

**Peralta Community College District  
Retirement Board Meeting Minutes  
March 15, 2012**

Present: Trustee Cy Gulassa, Trustee Bill Withrow, Chancellor Wise Allen, Vice Chancellor Ron Gerhard, Vice Chancellor Trudy Largent, Ava Lee-Pang, Michael Wirth, Tae-Soon Park, Jerry Herman, Joanna Bowes (KNN Public Finance) (phoned in) and William (Bill) Wallace (Neuberger Berman)

Absent: Trustee Bill Riley and Odell Johnson

Guests:

Agenda Item	Discussion	Follow-up Action
<b>Meeting Called to Order</b>	4:02 P.M.	
<b>III. Approval of Agenda</b>	Motion (Gulassa, Largent) to approve the March 15, 2012 agenda. APPROVED	
<b>IV. Approval of Minutes</b>	Motion (Withrow, Gulassa) to approve the February 16, 2012 meeting minutes. APPROVED	
<b>V. Correspondence</b>  VC Gerhard	Correspondence was sent out on behalf of VC Gerhard, regarding CALPERS Board approval to change their investment forecast from 7.75% to 7.5%. There was rumor late last week that the rate will be lowered to 7.25%. The action taken was to reduce it to 7.5%.	
<b>VI. Mortgage-Backed Securities</b>  Bill Wallace	<p>Mr. Wallace provided an update in response to a past Retirement Board meeting request for information with respect to mortgage-backed securities.</p> <p>Highlights:</p> <ol style="list-style-type: none"> <li>1. In reference to the fixed income portfolio, under page 2, those securities that would fall under any mortgage-backed classification are highlighted. The market value is compared relative to the benchmark of the Barclays Capital Aggregate Index.</li> <li>2. US Treasury represents 25% of the portfolio compared to 35% of the benchmark. We are underweight in treasury securities given where we are today in terms of the overall level of interest rate and where we see as the spreads of the market. Our preference is to be underweight in government and overweight in credit securities.</li> <li>3. Non-Agency Hybrid ARMs are securitized portfolios put together by companies.</li> <li>4. U.S. Agency Mortgage-Backed is the biggest overall rating in the portfolio (31.7%), yet is a</li> </ol>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
March 15, 2012**

	<p>slight overweight to the benchmark (31.3%). Included are your classic Freddie Mac, Ginnie Mae, and Fannie Mae residential loans that are pooled together. Within this pool of securities, Ginnie Mae carries an explicit guarantee from the US government while Fannie Mae and Freddie Mac carry an implied guarantee.</p> <p>5. Commercial mortgage-backed securities are commercial properties put together by institutions such as Bank of America, JP Morgan, Wells Fargo, etc. We are at 7.4% versus 2% for the index. Our overall outlook is that this recovery is more likely to be led by Corporate America. It is indicative that we are more favorably disposed toward the commercial side as opposed to the residential side.</p> <p>6. Floating rate securities are grouped together with cash and equivalent. Included are some subprime securities. Many were marked down significantly and credit agencies were very slow to upgrade these securities after having to downgrade them in 2009. We continue to own many of these because Neuberger Berman (NB) believes they are credit good and would mature at par. Note: cash and equivalent are not part of the benchmark but is approximately 5.7% of the portfolio.</p> <p>7. Page 3 shows the State Space (scenario) Analysis. What is the probability of each scenario occurring? The aggregate of the first four scenarios represents 85% of the probability. In each of the scenarios, mortgage-backed securities outperformed the US treasuries. The only scenario where mortgage-backed securities might underperform US treasuries is if the Government Sponsored Refinance Program, "Making Home Affordable," goes through. Investors will have to be willing to accept some form of principal reduction.</p> <p>Trustee Withrow asked what happens when there is a refinance. Per Mr. Wallace, there is a larger risk when rates are falling. People will take advantage of it and refinance. As the bond investor, you'll have to reinvest the bond proceeds at a lower level than what you were</p>	<p>Mr. Wallace will bring back information on the percentage of Peralta portfolio purchased as the initial buyer.</p>
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**Peralta Community College District  
Retirement Board Meeting Minutes  
March 15, 2012**

