

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

Present: Trustee Meredith Brown, Trustee Bill Riley, Trustee Bill Withrow, Interim Vice Chancellor Susan Rinne, Vice Chancellor Trudy Largent, Tim Brice, Michael Wirth, James Blake, Jerry Herman, Ed Berman (Neuberger Berman), Joanna Bowes (KNN), Judith Boyette (Hanson Bridgett)

Absent: Trustee Cy Gulassa, Michael Mills, Bill Wallace (Neuberger Berman)

Guests: Kenneth Tom (Neuberger Berman), Joseph Bielanski

| Agenda Item | Discussion | Follow-up Action |
|---|--|-------------------------|
| Meeting Called to Order | 3:00 PM | |
| III. Approval of Agenda | Motion (Largent, Brown) to approve the July 23, 2015 agenda. APPROVED AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1 | |
| IV. Approval of Minutes | Motion (Largent, Brown) to approve the April 16, 2015 meeting minutes as amended. APPROVED AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1 | |
| V. Correspondence | None | |
| VI. Investment Portfolio Review Ed Berman and Kenneth Tom Neuberger Berman | Introduction of Ken Tom, Neuberger Berman Investment Management Strategist in San Francisco. Investment Portfolio Review Highlights: Page 4: Shows the trust portfolio at the end of June at approximately \$214 million. It has been a very volatile year with different events affecting the market. YTD shows the portfolio at 1.48 vs. benchmark of 1.32. We are ahead | |

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|--|---|-------------------------------------|
| | <p>of the benchmark.</p> <p>Page 5: Current Policy vs. Targets. Our Investment Grade Fixed Income target is 30% and we are at 22.5% (underweight). The High Yield bonds long-term target is at 5%; we are overweight at 8.5%. We are slightly overweight on Non-US Fixed Income at 3.4% vs. long-term target of 3%. Equities: Overweight in Large Cap, SMID Cap, slightly overweight in Internal Equities and Emerging Market; underweight in Commodities, Hedge Funds, and Private Equity.</p> <p>Page 7: Fixed income – YTD the portfolio is positive at .39 vs. benchmark of -0.10. Trailing 3 Months the portfolio is at -1.05 vs. benchmark of -1.68. We are overweight in Equities and underperformed against benchmark. YTD the portfolio is at 2.19 vs. benchmark of 2.97 and Trailing 3 Months is at -0.16 vs. benchmark of 0.52.</p> <p>Per Mr. Berman, our average duration in Structured Core Fixed Income is 4.95 years vs. benchmark of 5.48 years. If interest rates increase, the portfolio won't perform as negatively as the benchmark. We are more conservative than the benchmark. When interest rates go up, bond prices go down. For High Yield bonds, the duration is 3.68 years vs. benchmark of 4.19 years.</p> <p>Page 14: Asset Allocation Committee. Middle of the chart means the outlook is in line with the allocation. To the left means the return outlook is below normal. To the right means the outlook is above normal. Small Cap is slightly overweight. We expect more volatility in the long run. Neuberger is keeping an eye on Pinnacle Small Cap Growth.</p> <p>Trustee Withrow asked, "How are we positioning ourselves to move against deflation in Europe?"</p> <p>Per Mr. Tom, there is less concern about deflation in Europe. If there is a rapid moving sign, we will have a stronger anchor in the portfolio (Fixed Income).</p> | <p>Mr. Tom will provide Trustee</p> |
|--|---|-------------------------------------|

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|--|---|---|
| | <p>Greece has a small GDP (equal that of Delaware) and there is small risk if they pull Greece from the EU. Right now Neuberger is more optimistic in Europe.</p> <p>Page 12: List of market indexes. Under Real & Alternative Assets class, the standout has been REITs with a huge downturn in the 2nd quarter due to fears of rising interest rates. We are keeping a close eye on the 2nd quarter GDP. There is a pessimistic view of the energy sector. Overall, stocks have done better than bonds in the 2nd quarter. On the Fixed Income side there is a reversal in yields. The 10-year Treasury yield increased by 40 bps.</p> <p>Alerian Master Limited Partnerships (MLP) – is similar to REITs. It is taxable even if we are tax-exempt. From an administrative perspective, there is a required tax filing.</p> <p>Page 15: Macroeconomic views and investment strategy overview. Abenomics: Developed by the Prime Minister of Japan. It is three pronged plan to reignite the economy: fiscal policy, monetary policy and social change. Japan is in a deflationary environment with a lot of debt and low growth.</p> <p>Trustee Withrow requested a graph that shows employment. To show the forecast that employment would be down due to the disappearance of baby boomers and fewer two income households.</p> <p>Introduction of our new Chancellor, Dr. Jowel Laguerre.</p> <p>Page 19: Global Purchasing Managers Index (PMIs) – pulse of economic activities. If above 50 = growth. If under 50 = a sign slowing growth.</p> <p>Note: The change in total of our portfolio reflects some withdraws and deposits. The annual withdraw for our Other Post-Employment Benefits and a deposit for OPEB charge for current employees.</p> <p>Per Mr. Berman, the cash flow is weighted to adjust for the withdrawals and</p> | <p>Withrow with information on REITs EFT going at a discount offline.</p> |
|--|---|---|

