

**Peralta Community College District
Retirement Board Meeting Minutes
November 17, 2011**

Present: Trustee Bill Riley, Trustee Bill Withrow, Vice Chancellor Ron Gerhard, Chancellor Wise Allen, Tae-Soon Park, Ava Lee-Pang, Odell Johnson, Jerry Herman, Joseph Bielanski, Jennifer Seibert and William (Bill) Wallace (Neuberger Berman).

Absent: Vice Chancellor Trudy Largent, Trustee Cy Gulassa, and Joanna Bowes (KNN Public Finance)

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:05 P.M.	
III. Approval of Agenda	Motion (Riley, Withrow) to approve the November 17, 2011 agenda. APPROVED	
IV. Approval of Minutes	Motion (Riley, Withrow) to approve the October 13, 2011 meeting minutes. APPROVED	
V. Correspondence	None	
VI. Investment Policy Update Bill Wallace	<p>Peralta Community College District adopted a Socially Responsible Investment (SRI) policy last month. Page 2 shows the current allocation for the portfolio. The recommended asset allocation tries to implement socially responsible equity into the portfolio by reducing the Large Cap Disciplined Growth and Large Cap Value. Once the recommended asset allocation is approved, it will be incorporated into our most recent version of the investment policy.</p> <p>VC Gerhard pointed out that the second paragraph within the investment policy addresses Trustee Withrow’s question on the limitation of junk investments. “All fixed income securities are required to be rated investment grade (Baa/BBB or higher), with the exception that up to 5% of the fixed income portfolio may be invested in securities in the Ba/BB category.”</p> <p>Neuberger has significant expertise in junk bonds; they run about \$18 billion in high yield bonds. Mr. Wallace proposed, moving forward, for Peralta to participate in a fund-to-fund approach to ensure diversification. Instead of picking one emerging manager, we should have 7-8 emerging managers. The same goes for the hedge fund side.</p> <p><i>True North Investment Insights and Outlooks</i> Neuberger’s quarterly internal document</p> <p>Page 7 shows what yield spreads have been like in the past 7 years. When spreads widen, certain asset classes become more attractive. VC Gerhard pointed out that there is an inverse relationship between yield and price, especially on the high yield side.</p>	<p>Mr. Wallace to provide fact sheets regarding emerging managers and hedge fund at the next meeting.</p>

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VC Gerhard	<p>Page 10: per Mr. Wallace, having a thoughtful asset allocation policy is very important. Strategically, it forces you to sell high and buy low while most people intuitively do the opposite. Mr. Wallace suggests being underweight in bonds.</p> <p>Draft Swap Policy</p> <p>An audit finding from our external auditor was the Retirement Board did not have an official Swap policy that relates to the Morgan Stanley SWAP. After much analysis and evaluation of comparable organizations, we have put together this draft policy for discussion and will bring it back to the next meeting for action.</p> <p>This policy does not permit or give authority to the Retirement Board to go out and enter into new SWAPs. We need a policy to cover our current existing SWAPs.</p> <p>The Board of Trustees gave direction to terminate the SWAP agreement at their March 29th meeting. As defined in section 8 of the draft policy, “Retirement Board is authorized to manage existing SWAP transactions with Board of Trustee of the Peralta Community College District approval insuring consistency with any applicable resolution of the Board of Trustees. This approval will extend to future termination or modification of existing swap agreements.”</p> <p>We are in the process of examining the termination of the SWAPs right now. Our first priority was to refund the OPEB bond so there won't be any burden on the District's cash flow.</p> <p>A SWAP is an investment vehicle whose value is dependent on a different security, derivative. Peralta has 6 SWAP contracts with Morgan Stanley. Previously, the District believed there were risks related to the volatility of interest rates. Given the auction rate securities from the bonds that we sold, we issued SWAP agreements. VC Gerhard gave the following hypothetical example: you have an adjustable-rate mortgage and your neighbor has a fixed-rate mortgage. You think the interest rate will increase significantly while your neighbor has the opposite opinion. You then decide to swap mortgage payments to hedge the risk.</p> <p>Trustee Withrow noted that Peralta did not have the variable rates that the institution thought they had when they entered into the SWAPs. There wasn't anything on the other side to hedge.</p>	
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	<p>Ms. Lee-Pang asked how we terminate the SWAP and how much we will lose. It will not be easy, per Trustee Withrow. VC Gerhard adds the termination fees/cost to buy out the contract changes as the London Interbank Offered Rate (LIBOR) changes on a moment's basis.</p> <p>Ms. Park suggested using social and political pressure. VC Gerhard stated that a joint letter was sent out to Morgan Stanley by PFT and Local 1021 a few days ago, and that he was not sure what the response would be.</p> <p>Motion (Withrow, Riley) to approve the recommended asset allocation as proposed by Neuberger Berman. APPROVED.</p>	<p>A scanned copy of the letter will be sent to the Retirement Board.</p>
<p>VII. Investment Portfolio Review</p> <p>Bill Wallace</p>	<p>Mr. Wallace announced that Neuberger Berman (NB) is in the process of buying back shares from the Lehman Brothers' bankruptcy proceeding. NB employees originally bought back 52% of shares in 2009. The process of buying back the remaining 48% of the shares will take about 5 years. Currently, over 300 of the 1,700 employees are owners. The expectation is that the ownership among the employees will double over the next 5 years.</p> <p>In terms of operations, nothing will change.</p> <p><i>Peralta Community College District, November 17, 2011</i></p> <p>Mr. Wallace informed Trustee Withrow that Peralta has zero bonds in Euro denominated currency.</p> <p>Page 3 is an overview of the portfolio performance. Since inception, the average return on the total portfolio is at 3.37% (annualized).</p> <p>Page 4: Over the life of this fund, Peralta had withdrawn approximately \$23 million and are currently \$8 million above where we have started. It was funded at \$150,307,485 in January 2006. The current value is \$158,092,818.</p> <p>Page 37 shows the portfolio weight vs. index by region.</p> <p>Page 39 shows the exposure of the portfolio vs. the benchmark. Trustee Withrow asked when we can get out of mortgage-backed securities. Per Mr. Wallace, we need to have a serious discussion whether or not we need change the benchmark and what the</p>	<p>Mr. Wallace will address the risk exposure to Ginnie Mae and Fannie Mae at the next meeting.</p>

