

**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

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

<b>Agenda Item</b>	<b>Discussion</b>	<b>Follow-up Action</b>
<b>Meeting Called to Order</b>	4:03 P.M.	
<b>III. Approval of Agenda</b>	Motion (Withrow, Largent) to approve the September 13, 2012 agenda. APPROVED	
<b>IV. Approval of Minutes</b>	Motion (Withrow, Largent) to approve the June 14, 2012 meeting minutes as amended. APPROVED	Item #12 on page 4 of the minutes – will research the target rate of return and bring back to the next meeting
<b>V. Correspondence</b>  VC Gerhard	ACCJC recommendation #1 dealt directly with the Retirement Board's charge regarding OPEB: assets, investments, and liability.	Will bring back the letter from the Accreditation Commission.
<b>VI. Follow Up on Alternative Asset Class Presentation by Neuberger Berman</b>  Bill Wallace	Page 20: Monte Carlo Analysis - it takes the expected returns, as well as the risks and covariance, and runs thousands of scenarios. It then generates the likelihood of certain sets of returns.  Scenario A: A relatively straight forward mix of stocks (63.7%) and bonds (36.3%).  Scenario B: This is a hypothetical scenario for illustration purposes with the inclusion of Real & Alternative Assets at 20%. Peralta's investment policy maximum is set at 10%, but it is currently at zero. If we were to add alternatives to the mix, overtime the difference is significant. It increases the projected return from 7.2% to 7.7% and reduces the risk level from 10.6% to	

**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

	<p>10.4%. The likelihood of hitting the target is much higher under a lower risk strategy than with a higher risk strategy.</p> <p>June Presentation (three main things): Private Equity, Hedge Funds, and Commodities. Today, there is a less favorable outlook on commodities given the current events in the world. On the hedge fund side, it probably sounds riskier to many people because they don't understand the return expectations and patterns. When the equity market is up significantly, hedge funds are likely to underperform. In a down market at about 10%, the average hedge fund will be down 3-4%. Hedge funds play a role in terms of how it affects the overall mix of returns and risks in the portfolio. We must think of hedge funds as more absolute return oriented. Private equity definitely has a much higher rate of return profile. Most private equities target a 20% Internal Rate of Return (IRR) on an annualized basis. The risk tends to be much higher with liquidity concerns and requires a well-managed, diversified approach. There is a secondary market for private equity but will cost 10-15%.</p> <p>Note: Peralta changed the overall structure of its portfolio earlier this year by hiring Neuberger Berman Trust. Mr. Wallace will have Neuberger Berman Trust work with Peralta to determine the most appropriate approach, either Neuberger Berman's strategy or other strategies.</p> <p>Trustee Withrow observed that hedge funds tend to perform best in sideways markets. Writers, analysts, and economists think we will have a market that goes sideways. Perhaps this is an opportune time to invest?</p> <p>The purpose of the presentation is to educate the body as a whole as we go forward. We are expecting to get the actuarial study back this Fall. Data was provided to the actuarial firm in July. The actuarial study provides a more tangible/concrete goal and the investment policy is the vehicle to accomplish that goal.</p>	
<b>VII. Irrevocable Trust</b>	GASB 45 put in place accounting requirements to recognize within our	

**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

VC Gerhard	<p>financial statement the liability of the Other Post-Employment Benefits (OPEB).</p> <p><b>June 30, 2011 Annual Financial Statement</b></p> <p>Page 15: The District's Balance Sheet (Statement of Net Assets) – under Current Assets (third row down), our revocable trust is a part of the Restricted Investments of \$382,809,727. Under Noncurrent Liabilities, Postemployment benefits obligation – noncurrent portion, \$18,269,394 is the debt on our balance sheet specifically related to our OPEB and actuarial study, which is pegged at \$221 million. Our external auditors are amortizing that over a period of not-to-exceed 30 years.</p> <p>The District right now has a revocable trust where assets are set aside for an intended purpose. The District is not precluded from taking assets out of that trust for other purposes as designated. Back in 2005, the District issued bonds (sold OPEB bonds) and the bond indenture said Peralta is selling \$153 million worth of OPEB bonds. Peralta can only use the proceeds from these bonds for paying current OPEB expenses or the expenses of retiree benefits. Secondly, it can be used for the payment of OPEB debt. We have a revocable trust setup, but because of the restrictions on the funds it is essentially an irrevocable trust. We would violate the debt covenant if we use the trust for Unrestricted General Fund operations or for funding classes. We cannot borrow from that fund. Impacts on our financial statements include increase of debt that we show on our financial statements, lower credit ratings, and accreditation scrutiny.</p> <p>We recently refunded part of our OPEB bonds in October 2011. Moody's and S&amp;P analyzed our financial statement and issued a bond rating. Both agencies noted that the District has a larger debt ratio when compared to some of our peers. One reason is our OPEB of \$18.3 million, for fiscal year ending June 30, 2011, contributed to our higher debt.</p>	
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**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

