

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

Present: Trustee Cy Gulassa, Trustee Bill Riley, Trustee Bill Withrow, Vice Chancellor Ron Little, Vice Chancellor Trudy Largent, Michael Wirth (PRO), Tim Brice (Local 39), Tae-Soon Park (PFT), Ed Berman (Neuberger Berman), Judith Boyette (Hanson Bridgett)

Absent: Trustee Meredith Brown, Bill Wallace (Neuberger Berman), Joanna Bowes (KNN), Jerry Herman (PRO), Michael Mills (PRO)

Guests: Chancellor Jowel Laguerre, Liz Masson (Hanson Bridgett)

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	3:11 PM	
III. Approval of Agenda	<p>Motion (Gulassa, Little) to approve the February 25, 2016 agenda.</p> <p>AYES: 3 NOES: 0 ABSTAIN: 0 ABSENT: 2</p>	
IV. Approval of Minutes	<p>Motion (Gulassa, Little) to approve the October 8, 2015 meeting minutes. APPROVED</p> <p>Clarification:</p> <p>Page 1: The word “hat” refers to members of the Retirement Board role versus the District Governance Board role. There are Trustees that sit on both Boards.</p> <p>Page 4: The 2.5% growth was taken from a source document provided at the October 2015 meeting.</p> <p>Page 4: In regards to “China produces a Korea every year and an India every two years”, per Mr. Berman, China is growing but at a slower rate than it used to. When China grows at 6%, it equals the growth of Korea.</p> <p>Page 5: Constructive means there is some room for growth.</p> <p>AYES: 3</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

	NOES: 0 ABSTAIN: 0 ABSENT: 2	
V. Correspondence	None	
VI. Report Out of New York City Visit to Neuberger Berman Chancellor Jowel Laguerre and VC Ron Little	<p>Chancellor Laguerre: It was a pleasure for us to spend time at Neuberger. They were welcoming. The response received from Neuberger Berman was very encouraging. This is a great partner that we have. I was pleased to see the quality of the people with the knowledge of Peralta (what we stand for and what we are). They are looking out in our best interest. They are open to internships for students in the summer of 2017 and externships for faculty.</p> <p>VC Little: We heard from about 90% of the investment managers listed on page 5. We had a skype conference with the managers in Chicago. I'm impressed by the team and their knowledge. They were all well-presented and thoughtful.</p> <p>Note: Ingrid Dyott from Neuberger Berman's Socially Responsible Investing team will be speaking at the District mid-March.</p>	
VII. Socially Responsible Investing (SRI) Ed Berman (Neuberger Berman)	<p>Tab V, page 54: The Fossil Fuels Resolution from Dec. 10, 2013 was adopted by the Peralta Governing Board. The Peralta Governing Board urged the Retirement Board to consider divesting in fossil fuels, not as a mandate. Top 200 proposals on the Carbon Tracker List as published by the Fossil Free website apply to the proposal. Updated analysis of the portfolio as of December 31, 2015. The goal was to understand the impact to the portfolio as if the resolution was adopted by the Retirement Board. Assuming that the mutual funds were single holdings, there are a total of 742 holdings in the Trust Fund: 15 stocks and 8 mutual funds were flagged. Assume all flagged items were taken out of the portfolio. That will be \$59.8 million of the \$200 million portfolio. Right now the stocks in the mutual funds are holding small</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

	<p>losses. Option: The resolution should look at individual securities not funds.</p> <p>Having a socially responsible policy is a good thing. If we screen out the 200 stocks, it still doesn't get the job done. 77% of oil and gas production comes from State owned oil companies. If you screen out Exxon Mobil, Shell, etc., you cannot screen out Saudi Aramco or Gazprom because these companies are not publicly traded.</p> <p>In regards to the impact, it is hard to put a number on it. The diversification and the benefits from the fund would be reduced. There would be some impact to the fund (risk).</p> <p>As Trustee of the Trust, we follow what the Retirement Board instructs us to do. If the policy says to do it, then we're going to do it to the best that we can.</p>	
<p>VIII. Investment Strategy for Retirement Board of Authority</p> <p>Ed Berman (Neuberger Berman)</p>	<p>Page 20: Shows score card of 2015 as of January 31, 2016. We had a rocky last year. Dow Jones and S&P were flat last year, but the volatility was extremely high. On the other side, you can see the Alerian MLP Index (good proxy for energy) was down 32%.</p> <p>Page 21: FANG stands for Facebook, Amazon, Netflix and Google. Their stocks were up 83% last year.</p> <p>Page 22: The yellow bar represents the S&P 500. The blue bar reflects the contribution from the top 3 stocks.</p> <p>Page 23: Growth stocks are made up of tech stocks. Value stocks are usually associated with large stable companies (dividends). This chart is good for looking backwards. Please see the blue line from 2009 to 2015.</p> <p>Page 24: Russell 3000 value is in blue and Russell 3000 growth is in red. Info Tech and Health Care stocks are in the growth category. Energy and Financials</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

