CONSULTANTS

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

GUESTS

Crowe Horwath LLP	Tina Treis

OTHER

None

III. PUBLIC COMMENTS

Information
2016/2017-001

The public may address the Retirement Board of Authority (RBOA) on any matter pertaining to the Retirement Board that is not on the agenda. The Chair reserves the right to limit the time of presentations by individual or topic.

IV. APPROVAL OF AGENDA

Action
2016/2017-002

The Retirement Board of Authority (RBOA) retains the right to change the order in which agenda items are discussed. Subject to review by the Retirement Board, the agenda is to be approved as presented. Items may be deleted or added for discussion only according to G.C. Section 54954.2.
PUBLIC COMMENTS:

V. APPROVAL OF MINUTES **Action**
2016/2017-003

The Retirement Board of Authority (RBOA) will review the Minutes from the previous meeting on February 10, 2016 for any adjustments and adoption.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VI. ADMINISTRATION

DESIGNATION OF A NEW MEMBER TO THE RETIREMENT BOARD OF AUTHORITY
Action
2016/2017-004

The Retirement Board of Authority (RBOA) has been duly appointed by the San Mateo County Community College District Board of Trustees and will welcome **Bernata Slater**, Chief Financial Officer, representing Management of the San Mateo County Community College District.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

REVIEW OF THE FUTURIS PROGRAM AND THE ROLES OF THE PROGRAM COORDINATOR AND CONSULTANTS **Information**
2016/2017-005

The Retirement Board of Authority (RBOA) will review the District's Futuris Public Entity Investment Trust Program, and the role of the Third Party Administrator (TPA)/Program Coordinator, Keenan Financial Services, the Discretionary Trustee, Benefit Trust Company and the Registered Investment Advisor, Morgan Stanley Wealth Management. The RBOA members will also review the OPEB Questionnaire, the platform used by the TPA/Program Coordinator for updating the "Substantive Plan" portion of the Comprehensive Compliance Plan.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

STATUS OF DISTRICT'S CURRENT OPEB PLAN INDEPENDENT AUDITOR'S REPORT
Information
2016/2017-006

The Independent Auditors Report provides the District's OPEB Plan with an Independent Auditor's certification of GASB accounting and financial reporting standards for OPEB expenses, OPEB liabilities, Note disclosures and Required Supplementary Information (RSI).
PUBLIC COMMENTS:
BOARD CONSIDERATION:

ANNUAL REPORTING ON THE STATUS OF THE TRUST **Action**
2016/2017-007

California Government Code 53216.4 requires an annual reporting of the funds held in the Investment Trust to participants and their beneficiaries. The Retirement Board of Authority should acknowledge annual reporting protocols for fiscal year ending June 30, 2015.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

DISBURSEMENT REPORT **Action**
2016/2017-008

The Retirement Board of Authority (RBOA) members will ratify "reasonable fees" associated with GASB compliance and the Management/Operational duties of the District's OPEB Investment Trust.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE "SUBSTANTIVE PLAN" **Information**
2016/2017-009

Updating the "Substantive Plan" is a dynamic process that requires an annual review protocol to incorporate modifications to program provisions or changes to cost arrangements. The Retirement Board of Authority (RBOA) shall review updates to the "Substantive Plan" and "e-Library" reflecting compliance with GASB 43/45 protocols and applicable Regulatory standards for fiscal year ending June 30, 2016.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

ACTUARIAL VALUATION STUDY UPDATE **Information**
2016/2017-010

The Retirement Board of Authority (RBOA) membership will review and analyze the status of updates to the Actuarial Valuation Study to maintain compliance with GASB 43/45 standards.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

FUTURE TRANSFER OF ASSETS INTO THE TRUST **Information**
2016/2017-011

Based on the current Actuarial Valuation Study, the Retirement Board of Authority (RBOA) will discuss the percentage of the District's Annual Required Contribution (ARC) scheduled by the District to be transferred into the Investment Trust.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VII. INVESTMENTS

PORTFOLIO PERFORMANCE REVIEW **Action**
2016/2017-012

Morgan Stanley Wealth Management (MS) will review the overall performance of the District's Public Entity Investment Trust Portfolio.
PUBLIC COMMENTS:

MARKET OVERVIEW **Information**
2016/2017-013

Morgan Stanley Wealth Management (MS) will provide an overview of the actions of the capital markets since the last Retirement Board of Authority (RBOA) meeting.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

INVESTMENT POLICY STATEMENT REVIEW **Action**
2016/2017-014

The Retirement Board of Authority shall, with the assistance of Benefit Trust Company and Morgan Stanley Smith Barney, review the Investment Policy Statement setting forth the investment objectives for the Trust. Key to this process is a review of the Board's time horizon for investment, short-term liquidity needs, attitudes as well as the capacity to accept investment risk as measured through the completion of a ***Risk Tolerance Questionnaire***, the expected rate of return of the Board taking into account the discount rate and assumptions contained in the most recent Actuarial Valuation Study, as well as any other information the RBOA membership feel pertinent to the discussion.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VIII. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS **Information**
2016/2017-015

Each member may report about various matters involving the Retirement Board of Authority. There will be no Retirement Board discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

PROGRAM COORDINATOR/CONSULTANT COMMENTS **Information**
2016/2017-016

The Program Coordinator and Consultants will report to the Retirement Board of Authority about various matters involving the Authority. There will be no Authority discussion except to ask questions, and no action will be taken unless listed on a subsequent agenda.

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING **Information**
2016/2017-017

In addition to standing Agenda items, members and visitors may suggest additional items for consideration at the next Retirement Board of Authority meeting.
PUBLIC COMMENTS:

X. ADJOURNMENT

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: Bernata Slater, Chief Financial Services, San Mateo County Community College District, 3401 CMS Drive, San Mateo, CA 94402.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority		DATE:	03/09/2017
SUBJECT:		ITEM #:	2016/2017-003
Approval of Minutes		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

As a matter of record and in accordance with the Brown Act, minutes of each meeting are kept and recorded.

STATUS:

The Retirement Board of Authority will review the Minutes from the previous meeting on February 10, 2016.

RECOMMENDATION:

Subject to changes or corrections, the minutes are to be approved.

MINUTES

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
FEBRUARY 10, 2016
1:00 PM–4:00 PM

I. CALL TO ORDER

1. The meeting was called to order at 1:10 PM by Roslyn Washington, Keenan Financial Services.

II. ROLL CALL

1. All Retirement Board of Authority (RBOA) members were present, except Bruce Maule.
2. All Coordinators/Consultants were present except Gail Beal and Bob Schoenherr.
3. Guest Xuipin Guillaume of Vavrinek, Trine, Day & Company LLP was present.

III. PUBLIC COMMENTS

1. There were no public comments. This item is information only.

IV. APPROVAL OF AGENDA

1. Ray Chow Motioned to accept the Agenda as presented, Motion was seconded by Kathy McEachron.

V. APPROVAL OF MINUTES

1. Ray Chow Motioned to accept the Minutes from February 10, 2015 as presented, Motion was seconded by Kathy McEachron.

VI. ADMINISTRATION

1. **Status of District's current OPEB Plan Independent Auditor's Report**
   The Independent Audit Report provided an independent analysis of the District's Public Entity Investment Trust for the year ended June 30, 2015. RBOA members were guided through the Audit Report by Xiupin Gillaume of Vavrinek, Trine, Day & Company, LLP. This item is information only.

VII. INVESTMENTS

1. **Portfolio Performance Review**
   a. Cary Allison of Morgan Stanley Wealth Management (MS) reviewed the performance of the Trust's accounts as of January 31, 2016.
   b. The Portfolio Value as of 1/31/16 was **$71,314,474.21**

Time weighted return net of fees

Month to Date	Quarter to Date	Year to Date	Latest 1 Year	Annualized latest 3 Year	Annualized latest 5 Year	Annualized Inception to Date
-2.79	-2.79	-2.79	-4.20	2.76	4.05	5.50

c. A Motion to accept the report was made by Ray Chow, Seconded by Kathy McEachron.

2. Market Overview

a. Cary Allison spoke regarding the market. The Feds lowered interest rates in December 2015 and are supposed to lower them a few more times this year. However, Morgan Stanley doesn't see it happening.
b. Risk assets generated positive returns during the fourth quarter of 2015, despite disappointing performance among broad asset classes over the year in its entirety.
c. Currency volatility, oil turbulence, emerging market woes, and the much-anticipated Fed rate hike in December dominated headlines throughout the quarter.
d. All sectors within the S&P 500 generated positive returns in the fourth quarter of 2015. The top-performing sector was Materials, which was up 9.7%. Health Care and Technology both rose 9.2% and were also among the top-performing sectors. The biggest laggards were Energy, which had a modest increase of 0.2%, and Utilities, which rose 1.1%.
e. Morgan Stanley & Co. economists forecast U.S. Real GDP at 2.4% in 2015, 1.9% in 2016 and 1.8% in 2017.
f. Inflation remains low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index increased 0.2% in October and was flat in November.
g. The bond market struggled in the fourth quarter of 2015. The Barclays U.S. Aggregate Bond Index, a general measure of the bond market, fell 0.6% for the quarter.
h. Interest rates increased during the fourth quarter, as the yield on the 10-Year U.S. Treasury note rose to a quarter-end 2.27% from 2.04% at the end of the third quarter of 2015.
i. This item is information only.

3. Investment Policy Statement Review

a. Scott Rankin discussed the Investment Policy Statement.
b. A Motion to accept the Investment Policy Statement as presented was made by Ray Chow, Seconded by Kathy McEachron

VIII. ADMINISTRATION (Cont.)

1. Annual Reporting on the Status of the Trust

a. This report has been saved on the District website.
b. A Motion to ratify the District's Annual Reporting was made by Ray Chow, Seconded by Kathy McEachron

2. Disbursement Report

a. A Motion to ratify the District's Disbursement Report was made by Ray Chow, Seconded by Kathy McEachron

3. Updates to the Comprehensive Compliance Plan, Including the Substantive Plan

a. Roslyn Washington discussed the updates to the Comprehensive Compliance Plan, including the Substantive Plan and provided the Board with copies of their annual Electronic Library.

b. This item is information only.

4. **Actuarial Valuation Study Update**
   a. The Actuarial Valuation Study is due to be updated Feb 2017.
   b. Eugene Whitlock asked why the 7% Discount Rate hasn't reached the 7% Target Rate of Return. Scott Rankin answered the TRR is based on long term goal objectives. He also advised the Board to view the historical data on rates shown in the Market Overview report.
   c. This item is information only.
5. **Future Transfer of Assets into the Trust**
   a. It is estimated that $10M per year will be contributed.
   b. This item is information only.
6. **GASB Issues Final OBEB Statements**
   a. Roslyn Washington discussed the pending changes with GASB 74/75.
   b. This item is information only.

IX. <u>INFORMATION REPORTS</u>

1. **Retirement Board of Authority Comments**
   No comments. This item is information only.
2. **Program Coordinator/Consultant Comments**
   No Comments. This item is information only.
3. **Date, Time and Agenda Items for Next Meeting**
   February 8, 2017, 1:00 PM-3:00 PM. This item is for information only.
4. **Adjournment**
   A Motion to adjourn was made by Kathy McEachron, Seconded by Ray Chow. Meeting was adjourned at 2:27 PM.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-004
Designation of a new member to the Retirement Board of Authority		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The Governing Board of San Mateo County Community College District approved a Board Resolution authorizing the establishment of the District's OPEB Investment Trust and the creation of the Retirement Board of Authority (RBOA) with a mandate to manage and operate the District's OPEB Investment Trust.

STATUS:

The Retirement Board of Authority (RBOA) has been duly appointed by the Governing Board of the San Mateo County Community College District. **Resolution: 09-8** established the representation of the Retirement Board of Authority whose membership is based on title and affiliation. The RBOA will acknowledge and welcome the District's new Chief Financial Officer **Bernata Slater** as a new member of the Retirement Board of Authority.

RECOMMENDATION:

The formally designated Retirement Board of Authority will acknowledge and welcome new active members to the RBOA.

San Mateo County Community College District July 22, 2009

BOARD REPORT NO. 09-7-100B

TO: Members of the Board of Trustees

FROM: Ron Galatolo, Chancellor

PREPARED BY: Kathryn Blackwood, Chief Financial Officer, 358-6869

ADOPTION OF RESOLUTION 09-8 ESTABLISHING A TRUST FUND FOR POST-RETIREMENT BENEFITS AND A RETIREMENT BOARD OF AUTHORITY

During the past several years, the Board of Trustees has received periodic updates concerning the requirement for public entities to comply with new accounting standards requiring full disclosure and funding of benefits for retirees. Governmental Accounting Standards Board (GASB) Circulars 43, the reporting of the District's GASB liability and 45, the requirements of funding of the District's GASB liability, outline the requirements for public entities to address the issue of retiree health benefits that have not been pre-funded.

The GASB standards have become effective for all national public entities on a phased in basis. Phase II public entities, which San Mateo County Community College District falls under, are to be in compliance with the GASB guidelines as of June 30th of this current fiscal year.

The Governmental Accounting Standards Board (GASB) currently requires public employers to disclose the existence and/or cost of retiree health benefits. Establishing a "plan" is the next step in the GASB compliance guidelines through an irrevocable trust or other arrangement that is exclusively for retiree health benefits and the assets of which are protected from creditors. Establishing an irrevocable trust allows the District to invest the funds in more long-term and more lucrative investments and also to allow the retirement reserve to actually reduce the District's liability for post-retirement benefits. Establishing the trust and the agreements does not obligate the District to place funds in the trust, and funds may be disbursed from the trust for any current retiree benefit expense. This tends to lessen the negative aspects of the trust and continues to allow the District cash management flexibility.

Prefunding by a Public Entity of the current and future financial liabilities for Other Pension Employee Benefits (OPEB) program creates the need to establish a Retirement Board of Authority (RBOA) to oversee the District's compliance with the GASB 43 & 45 compliance guidelines.

RECOMMENDATION

It is recommended that the Board of Trustees adopt Resolution No. 09-8 establishing the trust fund for post-retirement benefits and the Retirement Board of Authority.

RESOLUTION NO. 09-8
BY THE GOVERNING BOARD OF
THE SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATE OF CALIFORNIA

RESOLUTION ESTABLISHING A TRUST FUND FOR POST-RETIREMENT BENEFITS AND A RETIREMENT BOARD OF AUTHORITY

WHEREAS, the Board of Trustees (the "**Board**") of San Mateo County Community College District ("**Employer**") desires to establish a trust (the **"Trust")** to be used for the purposes of: (i) investment and disbursement of funds irrevocably designated by Employer for the payment of its obligations to eligible employees (and former employees) of Employer and their eligible dependents and beneficiaries for life, sick, hospitalization, major medical, accident, disability, dental and other similar benefits (sometimes referred to as "other post-employment benefits," or "**OPEB**"), in compliance with Governmental Accounting Statement Nos. 43 and 45; and (ii) investment and disbursement of excess funds held by Employer for future use in connection with any lawful purpose of Employer, as further described herein; and

WHEREAS, the Board has the authority and desire to establish a five (5) member Retirement Board of Authority for the Trust (the "**Retirement Board of Authority"**), which shall be appointed, terminated or replaced by the Employer at any time to serve at the pleasure of the Board, to have the authority to engage other necessary providers of services in connection with the Program, including the adoption of the Trust, the appointment of a fiduciary trustee and custodian, as well as to make any and all other decisions in the name of an on behalf of the Employer with regard to the Trust and other applicable agreements;

NOW, THEREFORE, BE IT RESOLVED, that the Trust shall be established for the purposes described above, and that the Retirement Board of Authority shall be established to serve at the pleasure of the Employer, with authority to make decisions on behalf of and in the name of the Employer with regard to the implementation of the Trust and other corresponding agreements and the following persons shall be appointed as the members of the Retirement Board of Authority, until such time as their successors shall be appointed by the Employer:

Chief Financial Officer
Controller
Vice Chancellor of Human Resources
Classified Employee appointed by CSEA
Faculty Employee appointed by AFT

BE IT FURTHER RESOLVED that the Retirement Board of Authority is hereby authorized and directed to execute the Adoption Agreement to implement the Trust; it is authorized and directed to execute the Futuris Program Services Agreement; and it is authorized to execute any other necessary agreements and take other action as is necessary to appoint the Trustee and any investment manager, as well as appoint any other "Authorized Representatives" who may act on behalf of the Employer in accordance with the terms of the Trust; and

BE IT FURTHER RESOLVED that decisions of the Retirement Board of Authority shall require an affirmative vote of at least a majority of the members of the Retirement Board of Authority and that the decisions of the Retirement Board of Authority may be made in accordance with Government Code §§ 54950 et seq. (the "Brown Act"); and

BE IT FURTHER RESOLVED that the members of the Retirement Board of Authority shall meet periodically, for regular or special meetings to be held at any place which has been designated from time to time by resolution of the Retirement Board of Authority, on such date as they shall determine but not less than every twelve (12) months, with the notice of such time and place of each meeting being provided with no less than seventy-two (72) hours notice that is delivered personally or electronically by telephone, facsimile or other electronic means, to review the investments held in the Trust and to transact such other business and make such other decisions as are required to be made by the Retirement Board of Authority; and

BE IT FURTHER RERSOLVED that any meeting, regular or special, may be held in any manner consistent with the Brown Act; and

BE IT FURTHER RESOLVED that the members of the Retirement Board of Authority shall receive no compensation for serving as members of the Retirement Board of Authority; and

BE IT FURTHER RESOLVED that the members of the Retirement Board of Authority are hereby authorized and directed to take any and all other actions as they deem necessary and appropriate to carry out the purposes of these resolutions, including the execution of any and all applicable agreements to implement the Trust and to carry out the purposes of the Program as otherwise described therein; and

BE IT FURTHER RESOLVED that the members of the Retirement Board of Authority are hereby authorized to review and approve an Investment Policy Statement developed by the Trustee through consultation with the investment manager selected by the Trustee, which shall provide the guidelines for investment of funds and assets contributed by the Employer to the Trust, and that the Retirement Board of Authority are further authorized to amend the Investment Policy Statement from time to time as they shall determine appropriate based upon consultation and advice received from the Trustee and the investment manager; and

BE IT FURTHER RESOLVED that the Trustee shall have the authority to cause any or all of the assets of the Trust to be commingled, if the investment and the issuance of such investment thereof would be exempt under the provisions of Sections 2(a)(36), 3(b)(1) or 3(c)(11) of the Investment Company Act of 1940 or Section 3(a)(2) of the Securities Act of 1933, with the assets of trusts created by others, causing such money to be invested as part of a common and/or collective trust fund; and

BE IT FURTHER RESOLVED that the Retirement Board of Authority shall provide information and copies of investment statements and other similar reports regarding the Trust and its applicable investment performance to the Board on a not-less-than quarterly basis.

