Peralta Community College District
Retirement Board Meeting Minutes
March 13, 2014

Present: Trustee Cy Gulassa, Trustee Bill Withrow, Trustee Riley, Vice Chancellor Susan Rinne, Vice Chancellor Trudy Largent Michael Wirth, Tae-Soon Park, Jerry Herman, Bill Wallace (Neuberger Berman), Joanna Bowes (Keygent LLC)
Absent: Ed Berman (Neuberger Berman)
Guests: Deputy Chancellor John Hendrickson, Ann Whitehead, Jennifer Siebert

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:03 P.M.	
III. Approval of Agenda	Motion (Rinne, Riley) to approve the March 13, 2014 agenda. APPROVED	
IV. Approval of Minutes	Motion (Riley, Largent) to approve the January 30, 2014. APPROVED	
V. Correspondence	None	
VI. Investment Portfolio Review Bill Wallace Neuberger Berman	Highlights: For the month of February, we are .35% ahead of our benchmark. Under Year-to-Date (YTD), we are half a point behind the benchmark. We should focus more on the one-year trailing annualized performance, which is slightly ahead of the benchmark. Page 1: Per Trustee Withrow, the annualized return rate (5.99%) is substantially less than the increase of healthcare costs (8-10%) over the same period of time. Our return is not increasing at the rate of our obligation. Page 2: Looking at the NB Secondary Opportunities Fund, we are moving into private equity. In the private equity world, as you make a dollar commitment, over time you get calls on the committed amount until you become fully invested. This is the very beginning of that process. Page 3: In terms of the total portfolio, Peralta is slightly ahead for the three-	

	year annualized performance, 8.67 vs. benchmark of 7.81. Trustee Withrow noted that NB moved out from Vanguard MSCI Emerging Markets ETF on the equities side and is now in a NB Emerging Markets Fund. He asked why that was done? Trustee Withrow wanted to know what the charge to the NB fund is and how it relates to the Vanguard charge? Page 7: From the 2014 macroeconomic outlook, energy prices are a huge advantage for the US and US companies. Natural gas is about $5 in the US, $11 in Europe, and $17 in Asia. The outlook for energy in the US is very constructive. It has a positive economic impact on the GDP growth and jobs in the US. There is less concern about the Euro zone than a year ago. We're seeing the growth in China beginning to slow. The debt has grown in China due to their shadow banking system. There is also a weakening in copper prices, which poses a challenge, because China will have to replace their collateral of copper to other instruments for loans. Japan's Prime Minister started a new program. in order to try to spur economic growth; some worked in the short run but there are more profound issues in the long run. There are still a lot of fundamental issues such as debt to GDP with the emerging market. Most tends to be more country specific, such as Brazil and Russia. We will be underweight in those countries. The bigger issue is that these economies are shifting from a more commodity and natural resource based economy to a much more developed economy, like the US. As for frontier markets such as Africa, any investments that are scalable/substantial are very few and far between. Page 9: To the right hand side you'll see the 10-year US bond yield. It goes back to 1982 with a yield over 13% and is now yielding around 3%. As bond prices fall, interest rates increase and vice versa. In the investment portfolio, typically private equity is used to protect against inflation. On the bond side, historically it is used to mitigate loss and dampen volatility. Page 13: Current Asset Allocation: we are underweight in Investment Grade Fixed Income (24.1%); our target goal is 30%. We are overweight in High	Mr. Wallace will follow up the Trust company.

	Yield Corporate Fixed Income (8.6%); our target goal is 5%. As our economy improves, the spread will narrow. Premium interest rates for high yield bonds will decline in an improving economic environment. In reviewing how Peralta's bond is positioned in terms of maturity, we'll need to first look at the bond portfolio positioning (duration). Duration is a measure of sensitivity to the change in interest rates. Our core bond portfolio has a duration of 5.2 years and a benchmark of 5.4 years. We are short in the duration. We are overweight in Equities (59.2%) vs. Long-Term target of 47% because it is reserved for the upcoming investment into private equity. Page 15: Fossil Fuels Resolution: adopted by Peralta's Board of Trustees on December 10, 2013. Page 16: Analysis of the impact the resolution will have on the overall portfolio. There are five strategies that would be affected where the numbers are not significant (3-5 holdings). The bigger challenge is in the funds in the right hand column. When you own a fund, you are in the fund. You cannot dictate to the manager that you would like to eliminate the withholding. You'll have to eliminate your exposure to these mutual funds or co-mingled fund. About 30% of the portfolio will be affected, around $57 million, and need to be divested if we were to implement the resolution. It will involve a major restructure of the portfolio.	
VII. Fossil Fuel Review Bill Wallace Neuberger Berman	The biggest challenge is that you cannot impose restrictions on a fund like this. It's a fund with other investors in it. In order to address this, you'll need to invest in a separate account where you can dictate to the portfolio manager that you do not want to own any fossil fuel securities. The challenge is whether you can get any strategies with the current investment amount. In the institutional world of bonds, for the floating rate income fund and high income fund, the standard account minimum is $100 million. The standard account minimum for an equity portfolio is $25 million. It will be hard to find a fund manager to run a separate account.	

