

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

Present: Trustee Cy Gulassa, Trustee Bill Withrow, Trustee Riley, Vice Chancellor Susan Rinne, Vice Chancellor Trudy Largent, James Blake, Michael Wirth, Bill Wallace (Neuberger Berman), Ed Berman (Neuberger Berman), Joanna Bowes (Keygent LLC)
 Absent: Tae-Soon Park, Jerry Herman, Meredith Brown, Michale Mills
 Guests: Ann Whitehead, Thuy Thi Nguyen, Ava Lee-Pang

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:00 P.M.	
III. Approval of Agenda	Motion (Riley, Rinne) to approve the June 12, 2014 agenda. APPROVED	
IV. Approval of Minutes	<p>Discussion:</p> <p>The annualized return rate is now over 6%, which is good from the standpoint of our benchmarks. Concern was expressed by Trustee Withrow that the cost of healthcare is going up this year by 20%.</p> <p>Per Ms. Bowes, now that we have a new Bond Counsel, at our September meeting we should talk about the importance of the division of the revocable vs. irrevocable trusts in terms of overfunded.</p> <p>Trustee Withrow received a document from Neuberger Berman in regards to the socially oriented investment portfolio specifically addressing energy, the environment, and the investment process. The document addresses what it really means in terms of country and the environment. It is a sophisticated way in looking at what do we mean by pulling out of fossil fuels. Trustee Withrow would like the Retirement Board team to have a chance to read it and understand what they are driving at. What types of approach should we take so that we are consistent with the mission of the Retirement Board, which is to offset and ensure that our retirees have healthcare.</p> <p>The Board of Trustees passed a resolution that they want to see the Retirement Board and other elements within Peralta pull out of fossil fuels within the next five years. The Retirement Board is independent, but since we are part of the</p>	<p>Mr. Bergman will forward VC Rinne a copy of the black-lined Trust Agreement that he has worked with the former VC of Finance on.</p>

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

	<p>same family it is inherent that we address the issue. We will look at pulling out of the energy area and assess how it would affect the potential of achieving an investment income at a risk level that the organization should be exposed to.</p> <p>Trustee Gulassa shared that Peralta Retirees Organization (PRO) wrote an article in their monthly publication that they are in support of pursuing policies that maximize the returns of the trust. It is their primary concern. Trustee Gulassa stated that we are accountable to pursue such a policy and at the same time follow a prudent path, given the State mandate.</p> <p>Motion (Riley, Largent) to approve the March 13, 2014. APPROVED</p>	
<p>V. Correspondence</p>	<p>None</p>	
<p>VI. Investment Portfolio Review</p> <p>Bill Wallace Neuberger Berman</p>	<p>Highlights:</p> <p>Page 1: Trailing 3 Months is up 2.5%. Year-to-Date (YTD) is up 3.11%. In absolute terms, the Trust is up nicely.</p> <p>Page 2: Asset allocation breakdown: Diversification structure. Diversification is the best way to manage risks.</p> <p>Page 3: Total Fixed Income: Trailing 1 Month and Trailing 3 Months is up a little ahead of benchmark, YTD is a little behind benchmark, and 1 Year is substantially ahead. Total Equity: Trailing 1 Month, Trailing 3 Months, Tear-to-Date, and 1 Year are slightly behind.</p> <p>Page 4: The YTD for NB Fixed Income Structure Core is up almost 4%. NB High Income Bond Fund is up 3.95%. NB Floating Rate Income Fund is up 1.25%. Dreyfus EM Debt Fund is up 3.97%. The biggest surprise is the core of Fixed Income is up 4% for the year. If we look back at some of our prior</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

dialogue, we have implemented a floating rate income fund late last year. That was because the rates float and everyone's belief was that interest rates would increase at some point in time. A floating rate vehicle would be a good vehicle to have to offset as rates go up.

Total Equity: It started out the year very volatile and has become less volatile the last couple of months.

Major changes: We changed our Investment Policy Statement (IPS) to allow Private Equity and low volatility Hedge Funds. At the bottom of page 5, as you can see we have not reached our targets. Private Equity is slow to get into. We've allocated \$100,000 with another \$400,000 coming soon. We are gradually entering these asset classes and happy with where we stand right now.

Trustee Gulassa was concerned about the 4% differential under the US Small & Mid Cap. Per Mr. Bergman, looking at the top of page 5, the Russell 2500 Growth Index is -1.23% (YTD). The Russell 2000 Value Index is down .21% . It was bad this May, but last August was worse. Small Caps in the first couple of days in June picked up a little and today lost part of that. No need to worry because things can move quickly. Per Mr. Wallace, this team has a great long-term track record. It's a strategy with lower beta. Their stock selection has not been strong. They have a higher quality bias. In markets that are more speculative, they have a higher beta. It is a strategy that Neuberger will take away more money from overtime so Peralta will have lesser allocation. It is a strategy that Neuberger spends a lot of time looking at and has \$15 billion in assets. The team is sticking to their discipline, which is a good thing.

