

MEETING MINUTES

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
JUNE 3, 2010
10:30 A.M.**

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT OFFICE
HUMAN RESOURCES, CONFERENCE ROOM 2
114 SOUTH DEL ROSA DRIVE
SAN BERNARDINO, CA 92408
(909) 884-2533**

I. CALL TO ORDER

The meeting was called to order at 10:35 a.m. by Steve Gedestad, Senior Vice President, Keenan Financial Services.

II. ROLL CALL

Those in attendance were:

MEMBERS

Interim Chancellor/Vice Chancellor, Fiscal Services
Vice Chancellor, Human Resources
Director, Human Resources
Business Manager

Bruce Baron
Renée Brunelle
Dio Shipp
Steven Sutorus

PROGRAM COORDINATOR

Executive Vice President
Senior Vice President
Senior Service Representative

Steve Gedestad
Claudia Ross
Sylvia Weathers

CONSULTANTS

Morgan Stanley Smith Barney
Benefit Trust Company – By Telephone

Cary Allison
Scott Rankin

GUESTS

None

OTHER

None

III. APPROVAL OF AGENDA

A motion was made by Bruce Baron, seconded by Dio Shipp and unanimously carried by the Board to approve the agenda as presented.

IV. APPROVAL OF MINUTES

A motion was made by Bruce Baron, seconded by Renée Brunelle and unanimously carried by the Board to approve the minutes as presented.

V. CORRESPONDENCE

Cary Allison of Morgan Stanley Smith Barney provided a communication letter presented by Morgan Stanley Smith Barney (MSSB) to MSSB clients giving perspective to recent volatility in the capital markets. This MSSB communication to clients pointed towards persistent concerns about high fiscal deficits and debt levels as the predominant reasons for recent volatility in the capital markets...

Cary also shared a Wall Street Journal Article which talked about a Securities and Exchange Commission (SEC) investigation of Morgan Stanley Smith Barney. Cary indicated that Morgan Stanley Smith Barney (MSSB) has not been contacted by the SEC, so that MSSB holds the position that this Journal Article that has not been substantiated.

VI. INVESTMENTS

PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided an overview of the District's Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending April 30, 2010. As of April 30, 2010, the District's portfolio has an allocation of 57.5% in fixed income funds and 42.5% in equity funds (equity funds comprised of 25.0% in domestic equity and 17.5% in international equity). The value of the portfolio as of December 31, 2009 was \$748,691.50 and with contributions of \$342,000.00, income received of \$6,825.31 and management fees of \$3,347.66, the value of the portfolio as of April 30, 2010 was \$1,126,345.62. The April 30, 2010 portfolio value represents an inception to date net rate of return of -1.28% compared to the S&P/Barclays Blend of 0.31% and the S&P 500 Adj for Divs of -6.62%. The investment results for the latest 12 months show a net increase of 26.54% versus the S&P/Barclays Blend of 23.14%...

A motion to accept the portfolio review as presented was made by Bruce Baron, seconded by Steven Sutorus and unanimously carried by the Board.

MARKET OVERVIEW

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided asset allocation and portfolio updates for the Futuris Public Entity Investment Trust model portfolios.

Cary also provided an overview of the Capital Markets as outlined by Morgan Stanley Smith Barney (MSSB) for Quarter ending March 31, 2010. Highlights include the following observations regarding the U.S. and Global Capital Markets.

- On March 9, the global equity bull market reached its final anniversary.
- The first quarter of 2010 was the fourth consecutive quarter of positive returns for the equity markets. The Dow Jones Industrials rose 4.8% for the quarter and 46.9% for the 12 months ending March 31. For the Standard & Poor's 500, the quarterly return was 5.4%, and the trailing 12-month return was 49.8%.
- The Dow's single-digit rate of return was down from the 8.1% of the fourth quarter of 2009 and down more sharply from the double-digit gains of the second and third quarters of 2009.
- The markets fell between mid-January and early February, -7.6% on the Dow and -8.1% on the S&P 500. The indices rose for the rest of the quarter to finish higher for the period.
- What caused the correction? One theory is simply that corrections happen. This was the third such correction since the low on March 9, 2009.
- A more detailed theory attributes the correction to a tightening of credit by the People's Bank of China, which raised the amount of reserves banks need to maintain. Though not the first central bank to tighten policy, the People's Bank was the first major central bank to do so. The tightening created the expectation that the beginning of the end of very accommodative monetary policy was at hand.
- Earnings per share rose strongly in the fourth quarter of 2009. At the end of February, the ratio of positive to negative earnings surprises was 3.5:1.
- Many economic indicators----Gross Domestic Product, corporate profits, etc. improved during the quarter.
- The S&P 500 Index finished at 1,031, up 17% from its 52-week low and 54.7% from March 2009.

In the context of Global Capital Markets, Cary Allison led a brief discussion on Euro zone investments. Issues for the Euro zone such as the sovereign debt of Greece, Spain and Portugal were discussed briefly. Board member Dio Shipp pointed to the top-heavy government employment situation in Greece where in excess of 4% of the population work for the government. However, current strategies in the Euro zone suggest that Germany will not allow the Greece economy to fully melt down.

Mr. Allison discussed what this means for the District's Public Entity Investment Trust portfolio. Morgan Stanley Smith Barney (MSSB) under the direction of the Discretionary Trustee provides portfolio allocation strategies for the District's Public Entity Investment Trust. MSSB views the U.S. Market as currently inexpensive and in this connection has weighted the District's portfolio consistent with that position.