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	<p>proper benchmark should be for Peralta.</p> <p>Page 57 shows the exposure of the portfolio to agencies such as duration risk exposure. Duration is a measure of the sensitivity to changes in interest rates. From an equity perspective, it is similar to the beta in the portfolio. If you have a duration that is higher than your benchmark, then you have an increased sensitivity to interest rate. Please note the aggregate, duration of the portfolio, is 4.2 rather than 4.4. This is reflective of the upward direction of interest rate over time, so we would want a slightly lower duration than our benchmark. Bottom line, we have a yield advantage on the portfolio of 2.97 vs. benchmark of 2.12.</p> <p>Page 59 shows the way the portfolio is structured vs. benchmark. The US government bonds rallied strongly despite the downgrade in rating.</p>	
<p>VIII. Agenda Items for Next Meeting</p>	<ol style="list-style-type: none"> 1. Evaluate the investment policy regarding mortgage backed securities 2. Make a formal recommendation regarding discretionary trustee 3. Distribute the ratings report 	
<p>IX. Information Reports</p>	<p>Audit: We are closing our audits and should be done in the next 2 to 3 weeks. Over the course of the fiscal year, the OPEB charge had generated \$6 million in reserve fund at the County of Alameda. Once we close our books and the auditors attest to and sign off on our financial statement, that money will be transferred out of the county and placed into the trust account to be invested in the allocation model that we just approved. We will have the liquidity in the trust to reimburse the general fund for the monthly expenditures paid to providers for active retirees.</p> <p>Financial Reports: At the next meeting, VC Gerhard will start providing the Board with financial reports. Finance now has policies in place to have timely financial reports. VC Gerhard is now at a comfortable level regarding the accuracy of the financial report to share it with the Board on a monthly basis.</p> <p>OPEB Bonds: We refinanced our debt service on our OPEB bonds. Trustee</p>	

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	<p>Riley, Chancellor Allen, VC Gerhard, along with our KNN Advisor and Bond and Disclosure Counsel met with Standard and Poor's (S&P) and Moody's. Our bonds were assigned various ratings. One rating was based upon our Prop 39 (Measure A) bond. The other rating was based upon OPEB. We received creditworthy investment grade ratings of "A+" from S&P and "A1" from Moody's. We received the same rating from S&P in 2009, but received a slightly different rating from Moody's. The report was made up of strategic analysis and categorized by strengths and weaknesses. The strengths listed within the report were in management, the direction that we were heading, and new policies and practices regarding financial stability and budgeting. The weakness listed on both reports was the state of California.</p>	
Adjournment:	5: 28 PM	
Next meeting:	December 8, 2011 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/trustees/board-committees/retirement-board/>