

**Peralta Community College District
Retirement Board Meeting Minutes
April 16, 2015**

Present: Trustee Meredith Brown, Trustee Cy Gulassa, Trustee Bill Withrow, Vice Chancellor Susan Rinne, Vice Chancellor Trudy Largent, Tim Brice, Michael Mills, Michael Wirth, Tae-Soon Park, Bill Wallace (Neuberger Berman), Ed Berman (Neuberger Berman), Joanna Bowes (KNN), Sui Song
 Absent: Trustee Bill Riley, James Blake, Jerry Herman
 Guests: Joseph Bielanski, Linda Sanford, Geoff Kischuk (Total Compensation Systems), Jennifer Seibert, Erwin Tam (KNN)

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:40 PM	
III. Approval of Agenda	Item VIII. Irrevocable Trust was removed from the agenda with consent. Motion (Gulassa, Largent) to approve the April 16, 2015 agenda. APPROVED AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1	
IV. Approval of Minutes	Motion (Gulassa, Rinne) to approve the January 29, 2015 meeting minutes. APPROVED AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1	
V. Correspondence	None	
VI. Investment Portfolio Review Bill Wallace and Ed Berman Neuberger Berman	Investment Portfolio Review Highlights: Page 2: Overweight in equities. We have a placeholder to fund Private Equity. It is a proxy for the time being to get it funded. Page 4: Shows the returns and the makeup of the portfolio. Trailing 1 month (March): The total portfolio was down .33% and the benchmark was down	

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	<p>.42%. Year-to-Date: 1.83% vs. benchmark of 1.94%. Trailing 1 Year: 5.24% vs. benchmark of 5.06%. 3 Years: 9.22% annualized vs. benchmark of 8.03%.</p> <p>Page 6: Pinnacle Associates Small Cap Growth. Where risks, measured in variability in returns, are higher. Since inception in 2012, the manager had returned 23.44% on an annualized basis against the benchmark of 21.68%. That is good over a long period of time.</p> <p>Tactically, Neuberger Asset Allocation Committee thinks European stocks are a good place to be. In the last two weeks, they are up 4%.</p> <p>Real Estate Portfolio (REITs) is also a good place to be in the last year. REITs: Corporation owned and managed real estate. They have a unique tax structure where they are not taxable in the US so long that they pay at least 90% of their profits as dividends to their shareholders. REITs own over 1 trillion in real estate today in the US market. The overall market capitalization of these companies is less than that. On a net asset value basis, these companies sell at a discount to the underline market value of what they own.</p> <p>Page 10: Quilt chart. The yellow boxes are the returns for the REITs benchmark. REITs over the long term are a decent performer. It had been a top performer 4 out of the last 5 years. In May 2013 it had a bit of a challenge when the market went through a taper tantrum. People were concern that the Federal government was beginning to raise interest rates. They were also concerned that these particular companies would be at a disadvantage in a rising interest rate environment. From our standpoint, it is not of concern; REITs will continue to perform fairly well even in a rising interest rate environment.</p> <p>Page 12: Commercial property. The longer term cycle peaked in 1985. We have a fairly disciplined market in terms of real estate coming into the market.</p> <p>Page 14: Diversified companies are companies in the real estate management</p>	
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	<p>business. They do not own properties. The largest overweight is in regional malls. The second largest is in office properties.</p> <p>Page 16: Summary from the REITs team. Overall fundamentals are decent. The team estimates 6-8% earnings growth over the next 12 months. In August of 2016 a new GICS sector, REITs, will be introduced in the S&P 500. The market sees this as an important part of the overall market.</p> <p>Page 22: Asset Allocation Committee.</p> <p>Mr. Kischuk asked what the take was in terms of the decision made by Neuberger to be underweight in the healthcare sector. Per Mr. Wallace, it depends on the makeup of the healthcare sector. Take a look at skilled nursing facilities as an example. That part of the sector might be challenged. Historically, managers view the healthcare sector as a defensive sector of the portfolio. Now, not so much because of some risks. The team thinks it is now constructive.</p> <p>Page 19: Summary of the Market Outlook. We are in a low interest rate environment. We see the European Central Bank (ECB) in a mode where the US banks have been. There is general easing, which benefits the European stocks. Neuberger is constructive in terms of non-US developed equities and Japan. We are beginning to see early signs of change in Japanese corporate culture, i.e. stocks buy back and dividends. Overall, we are fairly constructive on the US equity market. We are six years into a very positive market without some sort of correction. The prospect of correction (10%) is fairly high, but not a major correction.</p>	
<p>VII. Actuarial Study</p> <p>Geoff Kischuk Total Compensation Systems</p>	<p>Actuarial Study of Retiree Health Liabilities as of Nov. 1, 2014</p> <ul style="list-style-type: none"> • Required for accounting compliance (no less than every two years). The idea behind the valuation is to determine what the accrued liability 	