	<p>As a requirement under GASB45, we have to report it on our balance sheet, as well as note the annual accrual of interest of the OPEB over a period of time. According to the previous actuarial study, Annual Required Contribution (ARC) was \$12.8 million. The external auditors are using GASB 45 and GASB accounting pronouncement rules for reporting financial information. Since we have assets in a revocable trust, the assets can be used for other purposes because they are not viewed as permanently restricted.</p> <p>In contrast, a different set of accounting standards apply to an irrevocable trust. Those assets and related liabilities are removed from the District’s balance sheet and are reported to a separate financial statement that is strictly OPEB and thus reduces our overall debt burden.</p> <p>The second to last sentence on page 47, “there is no actual actuarial value of assets because funds have not been placed in an irrevocable trust” confirms the auditors’ standpoint. We have been taking money out of the general operation and putting it into the trust but we cannot recognize it.</p> <p>If we had an irrevocable trust, the table on page 53 would be significantly different. As of June 30, 2010, under Actuarial Value of Assets (a) it is zero, but we know we have approximately \$170 million. Under GASB rules, the auditors are required not to recognize the pool of assets that are being invested by Neuberger Berman for the sole purpose of OPEB. The number that would drastically change would be the Unfunded Actuarial Accrued Liability (UAAL) at 580% of uncovered payroll. At face value, Peralta’s unfunded liability for retirees is much higher than the liability for current employees (similar to social security). This is a misrepresentation simply because we have assets in a revocable trust.</p> <p>In order to move the money to an irrevocable trust, VC Gerhard will work with our Counsel, Financial Advisor, and our external auditors to ensure that we are in compliance with GASB in the selection of best path in terms of a legal and financial approach to amend the wording from revocable to irrevocable trust.</p>	<p>VC Gerhard will invite Ms. Heidi White from our external auditor Vavrinek, Trine, Day &amp; Co. to our next meeting to speak to a new audit report.</p>
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**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

	<p>VC Gerhard will also work with Neuberger to amend our Investment Policy Statement and bring in Neuberger Berman Discretionary Trustees to change the structure from a revocable to irrevocable trust.</p> <p>It is a time consuming process. By the next meeting, VC Gerhard is hopeful in bringing to the Retirement Board all the documents for review and approval and to address any questions and concerns that the committee may have. The approval path starts with the Chancellor, then to the Retirement Board, and finally to the Board of Trustees.</p> <p>In the report submitted to the Accreditation Commission in March 2012, the District's response to recommendation #1 was that we've implemented a model to fund our OPEB liability. This model is similar to CalPERS and CalSTRS with employer contribution of 8.25% and employee contribution of 8%. As of July 1, 2010, we have linked the net liability as a percentage of payroll. We have put in place a structure that will fund, or going to fully fund, the liability over a period of 25 years.</p> <p>Our current debt ratio is 130% with our actuarial asset value at \$170 million and our liability at \$215 million. Trustee Withrow commented that our goals and mechanism should be structured towards pursuing a ratio of 100%.</p> <p>Motion (Withrow, Largent) the Board concurs with the CFO moving in the direction to put the legal documents together to shift from a revocable trust to an irrevocable trust. APPROVED</p>	
<p><b>VIII. Investment Portfolio Review</b></p> <p>Bill Wallace</p>	<p>Page 1: Important footnote - since inception of the portfolio "From 1/31/2006 to 5/31/2012." The new benchmark is highlighted. High yield has been added to the benchmark. Large Cap benchmark was changed from S&amp;P500 to the Russell 1000. On a go forward basis, some of the numbers shifted as a result from the change from Neuberger to Neuberger Trust.</p> <p>Page 2: Newer investments were added to this portfolio, such as NB High</p>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

	<p>Income Bond Fund. Peralta had approved the Investment Policy last year but held off on the Socially Responsible Investing (SRI) until the arrangement with Neuberger Trust was in place so we can complete the transition all at one time.</p> <p>Page 4: Please pay less attention to the since inception numbers (mixed bag) and more attention to the short term numbers. Barclays Capital US Aggregate Bond Index is up 1.49 (trailing 3 months), but if you look at High Yield over the same period of time it is up 5.24. Emerging market is up 7.82. Some of the things we've done in relatively short order have already started to pay a dividend into the portfolio.</p> <p>NB Genesis Fund has underperformed; this is one of the best team that we have. They have a fantastic long term track record, and their strategy is one that they have a low turnover portfolio with a long time horizon and focus on very high quality companies.</p> <p>Page 5: MSCI EAFE index is down 0.04 (trailing 1 year) and 2.40 (trailing 3 years). If you look at the same columns for domestic equity, the Russell 1000 growth is at 17.37 (trailing 1 year) and 15.59 (trailing 3 years). Non-US markets have underperformed the US markets. Part of that had to do with the emerging market and the Euro zone. The US dollar has been stronger in the last year. The REITS in the portfolio had been the strongest performer and is at an appropriate size for the portfolio.</p> <p>Summary: The current breakdown of the portfolio is spot on since Neuberger Berman implemented the breakdown in the last several months.</p>	
<p><b>IX. Information Reports</b></p>	<ul style="list-style-type: none"> <li>• None</li> </ul>	
<p><b>X. Agenda Items for Next Meeting</b></p>	<ol style="list-style-type: none"> <li>1. Accreditation Commission Letter</li> <li>2. Irrevocable Trust</li> </ol>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
September 13, 2012**

	3. Financial Statement – June 30, 2012 4. Investment Portfolio Review	
Adjournment:	5:37 PM	
Next meeting:	<b>December 13, 2012 from 4:00 to 6:00 PM</b>	

Minutes taken: Sui Song

Attachments: All handouts for this meeting can be found at

<http://web.peralta.edu/trustees/board-committees/retirement-board/>