

**Peralta Community College District
Retirement Board Meeting Minutes
December 8, 2011**

Present: Trustee Cy Gulassa, Trustee Bill Riley, Trustee Bill Withrow, Chancellor Wise Allen, Vice Chancellor Ron Gerhard, Tae-Soon Park, Ava Lee-Pang, Odell Johnson, Jerry Herman, William (Bill) Wallace (Neuberger Berman) and Joanna Bowes (KNN Public Finance)

Absent: Vice Chancellor Trudy Largent and Bruce Jacobs

Guests: Joseph Bielanski, Jennifer Seibert, Ed Berman (Neuberger) and Tarrell Gamble (Blaylock Robert Van).

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:10 P.M.	
III. Approval of Agenda	Motion (Gulassa, Riley) to approve the December 8, 2011 agenda. APPROVED	
IV. Approval of Minutes	Motion (Riley, Withrow) to approve the November 17, 2011 meeting minutes. APPROVED	
V. Correspondence	None	
VI. Investment Policy Update Bill Wallace	<p>Administrative announcement: a week ago today, an article ran in the Wall Street Journal that one of Neuberger’s analysts, Fayad Abbasi, had been charged by the law enforcement. Mr. Abbasi has been placed on leave. Neuberger Berman is conducting their own investigation. Mr. Abbasi will be charged mid this month.</p> <p>Mr. Abbasi is a technology analyst in the central research group. He is not a member of any portfolio management team. There are five members of that team and his work coverage has been covered by the four other members. Mr. Wallace will send a copy of the article to VC Gerhard. Mr. Abbasi worked at Prudential and a number of people he had worked with have been tied to the hedge fund, Diamondback. As soon as Mr. Wallace has information, he will report to us.</p> <p>Mortgage backed securities held in the portfolio were used in large part to fund some of the mortgage activities, TBA purchase securities. These subprime securities owned were rated AA or AAA. In hindsight, these were not AA or AAA rated securities. Neuberger’s internal guideline today is that Neuberger will not own any of these subprime securities on a go forward basis.</p> <p>Concern was expressed by Trustee Withrow regarding the inclusion of mortgage-backed securities and the quantity of subprime securities that were listed as AA or AAA rating.</p> <p>Page 4 provides the definition of a mortgage backed security.</p> <p>Page 5 shows the benchmark Barclay’s Capital Aggregate Index. To the far right hand column, 32% of the benchmarks are</p>	

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	<p>mortgages. We will have periods where we dramatically outperform or underperform. At this stage, for us not to be in mortgages does not make sense. For the last three years, they have added value to our portfolio.</p> <p>Trustee Withrow asked, in the context of Neuberger being a department of Lehman, to what degree on the inventory do you show came out of a Lehman generated packaged?</p> <p>Per Mr. Berman, under their firm’s law aka “principal trade”, there was strict prohibition against any part of the asset management business on buying off a mortgage or any securities from Lehman’s balance sheet and buying securities directly from Lehman. That was a conflict of interest and was something that was absolutely was not done.</p> <p>The spreadsheet that Mr. Wallace ran “Barclays Capital U.S. Aggregate” breaks down various types of securities that made up that index. Since July 1, 2009, the aggregate index is up 18.47%. That has to do with a couple of things:</p> <ol style="list-style-type: none"> 1. Even though it has been a rather challenging period since mid 2009, the perception is better so the spreads have been narrowing between corporate and government bonds. 2. The second column “modified duration”: Duration is the level of sensitivity of a bond to a change in interest rates. If interest rates go down, it will help with the total return of the bonds. The longer the maturity, the longer duration had outperformed because they are more sensitive to changes in interest rate. 3. Further down you can see how various mortgages and mortgage backed securities have performed. They do have shorter durations. What happens when interest rates come down? People would refinance their mortgages. It becomes cash that comes in and has to be reinvested at a lower interest rate. Typically in a declining interest rate environment, they will have a tendency to underperform. When interest rates increase in a more stable environment, they should outperform. They have added value in the last several years and would make sense in the next several years. 	<p>VC Gerhard will put together a one page definition of commonly used terminology by the next meeting.</p>
<p>VII. Discretionary Trustee</p>	<p>The Discretionary Trustee ensures the checks and balances of the investment statement that comes from the Retirement Board and</p>	