Page 6: Emerging equity markets have been a challenge for the past couple of years. We have seen a rebound in these emerging markets. There are significant sellouts like Russia. China is down this year and last. Neuberger has been relatively constructive in terms of China. China sells at 6-7x earnings (relatively cheap market). Risks in China are the real estate market and the

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

	<p>shadow banking market.</p> <p>Page 7: Neuberger has lowered their outlook on municipals and increased their outlook on US Large Cap. The US equity market has not had a solid correction (a pullback of 10% or more) in over two years. Don't be surprised if we have a pullback in the next year or so.</p> <p>Page 10: Producer Manufacturer Index (PMI): A reading above 50 is an expanding economy. A reading below 50 suggests that the economy is slowing down. Manufacturing activities around the world have been relatively constructive and have come a long way in a short period of time.</p> <p>Page 13: As interest rates rise, bond prices will fall. The curve on the left is the Fed Funds 30 Days Futures Curve. The market is telling us between now and next year, people are not expecting big moves in interest rates. Beyond mid-2015, there is a concern. What are we going to do with our fixed income allocation? Are there other strategies that we should be thinking about?</p> <p>The duration is 4.53, which is beta in the equity world. Duration is a measure of the level of sensitivity to changes. We have a lower duration than our benchmark. It is not substantial. Over time we will try to bring it down in the future. The biggest thing that affects duration is the average maturity that affects the portfolio.</p> <p>Page 20: Investment Policy Statement: Allocation is based upon the long-term strategic outlook and the minimum and maximum allowable limits.</p> <p>Recommendation: We should revisit the IPS every three years or so to reassess the strategic allocation.</p> <p>Real & Alternative Assets: The long-term target for Commodities is 3%, but is currently at zero. That is a tactical decision. It doesn't make sense for the portfolio to be in the commodities market at this time. The long-term target for</p>	
--	--	--

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

	<p>Private Equity is 6%, we currently at 0.1%. Commitment has been made towards Private Equity, but it takes time (weeks) to come to a conclusion to buy or not buy into a particular deal. We are moving in that direction. It takes time for the capital calls to come and to be invested.</p> <p>Actuarial Report: The projected actuarial figure is currently around \$175 million. We should have a new report by March 2015.</p>	
<p>VII. Bond Counsel</p> <p>Joanna Bowes Keygent</p>	<p>The District hired Orrick, Herrington, and Sutcliffe LLP as our Bond Counsel. It is a standard process for government entities to conduct a screening procedure for consultants when we have outstanding obligation and OPEB bonds. We've conducted a process, Request For Qualifications (RFQ), to about 25 firms. From which six firms responded. The screening committee was spearheaded by Former Deputy Chancellor, John Hendrickson. Orrick was the number one choice and was selected as Bond Counsel. Orrick is a global company that specializes in tax-exempt securities. They have a very strong in-house team that deals with pension obligation and OPEB bonds.</p> <p>Screening Committee Members: John Hendrickson, Susan Rinne, Thuy Thi Nguyen, and Joanna Bowes.</p> <p>Trustee Withrow clarified that the Bond Counsel will serve two separate roles: One for the Peralta Colleges and the other (if approved) is for the Retirement Board. We will need the Bond Counsel intimately involved in shifting from a revocable to an irrevocable trust.</p> <p>The Retirement Board is an independent authority. This governing Board needs to approve any use of consultants. Peralta needs to have a bond attorney because of the complexity of the law. Bond Counsels provide opinions before the bonds are sold to investors. The laws are always changing. We need to make sure the bonds are meeting all the tests of the IRS, Ed Codes, etc. When the District restructured its OPEB bonds in 2011, there were about nine documents that had to be written and approved by the Board, the Bond Counsel wrote all the legal documents for Peralta. The Bond Counsel will</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

	<p>assist the Retirement Board on just OPEB bonds.</p> <p>The fees for the Bond Counsel and Underwriters are paid from the proceeds of the sale of the bonds. It does not affect the General Fund. They are not retained (no retainer) and work on a contingency. They will propose a fee and it is the Financial Advisor's job to discuss it.</p> <p>Stradling Yocca Carlson & Rauth and Jones Hall were our former Bond Counsels within a span of 12 years.</p> <p>Note: The questions, answers, and comments provided apply to all three: Bond Counsel, Disclosure Counsel, and Underwriters.</p> <p>Motion (Withdraw, Gulassa) to select Orrick, Herrington and Sutcliffe as Bond Counsel. APPROVED</p>	
<p>VIII. Disclosure Counsel</p> <p>Joanna Bowes Keygent</p>	<p>Disclosure Counsel's primary responsibility is the Preliminary and Final Official Statements. Up until now, the responsibility was joint (with Bond Counsel). Now is a good time to split the duties and bring two lawyer minds together at no additional cost. Orrick is also included to be available. Ms. Bowes checked the references for Norton Rose Fulbright and Nixon Peabody, and all had great references.</p> <p>General Counsel Nguyen highly recommends having a distinct Disclosure Counsel. There are a lot of new laws coming out in regards to disclosure. We are legally required to have a Disclosure Counsel. They are critical pieces to refinancing bonds.</p> <p>Motion (Gulassa, Largent) to select for Norton Rose Fulbright, Nixon Peabody, and Orrick as Disclosure Counsel. APPROVED</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
June 12, 2014**

<p>IX. Underwriter</p> <p>Joanna Bowes Keygent</p>	<p>Underwriters are your banker and crucial in selling bonds. We have received 14 responses from the Request For Proposal (RFP). Firms selected were the best qualified and have offices in San Francisco. Sibert is in Oakland.</p> <p>Per General Counsel Nguyen, as part of the selection of the Underwriters process, we made a decision to consider local (Oakland) and East Bay.</p> <p>Motion (Gulassa, Largent) to select Barclays, Piper Jaffray, Raymond James, Siebert, and Stifel as Underwriters. APPROVED</p>	
<p>X. Information Reports</p>	<p>None</p>	
<p>Adjournment:</p>	<p>5:32 PM</p>	
<p>Next meeting:</p>	<p>September 11, 2014 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/>