Peralta Community College District
Retirement Board Meeting Minutes
September 12, 2013

Present: Trustee Bill Withrow, Trustee Riley, Vice Chancellor Ron Gerhard, Vice Chancellor Trudy Largent, Ava Lee-Pang, Michael Wirth, Tae-Soon Park, Jerry Herman, Bill Wallace (Neuberger Berman), and Joanna Bowes (Keygent LLC)
Absent: Trustee Cy Gulassa, Odell Johnson, and Ed Berman (Neuberger Berman)
Guests: Joseph Bielanski

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:09 P.M.	
III. Approval of Agenda	Motion (Riley, Largent) to approve the September 12, 2013 agenda. APPROVED	
IV. Approval of Minutes	Motion (Riley, Largent) to approve the June 20, 2013 meeting minutes as amended. APPROVED	
V. Correspondence VC Gerhard	None	
VI. Investment Portfolio Review Bill Wallace	Highlights: Page 1: IPS Benchmark. The overall market was down in August and trailing 3 months. Page 3: Composite Performance Summary (net). Total portfolio is down 2.28% vs. benchmark of 1.58%. That's 70 basis points behind the benchmark. Note: The policy benchmark will change once we implement some of the changes in the portfolio. Peralta's capital benchmark will be reflective of how much are in these investments over time. Page 4: Detailed information in terms of the various strategies and their performance.	

	Note: Investing in High Yield was a very good asset allocation. It helped mitigate the downside of the overall bond market. Neuberger believes that interest rates will rise steadily over time. Page 7: Chart. Yellow bar = emerging markets. Blue bar = developed markets. Page 19: Asset Allocation – IPS Without Alternatives. Page 20: How the portfolio will look with alternatives. Private Equity will go from 0 to 6%. Proposed capital is at 3.1% in two investments: Secondary funds and Crossroads. Secondary Funds – investments are bought at a discount from an existing private equity position from other institutional investors. Two advantages of Secondaries are no J curve and vintage year diversification. We usually see capital coming back in the first quarter. We will go through a series of launching. Other secondary funds use leverage (borrows money); Neuberger does not do that. Neuberger believes there is enough leverage in the underline portfolio of companies that Neuberger has relationships with and has a very good idea as to what we are putting our money into. Typical secondary funds have 200+ funds; Neuberger has 75-90 and does not go to the auction market. Note: Per VC Gerhard, we recently withdrew from our OPEB account. At the end of the fiscal year, we reimbursed the General Fund $9.1 million for retirees' medical expenses. At the same time, we transferred back $7.1 million for the OPEB charge for current employees. There is a net of $2 million in cash outflow from the OPEB program at the end of the last fiscal year.	
VII. SWAP Update Joanna Bowes	Nat Singer from SWAP Financials was invited to the Retirement Board meeting, but could not attend due to a scheduling conflict. Highlights: Page 3: What is a Swap? The most common is the interest rate swap (done at	

	Peralta). It generally involves 2 parties (Peralta and Morgan Stanley) exchanging one stream of interest rate payments for another over a specific period of time. One pays a fixed rate (Peralta) and the other pays a variable rate (Morgan Stanley). It assumes that there is a financing in place (bond issued). It is a derivative and traded over the counter. The CFTC and the SEC oversees the Swap market. There was very little regulation until recently. Page 4: Why use a Swap? To create efficiencies and structure. It is an alternative way to raise capital. Page 6: Example of how an interest rate swap is set up. Page 7: Verbal explanation of how an interest rate swap is set up. Page 8: Simplified view using Peralta as an example. Page 9: Left hand side shows how GO bonds work. The institution was to pay a fixed interest rate to the bondholders twice a year at set amounts. Peralta's situation does not match the diagram because there are no variable rates. If Peralta had variable rate bonds, we would be paying less. There is no offset to the floating rate because in 2009, it was moved into a fixed rate. Page 11: Outlined some of the risks of doing Swaps: counterparty risk, termination risk, basis risk, index risk, and tax risk. Peralta's counterparty is Morgan Stanley. Page 12: Graph on the market size of Swaps. Globally there are $633 trillion; $430 trillion of which are in the US Market. Page 15: Short review of Peralta's OPEB program. In December 2005, the District sold $153,749,832.15 in OPEB bonds. It was structured in two series: short term interest bonds with fixed coupons and six tranches of zero coupon bonds. Zero coupon bonds are non-callable. Callability is an important option	

	in the bonds world. We cannot go in and call them from investors. The District is locked in until the conversion dates. Per VC Gerhard, for zero coupons there is an accreted interest. We are paying an interest rate, but not in terms of cutting a check. The amount that we would have to pay is adding to the principal. The principal amount is compounding (interest upon interest). The first tranche was issued in 2005. The initial principal was $27,090,742 and the fully paid principal amount is $33,950,000. It became a floating rate in 2010. The District decided in 2009 not to let that happen and made them fixed rate bonds. The second tranche has a maturity in 2020. The initial amount was $23,633,292 with a final amount of $38,450,000. It is set to convert in 2015. The decision in 2015 is to match the fixed rate risk or terminate the Swap and pay the floating rate. Page 16: How do you exit/terminate a Swap? There is no prepayment penalty, but there is a gain/loss payment. The payment is determined by the interest rate now versus in 2006, how many years remain until maturity of the swap, and what the notional principal amount is. Page 19: The red line is what the LIBOR rate was (very flat) and the blue line is what the LIBOR is now. Page 20: Condensed timeline of how the interest rates have changed. VC Gerhard explained that under CA government code, derivatives where any principals are at risk are prohibited investments for CA community colleges. We have six Swaps, the only way we can manage them are through the Retirement Board. Ultimately any analysis, recommendation, or action to terminate the Swaps has to come through the Retirement Board. That’s why	

	we have provisions in our investment policy. The next critical date/milestone is August of 2015. We are preparing and planning for that right now. Ultimately if we do nothing, we'll have another Swap that is effective and owe Morgan Stanley $2.9 million. We are devising a tactic to minimize the risk. Interest rate is going down on the yield curve. How big the red numbers are will be dependent on the interest rate. You'll see in the future agenda some analysis as to how to deal with the second tranche. We're laying the ground work for the Retirement Board. Depending on what the recommendations are, it will be forwarded to the Chancellor and Board of Trustees.	
VIII. Information Reports VC Gerhard	None	
Adjournment:	5:17 PM	
Next meeting:	**March 13, 2014 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/