REGULARLY PASSED AND ADOPTED THIS 22ND DAY OF JULY, 2009.

Ayes:

Noes:

Abstentions:

Attest: ______________________________
Patricia Miljanich, Vice President-Clerk
Board of Trustees

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-005
Review of the District's Futuris Program and the Roles of the Program Coordinator and Consultants		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

GASB 74 requires that a public agency value its Other Post Employment Benefits (OPEB) liabilities and report these liabilities on its financial statements. The creation of an Irrevocable Trust provides an opportunity for an agency to prefund the OPEB liability, thereby lowering the long term cost of funding the OPEB benefits. The service components of the Futuris Public Entity Investment Trust Program which help the public agency to establish and run an OPEB Trust are the TPA/Program Coordinator, the Discretionary Trustee, and the Registered Investment Advisor and are described in detail in the attached outline.

STATUS:

San Mateo County Community College District Governing Board has selected the Futuris Public Entity Program for the creation of their Irrevocable Trust. The structure of the program is illustrated in the attached guidlines.

RECOMMENDATION:

It is recommended that all members of the San Mateo County CCD Retirement Board review the District's Futuris Public Entity Investment Trust Program materials and have a clear understanding of the roles of the TPA/Program Coordinator, Discretionary Trustee and Registered Investment Advisor.

Futuris
A Keenan Solution

Service Providers
Contact Information

Keenan Financial Services	**Keenan Financial Services**	**Gail Beal, Senior Vice President** Office Number – (800) 444-9995, Ext. 3602 gbeal@keenan.com	**Primary Relationship Manager** involving oversight of plan implementation and ongoing service including contract review and management of the Board of Authority.
Keenan Financial Services	**Keenan Financial Services**	**Roslyn Washington, Senior Account Manager** Office Number – (800) 444-9995, Ext. 3610 rwashington@keenan.com	**Works Directly with the District** manage the OPEB Trust account, and to obtain necessary information for development of the Substantive Plan and provide ongoing service.
Benefit Trust Company	**Benefit Trust Company**	**Scott Rankin, Senior Vice President** Office Number – (913) 319-0340 srankin@benefittrust.com **Kelly Spire, Vice President** Office Number – (913) 319-0305 kspire@benefittrust.com	**Provides Trust, Custody and Fiduciary** services for the plan including recordkeeping, safekeeping of securities, collecting and crediting of dividends and interest, payment of benefits, etc.
Morgan Stanley Investment Management	**Morgan Stanley Investment Management**	**Cary Allison, Senior Vice President** Office Number – (916) 797-7742 cary.allison@morganstanley.com **LaQuela Barnett, Registered Client Svc Associate** Office Number – (916)797-7733 laquela.barnett@morganstanley.com	**Investment Services** as the Registered Investment Advisor (RIA), works with the Agency to determine risk tolerance and maintain investment policy directives.

ROLES OF FUTURIS PROGRAM COORDINATOR AND CONSULTANTS

The Program Coordinator provides the following functions:

- ✓ Coordination of communication between the actuary and the employer
- ✓ Oversight of Futuris Program
- ✓ Education
- ✓ Assistance with all aspects of the "Retirement Board of Authority"
- ✓ Assistance in conducting Retirement Board of Authority meetings, in a manner consistent with the Brown Act
  - Preparation of Retirement Board of Authority meeting agendas and cover pages
  - Initial reparation of meeting minutes Assistance with communication to all Board Members as necessary and requested by the Board
  - Facilitating action items resulting from the Retirement Board of Authority meetings
- ✓ Preparation of the Substantive Plan
- ✓ Prepare and deliver Futuris Administrative Manual
- ✓ Assistance in providing necessary information to auditors to complete the Required Supplemental Information Schedules (RSI)
- ✓ Providing an Annual Report
- ✓ Maintaining Plan Documents
- ✓ Facilitating auditing services
- ✓ Facilitating actuarial study

The Discretionary Trustee's responsibilities are:

- ✓ Final selection of investment securities pursuant to advice received from the Registered Investment Advisor
- ✓ Safekeeping of securities
- ✓ Maintaining accurate records of all financial transactions
- ✓ Payment of benefits
- ✓ Payment of appropriate fees and expenses
- ✓ Provide periodic reports showing all deposits or receipts, disbursements, purchase, sales and income transactions, current asset holdings and market value of the portfolio
- ✓ Provide internet access to account financial information

The Registered Investment Advisor's responsibilities are:

- ✓ Recommending Asset Allocation models to the Trustee for the Target portfolios
- ✓ Recommending specific investments to the Trustee for the Target portfolios
- ✓ Perform Due Diligence for the Trustee on all potential and recommended investments
- ✓ Provide a quarterly report to the Trustee on the status of all current investments

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			

SUBJECT:		ITEM #:	2016/2017-006
Status of the District's Current OPEB Trust Independent Auditor's Report		Enclosure:	Yes
		Action Item	No

Prepared by: Crowe Horwath, LLP

Requested by: Retirement Board of Authority

BACKGROUND:

The Independent Auditors Report provides the District's OPEB Trust with an independent third party compliance certification relative to GASB accounting standards, financial reporting for OPEB expenses, OPEB liabilities, Note disclosures and Required Supplemental Information (RSI).

STATUS:

The Retirement Board of Authority will review and discuss the status of the current Independent Auditor's certification relative to the District's OPEB Trust compliance with GASB 74/75 protocols and applicable Regulatory standards.

RECOMMENDATION:

The Retirement Board of Authority will accept the information provided and file accordingly.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

The Retirement Board of Authority of the
San Mateo County Community College District
Retirement Futuris Public Entity Investment Trust
San Mateo, California

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the San Mateo County Community College District for further information on the responsibilities of management and of Crowe Horwath LLP.

AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of the Trust's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts or disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters will be discussed during our meeting with you.

- How we addressed the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.

- Your views and knowledge about matters you consider warrant our attention during the audit, as well as your views on:
  - The allocation of responsibilities between you and management.
  - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
  - Significant communications with regulators.
  - Other matters you believe are relevant to the audit of the financial statements.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: The Board of Trustees should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Board of Trustees should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Board of Trustees about such matters. To assist the Board of Trustees in its oversight role, we also provide the following.

Accounting Standard	Impact of Adoption
GASB Statement No. 72, Fair Value Measurement and Application. This Statement defines fair value, provides guidance on different valuation approaches, establishes a hierarchy of inputs used to measure fair value, and requires additional disclosures to be made about fair value measurements.	Adoption of this Statement did not have a material impact on the Trust's financial position or results of operations.
Significant Unusual Transactions.	No such matters noted.
Significant Accounting Policies in Controversial or Emerging Areas.	No such matters noted.

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in the Trust's year end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Classification of Investment Securities	When securities are purchased, management classifies the securities as held-to-maturity, available-for-sale, or trading.	We reviewed the documentation maintained by management and performed procedures to test the reasonableness of management's judgments and accounting estimates related to securities classified as held-to-maturity, available-for-sale and trading.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Fair Values of Investment Securities and Other Financial Instruments	The disclosure of fair values of securities and other financial instruments requires management to use certain assumptions and estimates pertaining to the fair values of its financial assets and financial liabilities.	We tested the propriety of information underlying management's estimates.

AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with you our comments about the following matters related to the Trust's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

There were no such misstatements.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements.

There were no such misstatements.

OTHER COMMUNICATIONS

Communication Item	Results
Other Information In Documents Containing Audited Financial Statements Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.	We read the following items and noted no material inconsistencies or misstatement of facts in such information based on our reading thereof. • Management's Discussion and Analysis.
Significant Difficulties Encountered During the Audit We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.	There were no significant difficulties encountered in dealing with management related to the performance of the audit.
Disagreements With Management We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Trust's financial statements or the auditor's report.	During our audit, there were no such disagreements with management.
Consultations With Other Accountants If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.	We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.
Representations The Auditor Is Requesting From Management We are to provide you with a copy of management's requested written representations to us.	We direct your attention to a copy of the letter of management's representation to us provided separately.
Significant Issues Discussed, or Subject to Correspondence, With Management We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.	There were no such significant issues discussed, or subject to correspondence, with management.
Significant Related Party Findings and Issues We are to communicate to you significant findings and issues arising during the audit in connection with the Trust's related parties.	There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.

Communication Item	Results
Other Findings or Issues We Find Relevant or Significant We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.	There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.

We are pleased to serve your Trust as its independent auditor and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Board of Trustees and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016

SAN MATEO COUNTY
COMMUNITY
COLLEGE DISTRICT

Executive Vice Chancellor
3401 CSM Drive, San Mateo, CA 94402
P: (650) 574-6550 F: (650) 574-6566
www.smccd.edu

December 14, 2016

Crowe Horwath LLP
400 Capitol Mall, Suite 1400
Sacramento, California 95814

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of San Mateo County Community College District Retirement Futuris Public Entity Investment Trust as of June 30, 2016 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Trust of San Mateo County Community College District, and the changes in financial position in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than $160,000 for Trust activities, collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 11, 2016 for the preparation and fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States, and we believe the financial statements are fairly presented and include all properly classified funds and other financial information of the Trust required by accounting principles generally accepted in the United States.

2. We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

3. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

4. We have made provided you --

   a. Access to all financial records, documentation and other information that is relevant to the preparation and fair presentation of the financial statements.

   b. Additional information that you have requested from us for the purpose of the audit.

   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   d. All minutes of Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.

   e. Audit or relevant monitoring reports, if any, received from funding sources.

   f. Results of the assessment of risk that the financial statements may be materially misstated as a result of fraud.

5. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

6. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.

7. We have no plans or intentions that might materially affect the carrying value or classification of assets, deferred outflows, liabilities, and deferred inflows.

8. We have identified all accounting estimates that materially affect recorded amounts and disclosures in the financial statements, and the key factors and significant assumptions underlying those estimates. We believe the estimates are reasonable in the circumstances. These estimates include:

   a. Disclosure of pension plans or other postemployment benefits.

9. Except as disclosed in the financial statements, or directly to you, there are or have been no material:

   a. Arrangements, either written or oral, with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

   b. Oral or written guarantees under which the entity is contingently liable.

   c. Other financial instruments with significant "off-balance-sheet" risk of accounting loss to which the entity is a party.

   d. Concentrations that make the entity vulnerable to the risk of a severe impact within one year from the balance sheet date (including, for example, individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, operating areas or markets).

   e. Significant accounting estimates that are susceptible to changing materially as a result of an event or change in conditions that is reasonably possible of occurrence within one year from the balance sheet date.

   f. Liens, encumbrances or other title impairments, such as pledges as collateral, on entity assets at the balance sheet date.

   g. Restrictions under borrowing agreements.

   h. Unrecorded transactions.

i. Significant events that have occurred subsequent to the balance sheet date through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

j. Declines in market value of investments that are not temporary.

k. Financial instruments, such as loans and securities, with significant individual or group concentration of credit risk.

10. We have disclosed to you all known actual or possible litigation, claims and assessments whose effects should be considered by management when preparing the financial statements. These matters have been accounted for and disclosed in conformity with accounting principles generally accepted in the United States and GASB 62. We have not consulted with or been represented by legal counsel during the period audited to the date of this letter regarding any litigation, claims, or assessments, asserted or unasserted.

11. Related parties and all related party relationships and transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been disclosed to you, and have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of accounting principles generally accepted in the United States.

12. Except as disclosed to you, we have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management, whether material or not.

    b. Employees who have significant roles in internal control, whether material or not.

    c. Others when the fraud could have a material effect on the financial statements.

13. Except as disclosed to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.

14. Except as disclosed to you, there have been no:

    a. Instances of non-compliance or suspected non-compliance with budget ordinances, laws or regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered when preparing the financial statements.

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB 62.

c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

d. Reservations or designations of fund equity that were not properly authorized and approved.

15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

16. With respect to the audit in accordance with *Government Auditing Standards*:

a. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the District.

b. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of laws and regulations that have a material effect on the determination of financial statement amounts, and that warrant the attention of those charged with governance.

c. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.

d. We have identified and disclosed to you all instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements.

e. We have a process to track the status of audit findings and recommendations.

f. If applicable, we have identified for you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

g. We have provided views on the reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

h. In regards to the following non-audit services performed by you we acknowledge our as follows:

- We assume all management responsibilities for these services;
- We oversaw these services by designating an individual within senior management who possessed suitable skill, knowledge, or experience;
- We have evaluated the adequacy and results of the services performed;
- We accept responsibility for the results of these services

17. We understand that during the course of your audit, you have relied on work performed by the following specialists, Total Compensation Systems, Inc. We confirm that we have no relationships with those specialists that may bear on their objectivity, such as the ability through employment, ownership, contractual right, family relationship or otherwise to directly or indirectly control or significantly influence the specialist.

18. We agree with the findings of specialists in evaluating the CaSTRS and CalPERS pension liability, pension expense and deferred items and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of matters that have had an effect on the independence or objectivity of the specialists.

19. During the course of your audit, we have provided to you physical or electronic copies of various original documents. We understand that you are relying on such copies as audit evidence in your audit and represent that copies provide are an accurate and completed representation of the original documentation and that the copies have not been modified from their original version.

20. The financial statements properly classify all funds and activities.

21. Net position components fund balance reserves and designations are properly classified and, if applicable, approved.

22. Revenues and expenses are properly classified in the statement of change in trust net position.

23. Special and extraordinary items are properly classified and reported.

24. Deposits and investment securities are properly classified in category of custodial credit risk.

25. All suggested adjusting journal entries, as discussed and approved, will be recorded in the accounting records.

26. We understand that you have assisted us with the preparation of our financial statements and footnotes and we have reviewed and approved the financial statements and footnotes and take full responsibility for them.

Kathy Black

Kathy Blackwood, Executive Vice Chancellor

Raymond Chow, Chief Financial Officer

SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS
PUBLIC ENTITY INVESTMENT TRUST

FINANCIAL STATEMENTS
June 30, 2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST

FINANCIAL STATEMENTS
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Retirement Board of Authority of the
San Mateo County Community College District
Retirement Futuris Public Entity Investment Trust
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of San Mateo County Community College District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Trust's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Mateo County Community College District Retirement Futuris Public Entity Investment Trust, a fiduciary fund of San Mateo County Community College District, as of June 30 2016 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the District's Trust, and do not purport to, and do not, present fairly the financial position of the San Mateo County Community College District, as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information, such as the Schedule of Funding Progress and Schedule of Employer Contributions on page 9, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Trust. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance for the Trust. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Mateo County Community College District's internal control over financial reporting and compliance for the Trust.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF TRUST NET POSITION
As of June 30, 2016

ASSETS	
Investments:	
Mutual funds – fixed income	$ 39,809,958
Mutual funds – equity	35,707,574
Mutual funds – real estate	4,838,377
Interest receivable	90
Total assets	80,355,999
NET POSITION	
Net position held in trust for other postemployment benefits	$ 80,355,999

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN TRUST NET POSITION
For the Year Ended June 30, 2016

Additions	
Employer contributions	$ 19,254,664
Net investment income:	
Dividends and other income	3,142,006
Realized and unrealized losses, net	(2,270,437)
Investment fees	(268,361)
Total additions	19,857,872
Deductions	
Retiree benefits	7,254,664
Net increase	12,603,208
Net position held in trust for other postemployment benefits:	
Net position, July 1, 2015	67,752,791
Net position, June 30, 2016	$ 80,355,999

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following information of the San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of the San Mateo County Community College District (the "District"), provides only general information of the Trust's provisions. Readers should refer to the Trust agreement for a more complete description. These financial statements include only the resources of the Trust and are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Organization: The Trust is a contributory single-employer defined benefit healthcare plan trust administered by the San Mateo County Community College District through a third party. The Trust provides medical insurance benefits to eligible retirees and their spouses. Membership consists of 1019 retirees and beneficiaries currently receiving benefits and 859 active plan members. The Trust is a governmental plan that is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting. Contributions are recognized as revenue in the period in which contributions are due, pursuant to formal commitments as well as statutory or contractual commitments. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Trust.

