Peralta Community College District
Retirement Board Meeting Minutes
January 29, 2015

Present: Trustee Meredith Brown, Trustee Bill Riley, Trustee Bill Withrow, Vice Chancellor Susan Rinne, Vice Chancellor Trudy Largent, James Blake, Michael Mills, Michael Wirth, Tae-Soon Park, Jerry Herman, Bill Wallace (Neuberger Berman), Ed Berman (Neuberger Berman), Joanna Bowes (Keygent LLC)
Absent: Trustee Cy Gulassa,
Guests: Joseph Bielanski, Adrianna Carrillo, Timothy Brice, Linda Sanford

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:35 PM	
III. Approval of Agenda	Motion (Rinne, Largent) to approve the January 29, 2015 agenda. APPROVED AYES: 4 NOES: 0 ABSTAIN: 0 ABSENT: 1	
IV. Approval of Minutes	Motion (Largent, Rinne) to approve the September 11, 2014 meeting minutes. APPROVED AYES: 4 NOES: 0 ABSTAIN: 0 ABSENT: 1 Note: Trustee Gulassa is absent today and Trustee Brown will be sitting in as a voting member.	
V. Correspondence	An article titled, “The Logic of Divestment: Why We Have to Kiss Off Big Carbon Now” was presented to the Board as information and is available online for all to read.	
VI. Investment Portfolio Review	Investment Portfolio Review: From an economic perspective, the current decline in oil prices has a positive	

Bill Wallace Neuberger Berman Ed Berman Neuberger Berman	effect on the US. However, if we continue to see low prices at the pump, the long-term impact is negative due to a decline in oil exploration and production. For projects to be profitable, the price per barrel should be at least $60. Highlights: Page 1: Oil Price Impact Attribution Summary. We want to be underweight in underperforming sectors and overweight in outperforming sectors. Looking at the NB Large Cap Value portfolio, it had an average weight of energy exposure of 5.3%. Its benchmark is the Russell 1000 with a weight of 11.8% in energy. We were underweight in energy last year within this particular portfolio. The asset allocation effect is a positive impact of 1.1% relative to its benchmark. The net effect is 40 basis points or .4% positive impact in terms of its particular energy exposure. Energy in the portfolio was attributable to .6% or 60 basis points of the decline last year. Relative to the benchmark and given the fact that we were underweight in some of the key areas, it was a 10 basis points plus. Note: We have zero (no direct) investment in oil commodity exposure. The Retirement Board does not stock pick or go into individual investments. Our Discretionary Trustee is empowered to make investment decisions. As energy prices increase, alternative sources: solar, wind, and hydroelectric make more sense from an investment standpoint. We will leave it to the individual portfolio managers to make that call (on leveraging). Page 2: Executive Summary. The Trailing 3 Months is slightly ahead of our policy benchmark. We are behind benchmark for the year 2014, but ahead since inception of the trust. Page 3: Allocation by Investment Manager provides a more detailed look at exactly what portfolios this trust has invested in.	

	Page 4: Composite Performance Summary provides a deeper dive on some of the performance such as what drove the relative performance over varying time periods. 1) The total portfolio is up 4.6% last year. The Barclays Capital US Aggregate Bond Index was up 5.97%, which surprised a lot of people. Most people expected 2014 to be a year where we expect to see interest rate rise. When interest rates rise, bond prices fall. We had a flat outlook for the year when it came to bonds. Interestingly, one of the best performing asset class last year was the US Treasury which was up 11%. 2) MSCI, a broad global index, was up 4.7%. Russell 3000, a broad US index, was up 12.56%. It suggests that being in US equities last year was a good idea. We have 41.6% of the portfolio in US equities. General comment: As you look through many of the US equity managers, you will see that many have underperformed their benchmark. It has been a very difficult period for our active equity managers. Only 20 to 25% of active equity managers outperformed their benchmarks. We have seen a significant amount of money flowing into index funds and ETF type products. Neuberger Berman as a firm manages active equities and clearly has a bias towards active equities. Mr. Wallace believes that the pendulum will swing over very long cycles between active equity outperforming and passive funds outperforming. These index funds are cap weighted (a proportionate basis going into the largest companies). Things that have done well do not necessary mean they will do well on a go forward basis. As that tide begins to turn, we are very constructive on active equity managers moving forward. Page 5: Net Performance by Investment Manager. The Dreyfus EM Debt Fund is a local currency fund where the investments are owned in local currency. Whereas hard currency investments contain bonds in emerging markets that are dollar denominated. Mr. Wallace recommends that we shift from a local market, EMD debt strategy, into a blend. Neuberger Berman will hire a manager that will make the decision between hard and local currency.	

Page 8: Flow of Funds. Per VC Rinne, the contribution and withdrawals numbers represent the collecting for the future retiree benefits (contribution) and paying for current retiree benefits (withdrawals). The percent is based on the actuarial study. The OPEB contribution rate is based on salary for each individual. The sum of the charges is sent over to Neuberger Berman at the end of the fiscal year. The withdrawals are based on the amount paid for the cost of retiree benefits (retirees who retired from the District).

