

**Peralta Community College District  
Retirement Board Meeting Minutes  
February 16, 2012**

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

<b>Agenda Item</b>	<b>Discussion</b>	<b>Follow-up Action</b>
<b>Meeting Called to Order</b>	4:07 P.M.	
<b>III. Approval of Agenda</b>	Motion (Withrow, Largent) to approve the February 16, 2012 agenda. APPROVED	
<b>IV. Approval of Minutes</b>	<p>Discussion: A friendly suggestion was made by Mr. Wirth for the sharing of accountability between the Retirement Board and the Discretionary Trustee.</p> <p>Trustee Withrow expressed concerns with Mr. Wirth's suggestion. Per Trustee Withrow, the Discretionary Trustee is accountable to Retirement Board. We, the Retirement Board, are accountable to the public, institution, and certainly to the faculty.</p> <p>Per VC Gerhard, Article 16 of the California Constitution provides for or requires/necessitates this body; in particular, it says that the governing Board relinquishes their daily oversight of the Retirement Trust to a Retirement Board. These are the same provisions that created the PERS and STRS Board. Within that citation and our bylaws, we are accountable in a fiduciary capacity to the Board of Trustees for active monitoring and oversight of this trust. Ed Berman and Neuberger Berman are providing professional financial investment expertise. We, as a Retirement Governing Board, may or may not have that level of expertise or formal education/training. Bringing in a Discretionary Trustee mitigates our risk and our fiduciary liability. Ultimately, the accountability is on us to uphold our charge and do our duty within our bylaws, which is to actively oversee and monitor the work of our investment managers and discharging that duty.</p> <p>Ms. Bowes added that also under California law, when you set up a Trust for an OPEB, there are certain rules that need to be followed. One of which is to create a Retirement Board that has specific responsibility. Part of it is a legislative direction on how the Board is to operate and how it is setup. We can provide additional information, if needed.</p>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
February 16, 2012**

	Motion (Gulassa, Largent) to approve the January 26, 2012 meeting minutes. APPROVED	
<b>V. Correspondence</b>	We have forwarded an email provided by Bill Wallace regarding the CalPERS Board.	
<b>VI. Bylaws</b>  VC Gerhard	<p>Page 7, section 10.4</p> <p>We had to amend our bylaws given the action that was taken at the January meeting to approve Neuberger Berman to function as the Discretionary Trustee. Prior to that action, the bylaws had language that said the Discretionary Trustee could not have proprietary investments. After much discussion, in terms of pros and cons, we have decided to include in Neuberger’s contract to have at least 20% of nonproprietary investments. The rationale behind that is to have some local participation of investment managers, to the extent possible, given the pool of investment managers within their approved investment basket.</p> <p>Motion (Withrow, Gulassa) to approve the amended bylaws. APPROVED</p>	
<b>VII. Mortgage-Backed Securities</b>	Removed from this agenda and to be placed on the next agenda in March.	
<b>VIII. Implementation Timeline for Neuberger Berman</b>  VC Gerhard	<p>This document outlines the timeline for moving our investment bank accounts from Union Bank, the former Custodian of our securities, into our Discretionary Trustee accounts with Neuberger. We have asked Ed Berman to put together critical dates and timelines for providing an efficient move of those assets and securities.</p> <p>There is a 30-day notification process. The logistical desire was to have that occur at the beginning of the calendar month for reconciliation purposes. The delay is due to not having the bylaws amended. Therefore, we couldn’t technically sign the contract or take the necessary next steps.</p> <p>If you read the document in detail, JP Morgan was referred to as the Custodian for Neuberger Berman Trust and Company. JP Morgan is the actual holder of the securities. For clarification purpose, JP Morgan Chase is the actual custodian because Neuberger Berman is not an actual bank and does not have direct custodial capability.</p> <p>Note: Neuberger does request managers to cease trading three</p>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
February 16, 2012**

	<p>days prior to the actual transaction date. If an investment manager is compelled to make a trade, Neuberger can make accommodations for that. Generally speaking, it will take a month or six weeks before everything is finally settled. It is a relatively straight-forward process.</p>	
<p><b>IX. Investment Portfolio Review</b></p> <p>Bill Wallace</p>	<p>The one page document shows our performance through the end of January.</p> <p>The equities market has rallied quite nicely in the beginning part of the year and up again today. Mr. Wallace thinks a lot of people are much more constructive in the overall economic and corporate profit outlook. There are various downgrades, i.e. Portugal and Italy. The number one risk and concern is what happens to Greece and how they will resolve that situation. The market seems to be dealing with it quite well. If you take a look under the one month column on some of the equity returns, Large Cap Discipline Growth Portfolio is up 6.54% and Large Cap Value Portfolio is up 4.27%. Our weighted average portfolio benchmark is up 2.73% and the portfolio is up 3.6%. We are 87 basis points ahead of benchmark.</p> <p>Note: From the current asset allocation policy, we are slightly underweight in bonds. That has been a good thing. As you can see bonds are the lowest performing asset class.</p> <p>Note: We are ahead in the blended benchmark on a three and five year basis, but slightly behind in the last 12 months. What drove that underperformance was the bond side. We were overweight in terms of credit-oriented type securities and our reaction to S&amp;P downgrading of the US Government debt. Quality rallied even though the securities were downgraded. Having been underweight in government securities vs. credit securities hurt our overall return.</p> <p>Note: Large Cap Discipline Growth is one of our strong performers over the long run, but as you can see for the last 12 months, they are almost 600 basis points behind benchmark. On a three year basis they are almost 519 basis points annualized behind benchmark. We are still slightly ahead on a five-year basis. The investment process is to buy acceleration and sell deceleration. Per Mr. Wallace, they are looking for things that they see sort of a second derivative approach. When they see a potential for deterioration, they get out. That process is unchanged. What has driven the underperformance has been poor stock selection. There have been various securities that have</p>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
February 16, 2012**