The financial statements of the Trust have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. In the U.S. the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The financial statements have been prepared consistent with GASB Codification Po50, *Postemployment Benefit Plans Other than Pension Plans.*

Investment Options: Benefit Trust Company ("BTC"), the Asset Custodian, maintains the Trust's investments in various mutual funds, and is the record keeper. BTC contracted with Morgan Stanley Smith Barney as the investment advisor. Funds allocated to the Asset Custodian are invested according to the investment policy statement (IPS) developed and approved by the Retirement Board in a combination of equity and fixed income investments.

Investment Valuation: Investments are reported at fair value based upon market prices, when available, or estimates of fair value, and unrealized and realized gains and losses are included in the Statement of Change in Trust Net Position.

Contributions: Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the District. Contributions are not required and any contributions by the District are discretionary. Annual retiree benefits are funded from employer contributions on a pay-as-you-go basis. During the year ended June 30, 2016, the District made additional contributions to the Trust, outside of retiree benefits, of $12,000,000.

Funded Status and Funding Progress: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of February 1, 2015, the most recent actuarial valuation date, the plan was 52 percent funded. The actuarial accrued liability for benefits was $119,086,798, the actuarial value of assets was $62,328,025, resulting in an unfunded actuarial accrued liability of $56,758,773. As of the last actuarial, the covered payroll (annual payroll of active employees covered by the Plan) was $85,569,412, and the ratio of the funding excess to the covered payroll was 66 percent.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the February 1, 2015 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses), based on assumed long-term return on plan asserts assuming 100% funding through the Trust. Healthcare cost trend rates were 4.0 percent. The unfunded actuarial accrued liability (UAAL) is being amortized at a level percent method on a closed basis over 30 years for the initial UAAL and open basis over 25 years for any residual UAAL. The remaining amortization period at June 30, 2016 was 27 years.

Plan Termination: In the event of Plan termination, the net position of the Trust would be allocated as prescribed in the Trust documents, generally to pay in the order indicated below:

- District's remaining retiree medical benefit liabilities.
- Reasonable expenses of administering the Trust.

Any assets remaining in the Trust after paying off the above liabilities shall revert back to the District.

NOTE 2 – INVESTMENTS

The Trust has adopted an internally developed investment policy that is governed by the standards established in the California Constitution. In addition, the Trust has written investment policies regarding the type of investments that may be made specifically for the Trust and the amount, which may be invested in any one financial institution or amounts that may be invested in long-term instruments. Management believes the Trust has complied with the provisions of statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

The fair values of the Trust's individual investments at June 30, 2016, are as follows:

Mutual funds – fixed income	$ 39,809,958
Mutual funds – equity	35,707,574
Mutual funds – real estate	4,838,377
Total investments	$ 80,355,909

(Continued)

NOTE 2 – INVESTMENTS (Continued)

During the fiscal year ended June 30, 2016, the Trust's investments (including gains and losses on investments bought and sold as well as held during the year) appreciated as follows:

Dividend and other	$ 3,142,006
Realized losses, net	(381,054)
Unrealized losses, net	(1,889,383)
Investment fees	(268,361)
Total investment income	$ 603,208

Custodial Credit Risk: The California Government Code requires California banks and savings and loan associations to secure the Trust's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the Trust. All cash held by financial institutions is entirely insured or collateralized.

Credit Risk: The Trust's investment policy requires all fixed income investments to be of investment grade quality or higher at purchase; that is, at the time of purchases, rated no lower than "BBB" by Standard and Poor's. The Trust Board, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate. At June 30, 2016, the Trust investments consisted of open-end mutual funds, therefore there are no credit ratings to disclose.

Interest Rate Risk: The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the Trust had no significant interest rate risk related to investments held.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments: The following methods and assumptions were used by the Trust to estimate the fair value of its financial instruments at June 30, 2016.

Fair Value Hierarchy: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value: The following table presents information about the District's assets measured at fair value on a recurring basis as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
Investments:				
Mutual funds - fixed income	$ 39,809,958	$ 39,809,958	$ -	$ -
Mutual funds - equity	35,707,574	35,707,574	-	-
Mutual funds – real estate	4,838,377	4,838,377	-	-
Total	$ 80,355,909	$ 80,355,909	$ -	$ -

Mutual funds were valued at closing prices from securities exchanges and are classified as Level 1 investments.

During the year ended June 30, 2016, there were no significant transfers in or out of Level 1.

There were no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

I. SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
September 1, 2006	$ -	$ 149,530,877	$ 149,530,877	-	$ 87,823,351	170%
September 8, 2009	$ -	$ 135,296,490	$ 135,296,490	-	$ 92,142,686	147%
September 8, 2009*	$ -	$ 135,296,490	$ 135,296,490	-	$ 85,080,018	159%
February 1, 2011	$ 15,643,762	$ 118,923,929	$ 103,280,167	13%	$ 90,671,696	114%
February 1, 2013	$ 34,870,628	$ 125,352,953	$ 90,482,325	28%	$ 97,167,462	93%
February 1, 2015	$ 62,328,025	$ 119,086,798	$ 56,758,773	52%	$ 85,569,412	66%

* As revised.

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution (ARC)	Contributions	Percentage of ARC Contributed
June 30, 2008	$ 9,056,503	$ 6,347,500	70%
June 30, 2009	$ 8,175,590	$ 6,534,170	80%
June 30, 2010	$ 7,383,929	$ 11,167,718	151%
June 30, 2011	$ 7,702,017	$ 17,100,154	222%
June 30, 2012	$ 7,702,017	$ 17,103,043	223%
June 30, 2013	$ 8,642,396	$ 17,103,043	198%
June 30, 2014	$ 8,642,396	$ 16,912,318	196%
June 30, 2015	$ 7,138,932	$ 19,265,110	270%
June 30, 2016	$ 7,138,932	$ 19,254,664	270%

III. NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
San Mateo County Community College District
San Mateo, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of San Mateo County Community College Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of San Mateo County Community College District as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over the Trust's financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over the Trust's financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting for the Trust.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's Trust financial statements are free of material misstatement, we performed tests of the Trust's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance for the Trust. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance for the Trust. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-007
Annual Reporting on the Status of the Trust		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

California Government Code 53216.4 requires an Annual Reporting of the funds held in the Investment Trust to beneficiaries of the District's OPEB Plan.

STATUS:

The Retirement Board of Authority (RBOA) has approved the method of how the Annual Reporting on the Status of Funds held in the Trust will be made in compliance with California Government Code 53216.4. The Retirement Board of Authority shall ratify promulgation of the Annual Report on the Status of the Investment Trust to the District's OPEB Plan beneficiaries for fiscal year ending June 30, 2016.

RECOMMENDATION:

The Retirement Board of Authority will review the Annual Report and take appropriate action as deemed necessary.

SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT

Office of the Executive Vice Chancellor

Cañada College, Redwood City
College of San Mateo, San Mateo
Skyline College, San Bruno

ANNUAL REPORT FOR THE SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT FUTURIS TRUST AUGUST 2016

The San Mateo County Community College District has established the Futuris Public Entity Investment Trust. This Trust is an IRS Section 115 Trust that is used for the purposes of investment and disbursement of funds irrevocably designated by the District for the payment of its obligations to eligible employees (and former employees) of the District and their eligible dependents and beneficiaries for life, sick, hospitalization, major medical, accident, disability, dental and other similar benefits (sometimes referred to as "other post-employment benefits," or "OPEB"), in compliance with Governmental Accounting Statement Nos. 43/74 and 45/75[1].

The Governmental Accounting Standards Board (GASB) adopted Statements 43/74 and 45/75 for public sector employers to identify and report their Other Post-Employment Benefits (OPEB) liabilities. GASB Statements 43 and 45 establish uniform financial reporting standards for OPEB and improve relevance and usefulness of the reporting. Both of these standards provide instructions for calculating expenses and liabilities as well as requiring supplementary information schedules to be added to the year–end financial reports. GASB 74 and 75 build on the prior standards, requiring more disclosure, as well as more uniformity in calculating an agency's OPEB liability.

The District has created a Retirement Board of Authority consisting of District personnel to oversee and run the Futuris Trust. Benefit Trust Company is the qualified Discretionary Trustee for asset and fiduciary management and investment policy development. Keenan & Associates is the Program Coordinator for the Futuris Trust providing oversight of the Futuris program and guidance to the District.

Attached to this notice is the most recent annual statement for the Trust. This statement shows (as of the date of the statement); the total assets in the Trust, the market value, the book value, all contribution and distribution activity (including all fees and expenses associated with the Trust), income activity, purchase activity, sale activity, and realized gains and losses. Please note that the Trust is not itself an employee benefit plan. Rather, the assets in the Trust are irrevocably designated for the funding of employee benefit plans. You are being provided this information pursuant to California Government Code Section 53216.4.

For more information regarding the Futuris Public Entity Investment Trust, please contact Raymond Chow, Chief Financial Officer at (650) 358-6742 with the San Mateo County Community College District.

[1] GASB Standard No. 43 was superseded by Statement No. 74 for fiscal years beginning after June 15, 2016. GASB Standard No. 45 will be superseded by Statement No. 75 as of fiscal years beginning after June 15, 2017.

3401 CSM Drive, San Mateo, CA 94402 ❖ **V**: (650) 574-6500 **F**: (650) 574-6574

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-008
Disbursement Report		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The District's OPEB Trust is positioned to make withdrawals for the reimbursement of retiree benefits for eligible participants and for the "reasonable fees" associated with the management and operation of the Trust.

STATUS:

The Retirement Board of Authority (RBOA) shall ratify the "reasonable fees" associated with GASB 74/75 compliance and the Management/Operational duties of the District's Investment Trust.

RECOMMENDATION:

The Retirement Board of Authority will hear the information and take appropriate action as deemed necessary.

SAN MATEO COUNTY CCD FUTURIS FEE DISBURSEMENT REPORT

	TOTAL FOR CASH DIVIDENDS	[illegible]
	DISBURSEMENT TRANSACTIONS	
04/08/2016	MONTHLY FEE TO BENEFIT TRUST COMPANY MARCH 2016	($7,705.14)
04/08/2016	MONTHLY FEE TO KEENAN AND ASSOCIATES MARCH 2016	($7,742.64)
04/08/2016	MONTHLY FEE TO MORGAN STANLEY MARCH 2016	($7,642.64)
05/12/2016	MONTHLY FEE TO BENEFIT TRUST COMPANY APRIL 2016	($7,879.61)
05/12/2016	MONTHLY FEE TO KEENAN AND ASSOCIATES APRIL 2016	($7,917.11)
05/12/2016	MONTHLY FEE TO MORGAN STANLEY APRIL 2016	($7,817.11)
06/10/2016	MONTHLY FEE TO BENEFIT TRUST COMPANY MAY 2016	($7,985.48)
06/10/2016	MONTHLY FEE TO KEENAN AND ASSOCIATES MAY 2016	($8,022.98)
06/10/2016	MONTHLY FEE TO MORGAN STANLEY MAY 2016	($7,922.98)
07/13/2016	MONTHLY FEE TO BENEFIT TRUST COMPANY JUNE 2016	($8,035.60)
07/13/2016	MONTHLY FEE TO KEENAN AND ASSOCIATES JUNE 2016	($8,135.60)
07/13/2016	MONTHLY FEE TO MORGAN STANLEY JUNE 2016	($8,098.10)
08/11/2016	MONTHLY FEE TO BENEFIT TRUST COMPANY JULY 2016	($8,316.41)
08/11/2016	MONTHLY FEE TO KEENAN AND ASSOCIATES JULY 2016	($8,353.91)

Posting Date	Trade Date	Description	CUSIP	Cash	Price	Units
08/11/2016		MONTHLY FEE TO MORGAN STANLEY JULY 2016		($8,253.91)		
09/14/2016		MONTHLY FEE TO BENEFIT TRUST COMPANY AUGUST 2016		($8,364.00)		
09/14/2016		MONTHLY FEE TO KEENAN AND ASSOCIATES AUGUST 2016		($8,401.50)		
09/14/2016		MONTHLY FEE TO MORGAN STANLEY AUGUST 2016		($8,301.50)		
10/12/2016		MONTHLY FEE TO BENEFIT TRUST COMPANY SEPTEMBER 2016		($8,397.58)		
10/12/2016		MONTHLY FEE TO KEENAN AND ASSOCIATES SEPTEMBER 2016		($8,435.08)		
10/12/2016		MONTHLY FEE TO MORGAN STANLEY SEPTEMBER 2016		($8,335.08)		
11/16/2016		MONTHLY FEE TO BENEFIT TRUST COMPANY OCTOBER 2016		($8,302.96)		
11/16/2016		MONTHLY FEE TO KEENAN AND ASSOCIATES OCTOBER 2016		($8,340.46)		
11/16/2016		MONTHLY FEE TO MORGAN STANLEY OCTOBER 2016		($8,240.46)		
12/15/2016		MONTHLY FEE TO BENEFIT TRUST COMPANY NOVEMBER 2016		($8,279.20)		
12/15/2016		MONTHLY FEE TO KEENAN AND ASSOCIATES NOVEMBER 2016		($8,316.70)		
12/15/2016		MONTHLY FEE TO MORGAN STANLEY NOVEMBER 2016		($8,216.70)		
01/19/2017		MONTHLY FEE TO KEENAN AND ASSOCIATES DECEMBER 2016		($8,415.79)		
01/19/2017		MONTHLY FEE TO MORGAN STANLEY EFFECTIVE 01/18/2017 DECEMBER 2016		($8,315.79)		
01/19/2017		MONTHLY FEE TO BENEFIT TRUST COMPANY EFFECTIVE 01/18/2017 DECEMBER 2016		($8,378.29)		
02/09/2017		MONTHLY FEE TO BENEFIT TRUST COMPANY JANUARY 2017		($8,510.91)		
02/09/2017		MONTHLY FEE TO KEENAN AND ASSOCIATES JANUARY 2017		($8,548.41)		

Posting Date	Trade Date	Description	CUSIP	Cash	Price	Units
02/09/2017		MONTHLY FEE TO MORGAN STANLEY JANUARY 2017		($8,448.41)		
		TOTAL FOR DISBURSEMENT		**($270,378.04)**		

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			

SUBJECT:		ITEM #:	2016/2017-009
Updates to the Comprehensive Compliance, including the "Substantive Plan"		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Under the Futuris program, Keenan Financial Services prepares a written summary of the "Substantive Plan", as part of an overall Comprehensive Compliance Plan, which acts as both a road map and a record of the Retirement Board of Authority's compliance with its fiduciary duties.

STATUS:

The Retirement Board of Authority will review District updates to the "Substantive Plan" and "e-Library" reflecting compliance with GASB 74/75 protocols and applicable Regulatory standards for fiscal year ending 2016.

RECOMMENDATION:

The Retirement Board of Authority shall hear and receive the information presented.

Futuris[SM]
A Keenan Solution

Ongoing OPEB Questionnaire & Due Diligence

PUBLIC ENTITY EMPLOYER NAME: San Mateo County Community College District

PLAN YEAR: **July 1, 2015 – June 30, 2016**

To help us understand & determine ongoing Other Post Employment Benefits (OPEB) provided for retirees of the Public Entity Employer, please complete the following questionnaire.

1 To determine OPEB ongoing liabilities, has a current Actuarial Valuation Report been produced & updated per GASB mandates? ☑ Yes ☐ No
Date of most current Actuarial Valuation Report June 4, 2015

2 Who is the Actuary that completed the Valuation Report?

Prepared by Total Compensation System, Inc.