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|--|--|--|
| | deposits. | |
| <p>VII. Update on OPEB Program (B-2 Tranche)</p> <p>Susan Rinne Interim Vice Chancellor</p> | <p>At the last Board of Trustees’ meeting, the Board approved a resolution to remarket bonds. Our second series/tranche of bonds will come due on August 5, 2015. If we do nothing, these bonds will convert to a rate of 17%. We are in the process of remarketing these bonds to a variable rate of 5.1% or 5.2% over the next 5 years. We’ve made a commitment with Barclays. Barclays will offer us a Letter of Credit (LOC) in which we will draw on for the next five years. The bonds will be rated at Barclays’s credit rating as opposed to ours. We do need to pay for the LOC but it costs less than if we were to use our own credit rating for these bonds. We hired a new Bond Counsel, Orrick, Herrington & Sutcliffe, for this transaction. We had to amend documents to make sure all the documents are in compliance. The transaction is scheduled to take place on August 5th and complete on August 12th. We are paying down the principal obligation for the first time. This is a very positive step for the District and the Retirement Board moving forward. Per the indenture for the document, the bonds need to be in a fixed mode before it can go into a variable mode. We are selling the bonds on a fixed mode on August 6th and the bondholder must hold the bonds for a period of time before we can convert them into variable rate. The bondholder will be holding the bonds until August 12th. The documents will be in place and can be used for the 3rd tranche.</p> <p>Mr. Blake asked, “The ACCJC has some concerns with the management of the trust. How are they being addressed?”</p> <p>VC Rinne has been in touch with Dr. Wellsfry at the ACCJC and explained the OPEB position to him. Dr. Wellsfry sent VC Rinne a letter stating that he understands our OPEB program and requested a couple of documents. Once he receives these documents, VC Rinne believe the ACCJC will have a whole different opinion on our OPEB program. Dr. Laguerre met with Dr. Beno from the ACCJC on the same issue. Dr. Beno’s comments were that we have done this better than any other district. We are ahead of other institution. Dr. Laguerre doesn’t expect this to be an issue for us.</p> | |

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|---|--|--|
| <p>VIII. Update on Trust Documents</p> <p>Judith Boyette Hanson Bridgett</p> | <p>Introduction of Ms. Judith Boyette from Hanson Bridgett, LLP.</p> <p>Ms. Boyette has a lot of experience dealing with OPEB trusts and in general with retirement boards, pensions, and retiree medical issues. She was asked to review the documents involved with the bonds offering. She will be proposing amendments in the best interest of the Retirement Board. There were some discrepancies in the bond indenture. The funds from the bonds funded the discretionary trust. Those funds were transferred under the terms of the indenture of the bonds. There were some discrepancies in the documents that required amendments. It is important that the Retirement Board adopts these amendments to the trust agreement, so that your authority to act in a fiduciary capacity is clear under the documents and the limitations that there are in that regard that came with the funds and the bond indenture. Ms. Boyette will be bringing forward amendments and suggestions to other documents.</p> <p>For example, under the Bond trust agreements there are some restrictions that weren't in the discretionary trust agreements that were in the trust indenture such as default actions that the trustees will need to take. The original discretionary trust agreements were not as detailed as they should have. There's much more focus on fiduciary responsibilities now than in the past few years. What we want to see now are much more detailed steps that the Board is to take as part of their fiduciary responsibility. To make clearer who is responsible for what actions.</p> <p>Concern was expressed that the amendments would lessen the Board's responsibility.</p> <p>Per Ms. Boyette, it is the opposite. It strengthens them. It does not change in any way what the funds are under the terms of the bonds. The funds are to be used to pay for retiree health benefits.</p> <p>Trustee Brown asked about the Nondiversion of Assets which limits the trustee's responsibility to investigate. What is the meaning to the 1.4 of the</p> | |
|---|--|--|

