

**Peralta Community College District
Retirement Board Meeting Minutes
May 19, 2016**

Present: Trustee Meredith Brown, Trustee Bill Riley, Trustee Bill Withrow, Vice Chancellor Ron Little, Vice Chancellor Trudy Largent, Michael Wirth (PRO), Tae-Soon Park (PFT), Joanna Bowes (KNN), Ed Berman (Neuberger Berman)

Absent: Trustee Cy Gulassa, Bill Wallace (Neuberger Berman), Jerry Herman (PRO), Michael Mills (PRO), Tim Brice (Local 39), Judith Boyette (Hanson Bridgett)

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

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:00 PM	
III. Approval of Agenda	Motion (Little, Largent) to approve the modified May 19, 2016 agenda. APPROVED Pull item IX. Bylaw Revisions.	
IV. Approval of Minutes	Motion (Little, Largent) to approve the April 14, 2016 meeting minutes. APPROVED	
V. Correspondence	None	
VI. Overview of District's Current Retiree Program VC Largent	VC Largent presented a data driven study that addresses the retiree program in two parts: current and future retirees. The study is not intended to address the OPEB issues. On page 3 of the study, categories of retirees were listed: <ul style="list-style-type: none"> I. Future retirees who are eligible for Lifetime Health Benefits II. Future retirees who are not eligible for Lifetime Health Benefits, (Post 2004 hires) and who are still actively at work with Peralta III. Retirees who retire before age 65 and are eligible for health benefits until age 65 (this category contains one employee who retired at age 55) Trustee Withrow asked, "When they (retirees) reach age 65, what percentage of our employees when they retiree are not qualified for Medicare?"	

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	<p>Per VC Largent, very few. Retirees may elect not to sign up for Medicare. If those retirees who are eligible for Medicare when they reach age 65 and do not sign up Medicare, then the District's coverage becomes primary.</p> <p>Page 4: The study provides questions and answers regarding the demographics of the retiree population.</p> <p>Question 1 reflects the demographics before the District implemented/established the Pre-2004 category benefits plan.</p> <p>Question 3 reflects the demographics as of the current date.</p> <p>Question 11: In 2012-13 the total number of retirees/dependents who were eligible for, but not coordinated with Medicare was 102. The District has taken steps to ensure timely enrollment of retirees and dependents into the Medicare programs as required under the Collective Bargaining Agreement (CBA). The District recently strengthened the language in the CBA. In 2015-16, the number of District plan enrollees who were eligible but not enrolled in Medicare dropped to 25. The District was not able to reach the remaining 25 individuals.</p> <p>Based from the results of the 2014 dependents audit, several ineligible dependents were removed/unenrolled. The District will conduct another audit in the fall. We are also due for a new actuarial study in November, but may request that it be performed before then.</p>	
<p>VII. Investment Report</p> <p>Ed Berman (Neuberger Berman)</p>	<p>Highlights</p> <p>Page 13: Performance Scorecard. All markets were impounded the first six weeks of the year. It was quite a substantial snapback in February and extended to April. Barclays High Yield which is a risk asset, got pounded last year is up 7%+. 10 Year Treasury is up 4.59%. On the Equity Style, Value vs.</p>	

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Growth shift in small caps. Snap back in energy prices (particularly in the last part of the quarter). Energy stock was up 13%+.

Page 14: Last year, market leadership was very narrow. FANG (Facebook, Amazon, Netflix, and Google) stocks were up 83%. The rest of the S&P 500 stocks were down 1%.

Page 15: The top three stocks contributed to 142% of the S&P stocks last year.

Page 16: Outlook: Growth is softening, but still positive. Domestic demand in some sectors is still strong. Energy and manufacturing sectors are weak. In Europe, the European Central Bank is aggressively providing stimulus. Neuberger Berman views it in a positive manner.

Page 19: Shows recession risks. In looking at the green line, inflation seems to be going down from 40% but above 20%. There's a chance greater than zero. We like the macro based probability. The yellow line is a better predictor.

Mr. Wirth asked Mr. Berman for his thoughts on what the emerging markets would do if England exited the common market.