3 Have there been any changes/modifications to Bargaining Agreements recently (within this past year) that affect Retirees OPEB? ☐ Yes ☑ No

- **Certificated** ☐ Yes ☐ No

Date of most current Bargaining Agreement ____________

- **Classified** ☐ Yes ☐ No

Date of most current Bargaining Agreement ____________

- **Management** ☐ Yes ☐ No

Date of most current Bargaining Agreement ____________

- **Other** ☐ Yes ☐ No

Date of most current Bargaining Agreement ____________

4 Have there been modifications of program provisions or changes in insurance carriers of the Health Benefits Program provided to Retirees of the Employer in the past year? ☑ Yes ☐ No

If the answer to No. 4 is Yes, please list any changes below or on a separate page.

Typically on an annual basis, CalPERS reviews carriers on its plan and may make changes to existing carriers.

For example, effective 1/1/17, Blue Shield NetValue plan will no longer be available for our employees/retirees.

Keenan
Financial Services

Ongoing OPEB Questionnaire & Due Diligence

5 Are Spouses, Domestic Partners or Dependents covered under the Health Benefits provided to Retirees of the Employer? ☑ Yes ☐ No

6 Have there been modifications of program provisions or changes in insurance carriers of the Dental Benefits provided to Retirees of the Employer? ☐ Yes ☑ No

If the answer to No.6 is Yes, please list the changes below:

____

____

____

7 Are Spouses, Domestic Partners or Dependents covered under Dental Benefits provided to Retirees of the Employer? ☑ Yes ☐ No

8 Have there been any modifications of any separate Prescription Drug Plan provided for Retirees of the Employer (including benefits for dependents)? ☐ Yes ☑ No

If the answer to No.8 is Yes, please indicate all changes below or on a separate page.

____

____

____

9 Are Long Term Care Benefits provided for Retirees of the Employer? ☐ Yes ☑ No

Ongoing OPEB Questionnaire & Due Diligence

10 Are there any changes to other insurance coverage provided for Retirees of the Employer, including their dependents? (i.e., Life Insurance, change of carriers, changes regarding how much of the premium is paid by the Employer versus the Retiree, etc.) ☐ Yes ☑ No

If the answer to No.10 is Yes, please list additional insurance coverage and any changes below or on a separate page :

____

____

____

11 Within the past year, have there been changes to any other arrangements or commitments for the Employer to pay for the cost of any post retirement benefits (other than pension benefits). This would be applicable to any employee or employee contract or bargaining agreement that may be in place between the employee(s), the bargaining unit and the Employer. ☐ Yes ☑ No

12 Within the past year, have there been changes to any other arrangements or commitments for the Employer to pay for the costs, of any dependent of a retired Employee of the Employer? ☐ Yes ☑ No

If the answer to No. 12 is Yes, please list additional costs, benefits, etc. below or on a separate page

____

____

____

13 **There are NO updates required at this time.** ☑

QUESTIONNAIRE COMPLETED BY: David Feune

PUBLIC ENTITY EMPLOYER ACKNOWLEDGEMENT: San Mateo County Community College District

DATE: 9/8/2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-010
Actuarial Valuation Study Update		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

GASB Statement 74, states that an Actuarial Valuation Study should be performed at least biannually. The Retirement Board of Authority should discuss the need for obtaining an updated Actuarial Valuation Study.

STATUS:

The District's current Actuarial Valuation Study has an effective date of February 1, 2015. The RBOA membership will review and analyze the status of updates to the current Actuarial Valuation Study.

RECOMMENDATION:

The Retirement Board of Authority shall hear and receive the information presented.

San Mateo County Community College District
Actuarial Study of
Retiree Health Liabilities
As of February 1, 2015

Prepared by:
Total Compensation Systems, Inc.

Date: June 4, 2015

Table of Contents

San Mateo County Community College District
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

San Mateo County Community College District engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of February 1, 2015 (the valuation date). The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2015. If the report will first be used for a different fiscal year, the numbers will need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree’s cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under Governmental Accounting Standards Board (GASB) Standards 25/27.

This actuarial study is intended to serve the following purposes:

- To provide information to enable San Mateo CCD to manage the costs and liabilities associated with its retiree health benefits.
- To provide information to enable San Mateo CCD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.
- To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 43 and 45 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 43 and 45, as appropriate, San Mateo CCD should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 43 and 45 compliance.

This actuarial report includes several estimates for San Mateo CCD's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to San Mateo CCD in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: AFSCME, Certificated Management, Certificated, Classified and Classified Management. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)
- the ten year "pay-as-you-go" cost to provide these benefits.
- the "actuarial accrued liability (AAL)." (The AAL is the portion of the APVTPB attributable to employees’ service prior to the valuation date.)

- the amount necessary to amortize the UAAL over a period of 25 years.

- the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").

- The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Normal costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning February 1, 2015 to be $7,265,110 (see Section IV.A.). The “pay-as-you-go” cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning February 1, 2015 (the normal cost) is $2,853,655. This normal cost would increase each year based on covered payroll. Had San Mateo CCD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be $119,086,798. This amount is called the "actuarial accrued liability” (AAL). The remaining unamortized balance of the initial unfunded AAL (UAAL) is $116,207,056. This leaves a “residual” AAL of $2,879,742.

San Mateo CCD has established a GASB 43 trust for future OPEB benefits. The actuarial value of plan assets at January 31, 2015 was $62,328,025. This leaves a residual unfunded actuarial accrued liability (UAAL) of ***negative*** $59,448,283. We calculated the annual cost to amortize the residual unfunded actuarial accrued liability using a 7% discount rate. We used an open 25 year amortization period. The current year cost to amortize the residual unfunded actuarial accrued liability is ***negative*** $3,860,401.

Combining the normal cost with both the initial and residual UAAL amortization costs produces an annual required contribution (ARC) of $7,138,932. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45. The ARC is used in lieu of (rather than in addition to) the “pay-as-you-go” cost.

We based all of the above estimates on employees as of January, 2015. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan. District practices are based on Government Code sections collectively known as PEMHCA, which vary from collective bargaining agreements.

	AFSCME	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Benefit types provided	Medical, Part B	Medical, Part B	Medical, Part B	Medical, Part B	Medical, Part B
Duration of Benefits	Lifetime	Lifetime	Lifetime	Lifetime	Lifetime
Minimum Age Required Service	Retirement from Applicable Retirement System	Retirement from Applicable Retirement System	Retirement from Applicable Retirement System	Retirement from Applicable Retirement System	Retirement from Applicable Retirement System
Dependent Coverage	Yes	Yes	Yes	Yes	Yes
District Contribution %	100%	100%	100%	100%	100%
District Cap	$704 per month*	$704 per month*	$704 per month*	$704 per month*	$704 per month*

*The District contribution is changed periodically. Grandfathered employees and retirees receive benefits that may exceed this cap.

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions San Mateo CCD should take to manage the substantial liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of San Mateo CCD's practices, it is possible that San Mateo CCD is already complying with some or all of our recommendations.

- We recommend that San Mateo CCD inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, San Mateo CCD should determine whether the benefit is material and subject to GASB 43 and/or 45.

- We recommend that San Mateo CCD conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two years, as required under GASB 43/45.

- We recommend that the District communicate the magnitude of these costs to employees and include employees in discussions of options to control the costs.

- Under GASB 45, it is important to isolate the cost of retiree health benefits. San Mateo CCD should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – ***even on a retiree-pay-all basis*** – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, San Mateo CCD should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- San Mateo CCD should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for District-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.

- Several assumptions were made in estimating costs and liabilities under San Mateo CCD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, San Mateo CCD should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for San Mateo CCD to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

Respectfully submitted,

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PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be "accrued" over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees).

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method."

Under most actuarial cost methods, there are two components of actuarial cost - a "normal cost" and amortization of something called the "unfunded actuarial accrued liability." Both accounting standards and actuarial standards usually address these two components separately (though alternative terminology is sometimes used).

The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. This report will not discuss differences between actuarial cost methods or their application. Instead, following is a description of a commonly used, generally accepted actuarial cost method permitted under GASB 43 and 45. This actuarial cost method is called the "entry age normal" method.

Under the entry age normal cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the normal cost. Under GASB 43 and 45, normal cost can be expressed either as a level dollar amount or a level percentage of payroll.

The normal cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the normal cost.
- The ***"trend" rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the normal cost. A "cap" on District contributions can reduce trend to zero once the cap is reached thereby dramatically reducing normal costs.
- ***Mortality rates*** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce normal costs, the mortality assumption is not likely to vary from employer to employer.
- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce normal costs. Employment termination can vary considerably between public agencies.
- The ***service requirement*** reflects years of service required to earn full or partial retiree benefits.

While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- ***Retirement rates*** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase normal costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.

- ***Participation rates*** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.

- The ***discount rate*** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets. For example, employer funds earning money market rates in the county treasury are likely to earn far less than an irrevocable trust containing a diversified asset portfolio including stocks, bonds, etc. A higher discount rate can dramatically lower normal costs. GASB 43 and 45 require the interest assumption to reflect likely *long term* investment return.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. The actuary selects the assumptions which - taken together - will yield reasonable results. It's not necessary (or even possible) to predict individual assumptions with complete accuracy.

If all actuarial assumptions are exactly met and an employer expensed the normal cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the actuarial accrued liability or AAL. The excess of AAL over the ***actuarial value of plan assets*** is called the *unfunded* actuarial accrued liability (or UAAL). Under GASB 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The actuarial accrued liability (AAL) can arise in several ways. At inception of GASB 43 and 45, there is usually a substantial UAAL. Some portion of this amount can be established as the "transition obligation" subject to certain constraints. UAAL can also increase as the result of operation of a retiree health plan - e.g., as a result of plan changes or changes in actuarial assumptions. Finally, AAL can arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 43 and 45, employers have several options on how the UAAL can be amortized as follows:

- The employer can select an amortization period of 1 to 30 years. (For certain situations that result in a reduction of the AAL, the amortization period must be at least 10 years.)

- The employer may apply the same amortization period to the total combined UAAL or can apply different periods to different components of the UAAL.

- The employer may elect a “closed” or “open” amortization period.

- The employer may choose to amortize on a level dollar or level percentage of payroll method.

PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefits (APVPB) separately for each employee. We determined eligibility for retiree benefits based on information supplied by San Mateo CCD. We then selected assumptions for the factors discussed in the above Section that, based on plan experience and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex and length of service.

We summarized actuarial assumptions used for this study in Appendix C.

B. Medicare

The extent of Medicare coverage can affect projections of retiree health costs. The method of coordinating Medicare benefits with the retiree health plan's benefits can have a substantial impact on retiree health costs. We will be happy to provide more information about Medicare integration methods if requested.

C. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). To the extent San Mateo CCD uses contribution caps, the influence of the trend factor is further reduced.

We multiplied each year's projected cost by the probability that premium will be paid; i.e. based on the probability that the employee is living, has not terminated employment and has retired. The probability that premium will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's premium cost and the probability that premium will be paid equals the expected cost for that year. We discounted the expected cost for each year to the valuation date February 1, 2015 at 7% interest.

Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For any current retirees, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPB for all employees to get the actuarial present value of total projected benefits (APVTPB). The APVTPB is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVTPB is the amount on February 1, 2015 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

Actuarial Present Value of Total Projected Benefits at February 1, 2015

	Total	*AFSCME*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Active: Pre-65	$12,199,356	$1,259,147	$474,419	$4,382,567	$4,086,049	$1,997,174
Post-65	$50,525,267	$4,110,300	$3,004,454	$20,485,525	$15,364,875	$7,560,113
Subtotal	$62,724,623	$5,369,447	$3,478,873	$24,868,092	$19,450,924	$9,557,287
Retiree: Pre-65	$3,400,170	$808,401	$16,593	$743,782	$1,477,809	$353,585
Post-65	$70,277,075	$1,327,731	$801,103	$42,259,951	$24,715,508	$1,172,782
Subtotal	$73,677,245	$2,136,132	$817,696	$43,003,733	$26,193,317	$1,526,367
Grand Total	$136,401,868	$7,505,579	$4,296,569	$67,871,825	$45,644,241	$11,083,654
Subtotal Pre-65	$15,599,526	$2,067,548	$491,012	$5,126,349	$5,563,858	$2,350,759
Subtotal Post-65	$120,802,342	$5,438,031	$3,805,557	$62,745,476	$40,080,383	$8,732,895

The APVTPB should be accrued over the working lifetime of employees. At any time much of it has not been “earned” by employees. The APVTPB is used to develop expense and liability figures. To do so, the APVTFB is divided into two parts: the portions attributable to service rendered prior to the valuation date (the past service liability or actuarial accrued liability under GASB 43 and 45) and to service after the valuation date but prior to retirement (the future service liability).

The past service and future service liabilities are each funded in a different way. We will start with the future service liability which is funded by the normal cost.

D. Cost to Prefund Retiree Benefits

1. Normal Cost

The average hire age for eligible employees is 38. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 23 years (assuming an average retirement age of 61). We applied an "entry age normal" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated normal cost.

Normal Cost Year Beginning February 1, 2015

	Total	*AFSCME*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
# of Employees	878	84	50	325	291	128
Per Capita Normal Cost						
Pre-65 Benefit	N/A	$828	$778	$852	$733	$733
Post-65 Benefit	N/A	$2,322	$3,356	$2,838	$2,094	$2,083
First Year Normal Cost						
Pre-65 Benefit	$692,479	$69,552	$38,900	$276,900	$213,303	$93,824
Post-65 Benefit	$2,161,176	$195,048	$167,800	$922,350	$609,354	$266,624
Total	$2,853,655	$264,600	$206,700	$1,199,250	$822,657	$360,448

Accruing retiree health benefit costs using normal costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. This normal cost would increase each year based on covered payroll.

2. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

If actuarial assumptions are borne out by experience, the District will fully accrue retiree benefits by expensing an amount each year that equals the normal cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the actuarial accrued liability (AAL). We calculated the AAL as the APVTPB minus the present value of future normal costs.

The initial UAAL was amortized using level percent, closed 30 year amortization. The District can amortize the remaining or residual UAAL over many years. The table below shows the annual amount necessary to amortize the UAAL over a period of 25 years at 7% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 allow amortizing the UAAL using either payments that stay the same as a dollar amount, or payments that are a flat percentage of covered payroll over time. The figures below reflect level percent, open 25 year amortization.

Actuarial Accrued Liability as of February 1, 2015

	Total	***AFSCME***	***Certificated Management***	***Certificated***	***Classified***	***Classified Management***
Active: Pre-65	$7,971,843	$785,006	$282,325	$2,771,266	$2,705,551	$1,427,695
Post-65	$37,437,709	$2,780,644	$2,175,831	$15,118,303	$11,421,132	$5,941,799
Subtotal	$45,409,552	$3,565,650	$2,458,156	$17,889,569	$14,126,683	$7,369,494
Retiree: Pre-65	$3,400,170	$808,401	$16,593	$743,782	$1,477,809	$353,585
Post-65	$70,277,075	$1,327,731	$801,103	$42,259,951	$24,715,508	$1,172,782
Subtotal	$73,677,245	$2,136,132	$817,696	$43,003,733	$26,193,317	$1,526,367
Subtot Pre-65	$11,372,013	$1,593,407	$298,918	$3,515,048	$4,183,360	$1,781,280
Subtot Post-65	$107,714,784	$4,108,375	$2,976,934	$57,378,254	$36,136,640	$7,114,581
Grand Total	$119,086,798	$5,701,783	$3,275,852	$60,893,301	$40,320,000	$8,895,862
Unamortized Initial UAAL	$116,207,056					
Plan assets at 1/31/15	$62,328,025					
Residual UAAL	($59,448,283)					
Residual UAAL Amortization at 7% over 25 Years	($3,860,401)					

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, costs include both normal cost and one or more components of UAAL amortization costs. The sum of normal cost and UAAL amortization costs is called the Annual Required Contribution (ARC) and is shown below.

Annual Required Contribution (ARC) Year Beginning February 1, 2015

	Total
Normal Cost	$2,853,655
Initial UAAL Amortization	$8,145,678
Residual UAAL Amortization	($3,860,401)
ARC	$7,138,932

The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

4. Other Components of Annual OPEB Cost (AOC)

Expense and liability amounts may include more components of cost than the normal cost plus amortization of the UAAL. This applies to employers that don't fully fund the Annual Required Contribution (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) includes assumed interest on the net OPEB obligation (NOO). The annual OPEB cost also includes an amortization adjustment for the net OPEB obligation. (It should be noted that there is no NOO if the ARC is fully funded through a qualifying "plan".)

- The net OPEB obligation equals the accumulated differences between the (AOC) and qualifying "plan" contributions.

PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project ten year cash flow under the retiree health program. Because these cash flow estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are **certain** to be ***in***accurate. However, these estimates show the size of cash outflow.

The following table shows a projection of annual amounts needed to pay the District share of retiree health premiums.