	Per Trustee Withrow, to divest in fossil fuel would greatly distort the risk-reward relationship. In order to achieve the same amount of earnings with the monies involved, we will need to increase the risk. Trustee Gulassa asked if there is a fee involved in the restructuring and how much it would cost for the conversion. On the left hand side (Separately Managed Accounts), it is not difficult to eliminate the twenty individual stocks. The question is how much that would affect the total returns, which is impossible to forecast because of the returns on energy stocks. Neuberger can only look at the historical impact. The current outlook in the energy market in the US is that we are 100% self-sufficient in terms of an energy perspective. This is the wrong time to divest. Per Trustee Gulassa, we have five years to divest in twenty stocks. We can wait until the market goes down to make the change. We have the fiduciary responsibility to maximize the return of the investments and recommends that we assess the impacts before making any changes. We will look at our charter and mission, which is the fiduciary responsibility to maintain and grow the assets in the trust to offset the liabilities. The Board of Trustees urged the Retirement Board to consider changing the investment policy to divest in fossil fuel over the next five years. This afternoon, the Retirement Board received a report on the implications of moving toward the resolution. We discovered that we have two segregated types of investments: one with $5 million in stocks that can be modified and the other with over $50 million in funds that are more problematic. To make the conversion to the $5 million pot right now will affect the returns because the projection in this segment is poised to be very remunerative at this investment cycle. The Retirement Board is still evaluating and looking at the implications of it. At the next meeting, we'll have some updates.. Our commitment is to be socially responsible but balanced with our fiduciary responsibility.	 Mr. Wallace will conduct a cost analysis. Mr. Wallace will provide what the impact would be to eliminate fossil fuel from the separately managed accounts, at the next meeting.

VIII. Annual Financial Report – June 30, 2013 Heidi White Vavrinek, Trine, Day & Co. (VTD)	The June 30, 2013 audit was presented to the Board of Trustees. Ms. White assured the Board that the investment and bond sides are included in the District's audit report. VTD looked at the funds and debt payments in relation to the actuarial report. The liabilities are included in the long-term liabilities which includes all information related to investments, SWAPs, actuarial study, and the cost of retiree benefits. The cost of healthcare and the pool of retirees are increasing. Peralta has taken steps to mitigate the growth by changing the eligibility of participants in the retiree benefits program. VTD issued an unmodified opinion on Peralta's financial statements as a whole. It took into account the investments and debts, which are a significant part of the assets and liabilities. VTD spent a lot of time to look at unrealized gains and losses. A confirmation letter was sent to ensure that the balances on June 30th and at the beginning of the year are actually what we are reporting on.	
IX. Irrevocable Trust VC Rinne	At the last meeting, there was a request for an update in establishing an irrevocable trust. In December 2012 and March 2013, there was talk of establishing an irrevocable trust. We're currently in a revocable trust, which allows us to use the funds in the trust for retiree benefit payments. Current year retiree benefits are being paid out from the general fund, and the trust reimburses the general fund at the end of the fiscal year. When the trust was established, there was hope that excess funds in the future would be used to offset the debt service. The revocable trust is currently reflected in our financial statements as an asset and a liability. They are not offsetting one another, because the funds are in a revocable trust. There was talk to split it. The initial investment from the sale of the bonds would remain in the revocable trust. New dollars generated based on the OPEB charges on our books each year would go into an irrevocable trust to be used for payments. VC Rinne spoke to our former VC and was told that he worked with our Investment Manager, Bond Counsel, and Financial Advisor, however the process was never completed. If we were to split, per Neuberger,	

	we would have to have two separate investment policies and different accounting logistics. Trustee Withrow asked if we could put a time limit (year 2049) on the irrevocable portion and then make it revocable because by that time the actuarial number will be reduced. Ms. Bowes does not think we can. If we are to read the indenture, it specifies where the money is to be used. We'll need to do a supplement and amend the indenture, which requires a vote and approval from the bondholders. The trust is pledged to the bondholders, it has to be in their benefit to do this. GASB 45, in general, encourages us to use an irrevocable trust. An irrevocable trust provides some legal protection against possible creditors. There are some risks with a revocable trust. Per Ms. White, the irrevocable trust takes the control out of the District, which some people see as a huge benefit, because the funds cannot be used for other benefits at all. The other part is that once it is out of the control of the District, any excess funds will stay in the irrevocable trust. The best option is to stop funding the trust once it reaches the obligation amount. Currently, payments made to the trust, both asset and obligations, are placed on the District's balance sheet. If we moved to an irrevocable trust, both asset and corresponding liability would be removed from the District's financial statement. Trustee Gulassa inquired about the accessibility of surplus funds. Per Ms. Bowes, Peralta cannot access any surplus funds until all the retiree benefit obligations are satisfied and all the debt service has been met. Concern was expressed by Trustee Withrow in finding a way to pay for retiree benefits liabilities without impacting the general fund. The consensus from this group is to move it to an irrevocable trust. We should not rush the process to ensure that we do it right. This item will be agendized at the next meeting.	

X. Information Reports	Ms. Ann Whitehead, Secretary of PRO, was introduced at the beginning of the meeting.	
Adjournment:	5:14 PM	
Next meeting:	**June 12, 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/