	<p>are in the value category. The FANG stocks drove the benchmark.</p> <p>Page 25: Quilt at the sector level. No pattern here, it preaches diversification and patience.</p> <p>Page 26: The Dangers of Market Timing. High volatility. When the market moves a lot, we must be patient.</p> <p>Page 27: Outlook. There are three themes: what's happening in China, the volatility of energy prices/oil, and what the Fed is doing. Those three things are causing the volatility in the market today.</p> <p>Page 29: U.S. Recession Probabilities and the Business Cycle. The probability of a recession in the US is low. Recession means negative growth over two successive quarters.</p> <p>Page 30: Major Government Bond Yields Remain Low. Dots is where the Feds said they will do over the next few years (up to 3.5%). The line is what the futures market says will happen (1.5%).</p> <p>Page 33: Unemployment declined a lot and wage inflation is going up. As the labor market tightens, wages go up. It is not enough to make the Feds tighten more.</p> <p>Page 36: Asset Allocation Committee. Anything to the right is above normal and to the left is below normal outlook for next year. The committee still believes investment grade fixed income is not the greatest to be in if interest rates go up. They also believe inflation has an opportunity to increase. The committee downgraded US stocks to a middle ground. They are still constructive on international stocks and developed market.</p> <p>Page 45: U.S. Investment Grade Risk Premium. There is a lot of volatility. We must be cautious. We are still constructive, but mildly so.</p>	
--	---	--

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

	<p>Trustee Withrow asked Mr. Berman what is his view of the cash on the sidelines? Mr. Berman does not have a metric on that. He thinks people are holding cash to be deployed at the right time.</p>	
<p>IX. Investment Portfolio Review</p> <p>Ed Berman (Neuberger Berman)</p>	<p>Page 4: In 2015, the portfolio is down 2.07% vs. -1.56% benchmark. Since inception, the portfolio is over its benchmark and earned over 5%.</p> <p>Page 6: We can look at what caused the numbers on page 4. We are underweight to core Fixed Income. But it is more defensive than the benchmark.</p> <p>Page 7: Net Performance by Investment Managers as of December 31, 2015. Investment Grade Fixed Income was 43 basis points for the year. A lot of high yield bonds were issued by energy companies. Our Large Cap portfolio outperformed its benchmark but still down 2.88% vs. -3.83% benchmark. Many of our managers have a value tilt. SRI portfolio underperformed a little bit, but not too much. Clearbridge is an external manager. They are overexposed to energy stocks.</p> <p>Page 8: The Genesis fund a couple of years ago, their numbers weren't good. They are doing well last year and this year. Managers go through cycles. You have to be patience. Chasing performance rarely works. We need to be patience and stick to the long-term strategy. We constantly review our managers and portfolios.</p> <p>Tactical allocation: We will analyze the cash flow of the trust. The policy is based on cash flow and funded status. If the cash flow of the trust is different from when we adjusted, we might reanalyze the strategic policy.</p> <p>In regards to holding cash, the long-term target is zero. \$3.7 million going into January may not be a bad thing. Managers should not hold large amounts of cash. If a manager holds 2-3% cash, it's their call. The current policy cap is at</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