Year Beginning February 1	*Total*	*AFSCME*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
2015	$7,265,110	$146,770	$80,842	$4,394,536	$2,466,590	$176,372
2016	$7,416,979	$158,321	$86,943	$4,456,878	$2,516,177	$198,660
2017	$7,774,146	$189,136	$111,168	$4,600,516	$2,601,061	$272,265
2018	$8,058,615	$224,365	$133,645	$4,682,560	$2,688,330	$329,715
2019	$8,336,384	$260,110	$156,758	$4,757,674	$2,763,947	$397,895
2020	$8,585,314	$297,386	$178,721	$4,818,546	$2,837,636	$453,025
2021	$8,807,552	$336,451	$200,618	$4,860,197	$2,901,116	$509,170
2022	$9,012,471	$374,358	$221,816	$4,885,632	$2,960,448	$570,217
2023	$9,210,407	$403,001	$246,260	$4,905,969	$3,034,972	$620,205
2024	$9,416,566	$437,508	$271,803	$4,927,194	$3,105,749	$674,312

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. GASB 43/45 require biennial valuations. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.

We recommend San Mateo CCD take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the District should review the actuarial assumptions in Appendix C carefully. If the District has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the District should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the District personnel records.

- We used relevant sections of collective bargaining agreements provided by the District.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the District wants more refined estimates for decision-making, we recommend additional investigation. Following is a brief summary of the impact of some of the more critical assumptions.

1. Where actuarial assumptions differ from expected experience, our estimates could be overstated or understated. One of the most critical assumptions is the medical trend rate. The District may want to commission further study to assess the sensitivity of liability estimates to our medical trend assumptions. For example, it may be helpful to know how liabilities would be affected by using a trend factor 1% higher than what was used in this study. There is an additional fee required to calculate the impact of alternative trend assumptions.

2. We used an "entry age normal" actuarial cost method to estimate the actuarial accrued liability and normal cost. GASB allows this as one of several permissible methods under GASB45. Using a different cost method could result in a somewhat different recognition pattern of costs and liabilities.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The District should carefully review these assumptions and methods to make sure they reflect the District's assessment of its underlying experience. It is important for San Mateo CCD to understand that the appropriateness of all selected actuarial assumptions and methods are San Mateo CCD's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 43 and 45, applicable actuarial standards of practice, San Mateo CCD's actual historical experience, and TCS's judgment based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: Entry age normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

AMORTIZATION METHODS: We used a level percent, closed 30 year amortization period for the initial UAAL. We used a level percent, open 25 year amortization period for any residual UAAL.

SUBSTANTIVE PLAN: As required under GASB 43 and 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by San Mateo CCD regarding practices with respect to employer and employee contributions and other relevant factors.

ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 2.75% per year.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 7% per year. This is based on assumed long-term return on plan assets assuming 100% funding through Futuris. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2.

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 2.75% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

ACTUARIAL VALUE OF PLAN ASSETS (AVA): We used asset values provided by San Mateo CCD. We used a 5 year smoothing formula with a 20% corridor around market value.

The following are the calculations for the adjusted value of plan assets:

Futuris - Custom San Mateo CCD	***Amount***
(1) Market value at 1/31/15	$62,138,871
(2) Accumulated contributions (disbursements) at 7%	$62,375,313
(3) Value in (2) + 1/5 of (1) minus (2)	$62,328,025
(4) Value in (3) adjusted to minimum or maximum*	$62,328,025
(5) AVA at 1/31/15 adjusted to valuation date at 7%	$62,328,025

* Minimum is 80% of market value; maximum is 120% of market value

NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35).

MORTALITY

Employee Type	*Mortality Tables*
Certificated	2009 CalSTRS Mortality
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees

RETIREMENT RATES

Employee Type	*Retirement Rate Tables*
Certificated	2009 CalSTRS Retirement Rates
AFSCME	Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52
Classified	Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52
Classified Management	Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52

VESTING RATES

Employee Type	*Vesting Rate Tables*
Certificated	Retirement from applicable retirement systeme
AFSCME	Retirement from applicable retirement systeme
Classified	Retirement from applicable retirement systeme
Classified Management	Retirement from applicable retirement systeme

COSTS FOR RETIREE COVERAGE

There was not sufficient information available to determine whether there is an implicit subsidy for retiree health costs. Based on ASOP 6, there can be justification for using "community-rated" premiums as the basis for the valuation where the insurer is committed to continuing rating practices. This is especially true where sufficient information is not available to determine the magnitude of the subsidy. However, San Mateo CCD should recognize that costs and liabilities in this report could change significantly if either the current insurer changes rating practices or if San Mateo CCD changes insurers.

Retiree liabilities are based on actual retiree costs. Liabilities for active participants are based on the first year costs shown below. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

Employee Type	*Future Retirees Pre-65*	*Future Retirees Post-65*
AFSCME	Hired < 7/1/95: $12,887	Hired < 7/1/95: $7,782
	Hired > 6/30/95: $8,051	Hired > 6/30/95: $7,632
Certificated	Hired < 7/1/95: $13,294	Hired < 7/1/95: $9,561
	Hired > 6/30/95: $8,051	Hired > 6/30/95: $7,632
Certificated Management	Hired < 7/1/95: $13,294	Hired < 7/1/95: $9,561
	Hired > 6/30/95: $8,051	Hired > 6/30/95: $7,632
Classified	Hired < 7/1/95: $12,887	Hired < 7/1/95: $7,782
	Hired > 6/30/95: $8,051	Hired > 6/30/95: $7,632
Classified Management	Hired < 7/1/95: $12,887	Hired < 7/1/95: $7,782
	Hired > 6/30/95: $8,051	Hired > 6/30/95: $7,632

PARTICIPATION RATES

Employee Type	<65 Non-Medicare Participation %	65+ Medicare Participation %
Certificated	100%	100%
Classified	100%	100%

TURNOVER

Employee Type	Turnover Rate Tables
Certificated	2009 CalSTRS Termination Rates
Classified	2009 CalPERS Termination Rates for School Employees

SPOUSE PREVALENCE

To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES

To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

AGING FACTORS

Attained Age	Medical Annual Increases
50-64	3.5%
65-69	3.0%
70-74	2.5%
75-79	1.5%
80-84	0.5%
85+	0.0%

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*AFSCME*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Under 25	6	1	0	0	4	1
25-29	47	6	0	2	34	5
30-34	73	6	1	25	32	9
35-39	112	12	5	36	41	18
40-44	84	10	3	33	23	15
45-49	113	11	12	45	27	18
50-54	128	16	7	49	41	15
55-59	133	16	5	51	44	17
60-64	114	6	9	41	35	23
65 and older	68	0	8	43	10	7
Total	878	84	50	325	291	128

ELIGIBLE RETIREES

Age	*Total*	*AFSCME*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Under 50	0	0	0	0	0	0
50-54	2	0	0	0	1	1
55-59	16	7	0	2	6	1
60-64	66	1	1	27	33	4
65-69	115	1	4	53	55	2
70-74	152	0	2	99	50	1
75-79	129	0	1	86	41	1
80-84	129	0	0	89	39	1
85-89	85	0	0	53	31	1
90 and older	74	0	0	35	36	3
Total	768	9	8	444	292	15

APPENDIX E: CALCULATION OF GASB 43/45 ACCOUNTING ENTRIES

This report is to be used to calculate accounting entries rather than to provide the dollar amount of accounting entries. How the report is to be used to calculate accounting entries depends on several factors. Among them are:

1) The amount of prior accounting entries;

2) Whether individual components of the ARC are calculated as a level dollar amount or as a level percentage of payroll;

3) Whether the employer using a level percentage of payroll method elects to use for this purpose projected payroll, budgeted payroll or actual payroll;

4) Whether the employer chooses to adjust the numbers in the report to reflect the difference between the valuation date and the first fiscal year for which the numbers will be used.

To the extent the level percentage of payroll method is used, the employer should adjust the numbers in this report as appropriate to reflect the change in OPEB covered payroll. It should be noted that OPEB covered payroll should only reflect types of pay generating pension credits for plan participants. Please note that plan participants do not necessarily include all active employees eligible for health benefits for several reasons. Following are examples.

1) The number of hours worked or other eligibility criteria may differ for OPEB compared to active health benefits;

2) There may be active employees over the maximum age OPEB are paid through. For example, if an OPEB plan pays benefits only to Medicare age, any active employees currently over Medicare age are not plan participants;

3) Employees hired at an age where they will exceed the maximum age for benefits when the service requirement is met are also not plan participants.

Finally, GASB 43 and 45 require reporting covered payroll in RSI schedules regardless of whether any ARC component is based on the level percentage of payroll method. This report does not provide, nor should the actuary be relied on to report covered payroll.

GASB 45 Paragraph 26 specifies that the items presented as RSI "should be calculated in accordance with the parameters." The RSI items refer to Paragraph 25.c which includes annual covered payroll. Footnote 3 provides that when the ARC is based on covered payroll, the payroll measure may be the projected payroll, budgeted payroll or actual payroll. Footnote 3 further provides that comparisons between the ARC and contributions should be based on the same measure of covered payroll.

At the time the valuation is being done, the actuary may not know which payroll method will be used for reporting purposes. The actuary may not even know for which period the valuation will be used to determine the ARC. Furthermore, the actuary doesn't know if the client will make adjustments to the ARC in order to use it for the first year of the biennial or triennial period. (GASB 45 is silent on this.) Even if the actuary were to know all of these things, it would be a rare situation that would result in knowing the appropriate covered payroll number to report. For example, if the employer uses actual payroll, that number would not be known at the time the valuation is done.

As a result, we believe the proper approach is to report the ARC components as a dollar amount. It is the client's responsibility to turn this number into a percentage of payroll factor by using the dollar amount of the ARC (adjusted, if desired) as a numerator and then calculating the appropriate amount of the denominator based on the payroll determination method elected by the client for the appropriate fiscal year.

If we have been provided with payroll information, we are happy to use that information to help the employer develop an estimate of covered payroll for reporting purposes. However, the validity of the covered payroll remains the employer's responsibility even if TCS assists the employer in calculating it.

APPENDIX F: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

Actuarial Accrued Liability: The amount of the actuarial present value of total projected benefits attributable to employees' past service based on the actuarial cost method used.

Actuarial Cost Method: A mathematical model for allocating OPEB costs by year of service.

Actuarial Present Value of Total Projected Benefits: The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation date.

Actuarial Value of Assets: Market-related value of assets which may include an unbiased formula for smoothing cyclical fluctuations in asset values.

Annual OPEB Cost: This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Annual Required Contribution plus interest on the Net OPEB obligation minus an adjustment to reflect the amortization of the net OPEB obligation.

Annual Required Contribution: The sum of the normal cost and an amount to amortize the unfunded actuarial accrued liability. This is the basis of the annual OPEB cost and net OPEB obligation.

Closed Amortization Period: An amortization approach where the original ending date for the amortization period remains the same. This would be similar to a conventional, 30-year mortgage, for example.

Discount Rate: Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower normal costs and actuarial accrued liability.

Implicit Rate Subsidy: The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees.

Mortality Rate: Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.

Net OPEB Obligation: The accumulated difference between the annual OPEB cost and amounts contributed to an irrevocable trust exclusively providing retiree OPEB benefits and protected from creditors.

Normal Cost: The dollar value of the "earned" portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.

OPEB Benefits:	Other PostEmployment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.
Open Amortization Period:	Under an open amortization period, the remaining unamortized balance is subject to a new amortization schedule each valuation. This would be similar, for example, to a homeowner refinancing a mortgage with a new 30-year conventional mortgage every two or three years.
Participation Rate:	The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower normal cost and actuarial accrued liability. The participation rate often is related to retiree contributions.
Retirement Rate:	The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with vesting rates to reflect both age and length of service). The more likely employees are to retire early, the higher normal costs and actuarial accrued liability will be.
Transition Obligation:	The amount of the unfunded actuarial accrued liability at the time actuarial accrual begins in accordance with an applicable accounting standard.
Trend Rate:	The rate at which the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher normal costs and actuarial accrued liability.
Turnover Rate:	The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce normal costs and actuarial accrued liability.
Unfunded Actuarial Accrued Liability:	This is the excess of the actuarial accrued liability over assets irrevocably committed to provide retiree health benefits.
Valuation Date:	The date as of which the OPEB obligation is determined. Under GASB 43 and 45, the valuation date does not have to coincide with the statement date.
Vesting Rate:	The proportion of retiree benefits earned, based on length of service and, sometimes, age. (Vesting rates are often set in conjunction with retirement rates.) More rapid vesting increases normal costs and actuarial accrued liability.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-011
Future Transfer of Assets into the Trust		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The Trust was created for the exclusive purpose of prefunding unfunded retiree OPEB liabilities.

STATUS:

A dollar-cost-averaging strategy is currently used for prefunding the District's OPEB Investment Trust requirements. The RBOA membership shall acknowledge recent prefunding transfers to the Trust and review anticipated future schedules for District transfers.

RECOMMENDATION:

The Retirement Board of Authority shall hear the information file accordingly.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-0012
Portfolio Performance Review		Enclosure:	Yes
		Action Item	Yes

Prepared by:	Morgan Stanley Wealth Management (MS)
Requested by:	Retirement Board of Authority

BACKGROUND:

As Board members of the Retirement Board of Authority you have a fiduciary responsibility as described in Government Code section 53215, et seq. As part of fulfilling your fiduciary responsibility, it is important to periodically review the District's OPEB Trust Portfolio.

STATUS:

Morgan Stanley Wealth Management (MS) will provide a review of the District's OPEB Trust Portfolio Performance Report.

RECOMMENDATION:

The Retirement Board of Authority should review and accept the District's Public Entity Investment Trust Portfolio Report and file as appropriate.

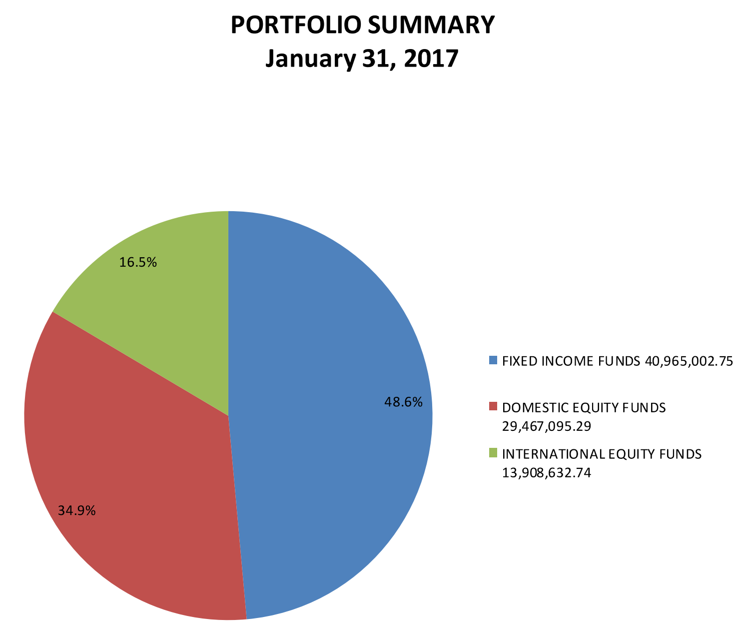
SAN MATEO COUNTY COMMUNITY COLLEGE FUTURIS PUBLIC ENTITY INVESTMENT TR

January 31, 2017

Change In Portfolio

Portfolio Value on 12-31-16	83,019,485.36
Contributions	0.00
Withdrawals	0.00
Change in Market Value	1,253,579.34
Income Received	92,775.96
Portfolio Fees	-25,109.87
Portfolio Value on 01-31-17	84,340,730.79
	84,340,730.79

Asset Allocation



Time Weighted Return - Gross of Fees

	Month To Date	Quarter To Date	Year To Date	Latest 1 Year	Annualized Latest 3 Year	Annualized Latest 5 Year	Annualized Inception To Date
Account	1.62	1.62	1.62	11.33	4.57	6.06	6.60
S&P 500 TR	1.90	1.90	1.90	20.06	10.86	14.10	13.12
MSCI EAFE	2.90	2.90	2.90	12.03	0.71	6.04	4.34
MSCI ACWI Ex US Net	3.54	3.54	3.54	16.09	0.95	4.38	3.68
Barclays Aggregate	0.20	0.20	0.20	1.46	2.60	2.10	3.35
Barclays Global Agg Bd Unhedged	1.13	1.13	1.13	2.34	-0.17	0.08	1.28
50% MSCI ACWI/ 50% Barclays Agg	1.46	1.46	1.46	9.50	4.20	5.54	5.83