Page 11: Asset Class Quilt Chart. It is very difficult to know in any given year which asset class will outperform/underperform. Last year REITs were up 28.1% as opposed to Commodities being down 17%. That is a very significant divide. Commodities are a recommended asset class allocation in which we have no exposure to thus far. It has been the worst asset class for the last three years. It is getting to a point where value is beginning to make some sense. Refer to the cliché, “Buy low, sell high.” Whether you are active, passive, or made the right stock pick really pales in comparison to getting the right asset allocation.

Page 12: Market Outlook. We will continue to see low interest rates, low to moderate economic growth, low inflation and a stronger U.S. dollar moving forward in 2015.

Page 14: Divergence in the Global PMI (Purchasing Managers Index). The PMI is an early indicator of where the economic activity is. The readings below 50 suggest that we are beginning to see a contraction. When it is above 50, we are beginning to see an expansion. It shows a market by market basis around the world. The US is in good shape vis-a-vis the rest of the world.

Page 20: Investment Opportunities. US stocks are a good place to be. There are select opportunities in emerging markets. Fixed income will be a challenge to take interest rate sensitivities out of the portfolio. Mr. Wallace recommends that we begin investing in commodities. As growth around the world begins to

	bottom out and labor markets improve, we will see a rise in inflation and increase in commodities.	
Ed Berman Neuberger Berman	Page 34: Current Allocation. As Discretionary Trustee, we are empowered to make these changes. We will leg into it in a cautious manner. 1) Move away from the Dreyfus EM Debt Fund and into the NB EM Debt Fund. The driver there is that the Dreyfus fund is predominantly in local currencies. Whereas with the NB Emerging Market Debt Fund, the portfolio managers are empowered to hold either local currencies or emerging market bonds denominated in US dollars. 5 of the largest exposures in sovereign debt are Mexico, Turkey, Brazil, Malaysia and South Africa. 2) Take roughly $5 million from the Harding Loevner strategy that is doing extremely well (selling high), take $6.4 million in NB International Fund which has also done well (sell high), and deploy $4 million to Vanguard FTSE Europe Equity, a Europe only ETF (an inexpensive way to get market exposure) that covers large cap European companies. 3) Take $2.5 million out of the NB Emerging Market Fund and deploy to the Matthews Pacific Tiger Fund which has been a strong performer and focuses on Asian countries. China is part of this fund. 4) Commodities: Zero exposure. We believe right now is a good entry point to leg into this asset class in the near term.	
	REITs: Follow the guide of the Asset Allocation Committee (part of the fiduciary process). REITs have an average outlook and we are happy with where it is currently. Information was requested by Trustee Withrow as to the makeup of REITs.	Mr. Wallace will provide an update on this asset class at the next meeting.

VII. Annual Financial Report Susan Rinne Interim Vice Chancellor	Page 15: Statement of Net Position. The District had a positive audit report with an unmodified opinion. The only concern expressed by our auditors was our OPEB obligation. There is an accretion factor on our OPEB bonds. The interest is getting larger (compounding) for the debt service paid on our bonds that we borrowed to fund the trust. It is one of the audit findings in the report and the Retirement Board needs to be made aware of. Page 82: Audit finding #2014-001: District Financial Condition. The District is required to maintain operational and budgetary financial stability both at the fund level and entity-wide level. The report on page 15 is the entity-wide report. Material Weakness: Our debt continues to grow. We need to find a way to address the debt. Our investments are currently in a revocable trust. Although the dollars are identified for retiree benefits, it is not restricted for that. We need to allocate funds into an irrevocable trust to pay for retiree benefits. We need to take action on this because it is an audit finding. Trustee Withrow commended VC Rinne and team for the unqualified audit opinion for all of finance.	
VIII. Actuarial Study Update Susan Rinne Interim Vice Chancellor	We contracted with the same company, Total Compensation, which completed our actuarial study two years ago. We expect to get the information back in the next 3-4 weeks. Once we receive the report, we can determine the OPEB liability. VC Rinne expects the liability to grow due to the 8-9% average increase in the cost from Kaiser.	
IX. Irrevocable Trust Update	We are waiting for the actuarial study to determine the split for the irrevocable and revocable trust. VC Rinne spoke with Orrick, our Bond Counsel, and will be sitting down with them to draft the language. Currently the dollars are in a revocable trust and can only be used for medical premiums. We have other expenses that are incurred because of our medical premiums. The District took out a bond to fund the dollars that are invested with Neuberger Berman. We have a debt service payment that is the	

	responsibility of the general fund. The District also used swaps to leverage the interest rate as those bonds become due. We would like to, if the investments outweigh the liability, leverage it against the bonds issued. We cannot do so if the investments are in an irrevocable trust. Request was made by Trustee Riley to add revocable trust and irrevocable trust to the glossary. Motion (Withrow, Brown) to set the target date of June 30, 2015 to get a firm formula for an irrevocable trust. APPROVED AYES: 5 NOES: 0 ABSTAIN: 0 ABSENT: 1	
X. Information Reports	None	
Adjournment:	5:46 PM	
Next meeting:	**April 16, 2015 from 4:30 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/