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<p>(TCS)</p>	<p>is for the retiree benefits.</p> <ul style="list-style-type: none">• Peralta had not had a lot of changes in terms of benefits plan itself since the last valuation. There have been an increasing number of employees under the new rule (employees hired after July 2004). Currently over half of the employees are under the new benefits rule.• Assumptions used for the pension evaluation are: mortality, retirement, turn-over, extent of healthcare cost increase, and the extent where Peralta will pay for those benefits.• Discount all future benefits until the end of the mortality table:<ol style="list-style-type: none">1. Trend assumption: To what extent do we project that healthcare cost rate will increase? To what extent will Peralta be paying for those increases?2. Interest rate discounting these liabilities. The more money earned on the asset, the less money Peralta needs to add to the trust. TCS used the Neuberger investment allocation targets to conduct their own analysis and subtracted the reasonable allowance for the expenses of the trust. TCS thought a discount rate of 6.75% is reasonable and consistent with Neuberger under the current investment policy and strategy. <p>Note: Per Mr. Berman, this is not a coincidence. Neuberger set up the policy to align with the 6.75% from the actuarial study.</p> <ul style="list-style-type: none">• The current liability is a little over \$152 million as of November 1, 2014. Mr. Kischuk is not allowed to show the planned assets of the trust are an offset to the liability in this report.• Page 9: The Annual Required Contributions (ARC) is not relevant to managing the trust. It is for accounting purposes only and does not reflect planned assets. We expect the number in real life to be above/below the number 50% of the time. In terms of managing the trust, do not want to restrict the asset to that number.	
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	<ul style="list-style-type: none"> This report serves as a confirmation of a steady state. The next valuation will reflect the new CalPERS mortality table and the most recent table for CalSTRS. The significant factor for the test done is that for the lifetime coverage, the new mortality tables will like to increase the liability by 5%. 	
VIII. Irrevocable Trust Susan Rinne Interim Vice Chancellor	Removed from the agenda.	
IX. Update Trust Documents Susan Rinne Interim Vice Chancellor	VC Rinne is working with Bond Counsel and Neuberger Berman. Per Mr. Berman, it is a straight forward process given legal resource on both sides.	
X. Meeting Frequency	Next meeting scheduled for June 11, 2015 at 4:00pm.	
XI. Information Reports	<p>Mr. Mills wanted to know if the actual intent of the OPEB Trust was to cover the bump up (fixed figure for the cost of retiree benefits as projected in 2005/2006). Per Trustee Withrow, the intent behind the OPEB bonds was to put monies in place. The institution is liable for the payment of the bonds. The Retirement Board is responsible for the retiree healthcare (total cost, not just the bump up). Initially the Retirement Board process of investment of the monies from the bonds was to take care of a fixed group of employees (those hired before July 1, 2004). If we look at the actuarial projection and recognizing that it is a 50/50 shot, then we are on track.</p> <p>Mr. Brice asked, “What is the purpose of being in emerging market debt funds?” Per Mr. Wallace, emerging markets today have a higher yield than</p>	

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	<p>developed markets (US, Germany, Japan). Take a look at a variety of economic statistics as to their overall debt level to a percentage of GDP. We are constructive on emerging markets debt.</p> <p>Two ways to cut the market:</p> <ol style="list-style-type: none"> 1. There is a significant part of the market that we describe as local currency, i.e. Brazilian bonds and currency. The other part of the market is hard dollar emerging market debt. Debt issued in terms of US dollar denominated. There is little currency risk associated with it. 2. The other way is to cut the market via sovereign investments. Investing in the bonds of those particular countries or corporate emerging market debts. Investing in the bonds of companies within those markets. <p>What we have currently is some exposure to local. It has been hurtful to some extent due to the increase in value of the US Dollar. We have a diversified portfolio (blend portfolio) of a mixture of local, hard, and corporate. This portfolio did have an investment previously in the Dreyfus fund. We made the determination that we are not comfortable in the risk, so we moved to a blended portfolio. These are long-term holdings. The yield in the portfolio is 5.58% and the duration of the portfolio is 5.97. It suggests that they tend to be intermediate long portfolio.</p> <p>Mrs. Bowes is in the process of updating the investment glossary.</p>	
Adjournment:	5:48PM	
Next meeting:	June 11, 2015 from 4:00 to 6:00 PM	

Minutes taken: Sui Song

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