Time Weighted Return - Net of Fees

	Month To Date	Quarter To Date	Year To Date	Latest 1 Year	Annualized Latest 3 Year	Annualized Latest 5 Year	Annualized Inception To Date
Account	1.59	1.59	1.59	10.95	4.20	5.70	6.24
S&P 500 TR	1.90	1.90	1.90	20.06	10.86	14.10	13.12
MSCI EAFE	2.90	2.90	2.90	12.03	0.71	6.04	4.34
MSCI ACWI Ex US Net	3.54	3.54	3.54	16.09	0.95	4.38	3.68
Barclays Aggregate	0.20	0.20	0.20	1.46	2.60	2.10	3.35
Barclays Global Agg Bd Unhedged	1.13	1.13	1.13	2.34	-0.17	0.08	1.28
50% MSCI ACWI/ 50% Barclays Agg	1.46	1.46	1.46	9.50	4.20	5.54	5.83

PORTFOLIO APPRAISAL

January 31, 2017

Quantity	Security	Security Symbol	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
FIXED INC MUTUAL FUNDS								
Taxable Funds								
630,266.232	BLACKROCK TOTAL RETURN FD BD FD BLKRK CL	MPHQ.X	11.93	7,518,951.77	11.58	7,298,482.97	8.7	2.9
407,973.125	GUGGENHEIM FDS TR INVT GD BD INSTL	GIUS.X	18.32	7,474,327.12	18.15	7,404,712.22	8.8	3.8
160,270.051	GUGGENHEIM MACRO OPPORTUNITIES INSTL	GIOI.X	26.11	4,185,124.96	26.53	4,251,964.45	5.0	5.1
317,565.600	HARTFORD WORLD BOND Y	HWDY.X	10.37	3,294,161.91	10.32	3,277,276.99	3.9	0.2
167,577.265	LEGG MASON BW ALT	LMAM.X	10.37	1,736,947.44	10.14	1,699,233.47	2.0	3.7
234,280.119	LEGG MASON BW GLOBAL OPPS BD IS	GOBS.X	10.85	2,541,788.02	10.30	2,413,085.23	2.9	0.0
515,591.812	PRUDENTIAL TOTAL RETURN BD FD	PTRQ.X	14.56	7,508,254.74	14.15	7,295,624.14	8.7	3.0
639,705.091	WESTERN ASSET FDS INC	WAPS.X	11.85	7,580,599.62	11.45	7,324,623.29	8.7	4.8
				41,840,155.57		40,965,002.75	48.6	3.3
				41,840,155.57		40,965,002.75	48.6	3.3
DOMESTIC EQUITY FUNDS								
Large Cap Funds								
236,727.257	ALGER FDS II SPECTRA FD Z	ASPZ.X	18.23	4,315,482.84	17.88	4,232,683.36	5.0	0.0
224,863.646	COHEN & STEERS RLTY INCM NEW SHS CL Z	CSZI.X	15.65	3,519,165.92	14.84	3,336,976.51	4.0	2.9
148,642.382	COLUMBIA FDS SER TR I	COFY.X	22.52	3,347,728.85	23.27	3,458,908.23	4.1	1.0
106,393.600	OAKMARK SELECT I	OAKL.X	40.87	4,348,249.37	43.31	4,607,906.82	5.5	0.9
				15,530,626.98		15,636,474.91	18.5	1.1
Mid Cap Funds								
87,802.360	HARTFORD MIDCAP Y	HMDY.X	25.74	2,259,811.73	30.80	2,704,312.69	3.2	0.0
108,309.971	PRUDENTIAL GLOBAL REAL ESTATE	PGRQ.X	25.28	2,737,681.89	22.86	2,475,965.94	2.9	2.5
				4,997,493.62		5,180,278.63	6.1	1.2
Small Cap Funds								
204,426.393	ALGER FDS SMALL CP FOCUS Z	AGOZ.X	10.93	2,234,394.13	12.54	2,563,506.97	3.0	0.0
41,010.704	UNDISCOVERED MANAGERS FDS BEHAVR VAL R6	UBVF.X	56.80	2,329,285.04	65.34	2,679,639.40	3.2	1.1
				4,563,679.17		5,243,146.37	6.2	0.5
				25,091,799.76		26,059,899.90	30.9	1.0
INTERNATIONAL FUNDS								
Large Cap Funds								
155,971.238	BRANDES EMERGING MARKETS VALUE R6	BEMR.X	8.01	1,249,059.70	8.29	1,293,001.56	1.5	1.3

PORTFOLIO APPRAISAL

January 31, 2017

Quantity	Security	Security Symbol	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
Small Cap Funds								
128,447.509	BRANDES INTERNATIONAL SMALL CAP R6	BISR.X	13.33	1,712,283.49	13.57	1,743,032.70	2.1	2.7
International								
46,813.458	AMERICAN FUNDS NEW PERSPECTIVE F2	ANWF.X	37.56	1,758,379.57	36.76	1,720,862.72	2.0	1.0
161,074.398	BRANDES INVT TR INT EQTY FD R6	BIER.X	14.87	2,394,888.39	16.23	2,614,237.48	3.1	3.5
228,310.063	HARTFORD INTERNATIONAL VALUE Y	HILY.X	13.53	3,089,473.60	15.72	3,589,034.19	4.3	2.2
109,040.589	LEGG MASON PARTNERS EQUITY TR CLEARBDG IN IS	CBIS.X	14.51	1,581,664.37	15.55	1,695,581.16	2.0	2.3
				8,824,405.93		9,619,715.54	11.4	2.4
Emerging Markets								
23,227.344	AMERICAN FUNDS NEW WORLD F-2	NFFF.X	56.78	1,318,810.52	53.94	1,252,882.94	1.5	1.2
				13,104,559.65		13,908,632.74	16.5	2.2
BALANCED EQUITY FUNDS								
Balanced Funds								
169,427.916	THORNBURG INVESTMENT INCOME BUILDER I	TIBI.X	19.91	3,373,245.92	20.11	3,407,195.39	4.0	4.1
				3,373,245.92		3,407,195.39	4.0	4.1
TOTAL PORTFOLIO				**83,409,760.90**		**84,340,730.79**	**100.0**	**2.4**

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-013
Market Overview		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

As Board members of the Retirement Board of Authority you have a fiduciary responsibility as described in Government Code section 53215, et seq. In fulfilling your fiduciary responsibility, it is important to understand the impact of market conditions on the assets in the Investment Trust.

STATUS:

Morgan Stanley Wealth Management (MS) will provide an overview of current capital market conditions.

RECOMMENDATION:

The Retirement Board of Authority should receive the information and file accordingly.

Futuris
A Keenan Solution

Portfolio Update – 4th Quarter 2016

Cary M. Allison, CIMA®
Senior Institutional Consultant
Government Entity Specialist

Morgan Stanley

MODEL PORTFOLIOS									
EQUITIES	**Style**	**Ticker**	**Expenses**	**Fixed Income**	**Conservative**	**Moderate**	**Moderate Growth**	**Growth**	**Aggressive Growth**
Domestic Equities									
Large Cap Domestic Equities									
Alger Spectra	Large Growth	ASPZX	0.89%	0%	1%	3%	5%	5%	7%
Columbia Contrarian Core	Large Blend	COFYX	0.66%	0%	2%	3%	4%	5%	7%
Oakmark Select	Large Value	OAKLX	0.95%	0%	2%	4%	4%	6%	7%
				0%	5%	10%	13%	16%	21%
Small/Mid Cap Domestic Equities									
Hartford Midcap	Mid Growth	HMDYX	0.76%	0%	0%	1%	2%	4%	6%
Alger Small Cap Focus	Small Growth	AGOZX	1.01%	0%	1%	2%	3%	4%	5%
Undiscovered Managers Behavioral Value	Small Blend	UBVFX	0.79%	0%	1%	1%	2%	4%	5%
				0%	2%	4%	7%	12%	16%
Real Estate Investment Trusts									
Cohen & Steers Real Estate Securities	Real Estate	CSZIX	0.88%	0%	2%	3%	4%	5.0%	6%
Prudential Global Real Estate	Real Estate	PGRQX	0.80%	0%	1%	2%	3%	4.0%	5%
				0%	3%	5%	7%	9%	11%
Total Domestic Equities & REITs				0%	10%	19%	27%	37%	48%
International/Global Equities									
Brandes International Small Cap	Int'l SMID	BISRX	1.00%	0%	1%	1.5%	2%	2.5%	3%
ClearBridge International Small Cap	Int'l SMID	CBISX	1.01%	0%	0%	1.5%	2%	2.5%	3%
American Funds New Perspectives Fund	Global Growth	ANWFX	0.55%	0%	1%	2%	2%	3%	4%
American Funds New World Fund	Emerging Markets	NFFFX	0.76%	0%	1%	1%	1.5%	2.0%	3%
Brandes Emerging Markets Fund	Emerging Markets	BEMRX	0.97%	0%	0%	1%	1.5%	2.0%	3%
Brandes International Equity	Int'l Value	BIERX	0.82%	0%	1%	2%	3%	3%	3%
Hartford International Value	Int'l Value	HILYX	0.91%	0%	1%	2%	3%	4%	4%
Thornburg Investment Income Builder	Global Blend	TIBIX	0.85%	0%	1%	3%	3%	5%	5%
				0%	6%	14%	18%	24%	28%
Total Equities				*0%*	*16%*	*33%*	*45%*	*61%*	*76%*
FIXED INCOME									
BlackRock Total Return	Domestic Bond	MPHQX	0.39%	18.0%	15.0%	12.0%	10.0%	6.0%	4.0%
Guggenheim Investment Grade Bond	Domestic Bond	GIUSX	0.75%	18.0%	15.0%	12.0%	10.0%	7.0%	4.0%
Prudential Total Return Bond	Domestic Bond	PTRQX	0.46%	18.0%	15.0%	12.0%	10.0%	7.0%	4.0%
Western Asset Core Plus Bond	Domestic Bond	WAPSX	0.42%	18.0%	15.0%	12.0%	10.0%	7.0%	4.0%
Guggenheim Macro Opportunities	Domestic Bond	GIOIX	0.97%	9.0%	8.0%	6.0%	5.0%	4.0%	3.0%
Hartford World Bond	Global Bond	HWDYX	0.67%	8.0%	7.0%	5.0%	4.0%	3.0%	2.0%
Legg Mason Brandywine Global Opportunities Bond	Global Bond	GOBSX	0.56%	6.0%	5.0%	5.0%	3.0%	3.0%	1.5%
Legg Mason Brandywine Alternative Credit	Global Bond	LMAMX	1.25%	5.0%	4.0%	3.0%	3.0%	2.0%	1.5%
Total Bonds			*Subtotals*	*100.0%*	*84.0%*	*67.0%*	*55.0%*	*39.0%*	*24.0%*
SUMMARY									
Total Equities				0.0%	16.0%	33.0%	45.0%	61.0%	76.0%
Total Fixed Income				100.0%	84.0%	67.0%	55.0%	39.0%	24.0%
Grand Total				100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expense Ratio				0.60%	0.64%	0.68%	0.72%	0.76%	0.79%
NOMINAL BENCHMARKS									
MSCI ACWI (All County World Index)				0%	15%	30%	45%	60%	75%
Barclay's Aggregate Bond				100%	85%	70%	55%	40%	25%
STATISTICS									
Avg Annual Return				4.52%	5.00%	6.00%	6.99%	7.69%	8.46%
Standard Deviation (Risk)				3.19%	4.26%	6.09%	7.41%	9.48%	11.89%

NOTE: The Futuris portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee.

Quarter	Fixed Income	Conservative	Moderate	Moderate Growth	Growth	Aggressive Growth
Quarterly Returns						
3/31/2008	0.72%	-0.37%	-1.49%	-3.40%	-5.13%	-6.50%
6/30/2008	-1.51%	-1.76%	-1.75%	-1.47%	-1.25%	-0.97%
9/30/2008	-3.19%	-4.12%	-5.53%	-7.08%	-8.88%	-11.99%
12/31/2008	0.28%	-2.90%	-6.76%	-9.65%	-13.11%	-17.53%
3/31/2009	-0.34%	-2.21%	-4.38%	-5.50%	-7.11%	-9.17%
6/30/2009	7.63%	9.64%	12.08%	13.79%	15.91%	19.16%
9/30/2009	8.04%	9.48%	11.18%	12.23%	13.84%	15.75%
12/31/2009	2.06%	2.26%	2.60%	2.90%	3.18%	3.67%
3/31/2010	3.31%	3.59%	3.83%	3.97%	4.23%	4.46%
6/30/2010	1.74%	-0.35%	-2.38%	-3.89%	-5.73%	-7.85%
9/30/2010	4.69%	6.20%	7.61%	8.68%	9.87%	11.45%
12/31/2010	-0.30%	0.98%	2.45%	3.57%	5.03%	6.92%
3/31/2011	1.50%	1.88%	2.26%	2.58%	3.09%	3.58%
6/30/2011	2.15%	1.93%	1.61%	1.28%	0.91%	0.49%
9/30/2011	0.17%	-2.89%	-5.81%	-7.78%	-10.68%	-13.70%
12/31/2011	1.52%	2.35%	3.30%	3.98%	4.96%	6.08%
3/31/2012	2.75%	4.06%	5.37%	6.27%	7.62%	9.09%
6/30/2012	1.89%	0.57%	-0.66%	-1.62%	-2.93%	-4.29%
9/30/2012	3.75%	4.14%	4.37%	4.57%	4.92%	5.18%
12/31/2012	1.52%	1.89%	2.22%	2.39%	2.63%	2.83%
3/31/2013	0.60%	1.47%	2.55%	3.32%	4.37%	5.57%
6/30/2013	-2.99%	-2.48%	-1.80%	-1.36%	-0.74%	-0.09%
9/30/2013	0.94%	1.64%	2.58%	3.30%	4.29%	5.24%
12/31/2013	0.94%	1.90%	2.85%	3.43%	4.36%	5.33%
3/31/2014	2.14%	2.04%	1.97%	2.05%	1.89%	1.85%
6/30/2014	2.52%	2.87%	3.30%	3.65%	4.02%	4.37%
9/30/2014	-0.04%	-0.60%	-1.11%	-1.56%	-2.17%	-2.61%
12/31/2014	0.83%	0.59%	0.91%	1.18%	1.50%	1.61%
3/31/2015	1.54%	1.63%	1.89%	2.15%	2.37%	2.48%
6/30/2015	-1.70%	-1.40%	-1.03%	-0.87%	-0.60%	-0.30%
9/30/2015	-0.38%	-1.97%	-3.16%	-3.99%	-5.19%	-6.33%
12/31/2015	-0.42%	0.57%	1.53%	2.06%	2.89%	3.74%
3/31/2016	2.62%	2.10%	1.76%	1.64%	1.36%	1.05%
6/30/2016	2.26%	1.92%	1.75%	1.68%	1.54%	1.42%
9/30/2016	1.27%	2.05%	2.89%	3.48%	4.27%	5.05%
12/31/2016	-1.78%	-1.20%	-0.85%	-0.55%	0.08%	0.47%
Annualized Returns						
1 Year	4.38%	4.92%	5.63%	6.36%	7.40%	8.17%
2 Years	1.66%	1.81%	2.34%	2.73%	3.25%	3.63%
3 Years	2.94%	2.85%	3.25%	3.60%	3.91%	4.15%
4 Years	2.05%	2.76%	3.99%	4.89%	6.05%	7.20%
5 Years	3.65%	4.36%	5.49%	6.27%	7.31%	8.32%
6 Years	3.94%	4.17%	4.74%	5.13%	5.61%	6.03%
7 Years	4.75%	5.08%	5.72%	6.15%	6.69%	7.23%
8 Years	7.29%	7.86%	8.79%	9.48%	10.33%	11.31%
9 Years	6.71%	6.43%	6.34%	6.03%	5.72%	5.17%
Annual Returns						
2008	-3.70%	-8.88%	-14.75%	-20.09%	-25.83%	-32.79%
2009	18.28%	20.03%	22.25%	24.18%	26.47%	29.88%
2010	9.71%	10.70%	11.74%	12.48%	13.39%	14.71%
2011	5.44%	3.21%	1.10%	-0.38%	-2.47%	-4.71%
2012	10.27%	11.05%	11.67%	11.94%	12.49%	12.93%
2013	-0.56%	2.49%	6.25%	8.89%	12.75%	16.92%
2014	5.54%	4.95%	5.11%	5.35%	5.24%	5.19%
2015	-0.98%	-1.21%	-0.85%	-0.78%	-0.74%	-0.72%
2016	4.38%	4.92%	5.63%	6.36%	7.40%	8.17%

Wealth Management Perspectives

Capital Markets Overview: 4Q 2016

Introduction

As of 4Q 2016

- The election of Donald Trump as the next U.S. President sent markets surging to new highs during the 4th quarter of 2016. Trump's pro-growth agenda focusing on infrastructure spending, tax reform, and deregulation fueled markets into the so-called "Trump Rally." Along with the election, all eyes were on the Federal Open Market Committee as the US reported improving inflation expectations and employment numbers, giving the Fed a green light to hike in December. With expectations fully priced in, markets reacted calmly when the Fed raised their target rate by 25 basis points and signaled three further hikes in 2017.