Board member, Bruce Baron questioned the net target rate of 6% and wondered whether the Board should sit tight or make a change to a more conservative position. Scott Rankin of Benefit Trust Company indicated that the current target return is 7% including 1% for expenses. Bruce Barron questioned whether the current investment mix is the best mix to achieve the 7% target and wondered if the District's portfolio is currently achieving their goal. Mr. Allison indicated they have been unable to meet the goal since the start. Board member

Dio Shipp indicated that the Board should decide on taking a more conservative approach.

Based on recommendations from the Board, Mr. Baron suggested they should sit tight on their current strategy and review the issue later after an analysis of the Actuarial Valuation Study currently being finalized.

VII. EDUCATION

For Retirement Board of Authority (RBOA) education purposes, Cary Allison of Morgan Stanley Smith Barney (MSSB) provided the RBOA with a MSSB article entitled “An Investor’s Guide to Agency and Government Sponsored Mortgage Backed Securities”.

An investment in Mortgage Backed Securities (MBS) represents an ownership interest in a pool of residential mortgage loans. MBS were introduced to the fixed income market by U.S. Government Agencies and Government Sponsored Enterprise (GSEs). Issuers include:

- Government National Mortgage Association (GNMA or ‘Ginnie Mae’)
- Federal Home Loan Mortgage Corporation (FHLMC or ‘Freddie Mac’)
- Federal National Mortgage Association (FNMA or ‘Fannie Mae’)

There is also non-agency Mortgage Backed Securities in the marketplace.

Growth in the non-agency sector in recent years has led to the emergence of Mortgage Backed Securities issued by banks and other financial institutions. These non-agency issuers are able to offer more complex and riskier structures than agencies; hence the mortgage market now includes a variety of mortgage security structures that may not be suitable for every investor.

In this connection, Mr. Allison indicated very few people saw the current mortgage crisis coming and suggested reading a book called “The Big Shot” written by people who did anticipate the mortgage melt-down.

VIII. ADMINISTRATION

REVIEW OF THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN

Steve Gedestad reviewed Volume I and Volume II of the Comprehensive Compliance Plan, including the Substantive Plan. Board members felt that no changes are needed at this time.

Volume II could not be located and it was requested a duplicate copy be delivered to the District.

A motion was made by Bruce Baron to maintain both volumes in the office of the Business Manager, seconded by Dio Shipp and unanimously carried by the Board.

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Steve Gedestad reviewed the Annual Report he pulled from the District's website.

A motion was made by Bruce Baron to accept the Annual Report posted in September 2009, seconded by Renée Brunelle and unanimously carried by the Board to approve as presented.

STATUS OF ACTUARIAL STUDY

Board member Steven Sutorus distributed copies of the Actuarial Valuation Study and Steve Gedestad of Keenan Financial Services reviewed the key elements. Mr. Gedestad made inquiries regarding changes in the District's retiree benefits and the Board indicated there were no changes.

Board member Dio Shipp inquired as to how retiree liability was determined by the actuary Geoff Kischuk and wondered if Mr. Kischuk would provide an explanation.

He noted that the retiree billing was reviewed previously and it was discovered the District was paying for family coverage and should have been paying for employee only coverage. He also suggested they needed to review the cap used in the study as it was also changed.

Bruce Baron requested Steven Sutorus to follow up with Geoff Kischuk regarding the Actuarial Valuation Report.

Mr. Gedestad referred to the Actuarial Valuation Report where there is a \$13 million liability which suggested a need to contribute \$1 million a year into the District's Public Entity Investment Trust.

A motion was made by Bruce Baron to accept the Actuarial Valuation Report subject to further review, seconded by Dio Shipp and unanimously carried by the Board to approve.

STATUS OF PRIVATE LETTER RULING

A motion was made by Bruce Baron to defer any action until the next meeting, seconded by Renée Brunelle and unanimously carried by the Board.

IX. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS

Steven Sutorus requested clarification on the 7% Portfolio was a gross rate of return with a net target rate of return is 6%. Mr. Gedestad confirmed that his understanding was correct.

PROGRAM COORDINATOR/CONSULTANT COMMENT

Mr. Gedestad expressed appreciation to the Board for their attendance at the GASB 45 & 46 workshop. He indicated more workshops will be held in the future.

Relative to the Annual Reporting on the Status of the Trust, Board member Bruce Baron asked Mr. Gedestad what he should be sharing with the District's Governing Board and Mr. Gedestad indicated that every situation is different. Mr. Baron indicated he will take the letter to the Board.

Scott Rankin of Benefit Trust Company (BTC) indicated that BTC can customize the one page cover letter. Both Scott Rankin and Cary Allison will work together to develop a customized letter.

VISITORS COMMENTS

There were no visitor's present.

X. AGENDA ITEMS FOR NEXT MEETING

Bruce Baron requested the Retirement Board of Authority meet twice a year for now. The next meeting will be held Thursday, November 18, 2010 at 10:30 am. Steve Gedestad will send out a meeting planner.

XI. ADJOURNMENT

A motion was made to adjourn the meeting by Bruce Baron seconded by Renée Brunelle and unanimously carried by the Board.

Americans with Disabilities Act The San Bernardino Community College District Futuris Retirement Board of Authority conforms to the protections and prohibitions contained in Section 202 of the Americans with Disabilities Act of 1990 and the federal rules and regulations adopted in implementation thereof. A request for disability-related modification or accommodation, in order to participate in a public meeting of the San Bernardino Community Futuris Retirement Board of Authority meeting, shall be made to: Bruce Baron, Vice Chancellor of Fiscal Services, San Bernardino Community College District, 114 South Del Rosa Drive, San Bernardino, CA 92408.