Per Mr. Berman, it is a concern. There's a lot of stimulus going on in Europe. We think there's an opportunity there. We are still a little overweight in international stocks. The dollar has been very strong. It eased off little bit and affected import/export ratios. It is one of the risk indicators that we focus on.

Page 20: Interest Rates. The dots are in terms of what the Fed said they were going to do. The blue line is what the interest rate futures market thinks the Fed is going to do. There is a big difference between that. There was a big sell off recently. The Fed doesn't want to have negative interest rates. When you raise interest rates, it gives you the ability to lower rates and fight the next thing that could happen.

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Page 21: Oil price picked back up a little bit. Equilibrium price is good for the economy although we are paying more at the pump. The chart does not include the rigs that were taken offline. Rig count chases oil price.

Page 22: CPI year by year. Inflation is picking up. We will be watching it carefully.

Page 23: Circled two words: Caution and Volatility. Markets are cautious. What happened this week will continue. We are constructive. In regards to election year with respects to the market, markets do not like uncertainty.

Page 24: Yellow bubble right in the middle – annual outlook is in line with annual historical returns. To the left, not as good as historical returns. To the right, we are optimistic. High Yield bonds took a hit late last year, but had snapped back nicely. We are still overweight in Equities and Non-US Equities. Hedge funds took a hit.

Page 25: Equity Risk Premium. Black circle talks about equity premiums. Are you getting paid to take risks? Yes, in Europe.

Page 26: Right side, squares represent where the Fed said they were going to go. Neuberger Berman is the purple line in the middle. Current Futures Market Expectations is the blue line.

Page 27: High Yield bond. Difference is the spread. If spread widens, then there are better opportunities.

Page 30: Hedge Funds were hammered lately. Historically this is the kinds of environment where it does well. It can be used as a Fixed Income substitute.

Trust Investment Performance:

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Page 4: YTD is at 2.04%. Trailing 1 Year is down 2.41%. The overall return is below policy benchmark YTD.

Page 6: Fixed Income is beating Barclays Aggregate. On the Equity side, FANG is the driver of the YTD and 1 year numbers.

Page 7: The duration of this portfolio is 4.4 years. While the aggregate is about 5.5 years. We are underweight in Treasury. YTD numbers are strong. Our Socially Responsible Investment (SRI) strategy is underperforming. Large Value strategy is positive. The benchmark is underweight to utilities and energy. Our SRI strategy got hit by negative stock selection in technology and telecommunication, but offset by overweight in industrial and underweight in healthcare. Clearbridge, one of Neuberger Berman's external managers, is a higher risk growth type manager. Since late 2014 its returns have been negative. Neuberger Berman thinks Clearbridge will come back. Genesis is a small cap fund with strong long-term record.

Our philosophy is to hire really good managers. Kayne Anderson, an external small cap manager, has a concentrated portfolio. Greene Group is an internal small cap value manager. We added both in October of last year. This is a concentrated portfolio of twenty names. Expected to have variability. Kayne Anderson is up 18.46% since inception. We try to manage risks, take appropriate risks, and hit singles at the Trust levels.

As requested by VC Little, Mr. Berman will look into the YTD numbers for Harding Loevner. The returns seem inconsistent.

Trustee Brown asked, "What are the logistics of the reports? How long does it take from a performance report to an opportunity to discuss and take action?"

Per Mr. Berman, the team that manages this fund sits directly on the floor above him. This is Neuberger Berman's own fund. Neuberger Berman has custody so we see all the trades every day. Our team monitors it and adjusts as