- For the quarter, US equities posted strong performance, especially the Financials sector of the S&P 500, which returned 21.1%. REITs and long-term US Treasuries lagged on the back of increasing inflation expectations and rising real interest rates. For the one-year period ending December 31, 2016, MLPs, US high yield corporate bonds, US equities and emerging market equities led the pack with double-digit returns. Managed futures and munis were the laggards for the year.

- The Dow Jones Industrial Average increased 8.7% in the fourth quarter. The NASDAQ Composite Index was up 1.7% for the quarter. The S&P 500 Index increased 3.8% for the quarter.

- Eight of the 11 sectors within the S&P 500 generated positive returns in the fourth quarter of 2016. The top-performing sector was Financials, which was up 21.1%. Energy and Industrials rose 7.3% and 7.2%, respectively, and were also among the top-performing sectors. The biggest laggards were Real Estate, which decreased 4.4%, and HealthCare, which fell 4.0%.

- The bond market registered negative returns during the fourth quarter. The Bloomberg U.S. Aggregate Bond Index, a general measure of the bond market, decreased 3.0% for the quarter.

- Morgan Stanley & Co. economists expect U.S. real GDP will be 1.6% in 2016 and 2.0% in 2017. They forecast global GDP growth to be 3.0% in 2016 and 3.4% in 2017.

- After posting negative third quarter returns, commodities registered positive returns in the fourth quarter; the Bloomberg Commodity Index increased 2.7%.

- For the fourth quarter of 2016, global mergers and acquisitions (M&A) deal volume was $1,200 billion, compared to $813 billion for the third quarter of 2016. Global M&A activity decreased to $3.6 trillion in 2016 from $4.3 trillion in 2015.

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIC

Capital Markets Overview: 4Q 2016

The US Economy

As of 4Q 2016

The Department of Commerce estimated that Gross Domestic Product increased at an annual rate of 1.7% in the third quarter of 2016, in comparison to a 1.3% increase in the second quarter of 2016. Morgan Stanley & Co. economists forecast U.S. Real GDP growth will be 2.0% in 2017.

The seasonally adjusted unemployment rate for November 2016 was 4.6%, down from 4.9% in August. Employment increased most in professional and business services and in health care. The number of unemployed declined to 7.4 million from 7.9 million last quarter. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.9 million. These individuals accounted for 24.8% of the unemployed.

According to the most recent estimate from the Bureau of Economic Analysis, corporate profits increased 5.8% between the second and third quarters of 2016, and rose 2.0% between the third quarter of 2015 and the third quarter of 2016.

Inflation increased in the US. according to the Bureau of Labor Statistics. The year-over-year Consumer Price Index was 1.1% in August and increased to 1.7% in November, a level last recorded in 2014. Morgan Stanley & Co. economists forecast a 2.4% inflation rate for 2017.

The Census Bureau reported that private-sector housing starts in November 2016 were at a seasonally adjusted annual rate of 1,090,000—6.9% below November 2015 housing starts.

The Census Bureau also reported that seasonally adjusted retail and food services sales increased 1.7% between August 2016 and November 2016, the majority of the 2.2% increase between November 2015 and November 2016. Consumer confidence spiked the fourth quarter, with Conference Board Consumer Confidence reading 113.70, the highest level since August 2001.

In December, the Institute for Supply Management's Purchasing Managers' Index (PMI), a manufacturing sector index, increased as the PMI registered 54.7%, a 3.2-percentage-point uptick from the September reading of 51.5%. Generally speaking, a PMI or NMI (ISM Non-Manufacturing Index) over 50 indicates that the sector is expanding and a PMI below 50 but over 43 indicates that the sector is shrinking but the overall economy is expanding. PMI has registered above 50 for 9 out of the 10 last months, indicating an expansion in manufacturing since March 2016. Overall, PMI has been above 43 for 91 consecutive months, indicating overall economic recovery and expansion since June 2009.

The NMI is up 0.1 points to 57.2 since Q3. The index has now been above 50 for 83 consecutive months, indicating non-manufacturing expansion since February 2010.

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIC

Capital Markets Overview: 4Q 2016

US Equity Markets

As of 4Q 2016

The Dow Jones Industrial Average increased 8.7% in the fourth quarter. The NASDAQ Composite Index was up 1.7% for the quarter. The S&P 500 Index increased 3.8% for the quarter.

Eight of the 11 sectors within the S&P 500 generated positive returns in the fourth quarter of 2016. The top-performing sector was Financials, which was up 21.1%. Energy and Industrials rose 7.3% and 7.2%, respectively, and were also among the top-performing sectors. The biggest laggards were Real Estate, which decreased 4.4%, and Health Care, which fell 4.0%.

Growth-style stocks of large-cap companies increased during the fourth quarter. The large-cap Russell 1000 Growth Index rose 1.0%. The Russell 1000 Index, a large-cap index, increased 3.8% for the quarter. The Russell 1000 Value Index, also a large-cap index, increased 6.7% for the quarter.

The Russell Midcap Growth Index rose 0.5% for the quarter. The Russell Midcap Index increased 3.2% for the quarter. The Russell Midcap Value Index increased 5.5% for the quarter. The Russell 2000 Growth Index, a small-cap index, increased 3.6% for the quarter. The small-cap Russell 2000 Index rose 8.8% for the quarter. The Russell 2000 Value Index, also a small-cap index, increased 14.1% for the quarter.

Key US Stock Market Index Returns (%) for the Period Ending 12/31/2016

INDEX IN USD	Quarter	12 Months	5-Years (Annualized)	7-Years (Annualized
S&P 500	3.8%	12.0%	14.7%	12.8%
Dow Jones	8.7%	16.5%	12.9%	12.4%
Russell 2000	8.8%	21.3%	14.5%	13.2%
Russell Midcap	3.2%	13.8%	14.7%	13.7%
Russell 1000	3.8%	12.1%	14.7%	12.9%

Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC

Capital Markets Overview: 4Q 2016

Global Equity Markets

As of 4Q 2016

In the fourth quarter, emerging markets (EM) and international developed regions both delivered negative returns (in USD). The MSCI EAFE Index (a benchmark for international developed markets) decreased 0.7% for U.S.-currency investors and increased 7.1% for local-currency investors, as the U.S. dollar significantly appreciated in relation to the currencies of many nations in the index.

For the fourth quarter, the MSCI Emerging Markets Index decreased 4.1% for US-currency investors and 1.4% for local-currency investors, as the US dollar appreciated in relation to the currencies of the nations in the index. The MSCI Europe Index decreased 0.4% for US-currency investors and increased 5.5% for local-currency investors during the fourth quarter of 2016.

The S&P 500 Index increased 3.8% for the quarter.

Emerging economy equity market indices were down in the fourth quarter. The MSCI BRIC (Brazil, Russia, India and China) Index fell 3.8% for the quarter in US dollar terms and 3.7% in terms of local currencies. For the fourth quarter, the MSCI EM Asia Index was down 6.0% in US dollar terms and 3.0% in local terms.

Key Global Equity Market Index Returns (%) for the Period Ending 12/31/2016

INDEX IN USD	Quarter	12 Months	5-Years (Annualized)	7-Years (Annualized)
MSCI EAFE	-0.7%	1.5%	6.9%	4.3%
MSCI EAFE Growth	-5.5%	-2.7%	6.9%	4.9%
MSCI EAFE Value	4.2%	5.7%	6.7%	3.6%
MSCI Europe	-0.4%	0.2%	6.7%	3.9%
MSCI Japan	-0.1%	2.7%	8.4%	5.8%
S&P 500	3.8%	12.0%	14.7%	12.8%
MSCI Emerging Markets	-4.1%	11.6%	1.6%	0.8%

Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC

Capital Markets Overview: 4Q 2016

The US Bond Market

As of 4Q 2016

The bond market registered negative returns during the fourth quarter. The Bloomberg U.S. Aggregate Bond Index, a general measure of the bond market, decreased 3.0% for the quarter.

Interest rates increased during the fourth quarter, as the yield on the 10-year U.S. Treasury note rose to a quarter-end 2.44% from 1.59% at the end of the 3Q 2016. This came out to a dramatic 53.3% increase in rates for the quarter.

Riskier parts of the bond market such as US high yield debt increased in the fourth quarter. The Bloomberg Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, rose 1.8%.

Mortgage-backed securities posted negative returns during the fourth quarter. The Bloomberg Barclays Capital Mortgage Backed Index decreased 2.0% for the quarter. During the fourth quarter, the municipal bond market also decreased. As a result, the Bloomberg Barclays Capital Muni Index generated a negative 3.6% return for the quarter.

Key US Bond Market Index Returns (%) for the Period Ending 12/31/2016

INDEX IN USD	Quarter	12 Months	5-Years (Annualized)	7-Years (Annualized)
Barclays Capital US Aggregate	-3.0%	2.6%	2.2%	3.6%
Barclays Capital High Yield	1.8%	17.1%	7.4%	8.1%
Barclays Capital Government/Credit	-3.4%	3.0%	2.3%	3.8%
Barclays Capital Government	-3.8%	1.0%	1.2%	3.1%
Barclays Capital Intermediate Govt/Credit	-2.1%	2.1%	1.8%	3.0%
Barclays Capital Long Govt/Credit	-7.8%	6.7%	4.1%	7.4%
Barclays Capital Mortgage Backed Securities	-2.0%	1.7%	2.1%	3.1%
Barclays Capital Muni	-3.6%	0.2%	3.3%	4.2%

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIC

Capital Markets Overview: 4Q 2016

Hedge Funds

As of 4Q 2016

HFRX Equity Hedge Index: 4Q = 0.79%

- Equity Hedge managers posted positive returns during the quarter, as markets rallied in November following the unexpected outcome of the election. Cautious positioning going into the election limited the extent of the participation on the upside for some managers as hedges and shorts offset positive performance in the long book.
- There was a significant rotation into Financials and cyclicals while defensive and yield-sensitive stocks performed poorly. From a factor standpoint, value did well while quality, momentum and low beta struggled during the period.

HFRX Event-Driven Index: 4Q = 3.65%

- Event Driven strategies were the strongest performing group in 4Q; specifically, Distressed Credit, Special Situations and Merger Arbitrage posted strong returns.
- Soft catalyst and Special Situation strategies helped drive returns on expectations that a friendlier regulatory environment would be beneficial to shareholders.

HFRX Macro/CTA Index: 4Q = -1.79%

- Macro/CTA strategies delivered negative returns in 4Q, with the biggest losses coming in fixed income and commodities for systematic trend-following strategies. Discretionary Macro strategies with short positioning in rates, long USD, long equities had a strong finish to the quarter.

HFRX Relative Value Arbitrage Index: 4Q = 1.29%

- Relative Value managers were positive in 4Q, as fixed income managers generally benefitted from the increase in interest rate volatility and changes across interest rate curves.

HFRX Global Hedge Fund Index: 4Q = 1.16%

- Global hedge fund performance was positive during the fourth quarter; Event Driven, Distressed, and other long/short equity strategies delivered strong performance during the period.

Source: HFRX Hedge Fund Indices; Morgan Stanley Wealth Management GIC

Capital Markets Overview:3Q 2016

Private Equity and Real Estate

As of 3Q 2016

Buyout[1]

- Aggregate deal value totaled $90 billion in Q3 2016, which is up year over year from $86 billion driven by an increase in US activity. Asian deal value reached its lowest level since Q1 2012.
- Q3 had 408 exits accounting for $81 billion in value, which is down from the 462 exits totaling $122 billion in Q3 2015. Total exit value has been on a decline since Q2 2014.

Venture Capital[1]

- In Q3 2016, there were 2,050 deals accounting for $26 billion in value, which is down from 2,769 deals accounting for $43 billion in value in Q3 2015.
- Aggregate deal value is at its lowest level since Q3 2014.

Real Estate[2]

- 31 real estate funds closed in Q3, raising a total of $18.5 billion. This is the lowest amount of capital raised in a quarter since Q1 2013. Real estate debt funds accounted for the most capital raised with $5 billion.
- Real estate dry powder continues to set new highs with $225 billion at the end of Q3.

Private Debt[3]

- In Q3, 24 private debt funds closed on $11 billion in capital. North American-focused funds were the primary contributors, raising $8.6 billion. Additionally, distressed debt and mezzanine funds raised the most capital with $4.2 billion and $3.9 billion, respectively.
- Since rising from $124.7 billion in 2012 to $178.8 billion in 2013, private debt dry powder has increased to $199 billion at the end of Q3 2016.

Source: (1) Preqin, "Preqin Quarterly Update: Private Equity, Q3 2016" October (2) Preqin, "Preqin Quarterly Update: Real Estate, Q3 2016" October 2016 (3) Preqin, "Preqin Quarterly Update: Private Debt, Q3 2016" October 2016

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In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities' (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments ("ESG")** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein. As regards **Securities Based Lending**, you need to understand that: (1) Sufficient collateral must be maintained to support your loan(s) and to take future advances; (2) You may have to deposit additional cash or eligible securities on short notice; (3) Some or all of your securities may be sold without prior notice in order to maintain account equity at required maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or in additional fees being assessed; (4) Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association or Morgan Stanley Smith Barney LLC (collectively referred to as "Morgan Stanley") reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities based loan that is identified as a committed facility; (5) Morgan Stanley reserves the right to increase your collateral maintenance requirements at any time without notice; and (6) Morgan Stanley reserves the right to call securities based loans at any time and for any reason. **Options** and margin trading involve substantial risk and are not suitable for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases shares of a closed-end fund, shares may have a market price that is above or below NAV.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; and Risks associated with the operations, personnel, and processes of the manager. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results. Further, opinions regarding Alternative Investments expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management. This is not a "research report" as defined by NASD Conduct Rule 2711 and was not prepared by the Research Departments of Morgan Stanley Smith Barney LLC or Morgan Stanley & Co. LLC or its affiliates. Certain information contained herein may constitute forward-looking statements. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. Clients should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. While the HFRI indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Individual funds have specific tax risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank. This material is not to be reproduced or distributed to any other persons (other than professional advisors of the investors or prospective investors, as applicable, receiving this material) and is intended solely for the use of the persons to whom it has been delivered. This material is not for distribution to the general public. Past performance is no guarantee of future results. Actual results may vary. SIPC insurance does not apply to precious metals, other commodities, or traditional alternative investments. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank. In Consulting Group's advisory programs, alternative investments are limited to US-registered mutual funds, separate account strategies and exchange-traded funds (ETFs) that seek to pursue alternative investment strategies or returns utilizing publicly traded securities. Investment products in this category may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investments are not suitable for all investors. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

While the HFRI indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways.

It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Although there are numerous potential biases that could affect hedge fund returns, we identify some of the more common ones throughout this paper.

Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, hedge fund managers are able to decide which fund returns they want to report and are able to opt out of reporting to the various databases. Certain hedge fund managers may choose only to report returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns.

Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, "blow ups," or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be giving hedge fund index returns an artificial "lift" or upwards bias.

Hedge Funds of Funds and many funds of funds are private investment vehicles restricted to certain qualified private and institutional investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns. An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. An investment in a **target date portfolio** is subject to the risks attendant to the underlying funds in which it invests, in these portfolios the funds are the Consulting Group Capital Market funds. A target date portfolio is geared to investors who will retire and/or require income at an approximate year. The portfolio is managed to meet the investor's goals by the pre-established year or "target date." A target date portfolio will transition its invested assets from a more aggressive portfolio to a more conservative portfolio as the target date draws closer. An investment in the target date portfolio is not guaranteed at any time, including, before or after the target date is reached. **Managed futures** investments are speculative, involve a high degree of risk, use significant leverage, are generally illiquid, have substantial charges, subject investors to conflicts of interest, and are suitable only for the risk capital portion of an investor's portfolio. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio. Managed Futures are complex and not appropriate for all investors. **Rebalancing** does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. **Asset allocation and diversification** do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results may vary.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustration purposes only and do not show the performance of any specific investment. Reference to an index does not imply that the portfolio will achieve return, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error target, all of which are subject to change over time.

This material is not a financial plan and does not create an investment advisory relationship between you and your Morgan Stanley Financial Advisor. We are not your fiduciary either under the

Employee Retirement Income Security Act of 1974 (ERISA) or the Internal Revenue Code of 1986, and any information in this report is not intended to form the primary basis for any investment decision by you, or an investment advice or recommendation for either ERISA or Internal Revenue Code purposes. Morgan Stanley Private Wealth Management will only prepare a financial plan at your specific request using Private Wealth Management approved financial planning signature.

We may act in the capacity of a broker or that of an advisor. As your broker, we are not your fiduciary and our interests may not always be identical to yours. Please consult with your Private Wealth Advisor to discuss our obligations to disclose to you any conflicts we may from time to time have and our duty to act in your best interest. We may be paid both by you and by others who compensate us based on what you buy. Our compensation, including that of your Private Wealth Advisor, may vary by product and over time.