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VC Gerhard	<p>ensures that it is followed. The investment manager(s) are evaluated against that and the benchmark.</p> <p>VC Gerhard recalls one particular slide from the PowerPoint presentation given by Mr. Wallace from the July 20, 2011 meeting, that the Discretionary Trustee as being akin to a Chief Investment Officer.</p> <p>Overview: Mr. Berman is responsible for the institutional trust business at Neuberger Berman. Neuberger Berman is a national bank and has the same bank charter as big banks such as Bank of America and Union Bank. Neuberger Berman is regulated by the Office of the Controller of the Currency. Their mission is to work with investment management clients of their firm, who just like us, find it beneficial to have their investment manager firm act as a trustee. The trust company started in the mid 90s. Mr. Berman has been in the trust business for a long time. He was with JP Morgan for 14 years and with Neuberger Berman for 10 or so years. People in his group know the investment business well and the trust business very well. Philosophically, their job is to help their clients mitigate fiduciary risks incurred. Their core competency is in asset allocation, manager selection and oversight. From a process stand point Peralta, being a client of their firm for a number of years, is a lot easier to work with because Peralta has a well managed fund and has gotten some good advice.</p> <p>The Discretionary Trustee is to work in the best interest of the participant of that plan (people that are getting the benefits). They take the decision making off our shoulders. Their job is manager analysis: which managers and which products. Should an investment policy have mortgage backed securities or shouldn't it? The Trustee will make decisions on asset allocation and manager selection.</p> <p>Per Ms. Bowes, the Trustee is more of an administrative function. More importantly, they have a fiduciary responsibility to the College. The Trustee is here to protect the District.</p> <p>Per Mr. Berman, from a fiduciary responsibility standpoint, they are mitigating the risks that each of Retirement Board members have.</p> <p>Page 7 gives an example of the structure. From a legal aspect, the Board hires Neuberger Berman Trust as the Trustee. Their legal</p>	
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mission is to act in the best interest of the plan and in its participants. From a reporting stand point, they will report to this Board on a monthly (if needed) or quarterly (typical) basis. They will come back with a report showing the managers, asset allocations, the investment performance, how each manager has done with analysis and the overall benchmark. They will provide an analysis and benchmark for each manager and a blended benchmark on how the entire fund has done. The Retirement Board should evaluate the Trustee on a full market cycle.

Per Mr. Berman, he will advise us on the risk that we are taking. For example, if our actuarial expected return rate today is 7%. Mathematically the return on a 10 year bond is 2% and the equity expected return is 8%. To get to 7%, our asset allocation might be unintentionally tilted towards higher risk asset classes. He sees that all the time. There is a mismatch between the target rate of return and the allocation. He will advise us and ask the Board to sign an investment policy grid that has a target asset allocation which states the target rate of return. That asset allocation will statistically and mathematically have an expected deviation. He will have dialogue with us about that and be our advisor.

The difference between Neuberger Berman and Neuberger Trust is that Neuberger Berman Trust only provides trust services which Neuberger Berman LLC cannot. Neuberger Berman Trust is wholly owned by the Neuberger Berman Group which owns Neuberger Berman LLC and Neuberger Berman Fixed Income. Neuberger Berman Trust is regulated by the Office of the Controller of the Currency. In addition, Neuberger Berman as a whole is regulated by the Securities Exchange Commission (SEC).

One point about custodial services, Neuberger Berman Trust acts as a custodian and has a contract with a sub custodian, JP Morgan. JP Morgan is the one holding the asset.

Mr. Berman advises us to trust but verify. He will give us the tools to verify the reports. Also, they use mainly separate accounts as opposed to mutual funds and pull vehicles. He will have a list of all stocks listed and at the end of the year they will work with our auditors.

Peralta's Retirement Board bylaws call for a Discretionary Trustee. To Mr. Berman's knowledge, it is not legally required. Most Retirement Board bylaws do have a Discretionary Trustee.

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	<p>Per Ms. Bowes, given the complexity of the standard of investment, it is natural that we would need help. Trustees have always managed money for people. It is a very logical and valuable service. They will be investing with other money managers and we are not going to buy all Neuberger Berman products.</p> <p>The trustee services come out as a guide of professional services. We did do our due diligence in contacting other firms. Per Ms. Bowes, other firms declined or were nonresponsive.</p> <p>The contract term and cost are subject to negotiations. From the July 2011 meeting, it was referenced that there would be a 10-basis point cost that includes the custody cost. Peralta will stop making custodial payments to Union Bank. The term of the contract cannot exceed five years and will include a 30 day termination clause.</p> <p>Motion (Withrow, Gulussa) that the Board directs our CFO and Chancellor to negotiate a contract with the Neuberger Berman Trust company. APPROVED</p>	
<p>VIII. Ratings Report</p> <p>VC Gerhard</p>	<p>We have an obligation to meet with S&P and Moody's and present to them our financial condition so we can receive a bond rating to issue the bond refunding. It was necessitated because our debt service significantly increased. We had to look for solutions to smooth it out so it does not significantly impact the general fund. At the end, S&P issued us a global rating report.</p> <p>The highlights are on page 2. They issued a credit profile and gave us the various ratings.</p> <p>On top lists the new issuance. We had affirmed 3 separate credit ratings:</p> <ol style="list-style-type: none"> 1. US \$53,855 mil Taxable Rev Refunding Bonds, we received an A+/Negative (New). 2. PCCD GO Bonds (related to Measure A), we received an AA-/Negative (Affirmed). 3. PCCD Taxable OPEB Refunding Bond, we received an A+/Negative (Affirmed). <p>A lengthy rationale was provided along with bullets highlighting key points.</p>	
<p>IX. Investment</p>	<p>Investment Performance Review:</p>	