	<p>underperformed where they haven't sold as quickly as they needed to, i.e. Netflix. The team has let one team member go and added another to change the structure of the decision making process. Neuberger has about \$15 billion in this strategy, so it is an important product for Neuberger. It is getting a lot of attention from management to get the performance back on track.</p> <p>Trustee Withrow asked, "What is our exposure to big banks?"</p> <p>Per Mr. Wallace, it is very small. Large Cap Discipline Growth portfolio is about zero. They are underweight financials. Large cap value strategy is 25-27% of the benchmark is going to be in financials. Of that, a vast majority are mostly banks. Mr. Wallace will need to get the exact number. The ballpark number is around 8-12%. They have been strong performers this year.</p>	
<p><b>X. Retirement Board Quarterly Report</b></p> <p>VC Gerhard</p>	<p>At our last meeting in January, we talked about the need to develop a quarterly report. The Retirement Board began meeting on April 13, 2011. Given the activities that we needed to accomplish in a very short period of time, we haven't had the chance to get the quarterly report done until now. In addition, the context can be somewhat complex. We have put together an executive summary.</p> <p>The biggest piece that we've done to date is the redesign of our OPEB Trust structure.</p> <p>Page 1: Bullet points include governance and structure, bylaws that we've crafted and adopted, appointment of chairs and co-chairs, inclusion of the advisory members, highlighting the actions taken in terms of selecting an Underwriter and Bond Disclosure Counsel, and more recently selection of a Discretionary Trustee, which helped us facilitate the OPEB refinance. Ultimately over a five year period, the refinance saved the District's general fund \$27 million and created a more consistent debt service schedule.</p> <p>Page 4: Shows an illustration behind how retiree benefits are being funded and how those funds are related to the trust and investments within the trust.</p> <p>Page 5: The Monte Carlo simulation shows how we are going to fund our long term liability of \$221 million over a 25 year period based upon the OPEB charge and all the information prior to this page.</p>	<p>Please email Ron your suggestions or comments.</p>

**Peralta Community College District  
Retirement Board Meeting Minutes  
February 16, 2012**

	<p>As of December 31, 2011, the total trust value was \$162.1 million and the return on the trust was 6.03% for the fourth quarter.</p> <p>We have an accreditation visit coming up. When this report was written, it was written in the context of the accreditation report. One of their recommendations to the District is how we are managing our OPEB liability. This document speaks directly to that.</p> <p>We have our trust of \$162 million; in addition to that, we have an OPEB reserve fund with the Alameda County Treasurer's Office. Within that fund, over the past five years, there were deposits made into that fund related to various things with the intention that it is going to pay for debt service over the long run. Last year, we had a debt service of about \$7.5 million. This year, we budgeted for it and then some, because the debt service is increasing. What we've budgeted for and the lesser amount that we've paid because of the refinancing was set aside in the OPEB reserve. We wanted to build up a reserve to satisfy the debt service in years 2016/17 and in the out years. From a technical and legal perspective, under the state budget and accounting manual, those funds are unrestricted. We restrict them internally for OPEB reserve.</p> <p>Essentially it is the same language that our attorneys wrote for our official statement. Every time we go out and issue bond, it goes to open markets. Bond and Disclosure Counsel gets involved to ensure the document is written to protect us. They strongly suggested that language because if you are an interested investor contemplating buying our bonds, one of the questions that you might ask is what amount of money is the District setting aside to pay this debt that I am loaning you now and in the out years? We put that language in there specifically to convey that to the potential investors. Ultimately, it went well for us in terms of getting a good credit rating.</p>	
<p><b>XI. Agenda Items for Next Meeting</b></p>	<ol style="list-style-type: none"> <li>1. Numbers of Mortgage-backed securities</li> <li>2. Draft SWAP Policy</li> </ol>	
<p>Adjournment:</p>	<p>4:49 PM</p>	
<p>Next meeting:</p>	<p>March 15, 2012 from 4:00 to 6:00 PM</p>	

Minutes taken: Sui Song

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