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|--|--|--|
| | <p>amendment?</p> <p>Per Ms. Boyette, under the current trust agreement, the additions, details are under the bond indenture. The bond trusts said they are subject to the exact terms to what was added in the amendment. According to the bond trust any funds transferred into this trust are subject to these exact terms that were added. From a legal standpoint, the direction and the circumstances have to come from the parties that are outlined exactly as stated here. The trustee under this trust agreement doesn't have a legal right to question these transfers. It is unclear what the responsibility is as currently written. We are formulating a legal obligation. This is something that Bond Counsel is concerned about.</p> <p>Mr. Berman added that the role of the Discretionary Trustee is to hold the assets of the trust, safeguard those assets, act in the best interest of the participants pursuant to the plan document of the trust document, and to invest the assets in a prudent diversified manner. The Discretionary Trustee is not responsible for the employee benefits side. They are not experts at valuing the flows of benefits liability.</p> <p>Trustee Withrow asked, "To what degree do you think this Board would have that outline the actuarial study? We need to have an as accurate figure as possible."</p> <p>Per Ms. Boyette, constitutionally the Retirement Board is responsible for the actuarial study. This is an issue between the Board and the District. It needs to be defined in the documents.</p> <p>Trustee Brown asked, "Where does the Peralta Board place its reliance?"</p> <p>Per Ms. Boyette, those issues need to be addressed in the bylaws that govern the Retirement Board. It is not completely clear in the documents who is responsible for what. The amendments should include the determinations that the district Board in making delegations to the Retirement Board. An adoption</p> | |
|--|--|--|

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|--|--|--|
| | <p>to any changes of the bylaws should be reviewed by both parties. Another important point is what is the Board's responsibility in the information that is provided to you by your advisor and the people you engage with?</p> <p>Concern was raised regarding section 1.3 – Trustee Not Responsible for Funding. Per Trustee Withrow, the Retirement Board is responsible for funding the trust. Ms. Boyette will make sure there is language in there in which the lay person can understand. VC Rinne added that the collective bargaining agreements also included language that the District is responsible and these agreements were approved by the Board of Trustees. There are multiple avenues in which the retirees are protected.</p> <p>Per Trustee Withrow, there is a separation between the Retirement Board and the institution. The bonds are the responsibility of the institution, not the Retirement Board. The institution put out these bonds and took the funds to create the trust. The trust is the responsibility of the Retirement Board to carry out over time to cover the retiree healthcare. The ACCJC wanted to know how the institution plans to pay off the bonds. It doesn't have anything to do with the trust covering the actuarial liability. We are overfunded with a portfolio of \$214 million vs. the actuarial liability of \$152 million. Hopefully we'll have information to clarify it.</p> <p>Retirees expressed concerns that the retiree benefits coverage is in danger after the Bay Area News Group article came out. Recommendation was made to have some groups within Peralta to be aggressive in addressing this and counteracting it.</p> <p>OPEB is not an easy topic for people to understand. The Retirement Board will work with the Peralta Retirees Organization (PRO) to put a newsletter out in the Fall.</p> <p>The Retirement Board needs to improve on its communication with its constituents and needs an attorney to review any communique that is going</p> | |
|--|--|--|

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|---|---|--|
| | <p>out.</p> <p>Dr. Laguerre recommends that we wait until the dialogue with the ACCJC is complete so that the information we put out is the same.</p> | |
| <p>IX. Trust Update</p> <p>Susan Rinne Interim Vice Chancellor</p> | <p>Per Trustee Withrow, we were strongly planning to make the trust irrevocable. Unfortunately, it is not an easy process. Our goal on this Retirement Board is to ensure that those funds are protected. That's why we have a benefits counsel here to guide us through. There are some technical issues with the bonds that when they were put out and structured, had language in them that gave them the right access to our trust fund if Peralta defaulted. The chance of Peralta going into default is remote, but we need to ensure that it is protected. There are other legal issues. We have Bond Counsel working on it so that the trust is protected.</p> <p>Per VC Rinne, the bonds were auction rate bonds. We had to wait until the series come due in order to change that. Ms. Bowes added that in 2005, the whole structure of the bond issuance and documents never contemplated forming an irrevocable trusts. It was never setup that way. The Retirement Board understands the importance of making it irrevocable. The Bond Counsel is working on the wording change. Under the current document, any changes to the document need to be approved by the bondholders (give their consent) or we have to buy the bonds back (surrender the bonds). Any document in which the bondholders have a pledge from the issuers are secure by those particular funds must give their consent to change the documents or we negotiate with the investors and ask them to surrender those bonds that will relieve us from those responsibilities. That's what we are working on. The old bonds are callable, at one time on their accretion date (August 5th), going forward the new bonds can be retired by the District at any time.</p> <p>Per VC Rinne, this is part of the documents that were approved by the Board of Trustees at the last few Board meetings. We have a team that has the</p> | |

**Peralta Community College District
Retirement Board Meeting Minutes
July 23, 2015**

| | | |
|---|---|--|
| | District's best interest at heart. They have been very clear and thorough with what's been going on. For the second series of the bonds, we did the validation and the bondholders will have an opportunity to take any legal action until August 5 th . | |
| X. Discretionary Trust Agreement | Motion: (Riley, Brown) To approve the amendment to the Discretionary Trust Agreement. Unanimous. AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1 | |
| XI. Information Reports | None | |
| Adjournment: | 4:47PM | |
| Next meeting: | Oct 8, 2015 from 3:00 to 5:00 PM | |

Minutes taken: Sui Song

Attachments: All handouts for this meeting can be found at <http://web.peralta.edu/retirement-board/meeting-materials/>.