

MINUTES

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
NOVEMBER 30, 2010
2:00 PM.

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 2:02 p.m. by Claudia Ross, Senior Vice President, Keenan & Associates.

II. ROLL CALL

Those in attendance were:

MEMBERS

Interim Vice Chancellor, Fiscal Services
Business Manager
Director, Internal Audits
Director, Fiscal Services

Charlie Ng
Steven Sutorus
Tanya Rogers
Penny Ongoco

PROGRAM COORDINATOR

Senior Vice President
Senior Service Representative
Account Manager

Claudia Ross
Sylvia Weathers
Roslyn Washington

CONSULTANTS

Morgan Stanley Smith Barney
Benefit Trust Company

Cary Allison
Scott Rankin

GUESTS

None

OTHER

None

Those absent were:

Vice Chancellor, Human Resources
Interim Chancellor
Executive Vice President

Renee Brunelle
Bruce Baron
Steve Gedestad

III. APPROVAL OF AGENDA

A motion was made by Steven Sutorus to approve the Agenda as presented, seconded by Tanya Rogers and unanimously carried by the Board.

IV. APPROVAL OF MINUTES

Meeting Minutes were not approved as Steven Sutorus was the only Board member present at the previous meeting on June 03, 2010, and there was no quorum of those who attended the last meeting to approve.

The Meeting Minutes will be brought back to the next meeting for Board approval.

V. CORRESPONDENCE

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided a presentation from MSSB Government Relations Team entitled "Beyond the Mid-Term Elections: A Post-Election Legislative Outlook".

The elections went as expected; consequently, there was no significant impact to Wall Street. There is still uncertainty as to whether tax provisions for 2011 will change, as Congress and the White House have yet to come to a resolution.

Board member Steven Sutorus wondered about the structure of Morgan Stanley Smith Barney (MSSB) in relationship to the investments they provide to clients. Cary Allison informed the Board that MSSB gives unbiased investment advice and provided an overview of the MSSB due diligence process relative to investments that are provided to clients.

VI. INVESTMENTS

PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided an overview of the District Investment Trust's Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for the period ending October 31, 2010. As of October 31, 2010, the District's Trust portfolio had an allocation of 56.4% in fixed income funds and 43.6% in equity funds (equity funds comprised of 24.6% in domestic equity and 19.0% in international equity). The value of the portfolio as of December 31, 2009 was \$748,691.50 and as of October 31, 2010 the portfolio value was \$1,177,234.79. The October 31, 2010 portfolio value represents an inception to date net rate of return of 0.48% compared to the S&P/Barclays Blend of 1.47%. The investment results for the latest 12 months show a net increase of 13.30% versus the S&P/Barclays Blend of 13.06%.

Board member Charlie Ng requested a full fee schedule associated with the Trust's portfolio from Keenan Financial Services. Claudia Ross suggested that she will deliver the requested fee schedule.

A motion was made by Penny Ongoco to approve the Portfolio Review as presented, seconded by Charlie Ng 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 for period ending September 30, 2010. Cary pointed to the fact that Portfolio 7 has 41% in equities and 59% in fixed income securities. He explained that Standard Deviation is the measure of risk and that the Sharpe Ratio is the measure of return per risk.

Cary also provided the Board with MSSB “On the Markets” documentation tracking global economic expansion. The ten (10) global tracking signposts used by MSSB have turned slightly positive. The MSSB documentation noted that while the global stock market index has been volatile, it is now in the black for the year to date as concerns about a double-dip recession have begun to recede. However, growth has been slower than expected with a range of 2%-3% as compared to historic ranges of 5%-6%.

A discussion followed where Cary indicated that Morgan Stanley Smith Barney (MSSB) believes there will be a steady increase in the economy. This is based on food prices going up, housing costs going down and MSSB believe the federal government will keep short term rates low through next year and that long term rates will go up slightly. Cary indicated that it is the opinion of MSSB that companies are more profitable now as they have been cutting costs. It is the opinion of MSSB that it is a good time to invest in stock and bonds as S & P 500 companies will be profitable next year.

In the context of this positive outlook, Board member Penny Ongoco inquired as to whether the Board should look at moving to Portfolio 8. Cary indicated that he feels they are currently well positioned in Portfolio 7. Board member Steven Sutorus asked if they were in Portfolio 6 or 8, would they still be in same funds and Cary responded yes. Cary reviewed the changes to the District’s Trust Portfolio since inception, starting originally with the Portfolio 6 structure in 2008, then moving to the Portfolio 7 structure in 2009.