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	<p>needed. These things go in cycles. In the short-term, Mr. Berman advised that Neuberger Berman does not want to overreact.</p> <p>Ms. Bowes asked, “When will Crossroads and Secondary Opportunities start?”</p> <p>Per Mr. Berman, the Trust’s positions in these investments are still very small. It’s hard to create performance numbers with PE. Everything trails by months and months. When the maturity grows a little bit, Neuberger Berman will provide a chart that shows each fund, what’s been contributed, the market value, and the sum of the inflows and outflows.</p> <p>Note: A flow of funds chart will be added to future reports to show the payments into and out of the trust.</p>	
<p>VIII. Delineation of District Responsibilities and Retirement Board Responsibilities</p> <p>Liz Masson Hanson Bridgett</p>	<p>Per Trustee Withrow, this document was drafted by OPEB Counsel. The Retirement Board has seen this once before at the last meeting. The one area that was modified is the fifth item where the District’s responsibility is to advise the Retirement Board regarding the determination that conditions are met for the use of Trust assets to defease bonds. It is not a unilateral action and makes it clear whereby the institution would come to the Retirement Board to say here are the conditions and here’s why we should move in this direction to reduce the Bond exposure.</p> <p>Per Ms. Masson, her firm is also working on the revised bylaws and wants to have this document go hand-in-hand with the revisions to the bylaws that delineate the Board’s responsibilities and do not assign to the Retirement Board functions that are the District’s responsibility. Hanson Bridgett thought this chart would be helpful to make that very clear.</p> <p>Trustee Brown asked, “What are the due diligence components that underscore the fifth item on the District’s responsibility regarding advising the Retirement Board regarding the determination that the conditions are met for the use of Trust assets to defease bonds? What are our due diligence points on the</p>	

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	<p>District side to support the advice?”</p> <p>Per Ms. Masson, it is her understanding that requirement are set forth in the Indenture of Trust.</p> <p>Per VC Little, the District must demonstrate that there is a surplus in the Trust, that the OPEB liability is more than 100% funded with respect to liability for benefits and then the District would advise this Board that condition have been met to use Trust assets to pay off X number of dollars of the Bonds.</p> <p>Per Ms. Bowes, it is part of the due diligence process to have quantitative analysis that supports any use of Trust assets to defease the bonds, to mitigate the program in the long-run. She is not certain that the requirements for this are completely set forth in the Indenture of Trust.</p> <p>VC Little, Ms. Bowes and Ms. Masson will speak offline regarding amending the document to specify in which document(s) the conditions for use of Trust assets to defease the bonds are set forth.</p> <p>Note: A footnote will be included to identify that the advice is based on legal and quantifiable data and that they are items that can be determined through an actual process.</p> <p>Based on that discussion, Ms. Masson will amend the document and bring the item back in July.</p>	
<p>IX. Bylaw Revisions</p> <p>Liz Masson Hanson Bridgett</p>	<p>Item pulled and will be brought back to the Retirement Board meeting in July.</p>	

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<p>X. Trust Agreement Revisions – First Reading</p> <p>Liz Masson Hanson Bridgett</p>	<p>Short update on proposed amendment to the Discretionary Trust agreement. Ms. Masson talked with Neuberger Berman’s Counsel regarding some proposed changes. There is a threshold issue that involves the current arrangement regarding investment in proprietary funds of Neuberger Berman. Currently, there are a few provisions in the Trustee agreement that relate to that. Until that issue has been resolved, it is difficult to reach an agreement on new language.</p> <p>Per Mr. Berman, Neuberger Berman, its legal counsel, and Hanson Bridgett worked through some issues and made some progress on the language. Mr. Berman advised that, contrary to the information provided in Hanson Bridgett’s update Memorandum, any change to the current arrangement will not require approval by Neuberger Berman’s parent company. Mr. Berman remarked that he is confident that the parties will work through these issues and get language that is reasonable.</p> <p>Trustee Brown asked about the Government Code section 1090 disclosures regarding vendors and their relationship with the public entity. If the Trust Agreement provides for investment of Trust assets in the Trustee’s proprietary funds, the Retirement Board will likely need an opinion regarding a conflict of interest under Government code section 1090.</p> <p>Ms. Bowes stated she believed the 1090 disclosures were completed in 2011. Research is needed to confirm the date and obtain copies of the disclosures.</p>	
<p>XI. Future Meeting Topics</p> <p>Trustee Withrow</p>	<ul style="list-style-type: none"> • Trust Agreement – 1st Reading • Bylaws • Retirement Board Chair Election • Function of Asset Allocation • Fiduciary Liability Insurance/D&O • Responsibilities of the Retirement Board 	

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XII. Information Reports	None	
Adjournment:	5:26 PM	
Next meeting:	July 14, 2016 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/>.