Investment and services offered through Morgan Stanley Private Wealth Management, a division of Morgan Stanley Smith Barney LLC, Member SIPC.

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

For index, indicator and survey definitions referenced in this report please visit the following: http://www.morganstanleyfa.com/public/projectfiles/id.pdf

Global Investment Committee (GIC) Asset Allocation Models: The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC. **HYPOTHETICAL MODEL PERFORMANCE (GROSS):** Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight. Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated. Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk /return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products. Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date. **FEES REDUCE THE PERFORMANCE OF ACTUAL ACCOUNTS:** None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at www.morganstanley.com/adv. The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material. **insurance products disclosures: Variable annuities** are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract. If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value. **Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment. **Ultrashort-term fixed income** asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk. **Master Limited Partnerships (MLPs): I**ndividual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. **Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products.

Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be suitable for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. **REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage. Principal is returned on a monthly basis over the life of a **mortgage-backed security.** Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds.

Asset-backed securities generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments. **Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision. **Credit ratings** are subject to change. **Floating-rate securities.** The initial interest rate on a floating-rate security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. Companies paying **dividends** can reduce or cut payouts at any time. **Nondiversification:** For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Portfolios that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors. The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time. Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. **Growth investing** does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. **Value investing** does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected. Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels. **Duration**, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. This material is disseminated in the United States of America by Morgan Stanley Smith Barney LLC. Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. This material, or any portion thereof, may not be reprinted, sold or redistributed without the written consent of Morgan Stanley Smith Barney LLC.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-014
Investment Policy Statement Review		Enclosure:	Yes
		Action Item	Yes

Prepared by: Benefit Trust Company (BTC)

Requested by: Retirement Board of Authority

BACKGROUND:

The Investment Policy Statement for the Trust must be reviewed periodically to ensure that it reflects the current investment objectives of the Retirement Board of Authority. The Investment Policy Statement governs the actions of the Discretionary Trustee and its Advisor in the selection and monitoring of investments for the trust.

STATUS:

The members of the Retirement Board of Authority, with the assistance of consultants from Benefit Trust Company and Morgan Stanley will review the provisions of the Investment Policy Statement. A key to this process may be a review of the Board's risk attitude as well as the capacity of the Board to accept the current designated investment risk.

RECOMMENDATION:

Discuss the information received and modify the Investment Policy Statement for the investment of Trust assets if needed, or otherwise affirm it in its present form.

INVESTMENT POLICY STATEMENT

San Mateo County Community College District

The purpose of this Investment Policy Statement is to establish a comprehensive strategy for the acceptance and accumulation of invested assets under the **Futuris Public Entity Investment Trust** (the "**Trust**"), which has been adopted for use by **San Mateo County Community College District** (the "**Employer**") for, among other things, to assist the Employer in meeting applicable funding requirements for the payment of future retiree health and welfare obligations and other post-employment benefit obligations (generally referred to as "**OPEB Liability**"), but may also be used to fund other purposes related to excess funds of the Employer as allowable under applicable law.

This Investment Policy Statement shall be consistent with the governing law, including the Internal Revenue Code of 1986 as amended from time to time (the "**Code**"), applicable provisions of Governmental Accounting Standards Board Statement Nos. 43 and 45, California laws, including applicable provisions of the California Government Code.

TRUST FUNDING STATEMENT

The purpose of the Trust is to provide a uniform method of investing contributions and earnings of all contributed amounts between funds deposited within the Trust Fund, as such term is defined within the Trust. The Trust shall be funded primarily by irrevocable contributions made by the Employer, but may also include other contributions made by any Participant as determined necessary and appropriate under applicable circumstances and in compliance with underlying legal requirements. These contributions shall be remitted to the Trust on a discretionary basis, as determined by and through the direction of the Employer, or such delegated Trust.

RETIREMENT BOARD OF AUTHORITY

The Retirement Board of Authority (the "**RBOA**") is directly responsible for the implementation and oversight of this Investment Policy Statement. This responsibility includes the selection and ongoing evaluation of investments and/or investment managers in accordance with applicable laws and regulations. However, these investment responsibilities may be delegated to an authorized third-party trustee. In this case, the RBOA has appointed Benefit Trust Company ("**BTC**") as Discretionary Trustee and Trust Fund custodian, who may further designate and delegate any corresponding Investment Manager responsibilities as set forth below. On behalf of the Trust, and as approved by the RBOA, BTC shall administer the assets of the Trust in such a manner that the investments are:

- Prudent; in consideration of the stated purpose of the Trust, any underlying Plan and in accordance with Article 16, Section 17 of the California Constitution creating a Retirement System, and California Government Code Sections 53620 through 53622, as applicable;
- Diversified; among a broad range of investment alternatives;

- Permitted; in accordance with the terms of the Trust, any applicable Plan document and in accordance with California Government Code Sections 53620 through 53622 and other applicable requirements;
- Selected; for the exclusive benefit of the Plan participants as it relates to the funding of retiree health and welfare benefits, or as otherwise deemed appropriate for the purposes set forth by the Trust.

The above notwithstanding, the RBOA retains the responsibility to oversee the management of the Trust, including BTC's, or any successor trustee's, requirement that investments and assets held within the Trust continually adhere to the requirements of California Government Code.

INVESTMENT OBJECTIVES

The Trust authorizes the use of a broad range of investment choices that have distinctly different risk and return characteristics. In general, assets held in the Trust Fund will be for the primary purpose of meeting present and future OPEB Liability obligations and may be invested in accordance with California Government Code Sections 53600 through 53622 that subject to applicable legal requirements may provide greater latitude to increase purchasing power and capital growth potential if deemed prudent to do so.

Though investment responsibilities are delegated to the Trustee, the RBOA determines the target return that is applicable for this Trust as it relates to those assets held in the Trust Fund. Attachment A of this Investment Policy details the target return selected by the RBOA. The target return may be modified from time to time by amending the Appendix. Related to the investments and the holding of investments themselves, the Trustee may cause any or all of the assets of the Trust to be commingled, to the extent such investment and the issuance thereof would be exempt under the provisions of Sections 2(a)(36), 3(b)(1) or 3(c)(11) of the Investment Company Act of 1940 or Section 3(a)(2) of the Securities Act of 1933, with the assets of trusts created by others, causing such money to be invested as part of a common and/or collective trust fund.

PERIODIC ANALYSIS AND EVALUATION

The RBOA and/or its designees shall periodically meet with the Trustee to review investment performance reports that analyze the performance of the managers selected in each market sector that take into consideration:

- adherence to applicable legal constraints on investment prudence;
- consistency and adherence to stated investment management style and discipline;
- risk adjusted performance relative to managers with similar style;
- long-term investment performance relative to appropriate benchmarks; and
- changes in investment personnel managing the portfolio

ETHICS AND CONFLICT OF INTEREST

Officers, employees, and agents involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and agents involved in the investment process shall abide by the California Government Code Section 1090 et seq. and the California Political Reform Act (California Government Code Section 81000 et seq.)

AMENDMENT

The RBOA shall have the right to amend this Policy, in whole or in part, at any time and from time to time.

ADOPTION

The RBOA hereby adopts the provisions of this Investment Policy Statement as of this 16th day of September, 2014.

By: ______________________________

Chief Financial Officer – Ray Chow

By: ______________________________

Vice Chancellor of Human Resources & Employee Relations – Eugene Whitlock

By: ______________________________

Controller – Anita Leong

By: ______________________________

Academic Representative - Bruce Maule

By: ______________________________

Kathy McEachron, Classified Representative

APPENDIX A: Target Return

Subject to the ability of the Retirement Board of Authority and Trustee to deviate from these guidelines as set forth under the heading "Investment Objectives" in the Statement, the Retirement Board of Authority has determined after due consideration to the time horizon of the trust, trust liquidity needs, and the District's risk tolerance and capacity for risk, that the Trust Fund shall be invested with the objective of achieving an annualized target net rate of return of 7% in order to meet the Plan's actuarial assumption (as determined by Retirement Board of Authority's Actuarial Consultant), as well as an additional 0.4% to cover the costs of trust administration, GASB 43 and GASB 45 compliance.

In accordance with Article 16 Section 17 of the California Constitution creating a retirement system and California Government Code sections 53620 through 53622, the Retirement Board of Authority has the authority to invest or reinvest funds intended for the payment of employee retiree health benefits under a prudent investor standard and shall diversify investments so as to minimize the risk of loss and to maximize the rate of return. The Trustee shall establish investment portfolios on a discretionary basis to meet the diverse needs of the Trust and its applicable purposes. Applicable provisions and requirements of, in particular, the California Government Code (specifically provisions under Sections 53216.1, 53216.5 and 53216.6, as applicable) shall be examined before selecting the investment portfolios to achieve the targets stated above.

The Trustee shall manage the Trust investments on a discretionary basis such that the total allocation among various investment styles, capitalizations, fund managers and securities is established and re-balanced from time-to-time so as to meet the Trust's overall target return objectives with the least amount of risk. The Trust assets shall not be invested in any proprietary investment vehicles of the Trustee or any of its affiliates or advisors.

Equity Investments

The purpose of the aggregate equity allocation within the Trust is to provide a total return consisting primarily of appreciation, with dividend income a secondary consideration. In order to maximize return opportunity while minimizing risk, the Trustee shall, in its discretion, allocate the Trust's equity allocation among a diverse group of equity fund managers, taking into consideration such factors as investment style (value, growth, international, etc.) as well as the capitalization (large, mid, small, etc.) of the investment.

Permitted equity investments shall include:

- ☐ Publicly traded common stocks, preferred stocks, securities convertible into common stocks, and securities which carry the right to buy common stocks, listed on a major United States stock exchange, including stocks traded through the NASDAQ Stock Market;

- ☐ American Depository Receipts ("ADRs");

- ☐ SEC-registered open-end mutual funds and Bank, Insurance Company or Trust Company commingled funds which invest primarily in stocks and other instruments which are allowable securities under these policies and objectives;

- ☐ Closed-end SEC-registered mutual funds which invest primarily in stocks and other instruments which are allowable securities under these policies and objectives; and

- ☐ Exchange Traded Funds ("ETFs") which invest primarily in stocks and other instruments which are allowable securities under these policies and objectives.

In managing the equity portfolio, the Trustee shall not do any of the following:

- buy equity securities on margin;
- short-sell equity securities;
- buy or sell futures contracts in any form, except that the Trustee is authorized to buy or sell such contracts specifically for purposes of, and only for purposes of, a hedge against portfolio loss;
- buy or sell put or call options on stocks, indexes or futures contracts;
- buy or sell foreign securities not registered through an SEC filing or not denominated in U.S. dollars; or
- buy or sell any securities which are not publicly traded.

However, all of the above restrictions shall be permitted in open-end or closed-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.

Additionally, certain securities may not be held directly, but only in open-end or closed-end mutual funds, comingled funds, or ETFs. These include common stocks, preferred stocks, and securities convertible into common stocks and securities that carry the right to purchase common stocks 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 contracts to hedge foreign currency exposure.

Not more than 5% of the Trust assets shall be invested in any single equity security issue or issuer. The foregoing limitation is not intended to apply to the percentage of Trust assets invested in a single diversified mutual fund.

Both an investment fund manager's performance and the performance of individual securities, if purchased, will be compared to the following benchmarks based upon the particular investment style and capitalization range:

Domestic Equities:	S&P 500
International:	MSCI EAFE and ACWI ex.U.S

The Trustee shall pay particular attention to rolling 3 and 5 year time frames as well as shorter periods should the situation warrant. In addition, the Trustee shall measure and compare the exposure to risk of the Trust's equity portfolio with benchmarks appropriate for the investment style and capitalization range of each such investment.

Fixed Income Investments

The purpose of the aggregate fixed income allocation within the Trust is to provide a total return consisting of income and appreciation, while preserving capital by investing in a diversified portfolio of high quality fixed income securities. The investment objective of the fixed income portfolio is to achieve a total return commensurate with the overall bond market as measured by the Barclay's Aggregate Bond Index for domestic securities, and the Barclay's Global Bond Index for international securities, with attention given to rolling 3 and 5 year time frames as well as shorter periods should the situation warrant. In addition, the Trustee shall measure and compare the exposure to risk of the Trust's fixed income portfolio with benchmarks appropriate for the investment style and capitalization range of each such investment.

Permitted securities shall include:

- ☐ Obligations of the U.S. Government and its agencies;
- ☐ Bonds issued by U.S. Corporations or U.S. subsidiaries of foreign companies that are incorporated within the U.S. and carry a minimum BBB rating;
- ☐ Certificates of Deposit issued by banks or savings and loans of sound financial condition under FDIC management, with never more than $100,000 (including interest) in any single institution;
- ☐ Money market funds and money market instruments of an investment grade commonly held in money market funds such as repurchase agreements, banker's acceptances, commercial paper, etc.
- ☐ SEC-registered open-end mutual funds and Bank, Insurance Company and Trust Company commingled funds which invest primarily in bonds and other instruments which are allowable securities under these policies and objectives;
- ☐ Closed-end SEC registered mutual funds which invest primarily in bonds and other instruments which are allowable securities under these policies and objectives;
- ☐ Exchange Traded Funds ("ETFs") which invest primarily in bonds and other instruments which are allowable securities under these policies and objectives;
- ☐ Investment grade foreign government or corporate bonds carrying a minimum BBB rating, whether or not denominated in U.S currency, and whether or not

hedged for foreign currency risk.

- Securities backed by pools of consumer or corporate receivables other than mortgages ("Asset-backed Securities"), provided that these securities have been registered with the SEC for public offering and that they meet the requirements of these policies and objectives and carry a minimum BBB rating; and

- U.S. Agency mortgage-backed pass-through securities.

In managing the fixed income portion of the Trust assets, the Trustee shall not do any of the following:

- buy fixed income securities on margin;
- short-sell fixed income securities;
- buy or sell futures contracts in any form, except that the Trustee is authorized to buy or sell such contracts specifically for purposes of, and only for purposes of, a hedge against portfolio loss;
- buy or sell put or call options on bonds, indexes or futures contracts;
- buy or sell foreign securities not registered through an SEC filing or not denominated in U.S. dollars; or
- buy or sell any securities which are not publicly traded except U.S. Government or agency-backed mortgages.

However, all of the above restrictions shall be permitted only in open-end or closed-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives, prudent management, risk mitigation, and the investments provide for daily liquidity. In addition, 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.

Not more than 5% of the Trust assets shall be invested in any single debt security issue or issuer. The foregoing limitation is not intended to apply to the percentage of Trust assets invested in a single diversified mutual fund, nor does the limitation apply to obligations of the U.S. Government and its agencies, U.S. agency mortgage-backed pass-through securities or to a mutual fund that invests in such obligations or securities.

Use of Mutual Funds

The Retirement Board of Authority envisions that the Trustee will invest predominantly in open and closed-end mutual funds. The Board recognizes that the limitations and restrictions set forth in this Statement cannot be imposed on the managers of such mutual funds and that mutual funds held by the Trust may be managed outside of the requirements of this Statement. Nonetheless, the Trustee shall seek to identify mutual funds that comply as closely as possible to these guidelines and shall diligently monitor for prompt removal and replacement of those that do not.

Performance Review

In the execution of its fiduciary responsibilities, the Trustee shall review, on a regular basis, the performance of the various investments and fund managers employed by the Trust to determine if assets are being properly managed according to the stated objectives and policies set forth in the Trust Agreement and in this Statement. The Trustee shall view performance and investment risk on the basis of a full 3 to 5-year market cycle, though the stated objectives and policies of the Trustee may result in the prompt sale of a security or dismissal of a fund manager based upon shorter term results. In addition, any deviation or change in the structure, management or investment style of any fund manager employed shall precipitate a review by the Trustee to determine whether or not that manager should be retained.

Change of Target Return

The Retirement Board of Authority may, from time to time, discuss with Trustee the need to change target investment returns for the trust as conditions or characteristics of the Trust, or applicable Fund requirements change. In the event a change is made, a new Appendix A will be adopted by the Retirement Board of Authority to reflect the change.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-015
Retirement Board of Authority Comments		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Each member may report about various matters involving the Retirement Board of Authority.

RECOMMENDATION:

There will be no Retirement Board of Authority discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority	DATE: 03/09/2017
SUBJECT: Program Coordinator/Consultant Comments	ITEM #: 2016/2017-016 Enclosure: No Action Item: No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The Program Coordinator may address the Board of Authority on any matter pertaining to the Retirement Board of Authority that is not on the agenda

RECOMMENDATION:

There will be no Retirement Board of Authority discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	03/09/2017
Retirement Board of Authority			
SUBJECT:		ITEM #:	2016/2017-017
Date, Time and Agenda Items for Next Meeting		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Members and visitors may suggest items for consideration at the next Retirement Board of Authority meeting.

RECOMMENDATION:

The Board will determine Agenda Items for the next meeting.