REVIEW OF INVESTMENT POLICY STATEMENT

Scott Rankin of Benefit Trust Company (BTC) reviewed the Investment Policy Statement (IPS) for the Board members. He explained that Benefit Trust Company (BTC) is recommending changes to language contained in Appendix A as regards both Equity and Fixed Income Investments that reads “nor shall the trust assets be invested in any mutual fund that holds more than 5% of its portfolio in any single issue or issuer”. Benefit Trust Company recommends this language be deleted and replaced with “not more than 5% of the Trust assets shall be invested in any single equity issue or issuer”. Scott explained that by deleting this language, it will prevent a mutual fund manager from being fired for being temporarily over the 5% restriction. The IPS would maintain a requirement that the trust as a whole can not have 5% invested in any one security, looking at the underlying securities of each mutual fund. Technology allows this calculation to be done automatically and Morgan Stanley periodically runs these reports to monitor diversification.

Under Appendix A: Fixed Income Investments, Benefit Trust Company recommends that the following verbiage be deleted ““Yankee Bonds” i.e. foreign government bonds or corporate bonds of foreign companies, issued in U.S. dollar denominations, and offered through registration and filing with the SEC and carry a minimum BBB rating” and that it be replaced with new verbiage as follows: “Investment grade foreign government or corporate bonds, whether or not denominated in U.S. currency, and whether or not hedged for

foreign currency risk.” This recommendation is made as a concession to the evolution of the management of international fixed income funds as few of the top managers continue to invest in Yankee Bonds, preferring instead to buy bonds directly off of the foreign exchanges.

A motion was made to approve the Investment Policy Statement review and updated Investment Policy Statement Appendix A by Penny Ongoco, seconded by Steven Sutorus and unanimously carried by the Board.

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VII. EDUCATION

Cary provided the Board with a Market Bulletin from J. P. Morgan profiling the implications of QE2. QE2 refers to a second program of “Quantitative Easing” and is a measure designed to stimulate the economy by the Federal Reserve (FED).

It has implications for the economy as follows:

- QE2 is likely to hold both long-term and short-term interest rates down.
- QE2 in combination with slow U.S. economic growth and a recently rising trade deficit, may push the dollar down.
- QE2 raises the risk of future inflation and higher long-term interest rates.

For investors, perhaps the most important suggestion is that the economy does appear to be gradually strengthening and corporate profits continue to rise strongly, making stocks look attractive. Moreover, if QE2 does push the dollar down further, it could be a positive for both international stocks and commodities, which tend to rise as the dollar falls. Should the economy continue to improve, the Federal Reserve will likely resume a more balanced posture. Because of this, it still makes sense for investors to cautiously overweight stocks relative to fixed income, especially within the context of a balanced portfolio.

Board members deferred the Education item on “Market Volatility and the Long-Term Investor” until the next RBOA meeting.

VIII. ADMINISTRATION

REVIEW OF THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN

Volumes I and II of the Comprehensive Compliance Plan were reviewed, including the Substantive Plan. Per members of the Board, no changes are needed at this time. Volume II could not be located and a duplicate copy was delivered to the District at its request.

A motion was made by Steven Sutorus to accept Volumes I & II and both Volumes to be maintained by Steven Sutorus, seconded by Charlie Ng and unanimously carried by the Board.

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Scott Rankin reviewed the Annual Reporting on the Status of the Trust he pulled from the District’s website

in August.

Steven Sutorus moved to accept the Annual Report, seconded by Charlie Ng and unanimously carried to approve as presented.

STATUS OF ACTUARIAL STUDY

The current Actuarial Valuation Study is dated August 1, 2009. A new Actuarial Valuation Study will be required by August 2011.

Board members expressed concern relative to the Actuarial Valuation Study being correctly interpreted. There were questions relative to whether the District is putting away enough money as required by the Actuarial Valuation Report. The Board is going to review and determine the District's annual funding requirements. Currently the budgeted amount for retiree health requirements is \$342,000.00 and the estimate of \$442,000.00 is the annual "pay-as-you-go" cost of providing retiree health benefits. The amount of \$998,000.00 is what should be going to the District's Investment Trust.

A motion was made by Charlie Ng to accept the Actuarial Valuation Report as presented, seconded by Steven Sutorus and unanimously carried by the Board.

TRUST BYLAWS

Scott Rankin of Benefit Trust Company (BTC) advised that this Agenda item should be postponed until the next meeting.

A motion to table the Trust Bylaws until the next meeting was made by Charlie Ng, seconded by Tanya Rogers and unanimously carried by the Board.

IX. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority (RBOA) comments.

PROGRAM COORDINATOR/CONSULTANT COMMENT

There were no Program Coordinator/Consultant Comments

VISITORS COMMENTS

There were no Visitor comments.

X. AGENDA ITEMS FOR NEXT MEETING

The next meeting will be held as follows:

Futuris Retirement Board of Authority Meeting

November 30, 2010

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- Monday March 29, 2011 at 10:00 AM.

Keenan Financial Services will send out a meeting planner to all members.

XI. ADJOURNMENT

A motion to adjourn the meeting at 4:00PM was made by Charlie Ng, seconded by Steven Sutorus 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, Interim Chancellor, San Bernardino Community College District, 114 South Del Rosa Drive, San Bernardino, CA 92408.