	<p>getting from before.</p> <p>What has been announced, but not filed yet, is a settlement between 49 State Attorney Generals, with the exception of Oklahoma, and four of the largest mortgage servicers: Bank of America, JP Morgan, Allied Financial and Citi. It was mediated by the Secretary of Housing and Development. It appears to be a \$25 billion settlement. The banks already set aside a reserve for this and then some. \$25 billion represents a quarter of 1% of the total value of mortgages in the US today.</p> <p>Note: The delinquency rates today in the US are coming down reflective of the improvement in the job market. However once the settlement is in place, we will see a pick up in foreclosures. Many of the foreclosures were placed on hold pending the settlement. It will have a negative effect on the housing market. We expect to see another 4-5% (national average) in decline.</p>	
<p><b>VII. SWAP Policy</b></p> <p>VC Gerhard</p>	<p>This is a draft Swap policy to be included in our Investment Policy Statement (IPS). An earlier version was initially reviewed last Fall. This document was sent to Ed Berman and team for review. Our Discretionary Trustee had no issues with this policy.</p> <p>The purpose of this document is to:</p> <ol style="list-style-type: none"> <li>1. Comply with audit findings</li> <li>2. To make clear we are NOT in the business of looking for a new swap. This parameter in the policy is to monitor the existing swaps and review them.</li> </ol> <p>Concern was expressed by Trustee Withrow for the use of the term “investment” with swap. VC Gerhard agreed that the swap is truly not an investment. Note on the title page of the policy, it is labeled “Interest Rate Mitigation Policy”.</p> <p>Motion (Withrow, Largent) to approve the Interest Rate Mitigation Policy. APPROVED</p>	
<p><b>VIII. Investment</b></p>	<p>Fixed Income Overview (dated February 29, 2012):</p>	

**Peralta Community College District  
Retirement Board Meeting Minutes  
March 15, 2012**

<p><b>Portfolio Review</b></p> <p>Bill Wallace</p>	<p>Interest rates have gone up slightly in the month of February, which means longer termed securities underperformed. Peralta has a -2% return on the longest duration Treasury securities.</p> <p>Trustee Withrow shared that there was an article today in both the Financial Times and The Wall Street Journal that the Treasury department is doing extensive buyback of treasuries to raise interest rates. Trustee Withrow asked if there is a profit taking opportunity here and requested Mr. Wallace to have his analysts run scenarios.</p> <p>As of February 29, 2012, the market value is close to \$173 million. The weighted portfolio return is 3.06% for February. Year-to-Date is 6.84%. Peralta's portfolio outperformed in the month and year-to-date basis.</p> <p>Note: this is the 3 year anniversary since the bottoming of the market back in March of 2009. On a three year annualized number, the portfolio is up 20%.</p> <p>VC Gerhard commented that when we closed fiscal year June 30, 2011, the market value was \$164 million. In the past eight months, our market value appreciated by \$9 million to \$173 million.</p> <p>The TRUE NORTH booklet summarizes what Neuberger sees as important things happening in the market.</p> <p>Highlights: Page 8: Asset Allocation Page 9: Market Balance Sheet. Portfolio positioning considerations are to be overweight in equities and underweight in fixed income. There is a preference for emerging versus developed markets.</p> <p>In the process of implementing the transition to Neuberger Trust Company, Mr. Wallace will bring back to the next meeting in June a new IPS. It will be more granular with breakdown in terms of overall international markets; how much in emerging and developed markets. On a go forth basis, it will allow the Retirement Board more opportunities in doing a better job at monitoring and avoid areas of potential risks.</p>	<p>Mr. Wallace will bring back to the next meeting in June a new IPS.</p>
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**Peralta Community College District  
Retirement Board Meeting Minutes  
March 15, 2012**

<p><b>IX. Information Reports</b></p>	<p>Ms. Bowes announced that Moody's confirmed AA3 rating on the GO Bonds.</p> <p>VC Gerhard shared that he received word from S&amp;P that our rating is AA- (Moody's equivalent).</p> <p>Motion (Withrow, Largent) to move from a monthly meeting to a quarterly meeting. The meeting date is the Thursday following the first Board of Trustees meeting of the month.</p> <p>Discussion: Trustee Withrow suggested that if we have a sense of urgency in terms of timeline, the Chair will convene a meeting.</p> <p>APPROVED</p> <p>Per VC Gerhard, we are starting the process of getting a new actuarial study. Hopefully it will be prepared by the June 14<sup>th</sup> meeting. The study would provide us with our AAL. Ultimately, we are trying the fund the full amount at 7.5%.</p>	<p>VC Gerhard to bring back a new actuarial study.</p>
<p><b>X. Agenda Items for Next Meeting</b></p>	<ol style="list-style-type: none"> <li>1. Review of new IPS</li> <li>2. Investment Portfolio Review</li> </ol>	
<p>Adjournment:</p>	<p>4:56 PM</p>	
<p>Next meeting:</p>	<p>June 14, 2012 from 3:00 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/>