	10%.	
<p>X. Update on Review of Retirement Board Foundational Documents</p> <p>Judith Boyette Hanson Bridgett</p>	<p>Introduction: Liz Masson from Hanson Bridgett.</p> <p>Four areas will be worked on simultaneously: draft plan document, trust agreement, bylaws, and the responsibilities of the District.</p> <p>The review of documents is taking longer than expected. Mrs. Boyette needed to go back to the beginning when the District setup the Trust. She is looking at the intent at that time, the legal requirements are for the trust, and reconcile the existing documents that we have now. First we are going to look at a draft plan document. She will circulate next week at the District. It is a wraparound document that contains the legal requirements and the requirements of the District in providing retiree benefits. It reflects the current operations and administrative procedure for the actual benefits for the retirees as captured in the Collective Bargaining Agreement (CBA) and insurance documents. From the Trust and Trustees' standpoint, you are responsible for administering the payment for those benefits. You need to have documentation of what is being provided and paid for, which will be used for auditing purposes.</p> <p>The revisions to the plan document will be ready by the next meeting. For the Discretionary Trust agreement, Mrs. Boyette is working on draft amendments to make clear the fiduciary responsibilities of the Discretionary Trustee and the functions of the Retirement Board. Draft documents will be shared with the Trustee, for the review by the Trustee's counsel. In those amendments, we will provide comments to show why we are requesting those changes and how it fits together with the foundational documents and Federal/State laws.</p> <p>In regards to the bylaws, Mrs. Boyette reviewed historical documents. What they discovered in the original bylaws adopted by the District Board at the beginning when the trust was setup, the duties of the Retirement Board were more clearly defined. Sometime between 2006 and when this Board adopted the bylaws, the duties of this Board and the Governing Board became confused. Clarification of those duties as well as adding clarification of the</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

	<p>original intent will be included. Also there needs to be documents that would define what functions are at the Governing Board level, i.e. compliance of GASB 43 and 45 and clear understanding of what responsibility remains at the District. We need to have clear document so we can audit against.</p> <p>Per Trustee Withrow, we want to make sure the responsibility and accountability are compatible with the authority.</p> <p>Mrs. Boyette will look into fiduciary insurance.</p>	<p>To include Directors and Officers (D&O) insurance on the next agenda.</p>
<p>XI. Irrevocable vs. Revocable Trust</p> <p>Judith Boyette Hanson Bridgett</p>	<p>According to an opinion from the Bond Counsel, this Trust is to remain revocable as long as there are bonds still outstanding.</p> <p>Per Mrs. Boyette, there are only a few circumstances can funds be transferred out of the Trust.</p> <p>Concern was expressed regarding the term that the Trust is “revocable”. Mrs. Boyette explained that the Trust is not revocable in the general sense, although it is revocable for the purposes of GASB. To be irrevocable under GASB, trust assets cannot be accessed for reasons other than for the payment of benefits and reasonable expenses of administering the trust, and it needs to be written in documents so that such cannot occur. In this Trust, the funds may be used only for retiree health care benefits (and reasonable expenses of administering the Trust) or for the payments to the bondholders, and the current Trust documents reflect those limitations, as well as the fact that the Trust is revocable for the purposes of GASB.</p>	
<p>XII. Revision of Substantive Plan</p>	<p>VC Little is working with Mrs. Bowes and Mrs. Boyette to revise the Substantive Plan. GASB 43 requires a Substantive Plan. Component parts include a description of the benefits provided to retirees (an agreement</p>	

**Peralta Community College District
Retirement Board Meeting Minutes
February 25, 2016**

VC Ron Little	<p>between the district and retirees), a quantification of all liabilities associated with that agreement, and a defined accounting and financial reporting schedule. We will be revising the Substantive Plan to reflect some of the clarifications around the Trust, particularly the cash flow, plan structure, and future plans in addressing the liability.</p> <p>Mr. Wirth asked if there are insufficient funds available, then does the District have the responsibility of picking up the shortfall. Mrs. Boyette replied that the District has the responsibility for providing those benefits. As part of the plan for how to fund those is to set up the Trust and issue the bonds to fund it. The Trust is a funding vehicle. It is a source of funds. If the Trust did not exist, the District will have to find some other ways to pay the benefits promised.</p> <p>VC Little added that we are one of only a few districts that have fully funded the benefits cost over the life of the retirees. We are doing an actuarial study every two years and taking variables into account. We are actually overfunded compared to the liability (125% compared to the liability).</p>	
XIII. Information Reports	None	
Adjournment:	5:03 PM	
Next meeting:	April 14, 2016 from 4:00 to 6:30 PM	

Minutes taken: Sui Song

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